



University of Toronto
Governing Council

Policy for the
Preservation of Capital of Endowment Funds

November 20, 2001

Web Copy

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Policy for the Preservation of Capital of Endowment Funds

This policy is intended to apply to all endowed funds of the University, including funds in the Long-Term Capital Appreciation Pool and specifically invested trust funds.

Policy:

The purpose of this policy is to ensure that the rate of growth in the capital value of endowment funds matches or exceeds the rate of inflation over time. Such increases in the value of the capital will allow for increases in the distribution of expendable income which match or exceed the rate of inflation. Maintenance of the inflation-adjusted value of endowment capital will ensure that funds for expenditure are not adversely affected by inflation.

This objective will be achieved by ensuring that the distribution of expendable income does not exceed the real rate of return over a period of years. Because annual fluctuations in the value of the capital could make forward budget planning difficult, it is necessary to provide for some sort of smoothing process. Accordingly, the annual distribution of income shall be determined by the Chief Financial Officer subject to the following criteria:

1. the need to maintain the inflation-adjusted value of endowment capital, and
2. the need to provide a stable flow of expendable income for the purposes of each fund.

Certain funds must be specifically invested in order to comply with legal restrictions externally imposed or contracted. The application of this policy to such funds must take account of these legal restrictions.

Special situations may arise which warrant a temporary exemption from the application of this policy. In such cases, the Chief Financial Officer will determine if such exemption is to be allowed. Exemptions will normally only be granted where there is a plan to restore the inflation-adjusted value of a fund over time.

Sheila Brown
Acting Chief Financial Officer

Approved: June 25, 1991
Revised: November 20, 2000

Glossary of Terms

Real rate of return - total rate of return less the rate of inflation

Rate of inflation - for the purpose of this policy, the increase in the Consumer Price Index for Canada expressed as a percentage

Capital value of endowment funds - initial endowed sum plus subsequent additions

Inflation-adjusted value of endowment capital - capital value of endowment funds adjusted for inflation