

**Original Approval Date: January 29, 2010**

**Most Recent Approval Date: December 10, 2014**

**Most Recent Editorial Date: December 10, 2014**  
**(Effective Date: April 1, 2015)**

## **Unitized Endowment Pool (UEP) Spending Policy**

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| <b>Office of Accountability:</b>                | Vice-President (Finance and Administration)  |
| <b>Office of Administrative Responsibility:</b> | Financial Services   |
| <b>Approver:</b>                                | Board of Governors   |
| <b>Scope:</b>                                   | Compliance with this University-wide policy extends to all members of the University community |

### Overview

The **Unitized Endowment Pool (UEP)** is intended to support current and future beneficiaries in perpetuity. The UEP Spending Policy, University Funds Investment Policy, and UEP Statement of Investment Principles and Beliefs are interrelated and designed to maintain and grow the **Real** value of the UEP over time in order to preserve and enhance the future purchasing power of the assets. The investment goal of the UEP is to achieve a long-term **Rate of Return** that in Real terms shall equal or exceed the **Effective Rate of Spending** established in the UEP Spending Policy, and to do so at the level of risk specified in the University Funds Investment Policy.

A prudent level of spending is one that reflects an investment Rate of Return achievable with acceptable levels of risk. The current expected Real investment Rate of Return is between 5.00% and 5.50%. The annual review of the UEP Spending Policy is designed to ensure that it remains appropriate with respect to the UEP's overall goals and objectives.

### Purpose

The purpose of this Spending Policy in conjunction with the University Funds Investment Policy is to preserve and to grow the Real value of endowment assets over time, while maintaining a strong and stable level of support to the current generation of beneficiaries.

### **POLICY**

Spending from the UEP shall be in accordance with the following procedures effective fiscal years commencing April 1, 2015:

1. Endowment contributions purchase units in the UEP based on the **Unit Market Value (UMV)** at the beginning of the month in which the contribution is received. **Investment Earnings** net of **Direct Costs** during the fiscal year in which an endowment contribution is received will become **Capitalized Investment Earnings**.
2. The **Annual Spending Allocation** is distributed to endowment holders at the beginning of each fiscal year.
3. The Annual Spending Allocation shall be based on the number of units held by each endowment at the end of the fiscal year just completed multiplied by the **Base Unit Spending Amount**. The Base Unit Spending Amount shall be adjusted annually by the percentage change in **Total CPI (Consumer Price Index)** for the fiscal year prior to the one just completed, subject to sections 5 and 6 of this policy. The minimum annual CPI adjustment shall be 0.00% and the maximum shall be 5.00%. If the market value of the UEP does not exceed the UEP **Inflation Tracking Target** by at least 10.0% at the fiscal year end prior to the one just completed, the inflation adjustment shall be 0.00%.
4. The fund shall be subject to such **Administrative Assessments** as may be approved by the Board from time to time. This Administrative Assessment shall be in addition to the Annual Spending Allocation and Direct Costs

associated with the endowment investment program. The administrative assessment rate is presently 0.85% and shall be calculated in accordance with section 3 of this policy.

5. The Annual Spending Allocation, the Administrative Assessment and the Direct Costs will be subject to a minimum 4.0% floor and a maximum 5.5% ceiling of the average UMV for the fiscal year prior to the one just completed multiplied by the total number of units outstanding. If the 5.5% ceiling is breached, the Annual Spending Allocation and the Administrative Assessment will be proportionately reduced to ensure that total spending, including Direct Costs equals 5.5%. If the 4.0% floor is breached, the Annual Spending Allocation and the Administrative Assessment will be proportionately increased to ensure that total spending, including Direct Costs equals 4.0%, subject to section 6 of this policy.
6. The minimum total spending of 4.0% will only apply in fiscal years where the market value of the UEP exceeds the UEP Inflation Tracking Target by at least 15.0% for the fiscal year end prior to the one just completed.
7. In any particular fiscal year should the Rate of Return be less than the Effective Rate of Spending whereby Investment Earnings are insufficient to fund total spending, encroachment of **Endowment Principal** will be used to fund the deficiency, with the expectation that such amounts will be recovered from future Capitalized Investment Earnings. If pursuant to the review in section 8 of this policy it is determined that the encroachment is no longer temporary, an adjustment will be made to the Annual Spending Allocation and/or the Administrative Assessment.
8. The Board Investment Committee shall review this spending policy on an annual basis for continued appropriateness. As outlined in the Board Investment Committee's Terms of Reference any required changes will be presented to the Board of Governors for approval.

## **DEFINITIONS**

Any definitions listed in the following table apply to this document only with no implied or intended institution-wide use. [\[▲ Top\]](#)

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| <b>Unitized Endowment Pool (UEP)</b> | The pooling of investment assets accumulated by or donated to the University for endowment purposes to facilitate investment management and administration of the funds.  |
| <b>Real</b>                          | Used in conjunction with asset values and rates of return and restates these nominal amounts for movements in the consumer price index.   |
| <b>Rate of Return</b>                | The percentage change in the value of an asset, including interest and dividends, over an evaluation period.  |
| <b>Effective Rate of Spending</b>    | The total of the Administrative Assessment, Annual Spending Allocation, and Direct Costs expressed as a percentage of the market value of the assets in the Unitized Endowment Pool.  |
| <b>Unit Market Value</b>             | The value of one unit in the Unitized Endowment Pool, calculated monthly by taking the market value of the assets held in the UEP and dividing that amount by the number of units outstanding.  |
| <b>Investment Earnings</b>           | The total of realized and unrealized investment earnings and losses on the assets of the UEP for any given fiscal year; where realized investment earnings and losses are typically made up of interest, dividends, rents and capital gains/losses arising from the sale of investments; unrealized investment earnings and losses represent the change in fair value of assets held. |
| <b>Direct Costs</b>                  | All expenditures that are directly attributable to the Unitized Endowment Pool's investment program, including but not limited to; external investment manager costs, custodial bank charges, consulting  |

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|   | fees and the costs of the Investment & Treasury unit within Financial Services.   |
| <b>Capitalized Investment Earnings</b>  | The excess of Investment Earnings less total spending which includes the Annual Spending Allocation, the Administrative Assessment and Direct Costs. Capitalized Investment Earnings will be permanently endowed.   |
| <b>Annual Spending Allocation</b>       | Amount allocated to fund the activities of the endowed programs.  |
| <b>Base Unit Spending Amount</b>        | The average Unit Market Value (UMV) for the 36 months ending December 31, 2010 multiplied by a spending rate of 3.90%.  |
| <b>Total CPI (Consumer Price Index)</b> | A Statistics Canada index of retail prices for goods and services. Increases in the CPI are also referred to as increases in the cost of living and are directly correlated to increases in inflation. As published by the Bank of Canada at: <a href="http://www.bankofcanada.ca/rates/price-indexes/cpi/">http://www.bankofcanada.ca/rates/price-indexes/cpi/</a> |
| <b>Inflation Tracking Target</b>        | Total cumulative endowment contributions indexed by Total CPI.  |
| <b>Administrative Assessment</b>        | Indirect cost recovery for centrally funded goods and services that support the activities and development of the endowed programs.   |
| <b>Endowment Principal</b>              | The total of endowment contributions and cumulative Capitalized Investment Earnings.  |

## **RELATED LINKS**

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[Managing Endowments \(Held by Faculty\)](#)

[Legal and Legislative Aspects of Endowments](#)

[Statement of Investment Principles and Beliefs](#)

[Unitized Endowment Pool Implementation Guidelines](#)

[Unitized Endowment Pool Spending Allocation Estimator](#)

[University Funds Investment Policy](#)

## **PUBLISHED PROCEDURES OF THIS POLICY**

There are no published procedures of this policy.