| Complete Policy Title:<br>**Expenditure Policy: General Trust Funds (Externally Restricted Endowments)** | Policy Number (if applicable):<br>**n/a** |
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| Approved by:<br>**Board of Governors** | Date of Most Recent Approval:<br>**June 2016** |
| Date of Original Approval(s):<br>**March 19, 1998** | Supersedes/Amends Policy dated:<br>**December 13, 2012** |
| Responsible Executive:<br>**Assistant Vice-President (Administration) & CFO** | Enquiries:<br>**Policy (University Secretariat)** |
| ***Related Policies***<br>Investment Policies and Objectives- Investment Pool – Statement<br>Investment Policies and Guidelines – Cash and Short-Term Investments<br>Expenditure Policy: Internally Restricted Endowments | |
| ***DISCLAIMER:*** *If there is a Discrepancy between this electronic policy and the written copy held by the policy owner, the written copy prevails* | |

**Purpose:**

The goal of the expenditure policy for general perpetual trusts is to allow the University to maintain an even hand between current and prospective beneficiaries consistent with the requirements of a charitable trustee in perpetuity. For spend-down trusts, the goal of the policy is to provide a significant long term benefit to the university consistent with the requirements of a charitable trustee.

**Policy**

1. Additions – Additions (donations) to externally restricted endowments are a result of either income earned, additional externally gifted funding donated to an existing endowment for the same purpose and/or internal/external matches as required by the gift documentation. Additions will be carried out by buying units of the pooled investment funds based on the unit market value at the beginning of the month.

2. Actual income earned – Actual income earned includes interest, dividends, realized and unrealized capital gains/losses, net of investment management expenses. This income/loss will be distributed to each fund on a per unit basis at the end of each fiscal year.

3. Spending allocation for general perpetual trusts[1] – Unless otherwise noted as an exception in Section 4 of this policy; the amounts allocated for spending in the subsequent fiscal year will be 4% of the monthly average market value of the original donation and the value of the preservation of capital account in each trust fund for the last five calendar years, or the period in existence, whichever is less. The spending allocation will be drawn from the preservation of capital account and credited to the expendable (spending account) for the fund in the first quarter of the fiscal year. Temporary capital encroachment may occur, if it is not specifically prohibited under the terms of a particular fund.

4. Spending allocation exceptions to general perpetual trusts include:

   a. Bequests or trust agreements which specify another method of calculating allowable spending.
   b. Trust funds which are underwater if a special policy override has been deemed necessary by the Trust Fund Management Committee, after considering the following factors on an annual basis:
      a. A long term review of the rate of investment growth to determine market volatility and the rate of return on investments;
      b. The then market value of the investment pool as compared to the overall donated capital of the investment pool;
      c. The number of trust funds that are 'underwater' (an underwater fund is one where the total market value is less than the original donation); and
      d. Any other factors considered necessary.

   If after such an assessment, those funds which are underwater require a spending restriction for the purposes of the preservation of capital, a spending allocation (for the underwater funds) will not occur for the subsequent fiscal year, unless specifically approved for a particular fund by the President and Vice Presidents.

   c. For trust funds <u>created from January to December of the current calendar year,</u> the amount available for expenditure will be 4% of the total non expendable balance and entered into the accounts monthly.

   d. For trust funds <u>created from January to December of the previous calendar year</u> the amount allocated for spending shall be 4% of the total non expendable balance as of December 31st multiplied by the monthly average of market value/book value for the last five calendar years for all trust funds.

   e. For trust funds where <u>non expendable donations are made in increments over a period of years</u>; the amount available for expenditure will be 4% of the previous December 31st total balance of non expendable donations. The threshold size to which this applies is trust funds with: a Gift Agreement and pledge schedule of $1 million, non expendable donations of $200,000 and an annual incremental increase of non expendable donations of 25%. These funds must be identified at the time of inception by the trust fund administrator.

5. Spending allocation for Spend-down trusts - Both principal and income earned will be expended. Unless otherwise stated in the gift documentation, the annual amount available for expenditure will normally not exceed 6.5% of the original gift, and eligible gifts would generally be greater than $100,000. The length of time a spend-down trust will be available for use will vary dependent upon the investment income earned over the life of the trust, generally equal to or greater than 7 years.

6. Administration fee - The appropriate administration fee[2] will be charged to general perpetual and spend-down trust funds at the end of the fiscal year. The administration fee will be reviewed by the Finance Committee on an annual basis.

[1] The spending allocation rate for General Trust Funds (Externally Restricted Endowments) is based on McMaster University's expected long term rate of return after inflation, investment management expenses and reimbursement of endowment fund administration expenses.

[2] 1% for administration, except in the case of the Museum of Art Funds for which the administration fee is .5%, and in the case of the DeGroote Family Trust funds, where the administrative fee is .75%.