



# York University Endowment Fund

## **Annual Investment Report**

For Year Ended December 31, 2020

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The Endowment Fund (the Fund) is a pool of commingled assets held for the endowments in long-term investments. The endowments are permanent gifts and bequests to York University from donors, enhanced where eligible with matching capital provided by University and government programs. Annual distributions are generated by the Fund investments for support of scholarships and academic chairs.

The Fund is governed by objectives and constraints as documented in the Statement of Investment Policies and Procedures (SIP&P). The Board annually approves the SIP&P and any changes to the investment strategy or asset mix as proposed by the Investment Committee. The Investment Committee oversees the investments, portfolio managers, and implementation of investment strategy.

The Fund assets are allocated for investment to thirteen portfolio managers, each assigned with distinct mandates. All mandates are actively managed.

#### **The Fund in Review - 2020**

The market value of the Fund as at December 31, 2020 was \$594.3M, an increase of \$81.4M relative to the December 31, 2019 valuation of \$512.9M. The increase in 2020 was the net effect from combined inflows, outflows and depreciation. The fund increased by \$5.7M in contributed capital plus income of \$86M on invested assets, and decreased by \$2.9M in investment expenses and \$7.4M in fund distributions.

Distributions to support endowment beneficiaries form the greatest part of withdrawals. Over the past six years, \$95.1M has been directed specifically to the purposes established by the University's donors.

The Fund one-year rate of return as of December 31, 2020 was 16.9%, compared to the returns of 16.2% and -1.3% for the one-year periods ending December 31, 2019 and 2018 respectively. The Fund performance for 2020 outpaced the benchmark one-year rate of return of 11.5% by 5.4%.

The Fund four-year rate of return of 9.4% (as of December 31, 2020) beat the annualized benchmark performance of 8.8% by 124 basis points (bp), for the same period.

Markets were particularly volatile in 2020. The year will be remembered for the COVID-19 global pandemic which succeeded in ending a 131-month long equity bull market in its tracks. Furthermore, the global lockdowns caused a global recession that caused central banks to cut their reference rates in order to provide liquidity to the financial system. The global equity benchmark, the Morgan Stanley Capital International All Country World Index (MSCI ACWI), gained 14.2% in Canadian dollar terms in 2020, but this was after it lost 13.7% in Q1 2020.

Fixed income markets were not spared from the market volatility in February and March 2020, as the Bank of Canada's key benchmark overnight target rate fell from 1.75% at the beginning of the year, to 0.25% by March 27, 2020. Similarly, in the United States, the Federal Open Market Committee (FOMC) cut the federal funds target rate, which had stood at 1.75%, by 50 bp on March 3, 2020, and again by 100 bp on March 15, 2020 so that the rate ended the year at 0.25%.

In 2020, the US dollar (USD) index futures fell 6.4% year over year. The negative sentiment towards USD peaked in late March, after which global equity markets showed signs of recovery after a frantic sell-off in February and early March.

Despite the challenging market environment, the Fund outperformed the benchmark by 5.4% in 2020 after returning 16.9%, versus the benchmark return of 11.5%. The Fund was 1<sup>st</sup> quartile in its peer group with returns in the 1<sup>st</sup> percentile. The equity component of the Fund underwent significant changes in Q2 of 2019, whereby the geographically oriented equity managers were replaced with global equity managers in a core-satellite structure where the core funds were comprised of two low volatility managers, and the satellite funds were comprised of five managers with varying investment approaches. Having a global roster of equity fund managers was a positive for the Fund. The returns were superior to the old structure and collectively outperformed the MSCI ACWI benchmark by 9.7% in 2020. In addition, the Canadian fixed income managers in the Fund were replaced by global unconstrained fixed income (UFI) managers in Q1 2020. The aggregate benefit of transitioning to the UFI funds in place of the Canadian fixed income funds in 2020 resulted in 3.7% superior returns over the legacy structure for the fixed income assets under management.<sup>1</sup>

The currency hedging strategy had a marginally positive impact and increased the value of total fund by 0.1% in 2020. During 2020, the Canadian dollar (CAD) appreciated by 1.97% versus the USD year over year, going from 1.2988 to 1.2732 CAD/USD from 2019 to 2020.<sup>2</sup>

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<sup>1</sup> Internal calculations presented to Investment Committee on March 23, 2021.

<sup>2</sup> On December 31, 2019 1 USD bought 1.2988 CAD, on December 31, 2020 1 USD bought 1.2732 CAD.

Direct expenses charged to the Fund for investment management, custody, performance measurement and investment consulting services during calendar 2020 were \$2.9 million for a total expense ratio of 0.57%. The 2020 expenses and expense ratio were higher than during the prior year, which were \$2 million and 0.43% respectively. The expense ratio for 2020 was in line with the ratios for 2018 (0.59%) and 2017 (0.61%).

The balance of this Report reviews the investments, asset mix and manager allocations. Performance of the Fund to December 31, 2020 is reviewed in absolute, relative and comparative terms. The Investment Committee’s activities conducted during calendar 2020 are summarized in the final section.

## Asset Mix

The Policy asset mix (Figure 1) summarizes the asset class weights that the Fund was managed to, throughout 2020.

**Figure 1**

<b>Policy Asset Mix</b>		
<u>Asset Class</u>	<u>Target Weight</u>	
<b>Equities</b>		
Global	<u>60%</u>	<b>60%</b>
<b>Fixed Income</b>		
Global Fixed Income	20%	
Global High Yield Bonds	<u>10%</u>	<b>30%</b>
<b>Real Assets</b>		
Real Estate	<u>10%</u>	<b>10%</b>

The Policy asset mix, determined through a periodic process involving an asset-liability study that incorporates projections for capital markets returns over a ten-year horizon, is selected for its expected ability to meet the Fund’s investment objective of funding endowment commitments each year, into perpetuity. The asset mix is geared to provide income to the University for the annual payouts to support endowed spending and to preserve the value of endowed capital.

The Fund’s SIP&P lists the strategic target mix as equities at 50%, and real assets at 20%. Since there is a phase-in period for the real assets asset class, the benchmark weight will be held at 10% until the exposure has been fully developed to at or near 20%, at which time the 20% benchmark weight shall apply. This

approach is consistent with clause 6.6 of the SIP&P which states “During the phase-in period for the Real Assets asset class, the current Benchmark weight will be held at 10% until the exposure has been fully developed to at or near 20%, at which time the 20% Benchmark weight shall apply. The offset weight during the phase-in period will be applied to equity classes.”

The Fund’s actual asset mix compared to the Policy target weights effective throughout 2020, including currency overlay, as of December 31, 2020, is shown below in Figure 2.

**Figure 2**

**Actual Versus Target Asset Class Weights - December 31, 2020**

<b>Asset Class</b>	<b>Market Value (\$Mil)</b>		<b>Actual Weight</b>		<b>Target Weight</b>		<b>Over/Under</b>	
<b>Equities</b>								
Global	368.2	<b>\$ 368.2</b>	62.0%	<b>62.0%</b>	60.0%	<b>60.0%</b>	2.0%	<b>2.0%</b>
<b>Real Assets</b>								
Real Estate	40.9	<b>40.9</b>	6.9%	<b>6.9%</b>	10.0%	<b>10.0%</b>	-3.1%	<b>-3.1%</b>
<b>Fixed Income</b>								
Global Fixed Income	90.3		15.2%		20.0%		-4.8%	
Global High Yield Bonds	53.2		9.0%		10.0%		-1.0%	
Short-Term Investments	40.5	<b>184.0</b>	6.8%	<b>31.0%</b>	0.0%	<b>30.0%</b>	6.8%	<b>1.0%</b>
<b>Currency Hedge</b>	1.2	<b>1.2</b>	0.2%	<b>0.2%</b>	0.0%	<b>0.0%</b>	0.2%	<b>0.2%</b>
		<b>\$ 594.3</b>		<b>100.0%</b>		<b>100.0%</b>		

Asset class weights are permitted to vary within a range of +/- 5% of the target weights and are rebalanced periodically back to the target when necessary. The 2% overweight to global equity at the end of 2020 was the result of a strong recovery in equity markets in Q2-Q4 2020. The overweight to short-term investments was for the purpose of liquidity management in anticipation of future distributions.

The managers, their mandates, market values and fund weights are shown in Figure 3. The equity component of the Fund now has a core-satellite structure. The core funds are low volatility mandates managed by TDAM Low Vol and Unigestion. The satellite funds are managed by C- Worldwide, Baillie Gifford, Morgan Stanley, Lazard, and Fiera (Harris Oakmark). The currency hedge applies to 50% of the USD exposure contained in high yield bonds and global real estate. The passive overlay is composed of liquid three-month foreign exchange forward contracts and reported on a marked-to-market basis.

Figure 3

### Specialty Mandates and Asset Allocations - December 31, 2020

<u>Investment Manager</u>	<u>Mandate</u>	<u>Market Value (\$ Mil)</u>	<u>Weight</u>
<b>Equities</b>			
C Worldwide	Global Equity	55.1	9.3%
TDAM Low Vol	Global Equity	42.1	7.1%
Baillie Gifford	Global Equity	65.8	11.1%
Morgan Stanley	Global Equity	60.1	10.1%
Lazard	Global Equity	47.6	8.0%
Fiera (Harris Oakmark)	Global Equity	51.2	8.6%
Unigestion	Global Equity	46.3	7.8%
<b>Real Assets</b>			
Bentall Green Oak	Canadian Real Estate	30.1	5.1%
Landmark VIII	Global Real Estate	10.8	1.8%
<b>Fixed Income</b>			
Manulife	Global Fixed Income	43.1	7.3%
PH&N	Global Fixed Income	47.2	7.9%
Stone Harbor	Global High Yield Bonds	53.2	9.0%
TD Asset Management	Short-Term Investments	40.5	6.8%
TD Asset Management	<b>Currency Hedge</b>	1.2	0.2%
		<u>\$ 594.3</u>	<u>100.0%</u>

## Performance Objectives

The Fund's return objective is quantified in the form of a performance benchmark, which is a weighted composite of specified capital markets indices. Each asset class is assigned a specific index or index-relative target for performance measurement and evaluation. For real assets, the target benchmarks are the Canadian Real Estate benchmark for Bentall Green Oak, and Canadian CPI + 4% for Landmark VIII. For the global UFI mandates, there are two benchmarks: (i) Bloomberg Barclays Global Aggregate Corporate (CAD hedged) for Manulife's strategic fixed income strategy; (ii) 75% Bloomberg Barclays Global Aggregate Corporate (CAD hedged) + 25% FTSE Canada Short Term Overall Bond Index for PH&N's bespoke fixed income strategy.

The performance benchmark in effect throughout 2020, follows in Figure 4.

Figure 4

### Performance Benchmark 2020

<u>Asset Class</u>	<u>Weight</u>	<u>Index</u>
Global Equities	60%	MSCI ACWI
Real Assets	10%	Canadian Real Estate Benchmark Canadian CPI + 4%
Global Fixed Income	20%	Bloomberg Barclays Multiverse PH&N Benchmark
Global High Yield Bonds	10%	Citigroup High Yield Market Capped

The Fund’s return objective is to meet or exceed the four-year annualized benchmark return on a rolling basis.

Fund performance is expressed as a total rate of return, gross of fees, in Canadian dollars. Fund rates of return are calculated by an independent performance measurement provider, CIBC Mellon.

## Evaluating Absolute Performance

Performance evaluation is conducted on a monthly basis. The total fund rate of return is compared to the return of the composite benchmark and reported for intervals spanning one month to ten years. A formal performance evaluation is conducted semi-annually, for review by the Investment Committee, that focuses on one-year and four-year returns against benchmarks and longer term against policy objectives of exceeding spending targets. The results of individual portfolios and managers are reviewed, incorporating comparisons to performance statistics for portfolio risk and return and to the objectives and targets specified in each of the manager mandates.

Figure 5, below, presents the Fund’s performance record for 2020, and successive annualized periods out to eleven years (2010-2020), providing a snapshot of the longer-term success of the investment program.

**Figure 5**

**Endowment Fund Long-Term Performance**

Annualized Returns for Periods Ended December 31, 2020

	<u>1 Yr</u>	<u>2 Yrs</u>	<u>3 Yrs</u>	<u>4 Yrs</u>	<u>5 Yrs</u>	<u>6 Yrs</u>	<u>7 Yrs</u>	<u>8 Yrs</u>	<u>9 Yrs</u>	<u>10 Yrs</u>
<b>Fund</b>	16.9%	16.5%	10.3%	9.8%	9.4%	8.7%	8.8%	9.8%	10.1%	9.2%
<b>Benchmark</b>	11.5%	13.9%	8.6%	8.6%	8.8%	8.5%	8.8%	9.9%	10.1%	8.9%
	5.4%	2.7%	1.7%	1.2%	0.7%	0.2%	0.0%	-0.1%	0.1%	0.3%

In absolute terms, on a ten-year annualized basis, the 9.2% performance of the Fund has covered the sum of the approximated real spending target of 4%, expenses of 0.5%, and inflation of 2%.

The Endowment Fund’s investment program is fluid and developed in response to shifts in the investment environment, changes in the cash flows and evolving risks affecting various components of the Fund. The Investment Committee has concentrated on revisiting the target asset mix that aligns with the investment objectives of preserving capital through a range of capital market outcomes and providing annual distributions for inflation-adjusted spending.

## Measuring Relative Performance

Figure 6, below, shows annual one-year returns for eleven years, 2010 to 2020, and the four-year annualized return to December 31, 2020 relative to the Policy benchmark approved by the Board, that prevailed for each of those past years. Currency strategy was introduced as an integral element of investment strategy in 2010.

Figure 6

Endowment Performance - Annual Returns												
	One-Year Returns as at December 31										Annualized	
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	Four Years 2017-20
<b>Fund</b>	16.9%	16.2%	-1.3%	8.6%	7.7%	5.0%	9.7%	17.3%	12.5%	0.8%	12.8%	<b>9.8%</b>
<b>Benchmark</b>	11.5%	16.3%	-1.3%	8.7%	9.4%	7.1%	10.6%	18.1%	11.4%	-1.5%	12.9%	<b>8.6%</b>
	5.4%	-0.1%	0.0%	-0.1%	-1.6%	-2.1%	-0.9%	-0.8%	1.1%	2.3%	-0.1%	<b>1.2%</b>

The one-year total rate of return as of December 31, 2020 for the Fund and its benchmark were respectively 16.9% and 11.5%.<sup>3</sup> Excluding the impact of currency hedging, they were 16.9% and 11.5%.<sup>4</sup> The global high yield bonds portfolio and the global real estate portfolio are hedged 50% of their USD exposure. During this year the hedge was accretive by 0.1%.

In 2020, the Fund comfortably beat its benchmark by 540 bp. Value-added was derived from growth-oriented managers, Baillie Gifford, Morgan Stanley, and C World, which beat the MSCI ACWI benchmark by 85.2%, 41.8%, and 10.1% respectively.

Over four years to December 31, 2020, the annualized return for the Fund was 9.8% beating the Policy benchmark four-year annualized return of 8.6% by 124bp.

Capital markets returns for the indexes composing the performance benchmark for the past four calendar years and annualized for the four-year period are shown in Figure 7.

<sup>3</sup> More precisely, 16.8857% for the hedged return, and 11.4896% for the hedged benchmark

<sup>4</sup> More precisely, 16.8846% for the unhedged return, and 11.5073% for the unhedged benchmark

**Figure 7**

<b>Index Returns (CAD)</b>					
	<u>Annual Returns</u>				<b>Annualized</b>
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<b><u>Four Years</u></b>
					<b><u>2017-20</u></b>
<b>Equity Indices</b>					
MSCI ACWI (All Countries)	14.2%	20.2%	-1.3%	15.8%	<b>11.9%</b>
<b>Fixed Income Indices</b>					
Bloomberg Barclays Multiverse CAD Hd					<b>N/A</b>
PH&N Benchmark					<b>N/A</b>
FTSE High Yield Markets Capped	3.7%	8.3%	6.6%	-0.1%	<b>4.6%</b>
<b>Real Estate Indices</b>					
Canadian Real Estate Benchmark	10.7%	8.9%	3.4%	4.5%	<b>6.8%</b>

## Review of Comparative Performance

Aon provides data for comparison in the form of a sample of Balanced Funds. Comparative performance results for one-year and multi-year periods ended December 31, 2020, are presented in Figure 8, below.

The Balanced Funds group is provided for comparison as constituents are most likely to have common asset mix characteristics with the Endowment Fund. Differences in investment strategy arise from constituent funds' unique purpose, investment objectives and philosophy, size and program resources. These lead to variation in investment holdings and divergences in returns among members constituting the peer group members. In terms of magnitude of divergence from the median, asset mix typically has the highest impact, followed by active management, and currency strategy.

**Figure 8**

<b>Balanced Funds - Comparative Analysis as of December 31, 2020</b>								
	<u>Annual Returns (%)</u>				<u>Annualized Returns (%)</u>			
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2 Yrs</u>	<u>3 Yrs</u>	<u>4 Yrs</u>	<u>10 Yrs</u>
<b>Percentile Rank</b>								
5th (highest)	14.2	17.8	0.2	11.7	15.2	9.4	9.7	8.9
25th	10.8	16.4	-1.4	10.5	14.0	8.2	8.3	8.3
50th (median)	9.2	15.0	-2.4	8.8	12.0	6.9	7.4	8.0
75th	8.1	13.5	-3.8	7.3	11.0	6.0	6.6	7.2
95th (lowest)	5.0	10.3	-5.2	5.1	8.0	4.5	5.3	6.0
<b>Comparative</b>								
York University	16.9	16.2	-1.3	8.6	16.5	10.3	9.8	9.2
Quartile Rank	Q1	Q2	Q1	Q3	Q1	Q1	Q1	Q1

The statistics presented above in Figure 8, exclude outlier returns that fall outside the range between 5th and 95th percentiles.

The Fund’s one-year rate of return of 16.9%, ranked in the 1<sup>st</sup> percentile (first quartile) in 2020, up from the Fund’s second quartile ranking in 2019 and also improving upon the Fund’s third quartile ranking in 2017. The two, three, four, and ten-year results had first quartile standing.

The Fund’s bias remains toward equities, and the strategy was reviewed in 2018 with an eye to achieving similar returns at a lower level of risk going forward. The current strategic target asset mix targets a 50% weighting in global equities and 20% weighting in real assets. While this came into effect in 2019, the implementation will take time due to the nature of allocating capital to real assets.

### Endowments Growth

Over the seven years since 2013, the market value to book value (MV-BV) ratio has risen from 1.56 to 2.09. Endowment Fund capital (book value) has expanded by \$24.3M due to net contributions, while market value has grown by \$189.0M, through a combination of contributed capital, investment income, and capital appreciation. The market value accounts for (i.e., is net of) distributions for endowed spending and investment expenses.

**Figure 9**

**Pooled Endowments - Growth (\$ Millions)**

	<u>Market Value</u>	<u>Book Value*</u>	<u>MV-BV Ratio</u>
December 31, 2020	594.3	284.8	2.09
December 31, 2019	512.9	280.3	1.83
December 31, 2018	464.2	276.6	1.68
December 31, 2017	476.7	271.4	1.76
December 31, 2016	438.8	269.2	1.63
December 31, 2015	410.7	253.2	1.62
December 31, 2014	434.1	264.9	1.64
December 31, 2013	405.3	260.5	1.56

\* Donations and Matching Funds

Endowment Fund book value constitutes the historical value of capital received from donors, plus the historical value of capital matches from government and University matching programs. The endowment accounting, and record keeping for book value and market value of individual endowments, is performed by CIBC Mellon and BNY Mellon. on a unitized market valuation system basis. The unitization of the Endowment Fund was approved on April 11, 2014, and introduced on May 1, 2014.

The change in the market value of the Fund during calendar 2020, shown in Figure

10, illustrates the effects of cashflows and earnings during the year.

**Figure 10**

**Change in Total Fund Market Value (\$ Millions)**

Market Value, December 31, 2019		\$512.9
<b>Contributions:</b>		
Donations	5.7	
Reinvested Distributions		
<b>Withdrawals:</b>		
Regular Distributions	(6.3)	
Special Distributions	(1.1)	
Fund Expenses	(2.9)	
<b>Earnings:</b>		
Investment Income and Market Appreciation	<u>86.0</u>	
Net Change		<u>81.4</u>
Market Value, December 31, 2020		<u>\$ 594.3</u>

During the last six calendar years, \$95.1 million has been distributed from the Fund to endowment account beneficiaries. The conversion to the unitized market value system for accounts and the smoothed banded inflation methodology for calculating annual distribution has increased the amounts of the annual distribution as seen in Figure 11, from 2015-16 and on. The amount in 2015-16 was larger due to exceptional distribution of \$3.5 million. The new spending model has resulted in a greater share of Fund earnings being made available for key spending toward beneficiary purposes, mainly the support of student scholarships and bursaries, and Academic Chairs.

**Figure 11**

**Distributions to  
Endowment Beneficiaries**

	Annual Distributions \$ Million
<b>2020-21</b>	16.1
<b>2019-20</b>	16.6
<b>2018-19</b>	16.1
<b>2017-18</b>	14.9
<b>2016-17</b>	13.9
<b>2015-16</b>	17.4
Cumulative	<u>\$ 95.1</u>

To track the market value, unit holdings, and historical values of each individual endowment, the University uses the services of an external provider of specialized

endowment fund accounting (BNY Mellon). At the end of 2019 there were 2,188 individual endowed accounts under management.

## **Oversight**

The Investment Committee conducts activities in accordance with its terms of reference and the Board-approved SIP&P. The Committee's responsibilities are principally fund governance and investment strategy. Activities include regular monitoring of assets and performance, oversight and selection of portfolio managers, development of investment strategy and asset mix, review of fund expenses, and quarterly reporting to the Board. The Committee undertakes further initiatives as deemed timely, and in the best interests of the Endowment Fund and its beneficiaries.

## **Investment Committee Activity – 2020**

During 2020, activities undertaken by the Investment Committee and Administration included:

- The approval to transition the fixed income component of the Fund from having a weighting in Canadian fixed income to becoming a global unconstrained fixed income portfolio was done in November 2019 with changes to the SIP&P that were approved by the Board in December 2019. In Q1 2020, UFI managers Manulife and PH&N were onboarded as new managers in late January and late March, respectively.
- Approval of second Sustainable Investing Report, covering the ESG integration practices of the Fund's equity and fixed income managers, was published in Q1 2020.
- All the investment managers continued to provide compliance reports confirming that their investments were following their mandates and the SIP&P.
- Continued allocation to real estate asset class toward a target weight of 10% and planning for allocating the remaining 10% to other real assets such as infrastructure.
- RFP conducted for investment consultants who would perform investment manager search functions for the Fund.
  - After a competitive bidding process managed by the University's Procurement Services, mandates were awarded to Willis Towers Watson, and Proteus.
- Adoption of a 2020-21 payout rate of \$4.23 per unit for purpose of monthly accrual of distribution during 2019-20. The payout rate is set by the Investment Committee in advance for accrual in the leading fiscal period and the distribution occurs early in the following fiscal period. Payout rates by

year have increased since 2014 as indicated in the table below.

<b>Fiscal Year End</b>	<b>Unit Vaue (FYE)</b>	<b>Accrual Distribution Rate</b>	<b>Yield</b>
April 30, 2014	\$100.0000	\$3.90/unit	3.90%
April 30, 2015	\$106.8879	\$3.96/unit	3.70%
April 30, 2016	\$98.2817	\$3.96/unit	4.03%
April 30, 2017	\$111.6046	\$4.02/unit	3.60%
April 30, 2018	\$109.6943	\$4.08/unit	3.72%
April 30, 2019	\$115.4543	\$4.17/unit	3.61%
April 30, 2020	\$113.4797	\$4.23/unit	3.73%