THE CALIFORNIA INSTITUTE OF TECHNOLOGY
Pasadena, California 91125

INVESTMENT POOL QUICK REFERENCE GUIDE

Effective October 1, 2009

Investment Pool ("Pool") – A unitized investment vehicle, which maintains a Board-approved asset allocation. The investment pool consists of the following:

> **True Endowments** (also known as "permanent endowments" or "perpetual endowments") – Funds generally restricted by donors such that only annual endowment spending ("payout"), may be used for operating purposes. UPMIFA and Caltech's proposed spending guidelines apply only to true endowments.
>
> **Quasi Endowments** (also referred to as "board-designated funds" or "funds functioning as endowment") – Funds with no specific donor restrictions designated by the Board for long-term investment. Quasi endowments provide payout for operations; such payout is administered consistent with true endowment payout. The Board has the right to un-designate and to expend the "principal" of such funds. <u>Donors cannot create quasi endowments.</u>
>
> **Unrestricted Assets invested in the Pool** – (also referred to as "invested alongside the endowment"). Funds with no donor restrictions and no designation from the Board that are invested in the pool at management's discretion. Unlike quasi endowments, these funds are not, by definition, held for long-term investment. These funds are not endowments, even though they are invested in the same pool as most endowment accounts.

Endowment Fund – An individual endowment account/fund participant. At Caltech, each fund has an invested portion, also known as "Principal" or the "principal account," and a "spending account" or "payout account" that includes distributed payout and related expenses against that payout. Fund principal may include more than one net asset type (True, Quasi or alongside).

Market Value ("MV") – An individual fund's pro rata share of the market value of the investment pool, calculated by multiplying # of shares in the fund by the market value per share.

Shares – The unit of measure in the pool. When a gift is received the total amount of the gift is divided by the previous quarter's MV per share to determine the number of shares that the gift "buys" in the investment pool. The number of shares will be used to calculate the payout for that fund.

Market Value per Share ("MVPS") – The MVPS is determined each quarter by taking the total pool MV at the end of that quarter and dividing it by the total number of shares in the investment pool at that point in time.

Historical Dollar Value ("HDV", also referred to as Corpus or Historical Cost) – The value of any donor-restricted contributions. The Board has defined the HDV of Caltech's true endowment funds to be amount donated by the donor plus any donor-mandated reinvestments of payout. Other additions, such as reinvestments, may not be permanently restricted and would not be part of the HDV.

Payout Account (spending account or current income account) – The account in which distributed payout is budgeted in the Oracle financial system.

Endowment Spending (more commonly known as “Payout”) – The amount of the investment pool that is distributable based on the Board-approved spending policy. Payout for each fund is determined annually and is budgeted in each payout account.

> **Appropriation of Payout** – Payout will be deemed appropriated for expenditure upon approval for expenditure. If the board approves the payout rate in July for the following fiscal year, the payout is considered distributable on October 1st and is therefore appropriated at that point.
>
> **Distributed Payout** – Portion of the payout available for spending/”paid” out” in that year. This amount is generally equal to the appropriated payout.

In cases where appropriated payout is greater than the amount distributed to the payout account, the remaining balance will be reinvested in the fund.

Any voluntary reinvestments of unspent payout must be approved by the Associate Vice President for Finance.

Payout is calculated by the Budget Office, consistent with the Board approved formula for that year. It is generally calculated by multiplying the 12-quarter average market value (based on calendar year) by the Board approved rate. Payout per share is then calculated by dividing this number by the number of shares in the pool.

Budgeting – The amount of payout distributed will be budgeted to each spending account at the beginning of the year. Each division will get quarterly information about their funds’ MV on a quarterly basis. Accounting Services will monitor funds with a MV of 70% or less of HDV as of June 30th of the previous year. It is strongly recommended that spending on these funds be limited. If the June 30th MV falls to 50% or less of the HDV, payout will not be budgeted for the following year, instead that year’s payout will be reinvested to allow the fund value to recover for use in future years. Payout will resume when an account’s MV is at least 70% as of June 30th.

Holdback – For new funds established October 1, 2008 or after, payout will be calculated but will not be distributed. Instead funds will have a one year holdback period in which the payout will be calculated and reinvested at year end and at the end of the 4th full quarter of participation. Any exceptions to this policy must be approved by the Associate Vice President for Finance.

UPMIFA – Effective, January 1, 2009, California adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA requires prudent spending and investing practices in an entity’s endowment policies. The Board has defined prudence based on the following factors:

- Duration and preservation of the endowment fund
- Purposes of the institution and the endowment fund
- General economic conditions
- Possible effect of inflation or deflation
- Expected total return from income and appreciation of investments
- Other resources of the institution
- Institutional investment policy

Under UPMIFA the concept of “underwater” accounts no longer exists. However, in order to determine that spending is prudent the current MV will be compared to Historical Dollar Value (HDV), which the Board has defined as the donor gift amount.