



# UNIVERSITY OF NEW BRUNSWICK REPORT ON LONG-TERM INVESTMENT FUND

2017-2018



# CONTENTS

INTRODUCTION	3
THE YEAR IN REVIEW	5
PERFORMANCE REVIEW	7
INVESTMENT POLICY & ENDOWMENT SPENDING POLICY	9
GOVERNANCE & COMPLIANCE	11
INVESTMENTS COMMITTEE MEMBERS	13
EXTERNAL SERVICE PROVIDERS	13



# SCHOLARSHIPS & BURSARIES

**“At \$317.8 million, the Fund ranks in the top 30% of Canadian university endowments.”**

We are pleased to present the Annual Report on the University of New Brunswick Long-Term Investment Fund (“the Fund”) for the year ended April 30, 2018. Key sections include a report on Fund performance, an overview of key governance arrangements for the Fund, highlights of Board approved investment and endowment spending policies, and an overview of key activities carried out by the Investments Committee during the year.

## WHAT IS THE FUND?

The Fund is a pooled investment fund for philanthropic gifts provided by donors 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. The Fund also includes amounts generated from operations that have been restricted for a specific purpose by the University’s Board of Governors.

## WHAT IS THE SIZE OF THE FUND?

The Fund had a market value of \$317.8 million as at April 30, 2018, ranking in the top 30% of Canadian university endowments.

## WHAT DOES THE FUND SUPPORT?

Gifts are generally restricted by donors for specific purposes. Major categories of support include 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. Of note, approximately 60% of UNB’s total annual spending on scholarships and bursaries is funded from donor support and related investment income.

Donor gifts may be endowed or expendable. An endowed gift is one where the gift capital must be retained and invested in perpetuity; only the income earned can be used for the purpose specified by the donor. Endowments are 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:

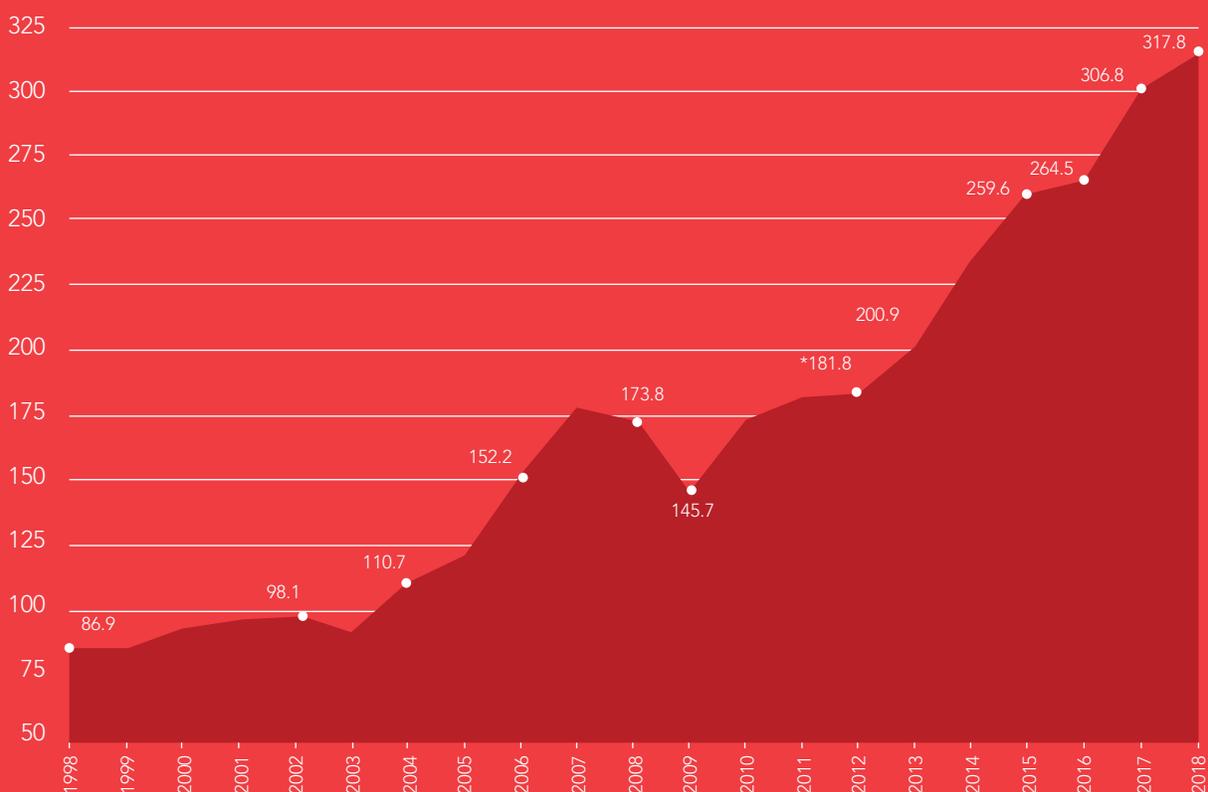
- provides opportunities for diversification, risk management, and economies of scale;
- allows access to best-in-class investment managers;
- provides opportunities for above-average long-term risk adjusted returns;
- supports a competitive annual spending rate; and
- facilitates prudent governance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

## WHO MANAGES THE FUND AND WHAT ARE THE PERFORMANCE GOALS?

All assets are managed by external professional investment management firms (see page 13) 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 by the Committee 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, 2018



\*\$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)
	2018	2014	2018
Fund Nominal Return	7.85	9.05	6.68
CPI	(1.58)	(1.92)	(1.62)
Investment Management Costs	(0.45)	(0.42)	(0.42)
Fund Real Return	5.82	6.71	4.64
Target Real Return	4.00	4.25	4.10

## Fig. 03 ANNUALIZED RETURNS (%)

	1 YEAR	2 YEAR	3 YEAR	4 YEAR	10 YEAR
Fund Return	2.97	9.31	6.79	7.85	6.68
Investment Policy Benchmark	4.49	9.15	5.77	7.27	6.35
Excess Return	(1.52)	0.16	1.02	0.58	0.33

“Fund had net growth of 3.6% in 2017-18.”

The Fund had a market value of \$317.8 million as at April 30, 2018, a net increase of 3.6% over the April 30, 2017 value of \$306.8 million (see Fig. 01). This net growth resulted from a combination of new gifts and investment income net of spending.

## FOUR-YEAR ANNUALIZED RETURN EXCEEDS PRIMARY RETURN OBJECTIVE

The Fund achieved a nominal annualized return of 7.85% for the four-year period ending April 30, 2018. The resulting four-year annualized real return of 5.82% (after inflation and investment related expenses) exceeded the endowment spending rate target of 4%.

The Fund's nominal return for 2017-2018 was 2.97%, underperforming the policy benchmark return by 1.52%. The policy benchmark return is the weighted average of the returns of the benchmark indices for each asset class.

## CONTINUING STRONG RISK-ADJUSTED PERFORMANCE

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, 2018 the Fund's standard deviation or volatility of returns was lower than 58% of measured funds, a second quartile ranking.

## REVIEW OF POLICY ASSET ALLOCATION

In 2016-17 the Investments Committee completed a comprehensive review of the Fund's policy asset allocation. The review resulted in a number of changes in the Fund's policy asset mix, including an allocation to two new asset classes, Emerging Market Equity and Canadian Real Estate. The new Policy Asset Allocation was approved by the Board in October 2016. Fig. 06 sets out the previous Board approved policy asset allocation (which has been in place since 2013-14), the new policy asset allocation, and the Fund's actual asset mix as at April 30, 2018. The new policy asset allocation was fully implemented in 2017-18.

## ENDOWMENT SPENDING POLICY STABLE

An annual review of endowment spending policy was completed in 2017-18. The long-term endowment spending rate target of 4% was confirmed, and endowment spending in 2018-19 was approved at the target rate.



**RESEARCH**

“The Fund’s performance has exceeded the median actual performance by 111 basis points annually over the four-year period.”

The Investments Committee regularly monitors the performance of the Fund against Committee-approved performance objectives. 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 and investment related expenses) should meet or exceed 4.0% over moving four-year periods, with an acceptable level of risk. The 4% real return objective is consistent with the target endowment spending rate of 4% annually.

The Fund’s annualized real rate of return over the four-year period ending April 30, 2018 was 5.82%, exceeding the 4% target. Over the longer term, the Fund achieved a real return of 4.64% over the ten-year period ending April 30, 2018, reflecting the impact of the 2008 financial crisis (see Fig. 02).

Capital markets in 2017-2018 experienced varied returns among asset classes; with public equities producing positive returns while fixed income returns were negative for the one-year period ending April 30, 2018. Global equities, as measured by the MSCI World Index returned 6.47% in Canadian dollars. Canadian equities, as measured by the S&P/TSX Composite Index, returned 3.11%. Canadian bonds, as measured by the FTSE TMX Canada Universe Bond Index returned -0.93%.

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 and one of two Canadian equity managers outperformed the benchmark by 45 basis points and 6 basis points respectively. However, all three global equity managers trailed the respective benchmark with collective underperformance of 327 basis points. The period in question saw growth managers significantly outperform value managers. All three of the Fund’s global managers have a “value” tilt. Global Emerging Market equities and Real Estate were added to the portfolio over the year so a full years performance is not yet available. The Committee is closely monitoring these underperforming managers. Although long-term performance objectives continue to be met, in the short-term, the fund underperformed the benchmark. Specifically, the overall results was that the Fund unperformed the composite policy benchmark by 152 basis points for the one-year period.

## RISK ADJUSTED RETURNS

The Committee also reviews 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, 2018, the standard deviation or volatility of returns was in the bottom 42% of measured funds. Lower volatility is important when striving for consistency in spending.

## 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, 2018 the Fund’s annualized return of 7.85% exceeded the policy benchmark by 58 basis points (see Fig. 03). For the one-year period ending April 30, 2018 the Fund returned 2.97%, trailing the policy benchmark by 1.52%. This followed returns of 16.04% for the year ended April 30, 2017 and 1.91% for the year ended April 30, 2016.

## PERFORMANCE COMPARED TO OTHER UNIVERSITY ENDOWMENTS

The Committee 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 Fund has performed well when compared with other funds. Of note, UNB’s annualized policy returns for the four-year period ending March 31, 2018 outperformed the RBC Investor Services Endowment and Foundation universe median policy returns by 119 basis points annually. The Fund’s actual performance also exceeded the median actual performance by 111 basis points annually over this period.

## Fig. 04 KEY RISK METRICS

For rolling 4-year periods ending March 31

	2018			2017		
	UNB	MEDIAN	QUARTILE RANKING	UNB	MEDIAN	QUARTILE RANKING
<b>RISK EXPOSURE (Volatility)</b>						
Standard Deviation	4.57	4.57	3	4.93	5.13	3
<b>RISK ADJUSTED RETURNS</b>						
Tracking Error	1.12	2.25	4	1.11	2.48	4
Value Added	0.72	0.13	2	0.93	0.72	2
Information Ratio	0.64	0.05	1	0.84	0.25	1

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

Annualized returns for periods ending March 31, 2018

	1-YEAR	4-YEAR		1-YEAR	4-YEAR
UNB Policy	6.53	7.44	RBC Universe Policy – Median	4.05	6.25
UNB Actual	5.64	8.16	RBC Universe Actual – Median	5.50	7.05

## Fig. 06 POLICY TARGETS AND ALLOWABLE RANGES (%)

	OLD POLICY TARGET	NEW POLICY TARGET	ALLOWABLE RANGE	ACTUAL APR 30, 2018
<b>FIXED INCOME</b>				
Canadian Bonds	25	20.25	15-35	25.1
Emerging Market Debt	5.5	4.50	0-10	0.5
High Yield Bonds	4.5	3.65	0-10	0.1
Mortgages	2	1.60	0-10	1.2
Cash	-	-	-	2.8
<b>EQUITIES</b>				
Canadian	25	15	10-20	14.8
Global	30	25	20-30	24.9
Low Volatility Global	8	15	10-20	15.1
Emerging Market	-	10	5-15	10.7
<b>OTHER</b>				
Canadian Real Estate	-	5	0-10	4.8

# INVESTMENT POLICY & 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 a similar level of support to future generations as it does to current beneficiaries. To this end, the university establishes a target endowment spending rate that reflects the Investment Committee's expectations for a long-term sustainable real rate of return net of inflation and investment expenses.

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 confirm the approved spending rate for the next fiscal year.

UNB's target spending rate was lowered from 4.25% to 4.0% in 2013-14. Following the 2017-18 review, the target rate remains at 4.0%. The Canadian Association of University Business Officers (CAUBO) conducts an annual investment survey of member institutions. At 4%, UNB's endowment spending rate is at the median of other Canadian universities. Spending in 2018-19 has been approved at the target rate of 4%. A one-time top-up of 0.25% has been approved for individual endowment accounts where spending reserves exceed a specified level.

## INVESTMENT POLICY

Investment policy for the 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 endowment 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 real return objective over the long term. The most recent comprehensive review of the Policy asset mix for the Fund was completed in 2016-17.



# CAPITAL PROJECTS

“ Investments Committee provides oversight within an approved policy framework. ”

## INVESTMENTS COMMITTEE

The Investments Committee, a standing committee of the University’s Board of Governors, oversees the investment of the Fund. Members of the Committee are appointed under the 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 at least four times per year. Agenda planning is informed by a rolling twelve-month work plan, which helps ensure the Committee stays focused on three key strategic areas: risk, returns and endowment spending rate.

## POLICY FRAMEWORK

The Committee has developed a policy framework for managing Fund investments and endowment spending. Key elements of the policy framework include:

- Statement of Investment Beliefs;
- Statement of Investment Objectives and Policy;
- Statement on Sustainable Investing;
- 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, endowment spending policy, investment manager structure and related matters;
- Implement approved policies and decisions and provide regular reports on compliance and performance; and
- Carry out the day-to-day administration of the Fund including overseeing the work of external investment managers and other service providers.

## FOCUS ON SUSTAINABLE INVESTING

The policy framework for managing Fund investments includes a Board-approved UNB Statement on Sustainable Investing. The statement provides a broad policy framework to guide UNB’s approach to sustainable investing and provides a basis for communicating with stakeholders about sustainable investment practices at UNB. The framework also includes a Committee-approved Statement of Environmental, Social and Governance (ESG) Reporting Protocols for the Fund’s investment managers. The statement sets out the Committee’s approach to interacting with investment managers to achieve the Board’s sustainable investment objectives.

## EXTERNAL PROFESSIONALS AND SERVICE PROVIDERS

All assets are managed by external professional investment management firms in accordance with mandates approved by the Investments Committee. The Committee has engaged the services of an independent performance measurement firm. Other external specialists are used as required to provide advice on a variety of topics including asset allocation, risk management, endowment spending policy and investment manager searches.



# LIBRARY SUPPORT

# INVESTMENTS COMMITTEE MEMBERS

(AS AT APRIL 30, 2018)

## VOTING

### JOEL ATTIS

Member of the Board of Governors  
Financial Advisor, AttisCorp Wealth Management/  
AttisCorp Financial Advisory & Insurance Services

### BRIAN E.H. BAXTER

Past Chair of the Board of Governors  
President/CEO, Botsford Investments Inc.  
University of New Brunswick

### HERBERT BEMPAH

Member of the Board of Governors  
Student  
University of New Brunswick

### NORM 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 Sales & Service  
MacKenzie Investments

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

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

### BARRY COOPER

Advisor to the Board of Governors  
Chairman of BMO Global Asset Management  
Bank of Montreal

### DEANNA GRAVES-BROWN

Member of the Board of Governors  
Controller, Scott's Nursery Ltd.

### TOM GRIBBONS

Member of the Board of Governors  
Vice-President, Branch Manager & Associate Portfolio Manager  
RBC Wealth Management, Dominion Securities

### KEVIN LEBLANC

Advisor to the BOG Investments Committee  
Managing Director, Operations  
Jarislowsky, Fraser Limited

### PAUL MORRISON

Member of the Board of Governors  
Consultant  
Chair, Investments Committee

### KENYA PLUT

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

### JOHN SINCLAIR

Advisor to the BOG Investments Committee  
Chief Executive Officer  
Vestcor Inc.

## 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

### NACHIKETA KUMAR

Student Advisor  
University of New Brunswick

### JENNIFER MORRISON

University Treasurer  
University of New Brunswick

## COMMITTEE RESOURCE

### MELISSA DAWE

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

### BOB SKILLEN

Vice-President (Advancement)  
University of New Brunswick

### SHAUNA WOODSIDE

Manager, Trust & Treasury Services  
University of New Brunswick

# EXTERNAL SERVICE PROVIDERS

(AS AT APRIL 30, 2018)

## CUSTODIAN/PERFORMANCE MEASUREMENT

RBC Investor & Treasury Services

## INVESTMENT MANAGERS

Phillips, Hager & North Investment Management (Fixed Income)

Fidelity Investments Canada ULC (Canadian Equity)

Seamark Asset Management (Total Equity)

Hexavest Inc. (Global Equity)

Sprucegrove Investment Management Ltd. (Global Equity)

JP Morgan Asset Management (Global Emerging Markets)

Vestcor Inc. (Low Volatility Global Equity)

Fiera Properties Ltd. (Canadian Real Estate)

