



**FOR INFORMATION**

**PUBLIC**

**OPEN SESSION**

**TO:** Business Board

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**DATE:** September 12, 2016 for September 22, 2016

**AGENDA ITEM:** 4

**ITEM IDENTIFICATION:**

Investments: Semi-Annual Update on Investment Performance

**JURISDICTIONAL INFORMATION:**

Under Section 5(1)(b) of the Business Board terms of reference the Board reviews regular reports on matters affecting the finances of the University, including reports on investments.

**GOVERNANCE PATH:**

**1. Business Board [for information] (September 22, 2016)**

**PREVIOUS ACTION TAKEN:**

The Business Board reviewed the UTAM annual report at its meeting of April 5, 2016.

**HIGHLIGHTS:**

The actual returns for the six-month period from January 1, 2016 to June 30, 2016 were 0.28% for the Long-Term Capital Appreciation Pool (LTCAP), 0.31% for the Pension Master Trust (PMT) and 0.93% for the Expendable Funds Investment Pool (EFIP). For the twelve-month period from July 1, 2015 to June 30, 2016, actual returns were 0.78% for LTCAP, 0.69% for PMT, and 1.41% for EFIP. These compared as follows to the nominal investment return targets for the university and PMT funds, and to the reference portfolio, which constitutes the portfolio benchmark and passive investment comparator for LTCAP and PMT:

- For the six-month reporting period from January 1, 2016 to June 30, 2016,
  - the target nominal return for LTCAP and PMT was 2.94%.
  - the target nominal return for EFIP was 0.50%.
  - the reference portfolio return for LTCAP and PMT was 1.91%.
  
- For the twelve-month reporting period from July 1, 2015 to June 30, 2016,
  - the target nominal investment return for LTCAP and PMT was 5.42%.
  - the target nominal return for EFIP was 1.07%.
  - the reference portfolio return for LTCAP and PMT was 0.55%.

Actual returns for LTCAP and PMT have differed from the target investment returns and the reference portfolio returns over the past ten years, by the following percentages:

Actual Return minus Target Return:

	<u>LTCAP</u>	<u>PMT</u>
YTD (Jan 16 – June 16)	-2.67%	-2.63%
1-Year (July 15 - June 16)	-4.63%	-4.73%
3-Year (July13 - June 16)	4.34%	4.20%
5-Year (July 11 - June 16)	3.04%	2.94%
10-Year (July 06 – June 16)	-1.44%	-1.56%

Actual Return minus Reference Portfolio<sup>1</sup> Return:

	<u>LTCAP</u>	<u>PMT</u>
YTD (Jan 16 – June 16)	-1.63%	-1.60%
1-Year (July 15 - June 16)	0.23%	0.14%
3-Year (July13 - June 16)	2.07%	1.93%
5-Year (July 11 - June 16)	1.97%	1.78%
10-Year (July 06 – June 16)	0.29%	0.24%

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<sup>1</sup> Reference Portfolio was adopted in March 2012 for LTCAP and May 2012 for Pension. Benchmark/Policy Portfolio used for prior periods.

**FINANCIAL IMPLICATIONS:**

See above.

**RECOMMENDATION:**

For information.

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**DOCUMENTATION PROVIDED:**

Semi-annual Update on Investment Performance



UNIVERSITY OF TORONTO  
ASSET MANAGEMENT CORPORATION

# SEMI-ANNUAL UPDATE ON INVESTMENT PERFORMANCE

**Daren M. Smith, CFA**  
President and Chief Investment Officer

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# Assets Under Management

(in millions)

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	Q2/2015	Q3/2015	Q4/2015	Q1/2016	Q2/2016
LTCAP	2,410	2,389	2,453	2,355	2,408
Pension	4,060	3,999	4,089	4,039	4,115
EFIP	1,175	1,577	1,522	1,458	1,396
Total	<b>7,646</b>	<b>7,965</b>	<b>8,065</b>	<b>7,853</b>	<b>7,919</b>

- Total assets increased by 3.6% year over year while the longer term Pension and LTCAP (aka Endowment) assets increased by 0.8% in aggregate.

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# Performance: Actual LTCAP, Pension, and EFIP Returns

## Rolling Periods ending June 30, 2016

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	YTD	1 Year	3 Years	5 Years	10 Years
<b>Actual Portfolio Returns</b>					
LTCAP	0.28%	0.78%	9.92%	8.50%	4.22%
Pension	0.31%	0.69%	9.78%	8.40%	4.10%
EFIP	0.93%	1.41%	1.79%	1.82%	2.39%

- The Pension and Endowment assets returned approximately 0.3% on a YTD basis and about 0.7% over the past 1 year.
- EFIP (the short-term working capital pool) returned just over 0.9% on a YTD basis and 1.4% over the past 1 year.

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# Performance: Evaluating Returns

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The previous slide showed the Actual returns of all portfolios. But how do those returns relate to what was available in the capital markets, and how much did UTAM add or detract with its active management approach? The following definitions are required to answer these questions:

**Reference Portfolio:** Passive, easy to implement, low-cost, simple and appropriate for the Pension and Endowment long-term risk and return objectives. The Reference Portfolio represents the returns available in the capital markets for a broadly diversified portfolio. UTAM strives to outperform the Reference Portfolio while adhering to all constraints. There is no Reference Portfolio for EFIP.

**Target Return:** The return objective for each portfolio. For Pension & LTCAP the target return is CPI + 4%. For EFIP it is 1 year T-bills + 0.5%. All targets are net of all investment fees and expenses.

Actual performance vs Target can be separated into (Reference minus Target), which shows whether the capital markets alone delivered the Target return and (Actual minus Reference), which shows whether UTAM's active management approach added any value over and above what was available in the capital markets (as represented by the Reference Portfolio).

# Performance: Reference Portfolio vs. Target Return

Rolling Periods ending June 30, 2016

	YTD	1 Year	3 Years	5 Years	10 Years
<b>Reference Portfolio Returns</b>					
LTCAP <sup>1</sup>	1.91%	0.55%	7.85%	6.53%	3.93%
Pension <sup>1</sup>	1.91%	0.55%	7.85%	6.63%	3.87%
<b>University Target Return</b>					
LTCAP & Pension: CPI + 4%	2.94%	5.42%	5.58%	5.46%	5.66%
<b>Reference minus Target</b>					
LTCAP	-1.03%	-4.87%	2.27%	1.07%	-1.73%
Pension	-1.03%	-4.87%	2.27%	1.16%	-1.79%

1. Reference Portfolio was adopted in March 2012 for LTCAP and May 2012 for Pension. Benchmark/Policy Portfolio used for prior periods.

- The Reference Portfolio underperformed the Target Return by about 1% year-to-date (YTD) and by about 4.9% over the last year. This reflects a difficult capital markets environment.
- The Reference Portfolio exceeded the Target Return over the last 5 years by about 1.1% but lagged the Target Return over the last 10 years by about 1.8%. However it should be noted that the Reference Portfolio was only adopted about 4 years ago and the previous Benchmark/Policy Portfolio is used for prior periods.



# Performance: Actual Portfolio vs. Reference Portfolio

## Rolling Periods ending June 30, 2016

	YTD	1 Year	3 Years	5 Years	10 Years
<b>Actual Portfolio Returns</b>					
LTCAP	0.28%	0.78%	9.92%	8.50%	4.22%
Pension	0.31%	0.69%	9.78%	8.40%	4.10%
<b>Reference Portfolio Returns</b>					
LTCAP <sup>1</sup>	1.91%	0.55%	7.85%	6.53%	3.93%
Pension <sup>1</sup>	1.91%	0.55%	7.85%	6.63%	3.87%
<b>Actual minus Reference</b>					
LTCAP	-1.63%	0.23%	2.07%	1.97%	0.29%
Pension	-1.60%	0.14%	1.93%	1.78%	0.24%

1. Reference Portfolio was adopted in March 2012 for LTCAP and May 2012 for Pension. Benchmark/Policy Portfolio used for prior periods.

- On a YTD basis Actual Pension & LTCAP performance lagged the Reference Portfolio performance by about 1.60%. However, over all longer time periods Actual performance exceeded Reference Portfolio performance, indicating that UTAM added value.

# Performance: Actual vs. Target

Rolling Periods ending June 30, 2016

	YTD	1 Year	3 Years	5 Years	10 Years
<b>Actual Portfolio Returns</b>					
LTCAP	0.28%	0.78%	9.92%	8.50%	4.22%
Pension	0.31%	0.69%	9.78%	8.40%	4.10%
EFIP	0.93%	1.41%	1.79%	1.82%	2.39%
<b>University Target Returns</b>					
LTCAP & Pension: CPI + 4%	2.94%	5.42%	5.58%	5.46%	5.66%
EFIP: 365 day T-bill + 0.50%	0.50%	1.07%	1.49%	1.58%	2.64%
<b>Actual minus Target</b>					
LTCAP	-2.67%	-4.63%	4.34%	3.04%	-1.44%
Pension	-2.63%	-4.73%	4.20%	2.94%	-1.56%
EFIP	0.43%	0.33%	0.30%	0.25%	-0.25%

- On a YTD basis Actual Pension & LTCAP performance lagged Target by about 2.6% with about 1.0% due to Reference Portfolio underperformance (difficult capital markets) and 1.6% due to UTAM underperformance vs. the Reference Portfolio.
- On a YTD basis EFIP outperformed its Target by 0.4%.

# Performance: UTAM YTD Value-Add Attribution

## Primary drivers of UTAM active management value-add for Pension and LTCAP

Performance Attribution - YTD 2016		
	LTCAP	Pension
<b>Reference Portfolio Return</b>	<b>1.91%</b>	<b>1.91%</b>
<b>Source of performance difference</b>		
<i>Asset Mix Differences</i> (Performance of actual asset classes and weights vs Reference Portfolio)	-0.36%	-0.39%
<i>Style Tilts</i> (Performance of weighted average manager benchmark vs Reference Portfolio)	0.03%	0.05%
<i>Manager Selection</i> (Performance of managers vs managers' benchmarks)	-1.24%	-1.23%
<i>Different FX Exposure</i> (Performance of actual FX exposures vs Reference Portfolio FX exposures)	0.02%	0.05%
<i>Unexplained</i>	-0.09%	-0.09%
<b>UTAM Value-Add</b>	<b>-1.63%</b>	<b>-1.60%</b>
<b>Actual Return (= Reference Return + UTAM Value-Add)</b>	<b>0.28%</b>	<b>0.31%</b>

- UTAM Value-Add has been negative YTD with Manager Selection the main contributor. Manager Selection has been a strong positive contributor to performance over the last 5 years but year-to-date has proven to be a very difficult period for many of UTAM's active managers.

# Current Asset Allocation and Limits: Pension

As of June 30, 2016

Pension						
	Reference Portfolio		Actual Portfolio <sup>(1)</sup>	Outside Full Band	----- Full Bands -----	
					Min.	Max.
<b>Equity</b>						
Canadian	14.0		13.0	N	9.0	19.0
US	19.5		18.6	N	14.5	24.5
EAFE	16.0		15.6	N	11.0	21.0
EM	10.0		10.0	N	5.0	15.0
GLOBAL	0.5		0.5	N	0.0	10.0
<b>Total</b>	60.0		57.6	N	50.0	70.0
<b>Credit (Corporate Credit)<sup>(2)</sup></b>	20.0		22.0	N	10.0	30.0
<b>Rates (Government Bonds)</b>	20.0		9.9	Y	10.0	30.0
<b>Other</b>						
Absolute Return			10.0			
Cash			0.5			
<b>Total</b>	0.0		10.4	N	0.0	15.0
<b>Total</b>	100.0		100.0			
<b>FX Exposure:</b>	28.2		28.3	N	20.7	35.7

(1) Numbers may not add due to rounding. (2) Actual Portfolio contains more than just corporate credit.

- All exposures within bands except Rates (Government Bonds). Rates was brought back into compliance shortly after the breach was identified. Bands are monitored monthly vs. the then current Reference Portfolio weights.

# Current Asset Allocation and Limits: LTCAP

As of June 30, 2016

LTCAP						
	Reference		Actual	Outside	----- Bands -----	
	Portfolio		Portfolio <sup>(1)</sup>	Band	Min.	Max.
<b>Equity</b>						
Canadian	14		13.0	N	9.0	19.0
US	19.5		18.7	N	14.5	24.5
EAFE	16		15.6	N	11.0	21.0
EM	10		10.0	N	5.0	15.0
Global	0.5		0.5	N	0.0	10.0
<b>Total Equity</b>	60		57.7	N	50.0	70.0
<b>Credit (Corporate Credit)<sup>(2)</sup></b>	20		21.8	N	10.0	30.0
<b>Rates (Government Bonds)</b>	20		9.9	Y	10.0	30.0
<b>Other</b>						
Absolute Return			10.2			
Cash			0.4			
<b>Total Other</b>	0		10.6	N	0.0	15.0
<b>Total</b>	<b>100</b>		<b>100.0</b>			
<b>FX Exposure:</b>	28.2		28.3	N	20.7	35.7

(1) Numbers may not add due to rounding. (2) Actual Portfolio contains more than just corporate credit.

- All exposures within bands except Rates (Government Bonds). Rates was brought back into compliance shortly after the breach was identified. Bands are monitored monthly vs. the then current Reference Portfolio weights.

# Reference Portfolio Transition

## Update on Revised Reference Portfolio

	Period Ending Weights				Changes			
	START			END				
	Q1/16	Q2/16	Q3/16	Q4/16	Q1/16	Q2/16	Q3/16	Q4/16
Canadian Equity	16.0%	14.0%	12.0%	10.0%	n/a	-2.0%	-2.0%	-2.0%
US Equity	18.0%	19.5%	20.0%	20.0%	n/a	1.5%	0.5%	0.0%
EAFE Equity	16.0%	16.0%	16.0%	15.0%	n/a	0.0%	0.0%	-1.0%
EM Equity	10.0%	10.0%	10.0%	10.0%	n/a	0.0%	0.0%	0.0%
Global Equity	0.0%	0.5%	2.0%	5.0%	n/a	0.5%	1.5%	3.0%
<b>Total Equities</b>	<b>60.0%</b>	<b>60.0%</b>	<b>60.0%</b>	<b>60.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>

  

FX Hedge Ratio <sup>(1)</sup>	65%	50.0%	50.0%	50.0%
<b>FX Exposure</b>	<b>21.9%</b>	<b>28.2%</b>	<b>29.9%</b>	<b>32.3%</b>

<sup>(1)</sup> FX hedge ratio applies to the US and EAFE Equity asset class buckets. EM Equity and Global Equity are unhedged.

- The revised Reference Portfolio included changes to the equity asset class weights, the introduction of a new equity asset class (Global Equity), and a change to the FX hedging policy (50% hedge to developed currencies from 65%). There were no changes to the Credit or Rates asset classes.
- The first stage of the transition took place at the end of June with a 2% reduction in Canadian equity and a 1.5% increase in US equity and a 0.5% increase in Global equity. The remainder of the transition will occur at Sept. 30th and Dec. 31st.

# Actual Risk vs. Reference Portfolio Risk

## Active Risk – Incremental Risk taken by UTAM

<b>Report Date</b>	<b>June 30, 2016</b>
	<b>Risk (Volatility %)</b>
Reference	5.78
Pension	6.11
Active Risk (Pension less Reference)	<b>0.33</b>

- Risk is measured at a point in time on a monthly basis and is typically finalized within 45 days after the end of each month (i.e. it is calculated after the fact). UTAM uses a position based risk system provided by State Street to calculate risk.
- Active Risk (33 bps) for Pension (shown above) remains well within the Active Risk “Green Zone” (-50 bps to 100 bps).
- Active Risk for LTCAP was 39 bps at June 30 (not shown).