Laurentian University

Endowment Policy

December 2022

Version 1.0

1.0 Purpose

Laurentian's Endowment Policy provides guidance for the determination and management of externally restricted donations along with the preservation of capital, investment oversight, and determination of investment income to be made available for spending. The Endowment Policy is to be read in conjunction with the University's Statement of Investment Policies and Procedures (SIPP), which provides the framework for the investment of the assets of Laurentian's endowment funds. Its purpose is to guide donors and provide the Board of Governors assurance that funds donated to the University are managed responsibly and with a view to producing real capital and income growth to support the University's academic and research missions.

2.0 Definitions

(i) A **restricted contribution** is a contribution subject to externally imposed stipulations that specify the purpose for which the contributed asset is to be used. A contribution restricted for the purchase of a capital asset or a contribution of the capital asset itself is a type of restricted contribution

(ii) An **endowment contribution** is a type of restricted contribution subject to externally imposed stipulations specifying that the resources contributed be maintained permanently, although the constituent assets may change from time to time.

(iii) An **unrestricted contribution** is a contribution that is neither a restricted contribution nor an endowment contribution.

(iv) **External restrictions** are imposed from outside the organization, usually by the contributor of the resources. Restrictions on contributions may only be externally imposed.

(v) **Internal restrictions** are imposed in a formal manner by the organization itself, usually by resolution of the Board of Governors.

(vi) **Net Investment Income** is obtained by netting all investment fees, fund administration fees and other expenses

3.0 Endowments

Endowment consists of restricted contributions received by the University and the accumulated investment income not yet distributed. Investment income generated from long-term investments earmarked for endowment is used in accordance with the various purposes established by the donors and internal resources transferred by the University at its discretion, when applicable.

Endowed donations provide critical funding to support Laurentian's core academic missions of teaching and research.

Endowment funds are established when a donor(s) contributes of $25,000 or more. Under exceptional circumstances this limit may be waived by the Vice-President Administration and Finance, and the Director of University Advancement. Normally, a written agreement with the donor(s) stipulates the purpose and terms of the donation(s).

Funds from endowed donations are invested to provide a lasting legacy of earnings in perpetuity. Endowments are restricted funds and must be used in accordance with purposes specified by donors. Designated activities can include student aid in the form of scholarships and bursaries but could also include other activities as defined by the contributor**. Only investment earnings generated from the endowment capital contribution may be used to support the designated activity.** No distribution will be made unless there is sufficient accumulated investment income available in the endowment account. Under special circumstances, however, and only at the direction of the donor, a portion of the donor's capital contribution may be made available for spending. Endowments are not available for general operating activities and they are subject to restrictions relating both to capital and to investment income.

The University is careful to ensure that fundraising is tied to academic priorities defined by academic leaders through formal and informal planning processes. The clear link with institutional planning enables the University to assure donors that the priorities they are being asked to support are critical to the achievement of teaching and research objectives.

3.1 Investments

In order to protect the value of endowment capital over time and to allow the University to distribute a consistent amount of income from endowment on an annual basis regardless of the investment income earned in the fiscal year, the endowment is expected to earn a rate of return over time at least equal to the total of the effects of inflation plus distributions, and the costs of investing and administering the funds.

To fund the spending allocation and to preserve capital against inflation over time, the University has set the real rate return objective of at least 4% over 10-year periods, net of all investment fees and administrative expenses, while taking an appropriate amount of risk to achieve this target, but without undue risk of loss. The real rate of return objective is reviewed annually by management and presented to the Finance Committee for approval.

The investments are managed by an external firm under the direction of the University. The University establishes the investment risk and return objectives for the pooled funds via the University Statement of Investment Policies and Procedures (SIPP), provided in a separate document, which is approved by the Finance Committee of the Board. The risk and return objectives aim to produce steady, predictable returns for the University. It is important to note that, while the aim of the risk and return objectives is to produce steady, predictable investment returns for the University, there is nonetheless variability in investment returns on an annual basis.

The University, through the Finance Committee is responsible for establishing the investment return objective and specifying the risk tolerance of the endowed funds, which reflect the expected distributions.

In setting the investment return objective and risk tolerance above, the University balances between how much risk it is willing to take and the level of investment earnings it wants to achieve, understanding that the higher the investment earnings desired, generally speaking, the higher the risk of loss that will have to tolerated and planned for.

3.2 Capital preservation

To protect the value of the endowment capital from the effects of inflation and future market downturns, the University established an internal preservation policy to constrain the amount of investment income made available for spending on the designated endowment activities. Refer to the Spending (pay-out) policy below.

3.3 Spending (“pay-out”)

To ensure that endowments will provide the same level of economic support to future generations as they do today, with growth in the capital value of the endowment and with spending increasing over time as a percentage of the original donation, the University does not spend everything earned through the investment of funds in years when investment markets are better than expected. In those years, the University will reinvest any amounts earned in excess of the spending allocation. This provides protection against inflation and builds up a reserve, which is expected to be used to fund spending in years when investment markets are poor.

In connection with the objective of protecting the real terms of endowment capital over time, Laurentian University has established a spending policy that constrains the amount of income made available for spending. The amount made available for spending must normally fall between a range of 3.0% to 5.0% of the fair value of the endowment pool.

At the end of each fiscal year, the net investment income for the respective year is first determined by netting of all investment fees, fund administration fees and other expenses. Based on the pay-out ratio determined and approved by the Finance Committee of the Board, a portion of the net investment income is made available for spending. Net investment income that is surplus after the spending attribution (i.e., net investment income less “pay-out”) will be credited to the respective endowment account for reinvestments, which can then be used in years when the net investment income of the year is insufficient to cover the amount required to be made available for spending.

When investment income is less than the amount allocated for spending, or negative, the shortfall is expected to be funded from the accumulated investment income which has previously been added to each investment fund’s account. If the accumulated investment income is less than the pay-out, then the pay-out will be adjusted so as not to affect the capital balance.

3.4 Administration cost recovery

Third party fees include fees paid to external investment managers, trustee and custodial fees, and professional fees and are deducted from gross investment income. In addition to third party fees, there is an annual administration fee charged to the Fund in the amount of 1% of the Fund market value at the end of the year. This fee is required to cover the University’s fundraising expenses and management of the endowed accounts, including communication with donors and distribution of annual investment statements. Laurentian does not charge a fee to the donors for its fundraising efforts, which usually range between 20%-25% of funds raised. The 1% fee is comparable to what other universities charge to manage their endowments and is recorded as Other fees and income in the Consolidated Statement of Operations.

4.0 Recognition method

The University applies the deferral method of accounting for all donations. Under the deferral method, endowment contributions are not recognized as revenue since they must be maintained permanently. As a result, endowment contributions are recognized as direct increases in net assets in the current period. Scholarships and bursaries are recognized as revenue and expenses when distributed.

5.0 Net investment income for endowments

The University recognizes endowment fund returns (also referred to as net investment income) such as revenue, gains or losses on investments, as additions to the principal amount of the investments. The net investment income is recognized as a direct increase, or decrease, in net assets.

6.0 Policy governance

This endowment policy shall be reviewed, updated and approved by the Finance Committee of the Board at a minimum every three years. Approval will be evidenced in the minutes of the Finance Committee and a Board resolution approving changes as required.