

SUBJECT	CHANGES TO SIPP_s AND DELEGATION OF APPROVAL AUTHORITY
MEETING DATE	NOVEMBER 28, 2017

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

**APPROVED FOR
SUBMISSION**



Santa J. Ono, President and Vice-Chancellor

DECISION REQUESTED	<p>IT IS HEREBY REQUESTED that <i>the Board of Governors approve the Statements of Investment Policies and Procedures for the listed funds in principle and delegate joint approval authority for changes to the Chair of the Audit Committee and to the Chair of the Finance Committee:</i></p> <ul style="list-style-type: none"> - <i>Endowment</i> - <i>Staff Pension Plan</i> - <i>Supplemental Plan</i> - <i>Sustainable Future Pool</i> - <i>Core Working Capital</i>
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Report Date	November 14, 2017
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Presented By Andrew Simpson, Vice-President Finance & Operations
 Peter Smailes, Treasurer
 Rajiv Silgado, President and CEO, UBC Investment Management Trust

EXECUTIVE SUMMARY

The Statements of Policies and Procedures for the Endowment, Staff Pension Plan, Supplemental Plan, Sustainable Future Pool and Core Working Capital govern the management of each respective fund.

This submission proposes revisions to all five funds to clarify the governance structure and improve timeliness of portfolio changes. Additional changes are proposed to the Endowment Statement of Policies and Procedures (SIPP) to enhance utilization of the existing risk budget and offer potentially higher investment returns.

The request is for delegation of joint approval authority for changes (to take effect following the December 2017 Board of Governors meeting) to the Chair of the Board of Governors Audit Committee and to the Chair of the Board of Governors Finance Committee.

INSTITUTIONAL STRATEGIC PRIORITIES SUPPORTED

- Learning
 Research
 Innovation
 Engagement
 International

or **Operational**

DESCRIPTION & RATIONALE The proposed change in governance for the Statements of Policies and Procedures for the Endowment, Staff Pension Plan, Supplemental Plan, Sustainable Future Pool and Core Working Capital consists of moving the authority to hire and terminate external investment managers to the IMANT CEO and senior staff, subject to approved limits, asset mix policies, asset class guidelines, and ongoing reporting and oversight. IMANT Staff are responsible for delivering investment returns and this change aligns the responsibilities for manager selection with investment outcomes. Furthermore, the change improves the timeliness of portfolio changes that would otherwise have to be postponed until the quarterly IMANT Board meetings.

The additional change to the Endowment SIPP is intended to allow IMANT to fully utilize the existing, Board-approved risk budget through the limited use of financial leverage when market risk estimates are below the approved risk budget.

The IMANT Board has reviewed the history of Endowment investment returns in the context of risk parameters of the investment portfolio, and observed that IMANT has delivered the required returns while maintaining risk below the approved risk threshold. This creates an opportunity to generate additional returns if the entire risk budget were to be utilized. Investment leverage is a mechanism for increasing the amount of return-generating assets, without introducing unintended exposures into the portfolio.

The IMANT Board recommends implementing leverage of up to 10% of the value of the Endowment. Currently, that translates to approximately \$150 million of additional investments in return-seeking assets. Those additional assets would be deployed into a diversified set of existing asset classes within the ranges established in the UBC Endowment Statement of Investment Policies and Procedures.

To accommodate leverage, the upper range for each of the main three asset classes – Fixed Income, Public Equities and Alternatives would be increased by 5% each to 30% for Fixed Income and 50% for Public Equities and Alternatives. Asset class sub-category target allocations and maximum weights will remain unchanged.

The purpose of the Endowment Leverage Program is to utilize the approved risk budget and not to increase risk beyond that limit. IMANT staff will monitor the overall risk level of the UBC Endowment portfolio on at least a weekly basis and will inform the IMANT Board of increases in market risks beyond the approved threshold levels. In the event of risk estimates increasing, IMANT staff will present options for risk mitigation that may include reduction in the level of leverage.

In summary, the additional change to the Endowment SIPP allows for better utilization of the existing risk budget to generate additional returns. There are no changes to the Endowment target investment policy asset mix and reporting will

be enhanced to reflect the limited use of leverage. IMANT will continue to make investment decisions on the basis of best available information to ensure risks are appropriately managed. The IMANT Board is responsible for regular monitoring of compliance with all SIPPs and the IMANT CEO and President provides day to day oversight.

BENEFITS The University is expected to benefit from higher returns associated with better utilization of the existing risk appetite. External consultant estimated a 0.5% increase in expected annual returns of the Endowment portfolio which increases the probability of achieving intergenerational equity.

Learning, Research,
Financial,
Sustainability &
Reputational

RISKS Overall portfolio risk is expected to increase by 0.2% in terms of annual volatility of returns and is expected to remain within the already approved risk limits. The risk will be managed by IMANT Staff and monitored by the IMANT Board.

Financial,
Operational &
Reputational

COSTS Leverage implementation costs are expected to be more than offset by additional returns resulting in no net increases to the costs of managing the UBC Endowment.

Capital &
Lifecycle Operating

FINANCIAL A 0.50% increase in annual returns translates to approximately \$7.5 million increase in Endowment asset value.

Funding Sources,
Impact on Liquidity

SCHEDULE IMANT authority to hire and terminate external investment managers could be implemented immediately once approved, while leverage implementation is expected to be completed within six months following approval.

Implementation
Timeline

CONSULTATION UBC Investment Management Trust Board

Relevant Units,
Internal & External
Constituencies