



BOARD OF GOVERNORS
Investment Committee

Minutes of the Public Session of the Meeting of June 3, 2019
2:00 p.m. – 2:50 p.m.
North Campus, ERC 3023

- Members:** Stephanie Chow (Chair), Ferdinand Jones, Thorsten Koseck, Mark Neville, Maria Saros (*teleconference*), Steven Murphy
- Regrets:** Doug Allingham
- Staff:** Becky Dinwoodie, Cheryl Foy, Pamela Onsiong
- Guests:** Leila Fiouzi and Connor Glassco (PH&N)

1. Call to Order

The Chair called the meeting to order at 2:00 p.m.

2. Agenda

Upon a motion duly made by T. Koseck and seconded by M. Neville, the Agenda was approved as presented.

3. Conflict of Interest Declaration

There were none.

4. Chair's Remarks

The Chair welcomed everyone to the last Investment Committee meeting before the Board's Annual General Meeting. She expressed appreciation for everyone's commitment this year. She reminded everyone that it was the public session of the meeting.

5. Approval of Minutes of Public Session of Meeting of February 20, 2019

Upon a motion duly made by M. Neville and seconded by T. Koseck, the Minutes were approved as presented.

(F. Jones arrived at 2:03 p.m.)

6. Investment Review

6.1 Fourth Quarter Investment Review

L. Fiouzi walked the committee through the fourth quarter investment review. She discussed the recent volatility in the market. The reversal is in line with what they would expect equity markets to do. She advised that there is still room for the volatility to increase. She also emphasized that the one-year period includes the downturn in December 2018. Over the past year, the performance of the university's portfolio is a bit behind that of the benchmark. This is not unusual as you would expect short periods of underperformance. Over the long term, the portfolio has performed 0.97 better than the benchmark. L. Fiouzi noted that the allocations are generally on target for most asset classes, except Canadian equities, which is a bit underweight. This is part of a broader plan to reduce home equity bias. L. Fiouzi responded to questions from the committee.

6.2 Investment Learning – Normalizing Central Bank Policy

L. Fiouzi reminded the committee that the purpose of the educational sessions is to assist the committee members with fulfilling their fiduciary obligations by giving them a better understanding of the trends. Since the credit crisis, we have seen unprecedented central bank action. L. Fiouzi compared the volatility levels of 2017 and 2018. The significant drop in December can be attributed to the normalizing of central bank policy. L. Fiouzi provided a summary of the tools at the disposal of the central banks (set out in the meeting material).

Mandate of Central Banks

- create price stability – confidence in currency, households & businesses can plan for investments, keep inflation in check
- Help address economic growth – sustainable level of inflation & employment – ensure economy not growing too fast or too slowly
- financial stability

Monetary Policy Tools of Central Banks

- adjusting the overnight rate
- more and easier liquidity
- provide forward guidance
- not employed in Canada, but implemented in other nations:
 - quantitative easing (Central Bank growing its own balance sheet)
 - credit easing
 - negative interest rates (Switzerland – charged people to keep money in the bank)

Given what was experienced during the credit crisis, what could Central Banks (CBs) do if faced with another recession?

- generally cut interest rates to stimulate the economy
- since interest rates currently at 3%, what would banks do in face of recession?
 - if they cut down to 0%, would this be sufficient to stimulate the economy?
- in US, in addition to reducing rates to 0%, also implemented quantitative easing
- when faced with next recession, believe CBs will be more innovative:

- setting higher inflation targets
- price level targeting
- direct investment in the economy – CBs to finance projects instead of government
- CBs have good history of monetary policy success
- problem is the unintended consequences of the monetary policies

Looking Ahead for CBs:

- era of monetary stimulus not completely over
- sustainable interest rates to be lower than before
- global economy more vulnerable to future downturns
- Central Bank toolkits and mandates have permanently broadened

Key Points:

- expect more volatility in the markets
- expect lower fixed income returns
 - security selection & strategy must become more creative
 - compared proportion of investment in equities needed to get 7% return in 2001 and 2006 to today
 - must try to diversify across a number of different asset classes in order to improve returns

L. Fiouzi discussed the causes of the severity of a recession. Given the uncertainty of what will cause the next recession, it is difficult to anticipate the severity. L. Fiouzi reminded the committee of the steps taken during the past few years to diversify the university's portfolio.

There was a discussion regarding whether the portfolio's investments should align with the university's tech focus. L. Fiouzi explained that for PH&N, investment in any portfolio must fit the investment criteria:

- must have the numbers
- ESG factors

Tesla was used as an example, where the public communications of one individual could affect the value of the company.

The committee asked whether it would be possible to obtain information on funds that might contain more technology companies. L. Fiouzi advised that PH&N focuses more on companies as opposed to sectors.

6.3 Investment Committee Annual Board Report

C. Foy reviewed the draft Annual Board Report with the committee and invited the committee's comments.

7. For Information:

PH&N Investor Seminar

8. Other Business

9. Adjournment

There being no other business, upon a motion duly made by T. Koseck and seconded by S. Murphy, the meeting terminated at 3:01 p.m.

Becky Dinwoodie, Secretary