



McGill



Report on Endowment Performance

2016-2017

McGill Investment Pool – April 30, 2017

The Endowment is 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
- Assets of entities affiliated to McGill which have been invested in the McGill Investment Pool (“MIP”) as an investment vehicle

Currently the third largest university endowment in Canada (*CAUBO* – Dec. 2016), the Endowment is managed through an investment pool (the MIP) by McGill’s Office of Investments under the direction of the Investment Committee.

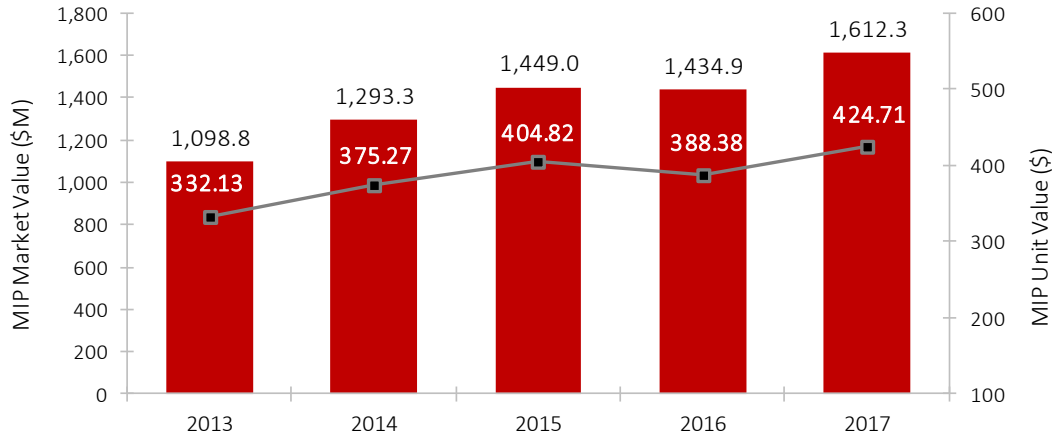
The overall objective of the MIP is to preserve (in real dollar terms) the capital of the MIP within the social and ethical norms of the University, to obtain a total return (yield plus capital appreciation) necessary to provide a dependable and optimal source of income for endowment beneficiaries and 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, 2017, the end of the University’s fiscal period, the MIP, with a market value of \$1,612.3M, consisted of investments for the McGill endowments and accounts managed on behalf of McGill units and affiliated entities.

MIP Market and Unit Values

The MIP market value and unit value changes over the fiscal periods ended April 30, 2013 to April 30, 2017 are presented in the following graph:



The unit value for the 12 months ended April 30, 2017 increased by 9.4%. This represents an increase of 7.8% after inflation.

Change in MIP Market Value

For the year ended April 30, 2017, the market value of the MIP has increased by \$177.4M as follows:

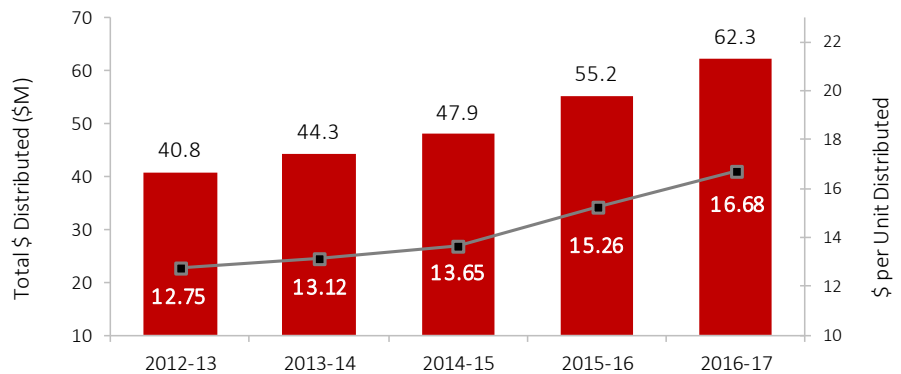


Income Distribution and Management Fees

The tables below indicates income distribution and management fee information:

	<u>May 1, 2016 to April 30, 2017</u>	<u>May 1, 2017 to April 30, 2018</u>
Income Distribution:	4.25% + 0.25% of the average market values* of each of the 3 years ended April 30, 2013, April 30, 2014 and April 30, 2015	4.25% + 0.25% of the average market values* of each of the 3 years ended April 30, 2014, April 30, 2015 and April 30, 2016

Historical Income Distributions



The amount distributed per unit to endowment beneficiaries for the year ended April 30, 2017 increased by 9.3% in nominal term. This represents an increase of 7.7% after inflation.

	<u>May 1, 2016 to April 30, 2017</u>	<u>May 1, 2017 to April 30, 2018</u>
Management Fees:	1.1% of the market value* as of April 30, 2016	1.1% of the market value* as of April 30, 2017

The management fees cover the Office of Investments' costs, external manager fees, service provider fees as well as contributions to University Indirect Cost and University Advancement.

*May be different than the MIP market value

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 June 30, 2017 was comprised of:

- Joel Raby, Chair (Montreal)
- Suzanne Fortier, Principal and Vice-Chancellor, ex-officio (Montreal)
- Robert Rabinovitch (Montreal)
- Sam Altman (Montreal)
- Kathy Fazel (Montreal)
- Anik Lanthier (Montreal)
- Gerald Sheff (Toronto)
- Danny Ritter (Montreal)
- Ram Panda, Chair, Board of Governors, ex-officio (Montreal)
- Marc Trottier (Montreal)

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

Pursuant to its Terms of Reference, 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 appropriateness of 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 issues which may arise between regular scheduled meetings. The Subcommittee is composed of:

- Chair of the Investment Committee
- a member of the Investment Committee
- Senior Steward
- Chief Investment Officer & Treasurer

The Investment Committee and Subcommittee met six times during the fiscal year ended April 30, 2017 either in person or by conference call. Overall attendance averaged 77%.

Modification to Investment Mandates

During the year ended April 30, 2017, a number of investment strategy additions/terminations were undertaken upon the direction of the Committee:

- Investment in an Enhanced U.S. Equity Strategy (combination of a S&P 500 derivative and 2 hedge fund market neutral strategies)
- Investment in an European real estate fund
- Investment in an infrastructure private debt fund
- Investment in a Canadian private debt fund. This is a private debt fund that specializes in unlevered, asset-backed lending to small size companies
- Investment in a private debt fund that specializes in lending to industrial and commercial real estate investors
- Termination of 2 hedge fund managers
- Investment in a corporate investment grade and high yield bond mandate

Important Notice:

Following its December 1, 2016 meeting, the Board of Governors requested that, following the recommendation of the Committee to Advise on Matters of Social Responsibility (CAMSR), a fossil fuel free (“FFF”) option to the donors of the Endowment be explored.

After due consideration, it was resolved to invest an initial \$5M in Hexavest’s ACWI Fossil Free Pooled Fund (“Hexavest-FFF”), for a Socially Responsible Investment FFF global equity mandate.

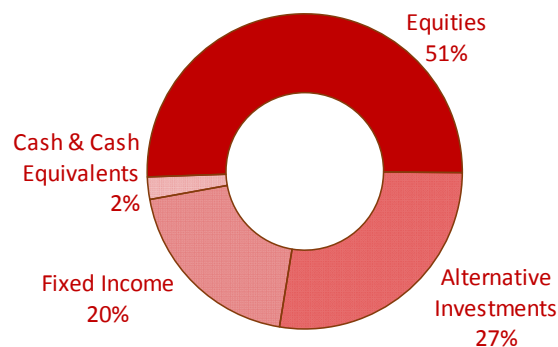
Starting in 2017-18, donors are offered the choice to select the FFF option for their future donations and the Hexavest-FFF mandate will be increased accordingly.

MIP Asset Allocation – June 30, 2017

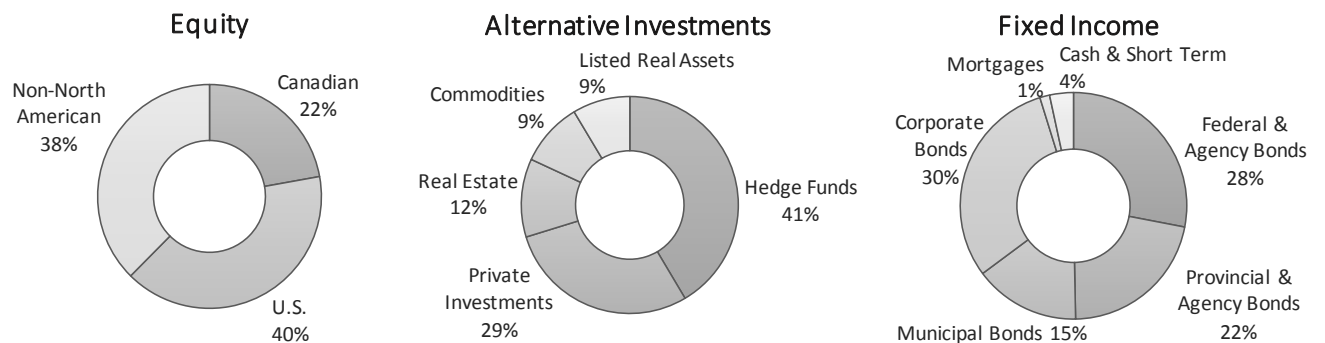
As of June 30, 2017, approximately 97% of the MIP was managed externally by investment managers. The internally managed assets consist of iShares (XIU), currency overlay and cash accounts.

The MIP market value at June 30, 2017 was \$1,596.9M 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 Strategies – June 30, 2017

1. Equity Strategies

	Weight in Sub-Asset Class	Mandate
Canadian Equity		
Fidelity	72.0%	Large Cap
Van Berkom	26.1%	Small Cap
iShares (XIU)	1.9%	Exchange Traded Fund (ETF) - Managed Internally
	100.0%	
U.S. Equity		
SSGA	53.9%	Passive Strategy - S&P 500
LSV	31.9%	Small & Mid Cap
Van Berkom	14.2%	Small Cap
	100.0%	
Non-North American Equity		
William Blair	33.5%	Growth Style (EAFE + Emerging Market)
Comgest	29.8%	Emerging Market
Hexavest	21.3%	Value Style in EAFE
Aberdeen	13.7%	Emerging Market
Hexavest-FFF	1.6%	Global Fossil Fuel Free
Desautels*	0.1%	EAFE
	100.0%	

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

2. Alternative Investments

Hedge Funds: Investment with 9 managers which cover the following hedge fund strategies: event-driven, credit, global macro, U.S. long/short, global/non-US long/short

Private Investments: Investments in 14 funds that cover distressed opportunities, fund of funds (global secondary, North-American & European buyouts), venture capital or early stage growth in technologies, Canadian private debt, U.S. real estate mezzanine debt and global infrastructure private debt.

Real Estate: Investments in 6 funds (4 Canadians, 1 U.S. and 1 European).

Listed Real Assets: A single fund investing in listed companies whose businesses are linked to real assets

Commodities: Investments in 2 North-American natural resources fund of funds and 3 Canadian oil and gas funds

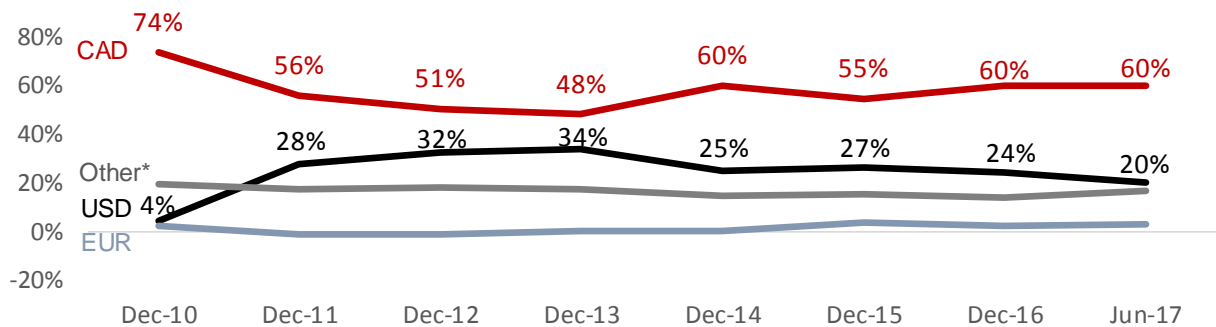
3. Fixed Income Strategies

	Weight in Sub-Asset Class	Mandate
Fixed income		
Optimum	25.6%	Municipal & Provincial Bonds
PH&N	25.3%	Canadian Universe Bonds
Colchester	23.0%	Global Government Bonds
Canso	15.6%	Corporate Bonds
Neuberger Berman	10.4%	U.S. High Yield Bonds
Desautels*	0.1%	Global Bonds
	<u>100.0%</u>	

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Currency Exposure – June 30, 2017

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



* Several currencies having non-material weights when taken individually

The MIP has an important exposure to the U.S. dollar (USD) driven by allocation to U.S. equities, U.S. private assets and USD-denominated hedge funds. To mitigate the risk associated with the USD fluctuation, the Committee has put in place a currency hedging program through the use of forward currency contracts to ensure that a portion of the MIP's USD currency exposure is hedged.

For the year ended June 30, 2017, the USD currency hedging program, which hedges approximately 50% of its exposure to USD, had virtually no impact on the value of the MIP. This can be explained by the fact that the June 30, 2016 exchange rate (CAD/USD) was similar to that of June 30, 2017.

Performance – June 30, 2017

The MIP's performance (stated in CAD) is measured against the following 4 benchmarks:

- Absolute return objective
 - Since May 2016: 5.35% + CPI
- Composite benchmark: Policy weights times related index returns
- Median of BNY Mellon Canadian Foundations & Endowments Universe
- Composite of the returns of 5 comparable Canadian university endowment funds

The following table indicates the performance of the MIP as well as the performances of the 4 benchmarks listed above over a range of time periods ended June 30, 2017:

	Annualized Returns (%)			
	1 Year	3 Years	5 Years	10 Years
MIP	11.4	8.1	11.5	6.3
Absolute return objective	6.4	6.4	6.6	7.0
Composite benchmark	11.5	8.5	10.8	6.1
Median of BNY Mellon Canadian Foundations & Endowments Universe	11.8	7.4	10.4	6.1
Composite of the returns of 5 comparable Canadian university endowment funds	11.5	8.3	11.3	5.3

The MIP significantly outperformed the absolute return objective for all periods except for the 10-year period and shows a long-term strong performance.

Performance Measurement Services

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

Investment rates of return are stated on a total return basis which includes capital appreciation (both realized and unrealized) and income received and accrued.

Prepared by: Office of Investments