# UNIVERSITY OF VICTORIA FOUNDATION

2019–20

# ANNUAL REPORT

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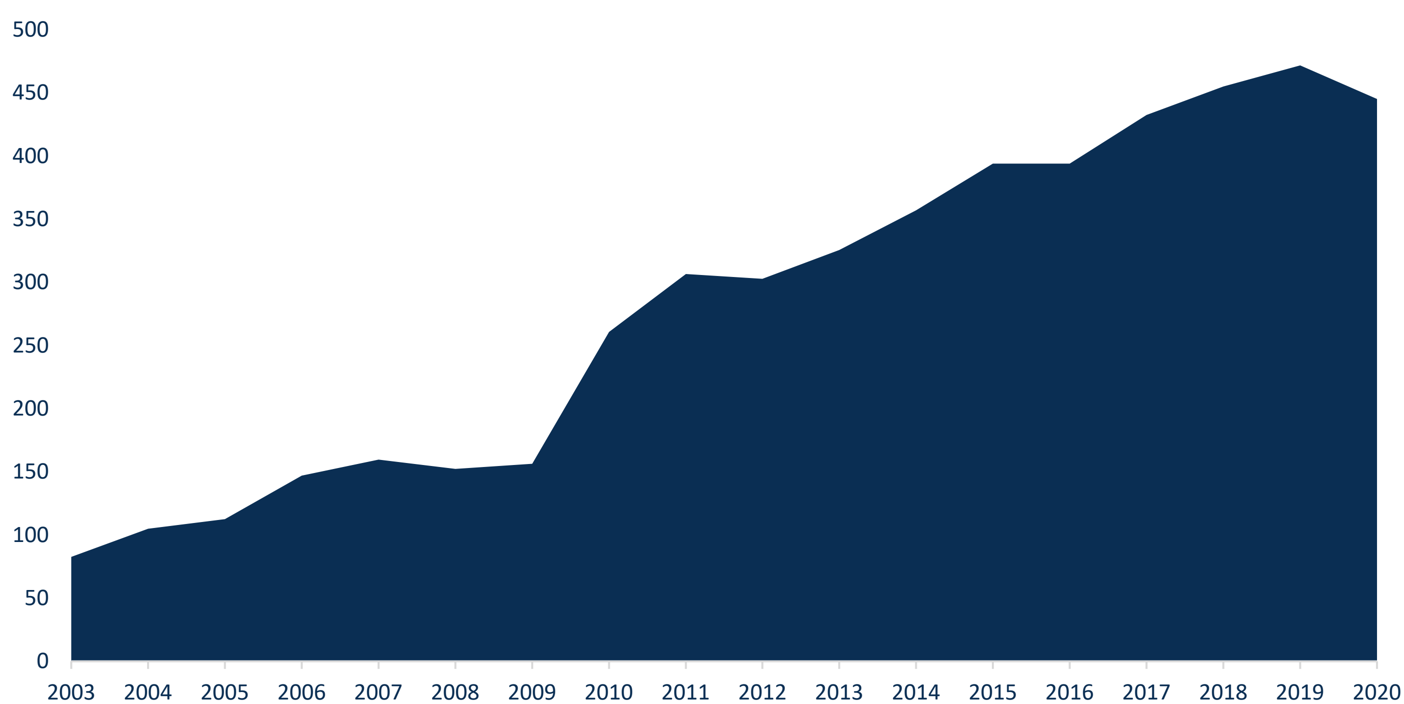
"In this my first year as President of the University of Victoria Foundation, it is my pleasure to thank all of the generous donors who've contributed over the years and all the new donors who've added $8.7 million to the endowments this year. Your investments are helping to accelerate research innovation and enhance dynamic learning and will do so for years to come. It has been an extraordinary year with the onset of COVID-19 and the market turmoil that followed. I have every confidence that the UVic Foundation will continue to grow and excel as we navigate our 'new normal'. Thank you for placing your trust in us."

**Jane Potentier**
President, University of Victoria Foundation

## Figure 1: Foundation Growth

$ Millions, Market Value, 2003-2020 (as at March 31)



# MESSAGE FROM THE CHAIR

I am very pleased to present the 2019-20 edition of the University of Victoria Foundation's 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.

After ten consecutive years of positive returns of the Foundation's investments since the financial crisis of 2008-09, COVID-19 has brought this to an abrupt halt. The net annual return for the fiscal year was -3.8% and fell short of both the Foundation's absolute and relative benchmarks over the last year. While the effects of COVID are still uncertain, and will be for the foreseeable future, investment markets have risen significantly since the end of March. While this degree of short-term volatility is not typical, the Foundation's long-term investment goal is unchanged. That goal is to achieve a minimum annualized rate of return (net of management fees) of inflation + 4.5%. As outlined in this report, while underperformance this past year is of the utmost concern, the Foundation Board has achieved its inflation + 4.5% goal over the last 4 and 10 year periods.

As of writing this letter, the Foundation's investments have rallied significantly with the investment markets. While this is reassuring and investment markets are generally forward-looking, given the unprecedented nature of this pandemic the Board is mindful that volatility will likely persist. Rest assured the board members of the Foundation are experienced professionals who have been through many market downturns. The Board continues to focus on ensuring the diversified investment portfolio is well-positioned to earn sustainable investment returns over the long-term while providing downside protection in falling markets during times like this and for years to come.

The portfolio is being closely monitored and the Board continues to meet at least six times a year. It is too early to know how protracted this crisis will be, and its effects on investment returns remains to be determined. As of the end of March the broadly diversified portfolio has allowed for most endowments to remain largely financially healthy. In approving the $15.4 million budget for the upcoming year the Foundation considered its two core spending 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 UVic for generations to come; and
- Provide stability in the earnings distribution to allow both recipients and UVic to plan ahead by knowing what funds will be made available each year.

A detailed breakdown is provided in this report and, importantly, all funds received budget for the upcoming year. The vast majority of these funds go to support scholarships, bursaries and research centres at the university.

Our decisions will continue to be guided by the long-term nature of our endowments. In order to ensure intergenerational equity, an asset liability study was completed last year. While the study was completed pre-pandemic, the results of the study were overwhelmingly positive and showed our spending policy has allowed endowments to increase their spending annually while also building up an investment cushion as returns exceeded our expectations of the last 10 years. This year the Board will work to update asset allocation based on the asset liability study. Part of updating the asset allocation strategy includes ensuring that climate change and the risks and opportunities therein are being appropriately addressed across the portfolio. The Board has committed to create a plan to ensure addressing climate change is at the fore. This includes reviewing our investment manager due diligence practices, opportunities for company engagements, carbon footprinting our portfolio and impact investing to promote sustainable futures. I look forward to sharing progress on these endeavours on our website throughout the year.

In the coming year the Board will implement the findings of an asset allocation study with the goal to ensure the expected 10-year annualized real return (reward) and annual pessimistic (i.e. downside) real return (risk) are appropriate. That mix will be stress tested based on our spending policy to ensure the probability of achieving the spending rate over the long-term remains high. This includes reviewing our approach to investing in public equities and analyzing the potential for private equity investment in our portfolio.

To all those that support the University of Victoria Foundation, I thank you and welcome your feedback.

# 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 $445 million in assets and administering over 1,400 endowment funds that disburse more than $15 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:

- Preservation of capital in real terms;
- Generation of sufficient annual cash flow to meet expenditures objectives; and
- Growth of cash flow to meet rising costs over the long term.

The SIO&G is reviewed annually.

# INVESTMENT BELIEFS SUMMARY

The Board has taken steps to codify its investment practices into belief statements. Our beliefs are summarized in the Summary of Investment Beliefs available online.

"I'm pleased to be joining the Foundation Board and am impressed by the diligence and care the Board has shown in stewarding donors' investments. Donors to the Foundation are investing in the long-term success of UVic and as a board, it is our duty to ensure these investments are well managed and utilised. Together, we are all helping to advance the university's mission."

**Jane Potentier**
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 (Vice-Chair)
Mr. Chris Donkers
Ms. Ann Glazier Rothwell
Mr. Jagdeep Shergill

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

Ms. Mary Garden (Chair)
Mr. Paul Siluch
Mr. Doug Stadelman
Mr. Bryan Thomson
Mr. Duncan Webster

**University Members (ex officio)**

Prof. Jamie Cassels
Ms. Gayle Gorrill

**Officers (non-voting)**

Ms. Jane Potentier (President)
Mr. Andrew Coward (Treasurer)
Ms. Carrie Andersen (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.

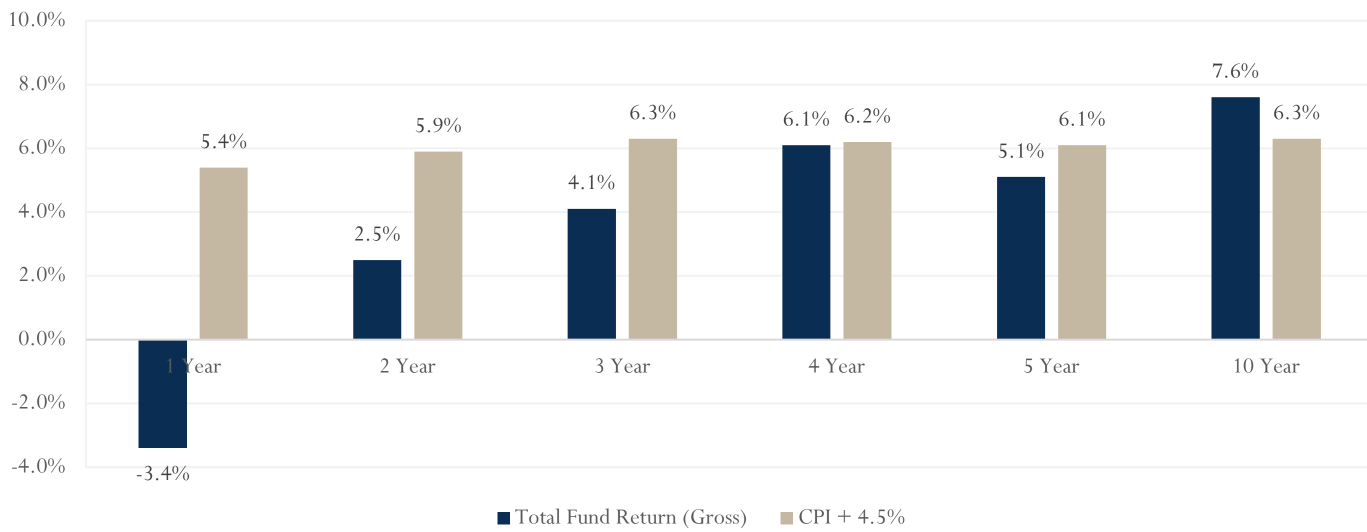
A list of the portfolio holdings is posted on the Foundation website: https://www.uvic.ca/universitysecretary/otherbodies/foundations/reports/index.php

# 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% 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 five years has been funding allocations to real estate and infrastructure. From the end of February to March 31st there was a dramatic decline in worldwide investment markets as a result of the COVID-19 health crisis, which led to the Fund's underperformance in its investment return goals for the 5-year period. Since March 31st, investment markets and the Foundation's investments have significantly rebounded.

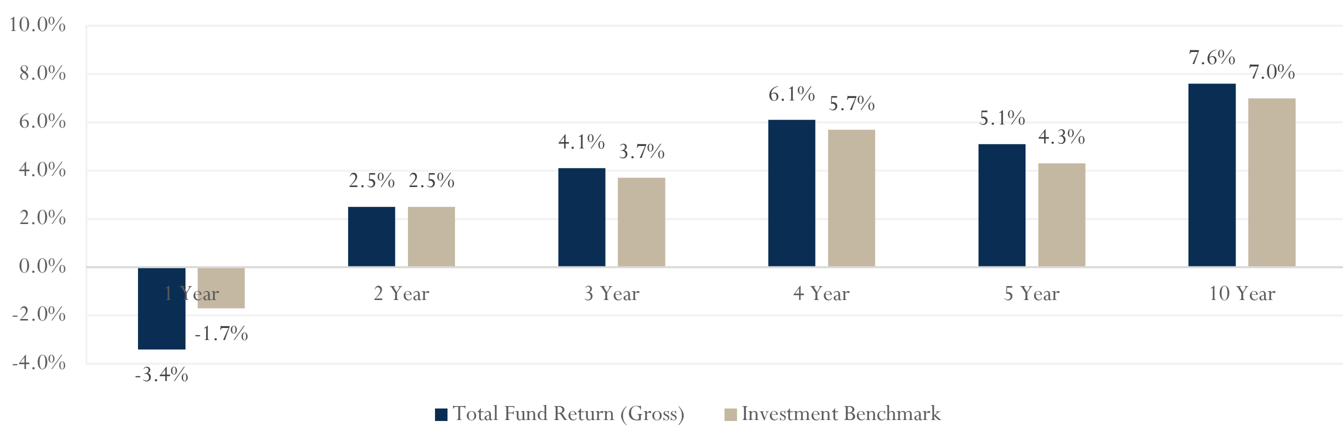
**Figure 3: Fund Return Relative to Investment Goal**
Total Gross Fund Return vs Investment Goal of CPI + 4.5%, as at March 31st, 2020




## Fund Return Relative to Investment Benchmark

The Fund employs an active management style and incorporates ESG integration across all asset classes. Active management provides the opportunity to outperform specific investment benchmarks. On a relative basis the total Fund, save for the most recent year, has met its investment benchmarks. The underperformance over the past year is attributed to the equity mandates underperforming their benchmarks.

**Figure 4: Fund Return Relative to Investment Benchmark**
Total Gross Fund Return vs Investment Benchmark, as at March 31st, 2020

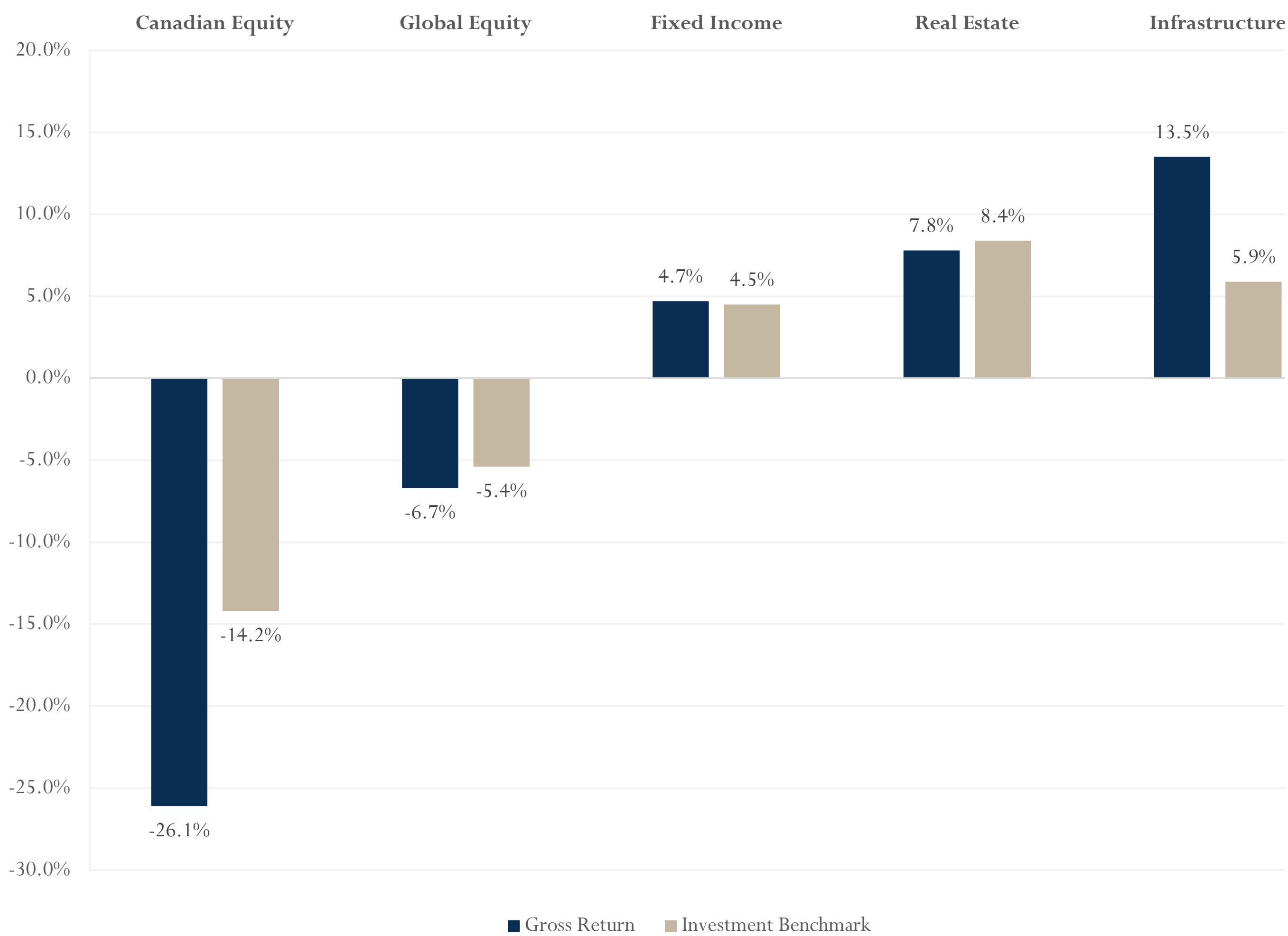


## Returns by Asset Class Relative to Benchmarks

2019-20 was a year in which equities experienced strong volatility; Global equities underperformed its benchmark (-5.4%) by 1.3%, while Canadian equities underperformed its benchmark (-14.2%) by 11.9%. This underperformance is material and is being closely monitored. As part of implementing the asset allocation study, changes are planned and are expected to be implemented in the upcoming year. Importantly, the non-equity investments all provided positive absolute returns that inversely correlated with the negative equity returns. Fixed Income and Infrastructure outperformed their respective benchmarks while Real Estate returns underperformed the benchmark.

**Figure 5: One-Year Returns by Asset Class Relative to Benchmarks**

Total Gross Fund Return vs Investment Benchmark, as at March 31st, 2020



As a long-term investor, the Foundation monitors year-over-year performance but it places more emphasis on four-year performance. Over the past four years, Fixed Income has modestly outperformed its benchmark over each period. Global Equities outperformed its benchmark in all years save for its one-year underperformance. Canadian equities returns have materially underperformed its benchmark over the last four years.

Real Estate has modestly underperformed its benchmark over the last four years while infrastructure has outperformed its benchmark. It is worth noting that the infrastructure benchmark is an absolute benchmark rather than a relative market benchmark comparison as the Board felt a comparable relative reference was not available.

**Figure 6: Annualized Performance by Asset Class**

Total Gross Returns & Benchmarks by Asset Class, as at March 31st, 2020

| | **Annualized Performance** | | | |
|---|---|---|---|---|
| *As at March 31st, 2020* | 1 Year | 2 Year | 3 Year | 4 Year |
| Canadian Equity (Gross) | -26.1% | -14.9% | -8.6% | -1.9% |
| Benchmark: S&P/TSX Composite Index | -14.2% | -3.7% | -1.9% | 2.9% |
| *Value Added* | *-11.9%* | *-11.2%* | *-6.7%* | *-4.8%* |
| Global Equity (Gross) | -6.7% | 2.1% | 4.6% | 7.5% |
| Benchmark: MSCI ACWI (Net) (CAD) Index | -5.4% | 0.3% | 3.7% | 7.3% |
| *Value Added* | *-1.3%* | *1.8%* | *0.9%* | *0.2%* |
| Canadian Fixed Income (Gross) | 4.7% | 5.0% | 3.9% | 3.6% |
| Benchmark: FTSE Canada Universe Bond Index | 4.5% | 4.9% | 3.7% | 3.1% |
| *Value Added* | *0.2%* | *0.1%* | *0.2%* | *0.5%* |
| Real Estate (Gross) | 7.8% | 8.2% | 7.8% | 7.4% |
| Benchmark: MSCI/REALPAC Canada Quaterly Property Index | 8.4% | 8.3% | 8.4% | 8.0% |
| *Value Added* | *-0.6%* | *-0.1%* | *-0.6%* | *-0.6%* |
| Infrastructure (Net) | 13.5% | 17.2% | 17.3% | 13.7% |
| Benchmark: Consumer Price Index + 5% | 5.9% | 6.5% | 6.8% | 6.7% |
| *Value Added* | *7.6%* | *10.7%* | *10.5%* | *7.0%* |

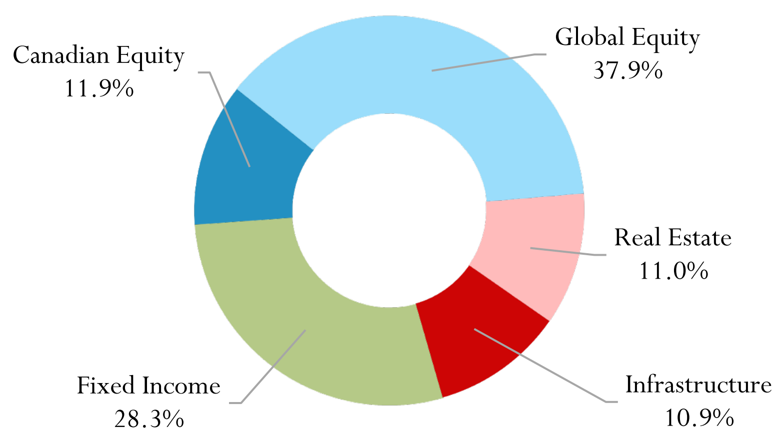
# Asset Allocation

**Figure 7: Asset Allocations Relative to Policy**
As at March 31, 2020

| Asset Class Benchmark Policy | Investment Policy (%) | Actual Allocation (%) |
|---|---|---|
| *Fixed Income:* | | |
| Fixed Income - FTSE Canada Universe Bond Index | 25.0 | 28.3 |
| Total Fixed Income | 25.0 | 28.3 |
| | | |
| *Equity:* | | |
| Canadian Equity - S&P TSX Composite Index | 15.0 | 11.9 |
| Global Equity - MSCI ACWI (Net) (CAD) Index | 40.0 | 37.9 |
| Total Equity | 55.0 | 49.8 |
| | | |
| *Alternatives:* | | |
| Real Estate - MSCI/REALPAC Canada Quaterly Property Index | 10.0 | 11.0 |
| Infrastructure - Consumer Price Index + 5% | 10.0 | 10.9 |
| Total Alternatives | 20.0 | 21.9 |
| | | |
| Total Fund | 100.0 | 100.0 |

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

**Actual Asset Allocations**



# ENDOWMENT MANAGEMENT (SPENDING) POLICY

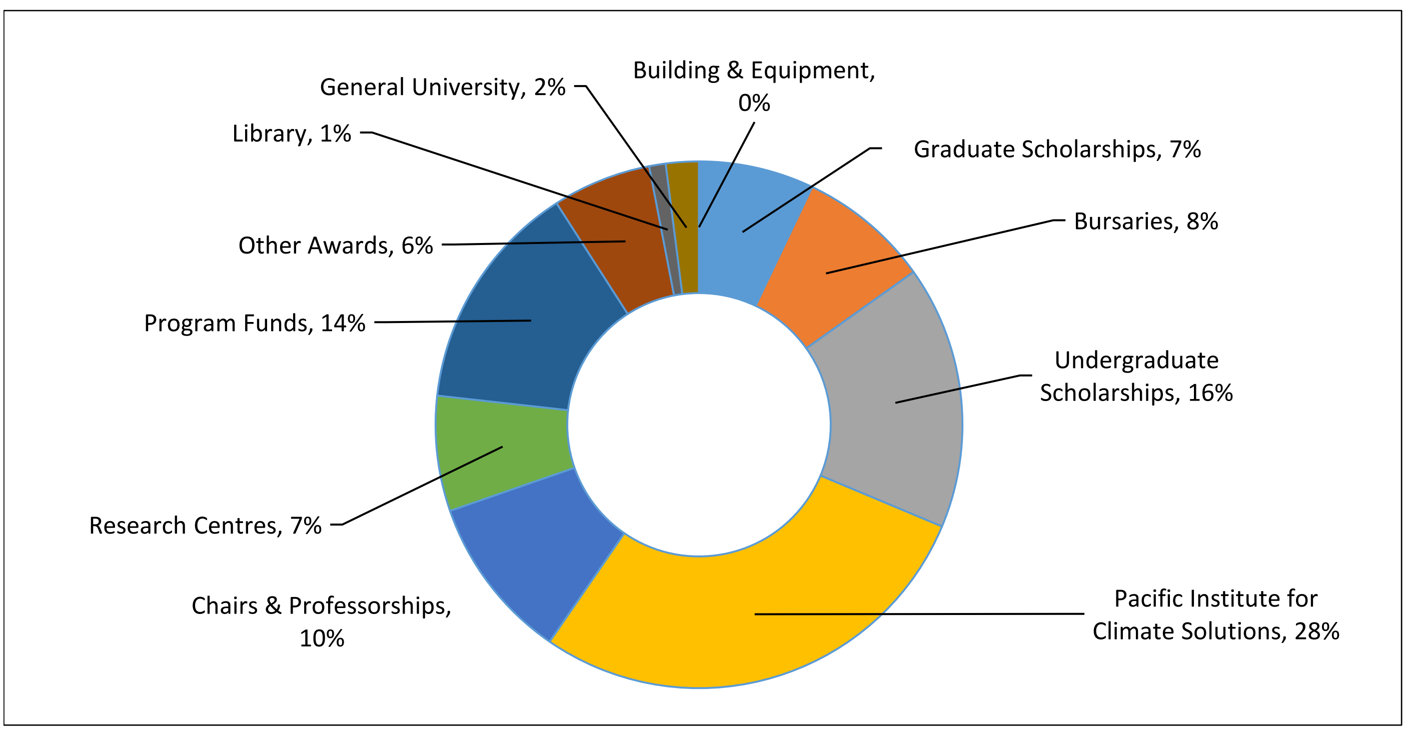
The Board maintains an Endowment Management Policy that sets out the following objectives:

- Protect the value of the Fund against inflation over time so that the donor is aware that the donation will continue to work for the benefit of the University of Victoria for generations to come; and

- Provide stability in the earnings distribution to allow both the recipients and the University of Victoria to plan ahead knowing what funds will be made available each year.

In order to achieve the 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 two 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 2019-20 more than 60% the funds remain eligible for the additional 0.5% spend. Conversely, if the market value of a fund falls below 80% of the original donation, the distribution of that fund will be re-evaluated and may result in no distribution for a given year. In 2019-20 no funds market value fell below the 80% threshold. It is through adherence to the Endowment Management Policy that the Board was able to approve a budget of $15.4 million in 2020-21. The breakdown of how the budget is allocated is illustrated below.

**Figure 8: 2020-21 Budget Allocations**



## 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

## Management Fees

The majority of investment expenses are investment management fees. The spending policy limits other expenses to a maximum of 0.35% per annum of the inflation adjusted principal at cost as at December 31st 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 2019-20 the Foundation budget for these expenses is 0.34% of the inflation adjusted principal at cost as of December 31, 2019.

# SERVICE PROVIDERS

| | |
|---|---|
| INVESTMENT MANAGERS | **Walter Scott** -*Global equity*<br>**Hexavest** -*Global equity*<br>**Phillips, Hager & North (PH&N)** -*Fixed Income*<br>**Foyston, Gordon and Payne (FGP)** -*Canadian equity*<br>**Macquarie Infrastructure (MIRA)** -*Infrastructure*<br>**BentallGreenOak (BGO)** -*Real Estate* |
| CUSTODIAN | **Northern Trust** |
| INVESTMENT CONSULTANT | **Aon Hewitt** |
| PERFORMANCE MANAGEMENT | **Aon Hewitt** |
| AUDITOR | **KPMG LLP** |

*As at March 31 2020*

**Responsible Investing Timeline**

**2012**
The Foundation adopted Investment beliefs around responsible investing.

**2015**
The Foundation became a signatory to the United Nations Principles for Responsible Investing.

**2015**
The Foundation signed a letter to G7 Finance Ministers regarding action on climate change urging them to support a long-term global emissions reduction goal in the Paris agreement and the submission of short- to medium-term national emissions pledges and country level action plans.

**2016**
The Foundation announced the introduction of the Fossil Fuel Free Fund as an investment option for donors.

**2018**
The Foundation committed to provide financing for the University's new residence construction, which will meet both Leadership in Energy and Environmental Design (LEED) and Passive House standards.

**2019**
The Foundation committed to enhance the exposure of our Fossil Fuel Free fund and its stakeholder communications by providing examples on how our investment managers incorporate Environmental, Social and Governance (ESG) approaches.

# 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 Environmental Social and Governance (ESG) factors are incorporated into the investment decision-making process. The Board continues to focus its efforts on responsible investing instead of divestment. In order to advance responsible investing, the Board has committed to:

1. Ensuring climate change risk and opportunities are effectively considered across the portfolio;
2. Completing the United Nations Principles for Responsible Investing's (PRI) report, including its climate reporting section based on the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD); and
3. Creating a questionnaire to assess our external investment managers' alignment to a 1.5C to 2C pathway.

## PRINCIPLES FOR RESPONSIBLE INVESTING

The United Nations-supported PRI Initiative is the 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.

Responsible investment is a process to be tailored to fit each organization's investment strategy, approach and resources. The Foundation views the principles as a framework for responsible investing and, where consistent with our fiduciary responsibilities, we commit to the following:

- Incorporate ESG 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.

All six of the Foundation's external investment managers are PRI signatories.

# 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 proxy voting activity of investment managers is reviewed and demonstrates that they continue to actively vote proxies. Investment managers are required to report regularly on their proxy voting activity.

The most common types of proxy votes are:

- Board Opposition;
- Say on Pay Opposition; and,
- Shareholder Proposal Support.

# INVESTMENT MANAGER ESG INTEGRATION

As long-term investors, the Foundation Board believes responsible investing, and taking environmental, social and governance (ESG) factors into consideration, can have a positive effect on long-term financial performance and investment returns. The Foundation Board will apply the following measures:

- In evaluating prospective investment managers, the Board considers how ESG issues are incorporated into the investment decision-making process;
- In evaluating prospective investment managers, the Board considers how investment managers engage with management to improve ESG practices;
- Existing equity investment managers are requested to provide proxy voting reports and to highlight exceptions to their proxy voting policy; and,
- Requests annual disclosure by investment managers regarding the processes by which ESG factors are incorporated into the investment decision-making process.

Please find the ESG philosophy, integration and case studies on two of our external investment managers. For the ESG approach of all our investment managers please visit our website.

## Walter Scott – Global Equity Manager

*ESG Philosophy:*
Walter Scott believes that investing in a company carries with it the responsibility to consider and monitor how the company operates with regard to all stakeholders as well as the environment.

Within the investment management industry a wide range of terms are used to describe environmental, social and governance (ESG) considerations, such as socially responsible investing (SRI), sustainable investing, ethical investing, corporate and social responsibility (CSR) and responsible investing (RI); at Walter Scott the term 'sustainability' encapsulates all of these concepts.

At Walter Scott, responsible investing is central to what we do and what we believe. We understand that Environmental, Social and Governance factors, as much as financial metrics, determine the long-term success of an investment.

We are now members or signatories to a number of select groups that we believe best-represent the industry in pushing for meaningful change or where we feel the educational element will complement our own research in a material way.

- *Principles of Responsible Investment (PRI)* signatory since 2017. Our 2019 rating is A+, A, B.
- *Carbon Disclosure Project (CDP)* member
- *UK Investment Association* member
- *Climate Action 100+* member

*Integration in the Investment Process:*

- **Responsible:** We are entrusted to invest on behalf of our clients over a long-term investment horizon. As such, we have a duty to fully understand each company in which we invest, including its approach to Environmental, Social and Governance (ESG) matters. Our experience has taught us that only those companies that strive towards appropriate ESG standards are likely to prosper over the long-term.

- **Integrated:** Consideration of a company's ESG factors is integral to our investment approach. Given the importance of these factors in determining the long-term sustainability of a business, we do not delegate ESG analysis to a separate team. We believe it is essential that each member of our Research team has responsibility for understanding a company's ESG profile.

- **Engaged:** Engagement is what we do every day. By actively engaging with a company, we gain a better understanding of its business, including its ESG credentials. It also means we can use our influence as investors to effect meaningful change. We expect every company we invest in to engage on issues of sustainability.

*Novartis Case Study:*

Novartis International AG is a Swiss multinational pharmaceutical company based in Basel, Switzerland.

In a meeting with Novartis' CFO in February, the conversation turned to his views on the disparity between the company's ESG rating and its commitments. The CFO stressed that ESG is taken "very seriously" at Novartis, with several mid-term targets aimed at achieving the highest environmental standards, such as carbon neutrality by 2025.

Access to drugs is a frequent ESG topic, and here the company works to ensure that patients receive treatment whenever they need it; certain emerging markets (Africa and the Middle East) are not included in revenue targets and aren't subject to promotional activity. Elsewhere, there is a zero-tolerance policy towards misconduct (300-400 employees are let go every year for breaching this policy), with a new code of ethics aimed at preventing future misconduct and the Head of Ethics and Compliance recently elevated to the executive suite.

## Macquarie – Global Infrastructure Manager

*ESG Philosophy:*

The identification, assessment and responsible management of ESG risks and opportunities is essential to the sustainable long-term development of assets and the communities in which they operate.

ESG considerations are embedded within investment decision-making approach and the asset management frameworks that inform the way in which portfolio companies assess and improve their performance. Macquarie partners with portfolio investments to share best practice and drive positive change. They seek to improve working conditions, minimize environmental impact and preserve the cultural heritage of the communities in which they invest.

*Integration in the Investment Process:*

To ensure the consistency and adequacy of these assessments they have comprehensive due diligence scope checklists and external expert advisers are engaged as needed on specific ESG issues.
Results from ESG due diligence assessments include:

- Permit and license requirements and issues arising from investigations;
- Key ESG risks and potential liabilities;
- Recent regulatory actions taken, reviews and/or third-party actions or claims against the company;
- Ongoing obligations/regulatory standards to be met post-acquisition;
- Assessment of the ESG risk management framework in place against accepted good practice; and
- Recommendations for any remediation actions.

*Green For Life (GFL) Environmental Case Study:*

GFL Environmental is a provider of diversified environmental solutions across solid and liquid waste management in North America. During Macquarie's ownership period, regulatory and other stakeholder demands meant that sustainability considerations became increasingly relevant for GFL. For example, environmental regulations such as British Columbia's Zero Waste Initiative and the US and Canada's carbon pricing strategies, drove change in the North American waste market.

The thrust of these regulatory changes was to require a reduction in waste and lower carbon emissions. GFL made significant investments in forward-looking 'circular economy' processes. These were aimed at minimizing waste and maximizing regeneration of resources. One clear example of this was GFL's acquisition of Biocan, a firm that turns food waste and reclaimed sulphur waste into fertilizer. GFL also invested in landfill gas to energy facilities that capture landfill gas and convert the captured gas into a renewable source of electricity for use by households and businesses.

Separately, in a bid to lower costs and be more environmentally friendly, GFL started using clean natural gas to power its solid waste collection vehicles. GFL also invested in soil remediation facilities that enable contaminated soils otherwise destined for landfill disposal to be reused in construction and development projects. The use of soil remediation facilities not only reduced construction costs but also reduced greenhouse gas emissions from trucking by supporting the beneficial reuse of soils.

# CONTACT

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

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Phone: (250) 721-8102