The University of British Columbia Board of Governors	Policy No.: **113**	Approval Date: November 1991 Last Revision: April 2017
	Responsible Executive: Vice President, Finance, Resources and Operations	

Title:

Endowment Management

Background & Purposes:

The purposes of this Policy are to:

1. benefit all generations of endowment beneficiaries equally by maintaining the purchasing power of endowment capital over time;
2. ensure that the University is responsive to changes in the financial markets;
3. achieve stability and predictability in year-to-year spending;
4. preserve the University's competitiveness relative to other comparable universities; and
5. provide for the periodic review of endowment funds to ensure that the use of such endowment funds are providing the maximum benefit for the advancement of the University's academic mission, including educational and research activities carried on by the University which benefit society generally.

1. General

1.1. The University will manage endowment funds to ensure that investment returns support the quantity and quality of projects and programs for which the endowment funds were initially established. The University's objective is that the capital of endowment funds grows at a rate equal to inflation in order to maintain the purchasing power of the endowment funds over time.

1.2. The University will manage spending from endowment funds to maintain the value of the capital of an endowment fund over time.

1.3. The University will establish one or more endowment pools. Individual endowment funds will be pooled for the purpose of investment into one of the endowment pools maintained by UBC. Such pooling is intended to enable the University to take advantage of economies of scale, reduce administrative expenses, and access investment strategies which are only available on a larger scale. UBC hires external investment fund managers ("**External Managers**") to manage the investment of the endowment pools. The University will provide to the External Managers investment policies for each of the endowment pools. Some External Managers charge fees against the investment returns before reporting the net investment returns to UBC, while other External Managers do not. The External Managers who do not charge fees against the investment returns before reporting the net investment returns to UBC will invoice UBC for their fees (the "**External Investment Fees**"). UBC will charge the External Investment Fees to funds within the applicable endowment pool on a *pro rata* basis. All other expenses related to development at the University and the investment, management and administration of the endowment pools will be assumed centrally by the University and the University will charge a fee to each endowment fund as more particularly described in the Procedures to this Policy. The total costs charged against the endowment pools should be benchmarked against other universities.

1.4. The University is committed to ensuring that the endowment funds maintained in the endowment pools are used in such a way as to maximize their benefits for the advancement of education at the University, including educational and research activities carried on by the University which benefit society generally. Therefore, after 25 years from the establishment of an endowment fund and periodically thereafter, the University will review the use to which endowment funds have been allocated in light of any changes that may have occurred at the University or in society generally since the endowment fund was created, keeping in mind the original spirit of the gift, and assess whether the then-current use continues to be relevant socially, scientifically or otherwise, and whether that use continues to be the most effective use of the fund. If the University is of the opinion that the endowment fund would be more effective if used differently, then the University may vary the endowment documentation to permit such use. Where the donor is an individual, the University will make reasonable efforts to seek the advice of the individual personally regarding any such variation. No variation to the endowment documentation will be effective until such variation is recommended by the President to the Board of Governors and approved by the Board of Governors.

1.5. The University will only create endowment funds where there is sufficient capital to justify the administrative costs associated with endowment funds and provide sufficient funding for the purposes for which the endowment fund is to be established.

1.6. This Policy does not apply to endowment funds that are subject to contrary trust terms and endowment funds held by other organizations for the exclusive benefit of the University as such funds are subject to the distribution and capital preservation policies of those organizations.

1.7. The University administration will provide periodic reporting to the Board of Governors to ensure appropriate oversight of University endowment funds.

PROCEDURES

Approved: November 1991
Revised: January 1, 2019

Pursuant to Policy #1: Administration of Policies, "Procedures may be amended by the President, provided the new procedures conform to the approved policy. Such amendments are reported at the next meeting of the Board of Governors". Note: the most recent procedures may be reviewed at http://universitycounsel.ubc.ca/policies/policies.html.

1. Establishment and Investment of the Endowment Pools

1.1. The endowment pools comprise all of the individual endowment funds established at the University. Responsibility for investment of the endowment pools rests with the Board of Governors. The Board of Governors has retained UBC Investment Management Trust Inc. ("**IMANT**"), a wholly owned subsidiary of the University, to administer and implement the management of the University's endowment pools. Under its agreement with the University, IMANT is responsible for the day-to-day management, administration and investment of the endowment pools and is governed by Statements of Investment Policies and Procedures that are approved by the Board of Governors.

1.2. The University has established the following endowment pools:

1.2.1. the "**Main Endowment Pool**"; and

1.2.2. the "**Sustainable Future Pool**", which, in addition to financial objectives, the University requires IMANT to incorporate the non-financial objective of materially lowering carbon dioxide emissions as compared to certain specified benchmarks, including the objective of reducing or excluding investments in companies that own fossil fuel reserves.

2. Spending Rate for the Endowment Pools

2.1. The spending rate for each of the endowment pools (each a "**Spending Rate**" and together the "**Spending Rates**") is established by the Board of Governors annually based on advice from UBC Finance, UBC Treasury, and IMANT and is published on the UBC Finance website. In determining the appropriate Spending Rate for an endowment pool, the overall objective is to maintain the value of that endowment pool over time. Recognizing that negative market conditions are more difficult to compensate for than positive market conditions, the Spending Rates will be set with a view to maintaining an Aggregate Stabilization Ratio of 5%. The Aggregate Stabilization Ratio is the ratio between the aggregate balance of the Stabilization Accounts (as defined in section 3.1) and the aggregate balance of the Capital Accounts (as also defined in section 3.1) for all of the endowment funds in the applicable endowment pool.

2.2. The advice provided to the Board of Governors regarding each endowment pool by UBC Finance, UBC Treasury, and IMANT is informed by:

2.2.1. an annual evaluation by IMANT of the 10-year performance of the applicable endowment pool;

2.2.2. an annual assessment by UBC Finance, UBC Treasury, and IMANT of the historical smoothed and unsmoothed investment returns from the applicable endowment pool, costs charged against the applicable endowment pool, inflation and the aggregate balance of the Stabilization Accounts of the endowment funds in the applicable endowment pool; and

2.2.3. an independent asset and liability review conducted every three to five years by IMANT to assess the Spending Rates during the applicable period, the ability to preserve intergenerational equity, and the outlook for long term investment returns.

3. <u>Allocation of Income and Costs from the Endowment Pools to Individual Endowment Funds</u>

3.1. Each endowment fund within an endowment pool will have three accounts associated with it, namely a capital account (the "**Capital Account**"), a spending account (the "**Spending Account**"), and a stabilization account (the "**Stabilization Account**").

3.2. The value of the Capital Account of an endowment fund represents the total of all capital contributions (including any Annual Allocations transferred in accordance with section 5.3 of these Procedures) that have been made to that endowment fund plus adjustments made at the end of each fiscal year to account for inflation.

3.3. The value of the Spending Account of an endowment fund represents the amount that is available to be spent in support of the purpose of the endowment fund. The Spending Account of an endowment fund is comprised of the amount allocated to spending for the current fiscal year pursuant to section 5 of these Procedures (the "**Annual Allocation**"), plus any accumulated unspent amounts from previous years.

3.4. The value of the Stabilization Account of an endowment fund represents the degree to which the market value of the endowment fund is greater or less than the inflation-adjusted value of all capital contributions made to the endowment fund. In other words, the sum of the Capital Account and the Stabilization Account of an endowment fund represents the market value of the endowment fund.

3.5. A *pro rata* share of all of the investment returns and losses of an endowment pool (including interest income, dividend income, realized capital gains and losses, and unrealized capital gains and losses) will be allocated monthly to the Stabilization Account of each endowment fund in that endowment pool based on the market value of the endowment fund relative to the market value of that endowment pool.

3.6. Subject to External Investment Fees charged against an endowment pool as described in section 3.7, all expenses related to development at the University and the investment, administration and management of endowment funds will be borne centrally by the University and the University will charge a fee (the "**Fee**"). The Fee will be determined by the Responsible Executive but will not exceed an upper limit approved by the Board of Governors. The Fee will be charged to the Stabilization Account of each endowment fund in that endowment pool on a percentage basis based on the balance of the market value of the endowment fund.

3.7. A *pro rata* share of all External Investment Fees charged against an endowment pool as set out in section 1.3 of the Policy will be allocated to the Stabilization Account of each endowment fund in that endowment pool based on the market value of the endowment fund relative to the market value of that endowment pool. The External Investment Fees will be allocated as at the time the costs are incurred.

4. <u>Preservation and Encroachment of Capital Account</u>

4.1. The Capital Account of each endowment fund will be credited with each capital contribution at the time that the capital contribution is received.

4.2. To preserve the real value of each endowment fund on an inflation-adjusted basis, the Capital Account will be credited (and the Stabilization Account will be debited) as at the end of each fiscal year by an amount equal to the amount of inflation experienced during the fiscal year (as represented by the Canadian Consumer Price Index).

4.3. Although uncommon, circumstances may arise where it is advisable (if permitted by the terms of the endowed fund) to vary the terms of an endowment fund, or permit an encroachment of the Capital Account of an endowment fund. For the purposes of these Procedures, encroachment on an endowment fund means a transfer from the Capital Account of the endowment fund to either: the Stabilization Account or Spending Account of the endowment fund; or the Capital Account, Stabilization Account or Spending Account of another endowment fund. Due to the extraordinary nature of such requests, variation of and encroachments on the Capital Accounts of an endowment fund, where permitted by the terms of that endowment fund, may only occur upon the approval of the Board of Governors on the recommendation of the President.

5. <u>Annual Allocation</u>

5.1. The Annual Allocation is credited to the Spending Account and debited from the Stabilization Account of each endowment fund as at the beginning of each fiscal year. In addition, where a contribution is made to the Capital Account or an encroachment is made from the Capital Account to the Spending Account of an endowment fund partway through a fiscal year, an adjustment will be made to the Annual Allocation on a pro-rated basis. Subject to section 8.5, the Annual Allocation for a fiscal year is the amount calculated by multiplying the Spending Rate that has been established for that fiscal year for that endowment pool in which the endowment fund is invested by the rolling three-year average of the market value of that endowment fund. The rolling three-year average will be determined by adding the value of the Capital Account and the Stabilization Account of that endowment fund as at the end of each of the three preceding calendar years and dividing by three. For example, if the applicable Spending Rate for the fiscal year beginning April 1, 2017 is 4%, and the value of the Capital Account and the Stabilization Account of that endowment fund at the end of each of the three preceding calendar years is as follows, then the Annual Allocation for the fiscal year beginning April 1, 2017 will be 4% x ($90.00+$103.10+$109.30)/3 = $4.03:

	Capital Account (example only)	Stabilization Account (example only)	Market Value (sum of Capital Account and Stabilization Account)
December 31, 2014	$100.00	($10.00)	$90.00
December 31, 2015	$102.10	$1.00	$103.10
December 31, 2016	$104.30	$5.00	$109.30

5.2. Recognizing that Annual Allocations may vary from year to year, the person designated as the endowment fund manager for a Spending Account should limit fixed commitments against an endowment fund's Annual Allocation to prudent levels, with the balance used for discretionary expenses. Any portion of the Annual Allocation not spent in a fiscal year will remain in the Spending Account and will be carried forward to the following fiscal year, unless UBC Finance is directed to transfer such amount to the endowment fund's Capital Account in accordance with section 5.3.

5.3. Capitalization of Annual Allocations is normally avoided as it results in favouring future beneficiaries over present beneficiaries. However, circumstances may arise where it is desirable to build the Capital Account of an endowment fund. Upon the approval of the appropriate person referred to in section 6.4.1 or 6.4.2 of these Procedures, UBC Finance will transfer the unspent balance or portion thereof of an endowment fund's aggregate Annual Allocations from its Spending Account to its Capital Account, provided that the value of the Stabilization Account is greater than zero. Where the value of the Stabilization Account is less than zero, the transfer will be made to the Stabilization Account.

5.4. Expenditures made in connection with an endowment fund should not reduce the value of the Spending Account below zero. If expenditures exceed the amount available in the Spending Account of an endowment fund, UBC Finance may suspend spending from that endowment fund until such time as the Spending Account is no longer below zero.

5.5. In order to respond to situations where the ratio between the balance of the Stabilization Account and the Capital Account for an individual endowment fund deviates excessively from the Aggregate Stabilization Ratio, the Responsible Executive may approve an adjustment to the amount of the Annual Allocation to be credited to the Spending Account and debited from the Stabilization Account of that endowment fund provided that:

5.5.1. the endowment fund must not be subject to special trust requirements that would make this inappropriate;

5.5.2. the endowment fund must be held and invested by UBC as part of an endowment pool and not by third parties;

5.5.3. the balance of endowment fund’s Stabilization Account balance must have deviated from the Aggregate Stabilization Ratio by more than of 15%;

5.5.4. where the adjustment is to be an increase in the amount of the Annual Allocation that would otherwise be debited from the Stabilization Account, the Responsible Executive must be satisfied that the increase would not adversely affect the financial health of the endowment fund;

5.5.5. where the adjustment is to be a decrease in the amount of the Annual Allocation that would otherwise be debited from the Stabilization Account, the Responsible Executive must be satisfied that the decrease is necessary to preserve or restore the financial health of the endowment fund; and

5.5.6. the magnitude of the adjustment must not exceed the lesser of (i) 0.5% of the balance of the Capital Account; and (ii) the amount necessary to bring the ratio between the Stabilization Account and the Capital Account for that endowment fund to within 15% of the Aggregate Stabilization Ratio.

6. <u>Establishment of Endowment Funds</u>

6.1. Responsibility for administration of endowment funds, including approval of endowment documentation (endowment trust agreement or terms of reference) rests with the Board of Governors. The Board of Governors has delegated authority to the President to approve, upon the recommendation of the University Counsel, the establishment of new endowment funds. Spending may begin upon execution of the endowment documentation by the President.

6.2. To facilitate the efficient establishment and administration of endowment funds at the University, endowment funds will be established in accordance with standard form documentation issued by the Office of the University Counsel. Where deviations from the standard form documentation are required, the Office of the University Counsel should be consulted.

6.3. Due to the funding requirements to achieve the purposes of certain endowment funds and the administrative costs involved with establishing endowment funds, the University’s practice in creating endowment funds is:

6.3.1. for endowed chairs, professorships and distinguished scholars (“**Honorific(s)**”), the gift establishing the endowment fund may differ from Faculty to Faculty, and the amount required will be commensurate with the goal of enhancing the capacity of an Honorific to undertake research, teaching and educational leadership activities. The Responsible Executive, as defined in University Policy #47, will create guidelines establishing the minimum amounts required by Faculties and will periodically adjust the amounts required. Where an endowment to support an Honorific may be used in whole or part for salary and benefits of a UBC employee, a financial sustainability plan will be required in accordance with Policy #47;

6.3.2. for endowed fellowships, the gift establishing the endowment fund should be in the range of $200,000 to $400,000;

6.3.3. for all other endowed purposes, the gift establishing the endowment fund should be at least $50,000; and

6.3.4. smaller gifts should be added to existing endowment funds.

6.4. Monies at the University that are not subject to trust obligations (“**Unrestricted Monies**”) should not normally be transferred into the Capital Account of an endowment fund which is subject to trust obligations. Approval for transfers will be required from the Office of the University Counsel to ensure that Unrestricted Monies are not inadvertently transferred into an endowment fund which is subject to trust obligations. In addition, except where the transfer is made pursuant to section 8.5 of these Procedures, the transfer of Unrestricted Monies into the Capital Account or Stabilization Account of any endowment fund must be approved in writing by:

6.4.1. in the case of monies held within an academic unit:

6.4.1.1. the Provost and Vice President Academic or the Vice Provost and Associate Vice-President Academic Resources (UBC Vancouver); or

6.4.1.2. the Deputy Vice Chancellor (UBC Okanagan), as appropriate; and

6.4.2. in all other cases, the appropriate Vice President for the University account from where the monies will be transferred.

6.5. In addition to the endowment establishment process in this section 6, the establishment of endowments with Unrestricted Monies in the Sustainable Future Pool must be approved in writing by the Vice President Finance.

6.6. The University will only establish endowments with funds subject to a trust in the Sustainable Future Pool where documentation provides that:

6.6.1. the donor authorizes, but does not require (so as to retain flexibility over time), the University to consider non-financial criteria in making investment decisions;

6.6.2. the donor acknowledges that authorizing the University to make investment decisions considering non-financial criteria may result in differing financial performance (including potentially higher volatility) for the Fund while invested in the Sustainable Future Pool as compared to the other endowment pools at the University; and

6.6.3. the Board of Governors may, from time to time, make decisions regarding the Sustainable Future Pool which the Board of Governors considers to be in the best interests of the University, including but not limited to altering the non-financial criteria and the values on which the non-financial criteria are based, transferring the Fund from the Sustainable Future Pool to another endowment pool at the University and discontinuing the Sustainable Future Pool.

6.7. Any endowed trust established on or before April 14, 2017 will continue to be managed in the Main Endowment Pool, unless otherwise approved by the Board of Governors.

7. Reporting

7.1. IMANT will provide a quarterly report to the Responsible Executive and to the Board of Governors containing for each endowment pool: the details of the holdings of the investment portfolio; and the investment performance of that pool since the last report with comparative data against the investment policy benchmark, liability benchmark, and against peer groups. For the Sustainable Future Pool, IMANT will also report on performance criteria connected to those non-financial criteria as described in the Statement of Investment Policies and Procedures for the Sustainable Future Pool. This report will be made available to members of the public.

7.2. The Responsible Executive will provide quarterly reporting to the Board of Governors as follows:

7.2.1. Reporting on Stabilization Accounts: the number of and aggregate value of the Capital Accounts and Stabilization Accounts for:

7.2.1.1. all endowment funds where the Annual Allocation is reduced pursuant to section 8.5 of these Procedures; and

7.2.1.2. all remaining endowment funds where the Annual Allocation is not subject to the reduction referred to in section 8.5 of these Procedures; and

7.2.2. Additional Information: as requested by the Board of Governors from time to time.

7.3. The Responsible Executive will provide an annual report to the Board of Governors as follows:

7.3.1. Reporting on Spending Rates: recommendations with respect to the Spending Rates for the subsequent fiscal year; a comparison of the Spending Rates for the current fiscal year and the recommended Spending Rates for the subsequent fiscal year relative to other comparable universities; and the projected aggregate value of the Stabilization Accounts of all the endowment funds in the endowment pools at the current and, if different, subsequent Spending Rates;

7.3.2. Reporting on Stabilization Accounts: the number of and aggregate value of the Capital Accounts and Stabilization Accounts for:

7.3.2.1. all endowment funds where the Annual Allocation is reduced pursuant to section 8.5 of these Procedures; and

7.3.2.2. all remaining endowment funds where the Annual Allocation is not subject to the reduction referred to in section 8.5 of these Procedures; and

7.3.3. Additional Information: as requested by the Board of Governors from time to time.

7.4. For the Sustainable Future Pool, the Responsible Executive will provide a report at least every five years beginning in or before 2022, to the Board of Governors, or more frequently as requested by the Board of Governors from time to time regarding how the non-financial criteria of materially lowering carbon dioxide emissions and reducing or excluding investments in companies that own fossil fuel reserves relates to the best interests of the University, addressing issues such as alignment of the non-financial criteria with the University's vision and values, reputational impact among students, faculty and donors and examples of how those non-financial criteria has provided learning opportunities as a living lab.

7.5. As part of its regular reporting to the Board of Governors, the Development Office will include aggregate information on new endowment funds established at the University, including information on the number and value of the new endowments and into which endowment pool those new endowment funds were placed, with comparisons to previous years.

7.6. The Development Office will be responsible for periodic reporting to donors on the status of the endowment fund created as a result of the donor's donation and UBC Finance will make accurate and timely information available to enable such reporting.

7.7. UBC Internal Audit will carry out routine audits of the Spending Accounts of endowment funds to ensure that spending is consistent with the permitted terms of the endowment fund and will provide an annual report to the Responsible Executive containing the results of its auditing activities.

7.8. UBC Finance will make quarterly statements available to the person designated as the endowment fund manager for an endowment fund, which will include the following information: opening and closing balances for each of the Capital Account, Spending Account and Stabilization Account; and a summary of all transactions entered against these accounts for the reporting period.

8. Transitional Period

8.1. This Policy and Procedures will come into effect on April 1, 2009.

8.2. UBC Finance will provide education and training to relevant members of the University community for the implementation and administration of this Policy and these Procedures.

8.3. For each endowment fund in existence as at December 31, 2008, if the market value of the endowment fund as at December 31, 2008 is greater than the aggregate capital contributions that have been made to that endowment fund (the "**Contributions**"), the value of the Capital Account as at January 1, 2009 will be set at that market value and the value of the Stabilization Account as at January 1, 2009 will be set at zero.

8.4. For each endowment fund in existence as at December 31, 2008, if:

8.4.1. the market value of the endowment fund as at December 31, 2008 is less than the Contributions;

8.4.2. any unspent amounts from previous years have been capitalized; and

8.4.3. it is legally permissible to do so;

then the University will:

8.4.4. encroach upon the endowment fund by debiting from the Capital Account and crediting to the Stabilization Account the lesser of the value of such previously capitalized amounts and the amount necessary to bring the balance of the Stabilization Account to zero; and

8.4.5. the value of the Capital Account as at January 1, 2009 will be set at the aggregate amount of the Contributions less any amounts decapitalized pursuant to section 8.4.4. The value of the Stabilization Account as at January 1, 2009 will be established by subtracting the value of the Capital Account from the market value.

8.5. For any endowment fund for which the value of the Stabilization Account is less than zero as at January 1, 2009 (the "**Pre-Existing Deficit**"), the Annual Allocation that would otherwise have been made pursuant to section 5.1 of these Procedures will be reduced by one-tenth of the Pre-Existing Deficit until the sooner of:

8.5.1. the aggregate value of the adjustments is equal to the amount of the Pre-Existing Deficit; or

8.5.2. the value of the Stabilization Account is no longer less than zero.