McGill

McGill Endowment Fund Annual Report

2021-2022

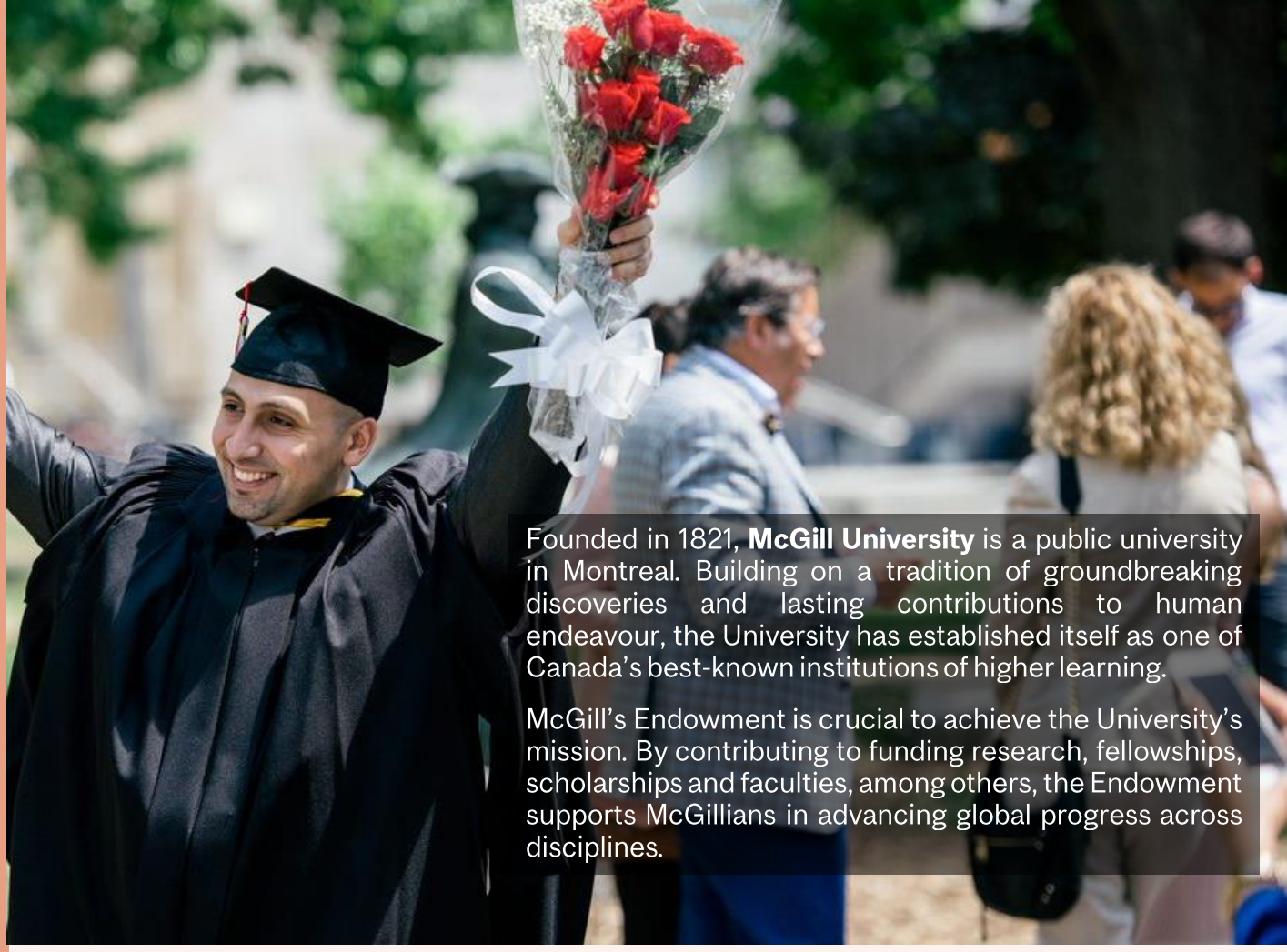
McGill University Mission Statement

Mission

The mission of McGill University is the advancement of learning and the creation and dissemination of knowledge, by offering the best possible education, by carrying out research and scholarly activities judged to be excellent by the highest international standards, and by providing service to society.

Principles

In fulfilling its mission, McGill University embraces the principles of academic freedom, integrity, responsibility, equity, and inclusiveness.



Founded in 1821, **McGill University** is a public university in Montreal. Building on a tradition of groundbreaking discoveries and lasting contributions to human endeavour, the University has established itself as one of Canada's best-known institutions of higher learning.

McGill's Endowment is crucial to achieve the University's mission. By contributing to funding research, fellowships, scholarships and faculties, among others, the Endowment supports McGillians in advancing global progress across disciplines.

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MESSAGE FROM THE CHAIR OF THE INVESTMENT COMMITTEE

The McGill Endowment Fund helps to ensure McGill remains a world class university and supports the achievement of McGill's mission. Those responsibilities of the Endowment Fund are perpetual, and the funds are invested to achieve that. We also want to ensure to those who generously donate funds to McGill, to further initiatives important to them, and to McGill, that the funds they provide are appropriately managed so those initiatives can be fully achieved well into the future. The Endowment is a critical component of McGill's financial strength and ability to attract top students. The investment of the Endowment Funds also has purpose to further socially responsible activities and make positive impacts.

This Annual Report on the Endowment Fund will review the governance processes over the Endowment Fund, investment strategy, asset allocations and investment returns near term and longer term with explanations for those results. Key environmental, social and governance (ESG) initiatives in line with the Endowment's low-carbon objective will be highlighted. The Report will show the annual contribution the Fund makes to McGill's faculties and other beneficiaries, and provide a few examples of the positive impacts made possible by the Endowment.

The past year has provided investing complexities and challenges with the post pandemic recovery, significant new international conflict, rising inflation and the objective to achieve ESG-related investing targets. While investment performance has been volatile during the last year, the Endowment investment strategy is designed to provide dependable support to McGill and the distributions have remained stable. The staff of the Office of Investments lead by Sophie Leblanc, Chief Investment Officer and Treasurer, have performed exceptionally well in addressing these challenges and overall managing the Endowment Fund. I would also want to recognize the members of the Investment Committee for their commitment, expertise and guidance in the oversight of the investment of the Endowment Fund.

Donald Lewtas, B Comm, FCPA, FCA

Chair of the Investment Committee

FISCAL YEAR 2022 HIGHLIGHTS

$1.8B

MARKET VALUE AT APRIL 30, 2022

$35.9M

FY 2022 NEW GIFTS

$102M

IN IMPACT INVESTMENTS (INCLUDING UNFUNDED COMMITMENTS) AS AT DECEMBER 31, 2021

$24M

ENDOWMENT CONTRIBUTIONS TO STUDENTS' SCHOLARSHIPS, BURSARIES, PRIZES, AWARDS & FELLOWSHIPS

12

FACULTIES & SCHOOLS SUPPORTED

8.2%

10-Y ANNUALIZED RETURN AT APRIL 30, 2022 EXCEEDING DISTRIBUTIONS, FEES & INFLATION BY 1%

$70M

DISTRIBUTED TO THE UNIVERSITY IN FY 2022

OVERVIEW OF THE ENDOWMENT FUND

ABOUT THE ENDOWMENT FUND

As a result of the generosity and philanthropic support of its donors, McGill's Endowment supports the University in fulfilling its mission and purpose. Its primary objective is to provide a dependable and optimal source of income for endowment beneficiaries of current and future generations. Capital preservation is key in guiding how the Endowment Fund is invested: the success of its investments lies in their ability to maintain the Endowment's real purchasing power through the years. This requires a calculated balance between growth and spending, while considering inflation.

The Endowment Funds Policy ("EFP") provides guidance on how endowed funds are spent, aligning their time-horizon with that of the University: perpetuity. In accordance with the EFP, the Endowment contributes a percentage of its three-year rolling average unit value for University spending. In fiscal year 2021-22, the income distribution rate was 4% of the average market values of the years ended April 30, 2019, April 30, 2020 and April 30, 2021. During this year, $70M were distributed to the University.

Management and administration fees, and contributions to the University, represented 1.1% of its market value as at April 30, 2021, totalling $20.5M. Only 48% of that 1.1% pertained to management and administration fees.

For the year ended April 30, 2022, Endowment Fund investments generated a return of -1.6%. After strong results in 2021, this year's return was largely impacted by geopolitical conflict and rising inflation. Nonetheless, we must remember that the Endowment's success lies in its capacity to provide a reliable financial contribution to the University; not only for now, but for years to come. In that regard, the Endowment Fund investments' 10-year return provides deeper insight on the outcomes of its rigorous investment processes and prudent risk management approach. For the 10-year period ended April 2022, Endowment investments generated an annualized return of 8.2%, more than sufficient to protect capital after distributions, fees and inflation and surpassing the absolute return objective of 7.2%.

McGill's sustainability leadership is also reflected in the Endowment Fund investments' socially responsible investment practices. In 2022, most of the assets (99%) are managed by managers integrating ESG (Environment, Social & Governance) factors in their selection process. In 2020, the Board of Governors approved a comprehensive plan to support collective efforts in the fight against climate change. In its most ambitious approach to date, McGill pledged to eight commitments pertaining to responsible investment across all asset classes, including commitments on portfolio decarbonization, impact investments, and engagement.

A STRONG GOVERNANCE FRAMEWORK

The Endowment Funds Policy ("EFP") provides a framework to ensure that the Endowment is overseen and managed according to best practices. The investments of the Endowment Fund and other University endowments are managed by the McGill Office of Investments in accordance with the Statement of Investment Policy ("SIP"). Endowed funds are governed pursuant to the SIP under the authority of the Board of Governors and of the Investment Committee in accordance with its Terms of Reference.

Board of Governors

The Board of Governors ("Board") is responsible for the overall success of the investment program. The Board sets out the University's investment policy (i.e., the SIP) and oversees its implementation by monitoring results and determining whether Endowment Fund investments are on course to achieve established objectives. More specifically, in and through the SIP, on the recommendation of the Investment Committee, the Board defines the Endowment Fund's mission and establishes its performance goals and investment objectives, the policy asset mix and acceptable asset allocation ranges, the acceptable level of capital market risk and determines benchmarks.

Investment Committee of the Board of Governors

The Investment Committee ("IC") assists the Board in fulfilling its governance responsibilities with respect to the University's investments, including endowed funds.

The IC's responsibilities include:

- Recommending to the Board the approval of all investment policies, including the SIP, and any modifications thereto;
- Reviewing the SIP annually and monitor compliance with this Policy;
- Recommending to the Board the annual distribution rate for the income from the University's endowment
- Approve the appointment and termination of investment managers and advisors
- Review and approve investment manager mandates
- Review at least annually the performance of each fund manager
- Review on a quarterly basis all matters related to the investment of the Endowment Fund and other investments

A STRONG GOVERNANCE FRAMEWORK (CONTINUED)

Members of the IC are appointed based on their expertise and interest in investment, business and economics. Yves Beauchamp, Vice-Principal (Administration and Finance) serves as Senior Steward and the Vice-Principal (University Advancement) serves as Special Advisor. The IC meets at least four times during the year.

As at April 30, 2022, members of the IC were:

- Ram Panda, Chair, Board of Governors, ex officio
- Prof. Suzanne Fortier, Principal and Vice-Chancellor, ex officio
- Joel Raby, Chair
- Sam Altman
- Anik Lanthier
- Sam Minzberg
- Lester Fernandes
- Donald Lewtas (incoming Chair, July 1st 2022)
- Warren C. Smith
- Marc Trottier

Investment Subcommittee

The Investment Subcommittee has the authority to act on investment matters that may arise between regularly scheduled meetings of the IC. The Subcommittee is composed of the Chair of the IC, two members of the IC, and is supported by the Senior Steward and the Chief Investment Officer & Treasurer.

Committee to Advise on Matters of Social Responsibility

The Committee to Advise on Matters of Social Responsibility ("CAMSR") is responsible for advising the Board on matters concerning social responsibility related to University endowment investments within the mandate of the IC.

Office of Investments

Under the leadership of the Chief Investment Officer & Treasurer, Sophie Leblanc, the Office of Investments ("OOI") is responsible for the day-to-day management of Endowment Fund investments. Its responsibilities include:

- Managing the investments of Endowment Fund investments within policy guidelines
- Recommending the selection of strategies, investment managers and service providers to the IC
- Recommending changes to the investment managers and other service providers and to the strategies and SIP
- Reporting quarterly to the IC regarding the activities and performance of Endowment Fund investments
- Maintaining appropriate liquidity to meet the Endowment Fund investments' obligations.

Custodian & Valuation Services

McGill has hired CIBC Mellon as the custodian for Endowment Fund investments. The custodian supplies important safekeeping, record keeping and valuation services.

Since its inception, the Endowment Fund's investment approach has been guided by its ultimate purpose: capital preservation. The last fiscal year was no exception. This report highlights the key achievements of the Endowment Fund during the 12 months ended April 30, 2022. As we collectively navigated these unstable and uncertain times, the Endowment Fund succeeded in maintaining its disciplined long-term approach, pursuing new opportunities, and sustaining impact through endowment distributions.

Delphine Collin-Vézina

Nicolas Steinmetz and Gilles Julien Chair in Social Pediatrics in Community

"I am truly honored to be representing a group of academics and trainees that are striving to improve the well-being and strengths of children and families facing adversity and challenges. The Endowment has placed our Centre at the forefront of child welfare research in Canada, and it continues to provide foundation funding for our Centre's fundamental activities, such as supporting prevention initiatives, early intervention, specialized services and effective policies to shift positively the trajectories of vulnerable populations. The Endowment's support also provides a core operating budget for administering the Centre, providing space, equipment and activities that support a learning and service community of faculty and students dedicated to conducting research to support more effective programs and policies for at risk children and their families. "

Jim Nicell

Dean of the Faculty of Engineering

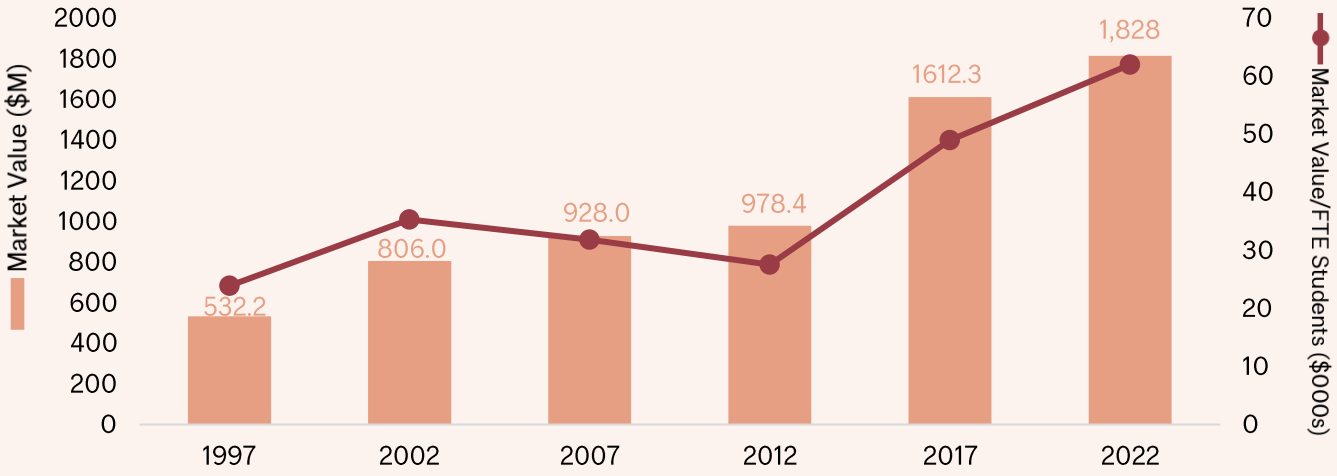
"We are committed to training professionals equipped to solve real-world problems that matter. Endowment support makes that possible. Whether it's a research chair, a student scholarship or an experiential opportunity, your endowment investment ensures we remain a world-class university renowned for its teaching, research and community engagement."

1st LARGEST

MEDICAL-DOCTORAL UNIVERSITY ENDOWMENT FUND BY STUDENT IN CANADA

At the end of the fiscal year, the Endowment fund reached a market value $1.8B. As of December 31, 2021, McGill's Endowment fund was the 1st largest medical-doctoral university endowment fund by full-time equivalent student (FTE) in Canada and the 4th largest endowment fund in Canada out of the 69 universities surveyed by CAUBO*. This would not have been possible without donors, whose generosity have brought countless student dreams to life, and without a rigorous approach to investment. As shown below, the Endowment Fund investments' market value has tremendously increased in the last 25 years, cumulating more and more assets per student as years went by.

Evolution of Endowment Fund's Market Value



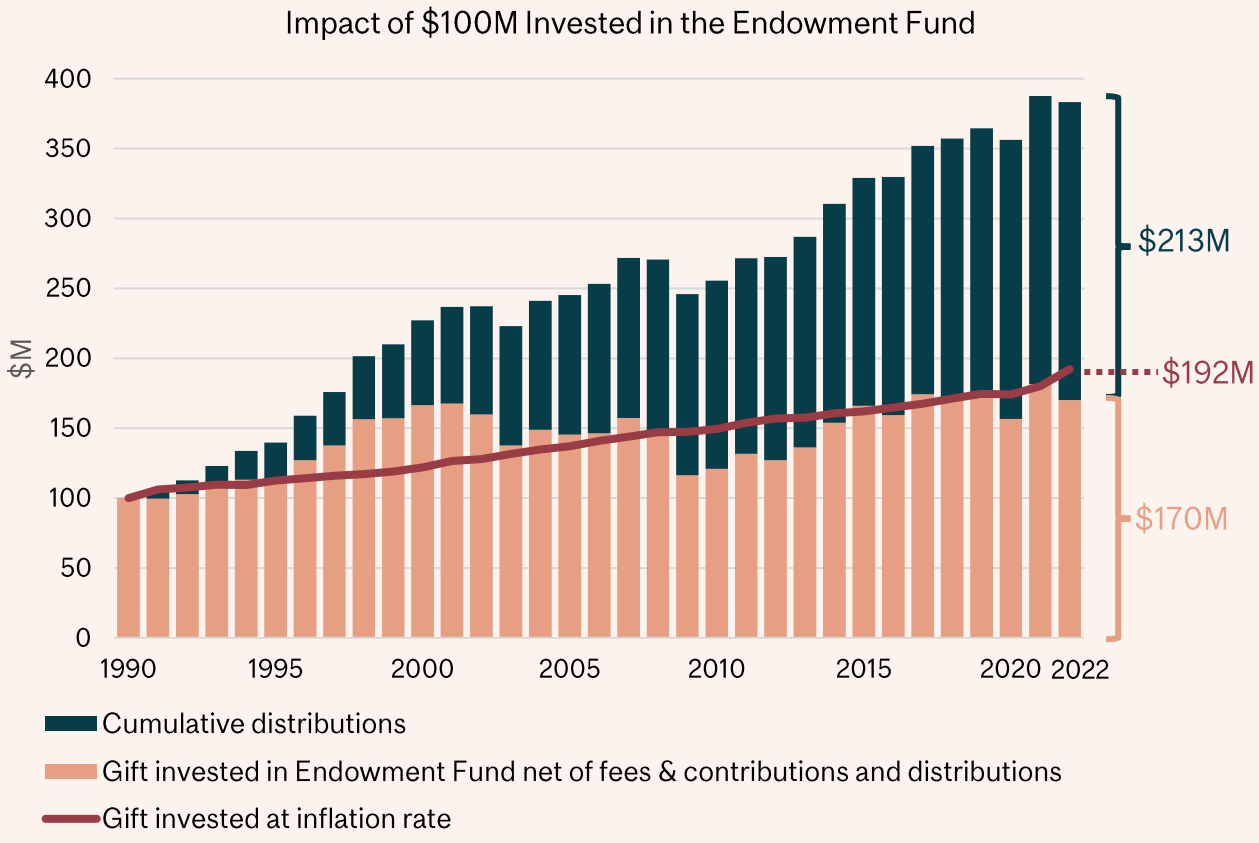
Notes:

1. Endowment Fund investments are managed through the McGill Investment Pool ($1,815M) and represented 99.3% of the McGill Endowment Fund ($1,828M) in 2022.
2. Market Value ($M) is at end of fiscal year, i.e. May 30 for the years 1997 to 2010 and April 30 for the years 2011 to 2022.
3. Market Value/FTE Students ($000s) is at December 31 of the same fiscal year and considers enrolments in the fall of the same fiscal year (as per the methodology used for the CAUBO survey).

*Canadian Association of University Business Officers

IMPACT OF $100M INVESTED IN THE ENDOWMENT FUND

To assess the capability of the Endowment Fund's assets to preserve capital in real terms, the graph below presents the impact of a gift of $100M invested in the Endowment Fund in 1990. The pink bar represents the evolution of the market value of the gift after fees and the blue bar represents the cumulative distributions made possible by the same $100M gift. During this period, the positive impact of the gift ($213M in distributions) represented more than 2.1x the initial value of the gift. In addition, the gift value was preserver after inflation during most of the period, as indicated by the red line.

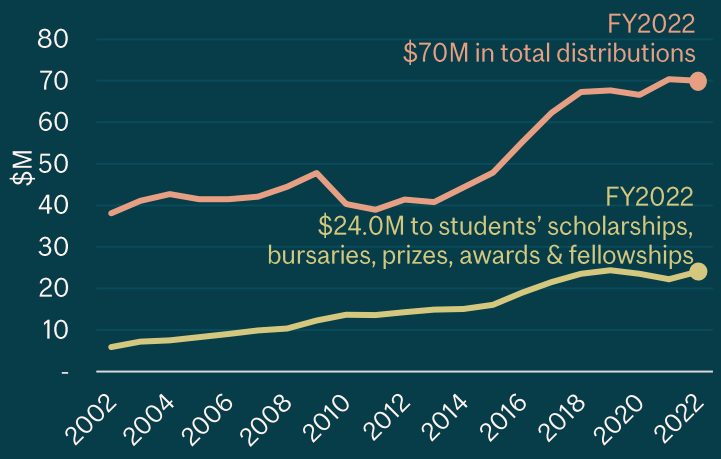


SUSTAINING IMPACT

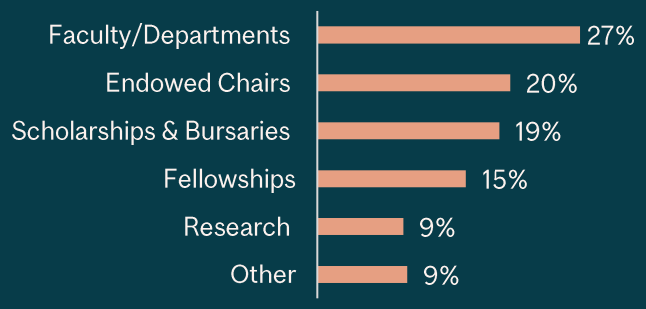
Endowment distributions have an impact that goes beyond our campuses. Whether it be through funding pioneering research or preparing tomorrow's leaders for the challenges and opportunities of the next century, the Endowment's contributions, through generous donors, support McGill in fulfilling its mission. **For fiscal year 2022, the Endowment distributed $70M**, equivalent to 4% of the average market values of the three years ended April 30, 2018, April 30, 2019 and April 30, 2020. This distribution rate is determined in accordance with the EFP –any changes in distribution rate must be recommended by the IC and approved by the Board.

By funding scholarships and bursaries, the Endowment has contributed to eliminate cost as a barrier for students to realize their dreams. Since 2002, $315.9M were provided to students through scholarships, bursaries, prizes, awards and fellowships. The graph to the right shows how the amount distributed to endowment beneficiaries annually has tremendously increased in the last 20 years.

Total Endowment distributions in the last 20 years



For the year ended April 30, 2022, Endowment income was distributed as follows:



Cara Piperni

Director, Scholarships & Student Aid

"Endowed donations in support of student aid and scholarships are incredibly impactful and most certainly magnify our financial support programs. Not only is my team able to appropriately acknowledge academic merit and financial need, but we can be more generous knowing this revenue is available in perpetuity. This makes a huge difference in the lives of students, and allows us to recruit and retain the best and brightest to our University."

Sarah Moussa

MDCM, Year 1

Kanekichi and Shizue Ohashi Bursary recipient

"The entrance bursary played such an important role in my education. Not only did it remind me that there are good people willing to help me achieve my dreams, but it also made me feel like all my hard work over the years was all worth it. I was going to maintain a part-time job while completing medical school, despite its challenging nature, because I am very restricted financially. However, your contribution allowed me to focus on solely being the best doctor I can be for my future patients."

INVESTMENT MANAGEMENT

Endowment Fund investments form a unitized pool. When funds are transferred into an endowment capital fund, they are commingled in McGill's Endowment Fund and tracked with unit accounting similar to a large mutual fund.

The SIP provides guidance as to how this unitized pool is invested, setting clear directions for risk tolerance, investment objectives, asset allocation, and performance evaluation. Central to the SIP is the policy asset allocation guidelines: the long-run optimal allocation to generate, at the minimum, the required long-term return given the risk tolerance and preferences of the IC and the Board. The SIP ensures continuity during periods of turnover (staff and committee) and stressful market conditions, and provides a baseline against which to evaluate proposed policy changes.

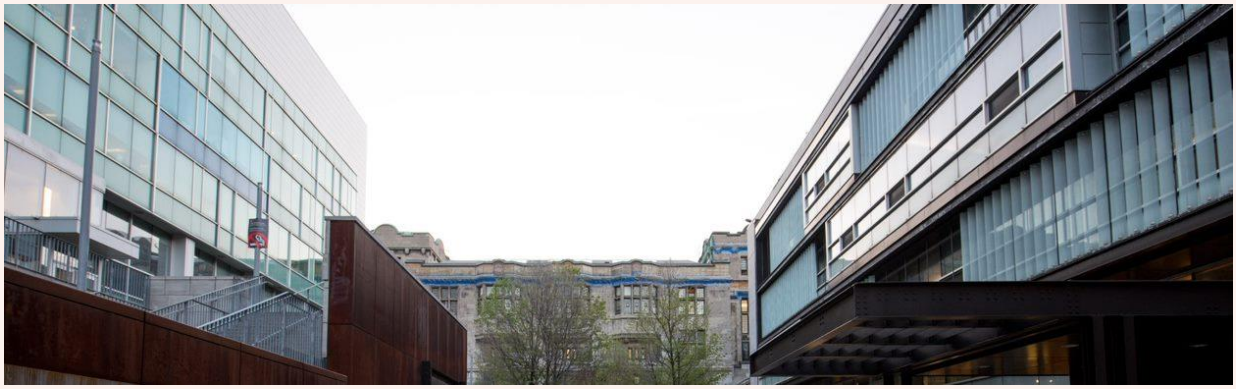
MARKET OVERVIEW

OFFICE OF INVESTMENTS COMMENTARY

From 2009 to 2019, the U.S. economy had one of the longest expansions in its history. Unlike past expansion periods, inflation also remained very low, providing exceptional returns for both equities and fixed income securities. Financial markets corrected sharply in March 2020 with the uncertainty brought by the COVID-19 pandemic. Nevertheless, this market downturn was short-lived and was followed by the fastest bear-market recovery in history, which lasted until the end of 2021. High inflation, supply chain issues and the war in Ukraine have given investors reasons to be worried: most expect at least a mild recession to occur this year. Central banks are raising short-term interest rates and the yield curve is expected to invert. As a result, the era of cheap borrowing and lofty valuations is coming to a halt, especially in the highly valued growth and speculative segments of the market. This has placed heightened pressure on central banks to balance the risk of recession with further interest rates increases to combat rising inflation.

We believe the adverse performance experienced in the first half of 2022 is a reversal of the strong historical returns when valuations overshot historical averages. We view this as a moderating of valuations rather than an immediate representation of an imminent recession. Household balance sheets continue to remain resilient with record high savings rates and low unemployment. This said, higher levels of inflation and increasing interest rates will place a higher burden on households. We remain vigilant on monitoring the health of the major economies we invest in and making strategic or tactical adjustments as needed.

Facing moderating economic growth, higher inflation and low, albeit rising, interest rates, investors will find it increasingly difficult to generate stable income-driven returns. The Endowment Fund investments' allocation to real assets and defensive sectors in the equity markets might be better positioned to deliver attractive risk-adjusted returns.



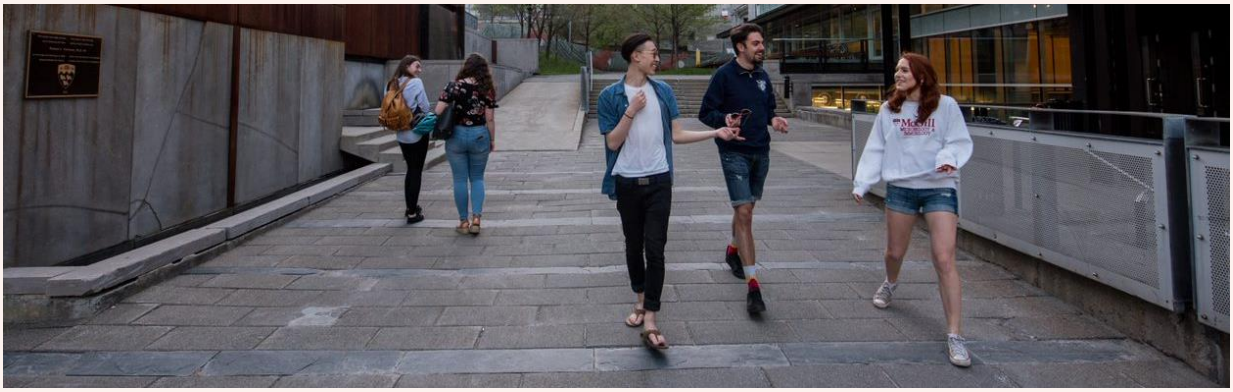
MARKET OVERVIEW (CONTINUED)

OFFICE OF INVESTMENTS COMMENTARY

In addition, environmental, social and governance ("ESG") integrated strategies and Impact funds may also generate attractive returns due to their holistic approach and exposure to themes and sectors with secular growth tailwinds. Investors and regulators are applying more pressure on companies with respect to ESG issues: companies that have not yet started to address them may experience greater difficulty in their business over the long term. With 99% of the Endowment Fund's assets invested with managers that incorporate ESG factors into their investment process, and several key investments into ESG themes, we believe that our active management should provide added value. However, we note that in the recent environment of high commodity prices, carbon reduction initiatives can negatively impact performance. More specifically, during inflationary periods, energy and material sectors (carbon-intensive sectors) may perform better than others.

We are currently observing this negative performance impact on the Endowment Fund's equity portfolios in 2022. This has generated under-performance relative to passive unconstrained indexes.

The Investment Committee and OOI's role is to keep the Endowment Fund invested and diversified and navigate up-and-down market performance cycles by taking advantage of investment opportunities without compromising liquidity or taking undue risk. Management remains committed to taking advantage of the perpetual long-term nature of the Endowment Fund to invest the bulk of assets in equities, keeping a low allocation to bonds and using alternative investments such as private equity, private debt, real assets, and absolute return strategies for both their return-enhancing and diversifying effects. This approach can result in some volatility during short-term periods as was observed during the past fiscal year. Nonetheless, volatility is greatly mitigated over the mid- to long-term periods.



ASSET ALLOCATION

Table 1 shows the Endowment Fund investments' long-term allocation as at April 30, 2022. The IC and the OOI have some discretion to increase or decrease the allocation to each asset class (within the guidelines of the SIP), which occurs most frequently within marketable asset categories such as fixed income and equities. Alternative investments are subject to illiquidity and funding dynamics that make it more difficult to quickly adjust the allocation.

Table 1

Asset Class	Actual Portfolio Weight (%)
Public Equities	60.3
Canadian	10.5
U.S. Large Cap	18.3
U.S. Small Cap	8.8
Non-North American (developed)	13.4
Non-North American (emerging)	9.1
Alternative Investments	23.2
Hedge Funds	4.0
Private Investments	9.4
Real Assets	9.9
Fixed Income	16.5
Cash & Cash Equivalents	1.4
Nominal and real-return bonds	15.2
Total	100

Note: Rounding differences of 0.1 percentage point may arise.

ASSET ALLOCATION (CONTINUED)

The alternative investments class is composed of private investments that combine both private equity and debt but have remained opportunistically active. Most recently, an investment was made in a Global Private Equity Impact (sustainability-focused) Fund. Over the past several years, the allocation to hedge funds was significantly reduced in favour of real assets. As a result of this transition period, real assets remain underweight. Nonetheless, the Endowment Fund continues to deploy capital and commit to new investments to attain the new target allocation, especially in infrastructure assets which had no specific allocation in the past. Deployment of capital has picked up over the past year, but the initial shock of the Covid-19 crisis induced investor caution which resulted in the delay of certain investments, keeping real assets allocation below target. However, a publicly listed real assets strategy helps reducing this shortfall as private fund deployment continues.

The overweight to equities is driven by a few factors. With the expectations of increasing interest rates and high inflation, equities provide some protection, especially to regions and markets with less sensitivity to high valuation growth stocks and to interest rates and inflation-sensitive sectors. For this reason, Endowment Fund investments are overweighted to Canadian equities versus their target allocation, which have been more resilient over the past year.

Further, U.S. small capitalization equities have been favoured (versus large capitalization equities) due to improved diversification benefits, less concentration in growth stocks as well as lower valuations. Staff has also remained cautious with emerging markets due to political uncertainty and the conflict in Ukraine.

STRATEGIC INITIATIVES

PORTFOLIO MANAGEMENT

The OOI regularly assesses McGill's Endowment Fund investments' asset allocations and sub-asset allocation to ensure that the guidelines are aligned with the Endowment Fund's objective it terms of risk and returns.

During the year, China equities were segregated from emerging market equities and a China specialist fund manager was hired. Staff believes that a specialist Chinese equity fund manager is better equipped to manage the nuances of investing in China with experienced and locally based investment professionals. This initiative also expands the Chinese opportunity set that is expected to improve the Endowment Fund investments' diversification and alpha potential. This review to the emerging markets structure led to the termination of a manager.

Impact Investments represents an attractive theme with two commitments since 2021: a Global Renewable Infrastructure Fund in 2021 and, more recently, an allocation to a Global Impact Private Equity Fund. Staff continues to scour the market for strategies expected to achieve strong returns with moderate levels of risk. While Impact-related themes are expected to experience a secular growth tailwind, it is important to stay vigilant on other fundamentals like valuations to ensure proper downside protection.

Focus remains on investments that will serve to capture attractive investment themes including sustainability, while avoiding highly competitive segments of the market, and further enhancing sector and regional diversification of the real assets allocation.

STRATEGIC INITIATIVES

PORTFOLIO MANAGEMENT (CONTINUED)

Integrating ESG considerations in decision-making

Environmental, social and governance (ESG) considerations are integrated into every step of the investment process, from manager selection and monitoring, and stewardship activities to reporting and disclosure. ESG integration has therefore been formalized into the SIP in 2020, sending a clear message to current and future investment managers on the importance of considering such factors in investment decisions.

Incorporating ESG factors in manager selection and monitoring may provide greater insights into areas of potential risk and opportunity that may affect the value, performance and reputation of investments made by external investment managers. Since McGill started monitoring ESG characteristics of its investment managers, the percentage of assets managed by investment managers that have either adopted an ESG policy or that are signatories of the Principles for Responsible Investments went from 71% in 2016 to 99% in 2021. The OOI also receives an ESG monitoring report quarterly highlighting Endowment Fund's equity holdings involved in moderate to high environmental controversies. These holdings are then subject to discussion with investment managers.

Addressing climate-related risks

The OOI monitors the carbon footprint of the Endowment Fund's listed equities on a quarterly basis, in light of McGill's commitment to sustain, by 2025, an equity portfolio with 33% less carbon emissions versus the listed equity benchmark. In the past year, this assessment fueled McGill's engagements with several equity funds to significantly reduce their carbon footprint. Moreover, in 2021, McGill hired SHARE, a leading shareholder engagement service provider, to engage with Endowment Fund portfolio companies on climate-related matters. Since then, SHARE has engaged with numerous companies, enabling McGill to use its voice as a shareholder to improve corporate climate-related policies and practices and thus, mitigate avoidable risks.

For further information on McGill's commitments to reduce the carbon footprint of its portfolio and their implementation status, please refer to the 2021 Investment Committee Report on Socially Responsible Investing.

STRATEGIC INITIATIVES

RISK MANAGEMENT

Robust risk management processes are an integral part of McGill's fund management activities and support better informed investment decisions.

To fulfill the Endowment Fund's investment objectives, which includes optimizing the real rate of return of the fund's assets with an acceptable level of risk, the OOI ensures that all significant risks faced by the Endowment Fund investments are identified, quantified, monitored, and mitigated (if needed). To achieve this, the OOI has put in place different controls and processes, both internal and external, to ensure that this objective is duly achieved. Internal controls to minimize operational risks include:

- Rigorous investment manager selection process
- Continuous monitoring of investment managers from a performance, risk, compliance and ESG standpoint
- Asset and currency exposure monitoring with FX hedging program
- Daily cash management
- Rigorous and robust compliance process
- Concentration and liquidity risk management
- Stress test analysis

With regards to compliance monitoring, the OOI confirms compliance with the SIP and investment manager guidelines by reviewing investment managers' compliance certificates on a quarterly basis, and compliance reports provided by the custodian on a monthly basis.

This report is then presented to IC members at quarterly meetings to determine the appropriate course of action.

Over the recent years, under the supervision of the IC, the OOI made several reviews and changes to its portfolio management processes, which benefitted the Endowment Fund and strengthened its financial risk position.

Strategic risk management initiatives over the past years

- Exhaustive Value-at-Risk assessments of different asset mixes which resulted in a reduction of the allocation to hedge funds in favour of real assets (i.e. real estate and infrastructure), an asset class that provides better inflation protection and aims to achieve higher and more consistent expected long-term performances
- In-depth analysis of funds concentration and size limits, and their impact on the Endowment Fund investments' total risk
- Assessment of the Endowment Fund's public equity style tilts, regional positioning, liquidity assessment, and active vs passive mix
- Implementation of a longer-term foreign exchange currency hedging strategy which generated savings compared to more conventional short-term hedging strategy

PERFORMANCE
AND FEES

After strong results during 2021, Endowment Fund investments were not immune to the volatility experienced in 2022 given the Ukraine conflict and the shifting urgency from central banks to fight rising inflation. As a result, Endowment Fund investments performance lagged the absolute return objective during the 2022 fiscal year, a result mainly attributable to the negative performance of both public equities and fixed income. Overall, the 10-year annualized return for Endowment fund investments is 8.2%, above the absolute return objective of 7.2%.

Over the past year, the Endowment Fund's overweight exposure to Canadian equities helped drive returns on an absolute basis and outperformed U.S. and international equities. Despite this, the Endowment Fund's equity portfolio underperformed the broader market, represented by the Composite Benchmark, due to its lower allocation to materials and energy sectors that performed well in this inflationary environment. A strong recovery in private investments and strong results from real assets greatly supported performance and demonstrated the important role of alternatives as a diversifier when both equities and fixed income experienced negative returns.

Longer term performance for alternative investments continues to be affected by two private fund investments made more than a decade ago, that unfortunately prevented Endowment Fund investments from outperforming the Composite Benchmark over the three-, five- and ten-year period. However, with those private funds reducing in size, the impact was reduced dramatically during the last year and we expect it to be marginal in the future. Finally, the rising interest rates environment negatively affected the absolute performance of the fixed income portfolio. However, the strong excess returns generated by the underlying managers and shorter duration of the portfolio provided downside protection.

Management and administration fees account for only 48% of the 1.1% of the Endowment market value dedicated to fees & contributions. The other 52% contributes to overhead, and mostly to University Advancement (UA), as a support to their fundraising operations to help grow Endowment assets.

	Annualized returns (%) for periods ending on April 30, 2022			
	1 Year	3 Years	5 Years	10 Years
Endowment Fund investments	-1.6	5.0	4.8	8.2
Absolute return objective: 5.10% + Prior Month CPI	11.8	8.1	7.9	7.2
Composite benchmark [1]	-0.4	6.4	6.7	8.8

Note: Performance is gross of fees

[1] 7.5% S&P/TSX Composite Index + 18% S&P 500 (50% USD Hedged) Index + 7% Russell 2000 (50% USD Hedged) Index + 12.5% MSCI EAFE + 10% MSCI EM + 5% [US T-bills (50% USD Hedged) + 5%] + 10% [(MSCI World + 2%) (50%) + (US T-bills (50% USD hedged) + 5%) (50%)] + 15% [5.15% + Prior Month CPI (All Items)] + 2% FTSE 91 Day T-Bill + 13% FTSE Universe Bond

Prepared by: Office of Investments
Pictures from: McGill Media Library
Cara Piperni's picture from: Scholarships & Student Aid Office
Delphine Collin-Vézina's picture from: Centre for Research on Children and Families
Sarah Moussa & Jim Nicell's pictures from: University Advancement

Additional copies of this report may be requested from:

Office of Investments
680 Sherbrooke St. West, Suite 1490
Montreal, Quebec
H3A 2M7

Main Telephone: (514) 398-6040
FAX: (514) 398-4882

McGill