



ENDOWMENT SPENDING AND CAPITAL ENCROACHMENT POLICY

Effective Date: October 21, 2020

Approval Authority: Board of Governors

Supersedes /Amends: N/A

Policy Number: CFO-11

SCOPE

This Policy shall apply to all Endowment Funds (as defined below) of Concordia University (the "University").

Nothing in this Policy shall replace or supersede any provisions of the [Statement of Investment Policy](#) of the Concordia University Foundation (as defined below).

PURPOSE

The purpose of this Policy is to set forth the rules governing Endowment Funds at the University.

DEFINITIONS

For the purposes of this Policy, the following definitions shall apply:

"Concordia University Foundation" or "CUF" is the investment arm of the University; it invests and manages funds for the benefit of the University.

"Endowment Fund(s)" means an endowment capital fund where the donated capital is held in perpetuity by the University and is used to generate annual income for the intended purpose of the endowment. Endowment Funds are generally funded by external donations, and the terms of the endowment are documented in a written gift agreement between the University and the donors. In addition to external donations, Endowment Funds may be funded by other sources, such as internally endowed assets designated by the University's Board of Governors.

"Spensible Income Fund(s)" is the fund linked to an Endowment Fund where the annual income generated by the endowment capital fund and related expenditures are recorded and spent in accordance with the donor wishes, as stated in the gift agreement.

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POLICY

Endowment Funds

1. All endowments require the creation of an endowment capital fund and a Spendable Income Fund.
2. The expectation is that the endowment capital will grow at rate similar to the inflation rate in order to maintain its real value and avoid capital erosion.
3. On an exceptional basis, and in accordance with donor wishes, the Endowment Fund may be encroached upon.
4. Endowment Funds must be managed to preserve intergenerational equity. The spending rate must not compromise future spending or future generations.
5. Endowment Funds are managed collectively by combining each individual Endowment Fund, while maintaining distinct records with respect to each Endowment Fund.

Spending Rate

6. The spending rate, also referred to as the payout rate, is designed to target a growth rate of the endowment capital funds' value which matches or exceeds the inflation rate, over time. Such growth rate is net of investment and professional fees.
7. In order to preserve and maintain the value of the spending rate, three core principles are considered:
 - a. the current long-term valuation of the financial markets;
 - b. all fees incurred to manage the Endowment Funds; and
 - c. the forecasted long-term inflation.

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The spending rate is closely tied to the [CUF Statement of Investment Policy](#) and its return target. It is reviewed normally every 3 years in concert with the scheduled review of the [CUF Statement of Investment Policy](#).

8. In accordance with federal legislative requirements for charitable entities, a minimum of 3.5% must be paid out on an annual basis for the intended purpose of the endowment.
9. Annual fluctuations in the value of the capital can increase the difficulty of budget planning. In order to assure that the annual payout is relatively consistent, the return target of the long-term rate and the spending rate are set in accordance with the [CUF Statement of Investment Policy](#). These rates include total management fees and inflation of the 3-year rolling average of the unit value at the close of the University's fiscal year-end, or as directed by the University's Board of Governors. For budgetary reasons, the 3-year average is calculated based on the previous three year-end values.

Capital Encroachment

10. In the event that the consolidated investment returns of all the Endowment Funds be near to or no longer enough to meet its financial commitment to the University, and in order to avoid capital encroachment into the Endowment Fund, the University will supply the necessary capital to finance the annual payout. The CUF and the University will agree on an amortization period for the CUF to pay back the annual payout. The financing rate will be based on the annual weighted average capital cost of the University.

Financial Management Responsibilities

11. Oversight of the overall Endowment Funds shall rest with the Office of the Treasurer and includes the responsibilities set forth in [sections 12 to 20](#).

Gift Giving and Recording

12. In accordance with [section 1](#), an endowment capital fund and a Spendable Income Fund must be created for each endowment.

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13. All Endowment Funds are first recorded through the Alumni Information System. They are recorded and deposited within the Financial Information System. Finally, they are transferred to the CUF for their investment management.
14. When Endowment Funds are deposited into an endowment capital fund, they are recorded within the Program Valuation Management System (“PVMS”) at the CUF where units are purchased at the rate per unit applicable at the time of purchase.

Investment

15. The CUF Investment Committee and Board of Directors oversee the investment of Endowment Funds to ensure that they are invested in the long-term pool of the CUF, the whole in accordance with the CUF Endowment Investment Program of the [CUF Statement of Investment Policy](#).

Payout and Re-Investment

16. All expenditures with the Spendable Income Fund must be in accordance with donor wishes, as expressed in writing in the applicable gift agreement.
17. The final reconciliation of the payout is completed during the year-end process and the payout of spendable income to the assigned administrator of each Spendable Income Fund at the University is targeted for the end of June.
18. In accordance with the [CUF Statement of Investment Policy](#), the CUF designed an investment program called the Donated Restricted Funds Investment Program (“DRIP”) with the objective to invest unspent donation fund balances within the University’s Trust Funds in order to maintain constant active financial management of the donated capital and its returns. With respect to the payout of the spending income, a budget, equal to the year-end reconciliation of the payout, will be allocated to the administrators of the Spendable Income Funds while the cash paid out will be transferred to the DRIP and will be invested in the mid-term pool of the CUF. Expended capital reimbursements will be accounted for in the University's Cash Budget, which is subject to approval by the University’s Board of Governors on an annual basis.

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19. Annually, at year-end, all current year unspent income, following payout described at [sections 17 and 18](#), will be capitalized back to the respective Endowment Fund, unless otherwise specified by donor agreement.

Monitoring and Review

20. A financial report will be presented at each CUF Board of Directors' meeting and periodically to the University's Board of Governors, and will include the following information:
- the valuation of each of the CUF's investment programs, including the Endowment Investment Program;
 - the target to actual annual funding status of the spending rate and the CUF's global budgeted payout to the University;
 - the Endowment Investment Program funding ratio;
 - the number of individual underwater funds and their total exposure relative to the global Endowment Funds; and
 - the Endowment Funds accumulated investment return reserve.

Policy Responsibility and Review

21. The overall responsibility for implementing and recommending amendments to this Policy shall rest with the Chief Financial Officer.

Approved by the Board of Governors on October 21, 2020.