



# University of Toronto

OFFICE OF THE VICE-PRESIDENT, BUSINESS AFFAIRS

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TO: Business Board

SPONSOR: Catherine Riggall

CONTACT INFO: 416-978-7473, catherine.riggall@utoronto.ca

DATE: April 8, 2008 for April 28, 2008

AGENDA ITEM: **4(b)**

## **ITEM IDENTIFICATION:**

**Proposals for Changes to the Documentation regarding the Relationship between the University of Toronto and the University of Toronto Asset Management Corporation (UTAM) in a revised Delegation of Authority from the University to UTAM**

## **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, including provisions for appointment of an expert Board to oversee the work of that corporation and arrangements for the appointment and removal of its members.

The Business Board reviews semi-annual and annual reports from UTAM.

## **PREVIOUS ACTION TAKEN:**

The Business Board most recently approved the Amended and Restated Service and Personnel Agreement between the University and UTAM on April 7, 2003.

The Business Board reviewed initial drafts of proposed changes to the Amended and Restated Service and Personnel Agreement on November 19, 2007; however, following that meeting it was decided that another review of the documents was needed including a legal assessment.

## **HIGHLIGHTS:**

Changes to the documentation governing the relationship between the University of Toronto and UTAM are proposed to clarify the governance relationship, to clarify the roles and responsibilities; to clarify the overriding objective and to improve communications with respect to investment performance.

Since the completion of the review of UTAM in the Spring of 2007, there has been ongoing work on what changes need to be put in place. We have followed the objective of ensuring that the right entity with the right expertise is responsible for the right thing.

With respect to management of investments, we believe that achieving this objective leads to the following definition of roles and responsibilities. Much of what is laid out here is already in place; however, in some cases, it has not been clearly documented.

The documents have been reviewed by external legal counsel and some non-substantial changes have been made to the documents on their advice, such as moving several of the terms from the Delegation of Authority Agreement to the Investment Management Agreement to clearly differentiate which items are delegated to UTAM, and which items relate to investment management. The items moved from the Delegation of Authority Agreement are now included in the Investment Management Agreement as sections 5, 8, 17 and 18. A termination clause was also added to section 1 of the Delegation of Authority Agreement.

## **1. UTAM reporting relationship with the University:**

Over the past few years, there has been the sense that UTAM reports directly to the Business Board. However, a review of the original Governing Council approvals that established UTAM in November 1999 show that the original approval was for UTAM to report through the President or senior financial officer, with the senior administration accountable to the Business Board for investments. We believe that this original approval makes sense and reflects the responsibility of the senior administration for all other outsourced arrangements. Therefore, we are not proposing any change to the original Governing Council approval. Operationally we will ensure that this reporting relationship is clear in all reporting to the Business Board regarding investments.

## **2. University control of UTAM**

The 1999 Governing Council approval included the report that recommended establishment of UTAM, the UTAM by-law, and the service agreement that delegated authority to UTAM and specified the detailed terms and conditions of the relationship. The service agreement contained a mix of delegation of authority clauses, service clauses and personnel clauses. This omnibus agreement has now been revised to create a delegation of authority document and a standard investment management agreement for outsourced services. Most of the personnel clauses in the original agreement are no longer needed and have been deleted.

In accordance with the Business Board terms of reference, the delegation of authority requires Business Board approval. The delegation specifies what authority is transferred to UTAM to enable it to act as agent for the University. See appendix 1 for the proposed delegation of authority, for approval.

The investment management agreement is a contract for outsourced services within the normal course of business and is thus within the purview of the University administration and is attached for information. It contains clauses on what services UTAM is expected to perform and what accountabilities UTAM has to the University. See appendix 2 for a draft of the investment management agreement, for information.

### **3. Investment objectives:**

The UTAM review report recommended that the University's overriding objective with respect to investment performance be the achievement of the risk and return targets approved by the Business Board with a secondary emphasis on market benchmarks and low emphasis on peer comparisons. The reason for this is that risk management is the overriding concern to ensure that the University carefully stewards the resources provided in support of the academic mission and of the pension plan.

The University must continue to specify the risk and return targets as part of the overall risk management process for the University. We are not proposing any change to the current process whereby the Business Board approves the risk and return targets. Those targets will continue to be reviewed on a regular basis, and proposed changes from time to time will be submitted to the Business Board for consideration.

We will be focusing our investment performance evaluation on the achievement of the risk and return targets, with secondary emphasis on market benchmarks and low emphasis on peer comparisons.

### **4. Reporting on investments to Business Board**

As noted earlier, the University administration is accountable to the Business Board for investments. At the present time, the Business Board receives reporting as of June 30 and December 31 each year, with the December 31<sup>st</sup> report representing a full annual report prepared by UTAM. The Business Board also receives annual financial reports on endowments and on the Pension Plan. This reporting will continue and will be fulsome.

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

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### **RECOMMENDATION:**

That the Delegation of Authority attached as appendix 1 to this report be approved.

That the Amended and Restated Personnel and Service Agreement, most recently approved by the Business Board on April 7, 2003, and its Schedule C, most recently approved by the Business Board on April 4, 2005, be rescinded.