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Date: March 27, 2006

To: Governing Council Business Board Members

From: George Luste, UTFA President

**Re: University of Toronto Asset Management Corporation (UTAM)  
2005 Annual Report – some comments**

My 5-minute time limit requires I be very brief.

**Background:** (i) given the proposed 5% budget cut across academic divisions for 2006-07 and (ii) given the Administration's claim during the recent negotiations with UTFA of a pension plan deficit as the reason why current pensions should **not** be fully indexed to inflation (2.2% in 2005), --- both the investment performance and the management costs of UTAM are important issues for UTFA members.

**Pension Plan Expenses:** UTAM expenses are a significant component of the increased total cost of administering the UofT Pension Plan. Prior to 1998 (before UTAM) the annual pension plan costs were under \$3 million. Today they are in excess of \$14 million. The attached Exhibit-A shows the dramatic increase over time in the total pension plan expenses. (In 2004-05 the total average annual cost was \$1,030 for each of the 13,934 plan members,- active, retired, terminated, suspended, exempt, etc.)

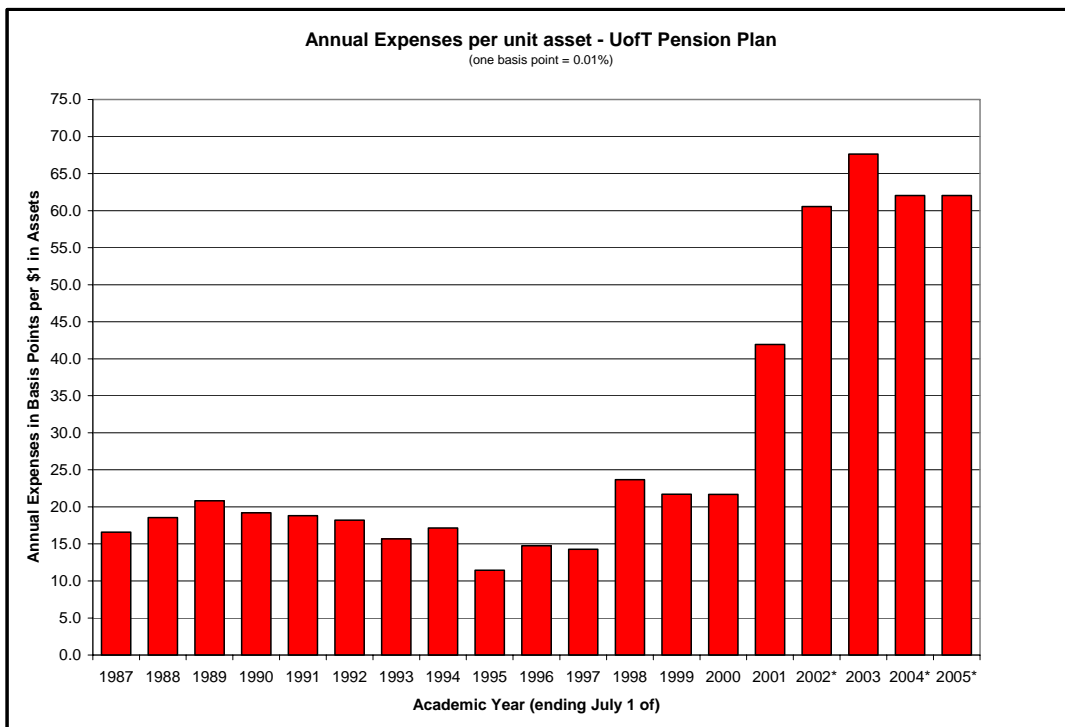
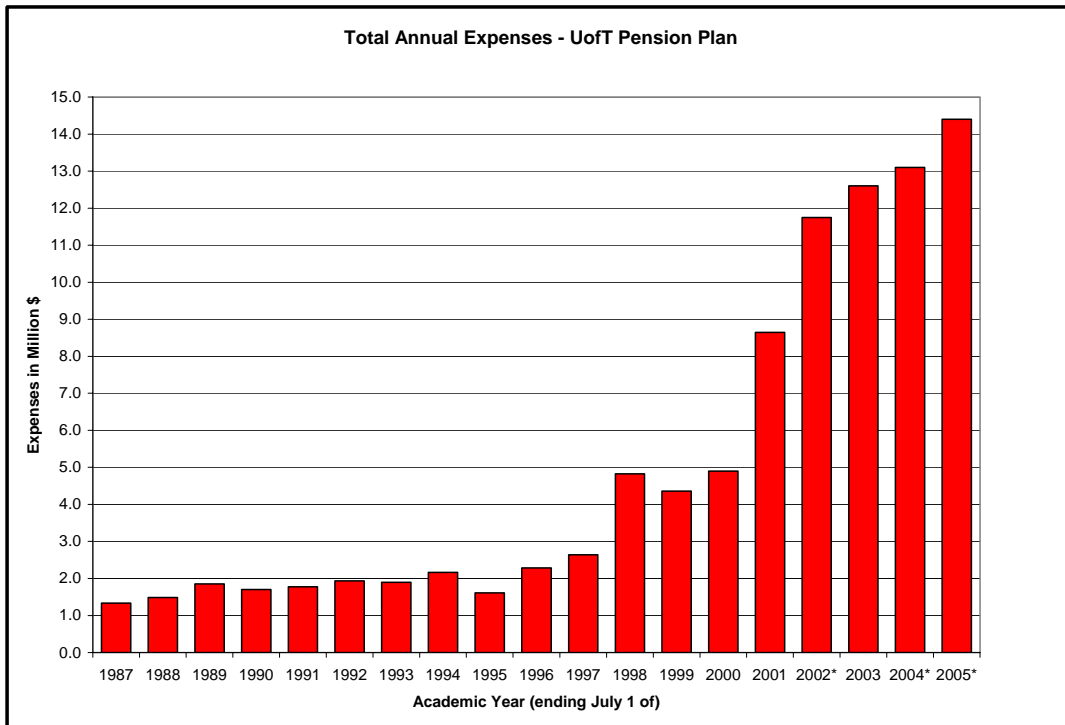
**Passive Index Returns vs UTAM Returns:** Investment expenses are a performance drag and can reduce returns. Passive investing (as opposed to active investing) has minimal cost. Exhibit-B illustrates how the returns from a simple passive allocation outperform active UTAM returns from 2003 to 2005.

#### **Comments on the UTAM 2005 Annual Report:**

- (i) **Management Expenses and Investment Fees:** There is minimal information on expenses and fees in the UTAM report. Costs do matter. There are now two to three layers of active management costs. What are the costs for each layer ? How do they differ between the Pension and LTCAP accounts? How do they breakdown by asset class in the UTAM Exhibit 6 table?
- (ii) **Cumulative Value Added:** On page 10 of the UTAM report it states: "*UTAM has generated cumulative value added of approximately \$615 million above the target for Pension and LTCAP combined*". I do not believe this increase in asset value should be attributed to UTAM (as the attached Exhibit B and C illustrate). Markets have been generous during the past three years.
- (iii) **Risk:** The UTAM Report fails to explain or discuss this important topic adequately. Risk comes in many shapes and sizes. It is not always easy to quantify. The standard deviation numbers (or volatility) in Exhibit 8 (page 17) of the UTAM report do not seem to fully reconcile with the corresponding standard deviation numbers derived at the bottom of the attached Exhibit C.

# Summary Data of Total Annual UofT Pension Plan Expenses

(Data come from Hewitt Associates Annual Actuarial Reports)



## Exhibit – A

# Passive Index Returns

VS

# UTAM Returns

Year	25.0% Long Canadian Bonds	25.0% All Canadian Bonds	50.0% TSX Composite	100% Passive Total Return	100.0% UTAM (Pension) Return	Difference* *
2003	9.1%	6.7%	26.7%	17.3%	15.2%	-2.1%
2004	10.3%	7.1%	14.5%	11.6%	11.5%	-0.1%
2005	13.8%	6.5%	24.1%	17.1%	12.3%	-4.8%
3-year				15.3%	13.1%	-2.2%

\*note: -

an annual 2% return difference translates  
to an annual \$40-\$50 million in the pension plan

Exhibit – B

# Passive Return Table

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	Gold Bullion
1970	1.3%	6.7%		16.2%			-3.6%	-2.5%		-16.1%		-0.2%
1971	5.0%	3.8%		14.8%			8.0%	13.2%		29.9%		15.0%
1972	5.1%	3.6%		8.1%			27.4%	18.2%		36.7%		46.0%
1973	9.4%	5.2%		2.0%			0.3%	-14.7%		-14.1%		67.1%
1974	12.3%	8.0%		-4.7%			-25.9%	-26.8%		-22.5%		71.5%
1975	9.5%	7.5%		8.0%			18.5%	40.7%	42.1%	40.6%		-21.8%
1976	5.8%	9.3%		23.6%			11.0%	23.0%	25.6%	3.0%		-4.8%
1977	9.5%	7.8%		9.2%			10.7%	0.7%	5.6%	29.5%		33.0%
1978	8.4%	8.5%		4.1%			29.7%	15.5%	18.4%	45.6%		48.5%
1979	9.8%	11.8%		-2.8%			44.8%	16.8%	23.7%	4.5%		123.1%
1980	11.1%	13.4%	9.1%	2.1%	6.6%		30.1%	35.5%	36.7%	27.2%		17.8%
1981	12.2%	19.3%	8.3%	-2.1%	4.2%		-10.2%	-5.6%	-4.4%	-1.7%		-33.1%
1982	9.2%	15.5%	28.8%	46.0%	35.4%		5.5%	26.0%	23.0%	2.8%		19.2%
1983	4.6%	9.9%	14.9%	9.6%	11.5%		35.5%	24.0%	25.0%	26.1%		-15.3%
1984	3.7%	11.6%	12.9%	16.9%	14.7%		-2.4%	12.9%	9.4%	14.5%		-14.2%
1985	4.4%	10.1%	15.1%	26.7%	21.2%		25.1%	39.4%	40.3%	65.8%		11.8%
1986	4.2%	9.5%	11.4%	17.2%	14.7%		9.0%	17.2%	14.7%	67.8%		19.8%
1987	4.2%	8.5%	7.0%	1.8%	4.0%		5.9%	-0.9%	-3.7%	17.6%		15.1%
1988	4.0%	9.6%	8.4%	11.3%	9.8%		11.1%	7.0%	8.2%	18.0%	28.8%	-22.3%
1989	5.2%	12.5%	10.4%	15.1%	12.8%		21.4%	27.8%	25.4%	7.6%	60.1%	-5.7%
1990	5.0%	13.7%	10.5%	4.3%	7.5%		-14.8%	-2.9%	-6.0%	-23.0%	-10.3%	-1.2%
1991	3.8%	9.8%	17.9%	25.3%	22.1%		12.0%	29.9%	33.6%	12.0%	59.2%	-10.4%
1992	2.1%	6.7%	8.6%	11.6%	9.8%	3.9%	-1.4%	18.4%	19.9%	-3.0%	22.5%	3.7%
1993	1.7%	5.5%	13.3%	22.1%	18.1%	18.8%	32.5%	14.5%	15.7%	38.2%	81.8%	22.4%
1994	0.2%	5.3%	-1.0%	-7.4%	-4.3%	-13.7%	-0.2%	7.5%	6.0%	14.6%	-1.7%	3.8%
1995	1.8%	7.3%	15.5%	26.3%	20.7%	16.7%	14.5%	33.9%	32.8%	8.5%	-7.8%	-1.7%
1996	2.2%	4.8%	10.7%	14.2%	12.3%	11.7%	28.3%	23.6%	21.8%	6.9%	6.5%	-4.1%
1997	0.7%	3.1%	4.9%	18.5%	9.6%	4.7%	15.0%	39.2%	37.0%	6.5%	-7.7%	-18.0%
1998	1.0%	4.7%	6.7%	12.8%	9.2%	6.0%	-1.6%	37.8%	32.3%	29.0%	-20.0%	6.3%
1999	2.6%	4.8%	2.3%	-6.0%	-1.1%	8.0%	31.7%	13.9%	16.3%	19.8%	56.6%	-5.1%
2000	3.2%	5.5%	8.2%	13.0%	10.2%	16.6%	7.4%	-5.6%	-7.4%	-10.6%	-27.9%	-1.8%
2001	0.7%	4.4%	9.4%	6.1%	8.1%	0.6%	-12.6%	-6.4%	-5.4%	-16.3%	3.7%	7.0%
2002	3.9%	2.5%	6.3%	11.1%	8.7%	15.3%	-12.4%	-22.8%	-21.6%	-16.5%	-6.9%	24.4%
2003	2.0%	2.9%	5.1%	9.1%	6.7%	13.2%	26.7%	5.8%	8.2%	14.4%	28.4%	-1.5%
2004	2.1%	2.3%	5.1%	10.3%	7.1%	17.5%	14.5%	2.8%	4.4%	11.9%	16.8%	-3.0%
2005	2.2%	2.6%	2.4%	13.8%	6.5%	15.2%	24.1%	1.5%	2.9%	10.3%	30.2%	13.9%
<b>Average</b>	<b>4.8%</b>	<b>7.7%</b>	<b>9.7%</b>	<b>11.3%</b>	<b>11.0%</b>	<b>9.6%</b>	<b>11.5%</b>	<b>12.7%</b>	<b>15.5%</b>	<b>13.5%</b>	<b>17.4%</b>	<b>11.3%</b>
<b>St Dev</b>	<b>3.5%</b>	<b>4.0%</b>	<b>5.9%</b>	<b>10.7%</b>	<b>8.0%</b>	<b>8.9%</b>	<b>16.3%</b>	<b>17.5%</b>	<b>16.1%</b>	<b>22.3%</b>	<b>31.1%</b>	<b>30.2%</b>
Geom Mean	4.8%	7.7%	9.6%	10.9%	10.7%	9.2%	10.3%	11.3%	14.4%	11.4%	13.6%	8.0%

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# Exhibit – C – sources

The enclosed worksheets show the annual total returns (income plus price changes) for a representative array of investable asset classes, per well-accepted indexes. One worksheet shows nominal returns by year, the other real returns (net of inflation). All returns are in terms of Canadian dollars. Foreign asset class returns are adjusted for year-end to year-end foreign exchange fluctuations to put them in Canadian dollar terms.

Data for these series was obtained or derived from public websites wherever possible. Data whose source is listed as the Globe & Mail or Financial Post were obtained or derived from public library stacks or microfilm.

Exchange rates 1970 Globe & Mail  
1971-1992 [Prof. Werner Antweiler, UBC](#)  
1993-date [Bank of Canada](#)

Inflation 1970-1988 Statistics Canada, Table 326-0001  
1989-date [BC Government Statistics](#)

3 month T-bills 1970-date [Libra Investment Management Inc.](#)

Short Canadian bonds (SCM Short) 1980-1992 Financial Post  
1993-2002 Globe & Mail  
2003-date [Scotia Capital](#)

Long Canadian bonds (SCM Long) 1970-1992 Digitized from <http://www.globefund.com>  
1993-2002 Globe & Mail  
2003-date [Scotia Capital](#)

All Canadian bonds (SCM Universe) 1980-1992 Financial Post  
1993-2002 Globe & Mail  
2003-date [Scotia Capital](#)

Real return bonds 1992-2002 Derived from pension plan reports by Libra  
2003-date [Scotia Capital](#)

S&P/TSX Composite 1970-date [Canadian Institute of Actuaries](#)

S&P 500 1970-2002 [Economagic.com](#)  
2003-date [Standard & Poors](#)

Wilshire 5000 1975-date [Wilshire Associates](#)

MSCI EAFE 1970-date [MSCI](#)

MSCI Emerging Markets 1988-date [MSCI](#)

Gold bullion 1970-date [Kitco](#)

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