

Portfolio Performance Review

University of Toronto Business Board Meeting

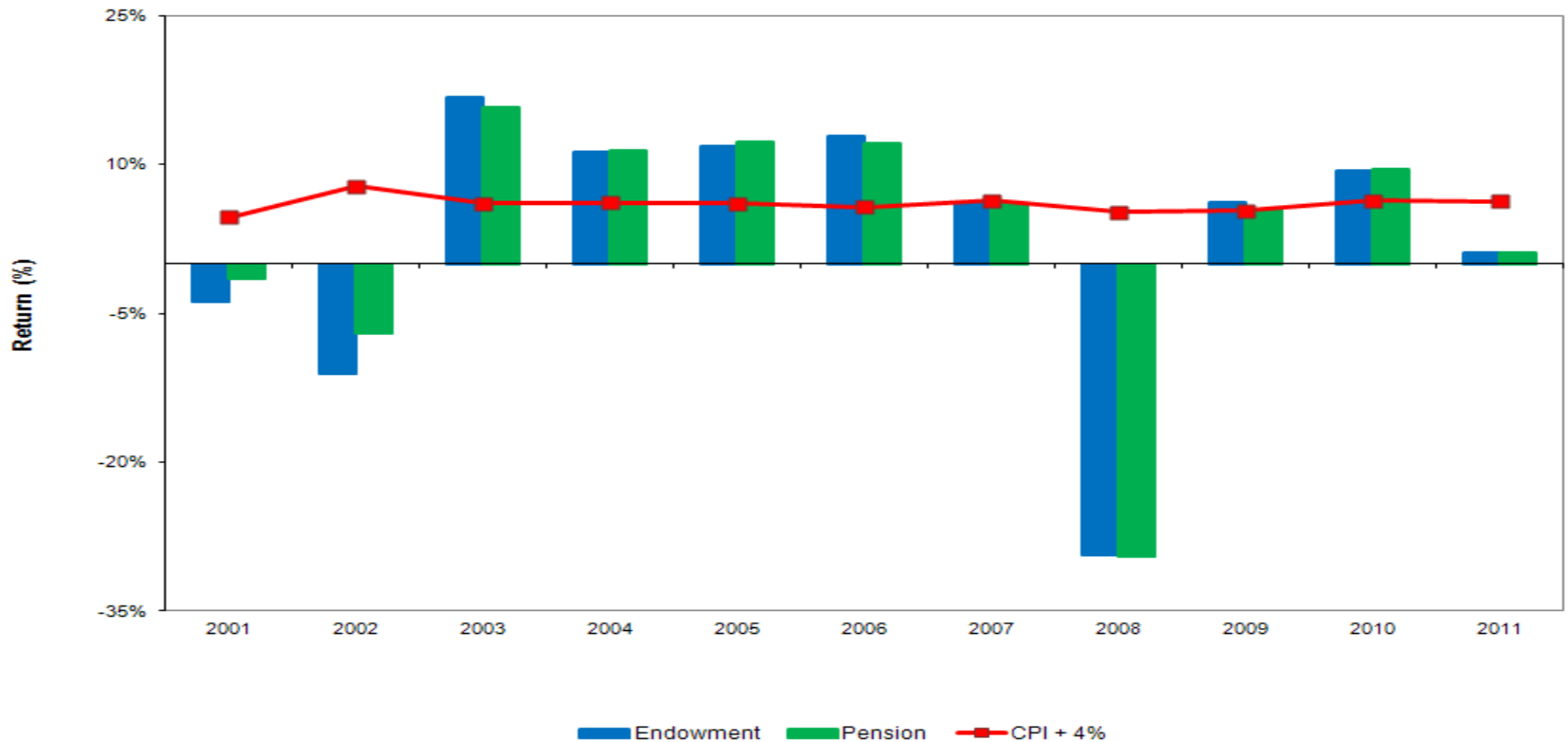
Monday, April 02, 2012



William W. Moriarty, CFA
President and CEO, UTAM

Annual Returns vs. University Target

- University target represents an ambitious goal in years with poor equity market performance.



Annual Returns

- The University has also used other benchmarks to analyze performance.
- Viewed from each of these perspectives, performance in 2011 was quite good.

	2011			2 - Year (2010 - 2011)			4 - Year (2008 - 2011)		
	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP
University Target Return ¹	6.3%	6.3%	2.4%	6.3%	6.3%	1.9%	5.8%	5.8%	3.0%
Reference Portfolio Return ²	0.2%	0.2%	n.a.	5.2%	5.2%	n.a.	1.4%	1.4%	n.a.
Benchmark Portfolio Return ³	0.8%	0.8%	n.a.	5.0%	5.0%	n.a.	-3.0%	-3.2%	n.a.
Actual Net Return²	1.2%	1.2%	2.5%	5.2%	5.2%	2.4%	-4.6%	-4.7%	2.1%
Assets (December 31st; millions)									
2011	\$1,754	\$2,504	\$1,006						
2010	\$1,757	\$2,336	\$909						

Footnotes: See 2011 Annual Report, page 1.

2011 Main Performance Factors Versus RP

- Value add was the result of several factors.

2011 Performance Attribution (%)			
	LTCAP		Pension
Reference Portfolio Return (Local)		0.07%	0.07%
Estimated Costs	-0.15%		
FX Exposure (50%)	0.31%		
Reference Portfolio Return (C\$)		0.24%	0.24%
Other Factors Impacting on Actual Portfolio:			
Asset Mix Differences	0.19%		0.24%
Manager Selection	0.71%		0.73%
Incremental FX Exposure	0.18%		0.18%
Other	<u>-0.17%</u>	0.91%	<u>-0.24%</u> 0.91%
Actual Portfolio Performance (C\$)		1.15%	1.15%

2011 Asset Class Performance

	Benchmark Index	2011 BM	2011 LTCAP	2011 Pension	LTCAP Vs. Benchmark
Canadian Equity	S&P/TSX Composite Index	-8.7%	-7.9%	-7.9%	78
US Equity (USD)	Russell 3000 Index (USD)	1.0%	0.9%	1.1%	(12)
International Equity (Local)	MSCI EAFE Index (Local)	-12.2%	-13.1%	-13.1%	(94)
Fixed Income	Dex Universe	9.7%	9.2%	9.2%	(45)
Hedge Funds (Local)	HFRI FoF Conservative True -Up Index (USD)	-3.7%	2.1%	2.1%	579
Private Investments (Local)	Benchmark = actual return	n.a.	14.8%	12.9%	n.a.
Real Assets (Local)	Benchmark = actual return	n.a.	9.0%	9.9%	n.a.

A Closer Look At Alternative Asset Returns

- The TSX Composite Index returned -8.7% in 2011 and -2.9% over last 4 years.
- The University's investments in Alternative Assets have outperformed Public Equity Markets on a 1-year and 4-year basis.

<u>Actual</u> Alternative Asset Returns (in Local \$)					
(After Fees)					
	2008	2009	2010	2011	Cum. 2008-11
Private Investments	1.5%	-1.2%	20.2%	14.8%	38.4%
Buyout	19.9%	-9.7%	25.5%	14.9%	56.2%
Distressed	-0.2%	15.8%	17.6%	8.1%	47.1%
Venture	-7.3%	-6.9%	2.4%	27.4%	12.6%
Real Assets	-2.9%	-18.0%	13.1%	9.0%	-1.9%
R/E & Infrastructure	-0.3%	-26.2%	15.3%	12.5%	-4.5%
Commodities	-8.9%	-0.8%	8.8%	1.8%	0.1%
Hedge Funds	-19.9%	15.1%	7.4%	2.1%	1.1%

Performance Comparisons

- The “Benchmark Portfolio” was the traditional measure used to assess performance.
- 2008 experience highlighted several issues with this approach.
- UTAM, the University and the IAC are now placing more emphasis on the “Reference Portfolio”.

	Benchmark Portfolio*	Original Reference Portfolio	New Reference Portfolio
Public Markets			
Equity: Canadian	12.5	30	16
U.S.	12.5	15	18
International	15	15	16
Emerging Markets			10
Fixed Income:			
Rates	12.9	25.7	20
Credit	4.6	9.3	20
Real Return Bonds		5	
Alternative Assets			
Hedge Funds	17.5		
Private Equity	10		
Real Assets	15		
Total	100	100	100
*Left unchanged pending UTAM review and new Investment Advisory Committee in place.			

Defining The Reference Proposal

- A “shadow” portfolio that is appropriate to the University’s long-term horizon, risk tolerance and return objective.
- It is comprised of investments that are:
 - low-cost, simple and passive; and,
 - representative of the investable market.
- It provides a transparent replicable benchmark against which to compare an ‘active’ management approach.

The Original Reference Portfolio

Main Risk Drivers	Basic Building Blocks	Portfolio Weight(%)	Primary Objectives	Benchmark
Growth / Equity	Cdn. Public Equity	30	<ul style="list-style-type: none"> - Achieve higher returns from accessing economic growth - Achieve some long-term inflation protection -Diversify Canada centric risk 	TSX Composite
	U.S. Public Equity	15		S&P 500
	EAFE Public Equity	15		MSCI EAFE Index
Income / Credit	Canadian Investment Grade Corporates	9.3	<ul style="list-style-type: none"> -Provide income -Outperform Gov't Bonds 	Dex Corporate Bond Index
Rates	Canadian Government Bonds	25.7	<ul style="list-style-type: none"> -Diversify equity risk -Provide income -Hedge deflation risk -Hedge liabilities -Provide liquidity 	Dex Government Bonds Index
Inflation	Cdn. Real Return Bonds	5	<ul style="list-style-type: none"> -Diversify equity risk -Hedge inflation -Hedge liabilities -Provide liquidity 	Dex RRB Overall Index
Currency	USD and EAFE Currencies ⁺	15	<ul style="list-style-type: none"> -Diversify equity risk 	Spot Exchange Rates

+ 50% of FX exposure is hedged

Adjustments To The Original Reference Portfolio

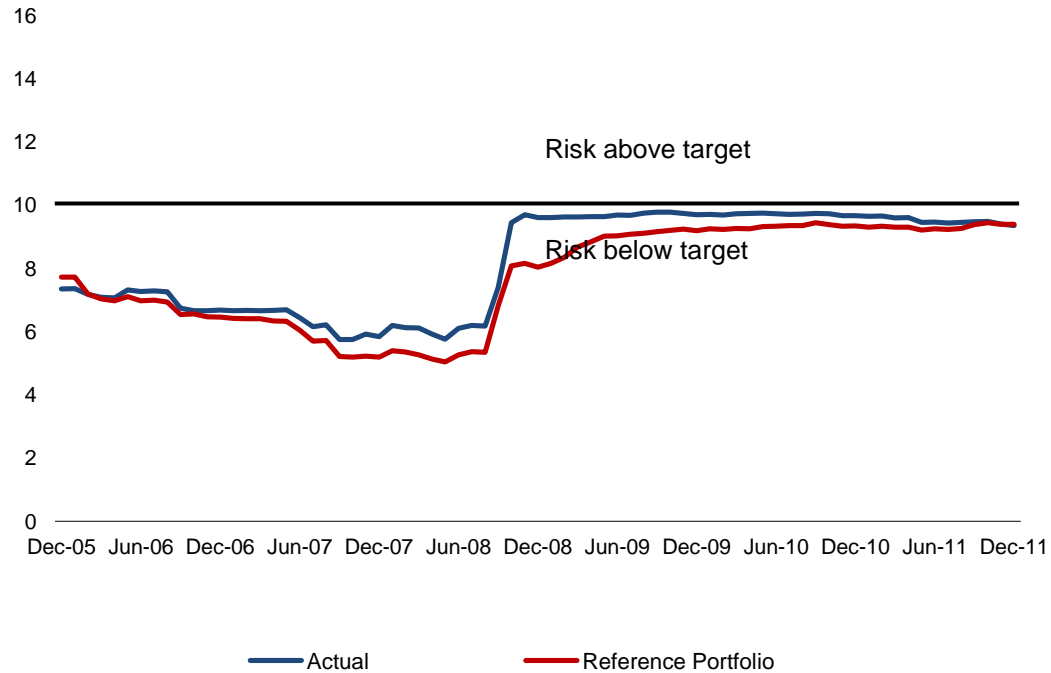
- **Original Reference Portfolio was developed in 2008 when valuation levels were different.**
- **Original Reference Portfolio is very concentrated both regionally and by economic sector.**
- **Original Reference Portfolio has only limited exposure to those areas expected to experience the fastest economic growth.**
- **Original Reference Portfolio is expected to generate a real return of 2.8% given current level of interest rates.**

The New Reference Portfolio For 2012

- Current capital markets valuation levels suggest that achieving the 4% real return target requires either higher equity exposure or some element of successful 'active' investment management.
- UTAM, the Administration and the IAC believe that the new Reference Portfolio combined with limited active management success can achieve the University's return target.

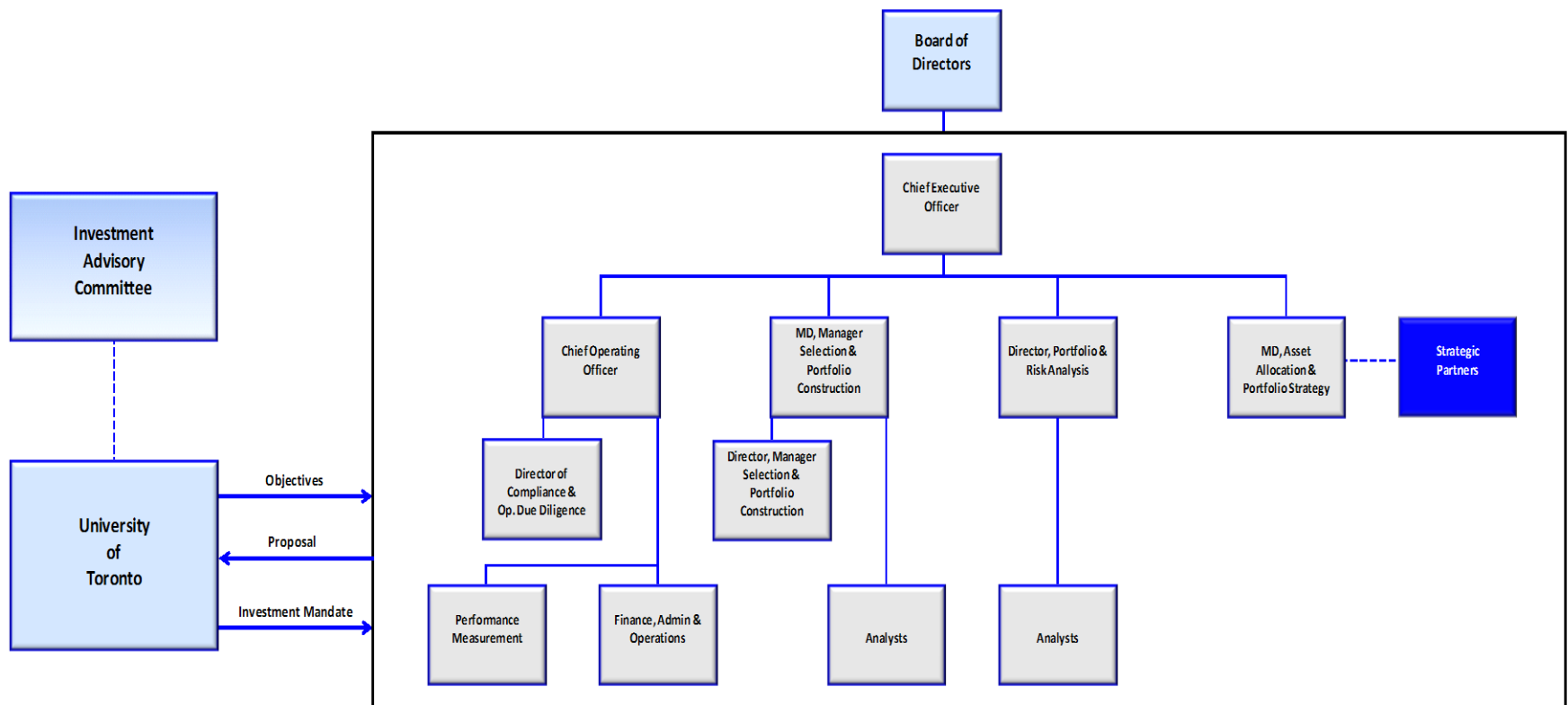
Main Risk Drivers	Basic Building Blocks	Portfolio Weight(%)	Benchmark
Growth / Equity	Cdn. Public Equity	16	TSX Composite
	U.S. Public Equity	18	S&P 500
	EAFE Public Equity	16	MSCI EAFE Index
	Emerging Markets	10	
Income / Credit	Canadian Investment Grade Corporates	20	Dex Corporate Bond Index
Rates	Canadian Government Bonds	20	Dex Government Bonds Index
Currency	USD, EAFE and EM Currencies+	18.5	Spot Exchange Rates
+ EM FX exposure is unhedged			

PENSION PORTFOLIO VOLATILITY OVER TIME



UTAM's Current Structure

- Staffing, strategic partners, infrastructure, organization and governance are much improved.



Final Thoughts

- **Improved performance but the investment environment remains challenging.**
- **2012 focus is to finish restructuring and achieve a better balance between offence and defense.**
- **Enhanced capability and a better structure.**

QUESTIONS