



# McGill



## Report on Endowment Performance

2018-2019

# McGill University Mission Statement

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## 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.*

<b>Fiscal Year 2019 - Highlights</b> .....	3
<b>Endowment Overview</b> .....	4
Endowment Description .....	4
Capital Appreciation and Income per Unit .....	5
Evolution of MIP Market and Unit Values .....	7
Income Distributed .....	7
Change in MIP Market Value .....	8
MIP 2018-19 Financial Results .....	8
MIP Estimated Withdrawals for Fiscal Year 2020 .....	9
<b>Asset Allocation</b> .....	10
MIP Asset Allocation – April 30, 2019 .....	10
MIP Asset Allocation – April 30, 2019 vs April 30, 2018 .....	11
MIP Asset Allocation vs BNY Mellon Universe .....	12
Currency Exposure.....	12
<b>Performance</b> .....	13
MIP Overall Performance.....	13
Performance Measurement Services .....	14
<b>Administration</b> .....	15
Investment Committee .....	15
Investment Management Decisions.....	16

# Fiscal Year 2019 - Highlights

McGill Investment Pool (MIP)

## \$1.7B

of assets

(Up by 30% since 2014)

The MIP is currently the 3<sup>rd</sup> largest university endowment in Canada

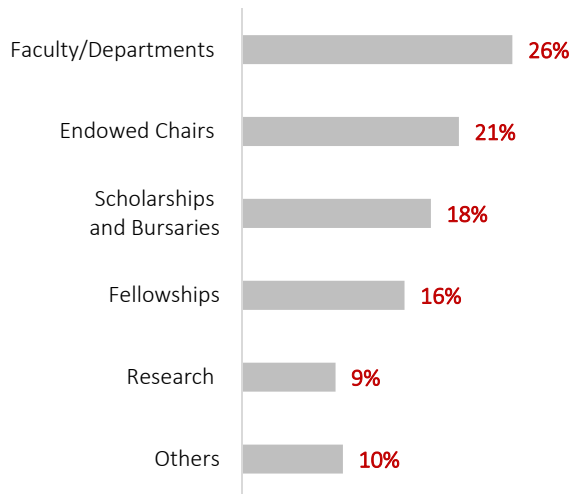
## 81%

Of the MIP was either managed by managers that have adopted an ESG Policy or were signatories of the UNPRI

\$6.5M invested in two Fossil Fuel Free Funds

## 4.25%

Income Distribution Rate (FY19)



## Capital Protection

MIP's Gross Performances  
April 30, 2019

1 Year: **5.6%**

3 Years (Ann.): **8.1%**

5 Years (Ann.): **7.4%**

10 Years (Ann.): **9.8%**

## \$42.9M

FY 2019 New Gifts

# Endowment Overview

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## Endowment Description

Currently the third largest university endowment in Canada (*CAUBO* – Dec. 2018), the Endowment is managed through the McGill Investment Pool (the MIP) by McGill's Office of Investments under the direction of the Investment Committee.

The overall objective of the MIP is to preserve (in real dollar terms) the capital of the MIP within the social and ethical norms of the University, to obtain a total return (yield plus capital appreciation) necessary to provide a dependable and optimal source of income for endowment beneficiaries and to cover the annual operating costs of the MIP.

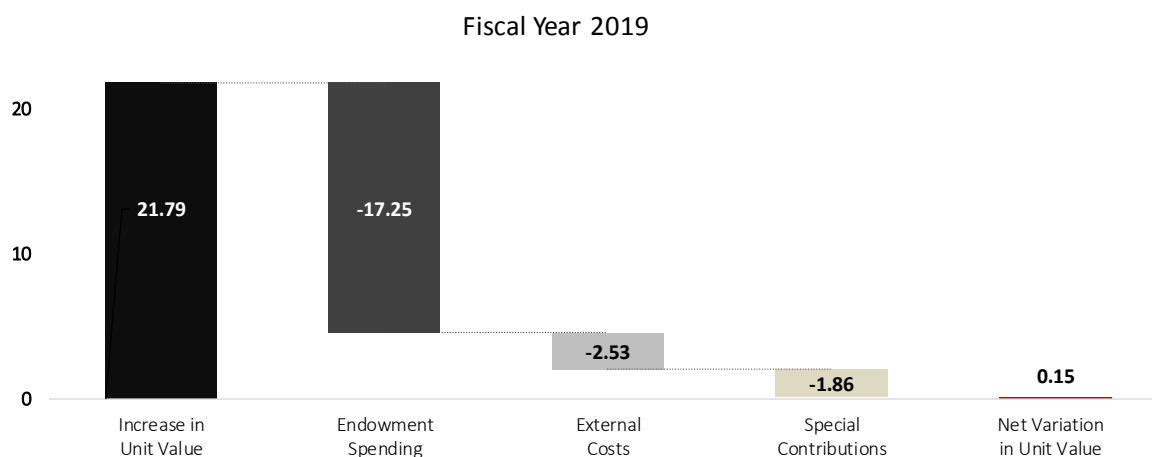
The use of the unitized pool formed in 1970 allows for the investment of a critical mass of assets thus providing for broad diversification and economies of scale that have over the years resulted in positive performance, reduced volatility and low investment management fees.

On April 30, 2019, the end of the University's fiscal period, the MIP, with a market value of \$1,679.1M, consisted of investments for the McGill endowments and accounts managed on behalf of McGill units and affiliated entities comprised of:

- Bequests and donations received by the University, for the most part externally restricted, and generally to be held in perpetuity
- Assets designated by the Board of Governors ("Board") to be endowed or invested, and
- Assets of entities affiliated to McGill which have been invested in the MIP as an investment vehicle

## Capital Appreciation and Income per Unit

The MIP unit values are calculated quarterly (at the end of July, October, January and April) and income is distributed monthly and adjusted quarterly for capital additions and withdrawals. For the year ended April 30, 2019, the unit value of the MIP has increased by \$0.15 (from \$418.43 to \$418.58) as follows:



External Cost: External manager fees, service provider fees, McGill's Office of Investments and McGill University's indirect costs  
 Special Contributions: University Advancement's fundraising operations in the context of a Bicentennial Campaign

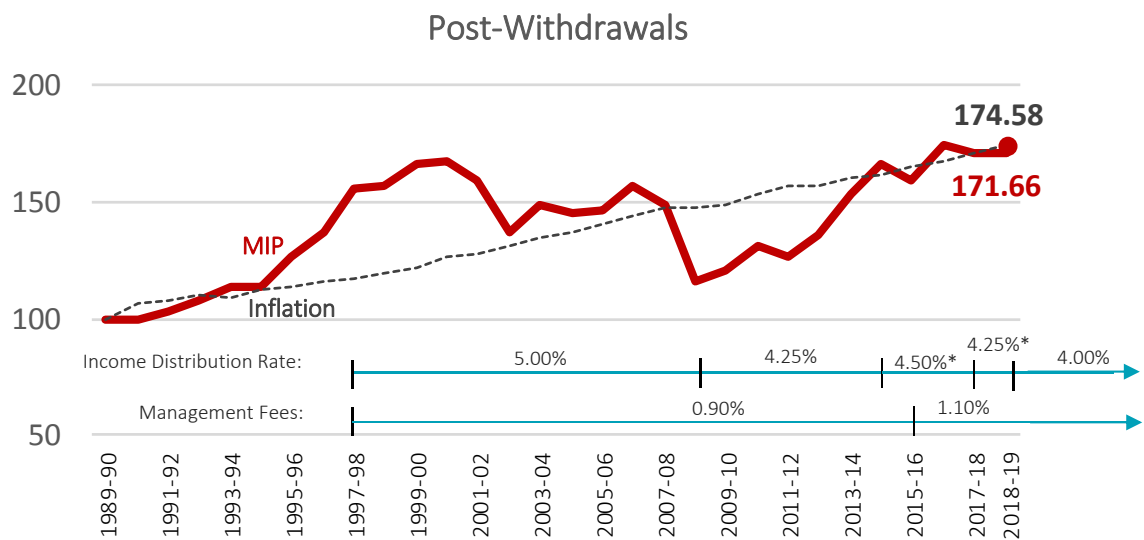
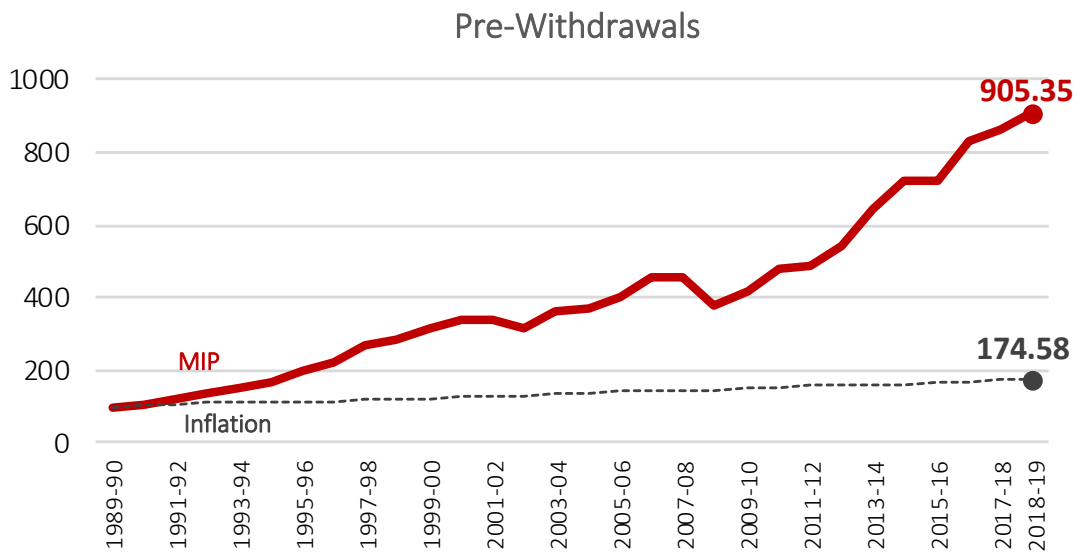
The table below indicates income distribution and management fee information:

	<u>May 1, 2018 to April 30, 2019</u>	<u>May 1, 2019 to April 30, 2020</u>
<b>Income Distribution:</b>	4.00% + 0.25%* of the average market values of each of the 3 years ended April 30, 2015, April 30, 2016 and April 30, 2017	4.00% of the average market values of each of the 3 years ended April 30, 2016, April 30, 2017 and April 30, 2018
<b>Management Fees:</b>	1.1% of the market value as of April 30, 2018	1.1% of the market value as of April 30, 2019

\*Special distribution of 0.25% approved in 2015 for FY16, FY17, FY18 and FY19

While the chart shown on the previous page presents the nominal increase or decrease in the MIP unit values, an important measure is the real change (after inflation) in the unit values.

As a result, the following graphs depict, since FY90 and assuming a hypothetical unit value of 100, the cumulative increase in MIP's unit value, before and after withdrawals, versus the same unit value cumulated with the inflation rate:

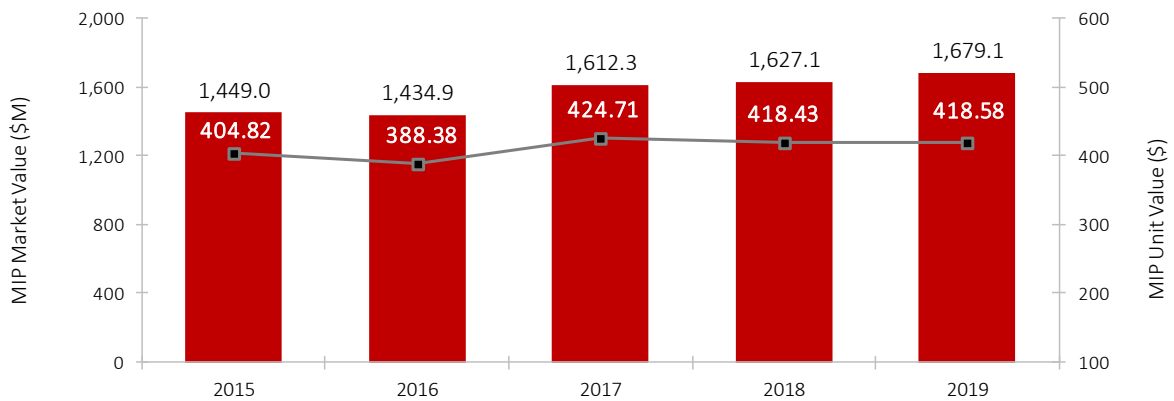


\*Includes a temporary additional distribution of 0.25%

The above chart shows that the cumulative increase in MIP's unit value after withdrawals fluctuate largely vs the same unit value cumulated with the inflation rate.

## Evolution of MIP Market and Unit Values

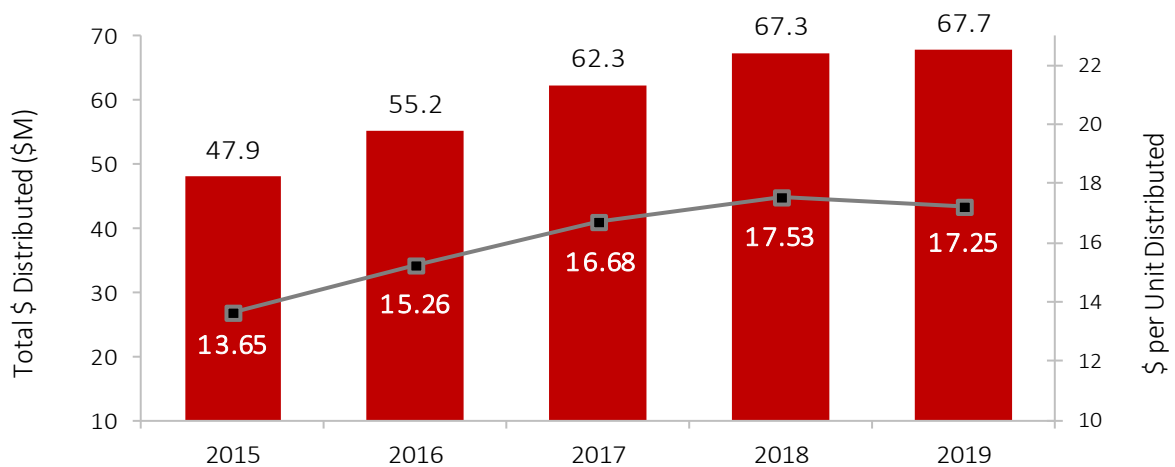
The MIP market value and unit value changes over the fiscal periods ended April 30, 2015 to April 30, 2019 are presented in the following graph:



Increase of 15.9% is observed in the market value from fiscal year 2015 to fiscal year 2019.

## Income Distributed

The income distribution for fiscal periods ended April 30, 2015 to April 30, 2019 is shown below:

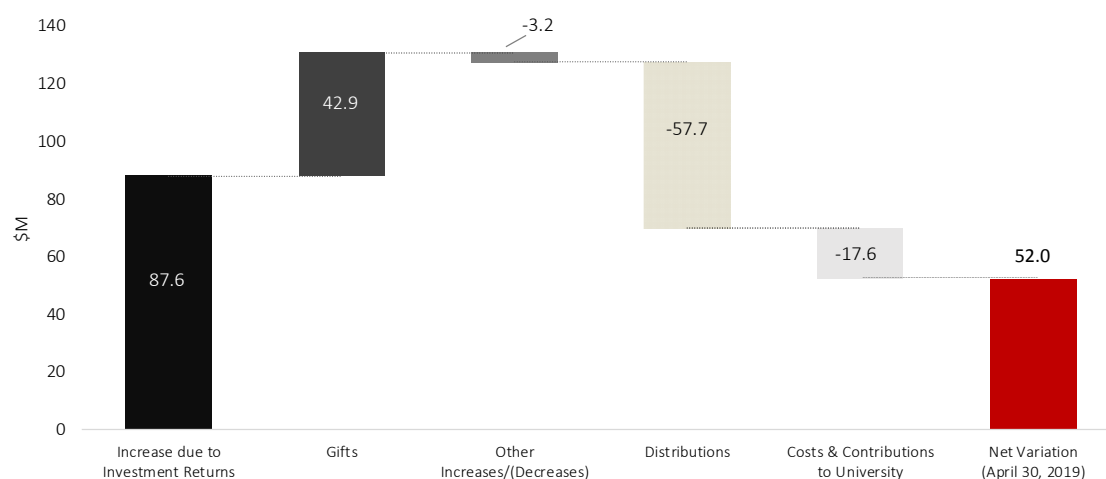


The amount distributed per unit to endowment beneficiaries decreased from April 30, 2018 to April 30, 2019 by 1.6% in nominal terms. However, since 2015 the total amount distributed increased by 41.3%.



## Change in MIP Market Value

For the year ended April 30, 2019, the market value of the MIP has increased by \$52.0M (from \$1,627.1M to \$1,679.1M) as follows:



## MIP 2018-19 Financial Results

Shown below are the comparative financial results for the year ended April 30, 2019:

	May 1, 2018 to April 30, 2019	May 1, 2017 to April 30, 2018
	<u>000's</u>	<u>000's</u>
<b>Increase due to Investment Returns</b>		
Investment Income	43,917	30,372
Currency Hedge Gain/(Loss)	-17,882	9,336
Realized Gain/(Loss)	74,140	110,737
Unrealized Gain/(Loss)	-12,535	-90,232
<b>Total</b>	<b>87,640</b>	<b>60,213</b>
<b>Gifts</b>	<b>42,914</b>	<b>23,390</b>
<b>Other Increases/(Decreases)</b>	<b>-3,238</b>	<b>5,107</b>
<b>Distributions</b>		
Endowed Spending	-67,721	-67,289
Re-capped Amount	10,025	10,973
<b>Total</b>	<b>-57,696</b>	<b>-56,316</b>
<b>Costs and Contributions to University</b>		
Office of Investments' Expenses	-939	-921
External Manager Fees	-4,577	-3,671
Service Provider Fees	-165	-469
Contribution to University Indirect Costs	-3,600	-3,600
Transfer to Internally Restricted Fund	-870	-1,481
Contribution to University Advancement	-7,467	-7,451
<b>Total</b>	<b>-17,618</b>	<b>-17,593</b>

The total increase due to investment returns was \$87.6M compared to \$60.2M last year. This increase is reflective of good market returns.

In 2018-19, gifts increased (\$42.9M vs \$23.4M) while the endowed spending increased by \$0.4M.

The Office of Investments' expenses in 2018-19 were \$0.9M while the external investment managers and service provider fees totaled \$4.7M. A fixed annual amount of \$3.6M was withdrawn with respect to the contributions towards University indirect costs and \$0.9M was transferred to McGill's internally restricted funds.

In 2018-19, \$7.5M was allocated to the University Advancement's fundraising operations in the context of McGill's Bicentennial Campaign.

## MIP Estimated Withdrawals for Fiscal Year 2020

The 2019-20 estimates are set out below and assume 4.1 million units (using a historical growth rate of 3%):

	May 1, 2019 to April 30, 2020	
	Estimate	
	Total (000's)	Per Unit \$
Distribution for Endowed Spending	67,800	16.42
Office of Investments' Expenses	1,100	0.27
Managers and Service Provider Fees	5,100	1.23
Contribution to University Indirect Costs	3,600	0.87
Contribution to University Advancement	8,200	1.98
<b>Total Withdrawal Amount</b>	<b>85,800</b>	<b>20.77</b>

Income distribution in 2019-20 is based on a rate of 4.00%. Using the assumed 4.1M units, the withdrawal required for regular income distribution is estimated to be \$67.8M. For 2019-20, Office of Investments' expenses are expected to increase at \$1.1M. Manager and service provider fees normally vary proportionally with the market value of the portfolio and the allocation of funds among managers who have varying fees. The total fees, including the University Advancement Campaign costs, for the coming fiscal year will be 1.1% of the April 30, 2019 market value, representing an amount of \$18.0M.

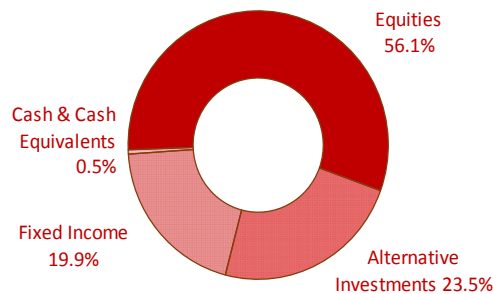
# Asset Allocation

## MIP Asset Allocation – April 30, 2019

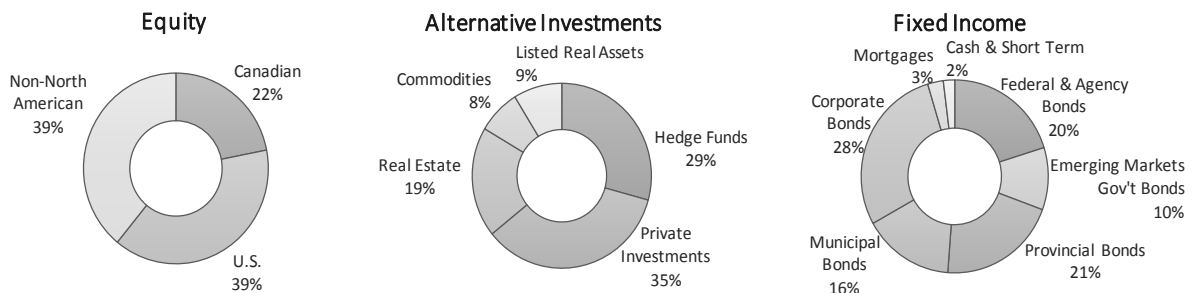
As of April 30, 2019, approximately 99% of the MIP was managed externally by investment managers. The internally managed assets consist mainly of iShares (XIU), currency overlay and deposits.

The MIP market value at April 30, 2019 was \$1,679.1M and was invested in a wide variety of asset and sub-asset classes. The allocation is illustrated below:

### MIP Asset Classes



### MIP Sub-asset Classes



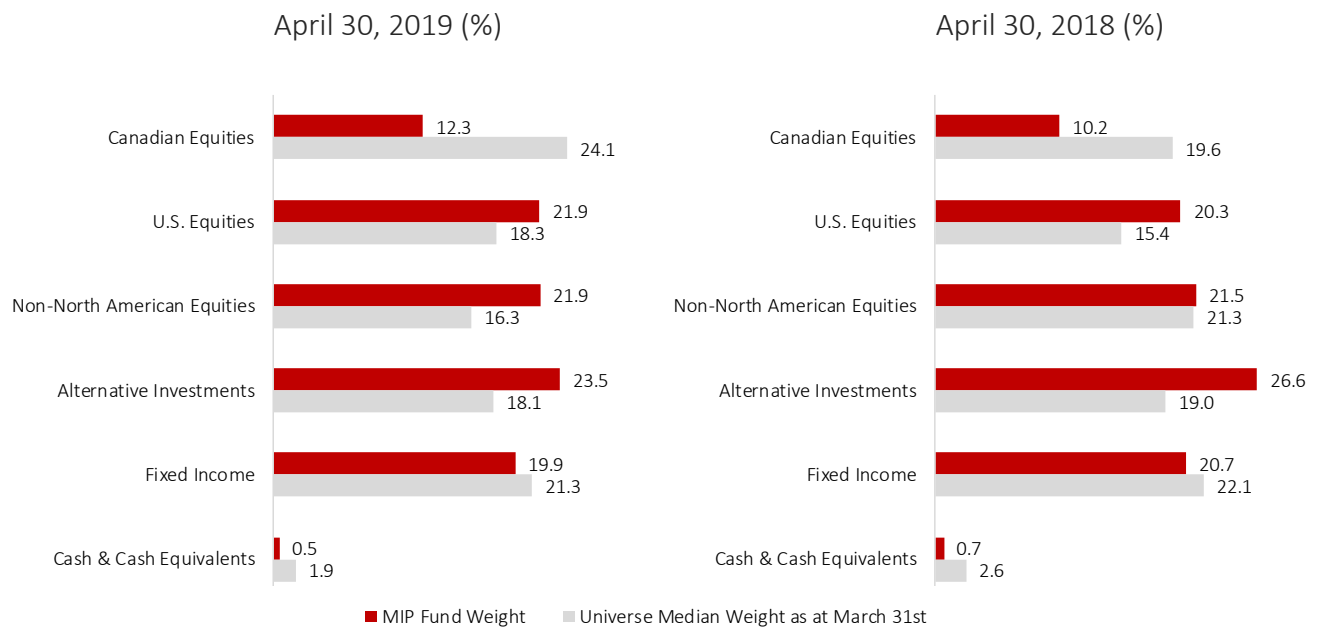
## MIP Asset Allocation – April 30, 2019 vs April 30, 2018

<u>Asset Class</u>	<u>Manager</u>	<u>April 30, 2019</u>		<u>April 30, 2018</u>	
		Market Value (\$M)	% of Total Fund	Market Value (\$M)	% of Total Fund
<b>Public Equities:</b>					
Canadian Equities	Fidelity	164.8	9.8%	122.5	7.5%
	Van Berkom	38.6	2.3%	41.4	2.5%
	iShares (XIU)	3.0	0.2%	2.8	0.2%
		206.4	12.3%	166.7	10.2%
U.S. Equities	Enhanced U.S. Equity Strategy	156.0	9.3%	143.8	8.8%
	SSGA	76.1	4.5%	46.5	2.9%
	LSV	74.7	4.4%	88.0	5.4%
	Van Berkom	60.5	3.6%	51.3	3.2%
		367.3	21.9%	329.6	20.3%
Non-North American Equities	Comgest	106.3	6.3%	106.0	6.5%
	William Blair	96.5	5.7%	112.6	6.9%
	Hexavest	83.5	5.0%	81.4	5.0%
	RBC GAM EM	74.1	4.4%	-	-
	Aberdeen Standard	-	-	44.3	2.7%
	Hexavest-FFF	5.5	0.3%	5.2	0.3%
	Desautels-FFF*	1.0	0.1%	-	-
	Desautels*	1.0	0.1%	0.4	0.0%
		367.9	21.9%	349.9	21.5%
	<b>Total Public Equities:</b>	<b>941.6</b>	<b>56.1%</b>	<b>846.2</b>	<b>52.0%</b>
<b>Alternative Investments:</b>					
Private Investments	Various Managers	138.1	8.2%	112.5	6.9%
Hedge Funds	Various Managers	115.7	6.9%	182.4	11.2%
Real Estate	Various Managers	76.3	4.5%	64.8	4.0%
Listed Real Assets	Brookfield	34.6	2.1%	30.5	1.9%
Commodities	Various Managers	30.7	1.8%	42.4	2.6%
Infrastructure	Macquarie	0.0	0.0%	-	-
	<b>Total Alternative Investments:</b>	<b>395.4</b>	<b>23.5%</b>	<b>432.6</b>	<b>26.6%</b>
<b>Fixed Income:</b>					
Bonds	RBC GAM	113.1	6.7%	108.0	6.6%
	Fiera	94.7	5.6%	89.7	5.5%
	Colchester	66.8	4.0%	76.1	4.7%
	Canso	52.3	3.1%	49.2	3.0%
	Neuberger Berman	6.2	0.4%	13.3	0.8%
	Desautels*	0.3	0.0%	0.3	0.0%
	<b>Total Fixed Income:</b>	<b>333.4</b>	<b>19.9%</b>	<b>336.6</b>	<b>20.7%</b>
<b>Total Cash &amp; Short-term:</b>		<b>8.7</b>	<b>0.5%</b>	<b>11.7</b>	<b>0.7%</b>
	<b>Total MIP:</b>	<b>1,679.1</b>	<b>100.0%</b>	<b>1,627.1</b>	<b>100.0%</b>

\* Managed by students in McGill's Desautels Faculty of Management

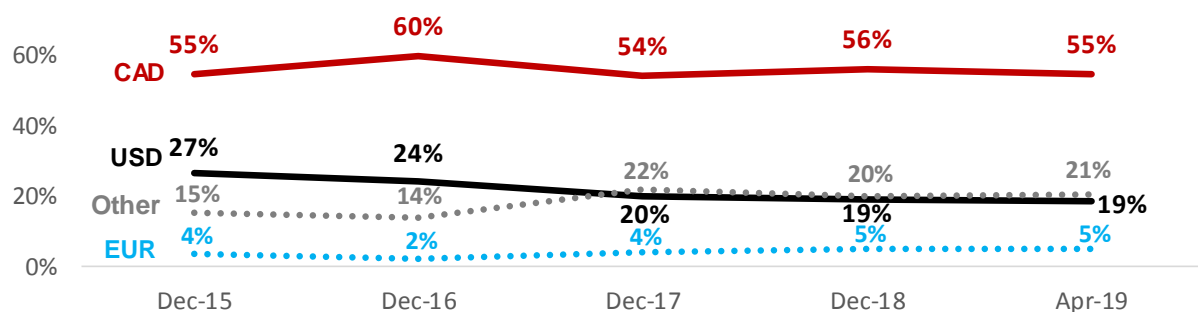
## MIP Asset Allocation vs BNY Mellon Universe

In addition to the previous tables, the total investment allocation of the MIP can be compared to the BNY Mellon Canadian Foundations & Endowments Universe (Universe Median Weight) which included 18 portfolios. The table below show these comparisons:



## Currency Exposure

The MIP currency exposure, after hedging, is shown below:



Note: Other represents several currencies. The two largest are JPY and GBP at ~ 2% each

The MIP's USD exposure is driven by its allocation to U.S. equities, U.S. private investments and USD-denominated hedge funds. To minimize the effect of such USD exposure, the MIP uses currency forward contracts and other appropriate instruments.

# Performance

## MIP Overall Performance

The table below shows the MIP and its asset class performances for periods ended April 30, 2019:

	Annualized Returns (%)			
	1 Year	3 Years	5 Years	10 Years
<b>MIP</b>	<b>5.6</b>	<b>8.1</b>	<b>7.4</b>	<b>9.8</b>
Absolute return objective <sup>1</sup> : 5.10% + CPI	7.2	7.3	7.0	7.1
Composite benchmark <sup>2</sup>	8.3	9.8	8.5	9.8
<b>Public Equities:</b>				
Canadian Equities	7.1	8.5	7.1	11.1
Benchmark: S&P/TSX Composite	9.6	9.1	5.6	9.1
U.S. Equities (Hedged)	10.9	14.6	13.1	15.3
Benchmark: S&P 500 (Hedged)	15.5	15.8	13.9	15.6
Non-North American Equities	0.5	10.2	7.7	9.4
Benchmark: 50% MSCI EAFE + 50% MSCI EM	1.1	12.4	8.2	9.0
<b>Alternative Investments<sup>3</sup>:</b>				
Benchmark <sup>4</sup>	4.5	4.7	5.5	6.4
	9.3	8.9	9.2	-
<b>Fixed Income:</b>				
Bonds	4.8	3.5	4.2	5.1
Benchmark: FTSE Universe Bond	6.1	2.7	3.7	4.4
<b>Cash &amp; Cash Equivalents:</b>				
	13.7 *	4.7	3.4	2.0
Benchmark: FTSE 91-Day T-Bill	1.5	1.0	0.9	0.8

Notes: Performance is gross of fees except for Alternative Investments which are net of fees

Different benchmark indices were used in the one, three, five and ten-year periods, where applicable

\*The return is impacted by currency appreciation/depreciation versus the Canadian Dollar

1) Effective May 2018

2) Effective Oct. 2018: S&P/TSX Comp (10%), S&P 500 (50% USD Hedged) (20%), MSCI EAFE (10%), MSCI EM (10%), 5.15% + CPI (15%), US T-Bills (50% USD Hedged) + 5% (5%), [(MSCI World + 2%)50% + (US T-Bills (50% USD Hedged) + 5%)50%] (10%), FTSE Universe Bond (18%), FTSE 91-Day T-Bills (2%)

3) Includes hedge funds, private investments, real estate, commodities, listed real assets and infrastructure

4) Respective benchmarks for hedge funds, private investments, real estate, commodities, listed real assets and infrastructure

## **Performance Measurement Services**

The provider of performance measurement services to the MIP is BNY Mellon Global Risk Solutions.

Investment rates of return are stated gross of fees (except for Alternative Investments which are net of fees), in CAD, on a total return basis which includes capital appreciation (both realized and unrealized) and income received and accrued.

Long-term performance of the MIP is evaluated by examining the inflation-adjusted absolute returns and the success of these returns in meeting the spending policy and capital preservation policy of the Endowment. Furthermore, an individual manager's performance is judged by assessing that manager's ability to meet a specified target return linked to a market index or composite of indices that is representative of the investment mandate assigned to the manager.

# Administration

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## Investment Committee

The Investment Committee (“Committee”), a committee of the Board of Governors (“Board”) mandated to oversee the University’s Endowment investments, consists of 10 members and at April 30, 2019 was comprised of:

- Joel Raby, Chair (Montreal)
- Sam Minzberg, Vice-Chair (Montreal)
- Ram Panda, Chair, Board of Governors, ex-officio (Montreal)
- Suzanne Fortier, Principal and Vice-Chancellor, ex-officio (Montreal)
- Sam Altman (Montreal)
- Stuart (Kip) Cobbett (Montreal) – succeeded by Warren Smith (Montreal) in July 2019
- Anik Lanthier (Montreal)
- Robert Rabinovitch (Montreal)
- Gerald Sheff (Toronto)
- Marc Trottier (Montreal)

Members are appointed on the basis of their expertise and interest in investment, business and economics. Marc Weinstein (Montreal), Vice-Principal (University Advancement) serves as Special Advisor and Yves Beauchamp, Vice-Principal (Administration and Finance) serves as Senior Steward.

Pursuant to its Terms of Reference and the Policy on the Approval of Contracts and Designation of Signing Authority, the Committee is responsible for overseeing the management of the University’s investments in accordance with the Statement of Investment Policy (“SIP”). Included in the Committee’s functions are:

- Providing advice to the Board in establishing policies related to investments and making recommendations thereon to the Board for approval
- Reviewing annually the SIP and making recommendations on proposed modifications to the Board
- Recommending to the Board policies on the annual distribution rate for the income from the Endowment
- Reviewing and approving the appointment and termination of investment managers and service providers, investment manager mandates and the performance of each fund manager
- Monitoring compliance with the SIP



In June 2014 a Subcommittee of the Investment Committee was created with the authority to act on investment matters which may arise between regularly scheduled meetings. The Subcommittee is composed of the Chair of the Investment Committee, a member of the Investment Committee, the Senior Steward and the Chief Investment Officer & Treasurer (resource person). For Fiscal 2019 there were no Subcommittee meetings called.

The Investment Committee met 4 times during the fiscal year ended April 30, 2019. Quorum was established for all meetings.

In September 2018, the Committee reviewed the SIP and recommended changes to the minimum, target and maximum allocation limits to the Alternative Investments Asset Class. Furthermore, the Committee recommended changes to benchmarks. The Committee's recommendations were approved by the Board of Governors.

The Committee was presented with a report on the status of MIP investment managers in relation to Environmental, Social and Governance (ESG) policies and whether they are signatories of the United Nations Principles for Responsible Investment (UNPRI). It was noted that as at December 31, 2018, the percentage of MIP assets managed by such managers was at 81%, meeting and surpassing the objective two years in advance.

Recommendations to maintain the income distribution rate at 4.00% for the 2019-20 fiscal year and that such rate be applied to the three-year rolling average market value determined by including the three fiscal years ending April 30, 2018, April 30, 2017 and April 30, 2016 were approved by the Board. Further to the above, the Committee approved management fees of 1.10% of the market value of the MIP at the beginning of the fiscal year, commencing fiscal 2017. The additional fees will fund an expansion of University Advancement's fundraising operations in the context of McGill's Bicentennial Campaign.

## **Investment Management Decisions**

During the year ended April 30, 2019, a number of investment decisions were approved by the Investment Committee including:

- Investment in a private fund that combines hedge fund secondaries & co-investments
- Investment in a closed-end fund of co-investments in private equity deals
- Investment in a value-add European real estate fund
- Termination and hiring of a new emerging markets equity manager
- Investment in a European infrastructure fund
- Investment in a mezzanine infrastructure private debt (focused in Europe and N.A.)

Prepared by: Office of Investments