



**FOR INFORMATION**

**PUBLIC**

**OPEN SESSION**

**TO:** Business Board

**SPONSOR:** Sheila Brown, Chief Financial Officer  
**CONTACT INFO:** 416-978-2065, sheila.brown@utoronto.ca

**PRESENTER:** William W. Moriarty, President & CEO, UTAM  
**CONTACT INFO:** bill.moriarty@utam.utoronto.ca

**DATE:** September 12, 2014 for September 22, 2014

**AGENDA ITEM:** 4

**ITEM IDENTIFICATION:**

Investments: Mid-Year Investment Review

**JURISDICTIONAL INFORMATION:**

Under Section 5(1)(b) of the Business Board terms of reference the Board reviews regular reports on matters affecting the finances of the University, including reports on investments.

**GOVERNANCE PATH:**

1. Business Board (September 22, 2014)

**PREVIOUS ACTION TAKEN:**

The Business Board reviewed the UTAM annual report at its meeting of March 31, 2014.

**HIGHLIGHTS:**

The actual returns for the six-month period from January 1, 2014 to June 30, 2014 were 7.86% for the Long-Term Capital Appreciation Pool (LTCAP), 7.80% for the Pension Master Trust (PMT) and 1.10% for the Expendable Funds Investment Pool (EFIP). For the twelve-month period from July 1, 2013 to June 30, 2014, actual returns were 17.49% for LTCAP, 17.43% for PMT, and 2.10% for EFIP. These compared as follows to the nominal investment return targets for the university and PMT funds, and to the reference portfolio, which constitutes the portfolio benchmark and passive investment comparator for LTCAP and PMT, as follows:

- For the six-month reporting period from January 1, 2014 to June 30, 2014,
  - the target nominal return for LTCAP and PMT was 3.70%.
  - the target nominal return for EFIP was 0.70%.
  - the reference portfolio return for LTCAP and PMT was 6.51%.
  
- For the twelve-month reporting period from July 1, 2013 to June 30, 2014,
  - the target nominal investment return for LTCAP and PMT was 6.20%.
  - the target nominal return for EFIP was 1.67%.
  - the reference portfolio return for LTCAP and PMT was 15.88%

Actual returns for LTCAP and PMT have exceeded the target nominal investment return and the portfolio benchmark over the past five years, by the following percentages:

Actual Return Greater Than

Target Nominal Return by:

	<u>LTCAP</u>	<u>PMT</u>
YTD (Jan 14 - June/14)	4.16%	4.10%
1-Year (July 13 - June 14)	11.30%	11.23%
2-Year (July12 - June 14)	9.14%	9.01%
4-Year (July10 - June 14)	4.70%	4.60%
5-Year (July 09 - June 14)	4.35%	4.30%

Actual Return Greater Than

Portfolio Benchmark by:

	<u>LTCAP</u>	<u>PMT</u>
YTD (Jan 14 - June/14)	1.35%	1.29%
1-Year (July 13 - June 14)	1.61%	1.55%
2-Year (July12 - June 14)	2.09%	1.97%
4-Year (July10 - June 14)	1.41%	1.27%
5-Year (July 09 - June 14)	1.05%	1.00%

**FINANCIAL IMPLICATIONS:**

See above.

**RECOMMENDATION:**

For information.

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**DOCUMENTATION PROVIDED:**

Mid-Year Investment Review

# Mid-Year Investment Review

**Business Board Meeting  
Monday, September 22<sup>nd</sup>, 2014**



**William W. Moriarty, CFA  
President & CEO, UTAM**

# Assets Under Management

(million \$ at quarter-end)

	Q2/2013	Q3/2013	Q4/2013	Q1/2014	Q2/2014
<b>LTCAP</b>	1,929	1,984	2,098	2,036	2119
<b>Pension</b>	2,915	3,051	3,246	3,475	3605
<b>EFIP</b>	1,060	1,346	1,253	1,185	1111
<b>LTCAP PM</b>	32	34	37	38	39
<b>Total</b>	<b>5,936</b>	<b>6,415</b>	<b>6,634</b>	<b>6,735</b>	<b>6874</b>

- **Assets under management increased by 15.8% in the last year, paced by a 23.7% increase in Pension assets.**

# Portfolio Performance vs. Benchmarks

Performance Summary - June 30, 2014							
	Net Return						
	Q2 2014	YTD	1 Year	2 Years	4 Years	5 Years	10 Years
<b>Actual Portfolio Return:</b>							
LTCAP	3.54%	7.86%	17.49%	14.85%	10.71%	10.18%	4.70%
Pension	3.45%	7.80%	17.43%	14.73%	10.61%	10.13%	4.66%
EFIP	0.49%	1.10%	2.10%	1.76%	1.98%	2.03%	2.80%
LTCAP-PM	3.45%	7.02%	17.88%	14.59%	n.a	n.a	n.a
<b>Benchmark Portfolio Return:</b>							
LTCAP <sup>1</sup>	3.18%	6.51%	15.88%	12.76%	9.30%	9.13%	5.01%
Pension <sup>2</sup>	3.18%	6.51%	15.88%	12.76%	9.34%	9.13%	4.99%
EFIP <sup>3</sup>	0.33%	0.70%	1.67%	1.60%	1.77%	1.71%	2.99%
LTCAP-PM <sup>4</sup>	3.18%	6.51%	15.88%	12.79%	n.a.	n.a.	n.a.
<b>University Targets:</b>							
CPI + 4%	1.88%	3.70%	6.20%	5.72%	6.01%	5.83%	5.83%
365 day T-bill + 0.50%	0.33%	0.70%	1.67%	1.60%	1.77%	1.71%	2.99%

1. New Reference Portfolio is effective March 2013; BM portfolio also becomes the new Reference Portfolio.

2. New Reference Portfolio is effective May 2013; BM portfolio also becomes the new Reference Portfolio.

3. BM and Reference portfolio are the 365-day Cdn. T-Bill Index return plus 50 basis points.

4. New Reference Portfolio is effective October 2011; BM portfolio is the new Reference Portfolio.

- Portfolio performance quite favorable versus University Targets (LTCAP +416 bps) and Benchmark portfolio (LTCAP +135 bps) in YTD 2014; also quite favorable over the last five years.
- Part reflects environment (see Benchmark Portfolio) and part reflects active management (see extra return of Actual Portfolio versus Benchmark Portfolio).



# How Much Did the Capital Markets' Environment Contribute?

Selected Market Benchmarks					
Gross Return (before costs)					
Market Benchmarks:	YTD	1 Year	2 Years	4 Years	5 Years
<b>Equity:</b>					
S&P/TSX (CAD)	12.86%	28.66%	17.82%	10.78%	11.01%
S&P 500 (USD)	7.14%	24.61%	22.59%	19.96%	18.83%
MSCI EAFE (Local)	3.12%	17.91%	21.37%	11.14%	10.90%
MSCI EM (Local)	4.58%	13.73%	9.85%	7.12%	9.55%
<b>Fixed Income:</b>					
FTSE TMX Universe (CAD)	4.82%	5.34%	2.55%	4.78%	5.19%
FTSE TMX Government (CAD)	4.82%	5.00%	1.87%	4.42%	4.65%
FTSE TMX Corporate (CAD)	4.79%	6.12%	4.29%	5.69%	6.59%
<b>Foreign Exchange:</b>					
US Dollar	0.25%	0.97%	2.22%	0.06%	-1.71%
Euro	-0.39%	6.35%	6.17%	2.88%	-2.19%

- Stock market performance surprisingly strong aided by better than expected bond market performance.
- As usual, majority of LTCAP and Pension performance (approx. 70%) is the result of the capital markets environment and the asset mix decisions as reflected in the Benchmark Portfolio (return of 6.51% YTD).



# How Did the University's Private Markets' Investments Perform?

Private Markets Investments June 30, 2014						
Local Return (after fees)						
	LTCAP YTD	Pension YTD	Pension			
			1 Year	2 Years	4 Years	5 Years
<b>Private Equity</b>	<b>9.06</b>	<b>9.07</b>	<b>14.32</b>	<b>13.85</b>	<b>13.19</b>	<b>16.17</b>
Buyout	7.96	7.98	13.75	12.70	14.17	15.88
Distressed Debt	8.96	8.93	14.02	16.15	12.53	19.04
Venture Capital	18.72	21.74	22.21	9.50	6.05	3.14
<b>Real Assets</b>	<b>9.03</b>	<b>9.59</b>	<b>12.59</b>	<b>13.22</b>	<b>11.82</b>	<b>9.80</b>
Real Estate & Infrastructure	10.77	11.78	15.90	16.15	15.62	12.50
Commodities	5.84	5.96	6.96	8.02	5.01	4.82

- YTD 2014 Private Markets results quite respectable compared to Public Markets alternatives.
- Over longer term, performance also compares favorably.





# Did Active Management Decisions Add Value?

Performance Attribution - YTD 2014			
	LTCAP	Pension	LTCAP-PM
<b>Benchmark Portfolio (CAD):</b>	<b>6.51%</b>	<b>6.51%</b>	<b>6.51%</b>
<i>Asset Mix Differences</i>	-0.50%	-0.50%	0.06%
<i>Style Tilts</i>	0.02%	0.02%	0.16%
<i>Manager Selection</i>	1.73%	1.69%	0.55%
<i>Different FX Exposure</i>	0.13%	0.13%	-0.13%
<i>Residual</i>	-0.02%	-0.04%	-0.12%
<b>Actual Portfolio (CAD)</b>	<b><u>7.86%</u></b>	<b><u>7.80%</u></b>	<b><u>7.02%</u></b>
<b>Value-Add</b>	<b>1.35%</b>	<b>1.29%</b>	<b>0.52%</b>

- Solid value-add by UTAM team in YTD 2014 .
- Main contributor was manager selection.



# Style Tilts & Manager Selection Added Value

(in basis points)

Style & Manager Value-Add (bps) - YTD 2014				Estimated Legacy Portfolio Contribution	
	LTCAP	Pension	LTCAP -PM	LTCAP	Pension
Cdn. Equity	7	11	15	-1	-1
U.S. Equity	28	29	14	17	18
EAFE Equity	71	68	39	38	36
EM Equity	44	39	0	-5	-3
Credit	-3	-3	-1	0	0
Rates	3	2	5	n.a.	n.a.
Absolute Return	27	24	n.a.	n.a.	n.a.
<b>Value-Add</b>	<b>175</b>	<b>171</b>	<b>71</b>	<b>49</b>	<b>49</b>

- 'Legacy' Private Markets investments added value in YTD 2014 since aggregate returns exceeded the performance of most Public Markets alternatives.
- Restructured slate of managers generally matched or outperformed asset class benchmarks – adding 126 bps to LTCAP performance (175 minus 49).



# A Longer Perspective on Active Management Performance

<b>Value-Add vs. Benchmark Portfolio</b>					
	<b>YTD</b>	<b>1-Year</b>	<b>2-Years</b>	<b>4-Years</b>	<b>5-Years</b>
<b>LTCAP:</b>					
Benchmark Portfolio (CAD):	6.51%	15.88%	12.76%	9.30%	9.13%
<b>Actual Portfolio (CAD)</b>	<b>7.86%</b>	<b>17.49%</b>	<b>14.85%</b>	<b>10.71%</b>	<b>10.18%</b>
<b>Value Add</b>	<b>1.35%</b>	<b>1.61%</b>	<b>2.09%</b>	<b>1.41%</b>	<b>1.05%</b>
<b>Pension:</b>					
Benchmark Portfolio (CAD):	6.51%	15.88%	12.76%	9.34%	9.13%
<b>Actual Portfolio (CAD)</b>	<b>7.80%</b>	<b>17.43%</b>	<b>14.73%</b>	<b>10.61%</b>	<b>10.13%</b>
<b>Value Add</b>	<b>1.29%</b>	<b>1.55%</b>	<b>1.97%</b>	<b>1.27%</b>	<b>1.00%</b>

- **Benchmark Portfolio is a mixture of the old Policy asset mix and the new Reference Portfolio asset mix.**
- **Value-added from UTAM ‘active’ management decisions has been meaningful over the last several years.**



# Current Asset Allocation and Limits

(Percentages)

LTCAP - June 30, 2014						
		Reference	Actual	Outside	----- Bands -----	
		Portfolio	Portfolio	Band	Min.	Max.
		%	%		%	%
<b>Equity:</b>						
	Canadian	16	16.1	N	11	21
	US	18	16.9	N	13	23
	EAFE	16	16.0	N	11	21
	EM	10	10.0	N	5	15
	<b>Total</b>	60	59.0	N	50	70
<b>Credit:</b>						
		20	20.1	N	10	25
<b>Rates:</b>						
		20	10.5	N	10	30
<b>Other:</b>						
	Absolute Return		9.4			
	Cash		1.0			
	<b>Total</b>	0	10.4	N	0	15
		100	100.0			
<b>FX Exposure:</b>						
		21.9	25.5	N	5	35

➤ All exposures within bands.



# Current Asset Allocation and Limits

(Percentages)

Pension - June 30, 2014						
	Reference		Actual	Outside	----- Bands -----	
	Portfolio		Portfolio	Band	Min.	Max.
	%		%		%	%
<b>Equity:</b>						
Canadian	16		16.1	N	11	21
US	18		16.9	N	13	23
EAFE	16		16.0	N	11	21
EM	10		10.0	N	5	15
<b>Total</b>	60		59.0	N	50	70
<b>Credit:</b>	20		20.1	N	10	25
<b>Rates:</b>	20		11.4	N	10	30
<b>Other:</b>						
Absolute Return			8.5			
Cash			1.0			
<b>Total</b>	0		9.5	N	0	15
	100		100.0			
<b>FX Exposure:</b>	21.9		25.3	N	5	35

➤ All exposures within bands.



# Portfolio Risk vs. Reference Portfolio

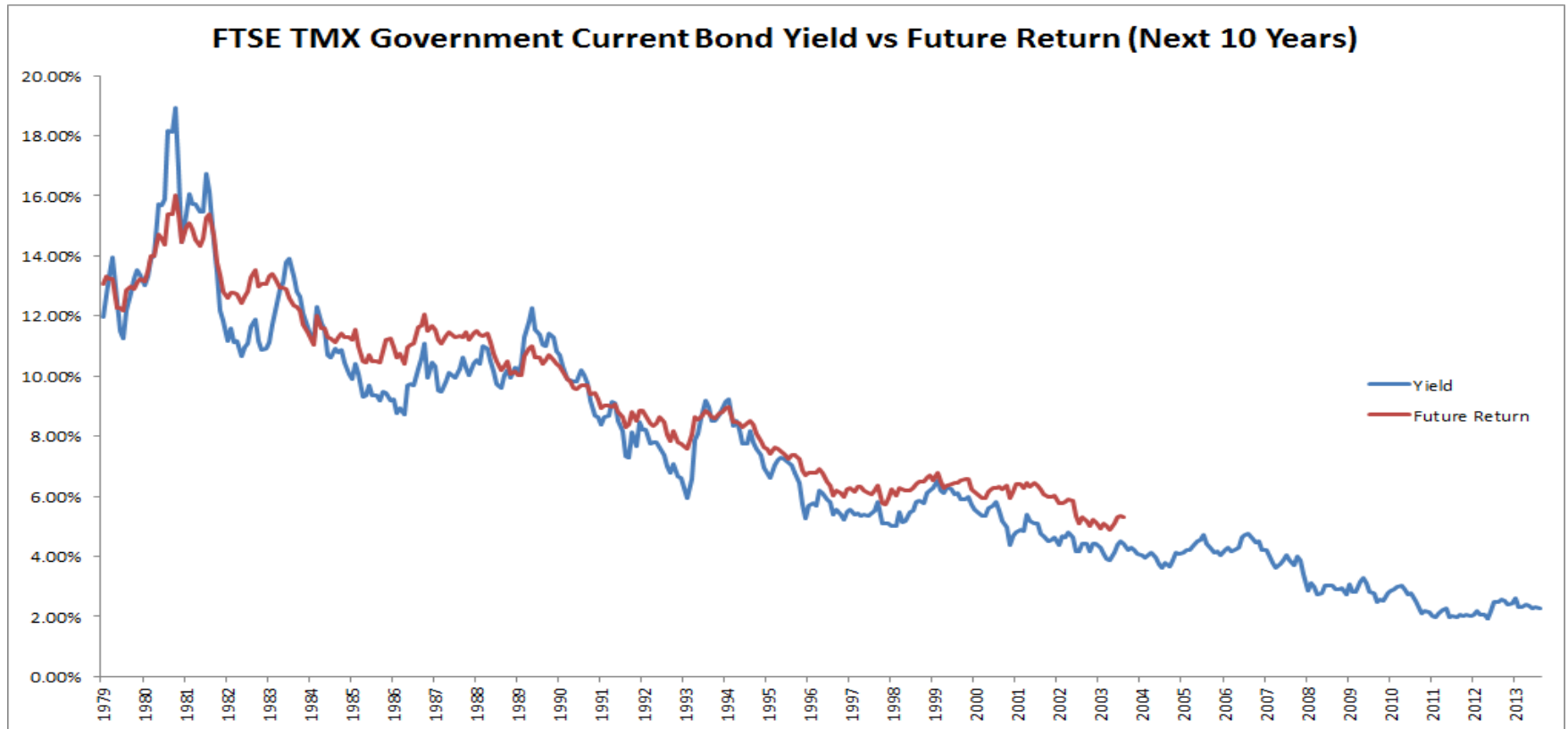
## Total Risk Attribution

<b>PENSION</b>	<b>Volatility %</b>	<b>VaR % (1 Month)</b>	<b>CVaR% (1 Month)</b>
Reference Portfolio	5.86%	-2.69%	-3.00%
Actual Portfolio	6.34%	-3.13%	-3.49%

- Absolute level of measured portfolio volatility is quite low relative to history.
- Actual pension portfolio volatility exceeds that of Reference Portfolio by 47 basis points (limit of 75 basis points); LTCAP excess is 50 basis points.
- Important to appreciate that this analysis may overstate short-term risk versus Reference Portfolio as all private market investments treated as if they were public markets investments.
- Liquidity level of portfolio is high with greater than 78% of assets convertible to cash within 90-days (LTCAP level is 75%).

# Understanding the Challenges Ahead

-- Fixed Income --

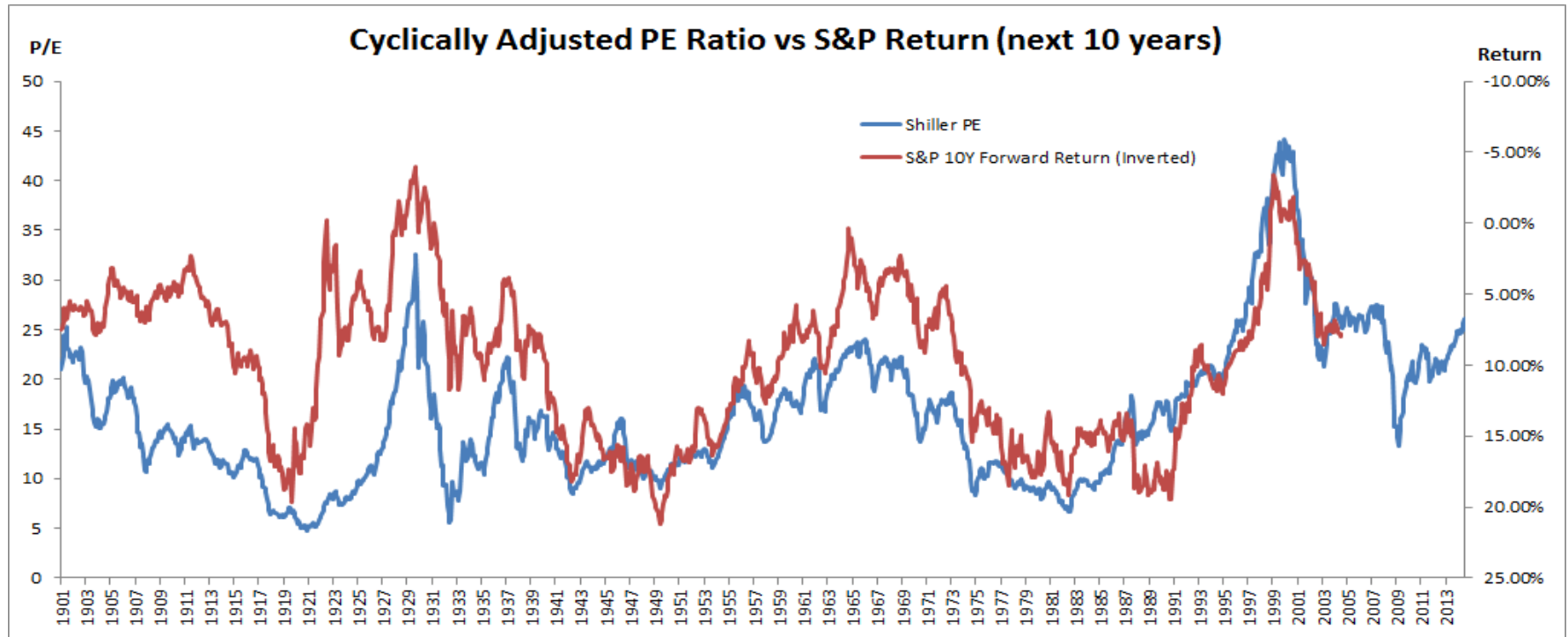


- **Level of current yields (2.4%) provides a very good estimate of future return from bonds.**
- **At current levels, bonds provide not only meager return prospects but also much more limited protection against market and economic turbulence. Very different than last 30 years.**



# Understanding the Challenges Ahead

-- Equities --



- **Cyclically adjusted price / earnings ratio of US market higher than 90% of historical readings.**
- **Current US equity market valuations suggest considerably more moderate returns ahead. This simple valuation model currently implies an annual equity return of 4.8% over next 10 years.**





# Current Investment Environment

- Economic conditions around the world remain uneven and growth is generally below historical trend.
- Inflation likely to remain quite moderate but medium term risks persist.
- Significantly higher interest rates are unlikely but the fixed income bull-market of the last 30 years appears to be over.
- Select alternative credit strategies remain quite attractive.
- US equities not as expensive as in 2000 or 2007 but definitely not cheap in a long term context.
- Very low interest rates complicate the interpretation of valuation levels.
- Current rich valuations in stocks and bonds imply elevated risk combined with the likelihood of only moderate returns from 'passive' portfolios or portfolios comprised solely of traditional assets and long-only strategies.
- The additional return offered by 'active' management should represent a significant part of overall portfolio returns going forward.

# Questions?



# Glossary

<b>Absolute Return</b>	An absolute return fund seeks to make positive returns in all market environments by employing investment management techniques that differ from those employed by traditional fund managers that only buy securities (i.e., long only). Absolute return investment strategies may include using short selling, options, derivatives, arbitrage, leverage, etc and may be applied across various assets.
<b>Active Investing</b>	An investment approach that purposely shifts funds between asset classes, strategies, sectors or individual securities in order to seek superior returns.
<b>Benchmark Portfolio</b>	A standard which reflects the asset owners objectives and against which an 'actual' portfolio's performance and risk can be measured. Benchmark portfolios are generally comprised of a predetermined set of asset exposures with returns based on various published market indexes such as the S&P 500 Index.
<b>FTSE TMX Universe</b>	The Universe index is the broadest and most widely used measure of the performance of Canadian government and corporate bonds.
<b>FTSE TMX Government</b>	This index measures the performance of marketable government bonds in the Canadian market. It includes Federal, Provincial and Municipal bonds.
<b>FTSE TMX Corporate</b>	This index is a measure of the performance of Canadian investment-grade Corporate bonds.
<b>FX Exposure</b>	This measures the amount of foreign currency owned as a result of having assets in currencies other than the home currency (i.e., the Canadian dollar) and is net of any hedges employed.
<b>MSCI EAFE</b>	This index is designed to measure the equity market performance of 21 developed economies excluding the US & Canada. EAFE stands for Europe, Australasia and the Far East.
<b>MSCI EM</b>	This index is designed to measure the equity market performance of 23 emerging economies. It includes Brazil, Russia, India and China.

<b>Passive Investing</b>	Buying a portfolio which replicates a broad-based market index without attempting to search out mispriced securities or assets.
<b>PE Ratio</b>	A valuation measure which compares a company's share price to its per-share earnings.
<b>Private Equity</b>	Consists primarily of equity securities of companies that are not publicly traded on a stock exchange.
<b>Real Assets</b>	Assets such as land and buildings, infrastructure, commodities, etc.
<b>S&amp;P/TSX Composite</b>	The headline index for the Canadian equity market. It is an index of the equity prices of the largest companies on the Toronto Stock Exchange as measured by market capitalization.
<b>S&amp;P 500</b>	A U.S. stock market index based on the market capitalization of 500 large companies having common stock listed on the NYSE or NASDAQ.
<b>Volatility</b>	A statistical measure of the dispersion of returns for a given security or portfolio. Volatility is generally measured by using the standard deviation of returns over some period. Commonly, the higher the volatility, the riskier the security or portfolio.
<b>VaR</b>	Value-at-Risk is a common measure of the market risk of an investment portfolio over a specific time frame. As used in this report, it indicates the level of loss that one might expect would only be exceeded once in twenty months. The calculation can be sensitive to the time period analyzed. The values shown in this report are based on an analysis of performance over the last 5 years.
<b>CVaR</b>	A risk measure derived by assessing the likelihood (at a specified confidence level) that a loss will exceed the value-at-risk level. CVaR is the expected loss should this occur ( it is derived by taking a weighted average between the value-at-risk and losses exceeding the value-at-risk. It is calculated using the same time period used for VaR).