

UNIVERSITY OF TORONTO
THE GOVERNING COUNCIL
REPORT NUMBER 13 OF THE PENSION COMMITTEE

September 24, 2013

To the Governing Council,
University of Toronto.

Your Committee reports that it held a meeting on Tuesday, September 24, 2013 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Professor George Luste, In the Chair
Ms Claire Kennedy, Vice-Chair
Professor Meric S. Gertler, President-
Designate of the University
Professor Laurence D. Booth
Mr. Harvey Botting
Mr. Jeff Collins
Professor Ettore Vincenzo Damiano
Ms Paulette Kennedy
Ms Leanne MacMillan
Mr. Alex D. McKinnon
Mr. Philip Murton
Ms Jane Pepino
Ms Helen S. Rosenthal
Mr. John Switzer
Mr. Andrew Szende
Mr. Keith Thomas
Ms Rita Tsang

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

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

Secretariat:

Mr. David Walders, Acting Secretary

Regrets:

Ms Jennifer Jenkins
Mr. Howard Shearer

In Attendance:

Mr. William Moriarty, President and CEO, UTAM
Mr. Pierre Piché, Controller & Director Financial Services, University of Toronto
Mr. Allan Shapira, Plan Actuary, AON Hewitt

1. Welcome and Introductions

The Chair welcomed members to the first Committee meeting of the 2013-2014 governance year, and invited members to introduce themselves.

Ms Sheila Brown delivered a presentation outlining the roles and responsibilities of the Pension Committee and the relationship between the Pension Committee and other Boards and Committees.¹

¹ Presentation: <http://uoft.me/pension>

2. Calendar of Business

The Chair provided a brief overview of the Calendar of Business and noted that it would be updated on-line every Friday. The Chair suggested that one-hour educational tutorial sessions be scheduled for one hour immediately prior to all remaining Pension Committee meetings. Members agreed that this would be beneficial.

3. Review of Estimated Fund Status at July 1, 2013

Ms Brown reminded members of the Committee that this estimate was being provided in response to the desire from some members to have rough figures in advance of the December meeting of the Pension Committee, at which time the Annual Financial Report for the year ended June 30, 2013 would come for approval.

By way of introduction, Ms Brown noted that the going concern liability as of July 1, 2013 was estimated using the proposed assumptions at July 1, 2013, which included a proposed reduction in the Canada Pension Plan (CPP) increase assumption from 2.5% to 2.25% and a modest reduction in the growth of national real wages from 1% to 0.75%. However, the underlying data on members was the same as that in the July 1, 2012 valuation and had not been updated for this estimate. Further, Ms Brown noted that all figures were presented net of all fees and expenses. Her review highlighted the following points:

- The estimated going concern funded status of the University of Toronto Pension Plan as of July 1, 2013 was an unfunded accrued liability of \$984.3 million (the market value of assets was \$2,848.3 million and the accrued liability was estimated to be \$3,832.6 million) after taking into account the proposed assumption changes.
- The going concern unfunded accrued liability was \$1,115.2 million at July 1, 2012. The projected decrease in the unfunded liability was primarily due to an estimated investment return of 11.7%, which was much higher than the assumed return of 6.0%.

4. Review of Investment Performance to June 30, 2013

Mr. Moriarty reviewed investment performance to June 30, 2013. His presentation highlighted the following points:

- The actual returns for the six-month period ended June 30, 2013 were 5.70% for the Pension Master Trust (PMT). The actual return was significantly better than the return for the reference portfolio (the benchmark for the investment program) and the target return for the PMT.
- The University target nominal investment return was 2.66% for PMT (4.0% + CPI for six months). The actual return for the six – month period was 3.04% higher than the target return.
- The return for the reference portfolio over the full-year 2013 was 9.72%. The actual return for the same period was 12.09%. This value-add was attributable to various active management strategies within UTAM, including manager selection and style tilts.
- The asset mix in the portfolio was 60.4% equities and 39.6% fixed income.

- As of June 30, 2013, actual returns for PMT exceeded the portfolio benchmark and the University's target return over the past four years.
- The current investment environment continued to present significant challenges. The additional return offered by 'active' management should represent an important part of overall portfolio returns going forward.

A member enquired as to the changes implemented by Mr. Moriarty since he was hired as President and CEO of UTAM in 2008. Mr. Moriarty noted that the following significant changes were made: an expanded team of experienced staff; strategic and focussed hiring practices contributed to the acquisition of better managers; robust analytics were implemented; the portfolio was restructured to reflect a true 60/40 asset mix; and, currency hedging practice were modified.

A member enquired as to how long it would take to unwind legacy portfolios. Mr. Moriarty replied that significant progress had been made in this regard, and that the legacy portfolio was down to approximately 16% of the overall portfolio.

5. University of Toronto Pension Plans: Actuarial Assumptions

Ms Brown and Mr. Alan Shipira presented the actuarial assumptions proposed to be used for the actuarial valuations as at July 1, 2013, highlighting the following points:

- For 2013, it was proposed that the assumption regarding the increase in the Consumer Price Index (CPI) be changed from 2.5% to 2.25% to reflect a downward trend in both current and expected inflation. This assumption would affect all assumptions on which the CPI was based.
- In addition, a modest reduction from 1.0% to 0.75% in estimated growth in national real wages was also recommended.
- The result of these changes was projected to would be an increase of \$13 million in the accrued pension liability for the registered pension plans. There would be no increase in the current service cost as a result of these changes.
- Ms. Brown also noted that if any additional assumptions were identified as needing change during the process of preparing the actuarial valuations, such changes would be brought forward to the committee at the time the actuarial reports were presented in December.

On motion duly made, seconded and carried,

IT WAS RESOLVED

THAT, effective July 1, 2013, the going concern, solvency and hypothetical wind-up assumptions contained in Proposed Actuarial Assumptions—July 1, 2013 University of Toronto Pension Plan, University of Toronto (OISE) Pension Plan, Supplemental Retirement Arrangement (Attachment 1, Appendix I to this memo), be approved.

6. Report of the Senior Assessors

There were no reports from the Senior Assessors

CONSENT AGENDA

On motion duly moved, seconded, and carried

It was Resolved,

THAT the consent agenda be adopted and items approved.

7. Report of the Previous Meeting, May 28th, 2013

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. Date of Next Meeting: Tuesday, November 19, 2013 at 4:30 p.m.

10. Other Business

There was no other business.

The meeting adjourned at 6:30 p.m.

Secretary

Chair

October 6, 2013