

<b>SUBJECT</b>	<b>ENDOWMENT STATUS REPORT AS AT JANUARY 31, 2018</b>
<b>MEETING DATE</b>	<b>APRIL 19, 2018</b>

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

**APPROVED FOR  
SUBMISSION**



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Santa J. Ono, President and Vice-Chancellor

**FOR INFORMATION**

<b>Report Date</b>	March 21, 2018
<b>Presented By</b>	Peter Smailes, Interim Vice-President Finance & Operations Ian Burgess, Comptroller Stuart Mackenzie, Director, Financial Reporting and Budgeting

**EXECUTIVE SUMMARY**

The Endowment Status Report is presented to the Board at each meeting for information.

Endowment investments are comprised of:

(in millions of dollars)	January 31, 2018	March 31, 2017	change
Main Endowment Pool invested by IMANT	\$ 1,601.4	\$ 1,445.4	
Sustainable Future Pool invested by IMANT	10.6	10.0	
Other Securities	-	11.3	
Merilees Chair	3.8	3.7	
Promissory Notes	1.6	1.6	
<b><i>Funds administered under the University's Endowment Management Policy</i></b>	<b>\$ 1,617.4</b>	<b>\$ 1,472.0</b>	<b>\$ 145.4</b>
Vancouver Foundation	27.7	27.2	0.5
Peter Wall Endowment	139.6	115.4	24.2
Student Housing Financing Endowment (SHFE)	333.2	332.1	1.1
Faculty Housing Assistance Financing Endowment (FHAFE)	10.5	10.4	0.1
<b><i>Total Endowment Investments</i></b>	<b>\$ 2,128.4</b>	<b>\$ 1,957.1</b>	<b>\$ 171.3</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), the Student Housing Financing Endowment (SHFE) and the Faculty Housing Assistance Financing Endowment (FHAFE).

**INSTITUTIONAL STRATEGIC PRIORITIES SUPPORTED**

Learning

Research

Innovation

Engagement  
(Internal / External)

International

or  Operational

**DESCRIPTION & RATIONALE** A summary of the status of IMANT Invested Funds, Other Securities, the Merilees Chair and promissory notes as at January 31, 2018 is attached. The summary shows the comparative values of the Capital Accounts and the Stabilization Accounts for March 31, 2017 and March 31, 2016. 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 \$268.1 million surplus position.

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

The total market value increased \$145.4 million during the first ten months of the year to \$1,617.4 million at January 31, 2018. This change is made up \$98.3 million of contributions and \$101.7 million of investment income offset by a spending allocation of \$54.6 million. The \$101.7 million of investment income reflects a return of approximately 6.8% for the ten months primarily on the Main Endowment Pool invested by IMANT.

At the December 2016 meeting, the Board of Governors approved two changes relating to the endowment spending rate. The first was an increase in the endowment spending rate from 3.5% to 4.0% for 3 years commencing April 1, 2017. The second, was the “Endowment Excess Stabilization Accounts Procedure.” The purpose of this procedure is to bring all of the endowment fund stabilization account balances, with certain exceptions, within a 30% range. Endowment funds with an excessively positive stabilization account balance will be 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 the outliers towards the norm. The \$54.6 million spending allocation was calculated using the new 4% spend rate and excess stabilization account balances procedure.

The Capital Account increased by \$120.3 million as a result of new contributions of \$98.3 million to the Main Endowment Pool, and a provision for inflation of \$22.0 million. New contributions of \$98.3 million include donations of \$23.3 million plus a \$75 million Board approved transfer from SHFE to Trek invested in the Main Pool. The percentage change in inflation for the ten months was 1.8%. The March 31, 2017 Capital Account balance included a donation of securities. As the securities were sold, the proceeds of disposition were added to the Main Endowment Pool invested by IMANT. The shares were all sold by early January 2018.

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 \$268.1 million exists at January 31, 2018. The \$268.1 million Stabilization Account is made up of 3,450 endowments that are not subject to amortization totalling \$268.5 million and 19 endowments that are underwater by \$0.3 million and remain subject to amortization. Of the 3,450 endowments that are not subject to amortization, 3,447 have a surplus stabilization account balance of \$268.6 million and 3 are underwater by \$0.2 million.

VANCOUVER FOUNDATION ENDOWMENTS

Endowments with a fair value of \$27.7 million at January 31, 2018 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 \$0.5 million increase in the fair value of the VF endowment funds represents the change from December 31, 2016 to September 30, 2017.

PETER WALL ENDOWMENT

The Peter Wall Endowment is made up of 6.5 million shares of Wall Financial Corporation (WFC) valued at \$139.6 million at January 31, 2018.

STUDENT HOUSING FINANCING ENDOWMENT (SHFE)

The market value of SHFE is \$333.2 million at January 31, 2018. The \$1.1 million increase in the market value represents \$72.0 million of land lease proceeds received from UBC Properties Trust during the first ten months of the year plus \$4.1 million of capitalized investment income less a \$75 million Board approved transfer to Trek invested in the Main Pool.

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 table 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.

<p><b>BENEFITS</b> Learning, Research, Financial, Sustainability &amp; Reputational</p>	<p>The University’s endowment provides financial support to help create a world-class learning environment on Campus.</p>
<p><b>RISKS</b> Financial, Operational &amp; Reputational</p>	<p>The rate of return on endowment pool is subject to market fluctuations. The risk is alleviated by the University’s endowment spend policy.</p>
<p><b>FINANCIAL</b> Funding Sources, Impact on Liquidity</p>	<p>The financial support provided by the endowments complement government and other funding to support numerous academic, research and capital projects.</p>
<p><b>CONSULTATION</b> Relevant Units, Internal &amp; External Constituencies</p>	<p>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.</p>

<p><b>Previous Report Date</b></p>	<p>November 30, 2017</p>
<p><b>Decision</b></p>	<p>N/A</p>
<p><b>Action / Follow Up</b></p>	<p>N/A</p>

## ENDOWMENTS (IMANT-INVESTED FUNDS, OTHER SECURITIES, MERILEES CHAIR & PROMISSORY NOTES)

Endowment Status as at March 31, 2016				
	(in thousands)			
	No. of Endowments	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				
	(in thousands)			
	No. of Endowments	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 Status as at January 31, 2018				
	(in thousands)			
	No. of Endowments	Total Market Value	Capital Account	Stabilization Account
Endowments not subject to Amortization				
Surplus stabilization account	3,447	\$ 1,603,348	\$ 1,334,702	\$ 268,646
Deficit stabilization account	3	7,236	7,405	(169)
	3,450	\$ 1,610,584	\$ 1,342,107	\$ 268,477
Endowments subject to Amortization				
	19	6,898	7,229	(331)
	3,469	\$ 1,617,482	\$ 1,349,336	\$ 268,146

### ENDOWMENT STABILIZATION ACCOUNTS

