



SUBJECT	Combining Sustainable Future Pool into Main Endowment Pool
SUBMITTED TO	Finance Committee
MEETING DATE	April 6, 2021
SESSION CLASSIFICATION	Recommended session criteria from Board Meetings Policy: OPEN
REQUEST	<p>REQUESTED – Recommendation for Board Approval</p> <p>IT IS HEREBY RESOLVED that the Finance Committee recommends that the Board of Governors:</p> <ul style="list-style-type: none"> i. Approve the transfer of the Sustainable Future Pool assets, both invested capital and stabilization account, into the Main Endowment Pool; and, ii. Direct the Administration to update UBC Endowment policies, terms of reference, and accounting practices and processes as required to reflect this change.
LEAD EXECUTIVE	Peter Smailles, Vice-President Finance & Operations
SUPPORTED BY	Hubert Lai, Q.C., University Counsel Elizabeth Moxham, Office of the University Counsel Yale Loh, University Treasurer

PRIOR SUBMISSIONS

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

1. [June 16, 2020](#) (OPEN SESSION – Board of Governors)
Action/Follow up: Determine if it is appropriate to transfer the assets of the Sustainable Future Pool into the Main Endowment Pool, including consultation with donors, given the commitment to divest the Main Endowment Pool.
2. [April 16, 2020](#) (OPEN SESSION – Board of Governors)
Action/Follow up: UBC will develop a strategic framework to reduce climate change impacts in the investment of the Endowment, including divesting the portfolio of fossil fuels, emissions reduction targets, collaboration with like-minded investors and advocating for positive change through shareholder engagement and proxy voting.

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

The Sustainable Future Pool (“SFP”) was created in February 2017 with an initial contribution of \$10m from the Trek Endowment Fund from the Main Endowment Pool. Establishing the SFP was an important part of UBC’s commitment to sustainability and responsible investing. In addition to maintaining a financial objective to maximize the rate of return at an appropriate level of risk to support and fund endowment spending objectives and donor wishes, the SFP incorporated a non-financial objective to materially lower carbon dioxide emissions together with the exclusion of investments in companies that owned fossil fuel reserves. At that time, the SFP pursued sustainability concepts beyond responsible investing strategies already being incorporated into the Main Endowment Pool. As of December 31, 2020, the SFP has a market value of approximately \$35.8m including externally donated funds, comprised of \$30.8m capital balance and \$5.0m stabilization account.

Following the commitment to divest the Main Endowment Pool of fossil fuel investments together with the 45% carbon emissions reduction target, the need to maintain the SFP as a separate endowment pool has been questioned. Administering and reporting on the SFP adds a layer of inefficiency to UBC's endowment accounting and investment processes, and maintaining two separate endowment pools adds to donor confusion over choice. Currently, the SFP has donations from only three donors, a result likely exacerbated by the 3.75% spend rate for donor contributions compared to the 4.0% spend rate for the Main Endowment Pool. The SFP's spend rate for the SFP was set at a lower rate than the Main Endowment Pool, given the uncertainty over potential investment returns for a new and significantly smaller endowment pool.

Development and Alumni Engagement have contacted the three donors to explain this plan, and they did not express any concerns. The original documentation for donor-funded endowment funds in the SFP anticipated that SFP may eventually be recombined with the Main Endowment Pool. Transferring the SFP investments into the Main Endowment Pool will not likely involve exiting the underlying investments that are currently in the SFP. Given the strong performance of the SFP, UBC IMANT has indicated they will likely continue maintaining and possibly even growing UBC's investment in the underlying investments. This investment will depend on ongoing performance. Lastly, recombining the SFP into the Main Endowment Pool will mean that the spend rate for the endowment funds that were previously in the SFP will increase to 4.0% to be consistent with the rest of the Main Endowment Pool.

Following the transfer of the SFP assets, comprising both capital and stabilization account, back to the Main Endowment Pool, the SFP will cease to exist. For accounting purposes, this change will be effective April 1, 2021. A graphic showing the current Trek Endowment structure and the recommended change is included in the presentation.

PRESENTATIONS

1. Transferring Sustainable Future Pool investments into Trek Endowment Fund in the Main Endowment Pool

COMBINING SUSTAINABLE FUTURE POOL INTO MAIN ENDOWMENT POOL

April 7, 2021

Peter Smailes, Vice-President Finance & Operations
Hubert Lai, University Counsel
Elizabeth Moxham, Office of the University Counsel
Yale Loh, Treasurer



SUSTAINABLE FUTURE POOL

- The Sustainable Future Pool (“SFP”) was created in 2017 with initial contribution from Trek Endowment Pool
 - SFP represented important step in UBC’s commitment to sustainability and responsible investing
 - In addition to financial objective, SFP incorporated non-financial objective to materially lower carbon dioxide emissions and exclusion of investments in companies that owned fossil fuel reserves
- Following commitment to divest UBC Endowment together with the 45% carbon emissions reduction target, need to maintain the SFP has been questioned
 - Separate administration and reporting
 - Donor confusion over choice and spend rate. Lower spend rate of 3.75% for donor endowments compared to 4.0% for Main Endowment Pool and 3.5% for main SFP



BENEFITS OF TRANSFERRING SFP ASSETS

- Reduce donor confusion and choice
 - Three donors to endowment do not have any concerns on the change given commitment to divest UBC Main Endowment Pool
- Reduce administration and reporting cost and burden
- Increase spend rate to be consistent with Main Endowment Pool



Next Steps

- Following Board of Governor approval, update applicable policies, accounting and reporting processes
- Change will be effective April 1, 2021 for accounting purposes