



University of Toronto

(OFFICE OF THE VICE-PRESIDENT, BUSINESS AFFAIRS)

TO: Business Board

SPONSOR: Catherine Riggall

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DATE: March 15, 2005 for April 4, 2005

AGENDA ITEM: 3(c)

ITEM IDENTIFICATION:

Pension Fund Master Trust Investment Policy

JURISDICTIONAL INFORMATION:

Business Board approves all policies with respect to financial programs and transactions.

PREVIOUS ACTION TAKEN:

The Pension Fund Master Trust Investment Policy was last approved by the Business Board on March 1, 2004.

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 was last approved by the Business Board on April 7, 2003, and its Schedule C was last approved on March 1, 2004.

HIGHLIGHTS:

During 2002-03, there had been a review and clarification of the responsibilities and accountabilities of UTAM. On April 7, 2003, the Business Board approved a revised service agreement whereby UofT specified the return expectation and risk tolerance and delegated to UTAM the responsibility for investment of both university and pension funds.

Effective March 1, 2004, the pension fund master trust investment policy has now been modified to reflect a 4.0% real inflation-adjusted investment return expectation and a standard deviation of 10% or less in real terms over 10 year periods and to delegate investment responsibility to UTAM.

The previous pension fund master trust investment policy had constituted the Statement of Investment Policies and Procedures, as required by the Pension Benefits Act and the Financial Services Commission of Ontario.

To continue to meet this legal requirement while reflecting the University's desired delegation of investment responsibility to UTAM, the Statement of Investment Policies and Procedures was redefined effective March 1, 2004 to include three documents:

- the University of Toronto Pension Fund Master Trust Investment Policy (attachment 1).

- the Amended and Restated Service Agreement between the Governing Council of the University of Toronto and the University of Toronto Asset Management Corporation, as approved by Business Board on April 7, 2003 and January 19, 2004 (Attachment 2 – excerpts, for information. Full agreement is available for viewing on the Governing Council website, www.utoronto.ca/govcncl under the agendas for these meetings). A revised Schedule C to this agreement has been tabled for approval at this meeting. There is no change to the pension section of Schedule C proposed at this meeting.

- the UTAM pension fund master trust investment policy.

It is the view of the University's actuary, Hewitt Associates, that this approach should fulfill the legal requirements with respect to the Statement of Investment Policies and Procedures for the pension funds. The UofT Policy continues to include all elements that legally require approval by the University. The relationship between the three documents is illustrated in attachment 5.

The Pension Benefits Act (Ontario) requires that the pension statement of investment policies and procedures be reviewed annually. This review has been conducted and, at this time, there is only one minor change. The UTAM pension master trust investment policy, section 1.4 on derivatives, is being changed as follows:

From:

Derivatives may be used for hedging and risk management including the hedging of foreign currency exposure.

They may also be used as a substitute for more traditional investments if they are based on and consistent with achieving the fund's long-term asset mix goal and rate of return objectives. Such products include debt, equity, commodity and currency futures, options, swaps and forward contracts whether directly or through pooled, mutual or segregated funds that employ derivatives and synthetic products for purposes consistent with the investment objectives of the fund.

Derivatives used as a substitute for more traditional investments will not be used to gain leveraged exposure to various asset classes and will be collateralized by cash equal to the risk-adjusted market value of the synthetic exposure.

TO:

This section remains unchanged except for the last sentence, which has been changed to read as follows:

Derivatives used as a substitute for more traditional investments will be subject to specific applications and limits on required cash collateral as approved by the UTAM Board.

This change has been approved by the UTAM Board at its meeting of March 10, 2005. The purpose of the change is to allow the question of appropriate collateral to be addressed on a case by case basis. UTAM confirms that there is no increased risk beyond that which would be incurred if investments were made directly in equities.

The University and UTAM are 1) reviewing the implications arising from the recent elimination of the 30% foreign content limit for pension funds and 2) updating asset/liability matching strategies due to changes to retirement provisions. A revised pension statement of investment policies and procedures will be submitted to the Business Board for approval once those reviews have been completed.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

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RECOMMENDATION:

- (a) That the proposed University of Toronto Pension Fund Master Trust Investment Policy, a copy of which is attached to Ms. Riggall's memorandum of March 15, 2005 as attachment 1, be approved; and
- (b) That, taken together, (i) the proposed University of Toronto Pension Fund Master Trust Investment Policy, (ii) the University of Toronto Asset Management Corporation Pension Fund Master Trust Investment Policy, a copy of which is attached to Ms. Riggall's memorandum of March 15, 2005 as attachment 2, and (iii) the Amended and Restated Service and UTAM Personnel Agreement made as of the 14th Day of May, 2003, including the amended Schedule C approved (or to be approved) by the Business Board on April 4, 2005, be approved as the University of Toronto's Pension Fund Master Trust Statement of Investment Policies and Procedures, replacing the those documents approved by the Business Board on March 1, 2004.