



# McGill



## Report on Endowment Performance

2019-2020

# 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.*

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\*McGill Investment Pool

# Ambitious Action Plan for Portfolio's Carbon Footprint Reduction

On the recommendation of its Committee to Advise on Matters of Social Responsibility (CAMSR), stemming from the report adopted in December 2019, McGill's Board of Governors has approved, at its April 23, 2020 meeting, an ambitious action plan to significantly reduce the carbon footprint of its endowment investments. These actions and timelines are designed to accelerate the University's responsible decarbonization of the McGill Investment Pool (MIP), a collection of more than 60 investment mandates and fund investments.

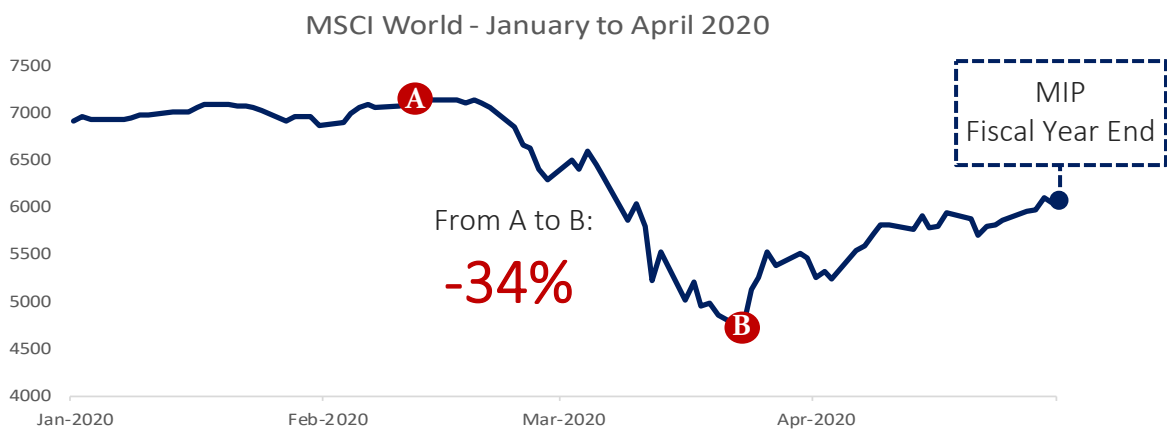
As a result, the University will remove investments from high carbon intensive companies, in particular those, in the fossil fuel industry, cement and steel producers, and coal and gas-fired power plants. This approach will translate in an equity portfolio that is **more than 33% less carbon intensive than the benchmark by 2025**.

Moreover, the University is committed to:

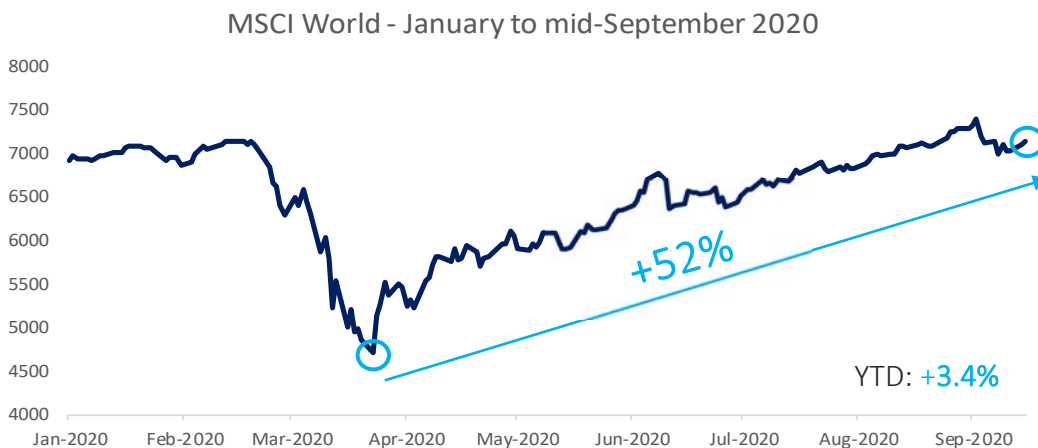
- Increase the **MIP's impact investing to 5% by 2025**
- Make modifications to incorporate Environmental, Social and Governance (ESG) considerations in the Statement of Investment Policy (SIP). These changes were made and approved in June 2020
- Exercise, to the extent possible, **active stewardship** through investor engagement opportunities
- Increase the number of MIP's fund managers to those who adhere to an ESG policy and/or are signatories of the United Nations' Principles for Responsible Investment (UNPRI)
- Report on its Socially Responsible Investment (SRI) activities. **Beginning in spring 2021, a new MIP SRI report will be produced annually**
- Furthering its leadership role in evaluating and promoting, in collaboration with its peer U15 universities, policies and best practices in the area of SRI

# Covid-19 Pandemic - Financial Market Impacts -

- During March and April 2020, the uncertainty of Covid-19 preoccupied capital markets which coincided with the MIP fiscal year end (April 30, 2020):



- In subsequent months, equity markets quickly rallied and, at one point, even surpassed pre-Covid levels as the delivery of substantial government support programs and the prospect of a vaccine improved market optimism:



# Fiscal Year 2020- Highlights

McGill Investment Pool (MIP)

## \$1.6B

of assets

(Almost doubled in size over the last 10 years)

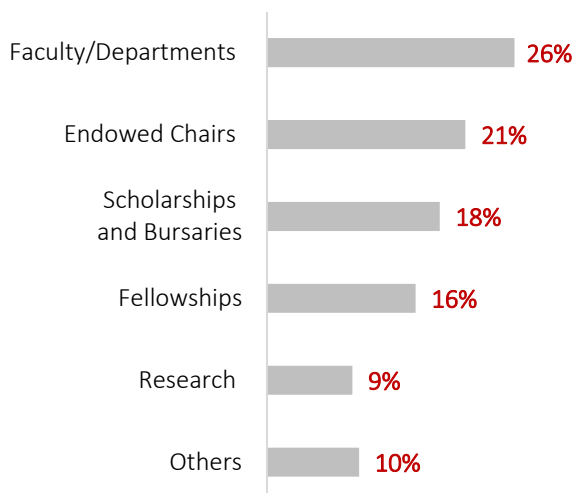
The MIP is currently the 4<sup>th</sup> largest university endowment in Canada

## \$33.3M

FY 2020 New Gifts

## 4.0%

Income Distribution Rate (FY20)



Economic Instability:

**Covid-19 Pandemic**

Impact felt on equity, corporate bonds and commodity markets

Percentage of the MIP that is either managed by managers that have adopted an ESG Policy or are signatories of the UNPRI

## 93%

Amount invested in Fossil Fuel Free Funds is \$7.4M

MIP's Listed Equity portfolio is less carbon intense than its benchmark by:

## 19.4%

## Capital Protection

MIP's 10-year Annualized Gross Performance as of April 30, 2020:

## 7.7%

Exceeding distributions + fees + inflation by 90bps

# Endowment Overview

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## Endowment Description

Currently the fourth largest university endowment in Canada (*CAUBO* – Dec. 2019), 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, including sustaining a low carbon emissions portfolio, 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.

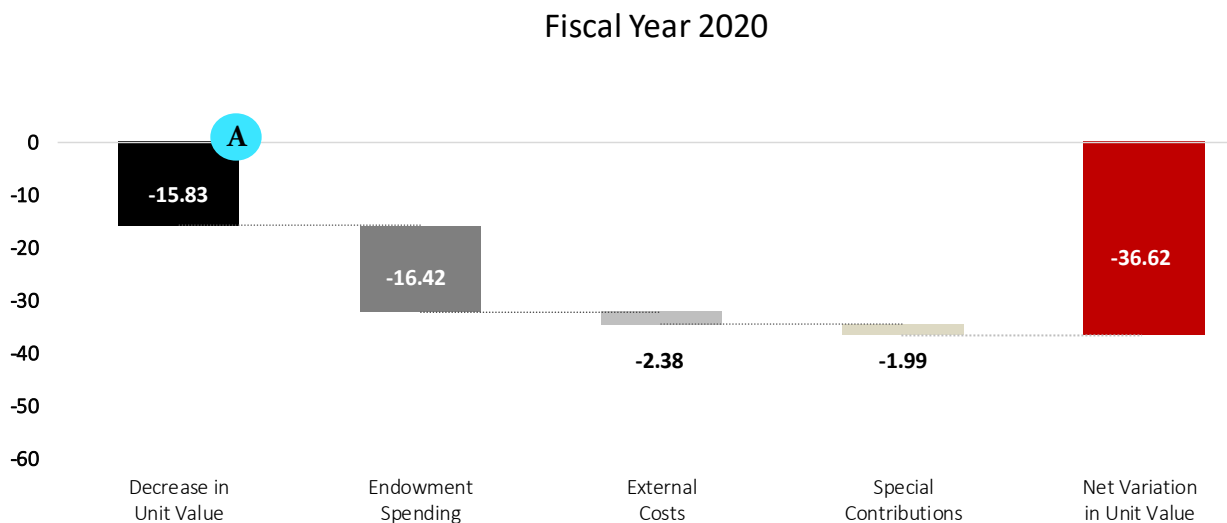
The use of the unitized pool formed in 1970 allows for the investment of a critical mass of assets thus providing for broad diversification and economies of scale that have over the years resulted in positive performance, reduced volatility and low investment management fees.

On April 30, 2020, the end of the University's fiscal period, the MIP, with a market value of \$1,576.2M, 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 of entities affiliated to the University and units of the University which have been invested in the MIP as an investment vehicle, and
- Other assets designated by the Board of Governors ("Board") to be endowed

## 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, 2020, the unit value of the MIP has decreased by \$36.62 (from \$418.58 to \$381.96) as follows:



- A** Decrease in unit value is mostly attributable to the combined effects of:
- A severe correction on the equity markets during Q1 2020 caused by Covid-19 pandemic
  - An additional Covid-19 provision and write-downs in the Alternative Assets portfolio

External Costs: 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

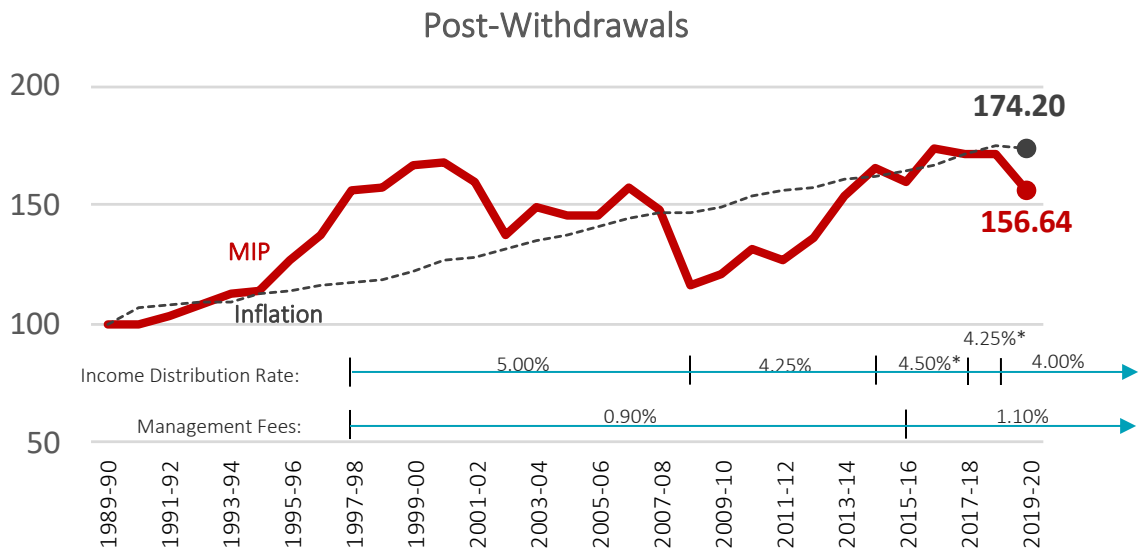
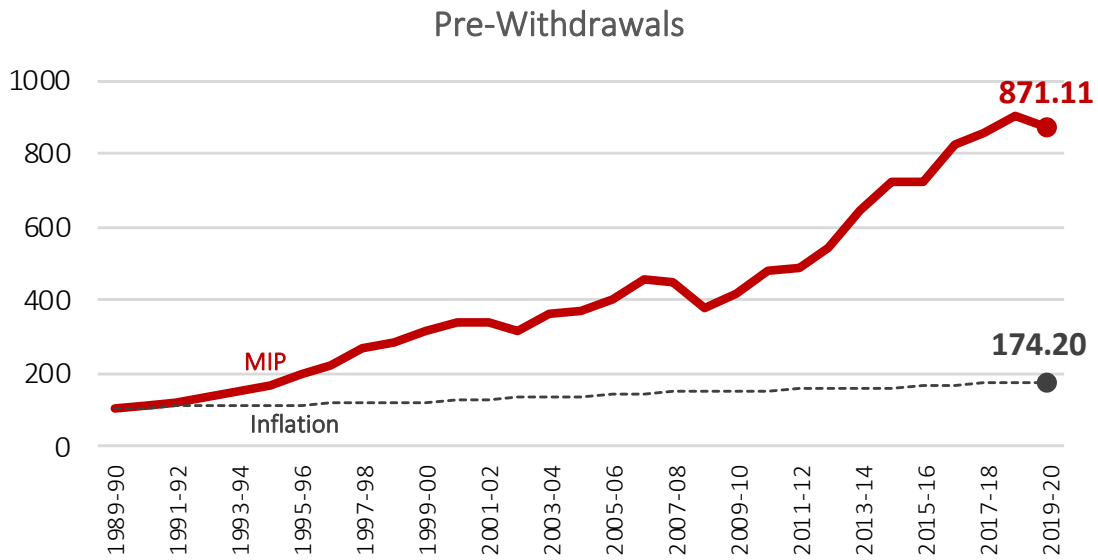
The table below indicates income distribution and management fee information:

	<u>May 1, 2019 to April 30, 2020</u>	<u>May 1, 2020 to April 30, 2021</u>
<b>Income Distribution:</b>	4.00% of the average market values of each of the 3 years ended April 30, 2016, April 30, 2017 and April 30, 2018	4.00% of the average market values of each of the 3 years ended April 30, 2017, April 30, 2018 and April 30, 2019
<b>Management Fees:</b>	1.1% of the market value as of April 30, 2019	1.1% of the market value as of April 30, 2020



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:

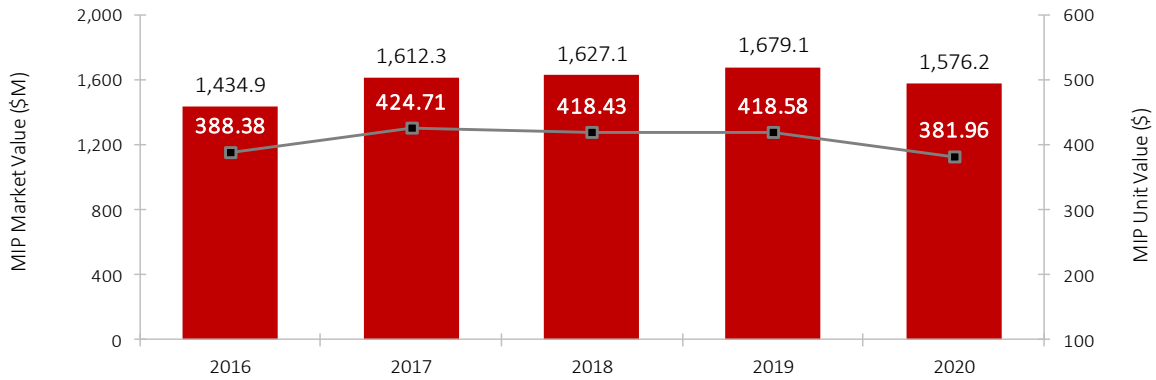


\*Includes a temporary additional distribution of 0.25%

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

## Evolution of MIP Market and Unit Values

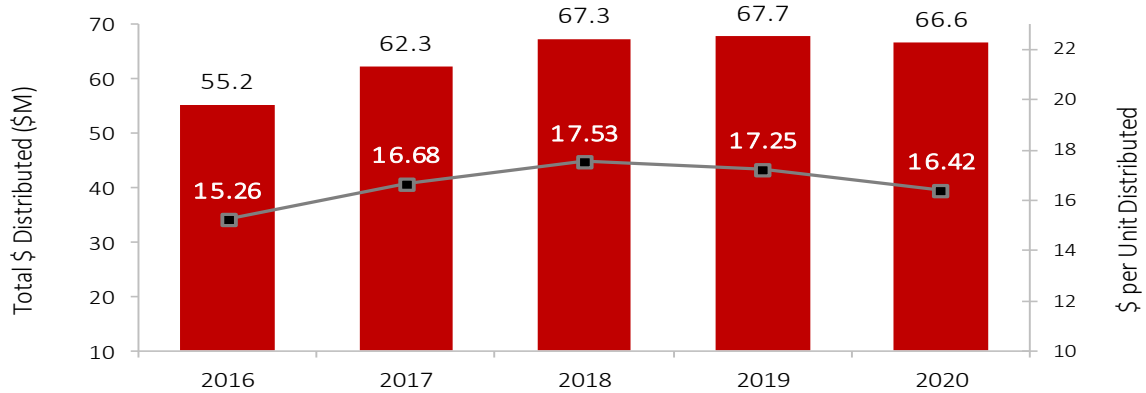
The MIP market value and unit value changes over the fiscal periods ended April 30, 2016 to April 30, 2020 are presented in the following graph:



Increase of 9.8% is observed in the market value from fiscal year 2016 to fiscal year 2020.

## Income Distributed

The income distribution for fiscal periods ended April 30, 2016 to April 30, 2020 is shown below:



The amount distributed per unit to endowment beneficiaries decreased from April 30, 2019 to April 30, 2020 by 4.8% in nominal terms. However, since 2016 the total amount distributed increased by 20.7%.

## Change in MIP Market Value

For the year ended April 30, 2020, the market value of the MIP, which has been impacted by the Covid-19 pandemic, has decreased by \$102.9M (from \$1,679.1M to \$1,576.2M) as follows:



## MIP 2019-20 Financial Results

Shown below are the comparative financial results for the year ended April 30, 2020:

	May 1, 2019 to April 30, 2020	May 1, 2018 to April 30, 2019
	<u>000's</u>	<u>000's</u>
<b>Increase/(Decrease) due to Investment Returns</b>		
Investment Income	40,480	43,917
Currency Hedge Gain/(Loss)	-14,456	-17,882
Realized Gain/(Loss)	29,971	74,140
Unrealized Gain/(Loss)	-112,343	-12,535
<b>Total</b>	<b>-56,348</b>	<b>87,640</b>
<b>Gifts</b>	<b>33,251</b>	<b>42,914</b>
<b>Other Increases/(Decreases)</b>	<b>-7,120</b>	<b>-3,238</b>
<b>Distributions</b>		
Endowed Spending	-66,585	-67,721
Re-capped Amount	11,881	10,025
<b>Total</b>	<b>-54,704</b>	<b>-57,696</b>
<b>Costs and Contributions to University</b>		
Office of Investments' Expenses	-997	-939
External Manager Fees	-3,664	-4,577
Service Provider Fees	-176	-165
Contribution to University Indirect Costs	-3,600	-3,600
Transfer to Internally Restricted Fund	-1,402	-870
Contribution to University Advancement	-8,221	-7,467
<b>Total</b>	<b>-18,060</b>	<b>-17,618</b>

The last quarter of FY20 was negatively impacted by Covid-19 pandemic and erased any investment gains that were generated during the first 9 months. Consequently, the MIP's investment returns totaled -\$56.3M for the year ended April 30, 2020.

Gifts totaled \$33.3M during the year even though donations dropped during the last quarter of FY20, while the MIP's endowed spending totaled \$66.6M.

The Office of Investments' expenses in 2019-20 remained constant at \$1.0M while the external investment managers and service provider fees were reduced by more than \$0.9M. A fixed annual amount of \$3.6M was withdrawn with respect to the contribution towards University indirect costs and \$1.4M was transferred to McGill's internally restricted funds.

In 2019-20, \$8.2M was allocated to the University Advancement's fundraising operations in the context of McGill's Bicentennial Campaign.

## MIP Estimated Withdrawals for Fiscal Year 2021

The 2020-21 estimates are set out below and assume an average of 4.2 million units (using a growth rate of 2%):

	May 1, 2020 to April 30, 2021	
	Estimate	
	Total (000's)	Per Unit \$
Distribution for Endowed Spending	70,100	16.82
Office of Investments' Expenses	1,100	0.26
Managers and Service Provider Fees	4,600	1.10
Contribution to University Indirect Costs	3,600	0.86
Contribution to University Advancement	7,800	1.87
<b>Total Withdrawal Amount</b>	<b>87,200</b>	<b>20.91</b>

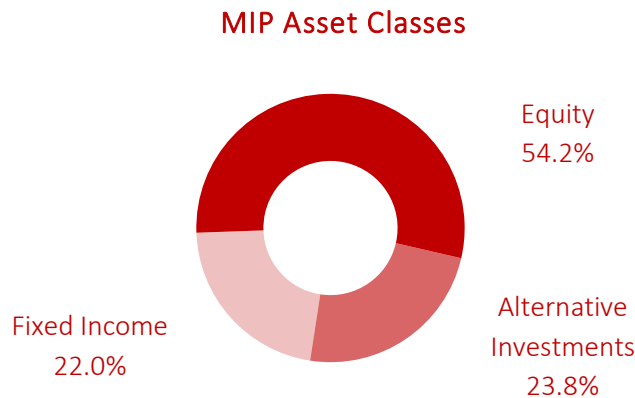
Income distribution in 2020-21 is based on a rate of 4.00%. Using the assumed 4.2M units, the withdrawal required for regular income distribution is estimated to be \$70.1M. Manager and service provider fees normally vary proportionally with the market value of the portfolio and the allocation of funds among managers who have varying fees. The total fees and contributions to McGill, excluding the endowed spending, are estimated to be \$17.1M.

# Asset Allocation

## MIP Asset Allocation – April 30, 2020

As of April 30, 2020, approximately 95% of the MIP was managed externally by investment managers. The internally managed assets consist mainly of Exchange Traded Funds (ETF), currency overlay and deposits.

The MIP market value at April 30, 2020 was \$1,576.2M and was invested in a wide variety of asset and sub-asset classes. The allocation is illustrated below:



## MIP Sub-asset Classes

Equity	Alternative Investments	Fixed Income
U.S. <span style="float: right;">42%</span>	Private Investments <span style="float: right;">43%</span>	Corporate Bonds <span style="float: right;">34%</span>
N.N.A. <span style="float: right;">39%</span>	Hedge Funds <span style="float: right;">25%</span>	Provincial Bonds <span style="float: right;">24%</span>
Canada <span style="float: right;">19%</span>	Real Estate <span style="float: right;">17%</span>	Municipal Bonds <span style="float: right;">15%</span>
	Commodities <span style="float: right;">7%</span>	Federal & Agency Bonds <span style="float: right;">11%</span>
	Listed Real Assets <span style="float: right;">6%</span>	EM Gov't Bonds <span style="float: right;">10%</span>
	Infrastructure <span style="float: right;">2%</span>	Cash & Short Term <span style="float: right;">4%</span>
		Mortgages <span style="float: right;">1%</span>

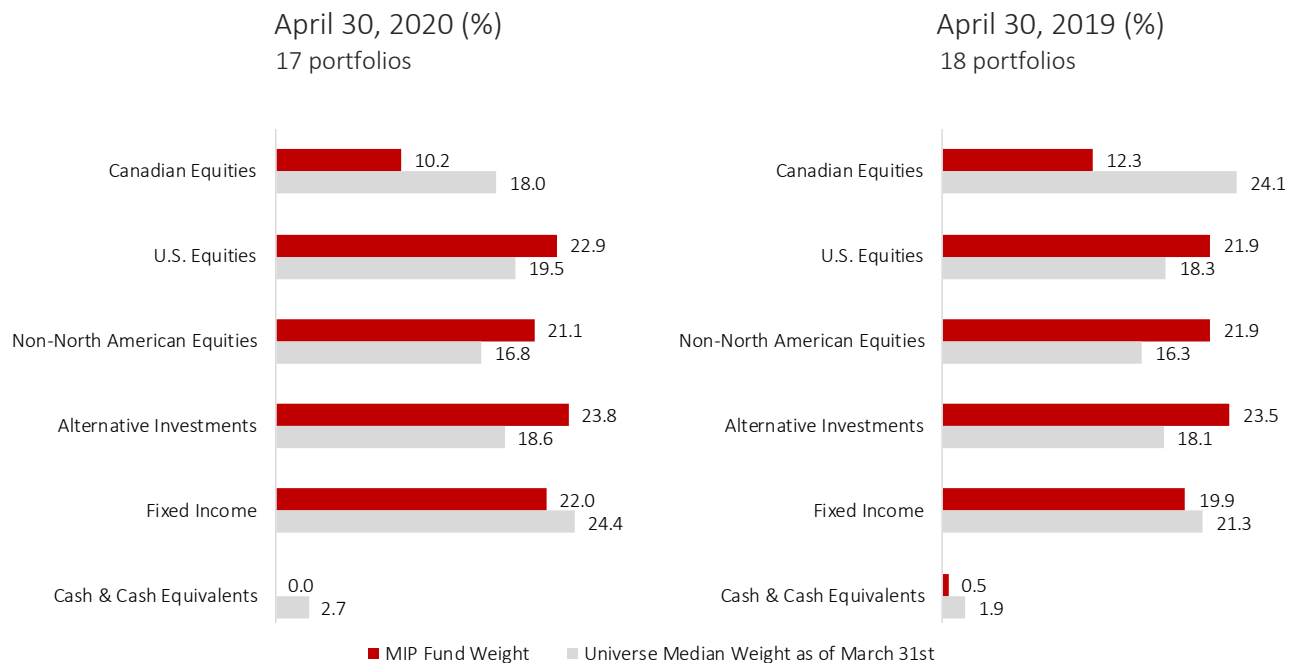
## MIP Asset Allocation – April 30, 2020 vs April 30, 2019

Asset Class	Manager	April 30, 2020		April 30, 2019	
		Market Value (\$M)	% of Total Fund	Market Value (\$M)	% of Total Fund
<b>Public Equities:</b>					
Canadian Equities	Fidelity	126.8	8.0%	164.8	9.8%
	Van Berkom	31.8	2.0%	38.6	2.3%
	iShares (XIU)	2.7	0.2%	3.0	0.2%
		<b>161.3</b>	<b>10.2%</b>	<b>206.4</b>	<b>12.3%</b>
U.S. Equities	Enhanced U.S. Equity Strategy	168.0	10.7%	156.0	9.3%
	SSGA	97.3	6.2%	76.1	4.5%
	LSV	50.6	3.2%	74.7	4.4%
	Van Berkom	45.6	2.9%	60.5	3.6%
	<b>361.5</b>	<b>22.9%</b>	<b>367.3</b>	<b>21.9%</b>	
Non-North American Equities	William Blair	97.0	6.2%	96.5	5.7%
	Comgest	95.2	6.0%	106.3	6.3%
	MSCI EAFE ETF (Transition)	74.1	4.7%	-	-
	RBC GAM	56.5	3.6%	74.1	4.4%
	Hexavest-FFF	5.3	0.3%	5.5	0.3%
	Desautels-FFF*	2.1	0.1%	1.0	0.1%
	Desautels*	1.9	0.1%	1.0	0.1%
	Hexavest	0.0	0.0%	83.5	5.0%
	<b>332.1</b>	<b>21.1%</b>	<b>367.9</b>	<b>21.9%</b>	
	<b>Total Public Equities:</b>	<b>854.9</b>	<b>54.2%</b>	<b>941.6</b>	<b>56.1%</b>
<b>Alternative Investments:</b>					
Private Investments	Various Funds	162.4	10.3%	138.1	8.2%
Hedge Funds	Various Funds	95.4	6.1%	115.7	6.9%
Real Estate	Various Funds	63.7	4.0%	76.3	4.5%
Commodities	Various Funds	25.9	1.6%	30.7	1.8%
Listed Real Assets	Brookfield	21.3	1.4%	34.6	2.1%
Infrastructure	Various Funds	7.1	0.4%	0.0	0.0%
	<b>Total Alternative Investments:</b>	<b>375.8</b>	<b>23.8%</b>	<b>395.4</b>	<b>23.5%</b>
<b>Fixed Income:</b>					
Bonds	RBC GAM	118.1	7.5%	113.1	6.7%
	Fiera	104.2	6.6%	94.7	5.6%
	Colchester	61.8	3.9%	66.8	4.0%
	Canso	55.9	3.5%	52.3	3.1%
	Neuberger Berman	6.1	0.4%	6.2	0.4%
	Desautels*	1.4	0.1%	0.3	0.0%
	<b>Total Fixed Income:</b>	<b>347.5</b>	<b>22.0%</b>	<b>333.4</b>	<b>19.9%</b>
<b>Total Cash &amp; Short-term:</b>		<b>-2.0</b>	<b>0.0%</b>	<b>8.7</b>	<b>0.5%</b>
<b>Total MIP:</b>		<b>1,576.2</b>	<b>100.0%</b>	<b>1,679.1</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). The table below show these comparisons:



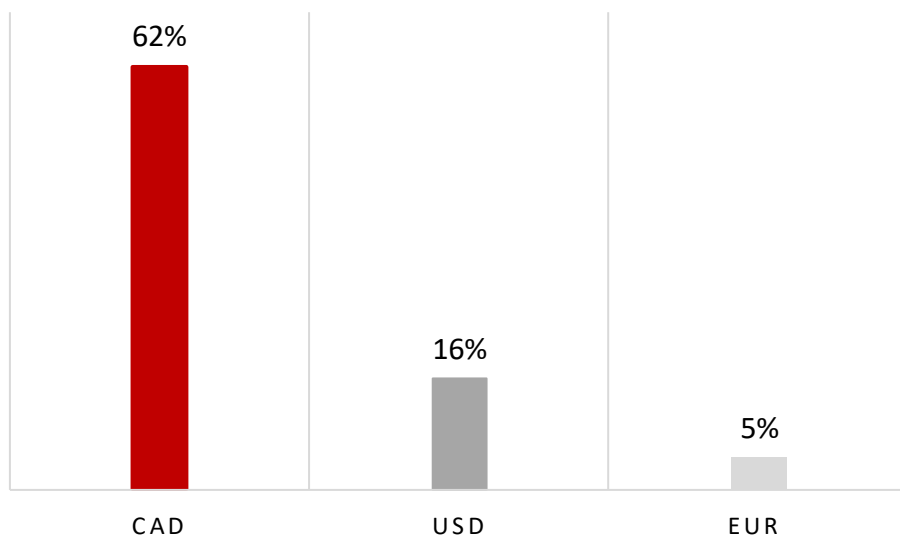
## Currency Exposure

Given that the MIP's liabilities are in Canadian dollars and the significant exposure of the portfolio to the U.S. dollar (driven by its allocation to U.S. equities, U.S. private investments and USD-denominated hedge funds), it is appropriate to minimize the impact of the U.S. dollar volatility on the value of the MIP.

This USD variability (vs CAD) is partially mitigated, through the use of currency derivatives, by adopting trading bands where the hedge ratio increases with the USD appreciation.

This was particularly useful when the foreign exchange markets experienced significant volatility during the quick and short-lived USD appreciation driven by the Covid-19 pandemic.

As of April 30, 2020, the MIP's top three currency exposure after hedging, were as follows:





# Performance

## MIP Overall Performance

The 1-year performance of the MIP was negatively impacted by its equity and alternative assets portfolios. The table below shows the MIP and its asset class performances as of April 30, 2020.

	Annualized Returns (%)			
	1 Year	3 Years	5 Years	10 Years
<b>MIP</b>	<b>-2.9</b>	<b>2.0</b>	<b>4.4</b>	<b>7.7</b>
Absolute return objective: 5.10% + CPI	4.9	6.6	6.7	6.8
Composite benchmark <sup>1</sup>	0.6	5.0	6.0	8.2
<b>Public Equities:</b>				
Canadian Equities	-6.2	1.5	3.4	7.2
Benchmark: S&P/TSX Composite	-7.9	1.3	2.5	5.0
U.S. Equities (Hedged)	-6.1	4.3	7.7	12.2
Benchmark (Hedged) <sup>2</sup>	-2.5	7.2	9.3	13.3
Non-North American Equities	-8.1	-0.1	2.8	6.5
Benchmark: 50% MSCI EAFE + 50% MSCI EM	-8.3	1.0	3.2	6.3
<b>Alternative Investments<sup>3</sup>:</b>	<b>-3.5</b>	<b>-0.6</b>	<b>3.0</b>	6.6
Benchmark <sup>4</sup>	5.7	7.0	7.8	-
<b>Fixed Income:</b>				
Bonds	7.0	3.7	4.1	5.1
Benchmark: FTSE Universe Bond	8.5	4.5	3.7	4.7
<b>Cash &amp; Cash Equivalents*:</b>				
Benchmark: FTSE 91-Day T-Bill	1.8	1.4	1.0	1.0

→ 1, 3 and 5-year performances have been severely impacted by 2 private fund investments made more than ten years ago

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) 10% S&P/TSX Composite Index + 14% S&P 500 (50% USD Hedged) Index + 6% Russell 2000 (50% USD Hedged) Index + 10% 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% + CPI (All Items)] + 18% FTSE Universe Bond Index + 2% FTSE 91-Day T-bills Index

2) 70% S&P 500 (50% USD Hedged) Index + 30% Russell 2000 (50% USD Hedged) Index

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, 2020 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)
- Warren Smith (Montreal)
- Anik Lanthier (Montreal)
- Robert Rabinovitch (Montreal) succeeded by Lester Fernandes (July 1, 2020)
- Gerald Sheff (Toronto)
- Marc Trottier (Montreal)

Members are appointed based on 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. Sophie Leblanc, Chief Investment Officer and Treasurer, serves as resource person.

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, two members of the Investment Committee, and is supported by the Senior Steward and the Chief Investment Officer & Treasurer (resource person). For Fiscal 2020 there were two Subcommittee meetings called.

The Investment Committee held four regular scheduled meetings, one special meeting on the reduction of the Endowment's carbon emissions, and one Joint CAMSR and Investment Committee meeting during the fiscal year ended April 30, 2020. Quorum was established for all meetings.

In September 2019, the Committee reviewed the SIP and recommended changes to the minimum, target and maximum allocation limits to the Equity Asset Class and changes to benchmarks. The Committee's recommendations were approved by the Board of Governors. Furthermore, in June 2020 the SIP was amended to include recommendations made by CAMSR and previously approved by the Board in April 2020. The Committee will work toward reducing the Endowments carbon emissions and increasing its assets in Impact Investments as part of its Socially Responsible Investing activities.

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, 2019, the percentage of MIP assets managed by such managers was at 93%.

Recommendations to maintain the income distribution rate at 4.00% for the 2020-21 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, 2019, April 30, 2018 and April 30, 2017 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.

Fiscal year 2020 will be marked as the beginning of McGill's great initiative in the reduction of the Endowment Portfolio's carbon emissions.

## **Investment Management Decisions**

During the year ended April 30, 2020, several investment decisions were approved by the Investment Committee including investment in a:

- Private equity fund focusing on buying companies within the real assets' ecosystem
- Value-add real estate fund focusing on multifamily residential properties in Canada
- Real estate fund focusing on multifamily residential, senior housing and student housing property development in Canada
- Private debt fund that specialized in unleveraged, asset-backed lending to small sized companies
- North American value-add infrastructure fund
- Canadian real estate development fund

Prepared by: Office of Investments