Caltech

Summary of Policies for Endowed Funds

A gift for an endowed fund at Caltech is an investment in the future of the Institute, as generations of students and faculty benefit from the annual income produced by the endowment. Caltech is grateful to its donors for their commitment and foresight in creating endowed funds.

A number of policies govern the management of Caltech's endowed funds (collectively known as the "Endowment"). Several important features of those policies are summarized below.

Pooled Investment Portfolio

Generally, each new gift to an endowed fund at Caltech is pooled with other endowed funds into a single investment portfolio (the "Investment Pool"). The Investment Pool operates much like a mutual fund, where each endowed fund is assigned units (or "pool shares") that are based on the value of the gift and the Investment Pool's value per unit. These pool shares provide the basis for determining the fund's value as well as the annual endowment spending that will be used to advance the fund's purpose.

The Institute manages the Investment Pool under a single comprehensive investment strategy with the objective of generating total investment returns at a rate that exceeds endowment spending plus inflation over the long term. The Investment Pool's assets are allocated to investments in different asset classes based on targets approved by the Investment Committee of the Caltech Board of Trustees. This strategy is carried out by Caltech's Investment Office under the oversight of the Investment Committee.

Endowment Spending

Distributions from endowed funds held in the Investment Pool—commonly referred to as endowment spending or payout—are determined based on each fund's units for the benefit of each fund's purpose. Endowment spending is determined on an annual basis by the Board consistent with Caltech's Endowment Spending Policy, which is designed to appropriate endowment resources to support ongoing operations consistent with every individual fund's purpose while preserving and strengthening the financial base of the Endowment.

Distributions

In years when an endowed fund's payout is not distributed for current use and/or investment return is earned in excess of Caltech's approved annual spending amount, undistributed income and/or investment return will remain or be reinvested in the Investment Pool for the benefit of the endowed fund.

Payout for new gifts invested in the Investment Pool will be available for distribution after four full quarters of investment. During this "holdback period," allocated endowment spending is reinvested in the Investment Pool for the benefit of the endowed fund.

In addition to costs directly incurred in managing the endowment which are charged to the endowment, all distributions for current use are assessed an overhead charge in recognition of central costs related to supporting the Institute's mission.

In the event that market conditions temporarily drive the total current value of an individual fund's units below the historic gift value (commonly referred to as an "underwater" condition), the Institute reviews circumstances on an individual-fund basis. With the goal of providing consistent endowment spending while preserving the long-term viability of each fund to support its intended purpose, Caltech may elect, at its discretion, to reduce or reinvest endowment spending from underwater funds until such funds' market values adequately recover.

Note

This document summarizes Caltech's current policies for endowment funds. All Caltech policies are subject to change at Caltech's discretion, and endowment funds will be subject to such policies as they may be amended from time to time.