ST. PAUL'S ENDOWMENT FUND, INC.
OVERVIEW

What is an endowment?

An endowment is a donation of money or property to, or for the benefit of, a nonprofit or charitable organization to support the purposes for which it was established. Income from the resulting investments may be used as outlined in its governing documents, which may specify or "restrict" the purposes for which such income can be used. Typically, endowments are designed to preserve and enhance the original assets (often referred to its "corpus") in perpetuity while using the investment income to provide current support.

The documents establishing an endowment may direct that it be managed by a board of directors that has a fiduciary responsibility to ensure that funds are protected, used in a manner consistent with the endowment's stated purpose, and in compliance with the law.

What is the purpose of the St. Paul's Endowment?

The St. Paul's Endowment Fund, Inc. (the "Endowment") was established in 1905 in anticipation of St. Paul's future needs. At that time, the leadership of St. Paul's foresaw a membership decline, in both number and in affluence, as the business district displaced downtown residences. The Endowment was to be maintained in perpetuity. Initially, the intent was to use Endowment income to maintain the building, contents and property as needed. In later years distributions were approved for program, outreach and budgetary needs on a case by case basis. Subsequently, distributions from the Endowment became more formulaic as described below.

What is the role of the St. Paul's Endowment Board?

The Endowment is a separate and distinct nonprofit corporation with its own Articles of Incorporation. As such, the Endowment is governed by an independent board of directors (the "Directors"), all of whom must be members of St. Paul's. Directors are elected by a majority vote of the current directors of the corporation and include the then serving Senior Warden and the Junior Warden of St. Paul's vestry (the "Vestry"). The Directors are responsible for preserving and enhancing the value of the Endowment corpus and therefore oversee the investment of the Endowment and approve any distributions made therefrom.

How is the Endowment payout determined?

In 1989, the Endowment funding (annual payout to St. Paul's) policy was simplified to allow for a steady 5% of the value of the Endowment (as of the preceding year end) to be available to St. Paul's. At that time, returns on the Endowment were 12-14%, an amount well in excess of what was needed to cover both spending needs and to preserve and enhance the corpus.

Over the years, additional changes have been made to the payout calculation method. These changes have resulted in a more predictable level of annual funding to St. Paul's, which helps St. Paul's with its planning and budgeting. It has also enabled the Directors to develop the most prudent investment policy and long term strategy for the Endowment.

In anticipation of lower investment returns, the Directors reduced the payout rate from 5% to 4.5% in 2007. This proved to be a most prudent decision with the advent of the Great Recession in 2008.

Why has the payout been reduced?

The Directors have a fiduciary responsibility to protect the value of the Endowment and therefore must ensure that payout rate does not erode its corpus. The Endowment does not receive any new gifts, and so the payout can come only from investment returns.

About two years ago, the Directors were advised by the Endowment's investment advisors that the current 4.5% payout rate is too high given the expectation of lower investment returns in the coming years. To protect the value of the Endowment it was recommended that the payout be reduced to 4%. The Directors studied the recommendation at length, compared it to the practices of other comparable endowments and discussed it with the Vestry. In July 2020, the Directors voted to reduce the payout rate from 4.5% to 4%.

Because this reduction will have a significant impact on St. Paul's budget, the Directors agreed to allow a.1% reduction in the payout per year for the next five years until the 4% level is met. This will allow time for St. Paul's to bolster revenue sources and fund raising to meet its ongoing annual obligations.