



Endowment Policies Permanently Restricted Funds

Martin Memorial Foundation, Inc. (hereinafter “the Foundation”) Endowment Funds provide annual distributions to support a range of programs and activities within Martin Memorial Health System’s (hereinafter “MMHS”) mission of patient care, education and research. It is the hope that Endowment funds will grow at least at the rate of inflation to provide distributions that can buy approximately the same amount of goods and services in 50 years that can be bought today.

In recognition of its fiduciary responsibility, the Board of Directors of Martin Memorial Foundation, Inc. (hereinafter “the Board”) has adopted the following policies pertinent to the operation of the Endowment established by the Foundation.

1. Allocation of Assets to the Endowment by the Board:

The Board may allocate any unrestricted gifts, bequests, or other assets to the Endowment. Distributions attributable to such principal allocate to the Endowment by the Board shall be used for such purposes as the Board from time to time shall decide. The Board also reserves the right to invade this principal and use it for special needs, although the expectation is that this principal will be set aside as long-term resource.

2. Minimum Gifts for Named Endowed Funds:

The minimum for each named fund is \$50,000 within a five-year period. Donors or others may add any amount to a named endowed fund at any time. No distributions are made until the fund has reached \$50,000. The Board may, in special circumstances, make exceptions. A named endowed fund for a more specific purpose, negotiated between the donor and the Vice President of the Foundation, may be established subject to the approval of the Board. Endowment principal deriving from gift that donors have specifically designated for the Endowment may only be invaded pursuant to the Spending Policy for the Endowment.

3. Execution of Named Endowment Fund Agreements:

A named endowed fund can be established either through a lifetime gift or by bequest. When a fund is created through a lifetime gift, the donor, the Chairman of the Foundation and the President and CEO of the MMHS shall sign an agreement that sets forth the terms of the fund and that indicates that the fund shall be governed by the Foundation’s Endowment policies as they may exist from time to time. The agreement shall outline the amount of the transfer, the background of the gift and the purposes for which the distributions are to be used. When the donor executes a will or living trust agreement containing language directing that a named endowed fund be established, no other documentation is required. Nevertheless, the donor will be encouraged to execute a named endowed fund agreement, in addition to the will or the living trust agreement. In the absence of a named endowed fund agreement, if the will or living trust agreement specifies terms of the fund that are contrary to the Foundation’s Endowment policies, the specified terms must govern if the Foundation agrees to accept the gift. Twenty percent (20%) of each donor’s endowed gift will be allocated to a reserve (temporarily restricted) fund to provide an amount available for distribution each year regardless of market conditions.

4. Spending Policy:

The spending policy expressed as a percentage of market value of the Endowment, shall be determined on a year-to-year basis by the Board. The Foundation's current spending policy is 3% to 5%, but the Board may increase or decrease that percentage amount. In recommending a spending policy for a given fiscal year, the Board shall act in a good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall take into consideration, if relevant, the following factors:

- the duration and preservation of the Endowment;
- the purpose of the Foundation and the Endowment;
- general economic conditions;
- the possible effects of inflation or deflation;
- the expected total return from income and the appreciation of investments;
- other resources of the Foundation; and
- the Foundation's investment policy.

Distribution from each named fund in the Endowment shall be made during the second quarter after the close of each fiscal year (9/30). The first distribution from a named endowed fund shall be on a pro rata basis no later than the second quarter after the close of the fiscal year in which the fund was established or sooner with the Board's approval. At year end any unused distribution may be reinvested in an individual fund's permanently restricted account.

NOTE: Another Distribution Option to consider for the future: "The amount of each distribution shall equal the average market value of the portfolio over the immediately preceding sixteen (or twelve quarters) times the spending rate determined of the year."

5. Loans from Endowment:

The Foundation Board may authorize a loan from the corpus of the Endowment to MMHS under the following conditions:

- The loan must be for a capital purpose that will produce enough income or cost saving to repay the loan within no more than seven years.
- The loan must be evidenced by a note bearing interest at a rate higher than the average rate return of certificate of deposit (or similar financial instruments) that held by the Foundation, but less than the prime rate charged by the bank to the Foundation.
- Repayment of principal and interest will be made in equal quarterly installments.
- The loan must be approved by a majority vote of the Foundation Board of Directors and the MMHS Board of Directors.

6. General Investment Policy and Responsibility for Carrying it Out:

The investment policy of the Foundation is to enhance the value of the Endowment portfolio in order to provide a dependable, growing source of money that will be used to support various programs of MMHS and the Foundation. To enhance return and reduce risk, the portfolio shall be composed of diversified assets, including both equities and fixed-income investments. The equities are intended to provide current income, growth of income, and appreciation of principal. The fixed-income investments are intended to provide a predictable and reliable source of interest income while reducing the volatility of the portfolio.

In fulfilling this policy, the Foundation Board shall receive reports from the MMHS Investment Committee which is responsible for managing and investing each individual asset of the Endowment, not in isolation, but rather in the context of the Endowment's portfolio of investments as a whole and as a part of an overall investment strategy having risk and return objective reasonably suited to the Endowment and to the Foundation, In addition, each person responsible for managing and investing the assets of the Endowment shall fulfill such responsibility in good faith with the care an ordinarily prudent person in a like position would exercise under similar circumstances, Moreover, a person that has special skills or expertise, or is selected in reliance upon the person's representation that that person has special skill or expertise has a duty to use those skills or that expertise in managing and investing the assets of the Endowment. As used in this paragraph the word "person" means an individual, corporation, business trust, estate, trust, partnership, limited liability company, association, joint venture, public corporation government or governmental subdivision, agency, instrumentality, or any other legal or commercial entity.

7. Investment Objectives:

The investment objectives for the Endowment are to manage contributions in a manner that will produce current income to support various programs of the Foundation, thereby maximizing the benefits intended by donors, and to achieve growth of both principal value and income over time sufficient to preserve or increase the purchasing power of the assets of the Endowment, thereby protecting those assets against inflation to the extent possible.

Total return shall be the method for measuring the performance of the Endowment. This refers to the combination of income (interest and dividend) and appreciation/depreciation (realized and unrealized) in the fund's value for a certain period of time, The specific financial objective is for total return, less expenses and distributions of income, to equal or exceed the general Consumer Price Index (CPI) for that period. Achievement of this objective will result in real growth in the value of the Endowment. Although real growth will not be attained every year due to market fluctuations, it is expected to be attained over a period of time. The targeted net annual total return of the Endowment is at least 5-6%.

8. Investment Management:

In managing and investing the assets of the Endowment, the Foundation shall consider the charitable purposes of the Foundation and of the Endowment. In so doing, the Foundation may incur only costs that are appropriate and reasonable in relation to the assets, the purposes of the Foundation, and the skills available to the Foundation, although in any event the Foundation may assess the Endowment and annual administrative fee of not more than one percent of the fair market value of the assets of the Endowment at the end of a fiscal year, plus the Endowment may pay for costs incurred by the Foundation in accepting and transferring property of the Foundation for the Endowment. Also, the Foundation shall make a reasonable effort to verify facts relevant to the management of the Endowment.

The following factor, if relevant, must be considered by the Foundation in managing and investing the assets of the Endowment:

- general economic conditions;
- the possible effect of inflation or deflation;
- the expected tax consequences, if any, of investment decisions or strategies;

- the role that each investment course of action plays within the overall investment portfolio of the Endowment;
- the expected total return from income and the appreciation of investments;
- other resources of the Foundation;
- the Foundation's investment policy;
- the needs of the Foundation and of the Endowment to make distributions and to preserve principal; and
- an asset's special relationship or special value, if any, to the charitable purposes of the Foundation.

9. Current Investments:

Endowed funds are pooled with other MMHS/Foundation investments which totaled \$83,300,000 on September 30, 2008. The MMHS Investment Committee sets (and the Foundation Board approves) the investment and assets allocation policy which is currently approximately 50% equities, 50% fixed income and cash. Depending on market conditions the assets allocation may be adjusted to maximize investment return and minimize risk according to the Investment policies. *(The detailed MMHS/Foundation Investment Policies are available through the MMHS Investment Committee).*

10. Amendments:

These policies may be amended by the Board at any time, in a manner consistent with the Foundation's By Laws.

These Endowment (Permanently Restricted) Policies were originally presented to the Executive Committee of the Board on January 11, 2006. This revision includes the suggested changes made at that time and updated language for FY 2010.

This policy was approved at the December 17, 2009 meeting of the Board and applies to all existing endowed funds.