



University of Toronto

OFFICE OF THE VICE-PRESIDENT, BUSINESS AFFAIRS

TO: Business Board

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DATE: January 21, 2009 for February 11, 2009

AGENDA ITEM: 8

ITEM IDENTIFICATION:

Investment Benchmarking: A Reference Portfolio for Evaluating Investment Management

JURISDICTIONAL INFORMATION:

The Business Board receives reports for information on financial matters.

PREVIOUS ACTION TAKEN:

At its meeting of April 28, 2008, Business Board approved a Delegation of Authority to UTAM and approved the delegation of authority to the President or designate for negotiation of an investment management agreement between the University and UTAM including benchmarks.

HIGHLIGHTS:

A review of UTAM conducted in 2007 concluded that UTAM had essentially achieved the objectives set out for it, but that the University and UTAM had not effectively communicated its achievements to make them well understood by the broader community of stakeholders. The study also recommended that the University explore a means of comparing UTAM's active investment strategies to the simpler investment strategies that would only be feasible in the absence of the more sophisticated infrastructure and expertise available from UTAM.

A reference portfolio is a relatively simple portfolio that could be invested passively, which has a reasonable expectation of meeting the University's return target over the long-term. It would also be expected to achieve performance within the risk targets set by the University for UTAM. A key benefit will be to provide an objective tool for assessing the decision to manage investments actively by comparing active management results to those that could be achieved through this simpler investment strategy.

The reference portfolio was developing by considering candidate portfolios that would reasonably be expected to achieve the University's return targets within the risk targets established. These candidate portfolios were also compared to a pre-UTAM portfolio, the reference portfolio for the CPP Investment Board, and an all Canadian portfolio of 50% equities and 50% bonds. The portfolio that was selected as the reference portfolio was the one that ranked in the top 3 across nine categories, of return, risk and reward to risk for short, medium and long-term periods. The reference portfolio that was selected exhibited the following asset mix, with one-half of the foreign exposure hedged against foreign currency exposure, and with the following component benchmarks:

Asset Class	Percentage	Description
Canadian Universe Bonds	35.0%	DEX Universe Bond Index (formerly the Scotia Capital Universe Bond Index), name changed from SCUBI to DEX in October 2007.
Canadian Real Return Bonds	5.0%	iShares CDN Real Return Bond Index Fund, indexed against the DEX Real Return Bond Index.
Canadian Equity Index	30.0%	S&P/TSX Composite Index (Total Return)
US Equity Index	7.5%	S&P 500 Index; Total Return, The data source is from the Standard and Poors website. We calculate the C\$ return using MSCI CAD/US exchange rates.
US Equity Local	7.5%	S&P 500 (L\$) Index; Total return. The data source is from the Standard and Poors website.
MSCI EAFE Equity	7.5%	MSCI EAFE Index (C\$) Net; source data: MSCI
MSCI EAFE Equity Local	7.5%	MSCI EAFE Index (L\$) Net; source data: MSCI

A review of the appropriate periods for use of this reference portfolio concluded that various audiences would be interested in both short-term and longer-term comparisons, although the longer-term comparison are most relevant for evaluation against the University's risk and return targets, which are established for 10-year periods. Therefore, comparisons would be made for 1-year, 4-year and 10-year periods (a transition period would apply until 10 years of data were available for UTAM's active management). It was also concluded that a three-way comparison between the University's risk and return targets, the reference portfolio, and market benchmarks would be the most useful way of integrated the reference portfolio into the comparison

The attached paper describes this reference portfolio in more detail. It is being considered by the University as an additional measure that will likely be implemented to provide additional information on the active investment management strategies that are currently being pursued. It is important to note that none of the measures currently in place would be discontinued and that collectively, quantitative measures do not capture the other benefits derived from the current investment management structures, including the benefits that arise from provision of careful professional infrastructure, controls and oversight.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

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RECOMMENDATION:

For information.