



FOR INFORMATION

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TO: Business Board

SPONSOR: Trevor Rodgers, Chief Financial Officer
CONTACT INFO: 416-978-2065, trevor.rodgers@utoronto.ca

PRESENTER: Chuck O'Reilly, President and CIO, UTAM
CONTACT INFO: 416-306-8740, chuck.oreilly@utam.utoronto.ca

DATE: September 20, 2023 for September 27, 2023

AGENDA ITEM: 6

ITEM IDENTIFICATION:

Investments: Semi-Annual Update on Investment Performance to June 30, 2023

JURISDICTIONAL INFORMATION:

Under Section 5(1)(b) of the Business Board terms of reference the Board reviews regular reports on matters affecting the finances of the University, including reports on investments.

GOVERNANCE PATH:

1. Business Board [for information] (September 27, 2023)

PREVIOUS ACTION TAKEN:

The Business Board reviewed UTAM's semi-annual update on investment performance and responsible investing activities at its meeting of April 26, 2023.

HIGHLIGHTS:

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

LTCAP

The Long Term Capital Appreciation Pool consists primarily of the University's endowment funds, the debenture sinking fund, and other smaller long term investments. The framework for investment policy, strategy, and monitoring for the LTCAP is as follows:

- Risk tolerance and investment return targets are articulated in the University Funds Investment Policy that is approved by the Business Board.
- The return targets and risk tolerance are operationalized by the President of the University, with input from the Investment Committee, through establishment of a Reference Portfolio, which outlines both the policy asset mix and the benchmark portfolio with respect to passive investing.
- Investment performance is monitored by UTAM, the Investment Committee, the University administration, and the Business Board through regular reporting by UTAM to these various groups.

Regular reporting on investment performance includes current period and multi-year comparisons of actual returns to both the long-term target returns articulated in policy, and to the Reference Portfolio returns. It also includes the current level of active risk in comparison to the allowable amount of active risk as specified in a "traffic light" risk framework. It is important to note that investment performance is NOT evaluated based on peer comparisons. Peer comparisons assume that the return target and risk appetite of peers are similar, which is typically not the case.

This approach allows for an evaluation of performance against investment return targets over a multi-year period while taking into account the influence of underlying financial market conditions on short-term results, and to put those short-term results in perspective. The primary objective must be the achievement of long-term investment return targets while controlling risk to within the specified risk limits.

EFIP

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

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

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

<i>Long-Term Capital Appreciation Pool (LTCAP):</i>	6-month return	1-year return	5-year return	10-year return
Actual return	7.6%	10.1%	6.5%	8.3%
Target return (CPI + 4%)	3.3%	6.8%	7.3%	6.5%
Reference portfolio return	8.7%	12.1%	5.3%	6.8%
Actual return greater / less than target return: ¹	4.3%	3.4%	-0.8%	1.9%
Actual return greater / less than Reference Portfolio return: ¹	-1.1%	-2.0%	1.1%	1.5%

<i>Medium-Term Expendable Funds Investment Pool (EFIP MT):</i>	6-month return	1-year return	5-year return	10-year return
Actual return	3.9%	2.6%	-	-
Target return	3.2%	4.8%	-	-
Actual return greater / less than target return: ¹	0.8%	-2.1%	-	-

<i>Short-Term Expendable Funds Investment Pool (EFIP ST):</i>	6-month return	1-year return	5-year return	10-year return
Actual return	1.8%	3.0%	1.7%	1.7%
Target return	1.5%	2.7%	1.4%	1.4%
Actual return greater / less than target return: ¹	0.3%	0.4%	0.3%	0.3%

FINANCIAL IMPLICATIONS:

See above.

RECOMMENDATION:

For information.

DOCUMENTATION PROVIDED:

- *Semi-annual Update on Investment Performance to June 30, 2023*

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

Semi-Annual Update on Investment Performance

For the Period Ending June 30, 2023

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

Sept 27, 2023

Presentation to Business Board

Assets Under Management

	June 30, 2022	June 30, 2023
LTCAP	3,661	4,007
EFIP ST (short-term)	2,363	2,436
EFIP MT (medium-term)	837	936
Total	6,861	7,380

- Over the past 12 months, total assets under management increased by 7.6% to approximately \$7.4 billion. Market value for all three portfolios increased over this 12-month period.

Performance: LTCAP and EFIP

Periods ending June 30, 2023

	H1 2023	1 Year	5 Years	10 Years
LTCAP	7.6%	10.1%	6.5%	8.3%
EFIP Total	2.3%	3.0%	1.4%	1.6%
EFIP ST	1.8%	3.0%	1.7%	1.7%
EFIP MT	3.9%	2.6%		

- In H1 2023, LTCAP returned 7.6% while EFIP returned 2.3%. Over the past year, LTCAP returned 10.1% while EFIP returned 3.0%. Over the past 10 years, LTCAP returned 8.3% while EFIP return 1.6%.
- All investment returns for LTCAP and EFIP presented above and throughout this presentation are net of all investment fees and expenses, including UTAM fees. Moreover, all returns for periods greater than 1-year are annualized unless otherwise noted.

Performance: Evaluating Returns

The previous slide showed the returns of all portfolios. But how do those returns relate to what was available in the capital markets, and how much did UTAM add or detract with its active management approach? The following definitions are required to answer these questions:

Reference Portfolio: Passive, easy to implement, low-cost, simple and appropriate for the Endowment's long-term risk and return objectives. The Reference Portfolio represents the returns available in the capital markets for a broadly diversified portfolio. The primary means of assessing the success (or failure) of UTAM's active management approach is obtained by comparing Endowment's returns to Reference Portfolio returns and by comparing EFIP ST and MT returns to their Target Returns.

Target Return: The return objective for each portfolio. For LTCAP the target return is CPI + 4% (i.e., inflation + 4%). For EFIP ST it is 50% FTSE ST Universe + 50% 1-month Canadian BA. For EFIP MT it is the FTSE Canadian All Corp BBB Index. All targets are net of all investment fees and expenses.

Performance: Actual vs Target

Periods ending June 30, 2023

	H1 2023	1 Year	5 Years	10 Years
Actual Portfolio Returns				
LTCAP	7.6%	10.1%	6.5%	8.3%
University Target Returns				
CPI + 4%	3.3%	6.8%	7.3%	6.5%
Actual minus Target¹				
LTCAP Relative Performance	4.3%	3.4%	-0.8%	1.9%

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

- Strong capital market performance since early October 2022 has resulted in the LTCAP portfolio outperforming the University's Target Return of 4% real over the past 6 months and over the past year.
- At June 30, 2023, LTCAP outperformed the Target Return over all the time periods except the over the past 5 years.

Performance: Reference vs Target

Periods ending June 30, 2023

	H1 2023	1 Year	5 Years	10 Years
Reference Portfolio Returns¹				
LTCAP Reference Portfolio	8.7%	12.1%	5.3%	6.8%
University Target Returns				
CPI + 4%	3.3%	6.8%	7.3%	6.5%
Reference minus Target				
Benchmark Relative Performance	5.4%	5.4%	-1.9%	0.4%

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

- In H1 2023, the Reference Portfolio realized a return of 8.7%, outperforming the Target Return by 5.4%.
- Driven by strong capital market returns since early October 2022, the Reference Portfolio outperformed the Target Return over all time periods ending June 30, 2023, except the 5-year time horizon.

Performance: Actual vs Reference

Periods ending June 30, 2023

	H1 2023	1 Year	5 Years	10 Years
Actual Portfolio Returns				
LTCAP	7.6%	10.1%	6.5%	8.3%
Reference Portfolio Returns				
LTCAP Reference Portfolio	8.7%	12.1%	5.3%	6.8%
Actual minus Reference (UTAM value-add)				
LTCAP Relative Performance	-1.1%	-2.0%	1.1%	1.5%

- LTCAP has underperformed the Reference Portfolio over the short-term periods illustrated above. This short-term underperformance has been driven largely by private investments, which have not kept up with the strong performance of public equity markets since the end of Q3 2022 (MSCI ACWI +25% in USD terms from Oct. 1, 2022 to Jun. 30, 2023).
- LTCAP's long-term track record remains strong, as it has outperformed the Reference Portfolio over the 5-year and 10-year time horizons.

Performance: UTAM Value Add in Dollar Terms

Periods ending June 30, 2023

	H1 2023	1 Year	5 Years	10 Years
UTAM Value Add (%)				
LTCAP VA (%)	-1.1%	-2.0%	1.1%	1.5%
UTAM Value Add (\$ millions)¹				
LTCAP VA (\$M)	-41.7	-75.7	224.5	434.2

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

- LTCAP's dollar value-add relative to the Reference Portfolio was -\$41.7 million in H1 2023.
- Over the 5-year horizon, on a simple arithmetic basis (i.e., without including the impact of compounding), LTCAP's dollar value-add was \$224.5 million.
- Importantly, the 10-year dollar value add of LTCAP exceeded \$434 million.

Performance Efficiency

Periods ending June 30, 2023

	5 Years	10 Years
Sharpe Ratio		
LTCAP	0.6	1.1
Reference Portfolio	0.4	0.7
Information Ratio		
LTCAP	0.5	0.6

- Risk-adjusted performance metrics, such as the Sharpe and Information Ratios, provide information on returns earned per unit of risk taken.
- Over the 5-year and 10-year time horizons, LTCAP had higher Sharpe Ratios than the Reference Portfolio as well as attractive Information Ratios.

Definitions:

- **Sharpe Ratio:** Average return (over the risk-free rate) earned per unit of risk taken, where risk is measured by Volatility.
- **Information Ratio:** Average return (over the Reference Portfolio) earned per unit of active risk taken, where active risk is defined as Tracking Error. Tracking Error measures the standard deviation of the excess returns between the actual LTCAP portfolio and the Reference Portfolio.

LTCAP Value-Add Contribution by Strategy – 10-years ending June 2023

Contribution to LTCAP's Value-Add by Strategy (estimated in basis points)		
	All Effects	Mgr Selection + Style
Alternative Credit	40	23
Portable Alpha (Gov't Bonds + ARP)	38	35
Public Equity	46	46
Public Credit	8	8
Real Estate	6	6
Private Equity	0	0
Risk-Reducing Trades	-4	0
Other Effects	16	0
Total	150	118

- On a 10-year basis, all strategies contributed positively to value-add (vs Reference Portfolio).

Performance: EFIP vs Target

Periods ending June 30, 2023

	H1 2023	1 Year	5 Years	10 Years
Actual Portfolio Returns				
EFIP ST	1.8%	3.0%	1.7%	1.7%
EFIP MT	3.9%	2.6%		
EFIP TOTAL (weighted average)	2.3%	3.0%	1.4%	1.6%
University Target Returns				
50% FTSE ST Universe + 50% 1-Mth BA ¹	1.5%	2.7%	1.4%	1.4%
FTSE Cdn All Corporate BBB Index	3.2%	4.8%		
Weighted Average	1.9%	3.2%	1.1%	1.2%
Actual minus Target				
EFIP ST	0.3%	0.4%	0.3%	0.3%
EFIP MT	0.8%	-2.1%		
EFIP TOTAL (weighted average)	0.4%	-0.2%	0.3%	0.3%

- EFIP's target benchmarks performed well. STP and MTP both outperformed in H1.
- Over the past 10 years, EFIP outperformed its Target Return by 0.3% per annum.

Active Risk: Actual Risk minus Reference Risk

June 30, 2023

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

	Risk (Volatility %)
LTCAP (A)	10.2
Reference Portfolio (C)	9.7
LTCAP Active Risk (A – C)	0.5

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

Current Asset Allocation and Limits: LTCAP

June 30, 2023 (Post-Rebalancing Asset Mix)

	Reference Portfolio %	Actual Portfolio %	Outside Full Bands?	--- Full Bands ---	
				Min %	Max %
Equity:					
Global	60.0	60.0	N	50.0	70.0
Fixed Income:					
Credit (Corporate Credit)	20.0	20.1	N	10.0	30.0
Rates (Government Bonds)	20.0	21.0	N	10.0	30.0
Total Fixed Income	40.0	41.1	N	25.0	50.0
Absolute Return Hedge Funds	0	12.7	N	0.0	15.0
Cash and Cash Equivalents	0	-13.8	N	-15.0	5.0
Total	100.0	100.0			
Currency Exposure:	32.4	32.3	N	25.0	40.0

- At the end of June 2023, LTCAP was in compliance with all limits.