

An Introduction to Western’s Operating & Endowment Fund and Responsible Investing

Western University is a long-term investor, responsible for making prudent investments that generate financial returns in support of the university’s mission. This responsibility belongs to Western’s Board of Governors, which, among its various obligations, has a fiduciary duty to ensure the university’s financial well-being today and in the future.

The university has three portfolios of investments; the Short-Term Portfolio, Mid-Term Portfolio, and the Operating and Endowment Fund. As of December 31, 2024, the portfolios had the following values:

Short-Term Portfolio	\$780.3 million
Mid-Term Portfolio	\$226.4 million
Operating and Endowment Fund	\$2,314.1 million

The Short-Term Portfolio is for operating needs and is generally held in cash or short-term interest-bearing securities. This portfolio would be the only one that would include student tuition and fees, which are cash flows used in the delivery of education each year.

The Mid-Term Portfolio is available to invest in stocks and fixed income securities but remains highly liquid to be available for use by the university as required.

The Operating and Endowment Fund (the “Fund”) is Western’s long-term investment pool, from which an endowment payout is provided annually. The Fund combines a core portion of available long-term operating funds with endowments from donors held in trust at Western. As the largest investment asset, the Fund is the focus of this document, although all portfolios are managed in keeping with Western’s policies and fiduciary obligations.

Western’s investment strategies related to the Fund have generated substantial returns over the long run (10-yr. gross return of 9.2%) and play a critical role in providing financial support to the university each year. In 2024, the Fund paid \$42.6 million to finance university activities, important resources available to support student aid, chairs, professorships, and fellowships, research and academic enrichment.

As the Fund plays a critical role in supporting Western’s long-term financial well-being and mission, the investment strategies employed are necessarily sophisticated and require expertise to manage. If returns materialize as expected, the results compound and provide even more financial resources to support key initiatives that benefit our students and faculty. As an example, Western’s investment returns contributed to the Fund payout increasing from \$30.6 million to \$42.6 million in the last 5 years - growth that, for example, can be put towards more student aid and be transformational for students who receive financial assistance.

Conversely, the compounding effect of any foregone returns substantially impact tomorrow’s students and campus community, taking away opportunities for years to come. Returns that are foregone are never recuperated.

Western's Investment Governance

The Board of Governors is responsible for the Fund and its financial outcomes. While the Board maintains direct responsibility, it has an Investment Committee to bring expert advice and knowledge to bear on the effective management of Western's investments. The Investment Committee makes recommendations to the Board on policy and strategy, and is responsible for appointing managers and monitoring the performance of the Fund. Both the Board and the Investment Committee act together to ensure that the fiduciary responsibility for the prudent management of university investments is met.

An important role of the Board is to approve the Statement of Investment Objectives, Policies and Governance, the document which sets out Western's policies for managing investments. Given the long-term nature of investments and the time it takes to appropriately implement new investment strategies, this policy is updated periodically, but not annually. The last update to the policy was in 2022 and included substantial changes to the asset mix and responsible investing sections of the document.

Western's Investment Strategies

Western has a small investment team (4.5 FTE) of dedicated professionals who manage over \$4.8 billion (including pensions) in assets across 66 mandates and 43 investment managers. The Operating and Endowment Fund alone has 44 mandates and 33 investment managers. The asset mix of the Fund allows Western to invest across strategic asset classes and in a variety of investment options to balance investment returns with an acceptable level of risk. This is a lean investment team for a demanding Fund structure, the advantage of which is keeping Western's administrative costs appropriately managed.

This structure is also reflective of Western's investment strategy. While our investments are sizeable assets to Western, comparatively speaking, we are a relatively small institutional investor. As a result, it is important for Western to invest by picking best-in-class external investment managers to build a diversified investment portfolio. This approach involves investing in pooled funds, allowing Western to invest alongside others in professionally managed funds. This is a common strategy for small institutional investors, since it provides greater access to investment products, diversifies risk and significantly reduces the cost of investing.

Western does not pick individual companies to invest in, nor do we control which companies our investment managers include in pooled funds. We also cannot demand investment managers exclude certain companies from pooled funds. Doing so would require separately managed accounts for each public equity investment, with separate investment policies for each mandate, where specific restrictions would be applied. The investment team has explored this option and determined that the fees (both explicit and implicit) for segregated accounts, and the compliance expense that would arise to manage global segregated accounts, would be cost-prohibitive. This would require fundamental changes to our investment strategies and our investment team, which would increase fees and expenses and lower returns without much change in the actual investment products.

We are sometimes asked why we publicly disclose our investment holdings each year at the company level; this is because we value transparency and have been asked by the community to

provide this detailed information. While presenting information this way makes it appear as though the university holds specific stocks or bonds, this is not the case. Western doesn't select any stocks or bonds and can't change an individual stock without selling an entire pooled fund investment.

For context, Western's average public equity pooled fund mandate is about \$130 million. An individual company we disclose as being included in our Fund could be held across several investment mandates. Hypothetically, eliminating a \$1 million investment from a single company would disrupt several hundred million of investment mandates. What seems like a simple change is actually a substantial decision that can have highly complex implications.

As a long-term investor, Western carefully adjusts its strategic asset allocation periodically, but not frequently. When new investment mandates are required, the Investment Committee carefully selects them to build a well-diversified portfolio to manage risk and returns. Hiring an investment manager is a significant undertaking, and when done properly, should take anywhere from 6-12 months for a single mandate to search, evaluate, decide, perform due diligence, and implement. Some can take longer, depending on whether up-front research and education is required.

Responsible Investing

Western has been committed to responsible investing for over 15 years, focusing on risk management around environmental, social and governance (ESG) factors. In 2023, we joined the Principles for Responsible Investment (PRI), a global initiative of responsible investors to reflect our commitment to integrating responsible investing in our investment processes.

ESG Integration

Our responsible investing approach centres on the integration of ESG factors into the investment process. The goal of ESG integration is to include relevant and material risks as part of the overall investment process, including decision-making, manager monitoring and active ownership.

As a result, we spend a lot of time working with our investment managers to ensure they consider ESG factors in their decisions. When selecting new managers, we assess how they incorporate these factors into their strategies as part of our due diligence, and we also check in with them annually to review their processes.

Integration of ESG is about overall risk management. Importantly, integration does not mean that any one risk creates a yes or no investment decision. Risks have to be aggregated and balanced in the decision-making process. Some risks are more quantifiable, which makes them easier to integrate in the process. Risks that are more subjective are harder to integrate. The industry must evolve over time to help categorize and quantify subjective risks. This is generally why environmental risk factors and climate change goals have formed a focus of our responsible investing strategy; the industry has developed analysis to make them more quantifiable. Social factors are a newer focus. While important, the industry has not caught up to measuring and incorporating social factors at the same pace as environmental or governance factors.

In our work with managers, we do engage with them about social factors, ranging from Indigenous reconciliation, diversity, equity and inclusion, human rights in conflict affected areas, and labour

rights. Social factors are an engagement priority, as we've highlighted in Responsible Investing Annual Reports. When working with investment managers, we want to understand why they chose certain investments and how they are exercising influence through voting rights to address risks. If we feel risks are not being appropriately considered, we include that in our performance considerations for the investment manager.

Integration not exclusion

Western has a long-standing position that we do not apply negative screens to exclude or restrict specific risks or industries in our portfolios. Negative screens reduce the investment universe and can increase fees, both of which impact investment returns.

Applying negative screens also implies a particular position or view is better than another, often without consideration of the impact on investment returns. This is inherently challenging since issues rarely have one clear result, and Western's Board is bound by its fiduciary duty to prudently manage Western's assets. When the issue is one of public debate, using the investments to make political or symbolic statements ignores the financial role investments play at Western and the responsibilities of Western's Board.

Instead, we select best-in-class external investment managers to integrate ESG risks into their selection process. These managers integrate and balance the relevant risk factors in deciding the merit of any investment. As risk impacts returns, we expect our investment managers to adjust their strategies as new risks emerge.

Engagement and using our voice

Western believes that being an asset owner provides a much stronger position to engage from. Given our institutional size and investment structure, we best achieve our engagement through investment managers, and by collaborating with others on specific topics of importance. If we remove our position as an asset owner, any influence we have to impact results is gone.

Western also collaborates with the University Network for Investment Engagement ([UNIE](#)), which allows us to join with other institutions for a bigger impact. This collective has the advantage of a much greater scale to amplify our engagement messages directly with companies. Engagements focus on reducing company carbon emissions, increasing corporate disclosures, and achieving a just climate transition for all. Western has been a member of UNIE since early 2022 and actively contributes to the development of engagement priorities for the collective.

Want to learn more?



Our investment team maintains an [Operating & Endowment Fund Investment website](#) where you can find the latest information on our investment data, strategies, policies and activities. Since investment data is always based on historical information, there is a delay in reporting.



Western is a signatory to the PRI, which means we've committed to certain global principles for responsible investing. We encourage you to learn more by reviewing the [PRI website](#) and materials, including signatory public reports. Western's first report will be available following the 2025 reporting cycle.