

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 36 OF THE PENSION COMMITTEE

April 15, 2019

To the Governing Council,
University of Toronto.

Your Committee reports that it held a meeting on Monday, April 15, 2019 at 4:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Janet L. Ecker, Chair
Alex D. McKinnon, Vice-Chair
Preet Banerjee
David Bowden*
Catherine Bragg
Colleen Burke
Louis Florence
Gary Goldberg
Brian D. Lawson
Cynthia Messenger
John Paul Morgan
Arthur G. Rubinoff
Maureen Stapleton
Andrew Szende
Paul Whittam

** via conference call*

Non-Voting Assessors:

Sheila Brown, Chief Financial Officer

Secretariat:

Patrick F. McNeill, Committee Secretary

Regrets:

Kenneth MacDonald
Kim McLean
Bruce Winter

In Attendance:

Doug Chau, Chief Risk Officer, University of Toronto Asset Management Corporation (UTAM)

Allan Shapira, Plan Actuary, Aon Hewitt

Daren Smith, President and Chief Investment Officer, UTAM

The Committee met in closed session

1. Chair's Remarks

The Chair welcomed members and guests to the meeting.

2. Review of Investment Performance as of December 31, 2018

Sheila Brown reminded members that the investment performance report had reflected a partial year return for the period July 1, 2018 to December 31, 2018. The full year results for the Pension Master Trust (PMT) would be reported at the September meeting and cover the period from July 1, 2018 to June 30, 2019. She described the Reference Portfolio and referred members to UTAM's *2018 Annual Report* (which covered the January to December period) for additional context and perspective on investment performance.

Daren Smith presented a report on the *Review of Investment Performance to December 31, 2018*. 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 2.9%.
- the actual return for the PMT was -3.7%
- the return for the Reference Portfolio was -3.8%

Mr. Smith stated that returns over the 6-month period were negatively impacted by a very challenging capital market environment: actual returns for the six-month period were below the target return by 6.6% (-3.7% minus 2.9%). He noted that over 5 and 10 year periods, actual returns had exceeded target returns (e.g. over the ten year period from January 1, 2009 to December 31, 2018 the actual return of 7.8% exceeded the target return of 5.7% by 2.1%).

Regarding active management, Mr. Smith reported that actual returns in the first half of the fiscal year 2019 exceeded the Reference Portfolio return (which was the benchmark return to indicate how markets performed) by 0.1% (-3.7% minus -3.8%). Manager selection was the main contributor to UTAM's positive value added. Over the ten year period from January 1, 2009 to December 31, 2018 the actual return of 7.8% exceeded the Reference Portfolio return of 6.7% by 1.1%. He reminded members that all of the return percentages were net of all investment fees and expenses, including UTAM costs.

Mr. Smith reported that as part of the Active Risk Budget, active risk remained well within the target zone. He also confirmed that as of December 2018, the Pension assets had been managed in compliance with the SIPP during the 6-month reporting period.

3. DRAFT Pension Fund Master Trust Statement of Investment Policies and Procedures – May 29, 2019

The Committee reviewed the draft *Pension Fund Master Trust Statement of Investment Policies and Procedures* (May 29, 2019) that was presented for discussion purposes only.

Sheila Brown and Allan Shapira explained that the SIPP must be reviewed and confirmed annually in accordance with pension regulation – the final proposed SIPP would be presented to the Committee at its May 22, 2019 meeting. This year’s review included the annual review of the Reference Portfolio; a legal review by Aon Hewitt of the SIPP with respect to new or updated pension regulation; changes to capture information required to be included in the SIPP under the new pension funding regulations to enable calculation of the Provision for Adverse Deviation (PfAD); and wording to improve clarity of the SIPP.

Ms Brown stated that this draft SIPP contained no substantive changes to the return objective, risk tolerance and asset allocation; just information and disclosure changes with respect to provincial reporting requirements and regulations. However, the Investment Committee had not yet completed its review of the Reference Portfolio and it was possible that changes would be included in the SIPP provided to the Committee for approval at its May meeting.

Mr. Doug Chau, UTAM’s Chief Risk Officer, summarized the asset-liability study completed by UTAM in 2018 and discussed with the Investment Committee as part of their review of the Reference Portfolio. This included stress tests to better understand how the portfolio would perform under different simulated scenarios. Initial results of the review revealed that the current Reference Portfolio consisting of a 60% equity allocation and a 40% fixed income represented a balanced approach to the University’s investment strategy given its objectives.

As part of the discussion, members sought clarity regarding the description of the PfAD rules; the statement on responsible investments; projected funding ratios going forward; the use of investment managers; the degree of difference between the actual and policy asset allocation as well as the governance model and time-line of a new Jointly Sponsored Pension Plan (JSPP).

Ms Brown provided some background as to previous Pension Committee discussions and approval of the SIPP content regarding responsible investing and environmental, social and governance factors (ESG-related practices). There were no plans to undertake further changes to this section of the SIPP.

The Chair stated that the other comments would be taken under consideration.

4. UTAM Responsible Investing Report, 2018

Daren Smith presented the *UTAM Responsible Investing Report* (2018) for information. He commented on UTAM's responsible investing activities and highlighted the following:

- the *Report* provided an in-depth look at how UTAM considers environmental, social and governance (ESG) factors in its investment analysis and decision-making processes;
- the *Report* included UTAM's scorecard from the UN-supported *Principles for Responsible Investment* (PRI): UTAM received four A+ marks and one A for responsible investing activities in managing the University of Toronto's Pension and Endowment assets (UTAM scored higher than the median PRI signatory in all relevant categories);
- as part of the *Montréal Carbon Pledge*, UTAM had disclosed the carbon footprint of the Pension and LTCAP public equity investment portfolios (results were posted on UTAM's website);
- given its size (approximately 20 staff), UTAM typically undertook ESG engagement activities as part of formal and informal collaborative groups (i.e. Canadian Coalition for Good Governance, Climate Action 100+ group, etc.), and
- UTAM had taken a more active role, and in some cases a leadership role, in a number of the responsible investing organisations that it had joined (e.g. UTAM's CRO, Doug Chau, was on the Asset Owner Advisory Committee of the Principles for Responsible Investment (PRI) and UTAM's Chief Operating Officer, Lisa Becker, was on the board of the Responsible Investment Association).

5. UTAM Annual Report, 2018

Sheila Brown stated that the *Report* presented some good contextual background to members. The *Report* would be formally presented to the Business Board at its April 23, 2019 meeting.

Daren Smith presented the *UTAM Annual Report, 2018*, for information.

In response to a member's comment, Mr. Smith said that the contents of the *Report* continued to reflect UTAM's commitment to transparency and included information to help stakeholders better understand what goes on behind the performance numbers (e.g., *who we are, what we do, and how we do it*). Mr. Smith also noted that UTAM was in the process of updating its website, which would include a lot of additional information on UTAM.

6. Report of the Previous Meeting: Report Number 35, December 12, 2018

On motion duly moved, seconded and carried

IT WAS RESOLVED THAT

THE Pension Committee Report Number 35, from the meeting of December 12, 2018, be 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, May 22, 2019 at 4:00 p.m.

The next meeting of the Pension Committee was scheduled for Wednesday, May 22, 2019.

9. Reports of the Administrative Assessors

There were no reports of the Assessors.

10. Other Business

There were no items of other Business.

The meeting adjourned at 5:25 p.m.

Committee Secretary

Chair

April 25, 2019