UMF Underwater Fund Talking Points

In conjunction with the UMF/MMF merger, management agreed to adopt UMF’s Underwater Fund policy for permanent endowments. UMF also agreed to engage in a comprehensive assessment and policy transition planning process to avoid disruptive changes in funding levels. UMF’s underwater policy is effective July 1, 2013. However, exceptions may be requested on a fund by fund basis. UMF will provide assistance to develop alternate transition plans.

Underwater Fund Policy

- A fund is underwater when the fund principal falls below the original gift value.
- UMF will suspend payout for one quarter when a fund reaches:
  - 20% underwater for non-match funds.
  - 25% underwater for scholarship/fellowship match program.
- Scholarship/fellowship match funds with suspended payout are subject to forfeiture of match dollars equal to the amount suspended. The U of M has agreed to reinstate matches when units demonstrate that alternative resources have been identified.

Underwater Fund Process

- UMF will prepare and distribute underwater fund reports for all permanent endowments for the quarters ended 9/30, 12/31, 3/31 and 6/30.
- Underwater status at 9/30 will determine payout suspension for Oct – Dec, and so forth.
- Spending of the ‘Available’ balance is allowed and encouraged.
- In cases where a scholarship/fellowship match fund is suspended but the unit has identified alternative resources to replace the amount suspended, these plans should be communicated to UMF. UMF will be responsible for tracking action plans centrally and ensure the correct match amounts are awarded.

Guidance for Underwater Fund Review

1. Utilize unspent ‘Available’ reserves to make expenditures while payout is suspended.
2. Identify other discretionary resources to bridge suspension periods.
3. Evaluate the possibility of reinvesting surplus unspent Available funds into Principal.
4. Pursue opportunities to convert to quasi endowment status (donor approval required).
5. Coordinate with Development to work with donor to consider new gifts to bridge payout suspension.
6. Work with Development to launch fundraising efforts for programs impacted by payout suspension.
7. Request exception to UMF’s underwater policy for specific funds and develop a gradual transition plan.
8. Work with UMF to discuss alternative funding options on a case-by-case basis.