

UTFA Information Report

University of Toronto Faculty Association November 17, 2009

Information Report #10

UTFA's Reserve Account

and UTFA's

Investment Policy

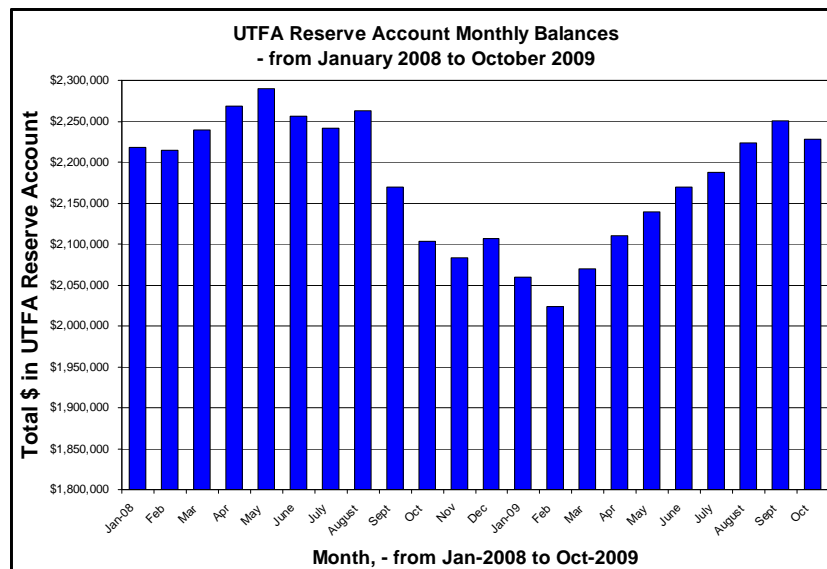
“Only when the tide goes out do you discover who's been swimming naked.”

and

“If past history was all there was to the game, the richest people would be librarians.”

Warren Buffett

UTFA Information Report #10 has two purposes. The first is to assure you, as UTFA members, that your Association's assets are managed prudently; the second is to highlight briefly the issues implicit in the following chart, namely asset allocation, risk and frictional cost.



UTFA's reserve funds are invested in a few low cost index funds. During the global market downturn of 2008-2009, the largest decrease in the UTFA account occurred in February 2009, when the total value fell by about 9% relative to its market value in January 2008. As of October 2009 the reserve fund has fully recovered its January 2008 value. Current balance is about \$2.25 million.

Background

Some years ago UTFA's costly defence of academic freedom in the Olivieri case exhausted our then modest bank balance and required an increase in dues for a few years. This experience demonstrated the need for a more substantial reserve account should a similar and unanticipated event occur again. Even in general, not all of UTFA's expenses are predictable on a year by year basis. Thus UTFA Council approved the creation of a reserve account to smooth out the sometimes uneven nature of our expenses as well as to provide a backstop for any substantial new expense. Today that account has a balance of about \$2.2 million, which is approximately equal to one year of dues income, and which should serve its purpose adequately. On two recent occasions when it appeared the reserve balance would exceed one year's dues, Council passed motions invoking dues holiday¹ for our members.

Oversight and UTFA's Investment Policy

Operational oversight of the UTFA reserve account is provided by the Treasurer, the President and the Financial Advisory Committee.² UTFA Council of course has final responsibility. In June of 2006 UTFA Council approved the "UTFA Investment Policy." This two-page document has seven articles. Here are two key extracts from this policy:

1.2. The Policy should reflect investment principles and guidelines which are appropriate to the needs and objectives of UTFA. Investments should be easy to monitor and service and not require that a President or Treasurer be experts in financial investment. The Policy should limit the investment risk to the Association. The Policy should ensure that the assets of the Fund are invested in a diversified manner. The Policy also should describe the monitoring procedures for the ongoing operation of the Fund.

and

5.1 The long-term objective for this Fund is to achieve a total annualized rate of return of at least 2.0% above inflation

5.2 To achieve the long-term return objective for the Fund the following Asset Allocation Policy should be established and adhered to:

Cash, 30-40% allocation range for Fund assets

Bonds, 30-40% allocation range for Fund assets

Equities 30-40% allocation range for Fund assets (with 1/3 Canadian, 1/3 US, 1/3 foreign)

5.3 To ensure maximum return to UTFA, care shall be taken to use investment vehicles that minimize ongoing annual service and management fees.

Implementation of UTFA's Investment Policy

To implement the above policy, UTFA currently uses CIBC Investors Edge, a discount brokerage account, and the following five low cost CIBC index funds³:

¹ To date a total of four months of dues holidays have been provided and the current membership dues rate is 0.75% of salary.

² The current membership of this Committee consists of Dennis Patrick, Chair and UTFA Treasurer, George Luste, UTFA President and Professors Laurence Booth, Sandy Borins and Mary Pugh.

³ Today there may be other equivalent index funds or ETFs that are lower cost than CIBC, even after the 0.67% MER rebate we receive from CIBC. This is being explored. Every 0.1% reduction in fees on our \$2 million portfolio is a \$2,000 saving in annual fees. Over time it is not an insignificant saving.

- (i) for Cash the CIBC-580 fund, Money Market Premium Class Fund
- (ii) for Bonds the CIBC-489, Canadian Short Term Bond Index Fund
- (iii) for Equities the following three
 - CIBC-300, Canadian Index Fund
 - CIBC-484, US Broad Market Index Fund
 - CIBC-510, International Index Fund

CIBC provides a rebate on the management expense ratio (MER) fees for index funds if the account balance exceeds \$150,000 or \$500,000. After the fee rebates, the UTFA effective MER fee has been about 0.35% or about one third of one percent. These are no-load funds so there is no acquisition fee. The funds automatically reinvest any dividends or capital gains, at no cost, thus the minimal maintenance and ease of oversight.

Comparison with UTAM⁴

Size comparison. At the start of 2008 UTAM had about \$5 billion under active management (total of UofT pension plan and UofT endowment funds). UTFA had about \$2.2 million under passive management in its Reserve Fund.

Cost comparison. While UTAM's investment costs in 2008 totaled about 1.00% of assets (~\$50 million cost on the \$5 billion in assets), UTFA's costs were one third of that or about 0.35% of assets (~\$8 thousand cost on the \$2.2 million in assets).

2008 return comparison. UTAM's 2008 return was a loss of 29.5% (~\$1.5 billion loss). UTFA's loss for the same period was 5.0% (~\$110 thousand loss).

2009 six month comparison. UTAM's first six month return was a further loss of about 2% (~\$70 million loss). UTFA's gain over the same six months was 3.0% (~\$63 thousand gain).

Complexity comparison. At one point in 2008 UTAM had exposure to over 400 active hedge funds. UTFA uses 5 passive index funds.

Concluding Comments

UTFA's purpose is to serve the best interest of its members. We trust you approve of the establishment of the reserve account and our prudent and cost effective oversight.

We welcome any and all comments.

George Luste

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⁴ UTAM (University of Toronto Asset Management Inc) website at <http://www.utam.utoronto.ca/site3.aspx> UTFA has presented a much more detailed critique of UTAM's performance to the Jackman Committee. See <http://utfa.org/images/file/UofT-Sept-23-09-Jackman%20commis-final-18p.pdf>