TEACHERS' PENSION PLAN ONTARIO

# PENSION WISE

A NEWSLETTER FOR ONTARIO TEACHERS

WINTER 2012

## RESPONSIBLE INVESTING: Managing risks and returns for you

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# RESPONSIBLE INVESTING

## Our singular focus is on long–term pension security

Teachers' primary investment responsibility is to act in the best financial interests of the fund. We make our investment decisions much like the rest of the world's financial community does: mainly on the basis of anticipated revenues and expenses, and the degree of uncertainty or risk around those expectations. If a company's financial prospects are positive and reflect the level of risk, we generally expect it to provide good returns.

### Additional considerations

But other risks—environmental, social and governance-related—are becoming increasingly important in the investment decision:

- Does a company have sound safety practices?
- Is it managing its environmental impacts?
- Are stakeholders represented, and are decision-makers accountable for their actions?

These considerations can affect financial performance, and are part and parcel of responsible investing.

"Responsible investing tries to integrate an analysis of environmental, social and governance (ESG) risks into the more traditional financial analysis of investment opportunities," explains Jim Leech, Teachers' President and CEO. "Ultimately we are seeking the best risk-adjusted returns we can deliver to our members."

Our investment professionals ensure that the plan's funds are prudently invested and managed to help support long-term pension security. This singular focus insulates us from inappropriate or undue bias from not only investment staff, but also plan sponsors and other parties.

### Accounting for risks

Before investing a single dollar, our investment teams assess a full spectrum of risks and potential returns. That includes ESG risks, as well as the associated opportunities. We act on emerging threats and opportunities, and advocate for good governance to protect the interests of the pension plan once we make an investment.

Even so, non-financial criteria are not used as screens to exclude or include certain investments. Teachers' makes the best choices based on anticipated risk-adjusted performance. For example, while certain industries such as mining or oil can impact the environment, some companies are better at managing those environmental risks than others. To the extent that these companies' best practices may be expected to earn better financial returns, they become good candidates for investment.

### Continually monitoring the market

Teachers' manages a wide range of assets: public and private equities, bonds, commodities, real estate, infrastructure and timberland. Many of these are held for the long term. We continually monitor our holdings against emerging threats and opportunities to reassess risks and returns, and to determine when to sell and seek another opportunity.

We have always taken a responsible approach to investing on your behalf and we continue to adjust our practices as the concept of responsibility and its definition evolves.

### Seeking best practices

While responsible investing can be a complex process, our bottom line is always the same: we do what's best for your financial security. "Ultimately we are looking for best practices," adds Jim. "What we've found generally is that companies that have good environmental, social and governance practices perform well financially and make good investments for Ontario's teachers."

Teachers' has a number of initiatives in place to align ourselves with best practices:

- recently signed the United Nations-backed Principles for Responsible Investment (see sidebar);
- signed the Carbon Disclosure Project (and its Water Disclosure initiative), which reports environmental and climate risk performance data from 3,000 of the world's largest companies; and
- use research providers such as Sustainalytics and MSCI ESG research to access data that enables a comprehensive analysis of ESG risks and opportunities.

As a responsible investor, we actively use our ownership positions to promote good governance and advance corporate practices that enhance shareholder value—and thereby, pension security—over the long term. This includes exercising voting rights according to our proxy voting guidelines, and making public our votes and governance commentaries.

Our voting guidelines cover such governance matters as the composition and election of boards of directors, compensation of directors and executives, takeover protection and shareholder rights. We are also actively involved with international governance-minded organizations and are a founding member of the Canadian Coalition for Good Governance.

## Principles for Responsible Investment

The Ontario Teachers' Pension Plan is part of a network of international investors who are working to put the six **Principles for Responsible Investment** (PRI) into practice. The Principles reflect the view that environmental, social and corporate governance (ESG) risks and opportunities can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfil their fiduciary duty.

"We are pleased to endorse PRI and look forward to sharing best practices and collaborating with like-minded investors from around the world as we analyze the financial implications of ESG risks and opportunities," said Jim Leech, Teachers' President and CEO. "PRI reflects the increasing importance of responsible investing to our members and potential partners, and is consistent with our core values of championing accountability and risk consciousness."

As Dr. James Gifford, Executive Director of the PRI, said during a visit to our offices, "The PRI is a way to systematically deal with a range of risks and opportunities around ESG issues within a fiduciary framework."

### The Principles for Responsible Investment

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

*For more on the Principles for Responsible Investing, please visit* **www.otpp.com/responsibleinvesting**

# HOW WE INVEST RESPONSIBLY

## Ongoing process involves our entire investment team

Responsible investing is a continuous process of balancing risks and seeking returns. Our investment professionals do this through an ongoing process of skilfully seeking, evaluating and managing our investments.

**THREE STAGES** **Our investment process can be broken down into three stages:**

### 1. SEEK

We identify a theme—such as a scarce resource, climate change, emerging technology or other trend—or we find sectors or companies that may be under-valued. We tap into news feeds, conference presentations and research reports to find potential opportunities.

### 2. EVALUATE

To determine if an opportunity is as good as it looks, our teams perform internal due diligence and draw on external consultants' opinions. They examine numerous issues ranging from financial performance, environmental performance, labour relations, marketing strategy and legal issues. In the case of public equities, an analysis can be realized in a few hours on the trading desk. For direct investments in companies, evaluation and eventual negotiation can take weeks or months.

### 3. MANAGE

Every day brings new events that may impact the performance of the companies in which we are invested. We continually monitor our holdings against emerging threats and opportunities, to help us determine when to sell and return to the market to seek another opportunity.

### Find out more about responsible investing online

Many of you take a keen interest in environmental, social and governance matters. To keep you up to date on our responsible investing initiatives, we have dedicated a section of our website to the subject. Visit **www.otpp.com/responsibleinvesting** to find complete information about our responsible investing practices.

A thorough view of responsible investing is presented in *Responsible Investing – An Evolving Story*, a 23-minute documentary and roundtable discussions featuring senior members of our investment team.

# TEACHERS' SELLS MLSE

## Jane Rowe, Senior Vice-President of Teachers' Private Capital, answers your most popular questions

It was early December and the news seemed to come out of nowhere: Teachers' was selling its stake in Maple Leaf Sports and Entertainment (MLSE)!

MAPLE LEAF SPORTS + ENTERTAINMENT

Our announcement generated unprecedented media attention and many inquiries. Once the deal officially closes in mid-2012, the sale of our ownership share to Bell and Rogers Communications Inc. will mark the end to one of Teachers' longest standing and most successful investments.

### Fast Facts

- **Original investment in 1994 – $44 million**
- **Current ownership share – 79.53%**
- **Selling price – $1.32 billion**

It began in 1994 as a $44-million acquisition of half of a depression-era building and a storied hockey team. It grew through a series of transactions to become a significant majority stake in a Canadian sports, entertainment, media and hospitality icon. Today, MLSE owns four teams, along with real estate and broadcast properties.

Jane Rowe, Senior Vice-President of Teachers' Private Capital, led the team that managed the sale process. We asked Jane to respond to a few of your most popular questions:

**Pensionwise:** Why did you want to sell the stake in MLSE?

Jane Rowe, Senior Vice-President of Teachers' Private Capital

**Jane:** It is important to distinguish between wanting to sell and exercising our fiduciary responsibility. While MLSE has been a great source of pride for us, our mandate is to invest the pension fund's assets in the best interests of the teachers of Ontario. As part of this mandate, we regularly assess all of our investments to see how they fit with our current and future needs.

The sale of MLSE was made with mixed emotions. On one hand, we are transferring our ownership to two solid partners who have the commitment and resources to ensure MLSE will continue to grow and prosper—it was important for us to be good stewards of this iconic asset. But at the same time, it also marks the end of a great association for Teachers'. We have enjoyed a wonderful 17-year history with MLSE and helped build a company that has few peers.

**Pensionwise:** Why did you change your mind about selling?

**Jane:** We were never compelled to sell MLSE and were confident in its value. We initiated an ownership review last March after the phone started ringing with a number of unsolicited expressions of interest from various parties. Working with our advisors, we approached the review with the same discipline we use around all of our investments.

At the end of November, having received no offers that met our requirements for sale, we concluded the process and announced we would retain our enhanced ownership position. We were happy to keep MLSE in our portfolio and started putting our plans in place to move the company forward.

Less than a week later, we were unexpectedly approached by Rogers and Bell with a new offer that was comprehensive, firm and met all of the terms and conditions that we considered necessary.

**Pensionwise:** How will you use the money raised by the sale of MLSE?

**Jane:** We won't receive anything until the deal closes later this year. Until then, we will be fully committed to the company's success and as always, continue to look ahead for future investment opportunities.

# 2012 REMINDERS

## It's 2012, and that means new legislative changes and deadlines will come into effect this year. Here are six things to keep on your radar:

### 1. Introduction of the *Family Law Statute Amendment Act*

Beginning January 1, 2012, numerous amendments to the *Pension Benefits Act* and the *Family Law Act* came into effect. These amendments are designed to streamline the pension division process for couples facing the end of their relationship.

The two major changes taking effect this year are:

1. **Teachers' to provide pension valuation**—You no longer have to hire an external actuary to do this. Teachers' will prepare a Statement of Family Law Value for you, saving you time and money.
2. **Lump-sum payout for ex-spouse**—If you're separating before receiving your first pension payment, you now have the option to transfer a lump-sum payout to your ex-spouse instead of having to wait for your first pension payment. The lump-sum can be transferred to a life income fund, a locked-in retirement account or another registered pension plan of which your ex-spouse is a member.

#### Does the *Family Law Statute Amendment Act* apply to you?

If you have signed your separation agreement on or after January 1, 2012, you and your spouse will fall under the new rules. Once you receive your Statement of Family Law Value, you will need to decide if you want to use your pension to settle your equalization obligation.

### 2. New contribution rates in effect

Don't forget that new contribution rates are now in effect. Working teachers now contribute 10.8% of their annual salary up to the Canada Pension Plan (CPP) contributions and benefits limit, plus 12.4% of any salary above the CPP limit. The limit, which changes annually, is $50,100 in 2012.

Additional contribution increases are scheduled for 2013 and 2014 to help address a 2011 funding shortfall.

The Ontario government and designated employers will continue to match total member contributions at the new, higher rates.

Members will contribute 0.35% more of their salary to their pension in 2013 and 0.35% more in 2014.

### 3. Considering a buyback? April 30 is an important date

If you purchase credit after April 30 of the calendar year following the year your absence ended, *and* you have not declared your intent to purchase credit, you will receive a past service pension adjustment (PSPA).

A PSPA must be certified by the Canada Revenue Agency (CRA). The CRA will approve or deny the PSPA based upon your available RRSP room in the year that it is certified. If the PSPA is denied, it will limit the amount of credit you can purchase.

#### Tax tip

You can increase the chances of CRA approval of a PSPA by paying for your purchase of credit through an RRSP transfer. An RRSP transfer will lead to a corresponding reduction in your PSPA.

If you are thinking about buying back credit or wish to declare your intent to purchase a buyback, visit *i*Access Web, our secure member website. All the tools, personalized information and advice you need to make your decision can be found in your online Buyback Centre. You can also contact our Client Services Department directly.

### 4. Changes to breaks in service

As of December 30, 2011, only breaks in service due to disability are eligible for purchase. If you want to buy back a break in service due to disability, please be aware of the following:

- A break in service is different from a leave of absence. You must resign from employment in education to be eligible to purchase a break in service due to disability.
- You have two years from your resignation date to apply for a buyback.*
- Effective December 2, 2010, there is a five-year maximum on the years you can buy back. That means the eligible period for purchase ends the later of December 2, 2015 or five years from your resignation date.

*If you resigned from education due to disability more than two years ago, you may still be eligible to buy back your service. We must receive your application and all supporting documentation by **June 30, 2012**.*

**"Disabled"** means, in relation to an individual, suffering from a physical or mental impairment that prevents the individual from **performing the duties of the employment in which the individual was engaged before the commencement of the impairment.**

The rules regarding breaks in service can be complex and are unique to each individual. Call us to find out more about your buyback options.

### EXAMPLES

Teresa resigned due to disability ⇨ December 15, 2009
**Application deadline** June 30, 2012

Darius resigned due to disability ⇨ January 15, 2012
**Application deadline** January 14, 2014

Note that we will require a full medical report from an Ontario-licensed medical doctor which confirms that you were disabled at the time of your resignation. We will also require ongoing proof of disability.

## 5. Re-employment rules change September 1

Beginning September 1, 2012, you will be able to work directly or indirectly for a participating employer without affecting your Teachers' pension for up to 50 days in each school year you work following retirement.

In addition, employers will be required to report re-employment service beginning in the 2012/13 school year. Retired members will still be required to track their days and contact Teachers' if they exceed the new re-employment limit of 50 days.

### Pension suspension rules remain the same

If you continue to work after the month in which you exceed the limit, you are no longer entitled to receive your pension until after you stop working. We will suspend your pension for as long as you continue to work, even if you worked for only part of a day.

Even though the re-employment rules won't affect you until after you retire, it's important that you know the rules before your pension begins. This is because if you plan on working, your "arrangement" to return to work directly or indirectly for a participating employer has to be made after the later of the date we receive your pension application or the date of your resignation.

## 6. If you're preparing to retire

If you've already started the countdown to retiring in June 2012, there are few things you should be doing now to prepare. Ask yourself these questions:

- Have you made a final decision on your survivor benefit? Remember that your eligible spouse is automatically entitled to a 60% survivor pension unless you choose otherwise. If you wish to increase or decrease your survivor benefit, you must do so before you start collecting your pension.

Opting for the 10-year pension guarantee can be done when you apply for your pension.

- Have you submitted all required documents to us? Check our list at **www.otpp.com** to see what personal documents we need to process your pension application.
- Have you transferred or bought back all eligible service? Doing so could increase the size of your pension.

### Planning tips

- Ensure that your service record is accurate and complete. Review your personal details on *i*Access Web. Make sure your personal and contact information is up-to-date.
- Arrange for supplementary medical coverage. Some employers extend health benefits to their retired employees, while others use insurance available from the Ontario Teachers Insurance Plan, Retired Teachers of Ontario, or Active Retired Members. If you won't be extending your coverage with your employer, contact the insurance providers directly for more information.

# NEWS BRIEFS

### Teacher wins demographic contest

Congratulations to Mr. E. Torresan of Newmarket who won a $100 Cadillac Fairview shop! gift card. He went online to *i*Access Web and made a change to his demographic information.


If you make a change to your *i*Access Web demographic profile by March 31, 2012, you will be entered into our Winter 2012 draw. *One entry per person. Random draw. Winner will be notified by telephone.*

### Surveying members on pension issues

A randomly selected group of members is being surveyed in February to gauge their understanding of pension plan provisions and pension funding challenges.

Independent pollster POLLARA is conducting surveys with about 2,700 members on behalf of the pension plan and its sponsors—the Ontario Teachers' Federation and the Ontario government.

The research will be used to refine member education about persistent funding problems and the probable need for plan changes to keep the pension plan healthy. The pension plan is projecting recurring funding shortfalls because the cost of future pensions continues to grow faster than plan assets.

For more information on funding challenges, visit the Plan Funding section of our website at **www.otpp.com** or **www.FundingYourPension.com**.

### Dow Jones editors pick Private Capital for Hall of Fame

The editors of *Dow Jones Private Equity Analyst* have selected Teachers' Private Capital (TPC) to join the Private Equity Hall of Fame, citing contributions to venture capital, buyout and other private equity disciplines. TPC specializes in direct equity investments in companies with large and mid-sized market values. The award was accepted by Jane Rowe, Senior Vice-President of TPC, last fall.

### Bob Bertram honoured with ICD Fellowship

Bob Bertram, retired Teachers' Executive Vice-President and Chief Investment Officer, has been named a Fellow of the Institute of Corporate Directors (ICD). The annual ICD Fellowship Awards are the highest distinction for corporate directors in Canada.

Bob was the first head of Investments at Teachers'. When he joined the plan in 1990, the $19-billion pension fund was primarily invested in non-marketable bonds. When he retired in 2008, it was one of the world's largest, most sophisticated pension funds with diversified assets of more than $108 billion.

***Pensionwise™*** is published for members of the Ontario Teachers' Pension Plan.

We appreciate your comments about anything you read in *Pensionwise*. Please e-mail: member_communications@otpp.com

This newsletter does not create any right to benefits. Your entitlements and those of your survivors are and will be governed by the language of the pension plan text. The information contained in this newsletter is not intended to be relied upon in relation to any particular circumstance.

Ce bulletin est disponible également en français.

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