

**2022 ANNUAL REPORT FOR THE**

**UNIVERSITY OF REGINA**

**TRUST AND ENDOWMENT FUND**

University  
of Regina



## **The University of Regina Trust & Endowment Fund – Overview**

The University of Regina Trust & Endowment Fund (TEF) consists of 415 nonexpendable endowed trust accounts and 165 expendable non-endowed trust accounts. Each individual account was created for a specific purpose such as a scholarship and has terms of reference which govern the use of the funds. In addition, the University has institutional policies which govern the administration of the TEF with which each individual trust account must comply. As at December 31, 2022, the fair market value of the TEF was \$128.4 million (2021 - \$138.3 million). \$126.4 million of the TEF was managed by contracted professional investment managers and \$2.0 million was allocated to the UR Investing program in the Faculty of Business Administration.

Oversight of the TEF is provided by the Trust & Endowment Committee (TEC), which is a five person subcommittee reporting to the University of Regina Board of Governors. TEC members are employees and persons appointed by the Board of Governors. The TEC operates in accordance with terms of reference approved by the Board. The TEC makes operational decisions regarding the TEF and makes recommendations to the Board for approval on significant matters, in accordance with the terms of reference.

The TEC works closely with investment consultants, Aon, to monitor and manage the TEF. Annually, the Statement of Investment Policies and Goals is updated by the TEC with the advice of Aon. The TEF portfolio consists of diversified investment accounts investing in domestic and international equities, fixed income and real estate. The goal of the annual update of investment asset mix is to obtain the required rate of return for the TEF within an acceptable level of investment risk. The primary long-term objective of the TEF is to generate a minimum annualized rate of return after inflation of 4% which is the rate necessary to support an annual expenditure of 4% of the endowed trust accounts in perpetuity. This objective enables endowed scholarship funds to pay out annual scholarships of 4% of the fund balance forever while maintaining the purchasing power of both the annual scholarship and the remaining trust fund balance.

Later in this report, investment returns are compared to “benchmark returns.” Those benchmark returns are established in relation to specific investment asset classes and economic circumstances to assess investment performance, but the underlying primary

objective remains to generate a real rate of return of 4% per year. As at December 31, 2022, the TEF exceeded this primary objective over the ten year investment period, however failed to exceed over the four year period.

Almost all TEF funds are invested as a pool of funds through several investment managers. The majority of the investment managers employed are also employed by the University of Regina Pension Master Trust Fund. By employing the same investment managers for the TEF and the University's two defined benefit pension plans, each can be managed as separate funds, yet combined for investment manager fee calculations. This enables economies of scale to be reached which results in lower investment manager fees for both the TEF and the pension funds.

The one exception to all TEF funds being invested as a pool is in relation to the UR Investing program. Specific trust funds have designated that part of its assets be invested by UR Investing, with the resulting investment gains or losses being attributed directly back to those specific trust funds. UR Investing assets and investment returns are not comingled with the other TEF assets. As at December 31, 2022, \$2.0 million of the TEF assets were managed by UR Investing.

UR Investing is a program within the University of Regina Faculty of Business Administration. It is a structured program for degree credit which enables University students to learn about investments using real money and investing in real stock market investments through an external stockbroker. The program is an example of the programs used to achieve the University's strategic goal of providing students with experiential learning environments.

The remainder of this report has been written by investment consultants, Aon. The report analyzes in detail the performance of the investment portfolio held by the TEF. The purpose of this analysis is to provide past, present and future benefactors to the University of Regina with information regarding the sound investment management practices employed by the University of Regina to ensure that the maximum benefit is derived from their gifts to the University.

## **Review of 2022 Investment Performance**

### **The Markets**

Market turbulence was a strong consistent during the economic landscape in 2022. Geopolitical conflict and 40-year high inflation creating rising interest rates heightened recessionary risks for many economies as financial conditions became increasingly constrained. This turbulence created a significant repricing in fixed income and public equity markets with most markets down greater than 10% for the year. Real estate valuations also cooled in the latter half of 2022.

### **Equities**

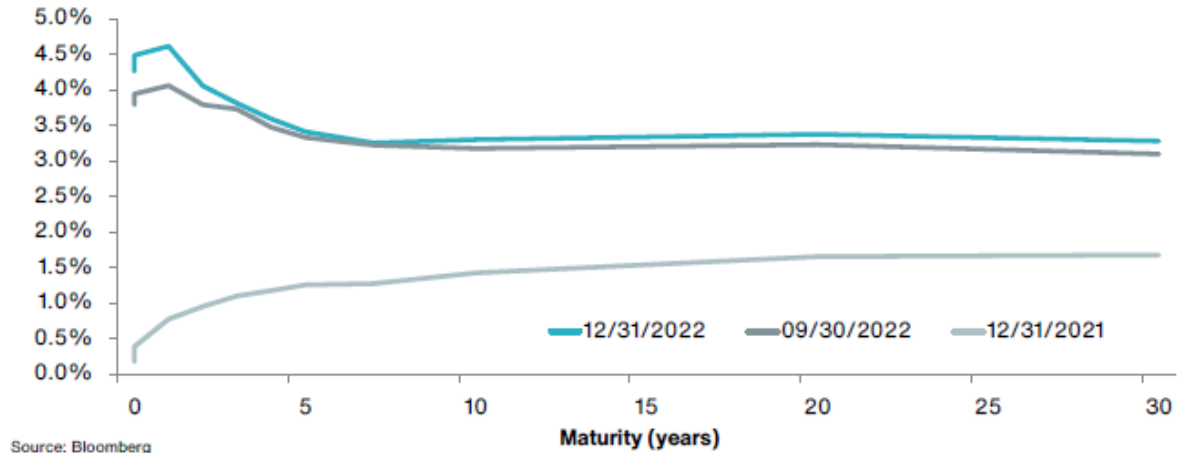
Global equities generated negative returns over the last twelve months. Equities suffered a sharp sell-off at the beginning of 2022 as geopolitical risk took centre stage with Russia invading Ukraine. Inflation fears were unsettled throughout 2022, leading to significant interest rate increases across the globe.

US equities were the worst performer over the year, falling 19.5% in local currency terms. Equities sold off sharply in 2022 as elevated inflation and higher interest rate forecasts weighed on the region, leading to the underperformance of sectors such as Information Technology and Consumer Discretionary. In the fourth quarter, easing inflation and investor optimism over the Fed applying the brakes on interest rate hikes helped the market, although volatility remained elevated.

### **Fixed Income**

2022 has been a poor year for bonds, which is unsurprising given the large move in policy interest rates. The substantial move up in yields last year is attributable to the magnitude of rate increases being far bigger than expected at the start of the year so lifting yields and expected interest rates far higher all along the yield curve (see Canadian Federal Yield Curve Chart below). With sensitivity to rising yields greater for longer-termed bonds than shorter-termed bonds, long-term bond returns declined the most, exemplified by Government of Canada bonds, where short-term federal bonds declined 3.9% in the year, while long-term federal bonds declined by 24.0%. Overall, the FTSE Canada Universe Bond Index returned -11.3% in 2022.

### CANADIAN FEDERAL YIELD CURVE



### Canadian Real Estate

The Canadian commercial real estate market posted 2.3% return (MSCI/REAL PAC Annual Property Index) in 2022. With the MSCI/REALpac Canada Quarterly Property Fund Index returning a much stronger 9.1% return in the year. However, aggressive interest rate hikes over the second half of 2022 drove upward pressure on capitalization rates across all property types. Despite this, property fundamentals remain sound with demand to supply imbalances persisting within industrial and multi-family assets, resulting in continued rental rate growth.

### Global Infrastructure

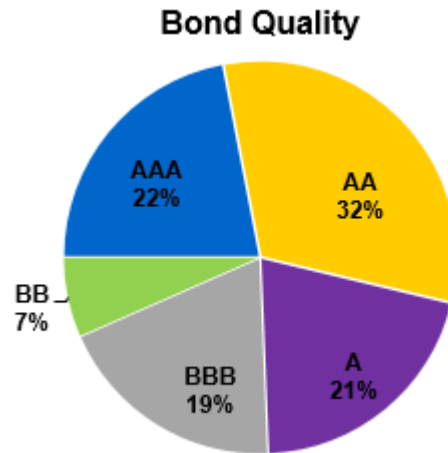
Global infrastructure market posted 0.2% return (DJ Brookfield Global Infrastructure Index) in 2022. Geopolitical conflict in Europe created an energy crisis accelerated all things related to the energy transition leading to strong adoption for energy transition subsector. The US passed the Inflation Reduction Act that provided similar momentum. Capital raised was up 23% compared to the five year average as investors looked for a safe haven amongst inflation, interest rates and recession concerns.

## Plan Overview

### *Investment Performance (excluding UR Investing) - 2022*

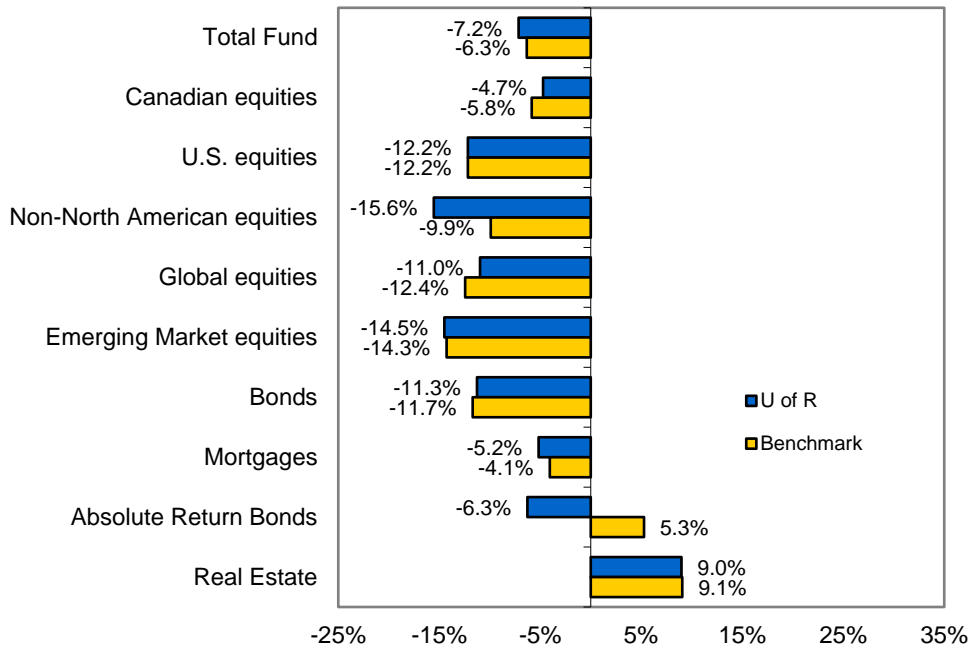
- The University of Regina Trust and Endowment return was -7.1% in 2022.
- The Total Fund return lagged the -6.3% benchmark return. Value lost was driven by asset allocation and asset class selection with the Fund underweight Absolute return bonds and poor performance in non-North American equity.
- Asset class results included:
  - Canadian Equities – PH&N’s -4.9% return exceeded the -5.8% S&P/TSX Composite Index, while Mawer was also exceeded the Index, earning -4.5%. For PH&N, stock picks in Energy, Financials, Consumer Discretionary and across most sectors added value. Mawer’s stock selection added value, especially in the Info Tech and Energy sectors. This more than offset asset allocation, where the overweight to Info Tech and an underweight to Energy detracted.
  - In the U.S. equity market, BlackRock’s performance tracked tightly to the -12.2% S&P 500 return, which is the objective for this passive strategy.
  - The non-North American equity manager, Mawer, lagged the -9.9% MSCI All Country World ex USA Index, earning -15.5% in the year. Mawer’s value subtracted was driven by an underweight to the Energy sector and poor stock picks in Financials, Health Care and across most sectors. Mawer held two Russian positions that were written down to zero which contributed to the weak performance.
  - GMO’s global equity mandate returned -11.0% (net of fees) in the year, exceeding the -12.4% MSCI All Country World Index significantly. GMO added value in both asset allocation and stock picks as most allocation sectors were positive and selection in Consumer Discretionary, Communication Service and Info Tech drove most of the value add. GMO holds a 41% underweight to North American which also added value.
  - BlackRock manages emerging market equities passively for the Trust and Endowment Fund and tracked the MSCI Emerging Market Index tightly in the year, earning a -14.5% return.

- PH&N manages mandates in Universe Bonds and Mortgages. Over the year, PH&N's bonds returned -11.3%, adding to the -11.7% FTSE Canada Universe Bond Index return. Mortgages returned -5.2% versus the -4.0% FTSE Canada Short Term Bond Index. PH&N primarily holds investment grade bonds, with 7.0% of the portfolio in bonds rated below BBB. The breakdown of the bond quality is shown in the graph below.



- The BlackRock Absolute Return Bond strategy invests in global fixed income assets, and generally has low interest rate sensitivity, to shield against the negative impacts of rising interest rates. In the year, the strategy returned -6.3%, well below the 5.3% USD LIBOR +4% return target. However, the return was well above the -11.7% FTSE Canada Universe Bond Index. The BlackRock strategy has a 2.9-year duration, versus the 7.3-year duration for the Universe Bond Index, meaning it has less than one-half of the interest rate sensitivity and can be expected to do comparatively better in a rising interest rate environment.
- Real estate is managed by Bentall, and TD Greystone, as the former IAM real estate mandate was wound up. Real estate returns were strong in 2022, with Bentall earning 9.8% and TD Greystone earning 8.3%. despite a later half pullback. Appraisal gains in Industrial properties were strong for both managers.
- BlackRock global infrastructure was added in February and fully funded in May. BlackRock passively for the Trust and Endowment Fund and tracked the DJ Brookfield Global Infrastructure Index tightly in the year.

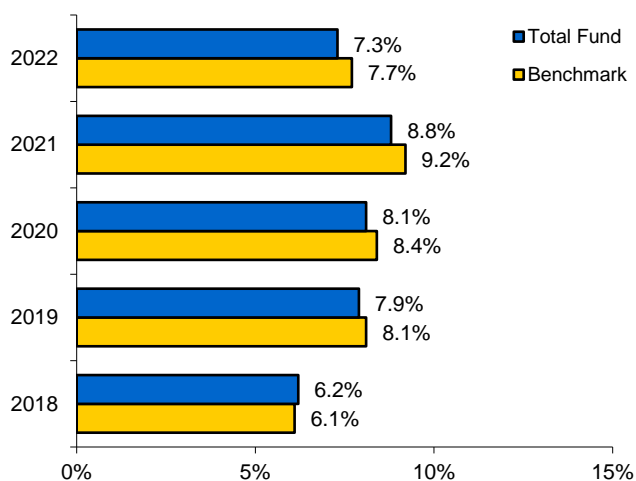
**Investment Performance  
For the Year Ended December 31, 2022**



***Investment Performance – Rolling Four-Year Returns***

- One of the Fund’s investment objectives is to exceed the benchmark return over rolling four-year periods. The Total Fund return over the past four years was 7.3%, lagging the benchmark by 0.4%. Four-year underperformance was mainly due to below index performance from GMO in global equities, as their value style was out of favour over this period. Bentall and TD Greystone real estate have both trailed peers over the past four and ten years but delivered strong absolute returns and diversification for the plan. The following chart provides the longer-term track record of the Fund, with each period a rolling four-year result. Over the past 10 years, the Total Fund return was 8.3% per year, which is 0.1% above the benchmark return.

**Total Fund  
Rolling Four-Year Returns**



***Investment Performance – Relative to Peers***

- In addition to monitoring performance relative to the benchmark return, the Fund performance can be put in perspective by comparing the result against those of a universe of institutional funds. The following table shows the Total Fund return and individual asset class returns relative to other funds in the Aon Peer Universes over the past year and four-year periods.
- The 2022 Total Fund result of -7.2% placed in the second quartile of the Aon Non-Profit Fund Universe, above the -7.9% return earned by the median fund. Over the past four years, the Total Fund return of 7.2% matched the 7.2% median fund result.

<b>2022 RELATIVE PERFORMANCE</b>		
Asset Class	2022 Quartile <sup>1</sup>	4-Year Quartile <sup>1</sup>
Canadian equities	3	3
U.S. equities	3	2
Non-North American equities	4	4
Global equities	3	4
Emerging Market equities	3	4
Bonds	3	1
Mortgages	4	4
Real Estate	3	3
Infrastructure	n/a	n/a
<b>Total Fund</b>	<b>2</b>	<b>2</b>

<sup>1</sup> Indicates the placement of the return relative to the Aon Universe for institutional pooled funds. Quartile 1 include the top 25% of funds by return, Quartile 2 represents firms in the 26-49% range, M is the median return, and so on.

- Asset class performance relative to respective universes of peer managers were mixed. Global equities were below median due to the value style of GMO, which was also the case in Emerging Market equities, where the performance of GMO before being replaced by BlackRock, detracted. Mortgages were below the peer universe median over four-years due to the conservative style PH&N employs. Real Estate was below their peer universe median, as both managers, Bentall and TDAM, delivered modest results. Bentall trailed on account of their exposure to Retail and Office properties. TDAM trailed due to the re-pricing of their repositioning and development properties in light of the Covid impacts on future tenant demand.

### **Primary Investment Performance Objective**

While investment performance objectives for the Trust & Endowment Fund were lower than the Total Fund benchmark return over rolling four-year periods and matching the median returns within a peer universe, the primary long-term objective is to earn in excess of a 4% real

rate of return over the longer term. The real return is assessed as the Total Fund nominal return, net of inflation, as measured by the Canadian Consumer Price Index. The Total Fund real return was 3.8% over the past four years and 5.9% over the past ten years, on an annualized basis, slightly below the 4% real return objective over 4 years and substantially surpassing over 10 years.

### **Benchmark Portfolio Return and Asset Mix**

- The benchmark portfolio return is calculated by using index returns and target asset class weights. The current policy asset mix is shown below. Within the various asset classes, the objective is to exceed the relevant index return for actively managed mandates, and to track within 0.10% of the relevant index for passively managed mandates. In addition, the returns are evaluated on a relative basis to a universe of other investment manager returns.
- A new benchmark has been selected and approved and was implemented in 2022.

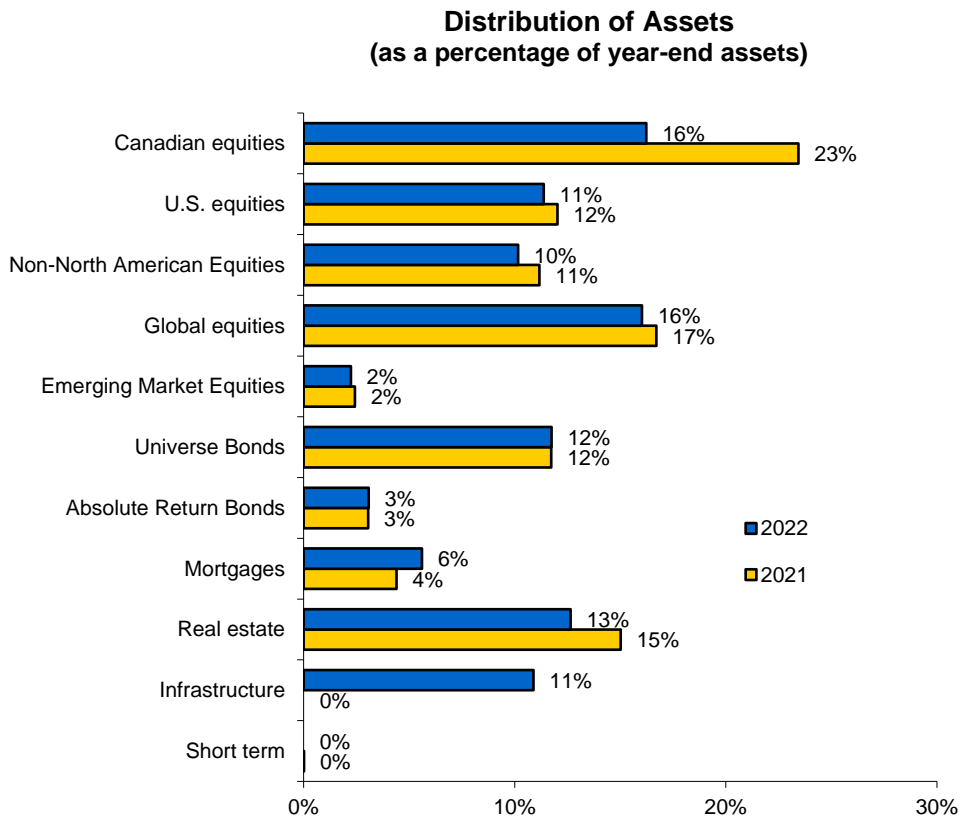
<b>Asset Class</b>	<b>2021 Benchmark Portfolio (Market Value %)</b>	<b>2022 Benchmark Portfolio (Market Value %)</b>
Canadian equities	21%	16%
U.S. equities	11%	11%
Non-North American	11%	11%
Global equities	17%	16%
Emerging Market equities	3%	4%
Bonds	12%	-
Core Plus Bonds	-	12%
Absolute Return Bonds	5%	5%
Mortgages	5%	5%
Real estate	15%	10%
Infrastructure	-	10%
Short-term investments	0%	0%

## The Trust and Endowment Fund

At the end of 2022, the Trust and Endowment Fund assets had a market value of \$126.4 million (excluding \$2.0 million of the TEF assets managed by the UR Investing program). This is down from \$136.2 million at the end of 2021, due to capital losses from equities and fixed income slightly offset from investment income.

The distribution of assets for the Trust and Endowment is shown below.

### Asset Mix Summary



## Distribution of Assets by Manager

At the end of 2022, PH&N managed 25.0% of the Trust and Endowment Fund assets in a domestic balanced mandate (Canadian equities and fixed income). Mawer manages both a Canadian and a non-North American equity mandate. Grantham, Mayo and Van Otterloo (GMO) manages the Fund's global equity mandate. BlackRock manages passive U.S. equity Emerging Markets equity funds and Global Infrastructure funds, and a global absolute return bond strategy. Bentall and TD Greystone oversee the investments in real estate.

<b>Manager</b>	<b>Mandate</b>	<b>2022</b>	<b>2021</b>
PH&N	Domestic Balanced	25.0%	26.4%
Mawer	Canadian and NNA Equities	16.2%	24.4%
BlackRock	U.S. Equities, EM Equities, and Absolute Return Bonds	11.4%	17.5%
GMO	Global Equities	16.0%	16.7%
Bentall	Real Estate	6.2%	7.7%
TD Greystone	Real Estate	6.4%	7.3%
BlackRock	Infrastructure	10.9%	-
Cash Account	Liquidity	0.0%	0.0%
		100.0%	100.0%