HALIFAX REGIONAL MUNICIPALITY
PENSION COMMITTEE
October 3, 2013
The Halifax Club, Almon Room
9:00 a.m. – 2:00 p.m.

MEMBERS: Audra Abbott, NUMEA
Sheldon Harper, CUPE
Michael Lawlor, Retiree
R. Scott MacDonald (HRPA), Co-Chair
Raymond MacKenzie, ATU
Roxanne MacLaurin, Management
Bill Moore, Management
Jennifer Purdy, NSUPE
Gordon Roussel, Management
Mike Sampson, Management
Britt Wilson, Management, Co-Chair
Dan White, IAFF

ALTERNATES: Andrew Bone, NSUPE
Stephen Bussey, IAFF
Gerard Cottreau, Management
Rick Dexter, NUMEA
Jack Dragatis, ATU
Nigel Field, Retiree
Melanie Gerrior, NSUPE
Sherry Hilchey, NUMEA
Charlotte McInnis, Retiree
Ted Moore, IAFF
Peter Nixon, HRPA
Dwayne Tattrie, CUPE

STAFF: Terri Troy, CEO
Donna Bayers, Executive Assistant
Angela Rushton, Manager, Pension Services
Matt Leonard, Manager, Finance & Operations

OTHERS: Cheryl Little, Halifax Water
Anne Patterson, Halifax Regional School Board

1. CALL TO ORDER

The meeting was called to order at 9:10 a.m. by the Co-Chair, Mr. Britt Wilson. An In-Camera meeting will be held at the end of the Pension Committee meeting.

Additional informational handouts were distributed to the Committee, Towers Watson Client Advisory – "Alberta Proposes a New Course for Public Sector Pension Plans" dated September 30, 2013 and Benefits and Pensions Monitor – "Alberta Proposes Public Plan Reform" dated October 1, 2013.

2. APPROVAL OF THE AGENDA, ADDITIONS, AND DELETIONS

Mr. Roussel added an Audit Subcommittee item for the In Camera agenda. Ms. Rushton added "Pre-Retirement Death Benefits" under "New Business" for the regular meeting agenda.

Moved by Ray MacKenzie and Seconded by Jennifer Purdy to approve the agenda as amended. Motion Put and Passed.

3. APPROVAL OF MINUTES – August 27, 2013

Moved by Ray MacKenzie and Seconded by Jennifer Purdy to approve the August 27, 2013 minutes as presented. Motion Put and Passed.

4. GOVERNANCE REVIEW

4.1 Committee Self-Monitoring STANDING ITEM (Committee)

- Process
- Performance

Ms. Abbott reported that the Committee discussed adding an additional meeting date in the annual year during their meeting after the Education Session in May 2013. Mr. Wilson added that there were also several other action items discussed at this meeting. The Co-Chairs will provide a summary report for the next Pension Committee meeting.

Ms. Troy announced that Nigel Field passed the Wharton School Advanced Investment Management course. The Committee congratulated Mr. Field on his accomplishment.

4.2 Governance Policy Review – Executive Limitations – Monitoring Reports (T. Troy)

(a) Financial Condition and Activities
The CEO is in compliance with the limitations associated with this policy. The CEO will not allow operating expenses (excluding Committee related expenses and investment management costs) to be higher than 0.28% of plan assets per year.

The 2013 expenses are in compliance with the Policy. Average assets of the Plan for January 1, 2013 – July 31, 2013 were $1,230,026,181. Unaudited Operating Costs (excluding investment management fees, custody expenses, and Committee expenses) were 18 bp annualized. This is below the maximum of 28 bp. Unaudited Total Expenses were 45 bp annualized. Investment management expenses and custody expenses were 25 bp annualized and Committee expenses were 2 bp annualized.

Ms. Abbott asked if this was a reasonable basis point for a pension plan of our size for operating expenses? Ms. Troy replied that running the HRMPP for a total cost of 45 bp is outstanding relative to other comparable pension plans, taking account the investment strategies we employ.

Mr. Nixon asked how Ms. Troy manages this? Ms. Troy replied that this is achieved through a lot of hard work including time consuming negotiations.

Ms. Troy walked the Committee through the value test for active management. Active Management Fees less Index Fees = 0.18% - 0.12% = 0.06%. The investment return of the Master Trust less the investment return of the Policy Benchmark = 8.61%-6.92% = 1.69% annualized for the 4 year period ending July 31, 2013.

Test Met: 0.06% < 1.69%. The Committee is getting value from actively managing the Master Trust's pension assets.

Mr. Field asked what do we have indexed? Ms. Troy replied that we currently use index (passive) strategies in Canadian equity, US equity, EAFE (non-North American) and Emerging Markets. Approximately 50% of the public equity mandates are passive managed except for emerging markets equity which is 25% passively managed. The main contributor of our added value has come from fixed income and private investments.

The Master Trust does not hold any real estate directly. However, it does have exposure to Canadian and global real estate through pooled vehicles, in accordance with the Statement of Investment Policies and Procedures (SIPP).

All pension contributions from participating employers were received by September 17, 2013 except those amounts owing from Harbour City Homes. These have been subsequently received. Mr. Leonard, Manager of Finance and Operations, informed Harbour City Homes that it is important for the HRMPP to receive pension contributions on time.

(b) Service Providers

The CEO is in compliance with the limitations associated with this policy. Ms. Troy provided a review of each investment manager's mandate with regard to due diligence and benefits.

Mr. White asked if expected return is a total return or annualized? Ms. Troy replied, annualized.

Mr. Wilson referred to Lincluden Investment Management and asked how their fees compared with Seamark? Ms. Troy replied that the fees were comparable.

Mr. Bussey asked what the benchmark return is for Government bonds? Ms. Troy replied that the year to date Dex Universe has returned approximately -2% and the DEX Long Government Index has returned approximately -7%.

Ms. Abbott commented that since this report is annual, she would like to know when new investment managers are added or existing investment managers are terminated via e-mail throughout the year. Ms. Troy replied that she would do this.

(c) Investment
The CEO is in compliance with the limitations associated with this policy. The investment strategy was in compliance with the SIPP as at June 30, 2013. The Asset Mix was within min-max ranges. Ms. Troy reviewed the top 10 holdings by Book Value as well as the top 3 Canadian Government holdings by Book Value.

The average credit rating was A+ above investment grade. All investment managers reported that they were in compliance with the Investment Management Agreements. Each investment manager's compliance is randomly tested at least annually.

(d) Communication and Support to the Committee
The CEO is in compliance with the limitations associated with this policy. Ms. Troy provided updates in 1C, 1F and 2B.

The NS Government is targeting January 1, 2014 as the effective date for the new pension regulations. The Government will release these regulations to stakeholders as soon as possible so that the Committee can make necessary changes to the Plan Text and review at the November 21st Pension Committee meeting.

Two alternates have not signed the Code of Conduct. Mr. MacDonald reported that one of the alternates will soon be stepping down and the other insists that they signed the form already. Mr. MacDonald will look into this again.

Mr. Ron Pink has offered the use of his boardroom in his new office location on South Park Street for Pension Committee meetings. However, the Committee decided to not pursue this option.

Ms. Abbott asked Ms. Rushton if a reply was received from CRA regarding the conversion of defined contribution accounts to pension. Ms. Rushton replied no, but that the letter was worded such that if no response was received, we would assume the Plan is compliant with the Income Tax Act.

4.3 Governance Policy Review – Committee Management Delegation (Committee)

(a) Global Governance-Management Connection
The Committee reviewed and made no changes to this policy.

(b) Unity of Control
The Committee reviewed and made no changes to this policy.

(c) Accountability of the CEO
The Committee reviewed and made no changes to this policy.

Moved by Dan White and Seconded by Bill Moore to approve the review of the policies and Monitoring Reports as presented. Motion Put and Passed.

Mr. Sampson suggested that in future if meeting space is booked at the Halifax Club that the Almon Room not be used because it is hard to hear speakers.

Ms. Hilchey suggested using the HRM Training Room for meetings since there is no charge for this room. Ms. Bayers will look into this room as an option.

Moved by Audra Abbott and Seconded by Roxanne MacLaurin to not accept the offer of meeting room space from Pink Larkin. Motion Put and Passed.

5. BUSINESS ARISING FROM THE MINUTES

5.1 Pension Reform
Ms. Troy provided an update in 4.2 (d), Communication and Support to the Committee.

5.2 Plan Expense Policy
Ms. Troy reported on an administrative change on Page 4 of the policy. The section on "Travel Restrictions" was deleted. Now that there is enough staff in the office, this restriction with respect to staff travelling together is no longer required.

Moved by Dan White and Seconded by Gordon Roussel to accept the amendment to the Plan Expense Policy. Motion Put and Passed.

5.3 Committee Education and Training Budget
To date, 53% of the training budget is spent which includes courses covered by the general budget. The budget is set by calendar year.

International Foundation's FTMS training is taking place in San Francisco in November 2013. The training will also be coming to Halifax in October of 2014. Ms. Abbott asked the Committee if it was prudent to send people to San Francisco if the training is coming to Halifax next year?

Mr. White added that if ATMS is also coming to Halifax in 2014, it would be beneficial if FTMS was already completed.

The Committee decided if there were some members who wanted to attend FTMS in San Francisco this year and it worked better for their schedules, this would be fine.

5.4 Training and Education Policy

Ms. Abbott presented the updated policy for the Committee's approval. The Training and Education Subcommittee made additional changes in the titles of the table on Page 5 to be consistent with the rest of the wording in the policy. Also, on Page 6, delete "and/or" under "Local Pension Related Events" in the second line.

Moved by Jennifer Purdy and Seconded by Ray MacKenzie to accept the changes to the Training and Education Policy as presented. Motion Put and Passed.

5.5 Committee Training and Education Competency Profile

Deferred to next meeting.

5.6 In Camera Meeting Procedure

The Committee had deferred this issue from the last meeting. The question was whether the Committee wanted to keep the In-Camera minutes in the Pension Office in a locked cabinet and a sealed envelope or decide on another location. There are two categories of In Camera minutes, one where the CEO is present and one where she is not present.

The Committee decided that both sets of minutes would be kept in a locked cabinet in the Pension Office. The minutes where the CEO is not present will be sealed and marked "to be opened by Co-Chairs only." The minutes where the CEO is present will just be stored in the locked cabinet. Peter Nixon suggested that the securing of In Camera minutes should be audited at least on an annual basis. It was decided that the Co-Chairs may audit randomly.

Moved by Mike Sampson and Seconded by Audra Abbott to keep both kinds of minutes in the locked cabinet in the Pension Office with the minutes where the CEO is not present being in a sealed envelope marked "to be opened by Co-Chairs only." Motion Put and Passed.

Ms. Troy added that there are some outstanding In Camera minutes over the past couple of years that have not been filed and stored in the locked cabinet. The Co-Chairs will collect these and provide them for storage in the Pension Office.

5.7 Pension Committee as Trustee of Pension Plan/Master Trust

Ms. Troy referred to the memo distributed in the Pension Committee package. The memo is to discuss whether or not the HRM Pension Committee can and should become a Trustee for the Master Trust.

Ms. Troy had a discussion with Mr. Ron Pink of Pink Larkin and spoke with the Canada Revenue Agency.

Currently Northern Trust, as Trustee for the Master Trust, requires private investment documents to be reviewed and signed by Northern Trust. This is more to do with their own policy in order to ensure that the Trustee is not assuming liability. With the often urgent nature of private investments, having to wait for Northern Trust to review and sign private investment documents can lead to delays with filings and the potential for missed investment opportunities.

One way to address this issue is to have the Pension Committee appoint the Pension Committee or a subset of the Pension Committee and the CEO to be Trustees of the Master Trust. From a legal perspective, at least one individual who is a resident in Canada is needed to be trustee of the Master Trust. For a pension plan, the trustee needs to be a corporate trustee or at least three individuals who are resident in Canada. Northern Trust would remain Trustee of the HRMPP and be custodian for the Master Trust. Northern Trust and Canada Revenue Agency have confirmed that they have no issue with this arrangement.

Ms. Troy asked, would the Pension Committee wish to be Trustee of the Master Trust which includes assets of the Halifax Regional Water Commission Pension Plan? In order to participate in the Master Trust arrangement, HRWC indemnified the Pension Committee. This agreement should be updated with respect to confidentiality arrangements with respect to private investments. Would the HRWC want to continue with the Master Trust arrangement if the Pension Committee is Trustee of the Master Trust?

The Committee also needs to consider the signing authorities to ensure security and flexibility. Currently, one of the following are required to sign Direction Letters to Northern Trust: CEO, Co-Chairs, Gordon Roussel and Matthew Leonard (back up to the CEO with respect to signing documents if approved by the CEO).

Mr. Bone asked presently how does the process work? Ms. Troy replied that for all agreements that are not private, the normal practice is to have the CEO and one other authorized signature. However, only one signature is sufficient and may be used in an emergency when other signatories cannot sign due to absence. For private investment agreements, a letter of direction needs to be prepared and sent to Northern Trust. Normally, the CEO signs the Letter of Direction, but this can be signed by another authorized signatory as long as the CEO has approved the Letter of Direction.

Mr. Sampson asked if the Pension Committee were to become Trustees for the Master Trust, what function will Northern Trust stop doing?

Ms. Troy replied when Northern Trust reviews the documents, they are not reviewing on behalf of the Pension Committee. Their policy is to look for a clause that refers to any liability to Northern Trust. Northern Trust is a directed trustee and do not want any liability. This is the only item that would cease if the Pension Committee assumes the role of Trustee.

Mr. Roussel asked how many signatures are required. Ms. Troy replied that you can have one signature but it might be prudent to have more than one.

Mr. Bussey asked if there is any increased liability to the people who are signing or the Committee? Ms. Troy recommends the whole Committee be the Trustee as the Committee is the Plan Administrator. The Committee can delegate members to sign but there would not be any increased liability as they are signing on behalf of the Committee. Currently, the Pension Committee is directing Northern Trust to sign by way of its delegate, the CEO.

Ms. Troy stated that the first step is to review the existing indemnification agreement with the Water Commission especially with respect to confidentiality provisions

Mike Sampson moved that the HRM Pension Committee become the Trustee for the Master Trust subject to a report back to the Committee on the issues of indemnification and confidentially with respect to the participation by the Halifax Water Commission in the Master Trust.

Ms. MacLaurin asked what does Northern Trust do as the custodian? Ms. Troy replied that the custodian makes sure the assets are kept separate on their books, they settle all trades initiated by brokers and investment managers, they value the assets, and send reports as to all the transactions impacting pension assets e.g. Income, capital gains, market value, book value, expenses, pensioner payments, etc.

Mr. Wilson suggested that the first step would be to review the indemnification agreement with the Halifax Water Commission before going forward with any other decisions. The CEO will review and update the indemnification agreement and ask the Halifax Water Commission to sign. If the Water Commission does not wish to sign the agreement and/or participate in the Master Trust, the Master Trust will be wound down.

Mr. Bone asked if there are any costs involved to winding down? Ms. Troy replied that the cost would most likely not be that expensive but she will review the agreement to see who would be responsible for what costs.

Mr. Sampson withdrew the motion above.

6. NEW BUSINESS

6.1 Update – 2013 YTD Performance

Ms. Troy reported that since we are now exempted from funding solvency deficiencies, the focus will be on obtaining 6.25% net of fees on a going concern basis. To break even as of December 31, 2013, the Plan needs to earn 2.46% net of fees to ensure that contribution rates do not increase. The Plan is presently earning 5.4% year to date. This does not take into consideration any possible changes to the demographic assumptions or any other adjustments the actuary may make to pension liabilities.

As of last year, the Plan was 59% funded on a solvency basis. Currently, the Plan is approximately 80% funded on a solvency basis as bond yields have increased recently.

Mr. Roussel asked what are the implications of the shutdown of the US Government? Ms. Troy replied that markets have actually gone up but the debt ceiling issue on October 17^{th} is the bigger issue as this could cause credit ratings to decrease and send credit spreads higher and equity markets lower.

Ms. Abbott asked what is our going concern rate now? Ms. Troy replied that it is approximately 88%.

6.2 Canadian Pension Plan Hedge Fund Allocations

Ms. O'Toole had asked at the August 27, 2013 Pension Committee meeting, how prevalent hedge fund investments were in other public sector pension plans? Ms. Troy reviewed the list of Canadian Defined Benefit Plans with Investments in Hedge Funds included with the Pension Committee package. There are five Atlantic based public defined benefit plans investing in hedge funds. The average policy weight of Canadian pension plans investing in hedge funds is 6.7% while the actual weight is 5.1%. At the last meeting, the Pension Committee had approved an investment up to 3% of Master Trust assets in hedge funds.

6.3 RCMP Pension Plan Request to enter into a Reciprocal Transfer Agreement

Ms. Rushton referred to the background letter in the Pension Committee package. The RCMP Pension Plan has requested that the HRM Pension Plan consider entering into a reciprocal transfer agreement (RTA). The RCMP Pension Plan included a list of terms and conditions with the request, which are reasonable and in line with the HRM Pension Plan's other RTAs.

The HRM Pension Plan has currently four reciprocal transfer agreements: – Nova Scotia Public Authorities, Government of Canada, Province of Newfoundland and Labrador and Ontario Municipal Employees Retirement System. The Committee has a Reciprocal Transfer Agreements Policy which provides conditions that must be met for the Committee to consider entering into a new reciprocal transfer agreement. The RCMP Pension Plan meets these conditions; however, the decision to enter into a new RTA is at the Committee's absolute discretion. There is a benefit to HRM Pension Plan members as well in that they could transfer their pension to the RCMP Pension Plan. RCMP members transferring to the HRM Pension Plan would be eligible for an earlier retirement date under the Rule of 80 or the Rule of 75. If no RTA is established, these members could consider buying back their RCMP service under the HRM Pension Plan; however, buybacks are limited to post-1991 service.

If a vested member wanted to transfer to another pension plan outside of an RTA, the transfer ratio would be applied to the commuted value payment and an amount would be held back for five years. The transfer ratio does not have to be applied when an amount is transferred under an RTA that has been registered with the Superintendent of Pensions.

The draft RCMP Pension Plan RTA is modeled after the Government of Canada's standard RTA. Since the HRM Pension Plan's RTA with the Government of Canada follows the standard format, only minor changes are required to make the two RTA's substantially the same. This would be ideal for ease of administration. Consulting charges for review of the RCMP RTA and establishing actuarial assumptions to be used in transfer calculations are expected to be in the $2,500 range.

Charges to the Plan for an individual reciprocal transfer are approximately $800-$1,000, not including internal Pension Office staff salaries. Members are charged an administration fee of $750 to offset the cost to the Plan.

Mr. MacDonald added that he and Mr. Moore met with senior Halifax Regional Police staff and the police union and they are supportive of the agreement and do not believe it would negatively impact employee retention.

Ms. Abbott commented that the Committee may need to look at increasing member administration fees for services such as reciprocal transfers. Mr. Field said the fee was intended to cover the cost so that the Plan isn't paying for reciprocal transfers that only benefit a few individuals.

Moved by Mike Sampson and Seconded by Gordon Roussel to recommend entering into a Reciprocal Transfer Agreement with the RCMP. No applications for transfers under the RCMP agreement are to be processed until the fees to do so are reviewed by the Committee. Motion Put and Passed.

Mr. White added that he feels entering into this RTA with the RCMP is of benefit as it could make our Plan more attractive and the costs to do this seem nominal.

Ms. Rushton reported that there is also a written request from Halifax Water to enter into an RTA. Halifax Water does not meet all of the conditions such as size but the decision is at the Committee's discretion.

Ms. Little provided some background to this request. Presently, Halifax Water has no RTAs. There are no buyback options in their plan. Since 2007, anyone coming to Halifax Water is treated as a new hire.

Mr. Sampson suggested asking Halifax Water to join the existing Nova Scotia Public Authorities Multilateral RTA, since this already exists.

Ms. Little stated that Halifax Water's request was just to have a reciprocal transfer agreement with HRM and not be part of the existing Multilateral RTA as this would open up requests from other plans.

The Committee decided that the Co-Chairs will respond to the letter from Halifax Water referring to the option of entering the existing Multilateral RTA, since this would allow members to transfer between plans without the expense of creating a different RTA.

6.4 Pensioner Overpayment due to Incorrect Employer Data

Ms. Rushton reported that if an employer supplies incorrect data to a third party administrator on a year-end report which results in an error in a member's pension payment, presently, there is a risk that the Plan may not recover the cost from the employer.

Ms. Troy spoke with Mr. Ron Pink of Pink Larkin. He advised that the course of action is to recover any excess paid to a member, unless the employer is prepared to make the Plan whole.

Ms. MacLaurin added if a pensioner has been unjustly enriched for receiving money they are not entitled to, they would have no cause for action in suing. She feels that it would be the pensioner's responsibility to reimburse the money but it could be spread over a reasonable term so as to not affect that person's standard of living.

Ms. Hilchey asked if the incorrect information would have been in the member's statement? Ms. Troy replied that the member statement could have incorrect information as well since the source of all member data is from the employer. Member statements have the necessary disclaimers on them.

Mr. Wilson added that a pension plan is only allowed to give out the amount of pension that a person is entitled to and anything over that amount would be revocable.

The Committee asked the Pension Office to investigate a policy pertaining to pensioner overpayment due to incorrect employer data.

6.5 Pre-Retirement Death Benefits

Ms. Rushton advised that currently, a pre-retirement death benefit is basically the same as a termination benefit. If a member was not vested at the time of death, their spouse or beneficiary would receive their contributions with interest.

If a member has more than two years of service, the death benefit would be the commuted value of their accrued pension. Currently, if the member terminated employment and was eligible to retire, the commuted value of their benefit would be based on their earliest unreduced retirement date (earlier of age 60 or Rule of 80/75). The member would have that benefit of the early retirement subsidy as long as they are eligible to retire when they terminate employment. However, in the Plan Text, if they were to pass away at that same time, the pre-retirement death benefit says that their spouse or beneficiary would receive the commuted value of their deferred pension payable at age 65. The benefit being paid out to members who terminate is much greater than if they had died. Therefore, the survivor or beneficiary is not receiving as much as the member would have received.

Ms. Rushton asked if this is an oversight in the Plan Text? She added that now that the deferred date is age 65 instead of 60, there is more of an impact in value. Mr. Sampson said he did not believe the Committee realized pre-retirement death benefits would be impacted by changing the termination benefit.

The Committee asked the Pension Office to prepare a report on this issue for the next meeting.

6.6 Review of Expense Reports from Pension Office

Mr. Leonard updated the Committee that the maximum tip on meals and taxi services is 15%. He clarified that this is on the before tax cost and not on the after tax cost.

7. OTHER BUSINESS

8. DATE OF NEXT MEETING – November 21, 2013

9. ADJOURNMENT

Moved by Bill Moore and Seconded by Jennifer Purdy to adjourn the meeting at 12:40 p.m. Motion Put and Passed.

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Britt Wilson, Co-Chair