



**ALBERTA LOCAL AUTHORITIES PENSION PLAN CORP.  
BOARD OF DIRECTORS**

MINUTES of the meeting of the Alberta Local Authorities Pension Plan Corp. Board of Directors, held on October 20, 2017, in the Local Authorities Pension Plan Board Room, Suite 1202, 10250 – 101<sup>st</sup> Street, Edmonton.

**Board members**

**Present:**

- D. Sander - Chair
- T. Agoto, Vice-Chair
- K. Balkwill
- S. Bradshaw
- K. Craig
- T. Giesbrecht
- P. Marsden
- S. McGillivray
- S. Pusch
- H. Rogers
- L. Thompson
- R. West
- J. Whaley

**Absent:**

**Staff/Board Advisors (Present at the request of the Board):**

- ██████████, President and CEO
- ██████████, Vice-President, Stakeholder Relations and Communications
- ██████████, Vice-President, Investment Policy and Risk Management
- ██████████, Vice-President, Pension Policy and Funding
- ██████████, Board Secretary

**NEXT REGULAR BOARD MEETING SCHEDULED FOR: November 17, 2017**



**ALBERTA LOCAL AUTHORITIES PENSION PLAN CORP.  
BOARD MEETING  
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October 20, 2017**

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D. Sander, Chair convened the Board of Directors Meeting at 8:00am on October 20, 2017 with 13 Board members present.

## **CONFLICT OF INTEREST DECLARATION**

The Chair asked if any Board member had any conflicts of interest to declare. Hearing none, the meeting commenced.

### **1. IN CAMERA WITH THE CEO**

\_\_\_\_\_ joined the meeting at 8:10am.

### **2. APPROVAL OF AGENDA**

**MOTION AL17:10:01** That the Board of Directors accept the agenda.

**Carried 13-0**

### **3. APPROVAL OF MINUTES – September 22, 2017**

**MOTION AL17:10:02** That the Board of Directors accept the minutes of the September 22, 2017 meeting.

**Carried 13-0**

### **4. BUSINESS**

#### **4.1 Committee of the Whole Report**

The Board reviewed the report of the September 22, 2017 Committee of the Whole.

**MOTION AL17:10:03** That the Board approve the following recommendations from the September 22, 2017 Committee of the Whole:

#### **2. APPROVAL OF AGENDA**

That the Board of Directors accept the agenda.

#### **3. APPROVAL OF MINUTES – July 21, 2017**

That the Board of Directors accept the minutes of the July 21, 2017 meeting.

#### **4.1 Management's Business Report**

That the Board of Directors receives this report for information.

#### **4.2 AIMCo Pre-Brief**

That the Board of Directors receives this report for information.

#### **4.3 AIMCo Q2 Investment Report**

That the Board of Directors receives this report for information.

#### **4.4 Asset Class Review – Private Equity**

That the Board of Directors receives this report for information.

#### **4.5 AIMCo Debrief**

That the Board of Directors receives this report for information.



**4.6 ERM Framework and Draft Risk Appetite Statement**

That the Board of Directors receives this report for information.

**4.7 General Policy Guidelines (GPGs) on Administration and APS Scorecard**

That the Board of Directors receives this report for information.

**4.8 Actuarial Asset Smoothing Methodology Review**

That the Board of Directors receives this report for information.

**4.9 Long Term Funding Strategy Review**

That the Board of Directors receives this report for information.

**4.10 SCG October 2017 Agenda**

That the Board of Directors receives this report for information.

**4.11 Advisory Stakeholder Committee Report**

That the Board of Directors receives this report for information.

**5.1 Board Correspondence**

That the Board of Directors receives this report for information.

**5.2 Conferences/Calendar of Events**

That the Board of Directors approve the change in date for the Board Governance Committee meeting from October 6, 2017 to November 2, 2017.

That the Board of Directors receives the remainder of the report for information.

**Carried 13-0**

**4.2 Management’s Business Report**

The ALAPP Corp. CEO provided an update to the Board on recent meetings had with AIMCo and APS. The ALAPP Corp. VP, Pension Policy and Funding provided an update to the RFP currently underway for the Actuarial and Investment Consultants.

**MOTION AL17:10:04** That the Board receives this report for information.

**Carried 13-0**

**4.3 Long Term Funding Strategy Review**

The ALAPP Corp. VP, Pension Policy and Funding provided an overview of the report and past presentations to the Board. There was discussion about next steps, a view to the long term funding of the Plan and the solvency ratio.

**MOTION AL17:10:05** That the Board authorize management to engage the actuary to update the long Term Funding Strategy, with a particular focus on defining applicable strategy when the Plan’s contribution rates exceed the minimum funding requirements determined on a basis that includes 100% of the Optimal Margin.

**Carried 13-0**

## 4.4 2016 Actuarial Valuation

The ALAPP Corp. VP, Pension Policy and Funding, provided an overview of the report and recommendation from management. The ALAPP Corp. CEO provided copies of a letter from the City of Edmonton regarding 2018 contribution rates. There was discussion about the 49%/51% employee/employer contribution split.

██████████, Mercer Partner and ██████████, Mercer Principal, joined the meeting at 8:55am.

The Mercer Partner and Principal provided the 2016 Actuarial Valuation Presentation to the Board. There was discussion about the Plan statistics including membership growth, part-time members, disability payments, commuted value pay-outs, termination pay-outs and smoothing methods. The Board reviewed the preliminary results of the 2016 valuation report, including the discount rate, financial position, alternate levels of margin and unfunded liabilities.

The Board discussed stakeholder expectations, the likely possibility of a negative market correction, the current service cost, the need to ensure a measured approach to contribution rates and the current interest rates.

██████████, Mercer Partner and ██████████ Mercer Principal, left the meeting at 10:55am.

The Board further discussed the proposed contribution rate, intergenerational equity and the communication requirements in changing the contribution rate,

**MOTION AL17:10:06** That the Board of Directors recommends the Board of Trustees:

1. Direct the actuary to finalize the valuation results based on the following:
  - A. Adopting the actuary's best estimate demographic assumptions, which are unchanged from the preceding 2015 actuarial valuation;
  - B. Adopting the actuary's updated best estimate economic assumptions, which are the same economic assumptions used in the 2015 actuarial valuation with the exception of:
    - a. An increase in the net investment return assumption from 5.95% to 6.30%,
    - b. A decrease in the expected base salary increase assumption from 2.75% for 2017 and 2018 and 3.00% thereafter, to 2.00% for 2017 and 2018 and 3.00% thereafter, both with additional and unchanged age-based merit and promotional increases layered on top of the base; and
    - c. A reduction in the interest rates assumed to be applicable for future commuted value payments to reflect the reduction in the prescribed interest rates now applicable for December 31, 2016 terminations;
  - C. Increasing the Plan's margin from 70 basis points (bps) to 100 bps, which, in combination with the change in the net investment return assumption, results in an increase in the net discount rate assumption from 5.25% to 5.30%;
  - D. Adopting the actuary's recommended change in asset smoothing method to smooth all investment gains and losses over five years; and

- E. Maintaining the cost methodology used in the 2015 actuarial valuation; and
  - F. Reducing both employer and employee contribution rates by 1.00% effective January 1, 2018, with the reduced contribution rates being applicable for both the 2018 and at this time, 2019 calendar years, recognizing that 2019 contribution rates may be adjusted based on results of the 2017 actuarial valuation.
2. Direct the actuary to file the 2016 valuation with the Canada Revenue Agency (**CRA**), meaning that the next valuation required will be as at December 31, 2019.

An amendment was proposed to change section “F” of the motion.

**MOTION AL17:10:07** That section “F” of Motion AL17:10:06 be amended as follows:

F. Reducing both employer and employee contribution rates by 1.00% effective January 1, 2018., ~~with the reduced contribution rates being applicable for both the 2018 and at this time, 2019 calendar years, recognizing that 2019 contribution rates may be adjusted based on results of the 2017 actuarial valuation.~~

**Carried 11-2**

**AMENDED MOTION AL17:10:06** That the Board of Directors recommends the Board of Trustees:

1. Direct the actuary to finalize the valuation results based on the following:
- A. Adopting the actuary’s best estimate demographic assumptions, which are unchanged from the preceding 2015 actuarial valuation;
  - B. Adopting the actuary’s updated best estimate economic assumptions, which are the same economic assumptions used in the 2015 actuarial valuation with the exception of:
    - a. An increase in the net investment return assumption from 5.95% to 6.30%,
    - b. A decrease in the expected base salary increase assumption from 2.75% for 2017 and 2018 and 3.00% thereafter, to 2.00% for 2017 and 2018 and 3.00% thereafter, both with additional and unchanged age-based merit and promotional increases layered on top of the base; and
    - c. A reduction in the interest rates assumed to be applicable for future commuted value payments to reflect the reduction in the prescribed interest rates now applicable for December 31, 2016 terminations;
  - C. Increasing the Plan’s margin from 70 basis points (bps) to 100 bps, which, in combination with the change in the net investment return assumption, results in an increase in the net discount rate assumption from 5.25% to 5.30%;
  - D. Adopting the actuary’s recommended change in asset smoothing method to smooth all investment gains and losses over five years; and
  - E. Maintaining the cost methodology used in the 2015 actuarial valuation; and



F. Reducing both employer and employee contribution rates by 1.00% effective January 1, 2018.

2. Direct the actuary to file the 2016 valuation with the Canada Revenue Agency (**CRA**), meaning that the next valuation required will be as at December 31, 2019.

**Carried 12-1**

There was further discussion on communication requirements vs historical communication.

**MOTION AL17:10:08** That the Board of Directors recommends the Board of Trustees direct ALAPP Corp. management to advise stakeholders of the above, and highlight that the Board will undertake a Long Term Funding Strategy review in 2018 and the 2017 Actuarial Valuation to determine 2019 contribution rates.

**Carried 13-0**

The ALAPP Corp. CEO provided copies of an email received from Alberta Justice regarding interpretation of the Board's authority to change contribution rates. There was discussion about government's history in dealing with recommendations from the LAPP Board, the necessity to not give up the Board's autonomy to make contribution rate changes, the need for an official explanation from government of the narrow view taken by Alberta Justice, the implications of a mid-year rate change, APS timeline requirements, and the need to go forward with the proposed rate change.

██████████, ALAPP Corp. CEO left the meeting at 1:10pm.

#### **4.5 AIMCo Scorecard**

The ALAPP Corp. VP, Investment Policy and Risk Management provided an overview of the proposed scorecard to the Board, including management's recommendations. There was discussion about the new Asset Liability software and improvement opportunities presented by the proposed scorecard.

**MOTION AL17:10:09** That the Board approves the AIMCo Scorecard, which will subsequently be communicated to AIMCo and to the President of the Treasury Board and Minister of Finance.

**Carried 13-0**

#### **4.6 General Policy Guideline and APS Scorecard**

The ALAPP Corp. VP, Pension Policy and Funding provided an overview of the report to the Board, including management's recommendation. Trustee Marsden noted that the APS Board sees this process as a great tool for alignment between APS and ALAPP. There was additional discussion about the process going forward.

**MOTION AL17:10:10** That the Board direct management to initiate consultations with Alberta Pensions Services Corporation (APS) and Alberta Treasury Board and Finance (ATBF) regarding the General Policy Guidelines (GPGs) on the administration of LAPP, and that an APS scorecard be developed which measures APS' operations and delivery of services relative to the objectives set forth in the GPGs.

**Carried 13-0**

## 4.8 ERM Framework and Risk Appetite Statement

The ALAPP Corp. VP, Investment Policy and Risk Management provided an overview of the document changes to the Board. There was discussion about the need to change some of the risks associated with governance based on discussions held by the Board today.

**MOTION AL 17:10:12** That the Board approves:

1. the revised LAPP ERM Framework as amended.
2. the LAPP Risk Heat Map as amended, which will subsequently be communicated to the President of Treasury Board and Minister of Finance.
3. the LAPP Risk Appetite Statement and direct management to develop a communications strategy for the document.

**Carried 13-0**

## 4.10 2018 Board Meeting Schedule

The Board Secretary presented the proposed 2018 Board Meeting schedule to the Board.

**MOTION AL 17:10:14** That the Board approves the ALAPP Corp. Board of Directors and Committee meeting schedule for 2018

**Carried 13-0**

## 4.11 Chair/ Vice-Chair Nominating Committee

The Board Secretary presented the report to the Board.

**MOTION AL 17:10:15** That Trustee Balkwill be nominated as the ad hoc nominating committee to canvas Board members for interest in the positions of Chair and Vice-Chair for 2018/2019.

**Carried 13-0**

## 4.12 Corporate Matters

The Board Secretary presented the report to the Board

**MOTION AL 17:10:14** That the Board approve the updated indemnity for former and current Directors and authorize the Chair and Vice Chair to execute the indemnity on behalf of the Corporation and that the Board approve the addition of Susan McGillivray to the Human Resources and Compensation Committee and the addition of Tina Giesbrecht to the Board Governance Committee for the remainder of 2017.

**Carried 13-0**

## 4.13 ASC Update Report

The ALAPP Corp. VP Stakeholder Relations and Communications presented the report to the Board and provided an overview of the Committee to date.

**MOTION AL 17:10:17** That the Board receives this report for information.

**Carried 13-0**

██████████, ALAPP Corp. CEO joined the meeting at 1:55pm



#### 4.4 2016 Actuarial Valuation- Continued

The ALAPP Corp. CEO provided an overview of the additional recommendation to the Board.

**MOTION AL17:10:18** That the Board of Directors recommends the Board of Trustees:

4. Direct ALAPP Corp. management to initiate the process pursuant to section 5(2) of Schedule 1 (Act Schedule) to the Public Sector Pension Plans Act (Alberta) (Act) for the preparation and filing of a Regulation, to be signed by the Chair of the Board of Trustees, with the Registrar of Regulations, to effect the contribution rate change for 2018 approved in item 1.F and to work with Alberta Pensions Services Corporation to effect implementation of the contribution rate change by January 1, 2018.
5. In the event that the filing of the Regulation referred to in item 4 is not accepted by the Registrar of Regulations, or written rejection of the applicability of the filing of the Regulation in reliance on section 5(2) of the Act Schedule is otherwise received from government, prior to the date determined by the Chair and Vice Chair to be necessary for the contribution rate change to be implemented for January 1, 2018:
  - A. Make a recommendation to the Minister to amend the LAPP Regulation pursuant to section 4 of the Act Schedule, to effect the contribution rate change for 2018 approved in item 1.F, on the basis that such amendment is recommended if and only if the amendment to the LAPP Regulation shall be approved by Order in Council effective, and capable of being implemented, as of January 1, 2018; and
  - B. Make such recommendation in item 5.A only on a without prejudice basis expressly reserving to the Board of Trustees the right to assert an interpretation of section 5(2) of the Act Schedule which does not require the Board to make a recommendation under section 4 of the Act Schedule to effect a change to contribution rates for the Plan.

**Carried 12-1**

#### 4.7 2018 ALAPP Corp. Business Plan and Budget

The ALAPP Corp. CEO provided an overview of the proposed 2018 business plan and budget to the Board. There was discussion about some of the proposed changes in the budget line items.

**MOTION AL17:10:11** That the Board supports Management's 2018 Business Plan and approves the 2018 ALAPP Corp. Budget at \$3,417,000

**Carried 13-0**

#### 4.9 Annual Strategy and Risk Report to Minister

The ALAPP Corp. CEO presented the report to the Board, noting that in light of the Board's discussion today, he would propose amendments to the report. The Board discussed the need to highlight the current activity of government and the approval process for the revised document.

**MOTION AL 17:10:13** That the Board approve the amended Annual Strategy and Risk Report for transmission to the Minister of Finance in a form approved by the Chair and Vice-Chair of the Board of Directors.

**Carried 13-0**

