

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 35 OF THE PENSION COMMITTEE

December 12, 2018

To the Governing Council,
University of Toronto.

Your Committee reports that it held a meeting on Wednesday, December 12, 2018 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
Leanne MacMillan
Kenneth MacDonald
Cynthia Messenger
John Paul Morgan*
Andreas Motsch
Arthur G. Rubinoff
Andrew Szende
** via conference call*

Non-Voting Assessors:

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

Secretariat:

Patrick McNeill, Committee Secretary

Regrets:

Brian D. Lawson
Kim McLean

In Attendance:

Elizabeth Brown, Brown Mills Klinck Prezioso LLP
Francis Low, External Auditor, Ernst & Young
Pierre Piché, Controller and Director of Financial Services
Stella Qiao, External Auditor, Ernst & Young
Allan Shapira, Plan Actuary, Aon
Daren Smith, President and Chief Investment Officer, University of Toronto Asset
Management Corporation (UTAM)
Maureen Stapleton, Observer
Paul S. Whittam, Observer

The Committee met in Closed Session.

1. Chair's Remarks

The Chair welcomed members and guests to the meeting. She introduced Maureen Stapleton and Paul Whittam who were attending as observers.

2. Registered Pension Plan: Audited Financial Statements for Year Ended June 30, 2018

Sheila Brown, Chief Financial Officer, reported that the Audit Committee met on December 5, 2018 with the external auditors, reviewed the audited financial statements and recommended them to the Pension Committee for approval.

Francis Low informed the Committee that he and his audit team at Ernst & Young were comfortable with all of the disclosures in the *Audited Financial Statements*. He stated that there were no significant issues reported; and no errors or adjustments had been made. Mr. Low referred members to the detailed notes contained in the *Statements*.

Ms Brown stated that the *Statements* would be filed with the Financial Services Commission of Ontario by the end of the year. One additional note would be referenced in the filing regarding the jointly sponsored pension plan initiative.

A member suggested that a complementary reporting out of the December 5th meeting by a member of the Audit Committee would be beneficial to provide some perspective to the Audit Committee's discussions on the statements.

On motion duly moved, seconded and carried

IT WAS RESOLVED

THAT the audited financial statements for the University of Toronto Pension Plan for the year ended June 30, 2018, be approved.

3. Pension Plans: Actuarial Valuation Results at July 1, 2018

Sheila Brown stated that the actuarial assumptions and methodologies effective July 1, 2018 were approved by the Pension Committee on September 17, 2018. The approved change for 2018 was that the mortality assumption had been changed by utilizing the generational projection scale MI-2017 (replacing the projection scale CPM-B used previously), while continuing to use the CPM 2014 Public mortality table – the change was intended to better allow for future expected improvements in longevity.

Allan Shapira provided an overview of the Actuarial Valuation Results, highlighting the following points:

- The going concern market deficit of the RPP had decreased from \$362.4 million to \$211.8 million, primarily due to investment returns of 8.42%, exceeding the target return of 6.46%, (4.0% plus CPI) and employer special payments totaling \$78.7 million, which were partially offset by the actuarial assumption changes;

- The solvency deficit of the RPP had decreased from \$1,183.6 million to \$901.6 million, mainly due to an overall drop in the prescribed discount rates, and investment returns over the year that exceeded target returns.
- Contributions to the pension plans for 2017-18 were made up of \$78.5 million in member contributions, \$116.1 million in University current service contributions, and \$78.7 million in University special payments.

On motion duly moved, seconded and carried

IT WAS RESOLVED

- 1) THAT the actuarial valuation for the University of Toronto Pension Plan as at July 1, 2018, attached as Appendix A, be approved; and
- 2) THAT the actuarial valuation for the Supplemental Retirement Arrangement as at July 1, 2018, attached as Appendix B, be approved.

4. Pension Plan Annual Financial Report for Year Ended June 30, 2018

Sheila Brown stated that the *Report* brought together in one place, and placed in historical perspective, information on the funded status of the now combined registered pension plan, plan liabilities (including participants, benefit provisions and assumptions) and plan assets (including contributions, investment earnings, fees and expenses, and payments to pensioners). At June 30, 2018, the RPP had a market deficit of \$211.8 million, a decrease of \$150.6 million in the market deficit from June 30, 2017.

In response to a member's comment, Ms Brown briefly described the governance framework as it related to the annual consideration for approval of the Pension Fund Master Trust Statement of Investment Policies and Procedures (SIP&P) – this would take place at the May 2019 meeting. Professor Hannah-Moffat added that members had a fiduciary responsibility to ask questions of the administration regarding the pension plan to add transparency to the process.

On motion duly moved, seconded and carried

IT WAS RESOLVED

THAT the Pension Annual Financial Report for the Year Ended June 30, 2018, be approved.

5. Pension Plan Fees and Expenses for the period 2004 to 2018

Sheila Brown stated that the report on Pension Plan Fees and Expenses for the period from 2004 to 2018 provided a historical summary of fees and expenses specifically allocated to the University of Toronto Pension Plan (it excluded fees and expenses related to the SRA, which was managed together with the University endowments) since 2004. It was updated each year and looked back over the past 15 years.

In response to members' questions and comments, Ms Brown stated that over the long period (i.e. 10 years) active management had added value, as defined by actual investment returns exceeding the Reference Portfolio returns, net of investment fees and expenses.

Mr. Smith added that UTAM had a rigorous approach to evaluating active managers and had been successful over the last 10 years in outperforming the Reference Portfolio, net of investment fees and expenses, while adhering to all client, legal, and regulatory constraints; as well as standard industry practices regarding reporting of manager fees. He stated that as part of the ongoing reporting and fees review he would examine ways to add more insight to his report.

The Report was received for information.

CONSENT AGENDA

On motion duly moved, seconded, and carried

YOUR COMMITTEE APPROVED

THAT the consent agenda be adopted and the items approved.

6. Report of the Previous Meeting: Report Number 34, September 17, 2018

Report Number 34, from the meeting of September 17, 2018, was approved.

7. Business Arising from the Report

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

8. Date of Next Meeting: Monday, April 15, 2019 at 4:00 p.m.

The date of the next Pension Committee was re-scheduled for Monday, April 15, 2019 at 4:00 p.m.

The Committee moved in camera.

9. Reports of the Administrative Assessors

Professor Hannah-Moffat, Vice-President, Human Resources and Equity, provided an update on the Jointly Sponsored Pension Plan initiative.

The Committee moved back into Closed Session.

10. Other Business

There were no items of other Business.

The meeting adjourned at 5:27 p.m.

Committee Secretary

Chair

January 14, 2019