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## In this issue:

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## Is an Endowment Wrong for Catholic Institutions?

By *Carlos R. de Quesada*

Is creating an endowment(1) wrong philosophically, conceptually or practically for a Catholic institution? In this article, I will provide some limited background on opposing views and their rationale and argue that it is well within Christian principles, and in keeping with mission fulfillment, sound operating practices and good stewardship, to establish a foundation (or an endowment).

Catholic thinking on the use of economic or temporal resources is greatly influenced (as it should be) by religious order (monastic and otherwise) traditions. When St. Ignatius of Loyola searched for God's will in the founding of the Jesuit Order, he delved into and prayed about the practical aspects of the new organization and considered the relative benefits of "Radical" versus "Mitigated" poverty. Following centuries of Church tradition which had seen the rise of mendicant orders, the sustenance and mission support for the formative Society of Jesus was more than an academic question needing to be resolved for the Order's Constitutions. St. Ignatius very objectively listed the pros and cons of each direction and came to the following observations: mitigated poverty would enable a greater focus on prayer, preaching and other apostolic work, while radical poverty would force the Order to more readily acknowledge and trust in God's provision in a daily, direct manner, enhance humility and help foster a direct imitation of Christ's material poverty that would set an example.

More contemporarily, I recently had some dealings with a very accomplished, financially savvy, devout, for-profit, Catholic business owner. This faithful businessman believed that the typical Catholic institution's annual appeals and constant need to fund raise was healthy in keeping the leadership and organization humble ("begging", as he put it, helps promote humility). While there may be salutary effects of this modus operandi, and it is, more often than not, the Not for Profit (NFP)/Catholic default(2) MO, one should consider the benefits of

revamping this mindset in the context of an equally valid, faith-based concept that offers a different approach: the establishment of a foundation to ensure and perpetuate mission fulfillment.

Why would a Catholic institution(3) that is legally deemed a not-for-profit entity and is not intended to accumulate wealth or produce profits consider establishing a foundation or endowment? There are four primary reasons that will be put forth, in order of priority:

1. **Mission fulfillment.** Sets a framework that focuses on organizational objectives and the use of temporal resources in fulfillment of the mission.
2. **Avoidance of continually acting in a 'crisis' mode** that is deleterious to mission fulfillment, the underlying organization and its staff.
3. **Promotes prudent financial management.** This concept builds on fundamental stewardship principles of increasing and looking after goods God has given or entrusted to us.
4. **Financial/Legal/Operational.** Financially, an organization should be developing plans to meet known, upcoming or projected liabilities. Legally, a foundation helps to separate funds designated (e.g. by the donor) or destined (e.g. by the bishop) for a specific purpose, while protecting those assets. Operationally, the segregation of funds helps establish the programmatic use or budgeting of these endowed funds.

With Pentecost fresh in our minds, we are reminded that the birth of the Christian Church and its theological mandate to make disciples of all nations (Matthew 28:19), required logistical organization and material support. While it is true that the disciples were told to go as they were, we know that an apostolic lineage was created, with the attendant organizational challenges for

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meeting the practical needs of the new Christian community (Acts 4:32-35). The parable of the Talents (Luke 19:11-27) is a well-known instance where we are asked to be good stewards and return, with increase, what the Lord has given us. But without discussing the need for 'investing' or using one's talents, we should bear in mind that God really does not need us at all, but rather He is providing us opportunities to grow in faith and trust in His providence. In other words, yes, God will provide, but He expects us to cooperate with, be active and play a role in His salvific plan.

An endowment allows for the essential mission to be met by forgoing consumption today for anticipated, projected or future needs. "If the Vatican sold all its 'treasures' it could feed the poor of the world," is a common refrain. Yes, it has some immediate truth to it, but what happens after, presumably, the 'poor are fed'? Who decides on the definition of "poor"(4), which parts of the world are to be fed and for how long? An endowment, by investing the corpus (the initial investment sum), helps provide 'meals,' as the case may be, or mission fulfillment long after the donor makes the initial gift. Properly managed, the endowment can theoretically last into perpetuity. How much good can that do, not just for today but for tomorrow and beyond!

Often times, major donors and corporate benefactors will be much more generous knowing that there is a formal investment and programmatic plan in place versus responding to an episodic fund-raising need. Seeing an established program devoted to carrying out their intentions long beyond their lifetime provides comfort that their giving is making a difference. So, on another level, an endowment is beneficial in creating a plan and forcing the implementation of processes and disciplines that many NFP entities overlook or dismiss.

A perennial crisis-driven way of functioning is not healthy for the organizational mission, clients, employees, donors or volunteers.

Seldom does a foundation meet 100% of the financial needs of the underlying entity, but it does usually provide for a certain predictable stream of revenues. For example, if a foundation is seeded with a \$20 million corpus and has an annual spending policy of the typical 5.0%, then staff can count on \$1 million per year and know which programs and administrative overheads can be covered and how much additional fund-raising remains to be accomplished. In setting-up a foundation, the leadership is laying the groundwork for a more methodical, deliberate form of operation. Planning and budgeting is now a more meaningful exercise that is to be adhered to and improved upon.

Christian principles of good stewardship involve returning with increase and ensuring prudent, responsible use of resources. In pursuing an endowment approach, one need only note the results of many university endowments(5) that have consistently bested market returns by investing in a broader, more diversified investable universe. The never-ending search for yields and returns continues to be challenging as fixed income returns and overall interest rates remain relatively low compared to historical trends. Few investors can keep up with inflation and the needs of a growing constituency by investing in "risk-less" U.S. Treasury 10 year bonds at (or below) 3.0%. An endowment allows Catholic institutions to approach their investment portfolio more thoughtfully, judiciously considering their liquidity needs and allocating to additional asset classes that can actually reduce the volatility of the overall portfolio. Responsibly looking after and investing endowment funds can help develop "intergenerational equity" that will sustain the organizational mission despite changes in continued donor support and in the operating environment. This long-term development of patrimony is not intended to serve as a material anchor that creates a spiritually deleterious attachment. This intergenerational *can* serve to maintain St. Peter's Basilica, for example, for the praise and glory of God for many future

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generations.

University and other NFP endowments do not attempt to drive donor engagement by asking to support a noble but financially struggling cause, but rather by presenting a viable case-for-support that is transparent, forward-looking and tangibly makes an impact to the organizational mission. While some aspects have to be tailored to a faith-based organization, there are lessons to be learned from their experience. Attracting top staff is one positive (possible) outcome of using endowments as an organizational tool. One smaller, Catholic university recently endowed a teaching chair and was able to attract a highly acclaimed professor that otherwise may not have accepted the offer from a smaller higher education institution.

Another aspect of the sound financial management that an endowment can help foster (although somewhat different from the returns and investment horizon advantages noted above) is the development of asset-liability matching programs. Simply put, this means that the investment or asset side of the organizational balance sheet is organized so as to be responsive to the liability side of the balance sheet. Concretely, assets are invested by the foundation to anticipate, say, the maturity of debt or pension fund obligations or periodic lawsuit settlement payments.

Some critics of building an endowment by Catholic institutions believe it will make the organization and/or leadership complacent. In relying on the endowment and not its constituents for support, there is a danger that the connection with the Body of Christ can become severed as the organization does not need the support of the laity. While this is a risk for any organization, the responsibility for maintaining organizational

focus is a managerial and governance issue that depends on hiring the right team and recruiting the proper Board. Studies have shown that building safer cars actually makes drivers more complacent in their driving habits, but the answer is not to remove the air bags but rather to put in place structure in the form of laws and education that seek to remedy the issue. If the right personality and competency profile of person is attracted to and retained by the organization, complacency will not set in. In addition, a mission focus which continues to seek to draw as many of the laity into their mission will avoid this complacency which ultimately can lead to the organization becoming insulated and insular instead of outward focused and mission oriented.

From a legal perspective, there is a trend(6) for Catholic dioceses to establish foundations. Despite being driven by more legal considerations of asset protection, compliance with donor intent, and governance, this trend seems to be accelerating and is complementary to many of the financial and other mission fulfillment points noted.

In conclusion, while it may not be a solution for all instances or all organizations, and there are legitimate counterpoints, creating an endowment can be used by Catholic institutions looking beyond the immediate time frame and beyond the role or impact of any single individual. Establishing a foundation or endowment can yield many benefits that range from sharpening focus on the mission, to helping ensure operational or programmatic sustainability to offering a formal legal vehicle that, when professionally and properly managed, can help us (individually and corporately) to give our best for God and neighbor.

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(1) While there may be legal and practical nuances, the use of the terms "Endowment" and "Foundation" will be used interchangeably in this article.

(2) Here a distinction is drawn between a conscious, informed choice to operate an organization in this manner, as opposed to functioning this way circumstantially due to lack of organizational clarity, poor decision-making or inaction.

(3) The institution can take the form of a diocese, religious order, high school, cemetery, hospital, university, foundation, etc.

(4) Without entering into Scriptural interpretation, much has been written on the "Poverty of Spirit". A temporally wealthy person can be spiritually bankrupt and desperately require pastoral care. One's attitude toward material wealth is more spiritually important than actually having wealth or not.

(5) For example, using FYE 2009 results (and without including the 2010 investment return recovery) Yale's endowment was down 24.6% for that (2009) fiscal year, but had a 10 year, 11.8% average return.

(6) A more thorough treatment of this legal trend is beyond the scope of this article.

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