



<b>SUBJECT</b>	Main Endowment Pool Spending Rate FY2025
<b>SUBMITTED TO</b>	Board of Governors
<b>MEETING DATE</b>	November 20, 2023
<b>SESSION CLASSIFICATION</b>	Recommended session criteria from Board Meetings Policy: OPEN
<b>REQUEST</b>	APPROVAL REQUESTED IT IS HEREBY RESOLVED that the Finance Committee recommends to the Board of Governors approval of retaining the endowment spending rate at 4.0% for Fiscal Year 2025 for the Main Endowment Pool.
<b>LEAD EXECUTIVE</b>	Frank Laezza, Vice-President Finance & Operations
<b>SUPPORTED BY</b>	Yale Loh, Treasurer Dawn Jia, President & CEO, UBC Investment Management Gordon MacDougall, Chair, UBC Investment Management Board Graham Sheppard, UBC Investment Management

#### PRIOR SUBMISSIONS

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

1. [November 17, 2022 \(OPEN SESSION\)](#) – Main Endowment Pool Spending Rate FY23-24
2. [November 19, 2021 – Endowment Asset Mix Review](#) – Reference Portfolio and Spend Rate Recommendation

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

#### EXECUTIVE SUMMARY

In accordance with the 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 the Administration and UBC Investment Management. In addition to the annual review, an asset mix review is conducted every three to five years by UBC Investment Management to assess the ability to preserve intergenerational equity, the outlook for long term investment returns and ultimately the spending rate.

UBC Investment Management conducted the last asset mix review in 2021. Given the cyclical nature of financial markets, aggregate stabilization ratios are expected to vary over shorter periods but to generally trend towards the 105% target range over the long term. At September 30, 2023, there were approximately 3,900 endowment funds in the Main Endowment Pool (MEP) with an aggregate stabilization ratio<sup>1</sup> of 109% compared with 110% at September 30, 2022. The slight decrease in stabilization ratio was a result of two offsetting factors, investment returns and inflation. Investment returns for the MEP had a positive impact on the stabilization ratio as financial markets rebounded from a strong drawdown in 2022. This was offset by the continued high inflation environment, which has been in excess of the 2% long term target since early 2021.

<sup>1</sup> The stabilization ratio is defined as the ratio of the market value of assets to inflation-adjusted value of endowment capital for an individual endowment. The aggregate stabilization ratio is calculated using the aggregate market value and inflation-adjusted capital in consideration of the entire endowment.

Date	Number of Endowments <sup>1</sup>	Inflation Adjusted Capital Account (000's)	Stabilization Account (000's)	Average Stabilization Ratio
31-Mar-20	3,651	1,133,553	105,708	109.3%
31-Mar-21	3,700	1,209,314	227,441	118.8%
31-Mar-22	3,771	1,317,498	232,345	117.6%
30-Sep-22	3,800	1,362,452	133,605	109.8%
30-Sep-23	3,872	1,483,799	135,820	109.2%

<sup>1</sup> Excludes TREK and Killam Endowment Funds

UBC Investment Management's analysis estimates that with a starting aggregate stabilization ratio of 109%, the current Reference Portfolio's estimated probability of sustaining the 4.0% spend rate over 15 years increased to 52% (47% in 2022). The stronger diversification and higher return profile of the Strategic Portfolio improves the estimated probability to 59% (57% in 2022).

As part of the spending rate analysis, UBC Investment Management conducts economic and climate scenario analysis to test the impact of stressed environments on the MEP's aggregate stabilization ratio. It should be noted that a scenario of persisting elevated levels of inflation and/or further declines in financial markets may threaten the sustainability of the current spend rate for future years (beyond FY2025) and may require the Board of Governors to consider other options. Developments will continue to be closely monitored and reported to the Board of Governors.

Given the aggregate stabilization ratio of 109% at September 30, 2023 remains above the target range, management believes that retaining the existing spending rate of 4.0% for FY2025 is appropriate, balancing the financial health of the endowment and the ongoing uncertainty around the short-to-medium term level of inflation and investment market returns. It is recommended that a spend rate of 4.0% for FY2025 be approved. The MEP spend rate will continue to be reviewed on an annual basis, while the stabilization ratio of the MEP and financial markets are monitored closely by UBC Finance and UBC Investment Management through the year.

## PRESENTATIONS

1. Main Endowment Pool FY2025 Spend Rate Recommendation





# **UBC Finance Committee**

## **Main Endowment Pool**

### **FY2025 Spend Rate Recommendation**

November 20, 2023

**Yale Loh, UBC Treasurer**

**Dawn Jia, President & CEO, UBC Investment Management**





## **SPEND RATE RECOMMENDATION**

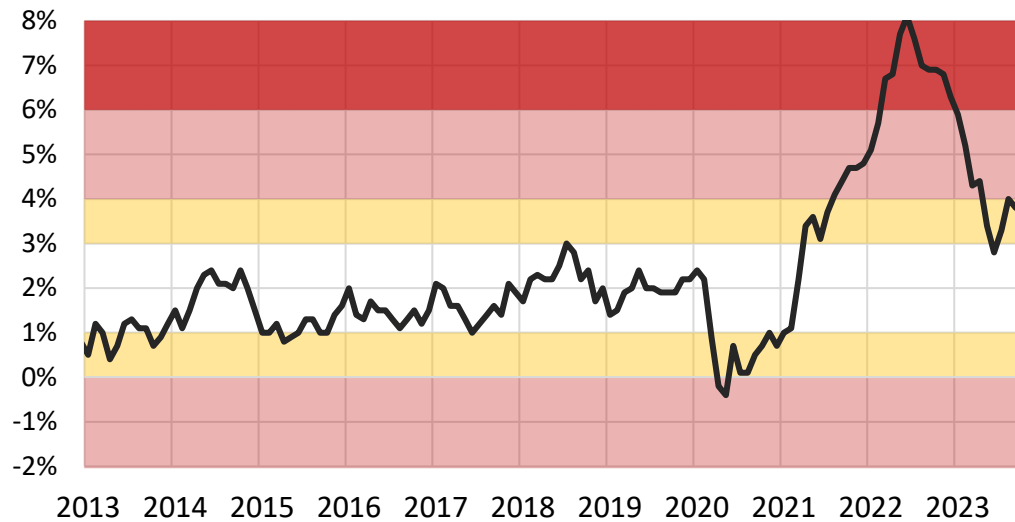
***The administration is recommending a spend rate of 4.0% for the Main Endowment Pool (“MEP”) for FY2025 (No Change from FY2024):***

- Elevated inflation levels continue to have a negative impact on the MEP’s aggregate stabilization ratio, however positive financial market returns have largely offset this impact over the past year. The average aggregate stabilization ratio of the MEP declined to 109% at September 30, 2023 (September 2022 – 110%).
- Long-term, forward-looking investment return forecasts are supportive of the MEP’s 4% spend rate. However, near term economic and financial market developments remain uncertain and will be closely monitored.

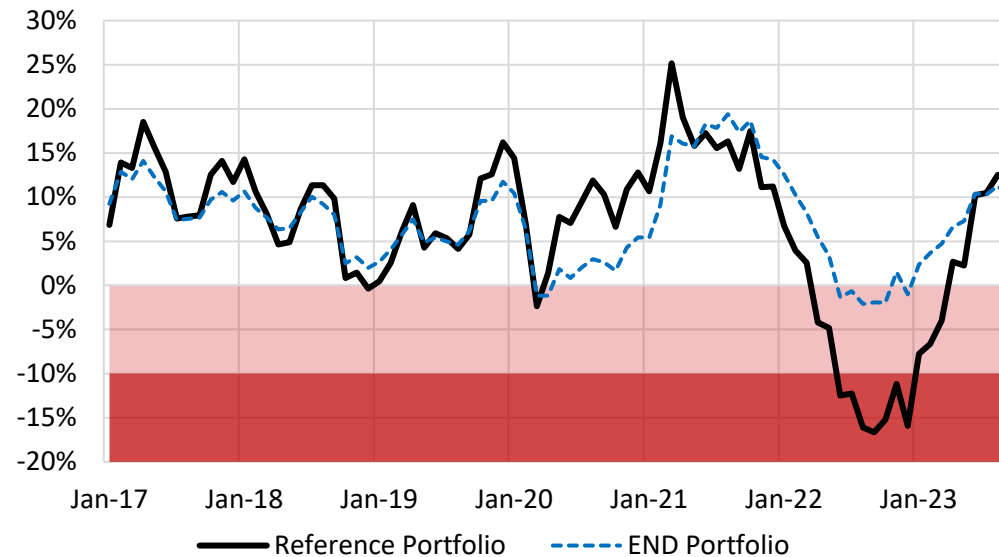


# FY2024 FINANCIAL MARKET DEVELOPMENTS

Canadian Inflation (Year-over-Year)



Investment Market Returns (1-Year Rolling Periods)

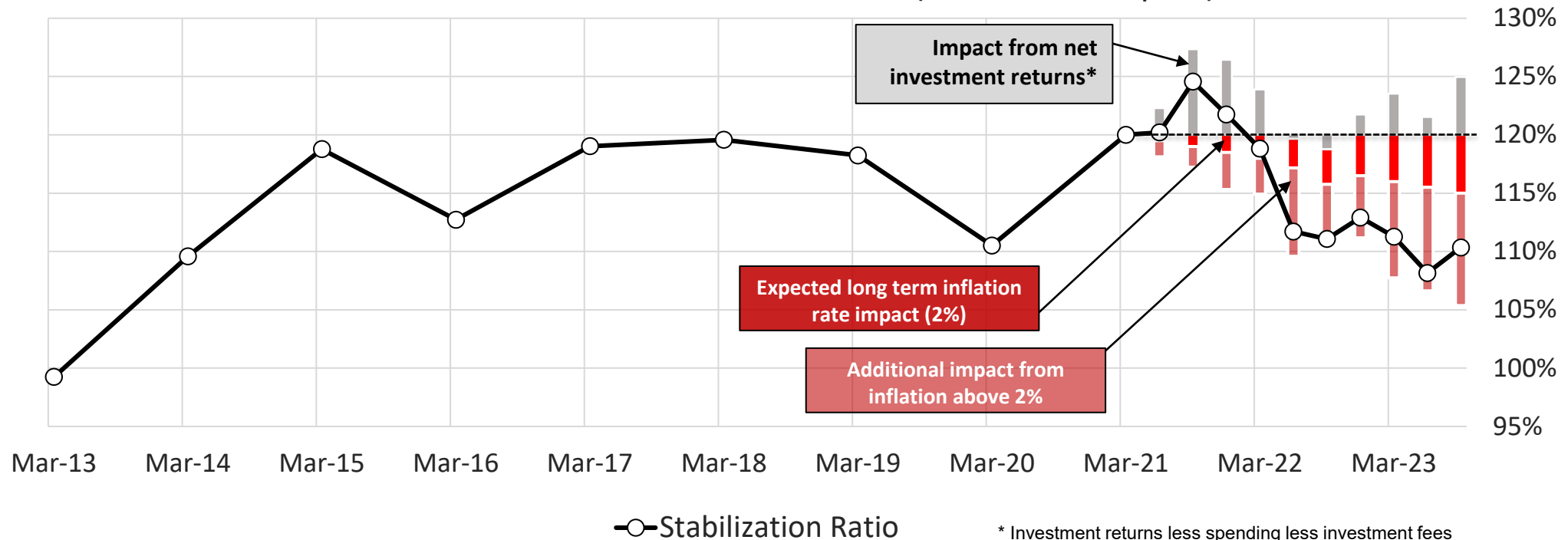


- Financial market conditions generally improved over the last twelve months. Inflation, while still elevated historically, has come off peak levels of 8% in 2022, which has improved investor sentiment. Inflation above the long-term target of 2% negatively impacts the stabilization ratio.
- The MEP portfolio has outperformed the Reference Portfolio through the market downturn in 2022 and the rebound in 2023. This has enabled the MEP to maintain the current spend however an extended period of high inflation and low financial market returns may threaten the sustainability of the spend rate beyond FY2025.



# MEP STABILIZATION RATIO TREND

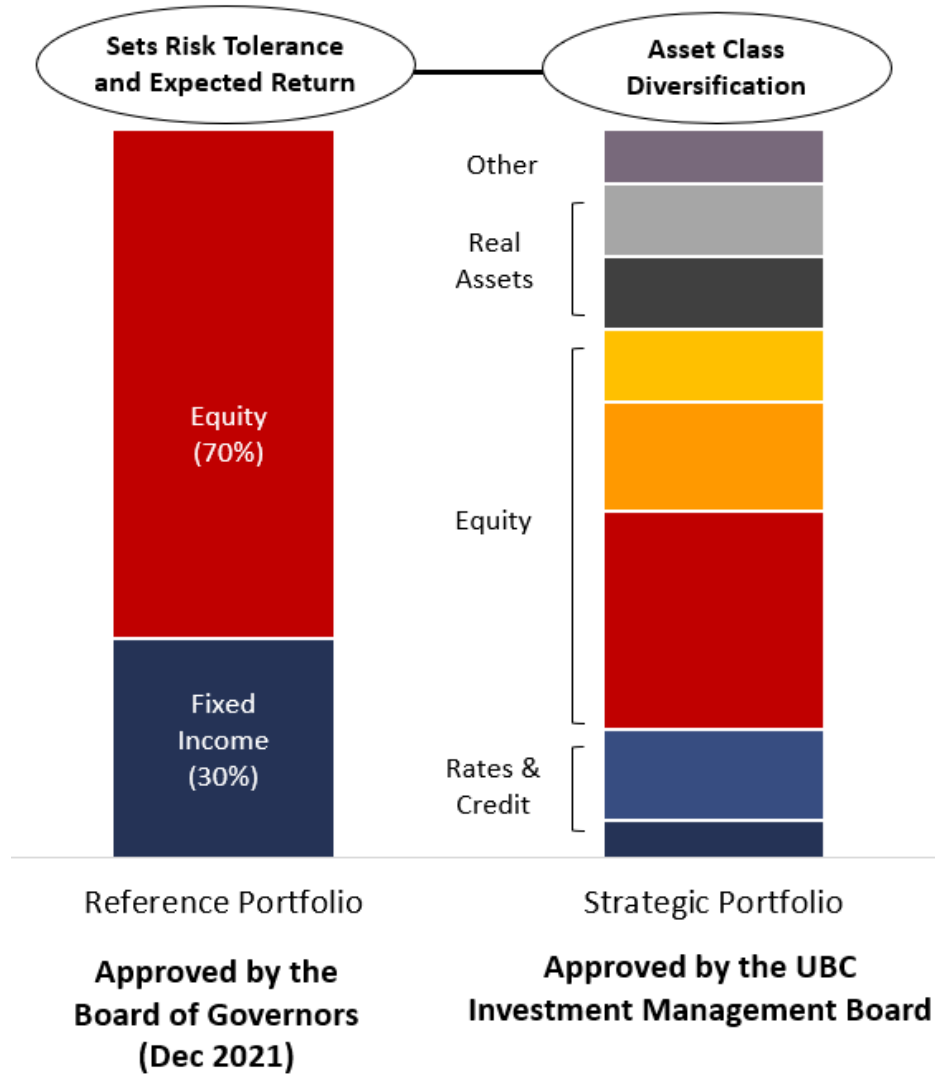
Main Endowment Pool Stabilization Ratio (Cumulative Impact)



- The MEP stabilization ratio has been relatively stable over the past year. This has been a result of higher investment returns over the period and a decelerating negative impact from inflation in excess of the long term 2% expectation.
- The cumulative decline since March 2021 is substantially attributable to excess inflation.



# RECAP OF THE REFERENCE AND STRATEGIC PORTFOLIOS



- The Reference Portfolio sets the investment risk tolerance and expected return profile of the Endowment.
- The Strategic Portfolio is expected to outperform the Reference Portfolio over the long term, increasing the probability that the Endowment spending is sustained.



# FY2025 SPEND RATE KEY ASSUMPTIONS

Metric (annualized)	2021 Assumptions (15-Year)	2023 Assumptions (15-Year)
Canadian Inflation: (15-Yr)	1.7%	2.2% (2022: 2.3%)
Reference Portfolio: Expected Return (15-Yr)	5.5%	6.7% (2022: 6.5%)
Strategic Portfolio: Expected Return (15-Yr)	6.9%	7.3% (2022: 7.5%)
Starting Stabilization Ratio	119%	109% (2022: 110%)

- Forward-looking investment return expectations are higher than in 2021 when the Reference Portfolio and Strategic Portfolio were approved. This is offset by higher inflation forecasts and a lower starting stabilization ratio.
- The current Reference Portfolio is expected to support the existing spend rate in FY2025. Further reduction in the Stabilization Ratio may require the UBC BOG to consider other options.

