

## Expendable Funds Investment, Payout and Buffer Policy

- Authority** This Guide Memo was approved by the Vice President for Business Affairs and Chief Financial Officer.
- Summary** This policy replaces Administrative Guide Memo 37.4 (Expendable Funds Investment and Payout). The policy became effective September 1, 2009 (FY 2010).

Section headings are:

1. BACKGROUND
2. EXPENDABLE FUNDS INVESTMENT POLICY
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### 1. BACKGROUND

Expendable Funds include all University funds that are not endowment funds. They represent a significant component of University investment capital and had an average total balance of \$2.2 billion in FY2008. Expendable Funds include a diverse collection of approximately 15,000 separate funds including several different fund types:

- Endowment Income Funds – Unexpended payout from pure endowment funds and funds functioning as endowment (FFE).
- Debt Recycling Pool – Debt principal payments collected internally and held in reserve.
- Insurance and Benefit Program Reserves – Reserves held for claims within self-insurance programs.
- Student Loan Funds – Funds available to lend for student loans.
- Plant Funds – Gifts designated for facilities, not yet expended.
- Agency Funds – Funds held by Stanford University on behalf of third parties (e.g., Stanford Hospital and Clinics, Lucille Packard Children’s Hospital).
- Gifts Pending Designation – Gift funds received for which the purpose has not yet been designated and which are not invested in the Merged Pool.
- Restricted Funds – Gifts or other restricted expendable funds not yet expended.
- Designated Funds – Funds designated for a specific school, department, faculty or purpose, not yet expended.
- Unrestricted Funds – University, school, department, auxiliary or faculty funds held in reserve or pending expenditure.

### 2. EXPENDABLE FUNDS INVESTMENT POLICY

- a. **Endowment Income Funds** – Endowment Income Funds holding payout from pure endowments (but not from FFE) will be invested in a Money-Market Pool. One hundred percent of the assets in this pool are to be invested by the Stanford Management Company in money-market instruments or a money-market mutual fund.

**Expendable Funds Pool** – All other Expendable Funds will be invested in a single, merged investment pool, the Expendable Funds Pool (EFP). Between 70% and 90% of the EFP is to be cross-invested in the Merged Pool (“MP”), with the balance invested in the Money-Market Pool. The specific pool allocation within this range shall be at the discretion of the University President.

### 3. EXPENDABLE FUNDS PAYOUT POLICY

- a. **Endowment Income Funds** – Each endowment income fund holding unexpended payout from pure endowment will receive an annual payout equal to the actual return on the Money-Market Pool.
- b. **Money-Market Accounts** - The following types of Expendable Funds will be treated as Money-Market Accounts and receive an annual payout equal to the actual return on the Money-Market Pool
  - Debt Recycling Pool
  - Insurance and Benefit Program Reserves
  - Student Loan Funds
  - Plant Funds, only for gift funds exceeding \$1 million
  - Agency Funds
  - Gifts Pending Designation, excluding class gift funds and donor funds of less than \$100,000
  - Restricted Funds, only when stipulated by donor requirement
- c. **Zero-Interest Accounts** – All other Expendable Funds will be treated as Zero-Interest Accounts and receive no payout to the individual fund.

### 4. GENERAL FUNDS PAYOUT POLICY

Each of the Provost’s General Fund, School of Medicine (SoM) Dean’s Unrestricted Fund and Graduate School of Business (GSB) Dean’s Unrestricted Fund will receive a payout related to the zero-interest account balances.

- SoM Dean’s Unrestricted Fund will receive a payout related to zero-interest account balances controlled by the SoM Dean’s office, departments and faculty.
- GSB Dean’s Unrestricted Fund will receive a payout related to zero-interest account balances controlled by the GSB dean’s office, departments and faculty.
- Provost’s General Fund will receive a payout related to all other zero-interest account balances.

The payout shall vary between 0% and 5.5% of the zero-interest account average monthly balances during the prior fiscal year:

- Payout shall be 0% if the prior year’s return of the EFP is less than or equal to 0%
- Payout shall be 5.5% if the prior year’s return of the EFP is greater than or equal to 5.5%
- Payout shall be equal to the prior year’s return of the EFP if the actual return is greater than 0% and less than 5.5%

To the extent payout on zero-interest account balances is less than 5.5% in any year, the Provost and Deans may, at their individual discretion, elect to offset the payout shortfall by reducing an equivalent amount of the contribution in that year from general funds and deans’ funds to the Capital Facilities Fund (CFF).

## 5. BUFFER POLICY

Total payout to money-market accounts, general funds and dean's funds will differ from the investment returns of the EFP. These differences will be buffered by the Tier I Buffer and the Tier II Buffer.

- The Tier I Buffer is a group of unrestricted FFE funds. These funds are fully invested in the MP and receive a regular MP-based payout used to support Provost's General Funds.
- The Tier II Buffer is a single unrestricted FFE fund. This fund is also fully invested in the MP, and it receives a regular MP-based payout that is distributed at the President's discretion (President's Funds). In addition, the President is authorized to withdraw up to \$30 million in principal each year to be used at his/her discretion.

To the extent there is a shortfall in EFP investment returns relative to stipulated payout, principal will be withdrawn from the Tier I and Tier II Buffers to make up such shortfall as follows:

- First, from the Tier I Buffer up to a limit of 20% of the year-end value of the Tier I Buffer in any fiscal year
- Second, from the Tier II Buffer until fully depleted
- Third, from the remainder of the Tier I Buffer

To the extent there is a surplus of EFP investment returns relative to stipulated payout, excess returns will be added to the Tier I and Tier II Buffers as follows:

- First, to the Tier I Buffer until such time as the value of the Tier I Buffer, in total, equals 35% of the total value of the EFP (the target threshold)
- Second, to the Tier II Buffer

## 6. ANNUAL TRUSTEE REVIEW

Once each year, the Trustee Committee on Finance will review the status of the EFP, including fund balances, asset allocation, investment returns, payout and buffer balances.