DALHOUSIE UNIVERSITY
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FINANCIAL POLICY AND PROCEDURES	*Instruction Number:*
Subject: INVESTMENT MANAGEMENT	*Date Issued:* 23 January 1990
Title: ENDOWMENT MANAGEMENT POLICY	*Date Revised:*
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INTRODUCTION

The University's core education programming is funded primarily from public (i.e. government) and user (i.e. student) sources. Enrichment activities - those which allow us to pursue excellence - must seek funding from non-core sources; clearly, the principal such source is and will continue to be University endowments.

Dalhousie's longer term financial strategy calls for more aggressive and more ambitious Development activities. By request of the donors and by the predisposition of the University, much of the proceeds of such Development initiatives should be targeted toward more and larger endowments. In fact, efforts should be made to convince the provincial government to establish a matching funds program in connection with new University endowments; the federal government (through its NSERC matching grants program) and a number of other provincial governments (notably Alberta and B.C.) have shown the way in this regard by encouraging and enhancing private sector support for post-secondary education.

Endowment management, both financial and administrative, may be just as important as endowment giving to the future health of Dalhousie University. Existing endowments are valued at approximately $110 million. Careful and prudent management can ensure that this great asset continues to support the pursuit of excellence indefinitely, and itself can serve to attract additional endowment gifts.

The following outline for endowment fund management addresses structure, objectives, and administrative policies. It does not deal with the management of expenditures but rather with the management of capital and income over time. The fundamentals involved are consistent with those adopted by other universities with significant endowments (e.g. Alberta, McGill, Toronto, Harvard), but Dalhousie's own traditions and requirements have shaped the details.

DEFINITIONS

1. Regular Endowment Fund: monies accepted from second parties with concurrent fiduciary responsibility; the time frame may be perpetual (true endowment) or for a specified period (term endowment).

2. Self Endowment Fund: as above, except that monies are placed in endowment by choice of the

University rather than obligation. The time frame may be conceived as being perpetual or for a specified period, but remains within the discretion of the Board of Governors.

3. Constrained Endowment Fund: as in #1 above, except that additional financial management constraints may be agreed upon acceptance of the endowment monies. (Example: no tobacco-related investments).

4. Special Arrangements Endowment Fund: as above, but with special/unique provisions, usually for an agreed period of time. (Example: an endowment donor might agree to shorter-term reductions of principal as long as longer-term replenishment is assured).

PREMISES

The fundamental premise of this management policy is that fiduciary responsibility is for the real (purchasing power) value permanence of endowments; this proposal rejects nominal (ignoring inflation) value as the basis for financial management of Dalhousie's endowment funds.

Beyond the actions to maintain purchasing power a balanced allocation of returns (net of inflation) is essential. It is important for University academic and scholarship program administrators to be assured of a level of minimum funding support for a rolling period of years (perhaps three). Yet it is desirable that future funding for growth and dynamic change be assured. Finally, investment returns will fluctuate; thus, a stabilization reserve is needed; further detail is provided later.

assurance it can be sustained. Most institutions distribute returns between 4% and 5% of capital value; Alberta and Harvard set their yield decisions at 5%. The Government of Quebec requires endowment administrators to distribute at least 4.5% annually. A 5% target is an ambitious goal and one which would have to be monitored carefully over time.

(b) A further measure is necessary to ensure financial certainty for managers of endowed academic programs. A stabilization reserve must be established to cushion the inevitable fluctuations of the investment marketplace. Often the reserve relates to handling of capital gains in the portfolio (realized vs. paper gains, portions of realized capital gains to provide for potential capital losses, etc.). It is necessary to recognize the role of reserves so that reasonable financial certainty can be provided for those responsible for administering activities funded by various endowments.

(c) It is highly desirable that administrators of teaching, research, and scholarship programs be able to count on future growth over the next 3-10 year period. In an academic

5. That the Board of Governors establish a target for future growth of 1% of market value for the unitized Endowments. The target would be pursued through capital gains plus periodic transfers of funds from the stabilization reserves judged to be in excess of likely requirements.

6. That the Board of Governors agree that all new perpetual endowments established subsequent to the approval of this policy be managed in accordance with it, with due allowance for special cwssitions which might apply to Constrained or Special-Arrangement Endowment Funds.

7. That the Board of Governors agree that all perpetual endowments existing at the time this policy is approved (subject to any restrictive terms which may apply to such endowments) should be brought into line with the policy over time; the period of transition for each such fund should be as short as possible but as long as necessary to avoid or minimize program disruption.