

Please note this meeting is being recorded.

McGill University Pension Plan Annual Meeting of Plan Members

Wednesday, May 3, 2023



McGill



Welcome

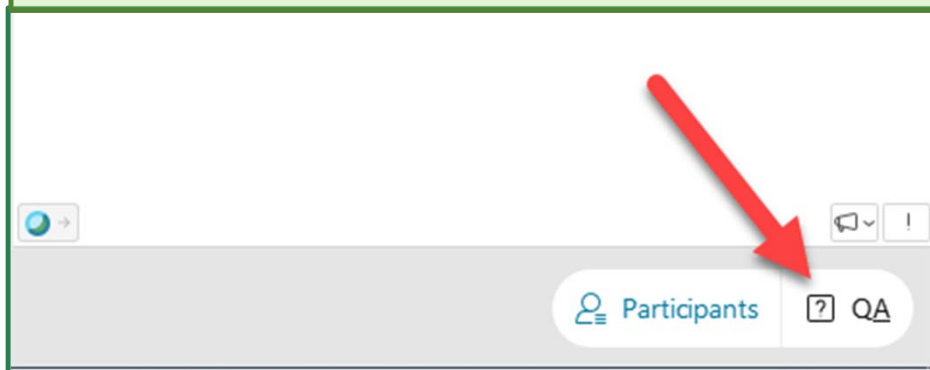
Professor Julia Scott

Chair

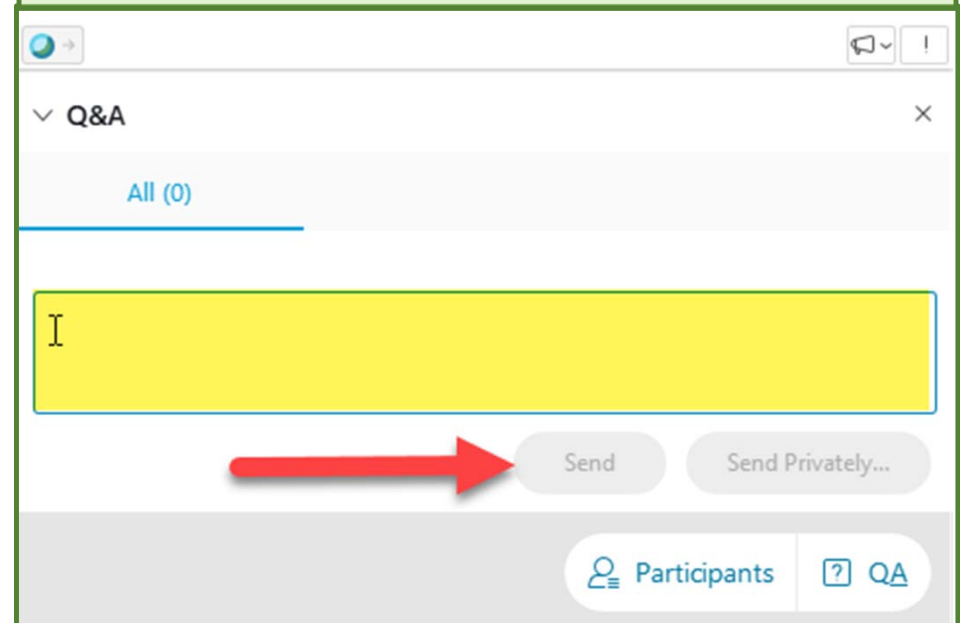
Pension Administration Committee

A QUESTION PERIOD WILL BE HELD AFTER EACH SECTION.
FOR MEMBERS ONLINE, PLEASE USE THE Q&A PANEL:

Turn on Q&A Panel by clicking the icon on the bottom right side of the Webex Event window



Type your question into the "Question Box" and click "Send". Do not use "Send Privately".
Any questions not answered during the session can be emailed to: pensions.hr@mcgill.ca.

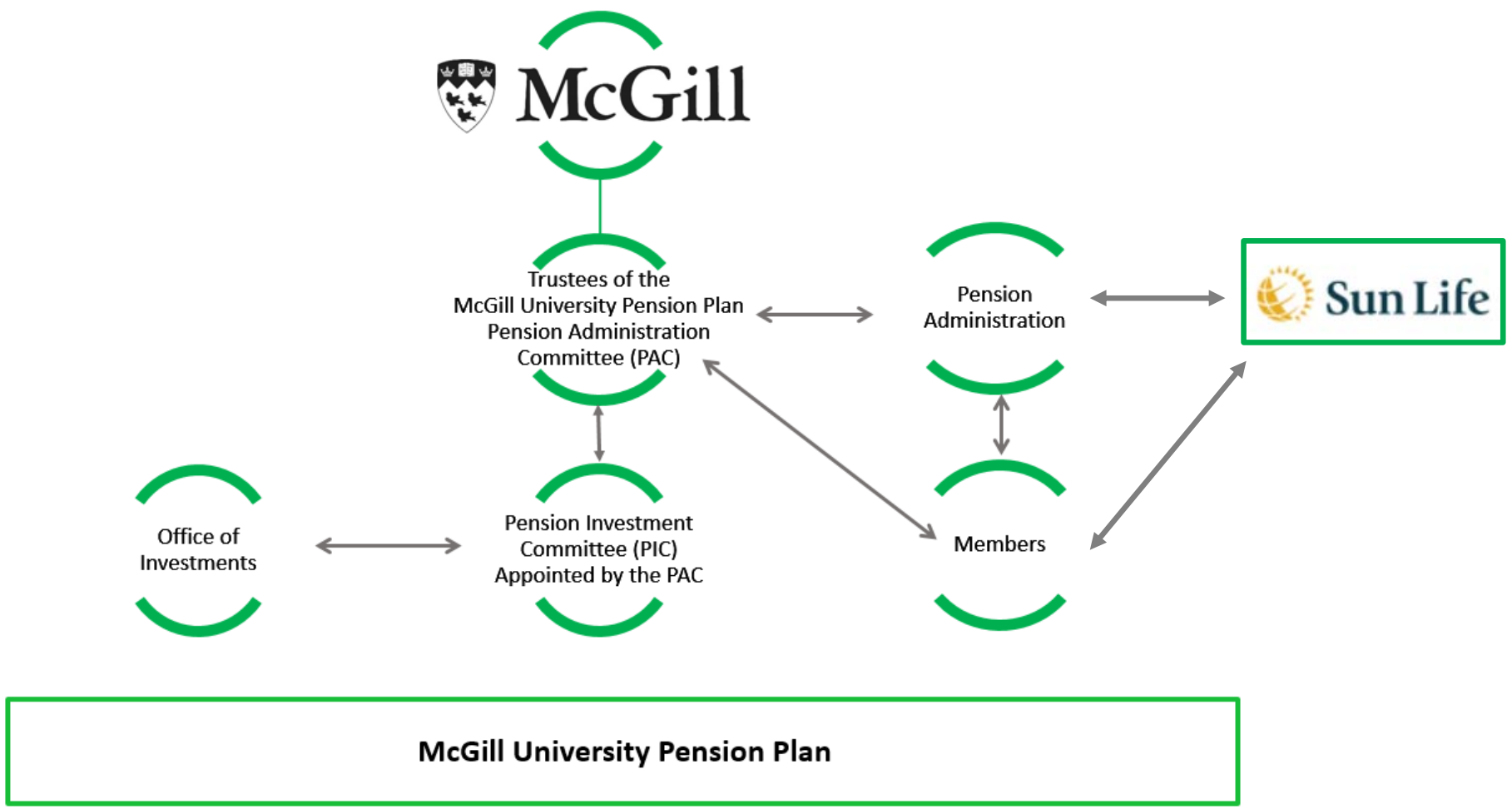


Agenda

- Pension Plan Structure
- Voting Procedures
- Election Results - Continuance
- Register of Conflicts of Interest
- No Plan Amendments in 2022
- Office of Investments 2022 Highlights – Ms. Sophie Leblanc
- Pension Administration Highlights 2022 – Mr. John D'Agata



Pension Plan Structure



Pension Plan Structure



Pension Plan Structure (continued)

Pension Administration

- Delegated responsibility for administrative functions
- Delivers plan communications & educational services to members
- Record keeping & transaction processing performed by Sun Life

Office of Investments

- Accountable to the PIC & the PAC
- Delegated responsibility for investment and financial functions
- Implements and monitors investment strategies
- Monitors investment managers
- Prepares annual financial statements

Pension Administration Committee



Ms. Diana Dutton, MBA
Associate Vice-Principal
Human Resources



Mr. Myles Edwards, CFA
Director and Senior Portfolio Manager-Fixed
Income
Intact Investment Management Inc.



Dror Etzion
Associate Professor, Strategy & Organization
Associate Member, Bieler School of
Environment



Ms. Tina Hobday
Lawyer, Partner
Langlois lawyers, LLP



Mr. Pierre Lavigne, FSA, FCIA, CFA
Pension Consultant



Ms. Lara Pereira, CPA, CBV
Controller, Financial Services



Julia Scott, MBA, FCPA, CFA
(Chair of the PAC)
Senior Faculty Lecturer (retired)



Ms. Nikoo Taghavi
Administrative Officer
Department of Chemistry



Ms. Cristiane Tinmouth, CPA
(Chair of the Audit Committee)
Associate Vice-Principal, Financial Services
Office of the Vice-Principal, Administration
and Finance

Pension Investment Committee

- Mr. Paul Stinis, Chair
- Mr. Nicolas Drapeau
- Mr. François Quinty
- Ms. Dominique Vézina
- Mr. Sylvain Gareau
- Mr. Myles Edwards (PAC)
- Mr. Pierre Lavigne (PAC)
- Professor Julia Scott (Chair, PAC)

Questions?

Voting Procedures & Election

Voting Procedures

Continuance

- One vote per member, following key issues:
 - i. Composition of the Committee
 - ii. Proportional Voting
 - iii. Voting Methods
 - iv. Proxy Mail Ballot

Election of members

- Vote is proportional to the value of plan holdings
- Elected positions – 3-year terms
- 2 members from Academic Staff
- 2 members from Admin & Support Staff

Election Results

FOR Continuance = 675 votes

AGAINST Continuance = 74 votes

Questions?

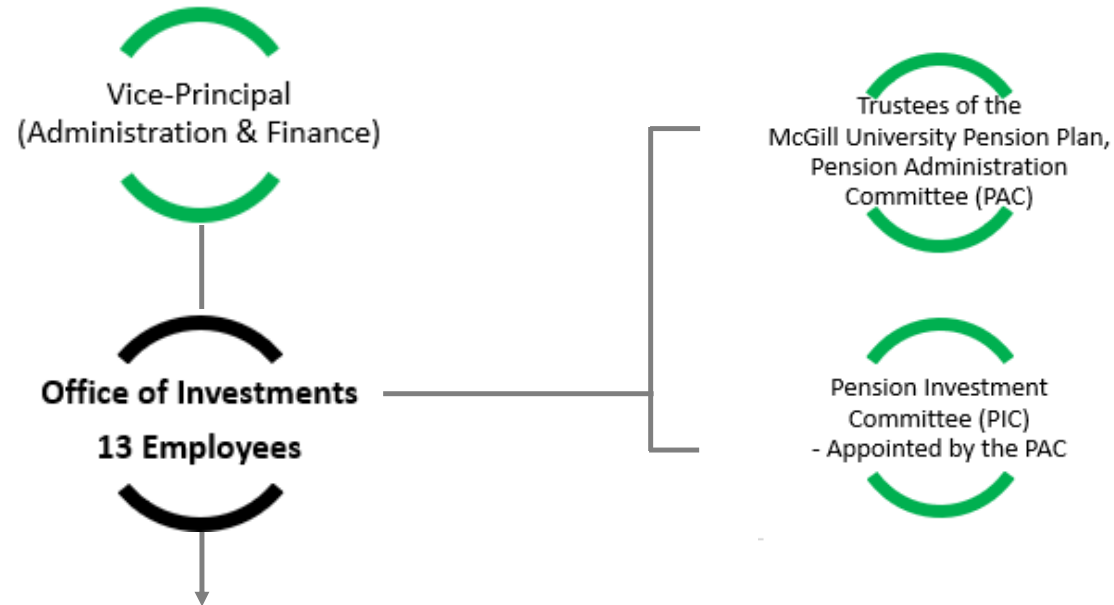
Register of Conflicts of Interest

Questions?

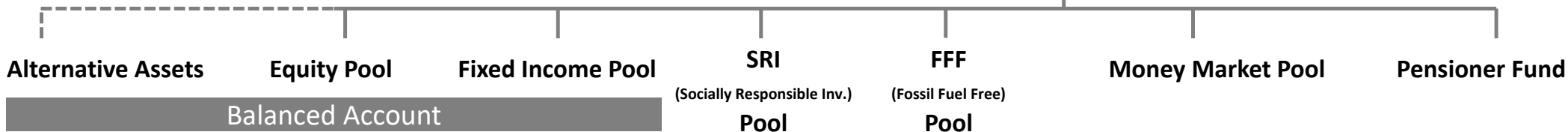
Office of Investments – 2022 Highlights

Ms. Sophie Leblanc, CFA, M.Sc.
Chief Investment Officer (CIO) & Treasurer

Pension Plan Structure



Setting strategy, recommending investment proposals, managing investment management relationships and optimizing the asset allocation of the **McGill University Pension Plan (MUPP)**



Pension Plan Structure (Continued) – Invested Funds and Mandates as at Dec. 31, 2022

Alternative Assets

- 18 Private Investments Funds
- 3 Diversifying Asset Funds
- 6 Real Estate Funds
- 6 Infrastructure Funds
- 1 Listed Real Assets Fund

Equity Pool

- 10 Equity Mandates:
 - International & Emerging Markets Equities
 - Canadian Equities
 - US Equities

Fixed Income Pool

- 6 Fixed Income Mandates:
 - Emerging Markets Bonds
 - Corporate Bonds
 - Government Bonds

SRI Pool

- 1 Balanced Mandate:
 - Global Equities
 - Canadian Equities
 - Canadian Bonds

FFF Pool

- 1 Balanced Mandate:
 - Global Equities
 - Canadian Bonds

Money Market Pool

- 2 Short-term Funds

Pensioner Fund

- 1 Global Equity Mandate
- 2 Bond Mandates

Investment Summary (Dec. 31, 2022)

Members: 10,358 (Members may choose more than one investment option)

	Members Participating	Assets (\$M)
Balanced Account	8,324	1,346.3
Equity Pool	1,964	153.0
Fixed Income Pool	1,387	51.6
SRI Pool	975	61.1
FFF Pool	30	2.6
Money Market Pool	919	26.8
Target Date *	469	38.1

Balanced Account is the default option and the most popular one

* Includes allocations to the Equity Pool, Alternative Assets and Fixed Income Pool. The proportions of such allocations will change automatically over time in a pre-determined manner based on the target retirement date of Plan member selected risk profile.

2022 Market Overview: A Challenging Year for Investors

Equity – Tumultuous & Volatile Year

Equity markets experienced sharp declines in 2022 in the context of geopolitical conflict and high inflationary environment

MSCI World (Net) – 2022



Fixed Income – Impacted by Rate Increases

High levels of inflation not seen since the 1980s pushed interest rates to a high level which negatively impacted bonds' performance

10-Year Government of Canada Bond Yields – 2022



Canada's central bank in 2022:
8 consecutive rate increases
 (from 0.25% to 4.50%)

MSCI World (Net)

S&P 500 TR

S&P/TSX Composite

Canadian Bond Market (FTSE Universe)

2022 Performance:

-18.1%

-18.1%

-5.8%

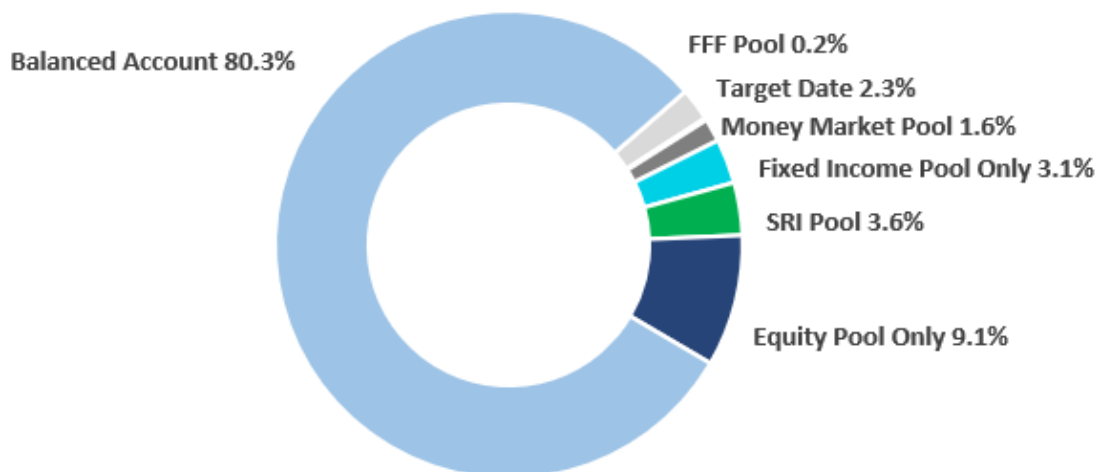
-11.7%

MUPP Asset Allocation (Dec. 31, 2022)

Accumulation Fund

(Assets of active & inactive members)

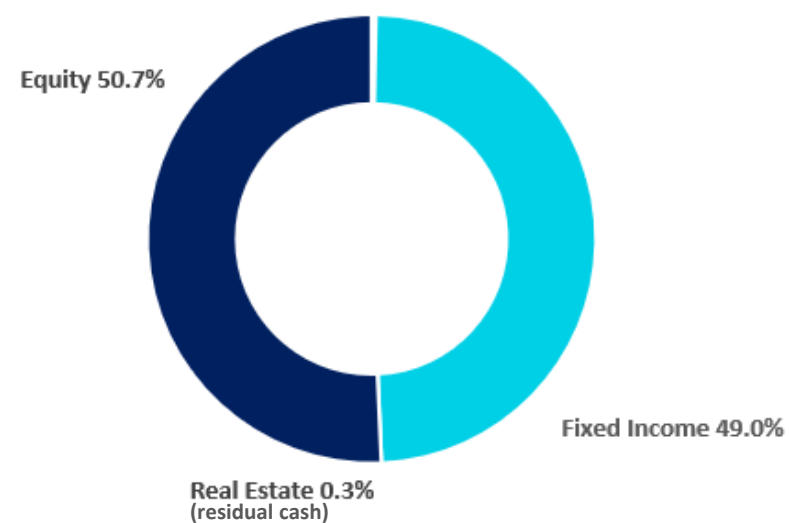
\$1.7B



Pensioner Fund

(Members receiving internal annuities)

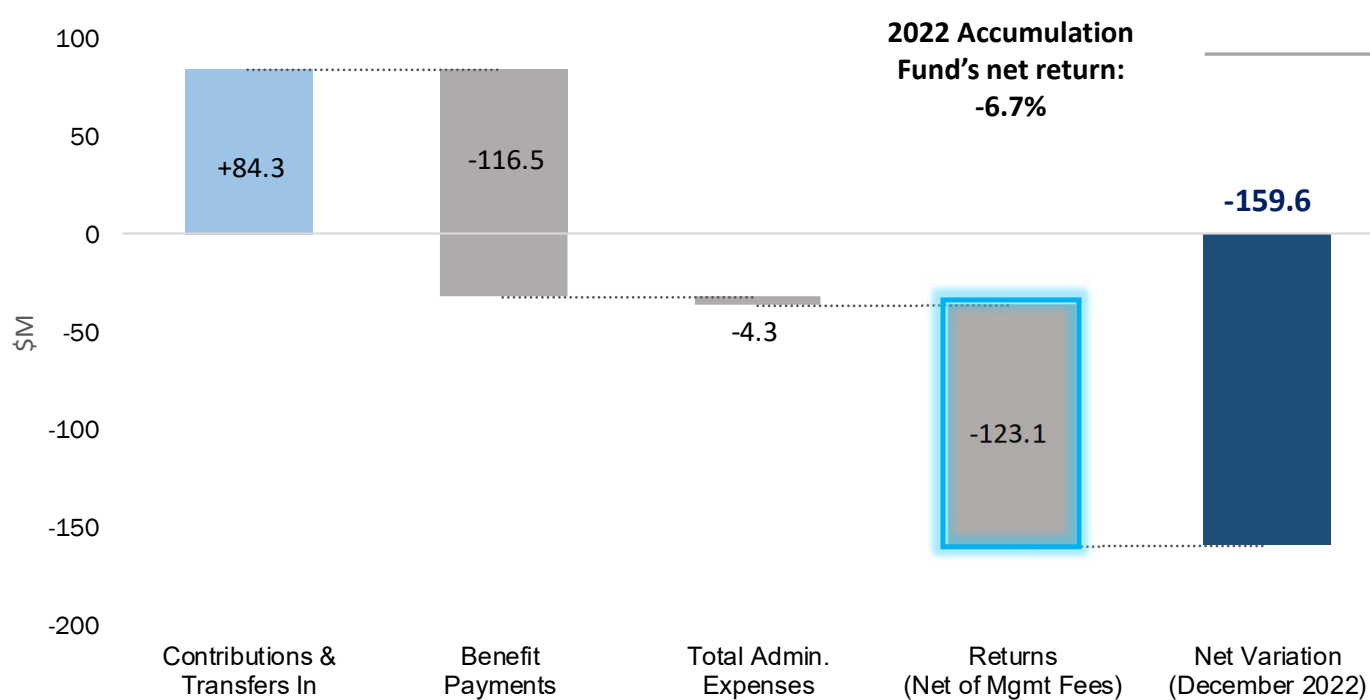
\$73M



*Rounding differences may arise

Accumulation Fund: \$1.7B (Dec. 31, 2022)

In 2022, the assets under management **decreased by \$159.6M** as follows:



Challenging year as both Equity and Fixed Income generated negative returns

2022 MUPP Portfolio Summary – Gross Performance

Balanced Account **-4.2%** vs Benchmark: **-6.7%**

- Strong value added resulting from the Equity and Fixed Income Pools sub-asset classes diversification
- Balanced Account losses were greatly reduced due to its allocation to Alternative Assets (net return of 6.5%)

Equity Pool **-9.6%** vs Benchmark: **-10.9%**

- Dividend growth bias helped the Pool beat its benchmark while managers with a growth or quality bias was a drag

Fixed Income Pool **-8.8%** vs Benchmark: **-11.7%**

- Although 2022 was a difficult year for Fixed Income, the sub-asset class diversification and the low duration positioning YTD helped generate strong alpha vs the benchmark

SRI Pool **-13.3%** vs Benchmark: **-10.6%**

- Impacted by a quality and growth bias, a low allocation to energy and material sectors as well as the absence of alternative investments

Money Market Pool **1.8%** vs Benchmark: **1.7%**

- The Pool benefited from the Bank of Canada interest rate policy which resulted in eight consecutive interest rate hikes

Pensioner Fund **-12.0%** vs Benchmark: **-11.9%**

- Impacted by its 50% Equity / 50% Fixed Income target allocation

Notes of FFF Pool:

- Initial funding in May 2022; Pool has grown to \$2.6M
- Returned -1.0% from May 1st to Dec. 31st (benchmark: -2.0%)

2022 Markets Followed a Strong 2021

In 2021, most equity markets reached their all-time highs and the **Balanced Account** posted a strong **12.4%** and outperformed its benchmark by 2.5%.

In 2022, while the markets (EQUITY & BONDS) were dramatically down, the **Balanced Account** achieved a decent performance of **-4.2% and** once again outperformed its benchmark by 2.5%.

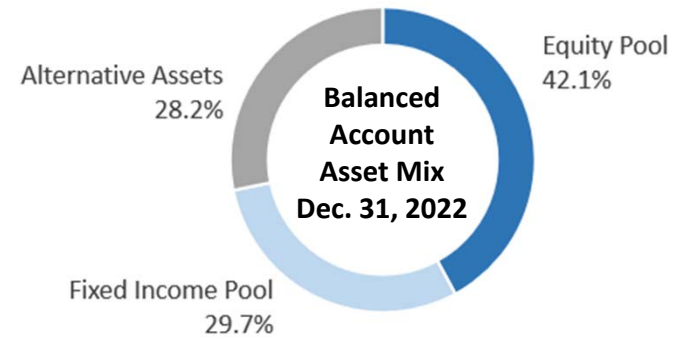
 This demonstrates **portfolio construction for the Balanced Account is well-designed !**

Keys to success:

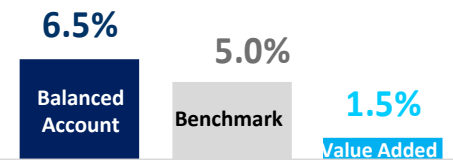
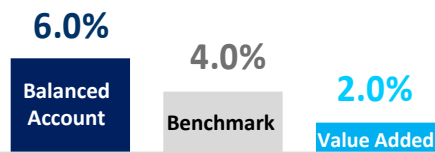
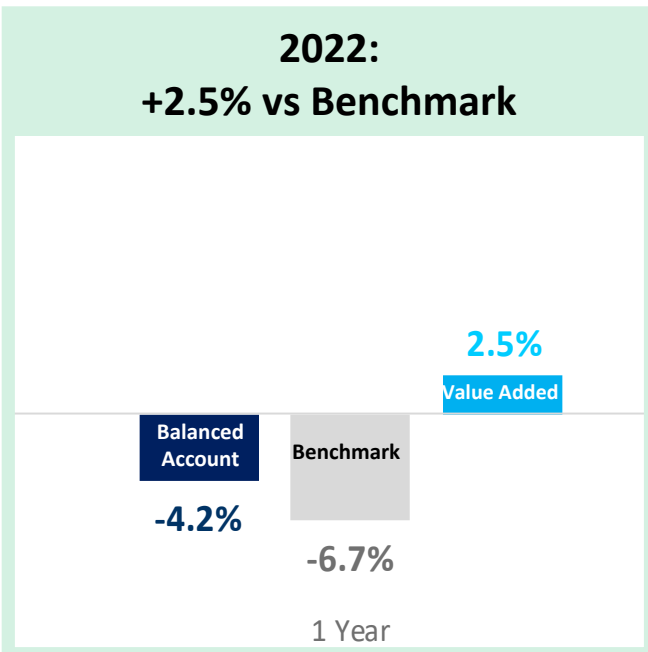
- Strong portfolio construction – balance risk and returns
- Navigate all market environments by carefully selecting and allocating to investment opportunities as they arise
- Ensuring a high level of portfolio diversification
- Keep portfolios invested
- Avoid undue risk at the asset class, sector, country and company level

Balanced Account - Strong Relative Performances

McGill's Balanced Account ranked in top quartile compared to LifeWorks and BNY Universes



**2022:
+2.5% vs Benchmark**



3 Years (Ann.)

5 Years (Ann.)

2022 Strategy Review & Investment Decisions

Main conclusions/investment decisions resulting from the MUPP 2022 Investment Strategy Review:

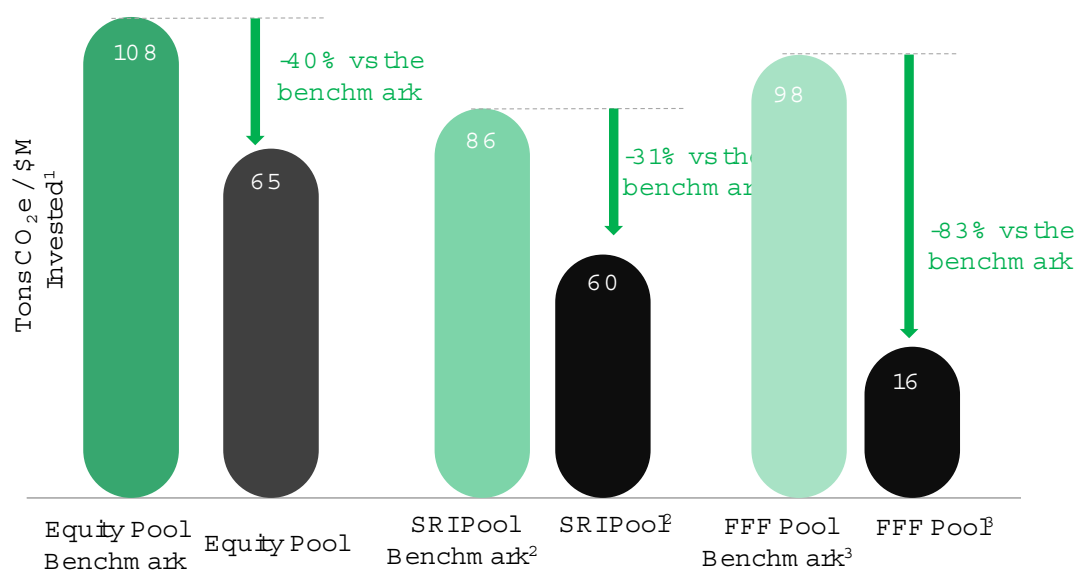
1. **Increase of 5% (from 30% to 35%) in Fixed Income** while Equity allocation decreased by 5% (45% to 40%)
 - Reduce risk and reach the Balanced Account return objective
 - Effective January 1, 2023
2. Approval of a tactical increase in High Yield bonds (based on certain guidelines)
3. Review of the Equity regional and market capitalization mixes
4. Led to area of research in the Alternative Asset class

New investment approved in 2022:

Fund:	Strategy:	Investment Commitment:
Alternative Assets	Private Equity Impact Investment Fund	USD 20M
Alternative Assets	Private Equity Fund	USD 15M
Alternative Assets	Infrastructure Fund	USD 15M

Environmental, Social and Governance (ESG) Actions

1 Carbon Footprint for 2022 – First assessment for FFF Pool



¹ Scope 1 & 2 emissions

² Listed equities only (62% of the SRI Pool)

³ Listed equities only (60% of the FFF Pool)

Data: December 31, 2022

Source: MSCI ESG

2 \$83M in Impact Investment

Includes the **USD \$20M** commitment in a Private Equity Impact Fund that addresses challenges related to:

- Climate change
- Education
- Financial inclusion
- Good health



Pictures: Stonepeak, Pexels

ESG Actions (continued)

3 ESG Due Diligence

The Plan collaborated with SHARE* and 11 Canadian peer universities to develop an ESG Due Diligence questionnaire:

- Questionnaire rolled out in Q1 2023
- **99%** of the Plan's assets invested with managers that have an ESG policy

5 Engagement

SHARE conducted **125** engagements on the Plan's behalf with **59** different companies and tracked positive outcomes on the following topics:

- Decarbonization
- Climate strategy
- Just transition

4 ESG Best Practices

Office of Investments dedicated **90 hours** to enhance ESG and Responsible Investment knowledge by:

- Completing relevant training
- Participating at various conferences
- Exchanging ideas with like-minded investors

6 Proxy Voting Audit

The Plan conducted with SHARE its first assessment of the proxy voting practices of the Plan's investment managers to:

- Analyze the level of support of ESG shareholders proposal
- Engage with investment managers to understand and improve voting records



*The Plan is a member of the University Network for Investor Engagement (UNIE) through the Shareholder Association for Research and Education (SHARE) – An award-winning non-profit organization dedicated to mobilizing investor leadership for a

Risk Management

1) The financial position of the Plan could be deeply impacted by the Min. DB component:

McGill University is at risk

If Interest rates decrease :

Min. DB protection of Part A members would ↑

MUPP Deficit would ↑

McGill's contribution to amortize the deficit would ↑

Part A Plan members are at risk

If Interest rates decrease :

MUPP Deficit would ↑

Part A members' cost-sharing contribution rate ↑

➔ **Mitigation strategy:** At a given level of interest rates, the Plan will buy protection to partially mitigate the Plan's interest rate risk

2) The Pensioner Fund was in deep actuarial deficit with impossibility to recover due to its short-time horizon

➔ **Mitigation strategy:** De-risking strategy was successfully implemented through the purchase of a group annuity buy-in contract on March 31, 2023

- Elimination of the equity, interest rate and longevity risk of the Pensioner Fund
- **Transparent for Pensioner Fund members** as McGill continue to pay annuities and is reimbursed by the insurer
- Premium paid (\$137.2M) = Pensioner Fund's actuarial liabilities
- **Outstanding results: No extra costs and at a rate far above annuity market rates**

2022 Compliance

- Regulatory Requirements
- Statement of Investment Policy & Investment manager Guidelines
- PAC, PIC and Office of Investments staff's compliance with the Terms of Reference



WE ARE NOT DONE WITH FINANCIAL MARKETS VOLATILITY - Focus for 2023:

- Manage Pension Plan risks accentuated by continued central banks actions, geopolitical tensions and regulatory reform policies
 - Diversification is critical as we navigate through turbulent times
 - We will remain prudent given below trend growth and recession risk
- Identify market opportunities and investment strategies to optimize risk-return trade-offs
- Enhance the action plan related to Socially Responsible Investing
 - Develop a Socially Responsible Investment Policy
 - Monitor and challenge managers for their ESG factor integration strategy
 - Continue to identify sustainable and green business opportunities
 - Monitor and report on responsible investment issues & achievements

Questions?

Pension Administration Highlights 2022

John D'Agata

Director, HR - Pensions & Benefits

Annual Notice on the Financial Position

Solvency	Dec 31, 2021	Dec 31, 2020
Market Value of Assets	\$1,941,297,000	\$1,770,325,000
Solvency Liabilities	<u>\$2,030,830,000</u>	<u>\$2,012,821,000</u>
Solvency Excess (Deficit)	(\$89,533,000)	(\$242,496,000)
Degree of solvency	75.7%	52.8%

Degree of Solvency: calculated on solvency assets and liabilities of the defined benefit segment only.

The next valuation will be triggered as of December 31, 2022 and filed with the regulatory authorities by September 30, 2023.

Pensioner Fund Composition as at Dec. 31, 2022

	Pensioners Pre-2000 (previously Old Pool)	Pensioners 2000 - 2010 (previously New Pool)	Pensioners SRB Pension
Members	396	409	4
Avg Age	89 years	80 years	66 years
Deaths	45 members	7 members	N/A

Annuity Dividends - Pensioner Fund

- Annuity dividends for the Pre-2000 Pensioners (Old Pool) and 2000 to 2010 Pensioners (New Pool) can only resume when surpluses exist in the Pensioner Fund.

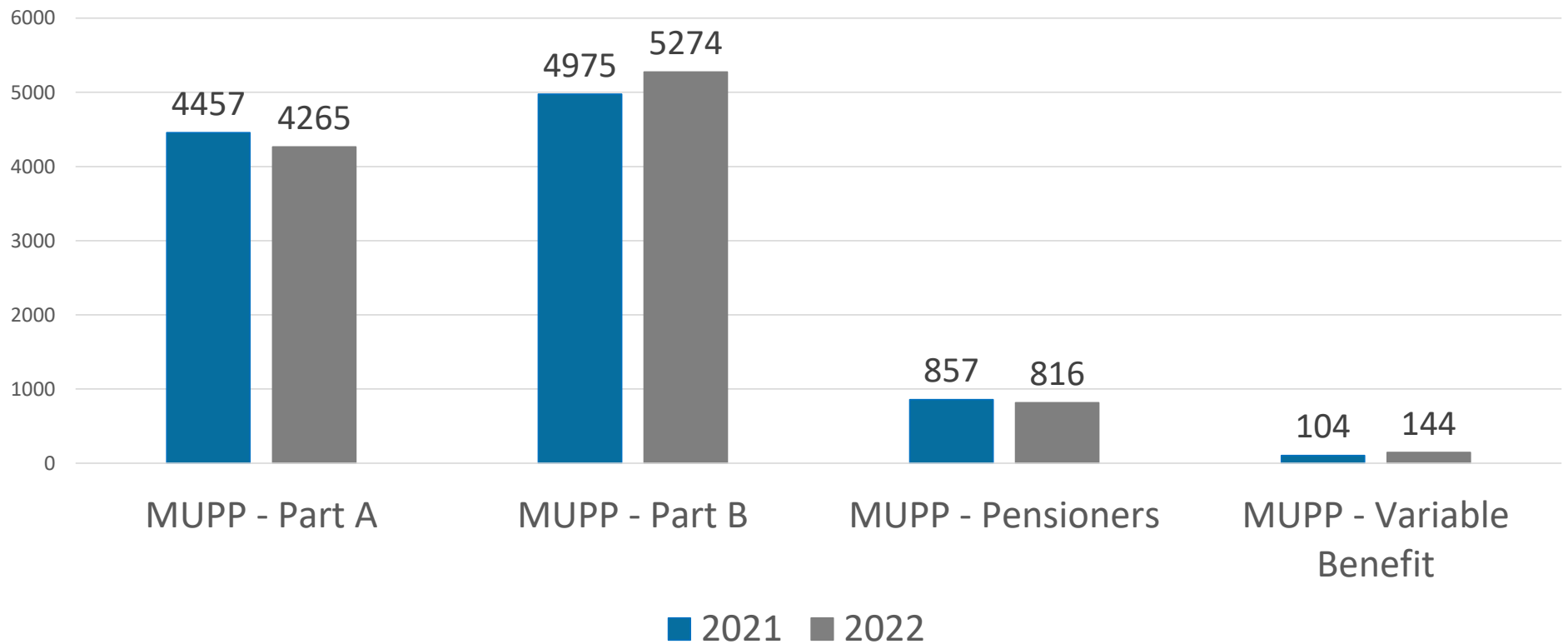
Information Sessions

- Resumed online in November 2022
- Available Sessions:
 - General Information – Part B Members
 - NEW! Part A (Hybrid) Defined Benefit Minimum
 - Retirement Information Session
 - Settlement Options Information Session
 - Decumulation Session
- More sessions coming soon! Refer to:
<https://www.mcgill.ca/hr/pensions/mupp/sessions>.

Video Capsules

- Via McGill's YouTube channel, these short capsules seek to provide members with quick & easy access to information on the Pension Plan.
- Available Capsules:
 - General Information – Part A (Hybrid) & Part B (Defined Contribution)
 - How Cost-Sharing Works – Part A (Hybrid)
 - Retirement Information Session:
 - Planning for retirement
 - Retirement & the McGill University Pension Plan

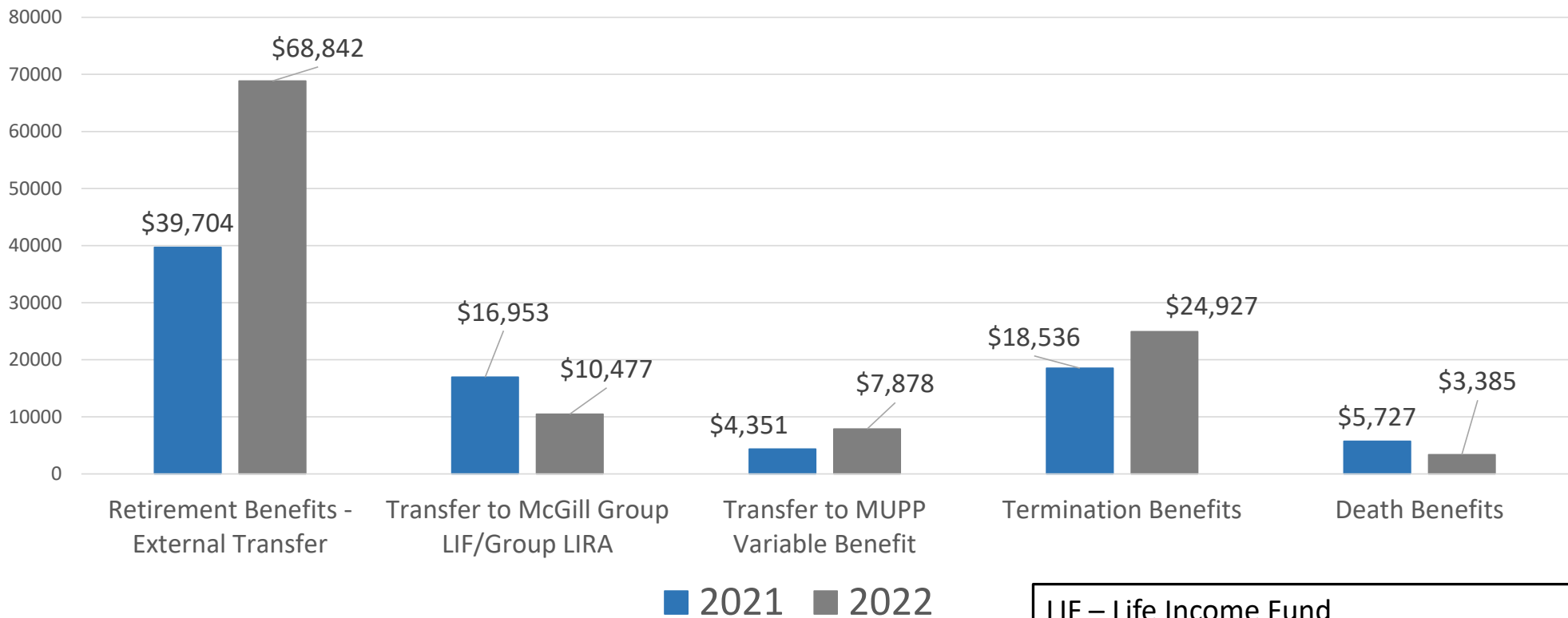
Membership – MUPP



For MUPP – includes members with multiple accounts.
For VB – includes locked and non-locked holdings.

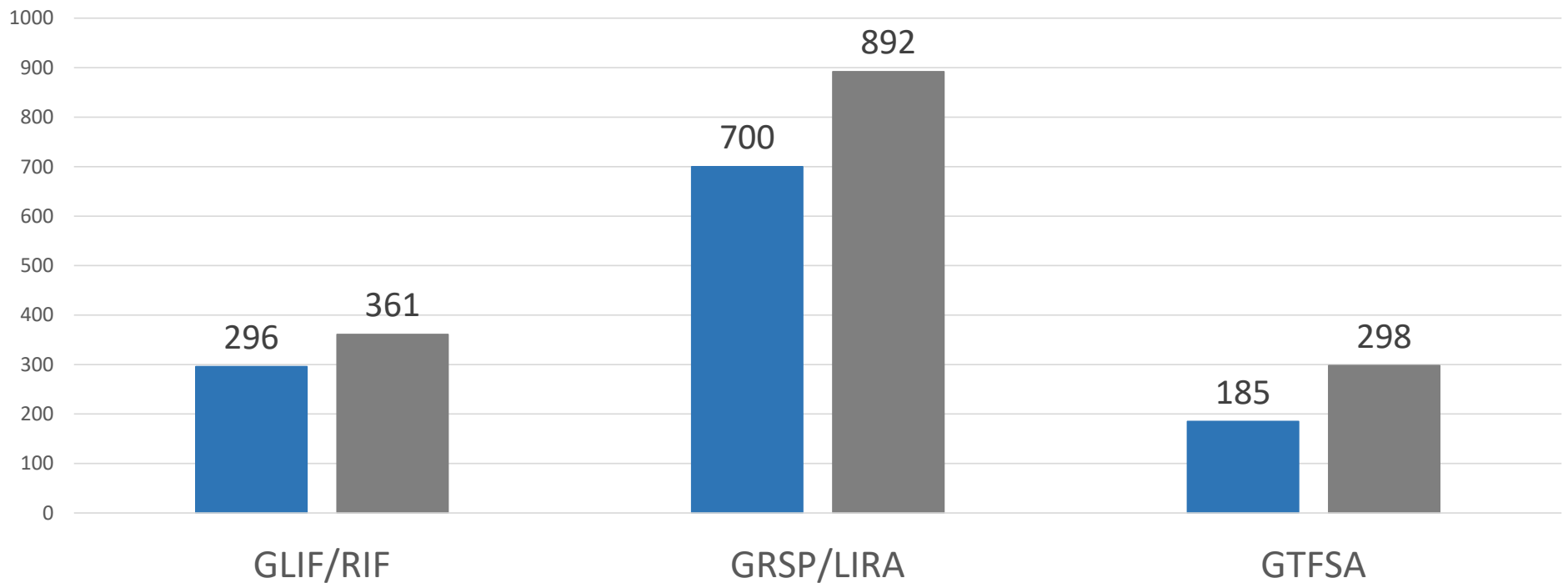
www.mcgill.ca/hr/pensions/mupp

2022 Settlements (in 000s)



LIF – Life Income Fund
LIRA – Locked-In Retirement Account

Membership – Voluntary Savings Plans



GLIF – Group Life Income Fund
GRIF – Group Retirement Income Fund
GRSP – Group Retirement Savings Plan
LIRA – Locked-In Retirement Account

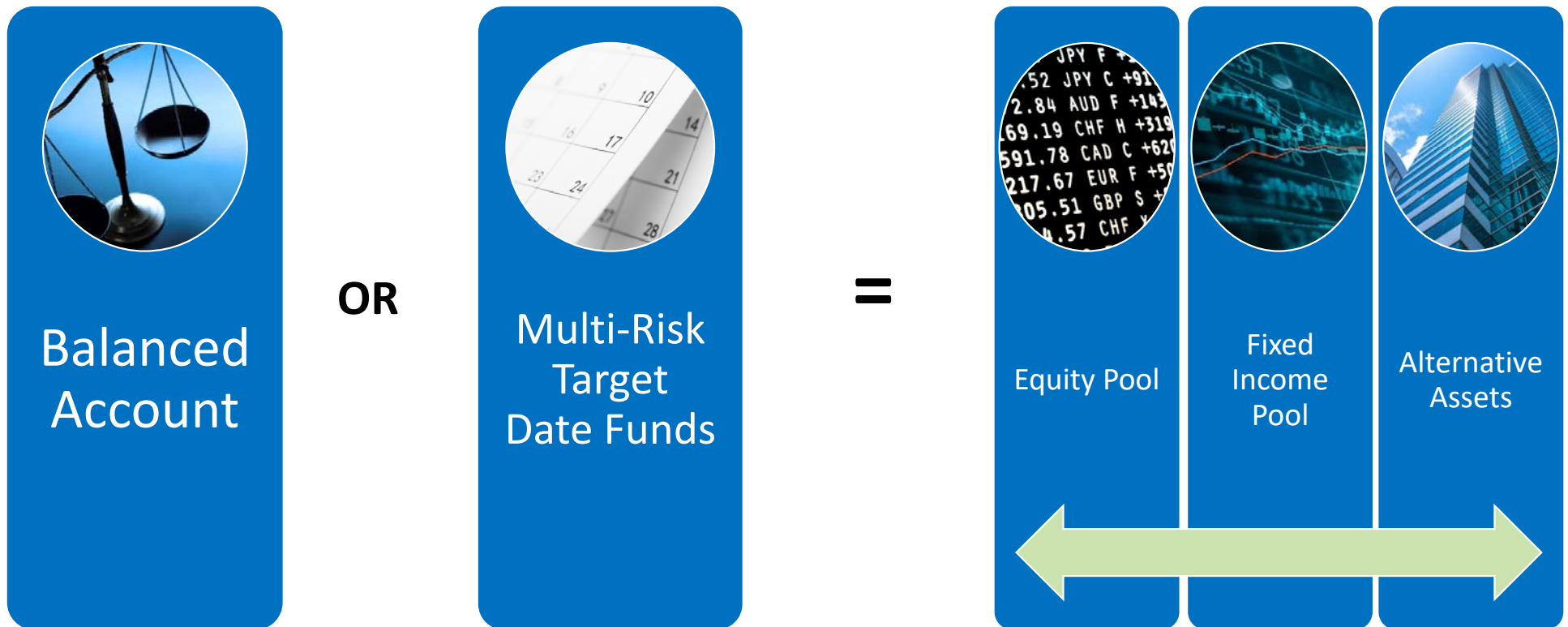
■ 2021 ■ 2022

www.mcgill.ca/hr/pensions/vsp

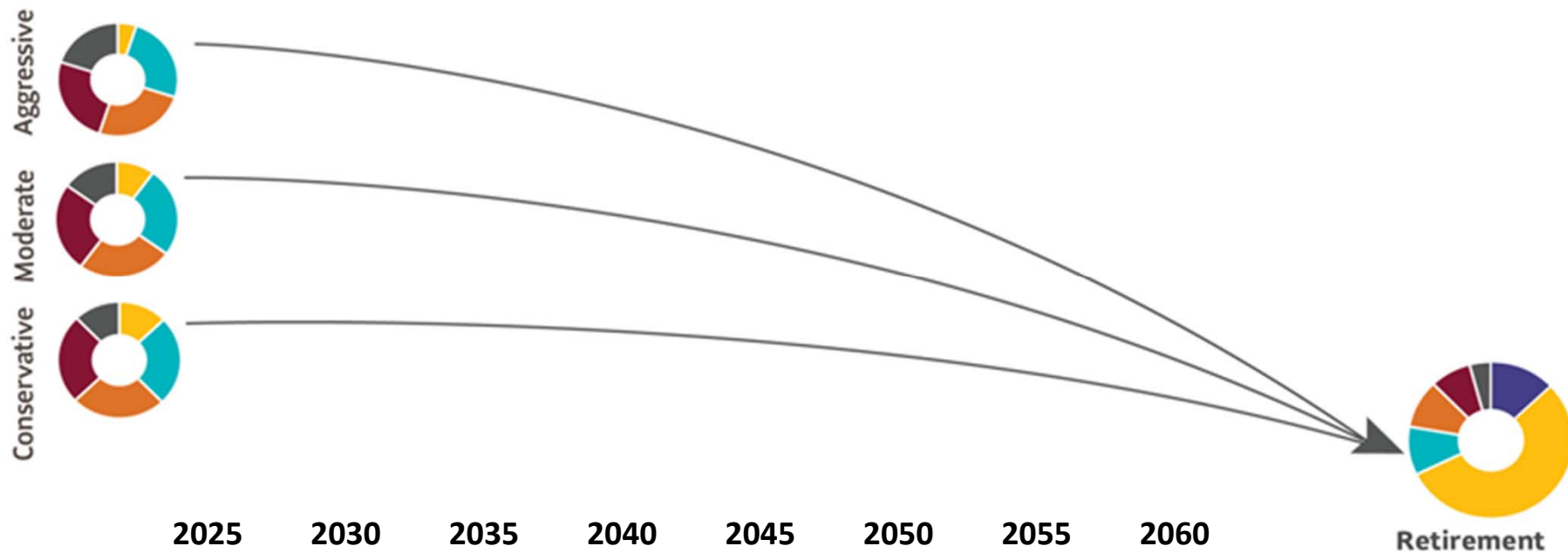
Multi-Risk Target-Date Funds & Variable Benefits Option (VB)



Balanced Account & Multi-Risk Target Date Funds



McGill University Pension Plan: Multi-Risk Target Date Funds



Refer to the Morningstar Investment profile Sheets for current asset allocation and past returns on: mysunlife.ca > [my financial centre](#) > [Accounts](#) > [Investment performance](#)

The Variable Benefits Option

- Continued membership in the McGill University Pension Plan throughout retirement – no need to transfer out your holdings
- Allows retired members to receive a monthly (quarterly or annual) payout directly from the McGill University Pension Plan (MUPP)

The McGill Variable Benefits Option

- Members retain access to:
 - The investment lineup of the MUPP
 - Cost efficient pricing structure – economies of scale
 - Expert investment management by professionals
 - Continued oversight by the Pension Administration Committee, Pension Investment Committee, the Office of Investments and Pension Administration

Who is eligible for Variable Benefits?

- Retired & terminated participants who are 55 years or over;
- Active employees who attain age 71 and must convert their holdings into a retirement income prior to year-end
- If no election made, default option

What happens upon death?

- Treatment is same as Life Income Fund
- Priority rights – surviving spouse unless rights have been waived
- Balances are no longer locked-in
- Surviving spouse has the option to:
 - ✓ cash out
 - ✓ continue income stream
 - ✓ transfer funds to Registered Retirement Savings Plan
 - ✓ transfer funds to Registered Retirement Income Fund
 - ✓ purchase an annuity

What happens upon death if no spouse?

- The annuitant member is deemed to receive an amount equal to the fair market value of all the property held immediately before death
- All amounts received during the year are reported on the annuitant's final income tax return
- Designated beneficiary can receive balance

McGill's Group Life Income Fund or Variable Benefits?

	McGill Group Life Income Fund	McGill Variable Benefits
Governance	Sun Life - Trustee	Pension Administration Committee - Trustee
Investments	<ul style="list-style-type: none"> Investment options selected by the Office of Investments from Sun Life list Cost efficient and high value (0.20 to 0.36 of 1%) 	<ul style="list-style-type: none"> Investment options are those available under the McGill University Pension Plan Cost efficient and high value (0.18 to 1.12 of 1%)
Payments (withdrawal frequency)	Monthly, quarterly, annually	Monthly, quarterly, annually
Investment Advice	Sun Life Retirement Consultant	
Withholding taxes	No obligation to withhold on minimum withdrawals	Withholding taxes apply on all withdrawals
Withdrawal Requirements	Subject to annual min/max withdrawals	Not subject to minimum withdrawals prior to age 72
Portability	Transfer to Life Income Fund or Annuity	Transfer to Life Income Fund or Annuity

Hybrid Part A: Why is the value of the supplement changing so much over time?

Factors Influencing Supplemental Values

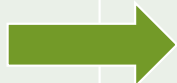

- Mortality assumptions
- Age
- Gender
- Relative performance of the Balanced Account
- Discount rates (published by the Canadian Institute of Actuaries)

DB Supplement – Impact of Market Performance

At age 60	Assume Constant Discount Rate + Market Decline	
	2021	2022
Interest rates used to calculate the DB minimum value	2.3% for the first 10 years & 3.4% thereafter	2.3% for the first 10 years & 3.4% thereafter
DB minimum pension	\$21,000	\$21,000
Transfer value of the DB min pension	\$375,000	\$375,000
DC – Balanced Account	\$325,000	\$312,000
SRBV	\$50,000	\$63,000

DB = defined benefit
 DC = defined contribution
 SRBV = Supplemental Retirement Benefit Value

DB Supplement - Impact of Discount Rates Over Time

At age 60	Impact of Discount Rate for different year ends		
	2020	2021	2022
Interest rates used to calculate the DB minimum value	1.4% for the first 10 years & 2.9% thereafter	2.3% for the first 10 years & 3.4% thereafter	4.1% for the first 10 years & 4.5% thereafter
DB minimum pension	\$21,000	\$21,000	\$21,000
Transfer value of the DB min pension	\$402,000 	\$375,000 	\$325,700
DC – Balanced Account	\$325,000	\$325,000	\$325,000
SRBV	\$77,000	\$50,000	\$700

DB = defined benefit

DC = defined contribution

SRBV = Supplemental Retirement Benefit Value

Questions?