



# 2014

## 2014 ENDOWMENT REPORT UBC INVESTMENT MANAGEMENT TRUST INC.

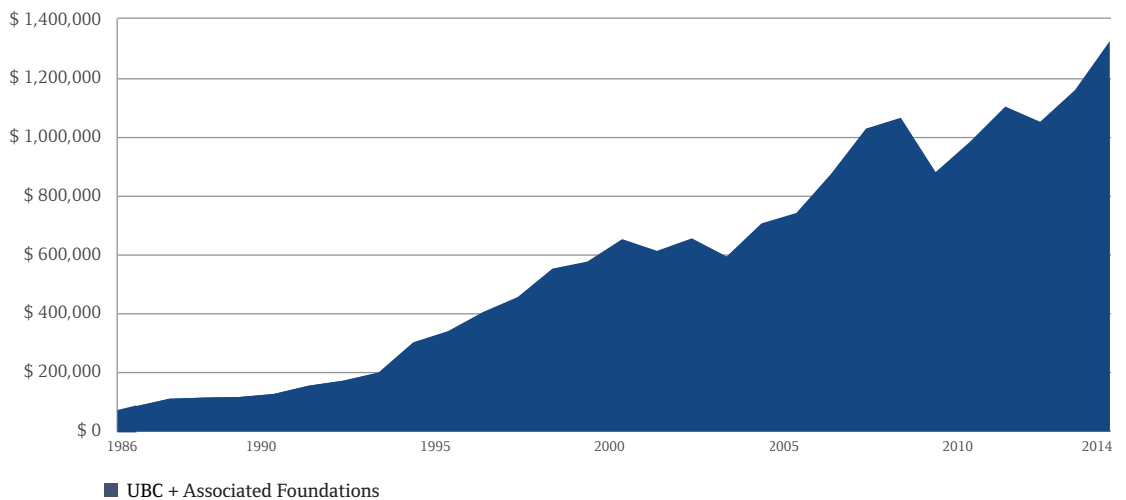
**MESSAGE FROM  
JAI PARIHAR,  
PRESIDENT AND CEO  
UBC IMANT**

We are pleased to present this update on the performance of the UBC Endowment Fund for the fiscal year ended March 31, 2014.

The Endowment Fund earned a total net return of 15.6% for the year ended March 31, 2014, 20 basis points ahead of the benchmark portfolio return of 15.4%. The market value of the Endowment Fund directly managed by UBC Investment Management Trust Inc. (IMANT) at March 31, 2014 was \$1.2 billion. Including an additional \$129 million held at related foundations, the total value of UBC’s Endowment now exceeds \$1.3 billion.

### ENDOWMENT FUND GROWTH

\$ Market Value, March 31



## ACTIVITY UPDATE



### IMANT DIRECTORS

**Martin Glynn**

*Board Chair (Corporate Director)*

**Ken Bancroft**

*President, Pathfinder Asset Management*

**Larry Blain**

*Corporate Director*

**Sarah Boatman**

*Director, Business Development & Strategy, Microsoft Games Studios*

**Paul Haggis**

*Corporate Director*

**Brian Kenning**

*Corporate Director*

**Alice Laberge**

*Corporate Director,  
UBC Board of Governors*

**Pierre Ouillet**

*Vice President, Finance,  
Resources & Operations, UBC*

**Jay Parker**

*Executive Director,  
UBC Staff Pension Board*

**Cheryl Yaremko**

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

2013/14 was another very busy year for the IMANT Board and staff. The transition to the Endowment's long term policy asset mix approved in the Spring of 2013 moved forward with new managers hired for mortgage mandates, real estate and infrastructure. The strong public equity returns and significant cash distributions from the Fund's existing private equity program will allow for new commitments in 2014/15. New private equity investment guidelines and an investment strategy were approved by the IMANT Board to facilitate these commitments.

Significant enhancements to the Fund's overall risk monitoring and reporting were implemented in 2013/14 and will continue to be made going forward. IMANT assisted the UBC Responsible Investing Strategy Task Force to develop a Responsible Investment Policy. As part of the policy IMANT will more formally incorporate Environmental, Social and Governance (ESG) factors into the investment process and enhance reporting in this area. IMANT also joined the Canadian Coalition for Good Governance in 2013.

I would again like to thank our Board for their dedication and efforts throughout the year. During the year Dale Parker's term on the IMANT Board and as Chair ended. We would all like to thank Dale for his tremendous contributions to IMANT and the University. We are pleased to advise that Martin Glynn was appointed as the new Chair in September. 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 2014



### 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 \$2.8 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.

## 2013/14 IN REVIEW

Implementation of the asset mix approved by the UBC Board of Governors for the Endowment in 2013 progressed during the year. The 5% allocation to mortgages was fully funded. New real estate and infrastructure commitments were made as the target weights for each of these asset classes increased to 12.5% of the Fund. Pacing of new investments, particularly for infrastructure assets, continues to be slow as existing managers have not identified as many opportunities that satisfy their investment criteria as projected. Total

investments and commitments to infrastructure represent 10.3% of the Endowment, additional infrastructure funds are being reviewed in order to ultimately achieve our target weight.

Distributions from existing real estate funds continued to be strong. Commitments to open-ended, core real estate funds (perpetual funds) were increased to reduce the impact from the requirement that closed-end fund managers have to sell their real estate assets by the end of the fund's contractual term (typically a 10 year term).

## INVESTMENT POLICY PORTFOLIO

ASSET CLASS	BENCHMARK	INVESTMENT POLICY	ACTUAL MIX AT MARCH 31 2014
Cash	FTSE TMX CA 91 Day T-Bills	% 2.0	% 0.5
Bonds	FTSE TMX CA Universe Bond	13.0	12.7
Mortgages	FTSE TMX CA Short Term Bond + 1.0%	5.0	5.7
<b>Total Fixed Income</b>		<b>20.0</b>	<b>18.9</b>
Canadian Equity	S&P TSX Composite	15.0	23.1
US Equity <sup>(1)</sup>	S&P 500 TR (Cdn)	0.0	10.5
EAFE Equity <sup>(1)</sup>	MSCI EAFE Net (Cdn)	0.0	9.5
Global Equity <sup>(1)</sup>	MSCI World Net (Cdn)	20.0	8.6
Emerging Market Equity	MSCI Emerging (Cdn)	10.0	9.3
<b>Total Public Equity</b>		<b>45.0</b>	<b>61.1</b>
Hedge Funds	HFRI Fund of Funds Conservative (Cdn)	0.0	0.5
Private Equity <sup>(2)</sup>	MSCI World Net (Cdn) + 2%	10.0	9.3
Real Estate <sup>(2)</sup>	CPI + 4.0%	12.5	6.2
Infrastructure <sup>(2)</sup>	CPI + 4.5%	12.5	4.0
<b>Total Alternatives</b>		<b>35.0</b>	<b>20.0</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) however there are allocations to U.S., EAFE and Global investments. The benchmark for Real Estate and Infrastructure were also changed during the year.

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

Further enhancements to the Fund's overall risk monitoring and reporting were implemented in 2013/14. A Risk Dashboard was developed that provides indicators on risk exposures embedded in a portfolio, which are monitored on an ongoing basis to see how risk exposure changes over time. IMANT staff is also reviewing risk mitigation strategies to provide some tools to not eliminate, but to potentially temper losses in the event of major market volatility (i.e. the 2008/09 Global Financial Crisis).

Working within the guidelines of UBC's Responsible Investing Policy, IMANT is reviewing existing managers

and investments to determine how to more formally incorporate Environmental, Social and Governance (ESG) factors into the investment process. Across the Endowment's various asset classes the ability to influence or impact external manager investment decisions will vary, i.e. more directly on public securities than for the alternative asset classes. That said within real estate and infrastructure there are a number of ESG factors that are already considered by managers. Reporting to the IMANT Board and the University will be expanded to include comments on ESG factors and the progress of how managers are incorporating them into their investment process.

## FUND INVESTMENT PERFORMANCE IN FISCAL 2013/14

The long term expected return, net of external management fees for the investment policy asset mix highlighted above is 6.95% (4.95% real). Within acceptable risk tolerance levels for the endowment to be sustainable and achieve inter-generational equity, the asset mix must support the Endowment's 3.5% spend rate, while covering inflation (modelled at 2.0%) and internal expenses (0.65%).

ANNUALIZED TO MARCH 31	1 YEAR	2 YEAR	3 YEAR	4 YEAR	5 YEAR	10 YEAR
Actual returns (net)	15.6%	13.2%	9.7%	10.0%	10.8%	5.8%
UBC's required return <sup>(1)</sup>	5.7%	5.5%	5.7%	6.2%	6.2%	7.1%

(1) For 2013/14: 3.5% + 1.55% + 0.65%

The Endowment return of 15.6% is 20 basis points ahead of the benchmark portfolio return of 15.4% for the year and is now ahead of the benchmark through four years. Over the five year period the Fund lags by 20 basis points and over 10 years by 10 basis points. The Investment

This objective was met again in 2013/14. We are pleased that through the five year period this objective has also been met with the Fund fully recovering from the market downturn of 2008/09 (-20.9%). Over the 10 year period the Fund still lags the objective. It should be noted that the spending policy was changed to 3.5% in 2009/10 from 5.0% to better match expected returns.

Policy Benchmark return is the weighted average of the individual asset class returns where the weights are the policy asset class allocation. As the Fund is currently 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	15.6%	13.2%	9.7%	10.0%	10.8%	5.8%
Investment policy benchmark	15.4%	13.0%	9.0%	9.1%	11.0%	5.9%
Value added	0.2%	0.3%	0.7%	0.9%	-0.2%	-0.1%

## PERFORMANCE BY ASSET CLASS

2013/14 was a good year for most public equity markets, particularly the U.S. and International markets. After a weak fiscal 2012/13, the Canadian market rebounded to post a double digit return. The Endowment's Canadian equity managers again performed very well relative to their S&P/TSX benchmark. Weakness in the Emerging markets continued in 2013/14 as the economic growth experienced up to 2011 slowed.

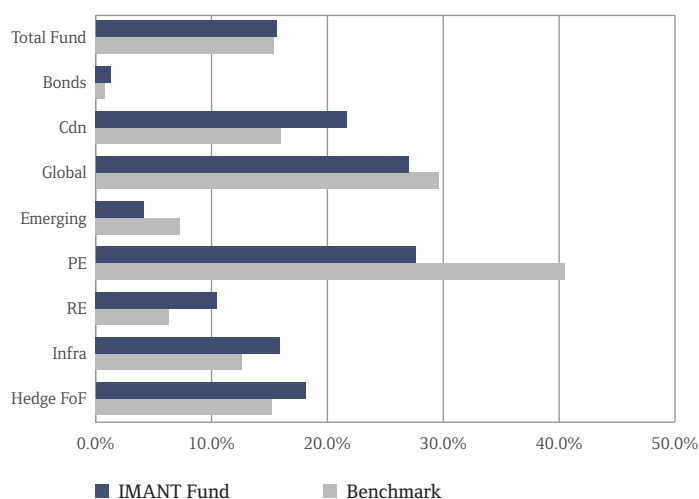
The results for the alternative investments were good and other than private equity, the investments were ahead of their respective benchmarks. In the case of the private equity the absolute number was very good at 27.6% but again lagged a very strong global benchmark (MSCI World plus 2%) at 40.5%. In Canadian dollar terms, the returns for all non-Canadian investments were enhanced with the appreciation of most major currencies relative to the Canadian dollar.

The chart highlights the Fund's performance by individual asset class relative to the policy benchmarks.

The Endowment invests in U.S., International (EAFE) and Global equity funds. As the Fund now has a global

## ONE YEAR PERFORMANCE

to March 31, 2014



benchmark (MSCI World net CAD \$), the returns for these investments are combined. It should be noted that for the private equity, real estate and infrastructure investments, the returns and their benchmarks are lagged 3 months to reflect the timing of when the quarterly investment results are received from the managers.