UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 31 OF THE PENSION COMMITTEE

December 13, 2017

To the Governing Council,
University of Toronto.

Your Committee reports that it held a meeting on Wednesday, December 13, 2017 at 4:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Alex D. McKinnon, In the Chair
Mark Krembil, Vice-Chair
Harvey Botting
David Bowden
Colleen Burke
Louis Florence
Brian D. Lawson*
Kenneth MacDonald
Leanne MacMillan
Kim McLean
Cynthia Messenger
John Paul Morgan*
Arthur G. Rubinoff
Howard Shearer
Andrew Szende
Bruce Winter

Non-Voting Assessors:
Sheila Brown, Chief Financial Officer
Kelly Hannah-Moffatt, Vice-President, Human Resources and Equity
Scott Mabury, Vice-President, University Operations

Secretariat:
Patrick McNeill, Committee Secretary

* *Joined the meeting via conference call.*

Regrets:
Andreas Motsch

In Attendance:
Michelle Cho, External Auditor, Ernst & Young
Francis Low, External Auditor, Ernst & Young
Chuck O'Reilly, Senior Portfolio Manager, Investments, University of Toronto Asset Management Corporation (UTAM)
Pierre Piché, Controller and Director of Financial Services
Allan Shapira, Aon Hewitt
Daren Smith, President and Chief Investment Officer, UTAM

The Committee met in Closed Session

1. Welcome and Chair's Remarks

The Chair welcomed members and guests to the meeting.

2. Registered Pension Plan: Audited Financial Statements for Year Ended June 30, 2017

Sheila Brown reported that the Audit Committee met on December 6th, 2017 with the external auditors, reviewed the audited financial statements and recommended them to the Pension Committee for approval.

Francis Low informed the Committee that he and his audit team at Ernst & Young were comfortable with all of the disclosures in the Audited Financial Statements.

In response to members' questions and comments, Mr. Low stated that there were no significant issues reported; and no errors or adjustments had been made. He referred members to the detailed notes contained in the Statements. Ms Brown stated that the Statements would be filed with the Financial Services Commission of Ontario by the end of the year. She added that the audit firm of Ernst & Young had been re-engaged as part of a tender process in 2014.

On motion duly moved, seconded and carried

IT WAS RESOLVED

THAT the audited financial statements for the University of Toronto Pension Plan for the year ended June 30, 2017, be approved.

3. Pension Plans: Actuarial Valuation Results at July 1, 2017

Sheila Brown stated that the actuarial assumptions and methodologies effective July 1, 2017 were approved by the Pension Committee on September 18, 2017. The approved changes for 2017 were: (1) that the asset valuation method would now use the market value of plan assets, with no smoothing, in the calculation of the going-concern funded status of the Pension Plan. This was in response to continuing recognition of the ongoing discussions around a possible jointly sponsored pension plan and of the planned changes to plan funding requirements by the Ontario government; and (2) that the nominal investment return assumption be reduced from 5.75% to 5.55%.

Allan Shapira provided an overview of the Actuarial Valuation Results, highlighting the following points:

- The going concern market deficit of the RPP had decreased from $573.1 million to $362.4 million, primarily due to investment returns of 13.2%, exceeding the target return of 5.01% (4.0% plus CPI) and employer special payments totaling $78.7 million, which were partially offset by the actuarial assumption changes;
- The solvency deficit of the RPP had decreased from $1,681.0 million to $1,183.6 million, mainly due to the adoption of the new prescribed mortality table reflecting improved life expectancies, a drop in the prescribed discount rates, and investment returns over the year that exceeded target returns;

- Contributions to the pension plans for 2016-17 were made up of $66.7 million in member contributions, $108.7 million in University current service contributions, and $78.7 million in University special payments; and
- The actual investment return, net of investment fees and expenses, was 13.2% for 2016-17, compared to 0.69% for 2015-16.

In response to members' questions and comments, Mr. Shapira stated the following:

- The longevity tables used as part of the valuation reflected the broader public-sector which included teachers;
- Pending changes to the current solvency funding framework applicable to defined benefit pension plans would be introduced by the Province – expect that solvency deficits under 85% must be funded (up to 85%);New enhanced going concern funding rules would effectively lower the discount rate – the University would have to continue to make the current level of special payments;
- The University's next actuarial valuation to be filed with the Financial Services Commission of Ontario would be as of July 1, 2020; The Actuarial Valuation Results represented a measure at one point in time;
- Active membership had continued to grow over the last decade, which had a positive impact in managing the cash flow of the pension plan;

On motion duly moved, seconded and carried

IT WAS RESOLVED

1) THAT the actuarial valuation for the University of Toronto Pension Plan as at July 1, 2017, attached as Appendix A, be approved; and

2) THAT the actuarial valuation for the Supplemental Retirement Arrangement as at July 1, 2017, attached as Appendix B, be approved.

4. Pension Plan Annual Financial Report for Year Ended June 30, 2017

Sheila Brown stated that the Report brought together in one place, and placed in historical perspective, information on the funded status of the now combined registered pension plan, plan liabilities (including participants, benefit provisions and assumptions) and plan assets (including contributions, investment earnings, fees and expenses, and payments to pensioners). At June 30, 2017, the RPP had a market deficit of $362.4 million, a decrease of $210.7 million in the market deficit from June 30, 2016.

On motion duly moved, seconded and carried

IT WAS RESOLVED

THAT the Pension Annual Financial Report for the Year Ended June 30, 2017, be approved.

5. Pension Plan Fees and Expenses for the period 2003 to 2017

Sheila Brown stated that the report on Pension Plan Fees and Expenses for the period from 2003 to 2017 provided a historical summary of fees and expenses specifically allocated to the University of Toronto Pension Plan (it excluded fees and expenses related to the SRA, which was managed together with the University endowments) since 2003. It was updated each year and looked back over the past 15 years.

In response to members' questions and comments, Ms Brown stated that over the long period (i.e. 10 years) active management had added value, as defined by actual investment returns exceeding the Reference Portfolio returns

Daren Smith noted that UTAM's default position was always to invest passively at the lowest possible cost. UTAM would only pursue active management strategies when it had a high level of conviction that a specific investment manager's approach would outperform passive investment alternatives over time (net of all fees and expenses). Mr. Smith added that UTAM had a rigorous approach to evaluating active managers and had been successful over the last 10 years in outperforming the Reference Portfolio, net of all fees and expenses, while adhering to all client, legal, and regulatory constraints.

Mr. Smith stated that UTAM had always tried to negotiate fees with managers, but its main focus was on the expected after fees returns and ensuring that a manager's fee structure was reasonable in light of the manager's investment strategy. UTAM also tried to structure fee arrangements that paid an active manager as little as possible if the manager did not outperform and had a fair sharing of any outperformance between the investor and the manager in the event the manager outperformed.

The Report was received for information.

CONSENT AGENDA

On motion duly moved, seconded, and carried

YOUR COMMITTEE APPROVED

THAT the consent agenda be adopted and the items approved.

6. Report of the Previous Meeting: Report Number 30, September 18, 2017

Report Number 30, from the meeting of September 18, 2017, was approved.

7. Business Arising from the Report

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

8. Date of Next Meeting: Wednesday, March 28, 2018 at 4:00 p.m.

The date of the next Pension Committee was scheduled for Wednesday, March 28, 2018 at 4:00 p.m.

9. Reports of the Administrative Assessors

There were no reports of the Assessors.

10. Other Business

There were no items of other Business.

11. Presentation: University of Toronto Asset Management Corporation (UTAM) – A Backgrounder

Daren Smith and Chuck O'Reilly, Senior Portfolio Manager, Investments presented an overview of UTAM including background on the purpose and make-up of the corporation. They stated that UTAM's sole purpose was to manage the 3 pools of assets for the University (e.g., U of T's Master Trust which included pension assets); UTAM was governed by a Board of Directors, whose members were appointed by the University.

The Chair thanked Mr. Smith and Mr. O'Reilly for their presentation noting that it was a good backgrounder and formed part of the Committee's ongoing education of matters related to governance and administration of the Pension Plan by the various bodies, including the Pension Committee.

The meeting adjourned at 5:10 p.m.

Committee Secretary Chair

February 26, 2018