

## VII. STANDING COMMITTEES

## B. Finance, Audit and Facilities Committee

Interim Adjustment to the Consolidated Endowment Fund (CEF) Spending PolicyRECOMMENDED ACTION:

It is the recommendation of the Finance, Audit and Facilities Committee that the Board of Regents hold FY09 endowment spending at FY08 spending levels. This exception to policy will expire June 30, 2009.

BACKGROUND:

In 1988, the Board of Regents adopted the “Statement of Investment Objectives and Policy for the Consolidated Endowment Fund”. This policy defines the spending rate as “five percent of the average market value of the CEF for the previous three years.” Later policy amendments capped year-to-year spending increases at 5%. The cap was removed in December 2000, resulting in significant increases in payouts in the ensuing years.

Endowment spending policies typically include a smoothing mechanism to create a more predictable payout stream. Extreme positive or negative movements in the capital markets work their way through the spending calculation over a number of years enabling program managers to effectively plan for change.

INTERIM ADJUSTMENT:

The financial markets are currently suffering through an unprecedented period of turbulence. Global recession is now a reality and it is feared that it will be deeper and more prolonged than originally predicted.

The recommended adjustment to the spending policy in FY09 will enable program spending to remain at FY08 levels. This is 5% below what the policy spending calculation with its current smoothing mechanism would have generated. With the assistance of Cambridge Associates, current and alternative spending policies will be thoroughly evaluated over the coming months. Conversations with campus deans are in process to further assess the impact of the global recession on current and future endowed programs. The analysis, discussions and continued monitoring of the endowment spending policy will be communicated to the Board.

REVIEW AND APPROVALS:

This interim adjustment recommendation has been reviewed by the Senior Vice President and the administration, the Chief Investment Officer, and by the University’s investment consultant, Cambridge Associates.