

University Of New Brunswick  
— REPORT ON LONG-TERM INVESTMENT FUND —  
2014 - 2015







University of New Brunswick  
— REPORT ON LONG-TERM INVESTMENT FUND —  
2014 - 2015

---

## TABLE OF CONTENTS

— 01 —
Introduction
— 03 —
The Year In Review: Highlights
— 03 —
Performance Review
— 07 —
Investment Policy and Endowment Spending Policy
— 09 —
Governance and Compliance
— 10 —
Investment Committee Members
— 10 —
External Service Providers



APPROXIMATELY

50%

OF UNB'S TOTAL SPENDING ON SCHOLARSHIPS AND BURSARIES IS FUNDED BY DONOR SUPPORT



## INTRODUCTION

This is the third Annual Report on the University of New Brunswick Long-Term Investment Fund (“the Fund”). This report summarizes the performance of the Fund for the year ended April 30, 2015, highlights key activities carried out by the Investments Committee during the year, and provides an overview of key governance arrangements for the Fund including highlights of investment and endowment spending policies.

### WHAT IS THE FUND?

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

### WHAT IS THE SIZE OF THE FUND?

At \$259.6 million (April 30, 2015) the Fund ranks in the top 33% of Canadian university endowments.

### WHAT DOES THE FUND SUPPORT?

Gifts are generally restricted as to use by donors. Approved areas of support may include scholarships and bursaries, chairs and professorships, research, libraries and capital projects. The University’s fundraising priorities are aligned with the key academic and research priorities of the institution. Of note, approximately 50% of UNB’s total annual spending on scholarships and bursaries is funded from donor support and related investment income.

Donor gifts may be expendable or endowed. Endowed gifts must be retained and invested in perpetuity; only the income earned on the gift capital 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 for high priority

programs and activities. Expendable gifts are also important, providing support for 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. In keeping with this fiduciary responsibility, individual gifts and major categories of gifts are tracked separately within the university’s trust accounting system. However, gifts are pooled for investment purposes.

### WHY ARE GIFTS POOLED FOR INVESTMENT PURPOSES?

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

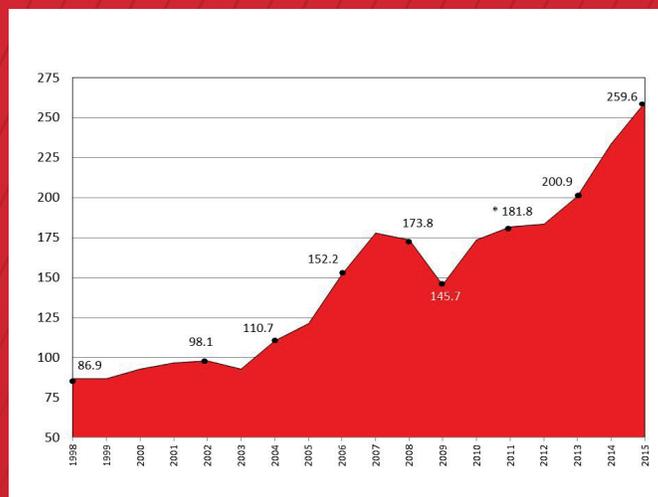
- provides opportunities for diversification, risk management, and economies of scale;
- allows access to best-in-class investment managers;
- provides opportunities for above-average long-term risk adjusted returns;
- supports a competitive annual spending rate; and
- facilitates prudent governance 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 Investment Committee of the Board. Performance targets are established by the Committee for each manager and at the total fund level. The Committee monitors performance with the assistance of an independent performance management firm.

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

*As at April 30, 2015*



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

**FIG.02 FISCAL YEAR RETURNS (%)**

	4-year periods ending April 30 (Annualized)		10-year (Annualized)
	2015	2011	2015
Fund Nominal Return	9.32	1.75	6.97
CPI	(1.31)	(1.79)	(1.70)
Investment Management Costs	(0.42)	(0.42)	(0.42)
Fund Real Return	7.59	(0.46)	4.85
Target Real Return	4.25	4.25	4.25

**FIG.03 ANNUALIZED RETURNS (%)**

*For periods ending April 30, 2015*

	1 YEAR	2 YEAR	3 YEAR	4 YEAR	10 YEAR
Fund Return	11.10	13.69	12.28	9.32	6.97
Investment Policy Benchmark	11.92	14.06	12.21	9.25	7.13
Excess Return	(0.82)	(0.37)	0.07	0.07	(0.16)



## THE YEAR IN REVIEW: HIGHLIGHTS

### FUND GREW BY MORE THAN 11.8% IN 2014-15

- The Fund had a market value of \$259.6 million as at April 30, 2015, an increase of 11.8% over the April 30, 2014 value of \$233.7 million (see Fig. 01). This net growth resulted from a combination of new gifts and investment income net of spending.

### FUND RETURN EXCEEDED PRIMARY RETURN OBJECTIVE

- The Fund earned a nominal return of 11.1% for the year, for a real return of 9.2% after inflation, fees and expenses. For the four-year period ending April 30, 2015 the annualized real rate of return was 7.59%, significantly exceeding the endowment spending rate target of 4.0%.

- The Fund's nominal return of 11.1% trailed the policy benchmark return of 11.92%. 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, 2015 the Fund's standard deviation or volatility of returns was lower than 55% of measured funds.

### ASSET ALLOCATION WAS STABLE IN 2014-15

- There were no changes to strategic asset allocation in 2014-15.

- New Board-approved strategic asset allocation targets had been implemented in 2013-14, 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. The new strategic asset allocation targets were intended to optimize the Fund's risk adjusted returns.

- An annual review of endowment spending policy was conducted in 2014-15. The review resulted in confirmation of the endowment spending rate target of 4%, and approval of endowment spending in 2015-16 at the target rate.

### FOCUS ON SUSTAINABLE INVESTING

- In 2014-15 the Investments Committee established a process to develop a UNB Statement on Sustainable Investing. The Statement is intended to provide a broad policy framework that will guide UNB's approach to sustainable investing and provide a basis for communicating with stakeholders about sustainable investment practices at UNB. A draft statement has been developed and will be presented for Board approval in the Fall of 2015.



## PERFORMANCE REVIEW

The Investments Committee regularly monitors and assesses the performance of the Fund against the performance objectives that have been set by the Committee. Performance is reviewed at a total fund level, by manager, and by asset class.

**Primary Performance Objective:** the total annualized portfolio real rate of return (net of inflation, fees and expenses) should meet or exceed 4.0% over moving four-year periods, with an acceptable level of risk. The 4% real return objective is the return required to support the endowment spending target of 4% annually.

FUND EARNED 11.1% FOR THE  
YEAR, FOR A REAL RETURN OF

9.2%

NET OF INFLATION,  
FEES AND EXPENSE





The Fund's annualized real rate of return over the four-year period ending April 30, 2015 was 7.59%, which exceeded the 4% target (the target spending rate was reduced from 4.25% to 4.0% in 2013-14). Fig. 02 illustrates the impact of market losses experienced during the 2008 financial crisis. The annualized real return for the 4-year period ending April 30, 2011 was a loss of .46%, well below the target. However, over the long term the Fund exceeded the target, achieving an annualized real return of 4.85% over the ten-year period ending April 30, 2015.

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

Over the four-year period ending April 30, 2015 the Fund's annualized return exceeded the benchmark by 7 basis points. (See Fig. 03). For the one-year period ending April 30, 2015, the Fund returned 11.10%, trailing the policy benchmark by 82 basis points. This followed returns of 16.34% for the year ended April 30, 2014 and 9.52% for the year ended April 30, 2013.

Capital markets in 2015 experienced strong returns across both public equities and fixed income. Global equities, as measured by the MSCI World Index, returned 18.80% in Canadian dollars. Canadian equities, as measured by the S&P/TSX Composite Index, returned 6.93%. Canadian bonds, as measured by the FTSE TMX Canada Universe Bond Index, returned 8.21%. The Fund's external investment managers seek to add value to these benchmark index returns through active management of the portfolio. UNB's fixed income manager earned 8.84%, exceeding the benchmark by 63 basis points. Two of three global equity managers and one of two Canadian equity managers outperformed the respective benchmarks. However, one global equity manager and one Canadian equity manager trailed the respective benchmarks with the overall result that the Fund underperformed its composite benchmark by

.82%. The Committee is closely monitoring the performance of these underperforming managers.

#### 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.

The Fund compares favorably on a risk-adjusted basis with similar funds in the RBC Investor Services funds universe over the long-term (see Fig. 04). For the four-year period ending March 31, 2015, the standard deviation or volatility of returns was lower than 55% of measured funds. Lower volatility is important when striving for consistency in spending. The Fund ranked in the top quartile on all key risk metrics for the four-year period ending March 31, 2013. Relative performance slipped somewhat in the four-year periods ending March 31, 2014 and 2015. As noted previously, UNB's global equity managers were generally defensively positioned in periods 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 Fund has performed well when compared with other funds. On a risk adjusted basis, the Fund has performed very well. UNB's policy returns outperformed the RBC Investor Services Endowment and Foundation universe median policy returns over both the one-year and four-year periods ending March 31, 2015 (see Fig. 05). However, the funds actual performance slightly trailed the universe median actual performance as UNB's managers were generally defensively positioned and failed to add strong value in a strong market.

### FIG.04 KEY RISK METRICS

For rolling 4-year periods ending March 31

	2015			2014		
	UNB	MEDIAN	QUARTILE RANKING	UNB	MEDIAN	QUARTILE RANKING
<b>RISK EXPOSURE (Volatility)</b>						
Standard Deviation	5.84	5.90	2	6.31	6.81	2
<b>RISK ADJUSTED RETURNS</b>						
Tracking Error	1.00	2.02	1	1.01	2.09	1
Value Added	(.07)	.51	3	.09	1.15	4
Information Ratio	(.07)	.20	3	.12	.48	3



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

Annualized returns for periods ending March 31, 2015

	1-YEAR	4-YEAR		1-YEAR	4-YEAR
UNB Policy	13.71	9.59	RBC Universe Policy - Median	12.25	8.80
UNB Actual	13.16	9.52	RBC Universe Actual - Median	12.37	10.25



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

	PREVIOUS TARGET	NEW TARGET	ALLOWABLE RANGE	ACTUAL APR. 30, 2015
<b>FIXED INCOME</b>				
• Canadian Bonds	40	25	16-42	25.9
• Emerging Market Debt	-	5.5	0-11	1.2
• High Yield Bonds	-	4.5	0-11	2.0
• Mortgages	-	2	0-11	3.1
• Cash	-	-	-	2.8
<b>EQUITIES</b>				
• Canadian	30	25	20-30	25
• Global	25	30	25-35	32
• Low Volatility Global	-	8	3-12	8
+ 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 2014, 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 2015-16.

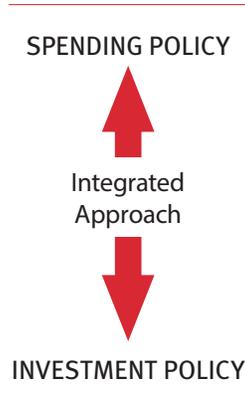
### Investment Policy

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). There were no changes in strategic asset allocation in 2015-15.





THE INVESTMENTS  
**Committee**

OVERSEES FUND INVESTMENTS  
WITHIN AN APPROVED POLICY  
FRAMEWORK



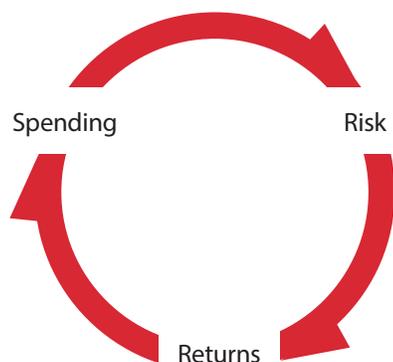
## GOVERNANCE AND COMPLIANCE

### 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's role is to:

- Support good governance by providing ongoing support and advice to the Investments Committee with respect to investment policy, spending policy, manager structure and related matters;
- Implement approved policies and decisions and provide regular reports on compliance and performance;
- Carry out day-to-day administration of the Fund including overseeing the work of external investment managers and other service providers.

### 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

#### **BRIAN E.H. BAXTER**

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

#### **NORMAN M. BETTS**

Member of the Board of Governors  
Associate Professor  
Faculty of Business Administration  
University of New Brunswick

#### **CHRISTOPHER W.J. BOYLE**

Advisor to the BOG Investments Committee  
Senior Vice President, Institutional and Strategic  
Alliances  
MacKenzie Investments

#### **H.E.A (EDDY) CAMPBELL**

Member of the Board of Governors  
President and Vice-Chancellor  
University of New Brunswick

#### **EMILY CHIASSON**

Member of the Board of Governors  
Undergraduate Student  
University of New Brunswick

#### **RAMIT CHHIKARA**

Student Advisor to the BOG Investments Committee  
Undergraduate Student  
University of New Brunswick

#### **BARRY COOPER**

Member of the Board of Governors  
Chairman of BMO Global Asset Management  
Bank of Montreal

#### **TOM GRIBBONS**

Member of the Board of Governors  
Vice-President and Associate Portfolio Manager  
Branch Manager, Saint John Group  
RBC Wealth Management, Dominion Securities

#### **KEVIN LEBLANC**

Advisor to the BOG Investments Committee

#### **ASHLEY MACOSKY**

Member of the Board of Governors  
Alternate Student  
University of New Brunswick

#### **PAUL D. MORRISON**

Member of the Board of Governors  
Consultant  
Chair, Investments Committee

#### **SHELLEY PELKEY**

Member of the Board of Governors  
Executive Director  
The Institute of Internal Auditors - Canada

#### **JOHN SINCLAIR**

Advisor to the BOG Investments Committee  
Chief Executive Officer  
New Brunswick Investment Management Ltd.

### NON-VOTING

#### **KAREN CUNNINGHAM**

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

#### **SARAH DEVARENNE**

Secretary of the Board  
University of New Brunswick

#### **LARRY GUITARD**

University Treasurer  
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)



