The University of Winnipeg
Trusteed Pension Plan
Board of Trustees

Minutes of Asset-Liability Results Meeting
Friday, March 1, 2013

ATTENDANCE:
Present: Henry Hudek (Chair), Laurel Repski (Vice-Chair), Mary Anne Walls (Secretary), Mike Emslie (Treasurer), Barry Barske, Jane Barske, Ed Byard, Ray Erb, Judy Graham, Kyle MacDonald, Colin Morrison, Hans Werner, Murray Wiegand

Regrets: Greg Gillis, Ron Youngson

Also In Attendance: Ronda Perinot (Recording Secretary), Brian White and Nathan LaPierre (Aon Hewitt)

1. Asset-Liability Results Meeting

The Aon Hewitt presenters guided the Board through the Additional Asset-Liability Results handout dated February 8, 2013.

Section 1: Purpose of the Meeting

It was noted that the purpose of the meeting was to review the following:

- The effect of emerging market equities and infrastructure on plan metrics
- Additional glide paths
- Transition plan to long bonds

Section 2: Recap from Last Meeting

The trustees remain interested in exploring the possibility of a glide path. Two potential growth glide paths were presented for consideration: 60% to 40% and 75% to 40%. It was noted that growth assets are needed as the fund is in deficit.

Section 3: Effect of Infrastructure and Emerging Market Equities

The results of the portfolio modelling were reviewed with Aon Hewitt.

While infrastructure provides diversification, there are no high growth expectations and including it won't help the portfolio. On the other hand, the inclusion of emerging markets in the portfolio has the effect of significantly reducing both cost and risk in the model portfolio vs the current portfolio. As a result, it is Aon Hewitt's recommendation to eliminate infrastructure and include emerging markets and real estate (direct/domestic).

Section 4: Glide Path Analysis

A Glide Path (de-risking strategy) progressively reduces the Plan's risk exposure and can lower long-term Plan costs. Two starting points (60% growth and 75% growth) for the glide path were discussed with the target end point being 40% growth for both. It is expected that the target portfolio should have an expected return that is sufficient to keep pace with solvency liability growth.

When questioned on their recommendation of 60% as the starting point, Aon Hewitt indicated that selecting a starting point of 75% growth (vs. 60% growth) would be a tactical decision based on today's markets which favour equities. Aon Hewitt is trying to stay on middle ground and noted that best practices (what most others are doing) is 60%. It was noted that we need to do what makes the most sense to us and what is right for our Plan; however, Aon Hewitt is not recommending a static 75%. Could make an argument for starting with either 75% or 60% and a starting point of 75% may make sense, however, it would require more governance decisions.

The probable rising interest rate environment is not favourable for bonds. Aon Hewitt suggests a move from universe to long bonds to de-risk. Funded status usually moves with bonds and could use either the funded status or bond yields as a guide path trigger. It was noted that a trigger based on solvency is hard to design. Going concern is a good signal, but requires fixed income in the portfolio.

(C. Morrison joined the meeting at this point)

A simple solution needs to be applied given the environment. If accepting risk, need to revisit the glide path plan on scheduled basis. Can also incorporate the de-risking strategy into the SIP.

A question came up as to whether the fact that our plan is closed to new members was taken into account since most other plans are ongoing. Aon Hewitt indicated that almost all plans they work on are closed to new members and no longer accruing benefits (referred to as closed/closed). They confirmed that they took our plan status into consideration in their recommendations.

<u>Section 5: Transition Plan to Long Bonds</u>

It was noted that in the short to medium term, reallocating universe bonds to long bonds is unlikely to be beneficial to the Plan since interest rates are very low. However, in the long-term, a shift to long bonds would be more favourable to the Plan. Long bonds are generally a better match to liabilities. Three different strategies for moving to long bonds were discussed: one time, phased (based on time intervals) and strategic (based on interest rates). Aon Hewitt recommends a combination of phased and strategic approaches, with the Plan fully transitioned to long bonds by the end of 2021 (arbitrary date).

A question was posed whether it would make sense to link the transition to long bonds to retirements. Aon Hewitt indicated no. If everyone is retired but the Plan still has a deficit, a move to long bonds at that time would create a larger contribution requirement. Age of individual members is not a driver to the process. The optimal allocation to long bonds will peak and will reduce as retirees age; then should start going back to universe bonds, however, that point is a long way off.

The objectives are to:

- Reduce the Plan's deficit and implement a good governance structure (de-risking).
- Improve the asset mix, with fixed income to level returns and long bonds to de-risk.
- Implement a systematic glide path to move from equities to bonds, and universe to long bonds.

If implementing a phased and strategic approach to transition to long bonds, must have a mechanism in place with active manager.

<u>Section 7: Conclusions</u>

While Aon Hewitt recommends a 60% to 40% glide path, they noted that a 75% to 40% glide path is defensible as long as there is a plan in place to reduce exposure which is very important from a governance stand point. The 60% to 40% model is a middle ground, while the 75% to 40% model increases the risk a bit for a higher expectation of return. Aon Hewitt also noted that while few plans are at 75%, many are at 65%.

It was noted that the inclusion of 10% real estate in the portfolio mitigates risk since it makes the 75% not as aggressive. Aon Hewitt indicated that it would be prudent practice to revisit every three to five years, but even with frequent review need to have systematic process in place for de-risking.

Decisions:

1. Aon Hewitt's recommendation that the optimized portfolio exclude infrastructure, but include emerging market equities and real estate.

AGREED

2. Aon Hewitt's recommendation to increase growth allocation to 60%, and progressively decrease to 40% as funded status improves.

TO BE DETERMINED

3. Aon Hewitt's recommendation to implement a transition plan to long bonds.

AGREED, however need to determine the time frame (10 yrs vs 8 yrs)

B. White and N. LaPierre left the meeting at this point.
M. Wiegand joined the meeting at this point and the Board resumed the meeting.

2. Post-Meeting Discussion

i. Approval of Minutes

Minutes of the February 8, 2013 ALS meeting

It was moved: (E. Byard/J. Barske)
That the minutes of the February 8, 2013 ALS meeting be approved. ……CARRIED

H. Hudek provided trustees with a handout that summarizes the decision making discussions that took place at the February 8th and prior ALS meetings, and the factors that have been discussed and will go into making the asset allocation decision.

The Board began their discussion with a review of Aon Hewett's recommendations.

It was suggested that a glide path of 75% growth to 40% growth (page 16 of the Aon Hewitt report), with no more than 25% in bonds may be optimal. It was noted that the allocation would not move until interest rates change and that this is a concern from a governance perspective. The rate of return declines with de-risking and the glide path would not move to 60% growth until the funded status was greater than 85% since it would still need to be at least at 85% after any reallocation move. It was also noted that the move from universe to long bonds was sensible and a trigger could be set up to move based on market or timing.

The issue of risk was discussed. The discount rate and the global economy were considered. The importance of selecting the appropriate manager to govern the long bond transition glide path was discussed and it was determined that this would be the ongoing responsibility of the DB Committee.

The discussion turned to potential input from the stakeholders. It was noted that if Board comes to consensus re position, input would be needed from the University's administration given the additional volatility of annual contribution levels. Input from other stakeholders will be sought if it is felt that it will add value.

It was noted that the glide path will be one way only. Allocation ranges will be provided to managers by the DB committee (target allocation). It was also noted that a revised SIP will also need to be adopted.

It was determined that as long as there was consensus re the intent of the motion, the precise wording for the motion will come from H. Hudek, and his background document, which will become a preamble to the recommendation. The final wording will be approved at the next meeting of the Board.

It was moved (H. Werner/R. Erb)

That the following motion be adopted by the Board.

Consensus re motion intent:

- move to 75% growth with a glide path to 40% growth depending on the funded status of the Plan: Canadian Equity 20%, Global Equity 35%, Emerging Markets 10%, Real Estate 10%, Infrastructure 0%, Long Bonds 0%, Universe Bonds 20%, High-yield Bonds 5%, Mortgages 0% (glide path as presented on page 16 of the February 8, 2013 Aon Hewitt document).
- 10-year glide path from universe to long bonds (as presented on page 24 of the Aon Hewitt document, except that the glide path is extended from 8 to 10 years).

…CARRIED
(all in favour, 0 opposed, 0 abstained)

Next Steps

- Motion will be communicated to Aon Hewitt by H. Hudek
- Aon Hewitt to proceed with next steps
- No further actions to be taken by Board until all decisions have been made (DB Committee).

ACTION ITEMS

H. Hudek to draft precise wording of motion and Board recommendation document (G. Gillis to review).

Meeting Adjourned

Chair

Secretary