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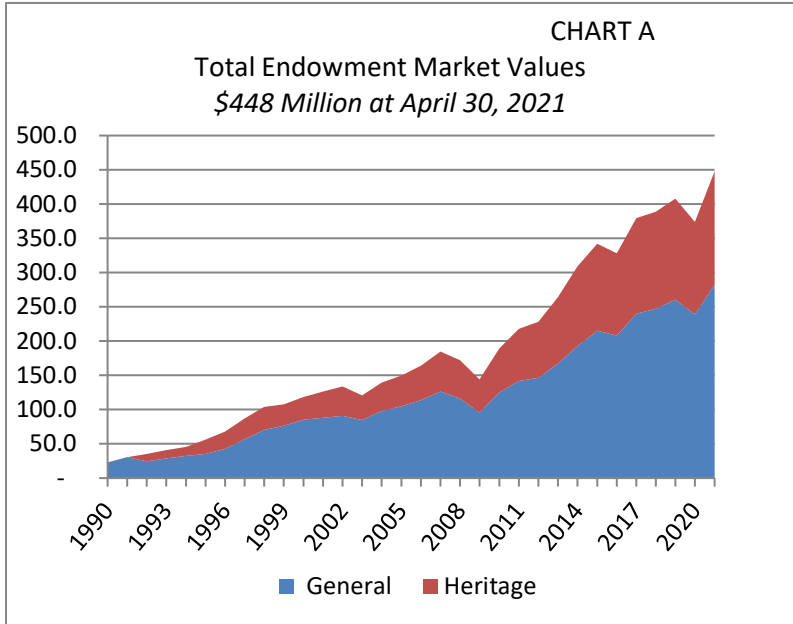
Endowment Fund  
Annual Report

April 30  
2021

Summary: Endowment Portfolio, Fiscal 2020-2021 (May 1, 2020 to April 30, 2021)

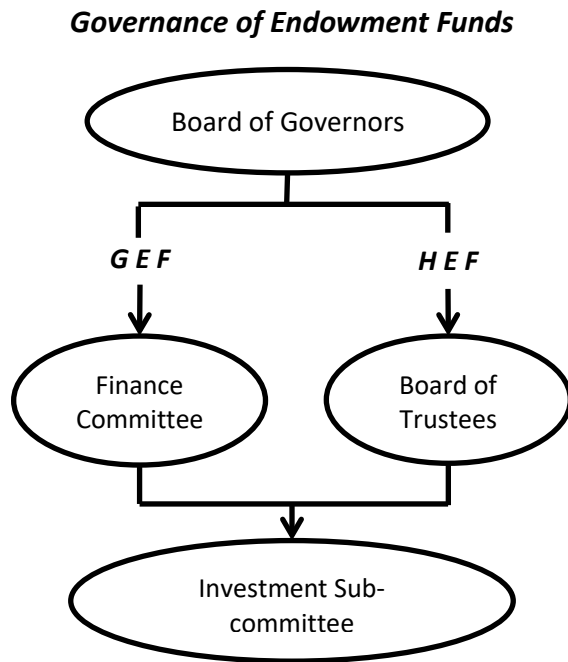
## 1 The University Endowment Portfolio

The University of Guelph endowment portfolio is divided into two major designations; the General Endowment Fund (GEF) of \$282 million and the Heritage Endowment Fund (HEF)<sup>1</sup> of \$166 million. Since 1990 the University’s total endowments have grown to \$448 million by April 30, 2021 (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 \$11.0 million or about 1.4% of total University spending in the 2021 fiscal year. Spending was for 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](#)).



<sup>1</sup> Refer to Section 5 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 and policies, including those relating to responsible investing. 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 2020-2021

#### Market Review

The market recovered from its COVID-19 downturn, resulting in a reversal of losses from last year, and continued to rally. 2020-2021 witnessed a style rotation as broad market value indices meaningfully outperformed growth indices for much of the year. Meanwhile small- and mid-cap returns also surpassed large-cap stocks, a change from the large cap dominated market in prior years. These trends have benefited the endowment funds due to the overall value style tilt and the allocated assets to small- and mid-cap mandates.

The U.S. dollar ('USD') depreciated against the Canadian dollar ('CAD') during the year, declining from 1USD=1.39CAD to 1.23CAD.

Rising yields during the year led to a loss to the Canadian fixed income portfolio consistent with the benchmark and broader investment class.

#### Fund Returns

For the fiscal year May 1, 2020 to April 30, 2021, the gross return of the endowment fund outperformed its benchmark by 2.3% as most of the public equity mandates recorded better results than their benchmarks.

Asset Class	Endowment	Benchmark	Relative
Canadian Equity	41.2%	33.3%	7.9%
US Equity	37.0%	29.3%	7.7%
EAFE Equity	25.6%	23.9%	1.7%
Emerging Market Equity	29.6%	32.2%	-2.6%
Fixed Income	-2.0%	-2.0%	0.0%
Infrastructure	2.9%	8.4%	-5.5%
<b>Total Fund</b>	<b>19.8%</b>	<b>17.5%</b>	<b>2.3%</b>

The table below illustrates the 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)	19.8%	5.7%	7.5%	7.9%
Endowment Return (Net <sup>1</sup> ) - GEF	18.4%	4.3%	6.2%	6.7%
Benchmark Return	17.5%	8.5%	8.9%	8.1%
Relative Return (Gross)	2.3%	-2.8%	-1.4%	-0.2%
Relative Return (Net) - GEF	0.9%	-4.2%	-2.7%	-1.4%
<i>Note 1: Net expenses include all direct investment management fees and internal University costs in the GEF</i>				

## 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 Board has approved a new asset mix which now includes an allocation to real estate and reduced the allocation to Canadian Equity substantially from 17.5% to 9%. The table below shows the policy asset mix for the endowment fund vs its actual asset mix as of April 30, 2021. The real estate manager searches are underway and Canadian allocation will also be brought to within the permitted range as soon as practical per the policy.

Asset Classes	Benchmark Index	Policy Mix	Actual Mix	Permitted Ranges	
				Min.	Max.
Fixed Income	FTSE TMX Canada Universe	27.0%	28.9%	22.0%	32.0%
Cash	FTSE TMX 91 Day T Bills	0.0%	0.1%	0.0%	20.0%
<b>Total Fixed Income</b>		<b>27.0%</b>	<b>29.0%</b>	<b>22.0%</b>	<b>50.0%</b>
Infrastructure	CPI+5%	7.5%	5.4%	0.0%	10.0%
Real Estate	MSCI/REALPAC	7.5%	0.0%	0.0%	10.0%
<b>Total Real Assets</b>		<b>15.0%</b>	<b>5.4%</b>	<b>5.0%</b>	<b>20.0%</b>
Canadian Equities	S&P/TSX Composite	9.0%	16.3%	4.0%	14.0%
U.S. Equities	S&P 500 (CAD)	20.0%	23.4%	15.0%	25.0%
International Equities	MSCI EAFE Net (CAD)	20.0%	20.7%	15.0%	25.0%
Emerging Markets	MSCI EM (CAD)	9.0%	5.1%	4.0%	14.0%
<b>Total Equities</b>		<b>58.0%</b>	<b>65.6%</b>	<b>48.0%</b>	<b>68.0%</b>

## 4 Responsible Investing Activities

The University of Guelph continues to progress towards the following goals for the endowment fund directed by the Board of Governors' resolutions:

### Carbon Footprint

The Board made a commitment to a 10% reduction in the carbon footprint in the portfolio over a two-year period by December 2020.

The Carbon Footprint, defined as tons of scope 1 and 2 emissions per USD million invested, has been tracked on a quarterly basis since December 2018 using data provided by MSCI. During the two-year initial commitment period, we were able to address some large emitters and worked with the managers to help lower the Carbon Footprint of their portfolios while respecting their discretion over the investments.

As of December 2020, the two-year horizon for a targeted 10% carbon footprint reduction has ended, resulting in a 26% reduction from 182.9 at Q4 2018 to 134.8 at Q4 2020.

## Fossil Fuel Divestment

The Board also made a fossil fuel free commitment over a five-year timeline, beginning April 2020. The timing of the fossil fuel divestment mandate coincides with the new policy mix for the endowment fund and the Investment Subcommittee's effort to balance the fund managers' styles and improve performance. The fossil fuel divestment criterion has been incorporated in the new manager searches since the Board's decision in April 2020. As of April 2021, two new mandates have been implemented, both fossil free, one for a Canadian equity manager and one for a fixed income manager which together account for close to 1/3 of the total endowment portfolio.

Going forward, work will continue to transition the remaining portfolios to include the fossil free mandate.

## 5 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 strategic capital infrastructure projects.

Summary of Changes to Endowment Fund	2017	2018	2019	2020	2021
<i>\$ millions</i>					
Payments from GEF Endowments	5.8	5.9	6.7	7.0	6.5
Payments from the Heritage Fund	5.3	8.4	6.8	5.3	0.6
Expenses	3.3	3.3	4.4	4.5	3.9
<b>Total Expenses and Payments</b>	<b>14.4</b>	<b>17.6</b>	<b>17.9</b>	<b>16.8</b>	<b>11.0</b>
New Contributions to Endowments	9.9	9.7	13.9	13.6	9.5
Investment Income	55.9	17.1	23.3	- 30.8	75.4
<b>Total Income and Contributions</b>	<b>65.8</b>	<b>26.8</b>	<b>37.2</b>	<b>- 17.2</b>	<b>84.9</b>
<b>Total Fund Assets</b>	<b>379.5</b>	<b>388.7</b>	<b>408.0</b>	<b>374.0</b>	<b>447.9</b>

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

### The General Endowment Fund (\$282 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 \$208.2 million to \$281.8 million. This reflects the combined effect of total contributions into the fund of \$31.5 million, payments out of the fund of \$29.8 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 2020-2021, 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 2021, GEF spending was slightly less than the prior year. The spending or "pay-out" policy is documented in [General Endowment Fund Management Policy](#).

History of Spending from the GEF (at April 30)					
\$ millions	2017	2018	2019	2020	2021
Scholarships and Bursaries	4.9	4.9	5.5	5.7	5.2
Other Designations	0.9	1.0	1.2	1.3	1.3
Total Spending from Endowments	5.8	5.9	6.7	7.0	6.5
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)	39.4	43.6	44.3	45.8	52.3
% Total University Spending on Student Scholarships and Bursaries from Endowments	12.3%	11.4%	12.4%	12.0%	9.8%

### The Heritage Fund (\$166 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 and decreased in 2021 due to the pandemic related impact on investments as at April 2020. 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 (\$14.2 million) and the balance of (\$151.9 million) which is directed toward major strategic initiatives. Since its creation in 1991 with total initial capital of \$10 million, the total Heritage Endowment Fund has grown to \$166.1 million while having provided \$62.0 million for major University strategic purposes, including major information technology systems and capital infrastructure projects, over the same time period.