UNIVERSITY OF TORONTO

50 YEARS | GOVERNING COUNCIL

FOR APPROVAL **PUBLIC** **OPEN SESSION**

TO: Business Board

SPONSOR: David Palmer, Vice-President Advancement
CONTACT INFO: 416-978-2125, david.palmer@utoronto.ca

PRESENTERS: Same as above
CONTACT INFO:

DATE: June 14, 2023 for June 20, 2023

AGENDA ITEM: 7(a)

ITEM IDENTIFICATION:

Long-Term Capital Appreciation Pool Policy

JURISDICTIONAL INFORMATION:

The terms of reference of the Business Board, section 5.1(b), give the Board responsibility for "review and approval from time to time of the investment policies for university investment funds and amendments thereto." The terms of reference of the Business Board, section 5.5(b), give the Board responsibility for "approval of strategies and policies concerning the general conduct of fundraising."

GOVERNANCE PATH:

1. **Business Board [For Approval] (June 20, 2023)**

PREVIOUS ACTION TAKEN:

At its November 20, 2000, meeting, the Business Board approved the renaming of the Consolidated Investment Pool (CIP) to the Long Term Capital Appreciation Pool (LTCAP).

HIGHLIGHTS:

- The University had first adopted a set of advancement reinvestment charges in the 1990s and 2000s to help support the University's ambitious plans for fundraising growth and advancement activity for the Great Minds Campaign. These included a levy of 0.5% on the endowment fund and interest-generating holdbacks on donations. These charges helped enable the successful growth of the University's fundraising results through investment in additional fundraising staff and programs. As a result of an extended environment of low interest rates which diminished the effectiveness of the holdbacks and the University's strong financial position at that time which allowed the advancement program to continue to be funded at that level through operating funds, these charges were eliminated in 2007.

- Currently advancement activity is funded entirely through Divisional operating budgets and the existing DUA shared services budget model. The costs are funded from general operating reserves.

- The University has prepared a detailed plan called Advancement 2025 that sets out the required divisional and DUA investments necessary to achieve the Defy Gravity $4 billion campaign goal. Using peer-reviewed comparative data from institutions typically raising $400 million or more annually, Advancement 2025 identified an evidence-based path to lift our annual fundraising performance from a five-year average of $241 million at the conclusion of the previous Boundless campaign, to an average of $400 million+/year required to meet the goals of our current campaign, Defy Gravity. The Advancement 2025 plan also identifies a significant gap at U of T in the number of front-line fundraising roles required to reach these goals and outlines a plan to close that gap with strategic and specialized resources in both the Divisions and the DUA.

- The scale of investment required for Advancement 2025, as a key enabler of our growth strategy and to achieve the $4 billion campaign goal, is approximately $10 million to $11 million in incremental annual expenditures on University-wide fundraising capacity. This level of investment is required to support our ambitious growth plan which will in turn secure support for the very broad range of academic plans and aspirations across the University's three campuses.

- This level of budget investment is not dissimilar to the additional budgetary investments made in University-wide advancement programs during the course of the Boundless campaign. Those investments produced a gain of approximately $136 million in annual fundraising results (from our pre-Boundless $105 million average to the five-year average of $241 million at the end of Boundless). This represents a significant ROI of more than 10 to 1.

- In Fiscal Year 2021-22, the Provost committed OTO funding from the University Fund for major gift officers in divisions as outlined in the Advancement 2025 plan. The UF allocation has provided funding for half the cost of new positions in divisions up to $1.7 million per year for up to three years.

- The University is proposing to reintroduce advancement reinvestment charges, through the Advancement Investment Model (AIM), as a predictable source of income that supports strategic and scalable investment in fundraising capacity called for by the Advancement 2025 plan. These charges will support the University's ambitious plans to grow its annual fundraising results to $400 million per year. They will be shared roughly equally between the Divisions and DUA and will be applied to fund growth in base advancement budgets and not as an offset to existing advancement budgets.

- The proposed Advancement Investment Model is informed by best practice in common use in major Canadian and U.S. public and private institutions, by advice from our campaign counsel GG+A, and by our own past experience.

- The Advancement Investment Model has been endorsed by the Campaign Steering Committee of lead volunteers and donors, and by the Principals and Deans Advancement Advisory Group, following extensive individual and group consultations with members of both groups in 2020, 2021, and 2022. This proposal has the full support of the President, Provost and Chief Financial Officer.

- The Advancement Investment Model will include an annual levy on the endowment fund. This levy will be set at 6.5% on the annual payout from the endowment fund. Based on a 4% payout, this equates to a levy of 0.25% of the endowment market value applied annually with a cap of $25,000 per fund. This charge will be introduced as of April 30, 2024, and will apply to all endowments.

- In tandem with this action, a charge on all expendable gifts will also be reintroduced. A separate amendment to the *Guidelines on Fund Raising Strategy and Programs at the University of Toronto* will be required to enable this new approach to supporting the costs of the University-wide advancement program. The expendable charge will be set at 2% per expendable gift with a cap of no more than $100,000 charged per gift. The charge will be introduced as of May 1, 2024, and will be applied at the time of receipt only on new expendable gifts and pledges made after that date.

- In a time of competing budget requirements, increasing financial pressures, and growing appetite for fundraising in support of ambitious academic priorities, the re-introduction of Advancement Investment Model charges will help support our growth strategy through 2025 and beyond, providing a model that will scale with our success and eventually enable strategic reinvestment in future requirements not anticipated by Advancement 2025.

- The proposed introduction of these advancement investment model charges are in alignment with common industry best practices and are expected to generate a significant return of 7x to 10x in new dollars raised for every dollar invested.

- It will also support excellence in receiving, managing, and stewarding major gifts and ensuring the impact of these gifts are maximized for the benefit of U of T’s beneficiaries and stakeholders.

- After approval from Business Board and before implementation, there will be a comprehensive communications rollout plan to donors, campaign volunteers and University stakeholder audiences.

- The *Long-Term Capital Appreciation Pool Policy* is being revised to permit the advancement reinvestment charge described above as the means of supporting costs of the University-wide advancement program on a go forward basis.

RECOMMENDATION:

Be It Resolved

THAT the proposed revisions to the *Long-Term Capital Appreciation Pool Policy* be approved, to be effective June 20, 2023.

DOCUMENTATION PROVIDED:

- Proposed revisions *Long-Term Capital Appreciation Pool Policy (Clean Version)*
- *Long-Term Capital Appreciation Pool Policy (Tracked Changes)*

UNIVERSITY OF TORONTO

University of Toronto
Governing Council

Long-Term Capital Appreciation Pool Policy

~~November~~ June 20~~0~~, ~~2000~~2023

To request an official copy of this policy, contact:

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27 King's College Circle
University of Toronto
Toronto, Ontario
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Fax: 416-978-8182
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Website: http://www.governingcouncil.utoronto.ca/

Long-Term Capital Appreciation Pool Policy

All endowment funds must be invested in the Long-Term Capital Appreciation Pool (LTCAP) except those which by contract or agreement are precluded from being pooled for investment purposes. Other university funds may be invested in the LTCAP, such as i) a portion of expendable funds, and ii) the Supplementary Retirement Arrangement (SRA) fund and other funds of a similar nature at the discretion of the Chief Financial Officer. Non-university funds, where the University is a beneficiary or has some interest in or relationship with such funds, may be invested in the LTCAP.

The pool will:

1. be invested in accordance with the University Funds Investment Policy;
2. be managed and invested by the University of Toronto Asset Management Corporation (UTAM);
3. be overseen by the UTAM Board in accordance with the by-law of this corporation and the service agreement between the University of Toronto and UTAM;
4. be subject to the Policy for the Preservation of Capital of Endowment Funds;
5. be unitized. The assets of each participant fund will be determined by units in the pool. Each unit represents an equal part of the assets of the pool. Investment in the pool will be made on the first working day of each month, by purchasing units at the current market value;
6. provide participants with an annual payout from pool earnings;
7. levy ~~a~~ uniform administration fees on participant funds based on: a) the cost of managing and administering the portfolio of assets, and b) ~~the cost of carrying out the University's general stewardship of its endowments~~any fees as the University determines are appropriate from time to time to support the costs of the University-wide advancement program.

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 and will provide an annual report to the Business Board for information on such exemptions.

~~Sheila Brown~~Trevor Rodgers
~~Acting,~~ Chief Financial Officer

Approved: June 22, 2000
Revised: November 20, 2000
Revised: June 20, 2023

Regulations for the Long-Term Capital Appreciation Pool

Policy

These regulations are issued pursuant to the policy approved by the Business Board on November 20, 2000.

Administrative Approvals

The annual payout from the pool of earnings will be determined, according to a prescribed formula, by the Chief Financial Officer expressed in dollars per unit. The underlying formula which serves as a basis for calculating the annual payout rate is determined by the Chief Financial Officer and approved by the President in accordance with the Policy on the Preservation of Capital of Endowment Funds.

The Chief Financial Officer determines the administrative fees to be charged to participants in the LTCAP with approval of the President.

~~Sheila Brown~~[TB1][TR2]Trevor Rodgers
~~Acting,~~ Chief Financial Officer

UNIVERSITY OF TORONTO

University of Toronto
Governing Council

Long-Term Capital Appreciation Pool Policy

June 20, 2023

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