

Endowment Management Policy

Category: Financial;

Jurisdiction: Vice-President, Administration and Finance; Board Finance & Operations Committee;

Approval Authority: Board of Governors;

Established on: January 30, 2015;

Amendments: February 9, 2018; June 7, 2019; March 27, 2025;

Most Recent Review: March 27, 2025.

1. Preamble

- 1.1. Lakehead University actively seeks and welcomes donations in support of the activities of the institution. The Board of Governors of the University (“Board”) has the responsibility to administer the endowments.
- 1.2. This policy applies to all Lakehead University endowments unless specifically exempted by the Board.
- 1.3. This policy is subject to and consistent with the Statement of Investment Policies and Guidelines for Trust & Endowed funds.

1. Purpose

The purpose of this policy is to describe the objectives by which the University’s endowment funds are established, maintained and administered.

2. Definitions

- 2.1. Donor Restricted Endowments: Funds received and invested for the purpose of financing an ongoing scholarship, bursary, award or other commitment from annual

earnings, e.g. a donation designated to provide a scholarship award out of the earnings derived from investment of the donation money.

- 2.2. Board Restricted Endowments: Institutional funds or unrestricted gifts earmarked by the University, rather than restricted by a donor, that are invested to provide income for a long but unspecified period of time, and where the University has the right to decide the use of the income and at any time can expend the principal or change the purpose of such funds.
- 2.3. Capital Account: The total of all capital contributions made to an Endowment, including charitable donations, government matching contributions, annual inflation adjustments and other amounts capitalized as directed.
- 2.4. Spending Account: The amount that is available to be spent in support of the purpose of the endowment fund. The account includes the annual spending allocation and cash contributions intended for expenditure.
- 2.5. Stabilization Account: A reserve for the surplus Net Investment Return to assist in maintaining the stability of the Annual Spending Allocation. The stabilization account will not exceed the maximum value equal to three years of the current year's Annual Spending Allocation amount.
- 2.6. Annual Spending Allocation: The actual amount allocated to the Spending Account on an annual basis, as determined by the Spending Rate established by the Board of Governors and any specific direction from the donor.
- 2.7. Inflation Adjustment Factor: An addition to the capital account of an endowment calculated based on the annual rate of increase of the Consumer Price Index (CPI) for Canada.
- 2.8. Net Investment Return: The total gains and losses from the endowment pool after deducting the investment, fund management and administrative fees. The total gains and losses will include interest income, dividend income, realized and unrealized investment income and losses.
- 2.9. Underwater Endowments: An endowment in which the market value has decreased below the value of the original capital contributions. This situation may harm the sustainability of the endowment so the Annual Spending Allocation may be reduced or eliminated until the endowment is no longer under water.

3. Policy Objectives

- 3.1. The University is committed to using the Endowments to advance the specified educational purposes of the University such as student aid, research support and library acquisitions.
- 3.2. The assets of each individual Endowment will be combined into an Endowment Pool for the purpose of investments unless otherwise specified.
- 3.3. Unless otherwise set out in the Endowment Agreement, Endowments will be kept intact and only the Net Investment Return, or a portion of it, will be used annually.
- 3.4. To protect the capital contributions and to provide a perpetual annual flow of return from the investment to support the purpose for which the funds were established.
- 3.5. To avoid a reduction over time in spending in real terms due to the effects of inflation.
- 3.6. A minimum endowment investment objective will be to earn, over time, a total rate at least equal to the Annual Spending Allocations plus the Inflation Adjustment Factor plus the investment management fees, administrative fees and expenses.
- 3.7. Costs related to the investment, fund management and administration should be covered by the endowment income.
- 3.8. To maximize the endowment benefits for the advancement of education and research activities, the endowments will be reviewed on an ongoing basis. The University will make reasonable efforts to consult with the endowment contact to ensure the benefit from the endowment is being used in an efficient and effective manner. In rare cases where the University is unable to fulfill the wishes of the donor, the Vice-President, University Advancement, will determine the area for the endowment benefit.

4. Spending Allocation for the Endowment Pool

The Annual Spending Allocation is established by the University to maintain the value of the endowment pool over time. The Annual Spending Rate is established by the Board of Governors annually based on a 4-year moving average. At the end of each fiscal year, Spending Allocation is determined and an amount is deposited in each endowment Spending Account. The current rate is no greater than 3.5% of the Capital Account.

Spending from the endowment will commence once the endowment funds have been held for at least one year. If the Annual Spending Allocation is not disbursed in the current year,

then the amount in the Spending Account will be added to the Stabilization Account. When an endowment is not disbursed annually over a two-year period, the criteria for the disbursement will be reviewed to ensure future disbursement can occur.

5. Preservation of the Capital Account

The Capital Account of each endowment fund will be credited with each capital contribution at the time that it is received.

In order to avoid a reduction over time in spending in real terms due to the effects of inflation, an Inflation Adjustment Factor will be added to the Endowment Capital Account. The Inflation Adjustment Factor will be the annual rate of increase of the Statistics Canada Consumer Price Index (CPI) for Canada as at the preceding December 31st. In years where the Net Investment Return (NIR) is insufficient to support the full inflation adjustment factor, future NIR may be used to support the unallocated inflation adjustment factor.

Although uncommon, circumstances may arise when the endowment is considered to be underwater in that the Market Value of the endowment is less than the capital account. In this situation the stabilization account will be used to support the annual spending allocation and if it is not sufficient then the annual spending allocation may be reduced or terminated until the situation improves.

6. Allocation of Net Investment Returns

Each endowment within the endowment pool will have three accounts associated with it, namely the Capital account, the Spending account and the Stabilization account.

The Net Investment Return (NIR) will first be allocated to the Spending Account for the Annual Spending Allocation up to the Annual Spending Rate. Any NIR that is surplus to the Spending Allocation will then be allocated for the Inflation Adjustment Factor credited to the Capital Account. Any remaining NIR will be allocated to the Stabilization Account.

The stabilization account will not exceed a value equal to three years of current year's Annual Spending Allocation. Annually, any excess amount not required to maintain the Stabilization Account limit is then capitalized to the Endowment Capital Account.

7. Policy Review

The Annual Spending rate shall be reviewed annually on the basis of the Investment Earnings experience of the Endowment Fund. A recommended increase or decrease in this rate may be made to the Board.

The Vice President (Administration & Finance) will review this policy within two years to determine whether amendments are necessary.

8. Policy Interpretation

The Associate Vice President, Financial Services is responsible for clarifying all aspects of this policy as required.

9. Other Related Policies

This Policy should be read and interpreted in conjunction with the Statement of Investment Policies and Guidelines for Trust and Endowment Funds.

10. This policy supersedes any previous practices and agreements applied to Trust and Endowment Funds.

Review Period: 2 years;

Next Review Period: 2026-2027;

Related Policies and Procedures: Statement of Investment Policies and Guidelines for Trust and Endowment Funds;

Policy Superseded by this Policy: Trust & Endowment Management Policy.

The University Secretariat manages the development of policies through an impartial, fair governance process, and in accordance with the Policy Governance Framework. Please contact the University Secretariat for additional information on University policies and procedures and/or if you require this information in another format.

Office of the University Secretariat

Hours: Monday through Friday from 8:30am to 4:30pm;

Location: University Centre, Thunder Bay Campus, Room UC2002

Phone: 807-343-8010 ext. 7929

Email: univsec@lakeheadu.ca