UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 9 OF

THE PENSION COMMITTEE

September 27, 2012

To the Governing Council,
University of Toronto.

Your Committee reports that it held a meeting on Thursday, September 27, 2012 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Professor George Luste, In the Chair
Mr. W. John Switzer, Vice-Chair
Professor C. David Naylor, President of the University
Mr. Jeff Collins
Professor Ettore Vincenzo Damiano
Ms Nancy Edwards
Ms Shirley Hoy
Professor Jennifer Jenkins
Ms Paulette Kennedy
Mr. Alex McKinnon
Mr. Philip Murton
Ms Jane Pepino
Mr. Keith Thomas
Ms Rita Tsang
Ms Helen Rosenthal
Mr. Andrew Ward
Mr. W. David Wilson

Non-Voting Assessors:

Ms Sheila Brown, Chief Financial Officer
Professor Angela Hildyard, Vice-President, Human Resources and Equity
Professor Scott Mabury, Vice-President, University Operations

Mr. Louis R. Charpentier,
Secretary of the Governing Council

Secretariat:

Ms Cristina Oke, Acting Secretary

Regrets:
Professor Laurence Booth
Mr. Steve (Suresh) K. Gupta
Mr. Gary Mooney
Ms Melinda Rogers
Mr. Howard Shearer

In Attendance:

Mr. Pierre Piché, Controller & Director Financial Services, University of Toronto
Mr. Allan Shapira, Plan Actuary, AON Hewitt
Mr. Daren Smith, Managing Director, Manager Selection & Portfolio Construction, University of Toronto Asset Management Corporation (UTAM)

1. Welcome and Introductions

The Chair welcomed members to the first Committee meeting of the 2012-2013 governance year, and invited members to introduce themselves.

Professor Luste withdrew from the Chair, and asked the Vice-Chair to preside for the remainder of the meeting.

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2. Report of the Previous Meeting

Report Number 8 (June 6, 2012) of the Pension Committee was approved.

3. Business Arising from the Report of the Previous Meeting

The Chair reported that a working group had been established to review formats of reports that would come before the Committee. Ms Brown advised members that some templates had been developed and that the group would meet soon. She noted that Mr. Malo, who had helped to develop the templates, had recently left the University of Toronto Asset Management Corporation (UTAM).

A member asked for clarification of the reference at the bottom of page 2 of the minutes to items that required presentation and discussion. The Chair replied that the intent was to identify issues of importance to the Committee and to conduct educational sessions to enhance the understanding of members on these issues.

It was agreed that investment cost issues would be discussed at the December meeting of the Committee. Ms Brown indicated that historical investment cost data was being collected and would be brought to the Committee along with the audited Financial Statements. A member asked how such historical data would be helpful to the Committee. The Chair replied that there was a perception that UTAM investment costs were higher than the investment costs prior to the establishment of UTAM. In order to respond to the possible government proposal that universities should combine their investment management operations, it would be useful to determine whether such a combined University organization would be more cost-effective than individual structures.

A member asked if the investment cost data would include benchmarking. Ms Brown replied that an appropriate comparator had to be defined before benchmarks could be developed and that this was difficult to do.

The President noted that, anecdotally, the pre-UTAM investment cost was considered to be 15-25 basis points, while the UTAM investment cost was 100 basis points. The target investment cost was 60 basis points. A question that needed to be addressed was whether the pre-UTAM investment cost was an obtainable benchmark at this time. He agreed to work with Ms Brown and Mr. Moriarty to develop appropriate comparators.

4. Review of Investment Performance to June 30, 2012

Mr. Smith reviewed investment performance from July 1, 2011 to June 30, 2012.

- The actual portfolio return for the period was 0.94%, compared with the benchmark portfolio return of 0.21% and the reference portfolio return of 0.58%.[1].
- The S&P/TSX (Can) equity market benchmark for the fiscal year 2012 was -10.3%.
- The ex-ante expected volatility of the Reference Portfolio was 9.56%, while that of the Actual Portfolio was 8.91%. These estimates were developed from the new risk system.
- The investment environment remained uncertain.

A member asked what would happen if a 3.75% real return on pension investments was not achieved. Mr. Shapira replied that it was important not to look at the return for a particular year, as investment projections were over a 30 to 40-year period.

A member asked how much private equity had been liquidated. Mr. Smith replied that no private equity investments had been sold. The member asked how much of the realized value of the actual portfolio was due to realized gains and how much was a result of forward projections. Mr Smith replied that the information could be provided as every investment had been tracked. It was agreed that the information would be provided at the December meeting of the Committee.

A member asked what the impact of earning a nominal return of 2.75% would be on quantifying the solvency deficit of the pension. Mr. Shapira replied that the solvency deficit was related to the current interest rates. Most plans did not have assets with a duration as long as the liabilities. The member worried that over time there would not be enough assets to support the liabilities of the pension fund. Mr. Shapira explained that it was the nominal return on Government of Canada bonds that was approximately 2.50%. There would be expected incremental returns from credit. As well, only 25% of the pension fund was in fixed income and there would be expected incremental returns from other types of assets.

Mr. Smith added that an asset mix of 60% equity and 40% fixed income invested only in public markets would not generate a real return of 3.75% to 4%. Other investments had to be selected to generate the target real return. He noted that 10% of the actual portfolio had been allocated to absolute return strategies, while 12.5% had been allocated to alternative credit strategies.

A member stated that he hoped the issue of return on investment would be discussed by the Committee in the coming months. Ms Brown noted that the contribution strategy that had been approved by Business Board in May 2012 assumed a 4% real rate of return over the period 2012 to 2030. This contribution strategy would be reviewed for the July 1, 2014 pension valuation.

The Chair noted that a Future Asset Management Working Group was currently meeting. One of the issues being discussed was the definition of volatility measures. He suggested that it would be useful to have a breakdown of the publicly traded and private investments in the approved asset mix to confirm that the asset mix was in compliance with the recommendations of the President's Advisory Investment Committee.

The Chair thanked Mr. Smith for his presentation.

[1]The transition to the new reference portfolio was effective May 1, 2012.

5. Review of Estimated Funded Status at July 1, 2012

Ms Brown reminded members that the Committee had requested earlier reports on the estimated funded status and indicated that the document provided was an early estimate of the funded status. The figures below reflect estimated assets of the pension plan and an estimate of the liabilities based on a roll-forward from July 1, 2011. Neither the assets nor the liabilities had yet been determined definitively. The actual funded status as at July 1, 2012 would be reported in December.

Mr. Shapira reviewed the estimated fund status at July 1, 2012:

Going Concern Valuation1

Actuarial Value

Actuarial Value of Assets	$ 2,891,401
Less: Accrued Liability	3,627,373
Equals: Unfunded Accrued Liability	$ (735,972)

Market Value

Market Value of Assets	$ 2,514,262
Less: Accrued Liability	3,627,373
Equals: Unfunded Accrued Liability	$ (1,113,111)

Solvency Valuation

Solvency Assets	$ 2,513,262
Less: Solvency Liability	4,168,643
Equals: Solvency Deficiency	$ (1,655,381)
Solvency Ratio	0.60

Solvency Interest Rates

Active Participants Age 55 and Over, Terminated Participants and Retired Participants	3.05% per annum
Active Participants Under Age 55	2.30% per annum for 10 years; 3.70% per annum thereafter

6. University of Toronto Pension Plans: Master Trust Actuarial Assumptions

Ms Brown reminded members that the actuarial assumptions were reviewed by the Committee each year. One change to the going concern actuarial assumptions was being proposed. All of the other going concern actuarial assumptions and methods had been reviewed and were proposed to be unchanged from July 1, 2011. The solvency and hypothetical wind-up assumptions had been changed to reflect prescribed changes. If any other assumption changes were identified during the preparation of the actuarial valuation, they would be proposed to the Pension Committee at the time it considered the actuarial valuation for approval.

On motion duly made, seconded and carried

It was Resolved

THAT, effective July 1, 2012, the going concern, solvency and hypothetical wind-up assumptions contained in Attachment 1, Appendix I to the memo from the Chief Financial Officer dated September 20, 2012 be adopted for the University of Toronto Pension Plan, the University of Toronto (OISE) Pension Plan and the Supplemental Retirement Arrangement.

7. Update on Government's Consideration of Pension Asset Consolidation

The Chair reminded members that the Drummond Commission[2] had recommended the consolidation of university and college pension fund assets to achieve lower costs and economies of scale. The province had appointed Mr. Bill Morneau as a special *Pension Investment Advisor* to assess the feasibility of such a consolidation.[3]

Mr. Shapira commented that it was his understanding that the report had not yet been submitted to the Minister of Finance.

8. Assessors' Reports

There were no reports from the assessors.

Consent Agenda

The following items were received for information.

9. Calendar of Business – 2012-2013

10. Date of the Next Meeting: Wednesday, December 12, 2012

Members were informed that the next regular meeting of the Pension Committee was scheduled for Wednesday, December 12, 2012 at 5:00 p.m.

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[2] http://www.fin.gov.on.ca/en/reformcommission/index.html
[3] http://www.fin.gov.on.ca/en/media/2012/epf.html

11. Other Business

Members were invited to suggest topics for further information to the Chair or to the Acting Secretary.

The meeting adjourned at 6:40 p.m.

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Acting Secretary Chair

November 29, 2012