



SUBJECT	ENDOWMENT POOL ASSET MIX STUDY UPDATE
SUBMITTED TO	FINANCE COMMITTEE
MEETING DATE	June 1, 2020
SESSION CLASSIFICATION	Recommended session criteria from Board Meetings Policy: OPEN
REQUEST	Action requested - Recommendation to Board for approval IT IS HEREBY RESOLVED that the Finance Committee recommends to the Board of Governors approval of deferral of the Endowment Pool Asset Mix Study to the first quarter of calendar 2021.
LEAD EXECUTIVE	Peter Smailes, Vice-President Finance & Operations
SUPPORTED BY	Yale Loh, Treasurer Dawn Jia, President and CEO, UBC IMANT

PRIOR SUBMISSIONS

The subject matter of this submission has been considered previously by the Board of Governors on the following occasions:

1. [December 5, 2019](#) (OPEN SESSION Board of Governors)
Action/Follow up: Undertake an asset mix study for both the Main Endowment Pool and Sustainable Future Pool to ensure that there would be no adverse impact to either pool as a result of transferring the \$380m Trek Endowment from the Main Endowment Pool to the Sustainable Future Pool and to determine the best asset mix for both pools going forward.
2. [December 5, 2019](#) (OPEN SESSION Board of Governors)
Action/Follow up: Maintain spend rate for the Main Endowment Pool at 4.0% for FY2021

The following Executive Summary assumes familiarity with the prior submissions and provides a status update from the date of the most recent submission.

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 a recommendation from UBC Finance, UBC Treasury, and UBC Investment Management Trust (UBC IMANT). In determining the recommended spending rate for an endowment pool, the overall objective is to establish a spend rate that is as high as possible within acceptable risk parameters while maintaining the value of that endowment pool over time after adjustment for inflation. This is a concept known as intergenerational equity.

To support this objective, an independent asset mix review is to be conducted by UBC IMANT every three to five years to ensure the value of the endowments are maintained over time. At the December 2019 Board meeting, UBC IMANT and Treasury proposed the next asset mix study for the Main Endowment Pool would be started in the last quarter of FY2020 and would be complete by December 2020 in time to be incorporated into the FY2022 budget process.

UBC IMANT and Treasury recommend a delay in the asset mix study until the first quarter of calendar 2021 for the following reasons:

1. The current financial market uncertainty creates a situation where it is unclear whether the current market value of the Endowment and the expected future market returns of different asset classes are temporarily or permanently disrupted compared to historical results. In addition, the unprecedented volatility in the market markets could lead to less reliable results. Both market value and expected return on assets are key inputs into the asset mix study.
2. The anticipated changes to both the Main Endowment Pool and Sustainable Future Pool resulting from the divestment of fossil fuel intensive assets could have impact on expected asset class returns and portfolio constraint considerations.

The proposal to delay the asset mix study until early 2021 means that the results will be ready in time for the FY2023 budget year. By the end of calendar 2020, we collectively should know far more about how the pandemic has impacted financial markets and the asset mix study will likely be a more reliable indicator of future returns. In addition, as UBC IMANT develops and implements a divestment transition plan as part of the Divestment Plus broader approach to align the endowment with UBC's sustainable investing strategy, this work will provide valuable input into the asset mix study.

The last asset mix study was commissioned by UBC IMANT in calendar 2016 and performed by AON Hewitt. Undertaking the asset mix study in early calendar 2021 falls within the five-year timeframe set out in the Endowment Management Policy FM5.

Current Market Volatility and Endowment Spending Rate

While spending rate is not specifically related to the proposal to delay the asset mix study, the recent financial market volatility has not put significant pressure on the current 4% spending rate. As of the close of May 1, 2020, the Endowment Fund declined approximately 3.6% on a year-to-date basis. However, given strong 4 and 10-year returns enjoyed by the Main Endowment to the end of calendar 2019, continuing with the 4% spending rate is prudent. Endowment returns continue to be monitored closely by UBC Treasury and UBC IMANT given the current global situation and will be brought forward to the Board if there are any material changes.

A recommendation will be presented at the November 2020 meeting of the Board with respect to the endowment pool spending rate for FY2022. The endowment pool spending rate recommendation will follow the same procedures as previous years and will be based on a review of this year's and rolling endowment returns, a high-level review of the expected endowment returns for the following year and the current reserves in the endowment's stabilization accounts. Work will also be undertaken to determine if the Sustainable Future Pool should be rolled into the main endowment pool given the divestment plan. Any steps to recombine the Sustainable Future Pool, including discussions with donors to the Sustainable Future Pool, will be brought forward for approval prior to undertaking any changes.

ENDOWMENT ASSET MIX STUDY UPDATE

June 1, 2020

Peter Smailes, VP Finance & Operations



Introduction



In conjunction with Endowment Management Policy FM5:

- Spending rate is determined annually
- Maintain intergenerational equity with spending rate
- Perform asset mix every 3-5 years

Asset mix update requested in December 2019:

- No adverse impact of \$380m transfer to SFP
- Determine best asset mix for both pools going forward

Recommendation



Recommend delay in asset mix study:

- Current financial market uncertainty and volatility
- Potentially unreliable results
- Impact of divestment of fossil fuel intensive assets

- Will recommend FY2022 spend rate at November 2020 meeting together with next steps on recombining Sustainable Future Pool back into Main Endowment