

## **GUARDIAN TRUST EXPLAINS THE ROLE OF THE ENDOWMENT FUND FOR CHARITY**

### **What is an endowment fund?**

An endowment fund is an investment fund established by an organisation to assist with long-term funding. The fund's investment income may be used for operational expenses, including general purposes (such as salaries, overheads, and operating costs), or for specified purposes such as capital expenditures. Endowment funds are often used by universities, private schools, museums, hospitals, churches, foundations and non-profit organizations.

### **How do endowment funds receive their funding?**

Fundraising for an endowment fund can be done through a bequest (wills) programme, applications for charitable grants, or general fundraising, to give some examples. One effective model is for a good, experienced fundraiser working within an organization with the specific task of setting up an endowment fund programme.

### **How are they useful to charities?**

They can support sustainability for the organization so it can concentrate on its core purpose; help them weather recession; offer certainty that they won't have to close their doors at any point because of financial instability; and provide a margin of security so the organization can direct the time and energy of staff to productive endeavours.

### **What is the benefit to donors?**

There may be a tax exemption for donors if the endowment fund is for a registered charitable trust. The other benefit is that donors typically want to support a cause dear to their heart, and this enables them to satisfy that desire – with the knowledge that what they have given will continue to support that cause indefinitely, both during and after their lifetime.

### **What is the difference between an endowment fund and a charitable trust?**

Both are charitable – however, an endowment fund is set up for a specific organisation and therefore has what is called a narrow interest, while a trust can have a wide interest. Wide discretion trusts support general activity in New Zealand, while an endowment fund will typically support a particular institution. As a result, endowment funds are comparatively easy to manage, and in fact, the most difficult aspect is the initial set-up of the fund, the development of the trust deed, and the establishment of agreement between all parties.

### **How does trusteeship of an endowment fund differ from that of a trust?**

The role of trustee does not differ, however the Forest and Bird endowment operates with an Advisory Board which has more people, with a wider skill base, than a trust would typically have.

### **What are the rules around how the investment income is used?**

Generally, the decisions about purpose will be made by the organisation's trust board, which will work with a trust company or trustees offering guidance and support. The Forest & Bird Endowment Fund operates with its own Advisory Board, independent of the organisation. Forest & Bird may add and remove Advisory trustees from the Board. The Advisory Board knows what is required, and Guardian Trust, as the trustee, knows how to achieve that within the specific purposes of the trust deed – the fund cannot work outside the legal scope of the trust deed.

### **Can donations be made over time, ie in the months or years after the establishment of the fund?**

Anyone who wants to contribute to the Forest & Bird Endowment Fund may do so at any time.

### **What should institutions wanting to establish an endowment fund look for from a trustee or trustee company?**

Reputation, history, a good track record of successful endowments, and demonstrated ability to establish long-term, beneficial working relationships.

**How widely are endowment funds used in New Zealand?**

They are on the increase. The Charities Commission is raising the sector's profile, and its new systems enhance transparency and accountability for donors. Organisations have been hurt financially by the recession and are thus becoming more assertive about sustainability, with demand for endowment funds growing as a result.

**Why has their establishment not been more common up to this point?**

A combination of a lack of awareness and institutions not seeing a need. The recession, and promotion by people within the sector, has increased their attractiveness.

**Can the establishment of an endowment fund affect the amount of funding a public body (like a museum, hospital, or foundation that has a public benefit) receives from other sources, such as the government?**

A separate trust deed is developed for an endowment fund, and that is where the capital value of the endowment is reported annually, not on the balance sheet of the organisation.

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## **About Guardian Trust**

Guardian Trust has been serving New Zealanders for 127 years and is a market leader in trust & estates and wealth management. It is one of New Zealand's foremost trustee companies in asset management and protection, providing wide-ranging advice and expertise in areas including estate planning and administration, financial planning, and personal and corporate trusts.

Guardian Trust currently administers over 450 charitable trusts that collectively provide in excess of \$26 million in funding every year. In real terms, Guardian Trust has distributed grants on behalf of its clients to more than 530 charities across the country in the last three years alone.

At the heart of its philanthropic work is the 'Knowledge Base', Guardian Trust's proprietary tool for helping to match existing and would-be philanthropists with charities that match their particular area of interest, ranging from the environment to medical research, the arts, humanitarian causes, sports and recreational pursuits or any other charitable cause. The Knowledge Base is designed to help philanthropists access more in-depth information to support their funding choices, and to provide charities with access to another avenue of possible funding.