

Portfolio Performance Review

University of Toronto Business Board Meeting

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Annual Returns vs. University Targets

	2012			2 - Year (2011-2012)			4 - Year (2009-2012)		
	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP
University Target Return ¹	4.9%	4.9%	1.5%	5.6%	5.6%	2.0%	5.7%	5.7%	1.8%
Reference Portfolio Return ²	8.8%	8.5%	n.a.	4.4%	4.3%	n.a.	9.2%	9.1%	n.a.
Benchmark Portfolio Return ³	8.3%	8.7%	n.a.	4.5%	4.7%	n.a.	6.5%	6.4%	n.a.
Actual Net Return⁴	9.2%	9.3%	1.6%	5.1%	5.1%	2.1%	6.4%	6.3%	2.2%
Value-Added	0.9%	0.6%	0.1%	0.6%	0.5%	0.1%	-0.1%	-0.1%	0.4%
Assets (December 31; millions)									
2012	\$1,896	\$2,751	\$1,158						
2011	\$1,754	\$2,504	\$1,006						

n.a. = not applicable

- Despite a major restructuring of LTCAP and Pension in 2012, all three portfolios outperformed their benchmarks.

2012 Value-Added Versus New Benchmark

2012 Performance Attribution (%)		
	LTCAP	Pension
Reference Portfolio Return (C\$)	8.75%	8.48%
Value Added Versus Reference Portfolio		
Asset Mix Differences	-0.15%	0.40%
Manager Selection	0.87%	0.65%
Incremental FX Exposure	-0.14%	-0.16%
Fees , Expenses and Other	-0.12%	-0.08%
	0.46%	0.81%
Actual Portfolio Performance (C\$)	9.21%	9.29%

- During 2012 a new Reference Portfolio was adopted as the key benchmark for evaluating the success of active management activities.
- The Reference Portfolio meaningfully outperformed the University Target of 4.9%.
- Active management decisions (net of costs) further added to performance in 2012, especially UTAM's manager selection activities.

A Steady Improvement in Value-Added

Value-Add vs. Benchmark Portfolio - 2010-2012		
2010	LTCAP 0.14%	Pension -0.09%
2011	0.40%	0.35%
2012	0.89%	0.62%

- Value-added has steadily improved each year since 2008.
- Mainly reflects the addition of experienced personnel and the development of enhanced infrastructure at UTAM.

Portfolio Asset Mix

	Endowment		Pension	
(AS AT DECEMBER 31)	2011	2012	2011	2012
Canadian Equity ¹	18.1%	15.9%	17.9%	15.8%
US Equity ^{1,2}	23.6%	17.9%	24.2%	17.8%
Int'l Developed Markets Equity ¹	21.3%	16.4%	21.0%	16.3%
Emerging Markets Equity	2.1%	10.2%	2.1%	10.2%
Credit	17.6%	19.8%	18.1%	20.2%
Rates ¹	7.3%	10.9%	6.7%	10.9%
Absolute Return	10.7%	8.9%	10.1%	8.9%
Cash (including notional offsets) ³	-0.6%	0.0%	-0.1%	-0.1%
Total	100.0%	100.0%	100.0%	100.0%
Cash (actual) ⁴	13.9%	5.6%	13.8%	5.0%
Portfolio Value (millions)	\$1,754	\$1,896	\$2,504	\$2,751

- Changes in asset mix for LTCAP and Pension primarily reflect the adoption of the new Reference Portfolio as the key Benchmark and an evolution in the approach to portfolio construction.

Public Markets' Returns

Public Markets Index Returns (Before Fees)						
	2008	2009	2010	2011	2012	Cum. 2008-12
Canadian Equity (TSX Composite, C\$)	-33.0%	35.1%	17.6%	-8.7%	7.2%	4.1%
U. S. Equity (S&P 500, US\$)	-37.3%	28.3%	16.9%	1.0%	16.0%	10.2%
Int'l Developed Markets Equity (MSCI EAFE, Local)	-40.3%	24.7%	4.8%	-12.2%	17.3%	-19.5%
Emerging Markets Equity (MSCI EM, Local)	-45.9%	62.3%	14.1%	-12.7%	17.0%	2.2%
DEX Corporate	0.2%	16.3%	7.3%	8.2%	6.2%	43.8%
DEX Government	9.0%	1.6%	6.5%	10.2%	2.6%	33.4%
USDCAD	25.1%	-15.1%	-5.2%	2.5%	-2.2%	0.9%
EURCAD	18.9%	-12.3%	-11.4%	-0.8%	-0.7%	-9.0%

- Capital markets delivered surprisingly good returns in 2012, especially for portfolios that were tilted toward non-Canadian equities.

Private Investment Returns

Actual Private Markets Asset Returns (Local)						
(After Fees)						
	2008	2009	2010	2011	2012	Cum. 2008-12
Private Investments	1.5%	-1.2%	20.2%	14.8%	12.8%	56.0%
Buyout	-0.2%	-9.7%	25.5%	14.9%	15.0%	49.5%
Distressed	-7.3%	15.8%	17.6%	8.1%	16.6%	59.2%
Venture	19.9%	-6.9%	2.4%	27.4%	-12.6%	27.4%
Real Assets	-2.9%	-18.0%	13.1%	9.0%	7.1%	5.1%
Real Estate & Infrastructure	-0.3%	-26.2%	15.3%	12.5%	9.5%	4.5%
Commodities	-8.9%	-0.8%	8.8%	1.8%	2.1%	2.2%

➤ Alternative assets (net of fees) continued to post solid returns.

Portfolio Risk vs. Reference Portfolio

Total Risk Attribution

Pension	Volatility %	VaR % (1 Month)	CVaR% (1 Month)
Reference Portfolio	9.68	(4.02)	(6.71)
Actual Portfolio	10.66	(4.75)	(7.59)

Impact On NPV due to the Scenario changes

	Reference Portfolio %	Actual Portfolio %
Rates Up +1 %	(2.55)	(1.87)
S&P 500 Down 10%	(4.01)	(4.42)
Credit Spread Rise 1%	(1.40)	(1.09)
CAD Down 5%	1.09	1.14

- During 2012 UTAM implemented a forward looking ,position-based risk analysis system that facilitates a more informed discussion regarding the actual risk exposure in the portfolios.

A Challenging Investment Environment

- Traditional Fixed Income Investments Likely To Provide Disappointing Returns -



- The level of current yields is a very good estimator of likely future bond market returns.
- At current levels, bonds provide not only meager return prospects but also much more limited protection against market and economic turbulence.

Current Investment Environment

- **No real change in outlook.**
- **Economic growth expected to remain tepid – constrained by need to deal with debt levels and fiscal and monetary overhang.**
- **Euro-zone issues are far from resolved and will flare up periodically.**
- **Emerging markets economies still provide opportunity.**
- **Rates may stay low for considerable period; but today's risk / return profile is one of heightened rate sensitivity and significantly less coupon to offset principal losses in the event of higher rates.**
- **Credit still appears quite attractive but a selective approach needed.**
- **Equities not expensive but also not cheap in a long term context, except in relation to bonds.**
- **While few investors are thinking bullish; many are increasingly acting bullish.**
- **Remaining generally neutral to policy weights with the exception of Rates exposure.**
- **Focus will need to be on finding unique and inefficient pockets within markets.**