

Donor's Guide to Endowments

Endowment Philosophy & Assumptions

Southeastern manages its endowed funds with two primary objectives in mind. First, we seek to manage the endowment so that the endowed fund accomplishes the donor's objective. For endowed funds, we strive to manage the endowment in such a way that there are not dramatic swings in the amount of draw available for distribution in any given year. Second, we try to build the principal value of the endowed accounts to provide a hedge against typical inflationary pressures in our economy. We want the scholarships (or professorship, program, etc.) made available from a \$1 million endowment funded today to have the same purchasing power 50 years from now.

To summarize, we focus on ensuring funds are available to support the purpose of every endowed account and on meeting or beating inflation over the long term. To meet these objectives, our goal is to average a total net return of 8 percent annually over the longer-term (20-year horizon) with 5 percent being available for award and 3 percent being re-invested as an inflationary hedge.

Process

As with most endowments supporting non-profits, the basic philosophy and assumptions undergirding the ongoing administration of the endowment are straightforward. However, the process by which the aforementioned strategic objectives are achieved proves a bit more complex. We live in a fallen world where markets are sometimes characterized by dramatic swings and are at other times stuck in neutral.

We seek to reduce the impact of short-term market fluctuations on our endowment while concurrently fulfilling our fiduciary responsibility to make annual distributions from the endowed funds. To achieve these outcomes, we employ the process highlighted below.

To calculate the annual draw available for distribution, we:

- 1) Calculate the average of the ending market values of the portion of the endowment we manage for the three most-recently completed fiscal years (e.g. our draw for the 2010 fiscal year is based on the average of the ending values as of July 31st 2007, 2008 and 2009);
- 2) Multiply the above average market value by .05 to get our total draw for the current fiscal year;
- 3) Then, we use the ending market value of each fund as of July 31st and prorate the 5 percent draw on the endowment pool across each endowed fund; the distribution is prorated based on the fund's share of the endowment pool (e.g. the fund's balance, as of July 31, 2009, is used to calculate the amount released from the fund to be available for spending in fiscal year 2010).
- 4) Finally, we take the amount determined in step three and divide by four for distribution at the end of each of our quarters (i.e. 10/31, 1/31, 4/30, and 7/31).

A Note on the Short-Term

Because endowed funds do not receive a share of the draw for distribution until they have been vested for a year, an endowed fund will not have an associated distribution during its first year. Some donors wish to have a distribution in the first year of their charitable donation. This goal may be achieved by increasing the initial gift.

For example, a donor wishing to create a \$1 million scholarship endowment that would have funds available for distribution in its first year may make a gift in the amount of \$1,025,000 with the understanding that \$25,000 would be awarded as scholarships in the first year.

Projected, Long-Term Outcomes

Following the assumptions and process noted above, a \$1 million endowed fund should produce around \$50,000 each year in spendable distribution within three years. At the 10-year mark, it should produce around \$70,000 annually and be valued at approximately \$1.4 million

Investment Consultant and Investment Managers

Southeastern’s investment consultant is associated with CapTrust Financial Advisors (www.captrustadvisors.com). Their Raleigh office is located at 8816 Six Forks Road, Suite 301, Raleigh, NC 27615. CapTrust was retained by our governing Board for several reasons.

First, they serve as an objective third-party advisor and make recommendations pertaining to investment and allocation decisions.

Second, CapTrust assists in the process of screening for Biblically Responsible Investments. They use The Biblically Responsible Investing Institute (BRII) to screen for investments that do not violate our donor’s expectations with respect to issues such as alcohol, abortion, anti-family issues, bioethics, gambling, homosexuality, human rights, tobacco, and pornography.

Third, CapTrust assists with the implementation, review, and monitoring of Southeastern’s formal investment policy and offers advice that is consistent with the policy’s stated objectives.

Finally, CapTrust conducts investment manager searches and fee negotiations as requested by the Board of Trustees and then monitors and evaluates the performance of the investment managers. Criteria for the selection and evaluation of fund managers are defined in the formal investment policy.

Asset Allocation Range, Targets, & Benchmark Indices

Asset Class	Assigned Benchmark	Minimum	Target	Maximum
US Large Cap Equities	S&P 500 Index	13.0%	19.0%	25.0%
US Small to Mid Cap Equities	Russell 2500 Index	6.0%	10.0%	13.0%
International Equities	MSCI EAFE Index	14.0%	20.0%	23.0%
Core Fixed Income	Barclays Capital Aggregate Bond Index	33.0%	38.0%	48.0%
Commodities	Barclays Capital UBS Commodities Index	3.0%	5.0%	8.0%
Public Real Estate	Dow Jones Wilshire REIT Index	0.0%	3.0%	5.0%
Inflation Bonds	Merrill Lynch Inflation Linked Treasury Index	3.0%	5.0%	8.0%
Cash	ML 3 Month T-Bill	0.0%	0.0%	5.0%
			100.0%	



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