1. **Preamble**

The University of Victoria Foundation intends to balance the following objectives with regard to endowment funds:

1.1. to protect the value of the fund against inflation over time so that the donor can be aware that the donation will continue to work to the benefit of the University for generations to come; and,

1.2. to have stability in the distribution of earnings to allow both the recipient and the University to plan ahead knowing what funds will be made available each year.

2. **Policy**

Investment earnings include interest, dividends, realized and unrealized capital gains less losses. These earnings will be used to first cover the direct costs incurred in managing the underlying investments including investment manager fees and custodial fees. The balance of the earnings will be available for annual distribution in April 1 as outlined below.

2.1.  

2.1.1. Spending distributions equal to 4.0% of the inflation adjusted principal at cost as at December 31 of the prior year will be designated to the award or project.(subject to section 2.8 below)

2.1.2. Endowments with a market value greater than 108% of the inflation adjusted principal at cost as at December 31 will be eligible for an additional 0.5% based on the inflation adjusted principal at cost.(subject to section 2.8 below)

2.1.3. Unless otherwise specified by the donor, on an individual fund basis, if the level of award that results from the application of the above percentage would result in the fund having a market value less than 80% of original donation(s), the distribution of that fund will be re-evaluated. This re-evaluation may result in some funds with no distribution for any given year.

2.2. Earnings to a maximum of 0.35% per annum of the inflation adjusted principal at cost as at December 31 of the prior year may be spent on expenses including audit, consulting and performance measurement fees and on advancement and administration services provided by the University of Victoria. Within this limit, annually the Board will approve an expense budget based on a dollar limit. Throughout each year, the Board may approve revisions to the budget provided the total expenditures remains less than 0.35% of the inflation adjusted principal at cost as at December 31 of the prior year.

2.3. The Foundation maintains an Income Stabilization Account in the Expendable Fund for each of its endowments. This account was developed to hold surplus investment earnings in reserve to smooth out fluctuations in investment returns and to help ensure spending distributions remain stable each year. Investment earnings are distributed first to the Income Stabilization Account.
2.4. A Spending Account is also maintained in the Expendable Fund for each endowment. Each year the approved spending distribution will be transferred from the Income Stabilization Account to the Spending Account. This account may also contain any unspent distributions from previous years.

2.5. To protect the value of annual distributions against inflation, each fiscal year an amount will be transferred from each endowment’s Income Stabilization Account to its inflation adjusted principal. This process is referred to as capitalization of income. The amount to be capitalized each year is determined by multiplying the change in the Canadian Consumer Price Index (CPI) for the calendar year against each endowment’s inflation adjusted funds principal at cost as at December 31 of the previous year. This capitalization of income will occur for each fund regardless of the total fund’s value (principal and expendable). (For example: CPI for 2010 will be capitalized at the end of December 2010 to the December 31, 2009 year end inflation adjusted principal.)

2.6. Undistributed earnings may additionally be approved for capitalizing to fund principal in such situations:

- where donors have requested that the endowment build to a reasonable pre-determined level before distributions are commenced,
- where an award has not been able to be distributed in the year, and
- where there are other reasonable circumstances.

2.7. In making its annual determination of the percentage to be used to determine the annual spending distribution noted above, the University of Victoria Foundation Board will take into consideration the following factors:

- The duration and preservation of the Foundation and endowment funds;
- The purpose of the Foundation and endowment funds;
- General economic conditions;
- The possible effect of inflation or deflation;
- The expected total return from income and the appreciation of investments;
- Other resources available to the Foundation; and
- The investment policy of the Foundation.

2.8. For endowments that include funds from the University Matching Program legacy funded by the Province of British Columbia in the 1990’s, the annual distribution (as calculated in section 2.1 above) attributable to those provincial matching funds will be allocated as follows:

2.8.1. 82% of the annual distribution will be designated to the award or project and;
2.8.2. 18% of the annual distribution will be deposited in a University of Victoria expendable account and made available to fund areas of priority as identified by the President of the University of Victoria.

3. **Review**

This policy will be reviewed on an annual basis by the University of Victoria Foundation Board.