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| SUBJECT | ENDOWMENT STATUS REPORT |
| MEETING DATE | APRIL 2, 2019 |

Forwarded on the Recommendation of the President

APPROVED FOR SUBMISSION



for Santa J. Ono, President and Vice-Chancellor

FOR INFORMATION

| | |
|---------------------|---|
| Report Date | January 31, 2019 |
| Presented By | Peter Smailes, Vice-President Finance & Operations Stuart Mackenzie, Interim Comptroller |

EXECUTIVE SUMMARY

The Endowment Status Report is presented to the Finance Committee on behalf of the Board at each meeting for information.

Endowment investments are comprised of:

| (in millions of dollars) | January 31, 2019 | March 31, 2018 | change |
|---|------------------|-----------------|--------------|
| Main Endowment Pool invested by IMANT | \$ 1,673 | \$ 1,605 | |
| Sustainable Future Pool invested by IMANT | 15 | 10 | |
| Merilees Chair | 4 | 4 | |
| Promissory Notes | 2 | 2 | |
| <i>Funds administered under the University's Endowment Management Policy</i> | 1,694 | 1,621 | 73 |
| Vancouver Foundation | 27 | 28 | (1) |
| Peter Wall Endowment | 147 | 149 | (2) |
| Student Housing Financing Endowment (SHFE) | 331 | 333 | (2) |
| Faculty Housing Assistance Financing Endowment (FHAPE) | 25 | 25 | 0 |
| <i>Total Endowment Investments</i> | \$ 2,224 | \$ 2,156 | \$ 68 |

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 SHFE endowment and the FHAPE endowment fund.

STRATEGIC CORE AREAS SUPPORTED

- People and Places
- Research Excellence
- Transformative Learning
- Local/ Global Engagement

DESCRIPTION & RATIONALE This report includes a summary of the status of IMANT Invested Funds, the Merilees Chair and promissory notes as at January 31, 2019 (Attachment 1). The summary shows the comparative values of the Capital Accounts and the Stabilization Accounts for March 31, 2018 and March 31, 2017.

A graph of the changes in the stabilization account balances since amendments were made to the Endowment Management Policy in February 2009 is also included (Attachment 2). At March 31, 2009 the stabilization balances were in a deficit of \$143 million. The graph shows the stabilization account balances increased to \$263 million at March 31, 2018 and were in a \$225 million surplus position at January 31, 2019.

IMANT INVESTED FUNDS, THE MERILEES CHAIR & PROMISSORY NOTES

The total market value increased \$73 million during the first ten months of the year to \$1,694 million at January 31, 2019. This change is made up \$101 million of contributions and \$35 million of investment income offset by a spending allocation of \$63 million. The \$35 million of investment income reflects a return of approximately 2.0% for the ten months on the Main Endowment Pool invested by IMANT and approximately 3.1% on the Sustainable Future 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 \$63 million spending allocation was calculated using the new 4% spend rate and excess stabilization account balances procedure.

The Capital Account increased by \$111 million as a result of new contributions of \$101 million and a provision for inflation of \$10 million. Contributions of \$101 million include donations and internal contributions of \$23 million plus Board approved transfers of land proceeds of \$75 million from SHFE to Trek invested in the Main Pool and \$5 million from SHFE to Trek Impact invested in the SFP, net of a \$2 million Board approved encroachment. The percentage change in inflation for the ten months was 0.7%.

The double digit market returns for six of the nine fiscal years between 2010 and 2018, have eliminated the overall Stabilization Account deficit. As mentioned above, a surplus of \$225 million exists at January 31, 2019. The \$225 million Stabilization Account is made up of 3,565 endowments that are not subject to amortization totalling \$225.2 million and 7 endowments that are underwater by \$(0.2) million and remain subject to amortization. Of the 3,565 endowments that are not subject to amortization, 3,411 have a surplus stabilization account balance of \$225.9 million and 154 are underwater by \$(0.7) million.

VANCOUVER FOUNDATION ENDOWMENTS

Endowments with a fair value of \$27 million at January 31, 2019 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.

PETER WALL ENDOWMENT

The Peter Wall Endowment is made up of 6.5 million shares of Wall Financial Corporation (WFC) valued at \$147 million at January 31, 2019.

STUDENT HOUSING FINANCING ENDOWMENT (SHFE)

The market value of SHFE is \$331 million at January 31, 2019. The \$2 million decrease in the market value represents \$73 million of land lease proceeds received from UBC Properties Trust plus \$5 million of capitalized investment income less a \$75 million Board approved transfer to Trek invested in the Main Pool less a \$5 million transfer to Trek Impact invested in the SFP.

FACULTY HOUSING ASSISTANCE FINANCING ENDOWMENT (FHAFE)

FHAFE is a discrete endowment fund established by the Board in February 2017 to finance UBC's housing assistance program to facilitate the recruitment and retention of outstanding faculty members.

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 totalled \$71 million, are being amortized against the annual spending allocations. These endowments are represented in the attached table as "Endowments subject to Amortization." At January 31, 2019, there are 7 underwater endowment funds subject to amortization remaining with a stabilization balance of \$(0.2) million. 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.

BENEFITS The University’s endowment provides financial support to help create a world class learning environment on Campus.
Learning, Research,
Financial,
Sustainability &
Reputational

RISKS The rate of return on endowment pools is subject to market fluctuations. The risk is alleviated by the University’s endowment spend policy.
Financial,
Operational &
Reputational

FINANCIAL The financial support provided by endowments complement government and other funding to support numerous academic, research, capital and strategic projects.
Funding Sources,
Impact on Liquidity

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

| 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 March 31, 2018 | | | | |
| | (in thousands) | | | |
| | No. of Endowments | Total Market Value | Capital Account | Stabilization Account |
| Endowments not subject to Amortization | | | | |
| Surplus stabilization account | 3,485 | \$ 1,607,793 | \$ 1,344,150 | \$ 263,643 |
| Deficit stabilization account | 7 | 7,847 | 8,045 | (198) |
| | 3,492 | \$ 1,615,640 | \$ 1,352,195 | \$ 263,445 |
| Endowments subject to Amortization | 7 | 5,078 | 5,408 | (331) |
| | 3,499 | \$ 1,620,718 | \$ 1,357,603 | \$ 263,114 |
| Endowment Status as at January 31, 2019 | | | | |
| | (in thousands) | | | |
| | No. of Endowments | Total Market Value | Capital Account | Stabilization Account |
| Endowments not subject to Amortization | | | | |
| Surplus stabilization account | 3,411 | \$ 1,652,820 | \$ 1,426,970 | \$ 225,850 |
| Deficit stabilization account | 154 | 35,631 | 36,304 | (673) |
| | 3,565 | \$ 1,688,451 | \$ 1,463,274 | \$ 225,177 |
| Endowments subject to Amortization | 7 | 5,033 | 5,258 | (225) |
| | 3,572 | \$ 1,693,484 | \$ 1,468,532 | \$ 224,952 |

ENDOWMENT STABILIZATION ACCOUNTS

