



University of Toronto

OFFICE OF THE VICE-PRESIDENT, BUSINESS AFFAIRS

TO: Business Board

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AGENDA ITEM: 3 (a)

ITEM IDENTIFICATION:

UTAM Review and Recommendations 2007

JURISDICTIONAL INFORMATION:

The Business Board is responsible for approval of the conditions for the delegation of authority to a University-controlled asset management corporation for the management of the investment of University funds and pension funds, including provisions for appointment of an expert Board to oversee the work of that corporation and arrangements for the appointment and removal of its members.

The Business Board reviews semi-annual and annual reports from UTAM.

PREVIOUS ACTION TAKEN:

The Business Board most recently approved the amended personnel and service agreement between the University and UTAM on April 7, 2003. Business Board reviewed the annual report of UTAM on April 11, 2007.

HIGHLIGHTS:

The purpose of this report is to review the governance and operation of UTAM, to assess whether it has fulfilled the objectives set out when it was created.

The University of Toronto Asset Management Corporation (UTAM) was created on May 1, 2000 as a wholly owned and controlled subsidiary to manage the financial assets of the University of Toronto and of the U of T pension plans. The expected benefits were:

- improved corporate governance and control,
- improved investment expertise and
- potential for greater returns.

UTAM aims to add value in the following areas:

- Reducing risk.
- Generating excess returns.
- Providing infrastructure.
- Providing a comprehensive control system.

While there has been a significant increase in professionalism of the investment process since UTAM's formation seven years ago, there continue to be questions on the part of governors and others about UTAM's contribution. Seven years of operation provides a solid base of information on which to base this review, which has included the following:

- We assessed whether the University's process for setting risk and return targets is appropriate.
- We assessed what is most important to the University with respect to investment performance. Is it:
 - Meeting the University's investment risk and return targets,
 - Meeting or exceeding market benchmarks, or
 - Beating our university and pension peers.
- We reviewed the current governance and assessed whether the relationship between the University and UTAM can be further clarified and enhanced.
- We sought input from a consultant (KPA Associates) on the governance issues.
- We compared UTAM to various outside standards:
 - 7 university peers with sophisticated investment strategies and infrastructure.
 - Investment practice standards for investment stewards promulgated by Fiduciary360.
- We sought input from a communications consultant (Craib Strategic Directions) on:
 - UTAM stakeholder perceptions.
 - benchmarking of UTAM's communications against 13 university and 3 pension fund peers.

Our overall conclusion from this review is that UTAM is a strong, well managed organization that has essentially achieved the objectives set out for it, but that the University and UTAM have not effectively communicated its achievements so that they are well understood by the broader community of stakeholders. While the current process, infrastructure and control environment are vastly improved over the pre-2000 period, there remain areas where further improvement is needed. There continue to be some areas of confusion within the governance process, what constitutes good performance is not well understood, and communications, while comparing very favourably to peers, could be further enhanced. We have outlined several recommendations to address these issues:

1. Confirm that the University's overriding objective with respect to investment performance is the achievement of the investment risk and return targets approved by the Business Board. Focus on achievement of those University investment risk and return targets, with secondary emphasis on market benchmarks and low emphasis on peer comparisons, except with respect to fees and expenses.
2. Explore the concept of a "reference" benchmark reflecting a passive, public markets portfolio.

3. Clarify that the UTAM Board is responsible for the selection of market benchmarks and peer universes against which UTAM's external managers and UTAM staff are evaluated.
4. Clarify the relationship between the UTAM Board and the Business Board by defining the responsibilities associated with the roles of owner and customer. Consider whether there are any other options for oversight within the current governance structure.
5. Review the membership of the UTAM Board and delegate to the President of the University the selection of University representatives to the UTAM Board.
6. Separate the delegation of authority from the service agreement. The delegation of authority will clearly state what are the University's responsibilities and what the University is delegating to UTAM. The service agreement will become a more standardized description of the services to be provided by UTAM to the University.
7. Report semi-annually to governance with a full annual report to be provided after each calendar year end.
8. Produce a quarterly report for public distribution.
9. Implement the communications consultant's recommendations that are within the scope of UTAM.

The report provides detailed commentary of the issues and the rationale for these recommendations. Those recommendations requiring board approvals are contained in other documentation in front of the Business Board at this meeting.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

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RECOMMENDATION:

For information.