



TO: Business Board

SPONSOR: Catherine Riggall  
CONTACT INFO: 416-978-5850, <catherine.riggall@utoronto.ca>

DATE: June 4, 2004 for Meeting of June 17, 2004

AGENDA ITEM: 8(b)

**ITEM IDENTIFICATION: Investments: Performance Benchmarks – Proposed Revisions to Schedule “C” to the Service Agreement with the University of Toronto Asset Management Corporation**

**JURISDICTIONAL INFORMATION:**

Item 5.1 of the Business Board terms of reference makes the Board responsible for approving rate-of-return benchmarks for each investment fund.

The University’s service agreement with the University of Toronto Asset Management Corporation (UTAM) makes that corporation responsible for determining the asset mix for the investments of each fund (a) to achieve the objectives set out in the University’s investment policies, and (b) to do so within the parameters specified by the investment policies. UTAM is accountable for achieving the investment objectives, including investment performance compared to agreed benchmarks. Those benchmarks are set out in Appendix “C” to the service agreement.

**PREVIOUS ACTION TAKEN:**

On April 7, 2003, the Business Board approved the Amended and Restated Service and UTAM Personnel Agreement, including a Schedule “C”, setting out performance benchmarks. On January 19, 2004, the Board approved a revised Schedule “C”

**HIGHLIGHTS:**

It is proposed that the Business Board approve the following relatively minor changes to the benchmarks:

**(1) Fixed Income**

**Nominal bonds.** The original schedule “C” incorrectly specified a benchmark consisting of 60% Scotia Capital Universe Bond Index and 40% Scotia Capital Long Bond Index. It had been intended that the benchmark be weighted 50% for the universe index and 50% for the long-term bond index.

**(1) Fixed Income (Cont'd)**

**real-return bonds.** The original schedule "C" did not state a benchmark for this asset class. The proposed benchmark is the Scotia Capital Real Return Bond Index.

**(2) Expendable Funds Investment Pool**

The University has split the Expendable Funds Investment Pool into two funds to reflect the distinct mandate for each fund. It is proposed that each fund have its own target return for 2004:

- EFIP I (the original fund) 4.5%, and
- EFIP II (the proceeds of the debenture issue, being invested on a short-term basis until required for capital projects) 3.0%.

**RECOMMENDATION:**

THAT the proposed revised Schedule "C" 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 made as of the 14th day of May, 2003, containing performance benchmarks against market indices and peer universes, target returns for the Expendable Funds Investment Pool and the Foreign Exchange hedge ratios, a copy of which is attached to Ms Riggall's memorandum of June 4, 2004, be approved on behalf of the Governing Council.

Attached are the proposed revised Schedule "C" and the current schedule, approved on January 19, 2004.

**SCHEDULE “C”**

The investment returns achieved by UTAM are compared to performance benchmarks against market indices and peer universes. Effective January 1, 2004, these benchmarks<sup>1</sup> are:

**LTCAP & Pension Master Trust**

<b>Composite Market Index Benchmark</b>	
Canadian Equities	S&P/TSX Capped Composite <sup>2</sup>
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 <sup>3</sup> Commodities (50%) — GSCI
Private Equities	Russell 3000 + 500 bps
Absolute Return	3 month LIBOR + 450 bps

<b>Peer Universe Comparison</b>	
Total Fund:	RBC GS <sup>4</sup> 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 I	4.5%
EFIP II	3.0%

**Foreign Exchange Currency Overlay Hedge Policy**

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

31056

<sup>1</sup> Based on total return indexes.

<sup>2</sup> 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.

<sup>3</sup> NCREIF – National Council of Real Estate Investment Fiduciaries Index.

<sup>4</sup> RBC GS – RBC Global Services, formerly SEI Funds Universe

**SCHEDULE “C”**

The investment returns achieved by UTAM are compared to performance benchmarks against market indices and peer universes. Effective October 1, 2003, these benchmarks<sup>1</sup> are:

**LTCAP & Pension Master Trust**

<b>Composite Market Index Benchmark</b>	
Canadian Equities	S&P/TSX Capped Composite <sup>2</sup>
U.S. Equities	Russell 3000
NNA Equities	MSCI EAFE
Fixed Income	Scotia Capital Bond Universe (60% LTCAP / 50% Pension) Scotia Capital Long Bond Index (40% LTCAP / 50% Pension)
Real Asset	Real Estate (50%) — NCREIF <sup>3</sup> Commodities (50%) — GSCI
Private Equities	Russell 3000 + 500 bps
Absolute Return	3 month LIBOR + 450 bps

<b>Peer Universe Comparison</b>	
Total Fund:	RBC GS <sup>4</sup> 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 University of Toronto fiscal years:

2003/2004	4.5%
2004/2005	5.5%

**Foreign Exchange Currency Overlay Hedge Policy**

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

31057

<sup>1</sup> Based on total return indexes.

<sup>2</sup> 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.

<sup>3</sup> NCREIF – National Council of Real Estate Investment Fiduciaries Index.

<sup>4</sup> RBC GS – RBC Global Services, formerly SEI Funds Universe