3.3.2 EXPENDABLE FUNDS INVESTMENT, RETURN ALLOCATION AND BUFFER POLICY

Last updated on: March 9, 2018

Formerly Known As Policy Number: 37.4

Summary:
This policy replaces the “Expendable Funds Investment, Interest Allocation and Buffer Policy” adopted by the Board of Trustees on June 9, 2016. The policy is to be effective beginning December 5, 2017.

Authority:
Approved by the Vice President for Business Affairs and Chief Financial Officer. Approved by the Stanford University Board of Trustees on December 5, 2017.

1. Expendable Funds Investment and Return Allocation Policy

The university has two pools for managing expendable funds, the Endowment Income Funds Pool ("EIFP") and the Expendable Funds Pool ("EFP").

   a. Endowment Income Funds Pool

   The EIFP comprises funds holding unspent prior year payout distributed from pure endowment funds (including amounts reinvested in those funds).

      1. Investment Policy: One hundred percent of the assets in the EIFP are to be invested in cash and liquid short-term investment vehicles managed in the Short-term Investment Pool ("STIP").

      2. Return Allocation Policy: Each endowment income fund holding unspent prior years’ payout will receive an allocation equal to the net return on the STIP, less the cost to administer the portfolio.

   b. Expendable Funds Pool

   The EFP holds the following types of expendable funds:

   - Endowment Income Funds – current year payout distributed from pure endowment funds and all payout from Funds Functioning as Endowment ("FFE") not yet expended
   - 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
   - Gifts Pending Designation – gift funds received for which the purpose has not yet been designated and which are not invested in the Merged Pool or Intermediate Pool
1. **Investment Policy**: Depending on the University’s operating and other liquidity requirements, the University’s Chief Financial Officer or his/her designee will determine appropriate balances to be invested in the Intermediate Pool (IP) or cash and liquid investment vehicles managed in the STIP. The remainder of the EFP is to be cross-invested in the MP. The University may also draw on a bank line or other debt vehicle to fund liquidity needs as deemed necessary by the University’s Chief Financial Officer or his/her designee.

2. **Return Allocation Policy**: Funds invested in the EFP are grouped into two categories for purposes of allocating investment returns.

   a. **Money-Market Accounts**

   The following types of Expendable Funds will be treated as “Money-Market Accounts” and will receive an allocation equal to the net return on the STIP:

   - Restricted Funds, only when stipulated by donor requirement
   - Gifts Pending Designation, excluding class gift funds and donor funds of less than $100,000
   - Plant Funds, raised from gifts exceeding $1 million
   - Recycling Pool
   - Insurance and Benefit Program Reserves
   - Student Loan Funds
   - Agency Funds

   b. **Zero-Interest Accounts**

   All other Expendable Funds will be treated as “Zero-Interest Accounts.” Investment returns on these funds will not be allocated to the individual fund, but will be accumulated and distributed to the Provost’s General Fund and to the School of Medicine (“SoM”) and Graduate School of Business (“GSB”) Dean’s Unrestricted Funds, as described below:

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

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

   - The allocation shall be 0% if the prior year’s return of the EFP is less than or equal to 0%
   - The allocation shall be 5.5% if the prior year’s return of the EFP is greater than or equal to 5.5%
The allocation 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 the allocation 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 shortfall by reducing an equivalent amount of the contribution in that year from general funds and deans’ funds to the Capital Facilities Fund (“CFF”).

2. Buffer Policy

The total allocation to Money-Market Accounts, General Fund and Dean’s Unrestricted 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 the University’s unrestricted FFE funds, excluding Land Development Funds. These funds are fully invested in the MP and receive a regular MP-based payout used to support the Provost’s General Fund.
- The Tier II Buffer is a single unrestricted FFE fund. This fund is primarily invested in the MP. A fraction of the Tier II Buffer is invested in separately managed investments such as the President’s Venture Fund. The portion of the Tier II Buffer invested in the MP 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 or her discretion.

To the extent there is a shortfall in EFP investment returns relative to stipulated allocations, 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 fiscal year-end market 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 allocations, 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