

UNIVERSITY OF TORONTO
THE GOVERNING COUNCIL
REPORT NUMBER 8 OF
THE PENSION COMMITTEE

Wednesday, June 6, 2012

To the Governing Council,
University of Toronto.

Your Committee reports that it held a meeting on Wednesday, June 6, 2012 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Mr. W. John Switzer, In the Chair
Professor C. David Naylor, President of the
University
Mr. Donald Andrew
Professor Ettore Vincenzo Damiano
Mr. Alex McKinnon
Mr. Gary Mooney
Mr. Philip Murton
Ms Jane Pepino *
Mr. Howard Shearer
Mr. Keith Thomas
Ms Rita Tsang

Non-Voting Assessors:

Ms Sheila Brown, Chief Financial Officer
Professor Angela Hildyard, Vice-President, Human
Resources and Equity

Mr. Louis R. Charpentier,
Secretary of the Governing Council

Secretariat:

Ms Cristina Oke, Acting Secretary

Regrets:

Professor Laurence Booth
Ms Nancy Edwards
Mr. Thomas Finlay
Mr. Steve (Suresh) K. Gupta
Ms Shirley Hoy
Professor George Luste
Ms Melinda Rogers
Ms Helen Rosenthal
Mr. Andrew Ward
Mr. W. David Wilson

In Attendance:

Mr. Michel Malo, Managing Director, Asset Allocation & Portfolio Strategy, University of Toronto
Asset Management Corporation (UTAM)
Mr. William W. Moriarty, President and Chief Executive Officer, UTAM
Mr. Allan Shapira, Plan Actuary, AON Hewitt

* joined via conference call

Chair's Remarks

The Chair welcomed members to the final Committee meeting of the 2011-2012 governance year. He noted that the Vice-Chair was unable to attend the meeting as he was home recovering from surgery, and wished Professor Luste a speedy recovery.

As quorum was not present, the approval of the minutes of the meeting of March 28, 2012 was deferred until later in the meeting.

1. Pension Governance

a) Investment Oversight

The Chair reminded members that this had been the first complete year of operation for the Committee. The focus of the meeting was to consider the framework by which the Committee would carry out its oversight responsibilities in the future.

Presentation

At the invitation of the Chair, Ms Brown and Mr. Malo summarized the key points of pension investment oversight, using information from two sources: the *Handbook on Asset-Liability Management* by John Ilkiw that had been provided to members in preparation for the March 13, 2012 information session, and the questions raised by Professor Luste in his presentation to the Committee at the March 28, 2012 meeting. A copy of the presentation made by Ms Brown and Mr. Malo is attached hereto as Appendix A.

The key points of the presentation included the following.

- The terms of reference of the Committee required it to:
 - review, approve, reject or refer back at least annually, the Statement of Investment Policies and Goals for the pension fund master trust and any amendments thereto.
 - review, at least semi-annually, or more frequently if specified by the Committee, reports on the investment of the pension fund master trust.
- To properly discharge their fiduciary obligations, the Committee members required an appropriate series of reports that address the following issues:
 - policy compliance, including asset mix, portfolio weights boundaries, agent activities compliance;
 - risk analysis and compliance;
 - portfolio performance analysis and attribution.
- Professor Luste had identified the following five issues for consideration of the Committee and for which he believed UTAM should provide information.
 - Transparency of investments and assets. Do we know where pension funds are invested?
 - Complexity of investments. Do we really understand how assets are invested?
 - Validity of valuations for illiquid assets.
 - Investment cost issues. Why are UTAM unit costs so high? Costs raise the bar on required returns.
 - Investment management people issue.
- The issues raised by Professor Luste, with the exception of investment cost issues, represented distinct issues that were best addressed independently of one another, and needed to be presented and discussed in order to be properly understood.

1. Pension Governance (cont'd)

a) Investment Oversight (cont'd)

Presentation (cont'd)

- The Committee should decide on the following:
 - The frequency of reporting: semi-annually, annually?
 - Reporting period: July 1 – June 30; January 1 – December 31?
 - Timeframe for reporting: 1 year, 2 years, 4 years, 10 years; rolling average?
 - Start date for reporting – 10 year timeframe?

Discussion

Ms Brown explained that the reporting year of the University of Toronto Asset Management Corporation (UTAM) was January 1 to December 31, while the pension reporting year was July 1 to June 30. Final investment results for July 1 to June 30 would not be available for the September meeting of the Committee; however, a report on investment results for July to December could be provided.

The Chair suggested that the Committee adopt off-cycle reporting and receive a report of interim January–June investment results at the September meeting. A member commented that periodic reports on investment performance would inform members if things were going off-track. A member suggested that a small sub-committee of the Pension Committee be created to review the proposed format of reports to determine whether the reports would provide the Committee with the appropriate amount of information for their oversight responsibilities. Other members spoke in favour of the establishment of a sub-committee. The Chair asked those who were interested to speak to him following the meeting.

A member commented that investors normally received quarterly reports on their investment returns within 15 days of the end of the quarter, and suggested that the Committee receive such reports. Mr. Moriarty replied that it would be impossible to provide results so quickly, as the returns on legacy investments were reported at different times. Ms Brown agreed with the need to provide reports on a timely basis, but emphasized the importance of understanding the content and timing of reports. Some reports, such as those on fees and expenses, would be received annually, while other reports would be received more frequently.

A member commented that the Committee needed a snapshot of what was happening with respect to investment returns. Another member agreed, and noted that, given the current global economic instability, the Committee needed comments and analysis from management to accompany data on investment returns.

The President encouraged the formation of a sub-committee, and agreed that the Committee needed to have a long-term perspective on returns.

1. Pension Governance (cont'd)

b) Response to Request from Member

The Chair noted that members had received documentation clarifying the Responsibilities and Accountabilities of the Pension Committee and Business Board with respect to pension plans and endowment funds. Ms Brown stated that the administration would continue to explain why items were coming forward when they were presented to the Committee.

2. Report of the Previous Meeting

Report Number 7 (March 28, 2012) of the Pension Committee was approved.

3. Business Arising from the Report of the Previous Meeting

There was no business arising.

4. New Grow-In Rules under Bill 236

Professor Hildyard explained that, effective July 1, 2012, employees at the University with age/service points totalling at least 55 whose employment was terminated involuntarily without cause would be eligible to receive an unreduced early retirement pension on the date they would have been eligible under the terms of the Plan had their employment not ended. The grow-in would be cost-neutral to the pension plan.

A member asked whether the demographics and terminated positions affected by the grow-in rules would provide an enhanced benefit to eligible employees. If that were the case, there would be additional costs to the Pension Plan. Mr. Shapira replied that, if there were a large number of involuntary terminations, there would be additional costs to the plan. He also noted that for involuntary terminations of employees who are early retirement eligible, the new rules were being implemented in a way that would provide flexibility to the member but at no additional cost to the plan.

The President commented that he hoped the provision would not be an issue, given how hard faculty and staff worked.

5. Communication Plan

Professor Hildyard distributed a Report of Activities of the Communications Committee to members. The Committee had developed a new format for the Annual Pension Statement (APS) for this year, and had surveyed members of the University to seek feedback on the revised format. In the coming year, the Committee would discuss possible additional modifications to the APS, enhancements to the Human Resources website and the development of an annual or semi-annual newsletter.

Professor Hildyard thanked the members who had served on the Communications Committee.

6. Assessors' Reports

Ms Brown reported that, at the request of the Financial Services Commission of Ontario (FSCO), the University had paid \$3 million for current service costs for the OISE Pension Plan for 2009 – 2010.

7. Date of the Next Meeting

Members were informed that the next regular meeting of the Pension Committee was scheduled for Thursday, September 27, 2012 at 5:00 p.m.

8. Other Business

a) President's Comments

The President thanked the Chair for his leadership and thanked members of the Committee for the constructive exchanges of the past year. He noted that, although Professor Luste was at home recovering from surgery, he continued to be engaged in pension issues.

The President informed members that Mr. Bill Morneau had been appointed by the provincial government to lead public consultations and develop a framework to help put broader public sector pension plans on a more secure footing. He undertook to keep the Committee Chair updated on the process.

b) Committee Evaluation Survey

The Chair encouraged members to complete the online evaluation.

c) Closing Remarks

The Chair thanked the assessors for their work during the past year, and acknowledged the support provided by members of the Secretariat. He also thanked members for their contributions in forging new ground with the Committee, and building bridges between the University administration, governance and plan members.

The meeting adjourned at 6:15 p.m.

Acting Secretary

Chair

September 14, 2012