USASK
PENSION

UNIVERSITY OF SASKATCHEWAN

1999 Academic Pension Plan

ANNUAL NEWSLETTER TO MEMBERSHIP

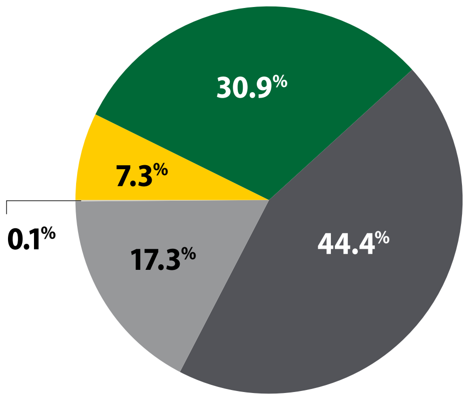
JUNE 2023

THE PRIMARY PURPOSE OF THIS NEWSLETTER IS:

- to review the actuarial valuation information and contribution requirements of the 1999 Academic Pension Plan as at December 31, 2022
- to review investments and investment performance of the Plan in 2022
- to report on the activities of the Academic Defined Benefit Pension Plan Committee (ADBPC)
- to review 2022 performance and look at the market outlook for 2023

Pension Plan Information at December 31, 2022

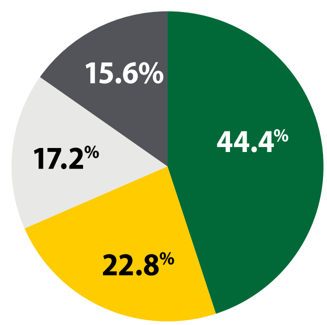
MARKET VALUE OF PENSION PLAN ASSETS



ASSET CLASSES	2022
Canadian Equities	$11,559,691
Non-Canadian Equities	$49,021,816
Total Equities	**$60,581,507**
Bonds	$70,273,275
Real Estate	$27,352,334
Money Market and Short-term Investments	$186,233
Total Fixed Income	**$97,811,842**
Total Market Value	**$158,393,349**

Distribution of Assets Among Investment Managers

INVESTMENT MANAGER	2022
BlackRock	$70,273,275
Jarislowsky Fraser Limited	$36,125,632
TD Greystone	$27,352,334
TD Asset Management Epoch	$24,642,108



INVESTMENT PERFORMANCE

The long-term investment goal of the Plan is to achieve a minimum annualized rate of return of at least **4.25%**. To achieve this goal, the Plan has adopted a balanced asset mix with a bias to fixed income to attain the targeted investment return. The responsibility for investing the assets of the Plan has been delegated to four professional investment fund managers with different mandates to ensure adequate investment diversification.

The Plan's Return Benchmark is a performance standard developed by the Plan's Investment Consultant, Aon. The Academic Defined Benefit Pension Committee and the Board of Governors have approved the benchmark. The investment fund managers of the Plan are expected to meet or surpass the benchmark.

Investment Performance	2022	Last 4 years	Last 10 years
Return*	-9.6%	4.4%	7.0%
Benchmark*	-11.2%	4.8%	6.7%

*Gross of fees

Actuarial Valuation at December 31, 2022

MEMBERSHIP DATA

Active Members + **Other Members** = **Total Membership**

30 + **15** = **45**

	2022	2021
Active Members	30	38
Other members (inactive, deferred, pending transfers, transfer deficiency holdbacks)	15	16
Average age of membership	58.6 years	59.0 years
Average pensionable service	23.7 years	23.3 years
Average pensionable salary	$136,274	$134,420
Expected average remaining service	5.9 years	5.7 years
Pensioners and beneficiaries	225	215
Average annual pension	$48,845	$ 48,732
Number of temporary pensioners	2	3
Average temporary monthly pension	$4,194	$3,072
Average temporary pension total number of payments remaining	9.5 months	15.7 months

A SNAPSHOT OF YOUR PENSION PLAN

You participate in the defined benefit ("DB") pension plan. When you retire, you receive a set monthly pension payment for the rest of your life.

WHILE YOU ARE **WORKING**

You contribute

\+

The **University** contributes

To the **pension fund**

WHEN YOU **RETIRE**

You receive a **monthly pension**

How **much**?

It's based on how long you participated in the plan and how much you earned.

Your pension is paid for your lifetime. Plus — there's an option for your spouse. If you die first, your spouse will continue to receive a portion of your pension benefit.

GOING-CONCERN FINANCIAL POSITION OF THE PLAN

The financial position of the Plan on a going-concern basis is measured by comparing the actuarial value of assets to the actuarial liabilities assuming the Plan is continuing for the long-term.

The following table outlines the results of the actuarial valuation performed as at December 31, 2022. Comparative numbers as at December 31, 2021 are also provided.

		2022	2021
ASSETS	Fund value (net assets available for benefits)	$158,395,000	$187,553,000
LIABILITIES	Present value of accrued benefits for active members	$22,112,000	$32,519,000
	Pensioners	$122,878,000	$132,453,000
	Temporary pensioners	$77,000	$176,000
	Other members (inactive, deferred, pending transfers)	$1,748,000	$2,989,000
	Voluntary and transferred contributions	$357,000	$502,000
	Defined contribution account balances	$124,000	$180,000
	Transfer deficiency holdbacks	$61,000	$60,000
	Provision for adverse deviation	$7,341,000	$8,407,000
	Total actuarial liabilities	**$154,698,000**	**$177,286,000**
	SURPLUS	**$3,697,000**	**$10,267,000**
FUNDED RATIO (assets/liabilities)		**102.4%**	**105.8%**

CONTRIBUTION AND FUNDING REQUIREMENTS

The Plan has filed a valuation report with the regulators at December 31, 2022. The Plan revealed a going-concern surplus of **$3,697,000** and therefore no special payments are required.

The actuary has concluded that current contribution rates continue to be less than the benefits currently accruing to members of the Plan. The valuation at December 31, 2022 revealed a current service cost deficiency of **6.02%** of pensionable earnings. However, surplus assets are sufficient to cover this deficiency; therefore, no additional contributions are required to be made to the Plan.

HYPOTHETICAL WIND-UP POSITION OF THE PLAN

The Pension Benefits Act (Saskatchewan) requires the University to review whether the assets of the Plan would be sufficient to cover the liabilities of the Plan in the event of a plan wind-up. The following table outlines the wind-up position of the plan at December 31, 2022.

	2022	2021
Actuarial value of assets	$158,195,000	$187,353,000
Actuarial liability	$158,718,000	$197,506,000
Surplus/(Deficit)*	$(523,000)	$(10,153,000)
Solvency ratio (assets/liabilities)	99.7%	94.9%

*The Plan has been classified as a "Specified Plan" and is not required to fund solvency deficiencies.

1999 Academic Pension Plan Information

PLAN DOCUMENTS

Copies of the following documents are on file in the Pensions office. They are available for inspection by any member of the Plan during regular working hours by prior arrangements.

- Plan Text
- Financial Statements
- Actuarial Reports
- Auditor's Report
- Committee meeting agendas and minutes

OTHER AGENTS OF THE PLAN

Actuary:	**Aon**, Saskatoon
Investment Consultant:	**Aon**, Calgary
Custodian:	**CIBC Mellon**

Academic Defined Benefit Pension Committee

COMMITTEE MEMBERS

Faculty Association Appointees:

- **Gordon Sarty (Chair),** Psychology
- **Doug Dengenstein,** Physics and Engineering Physics
- **Phil Chilibeck,** Kinesiology

Board of Governor Representatives

- **Ana Crespo-Martin,** Faculty Relations
- **Sandra Baptiste,** Administration
- **Trevor Batters**, Administration

Observer

Michael Cuggy, ASPA

Meetings of the Committee

The Academic Defined Benefit Pension Committee met seven times during the year. Acting in its capacity as managing fiduciary, the Committee is responsible for the oversight of the 1999 Academic Pension Plan operations, including funding, investment, and administration of the Plan. The Committee activities over the past year in fulfilling these responsibilities are outlined below.

June 16, 2023	2.0 hours	• Quarterly investment performance review to Mar. 31, 2023 • 2022 Actuarial valuation review • Annual report and financial statements review at Dec. 31, 2022
May 10, 2023	1.0 hours	• Global equity manager search discussion
April 20, 2023	3.0 hours	• Global equity manager interviews
March 29, 2023	2.0 hours	• Quarterly investment performance review to Dec. 31, 2022 • Global equity manager search update
November 28, 2022	2.0 hours	• Quarterly investment performance review to Sep. 30, 2022 • Global equity manager search update • Custodian search update
October 4, 2022	1.0 hours	• Jarislowsky Fraser presentation debrief and discussion
September 23, 2022	1.5 hours	• Quarterly investment performance review to June 30, 2022 • Investment

Please contact the Pension Office at pension@usask.ca or any member of the Academic Defined Benefit Pension Plan Committee if you have any questions about the items covered in this newsletter.

2022 The Year In Review

INVESTMENT PERFORMANCE

The long-term investment goal of the Plan is to achieve a minimum annualized rate of return of at least 4.25%. To achieve this goal, the Plan adopted an asset mix balanced between Cash and Fixed Income Assets (i.e. Long Term and Universe Bonds, Money Market and Short-Term Investments) and Growth Assets (Equities and Real Estate). The responsibility for investing the assets of the Plan is delegated to four professional investment management firms with different mandates to ensure adequate investment diversification.

The Plan's Return Benchmark is a performance standard developed by the Plan's Investment Consultant, Aon. The Academic Defined Benefit Pension Committee and the Board of Governors approved the benchmark. The investment managers of the Plan are expected to meet or surpass the benchmark.

Investment Performance	2022	Last 4 Years	Last 10 Years
Return*	-9.6%	4.4%	7.0%
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*Gross of fees

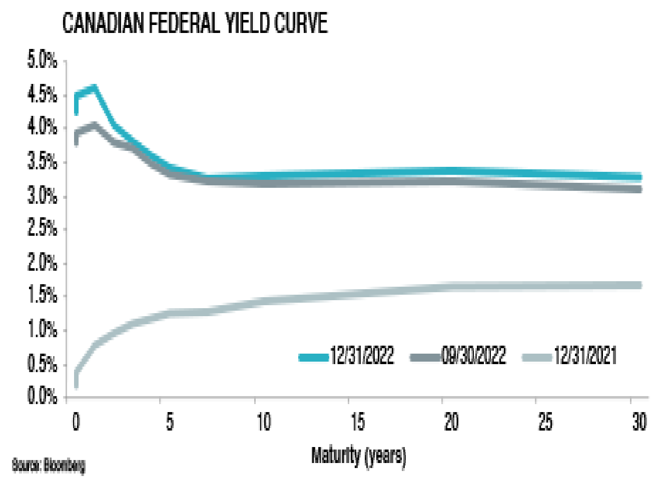
MARKET PERFORMANCE

Ongoing pandemic disruptions, Russian attack on Ukraine and emergent inflation resulted in 2022 being a very challenging year across most asset classes. For example, a balanced portfolio of 60% U.S. equities and 40% U.S. bonds had the worst performance since the Great Depression. It was the fourth time in 95 years that both, U.S. stocks and bonds, had negative annual returns and the magnitude of the losses was the greatest in 2022.

Canadian short-term interested rates that opened the year at below 1%, ended the year above 4.5%. This led to double digit losses in Canadian fixed income with mid-term bonds declining by -12% and long-term bonds losing -22% during the year.

Global equities lost more than -12% over the last twelve months with U.S. equities being among the worst performers, falling 18.1% in local currency terms. Canadian and international, non-U.S. equities fared slightly better with losses of -5.8% and -8.2% respectively, while the emerging markets sold off by -14.3%. Among industry sectors Information Technology and Consumer Discretionary stocks underperformed. After more than a decade of underperformance, value investing strategies outperformed the broad equity market.

Diversified Canadian real estate investments avoided losses during 2022 as inflation-linked characteristics mitigated negative valuation pressures from higher interest rates. Strong demand for industrial and multi-family, residential real estate offset the weakness in retail properties and uncertainty associated with office valuations.



The closing weeks of the year provided some reprieve to capital markets. The key source of relief was optimism over falling headline inflation which encouraged a view that central banks might manage to avoid further interest rate increases in 2023 while also steering economies away from recession.

PLAN PERFORMANCE

Prudent investment strategy and risk management focus of the University of Saskatchewan 1999 Academic Pension Plan protected the assets of the Plan by mitigation losses through diversification into Canadian equities and real estate. Plan's assets declined by -9.6% in 2022, gross of investment management fees and expenses. Performance was negative in the first half of the year followed by a positive second half.

One-year performance was driven by the weak, double-digit negative returns from Canadian Fixed Income and Global Equites, however the Plan's long term (10-year) return of 7.0% is ahead of the minimum 4.25% return objective.

Manager	Strategy	Q1	Q2	Q3	Q4	2022
BlackRock	CDN Long Bonds	-10.8%	-8.3%	1.0%	-0.4%	-17.8%
Jarislowsky Fraser	Equities	-9.3%	-12.0%	0.8%	7.2%	-13.9%
TDAM – Epoch	Global Equities	-0.6%	-5.6%	-3.8%	13.3%	2.4%
TDAM – Greystone	Real Estate	4.1%	3.8%	0.6%	-1.2%	7.4%
Total Funds		-6.5%	-6.4%	0.2%	3.0%	-9.6%

2023 Outlook

BONDS

While bond market performance is expected to improve in 2023, one factor that will need to be considered going forward is the upward move in underlying bond market volatility. It is true that the spikes in 2020 and 2022 can be explained by exceptional factors. The COVID-19 pandemic's economic disruption and policy changes account for the spike in 2020, and the sell-off last year clearly had a significant part to play in taking volatility to a higher level. There also seems to be an underlying trend towards higher volatility that can be seen even if we discount the extremes of 2020 and 2022.

Will this higher volatility last? The recent large hikes in policy interest rates have not helped. With a more stable monetary policy expected for the future, large volatility spikes could be avoided, though high levels of economic uncertainty remain.

Importantly, if the era of near zero interest rates has ended, we should expect that underlying bond market volatility is unlikely to fully return to the low levels seen in the past decade given the link between volatility and interest rate levels. This changed market behavior is of course not just a matter for government bonds, but bonds at large. The implications are that bond market transactions for liability or asset portfolio hedging will need extra care in implementation.

What about the outlook for bond yields? 10-year U.S. treasury yields are expected to be moving between 3.25% and 4.25%, as a 'trading' rule of thumb. Similarly, Canadian Federal yields appear to have peaked but may not fall back substantially from current levels.

Investors have been enthusiastic about buying credit in the past few months. Higher yields have been a big attraction – from floating rate credit to high yield and emerging market debt, all the way to longer duration investment grade, where yields reached the highest level in a decade. This rush has diminished credit's relative attractiveness somewhat. The peak in credit yields was reached in the fall of 2022, but high volatility made buying difficult. Since then both government yields and credit spreads have fallen back, taking Canadian and U.S. yields down. Further yield declines are less likely and could remain volatile. For investors looking to allocate to credit, corporate bond yields are still above poor yield levels seen in recent years. Looking ahead, given likely yield fluctuations, an opportunistic or phased buying plan might work well to take advantage of better entry levels as and when they arise.

EQUITIES

Global equities have had a few good months, throwing off some part of their earlier gloom. However, our view is that the conditions for a sustained rally are still not there for three reasons. First, the profits outlook is weakening. Q4 2022 earnings are now widely expected to show a year-on-year fall, particularly in the U.S. This could be the start of a period of declines, as margins, revenues and profits weaken. This could continue for much of this year, especially if a recession takes hold. Second, cash and bond yields continue to compare favorably to dividend yields, even after allowing for buybacks. Third, valuations, though improved with the market falls of 2022, are still not signaling much market cheapness, especially after recent gains. There is, in short, no credible basis for a sustained move higher in markets yet, even if further large falls are avoided.

Our preference continues to lean towards other sources of return. Those investors prioritizing liquidity at present will find private markets posing difficulties, though some opportunities in this space could be accommodated for others. Liquid strategies, which take advantage of elevated volatility prospered in 2022 on a relative and absolute basis (global macro hedge funds were up 9.7% in the year to November). These approaches still look a good place to look for alternative sources of liquid returns versus equities.

CURRENCIES

After a decade of strength which took the U.S. dollar to very high levels on a trade-weighted and inflation adjusted basis, the expectations are for the currency to be moving somewhat lower this year against most currencies. The relative pace of U.S. interest rate moves and the relative strength of the U.S. economy versus other regions seem largely to have been fully allowed for and we would expect some give-back in 2023.

The implication for the Canadian dollar, however, is likely to be different. Better economic news out of the Eurozone and China, along with a relaxation in the Bank of Japan's yield curve control, have supported these currencies. This has caused the Canadian dollar, which had been appreciating against the euro and yen since 2020, but weakening against the U.S. dollar since mid-2021, to reverse these trends from September. We had turned less positive on the Canadian dollar versus the U.S. dollar last quarter as higher interest rate sensitivities led us to believe that monetary policy would no longer keep pace with the U.S. This may have already materialized as the Bank of Canada has announced a pause in its rate hikes. While the Canadian dollar has remained firm against the U.S. dollar so far, we do think that it will struggle more as the global economy and investor sentiment weakens.

A weaker U.S. dollar also has implications across asset classes. For 2023, we would single out emerging market equities where a weaker dollar is supportive from two fronts. First, there is the direct translation effect of a weaker dollar on emerging market returns. More importantly, earlier dollar strength which had pushed up inflation in emerging economies is no longer likely to be a drag on market performance. Recently improved performance from emerging market assets should continue if the U.S. dollar descent continues. This is a key reason for a recent upgrade we made to emerging market assets.

REAL ESTATE

Following the period of relative price stability, retail and office properties face valuation pressures as online shopping and remote work persist. Looking forward, we monitor multi-family residential properties for signs of financial difficulties driven by refinancing cycles at higher borrowing costs. Industrial properties are expected to remain a stable component of real estate portfolios as the demand for properties related to supply chain logistics remains strong.

SUMMARY

- Avoiding a U.S. recession is critical for any market-bullish narrative to be sustained. This still looks to be tough to achieve, especially because the effects of 2022's large monetary tightening have yet to be fully felt.
- Inflation is moving lower, prompting a monetary policy pause by the Bank of Canada. However, rate cuts in Canada and the U.S. are not expected.
- Bond market volatility has picked up and the backdrop of high economic uncertainty suggests this could stick. Bond yields are expected to be moving in a wide range.
- A recent rush into credit has lowered their yields noticeably. Despite this, credits remain at attractive levels relative to the past decade. Buyers should consider phasing in, to take advantage of likely yield and credit spread fluctuations.
- The U.S. dollar looks to be turning after a decade of strength. The Canadian dollar, however, is at a disadvantage as the BoC pauses and energy prices remain off their recent highs. A weaker U.S. dollar also gives important support to long-suffering emerging market assets.
- Equities will still be battling stiff headwinds from a weaker earnings outlook and high cash and bond yields. We prefer to look elsewhere for return generation.

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