



University of Toronto

BUSINESS AFFAIRS

TO: Business Board

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DATE: (March 22, 2007) for (April 11, 2007)

AGENDA ITEM: 4

ITEM IDENTIFICATION:

University of Toronto Asset Management Corporation, Annual Report 2006

JURISDICTIONAL INFORMATION:

Under Clause 5.4 (b) of the Terms of Reference of the Business Board, the Board accepts annual reports and financial statements for incorporated ancillaries.

Under clause 5.1 (b), the Board reviews annual reports of investment performance.

PREVIOUS ACTION TAKEN:

The annual report and financial statements were approved by the UTAM board at their meeting of March 27, 2007.

HIGHLIGHTS:

The financial statements

The financial statements of UTAM reflect its status as a corporation without share capital and a non-profit corporation wholly owned by the University of Toronto.

The largest balance sheet item is an amount due from the University of Toronto to reimburse UTAM for expenses.

UTAM's total expense has again declined compared to the previous year, reflecting the fact that there were no reorganization or relocation expenses in 2006. Staffing costs are up versus the prior year, reflecting the fact that the organization has been fully staffed for most of the year.

Investment performance

The University has set the **performance targets** for UTAM for the LTCAP and for the Pension funds at a real return net of fees of 4% with a risk tolerance of 10% over a ten year time frame. These targets reflect the nature of the University's liabilities for payments from the endowments and the liabilities under the pension plan, and limit risk to a level that the administration believes is acceptable and can be tolerated within the financial constraints of the organization.

The net return for LTCAP was 12.8%, exceeding the target by 720 basis points and for Pension was 12.1% exceeding the target by 647 basis points. The target was 4% plus inflation, which for 2006 was 1.6% for a total of 5.6%.

For EFIP, the return target is the 1-year Canadian Treasury bill rate plus 50 basis points. UTAM exceeded this target by 42 basis points.

Value added for all three funds in 2006 was \$279 million, with a cumulative value added of \$978 million since 2003.

UTAM also compares its performance against the market. **The benchmark return** is calculated using a set of market indices to reflect the policy asset mix. For 2006 the benchmark return was 12.8% for LTCAP and Pension. UTAM met the benchmark for PTCAP, but underperformed on the Pension funds by 72 basis points, largely due to a transition of holdings that took place in January of 2006.

For EFIP, the target return and the benchmark are the same, so it was exceeded by 42 basis points.

A **peer comparison** is also used to assess how UTAM has performed when compared with similar portfolios. The RBC Global Services Balanced Fund Universe is used for comparison. UTAM had second quartile performance for both LTCAP and Pension on a one year basis and remain in the top quartile on a three year basis.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

Continued performance by UTAM to meet or exceed the University's targets is critical to the financial well being of the organization.

RECOMMENDATION:

It is recommended that the Business Board accept the annual report and financial statements of UTAM.