



FOR INFORMATION

PUBLIC

OPEN SESSION

TO: Business Board

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

PRESENTER: Chuck O'Reilly, President and Chief Investment Officer, UTAM
CONTACT INFO: 647-400-5376, chuck.oreilly@utam.utoronto.ca

DATE: April 18, 2024 for April 25, 2024

AGENDA ITEM: 6

ITEM IDENTIFICATION:

Semi-Annual Update on Investment Performance and Responsible Investing Activities to December 31, 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] (April 25, 2024)**

PREVIOUS ACTION TAKEN:

The UTAM financial statements for the year ended December 31, 2023 were approved by the UTAM Board at its meeting of March 18, 2024. However, the UTAM Board has not yet approved the complete 2023 UTAM Annual Report, including the summary of annual investment activities, governance, risk management, portfolio performance, and responsible investing activities. Therefore, the 2023 UTAM Annual Report, including the UTAM audited financial statements for the year ended December 31, 2023, will be provided for information at the next Business Board meeting on June 19, 2024.

HIGHLIGHTS:

In 2023, UTAM managed two distinct portfolios of assets under an investment management agreement between the University and UTAM:

- Long-Term Capital Appreciation Pool (“LTCAP”), which consists of certain endowment assets of the University of Toronto as well as other long-term assets; and,
- Expendable Funds Investment Pool (“EFIP”), which consists of short-term working capital assets of the University.

UTAM, which was formed in April 2000, is a separate non-share capital corporation controlled (effectively owned) by its members who are appointed by the University of Toronto. UTAM is registered with the Ontario Securities Commission in the category of Portfolio Manager. UTAM’s primary mandate is to manage or see to the management of, the investment funds that are delegated to it by the University of Toronto.

Investment Performance

The University has established a long-term investment target for LTCAP at an annual investment return of 4.0% plus the increase in CPI, net of fees and expenses, that is measured over 10-year periods. Over the 10-year period ending December 31, 2023, LTCAP returned 7.9% per annum (net of all fees and expenses), outperforming its target return by 1.4 percentage points per annum.

In addition to the long-term target return of 4%+CPI, the Reference Portfolio was established as a capital market benchmark for LTCAP, where the Reference Portfolio is a theoretical public market passive portfolio that assumes a traditional 60%/40% equity/fixed income asset allocation and does not include any allocation to alternative assets or strategies. In 2023, the actual LTCAP return (net of all fees and expenses) was lower than the Reference Portfolio return by 2.2 percentage points (12.9% versus 15.1%). Over the 10-year period ending December 31, 2023, LTCAP’s 7.9% return outperformed the Reference Portfolio by 1.4 percentage points per annum, adding more than \$389 million in additional value to the LTCAP portfolio compared to what would have otherwise been achieved under the passive investment approach of the Reference Portfolio.

The actual return for the Expendable Funds Investment Pool (EFIP) in 2023 was 6.7% (net of all fees and expenses), which exceeded its target return of 5.8% by 1 percentage point (rounding). Over the last 10 years, the actual return in EFIP has exceeded its target return by 0.4 percentage points per annum, contributing more than \$86 million to EFIP compared to what would have been achieved by investing in its passive benchmarks.

Responsible Investing

UTAM continues to progress its responsible investing activities. As discussed in the attached presentation, we have made considerable progress towards our 2030 carbon footprint reduction target, reducing the carbon footprint and the absolute emissions of the LTCAP Sub-Portfolio (which is comprised of public equities, private equity and real estate via proxy and corporate bonds) by 49.6% and 33.5%, respectively, over the 2019 to 2023 period. We have also progressed towards achieving the fossil fuel divestment targets, removing \$25 million of exposure to fossil fuel companies since year-end 2021. We continue to engage with our managers to further reduce LTCAP's exposure to fossil fuel companies in the coming years.

2023 UTAM Annual Report

For the 2023 UTAM Annual Report, we will again combine our usual review of investment activities, governance, risk management and portfolio performance with updates on our Responsible Investing program, in a single integrated annual report. Moreover, we will once again publish UTAM's Financial Statements, the Carbon Footprint Report and the Task Force on Climate-Related Financial Disclosures (TCFD) Report separately from the Annual Report as supplements on our website.

As noted previously, the 2023 UTAM Annual Report and the supplements will be included for information in the materials for the next Business Board meeting.

FINANCIAL IMPLICATIONS:

Investment performance through December 31, 2023 has been factored into the University's budget planning process for 2024-25.

RECOMMENDATION:

For information.

DOCUMENTATION PROVIDED:

- *Semi-annual Update on Investment Performance and Responsible Investing Activities to December 31, 2023.*

Semi-Annual Update on Investment Performance and Responsible Investing Activities

For the Period Ending December 31, 2023

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

April 25, 2024

Presentation to Investment Committee

Assets Under Management

	Dec 31, 2022	Dec 31, 2023
LTCAP	3,783	4,239
EFIP ST (short-term)	2,959	2,889
EFIP MT (mid-term)	909	1,027
Total	7,650	8,156

- Over the past 12 months, total assets under management increased by 6.6% to approximately \$8.2 billion.

Performance: LTCAP and EFIP

Periods ending Dec 31, 2023

	Q4 2023	YTD	1 Year	5 Years	10 Years
LTCAP	6.7%	12.9%	12.9%	8.3%	7.9%
EFIP Total	3.7%	6.7%	6.7%	2.0%	1.9%
EFIP ST	2.8%	5.4%	5.4%	2.1%	1.9%
EFIP MT	6.6%	10.8%	10.8%		

- Public markets saw an exceptional Q4 with both equities and bonds performing strongly. This strong Q4 performance drove 1-Year returns to 12.9% for LTCAP and 6.7% for EFIP. Over the past 10 years, LTCAP and EFIP returned 7.9% and 1.9% per annum, respectively.
- 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

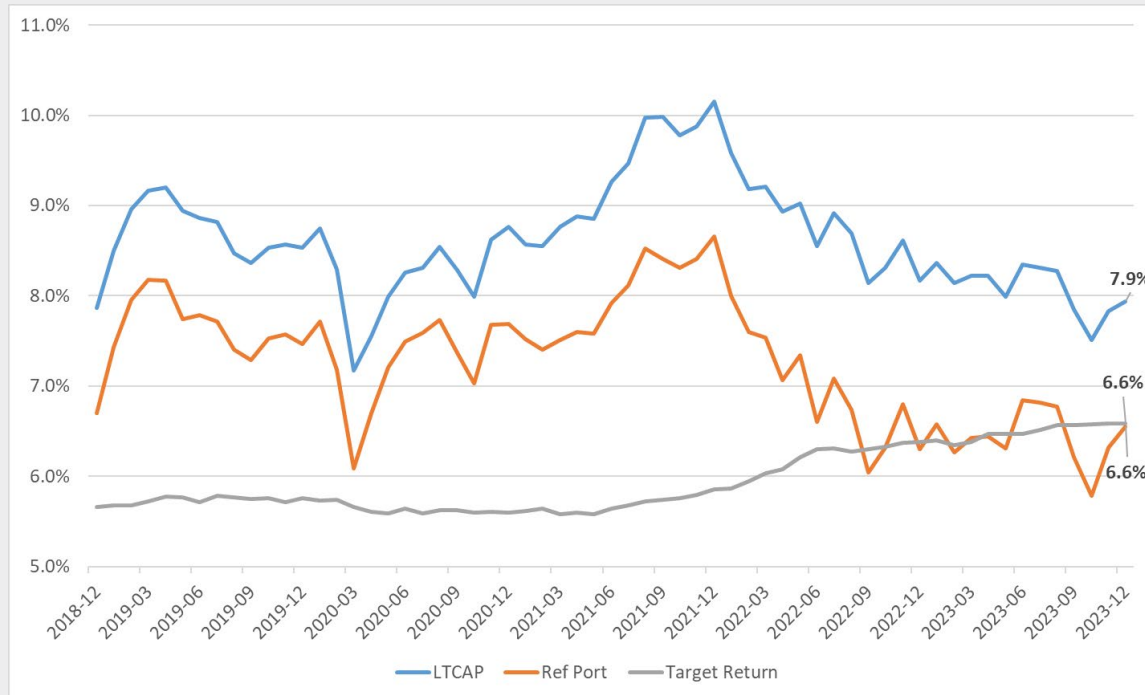
The previous slide showed the returns of all portfolios. But how do those returns relate to what was available in the capital markets, and how much did UTAM add or detract with its active management approach? The following definitions are required to answer these questions:

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 long-term 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: Rolling 10-Year Comparison

Periods ending Dec 31, 2023



- The Reference Portfolio (“RP”, orange line) is designed to achieve the University’s Target Return (grey line) of 4% + CPI over 10-year periods. UTAM seeks to implement active strategies that result in LTCAP (blue line) outperforming both the RP and the Target Return over the long-term.
- On a rolling 10-year basis, LTCAP consistently outperformed the RP and the Target Return.
- Over more recent periods, the RP’s 10-year return has oscillated around the Target Return. The RP’s 10-year return has ranged between 5.8%-7% while the Target Return has trended upward as inflation has increased (from ~5.5% to 6.5%).

Performance: Actual vs Reference

Periods ending Dec 31, 2023

	Q4 2023	YTD	1 Year	5 Years	10 Years
Actual Portfolio Returns					
LTCAP	6.7%	12.9%	12.9%	8.3%	7.9%
Reference Portfolio Returns					
LTCAP Reference Portfolio	8.7%	15.1%	15.1%	7.4%	6.6%
Actual minus Reference (UTAM value-add)					
LTCAP Relative Performance	-2.0%	-2.2%	-2.2%	0.9%	1.4%

- LTCAP underperformed the Reference Portfolio in 2023, driven largely by private investments, as their valuations did not keep up with the performance of public markets, primarily in Q4. For example, MSCI ACWI returned 14.5% (in USD) in November and December alone.
- LTCAP's long-term track record remains strong, as it has meaningfully outperformed the Reference Portfolio over the 5-year and 10-year time horizons.

Performance Efficiency

Periods ending Dec 31, 2023

	5 Years	10 Years
Sharpe Ratio		
LTCAP	0.7	0.9
Reference Portfolio	0.6	0.7
Information Ratio		
LTCAP	0.3	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.

Performance: UTAM Value-Add in Dollar Terms

Periods ending Dec 31, 2023

	Q4 2023	YTD	1 Year	5 Years	10 Years
UTAM Value-Add (%)					
LTCAP VA (%)	-2.0%	-2.2%	-2.2%	0.9%	1.4%
UTAM Value-Add (\$ millions)¹					
LTCAP VA (\$M)	-78.4	-83.9	-83.9	177.0	389.1

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 -\$83.9 million in 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 \$177.0 million.
- Importantly, the 10-year dollar value-add of LTCAP exceeded \$389 million.

UTAM Value-Add Contribution by Strategy (all effects): 10 Years

Contribution to LTCAP's Value-Add by Strategy (estimated in basis points)		
	All Effects	Mgr Selection + Style
Alternative Credit	40	25
Portable Alpha (Gov't Bonds + ARP)	34	34
Public Equity	34	34
Public Credit	8	8
Real Estate	5	5
Private Equity	9	9
Risk-Reducing Trades	-4	
Other Effects	13	
Total	139	116

- Over the past 10 years, all active strategies contributed positively to LTCAP's value-add (vs the Reference Portfolio).

Performance: EFIP vs Target

Periods ending Dec 31, 2023

	Q4 2023	YTD	1 Year	5 Years	10 Years
Actual Portfolio Returns					
EFIP ST	2.8%	5.4%	5.4%	2.1%	1.9%
EFIP MT	6.6%	10.8%	10.8%		
EFIP TOTAL (weighted average)	3.7%	6.7%	6.7%	2.0%	1.9%
University Target Returns					
50% FTSE ST Universe + 50% 1-Mth BA ¹	2.7%	4.8%	4.8%	1.8%	1.6%
FTSE Cdn All Corporate BBB Index	8.0%	8.8%	8.8%		
Weighted Average	4.0%	5.8%	5.8%	1.6%	1.5%
Actual minus Target					
EFIP ST	0.1%	0.6%	0.6%	0.4%	0.4%
EFIP MT	-1.5%	1.9%	1.9%		
EFIP TOTAL (weighted average)	-0.3%	1.0%	1.0%	0.4%	0.4%

- Both the STP and MTP outperformed their Target Returns in 2023.
- Over the past 10 years, EFIP outperformed its Target Return by 0.4% per annum.

Performance: EFIP Value-Add in Dollar Terms

Periods ending Dec 31, 2023

	Q4 2023	YTD	1 Year	5 Years	10 Years
UTAM Value-Add (%)					
EFIP ST	0.1%	0.6%	0.6%	0.4%	0.4%
EFIP MT	-1.5%	1.9%	1.9%		
UTAM Value-Add (\$ millions)					
EFIP ST	2.7	14.8	14.8	47.3	72.1
EFIP MT	-13.7	15.8	15.8		
EFIP ST + MT	-11.0	30.6	30.6	61.8	86.5

- EFIP's dollar value-add in 2023 was \$30.6 million.
- EFIP's 10-year aggregate dollar value-add was over \$86 million.

Appendix C: Active Risk: Actual Risk minus Reference Risk

Dec 31, 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)	9.5
Reference Portfolio (C)	9.1
LTCAP Active Risk (A – C)	0.4

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

Current Asset Allocation and Limits: LTCAP

Dec 31, 2023 (Post-Rebalancing Asset Mix)

	Reference Portfolio %	Actual Portfolio %	Outside Full Bands?	--- Full Bands ---	
				Min %	Max %
Equity:					
Global	60.0	59.9	N	50.0	70.0
Fixed Income:					
Credit (Corporate Credit)	20.0	20.2	N	10.0	30.0
Rates (Government Bonds)	20.0	20.0	N	10.0	30.0
Total Fixed Income	40.0	40.2	N	25.0	50.0
Absolute Return Hedge Funds	0	11.5	N	0.0	15.0
Cash and Cash Equivalents	0	-11.6	N	-15.0	5.0
Total	100.0	100.0			
Currency Exposure:	32.3	32.6	N	25.0	40.0

Notes: (1) Weights are calculated on an exposures basis, meaning they reflect the economic exposure of any derivative instruments that may be used to maintain an asset class exposure at the desired weight. (2) EM exposure within LTCAP is estimated to be ~8.4%.

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

Responsible Investing Update

Fossil Fuel Divestment – LTCAP

Commitments	Status / Accomplishments
Divest from all <i>direct</i> investments in fossil fuel companies within 12 months (of Oct. 27, 2021)	<ul style="list-style-type: none"> Completed in early October 2022
Divest from indirect exposure to investments in fossil fuel companies by 2030	<ul style="list-style-type: none"> Indirect exposure to fossil fuel companies comprised 1.4% of LTCAP at December 31, 2023⁽¹⁾ compared to 2.0% at December 31, 2022. LTCAP's year-over-year dollar exposure to fossil fuel companies fell by approximately \$15 million and it has fallen by approximately \$25 million since year-end 2021. The Fixed Income benchmarks in the Reference Portfolio changed to indexes that exclude fossil fuel companies during 2021. The Equity benchmark in the Reference Portfolio continued to transition to a global index that excludes fossil fuel companies and it will be fully transitioned to this index effective October 1, 2024. We continue to engage with existing and prospective managers to create and launch strategies that exclude fossil fuel companies. Although not included in President Gertler's divestment commitment, we divested all material fossil fuel exposure from EFIP during 2022.

Responsible Investing Update

Carbon Reduction

Commitment	Status
<p>In 2022, UTAM established a new carbon footprint reduction target, which is to reduce the carbon footprint of the LTCAP Sub-Portfolio (including equity, equity-like and corporate bond securities) by 50% by 2030, compared to the 2019 baseline carbon footprint.</p>	<ul style="list-style-type: none">• Considerable progress has been made as the carbon footprint (tCO₂e/\$M) fell by 49.6% from December 31, 2019 to December 31, 2023 (-14.3% in 2023).• Over the same 2019-2023 period, absolute emissions (tCO₂e) fell by 33.5% (-2.6% in 2023).• We continue to work with our private equity and private real estate managers to provide actual emissions data for their portfolios – we continue to estimate emissions from these asset classes using public market proxies.• Similarly, we continue to talk to our private credit managers about providing emissions data for their portfolios. These strategies are currently not part of the Sub-Portfolio.• For the third consecutive year, the 2023 absolute emissions and carbon footprint calculations and report were verified by PwC.

Responsible Investing Update

Sustainable and Low Carbon

Commitment	Status
Allocate 10% of LTCAP to sustainable and low carbon investment strategies by 2025	<ul style="list-style-type: none">• At December 31, 2023, exposure was 6.8% based on LTCAP's NAV exposure.• Exposure includes strategies representative of multiple asset classes and investment programs including Public Equities, Alternative Credit and Private Equity.• UTAM's Responsible Investing Committee continues to review existing strategies for inclusion.• We are on pace to achieve this target during 2024.

Responsible Investing Update

Engagement Highlights

Net-Zero Asset Owner Alliance Engagement Target

- UTAM has achieved its interim target of engaging with 20 companies between 2019 and 2025, with a focus on the ones that contribute most to the owned emissions in the LTCAP public equity portfolio.
- Our collaborative engagement initiatives (e.g., Climate Action 100+, Climate Engagement Canada, SHARE UNIE) and our 3rd party engagement providers (e.g., EOS at Federated Hermes) have engaged on our behalf with many of these companies including the world's top emitters over the past 5+ years.
- Through the above-mentioned collaborative engagement initiatives, we are also active participants in a number of engagements, as we participate in agenda setting as well as direct dialogues with corporate management teams and board members.
- Moreover, we actively engage with our investment managers, who in turn engage with companies on our behalf.

Responsible Investing Update

Principles for Responsible Investment (PRI)

- Approximately 80% of LTCAP’s active exposure was managed by PRI signatories at year-end 2023
 - 60% of our managers who are not signatories are either managers that are under redemption or private market managers who we do not intend to allocate further capital to.
- PRI released its 2023 assessment reports (for activities during calendar year 2022) in Q1 2024. UTAM received an average absolute score of 85 (out of 100) as well as four out of five stars in each of the seven PRI modules that are relevant to UTAM and LTCAP. We scored higher than the median respondent across all modules, irrespective of whether we compare our results to a peer group of asset owners with similar levels of assets under management to LTCAP (US \$1B to \$10B) or to a peer group that includes *all* asset owners.

Module	2023			2021		
	UTAM	Median AUM: US \$1B to \$10B	Median AUM: All	UTAM	Median AUM: US \$1B to \$10B	Median AUM: All
Policy Governance & Strategy ¹	★★★★ (90)	★★★ (60)	★★★ (65)	★★★★★ (93)	★★★ (57)	★★★ (62)
Listed Equities	★★★★ (78)	★★★ (60)	★★★ (64)	★★★★ (78)	★★★★ (69)	★★★★ (71)
Fixed Income	★★★★ (87)	★★★ (60)	★★★ (61)	★★★★ (81)	★★★ (58)	★★★ (62)
Private Equity	★★★★ (87)	★★★★ (71)	★★★★ (66)	★★★★ (79)	★★★★ (67)	★★★★ (66)
Real Estate	★★★★ (87)	★★★★ (67)	★★★ (64)	★★★★ (80)	★★★★ (67)	★★★★ (68)
Hedge Funds	★★★★ (87)	★★★ (49)	★★★ (41)	★★★★ (76)	★★ (31)	★★★ (42)
Building Confidence Measures	★★★★ (80)	★★★ (65)	★★★★ (71)	n/a	n/a	n/a

^[1] Formerly “Investment & Stewardship Policy” in 2021 Assessment