

 <p><b>The University of British Columbia Board of Governors</b></p>	<p><b>Policy No.:</b> <b>FM5</b></p>
<p><b>Long Title:</b> Endowment Management</p>	
<p><b>Short Title:</b> Endowment Policy</p>	

**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.



## PROCEDURES ASSOCIATED WITH THE ENDOWMENT 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 Endowment Policy.*

### 1. Establishment and Investment of the Endowment Pools

- 1.1 The endowment pools comprise substantially 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 that are approved by the Board of Governors.
- 1.2 Notwithstanding that these procedures are drafted to refer to more than one endowment pool, currently the University has a single endowment pool called the “Main Endowment Pool”. The University may from time to time establish additional endowment pools.

### 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. The normal practice is to establish a single Spending Rate for each endowment pool. However, where circumstances warrant, upon the recommendation of the Responsible Executive, the Board of Governors may establish different Spending Rates for different portions of an endowment pool or different endowment funds within an 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. Allocation of Investment Returns and Costs from the Endowment Pools to Individual Endowment Funds

- 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 Each Capital Account will have two sub-accounts, namely a sub-account that contains all capital contributions that have been made to that endowment fund (the “**Contributions Sub-Account**”) and a sub-account that contains the adjustments made at the end of each fiscal year to account for inflation plus any Annual Allocations transferred in accordance with section 5.3 of these Procedures (the “**Adjustments Sub-Account**”).
- 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. Preservation and Encroachment of Capital Account**

- 4.1 The Contributions Sub-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 Adjustments Sub-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 on an endowment fund. For the purposes of these Procedures, encroachment on an endowment fund means a transfer from the Contributions Sub-Account of the endowment fund to either: the Stabilization Account or Spending Account of the endowment fund; or to the Contributions Sub-Account, Stabilization Account or Spending Account of another endowment fund.
- 4.4 One of the situations where an encroachment will occur is when an endowment fund is collapsed so that its assets can be amalgamated with another endowment fund. In such situations, the balances of the Contributions Sub-Account, Adjustments Sub-Account, Stabilization Account, and Spending Account of the endowment fund that is being collapsed will be transferred into the matching sub-accounts and accounts of the destination endowment fund.
- 4.5 Due to the extraordinary nature of such requests, variation of and encroachments on 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.
- 4.6 Circumstances may arise where it is desirable to transfer amounts in the Adjustments Sub-Account to the Stabilization Account or the Spending Account of the endowment fund. A transfer from the Adjustments Sub-Account does not constitute an encroachment on the endowment fund and may be made if approved by the Responsible Executive.
- 4.7 Transfers that are made from the Adjustments Sub-Account pursuant to section 4.6 are intended to be temporary in nature and the Responsible Executive will review each affected endowment fund annually until the amounts transferred have been restored to the endowment’s Adjustments Sub-Account.

## 5. Annual Allocation

5.1 Subject to section 5.6 of these Procedures, 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 the balance of the Capital Account changes partway through a fiscal year, an adjustment will be made to the Annual Allocation on a pro-rated basis. 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  $4\% \times (\$90.00 + \$103.10 + \$109.30) / 3 = \$4.03$ :

	Capital Account (example only)		Stabilization Account (example only)	Market Value (sum of Capital Account and Stabilization Account)
	Contributions Sub-Account	Adjustments Sub-Account		
December 31, 2014	\$100.00	\$0.00	(\$10.00)	\$90.00
December 31, 2015	\$100.00	\$2.10	\$1.00	\$103.10
December 31, 2016	\$100.00	\$4.30	\$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 Adjustments Sub-Account in accordance with section 5.3.

5.3 Transfers of Annual Allocations to the Adjustments Sub-Account are normally avoided as they result in favouring future beneficiaries over present beneficiaries. However, circumstances may arise where it is desirable to do so. 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 Adjustments Sub-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 (the “**Stabilization Ratio**”) 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 endowment fund’s Stabilization Ratio must be higher than the Aggregate Stabilization Ratio by more than 15% or lower than the Aggregate Stabilization Ratio by more than 5% (For example, if the Aggregate Stabilization Ratio is 3%, then the endowment fund’s Stabilization Ratio must be higher than 18% or lower than -2%.);
  - 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 endowment fund’s Stabilization Ratio to within the range set out in section 5.5.3.
- 5.6 Recognizing that new endowment funds will have a Stabilization Account balance of zero when initially created, the Responsible Executive, in consultation with the Vice-President, Development and Alumni Engagement, may issue a standing direction that Annual Allocations not be made for some or all of newly created endowment funds until they meet financial criteria or for a period of time or both, provided that the making of Annual Allocations is not suspended for more than 3 years after the creation of the endowment fund. The intention of such a direction would be to enable new endowment funds to accumulate a sufficient positive balance in their Stabilization Accounts before spending begins.

## 6. Establishment of Endowment Funds

- 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 member of the Executive who has been designated as the Responsible Executive for the Honorifics Policy 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 the Honorifics Policy;

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 Contributions Sub-Account, Adjustments Sub-Account, or Stabilization Account of an endowment fund which is subject to trust obligations. Approval for such 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, the transfer of Unrestricted Monies into the Contributions Sub-Account, the Adjustments Sub-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:

(a) the Provost and Vice-President, Academic (UBC Vancouver) or the Vice-Provost and Associate Vice-President, Academic Affairs (UBC Vancouver); or

(b) the Provost and Vice-President, Academic (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.

## 7. Reporting

- 7.1 Twice per year, IMANT will provide a report to the Responsible Executive, who will in turn provide it 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. This report will be made available to members of the public.
- 7.2 The Responsible Executive will provide an annual report to the Board of Governors as follows:
  - 7.2.1 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; 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; and the projected Aggregate Stabilization Ratio at the current and, if different, subsequent Spending Rates;
  - 7.2.2 Stabilization Accounts: for each endowment pool, the aggregate value of the Capital Accounts and Stabilization Accounts, the Aggregate Stabilization Ratio, and the number of endowment funds that are not within the range set out in section 5.5.3;
  - 7.2.3 New Endowments: 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; and
  - 7.2.4 Additional Information: as requested by the Board of Governors from time to time.
- 7.3 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.
- 7.4 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.
- 7.5 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.