December 2015 Endowment Quarterly Investment Report

Performance Review

University of Guelph Endowment Funds

4th Quarter 2015

Prepared by:

Pavilion Advisory Group Ltd.
1250 René-Lévesque Blvd. West. Suite 4030
Montreal, Quebec
H3B 4W8 Canada

Endowment Funds Results Overview

(Gross Returns for the 12 months ended December 31st, 2015)

The Total Endowment Funds returned 2.9% for the last 12 months versus 8.6% for the benchmark.

Canadian Equity

- The Canadian equity portfolio lost 11.7% over the past year, 3.4% below the return of the S&P/TSX index.
- Both the Endowment's Canadian equity managers (Burgundy, Sionna) underperformed the index for the year. However, Burgundy is responsible for the bulk of the underperformance, with lower returns and a higher dollar allocation.
- The lack of dedicated small cap exposure helped returns as small caps underperformed large caps by more than 5.5% over the past year.

Non-North American Equity

- In Canadian dollars, non-North American equities outperformed Canada but lagged the U.S. with a return of 19.0% for developed markets. Emerging markets gained 2.5% over the past year.
- The developed markets managers (with 21.7% of the total Endowment funds) performed inconsistently over the past year. LSV beat the MSCI EAFE by 2.2%, while Tweedy Browne lagged by a wider 4.1%.
- The emerging markets manager (LSV) lagged the MSCI Emerging Markets index by 6.1% over the past year, although it outperformed from 2012 to 2014.

U.S. Equity

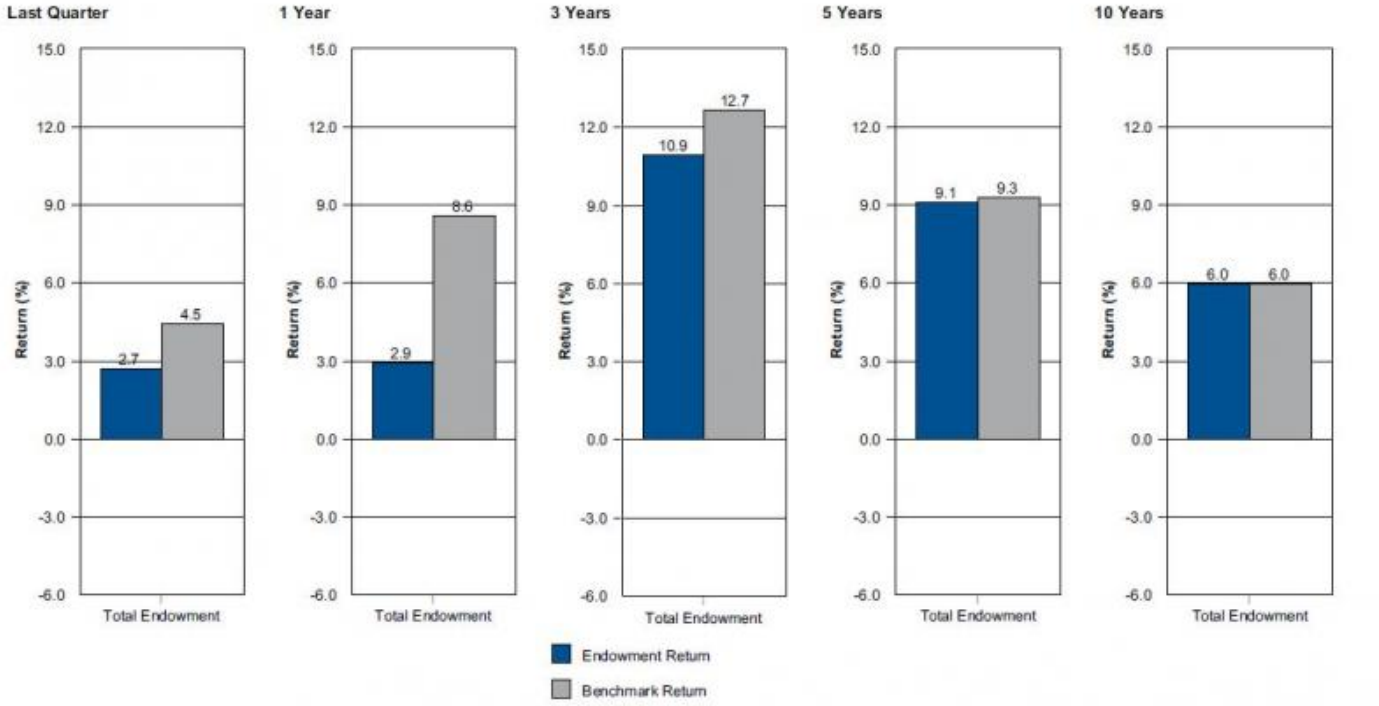
- U.S. equity markets performed extremely well in Canadian dollar terms with a 1-year return of 21.7% for the S&P500.
- However, the Endowment's U.S. equity investments did not perform as well, with a return of 16.2%.
- The U.S. large cap manager (Fiduciary) lagged the S&P 500 index by 3.6%, and the mid cap mandate managed by Wedge lagged its benchmark by 1.3%. The sole outperformer was Wedge's small cap strategy, which beat the Russel 2000 Value Index by 5.0% over the past year.

Fixed Income

- The Canadian fixed income portfolio is indexed to the FTSE TMX Universe and, as expected, closely matched its return of 3.5%.
- The cash return was negative due to losses on internal foreign exchange transactions.
- The infrastructure portfolio managed by Brookfield outperformed its index by 26.8% in 2015, largely thanks to a falling Canadian dollar over the period.
- Currency hedging, which is implemented for risk control rather than to generate returns, was a drag on performance over the past year as it cost the portfolio 4.8%.

Total Endowment Portfolio Vs Endowment Policy Benchmark

As of December 31, 2015 (Gross of Fees, Annualized for Periods over 1 Year)



Returns are presented gross of fees in CAD.
Endowment Policy Benchmark: 27.5% FTSE TMX Bond Universe + 5% Infrastructure (CPI+5%) + 20% S&P/TSX Composite + 25% S&P 500 ($CAD) + 17.5% MSCI EAFE Net ($CAD) + 5% MSCI Emerging Markets Index.

Annualized Asset Class Performance

As of December 31, 2015 (Gross of Fees)

Annualized Asset Class Performance	Allocation		Performance(%)								
	Market Value ($)	% of portfolio	Year to Date	1 Year	2 Years	3 Years	4 Years	5 Years	6 Years	7 Years	8 Y
Canadian Equity	55,115,389	16.4	-11.7	-11.7	-2.6	4.9	6.6	4.0	5.5	8.7	3.7

Allocation	Performance(%)										
		S&P/TSX Composite Index		-8.3	-8.3	0.7	4.6	5.3	2.3	4.7	8.6	2.2
		Relative Performance		-3.4	-3.4	-3.3	0.3	1.3	1.7	0.8	0.1	1.5
		US Equity	88,511, 26.3405	16.2	16.2	20.3	27.4	24.4	19.7	19.4	18.2	13
		S&P 500		21.7	21.7	22.8	28.6	24.7	20.4	18.4	16.8	11
		Relative Performance		-5.5	-5.5	-2.5	-1.2	-0.3	-0.7	1.0	1.4	2.0
		Non-North American Equity	73,264, 21.7592	18.2	18.2	11.5	18.1	17.7	13.5	12.1	13.3	7.8
		MSCI EAFE (net)		19.0	19.0	11.1	17.3	16.7	10.8	9.3	9.7	3.8
		Relative Performance		-0.8	-0.8	0.4	0.8	1.0	2.7	2.8	3.6	4.0
		Emerging Markets Equity	16,208, 4.8012	-2.6	-2.6	3.4	4.4	8.1	2.8	N/A	N/A	N/A
		MSCI Emerging Markets Index		2.5	2.5	4.7	4.6	7.3	2.2	3.9	9.7	1.4
		Relative Performance		-5.1	-5.1	-1.3	-0.2	0.8	0.6	N/A	N/A	N/A
		Canadian Fixed Income	83,934, 24.9180	3.6	3.6	6.2	3.7	4.1	5.0	5.4	5.9	5.7
		FTSE TMX Canada Universe Bond Index		3.5	3.5	6.1	3.6	3.6	4.8	5.1	5.2	5.3
		Relative Performance		0.1	0.1	0.1	0.1	0.5	0.2	0.3	0.7	0.4
		Infrastructure	19,237, 5.7529	33.5	33.5	22.2	N/A	N/A	N/A	N/A	N/A	N/A
		CPI + 5%		6.7	6.7	6.6	6.5	6.4	6.6	6.7	6.7	6.6
		Relativ		26.8	26.8	15.6	N/A	N/A	N/A	N/A	N/A	N/A

Allocation	Performance(%)										
	e Performance										
	Internal Cash	4,933,237	1.5	-1.8	-1.8	-1.8	-1.8	-1.3	0.2	1.6	1.4	1.6
	FTSE TMX Canada 91 Day T-Bill			0.6	0.6	0.8	0.8	0.9	0.9	0.8	0.8	1.1
	Relative Performance			-2.4	-2.4	-2.6	-2.6	-2.2	-0.7	0.8	0.6	0.5
	Total Endowment (Net of Fees)	337,087,797	100.0	2.3	2.3	6.2	10.3	10.7	8.6	8.8	9.6	6.0
	Endowment Policy Benchmark			8.6	8.6	10.1	12.7	11.9	9.3	9.2	9.8	5.8
	Relative Performance			-6.3	-6.3	-3.9	-2.4	-1.2	-0.7	-0.4	-0.2	0.2
	Total Endowment (Gross of Fees)	337,087,797	100.0	2.9	2.9	6.8	10.9	11.3	9.1	9.4	10.1	6.6
	Endowment Policy Benchmark			8.6	8.6	10.1	12.7	11.9	9.3	9.2	9.8	5.8
	Relative Performance			-5.7	-5.7	-3.3	-1.8	-0.6	-0.2	0.2	0.3	0.8
	Total Endowment ex. Currency Hedge	341,204,345	101.2	7.7	7.7	9.9	13.6	13.2	10.7	N/A	N/A	N/A
	Endowment Policy Benchmark			8.6	8.6	10.1	12.7	11.9	9.3	9.2	9.8	5.8
	Relative Performance			-0.9	-0.9	-0.2	0.9	1.3	1.4	N/A	N/A	N/A
	Effect			-4.8	-4.8	-3.1	-2.7	-1.9	-1.6	N/A	N/A	N/A

Allocation	Performance(%) of Passive Currency Hedge

Endowment Policy Benchmark: 27.5% FTSE TMX Bond Universe + 5% Infrastructure (CPI+5%) + 20% S&P/TSX Composite + 25% S&P 500 ($CAD) + 17.5% MSCI EAFE Net ($CAD) + 5% MSCI Emerging Markets Index.

All returns are reported gross of fees in CAD except for the Total Endowment where returns are displayed both net and gross of fees. EAFE stands for Europe, Australasia and Far East. Cash amounts and percentages presented exclude residual manager cash balances and currency overlay (currency hedging).

Annual Asset Class Performance

(Gross of Fees)

Annual Asset Class Performance	Performance(%)								
	Jan-2015 To Dec-2015	Jan-2014 To Dec-2014	Jan-2013 To Dec-2013	Jan-2012 To Dec-2012	Jan-2011 To Dec-2011	Jan-2010 To Dec-2010	Jan-2009 To Dec-2009	Jan-2008 To Dec-2008	Jan To De
Canadian Equity	-11.7	7.5	21.6	11.7	-5.5	13.0	30.5	-25.7	6.3
S&P/TSX Composite Index	-8.3	10.6	13.0	7.2	-8.7	17.6	35.1	-33.0	9.8
Relative Performance	-3.4	-3.1	8.6	4.5	3.2	-4.6	-4.6	7.3	-3.5
US Equity	16.2	24.4	43.0	15.9	2.6	18.0	10.9	-16.5	-17
S&P 500	21.7	23.9	41.2	13.5	4.6	9.1	7.7	-21.4	-10
Relative Performance	-5.5	0.5	1.8	2.4	-2.0	8.9	3.2	4.9	6.8
Non-North American Equity	18.2	5.2	32.6	16.6	-2.1	5.4	20.9	-24.0	-17
MSCI EAFE (net)	19.0	3.6	31.0	14.8	-10.0	2.1	12.2	-29.3	-5.8
Relative Performance	-0.8	1.6	1.6	1.8	7.9	3.3	8.7	5.3	-12
Emerging Markets Equity	-2.6	9.7	6.4	20.0	-15.9	N/A	N/A	N/A	N/A
MSCI Emerging	2.5	7.0	4.3	16.1	-16.2	13.0	52.4	-41.6	18.

Performance(%)

Markets Index									
Relative Performance	-5.1	2.7	2.1	3.9	0.3	N/A	N/A	N/A	N/A
Canadian Fixed Income	3.6	8.9	-1.0	5.3	8.7	7.0	8.9	4.4	2.7
FTSE TMX Canada Universe Bond Index	3.5	8.8	-1.2	3.6	9.7	6.7	5.4	6.4	3.7
Relative Performance	0.1	0.1	0.2	1.7	-1.0	0.3	3.5	-2.0	-1.0
Infrastructure	33.5	11.8	N/A	N/A	N/A	N/A	N/A	N/A	N/A
CPI + 5%	6.7	6.6	6.4	6.0	7.3	7.5	6.4	6.2	7.6
Relative Performance	26.8	5.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Internal Cash	-1.8	-1.8	-1.9	0.0	6.7	9.1	0.3	2.6	N/A
FTSE TMX Canada 91 Day T-Bill	0.6	0.9	1.0	1.0	1.0	0.5	0.6	3.3	4.4
Relative Performance	-2.4	-2.7	-2.9	-1.0	5.7	8.6	-0.3	-0.7	N/A
Total Endowment (Net of Fees)	2.3	10.2	19.1	12.0	0.3	9.8	14.4	-15.6	-7.1
Endowment Policy Benchmark	8.6	11.7	17.9	9.7	-0.6	8.5	13.6	-18.2	-1.1
Relative Performance	-6.3	-1.5	1.2	2.3	0.9	1.3	0.8	2.6	-6.0
Total Endowment (Gross of Fees)	2.9	10.8	19.6	12.5	0.8	10.5	14.9	-15.2	-6.7
Endowment Policy Benchmark	8.6	11.7	17.9	9.7	-0.6	8.5	13.6	-18.2	-1.1
Relative Performa	-5.7	-0.9	1.7	2.8	1.4	2.0	1.3	3.0	-5.6

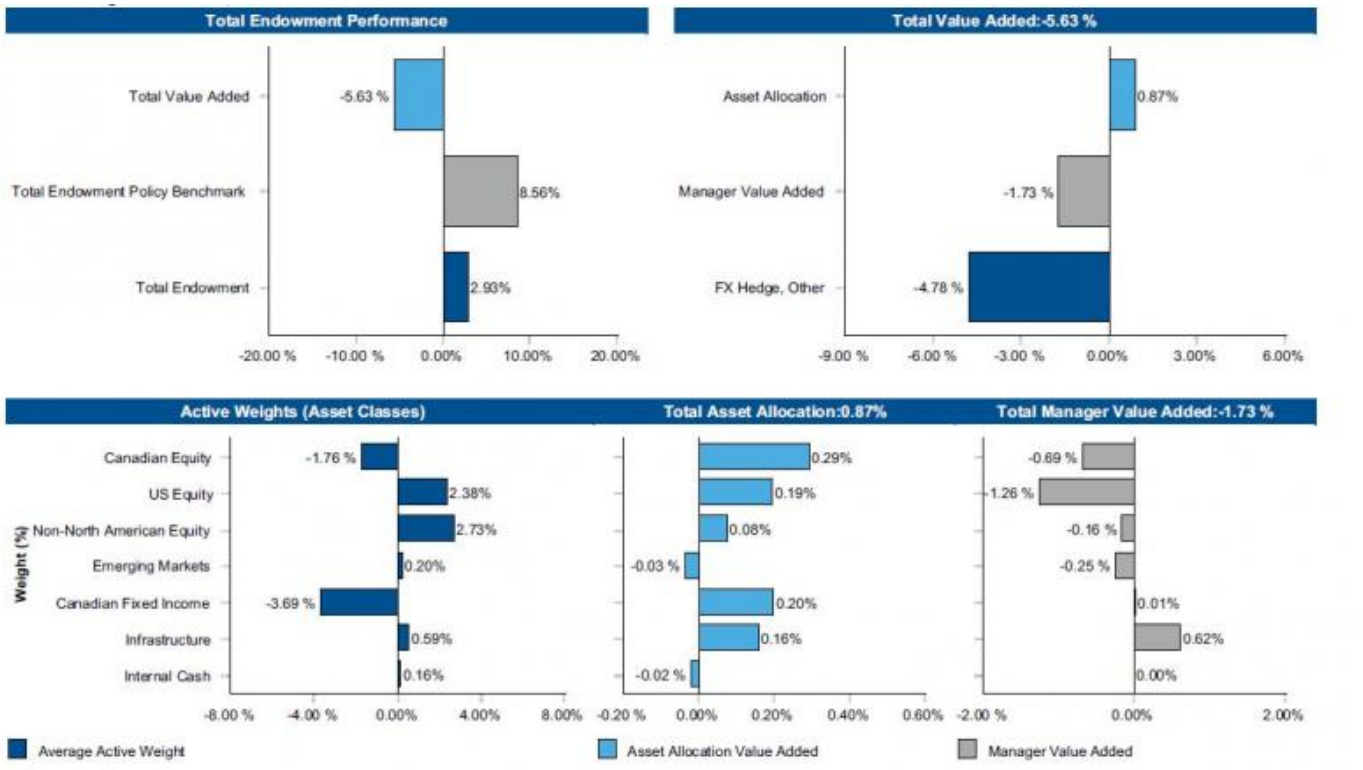
Performance(%)									
nce									
Total Endowment ex. Currency Hedge	7.7	12.3	21.4	11.9	1.2	N/A	N/A	N/A	N/A
Endowment Policy Benchmark	8.6	11.7	17.9	9.7	-0.6	8.5	13.6	-18.2	-1.1
Relative Performance	-0.9	0.6	3.5	2.2	1.8	N/A	N/A	N/A	N/A

Endowment Policy Benchmark: 27.5% FTSE TMX Bond Universe + 5% Infrastructure (CPI+5%) + 20% S&P/TSX Composite + 25% S&P 500 ($CAD) + 17.5% MSCI EAFE Net ($CAD) + 5% MSCI Emerging Markets Index.

All returns are reported gross of fees in CAD except for the Total Endowment where returns are displayed both net and gross of fees. EAFE stands for Europe, Australasia and Far East. Cash amounts and percentages presented exclude residual manager cash balances and currency overlay (currency hedging).

Performance Attribution

Total Endowment Funds Vs Endowment Policy Benchmark
1 Year Ending December 31, 2015



Returns are presented gross of fees in CAD.

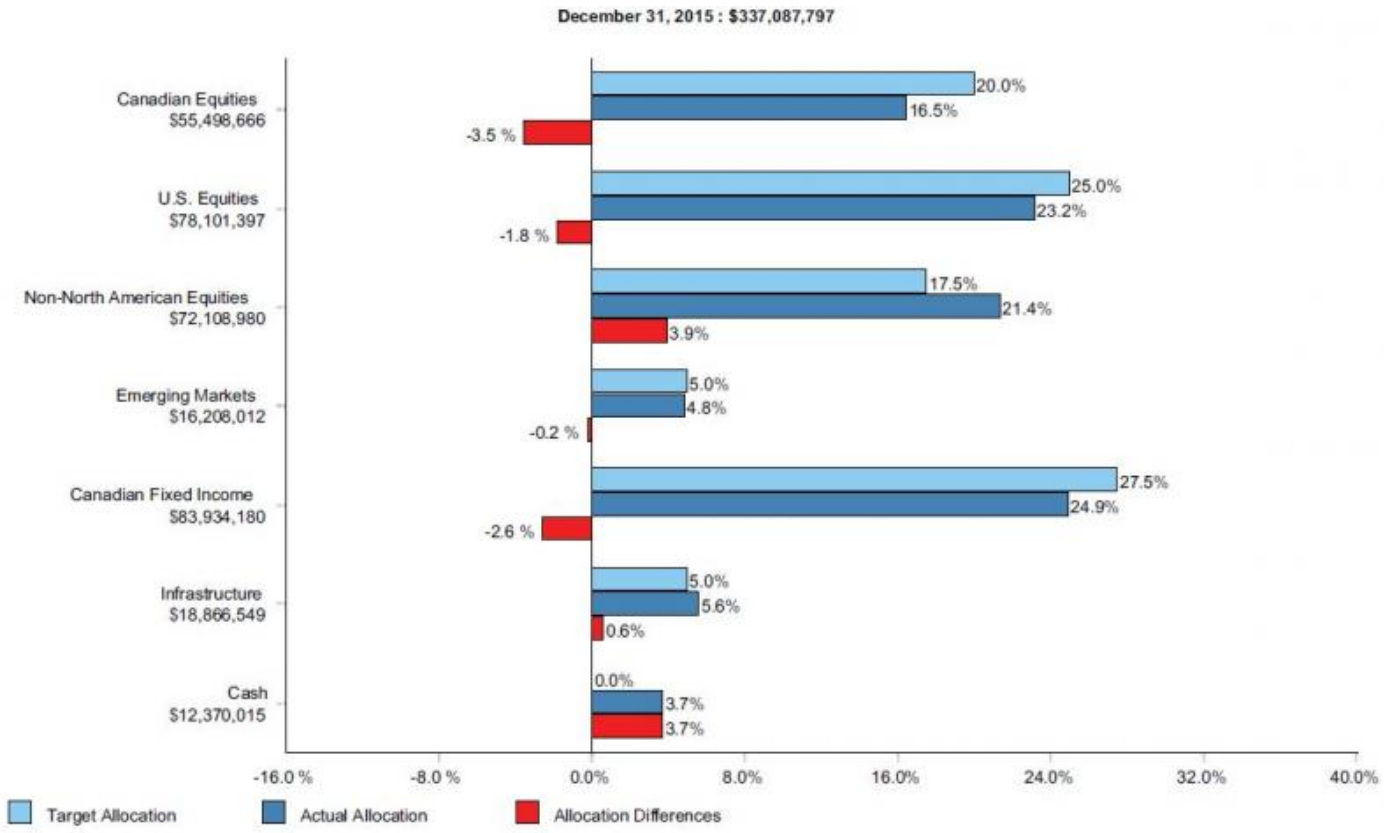
Endowment Policy Benchmark: 27.5% FTSE TMX Bond Universe + 5% Infrastructure (CPI+5%) + 20% S&P/TSX Composite + 25% S&P 500 ($CAD) + 17.5% MSCI EAFE Net ($CAD) + 5% MSCI Emerging Markets Index.

The Benchmarks do not assume currency hedging.

“Other” includes the effects of all other factors on the Total Endowment's relative returns, including rebalancing and residual trading activity.

Endowment Asset Mix

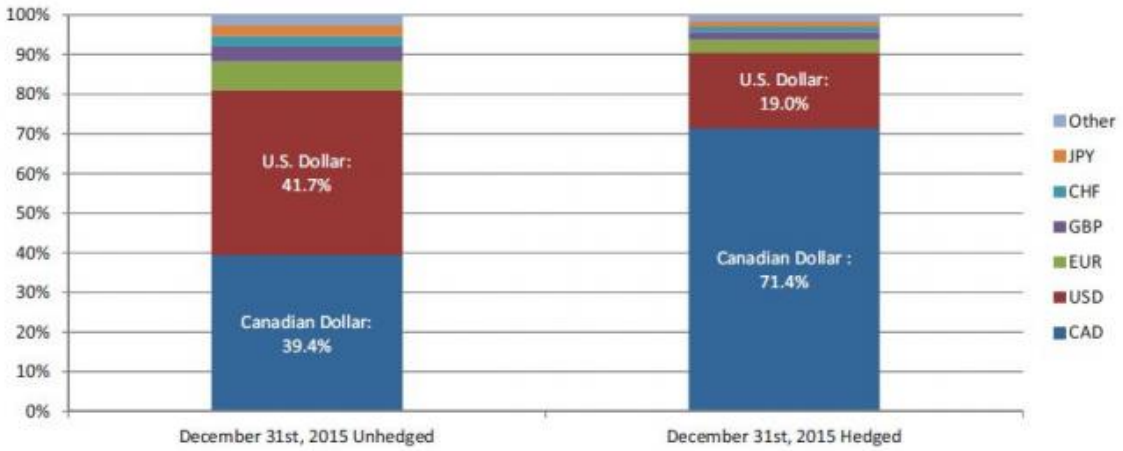
Actual Allocation vs. Investment Policy Allocation
As of December 31, 2015



Note: This actual allocation displays the aggregate managers' holdings regardless of their mandate. Cash includes internal cash directly owned by the Endowments and manager residual cash balances (data from CIBC Mellon).

Endowment Currency Exposure

As of December 31st, 2015

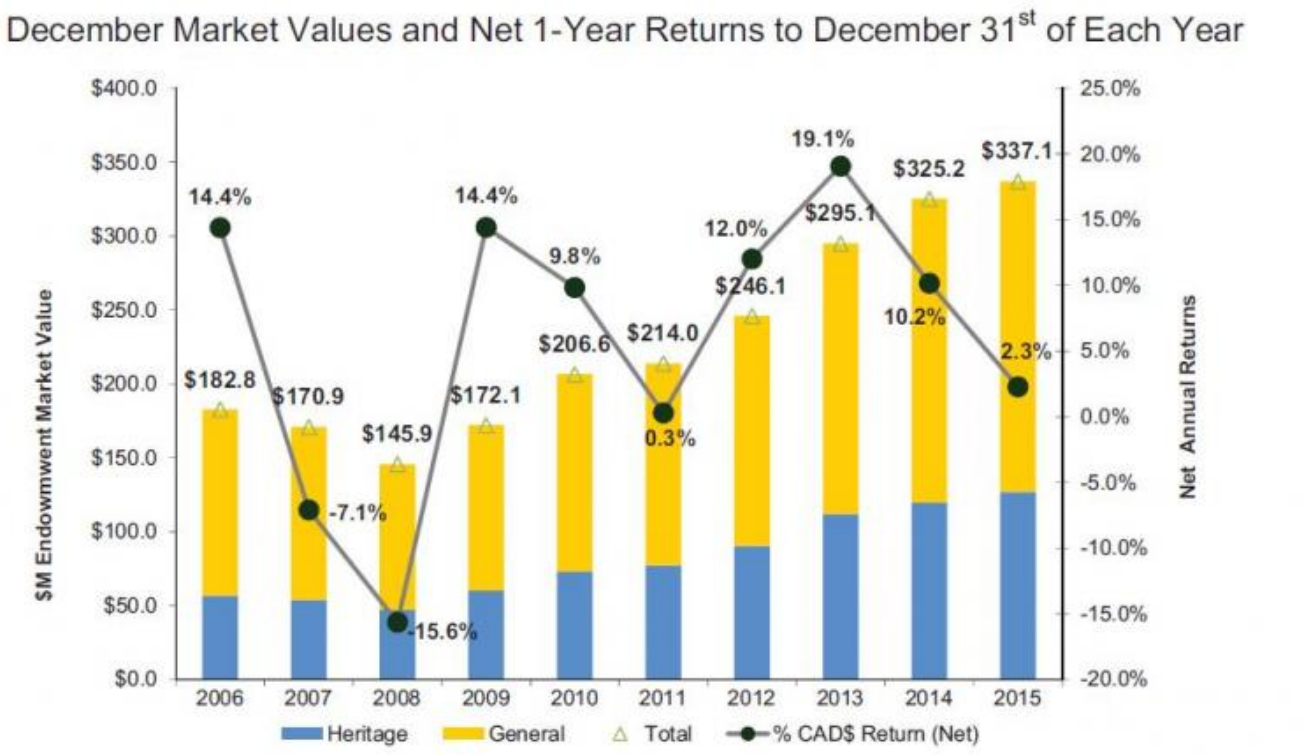


Currency	December 31st,2015 Unhedged	Gross Exposure(CAD)	Hedge(CAD)	December 31st, 2015 Hedged	Net Hedged Exposure(CAD)
Canadian Dollar	39.4%	134,415,509	106,410,738	71.4%	240,826,247
U.S. Dollar	41.7%	142,438,474	-78,383,255	19.0%	64,055,219
Euro	7.1%	24,353,668	-12,957,079	3.4%	11,396,589
British Pound	3.8%	12,834,492	-6,496,878	1.9%	6,337,614
Swiss Franc	2.7%	9,251,457	-4,662,628	1.4%	4,588,829
Japanese Yen	2.7%	9,283,950	-4,755,766	1.3%	4,528,184
Other	2.5%	8,626,795	-3,271,680	1.6%	5,355,115

Note: The Net Hedged Exposure equals the fund's original currency exposure to its total investments (Gross Exposure) plus the currency hedge implemented by Mesirow, which is designed to protect the Endowment funds from excessive foreign currency fluctuations.

Growth of Endowment Assets

December Market Values and Net 1-Year Returns to December 31st of Each Year



Over the last 12 months the total Endowment portfolio increased $11.9 M to $337.1 M consisting of:

- Total contributions of $6.0 M and distributions of $1.4 M.
- 1-year return (net of investment management fees) of 2.3% compared to 10.2% for the year ended December 2014.

Source URL:https://www.uoguelph.ca/finance/december-2015-endowment-quarterly-investment-report