

INVESTMENT AND WITHDRAWAL GUIDELINES FOR FUNDS FUNCTIONING AS ENDOWMENT

The Board of Trustee's Funds Functioning as Endowment Policy, adopted on June 9, 2016, sets forth guidelines for investments and withdrawals into and out of the Merged Pool (MP). Specific procedures consistent with this policy are established by University Financial Management Services (FMS) and Stanford Management Company (SMC). These procedures cover not only investment policies but also extend to the operating policies, such as valuation and computation of the per-share market value and income allocation established for the MP.

Schools and departments may have restricted or unrestricted funds for which a near-term use has not been identified. In order to earn a return and preserve the value of the funds, these funds may be invested as Funds Functioning as Endowment (FFE) in the University's Merged Pool (MP). However, any unit considering this option should acknowledge the incremental risk associated with the commensurate return. Unlike funds within the Expendable Funds Pool (EFP), no guarantee of principal exists for the FFE. To optimize investment returns, the University takes a long term perspective of its investments in the MP which requires minimal unplanned cash flow volatility in the portfolio. Thus, the MP should not be used by individual fund holders to support short term needs. Under circumstances where these funds have to be withdrawn, they are subject to the following guidelines:

Lock-up Periods:

- Any FFE investment made on or after September 1, 2016, is subject to a 7-year initial lock-up period, during which it cannot be redeemed.
- Any FFE investment made prior to September 1, 2016 is subject to a 5-year initial lock-up period, during which it cannot be redeemed.

If an FFE is created using a donor current-use gift fund, the donor restrictions for those monies apply to the new FFE.

Annual Withdrawal Limits:

Once the "lock-up" period is met, FFE can be withdrawn under the following conditions:

- FFE invested on or after September 1, 2016 are subject to an annual withdrawal limit, which is the greater of: \$5 million or 10% of an individual fund's market value. The 10% limit will be calculated as 10% of the fund's market value which is eligible for withdrawal at the time the request is made, less any amount that has been redeemed or is pending redemption during the same fiscal year.
- FFE invested prior to September 1, 2016 are grandfathered under the previous FFE policy, and are not subject to an annual withdrawal limit.

Required Approvals:

As per Admin Guide Memo 34.1, FFE redemption requests will require the following approvals:

- **Withdrawals in keeping with these guidelines** may be transferred out of the endowment with the approval of the school financial officer, the Chief Financial Officer and the Provost. Smaller amounts may be withdrawn only if the remaining balance is being withdrawn.
- **Withdrawals outside these guidelines** are typically not allowed and extraordinary exceptions require an action of the Board of Trustees. Requests must be made to the Office of the CFO by the first week in September for approval at the December board meeting; the first week in November for approval at the February board meeting; the first week in March for approval at the June board meeting; and the first week in July for the October board meeting.

Notification Periods:

In order to provide the Stanford Management Company with sufficient time to divest assets, fully approved requests for withdrawals must be received by Fund Accounting based on the following minimum notification requirements prior to the anticipated month of withdrawal:

- Up to \$150 million – 90 days
- \$150 million - \$250 million – 150 days
- Greater than \$250 million – 270 days

GUIDELINES FOR INVESTING FFE:

1. Requests for investment must be made in writing on the attached form and approved by both the Dean or Chair and the school's Senior Financial Officer. Fund Accounting will set up the appropriate fund, confirm investment and return a copy of the form to the investor.
2. Funds must be invested for a minimum of 7 years (if established on or after September 1, 2016) or 5 years (if established prior to September 1, 2016) from the date of investment.
3. To establish a FFE, the minimum investment amounts must be \$1 million or more. The minimum addition to an existing FFE is \$250,000.

As with true endowment, a fund functioning as endowment acquires shares in the Merged Pool and receives a payout based on the number of shares owned. All unused payout may automatically be reinvested back in to the principal of the fund at year end; however, this designation can only be made once during the formation of the fund, or when new investments of \$ 1million or more are made¹.

Questions regarding investments or withdrawals into or out of the Endowment should be referred to Fund Accounting.

¹ Withdrawals of each \$500,000 investment as well as the reinvestment of any unused payout in subsequent years may be made five years or seven years after the investment of each \$500,000 tranche, depending on whether the fund was established prior to or after September 1, 2016.

INVESTMENT OF FUNDS FUNCTIONING AS ENDOWMENT (FFE)

Date: _____

To: FUND ACCOUNTING
3145 Porter Drive
Palo Alto, CA 94304

From: _____
(Name, title, and phone number)

Subject: **REQUEST TO INVEST FUNDS IN THE MERGED POOL**

Please transfer the following amount from the following fund to FFE for investment in the Merged Pool:
Fund/Account _____ Amount _____

Automatic reinvestment of unused payout at year end: YES NO

I have read the attached guidelines, and agree to abide by them.

School Senior Financial Officer: _____

Title: _____

Dean or Chair: _____

Title: _____

⌘

Date: _____

To: _____
[Name of contact from investment form above]

From: _____
[Name of Fund Accounting Staff responsible and phone number]

Subject: **CONFIRMATION OF INVESTMENT IN THE MP**

The above funds, \$ _____ were transferred to and invested as FFE on (DATE) _____, I am attaching a copy of the fund authorization statement and the appropriate endowment detail screen showing book value, market value, and number of shares. Please retain this information in your records.

You may obtain updates of market values by looking at the relevant on-line information systems or by calling Fund Accounting.

Signed: _____ Phone: _____

WITHDRAWAL OF FUNDS FUNCTIONING AS ENDOWMENT

Date: _____

To: FUND ACCOUNTING
3145 Porter Drive
Palo Alto, CA 94304

From: _____
(Name, title, and phone number)

Subject: **REQUEST TO WITHDRAW FUNDS FROM THE MERGED POOL**

Please withdraw the following Funds Functioning as Endowment during (MO/YR) _____ as described below (or per the attached memo or other documentation describing the reason(s) for this withdrawal):

Withdraw from:

Fund/Account _____ Date Fund Established: _____
Recent Fund Market Value: _____ Amount to be withdrawn: _____

Deposit in:

Fund/Account _____ Amount _____
School Senior Financial Officer: _____
Title: _____
Dean or Chair: _____
Title: _____

I have reviewed the purpose for withdrawal and approve the request.

CFO: _____ Date: _____
Provost: _____ Date: _____



Date: _____

To: _____
[Name of contact from withdrawal form above]

From: _____
[Name of Fund Accounting Staff responsible and phone number]

Subject: **CONFIRMATION OF WITHDRAWAL FROM MP**

The above funds, \$ _____ were withdrawn from the Merged Pool and transferred to (FUND NUMBER) _____ on (DATE) _____. I am attaching a copy of the fund authorization statement and the appropriate endowment detail screen showing the remaining book value, market value, and number of shares if any. Please retain this information in your records.

Signed: _____ Phone: _____