



Endowment: Investment Rationale, Status and Financial Market Scenarios

June 2020

Endowment Investment Rationale

- Diversification:
 - Endowment allocation
 - Underlying funds
- Low turnover:
 - Endowment allocation
 - Underlying funds
- Asset allocation:
 - Set and maintain long-term asset allocation
 - No tactical asset allocation
- Only mutual funds or ETF equivalents, investing entirely / almost entirely in:
 - Listed equities
 - Listed debt
 - Cash / cash equivalents

Endowment Investment Rationale (continued)

- Reliance on passive over active funds for any given asset class
- No investment in fund of funds and in alternative assets (private equity, hedge funds, venture capital etc)
- Low cost: Use of funds in bottom decile total fee level relative to funds in same asset class
- Potential future use of external advisers only if BOTH:
 - In bottom decile of fees charged relative to other advisers
 - Demonstrated track record of favoring passive over active / alternative solutions
- Risk profile: traditionally skewed toward higher risk and concomitant higher expected return
- Investment reality: political, committee etc considerations

Endowment Performance

- Up 5.9% from March 2020
- Continued aggressive high risk/high reward portfolio mix (86%)
 - heavily weighted toward equities (71%)
 - fixed income exposure combines non-investment grade (13% emerging markets debt) and investment grade (14% short-term US corporate bonds)
- Relative performance to peer group over five years reflects high risk tilt
 - 16% percentile to December 2019
 - 90% percentile to March 2020
- Relative performance to our peer group driven by
 - Higher risk tilt
 - Relatively weak performance of Davis NY Ventures fund vs index: value style
 - Relatively high exposure to non-US equity, outperformed by US equity
- As indicated in the past, absolute and relative performance suffers -- potentially dramatically -- during market downturns

Endowment Status

- Total net endowment value at May \$108.5 million

Asset class	Share of endowment (March 2020)
US large cap equity	35.4%
US small cap equity	4.2%
US real estate equity	6.0%
International large cap equity	26.6%
Alternative investments	0.3%
Emerging markets debt	13.3%
Short-term investment grade debt	14.2%

Financial Markets Environment

- A long bull market came to an abrupt end in February / March 2020 triggered by the Covid-19 pandemic. Markets have recovered considerable ground since.
- Our high risk/high reward asset allocation resulted in large fluctuations in endowment value.
- The immediate effect on the UWC-USA budget is temporarily mitigated by the annual 5% draw being calculated using the average endowment value over the three years prior to May 30 of the prior year.
- While the partial recovery in financial markets has been faster than anticipated, fundamentally different financial market scenarios are possible over the coming years with profound implications for the endowment and the annual draw.

Five Financial Market Scenarios

- Five endowment scenarios are considered for May 30, 2021, relative to May 31, 2020, and maintained for three years:
 - Very bullish: Equity holdings rise 10% above their all-time highs; emerging markets debt and investment grade debt recover to their all-time highs.
 - Bullish: Equity holdings recover to their all-time highs; emerging markets debt and investment grade debt recover to their all-time highs.
 - Intermediate: Equity holdings, emerging markets debt and investment grade debt settle to their March 31 levels.
 - Bearish: Equity holdings, emerging markets debt and investment grade debt fall to their March lows.
 - Very bearish: Equity holdings fall to half their all-time highs; emerging markets debt falls 30% off its all-time high; investment grade debt falls 10% off its all-time high.

Assumptions: Value appreciation/decline assumed to May 2021; trading sideways thereafter. Dividend / interest yield stays constant in dollar terms, but reduced for endowment draws.

Annual Endowment Draw by Scenario

(\$ millions)

Scenario	2021/2022	2022/2023	2023/2024	2024/2025
Very bullish	5.62	5.92	6.26	6.60
Bullish	5.62	5.76	5.95	6.14
Intermediate	5.62	5.25	4.94	4.64
Bearish	5.62	5.09	4.61	4.16
Very bearish	5.62	4.86	4.16	3.50