



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

2019-2020



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# SCHOLARSHIPS & BURSARIES

**“At \$363.7 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, 2020. 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 (“the 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 \$363.7 million as at April 30, 2020, 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 62% 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:

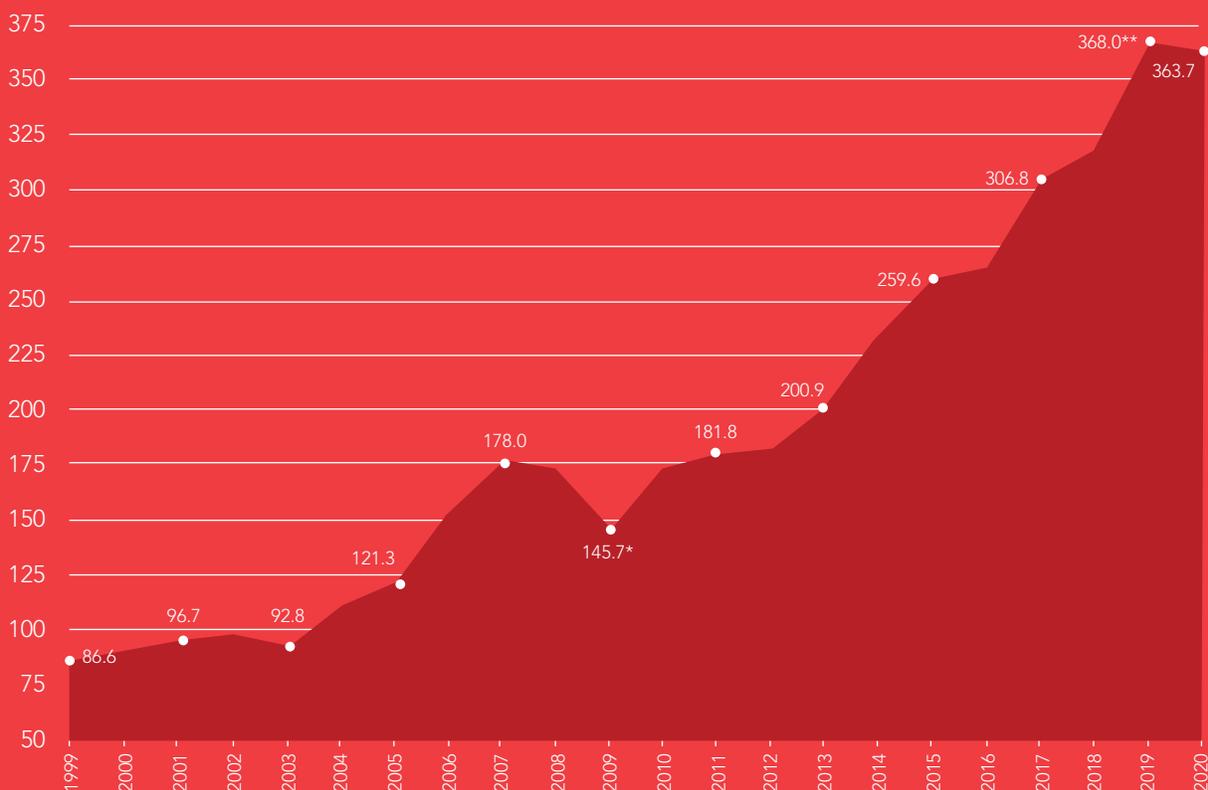
- provides opportunities for diversification, risk management, and economies of scale;
- allows access to best-in-class investment managers;
- provides opportunities for above-average long-term risk adjusted returns;
- supports a competitive annual spending rate; and
- facilitates prudent governance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

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

All assets are managed by external professional investment management firms (see page 15) 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 Committee with the assistance of an independent performance measurement firm.

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

As at April 30, 2020



\* \$9.0 million transferred to the Short-term Investment Fund in 2010 - 2011

\*\* \$14.4 million transferred to the Long-term Investment Fund in 2018 - 2019

## Fig. 02 FISCAL YEAR RETURNS (%)

	4-year periods ending April 30 (Annualized)		10-year (Annualized)
	2020	2016	2020
Fund Nominal Return	6.46	9.60	7.48
CPI	(1.40)	(1.22)	(1.58)
Investment Management Costs	<u>(0.40)</u>	<u>(0.40)</u>	<u>(0.40)</u>
Fund Real Return	4.66	7.98	5.50
Target Real Return	4.00	4.00	4.05

## Fig. 03 ANNUALIZED RETURNS (%)

	1 YEAR	2 YEAR	3 YEAR	4 YEAR	10 YEAR
Fund Return	(1.14)	3.68	3.45	6.46	7.48
Investment Policy Benchmark	0.67	4.36	4.40	6.73	7.35
Excess Return	(1.81)	(0.68)	(0.95)	(0.27)	0.13

“ During a volatile year for market returns, endowment spending for 2020-21 was approved at the target rate. ”

The Fund had a market value of \$363.7 million as at April 30, 2020, a net decrease of 1.16% over the April 30, 2019 value of \$368.0 million (see Fig. 01). This net loss resulted from a combination of new gifts, spending for donor purpose and an investment loss.

## FOUR-YEAR ANNUALIZED RETURN EXCEEDS PRIMARY RETURN OBJECTIVE

The Fund achieved a nominal annualized return of 6.46% for the four-year period ending April 30, 2020. The resulting four-year annualized real return of 4.66% (after inflation and investment related expenses) exceeded the endowment spending rate target of 4.00%.

The Fund's nominal return for fiscal 2019-20 was -1.14%, underperforming the policy benchmark return by 1.81%. 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 & Treasury Services Endowment and Foundations Universe. For the four-year period ending March 31, 2020, the Fund's standard deviation or volatility of returns was lower than 55% of measured funds.

## ENDOWMENT SPENDING POLICY STABLE

One of the University's objectives for the management of its endowment accounts is to maintain a reasonably stable spending rate, in all types of markets. The ability to provide a consistent spending rate from year to year is mainly due to the establishment of endowment spending reserves. In years where investment returns are in excess of what is required to meet spending requirements, inflation protection and administrative costs, the excess is considered a "reserve". The reserves are drawn down in years when investment returns are less than what it required to meet those same requirements. The balance of the spending reserves accumulated

## INVESTMENT POLICY

An annual review of the endowment spending policy was completed in 2019-20. The annual review includes an assessment of a number of key indicators affecting the outlook for endowment spending, both in the near term and longer term. Key indicators assessed include investment returns, the status of endowment reserves, actuarial views, historical and expected returns, and best practices at other institutions.

The Investments Committee paid particular attention to the long-term capital market assumptions, which when applied to the target asset mix defined in the Investment Policy, may not generate the returns necessary to fund the current 4% spending rate.

As a result, a Sub-committee was formed to review the returns projected from the current asset mix and to recommend, if necessary, changes to the allocation between the asset classes defined in the Investment Policy and/or the introduction of new asset classes. This work will occur in fiscal 2020-21.

over the years was sufficient to be able to support spending in 2020-21 for most endowment accounts, at the target rate of 4.00%.

In fiscal 2020, the pandemic caused turmoil in financial markets around the world. Fortunately, the university's trust and endowment accounts are invested in a well-diversified portfolio. Although this does not guarantee absolute protection from market downturns, history has shown that by staying on course with our long-term investment plan, the University should continue to meet its endowment spending objectives.



**RESEARCH**

“Over the long-term, the Fund continues to meet the primary performance objective of a 4% real rate of return.”

The 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 4.00% over moving four-year periods, with an acceptable level of risk. The 4.00% real return objective is consistent with the target endowment spending rate of 4.00% annually.

The Fund's annualized real rate of return over the four-year period ending April 30, 2020 was 4.66%, exceeding the 4.00% target. Over the longer term (10 years), the Fund achieved a real return of 5.50%.

## 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, 2020, the Fund's annualized return of 6.46% trailed the policy benchmark by 27 basis points (see Fig. 03). For the one-year period ending April 30, 2020, the Fund returned -1.14%, which was below the policy benchmark by 181 bps. This followed returns of 8.74% for the year ended April 30, 2019 and 2.97% for the year ended April 30, 2018.

## 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 & Treasury Services funds universe over the long-term (see Fig. 04). The Fund ranked above median on all key risk metrics for the four-year period ending March 31, 2020. For example, the standard deviation or volatility of returns was in the bottom half of measured funds. Lower volatility is important when striving for consistency in spending.

## ASSET CLASS PERFORMANCE

The investment environment in 2019-20 was challenging in light of the impact of the pandemic on capital markets; especially challenging for equity markets. UNB's Trusts and Endowments, a significant portion of which is invested in equities, were negatively impacted.

Canadian equities, as measured by the S&P/TSX Composite Index, had a return of -7.91%. Emerging Markets equities, as measured by the MSCI Emerging Markets Index, returned -8.81% in Canadian dollars. Global equities, as measured by the MSCI World Index, returned -0.20% in Canadian dollars. Conversely, Canadian Bonds, as measured by the FTSE Canada Universe Bond Index, returned a positive 8.52%.

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 9.60%, exceeding the benchmark by 108 basis points. The Fund's Real Estate manager added 120 basis points to its benchmark. Within the equity sector, results were mixed. The Canadian and Emerging markets equity managers were successful in adding value to their respective benchmarks, 511 basis points and 309 basis points respectively. However, the three global equity managers all fell short of their benchmark. This negatively impacted the total fund performance relative to the benchmark.

The overall result is that the Fund underperformed the composite policy benchmark by 181 basis points in 2019-20.

## 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, 2020 outperformed the RBC Investor & Treasury Services Endowment and Foundation universe median policy returns by 25 basis points annually. The Fund's actual performance also exceeded the median actual performance by 36 basis points annually over this period.

## Fig. 04 KEY RISK METRICS

For rolling 4-year periods ending March 31

	2020			2019		
	UNB	MEDIAN	QUARTILE RANKING	UNB	MEDIAN	QUARTILE RANKING
<b>RISK EXPOSURE (Volatility)</b>						
Standard Deviation	8.06	8.29	3	5.18	6.20	4
<b>RISK ADJUSTED RETURNS</b>						
Tracking Error	1.51	1.83	4	1.40	2.20	4
Value Added	(0.11)	(0.35)	2	1.00	(0.06)	1
Information Ratio	(0.08)	(0.20)	2	0.71	0.00	1

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

Annualized returns for periods ending March 31, 2020

	1-YEAR	4-YEAR		1-YEAR	4-YEAR
UNB Policy	(3.65)	5.01	RBC Universe Policy – Median	(3.63)	4.76
UNB Actual	(5.25)	4.90	RBC Universe Actual – Median	(6.61)	4.54

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

	POLICY TARGET	ALLOWABLE RANGE	ACTUAL APR. 30, 2020
<b>FIXED INCOME</b>			
Canadian Bonds	20.3	15-35	23.7
Emerging Market Debt	4.5	0-10	2.0
High Yield Bonds	3.6	0-10	2.9
Mortgages	1.6	0-10	1.1
<b>EQUITIES</b>			
Canadian	15.0	10-20	15.3
Global	25.0	20-30	25.2
Low Volatility Global	15.0	10-20	14.9
Emerging Market	10.0	5-15	10.1
<b>OTHER</b>			
Canadian Real Estate	5.0	0-10	4.8

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 Committee's expectations for a long-term sustainable real rate of return net of inflation and investment expenses.

The 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 4.00% in 2013-14. Following the 2019-20 review, the target rate remains at 4.00%. The Canadian Association of University Business Officers (CAUBO) conducts an annual investment survey of member institutions; at 4.00%, UNB's endowment spending rate is at the median of other Canadian universities.

The long-term endowment spending rate target of 4.00% was confirmed, and endowment spending in 2020-21 was approved at the target rate subject to an asset mix review in 2020-21 (as discussed on page 5).

## 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 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. An asset mix review will be completed in fiscal 2020-21.



# CAPITAL PROJECTS

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

## INVESTMENTS COMMITTEE

The Investment 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 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.

## EXTERNAL PROFESSIONALS AND SERVICE PROVIDERS

All assets are managed by external professional investment management firms in accordance with mandates approved by the 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.

**Fig. 07 MANAGERS WITH RESPONSIBLE INVESTMENT POLICIES**

*(As a % of assets under management)*



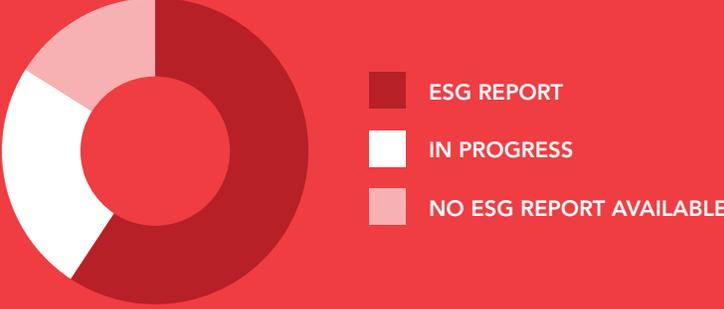
**Fig. 08 MANAGERS WITH RESPONSIBLE INVESTMENT COMMITTEES**

*(As a % of assets under management)*



**Fig. 09 MANAGERS REPORT ON ESG PERFORMANCE**

*(As a % of assets under management)*



**Fig. 10 MANAGERS WHO ARE PRI SIGNATORIES**

*(As a % of assets under management)*



## 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.

The Committee believes that companies that behave responsibly with respect to ESG factors will have an increased likelihood of enhanced long-term financial performance. As a result, ESG factors need to be considered among other factors to make good investment decisions.

Examples of ESG factors include:

**Environment** – Climate change and carbon emissions, waste management, deforestation, water scarcity

**Social** – Health and safety, labour relations, human rights, employee engagement

**Governance** – Board composition, whistleblower schemes, executive compensation,

The Committee ensures external investment managers are aware of the Statement on Sustainable Investing and understand the expectations that environmental sustainability and high standards of corporate social responsibility and corporate governance are considered when making investment decisions. The Committee also encourages fund managers to incorporate in their proxy voting guidelines policies that encourage issuers to increase transparency of their ESG policies, procedures, and activities.

When selecting new investment managers, the extent in which managers incorporate the consideration of ESG principles when making investment decisions will be considered in the evaluation process.

## UNITED NATIONS SUPPORTED PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI)

The PRI, supported by the United Nations, is an international organization that supports financial institutions in incorporating ESG factors into their investment decisions and encourages investors to use responsible investment to enhance returns and better manage risks. Institutions become signatories to the PRI's six key principles of responsible investment and must file regular reports on their progress. It is not mandatory for UNB's investment managers to be signatories to the PRI. However, given signatory reports are publicly available on PRI's website, signatories have been identified for those seeking additional information on UNB's investment managers' responsible investment practices, which can be found at [www.unpri.org](http://www.unpri.org).

The following table provides a listing of the Fund's managers, mandates, signatories to the UN PRI and links which include more information on each managers approach to responsible investing:

INVESTMENT MANAGER	ASSET CLASS	UN PRI SIGNATORY
<b>Philips Hager &amp; North Investment Management</b>	Fixed Income	Yes
<b>Fidelity Investments Canada ULC</b>	Canadian Equities	Yes
<b>Sprucegrove Investment Management Ltd.</b>	Global Equities	Yes
<b>Hexavest Inc.</b>	Global Equities	Yes
<b>Vestcor Inc.</b>	Low Volatility Equities - Global	No
<b>JP Morgan Asset Management</b>	Emerging Markets Equities	Yes
Seamark Asset Management	Total Equities	No
<b>Fiera Properties Ltd.</b>	Real Estate	Yes



# LIBRARY SUPPORT

# INVESTMENTS COMMITTEE MEMBERS

(AS AT APRIL 30, 2020)

## VOTING

### BRIAN E.H. BAXTER

Member of the Board of Governors  
President/CEO, Botsford Investments Inc.  
Chair, Investments Committee

### CHRISTOPHER W.J. BOYLE

Advisor to the BOG Investments Committee  
Senior Vice-President, Institutional Sales & Service  
MacKenzie Investments

### CRAIG FERNANDEZ

Member of the Board of Governors  
Student  
University of New Brunswick

### BRIANNA FORBES

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

### TOM GRIBBONS

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

### VIQAR HUSAIN

Member of the Board of Governors  
Professor, Department of Mathematics and Statistics  
University of New Brunswick

### KEVIN LEBLANC

Advisor to the BOG Investments Committee  
Chief Operating Officer  
Investment Management Corporation of Ontario

### PAUL MAZEROLLE

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

### JOHN SINCLAIR

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

### PETER WELDON

Advisor of the Board of Governors  
Vice-President and Director  
Head of Fixed Income and Foreign Exchange Trading  
TD Asset Management

## 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

### HARSH JAIN

Student Advisor  
University of New Brunswick

### JENNIFER MORRISON

University Treasurer  
University of New Brunswick

## COMMITTEE RESOURCES

### MELISSA DAWE

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, 2020)

## 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)

