

UNIVERSITY OF TORONTO  
THE GOVERNING COUNCIL  
**REPORT NUMBER 2 OF**  
**THE PENSION COMMITTEE**

**Wednesday, April 6, 2011**

To the Governing Council,  
University of Toronto.

Your Committee reports that it held a meeting on Wednesday, April 6, 2011 at 10:00 a.m. in the Council Chamber, Simcoe Hall, with the following members present:

Mr. W. John Switzer, In the Chair  
Professor George Luste, Vice-Chair  
Professor Ettore Vincenzo Damiano  
Ms Nancy Edwards  
Mr. Thomas Finlay  
Mr. Joseph Mapa  
Mr. Alex McKinnon  
Mr. Philip Murton  
Ms Melinda Rogers \*  
Ms Helen Rosenthal  
Ms Rita Tsang

**Non-Voting Assessors:**

Ms Sheila Brown, Chief Financial Officer  
Mr. Louis R. Charpentier, Secretary of the Governing Council, Secretary of the Committee  
Professor Angela Hildyard, Vice-President, Human Resources and Equity  
Ms Catherine Riggall, Vice-President, Business Affairs

**Secretariat:**

Mr. Henry Mulhall, Recording Secretary

**Regrets:**

Mr. Brent Belzberg  
Professor Laurence Booth  
Ms Judy Goldring  
Mr. Steve (Suresh) K. Gupta  
Ms Shirley Hoy  
Mr. Gary Mooney  
Mr. Howard Shearer  
Mr. Andrew Ward  
Mr. W. David Wilson

**In Attendance:**

Professor Arthur S. Ripstein, Member of the Governing Council, and Professor, Faculty of Law, and Department of Philosophy, Faculty of Arts and Science  
Ms Elizabeth M. Brown, Hicks Morley  
Mr. Michel Malo, Managing Director, Investment Strategy, and Co-Chief Investment Officer, University of Toronto Asset Management Corporation (UTAM)  
Mr. William W. Moriarty, President and Chief Executive Officer, UTAM  
Mr. Allan Shapira, AON Hewitt

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\* Participated by teleconference.

## 1. Report of the Previous Meeting

Report Number 1 of the Pension Committee (March 9, 2011) was approved.

## 2. Business Arising from the Report of the Previous Meeting

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

## 3. Review of the *University of Toronto Pension Master Trust Investment Policy*

The Chair noted that this information item was being presented to the Committee both to continue the orientation and education of members that had been begun at the initial meeting, as well as to provide context for the eventual consideration for approval of a revised policy at a subsequent meeting.

Ms Brown provided the Committee with a presentation on the University's Pension Investment Risk and Return Targets, the highlights of which are outlined in the slides attached hereto as [Attachment "A"](#). She noted that it was intended that the Committee would consider for approval the recommended pension risk and return targets, as well as the investment strategy, prior to the end of 2011. In the meantime, the four components of the *Pension Statement of Investment Policies and Procedures (SIP&P)*, including the *University of Toronto Pension Master Trust Investment Policy*, would remain in effect.<sup>1</sup> During the discussion, the Chair deferred questions regarding the risk and return targets, as well as the 2011 pension asset/liability study, to the Committee's next meeting when these topics would be considered in greater detail. In response to a question, Mr. Shapira clarified that the cost of the pension asset/liability study carried out by AON Hewitt in 2007 had been approximately \$65,000.

## 4. Investment Review: Results to December 30, 2010

The Chair noted that this information item was also intended to provide context for the Committee's work in the upcoming months.

Mr. Moriarty made a presentation on the Pension Master Trust's returns during the previous calendar year entitled 'Portfolio Performance Review'. The highlights are outlined in the slides attached hereto as [Attachment "B"](#). He clarified that the investment returns had been reported to December 30, 2010 because UTAM operated on a calendar year basis. In future such information would be reported based on the pension plan year end of June 30<sup>th</sup>.

During discussion a member questioned the reliability of valuations of investments in hedge funds, private equity funds, and real assets. Mr. Moriarty agreed that this was a concern. However, regarding hedge funds, the concern was mitigated by external evaluations of fund assets, as well as UTAM's ongoing shift to more reliably valued direct hedge fund investments rather than indirect fund-of-fund investments. It was more of a challenge to value private investments, for instance using models, because private companies released less information than public companies. However, the funds were registered and independent audits were required, though it would be preferable if independent fund administrators were also required.

A member asked why the reference portfolio should not be implemented given that it was lower cost and had outperformed the UTAM portfolio. Mr. Moriarty responded that while such had been the case in the most recent ten-year period, conversely, during the previous ten-year period the UTAM portfolio would have outperformed the reference portfolio. In his opinion, the reference portfolio was also unlikely to meet the University's return targets in future years.

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<sup>1</sup> The other components of the SIP&P are: the *Delegation of Authority*, the *UTAM Pension Fund Master Trust Investment Policy*, and the *Investment Management Agreement*.

## **5. Presentation on Fiduciary Duty**

The Chair noted that it had been agreed at the previous meeting, during discussion of the proposed *Conflict of Interest Policy*, to seek expert advice on the fiduciary duty of members of the Committee.

Among the topics covered during Professor Ripstein's comprehensive presentation were the following: trusteeship, the separation of ownership and control, fiduciary duty, the duty of care, personal and corporate vulnerability, the duty to avoid conflict of interest, the duty not to appropriate opportunities, the duty of confidentiality, the duty to disclose, and the duty to provide appropriate oversight. In response to a question, Professor Ripstein clarified that, while individual members might appear to have conflicting interests with respect to the pension plans based on other roles that they held, their overriding obligation as members of the Pension Committee was their fiduciary duty to the beneficiaries of the plans.

## **6. Pension Committee Conflict of Interest Policy**

The Chair noted that this item had been deferred from the previous meeting of March 9, 2011 to allow the opportunity to receive expert advice regarding conflict of interest. Professor Ripstein had briefed the Committee, and Ms Brown was also available to respond to questions. The draft Policy had been prepared by the University's legal counsel and reflected current good practice in pension governance.

Ms Brown commented that the draft Policy took into consideration the University's particular governance structure where the Governing Council fulfilled a dual role as both Plan Sponsor (Employer) and Administrator of the Plan. The Policy also took into consideration the Canadian Association of Pension Supervisory Authorities (CAPSA) *Guideline No. 4 – Pension Plan Governance Guidelines and Self-Assessment Questionnaire*, in particular its Principle 1 regarding fiduciary responsibility. She concurred with Professor Ripstein's opinion that members' external roles, including as potential beneficiaries of the pension plans, union members, or university administrators, did not create irreconcilable conflicts of interest. A member expressed his agreement, while another disagreed and said that he would consequently abstain from voting on the motion under consideration.

On motion duly moved, seconded, and carried,

YOUR COMMITTEE APPROVED

THAT the proposed *Pension Committee Conflict of Interest Policy* be approved.

## **7. Assessors' Reports**

Ms Riggall reported that the Ontario Government had recently begun the process to amend *Regulation 909* under the *Pensions Benefits Act* to provide temporary solvency funding relief for pension plans in the broader public sector. Comments were being sought, and it was expected that the details would be finalized by May 2011.

Professor Hildyard reported that four members of the Committee, providing broad representation of its stakeholders, had volunteered to serve on the Committee's working group on member communications. Further volunteers were welcome, and it was anticipated that a draft communication plan would be provided to the Committee at its next meeting.

## **8. Date of the Next Meeting**

Members were reminded that the next regular meeting of the Pension Committee was scheduled for Wednesday, June 10, 2011 at 10:00 a.m.

**9. Other Business**

There was no other business.

The meeting adjourned at 12:30 p.m.

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Secretary  
May 5, 2011

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Chair