

# UofT Pension Committee

## UTAM pension investments & related issues

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and Vice-Chair of the Pension Committee of Governing Council)

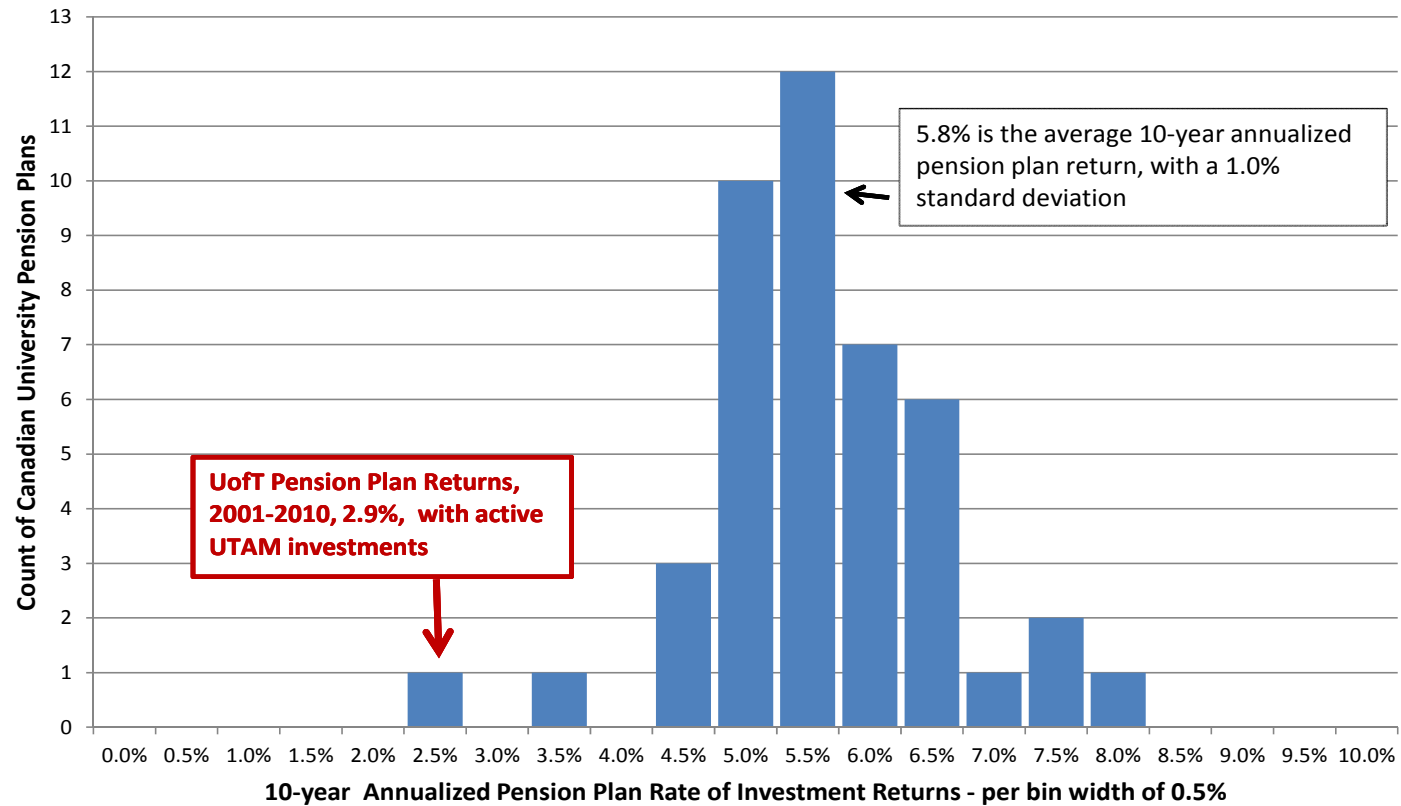
March 28, 2012 presentation to the UofT Pension Committee (PC)

(**CAUBO** - the Canadian Association of  
University Business Officers)

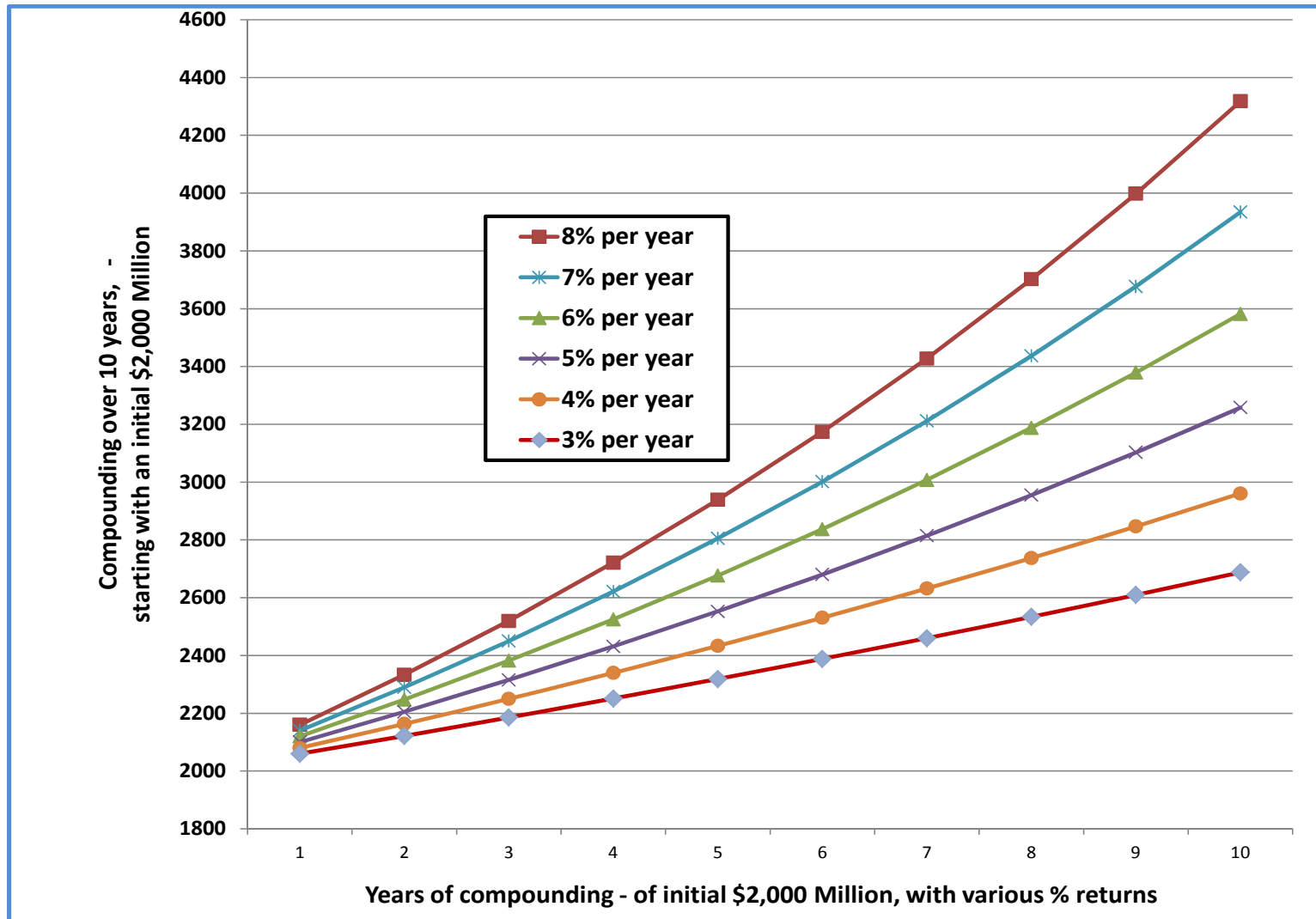
- June 2011 CAUBO report is attached to the agenda documentations for the PC
- The 103 page report focuses on performance and details of the Endowments and Pensions of about 60 Canadian institutions – from 2001 to 2010. Pages 70-71 tabulate pension returns.

## From CAUBO data for 44 Canadian Universities

Summary of 44 Canadian University Pension Plans, 2001-2010,  
VS  
their 10-year annualized pension plan rate of investment return



Return Compounding, 2001 to 2010, => **extra** income of \$900 Million, on initial \$2 Billion, if the return is 6% instead of 3%



## Summary of 2001 to 2010 decade

- From 2001 to 2010
- 2.9% UTAM pension annualized (or 2.5%?)
- 5.8% average for 44 university pension plans
- 2.0% annualized Canadian Inflation
- 6.6% annualized TSX equity index
- 6.3% annualized All Can Bond index
- In 2011 UTAM pension return is 1.2%

# Active vs Passive (Index) Investments

- *"The most efficient way to diversify a stock portfolio is with a low fee index fund."*

Paul Samuelson - Nobel Laureate

# Active vs Passive (Index) Investments

*“Most investors, both institutional and individual, will find that the best way to own common stocks (shares’) is through an index fund that charges minimal fees. Those following this path are sure to beat the net results (after fees and expenses) of the great majority of investment professionals.”*

Warren Buffett – in 1996 Berkshire newsletter

## Active vs Passive (Index) Investments

*"If all the money that's ever been invested in hedge funds had been put in Treasury bills instead, the results would have been twice as good."*

Simon Lack - 2012 author of *The Hedge Fund Mirage: The Illusion of Big Money and Why It's Too Good to Be True*

## Active vs Passive (Index) Investments

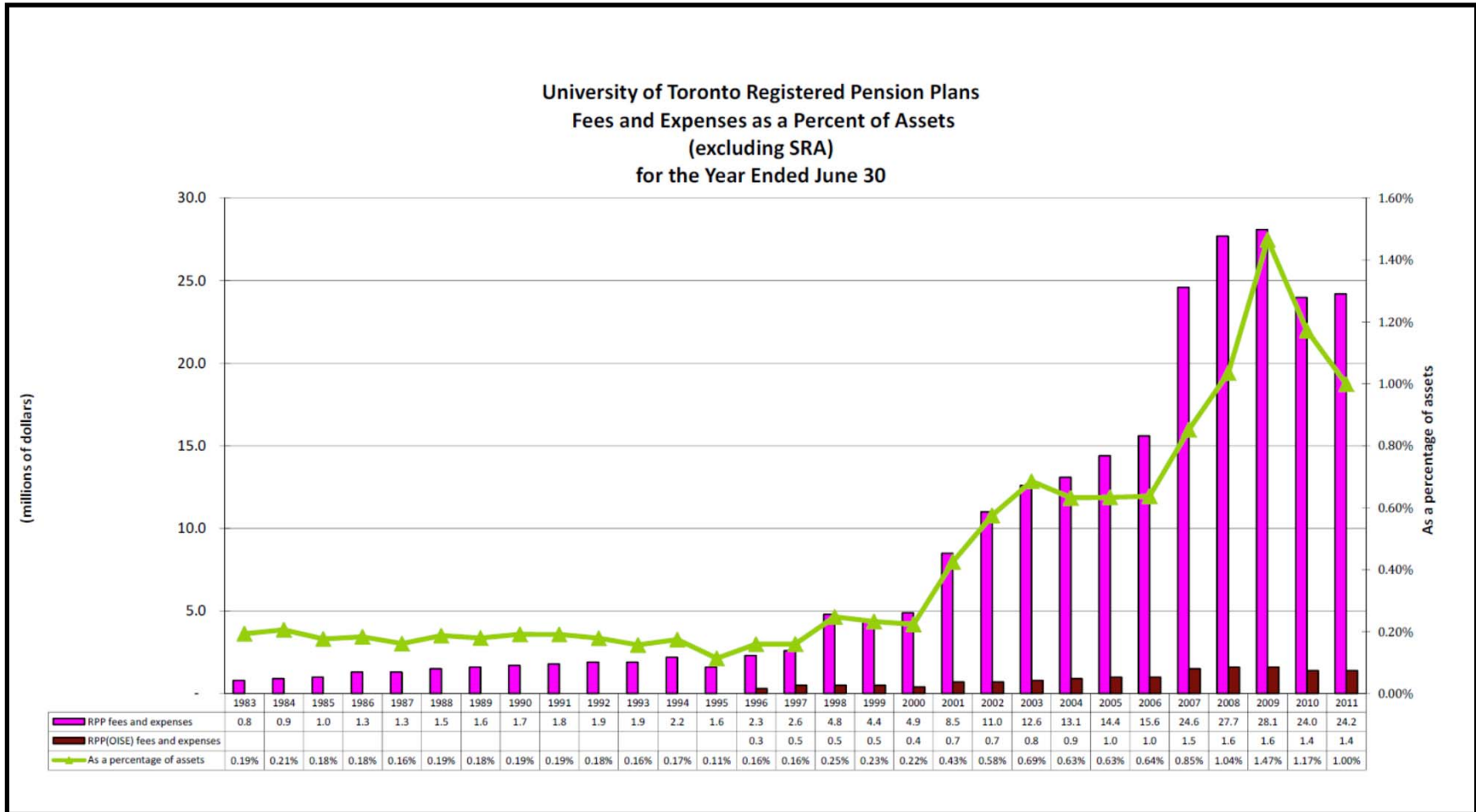
On Oct 1, 2011 - the Hon H. N. R. Jackman endowment , about \$26 million, was removed from the UTAM managed LTCAP account.

The new HNRJ *“Portfolio is set up to gain exposure to the Reference Portfolio in a cost-effective way ... ”*

Implementing the main recommendation of the Jackman-Wasser Committee report would resolve most of the concerns raised here:

- “In short, we believe that the pension and endowment funds should be invested primarily in publicly traded stocks and bonds.”

# Pension costs – pre & post UTAM



# Pension Plan Investment Issues?

## What issues should concern PC members?

- (i) **Transparency** of investments & assets? Do we know where pension funds are invested?
- (ii) **Complexity** of investments? Do we really understand how assets are invested?
- (iii) Validity of **valuations** for illiquid assets?
- (iv) Investment **cost** issues. Why are UTAM unit costs so high? Costs raise the bar on required returns.
- (v) Investment management **people** issue.

## Concluding Recommendation

More time and discussion would be helpful - before we consider approving the pension plan's "Investment Policies and Goals". (agenda #5)

Recommend we reconsider this item at the June 6, 2012 meeting of the Pension Committee.

# Extra Overheads

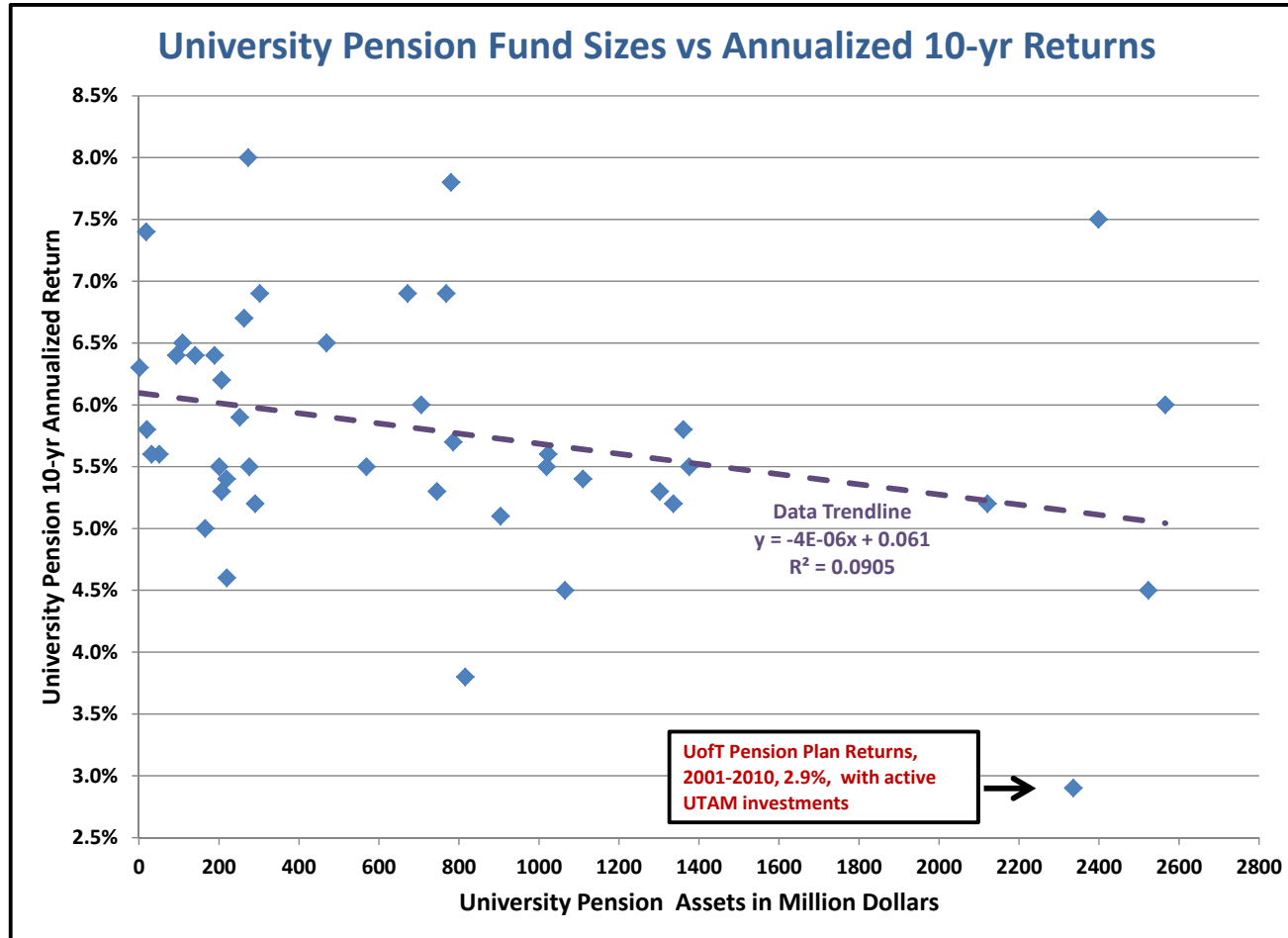
- If helpful .....

# Volatility - (or Variability)

- “I have never believed volatility was useful as a measure of risk in the real world but it does help investment managers convince their board and potential clients that they are more sophisticated than they are and, it helps increase compensation.”

- U of T Alumnus

# Fund\$ vs Returns, 2001-2010



## Annual return data

Nominal annual pretax returns in Canadian dollars											
Year	Annual Canadian Inflation	3 month T-bills	Short Canadian Bonds	Long Canadian Bonds	All Canadian Bonds	Real Return Bonds	TSX Composite	S&P 500	Wilshire 5000	MSCI EAFE	MSCI Emerging Markets
2001	1.007	1.044	1.094	1.061	1.081	1.006	0.874	0.936	0.946	0.837	1.037
2002	1.039	1.025	1.063	1.111	1.087	1.153	0.876	0.772	0.784	0.835	0.931
2003	1.020	1.029	1.051	1.091	1.067	1.132	1.267	1.058	1.082	1.144	1.284
2004	1.021	1.023	1.051	1.103	1.071	1.175	1.145	1.028	1.044	1.119	1.168
2005	1.022	1.026	1.024	1.138	1.065	1.152	1.241	1.015	1.029	1.103	1.302
2006	1.016	1.040	1.040	1.041	1.041	0.971	1.173	1.160	1.161	1.271	1.329
2007	1.024	1.043	1.041	1.034	1.037	1.016	1.098	0.897	0.899	0.950	1.189
2008	1.012	1.028	1.086	1.027	1.064	1.004	0.670	0.774	0.770	0.700	0.575
2009	1.013	1.005	1.045	1.055	1.054	1.145	1.351	1.091	1.117	1.143	1.545
2010	1.024	1.005	1.036	1.125	1.067	1.111	1.176	1.089	1.115	1.024	1.128
Geo Mean	1.020	1.027	1.053	1.078	1.063	1.084	1.066	0.973	0.985	0.998	1.116
% G-M	2.0%	2.7%	5.3%	7.8%	6.3%	8.4%	6.6%	-2.7%	-1.5%	-0.2%	11.6%

# Annualized UofT Pension Plan Returns - for the UTAM years

UTAM Annualized UofT Pension Plan Investment Performance during the UTAM Years											
Year Ending Dec 31	One Year	Two Years	Three Years	Four Years	Five Years	Six Years	Seven Years	Eight Years	Nine Years	Ten Years	Eleven Years
2010	9.5%	7.4%	-6.7%	-3.7%	-0.7%	1.4%	2.8%	4.2%	2.9%	2.5%	2.7%
2009	5.3%	-13.8%	-7.7%	-3.1%	-0.2%	1.7%	3.5%	2.1%	1.7%	2.1%	
2008	-29.5%	-13.6%	-5.7%	-1.5%	1.0%	3.2%	1.7%	1.3%	1.7%		
2007	6.0%	9.0%	10.1%	10.4%	11.4%	8.1%	6.7%	6.5%			
2006	12.1%	12.2%	12.0%	12.8%	8.5%	6.8%	6.5%				
2005	12.3%	11.9%	13.0%	7.6%	5.7%	5.6%					
2004	11.5%	13.3%	6.1%	4.2%	4.4%						
2003	15.2%	3.5%	1.8%	2.6%							
2002	-7.0%	-4.3%	-1.2%								
2001	-1.5%	1.8%									
2000	5.2%										