

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 30 OF THE PENSION COMMITTEE

September 18, 2017

To the Governing Council,
University of Toronto.

Your Committee reports that it held a meeting on Monday, September 18, 2017 at 1:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Alex D. McKinnon, Chair
Mark Krembil, Vice-Chair
Harvey Botting
David Bowden
Colleen Burke
Louis Florence
Brian D. Lawson
Kenneth MacDonald
Leanne MacMillan
Kim McLean
Cynthia Messenger
Arthur G. Rubinoff
Howard Shearer
Andrew Szende
Bruce Winter

Non-Voting Assessors:

Sheila Brown, Chief Financial Officer
Kelly Hannah-Moffatt, Vice-President, Human
Resources and Equity
Scott Mabury, Vice-President, University Operations

Secretariat:

Patrick McNeill, Committee Secretary

Regrets:

Janet L. Ecker
John Paul Morgan
Andreas Motsch

In Attendance:

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

1. Welcome and Chair's Remarks

The Chair welcomed members and guests. He expressed a special welcome to the Committee's newest members: Professors Cynthia Messenger, Louis Florence and Ken MacDonald – all representatives of the University of Toronto Faculty Association (UTFA); and reported that Professor Arthur Rubinoff had been re-appointed as the Retiree member from UTFA.

The Chair formally recognized and thanked three former Committee members – all of which were UTFA appointees who had completed their respective terms on June 30th: Professors Ettore Damiano, Paul Downes and Jennifer Jenkins. The Chair noted their important contributions to the Pension Committee and expressed appreciation on behalf of all members and the administration.

2. Calendar of Business for 2017-18

The Chair noted that the Calendar of Business, which was posted to the Committee's website, would be updated every Friday. Ms Brown provided a brief overview of the business that was scheduled to come before the Committee for the 2017-2018 governance year.

3. Review of Investment Performance to June 30, 2017

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, 2016 to June 30, 2017. 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, 2017:

- For the one-year period ended June 30, 2017, the actual investment return for the PMT was 13.21%, outperforming the University's target return for the PMT of 5.01% by 8.20% (13.21% - 5.01%);
- For the one-year period ended June 30, 2017 favourable capital markets resulted in a Reference Portfolio return of 11.29% for the PMT, that was 6.28% higher than the target return of 5.01% (11.29% - 5.01%);
- For the one-year period ended June 30, 2017, UTAM added value of 1.92% over what was available in the capital markets (actual investment return of 13.21% - Reference portfolio return of 11.29%).
- UTAM added value over the Reference Portfolio for LTCAP and Pension on a one-year, 5-year and 10-year basis.
- All asset class exposures were within allowable bands at the end of June 2017;
- Active Risk for Pension remained well within the "Normal" Zone (-50 bps to 100 bps) at the end of June 2017.

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

- over the last 5 years, UTAM value added amounted to approximately 2.0% per year;
- 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 return percentages were net of all investment fees and expenses, including UTAM expenses;
- Approximately 15% of the portfolio was invested in private assets (e.g. private equity, private credit, etc.).

4. 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) Proposed Actuarial Assumptions at July 1, 2017

Ms Brown reported that a complete and thorough review was conducted by the Plan Actuary and the University's administration. For 2017 it was recommended that (1) the asset valuation method use the market value of plan assets, with no smoothing, in the calculation of the going concern funded status of the pension plan, in continuing recognition of the ongoing discussions around a possible jointly sponsored pension plan and of the planned changes to plan funding requirements by the Ontario government; and (2) that the nominal investment return assumption be reduced from 5.75% to 5.55%. This assumption was comprised of two components: the real investment return component which was recommended to be reduced from 3.75% to 3.55%, and the inflation component (CPI) which was recommended to remain unchanged at 2.0%. The reason for this change was to reflect expected lower investment returns in future years.

On motion duly made, seconded and carried

It was Resolved

THAT, effective July 1, 2017, that the going concern, solvency and hypothetical wind-up assumptions contained in Attachment 1 to the memo from Sheila Brown, Chief Financial Officer dated September 1, 2017, be adopted for the University of Toronto Pension Plan and the Supplemental Retirement Arrangement.

b) History of Actuarial Assumptions, 2002 to 2016

The History of the Actuarial Assumptions for the period from 2002 to 2016 was received for information.

5. University of Toronto Pension Plans – Projection of Funded Status to July 1, 2017

Ms Brown stated that the going concern accrued liability for the University of Toronto Pension Plan (RPP) as at July 1, 2017 was estimated using the proposed assumptions at July 1, 2017. She added that it was important to note that the estimate had been prepared using a roll-forward of demographic data at July 1, 2016 and that the actual experience for the 2016-17 year had not been reflected in the estimated accrued liability. For both the accrued liability and the assets, the estimates would be revised and updated when actual July 1, 2017 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 wind-up (solvency);

- At July 1, 2017, the accrued liability for the RPP was estimated to be about \$5.059 billion, and the market value of assets were estimated to be about \$4.684 billion.
- The unfunded accrued liability based on the market value of assets was estimated to be about \$374.6 million (\$5.059B - \$4.684B).
- At July 1, 2014, the going concern unfunded accrued liability for the RPP (post-merger), based on market value of assets, was \$729.5 million, at July 1, 2015 the going concern unfunded liability was \$446.0 million, and at July 1, 2016 the going concern unfunded liability was \$573.1 million.
- At July 1, 2017, the solvency deficiency was estimated to be \$1.12 billion, as compared to the solvency deficiency as of July 1, 2014 at \$1.05 billion; as of July 1, 2015 at \$1.10 billion; and as of July 1, 2016 at \$1.68 billion.

Mr. Shapira stated that the estimated unfunded liability of \$374.6 million at July 1, 2017 is an improvement over 2014, due to substantial pension special payments in accordance with the Business Board-approved pension contribution strategy, as well as investment returns that have exceeded target returns. He added that he expected to see more stringent rules around how the University dealt with its going concern funding.

Ms Brown restated that the figures presented were early estimates – the Committee would consider the actuarial valuation results (July 1, 2017) of the University of Toronto Pension Plan and the Supplemental Retirement Arrangement at the December meeting.

6. Pensions: Liquidity Primer

Ms Brown reminded the Committee that it had previously approved the SIPP to reflect a new UTAM Liquidity Management Policy, which had been adopted by UTAM and approved by the Investment Committee. The new policy included a number of liquidity limits that replaced the single 70% limit.

Dr. Douglas Chau, Chief Risk Officer and Head of Research at UTAM, made a presentation on the topic of “liquidity”, as it related to the liquidity provisions included in the SIPP.

In response to a Member's question on a reporting mechanism, Ms Brown stated that UTAM closely monitors liquidity in the portfolio and that this was a responsibility delegated by U of T to UTAM. Ms Brown also noted that a report is made on a quarterly basis to the Investment Committee that includes information on liquidity, however the Pension Committee could be provided with information and context on liquidity management going forward.

7. Report of the Previous Meeting: Report Number 29, May 25, 2017

On motion duly moved, seconded, and carried

It was resolved

THAT Report Number 29 of the Pension Committee meeting held on May 25, 2017, be 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

The date of the next Pension Committee was scheduled for Wednesday, December 13, 2017 at 4:00 p.m.

10. Reports of the Assessors

There were no reports of the assessors.

11. Other Business

There were no items of other Business.

*Pursuant to section 33 of By-Law Number 2,
consideration of item 12 took place in camera*

The Committee Moved *In Camera*

12. Update: Government Pension Initiatives and Jointly Sponsored Pension Plan Initiatives

Ms Brown provided an oral update on government pension initiatives and jointly sponsored pension plan initiatives.

The Committee returned to *Closed Session*

The meeting adjourned at 2:50 p.m.

Committee Secretary

Chair

September 18, 2017