



University of Toronto

(OFFICE OF THE VICE-PRESIDENT, BUSINESS AFFAIRS)

TO: Business Board

SPONSOR: Catherine Riggall
CONTACT INFO: 416-978-7473, catherine.riggall@utoronto.ca

DATE: March 17, 2006 for March 27, 2006

AGENDA ITEM: **4(b)**

ITEM IDENTIFICATION:

Pension Fund Master Trust Investment Policy

JURISDICTIONAL INFORMATION:

Business Board approves all policies with respect to financial programs and transactions.

PREVIOUS ACTION TAKEN:

The pension master trust investment policy was last approved by the Business Board on April 4, 2005.

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 was last approved by the Business Board on April 7, 2003, and its Schedule C was last approved on April 4, 2005.

Taken together 1) the University of Toronto Pension Fund Master Trust Investment Policy, 2) the University of Toronto Asset Management Corporation Pension Fund Master Trust Investment Policy and 3) the Amended and Restated Service and UTAM Personnel Agreement were approved as the University of Toronto's Pension Fund Master Trust Statement of Investment Policies and Procedures by the Business Board on April 4, 2005.

HIGHLIGHTS:

To meet the legal requirement for a Statement of Investment Policies and Procedures, as required by the Pension Benefits Act and the Financial Services Commission of Ontario,

while reflecting the University's desired delegation of investment responsibility to UTAM, the Statement of Investment Policies and Procedures includes three documents:

- the University of Toronto Pension Fund Master Trust Investment Policy (attachment 1).
- the Amended and Restated Service Agreement between the Governing Council of the University of Toronto and the University of Toronto Asset Management Corporation, as approved by Business Board on April 7, 2003 and January 19, 2004 (Attachment 2 – excerpts, for information. Full agreement is available for viewing on the Governing Council website, www.utoronto.ca/govcncl under the agendas for these meetings) and its Schedule C, as approved by the Business Board on April 4, 2005.
- the UTAM pension fund master trust investment policy (attachment 3).

It is the view of the University's actuary, Hewitt Associates, that this approach should fulfill the legal requirements with respect to the Statement of Investment Policies and Procedures for the pension funds. The UofT Policy includes all elements that legally require approval by the University. The relationship between the three documents is illustrated in attachment 5.

The Pension Benefits Act (Ontario) requires that the pension statement of investment policies and procedures be reviewed annually. This review has been conducted and the changes are as follows:

- 1) both of the U of T and the UTAM pension master trust investment policies have been amended to eliminate the foreign content limit for pension funds in accordance with revisions to the Income Tax Act that eliminated those restrictions.
- 2) the asset mix stated in the UTAM pension master trust investment policy has been amended to bring the asset mix for the Pension Fund Master Trust in line with the asset mix for LTCAP. Previously, because of the limit of foreign content in pension funds, the pension master trust asset mix had a 5% lower allocation for each of U.S. and non-North-American equities and a 10% higher allocation for bonds. This change has been made for three reasons:
 - a. the foreign content limit on pension funds has been terminated.
 - b. Using the same asset mix for both pension and LTCAP is administratively simpler.
 - c. The revised asset mix more fully uses the available risk allowance and generates a higher expected return for the pension funds.
- 3) the various numbers quoted in the U of T policy have been updated to reflect the July 1, 2005 actuarial reports.

The change to the UTAM Pension Fund Master Trust Investment Policy was approved by the UTAM Board on March 8, 2006.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

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RECOMMENDATION:

- (a) That the proposed University of Toronto Pension Fund Master Trust Investment Policy, a copy of which is attached to Ms. Riggall's memorandum of March 17, 2006 as attachment 1, be approved; and

- (b) That, taken together, (i) the proposed University of Toronto Pension Fund Master Trust Investment Policy, (ii) the University of Toronto Asset Management Corporation Pension Fund Master Trust Investment Policy, a copy of which is attached to Ms. Riggall's memorandum of March 10, 2006 as attachment 2, and (iii) the Amended and Restated Service and UTAM Personnel Agreement made as of the 14th Day of May, 2003, including the amended Schedule C approved (or to be approved) by the Business Board on April 4, 2005, be approved as the University of Toronto's Pension Fund Master Trust Statement of Investment Policies and Procedures, replacing the those documents approved by the Business Board on April 4, 2005.