



**FOR INFORMATION**

**PUBLIC**

**OPEN SESSION**

**TO:** Business Board

**SPONSOR:** Sheila Brown, Chief Financial Officer  
**CONTACT INFO:** 416-978-2065, [sheila.brown@utoronto.ca](mailto:sheila.brown@utoronto.ca)

**PRESENTER:** Daren Smith, President & CIO, UTAM  
**CONTACT INFO:** 416-306-8731, [daren.smith@utam.utoronto.ca](mailto:daren.smith@utam.utoronto.ca)

**DATE:** September 24, 2018 for October 9, 2018

**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 9, 2018)**

**PREVIOUS ACTION TAKEN:**

The Business Board reviewed the UTAM annual report at its meeting of April 23, 2018.

**HIGHLIGHTS:**

The actual returns for the six-month period from January 1, 2018 to June 30, 2018 were 2.2% for the Long-Term Capital Appreciation Pool (LTCAP), 2.2% for the Pension Master Trust (PMT) and 0.9% for the Expendable Funds Investment Pool (EFIP). For the twelve-month period from July 1, 2017 to June 30, 2018, actual returns were 8.4% for LTCAP, 8.4% for PMT, and 1.7% 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, 2018 to June 30, 2018,
  - the target nominal return for LTCAP and PMT was 3.1%.

- the target nominal return for EFIP was 1.1%.
- the reference portfolio return for LTCAP and PMT was 1.6%.
  
- For the twelve-month reporting period from July 1, 2017 to June 30, 2018,
  - the target nominal investment return for LTCAP and PMT was 6.5%.
  - the target nominal return for EFIP was 1.5%.
  - the reference portfolio return for LTCAP and PMT was 7.0%.

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 18 – June 18)	-0.9%	-0.9%
1-Year (July 17 - June 18)	1.9%	2.0%
5-Year (July 13 - June 18)	4.6%	4.5%
10-Year (July 08 – June 18)	-0.4%	-0.5%

Actual Return Greater or Lesser Than Reference Portfolio<sup>1</sup> by:

	<u>LTCAP</u>	<u>PMT</u>
YTD (Jan 18 – June 18)	0.6%	0.6%
1-Year (July 17 - June 18)	1.4%	1.4%
5-Year (July 13 - June 18)	1.9%	1.8%
10-Year (July 08 – June 18)	0.7%	0.6%

---

<sup>1</sup> 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, 2018*

---

# Semi-Annual Update on Investment Performance

For the Period Ending June 30, 2018

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

October 9, 2018

---

# Assets Under Management

Ending June 30, 2018

	Market Value of Assets (C\$ millions)	
	December 31, 2017	June 30, 2018
LTCAP	2,917	2,942
Pension	4,987	5,105
EFIP	1,976	1,698
<b>Total</b>	<b>9,880</b>	<b>9,745</b>

<sup>1</sup> Due to rounding in this table and others in this report, some values may differ from the results of simple addition or subtraction.

- Since the start of the year, total assets in LTCAP and Pension increased by just over \$140 million while EFIP assets decreased by \$278 million due to outflows.
- Total assets managed by UTAM are just under \$10 billion.

# Performance: LTCAP, Pension, and EFIP

Periods ending June 30, 2018

	YTD	1 Year	5 Years	10 Years
LTCAP	2.2%	8.4%	10.3%	5.0%
Pension	2.2%	8.4%	10.2%	4.9%
EFIP	0.9%	1.7%	1.7%	1.7%

<sup>1</sup> Returns are net of all investment fees and expenses, including UTAM costs.

- Year-to-date (YTD) Pension and LTCAP generated returns of 2.2%, and EFIP returned 0.9%.
- Looking at longer periods of time, Pension and LTCAP returned about 10% over the last 5 years and 5% over the last 10 years.

# Performance: Evaluating Returns

The previous slide showed the 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 Pension and Endowment's 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

Periods ending June 30, 2018

	YTD	1 Year	5 Years	10 Years
<b>Actual Portfolio Returns</b>				
LTCAP	2.2%	8.4%	10.3%	5.0%
Pension	2.2%	8.4%	10.2%	4.9%
EFIP	0.9%	1.7%	1.7%	1.7%
<b>University Target Returns</b>				
LTCAP & Pension: CPI + 4%	3.1%	6.5%	5.7%	5.5%
EFIP: 365 day T-bill + 0.50%	1.1%	1.5%	1.4%	1.8%
<b>Actual minus Target</b>				
LTCAP	-0.9%	1.9%	4.6%	-0.4%
Pension	-0.9%	2.0%	4.5%	-0.5%
EFIP	-0.2%	0.1%	0.4%	-0.1%

- On a year-to-date basis, all portfolios underperformed Target returns. Intermediate-term results are better than Target, but 10 year results are still below Target.

# Performance: Reference vs Target

Periods ending June 30, 2018

	YTD	1 Year	5 Years	10 Years
<b>Reference Portfolio Returns<sup>1</sup></b>				
LTCAP	1.6%	7.0%	8.4%	4.4%
Pension	1.6%	7.0%	8.4%	4.4%
<b>University Target Returns</b>				
LTCAP & Pension: CPI + 4%	3.1%	6.5%	5.7%	5.5%
<b>Reference minus Target</b>				
LTCAP	-1.5%	0.6%	2.7%	-1.1%
Pension	-1.5%	0.6%	2.7%	-1.1%

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

- The Reference Portfolio underperformed the University's Target Return by 1.5% YTD, but outperformed over the last 1 and 5 years.
- Over a 10 year period the Reference Portfolio underperformed the Target by 1.1%.

# Performance: Actual vs Reference

Periods ending June 30, 2018

	YTD	1 Year	5 Years	10 Years
<b>Actual Portfolio Returns</b>				
LTCAP	2.2%	8.4%	10.3%	5.0%
Pension	2.2%	8.4%	10.2%	4.9%
<b>Reference Portfolio Returns</b>				
LTCAP	1.6%	7.0%	8.4%	4.4%
Pension	1.6%	7.0%	8.4%	4.4%
<b>Actual minus Reference (UTAM value-add)</b>				
LTCAP	0.6%	1.4%	1.9%	0.7%
Pension	0.6%	1.4%	1.8%	0.6%

- UTAM outperformed the Reference Portfolio in LTCAP and Pension by 0.6% YTD.
- UTAM also outperformed over the last 1, 5 and 10 year periods.

# Performance: UTAM Value Added in Dollar Terms

Periods ending June 30, 2018

	YTD	1 Year	5 Years	10 Years
<b>UTAM Value Add (%)</b>				
LTCAP	0.6%	1.4%	1.9%	0.7%
Pension	0.6%	1.4%	1.8%	0.6%
<b>UTAM Value Added (\$ millions)</b>				
LTCAP	17	37	215	193
Pension	29	65	347	311
<b>LTCAP + Pension</b>	<b>46</b>	<b>102</b>	<b>561</b>	<b>504</b>

- Over the last year, UTAM has added over \$100 million in value to LTCAP and Pension combined.
- Over the last 5 years and 10 years, UTAM has added in excess of \$500 million in value to LTCAP and Pension combined.

# Current Asset Allocation and Limits: LTCAP

June 30, 2018

	Reference	Actual	Outside	----- Bands -----	
	Portfolio	Portfolio <sup>1</sup>	Band?	Min.	Max.
<b>Equity:</b>					
Canadian	10.0	<b>10.3</b>	<b>N</b>	5.0	15.0
US	20.0	<b>19.9</b>	<b>N</b>	15.0	25.0
Europe, Australia, Far East (EAFE)	15.0	<b>15.0</b>	<b>N</b>	10.0	20.0
Emerging Markets	10.0	<b>10.1</b>	<b>N</b>	5.0	15.0
Global	5.0	<b>5.0</b>	<b>N</b>	0.0	10.0
<b>Total Equity</b>	60.0	<b>60.2</b>	<b>N</b>	50.0	70.0
<b>Fixed Income:</b>					
Credit (Corporate Credit) <sup>1</sup>	20.0	<b>19.9</b>	<b>N</b>	10.0	30.0
Rates (Government Bonds)	20.0	<b>12.1</b>	<b>N</b>	10.0	30.0
<b>Total Fixed Income</b>	40.0	<b>32.0</b>	<b>N</b>	25.0	50.0
<b>Other:</b>					
Absolute Return		<b>7.9</b>			
Cash		<b>-0.2</b>			
<b>Total Other</b>	0.0	<b>7.8</b>	<b>N</b>	0.0	15.0
<b>Total:</b>	<b>100.0</b>	<b>100.0</b>			
<b>Currency Exposure:</b>	32.4	<b>32.4</b>	<b>N</b>	25.0	40.0

<sup>1</sup> Actual Portfolio includes corporate credit and other types of credit exposure.

- All exposures in LTCAP were within allowable bands at June 30, 2018.

# Current Asset Allocation and Limits: Pension

June 30, 2018

	Reference	Actual	Outside	----- Bands -----	
	Portfolio	Portfolio <sup>1</sup>	Band?	Min.	Max.
<b>Equity:</b>					
Canadian	10.0	<b>10.3</b>	<b>N</b>	5.0	15.0
US	20.0	<b>19.8</b>	<b>N</b>	15.0	25.0
Europe, Australia, Far East (EAFE)	15.0	<b>15.0</b>	<b>N</b>	10.0	20.0
Emerging Markets	10.0	<b>9.9</b>	<b>N</b>	5.0	15.0
Global	5.0	<b>5.0</b>	<b>N</b>	0.0	10.0
<b>Total Equity</b>	60.0	<b>59.9</b>	<b>N</b>	50.0	70.0
<b>Fixed Income:</b>					
Credit (Corporate Credit) <sup>1</sup>	20.0	<b>19.9</b>	<b>N</b>	10.0	30.0
Rates (Government Bonds)	20.0	<b>12.3</b>	<b>N</b>	10.0	30.0
<b>Total Fixed Income</b>	40.0	<b>32.2</b>	<b>N</b>	25.0	50.0
<b>Other:</b>					
Absolute Return		<b>7.5</b>			
Cash		<b>0.4</b>			
<b>Total Other</b>	0.0	<b>7.9</b>	<b>N</b>	0.0	15.0
<b>Total:</b>	<b>100.0</b>	<b>100.0</b>			
<b>Currency Exposure:</b>	32.4	<b>32.2</b>	<b>N</b>	25.0	40.0

<sup>1</sup> Actual Portfolio includes corporate credit and other types of credit exposure.

- All exposures in Pension were within allowable bands at June 30, 2018.

# Active Risk: Actual Risk minus Reference Risk

June 30, 2018

Active Risk Zone	Active Risk
Target Zone ("Normal")	$-0.50\% \leq \text{Active Risk} \leq 1.50\%$
Notification and Analysis Zone ("Watch")	$1.50\% < \text{Active Risk} \leq 1.75\%$
Mitigation Zone ("Alert")	$\text{Active Risk} > 1.75\%$

	Risk (Volatility %)
LTCAP (A)	8.3
Pension (B)	8.2
Reference Portfolio (C)	7.4
LTCAP Active Risk (A – C)	0.9% or 90 bps
Pension Active Risk (B – C)	0.8% or 80 bps

- Active Risk for LTCAP and Pension remains well within the "Normal" Zone (-50 bps to 150 bps)