Saltwater UU Endowment Committee

Prepared May 2026 · For committee review and editing

Fund Snapshot

Current Balance	$420,099.84
As of	April 30, 2026
Custodian	Fidelity Brokerage
Investment Vehicle	FFNOX (Fidelity Multi-Asset Index Fund)
Committee	Kathy Linnell, Kathy Jorgensen, Daniel Key, Mary Morgan, Steve Czeck, Gaye Greeves (Treasurer, ex officio)

Section 1 — Purpose of This Document

This document has been prepared to support the Endowment Committee in reviewing two areas of the fund's operation and proposing two Charter amendments. This document is intended to educate committee members on key topics affecting the endowment and to present the author's recommendations as a basis for committee discussion and decision.

The document addresses four topics in sequence:

1. **FFNOX:** What the fund is currently invested in, how it is constructed, and questions the committee should consider about its ongoing suitability
2. **UPMIFA:** The Washington State law that governs this endowment and the fiduciary standard it places on every committee member
3. **Charter Amendment: Virtual Meetings:** A gap in the current Charter that may make video-based meetings technically non-compliant, with proposed corrective language
4. **Charter Amendment: Distribution Formula:** The feast-and-famine problem created by

the current single-year distribution rule, with a proposed three-year smoothing formula

No decisions are required at this stage. The goal is shared understanding and structured discussion.

Section 2 — Understanding FFNOX

This section gives all committee members a common foundation before discussing investment suitability.

What Is FFNOX?

FFNOX (the Fidelity Multi-Asset Index Fund) is a **fund of funds**. It does not own stocks or bonds directly. Instead it holds seven underlying Fidelity index funds at fixed target weights. The structure is intentional: equities provide the growth engine, while the bond allocation acts as a stabilizing counterweight, dampening volatility across market cycles. This makes it well suited to a fund that must both grow and distribute reliably over time.

Composition

Component	Weight	What It Tracks
Fidelity 500 Index Fund	41%	S&P 500 — the 500 largest US companies
Fidelity International Index Fund	24%	Developed international markets (Europe, Japan, Australia)
Fidelity Extended Market Fund	10%	US mid and small-cap companies not in the S&P 500
Fidelity Emerging Markets Fund	10%	Developing economies (China, India, Brazil)
Fidelity US Bond Index Fund	7%	Broad US bond market
Fidelity LT Treasury Bond Fund	5%	30-year US government bonds
Fidelity International Bond Fund	3%	Foreign government and corporate bonds
Total equity	**~85%**	

Total bonds	**~15%**	

Key Facts

- **Expense ratio:** 0.08% direct (FFNOX wrapper) + approximately 0.03% underlying fund fees = **approximately 0.11% all-in** (approximately $462/year on a $420K fund). The 0.08% figure commonly cited excludes the costs of the seven underlying funds; the all-in figure is still 89% below the category average
- **Management style:** Entirely passive. Tracks indexes only with no active decisions
- **Weights:** Set by Fidelity, not the committee. The 85/15 split cannot be adjusted without switching funds
- **Implicit concentration:** Apple, Microsoft, Nvidia, Amazon, and Meta collectively represent ~25% of the S&P 500, meaning roughly 10% of FFNOX is concentrated in five technology companies
- **Morningstar:** Rated it “simple, well-executed, and reliable at a low cost”

Suitability Questions for Discussion

These are open questions for the committee; not recommendations.

1. FFNOX was designed for long-term investors seeking growth. How does that objective compare to the needs of a perpetual church endowment, and does the committee feel it has enough information about the fund’s allocation to evaluate the fit?
2. An alternative investment strategy exists that provides a return floor, protecting against downside years at the cost of reduced upside growth. This kind of investment insurance is available in the industry but carries higher fees and structurally limits the fund’s ability to compound over time. Given that growth is the primary goal of the endowment, the committee should weigh whether paying for downside protection is consistent with that mandate, or whether the three-year distribution rule proposed in Section 5 is a more appropriate way to address distribution stability without sacrificing growth.

Recommendation

FFNOX is a good fit for this endowment. Its balanced asset class structure, with equities for growth and bonds for stability, aligns well with the charter’s dual mandate of growing the fund while providing reliable support to the church. Its passive, broadly diversified design requires no active management decisions between meetings, making it well suited to a fund of this size operating under quarterly committee oversight. The low all-in cost preserves returns that would otherwise be consumed by fees.

It is the recommendation of the author that the committee retain FFNOX as the endowment's investment vehicle and direct its attention toward the distribution formula amendment in Section 5 as the more impactful lever for improving the church's experience of the endowment.

Section 3 — Understanding UPMIFA

What Is UPMIFA?

The **Uniform Prudent Management of Institutional Funds Act** (RCW Chapter 24.55) is Washington State law enacted in 2009. It governs how nonprofit institutions, including churches, manage endowment funds. It applies to this fund whether or not the Charter acknowledges it.

Every member of this committee is a **fiduciary** under UPMIFA. That carries three legal duties:

- **Duty of care:** Make informed, prudent decisions
- **Duty of loyalty:** Act in the fund's interest, not your own
- **Duty of obedience:** Follow the fund's stated purpose

Breach of fiduciary duty can result in **personal legal liability**, not just removal from the committee.

The Seven Prudence Factors

Under RCW 24.55.025, the committee must consider these factors when making investment and distribution decisions:

#	Factor	Applied to This Fund
1	Duration and preservation of the fund	The fund is intended to be permanent. Decisions must protect principal long-term
2	Purposes of the institution and fund	Support Saltwater UU Church's mission and operations
3	General economic conditions	Interest rate environment, inflation, market cycle
4	Possible effect of inflation or deflation	A $17K distribution is worth less each year in real terms

5	Expected total return from income and appreciation	FFNOX's historical blended return of ~10%/yr
6	Other resources of the institution	The church's pledge income, reserves, and other assets
7	Needs of the institution to make distributions and preserve capital	Balancing church budget support against fund growth

What the Statute Actually Says

The spending rule (RCW 24.55.025) states:

> *"Subject to the intent of a donor expressed in the gift instrument, an institution may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established... the institution shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances."*

The standard of conduct (RCW 24.55.015) states:

> *"Each person responsible for managing and investing an institutional fund shall manage and invest the fund in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances."*

Current Gap

The current Charter does not reference UPMIFA. The annual report does not document how the seven factors were considered. This creates a gap between legal requirement and documented practice, and leaves committee members without a formal record of their prudent process.

Statutory References

- Full text: https://app.leg.wa.gov/rcw/default.aspx?cite=24.55&full=true
- Standard of conduct (RCW 24.55.015): https://app.leg.wa.gov/rcw/default.aspx?cite=24.55.015
- Appropriation for expenditure (RCW 24.55.025): https://app.leg.wa.gov/rcw/default.aspx?cite=24.55.025

Section 4 — Charter Amendment: Virtual Meeting Quorum

The Problem

The current Charter requires committee members to be physically present to conduct business. Many Washington nonprofit committees have updated their governance to allow virtual participation since 2020; this one has not. Meetings conducted by video call may be technically non-compliant with the Charter as written.

Current Charter Language

> *"The fund shall be managed by the Finance Advisors… with a majority attending **in person** at a meeting constituting a quorum to transact business."*

Proposed Replacement Language

> *"A majority of Finance Advisors attending in person or via video conferencing shall constitute a quorum to transact business."*

What Changes

	Current	Proposed
Quorum method	In person only	In person or video

Discussion Questions

- Should any decisions require physical in-person quorum (e.g. disbursements above a set threshold)?

Section 5 — Charter Amendment: Distribution Formula

The Charter's Dual Mandate

The Charter has two explicit goals for the endowment: to grow the fund over time, and to provide annual funding to the church. Implicit in both is a third expectation. Distributions should be stable enough for the church to treat the endowment as a dependable budget line item rather than a variable one.

FFNOX's structure supports this well on the investment side. The bond allocation provides stability that pure equity funds do not. However, the single-year distribution rule does not

address the stability expectation. In any given year the market may not produce a gain. That is a natural reality of how markets work, not a flaw in the investment strategy. The result is that distributions can vary significantly from year to year simply because the rule ties them directly to single-year performance.

The Variability in Practice

Using actual fund data and the current rule of one-third of single-year gains:

Year	Return	Gain	Distribution
2025	+19.3%	~$69,000	~$23,000
2016	+8.4%	~$14,000	~$4,700
Negative year	-10%	-$42,000	$0
Sustained downturn (3 yrs)	Negative	Negative	**$0 for 3+ years**

In a sustained bear market such as 2000–2002 or 2008–2009, the fund would have produced **multiple consecutive years of zero distributions**. This is not a criticism of the investment strategy; it is simply what the single-year rule produces when markets do not cooperate.

Current Charter Language

Section 1.3:

> *"The portion of the earnings disbursed annually to the Church shall be spent as deemed appropriate by the Board in a specific decision each year."*

Section 6.1:

> *"As a general guide, one-third of the annual Net Gain for the Fund shall be made available to the Board for such Church use as may be deemed appropriate. The remaining two-thirds of the Net Gain shall be retained by the Fund for growth."*

Section 6.6:

> *"No part of the Fund Principal shall be disbursed as a part of any annual disbursement… Should the fund show a net loss for the year, then no disbursement shall be made."*

Together these three sections establish the current rule: one-third of the annual net gain is available to the Board, the remaining two-thirds is retained for growth, and no disbursement is made in a loss year.

Proposed Replacement Language

> *"The annual distribution to the church operating budget shall not exceed one-ninth (1/9) of the sum of the Net Gain, as defined in Section 4.2, for each of the three preceding calendar years. If this calculation produces a zero or negative result, no distribution shall be made. The Board shall make a specific decision each year regarding the actual distribution amount, which may be less than the calculated maximum. The Treasurer shall record the annual Net Gain in the annual report to support this calculation."*

Why Now Is the Right Time

The timing of this amendment matters. 2025 was a record gain year for the fund, producing approximately $68,674 in investment returns. Under the current one-third rule, up to $22,891 of that gain is available for distribution. Under the proposed one-ninth three-year rule, the maximum distribution would be approximately $16,090, leaving an additional $6,800 of the 2025 gain retained in the fund.

That retained amount is not simply foregone funding for the church. It acts as a hedge against 2026 or 2027 producing flat or negative returns. If the market declines in either of those years, the three-year window will still include the strong 2025 performance, supporting a continued distribution to the church rather than dropping to zero.

Making this change in a strong year is therefore the prudent moment. Adopting it in a down year would risk the opposite effect, locking in a lower three-year average at precisely the moment the fund needs to rebuild. The 2025 gains give the committee the buffer to make this structural change from a position of strength.

Formula:

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Distribution = max(0, (Net Gain Year 1 + Net Gain Year 2 + Net Gain Year 3) ÷ 9)
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This uses the Net Gain as already defined in Section 4.2 of the Charter, which excludes contributions. It preserves the original Charter principle of only distributing gains and never principal, while smoothing volatility across three years. The Treasurer would record the annual Net Gain figure each year as part of the annual report.

Side-by-side comparison — 2026 distribution based on available Net Gain data:

	Current Rule (⅓ single year)	**Proposed Rule (⅑ three years)**
2023 Net Gain (per annual report)	n/a	$52,005

2024 Net Gain	n/a	*not available — 2024 statement not in folder*
2025 Net Gain (per Fidelity statement)	$68,674	$68,674
Gain used in calculation	$68,674 (2025 only)	$120,679+ (2023 and 2025 known; 2024 missing)
2026 maximum distribution	**$22,891**	*requires 2024 statement to calculate*
Retained for growth	$45,783	*requires 2024 statement to calculate*

Action required: The 2024 year-end Fidelity statement should be retrieved to complete this calculation. Once available, the Treasurer can record the 2024 Net Gain and the full three-year distribution figure can be confirmed.

Key Properties of the Proposed Rule

- **Zero is still the hard floor.** The fund never distributes what it has not earned over the three-year window
- **Gradual adjustment.** In a downturn, distributions trail off over three years rather than dropping to zero immediately
- **Self-scaling.** As the fund grows, maximum distributions grow proportionally
- **Board discretion preserved.** The Board can always distribute less than the calculated maximum
- **Growth-oriented.** Because only ⅑ of gains is distributed, ⅞ of gains are retained for compounding

What Changes

	Current Rule	**Proposed Rule**
Window	Single year	Three-year rolling
Formula	⅓ of annual gain	⅑ of three-year gain
Down year	$0 immediately	Gradual reduction

Sustained downturn	$0 for each down year	Trails off, then $0
Growth linkage	Yes	Yes
Treasurer recordkeeping	Annual Net Gain	Multi-year ledger of Net Gain required

Discussion Questions

- Do we use calendar year-end values or fiscal year-end values?
- What is the transition rule for years one and two before the full three-year window is established?
- Does this language require review by a Washington nonprofit attorney before adoption?

All figures sourced from Fidelity brokerage statements and annual reports.