



University of Toronto

VICE-PRESIDENT, BUSINESS AFFAIRS – FINANCIAL SERVICES DEPARTMENT

TO: Business Board

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DATE: January 7, 2004 for January 19, 2004

AGENDA ITEM: 7

ITEM IDENTIFICATION:

Amendment to the Service and UTAM Personnel Agreement between the Governing Council of the University of Toronto and the University of Toronto Asset Management Corporation – Schedule C, Performance Benchmarks.

JURISDICTIONAL INFORMATION:

The Business Board is responsible for approval of the conditions for the delegation of authority to a University-controlled asset management corporation for the management of the investment of University funds and pension funds.

PREVIOUS ACTION TAKEN:

This agreement was last amended and approved by Business Board on April 7, 2003.

HIGHLIGHTS:

At its meeting of April 7, 2003, the Business Board approved a changed relationship with UTAM whereby the Business Board specified the investment return objective and the risk tolerance and delegated to UTAM the development of an appropriate asset mix to meet those objectives.

The performance benchmarks contained in Schedule C to the service agreement needed to be changed to reflect the new asset mix; however, this could not occur until UTAM had determined the asset mix. There was also a need to expand the performance benchmarks to include peer universes to enable the University to compare itself to other investors.

The endowment and pension liabilities have been reviewed and determined to be very similar. The resulting asset mix strategies are also very similar, with the exception that the foreign content of the pension master trust must conform to the foreign content rules.

The previous benchmarks have been modified as follows:

- The category “real assets” was included, with performance to be compared to the National Council of Real Estate Investment Fiduciaries (NCREIF) Index (50%) and the Goldman Sachs Commodity Index (50%).
- The category “private equity” was added, with performance compared to a benchmark of the Russell 3000 Index of U.S. equities plus 500 basis points.
- The category “absolute return” was added, with performance being compared to LIBOR plus 450 basis points.
- Peer universes were added, with performance being compared to the appropriate RBC Global Services universe, as follows:
 - o Total fund – RBC Global Services Balanced Fund Universe.
 - o Canadian equities – RBC Global Services Canadian Equity Funds Universe.
 - o U.S. equities – RBC Global Services U.S. Equity Funds Universe.
 - o International equities – RBC Global Services Non-North-American Equity Funds Universe.
 - o Fixed income – RBC Global Services Fixed Income Funds universe.
- Foreign currency benchmarks reflecting foreign currency hedge ratios approved by UTAM board were added.
- EFIP target returns as agreed with the University were added.

The peer universes have been selected to provide comparisons to other Canadian investors. It is important to note that the asset mixes for both the pension funds and the LTCAP are quite different from those of typical Canadian funds. Nevertheless the University wants to know not only how UTAM’s portfolio managers are performing compared to market indices, but also how the University’s investments are performing compared to those of other Canadian universities.

Attachment 1 provides the revised schedule C containing the proposed performance benchmarks. Attachment 2 contains the previous Schedule C for comparison purposes.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

Provides criteria for measuring investment performance by UTAM.

RECOMMENDATION:

It is recommended that the Business Board approve Schedule C (as contained in attachment 1) to the Amended and Restated Service and UTAM Personnel Agreement between the Governing Council of the University of Toronto and the University of Toronto Asset Management Corporation, which was last approved by the Business Board on April 7, 2003.

SCHEDULE “C”

The investment returns achieved by UTAM are compared to performance benchmarks against market indices and peer universes. Effective October 1, 2003, these benchmarks¹ are:

LTCAP & Pension Master Trust

Composite Market Index Benchmark	
Canadian Equities	S&P/TSX Capped Composite ²
U.S. Equities	Russell 3000
NNA Equities	MSCI EAFE
Fixed Income	Scotia Capital Bond Universe (60% LTCAP / 50% Pension) Scotia Capital Long Bond Index (40% LTCAP / 50% Pension)
Real Asset	Real Estate (50%) — NCREIF ³ Commodities (50%) — GSCI
Private Equities	Russell 3000 + 500 bps
Absolute Return	3 month LIBOR + 450 bps

Peer Universe Comparison	
Total Fund:	RBC GS ⁴ Balanced Funds Universe
Canadian Equity:	RBC GS Canadian Equity Funds Universe
U.S. Equity:	RBC GS U.S. Equity Funds Universe
International Equity:	RBC GS Non-North American Equity Funds Universe
Fixed Income:	RBC GS Canadian Fixed Income Funds Universe

EFIP

Target return for the University of Toronto fiscal years:

2003/2004	4.5%
2004/2005	5.5%

Foreign Exchange Currency Overlay Hedge Policy

	Hedge Ratio
U.S. Equities	50%
International Equities	50%
Non-Canadian Fixed Income	100%
Absolute Return	75%
Private Equity	50%
Real Assets	50%

¹ Based on total return indexes.

² The S&P/TSX Capped Composite Index and the S&P/TSX Composite Index share the same constituents, but each stock in the capped index is limited to a maximum weight of 10% of the index, measured on a quarterly basis.

³ NCREIF – National Council of Real Estate Investment Fiduciaries Index.

⁴ RBC GS – RBC Global Services, formerly SEI Funds Universe

Schedule "C"

The investment returns achieved by UTAM are compared to performance benchmarks against market indices and peer universes. Effective April 7, 2003, these benchmarks are:

LTCAP**Composite Market Index Benchmark**

Scotia Capital Bond Universe	12%
Scotia Capital Long Bond Index	8%
S&P/TSX Composite	10%
Russell 3000	35%
MSCI EAFE	35%

Peer Universe Comparison

Total Fund:	Cambridge Associates College and University Endowment Universe
Canadian Equity:	Russell/Mellon Analytical Services CTUCS Canadian Equity Universe
U.S. Equity:	Russell/Mellon Analytical Services CTUCS U.S. Equity Universe
International Equity:	Russell/Mellon Analytical Services CTUCS Non-North American Equity Universe
Fixed Income:	Russell/Mellon Analytical Services CTUCS Canadian Bond Universe

Pension Master Trust**Composite Market Index Benchmark**

Scotia Capital Bond Universe	30%
Scotia Capital Long Bond Index	10%
S&P/TSX Composite	10%
Russell 3000	25%
MSCI EAFE	25%

Peer Universe Comparison

Total Fund:	Russell/Mellon Analytical Services Canadian Trust Universe – Total Pension Funds Over \$1.0 Billion
Canadian Equity:	Russell/Mellon Analytical Services CTUCS Canadian Equity Universe
U.S. Equity:	Russell/Mellon Analytical Services CTUCS U.S. Equity Universe
International Equity:	Russell/Mellon Analytical Services CTUCS Non-North American Equity Universe
Fixed Income:	Russell/Mellon Analytical Services CTUCS Canadian Bond Universe

EFIP**Composite Market Index Benchmark**

91 Day T-Bills	15%
Scotia Capital Short-Term Bond Index	25%
S&P/TSX Composite	5%
Russell 3000	20%
MSCI EAFE	20%
91-Day T-bills +250 basis points	15%