

DALHOUSIE UNIVERSITY

ENDOWMENT SPENDING GUIDELINES

JUNE 2013

Dalhousie University is the recipient of generous endowment gifts to provide perpetual program support at the University.

The original investment of endowment gifts is required to be maintained in perpetuity. The investment earnings generated from endowments must be used in accordance with the terms established by the donors. Benefactors as well as University policy stipulate that, over time, the economic value must be protected by limiting the amount of earnings that may be expended and reinvesting unexpended earnings.

To meet the foregoing requirement, the University's endowment management policy sets out the following goals:

- to balance present spending needs with expected future requirements.
- to protect the purchasing power of the capital base of endowments while achieving stability in year-to-year spending; and
- to attain real increases in spending through capital appreciation from new gifts, capital investment gains, and the capitalization of investment earnings.

Therefore the endowment spending policy sets guidelines that preserve real capital value and provide advance information on available support to accommodate planning for the full utilization of the available spending allotment. For new endowments, it is important both to provide attainable spending expectations in the early years while ensuring that the capital base has solid footing and will be able to sustain future spending. The spending guidelines that follow are designed to provide for the integrity of the real capital and to facilitate utilization of the annual support available by determining spending levels in conjunction with the University's budget process.

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- A) Available spending allotments for any fiscal year (April 1 - March 31) of the University are established by the Board of Governors from time to time. Dalhousie University has used a "banded approach" for endowment spending since 2004 where the initial spend rate was set at 4.75% of the average market value of the quarter that ended September 30 of the previous year, and increased annually thereafter at the rate of inflation provided the spending allocation for any year was not less than 3.75% nor greater than 5.75% of the Endowment's average market value. Inflationary increases are measured by the annual change of the Canadian Consumer Price Index at September 30th preceding the fiscal year. The targets and bands were reviewed in 2013, and based on expected future market returns, the target spending has been reduced to 4.25% and the upper band was reduced to 5.00%. The lower band remains unchanged at 3.75%. Inflationary increases to annual spending allocations for current endowments will commence once the effective spending rate drops to 4.25%.
- B) Initial spending allotments for new endowments and new gifts to existing endowments will be 4.25% of the endowment gift value as follows:
- **For endowment gifts received between April 1 and September 30**, the available spending in the subsequent two fiscal years (years 1 and 2) will be 4.25% of the endowment gift value. Thereafter, the available spending allotment for any fiscal year will be increased at the rate of inflation as per section (A)

above

- **For endowment gifts received between October 1 and March 31**, spending will be delayed until the second subsequent fiscal year (year 2) and spending for years 2 and 3 will be 4.25% of the original endowment gift value. Thereafter, the available spending allotment for any fiscal year will be increased at the rate of inflation as per section (A) above.
- Should the market value of endowment at the March 31st fiscal year end fall below the original gift value, then spending will be suspended to prevent any additional erosion of the gifted capital. During this period, all investment returns will be capitalized to restore the market value of the endowment's capital.
- On occasion, the above annual spending allotment determinations for new endowments may not meet the immediate objectives of the donor. In these instances, the following options are available to the donor:
 - Should the donor wish greater immediate annual spending than what is provided by spending allotments of the new endowment, the donor may donate additional gifts to supplement the annual spending allotments until the endowment appreciates sufficiently to sustain the donor's annual spending objective;
 - The donor may specify deferral of spending until the endowment appreciates sufficiently to support the donor's annual spending allotment objective.

C) Should any endowment's spending allotments during its initial years be insufficient to provide the desired level of program support, the Faculty may supplement the shortfall from other Faculty resources until the endowment has achieved capital growth which will provide the desired spending level.

D) Occasionally the administering Faculties or units are unable to spend their allotted spending amount due to such circumstances as a lack of qualified candidates for scholarships or Chair vacancies. As a result, an Unspent Balance is created which the administering Faculty or unit may deploy under the following options:

- In consultation with Financial Services, develop a plan to spend this unspent balance in accordance with the endowments terms over the subsequent years. Care should be taken to avoid significant variations in year-to-year spending;

OR

- Capitalize the Unspent Balance to the Principal Capital of the endowment. This will provide the endowment with a larger and more stable capital base that will generate increased spending amounts in future years.

OR

- A combination of the above options.

Administering Faculties or units should review their endowment accounts for Unspent Balances each year during the budget process. Should they have any Unspent Balances, they should contact Financial Services to discuss plans for expenditure of these amounts.