

Date: December 6, 2012

To: Finance Committee

From: Director of Finance

Subject: General Trust Funds Expenditure Policy Revision

University Advancement has requested that McMaster add another type of trust option for donors. Over the last few years some donors have expressed a desire to see a quicker and larger impact from their donations. **Endowed gifts** are invested in the Long Term Pool¹. Spending on the purpose expressed in the terms is based on the University's general expenditure policy which is currently set at 5% (4% for the purpose of the trust and 1% for trust administration).

An option that is in place at other charities, including some Ontario universities², which addresses the desire of donors to see a larger impact sooner, is that of a 'spend-down' trust. A spend-down trust would be one that distributes all the capital and income over a set term – for example ten years- and then ceases to exist. It is therefore not an endowed trust. Spend down trusts fit between the Endowed trust and the Specific trust. **Specific trusts** are set up for donations that are to be spent in the current year on the purpose expressed in the terms.

For donors, a spend-down trust allows them to see an immediate impact from their gifts. For the university, a significant steady support over a defined period can address a capital need or benefit a particular multi-year project. It does not provide funding in perpetuity therefore this type of trust is not particularly suited to ongoing purposes such as tenured chairs or professorships.

After Trust Funds Management Committee reviewed several models prepared by Treasury, the following recommendation is being proposed:

A new type of trust option, called a 'Spend-Down Trust' should be added to the General Expenditure Policy. Funds would be invested in the Long Term Investment Pool. The definition would be as follows:

Spend Down Trusts – Where the principal and interest will be expended; the annual amount available for expenditure will be agreed upon and included in the gift documentation. This amount will normally not exceed 7.5% (6.5% for spending plus the 1% trust administration fee) of the original gift amount (or 1/13th of the original balance). The spend-down trust is suitable for trust donations greater than \$100,000. The length of time a spend-down trust will be available for use will vary dependent upon investment income earned over the course of the trust account life.

¹ Long Term Pool Investment Policy goals include; achieve a Total Rate of Return sufficient to support stable and growing expenditures for University purposes, preserve the original capital in "real" terms, and provide capital growth.

² Spend down trusts are used at University of Toronto, Queens University and the University of Western Ontario.

Finance Committee –**APPROVED**
December 2012