



---

**UNIVERSITY OF TORONTO ASSET MANAGEMENT CORPORATION**

**Pension Fund Master Trust Investment Policy**  
(Statement of Investment Policies & Goals)

---

**University of Toronto Asset Management Corporation**

**Pension Fund Master Trust Investment Policy  
(Statement of Investment Policies & Goals)**

**Table of Contents**

	<b>Page</b>
<b>1. INVESTMENT POLICIES AND GOALS.....</b>	<b>4</b>
1.1. ASSET MIX .....	4
1.2. PORTFOLIO DIVERSIFICATION .....	5
1.3. CATEGORIES AND SUBCATEGORIES OF INVESTMENTS .....	5
1.3.1. EQUITY INVESTMENTS.....	5
1.3.2. FIXED INCOME INVESTMENTS.....	6
1.3.3. PRIVATE EQUITY, REAL ESTATE AND OTHER INVESTMENTS .....	6
1.4. USE OF DERIVATIVES.....	6
1.5. RESTRICTIONS.....	6
1.5.1. MINIMUM QUALITY STANDARDS FOR DEBT SECURITIES IN THE FIXED INCOME ASSET ALLOCATION.....	7
1.5.2. LIMITATIONS ON SECURITIES OF ANY SINGLE ISSUER.....	7
1.5.3. INVESTMENT MANAGER CONSTRAINTS .....	8
1.6. LIQUIDITY OF INVESTMENTS .....	8
1.7. CURRENCY HEDGING .....	8
<b>2. GENERAL .....</b>	<b>8</b>
2.1. SECURITIES LENDING .....	8
2.2. EXERCISE OF PROXIES AND VOTING RIGHTS.....	9
2.3. PLEDGING AND BORROWING OF ASSETS.....	9
2.4. FUND STRUCTURE.....	9

## Preamble

The University of Toronto sponsors the University of Toronto Pension Plan and the University of Toronto (OISE) Pension Plan to provide pension benefits to its employees. These plans are contributory defined benefit pension plans registered under and subject to the Ontario Pension Benefits Act.

For investment purposes, the University of Toronto pension plan and the plan for its OISE employees are pooled into a pension master trust. This pooling enables both funds to enjoy economies of scale and eliminates discrepancies in investment performance.

The University determines the return expectation and risk tolerance via the *University of Toronto Pension Fund Master Trust Investment Policy*, which is approved annually by its Business Board. The University delegates to the University of Toronto Asset Management Corporation (UTAM) the responsibility for management of pension master trust investments via the *Service and UTAM Personnel Agreement between the Governing Council of the University of Toronto and the University of Toronto Asset Management Corporation*, which is approved by its Business Board.

UTAM documents its responsibilities for investment of the pension master trust via this *University of Toronto Asset Management Corporation Pension Fund Master Trust Investment Policy*.

Together, these two policies and the service agreement constitute the *Statement of Investment Policies and Goals* for the University of Toronto Pension Plan and the University of Toronto (OISE) Pension Plan.

# 1. INVESTMENT POLICIES AND GOALS

## 1.1. Asset Mix

The long-term asset mix will be determined by these factors:

- a) Demographics of plan membership and the expected future growth of faculty and staff;
- b) Projected long-term cash flows;
- c) The correlation between the plans' assets, liabilities and cash flows;
- d) The objective for real rate of return;
- e) The desire to maintain a stable level of contribution for the members;
- f) The historic pattern of equity investments producing higher rates of return than debt instruments over the longer term, which pattern is expected to persist;
- g) Role of foreign markets and special asset classes in optimizing the trade off between risk (defined as volatility) and return.

The policy mix will be as follows: Asset Mix

Equities- Canadian	10%
Equities – U.S.	20%
Equities – Non-North American	20%
Equities – Private	10%
Equities – Total	60%
Fixed Income	20% (5% long, 5% universe, 10% real return)
Absolute Return	10%
Real Assets	10%
Total	100%

The asset mix will be rebalanced weekly subject to the approved guideline.

UTAM shall establish mandates and then select investment managers to be responsible for the management of the portfolios in accordance with those mandates. Funds will normally be allocated to external managers, or, when determined to be advantageous, may be allocated to internal management.

Each investment manager shall adhere to this policy and shall follow the investment policies and goals with the care, diligence, and skill that a person of ordinary prudence would use in dealing with the property of another and shall use all relevant knowledge and skill that the investment manager possesses or ought to possess. Investment managers are expected to be in compliance with the standards of professional conduct and code of ethics administered by the Association for Investment Management and Research (AIMR).

In conforming with the foregoing the:

(a) Investment managers will be required to:

- (i) invest the assets of the Plans in accordance with the investment policy;
- (ii) notify UTAM in writing of any significant changes in the investment manager's philosophies and policies, personnel or organization and procedures,
- (iii) reconcile their own records with those of the custodian, at least monthly,
- (iv) meet with UTAM as required and provide written reports regarding their past performance, their future strategies and other issues requested by UTAM, and
- (v) file compliance reports as frequently as required by UTAM.

(b) Custodian/Trustee will be required to:

- (i) maintain safe custody over the assets of the Plans,
- (ii) execute the instructions of the University, of UTAM and of the investment managers,
- (iii) record income and provide monthly financial statements to the University and to UTAM as required,
- (iv) meet with UTAM as required.

## **1.2. Portfolio Diversification**

The objectives of diversification are to:

- a) Reduce the fund's total return variability;
- b) Reduce the exposure to any single component of the capital market;
- c) Reduce the risk of returns not tracking or exceeding inflation;
- d) Increase the longer-term risk-adjusted return potential of the fund.

To achieve diversification the fund will invest in the asset classes as outlined in the asset mix section.

## **1.3. Categories and Subcategories of Investments**

Investments that are permitted shall be classified within the general categories of:

### **1.3.1. Equity Investments**

Public and private equity securities, including common shares of domestic, foreign and emerging markets equity, ADR's, warrants, convertible bonds, initial public offerings, and equivalent exposures using derivatives.

### **1.3.2. Fixed Income Investments**

Money market securities, including cash on hand both domestic and foreign, call loans, demand deposit notes, treasury bills, promissory notes (secured and unsecured), term loans (secured and unsecured), banker's acceptances, commercial paper, swap deposits, repurchase and reverse repurchase agreements, foreign pay bills, other money market securities, and equivalent exposures using derivatives.

Bonds, debentures, term loans, mortgages, real return bonds, including short and long dated publicly-traded debt securities, foreign-pay bonds, preferred shares, private placement debt and equivalent exposures using derivatives.

### **1.3.3. Private Equity, Real Estate and Other Investments**

Real estate equity and debt, managed futures, venture capital and private equity, distressed securities, resource properties, leveraged buyouts, mezzanine financing, oil and gas, hedge funds, market neutral and long/short strategies.

Investment Managers may use pooled fund unit trust, mutual fund, or limited partnership vehicles that include any of the above categories.

## **1.4. Use of Derivatives**

Derivatives may be used for hedging and risk management including the hedging of foreign currency exposure.

They may also be used as a substitute for more traditional investments if they are based on and consistent with achieving the fund's long-term asset mix goal and rate of return objectives. Such products include debt, equity, commodity and currency futures, options, swaps and forward contracts whether directly or through pooled, mutual or segregated funds that employ derivatives and synthetic products for purposes consistent with the investment objectives of the fund.

Derivatives used as a substitute for more traditional investments will be subject to specific applications and limits on required cash collateral as approved by the UTAM Board.

## **1.5. Restrictions**

Investment restrictions apply within the context of the overall fund objectives and the asset mix policy described above.

In addition to the restrictions developed by the University and UTAM, the policy will adhere to the restrictions specified within the Pensions Benefits Act, Regulation 909 of the Revised Regulations of Ontario 1990, and the Federal Income Tax Act, all as amended from time to time.

### **1.5.1. Minimum Quality Standards for Debt Securities in the Fixed Income Asset Allocation**

Credit ratings of individual holdings in passively-managed mandates will be in accordance with the construction of the major Canadian fixed income indexes. Corporate bonds, debentures and other debt securities purchased for the fund in actively-managed mandates shall have a rating of “A” or better or the equivalent thereof according to a recognized bond rating service. Should a debt security be downgraded to BBB subsequent to purchase, the investment manager will have complete discretion as to whether any remedial action should be taken.

In the case of private placements not rated by a recognized bond rating service, active managers shall apply standards consistent with a minimum “A” rating.

Short-term notes and other evidences of indebtedness of corporations, banks and trust companies shall have a rating of R-1 or the equivalent thereof according to a recognized bond rating service.

For the purposes of this policy, the approved credit rating and the approved credit line for counterparties, with respect to over-the-counter options and forward contracts or its equivalent debt shall be equal to or higher than the “A” rating level as above.

### **1.5.2. Limitations on Securities of any Single Issuer**

Maximum 10% of the book value of plan assets to be loaned to any person, partnership or association, or company and its affiliates; excludes government bonds.

Maximum 5% of the book value of plan assets invested in any single holding categorized as real property and Canadian resource property.

Maximum 15% of the book value of plan assets in aggregate holdings of Canadian resource properties.

Maximum 25% of the book value of plan assets in aggregate of all properties. (Properties include both real property and Canadian resource properties)

Maximum 10% of the book value of total plan assets invested in any one equity holding.

### 1.5.3. Investment Manager Constraints

Investment Managers may not:

- i) make loans or invest with persons that have fiduciary, employer or employee status with respect to the fund;
- ii) except with the written consent of UTAM:
  - (a) use derivatives for financial leverage purposes;
  - (b) purchase or sell pre-specified derivative financial instruments;
  - (c) borrow money to purchase securities, purchase securities on margin or short-sell securities.

### 1.6. Liquidity of Investments

UTAM has an established liquidity policy which it adheres to when the pension fund requires liquidity in excess of its daily cash balance.

Due to the illiquid nature of alternative investments which consists of real assets, private equity and absolute return investments, these asset classes are assumed not to be a source of liquidity. Alternative investments account for 30% of the stated asset mix.

### 1.7. Currency Hedging

The UTAM policy is to have different hedge ratios for different asset classes as follows:

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

## 2. GENERAL

### 2.1. Securities Lending

The securities of the Pension Master Trust may be loaned to investment dealers and banks as part of the trustee/custodian's lending program when it is deemed that such lending may add to the return of the fund at minimal risk and provided that the loan is collateralized in accordance with industry standards and marked-to-market and adjusted on a daily basis.



## **2.2. Exercise of Proxies and Voting Rights**

Unless the University advises UTAM otherwise, proxy or other voting rights, associated with any of the Pension Master Trust investments must be exercised by the investment manager in the best interest of the fund.

Annual reports of all proxies voted must be maintained. In the case where voting is done externally, the annual proxy report must be sent to UTAM.

The University has the authority to request a report from UTAM at anytime.

## **2.3. Pledging and Borrowing of Assets**

UTAM has the authority to borrow money to purchase securities, purchase securities on margin or short-sell securities.

## **2.4. Fund Structure**

UTAM has the authority to employ a mix of active and passive management styles. Active management has been adopted for a portion of the assets as it provides the opportunity to outperform specific investment benchmarks and it can provide lower absolute volatility of returns. Passive, or index, management has been adopted for a portion of the assets as it minimizes the risk of underperformance relative to a benchmark index and is generally less expensive than active management. This approach also diversifies the manager risk, making the Pension Fund less reliant on the skills of a single investment manager.

UTAM

*Approved by UTAM Board of Directors – March 8, 2006*

*Section 1.1, Asset Mix, revision approved by the Board of Directors – December 14, 2005*

*Revision to Section 1.1 g) and elimination of section 1.5.4 to remove reference to the former legislated limit of foreign securities proposed to the Board of Directors - March 8, 2006.*