

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

2013 - 2014



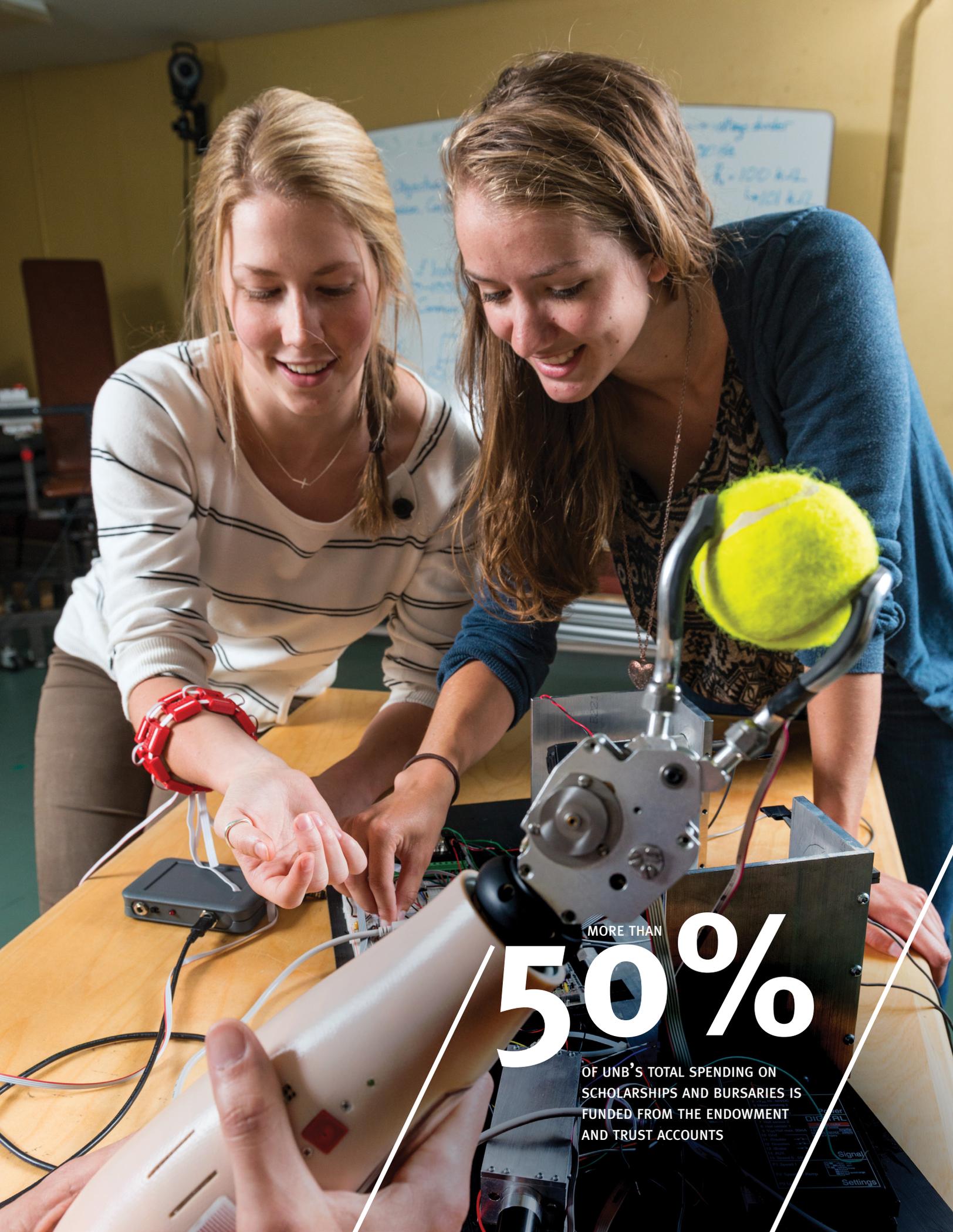




University of New Brunswick
— **REPORT ON LONG-TERM INVESTMENT FUND** —
2013 - 2014

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MORE THAN

50%

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



INTRODUCTION

We are pleased to present the Report on the University of New Brunswick Long-term Investment Fund (“the Fund”) for the year ended April 30, 2014.

WHAT IS THE FUND?

The Fund is a pooled investment fund for philanthropic gifts given to the University of New Brunswick in support of its mission. This includes endowed gifts that are intended to be held in perpetuity, and expendable gifts that have a long-term spending horizon.

WHAT IS THE SIZE OF THE FUND?

At \$233.7 million (April 30, 2014) the Fund ranks in the top 33% of Canadian university endowments.

WHAT DOES THE FUND SUPPORT?

Gifts are generally restricted by donors for specific purposes including scholarships and bursaries, chairs and professorships, research, library support and capital projects. The university’s fundraising priorities are aligned with the key academic and research priorities of the institution. For example, more than 50% of UNB’s total annual spending on scholarships and bursaries is funded from donor gifts and related investment income.

Donor gifts may be expendable or endowed. An endowed gift is one where the gift amount must be retained and invested in perpetuity; only the income earned can be used for the purpose specified by the donor. In this way, the endowment is intended to create a sustainable and predictable long-term source of funding. Expendable gifts

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

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

WHY ARE GIFTS POOLED FOR INVESTMENT PURPOSES?

The pooling approach provides a number of benefits for donors, beneficiaries, and the university:

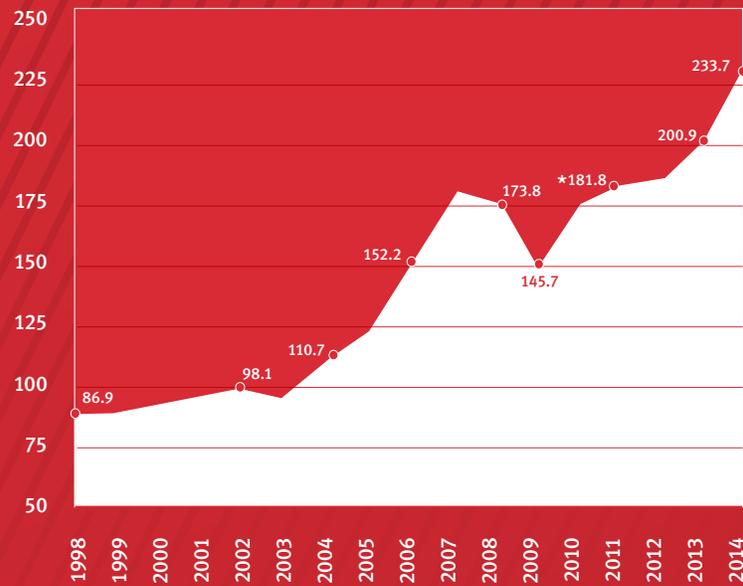
- provides opportunities for diversification, risk management, and economies of scale;
- allows access to best-in-class investment managers
- generates above-average long-term risk adjusted returns;
- supports a competitive annual spending rate; and
- facilitates prudent governance and oversight.

WHO MANAGES THE FUND AND WHAT ARE THE PERFORMANCE GOALS?

All assets are managed by external professional investment management firms in accordance with a Board approved Statement of Investment Objectives and Policy, and within specific mandates approved by the Board Investments Committee. Performance targets are established for each mandate and at the total fund level. Performance is monitored by the Investments Committee with the assistance of an independent performance measurement firm.

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

As at April 30, 2014



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

FIG.02 FISCAL YEAR RETURNS (%)

	<i>4-year periods ending April 30 (Annualized)</i>		<i>10-year (Annualized)</i>
	2014	2010	2014
Fund Nominal Return	9.05	2.36	6.82
CPI	(1.92)	(1.53)	(1.86)
Investment Management Costs	(0.42)	(0.42)	(0.42)
Fund Real Return	6.71	0.41	4.54
Target Real Return	4.25	4.25	4.25

FIG.03 ANNUALIZED RETURNS (%)

For periods ending April 30, 2014

	1 YEAR	2 YEAR	3 YEAR	4 YEAR	10 YEAR
Fund Return	16.34	12.88	8.03	9.05	6.82
Investment Policy Benchmark	16.47	12.46	8.45	9.00	6.84
Excess Return	(0.13)	0.42	(0.38)	0.05	(0.02)



THE YEAR IN REVIEW: HIGHLIGHTS

FUND GREW BY MORE THAN 16% IN 2013-14

- The Fund had a market value of \$233.7 million as at April 30, 2014, an increase of 16.3% over the April 30, 2013 value of \$200.9 million. This net growth resulted from a combination of new gifts and investment income net of spending (see Fig. 01).

FUND RETURN EXCEEDED PRIMARY RETURN OBJECTIVE

- The Fund earned a nominal return of 16.34% for the year, for a real return of 13.84% after inflation, fees and expenses. For the four-year period ending April 30, 2014 the annualized real rate of return was 6.71%, significantly exceeding the endowment spending rate target of 4.25%.

- The Fund's nominal return of 16.34% for the year slightly trailed the policy benchmark return of 16.47%. The policy benchmark return is the weighted average of the returns of the benchmark indices for each mandate.

- On a risk adjusted basis the Fund continues to compare favorably with similar funds in the RBC

Investor Services Endowment and Foundations Universe over the longer term. For the four year period ending March 31, 2014 the Fund's standard deviation or volatility of returns was lower than 66% of measured funds.

NEW STRATEGIC ASSET ALLOCATION TARGETS WERE IMPLEMENTED IN 2013-14

- In 2012-13 an investment policy review resulted in changes to the Fund's strategic asset allocation targets aimed at further improving the Fund's risk adjusted returns.

- In 2013-14 the new targets were fully implemented, including implementation of a new diversified "Core Plus" fixed income mandate, and a new Low Volatility Global Equity mandate with the New Brunswick Investment Management Corporation.

- An annual review of endowment spending policy conducted in 2013-14 resulted in confirmation of the endowment spending rate target of 4% and approval of spending in 2014-15 at the target rate.



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: the total annualized portfolio real rate of return (net of inflation, fees and expenses) should meet or exceed

the endowment spending rate target of 4.0% over moving four-year periods, with an acceptable level of risk.

The Fund's annualized real rate of return over the four-year period ending April 30, 2014 was 6.71%, which exceed the real return objective of 4.25% for this period. (The target spending rate was lowered from 4.25% to 4.0% in 2013-14). Fig. 02 also includes annualized real returns for the



FUND EARNED 16.34% FOR THE
YEAR, FOR A REAL RETURN OF

13.84%

NET OF INFLATION,
FEES AND EXPENSE



four-year period ending April 30, 2010 in order to illustrate the impact of market losses experienced during the 2008 financial crisis. The four-year annualized real return for this period was only 0.41%, significantly below the target. However, over the longer term the Fund exceeded the target achieving a real annualized return of 4.52% over the ten-year period ending April 30, 2014.

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.

For over the four-year period ending April 30, 2014 the Fund's annualized return exceeded the benchmark by 5 basis points. (See Fig. 03). The Fund return for the year ended April 30, 2014 was 16.34%, slightly trailing the benchmark portfolio return of 16.47%. Global Equities was the best performing asset class over both the one-year and four-year periods. UNB's global equity managers were defensively positioned and underperformed in a strong market. This negatively impacted the Total Fund performance relative to the benchmark.

RISK ADJUSTED RETURNS

The university also 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 manager level, and are compared with comparable funds and mandates.

As indicated in Fig.04 on a risk adjusted basis the 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, 2014, the standard deviation or volatility of returns was lower than over 66% of measured funds. Lower volatility is important when striving for consistency in returns. The Fund ranked in the top quartile on all key risk metrics for the four-year period ending April 2013. Relative performance was not as strong for the four-year period ending April 2014. As noted in the previous section, UNB's global equity managers were generally defensively positioned in 2013-2014, a period that rewarded risk taking.

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. As noted in Fig. 05 the UNB policy outperformed the RBC Investor Services Endowment and Foundation universe median policy over both the one and four year periods ending March 31, 2014. However, the Fund's actual performance slightly trailed the universe median actual performance as UNB's managers were generally defensively positioned and underperformed in a strong market.

FIG.04 KEY RISK METRICS

For rolling 4-year periods ending March 31

	2014			2013		
	UNB	MEDIAN	QUARTILE RANKING	UNB	MEDIAN	QUARTILE RANKING
RISK EXPOSURE (Volatility)						
Standard Deviation	6.31	6.81	2	6.38	6.98	1
RISK ADJUSTED RETURNS						
Tracking Error	1.01	2.09	1	.89	1.61	1
Value Added	.09	1.15	4	.94	.34	1
Information Ratio	.12	.48	3	1.06	.10	1



FIG.05 COMPARATIVE RETURNS VS. RBC INVESTOR SERVICES ENDOWMENT AND FOUNDATION FUNDS UNIVERSE (%)

Annualized returns for periods ending March 31, 2014

	1-YEAR	4-YEAR		1-YEAR	4-YEAR
UNB Policy	8.83	15.75	RBC Universe Policy - Median	8.62	13.58
UNB Actual	8.95	15.61	RBC Universe Actual - Median	9.88	15.88



FIG.06 OLD AND NEW POLICY TARGETS AND ALLOWABLE RANGES (%)

	PREVIOUS TARGET	NEW TARGET	ALLOWABLE RANGE	ACTUAL APR. 30, 2014
FIXED INCOME				
• Canadian Bonds	40	25	16-42	26.4
• Emerging Market Debt	-	5.5	0-11	2.2
• High Yield Bonds	-	4.5	0-11	2.5
• Mortgages	-	2	0-11	2.5
• Cash	-	-	-	2.4
EQUITIES				
• Canadian	30	25	20-30	26
• Global	25	30	25-35	31
• Low Volatility Global	-	8	3-12	7
+ Hedge Fund of Funds	5	-	-	-



INVESTMENT POLICY AND ENDOWMENT SPENDING POLICY

UNB's management of endowment accounts is based on an integrated approach to endowment spending policy and investment policy.

Endowment Spending Policy

The university'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 a target 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.

The Canadian Association of University Business Officers (CAUBO) conducts an annual investment survey of member institutions. These surveys show that many Canadian universities have re-evaluated the level of spending from their endowment accounts following the financial crisis in 2008. Between 2007 and 2013, the CAUBO median spending rate dropped by 1%, from 5% to 4%. This trend reflects generally lower expectations for investment earnings due to historically low interest rates and market volatility. UNB's spending rate was lowered from 4.25% to 4% in 2013-14. The university has confirmed that spending will be permitted at the target rate of 4% in 2014-15.

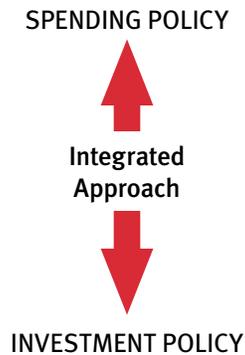
Investment Policy

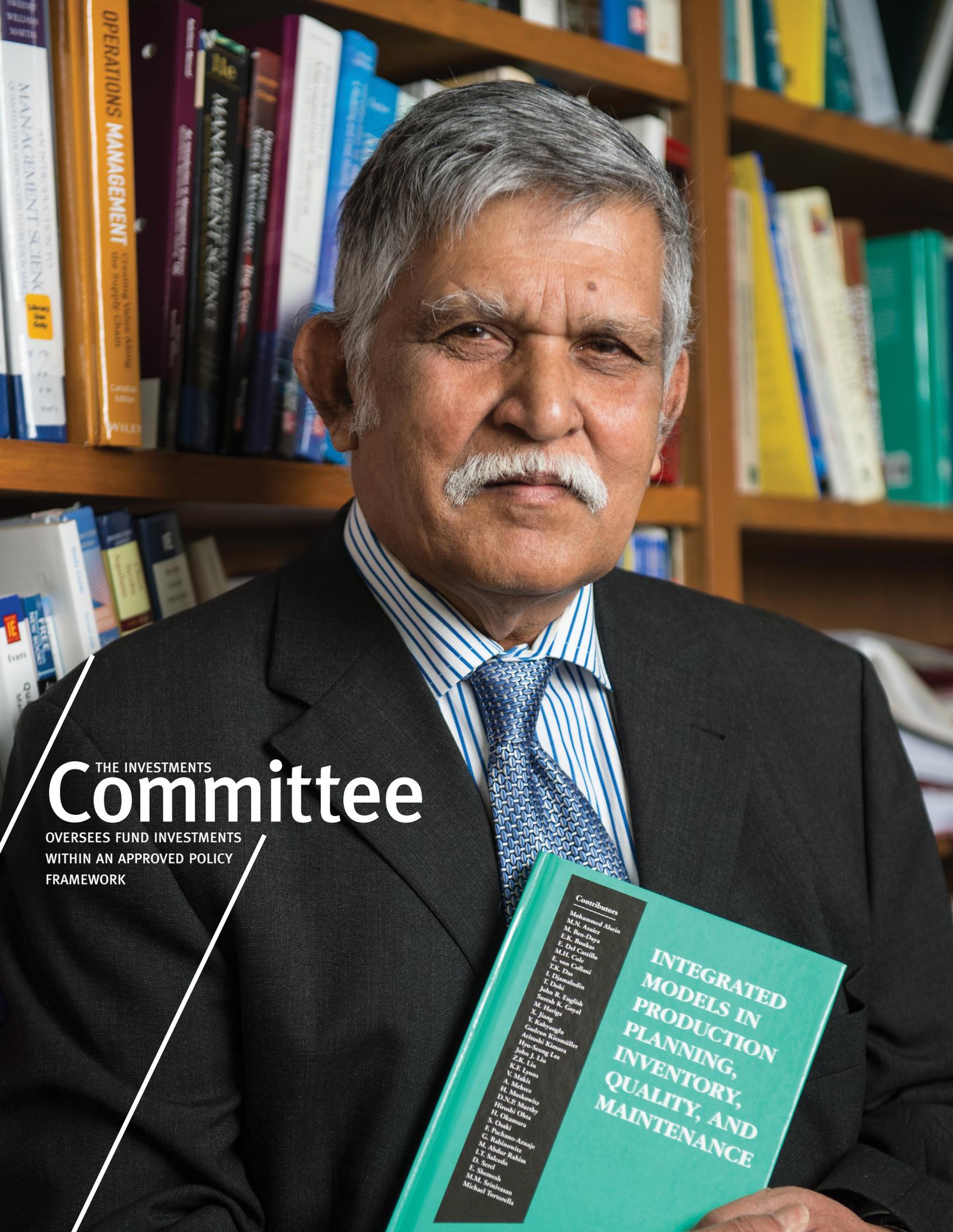
Investment policy for the Long-Term Investment Fund is set out in a Board approved Statement of Investment Objectives and Policy (SIOP). The SIOP establishes target allocations to major asset classes, and the allowable ranges within which actual allocations are allowed to deviate from the targets.

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 2012-13 the

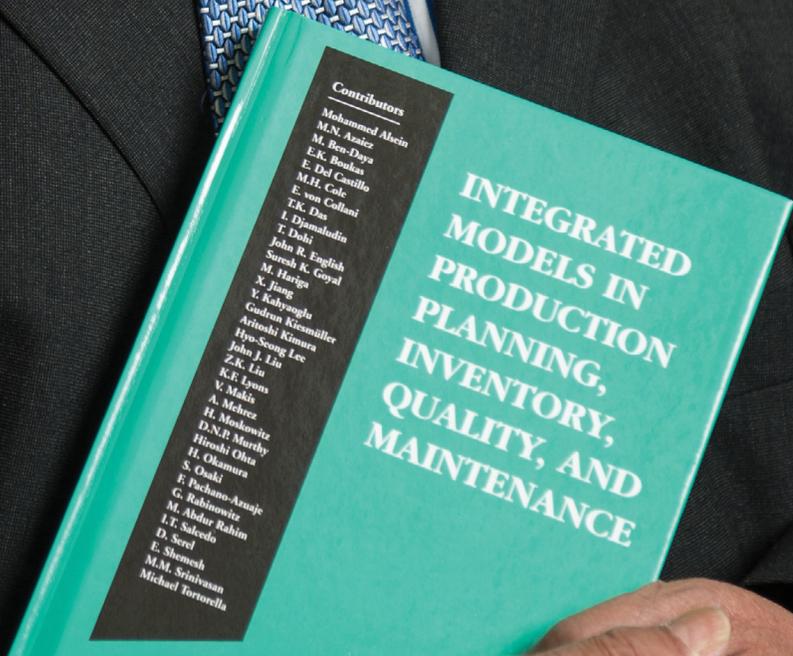
Committee completed a comprehensive review of asset allocation. The review resulted in adoption of a new policy asset mix with the goal of further improving the Fund's risk adjusted returns. The new policy asset mix was fully implemented in 2013-14. (see Fig.06)





THE INVESTMENTS Committee

OVERSEES FUND INVESTMENTS
WITHIN AN APPROVED POLICY
FRAMEWORK



Contributors

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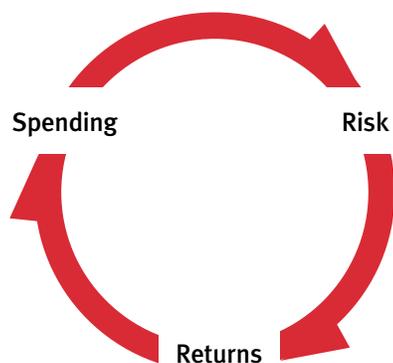
GOVERNANCE AND COMPLIANCE

INVESTMENTS COMMITTEE

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: risk, returns, and endowment spending rate.

INVESTMENTS - BIG 3 STRATEGIC ITEMS



POLICY FRAMEWORK

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.

ROLE OF MANAGEMENT

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.

EXTERNAL PROFESSIONALS AND SERVICE PROVIDERS

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 COMMITTEE MEMBERS

VOTING

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Vice-Chair of the Board of Governors
CEO and Chair, Botsford Investments Inc.
University of New Brunswick

CHRISTOPHER W.J. BOYLE

Member of the Board of Governors
Senior Vice President, Institutional
AGF Investments Inc.

H.E.A (EDDY) CAMPBELL

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President and Vice-Chancellor
University of New Brunswick

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Undergraduate Student, Alternate
University of New Brunswick

BARRY COOPER

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NON-VOTING

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University of New Brunswick

LARRY GUITARD

University Treasurer
University of New Brunswick

DAN MURRAY

Member of the Board of Governors
Vice-President (Finance & Corporate Services)
University of New Brunswick



EXTERNAL SERVICE PROVIDERS

CUSTODIAN / PERFORMANCE MEASUREMENT

RBC Investor Services

INVESTMENT MANAGERS

Phillips, Hager & North (Fixed Income)
Fidelity Investments (Canadian Equity)
Scheer Rowlett & Associates (Canadian Equity)
Seamark Asset Management (Total Equity)
Sprucegrove Investment Management Ltd. (Global Equity)
Hexavest Inc. (Global Equity)
New Brunswick Investment Management Corporation
(Low Volatility Global Equity)



