Faculty of Medicine Investment Fund Policy

27 March 2013 (final)

Introduction

The Faculty of Medicine operating surplus for the 2012-13 fiscal year is estimated to be between $30 and $40 million, or around 20% of its operating budget. This significant surplus has been built up over several years. Much of the surplus arises from departments setting funds aside to deal with uncertain future commitments, where there is lack of confidence that the future operating budget will be sufficient to cover. These include bridging funds to cover grant-tenured faculty, funds for future equipment replacement, start-up funds for eventual new faculty, housing benefits for new faculty and other contingencies. Although these needs are medium to long term, and in some cases the risk may not be realized, prudent management requires funding to be available to meet the commitments. The very high proportion of research funding within FoM's budget adds uncertainty to future revenue flows, and increases the need for stable contingency funding to be readily available to cover risks.

When departments are individually responsible for meeting these risks, they collectively hold significant amounts of capital without return. The surplus funds held within their operating accounts for future use also obscure an understanding of their annual operating budgets. On the other hand, when the Faculty operates together to manage its surpluses, the funds can be pooled to generate income and to extend the term of the investment, taking advantage of the likelihood that not all risks will be realized.

With the support of UBC Treasury, an investment instrument has been designed as a mechanism to hold these surplus funds, generate investment revenue, share risk across the Faculty and yet enable enough of the invested capital to be available as required to meet future needs should the risks be realized. As an additional advantage, this mechanism enables capital to be made available internally for UBC real estate investment by Treasury.

This paper provides policies for management of the investment instrument within the Faculty of Medicine, and also reflects the UBC Treasury requirements that the Faculty must meet.

Management policy for the investment instrument within the Faculty of Medicine

1. The investment instrument (Fund) is operated by the Faculty of Medicine Dean's office (DO) on behalf of departmental investors (including Departments, Schools, Institutes and Centres of the Faculty).

2. The responsible officer within and on behalf of the DO is the Senior Director of Finance.

3. The Fund is a medium to long-term investment, with a goal of retaining funds in an interest-bearing instrument for as long as possible in order to generate maximum interest returns on behalf of the Faculty.

4. The Fund is composed of two internal loans from the (DO) to UBC Treasury (TSY).

5. Ownership and management of the fund as a whole remains with the Faculty of Medicine Dean's Office, who will track each department's ongoing ownership of its original capital, until withdrawn.

6. Regardless of the underlying investments, the Fund is operated as a single investment pool by the DO on behalf of its departments.

7. TSY has set the minimum investment at $10 million. The DO has set the minimum departmental investment at $100,000.

8. The two loans to be managed by TSY are, first, for twenty years at 5.75% interest, with no capital payout until maturity, and, second, a ten year reverse mortgage paying out capital and interest over 10 years, at 2.5% interest on the declining balance. Capital is available to be returned only according to the schedule agreed with TSY.

9. The investment is held by TSY to provide capital for UBC real estate investments. The interest rates are guaranteed by TSY for 10 years. The interest rate is subject to review after 10 years.

10. The investment will be managed as a pool by the Faculty of Medicine, and the DO will assume the risk of ensuring sufficient capital is available to meet the schedule of the investing departments, should the related risks be realized.

11. Upon investing, departments will complete a schedule for submission to the DO showing the amount of their investment, the fiscal year the capital is likely to be required, the purpose or contingency for which the capital is required, and the estimated probability that the capital will be required at that time.

12. Investing departments are guaranteed to have their investment returned to them to cover the purpose or contingency for which it was retained and according to their schedule. Should the scheduled purpose not be realized (e.g., the grant-tenured faculty member for whom the funds were saved secures another grant to cover their salary), the investment will be retained within the Fund, unless there is strong financial need on the part of the department.

13. During the term of the investment there will be no recapitalization or additions to the capital held by TSY.

14. The investment will be closed to new deposits as of 31 March 2013.

15. There will be no withdrawals of investment during the first fiscal year of investment (2013/14). Investment withdrawals will be made at the end of each fiscal year after the first, with the first investment withdrawals being made on 31 March 2015 for the 2014/15 fiscal year.

16. Departments will receive 2% annual interest for their investment in the Fund. The balance of interest received will be retained by the DO in order to cover the risk of managing the fund and to support ensuring investments can be returned according to the schedule.

17. Interest to departments will be paid annually beginning in March 2014, to the originating PG.

18. In order to ensure a reasonable match of investment patterns (timing of return of investment) to the structure of the TSY loans, the DO reserves the right to select those investments put forward by departments that best match the long term nature of the Fund. It may not be possible to accept all investments having a short-term horizon.

19. The DO will maintain a schedule by department, PG, and scheduled withdrawal date of all investments. This will be readily available for consultation by all departments.

20. Each year in December the DO will request departments to indicate their need for return of their investment as scheduled for that fiscal year, or their ability to enable it to be retained within the Fund.

21. Departments wishing to invest in the Fund after the date of 31 March 2013 may be able to do so if other departments withdraw investments such that sufficient investment room is created to enable new investment to be managed through offsets against these withdrawals needs.

22. During January of each year the DO will manage the offsets of investment withdrawal and fresh deposits by new departments.

23. The Finance Committee will review the accounts for the investment at least every two years to provide assurance to the investing departments.