



**VICTORIA UNIVERSITY**  
IN THE UNIVERSITY OF TORONTO

## Endowment Policy

**Approval Authority:** Victoria University Board of Regents, Finance and Audit Committee

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# Endowment Policy

## *Definition of Endowment*

An endowment is a fund which retains its capital and uses only the investment income earned to support a variety of activities in keeping with the mission of an institution. Donations which are endowed have impact over a long period of time, as opposed to expendable donations which are used immediately and have impact over a set period of time only, according to the size of the gift and how swiftly it is dispersed.

Endowment funds are established through donations of cash, securities, and property by individuals, corporations or foundations, and through endowed grants provided by government. Each endowment is assigned a separate account for financial reporting purposes, and to ensure that the endowment is administered correctly. The endowment capital is held and invested, and the investment earnings are spent for the purposes intended.

Endowment funds are RESTRICTED FUNDS which must be used in accordance with the purposes specified by donors or by the Board of Regents and are NOT available for use in support of general operating activities unless so designated.

Endowments include externally designated funds and internally designated funds which have been turned into endowments by the Board of Regents at its discretion. The Board of Regents has the right subsequently to remove internally restricted endowment funds.

## *Scope of Policy*

This policy applies to the procurement of all goods and services purchased by the University for use in its academic, research, administrative, and other activities, regardless of the source of funding for those activities.

Where specific funding agencies impose requirements that are stricter than those of this policy, those requirements must be followed. Where funding agency requirements are less strict than those of this policy, this policy takes precedence.

## *Objective of the Endowment Fund*

The purpose of the Victoria University Endowment Fund (the "Fund") is to provide a steady and increasing income stream to support the mission and objectives of the University.

There are multiple goals for the assets of the Fund: to invest them in a prudent manner in order to optimize long term returns; to provide steady income at an appropriate level of risk; to preserve (in real dollar terms) the capital of the Fund; and to maintain inter-generational equity. More recently, in 2024-25, an additional goal of scaling philanthropic impact through the endowment has been made possible with a 0.26% fee applied annually to all endowed funds.

### *Policy for the Maintenance and Recording of Endowment Funds*

Victoria University maintains an internally managed unitized endowment pool (the "Pool") that tracks all named endowment accounts. The Pool was established in 1999 with a value of \$100 per unit. Only purchases or re-capitalizations into the Pool change the number of units. All draws, fund expenses and income or loss are shared amongst the named endowment accounts in proportion to their units relative to the entire number of units in the Pool.

Donations/re-capitalizations are unitized into the Pool using the previous month's closing unit value. The amount made available for spending, as per the Spending Policy, is removed at the beginning of each year such that new donors are not negatively impacted by such withdrawals.

The unitization schedule tracks donations and amounts made available for spending which is shown as either an amount due to the endowment or due to the University. This approach limits trading on the account and reduces administrative expenses.

### *Spending Policy*

Effective in the 2010-2011 fiscal year the University adopted as its spending method the Banded Inflation Model. This Model uses a slip-year and ensures that the calculated draw falls within a band of 3-5% of the previous year's opening balance of the Pool. For greater clarification, the draw for 2021-22 fiscal year would be based on the closing value of the Pool at April 30, 2020, with 2020-21 year being the slip year. The slip year is required to allow for proper planning and allocation of the award.

### *Policy for the Preservation of Capital for Endowment Funds*

This policy applies to all named endowment accounts of the Fund that are to be maintained into the future.

The purpose of this policy is to ensure that the rate of growth in the Capital Value of the Fund matches or exceeds the rate of inflation over time. Such increases in the Capital Value will allow for increases in the distribution of expendable income that matches or exceeds the rate of inflation. Maintenance of the Inflation-adjusted Value of the Fund will ensure that funds for expenditure are not adversely affected by inflation.

This objective will be achieved by ensuring that the distribution of expendable income does not exceed the real rate of return over a period of years.

The Banded Inflation Model allows for some fluctuation to offset annual fluctuations in the Capital Value. The slip year allows for forward guidance as to the amount of funds available for spending.

### *Policy on Underwater Funds*

A named endowment account is underwater when its market value is less than its Capital Value. Underwater funds are anathema to the Policy for the Preservation of Capital Endowment funds. As a result the University must treat underwater funds with a high level of seriousness and haste.

A named endowment account would be considered seriously underwater when, at fiscal year-end April 30<sup>th</sup>, as per the University's unitized endowment schedule, its market value is 80% or less than its Capital Value. At this point the following will be done:

- The donor will be contacted in order to be informed of the situation and to be asked if he or she would like to make an additional contribution to bring the endowment above the 80% threshold. The donor will be asked also if he or she would like to provide a cash gift to be given in the years when there is no income available in the spending account.
- For accounts established at the time the unitization fund began, (i.e. 1999) known as "pre-99" endowments, the spending requirement will be relaxed by 25%. The 25% that is not spent will be re-capitalized into the named endowment account.
- For accounts established after the start of the unitization fund, known as post-99 accounts, the spending requirement will be relaxed by 50%. The 50% that is not spent will be re-capitalized into the named endowment account.

Where practicable, the University will seek to fund any shortfalls arising from this policy such that the effect on the award recipient is minimized. Each year the Finance Office will prepare a detailed report showing the effect on each named endowment account as a result of this Policy.

### *A Practical Example*

Assume Donor A provides a gift to the Endowment Fund in May 2021 (i.e. during the 2021-22 Fiscal Year) of \$1,000,000.00 (One million dollars)

#### *2021-22 Fiscal Year*

The donation would be unitized into the Fund using the previous month's strike price. (Let's assume a strike price of \$100, which would produce 10,000 units). The donation will "rest" for the remaining part of the year and will rise or fall by the movement in the market.

### *2022-23 Fiscal Year*

The donation will receive its first spending allocation based on the number of units at the close of Fiscal 2021-22 (10,000 units) multiplied by the 2023-24 Draw Spending Unit Allocation (expected to be \$3.96). This would make \$39,600 available. This amount is held in reserve and made available for spending in the 2023-24 fiscal year.

### *2023-24 Fiscal Year*

The award is made to the recipient.

## *Glossary of Terms*

**Real rate of return** - total rate of return less the rate of inflation

**Rate of inflation** - for the purpose of this policy, the increase in the Consumer Price Index for Canada expressed as a percentage

**Capital Value** - initial endowed sum plus subsequent additions

**Inflation-adjusted Value** - Capital Value of endowment funds adjusted for inflation