

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 34 OF THE PENSION COMMITTEE

September 17, 2018

To the Governing Council,
University of Toronto.

Your Committee reports that it held a meeting in closed session on Monday, September 17, 2018 at 1:00 p.m. in the Boardroom, 2nd Floor, 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
Leanne MacMillan
Kim McLean
Cynthia Messenger
John Paul Morgan
Arthur G. Rubinoff
Andrew Szende

Non-Voting Assessors:

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

Secretariat:

Patrick McNeill, Committee Secretary

Regrets:

Kenneth MacDonald
Bruce Winter

In Attendance:

Elizabeth Brown, Brown Mills Klinck Prezioso LLP
Pierre Piché, Controller and Director of Financial Services
Allan Shapira, Plan Actuary, Aon
Daren Smith, President and Chief Investment Officer, University of Toronto Asset
Management Corporation (UTAM)

The Committee met in closed session

1. Welcome and Chair's Remarks

The Chair welcomed members and guests. She expressed a special welcome to the Committee's newest members: Preet Banerjee, Catherine Bragg and Gary Goldberg – all representatives of the Governing Council.

*Pursuant to section 33 of By-Law Number 2,
consideration of item 10 took place in camera*

The Committee Moved *In Camera*

With the Committee's permission, Item 10 under *New Business* was moved to the front of the agenda.

10. Update: Jointly Sponsored Pension Plan Initiatives

Ms Brown and Professor Angela Hildyard provided an oral update on jointly sponsored pension plan initiatives.

The Committee returned to *Closed Session*

2. Pensions: Investment Performance and Risk Dashboard for the Fiscal Year ending June 30, 2018

Ms Brown provided the Committee with an overview of the framework for investment policy, strategy and monitoring for the Pension Master Trust (PMT).

Mr. Smith reported on the evaluation of actual PMT performance against the investment return targets and the Reference Portfolio (as articulated in the *Pension Fund Master Trust Statement of Investment Policies and Procedures (SIPP)*) returns for the twelve-month period from July 1, 2017 to June 30, 2018. He noted that the financial year for the Pension Master Trust (PMT) was July 1 to June 30.

Mr. Smith highlighted the following key points related to investment performance for PMT for periods ending June 30, 2018:

- For the one-year period ended June 30, 2018, the actual investment return for the PMT was 8.4%, outperforming the University's target return for the PMT of 6.5% by 2.0% (8.4% minus 6.5%);
- For the one-year period ended June 30, 2018 favourable capital markets resulted in a Reference Portfolio return of 7% for the PMT, that was 0.6% higher than the target return of 6.5% (7% minus 6.5%);
- For the one-year period ended June 30, 2018, UTAM added value of 1.4% over what was available in the capital markets (actual investment return of 8.4% minus Reference portfolio return of 7.0%).
- UTAM added value over the Reference Portfolio for Pension on a one-year (\$65 million), 5-year (\$347 million) and 10-year (\$311 million) basis.
- All asset class exposures were within allowable bands at the end of June 2018;
- Active Risk for Pension remained well within the "Normal" Zone (-50 bps to 150 bps) at the end of June 2018.

Mr. Smith added that as part of UTAM's compliance statement, he confirmed that the Pension assets had been managed in compliance with the University's *Pension Fund Master Trust Statement of Investment Policies and Procedures* (SIPP) during the 12-month period ending June 30, 2018; and that all internal liquidity limits were satisfied for the same period.

In response to members' questions Mr. Smith stated the following:

- outperforming the Reference Portfolio by 1% per year would represent a very good year for value add and would compare well against peers;
- returns were generated by UTAM while managing the portfolios in accordance with all constraints (e.g. constraints from the SIPP, Investment Committee, etc.);
- all of the reported return percentages were net of all investment fees and expenses, including UTAM expenses;
- UTAM continued to work on improving its communication and transparency with stakeholders;
- the revamped UTAM website included a separate section on responsible investing and links to the SIPP – members were encouraged to visit the UTAM website.

Members expressed their appreciation to Mr. Smith for his informative presentation.

3. University of Toronto Pension Plans: Actuarial Assumptions

The Chair stated that the actuarial assumptions themselves were presented for approval while the historical look at actuarial assumptions was included for information only.

a) Presentation: Determining Pension Liabilities and Assets

Mr. Shapira, Aon, made a presentation on "*Determining Pension Liabilities and Assets*". As part of the educational backgrounder, Mr. Shapira covered the following topics:

- Prefunding Pension Obligations
- Definition of Pension Liabilities
- Factors Determining the Amounts Ultimately Payable to Pensioners
- Key Benefit Provisions
- Actuarial Assumptions for Going Concern Valuation
- Discount Rate
- Cash Flow and Liability Projection (from 2017)

b) History of Actuarial Assumptions, 2003 to 2017

The History of the Actuarial Assumptions for the period from 2003 to 2017 was received for information.

c) Proposed Actuarial Assumptions at July 1, 2018

Ms Brown reported that a complete and thorough review was conducted by the Plan Actuary and the University's administration. For 2018 it was recommended that the mortality assumption be changed by utilizing the generational projection scale MI-2017, as recommended by the Canadian Institute of Actuaries (replacing the CPM-B scale currently used), while continuing to use the CPM 2014 Public mortality table. The new scale was based on experience up to 2015 and incorporated ultimate rates of improvement in longevity that were slightly higher than the CPM-B scale.

Ms Brown added that the solvency and hypothetical wind-up assumptions were largely prescribed by Ontario regulation and were heavily affected by current market conditions, particularly interest rates – they were updated to reflect the requirements at July 1, 2018.

On motion duly made, seconded and carried

It was Resolved

THAT, effective July 1, 2018, that the going concern, solvency and hypothetical wind-up assumptions contained in Attachment 1 to the memo from Sheila Brown, Chief Financial Officer dated August 31, 2018, be adopted for the University of Toronto Pension Plan and the Supplemental Retirement Arrangement.

4. Pension Plans – Projection of Funded Status to July 1, 2018

Ms Brown stated that for the purposes of this estimate, the going concern accrued liability for the University of Toronto Pension Plan (RPP) as at July 1, 2018 had been estimated using the proposed assumptions at July 1, 2018. She added that it was important to note that the estimate had been prepared using a roll-forward of demographic data at July 1, 2017 and that the actual experience for the 2017-18 year had not been reflected in the estimated accrued liability. The estimate would be revised and updated when actual July 1, 2018 financial results were finalized.

Mr. Shapira presented an overview of the estimated fund status, highlighting the following points:

- Valuation of the plan was examined from two perspectives: going concern and solvency;
- At July 1, 2018, the accrued liability for the RPP was estimated to be about \$5.332 billion, and the market value of assets were estimated to be about \$5.105 billion;
- The unfunded accrued liability was estimated to be about \$227 million (\$5.332B minus \$5.105B);

Pension Plans – Projection of Funded Status to July 1, 2018 Continued:

Mr. Shapira stated that the estimated unfunded liability of \$227 million at July 1, 2018 was an improvement over the unfunded liability of \$362.4 million at July 1, 2017, due to continued substantial pension special payments in accordance with the Business Board-approved pension contribution strategy, as well as investment returns that exceeded target returns.

Ms Brown reiterated that the figures presented were early estimates – the Committee would consider the actuarial valuation results (July 1, 2018) of the University of Toronto Pension Plan and the Supplemental Retirement Arrangement at the December meeting.

CONSENT AGENDA

On motion duly moved, seconded, and carried

It was resolved

THAT the consent agenda be adopted and items approved.

5. Report of the Previous Meeting: Report Number 33, May 30, 2018

Report Number 33 of the Pension Committee meeting held on May 30, 2018, was approved.

6. Business Arising from the Report of the Previous Meeting

The Chair presented a chair to Alex McKinnon in recognition of exemplary service and leadership in the role as Pension Committee Chair (2016-2018) and Vice-Chair (2014-2016).

Mr. McKinnon expressed his sincere thanks to the Committee and reflected on his journey to become a Research Associate with the United Steelworkers Union and subsequent appointment as a representative of the unionized administrative-staff groups on the Pension Committee.

7. Calendar of Business for 2018-19

The Calendar of Business for 2018-19 was received for information.

8. Date of Next Meeting

The date of the next Pension Committee was scheduled for Wednesday, December 12, 2018 at 4:00 p.m.

9. Reports of the Assessors

There were no reports of the assessors.

10. Other Business

There were no other items of other Business.

The meeting adjourned at 6:40 p.m.

Committee Secretary

Chair

September 24, 2018