

Update on UBC and the Endowment

**From Stephen J. Toope
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This is my third letter to the UBC community since November 2008 about how the global economic downturn has affected the University's Endowment and the programs it supports. The University's Board of Governors has carefully analyzed the situation and is moving forward with prudence and with confidence.

In basic terms, the UBC Endowment is a fund – peaking at over \$1 billion before the financial turmoil of 2008 – comprising monetary gifts that individuals and groups have entrusted to UBC in perpetuity to advance the University's mission. The Endowment also includes a substantial contribution from land revenue, the proceeds of UBC's creation of a sustainable on-campus community, University Town. UBC's Endowment is now the second largest among Canadian universities, a remarkable measure of financial support for a relatively young institution.

Investment income generated by the Endowment enables UBC to achieve a margin of excellence that would not otherwise be possible. UBC's donors have significantly contributed to UBC's success in achieving a position among the world's globally influential universities by helping it attract outstanding students, teachers, and researchers. In particular, income from the Endowment supports academic programs at the Faculty level, including portions of a number of professorial salaries, and financial assistance for students in the form of scholarships and bursaries.

In my previous letters on this subject I have indicated that the current economic climate demands creative ways to manage our Endowment. We need to steward Endowment resources – comprising nearly 3,000 individual endowments to which our donors have generously contributed – so that our benefactors retain confidence that their visions for UBC's success are being fulfilled. At the same time, we need to ensure that our community members who rely on Endowment income can continue to benefit from it with as little disruption by the global financial situation as possible.

Over a year ago UBC embarked on a comprehensive review of its endowments. This put UBC "ahead of the curve" as the global financial crisis unfolded. The Endowment review has resulted in a revised policy, approved on 5 February 2009 by the Board of Governors, which contains some important key principles. UBC will continue to honour the objectives established by our donors for their gifts. Further, the policy commits UBC to a stable pay-out of Endowment income that preserves the gift against inflation and allows Faculties and students alike the predictability to plan for the future. Finally, for those endowments that have been significantly impaired by the recent financial downturn, UBC will adopt practices that anticipate restoring individual endowments to their original value within 10 years.

To put these principles into practice, the new Endowment Management Policy requires that we spend no more than 3.5 percent of the value of each endowment fund. This is a 30 percent reduction from the previous 5 percent spending rate, a rate that is no longer sustainable. This newly established rate of return will protect the principal from inflationary loss; it is also in line

with the payout rate at other major universities and with independent financial advice. In addition, the revised policy requires that amounts available for spending be calculated against the market value of the Endowment. Although UBC's Endowment has fared better than others, it has still lost roughly 20 percent of its value over the past nine months.

The reduction in the rate of return to a sustainable level, combined with the reduction in the market value of the Endowment following the 2008 downturn, means that the net amount available to be spent from the Endowment will decline by about 50 percent in the next fiscal year (1 April 2009 – 31 March 2010). For some endowment funds, additional reductions will result from corrective mechanisms needed to allow the endowments to recover lost principal. I understand that this will create hardship, but the Provost and Vice President, Academic (UBC Vancouver), the Deputy Vice-Chancellor (UBC Okanagan), and the Vice President, Students are working closely with finance and treasury officers in the affected units to find ways to ameliorate the negative effects, and to allow for a smooth transition to the new spending rate.

Impact on Student Financial Assistance

If you are a student receiving Endowment-supported financial assistance in the current academic year, your support will continue just as you expect.

The *current* total student aid and scholarship budget is \$65 million. The reduction in endowment income will create an annual shortfall of approximately \$6.5 million in this area.

Notwithstanding this reduction, UBC's Board of Governors remains staunchly committed to its Access Policy, which affirms that no otherwise eligible domestic student will be denied a UBC education for financial reasons alone. No needs-based award will be cut. We will seek to address the reduction in a variety of ways. The first step will be to seek new funding sources. We will also seek the input of students and faculty as we weigh the pros and cons of reducing the value of individual non-needs-based awards against reducing the total number of such awards.

Impact on Faculties and Colleges

Two key factors – reducing the rate of Endowment spending from 5 to 3.5 percent, and implementing recovery mechanisms for any individual endowments that are below their original levels – will result in a projected reduction of about \$15 million to the Faculties and Colleges in the next fiscal year. For some Faculties and Colleges, the reduction in endowment income will require only minor adjustments. For others, however, this will require significant efforts to meet commitments.

In most cases, surpluses held by Faculties and Colleges in anticipation of other uses may help to smooth the transition to this more sustainable use of the Endowment. In other cases, the Office of the Provost and Vice President, Academic (UBC Vancouver) is working with units to fashion a bridging plan to offset the loss of income. Overall, I have no doubt that within this great university there will be a pulling together to support our common good.

What this means for UBC

People ask me if the current economic climate will knock UBC off the remarkable upward trajectory that our community has traveled with enthusiasm over the last few decades. My answer is clear: not at all.

Our investments and land revenues, the generosity of our donors, and the ongoing work with various levels of government to support our core academic programs and infrastructure have provided the University with a sound financial base to weather the global economic storm. Prudent management of our endowment funds has also allowed us to fare better than most North American academic institutions. Our new Endowment Management Policy will help us emerge even stronger when conditions improve.