

SPENDING POLICIES AND PRACTICES

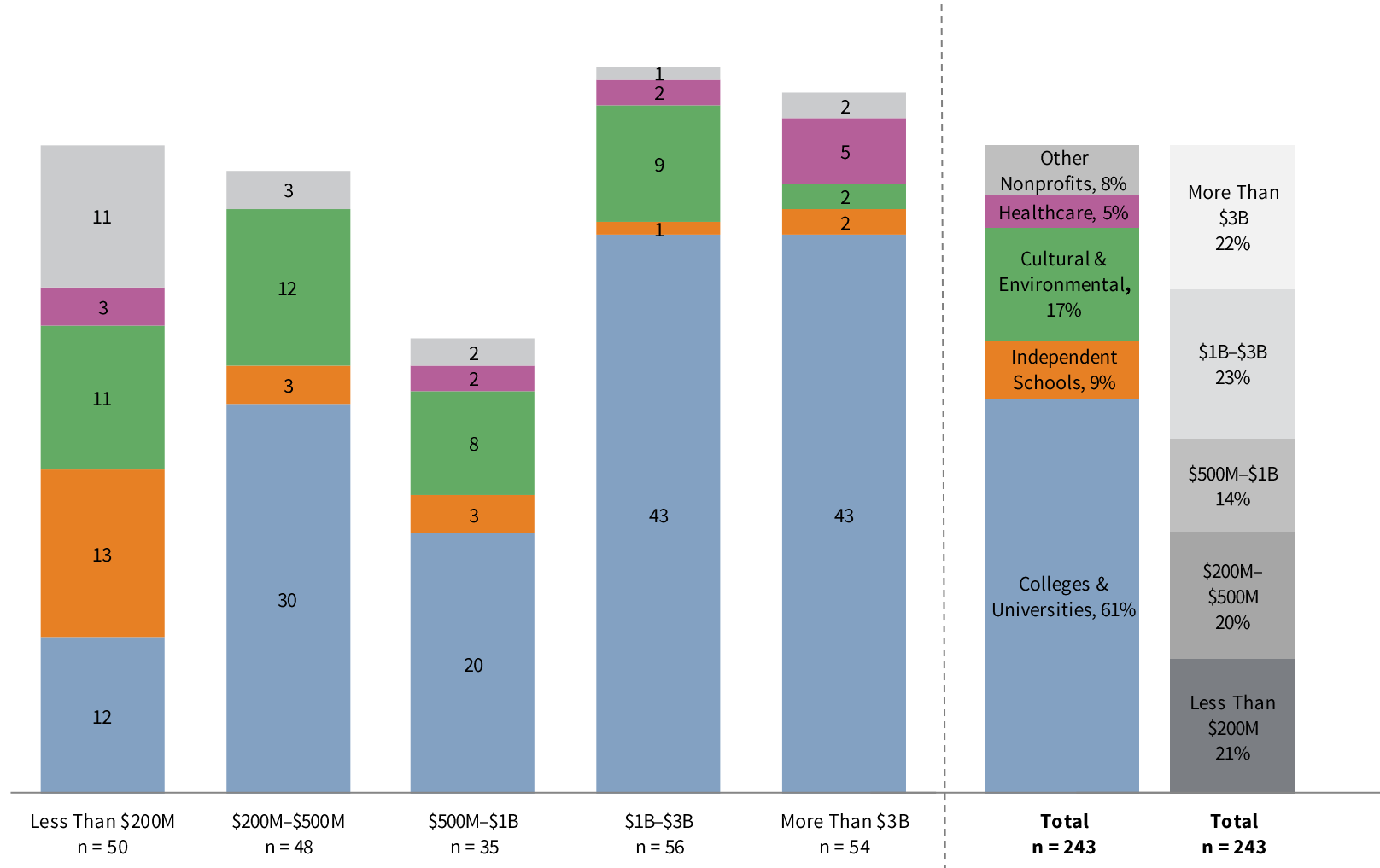
FISCAL YEAR 2021



Profile of Participating Institutions

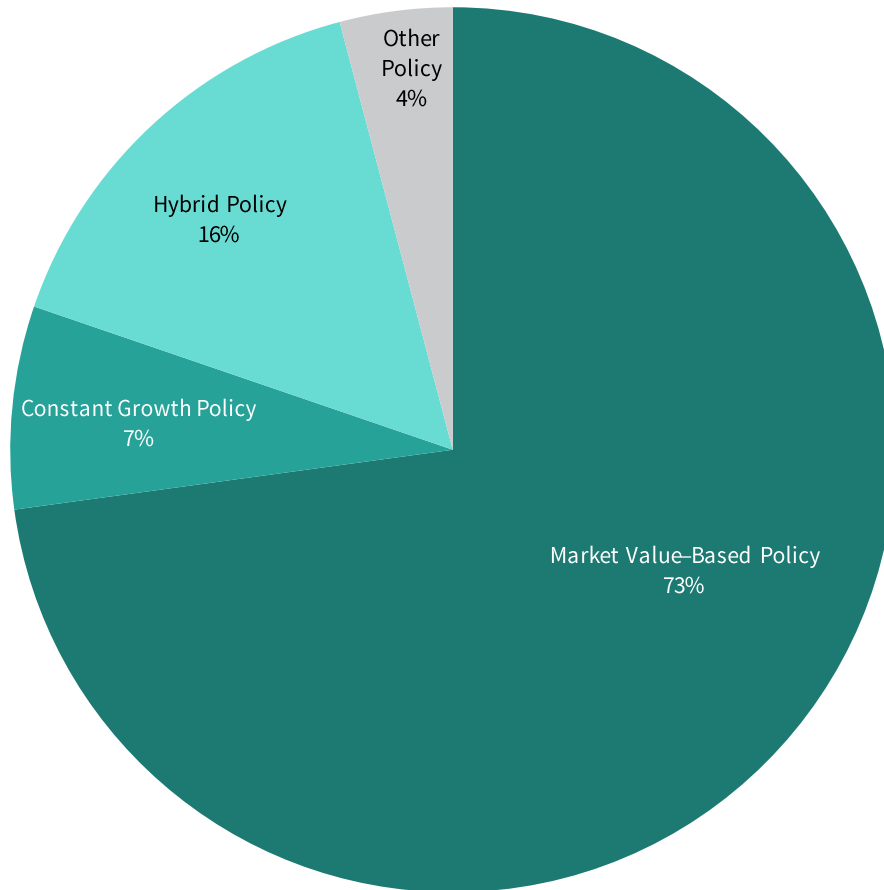
NUMBER OF INSTITUTIONS

2021 • n = 243



Spending Policy Types

PERCENTAGE OF RESPONDENTS
2021 • n= 243



Institutions in this study use three primary spending rule types. **Market value-based** rules, which are most common among participants, 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.

Spending Policy Types by Asset Size and Institution Type

NUMBER AND PERCENTAGE OF RESPONDENTS

2021 • n = 243

By Asset Size

	Market Value-Based	Constant Growth	Hybrid	Other
Less Than \$200M	88%	—	8%	4%
<i>n</i>	44	—	4	2
\$200M–\$500M	81%	6%	10%	2%
<i>n</i>	39	3	5	1
\$500M–\$1B	80%	6%	14%	—
<i>n</i>	28	2	5	—
\$1B–\$3B	59%	13%	21%	7%
<i>n</i>	33	7	12	4
More Than \$3B	61%	11%	22%	6%
<i>n</i>	33	6	12	3

By Institution Type

	Market Value-Based	Constant Growth	Hybrid	Other
Colleges & Universities	70%	11%	15%	4%
<i>n</i>	104	16	22	6
Independent Schools	59%	5%	27%	9%
<i>n</i>	13	1	6	2
Cultural & Environmental	76%	2%	19%	2%
<i>n</i>	32	1	8	1
Healthcare	92%	—	—	8%
<i>n</i>	11	—	—	1
Other Nonprofits	89%	—	11%	—
<i>n</i>	17	—	2	—

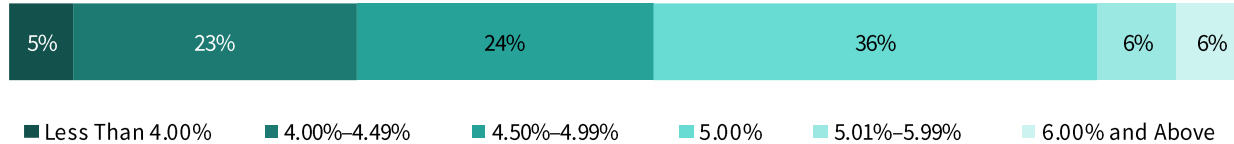
Source: Spending policy data collected by Cambridge Associates LLC.

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 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.

Market Value–Based Policy Mechanics

TARGET SPENDING RATES

2021 • n = 175



SMOOTHING PERIODS: LENGTH OF PERIOD AND UNIT OF TIME MEASUREMENT

2021 • n = 170

	Monthly	Quarterly	Annually
Shorter	12 Months (n = 2)	4 Quarters (n = 3)	Single Point in Time (n = 3)
			2 Years (n = 1)
	36 Months (n = 8)	12 Quarters (n = 75)	3 Years (n = 28)
		13 Quarters (n = 2)	
Longer		16 Quarters (n = 4)	4 Years (n = 1)
	60 Months (n = 5)	20 Quarters (n = 16)	5 Years (n = 14)
		21 Quarters (n = 2)	
		24 Quarters (n = 1)	
	84 Months (n = 1)	28 Quarters (n = 1)	7 Years (n = 2)
			10 Years (n = 1)

A market value–based rule dictates spending a percentage of the endowment’s market value, which is most often represented by a moving average over a smoothing period. 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 approach 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 annual spending during volatile market periods.



Source: Spending policy data collected by Cambridge Associates LLC.

Note: The color shadings in the smoothing period table are darkest for the measurement periods that were cited by the greatest number (n=) of institutions.

Market Value–Based Policies: Target Spending Rates by Asset Size and Institution Type

NUMBER AND PERCENTAGE OF RESPONDENTS

2021 • n= 175

By Asset Size

	Less Than 4.00%	4.00%– 4.49%	4.50%– 4.99%	5.00%	5.01%– 5.99%	6.00% and Above
Less Than \$200M	5%	20%	25%	39%	2%	9%
<i>n</i>	2	9	11	17	1	4
\$200M–\$500M	8%	13%	24%	34%	11%	11%
<i>n</i>	3	5	9	13	4	4
\$500M–\$1B	7%	29%	14%	39%	7%	4%
<i>n</i>	2	8	4	11	2	1
\$1B–\$3B	3%	30%	30%	30%	3%	3%
<i>n</i>	1	10	10	10	1	1
More Than \$3B	3%	25%	25%	38%	9%	—
<i>n</i>	1	8	8	12	3	—

By Institution Type

	Less Than 4.00%	4.00%– 4.49%	4.50%– 4.99%	5.00%	5.01%– 5.99%	6.00% and Above
Colleges & Universities	4%	26%	24%	32%	7%	7%
<i>n</i>	4	27	24	33	7	7
Independent Schools	—	31%	62%	8%	—	—
<i>n</i>	—	4	8	1	—	—
Cultural & Environmental	6%	9%	16%	53%	13%	3%
<i>n</i>	2	3	5	17	4	1
Healthcare	—	27%	18%	36%	—	18%
<i>n</i>	—	3	2	4	—	2
Other Nonprofits	18%	18%	18%	47%	—	—
<i>n</i>	3	3	3	8	—	—

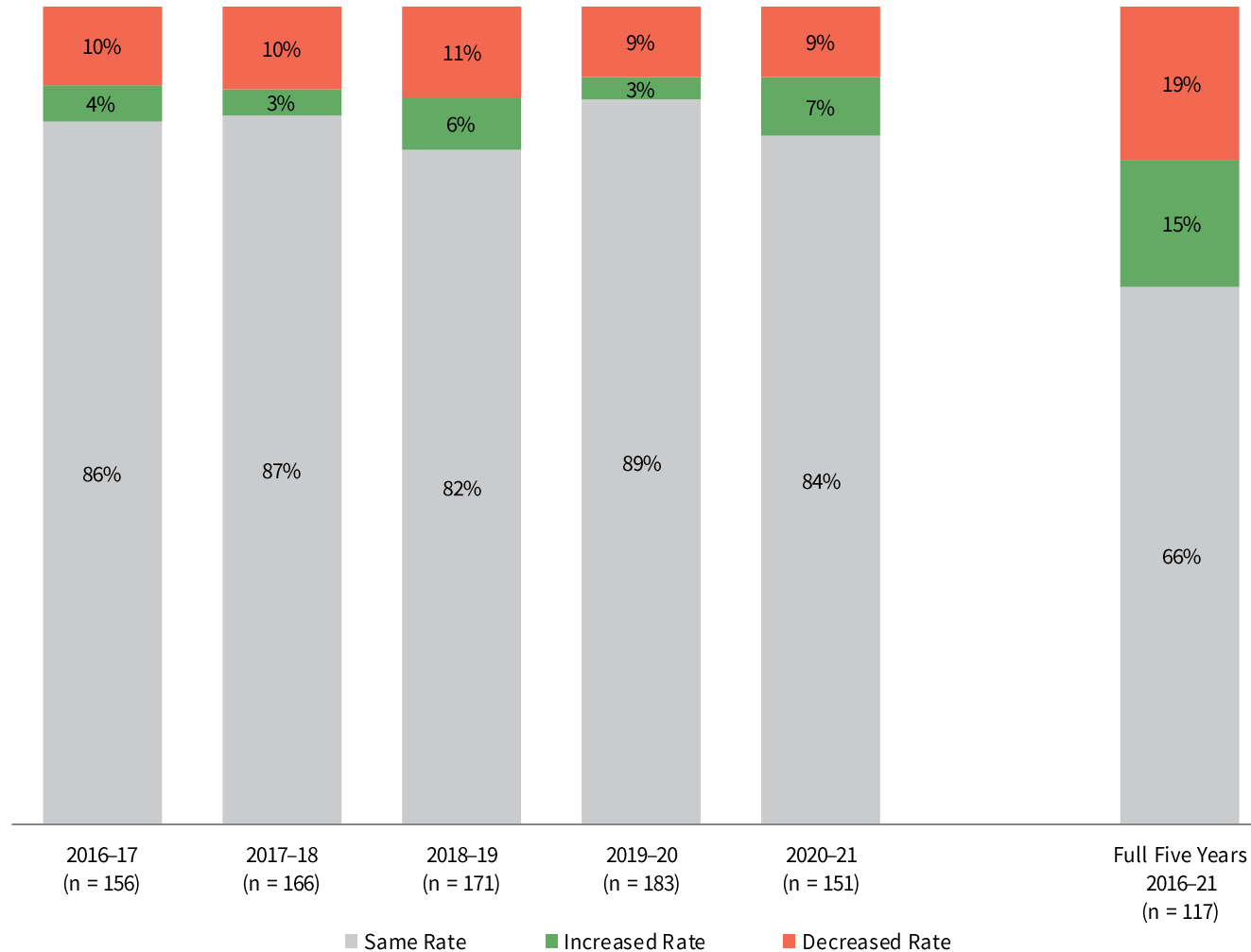
Market Value–Based Policies: Spending Policy Collars

MARKET VALUE–BASED SPENDING POLICIES

COLLARS (n = 6)	CAPS ONLY (n = 6)	FLOORS ONLY (n = 1)
<ul style="list-style-type: none"> ▪ 100%–105% of prior year's payout ▪ 100%–110% of prior year's payout ▪ 90%–107% of prior year's payout ▪ 3.0%–6.0% of previous calendar year-end MV ▪ 3.5%–6.0% of current MV ▪ 1X–2X of five-year average CPI times last year's spending 	<ul style="list-style-type: none"> ▪ 103% of prior year's payout ▪ 105% of prior year's payout ▪ 110% of prior year's payout (n=2) ▪ 5.3% of current MV ▪ 110% of prior year spending rate. If the results from using only the average market value of either the final four quarters or eight quarters alone would be a decline in distribution from the prior year, then the distribution may not exceed the prior year's level. 	<ul style="list-style-type: none"> ▪ 100% of prior year's payout

Market Value–Based Policies: Changes to Target Spending Rates Over Time

INSTITUTIONS CHANGING TARGET RATES IN MARKET VALUE–BASED SPENDING POLICIES

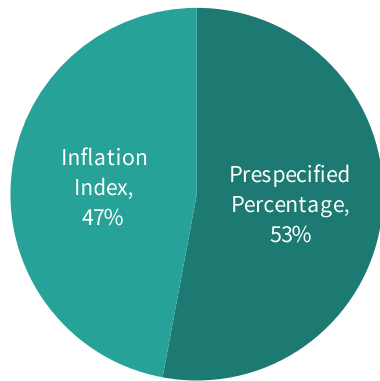


In fiscal year 2021, 84% of institutions used the same target spending rate as reported in the previous year. This is consistent with the trend we have observed over the last five years, where most institutions make no change in any given year. Over the full five-year period, two-thirds of respondents maintained a consistent target spending rate.

Constant Growth Policy Mechanics

GROWTH RATES USED IN CONSTANT GROWTH SPENDING POLICY CALCULATION

2021 • n = 17



Pre-Specified Percentage

- 5.0% (n = 1)
- 4.5% (n = 1)
- 4.0% (n = 2)
- 3.0% (n = 2)
- 2.5% (n = 1)
- 2.0% (n = 2)

Inflation Index

- CPI-U (n = 5)
- CPI-U, 3-yr average (n = 2)
- HEPI, 5-yr average (n = 1)

COLLARS (n = 14)

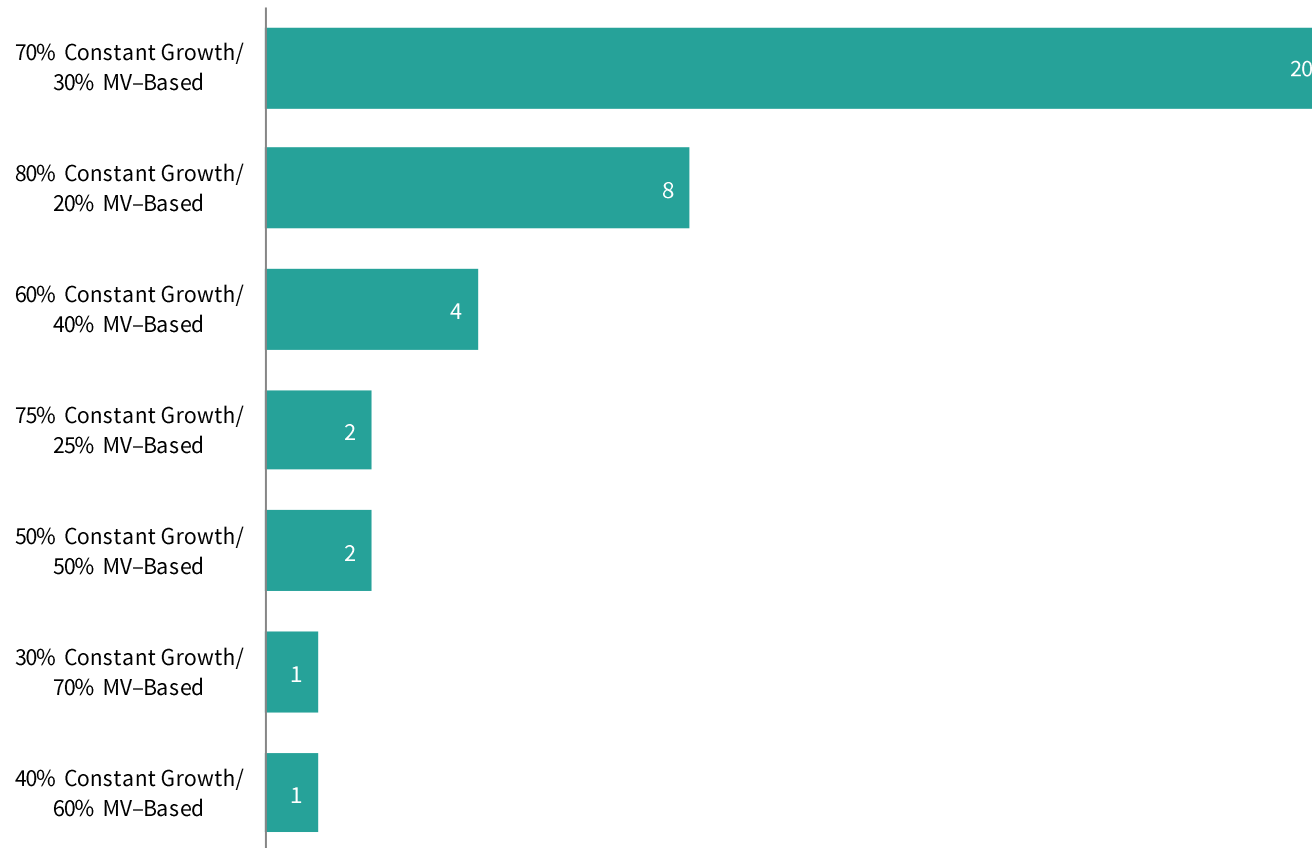
- | | |
|---|---------------------------------------|
| ▪ 4.5%–5.5% of 20-quarter average MV (n = 2) | ▪ 4.0%–6.5% of 3-year average MV |
| ▪ 4.5%–5.5% of 3-year average MV (n = 2) | ▪ 4.0%–6.0% of beginning year MV |
| ▪ 4.5%–6.5% of 4-quarter average MV | ▪ 4.0%–6.0% of 3-year average MV |
| ▪ 4.5%–5.5% of 12-quarter average MV | ▪ 3.75%–5.0% of 12-quarter average MV |
| ▪ Floor: 4.5% of 8-quarter average MV;
Cap: 5.5% of 4-quarter average MV | ▪ 3.5%–5.5% of 3-year average MV |
| ▪ 4.0%–7.0% of beginning year MV | ▪ 3.0%–4.4% of 12-quarter average MV |

A constant growth spending policy increases the prior year's spending amount by a measure of inflation or a prespecified growth rate. The strict application of a constant growth rule produces predictable spending but has 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, this type of policy 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.

Hybrid Policy Mechanics

HYBRID SPENDING POLICIES: WEIGHTINGS OF CONSTANT GROWTH AND MARKET VALUE-BASED COMPONENTS

2021 • n = 38

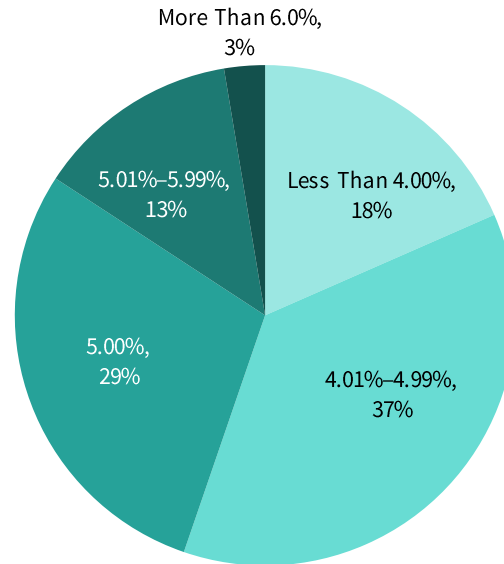


A hybrid spending policy blends the more predictable spending element of a constant growth policy with the asset preservation principle of a market value-based policy. It allows an institution to set the appropriate mix that best meets its needs. The rule is expressed as a weighted average of a constant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

Hybrid Policy Mechanics (continued)

TARGET RATES USED IN MARKET VALUE COMPONENT

2021 • n = 38



SMOOTHING PERIODS USED IN MARKET VALUE COMPONENT

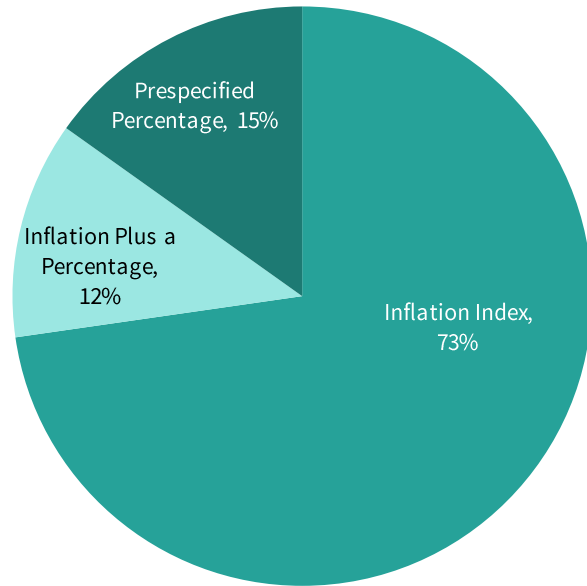
2021 • n = 38

	Monthly	Quarterly	Annually
Shorter ↑	12 Months (n = 3)	4 Quarters (n = 7)	Single Point in Time (n = 12)
	36 Months (n = 2)	12 Quarters (n = 8)	3 Years (n = 3)
Longer ↓		13 Quarters (n = 1)	
		16 Quarters (n = 1)	
			10 Years (n = 1)

Hybrid Policy Mechanics (continued)

GROWTH MEASURES USED IN CONSTANT GROWTH COMPONENT

2021 • n = 33



Inflation Index

- CPI-U (*n* = 13)
- Higher Education Price Index (*n* = 9)
- 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 Average CPI-U + 1.0% (*n* = 1)

Prespecified Percentage

- 2.0% (*n* = 4)
- 3.0% (*n* = 1)

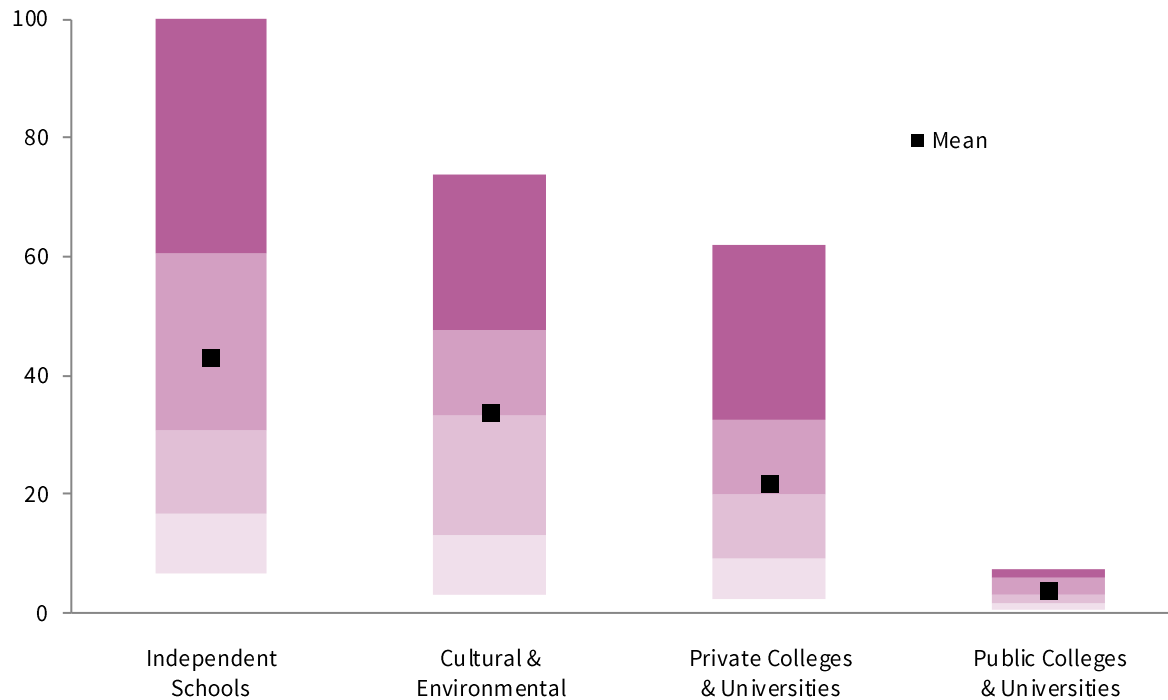
COLLARS (*n* = 8)

- | | |
|--|---|
| <ul style="list-style-type: none"> ▪ 3.0%–5.0% of current MV ▪ 3.5%–5.0% of current MV ▪ 3.75%–5.75% of the MV 1 year prior to the beginning of the fiscal year ▪ 4.0%–5.5%; time period not specified | <ul style="list-style-type: none"> ▪ 4.0%–6.0% of November 30 MV ▪ 4.0%–6.5%; time period not specified ▪ 4.5%–6.0%; time period not specified ▪ 4.75%–5.75%; time period not specified |
|--|---|

Support of Operations by Institution Type

LTIP SUPPORT OF OPERATIONS AS A PERCENTAGE OF TOTAL OPERATING EXPENSES

2021



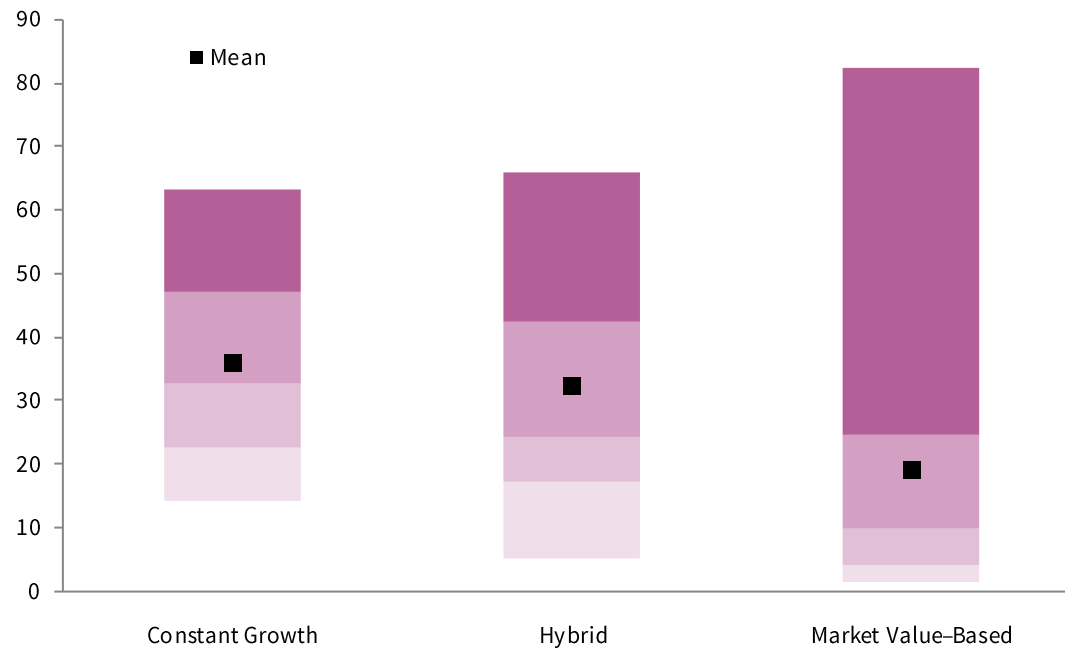
Since few nonprofit institutions generate enough revenue from their core operations to break even on their annual operating budgets, many rely on their long-term investment portfolio (LTIP) to provide additional financial support. The percentage of the operating budget funded by the LTIP varies considerably among the institutions in this study. Spending distributions supported 1% or less of the operating budget for some institutions but serve as the single largest source of revenue for others.

5th Percentile	100.0	73.8	62.0	7.3
25th Percentile	60.6	47.7	32.5	6.1
Median	30.7	33.4	20.1	3.1
75th Percentile	16.7	13.0	9.0	1.7
95th Percentile	6.8	3.1	2.5	0.4
Mean	42.9	33.7	21.8	3.7
<i>n</i>	10	10	62	17

Support of Operations by Spending Rule Type

LTIP SUPPORT OF OPERATIONS AS A PERCENTAGE OF TOTAL OPERATING EXPENSES

2021

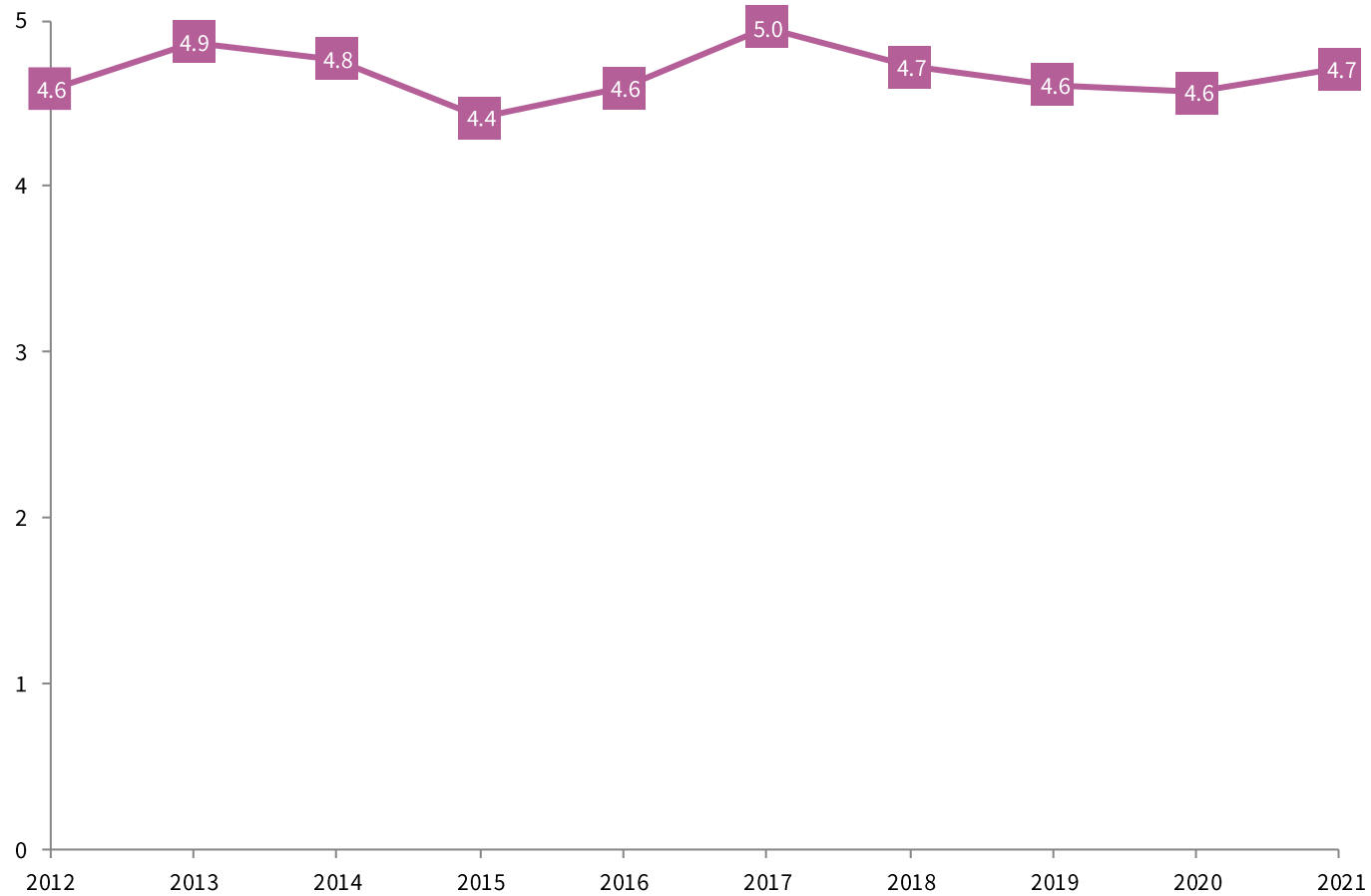


The median LTIP support ratios are highest for the subgroups of participants that have constant growth or hybrid policies. The more predictable stream of spending dollars presumably makes these rule types appealing to institutions that rely on the LTIP to fund a substantial portion of the operating budget.

Effective Spending Rate Trends

MEAN EFFECTIVE SPENDING RATE

2012-21 • Percent (%) • n = 88



The effective spending rate is calculated as the total annual spending distribution as a percentage of the beginning market value of the LTIP.



Copyright © 2022 by Cambridge Associates LLC. All rights reserved.

This report may not be displayed, reproduced, distributed, transmitted, or used to create derivative works in any form, in whole or in portion, by any means, without written permission from Cambridge Associates LLC ("CA"). Copying of this publication is a violation of US and global copyright laws (e.g., 17 U.S.C. 101 et seq.). Violators of this copyright may be subject to liability for substantial monetary damages.

This report is provided for informational purposes only. The information does not represent investment advice or recommendations, nor does it constitute an offer to sell or a solicitation of an offer to buy any securities. Any references to specific investments are for illustrative purposes only. The information herein does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Information in this report or on which the information is based may be based on publicly available data. CA considers such data reliable but does not represent it as accurate, complete, or independently verified, and it should not be relied on as such. Nothing contained in this report should be construed as the provision of tax, accounting, or legal advice. Past performance is not indicative of future performance. Broad-based securities indexes are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. Investments cannot be made directly in an index. Any information or opinions provided in this report are as of the date of the report, and CA is under no obligation to update the information or communicate that any updates have been made. Information contained herein may have been provided by third parties, including investment firms providing information on returns and assets under management, and may not have been independently verified.

The terms "CA" or "Cambridge Associates" may refer to any one or more CA entity including: Cambridge Associates, LLC (a registered investment adviser with the US Securities and Exchange Commission, a Commodity Trading Adviser registered with the US Commodity Futures Trading Commission and National Futures Association, and a Massachusetts limited liability company with offices in Arlington, VA; Boston, MA; Dallas, TX; Menlo Park, CA, New York, NY; and San Francisco, CA), Cambridge Associates Limited (a registered limited company in England and Wales, No. 06135829, that is authorized and regulated by the UK Financial Conduct Authority in the conduct of Investment Business, reference number: 474331); Cambridge Associates GmbH (authorized and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht ('BaFin'), Identification Number: 155510), Cambridge Associates Limited, LLC (a registered investment adviser with the US Securities and Exchange Commission, an Exempt Market Dealer and Portfolio Manager in the Canadian provinces of Alberta, British Columbia, Manitoba, Newfoundland and Labrador, Nova Scotia, Ontario, Québec, and Saskatchewan, and a Massachusetts limited liability company with a branch office in Sydney, Australia, ARBN 109 366 654), Cambridge Associates Investment Consultancy (Beijing) Ltd (a wholly owned subsidiary of Cambridge Associates, LLC which is registered with the Beijing Administration for Industry and Commerce, registration No. 110000450174972), and Cambridge Associates Asia Pte Ltd (a Singapore corporation, registration No. 200101063G, which holds a Capital Market Services License to conduct Fund Management for Accredited and/or Institutional Investors only by the Monetary Authority of Singapore).