



FOR INFORMATION

PUBLIC

OPEN SESSION

TO: Business Board

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DATE: September 21, 2020 for October 6, 2020

AGENDA ITEM: 6

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 6, 2020)

PREVIOUS ACTION TAKEN:

The Business Board reviewed the UTAM annual report at its meeting of April 28, 2020.

HIGHLIGHTS:

This report provides a semi-annual update on the performance of the investment pools managed by UTAM: Long-Term Capital Appreciation Pool (LTCAP), Pension Master Trust (Pension), the Expendable Funds Investment Pool - short-term (EFIP ST), and Expendable Funds Investment Pool - medium-term (EFIP MT).

LTCAP and Pension

The current framework for investment policy, strategy and monitoring for the LTCAP and PMT is as follows:

- The investment return and risk targets are developed by the University administration, reviewed by the President's Investment Committee (IC). For LTCAP, they are included in the University Funds Investment Policy and approved by the Business Board. For Pension, they are embedded in the Pension Fund Statement of Investment Policies and Procedures (SIP&P) and approved by the University of Toronto Pension Committee.
- The Reference Portfolio, which is both the policy asset mix and the benchmark portfolio with respect to passive investing, is based on the investment return and risk targets. It applies to both LTCAP and Pension.
- Investment performance is monitored by UTAM, the IC, the University administration, the Pension Committee, and the Business Board through regular reporting by UTAM to these various groups. That reporting includes current period and multi-year comparisons of actual performance to the target returns and to the Reference Portfolio's returns. It also includes the current level of active risk used in the Pension and LTCAP portfolios in comparison to the allowable amount of active risk as specified in the "traffic light" risk framework.

It is important to note that investment performance is NOT evaluated based on peer comparisons. Peer comparisons assume that the return target and risk appetite of peers are similar, which is typically not the case. Indeed such comparisons can be dangerous, particularly if they influence investment decisions without taking into account the important decision parameters. For example with Pensions, those include the parameters of our plan, including the benefits promised to our members, and our appetite for risk.

The current investment performance methodology is based on a belief that we should primarily be concerned with the achievement of the risk and return targets as stated in the University Funds Investment Policy (LTCAP) and the SIP&P (Pension). The challenge is to find a way to evaluate performance against these longer-term investment return targets over a multi-year period while taking into account the influence of underlying financial markets conditions on short-term results, and to put those short-term results in perspective.

At the present time, the University evaluates investment performance for the LTCAP and Pension against the investment return targets, the active risk limits, and the Reference Portfolio returns. The primary objective must be the achievement of these investment return targets while controlling risk to within the specified risk limits.

EFIP

The Expendable Funds Investment Pool (EFIP) contains expendable funds that are pooled and invested until spent. It includes the University's unspent cash from operations, capital projects, ancillary operations, expendable donations, expendable payouts from endowments, and research grants.

The investment return objective and risk tolerance for EFIP is specified in the University Funds Investment Policy. The EFIP pool contains both short-term expendable funds (EFIP ST) and medium-term expendable funds (EFIP MT) which are managed by UTAM, with the EFIP MT investment pool being created as of January 1, 2020.

The following tables show the returns for the various investment pools over 6-months, 1-year, 5-years and 10-years. All returns are annualized except for periods less than one year, and are net of investment fees and expenses, including UTAM costs.

<i>Long-Term Capital Appreciation Pool (LTCAP):</i>	6-month return	1-year return	5-year return	10-year return
Actual return	-2.5%	2.2%	5.6%	8.3%
Nominal target return (CPI + 4%)	1.7%	4.7%	5.5%	5.7%
Reference portfolio return (see section below)	0.4%	5.5%	6.0%	7.5%
Actual return greater or less than nominal target return by ¹ :	-4.2%	-2.5%	0.0%	2.6%
Actual return greater or less than reference portfolio return by:	-2.9%	-3.3%	-0.4%	0.8%

<i>Pension:</i>	6-month return	1-year return	5-year return	10-year return
Actual return	-2.4%	2.3%	5.6%	8.2%
Nominal target return (CPI + 4%)	1.7%	4.7%	5.5%	5.7%
Reference portfolio return (see section below)	0.4%	5.5%	6.0%	7.5%
Actual return greater or less than nominal target return by:	-4.1%	-2.4%	0.0%	2.5%
Actual return greater or less than reference portfolio return by ¹ :	-2.8%	-3.2%	-0.4%	0.7%

¹ Due to rounding in these tables, some values may differ from the results of simple addition or subtraction.

Business Board, October 6, 2020:

Investments: Semi-Annual Update on Investment Performance to June 30, 2020

<i>Expendable Funds Investment Pool – short-term (EFIP ST):</i>	6-month return	1-year return	5-year return	10-year return
Actual return	2.2%	3.5%	2.1%	2.0%
Nominal target return	2.3%	3.4%	1.9%	1.8%
Actual return greater or less than nominal target return by ¹ :	-0.1%	0.1%	0.3%	0.2%

<i>Expendable Funds Investment Pool – medium-term (EFIP MT):</i>	6-month return	1-year return	5-year return	10-year return
Actual return	5.9%	-	-	-
Nominal target return	4.7%	-	-	-
Actual return greater or less than nominal target return by ¹ :	1.3%	-	-	-

FINANCIAL IMPLICATIONS:

See above.

RECOMMENDATION:

For information.

DOCUMENTATION PROVIDED:

- Semi-annual Update on Investment Performance to June 30, 2020

Semi-Annual Update on Investment Performance

For the Period Ending June 30, 2020

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

October 6, 2020

Presentation to Business Board

Portfolio Values

In millions

	June 30, 2019	June 30, 2020
LTCAP	3,059	3,098
Pension	5,323	5,477
EFIP ST (short-term)	2,005	2,085
EFIP MT (medium-term)	-	209
Total	10,387	10,869

- Over the past 12 months, the value of the university's portfolios increased by 4.6% to \$10.9 billion.
- Long-term assets were valued at \$8.6 billion at the end of June 2020, a 2.3% increase over the past 12 months.

Performance: LTCAP, Pension and EFIP

Periods ending June 30, 2020

	H1 2020	1 Year	5 Years	10 Years
LTCAP	-2.5%	2.2%	5.6%	8.3%
Pension	-2.4%	2.3%	5.6%	8.2%
EFIP ST	2.2%	3.5%	2.1%	2.0%
EFIP MT	5.9%	-	-	-

* 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.

- From Dec. 31, 2019 to June 30, 2020 (H1 2020), LTCAP and Pension generated returns of -2.5% and -2.4%, respectively. EFIP Short-Term (ST) generated a return of 2.2% while EFIP Mid-Term (MT) generated a return of 5.9%.

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 ST it is 50% FTSE ST Universe + 50% 1-month Canadian BA. For EFIP MT it is the FTSE Canadian All Corp BBB Index. All targets are net of all investment fees and expenses.

Performance: Actual vs Target

Periods ending June 30, 2020

	H1 2020	1 Year	5 Years	10 Years
Actual Portfolio Returns				
LTCAP	-2.5%	2.2%	5.6%	8.3%
Pension	-2.4%	2.3%	5.6%	8.2%
University Target Returns				
LTCAP & Pension: CPI + 4%	1.7%	4.7%	5.5%	5.7%
Actual minus Target¹				
LTCAP	-4.2%	-2.5%	0.0%	2.6%
Pension	-4.1%	-2.4%	0.0%	2.5%

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 2020, both LTCAP and Pension underperformed the Target return.
- The 5-year results were approximately equal to the Target returns while the 10-year results exceeded the Target returns.

Performance: Reference vs Target

Periods ending June 30, 2020

	H1 2020	1 Year	5 Years	10 Years
Reference Portfolio Returns¹				
LTCAP	0.4%	5.5%	6.0%	7.5%
Pension	0.4%	5.5%	6.0%	7.5%
University Target Returns				
LTCAP & Pension: CPI + 4%	1.7%	4.7%	5.5%	5.7%
Reference minus Target				
LTCAP	-1.3%	0.8%	0.5%	1.8%
Pension	-1.3%	0.8%	0.5%	1.8%

Note 1: Reference Portfolio adopted in March 2012 for LTCAP and May 2012 for Pension. Policy Portfolio used for prior periods. Returns are net of all investment fees and expenses, including UTAM costs.

- In H1 2020, the Reference Portfolio returned 0.4%, underperforming the Target return by 1.3%.
- The Reference Portfolio Returns have exceeded the Target Returns over 1, 5 and 10 year horizons.

Performance: Actual vs Reference

Periods ending June 30, 2020

	H1 2020	1 Year	5 Years	10 Years
Actual Portfolio Returns				
LTCAP	-2.5%	2.2%	5.6%	8.3%
Pension	-2.4%	2.3%	5.6%	8.2%
Reference Portfolio Returns				
LTCAP	0.4%	5.5%	6.0%	7.5%
Pension	0.4%	5.5%	6.0%	7.5%
Actual minus Reference (UTAM Value Add)				
LTCAP	-2.9%	-3.3%	-0.4%	0.8%
Pension	-2.8%	-3.2%	-0.4%	0.7%

- In H1 2020, LTCAP and Pension underperformed the Reference Portfolio by 2.9% and 2.8%, respectively.
- Over the last 5 years ending June 30, 2020, value add was -0.4%, and over the last 10 years it was 0.8% for LTCAP and 0.7% for Pension.

Performance: UTAM Value Add in Dollar Terms

Periods ending June 30, 2020

	H1 2020	1 Year	5 Years	10 Years
UTAM Value Add (%)				
LTCAP	-2.9%	-3.3%	-0.4%	0.8%
Pension	-2.8%	-3.2%	-0.4%	0.7%
UTAM Value Add (\$ millions)				
LTCAP	-92.0	-97.3	-79.5	115.2
Pension	-154.4	-164.5	-135.8	153.0
LTCAP + Pension	-246.3	-261.9	-215.3	268.2

- Dollar value add in H1 2020 was negative \$246.3 million and for the past 12 months it was negative \$261.9 million.
- Over the last 10 years, UTAM's value add was \$268.2 million.

Performance

5-Year periods ending June 30 for each year going back to 2014

	2020	2019	2018	2017	2016	2015	2014
UTAM Value Add (%)							
LTCAP	-0.4%	1.1%	1.9%	2.1%	2.0%	2.0%	1.0%
Pension	-0.4%	1.0%	1.8%	2.0%	1.8%	1.9%	1.0%
UTAM Value Add (\$ millions)							
LTCAP	-79.5	113.9	209.7	219.3	193.0	194.7	93.6
Pension	-135.8	180.4	338.6	340.2	282.5	288.7	134.9
LTCAP + Pension	-215.3	294.3	548.3	559.5	475.5	483.5	228.5

- At last year's Business Board meeting, UTAM reported a 5-year annualized value add of 1.1% for LTCAP and 1.0% for Pension (see the 2019 column).
- UTAM's 5-year value add was 1% or higher over all rolling 5-year periods from 2014 to 2019, but turned negative in 2020.

Performance

1-Year periods ending June 30 for each of the last 10 years (June to June)

	2020	2019	2018	2017	2016
UTAM Value Add (%)					
LTCAP	-3.3%	-2.2%	1.4%	1.9%	0.2%
Pension	-3.2%	-2.2%	1.4%	1.9%	0.1%
	2015	2014	2013	2012	2011
LTCAP	4.5%	1.6%	2.6%	1.1%	0.3%
Pension	4.2%	1.5%	2.4%	0.7%	0.4%

- Over the last 10 years, one year performance (June to June) was positive from 2011 to 2018 and negative in 2019 and 2020.

Performance

A detailed look at the most recent one year performance (June 2019 to June 2020)

Performance Contribution by Category	
	Contribution in bps (1 bps = 0.01%)
Risk-Reducing Trades	-84
Private Equity	-71
Public Equity	-71
Alternative Credit	-56
Absolute Return	-55
Other Effects	-35
Government Bonds	5
Private Real Estate	21
Public Credit	25
Total	-320 (-3.2%)

* The data in this table is for Pension. LTCAP is similar

- Recent performance has been challenging in a number of areas but most of these categories have added value over the long-term.

Performance: EFIP vs Target

Periods ending June 30, 2020

	H1 2020	1 Year	5 Years	10 Years
Actual Portfolio Returns				
EFIP ST	2.2%	3.5%	2.1%	2.0%
EFIP MT	5.9%	-	-	-
University Target Returns				
50% FTSE ST Universe + 50% 1-Mth BA ¹	2.3%	3.4%	1.9%	1.8%
FTSE Cdn All Corp BBB Index	4.7%	-	-	-
Actual minus Target				
EFIP ST	-0.1%	0.1%	0.3%	0.2%
EFIP MT	1.3%	-	-	-

Note 1: Prior to Jan 1, 2020, EFIP ST's Target was the FTSE 365-T-bill index + 50 bps

- In H1 2020, EFIP ST slightly underperformed the Target return. EFIP MT on the other hand, outperformed the Target return by 1.3%.

Performance: EFIP Value Add in Dollar Terms

Periods ending June 30, 2020

	H1 2020	1 Year	5 Years	10 Years
UTAM Value Add (%)				
EFIP ST	-0.1%	0.1%	0.3%	0.2%
EFIP MT	1.3%	-	-	-
UTAM Value Add (\$ millions)				
EFIP ST	-1.8	2.5	23.4	29.9
EFIP MT	1.9			
EFIP ST + MT	0.1	2.5	23.4	29.9

- Total EFIP dollar value add in H1 2020 was positive \$0.1 million and for the past 12 months it was positive \$2.5 million.
- Value add over the last 10 years was almost \$30 million.

Current Asset Allocation and Limits: LTCAP

June 30, 2020

	Reference Portfolio %	Actual Portfolio %	Outside Bands?	--- Bands ---	
				Min %	Max %
Equity:					
Global	60.0	59.9	N	50.0	70.0
Fixed Income:					
Credit (Corporate Credit)	20.0	20.0	N	10.0	30.0
Rates (Government Bonds)	20.0	20.0	N	10.0	30.0
Total Fixed Income	40.0	40.0	N	25.0	50.0
Absolute Return Hedge Funds	0	8.9	N	0.0	15.0
Cash and Cash Equivalents	0	-8.9	N	-15.0	5.0
Total	100.0	100.0			
Currency Exposure:	32.8	33.3	N	25.0	40.0

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

Current Asset Allocation and Limits: Pension

June 30, 2020

	Reference Portfolio %	Actual Portfolio %	Outside Bands?	--- Bands ---	
				Min %	Max %
Equity:					
Global	60.0	59.9	N	50.0	70.0
Fixed Income:					
Credit (Corporate Credit)	20.0	19.9	N	10.0	30.0
Rates (Government Bonds)	20.0	19.5	N	10.0	30.0
Total Fixed Income	40.0	39.5	N	25.0	50.0
Absolute Return Hedge Funds	0	8.5	N	0.0	15.0
Cash and Cash Equivalents	0	-7.9	N	-15.0	5.0
Total	100.0	100.0			
Currency Exposure:	32.8	33.3	N	25.0	40.0

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

Active Risk: Actual Risk minus Reference Risk

June 30, 2020

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)	9.5
Pension (B)	9.5
Reference Portfolio (C)	8.4
LTCAP Active Risk (A – C)	1.1%
Pension Active Risk (B – C)	1.1%

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