

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 16 OF THE PENSION COMMITTEE

June 2, 2014

To the Governing Council,
University of Toronto.

Your Committee reports that it held a meeting on Monday, June 2, 2014 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
Mr. Harvey Botting
Professor Ettore Vincenzo Damiano
Ms Leanne MacMillan
Mr. Alex D. McKinnon
Ms Kim McLean
Mr. Philip Murton
Ms Jane Pepino
Mr. Howard Shearer
Mr. John Switzer
Mr. Andrew Szende
Mr. Keith Thomas *

Non-Voting Assessors:

Ms Sheila Brown, Chief Financial Officer
Professor Scott Mabury, Vice-President, University
Operations

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

Secretariat:

Ms Cristina Oke, Acting Secretary

Regrets:

Professor Laurence D. Booth
Mr. Jeff Collins
Professor Angela Hildyard
Ms Jennifer Jenkins
Ms Paulette Kennedy
Dr. Gary P. Mooney
Ms Helen S. Rosenthal
Ms Rita Tsang

In Attendance:

Mr. Geoff Matus, Chair, Investment Advisory Committee
Mr. Daren Smith, Managing Director, Manager Selection & Portfolio Construction, University of
Toronto Asset Management Corporation (UTAM)

The Chair welcomed members to the meeting, and introduced Mr. Matus and Mr. Smith. He congratulated Ms Kennedy and Mr. McKinnon on their acclamation as Chair and Vice-Chair of the Pension Committee for 2014-15 and 2015-16.

* Joined the meeting via phone

1. Pension Fund Master Trust Statement of Investment Policies and Procedures

Introduction

Ms Brown explained that the *Statement of Investment Policy and Procedures* (SIP&P) was reviewed and confirmed annually in accordance with pension regulations. The SIP&P included the return objectives, normal risk tolerance, asset allocation and benchmarks for the evaluation of performance. The SIP&P had first been approved by the Pension Committee at a special meeting held on October 18, 2011.¹ The investment return target had been thoroughly discussed at the Pension Committee meeting held on September 28, 2011.²

The proposed SIP&P was unchanged with respect to asset mix from 2013. Changes had been made to the wording in a few places for greater sharpness and clarity. The return and risk objectives remained unchanged: a 4.0% real investment return while taking an appropriate amount of risk to achieve this target but without undue risk of loss.

Ms Brown noted that the Financial Services Committee of Ontario (FSCO) was currently considering regulatory changes to have Environmental, Social and Governance (ESG) issues included in the SIP&P of Pension Plans if ESG matters were considered in investment decisions. She also noted that Asset/Liability returns should be reviewed and updated every five years.

Discussion

A member referred to the paragraph on page 6 of the SIP&P:

Given the current environment, it is believed that a Reference Portfolio that is limited to 60% equity exposure (and the associated level of risk) may have difficulty achieving the 4% real return objective. In order to achieve the objective, successful active management decisions will need to be implemented. ...

Mr. Matus stated that, theoretically, a 3.5% return was possible. In order to generate a 4% return, the portfolio had to be adjusted. The limit of risk for the Pension Master Trust (PMT) within which the University of Toronto Asset Management Corporation (UTAM) had to operate was the risk determined for the Reference Portfolio plus 75 basis points (0.75%).

A member asked at what point the Committee should compare the performance of active versus passive management. Ms Brown replied that the Reference Portfolio was a key reference report on performance. Mr. Matus added that the time view of investment performance should be at least five years.

¹ Minutes of this meeting are available at <http://assets.governingcouncil.utoronto.ca/BoardsCommittees/pc/r1018.pdf>.

² Minutes of this meeting are available at <http://assets.governingcouncil.utoronto.ca/BoardsCommittees/pc/r0928.pdf>.

1. Pension Fund Master Trust Statement of Investment Policies and Procedures (cont'd)**Discussion (cont'd)**

A member asked who reviewed the exercise of proxies and voting rights associated with investments of the PMT. Mr. Smith replied that UTAM reviewed annually the proxy voting reports submitted by investment managers.

A member asked whether there was any room for cost reduction with respect to management fees. Mr. Smith replied that UTAM was very conscious of costs, and aware of returns net of fees.

A member asked whether the bands included in Table 1 on page 7 of the SIP&P should be broken down to reflect hedging. Mr. Smith replied that the current hedging policy of the Reference Portfolio was 65% of developed markets' currency exposure and 0% of emerging markets' currency exposure. Mr. Matus added that it was impossible to effectively hedge emerging markets. All liabilities were in Canadian dollars, which usually did well when the United States' markets were doing well.

On motion duly made and seconded

IT WAS RESOLVED

That the Pension Committee approve the Pension Fund Master Trust Statement of Investment Policies and Procedures, attached as Appendix A to the memorandum from the Chief Financial Officer dated May 12, 2014, replacing the Statement of Investment Policies and Procedures, attached as Appendix B, which had been approved by the Pension Committee on June 5, 2013.

2. Update: Pension Committee Working Group

Mr. Switzer reported that the Working Group had made significant progress at their meeting on May 28, 2014. Prior to the meeting, members had completed an evaluation of the March 19, 2014 Performance and Risk Dashboard presented by William Moriarty, President and Chief Executive Officer of UTAM. After discussion, a set of action items had been created, and enhancements in reporting would be made in the fall.

A member asked what the main concerns had been about the reports provided to the Committee. Mr. Switzer replied that the concerns discussed included the mismatch of assets and liabilities and the ability of the plan to pay benefits.

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 15, March 19, 2014.

The report of the previous meeting was approved.

4. Business Arising from the Report

A member asked about the status of the request made at the March meeting for information about contributions and the unfunded liabilities of public and private pension plans. Ms Brown replied that Mr. Shapira would provide the information at the September meeting of the Committee.

5. Date of Next Meeting: Thursday, September 23, 2014 at 5:00 p.m.

6. Report of the Senior Assessors

There were no reports from the assessors.

7. Other Business

a) Evaluation

The Chair encouraged members to complete the on-line Committee Evaluation Survey that would be distributed in mid-June.

b) Year-end Recognition of Members

The Chair thanked Committee members and assessors for their service over the past year. He also thanked Mr. Moriarty and Mr. Shapira for their contributions to the business of the Committee.

He acknowledged the involvement and engagement with the Committee of those whose terms on the Committee would end on June 30, 2014: Ms Rosenthal, Mr. Shearer, Mr. Thomas and Ms Tsang.

c) Presentation

On behalf of the Governing Council, Mr. Charpentier thanked the Chair for his service on the Committee, and presented him with a University of Toronto chair with a plaque inscribed:

Presented to George J. Luste in recognition of exemplary service and leadership as Vice-Chair of the Pension Committee 2010-2012 and as Chair of the Pension Committee 2012-2014.

The Chair wished members a restful and enjoyable summer.

The meeting adjourned at 5:45 p.m.

Acting Secretary

Chair

June 9, 2014