

University Of New Brunswick
— REPORT ON LONG-TERM INVESTMENT FUND —

2012 - 2013







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50%

OF UNB'S TOTAL SPENDING ON
SCHOLARSHIPS AND BURSARIES IS
FUNDED FROM THE ENDOWMENT
AND TRUST ACCOUNTS



INTRODUCTION

The University of New Brunswick Long-Term Investment Fund is a pooled fund which serves as the investment vehicle for those monetary gifts to the university that have a long-term spending and investment horizon.

BENEFITS OF POOLING

The pooling approach allows donor funds to be combined for investment purposes which provides the following benefits for donors, beneficiaries, and the university:

- Provides opportunities for diversification, risk management, and economies of scale;
- Allows access to best-in-class investment managers;
- Generates above average long-term risk adjusted returns;
- Supports a competitive annual spending rate; and
- Facilitates prudent governance and oversight.

INVESTMENT OBJECTIVE

The investment objective for the Long-Term Investment Fund is to preserve the value of the assets in real terms (net of inflation) and to provide a predictable and sustainable level of income to support spending, while maintaining a reasonable level of risk. This makes consistency of returns very important.

TYPES OF FUNDS INVESTED

Donor gifts are generally restricted by donors for specific purposes. There are several broad

categories of restrictions including scholarships and bursaries, chairs and professorships, research, library support, capital projects, and other educational purposes. In establishing these funds, donors have chosen to support the university's highest continuing academic priorities. For example, more than 50% of the university's total spending on scholarships and bursaries is funded from Trust and Endowment accounts. The university's planning processes are designed to help ensure that fundraising priorities are aligned with the academic and research priorities of the institution.

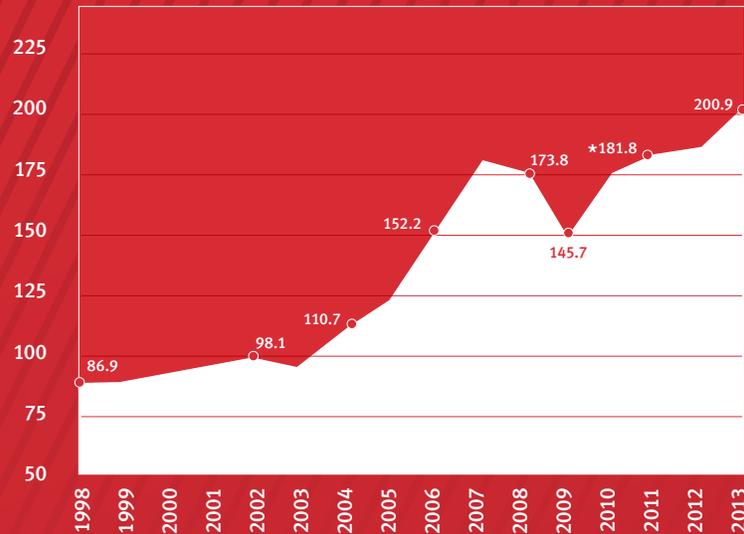
Donor gifts may be expendable, or endowed. An endowed gift is one in which the gift principal is to be invested in perpetuity and only the investment income earned can be spent for the purposes specified by the donor. Such gifts are intended to create a sustainable long-term source of funding for high priority programs and activities.

Expendable gifts are also important in meeting immediate needs such as infrastructure investments and investments in programs and activities that can have a long-term impact on the institution.

The university has a fiduciary responsibility to ensure that expendable gifts and the investment income earned on endowment funds are used only for the purposes specified by the donor.

FIG.01 MARKET VALUE LONG-TERM INVESTMENT FUND (\$ MILLIONS)

As at April 30, 2013



*\$9 million transferred to Short-Term Investment Fund in December 2010

FIG.02 FISCAL YEAR RETURNS (%)

Four year periods ending April 30 (Annualized) 10-year (Annualized)

	2013	2009	2013
Fund Return (%)	9.71	1.16	7.08
CPI (%)	(1.87)	(0.40)	(1.83)
Investment Management Costs	(0.42)	(0.42)	(0.42)
Actual Real Return	7.42	0.34	4.83
Target Real Return	4.25	4.25	4.25

FIG.03 ANNUALIZED RETURNS (%)

For periods ending April 30, 2013

	1 YEAR	2 YEAR	3 YEAR	4 YEAR	10 YEAR
Actual Returns	9.52	5.11	6.72	9.71	7.08
Investment Policy Benchmark	8.59	4.65	6.62	8.99	6.99
Excess Return	0.93	0.46	0.10	0.72	0.09



THE YEAR IN REVIEW: HIGHLIGHTS

FUND CONTINUED TO GROW IN 2012-13

- The market value of the Long-Term Investment Fund (“the Fund”) as at April 30, 2013 was \$200.9 million, more than doubling in value over the past ten years. This growth has resulted from a combination of new gifts and investment income net of spending (see Fig.01).

RETURNS & RISK METRICS EXCEEDED TARGETS

- The Fund returned 9.52% for the year, outperforming the policy benchmark return of 8.59% by 93 basis points. The policy benchmark return is the weighted average of the returns of the benchmark indices for each mandate.
- Fund’s performance was in the top 25% or better in all four major risk measurements.

- Fund’s overall risk adjusted returns provided exceptional value to university’s donors and beneficiaries of the funds.

IMPORTANT POLICY CHANGES WERE MADE

- An investment policy review resulted in changes to the Fund’s Strategic Asset Allocation aimed at further improving the Fund’s risk adjusted returns.
- A review of endowment spending policy resulted in a modest reduction in the spending rate to a more sustainable level while remaining competitive with that of other Canadian universities. Many universities have lowered their spending rate to reflect lower interest rates and ongoing market uncertainty.



PERFORMANCE REVIEW

The investment performance of the Fund is assessed regularly against the performance objectives that have been established by the Investments Committee. Performance is reviewed at a total fund level, by manager, and by major category of investment.

Primary Performance Objective: total annualized portfolio real rate of return (net of inflation, fees and expenses) should meet or exceed the endowment spending rate target of 4.25% over moving four-year periods, with an acceptable level of risk.

The Fund annualized real return over the most recent four year period ending April 30, 2013 was 7.42% which exceeded the primary return objective of 4.25%. Fig.02 also

shows the annualized return for the four-year period ending April 30, 2009 which illustrates the impact of the 2008 recession and related market declines. UNB’s rolling four-year returns did not fully recover until 2013 when the 2008-09 market losses dropped out of the four-year rolling period.

Secondary Performance Objective: the annualized return on total assets over moving four-year periods should exceed the aggregate return of the passive investment benchmarks for the Fund.

The Fund’s return for the year ended April 30, 2013 was 9.52%, 93 basis points higher than the benchmark portfolio return of 8.59%. Over a four-year period, the Fund’s annualized return outperformed the policy benchmark by 72 basis points (see Fig.03).



FUND RANKS IN THE TOP

25%

ON FOUR KEY
RISK METRICS



Performance Compared to Other Canadian University Endowment Funds

The university also compares performance at a total fund level to that of other Canadian university endowment funds and to a broader basket of Canadian endowment funds. Comparisons are made on the basis of both nominal and risk adjusted returns. Over the long term, the UNB Long-Term Fund has performed well when compared to other funds. On a risk adjusted basis the Fund has performed very well. Details of comparative performance data can be found on the university web site.

Risk Adjusted Returns

The university measures and evaluates the Fund's risk exposure and risk adjusted returns on a quarterly basis. Risk adjusted returns are assessed at both a Total Fund and individual Mandate level,

and are compared with comparable funds and mandates.

As indicated in the following table, on a risk adjusted basis, the Long-Term Investment Fund compared very favorably with similar funds in the RBC Investor Services funds universe over the longer term. For the four-year period ending March 31, 2013, the standard deviation or volatility of returns was lower than over 75% of measured funds. Lower volatility is important when striving for consistency in returns.. The Fund's Information Ratio, a measure of return for unit of risk, was in the top 1% of measured funds (see Fig.04).

Details and additional information on key risk metrics can be found in the full report on the university's web site.

FIG.04 KEY RISK METRICS FOR THE FUND

For the 4-year period ending March 31, 2013

	UNB	MEDIAN	UNB IN TOP 25% RANKING
Risk Exposure (Volatility)			
Standard Deviation	6.38	6.98	yes
Risk Adjusted Returns			
Tracking Error	.89	1.61	yes
Value Added	.94	.34	yes
Information Ratio	1.06	.10	yes

“...the Fund’s investment policy and strategy has been established to meet the endowment spending policy objectives and capital preservation requirements at an acceptable level of risk...”



FIG.05 OLD AND NEW POLICY TARGETS AND ALLOWABLE RANGES

New strategic targets reduce allocation to Canadian Bonds and Canadian Equity, add to Foreign Equity and permit wider diversification.

	PREVIOUS TARGET	NEW TARGET	ACTUAL APRIL 30, 2013
Canadian Fixed income	40%	25%	37%
Canadian Equity	30%	25%	29%
Global Equity	25%	30%	34%
Hedge Fund of Funds	5%	-	-
Other*	-	20%	-

** Eligible investments in the “Other” category may include Emerging Market Debt, High Yield, Real Estate and/or High Income*



“...a key objective is to achieve intergenerational equity by ensuring that the endowment provides the same level of support to future generations as it does to current beneficiaries...”



INVESTMENT POLICY AND ENDOWMENT SPENDING POLICY

The university management of endowment accounts is based on an integrated approach to endowment spending policy and investment policy.

Endowment Spending Policy

UNB's endowment spending objective is to maintain a reasonably stable, competitive, inflation-adjusted spending rate. The goal is to achieve intergenerational equity by ensuring that the endowment provides the same level of support to future generations as it does to current beneficiaries. To this end, the university establishes an endowment spending rate which reflects the Investment Committee's expectations for a long-term sustainable real rate of return net of inflation.

The Investments Committee completes an annual review of the endowment spending rate. The purpose of the review is to consider the appropriateness and sustainability of the long-term target spending rate, and to establish the actual spending rate for the next fiscal year.

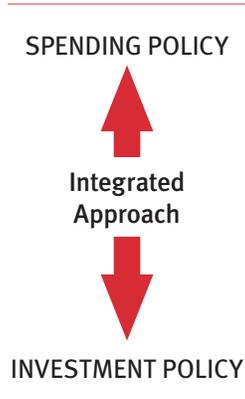
Since 2008 expectations for investment earnings have been lowered as interest rates have fallen dramatically and financial markets continue to be erratic. As a result of these conditions, expectations for annual spending have also been lowered, as evidenced by annual investment surveys conducted by the Canadian Association of University Business Officers (CAUBO). These surveys show that many universities have re-evaluated the level of spending from their endowment accounts. Between 2007 and 2012, the CAUBO median spending rate dropped by 1%, from 5% to 4%. The UNB spending rate was 4.25% in 2012-13 and will be lowered to the CAUBO median rate of 4.0% in 2013-14.

Further details about the history of endowment spending at UNB, and factors that are considered in the annual review of endowment spending rate can be found on the university web site.

Investment Policy

Investment policy for the Long-Term Investment Fund is set out in a Board approved Statement of Investment Objectives and Policy (SIOP). The SIOP establishes target allocations to major asset classes, and the allowable ranges within which actual allocations are allowed to deviate from the targets.

The target asset mix set out in the SIOP has been established to meet the endowment spending policy and capital preservation requirements, at an acceptable level of risk. Historical returns and capital market assumptions generally indicate that fixed income securities alone will not generate the returns necessary to provide income to fund current needs while maintaining the purchasing power of the fund for future generations of students. To meet these dual objectives, the asset allocation is biased in favor of equities. However, to reduce volatility and diversify against adverse equity markets, the Fund's policy asset mix also includes a significant allocation to fixed income securities.



Asset mix is regularly reviewed by the Investments Committee for appropriateness and for its ability to achieve the primary investment objective over the long term. In 2012 the Committee completed a comprehensive review of asset allocation. The review resulted in adoption of a new policy asset mix with the goal of further improving the Fund's risk adjusted returns (see Fig.05).





Fund

INVESTMENTS ARE UNDER
THE OVERSIGHT OF THE
INVESTMENTS COMMITTEE



GOVERNANCE AND COMPLIANCE

The Investments Committee, a committee of the University's Board of Governors, oversees the investment of the Fund. Members of the Committee are appointed under authority of the Board, and are accountable to the Board. The Committee has been delegated responsibility and authority by the Board to make decisions within parameters established in the Committee's Terms of Reference.

The Committee meets four times per year. Agenda planning is informed by a rolling twelve-month work plan, which helps ensure that the Committee stays focused on three key strategic priorities: spending, risk and returns.

The Committee has developed a policy framework for managing Fund investments and spending. These include:

- Statement of Investment Beliefs;
- Statement of Investment Objectives and Policy;

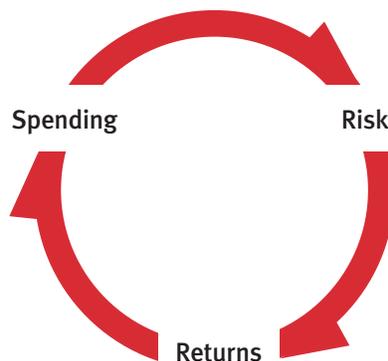
- Risk Management Framework; and
- Endowment Spending Policy.

These policies and additional information about the governance and management of the Fund can be found on the university's website.

Management is responsible for implementing the Investment Committee's decisions. Management provides the Investments Committee with regular reports on investment performance at the total fund level and by Manager.

All assets are managed by external professional investment management firms in accordance with mandates set by the Investments Committee. An independent performance measurement firm is used and other external specialists are used as required to provide advice on a variety of topics including asset allocation, risk management, spending policy, and investment manager searches.

INVESTMENTS - BIG 3 STRATEGIC ITEMS





INVESTMENT COMMITTEE MEMBERS

BRIAN E.H. BAXTER

CEO and Chair
Botsford Investments Inc.

CHRISTOPHER W.J. BOYLE

Senior Vice President, Institutional
AGF Investments Inc.

H.E.A (EDDY) CAMPBELL

President and Vice-Chancellor
University of New Brunswick

JONATHAN COGGER

Undergraduate Student
University of New Brunswick

BARRY COOPER

Chairman of the Board
BMO Global Asset Management

TOM GRIBBONS CIM, BScF

Vice-President and Associate Portfolio Manager
Branch Manager, Saint John Group
RBC Wealth Management, Dominion Securities

ANNE LAFOREST

Professor of Law
University of New Brunswick

KEVIN LEBLANC

Managing Director & Chief Administrative Officer
Epoch Investment Partners Inc.

CAROL E A LOUGHREY, F.C.A.

Consultant, Semi-Retired

BENJAMIN MACFARLANE

Undergraduate Student
University of New Brunswick

PAUL D. MORRISON

Sr. Vice-President Atlantic Region,
Business Development
exp Services Inc.

JOSEPH O'KANE

Undergraduate Student
University of New Brunswick

JOHN SINCLAIR

Chief Executive Officer
New Brunswick Investment Management Ltd.

LARRY GUITARD, C.A.

University Treasurer
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DAN MURRAY, C.A.

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University of New Brunswick

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University Secretary
University of New Brunswick

DOMINIC BLAKELY

Director and Senior Advisor, President's Office
University of New Brunswick

BOB SKILLEN

Vice-President (Advancement)
University of New Brunswick

ELLEN GRIFFIN

Manager, Trust and Treasury Services
University of New Brunswick



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CUSTODIAN / PERFORMANCE MEASUREMENT

RBC Investor Services

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Fidelity Investments (Canadian Equity)
Scheer Rowlett & Associates (Canadian Equity)
Seamark Asset Management (Total Equity)
Sprucegrove Investment Management Ltd. (Global Equity)
Hexavest Inc. (Global Equity)



