



Endowment Strategies, Inc.

WHITE PAPER

**BUILDING AN ENDOWMENT IN TOUGH TIMES...  
AND THEY'RE ALL TOUGH TIMES!**

“We need a larger endowment” is one of the most common phrases heard in finance committee meetings—and sometimes at full board meetings—at independent schools with small endowments. When push comes to shove, however, strategies that could help to produce a growing endowment receive markedly less attention than strategies to increase enrollment, balance the budget, increase professional development...you name it. Why is endowment growth always placed on the back burner?

The state of the current economy is no excuse. If anything, contrarian thinking should be guiding trustees: schools with small endowments should be increasing their investments in endowment in order to take advantage of the growth that will come, even if we cannot prognosticate exactly when that will be. Practice makes perfect, and if schools can't get in the habit of practicing the pursuit of endowment funds, then their desire to have a larger endowment will remain unfulfilled.

In the end, it comes down to stewardship and the ability to see beyond the present moment; it's what some economists call a “low time preference.” In other words, trustees must focus more on the long-term health of the institution through the promotion of policies that are future-oriented rather than reactive to a present situation. Indeed, we must suppress reactionary impulses, despite the compelling case they present. How will your school's endowment look in 25 years? 50 years? 100 years?

Establishment of thoughtful, low time-preference policies will result in significant endowment growth over time. And *time* is what we're talking about. There is no magic bullet that will grow your endowment overnight from \$400,000 to \$14 million. You get there by means of hard choices and hard work. Boards could make endowment growth a priority by starting with one simple directive: designate 10% to 25% of your Annual Fund as endowment dollars, and follow that formula religiously every year. Such a designation makes a profound statement to your school community, and, in time, you will have an endowment that provides your school with more meaningful support.

### **Sample – Independent School Academy**

ISA has an endowment of \$500,000, as well as an Annual Fund that brings in \$250,000. Let us assume the following:

- 6% per annum rate of return
- 3% annual inflation<sup>1</sup>
- 25% of Annual Fund goal added to endowment corpus per annum

The result? After only five years of adhering to this discipline, the value of the endowment would stand at just over \$800,000 – and that's not counting on the arrival of any estate gifts, establishment of scholarship funds, and the like. All that ISA has done is to rigorously follow a prescribed formula with minimal impact.

When faced with whether to grow the endowment, most trustees point to pressing, immediate needs of the school. It is tough to build an endowment – and all times are tough. It's time for the tough to get going!

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<sup>1</sup> See our white paper, “Deleterious Effects of Inflation on Endowments”, for insights on how to allow for inflation with greater accuracy.