

HANDOUT 6

Asset Allocation Spending Policy Analysis Questionnaire

Endowment / Foundation Questionnaire

QUESTIONNAIRE	1
I. CURRENT INVESTMENT POLICY	1
II. FINANCIAL OBJECTIVES	2
A. GROWTH.....	2
B. SPENDING POLICY	4
C. FUND RAISING.....	5
III. RISK CONSTRAINTS	6
IV. IMPLEMENTATION CONSTRAINTS.....	8
V. OTHER CONSIDERATIONS	8
VI. COORDINATING INSTRUCTIONS	8

QUESTIONNAIRE

Introduction. This Questionnaire is designed to collect information necessary to perform an analysis of your investment funds based on current asset allocation, spending policy and other factors which have a material impact upon the fund’s total return. The questionnaire can be shared with your Board of Directors if desired.

The analysis relies upon certain proprietary tools and some standard modeling processes. Your investment advisor can use this analysis in developing an appropriate asset allocation strategy. The end result is a recommended asset allocation/investment portfolio designed to meet the fund’s total return requirements as defined by you.

Please note that space has been provided for comments after each question. Feel free to provide as much information as you wish, both quantitative and qualitative. Attach a separate spreadsheet if necessary.

I. Current Investment Policy

Please provide your fund’s current commitment to the following asset classes or categories of investment. Place an “X” next to the assets types that are not allowed by statute or consensus. In addition please list the manager(s) or mutual fund(s) utilized in each investment category. **If a formal investment policy statement is available, please attach.**

	Range Percentage	(High/Low)	Not Permitted (X)	Manager or Fund
Cash Equivalents				
Short-Intermediate US Bonds				
Long-Term US Bonds				
Non-US Bonds				
High Yield Bonds				
US Equity - Large Cap				
US Equity - Small Cap				
Developed International Equity				
Emerging International Equity				
Other (Specify):				

Total Percentage **100%**

Comments:

II. Financial Objectives

The financial goals of a foundation or endowment can be summed up in a few important variables that will ultimately indicate the amount of financial risk that must be taken to achieve the institution's goals. These variables are as follows:

- A. Targeted rate of asset growth relative to inflation (or the real growth rate)
- B. Spending policy of the foundation or endowment
- C. Fund raising or new dollars contributed into the investment pool.

A. Growth

One of the most important parameters for a nonprofit, foundation or endowment is its real growth target, or the asset growth adjusted for inflation over time. Many mature foundations and endowments target zero real growth over time, while newer ones, and those with aggressive expansion plans, may have much more ambitious growth aspirations. The following questions address the required growth rate for the investment pool.

Select one choice by circling the appropriate letter (attach business plan/ financial statements).

1. How long has the foundation/endowment been in existence:
 - A. Less than 5 Years
 - B. 5-15 Years
 - C. More than 15 Years
2. Ten years from now the expected real value (inflation-adjusted) of the endowment pool is targeted to be:
 - A. About the same as it is today
 - B. Somewhat greater than it is today
 - C. Substantially greater than it is today
3. Over the next ten years the projects/programs the investment pool supports will:
 - A. Narrow in Scope
 - B. Stay about the same
 - C. Expand in Scope

HANDOUT 6

4. What is your time frame for achieving the current financial objectives for the endowment/foundation:
 - A. Less than five years
 - B. Five to ten years
 - C. More than ten years

5. Determine the appropriate real growth rate using the worksheet below.

Specify a targeted real growth rate for the endowment or foundation pool including the effect of new assets and spending/disbursements. Remember to account for the effects of inflation which has averaged 3.5% a year for the past 10 years.

Consider:	Example	Your Fund
Nominal Investment Growth:	10%	_____
New Gifts:	+ 2%	+ _____
Spending:	- 5%	- _____
Inflation:	- <u>3.5%</u>	- _____
 Real Growth Rate:	 = 3.5%	 =

Circle the approximate real growth rate below:

0%	2%	4%	6%	8%	10+%
Equilibrium		Moderate Growth		High Growth	

Comments:

B. Spending Policy

How your foundation or endowment spends money, and how much is spent, will play a large role in determining an appropriate investment strategy for the fund's assets. *Everything else being equal, the more an institution spends, the more aggressive an investment policy must be to achieve real growth objectives over time.* An assessment of spending policy includes the spending method (income, percent of assets, etc.), the spending amount (All income, 5% of assets, etc.) and other provisions which may be important, including large irregular withdrawals and tolerance for variability of spending. The following questions address the spending policy for the foundation or endowment (attach a copy of the spending policy if applicable).

Select one choice by circling the appropriate letter.

6. What spending rule is used to determine the level of spending in any given time period:
- A. Spend all investment income
 - B. Spend as a percentage of asset value
 - C. Spend as a percentage of moving average of previous period's asset value
(Indicate the # of years for smoothing _____)
 - D. Spend a fixed amount each year
 - E. Spend a fixed amount each year but grow with inflation
 - F. Other (Specify)
7. If B or C is selected above, circle the level of spending on the line below. If option D or E is selected, indicate spending as a percentage of today's asset value on the same line below.

For example: A foundation with \$1,000,000 in assets today plans to spend \$70,000 per year over the next ten years, their spending amount would be $\$70,000 \div \$1,000,000$ or 7%/year.

_____ 0% 4% 5% 6% 7% 8+%

8. Is your foundation a not-for-profit corporation subject to IRC 4942 (minimum 5% spending policy)?
- A. Yes
 - B. No

HANDOUT 6

9. How concerned would you be with variability of disbursements from the investment pool?
 - A. Very concerned with stability from year-to-year and with potential shortfalls.
 - B. Somewhat concerned with year-to-year variability and need a minimum level of spending.
 - C. More concerned with growth of the fund, not as concerned with year-to-year variability in spending.

10. How likely is it that extraordinary withdrawals (beyond normal spending requirements) will be made from the endowment pool?
 - A. Highly likely within the next year
 - B. Likely in the next 1-3 years
 - C. Unlikely in the next 3 years

C. Fund Raising.

The third important variable in defining the financial objectives of a foundation or endowment is fund raising efforts. Everything else being equal, the more funds an institution raises outside of the investment pool, the less aggressive the investment pool must be to target the fund's growth objectives over time. However, a large portion of incoming revenue outside of the investment pool can also provide more flexibility in investment policy, allowing the fund to take on additional investment risk. An assessment of fund raising policy includes the amount of incoming funds (in absolute terms and relative to inflation), the time horizon over which funds are likely to come in (over the next 2 years only, over the next 10 years, etc.) and the relative importance of external fund raising in the financial scheme of the endowment or foundation. The following questions address the fund raising policy for the foundation or endowment (attach a copy of fund raising plan or budget if applicable).

11. Indicate the level of fund raising as a percentage of current asset value (e.g. if a \$1,000,000 foundation expects \$70,000 in fund raising this translates to a 7% fund raising expectation):

0%	2%	4%	6%	8%	10+%
----	----	----	----	----	------

12. Over the longer run do you expect fund raising to:
 - A. Grow at or near the general rate of inflation.
 - B. Grow slower than the general rate of inflation or have minimal growth.
 - C. Grow faster than the general rate of inflation.
 - D. Not applicable - no fundraising

13. What percentage of total spending (disbursements + expenses) is generated through fund raising versus investment income?
- A. Less than 25%
 - B. Between 25-50%
 - C. More than 50%

III. Risk Constraints

While the financial goals are an important part of setting an appropriate investment policy for a foundation, the appetite for risk will also influence the ultimate investment strategy any institution pursues. The following questions address the risk tolerance for your foundation or endowment.

14. What is the primary objective for this pool of assets?
- A. Preservation of capital
 - B. Maximize current income
 - C. Maximum growth of principal, moderate current income
 - D. Maximum growth of principal, income not a consideration
15. What is the current income requirement for assets in this pool (remember to consider both interest and dividend payments?)
- A. 0-2%
 - B. 2-4%
 - C. More than 4%
16. One way to assess risk tolerance is to evaluate the importance of an endowment or foundation's investment pool in the operations of their "business". In some instances the pool represents a majority of the assets of an organization while in others it may play a much less significant role. What percentage of the organization's total operating assets are represented by this pool?
- A. Less than 25%
 - B. Between 25-50%
 - C. More than 50%

HANDOUT 6

17. Another measure of risk tolerance is the extent to which the fund's financial decision makers are comfortable with year to year volatility of investment returns. How concerned are you with variability in the market value of the endowment pool?
- A. Very concerned with variability in the fund value
 - B. Somewhat concerned with year-to-year variability, but more concerned with long-term growth
 - C. Focused on the long-term growth of the fund, unconcerned with short-term variability
18. The following example shows the good and poor market returns for several investment portfolios over short (1 Year) and longer (5 Year) time frames. The more aggressive the investment portfolio, the higher the potential return in good and average markets. However, the more aggressive portfolios also have lower returns in poor market conditions. Select the portfolio which you think best describes the tolerance for return volatility for your foundation/endowment.

	Less Aggressive		Average Foundation	More Aggressive	
	A	B	C	D	E
One Year					
Good Mkts.	21.1%	30.0%	37.5%	46.0%	55.4%
Avg. Mkts.	6.6%	8.3%	9.2%	10.0%	10.9%
Poor Mkts.	-6.1%	-9.8%	-13.3%	-17.1%	-20.9%
Five Year					
Good Mkts.	11.8%	16.9%	20.5%	24.5%	28.4%
Avg. Mkts.	6.6%	8.3%	9.2%	10.0%	10.9%
Poor Mkts.	1.8%	0.7%	-0.8%	-2.3%	-3.9%

IV. Implementation Constraints

Level of Diversification.

The tolerance for investing in the broadest possible array of asset classes will, to some extent, determine the level of equity needed to accomplish the fund's financial objectives. For purposes of classifying the diversification level we group investment portfolios into three broad categories:

Domestic: Exposure to only U.S. based securities including both large and small capitalization stocks and all investment grade bonds.

Global: Exposure to broad array of developed market equity and investment grade fixed income securities. Offers improved diversification and risk control relative to an all-U.S. strategy.

Institutional: Full global exposure including emerging market equity securities and below investment-grade debt instruments. The most commonly recommended strategy for sophisticated institutional investors offering the highest return potential and broadest diversification.

19. Which level of diversification would you like to pursue, keeping in mind that, for equivalent levels of equity commitment, the better diversified portfolios are expected to experience lower volatility of returns:

- A. Domestic Only
- B. Global
- C. Institutional

V. Other Considerations

Please indicate here any other relevant information:

VI. Coordinating Instructions

Upon completion - Contact an investment representative for additional guidance.