



McGill



Report on Endowment Performance

2017-2018

McGill Investment Pool – April 30, 2018

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. 2017), the Endowment is managed through an investment pool (the MIP) by McGill’s Office of Investments under the direction of the Investment Committee.

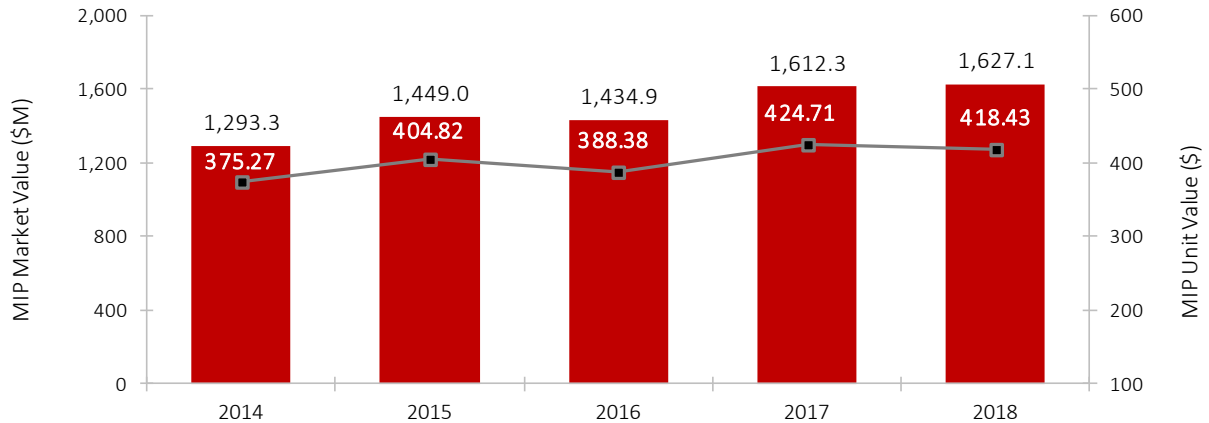
The overall objective of the MIP is to preserve (in real dollar terms) the capital of the MIP within the social and ethical norms of the University, to obtain a total return (yield plus capital appreciation) necessary to provide a dependable and optimal source of income for endowment beneficiaries and 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, 2018, the end of the University’s fiscal period, the MIP, with a market value of \$1,627.1M, consisted of investments for the McGill endowments and accounts managed on behalf of McGill units and affiliated entities.

MIP Market and Unit Values

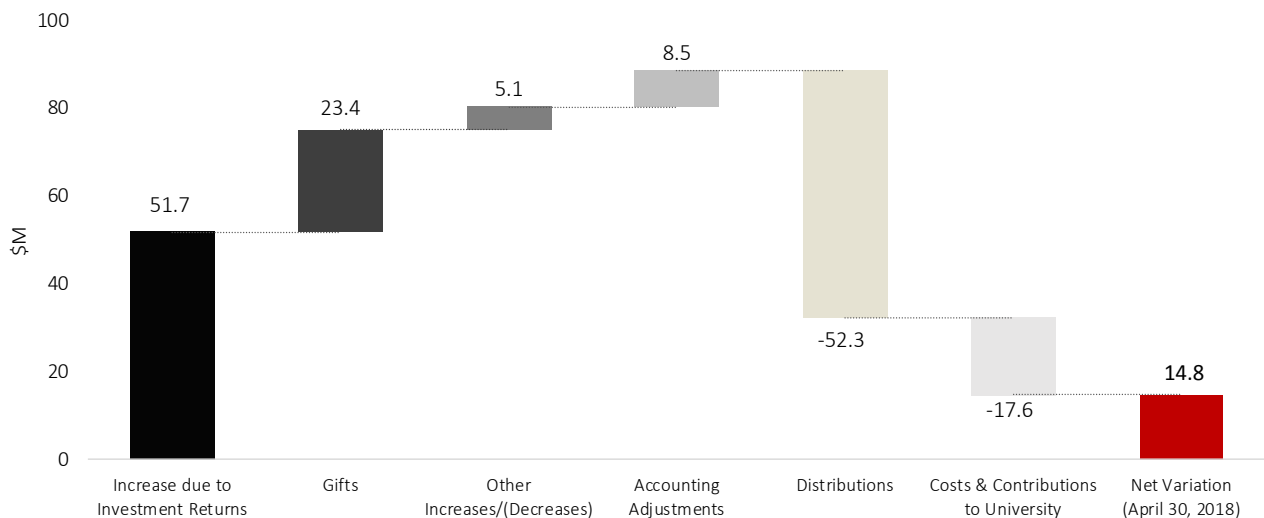
The MIP market value and unit value changes over the fiscal periods ended April 30, 2014 to April 30, 2018 are presented in the following graph:



The unit value for the 12 months ended April 30, 2018 decreased by 1.5% in nominal terms. This represents a decrease of 3.7% in real terms.

Change in MIP Market Value

For the year ended April 30, 2018, the market value of the MIP has increased by \$14.8M as follows:

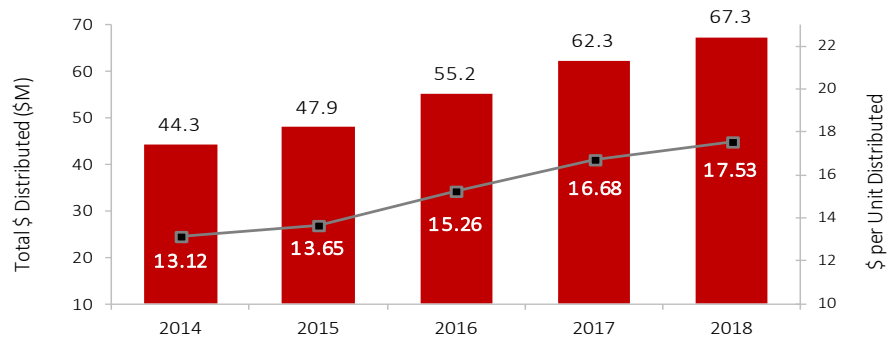


Income Distribution and Management Fees

The tables below indicate income distribution and management fee information:

	<u>May 1, 2017 to April 30, 2018</u>	<u>May 1, 2018 to April 30, 2019</u>
Income Distribution:	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	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

Historical Income Distributions



The amount distributed per unit to endowment beneficiaries for the year ended April 30, 2018 increased by 5.1% in nominal terms. This represents an increase of 2.9% in real terms.

	<u>May 1, 2017 to April 30, 2018</u>	<u>May 1, 2018 to April 30, 2019</u>
Management Fees:	1.1% of the market value as of April 30, 2017	1.1% of the market value as of April 30, 2018

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.

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, 2018 was comprised of:

- Joel Raby, Chair (Montreal)
- Ram Panda, Chair, Board of Governors, ex-officio (Montreal)
- Suzanne Fortier, Principal and Vice-Chancellor, ex-officio (Montreal)
- Sam Altman (Montreal)
- Stuart Cobbett (Montreal)
- Kathy Fazel (Montreal) - Term ended on June 30, 2018
- Anik Lanthier (Montreal)
- Robert Rabinovitch (Montreal)
- Gerald Sheff (Toronto)
- 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 5 times during the fiscal year ended April 30, 2018 either in person or by conference call. In addition the Committee also participated in a Retreat in May 2018. Overall attendance to the meetings averaged 88%.

Investment Management Decisions

During the year ended April 30, 2018, a number of investment decisions were undertaken upon the direction of the Investment Committee as follows:

- Investment in a private fund that specializes in lending to small-to-mid size North-American companies
- Investment in a U.S. opportunistic real estate fund
- Termination of 6 hedge fund managers
- Reallocation within the Fixed Income Portfolio in order to reduce the duration and increase the allocation to emerging markets government bonds

In addition to the above, the following investment decision were made commencing in FY 2019:

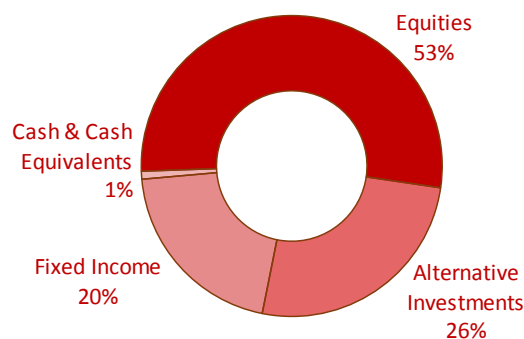
- Investment in a diversified and uncorrelated absolute return fund
- Investment in a fund of co-investments in private equity deals

MIP Asset Allocation – June 30, 2018

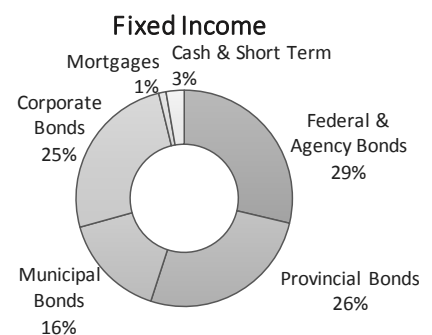
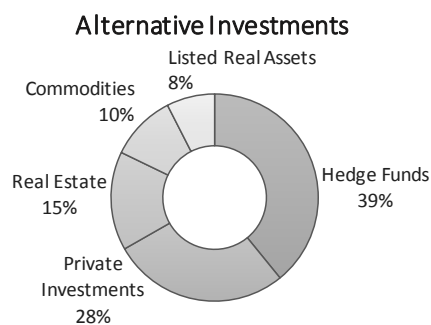
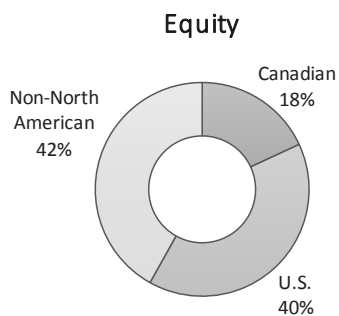
As of June 30, 2018, approximately 99% of the MIP was managed externally by investment managers. The internally managed assets consist of iShares (XIU), currency overlay and deposits.

The MIP market value at June 30, 2018 was \$1,654.4M 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, 2018

1. Equity

	Weight in Sub-Asset Class	Mandate
Canadian Equity		
Fidelity	71.5%	Large Cap
Van Berkom	26.6%	Small Cap
iShares (XIU)	1.9%	Exchange Traded Fund (ETF) - Managed Internally
	100.0%	
U.S. Equity		
Enhanced U.S. Equity Strategy	43.4%	Combination of a S&P 500 Derivative and 2 Hedge Fund Market Neutral Strategies
LSV	27.0%	Small & Mid Cap
Van Berkom	15.5%	Small Cap
SSGA	14.1%	Passive Strategy - S&P 500
	100.0%	
Non-North American Equity		
William Blair	34.1%	Growth Style (EAFE + Emerging Market)
Comgest	27.3%	Emerging Market
Hexavest	21.9%	Value Style in EAFE
Aberdeen Standard	15.2%	Emerging Market
Hexavest-FFF	1.4%	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: Investments with 6 managers which cover the following hedge fund strategies: event-driven, credit, global macro, U.S. long/short, global/non-US long/short. Four of these 6 managers are in the process of being terminated. In addition to the above, a commitment to invest in a diversified and uncorrelated absolute return strategy has been approved.

Private Investments: Investments in several funds that cover distressed opportunities, fund of funds (global secondary, North-American & European buyouts), venture capital or early stage growth in technologies, North American private debt, U.S. real estate mezzanine debt and global infrastructure private debt. In addition to the above, a commitment to invest in a closed-end fund of co-investments in private equity deals has been approved.

Real Estate: Investments in 7 funds (4 Canadians, 2 United States 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 company funds.

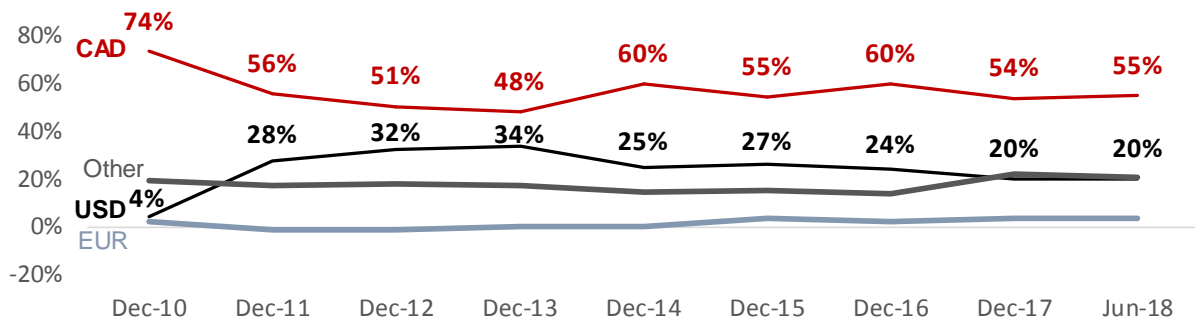
3. Fixed Income

	Weight in Sub-Asset Class	Mandate
Fixed income		
RBC GAM	32.3%	Canadian Universe Bonds
Fiera	26.8%	Municipal & Provincial Bonds
Colchester	22.0%	Global Government Bonds
Canso	14.7%	Corporate Bonds
Neuberger Berman	4.1%	U.S. High Yield Bonds
Desautels*	0.1%	Global Bonds
	<u>100.0%</u>	

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

Currency Exposure – June 30, 2018

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



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 impact of the USD fluctuation, the Investment 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 to the Canadian dollar (CAD).

For the year ended June 30, 2018, the USD currency hedging program, which hedges approximately 50% of the exposure to the USD, had a negative impact on the value of the MIP. However, having exposure to approximately 50% of the USD assets generated gains during the year with the USD appreciation.

Performance – June 30, 2018

The MIP's performance (stated in CAD) is measured against the following 2 benchmarks:

- Absolute return objective
 - Since May 2018: 5.10% + CPI
- Composite benchmark: Policy weights times related index returns

The following table indicates the performance of the MIP as well as the performance of the 2 benchmarks over a range of time periods ended June 30, 2018:

	Annualized Returns (%)			
	1 Year	3 Years	5 Years	10 Years
MIP	6.9	6.9	10.0	7.2
Absolute return objective	7.9	7.0	6.9	6.8
Composite benchmark	8.6	7.6	10.2	7.3

Over longer periods (5 and 10 years), the MIP's returns outperformed the absolute return objective of 6.9% and 6.8%, respectively.

- Preserving (in real dollar terms) the capital over long periods is the key objective in managing the MIP.

Performance Measurement Services

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

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

Prepared by: Office of Investments