Good morning ladies and gentlemen and welcome to the Ontario Teachers Pension Plan mid-year media call. At this time, our is on the listen-only mode. Following the presentation, we will conduct a question and answer session. If at any time during this call you need assistance, please, press *0 for the operator. This call is being recorded on August 25th 2020. Now, let's turn the conference over to Dan Madge. Please, go ahead.

Hi. Thank you, operator, and good morning everyone. Welcome to our media briefing to discuss the 2020 mid-year financial results. Our news release and financial statements are all online now on our website. Please, click on the conference link so you can have our slides in front of you. Before opening up the call to questions, we'll start with some brief comments from our president and chief executive officer, Jo Taylor, followed by Ziad Hondo, our chief investment officer. Jo, please, go ahead.

Thank you, Dan, and good morning everybody. I'm Jo Taylor, CEO of Ontario Teachers. I'd like to thank you for joining us to hear more about our financial performance for the first half of 2020. I'm hoping you take away three things from my presentation today. First, the plans are in really good shape. The weather is a tough storm and our assets proved largely resilient. Second, we have a vision for the future with a focus on being a truly international investor working with disruptive companies and hiring and developing a diverse and agile workforce. And finally, three, we are committed to doing the right things. We are here to drive investment returns for members, of course, but we also must have a responsibility to make a positive impact on our communities. I'll start off by discussing our top-line results for the period January 1 to June 30 2020. I'll also update you on some developments that have taken place in the organization, most notably, on the talent front.

Now, I'd like to touch briefly on our global activities and aspirations. After that, our Chief Investment Officer, Ziad Hondo, will get into more detail about our financial results and also provide highlights and what's next for our investment program. Let me start with our financial performance for the first half to 2020. The pandemic has brought some specific challenges. Global economic growth has come to a standstill, job losses have spiralled upwards, consumer and worker confidence is an all-time low, and stock markets remain volatile, inflated, and uncertain. We closed our activities at 32 with net assets of just under $205 billion. That means we had a net loss of 0.4% in the six month period. When we started the year, that wasn’t the result we were hoping for. But given the huge amount of disruption the world is faced due to COVID-19, we think we come through things very well to this point. Some of our hardest-hit investments, were among our private assets. Heavily, impacted segments were later in travel, including our five airports and assets where consumer spending declined such our shopping malls and Cadillac Fairview. We believe these teams have very good management within them and we’re working with them to do everything we can to shape a growing profitable future. That said, some of our companies face a high degree of uncertainty.

But to move to the positive side, I would say that given the impact of the pandemic and the uncertainties created in the first half of the year, we should be pleased with the plan's relative resilience and our ability to preserve capital. Much of this was the result of an intended defensive
positioning of the plan's portfolio. After more than 10 years of continuous economic expansion, we felt it prudent to plan for a downturn. The key components of that defensive positioning were increased explosions of fixed income and a more managed exposure to equities. Ziad will give you more detail on what that looks like in a moment. This repositioning has helped our performance so far this year. It has brought some stability to our returns in very volatile conditions. We entered 2020 on a very strong financial footing, with a plan in good health, our members' pension safe and secure, and a lot of liquidity at hand to take advantage of investment opportunities. And these fundamentals haven't changed. While our half-year report is important, it reflects only a snapshot in time, a relatively short window into the performance of a plan that is based on very long term investments and liabilities.

For the period ending June 30th 2020, our annualized net return over the past 30 years is 9.5%. That result has not been achieved on a straight-line basis. It includes, for example, losses incurred during the tech bubble and the 2008 financial crisis. These are challenging times. And lately, we found ourselves in a lower return environment with an average annualized net return of 6.2% over the past five years. But whether we're talking about 5, 10, or 30 year periods, our long term results exceed the returns required to maintain stability in our plan. As of January the 1st 2020, the plan was in excellent shape on a funding basis using one of the lowest discount rates in the country. The funding valuation, which is done once a year at the first of January, is the best measure of the plan's long term financial health by assessing the plan's ability to meet its obligations to all current members and their survivors. It is the funding valuation that's used by the plan's sponsors to determine contribution and benefit levels.

And I am pleased that the plan's sponsors, the Ontario Teachers Federation and the Ontario Government, have filed the January 1st 2020 fund evaluation with our regulators. The filed valuation shows the final surplus of $11.7 billion and 105% funded ratio. The sponsors do not have to file another funding valuation until January the 1st, 2023. Meaning, members contributions and benefits will remain stable for the foreseeable future. First and foremost, we need to remember that we're in the risk business. We need to continue to adopt an entrepreneurial approach to find the next series of investment opportunities for which we have ample liquidity at present. At a time when things are changing very rapidly, we'll make the best returns if we can lead the way and invest in companies that disrupt their markets rather than those that will be disrupted. Some of our recent investments demonstrate that subjective well, including ones in digital healthcare, smart infrastructure, artificial intelligence, and space and satellite technologies.

As well as the health of the plan, we remain very focused on the health and safety of our people during this pandemic. Most of our employees continue to work remotely very effectively. A full return to office working is not now planned for most of our locations before the calendar year-end. And although we've made great progress embracing and executing, well, remote working, we're still progressing the move to our new building in Downtown, Toronto, anticipated for late 2023. I'd also like to highlight some activity we've had on the people front so far this year. We've promoted Tracy Able to become our chief operations and pension officer. And with that move, to take on additional responsibility for enterprise operations. Amongst other things, Tracy is now accountable for ensuring we have an effective and integrated approach to technology right across the business. In October, Jane Rowe, our head of equities, will move into a newly created role of vice-chair investments,
bringing us significant expertise and guidance to a broader area of the investment business. We announced, in July, that Caren Frank, former CEO, Barclays Wealth Management, will join us in the fall as James’ successor. Caren is a highly accomplished leader and we really look forward to bringing her onboard.

And finally, we’re very pleased to have hired Bruce Crane who’s Managing Director, Infrastructure and Natural Resources, asia Pacific. Bruce is gonna be our first Singapore-based employee as we plan to open our office there next month. Clearly, opening this office has an important milestone in expanding our presence in Asia Pacific. From Singapore, we will focus on India, Australia, New Zealand, and Southeast Asia, while our Hong Kong offices activities will include greater China, South Korea, and Japan. I’d also like to highlight that Caren Frank will work from our London office, making her our first asset class head based outside Toronto. And so far this year, we’ve been expanding our global reach with investments in companies based in Sweden, New Zealand, Abu Dhabi, Australia, Mexico, the United States, and of course, Canada. So, in summary, while there are challenges ahead and the uncertainty of the COVID-19 pandemic is far from over, I am pleased to report that the plan is in very good shape. We’re looking ahead to the future and we’re committed to doing the right things for all of our stakeholders. I’m optimistic about what we can achieve in the future. And with that, I’ll turn things over to Ziad who’ll give you a deeper look at our results and investment strategy.

ZIAD HINDO:
Thank you, Jo, and good morning everyone. As Jo has alluded to, it has been an eventful six months. Jo has already taken you through the high-level results. So I plan to take you through some of the portfolio moves that we made pre crisis and how they have served us well so far. I’ll spend some time on some of the actions taken during the crisis to help our private assets and reposition the portfolio for future success. More than 10 years of continuous economic expansion and stretched valuations on most assets meant that we needed to be ready for a reversion. Over the past two or three years, we adjusted the portfolios in ways that have helped us weather the storm better than we might otherwise have done. For instance, we have been increasing our exposure to fixed income believing that the asset class was an effective diversification tool and a safer harbour in the event of economic downturn. We also progressively increased our exposure to gold, drawn by its hedging and diversifying characteristics.

In addition, we established an equity hedging strategy that protected the portfolio against market volatility. We successfully monetized this hedge with a significant drop in equities in March, April. Recognizing the importance of liquidity in turbulent times, we also increased our efforts in building our liquidity profile, not only to cope with any downturn but also to have capital to deploy counter-cyclically. These moves have provided an important cushion for the portfolio during March collapse in global financial markets. Our fixed income asset class, for instance, had net investment income of $7.9 billion for the six month period. This helped offset negative performance in some of our private assets that have been disproportionately affected by the pandemic, such as health clubs, airports, shopping malls, and energy assets. It’s important to note that not all of our private companies have been negatively impacted by COVID. In fact, a number are proving quite resilient, including some of our food, winery, data center, and other technology-related businesses. We've also had one of a private companies, sustainable decking manufacturer, Azek, successfully go public in June, a remarkable achievement given the volatile capital markets.
Given the impact and speed of a pandemic, significant time was spent by our investment teams working closely with the private assets of our portfolio. Our teams did a great job in working with our portfolio companies to identify near-term business continuity issues analyzing the crisis impact on near-term panel, cash flows and liquidity. While the intense crisis response work is largely complete, significant efforts are still underway to understand the impact of COVID on these businesses over the long term. For example, with our airport businesses, we’re still early in our assessment for long term implications. The unprecedented volatility and dislocations in the markets provided us with an opportunity to rebalance portfolio in several ways to position us for long term success.

For instance, during initial stages of the crisis, we reduced our energy exposure and replaced it with gold. Given the significant rally in sovereign fixed income markets in the first half of the year and the further decline in yields, we made the decision to significantly reduce our exposure to fixed income from 46% at the start of a year to 23% by June 30th. We did this by eliminating exposure to sovereign markets with negative interest rates and by reducing exposure to other low-yielding markets like the U.S. Given the significant economic impact from COVID-19, we believe there will be attractive opportunities in the credit asset class over the course of the cycle.

Finally, to help further bolster our liquidity, we were able to issue term debt into U.S. dollar and euro markets at favorable borrowing rates, giving us additional dry powder to use when seizing investment opportunities. While we’re long term investors, we also need to stay agile and take advantage of opportunities to position us for long term success. Given the unprecedented levels of volatility, we are pleased with how we have been able to come through the period essentially flat. These results illustrate the benefits of a diversified risk-balanced portfolio that can withstand significant market stress. It’s not a time to get overconfident though. Much uncertainty remains about what the post-COVID business environment will look like and geopolitical tensions also remain elevated. We are well-positioned to handle the very challenging road ahead of us. We have an outstanding team, high-quality partners around the world, and the financial flexibility to seize opportunities when they materialize. With that, I’ll hand it back to Dan.

DAN MADGE:
Thank you, Ziad and Jo. Operator, can you please go ahead and open up the line for questions now.

OPERATOR:
Thank you. Ladies and gentlemen, we will now begin the question and answer session. Should you have a question, please, press the * followed by the 1 on your touchtone phone. You will hear a three-tone prompt acknowledging your request. If you are using a speakerphone, please, lift the handset before pressing any keys. As a reminder, if you have any questions, please, press *1 now.

Your first question comes from David Millstead at the Globe and Mail. Please, go ahead.

DAVID MILLSTEAD:
Good morning, everyone. Hey, I sort of have a small question here of looking backwards on the COVID effects. Did you have any companies in the private assets portfolio, either in private equity or not, that had to seek creditor protection or any other version of the local insolvency, legal insolvency proceedings?
JO TAYLOR:
Hello, David. Good morning. It's Jo. I'll give you a quick answer. Maybe Ziad can add to it. I mean our portfolio grows in really good shape. You know that you do, from time to time, get companies that are struggling with trading conditions. We have had at least one company that’s needed to file for bankruptcy protection, but it's a very small percentage of the portfolio. And, you know, more often than not, if you look across our portfolio, they’ve got strong liquidity and very strong support from teachers in terms of providing access to funding, not only to deal with cash flow but also to follow on their know regional plan, which is to grow and create value for our members. Ziad, do you wanna add anything to that answer?

ZIAD:
You know, Jo, I would just say that, you know, that's why we put a lot of emphasis on our long term investment approach building a diversified portfolio because, clearly, not all assets are gonna perform well all the time. And hence, our approach towards diversification and building that robust portfolio served us well over the last few months.

OPERATOR:
Mr Millstead, do you have any further questions?

DAVID MILLSTEAD:
Sure, if I have a chance to add on. Now, you do not release half your returns by asset class, I believe. You’ve given sort of a narrow description of some of the highlights in more qualitative terms rather than quantitative terms. But can I follow up and say, among the asset classes, which of those, if any, underperformed what you would consider their benchmark in the six month period and which of those explicitly outperformed their benchmark in the six month period? And to any degree, by how much you can give me a sense of that would be appreciated.

JO TAYLOR:
Thanks, David. We'll try a double header answer again in the spirit of trying to give you a bit more richness. If you look across our activities, you know, I would say that two areas where we’ve probably had a little bit more pressure would be in infrastructure really driven by our five airports and the impact that COVID-19 has on travel activity through those particular businesses. And also, if you look at our real estate business, Cadillac Fairview, as I said in my comments, the impact of the closure of shopping malls for quite a lot of the period we’re talking about did have an effect. There’s clearly been upsides. Fixed income would certainly be one with a very strong performance.

So I think I’ll let Ziad give you a little more detail around that. So there are ups and downs. But if you’re looking at the ones where it’s probably been more difficult, I’d point those two out. I just had one other comment which is, you know, those businesses have great management teams in them. We’re very confident on the longer term that they’re going to perform to our expectations. So, you know, whilst I’m giving you a commentary of a relatively short term impact on them, you know, we do see them as long-term assets that we have great confidence around. Ziad, you wanna add anything to what I said? Guess not David. So, hopefully, that gave you a bit of flavor around how some of the bits of our business perform.
ZIAD:
So, sorry, Jo. Was just on mute. I was just saying that the fixed income masterclass generated 7.9 billion in income. And that offset losses in both inflation-sensitive asset class, 2.1 billion. And also, real assets which include infrastructure and real estate would generate a loss of 4.7 billion in income. Thanks.

DAVID MILLSTEAD:
Great. Thank you.

OPERATOR:
Thank you. There are no further questions at this time. You may proceed.

DAN:
Alright. Thank you, everyone, for participating in our midyear financial results call. If you have any follow up questions, please, don't hesitate to reach out to me following this call. Thanks, everyone, for joining.

OPERATOR:
Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and we ask that you please disconnect your lines. Enjoy the rest of your day.