CSUN FOUNDATION

ENDOWMENT FAQ

What is an Endowment?

The term, endowment, has come to be known as the permanent funds of an institution, which provide the financial resources for the fulfillment of the institution's mission and objectives. Endowments are not a new phenomenon dating back only to the 20th century. Historically, endowments started in the Middle Ages when wealthy land owners would give land to charities with the understanding that the rents collected would foster the work of the organization. This tradition has continued to this day as donors transfer assets to institutions for the specific purpose of investing in the mission of the organization for perpetuity, or in some cases, for a specific period of time.

What types of Endowments can be created?

There are three basic types of endowments:

True Endowments, which are often referred to as simply endowments, reflect the original historical intent of the term. In a true endowment, the donor transfers assets to the institution prohibiting the principal from being spent. Institutions rely on the income from these assets to provide funds to further their philanthropic purpose. Gifts and bequests are the only sources of a true endowment.

Quasi Endowments are funds that function like an endowment but are not restricted from the prohibition of the utilization of the principal for expenditure. Quasi Endowments can be created by the Foundation Board of Directors through the utilization of unrestricted funds or they can be created by donors, in coordination with the Foundation Board of Directors, who wish to give the institution flexibility to utilize the principal should the needs of the organization exceed the income provided from the assets. The Donor can subsequently revise the agreement to change the nature of the endowment to a true endowment.

Term Endowments are funds provided to the institution in which the donor specifies that the gift should be invested for a prescribed period of time with portions of the principal being made available at certain intervals. In these endowments, the income from the endowment is utilized for the philanthropic purpose with prescribed augmentations of principal being added to the potential expenditures.

What are the components of each Endowment?

Once an endowment is established, regardless of its type, a separate account or fund is created. The endowment has two parts from that point forward: the principal or corpus, which is the value of the initial gift or gifts (this is often referred to as the book or gift value of the endowment or as the historical gift value), and the accumulated earnings on the principal. Given the prohibition on the expenditure of the principal, any expenditures or spending are limited to the availability of accumulated earnings. The market value of an endowment at any time is made up of the principal plus the accumulated earnings less spending distributions.

Is there a minimum amount needed to create an Endowment?

An endowment is created by a gift or bequest from a donor. The current minimum gift for an endowment is $25,000. Gifts to an endowment may be funded over a period of years to achieve the minimum level required. The amount needed to endow a particular purpose, i.e., a scholarship, professorship, or program, is a calculation based on the current costs. The minimum threshold is a policy decision, not programmatic.

What is the value of the Endowment at CSUN Foundation?

The value of the CSUN Foundation endowment is over $206.7 million as of June 30, 2023. This valuation is made up of the following components:

- $105.1 million - the principal or corpus (historical gift value)
- $46.9 million - the accumulated earnings on the principal or corpus
- $43.3 million – the value of the quasi-endowments
- $11.4 million – the value of pledges receivable designated to an endowment

It is important to recognize that while we refer to the University's endowment as a total, it is in actuality a collection of the individual endowments created by individuals and organizations through the years. At the present time, the University's endowment is made up of over six-hundred twenty-eight (628) individual endowments each with their own purpose and objective, but they are individually monitored as to their principal and accumulated earnings.

How are Endowments invested to provide funds for the Institution?

Given the prohibition to spend the principal or corpus of the endowment, the Board of Directors of the California State University, Northridge Foundation is empowered to create and develop a policy for the investment of those assets to ensure an income stream to perpetuate the purpose of the endowment. Because the endowment represents a permanent fund, the investment policy and the investments themselves are made with a long term perspective of fifty years. This is in contrast to an individual's portfolio, which may have an investment horizon of five or ten years (or shorter) depending on the potential use of the funds. Because of this longer investment horizon, the Foundation considers investment returns over three, five, and ten years in its acquisitions and dispositions of the various securities.

The investment policy must take into account the three aspects of the long-term strategy: the preservation of the principal, the provision of current funds for expenditure, and the purchasing power of the funds over time as a result of the economic conditions. This last aspect is the realization that the cost of ensuring a program rises from year to year as the costs in society also rise. For this reason, the Board seeks to have earnings which not only provide for today but also increases the amount invested year over year to provide an increased amount of earnings over time. In recent years, this final component has been referred to as "intergenerational equity" – the portion of the accumulated earnings which are not spent to ensure the purpose of the endowment can be maintained as the costs of that maintenance continues to rise. The Investment Policy provides guidance to Foundation staff and the investment manager in regards to allowable and prohibited asset classes, asset allocation, risk-return objectives, total return targets, investment liquidity, among others.

The investment policy of the Foundation is also subject to legislative mandates, both on the federal and state level. The significant policy mandate is the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which has been adopted by almost every state. This policy grants the Foundation more latitude in making investment and expenditure decisions based on diversification of assets, long-term performance benchmarks, and the importance of a portfolio's total return on investment while continuing to honor a donor's intentions.

CSUN Foundation utilizes a pooled investment concept in which all of the funds provided as endowments are pooled together for investment purposes. This method is utilized by every charitable institution around the world as the pool provides significant investment potential, the ability to diversify the investments, and the potential to make investments with upside potential given the invested amount.

Who monitors the investments of the Endowment?

The Board of Directors always retains authority on the investment policy, but as endowment assets grow, the Board relies on staff and external consultants to assist in the implementation of the approved policy. For the CSUN Foundation, the Board of Directors has given the Finance and Investment Committee the authority to meet and monitor the results on their behalf. The Committee meets quarterly to accomplish this task. As part of this process, the Committee evaluates the portfolio's investment returns against related benchmarks, such as the Standard & Poor's 500, Russell 3000, Dow Jones Industrial Average, among others, to ensure our portfolio achieves the intended results. Since benchmarks exist in the broader investment markets for virtually every potential investment vehicle, this provides a meaningful evaluative tool. The Foundation's Chief Financial Officer is designated for the month to month, and sometimes more frequently, monitoring and to ensure the Board's and Committee's expectations are being fulfilled. The actual investments of the Funds are made by Goldman Sachs, a multi-billion dollar investment company, who is empowered by the Board of Directors to make those investments within the guidelines and expectations of the investment policy. The Chief Financial Officer and Finance and Investment Committee review the investments and their returns against the Investment Policy on an ongoing basis to evaluate the performance of Goldman Sachs as the investment manager.

For the periods ending June 30, 2023, the Foundation's total return on an annualized basis for the endowment's investment portfolio were as follows:

Fiscal Year 2022 - 2023	10.51%
Three-year period (2020 -2023)	7.69%
Five-year period (2018 – 2023)	6.78%
Ten-year period (2003 – 2023)	6.75%

Are the Endowments subject to any fees?

Endowments are subject to investment management fees and endowment management fees. The Board of Directors reviews these fees on a regular basis to ensure their appropriateness. The investment management fees are the charges incurred as a result of the investments within the endowment investment pool. The endowment management fees are the fees charged by the CSUN Foundation for the administrative, financial, and operational costs of the Foundation and its oversight of the endowment. While the investment management fees vary based on the investment, the endowment management fee for fiscal year 2023 – 2024 is annualized at 1.50%. The endowment management fee is assessed monthly based on the current market value of the endowment (corpus plus accumulated earnings).

What is meant by the term, "underwater," and how does it affect an endowment?

The term "underwater" is utilized to describe an endowment account in which the current market value is lower than the book value (the value of the gifts that make up the principal or corpus). Individual endowments could be "underwater" while the endowment as a whole is not. This happens when an endowment is created prior to an investment downturn. As of June 30, 2021, there were no endowments, which would be classified as "underwater."

When an endowment is "underwater," CSUN Foundation's policy is to suspend the administrative fee and spending distribution in order to allow the endowment to accumulate earnings. This waiver allows the endowment to regain a position in which the current market value (principal plus accumulated earnings) is greater than the book value.

What is the Spending Distribution of the Endowment?

The Endowment Policy adopted by the Board of Directors sets forth the objectives of the endowment, including the provision of current funds for operations. The actual provision is approved on an annual basis by resolution of the Board of Directors after receiving advice and counsel from the investment manager, the staff, and the Finance and Investment Committee. The annual distribution is determined based on the investment results over a period of years and the overall position of the endowment. The spending distribution reduces the accumulated earnings of the individual endowment as it is allocated, so an endowment with limited accumulated earnings may be precluded from the spending distribution if the allocation of the distribution would result in the endowment going "underwater" (market value being less than the historical gift value or corpus).

While gifts to the endowment begin to generate income the month after they are invested, the spending distributions are limited during the initial years of an endowment. This is done to preserve the integrity of the gift and to recognize the limited accumulated investment earnings during these first years after the endowment's creation. In addition, because the investment results over a period of years are part of the analysis, the spending distribution is calculated based on the average market value of the endowment at the end of each fiscal quarter for the previous three years (twelve quarters).

The annual spending distribution is calculated by taking the average market value at the end of each fiscal quarter (September 30, December 31, March 31, and June 30) for the previous three year period. This means the calculation takes into account the market value for twelve quarters. This average market value is then multiplied by the current distribution rate approved by the Foundation Board of Directors. For Fiscal Year 2023 – 2024, the distribution rate is 4.0%. The distribution is made in quarterly increments from the accumulated earnings into a separate fund, commonly referred to as the working account, for expenditure by the fund director. As discussed previously, it is important to recognize that a spending distribution may be curtailed if the distribution will result in the market value of the endowment falls below the book value.

How does a pledge impact the Endowment?

A pledge represents a promise to make a gift in the future. These pledges do not impact the value of an individual endowment until the gift is actually received. The Foundation cannot invest cash it has not received. We do, however, utilize the pledge as a planning tool for future cash in-flows.

December 2023