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## University Endowment Pool (UEP) Spending Policy

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| <b>Office of Accountability:</b>                | Vice President (University Services and Finance)  |
| <b>Office of Administrative Responsibility:</b> | Finance, Procurement and Planning – Investments and Treasury  |
| <b>Approver:</b>                                | Board of Governors  |
| <b>Scope:</b>                                   | Compliance with this University policy extends to all academic, support and excluded staff, postdoctoral fellows, and academic colleagues as outlined and defined in the <a href="#">Recruitment Policy (Appendix A and Appendix B: Definitions and Categories)</a> . |

### Overview

The University Endowment Pool (UEP) supports current and future beneficiaries in perpetuity. The UEP Spending Policy, University Funds Investment Policy, and Statement of Investment Principles and Beliefs are interrelated and designed to maintain the real value of the UEP over time in order to preserve the future purchasing power of the assets. The investment goal of the UEP is to achieve a long-term Rate of Return that in Real terms shall equal or exceed the Effective Rate of Spending established in the UEP Spending Policy, and to do so at the level of risk specified in the University Funds Investment Policy.

A prudent level of spending is one that reflects an investment Rate of Return achievable with acceptable levels of risk. The annual review of the UEP Spending Policy is designed to ensure that it remains appropriate with respect to the UEP’s overall goals and objectives.

### Purpose

The purpose of this Spending Policy in conjunction with the University Funds Investment Policy is to preserve the Real value of endowment assets over time, while maintaining an appropriate and stable level of support to the current generation of beneficiaries.

## Policy

Spending from the UEP shall be in accordance with the following:

1. Endowment contributions enter the UEP effective the month in which the contribution is received. Investment Earnings net of Direct Costs during the fiscal year in which an endowment contribution is received will become Capitalized Investment Earnings.
2. The Annual Spending Allocation is distributed to endowment holders at the beginning of each fiscal year.
3. The Annual Spending Allocation is based on 4.0% of the 60 month average Valuation ending on December 31 of the prior calendar year and applied against the endowment Valuation at the beginning of each fiscal year.
4. The UEP shall be subject to such Administrative Assessments as may be approved by the Board from time to time. This Administrative Assessment shall be in addition to the Annual Spending Allocation and Direct Costs associated with the endowment investment program. The administrative assessment rate is 0.60%, and shall be calculated in accordance with section 3 of this policy.
5. In any particular fiscal year should the Rate of Return be less than the Effective Rate of Spending whereby Investment Earnings are insufficient to fund total spending, encroachment of Endowment Principal will be used to fund the deficiency, with the expectation that such amounts will be recovered from future Capitalized Investment Earnings. If pursuant to the review in section 7 of this policy it is determined that the encroachment is no longer temporary, an adjustment will be made to the Annual Spending Allocation and/or the Administrative Assessment.
6. The Annual Spending Allocation as outlined in section 3 above, to the extent of realized Investment Earnings in a fiscal year, shall be applied in the following funding order:
  - a) the current fiscal year's Administrative Assessment and Direct Costs associated with the endowment investment program as outlined in section 4,
  - b) the current fiscal year's Annual Spending Allocation,
  - c) the unfunded and unspent Annual Spending Allocation associated with prior fiscal years, if any,
  - d) the encroachment of Endowment Principal used to cover prior years' endowment expenditures incurred but not funded, if any, and
  - e) if funding is not required for the circumstances contemplated by sections 6c and 6d, then any excess Investment Earnings become Capitalized Investment Earnings.
7. The Board Investment Committee shall review this spending policy on an annual basis for continued appropriateness. As outlined in the Board Investment Committee's Terms of Reference any required changes will be presented to the Board of Governors for approval.

## Definitions

Any definitions listed in the following table apply to this document only with no implied or intended institution-wide use.

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| <b>Administrative Assessment</b>       | Indirect cost recovery for centrally funded goods and services that support the activities and development of the endowed programs.   |
| <b>Annual Spending Allocation</b>      | Amount allocated to fund the activities of the endowed programs.  |
| <b>Capitalized Investment Earnings</b> | The excess of Investment Earnings less total spending which includes the Annual Spending Allocation, the Administrative Assessment and Direct Costs. Capitalized Investment Earnings will be permanently endowed.   |
| <b>Direct Costs</b>                    | All expenditures that are directly attributable to the University Endowment Pool's investment program, including but not limited to; external investment manager costs, custodial bank charges, consulting fees and the costs of the Investment & Treasury unit within Finance, Procurement and Planning.   |
| <b>Effective Rate of Spending</b>      | The total of the Administrative Assessment, Annual Spending Allocation, and Direct Costs expressed as a percentage of the market value of the assets in the University Endowment Pool.  |
| <b>Endowment Principal</b>             | The total of endowment contributions and cumulative Capitalized Investment Earnings.  |
| <b>Investment Earnings</b>             | The total of realized and unrealized investment gains and losses on the assets of the UEP for any given fiscal year; where realized investment gains and losses are typically made up of interest, dividends, rents, and capital gains/losses arising from the sale of investments; unrealized investment gains and losses represent the change in fair value of assets held. |
| <b>Rate of Return</b>                  | The percentage change in the value of an asset, including interest and dividends, over an evaluation period.  |
| <b>Real</b>                            | Used in conjunction with asset values and rates of return and restates these nominal amounts by inflation or deflation.   |
| <b>University Endowment Pool (UEP)</b> | The pooling of investment assets accumulated by or donated to the University for endowment purposes to facilitate investment management and administration of the funds.  |
| <b>Valuation</b>                       | An accounting process that allocates each individual endowment with its proportionate share of Investment Earnings, Annual Spending Allocation, Administrative Costs and Direct Costs.  |

## Related Links

[Statement of Investment Principles and Beliefs](#)

[University Endowment Pool Spending Allocation Estimator](#)

[Killam Trusts Endowments Spending Procedure](#)

[University Funds Investment Policy](#)

If any of the links are broken, please contact [uappol@ualberta.ca](mailto:uappol@ualberta.ca)  
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