CUS Endowment

Potential Uses for the Accumulated Surplus

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Sources, current state and future uses of the Accumulated Operating Surplus of the Commerce Undergraduate Society at UBC.
Executive Summary

In 1999, a referendum was held that increased the student levy paid by Commerce students from $16 to $266. This effectively marked the birth of the modern CUS as an organization. In the intervening years of operation and as the BCom population has doubled in size, the CUS has built up an operating surplus in excess of the funds necessary for its ongoing activities.

On May 1, 2013, the Commerce Undergraduate Society had an accumulated operating surplus of $441,644. The goal of this document is to describe the forces that led to this accumulation of capital and potential channels for its deployment in a way that benefits the CUS and its constituents, past, present and future. While there are a large number of moving parts surrounding this project, the focus here will be on major impacts to the Society, its constituents and other stakeholders.

The major sources of the Accumulated Surplus include budgets in which the Safety Buffer goes untapped and years in which poor student enrollment projections leave the CUS with higher than expected student fee revenue. As the student body has grown, the CUS has also struggled at times to effectively deploy all the money it brings in via the student levy.

Due to the nature of the Surplus and the CUS as an organization, there are some key limitations on the use of the money. The legal status of the CUS, along with the need to garner AMS approval for any significant investment, limits for practical reasons our options to UBC-centric choices. The uncertainty of future CUS plans and needs is also a key limitation.

A number of different options were evaluated, including the possibility of maintaining the status quo. The major different investment options were: an endowment administered by the UBC Investment Management Trust (IMANT), an “endowment” with the AMS, or the use of the Surplus as part of a down payment for a proposed Commerce Student Center.

Each option had its advantages and disadvantages, but on balance creating an endowment to be administered by UBC IMANT is the best option for deployment of a portion of the Accumulated Surplus in a way that can benefit students past, present and future. Based on the analysis, this option is both quantitatively and qualitatively superior to the other options currently available.
1: Sources of the Accumulated Surplus

At its core, the operating surplus is the result of an increase in the CUS student levy passed via referendum in 1999 as a means to pay for capital investments and student services. The referendum increased the student fee from $16 to $266. In 2000, there were 1,533 students enrolled in the BCom program, resulting in student fee revenues for the CUS of $421,078. This stands in stark contrast to the $24,528 that would have been brought in under the old fee structure.

In the intervening years, the BCom population has grown significantly with the upcoming school year of 2013/14 bringing 3,214 students and resulting student fee revenues of $854,924. In the face of such a large increase in fee revenues, the CUS has at times been unable to effectively deploy all the money that it brings in through the student levy. As a result, the Society has run consistent surpluses worth tens of thousands of dollars each year. It is these surpluses that have over the years accumulated in our operating account to their current total of $441,644.

These consistent surpluses have been the result of a number of different factors affecting the Society and its budget. The major ones include:

Safety Buffer (Variability between Budgeted and Actual Spending)

In fiscal year 2011 (ended April 30, 2012), the median variation between budgeted and actual ending amounts was 16.52% per line item. Such large variations make it difficult to accurately plan for expenses in a way that avoids surpluses while protecting against operating deficits. Faced with this risk the Society has erred on the side of caution, each year including a Safety Buffer of $40,000 to $50,000 in order to guard against unforeseen expenses and budget overruns.

But the variation between budgeted and actual expenses is not confined to cost overruns. Based on past results, services are just as likely to overestimate their expenses relative to revenues as underestimate. It is actually much simpler for the VP Finance and Finance Commission to regulate cost overruns during the year through the reimbursement process and related controls than to regulate underspending, since there is currently no mechanism in place to identify moneys that have been budgeted but will not be spent during the fiscal year. So while the variation seems large at 16%, it occurs in both directions and the results roughly cancel each other out. In 2011/2012, combined services came in $21,010 under budget due to these variations.

So while the Safety Buffer was introduced to guard against downside risk from poor budget controls, it has generally gone unneeded and, if unused, simply becomes a surplus at the end of the fiscal year. As a result, much of the money that has become the Accumulated Surplus was originally designated as a Safety Buffer in the annual budget.

Poor Student Enrollment Projections

Another common source of budget surpluses, at least in recent years, has been the result of difficulties in projecting upcoming-year student enrollment during the budgeting process. The CUS creates its budget during May and June of each year and this budget is designed to include all activities undertaken through the end of the fiscal year on April 30th of the following year. But the Undergraduate Office, and thus the CUS, does not have firm enrollment numbers for the upcoming year until after registration for classes is completed in mid-July. Even then, enrollment numbers are not finalized until November 1st.

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1 Not including Safety Buffer
2 51% overestimated needed budget vs. 49% that underestimated
3 Excluding Safety Buffer and Special Projects
Coupled with the increase in the size of the student body since the implementation of the student fee, this uncertainty has at times led to increases in student enrollment, and thus student fee revenue, that significantly exceeds projections in the budget. Again, due to our poor mechanisms for allocating extra money mid-year and a conservative budget tendency, these upward variations often end up as surpluses at the end of the year.

For example, during 2012/13 the Safety Buffer was heavily committed to covering unexpected expenses relating to a mistake in the JDC West budget and cost overruns with FROSH. Nonetheless, the Society as a whole ran a significant surplus, owing mostly to enrollment of 100 more students than expected for that fiscal year.

While the Board and Executives have consistently tried to get firmer numbers for future enrollment earlier in the budget process, it is expected that this uncertainty will continue until the budget or enrollment schedules change4.

Saturation of Academic Calendar with Events

Even as the student body and student fee revenue have grown, the academic calendar has remained fixed at 8 months in length. As a result, events run by the Society and related Clubs have become ever more numerous, elaborate and packed together during a few peak times of the year. The calendar is now filled with a wide variety of events and projects catering to BCom students, even during midterms and exams. But in recent years, even as enrollment has continued to rise, there has been a perceived movement away from CUS events and many have seen their attendance suffer.

In the face of these time and attendance pressures, the Society has been unable to successfully launch any major new conferences or large scale events in the last 5 years. The few that have been attempted have been relatively unsuccessful, with PNEC, CIVC and the Chasing Sustainability expansion all faltering in their first years. At the same time, Ignite!5 and IBC have been discontinued due to lack of attendance and the dynamics of a changing recruiting calendar. Even though smaller, niche initiatives such as Sauder Yoga have found success, their budget impact is small when compared to a major conference.

The Clubs have proven more nimble than the Society in introducing new events and cutting old ones contingent on performance. Also, due to their relatively lean budget profile and greater ability to attract corporate sponsorship, Clubs seem to provide more of an impact on a dollar for dollar basis. As a result, Clubs have successfully introduced new events such as NIBC and UBCMA Gateways even as CUS events have seen declining attendance.

In part to free up money to support clubs and as a way to deploy money no longer committed to major conferences, Special Projects funding has been steadily increasing6 as a portion of the overall budget. This has allowed the Society to support such major initiatives as NIBC, JDC West (OC), and Sauder Summit.

But deployment of student fee revenue through the Special Projects funding channel is relatively uncertain. Because applications can come in at any point through the year, it is

4 If enrollment increases taper off, this uncertainty may begin to also be a source of downside risk for the CUS and thus should be monitored carefully. We are currently seeking long term guidance from the Administration on future enrollment numbers.

5 Originally discontinued when fall accounting recruit moved into August, the current calendar makes reintroducing a similar event later in the year very challenging.

6 Special projects funding was $15,000 in the 08/09 fiscal year, $150,000 in 12/13.
difficult to know until April whether all the money will be used up. At times this has led to significant sums being left unspent at the end of the year, again adding to the Accumulated Surplus.

While the Society is taking steps\(^7\) to add more certainty to this process, it is still a source of budget variation\(^8\) and has in the past been a source of significant contributions to the Accumulated Surplus. The more general issues facing the CUS regarding event attendance and deployment of student fees by funding services are outside the scope of the Endowment discussion and will not be addressed in this proposal.

### 2: Current State of Surplus/ Limitations on its Use

The Accumulated Surplus as of April 30\(^{th}\), 2013 amounted to $441,644. This money currently resides in our operating account with the UBC Alma Mater Society, our parent organization.

It gains no interest. It is put to no productive use. It is slowly being eaten away by inflation.

Discussion surrounding a more productive use of the money began in earnest at the end of fiscal year 2011/12, as the Surplus approached $400,000.

But even as the CUS moves to find a more suitable use of the money, rather than leave it gathering dust and losing value, there are key restrictions and limitations to be aware of.

**Legal Status of CUS**

The Commerce Undergraduate Society is not a legal entity in and of itself. Rather it is a subsidiary of the Alma Mater Society of UBC, subject to the rules of that body and closed off from a number of activities that would be available to a full legal entity.

The CUS does not keep its own bank accounts nor does it approve its own contracts. Ultimate financial authority lies with the AMS VP Finance and associated personnel and structures. As such, the Society cannot simply move its money from an operating account into an investment vehicle. Major expenditures or reallocations of the Surplus require approval by the AMS VP Finance. While the Society has looked into full legal status for itself, this has been deemed impractical\(^9\) and unnecessarily expensive given the expected benefits.

For practical reasons, this limits our options to UBC related ventures and investment vehicles.

**AMS Approval**

The CUS has attempted to create an Endowment once already, to be administered by the UBC Investment Management Trust (IMANT); it went to AMS Council for approval on February 6\(^{th}\), 2013. Due to the nature of the request and relative lack of previous communication on our part, then AMS VP Finance Tristan Miller sent the endowment contract agreement to AMS Council

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\(^7\) One proposal currently being discussed includes specific application periods for large funding requests

\(^8\) Both upside and downside variations have occurred in the recent past, but the downside shifts tend to be less problematic as the CUS Execs and BoD simply stop disbursing money once the fund is fully used or expenditures become a risk to the overall budget.

\(^9\) There have in the past been problems with CUS financial controls, becoming separate from the AMS would lessen oversight and increase potential liability for the organization. It also has legal implications under provincial law governing university student societies.
rather than sign it under his own authority. A number of different concerns, of varying validity, were raised during this meeting and the agreement ultimately failed to gain approval from AMS Council.
The full transcript of the meeting can be found below in Appendix 1, but the main points of contention were as follows:

- The agreement cedes too much authority to UBC/the Dean/people that aren’t students
- Have you looked at the AMS Endowment?
- Your purposed isn’t well defined, why do you need the money?
- Why is your agreement different than the EUS’s?
- Why choose IMANT when GICs and bonds are just as good\(^\text{10}\)?
- Why aren’t your returns guaranteed in writing?

The agreement failed Council thanks to a confluence of factors including poor presentation\(^\text{11}\) and research on the part of the CUS, and uneven financial knowledge and information on the part of the AMS. Ultimately, the agreement was not as strong as it could be and AMS councillors were right to insist on stronger protections for students given the background information they had available.

The details of passing AMS Council in the future will be discussed more in the context of specific investment options as it is an important part of any significant divergence from the status quo.

### Intergenerational Transfer Problems

As noted earlier, the Accumulated Surplus has grown in fits and starts over the last 13 years since the student fee increase in 1999. Because of this, many of the students whose fees ended up in the Surplus are no longer students at UBC. The excess money that they paid in fees brought them no meaningful value during or since\(^\text{12}\) their time at UBC.

While no student ever receives benefits exactly equal to the amount they pay into the Society, there is an argument to be made that any use of the Surplus should at least partially aim to benefit the students that originally paid into it.

### Uncertainty of Future CUS Plans

Inherent in any discussion of the Accumulated Surplus must be the understanding that the future is uncertain. The current form of the CUS is only 13 years old, yet choices regarding the use of the Surplus will potentially affect the Society for the next 10, 20 and 50 years.

Given this, any choice must take into account the possibility that priorities and circumstances can significantly change in the future. As such, options for future flexibility should not be discounted when compared to more easily quantifiable returns and cash flows.

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### 3: Potential Uses for Accumulated Surplus

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\(^{10}\) There was some confusion between real and nominal rates of return, with nominal bond returns being compared to inflation adjusted IMANT returns

\(^{11}\) “Your Sharpe Ratio sucks!”

\(^{12}\) Again, it’s just sitting in an account with the AMS, eroding to inflation.
Given the aforementioned limitations on how the CUS can deploy its money, our paths forward with the Accumulated Surplus are relatively limited but not so few that they do not deserve individual exploration and evaluation.

**Methodology**

The options will be evaluated on both quantitative and qualitative metrics. Quantitative comparison between different options will be based on the Expected Annual Net Benefits (EANB) and the Net Present Value of each option. This allows for comparison between projects of different time scales, as is the case here. Other metrics may be provided for clarity, but these are the most robust from a decision making point of view.

The discount rate is also important for these comparisons due to the long time scale of the choices under consideration. The calculations of this document have used a discount rate of 2.5%. Due to the low opportunity cost of using the funds, the discount rate has been modeled more closely to the expected rate of inflation than what is usually seen in the private sector.

The investment horizon, unless otherwise stated, is 50 years. While long term investments will still be in force after this period, uncertainty over future conditions make projections beyond this time speculative.

The proposed amount of money to be used is $300,000 of the $441,644 Accumulated Surplus.

**Status Quo**

This already been explained to a certain extent, but it’s important to note that there is always the option to do nothing. As it currently stands, the Accumulated Surplus resides in our operating account with the Alma Mater of Society, not really doing much, positive or negative.

Pros – Having the money remain in our operational accounts gives us maximum flexibility when it comes to future spending opportunities or financial challenges. This is important in the context of two potential future scenarios, a creation of a Commerce Student Center and unforeseen issues with deficit spending or budget shortfalls.

First, the Commerce Student Center. This is referring to efforts to create a standalone building that would cater to and be operated by BCom students, playing a similar role for Commerce as Abdul Ladha does for Science students. This idea will be discussed in detail later in the document, but by leaving the Surplus in the AMS operating accounts, the money would remain available to pay for a down payment on the CSC, a financially valuable option.

Second, just because the CUS has consistently run surpluses does not inherently mean that this phenomenon will continue. The Society is actively taking steps to minimize some of the issues that led to the accumulation of such a large surplus. These steps, by decreasing the likelihood of upside risk in the budgeting process, will make it more likely that the CUS will run meaningful deficits some years.

Additionally, there are forces squeezing the spending ability of the CUS over the medium to long term. Because the student fee is not indexed to inflation, it is steadily losing its value in purchasing power terms. While this has not been an issue so far, in part due to rising enrollment numbers, it is

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13 Calculated as (NPV of Project/Annuity Factor) with Annuity Factor calculated using Discount Rate (2.5%) and Length of Project as inputs (35 years for CSC, 50 for all others)

14 The money is currently not being deployed and the opportunity cost of different options is explicitly evaluated on a project specific basis in this report, so the discount rate is modeled very closely to the current projected rate of inflation as determined by the difference in yield between long term Bank of Canada bonds and BoC real return bonds (inflation linked bonds).
another factor to consider, especially over time horizons of five years or longer. Student fee increases to account for this erosion of purchasing power may be challenging given the size of the current student levy. Budget issues facing the Sauder School or UBC as a whole could also have adverse effects on the spending power of the CUS. Any of these factors could lead to significant deficit spending under certain circumstances, with the Accumulated Surplus being spent down to avoid reduction in services.

With these issues in mind, the flexibility that comes from having an extra $300,000 in the bank should not be underrated.

Cons – As noted earlier, one of the major costs surrounding the status quo is the result of inflation eroding the purchasing power of the Accumulated Surplus. Because the operating account in which it resides gains no interest, the principal is not effectively protected against inflation or other changes in purchasing power. Under current assumptions of inflation expectations and discount rates, leaving the money in the operational accounts yields an EANB of -$7500. For this reason, leaving the money in the account is not an ideal permanent solution.

Risks – Additionally, there is a risk that should the money remain in the CUS operating account it will be a point of contention in the CUS’s dealings with other stakeholders on campus. Most recently, members of AMS council have questioned the policies that led to the accumulation of such a large surplus and have made points to suggest solutions to our “problem” of an operating surplus. The Sauder administration has also repeatedly noted the size of our surplus, a worrisome development. In order to remain in control of our fate as an organization and avoid having our hand forced by the AMS or the Sauder administration to undertake a spending program that doesn’t benefit BCom students, it may be necessary to take visible action to address the Surplus.

With this being the case, leaving the money in the operational accounts would again not be an ideal permanent solution.

Deficit Spending
Another potential option would be to redirect and expand CUS spending efforts with the goal of running consistent deficits in order to slowly run down the Accumulated Surplus. This is not a recommended course of action for a number of reasons.

First, as mentioned earlier there is an argument to be made that the Society already has funding above and beyond what it needs to run programming. This is a partial source of the surplus. We are not currently foregoing any programs due to a lack of funding. For that reason, deficit spending would be more likely to lead to wasted funds rather than significantly improved service. It is unclear whether the Society would even be able to change its operations enough to consistently run deficits, given its conservative budgeting practices.

Second, even if the Society were able to adjust its activities in order to slowly run down the surplus, there would be problematic readjustments once the surplus is down to a more reasonable level, owing to a renewed need to spend within our means.

\[15\text{ Assuming the student fee isn’t indexed to inflation in the future.}\]
Additionally, if the Society were to cut its student fee in order to create a structural annual deficit then the benefits of the Surplus would accrue to current and future students, definitively not the students that paid into the Accumulated Surplus.

For these reasons, deficit spending in order to slowly eliminate the Accumulated Surplus is not the best course of action.

AMS Endowment

The AMS Endowment is a series of bond holdings that the AMS uses to store its excess capital from year to year and to draw on in times of deficit, such as the current fiscal year. The portfolio is composed entirely of Government Bonds and GIC’s, ranging in maturity from 3 months to 30 years with a majority being short term holdings. Based on the most recent information from the AMS, their holdings of marketable securities are currently valued at just over $14 million. The AMS Endowment is currently administered by the AMS Director of Finance, Keith Hester.

Using the AMS Endowment as a store of our Accumulated Surplus was a point of contention when our Endowment plans were last presented to AMS Council. We had not fully evaluated the AMS Endowment prior to our presentation, which left us unable to refute what turned out to be misinformation regarding the structure of the portfolio and its past returns\(^\text{16}\).

In preparation for a potential return to AMS Council and as part of our due diligence we have attempted to evaluate the AMS Endowment as a potential vehicle for the investment of the Accumulated Surplus.

Pros – The biggest benefit of the AMS Endowment is the purported\(^\text{17}\) ability to withdraw our funds should we need them for another use. This is in distinct contrast to an endowment agreement with UBC IMANT which, barring a decision by the UBC Board of Governors, would lock up our capital indefinitely. Specifically, this option to withdraw funds is useful if we wanted to apply the money towards a new Commerce Student Space, which will be discussed later in this report. An additional benefit of using the AMS Endowment is the presumed relative ease of getting this investment approved by the AMS.

Cons – One of the downsides of using the AMS relative to other options is its low rate of return. While a portfolio of government bonds is “safe” relative to other investments, the return on this investment is commensurate small. In the case of the AMS, the Endowment has yielded a real return of 1.08% over the last 10 years and 0.87% over the last 5. This stands in contrast to the target real return of 3.5% for UBC IMANT investments and observed real returns of 4.3% over the last decade. While the returns will likely be enough to shield us from inflation, we expect the return to remain depressed relative to a balanced portfolio that also includes equities, corporate debt and alternative assets.

Risks – Separate from the low expected returns, there are a number of risks that come with investing with the AMS Endowment. These can be broken into two categories, risks arising from the investment experience of the AMS and risks coming from the CUS relationship to the AMS.

Regarding investment experience, it is unclear if the AMS Endowment is a prudent place for the CUS to store its money in the long term due to the lack of applicable finance experience within the organization. The Director of Finance role is hired for skill in corporate controls and finance relating to business operations, not the evaluation of investments and the administration of a portfolio. There

\(^{16}\) There was some confusion between nominal and real rates of return with nominal AMS returns being compared to inflation adjusted IMANT returns.

\(^{17}\) At this time we have been unable to get a draft of a contract from the AMS VP Finance or Director of Finance related to this proposed investment.
are questions about the ability of the current Director of Finance to administer the fund successfully and the nature of the role means that in the future the AMS will continue to favor operational expertise over investment experience when hiring the Director of Finance. This lack of applicable experience cannot be counteracted by CUS oversight because the AMS has been generally unwilling to share financial data detailed enough to allow for effective oversight.

The CUS relationship to the AMS brings additional risks. Because the CUS is not a legal entity, any endowment agreement would be one between the AMS and itself. It is unclear whether such an agreement would be enforceable. This introduces serious questions as to whether the AMS would or even could refrain from encroachment on the principal of the CUS’s deposits with the AMS. The Alma Mater Society is currently running significant deficits and should the financial state of the AMS deteriorate further at any point over the investment horizon (50 years), the AMS may be forced to appropriate CUS funds for its own use.

Overall, the AMS Endowment is deemed suitable only as a medium term store of the Surplus between the present and the construction of a Commerce Student Center. Due to its high operational risk and relatively low returns, it is not well suited as a long term investment vehicle.

CSC Down Payment
The Commerce Student Center is a proposed standalone building that would cater to and be controlled by Commerce students, fulfilling a similar role for the business faculty as the Abdul Ladha building does for Science students. The idea has been under formal exploration for the past two years. The project is expected to cost $5.3 million overall\(^\text{18}\), with students covering roughly $2.525 million. The other portion of the building would be covered by a combination of donors and the use of various funds at UBC.

Covering the student portion of the expenses would require a significant levy on students. By committing some or all of the Accumulated Surplus as a down payment, the Society can defray some of the expense in a way that would meaningfully reduce student contributions over the life of the building.

For the quantitative portion of this evaluation, we assume that the Surplus is stored with the AMS Endowment between the present and the expected date of the first loan payment for the CSC. We also assume that the first loan payment will become due 6 years from the present. While there has been significant progress on the new space in the last 2 years, there is some exhaustion within the Administration regarding new large scale construction and construction is not expected to begin within the next 2 years. Expectations are that the construction will start in the next 2 to 10 years, with 6 years used as the expected delay between the present and the first loan payment.

Pros – This choice is attractive to the CUS because it is most competitive with IMANT on an NPV basis. Based on expected loan terms\(^\text{19}\), using the money as a down payment on a new Commerce Student Center would lower aggregate student payments towards the new building by $20,335\(^\text{20}\) each year over the course of the loan. This option yields an NPV of $123,085 with an EANB of $5,318 when coupled with the AMS Endowment.

Beyond raw returns, using the money in this manner will allow for a lower per student contribution to any new building, potentially easing passage of the referendum necessary to garner such a fee. That said, the assumption is that the fee referendum would pass irrespective of an Endowment

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18 According to most recent CSC proposal
19 Amortized Loan; Length: 35 Years, Nominal Rate: 5.75%, Expected Rate: 3.68%, $2.525 mil principal, 6 year delay between present and first loan payment
20 Nominal
down payment. For this reason, the benefit of the new building has not been quantified as part of the net benefits of using the Surplus as down payment.

Cons – Even though the returns are competitive on an EANB basis with IMANT, over the entire investment horizon, IMANT has a superior NPV. Additionally, using the Surplus to as a down payment fails the intergenerational transfer test unless one believes that the building would not be built without such a down payment. This results from the fact that future students would benefit from lower building fees while past students’ contributions made such lower fees possible. The benefits would not accrue to the people that paid into the Surplus.

Risks – While it is believed that the CSC will be built within the next decade, there is a definite risk that it may be pushed into the future for a variety of unpredictable reasons. Should construction be pushed far into the future, the CUS will be gaining only the low returns from the AMS Endowment in the interim.

In addition, should the CUS use the AMS Endowment as a bridge between the present and the first loan payment, all of the risks of that option also apply here, though to a lesser extent due to the shortened timeline.

While using the Surplus as part of a down payment on a future CSC is financially valuable to the CUS and its constituents in the form of lower loan payments, due to the risks associated with this route, it is not an ideal option for the CUS. Based on this analysis, the CSC Down Payment coupled with an interim AMS Endowment deposit\(^{21}\) is the second best choice for the Society.

**UBC IMANT**

The final option examined is the creation of an Endowment administered by the UBC Investment Management Trust (IMANT). This was the option originally presented to AMS Council in February 2013.

In basic terms, the CUS would deposit the money into the Endowment and receive annual payments that it can use to fund projects and operations. Using current IMANT projections\(^{22}\), the spend rate to the CUS would be 3.5% of deposited funds or $10,500\(^{23}\). The principal would remain in the Endowment indefinitely, with severe restrictions on withdrawal.

Pros – Of all the options, an IMANT Endowment provides the highest return over the length of the Investment Horizon\(^{24}\). This option will provide the CUS with a steady stream of cash flows as separate from student levy or sponsorship revenue. Over the investment horizon, an IMANT Endowment has an expected NPV of $155,497 with an EANB of $5,483. Financially, this is the best option for the CUS.

These returns are also more likely to actually be realized, compared to the AMS Endowment, due to the significant experience of the people running UBC IMANT.

Cons – The high return of an IMANT Endowment is coupled with a number of restrictions on the use of both the principal and the interest.

The largest of this is the restriction on return of deposited capital. Under the current proposed Endowment agreement, any encroachment on the principal of the Endowment requires approval by the UBC Board of Governors. While this protects the Society from any encroachment by the University, it also restricts our access to the funds once they are deposited. Based on conversations we

\(^{21}\) Assuming appropriate protections are in place, which currently seems unlikely.

\(^{22}\) Target Return: 6.15%, Management fee: 0.65%, Inflation Account: 2%, Target Spend Rate: 3.5%

\(^{23}\) Nominal

\(^{24}\) 50 years, as opposed to the CSC loan length of 35 years.
have had with Administration personnel, it is best to treat the funds as irretrievable once they are deposited in the Endowment.

There are further restrictions on the use of the cash flows resulting from the Endowment. Specifically, the CUS will create an Endowment Committee that will determine the use of the funds. This committee will make recommendations to the Director of the Undergraduate Program (currently Pam Lim) who has the ability to approve the proposed use of the funds. Should the Director not approve the committee’s recommendation after two submissions, the decision will be sent to the UBC VP Students (currently Louise Cowin) who will have the final decision.

While this may seem burdensome, and was in fact a sticking point for many on AMS Council, it is believed the Society will be able to determine a use of the funds that would be deemed appropriate by the Administration. Should any submission be deemed inappropriate, the Society could simply shift its budgeting and apply the funds to an activity to which the Administration would be more amenable.

Risks – While our contractual agreement shields us from some risks associated with endowments, there are still a number of risks to be aware of, especially in the eyes of AMS Council.

First, the need to get Administration approval for use of disbursed funds could in the future become burdensome. While we maintain a relatively positive relationship with Sauder Staff, 50 years is a long time horizon and it is unclear whether such good relations will continue unabated for the duration. That said, the contract specifically states that approval will not be unreasonably withheld and the escalation to VP Students provide redress should the Administration prove uncooperative. The terms of the contract related to this risk have been improved since the last presentation to AMS Council.

Second, some within the AMS view the “Encroachment” clause in the current contract as dangerous for the Society. This language, section 5 in the endowment contract, gives the university the ability to “encroach” (access) the principal of the fund in order to support the purpose of the fund as laid out in the contract. Some see the ability of the University to alter the terms of the contract as a legitimate risk to the principal, despite the need for Board of Governors’ approval. The language in the contract surrounding encroachment has been significantly strengthened since it was first presented to AMS council and it is exceedingly unlikely that UBC would be able to access the fund for any reason other than to benefit BCom students.

Finally, there is a risk that IMANT will not be able to maintain its targeted return over the long term. There is an argument to be made that over the investment horizon of 50 years, a 6.15% return is overly optimistic for a fund that has the majority of its holdings within North America. Over the 50 year horizon there are demographic headwinds along with other factors that may depress long term growth in the developed world where IMANT currently invests. While IMANT can shield its returns somewhat through its ability to invest in relatively illiquid assets, a long term secular decline in developed world growth would likely lead to lower than expected returns. Unfortunately this risk is not currently quantifiable by the CUS. The most that can be said is that the returns of alternatives (AMS Endowment) are also likely to be affected in similar ways, if to differing degrees.

**Summary**

Overall, given the limitations on the use of the Accumulated Surplus and the current projections and assumptions of this analysis, the creation of an Endowment administered by the UBC Investment Management Trust is the best use of the Surplus. This will provide the Society with a steady stream of cash flows while shielding it from some of the risks of the other options, giving it an enhanced ability to serve the needs of BCom students.
Appendix 1: Projected Returns from Select Options

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<thead>
<tr>
<th>Option</th>
<th>NPV</th>
<th>EANB</th>
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<tbody>
<tr>
<td>IMANT - FS</td>
<td>$155,497</td>
<td>$5,483</td>
</tr>
<tr>
<td>AMS - FR</td>
<td>$38,859</td>
<td>$1,370</td>
</tr>
<tr>
<td>CSC w/ AMS</td>
<td>$123,085</td>
<td>$5,318</td>
</tr>
<tr>
<td>Status Quo</td>
<td>-$212,717</td>
<td>-$7,500</td>
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Appendix 2: NPV of Select Options

NPV of Options over Time
Appendix 3: Historical BCom Population Data (Odd Years)

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</thead>
<tbody>
<tr>
<td>Total Students</td>
<td>3214</td>
<td>2929</td>
<td>2715</td>
<td>2342</td>
<td>2204</td>
<td>1858</td>
<td>1636</td>
<td>1533</td>
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</table>

CAGR: 5.43%

Appendix 4: Historical CUS Budget Data

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<tbody>
<tr>
<td>Fee Revenue</td>
<td>854,924</td>
<td>839,496</td>
<td>779,114</td>
<td>754,376</td>
<td>722,190</td>
<td>674,310</td>
<td>622,972</td>
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<tr>
<td>Surplus</td>
<td>441,644</td>
<td>401,604</td>
<td>414,094</td>
<td>263,157</td>
<td>201,253</td>
<td>135,183</td>
<td>194,009</td>
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<tr>
<td>Change in S</td>
<td>40,040</td>
<td>-12,490</td>
<td>150,937</td>
<td>61,904</td>
<td>66,071</td>
<td>-58,826</td>
<td>17,588</td>
</tr>
</tbody>
</table>

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</thead>
<tbody>
<tr>
<td>Fee Revenue</td>
<td>603,820</td>
<td>586,264</td>
<td>534,926</td>
<td>494,228</td>
<td>473,214</td>
<td>435,176</td>
<td>421,078</td>
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<tr>
<td>Surplus</td>
<td>176,421</td>
<td>63,838</td>
<td>63,452</td>
<td>77,935</td>
<td>157,287</td>
<td>128,753</td>
<td>48,449</td>
</tr>
<tr>
<td>Change in S</td>
<td>112,583</td>
<td>-386</td>
<td>-14,483</td>
<td>-79,352</td>
<td>28,533</td>
<td>80,305</td>
<td>48,449</td>
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</table>

Appendix 5: Minutes for AMS Council Meeting on Feb. 6, 2013 re: CUS Endowment

C) Presentations to Council:
CUS Endowment Agreement – Jack Leung and Cindy Lynn

- **Jack Leung** (CUS President): We firmly believe the Endowment Fund is the best way forward. It will enable us to fund an annual Frosh event and expand our tutorial services. Our guiding principles are to provide more and better services for B.Com students. We’re anticipating B.Com population growth. This will protect us against inflation. We’ve had a surplus in our AMS bank account since 1941.

- **Cindy Lynn** (CUS VP Finance): We want to go with UBC IMANT (UBC Investment Management Trust); they have a stable 2.5% return and offer flexibility: the CUS will determine the use of Endowment returns. We did consultation and there were no concerns. It’s been approved by the CUS Board. This is our initiative to give to current and future B.Com students.

- Questions?

- **Matt Parson**: Why is this safer than GIC’s or bonds? Where does the 2.5% figure come from? And the flexibility you mention, where is that in the contract?
- **Jack Leung:** GIC’s and bonds carry risk. Something diversified like UBC IMANT is more attractive. We agreed on 2.5% with the UBC Endowment people.
- **Matt Parson:** I haven’t seen the 2.5% in the contract.
- **Cindy Lynn:** It was in agreement with UBC Endowment representatives.
- **Matt Parson:** In the contract?
- **Jack Leung:** It wouldn’t be in the contract because of volatility. As to flexibility, we have flexibility to withdraw funds for a social centre. That was our agreement with the Dean’s office.
- **Ian Campbell:** Looking at the precedent of three previous student centres, what you have is nowhere near the amount needed. Why is that your motivation for this agreement? You’d still have to levy a fee, and this fund would be gone if you used it for a social centre.
- **Jack Leung:** That would be better than having it sit in a bank account.

16. MOVED LAUREN TELFORD, SECONDED CHRIS ROACH:
“That the question period be extended for up to 10 minutes.”
... Defeated
For (8): John Chow, Sean Fleming (proxy for Mark Sha), Michelle Ho, Kiran Mahal, Ron Oh, Christopher Roach, Lauren Telford, Eric Toyota
Against (19): Ekateryna Baranovskaya, Ian Campbell, Justin Chang, Justin Fernandes, Anne Kessler, Jennifer Law, Conny Lin, Mona Maleki, Natalie Marshall, Clarke McCorkell, Tristan Miller, Roshak Momtahen, Harsev Oshan, Hans Seidemann, Sebastian Silley, Noah Stewart, Kyle Warwick, Caroline Wong, Justin Yang

J) Executive Committee Motions:
17. MOVED MATT PARSON, SECONDED EKATERYNA BARANOVSKAYA: d
From the Executive Committee
“That the Commerce Undergraduate Society’s Endowment agreement be accepted as presented.”
Note: Requires 2/3rds

- **Justin Chang:** You said usage would be up to the CUS, but Schedule A says it’s ultimately up to the Dean. Also, do the UBC IMANT investment policies line up with AMS investment policies?
- **Jack Leung:** The Dean of Sauder will be just a rubber stamp, like the Governor-General. He doesn’t care about this money. As far as investment policies go, I’ve received no guidance on that, but I trust UBC IMANT.
- **Justin Chang:** Other Constituencies have had trouble with their deans.
- **Jack Leung:** We have an amiable relationship with our Dean; we trust our Dean.
- **Sean Fleming (CUS proxy):** Our $400,000 is just a drop in the bucket; that’s why putting it in this Endowment is best. It will give us a safe return, and a better return than bonds or the bank account it is in now, where our money is eroding because of inflation.
- **Noah Stewart:** It’s a good idea to find ways of investing your money, but I wouldn’t depend on a good relationship with the Dean. This contract gives full control to the Administration. It says one party can unilaterally vary it, which is so extreme I doubt it can be enforced. This simply hands money off, ceding complete control to the Administration.
- **Jack Leung:** We have sought outside legal advice, and this is consistent with other endowment agreements.
- **Ekateryna Baranovskaya:** I’d be suspicious there’s such a large surplus to begin with. Disposing anything over $50,000 should go to a referendum.
- **Hans Seideman:** There have been comparisons to the EUS agreement, but our agreement is better. That the University can encroach on this fund and vary the terms sets a bad precedent. Ours gives us quite a lot of say. This moves away from that. I’d be much more for using the AMS Endowment Fund.
- **Tristan Miller**: The idea behind this is very good. For me it’s the specifics of the contract. Doing it with the University is fine, but the contract is very weak. Why give up control? There are too many outs for UBC. I’d like to get a legal opinion from our lawyers. Or if you have a legal opinion, I’d be happy to see that. If we’re to do our fiduciary duty, there should be a legal opinion. This reads like a standard donor agreement. I’m not comfortable signing it. I will only sign if Council directs me to.

- **Matt Parson**: GIC’s and bonds are lower risk than a diversified portfolio. UBC took a massive hit to their endowment. The AMS was sheltered from that because our bylaws required us to avoid risky investments. If there is a written agreement about withdrawal rights and 2.5%, this could be acceptable. Student fees should remain under student control rather than go to UBC.

- **Justin Fernandes**: The endowment idea is good, but we want the best possible contract for students. In Science we were told by our Associate Dean not to go with UBC Endowment, but to go to the AMS Endowment. Have you investigated other options, like the AMS Endowment?

- **Jack Leung**: GIC’s give a much lower return than 2.5%. We have sought legal advice, and this is the best contract from our point of view. It provides a stable return and mitigated risk. We can determine the use, and we can withdraw the funds. Currently, the interest on our money is used for the AMS generally, but it belongs to B.Com students; we’ve waited for too long.

- **Justin Yang**: I don’t think anyone’s against the idea, but as a director of the AMS I don’t see the legal opinion in front of me. I’d really like to see it so I can do my due diligence.

- **Mona Maleki**: We have to make sure this is in the students’ interest. I’d like to see more consultation and information on how it’s the best contract.

18. MOVED KYLE WARWICK, SECONDED CLARKE McCORKELL:

“That the question be called.”

Note: Requires 2/3rds

... Carried

For (20): Justin Chang, Justin Fernandes, Montana Hunter, Anne Kessler, Jennifer Law, Mary Leong, Conny Lin, Mona Maleki, Natalie Marshall, Clarke McCorkell, Tristan Miller, Roshak Momtahen, Ron Oh, Harsev Oshan, Christopher Roach, Hans Seidemann, Eric Toyota, Kyle Warwick, Caroline Wong, Justin Yang

Against (8): Ekateryna Baranovskaya, Ian Campbell, John Chow, Sean Fleming (proxy for Mark Sha), Michelle Ho, Sebastian Silley, Noah Stewart, Lauren Telford

19. MOVED MATT PARSON, SECONDED EKATERYNA BARANOVSKAYA: [SCD307-13]

From the Executive Committee

“That the Commerce Undergraduate Society’s Endowment agreement be accepted as presented.”

Note: Requires 2/3rds

... Defeated

For (3): Sean Fleming (proxy for Mark Sha), Michelle Ho, Lauren Telford

Against (23): Ekateryna Baranovskaya, Ian Campbell, John Chow, Justin Fernandes, Montana Hunter, Anne Kessler, Jennifer Law, Conny Lin, Kiran Mahal, Mona Maleki, Natalie Marshall, Clarke McCorkell, Tristan Miller, Roshak Momtahen, Ron Oh, Harsev Oshan, Christopher Roach, Hans Seidemann, Noah Stewart, Eric Toyota, Kyle Warwick, Caroline Wong, Justin Yang

Abstained: Justin Chang, Mary Leong, Sebastian Silley