

**DR HILLA LIMANN TECHNICAL UNIVERSITY, WA**



**PROPOSED**

**ENDOWMENT FUND POLICY**

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**PRESENTED TO THE ACADEMIC BOARD**

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**SUBMITTED ON 29<sup>TH</sup> JULY, 2022**

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## **SECTION 1.0     GENERAL INTRODUCTION**

### **1.1     General Introduction**

Endowment funds represent contributions which are invested in perpetuity, with a portion of the investment earnings used to support specific university initiatives as set out in the purpose of the endowment. They are an important source of long-term permanent funding and play an integral role in helping the university achieve its goals. By accepting these funds the university must adhere to specific legal obligations and financial management and reporting responsibilities (among other responsibilities). Further, the thoughtful and careful management and administration of endowment funds helps to maintain and enhance the confidence and trust of the university's donor community.

### **1.2     Endowment Fund Types**

#### **➤ True or restricted endowments**

A true endowment is designed to exist forever; therefore, the principal balance is usually permanently “restricted” by the donor, which means it can't be spent. In other words, only the income generated by the investment interest can be used to finance the fund's charitable activities. Many donors create true endowments to fund college or university scholarships, or to provide financial support for specific academic programs.

#### **➤ Term or temporarily restricted endowments**

Term endowments are typically temporarily restricted by the donor until a certain event or “defined term” takes place—such as a specific time period passes or an event happens. For example, a donor may allow an organization to dip into the principal balance to launch a new research program after the initial endowment term has expired.

#### **➤ Quasi or unrestricted endowments**

Quasi-endowments aren't restricted. They're typically set up and funded by the foundation itself and can be used as the organization sees fit—to cover operating costs, fund payroll, or for any other purpose.

This document discloses the University's Endowment Fund Policy so that the process through which new funds are established and managed is clear and transparent both internally and for donors who may be considering establishing such funds.

### **1.3 Proposed Name of the Endowment Fund**

Dr. Hilla Limann Technical University Endowment Fund

### **1.4 Aims and Objectives of the Fund**

The aim of the Endowment Fund is to provide additional funds to supplement government's efforts to ensure that the University improves upon delivery of its mandate and to support it to achieve its vision of becoming a world class research-intensive university. It is expected that proceeds from the Endowment Fund would assist in the provision of the following objectives:

- Scholarships
- Bursaries
- Tuition waivers
- Research grants for students and faculty
- Additional facilities and resources to enhance teaching and research through the provision of equipment, teaching aids, and space.
- Internet connectivity at all areas of DHLTU campus

## **SECTION 2.0 NATURE OF THE ENDOWMENT FUND**

### **2.1 Sources of Funding**

Like all other endowment funds, charitable donations from the following will for the primary source of funds for the endowment:

- Alumni
- Individuals
- Corporate bodies

#### **2.1.1 Donor-Directed Funds**

Donors may name and/or restrict an endowment gift. When making gifts to the endowment, donors can designate if the gifts should be used for a particular purpose or whether the organization should decide how to spend it. Donor designations may therefore restrict the use of a gift to a purpose that is not consistent with the fund's mission or that cannot be adequately funded. Donor(s) will sign the appropriate contract/form regarding each endowment and will specify the criteria, if applicable.

#### **2.1.2 General Endowment Fund (Unrestricted Funds)**

Gifts to the General Endowment Fund will be unrestricted. The University Governing Council will determine the appropriate use of the earnings of the General Endowment Fund consistent with the mission and goals of the Dr. Hilla Limann Technical University Endowment Fund. Donor(s) will complete an agreement form.

### **2.2 Soliciting Endowment**

The Public Affairs Directorate (PAD) of the University has the primary responsibility for cultivating and soliciting funds, as well as for stewarding donors. All solicitations for endowments require the involvement of PAD staff members who will work closely with the donor, providing expertise to help the donor make an informed decision about designating the gift, as well as finding the appropriate vehicle. The PAD staff member will act as a resource and guide to the donor and seek to make the process of creating an endowment at DHLTU a fulfilling and satisfying philanthropic experience. Other University staff may become involved at the invitation of the PAD staff in the solicitation of an endowment. Communication between the Office of PAD and other offices minimizes the potential for miscommunication of DHLTU policies and programs as well as avoid situations that may result in commitments to the donor that the University is unable or incapable of fulfilling or supporting.

### 2.3 Endowment Agreements

An endowment agreement is the legal document that establishes the means by which funds distributed from an endowment will be used by the institution. Documentation for an endowment can be any of the following:

- An endowment agreement
- A gift agreement memorandum (GAM)
  - a. Prior to acceptance of an endowment gift, a Gift Agreement (“GA”) should be generated.
  - b. The GA helps specify the donor’s intentions and the policies under which the gift will be administered.
  - c. The GA will be executed upon acceptance of the gift, and a copy will be provided to the donor.
  - d. Endowments that have purposes that will require an on-going commitment by DHLTU require Board approval.
- A letter from the donor(s)
- Solicitation materials
- A legal will, trust document, or deed

### 2.4 Endowment Accountability

The Director of Finance (DoF) shall be the administrative person / position directly responsible for the use of the endowment and is ultimately accountable and responsible for the proper management of the endowment. The DoF may assist with the wording of the endowment agreement, thus ensuring that the criteria of the agreement not only fulfil the donor’s wishes but are sufficiently defined to apply to the university’s short-term and long-term objectives.

The DoF has a responsibility to utilize the distributions from the endowment in a consistent and responsible manner, and to not allow the distributions to accumulate. Any endowment with a receiving account balance greater than the University’s acceptable endowment distribution accumulation standard, will require a written plan detailing the purpose for retaining the funds and how the funds are to be expended in the future submitted to the Vice Chancellor (VC), or his/her designee, and the Board of Trustees. For large **accumulations, a**

recommendation will be made by the Board of Trustees to the VC, who has the sole authority to approve large balances. In special circumstances, unspent distributions may be permanently added to the endowment corpus, or “reinvested.”

## **2.5 Funding an Endowment**

Ideally funds should be received as a single gift; however, it should be possible to set up a pledge payment schedule, which is not to exceed five years. A minimum 20% of the donor’s total pledged funding amount is required prior to the establishment of an endowment at any time. After an agreement is signed, an endowment may be funded in one of the following ways:

1. **Full Payment** – This is the most common type of endowment agreement where the entire committed amount is received at one time (typically at the same time the agreement is signed).
2. **Partial Payment** – In this arrangement, only a portion of the committed amount is initially received with the remainder to be paid within an agreed timeframe (five years maximum). This arrangement between the donor(s) and DHLTU needs to be specified in the endowment agreement.
3. **Full Pledge** – The donor commits to a specified amount to be paid in future instalments (within five years of the execution of the agreement). Frequency of payments must be specified in a “Pledge to Establish an Endowment Agreement”. Once the full amount committed has been received, the document will act as the official endowment agreement.

## **2.6 DHLTU Endowments:**

All funds for endowments must be processed by the Office of Finance for deposit through the DHLTU Accountant’s office. An endowment’s funding status determines when the funds are transferred to the DHLTU Investment Account and the agreement forwarded to the DHLTU’s Accounts Office.

An endowment for which there is a signed agreement, and all funds have been received, will be forwarded not later than the closing of the month in which the final funding was received. Funds for partially funded endowments will be held locally (in the endowment account) until at least twenty percent (20%) of the total pledged funds are received, at which point the funds will be forwarded to an investment account.



The initial funding and subsequent gifts, forming the corpus of the endowment, are deposited into an endowment for the use and benefit of DHLTU. The income generated from the endowment account is used both to fund the purpose of the endowment and to increase the corpus of the endowment. The Board of Trustees shall determine the annual distribution rate. It generally falls between 4.5%-5%. If approved by the Trustees, a distribution in excess of the 4.5%-5% amount may be made in a year where necessary to meet unusual or emergency expenses. The calculation shall be completed by the end of each academic year. Any income in excess of the payout is invested into the corpus, providing for its growth.

When DHLTU accepts a gift to establish an endowment, the university is entering into an agreement with the donor that the gift will be perpetually managed in accordance with a mutual agreement. Having the donor set the intention in writing is essential to ensure that the donor's and DHLTU's agreement will be carried out for generations to come.

## **2.7 Acceptance of New Endowments**

For a new endowment, a signed agreement should be presented to the Accounts Office when the funds are first forwarded. The Accounts Office will then submit the endowment for consideration of acceptance by the Board of Trustees. The Board of Trustees issues the University, a Summary of Approval, as a formal record of its acceptance of the endowment. Thereafter, the endowment can be considered official.

## **2.8 Endowment Distributions**

The DHLTU Director of Finance (DoF)) or designee transfers funds for investment periodically. The endowment account balance multiplied by the annual payout rate as set each year by the DHLTU Board of Trustees, determines the endowment's total annual distributions (before any reinvestment). Distributions are deposited quarterly in a receiving account at DHLTU.

## **2.9 Endowment Disbursement Reinvestment Policy**

The Director of Finance (DoF) may request, in writing, the reinvestment of surplus funds in an endowment's income account through the Chairman of the Board of Trustees. Justification for the reinvestment request should be given. If the request is approved the Chairman of the Board. He/she or their designees, will notify the DoF and the Accounts Office to authorize the transfer of the funds to the appropriate DHLTU investment account.

## **2.10 Endowment Investment Policy**

Endowment funds will be managed under investment policies adopted by the Fund's Board of Trustees as recommended by its Investment Committee. The investment policy is to provide guidelines for the investing, monitoring and reporting with respect to the management of the Endowment Fund. Those policies will specify the primary investment objective of the endowment pool which is to invest portfolio assets prudently for long-term growth. This policy will be reviewed periodically on an as-needed basis and may be revised by the Investment Committee to reflect changes in the law, benefits, corporate financial objectives, Foundation risk characteristics, and business and financial market conditions.

### **➤ Investment Objective**

The goal of the investment policy will be to provide a real total return that preserves the purchasing power of the Endowment's assets, while generating an income stream to support the overall mission of DHLTU. To accomplish this objective, the Fund seeks to generate a total return that will exceed its annual spendable amount, all expenses associated with managing the fund and the eroding effects of inflation. It is the intention that any excess return (interest income, dividends, realized gains, and unrealized gains), above and beyond the amount approved for expenditure or distribution, will be reinvested in the Fund. The Endowment's real total return will be sought from an investment strategy that provides an opportunity for superior total returns within acceptable levels of risk and volatility. For the long-term, the primary investment objective for the Endowment Pool is to earn a total return (net of portfolio management fees), within prudent levels of risk, which is sufficient to maintain in real terms the purchasing power of the Endowment's assets and support the defined spending policy.

### **➤ Asset Allocation**

To achieve its investment objective, the Fund should allocate among several asset classes with a bias toward equity and equity-like investments due to their higher long-term return expectations. Other asset classes may be added to the Fund to enhance returns, reduce volatility through diversification, and/or offer a broader investment opportunity set.

The Fund should be diversified both by and within asset classes. The purpose of diversification is to provide reasonable assurance that no single security, or class of securities, will have a disproportionate impact on the performance of the total fund. As a result, the risk level associated with the portfolio investment is reduced.

The strategic asset allocation shall be adopted by Board of Trustees taking into account global best practices.

➤ **Asset Allocation Review and Balancing Procedure**

1. The Investment Committee will review the strategic allocation in the asset classes, at least annually.
2. Cash flows into and out of the portfolio (i.e., new gifts and spending) shall be allocated in a manner that is consistent with asset allocation policies.

➤ Asset allocation reports will be provided to the Committee on a quarterly basis.

## **2.11 Endowment Spending Policy**

A spending policy will determine the annual flow of funds from the Endowment to the University's operating budget. The long-term objective of the endowment spending policy is to maintain the purchasing power of each endowment with the goal of providing a predictable and sustainable level of income to support current operations. In the case of unrestricted funds, a distribution from the endowment funds shall be made annually to meet the needs of the University and to fulfil its mission, but in an amount that permits the funds to be maintained over the long term. Such disbursements are expected to be critical in supporting structural operating expenses and transformative, strategic initiatives of the University. For donor-restricted endowments, the restrictions imposed by the donors of the endowment funds will be honored to the fullest extent by spending funds in accordance with terms set forth by the donor.

The spending policy (to be approved by the University Governing Council) for the Endowment will specify the methodology for determining what amounts are to be distributed for annual spending purposes. A well designed spending policy is expected to take for its conceptual framework the two principal goals of endowment management: providing a significant and stable flow of funds to the operating budget over the short term to provide resources to this generation of scholars, while at the same time maintaining the purchasing power of the endowment over the long term

## **2.12 Gift Policy**

It is anticipated that from time to time the University will receive gifts in the form of marketable securities. In such events, the Endowment Investment Office will liquidate the securities as soon as possible. In the event that the securities are restricted from sale for a

designated period of time due to regulatory reasons, the University will hold said securities until the restricted period has elapsed and then liquidate the securities as soon as possible thereafter. The University will make no attempt to add value to the Pool by holding gifted securities.

### **2.13 Annual endowment budget**

The Director of Finance shall develop an Endowment Fund Expenditure Budget and shall annually present it to the University Governing Council for adoption by November 1 for the following fiscal year. All expenditures from the Endowment Fund must be made in accordance with the adopted Endowment Fund Expenditure Budget unless otherwise specifically authorized by the Trustees.

### **2.14 Custodian and Depository Activities**

The custodian and depository activities of the endowment pool, including agreements with any banks for the temporary, short-term investment of cash and equivalents will be subject to annual review by the Finance Committee to assure that the University is receiving competitive rates and services

## **SECTION 3.0 MANAGEMENT OF THE FUND**

### **3.1 Roles and Responsibilities**

Various parties will contribute to the successful management of the Fund. An Audit and Finance Committee are to be responsible for implementing the strategic direction, with Board of Trustees' approval, and for overseeing the investment of the assets. The Finance Committee make the day-to-day investment decisions for the portfolio of assets, subject to the guidelines contained therein the investment policy. The Custodian is responsible for holding and accounting for the Fund's investments. More specifically, the parties have the following responsibilities:

### **3.2 Board of Trustees**

A Board of Trustees (to be established by the University Governing Council) shall retain overall responsibility for maintaining and implementing policies relating to the Fund. The Board of Trustees (Board) will play an instrumental role in defining the strategic investment objectives and ensuring the appropriate governing policies are in place. As a fiduciary, the

Board should promote the development of best practices and provide prudent oversight on all aspects of endowment management. To fulfil these responsibilities, the Board will set and approve the Investment Policy Statement and delegate the direct Fund management to the Audit and Finance Committee. The Board of Trustees will have delegated responsibility for the University's investments to the Audit and Finance Committee, which shall recommend and implement investment policies (subject to Board of Trustees approval) with regard to asset allocation, portfolio supervision, etc. In addition, the Board will be responsible for approving the Spending Policy and reviewing annual spendable amounts received from the Office of Finance.

**The Board shall:**

1. Appoint members to the Audit and Finance Committee.
2. Receive the Audit and Finance Committee's recommendations with respect to the Foundation Investment Policies and approve or amend the policies as appropriate.
3. Review all other recommendations and reports of the Audit and Finance Committee with respect to the Funds and take appropriate action.

**3.3 The Audit and Finance Committee (Finance Committee)**

The Audit and Finance Committee (Finance Committee) will be responsible, subject to Board of trustees approval, for implementing investment objectives and directly monitoring that recommendations are consistent with the Fund's investment goals. The Committee shall identify, implement and monitor an investment and expenditure strategy for the Endowment Fund consistent with the investment policy and appropriate to the operational and long-term needs of the University, taking into account recommendations from the Chief Investment Officer (Director of Finance) and relevant factors such as economic conditions, expected income return, budget-to-actual operating projections, budgeted distribution, and preservation of the Endowment.

The Finance Committee will review and evaluate investment results and take whatever action is deemed prudent when an investment fails to meet performance standards or violates the investment guidelines. They also are responsible for compliance with all state regulations.

The Audit and Finance Committee (Finance Committee) should consist of a minimum of 5 members, 4 of whom must be members of the Board. The Finance Committee's responsibilities include, but are not limited to, the following:

1. Maintain an understanding of legal and regulatory requirements and constraints applicable to the Funds.
2. Reviewing on an annual basis the Policy Statement and the performance measurements to be used on behalf of the Foundation.
3. Monitoring each investment's performance and compliance to the stated objectives within the Policy Statement on an interim or annual basis.
4. Approving recommendations made by the Chief Investment Officer.
5. Providing ongoing timely reports to the Board.
6. Conducting a review of each investment at a minimum of every 3 years and making recommendations to the Board to continue or seek a change of investment.
7. Provide recommendations to the Board regarding the selection, engagement or discontinuation of investment portfolios involved in or to be involved with the Funds.

### **3.4 Chief Investment Officer (Director of Finance)**

The Chief Investment Officer (in this case, the Director of Finance) has the responsibility of administering all aspects pertaining to the management of the Fund and will report to the Finance Committee on all matters relating to the investment and stewardship of the assets. The Chief Investment Officer will serve as the primary contact for the *donors and custodian*. The Chief Investment Officer will maintain detailed knowledge of the Fund and monitor performance of the investments routinely.

### **3.5 Custodian**

The custodian's role is to receive, hold, manage, and invest, to the extent directed by the Chief Investment Officer, the fund's assets. The custodian will make payments from the funds to such persons or organizations as designated in writing by authorized officers of the University. It will keep accurate and detailed accounts of all investments, receipts, disbursements and other transactions and will provide the Chief Investment Officer with a written account of all holdings and transactions periodically.

### **3.6 DHLTU Endowment Compliance Plan**

The Office of the Vice Chancellor of the DHLTU should mandate that the Fund must develop and implement an Institutional Endowment Compliance Plan, under the leadership of the Internal Auditor and in consultation with an Endowment Compliance Committee, to ensure the proper use and reporting of endowments held by the University.

The DHLTU Endowment Compliance Plan should outline the key components of a program to provide the highest degree of vigilance in monitoring DHLTU's fiduciary responsibilities to donors and its commitment to the Fund's objectives. In general, the DHLTU Endowment Compliance Plan defines processes and procedure to ensure that:

- Each endowment is used for the purpose(s) intended by the donor(s) and according to the official document(s) associated with the establishment of the endowment.
- All endowment accounts are reviewed on a regular basis by appropriate university personnel and that funds are utilized in accordance with the terms of the endowment agreement.
- An endowment risk assessment is conducted under the leadership of the DoF and in consultation with the Endowment Compliance Committee.

The Endowment Compliance Committee oversees the endowment compliance effort, from a broad institutional perspective, under the leadership of the Internal Auditor. The day-to-day operation of the plan is carried out on the University's behalf within the Office of Internal Audit, by the Endowment Compliance Officer (Director of Internal Audit).

#### **a. Risk Assessment**

The risk assessment evaluates the endowment's potential financial risk and/or the potential for extraordinary public concern or institutional embarrassment regarding an endowment or its use. The risk assessment is conducted by the DHLTU Finance Office under the leadership of the DoF and in consultation with the Endowment Compliance Committee and the Endowment Compliance Officer (Director of Internal Audit).

#### **b. Endowment Monitoring Process**

##### **1. The Preliminary Review**

a preliminary review of each endowment is conducted semi-annually by the Endowment Compliance Officer (ECO) for DHLTU.

##### **2. Consultation with DoF**

If, following the semi-annual review, there are concerns in regard to an endowment (no expenditures, improper expenditures, excessive accumulations, etc.), the ECO or their designee communicates with the DoF and, when appropriate, the Board of Trustees to review the concerns and determine jointly the next steps to ensure that the endowment is in

compliance by the end of the fiscal year (December 31). Upon completion of the annual review, which uses December 31 as the official snapshot date for all data, the ECO conducts a briefing with the DoF focusing on

*(i) use of the endowment, (ii) operating account balances(s), and (iii) any findings of concern or interest*

### **(3) Corrective Action Plans**

For those endowments found to be out of compliance, or in jeopardy of being out of compliance, corrective action plan options are developed by the ECO and submitted to the DoF for completion. Corrective action plans primarily focus on such items as operational, reporting and/or stewardship deficiencies and include a deadline for bringing the endowment into compliance. The accumulation of large balances in endowment incoming accounts should be based on sound academic/research plans that are reviewed and approved by the Vice Chancellor.

## **4. Action Plan Follow-Up**

The ECC, in consultation with the DoF, continues to monitor the situation until it is resolved or until further action is necessary.

## **5. Closure of Corrective Action**

If, according to the Review Process, the corrective action is not completed by the agree-to date, and no substantial progress has been made in rectifying the compliance infraction, the DoF may recommend one of the following actions to the VC:

- ☐ Excess accumulation of funds in the account be reinvested.
- Temporary authorization to spend the excess accumulation in the account be transferred to another budget authority, in keeping with the terms of the endowment agreement.

### **3.7 Endowment Reporting Plan**

Semi-annual Compliance Reports: Based on the preliminary review of all endowments by the Endowment Compliance Officer, a semi-annual status report will be submitted to the Endowment Compliance Committee. The DoF will then report the Committee's recommendations and comments to the Board of Trustees at its next regularly scheduled meeting.



- **Reports to Key Internal Stakeholders:** Based on the ongoing review process described above, endowment compliance status reports will be provided to the DHLTU Governing Council.

### **3.8 Endowment Report to Donors:**

As part of the University's stewardship efforts, the Finance Directorate will coordinate with the DoF the production and mailing of a report to all endowment donors or their survivors or representatives\*. The report provides the donor(s) with information on investment performance as well as a report on the use of the fund distributions. A digital copy is maintained in the Office of the Finance Directorate.

\*It is understood that there are some endowments for which there is no known person or entity to whom endowment reports should be directed. Therefore, in accordance with DHLTU System policy, a list of "no report" endowments will be maintained by the Office of the Finance Directorate.

### **3.9 Annual Endowment Compliance Report to DHLTU's Vice Chancellor:**

The Finance Directorate must submit a report end of September each year regarding DHLTU's endowment compliance efforts to the Vice Chancellor. The report certifies that the DHLTU's endowments are in compliance with proper endowment policies and procedures.