

1 of United States Treasury Regulations sections 1.170A-9(e) (10-
2 14) adopted thereunder.

3 "Endowment fund" means an institutional fund or part
4 thereof that, under the terms of a gift instrument, is not
5 wholly expendable by the institution on a current basis. The
6 term does not include assets that an institution designates as
7 an endowment fund for its own use.

8 "Gift instrument" means a record or records, including an
9 institutional solicitation, under which property is granted to,
10 transferred to, or held by an institution as an institutional
11 fund.

12 "Institution" means:

- 13 (1) A person, other than an individual, organized and
14 operated exclusively for charitable purposes;
15 (2) A government or governmental subdivision, agency, or
16 instrumentality, to the extent that it holds funds
17 exclusively for a charitable purpose; or
18 (3) A trust that had both charitable and noncharitable
19 interests, after all noncharitable interests have
20 terminated.

21 "Institutional fund" means a fund held by an institution
22 exclusively for charitable purposes. The term does not include:

- 1 (1) Program-related assets;
- 2 (2) A fund held for an institution by a trustee that is
- 3 not an institution, unless the fund is held
- 4 exclusively for the benefit of a community foundation;
- 5 or
- 6 (3) A fund in which a beneficiary that is not an
- 7 institution has an interest, other than an interest
- 8 that could arise upon violation or failure of the
- 9 purposes of the fund.

10 "Person" means an individual, corporation, business trust,

11 estate, trust, partnership, limited liability company,

12 association, joint venture, public corporation, government or

13 governmental subdivision, agency, or instrumentality, or any

14 other legal or commercial entity.

15 "Program-related asset" means an asset held by an

16 institution primarily to accomplish a charitable purpose of the

17 institution and not primarily for investment.

18 "Record" means information that is inscribed on a tangible

19 medium or that is stored in an electronic or other medium and is

20 retrievable in perceivable form.

21 **§ -3 Standard of conduct in managing and investing**

22 **institutional fund.** (a) Subject to the intent of a donor

1 expressed in a gift instrument, an institution, in managing and
2 investing an institutional fund, shall consider the charitable
3 purposes of the institution and the purposes of the
4 institutional fund.

5 (b) In addition to complying with the duty of loyalty
6 imposed by law other than this chapter, each person responsible
7 for managing and investing an institutional fund shall manage
8 and invest the fund in good faith and with the care an
9 ordinarily prudent person in a like position would exercise
10 under similar circumstances.

11 (c) In managing and investing an institutional fund, an
12 institution shall:

13 (1) Incur only costs that are appropriate and reasonable
14 in relation to the assets, the purposes of the
15 institution, and the skills available to the
16 institution; and

17 (2) Make a reasonable effort to verify facts relevant to
18 the management and investment of the fund.

19 (d) An institution may pool two or more institutional
20 funds for purposes of management and investment.

21 (e) Except as otherwise provided by a gift instrument, the
22 following rules apply:

- 1 (1) In managing and investing an institutional fund, the
2 following factors, if relevant, shall be considered:
- 3 (A) General economic conditions;
 - 4 (B) The possible effect of inflation or deflation;
 - 5 (C) The expected tax consequences, if any, of
6 investment decisions or strategies;
 - 7 (D) The role that each investment or course of action
8 plays within the overall investment portfolio of
9 the fund;
 - 10 (E) The expected total return from income and the
11 appreciation of investments;
 - 12 (F) Other resources of the institution;
 - 13 (G) The needs of the institution and the fund to make
14 distributions and to preserve capital; and
 - 15 (H) An asset's special relationship or special value,
16 if any, to the charitable purposes of the
17 institution;
- 18 (2) Management and investment decisions about an
19 individual asset shall not be made in isolation but
20 rather in the context of the institutional fund's
21 portfolio of investments as a whole and an overall

1 investment strategy having risk and return objectives
2 reasonably suited to the fund and to the institution;

3 (3) Except as otherwise provided by law other than this
4 chapter, an institution may invest in any kind of
5 property or type of investment consistent with this
6 section;

7 (4) An institution shall diversify the investments of an
8 institutional fund unless the institution reasonably
9 determines that, because of special circumstances, the
10 purposes of the fund are better served without
11 diversification;

12 (5) Within a reasonable time after receiving property, an
13 institution shall make and carry out decisions
14 concerning the retention or disposition of the
15 property or the rebalancing of a portfolio, in order
16 to bring the institutional fund into compliance with
17 the purposes, terms, and distribution requirements of
18 the institution as necessary to meet other
19 circumstances of the institution and the requirements
20 of this chapter; and

21 (6) A person who has special skills or expertise, or is
22 selected in reliance upon the person's representation

1 that the person has special skills or expertise, has a
2 duty to use those skills or that expertise in managing
3 and investing institutional funds.

4 **§ -4 Appropriation for expenditure or accumulation of**
5 **endowment fund; rules of construction.** (a) Subject to the
6 intent of a donor expressed in the gift instrument, an
7 institution may appropriate for expenditure or accumulate so
8 much of an endowment fund as the institution determines is
9 prudent for the uses, benefits, purposes, and duration for which
10 the endowment fund is established. Unless stated otherwise in
11 the gift instrument, the assets in an endowment fund are donor-
12 restricted assets until appropriated for expenditure by the
13 institution. In making a determination to appropriate or
14 accumulate, the institution shall act in good faith, with the
15 care that an ordinarily prudent person in a like position would
16 exercise under similar circumstances, and shall consider, if
17 relevant, the following factors:

- 18 (1) The duration and preservation of the endowment fund;
19 (2) The purposes of the institution and the endowment
20 fund;
21 (3) General economic conditions;
22 (4) The possible effect of inflation or deflation;

1 (5) The expected total return from income and the
2 appreciation of investments;

3 (6) Other resources of the institution; and

4 (7) The investment policy of the institution.

5 (b) To limit the authority to appropriate for expenditure
6 or accumulate under subsection (a), a gift instrument shall
7 specifically state the limitation.

8 (c) Terms in a gift instrument designating a gift as an
9 endowment, or a direction or authorization in the gift
10 instrument to use only "income", "interest", "dividends", or
11 "rents, issues, or profits", or "to preserve the principal
12 intact", or words of similar import:

13 (1) Create an endowment fund of permanent duration unless
14 other language in the gift instrument limits the
15 duration or purpose of the fund; and

16 (2) Do not otherwise limit the authority to appropriate
17 for expenditure or accumulate under subsection (a).

18 **§ -5 Delegation of management and investment functions.**

19 (a) Subject to any specific limitation set forth in a gift
20 instrument or otherwise provided by law, an institution may
21 delegate to an external agent the management and investment of
22 an institutional fund to the extent that an institution could

1 prudently delegate under the circumstances. An institution
2 shall act in good faith, with the care that an ordinarily
3 prudent person in a like position would exercise under similar
4 circumstances, in:

5 (1) Selecting an agent;

6 (2) Establishing the scope and terms of the delegation
7 consistent with the purposes of the institution and
8 the institutional fund; and

9 (3) Periodically reviewing the agent's actions in order to
10 monitor the agent's performance and compliance with
11 the scope and terms of the delegation.

12 (b) In performing a delegated function, an agent owes a
13 duty to the institution to exercise reasonable care to comply
14 with the scope and terms of the delegation.

15 (c) An institution that complies with subsection (a) is
16 not liable for the decisions or actions of an agent to which the
17 function was delegated.

18 (d) By accepting delegation of a management or investment
19 function from an institution that is subject to the laws of this
20 State, an agent submits to the jurisdiction of the courts of
21 this State in all proceedings arising from or related to the
22 delegation or the performance of the delegated function.

1 (e) An institution may delegate management and investment
2 functions to its committees, officers, or employees as
3 authorized by the laws of this State.

4 § -6 Release or modification of restrictions on
5 management, investment, or purpose. (a) If the donor consents
6 in a record, an institution may release or modify, in whole or
7 in part, a restriction on the management, investment, or purpose
8 of an institutional fund contained in a gift instrument. A
9 release or modification shall not allow a fund to be used for a
10 purpose other than a charitable purpose of the institution.

11 (b) The court, upon application of an institution, may
12 modify a restriction contained in a gift instrument regarding
13 the management or investment of an institutional fund if the
14 restriction has become impracticable or wasteful, if it impairs
15 the management or investment of the fund, or if, because of
16 circumstances not anticipated by the donor, a modification of a
17 restriction will further the purposes of the fund. The
18 institution shall notify the attorney general of the
19 application, and the attorney general shall be given an
20 opportunity to be heard. To the extent practicable, any
21 modification shall be made in accordance with the donor's
22 probable intention.

1 (c) If a particular charitable purpose or a restriction
2 contained in a gift instrument on the use of an institutional
3 fund becomes unlawful, impracticable, impossible to achieve, or
4 wasteful, the court, upon application of an institution, may
5 modify the purpose of the fund or the restriction on the use of
6 the fund in a manner consistent with the charitable purposes
7 expressed in the gift instrument. The institution shall notify
8 the attorney general of the application, and the attorney
9 general shall be given an opportunity to be heard.

10 (d) If an institution determines that a restriction
11 contained in a gift instrument on the management, investment, or
12 purpose of an institutional fund is unlawful, impracticable,
13 impossible to achieve, or wasteful, the institution, without
14 application to the court, but with the consent of the attorney
15 general, may modify the purpose of the fund or the restriction
16 on the use of the fund in a manner consistent with the
17 charitable purposes expressed in the gift instrument if the fund
18 subject to the restriction has a total value of less than
19 \$250,000.

20 (e) If an institution determines that a restriction
21 contained in a gift instrument on the management, investment, or
22 purpose of an institutional fund is unlawful, impracticable,

1 impossible to achieve, or wasteful, the institution, sixty days
2 after notification to the attorney general, may release or
3 modify the restriction, in whole or part, if:

4 (1) The institutional fund subject to the restriction has
5 a total value of less than \$50,000;

6 (2) More than twenty years have elapsed since the fund was
7 established; and

8 (3) The institution uses the property in a manner
9 consistent with the charitable purposes expressed in
10 the gift instrument.

11 § -7 **Reviewing compliance.** Compliance with this chapter
12 is determined in light of the facts and circumstances existing
13 at the time a decision is made or action is taken, and not by
14 hindsight.

15 § -8 **Application to existing institutional funds.** This
16 chapter applies to institutional funds existing on or
17 established after the effective date of this chapter. As
18 applied to institutional funds existing on the effective date of
19 this chapter, this chapter governs only decisions made or
20 actions taken on or after that date.

21 § -9 **Relation to Electronic Signatures in Global and**
22 **National Commerce Act.** This chapter modifies, limits, and

1 supersedes the Electronic Signatures in Global and National
2 Commerce Act, 15 U.S.C. section 7001 et seq., but does not
3 modify, limit, or supersede section 101 of that Act, 15 U.S.C.
4 section 7001(a), or authorize electronic delivery of any of the
5 notices described in section 103 of that Act, 15 U.S.C. section
6 7003(b)."

7 SECTION 2. Chapter 517D, Hawaii Revised Statutes, is
8 repealed.

9 SECTION 3. This Act shall take effect on July 1, 2009.

Report Title:

Uniform Prudent Management of Institutional Funds Act

Description:

Enacts Uniform Prudent Management of Institutional Funds Act to replace and update existing Uniform Management of Institutional Funds Act. Provides guidance and authority to charitable organizations concerning the management and investment of funds held by those organizations. Provides additional protections for charities and also protects the interests of donors. Modernizes rules governing expenditures from endowment funds. Gives institutions ability to cope more easily with fluctuations in the value of the endowment. Updates provisions governing the release and modification of restrictions on charitable funds to permit more efficient management of these funds. (SD1)