



**FOR INFORMATION**

**PUBLIC**

**OPEN SESSION**

**TO:** Business Board

**SPONSOR:** Trevor Rodgers, Chief Financial Officer

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**DATE:** April 16, 2025 for April 23, 2025

**AGENDA ITEM:** 7

**ITEM IDENTIFICATION:**

Semi-Annual Update on Investment Performance and Responsible Investing Activities to December 31, 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] (April 23, 2025)**

**PREVIOUS ACTION TAKEN:**

The UTAM financial statements for the year ended December 31, 2024 were approved by the UTAM Board at its meeting of March 18, 2025. However, the UTAM Board has not yet approved the complete 2024 UTAM Annual Report, including the summary of annual investment activities, governance, risk management, portfolio performance, and responsible investing activities. Therefore, the 2024 UTAM Annual Report, including the UTAM audited financial statements for the year ended December 31, 2024, will be provided for information at the next Business Board meeting on June 17, 2025.

## **HIGHLIGHTS:**

In 2024, 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 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, 2024, LTCAP returned 8.1% per annum (net of all fees and expenses), outperforming its target return by 1.5 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 active strategies. In 2024, the actual LTCAP return (net of all fees and expenses) was lower than the Reference Portfolio return by 1.9 percentage points (14.9% versus 16.8%). Over the 10-year period ending December 31, 2024, LTCAP’s 8.1% return outperformed the Reference Portfolio by 0.9 percentage points per annum, adding approximately \$250 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 2024 was 6.4% (net of all fees and expenses), which exceeded its target return of 6.0% by 0.4 percentage points. 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 \$90 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. In fact, we have achieved this target approximately five years early, as 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) fell by 71.5% and 68.4%, respectively, over the 2019 to 2024 period.<sup>1</sup> Despite having achieved the target reduction in the carbon footprint much earlier than expected, we believe there is a risk of reversion in the short-to-medium term and we are therefore not recommending a new target at this time.

As also noted in the presentation, we have progressed well towards achieving the fossil fuel divestment targets, removing more than \$40 million of exposure to fossil fuel companies since year-end 2021 despite the value of LTCAP increasing by approximately \$700 million over this period. We continue to engage with our managers to further reduce LTCAP's exposure to fossil fuel companies in the coming years.

## **2024 UTAM Annual Report**

For the 2024 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 2024 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, 2024, has been factored into the University's budget planning process for 2025-26.

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<sup>1</sup> For the fourth consecutive year, PwC has been engaged to conduct a limited assurance review of the carbon footprint results. Although this process is still ongoing, we do not expect any material changes to the emission figures reported above and in the accompanying presentation.

**RECOMMENDATION:**

For information.

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**DOCUMENTATION PROVIDED:**

- *Semi-annual Update on Investment Performance and Responsible Investing Activities to December 31, 2024.*

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# Semi-Annual Update on Investment Performance

For the Period Ending December 31, 2024

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

**April 23, 2025**

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**Presentation to Business Board**

# Assets Under Management (\$M)

	Dec 31, 2023	Dec 31, 2024
LTCAP	4,239	4,878
EFIP ST (short-term)	2,889	2,858
EFIP MT (mid-term)	1,027	1,141
<b>Total</b>	<b>8,156</b>	<b>8,877</b>

- Over the past 12 months, total assets under management increased by 8.9% to almost \$9 billion.

# Performance: LTCAP and EFIP

Periods ending December 31, 2024

	YTD	1 Year	5 Years	10 Years
LTCAP	14.9%	14.9%	8.7%	8.1%
EFIP Total	6.4%	6.4%	2.8%	2.3%
EFIP ST	5.8%	5.8%	2.8%	2.3%
EFIP MT	7.7%	7.7%	3.5%	

- LTCAP continued to perform well on an absolute basis in Q4. While equity markets were mixed, MSCI ACWI still returned 3.7% (in CAD terms, 50% hedged). Fixed Income indices also showed some divergent results with the Corporate Index returning 0.9% over the quarter while Government Bonds return -0.4%.
- On a YTD basis, LTCAP returned 14.9% while EFIP returned 6.4%. Over the past 10 years, LTCAP and EFIP returned 8.1% and 2.3% 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

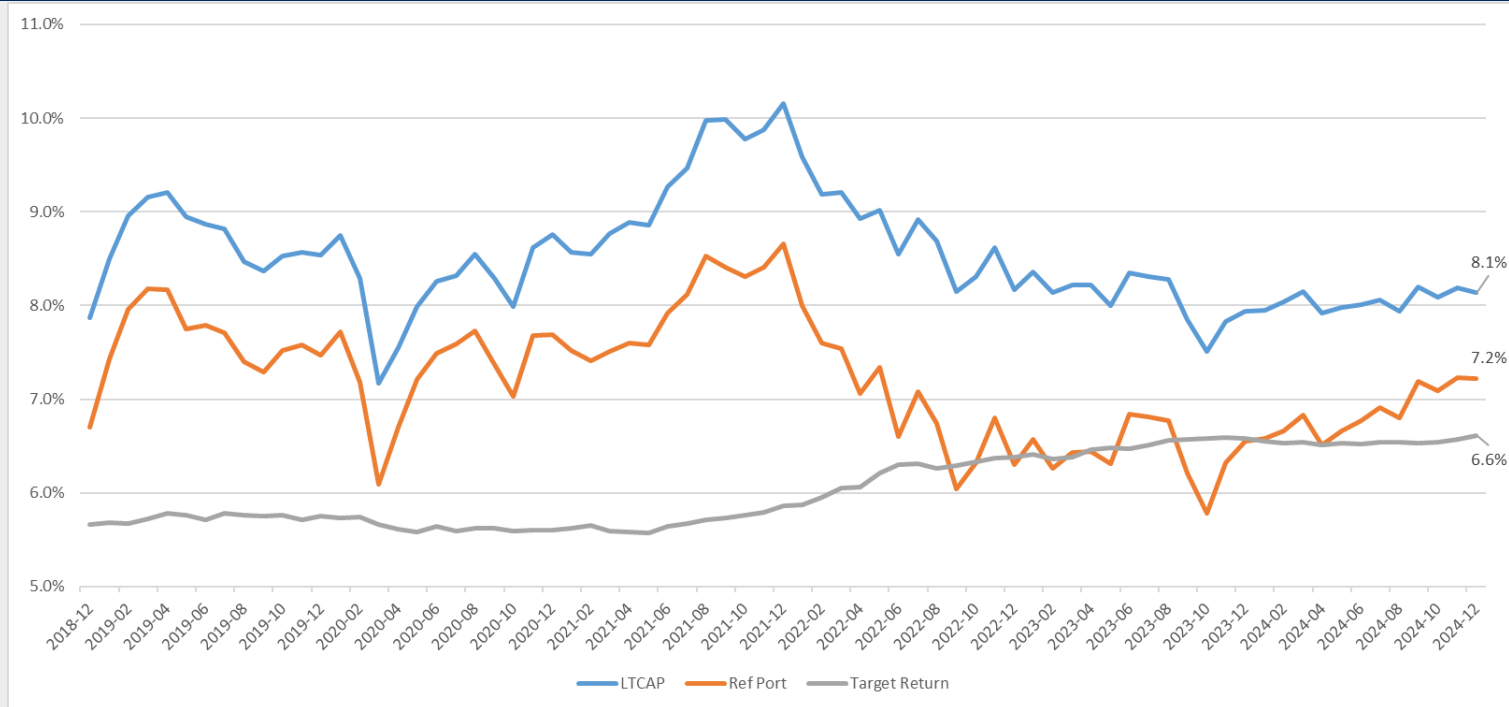
The previous slide showed the returns of all portfolios. But how do those returns relate to what was available in the capital markets, and how much did UTAM add or detract with its active management approach? The following definitions are required to answer these questions:

**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% CORRA +10 bps. 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

Ending December 31, 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: Actual vs Reference

Periods ending December 31, 2024

	YTD	1 Year	5 Years	10 Years
<b>Actual Portfolio Returns</b>				
LTCAP	14.9%	14.9%	8.7%	8.1%
<b>Reference Portfolio Returns</b>				
LTCAP Reference Portfolio	16.8%	16.8%	7.6%	7.2%
<b>Actual minus Reference (UTAM value-add)</b>				
LTCAP Relative Performance	-1.9 pts	-1.9 pts	1.1 pts	0.9 pts

- LTCAP underperformed the Reference Portfolio by 1.9 percentage points (ppts) in 2024. The short-term underperformance has continued to be driven primarily by private equity as the strong and highly concentrated returns of public equity indexes have proved difficult for private equity to keep up with.
- 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 December 31, 2024

	5 Years	10 Years
<b>Sharpe Ratio</b>		
LTCAP	0.7	0.8
Reference Portfolio	0.5	0.7
<b>Information Ratio</b>		
LTCAP	0.4	0.4

- 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 December 31, 2024

	YTD	1 Year	5 Years	10 Years
<b>UTAM Value-Add (percentage points)</b>				
LTCAP VA (ppts)	-1.9 ppts	-1.9 ppts	1.1 ppts	0.9 ppts
<b>UTAM Value-Add (\$ millions) <sup>1</sup></b>				
LTCAP VA (\$M)	-76.7	-76.7	177.3	249.3

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 ( $\leq 1$ -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 \$177.3 million.
- Importantly, the 10-year dollar value-add of LTCAP was \$249.3 million (also using arithmetic basis).

# UTAM Value-Add Contribution by Strategy: 10 Years ending December 31, 2024

Contribution to LTCAP's Value-Add by Strategy (estimated in basis points)		
	All Effects	Mgr Selection
Alternative Credit	39	20
Portable Alpha (Gov't Bonds + ARP)	40	34
Public Equity	0	0
Public Credit	8	8
Real Estate	0	0
Private Equity	-2	-2
Risk-Reducing Trades	-4	0
Other Effects	11	0
<b>Total</b>	<b>91</b>	<b>61</b>

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

# Performance: EFIP vs Target

Periods ending December 31, 2024

	YTD	1 Year	5 Years	10 Years
<b>Actual Portfolio Returns</b>				
EFIP STP	5.8%	5.8%	2.8%	2.3%
EFIP MTP	7.7%	7.7%	3.5%	
EFIP TOTAL (weighted average)	6.4%	6.4%	2.8%	2.3%
<b>University Target Returns</b>				
50% FTSE ST Unv+50% CORRA+10bps <sup>1</sup>	5.3%	5.3%	2.3%	2.0%
FTSE Cdn All Corporate BBB Index	7.8%	7.8%	2.7%	
Weighted Average	6.0%	6.0%	2.3%	1.9%
<b>Actual minus Target (percentage points)</b>				
EFIP STP	0.5 ppts	0.5 ppts	0.4 ppts	0.4 ppts
EFIP MTP	-0.1 ppts	-0.1 ppts	0.8 ppts	
EFIP TOTAL (weighted average)	0.4 ppts	0.4 ppts	0.5 ppts	0.4 ppts

- Both the STP and MTP have performed well over the past year.
- Over the past 10 years, EFIP returned 2.3% p.a. and outperformed its Target Return by 0.4 ppts p.a.

# Performance: EFIP Value-Add in Dollar Terms

Periods ending December 31, 2024

	YTD	1 Year	5 Years	10 Years
<b>UTAM Value-Add (percentage points)</b>				
EFIP STP	0.5 pts	0.5 pts	0.4 pts	0.4 pts
EFIP MTP	-0.1 pts	-0.1 pts	0.8 pts	
<b>UTAM Value-Add (\$ millions)</b>				
EFIP STP	13.4	13.4	53.9	79.3
EFIP MTP	-1.5	-1.5	12.9	
<b>EFIP STP + MTP</b>	<b>11.9</b>	<b>11.9</b>	<b>66.8</b>	<b>92.2</b>

- EFIP's dollar value-add over the past year was \$11.9 million.
- Most importantly, EFIP's 10-year dollar value-add was \$92.2 million.

# LTCAP Active Risk: Actual Risk minus Reference Risk

December 31, 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)	9.3
LTCAP Active Risk (A – C)	0.2

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

# Current Asset Allocation and Limits: LTCAP

December 31, 2024 (Post-Rebalancing Asset Mix)

	Reference Portfolio %	Actual Portfolio %	Outside Full Bands?	--- Full Bands ---		Outside IC Bands?	--- IC Bands ---	
				Min %	Max %		Min %	Max %
<b>Equity:</b>								
Global	60.0	59.9	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
<b>Total Fixed Income</b>	<b>40.0</b>	<b>40.0</b>	<b>N</b>	<b>25.0</b>	<b>50.0</b>	<b>N</b>	<b>32.5</b>	<b>45.0</b>
Absolute Return Hedge Funds	0	13.3	N	0.0	15.0	N	0.0	15.0
Cash and Cash Equivalents	0	-13.3	N	-15.0	5.0	N	-15.0	5.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>						
<b>Currency Exposure:</b>	<b>32.2</b>	<b>32.7</b>	<b>N</b>	<b>25.0</b>	<b>40.0</b>	<b>N</b>	<b>29.0</b>	<b>36.0</b>

Total Direct Leverage (IC definition) as a % of LTCAP assets:	13.4%
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 H2, 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 October 27, 2021)	<ul style="list-style-type: none"> <li>Completed in early October 2022</li> </ul>
Divest from indirect exposure to investments in fossil fuel companies by 2030	<ul style="list-style-type: none"> <li>Indirect exposure to fossil fuel companies comprised 0.9% of LTCAP at December 31, 2024<sup>(1)</sup> compared to 2.0% at December 31, 2022.</li> <li>LTCAP's year-over-year (YOY) dollar exposure to fossil fuel companies fell by \$17 million and it has fallen by more than \$40 million since year-end 2021, despite significant increases in the value of LTCAP over these periods and the addition of fossil fuel exposure from the Alternative Credit Program beginning December 31, 2024.</li> <li>The YOY reduction in fossil fuel companies in 2024 was primarily driven by changes in the holdings of two public equity managers. Unless UTAM successfully negotiates fossil fuel-free solutions with these managers, there is a risk that these YOY changes revert in the short-to-medium term.</li> <li>Effective October 1, 2024, all Reference Portfolio benchmarks reflect indexes that exclude fossil fuel companies.</li> <li>Although not included in President Gertler's divestment commitment, we divested fossil fuel exposure from EFIP during 2022.</li> </ul>

# 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"> <li>• This target was achieved in 2024.</li> <li>• The Sub-Portfolio's carbon footprint (tCO2e/\$M) fell by 71.5% from December 31, 2019 to December 31, 2024, including a YOY decrease of 43.2% in 2024.</li> <li>• Over the same 2019-2024 period, the Sub-Portfolio's absolute emissions (tCO2e) fell by 68.4%, including a YOY decrease of 38.2% in 2024.</li> <li>• Despite significant reductions in the Sub-Portfolio's carbon footprint and absolute emissions, we view much of the 2024 YOY reductions as unrealized, as they were driven primarily by changes in the holdings of two public equity managers (i.e., as opposed to portfolio management changes implemented by UTAM), which are susceptible to reversion over the short-to-medium term.</li> <li>• We continue to work with these and other public equity managers to launch fossil fuel-free solutions to 'lock-in' the 2024 emissions reduction. We are reluctant to establish a new carbon reduction target until we do so.</li> <li>• For the 4<sup>th</sup> consecutive year, the 2024 absolute emissions and carbon footprint calculations are being verified by PwC. Although this 2024 limited assurance process is ongoing, we do not expect material changes to the emissions results.</li> </ul>

# 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"><li>• This objective was achieved in 2024.</li><li>• At December 31, 2024, exposure was 11.7% based on LTCAP's NAV exposure.</li><li>• Exposure includes strategies representative of multiple asset classes and investment programs including Public Equities, Public Credit, Alternative Credit and Private Equity.</li><li>• The UTAM investment team continues to source and evaluate Sustainable and Low Carbon strategies that may be a good fit for LTCAP.</li></ul>

# Responsible Investing Update

## Engagement Highlights

### **Net-Zero Asset Owner Alliance Engagement Target**

- UTAM will be setting a new interim corporate issuer engagement target for the 2025 to 2029 period, with a focus on issuers 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 3<sup>rd</sup> 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 many years.
- Through the above-mentioned collaborative engagement initiatives, we actively participate in many engagements, including 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 actively 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 2024
- PRI released its 2024 assessment reports (for activities during calendar year 2023) in Q4 2024:
  - UTAM received an average absolute score of 88 (out of 100) as well as 5/5 stars in four of the seven PRI modules that are relevant to UTAM and LTCAP and 4/5 stars in the remaining three modules.
  - Our scores ranked favourably compared to peer asset owner respondents 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	2024			2023		
	UTAM	Median AUM: US \$1B to \$10B	Median AUM: All	UTAM	Median AUM: US \$1B to \$10B	Median AUM: All
Policy Governance & Strategy	★★★★ (84)	★★★ (63)	★★★★ (68)	★★★★ (90)	★★★ (60)	★★★ (65)
Listed Equities	★★★★ (89)	★★★ (64)	★★★★ (69)	★★★★ (78)	★★★ (60)	★★★ (64)
Fixed Income	★★★★★ (92)	★★★★ (67)	★★★★ (67)	★★★★ (87)	★★★ (60)	★★★ (61)
Private Equity	★★★★★ (92)	★★★★ (79)	★★★★ (73)	★★★★ (87)	★★★★ (71)	★★★★ (66)
Real Estate	★★★★★ (92)	★★★★ (77)	★★★★ (71)	★★★★ (87)	★★★★ (67)	★★★ (64)
Hedge Funds	★★★★★ (92)	★★★ (65)	★★★ (65)	★★★★ (87)	★★★ (49)	★★★ (41)
Building Confidence Measures	★★★★ (80)	★★★★ (80)	★★★★ (80)	★★★★ (80)	★★★ (65)	★★★★ (71)