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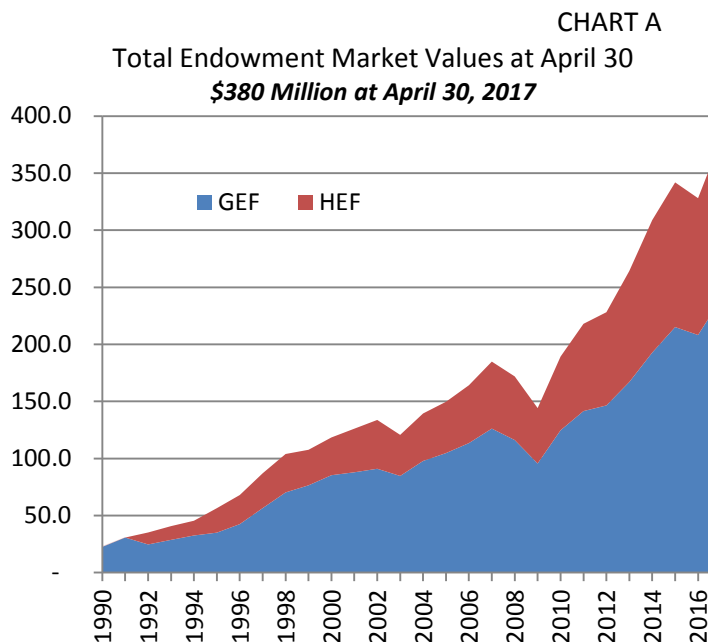
Endowment Fund  
Annual Report

April 30  
2017

Summary: Endowment Portfolio, Fiscal 2016-2017 (May 1, 2016 to April 30, 2017)

## 1 The University Endowment Portfolio

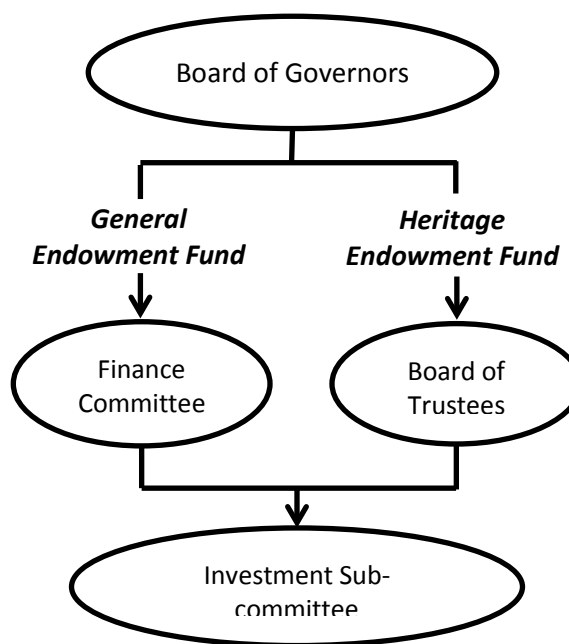
The University of Guelph endowment portfolio is divided into two major designations; the General Endowment Fund (GEF) of \$240 million and the Heritage Endowment Fund (HEF)<sup>1</sup> of \$140 million. Since 1990 the University’s total endowments have grown to \$380 million by April 30, 2017 (refer to the Chart A below). 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 \$14.4 million or about 2% of total University spending in the 2017 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 composed of external independent members with expertise in the investment business. (Refer to adjacent chart).

**Governance of Endowment Funds**



The major responsibility of the Investment Sub-

<sup>1</sup> Refer to Section 4 for more details of each of these major designations.

committee is to ensure the effective implementation of the Board-approved investment strategy. Key Investment Subcommittee 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. 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.

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.

The investments activities for all Endowment Funds is 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.

### 3 Investment Performance for 2016 2017

#### Global Markets

Global markets have recorded strong returns across all asset classes over the past fiscal year. After the “Brexit” vote in June 2016 which triggered some selloff, the markets steadily recovered during Q3. They further advanced after the U.S. Presidential election in Nov 2016 on anticipation of a pro-business and pro-growth new administration. Indicators in key economies around the globe were generally upbeat in Q1 of 2017, which helped the markets further the gain.

#### Fund Returns

For the fiscal year May 1, 2016 to April 30, 2017, all asset classes in the endowment fund have outperformed their respective benchmarks, and the total fund ended the year with a 16.5% gain before fees and expenses vs the composite benchmark return of 13.9%.

Asset Class	Endowment	Benchmark	Relative
<b>Canadian Equity</b>	17.1%	14.9%	2.2%
<b>US Equity</b>	29.0%	28.7%	0.3%
<b>EAFE Equity</b>	24.4%	21.5%	2.9%
<b>Emerging Market Equity</b>	38.6%	30.5%	8.1%
<b>Fixed Income</b>	3.4%	3.0%	0.3%
<b>Infrastructure</b>	26.3%	6.6%	19.6%
<b>Total Fund</b>	16.5%	13.9%	2.6%
<i>All returns are gross of fees, and total fund and its benchmark reflect 50% foreign currency hedging.</i>			

The table below illustrates the investment performance for the past 5 years.

Endowment Five Year Performance						
Annual Rate of Return (Years ended April 30th)						
	2013	2014	2015	2016	2017	Five Year Annualized
<b>Endowment Return (Gross)</b>	14.8%	16.6%	11.9%	-2.5%	16.5%	11.2%
<b>Endowment Return (Net <sup>1</sup>)</b>	13.6%	15.6%	10.8%	-3.6%	15.4%	10.1%
<b>Benchmark Return <sup>2</sup></b>	12.1%	14.2%	12.7%	-1.7%	13.9%	10.1%
<b>Relative Return (Gross)</b>	2.7%	2.4%	-0.8%	-0.8%	2.6%	1.2%
<b>Relative Return (Net)</b>	1.5%	1.4%	-1.9%	-1.9%	1.5%	0.0%
<i>Note 1: Net expenses include all direct investment management fees and internal University costs;</i>						
<i>Note 2: Both Endowment &amp; its benchmark returns reflect 50% foreign currency hedging implemented in 2010.</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 table below shows the policy asset mix for the endowment fund vs its actual asset mix as of April 30, 2017.

Asset Classes	Benchmark Index	Policy Mix	Actual Mix	Permitted Ranges	
				Min.	Max.
Universe Bonds	FTSE TMX Canada Universe	30.0%	26.2%	10.0%	50.0%
Cash	FTSE TMX 91 Day T Bills	0.0%	0.1%	0.0%	20.0%
<b>Total Fixed Income</b>		<b>30.0%</b>	<b>26.3%</b>	<b>20.0%</b>	<b>50.0%</b>
<b>Infrastructure</b>	<b>CPI+5%</b>	<b>5.0%</b>	<b>5.8%</b>	<b>0.0%</b>	<b>10.0%</b>
Canadian Equities	S&P/TSX Composite	17.5%	17.8%	7.5%	27.5%
U.S. Equities	S&P 500 (CAD)	25.0%	23.8%	10.0%	30.0%
International Equities	MSCI EAFE Net (CAD)	17.5%	21.2%	10.0%	30.0%
Emerging Markets	MSCI EM (CAD)	5.0%	5.1%	0.0%	10.0%
<b>Total Equities</b>		<b>65.0%</b>	<b>67.9%</b>	<b>50.0%</b>	<b>80.0%</b>

## 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, 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 of these endowments over the past five years. Of particular note is the recent increase in payments from the Heritage Fund that will be used to support a number of major capital infrastructure projects.

Summary of Changes to Endowment Fund	2013	2014	2015	2016	2017
<b>\$ millions</b>					
Payments from GEF Endowments	3.3	4.1	4.5	4.8	5.8
Payments from the Heritage Fund	-	1.4	7.0	7.4	5.3
Expenses	2.0	2.6	3.0	3.2	3.3
<b>Total Expenses and Payments</b>	<b>5.3</b>	<b>8.1</b>	<b>14.5</b>	<b>15.4</b>	<b>14.4</b>
New Contributions to Endowments	6.5	8.8	10.0	10.4	9.9
Investment Income	34.9	43.6	37.5	-8.8	55.9
<b>Total Income and Contributions</b>	<b>41.4</b>	<b>52.4</b>	<b>47.5</b>	<b>1.6</b>	<b>65.8</b>
<b>Total Fund Assets</b>	<b>264.6</b>	<b>308.9</b>	<b>341.9</b>	<b>328.1</b>	<b>379.5</b>

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

### **The Heritage Fund (\$139.8 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 (\$14.0 million) and the balance of (\$125.8 million) which is restricted for 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 \$139.8 million while having provided \$41.1 million for major University strategic purposes, including major information technology systems and capital infrastructure projects, over the same time period.

### **The General Endowment Fund (\$239.7 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 \$146.5million to \$239.7 million. This reflects the combined effect of total contributions into the fund of \$21.4 million, payments out of the fund of \$22.5 million and accumulated investment earnings. The GEF contains approximately 1,100 accounts each reflecting donors' individual contributions and designations. In terms of the number of accounts, over 80% are designated for student assistance, with the remainder supporting endowed chairs and special programs. The Board of Governor approved policy permits a maximum spending from each donor-designated accounts 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 2016-2017, 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. Of note is the recent increase in spending as endowments have grown from both recent investment gains and additional contributions.

History of Spending from the GEF (at April 30)					
\$ millions	2013	2014	2015	2016	2017
<b>Scholarships and Bursaries</b>	2.7	3.5	3.7	4.0	4.9
<b>Other Designations</b>	0.6	0.6	0.8	0.8	0.9
<b>Total Spending From Endowments</b>	3.3	4.1	4.5	4.8	5.8
<b>GEF Policy Spending Rate</b>	3.5%	3.5%	3.5%	3.5%	3.5%
<b>Total University Spending on Student Scholarships and Bursaries (all sources)</b>	31.2	33.1	33.7	36.1	39.4
<b>% Total University Spending on Student Scholarships and Bursaries from Endowments</b>	9%	10%	11%	11%	12%