ST. MARY'S OF MELROSE EDUCATION ENDOWMENT FUND
DISTRIBUTION PROVISIONS POLICY

SECTION 1. PURPOSE

This Policy is intended to provide guidelines for the Endowment Committee when discussing, and considering making distributions from the St. Mary's of Melrose Education Endowment Fund (Fund). The following points should be considered:

- According to the By-laws of the Fund, the Endowment Committee is not allowed to distribute funds that would cause the fund balance to fall below the value of the original principal (total contributions received). The Endowment Committee shall not be allowed to distribute the principal funds.
- Any Fund distributions are optional. The Endowment Committee is not required to distribute funds from the Fund.

SECTION 2. GUIDELINES

Guidelines to take into consideration when discussing distributions include, but are not limited to:

- Limiting the distribution amount at 4.0% to 5.0% of the year end (3 years) rolling average market value of all endowment investment balances.
- Investing a portion of the funds in Certificates of Deposit (CDs) with staggered maturities and values to correspond with potential future distribution dates. (For example, if a distribution of $25,000 might be approved in 24 months, invest $25,000 in a CD that matures in 24 months.)
- Understanding that there is a difference between individual bonds paying dividends, bond EFTs (Electronic Traded Fund) or mutual funds, and CDs paying interest, which in brief are:
  - An individual bond will return its full amount when it matures; however, the market value can fluctuate in the interim. The strength and guarantee of that bond is tied to the corporation or institution that is backing it up. If the corporation goes bankrupt, then the Endowment Fund might not get all of its money back from that bond.
  - A bond ETF or a bond mutual fund will usually hold a group of individual bonds, many times between 50-200 bonds. If one bond would default, the overall risk is diversified since there are many bonds in the entire investment. However, the group of bonds never has a maturity date for the entire group. As a bond matures, the manager of that investment will usually purchase another bond. Also, the dividends will be an average rate of the entire group.
  - The value of a CD will remain the same during its term with a possible charge, if it were to be cashed in before the maturity date.

The principal portion of the Fund is considered to be the total of all contributions received from donations since the Fund was created. The amount of and history of these contributions is maintained by the Committee's Treasurer.

The definition of “gain” for the Fund is the difference between the current market value and the original principal portion as defined above. Since a portion of the Fund is held in non-guaranteed investments, such as mutual funds or other equities, the value of the “gain” will fluctuate. In fact, depending on investment conditions, the market value could fall below the original principal portion of the Fund. The Endowment Committee is encouraged to take preventative action, if they suspect this condition could happen. (For example, if the market value falls to within 1-3% above the original principal amount, the Endowment Committee may wish to consider repositioning part of the equity investments to a more secure position, or they may decide not to make any distributions for a certain period of time until the value increases.)

Another dilemma would occur, if the value of the Fund decreased below the original principal amount after a distribution had been approved by the Endowment Committee; but, before the distribution was paid. In keeping with Fund By-laws and Policies, the Endowment Committee would be obligated to cancel the distribution. The Endowment Committee is encouraged to include an escape clause or revoke option for each approved distribution in the event that this situation occurs.

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