



IMPROVE LIFE.

Endowment Fund Annual Report

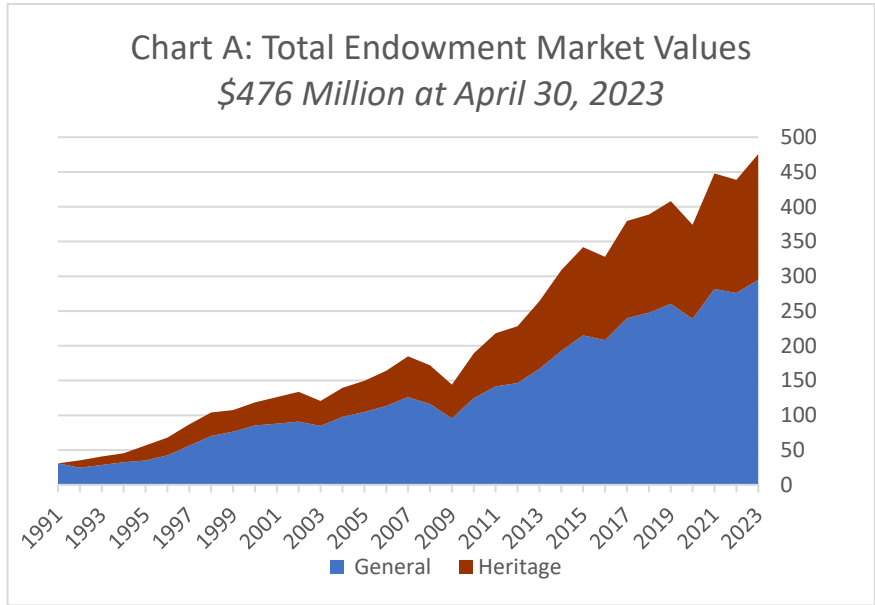
April 30
2023

Summary: Endowment Portfolio, Fiscal 2022-2023 (May 1, 2022 to April 30, 2023)

1. The University Endowment Portfolio

The University of Guelph endowment portfolio is divided into two major designations: the General Endowment Fund (GEF) of \$295 million and the Heritage Endowment Fund (HEF)¹ of \$181 million. Since 1990 the University’s total endowments have grown to \$476 million by April 30, 2023 (refer to the Chart A). Growth is the result of both contributions and investment returns, net of spending for designated purposes.

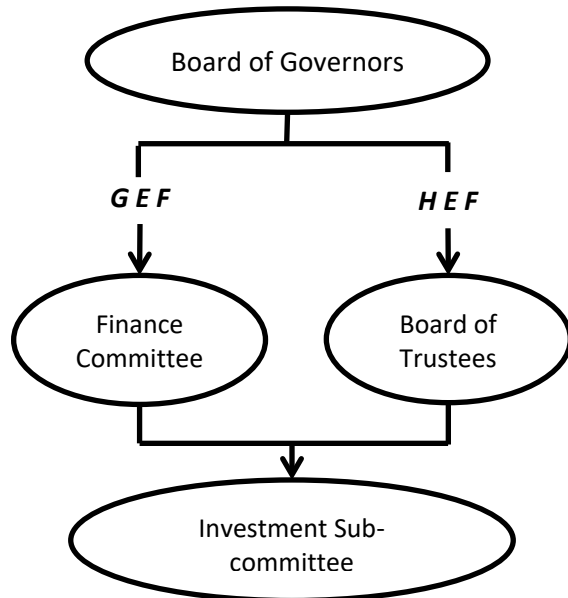
Contributions to University endowments are derived from a variety of sources including donations, governments and internal University sources such as income derived from certain real properties. Payments from endowments totaled \$7.8 million in the 2023 fiscal year. Spending was for targeted purposes that include student assistance, faculty chairs, research and infrastructure support.



2. Endowment Governance and Oversight

The University’s Board of Governors 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](#)).

Governance of Endowment Funds



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

¹ Refer to Section 5 for more details of each of these major designations.

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, fixed income investments as well as real assets. 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 2022-2023

Market Review

The fiscal year started with continued market downturns and higher level of volatility amid concerns over the ongoing Ukraine war, elevated inflation, central bank rate hikes and growing recession risk. The global public equities, as represented by the MSCI ACWI Net Return Index, achieved a 2.1% annual return in USD for the fiscal year as the market conditions improved and the gains in later months more than offset the earlier losses in the year. Performance in major markets diverged as EAFE (“Europe, Australasia, and the Far East”) outperformed all other markets and Emerging Markets lagged developed markets and ended the year in the red. The FTSE Canada Universe Bond Index total return was up by 2.5% as the interest income was partially offset by capital loss that resulted from higher yields.

The U.S. dollar (‘USD’) appreciated against the Canadian dollar (‘CAD’) during the year, rising from 1USD=1.28CAD to 1.36CAD.

Fund & Asset Class Returns

For the fiscal year May 1, 2022 to April 30, 2023, the endowment fund recorded a gross return of 8.6%, outperforming its benchmark by 2.6%, as the majority of the asset classes and managers outperformed, some significantly, their benchmarks.

Asset Class	Endowment	Benchmark	Relative
Canadian Equity	12.0%	2.7%	9.3%
US Equity	8.6%	8.9%	-0.3%
EAFE Equity	16.5%	15.1%	1.4%
Emerging Market Equity	5.6%	-0.3%	5.9%
Fixed Income	2.6%	2.5%	0.1%
Infrastructure	17.1%	9.4%	7.7%
Real Estate	2.7%	-4.5%	7.2%
Total Fund	8.6%	6.0%	2.6%

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

Annualized Rate of Return (Years ended April 30)	1 year	3 year	5 year	10 year
Endowment Return (Gross)	8.6%	8.9%	4.9%	7.0%
Endowment Return (Net ¹) - GEF	7.1%	7.5%	3.5%	5.8%
Benchmark Return	6.0%	7.4%	6.1%	7.4%
Relative Return (Gross)	2.6%	1.5%	-1.2%	-0.4%
Relative Return (Net) - GEF	1.1%	0.1%	-2.6%	-1.6%
<i>Note 1. Return net of all investment management expenses and University administrative fee in the GEF</i>				

Asset Allocation

The University has established a target asset mix for the endowment fund portfolio which ensures investments are invested across a broad range of asset classes and geographies with majority in public equity holdings. During 2022-2023, the Investment Subcommittee completed the hiring of the managers needed for the full implementation of the policy asset mix that the Board approved in early 2021.

The table below shows the policy asset mix for the endowment fund vs its actual asset mix as of April 30, 2023.

Asset Classes	Benchmark Index	Policy Mix	Actual Mix	Permitted Ranges	
				Min.	Max.
Fixed Income	FTSE Canada Universe	27.0%	26.8%	22.0%	32.0%
Cash	FTSE Canada 91 Day T-Bill	0.0%	0.4%	0.0%	20.0%
Total Fixed Income		27.0%	27.2%	22.0%	50.0%
Infrastructure	CPI+5%	7.5%	4.3%	0.0%	10.0%
Real Estate	MSCI/REALPAC	7.5%	5.5%	0.0%	10.0%
Total Real Assets		15.0%	9.8%	5.0%	20.0%
Canadian Equities	S&P/TSX Composite	9.0%	13.0%	4.0%	14.0%
U.S. Equities	S&P 500 (CAD)	20.0%	20.0%	15.0%	25.0%
International Equities	MSCI EAFE Net (CAD)	20.0%	20.8%	15.0%	25.0%
Emerging Markets	MSCI EM (CAD)	9.0%	9.2%	4.0%	14.0%
Total Equities		58.0%	63.0%	48.0%	68.0%

4. Responsible Investing Activities

During 2022-2023 fiscal year, we continued working to implement the April 2020 Board's resolution to achieve fossil free over a five-year timeline. We also continued measuring the carbon metrics of the endowment fund while learning new developments in responsible investment.

Fossil Fuel Divestment

The fossil fuel free divestment criterion has been incorporated in the new manager searches since the policy's implementation, in addition to general ESG considerations.

As of April 30, 2023, assets managed under fossil free mandates surpassed 50% of the total funds which was achieved through new manager hiring activities.

We target the remaining portfolios to be transformed to fossil fuel free mandates by April 2025, with a focus on working with the existing managers for the remaining balance of the assets.

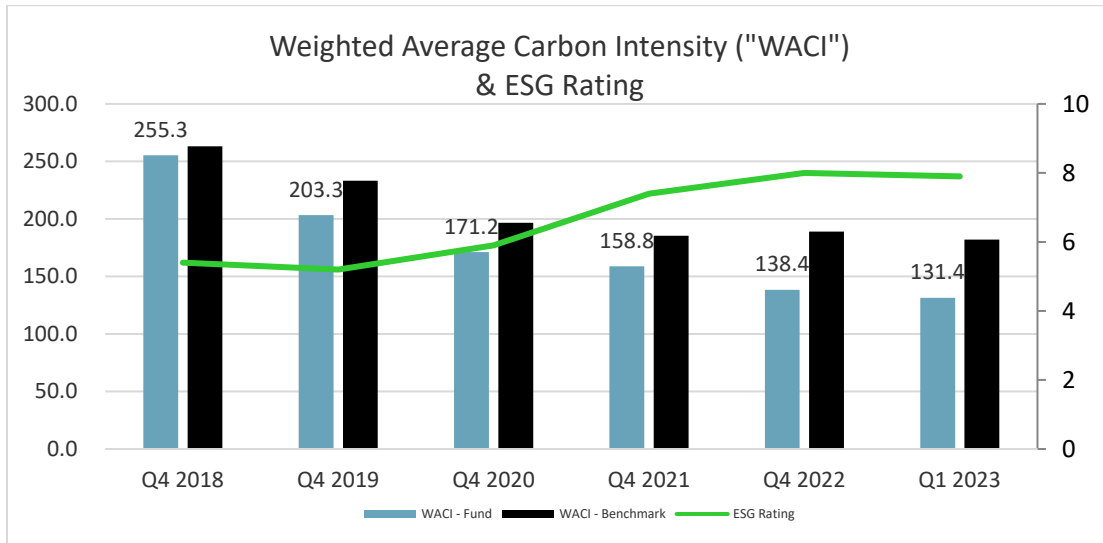
Carbon Footprint/Intensity & ESG Tracking

The UofG began tracking carbon footprint of the public equity portfolio at the end of 2018, with a two-year initial goal of cutting the carbon footprint by 10% to 164.6 which was achieved. The Carbon Footprint was defined as tons of scope 1 and 2 emissions per USD million invested.

The measurement used in our two-year commitment as defined above was in line with the general practice at the time. Currently the weighted average carbon intensity metric (“WACI”), recommended by the Task Force on Climate-related Financial Disclosures (“TCFD”), is widely used to measure a portfolio’s exposure to carbon-intensive companies, expressed in tons of emission per USD million revenue. We are currently tracking both carbon metrics.

Since we began the monitoring at the end of 2018, the overall ESG rating for the endowment public equity portfolio has gradually improved from BBB category to AA. For further info please review [MSCI ESG ratings methodology](#).

The below graph shows the carbon metrics and ESG ratings for the public equity portfolio of the fund since 2018 based on MSCI data.



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 fund 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	2019	2020	2021	2022	2023
<i>\$ millions</i>					
Payments from GEF Endowments	6.7	7.0	6.5	7.3	7.8
Payments from the Heritage Fund	6.8	5.3	0.6	6.1	0.0
Expenses	4.4	4.5	3.9	4.7	5.1
Total Expenses and Payments	17.9	16.8	11.0	18.1	12.9
New Contributions to Endowments	13.9	13.6	9.5	10.7	10.9
Investment Income	23.3	-30.8	75.4	-1.9	39.2
Total Income and Contributions	37.2	-17.2	84.9	8.8	50.1
Total Fund Assets	408.0	374.0	447.9	438.6	475.8

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

The General Endowment Fund (\$295 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 \$247.5 million to \$294.9 million. This reflects the combined effect of total contributions into the fund of \$34.7 million, payments out of the fund of \$35.3 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 2022-2023, 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 2023, GEF spending has increased 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	2019	2020	2021	2022	2023
Scholarships and Bursaries	5.5	5.7	5.2	6.0	6.5
Other Designations	1.2	1.3	1.3	1.3	1.3
Total Spending from Endowments	6.7	7.0	6.5	7.3	7.8
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)	44.3	45.8	52.3	51.5	50.9
% Total University Spending on Student Scholarships and Bursaries from Endowments	12.4%	12.0%	9.8%	11.4%	12.6%

The Heritage Fund (\$181 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 (\$14.6 million) and the balance of (\$166.4 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 \$181.0 million while having provided \$68.5 million for major University strategic purposes, including major information technology systems and capital infrastructure projects, over the same time period.