

QUESTION AND RESPONSE**1. QUESTION:**

The most recent quarterly report on the performance of the McGill Investment Pool (MIP), from September 30th, 2018, presents a significant difference in rate of growth between the new Fossil Fuel Free investments (FFF) and the rest of the MIP. In fact, from September 2017 to September 2018, the MIP without FFF investments grew by 3.25% whereas the FFF investments alone went from 4.9 M\$ to 5.7M\$, which represents a 16.32% increase, over five times greater.

What proportion of the FFF increase is due to new donations made over the year and how much was created by returns on the initial funds?

Currently there is a large moral imperative to stop investing in Fossil Fuels, and quelled concerns surrounding profitability, that are aligned with larger research regarding return of investment for fossil free fund performance. As the FFF was created as a trial, will its recent, significantly higher performance influence future management strategies for the overall MIP?

RESPONSE:

This question presents an opportunity to clarify the interpretation of the University's MIP Quarterly Report on Performance.

The total market value of the MIP (\$1,649.6M at September 30, 2018) is merely a momentary snapshot. This value is in constant flux as a result of cash flow in and cash flow out of the entire Endowment Fund (e.g., donations, distributions to University at 4.5% and fees at 1.1%). With that in mind, it is important to distinguish the terms 'MIP FFF' and 'MIP (Excluding FFF)'.

The term 'MIP FFF' refers to a single investment portfolio among many others in the MIP; whereas 'MIP (Excluding FFF)' (the market value of this MIP (Excluding FFF) (\$1,643.9M at September 30, 2018)). This distinction makes a significant difference, impacting the validity of any return comparisons calculated using these market values.

Another factor to consider is that the MIP's FFF investments consist of one asset class - equity; whereas the MIP, excluding FFF investments, consist of a number of asset classes (equity, fixed income, alternative assets and cash). Accordingly, the growth rate of the market value of the MIP reflects the combined performance of all these asset classes. If we compare the MIP equity performance without FFF portfolio and the FFF portfolio alone in terms of their 1-year performance, the MIP equities without FFF portfolio outperform the FFF portfolio (at 8.6% versus 7.4%).*

Furthermore, we asked a manager of the MIP's Global Equity FFF mandate to share the performance of the very same mandate only without the FFF exclusion. The FFF mandate underperformed by 2.3% (9.7% versus 7.4%).

Notwithstanding, then, the growth of the market value of the MIP's Fossil Fuel Free (FFF) investment strategy over the one-year period ending September 30, 2018, from \$4.9M to \$5.7*,