



ENDOWMENT MANAGEMENT POLICY

Financial Policy & Procedures

INTRODUCTION

Sustained high profile fund development should be an integral part of University activity. Through its capital campaigns and ongoing fund-raising efforts, the University receives endowment funding from donors to support enrichment programs, scholarships and awards. It is the University's responsibility to ensure these endowment funds are being invested to maximize the benefit for current and future beneficiaries. Sound and formalized management practices are important in attracting future endowments and protecting existing endowment for the continuing fiscal health of Mount Saint Vincent University.

PURPOSE

The purpose of this policy is to provide guidelines and procedures to ensure that annual income continues at an adequate level to support the quantity and quality of projects and programs they were initially established to provide. The policy will be applied to all endowments managed by the University as part of the Endowment Portfolio.

The overall investment objective of the Endowment Management Policy is to earn a rate of return, over time, at least equal to total inflation plus spending and the costs of administering the funds. Inflation is measured using the CPI index. Investment income includes both realized and unrealized gains and losses, and all related investment income earned through direct or indirect investment activity. Costs of administration include investment management, performance measurement and custody charges.

DEFINITIONS

Endowment Portfolio: This portfolio is derived primarily from donations made to the University from second parties who designate the capital to be preserved perpetually (true endowment) or from unrestricted donations designated by the Board of Governors for endowed purposes with the capital preserved. The income earned on the capital is used for a specific purpose as specified by the terms of each individual endowment. Examples of these include Scholarships, Internally Restricted funds and Capital funds. Each individual endowment may require specific reporting or other similar conditions.

POLICY

1. Endowment Levels

- (a) The level required to set up an endowment is established and monitored by the Advancement Office, in consultation with Financial Services. The endowment fund status remains pending until the minimum required contribution level is reached (not including investment income earned), at which time it is transferred to the investment portfolio. All pending endowments will be allocated interest based on the short-term interest rates earned on Development Fund cash and investments. Donors can add to the pending endowment over time and continue to add to the capital after the endowment status is reached. The minimum levels for the main areas of giving are:
- Graduate Scholarships - \$30,000
 - Undergraduate Scholarships - \$25,000
 - Bursaries - \$10,000
 - Awards and Prizes - \$5,000
- (b) If the purpose of the donation does not fall under one of the categories above or it falls under one of the categories and there are exceptional circumstances, the limits in (a) may be waived or established at an appropriate level, with the approval of the Vice-President Administration and the Associate Vice-President University Relations. Such exceptions will be reported to the Finance Committee on an annual basis.
- (c) For all new endowments and the majority of our existing agreements, a written agreement with the donor(s) stipulates the purpose and terms of the donation(s). The Agreement also indicates that spending will be in accordance with this Endowment Policy and requires sign-off by the Executive Director, Advancement and Vice-President Administration or designate as well as other relevant University personnel.
- (d) Once the minimum endowment level by way of donations has been reached, the balance including all interest earned will be transferred to the investment pool. The endowment will normally remain dormant until it has earned net investment income equal to 10% of the original contributed capital and has been invested for a minimum of one full fiscal year. Once the level of earnings has been achieved, the endowment spending will be distributed for its intended purpose in the following fiscal year and in accordance with that year's approved spending rate. Any exceptions from this policy will require approval from the Associate Vice-President University Relations and Vice-President Administration. Such exceptions will be reported to the Finance Committee on an annual basis.

2. Unitizing of Endowments

A unitized accounting system is utilized to account for a participant's interest in an investment pool on the basis of units or shares. Each individual endowment receives units representing its proportionate share of the market value of the investment pool. New endowments or additional principal investment to existing endowments will be assigned a number of units based on the unit value at that time. Funds withdrawn are redeemed based on the unit value at the time the withdrawal is made. The unit value will be calculated quarterly.

A unitized investment pool enables the University to:

- Accurately distribute income earned between the participating funds in the pool.
- Accurately distribute the changes in investment market values (both realized and unrealized) between the participating funds in the pool.

3. Investment of the Endowment Portfolio

Responsibility for oversight of the investment of all funds within the Endowment Portfolio will be the responsibility of the Investment Committee of the Board of Governors in accordance with the Investment Policy approved by the Board.

4. Spending Rate

The University aims to ensure that there is sufficient funding available to support present and future needs. The spending allocation is calculated using a percentage (spending rate) of the moving average of market value of the preceding four fiscal years ended March 31 to alleviate large fluctuations in the spending commitments. The spending rate will be reviewed each year and will range between 3.5% and 5.0%.

The spending allocation will be calculated on a per unit basis and applied to each endowment based on the number of units held.

The Vice President Administration will provide a recommendation to the Investment Committee of the Board of Governors annually, in January or February, regarding the spending rate for the upcoming year. The Investment Committee will consider the recommendation and either approve it or revise it before recommending it to Finance Committee for approval.

5. Capital Erosion

- (a) In rare and exceptional cases, a reduction in endowment capital may be required. Any planned encroachment of the capital must be approved by the Board of Governors and signatories to Endowment agreements (donors) where applicable, on the recommendations of the Vice-President Administration and the President.

- (b) In the case where the spending based on the approved allocation would result in an encroachment of principal, the spending on these donations/endowments may be temporarily suspended in order to preserve donor capital.
- (c) Annually, the Vice-President Administration will report to the Board of Governors on the status of Endowment Funds should there be any encroachment of capital.

6. Endowment Policy Review

This Policy may be reviewed and revised at any time but it must be formally reviewed in accordance with the governance policy of the University and, to the extent changes are necessary, recommendations will be made by the Finance Committee for approval by the Board of Governors.

7. Other General Policies

- (a) The endowment's spending allocation should be expended unless there are extenuating circumstances, such as lack of qualified candidates as set out by the terms of reference. Financial Services will monitor spending and take actions, as appropriate, in order to meet this objective.

Approved by the Finance Committee: February 21, 2019
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