Portfolio Performance Review

University of Toronto Business Board Meeting

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In Brief

- **Total assets under management increased 12.0% in 2014 to $7.4 billion; long-term assets increased by 12.9% to $6.1 billion.**
- **Capital markets environment remained favorable in 2014 but was again characterized by significant dispersion of returns.**
- **Changes enacted over the last six years continued to generate value-add for portfolios in 2014.**
- **Actual return on long-term portfolios exceeded University's Target Return by over 7% in 2014.**
- **'Active' management decisions contributed approximately half of this amount.**
- **Steady improvement in performance compared to Benchmark Portfolio over recent years.**
- **Continue to expect that a more challenging environment for investors lies ahead.**

Annual Returns vs. University Targets

	2014			2 - Year (2013-2014)			4 - Year (2011-2014)		
	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP
University Target Return[1]	**5.6%**	**5.6%**	**1.5%**	**5.5%**	**5.5%**	**1.6%**	**5.5%**	**5.5%**	**1.8%**
Benchmark Portfolio Return	9.7%	9.7%	n.a.	11.0%	11.0%	n.a.	7.7%	7.8%	n.a.
Actual Net Return[2]	**12.9%**	**12.7%**	**2.0%**	**14.1%**	**13.9%**	**1.8%**	**9.5%**	**9.4%**	**1.9%**
Assets (December 31; millions)									
2014	$2,293	$3,784	$1,353						
2013	$2,135	$3,246	$1,253						

n.a. = not applicable

1 For the Endowment and Pension portfolios, the target return is 4% plus inflation (CPI). For EFIP, the target return is the 365-day Canadian T-bill Index return plus 50 basis points.

2 Gross return less all fees and costs including UTAM costs, external manager fees, custody costs, etc.

- **Very good year for the University as the two main portfolios earned an extra 7% over the Target Return.**
- **Based on beginning of year asset levels, this equates to an extra $384mm for the University.**

2014 Value-Added Versus Benchmark Portfolio

2014 Performance Attribution (%)

	Endowment		Pension	
Reference Portfolio Return (C$)		**9.67%**		**9.67%**
Value Added Versus Reference Portfolio				
Asset Mix Differences	-0.91%		-0.87%	
Style Tilts and Manager Selection	3.36%		3.15%	
Different FX Exposure	0.83%		0.80%	
Other	-0.06%	**3.22%**	-0.07%	**3.01%**
Actual Portfolio Performance (C$)		**12.89%**		**12.67%**

- **The Benchmark Portfolio (i.e., the Reference Portfolio) continued to outperform the University Target -- by more than 4% in 2014.**

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- **Active management decisions (net of costs) added an additional 3% to performance, especially UTAM's manager and strategy selection activities. Currency also added**.

A Steady Improvement in Value-Added

Value-Add vs. Benchmark Portfolio			
	LTCAP		Pension
2009	-1.72%		-1.57%
2010	-0.14%		0.11%
2011	0.40%		0.35%
2012	0.90%		0.62%
2013	2.92%		2.71%
2014	3.22%		3.10%

- **Value-added has steadily improved each year since 2008. Last two years have been extremely strong.**
- **Reflects restructuring of portfolios in early 2012, the addition of experienced personnel and the development of enhanced infrastructure at UTAM.**

Portfolio Asset Mix

	Endowment		Pension		Reference
(AS AT DECEMBER 31)	**2013**	**2014**	**2013**	**2014**	**Portfolio**
Canadian Equity[1]	15.8%	**16.1%**	15.8%	**16.1%**	16.0%
US Equity[1]	18.0%	**17.8%**	18.1%	**17.8%**	18.0%
Int'l Developed Markets Equity[1]	16.3%	**15.7%**	16.3%	**15.7%**	16.0%
Emerging Markets Equity[1]	10.1%	**9.9%**	10.1%	**10.0%**	16.0%
Credit[1]	18.8%	**20.0%**	18.8%	**20.0%**	20.0%
Rates[1]	10.8%	**10.2%**	11.1%	**10.6%**	20.0%
Other (including cash and notional offsets)[2]	10.2%	**10.2%**	9.9%	**9.7%**	0.0%
Total	100.0%	**100.0%**	100.0%	**100.0%**	100.0%
Cash (actual)[3]	5.9%	**17.6%**	6.0%	**17.0%**	
Portfolio Value (millions)	$2,135	**$2,293**	$3,246	**$3,784**	

- **No major changes in asset mix in 2014; generally in line with Reference Portfolio.**
- **Continued to underweight government bonds in 2014.**

Public Markets Returns

Public Markets Index Returns (Local)
(Before Fees)

	(Periods Ending December 31)							Cum.
	2008	2009	2010	2011	2012	2013	2014	2008-14
Canadian Equity	-33.0%	35.1%	17.6%	-8.7%	7.2%	13.0%	10.6%	30.1%
U. S. Equity	-37.0%	26.5%	15.1%	2.1%	16.0%	32.4%	13.7%	63.4%
Int'l Developed Markets Equity	-40.3%	24.7%	4.8%	-12.2%	17.3%	26.9%	5.9%	8.2%
Emerging Markets	-45.9%	62.3%	14.1%	-12.7%	17.0%	3.4%	5.2%	11.2%
Canadian Corporate Bonds	0.2%	16.3%	7.3%	8.2%	6.2%	0.8%	7.6%	56.0%
Canadian Government Bonds	9.0%	1.6%	6.5%	10.2%	2.6%	-2.0%	9.3%	42.9%
USDCAD	25.1%	-15.1%	-5.2%	2.5%	-2.2%	6.7%	9.0%	17.4%
EURCAD	18.9%	-12.3%	-11.4%	-0.8%	-0.7%	11.5%	-4.3%	-2.9%

- **Equity markets performance more varied in 2014; fixed income performance better than most, including UTAM, initially expected.**
- **Currency hedging policy a more important factor in 2014 (e.g., less USD hedging increased returns).**

Private Investment Returns

Actual Alternative Asset Returns (Local)[1]

(After Fees)

	(Periods Ending December 31)							Cum.
	2008	2009	2010	2011	2012	2013	2014	2008-14
Private Investments	**1.5%**	**-1.2%**	**20.2%**	**14.8%**	**12.8%**	**13.8%**	**15.4%**	**105.0%**
Buyout	-0.2%	-9.7%	25.5%	14.9%	15.0%	14.2%	16.4%	98.7%
Distressed	-7.3%	15.8%	17.6%	8.1%	16.6%	15.0%	14.6%	109.8%
Venture	19.9%	-6.9%	2.4%	27.4%	-12.6%	4.0%	11.3%	47.4%
Real Assets	**-2.9%**	**-18.0%**	**13.1%**	**9.0%**	**7.1%**	**11.6%**	**19.2%**	**39.8%**
Real Estate & Infrastructure	-1.4%	-26.2%	15.3%	12.5%	9.5%	14.7%	24.3%	47.2%
Commodities	-8.9%	-0.8%	8.8%	1.8%	2.1%	5.3%	10.2%	18.6%

1 . Endowment Returns. Pension Returns substantially similar.

- **Private markets results were again quite strong in 2014.**
- **Longer term performance has also been quite attractive versus Public Market equities.**

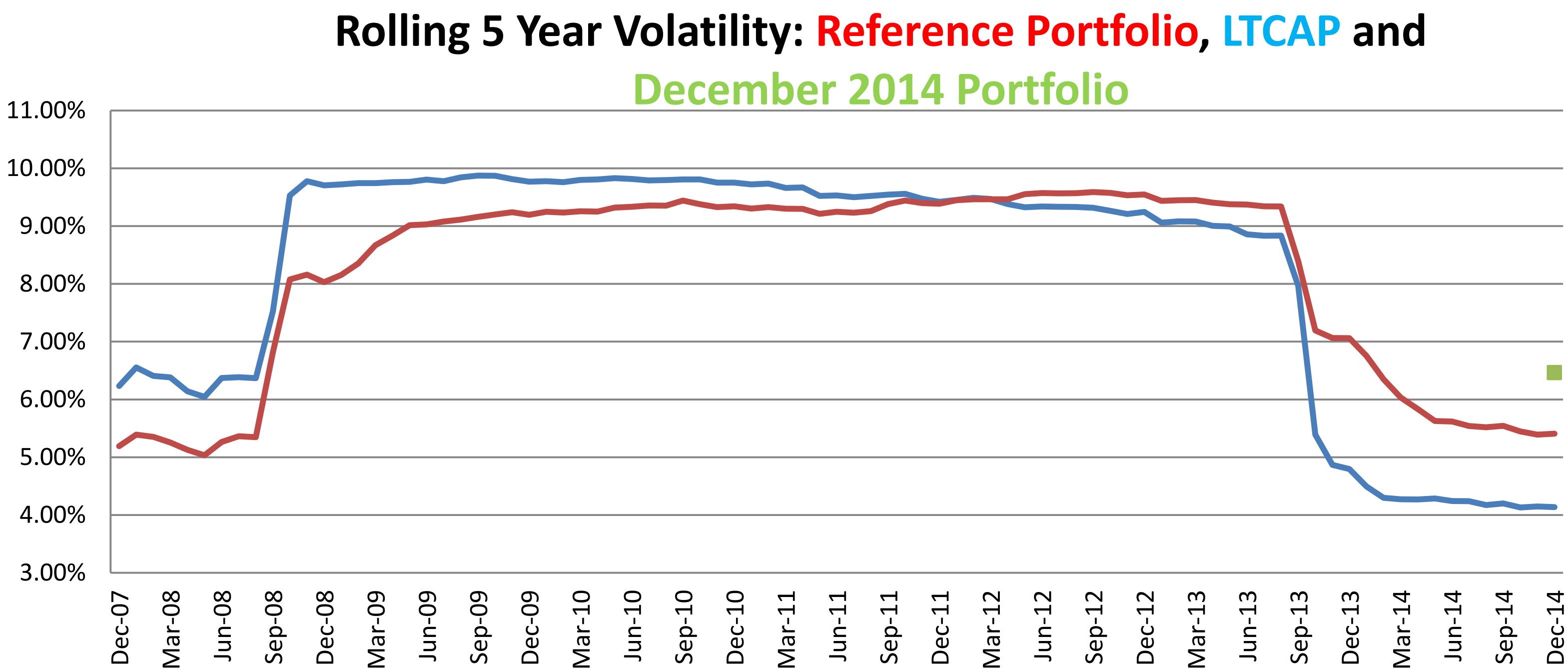
Asset Segment Returns

(12 months ending December)	Endowment			Pension	
	Portfolio	Benchmark		Portfolio	Benchmark
Canadian Equity	10.8%	10.6%		10.2%	10.6%
US Equity (USD)	14.7%	13.7%		14.8%	13.7%
EAFE Equity (local)	14.4%	5.9%		14.4%	5.9%
Emerging Markets Equity (USD)	4.9%	-2.2%		4.4%	-2.2%
Credit	7.1%	7.6%		7.1%	7.6%
Rates	9.8%	9.3%		9.8%	9.3%
Absolute Return(local)[1]	11.8%	9.3%		11.6%	9.3%

1. Benchmark Index for Absolute Return is FTSE TMX Government Bond Total Return Index

- **Most areas outperformed the public markets benchmark; some quite strongly.**
- **Canadian public markets' equity and credit managers posted slight underperformance versus their benchmarks.**

Portfolio Risk vs. Reference Portfolio

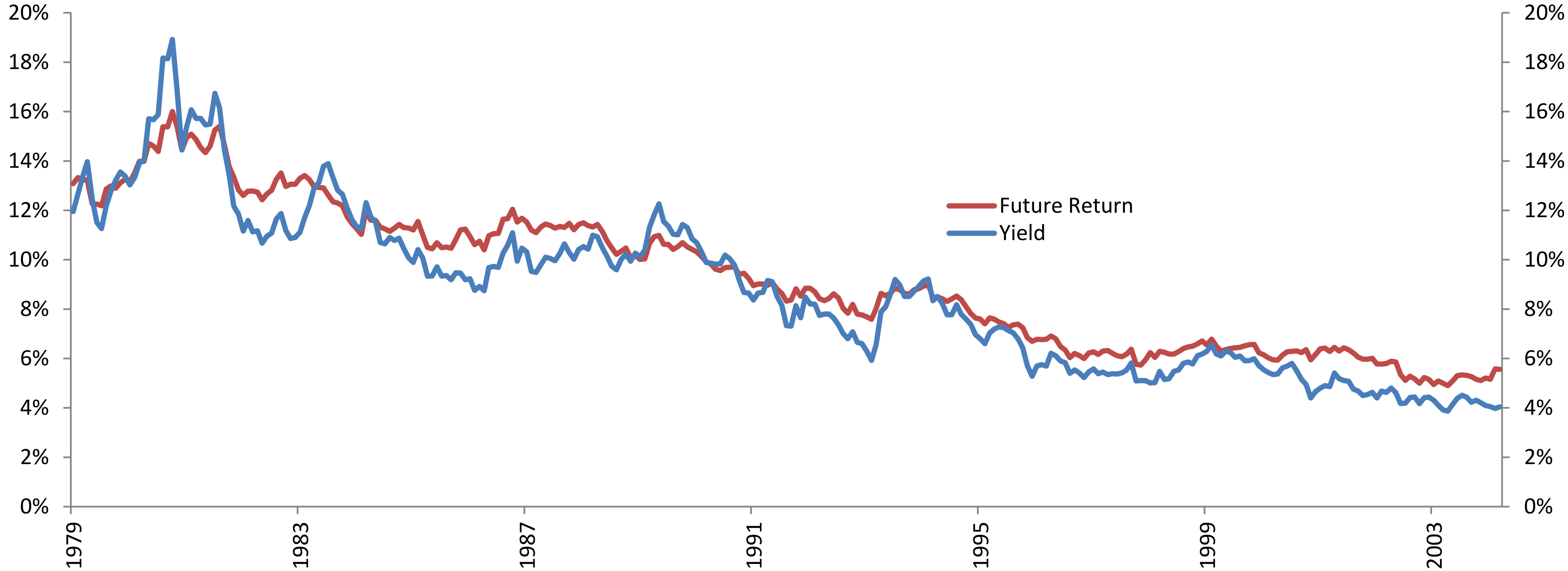


- **Chart examines one measure of risk – volatility.**
- **Comparison indicates progress made over last few years in reducing risk measured on this basis.**
- **December 2014 level highlights gap between risk measured with and without the dampening effect of private investments. Current portfolio position fully utilizes 'active' risk budget.**

A Challenging Investment Environment

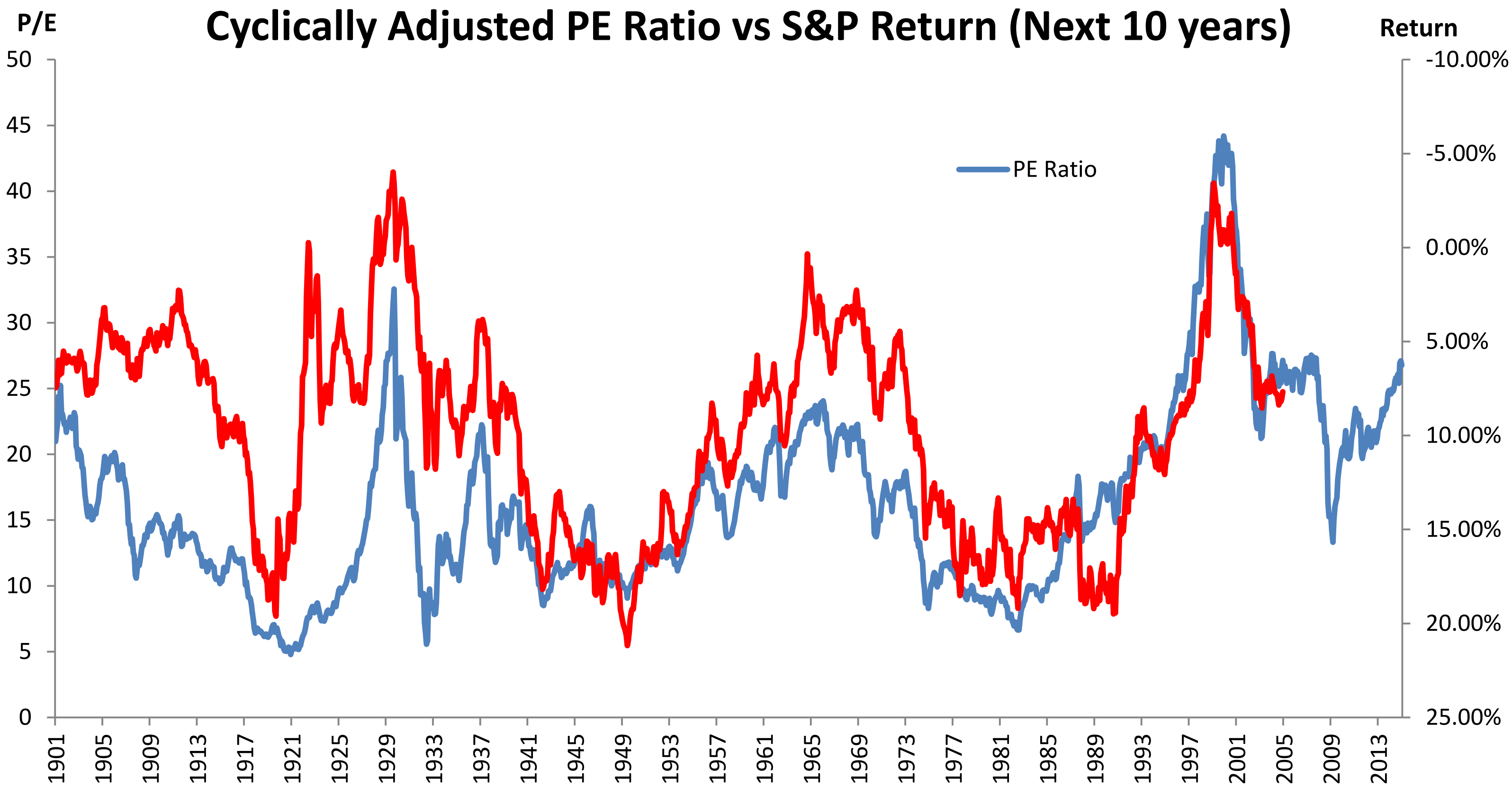
- Traditional Fixed Income Investments Likely To Provide Disappointing Returns -

FTSE TMX Government Current Bond Yield vs Future Return (Next 10 Years)



- **As the chart illustrates, yield levels provide a reasonable estimate of returns to be earned over the next 10 years.**
- **At the current level (1.5%), government bonds provide not only meager return prospects but also quite limited protection against inflation and/or market and economic turbulence.**

Understanding the Challenges Ahead



- **Cyclically adjusted price / earnings ratio of US market a useful indicator of likely future returns; level now higher than 90% of history.**
- **Current US equity market valuations suggest both higher risk and considerably more moderate returns ahead (a simple model suggests 4.5% to 7% nominal return) .**

Current Investment Environment

- Little change in UTAM's outlook.
- Near term, developed markets' environment remains characterized by continuing low interest rates, low inflation and moderate economic growth.
- Emerging markets backdrop should remain stronger but with meaningful performance dispersion among these countries.
- At normal valuation levels, would generally suggest a favorable environment for equity markets and a benign one for bonds.
- But valuations for many financial assets are not compelling, except in relation to a cash alternative.
- Valuations also imply little cushion against unexpected shocks.
- Although considerable potential for short-term volatility, viewed with a longer-term perspective, the most likely scenario for investors is a period of generally low asset returns.
- In this environment, additional return earned through 'active' portfolio management will be even more valuable.