UNIVERSITY OF TORONTO

FINANCIAL SERVICES

TO: Business Board

SPONSOR: Sheila Brown
CONTACT INFO: 416-978-2065, sheila.brown@utoronto.ca
DATE: September 19, 2012 for September 24, 2012

AGENDA ITEM: 5

ITEM IDENTIFICATION:

UTAM report on investment performance to June 30, 2012

JURISDICTIONAL INFORMATION:

The Business Board receives reports on financial matters.

PREVIOUS ACTION TAKEN:

The Business Board reviewed the UTAM annual report at its meeting of April 2, 2012

HIGHLIGHTS:

The actual return for the six-month period ended June 30, 2012 was 3.01% for LTCAP, 3.06% for the pension master trust, and 0.77% for EFIP. These results were better in all cases than the returns for the same period for the benchmark portfolios and the reference portfolios and were also better than the University's target return.

The returns for the benchmark portfolios were 2.12% (LTCAP), 2.41% (pension) and 0.76% (EFIP). The returns for the reference portfolios were 2.48% (LTCAP), 2.23% (pension) and 0.76% (EFIP. The University target returns were 1.92% for LTCAP and pension (4.0% + CPI) and 0.76% for EFIP.

The results for each portfolio were compared to the preferences expressed by the focus group participants. It was easy to reject the 1.9% portfolio as providing insufficient return to balance capital preservation and spending needs. The 6% portfolio was also easily rejected as having too much volatility. The 3% portfolio was rejected because we would have no choice but to bring down the spending level to 3% under this option.

Both the 4% and the 5% portfolios had some attraction. However, increasing the target return in an "uncertain" investment world might be viewed by some as less than prudent. Ultimately, the 4% real return target would seem to offer the University the opportunity to maintain the current spending target and the current return target within a volatility risk level that sits within the comfort zone identified by focus group participants. However, modeling suggested it could be achieved with a volatility risk lower than 10%. Retaining the same return target but lowering the volatility target would strike many seasoned investors as somewhat unrealistic given today's investment environment.

Consequently, after reviewing all the inputs, both qualitative and quantitative, the University concluded that there should be no change to the target return or the volatility risk target of the endowments (LTCAP).

This report and its conclusions were reviewed with the Investment Advisory Committee. This group held a focused discussion around the reasonableness of the 4% real return target and the 10% volatility risk target, representing one standard deviation, and concluded that these targets are reasonable. We will continue to review these targets regularly.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

RECOMMENDATION:

For information.