

## FLORIDA STATE UNIVERSITY DIVISION OF UNIVERSITY ADVANCEMENT

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Investment and Spending Policies

## FSU FOUNDATION'S MISSION

The Florida State University Foundation enhances the academic vision and priorities of FSU through its organized fundraising activities and funds management. The FSU Foundation accomplishes its mission by:

- ◆ Fostering relationships with alumni and friends of FSU and advocating charitable giving to FSU;
- ◆ Soliciting contributions for academic purposes as part of FSU's overall advancement effort;
- ◆ Investing and disbursing funds to meet current and future needs of FSU; and
- ◆ Strengthening relationships with donors to FSU.

## INVESTMENT OVERSIGHT

The Investment Committee of the FSU Foundation Board of Trustees is responsible for investing the Foundation's endowments. The committee, with the help of an independent investment consultant, develops formal investment policies and employs professional investment managers to implement those policies. A major U.S. bank holds the Foundation's investments that require custody.

## INVESTMENT POLICY

All the endowments of the FSU Foundation are pooled for purposes of investment into the Long-Term Investment Pool (or investment pool). The primary objective of the investment pool is to grow the corpus in excess of inflation and to meet both current and future obligations as dictated by the spending policy, net operational cost.

To reflect the growth objectives and risk tolerance of the Investment Committee and to support the spending policy, the endowment assets are invested according to the following asset allocation guidelines:

ASSET CLASS	TARGET ALLOCATION	ASSET CHARACTERISTICS
Public Equity	43%	Growth/Diversification
Diversifiers	12%	Diversification
Private Equity	28%	Growth
Fixed Income	10%	Hedging/Diversification
Real Assets	7%	Diversification/Hedging

## SPENDING POLICY

The endowment spending policy is designed to provide a stable income stream to the university community for its current needs while maintaining the purchasing power of the endowed assets.

Spending is 4% of a rolling three-year average of the quarterly market values of participating funds. Spending is distributed at the end of each quarter.

## UNDERWATER ENDOWMENTS POLICY

The Foundation strives to balance the donor's and the Florida State University's (the university) desire to fund current program, faculty and scholarship needs with the commitment to preserve, over time, the donor's gift to the endowment corpus. Furthermore, the Foundation takes seriously its responsibility to provide prudent fiduciary management, oversight of the endowments and intergenerational equity. However, the Foundation is aware that, despite diversification in the investment pool and the best good faith efforts of its Board of Trustees and Investment Committee, there will be times when the fair market value of an endowment may fall below the corpus value creating underwater endowments.

In the event an endowment falls underwater by greater than 15% of its historic dollar value (the aggregate value of all contributions to an endowment fund at the time they were made), the Foundation, with input from the appropriate university unit, will perform an in-depth analysis of the fund in order to make a determination on future spending distributions. This analysis will include, but is not limited to, the following factors:

- ◆ The level of impairment of the fund;
- ◆ Discussions with the appropriate dean or department head;
- ◆ The need of the affected fund for continued support;
- ◆ Cash balance available for use by the affected fund; and
- ◆ Identification of any temporary alternative funding sources.

Following the analysis of a fund, the Foundation will make a decision on future spending distributions relative to that fund. However, in the event the fund has accumulated spendable cash greater than two years' worth of distribution, then the spending distribution will be suspended until the fund is back above 15% underwater threshold.

For all endowed funds less than 15% underwater, spending distributions for the following fiscal year are determined on an annual basis by the appropriate dean or department head utilizing the endowed fund balances and other pertinent information, as of December 31 of each year.

In the event an endowment falls underwater by greater than 20% of its historic dollar value (the aggregate value of all contributions to an endowment fund at the time they were made), future spending distributions will be suspended until the fund goes back above the 20% level. Exceptions to this requirement are intended to be extremely rare and can only be granted with the approval of the provost and the Foundation chief financial officer.

The intent of the Underwater Endowments Policy is to continue to provide spending distributions to support the scholarships, programs and faculty as designated by the donor and in accordance with Florida laws, while also allowing the endowment to recover more quickly from economic downturns.

## ADMINISTRATIVE FEE

The Foundation assesses an administrative fee sufficient to offset its operating expenses. As of July 1, 2021, the fee equals 1.5% annually.

## GROWTH/INFLATION

The earnings allocated to an endowment are based on each fund's prorated share of the total investment pool. The amount allocated is the net of market performance, less the spending distribution and less an administrative fee for Foundation operating expenses. Earnings in excess of spending and the administrative fee are added to the endowment balance. This "growth" is then available to provide the cushion to fund spending and fees during periods of poor market performance. Likewise, the endowment balance will decrease when earnings are not sufficient to cover spending and fees. Growth is also anticipated from the addition of new gifts.

## Frequently Asked Questions

**Q. What is the minimum gift amount that can create an endowment?**

**A.** The minimum amount required to create an endowment that can participate in the investment pool is \$30,000. Once gifts are invested in the investment pool, the associated funds cannot be withdrawn.

**Q. Can an endowment be created with funds other than endowed gifts?**

**A.** Yes. A dean or director can identify non-endowed funds to be used to establish an endowment. The same \$30,000 minimum applies, and once placed in the pool, funds cannot be withdrawn.

**Q. When are endowments transferred into the investment pool and, upon entering the investment pool, when will a new endowment receive its first distribution?**

**A.**

GIFT RECEIVED	GIFT INVESTED	FIRST SPENDABLE DISTRIBUTION RECEIVED
July–September	→ September 30	→ December 31
October–December	→ December 31	→ March 31
January–March	→ March 31	→ June 30
April–June	→ June 30	→ September 30

**Q. How is the spending distribution calculated?**

**A.** The Foundation uses a smoothing formula based on a rolling three-year average of the quarterly market values. Ending market values for the last 12 quarters are averaged and the result is then multiplied by the stated 4% spending rate (1% per quarter) to determine the total

In order to maintain purchasing power, the following equation must be true:

$$\frac{\text{Total Long-Term Return} - \text{Total Withdrawals (spending/administrative fees)}}{\geq \text{Inflation}}$$

## FIDUCIARY RESPONSIBILITIES

An independent CPA firm annually audits endowment accounts held by the Foundation. Management reports are provided to the FSU Foundation board and FSU officials. All requests for disbursements are reviewed for compliance with the Foundation's disbursement policy and donor guidelines. Financial statements are made available monthly to responsible parties for each endowment.

amount to be distributed. This amount is then allocated to participating funds based on their pro-rata share of the total investment pool.

**Q. Can the spending distribution for an endowment ever go down from one quarter to the next?**

**A.** Yes. However, while the market value reported each quarter might be quite volatile, the spending amount, which is based on a three-year moving average, tends to change very gradually.

**Q. What happens when endowment earnings exceed the amount needed for spending and administrative fees?**

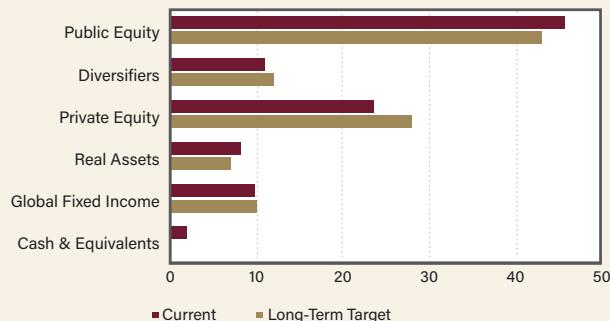
**A.** Each endowment receives its proportionate share of the investment pool's total return. Earnings in excess of the spending distribution and the administrative fee are added to the balance of the endowment and are available to provide funding for the spending allowance and the administrative fee during future periods of poor market performance.

**Q. What effect do low or negative returns have on the Foundation's endowments?**

**A.** Whenever the investment return is less than the spending distributions and the administrative fee, the balance of the endowment is reduced accordingly. Due to the spending distributions and the administrative fee, the value of the endowment can go down even when investment returns are positive. The Foundation's spending policy is based on its projection that, in the long term, the average investment rate of return will equal or exceed the sum of the rates for spending, the administrative fee and inflation.

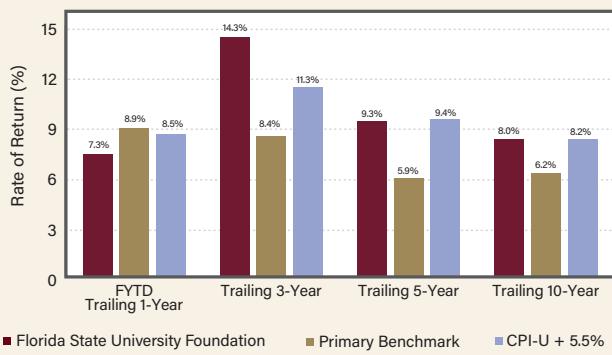
## Long-Term Investment Pool Asset Allocation

(as of June 30, 2023)

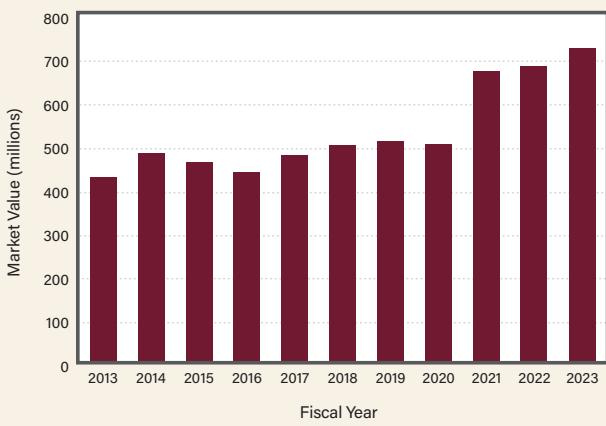


## Long-Term Investment Pool Comparative Rates of Return

(as of June 30, 2023)



## FSU Foundation Endowment



**FLORIDA STATE UNIVERSITY**  
DIVISION OF UNIVERSITY ADVANCEMENT

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