ENDOWMENT SPENDING POLICY

Effective – February 24, 2023.

Summary – Duke University's Endowment Spending Policy balances supporting the current generation of students and faculty with preserving the University's endowment for the future. This policy provides that an annual percentage of current and accumulated endowment market value and investment return will be distributed from each individual endowment fund to be utilized by the University for operations essential for the success of its endowment-supported programs. The University makes all endowment distributions in a manner consistent with donor restrictions, as applicable, or with directives approved by the Board of Trustees. The Uniform Prudent Management of Institutional Funds Act, North Carolina General Statutes Chapter 36E ("UPMIFA") guides Duke University's endowment management and utilization.

This policy applies to Duke University's endowments and quasi-endowments. An Endowment is an institutional fund or part thereof that, under the terms of a gift instrument, is not wholly expendable by the institution on a current basis. The distributions from the invested funds are released for their intended purpose based on a spending rate approved by the Board of Trustees. A Quasi-endowment is established from internal sources, such as discretionary funds. Quasi-endowments are treated as an endowment for investment purposes but are not legally restricted.

Distribution Policies and Spending Rate - Duke University maintains a long term investment pool ("LTP") that invests funds held for a variety of purposes, including restricted endowments, unrestricted endowments, quasi-endowments, charitable remainder trusts, unrestricted funds, and other funds. The Board of Trustees shall approve the amount appropriated from endowment funds each fiscal year to support the purposes of the endowments. The appropriation varies annually, targeting between 4% and 6% of the average of the unit market values of endowments and quasi-endowment funds invested in the LTP of the University using the three (3) fiscal years immediately preceding the fiscal year in which the calculation is made. For example, the FY2024 projected spending rate would be calculated as the FY2024 distribution per unit as a percentage of the average of the FY2021 actual, FY2022 actual and FY2023 projected ending unit market values. The three-year average helps to moderate the potential volatility of market fluctuations on annual distributions from endowed funds. In determining the amount to be appropriated, the Board of Trustees considers the seven factors included in the prudency standard of UPMIFA § 36E-4(a):

(1) the duration and preservation of the endowment fund;
(2) the purposes of the institution and the endowment fund;
(3) general economic conditions;
(4) the possible effect of inflation or deflation;
(5) the expected total return from income and the appreciation of investments;
(6) other resources of the institution; and
(7) the investment policies of the institution.

Guided by the UPMIFA prudency standard, the Board of Trustees may in its discretion increase the spendable income available per unit to account for economic conditions, the expected total return and appreciation of investments, the mission and purpose of the institution and the fund, and the needs of the institution and the fund to make distributions and preserve capital.

In extraordinary years or circumstances, the Board of Trustees may approve spending rates outside the target band outlined above, guided by the seven factors included in the prudency standard required by UPMIFA. The distribution amount derived from the formula will be monitored to ensure compliance with UPMIFA.

Distribution of Spendable Income - The spendable income generated by the application of the spending rate will be allocated to fundholders in accordance with the stated purposes of the endowed funds to underwrite the costs of the programs such funds support and help defray costs associated with the endowed programs. These associated costs make up a significant portion of a program's total cost and represent the many dimensions of underlying support essential for any program to succeed. Guided by UPMIFA, assessments against endowed funds total market value and/or annual endowment distributions may support costs associated with the endowed funds and/or defray associated overhead costs. These assessments may be revised from time to time in accordance with current Duke policies and practices.

Certain Quasi Endowment Funds - At the discretion of the leadership, and with the approval of the Trustees, certain Board-designated quasi funds may not be subject to the University's established spending rate but may instead use an annual withdrawal plan as approved by the Trustees.

Return of Principal - In permanent endowment agreements in which the donor has stipulated a return of a portion of annual earnings to principal, this will be accomplished through growth in the unit market value, which contains both realized and unrealized gains.

Underwater Endowments - For permanent endowment funds with market values of less than the 80% of the fund's historic dollar value (defined as all contributions to the fund at the time of contribution, at June 30 of a given year), that fiscal year's spending distributions, including amounts allocated to administrative and academic support, will be returned to the principal of the fund to the extent necessary to bring the market value of the fund up to 80% of the fund's historic dollar value as of June 30, when the evaluation took place. Such amounts will be returned to principal in the fiscal year subsequent to the June 30 evaluation.

Governance - The Board of Trustees shall periodically review and amend this spending policy, guided by the UPMIFA prudency standard.