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<b>SUBJECT</b>	Amendments to the Main Endowment Pool (MEP) Statement of Investment Policy (SIP)
<b>SUBMITTED TO</b>	Finance Committee
<b>MEETING DATE</b>	November 20, 2023
<b>SESSION</b>	Recommended session criteria from Board Meetings Policy: OPEN
<b>REQUEST</b>	APPROVAL REQUESTED IT IS HEREBY RESOLVED that, under authority delegated by the Board of Governors, the Finance Committee approves as circulated the revised Main Endowment Pool Statement of Investment Policy, effective January 1, 2024.
<b>LEAD EXECUTIVE</b>	Frank Laezza, Vice-President Finance & Operations
<b>SUPPORTED BY</b>	Hubert Lai, K.C., University Counsel Yale Loh, Treasurer Dawn Jia, President and CEO, UBC Investment Management Graham Sheppard, UBC Investment Management Gordon MacDougall, Chair, UBC Investment Management Board

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#### PRIOR SUBMISSIONS

The subject matter of this submission was most recently considered on:

1. [June 14, 2023](#) (OPEN SESSION) – Statements on Responsible Investing
2. [February 17, 2022](#) (OPEN SESSION) – Main Endowment Pool Statement of Investment Policy Recommendation

The following Executive Summary provides a status update from the date of the most recent submission.

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#### EXECUTIVE SUMMARY

At the June 29, 2023 Board of Governors meeting, the Board of Governors approved UBC’s Statements on Responsible Investing (the “Statements”) and the repeal of the former Endowment Responsible Investing Policy. In accordance with the requirements under the Main Endowment Pool (MEP) Statement of Investment Policies (SIP) and the Endowment Policy (FM5), UBC Investment Management, together with the Office of University Counsel, have performed a review of the MEP SIP to incorporate this decision.

A draft of the revised SIP was included as part of the June 14, 2023 Finance Committee meeting submission for the Statement on Responsible Investing for comment. Since that meeting, the UBC Investment Management Board has reviewed the revised SIP and is recommending that the Board of Governors approve the Main Endowment Pool Statement of Investment Policy as set out in Appendix 1, with an effective date of January 1, 2024.

With the establishment of the Statements, the revised SIP language related to responsible investing has been simplified to recognize the Board of Governor’s approval of the Statements and UBC Investment Management’s responsibility to implement the MEP in a manner consistent with the Statements. The SIP also outlines the reporting requirements related to UBC’s responsible investing commitments. No other material changes were made to the SIP during the review.

A blackline comparison between the revised SIP and the existing SIP (effective April 1, 2022) has been included in this submission as Appendix 2.

The UBC Investment Management Board will review the SIP on an annual basis, with any future changes requiring approval of the Finance Committee.

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#### APPENDICES

1. UBC Main Endowment Pool Statement of Investment Policy (January 1, 2024)
2. UBC Main Endowment Pool Statement of Investment Policy (Blackline) (January 1, 2024)

# **University of British Columbia (UBC)**

## **Main Endowment Pool**

### **Statement of Investment Policy**

**January 1, 2024**

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## 1. Purpose

- 1.1. The University of British Columbia (the “**UBC**”) has established the Main Endowment Pool (the “**Pool**”) as one pool of funds within UBC’s endowment (the “**Endowment**”) to support specific aspects of UBC’s charitable activities in perpetuity.
- 1.2. This document constitutes the Statement of Investment Policy (the “**Policy**”) applicable to the assets that make up the Pool.
- 1.3. The purpose of this Policy is to define the governance structure for the Pool and formulate the principles and guidelines to manage the Pool’s assets in accordance with the University Act of British Columbia (the “**Act**”), the Income Tax Act (*Canada*) (the “**ITA**”), all amended from time to time, and with any restrictions imposed by the Government of Canada and Province of British Columbia. This Policy is supplementary to the Act and the ITA.
- 1.4. UBC’s Board of Governors (the “**Board of Governors**”) has approved the Endowment Policy (the “**Endowment Policy**”), which sets out UBC’s policies and procedures for managing endowed funds held by UBC.
- 1.5. In accordance with the Endowment Policy, UBC has engaged UBC Investment Management Trust Inc. (“**UBC Investment Management**”) to provide investment management services in connection with the Pool under an Investment Management Services Agreement dated effective January 1, 2012 as amended and restated effective April 1, 2022 (the “**Investment Management Services Agreement**”). The Board of Governors has from time to time approved Statements of Investment Policies and Procedures which were predecessors to the Policy, and those predecessors were prepared based on an approach to governance which included the Board of Governors approval of strategic asset allocation and benchmarks for the investment of the Pool.
- 1.6. In 2021, the Board of Governors approved a shift in governance approach for the Pool, which resulted in an amendment to the Investment Management Services Agreement and this Policy. As a result of this shift, the Board of Governors approves a reference portfolio (described further in Section 4) and UBC Investment Management, under the oversight of UBC Investment Management’s Board of Directors (the “**UBC Investment Management Board**”), designs and implements a strategic portfolio (described further in Section 5) in accordance with a strategic asset allocation developed by UBC Investment Management for the Pool within the parameters of the Reference Portfolio (defined below) and other requirements of this Policy.
- 1.7. UBC has issued its Statements on Responsible Investing dated June 30, 2023 (the “**Statements on Responsible Investing**”) which set out UBC’s beliefs, values, and commitments for responsible investing. UBC Investment Management must consider UBC’s beliefs, values, and commitments set out in the Statements on Responsible Investing in carrying out their responsibilities set out in this Policy.

## 2. Pool Overview

- 2.1. The Pool consists largely of endowed trust funds, which stipulate that the contribution(s) for each fund not be spent. The Pool is the result of philanthropy since 1915 where donors have provided resources to support specific aspects of UBC’s charitable activities in

perpetuity. Donated amounts have been augmented through other programs, including provincial fund matching, and endowing the proceeds from part of the prepaid leasing of residential lands. In summary, the primary sources of cash to the Pool are:

- (a) donated funds in cash or kind;
- (b) provincial fund matching;
- (c) leasing revenues from real property; and
- (d) investment returns.

2.2. Investment returns are an important funding source and help to maintain the purchasing power of the original contributions. The spending commitment/liability stream is a function of the current spending rate approved by UBC. Endowment funds have an indefinite liability stream, with expectations that the stated activities supported by each endowment fund within the Pool will benefit in perpetuity. Maintaining the purchasing power of the Pool's capital against inflation is essential to protect the purchasing power of the funds within the Pool in perpetuity.

2.3. UBC's objective in investing the Pool is to receive investment returns at an appropriate level of risk to:

- (a) honour the wishes of the donors of endowed funds;
- (b) provide cash flows and capital appreciation that are sufficient to support the Pool's spending objectives; and
- (c) maintain intergenerational equity by preserving the capital and purchasing power of each endowment fund within the Pool to provide the same level of support in perpetuity.

2.4. The Pool shall be managed as a perpetual fund with no finite term basis with the prudence and standard of care that requires all fiduciaries, including external investment managers ("**Managers**"), to use the same care and diligence that they would use in managing the property of another person and to apply all relevant knowledge that they possess or by reason of their profession ought to possess.

### **3. Return Objective and Long-Term Sustainable Spending Rate Range**

3.1. The Pool has an expected, ten-year target nominal return objective of 5.2% (the "**Return Objective**") determined by the asset mix study carried out in 2021.

3.2. The Return Objective is expected to support an annual spending rate between 3.5% to 4% over a term of 15 years, adjusted for inflation and operating costs (the "**Long-Term Sustainable Spending Rate Range**").

3.3. The Return Objective and the Long-Term Sustainable Spending Rate Range reflect the surplus/deficit position, at the time of the most recent Asset Mix study, as measured by the Aggregate Stabilization Ratio (as defined in the UBC Endowment Management Policy).

### **4. Reference Portfolio and Risk Tolerance**

4.1. To define a risk tolerance, a reference portfolio approach has been adopted by UBC. The reference portfolio represents a simple, low cost, passive portfolio that is designed to reflect the Pool's long term Return Objective and risk preferences. UBC's risk preferences were incorporated into the reference portfolio design by evaluating different

combinations of passive portfolios and the resulting probability of maintaining the Long-Term Sustainable Spending Rate Range.

4.2. A reference portfolio represents the amount of investment risk that UBC, as the governing fiduciary, is willing to bear in the pursuit of investment returns to achieve its spending objectives in a way that preserves intergenerational equity. The purpose of the Reference Portfolio is to:

- (a) express the Board of Governors’ risk tolerance, by the composition of the Reference Portfolio, and be the primary indicator of the risk and return profile for the Pool;
- (b) provide a set of broad public market investments that reflects the investment returns that can be generated by passive investments in global capital markets;
- (c) establish an investable program that can achieve a return within UBC’s Long-Term Sustainable Spending Rate Range with limited oversight and no active management; and
- (d) establish a market-based benchmark that can be used to determine the efficacy and success of active management.

4.3. The Board of Governors approve the following as the Reference Portfolio for the Pool:

Asset Class	Weight	Benchmark
Equities	70%	MSCI All Country World Total Return Index (net)
Fixed Income	30%	FTSE Canada All Universe Bond Total Return Index

(the “**Reference Portfolio**”).

4.4. The Reference Portfolio is expected to achieve returns within the Long-Term Sustainable Spending Rate Range. Over shorter periods of time, it is understood that returns may deviate from the return expectation over 15 years as set out in the Long-Term Sustainable Spending Rate Range. Monitoring the expected future return of the Reference Portfolio, on an annual basis, will assist UBC in identifying threats to its Long-Term Sustainable Spending Rate Range.

4.5. By design, the Reference Portfolio is not engaged in active investment management decisions and is expected to be revised less frequently than the Strategic Portfolio.

**5. Strategic Portfolio and Investment Programs**

5.1. UBC Investment Management will prepare and establish the following:

- (a) a strategic asset allocation (the “**Strategic Portfolio**”), which is constructed as a diversified portfolio of multiple asset classes that is expected to exceed the risk adjusted return of the Reference Portfolio by embedding greater investment complexity and active management; and
- (b) investment programs (each an “**Investment Program**”) for investments in asset classes with similar risk profiles as the Strategic Portfolio.

5.2. The Strategic Portfolio must be:

- (a) a diversified, multi-asset class portfolio,

- (b) used to guide UBC Investment Management’s implementation program; and
- (c) exhibit a level of risk that is similar to the Reference Portfolio.

5.3. Asset class allocations within an Investment Program are fungible. Government bonds and Cash are excluded from the minimum portfolio weight requirements within the Strategic Portfolio as they are held primarily for liquidity management purposes.

## 6. Governance

6.1. The Board of Governors is responsible for:

- (a) reviewing UBC Investment Management reports that include:
  - (i) the performance of the Pool against the Return Objective;
  - (ii) whether the risk profile is in-line with the Reference Portfolio;
  - (iii) actual portfolio weights as compared to the Strategic Portfolio;
  - (iv) any changes to the Strategic Portfolio since the last report; and
  - (v) the matters referred to in Section 9.4;
- (b) appointing and removing each director on the UBC Investment Management Board (each a “**Director**”); and
- (c) approving this Policy and any changes to this Policy, which includes approving the following:
  - (i) the Reference Portfolio which represents the amount of investment risk that UBC, as the governing fiduciary, is willing to bear in the pursuit of investment returns;
  - (ii) the Return Objective; and
  - (iii) the Long-Term Sustainable Spending Rate Range.

6.2. The UBC Investment Management Board is responsible for:

- (a) overseeing and monitoring the activities of the UBC Investment Management President & CEO and management (“**Management**” and collectively the “**UBC Investment Management Staff**”);
- (b) approving investment beliefs to guide UBC Investment Management Staff in the development of the implementation strategy;
- (c) reviewing the Policy, at least annually, and recommending amendments, if any, for approval by the Board of Governors;
- (d) appointing UBC Investment Management’s President and CEO;
- (e) recommending a Reference Portfolio to the Board of Governors;
- (f) approval of the Strategic Portfolio;
- (g) approval of Investment Programs, including but not limited to ranges, risk parameters and constraints;
- (h) approving the appointment and/or termination of the custodian of the Pool’s assets (the “**Custodian**”);

- (i) approving key service providers such as an asset mix consultant;
  - (j) establishing appropriate compensation programs, including performance evaluation, for UBC Investment Management Staff;
  - (k) monitoring and evaluating investment performance and operational cost-efficiency against objectives and benchmarks; and
  - (l) monitoring and evaluating responsible investing commitments set out in Section 9.
- 6.3. UBC Investment Management’s President and CEO, with the support from Management, is responsible for:
- (a) developing and recommending a Strategic Portfolio and a Reference Portfolio to the UBC Investment Management Board;
  - (b) implementing the Strategic Portfolio;
  - (c) designing and recommending the Investment Programs specifying investment objectives and operating parameters for distinct asset classes to the UBC Investment Management Board;
  - (d) actively monitoring risk-adjusted performance of the Strategic Portfolio against the relevant benchmarks and reporting on this performance to the UBC Investment Management Board and Board of Governors on a regular basis;
  - (e) actively monitoring the responsible investing commitments set out in Section 9 and reporting on those commitments to the UBC Investment Management Board and Board of Governors on a regular basis;
  - (f) actively managing the Strategic Portfolio to deliver superior risk-adjusted returns;
  - (g) appointing, monitoring and, when appropriate, terminating Managers and other external advisors, consultants, and service providers within delegated authorities established by UBC Investment Management Board;
  - (h) developing and implementing a responsible investment approach and embedding environment, social, and governance factors into its investment processes;
  - (i) ensuring efficient and cost-effective day-to-day operations;
  - (j) recruitment, and development of Management to support UBC Investment Management’s mission and vision; and
  - (k) regular reporting to the UBC Investment Management Board, the UBC Board of Governors, and other UBC stakeholders.

## 7. Permitted Investments, Financing and Securities Lending

7.1. The Pool may be invested in any or all of the following asset categories:

- (a) **Cash:** Investments in cash such as deposits with financial institutions, treasury bills, commercial paper, banker’s acceptances, and money market securities.



- (b) **Commodities:** Investments in commodity assets such as energy, industrial metals, precious metals, agriculture, livestock, and investments with commodity attributes such as carbon credits.
  - (c) **Derivatives:** Investments in derivatives such as futures and forward contracts, options, warrants, swaps, and repurchase agreements. Derivatives may be used for hedging, risk management and portfolio rebalancing, including the hedging of foreign currency exposure. Derivatives may also be used for leverage or as a cost-effective substitute for traditional investments.
  - (d) **Equity:** Investments in private and public equities through common shares, income trusts, investment trusts, Global Depository Receipts (GDRs), American Depository Receipts (ADRs), and Preferred Shares.
  - (e) **Fixed Income:** Investments in public fixed income assets such as bonds, debentures, notes, asset-backed securities, and term deposits or similar instruments with financial institutions. Investments in non-publicly traded fixed income assets such as senior and subordinated loans, mortgages, structured credit instruments, and investments in credit attributes such as royalties, insurance, and litigation finance.
  - (f) **Real Assets:** Investments in publicly and non-publicly traded real estate and infrastructure assets.
  - (g) **Investment Vehicles:** Pool investments are made indirectly or synthetically through exchange traded funds (ETFs), pooled funds, trusts, limited partnerships, mutual funds, derivatives, segregated funds or other investment vehicles.
- 7.2. **Borrowing:** Borrowing or providing guarantees on behalf of the Pool is permitted.
- 7.3. **Pledging:** UBC Investment Management may pledge, charge, or otherwise grant a security interest in assets or post margin as required to complete derivatives transactions, complete a short sale or in connection with repurchase transactions. All pledging to be done on a non-recourse basis to UBC.
- 7.4. **Leverage:** The Pool is permitted to invest up to 10% of its value in assets purchased through borrowing and/or by creating synthetic exposures to existing asset classes. All such forms of leverage may not result in additional debt accruing to UBC.
- 7.5. **Securities Lending:** Lending securities is permitted provided that a sufficient collateral coverage is always maintained in cash or high-quality, liquid securities in accordance with industry standards.

## 8. Risk Management and Oversight

- 8.1. UBC Investment Management will compare the risk level of the Strategic Portfolio against the Reference Portfolio periodically to confirm the modelled risk of the Strategic Portfolio is consistent with the Reference Portfolio.
- 8.2. UBC Investment Management employs an active management approach with the objective of earning higher returns than the Reference Portfolio. The Pool's investment portfolio is comprised of a diversified mix of external, actively managed investment funds, guided by the Investment Program ranges and constraints within the Strategic Portfolio. Given the active management approach of the Pool, it is understood that the risk level of

the investment portfolio may, at times, deviate from the risk level of the Reference Portfolio to provide UBC Investment Management flexibility and discretion to implement the Strategic Portfolio actively.

- 8.3. UBC Investment Management will carry out the following risk mitigation mechanisms:
- (a) minimum and maximum Investment Program weights within the Strategic Portfolio;
  - (b) active risk limits approved by UBC Investment Management Board;
  - (c) other constraints approved by UBC Investment Management Board for each Investment Program; and
  - (d) ongoing monitoring of performance by the UBC Investment Management Board.

## 9. Responsible Investing

- 9.1. The Board of Governors and UBC Investment Management are committed to responsible investing as set out in the Statements on Responsible Investing.
- 9.2. UBC's fiduciary duties to the endowed trusts within the Pool, which includes the duty to act in the financial interests of those trusts, is of paramount importance in decision-making regarding responsible investing.
- 9.3. As a manager-of-managers, UBC Investment Management works collaboratively with Managers to analyze and understand both the threats and opportunities driven by responsible investing in a manner consistent with the Statements on Responsible Investing. UBC Investment Management's evaluation of Managers will include criteria that reflect the Statements on Responsible Investing.
- 9.4. UBC Investment Management will provide reports to UBC regarding implementation of responsible investing commitments described in the Statements on Responsible Investing

## 10. Custody

- 10.1. The Custodian shall be a trust company registered in Canada. All public investments and assets of the Pool shall be held by the Custodian and registered:
- (a) in a name that clearly indicates that the investment is held in trust for the Pool and, where the investment is capable of being registered, registered in that name; or
  - (b) in the name of the Canadian Depository for Securities Limited, the Custodian, or a nominee thereof, in accordance with an agreement with the Custodian that clearly indicates that the investment is held for the Pool and provides that:
    - (i) the investment constitutes part of the Pool;
    - (ii) the investment shall not at any time constitute an asset of the Custodian or nominee; and
    - (iii) records shall be maintained by the Custodian that are sufficient to allow the ownership of any investment be traced to the Pool at any time.

**11. Valuation of investments**

- 11.1. Marketable securities shall be valued by the Custodian no less frequently than monthly at their market value.
- 11.2. Investment in a pooled fund comprising marketable securities shall be valued according to the unit values calculated at least monthly by the Custodian of that pooled fund. The Custodian shall be responsible for requesting and recording the unit values monthly.
- 11.3. If a market valuation of an investment is not readily available, an estimate of fair value shall be supplied by the Manager to the Custodian no less frequently than annually. Such fair value may be determined by reference to the most recent independent expert appraisal or by other means such as discounted cash flow or comparison with similar assets which are publicly traded. In all cases the methodology should be applied consistently over time and in accordance with generally accepted industry valuation procedures. This valuation methodology shall also apply to non-tradable investments held directly or through co-investment with other investors.

**12. Code of Conduct**

- 12.1. All persons involved in management of the Pool must adhere to a code of conduct that complies with the CFA Institute Code of Ethics and Standards of Professional Conduct, or an equivalent or higher standard than that of the CFA Institute.

**13. Conflict of Interest**

- 13.1. From time to time, real or perceived conflicts of interest may arise. If any person listed below has or acquires any material interest, direct or indirect, in any matter in which the Pool is invested, or may benefit materially from knowledge of, participation in, or by virtue of an investment decision or holding of the Pool, that person must disclose that interest to the person as follows:
  - (a) any Manager, agent, or advisor to the Pool, to the UBC Investment Management President;
  - (b) Management, to the UBC Investment Management President;
  - (c) the UBC Investment Management President, to the chair of the UBC Investment Management Board;
  - (d) a Director, to the chair of the UBC Investment Management Board; or
  - (e) the chair of the UBC Investment Management Board, to the UBC Investment Management President and the chair of the Board of Governors' Governance Committee.
- 13.2. The chair of the UBC Investment Management Board or the UBC Investment Management President, as applicable, shall then advise all members of the UBC Investment Management Board of the disclosed conflict before the next UBC Investment Management Board meeting, and the UBC Investment Management Board shall decide on an appropriate course of action prior to discussing the related business matter. Any person making a disclosure will thereafter abstain from any decision making with respect to the area of conflict, unless otherwise determined by unanimous decision of the remaining Directors.

- 13.3. Every disclosure of interest shall be recorded in the minutes of the relevant UBC Investment Management Board meeting.
- 13.4. The failure of a person to comply with the procedures, described in this Section, shall not of itself invalidate any decision, contract, or other matter.
- 13.5. The UBC Investment Management President shall satisfy herself or himself that an appropriate policy regarding conflicts of interest exists and is followed by any fiduciary of the Pool, including the Managers. As a minimum, the Code of Ethics and Standards of Professional Conduct adopted by the Chartered Financial Analysts Institute shall be expected to apply to such fiduciaries.

#### **14. Related Party Transactions**

- 14.1. For the purposes of this Policy, “**Related Party**” has the meaning given in the Business Corporations Act of British Columbia, but for greater certainty includes:
  - (a) UBC, an affiliate of UBC, or a member of the Board of Governors of UBC;
  - (b) an officer or employee of UBC;
  - (c) a Director; or
  - (d) UBC Investment Management Staff.
- 14.2. The Pool may enter into a transaction with a Related Party only if:
  - (a) the transaction is required for the operation or administration of the Pool;
  - (b) the terms, conditions and monetary value of the transaction are not less favourable than market terms, conditions, and value; and
  - (c) the transaction does not exceed 3% of the market value of the Pool at the time of the transaction.
- 14.3. In 2014, the Board of Governors and the IMANT Board authorized a one-time \$100 million loan to the University for the construction of Orchard Commons student housing development. This decision temporarily suspends the 3% restriction in Section 14.2(c) until the remaining balance of the loan is less than 3% of the Pool. At that time, this section becomes void and Section 14.2(c) returns to force.

#### **15. Policy Review**

- 15.1. This Policy shall be reviewed at least annually by the UBC Investment Management Board to determine whether any modifications are necessary or desirable.

# University of British Columbia (UBC)

## Main Endowment Pool

### Statement of Investment Policy

~~March 1, 2022~~

January 1, 2024

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## 1. Purpose

- 1.1. The University of British Columbia (the “**UBC**”) has established the Main Endowment Pool (the “**Pool**”) as one pool of funds within UBC’s endowment (the “**Endowment**”) to support specific aspects of UBC’s charitable activities in perpetuity.
- 1.2. This document constitutes the Statement of Investment Policy (the “**Policy**”) applicable to the assets that make up the Pool.
- 1.3. The purpose of this Policy is to define the governance structure for the Pool and formulate the principles and guidelines to manage the Pool’s assets in accordance with the University Act of British Columbia (the “**Act**”), the Income Tax Act (*Canada*) (the “**ITA**”), all amended from time to time, and with any restrictions imposed by the Government of Canada and Province of British Columbia. This Policy is supplementary to the Act and the ITA.
- 1.4. UBC’s Board of Governors (the “**Board of Governors**”) has approved the Endowment Policy (the “**Endowment Policy**”), which sets out UBC’s policies and procedures for managing endowed funds held by UBC.
- 1.5. In accordance with the Endowment Policy, UBC has engaged UBC Investment Management Trust Inc. (“**UBC IMANT Investment Management**”) to provide investment management services in connection with the Pool under an Investment Management Services Agreement dated effective January 1, 2012 as amended and restated effective April 1, 2022 (the “**Investment Management Services Agreement**”). The Board of Governors has from time to time approved Statements of Investment Policies and Procedures which were predecessors to the Policy, and those predecessors were prepared based on an approach to governance which included the Board of Governors approval of strategic asset allocation and benchmarks for the investment of the Pool.
- 1.6. In 2021, the Board of Governors approved a shift in governance approach for the Pool, which resulted in an amendment to the Investment Management Services Agreement and this Policy. As a result of this shift, the Board of Governors approves a reference portfolio (described further in Section 4) and, ~~through the UBC Investment Management Services Agreement, UBC IMANT provides services that include design and implementation,~~ under the oversight of UBC ~~IMANT’s~~ **Investment Management’s** Board of Directors (the “**UBC IMANT Investment Management Board**”), ~~of designs and implements~~ a strategic portfolio (described further in Section 5) in accordance with a strategic asset allocation developed by UBC ~~IMANT~~ **Investment Management** for the Pool within the parameters of the Reference Portfolio (defined below) and other requirements of this Policy.
- 1.7. UBC has issued its Statements on Responsible Investing dated June 30, 2023 (the “**Statements on Responsible Investing**”) which set out UBC’s beliefs, values, and commitments for responsible investing. UBC Investment Management must consider UBC’s beliefs, values, and commitments set out in the Statements on Responsible Investing in carrying out their responsibilities set out in this Policy.

## 2. Pool Overview

- 2.1. The Pool consists largely of endowed trust funds, which stipulate that the contribution(s) for each fund not be spent. The Pool is the result of philanthropy since 1915 where donors have provided resources to support specific aspects of UBC's charitable activities in perpetuity. Donated amounts have been augmented through other programs, including provincial fund matching, and endowing the proceeds from part of the prepaid leasing of residential lands. In summary, the primary sources of cash to the Pool are:
- (a) donated funds in cash or kind;
  - (b) provincial fund matching;
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  - (d) investment returns.
- 2.2. Investment returns are an important funding source and help to maintain the purchasing power of the original contributions. The spending commitment/liability stream is a function of the current spending rate approved by UBC. Endowment funds have an indefinite liability stream, with expectations that the stated activities supported by each endowment fund within the Pool will benefit in perpetuity. Maintaining the purchasing power of the Pool's capital against inflation is essential to protect the purchasing power of the funds within the Pool in perpetuity.
- 2.3. UBC's objective in investing the Pool is to receive investment returns at an appropriate level of risk to:
- (a) honour the wishes of the donors of endowed funds;
  - (b) provide cash flows and capital appreciation that are sufficient to support the Pool's spending objectives; and
  - (c) maintain intergenerational equity by preserving the capital and purchasing power of each endowment fund within the Pool to provide the same level of support in perpetuity.
- 2.4. The Pool shall be managed as a perpetual fund with no finite term basis with the prudence and standard of care that requires all fiduciaries, including external investment managers ("**Managers**"), to use the same care and diligence that they would use in managing the property of another person and to apply all relevant knowledge that they possess or by reason of their profession ought to possess.

## 3. Return Objective and Long-Term Sustainable Spending Rate Range

- 3.1. The Pool has an expected, ten-year target nominal return objective of 5.2% (the "**Return Objective**") determined by the asset mix study carried out in 2021.
- 3.2. The Return Objective is expected to support an annual spending rate between 3.5% to 4% over a term of 15 years, adjusted for inflation and operating costs (the "**Long-Term Sustainable Spending Rate Range**").
- 3.3. The Return Objective and the Long-Term Sustainable Spending Rate Range reflect the surplus/deficit position, at the time of the most recent Asset Mix study, as measured by the Aggregate Stabilization Ratio (as defined in the UBC Endowment Management Policy).



**4. Reference Portfolio and Risk Tolerance**

- 4.1. To define a risk tolerance, a reference portfolio approach has been adopted by UBC. The reference portfolio represents a simple, low cost, passive portfolio that is designed to reflect the Pool’s long term Return Objective and risk preferences. UBC’s risk preferences were incorporated into the reference portfolio design by evaluating different combinations of passive portfolios and the resulting probability of maintaining the Long-Term Sustainable Spending Rate Range.
- 4.2. A reference portfolio represents the amount of investment risk that UBC, as the governing fiduciary, is willing to bear in the pursuit of investment returns to achieve its spending objectives in a way that preserves intergenerational equity. The purpose of the Reference Portfolio is to:
  - (a) express the Board of Governors’ risk tolerance, by the composition of the Reference Portfolio, and be the primary indicator of the risk and return profile for the Pool;
  - (b) provide a set of broad public market investments that reflects the investment returns that can be generated by passive investments in global capital markets;
  - (c) establish an investable program that can achieve a return within UBC’s Long-Term Sustainable Spending Rate Range with limited oversight and no active management; and
  - (d) establish a market-based benchmark that can be used to determine the efficacy and success of active management.
- 4.3. The Board of Governors approve the following as the Reference Portfolio for the Pool:

Asset Class	Weight	Benchmark
Equities	70%	MSCI All Country World Total Return Index (net)
Fixed Income	30%	FTSE Canada All Universe Bond Total Return Index

(the “**Reference Portfolio**”).

- 4.4. The Reference Portfolio is expected to achieve returns within the Long-Term Sustainable Spending Rate Range. Over shorter periods of time, it is understood that returns may deviate from the return expectation over 15 years as set out in the Long-Term Sustainable Spending Rate Range. Monitoring the expected future return of the Reference Portfolio, on an annual basis, will assist UBC in identifying threats to its Long-Term Sustainable Spending Rate Range.
- 4.5. By design, the Reference Portfolio is not engaged in active investment management decisions and is expected to be revised less frequently than the Strategic Portfolio.

**5. Strategic Portfolio and Investment Programs**

- 5.1. ~~The Board of Governors has entered into the UBC Investment Management Services Agreement, with UBC IMANT, under which UBC IMANT is required to will~~ prepare and establish the following:
  - (a) a strategic asset allocation (the “**Strategic Portfolio**”), which is constructed as a diversified portfolio of multiple asset classes that is expected to exceed the risk

adjusted return of the Reference Portfolio by embedding greater investment complexity and active management; and

- (b) investment programs (each an “**Investment Program**”) for investments in asset classes with similar risk profiles as the Strategic Portfolio.

5.2. The Strategic Portfolio must be:

- (a) a diversified, multi-asset class portfolio,
- (b) used to guide UBC ~~IMANT’s~~Investment Management’s implementation program; and
- (c) exhibit a level of risk that is similar to the Reference Portfolio.

5.3. Asset class allocations within an Investment Program are fungible. Government bonds and Cash are excluded from the minimum portfolio weight requirements within the Strategic Portfolio as they are held primarily for liquidity management purposes.

## 6. Governance

6.1. The Board of Governors is responsible for:

- (a) reviewing UBC ~~IMANT~~Investment Management reports that include:
  - (i) the performance of the Pool against the Return Objective;
  - (ii) whether the risk profile is in-line with the Reference Portfolio;
  - (iii) actual portfolio weights as compared to the Strategic Portfolio; ~~and~~
  - (iv) any changes to the Strategic Portfolio since the last report; and
  - (v) the matters referred to in Section 9.4;
- (b) appointing and removing each director on the UBC ~~IMANT~~Investment Management Board (each a “**Director**”); and
- (c) approving this Policy and any changes to this Policy, which includes approving the following:
  - (i) the Reference Portfolio which represents the amount of investment risk that UBC, as the governing fiduciary, is willing to bear in the pursuit of investment returns;
  - (ii) the Return Objective; and
  - (iii) the Long-Term Sustainable Spending Rate Range.

6.2. The UBC ~~IMANT~~Investment Management Board is responsible for:

- (a) overseeing and monitoring the activities of the UBC ~~IMANT~~Investment Management President & CEO and management (“**Management**” and collectively the “**UBC ~~IMANT~~Investment Management Staff**”);
- (b) approving investment beliefs to guide UBC ~~IMANT~~Investment Management Staff in the development of the implementation strategy;
- (c) reviewing the Policy, at least annually, and recommending amendments, if any, for approval by the Board of Governors;

- (d) appointing UBC ~~IMANT's~~Investment Management's President and CEO;
- (e) recommending a Reference Portfolio to the Board of Governors;
- (f) approval of the Strategic Portfolio;
- (g) approval of Investment Programs, including but not limited to ranges, risk parameters and constraints;
- (h) approving the appointment and/or termination of the custodian of the Pool's assets (the "Custodian");
- (i) approving key service providers such as an asset mix consultant;
- (j) establishing appropriate compensation programs, including performance evaluation, for UBC ~~IMANT~~Investment Management Staff; ~~and~~
- (k) monitoring and evaluating investment performance and operational cost-efficiency against objectives and benchmarks; and
- (l) monitoring and evaluating responsible investing commitments set out in Section 9.

6.3. UBC ~~IMANT's~~Investment Management's President and CEO, with the support from Management, is responsible for:

- (a) developing and recommending a Strategic Portfolio and a Reference Portfolio to the UBC ~~IMANT~~Investment Management Board;
- (b) implementing the Strategic Portfolio;
- (c) designing and recommending the Investment Programs specifying investment objectives and operating parameters for distinct asset classes to the UBC ~~IMANT~~Investment Management Board;
- (d) actively monitoring risk-adjusted performance of the Strategic Portfolio against the relevant benchmarks and reporting on this performance to the UBC ~~IMANT~~Investment Management Board and Board of Governors on a regular basis;
- ~~(d)~~(e) actively monitoring the responsible investing commitments set out in Section 9 and reporting on those commitments to the UBC Investment Management Board and Board of Governors on a regular basis;
- ~~(e)~~(f) actively managing the Strategic Portfolio to deliver superior risk-adjusted returns;
- ~~(f)~~(g) appointing, monitoring and, when appropriate, terminating ~~external investment managers~~Managers and other external advisors, consultants, and service providers within delegated authorities established by UBC ~~IMANT~~Investment Management Board;
- ~~(g)~~(h) developing and implementing a responsible investment approach and embedding environment, social, and governance factors into its investment processes;
- ~~(h)~~(i) ensuring efficient and cost-effective day-to-day operations;
- ~~(i)~~(j) recruitment, and development of Management to support UBC ~~IMANT's~~Investment Management's mission and vision; and

(j)(k) regular reporting to the UBC ~~IMANT~~Investment Management Board, the UBC Board of Governors, and other UBC stakeholders.

## 7. Permitted Investments, Financing and Securities Lending

7.1. The Pool may be invested in any or all of the following asset categories:

- (a) **Cash:** Investments in cash such as deposits with financial institutions, treasury bills, commercial paper, banker's acceptances, and money market securities.
- (b) **Commodities:** Investments in commodity assets such as energy, industrial metals, precious metals, agriculture, livestock, and investments with commodity attributes such as carbon credits.
- (c) **Derivatives:** Investments in derivatives such as futures and forward contracts, options, warrants, swaps, and repurchase agreements. Derivatives may be used for hedging, risk management and portfolio rebalancing, including the hedging of foreign currency exposure. Derivatives may also be used for leverage or as a cost-effective substitute for traditional investments.
- (d) **Equity:** Investments in private and public equities through common shares, income trusts, investment trusts, Global Depository Receipts (GDRs), American Depository Receipts (ADRs), and Preferred Shares.
- (e) **Fixed Income:** Investments in public fixed income assets such as bonds, debentures, notes, asset-backed securities, and term deposits or similar instruments with financial institutions. Investments in non-publicly traded fixed income assets such as senior and subordinated loans, mortgages, structured credit instruments, and investments in credit attributes such as royalties, insurance, and litigation finance.
- (f) **Real Assets:** Investments in publicly and non-publicly traded real estate and infrastructure assets.
- (g) **Investment Vehicles:** Pool investments are made indirectly or synthetically through exchange traded funds (ETFs), pooled funds, trusts, limited partnerships, mutual funds, derivatives, segregated funds or other investment vehicles.

7.2. **Borrowing:** Borrowing or providing guarantees on behalf of the Pool is permitted.

7.3. **Pledging:** UBC ~~IMANT~~Investment Management may pledge, charge, or otherwise grant a security interest in assets or post margin as required to complete derivatives transactions, complete a short sale or in connection with repurchase transactions. All pledging to be done on a non-recourse basis to UBC.

7.4. **Leverage:** The Pool is permitted to invest up to 10% of its value in assets purchased through borrowing and/or by creating synthetic exposures to existing asset classes. All such forms of leverage may not result in additional debt accruing to UBC.

7.5. **Securities Lending:** Lending securities is permitted provided that a sufficient collateral coverage is always maintained in cash or high-quality, liquid securities in accordance with industry standards.

## 8. Risk Management and Oversight

- 8.1. UBC ~~IMANT~~Investment Management will compare the risk level of the Strategic Portfolio against the Reference Portfolio periodically to confirm the modelled risk of the Strategic Portfolio is consistent with the Reference Portfolio.
- 8.2. UBC ~~IMANT~~Investment Management employs an active management approach with the objective of earning higher returns than the Reference Portfolio. The Pool’s investment portfolio is comprised of a diversified mix of external, actively managed investment funds, guided by the Investment Program ranges and constraints within the Strategic Portfolio. Given the active management approach of the Pool, it is understood that the risk level of the investment portfolio may, at times, deviate from the risk level of the Reference Portfolio to provide UBC ~~IMANT~~Investment Management flexibility and discretion to implement the Strategic Portfolio actively.
- 8.3. UBC ~~IMANT~~Investment Management will carry out the following risk mitigation mechanisms:
  - (a) minimum and maximum Investment Program weights within the Strategic Portfolio;
  - (b) active risk limits approved by UBC ~~IMANT~~Investment Management Board;
  - (c) other constraints approved by UBC ~~IMANT~~Investment Management Board for each Investment Program; and
  - (d) ongoing monitoring of performance by the UBC ~~IMANT~~Investment Management Board.

## 9. Responsible Investing

- 9.1. The Board of Governors and UBC ~~IMANT~~Investment Management are committed to responsible investing ~~which incorporates the following principles as set out in the investment decisions: Statements on Responsible Investing.~~
- 9.2. UBC’s fiduciary duties to the endowed trusts within the Pool, which includes the duty to act in the financial interests of those trusts, is of paramount importance in decision-making; ~~regarding responsible investing.~~
  - ~~(a) — sustainability through the incorporation of best practices in Environmental, Social and Governance (“ESG”) considerations are relevant factors in making financial decisions regarding investments, as further described in Section 9.2; and~~
  - ~~(b) — active ownership and engagement is part of responsibility investing, as further described in Section 9.3.~~
- 9.3. ~~ESG considerations have the potential to impact investment risks and returns.~~ As a manager-of-managers, UBC ~~IMANT~~Investment Management works collaboratively with Managers ~~that to~~ analyze and understand both the threats and opportunities driven by ~~environmental impacts, social considerations and governance structures. The ESG criteria against which responsible investing in a manner consistent with the Statements on Responsible Investing. UBC Investment Management’s evaluation of Managers will be~~ evaluated include: criteria that reflect the Statements on Responsible Investing.

- ~~(a) Environmental factors, including (but not limited to) climate risk, greenhouse gas emissions, air and water pollution, resource depletion, deforestation and land use;~~
- ~~(b) Social considerations, including (but not limited to) diversity, labour standards, workplace health and safety and consumer protection; and~~
- ~~(c) Governance practices, including (but not limited to) shareholders rights, conflicts of interest, board structure, board diversity, corruption and executive compensation.~~

~~9.4. Active ownership is a cornerstone of implementing responsible investing in practice. UBC IMANT will actively engage with Managers to obtain evidence of ESG integration in investment decision-making. Managers are evaluated with respect to the steps that they take to effect responsible corporate behaviour through proxy voting and direct industry contact. Collectively, UBC IMANT participates, with other like minded institutions and organizations that promote responsible investing by influencing corporations, governments, and regulators.~~

~~UBC Investment Management will provide reports to UBC regarding implementation of responsible investing commitments described in the Statements on Responsible Investing, with specific reporting on the following topics:~~

~~reduction of carbon emissions of investments;~~

~~progress towards divestment from companies that extract or process fossil fuels;~~

~~progress towards consistency with the United Nations-supported Principles for Responsible Investment;~~

~~climate related financial information; and~~

~~9.4. activities relating to advocacy and leadership related to responsible investing.~~

## 10. Custody

10.1. The Custodian shall be a trust company registered in Canada. All public investments and assets of the Pool shall be held by the Custodian and registered:

- (a) in a name that clearly indicates that the investment is held in trust for the Pool and, where the investment is capable of being registered, registered in that name; or
- (b) in the name of the Canadian Depository for Securities Limited, the Custodian, or a nominee thereof, in accordance with an agreement with the Custodian that clearly indicates that the investment is held for the Pool and provides that:
  - (i) the investment constitutes part of the Pool;
  - (ii) the investment shall not at any time constitute an asset of the Custodian or nominee; and
  - (iii) records shall be maintained by the Custodian that are sufficient to allow the ownership of any investment be traced to the Pool at any time.

**11. Valuation of investments**

- 11.1. Marketable securities shall be valued by the Custodian no less frequently than monthly at their market value.
- 11.2. Investment in a pooled fund comprising marketable securities shall be valued according to the unit values calculated at least monthly by the Custodian of that pooled fund. The Custodian shall be responsible for requesting and recording the unit values monthly.
- 11.3. If a market valuation of an investment is not readily available, an estimate of fair value shall be supplied by the Manager to the Custodian no less frequently than annually. Such fair value may be determined by reference to the most recent independent expert appraisal or by other means such as discounted cash flow or comparison with similar assets which are publicly traded. In all cases the methodology should be applied consistently over time and in accordance with generally accepted industry valuation procedures. This valuation methodology shall also apply to non-tradable investments held directly or through co-investment with other investors.

**12. Code of Conduct**

- 12.1. All persons involved in management of the Pool must adhere to a code of conduct that complies with the CFA Institute Code of Ethics and Standards of Professional Conduct, or an equivalent or higher standard than that of the CFA Institute.

**13. Conflict of Interest**

- 13.1. From time to time, real or perceived conflicts of interest may arise. If any person listed below has or acquires any material interest, direct or indirect, in any matter in which the Pool is invested, or may benefit materially from knowledge of, participation in, or by virtue of an investment decision or holding of the Pool, that person must disclose that interest to the person as follows:
  - (a) any Manager, agent, or advisor to the Pool, to the UBC ~~IMANT~~Investment Management President;
  - (b) Management, to the UBC ~~IMANT~~Investment Management President;
  - (c) the UBC ~~IMANT~~Investment Management President, to the chair of the UBC ~~IMANT~~Investment Management Board;
  - (d) a Director, to the chair of the UBC ~~IMANT~~Investment Management Board; or
  - (e) the chair of the UBC ~~IMANT~~Investment Management Board, to the UBC ~~IMANT~~Investment Management President and the chair of the Board of Governors' Governance Committee.
- 13.2. The chair of the UBC ~~IMANT~~Investment Management Board or the UBC ~~IMANT~~Investment Management President, as applicable, shall then advise all members of the UBC ~~IMANT~~Investment Management Board of the disclosed conflict before the next UBC ~~IMANT~~Investment Management Board meeting, and the UBC ~~IMANT~~Investment Management Board shall decide on an appropriate course of action prior to discussing the related business matter. Any person making a disclosure will thereafter abstain from any decision making with respect to the area of conflict, unless otherwise determined by unanimous decision of the remaining Directors.

- 13.3. Every disclosure of interest shall be recorded in the minutes of the relevant UBC ~~IMANT~~Investment Management Board meeting.
- 13.4. The failure of a person to comply with the procedures, described in this Section, shall not of itself invalidate any decision, contract, or other matter.
- 13.5. The UBC ~~IMANT~~Investment Management President shall satisfy herself or himself that an appropriate policy regarding conflicts of interest exists and is followed by any fiduciary of the Pool, including the Managers. As a minimum, the Code of Ethics and Standards of Professional Conduct adopted by the Chartered Financial Analysts Institute shall be expected to apply to such fiduciaries.

#### 14. Related Party Transactions

- 14.1. For the purposes of this Policy, “**Related Party**” has the meaning given in the Business Corporations Act of British Columbia, but for greater certainty includes:
  - (a) UBC, an affiliate of UBC, or a member of the Board of Governors of UBC;
  - (b) an officer or employee of UBC;
  - (c) a Director; or
  - (d) UBC ~~IMANT~~Investment Management Staff.
- 14.2. The Pool may enter into a transaction with a Related Party only if:
  - (a) the transaction is required for the operation or administration of the Pool;
  - (b) the terms, conditions and monetary value of the transaction are not less favourable than market terms, conditions, and value; and
  - (c) the transaction does not exceed 3% of the market value of the Pool at the time of the transaction.
- 14.3. In 2014, the Board of Governors and the IMANT Board authorized a one-time \$100 million loan to the University for the construction of Orchard Commons student housing development. This decision temporarily suspends the 3% restriction in Section 14.2(c) until the remaining balance of the loan is less than 3% of the Pool. At that time, this section becomes void and Section 14.2(c) returns to force.

#### 15. Policy Review

- 15.1. This Policy shall be reviewed at least annually by the UBC ~~IMANT~~Investment Management Board to determine whether any modifications are necessary or desirable.