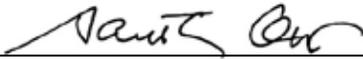




<b>SUBJECT</b>	<b>REVIEW OF ENDOWMENT SPENDING RATE – MAIN ENDOWMENT POOL</b>
<b>MEETING DATE</b>	<b>DECEMBER 5, 2019</b>

Forwarded on the Recommendation of the President

**APPROVED FOR  
SUBMISSION**

  
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 Santa J. Ono, President and Vice-Chancellor

<b>DECISION REQUESTED</b>	<b>IT IS HEREBY REQUESTED that <i>the Board of Governors approve maintaining the endowment spending rate for the Main Endowment Pool at 4.0% for FY2021.</i></b>
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<b>Report Date</b>	October 20, 2019
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**Presented By** Peter Smalles, Vice President Finance and Operations  
 Yale Loh, Treasurer  
 Karamjeet Heer, Comptroller  
 Dawn Jia, President and CEO, IMANT

**EXECUTIVE SUMMARY**

In accordance with Endowment Management Policy FM5, the spending rate for each of the endowment pools is established by the Board of Governors annually based on advice from UBC Finance, UBC Treasury, and IMANT. In determining the appropriate spending rate for an endowment pool, the overall objective is to maintain the value of that endowment pool over time. To support this objective, an independent asset and liability review is to be conducted by IMANT every three to five years to ensure the value of the endowments are maintained over time. The next asset liability study for the Main Endowment Pool will be started in the last quarter of the FY2020 fiscal year.

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. As a result of that review, the IMANT Board recommended increasing the spending rate 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.

This spending rate of 4% will not apply to the Trek Endowment funds that will change to a flat rate spending rate or the UBCPT Rental Income Endowment with a 5% spending rate, if approved by the Board at this meeting.

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 FY2021.

**STRATEGIC CORE AREAS SUPPORTED**

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

**DESCRIPTION & RATIONALE**

In accordance with Endowment Management Policy No. FM5, the Endowment spending rate is reviewed annually 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.

In addition to the annual review, an independent asset and liability review is conducted every three to five years by IMANT to assess the ability to preserve intergenerational equity, the outlook for long term investment returns and ultimately the Spending Rate.

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. As a result of this review, the IMANT Board recommended increasing the spending rate from 3.5% to 4.0% for the Main Endowment pool, effective April 1, 2017. This recommendation was approved by the Board of Governors in December 2016. The next review for the Main Endowment Pool is scheduled to be started in the last quarter of the FY2020.

The annual spending rate advice provided to the Board of Governors by UBC Finance, UBC Treasury, and IMANT is informed by an evaluation by IMANT of the 10-year performance of the applicable endowment pool and an assessment of the historical investment returns from the applicable endowment pool, costs charged against the applicable endowment pool, inflation and the aggregate balance of the Stabilization Accounts of the endowment funds in the applicable endowment pool.

**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).

For the past year, the UBC Main Endowment portfolio return is less than the required return but the last quarter, 4 and 10-year returns exceed the Return Objective when actual inflation is applied.

Investment Performance to September 30, 2019:

	Qtr	1 Year	4 Years	10 Years
Required Returns	1.07%	6.60%	5.94%	5.98%
Actual Returns*	1.53%	6.21%	7.60%	8.64%

\*Net of investment manager fees

While returns over the past quarter, 4 and 10 years have been strong, the returns this past year have been lower than the required return. There has been considerable market volatility over the past year and the 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 3,618 endowment funds administered under the University’s Policy FM5 Endowment Management with an aggregate stabilization account balance of \$259.3 million (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	Number of Endowments	Capital Account Balance (000’s)	Stabilization Account Balance (000’s)	Stabilization Ratio
March 31, 2018	3,499	\$1,357,603	\$263,114	19.38%
August 31, 2019	3,598	\$1,492,129	\$259,596	17.77%
Sept. 30, 2019	3,618	\$1,533,326	\$259,307	16.91%

The aggregate stabilization ratio has remained at very healthy levels since the 4% spending rate was implemented in April, 2017. It has come down somewhat since 2018 due to recent market volatility and global instability but still remains strong.

**Recommendation**

The recommendation to the Board of Governors is that the spending rate remains at 4.0% for the Main Endowment Pool for FY2021. This is supported by recent and rolling returns and stabilization account balances.

**BENEFITS** A portion of endowment income is spent to support activities at UBC, including research, teaching and student aid.

**RISKS** 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 future recipients over current recipients. Lower endowment spending rates may lead to fewer donations to the endowment as donors tend to prefer to see more immediate impact by their donations.

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**SCHEDULE** The next comprehensive review of the Main Endowment Pool, as required per  
Implementation the Endowment Management Policy FM5, is scheduled to start in the last  
Timeline quarter of the 2019/20 fiscal year.

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**CONSULTATION** UBC Investment Management Trust  
Relevant Units, UBC Treasury  
Internal & External UBC Finance  
Constituencies

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# **Main Endowment Pool Spending Rate**

November 26, 2019

**Peter Smailes, VP Finance and Operations**

**Yale Loh, Treasurer**



# Introduction



- Endowment Management Policy FM5 requires an annual review of the Spending Rate
- An independent asset and liability review is to be conducted by IMANT every three to five years
- Purpose of the reviews is to maintain endowment intergenerational equity
- The Trek Endowment funds will have a flat rate spending rate and the rental Income Endowment will have a 5% spending rate, if approved by the Board

# Endowment Returns



Investment Performance to September 30, 2019:				
	Qtr	1 Year	4 Years	10 Years
Required Returns	1.07%	6.60%	5.94%	5.98%
Actual Returns*	1.53%	6.21%	7.60%	8.64%
<i>*Net of investment manager fees</i>				

- Main Endowment Pool returns continue to meet or exceed the Return Objective other than the 1 year return.

# Stabilization Accounts



Date	Number of Endowments	Capital Account Balance (000's)	Stabilization Account Balance (000's)	Stabilization Ratio
March 31, 2018	3,499	\$1,357,603	\$263,114	19.38%
March 31, 2019	3,598	\$1,492,129	\$259,596	17.77%
Sept. 30, 2019	3,618	\$1,533,326	\$259,307	16.91%

- Aggregate stabilization ratio has remained healthy since the 4% spending rate was implemented in April, 2017, although has come down due to market volatility

# Conclusion



- Returns over 4 & 10 year periods have been strong
- 1 year returns are lower due to market volatility
- Stabilization account balances are also healthy but have dropped slightly over the past year
- The IMANT asset liability study to be started later this fiscal year will determine future spend rates
- Maintaining the 4% spending rate is appropriate given the financial health of the endowment and market returns

# Approval Request



***IT IS RECOMMENDED THAT the Board of Governors approve maintaining the endowment spending rate at 4.0% for FY2021 for the Main Endowment Pool***