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Endowment Fund
Annual Report

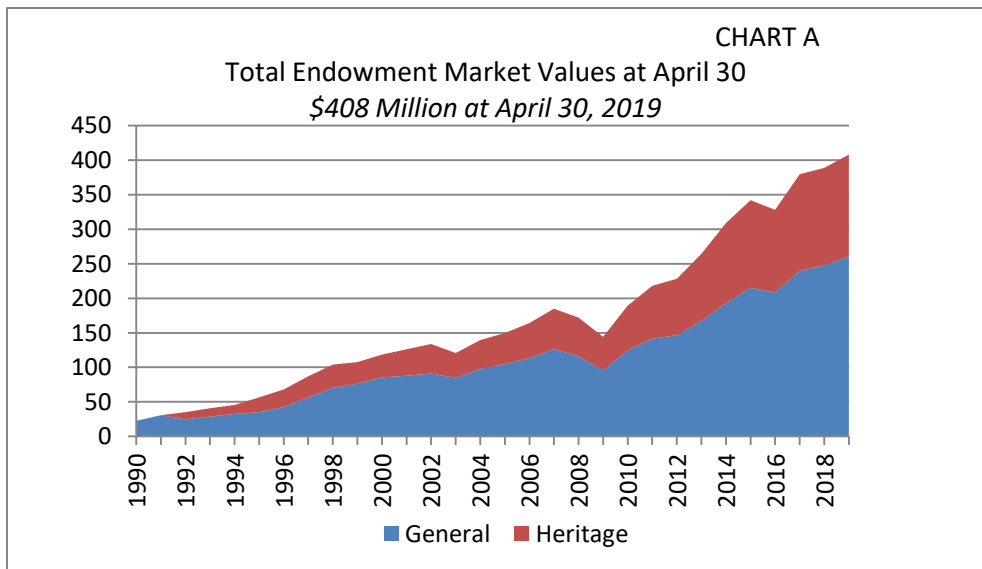
April 30
2019

Summary: Endowment Portfolio, Fiscal 2018-2019 (May 1, 2018 to April 30, 2019)

1 The University Endowment Portfolio

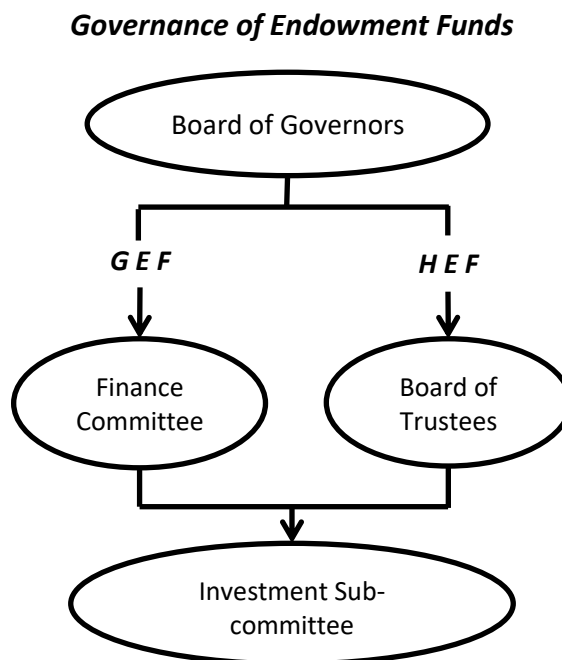
The University of Guelph endowment portfolio is divided into two major designations; the General Endowment Fund (GEF) of \$260 million and the Heritage Endowment Fund (HEF)¹ of \$148 million. Since 1990 the University’s total endowments have grown to \$408 million by April 30, 2019 (refer to the Chart A). Growth is the result of both contributions and investment returns, net of spending for designated purposes. Contributions to University endowments are derived from a variety of sources including donations,

governments and internal University sources such as income derived from certain real properties. Payments from endowments totaled \$17.9 million or about 2% of total University spending in the 2019 fiscal year. Spending was for a targeted purposes that include student assistance, faculty chairs, research and infrastructure support.



2 Endowment Governance and Oversight

The University’s Board of Governor’s is responsible for the oversight of both the investment management and spending authority of University Endowment Funds. The Board in turn has delegated operational oversight for the General Endowment Fund to the Finance Committee and for the Heritage Endowment Fund to a Board of Trustees. Responsibility for investment management for all Endowment Funds has been delegated to an Investment Sub-committee. (Refer to adjacent chart and the committee’s [terms of reference](#)).



¹ Refer to Section 4 for more details of each of these major designations.

The majority of the Investment Sub-committee's membership are individuals with proven expertise in the investment concepts and activities that are applicable to public sector organizations such as a university. The committee's major responsibility is to ensure the effective implementation of the Board-approved investment strategy. Key activities include regular monitoring of fund assets and performance, oversight and selection of portfolio managers, ongoing development of the investment policy and asset mix and regular reporting to the Board of Governors. These activities are conducted mainly through quarterly meetings during which they review the investment performance updates, meet with selected fund managers, consult subject matter experts, and review strategies.

In fulfilling its responsibilities, the Investment Subcommittee is supported by University administration and independent external experts and consultants where additional expert knowledge is required or where a perceived or actual conflict of interest exists. For instance, a consulting firm has been engaged to help monitor our existing managers in terms of their performance, ranking, management team and various quantitative and qualitative matters related to their mandates. A detailed report is presented to the committee on an annual basis in addition to the ongoing monitoring.

The investments activities for all Endowment Funds are established under a Board of Governors approved [Endowment Investment Policy](#). Under this policy the endowment investment portfolio is allocated among prescribed asset classes such as Canadian and global equities as well as fixed income investments including cash and government and corporate bonds. The policy is reviewed annually to ensure that it is current and meeting the objectives set by the Board of Governors for endowment management. Major objectives of the policy are to ensure the transparency and accountability of the Board's oversight of assets as well as to provide an investment framework that balances endowment objectives with investment market opportunities.

Regardless of funding source or purpose, in managing all endowments, the University's primary objective is to maintain the real (inflation protected) long-term spending capacity of each endowment. To achieve this objective, a disciplined long-term spending rate is set that balances capital protection with current spending demands. The Board of Governors has established policies and a governance structure that ensures the necessary oversight is in place to realize this outcome. While both of the University's major endowments (General and Heritage) have different spending policies, they both share this fundamental principle.

3 Investment Performance for 2018-2019

Global Markets

The world equity market continued advancing despite major selloffs in Q4 2018, with MSCI All Country total return recording 10% in CAD, and 5% in USD, but synchronized growth from prior year ceased to exist. Markets behaved rather differently. While US market saw double-digit return, EAFE and Emerging markets were near breakeven in CAD. Growth prospects, trade conflicts and central banks were among the major drivers of the markets.

Growth continued outperforming value stocks during the year, and small cap stocks lagged large caps in the US market.

Major central banks turned dovish during the year. As the yields went down, bond prices went up, and the universe bond portfolio benefited from substantial capital gain.

Fund Returns

For the fiscal year May 1, 2018 to April 30, 2019, the gross return of the endowment fund trailed its benchmark by 1.6%, mostly due to the public equity underperformance.

Asset Class	Endowment	Benchmark	Relative
Canadian Equity	7.1%	9.6%	-2.5%
US Equity	13.4%	19.1%	-5.7%
EAFE Equity	1.2%	1.6%	-0.4%
Emerging Market Equity	-1.2%	0.0%	-1.2%
Fixed Income	6.2%	6.1%	0.1%
Infrastructure	11.0%	7.0%	4.0%
Total Fund	6.6%	8.2%	-1.6%

The table below illustrates the investment performance for the past 10 years on both gross and net basis.

Annualized Rate of Return (Years ended April 30th)				
	1 year	3 year	5 year	10 year
Endowment Return (Gross)	6.6%	9.0%	7.2%	10.1%
Endowment Return (Net ¹) - GEF	5.3%	7.8%	6.0%	8.9%
Benchmark Return*	8.2%	9.1%	7.6%	9.3%
Relative Return (Gross)	-1.6%	-0.1%	-0.4%	0.8%
Relative Return (Net) - GEF	-2.9%	-1.3%	-1.5%	-0.4%

Note 1: Net expenses include all direct investment management fees and internal University costs in the GEF

Asset Allocation

The University has established a target asset mix for the endowment fund portfolio which ensures investments are currently across a broad range of asset classes and geographies with majority in public equity holdings. The table below shows the policy asset mix for the endowment fund vs its actual asset mix as of April 30, 2019.

Asset Classes	Benchmark Index	Policy Mix	Actual Mix	Permitted Ranges	
				Min.	Max.
Universe Bonds	FTSE TMX Canada Universe	30.0%	28.0%	10.0%	50.0%
Cash	FTSE TMX 91 Day T Bills	0.0%	0.2%	0.0%	20.0%
Total Fixed Income		30.0%	28.2%	20.0%	50.0%
Infrastructure	CPI+5%	7.5%	6.1%	0.0%	10.0%
Canadian Equities	S&P/TSX Composite	17.5%	18.0%	7.5%	27.5%
U.S. Equities	S&P 500 (CAD)	20.0%	21.6%	10.0%	30.0%
International Equities	MSCI EAFE Net (CAD)	20.0%	21.0%	10.0%	30.0%
Emerging Markets	MSCI EM (CAD)	5.0%	5.1%	0.0%	10.0%
Total Equities		62.5%	65.7%	50.0%	80.0%

4 Endowment Fund Spending and Disbursements

As noted earlier, the University of Guelph endowments consist of two major designations; the General Endowment Fund (GEF) and the Heritage Endowment Fund. The GEF is a collection of many different external or non-operating funding sources that are restricted or designated to provide long term financial support for a specific purpose. In contrast, the main sources of growth for the Heritage Endowment are the proceeds of sales and leases from Board-designated University properties.

In both funds, reinvested investment income earned on the capital of the fund provides a major source of asset growth. The table below summarizes the major funds flows both in and out of both endowments over the past five years. Of note is the level of recent payments from the Heritage Fund that will be used to support a number of major capital infrastructure projects.

Summary of Changes to Endowment Fund	2015	2016	2017	2018	2019
<i>\$ millions</i>					
Payments from GEF Endowments	4.5	4.8	5.8	5.9	6.7
Payments from the Heritage Fund	7.0	7.4	5.3	8.4	6.8
Expenses	3.0	3.2	3.3	3.3	4.4
Total Expenses and Payments	14.5	15.4	14.4	17.6	17.9
New Contributions to Endowments	10.0	10.4	9.9	9.7	13.9
Investment Income	37.5	- 8.8	55.9	17.1	23.3
Total Income and Contributions	47.5	1.6	65.8	26.8	37.2
Total Fund Assets	341.9	328.1	379.5	388.7	408.0

The following two sections provide more details on both the Heritage and General Endowment Fund at the University of Guelph.

The General Endowment Fund (\$260 million)

The University of Guelph's **General Endowment Fund (GEF)** consists of funds from external or non-operating sources that are restricted or designated to provide long term financial support for a specific purpose. A large majority of GEF funds are allocated for student assistance in the form of scholarships and bursaries. Other designations include research support, equipment or library acquisitions, special academic activities such as endowed faculty positions and on-going support toward the operating costs of academic facilities. While the GEF is invested as part of total University Endowment portfolio, each designation or restriction (e.g., donor agreement) is accounted for separately within the University's financial systems. There are currently over 1,100 of these accounts within the GEF where the capital, investment income and expenses are recorded.

Over the past five years the GEF, which comprises two thirds of total University endowments, has grown from \$192.8 million to \$260.4 million. This reflects the combined effect of total contributions into the fund of \$28.7 million, payments out of the fund of \$27.7 million and accumulated investment earnings. The Board of Governors approved policy permits a maximum spending from each donor-designated account of 5% of the most recent four-year average of the fund's value in any year. Spending is further limited to protect the donated capital. For 2018-2019, the spending rate was set at 3.5% by the University in consultation with the Finance Committee of the Board of Governors. Annual net investment earnings after spending accumulate in each account, growing that endowment's value and protecting long-term spending stability. The following table provides context on spending from the GEF relative to student assistance. In 2019, spending has continued to increase as endowments have grown from both recent investment gains and additional contributions. The spending or "pay-out" policy is documented in [General Endowment Fund Management Policy](#).

History of Spending from the GEF (at April 30)					
\$ millions	2015	2016	2017	2018	2019
Scholarships and Bursaries	3.7	4.0	4.9	4.9	5.5
Other Designations	0.8	0.8	0.9	1.0	1.2
Total Spending from Endowments	4.5	4.8	5.8	5.9	6.7
GEF Policy Spending Rate	3.5%	3.5%	3.5%	3.5%	3.5%
Total University Spending on Student Scholarships and Bursaries (all sources, excluding University of Guelph-Humber)	33.7	36.1	39.4	43.6	44.3
% Total University Spending on Student Scholarships and Bursaries from Endowments	10.8%	10.8%	12.3%	11.4%	12.4%

The Heritage Fund (\$148 million)

The **Heritage Endowment Fund (HEF)** was created in 1991 by the Board of Governors through a declaration of trust with the intention that the capital of the fund be held in perpetuity for University strategic purposes. The main sources of growth for the fund are the proceeds of sales, leases from Board-designated University owned properties and investment income earned on the capital of the fund. Distributions for spending from the Heritage Fund endowment are made in accordance with a formula prescribed in the trust agreement. The formula is based on a five-year average of market returns after providing for inflation protection and growth. Investment oversight of the fund was delegated by the Board of Governors to a Board of Trustees ([Reference Link](#)). The distribution of funds for spending from the Heritage Fund currently contains two designations; The Keefer Fund designated for agricultural purposes (\$13.6 million) and the balance of (\$134.0 million) which is directed toward major strategic initiatives. Since its creation 25 years ago in 1991 with total initial capital of \$10 million, the total Heritage Endowment Fund has grown to \$147.6 million while having provided \$56.2 million for major University strategic purposes, including major information technology systems and capital infrastructure projects, over the same time period.