



International Centre for  
Pension Management

## 2006/2007 ANNUAL REPORT



Joseph L. Rotman School of Management  
University of Toronto

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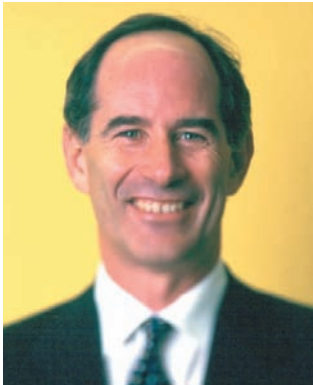
### OUR VISION

**The Rotman International Centre for Pension Management (ICPM)** strives to become a global catalyst for improving pension management.

To this end, the Centre sponsors research and fosters dialogue that focuses on building better pension 'deals', better pension fund organizations, and better pension legislation and regulation.

Through these activities, we also create opportunities to raise pensions-related content in regular and executive courses at the Rotman School of Management and other education-oriented forums.

## DEAN'S MESSAGE



**ROGER MARTIN**

Dean and Professor of  
Strategic Management

Joseph L. Rotman  
School of Management

There is now a broad consensus that the workplace pension systems in most of the developed world are in bad health, and that they require strong medicine if they are to be able to generate adequate pensions for workers in the years ahead. That's why the work going on at the Rotman International Centre for Pension Management (**ICPM**) is so vital.

By aiming to become a leading exchange of best practices in global pension management and a source of thought leadership in pension fund legislation and regulation, **ICPM** mirrors the Rotman School's aspirations for global excellence. In the two years since its launch, **ICPM** has become renowned in the pension fund industry and has raised the profile of the Rotman School as a source of expertise in this key area of the economy.

The Centre's focus on strong pension fund governance and organization design draws on our School's growing expertise in Integrative Thinking™ and Business Design™. Perhaps most importantly, the Centre is creating opportunities to raise pension-related content in regular and executive courses at Rotman, helping us to train tomorrow's pension leaders to employ integrative thinking to shape their world for the better.

We at Rotman are proud to be the home base for this world-class source of thought leadership and look forward to another year of progress and achievement for **ICPM**.

## DIRECTOR'S MESSAGE



**KEITH AMBACHTSHEER**

Director and Adjunct  
Professor of Finance

Rotman International  
Centre for Pension  
Management

**ICPM** continues to carve its niche in the global pensions forest. The word is out that, twice a year, we assemble some of the globe's brightest minds in a variety of disciplines to help our Research Partners design and engineer 'break-through' concepts in pension governance, finance, and investments. We will do so again in Toronto (Canada) on June 5-6, and in Maastricht (The Netherlands) on October 30-31. Participants know that these are not 'talking heads' events. Everyone shares their wisdom and experiences; everyone receives in the form of new insights. The global pensions community at large can access these interchanges through the **ICPM** website.

To that formula, we have now added a funded research dimension, which has already attracted some very prestigious research talent from Europe, North America, and the Pacific Rim. Five projects have been approved by the **ICPM** Research Committee and Board of Directors. The topics range from identifying and mobilizing 'win-win' opportunities for collaboration amongst pension institutions and their agents, the relationship between pension reform and corporate ownership structure and governance, pension fund governance and performance, integrated asset/liability management, to understanding the relationship between investment policy and the make-up of the 'human capital' of plan participants. We continue to receive inquiries from leading researchers with interesting new ideas in these, and related topics.

Financially, this new research funding activity means that **ICPM** is no longer taking in more money than it is spending. Fortunately, we also continue to receive inquiries from pension organizations wishing to become **ICPM** Research Partners. **ICPM** could reach its current ceiling of 20 Research Partners this year. Reaching this plateau will no doubt trigger interesting discussions on where we should take **ICPM** from here.



*Jai Parihar, Alberta Investment Management (Canada) and Ron Liteplo, Local Authorities Pension Plan of Alberta (Canada).*

## OUR RESEARCH PROGRAM

**ICPM** needs to do a number of things well to be successful. One is to foster an outstanding research program that helps build better pension 'deals', better pension fund organizations, and better pension legislation and regulation.

To achieve this goal, **ICPM** will sponsor research projects in the following six areas:

- Financial characteristics and viability of various forms of pension arrangements
- Identification and management of agency issues in the pensions field
- Effective governance and organization design of pension funds
- Formation and revision of defensible investment beliefs
- Relevant definitions, measurement, and management of pension stakeholder risk exposures
- Design of optimal implementation strategies



*Jack Bogle of The Vanguard Group (USA) participated in the ICPM June 2006 Forum.*

[www.rotman.utoronto.ca/icpm](http://www.rotman.utoronto.ca/icpm)

# RESEARCH COMPLETED IN 2006/2007

## AGENCY COSTS STUDY – completed October 2006

### Title: “The Performance of US Pension Funds: New Insights into Agency Costs Debate”

- Project Lead – Rob Bauer, ABP and University of Maastricht (The Netherlands)
- Team Members – Roger Otten and Rik Frehens of the University of Maastricht (The Netherlands), and Hubert Lum of CEM Benchmarking (Canada)

The study hypothesized that mutual fund participants faced greater potential agency costs than pension fund participants because of greater misalignment of interests in the mutual fund sector. Empirical analyses using extensive US and Canadian mutual fund and pension fund databases confirmed that, for comparable investment mandates, portfolios managed by pension funds outperformed those managed by mutual fund companies by an average 2-4% per annum. The study has been submitted to the Journal of Finance for publication. A simplified summary of the study was published in the Spring 2007 issue of Canadian Investment Review.



*Brett Hammond, TIAA-CREF (USA).*

## PENSION FUND GOVERNANCE STUDY – completed October 2006

### Title: “Pension Fund Governance Today: Strengths, Weaknesses, And Opportunities For Improvement”

- Project Lead – Keith Ambachtsheer, **ICPM** (Canada)
- Team Members – Ronald Capelle, Capelle Associates (Canada), and Hubert Lum of CEM Benchmarking (Canada)



*Working group session with Matthew Kiernan, Innovest Strategic Value Advisors (Canada), Peter Bronkhorst, Shell (The Netherlands), James Leech, Ontario Teacher's Pension Plan (Canada).*

The study surveyed 88 senior pension fund executives for their views on the major issues facing them, and their boards of governors/trustees. It also asked them to rank 45 statements related to the quality of their internal oversight, management, and operations processes. These same 45 statements were also ranked in 1997 in an earlier survey. The study findings suggest that the oversight function of pension funds continues to experience difficulties. It also found a generally positive association between perceived governance quality and pension fund performance. The study has been submitted to the Journal of Pension Economics & Finance. Simplified versions will be prepared for popular periodicals.

## PENSION FUND MANAGEMENT CASE STUDY #2 – completed October 2006

### Title: “PERS and the Pension Revolution: Redesigning the Investment Function”

- Project Lead – Keith Ambachtsheer, **ICPM** (Canada)
- Team Member and Case Discussion Leader – Alexander Dyck, Rotman School of Management (Canada)

This case was the sequel to last year's, which focused on the measurement and management of PERS' defined benefit pension plan balance sheet. Alyson Green, PERS' new CEO, has noticed that PERS' pension fund seemed to have the same investment policy and implementation structure as those of other public sector DB pension funds. She decided to find out why this was so, and didn't like what she discovered. What should she do about it? The participants in the Fall 2006 Discussion Forum had plenty of good advice for her.

# NEW RESEARCH FUNDING



Paul Dyer, New Zealand Superannuation Fund (New Zealand).



Heather Fraser, DesignWorks™, Rotman School of Management (Canada) led an interactive working session during the ICPM June 2006 Forum.



Sigbjorn Atle Berg, Norges Bank Investment Management (Norway).

**ICPM** issued a Call for Papers in May 2006 to solicit proposals based on the criteria set out on page 5. Under the direction of Paul Halpern, Chair of the Research Committee, **ICPM** awarded a total of C\$300,000\* to five research projects in October / November 2006. Each project is well under way and will report back to the Research Partners in upcoming Discussion Forums.

| RESEARCH TEAM                                                                                                                            | COUNTRY               | PROJECT TITLE                                                                                                         |
|------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------------------------------------------------------------------------------------------------------|
| Danyelle Guyatt, University of Bath                                                                                                      | UK                    | Identifying and Mobilizing Win-Win Opportunities for Collaboration Amongst Pension Fund Institutions and Their Agents |
| Mariassunta Giannetti, Stockholm School of Economics; and, Luc Laeven, International Monetary Fund                                       | Sweden / USA          | Pension Reforms, Ownership Structure and Corporate Governance: Evidence From Sweden                                   |
| Joel Harper, Oklahoma State University                                                                                                   | USA                   | Public Pension Governance, Contracting Relationships and Performance                                                  |
| Michael Brandt, Duke University; Ralph Kojien, Tilburg University and Netspar; and, Jules van Binsbergen, Duke University                | USA / The Netherlands | Optimal Decentralized Asset Management for Asset Liability Management                                                 |
| Giovanna Nicodano, Maela Giofré, and Carolina Fugazza, Center for Research on Pensions and Welfare Policies (CeRP), University of Torino | Italy                 | The Role of Occupational Pension Funds in Hedging Background Risk: A Normative Approach in an International Framework |

\* funding will be spread over two fiscal years.

The Board has approved an additional C\$100,000 as part of the fiscal 2007/2008 budget to support additional promising research opportunities that fit the **ICPM** funding criteria.

# OUR RESEARCH PARTNERS

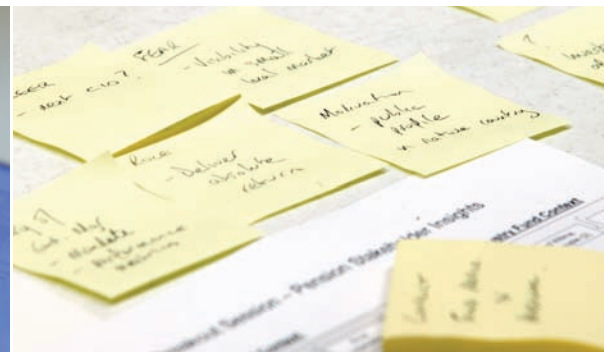
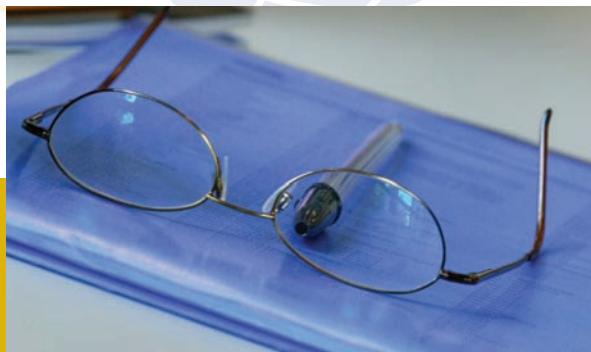
Our Research Partners play a vital role in establishing **ICPM** research priorities and identifying top research talent. They have preferred access to **ICPM**-sponsored research findings, opportunities for knowledge-sharing and network-building, and receive preferred invitations to **ICPM** Discussion Forums.

Through these activities, our Research Partners have the satisfaction of participating in building a leading Centre that converts integrative research into effective pension fund management. This will benefit their stakeholders directly, and at the same time improve the quality of retirement income systems around the world.

We are pleased that the original 13 Research Partners renewed their financial commitment to support the work of **ICPM** for 2006/2007. Three new Research Partners joined in 2006 with an additional new Partner already committed for 2007/2008. The current goal of **ICPM** is to work with 20 international Research Partners on a long-term basis.

Each of these thought-leading organizations has made a financial commitment of C\$20,000 to further pension research. These commitments are renewed annually at the option of each organization.

To help support our new research funding initiative, the **ICPM** Board of Directors has approved management's recommendation to raise the Partner commitment level to C\$25,000 for fiscal 2007/2008.



## 2006/2007 RESEARCH PARTNER ORGANIZATIONS

### Canada

- Alberta Local Authorities Pension Plan Corp
- Bank of Canada
- Canada Pension Plan Investment Board
- Caisse de dépôt et placement du Québec
- Ontario Municipal Employees Retirement System
- Ontario Teachers' Pension Plan

### USA

- Missouri State Employee Retirement System
- TIAA-CREF
- Washington State Investment Board

### Australia/New Zealand

- New Zealand Superannuation Fund

### The Netherlands

- ABP Investments
- De Nederlandsche Bank
- Interpolis Pensioenen Vermogensbeheer
- Pensioenfonds PGGM

### Norway

- Norges Bank

### United Kingdom

- Universities Superannuation Scheme

# DISCUSSION FORUMS



*Bob Bertram, Ontario Teachers' Pension Plan (Canada) and Keith Ambachtsheer, Rotman ICPM (Canada) discuss the Ontario Teacher's investment model during the October 2006 Discussion Forum.*

**ICPM** sponsors two Forums annually in the Spring and Fall. These events provide access to **ICPM**-sponsored research findings as well as opportunities for knowledge-sharing and network-building for our Research Partners, international industry leaders and regulators interested in elevating the quality of pension fund management. They are designed as highly interactive experiences.

*Presentations, academic working papers, and case studies that are presented during our Discussion Forums are publicly available at no charge on the **ICPM** website.*

Our June 2006 Discussion Forum focused on **Redesigning the Investment Function**. Not only did the forum participants hear insightful presentations on, and talk about investment function redesign, they actually participated in a staged redesign process! Through this process, participants were reminded that while designing an effective investment function must start with solid investment beliefs, that is not enough. There is also a very human element to good design. Motivations and incentives are critically important to achieving the desired outcomes.

Our October 2006 Discussion Forum titled **Building High-Performance Pension Funds** was a logical sequel to the June Forum. It had a research dimension with the presentation of the results from the two initial **ICPM**-sponsored research projects on agency costs and pension fund governance (see page 5). There was a presentation of the Ontario Teachers' investment model, which combines investment goals, risk management, and incentive compensation in a highly-integrative manner, followed by a lively group discussion. Finally, the Forum featured another lively the discussion through debating the case study titled *"PERS and the Pension Revolution: Redesigning the Investment Function"*.

Planning for the two 2007 Forums is well-advanced. The themes of the Spring Forum are **Win-Win Collaboration Among Pension Funds: Why and How?** and **The Life-Cycle Pension Model: Theory and Practice** scheduled for June 5-6 in Toronto (Canada). The themes of the Fall Forum are **The Pension Delivery Organization of the Future** and **ICPM- and Netspar- Funded Research: Important New Findings** scheduled for October 30-31 in Maastricht (The Netherlands).



# DISCUSSION FORUM PARTICIPANTS – 2006

## AUSTRALIA

**GMO and SunSuper**  
Jack Gray

## BRITISH VIRGIN ISLANDS

**British Virgin Islands Social Security Board**  
Clarence Faulkner

## CANADA

**Alberta Investment Management**  
Jai Parihar

### Alberta Local Authorities Pension Plan

Grant Howell  
Ron Liteplo  
John Vanderkaay  
Blake Walker

### Bank of Canada

Elizabeth Woodman  
Jack Selody

### BIMCOR Inc.

Brian Kouri

### Caisse de dépôt et placement du Québec

Richard Guay  
Jean-François L'Her  
Patrick Savaria

### Capelle Associates Inc.

Ronald Capelle

### CEM Benchmarking Inc.

Michael Heale  
Hubert Lum  
Tom Scheibelhut

### Canada Pension Plan Investment Board

David Denison  
Don Raymond  
Henry Kim  
John Illkiw  
Tracey Livingstone  
Raymond Ross

### Financial Services Commission of Ontario

Jay Jiang

**Innovest Strategic Value Advisors**  
Matthew Kiernan

**Manulife Financial**  
Leo de Bever

**Mercer Investment Consulting**  
Jane Ambachtsheer

### Ontario Municipal Employees Retirement System

Paul Haggis  
Flo Paladino  
Paul Pugh  
Roger Robineau  
John Weatherup

### Ontario Pension Board

Tony Wohlfarth

### Ontario Teachers' Pension Plan

Robert Bertram  
Brian Gibson  
Helen Kearns  
James Leech  
Neil Petroff  
Deborah Ann Trott  
Barbara Zvan

### Rotman ICPM

Keith Ambachtsheer  
Ann Henhoeffter

### Rotman School of Management

David Beatty  
Laurence Booth  
Brendan Calder  
Alexander Dyck  
Heather Fraser  
Paul Halpern  
Eric Kirzner

### Royal Bank of Canada

George Lewis

### Shareholder Association for Research and Education

Peter Chapman

### University of Toronto

George Luste

## ICELAND

**Kaupthing Bank Asset Management Company**  
Birgir Örn Arnarson

## NEW ZEALAND

**New Zealand Superannuation Fund**  
Paul Dyer  
Bridget Liddell  
David May

## NORWAY

**Norges Bank**  
Sigbjorn Atle Berg  
Helge Eide

### The Ministry of Finance / Government Pension Fund

Elvind Oy

## THE NETHERLANDS

**ABP Investments**  
Stefan Lundbergh  
Eduard Ponds  
Tom Steenkamp  
(*Vrije University Amsterdam*)

**ABP Stichting Pensioenfond**  
Ronald Wuijster

### De Nederlandsche Bank

Dirk Broeders  
Maarten Hage

### Interpolis Pensioenen Vermogensbeheer

Herman Brill  
Peter Heuvelmans  
Otto Veldt

### Netspar – University of Tilburg

Lans Bovenberg  
Ralph Krijnen

### Pensioenfond PGGM

Jaap van Dam  
Niels Kortleve  
Leo Lueb

### Shell Asset Management Company B.V.

Peter Bronkhorst

### University of Maastricht

Rob Bauer  
Rik Frehen

## UNITED KINGDOM

**AXA Investment Management Ltd.**  
Raj Thamotheram

**Hermes Pensions Management Limited**  
Paul Munn

**University of Bath**  
Danyelle Guyatt

### Universities Superannuation Scheme

Tushna Ghadially  
Jim O'Loughlin  
(*JOL Consulting*)  
David Russell

## UNITED STATES

### ABP – USA

Jeroen Schreuer

### Duke University

Jules Van Binsbergen

### Legg Mason Capital Management Corp

Kathleen Anderson  
Michael Mauboussin  
(*Columbia University*)

### Missouri State Employees' Retirement System

Richard Dahl

### State of Washington

Sandra Matheson

### The Vanguard Group

John Bogle

### TIAA-CREF

Brett Hammond  
Melanie Petsch

### United Food and Commercial Workers – International

David Blitzstein

### Washington State Investment Board

Joseph Dear  
Stephen Lerch  
Theresa Whitmarsh

# FINANCIAL SUMMARY (all in Canadian Dollars)

## OPERATING REVENUE FOR FISCAL 2006/2007

|                        |                   |
|------------------------|-------------------|
| Research Partners Fees | \$ 310,000        |
| Other Revenue          | 2,460             |
|                        | <hr/>             |
|                        | <b>\$ 312,460</b> |

## OPERATING EXPENDITURES FOR FISCAL 2006/2007

|                                 |                  |
|---------------------------------|------------------|
| Director Compensation/Travel    | \$ 80,374        |
| Planning and Operations Support | 50,775           |
| Rent and Utilities              | 18,366           |
| Events:                         |                  |
| June 2006 Discussion Forum      | 31,756           |
| October 2006 Discussion Forum   | 28,768           |
| Board Meetings                  | 2,678            |
| Research                        | 129,038          |
| PR/Marketing/Website            | 5,122            |
| Office Supplies and Services    | 557              |
|                                 | <hr/>            |
|                                 | <b>\$347,433</b> |

**EXCESS REVENUE FOR FISCAL 2006/2007** **\$(34,973)**

## ACCUMULATED EXCESS REVENUE

|                             |            |
|-----------------------------|------------|
| As at Beginning of the Year | \$ 173,037 |
| As at End of the Year       | \$ 138,064 |

## PRO BONO WORK\* FOR FISCAL 2006/2007 (allocated value)

|                    |                   |
|--------------------|-------------------|
| Board Members      | \$ 24,000         |
| Research Committee | 6,000             |
| Research Projects  | 162,000           |
|                    | <hr/>             |
|                    | <b>\$ 192,000</b> |

\* This estimates the value of work donated to **ICPM** by its Research Partners, other academic researchers, and board and committee members in the fiscal year 2006/2007.

## BOARD OF DIRECTORS

The Rotman **ICPM** Board of Directors approves and oversees the implementation of the Centre's strategic and operating plans. The **ICPM** Board is comprised of internationally recognized academic and pension industry leaders with an interest in seeing **ICPM** achieve its vision.

The Board holds quarterly board meetings and also attends the Discussion Forums each year.

- *Brendan Calder, (ICPM Chair), Rotman School of Management (Canada)*
- *Rob Bauer, School of Finance and Economics, University of Maastricht (The Netherlands)*
- *Robert Bertram, Ontario Teachers' Pension Plan (Canada)*
- *Laurence Booth, Rotman School of Management (Canada)*
- *Richard Guay, Caisse de dépôt et placement du Québec (Canada)*
- *Donald Raymond, Canada Pension Plan Investment Board (Canada)*

## RESEARCH COMMITTEE

The Research Committee was appointed by the Board in the Spring of 2006 to review our first Call for Research Papers.

The Research Committee meets twice yearly and also attend the Discussion Forums each year.

- *Paul Halpern (ICPM Research Committee Chair), Rotman School of Management (Canada)*
- *John Ilkiw, Canada Pension Plan Investment Board (Canada)*
- *Niels Kortleve, Pensioenfonds PGGM (The Netherlands)*



Report Back Session during ICPM June 2006 Forum.



International Centre for  
Pension Management

**Please contact us to learn more about Rotman ICPM**

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