

S & R Pieper Family Foundation

Endowment Fund Management Study

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Prepared By:



THE DIERINGER RESEARCH GROUP, INC.

3064 North 78th Street, Milwaukee, WI 53222
(800) 489-4540
www.thedrg.com

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Introduction

Introduction

Study Background

On behalf of the S & R Pieper Family Foundation, the Dieringer Research Group (The DRG) conducted in-depth interviews with high level representatives of non-profit organizations located in the Milwaukee area who were knowledgeable about their organizations' endowments and how the funds were managed.

Research Goals and Objectives

The main goal of this research was to understand how non-profit organizations manage their endowment funds. The specific areas studied were:

- Makeup of the committee or board that has responsibility for managing endowment funds, and the connection of committee or board members with the organization's operating board
- Written investment and spending policies of each organization
- How endowment funds are accounted for and tracked in each organization's financial records
- Challenges in administering endowment funds and what changes fund managers would like to see

Research Methodology

Survey participants were recruited from a list of 20 organizations supplied by Dick Pieper. Written invitations were mailed to all 20 organizations, and two follow-up letters were sent. After the first round of interviews, all non-participating organizations were called, followed by an e-mail, with a final call for participation made by Dick Pieper himself. When recruiting began, The DRG did not use Dick Pieper's name, but midway in the recruiting process, his name was used to increase the response rate.

A total of 18 non-profit organizations were interviewed by The DRG for this study. As the first data-gathering stage of the research, each organization was request to send (and did send) a copy of the written endowment policies to The DRG. After reviewing the written policies, The DRG interviewed a representative from each organization.

Interviews were conducted with organizations' representatives who were among those most knowledgeable on the management of endowment funds.

Interviewing took place from June 27, 2006 to December 11, 2006. Each interview took approximately 30 minutes.

Introduction

Organizations Surveyed

The organizations and the titles of the representative interviewed are included in the following table. *Italicized* organizations requested confidentiality in the public report.

Organizations Surveyed		
(Italic font/Bolded indicates responses are confidential and cannot be released to the public or release is dependent upon organizational permission)		
Organization	Title	Type of Organization
<i>Alverno College</i>	<i>President</i>	Education
<i>Marquette University</i>	<i>Senior Investment Manager</i>	
<i>Milwaukee School of Engineering</i>	<i>President</i>	
Bel Canto Chorus of Milwaukee	Managing Director	Fine Arts
Florentine Opera Company	Director of Finance	
Milwaukee Art Museum	CFO	
<i>Milwaukee Ballet</i>	<i>Director of Development*</i>	
Milwaukee Symphony Orchestra	Director of Development	
Wisconsin Conservatory of Music	President	
Milwaukee Public Library Foundation	Executive Director	
Milwaukee Public Museum	Endowment Committee Chair	Youth Development
Boys and Girls Clubs of Greater Milwaukee	VP, Finance and Administration	
Girl Scouts of Milwaukee Area, Inc.	Executive Director/CEO	
Junior Achievement	President	
Milwaukee County Council, Boy Scouts	Scout Executive / CEO	
Next Door Foundation	Executive Director & Director of Development	Religious Ministry
Bayshore Lutheran Church Foundation	President	
Greater Milwaukee Foundation	President	Community Leadership
*This person has since left the company.		

Executive Summary

Executive Summary

Study Background

On behalf of the S & R Pieper Family Foundation, the Dieringer Research Group (The DRG) conducted 18 thirty minute in-depth interviews with high level representatives of non-profit organizations located in the Milwaukee area who were among those most knowledgeable about their organizations' endowments and how the funds were managed. The Dieringer Research Group reviewed the written policies respondents provided prior to the interview.

Study Findings

Research includes a good mix of organizations, in terms of age, endowment assets, and endowment type (restricted vs. un-restricted).

- Responding organizations were established non-profits with all in existence since at least 1969, with many in existence for more than 100 years. Generally, few had an endowment since inception of the organization, although all but one had an endowment for about 20 years or more.
- Endowments managed varied in size or amount, ranging from \$30,000 to almost \$500 million. Half of the organizations managed both restricted (true) and unrestricted (quasi or board designated) endowment funds, with eight of the 18 organizations having only a true or restricted endowment (0% board designated).

A committee separate from the operating board is typically responsible for managing endowment funds, but the committee typically includes members of the operating board.

- All organizations have a separate committee to manage the endowment funds, although having some members of the operating board as part of this committee is generally common, with cross-membership varying widely from as low as 17% to almost complete duplication of 90% to 100%.
- Generally, organizations did not report the cross-membership to cause any problems.

Endowment assets are usually shown on the organization's balance sheet. All audit endowment donations and spending, but this typically occurs as part of the annual organizational audit.

- In most cases (16 of 18 organizations), the audit of endowment donations and spending was conducted by an external party, although usually included as part of the annual organizational audit. The operating board or Treasurer was said to "audit" the endowment funds when conducted internally.
- Having a separate 501.c3/509.a3 tax code designation was not common. Only four (of the 15 organizations whose core business was not to manage endowments) had a separate tax code designation.

Executive Summary

All organizations have written endowment management policies that include written investment policies and almost all have written spending policies.

- All organizations provided written endowment management policies to The DRG. However, the amount of detail provided in the management policies varied from a high-level overview to a very detailed and comprehensive document.
- All organizations had investment policies although the amount of detail in the investment policy also varied from a high-level overview to a detailed document more commonly outlining endowment management and review responsibilities, investment objectives, investment guidelines, and investment amounts/asset class allocation mix, allowable investments, expected performance, and performance benchmarks.
 - Investment philosophy was long-term, emphasizing principal preservation and growth.
 - All organizations used professional (external) investment managers and most had a targeted asset allocation mix, typically reviewed/re-balanced annually. A few mentioned having donor directed investment requirements, usually long-term equity investments.
 - Fund/Investment manager performance was usually evaluated quarterly. Fund performance was typically compared to applicable industry benchmarks, such as S&P 500, Lehman Bond Index, Russell 2000, and Consumer Price Index (inflation).
 - Organizations do have historical performance records, with the more recent records typically being provided by the Investment Managers and records older than 10 or so years typically archived. Although historical records are available, only about half of the organizations said historical returns were used when evaluating fund performance. Those who did not mention their evaluation generally focused on the last 7 to 10 years because the changes in fund investment strategies, investment managers, and investment conditions renders these old record incomparable – “apples to oranges.”
- All organizations had spending policies, but here again, spending policy detail varied from high level summaries to comprehensive, detailed documents.
 - Spending approach typically involved a set percentage or percent range, with the majority at or near 5%.
 - Distributions were based upon the endowment value over a period of years or quarters ranging from 1 to 5 years, with the median term period being 3 years (or 12 quarters). Six organizations had a valuation period of 1 year (or prior year value/annual net increase), 2 used a 2 year period, with 5 each using a 3 or 5 year period, respectively.

Most organizations have a policy that non-directed bequests always go to the true or quasi endowment, with most others doing so when the bequest is above a monetary threshold.

- Ten organizations place non-directed bequests into the true endowment or board designated endowment, with another five who do so when the endowment when above a certain monetary amount, which varies from \$1,000 to \$10,000.
- Only three organizations directly allocate non-directed bequests to operating funds.

Executive Summary

Resolutions in place that prohibit 1) spending beyond policy, 2) borrowing endowment funds, or 3) using endowment funds to guarantee organizational loans are not common-place, although some are currently discussing the issue. A few question the necessity as these are "inherent in managing an endowment."

- Only four organizations had all three resolutions in place while most (N=12) do not have any of these resolutions in place.

Although rare, spending beyond policy and guaranteeing loans with the endowment are more often allowed than borrowing from endowment funds.

- Five organizations can spend beyond policy, with three that have actually done so.
- Four organizations have used endowment funds to guarantee organizational loans, all with plans to pay back loan, if not done so already.
- Only one organization has borrowed from the endowment, although they now have a resolution in place to prohibit this.

Challenges to managing an endowment primarily involve generating funds and managing investments.

- Generating funds is said to be challenging because donating to an endowment may not have the public appeal as much as donation to a specific program that is more tangible or visible, and many potential donors may not consider the long-term benefits to the organization.
- Investment challenges revolve around maintaining the asset allocation mix, reconciling investment opinions of managers and board/committee, and fluctuating market conditions.

Desired improvements are more often changing how endowment funds or accounts are handled or structured to increase returns or simplify management.

- Structure changes included changing from higher risk equity stocks to more stable or more mixed funds, decreasing number of investment pools, restricting all funds, or directly accepting charitable remainder accounts.
- One respondent presented an interesting point in wanting increased public transparency regarding funds and how funds are managed, including better clarity or simplification of policies to allow non-financially savvy donors to understand and feel more secure with endowment policies when making donation decisions.

Detailed Findings

Organization Profile

Survey Participants

Twenty organizations were provided to the DRG as potential study participants. Each organization was initially contacted by mail, and non-respondents were reminded by phone and e-mail. In the end, a total of 18 of 20 organizations participated in the interview. The table below shows the 18 organizations that were surveyed as well as the two organizations that did not participate.

We asked each survey respondent if we could identify their individual responses in published reports. Fourteen said we could use their individual information and four requested confidentiality, which are indicated below in *shaded, italicized and bolded typeface*.

Within the analysis, responses from the organizations that requested confidentiality are included in the aggregate analysis, however their names will not be identified if and when any of their individual comments are presented .

Participants

Alverno College

Bayshore Lutheran Church Foundation
Bel Canto Chorus of Milwaukee
Boys and Girls Clubs of Greater Milwaukee
Florentine Opera Company
Girl Scouts of Milwaukee Area, Inc.
Greater Milwaukee Foundation
Junior Achievement

Marquette University

Milwaukee Art Museum

Milwaukee Ballet

Milwaukee County Council, Boy Scouts
Milwaukee Public Library Foundation
Milwaukee Public Museum

Milwaukee School of Engineering

Milwaukee Symphony Orchestra
Next Door Foundation
Wisconsin Conservatory of Music

Non-Participants

Discovery World at Pier Wisconsin
(Time constraints)
Present Music
(Small endowment managed by the Greater Milwaukee Foundation)

Organization Profile

Respondent Profile

The table below shows the organizations, the people to whom we spoke, and the nature of the organization. The 18 participating organizations varied in scope, but can generally be classified into one of three types - higher education, fine arts, or youth development, with one focusing on religious ministry and another on community leadership. All respondents interviewed said they were *among* those knowledgeable about their organizations' endowments, but not always *the* most knowledgeable.

Respondent Profile				
(Italic font/Bold indicates responses are confidential and cannot be released to the public or release is dependent upon organizational permission)				
Organization	Contact	Title	Years in Position	Type of Organization
<i>Alverno College</i>	<i>Mary Meehan</i>	<i>President</i>	<i>2</i>	Education
<i>Marquette University</i>	<i>Sean Gissal</i>	<i>Senior Investment Manager</i>	<i>1.5</i>	
<i>Milwaukee School of Engineering</i>	<i>Hermann Viets</i>	<i>President</i>	<i>16</i>	
Bel Canto Chorus of Milwaukee	Julie Gmeinder	Managing Director	<1	Fine Arts
Florentine Opera Company	Catherine Kiekhofer	Director of Finance	15	
Milwaukee Art Museum	Linda Daley	CFO	4	
<i>Milwaukee Ballet</i>	<i>Kim Sosa*</i>	<i>Director of Development</i>	<i>2</i>	
Milwaukee Symphony Orchestra	Julie Quinlan	Director of Development	1	
Wisconsin Conservatory of Music	Karen Deschere	President	2	
Milwaukee Public Library Foundation	Meg Diaz	Executive Director	1	
Milwaukee Public Museum	Ross Read	Endowment Committee Chair	1.5	
Boys and Girls Clubs of Greater Milwaukee	Dan Correy	VP, Finance and Administration	13	Youth Development
Girl Scouts of Milwaukee Area, Inc.	Mary Beth Malm	Executive Director/CEO	15	
Junior Achievement	Tim Greinert	President	3	
Milwaukee County Council, Boy Scouts	Sharon Moulds	Scout Executive / CEO	1	
Next Door Foundation	Sharon Schulz	Executive Director	7	
Bayshore Lutheran Church Foundation	Harry Anderson	President	1	Religious Ministry
Greater Milwaukee Foundation	Doug Janssen	President	14	Community Leadership
This person has since left the company.				

Organization Profile

Organization Characteristics

Although all the organizations surveyed have endowments, the organizations are different in size and history, as well as in size of their endowments. The following table shows some characteristics of the participating organizations.

The endowment assets vary greatly, ranging from \$480 million for the Greater Milwaukee Foundation to \$30,000 [confidential]. In addition, the percent of the endowment that is board-designated, or quasi/unrestricted endowment, varies as well although eight organizations manage only true restricted endowments.

Characteristics of Organizations Surveyed			
(Gray shaded rows/Italic font/Bold indicates responses are confidential and cannot be released to the public or release is dependent upon organizational permission)			
Organization	Year Endowment Began	Approx. Value Endowment¹	Percent Board Designated
Greater Milwaukee Foundation	1915	\$480,000,000	0%
Milwaukee Art Museum	1969 or earlier	\$26,500,000	15%
Boys and Girls Clubs of Greater Milw.	1969 or earlier	\$25,900,000	58%
Milwaukee Symphony Orchestra	1969 or earlier	\$25,000,000	36%
Milwaukee County Council, Boy Scouts	1969 or earlier	\$9,000,000	100% ²
Milwaukee Public Museum	1969	\$4,350,000	74%
Florentine Opera Company	1983	\$3,785,868	65%
Junior Achievement	App. 1997	\$2,800,000	0% ²
Girl Scouts of Milwaukee Area, Inc.	1984	\$1,560,000	20%
Milwaukee Public Library Foundation	Late 80s	\$860,000	80%
Wisconsin Conservatory of Music	1969 or earlier	\$800,000	0% ²
Bayshore Lutheran Church Foundation	Uncertain	\$675,000	0%
Next Door Foundation	1998	\$385,400	0%
Bel Canto Chorus of Milwaukee	2002	\$252,000 ³	0%
<i>Confidential respondents not shown in this table include: Alverno College, Milwaukee Ballet, Milwaukee School of Engineering, and Marquette University.</i>			

¹Includes both true and quasi-endowment.

²Question was changed mid-fielding. Prior question asked if endowment included restricted and unrestricted funds. If all funds were said to be restricted, response was converted to 0% board designated. Conversely, if all funds were said to be unrestricted, response was converted to 100% board designated.

³Does not include a \$50,000 donation to be spread over 5 years.

Endowment Management

Responsibility for Managing Endowment Funds

All organizations had a separate committee is ultimately responsible for managing the endowment funds, although almost all use independent investment managers or the Greater Milwaukee Foundation to actually invest the funds.

Typically titled as the Investment Committee, Endowment Committee, or Finance Committee, the committee more often than not includes operating board members, with cross-over percentages ranging from a little as 17% to complete cross-membership of 100%.

- Three organizations do not allow cross-membership between the management committee and operating board: the Milwaukee Symphony Orchestra, the Greater Milwaukee Foundation and one other group that requests to remain anonymous.

Written Endowment Policies

All of the organizations surveyed have written policies with respect to the management of their endowments that outline the spending and investment policies, and these policies were provided to The DRG.

Endowment Management

Endowment Spending Policies

All organizations have written spending policies. Organizations are generally able to withdraw from 3% to 6% of the fund's average value in the past 1 to 5 years, although the percent and valuation period varies by organization or by fund.

When the endowments have restricted or donor-directed funds, income from these funds are always used for the specified purpose. Some (N=5) organizations are allowed to spend beyond the stated policy however this must be presented to, and approved by, a majority of the operating board. Three of these five organizations have done this.

The following table is a **high-level** general summary of each organization's spending policy. Exceptions are noted, but only when specifically mentioned by respondents.

General Spending Policy Summary			
(Gray shaded rows/ <i>Italic</i> / Bold font indicates responses are confidential and cannot be released to the public or release is dependent upon organizational permission)			
Organization	Spending Approach		Spend Beyond Policy?
	Percent	Valuation Period	
<i>Alverno College</i>			
Bayshore Lutheran Church Foundation	3%	Annual beginning balance	Yes ⁷
Bel Canto Chorus of Milwaukee	5%	5 years	No
Boys and Girls Clubs of Greater Milw.	5.5%	12 months	No
Florentine Opera Company	5% ¹	Year end value	No
Girl Scouts of Milwaukee Area, Inc.	5%	5 years	No
Greater Milwaukee Foundation	5%	20 quarters	No
Junior Achievement	5% ²	5 years	No
<i>Marquette University</i>			
Milwaukee Art Museum	5%	3 years	No
<i>Milwaukee Ballet</i>			
Milwaukee County Council, Boy Scouts	5%	20 quarters	No
Milwaukee Public Library Foundation	4%	12 quarters	No
Milwaukee Public Museum	5%	12 quarters	No
<i>Milwaukee School of Engineering</i>			
Milwaukee Symphony Orchestra	6%	3 years	Yes ⁷
Next Door Foundation	5% ⁵	Annual net increase	Yes
Wisconsin Conservatory of Music	5% ⁶	3 years	Yes

¹May not be made if distribution causes fund to go below gifted value. Excess, undistributed, income is added to principal. True endowment is never spent beyond policy.

²50% of distribution is re-invested in endowment.

³Any return not needed is re-invested in endowment.

⁴This is in addition to distributing the percent growth of the total fund value using a 3 year average.

⁵Principal must exceed \$500,000 before any distributions can be made.

⁶Cannot spend more than earned income.

⁷Have used funds beyond spending policy.

Endowment Management

Investment Policies

All the organizations have written investment policies.

Investment Philosophy

Generally, all the endowment funds are managed with a long-term perspective in mind. Although use of current income is included as an objective, the focus is more on long-term fund development emphasizing principal preservation and growth greater than inflation.

Investment Methods

The organizations all use the following methods to help them achieve their investment goals:

- External investment management firms.
- Asset Allocation Mix specifying investment percentages between high and low risk investments.
 - The mix is reviewed and re-balanced when necessary, typically annually.
 - Sometimes donor-directed (usually long term equities).

Investment Measurements

Organizations generally determine if the organization is meeting their endowment investment goals is by comparing their investment manager's performance to relevant industry benchmarks or market indices, usually based on a 3 to 5 year cycle. Only one organization did not have any explicit benchmarking objectives.

- Most often mentioned benchmarks include S & P 500, Lehman Bond Index, Russell 2000, and the Consumer Price Index.

As far as manager/committee reporting, most organizations mentioning having regular committee meetings to review fund performance and/or investment manager performance, more often being done quarterly, with a only a few who do so more or less often.

Investment Tracking

All organizations keep historical records of their funds' investment performance, with many (N=11) doing so since the funds' inception. Among most of the organizations that are older than their endowment program, longer-term endowment performance records are usually kept in archival storage. However, only about half of the organizations use historical return information when evaluating their investment policy.

Endowment Management

A few respondents indicate that investment performance or tracking typically focuses on the more recent performance (10 years at most) because of changes to the investment structure or asset allocation mix and the change in investment managers, rendering an “apples to oranges” comparison.

“Do I look at them [historical returns]? Not much. After a certain period of years, it is no longer of great interest because conditions change and expected returns are a function of conditions. Do we have expected returns? I think that is a little hard to do as it depends on the market at that particular time. Sometimes zero is good. We have expectations that we would certainly like to be over 5% as that is what we are paying out.”

- Confidential

As anticipated, respondents seem to depend upon Investment Managers to provide and track this information for them, although a few did offer/comment that the organization also maintains a separate record to track this information internally.

Endowment Fund Accounting Practices

Including endowment funds on the organization’s balance sheet seems commonplace, with only one organization not doing so and instead shows only endowment income.

All organizations conduct an audit of the endowment’s donations and spending, although two organizations do not use an external auditing firm, rather relying upon the Board/Committee Treasurer to do so. Generally, organizations more typically conduct the audit of the endowment as part of their annual organizational audit rather than separately auditing the endowment — however the point is still the same that all organizations do annually audit the endowment donations and spending.

Most organizations do not have a separate 501c3 tax code designation for the endowment. Only four of the 15 applicable organizations (whose core business is not collecting/managing endowment funds) have this or a similar designation. Of these four, one requested to remain confidential, with the remaining three being:

- Boy Scouts (Milwaukee County Council)
- Milwaukee Public Museum
- Milwaukee Symphony Orchestra

Endowment Management

The Endowment Funds and Borrowing Money

Respondents were asked if their organizations had ever used their endowment funds in borrowing money – either borrowing from the funds or using the funds to guarantee loans of the operating organization. Just two organizations, the Milwaukee Public Museum and the Milwaukee Symphony Orchestra, reported borrowing from endowment funds for use by the operating organization.

- The Milwaukee Public Museum borrowed money from the endowment to cover payroll and shows the loan as a Museum obligation that must be paid back.

Using endowment funds to guarantee loans of the operating organization is more common, with four respondents reporting doing so (one of which requested confidentiality and thus is not shown). These four organizations and the outcome/status of the situation are below.

Using Endowment Funds to Guarantee Loans (Gray shaded rows/Italic/Bold font indicates responses are confidential and cannot be released to the public or release is dependent upon organizational permission)	
Organization	If Used Endowment to Guarantee Loans
	What Happened?
Florentine Opera Company	Has a Line of Credit using Bond Fund as collateral
Milwaukee Symphony Orchestra	Has paid back 40% of the loan, and expect to pay in full by August 2007, after which endowment funds will be shifted to more restrictive Foundation Trust.
Wisconsin Conservatory of Music	In process of paying back loan

Resolutions Limiting Use of Endowment Funds

The respondents were asked if their organizations had passed resolutions keeping the organization from: 1) borrowing from the endowment; 2) using endowment funds to guarantee loans to the operating organization; and 3) cannot use endowment funds beyond the organizations' spending policy. When answering these questions, respondents usually indicated these resolutions would apply to non-restricted funds, as they would not use restricted funds in any of these ways. The table on the next page shows whether or not organizations have each of these resolutions in place.

Generally, these resolutions are not very common-place, with only four organizations passing formal resolutions for all three areas. However, some organizations do mention these resolutions are under discussion in light of a local organization that almost lost their endowment due to borrowing/using the endowment to guarantee a loan.

Endowment Management

Other respondents question the need for some/all of these resolutions, saying that these resolutions are inherent in having a policy in the first place, especially the resolution prohibiting spending beyond policy. Fewer, although similar, comments were mentioned on the necessity for resolutions on borrowing funds from the endowment or using funds to guarantee loans.

“No, but I don’t think one [resolution for borrowing from endowment/guaranteeing loans] is needed. The rules are you don’t spend the endowment. Period. If it says don’t spend it, you can’t very well borrow against it. You can’t borrow against something you can’t spend. It is something that isn’t accessible to whomever. A resolution won’t change the reality of it.”

- Confidential

Resolutions Limiting Use of Endowment Funds			
<small>(Gray shaded rows/Italic/Bold font indicates responses are confidential and cannot be released to the public or release is dependent upon organizational permission)</small>			
Organization	Has a resolution been passed that the organization cannot:		
	Borrow from the Endowment?	Use endowment funds to guarantee loans?	Use funds beyond policy?
<i>Alverno College</i>			
Bayshore Lutheran Church Foundation	Yes	Yes	Yes
Bel Canto Chorus of Milwaukee	No	No	No
Boys and Girls Clubs of Greater Milw.	Yes	Yes	Yes
Florentine Opera Company	No	No	No
Girl Scouts of Milwaukee Area, Inc.	No	No	No
Greater Milwaukee Foundation	No	No	No
Junior Achievement	No	No	No
<i>Marquette University</i>			
Milwaukee Art Museum	No	No	No
<i>Milwaukee Ballet</i>			
Milwaukee County Council, Boy Scouts	Yes	Yes	Yes
Milwaukee Public Library Foundation	No	No	No
Milwaukee Public Museum	No	Yes	Yes
<i>Milwaukee School of Engineering</i>			
Milwaukee Symphony Orchestra	Yes	No	Yes
Next Door Foundation	No	No	No
Wisconsin Conservatory of Music	No	No	No

Endowment Management

Allocation of Non-Directed Bequests

Organizations were asked if they have an approved policy that bequests go to the endowment unless otherwise directed by donor. Usually, most organizations do have this policy, with the undirected bequest either going into the true or quasi (board directed) endowments.

However, five organizations do have something like this in place when the undirected bequest is above a certain monetary threshold or have a strong first intent to do so.

It is rare for organizations to not have such a policy (N=3).

Allocation of Non-Directed Bequests			
(Gray shaded rows/Italic/Bold font indicates responses are confidential and cannot be released to the public or release is dependent upon organizational permission)			
Organization	Directly to Endowment/ Board Designated	Value Dependent (Endowment vs. Operating)	Directly to Operating Funds
Bayshore Lutheran Church Foundation	•		
Girl Scouts of Milwaukee Area, Inc.	•		
Greater Milwaukee Foundation	•		
Junior Achievement	•		
Milwaukee County Council, Boy Scouts	•		
Milwaukee Public Library Foundation	•		
Milwaukee Public Museum	•		
Milwaukee Symphony Orchestra	•		
Next Door Foundation	•		
Boys and Girls Clubs of Greater Milw.		•	
Florentine Opera Company		•	
Milwaukee Art Museum		•	
Bel Canto Chorus of Milwaukee			•
Wisconsin Conservatory of Music			•
<i>Confidential respondents not shown in this table include: Alverno College, Milwaukee Ballet, Milwaukee School of Engineering, and Marquette University.</i>			

Endowment Management

Challenges or “Pains” in Managing Endowment Funds

Survey respondents were asked for the “most challenging” areas in managing their endowments. In summary, most often mentioned challenges involve generating funds and managing investments, with a few who mention a shrinking volunteer base/increased time requirements and communicating the complex accounting rules.

In terms of generating funds or growing the endowment, challenges seem to revolve around educating or convincing the general public on the importance of donating to the endowment.

“Actually getting donations to the endowment is a big challenge because most donors don’t find that interesting. People want to donate to something that they can actually see and touch. Giving money to an endowment isn’t, as some people say, it isn’t sexy. The biggest challenge is to try to convince donors that an endowment is a very important thing for an organization and it is necessary and it helps the longevity of an organization. And that they are really doing something that will help the organization many, many years into the future as opposed to giving some money to a program where you are helping for that season.”

- Bel Canto Chorus of Milwaukee

Investment challenges generally involve maintaining asset class allocations, reconciling investment managers and board member opinions on investment strategies, managing a small endowment, not realizing returns and investing in poor market conditions.

The thing we have to pay attention to is management styles may drift from the class they were initially selected to manage. We might hire someone as a Small Cap manager and because of their success in picking Small Cap stocks they grow and become Mid Cap. Like kittens become cats. If they think there is still some life left in that course, they want to stay on it and ride it until it is time to sell, which changes our strategic mix. Do we fire the manager or balance it some other way? Maintaining our asset allocation requires diligence.”

- Boys and Girls Clubs of Milwaukee

“There is a temptation, when one of our funds aren’t doing so well, to jump ship. Like our investment advisors say, you’re ready to jump ship because you’ve gone negative. It’s already gone negative. You are probably moving at the wrong time. Our Treasurer has been very good at “holding the line” and keeping our funds exactly where they are right now. When they don’t hit the benchmarks, the discussion is whether or not to move or whether it is their time in the market. If they say hold the line and they are doing what they said they would do and that is the type of manager we wanted, then we should be holding the line.”

- Florentine Opera Company

Endowment Management

Desired Improvements to the Endowment Program

When asked what they would like to change concerning their endowments – and how the change would help the organization, respondents generally mention changing how the accounts are handled, with an additional few who indicate either increased transparency or organizational awareness or emphasis. Five did not see any areas for improvement or had already implemented the changes they felt were necessary.

Regarding changing how the accounts are handled, these changes are generally desired for or expected to increase returns and simplify endowment management.

- Changing the investment structure from stocks to mutual funds to gain higher returns and reduce fees.
- Modifying donor-directed investment requirements from 100% equities to a mix to enable higher returns.
- Eliminate quasi-accounts so all endowments would be restricted, simplifying administration and eliminating complexities.
- Decreasing the number of investment pools to be more nimble in management
- Increased clarity in future use of funds for better decision making.
- Directly accepting/managing charitable remainder accounts instead of going through a third party and paying fees to the third party.
 - The organization invests the donor's money, paying the donor quarterly interest. Upon donor's death, the money remains in the organization.

Organizational transparency, an emerging business trend, also is mentioned in this study.

“In the current climate, I would look to ensure that we have continued and increasing transparency. I think it is good for donors to be able to see how their investments are used. The bulk of my day is ensuring donors that their investment is a good one and a safe one, and it is being used in the way it is intended. Increased transparency will help me do that, and helps you strive for a better way to manage things. We can always get better on clarifying policies so that if a potential donor would ask for them, not only are they readily available, which they are, but they are clear to folks and there is not a lot of financial verbiage that is confusing to someone. If a donor sits down with me and wants to make a substantial contribution to the Foundation, I want to be able to hand this to them, and whether they are financially savvy or not, they can sit and look and be comfortable with the policies we have in place.”

- Confidential

Similarly, another desires more organizational focus on the endowment.

“Make it more active for the institution. Increase awareness of it. Put more emphasis on it.”

- Confidential

Appendix A

Recruiting Letters

May 25, 2006

«Salutation» «First_Name» «Last_Name», «Title»
«Organization»
«Address»
«City», «State» «Zip»

Dear «Salutation» «Last_Name»:

The Dieringer Research Group is currently conducting a research study among executives of Wisconsin-based, non-profit organizations and your organization has been selected as a primary candidate for this research. Candidates were chosen to best reflect a variety of organizations, differing in organizational scope and the audience/membership they serve.

The main focus of this study is to understand how non-profit organizations are currently managing their endowments and identify the areas that are challenging to manage, if any. The outcome of this research will be an outline or summary of the policies and procedures in place among non-profits, which will be provided to all participants.

Your participation in this research is strictly voluntary and your organization's information will not be individually identified in the final findings (unless you agree that we can do so). Rather, organizations will only be identified as a contributor or a non-contributor to this research.



THE DIERINGER RESEARCH GROUP, INC.

We would like to request your participation in two ways.

- 1) **Complete** the enclosed **Research Participation Form**, attaching a copy of your **current endowment policies and procedures**, if applicable, then **forward to The Dieringer Research Group** by **June 6, 2006** using the enclosed postage paid envelope, or by fax (414-449-4540) or email (laura.cleary@thedrg.com). If you **do not currently have an endowment**, please **answer the few questions** shown and **return** as well.
- 2) **After receipt and review** of your organization's endowment policies/procedures, **we would like to call you** to discuss your organization's approach to the management of your endowments, the challenges your organization faces in managing your endowments, and your success stories on how you have overcome challenges in the past.

Thank you for reading this letter and we hope you choose to contribute to this research effort. Please contact me if you have any questions.

Sincerely,

The Dieringer Research Group, Inc.

Laura M. Cleary, Senior Research Analyst

Enclosures





THE DIERINGER RESEARCH GROUP, INC.

June 16, 2006

«Salutation» «First_Name» «Last_Name», «Title»
«Organization»
«Address»
«City», «State» «Zip»

Dear «Salutation» «Last_Name»:

A few weeks ago, we at The Dieringer Research Group contacted your organization to request your participation in a research study among executives of Wisconsin-based, non-profit organizations. As we mentioned, your organization has been selected for this research to help us reflect organizations differing in organizational scope and the audience/membership they serve.

As of today, we have not yet heard from your organization and this letter is just a reminder of how eager we are to include your organization in this research and to respectfully ask for your participation again. The main focus of this study is to understand how non-profit organizations are currently managing their endowments and identify the areas that are challenging to manage, if any. We will share the results of this research with you.

Again, your participation in this research is strictly voluntary, but highly important. We would like to request your participation in two ways.

- 1) **Complete** the enclosed **Research Participation Form**, **attaching** a copy of your **current endowment policies and procedures**, if applicable, then **forward to The Dieringer Research Group** by **June 30, 2006** using the enclosed postage paid envelope, or by fax (414-449-4540) or email (laura.cleary@thedrg.com). If you **do not currently have an endowment**, please **answer the few questions** shown and **return** as well.
- 2) **After receipt and review** of your organization's endowment policies/procedures, **we would like to call you** to discuss your organization's approach to the management of your endowments, the challenges your organization faces in managing your endowments, and your success stories on how you have overcome challenges in the past.

Thank you for reading this letter and we look forward to the possibility of working with you in this research effort. Please contact me personally if you have any questions at 1-800-489-4540 x1117.

Sincerely,

The Dieringer Research Group, Inc.

Laura M. Cleary, Senior Research Analyst

Enclosures



THE DIERINGER RESEARCH GROUP, INC.

October 25, 2006

«Contact»
«Organization»
«Address»
«City», «State» «Zip»

Dear «Contact»:

The Dieringer Research Group, on behalf of Dick Pieper and the S&R Pieper Family Foundation, has recently attempted to contact your organization in relation to a research study among executives of Wisconsin-based, non-profit organizations.

Although you previously declined to partake, we are kindly asking one more time for your participation to enable us to understand how your organization approaches the management of your endowment funds. Specifically, we will discuss how your organization invests, spends, and ultimately controls the funds provided in the trust. The main interest is to promote quality endowment management in the Greater Milwaukee area for the benefit of all.

A summary report will be provided to all participants, with only select findings presented publicly via the local media. The report is intended for the benefit of all. Your participation in this research is voluntary and your organization's information will not be individually identified in the final findings, unless you give us permission to do so. However, please understand participants and non-participants will be identified in the publicly available study. Several other non-profit organizations have already signed on and await the final report. We hope you do as well. If you have any questions or concerns please feel free to contact Dick Pieper at 414-831-2150.

To participate, please **complete** the attached **Research Participation Form** and send both it and your **current endowment policies and procedures to The Dieringer Research Group via fax or e-mail by November 8, 2006**. If you **do not currently have an endowment**, please **answer the few questions** on the form and **return** as well.

After we receive and review your organization's endowment policies/procedures, **we will schedule a follow-up interview** to discuss your organization's approach to the management of your endowment funds, the challenges your organization faces in managing your endowments, and your success stories on how you have overcome challenges in the past. This interview, conducted by a Senior Research Analyst, lasts about 30 minutes.

Sincerely,

The Dieringer Research Group, Inc.

Laura M. Cleary, Senior Research Analyst

Enclosures

Research Participation Form

1. Please review and note any changes or corrections to your contact information.

Organization Name: «Organization»

Contact Person and Title: «Salutation» «First_Name» «Last_Name», «Title»

Organization Address: «Address», «City», «State» «Zip»

Telephone: «Phone_Number»

2. Please indicate whether or not you choose to contribute to this research.

- Yes, we will contribute and I have attached my endowment policies and procedures*
- Yes, we will contribute but we do not have any formal endowment policies and procedures to share*
- No, we cannot contribute to this research as we do not have an endowment program*

→ Have you had an endowment in the past?

Yes No.....

→ If yes, what happened to the endowment? _____

- No, we choose not to contribute to this research effort*

Please tell us why: _____

3. Please attach a copy of your endowment policies and procedures to this form and forward both to:

Laura M. Cleary, Senior Research Analyst
The Dieringer Research Group, Inc.
3064 N. 78th St. Milwaukee, WI 53222-5025
Phone: 414-449-4545 x1117
Fax: 414-449-4540
e-mail: laura.cleary@thedrg.com
Website: www.thedrg.com

4. Please indicate your scheduling preference for the follow up phone interview.

- | | |
|--|------------------------------------|
| <input type="checkbox"/> Week of June 26 th | <input type="checkbox"/> Morning |
| <input type="checkbox"/> Week of July 3 rd | <input type="checkbox"/> Afternoon |
| <input type="checkbox"/> Week of July 10 th | <input type="checkbox"/> Evening |

Thank you!

Appendix B

Discussion Guideline

**Non-Profit Endowment Fund Management Practices
In-Depth Interview Discussion Guideline – Version 3**

APPOINTMENT

First Call:	Date _____	Time _____	Dispo_____
1st Callback	_____	_____	_____
2nd Callback	_____	_____	_____
3rd Callback	_____	_____	_____

APPOINTMENT INFORMATION

Recruit #:			
Date: «Appointment_Date»	Start Time: «Appointment_Time»		
	Stop Time: _____		
Interview length: _____	minutes		

RESPONDENT INFORMATION

Name: «First_Name» «Last_Name»	Title: «Title»
Company: «Organization»	
Address: «Address»	
«City», «State» «Zip»	
General Phone: «Phone_Number»	
Direct Line:	
Email:	

Additional Notes: «Additional_Comments»

Have policies? «Have_formal_policies»

Sent policies? «Sent_policies»

INTRODUCTION

Thank you for taking the time to speak with me today. As we mentioned before, we are talking to non-profit associations to discuss their endowment management policies and procedures. This is not a sales call. I am only interested in your opinions.

Before we begin, I would like your permission to tape record this interview to serve as a backup to my handwritten notes. Can I tape record this interview? _____ Yes _____
No

First I'd like to confirm some information about you and your organization.

S1. According to the information we have collected, you are the «**Title**» of «**Organization**» and are among those knowledgeable on the management of your endowment funds. Is that correct?

Yes (continue)

No (**Determine their role in process and continue if warranted.**

Else ask for referral or thank and terminate)

A. (Icebreaker) Okay, before we get into the main discussion, can you just tell me a little about your organization, such as...

- Main service provided and the audience you service
- Total number of staff employees vs. volunteer employees
- Length of time in operation?
- Length of time serving as organization's «**Title**»?
- Your role/responsibilities in the organization? Involvement in managing the endowment funds?
- Is this a paid or volunteer position? If volunteer, were you elected or recruited?

Okay, thank you for helping me become more familiar with your organization. Now let's move into the main discussion where we will be discussing the management of your endowment funds in more detail. First we will ask a few questions to profile your endowment, then talk about your endowment management practices and then we will discuss the challenges to managing and maintaining an endowment program.

1. *(If not previously provided)* Do you currently have an endowment at «**Organization**»?

- Yes1 (Skip to #2)
- No.....2 (Proceed to #1.1)

1.1. Have you had an endowment in the past?

- Yes1 (Proceed to #1.2)
- No.....2 (Skip to Closing)

1.2. What happened to your endowment funds?

- Money was spent as directed by donor1
- Other (specify) below2

1.3. For how long did you have this endowment? _____ Years

(If don't know/refused – READ LIST)

- Spent immediately as directed by donor1
- Less than 1 year2
- From 1 year to less than 2 years.....3
- From 2 years to less than 5 years4
- From 5 years to less than 10 years5
- 10 years or more.....6
- Don't know/refused7

2. In what year did the endowment program begin? _____

(If don't know/refused – READ LIST)

- 1969 or earlier1
- 1970's.....2
- 1980's (early or late?)3
- 1990's (early or late?)4
- Early this decade (2000-2003)5
- Within last few years (2004-2005)6
- This year (2006).....7
- Don't know/refused8

2.1 What are the endowments assets, approximately? _____

(If don't know/refused – READ LIST)

- Less than \$10,0001
- From \$10k to less than \$100k2
- From \$100k to less than \$500k3
- From \$500k to less than \$1m4
- \$1 million or more5
- Don't know/refused9

3. Who is responsible for managing the endowment funds and has the ultimate responsibility for how the funds are spent or how it is invested? (DO NOT READ LIST. ENTER ALL THAT APPLY)

- Board of Directors.....1
- Board of Trustees.....2
- Organization staff.....3
- Other (specify) _____4
- Don't know/Refused5

3.1. Do you allow cross-membership between the operating board and endowment trustees?

- Yes1 (Proceed to #3.2)
- No.....2 (Skip to #4)

3.2. Has this cross-membership ever caused any challenges in managing the endowment funds?

- Yes1 (Probe and clarify how)
- No.....2 (Skip to #3.3)

Please explain.

3.3. About what percent of the endowment trustees are also members of the operating board? _____ %

4. *(If not previously provided)* Do you have written policies with respect to the management of the endowment funds which outline such areas as the spending and investment policies?

- Yes1 (Skip to #5)
- No.....2 (Proceed to 4.4)

(Ask any appropriate questions/clarifications after review of policies previously provided)

4.1. *(If no written policies)* How do fund managers make decisions on investments and spending without written policies?

4.2. Has the lack of written policies ever caused any challenges in managing the endowment funds?

Yes1 (Probe and clarify how)

No.....2 (Skip to #5)

Please explain.

5. *(If not previously provided)* Does the endowment have a mission statement?

(If needed: The mission statement states the purpose of the endowment and why it exists, usually approved by the institution and trustees.)

Yes1 (Proceed to #5.1)

No.....2 (Skip to #6)

(Ask any appropriate questions/clarifications after review of policies previously provided)

5.1. If so, what is it?

6. *(If not previously provided)* Does the endowment have a spending policy?

If needed: The manner in which monies will be taken out of endowment funds)

Yes1 (Proceed to #6.1)

No.....2 (Skip to #6.1a)

(Ask any appropriate questions/clarifications after review of policies previously provided)

6.1. We would like to know about your spending policy. Can you give us a short description of your spending policy?

(Skip to #6.2)

6.1a. How do fund managers make decisions on spending without written policies?

6.1b. Has the lack of a spending policy ever caused any challenges in managing the endowment funds?

Yes1 (Probe and clarify how)

No.....2 (Skip to #6.2)

Please explain.

6.2. Is there an independent audit of the donations and spending?

- Yes1 (Proceed to #6.3)
- No.....2 (Skip to #6.5)

6.3. Who conducts the independent audit?

6.4. How often is the independent audit conducted?

- _____ times a year1
- Annually.....2
- Every other year.....3
- Other (specify) _____4
- Don't know/Refused5

(Skip to #7)

6.5. (If no independent audit) Who then reviews the donations and spending for the endowment?

6.6. Has the lack of an independent audit ever caused any challenges in managing the endowment funds?

- Yes1 (Probe and clarify how)
- No.....2 (Skip to #7)

Please explain.

7. (If not previously provided) Does the endowment have an investment policy?

- Yes1 (Proceed to #7.1)
- No.....2 (Skip to #7.1a)

(Ask any appropriate questions/clarifications after review of policies previously provided)

7.1. We would like to know about your investment policy and objectives. Can you give us a short description of your investment policy that outlines the focus, methods, and measurements used in recording the progress and returns on investment in managing the endowment funds?

- Focus (overall philosophy and goals for the endowment):
- Methods (actions to achieve endowment goals):
- Measurements (how they determine if they are achieving their goals):

(Skip to #7.2)

7.1a. (If no investment policy) How do fund managers make decisions on investments without written policies?

7.1b. Has the lack of an investment policy ever caused any challenges in managing the endowment funds?

- Yes1 (Probe and clarify how)
- No.....2 (Skip to #7.2)

Please explain.

7.2. Do you keep historical records of the endowment's average performance over time?

- Yes1 (Proceed to #7.2a)
- No.....2 (Skip to #8)
- Don't Know/Refused3

7.2a. Do you know what your average returns are for last 5, 10, 20 years?

- Yes1 (Proceed to #7.2b)
- No.....2 (Skip to #8)
- Don't Know/Refused3

7.2b. For what length of time do you have historical performance records?

(If don't know/refused – READ LIST) _____ Years

- Less than 5 years1
- From 5 to 7 years6
- From 7 to 10 years7
- Since inception.....8
- Length of time with current endowment manager.....9 (Skip to #8)
- Don't know/refused10 (Ask why?)

7.2c. Does this reflect the length of time with the current endowment manager or is it tracked since inception?

- Time with current endowment manager1
 - Since inception.....2
 - Other (specify) _____3
-

8. For your accounting purposes, are the endowment funds considered part of the organization's balance sheet?

- Yes1 (Proceed to 8a)
- No.....2 (Skip to #8.1)

8a. Within your endowment funds, what is the ratio of your restricted funds to board designated funds? (for example 90% of endowment funds are board designated)

_____ % board designated
(If don't know/refused – READ LIST)

- Less than 10% board designated.....1
- From 10% to less than 25% board designated.....2
- From 25% to less than 50% board designated.....3
- From 50% to less than 75% board designated.....4
- From 75% to less than 100% board designated.....5
- 100% board designated.....6
- Don't know/refused10 (Ask why?)

9. Do you have a separate 501.c3 for the endowment (tax-exempt non-profit status)?

- Yes1
- No.....2
- Don't know3

10.1. Are there any circumstances under which the endowment funds can be used beyond the spending policy?

- Yes1 (Proceed)
- No.....2 (Skip to #10.2)
- Don't know3 (Skip to #10.2)

10.1a. How is this done?

10.1b. Has your organization done this?

- Yes1 (Proceed)
- No.....2 (Skip to #10.2)
- Don't know3 (Skip to #10.2)

10.1c. What happened as a result?

10.2. Has the organization ever...?

a) ...borrowed funds from the endowment?

Yes.....1
No2
Don't Know/Refused.....3

b) ...used endowment funds to guarantee loans of the operating organization?

Yes.....1
No2
Don't know/Refused.....3

10.2a. (If yes to 10a) What happened as a result, for example did the organization pay the money back? How was the issue resolved?

10.2b. (If yes to 10b) What happened as a result, for example did the organization need to use endowment funds to pay back the loan? How was the issue resolved?

11. Has a resolution been passed that the organization ...

a) Cannot borrow funds from the endowment?

Yes.....1
No2
Don't Know/Refused.....3

b) Cannot use the endowment to guarantee loans of the operating organization?

Yes.....1
No2
Don't know/Refused.....3

c) Cannot use funds beyond spending policy?

Yes.....1
No2
Don't know/Refused.....3

12. (If not previously provided) Do you have an approved policy that bequests go to the endowment unless stated otherwise?

Yes.....1
No2
Don't know/Refused.....3

12.1. (If no to 12) What happens to these funds or how are they used?

- Balance the budget1
- Special project2
- Put in board des for whatever we want3
- Other _____ 4

Now let's wrap up this interview by discussing the challenges to managing an endowment program.

14. Thinking of all the areas we discussed, spending, investments, fund organization, boards/trustees etc., what do you find most challenging about managing endowment funds? "What are your pains?"

14.1. What strategies are in place, if any, to address these challenges?

14.2. If you could change one thing about your endowment program and or policies, what would you change?

14.2a. Why? How would this improve the management of the endowment?

15. That is all the specific questions I have for you today on your endowment policies. Is there anything else you would like to add or mention?

CLOSING

Now that we have gone through these questions, can I identify your individual responses when comparing them to other organizations we speak with for this research?

- Yes1
- No.....2
- Don't know/Refused3

Finally, in order for us to provide you with a summary of these results, may I please have your e-mail address? Please be assured that we will only use it for the purpose of sending the summary and will not share or re-use this email.

e-mail _____

Thank you for your time today.