



**FOR INFORMATION**

**PUBLIC**

**OPEN SESSION**

**TO:** Business Board

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**DATE:** September 12, 2019 for October 7, 2019

**AGENDA ITEM:** 3

**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 7, 2019)**

**PREVIOUS ACTION TAKEN:**

The Business Board reviewed the UTAM annual report at its meeting of April 23, 2019.

**HIGHLIGHTS:**

The actual returns for the six-month period from January 1, 2019 to June 30, 2019 were 7.7% for the Long-Term Capital Appreciation Pool (LTCAP), 7.8% for the Pension Master Trust (PMT) and 1.5% for the Expendable Funds Investment Pool (EFIP). For the twelve-month period from July 1, 2018 to June 30, 2019, actual returns were 3.8% for LTCAP, 3.8% for PMT, and 2.7% for EFIP<sup>1</sup>. These compared as follows to the nominal investment return targets for the

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<sup>1</sup> All returns in this memo are annualized except for periods covering less than one year, and are net of all investment fees and expenses, including UTAM costs.

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, 2019 to June 30, 2019,
  - the target nominal return for LTCAP and PMT was 3.1%.
  - the target nominal return for EFIP was 1.4%.
  - the reference portfolio return for LTCAP and PMT was 10.3%.
- For the twelve-month reporting period from July 1, 2018 to June 30, 2019,
  - the target nominal investment return for LTCAP and PMT was 6.1%.
  - the target nominal return for EFIP was 2.6%.
  - the reference portfolio return for LTCAP and PMT was 6.0%.

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 19 – June 19)	4.6%	4.7%
1-Year (July 18 - June 19)	-2.3%	-2.3%
5-Year (July 14 - June 19)	1.9%	1.9%
10-Year (July 09 – June 19)	3.2%	3.1%

Actual Return Greater or Lesser Than Reference Portfolio<sup>2</sup> by:

	<u>LTCAP</u>	<u>PMT</u>
YTD (Jan 19 – June 19)	-2.5%	-2.4%
1-Year (July 18 - June 19)	-2.2%	-2.2%
5-Year (July 14 - June 19)	1.1%	1.0%
10-Year (July 09 – June 19)	1.1%	1.0%

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<sup>2</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.

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**DOCUMENTATION PROVIDED:**

*- Semi-annual Update on Investment Performance to June 30, 2019*

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# Semi-Annual Update on Investment Performance

For the Period Ending June 30, 2019

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

**October 7, 2019**

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**Presentation to Business Board**

# Assets Under Management

	June 30, 2018	Jun 30, 2019
LTCAP	2,943	3,059
Pension	5,114	5,313
EFIP	1,698	2,005
<b>Total</b>	<b>9,755</b>	<b>10,377</b>

- Over the past 12 months, total assets under management increased by 6.4% to almost \$10.4 billion.
- Long-term assets were valued at approximately \$8.4 billion at the end of June 2019, a 3.9% increase over the past 12 months.

# Performance: LTCAP, Pension and EFIP

Periods ending June 30, 2019

	H1 2019	1 Year	5 Years	10 Years
LTCAP	7.7%	3.8%	7.6%	8.9%
Pension	7.8%	3.8%	7.5%	8.8%
EFIP	1.5%	2.7%	1.8%	1.8%

Note: Returns in this presentation are annualized except for periods less than one year, and are net of all investment fees and expenses, including UTAM costs.

- In the first half of 2019 (H1 2019), LTCAP and Pension generated returns of 7.7% and 7.8% respectively, while EFIP generated a return of 1.5%.

# 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, 2019

	H1 2019	1 Year	5 Years	10 Years
<b>Actual Portfolio Returns</b>				
LTCAP	7.7%	3.8%	7.6%	8.9%
Pension	7.8%	3.8%	7.5%	8.8%
EFIP	1.5%	2.7%	1.8%	1.8%
<b>University Target Returns</b>				
LTCAP & Pension: CPI + 4%	3.1%	6.1%	5.6%	5.7%
EFIP: 365 day T-bill + 0.50%	1.4%	2.6%	1.5%	1.6%
<b>Actual minus Target<sup>1</sup></b>				
LTCAP	4.6%	-2.3%	1.9%	3.2%
Pension	4.7%	-2.3%	1.9%	3.1%
EFIP	0.1%	0.1%	0.3%	0.2%

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

- In H1 2019, LTCAP and Pension outperformed the University's Target return.
- Long-term performance remains strong in all three portfolios.



# Performance: Reference vs Target

Periods ending June 30, 2019

	H1 2019	1 Year	5 Years	10 Years
<b>Reference Portfolio Returns<sup>1</sup></b>				
LTCAP	10.3%	6.0%	6.5%	7.8%
Pension	10.3%	6.0%	6.5%	7.8%
<b>University Target Returns</b>				
LTCAP & Pension: CPI + 4%	3.1%	6.1%	5.6%	5.7%
<b>Reference minus Target</b>				
LTCAP	7.1%	-0.1%	0.8%	2.1%
Pension	7.1%	-0.1%	0.8%	2.1%

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 returned 10.3% in H1 2019, outperforming the Target return by 7.1%.
- The Reference Portfolio has exceeded the Target return over the last 5 years and 10 years.

# Performance: Actual vs Reference

Periods ending June 30, 2019

	H1 2019	1 Year	5 Years	10 Years
<b>Actual Portfolio Returns</b>				
LTCAP	7.7%	3.8%	7.6%	8.9%
Pension	7.8%	3.8%	7.5%	8.8%
<b>Reference Portfolio Returns</b>				
LTCAP	10.3%	6.0%	6.5%	7.8%
Pension	10.3%	6.0%	6.5%	7.8%
<b>Actual minus Reference (UTAM value-add)</b>				
LTCAP	-2.5%	-2.2%	1.1%	1.1%
Pension	-2.4%	-2.2%	1.0%	1.0%

- In H1 2019, LTCAP and Pension underperformed the Reference Portfolio by about 2.5%.
- Long-term outperformance remains strong.

# Performance: UTAM Value Added in Dollar Terms

Periods ending June 30, 2019

	H1 2019	1 Year	5 Years	10 Years
<b>UTAM Value Add (%)</b>				
LTCAP	-2.5%	-2.2%	1.1%	1.1%
Pension	-2.4%	-2.2%	1.0%	1.0%
<b>UTAM Value Added (\$ millions)</b>				
LTCAP	-71.7	-66.4	113.9	207.4
Pension	-117.6	-112.5	180.4	315.3
<b>LTCAP + Pension</b>	<b>-189.3</b>	<b>-178.9</b>	<b>294.3</b>	<b>522.7</b>

- In H1 2019, UTAM detracted \$189 million in value to LTCAP and Pension combined relative to the Reference Portfolio.
- Over the last 10 years, UTAM has added over \$500 million in value to LTCAP and Pension combined.

# Current Asset Allocation and Limits: LTCAP

June 30, 2019

	Reference Portfolio	Actual Portfolio	Outside Bands?	--- Bands ---	
				Min	Max
<b>Equity:</b>					
Canadian	10.0	10.0	N	5.0	15.0
US	20.0	20.1	N	15.0	25.0
Europe, Australia, Far East (EAFE)	15.0	14.9	N	10.0	20.0
Emerging Markets	10.0	10.0	N	5.0	15.0
Global	5.0	5.0	N	0.0	10.0
<b>Total Equity</b>	60.0	60.0	N	50.0	70.0
<b>Fixed Income:</b>					
Credit (Corporate Credit)	20.0	20.0	N	10.0	30.0
Rates (Government Bonds)	20.0	12.2	N	10.0	30.0
<b>Total Fixed Income</b>	40.0	32.2	N	25.0	50.0
<b>Other:</b>					
Absolute Return		7.7			
Cash		0.1			
<b>Total Other</b>	0.0	7.8	N	0.0	15.0
<b>Total</b>	100.0	100.0			
<b>Currency Exposure:</b>	32.4	32.3	N	25.0	40.0

- At the end of June 2019, LTCAP was in compliance with all limits.

# Current Asset Allocation and Limits: Pension

June 30, 2019

	Reference Portfolio	Actual Portfolio	Outside Bands?	--- Bands ---	
				Min	Max
<b>Equity:</b>					
Canadian	10.0	10.0	N	5.0	15.0
US	20.0	20.0	N	15.0	25.0
Europe, Australia, Far East (EAFE)	15.0	14.9	N	10.0	20.0
Emerging Markets	10.0	10.0	N	5.0	15.0
Global	5.0	5.0	N	0.0	10.0
<b>Total Equity</b>	60.0	59.9	N	50.0	70.0
<b>Fixed Income:</b>					
Credit (Corporate Credit)	20.0	19.9	N	10.0	30.0
Rates (Government Bonds)	20.0	12.1	N	10.0	30.0
<b>Total Fixed Income</b>	40.0	32.1	N	25.0	50.0
<b>Other:</b>					
Absolute Return		7.4			
Cash		0.7			
<b>Total Other</b>	0.0	8.1	N	0.0	15.0
<b>Total</b>	100.0	100.0			
<b>Currency Exposure:</b>	32.4	32.3	N	25.0	40.0

- At the end of June 2019, Pension was in compliance with all limits.

# Active Risk: Actual Risk minus Reference Risk

June 30, 2019

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)	8.2
Pension (B)	8.2
Reference Portfolio (C)	7.3
LTCAP Active Risk (A – C)	0.9% or 92 bps
Pension Active Risk (B – C)	0.9% or 89 bps

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