



<b>SUBJECT</b>	<b>ENDOWMENT SPENDING RATE FY 2019-2020 – MAIN ENDOWMENT POOL</b>
<b>MEETING DATE</b>	<b>DECEMBER 4, 2018</b>

Forwarded on the Recommendation of the President

**APPROVED FOR  
SUBMISSION**

Santa J. Ono, President and Vice-Chancellor

<b>DECISION REQUESTED</b>	<b>IT IS HEREBY RECOMMENDED that <i>the Board of Governors approve retaining the Endowment spending rate at 4.0% for fiscal year 2019-2020 for the main Endowment Pool.</i></b>
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<b>Report Date</b>	October 31, 2018
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**Presented By** Peter Smailes, Vice-President Finance & Operations  
 Tor Album, Acting Treasurer  
 Stuart Mackenzie, Interim Comptroller  
 Rajiv Silgado, President and CEO, IMANT

**EXECUTIVE SUMMARY**

In accordance with Endowment Management Policy No. 113, the Endowment spending rate for each endowment pool is reviewed every three years to ensure the value of the endowments are maintained over time. The next three year review for the Main Endowment Pool will be commissioned prior to the 2020-2021 fiscal year.

This report is an interim review of the spending rate for the Main Endowment Pool fiscal year 2019-2020).

UBC Investment Management Trust (“IMANT”) commissioned Aon Hewitt in the Summer of 2016 to assist in a comprehensive review of the asset mix for UBC’s Main Endowment Pool. The outcome of that review was that the IMANT Board recommended the spending rate increase from 3.5% to 4.0% for the Main Endowment Pool, effective April 1, 2017. This was approved by the Board of Governors in December, 2016.

Based on a review of the recent and rolling endowment returns and the current reserves in the endowment’s stabilization accounts, UBC Finance recommends that the Main Endowment Pool spending rate remain at 4.0% for the 2019-2020 fiscal year. The Board approved the 3.5% spending rate for the Sustainable Future Pool at the February 2017 meeting. Consistent with the Main Endowment pool, the spending rate for the Sustainable Future Pool will be reviewed after 3 years from inception for fiscal year 2020-2021.

**For INSTITUTIONAL STRATEGIC PRIORITIES SUPPORTED**

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

or  Operational

**DESCRIPTION & RATIONALE** In accordance with Endowment Management Policy No. 113, the Endowment spending rate is reviewed every three years to ensure the value of the endowment pools are maintained over time. This rate will be applied on the rolling three-year average market value to determine each endowment fund's spending allocation.

The next three year review for the Main Endowment Pool is scheduled to be undertaken prior to the 2020-2021 fiscal year.

IMANT commissioned Aon Hewitt in the Summer of 2016 to assist in a review of the asset mix for the UBC endowment fund. The asset mix review was carried out under the guidance of the sub-committee of IMANT Board and IMANT Staff.

Aon Hewitt undertook a projection of all key variables over a 10-year horizon under 1,000 different capital market simulations. The purpose of the study was to perform an update of the risk diagnosis and stress testing of the Fund's investment and spending policies. The outcome of this review was that the IMANT Board recommended the spending rate increase from 3.5% to 4.0% for the Main Endowment pool, effective April 1, 2017.

The key results, which supported the recommendation were:

- The review identified an asset mix that allowed the University to increase its Endowment spending rate to 4% while remaining within the overall risk profile.
- The review estimated the probability of achieving intergenerational equity to be higher than the previous portfolio ten years into the future (57% vs 55%).
- The proposed asset mix was expected to generate average, annualized net returns of 4.4% over a 10-year period, which compared favourably to the previous asset mix which would be expected to provide 4.1%.
- The proposed portfolio risk estimates remained close to the risk profile of the previous policy portfolio asset mix.
- Stress tests indicated that the proposed portfolio behaves similarly to the previous portfolio and both are estimated to lose over 20% during a severe market crisis.
- A spend rate of 4% is more in line with Canadian peer university, although spending policies vary.

#### **Interim Review**

This interim review is based on recent and rolling endowment returns, as well as the status of the stabilization accounts for the Main Endowment Pool.

#### ***Recent and rolling returns***

The Return Objective for the Main Endowment Pool invested by IMANT is 6.65%. (4% spending rate + 2% inflation + 0.65% administrative cost recovery).

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The Main Endowment Pool returns continue to meet or exceed the Return Objective over short, medium and long-term horizons, but the fiscal year to date return is currently lower than the required return.

Investment Performance to September, 30 2018"					
	Qtr	Fiscal YTD	1 Year	4 Year	10 Year
Required Return	1.22%	5.75%	6.96%	5.60%	5.75%
Actual Returns*	0.83%	2.44%	8.02%	7.49%	6.96%

*\*Net of investment manager fees*

As of September 30, 2018, the actual return for the first two quarters of the fiscal year was 2.44%. The forecast return for the fiscal year is 5.86% (below the 6.65% return objective).

There has been considerable market volatility over the past several months and there is potential for ongoing volatility over the short to medium term. Thus, it seems appropriate to retain the spending rate, as opposed to increasing the spending rate for the next fiscal year.

**Stabilization Accounts**

There are 3,531 endowment funds administered under the University’s Policy #113 Endowment Management with an aggregate stabilization account balance of \$260.6 million per August 31, 2018 (see Endowment Status Report for more details).

The stabilization account measures the health of each endowment by tracking cumulative income earned against cumulative spending allocation, investment management and central administrative expenses charged and inflation.

The stabilization ratio measures the stabilization accounts relative to the value of the capital accounts:

Date	No. of endowments	Capital Account Balance (000’s)	Stabilization Account Balance (000’s)	Stabilization Ratio
March 31, 2017	3,415	\$1,229,007	\$242,944	19.76%
March 31, 2018	3,499	\$1,357,603	\$263,114	19.38%
August 31, 2018	3,538	\$1,466,670	\$260,619	17.77%

The aggregate stabilization ratio has remained at very healthy levels since the 4% spending rate was implemented in April, 2017. It has come down a bit since the beginning of this fiscal year due to recent market volatility and higher interest rates.

**Recommendation**

The recommendation to the Board of Governors is that the spending rate remains at 4% for the 2019-2020 fiscal year for the Main Endowment Pool. This is supported by recent and rolling returns and stabilization account balances.

<b>BENEFITS</b> Learning, Research, Financial, Sustainability & Reputational	A portion of endowment income is spent to support activities at UBC, including research, teaching and student aid.
<b>RISKS</b> Financial, Operational & Reputational	An endowment spending rate that is too high will erode intergenerational equity of the fund such that future recipients receive less benefit in real dollars than current recipients.  An endowment spending rate that is too low will benefit current recipients over future recipients. Lower endowment spending rates will result in fewer donations to the endowment.
<b>SCHEDULE</b> Implementation Timeline	The next comprehensive review of the Main Endowment Pool, as required per the Endowment Management Policy No. 113, is scheduled to be commissioned prior to the 2020-2021 fiscal year.
<b>CONSULTATION</b> Relevant Units, Internal & External Constituencies	UBC Investment Management Trust (IMANT) UBC Treasury UBC Finance

<b>Previous Report Date</b>	April 19, 2018
<b>Decision</b>	<b>IT IS HEREBY REQUESTED</b> that <i>the UBC Board of Governors approve an additional transfer of \$5 million to the Sustainable Future Pool and retain the spend rate at 3.5%.</i>
<b>Action / Follow Up</b>	Approved

<b>Previous Report Date</b>	December 6, 2016
<b>Decision</b>	<b>IT IS RECOMMENDED THAT</b> the <i>Board of Governors approve in principle an increase to the endowment spending rate from 3.5% to 4% for fiscal year 2017-2018. This is subject to review by the incoming CEO of IMANT. It is recommended that final approval for implementation of this change be delegated to the Chairs of the Finance Committee and Audit Committee of the Board.</i>
<b>Action / Follow Up</b>	Approved. Implemented from April 1, 2017.