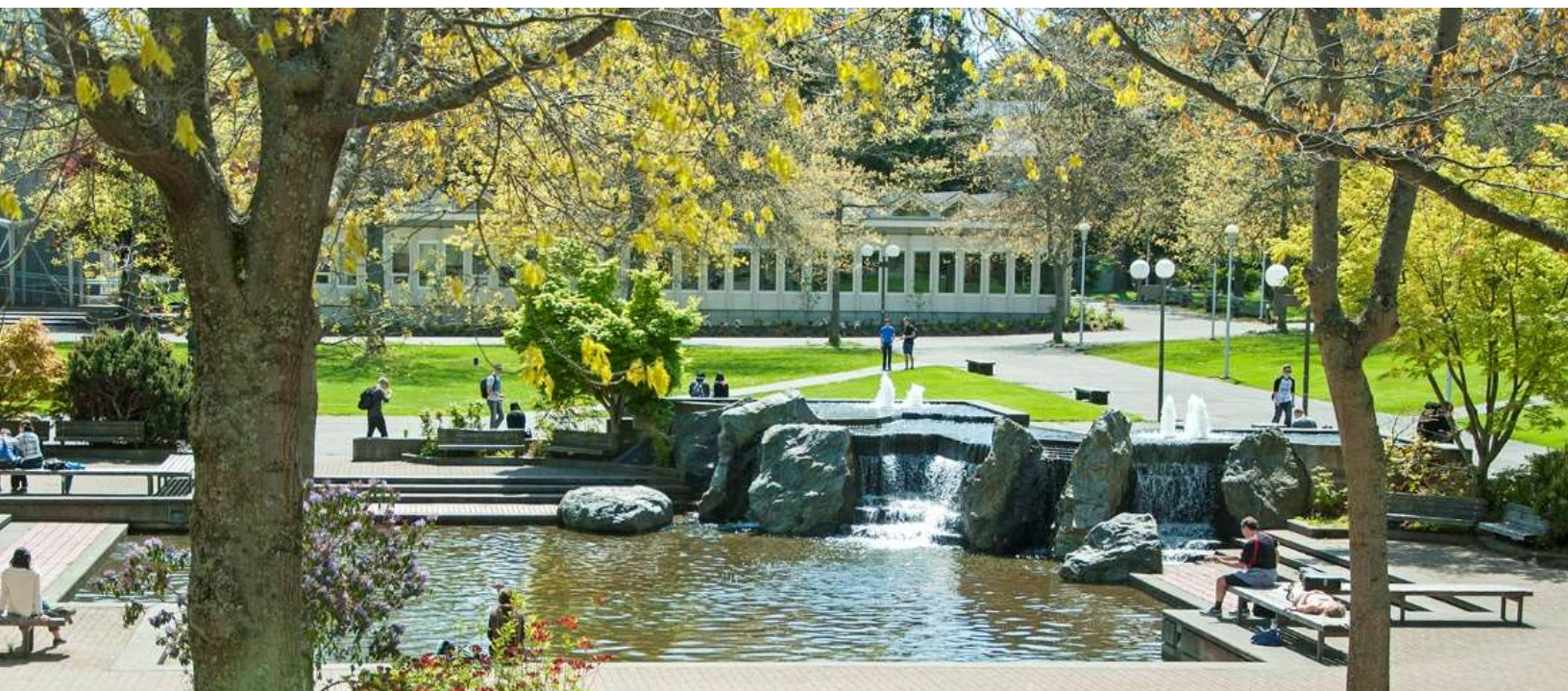


UNIVERSITY OF  
VICTORIA  
FOUNDATION  
ANNUAL REPORT

2013-14



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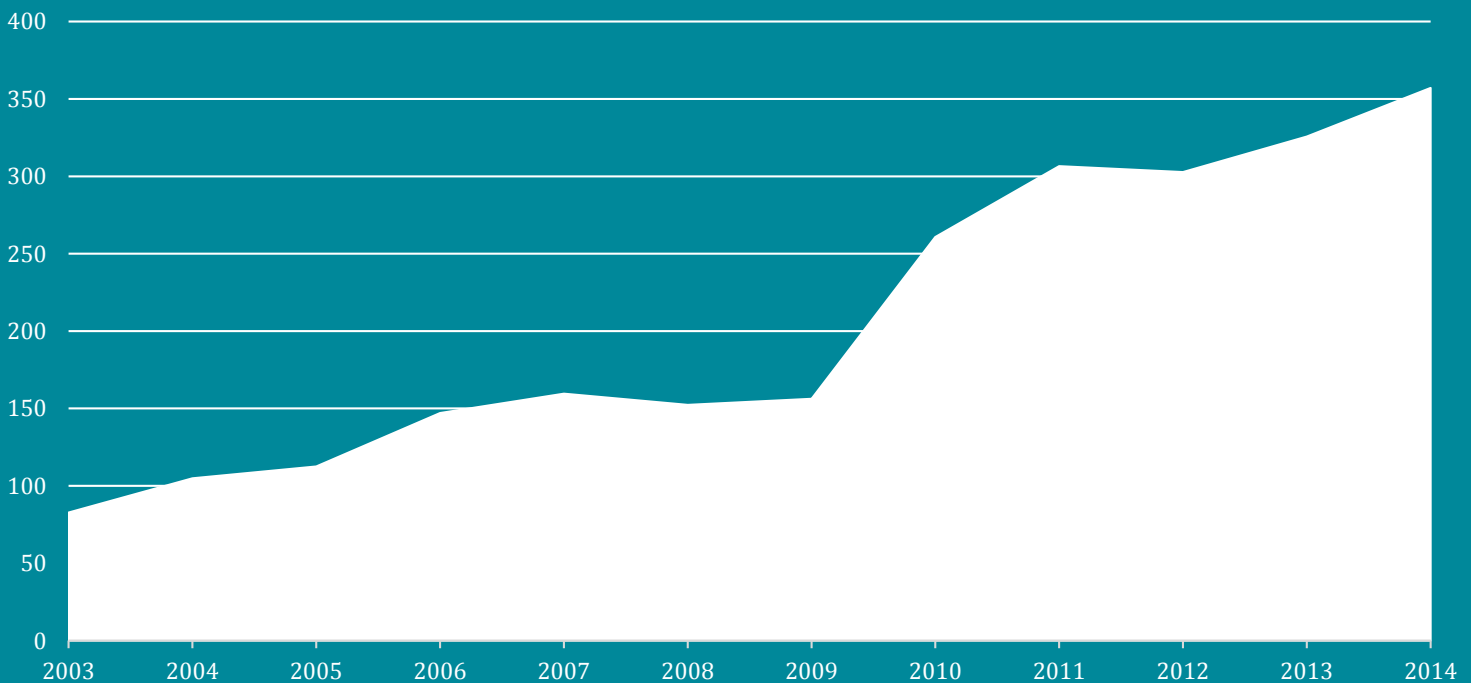
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“Donors who give so generously to UVic through the University of Victoria Foundation are making an incredible difference in the lives of students and in the ability of faculty and staff to deliver the quality educational experience and research for which UVic is renowned.”

Tamás (“Tom”) Zsolnay  
President, University of Victoria Foundation

## Figure 1: Endowment Growth

\$ Millions, Market Value, 2003-2014 as at March 31



# MESSAGE FROM THE CHAIR

It is with great pleasure that I present to you the first University of Victoria Foundation Annual Report. The purpose of this Annual Report is to provide an investment overview and summary of the Foundation's activities for its many stakeholders.

For the fiscal year ended March 2014 the Fund returned 14.4% and trailed its benchmark that returned 14.7% by 30 basis points. While the one year return is encouraging, as Board members we are focused on the long term. Since the Global Financial Crisis of 2008-09 this marks the fifth straight year of positive returns and over that 5-year period the Fund has equaled its benchmark and returned 11.8% annualized. This positive result has financially strengthened the over 1,150 endowments that support the University of Victoria.

The Foundation Board meets at least six times a year. The agendas at these meetings are always full and this year was no exception. This year's highlights included:

- Welcoming a new President of the Foundation, Mr. Tom Zsolnay;
- Hiring Aon Hewitt, a large Global investment consultant; and
- Approval of 2014/2015 Annual Spending Budget of \$12.8 million.

In the coming year the Board is conducting a formal asset mix review. While asset allocation is monitored regularly, the last formal review was completed eight years ago. The Board felt it was time to update that work. The goal of this review is to ensure the fund is well constructed to generate the required investment returns over the longer term. In considering asset mix, the Board is aware of various divestment initiatives including the request from stakeholders of the Foundation to divest of investments in fossil fuels. The Board shares the concerns of these stakeholders in regard to the impact of CO<sub>2</sub> emissions on our environment. As a result we are reviewing our approach to responsible investing and we will engage our investment managers to determine appropriate and sustainable investment choices. I expect it to be another busy and productive year ahead for the Board.

This year marks my final year on the Board and as Board Chair. I was first appointed to the Board in April 2003 and took over as Chair in December of 2008. It is remarkable to see how the Foundation has grown and evolved since 2003. As of April 1, 2003 the Foundation oversaw \$82 million in assets that funded 800 endowments with a total annual budget of \$3.8 million for 2003-04. As of April 1, 2014 the Foundation oversees \$357 million in assets that fund over 1,150 endowments with an aforementioned budget of \$12.8 million for 2014-15. Truly astounding growth.

During my time with the Foundation the one constant has been change. We experienced and managed through several different and difficult crises, both local and global. Amidst the investment market gyrations over that time our Board remained focused on optimizing investment returns to support the endowments. Highlights over my time on the board include:

- Hiring our first investment consultant 10 years ago;
- Completely revamping our asset allocation to include two new asset classes in order to better protect and grow the assets of the Foundation;
- Thoroughly reviewing the performance of our investment managers to optimize risk and return outcomes, resulting in the replacement of all but one manager;
- Regularly reviewing and revising our investment and spending policies to ensure that the portfolios structure and cash flows were sound and sustainable;
- Restructuring our Board to ensure that we had the greatest business and investment expertise possible stewarding the Foundation's assets;
- Creating a schedule to ensure that every policy and procedure was reviewed on a timely basis; and
- Codifying the Board's investment beliefs in a document to articulate the Board's stance on such issues as responsible investing and other governance issues for the benefit of new Board members and other interested parties.

As you can see, the Foundation and its Board have come a long way in 10 years, but there's always more work to be done.

In closing and most importantly, I would like to thank the individuals, foundations, corporations and organizations that have so generously contributed to the numerous inspiring academic pursuits flourishing within the University of Victoria community. I am also grateful to the group of volunteer Board members who, over my tenure, have dedicated so much time to ensuring the Foundation succeeds and thrives. I am proud of the astute and dedicated team I have had the pleasure to work with over the years and I know that the Foundation will be left in very good hands when my term expires next spring. To all those that support the University of Victoria through the University of Victoria Foundation, I thank you and welcome your feedback on our inaugural annual report.

Warm regards,

Lisa Hill

## ABOUT THE FOUNDATION

The University of Victoria Foundation was established in 1954 by the *University of Victoria Foundation Act*. The Foundation is responsible for managing more than \$357 million in assets and administering over 1,150 endowment funds that disburse \$12.8 million annually for scholarships, bursaries, and other university purposes. These endowment funds are supported by generous donations from individuals, corporations, and foundations that play a vital role in promoting a continuing interest in the University and in higher education more broadly. The Foundation is a registered charitable organization under the Income Tax Act and is exempt from income taxes.

## INVESTMENT OBJECTIVES

The University of Victoria Foundation is invested in accordance with the Foundation's [Statement of Investment Objectives and Guidelines](#) (SIO&G). The SIO&G sets out the categories of permitted investments, diversification, asset mix and rate of return expectations.

A fundamental underlying concept is that endowments are intended to exist in perpetuity. As a result the Foundation has a long-term investment horizon and focuses on long term returns. The investment objectives of the Foundation reflect this and are focused on:

- Preserving capital in real terms;
- Generation of cash flow to meet expenditures objectives; and
- Growth of cash flow to meet rising expenditures in the long term.

The SIO&G is reviewed annually.

## INVESTMENT BELIEFS SUMMARY

As of August 2011, the Board has taken steps to codify its investment practices into belief statements. This year, it has continued this effort by defining its beliefs regarding Portfolio Management. In addition, as a result of a recent campaign for the Foundation to divest of fossil fuel investments, the Board revisited its Responsible Investing belief originally crafted in 2012. Our other beliefs are summarized in the [Summary of Investment Beliefs](#) available online.

# MEMBERS OF THE BOARD

## **Elected by the Members**

Ms. Lisa Hill (Chair)  
Mr. Michael Mills  
Mr. Andrew Turner  
Mr. Richard Weech (Vice-Chair)

## **Appointed by the Board of Governors of the University**

Mr. Tim McElvaine  
Mr. Robert Miller  
Ms. Carolyn Thoms  
Ms. Fiona Hunter  
Mr. Duncan Webster

## **University Members (ex officio)**

Prof. Jamie Cassels  
Ms. Gayle Gorrill

## **Officers (non-voting)**

Mr. Tamás (“Tom”) Zsolnay (President)  
Mr. Andrew Coward (Treasurer)  
Dr. Julia Eastman (Secretary)  
Ms. Kathy MacDonald (Assistant Secretary)

“The Foundation Board has played an exemplary role as stewards of donors’ investments, ensuring that their funds will continue to have far reaching impact for generations to come.”

**Tamás (“Tom”) Zsolnay**  
President, University of Victoria Foundation

## GOVERNANCE

The University of Victoria Foundation Act provides the Foundation Board with the investment powers of a “prudent investor” as per sections 15.1 to 15.6 of the *Trustee Act*.

The Foundation is governed by a Board of Directors distinct from the University Board of Governors and includes volunteers qualified in investments and trust issues.

### **Figure 2:**

## **Links to Audited Financial Statements & Portfolio Holdings**

A full set of audited financial statements is available on the University of Victoria website at <http://www.uvic.ca/vpfo/accounting/resources/financial-statements.php>.

A list of the portfolio holdings is posted on the Foundation website: <https://www.uvic.ca/universitysecretary/otherbodies/foundations/reports/index.php>

# INVESTMENT PERFORMANCE

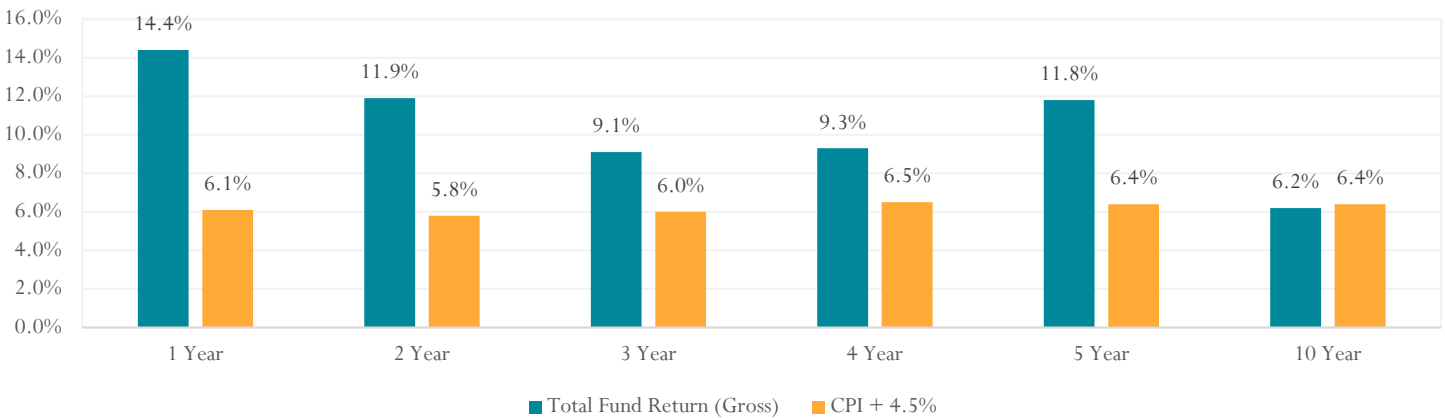
## Fund Return Relative to Investment Goal

The long term investment goal of the Fund is to achieve a minimum annualized rate of return of 4.5 percentage points in excess of the Canadian Consumer Price Index. To achieve this goal, the Fund has adopted an asset mix that has a bias to equity investments and in the last 5 years has also been funding allocations to real estate and infrastructure.

Investment risk is mitigated by investing in a well-diversified portfolio of asset classes and managers. Strong absolute returns and relatively low inflation has allowed the Foundation to comfortably meet that goal over 5 years. On a 10 year basis that includes the 2008/09 global financial crisis, returns are slightly behind that goal.

**Figure 3: Fund Return Relative to Investment Goal**

Total Gross Fund Return vs Investment Goal of CPI + 4.5%, as at March 31 2014

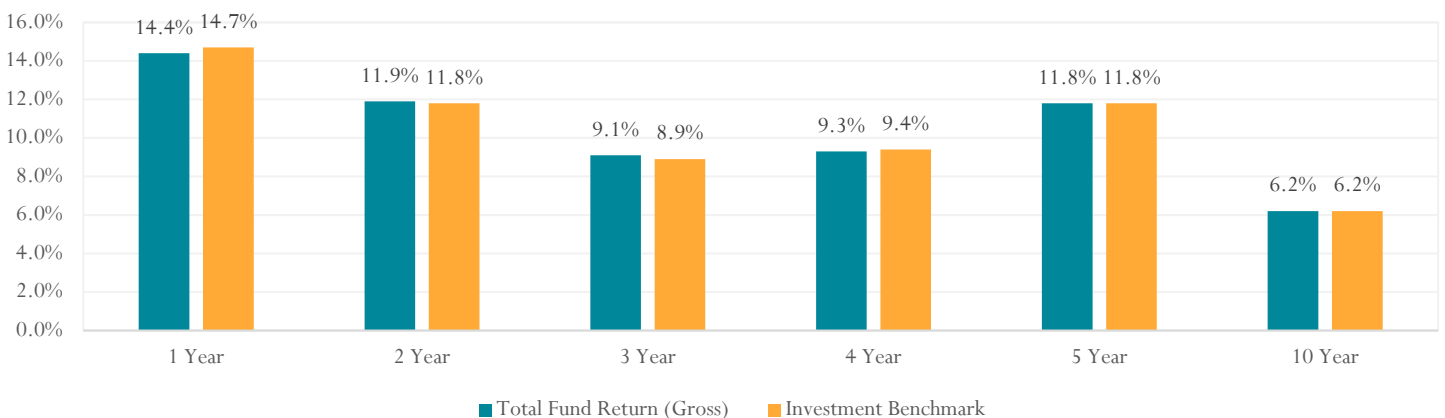


## Fund Return Relative to Investment Benchmark

The Fund employs an active management style. Active management provides the opportunity to outperform specific investment benchmarks. On a relative basis the total Fund has generally met its investment benchmarks.

**Figure 4: Fund Return Relative to Investment Benchmark**

Total Gross Fund Return vs Investment Benchmark, as at March 31 2014





## Returns by Asset Class Relative to Benchmarks

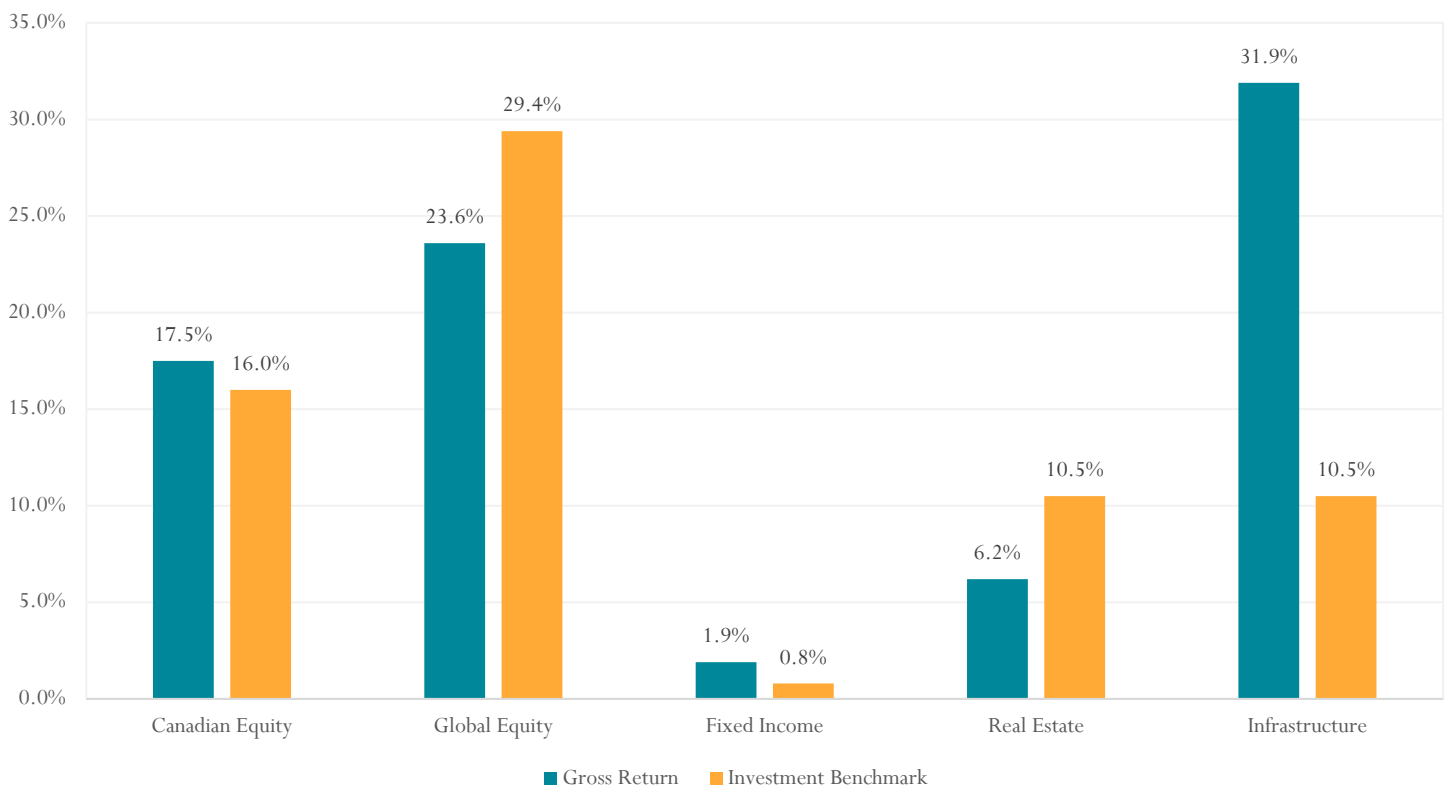
Each of the Foundation's asset classes have generated positive returns in the last year. Canadian equity has excelled, returning 17.5% and exceeding its benchmark by 1.5%. Global equity returned 23.6% however it struggled to meet the extremely strong benchmark returns of 29.4%.

The fixed income market had the lowest absolute return of any asset class over the last year, yet the Foundation's investment manager has outperformed the benchmark by 1.1%.

Real estate returned 6.2% but fell short of its benchmark by 4.3%

We are in the early days of our infrastructure mandate and while the return is strong only a small portion of the target allocation has been funded (Refer to the discussion on "Asset Allocation" for further background)

**Figure 5: One-Year Returns by Asset Class Relative to Benchmarks**  
Total Gross Fund Return vs Investment Benchmark, April 1 2013 – March 31 2014



Looking at performance annualized over the past four years, each of the Foundation's asset classes have generated positive returns. Global equity investments added 2.7% over the benchmark while Canadian equity added 0.3% and Fixed Income 0.2% over four years.

Real Estate has consistently trailed its benchmark across all three years that the Foundation has maintained a position. The Real Estate benchmark is the least comparable of all the benchmarks, however the Board felt it was better to have a relative measure for reference, even if it is not directly comparable.

2013-14 marked the first year of exposure to infrastructure investments, and the benchmark was exceeded by 21.4%.

### Figure 6: Annualized Performance by Asset Class

Total Gross Returns & Benchmarks by Asset Class, as at March 31, 2014

<i>As of March 31, 2014</i>	<b>Annualized Performance</b>			
	1 Year	2 Year	3 Year	4 Year
Canadian Equity (Gross)	17.5%	11.6%	3.8%	7.8%
Benchmark: S&P/TSX Composite Total Return Index	16.0%	10.9%	3.6%	7.5%
<i>Value Added</i>	<i>1.5%</i>	<i>0.7%</i>	<i>0.2%</i>	<i>0.3%</i>
Global Equity (Gross)	23.6%	18.7%	14.4%	12.1%
Benchmark: MSCI World Total Return Net Index	29.4%	21.3%	8.9%	9.4%
<i>Value Added</i>	<i>-5.8%</i>	<i>-2.6%</i>	<i>5.5%</i>	<i>2.7%</i>
Fixed Income (Gross)	1.9%	3.5%	5.4%	5.5%
Benchmark: FTSE TMX Universe Bond	0.8%	2.7%	5.0%	5.3%
<i>Value Added</i>	<i>1.1%</i>	<i>0.8%</i>	<i>0.4%</i>	<i>0.2%</i>
Real Estate (Gross)	6.2%	8.2%	9.3%	N/A
Benchmark: REALpac/Investment Property Databank	10.5%	11.9%	13.0%	N/A
<i>Value Added</i>	<i>-4.3%</i>	<i>-3.7%</i>	<i>-3.7%</i>	
Infrastructure (Net)	31.9%	N/A	N/A	N/A
Infrastructure Benchmark	10.5%	N/A	N/A	N/A
<i>Value Added</i>	<i>21.4%</i>			

## Asset Allocation

**Figure 7: Asset Allocations Relative to Policy**

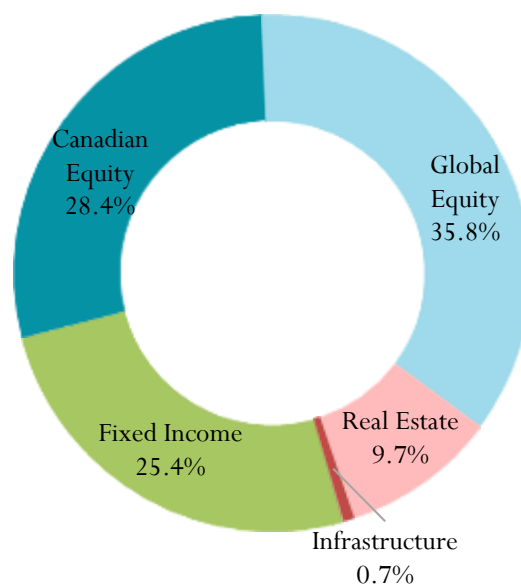
As at March 31, 2014

Asset Class Benchmark Policy	Investment Policy (%)	Actual Allocation (%)
<i>Fixed Income:</i>		
Bonds - FTSE TMX Universe Bond	25.0	25.4
Total Fixed Income	25.0	25.4
<i>Equity:</i>		
Canadian Equity - S&P TSX Composite	25.0	28.4
Global Equity - MSCI World Net (CDN)	30.0	35.8
Total Equity	55.0	64.2
<i>Alternatives:</i>		
Real Estate - REALpac / IPD Canada Property Index	10.0	9.7
Infrastructure: FTSE TMX Real Return Bond 50% MSCI World (Net) (CAD) 50%	10.0	0.7
Total Alternatives	20.0	10.4
Total Fund	100.0	100.0

The Foundation's actual allocation to each asset class remains within the approved investment policy ranges.

The infrastructure asset class allocation remains low relative to policy benchmark. The Foundation has committed to North American and European Infrastructure Funds to achieve geographical diversity. Both funds are in the early stages of investing and capital is only requested once investments are made. Accordingly, the full investment will take time to achieve. While the allocation is a small portion of the portfolio, returns to date have been strong. The offsetting overweight position relative to the investment policy target is to the Global and Canadian equity allocations.

**Actual Asset Allocations**



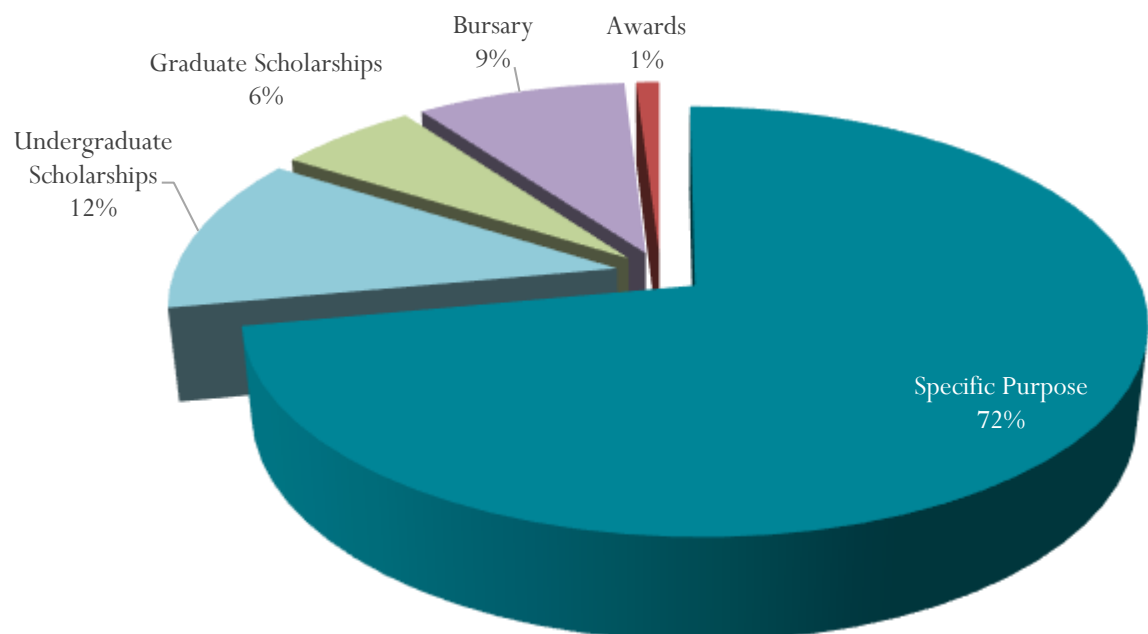
# ENDOWMENT MANAGEMENT (SPENDING) POLICY

The Board maintains an Endowment Management Policy that sets out the following objectives:

- Protect the value of the Fund against inflation over time so that the donor is assured that the donation will continue to work for the benefit of the University for generations to come; and
- Provide stability in the earnings distribution to allow both the recipients and the University to plan ahead knowing what funds will be made available each year.

In order to achieve these goals the Foundation updated the spending policy in 2010 to allow for a 4.0% spend rate of the principal adjusted for inflation annually. In order to achieve a 4% distribution as well as fund approximately 2% annually for inflation and up to 1% for investment costs, the endowment must earn a mean expected return of roughly 7%. If investment returns exceed 7%, then the endowment can establish a cushion that enables stability in fund disbursements and the maintenance of a long term asset allocation strategy throughout the ebbs and flows of various market cycles. Funds with 2 years of spend cushion (i.e., funds with a market value of greater than 108% of principal, adjusted for inflation) are permitted an additional annual 0.5% spend. In 2014-15 almost half the funds are eligible for the additional 0.5% spend. Moreover, it is through adherence to the Endowment Management Policy that the Board was able to approve a budget of \$12.8 in 2014-15. The breakdown of how the budget is allocated is illustrated below.

**Figure 8: 2014-15 Budget Allocations**



## Management Fees

The majority of investment expenses are investment management fees, however, the spending policy limits expenses to a maximum of 0.35% per annum of the inflation adjusted principal at cost as at December 31 of the prior year.

These expenses may include audit, consulting and performance measurement fees as well as advancement and administration services provided by the University of Victoria.

For 2014-15 the Foundation budget for these expenses is 0.32% of the inflation adjusted principal at cost as of December 31, 2013.

## Budget Categories:

**Awards** – Achievement based

**Bursaries** – Bursaries are non-repayable awards based on financial need and reasonable academic standing.

**Specific Purpose** - Research Chairs, Centres, etc.

**Scholarships** – Scholarships are non-repayable and are awarded to students on the basis of academic merit or excellence

## SERVICE PROVIDERS

### INVESTMENT MANAGERS

**Walter Scott & Hexavest** - *Global equity*  
**Phillips, Hager & North** - *Fixed Income*  
**Fiera Capital** - *Canadian equity*  
**Macquarie Infrastructure** - *Infrastructure*  
**Bentall Kennedy** - *Real Estate*

### CUSTODIAN

**RBC Investor Services**

### INVESTMENT CONSULTANT

**Aon Hewitt**

### PERFORMANCE MANAGEMENT

**Aon Hewitt**

### AUDITOR

**KPMG LLP**

*As at March 31 2014*

# CONTACT

General enquiries or requests for statements can be directed  
to the University Secretary's Office

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Phone: (250) 721-8102