



Spending Policy Practices

2017

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Spending Policy Practices

2017

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Spending Policy Practices

Annual distributions from the endowment are a source of supplemental operating revenue for most endowed institutions. An institution's endowment spending policy provides a basis for the calculation of the annual distribution, serving as a bridge that links the long-term investment portfolio (LTIP) and the enterprise. Spending policies are designed to reflect the needs of current and future generations of stakeholders, balancing the goals of providing appropriate levels of support to current operations and preserving, or even growing, endowment purchasing power.¹

The data and analysis in this report cover a variety of spending topics including spending rule types, the endowment's support of operations, and effective spending rates. This year's report draws on a supplemental study Cambridge Associates conducted in March 2017 to dive deeper into the topics of spending policy implementation and factors that may lead to policy changes.

¹ Purchasing power is defined as the real market value of the endowment. An endowment that is maintaining purchasing power is keeping pace with inflation (after spending and investment returns). An endowment that is growing purchasing power is outpacing inflation.

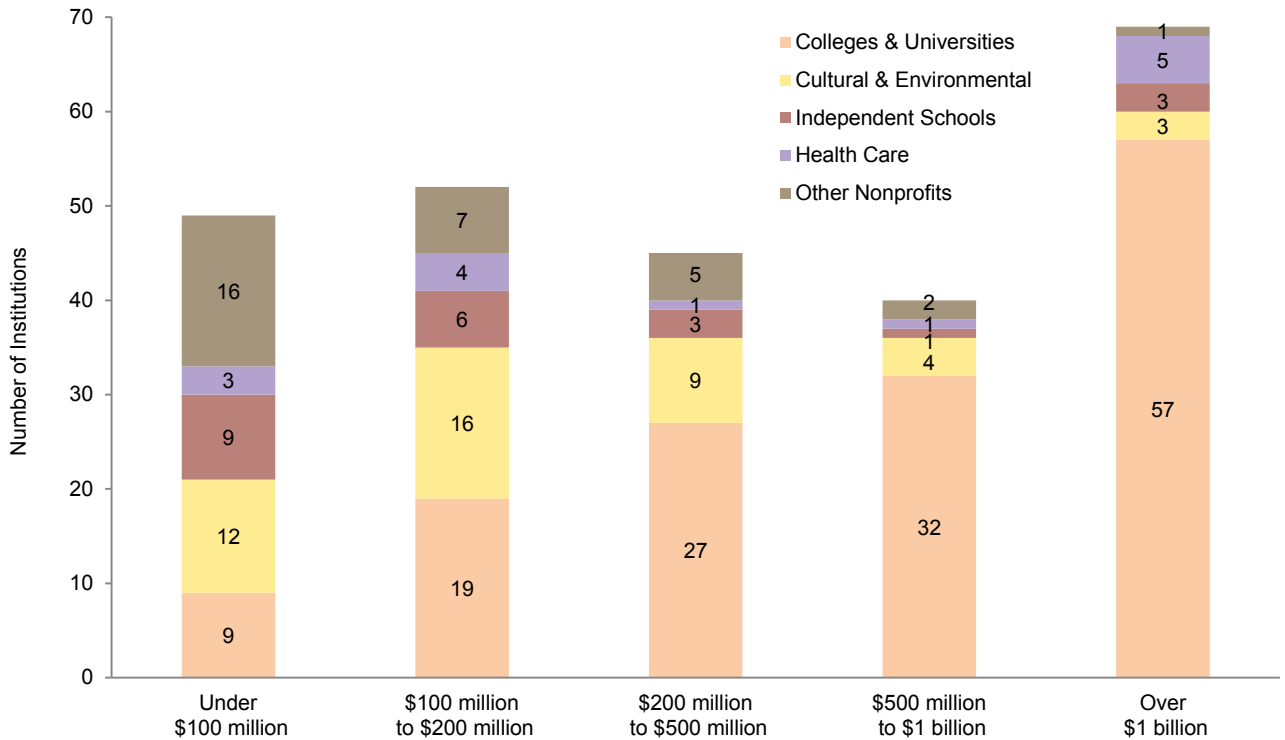
Participants and Spending Rule Types Defined

For 2016, Cambridge Associates collected spending policy data on 255 of our nonprofit clients, including 144 colleges and universities, 44 cultural and environmental institutions, 22 independent schools, 14 health care organizations, and 31 other nonprofit institutions. Foundations were excluded from the survey group as their spending is influenced by certain mandated spending requirements. A list of participants can be found at the back of this report. Figure 1 shows the distribution of these institutions across various asset size bands.

Institutions in this study use three primary spending rule types. **Market value–based** rules link the spending amount directly to the endowment’s market value. **Constant growth** rules increase spending each year by a defined growth factor. **Hybrid** policies combine the elements of both market value–based and constant growth rule types.

Figure 2 shows the prevalence of the spending rule types across participating institutions. The most frequently used rule type is a market value–based policy, cited by 76% of institutions. Market value–based rules are most common among the smallest portfolios, with nearly 90% of institutions with assets under \$200 million using this rule type. In comparison, 55%

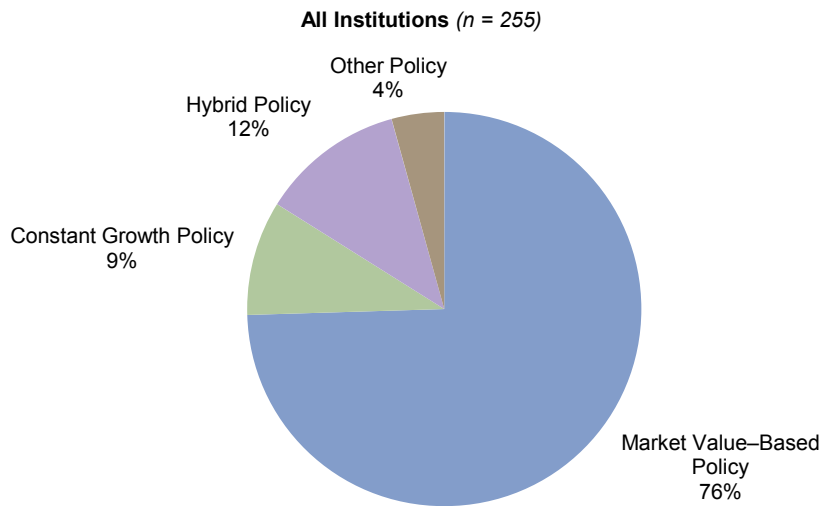
Figure 1. Profile of Participating Institutions 2016



Source: Spending policy data as reported to Cambridge Associates LLC.



Figure 2. Spending Policy Types
2016



By Asset Size

	Market Value-Based	Constant Growth	Hybrid	Other
Under \$100 Million	90%	4%	4%	2%
<i>n</i>	44	2	2	1
\$100 Million to \$200 Million	87%	—	8%	6%
<i>n</i>	45		4	3
\$200 Million to \$500 Million	80%	11%	7%	2%
<i>n</i>	36	5	3	1
\$500 Million to \$1 Billion	68%	15%	13%	5%
<i>n</i>	27	6	5	2
Over \$1 Billion	55%	16%	23%	6%
<i>n</i>	38	11	16	4

By Institution Type

	Market Value-Based	Constant Growth	Hybrid	Other
Colleges & Universities	69%	15%	13%	2%
<i>n</i>	100	22	19	3
Cultural & Environmental	80%	5%	11%	5%
<i>n</i>	35	2	5	2
Independent Schools	68%	—	23%	9%
<i>n</i>	15		5	2
Health Care	79%	—	7%	14%
<i>n</i>	11		1	2
Other Nonprofits	94%	—	—	6%
<i>n</i>	29			2

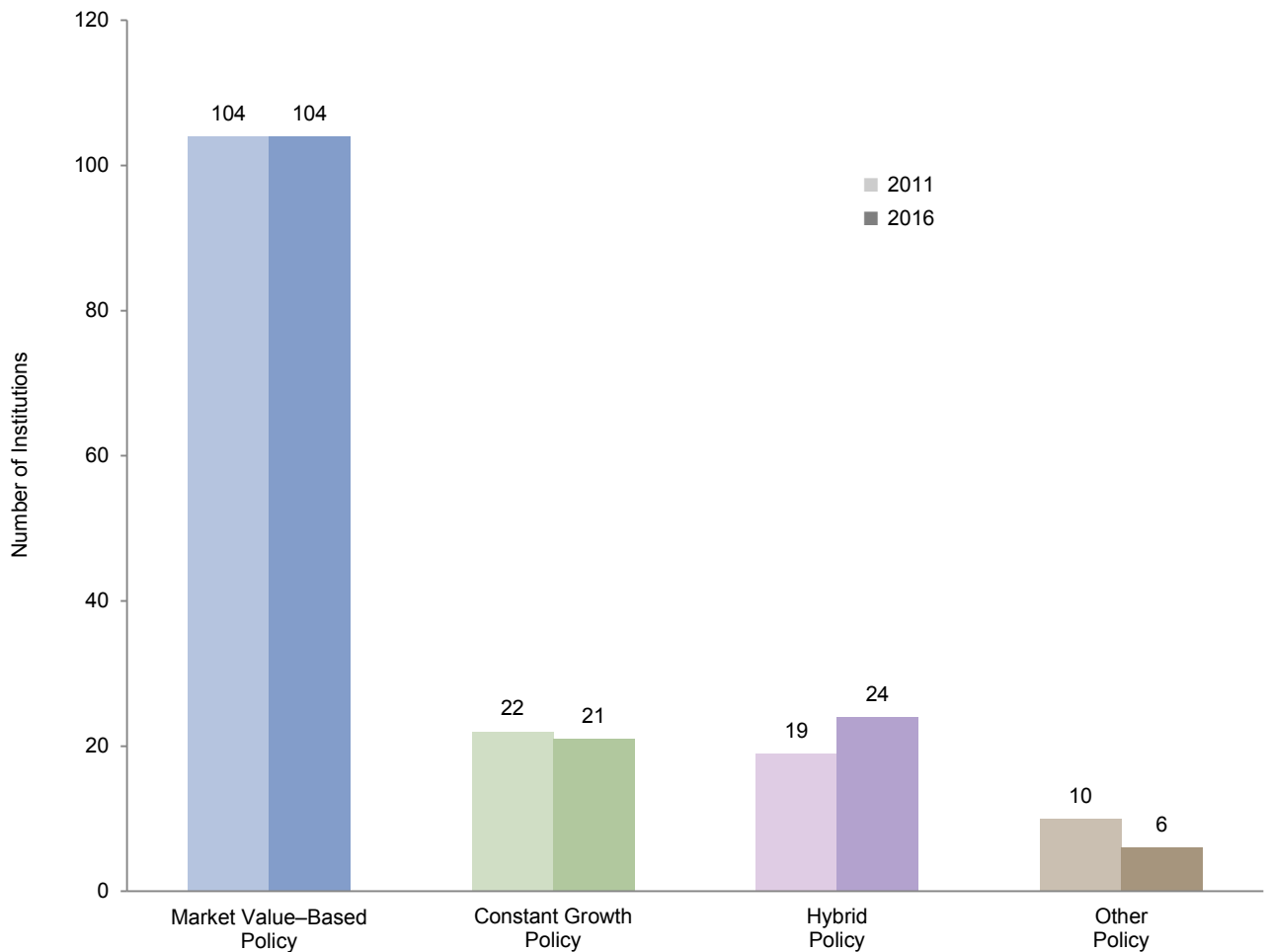
Source: Spending policy data as reported to Cambridge Associates LLC.

Notes: Market value-based spending policies base spending on a prespecified percentage of a moving average of market values. Constant growth policies increase prior year's spending by a measure of inflation and/or a prespecified percentage. Hybrid policies are those that incorporate a weighted average of a constant growth rule and a percentage of market value rule. Other policies are those that cannot be classified as market value-based, constant growth, or hybrid policies.

of institutions with assets over \$1 billion use a market value–based rule. Hybrid and constant growth rules were cited by 12% and 9% of all participants, respectively. Both rule types were more likely to be used by larger portfolios than smaller portfolios. Among the institutions with assets over \$1 billion, 23% used a hybrid policy and 16% used a constant growth policy.

Figure 3 shows the distribution of rule types for the 155 institutions that provided spending policy data in 2011 and 2016. The market value–based rule continues to be the most common among institutions in this study, with the same number of institutions using this policy in 2016 as five years ago. Among the other rule types, five more institutions used a hybrid policy; one less institution used a constant growth policy; and four fewer institutions used some other policy.

Figure 3. Spending Policy Types: 2011 vs 2016



Source: Spending policy data as reported to Cambridge Associates LLC.
 Note: Bar graph represents the 155 institutions that provided a spending policy in both 2011 and 2016.



Market Value–Based Policies

A market value–based rule dictates spending a percentage of a moving average of endowment market values. By linking the spending distribution amount directly to the endowment’s market value, this rule type usually produces the most dramatic changes in spending when investment conditions shift. Therefore, purchasing power preservation is prioritized during periods when the endowment’s market value declines.

The primary levers of this rule type are the target spending rate and the date or smoothing period used to measure the market value. Some institutions also use a cap and floor to contain changes in the annual spending distribution during volatile market periods.

Target Spending Rate. The target spending rate helps determine the proportion of the endowment that is distributed on an annual basis. Institutions incorporate long-term investment return expectations and inflation into the selection of the appropriate target spending rate. To preserve the purchasing power of an endowment,² the spending rate would align with long-term real investment return expectations. The purchasing power of an endowment will increase when the spending rate is lower than the long-term real return, and vice versa.

In 2016, the majority (88%) of participating institutions that cited a market value–based rule used a pre-specified target rate; the remaining institutions allowed some discre-

tion by setting a pre-specified percentage range within which the target spending rate may fall. For the purposes of comparing target spending rates, we assume the midpoint for institutions that specified a discretionary range. Of institutions with a market value–based policy, 48% used a target spending rate of 5%, and 42% of respondents used a target rate below 5%. Only 10% of institutions applied a rate that exceeded 5% (Figure 4).

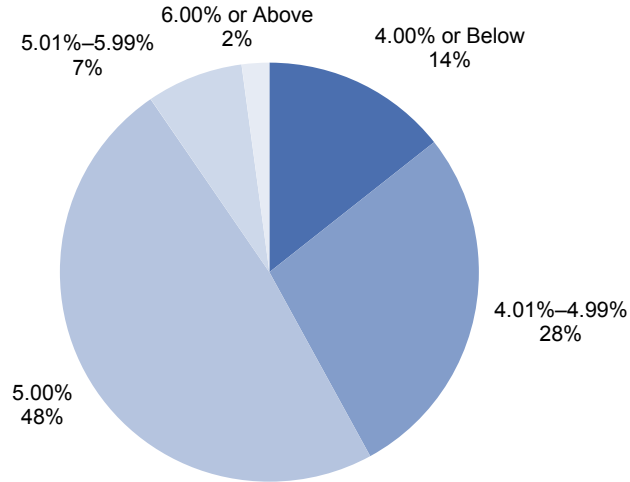
In fiscal year 2016, 88% used the same target spending rate as reported in the previous year (Figure 5). This is consistent with the trend we have observed over the last five years, where the vast majority of institutions make no change in any given year. Approximately 7% of institutions decreased their target spending rate in 2016, while another 5% increased the rate.

Smoothing Period. The spending distribution under a market value–based rule is determined by applying the target spending rate to the endowment’s market value. This is usually measured as an average market value over a period of time, known as a smoothing period. By capturing the endowment’s market value over several points in time, the smoothing period helps reduce year-to-year volatility in spending distributions. Smoothing periods for participants in this report range from one to seven years, and the time interval (i.e., monthly, quarterly, or annual market values) can vary (Figure 4). The most common measurement period was 12 quarters (45% of those with a market value–based policy).

² In this instance, we use the term “endowment” to refer to a single fund with no future inflows. An LTIP, which is a collection of multiple endowments and other long-term funds, can use inflows to increase purchasing power even if the spending rate is equal to the pool’s long-term real return.

Figure 4. Characteristics of Market Value–Based Spending Policies
2016

Target Spending Rates Used in Spending Calculation: All Institutions (n = 188)



By Asset Size

	4.00% or Below	4.01%–4.99%	5.00%	5.01%–5.99%	6.00% or Above
Under \$100 Million	16%	20%	57%	5%	2%
<i>n</i>	7	9	25	2	1
\$100 Million to \$200 Million	11%	29%	51%	4%	4%
<i>n</i>	5	13	23	2	2
\$200 Million to \$500 Million	22%	36%	33%	8%	—
<i>n</i>	8	13	12	3	—
\$500 Million to \$1 Billion	15%	19%	44%	19%	4%
<i>n</i>	4	5	12	5	1
Over \$1 Billion	8%	33%	53%	6%	—
<i>n</i>	3	12	19	2	—

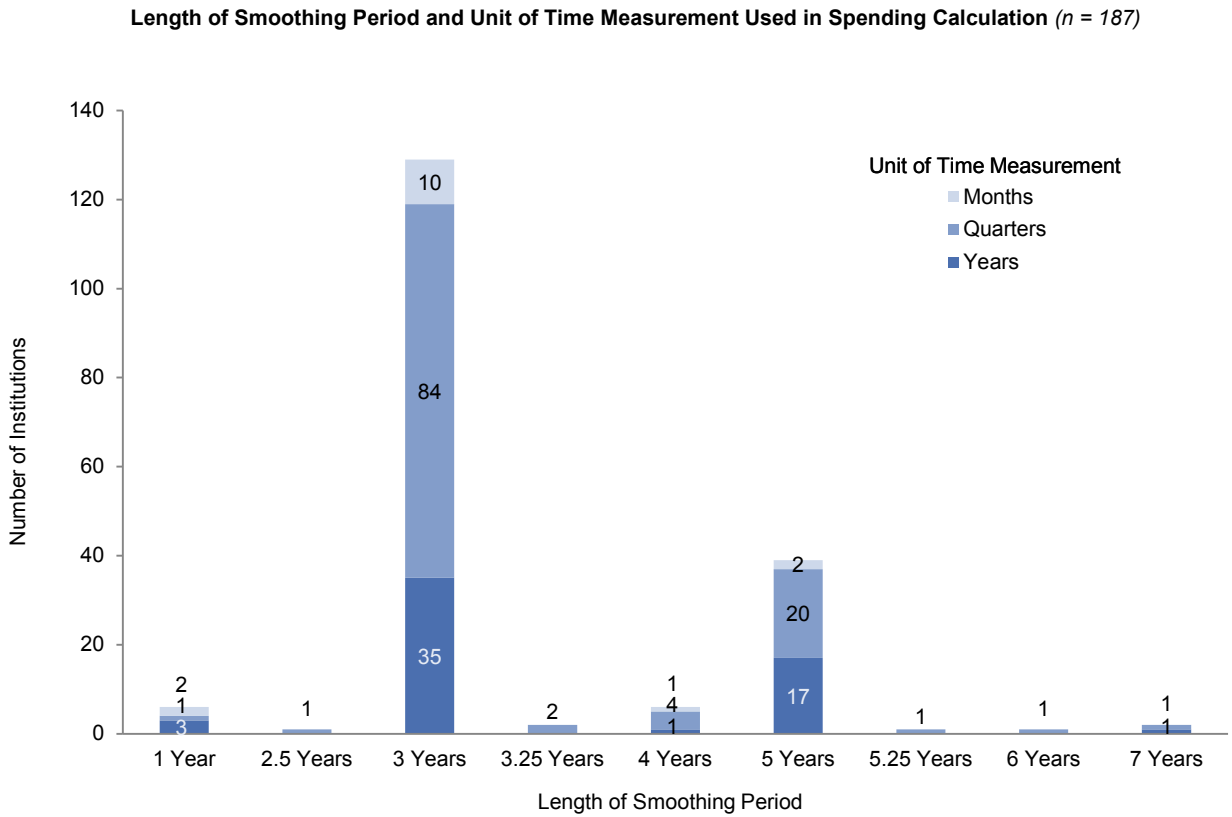
By Institution Type

	4.00% or Below	4.01%–4.99%	5.00%	5.01%–5.99%	6.00% or Above
Colleges & Universities	13%	35%	40%	10%	2%
<i>n</i>	13	34	39	10	2
Cultural & Environmental	11%	11%	66%	9%	3%
<i>n</i>	4	5	23	3	1
Independent Schools	27%	33%	40%	—	—
<i>n</i>	4	5	6	—	—
Health Care	18%	18%	64%	—	—
<i>n</i>	2	2	7	—	—
Other Nonprofits	14%	24%	55%	3%	3%
<i>n</i>	4	7	16	1	1

Source: Spending policy data as reported to Cambridge Associates LLC.

Notes: Market value–based spending policies base spending on a prespecified percentage of a moving average of market values. Graph reflects data for the 188 institutions that provided detailed data on their target spending rate. If a range was provided, the target spending rate was calculated using the midpoint of the range.

Figure 4 (continued). Characteristics of Market Value–Based Spending Policies
2016



Collars, Caps, and Floors: Rules at Individual Institutions

Collars

- 3.0%–7.0% of permanently restricted fund's beginning fiscal year market value
- 4.0%–6.0% of current market value
- 90%–107% of prior year's payout
- 100%–110% of prior year's payout
- 100%–106% of prior year's payout, and cap at 7.0% of 48 month average market value

Caps Only

- Cap tied to historical gift value of endowment
- 5.3% of current fair value
- 104% of prior year's payout
- 105% of prior year's payout
- 110% of prior year's payout

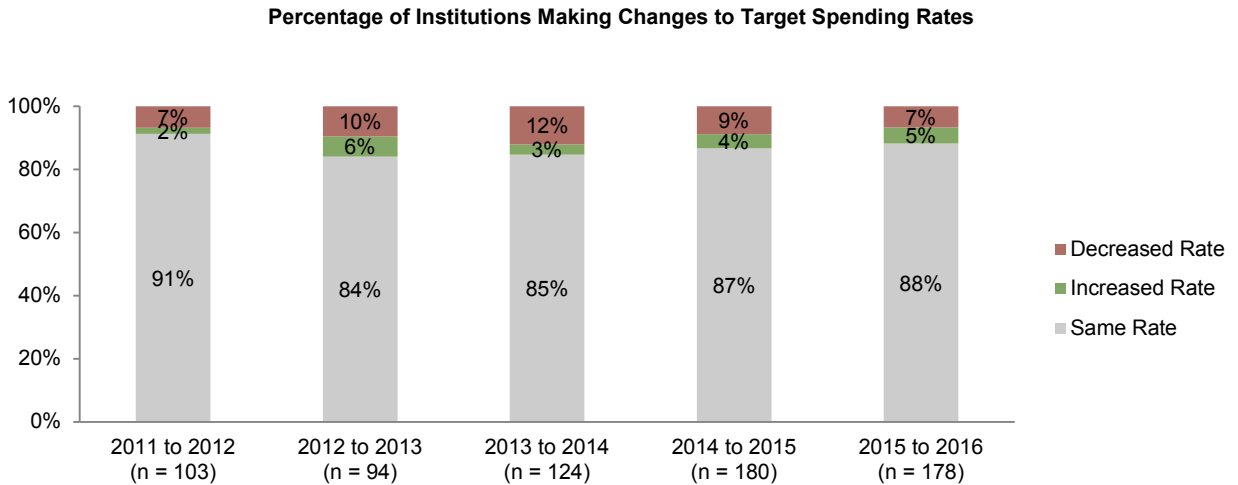
Floors Only

- 100% of prior year's payout
- 100% of payout from 2005–06

Source: Spending policy data as reported to Cambridge Associates LLC.

Notes: Market value–based spending policies base spending on a prespecified percentage of a moving average of market values. Unit of time measurement indicates whether spending is calculated using monthly, quarterly, or yearly market values. Graph reflects data for the 187 institutions using a market value–based spending policy that provided the unit of time measurement in their spending calculation.

Figure 5. Changes in Target Spending Rates for Market Value–Based Spending Policies
Fiscal Years 2011–16



Source: Spending policy data as reported to Cambridge Associates LLC.

Notes: Market value–based spending policies base spending on a prespecified percentage of a moving average of market values. If a range was provided, the target spending rate was calculated using the midpoint of the range.

Cap and Floor. The introduction of a spending floor and/or cap can also serve as a smoothing mechanism for spending dollars by limiting the change in spending during particularly volatile periods. A floor used in a market value–based rule prevents spending from falling below a certain level, usually the previous year’s spending dollar amount. While a floor can relieve budgetary pressures during market downturns for institutions with concerns about spending cuts, limiting the decline in distributions can further erode the endowment’s market value and make purchasing power preservation more challenging over the long run. A cap limits spending increases when endowment growth is particularly strong by setting a maximum annual growth rate. When paired together, a cap and floor (known as a collar) can produce smoother distributions by maintaining a level of spending during chal-

lenging economic environments and saving a greater portion of investment gains from periods with exceptional endowment growth.

In practice, only 12 institutions (6%) that use a market value–based rule employ a cap and/or floor. Eight institutions use a cap and/or floor based on a percentage of a prior year’s spending distribution while three institutions apply a cap and/or floor to the endowment’s market value on a specific date. Another institution links its cap to the historical gift value of the endowment. For the 23 institutions that outline a discretionary range for the target spending rate, the range serves as a collar in that it allows institutions to raise the rate of spending in down markets and lower the rate of spending when endowment growth rates are high.

Constant Growth Policies

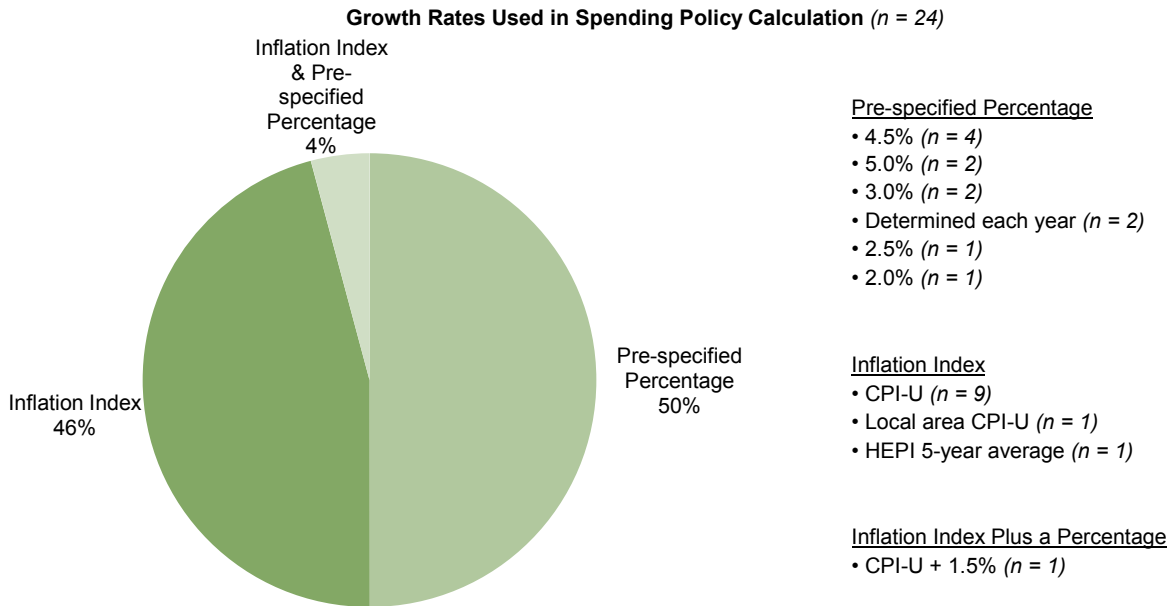
A constant growth spending policy increases the prior year's spending amount by a measure of inflation and/or a pre-specified percentage. Institutions tend to use this rule type when the endowment is a significant source of operating revenue and volatility in annual spending distributions is less tolerable. More predictable spending is derived from constant growth rules with a fixed annual increase in spending rather than those linked to inflation, which is not a constant number and not known in advance. Of the 24 institutions that use this rule type, 12 use a pre-specified percentage growth rate; 11 use an inflation-index growth rate; and one uses an inflation-index growth rate plus a pre-specified percentage (Figure 6).

While the strict application of a constant growth rule produces predictable spending, this rule type has some notable shortcomings. Increasing spending during prolonged periods of low or negative investment returns quickly eats away at an already dwindling market value and may permanently impair the endowment. Conversely, in a high return environment a strict constant growth rule can be perceived as significantly under-spending.

In practice, institutions mitigate these shortcomings by imposing a spending cap and floor based on a percentage of the endowment's market value, or a moving average of market values (Figure 6). Spending collars essentially transform the constant

growth rule to a market value–based rule in times of significant endowment growth or contraction to avoid a complete disconnect between spending and the endowment market value. When the constant growth rate falls behind endowment growth by a certain amount, the floor is triggered and the spending distribution is raised to a new level determined by the floor. The cap works in the opposite manner by resetting spending to a lower level than was calculated from the growth measure. Spending caps are typically triggered during periods where the endowment's market value has significantly declined.

Figure 6. Characteristics of Constant Growth Spending Policies
2016



Collars, Caps, and Floors: Rules at Individual Institutions

- 4.5%–5.5% of 20-quarter avg MV (n = 2)
- 4.5%–5.5% of 3-year avg MV (n = 2)
- 4.5%–6.5% of 4-quarter avg MV
- 4.5%–5.5% of 12-quarter avg MV
- 4.0%–7.0% of beginning MV
- 4.0%–6.5% of 3-year avg MV
- 4.0%–6.0%; time period not specified
- 4.0%–6.0% of beginning MV
- 4.0%–6.0% of 12-quarter avg MV
- 4.0%–5.5% of 12-quarter avg MV
- 4.0%–5.0% of 20-quarter avg MV
- 3.75%–4.75% of beginning MV
- 3.0%–5.0%; time period not specified
- 3.0%–5.0% of beginning MV
- 3.0%–4.5% of beginning MV
- 3.0%–4.5% of 12-quarter avg MV
- Floor: 4.5% of 8-quarter avg MV; Cap: if spending is greater than 5.5% of 4-quarter avg MV, then reduce spending to 3% year over year
- Two caps: one that limits the constant growth rate if inflation exceeds 10% and a second based on a % of historical market values

Source: Spending policy data as reported to Cambridge Associates LLC.

Note: Constant growth policies increase prior year's spending by a measure of inflation and/or a pre-specified percentage.



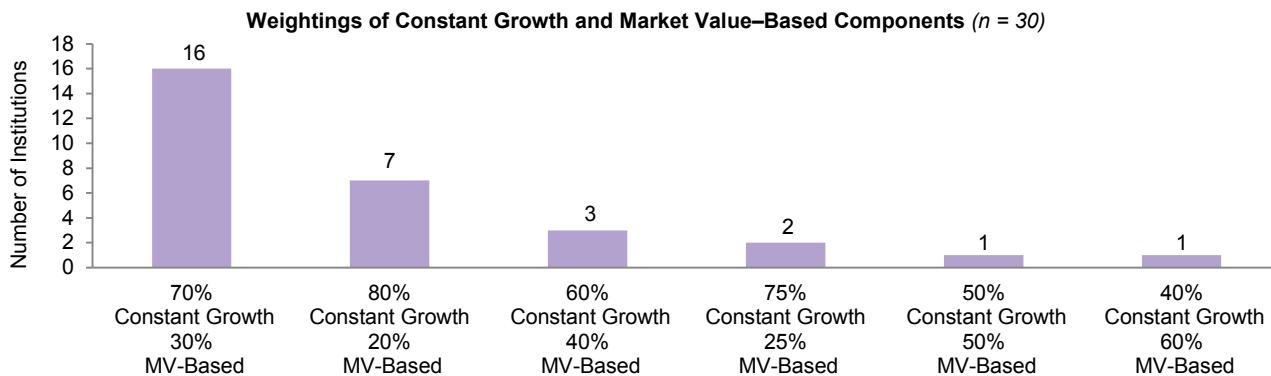
Hybrid Policies

A hybrid spending policy blends the more predictable spending element of a constant growth policy with the asset preservation principle of a market value–based policy and allows an institution to set the appropriate mix that best meets its needs. The rule is expressed as a weighted average of a constant growth rule and a percentage of market value (or average market value over a period of time) rule.

An important decision with the hybrid rule is to determine the weighting of the market value and constant growth components. The larger the weighting to the market value component, the more impact

that a change in the endowment’s market value will have on the annual spending distribution. Most institutions apply the larger weighting to the constant growth component, emphasizing more predictable spending. Just over half of respondents (16 of 30) that use this rule type assign a 70% weighting to the constant growth portion and a 30% weighting to the market value–based portion (Figure 7). Among institutions in this study, the constant growth component is most frequently linked to an inflation index. For the market value component, nearly half of participants used a 5% spending rate. Inputs to the calculation of both the constant growth and market value–based components are shown in Figure 7.

Figure 7. Characteristics of Hybrid Spending Policies 2016



Collars, Caps, and Floors: Rules at Individual Institutions

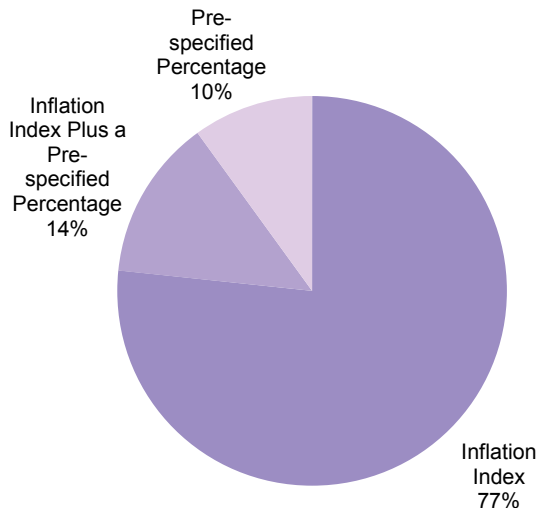
- 3.0%–6.0% of prior year-end market value
- 3.75%–5.75% of the market value one year prior to the beginning of the fiscal year
- 4.0%–5.5%; time period not specified
- 4.0%–6.0%; time period not specified
- 4.0%–6.5% of current market value
- 4.5%–6.0%; time period not specified
- 4.75%–5.75% of year end market value
- Cap only: 5% of beginning year market value

Source: Spending policy data as reported to Cambridge Associates LLC.

Notes: Hybrid policies essentially have the effect of spending a prespecified percentage of an exponentially weighted average market value (MV). The rule is expressed as a weighted average of a constant growth policy and a percentage of market value policy. Of the 30 institutions that use a hybrid spending policy, 22 do not use a collar, cap, or floor to contain year-to-year spending.

Figure 7 (continued). Characteristics of Hybrid Spending Policies
2016

Growth Measures Used in Constant Growth Component (n = 30)



Inflation Index

- CPI-U (n = 8)
- Higher Education Price Index (n = 8)
- Unspecified Inflation Index (n = 5)
- 60% ECI/40% CPI-U (n = 1)
- CPI-U: Elementary and High School Tuitions and Fees (n = 1)

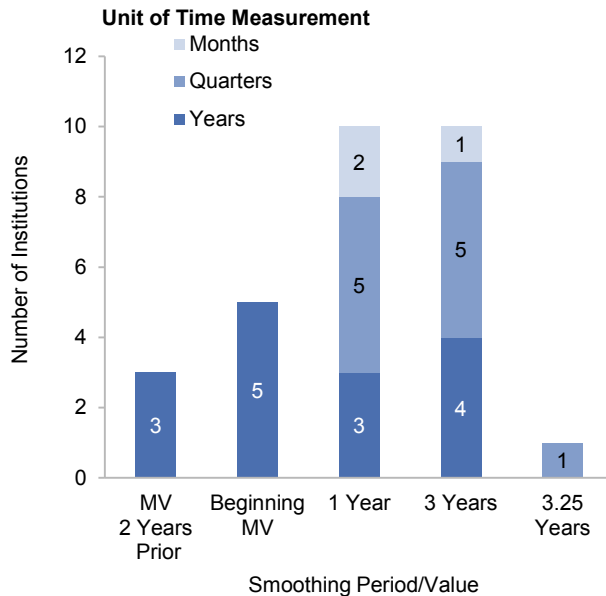
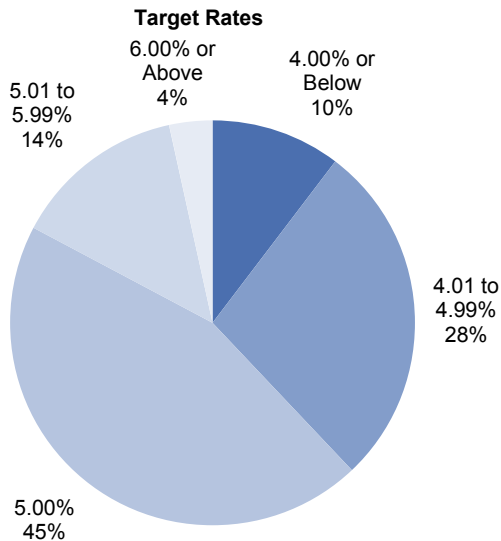
Inflation Index Plus a Percentage

- CPI-U + 1.5% (n = 2)
- CPI-U + 1.0% (n = 1)
- 13-quarter avg CPI-U + 1.0% (n = 1)

Prespecified Percentage

- 2.0% (n = 1)
- 2.5% (n = 1)
- 3.0% (n = 1)

Target Rates, Smoothing Period Length, and Unit of Time Measurement Used in Market Value-Based Component (n = 29)



Source: Spending policy data as reported to Cambridge Associates LLC.

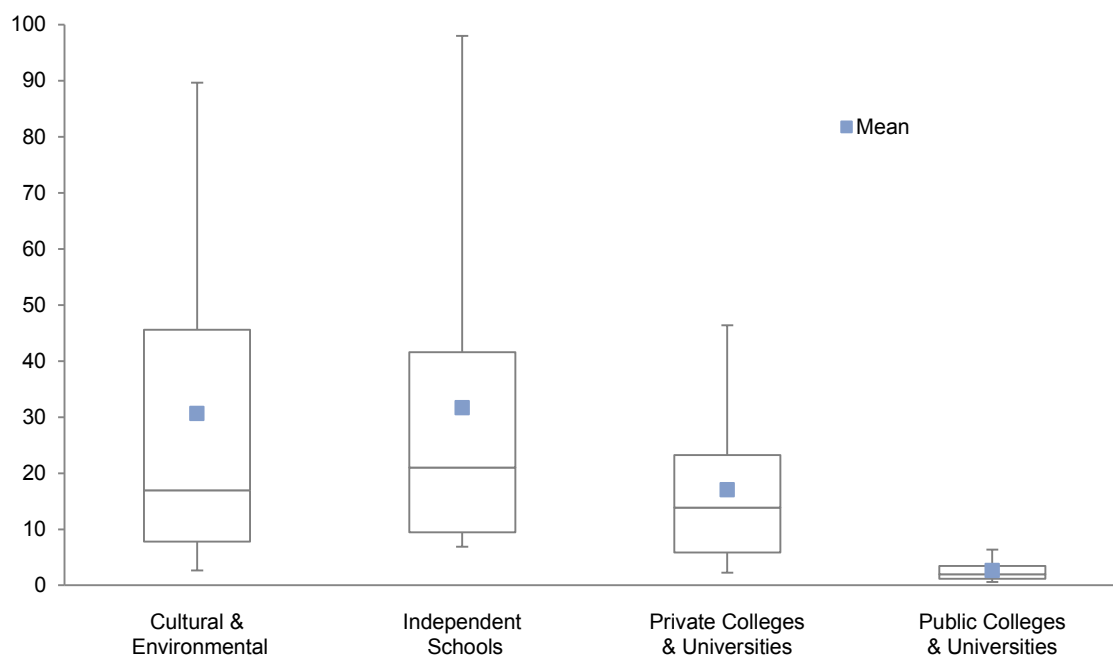
Notes: A hybrid rule is expressed as a weighted average of a constant growth policy and a percentage of market value policy. One institution that uses a hybrid policy did not provide details for the mechanics of the market value-based component of its rule.

Support of Operations

Since few nonprofit institutions generate enough revenues from their core operations to break even on their annual operating budgets, many rely on their LTIP to provide additional financial support. The level of LTIP support varies considerably among the institutions in this study. Spending distributions supported 1% or less of the operating budget for some institutions, while for others it is the single largest source of revenue.

Public universities, which receive financial support from state appropriations, generally rely less on the LTIP to fund the operating budget compared to private colleges and universities and other nonprofits. For the 27 public universities that provided data, median support from the LTIP as a percentage of operating expenses was 2.0% in 2016. Median support for private colleges and universities was 13.9% (Figure 8).

Figure 8. LTIP Support of Operations by Institution Type
2016 • Percent (%)



Statistic	Cultural & Environmental	Independent Schools	Private Colleges & Universities	Public Colleges & Universities
5th Percentile	89.7	98.0	46.4	6.4
25th Percentile	45.6	41.6	23.2	3.4
Median	17.0	21.0	13.9	2.0
75th Percentile	7.8	9.5	5.9	1.2
95th Percentile	2.6	6.9	2.3	0.6
Mean	30.6	31.7	17.0	2.6
<i>n</i>	24	19	81	27

Source: Spending policy data as reported to Cambridge Associates LLC.

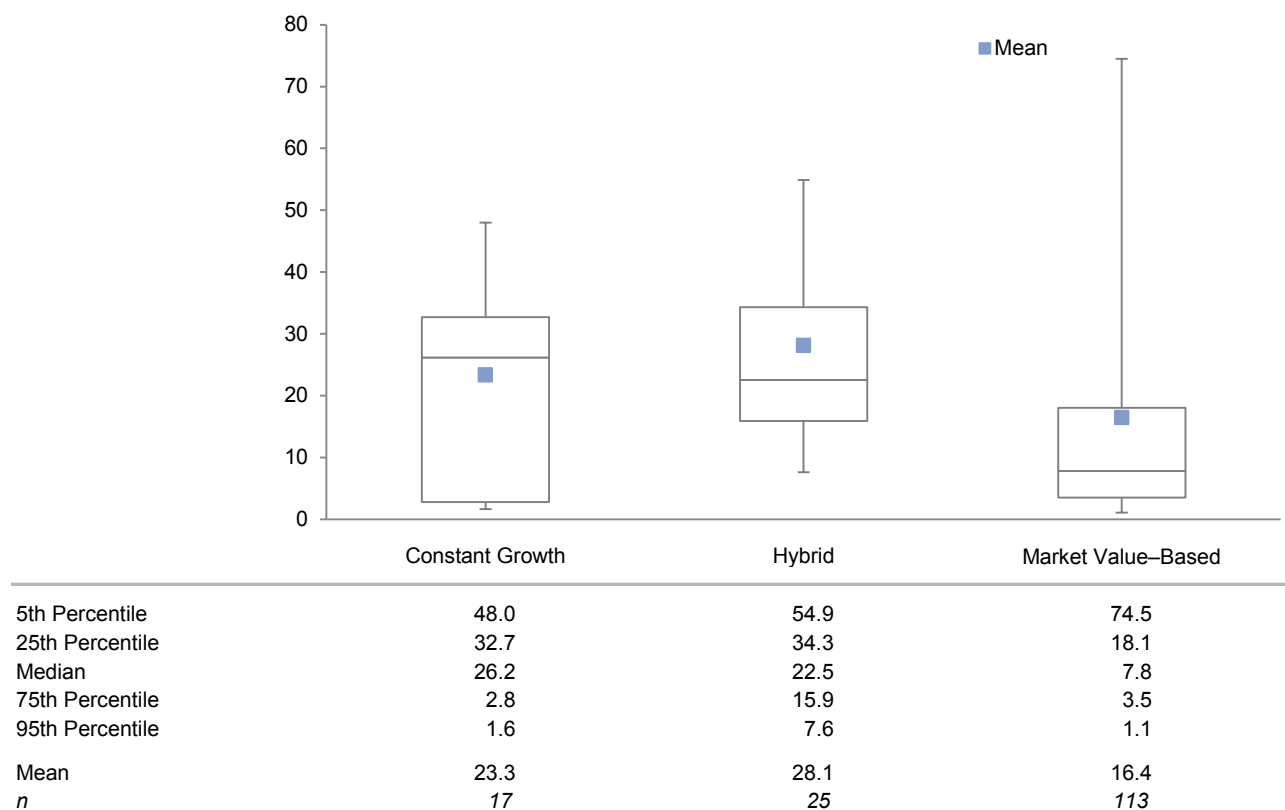
Notes: LTIP support of operations is the proportion of the operating budget that is funded from LTIP payout. For the two health care institutions and six other nonprofits that provided data, LTIP support of operations averaged 59.3% and 41.4%, respectively.

Among independent schools and cultural and environmental institutions, reliance on the LTIP is higher, as median support of the operating budget was 21.0% and 17.0%, respectively.

The more predictable stream of spending dollars presumably makes the constant growth and hybrid rules appealing to institutions with higher reliance on the LTIP. Median LTIP support was 26.2% for institutions using a constant growth policy,

the highest among the three main rule types (Figure 9). Institutions using hybrid policies, which also contain a constant growth component, had the second highest median LTIP support (22.5%). For institutions using a market value–based policy, median LTIP support was just 7.8%.

Figure 9. LTIP Support of Operations by Spending Rule Type
2016 • Percent (%)



Source: Spending policy data as reported to Cambridge Associates LLC.

Notes: LTIP support of operations is the proportion of the operating budget that is funded from LTIP payout. For the four institutions that reported "Other" spending policies, LTIP support of operations averaged 49.2%.

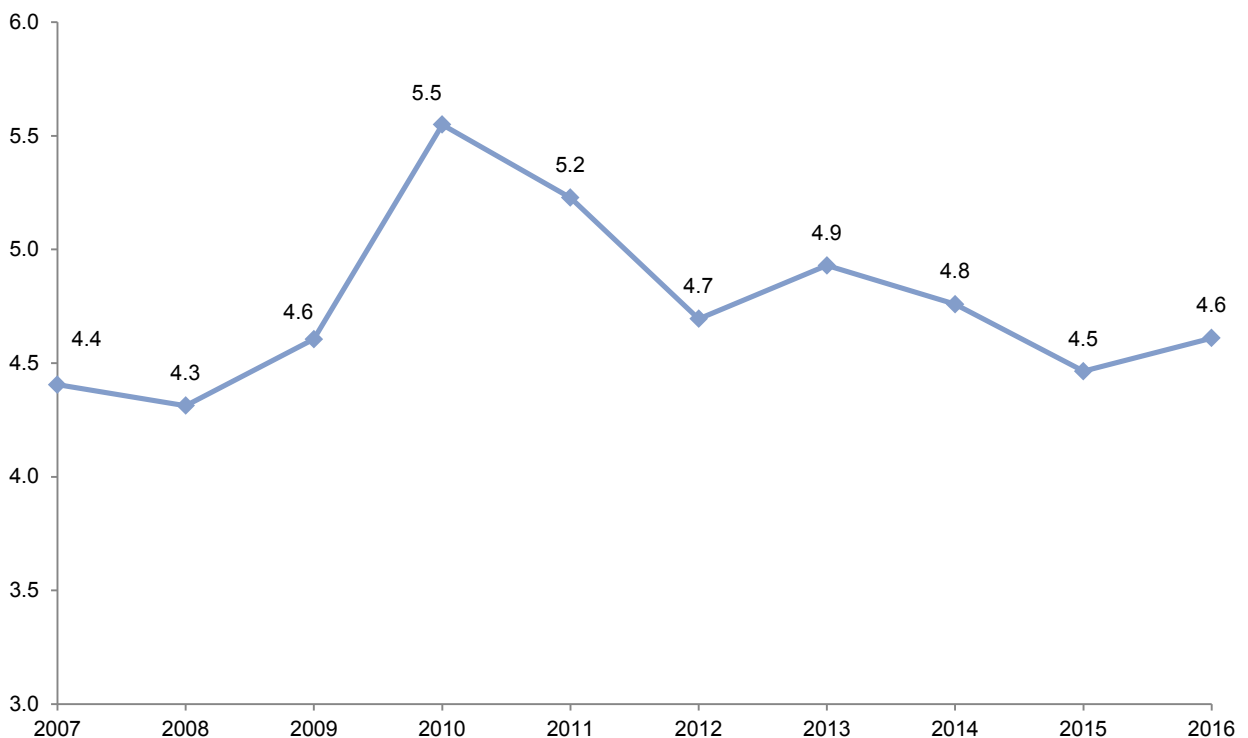
Effective Spending Rates

At what rate have institutions actually spent from their LTIP? The effective spending rate can help answer this question. The effective spending rate is calculated as the total annual spending distribution as a percentage of the beginning market value of the LTIP. In 2016, the average effective spending rate was 4.6% for the 114 institutions that provided data for the past ten years (Figure 10).

While the effective spending rate calculation is based on the most recent year's beginning LTIP market value, most institutions use an average market value that spans multiple years when determining the annual spending

distribution. When the most recent market value is higher than the average market value from the smoothing period, the effective spending rate will be lower than the target rate in the spending policy, and vice versa. Figure 10 shows this inverse relationship between the directional trend of effective spending rates and LTIP growth rates. Effective spending rates spiked upward in 2009–10 as steep portfolio declines resulting from the global financial crisis began factoring into spending policy calculations. While average effective spending rates have declined in most years since 2010, the mean ticked up by 10 basis points in 2016.

Figure 10. Mean Annual Effective Spending Rate 2007–16 • Percent (%)



Source: Spending data as reported to Cambridge Associates LLC.

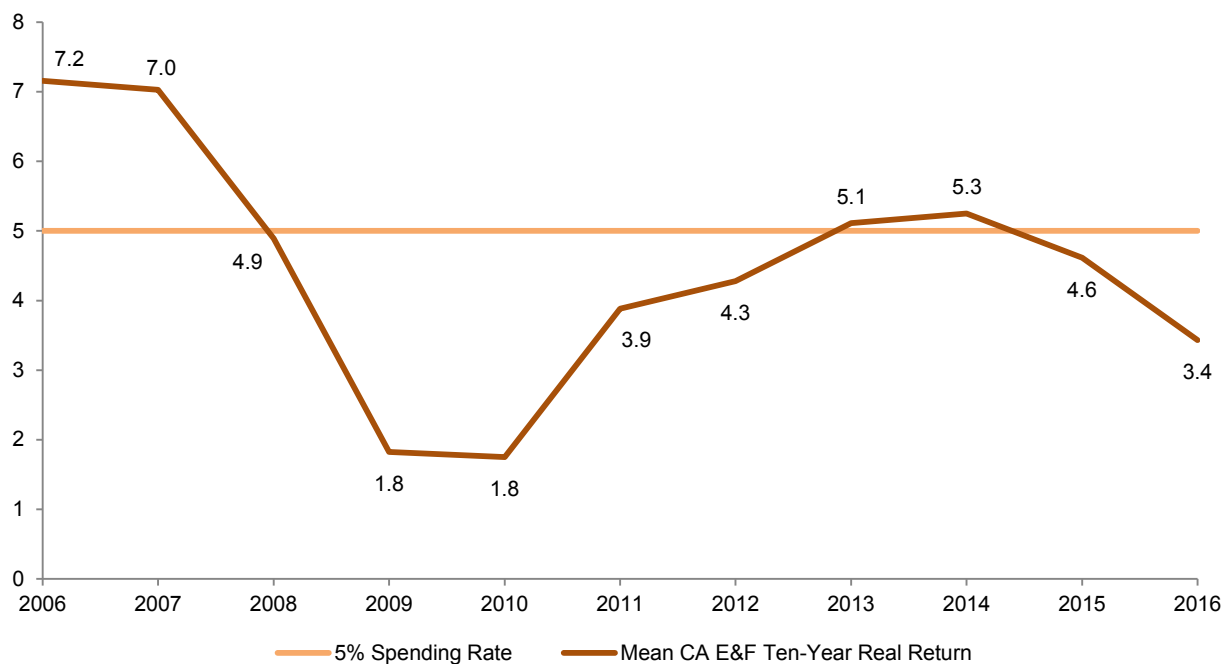
Note: Data represent the average of 114 institutions that provided effective spending rates for each year from 2007 to 2016.

Looking Ahead

To preserve purchasing power an endowment must earn a rate of return that offsets spending and inflation over the long term. Sustaining the role of the endowment within the enterprise is a primary consideration when setting spending policy. The task of preserving purchasing power has been challenging for endowments in recent periods. Figure 11 shows the mean rolling ten-year returns adjusted for inflation for the Cambridge Associates endowment and foundation peer group. Since 2007, in only two trailing ten-year periods have average real investment returns exceeded the 5% spending rate that is most commonly targeted.

While 2017 may provide a reprieve to the low returning fiscal years of 2015 and 2016, that relief may be short-lived. Scenarios where market valuations and other economic fundamentals return to normal conditions point to a low return environment over the next decade. When returns fall short of spending and inflation, institutions erode the real (inflation-adjusted) value of their endowments. This is expected occasionally and can be offset by higher returning years, but a persistent low return environment could have a substantial impact on endowment values and the level of endowment support available for future stakeholders.

Figure 11. Rolling Ten-Year Real Mean Endowment & Foundation Returns vs 5% Spending Rate
Periods Ending June 30



Source: Return data as reported to Cambridge Associates LLC.

Note: Analysis includes 247 institutions that provided return data for fiscal years 1997 through 2016.

To understand how institutions are thinking about their spending policies in this challenging environment, Cambridge Associates conducted a brief survey in March 2017 to explore spending policy decisions more deeply. The survey collected information pertaining to who drives spending policy recommendations at institutions, which factors are evaluated when considering changes to policy, and what types of changes are being implemented or under consideration. The analysis throughout this section includes data on the 153 colleges and universities, independent schools, cultural and environmental institutions, health care institutions/hospitals, and other nonprofit organizations that responded to this survey. The vast majority (91%) of the responding institutions were included in the earlier sections of this report.

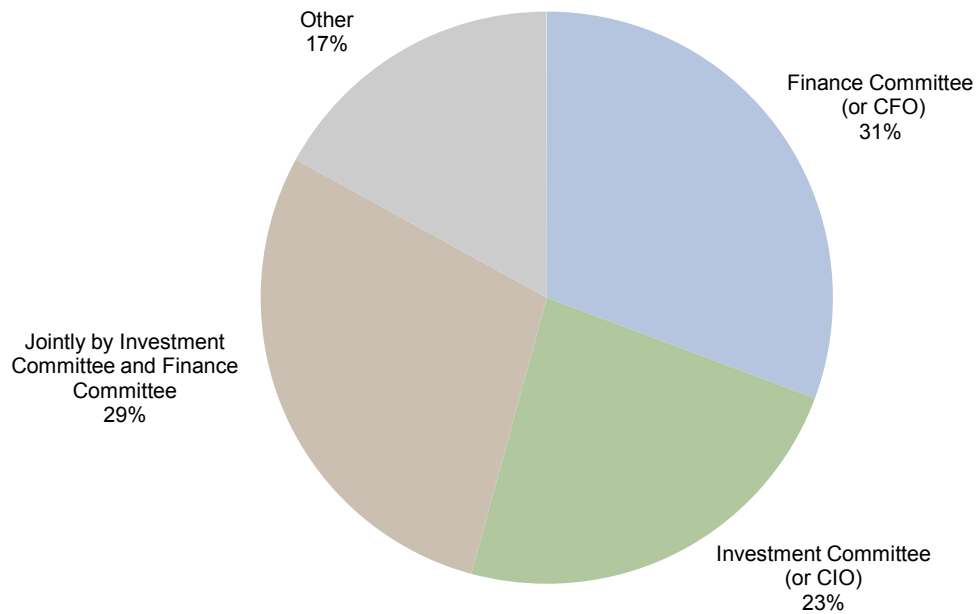
Governance. While the Board of Trustees often has ultimate authority, our mini-survey revealed that responsibility for recommending spending policy varies across institutions (Figure 12).

Most frequently (31% of respondents) the responsibility lies with the Finance Committee or the CFO, but in nearly a quarter of the institutions the Investment Committee sets the policy. For 29% of the survey respondents, the responsibility for setting or adjusting the spending policy is shared between the Finance and Investment committees. While there is no right answer to who sets the spending policy, best practice would ensure that the decision makers have the information they need about the enterprise (finance and development) and investment portfolio to fully assess policy implications.

Spending policy, like investment policy, should reflect a long-term approach to investing and distributions. Since long-term expectations are incorporated, policies should be designed so that they do not require tweaking on an annual basis. At the same time, institutions should not be too passive in their review of the spending policy. An annual review of the policy can be a useful exercise for institutions, ensuring that the policy is still appropriate for the institution. According to our mini-survey, 56% of institutions formally review their spending policy on an annual basis.

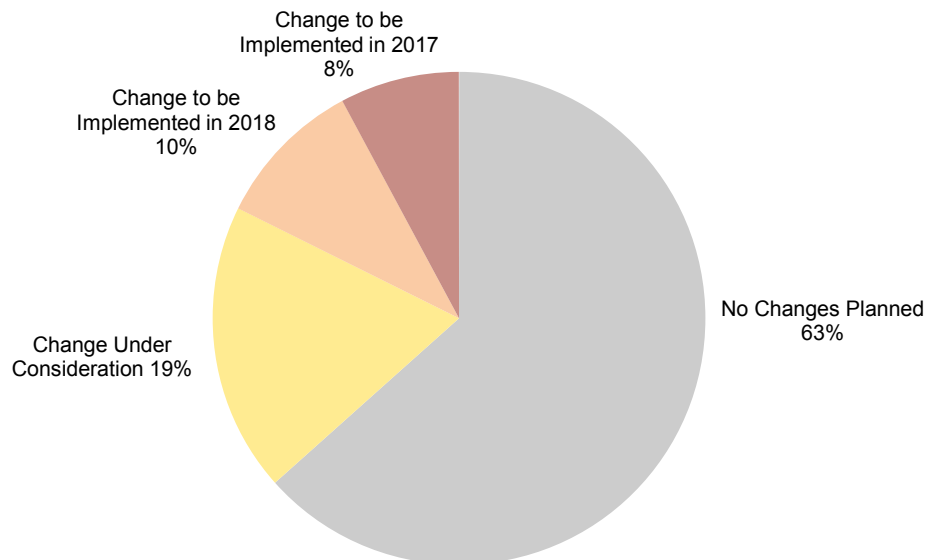
Looking ahead over the next couple of years, a majority of respondents (63%) to our mini-survey are not implementing or considering changes to their spending policy. For those respondents that are planning to implement or are considering implementing a change to their spending policy, 8% are implementing a change in 2017, 10% are implementing a change in 2018, and 19% are considering a change in the near future but have not formally approved it (Figure 13).

Figure 12. Responsible Parties for Setting or Adjusting Institution Endowment Spending Policy



Source: Spending data as reported to Cambridge Associates LLC.
 Note: Analysis includes 153 institutions.

Figure 13. Proportion of Institutions Implementing or Considering Future Changes to Spending Policy



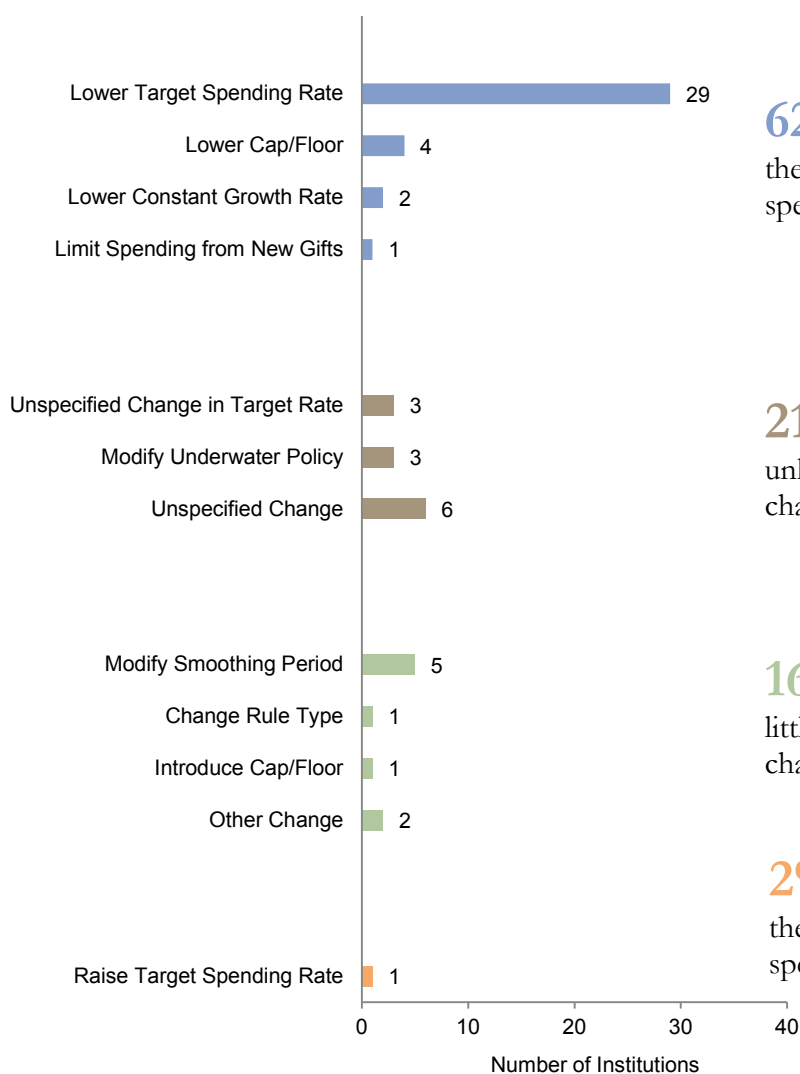
Source: Spending data as reported to Cambridge Associates LLC.
 Note: Analysis includes 153 institutions.

Factors that Influence Spending Policy.

Given the dampened outlook for future returns, it should be no surprise that a majority of the changes awaiting implementation or under consideration are intended to lower the proportion of the portfolio that is spent in the future. As Figure 14 shows, 62% of the changes awaiting implementation or under consideration would have

the effect of lowering the rate of spending going forward. This can be accomplished by lowering the target spending rate in a market value-based rule, lowering the cap and/or floor of a constant growth rule, or lowering either component in a hybrid rule. Just one institution intends to raise its spending rate in the future.

Figure 14. Types of Spending Policy Changes Awaiting Implementation or Under Consideration



62% of the changes will have the effect of lowering the rate of spending going forward

21% of the changes have an unknown impact on the directional change of future spending rates

16% of the changes will have little to no impact on the directional change of future spending rates

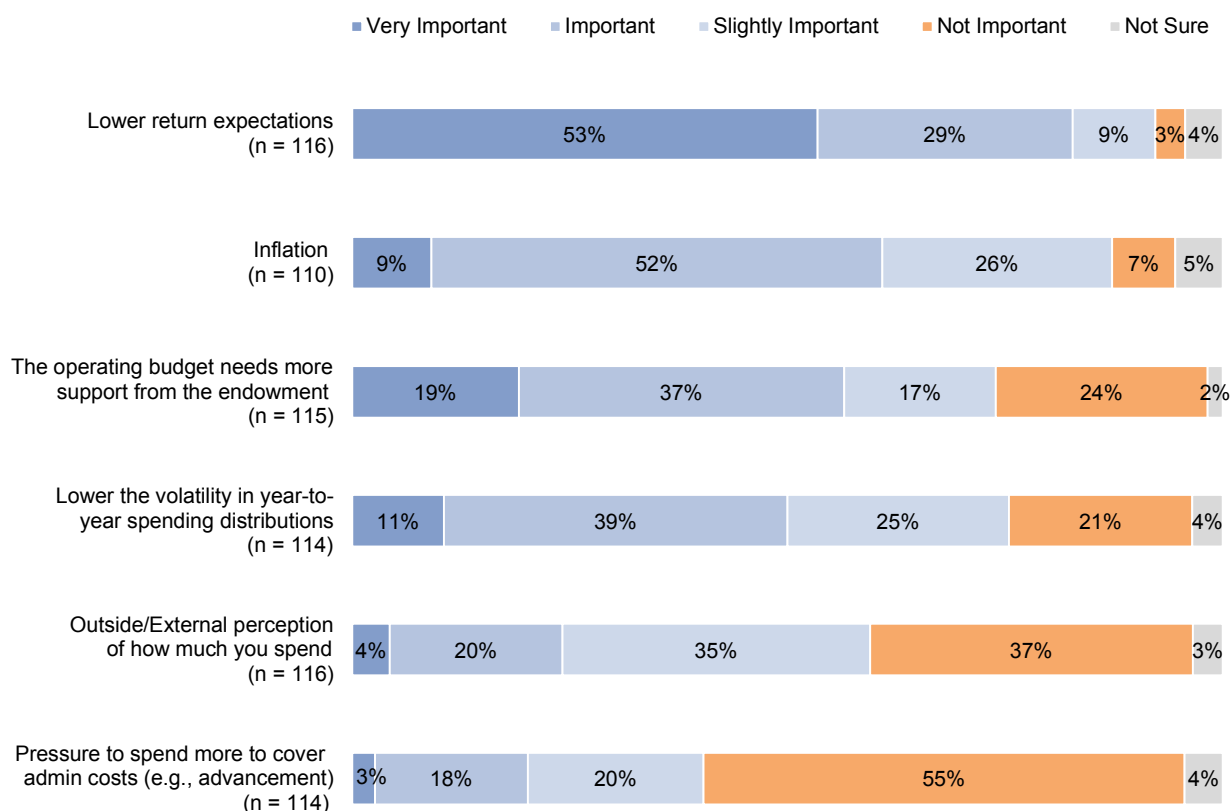
2% of the changes will have the effect of raising the rate of spending going forward

Source: Spending data as reported to Cambridge Associates LLC.
 Note: There were a total of 58 changes reported across 56 institutions.

Institutions weigh a number of factors when considering changes to spending policy. As shown in Figure 15, lower return expectations are overwhelmingly the most important factor influencing future changes to spending policy; 53% of the respondents felt lower return expectations were very important and another 29% felt they were important. The expected or potential decreases to spending rates may also be explained by inflation; 52% of respondents indicated that inflation was an important factor, and 9% indicated it was a very important factor driving policy.

Inclinations to lower spending to protect endowment purchasing power may be overruled by an institution's near-term reliance on the amount and consistency of endowment spending; 56% of respondents indicated that the need for additional support for the operating budget from the endowment is an important or very important factor in determining their spending policy, while 50% of respondents indicated that lower volatility in year-to-year distributions was an important or very important factor (Figure 15).

Figure 15. Importance of Select Factors When Considering Spending Policy Changes

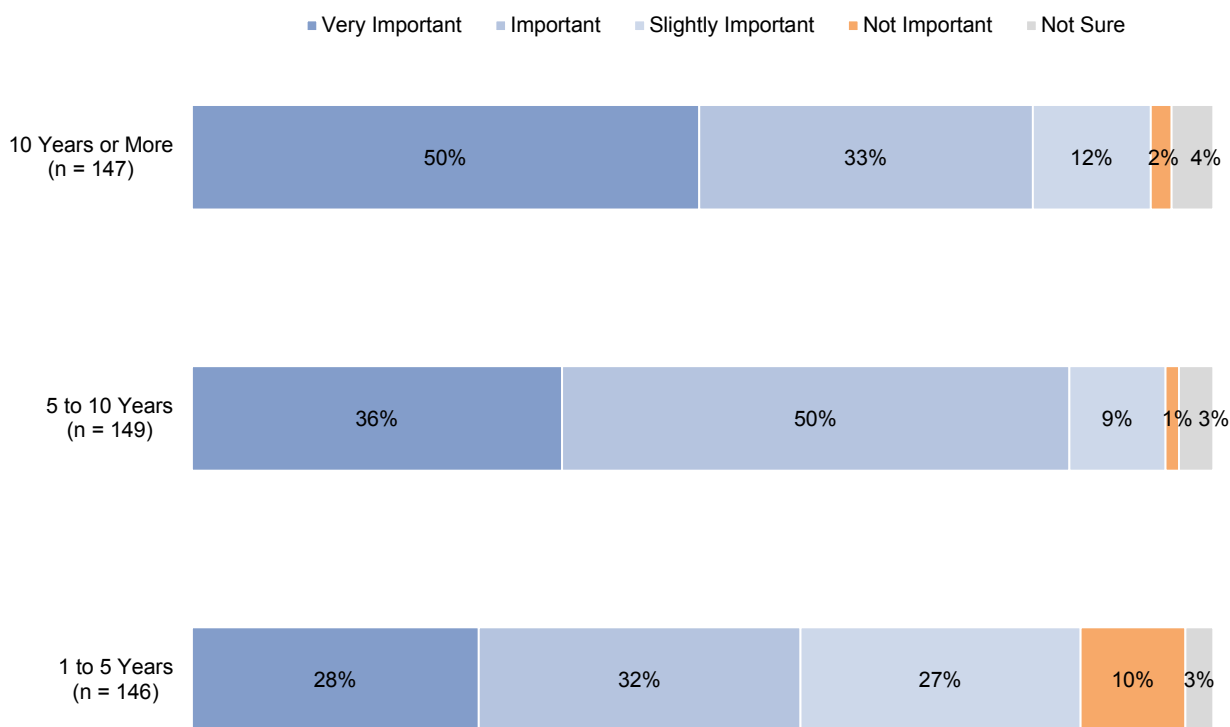


Source: Spending data as reported to Cambridge Associates LLC.

Fiduciaries have appropriately long-term perspectives when it comes to policy decisions and endowment return expectations. The vast majority of respondents reported that considering investment return expectations over long-term (ten years or more) and intermediate-term (five to ten years) time horizons were very important or important when considering spending policy changes (Figure 16). Half of the decision makers consider the long-term time horizon for return expectations as very important.

Another factor that may drive spending policy decisions is how rigidly an organization implements policy. Is an institution required to adhere to the spending distribution from its policy calculation, or do fiduciaries have the ability to override spending policy calculations to draw more or less spending from the endowment? Overrides to spending policy can provide more flexibility in the same way that a discretionary spending rate provides flexibility over

Figure 16. Importance of Return Expectations When Considering Spending Policy Changes

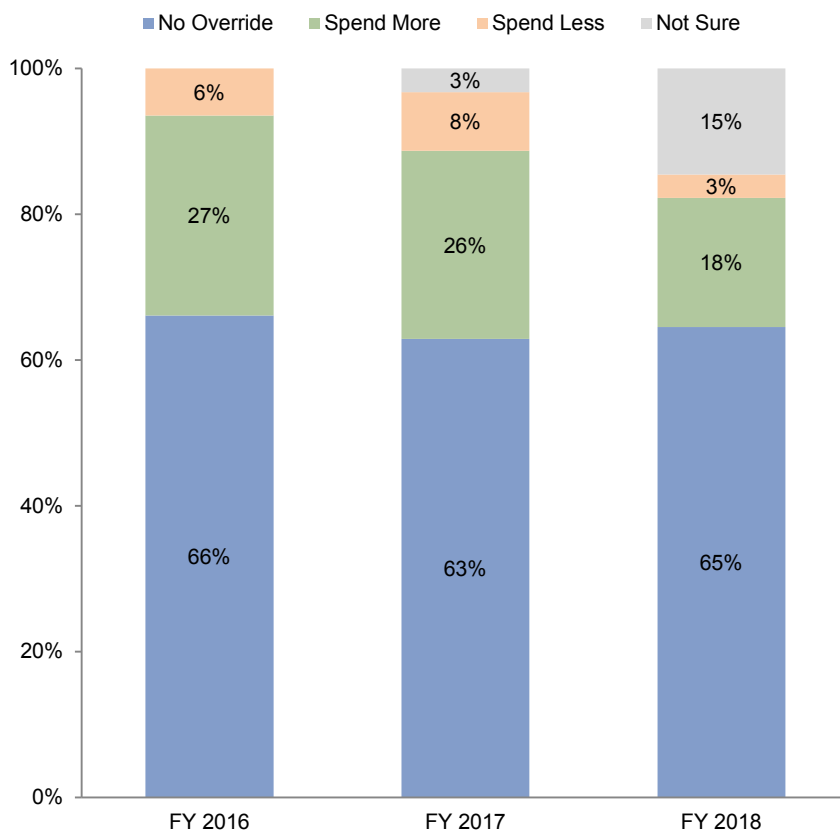


Source: Spending data as reported to Cambridge Associates LLC.

a single target spending rate. Overall, 41% of respondents (62 out of 153) allow overrides to their spending policy. However, Figure 17 shows that the majority of those organizations did stick to the policy calculation in fiscal year 2016 and do not have plans to deviate from policy over the next couple of years. Of the institutions that allow overrides to their spending policy and plan to exercise that flexibility, most plan to draw additional spending to supplement their policy calculation, while only a handful plan to spend less than their policy calculation.

Since many endowments are considered permanent funds, an institution should set a spending policy for its LTIP that gives it the best chance of sustaining its role in perpetuity. As highlighted through our supplemental mini-survey results, many factors influence decision making for spending policies. Fiduciaries are challenged to implement spending policy that balances the needs of current stakeholders while preserving long-term capital for future generations. The task can best be supported by a thorough understanding of spending policy implications for the investment portfolio and the enterprise it supports. ■

Figure 17. Actual (FY 2016) and Anticipated (FY 2017 and FY 2018) Overrides to Spending Policy



Source: Cambridge Associates 2017 Spending Mini-Survey.

Note: Analysis includes 62 respondents out of 153 institutions that allow overrides to their spending policy.

Colleges and Universities

The University of Akron Foundation
 University of Alaska Foundation Cons. Endowment
 American University
 Amherst College
 Baylor University
 Bentley University
 Berkeley Endowment Management Company
 Boston College
 Bowdoin College
 Brandeis University
 Brown University
 Bryant University
 Bryn Mawr College
 University of California
 California Institute of Technology
 Carleton College
 Carnegie Mellon University
 Case Western Reserve University
 Centenary College of Louisiana
 Chapman University
 The University of Chicago
 The City University of New York
 Claremont McKenna College
 Clemson University Foundation
 Colby College
 Colgate University
 College of the Atlantic
 Columbia University
 Connecticut College
 Cornell University
 Dartmouth College
 Davidson College
 University of Delaware
 Duke University
 Emory University
 Florida International University Foundation, Inc.
 University of Florida Investment Corporation
 Florida State University Foundation Inc.
 Georgetown University
 Georgia Tech Foundation Inc.
 Gettysburg College
 Goucher College
 Grand Valley State University
 Hampton University
 Harvard Management Company, Inc.
 Harvey Mudd College
 Haverford College
 University of Hawaii Foundation
 Hollins University
 College of the Holy Cross
 Houston Baptist University
 University of Houston System
 Howard University
 University of Idaho Foundation, Inc.
 University of Illinois Foundation
 Iowa State University Foundation
 Johns Hopkins University
 Kalamazoo College
 Kansas State University Foundation
 KU Endowment
 Lafayette College
 Lebanese American University
 Lehigh University
 Lewis and Clark College
 University of Louisville
 Macalester College
 University of Maine Foundation
 Maryland Institute College of Art
 University of Michigan
 Michigan State University
 MIT Investment Management Company
 Mount Holyoke College
 Mount St. Mary's University
 National University
 University of Nebraska Foundation
 Nevada System of Higher Education
 New England Conservatory
 New York University
 Northeastern University
 Northwestern University
 Norwich University
 University of Notre Dame
 Oberlin College
 Occidental College
 Ohio State University
 Ohio Wesleyan University
 University of Oklahoma Foundation
 Oklahoma State University Foundation
 University of Oregon Foundation
 University of the Pacific
 University of Pennsylvania
 Pennsylvania State University
 University of Pittsburgh
 Pomona College
 Princeton University
 The Principia Corporation
 Providence College
 Purdue Research Foundation
 Randolph-Macon College
 Rensselaer Polytechnic Institute
 University of Rhode Island Foundation
 Rice University
 University of Rochester
 The Rockefeller University
 College of Saint Benedict
 University of San Diego
 Santa Clara University
 Scripps College
 Seattle University
 Siena College
 University of Southern California
 Spelman College
 Stanford University
 St. Lawrence University
 University of St. Thomas
 Swarthmore College
 Temple University
 University of Texas Investment Management Company
 Texas Lutheran University
 University of Toronto Asset Management Corporation
 Trinity University
 The UCLA Foundation
 UNCG Endowment Partners, LP
 UNC Management Company, Inc.
 Union Theological Seminary
 Vanderbilt University
 University of Vermont & State Agricultural College
 Villanova University
 University of Virginia
 Virginia Tech Foundation
 University of Washington
 Washington College
 Washington and Jefferson College
 Washington University in St. Louis
 Webb Institute

Colleges and Universities (continued)

Wellesley College
 Wesleyan University
 Western New England University
 Wheelock College
 College of William & Mary Foundation
 Williams College
 Yale University
 Yeshiva University
 York College of Pennsylvania

Cultural & Environmental

Atlanta Historical Society
 The Vivian Beaumont Theater, Inc.
 Boston Athenaeum
 The Brookings Institution
 California Academy of Sciences
 Chemical Heritage Foundation
 The Children's Museum of Indianapolis
 Conner Prairie Foundation
 Cypress Lawn Endowment Care Trust
 The Edison Institute
 The Frick Collection
 Isabella Stewart Gardner Museum
 Hagley Museum and Library
 Linda Hall Library Trusts
 Honolulu Museum of Art
 Huntington Library and Art Gallery
 Indianapolis Museum of Art Inc.
 Institute of International Education
 Kennedy Center for the Performing Arts
 Longwood Gardens, Inc.
 Minnesota Orchestral Association
 Museum of Fine Arts, Boston
 Museum of Fine Arts, Houston
 Museum of Modern Art
 Museum of Science, Boston
 National Gallery of Art
 National Wildlife Federation
 New York Philharmonic
 The New York Public Library
 New York Public Radio
 NPR Foundation
 Philadelphia Museum of Art
 Ravinia Festival Association
 Scenic Hudson Land Trust Inc.
 The School of American Ballet
 Seattle Art Museum
 Smithsonian Institution
 The Trustees of Reservations
 United Negro College Fund
 WGBH Educational Foundation
 White House Historical Association - Endowment Trust
 Wildlife Conservation Society
 The Henry Francis duPont Winterthur Museum, Inc.
 WNET

Health Care

American Association for Cancer Research
 The Boston Home Inc.
 Children's HealthCare of Atlanta, Inc.
 Children's Hospital Los Angeles
 Children's Medical Center
 Howard Hughes Medical Institute
 Massachusetts Eye and Ear Infirmary
 Mayo Clinic
 Mission Health System, Inc.
 Saint Francis Foundation

The Sealy & Smith Foundation
 Shore Health System
 Texas Biomedical Research Institute
 Tufts Medical Center

Independent Schools

Auditory Learning Foundation
 Boston College High School
 Buckingham Browne & Nichols School
 Episcopal School of Dallas
 Milton Hershey School Trust
 Hockaday School
 The Hotchkiss School
 Kamehameha Schools
 Lakeside School
 The Lawrenceville School
 The Loomis Institute
 The Madeira School
 Phillips Exeter Academy
 The Pingry School
 Punahou School
 The Roxbury Latin School
 Salisbury School
 Shady Hill School
 St. Paul's School
 Western Reserve Academy
 The Winsor School
 Xaverian Brothers High School

Other Nonprofits

American College of Surgeons
 American Geophysical Union
 American Jewish Committee
 American Jewish Joint Distribution Committee
 Julia Dyckman Andrus Memorial
 Animal Rescue League of Boston
 Archdiocese of Chicago
 Armenian Church Endowment Fund
 Armenian General Benevolent Union
 Catholic Church Extension Society
 Catholic Diocese of Wilmington
 Claremont University Consortium
 Council on Foreign Relations
 Diocese of Providence
 Episcopal Divinity School
 Federation of Protestant Welfare Agencies
 Grace Church
 HighGround Advisors
 The Ignatius Fund
 Jewish Child Care Association
 Lucile Packard Foundation for Children's Health
 Massachusetts Society for Prevention of Cruelty to Animals
 Presbyterian Church (USA) Foundation
 Saint Thomas Church
 The Sheltering Arms Foundation
 Society for Human Resource Management, Inc.
 Southern Poverty Law Center
 Sunflower Foundation Health Care for Kansans
 United Methodist Health Ministry Fund
 United States Tennis Association
 Xaverian Brothers USA

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