CR401: Endowment Management Policy

Policy Title:	Endowment Management Policy
Policy Number:	CR401
Owner:	Alumni and Development
Approved by:	St. Lawrence College Board of Governors
Effective Date:	January 1, 2022
Reference:	
Links to Other Policy:	Investment Policy CR411 Gift Acceptance Policy CR404

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BACKGROUND

Definitions:

Annual Pro-rated Endowment Value (APEV): The book value of the Endowment adjusted to account for in-year contributions. The APEV will be calculated using the book value of the Endowment at beginning of fiscal year plus quarterly pro-rated values of in-year contributions.

Annual Spending Allocation (ASA): The portion of the Net Investment Return allocated to the Spending Account for disbursement within the fiscal year.

Capital Account: The amount of the Endowment that is restricted in use and is to be held in perpetuity. This Account includes Endowment principal contributions, as well as recapitalized Net Investment Returns.

Endowment / Endowed Funds: Funds comprised of contributions to the College where the donor/contributor has stipulated that the College hold the principal in perpetuity and expend only the Net Investment Return. The expendable funds may or may not be subject to restriction on how the funds are to be spent.

Growing Fund: A fund deemed to be within the range of reaching the minimum endowment value of $25,000 in a reasonable time. Returns will be recapitalized to the capital account and disbursement will be postponed until the minimum endowment value is reached.

Net Investment Return ("NIR"): Includes interest, dividends, realized gains and losses, return of capital and any other distributions received from endowed investments, less any management fees paid or payable. When stated as a percentage, it is calculated using the APEV.

Rate Stabilization Fund: An accumulation of net investment returns from prior years maintained by the College to be disbursed at times when in-year net investment returns are below the targeted disbursement rate; also known as a reserve or rainy-day fund.

Recapitalization: The practice of adding all or a portion of net investment returns to the Capital Account on a permanent basis in order to grow the original Endowment principal to protect against a reduction in purchasing power over time due to the effects of inflation.

Spending Account: The account holding funds available to be disbursed, the balance of which may include the current year Annual Spending Allocation and any unspent Annual Spending Allocations from previous years.

Underfunded Funds: A fund where the capital has not yet reached the recommended minimum endowment level of $25,000.

Purpose:
The objectives of the St. Lawrence College Endowment Management Policy are to outline the policy for managing the returns on the endowment funds to achieve the stated objectives for the Endowment Fund, as outlined in the College's Investment Policy:

- Generate a net investment return that achieves the granting objectives of the donors/contributors;
- Protect the long-term purchasing power of the capital component;
- Maintain a reserve for future market declines (Rate Stabilization Fund); and
- Maintain sufficient liquidity to fund the College's disbursement requirements on a timely basis.

Scope:
The Endowment Management Policy will apply to the management and disbursement of the earnings from the Endowment Fund. Invested funds are managed according to the College's Investment Policy.

POLICY STATEMENTS

1. The College is committed to using the Endowment to advance the purpose and strategic priorities of the College while honouring donor intent.

2. The assets of each individual endowed fund may be pooled for the purpose of investing.

3. Endowment principal will be kept intact and only the Net Investment Return, or a portion of it, will be available for distribution.

4. Any amounts recapitalized to the Capital Account become subject to the same external restrictions as the original underlying Endowment agreement. A decision to recapitalize funds cannot be reversed once approved.

5. The APEV will be calculated using the book value of the Endowment at beginning of fiscal year plus quarterly pro-rated values of in-year contributions.

6. The Net Investment Return (NIR) is calculated on an annual basis using the APEV at fiscal year end. The Net Investment Return will be distributed, according to the procedures in appendix A, to three allocations:

a) Annual Spending Allocation (ASA)
b) Rate Stabilization Fund (RSF)
c) Recapitalization

7. The NIR will first be allocated to the ASA. Any NIR that is surplus to the ASA will next be allocated to the RSF, and the remainder will be recapitalized to the Capital Account.

8. The ASA will have a target disbursement rate of 4% annually, calculated based on the APEV, with a minimum rate of 3% and a maximum rate of 5%.

9. The allocation to the RSF will be up to 2% of the APEV annually, to a maximum amount of 12% of the APEV overall. There will be no contributions to the Rate Stabilization Fund required if it exceeds 12% of the APEV at the end of the fiscal year.

10. The remaining amount of NIR will be recapitalized to the Endowment Capital Account.

11. Normally endowments must be held for one full fiscal year prior to any disbursement. Any allocation of NIR to the ASA for in-year contributions will be maintained in the Spending Account.

MONITORING

The Senior Vice-President, Strategy, Communications & Advancement, Alumni and Development and Financial Services are responsible for monitoring this Policy.

Failure to comply with this Policy could result in damage to the College's reputation, damage to donor relationships, lost revenue, or a threat to future solicitations or campaigns. There could also be risks of failure to adhere to privacy and anti-spam legislation, Canada Revenue Agency guidelines, or the AFP Donor Bill of Rights. Ultimately, there is a risk of losing charitable status if acting in contravention of Canada Income Tax Act and/or Canada Revenue Agency guidelines.

NEXT POLICY REVISION DATE

December 31, 2026

SPECIFIC LINKS

APPENDIX A AND ATTACHMENTS

Endowment management procedure

P.1 At the conclusion of the fiscal year, the APEV will be calculated as follows:

APEV= (opening book value of the endowment) + (Q1 contributions *.75) + (Q2 contributions *.50) + (Q3 contributions *.25) + (Q4 contributions *.00)

P.2 At the conclusion of the fiscal year, the Net Investment Return (NIR) percentage will be calculated using the APEV as follows:

NIR%= (NIR/APEV)

P.3 At the end of the College's fiscal year, when the NIR for the year is finalized, Alumni and Development will prepare multiple scenarios and a recommendation for allocation of the NIR (within the limits described above in policy statements 6 through 8) between the ASA, RSF, and recapitalization. Scenarios and a recommendation will be presented to the Senior VP, Advancement, Communications, and Marketing and the Senior VP, Corporate Services and Chief Financial Officer for review and approval.

P.4 In the event that the NIR is below the minimum ASA (as per policy statement 7), scenarios with proposed withdrawals from the RSF may be presented to the Senior VP, Advancement, Communications, and Marketing and the Senior VP, Corporate Services and Chief Financial Officer for selection and approval. In the unlikely event that the RSF is depleted, award disbursement may be reduced or paused.

P.5 In the event that there is an extraordinary NIR produced in a single year (eg switching investment counsel or strategies therefore triggering significant realized gains), alternate allocations of NIR outside of the limits contained in this policy may be considered. Approval of any allocations outside of the limits of this policy require the approval of the President and CEO and Senior VP, Corporate Services and Chief Financial Officer.

P.6 It is the responsibility of the Alumni and Development office to accurately manage and report on the balance of the RSF and the individual endowment funds, including the transactions and balances of the individual fund capital and spending accounts and the transactions. These amounts will be reconciled at minimum quarterly to the Endowment Fund balances reported by the College's investment manager.

P.7 For in-year contributions, the quarterly pro-rated value of contributions will be used for individual fund-level calculations and allocations of ASA and recapitalization. Once ASAs for individual funds are calculated, they will be reviewed to determine if awards will be disbursed or if the balance will be held in the individual fund spending account until the next fiscal year.

P.8 Funds designated as "Underfunded Funds" will be calculated and allocated as follows:

- If the Underfunded Fund is expected to generate sufficient returns to be able to be disbursed biennially, (achieves the College's minimum award value within two years), the ASA will be held in the individual fund spending account until the next fiscal year to be disbursed; or
- If the Underfunded Fund is not expected to generate sufficient returns to be able to be disbursed biennially, or is deemed to be a Growing Fund, the ASA will be recapitalized to the individual fund capital account.

P.9 It is the responsibility of the Alumni and Development office to communicate to Financial Services annually the approved allocation of NIR for purposes of reconciling the Endowment Fund and for advising the College's investment manager of any required transactions, including the final accounting for recapitalization and rate stabilization.