

GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2009

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HOUSE DRH10524-ME-18A\* (2/5)

Short Title: Prudent Management of Institutional Funds. (Public)

Sponsors: Representative Ross.

Referred to:

1 A BILL TO BE ENTITLED  
2 AN ACT TO ENACT THE UNIFORM PRUDENT MANAGEMENT OF INSTITUTIONAL  
3 FUNDS ACT AND TO MAKE RELATED AMENDMENTS TO THE NORTH  
4 CAROLINA UNIFORM TRUST CODE, AS RECOMMENDED BY THE GENERAL  
5 STATUTES COMMISSION.

6 The General Assembly of North Carolina enacts:

7 SECTION 1. Chapter 36B of the General Statutes is repealed.

8 SECTION 2. The General Statutes are amended by adding a new Chapter to read:

9 "**Chapter 36E.**

10 "**Uniform Prudent Management of Institutional Funds Act.**

11 "**§ 36E-1. Short title.**

12 This Chapter may be cited as the Uniform Prudent Management of Institutional Funds Act.

13 "**§ 36E-2. Definitions.**

14 The following definitions apply in this Chapter:

- 15 (1) Charitable purpose. – The relief of poverty, the advancement of education or  
16 religion, the promotion of health, scientific, benevolent, literary,  
17 governmental, or municipal purposes, or any other purpose the achievement  
18 of which is beneficial to the community.
- 19 (2) Endowment fund. – An institutional fund or part thereof that, under the  
20 terms of a gift instrument, is not wholly expendable by the institution on a  
21 current basis. The term does not include assets that an institution designates  
22 as an endowment fund for its own use.
- 23 (3) Gift instrument. – A record or records, including an institutional solicitation  
24 or a response to an institutional solicitation, under which property is granted  
25 to, transferred to, or held by an institution as an institutional fund.
- 26 (4) Institution. – Any of the following:
- 27 a. A person, other than an individual, organized and operated  
28 exclusively for charitable purposes;
- 29 b. A government or governmental subdivision, agency, or  
30 instrumentality, to the extent that it holds funds exclusively for a  
31 charitable purpose; or
- 32 c. A trust that had both charitable and noncharitable interests, after all  
33 noncharitable interests have terminated.
- 34 (5) Institutional fund. – A fund held by an institution exclusively for charitable  
35 purposes. The term includes tangible assets but does not include:



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- 1           a.     Program-related assets;  
2           b.     A fund held for an institution by a trustee that is not an institution; or  
3           c.     A fund in which a beneficiary that is not an institution has an interest,  
4                 other than an interest that could arise only upon violation or failure of  
5                 the purposes of the fund.

6           (6)    Person. – An individual, corporation, business trust, estate, trust, partnership,  
7                 limited liability company, association, joint venture, public corporation,  
8                 government or governmental subdivision, agency, or instrumentality, or any  
9                 other legal or commercial entity.

10          (7)    Program-related asset. – An asset held by an institution not primarily for  
11                 investment.

12          (8)    Record. – Information that is inscribed on a tangible medium or that is stored  
13                 in an electronic or other medium and is retrievable in perceivable form.

14    **"§ 36E-3. Standard of conduct in managing and investing institutional fund.**

15          (a)    Subject to the intent of a donor expressed in a gift instrument, an institution, in  
16                 managing and investing an institutional fund, shall consider the charitable purposes of the  
17                 institution and the purposes of the institutional fund.

18          (b)    In addition to complying with the duty of loyalty imposed by law other than this  
19                 Chapter, each person responsible for managing and investing an institutional fund shall manage  
20                 and invest the fund in good faith and with the care an ordinarily prudent person in a like  
21                 position would exercise under similar circumstances.

22          (c)    In managing and investing an institutional fund, an institution:

23                (1)    May incur only costs that are appropriate and reasonable in relation to the  
24                         assets, the purposes of the institution, and the skills available to the  
25                         institution; and

26                (2)    Shall make a reasonable effort to verify facts relevant to the management  
27                         and investment of the fund.

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

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

31                (1)    In managing and investing an institutional fund, the following factors, if  
32                         relevant, must be considered:

33                   a.     General economic conditions;

34                   b.     The possible effect of inflation or deflation;

35                   c.     The expected tax consequences, if any, of investment decisions or  
36                         strategies;

37                   d.     The role that each investment or course of action plays within the  
38                         overall investment portfolio of the fund;

39                   e.     The expected total return from income and the appreciation of  
40                         investments;

41                   f.     Other resources of the institution;

42                   g.     The needs of the institution and the fund to make distributions and to  
43                         preserve capital; and

44                   h.     An asset's special relationship or special value, if any, to the  
45                         charitable purposes of the institution.

46                (2)    Management and investment decisions about an individual asset must be  
47                         made not in isolation but rather in the context of the institutional fund's  
48                         portfolio of investments as a whole and as a part of an overall investment  
49                         strategy having risk and return objectives reasonably suited to the  
50                         institutional fund and to the institution.

- 1           (3)    Except as otherwise provided by law other than this Chapter, an institution  
2           may invest in any kind of property or type of investment consistent with this  
3           section.
- 4           (4)    An institution shall diversify the investments of an institutional fund unless  
5           the institution reasonably determines that, because of special circumstances,  
6           the purposes of the fund are better served without diversification.
- 7           (5)    Within a reasonable time after receiving property, an institution shall make  
8           and carry out decisions concerning the retention or disposition of the  
9           property or to rebalance a portfolio in order to bring the institutional fund  
10          into compliance with the purposes, terms, and distribution requirements of  
11          the institution as necessary to meet other circumstances of the institution and  
12          the requirements of this Chapter.
- 13          (6)    A person that has special skills or expertise, or is selected in reliance upon  
14          the person's representation that the person has special skills or expertise, has  
15          a duty to use those skills or that expertise in managing and investing  
16          institutional funds. This subdivision does not apply to a volunteer who is not  
17          compensated beyond reimbursement for expenses.

18    **§ 36E-4. Appropriation for expenditure or accumulation of endowment fund; rules of**  
19    **construction.**

20          (a)    Subject to the intent of a donor expressed in the gift instrument, an institution may  
21          appropriate for expenditure or accumulate so much of an endowment fund as the institution  
22          determines is prudent for the uses, benefits, purposes, and duration for which the endowment  
23          fund is established. Unless stated otherwise in the gift instrument, the assets in an endowment  
24          fund are donor-restricted assets until appropriated for expenditure by the institution. In making  
25          a determination to appropriate or accumulate, the institution shall act in good faith, with the  
26          care that an ordinarily prudent person in a like position would exercise under similar  
27          circumstances, and shall consider, if relevant, the following factors:

- 28               (1)    The duration and preservation of the endowment fund;  
29               (2)    The purposes of the institution and the endowment fund;  
30               (3)    General economic conditions;  
31               (4)    The possible effect of inflation or deflation;  
32               (5)    The expected total return from income and the appreciation of investments;  
33               (6)    Other resources of the institution; and  
34               (7)    The investment policy of the institution.

35          (b)    To limit the authority to appropriate for expenditure or accumulate under subsection  
36          (a) of this section, a gift instrument must specifically state the limitation.

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

- 40               (1)    Create an endowment fund of permanent duration unless other language in  
41               the gift instrument limits the duration or purpose of the fund; and  
42               (2)    Do not otherwise limit the authority to appropriate for expenditure or  
43               accumulate under subsection (a) of this section.

44    **§ 36E-5. Delegation of management and investment functions.**

45          (a)    Subject to any specific limitation set forth in a gift instrument or in law other than  
46          this Chapter, an institution may delegate to an external agent the management and investment  
47          of an institutional fund to the extent that an institution could prudently delegate under the  
48          circumstances. An institution shall act in good faith, with the care that an ordinarily prudent  
49          person in a like position would exercise under similar circumstances, in:

- 50               (1)    Selecting an agent;

1           (2) Establishing the scope and terms of the delegation, consistent with the  
2           purposes of the institution and the institutional fund; and  
3           (3) Periodically reviewing the agent's actions in order to monitor the agent's  
4           performance and compliance with the scope and terms of the delegation.

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

7           (c) An institution that complies with subsection (a) of this section is not liable for the  
8           decisions or actions of an agent to which the function was delegated.

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

13          (e) An institution may delegate management and investment functions to its  
14          committees, officers, or employees as authorized by law of this State other than this Chapter.

15          **"§ 36E-6. Release or modification of restrictions on management, investment, or purpose.**

16          (a) If the donor consents in a record, an institution may release or modify, in whole or  
17          in part, a restriction contained in a gift instrument on the management, investment, or purpose  
18          of an institutional fund. A release or modification may not allow a fund to be used for a  
19          purpose other than a charitable purpose of the institution.

20          (b) The superior court, upon application of an institution, may modify a restriction  
21          contained in a gift instrument regarding the management or investment of an institutional fund  
22          if the restriction has become impracticable or wasteful, if it impairs the management or  
23          investment of the fund, or if, because of circumstances not anticipated by the donor, a  
24          modification of the restriction will further the purposes of the fund. The institution shall notify  
25          the Attorney General of the application, and the Attorney General must be given an opportunity  
26          to be heard. To the extent practicable, any modification must be made in accordance with the  
27          donor's probable intention.

28          (c) If a particular charitable purpose or restriction contained in a gift instrument on the  
29          use of an institutional fund becomes unlawful, impracticable, impossible to achieve, or  
30          wasteful, the superior court, upon application of an institution, may modify the purpose of the  
31          fund or the restriction on the use of the fund in a manner consistent with the charitable purposes  
32          expressed in the gift instrument. The institution shall notify the Attorney General of the  
33          application, and the Attorney General must be given an opportunity to be heard.

34          (d) If an institution determines that a restriction contained in a gift instrument on the  
35          management, investment, or purpose of an institutional fund is unlawful, impracticable,  
36          impossible to achieve, or wasteful, the institution may release or modify the restriction, in  
37          whole or part, if:

38                 (1) The institutional fund subject to the restriction has a total value of less than  
39                 one hundred thousand dollars (\$100,000);

40                 (2) More than 10 years have elapsed since the fund was established; and

41                 (3) The institution uses the property in a manner consistent with the charitable  
42                 purposes expressed in the gift instrument.

43          The institution must provide written notice of the proposed release or modification of the  
44          restriction to the Attorney General not less than 60 days before releasing or modifying the  
45          restriction. The Attorney General may make application to the superior court to contest the  
46          institution's determination that the restriction should be released or modified within 60 days of  
47          receipt of the institution's written notice.

48          **"§ 36E-7. Reviewing compliance.**

49          Compliance with this Chapter is determined in light of the facts and circumstances existing  
50          at the time a decision is made or action is taken, and not by hindsight.

51          **"§ 36E-8. Application to existing institutional funds.**

1 This Chapter applies to institutional funds existing on or established after the effective date  
2 of this act. As applied to institutional funds existing on the effective date of this act, this  
3 Chapter governs only decisions made or actions taken on or after that date.

4 **"§ 36E-9. Relation to Electronic Signatures in Global and National Commerce Act.**

5 This Chapter modifies, limits, and supersedes the Electronic Signatures in Global and  
6 National Commerce Act, 15 U.S.C. § 7001, et seq., but does not modify, limit, or supersede  
7 Section 101 of that act, 15 U.S.C. § 7001(a), or authorize electronic delivery of any of the  
8 notices described in Section 103 of that act, 15 U.S.C. § 7003(b).

9 **"§ 36E-10. Conflict with other law; exemptions.**

10 (a) To the extent that the provisions of this Chapter are inconsistent with the provisions  
11 of Chapter 36C, Chapter 36D, Chapter 37A, or Chapter 55A of the General Statutes, the  
12 provisions of this Chapter shall control.

13 (b) The provisions of this Chapter do not apply to The University of North Carolina or  
14 to funds other than endowment funds held by a government or governmental subdivision,  
15 agency, or instrumentality.

16 **"§ 36E-11. Uniformity of application and construction.**

17 In applying and construing this Chapter, consideration may be given to promoting  
18 uniformity of interpretation with respect to its subject matter among the states that enact it."

19 **SECTION 3.** Article 4 of Chapter 36C of the General Statutes is amended by  
20 adding a new section to read:

21 **"§ 36C-4-405.2. Spending rules applicable to charitable trusts.**

22 Subject to the intent of a settlor specifically expressed in a trust instrument, including a  
23 document making a gift to a charitable trust after it is established, a trustee of a charitable trust  
24 may appropriate for expenditure or accumulate so much of the trust property as the trustee  
25 determines is prudent for the uses, benefits, purposes, and duration for which that charitable  
26 trust is established. In making a determination to appropriate or accumulate trust property, a  
27 trustee shall act in good faith, with the care that an ordinarily prudent person in a like position  
28 would exercise under similar circumstances, and shall consider, if relevant, the following  
29 factors:

- 30 (1) The duration and preservation of the trust;  
31 (2) The purposes of the trust;  
32 (3) General economic conditions;  
33 (4) The possible effect of inflation or deflation;  
34 (5) The expected total return from income and the appreciation of investments;  
35 (6) Other resources of the trust; and  
36 (7) The investment policy of the trust."

37 **SECTION 4.** G.S. 36C-4-413 reads as rewritten:

38 **"§ 36C-4-413. Cy pres.**

39 (a) Except as otherwise provided in ~~subsection (d)~~ subsections (c1) and (d) of this  
40 section, if a charitable trust becomes unlawful, impracticable, impossible to achieve, or  
41 wasteful:

- 42 (1) The trust does not fail, in whole or in part;  
43 (2) The trust property does not revert to the settlor or the settlor's successors in  
44 interest; and  
45 (3) The court may apply cy pres to modify or terminate the trust by directing  
46 that the trust property be applied or distributed, in whole or in part, in a  
47 manner consistent with the settlor's charitable purposes.

48 (b) The settlor or a trustee of a charitable trust, the Attorney General, a beneficiary, or  
49 any other interested party may maintain a cy pres proceeding under Article 2 of this Chapter.

50 (c) Repealed by Session Laws 2007-106, s. 17.1, effective October 1, 2007.

1       (c1) If a trustee of a charitable trust determines that a restriction contained in the trust  
2 instrument, including a document making a gift to a charitable trust after it is established,  
3 relating to the management, investment, or purpose of the trust or gift is unlawful,  
4 impracticable, impossible to achieve, or wasteful, the trustee may release or modify the  
5 restriction, in whole or part, if:

6           (1) The trust property to which the restriction applies has a total value of less  
7 than one hundred thousand dollars (\$100,000);

8           (2) More than 10 years have elapsed since the trust property to which the  
9 restriction applies was given to the charitable trust; and

10          (3) The trustee uses the trust property in a manner consistent with the charitable  
11 purposes expressed in the applicable trust instrument.

12       The trustee must provide written notice of the proposed release or modification of the  
13 restriction to the Attorney General not less than 60 days before releasing or modifying the  
14 restriction. The Attorney General may make application to the court to contest the trustee's  
15 determination that the restriction should be released or modified within 60 days of receipt of  
16 the trustee's written notice.

17       (d) This section is not applicable if the settlor has provided, either directly or indirectly,  
18 for an alternative plan in the event that the charitable trust is or becomes unlawful,  
19 impracticable, impossible to achieve, or wasteful. However, if the alternative plan is also a  
20 charitable trust and that trust fails, the intention shown in the original plan shall prevail in the  
21 application of this section."

22       **SECTION 5.** The Revisor of Statutes shall cause to be printed along with this act  
23 all relevant portions of the official comments to the Uniform Prudent Management of  
24 Institutional Funds Act and all explanatory comments of the drafters of this act as the Revisor  
25 deems appropriate.

26       **SECTION 6.** This act is effective when it becomes law.