



ENDOWMENT MANAGEMENT PROCEDURE

Procedure Type:	Institutional	Initially Approved:	September 27, 2018
Procedure Sponsor:	Vice-President, Finance and Operations	Last Revised:	April 8, 2025
Administrative Responsibility:	Finance Department	Review Scheduled:	April 2030
Approver:	President and CEO		

A. PURPOSE

Alberta University of the Arts (AUArts) maintains Endowment Funds to provide sustainable, long-term financial support for scholarships, awards, research, and other donor-specified initiatives. These funds are invested and managed to ensure sustainable distributions while preserving their real value over time, in alignment with the university's strategic priorities and donor intent.

The Board of Governors has fiduciary oversight of AUArts' endowment funds, delegating investment management responsibilities in accordance with the Investment Policy Statement. This procedure aims to describe the objectives by which the institution's endowment funds are established, maintained and administered.

B. PROCEDURES

1. INVESTMENT CAPITAL AND PRESERVATION

- 1.1. Endowments are invested in accordance with the university's Investment Policy Statement and managed to preserve the real value of the Capital Fund in perpetuity while providing stable distributions.
- 1.2. The investment horizon for endowments is in perpetuity. Accordingly, the portfolio is structured to generate returns that exceed the spending policy rate, fees, and inflation over the long term.
- 1.3. The Board of Governors delegated to the President and CEO the authority to amend the Spending Policy Rate as necessary to ensure the real value of endowments is preserved over time, in alignment with AUArts' governance framework for investment matters.
- 1.4. Endowed funds are subject to AUArts' Investment Policy Statement and distribution rate adjustments without requiring prior donor approval. The university will endeavour to inform donors of material changes.
- 1.5. Costs related to the management and administration of the endowment may be allocated to the endowment. Such allocations will be applied consistently using a reasonable and supportable methodology, reviewed periodically and may include the following:

- a) A share of internal costs related to financial oversight, stewardship, reporting, and compliance;
- b) Fees paid to third-party investment managers, custodians, consultants, advisors; and
- c) Other external costs incurred for the monitoring, advice, or support of the endowment portfolio.

2. SPENDING POLICY AND DISTRIBUTIONS

- 2.1. Distributions from newly established endowments commence only when the fund reaches a minimum principal balance of \$25,000 and has generated sufficient investment returns to support the first allocation. Endowed funds must accumulate investment earnings for a full fiscal year before disbursements begin.
- 2.2. The Spending Policy Rate is determined by AUArts, taking into consideration:
 - a) A target rate of 4% of the rolling 16-quarter average market value of the endowment, subject to periodic review.
 - b) Adjustments to maintain a balance between capital preservation, inflation protection, fund management and administration costs, and stable funding.
 - c) Market conditions, investment returns, and long-term sustainability assessments.
 - d) The Spending Rate may be reduced below the target during periods of sustained underperformance or adverse market conditions, in order to protect the long-term sustainability of the endowment.
- 2.3. The Vice President, Finance and Operations, will review spending allocations annually as part of the university's budget planning process to confirm the appropriate Spending Policy Rate for the upcoming fiscal year.
- 2.4. If investment returns are insufficient to maintain the target spending rate without eroding capital, the university may:
 - a) Adjust the Spending Policy Rate to ensure the long-term preservation of the Endowment's Real Value.
 - b) Retain unspent earnings to offset future shortfalls.
 - c) Supplement distributions using other institutional funding sources, if appropriate and financially feasible.
 - d) Under no circumstances shall distributions from an Endowment reduce its total market value below the original endowed principal. If required, alternative funding sources may be used to meet the donor's intent, subject to approval by the President and CEO or the Vice President, Finance and Operations, in accordance with the authority delegated by the Board of Governors.
- 2.5. The Board of Governors may modify or suspend distributions under extraordinary circumstances, including but not limited to:
 - a) Sustained market downturns jeopardizing the long-term viability of the fund.
 - b) Economic conditions requiring capital preservation initiatives.

C. DEFINITIONS

Capital (Principal) Fund:	The total of all contributions to an endowment, including but not limited to donor gifts, government matching funds, internal allocations, and capitalized investment returns.
Cumulative Unallocated Earnings:	The portion of investment earnings not yet distributed for spending, which serves as a buffer against market volatility and ensures future distributions.
Endowment:	A fund consisting of externally restricted donations, gifts, and bequests, as well as internally designated allocations by the Board of Governors, to support scholarships, awards, research, and institutional operations. The principal must be maintained in perpetuity while investment returns provide spending allocations.
Gift Agreement:	A formal document between a donor and the university outlining the gift's intended use, management, and amendment provisions.
Investment Policy Statement (IPS):	A framework that establishes the objectives, risk tolerance, asset allocation strategy, and governance structure for managing the university's endowment investments. The IPS guides decision-making to ensure the long-term sustainability and growth of the endowment while adhering to fiduciary responsibilities.
Real Value:	The purchasing power of an endowment fund over time, adjusted for inflation. Maintaining the real value ensures that the endowment's distributions retain their effectiveness and impact in perpetuity. This is achieved by balancing investment returns, spending rates, and inflationary adjustments to prevent erosion of capital.
Spending Policy Rate:	The percentage of the endowment's market value allocated for annual spending. This rate is set annually to reflect market conditions, inflation, and the long-term sustainability of the fund.

D. RELATED POLICIES

- Investment Policy

E. RELATED LEGISLATION

- Post-secondary Learning Act (PSLA)

F. RELATED DOCUMENTS

- Code of Conduct
- Financial Management Policy
- Student Awards Procedure
- Gift Acceptance Policy
- Gift Acceptance Procedure

G. REVISION HISTORY

Date (mm/dd/yyyy)	Description of Change	Sections	Person who Entered Revision (Position Title)	Person who Authorized Revision (Position Title)
04/08/2025	Revisions, Clarifications and Updated Template	All	Vice-President, Financ and Operations	President and CEO