

Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE:

ACTION ITEM

For Meeting of March 14, 2007

ADOPTION OF EXPENDITURE RATE FOR THE GENERAL ENDOWMENT POOL

EXECUTIVE SUMMARY

- Proposal:** For expenditure in the 2007-08 fiscal year, set the payout rate for the General Endowment Pool (GEP) at 4.75 percent of a 60-month moving average of the market value of eligible shares invested in the GEP. The Committee on Investments, at its March 6, 2007 meeting, is expected to recommend the 4.75 percent payout rate.
- Previous Action:** Since 1998, the approved “target” (i.e., maximum) payout rate for the GEP has been 4.75 percent of a 60-month moving average of the market value of eligible shares invested in the GEP. However, the actual payout is set by The Regents annually. The Regents first approved a payout rate of the target 4.75 percent for the payout expended in FY 2006-07.

RECOMMENDATION

The President recommends that, with the concurrence of the Committee on Investments, the Committee on Finance recommend to The Regents that the expenditure rate per unit of the General Endowment Pool (GEP) for expenditure in the 2007-08 fiscal year shall remain at a rate of 4.75 percent of a 60-month moving average of the market value of a unit invested in the GEP.

BACKGROUND

The President, in consultation with the Acting Treasurer of The Regents, Chief Investment Officer, and Vice President of Investments, recommends that the expenditure rate per unit of the General Endowment Pool for eligible funds in the 2006-07 fiscal year be a rate of 4.75 percent of a 60-month moving average of the market value of a unit invested in the GEP. The payout would be distributed in August 2007 for expenditure in the 2007-08 fiscal year. This would maintain the rate adopted by The Regents in March 2006 for expenditure in FY 2006-07. The Committee on Investments, at its March 6, 2007 meeting, is expected to recommend the payout rate of 4.75 percent.

At its March 2006 meeting, the Committee on Investments also approved a proposal to maintain the endowment cost recovery rate of 25 basis points (0.25 percent). Endowment cost recovery is taken from the endowment payout each year and is used to recover a portion of the costs of administering and carrying out the terms of the endowments on the campuses and at the systemwide offices. The funds released by this mechanism will be used by the campuses to help support additional fundraising expenses.

In October 1998, following a study, The Regents adopted a target endowment expenditure rate of 4.75 percent, with a first year payout of 4.35 percent. For all future years, the President and the Treasurer committed to review GEP performance, inflation expectations, the University's programmatic needs, and to recommend to The Regents a rate that would provide appropriate increases in the dollar value of the payout. In the interim years, the payout rate has been increased in stages to 4.75 percent for expenditure in 2006-07.

The Attachment prepared by the Treasurer's Office provides estimates, in dollar terms and year-to-year percentage change of GEP, for payouts based on a range of assumed GEP investment returns through the end of FY 2006-07, the end of the 60-month averaging period. This range of dollar payouts is considered to be an appropriate balance among the following objectives that were discussed with The Regents in October 1998:

- (1) Maximize long-term total return.
- (2) Preserve the real (i.e., after inflation) long-term purchasing power of the endowment portfolio's principal and of its distributions.

- (3) Optimize annual distributions from the endowment portfolio.
- (4) Maximize the stability and predictability of distributions.
- (5) Promote accountability of asset management (disclosures to donors, performance reporting, etc.).
- (6) Promote the fundraising effort.

(Attachment)