
UTAM ANNUAL REPORT: 2021

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Presentation to Business Board

Assets Under Management

	Dec 31, 2020	Dec 31, 2021
LTCAP	3,669	4,179
Pension	6,275	7,255
EFIP ST (short-term)	2,632	2,401
EFIP MT (medium-term)	423	638
Total	12,998	14,473

- Over the past 12 months, total assets under management increased by 11.3% to approximately \$14.5 billion.
- Long-term assets were valued at \$11.4 billion at the end of Dec 2021, a 15.0% increase over the past 12 months.

Performance: LTCAP, Pension and EFIP

Periods ending Dec 31, 2021

	H2 2021	1 Year	5 Years	10 Years
LTCAP	6.2%	14.9%	9.9%	10.2%
Pension	6.2%	15.0%	10.0%	10.1%
EFIP	0.2%	0.0%	2.1%	1.9%

* Returns in this presentation are annualized except for periods less than one year, and are net of all investment fees and expenses, including UTAM costs.

- In H2 2021, LTCAP and Pension both generated returns of 6.2%, while EFIP generated a return of 0.2%
- All investment returns for LTCAP, Pension and EFIP presented above and throughout this presentation are net of all investment fees and expenses, including UTAM fees.

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 Pension and 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 Pension and Endowment's returns to Reference Portfolio returns and comparing EFIP's returns to its Target Return. There are no implementation costs or expenses included in the Reference Portfolio return.

Target Return: The return objective for each portfolio. For Pension and LTCAP the target return is CPI + 4% (i.e., inflation + 4%). EFIP has a target return based on a combination of cash and fixed income benchmarks. All targets are net of all investment fees and expenses.

Performance: Actual vs Target

Periods ending Dec 31, 2021

	H2 2021	1 Year	5 Years	10 Years
Actual Portfolio Returns				
LTCAP	6.2%	14.9%	9.9%	10.2%
Pension	6.2%	15.0%	10.0%	10.1%
University Target Returns				
LTCAP & Pension: CPI + 4%	4.8%	8.8%	6.3%	5.8%
Actual minus Target¹				
LTCAP	1.4%	6.1%	3.6%	4.3%
Pension	1.4%	6.2%	3.7%	4.3%

Note 1: Due to rounding in this table and others in this report, some values may differ from the results of simple addition or subtraction.

- In H2 2021, both LTCAP and Pension outperformed the Target Return. The 1-year, 5-year and the 10-year results also exceeded Target.

Performance: Reference vs Target

Periods ending Dec 31, 2021

	H2 2021	1 Year	5 Years	10 Years
Reference Portfolio Returns¹				
LTCAP	4.7%	10.2%	9.2%	8.7%
Pension	4.7%	10.2%	9.2%	8.7%
University Target Returns				
LTCAP & Pension: CPI + 4%	4.8%	8.8%	6.3%	5.8%
Reference minus Target				
LTCAP	-0.1%	1.4%	2.9%	2.8%
Pension	-0.1%	1.4%	2.9%	2.9%

Note 1: Reference Portfolio adopted in March 2012 for LTCAP and May 2012 for Pension. Policy Portfolio used for prior periods. Returns are net of all investment fees and expenses, including UTAM costs.

- In H2 2021, the Reference Portfolio returned 4.7%, underperforming the Target Return by 0.1%. The Reference Portfolio has exceeded the Target Returns over 1, 5 and 10 year horizons.

Performance: Actual vs Reference

Periods ending Dec 31, 2021

	H2 2021	1 Year	5 Years	10 Years
Actual Portfolio Returns				
LTCAP	6.2%	14.9%	9.9%	10.2%
Pension	6.2%	15.0%	10.0%	10.1%
Reference Portfolio Returns				
LTCAP	4.7%	10.2%	9.2%	8.7%
Pension	4.7%	10.2%	9.2%	8.7%
Actual minus Reference (UTAM value-add)				
LTCAP	1.5%	4.7%	0.7%	1.5%
Pension	1.5%	4.8%	0.8%	1.4%

- In H2 2021, LTCAP and Pension outperformed the Reference Portfolio by 1.5%. LTCAP and Pension have outperformed the Reference Portfolio over 1, 5, and 10 year horizons.

Performance: UTAM Value Add in Dollar Terms

Periods ending Dec 31, 2021

	H2 2021	1 Year	5 Years	10 Years
UTAM Value Add (%)				
LTCAP	1.5%	4.7%	0.7%	1.5%
Pension	1.5%	4.8%	0.8%	1.4%
UTAM Value Add (\$ millions)¹				
LTCAP	57.8	162.1	135.8	365.6
Pension	99.1	286.9	252.0	598.5
LTCAP + Pension	156.9	449.0	387.7	964.1

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.

- Dollar value-add in H2 2021 was +\$156.9 million. Over the last year, on a simple arithmetic basis (i.e. without including the impact of compounding), dollar value add was also positive, at \$449.0 million. Importantly, the 10 year dollar value add of LTCAP and Pension was \$964.1 million.

Performance Efficiency

Periods ending Dec 31, 2021

	5 Years	10 Years
Sharpe Ratio		
LTCAP	1.0	1.3
Reference Portfolio	1.0	1.1
Information Ratio		
LTCAP	0.4	0.8

- Risk-adjusted performance provides information on returns earned per unit of risk taken
- Over the past 5 and 10 year horizons, LTCAP had higher Sharpe Ratios than the Reference Portfolio as well as very attractive Information Ratios (results for Pension expected to be similar)

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 (active risk is defined as Tracking Error)

Performance: EFIP vs Target

Periods ending Dec 31, 2021

	H2 2021	1 Year	5 Years	10 Years
Actual Portfolio Return				
EFIP	0.2%	0.0%	2.1%	1.9%
University Target Return				
Target Return	0.0%	-0.4%	1.7%	1.6%
Actual minus Target				
EFIP (%)	0.2%	0.4%	0.3%	0.3%
EFIP (\$ Millions)	2.9	11.7	39.0	54.1

- In H2 2021, EFIP outperformed its target return by 0.2%, and added \$2.9 million in value.
- Over the last 10 years, EFIP outperformed its Target return by 0.3% annualized (i.e., per year), and added \$54.1 million in cumulative value.

Active Risk: Actual Risk minus Reference Risk

Dec 31, 2021

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)	9.3
Pension (B)	9.2
Reference Portfolio (C)	8.6
LTCAP Active Risk (A – C)	0.7
Pension Active Risk (B – C)	0.6

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

Current Asset Allocation and Limits: LTCAP

Pension is substantially similar

Dec 31, 2021

	Reference Portfolio %	Actual Portfolio %	Outside Full Bands?	--- Full Bands ---	
				Min %	Max %
Equity:					
Global	60.0	59.6	N	50.0	70.0
Fixed Income:					
Credit (Corporate Credit)	20.0	19.9	N	10.0	30.0
Rates (Government Bonds)	20.0	20.0	N	10.0	30.0
Total Fixed Income	40.0	39.9	N	25.0	50.0
Absolute Return Hedge Funds	0	11.1	N	0.0	15.0
Cash and Cash Equivalents	0	-10.6	N	-15.0	5.0
Total	100.0	100.0			
Currency Exposure:	32.5	32.5	N	25.0	40.0

- At the end of H2, LTCAP and Pension were in compliance with all limits.

Responsible Investing Update

Carbon Footprint Reduction

Initial carbon footprint reduction target has been achieved

UTAM's goal of reducing the Endowment's carbon footprint by 40% by 2030 (using 2017 baseline) has been achieved. As of December 31, 2021, LTCAP's carbon footprint (carbon emissions per million dollars invested) was 51.6% lower than in 2017, and its absolute level of emissions were 27.6% lower.

Responsible Investing Update

Carbon Footprint Reduction

What's Next?

In October 2021, UTAM, on behalf of the University, joined the United Nations-Convened Net-Zero Asset Owner Alliance (NZAOA), making U of T the first university in the world to join the NZAOA among the 72 members who represent more than US \$10 trillion of assets under management.

The NZAOA encourages its members to set periodic carbon reduction targets to help guide their portfolios towards net-zero emissions by 2050. We are now working on establishing a new carbon footprint reduction target based on the NZAOA target setting protocol:

- Baseline date of December 31, 2019
- Footprint to include corporate bonds (i.e., in addition to equities)
- Carbon reduction target within the ranges of 16% to 29% by 2025 or 49% to 65% by 2030 (based on the assets included in the footprinting measurement).

Responsible Investing Update

Carbon Footprint Assurance

- In 2021, UTAM engaged **PwC** to conduct a **limited assurance review** of the carbon footprint calculation.
- This engagement was initiated by UTAM to confirm that our methodology, policies and process are consistent with best practices.
- This engagement has two parts:
 - Assurance Readiness Assessment (completed in 2021)
 - Review of calculation methodology, process, etc.
 - Limited Assurance Opinion (in progress)
 - PwC reviewing December 31, 2021 footprint calculation
- Oversight of this engagement is provided by the UTAM Board as an internal audit engagement.

Responsible Investing Update

Fossil Fuel Divestment

On October 27, 2021, President Gertler announced a divestment commitment for LTCAP. Below we outline those commitments and provide an update on our status towards achieving these objectives.

Commitment	Status
To divest from all direct investments in fossil fuel companies within 12 months	<ul style="list-style-type: none">• We are on-track to divest from all direct investments in fossil fuel companies by June 30, 2022
To divest from indirect exposure to investments in fossil fuel companies, typically held through pooled or commingled vehicles, by 2030	<ul style="list-style-type: none">• We have made progress on this commitment thus far in 2022 with the funding of a new sustainability-focused long only global equity manager that excludes fossil fuel companies from its investable universe• We are on track to implement additional changes to the public equity and corporate bond portfolios that will significantly reduce the indirect exposure to fossil fuel companies before the end of 2022

Responsible Investing Update

Engagement Highlights & PRI

- **Climate Action 100+**
 - UTAM, on behalf of the University, became a founding participant in this investor engagement initiative in 2017
 - In 2021, CA100+ launched the **Net-Zero Company Benchmark** to measure company progress against the initiative's key objectives of emissions reduction, governance and disclosure.
 - Gaps identified by the Benchmark inform future engagement agendas and planning.
- **EOS at Federated Hermes**
 - EOS is an engagement advisor that UTAM initially engaged in 2019.
 - In 2021, EOS (on behalf of its clients) engaged 791 companies of over 3,000 issues/objectives and reported positive progress on 51% of its engagement initiatives.
- **UNPRI**
 - At December 31, 2021, approximately 75% of LTCAP's active exposure was managed by PRI signatories
 - Approximately 50% of our managers who are not signatories are smaller firms or private managers that we do not expect to maintain relationships with
 - Due to issues with PRI's new on-line reporting tool, 2021 assessment reports (for year-end 2020) have been delayed