DALHOUSIE UNIVERSITY

ENDOWMENT SPENDING GUIDELINES for Low Carbon Investment Option

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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.

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. 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.

Dalhousie University believes that over the long term, companies that exhibit responsible corporate behavior with respect to environmental, social and governance (ESG) factors will have a positive impact on long-term financial performance. This ESG philosophy is the guiding principle for Dalhousie's current investment approach.

It has been suggested that there may be donors who want to make an endowed gift, but do not want their funds supporting companies associated with fossil fuels. Consequently, Dalhousie has established a low carbon or decarbonized investment option that donors may utilize. Prospective donors may make a donation of any amount to the low carbon endowment that has been established to provide financial support to students, or they may establish a new endowment in accordance with the University's current gift guidelines.

The low carbon endowment option provides investment exposure to Canadian and global equities, and Canadian fixed income. Global equities contain no fossil fuel enterprises. Given that a large segment of Canada's economy is tied to the energy sector, the fund's Canadian exposures have been decarbonized by avoiding any exposure to coal or oil sands extractions. However, it is managed solely by a single manager, and does not have exposure to investments in real assets nor private equity. Consequently, the low carbon/decarbonized option will have its own distinct spending guideline that will be set from time to time. Spending may also be adjusted on any individual endowment should it become underwater (market value < fully indexed target) or capital impaired (market value < value of donated gifts).

ENDOWMENT SPENDING GUIDELINES

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 established an initial spend rate at 3.50% of the prior year's September 30 market value for low carbon/decarbonized endowment funds.

B) Initial spending allotments for new endowments and new gifts to existing endowments in the low carbon/decarbonized endowment pool will be 3.50% of the endowment gift value as follows:

- For endowment gifts received between April 1 and September 30, the available spending in the subsequent fiscal year (years 1 and 2) will be 3.50% of the endowment gift value. Thereafter, the available spending allotment for any fiscal year will be 3.50% of the prior year's September 30 market value 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 3.50% of the original endowment gift value. Thereafter, the available spending allotment for any fiscal year will be 3.50% of the prior year's September 30 market value.

- Should the market value of endowment at the March 31^{st} fiscal year end fall below the original gift value ("capital impaired"), 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.