



Alberta Teachers' Retirement Fund Board

600 Barnett House, 11010 142 Street NW, Edmonton AB T5N 2R1
Tel 780 451-4166 Fax 780 452-3547 Toll Free 800 661-9582 www.atrf.com

October 30, 2019

BY E-MAIL

The Honourable Travis Toews
President of Treasury Board and Minister of Finance
Room 208 Legislature Building
10800 - 97 AVE
EDMONTON, AB T5K 2B6

Dear Minister Toews,

I am writing on behalf of the Board of the Alberta Teachers' Retirement Fund (ATRF) to express deep concerns with the Government of Alberta's recent Budget announcement regarding the proposed transfer of ATRF funds to AIMCo for management.

As you may know, pursuant to the *Teachers' Pension Plan Act*, ATRF is the trustee and administrator of the teachers' pension plans and the custodian of the pension funds. In these capacities ATRF is a fiduciary. And as a fiduciary, the Board has a duty to act in the best interests of the plans and their beneficiaries, Alberta's active and retired teachers. Over its long history, ATRF has done so by, among other things, managing the teachers' assets with an agile, forward-thinking and specialized approach that responds to the needs of the plan for the long term.

As fiduciaries, the Board has not seen any evidence that the action contemplated in the Budget will be in the best interest of our members. Accordingly, we kindly and as expeditiously as possible ask for a response to the following requests:

1. Please provide evidence as to why the Board should expect AIMCo to generate higher returns net of cost than ATRF in the future. Our analysis, summarized below, suggests this has not been the case in the past.

Historically ATRF's net investment returns after all costs have been superior to AIMCo's. Over the past 6 years, ATRF's fund returns have exceeded the returns of AIMCo's primary pension clients (PSPP and LAPP) by between 0.3% and 1.5% annually, depending on the plan. Notably, ATRF's returns have significantly exceeded those of AIMCo in all major private market categories (private equity, infrastructure and real estate), which is a clear indication that larger scale is not necessarily an advantage, and may in fact be a disadvantage.

To be clear, the return information provided here is net of all costs. The ATRF Board is vigilant on managing costs but what we focus on is incurring the appropriate costs to deliver the highest investment returns to meet our Plan's funding objectives.

2. Please provide evidence as to why the Board should expect to be able to reduce contribution rates? Plan contribution rates, the only element of ATRF's operations that impacts the Government of Alberta's costs, are largely a function of investment returns. Had AIMCo managed ATRF's assets over the past 6 years, contribution rates paid by the Government of Alberta and teachers would likely be higher than they are presently. ATRF's strong investment performance has generated \$422 million in added value above benchmark over 4 years, directly contributing to the improved financial health of the plans which in turn has allowed 2 contribution rate reductions in 3 years, saving tens of millions of dollars for the government and teachers.

There has been a significant focus in the Government's communications regarding costs, but the effect of cost alone is insignificant compared to the effect of returns over all. Government is promoting that plan members would have achieved savings of \$41 million per year if AIMCo had managed the Plan's assets. However, had ATRF achieved the same net returns of AIMCo's two largest pension plans over the last year, the Plan would have foregone somewhere between \$66 million and \$147 million in lost net investment income earned because ATRF outperformed AIMCo after all expenses were paid.

3. We are very concerned that having one asset manager, AIMCo, a legislated monopoly, unduly restricts the Board's ability to satisfy its fiduciary duty to act in the best interests of the teachers' pension plans and manage teachers' pension funds for their sole benefit. The ability to dismiss asset managers, be they internal or external, is a key tool the ATRF Board now enjoys as a way of exercising its duty. Please explain how AIMCo as the legislated asset manager will be accountable to the Board for its performance. Eliminating that tool leaves the ATRF Board with all of its duties, but limited authority with which to discharge those duties.
4. How will AIMCo, with its complex multi-client pooled structure, be able to tailor an investment portfolio to ATRF's unique properties in a manner superior to that which can be done by ATRF holding assets in its own name? ATRF's current strategic plan, now in its implementation phase, recognizes ATRF's "single client" structure as one of its key strategic advantages as it allows for high internal integration of investing and funding. The Board is skeptical that these advantages could be preserved with AIMCo as the asset manager. If AIMCo can create such a customized investment strategy for ATRF surely that would reduce the purported benefit of scale and end up with much the same costs of ATRF?
5. Currently, the ATRF Board enjoys direct control of both its assets and the investment management compensation formula and finds these to be very effective ways to target desired risk levels and behaviours both within asset classes and at the total fund level. Please explain how ATRF's loss of direct control over investment management compensation formulas to



AIMCo will motivate behaviour most closely aligned to the Board's investment beliefs and risk tolerances.

As this is a matter of utmost importance, I would like to meet in person urgently to review the foregoing information and next steps. Kindly contact Mr. Rod Matheson, Chief Executive Officer of ATRF at rmatheson@atrf.com, phone: 780-733-6655, cell 780-907-5600, to arrange a mutually convenient time in the coming days.

Sincerely,

A handwritten signature in black ink, appearing to read "Sandra Johnston", is written over the typed name and title.

Sandra Johnston
Chair

cc:

Rod Matheson, Chief Executive Officer, ATRF

Board Members of ATRF:

Catherine Connolly

Karen Elgert

Greg Francis

Paul Haggis

Maria Holowinsky

Kareen Stangherlin

Jason Schilling, President ATA