



BOARD OF TRUSTEES Report

To:	Board of Trustees	Date of Report: Jan 28, 2016
From:	Investment Committee	Date of Investment Committee Approval: Feb 16, 2016
Subject:	<i>Pooled Endowment Fund Spending Policy Recommendation</i>	Date of Board Committee Meeting: Feb 16, 2016
Responsible Portfolio:	Vice-Principal Finance and Administration	Date of Board Meeting: Mar 4, 2016

1.0 PURPOSE

☒ For Approval ☐ For Information

2.0 RECOMMENDATION/MOTION

Motion: That the Board of Trustees, on the recommendation of the Investment Committee, approve the following payout formula for the Pooled Endowment Fund (PEF) for fiscal 2016-17, 2017-18, and 2018-19:

70% * (prior year payout * (1 + CPI [max 2%])) + 30% *(December 31st unit value * 4.0%)

- The recommended formula includes upper and lower bands at +/- 0.5% of the long-term target rate of 4.0% to prevent over- and under-spending in extreme market conditions.

3.0 EXECUTIVE SUMMARY

The recommended formula is based on a thorough analysis with input from a working group with multiple stakeholders. Of note:

- The 4.0% in the formula represents the long-term target rate. This has been increased from 3.7%. This is the only recommended change to the existing formula.
- This is a 3-year recommendation. However, it is proposed that the formula be revisited in the event that the upper or lower band is reached.

The recommended formula would result in a payout of 11.25 cents per unit for 2016-17, which represents an 8.6% increase from the 2015-16 payout of 10.36 cents per unit. The significance of the increase is attributable in part to the increase in the PEF unit value, as

well as to the increase in the long-term target rate from 3.7% to 4.0%. Note that the resulting payout of 11.25 cents per unit for 2016-17 still only represents 3.5% of the PEF's December 2015 unit value. With the smoothing impact of the hybrid formula, it is expected to take several years before the actual payout is 4.0%.

The increase in the long-term target rate reflects the decision to reduce the annual operating budget withdrawal from the PEF to support the University Fund from \$3.3 million to \$1.5 million beginning in 2016-17.

4.0 INPUT FROM OTHER SOURCES

A recent survey from the Canadian Association of University Business Officers (CAUBO) showed that the proposed target payout rate is in line with university peers.

5.0 ANALYSIS

An Endowment Management Working Group was assembled during the 2013-14 fiscal year to conduct a thorough review of the spending policy and administration of the PEF. Key recommendations (subsequently approved) from the 2013-14 working group included:

- Maintaining the basic structure of the hybrid formula used to determine the spending rate;
- The working group's preferred recommendation was for the formula to include a long-term target rate of 4.0%, but it was acknowledged that this would likely be unsustainable with the current long-term return expectations considering the annual \$3.3 million in support from the PEF to the University Fund. As a result, the working group recommended a long-term target rate of 3.7% to be used in the formula for 2014-15 and 2015-16;
- It was also proposed that consideration should be given to reducing the annual operating budget withdrawal when the campaign budget requirements cease in 2016-17. This, in turn, could allow for a potential increase in the long-term target rate.

As part of the current year budget planning, the annual operating budget withdrawal has been reduced from \$3.3 million to \$1.5 million commencing the 2016-17 fiscal year.

At its November 5, 2015 meeting, Investment Committee members were given the opportunity to provide guidance to the administration in advance of developing a formal recommendation. The committee was informed of the decision to reduce the operating budget withdrawal. After some discussion, the Investment Committee indicated that it is comfortable with the existing formula, and also that it is reasonable to adjust the spending formula to reflect the reduction in the operating budget withdrawal.

The working group was re-convened in early January to review the analysis provided to the Investment Committee and discuss the recommendation, and the decision was made to propose a corresponding increase in the long-term target rate to 4.0%.

6.0 STRATEGIC ALIGNMENT / COMPLIANCE

The Pooled Endowment Fund supports the university's strategic driver of financial sustainability.

7.0 FINANCIAL IMPLICATIONS

Endowment payouts are integral for the support of university operations and budget planning. The three-year proposal aligns with current budget planning.

8.0 ENTERPRISE RISK ASSESSMENT

Sound management of our endowment funds is a mitigation of our financial sustainability risk.

9.0 COMMUNICATIONS STRATEGY

The working group discussed the importance of communications given the current market volatility, and donor relationships. Investment Services, Advancement, and Communications will develop a communications strategy for roll-out after Board approval.

ATTACHMENTS / LINKS

1. N/A