



2017 ENDOWMENT REPORT
UBC INVESTMENT MANAGEMENT TRUST INC.

2017

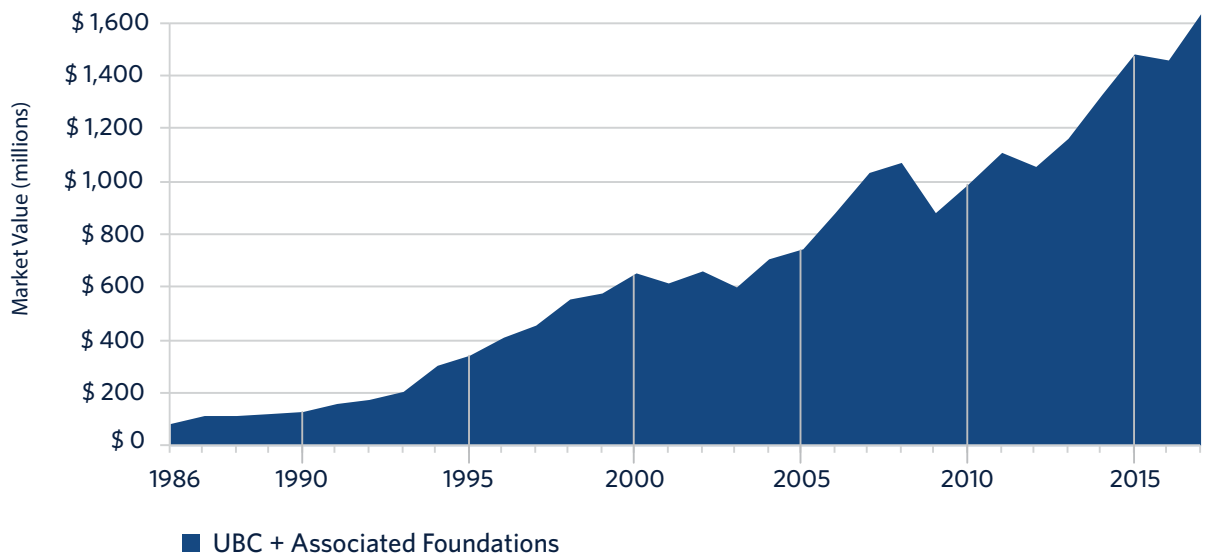
MESSAGE FROM
RAJIV SILGARDO,
PRESIDENT AND CEO
UBC IMANT

We are pleased to present this update on the performance of the UBC Endowment Fund for the fiscal year ended March 31, 2017. Over this period, the Fund had a strong investment return of 12.1% net of all external management fees. The market value of the assets which are directly managed by UBC IMANT reached \$1.45 billion on March 31, 2017. Including an additional \$185 million held at related foundations, the total value of UBC’s endowment now exceeds \$1.63 billion.

Personally, I am delighted to say that I joined UBC Investment Management Trust Inc. (IMANT) on December 1st, 2016. The first four months working with the University community and the IMANT Board and staff have proved to be very productive. I look forward to working with all of them as we develop UBC IMANT into one of Canada’s premier investment organizations. On a separate note, in fiscal 2016/17 we said goodbye to IMANT’s past President & CEO, Jai Parihar. We thank him for his dedication and leadership over the last six years and wish him all the best in his retirement.

ENDOWMENT FUND GROWTH

\$ Market Value, March 31





ABOUT IMANT

IMANT was established as a wholly-owned subsidiary of UBC in 2003 to provide comprehensive portfolio management services and related advice to UBC for the Endowment Fund and other university-related assets (Staff Pension Plan, Working Capital and other funds). Today, IMANT consists of a team of six staffers including five investment professionals, and on behalf of UBC, it invests assets valued in aggregate at \$3.6 billion via a manager of managers approach.

IMANT's Board of Directors includes seven unrelated directors and four UBC-related directors.

IMANT DIRECTORS AS OF MARCH 31, 2017

Martin Glynn

*IMANT Board Chair
(Corporate Director)*

Michael Korenberg

UBC Board of Governors

Orla Cousineau

*Executive Director, Pensions,
UBC Staff & Faculty Pension Plans*

Gordon MacDougall

Corporate Director

Diane Fulton

Corporate Director

Lisa Pankratz

Corporate Director

Alison Gould

Chief Investment Officer, ICBC

Andrew Simpson

Vice President, UBC Finance

Emilian Groch

Corporate Director

Kevin Smith

UBC Board of Governors

Brian Kenning

Corporate Director

ACTIVITY UPDATE

Once again 2016/17 was a busy year for IMANT's Board and staff. Projects included a comprehensive long-term asset allocation study for the Endowment Fund based on updated long-term asset class assumptions. One objective of the review was to determine if the 3.5% spend rate could be increased without impairing intergenerational equity or significantly increasing the risk in the Fund. Based on the analysis, the IMANT Board recommended some changes to the policy asset mix and recommended that the spend rate be increased to 4.0% (there are a limited number of endowments that will have a slightly higher or lower spend rate). The objective of the new policy asset mix is to support a long-term required return of 6.65%. The UBC Board of Governors approved these recommendations at their December 2016 Board meeting; the new spend rate started on April 1, 2017. The changes to the policy asset mix will be discussed later in this report.

New commitments were made to several alternative asset classes — private equity, real estate, infrastructure, absolute return strategies (ARS) and a new asset class was added — private debt. Fiscal 2017/18 will see additional commitments to some of these asset classes. A search for a global small cap equity manager was also undertaken in 2016/17, and funding for this new mandate will occur in fiscal 2017/18.

Since 2013, as part of the University's Responsible Investment Policy Committee initiatives, IMANT has incorporated more environmental, social and governance (ESG) factors in the endowment's investment process and reporting, with the intent towards making the whole endowment as sustainable as possible. During 2016, staff at IMANT worked with our investment managers to improve transparency with respect to their corporate engagement, and were pleased with the level of cooperation and feedback that we received from all of the investment firms.

A number of interesting initiatives and projects have been identified for fiscal 2017/18 which will continue to keep us very busy. As always, we remain focused on fulfilling the goals and objectives of the funds under our care and to partnering with all of our various stakeholders in the ongoing evolution of IMANT. I would like to thank the IMANT Board of Directors and the staff for their continued commitment and support.

Sincerely,

Rajiv Silgado
President and Chief Executive Officer
UBC Investment Management Trust Inc. (IMANT)

July 2017



2016/17 IN REVIEW

Every three to four years, IMANT undertakes an asset mix review for the endowment to determine if based on current long-term asset class return assumptions (for existing approved asset classes as well as new asset classes), the endowment's spend rate can be maintained within prudent and acceptable risk levels while maintaining intergenerational equity. This work was completed last summer and new long-term policy asset class guidelines were approved at the September 2016 IMANT Board meeting. The asset mix changes included the addition of private debt strategies, global small cap equities and an

increased allocation to infrastructure equities. Mortgages, Canadian equity and ARS allocations will be reduced to fund these changes. As mentioned in the President's message, based on the analysis, the IMANT Board also recommended that the spend rate be increased from 3.5% to 4.0% (with a limited number of endowments having a slightly higher or lower spend rate). The new asset mix and the change in the spend rate were subsequently approved by the UBC Board of Governors at their December 2016 meeting. We will be transitioning to the new policy mix over fiscal 2017/18.

INVESTMENT POLICY PORTFOLIO

ASSET CLASS	BENCHMARK	INVESTMENT POLICY	ACTUAL MIX AT MARCH 31 2017
Cash	FTSE TMX CA 91 Day T-Bills	% 2.0	% 1.0
Bonds & UBC Debenture	FTSE TMX CA Universe Bond	13.0	13.8
Mortgages	FTSE TMX CA Short Term Bond + 1.0%	5.0	5.6
Total Fixed Income		20.0	20.4
Canadian Equity	S&P TSX Composite	15.0	17.6
Global Equity	MSCI World Net (Cdn)	15.0	17.8
Emerging Market Equity	MSCI Emerging (Cdn)	10.0	9.6
Total Public Equity		40.0	45.0
Absolute Return Strategy	FTSE TMX CA 91 Day T-Bills + 5%	10.0	7.4
Private Equity ⁽¹⁾	MSCI World Net (Cdn) + 2%	10.0	5.4
Real Estate ⁽¹⁾	CPI + 4.0%	10.0	9.4
Infrastructure Equity ⁽¹⁾	CPI + 4.5%	10.0	12.5
Total Alternatives		40.0	34.7
Total Fund		% 100.0	% 100.0

(1) Returns are lagged 3 months to correspond to reporting periods for the managers.

All of the endowments follow UBC's Responsible Investment Policy to ensure our fund managers incorporate environmental, social and governance (ESG) factors in their investment choices, and we continue to develop additional reporting and monitoring of our existing managers and their approach to incorporating these factors into their investment process for all of our endowments.

At the end of March 2017, the \$10 million Sustainable Future Pool was established to take this commitment one step further. The manager of this pool invests in a balanced portfolio of Canadian fixed income securities and global equities (30/70 mix) that brings material reduction of CO₂ emissions. This portfolio has low or

no investments in companies that either operate in the fossil fuel energy sector and/or have energy fossil fuel reserves. The initial spend rate for this pool of assets will be 3.5% since it is not as diversified as the larger pool, and at this point, we do not have performance history on the pool. In next year's report we will include a performance update on the pool.

During the year we made additional commitments to private equity, real estate and infrastructure funds within Canada and internationally. We also undertook searches for a global small cap equity manager and for private debt fund managers. New managers were approved by the IMANT Board and funding will start in the first quarter of 2017/18.

FUND INVESTMENT PERFORMANCE IN FISCAL 2016/17

The tables below detail fund performance relative to the required return and to the fund's benchmark.

For the endowment to be sustainable and to achieve intergenerational equity, the long-term returns must equal or exceed the sum of the annual university spend rate of 4.0% (previously set at 3.5% in fiscal 2009/10

ANNUALIZED TO MARCH 31	1 YEAR	2 YEAR	3 YEAR	4 YEAR	5 YEAR	10 YEAR
Actual returns (net)	12.1%	5.8%	8.4%	10.1%	10.3%	5.1%
UBC's required return ⁽¹⁾	5.7%	5.0%	5.1%	5.3%	5.3%	6.1%
Excess returns	6.4%	0.8%	3.3%	4.8%	5.0%	-1.0%

(1) For 2016/17: 3.5% + 0.65% + 1.56% = 5.71%.

The endowment return is above the fund's benchmark from one through to five years and slightly behind over 10 years. The Investment Policy Benchmark return is the weighted average of the individual asset class returns

ANNUALIZED TO MARCH 31	1 YEAR	2 YEAR	3 YEAR	4 YEAR	5 YEAR	10 YEAR
Actual returns (net)	12.1%	5.8%	8.4%	10.1%	10.3%	5.1%
Investment policy benchmark	11.4%	5.3%	8.1%	9.9%	10.0%	5.4%
Value added/lost ⁽²⁾	0.6%	0.5%	0.3%	0.3%	0.3%	-0.3%

(2) May not add due to rounding.

PERFORMANCE BY ASSET CLASS

The investment results for the overall portfolio in the year 2016/17 were strongly positive (12.1% net of external investment management fees) and ahead of the Investment Policy Benchmark of 11.4%. Across the various asset classes, our managers generally outperformed with only emerging markets and absolute return strategies (ARS) lagging their respective benchmarks. The chart below highlights the endowment's performance by individual asset class relative to the board-approved benchmarks.

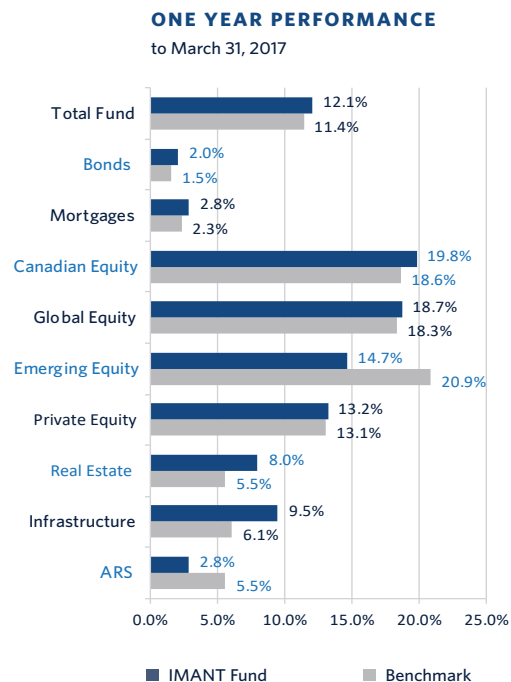
Fixed income investments had low single-digit returns whereas equity markets were strongly positive over the year. Interest rates continued to hover near historical lows as the Bank of Canada has held the overnight policy rate steady at 0.5%.

Global equity market returns were positive in Canadian dollar terms, and the benchmark indices were all in the 20% range as they strongly rebounded from negative returns in fiscal 2015/16. The S&P/TSX Composite Index gained 18.6% driven by rebounds across most sectors with energy, materials, industrials and financials particularly strong.

The results in alternative strategies were also good with investments in real estate, infrastructure equity and private equity all outperforming their respective benchmarks.

and increased for fiscal 2017/18), the annual change in Canadian Price Index and the administrative charge. This objective has been met over the past five years; although fund performance lags over the ten year period reflecting the impact of the 2008/09 Global Financial Crisis and a higher spend rate prior to 2009/10.

where the weights are the policy asset class allocations. This metric measures IMANT management's ability in selecting the underlying investment managers.



Absolute return strategy was the only alternative asset class lagging its benchmark.

The Canadian dollar weakened against the USD and the Yen but strengthened against the Euro and British Pound which resulted in mixed results from currency exposures for non-Canadian asset returns.