VICTORIA UNIVERSITY
IN THE UNIVERSITY OF TORONTO

Endowment Spending Policy

Approval Authority: Victoria University Board of Regents.

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Endowment Spending Policy

Purpose:

This document sets out the policy spending limits on the Victoria University Endowment Fund.

Background:

A donation of cash, securities, or property by individuals, corporations or foundations, or through endowed grants by government, with terms specified by the donor, will result in the establishment of an *externally restricted* endowment account. Such donations are maintained as individual accounts for administrative purposes.

At the time of writing, Victoria University maintains approximately 800 such accounts. The balances of the individual endowment accounts are monitored on an annual basis, which allows for monitoring of sustainable capital levels to satisfy the terms to which the University and the donor have agreed.

The Endowment Fund also includes *internally restricted* accounts that have been established by the Board of Regents.

Effective May 1, 1999, the concept of endowment units was established to simplify administration of the individual endowment accounts. At that time, the unit value was set at $100 and units were allocated to each account, pro rata with the general ledger carrying values of the underlying assets at that time.

Normal Course Determination of Endowment Draw:

Normal course spending applies the Banded Inflation Model which relies on a one-year lag for planning purposes. Each year, the per unit draw amount is determined by increasing the per unit draw amount of the previous year by 2%. This is the proxy for the long-term rate of inflation. The total draw amount is determined by multiplying the per unit draw amount by the total number of outstanding units. The total draw amount is tested to fall within the range of 3-5% of the market value of the securities of the base year (e.g. spending for FY2023 is tested against the ending endowment market value for FY2021).

Exceptions:

When banded limits are reached – When the normal course methodology, described above, determines a draw amount that is outside the established limits, the total draw amount will be set at the closest limit.

When endowment accounts are below sustainable levels – When the market value of an account falls below 80% of its capital value, the first course of action is to contact the donor. In the event that the donor(s) can be reached, the donor(s) will be invited to make an additional gift. Depending upon the circumstances and the donor's(s) wishes, this additional donation may either be added to the endowment account, thus generating additional income in future years, or fund the award for the current year, allowing the endowment account to rest.

In the event that the donor(s) cannot be contacted, or decline(s) to contribute, the award spending will be reduced. The draw amount will be allocated 50% to program spending and 50% to recapitalize the endowment account.

Monitoring:

Individual endowment accounts are monitored no less frequently than annually to assess for sustainable capital levels. This analysis will be reviewed by the Investment Committee of the Board of Regents as part of the approval of the annual spending amount.

Maintenance:

This policy was previously approved by the Board of Regents at its meeting of October 7, 2010, effective for FY2010-11, setting out the Banded Inflation Model spending protocol.

Effective April 2018, this policy was amended to address accounts below sustainable levels (also referred to as underwater funds).

This policy is reviewed every five years.