EXHIBIT IV: SOME BEST PRACTICES & GUIDELINES FOR MANAGEMENT OF ENDOWMENT FUNDS

A: STRIVING TO INCREASE ENDOWMENT FUND VALUE EACH YEAR.

1. The *most important single, overarching Best Practice*, or policy goal, for a non-profit organization within all of endowment funding is this: *strive to take prudent steps to make the endowment fund assets principle--AUM--grow in value by an average of 7% to 12% annually, while also striving to never make annual dollar distributions, or spending down allocations, greater than 4% to 5% of a 12-quarter (not 12-month) moving average of the market value of the fund*, after reflecting all investment and related fees. Using a 12-quarter moving average for the calculation of total annual endowment fund distributions is a conventional Best Practice in the U.S. non-profit sector. This practice *evens out* the annual dollar distribution levels, thus supporting making distributions in occasional years of market and fund *declines* — such as our 2008-09 recession period.

2. We stress the need for church and other non-profit leadership to utilize endowment funds:
   (a) with the *intention* of learning the virtually universal *compliance Best Practices* related to endowment funds, and,
   (b) with the honest *resolve* to *actually follow thru*, and actually implement these endowment fund Best Practices without significant departures, except in emergency situations. The economic or investment model for using endowment funds simply *does not work* if excessive "spending down of the principle" causes the funds to have a *net decrease* in asset value over any significant number of years. Except when virtually impossible to avoid, such over spending, or excessive *spending down* of the AUM, may both
      1. reflect inexperienced or uninformed church or non-profit organization leadership and governance, *and*,
      2. fail ethically to "*keep faith*" with donors who made charitable gifts with faith in the willingness, ability and honesty of the organization to follow thru with the enabling endowment gift language. And there could be some *legal* culpability for the non-profit in such situations.

3. *The basic endowment concept* involves *distributing, or, spending, up to 5%* of fund assets each year, while at the same time *growing* the assets annually by an average of 7 to 12%. The *gap* between the two, over a period of years, usually leads to
   (a) the *replacement* of the annual distributions, and,
   (b) the *net growth* of the AUM asset base.

And, *this leads to the dollar amount of the 5% annual distribution increasing over time.*

Translation: *5% of an increasing base* creates added dollars for church program support, though the 5% *level* does not increase. Again, this is *a remarkable result*, as the *dollar value* of the original charitable gift increases over time, facilitating ongoing long term dollar *increases* indefinitely, thus further benefitting *program support and effectiveness*.

B. PAYING INVESTMENT MANAGEMENT FEES TO QUALIFIED ADVISORS.

A large majority, probably 80+%, of endowment funds are invested by non-profits utilizing the experience and skills of qualified professional money management companies typically charging annually from 25 basis points—one quarter of 1%--to 1% of their AUM assets for their investing, monitoring, reporting and analysis services. Virtually all knowledgeable non-profits wish to distribute, use, or spend annually, a *maximum* of 5% to contribute to their budget for charitable program support, *including* the cost for endowment fund investment management and fees. So, if the investment management fees total ½ of 1%, that leaves 4 ½ % for conventional annual distributions for programs and other organizational support. And if these money management costs total 1%, that leaves 4% for such annual distributions.

Churches and other non-profits are encouraged to engage professional investment management companies reflecting what is called an "adviser relationship," an ethical and service bar higher than investment management based on simple investment recommendations. The adviser relationship requires that proposed policies, recommendations and specific equity and other investments reflect *what is in the best interests of the client*, and not necessarily what is best for the investment management company itself.

C. UNDERSTANDING THE DISTINCTIONS BETWEEN "TRUE" AND "FLEXIBLE" ENDOWMENT FUNDS.

There is an important distinction between *kinds* of endowment funds. Typically within most non-profit organizations, there are *two kinds of endowment funds*, often called: (*1)True* endowment funds, and, (2) *Flexible* endowment funds.

1: *True endowment funds* are those wherein the original donor has stipulated in the *enabling language* leading to the *creation* of the endowment fund that the endowment Assets Under Management shall be — translation: must be — treated as an actual, classic, True endowment fund, or words to that effect. What does this mean? Typically, with a True endowment fund, this means that *no more than 5%* – or whatever other percentage the donor or funding source may have stipulated, and the non-profit *agrees to* – may be distributed, or spent, annually for program support. Making an annual distribution *lower than 5%* , or making *no distribution* in some years, is acceptable, and even normal, for some churches when there is little or no *need* in some years for such added revenue in the budget. Taking less than the normal 5% in any year has the *advantage* of leaving *a larger AUM base for investment appreciation and growth* in the following years.

Charitable gift enabling language, especially with True endowment funds, needs to be regarded within non-profit governing boards — including any Episcopal church vestry — as *legally binding*. Enabling gift language needs to be explicitly known, understood and historically recorded. It needs to be reflected in the ongoing endowment fund management and the making of annual distributions almost never higher than the maximum percentage noted--again, usually, a maximum of 5%, including money management fees. Ideally, any endowment gift enabling language regarding *designated uses or restrictions* would be usefully noted in required vestry meeting minutes, and/or, in minutes or notes from meetings of any relevant committee or other entity, such as our Diocesan Trust Association, charged with endowment fund accountability to the vestry.
2: The *second kind* of endowment fund, often called a *Flexible endowment fund*, may be created *by any of three circumstances*.

(a) In the *first circumstance*, the original donor may say or write *nothing to preclude* the non-profit from investing fund money with *no restrictions* or requirements regarding annual distribution policies, charitable uses or percentages or dollar amount levels. This kind of unrestricted gift gives *the non-profit total discretion* in these areas. For example, a church may

manage such endowment funds in a flexible manner. A church could treat such funds as a *True* endowment fund, striving to the extent possible to not distribute more than 5% annually, except in extraordinary or emergency situations.

Or, the non-profit *may* “spend down” the flexible endowment fund assets to any extent, at any time, including ending the fund by depleting the AUM via large or frequent distributions, even though many would regard this option as not at all *prudent* in normal circumstances.

The Diocese of Northern Michigan has at least six endowment funds, depending on definition. A 2014 search of gift enabling language, headed by Dick Graybill, resulted in finding no use or application restrictions or designations regarding how any kind or level of future distributions needed to be made for any of these funds. This was excellent news, in that it confirmed the Diocese having the discretion to treat each of their funds as either a *True or Flexible* endowment fund. This result also *may* be applicable to many of our local churches with *their* local bank funds and their endowment funds being managed via our Trust Association within our total Diocesan AUM now valued at over $12 million. To the extent to which any of our Diocesan churches own funds which are *already unrestricted Flexible endowment funds*, or other funds which could *be added to, or co-mingled with*, their funds *already within* Trust Association AUM, such churches would have significant potential for creating new or larger endowment funds. Because success begets success in endowment growing, these churches would be strengthening their potential for future fund growth, adding *more money* for their local programs.

(b) In the *second circumstance*, the gift instrument enabling language may *explicitly give the non-profit total discretion* in the areas noted just above here within the *first circumstance*. This would be the *most desirable circumstance* for any church, because of the clear and *predetermined flexibility* provided by the donor to the church or other non-profit. *This* is the circumstance which *may* be applicable to *most churches* and other non-profits. And churches can be confident of two possibilities regarding assets managed by the TrustAssociation . First, being able to have periodic—quarterly or even monthly— printable emailed *reports*, tracking the value and details of every separate fund, they wish to identify and track. And, second, being able to have requested cash distributions of virtually any dollar amount within three business days. Already, each of our churches has total control and easy access to all their endowment fund money within our Trust Association AUM.

(c) In the *third circumstance*, if an endowment fund enabling instrument or letter does contain language restricting distributions to *5% or any level* — thus creating a True endowment fund, the *first* kind of endowment fund covered earlier above here — the non-profit, if in a compelling *hardship or emergency* situation, may choose to *ask the donor for a written change or waiver from* the original gift instrument or enabling language, if the donor is available and capable of considering such changes.

There *may* be some legal exposure or risk if any original enabling gift language is ignored, changed or violated by the non-profit without advance written agreement to changes from the donor, or their estate where applicable.

Prudent non-profit investment and financial management policies often lead to treating *all* Assets Under Management as *Flexible endowment funds*, unless enabling language *precludes* such fund management. *Striving to create and manage a maximum amount of AUM as Flexible endowment funds means the non-profit can use the flexibility if necessary to either*

(a) maximize fund growth, as with aTrue endowment, or,
(b) if necessary, to cope with emergencies or special needs by distributing more than 5% of fund market value annually.

D. PREPARING FOR ADDED ENDOWMENT FUND GROWTH.

Non-profit boards which truly understand the nature and potential of endowment funding solicitation and management would do well to create an updated inventory of the origin, enabling gift language, designations, restrictions, purposes, terms and conditions of *every one* of their Assets Under Management. These steps would be a part of an ongoing process of taking even greater advantage of *already available*, and, *potential future* endowment funding. This probably would be a useful project within every church and diocese--if it has not been done recently. Church vestries could realize that all organizational funds and accounts, including most local bank accounts, probably could be placed and held until needed—and *separately reported* periodically--within AUM, thus becoming de facto Flexible endowment funds.

Local bank account monies, invested with our Trust Association, with its professional investment management, almost certainly would increase in value over time beyond growth in interest bearing bank accounts. And, again, each local church would have total control of, and access to, their one fund, or their separate or divided endowment funds within the Trust Association Assets Under Management. For example, a local church may now have, and keep track of, several different funds or accounts within their *local banks*, or within their budget line items. Any of this money *not being used or spent* over two or three or more months *could* be transferred to their TA endowment fund account, to take advantage of appreciation and other fund growth being realized currently by all TA assets.

Regarding conventional church Planned Giving and endowment building, a listing of useful resources and materials might include the following:

1. Developing a current *overall* long range *plan*, or strategic plan, for the *parish*;
2. Creating an operating *endowment plan*, encompassing governance, management policies, Planned Giving strategies and tactics, and organized volunteers and staffing;
3. Developing ethical and prudent *policies* for investing AUM, annual distributions, money management and Planned Giving capabilities, reflecting Best Practices within the non-profit sector;
4. When affordable, the hiring of a part-time or full-time Director of Financial Development, or Director of Planned Giving & Endowment Development;

5. Developing an ongoing Endowment & Planned Giving *Marketing Plan*;
6. Utilizing a periodic or ongoing *Capital Funds Campaign* for endowment building, the actual process for the raising of endowment funds assets; and,
7. Including endowment building and Planned Giving steps within the the church's *Annual Giving Campaign*.

E. VESTRY GOVERNANCE & MANAGEMENT OF ENDOWMENT GROWTH AND INVESTING.

Without getting much further "into the weeds" of endowment management here, we might list six conventional areas of endowment management policies and guidelines often considered by churches--and other non-profits--striving to be ethical and responsible:

(a) stewards of their public trust,
(b) ongoing endowment managers, using Episcopal jargon where applicable,
(c) as they "keep faith" with all donor-related gift enabling agreements and language, and all designations, restrictions, terms and conditions.

1. *Enabling Resolution*: Setting ground rules for endowment management and policies. Establishing the purposes of the endowment fund and how it shall operate. Creating the Endowment Committee and its composition, and how often it might meet. Putting in place fundamental principles. For example, any endowment, if not precluded by enabling language, shall be managed as a True endowment, meaning:
   (a) the principle shall not be invaded, and,
   (b) annual distributions shall not exceed 5% of the market value ofAssets Under Management, but for extraordinary or emergency circumstances.

   The Enabling Resolution also determines the spending policy for the endowment, and how investment management and distribution changes might be made.

2. *Investment Policy Statement (IPS*): Typically a 1-3 page document, describing the Committee's general investment goals and objectives, risk tolerance, and normal target asset allocation. Approved by the Vestry and reviewed *annually*.

3 *Spending Rule Policy*: Setting up a formula that determines how the funds available for distributions will be calculated and spent; e.g., often using a 12-quarter moving average of the value ofAUM for the purpose of calculation of total annual distributions.

4. *Disposition of Bequests Policy*: Establishing in advance how the church shall deal with and manage bequests.

5. *Donor-Designated Funds Policy*: Setting a minimum value for Donor-Designated Funds, and defining how they shall be managed.

6. *Gift Acceptance Policy*: Defining the types of gifts the church may receive, and how the church shall deal with them, with this role also encompassing *all charitable gifts* to the church, not *just* endowment gifts. This policy language might include the broad interpretation of the legal doctrine of Cy Pres (pronounced "sigh-PRAY").

   What does Cy Pres mean? If a non-profit discovers over time that the originally intended *use* of any charitable gift has become impractical, unnecessary, impossible or unwise, there is a remedy within U.S. law. The legal doctrine of Cy Pres holds that if the *original donor intent* for the *use* of charitable gift assets, and subsequent annual distributions, becomes over time not feasible or impossible to fulfill or implement, the governing entity of the non-profit *may*, via a governing board decision, *redirect or apply* the use of such funds:

   (a) to the most compatible charitable *use or program within* the same organization which *is feasible*,
   (b) to the General Fund of the same non-profit, or,
   (c) to a compatible program within another non-profit organization or to a Community Foundation General Fund in the area. So, no such original charitable gift need be returned to a donor or a donor's estate. For example, many U.S. charitable gifts designated for *polio* care in 1938 were later redirected to research and care for youth with birth defects after polio needs subsided. This changeover led to the founding of the March of Dimes Foundation.