Endowments for Islamic Schools:
Enhancing our Mission and Solidifying our Institutions

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Presented at the ISNA Education Forum
April 2012 (Chicago, IL.)

Note: The concepts presented herein apply to other Islamic organizations as well

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Endowments and Rise and Fall of Civilizations

History of Waqf in classic Islamic societies
  The Influence of Waqf on Trust Law in England
  The Jerusalem Waqf

Basics
  Islamic definitions
  A distinction between endowments and Awqaf
  Regulation

Rationale for establishing an endowment
How to start an endowment
When to start an endowment
Endowment Caveats

S.M.A.R.T. Vision for an Endowment campaign
  Branding an Endowment
  Endowment Campaign – Gifts Size Perspective
  Endowment Campaign – Investment Perspective
  How to ask for an endowment – An Example
  The Ways Donors Give to Endowments
  Sources of funding for endowments
  Funding Vehicles for Endowment Donors

Investment & Risk Management Issues

MCC Full Time School’s and other Muslim Endowments in the US

Acknowledgments and the Speaker’s Bio.
Impact on Muslim educational institutions in the Sub-continent after the British takeover in the 19th century

- Arabic and Farsi languages eliminated from the curriculum
- Land grants were either taken away ("not private property") or our schools became irrelevant

Meanwhile, in the US...

- Land Grant Act of 1862:
  - endowed land grants to small colleges or established them with the grants
  - For example: University of Texas system – one of the largest endowments

So, while one civilization floundered, another flourished, with endowments playing a critical role in each instance
History of waqf (plural awqaf) goes back to the time of the Prophet صلی الله عليه وسلم.

Typically, awqaf provided public goods, such as education, health care, water supply, and highway facilities, and were considered a religious and charitable provision, but on a voluntary basis.

For centuries, awqaf provided the only regular financial support for:
- the madrasas - a provider of higher education – and mosques,
- Khanqas, bathhouses, bridges, and even the release of prisoners of war
- Sufi orders and dervish convent, as well as
- non-Muslim communities

The first waqf is the mosque of Quba' in Madinah built upon the arrival of the Prophet Muhammad صلی الله عليه وسلم in 622 and still stands on the same lot with a new and enlarged structure.
A Jewish man called Mukhairiq made his will that his seven orchards in Medina be given after his death to Muhammad, who after his death, took hold of the orchards and made them a charitable Waqf.

You will never attain righteousness until you spend from that which you love. And whatsoever you spend, God knows it well. (Qur’an 3:92)

Abu Talha was the richest Ansari person near Medina. And the property he cherished most was “Bir Ha’e” (a palm tree orchard near the Prophet’s Mosque). When the above verse was revealed, Abu Talha went to the Apostle of Allah and said: “… the most cherished property I have is Bir Ha’e. I am giving it as charity, wishing goodness and preservation; thus, O Apostle of Allah, use it the way you want.”

Sahaba Abdullah ibn Omar obtained a land lot in Khayber, which upon the Prophet’s advice, Omar donated it as charity for the poor.

According to Othman, the Prophet arrived in Medina and realized that the city had very little drinking water except the water of Bi’r Ruma (Ruma Well). He asked: “Who will purchase Bi’r Ruma to equally share the water drawn there from with his fellow Muslims and shall be rewarded with a better well in the Garden (of Eden)?”

“I never obtained a property more precious to me than this. What do you advise me?”
The trust law developed in England at the time of the Crusades, during the 12th and 13th centuries, was introduced by Crusaders who may have been influenced by the *waqf* institutions they came across in the Middle East.

Example: Oxford’s Merton College (established in 1274 AD) – influence of *waqf*

Reference:
*The Influence of the Islamic Law of Waqf on the Development of the Trust in England: The Case of Merton College*
Author(s): Monica M. Gaudiosi

“Money has always underwritten intellectual power”
– Imam Zaid Shakir

Shaykh Hamza Yusuf has noted that the ten *sahaba who are promised Paradise are all said to have given endowments from their property.*
The Jerusalem Waqf

- A trust for controlling and managing the current Islamic edifices at the Al-Aqsa Mosque in the Old City of Jerusalem

- The Waqf has governed access to the geographic region since the Muslim reconquest of Jerusalem in 1187

- Israel allowed the Waqf to retain its authority over the Temple Mount, after Israel's conquest of the East Jerusalem in 1967

- The Waqf consists of a director, the Grand Mufti of Jerusalem, and the Islamic Council
An endowment is a fund which is kept in perpetuity to provide income earnings (from its investments) for the benefit of a cause (Islamic education, for example) and/or an institution.

- Such funds are permanent assets which are invested to earn income to support an organization’s activities.
- Consists of different forms: money, securities, or property.
- New York State Supreme Court (1939) – an authoritative definition: Endowment is "the bestowment of money as a permanent fund, the income of which is to be used in the administration of a proposed work."
- Typically, only a small amount of income is paid out annually to fund authorized projects; this payout ratio is less than the investment gain, thereby preserving the capital.
Islamic Definitions

Within the first three centuries of Islam (6th – 9th centuries A.D.) Muslim jurists developed the legal institution of the *waqf*, an unincorporated charitable trust.

According to the Hanafi school of law:
- Ownership of the *waqf* property was relinquished by the founder,
- It was not acquired by any other person; rather, it was 'detained' or reserved
- The beneficiaries of the trust, however, had a legal interest in the *waqf* property
- The *waqf* was also perpetual, although the trust assets need not be permanent
- Islamic law mandated no particular form to create a *waqf*:
  - It simply required the *waqif* to indicate clearly
    - His/her intention to create the trust, and
    - To specify the charitable and specific purpose of the trust
- The *waqif* need not, however, deliver the property to its designated trustee, the *mutawalli*, for the trust to be valid
- The *qadi*, judge, held the *waqf* instrument and was the general overseer of the administration of the trust
A distinction between Endowments and Awqaf

- Traditionally, waqfs were meant to support both public interests (waqf khairi) and a donor’s family interests (waqf ahli)
  - The family interests were besides Islamic inheritance rules

- In the US, trusts typically manage family interests
  - while endowments and foundations support public institutions
Regulation

- In the US, endowments are independent of any firm or governmental group
- Like pension funds, qualified endowments are exempt from taxation

- In 2006, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) was created to provide a comprehensive set of guidelines:
  - Replaced the Uniform Management of Institutional Funds Act (UMIFA), which had been the standard for the previous 35 years
  - Requires that endowment funds be prudently managed so that the purchasing power of the corpus is maintained
  - Provides guidelines for accounting methods for endowments
  - Elaborates to say that a charity and those who manage its funds must:
    - Give primary consideration to donor intent as expressed in a gift instrument,
    - Act in good faith, with the care an ordinarily prudent person would exercise,
    - Incur only reasonable costs in investing and managing charitable funds,
    - Make a reasonable effort to verify relevant facts,
    - Make decisions about each asset in the context of the portfolio of investments,
    - Diversify investments unless due to special circumstances, the purposes of the fund are better served without diversification,
    - In general, develop an investment strategy appropriate for the fund and the charity

- Faith-based and Religious Endowments may follow UPMIFA, but are not required

- Endowment assets are listed on Form 990 filings with the IRS
Rationale for Endowments

- A key element of long-term planning for an organization

- Sustainability – once established, builds support for long-range maintenance of infra-structure

- Leveraging – existing endowments can be basis for acquiring new ones

- Protection from fundraising trends which are beyond any one’s control

- In case of a need to borrow or use some type of credit arrangement, an endowment fund on the balance sheet is looked upon favorably

- Legacy programs for the donors

- Sadaqa e jariya

"Don't judge each day by the harvest you reap, but by the seeds you plant."
- Robert Louis Stevenson
How to start an endowment

- Generally speaking, an endowment includes funds given to an organization by its donors with the stipulation that the principal may not be spent.
- Restrictions on the use of income by naming the intended purposes.

**Quasi-endowment:**
- Donors allow use of principal, but with trustees’ prudence.

- Endowment documents cover a donor’s intentions and objectives:
  - *Kitab ul Waqf* in classical terms.

- Investment Policy Statement (IPS) covers investment policies of the firm.

**Starting point:**
- A philanthropy advisory firm with Endowment Management Account capabilities.
When does it make sense to start an endowment?

**A Tipping Point**
- at which it makes sense to start an endowment vs. focusing on growing the non-profit organization

- Think of an endowment as a retirement plan for an organization
  - Operating budget’s current expenses to pay,
  - Does the organization face increasing operating costs?
  - How much of the annual expenses are met through revenues and general fundraising
  - If so, create ways to fund an endowment separate from the budget

**Rules of thumb:**
- If 75 – 80% expenses are met with current revenue stream, then fundraise for an endowment
- The organization must have a solid base of repeat donors

**A Note for Established Endowments:**
*In case of financial downturns, nonprofits should treat endowments as rainy day funds, and not cut programs to preserve the endowment*
Endowments Caveats

- Endowments are not financial promise-lands or a panacea for all financial needs of an organization

- A Common Misperception – Confusing endowment size with operating revenues

- Most endowments stipulate restriction on use of principal
  - Even investment income may be restricted initially for some time
  - Example:
    - In 2003, out of University of Chicago’s $3.5 billion endowment, almost $593 million could never be spent

- A typical rate of expenditure (Spending Policy) for many endowments:
  - 5% of the average total assets over the last 12 quarters

- Endowments do not necessarily improve financial stability
  - Balance sheet may improve, but little impact on the Income Statement

- An endowment is distinct from project fundraising, such as raising funds for a new building:
  - Project fundraising consumes all monies raised
  - While an endowment preserves the capital raised
Endowment Campaign – A S.M.A.R.T. Vision

S.M.A.R.T. campaign!

- Strategy
- Marketing
- Accounting
- Rules (Policies)
- Technology
Vision for an Endowment – a S.M.A.R.T. Plan

Strategic
- A clear vision of what we need our endowment to accomplish
  - Not necessary to have only one, specific reason for an endowment;
  - Organizational needs can be allocated along strategic lines. For example:
    - Infra-structure Fund, FTS High School Fund, Fin. Aid Fund, Annual Fund, etc.

Marketing
- Brand the endowment as a resource for the future (see the next slide)
- Donor cultivation plans and educating the donor base about the benefits of endowments

Accounting
- Investment management and reporting need to be transparent
  - **First step - open an Endowment Management Account (EMA)** – see next slide

Rules
- Sound governance policies and clearly assigned fiduciary roles and responsibilities
- Allocation of a percentage of all fundraising to the endowment

Technology
- Managing donor gift proposals, investments, spending rates, and reporting
- Online donations
- User-friendly information and agreements for prospective donors
Endowment Management Account

Branding an Endowment

- **Discovery**
  - Examining the organization brand and can it sustain an endowment component

- **Research/Brand Analysis**
  - Examining what the organization stands for, and
  - evaluating its current perceptions to find competitive opportunities for the brand

- **Definition**
  - Determining what the brand should represent

- **Expression (logotype, symbol, color, messaging)**
  - Identifying the brand elements to be highlighted

- **Launch**
  - Building the right plan for making the new endowment brand identity come alive
Endowment Campaign – Gift Size Perspective

Endowment Target Goal: $1,000,000

<table>
<thead>
<tr>
<th>Gift Size</th>
<th>No. of Gifts</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>$100,000</td>
<td>1</td>
<td>$100,000</td>
</tr>
<tr>
<td>$50,000</td>
<td>2</td>
<td>$100,000</td>
</tr>
<tr>
<td>$25,000</td>
<td>5</td>
<td>$125,000</td>
</tr>
<tr>
<td>$15,000</td>
<td>10</td>
<td>$150,000</td>
</tr>
<tr>
<td>$10,000</td>
<td>20</td>
<td>$200,000</td>
</tr>
<tr>
<td>$5,000</td>
<td>25</td>
<td>$125,000</td>
</tr>
<tr>
<td>$2,500</td>
<td>50</td>
<td>$125,000</td>
</tr>
<tr>
<td>$1,000</td>
<td>75</td>
<td>$75,000</td>
</tr>
<tr>
<td><strong>Total Gifts:</strong></td>
<td><strong>188</strong></td>
<td><strong>$1,000,000</strong></td>
</tr>
</tbody>
</table>

A Rule of Thumb:
- Typically need 4 times as many prospects as the number of gifts sought.
- So, using the above chart, we would need 752 (=188 x 4) prospects

“Don’t price anyone out of sawab”
## Endowment Campaign – Investment Perspective

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal @ Start of Year</th>
<th>Amount Raised During Year</th>
<th>Average Yield @ 10% interest</th>
<th>Principal @ year-end</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0</td>
<td>150,000</td>
<td>7,500</td>
<td>157,500</td>
</tr>
<tr>
<td>2</td>
<td>157,500</td>
<td>150,000</td>
<td>23,250</td>
<td>330,750</td>
</tr>
<tr>
<td>3</td>
<td>330,750</td>
<td>150,000</td>
<td>40,575</td>
<td>521,325</td>
</tr>
<tr>
<td>4</td>
<td>521,325</td>
<td>150,000</td>
<td>59,628</td>
<td>730,953</td>
</tr>
<tr>
<td>5</td>
<td>730,953</td>
<td>150,000</td>
<td>80,595</td>
<td>961,548</td>
</tr>
<tr>
<td>6</td>
<td>961,548</td>
<td>150,000</td>
<td>103,656</td>
<td>1,215,204</td>
</tr>
<tr>
<td>7</td>
<td>1,215,204</td>
<td>150,000</td>
<td>129,204</td>
<td>1,494,408</td>
</tr>
<tr>
<td>8</td>
<td>1,494,408</td>
<td>150,000</td>
<td>156,942</td>
<td>1,801,350</td>
</tr>
<tr>
<td>9</td>
<td>1,801,350</td>
<td>150,000</td>
<td>187,635</td>
<td>2,138,985</td>
</tr>
<tr>
<td>10</td>
<td>2,138,985</td>
<td>150,000</td>
<td>221,400</td>
<td>2,510,385</td>
</tr>
</tbody>
</table>
### How to ask for an endowment – An Example

#### A Portfolio of Philanthropic Choices

<table>
<thead>
<tr>
<th>Endowment</th>
<th>FY 2011</th>
<th>FY 2012</th>
<th>FY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Endowment A:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use income only</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Science Lab, Tech. Lab, Athletics</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donation Amount: $</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Endowment B:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use income only</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For financial aid to students only</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donation Amount: $</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Endowment C:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use income only</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imam/resident scholar position</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating budgets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Facilities Renovations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donation Amount: $</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

**Donation(s) enclosed:**

<table>
<thead>
<tr>
<th>Donation(s) enclosed:</th>
<th>$</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Pledged amount(s):</td>
<td>$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution Date(s):</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Donor Signature: __________________________  Spouse’s Signature: __________________________  Date: _______
The Ways Donors Give to Endowments

Figure 6: Vehicles Used in Donations by High Net-Worth Households (percent)

- Provision in Wills: 41.2%
- Donor-Advised Funds: 15.9%
- Major Campaigns: 64.6%

B of A’s The Study of High Net Worth Philanthropy, March 2007
The Center on Philanthropy, Indiana University
Sources of Funding for Endowments

- Conventional Sources:
  - wealthy individuals, public and private sectors, general public

- Income earnings (from the endowment’s investments)

- *Zakat / Sadaqa* contributions - Best sources of endowment money
  - Different opinions on both donation eligibility and usage of funds

  Critical for our communities and scholars to establish criteria and guidelines

- Strategies for endowment donors – next 3 slides
  - a part of the education component of the campaign

- **A common myth:**
  - Donors will fund the endowment and discontinue annual giving
  - Annual giving is typically from donors’ income
  - Planned giving, e.g. endowment, is typically from a donor’s assets, not income
# Funding Vehicles for Endowment Donors - I

<table>
<thead>
<tr>
<th>Type of Gift</th>
<th>May Be Funded with</th>
<th>Amount Needed to Establish</th>
<th>Benefits for the Donors</th>
<th>Benefits for the School</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current/Outright Gifts</td>
<td>Cash, appreciated securities, closely held securities,</td>
<td>No minimum or maximum</td>
<td>Usually fully deductible for 100 percent of the fair-market value, subject to certain</td>
<td>Funds are immediately available for use. State income-tax deduction may also be available.</td>
</tr>
<tr>
<td></td>
<td>real estate, personal property</td>
<td></td>
<td>limitations</td>
<td></td>
</tr>
<tr>
<td>Will Provisions</td>
<td>Cash, appreciated securities, closely held securities,</td>
<td></td>
<td>Charitable estate-tax deduction is available for the full fair-market value of the</td>
<td>A very high percentage of will provisions are never revoked, giving promise of future</td>
</tr>
<tr>
<td></td>
<td>real estate, personal property</td>
<td></td>
<td>bequeathed asset; may reduce estate and death taxes, thereby increasing the size of</td>
<td>support to your school.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>the estate available for heirs</td>
<td></td>
</tr>
</tbody>
</table>
## Funding Vehicles for Endowment Donors - II

<table>
<thead>
<tr>
<th>Type of Gift</th>
<th>May Be Funded with</th>
<th>Amount Needed to Establish</th>
<th>Benefits for the Donors</th>
<th>Benefits for the School</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Life-Income Gifts (irrevocable)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. Charitable Gift Annuities</td>
<td>Cash, securities, some closely held securities</td>
<td>$5,000</td>
<td>Guaranteed fixed income, immediate tax deduction equal to school's remainder interest in the gift, favorable tax treatment of annuity payments</td>
<td>Ensures future funding of the designated purpose. State income-tax deduction may also be available.</td>
</tr>
<tr>
<td>B. Deferred-Payment Charitable Gift Annuities</td>
<td>Cash, securities, some closely held securities</td>
<td>$5,000</td>
<td>Immediate tax deduction equal to School's remainder interest in the gift; favorable tax treatment of annuity payments</td>
<td>Ensures future funding of the designated purpose. State income-tax deduction may also be available.</td>
</tr>
<tr>
<td>C. Charitable Remainder Unitrusts</td>
<td>Cash, securities, some closely held securities, real estate</td>
<td>$50,000</td>
<td>Immediate tax deduction equal to School's remainder interest in the gift; variable income that may provide a hedge against future inflation; favorable capital-gain tax liability on gifted property; can be tailored to your situation; permits more than two income beneficiaries; allows deferred income if desired; excellent vehicle for real estate gifts</td>
<td>Ensures substantial future funding of the designated purpose; donor may select the trustee; School could, if desired, use trust as collateral for loan. State income-tax deduction possible.</td>
</tr>
<tr>
<td>D. Charitable Remainder Annuity Trusts</td>
<td>Cash, appreciated securities, some closely held securities</td>
<td>$50,000</td>
<td>Immediate tax deduction equal to School's remainder interest in the gift; fixed income; favorable capital-gain tax on gifts of appreciated property; may provide tax-free income</td>
<td>Same as unitrust</td>
</tr>
<tr>
<td>Type of Gift</td>
<td>May Be Funded with</td>
<td>Amount Needed to Establish</td>
<td>Benefits for the Donors</td>
<td>Benefits for the School</td>
</tr>
<tr>
<td>------------------------------</td>
<td>------------------------------------</td>
<td>-----------------------------</td>
<td>----------------------------------------------------------------------------------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>Revocable Trusts</td>
<td>Cash, appreciated securities, closely held securities, real estate</td>
<td>All or part of the amount placed in the trust is available if needed by the donor; if a commercial trustee is chosen, may relieve the donor of the responsibilities and headaches of asset management; no tax deduction is available for this kind of trust</td>
<td>A very high percentage of revocable trusts are never revoked, giving promise of future funding to MCC.</td>
<td></td>
</tr>
<tr>
<td>Charitable Lead Trusts</td>
<td>Cash, appreciated securities, real estate</td>
<td>Freezes value of assets contributed for gift- and estate-tax purposes</td>
<td>Provides steady flow of income for a period of years.</td>
<td></td>
</tr>
<tr>
<td>Gifts of Insurance— if MCC is made the owner and beneficiary of a permanent policy</td>
<td></td>
<td>Immediate income-tax deduction for the net cash surrender value of the policy at the time of transfer; future premium payments may be deducted annually as gifts</td>
<td>Ensures substantial future funding of the designated purpose;</td>
<td></td>
</tr>
<tr>
<td>Gifts of Insurance— if the gift is a paid-up policy</td>
<td></td>
<td>Immediate income-tax deduction for the net cash surrender value of the policy at the time of transfer</td>
<td>Ensures substantial future funding of the designated purpose;</td>
<td></td>
</tr>
<tr>
<td>Gifts of Insurance— when school is the beneficiary but not the owner</td>
<td></td>
<td>No tax deduction but this enables you to leverage your gift substantially; you may change the beneficiary later or borrow against the policy</td>
<td>Promise of future support to your school</td>
<td></td>
</tr>
</tbody>
</table>
Life-Stage and Gift Planning for Endowments

<table>
<thead>
<tr>
<th>Under 60 years of age</th>
<th>60 - 70 Years of Age</th>
<th>over 70 Years of Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulating and preserving wealth</td>
<td>Comprehensive estate- and wealth-transfer planning</td>
<td>Maintaining financial stability</td>
</tr>
<tr>
<td>Managing debt</td>
<td>Understanding the transfer-tax system</td>
<td>Anticipating healthcare needs and insurance coverage</td>
</tr>
<tr>
<td>Prudent asset management</td>
<td>Learning about wealth-transfer techniques</td>
<td>Concern about the financial future of younger members of the family</td>
</tr>
<tr>
<td>Discretionary savings programs</td>
<td>Active financial planning</td>
<td></td>
</tr>
<tr>
<td>Long-range planning for retirement and emergencies</td>
<td>Increasing cash flow—charitable gift planning helps minimize taxes</td>
<td></td>
</tr>
<tr>
<td>Diversifying investments and establishing a growth strategy</td>
<td>Shifting to income-producing assets</td>
<td></td>
</tr>
<tr>
<td>Creating a simple will and estate plan providing for heirs and bequests to charity</td>
<td>Assisting children with debt through annual gifts</td>
<td></td>
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<tr>
<td>Increasing income; increasing debt</td>
<td>Assisting grandchildren with education expenses</td>
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<td></td>
<td>Concern with the financial future of the next generations</td>
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<tr>
<td></td>
<td>Using trusts and wealth-transfer strategies to achieve goals</td>
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<tr>
<td></td>
<td>Taking advantage of charitable trusts to optimize family wealth transfers and maximize tax benefits</td>
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</tbody>
</table>
Investment Management

- Endowments are mostly invested in stocks, bonds, and other investment vehicles.
- The range of choices reflect an organization’s:
  - maturity (size),
  - educational levels of its managers,
  - financial resources,
  - community’s experience with the organization.
- Trustees are obliged to be prudent in their investment decisions.
- But also endeavor to achieve as substantial a return as possible.
- Each endowment adopts its own strategies and rules for:
  - supporting current spending and future needs.
- Trading costs management – critical to fund performance.
- Some manage internally while most rely on professional managers.
IPS (Investment Policy Statement)
- First needs to be adopted by the organization
- Spending policy
- Management and Investment Objectives - how and where will it be managed

Prudent investment management
- Under UPMIFA, managers maintain the purchasing power of the fund taking inflation into account

Example: If your policy is to spend 4% annually, and you expect inflation at 3%, then you need a 7% annual rate of return on your investment

- Under UPMIFA, an endowment can have losses in assets during individual quarters and still spend endowment earnings, as long as the fund’s purchasing power is prudently maintained

Selection of Investment Managers

Reviewing and Benchmarking Results
- Total return on the endowment last year? Over the last five years?
- How do the total returns compare to a blended index return?
An Example of an IPS

Mission fulfillment
- Mission stated as guiding principle?
- Responsibilities clearly defined?
- Goals clearly established?
- Spending rate realistic?

Investment process
- Funding spending requirement?
- Target return achieved?
- Meeting intergenerational equity requirements?
- Fulfilling "prudent investment" requirements?

Investment Policy Statement

XYZ College Scholarship Fund
Purpose: To fund scholarships
Last updated: February 4, 2001
Oversight: XYZ College
The board of the college is responsible for it.
Investment goal: Growth
Capital appreciation is the goal.

Asset allocation

<table>
<thead>
<tr>
<th>Allocation</th>
<th>40%</th>
<th>60%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large Cap Stocks</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>60%</td>
<td>40%</td>
</tr>
<tr>
<td>Money Market Fund</td>
<td>60%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Benchmarks
- Equities: S&P 500
- Fixed income: Lehman Aggregate

Manager constraints
- Top Lipper quartile for 1 year performance
- No international investments
- Investment-grade bonds only

Portfolio review: annual
As long as it is meeting the benchmark, no review is necessary.

Performance assessment
- Performance criteria clearly defined?
- Portfolio evaluation occurring annually?
- Results reported with proper frequency and detail?
- Parameters for rebalancing portfolio being followed?

Problem resolution
- Accountability for results clearly defined?
- Available remedial actions?
- Limitations that might hamper remedial actions?

Actual policy statements are typically 15-20 pages long!

Courtesy of Merrill Lynch Philanthropy Management
(presented @ CIOGC’s Philanthropy Summit, February 2011)
Risk Management

- Fiduciary responsibilities should be outlined at the onset
- Clearly written endowment agreement documents from the donors, laying out the donor’s intent
- Social Responsibility
- Performance evaluation
  - Monitoring of objectives and results
    - (including trading and brokerage costs)
- Monitoring Results
  - IPS should specify the frequency and method of reviewing investment performance and the investment manager
  - To the extent possible, the policies should provide direction on when and how changes are made in investment managers in the event that results do not meet expectations
Examples of Muslim Endowments in the US

- **Urdu / Pakistan Studies at the University of Illinois – Urbana**
  - $500,000 target goal
  - Will establish and support a lectureship and research

- **M. Zia Hasan Endowed Chair in Business @ IIT**
  - To honor Zia Hasan’s commitment to IIT and his legacy of exceptional teaching
  - Perhaps the first and the only chair honoring a Muslim/Pakistani in the US
  - Target objective: $2M; $750,000 raised so far (Fall 2011)
    - Muslim and Pakistani communities not fully targeted yet
    - e-commerce site allows even nominal ($1) donations

- **Zaytuna Institute**
  - Goal: $5 million at the onset ($3 M actual), and grow to $30 million by 2015
    - Twenty percent of all funds raised are directed into the endowment fund

- **All Dulles Area Muslim Society (ADAMS) Endowment – ADAMSendowment.org**

- **Imran Khan cancer-care hospital’s SK Endowment Fund**
  - Launched in 2002 and kept in Dubai ~ $25 MM

- **Islamic Scholarship Fund, Islamic Foundation North (IFN), CIOGC, ISNA**

“Don’t price anyone out of sawab”
MCC Full Time School’s Endowments

- **Endowment A**
  - Initial investment $100,000
  - Current (unrealized) Value: $367,000 (Feb. 2011); $206,734 @ June 2011

- **Endowment B**
  - Initial investment $100,000
  - Current (unrealized) Value: $194,000 (Feb 2011); $136,744 @ June 2011

- **FTS endowment objectives/needs are:**
  - Use it for financial aid (tuition help for zakat-eligible families)
  - Use it for operating expenses (sadaqa donations)

- **MCC also has ownership of an apartment building**
  - Appraised back in 2005 at $450,000
  - MCC must hold for a minimum of 5 years from the June 23, 2005 date
  - All rental income goes to MCC Zakat accounts
  - After the 5 year period expiration on June 23, 2010, sales proceeds go to zakat fund

- **Investment Management:**
  - Trading cost: $11.95 / trade; no other brokerage cost
  - Not using any investment house for advice
  - Strictly online research for ideas – risky practice from a policy perspective
Brad Summers, MBA
- Merrill Lynch/Bank of America – Philanthropic Management Group:

I’m thankful to fellow University of Chicago MBA alumnus for assistance with technical matters of this presentation.

Brad has been a strong supporter of the Muslim community, (Pakistani, Arab, and Bosnian), is a Director of HDF, and has several high net worth clients, including endowments and foundations.

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I’m also thankful to Omer Mozaffer, PhD, another Chicago alumnus, for acquiring requested academic literature on *waqfs* in traditional Muslim societies for me.
Speaker Bio.

K. Rizwan Kadir is a senior management consultant to Fortune 100 companies in the areas of strategic planning, governance, and financial management. He started his career with an investment bank and worked at emerging growth firms at Director and C-level positions, including Chief Operating and Compliance Officer.

He has an MBA in Finance and International Business from the University of Chicago. Besides undergraduate education at Northwestern University, he completed post-MBA work in quantitative finance at UChicago.

A firm proponent of servant leadership, Rizwan believes in giving back to one’s communities. Over the last 10 years, he has served on university and professional organizations’ boards.

Currently, he is Chairman of MCC Full Time School, one of the largest and oldest Islamic schools in the US. He is also a Director of Islamic Schools League of America (ISLA).

As President of the Pakistan Club at the University of Chicago’s Booth School of Business, he has spearheaded crafting a positive brand name for Pakistan. In the last 8 years, the Club has conducted admissions sessions, flood and earthquake relief work, presentations by senior corporate executives, diplomats, a Nobel laureate, renowned academics, and investments conferences about Pakistan.

As a Director of University of Chicago’s Alumni Board from 2004 to 2007, he led its programming for the alumni, and presently counsels prospective undergraduates MBA, and PhD students. As the Regional Director (Chicago) of PRMIA - a financial risk management organization – he cultivated a community of finance professionals in Chicago, rivaling those in the financial centers of London and New York.

Since 9/11, he has been involved in inter-faith dialogs in the North Shore suburbs, and also worked on a project with the US Treasury’s Counter-Terrorism Unit to develop financial guidelines for the US-based Islamic charities. Over the last 10 years, he has been a (volunteer) consultant to about 2 dozen fund-raisers and capital campaigns in the Muslim, Pakistani, and Kashmiri communities.

Rizwan speaks on financial, international, and inter-faith topics at professional forums and has been interviewed by the Washington Post, MSNBC, Religion News Service, Voice of America, and the local media, among others.