



# University of Toronto

VICE-PRESIDENT, BUSINESS AFFAIRS – FINANCE

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TO: Business Board

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DATE: March 15, 2005 for April 4, 2005

AGENDA ITEM: 3(b)

## **ITEM IDENTIFICATION:**

**Investment Performance Benchmarks - 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.**

## **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:**

This agreement was last amended and approved by Business Board on January 19, 2004.

## **HIGHLIGHTS:**

At its meeting of April 7, 2003, the Business Board approved a changed relationship with UTAM whereby the Business Board specified the investment return objective and the risk tolerance and delegated to UTAM the development of an appropriate asset mix to meet those objectives.

In April 2003 and January 2004, the investment policies for LTCAP and for pension funds were revised to reflect this changed relationship and the performance benchmarks for these funds were updated in Schedule C to the service agreement to reflect their changed asset mixes.

In January 2005 the investment policy for EFIP was also revised to reflect this changed relationship. The target investment return for that portion of EFIP managed by UTAM was set at the 1 year T-bill rate plus 50 bps, with minimal risk.

UTAM has now determined an appropriate asset mix to achieve this target. The appropriate benchmark against which to measure their performance is the Scotia Capital 365 Day (Canadian) Treasury Bill Index plus 50 bps.

Attachment 1 provides the revised schedule C containing the proposed performance benchmarks. Attachment 2 contains the previous Schedule C for comparison purposes.

#### **FINANCIAL AND/OR PLANNING IMPLICATIONS:**

With this revision to the benchmarks, the process of changing the relationship between the University and UTAM, such that the University is responsible for setting the investment return targets and the level of risk tolerance and UTAM is responsible for investment strategy and management, is now complete.

UTAM is accountable to the Business Board for its performance and reports semi-annually to the Business Board on its performance in comparison to these benchmarks.

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 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, 2005, these benchmarks<sup>1</sup> are:

### LTCAP & Pension Master Trust

Composite Market Index Benchmark	
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

Peer Universe Comparison	
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 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%

<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

Composite Market Index Benchmark	
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

Peer Universe Comparison	
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

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

<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.

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