



FOR INFORMATION

PUBLIC

OPEN SESSION

TO: Business Board

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DATE: November 20, 2024 for November 27, 2024

AGENDA ITEM: 4

ITEM IDENTIFICATION:

Investments: Semi-Annual Update on Investment Performance to June 30, 2024.

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] (November 27, 2024)

PREVIOUS ACTION TAKEN:

The Business Board reviewed UTAM's semi-annual update on investment performance for periods ending December 31, 2023, and an update on its responsible investing activities at its meeting of April 24, 2024.

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) for periods ending June 30, 2024.

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 which 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 the Reference Portfolio, which outlines both the policy asset mix and the public market 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 to put those short-term results in perspective. The primary objective is the achievement of long-term investment return targets while controlling risk 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 UTAM-managed investment pools over various periods ending June 30, 2024. All returns are annualized except for periods less than one year, and are net of investment fees and expenses, including UTAM costs.

Long-Term Capital Appreciation Pool (LTCAP):	6-month return	1-year return	5-year return	10-year return
Actual Return	8.5%	13.9%	8.4%	8.0%
Target Return (CPI + 4%)				6.5%
Reference Portfolio Return	8.7%	15.2%	7.1%	6.8%
Actual Return versus Target Return:¹				1.5 ppts
Actual Return versus Reference Portfolio Return:¹	-0.3 ppts	-1.3 ppts	1.4 ppts	1.2 ppts

Medium-Term Expendable Funds Investment Pool (EFIP MT):²	6-month return	1-year return	5-year return	10-year return
Actual Return	2.7%	9.4%	-	-
Target Return	1.6%	7.2%	-	-
Actual Return versus Target Return:¹	1.1 ppts	2.3 ppts	-	-

Short-Term Expendable Funds Investment Pool (EFIP ST):	6-month return	1-year return	5-year return	10-year return
Actual Return	2.2%	5.8%	2.3%	2.1%
Target Return	2.0%	5.3%	1.9%	1.7%
Actual Return versus Target Return:¹	0.2 ppts	0.5 ppts	0.4 ppts	0.3 ppts

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

² The inception date of the EFIP MT was January 1, 2020. Since its inception, the EFIP MT has returned 2.8% per annum compared to its Target Return of 1.7% per annum.

FINANCIAL IMPLICATIONS:

See above.

RECOMMENDATION:

For information.

DOCUMENTATION PROVIDED:

- *Semi-annual Update on Investment Performance to June 30, 2024*

Semi-Annual Update on Investment Performance

For the Period Ending June 30, 2024

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

November 27, 2024

Presentation to Business Board

Assets Under Management (\$M)

	June 30, 2023	June 30, 2024
LTCAP	4,007	4,565
EFIP ST (short-term)	2,436	2,371
EFIP MT (mid-term)	936	1,070
Total	7,380	8,005

- Over the past 12 months, total assets under management increased by 8.5% to more than \$8 billion.

Performance: LTCAP and EFIP

Periods ending June 30, 2024

	H1 2024	1 Year	5 Years	10 Years
LTCAP	8.5%	13.9%	8.4%	8.0%
EFIP Total	2.4%	6.8%	2.2%	2.0%
EFIP ST	2.2%	5.8%	2.3%	2.1%
EFIP MT	2.7%	9.4%		

- Public equity indices continued to appreciate in H1 2024 with the MSCI ACWI returning 11.6% in USD terms, driven largely by the “Magnificent 7” and even moreso by a smaller number of names (i.e., NVIDIA, Meta, Netflix, Amazon, Microsoft), which realized H1 2024 returns ranging from approximately 20% to 150%.
- In H1 2024, LTCAP returned 8.5% while EFIP returned 2.4%. Over the past 10 years, LTCAP and EFIP returned 8.0% and 2.0% 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 costs. Moreover, all returns for periods greater than 1 year are annualized unless otherwise noted.

Performance: Evaluating Returns

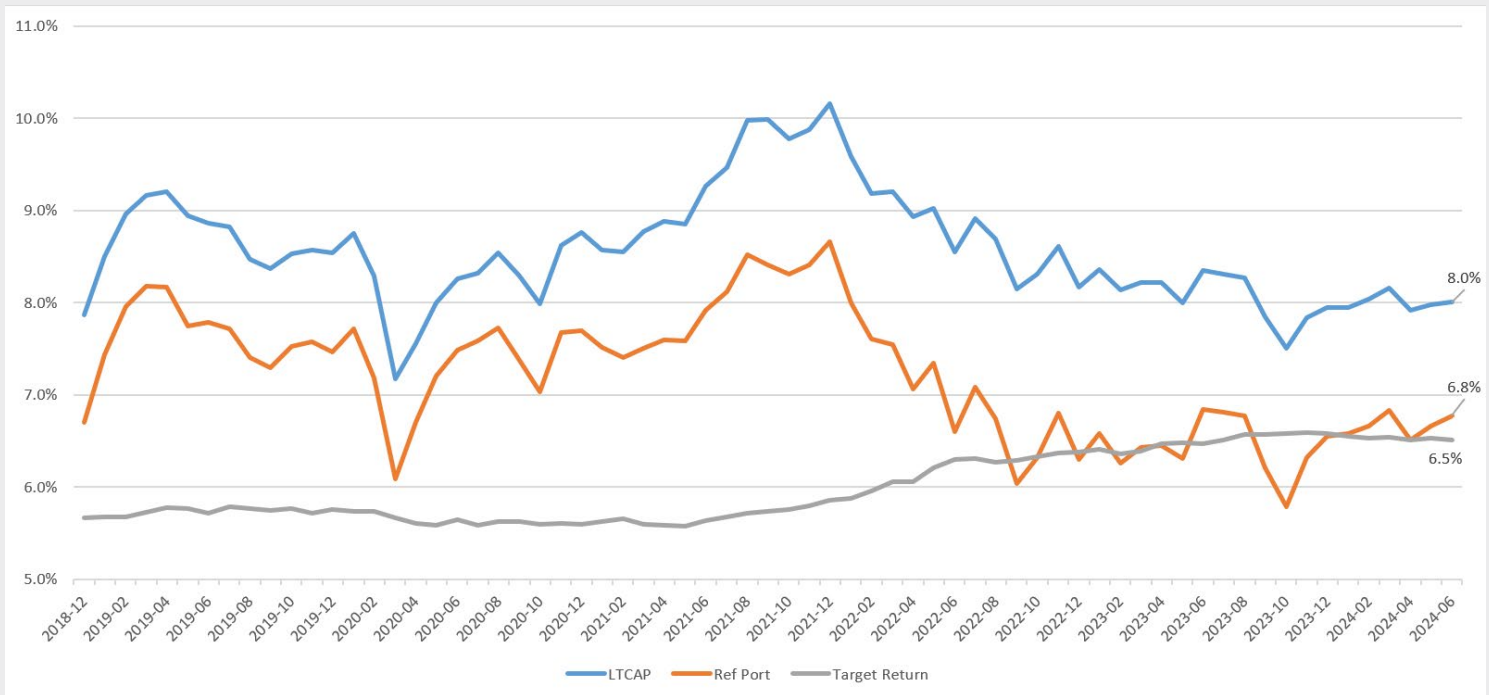
The previous slide showed the returns of all portfolios. But how do those returns relate to what was available in the capital markets, and how much did UTAM add or detract with its active management approach? The following definitions are required to answer these questions:

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 the EFIP Short-Term and Medium-Term portfolio 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 (note that the BA portion of the ST Benchmark switched to CORRA +10 bps starting June 1st). 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 June 30, 2024



- The Reference Portfolio (“RP”, orange line) is designed to achieve the University’s Target Return (grey line) of CPI + 4% 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 has consistently outperformed the RP and the Target Return.
- After trending up during the inflationary spike in 2021/2022, Canadian inflation has moderated and trended lower back to within $\pm 1\%$ of the Bank of Canada’s 2% per annum target.

Performance: LTCAP vs Reference Portfolio

Periods ending June 30, 2024

	H1 2024	1 Year	5 Years	10 Years
Actual Portfolio Returns				
LTCAP	8.5%	13.9%	8.4%	8.0%
Reference Portfolio Returns				
Reference Portfolio	8.7%	15.2%	7.1%	6.8%
Actual minus Reference Portfolio¹				
LTCAP Relative Performance	-0.3 ppts	-1.3 ppts	1.4 ppts	1.2 ppts

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.

- LTCAP underperformed the Reference Portfolio by 0.3 percentage points (ppts) during H1 2024. The underperformance has continued to be driven by private investments, as their valuations (including lagged valuations) have not kept up with the continued strong and highly concentrated returns of public equities (MSCI ACWI +11.5% and 20% over H1 2024 and 1-Year periods, respectively).
- LTCAP's long-term track record remains strong, as it has generated strong absolute and relative returns over the 5-year and 10-year time horizons.

Performance Efficiency

Periods ending June 30, 2024

	5 Years	10 Years
Sharpe Ratio		
LTCAP	0.8	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 June 30, 2024

	H1 2024	1 Year	5 Years	10 Years
UTAM Value-Add (percentage points)				
LTCAP VA (ppts)	-0.3 ppts	-1.3 ppts	1.4 ppts	1.2 ppts
UTAM Value-Add (\$ millions)¹				
LTCAP VA (\$M)	-11.8	-54.0	236.9	350.8

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 remains negative over the short horizons (< 1-year), despite continuing to be strong over longer time horizons.
- Over the 5-year horizon, on a simple arithmetic basis (i.e., excluding the impact of compounding), LTCAP's dollar value-add was \$236.9 million.
- Importantly, the 10-year dollar value-add of LTCAP was \$350.8 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	39	24
Portable Alpha (Gov't Bonds + ARP)	46	40
Public Equity	16	16
Public Credit	8	8
Real Estate	4	4
Private Equity	-6	-6
Risk-Reducing Trades	-4	0
Other Effects	20	0
Total	123	86

- Over the past 10 years, most of the active strategies contributed positively to LTCAP's value-add compared to the Reference Portfolio.

Performance: EFIP vs Target

Periods ending June 30, 2024

	H1 2024	1 Year	5 Years	10 Years
Actual Portfolio Returns				
EFIP STP	2.2%	5.8%	2.3%	2.1%
EFIP MTP	2.7%	9.4%		
EFIP TOTAL (weighted average)	2.4%	6.8%	2.2%	2.0%
University Target Returns				
50% FTSE ST Unv + 50% CORRA+10bps ¹	2.0%	5.3%	1.9%	1.7%
FTSE Cdn All Corporate BBB Index	1.6%	7.2%		
Weighted Average	1.9%	5.8%	1.7%	1.6%
Actual minus Target (percentage points)				
EFIP STP	0.2 pts	0.5 pts	0.4 pts	0.3 pts
EFIP MTP	1.1 pts	2.3 pts		
EFIP TOTAL (weighted average)	0.4 pts	1.0 pts	0.5 pts	0.4 pts

- Both the STP and MTP performed well and outperformed their Target Returns during H1 2024.
- Over the past 10 years, EFIP returned 2.0% and outperformed its Target Return by 0.4 pts p.a.

Performance: EFIP Value-Add in Dollar Terms

Periods ending June 30, 2024

	H1 2024	1 Year	5 Years	10 Years
UTAM Value-Add (percentage points)				
EFIP STP	0.2 pts	0.5 pts	0.4 pts	0.3 pts
EFIP MTP	1.1 pts	2.3 pts		
UTAM Value-Add (\$ millions)				
EFIP STP	5.0	12.4	49.8	72.3
EFIP MTP	11.2	20.0		
EFIP STP + MTP	16.2	32.5	75.4	97.9

- EFIP's dollar value-add in H1 2024 was \$16.2 million.
- EFIP's 10-year aggregate dollar value-add was \$97.9 million.

Appendix C: LTCAP Active Risk: Actual Risk minus Reference Risk

June 30, 2024

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)	9.2
LTCAP Active Risk (A – C)	0.3

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

Current Asset Allocation and Limits: LTCAP

June 30, 2024 (Post-Rebalancing Asset Mix)

	Reference Portfolio %	Actual Portfolio %	Outside Full Bands?	--- Full Bands ---		Outside IC Bands?	--- IC Bands ---	
				Min %	Max %		Min %	Max %
Equity:								
Global	60.0	59.8	N	50.0	70.0	N	55.0	65.0
Credit (Corporate Credit)	20.0	20.0	N	10.0	30.0	N	15.0	25.0
Rates (Government Bonds)	20.0	20.0	N	10.0	30.0	N	15.0	25.0
Total Fixed Income	40.0	40.0	N	25.0	50.0	N	32.5	45.0
Absolute Return Hedge Funds	0	12.9	N	0.0	15.0	N	0.0	15.0
Cash and Cash Equivalents	0	-12.8	N	-15.0	5.0	N	-15.0	5.0
Total	100.0	100.0						
Currency Exposure:	32.3	32.9	N	25.0	40.0	N	29.0	36.0

Total Direct Leverage (IC definition) as a % of LTCAP assets:	13.0%
Maximum Direct Leverage (IC definition) as a % of LTCAP assets:	18.0%

Green font designates exception granted to the typical half-way limits

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 ~8.1%.

- At the end of H1 2024, LTCAP was in compliance with all limits.