



ANNUAL REPORT 2020–2021

UNIVERSITY OF VICTORIA FOUNDATION

MARCH 31, 2021



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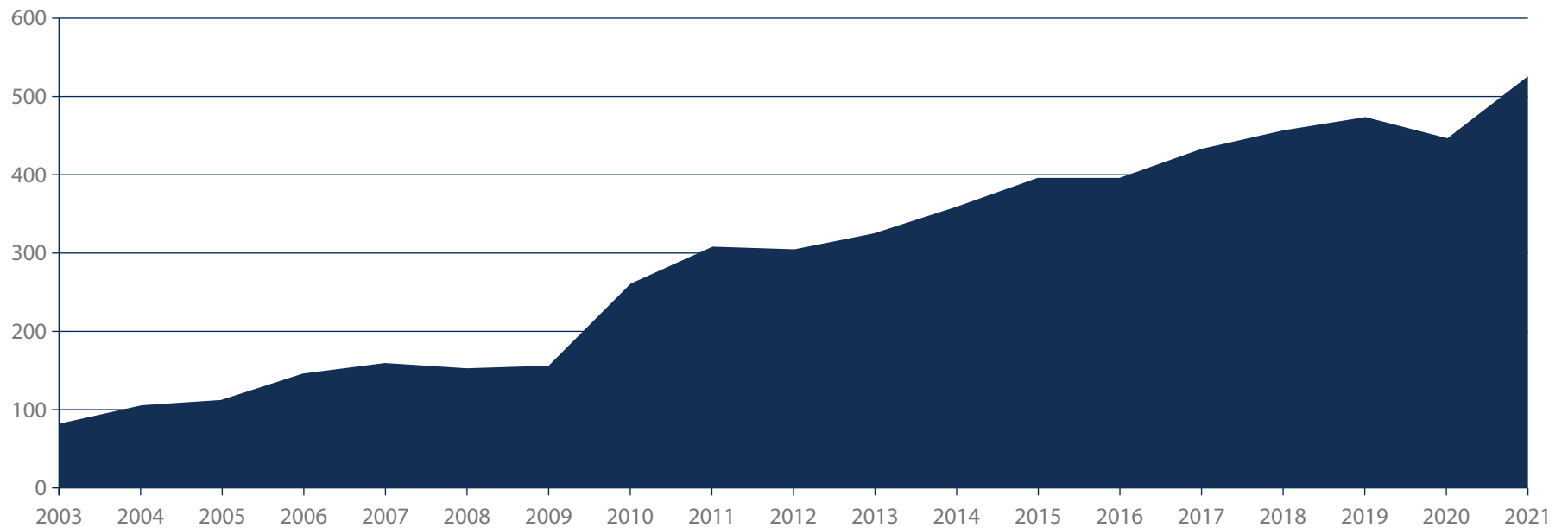


COVID-19 very quickly created a “new normal” that saw all of us involved in the day-to-day affairs of the Foundation working from home, holding our meetings via Zoom and getting used to seeing each other on the confines of a small screen. In a year of such uncertainty the community stepped forward to support students, researchers and programs—advancing our recovery and resiliency while also investing in the future of the university caused by the pandemic. In total, the UVic community gave over \$11.7 million dollars to the endowment, \$3 million more than last year. This incredible display of confidence in the Foundation and UVic’s mission was humbling. For that, I offer you my sincerest thanks.

Jane Potentier, President, University of Victoria Foundation

Figure 1: Foundation Growth

\$ Millions, Market Value, 2003-2021 (as at March 31)



MESSAGE FROM THE CHAIR

I am very pleased to present the 2020-21 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 and performance for its many stakeholders.

After many months of market turbulence caused by the COVID-19 pandemic, investment markets rose significantly last year. The Foundation's net annual return for the fiscal year was 18.7% (compared to -3.8% in 2019-20) which exceeded the Foundation's benchmark. We expect that yearly volatility may continue to persist; however, the Foundation's long-term investment goal remains unchanged. That goal is to achieve a minimum annualized rate of return (net of management fees) of inflation + 4.5%. The Foundation Board has exceeded its inflation + 4.5% goal over the last 10 years.

The portfolio continues to be closely monitored by the Board through six virtual meetings last year, including regular contact with our investment managers and consultants. We look forward to returning to in person meetings when safe to do so. While some concerns about the pandemic have decreased with the ongoing vaccination campaigns globally, it is too early to know how protracted this crisis will be. Its continued impacts on economic stability and investment returns remains to be determined.

As of the end of March 2021, the broadly diversified Foundation portfolio reached a new high water mark with a market value of assets under management exceeding \$500 million; this has resulted in over 1,400 endowment funds increasing in value.

This strong performance gave the Board members confidence to approve the largest Foundation operating budget to date of \$17.6 million. This budget reflects the Foundation's mandate to adhere to our core spending objectives to protect against inflation while providing stable distributions. A detailed breakdown is provided in this report. All funds received budget for the upcoming year with the vast majority of these funds going to support scholarships, bursaries and research centres at the university.

The Board continues to implement the results of a recent asset liability study to ensure we are well positioned to meet our long term investment goals. In the past year, this has resulted in strategic changes to our public equity managers and our portfolio focus, as well as adjustments to our investments in fixed income. In the coming year we will continue to consider new opportunities and review managers in the Alternative Asset Classes, which includes real estate and infrastructure. Our process in updating the asset allocation strategy ensures that climate change, and the risks and opportunities therein, is being appropriately considered and actioned across the portfolio. The Foundation's overarching goal is to support companies with strong Responsible Investment practices and with attractive long-term growth potential who are on the path to net-zero carbon emissions, while avoiding industries and companies unwilling or unable to evolve.

This year we have introduced a new stand-alone Responsible Investment Report which is available for those interested in learning more about the Foundation's strategies and actions around Environmental, Social & Governance best practices (ESG), and climate change. A summary of the Foundation's Responsible Investment activities is also included in this annual report.

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

Mary Garden
Chair





ABOUT THE **FOUNDATION**



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 \$525 million in assets and administering over 1,400 endowment funds that disburse more than \$17.6 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.

MEMBERS OF THE BOARD

Elected by the Members

Ms. Lisa Dempsey
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 (Vice-Chair)
Mr. Bryan Thomson
Mr. Duncan Webster

University Members (ex officio)

Dr. Kevin Hall
Ms. Gayle Gorrill

Officers (non-voting)

Ms. Jane Potentier (President)
Mr. Andrew Coward (Treasurer)
Ms. Carrie Andersen (Secretary)
Ms. Kathy MacDonald (Assistant Secretary)

I'd like to thank all of the members of the Foundation Board for their dedication and commitment to ensuring donor funds are well stewarded. Their hard work is evident in the steady growth of the endowment throughout the pandemic, despite market uncertainties.

Jane Potentier, President, University of Victoria Foundation



GOVERNANCE

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](#).

A list of the portfolio holdings is posted on the [Foundation website](#).



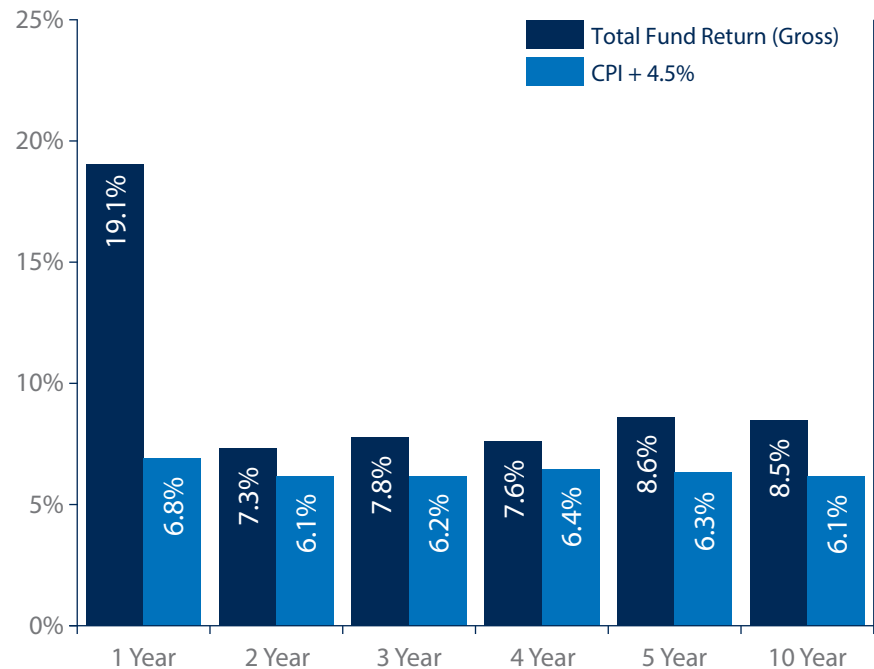
MAIN INVESTMENT POOL PERFORMANCE

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. Strong returns since the correction in March last year has allowed the foundation to outperform its goal over all periods.

Figure 3: Fund Return Relative to Investment Goal

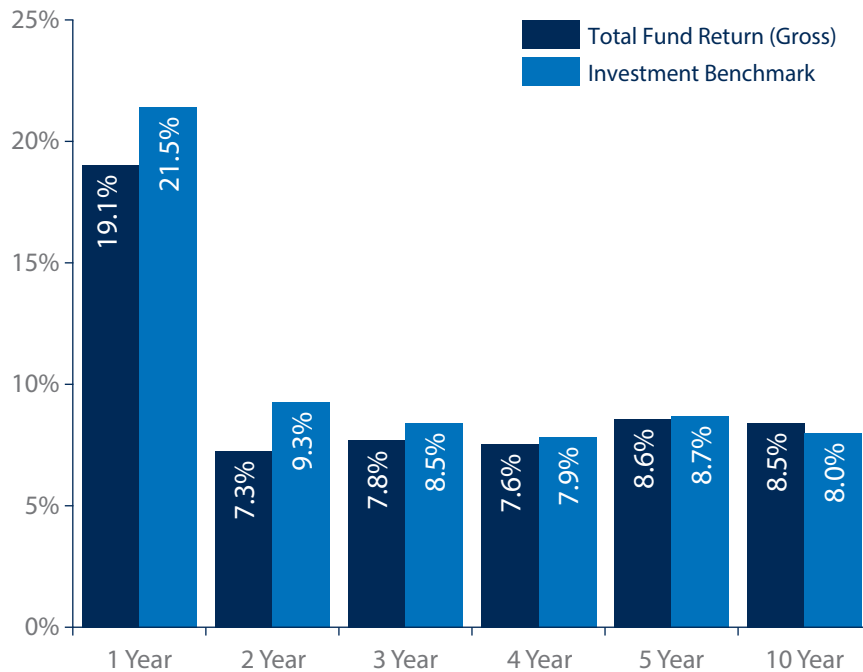
Total Gross Fund Return vs Investment Goal of CPI + 4.5%, as at March 31st, 2021



FUND RETURN RELATIVE TO INVESTMENT BENCHMARK

The Fund employs an active management style and incorporates responsible investment integration across all asset classes. Active management provides the opportunity to outperform specific investment benchmarks. On a relative basis, the total fund met its 10-year investment benchmark. The underperformance over the 1-year to 5-year investment benchmarks is attributed to the global equity allocation underperforming its benchmark.

Figure 4: Fund Return Relative to Investment Benchmark
Total Gross Fund Return vs Investment Benchmark, as at March 31st, 2021

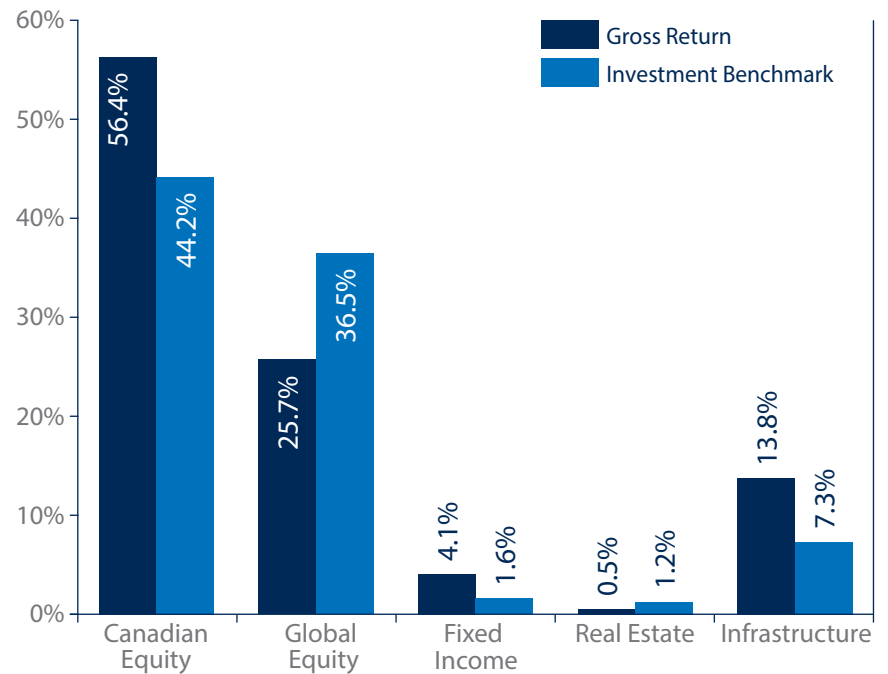


RETURNS BY ASSET CLASS RELATIVE TO BENCHMARKS

Similar to last year, equities experienced strong volatility in 2020-21; Canadian equities returned 56.4% and outperformed the benchmark (44.2%) by 12.2%, while global equities returned 25.7% underperformed its benchmark (36.5%) by 10.8%. Noting that global equities provided positive absolute returns, its underperformance is material and is being closely monitored.

Fixed income returned 4.1% and outperformed its benchmark by 2.5%. Real estate returned 0.5% and slightly underperformed the benchmark by 0.7%. Infrastructure returned 13.8% and outperformed its benchmark by 6.5%. The infrastructure benchmark is the best of many not ideal alternatives (Consumer Price Index + 5%).

Figure 5: One-Year Returns by Asset Class Relative to Benchmarks
Total Gross Fund Return vs Investment Benchmark, as at March 31st, 2021



As a long-term investor, the Foundation monitors year over year performance but it places more emphasis on 4-year performance. Over the past four years, Fixed Income has modestly outperformed its benchmark over each period. Global equities underperformed its benchmark in all years mainly driven by the rebound in global equities since the correction in March last year. Canadian equity returns have materially underperformed its benchmark over the last four years save for its one-year over performance.

Real Estate has modestly underperformed its benchmark over the last 4 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, 2021

AS AT MARCH 31st, 2021	ANNUALIZED PERFORMANCE			
	1 YEAR	2 YEAR	3 YEAR	4 YEAR
Canadian Equity (Gross)	56.4%	7.5%	4.3%	4.5%
Benchmark: S&P/TSX Composite Index	44.2%	11.2%	10.2%	8.0%
<i>Value Added</i>	12.2%	-3.7%	-5.9%	-3.5%
Global Equity (Gross)	25.7%	8.3%	9.4%	9.5%
Benchmark: MSCI ACWI (Net) (CAD) Index	36.5%	13.6%	11.1%	11.1%
<i>Value Added</i>	-10.8%	-5.3%	-1.7%	-1.6%
Canadian Fixed Income (Gross)	4.1%	4.4%	4.7%	3.9%
Benchmark: FTSE Canada Universe Bond Index	1.6%	3.0%	3.8%	3.2%
<i>Value Added</i>	2.5%	1.4%	0.9%	0.7%
Real Estate (Gross)	0.5%	4.1%	5.6%	5.9%
Benchmark: MSCI/REALPAC Canada Quaterly Property Index	1.2%	5.1%	6.1%	6.7%
<i>Value Added</i>	-0.7%	-1.0%	-0.5%	-0.8%
Infrastructure (Net)	13.8%	13.6%	16.0%	16.4%
Benchmark: Consumer Price Index + 5%	7.3%	6.6%	6.7%	6.9%
<i>Value Added</i>	6.5%	7.0%	9.3%	9.5%

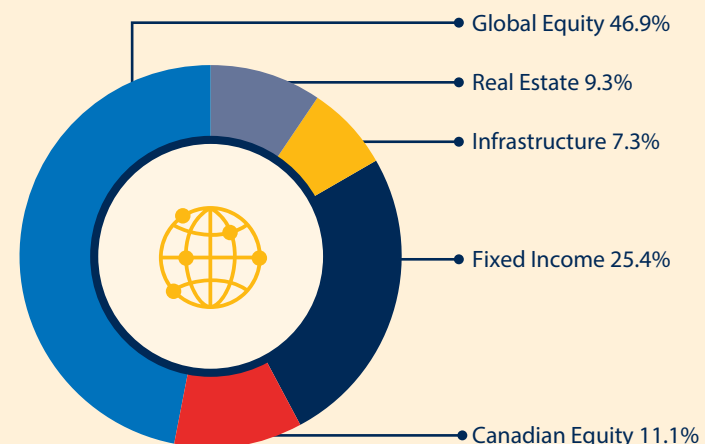
ASSET ALLOCATION

Figure 7: Asset Allocations Relative to Policy

As at March 31, 2021

ASSET CLASS BENCHMARK POLICY	INVESTMENT POLICY (%)	ACTUAL ALLOCATION (%)
Fixed Income:		
Fixed Income – FTSE Canada Universe Bond Index	25.0	25.4
Total Fixed Income	25.0	25.4
Equity:		
Canadian Equity – S&P TSX Composite Index	15.0	11.1
Global Equity – MSCI ACWI (Net) (CAD) Index	40.0	46.9
Total Equity	55.0	58.0
Alternatives:		
Real Estate – MSCI/REALPAC Canada Quaterly Property Index	10.0	9.3
Infrastructure – Consumer Price Index + 5%	10.0	7.3
Total Alternatives	20.0	16.6
Total Fund	100.0	100.0

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



FOSSIL FUEL FREE INVESTMENT POOL (FFFIP)

In 2016 the Foundation created a FFFIP in direct response to student and faculty calls for action to address climate change and provide donors a fossil fuel free investment option. The pool excludes investments directly involved in the extraction, processing and transportation of coal, oil or natural gas “fossil fuels” and companies within the “Carbon Underground 200” list.

The FFFIP was seeded by the university with \$25K from working capital investment pool. With help from student feedback over the past year to increase awareness of donor investment options, the FFFIP has grown assets under management to over \$110K.

In 2020, the Foundation changed the FFFIP’s manager and rebalanced the equity only pool with an asset mix resulting in a 65% allocation to equities and a 35% allocation to fixed income, to better diversify the pool and reduce its volatility. While the FFFIP is still less diversified than the Main Investment Pool and may exhibit higher volatility and risk, both pools are expected to offer comparable long-term performance meeting the Foundation’s investment goals.

The FFFIP returned 0.2% since its inception this year. Due to the recent manager and asset allocation change, the Foundation will provide detailed performance information about the FFFIP starting in the next annual report.



ENDOWMENT MANAGEMENT (SPENDING) POLICY

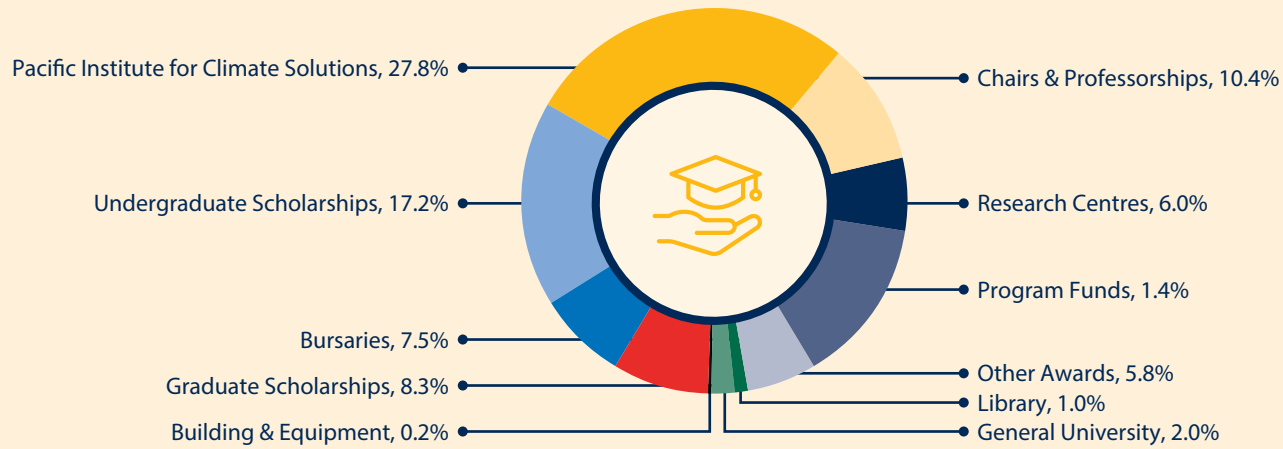
The Board maintains an Endowment Management Policy that sets out the following objectives:

- 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 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% 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 2020-21 more than 75% of 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 endowment fund 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 \$17.6 million in 2021-22. The breakdown of how the budget is allocated is illustrated below.

Figure 8: 2021-22 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 2020-21 the Foundation budget for these expenses is 0.31% of the inflation adjusted principal at cost as of December 31, 2020.



SERVICE PROVIDERS

INVESTMENT MANAGERS

Phillips, Hager & North (PH&N) – *Fixed Income, Fossil Fuel Free Investment Pool*

Foyston, Gordon and Payne (FGP) – *Canadian equity*

Baillie Gifford – *Global equity*

Pier 21 – *Global equity*

Walter Scott – *Global equity*

Macquarie Infrastructure (MIRA) – *Infrastructure*

BentallGreenOak (BGO) – *Real Estate*

CUSTODIAN

Northern Trust

INVESTMENT CONSULTANT

Aon

PERFORMANCE MANAGEMENT

Aon

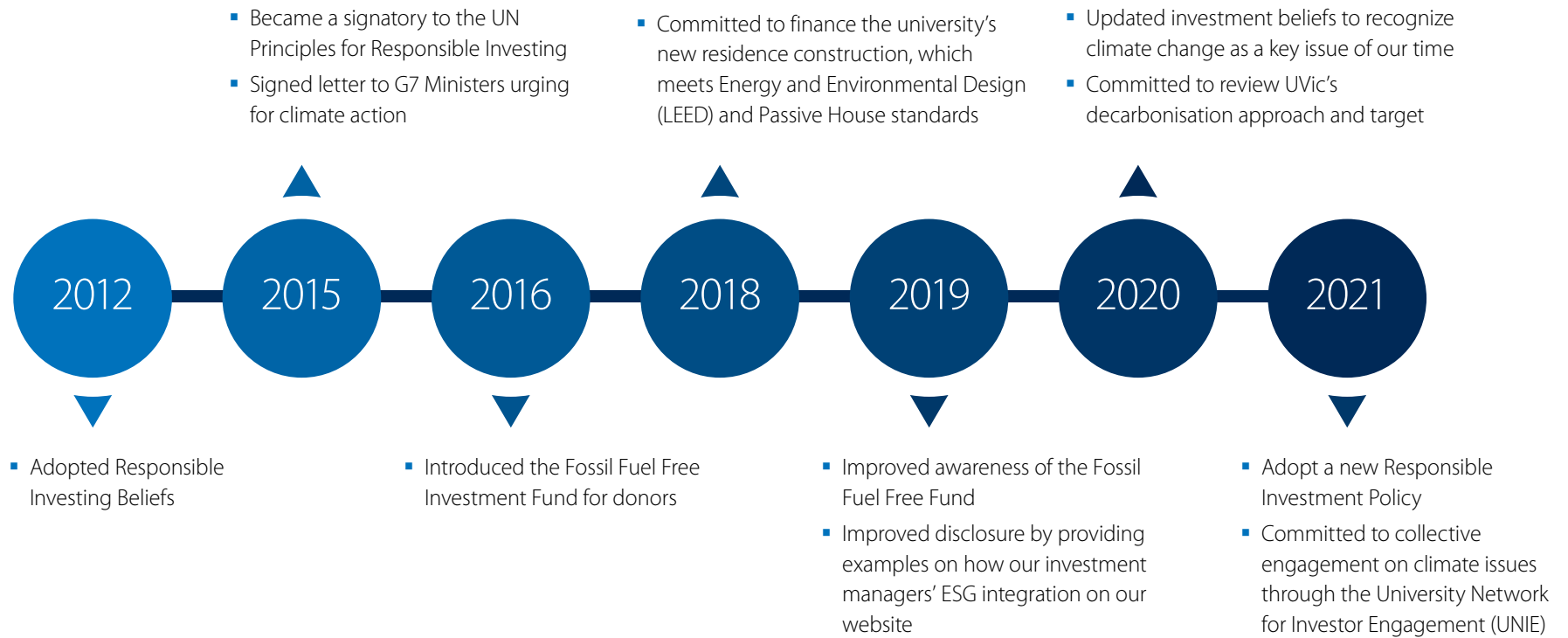
AUDITOR

KPMG LLP



OUR **RESPONSIBLE** INVESTMENT APPROACH

University of Victoria Foundation Responsible Investment Milestones



OUR RESPONSIBLE INVESTMENT APPROACH

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.

To support our commitment to sustainability and to articulate our goals with respect to foundation investments, the University of Victoria Foundation will be adopting a new Responsible Investment (RI) Policy before the end of 2021. In order to advance responsible investing, the Board has committed to:

1. Adopting a Responsible Investment Policy;
2. Ensuring climate change risk and opportunities are effectively considered across the portfolio;
3. 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
4. Creating a questionnaire to assess our external investment managers' alignment to a 1.5C to 2C pathway in line with global efforts to limit warming to 1.5C.

The Foundation recognizes that Responsible Investing, including climate change initiatives and carbon emission disclosures, is a rapidly evolving area. The Foundation has committed to updating plans to ensure material Responsible Investment risk and opportunity considerations, including climate change, are integrated into the investment process across all asset classes. This plan will include a review of:

1. The ongoing monitoring of our investment managers and their due diligence practices;
2. Opportunities for portfolio company engagements;
3. The potential of carbon foot-printing our portfolio; and
4. Additional impact investing opportunities to promote sustainable futures.

Please see the Foundation's Responsible Investment Report for more information about our responsible investment approach.





This Annual Report is intended to reflect the Foundation's investment performance in 2020-21. Please visit the [University of Victoria Foundation](#) website for additional information about the Foundation.

CONTACT

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

Email: foundations@uvic.ca

Phone: (250) 721-8102