

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 22 OF THE PENSION COMMITTEE

December 8, 2015

To the Governing Council,
University of Toronto.

Your Committee reports that it held a meeting on Tuesday, December 08, 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. Harvey Botting
Ms Colleen Burke
Mr. Jeff Collins
Professor Ettore Vincenzo Damiano
Professor Paul Downes
M. Janet L. Ecker
Professor Jennifer Jenkins
Mr. Mark Krembil
Mr. Brian D. Lawson
Ms Leanne MacMillan
Mr. Andrew Szende
Mr. Bruce Winter

Non-Voting Assessors:

Ms Sheila Brown, Chief Financial Officer
Professor Scott Mabury, Vice-President,
University Operations

Secretariat:

Mr. David Walders, Committee Secretary

Regrets:

Mr. David Bowden
Dr. Gary P. Mooney
Mr. John Paul Morgan
Dr. Andreas Motsch

In Attendance:

Ms Jessica Cayadi, Ernst & Young
Mr. Francis Low, Ernst & Young
Mr. William Moriarty, President and CEO, UTAM
Dr. Pierre G. Piché, Controller and Director of Financial Services
Mr. Allan Shapira, Aon Hewitt
Mr. Daren Smith, Managing Director, Manager Selection & Portfolio Construction,
UTAM

1. Welcome and Chair's Remarks

The Vice- Chair welcomed members and guests to the meeting, and informed members that the Chair would be arriving late to the meeting.

* Joined the meeting via phone

2. Calendar of Business, 2015-16

There were no questions or comments regarding the calendar of business.

3. Registered Pension Plans: Audited Financial Statements for the Year Ended June 30, 2015

Ms Brown drew members' attention to the *Financial Guide to July 1, 2015* that was intended to function as a reference "placemat" for items three through six on the agenda. It presented a high-level overview of the status of the pension plans, assets and liabilities, plan funding, plan outlays, reconciliation of funded status from July 1, 2014-July 1, 2015, as well providing some key definitions.

Turning to the *Audited Financial Statements for the Year Ended June 30, 2015*, Ms Brown apprised the Committee that the proposed merger of the University's Pension Plan (RPP) with the University's OISE Pension Plan (RPP (OISE)) was still under review by the Financial Services Commission of Ontario (FSCO). She confirmed that, at the Audit Committee meeting held on December 2, 2015, the Committee met privately with the external auditors, reviewed the audited financial statements and recommended them to the Pension Committee for approval. Mr. Low then informed the Committee that he and his audit team at Ernst & Young were comfortable with all of the disclosures in the Audited Financial Statements.

Members asked questions on the following three topics; investment in the Pension Master Trust (PMT); risk in the investment portfolio; and, fees paid to external managers. Ms Brown explained that the PMT operated like a mutual fund, whereby both pension plans (the RPP and the RPP(OISE)) purchased units in the trust on a monthly basis. This enabled the assets of the two plans to be invested together, while maintaining distinct reporting for each plan, as required. Turning to risk, Ms Brown informed the Committee that there was a hard target for risk of 75bps above the passive risk budget as set out in the reference portfolio. Regardless of the credit risk involved in specific investments, the overall risk had to be within the prescribed limit. Mr. Moriarty added that UTAM, following approval by the Investment Advisory Committee, had pursued investment in alternative credit (mostly higher yield corporate bonds). In some cases, these investments involved more credit risk than lower yield investments, but also offered higher returns. He also informed the Committee of the automated risk-analysis system employed by UTAM to actively monitor risk for the portfolios. Finally, regarding external investment management fees, Mr. Moriarty and Ms Brown informed the Committee that there were two primary reasons for an increase in management fees compared to those of the previous year: increasing assets under management and the exchange rate versus the US dollar (many of the external investment management fees were paid in USD).

On motion duly moved, seconded and carried,

It WAS RESOLVED

- 1) THAT, the audited financial statements for the University of Toronto Pension Plan for the year ended June 30, 2015, be approved. In the event that regulatory approval of the transfer of net assets and pension obligations of the University of Toronto (OISE) Pension Plan to the University of Toronto Pension Plan is received on or prior to December 8, 2015, THAT the audited financial statements for the University of Toronto Pension Plan for the year ended June 30, 2015 be approved with the alternative wording attached hereto; and
- 2) THAT, the audited financial statements for the University of Toronto (OISE) Pension Plan for the year ended June 30, 2015 be approved. In the event that regulatory approval of the transfer of net assets and pension obligations of the University of Toronto (OISE) Pension Plan to the University of Toronto Pension Plan is received on or prior to December 8, 2015, THAT the audited financial statements for the University of Toronto (OISE) Pension Plan for the year ended June 30, 2015 be approved with the alternative wording attached hereto.

The Chair thanked the Vice-Chair for chairing the meeting for items 1-3 and assumed the chair.

4. Pension Plans: Actuarial Valuation Results at July 1, 2015

Ms Brown informed the Committee that the Actuarial Valuations were not being filed with FSCO as it was not required for the current year. Mr. Shapira then provided members with an overview of the results, highlighting the following:

- The going concern market deficit of the RPP and RPP(OISE) combined decreased from \$729.5 million to \$446.0 million, due mainly to investment returns of 11.9% that exceeded the assumed investment return of 5.75% (3.75% plus CPI) and employer special payments totalling \$66.6 million.
- The solvency deficit of the RPP and RPP (OISE) combined increased, from \$1,054.9 million to \$1,102.0 million, mainly as a result of a decrease in market interest rates used to calculate solvency liabilities.
- Contributions to the pension plans for 2014-15 were made up of \$60.2 million in member contributions, \$98.6 million in University current service contributions, and \$66.6 million in University special payments.
- The actual investment return, net of investment fees and expenses, was 11.9% for 2014-15 as compared to 17.4% for 2013-14.

Members asked questions concerning the reconciliation of the going concern financial position, especially as it related to experience gains and losses. Mr. Shapira informed members that the line item entitled “New Entrants/Transfer In” related primarily to employees who had joined during the plan year and had received benefits for only a portion of the year (July 1, 2014-July 1, 2015). In terms of the losses experienced from “Other Sources”, Mr. Shapira explained that these related to a variety of factors, including data changes and changes in employee status.

On motion duly moved, seconded and carried

IT WAS RESOLVED

- 1) THAT the actuarial valuation for the University of Toronto Pension Plan (Post-Merger) as at July 12, 2015, attached as Appendix A, be approved; and
- 2) THAT the actuarial valuation for the University of Toronto Pension Plan (Legacy Plan Split) as at July 1, 2015, attached as Appendix B, be approved; and
- 3) THAT the actuarial valuation for the Supplemental Retirement Arrangement as at July 1, 2015, attached as Appendix C, be approved.

5. Pension Plan Annual Financial Report for Year Ended June 30, 2015

Ms Brown again drew members' attention to the placemat, which provided a high-level summary. She then drew member's attention to the following changes to the reporting:

- The historical analysis was truncated to a 15-year analysis from a 25+ year analysis to make the Report more readable. The full retrospective analysis was available on the Financial Services website.
- The Supplemental Retirement Plan was removed from the Report since it was now a closed plan.
- The former appendices were removed and replaced by one appendix with web links to those items.

The Chair and members expressed appreciation to Ms Brown and her team for the development of the placemat.

On motion duly moved, seconded and carried

IT WAS RESOLVED

THAT the Pension Annual Financial Report for the Year ended June 30, 2015, be approved.

6. Pension Plan Fees and Expenses for the Period 2001 to 2015

Ms Brown and Mr. Moriarty discussed the external investment management fees included in the Report. They reiterated that, rather than examine external investment management fees in isolation, they should be viewed in relation to what the fees bought the University in terms of additional investment returns. Mr. Moriarty noted that, net of all fees, the value-add from management decisions between July 1, 2014 and July 1, 2015 was approximately \$152M.

A member asked a question as to whether external management fees could be avoided altogether and investments made by UTAM's managers directly. In reply, Mr. Moriarty noted that this was not feasible, since UTAM would not be able to attract and retain, on a permanent basis, the best managers for each area of investment. In addition, given the total assets under management which were small in an investment industry context, without utilizing external managers, UTAM would not have access to certain types of investments.

CONSENT AGENDA

On motion duly moved, seconded, and carried

YOUR COMMITTEE APPROVED

THAT the consent agenda be adopted and the items approved.

7. Report of the Previous Meeting: Report Number 21, September 18, 2015

The report of the previous meeting was approved.

8. Business Arising from the Report of the Previous Meeting

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

9. Reports of the Administrative Assessors

Ms Brown apprised members that, since Professor Hildyard could not attend the meeting, she had asked Ms Brown to provide an update on both the Ontario university sector initiative to try to develop a Multi-Employer Jointly Sponsored Pension Plan (JSPP) as well as the University's own JSPP initiative. Ms Brown offered an update on both.

10. Date of Next Meeting: March 16, 2016 at 4:00 p.m.

11. Other Business

There were no items of other Business.

The Chair wished the Committee best wishes for the holiday season.

The meeting adjourned at 5:40 p.m.

Committee Secretary

Chair

December 9, 2015