

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 10 OF

THE PENSION COMMITTEE

March 20, 2013

To the Governing Council,
University of Toronto.

Your Committee reports that it held a meeting on Wednesday, March 20, 2013 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Professor George Luste, In the Chair
Mr. W. John Switzer, Vice-Chair
Mr. Jeff Collins
Ms Shirley Hoy
Professor Jennifer Jenkins
Ms Paulette Kennedy
Mr. Philip Murton
Ms Jane Pepino
Ms Melinda Rogers
Mr. Keith Thomas
Ms Helen Rosenthal
Mr. Howard Shearer
Mr. Andrew Ward

Non-Voting Assessors:

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

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

Secretariat:

Mr. David Walders, Acting Secretary

Regrets:

Professor Laurence Booth
Professor Ettore Vincenzo Damiano
Ms Nancy Edwards
Mr. Alex McKinnon
Mr. Gary Mooney
Ms Rita Tsang
Mr. W. David Wilson

In Attendance:

Mr. William Moriarty, President and Chief Executive Officer, University of Toronto Asset Management Corporation (UTAM)
Mr. Pierre Piché, Controller & Director Financial Services, University of Toronto
Mr. Cam Richards, UTAM
Mr. Allan Shapira, Plan Actuary, AON Hewitt
Mr. Daren Smith, UTAM

The Chair welcomed members and guests to the meeting.

1. Report of the Previous Meeting

Report Number 10 (December 12, 2012) of the Pension Committee was approved.

2. Business Arising from the Report of the Previous Meeting

Several members inquired about the timing of information sessions for the Pension Committee. One member suggested that greater clarity is needed regarding the liability mechanics of the pension plan. Several members agreed that more information on pension plan liabilities would be highly beneficial. The Chair responded that the timing of the sessions as well as who would be invited to speak was still being considered.

3. Review of Investment Performance to December 31, 2012 *(for information)*

Mr. William Moriarty, President and Chief Executive Officer, UTAM summarized the Q4/12 and H1/13 results.

- Mr. Moriarty remarked that net returns after costs were positive, outperforming University targets. He noted that two and four year net returns were also generally favourable.
- Style tilts and manager selection were key contributors to actual performance in the portfolio outperforming the Reference Portfolio by nearly 80 bases points in Q4.
- With the exception of the Europe, Asia and Far East market (EAFE), active Public Markets managers generally outperformed asset class benchmarks in Q4. With respect to the legacy Private Markets investments, the US Equity component performed very well, while the main drag for legacy Privates was the EAFE component of the portfolio.
- Expected volatility of the actual portfolio (10.66%) was slightly higher than risk in the reference portfolio (9.68%) as a result of two factors: legacy privates' exposure and hedging US dollar exposure.
- Mr. Moriarty concluded by reporting that there was no change in UTAM's view regarding the current investment environment; US growth was likely to remain tepid, Eurozone problems would continue; emerging markets still provided an attractive opportunity, as did credit, but a very selective approach would be needed for both.

A member asked whether the asset mix numbers were pulled apart or rolled up for review purposes. Mr. Moriarty replied that they were pulled apart. A member asked whether the risk metrics considered the interest rate risk inherent in the pension fund's liabilities. Mr. Moriarty replied in the negative, noting that UTAM was given a target rate of return and a conventional risk budget as opposed to a 'surplus at risk' objective.

4. Assessors' Reports

There were no assessors reports.

5. Date of Next Meeting: June 5, 2013 at 5:00 p.m.

6. Other Business

The Chair stepped out of the Chair to make in order to make a presentation and the Vice-Chair assumed the Chair.

Professor Luste's presentation focused on his views of the pension plan and problems associated with it. It included the following matters:

- Concern was expressed over the market deficit of the University of Toronto Pension Plan (RPP) with respect to going concern valuation, solvency valuation and wind-up valuation. The deficit (the excess of liability over assets) varied from \$1.1 billion to \$3.1 billion.
- Concern was also raised about the assigned market value of illiquid assets.
- Concern was raised on the growing liability, over time for the RPP.
- The investment return for the 15 pre-UTAM years was average at an annual 11.7%. In contrast the 11 years with UTAM, (2000 to 2010) was only 2.7% - which was about one half of the pension rate.
- A study was presented to suggest that over 10 years the UofT return was the lowest for 60 Canadian universities. It also indicated that there was no return increase for larger pension plans.
- The investment approach of the University of Toronto Asset Management Corporation (UTAM) was called into question as were the fees charged by UTAM.
- It was suggested that there was a 500% increase in the costing for investing since 2000. Total annual cost is currently about \$25 million. In 2000 and earlier it was less than \$5 million.
- The presentation concluded that there were several important issues that should be discussed and considered, namely "transparency", "complexity", "valuation", "cost" and "people".

Several members questioned the relevance of the contents of Professor Luste's presentation to the work of the Pension Committee and also questioned the underlying assumptions contained therein. Two members were very critical of the statistics presented relating to market deficit and commented that these figures were both unhelpful and alarmist. A member also noted that a more accurate real rate of return would be presented had the presentation reported on 1986-2012 rather than stopping at 2010.

The Chair thanked Professor Luste for his presentation and commented on the need for working group activities within the Committee.

MOTION to adjourn

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The meeting adjourned at 6:30 p.m.

Acting Secretary

Chair

May 26, 2012