



Endowment Management Policy

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Prepared By	S. McLean
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Foundation Policy – 2.10 Financial Management – Endowment Management

Purpose

This Policy establishes the rules and principles of endowment management as follows:

- To set expectations for the preservation of capital and its purchasing power.
- To establish guidelines for direct cost recoveries associated with the administration of the funds.
- To outline criteria for the endowment funds income and spending eligibility.
- To establish spending guidelines.
- To ensure that there is appropriate segregated fund record keeping and that information can be made available to Donors.

Definitions

Donor Restricted Endowments:

Funds received and invested for the purpose as defined by the donor. Only the investment earnings of this fund can be spent. As an example, a donation designated to fund patient care equipment purchases for the SMGH diagnostic imaging department from the earnings derived from investment of the donation money.

Board Restricted Endowments:

Unrestricted gifts earmarked by the Foundation, rather than restricted by a donor, are invested to provide income for a long but unspecified period. revenue from annual earnings. The purpose for investment earnings is clearly defined.

Capital Account:

The total of all capital contributions made to an Endowment, including charitable donations, annual inflation adjustments and other amounts capitalized as directed.

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, cash contributions intended for expenditure and any unspent annual spending allocations from previous years.

Stabilization Account:

A reserve for the surplus net investment return to assist in maintaining the stability of the annual spending allocations. The stabilization account will not exceed 15% of the value of the Endowment Capital Account.

Annual Spending Allocation:

The actual amount allocated to the Spending Account on an annual basis, as determined by

the Spending Rate established by the Finance Committee and approved by the Board of Directors annually.

Inflation Adjustment Factor:

An addition to an endowed capital investment account, calculated based on the annual rate of increase of the Consumer Price Index (CPI) for Ontario.

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.

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. As a result, the Annual Spending Allocation may be reduced or eliminated until the endowment is no longer under water.

Policy Objectives

The Foundation is committed to using the Endowments to advance the patient care services, capital equipment and specified educational purposes of Strathroy Middlesex General Hospital. Endowments will be kept intact and only the net investment return, or a portion of it, will be used annually.

- 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.
- To avoid a reduction over time in spending in real terms because of inflation.
- 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.
- Costs related to the investment, fund management and administration should be covered by the endowment income.

Endowment Expenditure

Expenditures will be reviewed on an annual basis by the Finance Committee and may be revised from time to time upon recommendation to and ratification by the Board of Directors of the Foundation.

For endowment funds invested by the Foundation, the following policies will be observed, except when the terms of the endowment agreement state otherwise:

1. All new endowment contributions shall be held for a minimum of one (1) year prior to any distribution of funds to allow funds to be accumulated and to minimize the impact of future market declines on the donor value.
2. The annual distribution from the fund will be based on 4.5% of the market value of the fund, calculated based on the average of the prior 3 years closing market values as of March 31.
3. An annual management fee of up to 1% will be disbursed to the Foundation to support the costs incurred to administer and make distributions from the Fund. This fee will be calculated on the same basis as set out in 2) and determined by the Finance Committee annually.
4. The distributions above will be observed except when the distribution will result in an impairment of the
5. market value of the fund to less than 90% of the original Donor Value. In this case, the distributions will be limited to an amount that results in market value being equal to 90% of the Donor Value.

In certain circumstances and on a case-by-case basis, the preceding conditions can be amended upon approval by the Board of Directors.

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. To avoid a reduction over time in spending in real terms because 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 Ontario as at the preceding December 31st.

Although uncommon, circumstances may arise when the endowment is 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.

Allocation of Net Investment Returns

Each endowment will have three accounts associated with it, namely:

1. A Capital account
2. A Spending account shared across all endowed accounts
3. A Stabilization account, also shared across all endowed accounts

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 15% of the aggregate market value of the endowment principal account. Annually any excess amount not required to maintain the stabilization account limit is then capitalized to the Endowment Capital Account.

Policy Review

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