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<http://www.theglobeandmail.com/globe-investor/u-of-t-to-curtail-aggressive-investing/article1476669/>

U of T to curtail aggressive investing

Move follows a decade of disappointing returns and a \$1.5-billion loss that wiped out nearly 30 per cent of the school's pension and endowment funds in a single year.

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The University of Toronto's foray into aggressive U.S.-style investing is coming to an end following a decade of disappointing returns and a \$1.5-billion loss that wiped out nearly 30 per cent of the school's pension and endowment funds in a single year.

The move was announced quietly over the weekend in a letter to faculty and staff from university president David Naylor and follows the recommendations of a blue-ribbon panel led by Hal Jackman, a former chancellor and major donor to the school.

That report, also made public on the weekend, finds that University of Toronto Asset Management, a corporation set up in 2000 to boost returns by applying the investment style pioneered at big U.S. schools, "has not achieved its mission."

It recommends that the university bring the asset manager back under its direct control and that its exposure to risky investments such as hedge funds and private equity "be scaled back significantly."

Dr. Naylor in his letter said he intends to act on the report's recommendations and will make "fundamental changes" to the oversight of endowment and pension funds, which will include a new board of directors comprising senior university staff. UTAM's leader will become the university's chief investment officer and will report directly to the president.

"The university administration for its part needs to take careful stock of its current return targets and the risks associated with those targets," he said.

The decision to bring the oversight of UTAM in house marks the end of an ambitious attempt by the University of Toronto to mimic the investing approach developed at Yale and Harvard universities, with a heavy reliance on risky "alternative investments," rather than stocks and bonds, in an effort to increase returns.

The opposite happened.

The Jackman report finds that even in strong markets, performance was "disappointing," lagging other funds. Since its inception, the manager has had an annualized rate of return of just 2.7 per cent. In 2008, a bad year

for all investors, the fund got hammered with a loss far greater than its peers, thanks largely to a bad bet on the strength of the Canadian dollar and exposure to expensive hedge funds.

In reaction, the university was forced to stop payments from its endowment - a loss of \$62-million or about 5 per cent of its operating budget. Those payments will resume next year.

Even now that markets have rallied, the report finds UTAM's investment in alternative assets, which are difficult to sell, has dragged down results. Returns were just 3.8 per cent to September, compared with an industry average of more than 12 per cent.

George Luste, head of the university's faculty association who has long been critical of UTAM, said the changes do not go far enough and do not hold anyone responsible for the botched strategy.

"All they are doing is rearranging the deck chairs on the Titanic," he said. "This acknowledges the problems, but it does not say why the mistakes happened."

University Plans over \$500 million as at December 31, 2008

Source: Canadian Association of University Business Officers (CAUBO) Investment Survey

| Rank* | Plan | Rate of Return | | | Market Value (\$000s) |
|-------|--------------------------|----------------|---------|----------|--------------------------|
| | | 1 Year | 4 Years | 10 Years | |
| 1 | Saskatchewan | -11.1 | 2.3 | | 668,900 |
| 2 | UBC - Faculty | -13.0 | 3.5 | 4.9 | 1,097,096 |
| 3 | Montreal | -13.5 | 3.0 | 5.5 | 2,140,173 |
| 4 | Memorial | -13.7 | 2.6 | 5.1 | 630,243 |
| 5 | Guelph | -14.2 | 3.7 | 6.2 | 755,162 |
| 6 | Laval | -14.6 | 1.9 | 4.2 | 1,799,834 |
| 7 | McGill - Accumulation | -14.9 | 2.9 | 5.1 | 868,568 |
| 8 | Victoria - Comb. & Money | -15.0 | 2.8 | 5.8 | 554,628 |
| 9 | Ryerson | -15.3 | 5.6 | 7.7 | 646,232 |
| 10 | Manitoba | -15.5 | 2.0 | 5.1 | 832,401 |
| 11 | Dalhousie | -16.2 | 1.7 | 5.3 | 598,565 |
| 12 | Ottawa | -16.4 | 2.1 | 4.6 | 1,033,355 |
| 13 | Waterloo | -16.8 | | | 773,310 |
| 14 | McMaster | -17.1 | 1.4 | 4.0 | 855,384 |
| 15 | Quebec | -18.0 | 2.4 | 7.1 | 1,839,343 |
| 16 | UBC - Staff | -18.1 | 1.6 | 5.8 | 666,606 |
| 17 | York | -18.8 | 0.9 | 4.5 | 1,062,291 |
| 18 | Carleton | -18.8 | 1.5 | 6.4 | 617,450 |
| 19 | Concordia | -19.3 | 1.0 | | 505,019 |
| 20 | Western Ontario | -20.2 | 0.5 | 4.4 | 913,300 |
| 21 | UAPP (Alberta) | -20.4 | 1.6 | 4.1 | 1,974,659 |
| 22 | Queen's | -21.2 | 1.6 | 5.1 | 1,110,481 |
| 23 | Toronto | -29.1 | -1.0 | 3.1 | 2,071,885 |

*Rank based on 1 Year Rate of Return