The University of British Columbia Board of Governors	Policy No.: FM9
Long Title: Term Invested Fund Management	
Short Title: **Term Investments Policy**	

Background & Purposes:

Donors to the University may express an interest that their capital contribution to the University be spent over a period of time. Term Invested Funds allow donors to make a gift to the University that will generate returns based on investment over time, but will also utilize portions of the original capital contribution on an annual basis, for spending purposes. The University's Endowment Policy involves the preservation of the value of the capital, but does not contemplate both investment returns and capital being used from the gift. This policy sets out the policies and procedures regarding the management and investment of term invested funds.

1. General

1.1 A term invested fund is a fund established by the University with the intention of providing a significant level of financial support for one or more charitable purposes at the University over an extended but finite period of time. In order to achieve this, each term invested fund will be invested so as to generate investment returns. Each year, an amount will be made available for spending from the term invested fund (the "**Annual Payout**") that consists of a combination of the projected investment return and the capital of the term invested fund, which will be calculated such that at the end of the life of the term invested fund, the term invested fund will have been exhausted.

1.2 The University will manage term invested funds to ensure that the investment returns support the quantity and quality of projects and programs for which the term invested funds were initially established and in accordance with the applicable Term Invested Fund Agreement.

1.3 Term invested funds will normally be invested separately from one another and from the University's pool of endowment funds (the "**Endowment Pool**") so that the investment profile can be tailored to the donor's desired distribution schedule. However, term invested funds may be invested in a pool of term invested funds (a "**TIF Pool**") or may be pooled in the Endowment Pool to access investment strategies which are only available to larger pools of funds. Direct investment management costs will be allocated and the University will charge a fee to each fund.

1.4 The University will only create term invested funds with newly donated funds at the request of donors. The University will not create term invested funds for its own monies or monies provided to it as research grants by granting institutions. The University will not use its own funds to provide matching funds for gifts that are set up as term invested funds.

1.5 The University will only create term invested funds that have the characteristics set out in the Procedures.

PROCEDURES ASSOCIATED WITH THE TERM INVESTMENTS POLICY

Pursuant to the Regulatory Framework Policy, the President may approve Procedures or the amendment or repeal of Procedures. Such approvals must be reported at the next meeting of the UBC Board of Governors or as soon thereafter as practicable.

Capitalized terms used in these Procedures that are not otherwise defined herein shall have the meanings given to such terms in the accompanying Policy, being the Term Investments Policy.

1. Establishment of Term Invested Funds

1.1 Responsibility for administration of term invested funds, including approval of term invested fund documentation, 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 term invested funds, the form of Term Invested Fund Agreements and other related documentation. Spending may begin upon execution of the term invested fund documentation by the President.

1.2 Due to the administrative issues involved with establishing term invested funds and the funding requirements of certain types of purposes, the University will only create term invested funds that have the following characteristics:

1.2.2 the gift establishing the term invested fund is at least $1,000,000;

1.2.3 the term of the term invested fund is 10 or more years but no more than 25 years;

1.2.4 for chairs, the term invested fund should have an Annual Payout in the range of $200,000 to $250,000 or more;

1.2.5 for professorships, the term invested fund should have an Annual Payout in the range of $100,000 to $125,000 or more;

2. Accounting

2.1 Each term invested fund will have two accounts associated with it, namely a TIF account (the "**TIF Account**"), and a spending account (the "**Spending Account"**).

2.2 The value of the TIF Account of a term invested fund represents the initial capital contribution to the term invested fund, minus transfers to the Spending Account, plus or minus investment returns or losses, and expenses described in section 4 below.

2.3 The TIF Account of each term invested fund will be credited with the amount of the capital contributions at the time they are received.

2.4 The value of the Spending Account of a term invested fund represents the amount that is available to be spent in support of the purpose of the term invested fund. The Spending Account of a term invested fund is comprised of the Annual Payout (as calculated in Article 5.2 and 5.3 below) plus any accumulated unspent amounts from previous years.

3. Allocation of Investment Returns / Losses

3.1 If a term invested fund is invested with other term invested funds or endowment funds, a *pro rata* share of all of the investment returns and losses (including interest income, dividend income, realized capital gains and losses, and unrealized capital gains and losses) from either an applicable TIF Pool or Endowment Pool will be allocated monthly to the TIF Account of each term invested fund.

3.2 If a term invested fund is not invested with other funds, the investment returns or losses will be applied directly to the specific term invested fund.

3.3 Responsibility for investment of the Endowment Pool as well as term invested funds 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 these funds. Under its agreement with the University, IMANT is responsible for the day-to-day management, administration and investment of these funds and is governed by Statements of Investment Policies and Procedures that are approved by the Board of Governors.

4. Payment of Costs Relating to Term Invested Funds

4.1 Where a term invested fund is invested separately from other funds, 100% of the direct investment management costs will be allocated to the TIF Account of that fund. Where a term invested fund is invested as part of a TIF Pool, a *pro rata* share of the direct investment management costs incurred in relation to the TIF Pool will be allocated to the TIF Account of each term invested fund in the TIF Pool based on the balance of the TIF Account of that term invested fund relative to the sum of the balances of the TIF Accounts of all of the term invested funds in the TIF Pool. Where a term invested fund is invested as part of the Endowment Pool, a *pro rata* share of the direct investment management costs incurred in relation to the Endowment Pool will be allocated to the TIF Account of each term invested fund in the Endowment Pool based on the balance of the TIF Account of that term invested fund relative to the sum of the TIF Accounts for all of the term invested funds and the sum of the capital account and stabilization account for all of the endowment funds within the Endowment Pool. All such direct investment management costs will be allocated as at the time the costs are incurred.

4.2 Except as provided in Article 4.1, all costs related to development at the University and the investment, administration and management of term invested 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 TIF Account of each term invested fund on a percentage basis based on the balance of the TIF Account.

5. Payout Schedule

5.1 The payout schedule for a term invested fund may be set up such that the Annual Payouts are consistent over the life of the term invested fund (a "**Smooth Payout Schedule**") or such that Annual Payouts vary over time (a "**Variable Payout Schedule**").

5.2 For a Smooth Payout Schedule:

5.2.1 The Annual Payout for the term invested fund will be established by applying an annuity calculation to determine the amount of funding that is expected to be available from the term invested fund for each year during the life of that term invested fund. The annuity calculation is based on a fixed annuity due formula where payments are deemed to be made from the term invested fund at the beginning of each year. For the purposes of the annuity calculation, the present value will be the amount of the gift, the future value will be zero, the interest per year will be the expected rate of return as determined by UBC Treasury, in collaboration with IMANT and the number of periods will be the number of years in the life of the term invested fund.

5.2.2 Because the method in Article 5.2.1 for calculating the Annual Payout is based on an expected rate of return and the actual rate of return may vary from the expected rate of return, the Annual Payout will be recalculated two thirds of the way through the life of the term invested fund (and if this falls partway through a year, the recalculation will be done at the beginning of the next full year) and again for each of the last two years of the life of the term invested fund. For the recalculation that occurs two thirds of the way through the life of the term invested fund, the method set out in Article 5.2.1 for calculating the Annual Payout will be used except that the present value will be the balance of the TIF Account as at the date of the recalculation, the interest per year will be the expected rate of return for the balance of the life of the fund as determined by UBC Treasury in collaboration with IMANT on the date of the recalculation, and the number of periods will be the number of years remaining in the life of the term invested fund. The future value will remain zero. For the second-to-last year in the life of the term invested fund, the Annual Payout will normally be calculated by taking the balance of the TIF Account and dividing it by two, provided that it is greater than zero. However, this may be adjusted by Treasury in consultation with IMANT and the Development Office in order to meet the specific needs of the term invested fund. For the last year in the life of the term invested fund, the Annual Payout will be the balance of the TIF Account, provided that it is greater than zero.

5.3 For a Variable Payout Schedule:

5.3.1 The Annual Payout for the term invested fund will be established by Treasury in consultation with IMANT and the Development Office. As the amount of the Annual Payout may differ from year to year, Treasury will develop a financial model which will be based upon the desired amount and timing of each Annual Payout and the expected rate of return for the term invested fund. Subject to recalculation pursuant to Article 5.3.2, the Variable Payout Schedule may not provide for an Annual Payout in any year that is less than $40,000.

5.3.2 Because the method in Article 5.3.1 for calculating the Annual Payout is based on an expected rate of return and the actual rate of return may vary from the expected rate of return, the Annual Payouts will be recalculated at the end of the year in which the aggregate Annual Payouts that are scheduled to have been made exceeds two thirds of the capital contributions that have been made to the term invested fund (the “2/3 Recalculation”) and again for each of the last two years of the life of the term invested fund. For the 2/3 Recalculation, Treasury will re-calculate the financial model based on the then-current balance of the TIF Account and the expected rate of return for the balance of the life of the term invested fund, taking into consideration the desired amount and timing of each Annual Payout for the balance of the life of the term invested fund. For the second-to-last year in the life of a term invested fund, the Annual Payout will normally be calculated by taking the balance of the TIF Account and dividing it by two, provided that it is greater than zero. However, this may be adjusted by Treasury in consultation with IMANT and the Development Office in order to meet the specific needs of the term invested fund. For the last year in the life of a term invested fund, the Annual Payout will be the balance of the TIF Account, provided that it is greater than zero.

5.4 Notwithstanding anything else in these Procedures, the Annual Payout may never exceed the balance of the TIF Account.

5.5 The Annual Payout will be credited to the Spending Account of the term invested fund as at the beginning of each fiscal year. The Annual Payout will be debited from the TIF Account. Unexpended funds cannot be recapitalized.

5.6 Expenditures made in connection with a term invested fund must not exceed the amounts available in the Spending Account for that term invested fund. If expenditures exceed the amounts available in the Spending Account, Finance may freeze spending from the Spending Account until such time as it is no longer in deficit.