Governance of the Western Pension Plans

Executive Summary

The governance of the Plans has evolved gradually over the years. Given the relatively unique structure of the Plans, historical experience, and the changing external environment, documentation of governance is warranted. An initial overview of the current situation suggests that the size and the defined contribution nature of the Plans imply that significant resources should be devoted toward their management. Also, seven key principles (choice, fairness, liquidity, well-informed decisions, responsiveness to member preferences, prudence and cost-effective administration) should be used to determine the basic structure and make informed decisions regarding the Plans.

This document outlines the mandate for the Investment functions and the Communications and Administration functions of the Joint Pension Board.

Overview of the Current Situation

The Joint Pension Board is made up of all members from the Academic Staff Pension Board and the Administrative Staff Pension Board. For efficiency, the Joint Pension Board meets frequently to discuss and set pension policies that concern both the Pension Plan for Academic Staff and the Pension Plan for Administrative Staff. The Academic Staff and Administrative Pension Boards are subcommittees of the Board of Governors of the University. The Pension Boards report to the Board of Governors annually and seek the approval of the Board of Governors for significant amendments to the Plans.

Each of the Academic and Administrative Staff Pension Boards consist of four elected members of the respective plans and three appointed representatives of the University. Elected members serve four-year terms. Board members receive no compensation, either financial or time release, for their effort.

The Board delegates tasks to internal staff in Human Resource Services and Financial Services ("Management"). Human Resources supports the onboarding of new members, services to employees on leave and at termination and retirement; leads the oversight of and liaison with Sun Life Assurance Company of Canada; and coordinates member communications. Financial Services leads the investments and funds oversight. The Board delegates to Sun Life Assurance Company of Canada for custodial services, recordkeeping services, and member communication and advisory services; and retains outside consultants for investment advice, design advice, as well as legal advice.

The Academic and Administrative Staff Pension Plans have combined assets of approximately $1.6 billion, one of the larger pension funds in Canada, which both demands and permits significant resources to be devoted to fund management.

Defined contribution plans allow Members to exercise choice over the way in which funds are invested and over the type of retirement income vehicle chosen. This flexibility implies that resources must be devoted to communication efforts that help Members make informed decisions, since Members assume the risks associated with these decisions.

Pension contributions are made by both Plan Members and the University (or affiliated participating employer), based upon percentages of pensionable earnings. Plan Members may allocate both the University's and their contributions among 14 fund alternatives: two Balanced Funds, a Diversified Bond Fund, a Diversified Equity Fund, a Money Market Fund, a Canadian Bond Fund, a Canadian Long-Term Bond Fund, a Canadian Equity Fund, two U.S. Equity Funds, a Non-North American Equity Fund, a Sustainable Global Equity Fund, an Islamic Global Equity Fund, and Guaranteed Daily Interest Accounts. In the event that new members have not chosen a specific allocation, contributions are allocated to the Balanced Growth Fund until direction is provided by the member in a prescribed format.

External managers have been hired to manage all Plan assets.

- The Balanced Funds are pre-established mixes of the Diversified Bond Segregated Fund and Diversified Equity Segregated Fund.
- The Money Market Segregated Fund is invested in short-term, high quality fixed income assets.
- The Guaranteed Daily Interest Accounts offer a small, but guaranteed positive return with interest credited daily. There are two Guaranteed Daily Interest Accounts offered by Sun Life Assurance Company of Canada and by Sun Life Financial Trust Inc. to maximize deposit protection. Investments are held as part of the general assets of the applicable Sun Life entity.
- The Diversified Bond Segregated Fund is invested primarily in high quality, fixed income assets of various maturity periods from Canadian and foreign issuers. The fund also has a 10% allocation to commercial mortgages.
- The Canadian Long-Term Bond Segregated Fund is invested in high quality, fixed income assets of maturity periods over 10 years from Canadian issuers.
- The Islamic Global Equity Segregated Fund provides diversified exposure to global equity markets while reflecting the principles of Islamic finance.
- The Sustainable Global Equity Segregated Fund offers a globally diversified portfolio actively managed to provide investors with a “double dividend” of enhanced portfolio returns while making a positive impact in areas that align with one or several of the UN Sustainable Development Goals.
- The Diversified Equity Segregated Fund includes a variety of asset classes including stocks of large and medium capital Canadian companies, U.S. equities, international equities, global equities, emerging markets equities, and real assets. The regional funds for the bonds and equities (Canadian, US, Non-North American) have the same investment mandate as the respective components of the Diversified Equity and Diversified Bond Segregated Funds.
- The Money Market and some of the bond and equity investments are actively managed. A portion of the U.S. equity investments are indexed to the S&P 500 index. A portion of the Diversified Bond Segregated Fund is indexed to the FTSE Canada Universe Bond index.

Rationale for Current Strategies

The Pension Boards are constantly seeking ways to improve returns on Members' investments. Changes reflect the beliefs and principles of the Joint Pension Board and the view of the investment consultant. The rationale for any investment changes is captured in management’s recommendation to the board and meeting minutes

Being able to move in and out of investments quickly is an important feature for investment of the Plans, since Members may reallocate their accounts amongst the investment options available on any business day. For this reason, the degree of liquidity associated with an asset class is a principle for consideration in the future. However, research has demonstrated that less liquid investments can be a positive addition to defined contribution pension plans, as they can improve returns and reduce risk. Having the proper structure, for example by having less liquid assets below a certain threshold in a well-diversified portfolio, can lead to positive investment results without reducing liquidity of the plans.

A global approach has been adopted within the Diversified Equity Fund and in turn, the Balanced portfolios, to maximize the opportunity set for managers seeking bet-in-class companies. Investing in the broadest universe possible, across developed and emerging markets and the capitalization spectrum, and a 10% allocation to private real assets reduces downside risk and improves the expected risk-to-reward profile of a Member’s investment.

In the design of the investment options, a modular approach has been used where the managers and mandates of special regional funds are the same as the components of diversified funds and, in turn, the balanced funds. This design provides for Members that are active in their investment allocation decisions and a pre-set allocation for Members who are less active. This design also simplifies the administration and communication of the investment options.

The scope of alternative retirement vehicles has changed dramatically within the last 20 years.

Retiring and terminating members are no longer limited to purchasing an annuity, but can choose among Locked-In Retirement Accounts, and Life Income Funds. As the multiplicity of choices (and vendors of vehicles) has increased, so has the demand for help in making these choices. In 2015 Sun Life was selected by the University as Western's preferred provider for Retirement Income Funds which are offered under the Sun Life Retirement & Savings Plan for Western Retirees. The program is modelled from the familiar investment options available under the Western pension plans. Sun Life Retirement Consultants offer personalized support to Plan members as they are planning for retirement, and continue this support throughout retirement.

Continuity of internal administration is also important. The volunteer and temporary nature of the Pension Board membership can create some confusion about the nature and rationale for certain policies. There are inefficiencies created as new Pension Board members learn what has happened in the past. With a solid governance structure, these inefficiencies can be overcome as committee members develop an "expertise" in an area and then pass it on to new members. With specific principles defined, new board members will have a framework within which the operation of the plans can be reviewed.

Board members will normally request data and research for their decision making from outside suppliers via the Director, Investments.

Mission Statement

Our Mission is to provide members with the opportunity to accumulate adequate funds for retirement. We seek to provide sufficient choices but not onerous choices. We seek to provide services and options on a cost effective basis to accommodate members who are active in the management of their retirement savings and also for those members who look to the board for guidance. We will provide these services and options while following our principles.

Principles for Western Pension Plan Management
The design, governance, and operation of the Plans are bound by the seven principles described below. The purpose of specifying these principles is to define a broad framework within which the Plan design can be reviewed and specific operational decisions can be made. It is important to recognize, of course, that the principles themselves may at times conflict. For example, cost considerations may conflict with the goal of optimum choice. In such areas of conflict it will be particularly important for the Pension Board to exercise good judgements in making the appropriate trade-offs. Despite such difficulties, it is anticipated that the act of defining basic principles will be of great benefit in helping both present and future Pension Boards to review the overall design of the pension plans, to make specific operational decisions, and to assure continuity between present and future Pension Boards.

The Principles are:

1. **Offer members the broad and diversified CHOICE of both investment and retirement vehicles.** Flexibility and choice is very important because it allows individuals to adopt different decisions reflecting their degree of risk tolerance, the size and nature of their investment portfolio outside of the Plans, their age and family circumstances, their interest in adopting an active asset allocation strategy, and their varying need for payments from their portfolio.

2. **Maintain FAIRNESS among members in plan operations**. Within the constraint of administrative feasibility, the choice of one Member should not inequitably restrict or adversely affect the choice of another.

3. **Provide investment alternatives which possess high LIQUIDITY.** If Members are to be free to move monies from one fund to another, if the portfolios are to be easily rebalanced to their established mix these funds should be as liquid as possible.

4. **Assist members in making WELL—INFORMED DECISIONS about investment and retirement alternatives.** If choice is to be meaningful, Members must be provided clear and

comprehensive information about the Plan operation, fund performance and relevance of Plan options to individual circumstances.

5. **Solicit information about and be RESPONSIVE TO MEMBER PREFERENCES regarding the plan.** Communication is a two-way street. If there is to be an effective split of responsibilities between the Pension Board and Member decision-making, Members not only need to be informed about available options, they must also have ample opportunity to express their opinions and desires about how the Plan itself should be run.

6. **Use PRUDENCE in assessing and reviewing plan decisions and operations.** The fiduciary responsibility of the Pension Board, to use ordinary prudence when dealing with the property of another person, is always of critical importance. Due diligence must be exercised in monitoring and supervising all aspects of the administration of the pension plans, managing all anticipated capital market, operational, legal and reputational risks of the pension and retirement income fund programs.

7. **Assure COST EFFECTIVE ADMINISTRATION of plan operation.** Cost is always a consideration. Concerns about costs may limit the extent to which other principles may be applied to a decision.

Conflicts of Interest

A member of the Joint Pension Board who is a member of the plan may take part in discussions and vote on all matters relating to the pension plan, other than matters in which the member's interest is not the same or substantially the same as that of other members of the plan.

If a member has any direct or indirect interest, which is not the same or substantially the same as that of other members of the plan, in any matter, and that member is present at a meeting of the Pension Board at which time the matter is considered, the person shall, as soon as practical after the commencement of the meeting, disclose this interest and shall not take part in the discussion, unless invited by the Board, or vote on the matter.

Where the Board or Committee is of the opinion that a conflict of interest exists that has not been declared, the Board may declare, by resolution carried by two-thirds of the members present at the meeting, that a conflict of interest exists, and a member of the Board is thus found to be in conflict of interest shall, (a) refrain from taking part in any discussion or vote related to the matter, and (b) withdraw from the meeting when the matter is being discussed if requested to do so by a majority of members present at the meeting.

Western Management employees who are in a position of influence in their support to the Board are required to complete an annual compliance certificate that requires the member to, among other things, acknowledge that they must at all times avoid conflicts of interest and, if a conflict of interest does arise, address the conflict in accordance with the Board's Policy on Conflicts of Interest.

Joint Pension Board Structure

At its June 23, 2008, meeting, the Joint Pension Board voted to disband its subcommittee structure, which created the Investment Policy Committee and the Communications and Administration Committee. This structure was replaced with one periodic meeting of the full Joint Pension Board addressing topics formerly considered by these two committees with all board members having a vote on policy decisions for all issues.

The Terms of Reference for the Joint Pension Board for the items that are the responsibility of the Joint Pension Board are as follows:

Investment Functions

- Choice of pension plan funds available to members
- Decisions regarding asset mix within funds
- Decisions on internal versus external management
- Selection of managers and their mandates
- Selection of investment consultant(s) and their mandate
- Review and update of Statement of Investment Policy and Procedures
- Ensure Joint Pension Board members are knowledgeable regarding investment policy issues
- Participate in activities of PIAC (Pension Investment Association of Canada) and other relevant organizations
- Decisions regarding currency policy

Communications and Administration Functions

- Monitor the fiduciary soundness of all operational Plan activities
- Oversee the custodian and record keeper's performance including unit value calculations, member accounting and fund accounting
- Provide input on the assignment of internal resources to Human Resource Services
- Provide opportunities for new and current Board members to become better informed on a broad range of pension matters, including a one-day initiation session and an annual one-day retreat
- Oversee the management of cash in accordance with Board Policy
- Act as the link between Pension Boards and pension plan Members
- Provide input to PIAC/ACPM and regulatory bodies on proposed program designs and legislative constraints

Agendas for Meetings

- Agendas and relevant material for each board meeting should be distributed to members at least seven days ahead of each meeting to allow sufficient preparation time
- Notice of all pension board meetings are posted on the Board's web site
- Items for each agenda for each board meeting are based on the plans approved by the Joint Pension Board and amended as required
- When specific motions or decisions are to be made at a meeting, this is to be clearly specified on the agenda