

SUBJECT	SUSTAINABLE FUTURE POOL - ADDITIONAL CONTRIBUTION
MEETING DATE	APRIL 19, 2018

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

**APPROVED FOR
SUBMISSION**



Santa J. Ono, President and Vice-Chancellor

DECISION REQUESTED	IT IS HEREBY REQUESTED that <i>the UBC Board of Governors approve the transfer of an additional \$5 million to the Sustainable Future Pool (in April 2018) and retention of the 3.5% spend rate.</i>
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Report Date	March 16, 2018
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Presented By Peter Smailes, Interim Vice-President Finance & Operations
Rajiv Silgado, President and CEO, UBC Investment Management Trust

EXECUTIVE SUMMARY

The UBC Board of Governors approved the creation of the Sustainable Future Pool (SFP) in February 2017 with a \$10 million contribution of the Trek endowment (land lease revenues endowed by the Board of Governors) into a new fund called the Trek Impact Endowment Fund, which is invested in the SFP. At its February 14, 2017 meeting, the Board of Governors also committed to contributing an additional \$5 million per year for three years to the Trek Impact Endowment Fund provided that the performance of the SFP is not materially adverse as compared to the Main Endowment Pool.

The market value of the SFP was \$10,627,379 at February 28 2018, which includes \$106,606 of donor contributions. Based on a positive performance report for the first three quarters of operation, despite a volatile operating environment, approval is requested to contribute a further \$5 million to the Trek Impact Endowment Fund invested in the SFP and retain the spending rate at 3.5%. The incremental \$5 million will be transferred in April 2018 from Trek endowment funds currently held in the Working Capital Fund.

INSTITUTIONAL STRATEGIC PRIORITIES SUPPORTED

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

DESCRIPTION & RATIONALE	The UBC Board of Governors approved the establishment of the Sustainable Future Pool (SFP) at the February 2016 meeting, the SFP <i>Statement of Investment Policies & Procedures</i> at the September 2016 meeting, and the establishment of the pool with a \$10 million contribution from the Trek endowment at the February 2017 meeting. The SFP is an important part of the University’s commitment to sustainability, and links academic, research and operational sustainability to make the University a living laboratory.
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IMANT researched suitable investment management firms and selected Jarislowsky Fraser (JF) to manage the pool, with their fundamental approach to portfolio construction and commitment to call for enhanced disclosure of climate change risks by publicly traded companies. Their investment approach includes analysis of environmental, social, and governance (ESG) business practices and IMANT has experienced working with JF since they have successfully managed the UBC Merilees Endowment Chair assets since 2002.

The University made the initial SFP investments March 31 2017 and invested:

- 30% in government and corporate bonds via the JF Fossil Fuel Free Bond Fund and
- 70% in global equities via the JF Fossil Fuel Free Global Equity Fund

Both funds have materially lower carbon dioxide emissions than the established benchmark resulting from the fossil fuel exclusions and emphasis on CO2 emissions reductions by portfolio companies (Ref Appendix A).

At the establishment of the SFP it was expected that the University would contribute an additional \$5 million per year for three years provided that the performance of the SFP is not materially adverse as compared to the Main Endowment Pool, monitored by IMANT and reported to the Board of Governors Finance Committee.

The portfolio has performed well, returning 6.61% since inception and coming in slightly ahead of the benchmark of 6.01% (Ref Appendix A). This is a satisfactory performance and recent market volatility has not impacted the SFP adversely compared to the benchmark.

Donor contributions

The market value of the SFP was \$10,627,379 at February 28, 2018, which includes \$106,606 of donor contributions. The donations comprised a transfer out of the Main Endowment Pool of \$72,464, in accordance with the terms of a donation made before the SFP was established on the condition that it would be transferred upon the donor's request once the SFP was established, and a new donation of \$34,141.

Spending rate

At establishment of the SFP it was contemplated that the size of the pool and lack of broad diversification could lead to investment returns that are more volatile than the Main Endowment Pool. Consequently the initial spending rate was set at 3.5%, 0.5% lower than the Main Endowment Pool.

Since the returns have been only slightly ahead of the benchmark and the SFP has only been established for 9 months, there is insufficient track record to determine whether a higher spend rate is warranted. It is recommended that the spend rate be retained at 3.5%.

Additional transfer of Trek capital to SFP

Given the positive performance record of the SFP it is recommended that a further contribution of \$5 million be made. The funding would be an internal allocation of Trek funds currently in the Working Capital Fund, specifically the 'as yet unspent' land lease proceeds of the Student Housing Financing Endowment (SHFE). The balance of Unspent SHFE was \$144.7 million at December 31, 2017.

BENEFITS Learning, Research, Financial, Sustainability & Reputational	The additional investment in the SFP is an important part of the University's commitment to sustainability and brings together the University's mandate of inquiry and the creation of knowledge, its desire to lead from within, its academic experience, research expertise, and operations management to make the University a living lab. It also responds to donor calls for the University to include sustainable and responsible investment strategies in the endowment. The SFP allows the University to use and report on institutional-calibre investment vehicles that incorporate non-financial preferences alongside financial objectives and deliver a reduced "carbon footprint" investment option.
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RISKS Financial, Operational & Reputational	The initial small size of the SFP impacts the ability to diversify investments and leads to greater exposure to equity markets. This may lead to greater volatility of returns, as compared to a larger, more diversified pool.
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COSTS Capital & Lifecycle Operating	Incremental administrative and investment costs will be funded by incremental investment returns.
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FINANCIAL Funding Sources, Impact on Liquidity	The SFP capital will be increased to \$15.3 million with this \$5 million additional contribution, which represents approximately 1% of the Main Endowment Pool, valued at \$1.6 billion.
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SCHEDULE Implementation Timeline	The \$5 million funding will be transferred following approval at the Board of Governors April 19 th meeting.
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CONSULTATION UBC IMANT, Treasury, University Counsel and Endowment Accounting

Previous Report Date April 13, 2017

Decision Amendment to Policy #113, Endowment Management related to the establishment of the SFP.

Previous Report Date February 14, 2017

Decision Agreement to establish the SFP with \$10 million internal Trek funds and approval of the SFP Statement of Investment Policies and Procedures.

2017 Q4 Performance History

	Month To Date	Quarter To Date	Since Inception 3/31/2017
TOTAL PORTFOLIO	-1.72	4.86	6.61
<i>Benchmark</i>	-1.13	4.61	6.01
<i>Value Added</i>	-0.59	0.24	0.60
Bonds	-0.53	1.74	0.70
<i>FTSE TMX Canada Universe Gov. Index</i>	-0.43	2.08	1.15
Foreign Equity Funds	-2.15	6.06	8.90
<i>MSCI World Index C\$ London FX - Net</i>	-1.43	5.70	8.10

*Note(s)

Benchmark as of:

03/31/2017 70.00% MSCI World Index C\$ London FX - Net & 30.00% FTSE TMX Canada Universe Gov. Index

Performance Calculation Methodology

- Rates of return are time-weighted, which is a method of measuring performance that is not sensitive to contributions or withdrawals. Returns are calculated daily, using the gross (prior to the deduction of fees) modified Dietz method.
 - As of 1/01/2010, returns and index data have been converted using the London 4pm exchange rates. Prior to this date, the Bank of Canada noon exchange rates were used.

2017 Q2 Sustainability Report

Sustainability Report

Low Carbon Footprint

