TO: Business Board

SPONSOR: Catherine Riggall
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DATE: December 5, 2007 for December 17, 2007

AGENDA ITEM: **4**

ITEM IDENTIFICATION:

Pension Master Trust Investment Policy

JURISDICTIONAL INFORMATION:

The Business Board approves all policies with respect to financial programs and transactions.

PREVIOUS ACTION TAKEN:

The pension fund master trust investment policy was last approved by the Business Board on June 21, 2007.

HIGHLIGHTS:

The current investment risk and return targets for the pension master trust are an annual 10% standard deviation over 10 years and a 4% real return, net of investment fees and expenses, plus CPI, over 10 years.

An asset liability study was conducted on our behalf by Hewitt Associates Corp. in Spring 2007 to determine whether the current targets continue to be appropriate or whether they should be changed.

The study showed that there has been a modest increase in the expected real return associated with a 10% standard deviation. We have reviewed the 10% risk tolerance and confirmed that we are comfortable with it in the context of its implications for the University's operating budget. Our assessment of the current market climate suggests that it would not be prudent to raise the minimum real return target at this time.

We propose to:

- Maintain the risk tolerance at an annual standard deviation of 10% over ten years and to confirm that it is the overriding objective.

- Expand the description of acceptable risk to provide additional information on the University's lower tolerance for downside risk, with preference not to lose money, to help UTAM design an "all weather" portfolio that is designed to protect pension assets during market downturns.

- State the return objective as "at least" a 4.0% real return objective, plus CPI, over ten years, net of investment fees and expenses, within the overall constraint of the risk tolerance of 10%.

We also considered and rejected a minimum risk approach which would have resulted in a risk tolerance of an annual standard deviation of 5.0% and a real return of 1.8%. Both employee and employer current service contributions and special payments would have to be much higher under this approach.

We are continuing to review the pension contribution strategy to determine the appropriate reserving going forward (the current strategy provides for a $27 million per annual special payment budget).

The attached paper outlines the current investment approach, presents and discusses the Hewitt Associates pension asset liability study, and provides the rationale for the recommendations. Attachment 1 to the paper contains the revised pension fund master trust investment policy for approval. Attachment 2 to the paper contains a black lined version of that revised policy, showing the changes from the June 21, 2007 approved policy.

FINANCIAL AN
D/OR PLANNING IMPLICATIONS:

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RECOMMENDATION:

That the proposed University of Toronto Pension Fund Master Trust Investment Policy, a copy of which is attached to Ms. Riggall's memorandum of November 30, 2007 as attachment 1, be approved.