3.3.2 EXPENDABLE FUNDS INVESTMENT, INTEREST ALLOCATION AND BUFFER POLICY

1. Background

Expendable Funds include all University funds that are not endowment funds. They represent a significant component of University investment capital and include several different types of funds:

- Endowment Income Funds: Unexpended payout from pure endowment funds and funds functioning as endowment (“FFE”).
- 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.
- Plant Funds: Gifts designated for facilities, not yet expended.
- Recycling Pool: Proceeds from internal debt amortization available to lend to projects.
- Insurance and Benefit Program Reserves: Reserves held for claims within self-insurance programs.
- Student Loan Funds: Funds available to lend for student loans.
- Agency Funds: Funds held by Stanford University on behalf of third parties (e.g., Stanford Health Care, Lucile Packard Children’s Hospital).

2. Expendable Funds Investment Policy

a. Endowment Income Funds

Endowment Income Funds holding unspent prior years’ payout from pure endowments (but not from FFE) will
have that payout invested in the "Endowment Income Funds Pool (EIFP)." One hundred percent of the assets in the EIFP are to be invested in cash vehicles.1

b. Expendable Funds Pool
All other Expendable Funds will be invested in a single, merged investment pool, the "Expendable Funds Pool" ("EFP"). A portion of the EFP is to be invested in cash vehicles. The appropriate cash balance is to be determined by the University’s Chief Financial Officer or his/her designee as necessary to support the University’s operating liquidity. The University may also draw on a bank line or other debt vehicle to fund operations, as deemed necessary by the University’s Chief Financial Officer or his/her designee. The remainder of the EFP is to be cross-invested in the Merged Pool ("MP").

3. Expendable Funds Return Allocation Policy

a. Endowment Income Funds
Each endowment income fund holding unspent prior years’ payout on pure endowments will receive an allocation equal to the return on cash vehicles, less any management expenses.

b. Money-Market Accounts
The following types of Expendable Funds will be treated as "Money-Market Accounts" and will receive an allocation equal to the return on cash vehicles, less any management expenses:

- 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, only for gift funds exceeding $1 million
- Recycling Pool
- Insurance and Benefit Program Reserves
- Student Loan Funds
- Agency Funds

c. Zero-Interest Accounts
All other Expendable Funds will be treated as "Zero-Interest Accounts" and receive no allocation to the individual fund.

4. General Funds Return Allocation 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 an allocation related to the zero-interest account balances.

- 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; including, but not limited to, designated awards, operating budget awards and non-gift plant awards.
- 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; including, but not limited to, designated awards, operating budget awards and non-gift plant awards.
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 to the Capital Facilities Fund ("CFF") in that year from general funds and deans' funds.

5. 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

6. Annual Trustee Review
Once per annum, the Trustee Committee on Finance will review the status of the EFP, including fund balances, asset allocation, investment returns, payout and buffer balances.

Footnote(s):
1 Cash vehicles may include cash, money market funds rated Aaa by Moody's or AAA by Standard and Poors, primary US government and Aaa/AAA rated agency securities with maturities ranging from 1 to 30 years that can liquidate on a same-day cash basis, bank deposits, other investment vehicles that have strong liquidity characteristics, and security repurchase agreements.