NAVAL WAR COLLEGE FOUNDATION
ENDOWMENT EXPENDITURE POLICY

Approved by the Board of Trustees September 20, 2019

PURPOSE OF THIS POLICY

The purpose of this Policy is to define the procedure by which the Naval War College Foundation, Inc. (the "Foundation") will establish and publicize its annual payout percentage (the "Distribution Rate") from its endowed funds (collectively the "Endowment"). From this Distribution Rate, an administrative cost sharing rate will be applied to defray certain costs of administering the Endowment.
The Foundation is committed to administering and investing all Endowment funds in compliance with all relevant Foundation by-laws, industry standards, and federal and state laws and regulations, including without limitation the Rhode Island Uniform Prudent Management of Institutional Funds Act ("UPMIFA") (RIGL §18-12.1-1 et. seq). No policy will supersede any provision of federal or state law or regulation. In setting the rates set forth in this policy, the Board of Trustees (the "Board") and Finance Committee considers the following factors:

- The duration and preservation of the endowment fund.
- The purposes of the organization and the endowment fund.
- General economic conditions.
- The possible effect of inflation or deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of the organization
- The investment policy of the Foundation

The Foundation's investment objective is to provide a reliable and sustainable flow of funds for the Naval War College ("College") programs, based on total returns from the Foundation's investments, including the impact of capital gains and losses, as well as dividends and interest. All expenditure decisions are undertaken with a review of historic performance and projections for future performance from the Foundation's professional investment advisors. The methodology aims to achieve sustainable growth over time, but it remains possible that individual funds can experience periods in which current values are less than the original gifted value.

DISTRIBUTION RATE

Each year, the Board will establish the Distribution Rate and advise the College of its determination and the dollar value of support it will be distributing to each initiative supported by the Foundation. The range of the Distribution Rate will be from 4% to 6% unless and until this policy is amended by action of the full Board. This step enables the College to anticipate and budget the support it will receive the following year. The Distribution Rate will be applied to a calculated value of each fund that averages fund

values during the trailing twelve quarter valuations as of September 30th of each year. This process is defined by UPMIFA and serves to preserve the inflation-adjusted purchasing power of the assets over the long term, while moderating the effect that market volatility could otherwise have on the level of support provided to the College. The Foundation will share a copy of this Expenditure Policy and the current Distribution Rate with donors and prospective donors.

ADMINSTRATIVE FEE

The Board has determined that the current administrative charge portion of the Distribution Rate will be one percentage point (1.0%). This charge will be reviewed from time to time, and the Distribution Rate will be reviewed annually, to ensure continued conformity with UPMIFA guidelines. Currently, UPMIFA deems a total Expenditure Rate in excess of 7% of a fund's calculated value in a given year to be presumptively imprudent.

This administrative fee was determined by an analysis of the reasonable and proper expenses attributable to administering endowments and unrestricted funds and will be reviewed from time to time. The Foundation's Board of Trustees has reviewed all Foundation expenditures and determined that this percentage represents a reasonable allocation of the salary and overhead costs attributable to ongoing administration, accounting, stewardship, and regulatory compliance required of the restricted fund.

The policies described above, and the rates defined, may be revised from time to time by the Trustees of the Naval War College Foundation.