

<b>SUBJECT</b>	<b>ENDOWMENT STATUS REPORT AS AT MARCH 31, 2017</b>
<b>MEETING DATE</b>	<b>JUNE 14, 2017</b>

Forwarded to the Board of Governors on the Recommendation of the President

**APPROVED FOR  
SUBMISSION**



Santa J. Ono, President and Vice-Chancellor

<b>For Information</b>	
<b>Report Date</b>	May 19, 2017
<b>Presented By</b>	Andrew Simpson, Vice-President Finance & Operations Ian Burgess, Comptroller Stuart Mackenzie, Director, Financial Reporting and Budgeting

**EXECUTIVE SUMMARY**

Endowment investments are comprised of:

(in millions of dollars)	March 31, 2017	March 31, 2016
Main Endowment Pool invested by IMANT	\$ 1,445.4	\$ 1,309.5
Sustainable Future Pool invested by IMANT	10.0	-
Other Securities	11.3	13.9
Merilees Chair	3.7	3.7
Promissory Notes	1.6	2.2
<b><i>Funds administered under the University's Endowment Management Policy</i></b>	<b>1,472.0</b>	<b>1,329.3</b>
Vancouver Foundation	27.2	25.9
Peter Wall Endowment	115.4	89.4
Student Housing Financing Endowment (SHFE)	332.1	260.8
Faculty Housing Assistance Financing Endowment (FHAFE)	10.4	-
<b><i>Total Endowment Investments</i></b>	<b>\$ 1,957.1</b>	<b>\$ 1,705.4</b>

This Endowment Status Report includes endowment funds administered under the University's Endowment Management Policy, Vancouver Foundation endowments where the University has the discretion to transfer all or any part of the capital to the University, the Peter Wall endowment (held within the UBC Foundation) and the SHFE endowment.

**INSTITUTIONAL STRATEGIC PRIORITIES SUPPORTED**

- Learning     
  Research     
  Innovation     
  Engagement     
  International  
 (Internal / External)
- or  Operational

**DESCRIPTION & RATIONALE** A summary of the status of IMANT Invested Funds, Other Securities, the Merilees Chair and promissory notes as at March 31, 2017 is attached. The summary shows the comparative values of the Capital Accounts and the Stabilization Accounts for March 31, 2016 and March 31, 2015. A graph of the changes in the stabilization account balances since amendments were made to the Endowment Management Policy in February 2009 is also attached. At March 31, 2009 the stabilization balances were in a deficit of \$143.0 million. The graph shows the stabilization account balances have recovered and are now in a \$242.9 million surplus position.

*IMANT INVESTED FUNDS, OTHER SECURITIES, MERILEES CHAIR & PROMISSORY NOTES*

The total market value increased \$142.8 million during the year to \$1,472.0 million at March 31, 2017. This change is made up \$41.6 million of contributions and \$156.2 million of investment income offset by a spending allocation of \$55.0 million. The \$156.2 million of investment income, including income from other securities, reflects a return of approximately 12.0% for the year primarily on the Main Endowment Pool invested by IMANT.

The Capital Account increased by \$59.5 million as a result of new contributions of \$31.6 million to the Main Endowment Pool, \$10.0 million of land lease proceeds contributed to UBC's new Sustainable Future Pool (SFP), and a provision for inflation of \$17.9 million. The UBC Board of Governors approved the establishment of the SFP at the February 2016 meeting and approved the Statement of Investment Policies and Procedures at the September 2016 meeting. The SFP was established with a \$10 million contribution from land lease revenues endowed by the Board of Governors. Donors may contribute to the new pool over time. Inflation for the year was 1.6%. The Capital Account also includes a donation of securities received in fiscal 2016. The securities will be sold and the proceeds of disposition will be added to the Main Endowment Pool invested by IMANT.

The double digit market returns for six of the past eight fiscal years have eliminated the overall Stabilization Account deficit and, as mentioned above, a surplus of \$242.9 million exists at March 31, 2017. The \$242.9 million Stabilization Account is made up of 3,396 endowments that are not subject to amortization totalling \$243.6 million and 19 endowments that are underwater by \$0.6 million and remain subject to amortization. Of the 3,396 endowments that are not subject to amortization, 3,391 have a surplus stabilization account balance of \$243.8 million and 5 are underwater by \$0.3 million.

At the December 2016 meeting, the Board of Governors approved an increase in the endowment spending rate from 3.5% to 4.0% for 3 years commencing April 1, 2017. At the end of 3 years, the spending rate will be reviewed in accordance with Endowment Management Policy No, 113.

The Board of Governors also approved the "Endowment Excess Stabilization Account Balances Procedure" at the December 2016 meeting. The purpose of this procedure is to bring all of the endowment fund stabilization account balances within a specified range. Endowment funds with an excessively positive stabilization account balance

will eligible for a 0.5% spend allocation increase and endowment funds with a significantly negative stabilization account balance may have a 0.5% spend rate reduction. Over time, this procedure will move all of the outliers towards the norm. Implementation of the procedure will start April 1, 2017. In 2017/18, there are 23 funds eligible for the 0.5% increase and up to 83 funds having a 0.5% reduction.

#### VANCOUVER FOUNDATION ENDOWMENTS

Endowments with a fair value of \$27.2 million at March 31, 2017 are held and managed by the Vancouver Foundation (VF). The fair value of the VF endowments recorded in the University's financial statements is based on the fund statements prepared by the VF. The VF statements are received by the University one quarter behind the actual calendar quarters. The \$1.3 million increase in the fair value of the VF endowment funds represents the change from December 31, 2015 to December 31, 2016.

#### PETER WALL ENDOWMENT

The Peter Wall Endowment is made up of 6.5 million shares of Wall Financial Corporation (WFC) valued at \$115.4 million at March 31, 2017.

#### STUDENT HOUSING FINANCING ENDOWMENT (SHFE)

The market value of SHFE is \$332.1 million at March 31, 2017. The \$71.3 million increase in the market value represents \$66.6 million of land lease proceeds received from UBC Properties Trust during year plus \$4.7 million of capitalized investment income.

#### FACULTY HOUSING ASSISTANCE FINANCING ENDOWMENT (FHAFE)

FHAFE is a discrete endowment fund intended to finance UBC's housing assistance program to facilitate the recruitment and retention of outstanding faculty members. The establishment of FHAFE was approved by the Board of Governors at the December 2016 meeting and the FHAFE Terms of Reference were approved at the February 2017 meeting. In February 2017, FHAFE was established with \$10.4 of capital contributions including \$6 million of land lease proceeds received from UBC Properties Trust and the transfer of \$4.4 million of committed second mortgage loans.

### **BACKGROUND**

In February 2009, the Board approved changes to Endowment Management Policy No. 113 and a change in the spending rate. The relevant changes include:

- Reduction in the endowment spending rate from 5.0% to 3.5%;
- Use of the rolling three-year average market value by calendar year in establishing the spending allocation;
- Preservation of the real value of the Capital Account by crediting this account by an amount equivalent to the increase in the Consumer Price Index experienced during the fiscal year;

- Establishment of a Stabilization Account for each endowment fund to measure its health by tracking cumulative income earned against cumulative spending allocation, investment management and central administrative expenses charged, and inflation; and,
- Periodic reporting to the Board on the status of endowment funds.

Significant market losses in fiscal year 2009 reduced the value of the University's endowments. In nearly 56% of the University's 3,000 endowments, the value of the endowment as at December 31, 2008 was less than the original contribution. To address this underwater issue, the University committed, with certain exceptions, to building those endowments back up to their original value by reducing spending over a ten-year period. The base value of all endowment funds were established using the December 31, 2008 market value, and the deficits on this date, which totaled \$71 million, are being amortized against the annual spending allocations. These endowments are represented in the attached report as "Endowments subject to Amortization." Endowment investments experienced further market losses of 6% between January and March of that year which increased the deficit in the Stabilization Account at March 31, 2009. The investment losses during this period are not subject to amortization.

<b>BENEFITS</b> Learning, Research, Financial, Sustainability & Reputational	The University's endowment provides financial support to help create a world class learning environment on Campus.
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<b>RISKS</b> Financial, Operational & Reputational	The rate of return on endowment pool is subject to market fluctuations. The risk is alleviated by the University's endowment spend policy.
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<b>FINANCIAL</b> Funding Sources,	The financial support provided by the endowments complement government and other funding to support numerous academic, research and capital projects.
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<b>CONSULTATION</b> Relevant Units, Internal & External Constituencies	The endowment pool is made up of all of the individual endowment funds established at the University. The Board of Governors has retained UBC Investment Management Trust Inc. to manage the pool.
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<b>Previous Report Date</b>	This report is provided for information at each meeting of the Board of Governors.
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<b>Decision</b>	N/A
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<b>Action / Follow Up</b>	N/A
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## ENDOWMENTS (IMANT-INVESTED FUNDS, OTHER SECURITIES, MERILEES CHAIR & PROMISSORY NOTES)

Endowment Status as at March 31, 2015					
	No. of Endowments	(in thousands) Total Market Value	Capital Account	Stabilization Account	
Endowments not subject to Amortization					
Surplus stabilization account	3,262	\$ 1,317,179	\$ 1,095,003		\$ 222,176
Deficit stabilization account	8	6,896	7,242		(346)
	3,270	\$ 1,324,075	\$ 1,102,245		\$ 221,830
Endowments subject to Amortization	47	16,343	17,806		(1,463)
	3,317	\$ 1,340,418	\$ 1,120,051		\$ 220,367
Endowment Status as at March 31, 2016					
	No. of Endowments	(in thousands) Total Market Value	Capital Account	Stabilization Account	
Endowments not subject to Amortization					
Surplus stabilization account	3,183	\$ 1,263,596	\$ 1,100,540		\$ 163,056
Deficit stabilization account	152	57,296	59,265		(1,969)
	3,335	\$ 1,320,892	\$ 1,159,805		\$ 161,087
Endowments subject to Amortization	34	8,331	9,694		(1,363)
	3,369	\$ 1,329,223	\$ 1,169,499		\$ 159,724
Endowment Status as at March 31, 2017					
	No. of Endowments	(in thousands) Total Market Value	Capital Account	Stabilization Account	
Endowments not subject to Amortization					
Surplus stabilization account	3,391	\$ 1,458,284	\$ 1,214,452		\$ 243,832
Deficit stabilization account	5	7,172	7,454		(282)
	3,396	\$ 1,465,456	\$ 1,221,906		\$ 243,550
Endowments subject to Amortization	19	6,495	7,101		(606)
	3,415	\$ 1,471,951	\$ 1,229,007		\$ 242,944

### ENDOWMENT STABILIZATION ACCOUNTS

