UNIVERSITY OF VICTORIA FOUNDATION

2014-15

ANNUAL REPORT

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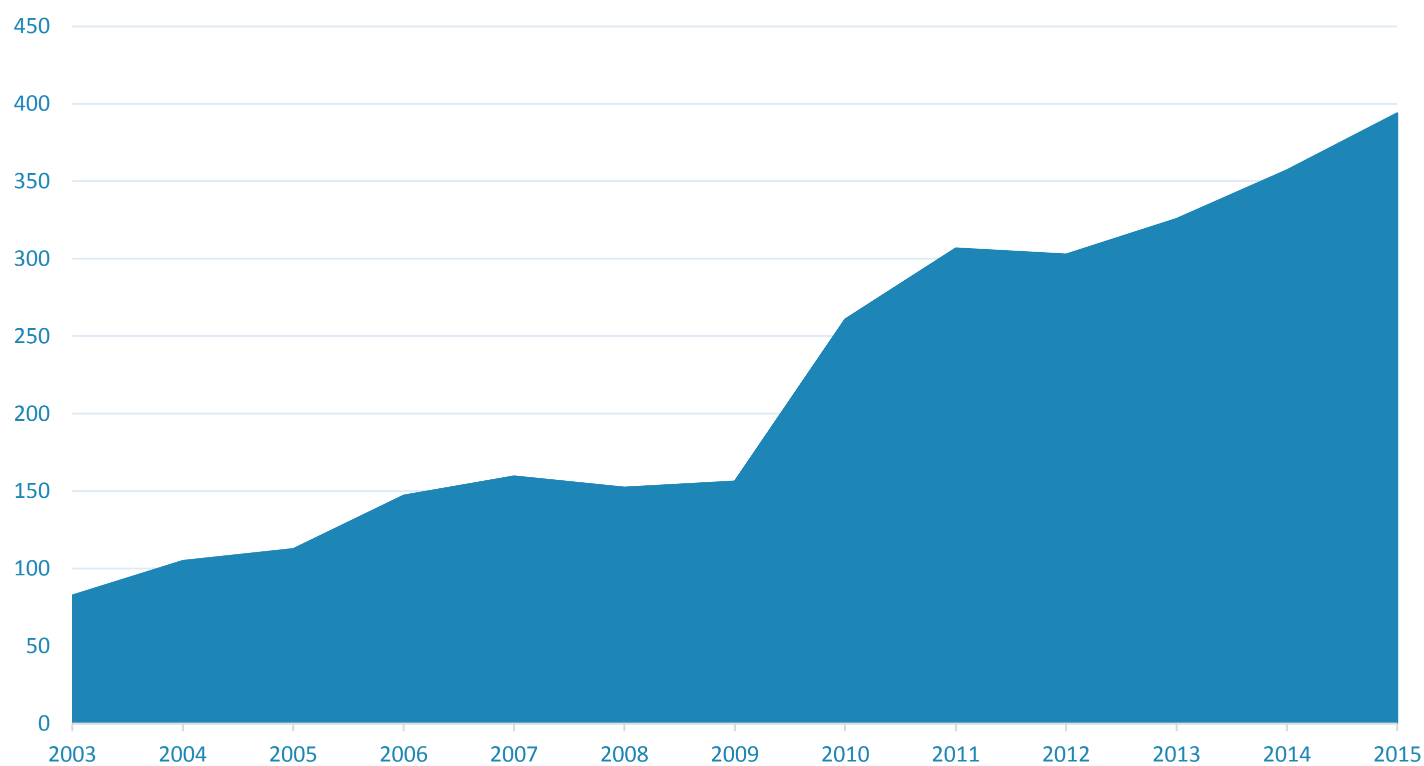
"Donors who support the University of Victoria Foundation underpin the university's commitment to dynamic learning and vital impact. Their vision and generosity is contributing to the present and future success of this university."

Tom Zsolnay
President, University of Victoria Foundation

Figure 1: Endowment Growth

$ Millions, Market Value, 2003-2015 as at March 31



MESSAGE FROM THE CHAIR

It is with great pleasure that I present to you the 2014-15 University of Victoria Foundation Annual Report, my first report as the Chair of the Board. This Annual Report provides an investment overview and summary of the Foundation's activities for its many stakeholders.

This year marks the 6th straight year of positive returns since the Financial Crisis and another year of strong returns. The Foundation's long term investment goal is to achieve an annualized rate of return of inflation (CPI) + 4.5%, net of management fees. The Foundation Board is proud to have achieved this goal looking back over the past 5 and 10 years with annualized returns of 10.3% and 6.9% respectively.

The Board continues to meet at least six times a year. In addition to the in depth discussions with the Foundation's investment consultant and various asset managers, the Board regularly reviews the Foundation's Statement of Investment Objectives and Guidelines, Endowment Management Policy, Statement of Investment Beliefs and other areas of priority. This year's highlights included:

- Completing an asset allocation review and Canadian equity manager search;
- Becoming a signatory of United Nations Principles for Responsible Investing (UNPRI); and
- Approval of 2015/16 Annual Budget of $13.9 million.

The Board completed a formal asset allocation review to ensure the Foundation's portfolio maintains what is considered an optimal asset mix to generate the minimum required risk adjusted investment return over the long term. Overall, the portfolio has performed well, however, in an increasingly complex global investment environment, the Foundation decided to undertake a review of the Foundation's asset mix. One of the outcomes of this review was the Board's decision to modestly increase exposure in the investment portfolio to emerging market equities. This was achieved through one of the Foundation's existing global equity managers. In the longer term, the Board is considering a larger allocation to what is referred to as alternative investment strategies, such as infrastructure and real estate and also whether hedge funds would offer attractive risk-adjusted returns to the portfolio.

As part of regular reviews of its investment managers, the Board undertook a Canadian equity manager search that included a thorough review process and several special meetings of the Board. In February the Board made the decision to replace its Canadian equity manager, with the changeover occurring following the Foundation's fiscal year end.

Beginning in 2011 the Board began the process of documenting its investment beliefs. This past year the Board also expanded its Summary of Investment Beliefs, as related to Responsible Investing, to include the requirement that the Foundation's investment managers (i) provide a report on responsible investing activities each year and (ii) that the report also include a record of the manager's proxy voting activity. In an effort to be more transparent about these initiatives, the Foundation's first Responsible Investing Report is included in the 2014-15 Annual Report. Furthermore, in keeping with the Board's belief in and commitment to responsible investment, in January 2015 the Foundation became a signatory to the United Nations Principles for Responsible Investing (UNPRI). The UNPRI is an organization that seeks to explicitly acknowledge the relevance of environmental, social, and governance factors on the long-term value and performance of investments.

A prevalent topic in recent years throughout the global investment community is the divestment of fossil fuel related securities. The Board considered several requests to divest from the Foundation's investments in fossil fuels. The Board continues to share the concerns of many in the community with regards to reducing the negative impact of CO_2 emissions on the environment but does not believe divestment is a prudent approach to achieving this end nor in fulfilling its fiduciary obligations. The Board respects the importance of responsible investing as it relates to long term investment returns. We will continue to oversee and evaluate how our investment managers' execute their responsibilities as they relate to a wide body of environmental, social and governance factors, and in fulfilling our responsibility as a UNPRI signatory.

Finally and most importantly, I would like to thank the terrific group of volunteer Board members who dedicate so much time to the Foundation. We have welcomed two new Board members this year, Lisa Dempsey and Paul Siluch, who both have extensive experience in the investment industry. I would also like to thank outgoing Board members Lisa Hill and Tim McElvaine who I had the pleasure to work with over the years. Lisa was appointed Board Chair in 2008 and helped guide the Foundation through the Financial Crisis and into six years of positive returns. Lisa set a high standard for me as incoming Chair and I aspire to meet that challenge.

To all those that support the University of Victoria Foundation, I thank you and welcome your feedback on our 2nd Annual Report.

Carolyn Thoms (Chair)

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 $394 million in assets and administering over 1,194 endowment funds for scholarships, bursaries, research chairs 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 Asset Allocation and Portfolio Rebalancing.

Our other beliefs are summarized in the Summary of Investment Beliefs available online.

"Thanks to the Foundation Board's excellent stewardship of donors' investments, the solid growth of the endowment fund is a win-win for our donors and for all those who benefit from these funds."

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.

MEMBERS OF THE BOARD

Elected by the Members

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

Appointed by the Board of Governors of the University

Ms. Fiona Hunter
Mr. Robert Miller
Mr. Paul Siluch
Ms. Carolyn Thoms (Chair)
Mr. Duncan Webster

University Members (ex officio)

Prof. Jamie Cassels
Ms. Gayle Gorrill

Officers (non-voting)

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

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

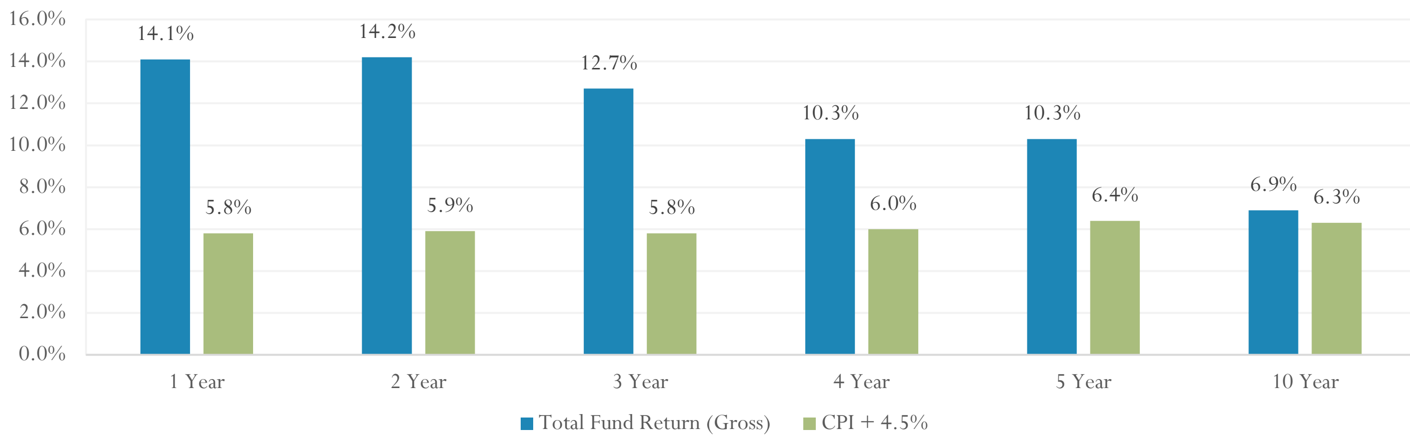
Fund Return Relative to Investment Goal

The long term investment goal of the Fund is to achieve a minimum annualized rate of return of 4.5% 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 investing in 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 ahead of 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, 2015

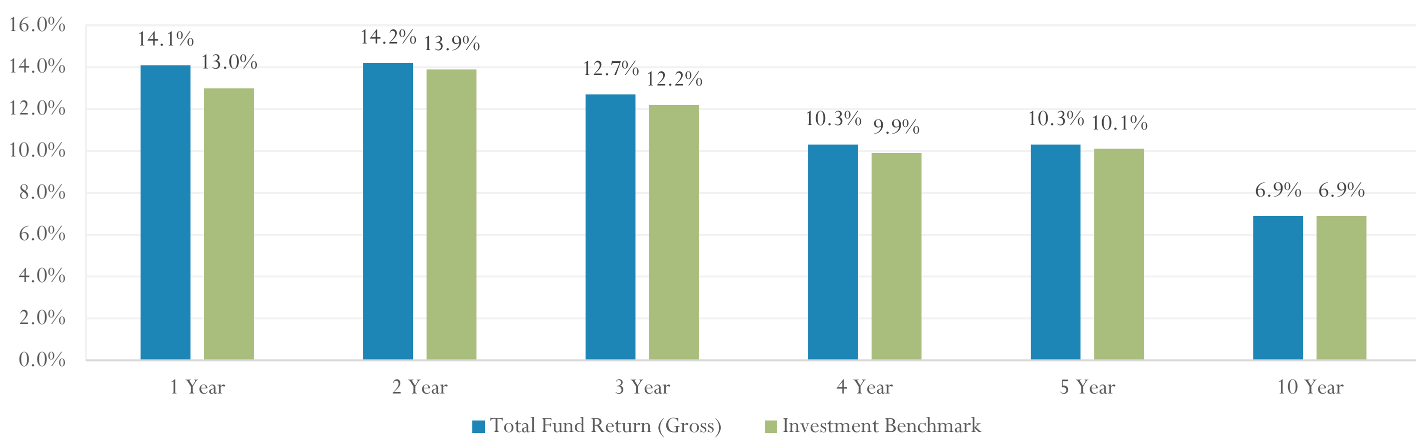


Fund Return Relative to Investment Benchmark

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, 2015

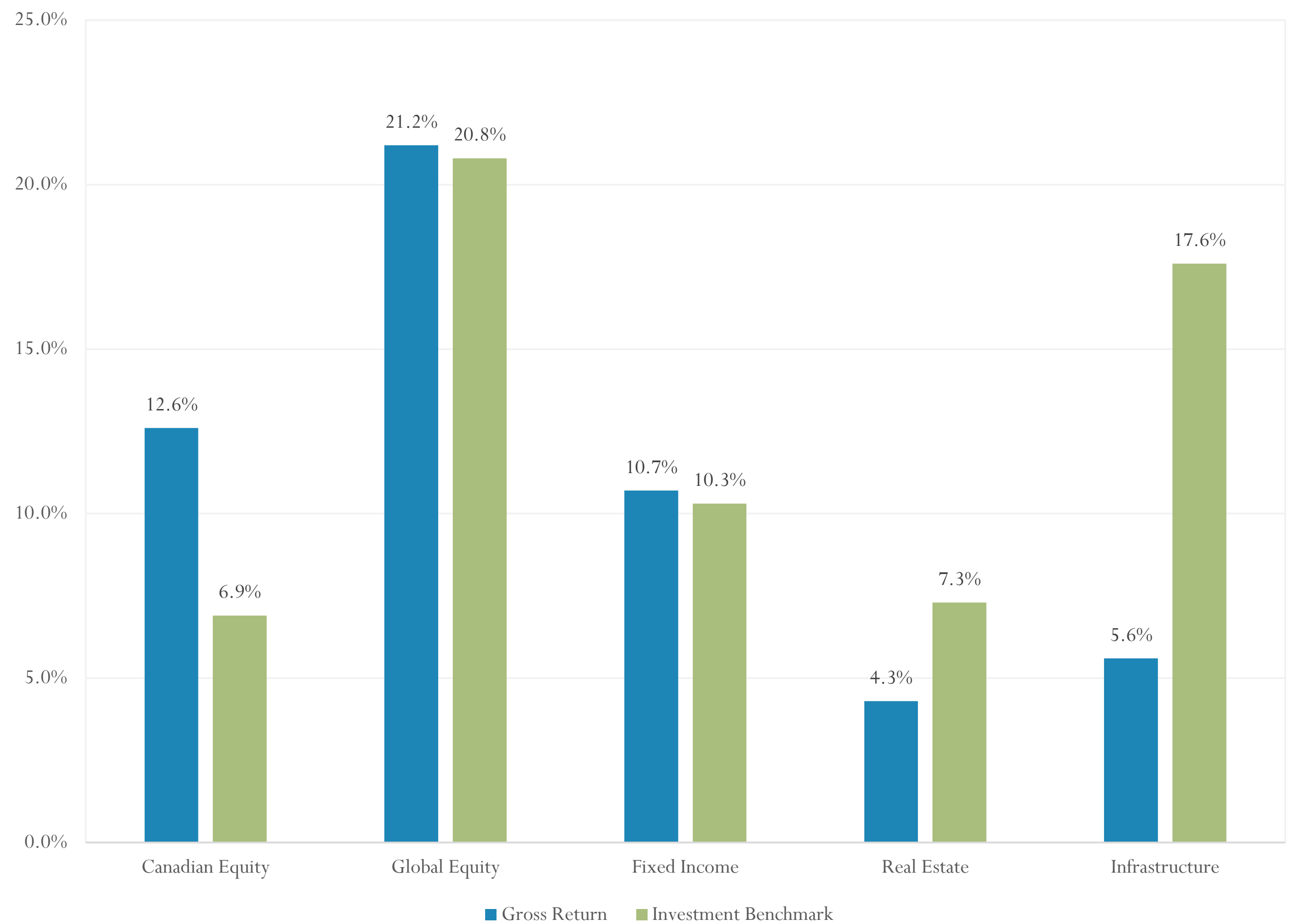


Returns by Asset Class Relative to Benchmarks

Each of the Foundation's asset classes have generated positive returns in the last year with strong equity returns that outperformed their respective benchmarks. Global equities returned 21.2% and exceeded our benchmark by 0.6%. Canadian equities returned 12.6% and outperformed the benchmark by 5.7%. Fixed income returned 10.7% and outperformed its benchmark by 0.4%.

Real estate returned 4.3% and underperformed its benchmark by 3.0%. Infrastructure returned 5.6% and underperformed its benchmark by 12%. The infrastructure benchmark is 50% global equities and 50% real return bonds and illustrates well how strong global equity and fixed income returns were for the year. The Foundation is still in the early days of investing in infrastructure and it represents only 3.3% of the total fund.

Figure 5: One-Year Returns by Asset Class Relative to Benchmarks
Total Gross Fund Return vs Investment Benchmark, as at March 31, 2015



Over the past four years each of the Foundation's asset classes have generated positive returns with a total fund return of 10.3% outperforming its benchmark by 0.4%.

Canadian equity outperformed its benchmark by 1.6% while real estate has consistently trailed its benchmark across all four years. It is worth noting that 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.

Figure 6: Annualized Performance by Asset Class
Total Gross Returns & Benchmarks by Asset Class, as at March 31, 2015

	Annualized Performance			
As at March 31, 2015	1 Year	2 Year	3 Year	4 Year
Canadian Equity (Gross)	12.6%	15.0%	12.0%	6.0%
Benchmark: S&P/TSX Composite Total Return Index	6.9%	11.4%	9.6%	4.4%
Value Added	*5.7%*	*3.6%*	*2.4%*	*1.6%*
Global Equity (Gross)	21.2%	22.4%	19.5%	16.1%
Benchmark: MSCI ACWI (Net) (CAD)	20.8%	25.0%	21.1%	16.4%
Value Added	*0.4%*	*-2.6%*	*-1.6%*	*-0.3%*
Fixed Income (Gross)	10.7%	6.2%	5.9%	6.7%
Benchmark: FTSE TMX Canadian Universe Bond	10.3%	5.4%	5.1%	6.3%
Value Added	*0.4%*	*0.8%*	*0.8%*	*0.4%*
Real Estate (Gross)	4.3%	5.4%	7.1%	8.2%
Benchmark: REALpac/IPD Canada Property Index	7.3%	9.0%	10.4%	11.6%
Value Added	*-3.0%*	*-3.6%*	*-3.3%*	*-3.4%*
Infrastructure (Net)	5.6%	18.0%	N/A	N/A
Benchmark: FTSE TMX Real Return Bond 50%; MSCI ACWI (Net) (CAD) 50%	17.6%	14.0%	N/A	N/A
Value Added	*-12.0%*	*4.0%*	N/A	N/A

Asset Allocation

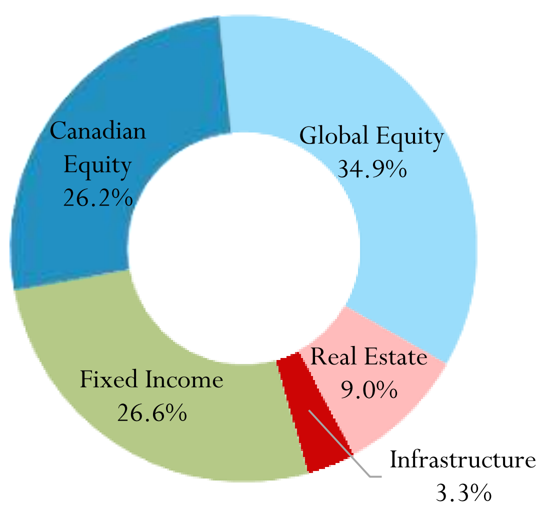
Figure 7: Asset Allocations Relative to Policy
As at March 31, 2015

Asset Class	Investment Policy (%)	Actual Allocation (%)
Fixed Income:		
Fixed Income - FTSE TMX Canadian Universe Bond Index	25.0	26.6
Total Fixed Income	25.0	26.6
Equity:		
Canadian Equity - S&P TSX Composite Index	25.0	26.2
Global Equity - MSCI ACWI Index (Net) (CDN)	30.0	34.9
Total Equity	55.0	61.1
Alternatives:		
Real Estate - REALpac / IPD Canada Property Index	10.0	9.0
Infrastructure: FTSE TMX Real Return Bond 50% Index; MSCI ACWI Index(Net) (CAD) 50%	10.0	3.3
Total Alternatives	20.0	12.3
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

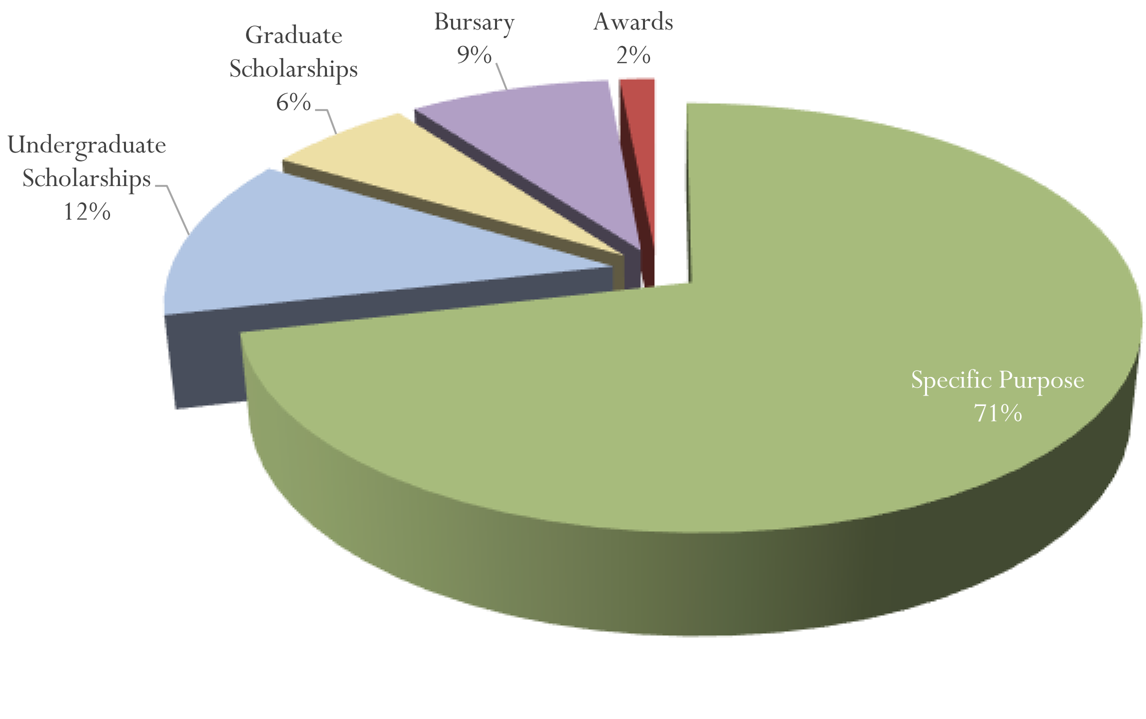
The Board maintains an Endowment Management Policy that sets out the following objectives:

- 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 2015-16 more than 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 $13.9 in 2015-16. The breakdown of how the budget is allocated is illustrated below.

Figure 8: 2015-16 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.

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

For 2015-16 the Foundation budget for these expenses is 0.31% of the inflation adjusted principal at cost as of December 31, 2014.

SERVICE PROVIDERS

INVESTMENT MANAGERS	**Walter Scott & Hexavest** -*Global equity* **Phillips, Hager & North Investment Management** -*Fixed Income* **Fiera Capital** -*Canadian equity (Effective April 30th 2015, the investment manager was changed to Foyston, Gordon & Payne)* **Macquarie Infrastructure & Real Assets** -*Infrastructure* **Bentall Kennedy** -*Real Estate*
CUSTODIAN	**RBC Investor Services**
INVESTMENT CONSULTANT	**Aon Hewitt**
PERFORMANCE MANAGEMENT	**Aon Hewitt**
AUDITOR	**KPMG LLP**

As at March 31 2015

RESPONSIBLE INVESTING REPORT

In 2012, the Foundation extended its list of investment beliefs to include a belief on responsible investing. Two years later, it was updated to include a requirement that investment managers submit annual disclosures regarding the processes by which ESG factors are incorporated into the investment decision-making process. The Board continues to focus its efforts on responsible investing instead of divestment. In 2015, in order to advance responsible investing the Board focused on:

1. becoming a signatory to the United Nations-supported Principles for Responsible Investing (PRI) and understanding how to optimize its membership, and;

2. reviewing the responsible investment practices of its investment managers and their commitments to Environmental Social and Governance (ESG).

PRINCIPLES FOR RESPONSIBLE INVESTING

The United Nations-supported PRI Initiative has quickly become a leading global network for investors to publicly demonstrate their commitment to responsible investment, to collaborate and learn with their peers about the financial and investment implications of ESG issues, and to incorporate these factors into their investment decision-making and ownership practices.

Membership to the PRI also offers a menu of possible actions for incorporating ESG issues into investment practices across asset classes. Responsible investment is a process to be tailored to fit each organization's investment strategy, approach and resources. The principles are designed to be compatible with the investment styles of large, diversified, institutional investors that operate within a traditional fiduciary framework.

Also through this membership the Board has agreed to adopt the Six PRI principles below that are voluntary and aspirational. The Foundation views the PRI's Six Principles as framework for responsible investing and, where consistent with our fiduciary responsibilities, we commit to the following:

- Incorporate environmental, social and governance issues into our decision-making processes.
- Encourage managers to be active owners and incorporate ESG issues into ownership policies and practices.
- Encourage managers to seek appropriate disclosure on ESG issues by the entities in which we invest.
- Promote acceptance and implementation of the Principles within the investment industry.
- Work together to enhance our effectiveness in implementing the Principles.
- Report on our activities and progress towards implementing the Principles.

INVESTMENT MANAGER ESG INTEGRATION

In 2012, the Board asked investment managers to present a report on ESG integration or address this in their annual presentation. In conjunction with our updated responsible investing efforts the Board now requests that its investment managers provide annual written reports on ESG practice integration. Key disclosures from each investment manager on their internal processes are included below.

Walter Scott – Global Equity Manager

> *"[ESG] Issues continue to be an important part of dialogue with companies. Knowledge of both specific issues and general trends continues to be built within [Walter Scott] and the firm continues to make administrative and procedural changes to consistently apply this investment approach."*
>
> -Walter Scott Investment Manager, 2014

Integral to Walter Scott's investment philosophy is a belief that there is an irrefutable link between corporate governance and corporate performance. Over time corporate performance is the key determinant of investment performance and therefore Walter Scott is committed to encouraging the highest standards of corporate governance in the companies in which it invests. In this context, corporate governance is understood to include all factors that may be considered under the terms ESG or SRI.

This year, Walter Scott trained their investment team on recognizing ESG issues; moreover, WS encouraged its members to tackle these issues abroad. Through collaborative partnerships, Walter Scott engaged with Impactt, an international workers-rights consultancy group, on ethical trade, labour standards and human rights in the supply chain. Members of the Walter Scott team joined Impactt in visiting factories in Bangladesh and Myanmar to view worker conditions, speak with unions and consult factory owners.

Hexavest – Global Equity Manager

Hexavest incorporates ESG and "extra financial" considerations in the valuation processes of individual equities. Using Sustainalytics, Hexavest conducts quarterly ESG assessments of their portfolio. Hexavest outsources direct corporate engagement in Canada to Bâtirente, an original PRI signatory. Hexavest is also considering employing a similar firm for their global equities. Hexavest outsources their proxy vote representation to Groupe Investissement Responsible (GIR) who have developed in-house software to align client profiles and proxy voting responses. Although the main basis of analysis when exercising voting rights is to maximize returns for its clients, Hexavest also requires that companies comply with the regulations in force in the jurisdictions where they do business, and that companies are socially responsible and adhere to high standards of governance and ethics.

Foyston Gordon & Payne – Canadian Equity Manager

Foyston Gordon & Payne (FGP) incorporates ESG to their equity vetting and monitoring processes. FGP tracks:

I. Company environmental factors (such as emissions, use of renewables, recycling & whether management has formulated ESG policies);

II. Social factors (such as employee equity, workplace diversity, adherence to safety standards & whether management has incorporated training and health & safety programs); and,

III. Governance factors (such as board structure and executive compensation).

FGP compiles ESG factors using proprietary software such as Bloomberg ESG metrics, and incorporates this into individual equity's risk/performance profiles. FGP incorporates an investment scoring system which directly correlates to an investment's weighting in their portfolio. FGP also subscribes to Sustainalytics and receives SRI-based coverage of Canadian Equities (mid/large cap).

Bentall Kennedy – Canadian Real Estate Manager

Bentall Kennedy (BK) has committed to achieving carbon neutrality and an overall emission reduction of 12% every 5 years. They strive to reduce operating expenses from utility use and waste generation while at the same time improving environmental performance and efficiency.

BK reported that across the portfolio it achieved a 5% reduction in GHG emissions, a 6.4% reduction in water intensity and 14.2% and 2.6% decreases in waste intensity in the United States and Canada respectively since 2010.

Moreover BK certifies or labels buildings under established industry programs to achieve results and exceed benchmarks. Both LEED and BOMA BESt rate the environmental performance of a building. BK holds $10 billion in assets that are LEED certified and $11.4 billion in Canadian assets that are BOMA BESt certified (BOMA BESt is only for Canadian buildings). ENERGY STAR focuses specifically on energy consumption and intensity and is available in the U.S. only. $3.1 billion of U.S. assets have achieved the ENERGY STAR label indicating that they are top performers.

For the fourth year in a row, BK was recognized as one of the most sustainable real estate management companies in the world. According to the Global Real Property Investing Benchmark (GRESB), BK was the top firm out of 147 worldwide for the diversified category in 2014.

Macquarie Infrastructure and Real Assets – Global Infrastructure Manager

Macquarie's approach to ESG is underpinned by three long standing principles:
Opportunity. Accountability. Integrity.

Macquarie views management of material ESG risks as a component of broader risk management and recognizes that failure to manage these risks could expose Macquarie to commercial, reputational and regulatory impacts. Macquarie's strong commitment to ESG acknowledges the impact (both positive and negative) our investments have on various stakeholders including communities, customers, employees and investors.

The Macquarie Environmental and Social Risk (ESR) team coordinates a diverse range of ESG activities including developing and implementing Group-wide and business-specific policies, providing advice on ESG risks and specific policies, providing advice on ESG risks and opportunities as well as facilitating training. All staff share responsibility for identifying and managing ESG issues as part of normal business practice.

Macquarie Asset Management (MAM) has been a signatory to the United Nations Principles for Responsible Investment (PRI) since July 2015. In addition, Macquarie Group is a signatory to the Carbon Disclosure Project (CDP) and responds to the CDP about its approach to the risks and opportunities from climate change.

PH&N Investment Management – Canadian Fixed Income Manager

ESG analysis is incorporated into PH&N's formal investment planning process; the firm assesses ESG issues on a by-company basis to discern whether they factor into potential financial losses. In partnership with RBC Global Asset Management (GAM), PH&N has begun working with the Corporate Governance & Responsible Investment Group (CGRI Group) to integrate ESG considerations in all aspects of their formal investment process. PH&N is a member of the Canadian Coalition for Good Governance (CCGG), Carbon Disclosure Project (CDP) and the Responsible Investment Association (RIA).

PROXY VOTING

Proxy voting is another essential tool in our commitment to responsible investing. The Board has delegated voting rights to be exercised by the investment managers. Equity investment managers are expected to vote all proxies in the best interests of the Foundation.

The most common types of proxy votes are:

- Board Opposition: 37% of votes
- Say on Pay Opposition: 88% of votes, and;
- Shareholder Proposal Support: 92% of votes.

The proxy voting activity of our investment managers demonstrates that they continue to remain active participants within their equity portfolios.

CONTACT

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

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