

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

**REPORT NUMBER 26 OF THE PENSION COMMITTEE**

**September 16, 2016**

To the Governing Council,  
University of Toronto.

Your Committee reports that it held a meeting on Friday, September 16, 2016 at 1:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Mr. Alex D. McKinnon (Chair)  
Mr. Mark Krembil (Vice-Chair)  
Mr. Harvey Botting  
Mr. David Bowden  
Ms Collen Burke  
Professor Paul Downes  
Ms Janet L. Ecker  
Professor Jennifer Jenkins  
Mr. Brian K. Johnston  
Mr. Brian D. Lawson  
Ms Leanne MacMillan  
Ms Kim McLean  
Dr. Andreas Motsch  
Ms Jane Pepino  
Professor Emeritus Arthur G. Rubinoff  
Mr. Andrew Szende  
Mr. Bruce Winter

**Regrets:**

Professor Ettore Vincenzo Damiano  
Ms Claire M.C. Kennedy  
Mr. John Paul Morgan  
Mr. John Switzer

**In Attendance:**

Professor Kelly Hannah-Moffat, Interim Dean and Acting Vice-Principal, UTM  
Dr. Pierre Piché, Controller and Director of Financial Services  
Mr. John Prezioso, Hicks Morley Hamilton Stewart Storie LLP  
Mr. Allan Shapira, Plan Actuary, Aon Hewitt  
Mr. Daren Smith, President and Chief Investment Officer, University of Toronto Asset Management Corporation (UTAM)

**Non-Voting Assessors:**

Ms Sheila Brown, Chief Financial Officer

**Secretariat:**

Ms Sheree Drummond, Secretary of the Governing Council  
Mr. Anwar Kazimi, Deputy Secretary of the Governing Council  
Mr. Patrick McNeill, Committee Secretary

*Pursuant to section 33 of By-Law Number 2,  
consideration of item 11 took place in camera.*

## **1. Welcome and Chair's Comments**

The Chair welcomed members and guests. He introduced Professor Kelly Hannah-Moffat who was the incoming Vice-President, Human Resources and Equity, effective October 1, 2016.

Mr. McKinnon extended congratulations to Mr. Daren Smith in his new role as President and Chief Investment Officer of the University of Toronto Asset Management Corporation (UTAM).

## **2. Calendar of Business for 2016-2017**

The Chair noted that the Calendar of Business, which was posted to the Committee's website, would be updated every Friday. Ms Brown provided a brief overview of the business that was scheduled to come before the Committee for the 2016-2017 governance year.

## **3. Review of Estimated Fund Status at July 1, 2016**

Ms Brown informed the Committee that the figures presented were early estimates and now reflected the merged plans that had been approved by the Financial Services Commission of Ontario as of March 4, 2016, but were effective July 1, 2014.

Ms Brown stated that the going concern accrued liability for the University of Toronto Pension Plan (RPP) as at July 1, 2016 was estimated using the proposed assumptions at July 1, 2016. She added that it was important to note that the estimate had been prepared using a roll-forward of demographic data at July 1, 2015 and that the actual experience for the 2015-16 year had not been reflected in the estimated accrued liability. For both the accrued liability and the assets, the estimates would be revised and updated when actual July 1, 2016 financial results were finalized.

Mr. Shapira presented an overview of the estimated fund status, highlighting the following points:

- Valuation of the plan was examined from two perspectives: going concern and wind-up (solvency);
- At July 1, 2014, the going concern unfunded accrued liability for the RPP (post-merger), based on market value of assets, was \$729.5 million, and at July 1, 2015 the going concern unfunded liability was \$446.0 million
- The unfunded accrued liability based on market value of assets was estimated to be \$607.8 million as of July 1, 2016.

Mr. Shapira commented that compared to the filed valuation as of July 1, 2014, the estimated unfunded accrued liability as of July 1, 2016, was an improvement due in part to substantial pension special payments made by the University as part of its ongoing pension contribution strategy.

Mr. Shapira stated that the estimated solvency deficit as of July 1, 2016 would be approximately \$1.623 billion, an increase of \$521.1 million from July 1, 2015. This

increase in the size of the solvency deficit reflected a further decline in the current market value of long term interest rates which was used to discount the liabilities, along with the estimated 0% rate of return on investments for 2015-16 and the application of new mortality rate assumptions to reflect increasing longevity.

In response to a question, Mr. Shapira noted that, using this solvency deficit estimate, ratio of solvency assets to solvency liability was 71.7%.

#### **4. Review of Investment Performance to June 30, 2016**

Ms Brown provided the Committee with an overview of the framework for investment policy, strategy and monitoring for the Pension Master Trust (PMT).

Mr. Smith reported on the evaluation of actual PMT performance against the investment return targets and the Reference Portfolio (as articulated in the *Pension Fund Master Trust Statement of Investment Policies and Procedures* (SIPP)) returns for the twelve-month period from July 1, 2015 to June 30, 2016. He noted that the financial year for the Pension Master Trust (PMT) was July 1 to June 30.

Mr. Smith highlighted the following:

- For the twelve-month period of July 1, 2015 to June 30, 2016, the target investment return for the PMT was 5.42%;
- The actual return for the PMT for the twelve-month period was 0.69%;
- The return for the Reference Portfolio for the twelve-month period was 0.55%;
- Actual returns for the twelve-month period had fallen short of the target return by 4.73% (0.69% minus 5.42%);
- Actual returns for the twelve-month period had exceeded the Reference Portfolio return (which was the benchmark return to indicate how capital markets performed) by 0.14% (0.69% minus 0.55%) meaning that active management added value;
- All of the return percentages were net of investment fees and expenses.

Mr. Smith stated that over the past year capital markets had not been favourable; and, although market returns would vary each year, the goal was to achieve target returns over the long-term.

In response to members' questions regarding the actual returns versus those of other Universities, Ms Brown reminded members that asset allocation, target returns, risk budgets, investment policy constraints and the type of pension plan must be considered when comparing pension plans, not just raw return data. She stated that it was important to note that investment performance was not evaluated based on peer comparisons; and that such comparisons assumed that the return target and risk appetite of peers were similar, which was not typically the case. Ms Brown agreed that all universities were weathering the same storm of poor investment returns.

A member asked about the Reference Portfolio asset mix and the process by which it was changed. Mr. Smith noted that UTAM did not determine the Reference Portfolio asset mix by itself. Instead, UTAM worked closely with the Investment Committee to jointly develop the Reference Portfolio. The Investment Committee then recommended the Reference Portfolio to the University and the University approved the Reference Portfolio for LTCAP and the Pension Committee approved it for PMT.

Mr. Smith stated that a revised reference portfolio, which represents the policy benchmark, had been approved in June by the Pension Committee. The first stage of the transition to the revised portfolio had taken place at the end of June 2016 with a modest adjustment of regional allocations consisting of a 2% reduction in Canadian equity, a 1.5% increase in USA equity, and a 0.5% increase in Global equity (a new equity asset class); the remainder of the transition would occur at the end of September and December 2016. The transition was going smoothly and no issues were anticipated.

Mr. Smith confirmed that the PMT assets had been managed by UTAM in compliance with the SIPP over the past year. He noted that there was one asset mix breach which had been remedied the day after the breach had been indentified, and highlighted that the Co-Chairs of the Investment Committee were notified the same day the breach was identified.

Mr. Smith commented that future reports would continue to evolve so that the information provided to the Committee would be clearer and in laymen's terms. He encouraged the Committee to provide suggestions to improve the report.

## **5. University of Toronto Pension Plans: Actuarial Assumptions**

### **(a) Proposed Actuarial Assumptions at July 1, 2016**

Ms Brown apprised members that no going concern assumption changes were proposed for the July 1, 2016 valuations.

On motion duly made, seconded and carried

It was Resolved

THAT, effective July 1, 2016, that the going concern, solvency and hypothetical wind-up assumptions contained in Attachment 1, Appendix 1, to the memo dated September 16, 2016, be adopted for the University of Toronto Pension Plan and the Supplemental Retirement Arrangement.

### **(b) History of Actuarial Assumptions, 2001 to 2015**

The History of the Actuarial Assumptions for the period from 2001 to 2015 was received for information.

## **CONSENT AGENDA**

### **6. Reports of the Previous Meetings:**

Report Number 24, June 8, 2016 was approved.

An amendment to *Special Meeting Report Number 25*, June 24, 2016, was proposed by a member to reflect additional discussion on Item 7 regarding the Pension Fund Master Trust Statement of Investment Policies and Procedures – June 24, 2016. The revised Report would be brought back to the Committee at its December 14, 2016 meeting.

**7. Business Arising from the Report of the Previous Meeting**

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

**8. Date of Next Meeting**

The date of the next Pension Committee was scheduled for December 14, 2016.

**9. Reports of the Assessors**

There were no reports of the assessors.

**10. Other Business**

There were no items of other Business.

**The Committee Moved *In Camera***

**11. Update: Government Pension Initiatives and Jointly Sponsored Pension Plan Initiatives**

Ms Brown provided an oral update on government pension initiatives and jointly sponsored pension plan initiatives.

**The Committee returned to *Closed Session***

The meeting adjourned at 2:57 p.m.

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Committee Secretary

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Chair

September 30, 2016