

# Investment and Spending

## Frequently Asked Questions

### *What happens to the money used to establish an endowed fund?*

The assets of endowed funds (named funds that are kept in perpetuity for the benefit of a charitable cause) are pooled with those of existing funds, and the pool is invested among financial institutions.

### *Why must funds be established with \$10,000 or a pledge of \$10,000 over five years?*

The grantmaking strength of a charitable fund is largely determined by its historic gift value. Funds with a historic gift value of less than \$10,000 typically do not generate grant amounts that are satisfactory to donors. In addition, administration of the fund would not be practical from the Foundation's perspective.

### *What is historic gift value?*

Historic gift value (HGV) is determined by the amount given to establish the fund and any gifts to the fund since its creation. For example, a donor may establish a fund with \$10,000 or more, and the donor or others may make contributions (such as honorary or memorial gifts) to the fund periodically. Both the initial gift and subsequent gifts to the fund make up its historic gift value.

### *What is market value?*

Market value is determined by adding investment income (minus administrative and investment management fees), realized gains and losses, and unrealized gains and losses to the fund's historic gift value.

### *What is the Alliance's investment objective?*

We believe that there is more to successful investing than merely maximizing current income, and that endowment growth, over time, will be significant. The Alliance's investment objective is to generate sufficient income to protect and grow gifts to endowment while providing a relatively steady level of funding for grantees that keeps pace with inflation.

### *How is the endowment invested?*

The assets of each endowed fund are pooled, and the pool is invested among professional investment managers. The Alliance Board, with the assistance of its investment committee and a professional and independent financial consultant, determines how the endowment pool will be allocated for investment, selects investment managers, and regularly monitors the investment performance of these managers.

### *What is the Alliance's investment strategy?*

The Alliance's portfolio is invested with Victory Capital Management, Aletheia Research and Management, Eagle Capital Management, and Earnest Partners (these are domestic equities managers and represent 45% of the portfolio); Urdang (real estate investment trusts—10%); Nuveen (international equities—10%); Lord Abbett (fixed-income securities—25%); and Global Access/Coast

(alternative investments—10%). The Board believes that allocating investment of the endowment pool among a broad range of classes will achieve enhanced returns, lessen the impact of market volatility, minimize risk, and maintain a stable pattern of investment success.

#### ***How are available-to-grant amounts determined?***

In accordance with the Alliance's spending policy, the available-to-grant amount is determined using one of two calculations:

1. If the Fund is over the Historic Gift Value (HGV), the Standard Grant Policy will be utilized. The Standard Policy will grant 4.5% of the average value of the fund for the previous 12 quarters. The fund will be allowed to go below the HGV as a result of the grant.
2. The alternative spending of grants from eligible funds that are below the HGV at the end of the fiscal year shall be subject to the Alternate Spending Policy. Under this policy, grants for the following fiscal year will be up to one-half of the total net investment return, stated as a percent, on investments for the prior 12 months for period ending March 31. The actual dollar amount to be distributed will be that percent applied to the rolling average market value of endowed assets for the previous 12 calendar quarters, but limited to no less than 1% and no more than 4.5%.

For the complete Spending Policy of the Community Foundation Alliance, including definitions of terms and other process details, please contact your county community foundation director.

#### ***When are grants distributed?***

Because donors are offered a variety of options for how endowments are administered, distribution of grants varies. Grants from designated funds are mailed to their intended charities by September 1 following the end of each fiscal year. Because scholarship awards are generally announced in the spring following the end of each fiscal year, scholarship grants are held until recipients and educational institutions have been named since these grants are made directly to the educational institution. Grants from donor-advised funds are held until such time as advisors have had an opportunity to research and recommend grants, the Alliance program officer confirms the appropriateness of the recommended grant, and the Alliance Board approves the grant. Grants from unrestricted funds are made following each member Foundation's yearly competitive grant cycle.

#### ***What fees are charged to administer funds?***

The Alliance's administrative fee is 1.5% for all endowed funds except scholarship funds, for which the fee is 2%. Investment management fees vary based on the types of investments and the number of investment transactions in a given year (e.g., buying and selling of stocks).