



MEMORANDUM

TO: Deans and Directors

FROM: Holden Thorp

DATE: Friday, June 5, 2009

RE: Institutional policy on implementing UPMIFA

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was recently enacted in North Carolina. This legislation allows the invasion of principal of an underwater endowment fund under certain circumstances. We use the term “underwater endowment fund” to mean one in which the total market value is less than its historical book value or principal—i.e., the actual dollars contributed to the fund.

Our long-term investment performance has been excellent. As a result, there are relatively few underwater endowment funds, and they are primarily funds that were established within the last few years.

The endowment spending rules contained in UPMIFA require that an endowment, foundation or other charitable organization act in good faith, with the care that a prudent person would ordinarily exercise under similar circumstances and consider, if relevant, the following seven factors:

1. The duration and preservation of the endowment fund
2. The purposes of the institution and the endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the institution
7. The investment policy of the institution.

The position of the University of North Carolina at Chapel Hill is that implementing the flexibility afforded by UPMIFA to invade principal should be an **option of last resort**.

We have therefore developed and prioritized steps that we recommend be taken as we navigate through this process:

- Examine the activity supported by each underwater endowment to determine if it is essential to continue in the upcoming fiscal year or if it can be deferred.
- If it is determined that continuing the activity is essential, pursue the following funding options in this order:
 - Use any income from the prior year's distribution remaining in the endowment's spending account;
 - Use any unspent income that has been re-invested into the endowment;
 - Seek other institutional funds to support the activity.
- If, after considering the funding options described above and reviewing the applicable endowment agreement, it is determined that invading the principal of an endowment fund may be prudent, contact the donor and discuss the following alternatives:
 - An expendable gift equal to or in excess of the amount needed to avoid invading principal; or
 - Invading principal, subject to prudent limitations on expenditures, guidelines for which will be recommended by the University after the final figures are available in early July.

The Board of Trustees of The Endowment Fund of the University of North Carolina at Chapel Hill and the Board of Directors of The University of North Carolina at Chapel Hill Foundation, Inc. endorsed at their May 2009 meeting the University's recommendation that UPMIFA be an option of last resort and the series of actions detailed above. **We encourage all affiliated foundations to do the same.**

We know that you are eager to communicate with your donors about the University's stance with regard to UPMIFA. To this end, we have prepared a draft letter detailing Carolina's commitment to the highest levels of stewardship of underwater endowments, which you may adapt to send to your donors. **We encourage you to use the attached letter as a model for writing as quickly as possible to those donors whose underwater endowments are part of your respective foundations.**

Following your initial communication with donors of underwater endowments, the Vice Chancellor for University Advancement will coordinate with Deans, Directors, and campus development officers to determine which affected donors should be approached personally.