



SIMON FRASER UNIVERSITY
ENGAGING THE WORLD

TO: Senate

FROM Joy Johnson
Chair – Senate Committee on Agenda and Rules (SCAR)

DATE: August 30, 2024

SUBJECT: Amendment to GP20 - Endowment Management Policy

SCAR has reviewed S.24-113 (Amendment to GP20 - Endowment Management Policy) and is forwarding it to Senate for information.

MEMORANDUM

ATTENTION	Senate	DATE	August 28, 2024
FROM	Martin Pochurko Vice President, Finance and Administration	PAGES	2
RE:	Amendment to Endowment Management Policy GP20		

BACKGROUND

GP20 Endowment Management Policy (the “Policy”) was originally adopted in 1991. The current version of the Policy lacks flexibility and contains restrictions that have presented risks in terms of financial management, operational flexibility and overall strategic impact.

CONSULTATION FEEDBACK

The proposed changes to GP20 Policy were presented to the Board in March 2024.

From May to June 2024, internal consultations were held with various stakeholder groups including the Senior Directors Advisory Committee, Deans’ Council and Simon Fraser University Faculty Association.

The community consultation period was from July 19 to August 9, 2024. There were no significant changes arising from the community consultation. A few minor modifications were made in the draft Policy language subsequent to the consultation phase, to improve clarity and for consistency. The revisions have been reviewed by the Executive Team.

The process resulted in the following proposed changes:

- Apply a ceiling rate of 3% on the annual inflation adjustment to ensure that funds remain stable and future generations are not adversely impacted by high inflation periods. The inflation factor will be reviewed every three years and approved by the Board of Governors.
- Charge internal University Management Fees of 0.2% to cover administrative costs which were previously funded from operating dollars; this change would be in line with industry best practices. The fee rate will be reviewed every three years and approved by the Board of Governors.
- Remove the 15% cap on stabilization reserves to allow for greater flexibility in managing the reserve. The Vice-President, Finance and Administration may recommend a one-time increase in the Endowment Principal Account, and/or changes in the Spending Income Allocation Rate and Purchasing Power Adjustment to the Board of Governors for their approval.

- Allow changes to the use of the funds after 25 years, keeping in mind the original spirit of the gift, to be more effectively utilized and better aligned with strategic missions of the University. The Vice-President, Advancement and Alumni Engagement may recommend changes to the Board of Governors for their approval.

NEXT STEPS

The proposed amendments to GP20 Endowment Management Policy will be submitted to the Finance, Investments and Property Committee to recommend for approval by the Board of Governors.

ATTACHMENTS

1. Draft GP20 Endowment Management Policy and Appendix

ENDOWMENT MANAGEMENT POLICY

Date
June 25, 1991

Number
GP 20

**Date of Last
Review/Revision**
TBD

**Mandated
Review**
TBD

Policy Authority: Vice-President, Finance and Administration

Associated Procedure(s): None

EXECUTIVE SUMMARY

Pursuant to section 27(2)(o) of the *University Act*, the Board of Governors of Simon Fraser University (“the University”) has the responsibility to “administer funds, grants, fees, and endowments and other assets.” The University has created an Endowment Fund which is intended to generate investment earnings to ensure that the University is able to maintain the quantity and quality of projects and programs that are possible through the generosity of donors. This policy establishes the framework for management and oversight of the Endowment Fund.

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1.0 PREAMBLE

- 1.1** Simon Fraser University (“University”) actively seeks and welcomes donations in support of the activities of the institution.
- 1.2** This policy is subject to and consistent with the University’s Investment Governance Policy (B10.09) and the Responsible Investment Policy (B10.16).

2.0 PURPOSE

- 2.1** The University has created an Endowment Fund to ensure that it is able to maintain the quantity and quality of projects and programs that are possible through the generosity of donors.
- 2.2** The objectives of this Policy are to:
- Provide stable, predictable annual Spending Income Allocation to Fund Administrators;
 - Promote inter-generational equity through the growth of Endowment Principal Account to preserve purchasing power over time;
 - Ensure that the University is responsive to changes in the financial market;
 - Preserve the University’s competitiveness among its peer institutions; and
 - Provide for effective stewardship and administration of accounts to ensure maximum benefit for the advance of the University’s academic mission.

3.0 SCOPE AND JURISDICTION

- 3.1** This policy applies to the assets of the Endowment Fund only.

4.0 DEFINITIONS

- 4.1** See Appendix A for the definitions of terms used in this policy and its associated procedures.

5.0 POLICY

- 5.1** The Endowment Fund is designed for the collection of assets held in perpetuity to support the activities of the University.
- 5.2** The Endowment Fund is made up of individual Endowment Principal Accounts and the Endowment Stabilization Reserve. Individual Endowment Principal Account includes the original value of the donation, additions made for Purchasing Power Adjustment and other capitalized amounts.
- 5.3** Donations made to the Endowment Fund, net of applicable fees, are normally pooled together and invested in accordance with the University’s Investment Governance Policy (B10.09) and the Responsible Investment Policy (B10.16).
- 5.4** Where practicable, non-cash donations such as securities and real property are normally converted to cash for investment purposes. In such cases, the Endowment Principal Account is credited by the amount realized, net of applicable fees, by the University on conversion.

- 5.5** The University's primary investment objective for the Endowment Fund is to generate a target absolute rate of return over the mid and long term, after Investment Management Expenses, that exceeds the Inflation Adjustment Factor plus the Spending Income Allocation Rate and University Management Fee Rate.
- 5.6** The purchasing power of the Endowment Fund will be preserved by the addition of Purchasing Power Adjustment based on an Inflation Adjustment Factor to each Endowment Principal Account.
- 5.7** The University maintains an Endowment Stabilization Reserve where investment income or loss, net of Investment Management Expenses, is initially recognized. The fair market value of the Endowment Fund is the sum of the amounts held in individual Endowment Principal Accounts plus the Endowment Stabilization Reserve. The Endowment Stabilization Reserve is intended to enhance the stability of annual Spending Income Allocation Rate by retaining Investment Income earned in excess of targeted returns.
- 5.8** The Spending Income Allocation Rate is set by the Board of Governors on the recommendation of the Vice-President, Finance and Administration and is reviewed at least every three years. The Spending Income Allocation for an Endowment Principal Account should be predictable and stable, even if financial markets perform below the minimum investment objective of this policy. Under extraordinary circumstances caused by unforeseen events, the Board of Governors may approve a temporary increase or decrease in the Spending Income Allocation Rate based on the recommendation of the Vice-President, Finance and Administration.
- 5.9** Fund Administrators are responsible for ensuring that funds allocated to their Endowment Income Accounts are put to best use and that expenditures are incurred in accordance with the Terms of Reference of the individual endowment accounts. In certain cases where the Terms of Reference do not provide a clear direction, unspent amounts from the Endowment Income Accounts may be recapitalized to Endowment Principal Account with approval from the Provost and Chief Budget Officer.
- 5.10** Investment earnings are distributed to the Spending Income Allocation and Purchasing Power Adjustment for each Endowment Principal Account, followed by the University Management Fees. Any remaining investment earnings will remain in the Endowment Stabilization Reserve. The Vice-President, Finance and Administration may recommend to the Board of Governors to approve a one-time increase in the Endowment Principal Account, or a temporary increase in the Spending Income Allocation Rate.
- 5.11** If there are insufficient funds in the Endowment Stabilization Reserve to meet the required distributions, with the recommendation of the Vice-President, Finance and Administration, the Board of Governors may temporarily reduce the Spending Income Allocation and Purchase Power Adjustment until such time the Endowment Stabilization Reserve is restored.
- 5.12** University Management Fees will be charged to the Endowment Stabilization Account on a percentage basis on the market value of the Endowment Fund. The University Management Fee Rate is set by the Board of Governors on the recommendation of the Vice-President, Finance and Administration and is reviewed at least every three years.
- 5.13** To ensure the endowment funds are utilized to maximize their benefits for the advancement of the University and relevant to its academic mission, the University will review the endowment funds 25 years from the time the funds are established and periodically thereafter to assess whether the funds are being utilized effectively, keeping in mind the original spirit of the gift. If the University determines that the funds could be more effective if used differently, the University may update the terms to permit such use. The University will make reasonable

efforts to seek the advice of the individual donors regarding the changes. Any such change is recommended by the Vice-President, Advancement and Alumni Engagement and approved by the Board of Governors.

- 5.14** The University will only establish an account for the Endowment Fund if there is sufficient capital to justify the administrative costs associated with the fund and it is expected to generate sufficient funding to support the intended purpose of the fund.
- 5.15** The Vice-President, Advancement and Alumni Engagement will review the status of individual Endowment Income Account periodically to ensure that endowment funds are being spent appropriately.

6.0 ROLES AND RESPONSIBILITIES

- 6.1** Roles and responsibilities under this policy are subject to, and will be consistent with, the Investment Governance Policy.
- 6.2** The Board of Governors is responsible for setting the Spending Income Allocation Rate, the ceiling rate to be applied in the Inflation Adjustment Factor and the University Management Fee Rate every three years or more frequently as needed, on the recommendation of the Vice-President Finance and Administration.
- 6.3** The Vice-President Finance and Administration is responsible for:
 - 6.3.1 the implementation and administration of this policy;
 - 6.3.2 making recommendations to the Board of Governors;
 - 6.3.3 recommending Spending Income Allocation, Purchasing Power Adjustment and University Management Fee;
 - 6.3.4 authorizing exceptions to a specific endowment; and
 - 6.3.5 reporting to the Board of Governors as set out in section 7.0.
- 6.4** The Vice-President, Advancement and Alumni Engagement is responsible for providing oversight on Endowment Income Accounts to ensure that funds are being expended appropriately.
- 6.5** Each Endowment Principal and Endowment Income Account has a designated Fund Administrator who is responsible for the effective use of the funds and compliance with the Terms of Reference.

7.0 REPORTING

- 7.1** On an annual basis, the Vice-President, Finance and Administration will provide a report to the Board of Governors providing information on the investment results of the Endowment Fund and the balance in the Endowment Stabilization Reserve.

8.0 RELATED LEGAL, POLICY AUTHORITIES AND AGREEMENTS

8.1 The legal and other University Policy authorities and agreements that may bear on the administration of this policy and may be consulted as needed include but are not limited to:

8.1.1 *University Act*, R.S.B.C. 1996, c. 468

8.1.2 *Freedom of Information and Protection of Privacy Act*, R.S.B.C. 1996, c. 165

8.1.3 Investment Governance Policy (B10.09)

8.1.4 Responsible Investment Policy (B10.16)

8.1.5 Donations Policy (GP 03)

9.0 ACCESS TO INFORMATION AND PROTECTION OF PRIVACY

9.1 The information and records made and received to administer this policy are subject to the access to information and protection of privacy provisions of British Columbia's *Freedom of Information and Protection of Privacy Act* and the University's Information Policy series.

10.0 RETENTION AND DISPOSAL OF RECORDS

10.1 Information and records made and received to administer this policy are evidence of the University's actions to manage endowments. Information and records must be retained and disposed of in accordance with a records retention schedule approved by the University Archivist.

11.0 POLICY REVIEW

11.1 This policy must be reviewed every three years and may always be reviewed as needed.

12.0 POLICY AUTHORITY

12.1 This policy is administered under the authority of the Vice-President Finance and Administration.

13.0 INTERPRETATION

13.1 Questions of interpretation or application of this policy or its procedures shall be referred to the President and the Chair of the Board, whose joint decision shall be final.

14.0 PROCEDURES AND OTHER ASSOCIATED DOCUMENTS

14.1 Appendix A contains the definitions applicable to this policy.

APPENDIX A - DEFINITIONS - ENDOWMENT MANAGEMENT POLICY

Date
June 25, 1991

Number
GP 20

**Date of Last
Review/Revision**
TBD

**Mandated
Review**
TBD

Policy Authority: Vice-President, Finance and Administration

Parent Policy: Endowment Management Policy (GP 20)

1.0 PURPOSE

1.1 The definitions in this Appendix define the words used in the Endowment Management Policy.

2.0 DEFINITIONS

- 2.1 **Endowment Fund** is a fund comprised of the aggregate amount of individual Endowment Principal Accounts and the Endowment Stabilization Reserve. It is designed for the collection of assets held in perpetuity to support the activities of the University.
- 2.2 **Endowment Income Account** means an account that holds the Spending Income Allocations for an Endowment Principal Account. It may include unused spending income from prior years.
- 2.3 **Endowment Principal Account** means an account that includes the original capital value of donations to an endowment, with additions made for Inflation Adjustment Factors (annually) and other capitalized amounts as directed.
- 2.4 **Endowment Stabilization Reserve** is a reserve to hold surplus investment earning to assist in maintaining stability of the annual Spending Income Allocations for Endowment Principal Accounts.
- 2.5 **Fund Administrator** is the designated administrator for an Endowment Principal and Income Account. The Fund Administrator is responsible for the effective use of the funds in that account.
- 2.6 **Inflation Adjustment Factor** is the lesser of the latest calendar year percentage change in the Consumer Price Index for British Columbia and an upper limit that is set by the Board of Governors. The maximum percentage is set by the Board of Governors pursuant to section 5.6 of

the Endowment Management Policy every three years to determine the annual Purchasing Power Adjustment. The Inflation Adjustment Factor may not be less than zero.

- 2.7 **Investment Management Expenses** are all direct expenses incurred to manage, control and report on the investment activities of the Endowment Fund. This includes custodial expenses, investment management fees, performance measurement fees, and auditing or other specifically related fees.
- 2.8 **Purchasing Power Adjustment** is a capital addition to each Endowment Principal Account calculated as the Inflation Adjustment Factor times the average Endowment Principal Account balance during the fiscal year.
- 2.9 **Spending Income Allocation** is an amount calculated annually by applying the Spending Income Allocation Rate to the average Endowment Principal Account balance held during the fiscal year.
- 2.10 **Spending Income Allocation Rate** is the percentage rate set by the Board of Governors pursuant to section 5.8 of the Endowment Management Policy, to determine the annual amount to be made available for expenditure in the Endowment Income Account.
- 2.11 **Terms of Reference** are the management and administration procedures for each Endowment Capital and Spending Account which are set out in a legally binding document entitled *Terms of Reference*.
- 2.12 **University** means Simon Fraser University.
- 2.13 **University Management Fees** are amounts recovered from the Endowment Fund to offset certain indirect expenses incurred by the University to administer and manage the Endowment Fund. The fees are calculated by multiplying the University Management Fee Rate by the market value of the Endowment Fund.
- 2.14 **University Management Fee Rate** is the rate set by the Board of Governors pursuant to section 5.12 of the Endowment Management Policy. It is expressed in basis points in relation to the market value of the Endowment Fund.