To the Governing Council,
University of Toronto.

Your Committee reports that it held a meeting on Wednesday, March 28, 2018 at 4:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Alex D. McKinnon, Chair
Mark Krembil, Vice-Chair
David Bowden*
Colleen Burke
Janet L. Ecker
Louis Florence
Brian D. Lawson
Leanne MacMillan*
Kim McLean*
John Paul Morgan*
Arthur G. Rubinoff
Howard Shearer
Andrew Szende
Bruce Winter

*attended via conference call

Non-Voting Assessors:
Sheila Brown, Chief Financial Officer
Scott Mabury, Vice-President, University Operations

Secretariat:
Anwar Kazimi, Deputy Secretary

Regrets:
Harvey Botting
Kenneth MacDonald
Cynthia Messenger
Andreas Motsch

In Attendance:
Pierre Piché, Controller and Director of Financial Services
Allan Shapira, Plan Actuary, Aon Hewitt
Daren Smith, President and Chief Investment Officer, University of Toronto Asset Management Corporation (UTAM)

The Committee met in closed session

The Chair welcomed members and guests to the meeting.
1. **Presentation: Ontario’s New Funding Rules for Defined Benefit Pension Plans**

Allan Shapira presented an overview of the new funding framework for defined benefit pension plans in Ontario, which included the following, which had been announced, but which was still awaiting regulations at the time of the meeting:

**Solvency Funding**: Solvency funding target reduced to 85% of solvency liabilities (from 100%)/ Deficits (based on 85% target) will be funded over 5 years with a 12-month deferral. No additional funding required if solvency ratio is 85% or higher.

**Going Concern Funding**: Deficits will be funded over 10 years (instead of 15 years) with a 12-month deferral. Special payments will be consolidated into a single schedule (fresh-start) each valuation. Separate amortization tables for benefit improvements and past service liabilities for new plans.

**Provision for Adverse Deviations (PfAD)**: an explicit margin applied to both the going concern liability and normal cost (current service cost) when determining minimum contributions.

**Contribution Holidays and Benefit Improvements**: New requirements and restrictions on contribution holidays and benefit improvements.

**New Disclosure Required**: Require specific content to be included in the first pension statement for active and inactive members after the new rules had come into effect.

**Annuity Purchase**: Full discharge of liabilities upon buy-out annuity purchase, subject to certain conditions.

**Pension Benefit Guarantee Fund (PBGF)**: Monthly maximum PBGF benefit would be increased from $1,000 to $1,500. In conjunction with proposed increase in the level of benefits guaranteed under the PBGF (from $1,000 per month to $1,500 per month), Government proposed increases to PBGF assessment formula; proposed increases were subject to comment period which ended on February 20, 2018; and, proposed new assessment formula would apply for the UofT Pension Plan to the plan year ended June 30, 2018, to be paid in March 2019.

**Other**: Funding and governance policies required to be filed with regulator.

Mr. Shapira noted that for the UofT Pension Plan, the first required valuation under the new funding rules would be the valuation as of July 1, 2020. However, he provided the results of the July 1, 2017 actuarial valuation under the new funding rules, which showed an increase in university contributions of approximately $18 million per year.

The Chair thanked Mr. Shapira for his presentation noting that it was a good backgrounder and formed part of the Committee’s ongoing education related to pension plan matters.
2. **Review of Investment Performance as of December 31, 2017**

Sheila Brown reminded members that the investment performance report had reflected a partial year return for the period July 1, 2017 to December 31, 2017. The full year results for the Pension Master Trust (PMT) would be reported out for the July 1, 2017 to June 30, 2018 period.

Daren Smith presented a report on the *Review of Investment Performance to December 31, 2017*. Mr. Smith stated that the University evaluated investment performance for the PMT against the investment return targets, the risk limits, and the Reference Portfolio returns, as specified in the *Statement of Investment Policies and Procedures (SIPP)*.

Highlights of Mr. Smith’s report regarding the above-noted 6-month reporting period for the PMT included the following:

- the target investment return for the PMT was 3.4%.
- the actual return for the PMT was 6.1%
- the return for the Reference Portfolio was 5.3%

Mr. Smith stated that overall, investment performance was favourable for the reporting period: actual returns exceeded the target return by 2.7% (6.1% minus 3.4%). Regarding active management, Mr. Smith reported that actual returns for the six-month period exceeded the Reference Portfolio return (which was the benchmark return to indicate how markets performed) by 0.7% (6.1% minus 5.3%) meaning that active management added value.

3. **UTAM Responsible Investing Report, 2017**

Mr. Smith presented the draft UTAM *Responsible Investing Report (2017)* for information and feedback. Highlights of the draft Report included the following:

- UTAM had continued to make enhancements to its investment processes to more fully take into account ESG factors and responsible investing generally;
- UTAM had developed and published (on its website) a *Responsible Investing Policy* that would guide all of its decision-making with respect to responsible investing;
- In September 2017, UTAM signed the Montréal Carbon Pledge and committed to disclose the carbon footprint of the Pension investment portfolio on an annual basis (UTAM would disclose the footprint on its website);
- UTAM was taking a more active role in a number of the responsible investing organisations that it had joined (e.g. United Nations-supported Principles for Responsible Investment (PRI) Asset Owner Advisory Committee; and the Pension Investment Association of Canada’s Investor Stewardship Committee);
- UTAM had hired BMO Global Asset Management to undertake engagements with select companies held in its portfolios on ESG related matters. UTAM continued to be a member of the Canadian Coalition for Good Governance (CCGG) that undertook engagements with Canadian companies, but the addition of the BMO service provided for engagement with companies located around the world.
UTAM Responsible Investing Report, 2017 continued:
- UTAM had joined Climate Action 100+, which was an investor-led initiative to engage with more than 100 of the world’s largest corporate greenhouse gas emitters. The goal was to encourage these companies to curb greenhouse gas emissions, implement a strong corporate governance framework, and adopt enhanced disclosure practices. UTAM had joined as a ‘Participant’, which meant a commitment to engage directly with at least one company on the list;
- UTAM had continued to implement the ISS Sustainability guidelines in its proxy voting, wherever possible;
- UTAM had purchased carbon offsets to mitigate the impact of domestic and international travel by staff.

4. UTAM Annual Report, 2017

Daren Smith stated that the UTAM Annual Report, 2017, was not available and would be posted on UTAM’s website in April – the Report would be made available to the Committee and would be presented to the Business Board. He commented that the contents of the Report would continue to reflect UTAM’s commitment to transparency and would include information to help stakeholders better understand what goes on behind the performance numbers (e.g. who are the people at UTAM working on the portfolios, what has UTAM been tasked to do, how does UTAM go about managing the portfolios, etc.).


On motion duly moved, seconded and carried

IT WAS RESOLVED THAT

THE Pension Committee Report Number 31, from the meeting of December 13, 2017, be approved.

6. Business Arising from the Report

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

7. Date of Next Meeting: Wednesday, May 30, 2018 at 4:00 p.m.

The next meeting of the Pension Committee was scheduled for May 30, 2018.

8. Reports of the Administrative Assessors

There were no reports of the Assessors.
9. **Other Business**

There were no items of other Business.

The meeting adjourned at 5:37 p.m.

Committee Secretary    Chair

April 2, 2018