

University of Waterloo
Board of Governors
PENSION & BENEFITS COMMITTEE
Minutes of the 9 September 2016 Meeting

Present: Lori Curtis, Stewart Forrest, Peter Forsyth, Mary Hardy, Dennis Huber, David Kibble, Ramesh Kumar, Marilyn Thompson, Christine Wagner, Karen Wilkinson [chair].

Regrets: Monika Bothwell, Ian Orchard, Michael Steinmann, Marta Witer

Administration: Lee Hornberger

Secretariat: Sian Williams, Terri Rau

Guests: Allan Shapira, Linda Byron, Nathan LaPierre

Organization of Meeting: Karen Wilkinson took the chair and Sian Williams acted as secretary. The secretary advised that a quorum was present. The agenda was approved without formal motion.

1. MINUTES OF THE 17 JUNE 2016 MEETING AND BUSINESS ARISING

A motion was heard to approve the minutes as distributed. Huber and Kumar. Carried. There was no business arising from the minutes. Hardy requested to speak to Other Business later in the agenda, and also to a new matter in the Confidential Session. Wilkinson agreed to these requests.

2. EXECUTION AGAINST THE WORK PLAN

The report was received for information. The annual Report to the Community and the annual Approval of the SIPP were deferred to a future meeting. Wilkinson advised that aside from the two deferrals, the committee was on schedule.

3. UPDATE ON GOVERNMENT PENSION PLAN INITIATIVES

Shapira provided an in depth update on the Government Pension Plan Initiatives, and presented the Aon Hewitt report entitled "Review of Ontario's Solvency Funding Framework for Defined Benefit Plans (Consultation Paper) (the "Report"). Members discussed two possible approaches to solvency that the government is currently considering as outlined in the Report: Approach A - Modify Solvency Funding Rules, and Approach B - Eliminate Solvency Funding and Strengthen Going Concern Funding. Various options were discussed and Shapira suggested that funding a percentage of solvency liability was reasonable (Approach A, Item 4, page 5 of the Report). In regard to Approach B, the committee was informed that Hicks Morley, Aon Hewitt and Mercer have prepared a paper which may be used by relevant, interested institutions as a customizable template to make submissions to the Ontario government by 30 September 2016 in regard to the proposed solvency funding framework. Shapira indicated that the cost of the paper is \$7,500.00, and members discussed whether the purchase of the paper would be of value. Wilkinson suggested that members could consider only making submissions on two or three points salient to the University's pension plan, and that the agenda item should be deferred for further discussion to the next committee meeting in October 2016. Shapira indicated that he would seek and confirm an extension from the Ontario government to allow submissions to be made.

4. Q2 DASHBOARD SUMMARY

Byron presented the Q2 Dashboard Summary. In regard to the going concern funded status, the plan's funded ratio increased to 95.9% at the end of Q2 due to the combined effects of asset performance exceeding expectations, contributions of \$19.2 million and an increase in liabilities primarily due to interest growth. For the going concern, asset-liability return at the end of Q2, assets returned 2.2% during the quarter while liabilities returned 1.4 %, resulting in a funded status increase of 0.9%. In regard to the risk-free benchmark funded status, the plan's funded ratio decreased to 56.5% at the end of Q2, due to the combined effects of asset performance exceeding expectations, contributions of \$19.2 million, and an increase in liabilities due to a decrease in the risk-free rate. For the risk-free benchmark, asset-liability return, assets returned 2.2% during the quarter while liabilities returned 3.8%, resulting in a funded status decrease of 1.2%. In regard to solvency, funded status, the plan's funded ratio decreased to 79.9% at the end of Q2 primarily due to the combined effects of asset performance exceeding expectations, contributions of \$19.2 million, and an increase in liabilities primarily due to a decrease in risk-free rates and accruals, off-set by an increase in the annuity purchase spread. For the solvency asset-liability return, assets returned 2.2% during the quarter

while liabilities returned 2.7%, resulting in a funded status decrease of 0.7%. Members noted that in terms of average solvency numbers across the university sector, the University plan was performing very well.

5. ASSET LIABILITY STUDY

LaPierre presented the material entitled “Asset-Liability Study Planning Meeting”. LaPierre informed committee members of the current state of the plan, the various asset classes, liability assumptions and asset-liability metrics, the pension-related objectives, and the proposed project plan. LaPierre emphasized that the main goal of the investment strategy is to minimize risk in investment while maintaining sufficient return to provide the promised benefits at a reasonable cost. Members discussed the various asset classes, and LaPierre offered to create asset classes which could include global real estate investment trusts, real assets and multi-asset credit going forward. Members determined that the broader range of asset classes as well as a sensitivity analysis of the distribution function could be brought forward to the November 2016 meeting.

6. REPORT FROM RPPI

Hardy provided a brief verbal overview of the recent RPPI meeting to the committee. As the performance of Oldfield Global Equity as an investment manager had previously been of concern, the RPPI committee had been provided by Aon Hewitt with a long list of eight possible global equity investment managers for consideration. The RPPI committee decided after thorough discussion to provide four of the investment managers with an invitation to appear before the RPPI committee in the near future. Members noted that the performance summary that was discussed at the RPPI meeting should be provided to the Pension & Benefits Committee as a standard item for future meetings.

7. CHANGES TO SICK LEAVE – CUPE

Forrest indicated that it was no longer necessary to bring forth this item on the agenda. The item was removed from the agenda and was not discussed.

8. CPP ENHANCEMENT IMPACT

Shapira presented the report entitled “Impact of CPP Enhancement on University of Waterloo (UW) Pension Plan”. Shapira advised that the full funding requirements for any CPP enhancement means that contributions, benefit entitlements and payments and funding associated with the enhancement will have to be accounted for separately. Members discussed the information that CPP enhancement contributions and benefit accruals will start 1 January 2019, with phase-in of contributions and benefits over the period until 2025.

9. OTHER BUSINESS

The committee heard a motion, from one of the employee representatives on the RPPI committee, to recommend to the Board of Governors at their next scheduled meeting of 25 October 2016 that the Board approve a total investment of \$15 million in the two TDAM’s indexed funds (to be distributed 60 % in the TD Emerald U.S. Equity Index Fund and 40 % in the TD Emerald International Equity Index Fund), by reallocating approximately 10% of the current cash in the fund. Hardy and Curtis. Carried. Two opposed.

10. NEXT MEETING

The next meeting is on Friday 7 October 2016 from 9:30 a.m. – 12:00 p.m. in Needles Hall Room 3318.

With no additional business in open session, the Committee proceeded into confidential session.