



IMPROVE LIFE.

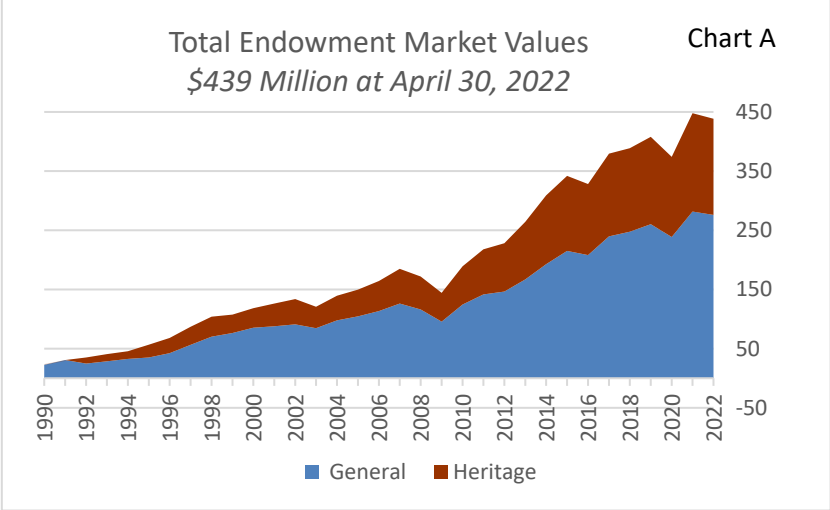
Endowment Fund  
Annual Report

April 30  
2022

Summary: Endowment Portfolio, Fiscal 2021-2022 (May 1, 2021 to April 30, 2022)

## 1 The University Endowment Portfolio

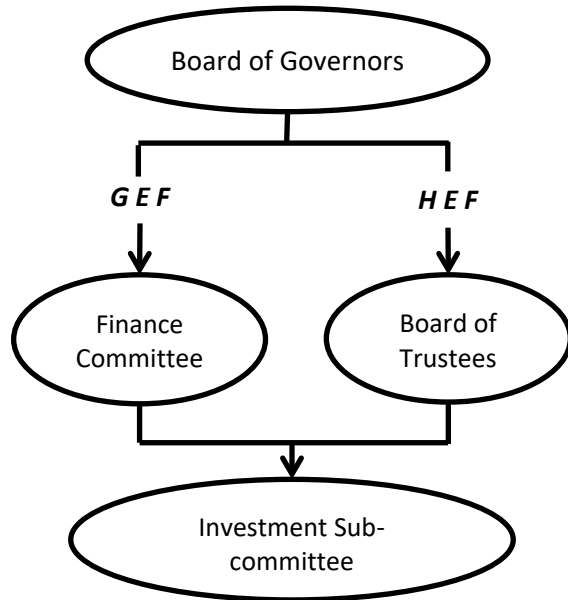
The University of Guelph endowment portfolio is divided into two major designations; the General Endowment Fund (GEF) of \$276 million and the Heritage Endowment Fund (HEF)<sup>1</sup> of \$163 million. Since 1990 the University’s total endowments have grown to \$439 million by April 30, 2022 (refer 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 from certain real properties. Payments from endowments totaled \$18.1 million or about 2% of total University spending in the 2022 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](#)).

*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 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

<sup>1</sup> Refer to Section 5 for more details of each of these major designations.

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 (GEF and HEF) have different spending policies, they both share this fundamental principle.

### 3 Investment Performance for 2021-2022

#### Market Review

After a strong 2020-21 fiscal year, the markets continued to climb until January 2022 when they began experiencing substantial downturns amid concerns over inflation, monetary policy, and the Russian invasion of Ukraine. Major markets (US, EAFE and EM) all declined over 10% in CAD during the first four months of 2022, with the Canadian market as an exception which only dropped slightly with the help of the energy sector. Fixed income also suffered significant losses due to rising yields as the yield on FTSE Canada Universe Bond Index reached a decade high at 3.49% as of April. 29, 2022.

The U.S. dollar ('USD') appreciated against the Canadian dollar ('CAD') during the year, rising from 1USD=1.23CAD to 1.28CAD partially offsetting some of the market losses when converting USD denominated assets to CAD.

#### Fund & Asset Class Returns

For the fiscal year May 1, 2021 to April 30, 2022, the gross return of the endowment fund slightly underperformed its benchmark by 0.3%.

While the majority of the asset classes and managers either outperformed or matched their benchmarks, some detracted from the fund return. For instance, with the outsized energy return in Canadian market during the year, lack of such exposure in a growth style portfolio led to underperformance. The fund's US small/mid cap allocation also lagged large cap index S&P 500.

Asset Class	Endowment	Benchmark	Relative
Canadian Equity	5.1%	11.6%	-6.5%
US Equity	1.2%	4.1%	-2.9%
EAFE Equity	-2.5%	-4.6%	2.1%
Emerging Market Equity	-2.0%	-14.9%	12.9%
Fixed Income	-8.0%	-7.9%	-0.1%
Infrastructure	14.4%	11.8%	2.6%
Total Fund	-0.8%	-0.5%	-0.3%

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)	-0.8%	3.2%	4.1%	7.6%
Endowment Return (Net <sup>1</sup> ) - GEF	-2.1%	1.8%	2.8%	6.4%
Benchmark Return	-0.5%	5.5%	6.0%	8.0%
Relative Return (Gross)	-0.3%	-2.3%	-1.9%	-0.4%
Relative Return (Net) - GEF	-1.6%	-3.7%	-3.2%	-1.6%

*Note 1. Return net of all investment management expenses and University administrative fee 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. During 2021-2022, the Investment Subcommittee continued implementing the policy asset mix approved by the Board in early 2021 which added new allocations to real estate. A Canadian real estate manager has been hired during the year while due diligence is being performed on a US manager with funding taking place in 2022-23.

The table below shows the policy asset mix for the endowment fund vs its actual asset mix as of April 30, 2022.

Asset Classes	Benchmark Index	Policy Mix	Actual Mix	Permitted Ranges	
				Min.	Max.
Fixed Income	FTSE Canada Universe	27.0%	28.3%	22.0%	32.0%
Cash	FTSE Canada 91 Day T-Bill	0.0%	0.2%	0.0%	20.0%
<b>Total Fixed Income</b>		<b>27.0%</b>	<b>28.5%</b>	<b>22.0%</b>	<b>50.0%</b>
Infrastructure	CPI+5%	7.5%	4.7%	0.0%	10.0%
Real Estate	MSCI/REALPAC	7.5%	1.0%	0.0%	10.0%
<b>Total Real Assets</b>		<b>15.0%</b>	<b>5.7%</b>	<b>5.0%</b>	<b>20.0%</b>
Canadian Equities	S&P/TSX Composite	9.0%	15.4%	4.0%	14.0%
U.S. Equities	S&P 500 (CAD)	20.0%	23.9%	15.0%	25.0%
International Equities	MSCI EAFE Net (CAD)	20.0%	21.4%	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>65.8%</b>	<b>48.0%</b>	<b>68.0%</b>

## 4 Responsible Investing Activities

---

During 2021-2022 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 free divestment criterion has been incorporated in the new manager searches since the policy’s implementation, in addition to general ESG considerations.

As of Apr. 30, 2022, approximately 37% of the funds were managed under fossil free mandates. With the ongoing implementation of two new real estate managers and two public equities searches in the pipeline, we expect half of the assets to be fossil fuel free portfolios late 2022 or early 2023.

We also target for the remaining portfolios to be transformed into fossil free by April 2025.

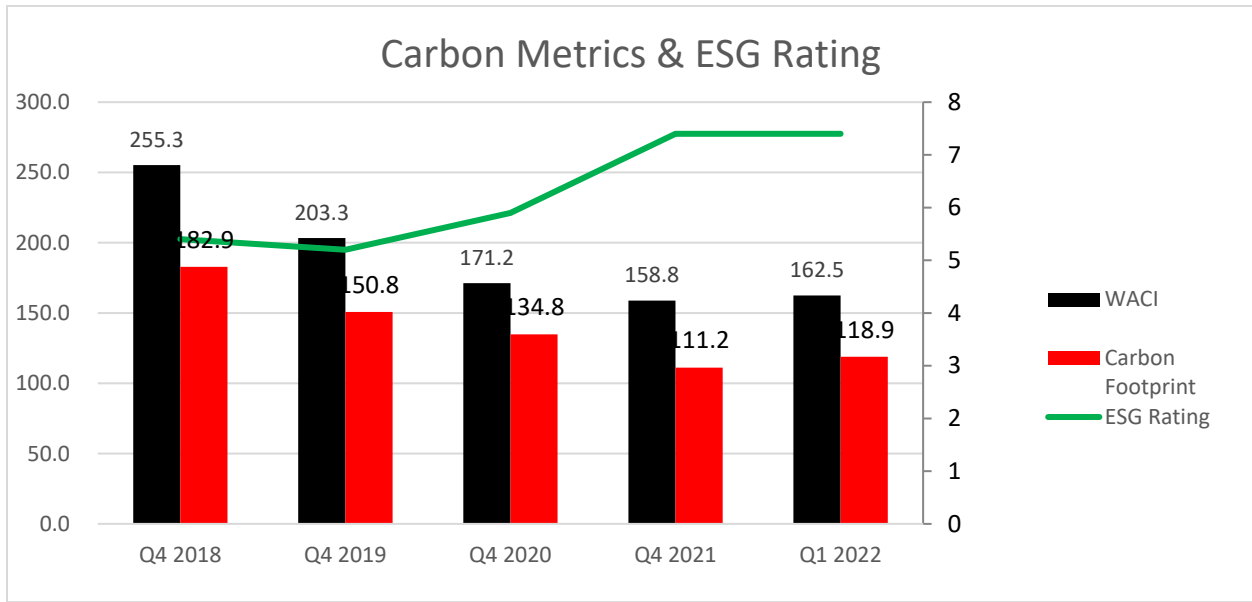
### Carbon Footprint/Intensity & ESG Tracking

We 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 (corresponding numerical scores 4.3-5.7) to A and AA (corresponding numerical score ranges 5.7-7.1 and 7.1-8.6). 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 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	2018	2019	2020	2021	2022
<b>\$ millions</b>					
Payments from GEF Endowments	5.9	6.7	7.0	6.5	7.3
Payments from the Heritage Fund	8.4	6.8	5.3	0.6	6.1
Expenses	3.3	4.4	4.5	3.9	4.7
<b>Total Expenses and Payments</b>	<b>17.6</b>	<b>17.9</b>	<b>16.8</b>	<b>11.0</b>	<b>18.1</b>
New Contributions to Endowments	9.7	13.9	13.6	9.5	10.7
Investment Income	17.1	23.3	- 30.8	75.4	-1.9
<b>Total Income and Contributions</b>	<b>26.8</b>	<b>37.2</b>	<b>- 17.2</b>	<b>84.9</b>	<b>8.8</b>
<b>Total Fund Assets</b>	<b>388.7</b>	<b>408.0</b>	<b>374.0</b>	<b>447.9</b>	<b>438.6</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 (\$276 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 \$239.7 million to \$276.1 million. This reflects the combined effect of total contributions into the fund of \$33.9 million, payments out of the fund of \$33.5 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 2021-2022, the spending rate remained unchanged at 3.5%. 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 2022, 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	2018	2019	2020	2021	2022
Scholarships and Bursaries	4.9	5.5	5.7	5.2	6.0
Other Designations	1.0	1.2	1.3	1.3	1.3
Total Spending from Endowments	5.9	6.7	7.0	6.5	7.3
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)	43.6	44.3	45.8	52.3	51.5
% Total University Spending on Student Scholarships and Bursaries from Endowments	11.4%	12.4%	12.0%	9.8%	11.4%



### The Heritage Fund (\$163 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 (\$13.5 million) and the balance of (\$149 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 \$162.5 million while having provided \$68.1 million for major University strategic purposes, including major information technology systems and capital infrastructure projects, over the same time period.