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THE UNIVERSITY OF BRITISH COLUMBIA

REPORT TO THE BOARD OF GOVERNORS

SUBJECT **ENDOWMENT STATUS REPORT**
as at AUGUST 31, 2014

MEETING DATE **DECEMBER 2, 2014**

Forwarded to the Board of Governors on the
Recommendation of the President

**APPROVED FOR
SUBMISSION**

Arvind Gupta, President and Vice-Chancellor

Presented By David H. Farrar, Provost and Vice-President Academic
Ian Burgess, Comptroller
Frances Yip, Director, Financial Reporting

Report Date August 31, 2014

DECISION REQUESTED **For Information**

EXECUTIVE SUMMARY

Endowment investments are comprised of:

(in millions of dollars)	August 31, 2014	March 31, 2014
IMANT Invested Funds	\$ 1,263.4	\$ 1,196.8
Merilees Chair	3.5	3.4
Promissory Notes	2.2	2.2
<i>Funds administered under the University's Endowment Management Policy</i>	1,269.1	1,202.4
Vancouver Foundation	27.8	26.7
Peter Wall Endowment	90.5	86.9
Student Housing Financing Endowment (SHFE)	172.5	137.4
<i>Total Endowment Investments</i>	\$ 1,559.9	\$ 1,453.4

Previously, Endowment Status Reports only included endowment funds that were administered under the University's Endowment Management Policy and Vancouver Foundation endowments where the University had the discretion to transfer all or any part of the capital to the University. Commencing April 1, 2014, the Peter Wall endowment (held within the UBC Foundation) and the SHFE endowment will also be included in this report.

A summary of the status of IMANT invested funds, the Merilees Chair and promissory notes as at August 31, 2014 is attached. The summary shows the comparative values of the Capital Accounts and the Stabilization Accounts for March 31, 2014 and March 31, 2013, and the subsequent changes to market values since the new endowment policy was implemented.

IMANT INVESTED FUNDS, MERILEES CHAIR & PROMISSORY NOTES

The total market value increased \$66.7 million this fiscal year to date to \$1,269.1 million at August 31, 2014. This change comprised \$8.6 million of contributions, \$72.9 million of investment income offset by a spending allocation of \$14.8 million. Endowment investments generated a return of approximately 6.2% for the five months ended August 31, 2014.

The Capital Account increased by \$18.8 million for the year as a result of principal contributions of \$8.8 million and a provision for inflation of \$10.0 million. Inflation for the five months was 0.9%. The double digit market returns for four of the past five fiscal years have eliminated the overall Stabilization Account deficit and a surplus of \$159.2 million exists at August 31, 2014.

The \$159.2 million Stabilization Account is made up of endowments that are not subject to amortization of \$161.6 million and endowments subject to amortization of -\$2.4 million. There are 262 endowments subject to amortization which make up the -\$2.4 million.

VANCOUVER FOUNDATION ENDOWMENTS

Endowments with a fair value of \$27.8 million are held and managed by the Vancouver Foundation. The fair value of these investments increased \$1.1 million from March 31, 2014 to August 31, 2014.

PETER WALL ENDOWMENT

The \$90.5 million market value at August 31, 2014 is made up of 6.5 million shares of Wall Financial Corporation (WFC) valued at \$71.2 million plus accumulated unspent earnings of \$19.3 million. The \$3.6 million increase in market value is due to a \$3.9 million dividend declared in June 2014 offset by a \$0.3 million decrease in the market value of the WFC shares.

STUDENT HOUSING FINANCING ENDOWMENT (SHFE)

The \$35.1 million increase in the market value represents \$33.5 million land sales proceeds received from UBC Properties Trust plus \$1.6 million of capitalized interest income.

Description & BACKGROUND:**Rationale**

In February 2009, the Board approved changes to Endowment Management Policy No. 113 and a change in the spending rate. The relevant changes include:

- Reduction in endowment spending rate from 5.0% to 3.5%;
- Use of the rolling three-year average market value by calendar year in establishing the spending allocation;
- Preservation of the real value of the Capital Account by crediting this by an amount equivalent to the increase in the Consumer Price Index experienced during the fiscal year;
- Establishment of a Stabilization Account for each endowment fund to measure its health by tracking cumulative income earned against cumulative spending allocation, investment management and central administrative expenses charged, and inflation; and
- Periodic reporting to the Board on the status of endowment funds.

Significant market losses in fiscal year 2009 reduced the value of the University's endowments. In nearly 56% of the University's 3,000 endowments, the value of the endowment as at December 31, 2008 was less than the original contribution. To address this underwater issue, the University committed, with certain exceptions, to building those endowments back up to their original value by reducing spending over a ten-year period. The base value of all endowment funds were established using the December 31, 2008 market value, and the deficits on this date, which totaled \$71 million, are being amortized against the annual spending allocations. These endowments are represented in the attached report as "Endowments subject to Amortization." Endowment investments experienced further market losses of 6% between January and March of that year which increased the deficit in the Stabilization Account at March 31, 2009. The investment losses during this period are not subject to amortization.

Previous Report Date	This status report is provided at each Board meeting for information.
Decision	N/A
Action / Follow Up	N/A

ENDOWMENTS (IMANT-INVESTED FUNDS, MERILEES CHAIR & PROMISSORY NOTES)

Endowment Status as at March 31, 2013

	(in thousands)			
	No. of Endowments	Total Market Value	Capital Account	Stabilization Account
Endowments not subject to Amortization	1,998	696,305	666,472	29,833
Endowments subject to Amortization	1,214	353,653	385,565	(31,912)
Total	3,212	1,049,958	1,052,037	(2,079)

Endowment Status as at March 31, 2014

	(in thousands)			
	No. of Endowments	Total Market Value	Capital Account	Stabilization Account
Endowments not subject to Amortization	2,998	1,114,563	996,533	118,030
Endowments subject to Amortization	262	87,801	94,506	(6,705)
Total	3,260	1,202,364	1,091,039	111,325

Endowment Status as at August 31, 2014

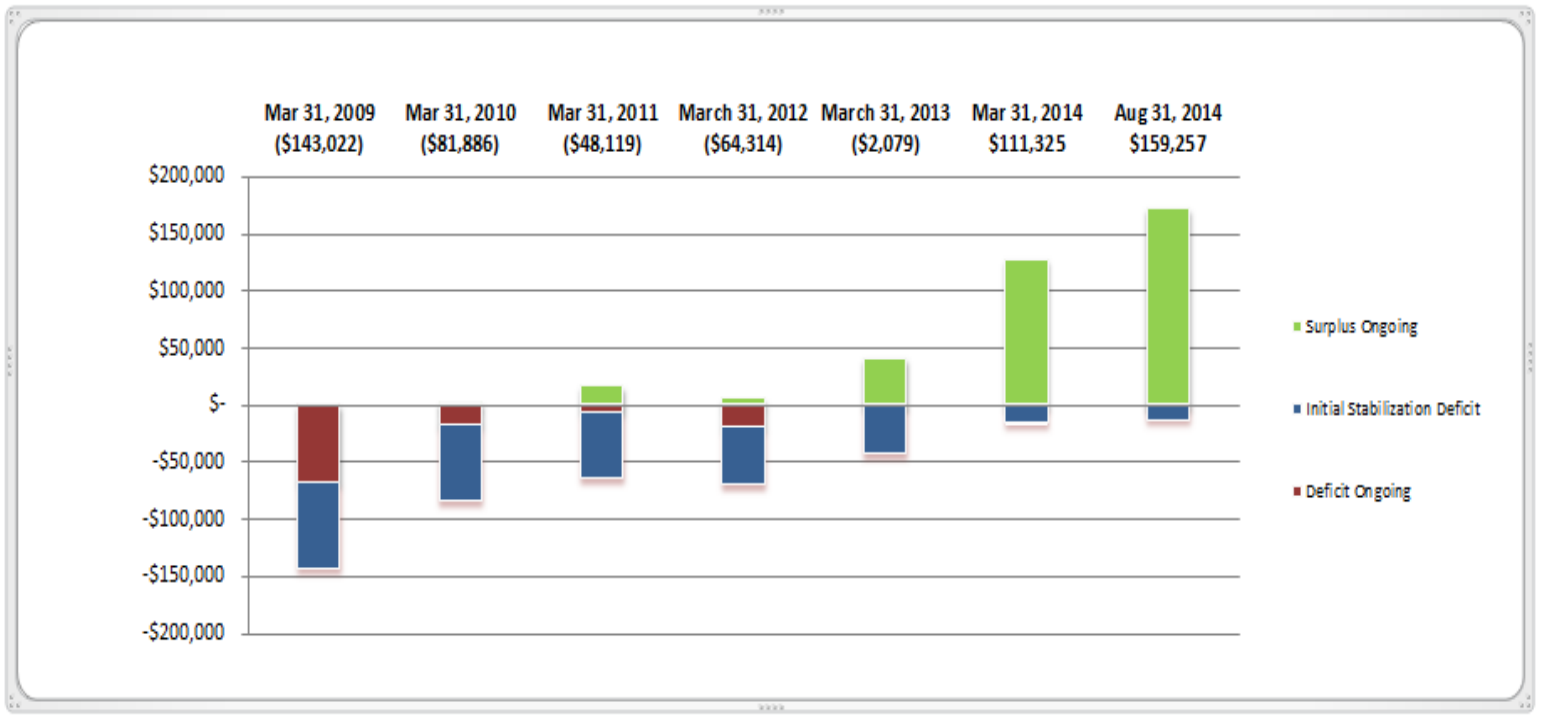
	(in thousands)			
	No. of Endowments	Total Market Value	Capital Account	Stabilization Account
Endowments not subject to Amortization	3,026	1,172,805	1,011,129	161,675
Endowments subject to Amortization	262	96,288	98,706	(2,418)
Total	3,288	1,269,092	1,109,835	159,257



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ENDOWMENT STABILIZATION ACCOUNTS



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