



# QUEEN'S POOLED ENDOWMENT FUND SPENDING POLICY & UNITIZATION BACKGROUNDER

## OVERVIEW

The Queen's Pooled Endowment Fund (PEF) is a unitized fund consisting of philanthropic gifts intended to provide enduring support to Queen's. Payouts from the PEF support student awards, research chairs, professorships and a diverse range of university programs and projects.

Endowed gifts are pooled together in the PEF for long-term investment. A unitization system (similar in some ways to a mutual fund) is used to track the value of each endowed gift over time. PEF investments are managed under the oversight of the Investment Committee of the Board of Trustees in compliance with Board-approved [policies](#). In order to achieve a high level of spending and also preserve purchasing power over time, the PEF is invested in a diversified portfolio of public and private equities and fixed income, and real assets such as infrastructure and real estate. With an asset mix that is positioned for growth, the portfolio is expected to achieve a high return over time thus achieving the maximum benefit to Queen's over the very long term. Of course, these high return expectations come with embedded risks, which means the PEF will at times experience significant volatility. Portfolio positioning and spending decisions are managed in this context. It is important to understand that return forecasts and target spending rates are affected by market conditions and are subject to change.

## PURCHASING UNITS

When a gift is endowed, gift proceeds are used to purchase units in the PEF at the prevailing unit value which is calculated monthly and posted on Queen's [website](#). The PEF unit value represents the total market value of the fund's investments divided by the number of units outstanding.



spending toward a long-term target of 4.0% of endowment market values, the rule ensures that spending levels will be sensitive to fluctuating endowment market value levels, providing stability in long-term purchasing power. The spending payout is calculated in advance of each fiscal year, which begins May 1<sup>st</sup>. The December 31<sup>st</sup> unit value is used in the spending formula so that the payout for the next fiscal year is known advance. The inflation adjustment in the formula is based on the one-year percentage change to the Consumer Price Index (specifically CPIX, which is one of the core inflation measures), as reported by the Bank of Canada for the previous calendar year.

The spending formula includes upper and lower bands of +/- 0.5% around the 4.0% long-term spending target to prevent over- and under-spending in extreme market conditions. The formula is reviewed by the Investment Committee annually and may be amended as required.

An important aspect of the management of Queen's unitized PEF is the ability to continue funding programs supported by the endowment in times of market downturns, even if the market value of the units falls below the value on the date on the donation (i.e. if the current unit value falls below the unit purchase value). The smoothing of the endowment payout rate allows for the continuity of program support despite market volatility.

#### **GIFT SIZE & ESTIMATED FUTURE INCOME**

It is common for donors to want to knul