

UNIVERSITY OF TORONTO
THE GOVERNING COUNCIL

REPORT NUMBER 15 OF THE PENSION COMMITTEE

March 19, 2014

To the Governing Council,
University of Toronto.

Your Committee reports that it held a meeting on Wednesday, March 19, 2014 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Professor George Luste, In the Chair
Ms Claire Kennedy, Vice-Chair
Professor Meric S. Gertler, President
Mr. Harvey Botting
Mr. Jeff Collins
Professor Ettore Vincenzo Damiano
Ms Paulette Kennedy
Ms Leanne MacMillan
Mr. Alex D. McKinnon
Ms Kim McLean
Mr. Philip Murton
Ms Jane Pepino
Ms Helen S. Rosenthal
Mr. Howard Shearer
Mr. John Switzer
Mr. Andrew Szende
Mr. Keith Thomas
Ms Rita Tsang

Non-Voting Assessors:

Ms Sheila Brown, Chief Financial Officer
Professor Angela Hildyard, Vice-President,
Human Resources and Equity
Professor Scott Mabury, Vice-President,
University Operations

Mr. Louis R. Charpentier,
Secretary of the Governing Council

Secretariat:

Ms Cristina Oke, Acting Secretary

Regrets:

Professor Laurence D. Booth
Ms Jennifer Jenkins
Dr. Gary P. Mooney

In Attendance:

Mr. William Moriarty, President and CEO, University of Toronto Asset Management Corporation (UTAM)
Mr. Pierre Piché, Controller & Director Financial Services, University of Toronto
Mr. Allan Shapira, Plan Actuary, AON Hewitt

The Chair welcomed members to the meeting.

1. Review of Investment Performance to December 31, 2013

Mr. William Moriarty, President and Chief Executive Officer, UTAM summarized the investment performance to December 31, 2014.

- Mr. Moriarty remarked that the one-year net return after costs of 15.14% was the best net return since 2003, and the best value added since 2002. Moreover, the pension portfolio had outperformed the University target over the past five years by 238 basis points (bps).
- Positive contributions to the 2.71% value added compared to the benchmark portfolio in the past year included style tilts¹, manager selection and the UTAM decision to carry different foreign exchange (FX) exposure.
- The pension asset mix was within the minimum/maximum bands.
- The actual portfolio risk as measured by volatility (7.82%) was similar to that of the reference portfolio (7.55%). UTAM was continuing to work on refinements to the forward looking, position based risk system that had been implemented in 2012.
- Bonds accounted for 40% of the portfolio, and the current nominal bond yields were 2.5%. The assumed nominal discount rate for the Pension Plan was 6.00%, made up of 2.25% CPI + 3.75% real investment return. The target real investment return for the Pension Plan was 4.0%, so the period ahead was likely to be challenging in terms of meeting the target.
- Mr. Moriarty concluded by reporting that low interest rates, low inflation, and moderate economic growth was expected over the next 3 to 4 years. While this might appear to provide a benign backdrop for investing, he noted that three key factors would significantly shape the outlook: U.S. Federal Reserve policies, Eurozone macroeconomic policy and the Chinese reform agenda. In this environment, he believed that the additional return offered by ‘active’ portfolio management would represent a more significant part of overall portfolio returns.

2. Update: Pension Committee Working Group

Mr. Switzer reported that the Working Group had held one meeting since December 2013. The Working Group was reviewing and evaluating the contents of reports provided to the Committee, to ensure that the reports allowed members to adopt a long-term view and prevented surprises such as those experienced in 2008. The Working Group would meet in the next two months and report at the June meeting of the Committee.

A member asked what the role of the Committee was with respect to the Reference Portfolio. Mr. Switzer replied that the Reference Portfolio was reviewed by the Investment Advisory Committee (IAC). Under its Terms of Reference, the Pension Committee approved the Pension Fund Master Trust Statement of Investment Policies and Procedures (SIP&P) that included the policy asset mix and the target rate of return of the Pension Fund Master Fund (PFMF). The Reference Portfolio provided the investment framework for the policy asset mix.

¹Absolute return vs. rates and the allocation to alternative credit.

2. Update: Pension Committee Working Group(cont'd)

Mr. Switzer commented that, in his view, it would be helpful if the Chair of the IAC was invited to attend meetings of the Pension Committee.

A member asked what UTAM would do if it did not have constraints. Mr. Moriarty replied that he would ask Committee members how much risk they were willing to take with respect to investments.

A member commented that taking less risk for the future might make it easier to adopt a long-term view, and asked whether there was a minimum and maximum range for risk. Mr. Moriarty replied that there was a range of 50 % to 70% for risk with respect to equities. He preferred having no more than 60 % of risk.

CONSENT AGENDA

On motion duly moved, seconded, and carried

It was Resolved,

THAT the consent agenda be adopted and items approved.

3. Report of the Previous Meeting: Report Number 14, December 11, 2013

The report of the previous meeting was approved.

4. Business Arising from the Report

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

5. Report of the Senior Assessors

There were no reports from the Senior Assessors.

6. Date of Next Meeting: Monday, June 2, 2014 at 5:00 p.m.

7. Other Business

a) Government Initiatives

Mr. Shapira explained that there were three provincial government initiatives concerning pensions currently underway:

- i) Jointly-sponsored pension plans;
- ii) Pooled Asset Management;
- iii) Ontario Supplemental Pension Plan.

7. Other Business(cont'd)

a) Government Initiatives (cont'd)

Mr. Moriarty informed members that he was a member of the technical working group of the Pooled Asset Management initiative. The interim report of the Pooled Asset Management group had been submitted to the Minister of Finance. The report laid out a set of principles for the Minister's approval, including:

- voluntary participation in the pool;
- independence from the provincial government;
- oversight by an expert Board of Directors;
- flexibility to include pension funds and endowment funds;
- adoption of individual standards.

Mr. Switzer suggested that updates on the government initiatives be an agenda item for each meeting.

b) Presentation by Professor Luste

The Chair stepped out of the Chair to make in order to make a presentation and Mr. Switzer assumed the Chair.

Professor Luste commented on the presentation given by the Healthcare of Ontario Pension Plan (HOOPP) on March 17, 2014. He noted that the administrative costs of the HOOPP pension plan was 0.3%, compared to 0.9% for the University of Toronto pension plan. He observed that the Board of the University of Toronto Asset Corporation (UTAM), the Investment Advisory Committee (IAC) and the Pension Committee of the Governing Council were all involved with the University's pension plan, and asked which group was held accountable for the plan.

A member stated that it was important to consider the administrative costs of the plan and the return on investments in the plan. Another member asked what the incremental cost of active management would be.

Members requested information about contributions and the unfunded liabilities of public and private pension plans. Public plans would include the University sector as well as the larger public sector. Mr. Shapira agreed to provide the information requested plus information on funded deficit ratios.

The meeting adjourned at 6:25 p.m.

Acting Secretary

Chair

May 13, 2014