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York University Endowment Fund

Annual Investment Report to the Board of Governors

For Year Ended December 31, 2012

Investment Committee - May 31, 2013

Board of Governors - June 24, 2013

York University Endowment Fund

Annual Report for Year Ended December 31, 2012

The Endowment Fund (the Fund) is a pool of commingled assets held for the endowments of York University in long-term investments. The endowments are composed of gifts and bequests received from donors plus capital from matching programs, combined with quasi-endowments, which are funds designated by the University and invested over the long term to support specified priorities. The Fund generates annual payouts to support the endowed scholarships and academic chairs.

The Fund investments are governed by the objectives and constraints specified in the Statement of Investment Policies and Procedures (Policy). The Board of Governors reviews and approves the Policy including any changes to investment strategy or asset mix on an annual basis. The Investment Committee of the Board of Governors oversees the implementation of investment strategy and the external portfolio managers.

The Fund and Markets in Review - 2012

The market value of the Fund as at December 31, 2012 was $350.5 million, compared to $326.4 million as at December 31, 2011.

The market value of the Fund rose by $24.1 million during 2012. The increase in assets was caused by inflows of $5.9 million in donor contributions plus investment capital appreciation and income of $39.9 million, net of withdrawals of $21.7 million for distribution to endowed accounts.

The Fund investments earned a one-year rate of return of 12.5% for the 12 months ended December 31, 2012, compared to 0.8% in 2011. The Fund's one-year performance in 2012 exceeded the 11.4% rate of return of the benchmark by 1.1%.

Global equity markets fared well during 2012, with Emerging Markets equities continuing in the lead (16.1% indicative return in Canadian dollar terms generated by the representative index, MSCI EM), followed by Small/Mid Cap U.S. equities (15.3% returned in CAD terms by Russell 2500), then developed international equity markets (14.8% returned in CAD terms by MSCI Europe, Australasia and Far East), with Canadian equities (7.2% returned by S&P/TSX) bringing up the rear.

Conversely, fixed income markets in the developed market countries struggled alongside their economies, offering very low interest rates across the term structure - good for borrowers but trying for investors – and consequently meagre returns accrued to capital invested in the least-risk assets. Canada's representative broad market bond index composed of government and corporate issues returned 3.6% for the year. Global high yield bonds due to their equity-related component and higher risk profile, far outperformed domestic investment grade bonds, with an indicative 12.2% in CAD terms returned by the Citigroup High Yield Market index.

The Fund's seven investment managers, managing nine distinct mandates, as a group outperformed during 2012, adding 1.1% versus the Fund's target benchmark return of 11.4%. Of the seven mandates that are actively managed, including all the equity portfolios, the high yield bonds and currency overlay, five portfolios with a combined total fund weight of 55% contributed positive excess return while two fell short of their respective benchmarks and the passive bonds met their index return objective. Moderate overweight positions, relative to the benchmark, in high yield bonds and emerging markets equity in combination with an underweight in Canadian bonds were further contributing factors to the total fund added value in 2012 of 1.1%. For full perspective, fund expenses for investment management, custody and consulting, were in sum 0.6% in 2012, resulting in net-of-fees 0.5% positive excess return that converts to added value in dollars of $1.6 million for the year.

The Fund's four-year annualized return of 11.7% exceeded, by 1.3% annualized, the 10.4% return of the benchmark for the same period. Excluding currency overlay from the group, as it lead to a slight underperformance in 2010, the group of active managers has added value to the Fund in each of the past four years. The four-year interval for performance evaluation is the Policy standard for measuring whether the Policy return target has been achieved. The 2009-2012 stretch covered the restructuring of the Fund, achieved at the beginning of 2010, and the tail end of the savaging of global capital markets caused by the credit crisis. The consistently solid excess return generated through those years affirms that the implementation of the investment strategy has been effective.

The remainder of this Report reviews the Policy, the Fund's investment strategy, asset allocation, and manager mix plus detail on the performance of the Fund to December 31, 2012 on relative and comparative terms. A report of the activities of the Investment Committee conducted during 2012 and those planned for 2013 are summarized in the final sections.

Endowment Fund Asset Mix

The Policy asset mix is shown below, specified in terms of asset class target weights as set out in the Statement of Investment Policies and Procedures, last confirmed effective as of January 1, 2012 and unchanged since the approval of the Board of Governors on February 28, 2012.

Policy Asset Mix

Asset Class	Target Weight	
Equities	**70%**	
Canadian		15%
US - Small/Mid Cap		20%
Global		25%
Emerging Markets		10%
Fixed Income	**30%**	
Canadian Bonds		25%
Global High Yield Bonds		5%

The Policy asset mix is formally determined by an Asset-Liability study designed to meet the Fund's investment objectives and the endowment spending needs of the University. The Policy objectives are to preserve capital over a long-term horizon and to provide inflation-adjusted annual funding to support the spending obligations of the endowments.

The Policy target asset mix in effect at end of 2012 was formally adopted by the Board of Governors in 2008. The investment strategy was further amended in 2010 to include active currency management in the form of an overlay for the 50% of the total fund held in non-Canadian-dollar, developed markets exposures. A phased-in approach to the rof assets over two years resulted in the current asset mix, which as of date of this report, has been in effect for two years.

The Fund's actual asset mix compared to the Policy asset mix, including currency overlay, as at December 31, 2012, follows.

Asset Class Weights Versus Target Asset Mix - Market Value as at December 31, 2012

Asset Class	$ Million (Mkt Val)	Actual Weight	Target Weight	Over/Under
Equities	**$ 251.0**	**71%**	**70%**	**1%**
Canadian	54.2	15%	15%	0%
US - Small/Mid Cap	68.2	20%	20%	0%
Global	88.5	25%	25%	0%
Emerging Markets	40.1	11%	10%	1%
Fixed Income	**$ 100.9**	**30%**	**30%**	**0%**
Canadian Bonds	77.6	22%	25%	-3%
Global High Yield Bonds	22.6	7%	5%	2%
Short Term Investments	0.7	1%	0%	1%
Currency Overlay	(1.4)	-1%	0%	
Total Portfolio	**$ 350.5**	**100%**	**100%**	

The actual weights of the portfolios are permitted to vary by Policy within a range of +/- 5% of the target weights and are rebalanced periodically back to target with ambient cash flows.

The University has engaged seven investment managers to manage eight specialty investment mandates plus an allocation to short-term investments for generating some yield on Fund liquidity. Each manager has been selected for their specific investment expertise. Specialty mandates have been established that prescribe the asset class, investment style, objectives and constraints for each portfolio. The firm, date of hire, asset class mandate, market value and fund weight are shown in the table below. The currency overlay composed of liquid three-month foreign exchange forward contracts for five major currency pairs is shown reported on the standard mark-to-market basis.

Investment Managers and Specialty Mandates - Allocations as at December 31, 2012

Investment Manager	Inception Date	Mandate	$ Million	Weight
Equities				
Foyston, Gordon & Payne	October 2004	Canadian Equities	26.6	7%
Mawer	April 2011	Canadian Equities	27.6	8%
Westwood	July 2008	Small/Mid Cap US	68.2	20%
Aberdeen	February 2011	Global Equities	88.5	25%
Aberdeen	July 2008	Emerging Markets	40.1	11%
Fixed Income				
TD Asset Management	August 1997	Canadian Bonds	77.6	22%
Stone Harbor	July 2008	Global High Yield Bonds	22.6	7%
TD Asset Management	May 2008	Short Term Investments	0.7	1%
Currency Overlay				
Mesirow Financial	January 2010	Currency Hedges	(1.4)	-1%
Total Portfolio			$350.5	100%

Endowment Fund Performance Objectives

The target return objective is stated in the form of a composite benchmark. The benchmark for the total fund is a weighted composite of total returns produced by specific capital markets indices. Each component index is broadly representative of an asset class as defined in the Policy asset mix and is a transparent and reproducible sample of publically-traded investable equities or bonds for a specific country or area.

Performance Objective and Composite Benchmark

Asset Class	Weight	Index
Canadian Equities	15%	S&P/TSX Composite
Small/Mid Cap US Equities	20%	Russell 2500
Global Equities	25%	MSCI World
Emerging Markets Equities	10%	MSCI Emerging Markets
Canadian Bonds	25%	DEX Universe Bond
Global High Yield Bonds	5%	Citigroup High Yield Market Capped

The Policy return objective of the Fund is to achieve a four-year annualized rate of return, net of investment fees, that meets or exceeds the four-year annualized rate of return of the composite benchmark for the same period, over most four-year annualized periods, as measured year to year.

Fund performance is expressed as a total fund rate of return, gross of fees, in Canadian dollars. The rates of return are calculated by an independent performance measurement provider, BNY Mellon's Global Risk Solutions group.

Evaluating Endowment Fund Performance

Performance evaluation for the Fund is carried out using several facets. On a monthly basis, the total fund rate of return is measured, compared to the return of the composite benchmark, and reported over a series of intervals spanning one month to ten years. Formal performance evaluations, conducted semi-annually for review by the Committee, focus on one-year and four-year returns to, respectively, gauge recent performance and assess longer-term success in meeting Policy objectives. The results for individual portfolios and managers are reviewed, including performance statistics for portfolio risk and return that are measured and compared to the objectives specified in each of the specialty mandates.

The Fund's long-term performance record shown below provides a snapshot of the success of the investment program.

Total Fund Long Term Performance - Annualized ROR (%)

	Annualized Rates of Return (%) for Periods Ended December 31 2012									
	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	6 Yrs	7 Yrs	8 Yrs	9 Yrs	10 Yrs
Currency Hedged										
Endowment Fund	12.5	6.5	8.6	11.7	4.7	3.9	5.4	6.2	6.6	7.3
Benchmark	11.4	4.7	7.4	10.4	3.9	3.6	4.8	5.7	6.0	6.7
	1.1	1.8	1.2	1.3	0.8	0.3	0.6	0.5	0.6	0.6
Unhedged										
Endowment Fund	12.0	7.1	8.7	11.5	4.6	3.8	5.3	6.1	6.5	7.2
Benchmark (Unhedged)	10.7	4.7	7.0	10.2	3.7	3.4	4.7	5.5	5.9	6.6
	1.3	2.4	1.7	1.3	0.9	0.4	0.6	0.6	0.6	0.6

The ten-year annualized rate of return of 7.3% illustrates that on a smoothed basis the Fund capital net of investment expenses has been preserved on a nominal (excluding the impact of inflation) basis. This is despite the market travails of the last decade, including the deeply negative return in 2008-09 and the slow multi-year recovery process. For comparison, annualized ten-year returns generated by benchmark indexes to December 31, 2012 were 9.2% for the S&P/TSX index (Canadian equities), 3.2% for the MSCI World (global equities) in CAD terms and 6.0% for the DEX Universe (Canadian bonds).

The effect of strategic currency hedging is shown in the table above. Currency hedging was introduced into the portfolios in 2009 with a passive currency hedge on USD denominated exposures. In 2010, strategic hedging was integrated into the Policy and benchmark and an active currency overlay mandate for hedging developed markets currency exposures was fully implemented. Over the four years, since introduction of the currency strategy, the annualized contribution of the currency hedging program has been 0.2%.

Success over the longer term is attained through a variety of factors. These include program developments in response to shifts in the investment environment, changes in the cashflow characteristics of the endowment fund, and evolving risks contributed by components of the Fund. The Committee has concentrated on selecting strategies and managers that align with the investment objectives of preserving capital through a range of capital market outcomes while sustaining a regular stream of inflation-adjusted spending over the long run.

Annual and Four-Year Annualized Performance

The following table shows annual one-year returns for the past ten years and the four-year annualized return to December 31, 2012 relative to the Policy benchmark, on hedged and unhedged terms:

Total Fund Performance - Annual Rates of Return (%)

	Annual Rates of Return (%) for One-Year Periods Ended December 31										Annualized (%) Four Years
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2009-12
Currency Hedged											
Endowment Fund*	**12.5**	0.9	12.8	21.7	*(19.1)*						**11.7**
Benchmark	**11.4**	(1.5)	12.9	20.2	*(18.6)*						**10.4**
	1.1	2.4	(0.1)	1.5	*(0.5)*						**1.3**
Unhedged											
Fund	**12.0**	2.4	12.0	20.3	(19.1)	(0.3)	15.1	12.0	9.8	13.5	**11.5**
Benchmark (UnH)	**10.7**	(0.9)	11.8	20.2	(18.6)	1.9	12.7	11.6	9.1	13.0	**10.2**
	1.3	3.3	0.2	0.1	(0.5)	(2.2)	2.4	0.4	0.7	0.5	**1.3**

** Currency hedging commenced in 2009.*

The one-year total fund rate of return as at December 31, 2012, including the effect of the currency hedging program, was 12.5%. The Fund outperformed the half-hedged benchmark rate of return of 11.4% by 1.1%. Excluding the impact of hedging, the Fund return of 12.0%, exceeded the unhedged benchmark return of 10.7% by 1.3%.

The aggregate added value of 1.1% to the total fund return during calendar 2012 was a positive effect of the active management of equities and high yield bonds. Attribution level analysis of the added value showed that the emerging markets equity, global equity and high yield bonds portfolios added 0.8%, 0.1% and 0.1% a piece to the one-year total return. The two Canadian equity portfolios together contributed 0.9%. Small//Mid Cap US equity and the active component of the currency overlay detracted by 0.7% and 1.0% respectively. Fund interaction contributed 0.9% overall, and is caused by variance in the asset class weights relative to benchmark weights. The favourable contribution during 2012 was due to overweights in emerging markets equity and high yield bonds and an underweight in Canadian bonds.

Over four years to December 31, 2012, the annualized return for the Fund was 11.7%. This result exceeded the Policy benchmark four-year annualized return of 10.4% by 1.3%. The four-year annualized return of 11.7% includes hedging. Excluding hedging, the four-year annualized return was 11.5% indicating a net positive annualized return of 0.2% from the hedging program over the four-year period.

The index total fund rates of return in Canadian dollar terms for the past four calendar years and annualized for the four-year period were:

Equity and Fixed Income Index Returns (CAD)

	Annual Rates of Return (%)				Annualized (%) Four Years
	2012	2011	2010	2009	2009-12
Equities					
S&P/TSX Composite (Cdn Eq)	7.2	(8.7)	17.6	35.1	11.7
Russell 2500 (SmidCap US Eq)	15.3	(0.1)	20.1	14.1	12.1
MSCI World (Global Eq)	13.3	(3.2)	5.9	10.4	8.0
MSCI Emerging Markets (EM Eq)	16.0	(16.2)	13.0	52.0	13.7
Fixed Income					
DEX Universe Bond (Cdn Bonds)	3.6	9.7	6.7	5.4	6.3
Citigroup High Yield Markets Capped	12.2	8.4	9.2	33.8	15.5

Total Fund Comparative Performance

Aon Hewitt provides comparative performance results for a representative sample of balanced funds in its pooled funds survey, as compiled quarterly. The annual performance results for a group of funds with investment allocations largely similar to that of the Endowment Fund, excluding the effect of outliers (outside the range of 5th to 95th percentiles), is shown below for the recent four one-year periods and for the annualized multi-year periods to December 31, 2012.

Comparative Analysis - Balanced Funds Results (%)

	Annual Return (%)				Annualized Returns		
	2012	2011	2010	2009	2 Yrs	3 Yrs	4 Yrs
Percentile							
5th (highest)	12.6	4.3	13.0	23.0	8.7	9.2	11.0
25th	10.9	1.1	11.3	20.0	5.6	7.2	10.0
50th (median)	9.2	(1.0)	10.5	16.7	3.4	5.7	8.9
75th	8.2	(3.5)	9.2	15.0	2.8	4.9	7.6
95th (lowest)	6.7	(7.4)	7.2	13.0	(0.6)	2.7	6.2
Comparative							
York University	12.5	0.8	12.8	21.7	6.5	8.6	11.7
Quartile Rank	*Q1*	*Q2*	*Q1*	*Q1*	*Q1*	*Q1*	*Q1*

Source: Pooled funds returns from Aon Hewitt survey and Morningstar database.

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The York Endowment Fund one-year rate of return of 12.5% ranked above the 25th percentile break (first quartile) compared to the pooled fund survey results. For each of the two, three and four year annualized periods, the Fund ranked in the first quartile.

In general, the institutional funds participating in the Aon Hewitt pooled fund survey tend toward the conventional 60-40 stock-bond mix of pension funds. In years when equity market returns are strong relative to bonds, those funds with higher equity content such as the York Endowment Fund tend to outperform the sample. The Fund ranked high among its peers for two reasons: its 70% exposure to equities and the 1.1% added value from active management.

Endowments Growth

Over four years, the Endowment Fund book value has grown by $9.1 million and the market value, net of distributions for endowed spending, has appreciated by $106.7 million.

Endowments Annual Growth ($ Millions)

At December 31	Market Value	Book Value
2012	$ 350.5	$ 277.3
2011	326.4	271.0
2010	320.0	265.7
2009	287.1	257.4
2008	243.8	268.2

The book value represents the original donated capital together with matching programs capital plus cumulative annual inflation protection and capitalized investment earnings, applied to some of the older endowments. The total market value includes realized and unrealized appreciation and is net of withdrawals distributed to endowed accounts.

The one-year change in the market value of the Fund is the net effect of cashflows and earnings.

Endowment Fund - Changes to Market Value ($ Millions)

Market Value, Beginning of Year, December 31, 2011			$326.4
Contributions:	Gifts, Bequests and Matches	$ 5.9	
Withdrawals:	Distributions and Expenses	(21.7)	
Earnings:	Investment Income and Appreciation	39.9	
Net Change			24.1
Market Value, End of Year, December 31, 2012			$350.5

To track the market and book values for each individual endowed account, the University contracts the services of an external record keeper. At the end of 2012, there were 1,900 individual endowed accounts that composed the Fund.

Investment Oversight

The Investment Committee holds four meetings a year and conducts its activities in accordance with the Statements of Investment Policies and Procedures. The Committee's responsibilities are principally in the domain of 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 reporting to the Board. The Committee additionally undertakes and oversees further initiatives that are in the best interests of the Endowment Fund and its beneficiaries.

Investment Committee Activity Report – 2012

There were no changes to the Policy, asset mix, specialty mandates or managers during 2012. The series of changes initiated in 2008 by the revision of the Policy asset mix, including fund restructuring and implementation of multiple new asset classes that involved the selection and hiring of new managers, and subsequent replacement of two existing managers, was wrapped for the time being in 2011. The gelling of the investment structure in 2012 constituted a respite plus a relative calm during which to assess the success of the aforementioned investment-related activities.

The recovery of the Fund since its post-credit crisis nadir in 2009 permitted the distribution during the second half of 2012 to be executed at near-normal levels. The distribution of $10 million reached a level near the pre-crisis payout. Withdrawals to fund the distribution were used as an opportunity to rebalance the emerging markets and Canadian equities classes which were overweight due to excelling performance in prior years.

As in prior years, the Committee reviewed the fund expenses in detail and compared York's expense levels to those of its closest peer group composed of medium to large sized Canadian university endowment funds. The complexity of York's investment structure, given its range and number of non-Canadian asset classes, together with currency overlay, caused it to tend to be expensive relative to peers on a strictly external investment management fees basis. However, taking into consideration that there were no internal costs charged by York to the Fund and that added value from performance has been strongly positive, the ratio of value to costs accrued showed that York's endowment expenses were worthwhile and of good value when compared to the peer group.

With the restructuring of assets completed for the time being, Administration directed its attentions toward the upgrade of the structures used to manage the endowment obligations and corresponding operations. As background, this project was launched in 2011 with a full review of the endowment spending formula and culminated the year with agreement in principle of the Investment Committee to adopt the Smoothed Banded Inflation (SBI) approach for endowment distributions as soon as practicably possible. The SBI spending formula approach is a hybrid, similar to the Yale approach for determining annual endowment payout, that calculates the current year's distribution by taking the prior year's payout rate and adjusting it first for the inflation rate and second for alignment within minimum and maximum bands based on market value smoothed over four years.

Administration has developed a multi-year plan for managing the necessary changes to the endowments structure, accounting framework, distribution processes and reporting to the community. An administrative work group was established to review and compare contrasting service solutions for managing the structure and accounting considered necessary to support the planned adoption of a market-value basis unitized pool.

Responsible investment initiatives are ongoing. During 2012, the University joined the Social Investment Organization, a respected source of responsible investing research and analysis geared to institutional investors in Canada. The investment managers of the Fund as a group are active proponents of responsible investing. Ongoing dialogues between managers and the Administration include updates on their incremental progress in integrating ESG (environmental, social and governance) factors into their investment processes and engagements with corporate managements to induce sustainable practices. The Administration representing the Endowment Fund investments worked closely with members of the President's Sustainability Council to develop a structure, terms of reference and a set of guidelines in a critical lead up to the establishment of an Advisory Committee on Responsible Investing. A survey of approaches adopted by other universities and review of related documentation, where available, formed part of the work of developing an approach suitable to York.

Investment Committee Planned Activity – 2013

Part of the ongoing cyclical diligence applied to the oversight of the Endowment Fund is the use of Asset-Liability work as a means to assess the health of the Fund's investment positioning and probability that the investment strategy will meet the long-term objectives of the Fund in the context of a dynamic investment environment. Typically, but not necessarily, this work leads to a revision of the main component of investment strategy, the asset mix. In late 2012, the preparations for launching a new Asset-Liability Study for 2013 were begun with the assistance of York's investment consultant, Aon Hewitt. The last such work with Aon Hewitt had been conducted over the 2006-2008 period and culminated with the implementation of the fully revised asset mix, as finalized in 2010.

The Asset-Liability Study in 2013 will focus on an update of the expected cashflows to and from the Fund, particularly in view that Fund capital contributions from endowed giving have declined relative to the past given that government matching programs have died down and donors are increasingly likely to make expendable gifts. Special consideration will be given to the impact on the Fund's projected risk and return of adding new asset classes, with candidates for study due to potential fit to include real assets such as real estate and infrastructure and alternative asset classes. As customary, an advisory group with membership from the Investment Committee will review and advise on the capital markets assumptions and study parameters. The investment consultant will produce a forward looking optimization and will work closely with the Administration and advisors to develop suitable recommendations that, if supported by the Investment Committee, will be first introduced to the Board as proposed revisions to the Investment Policy.

Meanwhile, the Spending Formula and Administrative Review work will be continued during 2013, focusing on progressing through a layered plan of consecutive and concurrent activities intended to accomplish all of the following:

- Conversion of the endowment fund book value accounting to a market value basis unitized pool
- Conversion of the external record keeping system from dollarized to unitized
- Conversion of the general ledger records to the unitized system
- Implementation of the Smoothed Banded Inflation spending formula
- Recasting of the reporting mechanisms and formats published to inform internal and external stakeholders.

The expanse of the project requires assistance from multiple divisions of the University as well as a commitment of technology resources. To that end an internal multi-unit work group will be formed during 2013. The time horizon for completion of all conversion activities is forecast for 2014-15.

Responsible investment program initiatives and developments are ongoing. The focus in 2013 will be on the formation of an operational Advisory Committee on Responsible Investing.

Board Investment Committees, May 31, 2013

Board of Governors, June 24, 2013