FOR INFORMATION **PUBLIC** **OPEN SESSION**

TO: Business Board

SPONSOR: President Meric Gertler
CONTACT INFO: 416-978-2121, president@utoronto.ca

PRESENTER: See above.
CONTACT INFO:

DATE: January 24, 2022 for February 2, 2022

AGENDA ITEM: 3

ITEM IDENTIFICATION:

Final Report of the Working Group on the Future of the University of Toronto Asset Management (UTAM) Corporation and Administrative Response

JURISDICTIONAL INFORMATION:

Pursuant to Section 5.4 (a.) of the *Terms of Reference* of the Business Board, the Board accepts annual reports and financial statements for incorporated business ancillaries.

GOVERNANCE PATH:

1. **Business Board [For Information] (February 2, 2022)**

HIGHLIGHTS:

Following the recent creation of the University Pension Plan (UPP), the University of Toronto Asset Management Corporation (UTAM) will streamline its focus of responsibility as it transitions away from the management of pension assets[1] as of 31 March 2022. At such time, UTAM's mandate will focus on managing the University's long-term non-pension assets (endowment funds primarily) – known as the Long-Term Capital Appreciation Pool or LTCAP as well as the short-term cash reserves and working capital – known as the Expendable Funds Investment Pool or EFIP.

[1] The UPP has combined the pension assets of its three founding universities: University of Guelph, Queen's University, and the University of Toronto. Responsibility for managing U of T's pension assets is likely to be transferred to the UPP following an agency period expected to expire 31 March 2022.

The more focused mandate will reduce the assets under UTAM's management from nearly $14 billion to close to $7 billion. Long-term assets under management will decline from $10 billion to approximately $4 billion. At the same time, it should be noted that the University will soon be launching the public phase of its next major fundraising campaign. The financial target is $4 billion.

Given these developments, it is an opportune time to review the future role and mandate of UTAM. To this end, I struck a Working Group to consider key questions concerning scope and governance matters. Specifically, the Working Group was asked to provide me with an independent assessment and considered the following four questions:

1. Does UTAM's current mandate continue to serve the University's needs for the future?
2. What changes to UTAM's structure and in-house capabilities may be required?
3. Do current governance mechanisms and relationships still serve the needs of the University and UTAM well? What changes, if any, might be contemplated?
4. Does the relationship between the Investment Committee, the UTAM Board and management and the University administration continue to serve the interests of the University well? What changes might make sense at this juncture?

Working Group Membership:

- Judy Goldring, Chair (alumna; former chair of the Governing Council; member of Jackman committee)
- Tad Brown (Counsel, Business Affairs & Advancement, DUA)
- Susan Christoffersen (Dean, Rotman School of Management
- Professor of Finance); David Denison (co-chair, Investment Committee)
- Don Guloien (alumnus)
- Anna Kennedy (governor and chair, Business Board)
- Rajiv Mathur (governor)
- Geoff Matus (co-chair, Investment Committee; former governor)
- Richard Nunn (chair, UTAM Board; former chair of the Governing Council)
- Pierre Piché (then interim University CFO)
- Nadina Jamison (Chief Strategy Officer, President's Office, Working Group project lead)
- Chuck O'Reilly, Working Group Advisor (UTAM President and CIO)

Process:

The Working Group was established in the summer of 2021. Background material and task framing were undertaken prior to the fall. With preparatory work undertaken throughout the summer, the Working Group held four meetings between September and December. Two meetings featured consultations with individuals considered to have specific information that was relevant to the Working Group. Individuals included Professor Meric Gertler, President, University of Toronto; Ms. Sheila Brown, recently retired Chief Financial Officer, University of Toronto; Professor Angela Hildyard, Special Advisor to the President and Provost, University of Toronto; Mr. Chuck O'Reilly, President and Chief Investment Officer, UTAM; and Mr. David Palmer, Vice President, Advancement, University of Toronto. Professor Gertler and Mr. O'Reilly appeared before the Working Group at two separate meetings.

The attached report provides a summary of the deliberations of the Working Group and its recommendations. Additionally, the administrative response is also attached. The administrative response accepts all the recommendations from the Working Group.

FINANCIAL IMPLICATIONS:

n/a

RECOMMENDATION:

For information.

DOCUMENTATION PROVIDED:

- *Recommendations from the Working Group on the Future of the University of Toronto Asset Management Corporation* – December 2021

- *Administrative Response to the Report of the Working on the Future of the University of Toronto Asset Management Corporation* – January 2022

RECOMMENDATIONS FROM THE WORKING GROUP ON THE FUTURE MANDATE OF THE UNIVERSITY OF TORONTO ASSET MANAGEMENT CORPORATION

December 2021

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Recommendations from the Working Group on the Future Mandate of the University of Toronto Asset Management Corporation

Introduction

Following the recent creation of the University Pension Plan (UPP), the University of Toronto Asset Management Corporation (UTAM) will streamline its focus of responsibility as it transitions away from the management of pension assets[1] as of 31 March 2022. At such time, UTAM's mandate will focus on managing the University's long-term non-pension assets (endowment funds primarily) – known as the Long-Term Capital Appreciation Pool or LTCAP as well as the short-term cash reserves and working capital – known as the Expendable Funds Investment Pool or EFIP.

The more focused mandate will reduce the assets under UTAM's management from nearly $14 billion to close to $7 billion. Long-term assets under management will decline from $10 billion to approximately $4 billion. At the same time, it should be noted that the University will soon be launching the public phase of its next major fundraising campaign. The financial target is $4 billion.

Given these developments, it is an opportune time to review the future role and mandate of UTAM. To this end, President Gertler struck a Working Group to consider key questions concerning scope and governance matters. For an overview of both the Terms of Reference and the membership of the Working Group, see Appendices A and B. The Working Group was asked to provide an independent assessment to President Gertler and consider the following four questions:

1. Does UTAM's current mandate continue to serve the University's needs for the future?
2. What changes to UTAM's structure and in-house capabilities may be required?
3. Do current governance mechanisms and relationships still serve the needs of the University and UTAM well? What changes, if any, might be contemplated?
4. Does the relationship between the Investment Committee, the UTAM Board and management and the University administration continue to serve the interests of the University well? What changes might make sense at this juncture?

The enclosed report provides a summary of the deliberations of the Working Group on the Future Mandate of the University of Toronto Asset Management Corporation.

[1] The UPP has combined the pension assets of its three founding universities: University of Guelph, Queen's University, and the University of Toronto. Responsibility for managing U of T's pension assets is likely to be transferred to the UPP following an agency period expected to expire 31 March 2022.

Executive Summary

Given the impending change to UTAM's assets under management with the transition of pension assets to the UPP following expiration of the agency period on 31 March 2022, it was timely for President Gertler to establish a Working Group to consider the future role and mandate of UTAM. The Working Group found that previous modifications to UTAM's structure continue to serve the University effectively. Based on the information received and following discussion and deliberations, the Working Group recommends the following:

UTAM's Mandate

i. The Working Group believes that UTAM's current mandate continues to serve the University's needs in the future and there is no recommendation for change.

UTAM's Structure and In-House Capabilities

i. **Management of Assets from Other Organizations** is not recommended in the near term. Over the longer run, UTAM might consider third party management with a focus on organizations with similar characteristics to UofT such as values, prestige and asset level.

ii. **OSC Registration -** The Working Group recommends that UTAM research and obtain legal advice as to the best course of action with regards to registration requirement. Additionally, the Working Group recommends that UTAM conduct a full cost-benefit analysis prior to seeking a change in registration.

iii. **Growth Opportunities -** Explore enhanced connection with the University communication function to determine if dedicated media and issues support could be assembled. Explore ways to enhance connections with students potentially through experiential learning or research opportunities other than stock selection or asset management.

Governance Mechanisms

i. **Board Composition -** The Working Group recommends the Chair remains as an independent member as well as recommends consideration be given to changing composition of Board membership to reflect the new focus of UTAM on endowments and short-term expendable assets. It is further recommended that fixed, staggered, and renewable, if desired, terms are introduced for independent member(s) on the UTAM Board.

Investment Committee

i. **Committee Terms / Membership** – The Working Group recommends introducing fixed terms, renewable, if desired, by the IC member and the U of T President. Additionally, to introduce staggered turnover to enable a balance of continuity and renewal, and organized succession planning.

ii. **Committee Communication** – The Working Groups recommends appointing the President, Chair of UTAM and CFO as *ex officio*, non-voting members of the IC. Further, it recommends establishing a formal annual meeting with the IC Chair(s), UTAM Chair and President, University of Toronto, to ensure clear and effective alignment of strategic goals and investment objectives of UTAM. Finally, the excellent ongoing culture of informal communication and engagement so effectively established in recent years is encouraged to continue.

Background

The University of Toronto Asset Management Corporation (UTAM) was established by the Governing Council of the University of Toronto on April 25, 2000 as a separately incorporated investment management organization governed by its own Board of Directors. For more than 20 years, UTAM has managed the University of Toronto's pension, endowment and short-term financial assets on behalf of its stakeholders. UTAM manages only the assets of the University of Toronto, serving the unique needs of a globally respected institution and its stakeholders.

UTAM's role, structure, strategy and governance were last reviewed in 2009, by a committee chaired by the Honourable Henry N.R. Jackman. This committee reviewed UTAM's practices, investment approach and governance in the wake of the Global Financial Crisis (GFC), during which UTAM's performance was called into question.[2] This committee made a number of important recommendations that have shaped UTAM's operations and governance to the present day. Chief among them were recommendations to:

- convert the UTAM CEO position to a Chief Investment Officer with a direct reporting relationship to the President of the University
- separate governance from investment oversight functions, with
    - a smaller UTAM board, more closely tied to the senior administration of the University, responsible for corporate governance functions such as budget, compensation, financial statements, and audit
    - a standalone investment committee comprised of volunteer, experienced professionals advising the senior administration of the University and UTAM management on investment strategy and operations
- reshape UTAM's investment strategy and asset allocation to reduce volatility, enhance risk management, and increase liquidity by reducing its emphasis on alternative asset classes.

See Appendix D for both the *Jackman Review: Report of the President's Committee on Investment Policies, Structures, Strategies and Execution – Dec 2009* and the *University of Toronto Asset Management Independent Directors Response to the Report of the President's Committee on Investment Policies, Structures, Strategies and Execution – February 2010.*

[2] *The Report of the President's Committee on Investment Policies, Structures, Strategies and Execution*, December 2009.

Process

The Working Group was established in the summer of 2021. Background material and task framing were undertaken prior to the fall. With preparatory work undertaken throughout the summer, the Working Group held four meetings between September and December. The Working Group began its work by reviewing the documents provided as background material. Background material is listed in Appendix C.

Two meetings featured consultations with individuals considered to have specific information that was relevant to the Working Group. Individuals included Professor Meric Gertler, President, University of Toronto; Ms. Sheila Brown, recently retired Chief Financial Officer, University of Toronto; Professor Angela Hildyard, Special Advisor to the President and Provost, University of Toronto; Mr. Chuck O'Reilly, President and Chief Investment Officer, UTAM; and Mr. David Palmer, Vice President, Advancement, University of Toronto. Professor Gertler and Mr. O'Reilly appeared before the Working Group at two separate meetings.

In consultation with these key members of the University and drawing on the extensive experience of the members of the Working Group, the four key questions raised by the President were considered over the following two sessions. The final meeting concluded with a review of the draft report and recommendations.

The Working Group was well served by its members. The vast experience both professionally and as committed volunteers or administrators to the University was invaluable. The Working Group members consisted of leaders of the asset management industry, experienced professionals as well as talented and well-informed University faculty and administrators. All brought their respective talents and skills to thoughtfully consider the issues raised before the Working Group. Further, the Working Group would like to recognize the contribution of Nadina Jamison, Chief Strategy Officer, Office of the President. As Project Lead, Nadina's assistance throughout the process and, in particular, with the preparation of the Report, was greatly appreciated.

Working Group Observations

To address the four questions outlined above, the Working Group conducted consultations with key members of the University community who are most familiar with UTAM's activities and mandate. The Working Group began its efforts by reviewing relevant documents provided as background material. This background material is listed in Appendix C.

The following provides a summary of the most salient points arising from the consultation process.

1. Does UTAM's current mandate continue to serve the University's needs for the future?

Those consulted were uniformly in agreement that UTAM's current mandate continues to serve the University's needs for the future. Without exception, they affirmed UTAM's key deliverable as stated through its mission "*to produce strong investment results over the long term, advancing the University of Toronto's goals for its portfolios through skilled investment management, leadership in responsible investing and prudent risk management*." UTAM's singular focus is on generating strong returns to benefit the University of Toronto. Keen awareness of the critical importance of understanding the needs of the University, and the consequences of sustaining a loss (impact on research and other core academic activities) were noted as distinguishing features of UTAM. With a specialized focus on university endowments, UTAM has created a strong and distinctive organizational culture that prizes the pursuit of investment excellence. At the same time, UTAM also respects the unique culture of the academic institution it supports and understands the mission and the goals of the University. Moreover, UTAM is committed to helping fulfill these objectives. Clarity of mission, purpose, principles and consistency of communications were cited by many. Definitive willingness to work with the administration on strategies and goals was emphasized. Indeed, in its most recent annual report, UTAM states, "We understand a university's complex governance structures, having spent two decades successfully working within them. We share U of T's values and appreciate the issues that shape its long-term outlook."

The UTAM team was acknowledged for the clear sense of responsibility to, and awareness of, the range of stakeholder perspectives and issues of concern. Of particular importance, was the emphasis on the University of Toronto's priorities regarding ESG and Responsible Investing. UTAM responded enthusiastically to shaping how funds are invested, securing top marks consistently from UN-PRI, as well as being an early adopter and signatory to a growing number of alliances of asset owner/managers promoting ESG-positive behaviour amongst firms held in the long-term investment portfolios. UTAM has been calculating and publishing the carbon footprint of the pension portfolio since 2019, using the 2017 footprint as a baseline. It has made significant strides in terms of reducing the carbon footprint of the long-term portfolios since then.

Finally, exceptional service by UTAM featured prominently as a factor in supporting the needs of the University. UTAM was cited as being highly responsive to client needs. Among these is a need to achieve a high level of transparency and clarity in stakeholder communications, which is achieved through various mechanisms, including UTAM's website, reports to committees and

ongoing dialogue with stakeholders. It was noted that there is evidence of high degree of tailored client service and bespoke reporting for stakeholders – particularly for donors.

Further it was underscored that donors want to know that their gift will be well managed, once it is in the care of the University. UTAM has focused on avoiding an erosion of endowment capital (or expendable funds) and maximizing returns, within acceptable risk limits, so that donor gifts will have the intended/desired impact. The ability to point to U of T's arm's-length, but wholly owned, closely governed investment management entity was cited as a significant advantage.

Given the uniformly positive input from these consultations, the Working Group believes that UTAM's current mandate will continue to serve the University's needs in the future.

2. What changes to UTAM's structure and in-house capabilities may be required?

Given the transition of UofT's pension assets to UPP in the upcoming months, the Working Group was asked to consider if any changes would be needed to UTAM's structure or in-house capabilities. To assess this, the Working Group reviewed various background documents, including material from Cambridge Associates that performed historical comparative analyses of staffing structures for different asset sizes at post-secondary institutions in the United States. Canadian comparators were of limited usefulness, given their relatively smaller assets under management.

The key points considered by the Working Group in view of the upcoming changes were the: (i) size and structure of the organization; (ii) in-house capabilities; and (iii) overall cost of delivering its services.

Size and structure

By March 2022, UTAM's assets under management will consist of approximately $4B in the Long-Term Capital Appreciation Pool (LTCAP) as well as approximately $3B in the short-term cash reserves and working capital – the Expendable Funds Investment Pool or EFIP. Approximately $7B of pension assets will be transferred to UPP.

On September 30, 2021, UTAM had 24 full-time employees. Notably, the Working Group was told that in 2011 UTAM had a combined assets under management (AUM) of approximately $7B which included LTCAP, pension and expendable investments. This level of AUM is similar to the level that UTAM is expected to manage post the UPP transition, when UTAM's AUM is expected to decrease by approximately $7B. Importantly, the Working Group learned that UofT has recently announced an ambitious fundraising campaign seeking to raise $4B over the next decade. These funds will form part of the endowment and expendable fund assets to be managed by UTAM when raised.

Throughout the consultations, the Working Group heard that UTAM delivers excellence in performance as well as service. An important part of their service and oversight model is their due diligence processes which were noted to be on par with those of very large Canadian pension plans. UTAM's Risk Management Framework covers three key areas of risk: (i) market and active risk; (ii) concentration and credit risk; and (iii) liquidity risk. For each of these risks, UTAM has policies that set out the rules and limits against which the long-term portfolios are managed and reported. The market and active risk function is particularly rigorous and a key differentiator from peer allocators. A holdings-based risk system features exposure analysis and risk metrics. These are reviewed and reported to the Investment Committee on a periodic basis. This value-add capability contributes a dimension of rigour and depth to the overall investment process which has helped to deliver the superior performance seen over the past few years.

In respect of investment capabilities and the shift in UTAM's mandate given the loss of pension assets, the Working Group was advised that there is no need to change fundamentally the investment policies, procedures, strategies or structure. With the responsibility for management of pension assets now shifting to UPP, UTAM's future mandate will become even more focused

on the LTCAP and expendable funds. This was then seen as likely enhancing UTAM's effectiveness even further.

Finally, considering the forthcoming fundraising campaign, it was suggested that donors might be concerned about disruption if major changes to UTAM's mandate, structure or operations were contemplated. Donors care about stability of returns and corresponding distributions. There might be a perception of an additional element of risk if responsibility for managing endowment assets was given to a third-party investment management organization.

Based on the information received the Working Group recommends no change to the UTAM structure or to its in-house capabilities.

Cost of Management

An important consideration by the Working Group was the overall cost of managing a reduced asset base by UTAM once the transition occurs in March 2022. In referring to the Cambridge Associates study, the cost of UTAM as an organization relative to its assets under management is comparable to post secondary institutions in the United States. As assets grow over time, UTAM will be able to scale without additional resources required. Growth of assets will result, not only due to the potential of market growth, but also, as a result, of the recently announced fundraising campaign. At the post UPP estimated AUM of $7B, UTAM's all in cost of management is expected to be 17.8 bps based on UTAM's 2021 budget after adjusting for some pension-specific costs. Further, based on US endowment benchmarking provided by Cambridge Associates, at the end of June 2020, endowments with greater than USD $3B (mostly $3B - $7B) of AUM had mean costs of 16.9 bps and median costs of 16.7 bps. Therefore, compared to peer US endowments, after UTAM AUM drops, UTAM costs will likely be approximately 1 bps more expensive than mean and median of its peer group. Overall, the Working Group concluded UTAM cost of management is competitive and reasonable relative to other asset managers of similar sizes.

The consensus arising from the consultations is that no significant changes to UTAM's organizational structure and in-house capability are required at this time. Evidence presented suggested that current systems are indeed successful and that the same investment and operational due diligence processes can be applied whether managing $10 billion or $4 billion of long-term assets. Moreover, UTAM will continue to deliver its services at a reasonable and competitive rate.

Specific Considerations

Following examination of background material and stakeholder feedback, the Working Group concluded that no significant changes to UTAM's structure and in-house capabilities were necessary. Nonetheless, input from individuals involved in the consultation process identified three specific matters for consideration by the President and / or UTAM management. These included: management of assets from other organizations; OSC registration; as well as growth opportunities for UTAM engagement with the University. Highlights of these discussion points are included below.

Management of Assets from Other Organizations

The question of whether UTAM should be empowered to manage the investment assets of other organizations was posed to individuals consulted, who were asked to share their views of the benefits and potential drawbacks of such an expanded mandate.

A number of positive aspects were attributed to a potential expanded mandate. With greater assets under management to manage, advantages could be seen through greater efficiencies of operations, potential for enhanced standing within the investment community, as well as benefits to UTAM staff professionally. Specifically, the benefits included ability to: (i) spread costs over a larger pool of assets under management; (ii) access top-tier investment managers; and (iii) expanded work opportunity and more upward mobility for UTAM staff.

On the other hand, disadvantages were also cited with a potential expanded mandate. Drawbacks primarily focused on the potential for a significant level of distraction from UTAM's primary mission. Specifically, the drawbacks included: (i) heightened complexities and reporting needs; (ii) governance challenges; (iii) potentially conflicting goals or values associated with external organizations; (iv) loss of focus of the senior investment team; as well as (v) legal and compliance resourcing.

Following a healthy discussion and considering the benefits and drawbacks, the Working Group concluded that UTAM should not take on management of other organizations' assets in the near term. That said, the Working Group believes that, in the longer term, UTAM may want to consider managing third party assets. Should such a decision be made, UTAM should focus on managing assets of organizations that share similar characteristics to the University, such as values, prestige and asset level.

OSC registration

Flowing from the discussion on the management of assets from other organizations, comes the matter of OSC registration. It should be noted that, since UTAM is in the business of advising its client with regard to investments, it is required to be registered unless granted an exemption from registration. As outlined in the OSC registrant information, "*in general, anyone … offering investment advice … in Ontario must register with the OSC, unless they have an exemption*." Importantly, if UTAM decides to manage third party assets, then an OSC registration is required; that is, it cannot operate under an exemption. Today, UTAM does have an OSC registration for a variety of reasons. Benefits attributed to an OSC registration were identified as: (i) comfort that UTAM is required to adhere to best practice standards as reflected in securities law and regulations; (ii) reassurance that UTAM is subject to the oversight of the OSC, including the requirement to file audited financial statements; as well as (iii) increased visibility to the function of the UTAM COO.

As UTAM is today registered with the OSC, certain drawbacks were noted. They were related to the increased organizational demands. Specifically, the disadvantages identified were: (i) maintaining registration is particularly burdensome, requiring significant administrative input and

workload on the part of UTAM; (ii) cost related fees of approximately $100k per annum; and (iii) the sense that the compliance requirement might be beyond what is relevant to UTAM's activities.

In considering the drawbacks and costs associated with an OSC registration, the Working Group discussed its necessity. UTAM advised the Working Group that if it is only advising and managing UofT's assets, UTAM could operate under an exemption to the OSC registration. This would streamline many of the drawbacks noted above and reduce operating costs. Further, some of the noted benefits of the OSC registration, namely strong compliance obligations, as well as the filing of audited statements, is done at UTAM through the oversight of the University itself. Namely, the University has their own independent internal audit function which provides strong oversight and review of compliance functions in UTAM. As well, audited financial statements are submitted through the University.

In conclusion, the Working Group believes that UTAM may be better served if they were to cease to maintain an OSC registration and instead operate under an exemption. The Working Group recommends that UTAM research and obtain legal advice as to the best course of action with regards to registration requirements. A full cost-benefit analysis should be conducted prior to seeking a change in registration.

Potential Growth Opportunities

The consultations highlighted potential opportunities for UTAM's greater engagement with the University. President Gertler, along with UTAM management, are encouraged to pursue these options as they see fit. It was recommended that options be explored to connect UTAM more strongly into the fabric of the University. Proposals included: enhanced connection with the University communication function to determine if dedicated media and issues support could be assembled; and exploring ways to enhance connections with students, potentially through experiential learning or research opportunities such as internships or hands-on learning opportunities that do not involve student-run stock selection or asset management. UTAM, as a manager of managers, is not able to support direct asset selection or management. Nevertheless, students could develop an understanding of asset allocation or reference portfolios. The Working Group recognizes that more background work would need to be undertaken to determine whether various curricular or co-curricular initiatives would be possible while emphasizing the need to ensure the independence and separation of UTAM as its own legal entity.

3. Do current governance mechanisms and relationships still serve the needs of the University and UTAM well? What changes, if any, might be contemplated?

The Jackman Review committee highlighted two concerns. The first was that University's senior administration did not have sufficiently close oversight of the investment management function, even though senior administration was accountable for investment results. Additionally, the second concern was that governance and investment oversight functions were not adequately separated. The role of the UTAM Board was unclear and poorly understood by the wider U of T community.

These concerns led the Jackman Review committee to recommend changes to governance mechanisms. The first change focused on UTAM leadership. The Chief Executive Officer role became a Chief Investment Officer with direct reporting relationship to the President, University of Toronto. The second shift highlighted the UTAM Board. It was recommended the Board be reduced in size and comprised of members of the University's senior administration. Additionally, the Board's role was simplified and clarified to focus on 'routine corporate governance functions' such as budget, financial statements, audit, compensation. However, Board role responsibility did not include oversight of investments. The oversight of the investment function became the responsibility of a separate Investment Committee.

The model as recommended by the Jackman Review committee was largely implemented by UTAM and the University. From the perspective of consultations to the Working Group, the revised model has been highly effective and has indeed addressed the concerns raised previously. It was reported that much effort went into getting the right balance and that these adjustments have harmonized function and outcome.

Following the Jackman Review, significant work went into improving components of UTAM governance mechanisms. The key changes were focused on enhancing role clarity and focus. Feedback to the Working Group indicated that this enhanced clarity led to more clearly defined roles and accordingly results improved significantly. In essence, it was reported, the UTAM Board is not directing activity that should be left to investment professionals. At the same time, this greater focus rectified the less than optimal oversight of UTAM leadership during the pre-Jackman report era.

The UTAM Board includes University of Toronto administrators, the President and Chief Financial Officer. An external member sits on the UTAM Board and serves as its Chair. The current Board Chair is Richard Nunn. Mr. Nunn is also a member of the Working Group. It was the widely shared view of those appearing before the Working Group that the principle that the Chair role should be held by an independent member is extremely valuable. The Working Group determined that the independence of the Chair is an important component of the Board's composition and is a strong element of good governance.

Further, an UTFA appointee is also appointed to the UTAM Board. The rationale for the UTFA appointee was referenced in the Jackman Review report, which indicated that the University of Toronto and the University of Toronto Faculty Association (UTFA) had been engaged in negotiations to give UTFA a greater voice in the governance of the pension plan. Following an

arbitration ruling on the matter, it was determined that (i) the University must set up a formal pension committee to review pension matters and make certain decisions, including approving asset allocation for the investment of the pension funds; and (ii) UTFA be given a seat on the UTAM Board, because of UTAM's key role in managing the investment of the Pension Fund. Given the transition of assets to UPP, the Working Group believes that UTAM should consider removing the limitation of an UTFA appointee, and consider other stakeholder representatives such as advancement administrators, or faculty with relevant skillset to be appointed by the President.

Should new independent appointees be added to the UTAM Board, and to align with good governance practises, it is recommended that the President consider setting fixed terms, renewable, if desired, for the independent UTAM member(s). Consideration should be given to staggering terms to allow for effective succession planning and organized transition. As well, staggered terms ensure a balance of continuity and member experience alongside renewal and controlled turnover.

Given the strong consensus emerging from the consultations to the Working Group, it is believed that the current governance mechanisms and relationships still serve the needs of the University as well as UTAM. However, the Working Group recommends that (i) UTAM retain the Chair as an independent member of the Board; (ii) UTAM consider changing the composition of Board membership to reflect the new focus of UTAM on endowments and short-term expendable assets and (iii) should the Board composition change, ensure good governance practices are followed with fixed, staggered and renewable terms (if desired) for its independent member(s).

4. Does the relationship between the Investment Committee, the UTAM Board and management and the University administration continue to serve the interests of the University well? What changes might make sense at this juncture?

The Working Group reviewed the history of the creation of the Investment Committee, along with its current structure. As highlighted in the governance section of UTAM's website - in April 2016, the University's Investment Committee (IC) was created to replace the Investment Advisory Committee (IAC), which had been established in 2010. The IC currently consists of five members with significant investment experience, each appointed by the President of the University of Toronto. In addition to these five appointed members, the University of Toronto's President, its Chief Financial Officer as well as the Chair of UTAM's Board of Directors attend as guests of the IC at its regularly scheduled meetings. The mandate of the IC is designed to foster direct interaction and collaboration with UTAM. Formal meetings are held quarterly. The IC reports to the President of the University of Toronto and provides expert advice to U of T's administration, collaborating extensively with the administration and with UTAM management staff on investment objectives and investment activities. The IC helps to ensure that the investment strategy pursued by UTAM is closely aligned with the University's needs in terms of target return, risk, liquidity, and responsible investing.

The Working Group learned that the prevailing view is that this model has worked effectively. There are clear distinctions between investment management and routine corporate governance functions that are the core purview of the UTAM Board. UTAM management benefits from the experience, judgement and technical knowledge of the IC. Moreover, the University (and its senior leadership) can be confident that UTAM's investment strategy and practices are being closely monitored and shaped by seasoned, extremely well-qualified and widely respected professionals who have developed very clear limitations on the discretion of UTAM management in terms of asset mix, risk allocation and liquidity requirements. The Working Group learned that the University is fortunate to have benefited from the wisdom, experience and advice of the IC, which is viewed as a critical component of UTAM's success.

There is strong evidence that the relationship between the Investment Committee, the UTAM Board and management as well as the University administration continues to serve the interests of the University. That said, Working Group members learned that while the University has been very well served by the IC, currently members serve for no fixed terms. To align with good governance practises, it is recommended that the President consider setting fixed terms, renewable, if desired, by UTAM and the IC member. Consideration should be given to staggering terms to allow for effective succession planning and organized transition. As well, staggered terms ensure a balance of continuity and member experience alongside renewal and controlled turnover.

As the Working Group heard, UTAM has developed a very thoughtful leadership succession plan which has served it well in the most recent transition of leadership. A similarly orderly model within the IC membership would be a desirable and important element for continued success.

Consultations with the Working Group consistently emphasized the importance of the effective communication that occurs between the UTAM Board and the Investment Committee. A strong culture of consultation and open communication is present. This practice is attributed to the deep commitment by individuals involved in the process. To continue to capitalize on this effective engagement, Working Group members reflected on whether this informal interaction might be formalized in some way to ensure this best practice continues. The Working Group believes that there may be three areas for consideration that would formalize the interaction between the President, UTAM and IC. They are to i) embed the roles of the President, CFO and Chair of UTAM's Board into the mandate of the IC by adding these three roles as *ex officio* non-voting members to the IC; ii) establish a formal annual meeting with the IC Chair(s), UTAM Chair and President, University of Toronto, to ensure clear and effective alignment of strategic goals and investment objectives of UTAM; and (iii) ensure the excellent ongoing culture of informal communication and engagement so effectively established in recent years is continued.

Recommendations

Given the impending change to UTAM's assets under management with the transition of pension assets to the UPP following expiration of the agency period on 31 March 2022, it was timely for President Gertler to establish a Working Group to consider the future role and mandate of UTAM. The Working Group found that previous modifications to UTAM's structure continue to serve the University effectively. Further they expressed the concern that change may come at a cost, and that there were not sufficient advantages to justify the cost or risks associated with any significant modifications at this juncture. Perhaps the UTAM 2020 Report framed it best when it said,

> Like the great university whose excellence it works to sustain, UTAM is focused on the long term, guided by strategies designed to stand the test of time. They are constantly evolving capabilities – from their deep experience in managing university assets, to their rigorous investment and risk management processes, to their leadership in responsible investing – to fuel their progress over the past two decades. And they provide a solid foundation as they evaluate and act upon the opportunities that come next. While there may be challenges ahead, UTAM is well positioned to meet them, building on their successful track record and leveraging the proven strengths of their people, systems and processes.

In summary, following the consultation process outlined above, the Working Group makes the following recommendations in regard to the questions posed to the group.

UTAM's Mandate

i. The Working Group believes that UTAM's current mandate continues to serve the University's needs in the future and there is no recommendation for change.

UTAM's Structure and In-House Capabilities

i. Management of Assets from Other Organizations

- Not recommended in the near term.
- Over the longer run, UTAM might consider third party management with a focus on organizations with similar characteristics to UofT such as values, prestige and asset level.

ii. OSC Registration

- The Working Group recommends that UTAM research and obtain legal advice as to the best course of action with regards to registration requirement.
- Conduct a full cost-benefit analysis prior to seeking a change in registration.

iii. Growth Opportunities

- Explore enhanced connection with the University communication function to determine if dedicated media and issues support could be assembled.
- Explore ways to enhance connections with students potentially through experiential learning or research opportunities, other than stock selection or asset management.

Governance Mechanisms

i. Board Composition

- Ensure Chair remains as an independent member.
- Consider changing composition of Board membership to reflect the new focus of UTAM on endowments and short-term expendable assets.
- Should the composition of the Board expand, include fixed, staggered and renewable terms (if desired) for the independent member(s).

Investment Committee

i. Committee Terms / Membership

- Recommend introducing fixed terms, renewable if desired by the IC member and the U of T President.
- Introduce staggered turnover to enable a balance of continuity and renewal, and organized succession planning.

ii. Committee Communication

- Appoint the President, Chair of UTAM and CFO as *ex officio*, non-voting members of the IC.
- Establish a formal annual meeting with the IC Chair(s), UTAM Chair and President, University of Toronto, to ensure clear and effective alignment of strategic goals and investment objectives of UTAM.
- Encourage the excellent ongoing culture of informal communication and engagement so effectively established in recent years.

Appendix A - Working Group Future Mandate of the UTAM Corporation - Terms of Reference

Working Group
Future Mandate of the University of Toronto Asset Management Corporation

Terms of Reference and Membership

July 2021

Context:

On 1 July 2021, the newly created University Pension Plan (UPP) assumed responsibility for the management of the combined pension assets of its three founding universities: University of Guelph, Queen's University, and the University of Toronto. As part of the transition plan, the University of Toronto Asset Management Corporation (UTAM) will continue to manage U of T's portion of the combined pension assets under an agency agreement between U of T and UPP. This agency period is expected to last nine months, expiring on 31 March 2022.

Once this agency relationship ends, UTAM will no longer manage pension assets, and its mandate will narrow to focus on managing the University's long-term assets (endowment funds primarily) – known as the Long Term Capital Appreciation Pool or LTCAP – and short-term cash reserves and working capital – known as the Expendable Funds Investment Pool or EFIP.

As a result of the above changes, the assets under UTAM's management will shrink to approximately 50% of their current size, from nearly $14 billion to close to $7 billion. Long-term assets under management will decline from $10 billion to $4 billion. At the same time, the University will soon be launching the public phase of its next major fundraising campaign, with an expected financial target in the $3.5 billion to $4 billion range. These impending changes in both mandate and scale of assets under management provide the motivation for creating a Working Group to review the future role and mandate of UTAM.

Background:

UTAM's role, structure, strategy and governance were last reviewed in 2009, by a committee chaired by the Honourable Henry N.R. Jackman. This committee reviewed UTAM's practices, investment approach and governance in the wake of the Global Financial Crisis (GFC), during which UTAM's performance was called into question.[1] This committee made a number of important recommendations that have shaped UTAM's operations and governance to the present day. Chief among them were recommendations to:

- convert the UTAM CEO position to a Chief Investment Officer with a direct reporting relationship to the President of the University
- separate governance from investment oversight functions, with
    - a smaller UTAM board, more closely tied to the senior administration of the University, responsible for corporate governance functions such as budget, compensation, financial statements, and audit

[1] *The Report of the President's Committee on Investment Policies, Structures, Strategies and Execution*, December 2009.

    - a standalone investment committee comprised of volunteer, experienced professionals advising the senior administration of the University and UTAM management on investment strategy and operations
- reshape UTAM's investment strategy and asset allocation to reduce volatility, enhance risk management, and increase liquidity by reducing its emphasis on alternative asset classes.

This review led to the establishment of an independent Investment Committee, fundamental changes to investment philosophy, the introduction of a new Reference Portfolio benchmark, and reforms to governance. These changes – as well as the excellent work of a highly skilled leadership team at UTAM – have resulted in much stronger performance by UTAM in the years since the GFC. UTAM's most recent Annual Report documents 10-year investment returns (net of all costs) of 8.7% and 8.8% for pension and endowment respectively, with UTAM's net value added relative to its Reference Portfolio benchmark equivalent to 1.0% and 1.1% (or $320 million and $211 million) respectively over the past ten years.[2]

Terms of Reference:
As the context for UTAM's activities is about to undergo significant change, now is an appropriate time to create a new Working Group to consider the following questions:

1. Does UTAM's current mandate continue to serve the University's needs for the future?
2. What changes to UTAM's structure and in-house capabilities may be required?
3. Do current governance mechanisms and relationships still serve the needs of the University and UTAM well? What changes, if any, might be contemplated?
4. Does the relationship between the Investment Committee, the UTAM Board and management and the University administration continue to serve the interests of the University well? What changes might make sense at this juncture?

Membership:

Judy Goldring, Chair (alumna; former chair, GC; member of Jackman committee)
Tad Brown (Counsel, Business Affairs & Advancement, DUA)
Susan Christoffersen (Dean, Rotman School of Management; Professor of Finance)
David Denison (co-chair, Investment Committee)
Don Guloien (alumnus)
Anna Kennedy (governor and chair, Business Board)
Rajiv Mathur (governor)
Geoff Matus (co-chair, Investment Committee; former governor)
Richard Nunn (chair, UTAM Board; former chair, GC)
Pierre Piché (interim University CFO)

Chuck O'Reilly, Advisor (UTAM President and CIO)

[2] See https://www.utam.utoronto.ca/wp-content/uploads/2021/04/UTAM-Annual-Report-2020.pdf

Appendix B – UTAM Working Group – Committee Members

Judy Goldring, Chair

Judy Goldring is President and Head of Global Distribution, AGF Management Limited. Prior to being named President, she served as Executive Vice-President and Chief Operating Officer. She received a Bachelor of Arts in Economics from University of Toronto and earned her Bachelor of Laws (LL.B) from Queen's University. In 2019, she received an Honorary Doctor of Laws (LL.D) from the University of Toronto. Judy is Vice-Chair of The Investment Funds Institute of Canada (IFIC)'s Board of Directors and is on the Board of the Toronto French School (TFS.) Judy also serves as the lead fundraiser for the JDRF $100M *Campaign to Accelerate*.

Tad Brown

Tad Brown is the Counsel, Business Affairs and Advancement at the University of Toronto. Prior to joining the University, Tad practiced corporate, tax, trusts and estates law at McMillan. He is a member of the Canadian Bar Association, the Canadian Corporate Counsel Association, and the Association of Fundraising Professionals. He also served as Chair of the Board of Directors of the Multiple Sclerosis Society of Canada, Ontario Division, and Chair of the National Government Relations Committee of the Association of Fundraising Professionals.

Susan Christoffersen

Susan Christoffersen is the Dean at Rotman, and the William A. Downe BMO Chair, Professor of Finance. From 2015 to 2020, Professor Christoffersen served as the Vice-Dean, Undergraduate and Specialized programs. Her research focuses on mutual funds and the role of financial institutions in capital markets. She has published in top finance journals and cited in *The New York Times*, *International Herald Tribune*, *Bloomberg News Service*, and *The Wall Street Journal*. Susan has received grants from SSHRC, IFM2, and FQRSC and research awards from Q-Group, Bank of Canada, BSI Gamma Foundation, INQUIRE, and the Swiss Finance Institute.

David Denison

A corporate director with extensive experience in the financial services industry, David Denison served as President and CEO of the Canada Pension Plan Investment Board from 2005 to 2012. He was previously President of Fidelity Investments Canada. He also sits on the boards of Royal Bank of Canada and BCE and is the Chair of the Board of Element Fleet Management Corporation. He serves as the Co-Chair, Investment Committee, UTAM.

Donald Guloien

Donald Guloien is the past President and Chief Executive Officer of Manulife. He is a Governor of Branksome Hall, a director of Banting Research Foundation, and the Chair of Stand Up for Kids National Award Committee. He has served as Vice Chairman of the Mayor of Shanghai's International Business Leaders' Advisory Council, Director of the Geneva Association, member and Director of the Board of the Business Council of Canada, Chair of the Canadian Life and Health Insurance Association, member of the Campaign Cabinet for the United Way, and member of the University of Toronto's Governing Council. He is also a member of the Ticker Club, and the Young Presidents' Organization. He has been named International Business Executive of the Year by the Canadian Chamber of Commerce and awarded The Queen Elizabeth II Diamond Jubilee medal. He holds a Bachelor of Commerce degree and an Honourary Doctor of Laws (LLD) from the University of Toronto.

Anna Kennedy

Anna Kennedy is Chief Operating Officer at KingSett Capital Inc., a private equity real estate investment firm, where she has responsibility for KingSett's financial, governance, investor relations, technology, talent development and other organizational platforms. She received an BCom from Queen's University, and her CA and ICD.D designations respectively from the Institute of Chartered Accountants of Ontario and the ICD Rotman Directors Education Program. She also studied Risk Management for Corporate Leaders at the Harvard Business School. She has participated in a number of boards and currently sits on the Board of the CD Howe Institute. She is a member of the Governing Council of the University of Toronto and is Chair of the Business Board.

Rajiv Mathur

Rajiv Mathur is a public accounting firm partner, business advisor, and independent director with over 30 years of professional services experience working with private and public enterprises. He is a retired senior partner from Deloitte. He has also held faculty positions at four Canadian Universities, where he taught finance and accounting courses. He holds an MBA from Queen's University and a Bachelor's degree in Mechanical Engineering from the Indian Institute of Technology. He received his CA, CPA designation from CPA Canada. He is a member of the Governing Council of the University of Toronto.

Geoff Matus

A co-founder (in 1988) of Tricon Capital Group, Geoff Matus remains on the company's Board, serving as Chair of the Executive Committee and as a member of the Investment Committee. He is also Chair and co-founder (in 1998) of Cidel, a global financial services group, and Chair of The TEAM companies, an international payroll provider serving the entertainment industry. In addition, he is on the Board of the MaRS Discovery District, chairing the Real Estate Committee, and Co-Chair of U of T's Real Estate Advisory Committee. He serves as the Co-Chair, Investment Committee, UTAM.

Richard B. Nunn

Richard Nunn is a senior client service partner at Deloitte, specializing in leading large, complex audits. Richard is the Chair of the UTAM Board and a former Chair of the Governing Council of University of Toronto. He has served as a member of the OSFI Advisory Committee and a past Chair of the Panel Auditors' Committee of the Investment Industry Regulatory Organization. He was appointed to the Council of the Institute of Chartered Accountants in England and Wales in 2013 as the international member representing Canada and the Caribbean. Richard holds a degree in Banking and Finance from Loughborough University in the UK. He is a Fellow of the Institute of Chartered Accountants of Ontario, a Fellow of the Institute of Chartered Accountants in England and Wales, and a member of the Chartered Institute of Taxation, UK and holds a director's designation from the Institute of Directors.

Pierre Piché

Pierre Piché is the Controller and Director of Financial Services at the University of Toronto. He is a Chartered Professional Accountant and holds a PhD in Higher Education from the University of Toronto. His research interests include issues of institutional diversity, funding and accountability. He is an active member of the Council of Finance Officers where he chaired a number of committees including the Executive Committee and the Financial Reporting Committee. He was recognized by his peers in 2017 and 2005 with the Council of Finance Officers Distinguished Leadership Award.

Chuck O'Reilly – UTAM Working Group Advisor

Chuck O'Reilly was appointed President and Chief Investment Officer, UTAM in July 2021. Since joining UTAM in 2011, Chuck has played a key role in UTAM's investment activities, with a particular focus on public equities and public equity focused hedge funds. Prior to joining UTAM, Chuck spent more than 10 years at Ontario Power Generation, where he was the Director of the Fund Management group responsible for the investment of the company's pension and nuclear funds. Chuck graduated from Queen's University with an honours undergraduate degree in Commerce (B.Comm Hons). He holds the Chartered Financial Analyst (CFA) and Chartered Alternative Investment Analyst (CAIA) designations.

Nadina Jamison, UTAM Working Group Project Lead

Nadina Jamison serves as the Chief Strategy Officer, Office of the President, University of Toronto. She started her career in fundraising supporting various institutions. Throughout her journey with U of T, she held a number of director-level and strategic roles. Nadina holds a PhD in Leadership, Higher and Adult Education from the University of Toronto. Her research interests focus on the impact of matching funds on philanthropy by studying the often-complex relationships between government, charitable institutions and donors, and how those relationships are perceived by donors. Nadina is an advocate of volunteering and has lent her expertise to several different organizations.

Appendix C- Background Material
The url has been provided for those documents that are available on the web.

- UTAM Governance Documents
  https://www.utam.utoronto.ca/about-us/history-mandate/
  https://www.utam.utoronto.ca/about-us/governance/
    - Letters Patent
    - By-law No 1
    - UTAM Board – Terms of Reference
- University Directions and Agreements
    - "Delegation of Authority" - Business Board approval whereby the University delegates authority to UTAM to act as the University's agent in respect of investments.
      https://governingcouncil.utoronto.ca/system/files/2020-12/UTAM%20DOA%202010-06-25.pdf
    - "Investment Management Agreement between the University and UTAM for University Assets" effective July 1, 2021 - identifies who does what in the relationship. This updated agreement reflects the departure of the pension assets at the end of the agency period.
      https://governingcouncil.utoronto.ca/secretariat/policies/investment-delegation-authority-university-toronto-asset-management - *need updated - this is June 2020*
    - "Investment Policy for University Funds"- Business Board policy provides direction to UTAM for investment of university assets: the Long Term Capital Appreciation Fund (which includes endowments and other long term funds) the Expendable Funds Investment Pool, and specifically invested funds. https://governingcouncil.utoronto.ca/secretariat/policies/investment-policy-university-funds-october-7-2019
    - Investment Committee – Terms of Reference. https://www.utam.utoronto.ca/about-us/governance/
- Other
    - "Investments: Who Does What" - illustrates the investment process relationship between the University and UTAM.

<u>UTAM Reports</u>

- UTAM Annual Reports and Responsible Investing Reports 2016 to date.
  https://www.utam.utoronto.ca/reports/annual-reports/
  https://www.utam.utoronto.ca/reports/responsible-investing-reports/
- Portfolio Performance and Returns (Investment Performance and Risk Dashboard – 2021 Q2) - regular quarterly reporting that UTAM provides to the UTAM Board, the Investment Committee.
  https://www.utam.utoronto.ca/performance/

Appendix D - Jackman Review: Report of the President's Committee on Investment Policies, Structures, Strategies and Execution – Dec 2009

Report of the President`s Committee on Investment Policies, Structures, Strategies and Execution

December 2009

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Summary of Key Conclusions

1) While the Committee recognizes that UTAM was launched at the beginning of a decade that has seen the markets crash precipitously twice, with the recovery from the most recent still in a fragile state, it notes that UTAM's performance over this period has not met expectations of stakeholders, nor kept par with that of other similar organizations. The Committee is therefore of the view that UTAM has not achieved its mission: "to deliver consistent superior investment returns".

2) The Committee recommends that the CEO of UTAM should become the Chief Investment Officer of the University with a direct reporting line to the President of the University.

3) The investment management function should have more direct oversight by the members of the University senior administration who are ultimately accountable for investment results.

4) Given the previous two recommendations, a separation of the governance and investment oversight functions is seen as necessary. The Committee recommends that the UTAM board transition to a three person board comprising members of the University's senior administration, responsible for the routine corporate governance functions including the budget, financial statements, audit and compensation. The Committee acknowledges with gratitude the cooperation and contributions of UTAM voluntary board members, who have given generously of their time and advice over the years.

5) Review and oversight of investments should become the responsibility of a separate investment committee, consisting of volunteer professionals chosen for their expertise and diversity of perspectives, who would advise the senior administration on investment strategy, selection of investment advisors and other matters dealing with the operation of the investment department.

6) The Committee wished to avoid making specific recommendations on investment policy. However, the present target allocation of 42.5% to alternative investments is greater than what most comparable pension and endowment funds in Canada have allocated. We believe that the present commitment, particularly in hedge funds and private equity, should be scaled back significantly. In short, we believe that the pension and endowment funds should be invested primarily in publicly traded stocks and bonds.

1. Introduction

The dramatic collapse of the financial markets in the last half of 2008, with the resultant negative impact on the value of the University of Toronto's endowment and pension plan assets, caused a significant and not surprising shock wave across the University community. Questions were raised about the performance of the University of Toronto Asset Management Corporation (UTAM), the level of risk in the portfolio, the risk tolerance of the University of Toronto and how it was measured and monitored, the asset allocation and related illiquidity issues, the currency hedging policy, and the general oversight of investments.

These questions fuelled already existing concerns raised by members of the University community over the complexity and expenses associated with managing the University's investment portfolios, the perceived lack of oversight of UTAM and its investment decisions, the relationship of UTAM management and governance to the University and its stakeholders, and the lack of input of specific interest groups in the decision making.

When the University made the unprecedented one-time decision to suspend endowment distributions in fiscal 2009, and instead use existing operating funds to cover the majority of endowment obligations, further questions were raised. Those questions were focused on whether the University's policies should favour preservation of capital and stability of distributions over the prospect of higher returns.

In light of these concerns, the President felt that it was appropriate to establish a committee to provide him with an independent assessment of UTAM, to address the questions raised above, and to consider whether UTAM's governance, structure, and investment policies are serving the University's needs.

2. Origin of UTAM

UTAM was created in 2000 by the Governing Council with the stated goal of increasing investment returns. Records of the time indicate: "It was felt that a professionally staffed investment operation with active management could add value above index returns after taking into account the costs of such an operation."

The Governing Council believed that strategies required to achieve increased returns would necessitate taking more risks. This in turn would require the addition of a group of investment professionals with the necessary skills to manage those risks. UTAM was created to achieve those objectives and to provide a corporate structure more attractive to investment professionals than the University itself.

2. Origin of UTAM (cont'd)

At the time, the pension fund had an actuarial surplus and contributions were being deferred. Returns on the endowment and the pension fund investments were considered to be too low.

University Advancement was attracting large amounts of money to the University and, in a very short period of time, fundraising rose from about $15 million a year to well over $100 million per year, which continues to this day.

Assuming a continued rapid growth in the funds under management and desiring a higher rate of return than could be achieved from passive management, the University concluded that the creation of a professional investment management entity, similar to those managing funds at several American universities, was a reasonable step to take.

3. Oversight

From its inception, the governance responsibility for UTAM has rested with the members of the UTAM Board, which was responsible for managing the company, hiring the Chief Executive Officer (CEO) and providing investment advice and oversight. UTAM was required to report on investment performance to the Business Board. The CEO of UTAM reported to the Chairman of UTAM, with no direct reporting responsibility to the University administration. The UTAM Board was appointed by the Executive Committee of the Governing Council on the recommendation of the President of the University. Candidates for Board positions were generally selected following consultations among the UTAM Chair, its board, and members of the administration, latterly with recommendations made to the President by the Chair of UTAM.

Changes made in 2007 to the agreement between the University and UTAM to clarify the relationship between the Business Board, UTAM and the University do not seem to have achieved the desired objective. Members of the University community, including the UTAM directors and management, are still not clear where ultimate responsibility rests. In their submissions to this Committee, members from the Business Board and UTAM Board members expressed uncertainty as to their responsibilities in this regard.

4. Risk and Return Targets/ Asset Allocation

Before UTAM was created, the stated return target was 5% plus CPI, with a normal asset mix of 70% equities and 30% bonds. This was viewed as being possible with a moderately high level of risk (*Investment Funds Policy, 1999*). Asset allocation was approved by the Business Board.

4. Risk and Return Targets/ Asset Allocation (cont'd)

After UTAM was created in 2000, the policy was amended to be 80/20 equities/fixed income with further detailed asset allocation diversification in each category. Exposure to Canadian equities was reduced and a substantial allocation was made to alternative investments — particularly private equity and hedge funds. The return target was CPI plus 5% over any four year period; benchmarks were defined and were to be exceeded. The only risk statement was that volatility was expected to be high.

In 2003, the Business Board delegated asset allocation decisions to the UTAM Board with the belief that it was an expert board in a better position to evaluate asset allocation.

In that same year, the University, in recognition that the target was high and the risk unspecified, recommended to the Business Board that the return target be reduced to CPI plus 4% and the risk tolerance be set at one standard deviation of 10%. (This means that two-thirds of the time over 10 years the return will fall in the range between -6% and +14%.) The risk tolerance was expressed in terms of volatility of returns since this is easy to quantify. It did not imply however that there was no other type of risk to be managed. Performance benchmarks were to be established and form part of the service agreement with UTAM which would be approved by the Business Board.

This statement of risk and return has been reviewed and reconfirmed several times since 2003. It should be noted that the analyses of the endowment and the pension funds were carried out separately, but given the similar liability profiles and cash requirements, the risk and return targets have to date been identical.

In 2007, with the approval of the UTAM Board, UTAM increased its target allocation to alternative investments from 30% to 45% of the portfolios. The fixed income target allocation for both endowment and pension funds declined as a result to 15% and the total public equity target was 40%.

5. UTAM and Investment Strategy

UTAM takes the target returns and the risk tolerance specified by the University and attempts to create an investment strategy that will achieve the desired results. The most critical step in creating that strategy is the determination of asset allocation — deciding what percentage of assets should be held in equities, bonds, cash, and alternative investments such as real estate, hedge funds or private equity. The allocation takes into account UTAM's desired mix of Canadian and foreign assets and the strategy to hedge the resulting foreign currency exposure. UTAM then selects managers to buy and sell the assets within each class. A variety of risks are considered, including concentration, volatility (the key measure used by the University in defining risk tolerance), credit risk, currency risk, liquidity, manager risk, and a number of other factors that could result in a permanent loss of capital.

5. UTAM and Investment Strategy (cont'd)

In 2003 and following, UTAM made the decision to increase significantly the allocation to private equities and hedge funds, which are often not easily marketable, on the assumption that the loss of liquidity and higher fees associated with such investments would be offset by higher returns over the long term.

6. UTAM Performance

UTAM's existence has been framed by two significant market events — the major downturn of 2001 and the global economic recession of 2008-09. As to be expected, these events have dramatically affected UTAM's long-term performance record.

With the degree of volatility built into UTAM's risk/return targets, significant negative performance is to be expected during down markets. Indeed this proved to be the case in the recent global economic downturn. What may be more significant however is that UTAM's performance, even in strong market conditions has been disappointing. For example, in the good years 2003-2007, UTAM only marginally beat its own benchmark portfolio

There are a number of different metrics which can be used to assess performance. One method is to evaluate whether UTAM achieves the University's target return of 4% real (6.1% actual) over the ten year period. UTAM's annual results have ranged from +16% to -29.5%. Seven years out of ten, the returns were within the range specified by the University and three years they were outside the range. Over a ten year period, UTAM has had an annualized rate of return of 2.7% which is significantly below the University target (see Table 1a).

UTAM performance is also evaluated in two other ways: first against institutionally established benchmarks and second against the performance of peer institutions.

The UTAM Board establishes a policy benchmark portfolio to assess whether UTAM is adding value versus the market results. This portfolio is constructed by applying the results of selected indices against the approved target asset allocation. If UTAM does not do better than the policy benchmark, the Board will question whether management is doing a good job in selecting asset managers, managing currency risk, and achieving the stated goals.

The reference portfolio is another tool used by the University to assess UTAM performance. This tool was introduced in early 2009 as a way to evaluate UTAM against a portfolio that could meet the same risk return goals, but with a more traditional asset mix. This portfolio could be run by a less sophisticated staff, but still would require active management as it is not an index fund. As Table 2 indicates, over an 8 year period UTAM's performance fell short of both the policy benchmark and the reference portfolio.

6. UTAM Performance (cont'd)

Peer comparisons are also reviewed to see how other organizations running similar portfolios (pensions and endowments) are doing. Tables 1a and 1b present a peer comparison. Over the ten year period ending December 31, 2008, UTAM is ranked below the 95th percentile when compared to other Canadian university endowment and pension funds.

It is worth noting that while UTAM suffered market losses in 2008-2009 similar to those of the large U.S. university endowments, it did not experience the kind of positive performance that those endowments had enjoyed during the up-market years.

Table 1a: University Funds: Annual Rates of Return
Periods ending December 31

	Dec. 2008	Dec. 2007	Dec. 2006	Dec. 2005	Dec, 2004	Dec. 2003	Dec. 2002	Dec. 2001	Dec. 2000	Dec. 1999
5th percentile	(13.48)	3.09	15.27	13.25	11.85	17.10	0.00	3.98	12.63	18.87
25th percentile	(14.60)	2.81	13.43	12.62	11.23	15.28	(3.73)	1.04	11.31	16.16
Median	(16.26)	2.30	12.45	11.72	10.65	13.76	(5.03)	(0.28)	8.02	12.05
75th percentile	(17.79)	1.49	12.08	11.23	9.52	12.71	(6.28)	(1.06)	6.50	9.51
95th percentile	(19.29)	0.43	9.50	10.90	8.25	10.00	(9.12)	(2.88)	6.23	7.45
U of T	**(29.50)**	**6.11**	**12.80**	**11.70**	**11.40**	**16.00**	**(9.59)**	**(3.23)**	**5.10**	**14.60**

Table 1b: University Funds: Annualized Rates of Return
Periods ending December 31, 2008

	1 year	2 Years	3 Years	4 Years	5 Years	6 Years	7 Years	8 Years	9 Years	10 Years
5th percentile	(13.48)	(5.95)	(0.38)	2.81	4.53	6.10	4.51	4.41	5.24	5.82
25th percentile	(14.60)	(6.57)	(0.77)	2.29	3.91	5.24	3.95	3.51	4.37	5.05
Median	(16.26)	(7.29)	(0.99)	1.92	3.38	5.13	3.68	3.25	3.67	4.45
75th percentile	(17.79)	(8.54)	(1.93)	1.47	3.20	4.85	3.39	2.87	3.38	4.22
95th percentile	(19.29)	(9.51)	(2.61)	0.77	2.54	4.15	2.52	2.02	2.60	3.71
U of T	**(29.50)**	**(13.00)**	**(5.00)**	**(0.80)**	**1.60**	**3.46**	**3.60**	**(1.39)**	**n/a***	**2.70**

Sources: RBC Dexia for percentile data; CAUBO Report on Endowments for U of T data.
* Not included in the CAUBO report

6. UTAM Performance (cont'd)

Table 2 presents the results against the target, the policy benchmark portfolio and the reference portfolio.

Table 2
UTAM Performance
Years ending December 31

			6 year	7 year	8 year
			2008	2008	2008
Long-Term Capital Appreciation Pool (LTCAP)	**Actual**		**3.46**	**3.60**	**- 1.39**
Pension	**Actual**		**4.01**	**4.49**	**- 0.66**
Target Return *			**6.10**	**6.10**	**6.10**
Policy Benchmark Portfolio	**Endowment**		**3.46**	**2.19**	**1.20**
Policy Benchmark Portfolio	**Pension**		**3.27**	**3.55**	**0.03**
Reference Portfolio			**5.34**	**3.63**	**0.33**

***** assumes flat rate of inflation 2.1%n

Performance Year to Date - September 2009

The structure of the portfolio, with the heavy allocation to alternative assets and low allocation to Canadian equities has meant that UTAM has not benefited as much as others from the stock market rally that has occurred in 2009. Year to date results to September 30 show an increase of only 3.8%. RBC Dexia results for the same period show median returns of 12.69%, with the 95th percentile at 4.0%.

7. UTAM and Communications

One of the most frequent criticisms of UTAM is related to the communications provided to the various stakeholders. There remains a concern that communications are not generally tailored to the understanding and responsibilities of the recipients, making it challenging for members of Business Board and the administration to take UTAM's information into account in exercising their responsibilities. It was also noted that the communications were not strongly enough oriented toward the interests of stakeholders, such as pensioners, past and current faculty and staff, and donors whose generosity over many generations has built the endowment.

8. Additional External Factors

While the Committee was meeting to review the investment situation, a number of other developments were coming to a head which bear on the Committee's mandate.

Over the past two years, the University of Toronto and the University of Toronto Faculty Association (UTFA) had been engaged in negotiations to give UTFA a greater voice in the governance of the pension plan. Following arbitration on the matter, it was determined that the University must set up a formal pension committee to review pension matters and make certain decisions, including approving asset allocation for the investment of the pension funds; as well, the arbitrator stipulated that UTFA be given a seat on the UTAM Board.

Simultaneously, the Ontario-wide Council of Senior Administrative Officers (CSAO) were working with the provincial government to gain a solvency funding exemption for university pension plans, on the grounds that universities were not going to be wound up so solvency was only a hypothetical issue; that the government controlled funding in the form of grants and tuition controls; and that making solvency payments would simply divert funds from the core mission and prevent the universities from meeting their access and quality commitments. One of the suggested strategies that might permit the government to provide a solvency funding exemption was the merger of all pension fund investments under a single manager to achieve economies. This could affect UTAM in a variety of possible ways. Either it could become the fund manager for all others and grow significantly; or it could lose the management of the U of T pension assets and shrink to an uneconomic size. Either result would be very significant to the future of the organization.

9. President's Committee Observations

Over the course of the late summer and fall of 2009, the President's Committee met to review the information summarized above and to consider the questions and concerns raised by the President and by members of the University community regarding UTAM's governance, structure, performance, and investment strategies. The following observations form the basis for the specific recommendations that follow.

First, the Committee noted that many members of the University community have had strong reservations about UTAM's investment strategy and asset allocation since its inception. The substantial loss of 2008 and history of poor performance heightened the Committee's concern about UTAM's strong weighting in equities and alternative assets and its exposure to illiquid private assets. The overweight in equity and alternative assets limited investments in fixed income assets.

Second, the Committee noted that the future of the University's investments in alternative assets will depend on market conditions and the University's judgement about its capacity to invest in these areas and its appetite for the attendant risks. The Committee is of the view, however, that the University of Toronto's investment portfolio

9. President's Committee Observations (cont'd)

is currently too small to permit it to participate on a cost-effective basis in a number of alternative asset classes. It is evident that a clear articulation of the risks associated with a number of these asset classes would lead the University community to the conclusion that they should be avoided.

Third, the governance of UTAM is not clearly understood by the community and the lack of clarity in this regard may have contributed to the underperformance.

The Committee's observations below speak to its concerns over performance, asset allocation, oversight, communications, and management structure.

- Whatever the University of Toronto's aspirations were in establishing UTAM, UTAM's performance has not met expectations and UTAM's investment strategy and governance structure have not served the University and its community well.

- Further, the Committee notes that many members of the University community do not agree with UTAM's investment strategy and are uncomfortable with the approved asset allocation. In particular, there is a great deal of discomfort with the high allocation to non-traditional asset classes like hedge funds (and particularly funds of funds) and to private equity, real estate and commodities. The concern about the non-traditional asset classes is largely focused on the high fees paid to outside managers combined with the lack of liquidity that results from the absence of an effective market in which to sell the assets. There are also concerns about the lack of transparency associated with many of these assets.

- While the Committee wished to avoid specific recommendations as to investment policy, it believes the 45% target allocation to alternative investments (reduced to 42.5% in September 2009) is far too high, well beyond what most comparable pension and endowment funds in Canada believe is prudent and what the University community finds acceptable. The Committee believes that the present commitment particularly in hedge funds and private equity should be scaled back. In the long term, the University pension and endowment funds should be invested primarily in publicly traded stocks and bonds.

- The Committee recognizes that the lack of liquidity in private markets and the existence of $600 million in uncalled commitments will make the above difficult to execute in the short term, but believes these investments can be worked down over a period of years.

- The University's appetite for risk may be much less than that implied by the existing risk statement of returns within one standard deviation (10%) of a target real return of 4% over 10 years. Even though the University's analysis demonstrated that there was a significant chance of loss in any ten year period, the implications of the loss were not clearly understood, nor well communicated.

9. President's Committee Observations (cont'd)

- Risk management has been a weakness of UTAM from the beginning. UTAM has not built the tools or the staff to properly monitor and assess the risk of a portfolio which rapidly became very complex. Risk management had focused on manager due diligence and compliance with little emphasis on portfolio risk overall. Since the arrival of the new CEO of UTAM in April 2008, a great deal more attention has been focused on risk management. The result has been a reduction in the complexity of the portfolio, the development of risk management tools, and a more structured emphasis on reviewing and discussing risk from a variety of perspectives before investment decisions are taken. However, much remains to be done.

- It is evident that some members of the University community are uncomfortable with the delegation of the investment oversight role to the UTAM Board. The members of the Business Board do not feel that they have enough context or information to be able to approve the risk return targets. The members of the Audit Committee feel that they do not have enough information about the management of the University's assets.

- The role of the UTAM Board was not clear to all Board members or to other involved parties like the Business Board and the Audit Committee. There continues to be confusion as to whether the UTAM Board should focus on running the company (hiring the CEO, approving compensation plans, reviewing budgets and financial statements, etc) or overseeing the investment strategy and execution and evaluating risk and risk mitigation.

- The Business Board delegated the approval of the asset mix to the UTAM Board, because they had the appropriate expertise to make the decision and act on behalf of the Business Board. A bias toward riskier alternative assets among UTAM's management resulted in an excessive weighting in alternative assets.

- Communication has been a weakness since UTAM was established. A variety of factors have contributed, including a lack of clarification of who was supposed to communicate which message, to whom and when. The placing of information on the website provides data, but it is clear that it has not been turned into understandable information. The Business Board, which is responsible for the financial well-being of the University of Toronto, feels that it does not have adequate information about a critical financial resource.

10. Recommendations

i. Appoint a Chief Investment Officer for the University

The CEO of UTAM should become the Chief Investment Officer (CIO) of the University. Investment decisions will continue to be made by the professional staff of the CIO, with appropriate review by an Investment Committee, under the day to day oversight of the University senior administration

ii. Create an Investment Committee

Create an Investment Committee with a mandate to review reports on investment matters, including investment strategy, asset allocation and risk and risk mitigation strategies, manager selection and investment performance. The committee would provide the necessary due diligence to support the administration's recommendation for investment matters to be approved by the Business Board. The members of the committee should be recruited for their investment expertise and diversity of perspectives, and specifically asked to assist with investment oversight. The relationship between the Investment Committee and the Pension Committee mandated by the recent arbitration award between the University and the Faculty Association will need to be clarified.

iii. Retain UTAM as a corporation but change the governance.

Retain UTAM as a corporation, to maintain OSC registration, but change the governance structure to bring it closer to the University of Toronto structure. Reduce the number of directors to the minimum permitted (3), all to be members of the senior administration.

iv. Reassess the Risk and Return Targets

Reassess the risk and return targets and ensure that the implications of changing risk and return targets are clearly stated and understood. These must still be approved by the Business Board which has overall accountability for the financial well being of the University. The University administration would present the recommendations for review by the Investment Committee before bringing the recommendation forward. This would ensure that the implications of these decisions for the University as a whole would be taken into account and that recommendations would be considered by an expert committee who would have the time to consider and debate them fully. Similarly, performance benchmarks and asset allocation should be approved by the Business Board on the recommendation of the University administration after review by the Investment Committee.

10. Recommendations (cont'd)

v. Upgrade the Risk Management Process

Provide the CIO with the resources needed to properly assess and manage risk. Ensure that risks are explicitly identified and that the related risk mitigation strategies are also identified and discussed. Consideration should be given to creating a specific risk management position reporting to the CIO.

vi. Improve Communications

Recognizing that the University is a community of stakeholders with different interests and levels of knowledge of investment matters, care must be taken to ensure that information is provided to all stakeholders in a way that can be clearly understood and that addresses the specific concerns of each stakeholder group.

vii. Create a Statement of Investment Beliefs

A general statement should be created to describe the investment philosophy of the University of Toronto. It should describe in general terms the balance to be maintained between striving for returns and preserving capital; the kinds of risks that are acceptable and those that are not; and should outline the reasons for the beliefs.

Appendix A – Terms of Reference

President's Committee on Investment Policies, Structures, Strategy, and Execution

Terms of Reference

The recent dramatic downturn in the economy and the financial markets has raised questions about the University of Toronto's investment policies, structures and strategies, as well as the balance of revenues and obligations associated with the endowment and the pension plan.

Two specific developments have added weight to the case for a systematic review of these elements.

First, the University established the University of Toronto Asset Management Corporation as a subsidiary in 2000. The goal of establishing UTAM was to enable more professional management of the University's multi-billion dollar assets in the pension fund and the endowment. A review completed in 2007 concluded that UTAM was indeed meeting the University's goals for its establishment and had added value in spite of major losses suffered in the tech meltdown in 2001 – 2003. However, in spite of the gains made to the end of 2007, the losses incurred by UTAM during the 2008-9 downturn have been at the upper end of the range seen for university endowment and pension fund managers across North America.

Second, the Government of Ontario, following on the recommendations of the Ontario Expert Commission on Pensions (widely known as the Arthurs commission), has asked universities to explore more efficient and effective methods of pension investment management.

I am accordingly commissioning a review of these elements, as set out in these Terms of Reference. The results of the review and my administrative response to it will be brought to governance for consideration as appropriate.

Before setting out the Terms of Reference, I want to acknowledge four points.

First, the University has been generously supported by countless benefactors, and funds from our endowment contribute meaningfully to the advancement of our academic mission. We have an obligation to those benefactors – past, present and future – to ensure that our funds are wisely and prudently managed for the very long haul.

Second, the University has a contractual and moral commitment to meet its obligations to retirees and current employees participating in the University's pension plan. We shall obviously meet those commitments. But we must also consider the impact of pension solvency issues on current and future employees and students.

Third, I appreciate the dedication of the staff of UTAM and the many volunteers – alumni, friends, and benefactors of the University -- who have offered their experience and expertise to the University as members of the Board of UTAM. I have also cautioned repeatedly that, in investment decisions, hindsight is 20:20. Many outstanding institutional asset managers and legendary investors suffered huge losses during 2008 and the first quarter of 2009. While we must take a clear-eyed look at UTAM's

performance, the primary purpose of the review is not short-term second-guessing of UTAM's decisions in 2007 and 2008. Rather, the focus is broader and longer-term.

Last, while structures and strategies are a key element of the review, the investments that UTAM makes reflect various expectations and obligations, including those enshrined variously in policy or in collective agreements. For example, the University has focused on target pay-out levels along with the preservation of capital within its endowed funds. As to the pension, the University must strike the right balance between growth in assets from contributions and growth from investment performance. It would therefore be wrong-headed to undertake a review without some attention to those factors and the broader context.

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Against this background, I have established a committee to examine the following issues and questions:

Endowment management policies

The committee is asked to review the University's endowment policies. It should consider the sustainability of the University's current endowment policy, which requires the preservation of capital, in the context of our current pay-out formula and the risk and return targets that have been established for endowed funds.

Investment policies

The University's current return targets are sufficiently ambitious to be associated with an increased probability that there will be meaningful losses in some fiscal years. The 'Tech Wreck' of 2000-2001 and the 'Great Crash' of 2008-09 have raised hard questions about the University's tolerance of such losses. The committee is asked to consider the impact of changing to a different strategy, taking into account such factors as the University's ability to cover shortfalls in commitments from the endowment and pension fund, changes in financial markets, and the reputational and fund-raising impact of strategies that lead to greater volatility in university investment results.

University funding implications from revised policies

If policy changes are recommended, the committee is asked to suggest measures that the university needs to take to accommodate any impact on the operating budget and operating reserves.

Investment oversight

The oversight of investment strategy and execution is a critical function, currently delegated by the Governing Council to the Business Board and to the UTAM board. The advantage of mediated oversight by the UTAM board or a similar body is its focused expertise and attention to fiduciary imperatives. The committee is asked to review these arrangements in the light of both recent developments and the ongoing negotiations with UTFA about pension oversight.

Investment strategy and the implications of the new economic climate

Critics and supporters of UTAM alike have argued that the current investment strategy may be too complicated or too expensive for the University of Toronto, given our wide range of stakeholders and governance structure. Other observers have argued that the pension investments should be managed separately from the endowment. The committee is asked to consider these issues, comment on the implications and recommend changes if appropriate.

Existing and alternative structures for UTAM

UTAM was established in 2000 to achieve a specific set of investment goals. The past nine years have included two periods of major market turbulence, and ongoing changes in the structure and management of UTAM. Criticism of UTAM has ebbed and flowed throughout this period. Criticisms have included the costs of the organization, the innate propensity of an investment boutique to rely on expensive new investment vehicles (e.g. hedge funds), the possibility that UTAM is too small to invest successfully in alternative asset classes, the net returns achieved over the nine years compared to peers, and the roller-coaster returns that UTAM has generated since its inception. The committee is asked to consider the validity of these various criticisms and assess the options for management of the University of Toronto's endowment and pension assets. A wide range of structural options can be considered, from retaining UTAM as it is, splitting its assets in some way, reverting to in-house management and a volunteer investment committee, or spinning off UTAM as a non U of T operation to serve as a vehicle open to pension assets from all Ontario universities. Any change, however, will have significant consequences. The committee is asked to assess these in as much detail as possible and recommend a future course of action.

Other issues

If the committee is seized with other relevant issues as it deliberates, its members are obviously free to delve into those matters as needed.

David Naylor, August 2009

Appendix B – Committee Members

Judy G. Goldring

Judy G. Goldring is General Counsel, Executive Vice-President and Chief Operating Officer and a member of the Board of Directors of AGF Management Limited.. As well, she serves on the Board of Directors of AGF Investment Inc. and AGF Trust Company.

Previous to her work at AGF, Judy practiced law at Gardiner, Roberts and Bennett Jones in Toronto. She has a strong background in administrative law and also specializes in energy law. Judy received a B.A. in Economics from the University of Toronto and her LL.B from Queen's University; she was called to the Ontario Bar in 1993. She is a member of the Governing Council of the University of Toronto, the Law Society of Upper Canada and the Canadian Bar Association and is also on the Board of Directors of the Investment Funds Institute of Canada (IFIC) and serves on its Governance Committees.

Henry N.R. Jackman (Chair)

The Honourable Henry (Hal) N.R. Jackman, Chancellor Emeritus of the University of Toronto and former Lieutenant-Governor of Ontario, is currently the President and Chairman of E-L Financial Corporation. He is the founding Chairman of the Ontario Foundation of the Arts, and has served on the boards of a large number of cultural and philanthropic institutions, most notably as Chairman of the Ontario Arts Council and as president of the Canadian Opera Company.

Hal Jackman is President of the Henry N. R. Jackman Foundation and Chair of the J. P. Bickell Foundation. In 2000, he received the Canadian Forces Decoration. He is an officer of the Order of Canada, a member of the Order of Ontario and a Knight of Justice of St. John of Jerusalem.

William E. Hewitt

Before his retirement Mr Hewitt served as Chief Investment Officer of Scotia Cassels Investment Counsel Limited, Principal Officer and Vice president, Investments for Sun Life Assurance Company of Canada, and Secretary/Treasurer for Imperial Trustees (responsible for the investment management of the Imperial Oil Limited Pension fund). He has also served on both public and private company boards of directors, including Extendicare Limited, Scotia Cassels Investment Counsel Limited, Allcora Explorations Limited, Helix Investments Limited, Health Care Ventures LP and Dynacare Health Services Inc. His extensive volunteer work has included service as a member of the Board of Regents of Victoria University in the University of Toronto, Chair and Trustee of the George Gardiner Museum of Ceramic Art, and Trustee of the Rehabilitation Institute of Toronto.

Hugh Mackenzie

Hugh Mackenzie is principal in an economic consulting business, Hugh Mackenzie and Associates, based in Toronto. He has worked for over 30 years in a variety of capacities related to public policy development in the trade union movement, the private sector, and at all three levels of government. He is a Research Associate of the Canadian Centre for Policy Alternatives and of the Centre for Urban Studies at the University of Toronto.

Hugh is also a nominee of the Ontario Teachers' Federation on the Board of the Ontario Teachers' Pension Plan, a member of the Actuarial Standards Oversight Committee of the Canadian Institute of Actuaries, and a member of the Pension Investment Advisory Committee of the Canada Post Pension Plan. From 1991 to 1994, Hugh Mackenzie was Executive Director of the Ontario Fair Tax Commission. He is a graduate of the University of Western Ontario and holds a Masters degree in Economics (Public Finance) from the University of Wisconsin (Madison).

Appendix B – Committee Members (cont'd)

Mayo Moran

Professor Mayo Moran is Dean of the Faculty of Law and has been James Marshall Tory Dean's Chair since 2006. Professor Moran completed her LL.B. at McGill University and subsequently obtained an LL.M. from the University of Michigan and an S.J.D from the University of Toronto. After serving as Director of the Aboriginal Students' Academic Support Program at the University of Toronto Faculty of Law, she was appointed Assistant Professor in 1995 and became Associate Professor in 2000.

Professor Moran has published in comparative constitutional law, private law, and legal and feminist theory. Professor Moran's work focuses on how our practices and theories of responsibility come to terms with discrimination. She is currently engaged in a project on reparations theory and transitional justice that examines the limits and possibilities of law, particularly private law, in redressing widespread historic wrongdoing.

David Palmer (Assessor)

Since September 2007, David Palmer has served as Vice President and Chief Advancement Officer for the University of Toronto, responsible for the University's alumni relations, alumni communications and fundraising. Mr. Palmer was formerly President and Executive Director, Royal Ontario Museum Board of Governors from 1999-2007. In that role he spearheaded the Renaissance ROM campaign – a transformational campaign that re-defined the Museum's financial resource base, its public brand, and its position as a major international cultural destination for Toronto and Canada.

Before joining the ROM, Mr. Palmer led a groundbreaking campaign for the University of Western Ontario's Faculty of Business that resulted in its being renamed as the Richard Ivey School of Business and opened a new era in professional-faculty fundraising in Canada. In that capacity he was also deeply engaged with Ivey's international outreach to Asia. Mr. Palmer began his career as an Adjunct Professor of Musicology in the Faculty of Music, University of Western Ontario and holds an Honours Bachelor of Music from the University of Western Ontario.

Catherine J. Riggall (Assessor)

Cathy Riggall is the Vice President, Business Affairs at the University of Toronto. In that role, she is responsible for the overall financial management of the University, as well as real estate and construction, facilities operations, services such as parking, food and beverage and residences that are not affiliated with a College. Ms Riggall joined the University in May of 2002 as Assistant Vice President, Facilities and Services and was appointed to her current position in 2004.

Ms Riggall was formerly with Moore North America, as Vice President and General Manager, Financial Services Group. Prior to joining Moore, she held several executive positions with Canada Trust and CIBC. Ms Riggall has an MBA from York and an honours B.A. in French Literature from the University of Manitoba. She is an active volunteer and has served on the Board of YWCA Toronto and was President from 2004-06. She is currently a member of the Board of YWCA Canada and serves as its Vice-President.

Larry Wasser (Vice Chair)

Larry Wasser is the Rotman School of Management's Entrepreneur-in-Residence as well as President, L.W. Capital Corporation. He is the founder and former Chair and CEO of Beamscope Canada Inc., founder and former member of the Board of Directors of Ironside Technologies Inc., as well as founder and joint venture partner of Electronics Boutique (Canada) Inc.

Mr. Wasser received his Hons. B.A. from the University of Toronto and is presently Chair of the Rotman School of Management Entrepreneurship Advisory Board and a member of Rotman's

Appendix B – Committee Members (cont'd)

Larry Wasser (cont'd)

Advancement Board. He is a former Governor of the University of Toronto and a former member of the Business Board. In addition, he is a member of the Board of Directors at Mount Sinai Hospital Foundation, a member of the Mount Sinai Finance and Investment Committee, a member of the Board of Governors for both Sunnybrook Hospital and the Baycrest Centre and a director of Maple Pictures, a division of Lionsgate Entertainment Corp.

Jason Z. Wei

Professor Wei has been a faculty member at the University of Toronto since 1998, following his role as Associate Professor of Finance at the University of Saskatchewan. Professor Wei teaches at both undergraduate and MBA levels, including introductory finance, advanced finance, investments, portfolio management, international finance, and derivative securities courses. His research interests include theoretical valuation and application of derivative securities.

Prof. Wei received his M.A. from York University and his PhD from the University of Toronto. He currently serves as Area Editor for the *Canadian Journal of Administrative Sciences* and is a member of the Editorial Board for the *Journal of Derivatives.* He has won the Best Paper in Derivatives Prize from the Northern Finance Association and the Toronto Society of Financial Analysts Research Award.

Appendix C – Committee Process

The committee held nine meetings over September, October and November. The committee began its work by reviewing the documents (listed in Appendix D) that were provided as background material.

Several meetings included discussions with people considered to have specific information that was relevant to the committee mandate, including Professor George Luste, the President of UTFA; Mr. Ira Gluskin, the Chair of the UTAM board; Mr. Bob Morrison, the Vice Chair of the UTAM Board; and Mr. Bill Moriarty, the CEO of UTAM.

The committee then discussed the issues and concerns raised and drafted the report and recommendations.

Appendix D – List of Documents [1]

Endowment management policies

- Preservation of capital policy
http://www.governingcouncil.utoronto.ca/policies/pensionfund.htm

- Risk return analysis (power point 2007) – [*no web link*]

- Endowment annual report(s)
http://www.finance.utoronto.ca/Page793.aspx

- Swensen chapter on endowment management
http://www.marketthoughts.com/david_swensen_pioneering_portfolio_management.html

Investment policies

- University Funds Investment Policy
http://www.governingcouncil.utoronto.ca/policies/pensionfund.htm

- Pension Fund Master Trust Investment Policy
http://www.governingcouncil.utoronto.ca/policies/pensionfund.htm

University funding implications of revised policies

- Financial statements 2008, 2009
http://www.finance.utoronto.ca/alerts/finreports.htm

- Operating budgets 2008, 2009
http://www.planningandbudget.utoronto.ca/budget/reports.htm

Investment oversight

- Delegation of Authority
http://www.governingcouncil.utoronto.ca/policies/InvestRevisedDeltoUTAM_Apr_2008.htm

- Investment Management agreement
http://www.governingcouncil.utoronto.ca/AssetFactory.aspx?did=4263

Existing and alternative structures for UTAM

- Original report recommending establishment of UTAM [*Business Board meeting of September 13, 1999, Item 4]*

- Ambachtsheer report 2007

- Report on UTAM 2007
http://www.governingcouncil.utoronto.ca/AssetFactory.aspx?did=4260

[1] The url has been provided for those documents that are available on the web.

Appendix E – UTAM Board Members

Sheila Brown is Chief Financial Officer of the University of Toronto. She previously held the positions of Controller and Director of Financial Services and of Faculty Comptroller in the Faculty of Medicine. She has served the University in a number of other financial positions since joining its staff in 1973.

Allan Crosbie is the Chair of Crosbie & Company Inc., a Toronto based Investment Bank. He began his career in investment banking at Wood Gundy where he became a Vice President. He was a founding partner of Crosbie Armitage & Company, the specialty merger and acquisition firm. Upon the acquisition of Crosbie Armitage by Merrill Lynch Canada, he was appointed a Senior Vice President and Director of Merrill Lynch Canada and Head of Canadian Mergers and Acquisitions. He subsequently formed Crosbie & Company. Over the years he has been a Director of a number of public and private companies and not-for-profit organizations. His current not-for-profit involvements include director of the Arthritis and Autoimmune Foundation (AARC) of the University Health Network (UHN) and chair of the Foundation's Investment Committee; director of the National Ballet of Canada Foundation and member of its Investment and Audit Committees; and director of the Harvard Business School Alumni Association.

Catherine A. (Kiki) Delaney is the President of C.A. Delaney Capital Management Ltd., an investment counselling firm. Formed in August 1992 by Ms. Delaney, the firm provides independent investment management services to institutional and private clients. Prior to forming Delaney Capital, Ms. Delaney was a Partner and Executive Vice President of Gluskin Sheff + Associates, and before that Executive Vice President and Director of Guardian Capital Investment Counsel. Ms. Delaney is a Chartered Financial Analyst and a former Director of the Toronto Society of Financial Analysts. She currently serves on the Board of Directors of the National Arts Centre Foundation, the Board of Trustees of the Art Gallery of Ontario, and the Board of Directors of the Institute for Research on Public Policy, chairing its Investment Committee.

Ira Gluskin [2, 3] (Chair of the Board) is President and Chief Investment Officer of Gluskin Sheff + Associates. Mr. Gluskin began his career in the investment department of Canada Life, later joined MGF Management, a mutual fund company, and then became a Securities Analyst and latterly President of the institutional brokerage firm, Brown Baldwin Nisker (now HSBC Securities Canada Inc.). He has been active in a number of community organizations and currently serves on the Board of Governors of Mount Sinai Hospital. He has been a regular columnist for the Financial Times of Canada and the Financial Post, and is a frequent speaker at business and real estate forums across Canada.

William E. Hewitt [1] before his retirement, served as Chief Investment Officer of Scotia Cassels Investment Counsel Limited, Principal Officer and Vice President, Investments for Sun Life Assurance Company of Canada, and Secretary/Treasurer for Imperial Trustees (responsible for the investment management of the Imperial Oil Limited Pension Fund). He has also served on both public and private company boards of directors, including Extendicare Limited, Scotia Cassels Investment Counsel Limited, Allcora Explorations Limited, Helix Investments Limited, Health Care Ventures LP and Dynacare Health Services Inc. His extensive volunteer work has included service as a member of the Board of Regents of Victoria University in the University of Toronto, Chair and Trustee of the George R. Gardiner Museum of Ceramic Art, and Trustee of the Rehabilitation Institute of Toronto.

Eric F. Kirzner [1] (Chair of the Audit and Compliance Committee) is a Professor of Finance and the John H. Watson Chair in Value Investing at the Rotman School of Management. He is the Chair of the OSC Investors Advisory Committee, Vice Chair of the Board of Regulation Services Inc., Chair of the Independent Board of Advisors of Scotia Securities, a director and Chair of the Audit Committee of Equitable Trust Inc., an External Advisor to Hospitals of Ontario Pension Plan, a contributing editor of the MoneyLetter, and co-author of a number of books including Mutual Fund Buyer's Guide; Investments (Penguin Books); Analysis and Management (McGraw-Hill); and Global Investing the Templeton Way (Dow Jones-Irwin).

Appendix E – UTAM Board Members (cont`d)

Florence R. Minz [3] is a current member of the Governing Council of the University, appointed by the Lieutenant Governor in Council. She is a Partner at Swindon Investments Ltd., a real estate development and property management firm. She serves as Chair of the Board of the Royal Conservatory of Music, Director of St. Michael's Hospital, where she is Vice Chair of the Research and Academic Affairs Committee, Director of the Toronto Symphony Orchestra, Director of Royal St. George's College, Director of Opera Atelier, and member of the Board and the Executive Committee of the Federation of Rental Housing Providers of Ontario.

William W. Moriarty, CFA is President and Chief Executive Officer of the University of Toronto Asset Management Corporation.

Robert W. Morrison [1, 2] (Vice Chair of the Board) Before his retirement, served as Senior Vice President and Chief Investment Officer at Canada Life Financial Corporation. In addition to previous positions at Canada Life (Pension Investment Vice President, and Vice President and Associate Treasurer) he has served as Senior Vice President – Investments at Prudential of England and Vice President – Investments at Travelers Canada. He is a director of the West Park Healthcare Centre and its Foundation and a past trustee of the Banting Research Foundation. He has served as Director of the Toronto Society of Financial Analysts and as President of the Institute of Chartered Financial Analysts.

Catherine J. Riggall [2, 3] is Vice President, Business Affairs of the University of Toronto. She began her service to the University in 2002 as Assistant Vice President, Facilities and Services. Before joining the University, she had extensive experience in the private sector including (most recently) the following positions: Vice President and General Manager of the Financial Services Group at Moore North America; Vice President, Sales Support and Vice President, Pension Trust at the Canada Trust Company; and Vice President of the Personal and Commercial Bank at the Canadian Imperial Bank of Commerce.

Thomas H. Simpson [2] (Chair of the Compensation Committee) is a past-Chair of the University's Governing Council and a past chair of the Business Board. He was Vice President and Director of Scotia McLeod Inc. from 1982 to 1988 and Executive Vice President and Director of Global Strategy Financial Inc. from 1988 to 2000, when the business was sold. He is currently President of Willbrook Optics Inc., a private family investment company. He is also a director of BluMont Capital Inc., a public company, and Five Continents Financial Limited, Grand Cayman, an investment management business. Upon completion of his first nine years of service as an alumni member of the Governing Council, he was awarded an honorary Doctor of Laws degree by the University of Toronto.

Bonita Then [1] is a seasoned financial executive who has held senior financial positions at a number of large corporations including Altamira Investment Services Inc., National Trustco and Scotts's Hospitality. At present, she is President and CEO of Specialty Foods Inc. Since 1991, she has been on the Nunavut Trust Investment Advisory Committee. Bonita holds a B.A. and an M.B.A. from the University of Toronto.

John Varghese is a current member of the Business Board of the University of Toronto. He is the CEO and Managing Partner of VentureLink Funds Inc. At Venture Link, he is responsible for the management and investment activities of the fund as well as actively leading the marketing initiatives. He sits as a board member on several investee companies including Ventus Energy Inc., Orion Securities Inc. and MCCI Communications Inc. He is also a member of the Board of Directors of the Canadian Venture Capital Association.

[1] Member of the UTAM Audit & Compliance Committee
[2] Member of the UAM Compensation Committee
[3] Member of the UTAM Executive Committee

University of Toronto Asset Management Independent Directors Response to the Report of the President's Committee on Investment Policies, Structures, Strategies and Execution

February, 2010

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Summary of Recommendations

The independent directors of University of Toronto Asset Management are painfully aware the value of the University's main investment portfolios declined 29% in 2008. We remain shocked and upset by this result and feel disappointment and regret the portfolios were not better positioned to weather the storm in major markets that year.

Given this performance, the independent directors fully supported the need for thoughtful review of what transpired and changes to be considered for the future. We have studied the report of the President's Committee on Investment Policies, Structures, Strategies and Execution chaired by Hal Jackman (the "Jackman Report") and appreciate the opportunity to share our perspective formally.

We have chosen not to analyze and comment on all of the specifics of the Jackman Report. Rather, we have attempted to focus on the Recommendations and the topic of Performance. We comment briefly on what we believe went right and wrong. This reflection leads us to recommend a number of steps to improve the oversight structure, implementation and understanding of the University's investment program in the future.

Broadly, the recommendations of the independent directors support the spirit of many found in the Jackman Report. We hold a different view of where the responsibility should rest for executing investment portfolio decisions and where the responsibility for oversight should reside. We believe the separation of those two functions should be maintained at both the staff level and the expert volunteer advisory group level.

In summary, we make the following recommendations:
1. Reassess the Financial Strategy of Relying on Equity Market Returns;
2. Create a Statement of Investment Beliefs;
3. Reassess the Risk and Return Targets;
4. Reassess Overall Investment Approach;
5. Improve Communications;
6. Create a Financial Advisory Committee;
7. Retain UTAM under an Investment Manager and Client Model;
8. Enhance UTAM Governance;
9. Benchmark UTAM Resources; and
10. Upgrade the Risk Management Process.

We are convinced the adoption of these recommendations will prepare the University and its portfolios for a complex investment environment in coming years, even though certainty may not be associated with the performance of capital markets.

Performance

The value of the University's investment portfolios declined 29% in 2008. The independent directors feel disappointment and regret and accept our share of responsibility for the result. In the past, UTAM has provided the University of Toronto good investment performance. Unfortunately, it provided poorer absolute performance than its peer group in 2008, even though it managed to cushion the University's equity positions relative to the broad public equity markets – no mean feat.

Let's remember the 29-percent decline in the value of investments managed by UTAM in 2008 came amid a 39-percent downturn in global public equity markets.

Yes, a typical Canadian university peer investment portfolio suffered only a 19-percent decline. However, the returns of different managers reflected specific investment objectives set for them. Managers have a responsibility to adhere to the guidelines set by clients. The University set a goal to maximize returns with a high minimum target of four-percent plus inflation. It set up UTAM to achieve its goal with a high level of equities and a low level of bonds, compared to its Canadian university peers.

In judging performance, all investment time periods must be considered to make a fair assessment. For example, in contrast to 2008, from 2003-2007 the University of Toronto's approach to asset management through UTAM produced almost $1 billion more than the University's minimum goal for investment returns. Also, UTAM achieved this while assuming less risk than the University's tolerance for losses stated in 2003.

Compared with other Canadian universities, the University of Toronto's five-year returns outpaced 95% of the peer group, even after deducting fees and expenses. Annual returns net of expenses in every year 2003 through 2007 ranked in the top half of Canadian universities.

In 2008, UTAM managers took steps to reduce portfolio risk further.

Because bonds were not expected to earn the University of Toronto's required return over the long term, only 20% of the portfolios were invested in them, but still 5 percentage points more than the normal 15%. Within the investment guidelines, UTAM managers leaned toward caution. Other Canadian universities had typical investment guidelines calling for a normal 40% in bonds.

Likewise, as equity markets sank, a decision to hold relatively better performing alternative investments such as private equities, hedge funds and real assets helped preserve relative wealth and average down overall losses, demonstrating the benefits of diversification.

In 2008, UTAM managers effectively protected against the risk of losing money on foreign currencies. However, UTAM managers did not trade currencies for profit. Unlike some peer managers with better absolute performance for the period in question, the

University of Toronto's portfolios did not make the currency gains some others luckily earned as the Canadian dollar unexpectedly fell 25% over a four-week period in the autumn of 2008 after investment bank Lehman Brothers failed.

This difference of investment approach was significant. The 10 percentage-point spread between University of Toronto and its typical peer could be attributed to its earning 7 percentage points less in bonds, earning 3 percentage points less in the currency swing, but having bettered its performance by 1 percentage point with its alternative investments, with the balance of the difference related to investment execution.

University of Toronto Asset Management has been attentive to the University's guidelines for risk and return.

From 2003 to 2007, the University's investment objective was to maximize returns without exceeding its risk tolerance – an objective accomplished.

After 2007, the University of Toronto changed UTAM's objective to achieve a target return while minimizing risk and in no event exceeding specified risk tolerance. At UTAM's prompting, the University lowered its sights on the upside and preferred guarding against loss.

However, the decision to change the Chief Executive Officer of UTAM just before credit markets seized in August 2007 proved to be the most unfortunate timing. The new CEO – UTAM's senior investment manager – was not in place until late April 2008. He spent some months to assess the portfolios inherited. This slowed the repositioning of the portfolios to new objectives, harming performance as markets deteriorated.

Over the 10 years ended 2008, the University of Toronto and 95% of its Canadian university peers fell short of the University's objective of a 4% real return. The market correction of 2008 – the biggest since the 1929 Crash – detracted from the results of a decade of improved investment management. The University's 10 years of taking a global perspective for its investment management returned 7.2% annually to the end of 2007. Even with the "tech wreck" market correction, the strategy achieved the University's current target return within the University's risk tolerance. Over the same period, some other Canadian universities did better and some did worse; the University of Toronto found itself in the middle of the pack, a greatly improved position than before the mid 1990s (and the creation of UTAM), when the University of Toronto's investment performance had been among the worst among its peers.

The independent directors of University of Toronto Asset Management do not believe one year of poor results indicates the abandonment of an investment philosophy, especially one predicated on long-term performance. The independent directors still believe in global investing and the benefits of managing risk through diversification across many equity alternatives.

Recommendations

The independent members of the UTAM Board agree with the spirit of many of the recommendations of the Jackman Report, and make some of the same recommendations (with what we believe to be refinements), particularly with respect to oversight processes and roles. We hold a different view about how to structure execution and oversight, because we believe the separation of those functions needs to be maintained at the levels of both the staff and the expert volunteer advisory group. We think UTAM should continue its role as investment manager, and the senior Administration should act as client in an oversight role. The senior Administration should be responsible for the client and oversight roles set out in recommendations 1, 2 and 3. The senior Administration and UTAM should share responsibility for the roles set out in recommendations 4, 5 and 7. We recommend point 6 because UTAM has a volunteer group with investment expertise providing advice to the CEO of UTAM, and we think the senior Administration also needs a volunteer group with expertise to provide advice about the client oversight role. UTAM should be responsible for the proposals in recommendations 8, 9 and 10.

1. Reassess Financial Strategy of Relying on Equity Market Returns

The University should reassess the extent of its reliance on equity market returns to supplement pension contributions and enhance benefactor gifts. If it expects to continue such reliance on equity markets it should seek to gain stakeholder buy-in for the level and types of risks to other future revenues and assets of the University should efforts fail to generate the sought after returns, which are well beyond the risk-free rates available in the market today.

2. Create a Statement of Investment Beliefs

To inform the Financial Strategy, create a Statement of Investment Beliefs to describe the investment philosophy of the University of Toronto. The statement should describe in general terms: (1) the balance to be maintained between seeking returns and preserving capital and (2) acceptable and unacceptable risks. Reasons should be set out for these choices. This statement could be used to evaluate overall investment approach options and their feasibility to meet investment objectives. The University should gain stakeholder buy-in for its investment philosophy.

3. Reassess the Risk and Return Targets

After completion of the Statement of Investment Beliefs, regularly reassess the risk parameters and return targets and ensure that the implications of changing risk parameters and return targets are clearly stated and understood. These and related performance benchmarks should be approved by the Business Board because of its overall accountability for the financial well being of the University. Curtail the use of performance benchmarks not approved by the Business Board to evaluate investment performance. The University should gain stakeholder buy-in for its risk parameters and return targets.

4. Reassess Overall Investment Approach

Regularly re-evaluate whether the University's chosen overall investment approach of global equity investing, diversified across many alternative equities with currency risk management, will effectively meet the University's immediate and future investment objectives, understood in terms of both risk and return. If not, evaluate other approaches or modify investment risk and return objectives. Note that the University makes the decision of the overall investment approach because it has such long-term implications in determining the people retained and the potential holding period of investments. This is different from the investment strategy and asset allocation decision made by UTAM to execute it. Evaluate whether the University's overall investment approach can be implemented in practice at a reasonable price. Keith Ambachtsheer raised this issue in his March, 2007 report as to whether the University's portfolios were large enough to employ the investment approach cost effectively. This matter should be addressed in the choice of overall investment approach and in recommendation #9. The University should gain stakeholder buy-in for its overall investment approach.

5. Improve Communications

Recognizing that the University is a community of stakeholders with different interests and levels of knowledge about investment matters, care must be taken to provide all stakeholders with easily understood information that addresses the specific concerns of each stakeholder group. The use of third-party assessments can be particularly useful to meet the needs of stakeholders without investment expertise. The Administration should take direct responsibility for stakeholder communications, with assistance by UTAM. UTAM undertakes to continue to make communications about matters within the scope of its activities a priority.

6. Create a Financial Advisory Committee

Create a Financial Advisory Committee consisting of a volunteer group with expertise in finance, conventional investment, alternative investment strategies and pension trusteeship. This Committee would counsel the Administration. Its membership would also include persons cross appointed to or from the UTAM Board, the new Pension Committee and possibly the Business Board. The mandate of the committee would be to provide advice to the Administration based on the regular review of *matters contained in our recommendations* above and of other matters put before it. The Committee would maintain an independent client advisory oversight role and avoid making or endorsing investment management execution decisions, to maintain its status as a third party. It would provide the third-party assessment of financial strategies related to the endowment, the pension fund and investment matters, including choice of performance benchmarks and fund performance assessment. The Financial Advisory Committee would not duplicate the work of the current UTAM Board, which is limited to overseeing the execution of the overall investment approach, including investment strategy, asset allocation and risk and risk mitigation strategies, manager selection and investment performance. The Committee would provide the independent counsel to support the Administration's recommendations for financial and investment matters to be approved by the Business Board. UTAM would stand ready to help the President or the Financial Advisory Committee with any requests for assistance.

7. Retain UTAM Under Investment Manager & Client Model.

Retain UTAM under a Discretionary Investment Management model, with UTAM acting as the Investment Adviser, to make investment portfolio decisions, and with the University acting as Client, to monitor whether those decisions meet agreed upon needs. Be vigilant in maintaining this separation of roles and responsibilities so that the University does not fall into the mode of a Do-It-Yourself investment model, in which the client becomes responsible for oversight of its own investment decisions. For example, it should be made clear to the CEO of UTAM that he reports to President of the University, representing the client, and the President should play that role. If the CEO of UTAM reports as CIO of investment management to the President acting as CEO of investment management, then the President will be responsible for every investment decision. That will compromise the desired separation of the investment management and client oversight roles.

8. Enhance UTAM Governance.

The UTAM Board should remain as an advisory group to the CEO of UTAM, particularly given the sophisticated investment approach taken by the University. The Board should establish a clear mandate, form a governance committee and develop a skills matrix for its members so that in managing succession it selects those best qualified to perform the governance function using the best practices of any well-run investment management organization, notwithstanding that UTAM has a single client. This will help UTAM attract and retain talented investment staff that might otherwise prefer not to work in a University environment. A separate UTAM with its own governance is also the most conducive structure for a successful investment management execution process. Investment professionals understand this model so they will understand their roles and responsibilities.

9. Benchmark UTAM Resources.

UTAM should conduct a benchmarking study of investment management organizations with similar levels of assets under management to determine whether UTAM has adequate resources to effectively execute the University's active investment strategy.

10. Upgrade the Risk Management Process

Upgrade the risk management process to implement the University's new risk objective introduced in December 2007. Provide UTAM with the resources needed to properly assess and manage risk beyond portfolio volatility. The goal would be to ensure risks are explicitly identified and that the related risk mitigation strategies are also identified and discussed with the Administration.

Appendix

Names of University of Toronto Asset Management Independent Directors

Allan Crosbie

Catherine A. (Kiki) Delaney

Ira Gluskin, Chairman of the Board

William E. Hewitt

Eric F. Kirzner, Chairman of the Audit Committee

Florence R. Minz

Robert W. Morrison, Vice Chairman of the Board

Thomas H. Simpson, Chairman of the Compensation Committee

Bonita Then

John Varghese

Administrative Response
to the Report of the Working Group on the Future Mandate of the University of Toronto Asset Management Corporation

10 January 2022

I am extremely grateful to the members of the Working Group and, in particular, its chair Judy Goldring, for their comprehensive and insightful review of the mandate of the University of Toronto Asset Management Corporation (UTAM). At this time of impending change in UTAM's role and responsibilities, due to the migration of U of T's pension assets to the newly formed University Pension Plan (UPP), the analysis and recommendations provided in the Working Group Report are extremely helpful. The University of Toronto is extremely fortunate to benefit from the collective wisdom of such an esteemed and dedicated group.

The Report provides clear and well-argued responses to all four questions posed in the original Terms of Reference for the Working Group. I shall address its recommendations to each of the questions in turn below.

1. Does UTAM's current mandate continue to serve the University's needs for the future?

The Working Group has asserted clearly and categorically that UTAM's current mandate does indeed continue to serve the University's current and future needs, and recommends no changes.

I strongly concur with this recommendation and accept it.

UTAM has served the needs of the University well in managing its long-term capital assets (LTCAP, which includes endowment and other long-term investments), pension assets and expendable funds (EFIP). Its team of dedicated and sophisticated professionals has assembled a very strong 10-year track record, thanks to the excellent work of its investment group and its robust risk-management and regulatory compliance capabilities. It has demonstrated a clear and consistent focus on the investment needs of the University, with due regard to target rates of return, risk tolerance, and liquidity preferences.

Moreover, UTAM has demonstrated a keen understanding of – and commitment to – the University's priorities regarding responsible investing, embracing this mandate with enthusiasm and skill. It earns top marks consistently from arms-

length, third-party organizations such as UN-PRI, and has been an engaged member of a growing number of alliances of asset owners and managers promoting ESG-positive behaviour throughout the economy.

Clearly, UTAM has successfully fostered a distinctive organizational culture that prizes the pursuit of investment excellence and responsible investing, while at the same time respecting the priorities of the University.

2. What changes to UTAM's structure and in-house capabilities may be required?

The Report provides a useful analysis of UTAM's size, structure, management costs and other considerations, including questions pertaining to the possibility of managing funds on behalf of other organizations, the necessity of continuing registration with the Ontario Securities Commission (OSC), and related matters.

Here too, I find the Report's analysis compelling and I concur with its recommendations.

The Working Group notes that, despite the impending reduction in assets under management (AUM) from (roughly) $14 billion to $7 billion, a strong case can be made for retaining the existing size, structure and in-house capabilities of the organization. Indeed, the sharpened focus on LTCAP and EFIP following the creation of the UPP affords UTAM an opportunity to adapt and apply these existing capabilities to ensure even more effective operations in the future.

The Working Group's analysis of UTAM's management costs demonstrates that, even at the lower, post-UPP level of AUM, the organization's all-in costs are broadly in line with those of comparable peer investment management organizations. With the University's $4 billion *Defy Gravity* campaign now launched, the endowment and expendable assets under management are likely to grow significantly. As our fundraising progresses, UTAM will be able to manage larger sums without having to augment its team significantly, meaning that its cost relative to AUM will decline over time. At the same time, its strong investment management and operational due diligence processes will be a source of comfort to current and prospective donors – as well as to the beneficiaries of this philanthropy.

The Working Group considered the possibility of UTAM managing funds for other third-party organizations, and recommends that UTAM should not pursue such opportunities at this time.

I find their analysis of the advantages and disadvantages of this option to be convincing, and accept their recommendation. I also accept their suggestion that this issue be reconsidered at some point in the future.

The Report considers the question of OSC registration and whether UTAM should maintain this status or seek an exemption from registration in the future. *I accept its advice that UTAM obtain legal advice on this question, and undertake a detailed cost-benefit analysis to inform its ultimate decision.*

The Working Group helpfully highlights potential opportunities for UTAM to engage more strongly with the University, pointing to communications and experiential learning by our students. I welcome these suggestions, and will give them further consideration in the coming months, in consultation with the appropriate colleagues inside the University.

3. Do current governance mechanism and relationships still serve the needs of the University and UTAM well? What changes, if any, might be contemplated?

The Working Group emphasized the many positive changes to governance that have been implemented following the last review of UTAM undertaken in 2009, culminating in the Jackman Report. It concluded that the role of the UTAM Board had been clarified and refocused on routine corporate governance functions (budget, financial statements, audit, compensation), and that the University's senior administration was more effectively represented on the Board. At the same time, the Board Chair is an independent member external to the University.

The Working Group concludes that these changes have served UTAM and the University extremely well. It recommends that UTAM continue the practice of appointing an independent, external member as Board Chair. Given UTAM's new focus on managing endowments and expendable assets, with responsibility for pension fund management migrating to the UPP, the Report suggests that consideration be given to changing the Board composition to reflect this shift more effectively, by possibly appointing representatives of other stakeholders within the University such as faculty with relevant skillsets or advancement administrators.

Should such new appointees be added to the UTAM Board, the Working Group recommends that best practices in governance be followed, including setting fixed (renewable) terms for Board members, with staggered appointments to ensure continuity and orderly transition.

Once again, I accept these recommendations wholeheartedly.

I concur that the current governance structure and processes serve the interests of the University and UTAM very well. The presence of the University's President and CFO on the Board has given the senior administration of the University a clear line of sight on – and input into – UTAM's strategic direction and key operational decisions, including performance, compensation, and organizational change.

At the same time, UTAM's sharpened focus on managing endowment and expendable funds does suggest that serious consideration be given to modifying the Board composition along the lines suggested by the Working Group.

4. Does the relationship between the Investment Committee, the UTAM Board and management and the University administration continue to serve the interests of the University well? What changes might make sense at this juncture?

The Working Group concludes that the existing relationships serve the University's interests very well. Nevertheless, it recommends a number of changes to strengthen the existing structure and practices.

First and foremost, it recommends adoption of practices in line with good governance with respect to establishing fixed (renewable) terms for all Investment Committee (IC) members, with staggered terms to ensure continuity and orderly evolution in membership over time. It emphasizes the importance of a smooth, carefully planned transition in IC membership and leadership, noting its importance to the integrity and success of investment management for the University by UTAM.

The Report also recommends embedding the roles of the University's President and CFO, as well as the UTAM Board Chair, as *ex officio* non-voting members of the IC, adopting the practice of a formal annual meeting between the IC leadership, UTAM Board Chair and U of T President, and more generally to endeavour to

continue the existing culture of strong communication and engagement between the IC, UTAM Board and management, and University administration.

I accept these recommendations enthusiastically.

Strong representation of the University's senior administration at IC meetings has ensured that the investment strategy pursued by UTAM, guided by the sage advice of the IC, is closely aligned with the University's needs in terms of target return, risk, liquidity, and responsible investing.

Moreover, the experience, judgement and expertise of IC members has benefited UTAM management tremendously. The University can indeed be confident that UTAM's investment strategy, practices and decisions are being carefully tracked and advised by widely respected investment professionals.

Nonetheless, the Report makes a compelling case for the need to add further formal structure to the appointment process for IC members and leadership, and for formalizing the status of the University's senior leadership and the UTAM Board Chair on the IC itself. These changes will, in my view, add further strength to an already excellent and effective model, and should be implemented in a timely manner.

Concluding comments

Once again, I am grateful to the Working Group for its diligence and dedication in fulfilling the terms of reference for this review. On behalf of the University of Toronto, I offer my deepest gratitude and appreciation.

Meric S. Gertler
President