Report of the President`s Committee on Investment Policies, Structures, Strategies and Execution

December 2009

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Summary of Key Conclusions

1) While the Committee recognizes that UTAM was launched at the beginning of a decade that has seen the markets crash precipitously twice, with the recovery from the most recent still in a fragile state, it notes that UTAM's performance over this period has not met expectations of stakeholders, nor kept par with that of other similar organizations. The Committee is therefore of the view that UTAM has not achieved its mission: "to deliver consistent superior investment returns".

2) The Committee recommends that the CEO of UTAM should become the Chief Investment Officer of the University with a direct reporting line to the President of the University.

3) The investment management function should have more direct oversight by the members of the University senior administration who are ultimately accountable for investment results.

4) Given the previous two recommendations, a separation of the governance and investment oversight functions is seen as necessary. The Committee recommends that the UTAM board transition to a three person board comprising members of the University's senior administration, responsible for the routine corporate governance functions including the budget, financial statements, audit and compensation. The Committee acknowledges with gratitude the cooperation and contributions of UTAM voluntary board members, who have given generously of their time and advice over the years.

5) Review and oversight of investments should become the responsibility of a separate investment committee, consisting of volunteer professionals chosen for their expertise and diversity of perspectives, who would advise the senior administration on investment strategy, selection of investment advisors and other matters dealing with the operation of the investment department.

6) The Committee wished to avoid making specific recommendations on investment policy. However, the present target allocation of 42.5% to alternative investments is greater than what most comparable pension and endowment funds in Canada have allocated. We believe that the present commitment, particularly in hedge funds and private equity, should be scaled back significantly. In short, we believe that the pension and endowment funds should be invested primarily in publicly traded stocks and bonds.

1. Introduction

The dramatic collapse of the financial markets in the last half of 2008, with the resultant negative impact on the value of the University of Toronto's endowment and pension plan assets, caused a significant and not surprising shock wave across the University community. Questions were raised about the performance of the University of Toronto Asset Management Corporation (UTAM), the level of risk in the portfolio, the risk tolerance of the University of Toronto and how it was measured and monitored, the asset allocation and related illiquidity issues, the currency hedging policy, and the general oversight of investments.

These questions fuelled already existing concerns raised by members of the University community over the complexity and expenses associated with managing the University's investment portfolios, the perceived lack of oversight of UTAM and its investment decisions, the relationship of UTAM management and governance to the University and its stakeholders, and the lack of input of specific interest groups in the decision making.

When the University made the unprecedented one-time decision to suspend endowment distributions in fiscal 2009, and instead use existing operating funds to cover the majority of endowment obligations, further questions were raised. Those questions were focused on whether the University's policies should favour preservation of capital and stability of distributions over the prospect of higher returns.

In light of these concerns, the President felt that it was appropriate to establish a committee to provide him with an independent assessment of UTAM, to address the questions raised above, and to consider whether UTAM's governance, structure, and investment policies are serving the University's needs.

2. Origin of UTAM

UTAM was created in 2000 by the Governing Council with the stated goal of increasing investment returns. Records of the time indicate: "It was felt that a professionally staffed investment operation with active management could add value above index returns after taking into account the costs of such an operation."

The Governing Council believed that strategies required to achieve increased returns would necessitate taking more risks. This in turn would require the addition of a group of investment professionals with the necessary skills to manage those risks. UTAM was created to achieve those objectives and to provide a corporate structure more attractive to investment professionals than the University itself.

2. Origin of UTAM (cont'd)

At the time, the pension fund had an actuarial surplus and contributions were being deferred. Returns on the endowment and the pension fund investments were considered to be too low.

University Advancement was attracting large amounts of money to the University and, in a very short period of time, fundraising rose from about $15 million a year to well over $100 million per year, which continues to this day.

Assuming a continued rapid growth in the funds under management and desiring a higher rate of return than could be achieved from passive management, the University concluded that the creation of a professional investment management entity, similar to those managing funds at several American universities, was a reasonable step to take.

3. Oversight

From its inception, the governance responsibility for UTAM has rested with the members of the UTAM Board, which was responsible for managing the company, hiring the Chief Executive Officer (CEO) and providing investment advice and oversight. UTAM was required to report on investment performance to the Business Board. The CEO of UTAM reported to the Chairman of UTAM, with no direct reporting responsibility to the University administration. The UTAM Board was appointed by the Executive Committee of the Governing Council on the recommendation of the President of the University. Candidates for Board positions were generally selected following consultations among the UTAM Chair, its board, and members of the administration, latterly with recommendations made to the President by the Chair of UTAM.

Changes made in 2007 to the agreement between the University and UTAM to clarify the relationship between the Business Board, UTAM and the University do not seem to have achieved the desired objective. Members of the University community, including the UTAM directors and management, are still not clear where ultimate responsibility rests. In their submissions to this Committee, members from the Business Board and UTAM Board members expressed uncertainty as to their responsibilities in this regard.

4. Risk and Return Targets/ Asset Allocation

Before UTAM was created, the stated return target was 5% plus CPI, with a normal asset mix of 70% equities and 30% bonds. This was viewed as being possible with a moderately high level of risk (*Investment Funds Policy, 1999*). Asset allocation was approved by the Business Board.

4. Risk and Return Targets/ Asset Allocation (cont'd)

After UTAM was created in 2000, the policy was amended to be 80/20 equities/fixed income with further detailed asset allocation diversification in each category. Exposure to Canadian equities was reduced and a substantial allocation was made to alternative investments — particularly private equity and hedge funds. The return target was CPI plus 5% over any four year period; benchmarks were defined and were to be exceeded. The only risk statement was that volatility was expected to be high.

In 2003, the Business Board delegated asset allocation decisions to the UTAM Board with the belief that it was an expert board in a better position to evaluate asset allocation.

In that same year, the University, in recognition that the target was high and the risk unspecified, recommended to the Business Board that the return target be reduced to CPI plus 4% and the risk tolerance be set at one standard deviation of 10%. (This means that two-thirds of the time over 10 years the return will fall in the range between -6% and +14%.) The risk tolerance was expressed in terms of volatility of returns since this is easy to quantify. It did not imply however that there was no other type of risk to be managed. Performance benchmarks were to be established and form part of the service agreement with UTAM which would be approved by the Business Board.

This statement of risk and return has been reviewed and reconfirmed several times since 2003. It should be noted that the analyses of the endowment and the pension funds were carried out separately, but given the similar liability profiles and cash requirements, the risk and return targets have to date been identical.

In 2007, with the approval of the UTAM Board, UTAM increased its target allocation to alternative investments from 30% to 45% of the portfolios. The fixed income target allocation for both endowment and pension funds declined as a result to 15% and the total public equity target was 40%.

5. UTAM and Investment Strategy

UTAM takes the target returns and the risk tolerance specified by the University and attempts to create an investment strategy that will achieve the desired results. The most critical step in creating that strategy is the determination of asset allocation — deciding what percentage of assets should be held in equities, bonds, cash, and alternative investments such as real estate, hedge funds or private equity. The allocation takes into account UTAM's desired mix of Canadian and foreign assets and the strategy to hedge the resulting foreign currency exposure. UTAM then selects managers to buy and sell the assets within each class. A variety of risks are considered, including concentration, volatility (the key measure used by the University in defining risk tolerance), credit risk, currency risk, liquidity, manager risk, and a number of other factors that could result in a permanent loss of capital.

5. UTAM and Investment Strategy (cont'd)

In 2003 and following, UTAM made the decision to increase significantly the allocation to private equities and hedge funds, which are often not easily marketable, on the assumption that the loss of liquidity and higher fees associated with such investments would be offset by higher returns over the long term.

6. UTAM Performance

UTAM's existence has been framed by two significant market events — the major downturn of 2001 and the global economic recession of 2008-09. As to be expected, these events have dramatically affected UTAM's long-term performance record.

With the degree of volatility built into UTAM's risk/return targets, significant negative performance is to be expected during down markets. Indeed this proved to be the case in the recent global economic downturn. What may be more significant however is that UTAM's performance, even in strong market conditions has been disappointing. For example, in the good years 2003-2007, UTAM only marginally beat its own benchmark portfolio

There are a number of different metrics which can be used to assess performance. One method is to evaluate whether UTAM achieves the University's target return of 4% real (6.1% actual) over the ten year period. UTAM's annual results have ranged from +16% to -29.5%. Seven years out of ten, the returns were within the range specified by the University and three years they were outside the range. Over a ten year period, UTAM has had an annualized rate of return of 2.7% which is significantly below the University target (see Table 1a).

UTAM performance is also evaluated in two other ways: first against institutionally established benchmarks and second against the performance of peer institutions.

The UTAM Board establishes a policy benchmark portfolio to assess whether UTAM is adding value versus the market results. This portfolio is constructed by applying the results of selected indices against the approved target asset allocation. If UTAM does not do better than the policy benchmark, the Board will question whether management is doing a good job in selecting asset managers, managing currency risk, and achieving the stated goals.

The reference portfolio is another tool used by the University to assess UTAM performance. This tool was introduced in early 2009 as a way to evaluate UTAM against a portfolio that could meet the same risk return goals, but with a more traditional asset mix. This portfolio could be run by a less sophisticated staff, but still would require active management as it is not an index fund. As Table 2 indicates, over an 8 year period UTAM's performance fell short of both the policy benchmark and the reference portfolio.

6. UTAM Performance (cont'd)

Peer comparisons are also reviewed to see how other organizations running similar portfolios (pensions and endowments) are doing. Tables 1a and 1b present a peer comparison. Over the ten year period ending December 31, 2008, UTAM is ranked below the 95th percentile when compared to other Canadian university endowment and pension funds.

It is worth noting that while UTAM suffered market losses in 2008-2009 similar to those of the large U.S. university endowments, it did not experience the kind of positive performance that those endowments had enjoyed during the up-market years.

Table 1a: University Funds: Annual Rates of Return
Periods ending December 31

	Dec. 2008	Dec. 2007	Dec. 2006	Dec. 2005	Dec, 2004	Dec. 2003	Dec. 2002	Dec. 2001	Dec. 2000	Dec. 1999
5th percentile	(13.48)	3.09	15.27	13.25	11.85	17.10	0.00	3.98	12.63	18.87
25th percentile	(14.60)	2.81	13.43	12.62	11.23	15.28	(3.73)	1.04	11.31	16.16
Median	(16.26)	2.30	12.45	11.72	10.65	13.76	(5.03)	(0.28)	8.02	12.05
75th percentile	(17.79)	1.49	12.08	11.23	9.52	12.71	(6.28)	(1.06)	6.50	9.51
95th percentile	(19.29)	0.43	9.50	10.90	8.25	10.00	(9.12)	(2.88)	6.23	7.45
U of T	**(29.50)**	**6.11**	**12.80**	**11.70**	**11.40**	**16.00**	**(9.59)**	**(3.23)**	**5.10**	**14.60**

Table 1b: University Funds: Annualized Rates of Return
Periods ending December 31, 2008

	1 year	2 Years	3 Years	4 Years	5 Years	6 Years	7 Years	8 Years	9 Years	10 Years
5th percentile	(13.48)	(5.95)	(0.38)	2.81	4.53	6.10	4.51	4.41	5.24	5.82
25th percentile	(14.60)	(6.57)	(0.77)	2.29	3.91	5.24	3.95	3.51	4.37	5.05
Median	(16.26)	(7.29)	(0.99)	1.92	3.38	5.13	3.68	3.25	3.67	4.45
75th percentile	(17.79)	(8.54)	(1.93)	1.47	3.20	4.85	3.39	2.87	3.38	4.22
95th percentile	(19.29)	(9.51)	(2.61)	0.77	2.54	4.15	2.52	2.02	2.60	3.71
U of T	**(29.50)**	**(13.00)**	**(5.00)**	**(0.80)**	**1.60**	**3.46**	**3.60**	**(1.39)**	**n/a***	**2.70**

Sources: RBC Dexia for percentile data; CAUBO Report on Endowments for U of T data.
* Not included in the CAUBO report

6. UTAM Performance (cont'd)

Table 2 presents the results against the target, the policy benchmark portfolio and the reference portfolio.

Table 2
UTAM Performance
Years ending December 31

			6 year	7 year	8 year
			2008	2008	2008
Long-Term Capital Appreciation Pool (LTCAP)	**Actual**		**3.46**	**3.60**	**- 1.39**
Pension	**Actual**		**4.01**	**4.49**	**- 0.66**
Target Return *			**6.10**	**6.10**	**6.10**
Policy Benchmark Portfolio	**Endowment**		**3.46**	**2.19**	**1.20**
Policy Benchmark Portfolio	**Pension**		**3.27**	**3.55**	**0.03**
Reference Portfolio			**5.34**	**3.63**	**0.33**

* assumes flat rate of inflation 2.1%n

Performance Year to Date - September 2009

The structure of the portfolio, with the heavy allocation to alternative assets and low allocation to Canadian equities has meant that UTAM has not benefited as much as others from the stock market rally that has occurred in 2009. Year to date results to September 30 show an increase of only 3.8%. RBC Dexia results for the same period show median returns of 12.69%, with the 95th percentile at 4.0%.

7. UTAM and Communications

One of the most frequent criticisms of UTAM is related to the communications provided to the various stakeholders. There remains a concern that communications are not generally tailored to the understanding and responsibilities of the recipients, making it challenging for members of Business Board and the administration to take UTAM's information into account in exercising their responsibilities. It was also noted that the communications were not strongly enough oriented toward the interests of stakeholders, such as pensioners, past and current faculty and staff, and donors whose generosity over many generations has built the endowment.

8. Additional External Factors

While the Committee was meeting to review the investment situation, a number of other developments were coming to a head which bear on the Committee's mandate.

Over the past two years, the University of Toronto and the University of Toronto Faculty Association (UTFA) had been engaged in negotiations to give UTFA a greater voice in the governance of the pension plan. Following arbitration on the matter, it was determined that the University must set up a formal pension committee to review pension matters and make certain decisions, including approving asset allocation for the investment of the pension funds; as well, the arbitrator stipulated that UTFA be given a seat on the UTAM Board.

Simultaneously, the Ontario-wide Council of Senior Administrative Officers (CSAO) were working with the provincial government to gain a solvency funding exemption for university pension plans, on the grounds that universities were not going to be wound up so solvency was only a hypothetical issue; that the government controlled funding in the form of grants and tuition controls; and that making solvency payments would simply divert funds from the core mission and prevent the universities from meeting their access and quality commitments. One of the suggested strategies that might permit the government to provide a solvency funding exemption was the merger of all pension fund investments under a single manager to achieve economies. This could affect UTAM in a variety of possible ways. Either it could become the fund manager for all others and grow significantly; or it could lose the management of the U of T pension assets and shrink to an uneconomic size. Either result would be very significant to the future of the organization.

9. President's Committee Observations

Over the course of the late summer and fall of 2009, the President's Committee met to review the information summarized above and to consider the questions and concerns raised by the President and by members of the University community regarding UTAM's governance, structure, performance, and investment strategies. The following observations form the basis for the specific recommendations that follow.

First, the Committee noted that many members of the University community have had strong reservations about UTAM's investment strategy and asset allocation since its inception. The substantial loss of 2008 and history of poor performance heightened the Committee's concern about UTAM's strong weighting in equities and alternative assets and its exposure to illiquid private assets. The overweight in equity and alternative assets limited investments in fixed income assets.

Second, the Committee noted that the future of the University's investments in alternative assets will depend on market conditions and the University's judgement about its capacity to invest in these areas and its appetite for the attendant risks. The Committee is of the view, however, that the University of Toronto's investment portfolio

9. President's Committee Observations (cont'd)

is currently too small to permit it to participate on a cost-effective basis in a number of alternative asset classes. It is evident that a clear articulation of the risks associated with a number of these asset classes would lead the University community to the conclusion that they should be avoided.

Third, the governance of UTAM is not clearly understood by the community and the lack of clarity in this regard may have contributed to the underperformance.

The Committee's observations below speak to its concerns over performance, asset allocation, oversight, communications, and management structure.

- Whatever the University of Toronto's aspirations were in establishing UTAM, UTAM's performance has not met expectations and UTAM's investment strategy and governance structure have not served the University and its community well.

- Further, the Committee notes that many members of the University community do not agree with UTAM's investment strategy and are uncomfortable with the approved asset allocation. In particular, there is a great deal of discomfort with the high allocation to non-traditional asset classes like hedge funds (and particularly funds of funds) and to private equity, real estate and commodities. The concern about the non-traditional asset classes is largely focused on the high fees paid to outside managers combined with the lack of liquidity that results from the absence of an effective market in which to sell the assets. There are also concerns about the lack of transparency associated with many of these assets.

- While the Committee wished to avoid specific recommendations as to investment policy, it believes the 45% target allocation to alternative investments (reduced to 42.5% in September 2009) is far too high, well beyond what most comparable pension and endowment funds in Canada believe is prudent and what the University community finds acceptable. The Committee believes that the present commitment particularly in hedge funds and private equity should be scaled back. In the long term, the University pension and endowment funds should be invested primarily in publicly traded stocks and bonds.

- The Committee recognizes that the lack of liquidity in private markets and the existence of $600 million in uncalled commitments will make the above difficult to execute in the short term, but believes these investments can be worked down over a period of years.

- The University's appetite for risk may be much less than that implied by the existing risk statement of returns within one standard deviation (10%) of a target real return of 4% over 10 years. Even though the University's analysis demonstrated that there was a significant chance of loss in any ten year period, the implications of the loss were not clearly understood, nor well communicated.

9. President's Committee Observations (cont'd)

- Risk management has been a weakness of UTAM from the beginning. UTAM has not built the tools or the staff to properly monitor and assess the risk of a portfolio which rapidly became very complex. Risk management had focused on manager due diligence and compliance with little emphasis on portfolio risk overall. Since the arrival of the new CEO of UTAM in April 2008, a great deal more attention has been focused on risk management. The result has been a reduction in the complexity of the portfolio, the development of risk management tools, and a more structured emphasis on reviewing and discussing risk from a variety of perspectives before investment decisions are taken. However, much remains to be done.

- It is evident that some members of the University community are uncomfortable with the delegation of the investment oversight role to the UTAM Board. The members of the Business Board do not feel that they have enough context or information to be able to approve the risk return targets. The members of the Audit Committee feel that they do not have enough information about the management of the University's assets.

- The role of the UTAM Board was not clear to all Board members or to other involved parties like the Business Board and the Audit Committee. There continues to be confusion as to whether the UTAM Board should focus on running the company (hiring the CEO, approving compensation plans, reviewing budgets and financial statements, etc) or overseeing the investment strategy and execution and evaluating risk and risk mitigation.

- The Business Board delegated the approval of the asset mix to the UTAM Board, because they had the appropriate expertise to make the decision and act on behalf of the Business Board. A bias toward riskier alternative assets among UTAM's management resulted in an excessive weighting in alternative assets.

- Communication has been a weakness since UTAM was established. A variety of factors have contributed, including a lack of clarification of who was supposed to communicate which message, to whom and when. The placing of information on the website provides data, but it is clear that it has not been turned into understandable information. The Business Board, which is responsible for the financial well-being of the University of Toronto, feels that it does not have adequate information about a critical financial resource.

10. Recommendations

i. Appoint a Chief Investment Officer for the University

The CEO of UTAM should become the Chief Investment Officer (CIO) of the University. Investment decisions will continue to be made by the professional staff of the CIO, with appropriate review by an Investment Committee, under the day to day oversight of the University senior administration

ii. Create an Investment Committee

Create an Investment Committee with a mandate to review reports on investment matters, including investment strategy, asset allocation and risk and risk mitigation strategies, manager selection and investment performance. The committee would provide the necessary due diligence to support the administration's recommendation for investment matters to be approved by the Business Board. The members of the committee should be recruited for their investment expertise and diversity of perspectives, and specifically asked to assist with investment oversight. The relationship between the Investment Committee and the Pension Committee mandated by the recent arbitration award between the University and the Faculty Association will need to be clarified.

iii. Retain UTAM as a corporation but change the governance.

Retain UTAM as a corporation, to maintain OSC registration, but change the governance structure to bring it closer to the University of Toronto structure. Reduce the number of directors to the minimum permitted (3), all to be members of the senior administration.

iv. Reassess the Risk and Return Targets

Reassess the risk and return targets and ensure that the implications of changing risk and return targets are clearly stated and understood. These must still be approved by the Business Board which has overall accountability for the financial well being of the University. The University administration would present the recommendations for review by the Investment Committee before bringing the recommendation forward. This would ensure that the implications of these decisions for the University as a whole would be taken into account and that recommendations would be considered by an expert committee who would have the time to consider and debate them fully. Similarly, performance benchmarks and asset allocation should be approved by the Business Board on the recommendation of the University administration after review by the Investment Committee.

10. Recommendations (cont'd)

v. Upgrade the Risk Management Process

Provide the CIO with the resources needed to properly assess and manage risk. Ensure that risks are explicitly identified and that the related risk mitigation strategies are also identified and discussed. Consideration should be given to creating a specific risk management position reporting to the CIO.

vi. Improve Communications

Recognizing that the University is a community of stakeholders with different interests and levels of knowledge of investment matters, care must be taken to ensure that information is provided to all stakeholders in a way that can be clearly understood and that addresses the specific concerns of each stakeholder group.

vii. Create a Statement of Investment Beliefs

A general statement should be created to describe the investment philosophy of the University of Toronto. It should describe in general terms the balance to be maintained between striving for returns and preserving capital; the kinds of risks that are acceptable and those that are not; and should outline the reasons for the beliefs.

Appendix A – Terms of Reference

President's Committee on
Investment Policies, Structures, Strategy, and Execution

Terms of Reference

The recent dramatic downturn in the economy and the financial markets has raised questions about the University of Toronto's investment policies, structures and strategies, as well as the balance of revenues and obligations associated with the endowment and the pension plan.

Two specific developments have added weight to the case for a systematic review of these elements.

First, the University established the University of Toronto Asset Management Corporation as a subsidiary in 2000. The goal of establishing UTAM was to enable more professional management of the University's multi-billion dollar assets in the pension fund and the endowment. A review completed in 2007 concluded that UTAM was indeed meeting the University's goals for its establishment and had added value in spite of major losses suffered in the tech meltdown in 2001 – 2003. However, in spite of the gains made to the end of 2007, the losses incurred by UTAM during the 2008-9 downturn have been at the upper end of the range seen for university endowment and pension fund managers across North America.

Second, the Government of Ontario, following on the recommendations of the Ontario Expert Commission on Pensions (widely known as the Arthurs commission), has asked universities to explore more efficient and effective methods of pension investment management.

I am accordingly commissioning a review of these elements, as set out in these Terms of Reference. The results of the review and my administrative response to it will be brought to governance for consideration as appropriate.

Before setting out the Terms of Reference, I want to acknowledge four points.

First, the University has been generously supported by countless benefactors, and funds from our endowment contribute meaningfully to the advancement of our academic mission. We have an obligation to those benefactors – past, present and future – to ensure that our funds are wisely and prudently managed for the very long haul.

Second, the University has a contractual and moral commitment to meet its obligations to retirees and current employees participating in the University's pension plan. We shall obviously meet those commitments. But we must also consider the impact of pension solvency issues on current and future employees and students.

Third, I appreciate the dedication of the staff of UTAM and the many volunteers – alumni, friends, and benefactors of the University -- who have offered their experience and expertise to the University as members of the Board of UTAM. I have also cautioned repeatedly that, in investment decisions, hindsight is 20:20. Many outstanding institutional asset managers and legendary investors suffered huge losses during 2008 and the first quarter of 2009. While we must take a clear-eyed look at UTAM's performance, the primary purpose of the review is not short-term second-guessing of UTAM's decisions in 2007 and 2008. Rather, the focus is broader and longer-term.

Last, while structures and strategies are a key element of the review, the investments that UTAM makes reflect various expectations and obligations, including those enshrined variously in policy or in collective agreements. For example, the University has focused on target pay-out levels along with the preservation of capital within its endowed funds. As to the pension, the University must strike the right balance between growth in assets from contributions and growth from investment performance. It would therefore be wrong-headed to undertake a review without some attention to those factors and the broader context.

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Against this background, I have established a committee to examine the following issues and questions:

Endowment management policies

The committee is asked to review the University's endowment policies. It should consider the sustainability of the University's current endowment policy, which requires the preservation of capital, in the context of our current pay-out formula and the risk and return targets that have been established for endowed funds.

Investment policies

The University's current return targets are sufficiently ambitious to be associated with an increased probability that there will be meaningful losses in some fiscal years. The 'Tech Wreck' of 2000-2001 and the 'Great Crash' of 2008-09 have raised hard questions about the University's tolerance of such losses. The committee is asked to consider the impact of changing to a different strategy, taking into account such factors as the University's ability to cover shortfalls in commitments from the endowment and pension fund, changes in financial markets, and the reputational and fund-raising impact of strategies that lead to greater volatility in university investment results.

University funding implications from revised policies

If policy changes are recommended, the committee is asked to suggest measures that the university needs to take to accommodate any impact on the operating budget and operating reserves.

Investment oversight

The oversight of investment strategy and execution is a critical function, currently delegated by the Governing Council to the Business Board and to the UTAM board. The advantage of mediated oversight by the UTAM board or a similar body is its focused expertise and attention to fiduciary imperatives. The committee is asked to review these arrangements in the light of both recent developments and the ongoing negotiations with UTFA about pension oversight.

Investment strategy and the implications of the new economic climate

Critics and supporters of UTAM alike have argued that the current investment strategy may be too complicated or too expensive for the University of Toronto, given our wide range of stakeholders and governance structure. Other observers have argued that the pension investments should be managed separately from the endowment. The committee is asked to consider these issues, comment on the implications and recommend changes if appropriate.

Existing and alternative structures for UTAM

UTAM was established in 2000 to achieve a specific set of investment goals. The past nine years have included two periods of major market turbulence, and ongoing changes in the structure and management of UTAM. Criticism of UTAM has ebbed and flowed throughout this period. Criticisms have included the costs of the organization, the innate propensity of an investment boutique to rely on expensive new investment vehicles (e.g. hedge funds), the possibility that UTAM is too small to invest successfully in alternative asset classes, the net returns achieved over the nine years compared to peers, and the roller-coaster returns that UTAM has generated since its inception. The committee is asked to consider the validity of these various criticisms and assess the options for management of the University of Toronto's endowment and pension assets. A wide range of structural options can be considered, from retaining UTAM as it is, splitting its assets in some way, reverting to in-house management and a volunteer investment committee, or spinning off UTAM as a non U of T operation to serve as a vehicle open to pension assets from all Ontario universities. Any change, however, will have significant consequences. The committee is asked to assess these in as much detail as possible and recommend a future course of action.

Other issues

If the committee is seized with other relevant issues as it deliberates, its members are obviously free to delve into those matters as needed.

David Naylor, August 2009

Appendix B – Committee Members

Judy G. Goldring

Judy G. Goldring is General Counsel, Executive Vice-President and Chief Operating Officer and a member of the Board of Directors of AGF Management Limited.. As well, she serves on the Board of Directors of AGF Investment Inc. and AGF Trust Company.

Previous to her work at AGF, Judy practiced law at Gardiner, Roberts and Bennett Jones in Toronto. She has a strong background in administrative law and also specializes in energy law. Judy received a B.A. in Economics from the University of Toronto and her LL.B from Queen's University; she was called to the Ontario Bar in 1993. She is a member of the Governing Council of the University of Toronto, the Law Society of Upper Canada and the Canadian Bar Association and is also on the Board of Directors of the Investment Funds Institute of Canada (IFIC) and serves on its Governance Committees.

Henry N.R. Jackman (Chair)

The Honourable Henry (Hal) N.R. Jackman, Chancellor Emeritus of the University of Toronto and former Lieutenant-Governor of Ontario, is currently the President and Chairman of E-L Financial Corporation. He is the founding Chairman of the Ontario Foundation of the Arts, and has served on the boards of a large number of cultural and philanthropic institutions, most notably as Chairman of the Ontario Arts Council and as president of the Canadian Opera Company.

Hal Jackman is President of the Henry N. R. Jackman Foundation and Chair of the J. P. Bickell Foundation. In 2000, he received the Canadian Forces Decoration. He is an officer of the Order of Canada, a member of the Order of Ontario and a Knight of Justice of St. John of Jerusalem.

William E. Hewitt

Before his retirement Mr Hewitt served as Chief Investment Officer of Scotia Cassels Investment Counsel Limited, Principal Officer and Vice president, Investments for Sun Life Assurance Company of Canada, and Secretary/Treasurer for Imperial Trustees (responsible for the investment management of the Imperial Oil Limited Pension fund). He has also served on both public and private company boards of directors, including Extendicare Limited, Scotia Cassels Investment Counsel Limited, Allcora Explorations Limited, Helix Investments Limited, Health Care Ventures LP and Dynacare Health Services Inc. His extensive volunteer work has included service as a member of the Board of Regents of Victoria University in the University of Toronto, Chair and Trustee of the George Gardiner Museum of Ceramic Art, and Trustee of the Rehabilitation Institute of Toronto.

Hugh Mackenzie

Hugh Mackenzie is principal in an economic consulting business, Hugh Mackenzie and Associates, based in Toronto. He has worked for over 30 years in a variety of capacities related to public policy development in the trade union movement, the private sector, and at all three levels of government. He is a Research Associate of the Canadian Centre for Policy Alternatives and of the Centre for Urban Studies at the University of Toronto.

Hugh is also a nominee of the Ontario Teachers' Federation on the Board of the Ontario Teachers' Pension Plan, a member of the Actuarial Standards Oversight Committee of the Canadian Institute of Actuaries, and a member of the Pension Investment Advisory Committee of the Canada Post Pension Plan. From 1991 to 1994, Hugh Mackenzie was Executive Director of the Ontario Fair Tax Commission. He is a graduate of the University of Western Ontario and holds a Masters degree in Economics (Public Finance) from the University of Wisconsin (Madison).

Appendix B – Committee Members (cont’d)

Mayo Moran

Professor Mayo Moran is Dean of the Faculty of Law and has been James Marshall Tory Dean's Chair since 2006. Professor Moran completed her LL.B. at McGill University and subsequently obtained an LL.M. from the University of Michigan and an S.J.D from the University of Toronto. After serving as Director of the Aboriginal Students' Academic Support Program at the University of Toronto Faculty of Law, she was appointed Assistant Professor in 1995 and became Associate Professor in 2000.

Professor Moran has published in comparative constitutional law, private law, and legal and feminist theory. Professor Moran's work focuses on how our practices and theories of responsibility come to terms with discrimination. She is currently engaged in a project on reparations theory and transitional justice that examines the limits and possibilities of law, particularly private law, in redressing widespread historic wrongdoing.

David Palmer (Assessor)

Since September 2007, David Palmer has served as Vice President and Chief Advancement Officer for the University of Toronto, responsible for the University’s alumni relations, alumni communications and fundraising. Mr. Palmer was formerly President and Executive Director, Royal Ontario Museum Board of Governors from 1999-2007. In that role he spearheaded the Renaissance ROM campaign – a transformational campaign that re-defined the Museum’s financial resource base, its public brand, and its position as a major international cultural destination for Toronto and Canada.

Before joining the ROM, Mr. Palmer led a groundbreaking campaign for the University of Western Ontario’s Faculty of Business that resulted in its being renamed as the Richard Ivey School of Business and opened a new era in professional-faculty fundraising in Canada. In that capacity he was also deeply engaged with Ivey’s international outreach to Asia. Mr. Palmer began his career as an Adjunct Professor of Musicology in the Faculty of Music, University of Western Ontario and holds an Honours Bachelor of Music from the University of Western Ontario.

Catherine J. Riggall (Assessor)

Cathy Riggall is the Vice President, Business Affairs at the University of Toronto. In that role, she is responsible for the overall financial management of the University, as well as real estate and construction, facilities operations, services such as parking, food and beverage and residences that are not affiliated with a College. Ms Riggall joined the University in May of 2002 as Assistant Vice President, Facilities and Services and was appointed to her current position in 2004.

Ms Riggall was formerly with Moore North America, as Vice President and General Manager, Financial Services Group. Prior to joining Moore, she held several executive positions with Canada Trust and CIBC. Ms Riggall has an MBA from York and an honours B.A. in French Literature from the University of Manitoba. She is an active volunteer and has served on the Board of YWCA Toronto and was President from 2004-06. She is currently a member of the Board of YWCA Canada and serves as its Vice-President.

Larry Wasser (Vice Chair)

Larry Wasser is the Rotman School of Management’s Entrepreneur-in-Residence as well as President, L.W. Capital Corporation. He is the founder and former Chair and CEO of Beamscope Canada Inc., founder and former member of the Board of Directors of Ironside Technologies Inc., as well as founder and joint venture partner of Electronics Boutique (Canada) Inc.

Mr. Wasser received his Hons. B.A. from the University of Toronto and is presently Chair of the Rotman School of Management Entrepreneurship Advisory Board and a member of Rotman’s

Appendix B – Committee Members (cont'd)

Larry Wasser (cont'd)

Advancement Board. He is a former Governor of the University of Toronto and a former member of the Business Board. In addition, he is a member of the Board of Directors at Mount Sinai Hospital Foundation, a member of the Mount Sinai Finance and Investment Committee, a member of the Board of Governors for both Sunnybrook Hospital and the Baycrest Centre and a director of Maple Pictures, a division of Lionsgate Entertainment Corp.

Jason Z. Wei

Professor Wei has been a faculty member at the University of Toronto since 1998, following his role as Associate Professor of Finance at the University of Saskatchewan. Professor Wei teaches at both undergraduate and MBA levels, including introductory finance, advanced finance, investments, portfolio management, international finance, and derivative securities courses. His research interests include theoretical valuation and application of derivative securities.

Prof. Wei received his M.A. from York University and his PhD from the University of Toronto. He currently serves as Area Editor for the *Canadian Journal of Administrative Sciences* and is a member of the Editorial Board for the *Journal of Derivatives.* He has won the Best Paper in Derivatives Prize from the Northern Finance Association and the Toronto Society of Financial Analysts Research Award.

Appendix C – Committee Process

The committee held nine meetings over September, October and November. The committee began its work by reviewing the documents (listed in Appendix D) that were provided as background material.

Several meetings included discussions with people considered to have specific information that was relevant to the committee mandate, including Professor George Luste, the President of UTFA; Mr. Ira Gluskin, the Chair of the UTAM board; Mr. Bob Morrison, the Vice Chair of the UTAM Board; and Mr. Bill Moriarty, the CEO of UTAM.

The committee then discussed the issues and concerns raised and drafted the report and recommendations.

Appendix D – List of Documents [1]

Endowment management policies

- Preservation of capital policy
http://www.governingcouncil.utoronto.ca/policies/pensionfund.htm

- Risk return analysis (power point 2007) – [*no web link*]

- Endowment annual report(s)
http://www.finance.utoronto.ca/Page793.aspx

- Swensen chapter on endowment management
http://www.marketthoughts.com/david_swensen_pioneering_portfolio_management.html

Investment policies

- University Funds Investment Policy
http://www.governingcouncil.utoronto.ca/policies/pensionfund.htm

- Pension Fund Master Trust Investment Policy
http://www.governingcouncil.utoronto.ca/policies/pensionfund.htm

University funding implications of revised policies

- Financial statements 2008, 2009
http://www.finance.utoronto.ca/alerts/finreports.htm

- Operating budgets 2008, 2009
http://www.planningandbudget.utoronto.ca/budget/reports.htm

Investment oversight

- Delegation of Authority
http://www.governingcouncil.utoronto.ca/policies/InvestRevisedDeltoUTAM_Apr_2008.htm

- Investment Management agreement
http://www.governingcouncil.utoronto.ca/AssetFactory.aspx?did=4263

Existing and alternative structures for UTAM

- Original report recommending establishment of UTAM [*Business Board meeting of September 13, 1999, Item 4]*

- Ambachtsheer report 2007

- Report on UTAM 2007
http://www.governingcouncil.utoronto.ca/AssetFactory.aspx?did=4260

[1] The url has been provided for those documents that are available on the web.

Appendix E – UTAM Board Members

Sheila Brown is Chief Financial Officer of the University of Toronto. She previously held the positions of Controller and Director of Financial Services and of Faculty Comptroller in the Faculty of Medicine. She has served the University in a number of other financial positions since joining its staff in 1973.

Allan Crosbie is the Chair of Crosbie & Company Inc., a Toronto based Investment Bank. He began his career in investment banking at Wood Gundy where he became a Vice President. He was a founding partner of Crosbie Armitage & Company, the specialty merger and acquisition firm. Upon the acquisition of Crosbie Armitage by Merrill Lynch Canada, he was appointed a Senior Vice President and Director of Merrill Lynch Canada and Head of Canadian Mergers and Acquisitions. He subsequently formed Crosbie & Company. Over the years he has been a Director of a number of public and private companies and not-for-profit organizations. His current not-for-profit involvements include director of the Arthritis and Autoimmune Foundation (AARC) of the University Health Network (UHN) and chair of the Foundation's Investment Committee; director of the National Ballet of Canada Foundation and member of its Investment and Audit Committees; and director of the Harvard Business School Alumni Association.

Catherine A. (Kiki) Delaney is the President of C.A. Delaney Capital Management Ltd., an investment counselling firm. Formed in August 1992 by Ms. Delaney, the firm provides independent investment management services to institutional and private clients. Prior to forming Delaney Capital, Ms. Delaney was a Partner and Executive Vice President of Gluskin Sheff + Associates, and before that Executive Vice President and Director of Guardian Capital Investment Counsel. Ms. Delaney is a Chartered Financial Analyst and a former Director of the Toronto Society of Financial Analysts. She currently serves on the Board of Directors of the National Arts Centre Foundation, the Board of Trustees of the Art Gallery of Ontario, and the Board of Directors of the Institute for Research on Public Policy, chairing its Investment Committee.

Ira Gluskin [2, 3] (Chair of the Board) is President and Chief Investment Officer of Gluskin Sheff + Associates. Mr. Gluskin began his career in the investment department of Canada Life, later joined MGF Management, a mutual fund company, and then became a Securities Analyst and latterly President of the institutional brokerage firm, Brown Baldwin Nisker (now HSBC Securities Canada Inc.). He has been active in a number of community organizations and currently serves on the Board of Governors of Mount Sinai Hospital. He has been a regular columnist for the Financial Times of Canada and the Financial Post, and is a frequent speaker at business and real estate forums across Canada.

William E. Hewitt [1] before his retirement, served as Chief Investment Officer of Scotia Cassels Investment Counsel Limited, Principal Officer and Vice President, Investments for Sun Life Assurance Company of Canada, and Secretary/Treasurer for Imperial Trustees (responsible for the investment management of the Imperial Oil Limited Pension Fund). He has also served on both public and private company boards of directors, including Extendicare Limited, Scotia Cassels Investment Counsel Limited, Allcora Explorations Limited, Helix Investments Limited, Health Care Ventures LP and Dynacare Health Services Inc. His extensive volunteer work has included service as a member of the Board of Regents of Victoria University in the University of Toronto, Chair and Trustee of the George R. Gardiner Museum of Ceramic Art, and Trustee of the Rehabilitation Institute of Toronto.

Eric F. Kirzner [1] (Chair of the Audit and Compliance Committee) is a Professor of Finance and the John H. Watson Chair in Value Investing at the Rotman School of Management. He is the Chair of the OSC Investors Advisory Committee, Vice Chair of the Board of Regulation Services Inc., Chair of the Independent Board of Advisors of Scotia Securities, a director and Chair of the Audit Committee of Equitable Trust Inc., an External Advisor to Hospitals of Ontario Pension Plan, a contributing editor of the MoneyLetter, and co-author of a number of books including Mutual Fund Buyer's Guide; Investments (Penguin Books); Analysis and Management (McGraw-Hill); and Global Investing the Templeton Way (Dow Jones-Irwin).

Appendix E – UTAM Board Members (cont`d)

Florence R. Minz [3] is a current member of the Governing Council of the University, appointed by the Lieutenant Governor in Council. She is a Partner at Swindon Investments Ltd., a real estate development and property management firm. She serves as Chair of the Board of the Royal Conservatory of Music, Director of St. Michael's Hospital, where she is Vice Chair of the Research and Academic Affairs Committee, Director of the Toronto Symphony Orchestra, Director of Royal St. George's College, Director of Opera Atelier, and member of the Board and the Executive Committee of the Federation of Rental Housing Providers of Ontario.

William W. Moriarty, CFA is President and Chief Executive Officer of the University of Toronto Asset Management Corporation.

Robert W. Morrison [1, 2] (Vice Chair of the Board) Before his retirement, served as Senior Vice President and Chief Investment Officer at Canada Life Financial Corporation. In addition to previous positions at Canada Life (Pension Investment Vice President, and Vice President and Associate Treasurer) he has served as Senior Vice President – Investments at Prudential of England and Vice President – Investments at Travelers Canada. He is a director of the West Park Healthcare Centre and its Foundation and a past trustee of the Banting Research Foundation. He has served as Director of the Toronto Society of Financial Analysts and as President of the Institute of Chartered Financial Analysts.

Catherine J. Riggall [2, 3] is Vice President, Business Affairs of the University of Toronto. She began her service to the University in 2002 as Assistant Vice President, Facilities and Services. Before joining the University, she had extensive experience in the private sector including (most recently) the following positions: Vice President and General Manager of the Financial Services Group at Moore North America; Vice President, Sales Support and Vice President, Pension Trust at the Canada Trust Company; and Vice President of the Personal and Commercial Bank at the Canadian Imperial Bank of Commerce.

Thomas H. Simpson [2] (Chair of the Compensation Committee) is a past-Chair of the University's Governing Council and a past chair of the Business Board. He was Vice President and Director of Scotia McLeod Inc. from 1982 to 1988 and Executive Vice President and Director of Global Strategy Financial Inc. from 1988 to 2000, when the business was sold. He is currently President of Willbrook Optics Inc., a private family investment company. He is also a director of BluMont Capital Inc., a public company, and Five Continents Financial Limited, Grand Cayman, an investment management business. Upon completion of his first nine years of service as an alumni member of the Governing Council, he was awarded an honorary Doctor of Laws degree by the University of Toronto.

Bonita Then [1] is a seasoned financial executive who has held senior financial positions at a number of large corporations including Altamira Investment Services Inc., National Trustco and Scotts's Hospitality. At present, she is President and CEO of Specialty Foods Inc. Since 1991, she has been on the Nunavut Trust Investment Advisory Committee. Bonita holds a B.A. and an M.B.A. from the University of Toronto.

John Varghese is a current member of the Business Board of the University of Toronto. He is the CEO and Managing Partner of VentureLink Funds Inc. At Venture Link, he is responsible for the management and investment activities of the fund as well as actively leading the marketing initiatives. He sits as a board member on several investee companies including Ventus Energy Inc., Orion Securities Inc. and MCCI Communications Inc. He is also a member of the Board of Directors of the Canadian Venture Capital Association.

[1] Member of the UTAM Audit & Compliance Committee
[2] Member of the UAM Compensation Committee
[3] Member of the UTAM Executive Committee