



**FOR INFORMATION**

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**TO:** Business Board

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**DATE:** September 17, 2021 for October 5, 2021

**AGENDA ITEM:** 7

**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 5, 2021)**

**PREVIOUS ACTION TAKEN:**

The Business Board reviewed the UTAM annual report at its meeting of April 27, 2021.

**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.

<b>Long-Term Capital Appreciation Pool (LTCAP):</b>	6-month return	1-year return	5-year return	10-year return
Actual return	8.2%	23.9%	10.0%	9.3%
Nominal target return (CPI + 4%)	3.8%	6.9%	5.8%	5.6%
Reference portfolio return (see section below)	5.3%	17.1%	9.3%	7.9%
Actual return greater or less than nominal target return by <sup>1</sup> :	4.4%	16.9%	4.2%	3.6%
Actual return greater or less than reference portfolio return by <sup>1</sup> :	2.9%	6.7%	0.7%	1.3%

<b>Pension:</b>	6-month return	1-year return	5-year return	10-year return
Actual return	8.3%	24.1%	10.1%	9.2%
Nominal target return (CPI + 4%)	3.8%	6.9%	5.8%	5.6%
Reference portfolio return (see section below)	5.3%	17.1%	9.3%	8.0%
Actual return greater or less than nominal target return by <sup>1</sup> :	4.6%	17.1%	4.3%	3.6%
Actual return greater or less than reference portfolio return by <sup>1</sup> :	3.1%	6.9%	0.8%	1.3%

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

<b><i>Expendable Funds Investment Pool – short-term (EFIP ST):</i></b>	6-month return	1-year return	5-year return	10-year return
Actual return	0.0%	1.1%	2.1%	1.9%
Nominal target return	-0.2%	0.4%	1.7%	1.7%
Actual return greater or less than nominal target return by <sup>1</sup> :	0.3%	0.6%	0.3%	0.3%

<b><i>Expendable Funds Investment Pool – medium-term (EFIP MT):</i></b>	6-month return	1-year return	5-year return	10-year return
Actual return	-1.2%	3.8%	-	-
Nominal target return	-1.8%	2.2%	-	-
Actual return greater or less than nominal target return by <sup>1</sup> :	0.6%	1.6%	-	-

**FINANCIAL IMPLICATIONS:**

See above.

**RECOMMENDATION:**

For information.

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**DOCUMENTATION PROVIDED:**

- *Semi-annual Update on Investment Performance to June 30, 2021*

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# Semi-Annual Update on Investment Performance

For the Period Ending June 30, 2021

**Chuck O'Reilly, CFA**  
**President and Chief Investment Officer, UTAM**

October 5, 2021

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Presentation to Business Board

# Assets Under Management

	Jun 30, 2020	Jun 30, 2021
LTCAP	3,098	3,896
Pension	5,474	6,850
EFIP	2,294	2,725
<b>Total</b>	<b>10,866</b>	<b>13,471</b>

- Over the past 12 months, total assets under management increased by 24.0% to approximately \$13.5 billion.
- Long-term assets were valued at \$10.7 billion at the end of June 2021, a 25.4% increase over the past 12 months.

# Performance: LTCAP, Pension and EFIP

Periods ending Jun 30, 2021

	H1 2021	1 Year	5 Years	10 Years
LTCAP	8.2%	23.9%	10.0%	9.3%
Pension	8.3%	24.1%	10.1%	9.2%
EFIP	-0.1%	1.3%	2.2%	2.0%

\* 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 H1 2021, LTCAP and Pension generated returns of 8.2% and 8.3%, respectively. EFIP generated a return of -0.1%
- All investment returns for LTCAP, Pension and EFIP presented above and throughout this presentation are net of all investment fees and expenses, including UTAM fees.

# 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 and comparing EFIP's returns to its Target Return. There are no implementation costs or expenses included in the Reference Portfolio return.

**Target Return:** The return objective for each portfolio. For Pension and LTCAP the target return is CPI + 4% (i.e., inflation + 4%). EFIP has a target return based on a combination of cash and fixed income benchmarks. All targets are net of all investment fees and expenses.



# Performance: Actual vs Target

Periods ending Jun 30, 2021

	H1 2021	1 Year	5 Years	10 Years
<b>Actual Portfolio Returns</b>				
LTCAP	8.2%	23.9%	10.0%	9.3%
Pension	8.3%	24.1%	10.1%	9.2%
<b>University Target Returns</b>				
LTCAP & Pension: CPI + 4%	3.8%	6.9%	5.8%	5.6%
<b>Actual minus Target<sup>1</sup></b>				
LTCAP	4.4%	16.9%	4.2%	3.6%
Pension	4.6%	17.1%	4.3%	3.6%

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 2021, both LTCAP and Pension outperformed the Target Return. The 1-year, 5-year and the 10-year results also exceeded Target.

# Performance: Reference vs Target

Periods ending Jun 30, 2021

	H1 2021	1 Year	5 Years	10 Years
<b>Reference Portfolio Returns<sup>1</sup></b>				
LTCAP	5.3%	17.1%	9.3%	7.9%
Pension	5.3%	17.1%	9.3%	8.0%
<b>University Target Returns</b>				
LTCAP & Pension: CPI + 4%	3.8%	6.9%	5.8%	5.6%
<b>Reference minus Target</b>				
LTCAP	1.5%	10.2%	3.5%	2.3%
Pension	1.5%	10.2%	3.5%	2.3%

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 2021, the Reference Portfolio returned 5.3%, outperforming the Target Return by 1.5%. The Reference Portfolio has exceeded the Target Returns over 1, 5 and 10 year horizons.

# Performance: Actual vs Reference

Periods ending Jun 30, 2021

	H1 2021	1 Year	5 Years	10 Years
<b>Actual Portfolio Returns</b>				
LTCAP	8.2%	23.9%	10.0%	9.3%
Pension	8.3%	24.1%	10.1%	9.2%
<b>Reference Portfolio Returns</b>				
LTCAP	5.3%	17.1%	9.3%	7.9%
Pension	5.3%	17.1%	9.3%	8.0%
<b>Actual minus Reference (UTAM value-add)</b>				
LTCAP	2.9%	6.7%	0.7%	1.3%
Pension	3.1%	6.9%	0.8%	1.3%

- In H1 2021, LTCAP and Pension outperformed the Reference Portfolio by 2.9% and 3.1% respectively. LTCAP and Pension have outperformed the Reference Portfolio over 1, 5, and 10 year horizons.

# Performance: UTAM Value Add in Dollar Terms

Periods ending Jun 30, 2021

	H1 2021	1 Year	5 Years	10 Years
<b>UTAM Value Add (%)</b>				
LTCAP	2.9%	6.7%	0.7%	1.3%
Pension	3.1%	6.9%	0.8%	1.3%
<b>UTAM Value Add (\$ millions)<sup>1</sup></b>				
LTCAP	104.3	201.0	117.8	310.8
Pension	187.8	358.0	219.5	502.0
<b>LTCAP + Pension</b>	<b>292.1</b>	<b>559.0</b>	<b>337.3</b>	<b>812.8</b>

Note 1: Dollar value add results are computed as the arithmetic sum of monthly dollar value add. This allows for consistent aggregation of results across multiple reporting horizons. Compounded dollar value add results will differ depending on the starting date and horizon of the calculation.

- Dollar value-add in H1 2021 was +\$292.1 million. Over the last year, on a simple arithmetic basis (i.e. without including the impact of compounding), dollar value add was also positive, at \$559.0 million. Importantly, the 10 year dollar value add of LTCAP and Pension was \$812.8 million.

# Performance: EFIP vs Target

Periods ending Jun 30, 2021

	H1 2021	1 Year	5 Years	10 Years
<b>Actual Portfolio Return</b>				
EFIP	-0.1%	1.3%	2.2%	2.0%
<b>University Target Return</b>				
Target Return	-0.4%	0.6%	1.8%	1.7%
<b>Actual minus Target</b>				
EFIP (%)	0.3%	0.7%	0.4%	0.3%
EFIP (\$ Millions)	8.7	20.4	40.9	56.2

- In H1 2021, EFIP outperformed its Target return by 0.3%, and added \$8.7 million in value.
- Over the last 10 years, EFIP outperformed its Target return by 0.3% annualized (i.e., per year), and added \$56.2 million in cumulative value.

# Active Risk: Actual Risk minus Reference Risk

Jun 30, 2021

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)	9.3
Pension (B)	9.3
Reference Portfolio (C)	8.7
LTCAP Active Risk (A – C)	0.6
Pension Active Risk (B – C)	0.6

- Active Risk for LTCAP and Pension remains well within the "Normal" Zone of -0.50% to +1.50%.

# Current Asset Allocation and Limits: LTCAP

Pension is substantially similar

Jun 30, 2021

	Reference Portfolio %	Actual Portfolio %	Outside Full Bands?	--- Full Bands ---	
				Min %	Max %
<b>Equity:</b>					
Global	60.0	59.5	N	50.0	70.0
<b>Fixed Income:</b>					
Credit (Corporate Credit)	20.0	20.2	N	10.0	30.0
Rates (Government Bonds)	20.0	19.9	N	10.0	30.0
<b>Total Fixed Income</b>	<b>40.0</b>	<b>40.1</b>	<b>N</b>	<b>25.0</b>	<b>50.0</b>
Absolute Return Hedge Funds	0	10.6	N	0.0	15.0
Cash and Cash Equivalents	0	-10.2	N	-15.0	5.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>			
<b>Currency Exposure:</b>	<b>33.0</b>	<b>33.6</b>	<b>N</b>	<b>25.0</b>	<b>40.0</b>

- At the end of H1, LTCAP and Pension were in compliance with all limits.