



TO: Business Board

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AGENDA ITEM: 4(c)

ITEM IDENTIFICATION:

University Funds Investment Policy

JURISDICTIONAL INFORMATION:

The Business Board is responsible for:

- The review and approval from time to time of the investment policies for university investment funds and amendments thereto, such policy to include, without limitation: normal asset mixes, asset-mix ranges, risk tolerances, quality criteria, and rate of return objectives including benchmarks for each fund.
- The approval of the conditions for the delegation of authority to a University-controlled asset management corporation of the management of the investment of university funds.

PREVIOUS ACTION TAKEN:

The University Funds Investment Policy was last approved by the Business Board at its meeting of April 4, 2005.

HIGHLIGHTS:

The University Funds Investment Policy provides investment direction from the University to the University of Toronto Asset Management Corporation (UTAM) with respect to the long-term capital appreciation pool (LTCAP, the expendable funds investment pool (EFIP), and specifically invested funds. The policy is reviewed annually and either confirmed or amended as necessary. This revision proposes 1) a minor change to the investment policy for LTCAP. Appendix 1 contains the revised policy. Appendix 2 contains the current policy for comparison purposes.

LTCAP – SECTION 4 OF THE POLICY:

LTCAP consists of the University's endowed funds, and a few other funds of a long-term or permanent nature such as the supplemental retirement arrangement. Investment returns generated through investments of these funds support payouts to faculties and divisions for expenditures in accordance with the terms and conditions of individual endowments and other funds.

Section 4.2 specifies a return objective of a 4.0% real return and a risk tolerance of 10% in nominal terms, net of all fees and levies.

The 2005 policy stated that “for purpose of this return objective, the level of University levies should be set at 0.4% to 0.5% of assets”. The 2006 policy proposes to change this to “no more than 0.5% of assets”. The endowment stewardship fee that was levied against endowments from 2000-01 to 2005-06, and that is expected to amount to about 32 bps (0.32%) in 2005-06 is being eliminated effective May 1, 2006. Endowments will continue to be charged an investment management overhead fee which is expected to amount to less than 2 bps (0.02%) for 2005-06 and which is expected to continue at similar levels in future.

The target investment return and risk tolerance are unchanged.

EFIP – SECTION 5 OF THE POLICY:

The expendable funds investment pool contains expendable funds which are pooled and invested until spent. It includes the University's cash for operations, capital projects, ancillary operations, expendable donations, expendable payouts from endowments and research grants.

EFIP includes three categories of funds: very short-term funds that are managed within the University in cash and cash-like investments, longer term assets that are invested in internal loans in support of capital projects, and longer term assets that are managed by UTAM.

There are no substantive changes to this policy from last year. The wording describing the components of EFIP has been streamlined and wording regarding the UTAM performance benchmark has been slightly revised to reflect the fact that the benchmark has been selected (and was approved by the Business Board April 4, 2005).

FINANCIAL AND/OR PLANNING IMPLICATIONS:

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RECOMMENDATION:

It is recommended that the Business Board approve the Investment Policy for University Funds as contained in Appendix 1.