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<b>SUBJECT</b>	UBC Investment Management Trust Portfolio Review Q3
<b>SUBMITTED TO</b>	Finance Committee
<b>MEETING DATE</b>	November 20, 2020
<b>SESSION CLASSIFICATION</b>	Recommended session criteria from Board Meetings Policy: OPEN
<b>REQUEST</b>	For information only - No action requested
<b>LEAD EXECUTIVE</b>	Peter Smailes, Vice-President Finance & Operations
<b>SUPPORTED BY</b>	Dawn Jia, President and CEO, UBC Investment Management Trust Yale Loh, Treasurer

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### EXECUTIVE SUMMARY

UBC Investment Management Trust provides a quarterly review of the investment portfolios of the University and the Staff Pension Plan. The presentation for the quarter ended September 30, 2020 includes:

- a. Market Returns
- b. Results by fund to September 30, 2020 for:
  - I. Endowment Main Pool
  - II. Sustainable Future Pool
  - III. Staff Pension Plan
  - IV. Supplemental Plan
  - V. Working Capital Fund
  - VI. Responsible Investing Update

### PRESENTATION

1. UBC IMANT Portfolio Review Q3 2020

# UBC INVESTMENT MANAGEMENT TRUST (UBC IMANT)



UBC Board of Governors  
Portfolio Review Q3 2020

**DAWN JIA, PRESIDENT AND CEO**  
**UBC INVESTMENT MANAGEMENT TRUST**



INVESTMENT  
MANAGEMENT TRUST INC.  
The University of British Columbia

# MARKET RETURNS C\$ to Sept 2020

Asset Class	Q3 20	Q2 20	Q1 20	Q4 19	1 Yr	4 Yr	10 Yr
FTSE Canada 91 Day T-Bills	0.1	0.1	0.7	0.4	1.3	1.1	1.0
FTSE Canada Universe Bond	0.4	5.9	1.6	-0.9	7.1	3.8	4.4
FTSE Canada Long Term Bond	-0.3	11.2	0.2	-1.9	8.9	5.6	6.8
FTSE Canada Real Return Bond	4.4	6.2	0.0	-2.0	8.8	3.6	4.5
S&P/TSX	4.7	17.0	-20.9	3.2	0.0	5.5	5.8
S&P 500	6.8	15.3	-11.7	6.8	16.2	14.3	16.8
MSCI EAFE	2.8	9.9	-15.3	5.9	1.4	5.4	7.4
MSCI World	5.8	14.2	-13.3	6.3	11.4	10.7	12.3
MSCI Emerging	7.4	13.0	-16.1	9.5	11.5	7.5	5.2
HFRI FOF: Conservative	0.4	0.4	1.6	-0.2	2.8	3.3	5.3
Canadian Price Index (CPI)	-0.2	0.4	0.1	0.1	0.5	1.5	1.6
CAD/USD Change	1.9	4.3	-8.2	1.4	-0.7	-0.4	-2.6
CAD/EUR Change	-2.3	1.5	-7.0	-1.1	-7.5	-1.5	-1.1
CAD/JPY Change	-0.1	4.9	-8.7	2.3	-2.9	0.6	-0.2
CAD/GBP Change	-1.4	4.7	-2.6	-5.3	-5.6	-0.2	-0.6

Source: Northern Trust

Currency returns are annualized and based on Bank of Canada noon rates.



## Commentary Q3 2020

Equity markets rose in the third quarter of the year, continuing the recovery from their March lows driven by positive earnings data in July and August, and by stimulus from central banks and national governments. Towards the end of the quarter market recovery was interrupted by concerns surrounding the second wave of COVID-19, presidential elections in the US and increasingly tense relations between the U.S. and China. North American equities outperformed other developed economies where the ongoing pandemic impacted Italian and Spanish economies more than France and Germany. The UK market declined as negotiations on the terms of Brexit struggled. In Japan, resignation of Prime Minister Abe and appointment of Yoshihide Suga did not cause any declines in the local equity market. Emerging markets gained during the quarter led by Taiwan, India and China. Across industry sectors, consumer discretionary, materials, industrials and technology led the markets while energy was a laggard as the pandemic continued to reduce demand, leading to a build up of inventories.

Interest rates remained historically low with Canadian universe bond index yields reaching all-time lows on a combination of lower interest rates and tightening credit spreads. Canadian fixed income markets are supported by the Bank of Canada's provincial and corporate bond purchase program. Inflation expectations edged up during the quarter causing the Canadian interest rate curve to steepen slightly but remain below the 2% inflation target. The U.S. Treasury curve that had flattened at the beginning of the quarter, steepened in the response to the Average Inflation Targeting framework announced by the Fed, ending the quarter largely unchanged.

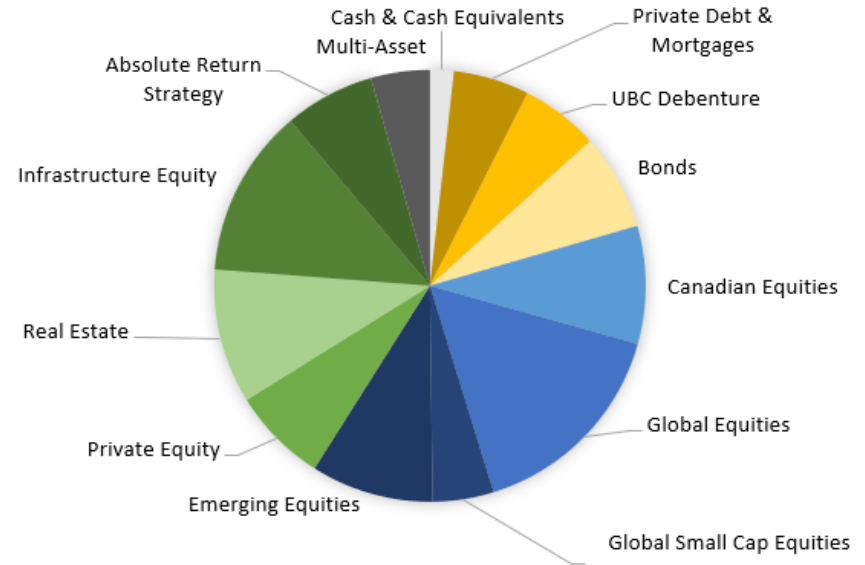
Equity market volatility as proxied by the VIX index, declined by 13%. Gold spot price reached an all-time high in July in response to U.S. Dollar weakness against major currencies and low interest rates.



# ENDOWMENT MAIN POOL

## Asset Mix Summary:

Asset Class	Current Mix	Policy Mix
Cash & Cash Equivalents	1.7%	2.0%
Private Debt & Mortgages	5.5%	5.0%
UBC Debenture	5.4%	5.8%
Bonds	7.4%	7.3%
<b>Total Fixed Income</b>	<b>19.6%</b>	<b>20.0%</b>
Canadian Equities	9.2%	10.0%
Global Equities	16.0%	15.0%
Global Small Cap Equities	4.7%	5.0%
Emerging Equities	9.4%	10.0%
<b>Total Public Equity</b>	<b>39.3%</b>	<b>40.0%</b>
Private Equity	7.4%	10.0%
Real Estate	9.8%	10.0%
Infrastructure Equity	12.3%	12.5%
Absolute Return Strategy	6.8%	7.5%
<b>Total Alternatives</b>	<b>36.3%</b>	<b>40.0%</b>
Multi-Asset	4.8%	0.0%



\* Numbers may not add due to rounding.



# ENDOWMENT MAIN POOL

## Investment Objective and Strategy:

The Endowment Main Pool shall be invested to meet the University's required return of the Consumer Price Index plus the 4.0% spend rate plus 0.65% for administrative expenses. Performance shall be evaluated against the investment policy portfolio after investment management fees.

Market Value (\$M):           **\$ 1,757**

## Investment Performance to September 30<sup>th</sup>, 2020:

	Qtr	Fiscal YTD	1 Year	4 Years	10 Years
Required Return	0.92%	2.52%	5.19%	6.19%	5.86%
Actual Returns*	3.33%	6.79%	2.60%	6.09%	8.16%
Inv. Policy Benchmark	4.51%	8.76%	7.25%	7.27%	8.37%
Value Added	-1.18%	-1.97%	-4.65%	-1.17%	-0.21%

## Volatility (Annualized Standard Deviation):

	4 Years	10 Years
Endowment Main Pool	4.69%	4.64%
Inv. Policy Benchmark	4.39%	4.87%

\* Net of investment manager fees



# ENDOWMENT MAIN POOL

## **Performance Drivers – Quarter**

The UBC Endowment Main Pool portfolio returned 3.33% in Q3 2020, lagging the policy benchmark by 118 basis points (“bps”). Hedge Funds and Canadian Equity contributed positively to performance, while Private Equity and Emerging Markets lagged.

## **Performance Drivers – One Year**

During the 12 months ended September 2020, the UBC Endowment Main Pool portfolio returned 2.60%, 465 bps below the policy benchmark of 7.25% for the year. Bonds and Hedge Funds contributed to performance, while Emerging Markets and Global Equities underperformed.



# SUSTAINABLE FUTURE POOL

## Investment Objective and Strategy:

The Sustainable Future Pool policy benchmark targets preservation of capital and purchasing power in order to provide the same level of support in perpetuity as the Endowment Fund. However, it also incorporates two non-financial objectives: to invest in manner that helps materially lower CO2 emissions and to exclude investments in fossil fuel companies

**Market Value (\$M):**       **\$ 34**

## Investment Performance to September 30<sup>th</sup>, 2020:

	Qtr	1 Year	2 Year
Actual Returns*	4.57%	12.45%	10.62%
Inv. Policy Benchmark	4.13%	10.35%	8.25%
Value Added	0.44%	2.10%	2.37%
Endowment Main Pool Actual Returns	3.33%	2.60%	4.37%

Numbers may not add due to rounding. \*Net of investment manager fees

Policy Benchmark: 70% MSCI World, 30% FTSE Canada Universe Bond Index

## Asset Mix Summary:

Asset Class	Current Mix	Policy Mix
Fixed Income	26.9%	30.0%
Equities	73.1%	70.0%

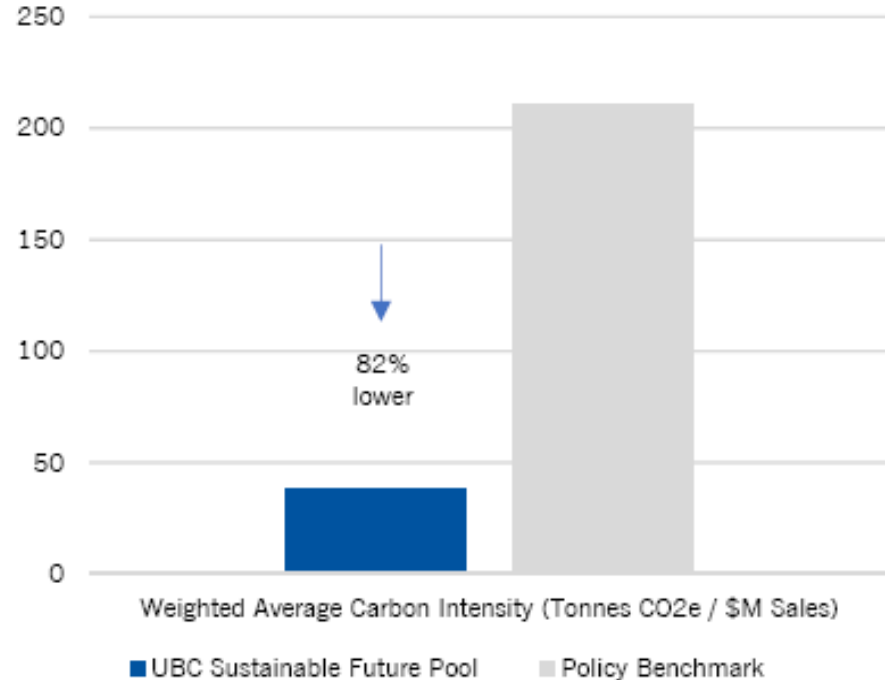
\* Net of investment manager fees



# SUSTAINABLE FUTURE POOL

## Non-Financial Performance

The UBC Sustainable Future Pool is estimated to have reduced portfolio carbon intensity by over 80% compared to its benchmark. For every \$1 million of revenue generated by the companies that the Fund is invested in, the Fund has an emissions footprint of 37 tonnes of CO<sub>2</sub> equivalent, compared to 208 tonnes of CO<sub>2</sub> equivalent for the benchmark. The Fund's lower emissions profile is achieved by its exclusion of the fossil fuel companies and careful elimination of heavy users of fossil fuels among utility and industrial companies. The remainder is an outcome of Jarislowsky Fraser's approach investing in companies within each of the sectors of the global economy that show lower CO<sub>2</sub> emission intensity than the broad sector and a sizeable allocation to Green Bonds financing the transition to a low-carbon economy.



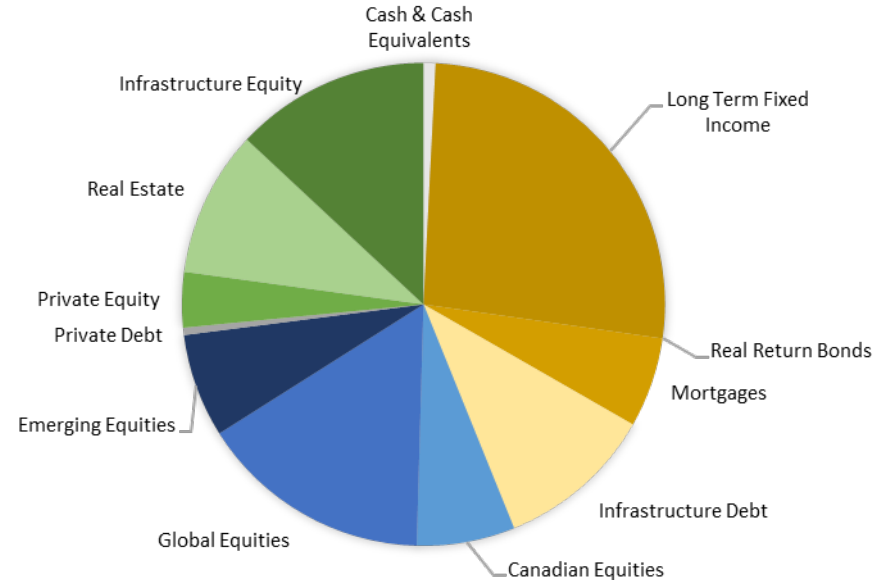




# STAFF PENSION PLAN

## Asset Mix Summary:

Asset Class	Current Mix	Policy Mix
Cash & Cash Equivalents	2.0%	1.0%
Long Term Fixed Income	25.7%	19.0%
Real Return Bonds	0.0%	0.0%
Mortgages	5.7%	5.0%
Infrastructure Debt	10.4%	10.0%
<b>Total Fixed Income</b>	<b>43.8%</b>	<b>35.0%</b>
Canadian Equities	7.0%	7.5%
Global Equities	17.2%	15.0%
Emerging Equities	7.3%	7.5%
<b>Total Public Equity</b>	<b>31.5%</b>	<b>30.0%</b>
Private Debt	0.9%	7.5%
Private Equity	3.1%	5.0%
Real Estate	8.8%	10.0%
Infrastructure Equity	11.9%	12.5%
<b>Total Alternatives</b>	<b>24.7%</b>	<b>35.0%</b>





# STAFF PENSION PLAN

## Investment Objective and Strategy:

The Staff Pension Plan is invested to provide stable lifetime retirement pensions in accordance with the Statement of Policies and Procedures. Performance shall be evaluated against the investment policy portfolio after investment management fees.

**Market Value (\$M):**                   **\$ 2,056**

## Investment Performance to September 30<sup>th</sup>, 2020:

	Qtr	Fiscal YTD	1 Year	4 Years	10 Years
Actual Returns*	2.34%	3.28%	4.60%	6.29%	8.18%
Inv. Policy Benchmark	3.01%	6.56%	8.08%	6.63%	7.98%
Value Added	-0.67%	-3.28%	-3.48%	-0.34%	0.20%

## Asset/Liability Snapshot

	Dec-16	Dec-17	Dec-18	Dec-19
Funded Ratio	123.5%	126.6%	133.3%	128.1%
Discount Rate	5.75%	5.75%	6.25%	6.00%

## Volatility (Annualized Standard Deviation):

	4 Years	10 Years
Staff Pension Plan	5.44%	4.66%
Inv. Policy Benchmark	4.92%	4.67%

\* Net of investment manager fees



# STAFF PENSION PLAN

## Performance Drivers – Quarter

The Staff Pension Plan portfolio returned 2.34% in Q2 2020, lagging the policy benchmark by 68 bps for the quarter. Private Equity and Emerging Markets lagged, while Canadian Equity and Mortgages outperformed their benchmarks.

## Performance Drivers – One Year

During the 12 months ended September 2020, the Staff Pension Plan portfolio returned 4.60%, 348 bps below the policy benchmark of 8.08% for the year. Over this longer timeframe, Long Term Fixed Income and Real Estate contributed slightly to performance, while Emerging Markets and Global Equity continued to detract over the full year period.



# SUPPLEMENTAL ARRANGEMENT

## Investment Objective and Strategy:

The Supplemental Arrangement is designed to replicate the returns of the UBC Faculty Pension Plan’s Balanced Fund. Since November 2012 the Arrangement has been invested in a balanced portfolio of passively managed index funds (Canadian Equity, Global Equity, Canadian Bonds and Real Estate)

**Market Value (\$M)\*:** \$110.0

## Investment Performance:

	Qtr	1 Year	4 Years	10 Years
Actual Returns*	3.55%	6.07%	6.23%	7.27%
Inv. Policy Benchmark	3.66%	6.42%	6.39%	7.55%
Value Added	-0.11%	-0.35%	-0.16%	-0.28%
FPP Actual Returns**	2.79%	4.86%		8.02%

Policy Benchmark: Weighted average of FTSE Canada Universe Bond; FTSE Canada Real Return Bond, S&P TSX Composite, MSCI AC World ex-Canada, FTSE EPRA/NAREIT Developed Index.

\* Net of Sun Life administration and investment manager fees

\*\*Gross returns. Numbers may not add due to rounding.

## Asset Mix Summary:

Asset Class	Current Mix	Policy Mix
Fixed Income	39.7%	40.0%
Equities	55.4%	50.0%
Real Estate	4.9%	10.0%

## Performance drivers:

- Vs. Policy Benchmark: small drag from investment fees as expected from index fund approach



# WORKING CAPITAL FUND

## Investment Objective and Strategy:

The primary objectives of the Working Capital Fund are the preservation of capital to meet future disbursement requirements and the provision of liquidity for the University. Secondary objectives include investment return and operational efficiency.

**Market Value (\$M)\*:** \$829.7

## Investment Performance:

	Qtr	1 Year	4 Years	10 Years
Actual Returns*	1.03%	3.89%	2.29%	2.57%
Inv. Policy Benchmark	0.63%	4.35%	1.90%	2.23%
Value Added	0.40%	-0.46%	0.38%	0.34%

Numbers may not add due to rounding. \*Net of investment manager fees

Policy Benchmark: Oct 2017 to present: 15% 30-day Treasury Bill and 85% FTSE Canada Short-term Overall Bond Index












## Asset Mix Summary:



Asset Class	Current Mix	Target Mix
Money Market	45.9%	10.0%
Short-Term Bond & Mortgages	25.9%	55.0%
Mortgages	28.2%	35.0%



# RESPONSIBLE INVESTING UPDATE

Since the September meeting, UBC IMANT has made progress towards the Responsible Investing goal of reducing GHG in the Endowment portfolio by 45% by 2030. UBC IMANT has identified at least one investment fund that is generating above benchmark emissions and is conducting a search to replace the investment fund. UBC IMANT expects to transition to the new investment fund by December 2020.

Project Categories	Percentage Completion
1. Define the Scope of Responsible Investing	
2. Provide Financial Justification of Divestment	
3. Determine the Optimal Operating Model	
4. Review Governance Structure of On-going Divesting Decision Making	
5. Assess Limitations in Various Asset Classes	
6. Enhance Climate Risk Measurement and Reporting	
7. Investigate Cost Structure of Divesting and Reinvestment Strategies	
8. Establish New Due Diligence Procedures and Criteria for Responsible Investing	
9. Review Responsible Investing Timeline and Sequence	
10. Assess Market Capacity and Manager Capacity for Responsible Investing Strategies	
11. Become a signatory of Responsible Investing Communities	

 Up to September Board Meeting
  Since September Board Meeting



THE UNIVERSITY OF BRITISH COLUMBIA



INVESTMENT  
MANAGEMENT TRUST INC.  
The University of British Columbia