

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 19 OF THE PENSION COMMITTEE

March 18, 2015

To the Governing Council,
University of Toronto.

Your Committee reports that it held a meeting on Wednesday, March 18, 2015 at 4:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Ms Claire Kennedy, In the Chair
Mr. Alex McKinnon, Vice-Chair*
Mr. Jeff Collins*
Professor Ettore Vincenzo Damiano
Professor Paul Downes
Ms Janet Ecker
Professor Jennifer Jenkins
Mr. Mark Krembil*
Mr. Brian D. Lawson
Ms Leanne MacMillan*
Professor Andreas Motsch
Ms Kim McLean
Mr. John Switzer*
Mr. Andrew Szende

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:

Mr. David Walders, Secretary

* Participated by telephone

Regrets:

Mr. Harvey Botting
Dr. Gary Mooney
Mr. Philip Murton
Ms Paulette Kennedy
Ms Jane Pepino

In Attendance:

Mr. Geoff Matus, Chair, Investment Advisory Committee
Mr. William Moriarty, President and CEO, UTAM
Dr. Pierre Piché, Controller & Director Financial Services, University of Toronto
Mr. Allan Shapira, Plan Actuary, AON Hewitt

The Chair welcomed Professor Andreas Motsch to the Committee and provided the Committee.

1. Review of Investment Performance to December 31, 2014

Mr. Moriarty presented his Report which highlighted the following themes:

- Returns vs. University Targets
- Favourable Market Performance
- Value-Add from Active Management Decisions
- Portfolio Risk vs. Risk in the Reference Portfolio
- Possibility of Future Challenging Investment Environment.

Members asked questions regarding the setting of the benchmark portfolio, foreign exchange exposure, as well as the cost of utilizing active versus passive management. Mr. Matus explained that the benchmark portfolio was set by the Investment Advisory Committee (IAC), not UTAM. This insured that there was independence in the setting of the benchmark portfolio. With respect to foreign exchange, Mr. Moriarty noted that the reduction in hedging against the USD had the effect of increasing overall risk in the portfolio. Finally, Ms Brown and Mr. Moriarty noted that analyzing the cost of active versus passive management can be difficult, since the fees of active managers are often netted against performance as opposed to reported separately. In general, however, active management are more costly but can also yield more favourable returns.

2. Pension Annual Financial Report for the Year Ended June 30, 2014

Ms Brown reminded members that this Annual Report would normally be brought forward to the December meeting of the Committee, but was being brought forward to this meeting as a result of the University's application to the Provincial Government for Stage 2 solvency relief, which had been successful. She then offered a brief overview of the Annual Report highlighting the following points:

- As at June 30, 2014, the University of Toronto Pension Plan (RPP) had a market deficit of \$697.1 million, a decrease in the market deficit of \$258.4 million from June 30, 2013.
- During the same period, the University of Toronto OISE Pension Plan (OISE) had a market deficit of \$32.4 million, a decrease in the market deficit of \$1.3 million from June 30, 2013.
- These reductions in going concern unfunded liability were the result of very good market performance and large additional University contributions, which were partly offset by the substantial increase in accrued liability as a result of the introduction of the Canadian Pensioner Mortality Table, which increased the projected life expectancy of plan members.

Members asked questions on the following two topics: whether there were ways to reduce expenses incurred from active management strategies and whether an increase in member contributions had also had an impact on reducing the deficit.

A member of the Committee (who was also a member of the IAC) advised that while management fees had been significantly reduced in recent years, further expense reduction was an ongoing focus of the IAC. Mr. Moriarty noted that UTAM was involved in continuous analysis of the relation between investment returns and the fees paid to managers achieving those returns, and the need to strike the appropriate balance.

Turning to deficit reduction, Ms Brown clarified that current service contributions to the Pension Plan, which included member contributions, were calculated with the intent of funding the one year of pension service being earned by plan participants that year. As such, member contributions did not contribute to reducing the overall deficit in the Plans. Rather, increased current service contributions, both from Plan members and from the University, had addressed the steady rise over the past several years in the annual cost of providing one year of pension benefits.

At the recommendation of the Chair, Ms Brown agreed to add additional granularity to the Annual Report in the future to clarify which payments to the Plans had the effect of reducing the overall deficit and which did not.

On motion duly made, seconded and carried

It was Resolved

THAT the Pension Annual Financial Report for the Year Ended June 30, 2014 be approved.

3. Pension Actuarial Reports, July 1, 2014

Ms Brown informed the Committee that the actuarial results at July 1, 2014 that were included in these reports were unchanged from those presented and approved at the Pension Committee meeting of December 9, 2014. She also noted that the actuarial reports would be filed with the Financial Services Commission of Ontario (FSCO) by March 31, 2015.

Mr. Shapira informed the Committee that discussions with FSCO were continuing with respect to the proposed merger of the OISE Pension Plan into the RPP. It was, at present, unclear whether the Stage 2 solvency relief granted to the University would apply to the OISE portion of the merged Plan. It was hoped that this would be clarified before the beginning of the 2015 academic year.

On motion duly made, seconded and carried

It was Resolved

THAT the actuarial report for the University of Toronto Pension Plan as at July 1, 2014, attached hereto as Appendix A, the actuarial report for the University of Toronto (OISE) Pension Plan as at July 1, 2014, attached hereto as Appendix B, and the actuarial report for the Supplemental Retirement Arrangement as at July 1, 2014, attached hereto as Appendix C, be approved.

CONSENT AGENDA

On motion duly moved, seconded, and carried

It was Resolved

THAT the consent agenda be adopted and the items approved

4. Report of the Previous Meeting: Report Number 18, December 9, 2014

5. Business Arising from the Report of the Previous Meeting

There was no business arising from the report of the previous meeting.

6. Date of Next Meeting: June 1, 2015 at 5:00 p.m.

7. Assessors' Reports

Ms Brown and Mr. McKinnon outlined various initiatives within the Broader Public Sector, the university community (including the Council of Ontario Universities and the Ontario Confederation of University Faculty Associations) and the University of Toronto itself, to explore Jointly Sponsored Pension Plans (JSPPs). Ms Brown informed the Committee that, under current regulation, a single-employer JSPP would not qualify for solvency relief.

Professor Mabury confirmed that work on the Centre for Engineering Innovation and Entrepreneurship Capital Project had begun and expressed gratitude for the patience of the affected University community in coping with the noise disruptions associated with the project to date.

8. Other Business

There were no items of other business

The meeting adjourned at 6:13 p.m.

Secretary

Chair

April 1, 2015