



University of Toronto

VICE-PRESIDENT, BUSINESS AFFAIRS – FINANCE

TO: Business Board

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DATE: February 12, 2007 for February 26, 2007

AGENDA ITEM:

ITEM IDENTIFICATION:

Amendment to the Service and UTAM Personnel Agreement between the Governing Council of the University of Toronto and the University of Toronto Asset Management Corporation – Schedule C, Performance Benchmarks.

JURISDICTIONAL INFORMATION:

The Business Board is responsible for approval of the conditions for the delegation of authority to a University-controlled asset management corporation for the management of the investment of University funds and pension funds.

PREVIOUS ACTION TAKEN:

Schedule C to the service agreement between the University of Toronto and UTAM was last amended and approved by Business Board on April 4, 2005.

HIGHLIGHTS:

The Business Board specifies the investment return objective and the risk tolerance via the Investment Policy for University Funds and the Pension Master Trust Investment Policy. It delegates to UTAM the development of an appropriate asset mix to meet those objectives for the pension fund, the long-term capital appreciation pool (LTCAP) and the expendable funds investment pool (EFIP).

Business Board receives regular reports from UTAM on its performance and approves performance benchmarks against which UTAM will be measured. The performance benchmarks are shown in Schedule C to the service agreement between the University and UTAM. Schedule C is updated periodically to reflect changes in benchmarks. Prior to submission to Business Board for approval, UTAM's performance benchmarks are recommended by the UTAM Board.

At this time, there is an initiative underway at the University to update the service agreement and related governance aspects. The changes proposed to performance benchmarks at this time are interim changes pending a revision to the service agreement. This will ensure the performance metrics between what UTAM board recommended and what the University expects are consistent until the next service agreement update.

Attachment 1 provides the revised Schedule C containing the proposed performance benchmarks. Attachment 2 contains the previous Schedule C, which was approved by the University in April 2005, for comparison purposes. The changes are as follows:

- The Absolute Return composite market index benchmark has changed from “3 month LIBOR + 450 bps” to “HFRI Fund of Funds Conservative Index”. This proposed benchmark reflects the actual performance of a universe of similarly managed funds, and is, considered to be a better indicator than the previous LIBOR-based reference of how well UTAM-managed hedge fund performed against its peers. This change will bring the Absolute Return performance measurement methodology in line with other marketable asset classes .
- The Canadian Equity, U.S. Equity, International Equity and Fixed Income Peer Universe Comparisons have changed from the RBC Global Services Funds Universe for that asset class to Mellon Analytical Solutions – Manager Performance Universe for each asset class. The RBC Universe was chosen primarily for plan level performance comparison rather than individual asset class level. Mellon’s universes provide performance data of external managers at individual asset classes, which will allow a more robust comparison.
- The foreign exchange current overlay hedge policy has been changed from various hedge ratios to be fully hedged regardless of asset class. This change reflects the decision to fully hedge currency exchange in all cases.
- Various dates have also been updated for administrative purpose.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

Schedule C provides the criteria for measuring investment performance by UTAM.

RECOMMENDATION:

It is recommended that the Business Board approve Schedule C (as contained in attachment 1) to 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, which was last approved by the Business Board on April 4, 2005.

The investment returns achieved by UTAM are compared to performance benchmarks against market indices and peer universes. Effective January 1, 2007, these benchmarks¹ are:

LTCAP & Pension Master Trust

Composite Market Index Benchmark	
Canadian Equities	S&P/TSX Capped Composite ²
U.S. Equities	Russell 3000
NNA Equities	MSCI EAFE
Fixed Income - Nominal	Scotia Capital Bond Universe (50%) Scotia Capital Long Bond Index (50%)
- Real Return Bonds	Scotia Capital Real Return Bond Universe
Real Asset	Real Estate (50%) — NCREIF ³ Commodities (50%) — GSCI
Private Equities	Russell 3000 + 500 bps
Absolute Return	HFRI ⁴ Fund of Funds Conservative Index

Peer Universe Comparison	
Total Fund:	RBC GS ⁵ Balanced Funds Universe
Canadian Equity:	Mellon Analytical Solutions - Manager Performance Universe (Canadian Equities)
U.S. Equity:	Mellon Analytical Solutions - Manager Performance Universe (U.S. Equities)
International Equity:	Mellon Analytical Solutions - Manager Performance Universe (International Equities)
Fixed Income:	Mellon Analytical Solutions - Manager Performance Universe (Canadian Universe Bonds; Canadian Long Bonds)

EFIP

Target return for the calendar year ended 2007:

EFIP Total Fund:	Scotia Capital 365 Day (Canadian) Treasury Bill Index + 50 bps
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Foreign Exchange Currency Overlay Hedge Policy

Effective Jan. 1, 2007, all foreign currency exposures to be fully hedged regardless

¹ Based on total return indexes.

² The S&P/TSX Capped Composite Index and the S&P/TSX Composite Index share the same constituents, but each stock in the capped index is limited to a maximum weight of 10% of the index, measured on a quarterly basis.

³ NCREIF – National Council of Real Estate Investment Fiduciaries Index.

⁴ HFRI – Hedge Fund Research Inc., Chicago, IL.

⁵ RBC GS – RBC Global Services, formerly SEI Funds Universe.

SCHEDULE “C”

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LTCAP & Pension Master Trust

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Fixed Income - Nominal	Scotia Capital Bond Universe (50%) Scotia Capital Long Bond Index (50%)
- Real Return Bonds	Scotia Capital Real Return Bond Universe
Real Asset	Real Estate (50%) — NCREIF ³ Commodities (50%) — GSCI
Private Equities	Russell 3000 + 500 bps
Absolute Return	3 month LIBOR + 450 bps

Peer Universe Comparison	
Total Fund:	RBC GS ⁴ Balanced Funds Universe
Canadian Equity:	RBC GS Canadian Equity Funds Universe
U.S. Equity:	RBC GS U.S. Equity Funds Universe
International Equity:	RBC GS Non-North American Equity Funds Universe
Fixed Income:	RBC GS Canadian Fixed Income Funds Universe

EFIP

Target return for the calendar year ended 2004:

EFIP Total Fund:	Scotia Capital 365 Day (Canadian) Treasury Bill Index + 50 bps
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Foreign Exchange Currency Overlay Hedge Policy

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