General Endowment Fund Management Policy

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SUBJECT

General Endowment Fund Management Policy

PURPOSE

The purpose of this Policy is to describe the general objectives, spending or "pay-out" policies and responsibilities for investment oversight regarding the University's General Endowment (GEF).

SCOPE

This policy does not apply to the University of Guelph's Heritage Trust Endowment. Policies for the Heritage Fund Endowment are contained in the Heritage Fund trust document and accompanying policies of the Board of Trustees of the Heritage Fund as approved by the Board of Governors.

POLICY

Description of the General Endowment Fund

The General Endowment Fund (GEF) consists of funds from external, non-operating fund sources, restricted to provide financial support for a specific purpose in perpetuity. A large majority of GEF funds are designated for student aid in the form of scholarships and bursaries. Other designations include research support, equipment or library acquisitions and special academic activities such as support for visiting lecturers, student semester abroad programs and on-going support toward the operating costs of academic facilities.

Endowments are funds with provisions that prohibit encroachment on the donors' capital contribution. Only monies generated from the donors' capital contribution may be used to support the designated activity. Under special

circumstances, however, and only at the direction of the donor, may any portion of the donor's capital contribution be spent.

General endowment funds are invested as a single pool in order to optimize net return and the diversification of risk. However, for donor reporting purposes, each endowment donation is accounted for individually.

Since 1996/97, capital additions to the GEF have included funds transferred to the University by the Government of Ontario under the Ontario Student Opportunities Trust Fund program (referred to at the University as the ACCESS program). Spending derived from these funds is restricted to needs-based student aid in accordance with provincially mandated terms for student eligibility. Special provincial reporting rules require the University to account for these funds separately.

General Endowment Fund Objectives

The major objectives of the General Endowment Fund are to protect the donors' capital contribution and to provide a perpetual annual flow of return from investments, which revenue shall be spent in accordance with directions of donors. A further objective is to avoid a reduction over time in spending in real terms due to the effects of inflation.

The Preservation of the Donor’s Capital Contributions

In order to avoid a reduction over time in spending in real terms due to the effects of inflation, a portion of the total net investment return will be added to the endowment fund. An endowment investment objective will be to earn, over time, a rate of return at least equal to the total of inflation plus spending and the costs of investing and administering the funds. Coupled with this investment objective is a spending or "pay-out" policy that limits disbursements to an estimated long-term real rate of investment return (total investment return less inflation). Any difference between the actual investment return (net of expenses) and the allocation for spending will be accumulated in the endowment fund. Refer to section 5 on Spending Policy.

Allocation of Investment Returns

Each endowment account tracks original contributions, disbursements and a proportional share of GEF total net investment return. Each year, on April 30th, the actual annual investment return of the GEF (net of investment manager fees, custodial fees and an administrative fee of no more than 1%) is allocated to each endowment account in proportion to the endowment account fund balance. In the case of funds endowed during a fiscal year, the total annual investment return will be allocated based on the number of months in the fiscal year the funds were endowed, e.g. funds endowed in January would receive 4/12 of the annual return for that fiscal year. The annual investment return will include both realized and unrealized gains and losses.

Spending or “Pay-out” Policy

In order to ensure a stable and predictable level of spending from year to year, fluctuations in annual market returns will be "smoothed" by using a moving four-year average of GEF market values. More specifically, each endowment account will be allocated an amount available for spending up to 5% of the average of endowment account fund balances, measure at April 30, over the most recent four-year period. Prior to the start of each fiscal year the spending rate will be set and reported to the Finance Committee. This should be done no later than March 1 prior to the start of the new fiscal year. In case of new endowments, the most recent complete one, two or three fiscal year period will be used. It is possible, in the case of new endowment accounts for the annual investment return to be less than the spending allocation in the short term. In these cases spending on these accounts may be temporarily reduced in order that spending does not encroach on the donor's capital contribution.

GEF Investment Oversight

The Board of Governors assigned investment oversight of GEF to the Investment Management Committee of the Board of Trustees. Major responsibilities of the Investment Management Committee include:

- Review and recommend changes to the investment policies including assets allocation and allowable investment classes of the GEF as appropriate.
- Appoint, review and replace as necessary investment manager/s.
- Monitor and report investment performance.

Refer to the documents: Investment Management Committee's Terms of Reference and the "University of Guelph: Statement of Investment Policy and Goals: University Endowment Fund" for further details.

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