



# University of Toronto

OFFICE OF THE VICE-PRESIDENT, BUSINESS AFFAIRS

TO: Business Board

SPONSOR: Catherine Riggall  
Interim Vice-President, Business Affairs

CONTACT INFO: 416 978-5850  
catherine.riggall@utoronto.ca

DATE: September 24, 2004 for October 6, 2004

AGENDA ITEM: 3(a)

## ITEM IDENTIFICATION:

**Investments: Semi-Annual Report on Investment Performance, June 30, 2004**

## JURISDICTIONAL INFORMATION:

The Board is responsible for the “review of annual reports, or more frequent reports as the Board may from time to time determine, on the investment of University and pension funds, such reports to include, without limitation: (i) reports on investment performance as measured against the rate-of-return objectives and benchmarks established in the investment policies, and the reasons for the results; (ii) reports on portfolio risk compared to the risk tolerances established in the investment policies; (iii) reports on the costs for managing each fund; and (iv) reports on the major investment decisions made in the reporting period by the asset management corporation (in contrast to the decisions made by the external portfolio managers).” (Terms of Reference, 5.1.)

The Chair has requested that a semi-annual report on investment performance to June 30 be provided in addition to the usual annual report from the University of Toronto Asset Management Corporation.

## PREVIOUS ACTION TAKEN:

The Board, at its meeting of May 3, 2004, reviewed the 2003 annual report of the University of Toronto Asset Management Corporation.

## HIGHLIGHTS:

- **Long-Term Capital Appreciation Pool** (the L.T.CAP, which is the investment vehicle for the University’s endowment funds). For the six months ended June 30, 2004, the L.T.CAP has provided a return of 6.11%, which is 0.17% below its benchmark. For the

year ended June 30, the return has been 18.54%, which is 0.01% above the benchmark return. In terms of performance compared to other Canadian balanced funds, the L.T.CAP performance was outstanding, ranking in the 6th percentile of the RBC Canadian balanced fund universe.

- **Pension fund.** For the six months ended June 30, 2004, the pension fund provided a return of 5.38%, which is 0.33% above its benchmark. For the year ended June 30, the return has been 16.28%, which is 1.34% above its benchmark, ranking in the 10th percentile of the RBC Canadian balanced fund universe.
- **Expendable Funds Investment Pool (EFIP).** For the six months ended June 30, 2004, the EFIP provided a return of 1.39%, which is 1.08% below its benchmark. The return for the year to June 30 has been 3.36%. The EFIP benchmark was set by the University at 5%, which was probably unrealistic given a portfolio dominated by short and medium term bonds. A proposal for a revised benchmark, based on a study of the EFIP's liabilities, will be brought to the Business Board in November as the key part of the proposal for revisions to the University Funds Investment Policy. In addition, UTAM plans to hold the bonds in the EFIP portfolio to maturity, which will eliminate the negative effect of the bonds' decline in "marked to market" principal value that took place as bond yields rose. (As interest rates on new bonds increase, the market value of existing bonds with lower interest rates declines.) UTAM thinks it likely that the EFIP portfolio, with the bonds held to maturity, and the modest exposure to non-directional hedge funds, will provide the 5% benchmark return.

#### **FINANCIAL AND/OR PLANNING IMPLICATIONS:**

The return for the L.T.CAP for the past year exceeded the budget assumption, and that for the pension fund exceeded the actuarial assumption, both by a wide margin. We have not yet forecast returns on either the L.T.CAP or Pension funds for fiscal 2004-05.

The rate of return on the EFIP will meet the 2004-05 budget assumption if UTAM's view is borne out that that holding the bond portfolios to maturity, along with the hedge-fund investments, will provide a 5% return.

#### **RECOMMENDATION:**

The Report is presented to the Business Board for information.

# University of Toronto Asset Management Corporation

## Quarterly Report - June 30, 2004

Felix P. Chee, President and CEO

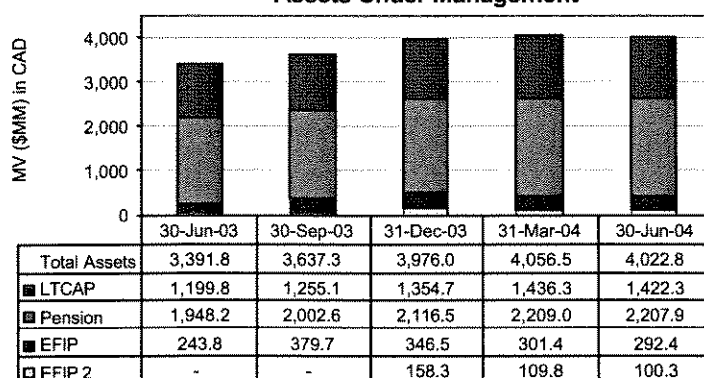
August 5, 2004

### INVESTMENT PERFORMANCE REVIEW

Equity markets rebounded in June; the S&P 500 rose almost 2% reflecting 56% of the 3.44% gain year to date in 2004. This rise was offset by a continued decline in fixed income markets with the Scotia Capital Universe Index down 9 bps in June and over 200 bps for the 2nd quarter. In addition, the Canadian dollar appreciated from U.S. 73¢ to close to U.S. 75¢ in June thus adversely impacting Non-Canadian returns. Overall markets continue to exhibit choppiness although the raising of the Fed Fund rate finally “formalized” what fixed income markets have been expecting for a while.

Overall, the more defensive posture taken earlier has been appropriate. Smaller capitalization stocks have exhibited significantly higher volatility in the 2nd quarter and thus the reversion to a neutral tilt on capitalization has been positive. Likewise, the shorter than benchmark duration on nominal bonds and an overweight in real return bonds has contributed to positive performance in a declining environment. Absolute return hedge fund performance however has been disappointing at around 2% year-to-date. Changes in the upcoming quarter will diversify the portfolio and should result in less volatile returns.

**Assets Under Management**



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All returns mentioned in this report are in Canadian dollar terms, unless otherwise stated.

The performance of LTCAP and Pension continue to reflect the negative performance of the currency overlay program but this effect is diminishing for LTCAP the negative contribution year-to-date is 1.8% but for June the contribution has been a positive 0.5%. We anticipate that this factor will diminish over the 2nd half of 2004. Another factor impacting on LTCAP has been the underweight in real assets where returns are above 10% year-to-date. However, quality selection remains the critical focus and we will get to target weight when suitable opportunities arise.

With respect to EFIP, discussions are on going with the University to establish a proper benchmark. The currently arbitrary 5% assigned by the University is unrealistic given a portfolio dominated by short and medium term bonds. The portfolio is being held to maturity and with the return from a modest exposure to non-directional absolute return hedge funds, will likely provide a 5% yield. Temporal "marked to market" performance however is misleading in this context.

We are midway through a year that has been directionless to date and fraught with event risk. Portfolio performance has nevertheless held up reasonably well. We are just under benchmark on a net basis for LTCAP and modestly positive for Pension. More importantly the portfolios are robustly diversified to withstand the market environment we have witnessed. While comprehensive data is still not available, early indications are that as of the 2nd quarter, both LTCAP and Pension remain in the 1st quartile on peer performance, both overall and by individual asset classes.

The following tables show details of market returns and performance of the various funds for June 2004.

June 2004	
S&P 500*	1.94%
Russell 3000*	1.99%
MSCI EAFE	0.44%
S&P / TSX	1.73%

\* In USD

June 30, 2004	1 month	YTD	Benchmark YTD	Value Added
LTCAP	0.89%	6.11%	6.28%	-0.17%
Pension	0.86%	5.38%	5.05%	0.33%
EFIP	-0.01%	1.39%	2.47%	-1.08%

# Net Performance Measurement Summary

Fund Rates of Return (%) and Comparison to Benchmarks  
as at June 30, 2004

	1 Mth	3 Mths	YTD	1 Yr	2 Yrs	3 Yrs
<b>LTCAP</b>						
Actual	0.89%	1.03%	6.11%	18.54%	7.21%	3.16%
Benchmark	0.38%	1.50%	6.28%	18.53%	6.34%	0.65%
Value Added	0.51%	-0.47%	-0.17%	0.01%	0.87%	2.51%
<b>PENSION</b>						
Actual	0.86%	0.54%	5.38%	16.28%	8.15%	4.64%
Benchmark	0.59%	0.74%	5.05%	14.94%	7.22%	3.00%
Value Added	0.27%	-0.20%	0.33%	1.34%	0.93%	1.64%
<b>EFIP</b>						
Actual	-0.01%	-1.18%	1.39%	3.36%	1.32%	0.57%
Benchmark	0.41%	1.23%	2.47%	-	-	-
Value Added	-0.42%	-2.41%	-1.08%	-	-	-

LTCAP & Pension Policy Benchmarks are Ex- Private Equities as of January 1, 2004.  
See Appendix for detailed Performance Measurement Report.

Gross-Net Performance Return as at June 30, 2004	YTD
<b>LTCAP</b>	
<b>GROSS</b>	<b>6.53%</b>
External Management Fee	0.34%
Custody Fees	0.03%
UTAM Fees	0.05%
<b>NET</b>	<b>6.11%</b>
Benchmark	6.28%
Value Added	-0.16%
<b>PENSION</b>	
<b>GROSS</b>	<b>5.61%</b>
External Management Fee	0.17%
Custody Fees	0.02%
UTAM Fees	0.05%
<b>NET</b>	<b>5.38%</b>
Benchmark	5.05%
Value Added	0.33%
<b>EFIP</b>	
<b>GROSS</b>	<b>1.76%</b>
External Management Fee	0.31%
Custody Fees	0.02%
UTAM Fees	0.04%
<b>NET</b>	<b>1.39%</b>
Benchmark	2.47%
Value Added	-1.08%

RBC Global Services Fund Universe Percentile Ranking as at March 31, 2004						
	3 mths	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs
<b>LTCAP</b>	<b>6</b>	<b>6</b>	<b>86</b>	<b>88</b>	<b>85</b>	<b>88</b>
Canadian Equity	4	21	6	14	62	56
US Equity*	39	24	33	32	45	47
International Equity*	25	15	37	33	23	25
Fixed Income	1	1	2	5	4	8
<b>PENSION</b>	<b>8</b>	<b>10</b>	<b>38</b>	<b>66</b>	<b>75</b>	<b>78</b>
Canadian Equity	20	38	9	20	67	62
US Equity*	49	42	48	42	50	52
International Equity*	32	20	45	39	30	47
Fixed Income	1	6	11	14	10	29

\* Unhedged \$CDN ROR

## LTCAP Returns

-- From Jan 2001 refers to the Marketable & Real Assets portion only  
-- Prior to Jan 2001 refers to the Marketable, Real Assets and Private Equities.

## PENSION Returns

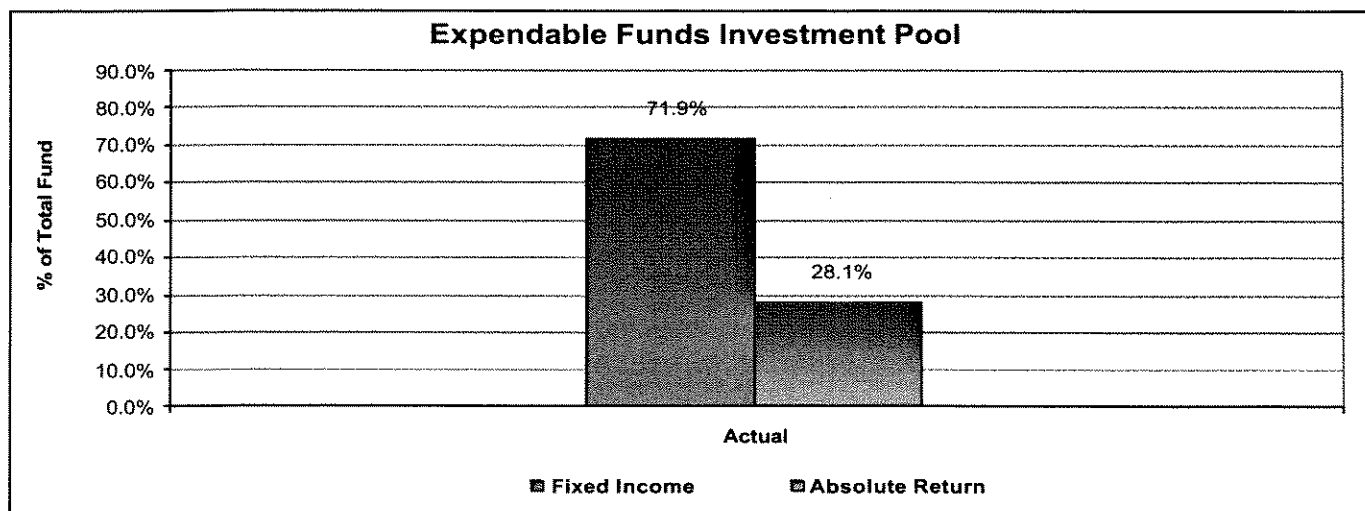
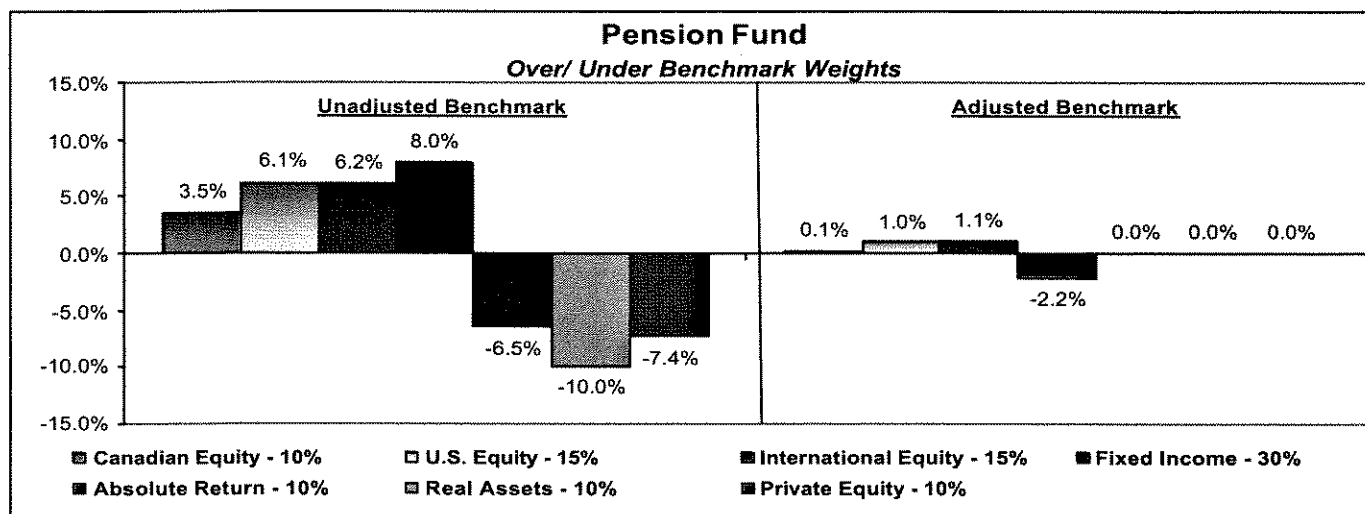
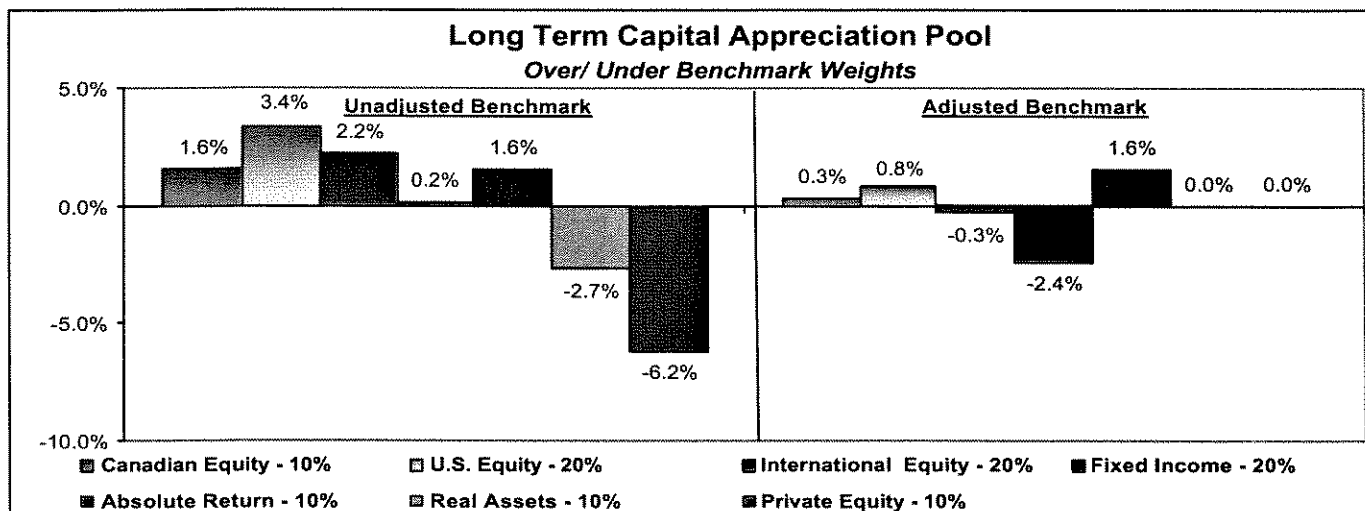
-- From Jan 2001 refers to the Marketable portion only  
-- Prior to Jan 2001 refers to the Marketable, Real Assets and Private Equities.

## Universe Median Asset Size (\$Mil)

Total Fund	\$ 55.7
Canadian Equity	\$ 80.7
US Equity	NA
NNA Equity	NA
Fixed Income	\$ 106.5

# Asset Mix

As at June 30, 2004



**Unadjusted Benchmark** — This benchmark reflects the Asset Mix as stated in the University Investment Policy.

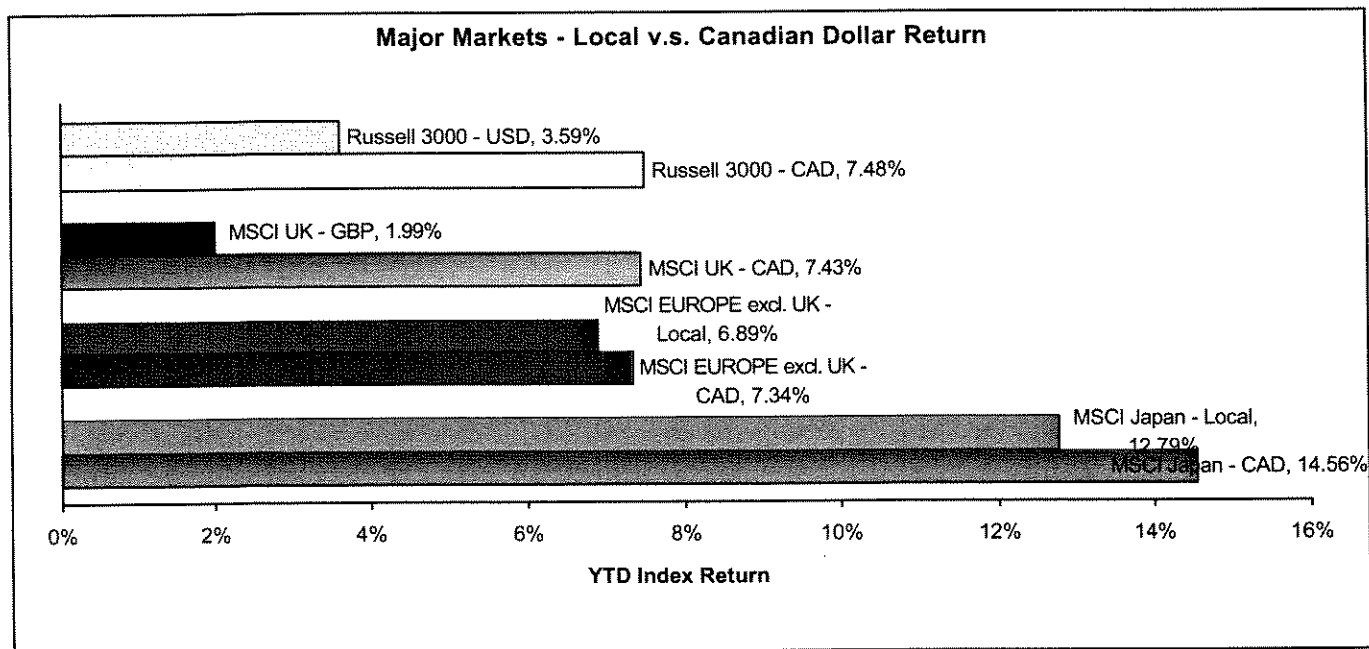
**Adjusted Benchmark** — This benchmark is adjusted for Real Assets, Private Equity & Absolute Returns (only in Pension) that are not fully invested. The Benchmark weight for the 3 asset classes will be set to its actual weight, and the uninvested exposure is pro-rated to the other four asset classes.

# Currency Exposure

As at June 30, 2004

Currency Exposure Summary					
	U.S. Dollar	Euro	British Pounds Sterling	Japanese Yen	Total
<b>LTCAP</b>					
Foreign Currency Exposure	723.0	133.9	45.0	68.6	970.6
Currency Hedge	510.8	52.5	27.3	32.5	623.1
<b>Hedge as % of Foreign Currency</b>	<b>70.6%</b>	<b>39.2%</b>	<b>60.6%</b>	<b>47.4%</b>	<b>64.2%</b>
Benchmark Hedge	58.0%	50.0%	50.0%	50.0%	n/a
<b>PENSION</b>					
Foreign Currency Exposure	662.4	210.3	82.2	102.5	1057.4
Currency Hedge	422.6	83.0	51.3	46.9	603.8
<b>Hedge as % of Foreign Currency</b>	<b>63.8%</b>	<b>39.5%</b>	<b>62.5%</b>	<b>45.8%</b>	<b>57.1%</b>
Benchmark Hedge	53.3%	50.0%	50.0%	50.0%	n/a
<b>EFIP</b>					
Foreign Currency Exposure	85.5	n/a	n/a	n/a	85.5
Currency Hedge	71.2	n/a	n/a	n/a	71.2
<b>Hedge as % of Foreign Currency</b>	<b>83.3%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>83.3%</b>
Benchmark Hedge	100.0%	n/a	n/a	n/a	n/a

Performance Contribution Summary (Gross of Fees)						
TOTAL	YTD			Current Month		
	LTCAP	Pension	EFIP	LTCAP	Pension	EFIP
Benchmark Currency Hedge	-1.24%	-0.74%	-0.89%	0.73%	0.47%	0.53%
Active Currency Management Value Added	-0.53%	-0.23%	-0.09%	-0.19%	-0.13%	-0.13%
<b>GROSS: Contribution of Overlay</b>	<b>-1.77%</b>	<b>-0.97%</b>	<b>-0.98%</b>	<b>0.54%</b>	<b>0.34%</b>	<b>0.40%</b>
YTD FEES	0.03%	0.02%	0.01%	-	-	-
<b>NET: Active Currency Management Value Added</b>	<b>-0.56%</b>	<b>-0.25%</b>	<b>-0.10%</b>	<b>-</b>	<b>-</b>	<b>-</b>

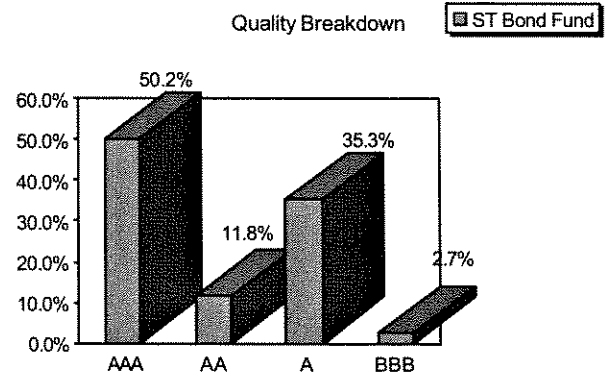
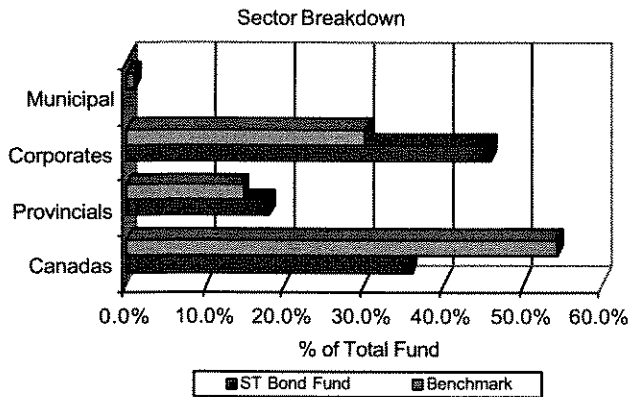


# Bond Summary

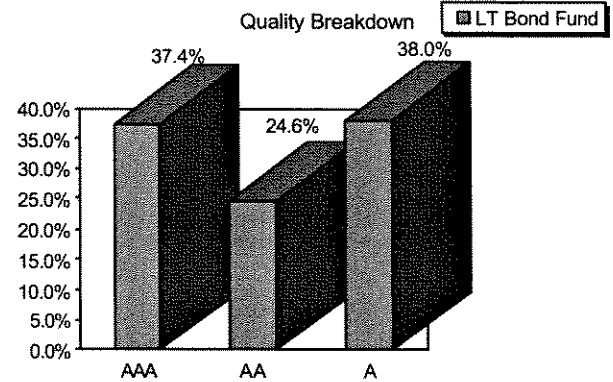
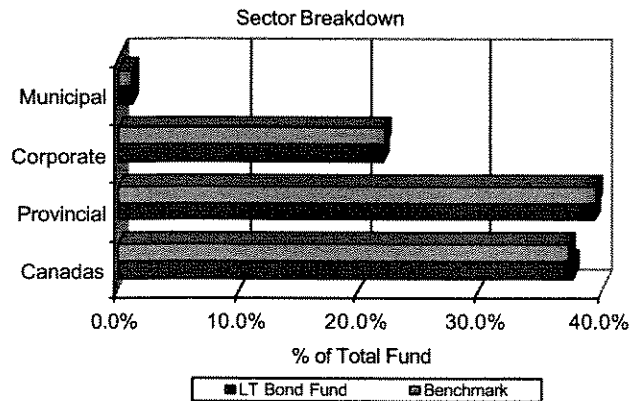
As at June 30, 2004

## Appendix 1

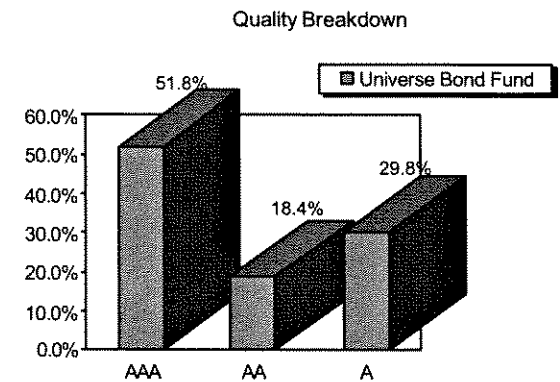
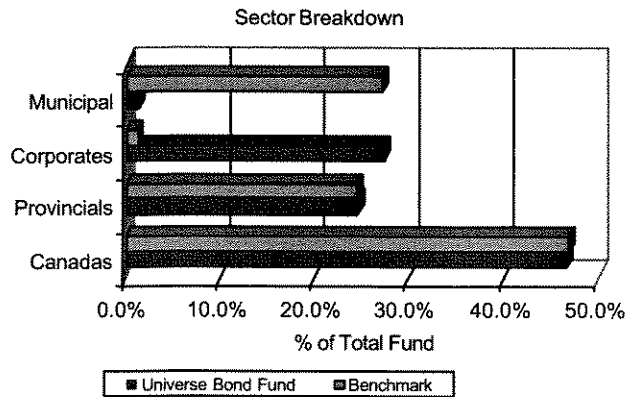
### UBS Short Term Bond Fund (actively managed)



### TD Long Term Bond Fund (Indexed)



### TD Universe Bond Fund (Indexed)

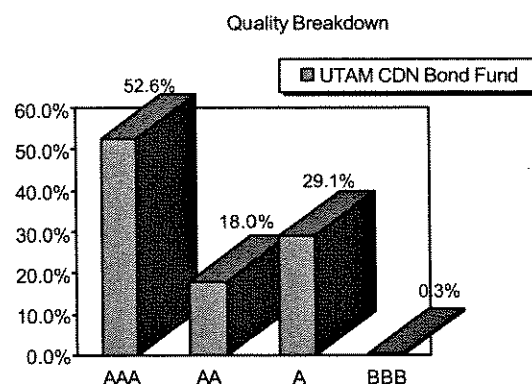
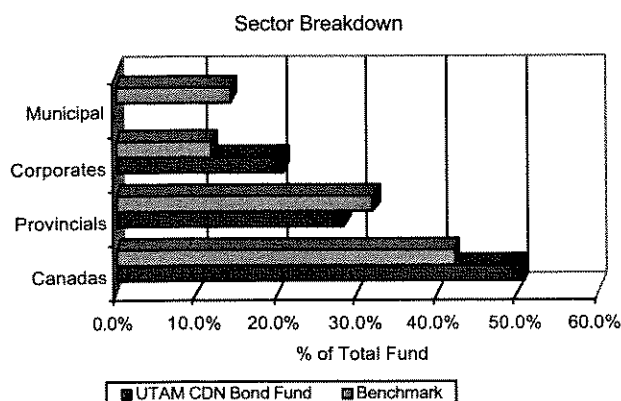
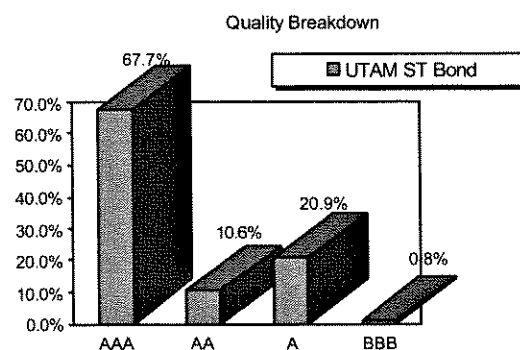
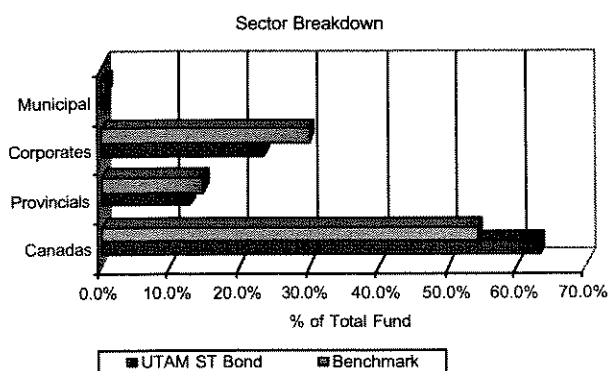
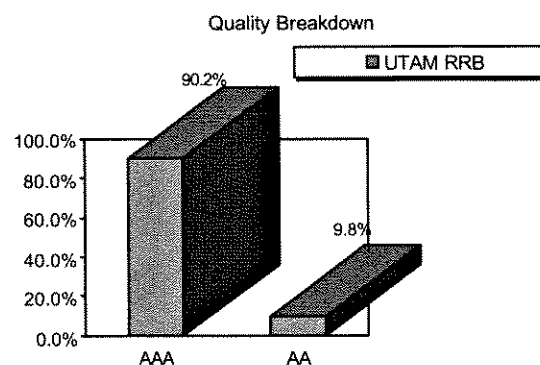
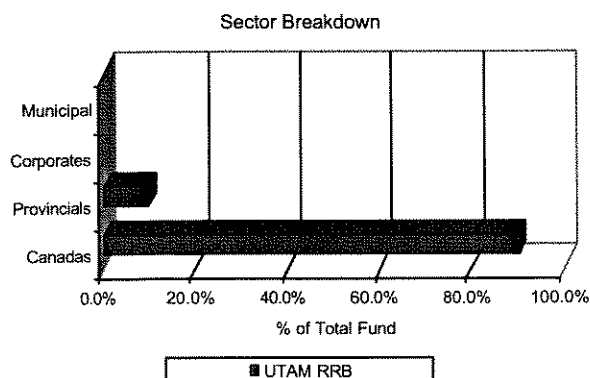


Duration (years)	Fund	Benchmark
UBS ST Bond	2.8	2.8
TD LT Bond	11.7	11.7
TD Universe	5.9	5.9



## Bond Summary

As at June 30, 2004

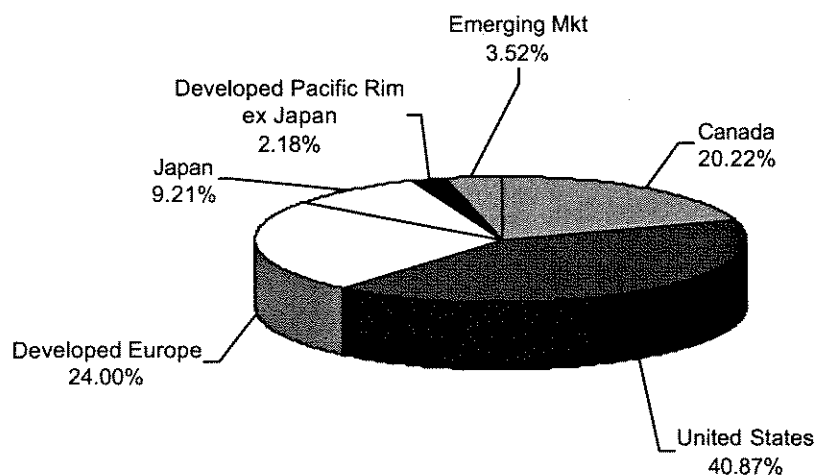
**UTAM Canadian Bond Fund (actively managed)****UTAM Short Term Bond Fund (actively managed)****UTAM Real Return Bond Fund (actively managed)**

Duration (years)	Fund	Benchmark
UTAM Cdn Bond	7.5	8.8
UTAM ST Bond	3.0	2.8
UTAM RR Bond	16.1	15.8

## Geographical Distribution of Equity Investments

As at June 30, 2004

### Long Term Capital Appreciation Pool



### Pension Master Trust

**Foreign Content: 28.27%**

