

2019 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 390 nonexpendable endowed trust accounts and 157 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, 2019, the fair market value of the TEF was \$116.4 million (2018 - \$99.3 million). \$114.7 million of the TEF was managed by contracted professional investment managers and \$1.7 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 University of Regina Board members or employees 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 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 annual 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, 2019, the TEF has achieved

this primary objective by exceeding a 4% real rate of return over the past four and ten year investment periods.

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 of the three funds 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, 2019, \$1.7 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 stock broker. 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 2019 Investment Performance

The Markets

- Following a sharp sell-off in late 2018, global equity markets were strong in 2019. Concerns around slowing global growth and trade wars contributed to volatility, but signs of increasingly accommodative central bank policies and positive steps towards a resolution in the U.S./China trade war late in the year supported the markets

Equities

- In the year, global equities, as proxied by the MSCI All Country World Index, returned a strong 20.2% in Canadian dollar terms. The Canadian market was up 22.9% in the year. The Information Technology sector was the best performing sector in the Index, up 64.9% in the year. The U.S. equity market reached record highs late in the year, and in US dollar terms, the market was up 31.5% in 2019. As a Canadian investor, the returns were somewhat tempered by the over 6% strengthening in the Canadian Dollar, however the CAD return was still strong at 25.0%. Non-North American equities were up 16.0% in CAD. Emerging markets were up 12.4% in the year, a strong return, but lagging developed markets due in large part to trade tensions between China and the U.S.

Fixed Income

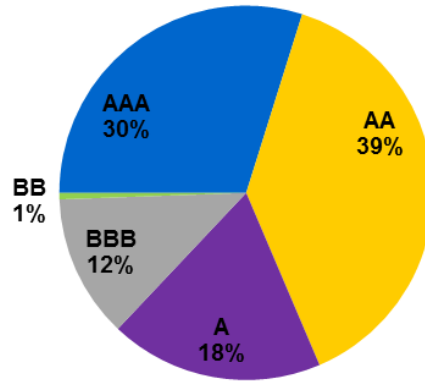
- The fixed income market, as represented by the FTSE Canada Universe Bond Index, returned 6.9% in the year. The Bank of Canada left interest rates on hold throughout 2019, retaining a positive outlook on the Canadian economy. The yield curve flattened over the year, with yields falling sharply at longer maturities compared to the short end of the curve, causing longer dated bonds to outperform shorter dated securities.

Plan Overview

Investment Performance (excluding UR Investing) - 2019

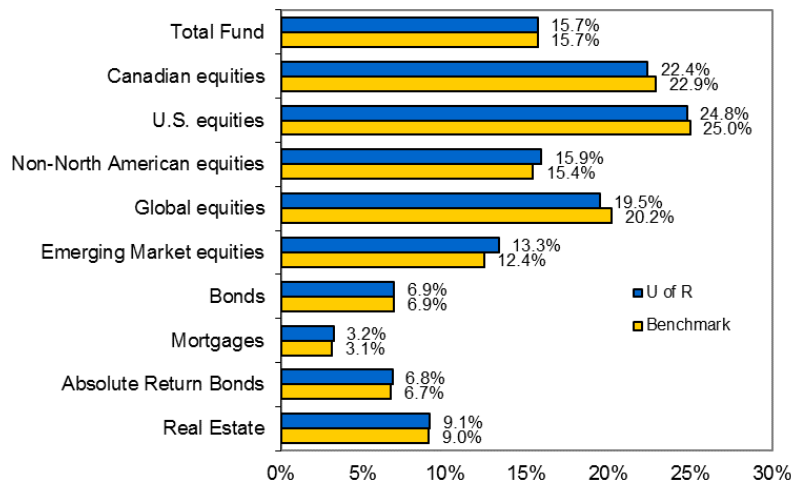
- The University of Regina Trust and Endowment return was 15.7% in 2019.
- The Total Fund return matched the benchmark return. Value was subtracted through below index performance in Canadian and Global equities. This was offset by positive asset allocation due to an underweight to bonds and an overweight to U.S. equities.
- Trends by asset class included:
 - In Canadian equities, both PH&N and Mawer lagged the 22.9% Index in the year. PH&N's absence from the Health Care sector added value but was offset by stock selection in the Info Tech sector. Mawer's stock selection added value in Financials and Industrials but was offset by weak stock picks in Materials and sector allocation, including an overweight to names in the Communications Services sector, and an average cash weight of over 3% in the strong equity market.
 - In the U.S. equity market, BlackRock's performance tracked tightly to the 25.0% S&P 500 return, which is the objective for this passive strategy.
 - The non-North American equity manager, Mawer, beat the MSCI All Country World ex USA Index by 0.5% in the year, returning 15.9%. Stock selection was generally strong, particularly in the United Kingdom and North America.
 - GMO's global equity mandate returned 19.5% in the year, lagging the benchmark by 0.7%, net of fees. A double the Index weight in emerging market names and a corresponding underweight to American names drove value subtracted.
 - GMO's emerging markets equity mandate returned 13.3%, 0.9% above the MSCI Emerging Market Index, driven by strong stock selection in Financials.
 - PH&N manages a Universe Bond mandate and mortgages for the Trust and Endowment. Over the year, PH&N's bonds returned 6.9%, matching the FTSE Canada Universe Bond Index. Mortgages returned 3.2% versus the 3.1% FTSE Canada Short Term Bond Index.
- PH&N primarily holds investment grade bonds, with 1% of the portfolio rated BB and lower. The breakdown of the bond quality is shown in the graph below.

Bond Quality



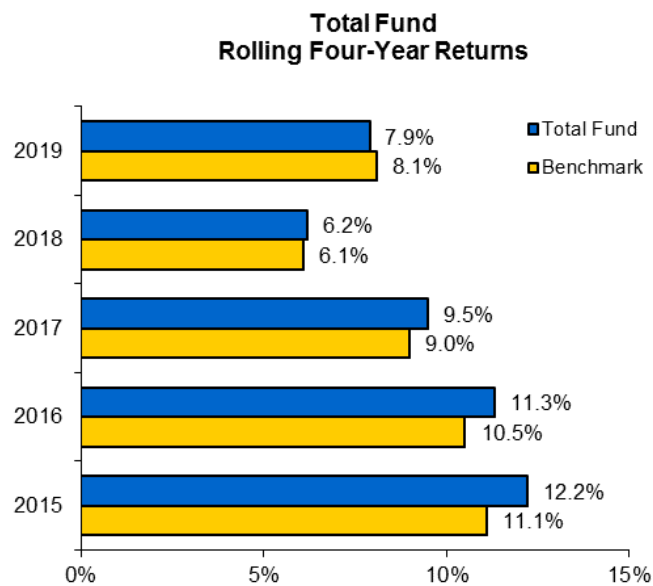
- The BlackRock Absolute Return Bond strategy was added to the fund in February 2017, replacing BlueBay high yield bonds. In the year, the strategy returned 6.8%, just above the 6.7% USD LIBOR +4% return target, and just below the 6.9% FTSE Canada Universe Bond Index. The BlackRock strategy has a 3.0 year duration, versus the 8.0 year duration for the Universe Bond Index.
- Real estate is managed by Bentall, IAM and TD Greystone. Real estate provided another year of strong absolute results, with the MSCI/REALPAC Canada Quarterly Property Fund Index returning 9.0%. Within the TEF, all three real estate managers provided strong absolute returns, with IAM above benchmark by 7.0%, and Bentall and TD Greystone lagging the Index by 1.3% and 1.4% respectively. Generally, properties in B.C. and Ontario contributed positively to returns.

Investment Performance For the Year Ended December 31, 2019



Investment Performance – Rolling Four-Year Returns

- Another of the Plan’s investment objectives is to exceed the benchmark return over rolling four-year periods. The Total Fund return over the past four years was 7.9%, lagging the benchmark by 0.2%. The following chart provides the longer-term track record of the Fund, with each period a rolling four-year result. The most recent result shows a strong absolute return led by equities. Over the past 10 years, the Total Fund return was 8.9% per year, which tracked 0.3% ahead of the benchmark return.



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 Universe for pooled funds over the past year and four-year periods.
- The 2019 Total Fund result of 15.7 % placed above the 15.0% return earned by the median balanced pooled fund. Over the past four years, the Total Fund return of 7.9% exceeded the 7.0% median manager result.

2019 RELATIVE PERFORMANCE		
Asset Class	2019 Quartile ¹	4-Year Quartile ¹
Canadian equities	2	2
U.S. equities	2	2
Non-North American equities	3	1
Global equities	3	3
Emerging Market equities	3	4
Bonds	3	2
Mortgages	4	3
Real Estate	3	3
Total Fund	2	1

¹ 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.

- By asset class, Canadian and U.S. equities performed better than the median manager over the year. Non-North American, global and emerging market equities and real estate placed in the third quartiles with mortgages in the bottom quartile. Over four years, all asset classes except Global and emerging market equities, mortgages and real estate were above the median manager.

Investment Performance Objectives

A number of performance objectives are set out for the Trust & Endowment Fund. As noted above, one objective is that the Total Fund return exceeds a benchmark portfolio return over rolling four-year periods in order to achieve the primary long-term objective of exceeding a 4% real rate of return over the longer term.

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 pension plan returns.

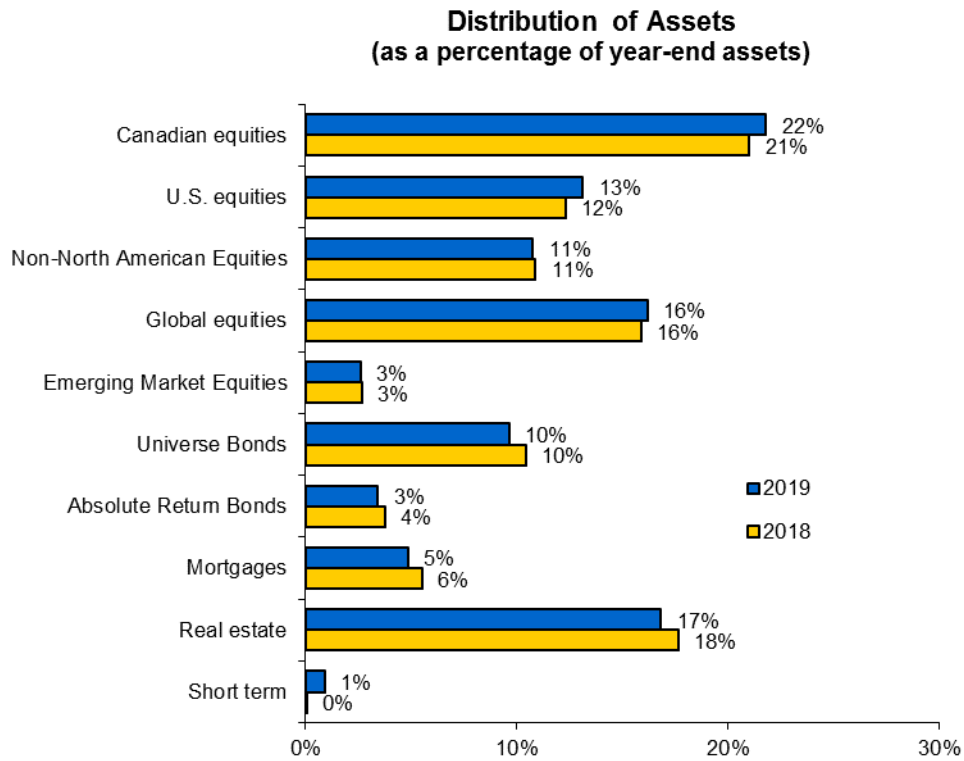
Asset Class	2019 Benchmark Portfolio (Market Value %)
Canadian equities	21%
U.S. equities	11%
Non-North American	11%
Global equities	17%
Emerging Market equities	3%
Bonds	12%
High Yield Bonds	5%
Mortgages	5%
Real estate	15%
Short-term investments	0%

The Trust and Endowment Fund

At the end of 2019, the Trust and Endowment assets had a market value of \$114.7 million (excluding \$1.7 million of the TEF assets that were managed by the UR Investing program). This is up from \$97.8 million at the end of 2018 due to strong capital gains in equities.

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

Asset Mix Summary



Distribution of Assets by Manager

At the end of 2019, Phillips, Hager & North managed approximately 24.2% of the Trust and Endowment 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 and Emerging Market equities. BlackRock manages a passive U.S. equity fund and an absolute return bond strategy. IAM, Bentall and TD Greystone oversee the investments in real estate.

Manager	Mandate	2019	2018
Phillips, Hager & North	Domestic Balanced	24.2%	25.3%
Mawer	Canadian & NNA equities	22.8%	22.5%
BlackRock	U.S. equities & absolute return bonds	16.5%	16.1%
GMO	Global & Emerging equities	18.8%	18.6%
IAM	Real Estate	1.8%	2.8%
Bentall	Real Estate	8.1%	8.8%
TD Greystone	Real Estate	6.9%	5.9%
Cash Account	Transition	0.9%	0.0%
		<hr/> 100.0%	100.0%