

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

**REPORT NUMBER 23 OF THE PENSION COMMITTEE**

**March 16, 2016**

To the Governing Council,  
University of Toronto.

Your Committee reports that it held a meeting on Wednesday, March 16, 2016 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  
Professor Meric S. Gertler, President  
Mr. Harvey Botting  
Mr. David Bowden\*  
Mr. Jeff Collins  
Professor Ettore Vincenzo Damiano  
Professor Paul Downes  
Ms Janet L. Ecker\*  
Professor Jennifer Jenkins  
Ms Leanne MacMillan  
Mr. John Paul Morgan\*  
Dr. Andreas Motsch

Mr. Andrew Szende  
Mr. Bruce Winter\*

**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

**Secretariat:**

Patrick F. McNeill, Acting Committee Secretary

*\*via conference call*

**Regrets:**

Ms. Colleen Burke  
Mr. Mark Krembil  
Mr. Brian D. Lawson  
Ms. Kim McLean  
Dr. Gary P. Mooney

**In Attendance:**

Mr. Geoff Matus, Chair, Investment Advisory Committee  
Mr. William Moriarty, President and Chief Executive Officer, University of Toronto Asset  
Management Corporation (UTAM)  
Mr. Allan Shapira, Plan Actuary, AON Hewitt

The Chair welcomed members and guests to the meeting.

**1. Review of Investment Performance to December 31, 2015**

Mr. Moriarty presented a report on the *Review of Investment Performance to December 31, 2015*. A copy of the presentation is attached to this Report. He reminded members that the investment performance report had reflected a partial year return for the period July 1, 2015 to December 31, 2015. The full year results for the Pension Master Trust

(PMT) for the July 1, 2015 to June 30, 2016 period would be presented after the end of the current year at June 30, 2016.

Mr. Moriarty stated that the University evaluated investment performance for the PMT against the investment return targets, the risk limits, and the Reference Portfolio returns, as specified in the Statement of Investment Policies and Procedures (SIPP).

Highlights of Mr. Moriarty's report regarding the above-noted 6-month period for the PMT included the following:

- the target investment return for the PMT was 2.47%.
- the actual return for the PMT was 0.38%.
- the return for the Reference Portfolio was -1.33%

Mr. Moriarty explained that it was important to emphasize that all of the return percentages were net of investment fees and expenses. Overall, investment performance was poor with actual returns for the six-month period falling short of the target return by 2.09% (0.38% minus 2.47%) – a gap of approximately \$85 million. However, actual returns exceeded the Reference Portfolio return (which was the benchmark return to indicate how markets performed) by 1.71% (0.38% minus -1.33%) – this meant that 'active' portfolio management decisions had added value for the 6-month period.

Mr. Moriarty stated that the outlook had remained quite similar to that of last several quarters. Economic conditions around the world had remained uneven and growth was expected to generally remain below the historical trend. In this environment, he believed that the additional return offered by efficient diversification and 'active' portfolio management would represent a more significant part of overall portfolio returns going forward.

Members asked questions regarding foreign exchange and hedging, including the ongoing impact of USD currency rates; the use of private equity portfolios; strategies around portfolio liquidity; and stranded assets.

Mr. Moriarty noted that with respect to foreign exchange (FX) exposure, currency considerations were likely to remain an important factor in returns. He added that the reduction in hedging against the USD had the effect of increasing return and reducing overall risk in the portfolio over the period. Mr. Matus agreed stating that in order to mitigate risk and exposure to assets defined in USD and Euros, the investment approach was more "middle of the road".

Mr. Moriarty stated about 10-12% of assets were held in private equity investments. The current report for the July to December 2015 period did not include changes in value or performance for most private equity investments for the September to December period because the reporting of results for those investments normally lagged about three months. Returns for private equity investments for the September to December 2015 period would be included in returns reported for the January to March 2016 period.

Mr. Moriarty explained that the current strategy and a reasonable practice for a university (based on experiences by universities in the US in 2008) was to limit illiquid assets to 30%.

Mr. Matus commented that the Investment Advisory Committee would be reviewing its long-term investment strategy, but that that the current strategy had worked well.

Mr. Moriarty stated that it was difficult to define “stranded” assets, such as oil in the ground, and to assess the potential impact on returns without reference to a time frame and an assumption regarding the regulatory or tax regime. As part of an ongoing analysis, one should also look at the sectorial composition of investments in the Reference Portfolio because it is the benchmark against which UTAM performance is measured.

## **2. Investment Placemat**

Ms Sheila Brown presented the first iteration of Investment Placemat for the last year-end period to June 30, 2015. She noted the placemat was created for Committee Members to provide a single source summary of the key information in respect of investments. The placemat would be updated annually.

Members extended their appreciation to Ms Brown for information contained in the placemat and offered feedback and suggested changes to the type and level of details that could be included in future editions.

### **CONSENT AGENDA**

On motion duly moved, seconded, and carried

YOUR COMMITTEE APPROVED

THAT the consent agenda be adopted and the items approved

## **3. Report of the Previous Meeting: Report Number 22, December 8, 2015**

The report of the previous meeting was approved.

## **4. Business Arising from the Report of the Previous Meeting**

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

## **5. Date of Next Meeting: To be confirmed**

The Chair advised that there was a need to change the date of the final meeting. The Acting Secretary would follow-up with Committee Members.

## **6. Reports of the Administrative Assessors**

### **OISE Pension Plan and U of T PP Merger Approved**

Ms Brown reported that the merger of the OISE Pension Plan with the University of Toronto Pension Plan had been formally approved. The effective date of the merger was July 1st, 2014; the date was based on the originally filed evaluation. She stated that the goal was to have the related follow-up work completed by June 30th, 2016, so that it would be possible to prepare a single set of documents for the year ended June 30, 2016 (actuarial report, financial statement) and that it would also, therefore, be possible to further simplify the annual financial report. As required by regulations, all active and retired members of those affected by the merger would be notified of the approved changes.

### **Pending SIPP Reporting Changes (ESG Factors)**

Ms Brown reported that in accordance with a recent guidance note (October, 2015) from the Financial Services Commission of Ontario, the University would be required to make further changes to the Pension SIPP with respect to its statement on environmental, social and governance (ESG) factors. This change would be considered at the June 2016 meeting.

A member asked about related changes to the ESG factors that could be considered regarding the University's fossil fuel investments. Ms Brown responded that the President had received the Presidential Advisory Committee's recommendations on targeted fossil fuel divestment and would be issuing a response. In the event that this response would result in a need to propose further changes, they would be reflected in the SIPP and considered by the Pension Committee in due course.

The Chair added that all pension plans in Ontario were required to include in their SIPP a statement that indicated whether or not ESG factors were considered in their investment decisions. The Chair reminded the Committee of its role to approve, reject or refer back any proposed changes by the administration – it was not its role to help craft a policy.

### **Update: Jointly Sponsored Pension Plan Initiatives**

Professor Hildyard updated the Committee on the meetings that had taken place with the JSPP working group to date. She stated that the Committee had continued to make progress in their discussions which had included an absolute sharing of information.

Professor Hildyard also apprised the Committee of other initiatives that had been taking place within the Council of Ontario Universities (COU) and the Ontario Confederation of University Faculty Associations (OCUFA) regarding jointly sponsored pension plans.

The Chair thanked Ms Brown and Professor Hildyard for their reports.

**7. Other Business**

There were no items of other Business.

The meeting adjourned at 5:30 p.m.

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Acting Committee Secretary

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Chair

March 17, 2016