



# 2015

**2015 ENDOWMENT REPORT**  
**UBC INVESTMENT MANAGEMENT TRUST INC.**

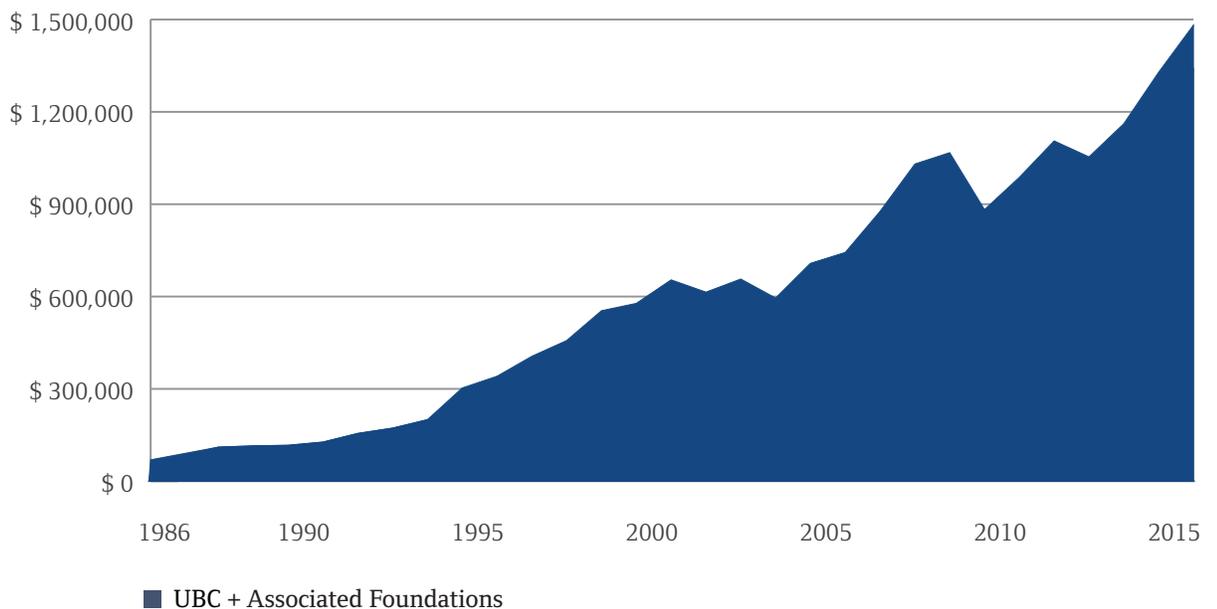
**MESSAGE FROM**  
**JAI PARIHAR,**  
**PRESIDENT AND CEO**  
**UBC IMANT**

We are pleased to present this update on the performance of the UBC Endowment Fund for the fiscal year ended March 31, 2015.

The Endowment Fund earned a total net return of 13.7% for the year ended March 31, 2015. The market value of the Endowment Fund directly managed by UBC Investment Management Trust Inc. (IMANT) at March 31, 2015 was \$1.33 billion. Including an additional \$142 million historically held at related foundations, the total value of UBC's Endowment now exceeds \$1.47 billion.

## **ENDOWMENT FUND GROWTH**

\$ Market Value, March 31



## ACTIVITY UPDATE



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**Peter Smailes**

*Treasurer, UBC*

**Cheryl Yaremko**

*Executive VP Finance & Chief Financial Officer, BC Hydro*

During 2014/15 commitments were made to infrastructure, real estate and private equity managers to further transition to the Endowment's long term policy asset mix. During the year the university approved a 10% allocation to absolute return strategies, as originally modelled in the 2013 asset mix review. The types of funds invested in will only include publically traded securities which can be easily redeemed. The allocation is being made to reduce overall equity exposure and reduce the Fund's volatility. Public equity, real estate and infrastructure weights will be reduced to facilitate the new allocation.

During the coming year IMANT will begin a review of long-term asset class return expectations and update the asset mix work completed in the Spring of 2013. While it is not anticipated that any significant changes to the asset mix will be made, it needs to be confirmed that the long term return target and spend rate are sustainable for the Endowment. This work is undertaken every three or four years.

IMANT continues to work with UBC's Responsible Investing Policy Committee in incorporating Environmental, Social and Governance (ESG) factors into the investment process and has enhanced reporting in this area.

During the year a review of the university's custodian was undertaken. As a result of this review a new custodian will be appointed for all of the university's assets at the end of the first quarter of 2015/16.

I would again like to thank our Board for their dedication and efforts throughout the year. To our associates and friends in the greater UBC community, we look forward to continuing to work for you and welcome any questions or issues you wish to discuss.

Sincerely,

UBC Investment Management Trust Inc. (IMANT)

**Jai Parihar**

*President and Chief Executive Officer*

July 2015



### ABOUT IMANT

IMANT was established as a wholly owned subsidiary of UBC in 2003 to provide comprehensive portfolio management services and related advice to UBC for the Endowment Fund and other university related assets (Staff Pension Plan, Working Capital and other funds). Today, IMANT is

responsible for \$3.1 billion of assets under management invested using a manager of managers approach.

IMANT's Board of Directors includes seven unrelated Directors and three UBC related Directors.

## 2014/15 IN REVIEW

As mentioned in the President's message a 10% allocation to absolute return strategies was approved by UBC's Board of Governors in 2014. A third of the 10% target allocation to this asset class will be made in the first quarter of 2015/16. We anticipate the balance of the 10% allocation will be invested by the fiscal year-end.

Commitments were made to two new private equity funds (U.S. and Global), two new real estate funds (Canadian and U.S.) and two new infrastructure funds (both Global) to move the Fund towards its long term policy asset mix. The infrastructure investments included an allocation to a manager that invests in publicly listed infrastructure companies. This allocation will allow for exposure to the

asset class until the private infrastructure managers make capital calls for new investments. With the 10% allocation to absolute return strategies, the target asset mix weights for real estate and infrastructure were reduced from 12.5% each to 10.0% and the global equity weight was reduced by 5.0%.

Distributions from real estate and private equity funds were again strong during the year as markets for both asset classes continued to benefit from a strong investment environment. The Canadian core real estate market is expensive, so IMANT will be considering investment opportunities in the U.S. and global markets in 2015.

## INVESTMENT POLICY PORTFOLIO

ASSET CLASS	BENCHMARK	INVESTMENT POLICY	ACTUAL MIX AT MARCH 31 2015
Cash	FTSE TMX CA 91 Day T-Bills	% 2.0	% 0.5
Bonds	FTSE TMX CA Universe Bond	13.0	13.1
Mortgages	FTSE TMX CA Short Term Bond + 1.0%	5.0	5.7
<b>Total Fixed Income</b>		<b>20.0</b>	<b>19.3</b>
Canadian Equity	S&P TSX Composite	15.0	20.8
Global Equity <sup>(1)</sup>	MSCI World Net (Cdn)	15.0	27.8
Emerging Market Equity	MSCI Emerging (Cdn)	10.0	9.8
<b>Total Public Equity</b>		<b>40.0</b>	<b>58.4</b>
Absolute Return Strategy	FTSE TMX CA 91 Day T-Bills + 5%	10.0	0.3
Private Equity <sup>(2)</sup>	MSCI World Net (Cdn) + 2%	10.0	8.2
Real Estate <sup>(2)</sup>	CPI + 4.0%	10.0	6.1
Infrastructure <sup>(2)</sup>	CPI + 4.5%	10.0	7.7
<b>Total Alternatives</b>		<b>40.0</b>	<b>22.3</b>
<b>Total Fund</b>		<b>% 100.0</b>	<b>% 100.0</b>

(1) The benchmark for U.S. and EAFE equities was amended to MSCI World Net (Cdn).

(2) These returns are lagged 3 months to correspond to reporting periods for the managers.

The long term expected return for the investment policy asset mix highlighted above is 6.95% (4.95% real rate). Within acceptable risk tolerance levels the asset mix must support the Endowment's 3.5% spend rate, while covering inflation (modelled at 2.0%) and internal expenses (0.65%).

Enhancements to the Fund's overall risk monitoring and reporting continued to be made in 2014/15.

In April 2014, UBC adopted its Responsible Investment Policy. IMANT assisted the university in the development

of this policy. IMANT has been actively implementing the policy throughout 2014/15. An internal review of investment managers was supplemented with a third-party review by a dedicated consultant. Both reviews confirmed that no managers had ignored environmental, social and governance (ESG) considerations in making their investment decisions. Furthermore, IMANT is among the early adopters of incorporating ESG information for portfolio holdings analysis. With this information, IMANT is more effective in engaging investment managers.

## FUND INVESTMENT PERFORMANCE IN FISCAL 2014/15

For the Endowment to be sustainable and achieve inter-generational equity, the long-term returns must equal or exceed the sum of the annual university spend rate of 3.5% (in place since fiscal 2009/10), the annual change in

Canadian Price Index and the administrative charge. This objective was met again in 2014/15. We are pleased to report that for the five year period this objective has also been met.

ANNUALIZED TO MARCH 31	1 YEAR	2 YEAR	3 YEAR	4 YEAR	5 YEAR	10 YEAR
Actual returns (net)	13.7%	14.6%	13.4%	10.7%	10.7%	6.6%
UBC's required return <sup>(1)</sup>	5.4%	5.6%	5.4%	5.6%	6.1%	6.8%

(1) For 2014/15: 3.5% + 1.2% + 0.65% = 5.4%

The Endowment return of 13.7% is 20 basis points behind the benchmark portfolio return of 13.9% for the year. The Fund is equal to or above the benchmark through to five years and only marginally behind over 10 years. The Investment Policy Benchmark return is

the weighted average of the individual asset class returns where the weights are the policy asset class allocations. As the Fund is transitioning to the targeted policy, these weights are adjusted during the year.

ANNUALIZED TO MARCH 31	1 YEAR	2 YEAR	3 YEAR	4 YEAR	5 YEAR	10 YEAR
Actual returns	13.7%	14.6%	13.4%	10.7%	10.7%	6.6%
Investment policy benchmark	13.9%	14.6%	13.3%	10.2%	10.0%	6.7%
Value added	-0.2%	0.0%	0.1%	0.5%	0.7%	-0.1%

## PERFORMANCE BY ASSET CLASS

2014/15 investment results were good in absolute return terms (13.7% net). Across the various asset classes our managers had mixed results relative to their respective benchmarks. The chart below highlights the Fund's performance by individual asset class relative to the Board approved benchmarks.

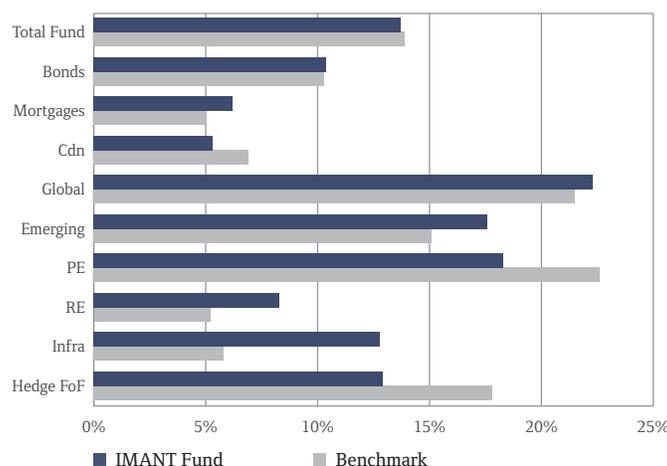
Fixed income investments had another double digit return year as interest rates continued to trend lower over most of the year.

Canadian public equity market returns were modest. Foreign market returns were very strong in Canadian dollar terms. The index returns ranged from 29% in the U.S., 13.5% for EAFE, for a combined Global equity return of 21.5% and Emerging markets return at 15.1%. Relative to the U.S. dollar, the Canadian dollar depreciated almost 13%.

The Endowment's Canadian equity managers underperformed relative to their TSX/S&P benchmark, driven by an overweight in financial services and materials sectors which lagged the market and an underweight in the pharmaceutical sector which performed very strongly driven by takeover activity.

## ONE YEAR PERFORMANCE

to March 31, 2015



Both our Global and Emerging Markets allocations outperformed their benchmarks, and the returns were further improved by Canadian Dollar depreciation.

The results for the alternative strategies were generally good with Real Estate and Infrastructure investment outperforming their benchmarks. In the case of the private equity the absolute number was very good at 18.3% but lagged a very strong global public equity returns at 21.5%.