



FOR INFORMATION

PUBLIC

OPEN SESSION

TO: Business Board

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DATE: September 25, 2017 for October 10, 2017

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] (October 10, 2017)

PREVIOUS ACTION TAKEN:

The Business Board reviewed the UTAM annual report at its meeting of April 6, 2017.

HIGHLIGHTS:

The actual returns for the six-month period from January 1, 2017 to June 30, 2017 were 6.0% for the Long-Term Capital Appreciation Pool (LTCAP), 6.0% for the Pension Master Trust (PMT) and 0.8% for the Expendable Funds Investment Pool (EFIP). For the twelve-month period from July 1, 2016 to June 30, 2017, actual returns were 13.2% for LTCAP, 13.2% for PMT, and 1.4% 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, 2017 to June 30, 2017,
 - the target nominal return for LTCAP and PMT was 2.4%.
 - the target nominal return for EFIP was 0.30%.
 - the reference portfolio return for LTCAP and PMT was 5.8%.

- For the twelve-month reporting period from July 1, 2016 to June 30, 2017,
 - the target nominal investment return for LTCAP and PMT was 5.0%.
 - the target nominal return for EFIP was 0.7%.
 - the reference portfolio return for LTCAP and PMT was 11.3%.

Actual returns for LTCAP and PMT compared to the target nominal investment returns and the portfolio benchmarks for the past 6 months (YTD), 1-year, 5-years, and 10-years are shown below:

Actual Return Greater or Lesser Than Target Nominal Return by:

	<u>LTCAP</u>	<u>PMT</u>
YTD (Jan 17 – June 17)	3.6%	3.6%
1-Year (July 16 - June 17)	8.2%	8.2%
5-Year (July 12 - June 17)	5.6%	5.5%
10-Year (July 07 – June 17)	-1.9%	-2.1%

Actual Return Greater or Lesser Than Reference Portfolio¹ by:

	<u>LTCAP</u>	<u>PMT</u>
YTD (Jan 17 – June 17)	0.2%	0.2%
1-Year (July 16 - June 17)	1.9%	1.9%
5-Year (July 12 - June 17)	2.1%	2.0%
10-Year (July 07 – June 17)	0.3%	0.2%

¹ Reference Portfolio was adopted in March 2012 for LTCAP and May 2012 for Pension. Benchmark/Policy Portfolio used for prior periods. There is no Reference Portfolio for EFIP.

FINANCIAL IMPLICATIONS:

See above.

RECOMMENDATION:

For information.

DOCUMENTATION PROVIDED:

- *Semi-annual Update on Investment Performance to June 30, 2017*



UNIVERSITY OF TORONTO
ASSET MANAGEMENT CORPORATION

SEMI-ANNUAL UPDATE ON INVESTMENT PERFORMANCE

For the Period Ending June 30, 2017

Daren M. Smith, CFA
President and Chief Investment Officer

Presentation to Business Board

October 10, 2017

Assets Under Management (in millions at each quarter-end)

	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2
LTCAP	2,408	2,517	2,594	2,633	2,712
Pension	4,115	4,302	4,414	4,590	4,684
EFIP	1,396	1,863	1,808	1,731	1,661
Total	7,919	8,682	8,816	8,954	9,058

- Total assets increased by 14.4% year over year, while longer term Pension and LTCAP (aka Endowment) assets increased by 13.4% in aggregate.

Performance: Actual LTCAP, Pension, and EFIP Rolling Periods ending June 30, 2017

	YTD	1 Year	5 Years	10 Years
LTCAP	6.0%	13.2%	11.0%	3.6%
Pension	6.0%	13.2%	10.9%	3.5%
EFIP	0.8%	1.4%	1.7%	2.0%

Note: Returns are net of all investment fees and expenses, including UTAM costs.

- Over the first half of the calendar year the Endowment and Pension assets returned 6.0%, while EFIP returned 0.8%.
- Over the past one year the Endowment and Pension assets returned 13.2%, while EFIP returned 1.4%.

Performance: Evaluating Returns

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's long-term risk and return objectives. The Reference Portfolio represents the returns available in the capital markets for a broadly diversified portfolio. The primary means of assessing the success (or failure) of UTAM's active management approach is obtained by comparing Actual returns to Reference Portfolio returns. Note that there is no Reference Portfolio for EFIP.

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

Performance: Actual vs Target

Rolling Periods ending June 30, 2017

	YTD	1 Year	5 Years	10 Years
Actual Portfolio Returns				
LTCAP	6.0%	13.2%	11.0%	3.6%
Pension	6.0%	13.2%	10.9%	3.5%
EFIP	0.8%	1.4%	1.7%	2.0%
University Target Returns				
LTCAP & Pension: CPI + 4%	2.4%	5.0%	5.4%	5.6%
EFIP: 365 day T-bill + 0.50%	0.3%	0.7%	1.4%	2.3%
Actual minus Target				
LTCAP	3.6%	8.2%	5.6%	-1.9%
Pension	3.6%	8.2%	5.5%	-2.1%
EFIP	0.4%	0.7%	0.3%	-0.3%

- On a year-to-date basis, all portfolios outperformed Target returns.

Performance: Reference vs Target

Rolling Periods ending June 30, 2017

	YTD	1 Year	5 Years	10 Years
Reference Portfolio Returns ⁽¹⁾				
LTCAP	5.8%	11.3%	8.9%	3.3%
Pension	5.8%	11.3%	8.9%	3.3%
University Target Returns				
LTCAP & Pension: CPI + 4%	2.4%	5.0%	5.4%	5.6%
Reference minus Target				
LTCAP	3.4%	6.3%	3.5%	-2.2%
Pension	3.4%	6.3%	3.5%	-2.3%

(1) Reference Portfolio adopted in March 2012 for LTCAP and May 2012 for Pension. Policy Portfolio used for prior periods. There is no Reference Portfolio for EFIP.

- On a year-to-date basis, favourable capital markets resulted in Reference Portfolio returns that were 3.4% higher than the University's Target returns.
- The Reference Portfolio has outperformed Target over the last 5 years but has underperformed over the last 10 years.

Performance: Actual vs Reference

Rolling Periods ending June 30, 2017

	YTD	1 Year	5 Years	10 Years
Actual Portfolio Returns				
LTCAP	6.0%	13.2%	11.0%	3.6%
Pension	6.0%	13.2%	10.9%	3.5%
Reference Portfolio Returns				
LTCAP	5.8%	11.3%	8.9%	3.3%
Pension	5.8%	11.3%	8.9%	3.3%
Actual minus Reference (UTAM value add)				
LTCAP	0.2%	1.9%	2.1%	0.3%
Pension	0.2%	1.9%	2.0%	0.2%

- UTAM's active management approach in LTCAP and Pension added 0.2% over the returns available from the Reference portfolio on a YTD basis.
- UTAM's active management approach has consistently added value over the last 1, 5 and 10 year periods.

Current Asset Allocation and Limits: LTCAP

June 30, 2017

	Reference Portfolio	Actual Portfolio *	Outside Band	----- Bands -----	
				Min.	Max.
Equity:					
Canadian	10	10.0	N	5.0	15.0
US	20	19.9	N	15.0	25.0
EAFE	15	14.9	N	10.0	20.0
EM	10	10.0	N	5.0	15.0
Global	5	5.0	N	0.0	10.0
Total Equity	60	59.7	N	50.0	70.0
Credit:	20	20.0	N	10.0	30.0
Rates:	20	11.1	N	10.0	30.0
Other:					
Absolute Return		8.9			
Cash		0.3			
Total Other	0	9.2	N	0.0	15.0
TOTAL	100	100.0			
FX Exposure:	32.3	32.4	N	24.8	39.8

* Numbers may not add due to rounding

- All exposures within allowable bands.

Current Asset Allocation and Limits: Pension June 30, 2017

	Reference Portfolio	Actual Portfolio [*]	Outside Full Band	----- Full Bands -----	
				Min.	Max.
Equity:					
Canadian	10	10.0	N	5.0	15.0
US	20	19.9	N	15.0	25.0
EAFE	15	14.9	N	10.0	20.0
EM	10	10.0	N	5.0	15.0
Global	5	5.0	N	0.0	10.0
Total Equity	60	59.7	N	50.0	70.0
Credit:	20	20.0	N	10.0	30.0
Rates:	20	11.6	N	10.0	30.0
Other:					
Absolute Return		8.4			
Cash		0.3			
Total Other	0	8.7	N	0.0	15.0
TOTAL	100	100.0			
FX Exposure:	32.3	32.4	N	24.8	39.8

* Numbers may not add due to rounding

- All exposures within allowable bands.

Active Risk: Actual Risk minus Reference Portfolio Risk

June 30, 2017

Active Risk Zone	Active Risk (in basis points)
Target Zone ("Normal")	$-50 \leq \text{Active Risk} \leq 100$
Notification and Analysis Zone ("Watch")	$100 < \text{Active Risk} \leq 125$
Mitigation Zone ("Alert")	$\text{Active Risk} > 125$

	Risk (Volatility %)
Reference Portfolio	5.44
LTCAP	5.67
Pension	5.60
LTCAP Active Risk	0.23% or 23 bps
Pension Active Risk	0.16% or 16 bps

- Active Risk for LTCAP and Pension remains well within the "Normal" Zone (-50 bps to 100 bps)