



Endowments & Special Purpose Funds
Annual Report – 2012-13

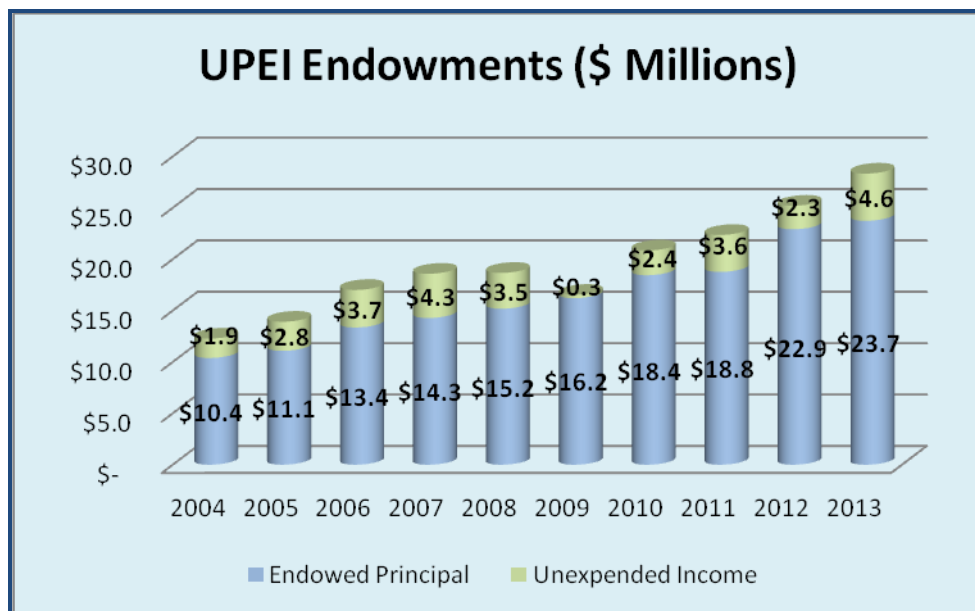
Fiscal Year Ending April 30, 2013

July 15, 2013

University of Prince Edward Island Endowments & Special Purpose Funds Annual Report – 2012-13

The University of Prince Edward Island assists benefactors and philanthropists to support the ongoing work of the university, its students, teaching, research and programs. This collaboration has provided great advances in education and allowed the individuals, families and organizations of many types and interests to support education in a manner fitting with their own interests. Virtually every aspect of the university benefits in some way from endowed funds. Endowment income is vital in the support of scholarships, fellowships, professorships, programs, retaining and attracting students to UPEI, and other academic enhancements. Endowment funds enable UPEI to make commitments far into the future, knowing that resources to meet these commitments will continue to be available, despite temporary decreases in market returns.

The donor(s) and the University enter into a trust agreement upon creation of an endowment account. The principal portion of a donation is held in perpetuity and the investment income earned is expended under the terms of each trust, to a maximum of 5% of the fund balance. These funds are placed with an independent custodian and invested through an external investment firm. The investment and spending policies governing these trust funds are approved by the University's Board of Governors.



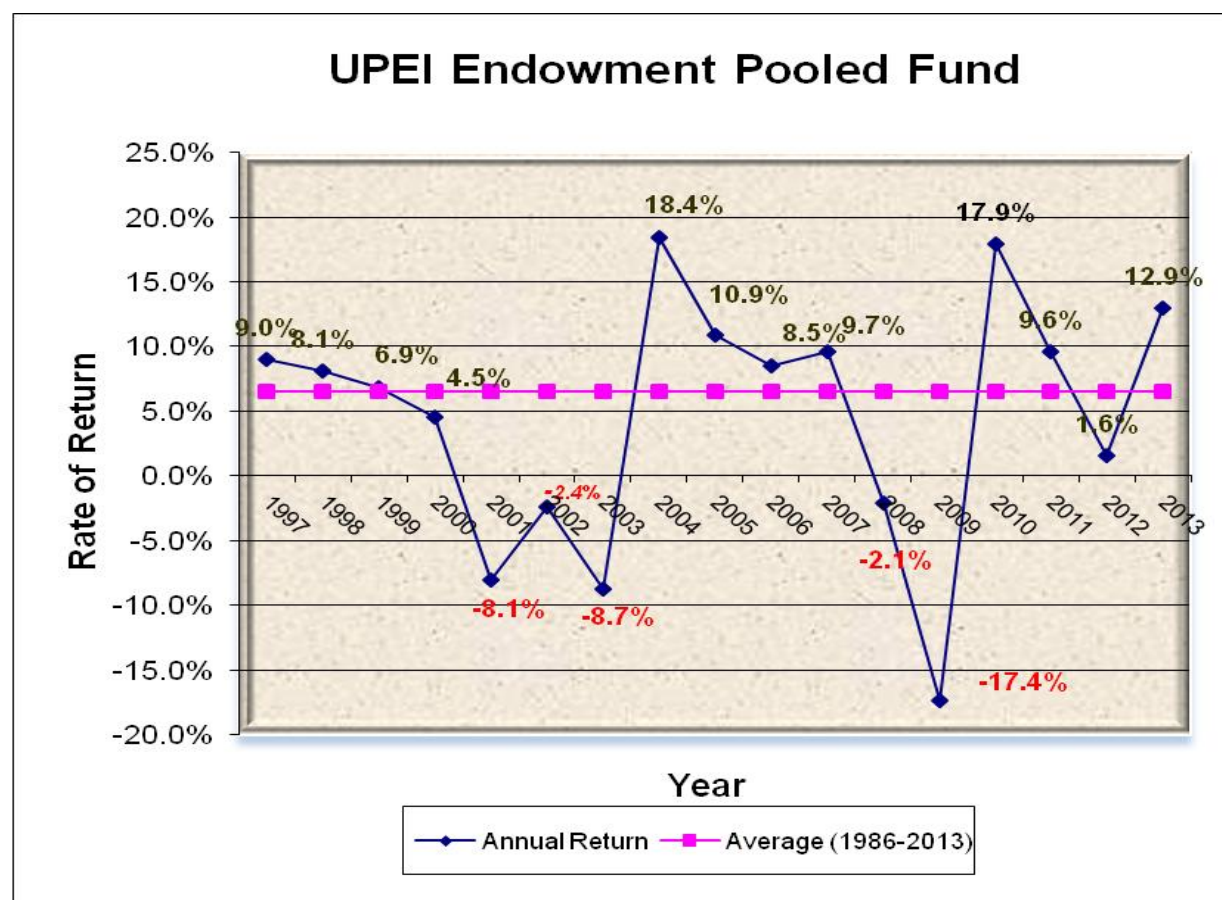
Trust funds consist of Endowed funds and Special Purpose funds. As at April 30, 2013, Endowed funds totaled \$28.3 million, which consisted of \$23.7 million in principal donations and \$4.6 million in unexpended income. Special Purpose funds totaled \$7.4 million as at April

30, 2013. These trust funds total \$35.8 million of which \$30.8 million is invested in the Investment Pool and the remaining \$5.0 million is separately invested in bonds and GIC's.

UPEI Endowment Investment Fund Performance

Endowment fund investments are governed by rules established in the Endowment and Special Purpose Funds - Investment Policy Statement under the supervision of the University's Board of Governors and its Endowment Oversight Committee. The Investment Pool is a diversified portfolio containing Canadian Bonds and Canadian, US and International Equities managed by the investment firm of *Jarislowsky Fraser*. All funds are held by an independent custodian (RBC Dexia).

Annual Investment Returns – Pooled Funds (1998 – 2013)



Pooled Fund Manager Performance (Jarislowsky Fraser):

	1 year 2012-13	2 year avg.	3 year avg.	4 year avg.	Since Inception Jan 31, 2005
UPEI Portfolio	12.9%	7.5%	8.1%	11.4%	5.8%
Benchmark	8.1%	4.6%	6.9%	10.7%	5.5%

Some individual donors have taken the option of designating fixed income investments for their endowment contributions instead of participating in the pooled fund. In addition, shorter term Special Purpose Funds are separately invested in bonds and GIC's. For endowed funds, which are held in perpetuity, we continue to recommend a diversified investment strategy.

Spending Policy

The University has established a spending policy for all endowments that restricts annual spending from any endowment to a *maximum* of 5% of the balance in the fund. In 2012-13, the UPEI Board of Governors set the *spending rate* at 4.0% of the principal balance plus the unexpended income balance in each account. This rate choice reflects a conservative approach to spending policy during a period of unstable world markets and relatively low returns compared to previous decades.

Endowments & Special Purpose Funds Fiscal 2012-13

	Externally Restricted Endowment	Internally Restricted Endowment	Total Endowments	Special Purpose Funds	Income Control Account	Total Endowments and Special Purpose Funds
Opening Principal - April 30, 2012	17,653,671	5,264,211	22,917,882			22,917,882
Principal Additions - 2012-13	765,293	42,337	807,630			807,630
Capitalization of Unexpended income	13,048	-	13,048			13,048
Ending Principal - April 30, 2013	18,432,012	5,306,548	23,738,560	-	-	23,738,560
Opening Unexpended Income	1,012,241	530,873	1,543,114	6,770,007	962,108	9,275,229
Add Revenues:						
Contributions	32,653	1,420	34,073	580,200		614,273
Investment Return	143,759	0	143,759	89,721	3,632,935	3,866,415
Capitalization of Unexpended Income					0	-
Investment Return - Distribution	627,269	232,308	859,576	198,850	-1,058,427	(0)
Total Revenue (Loss)	803,681	233,728	1,037,409	868,770	2,574,508	4,480,688
Deduct Expenditures:						
Scholarships	-399,384	-143,589	-542,973	-239,829		-782,802
Other programs	-259,890	-45,129	-305,019	-656,041	0	-961,060
Total Expenditures	-659,274	-188,718	-847,992	-895,870	0	-1,743,862
Unexpended Income - April 30, 2013	1,156,648	575,883	1,732,531	6,742,908	3,536,616	12,012,055
Fund Balance, April 30, 2013	19,588,660	5,882,431	25,471,091	6,742,908	3,536,616	35,750,615

The University uses a pooled income distribution method of income allocation. The University does not allocate market gains and losses directly to individual endowments. Instead, the approved income distribution rate is deposited into each endowment and restricted special purpose account participating in the pool. The University then manages the risk associated with market gains and losses. This method has the effect of stabilizing the income available for spending while continuing to protect principal in the account. In addition, returns earned in

excess of the approved spending rate will be available for distributions to the endowments from the centrally managed pool. In 2012-13, there were no distributions from the Income Control Account to the endowed and special purpose accounts.

Following is a summary of activity in the Income Control Account for 2012-13:

Endowment Investment Pool		
Income Control Account:		
Opening unallocated gain/(loss), May 1, 2012	\$	962,108
Add Earned Income:		
Realized income		1,267,049
Unrealized gains/(losses)		2,396,764
Total Earned Income for 2012-13	\$	<u>3,663,813</u>
2012-13 income distribution (4.0%)	\$	(1,089,305)
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Closing unallocated gain/(loss), April 30, 2013	\$	3,536,616

As reflected above, the assets invested in the Endowment Investment Pool Income Control Account had very healthy returns in the 2012-13 fiscal year. The Governance and Administration policy for Endowments and Special Purpose Funds allows for a distribution from the Income Control Account when the balance of this account exceeds ten percent of the total Endowment Investment Pool. A review will be undertaken in 2013-14 to ascertain if a distribution should be recommended.

The Endowment Spending Rate is approved in advance for two (2) fiscal years for planning purposes. Therefore, the rate has been set at **3.5% for 2013-14 and for 2014-15.**

Characteristics of Restricted Fund Accounts

Endowments - External

Invested funds, held in trust, where the establishment of the endowed principal and the use of the investment income (total return) is formally restricted by written agreement with an external donor, bequest or trust. The principal is held in perpetuity and investment income, only, may be used for the purpose of the endowment.

Endowments – Internally Restricted

Invested funds, held in trust for scholarship and other purposes, where the establishment of the principal and/or the use of the investment income (total return) are determined by the University. The principal is held in perpetuity and investment income, only, may be used for the purpose intended by the donor or the Board of Governors. Internally Restricted Funds must be approved by the University's Board of Governors.

Special Purpose Funds (Deferred Revenue)

Invested funds, where both the principal donation and interest are available for the purpose established by the donor or by the Board of Governors.

Fund Balance Summary

April 30, 2013

<i>Type</i>	<i>Principal</i>	<i>Accumulated Income</i>	<i>Income Control Account</i>	<i>Total</i>
<i>Endowments</i>	23,738,560	1,732,531	2,864,304	28,335,395
<i>Special Purpose Funds</i>	-	6,742,908	672,312	7,415,220
<i>Totals</i>	23,738,560	8,475,439	3,536,616	35,750,615

Investment Summary

April 30, 2012

<i>Type</i>	<i>Pooled Fund</i>	<i>Separately Invested</i>	<i>Total</i>
<i>Endowments</i>	24,963,771	3,371,624	28,335,395
<i>Special Purpose Funds</i>	5,798,296	1,616,924	7,415,220
<i>Totals</i>	30,762,067	4,988,548	35,750,615