WE CARE.

1999 Academic Pension Plan

ANNUAL NEWSLETTER TO MEMBERSHIP

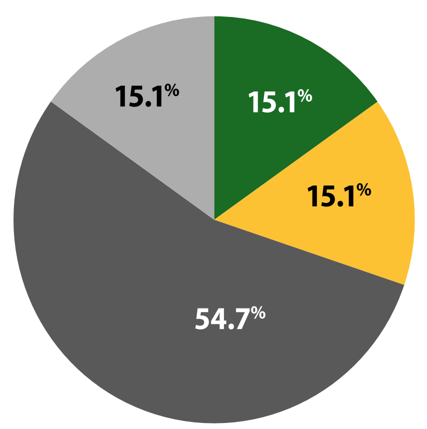
JULY 2024

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, 2023
- to review investments and investment performance of the Plan in 2023
- to report on the activities of the Academic Defined Benefit Pension Plan Committee (ADBPC)
- to review 2023 performance and look at the market outlook for 2023

Pension Plan Information at December 31, 2023

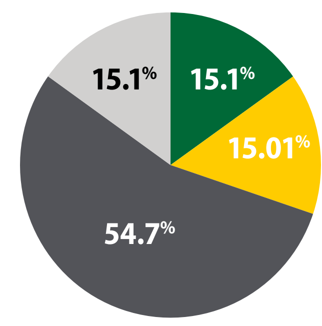
MARKET VALUE OF PENSION PLAN ASSETS



ASSET CLASSES	2023
Global Equities	$24,467,000
Global Low-Volatility Equities	$24,295,000
Total Equities	**$48,762,000**
Bonds	$88,317,000
Real Estate	$24,443,000
Total Fixed Income	**$112,760,000**
Total Market Value	**$161,522,000**

Distribution of Assets Among Investment Managers

INVESTMENT MANAGER	2023
BlackRock	$88,317,000
Arrowstreet	$24,467,000
TD Greystone	$24,443,000
TD Asset Management Epoch	$24,295,000



INVESTMENT PERFORMANCE

The long-term investment goal of the Plan is to achieve a minimum annualized rate of return of at least **5.65%**. 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.

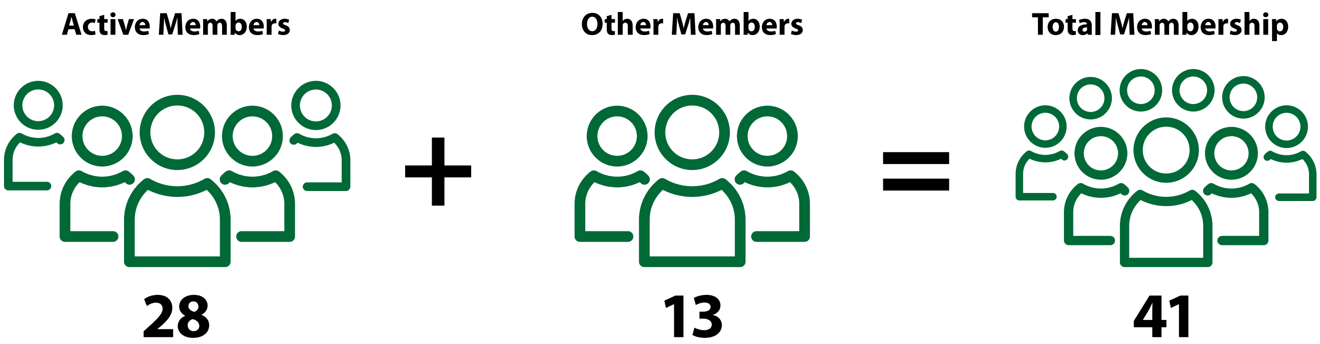
The Plan's Return Benchmark is a performance standard developed by the Plan's Investment Consultant, Aon. The Academic Defined Benefit Pension Committee and the Board of Governors have approved the benchmark. The investment fund managers of the Plan are expected to meet or surpass the benchmark.

Investment Performance	2023	Last 4 years	Last 10 years
Return*	9.3%	3.0%	6.1%
Benchmark*	10.6%	3.5%	6.2%

*Gross of fees

Actuarial Valuation at December 31, 2023

MEMBERSHIP DATA

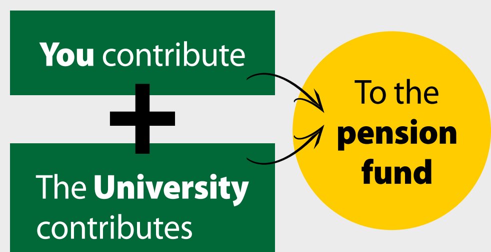


	2023	2022
Active Members	28	30
Other members (inactive, deferred, pending transfers, transfer deficiency holdbacks)	13	15
Average age of membership	59.4	58.6 years
Average pensionable service	24.7	23.7 years
Average pensionable salary	$136,435	$136,274
Expected average remaining service	5.4 years	5.9 years
Pensioners and beneficiaries	227	225
Average annual pension	$48,905	$48,845
Number of temporary pensioners	1	2
Average temporary monthly pension	n/a	$4,194
Average temporary pension total number of payments remaining	2 months	9.5 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**



WHEN YOU **RETIRE**

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, 2023. Comparative numbers as at December 31, 2022 are also provided.

		2023	2022
ASSETS	Fund value (net assets available for benefits)	$161,411,000	$158,395,000
LIABILITIES	Present value of accrued benefits for active members	$22,186,000	$22,112,000
	Pensioners	$124,936,000	$122,878,000
	Temporary pensioners	$8,000	$77,000
	Other members (inactive, deferred, pending transfers)	$1,742,000	$1,748,000
	Voluntary and transferred contributions	$388,000	$357,000
	Defined contribution account balances	$125,000	$124,000
	Transfer deficiency holdbacks	$63,000	$61,000
	Provision for adverse deviation	$7,443,000	$7,341,000
	Total actuarial liabilities	**$156,891,000**	**$154,698,000**
	SURPLUS	**$4,520,000**	**$3,697,000**
FUNDED RATIO (assets/liabilities)		**102.9%**	**102.4%**

CONTRIBUTION AND FUNDING REQUIREMENTS

The Plan has filed a valuation report with the regulators at December 31, 2023. The Plan revealed a going-concern surplus of **$4,520,000** 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, 2023 revealed a current service cost deficiency of **6.80%** 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, 2023.

	2023	2022
Actuarial value of assets	$161,211,000	$158,195,000
Actuarial liability	$160,237,000	$158,718,000
Surplus/(Deficit)*	$974,000	$(523,000)
Solvency ratio (assets/liabilities)	100.6%	99.7%

*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:

- **Robert Roy,** Agricultural and Bioresources Economics
- **Doug Dengenstein,** Physics and Engineering Physics
- **Phil Chilibeck (chair),** Kinesiology

Board of Governor Representatives

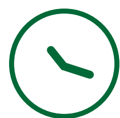
- **Ana Crespo-Martin,** Faculty Relations
- **Doral Johnson,** Administration
- **Clay Benaschuk**, Administration

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 12, 2024	3.0 hours	• Quarterly investment performance review to March 31, 2024 • 2022 Actuarial valuation review • Annual report and financial statements review at December 31, 2023
March 22, 2024	2.5 hours	• Quarterly investment performance review to December 31, 2023 • Annual newsletter and communications discussions
December 8, 2023	2.5 hours	• Quarterly investment performance review to September 30, 2022 • Governance Document Review • Investment Manager Presentation: TD Epoch
September 21, 2023	1.5 hours	• Quarterly investment performance review to June 30, 2023 • Investment Manager Presentation: TD Greystone

PENSION ADMINISTRATION AND SUPPORT

Pension Office, Administration
Room E140, Administration Building
105 Administration Place
Saskatoon, SK S7N 5A2

Tel: 306-966-6633
Email: **pension@usask.ca**
Web: **wellness.usask.ca/benefits/pension.php**

2023 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 5.65% as per the December 31, 2022 actuarial valuation. To achieve this goal, the Plan adopted an asset mix balanced between Cash & Fixed Income Assets (i.e. Long Term Bonds, Universe Bonds, and Cash) 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 returns of the benchmark.

Investment Performance	2022	Last 4 Years	Last 10 Years
Return*	9.3%	3.0%	6.1%
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*Gross of fees

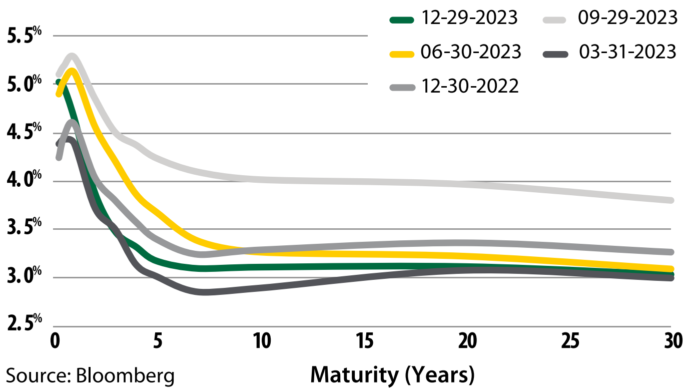
MARKET PERFORMANCE

After a difficult 2022, global markets rebounded in 2023. A major reason for the resurgence was monetary policy pauses by the major central banks and increasing expectations of rate cuts in 2024. Another important factor was the strong leadership of a handful of U.S. technology stocks that have been boosted by the Artificial Intelligence theme. Heading into 2024, the likelihood of recession, the trajectory of inflation, and the extent of rates cuts will be the key focus areas for the markets.

Bond yields ended 2023 near the same level they started, with the yield for the FTSE Canada Universe Bond Index falling from 4.28% at the end of 2022 to 3.94% at the end of 2023. However, it was a volatile year for bonds as yields moved meaningfully throughout the year, as seen in the chart below. Yield shifts during the year reflected the market's view on interest rate expectations and monetary policy. After raising rates three times in the first half of the year, the Bank of Canada held rates steady at 5% citing growing evidence that past rate hikes are having their intended effect on the economy and inflation. Overall, the FTSE Canada Universe Bond Index returned 6.7% and the FTSE Canada Long Bond Index returned 9.5% in 2023.

Global equities generated strong, positive returns over the last twelve months with the MSCI All Country World Index up 18.9%. Returns were driven by a small number of stocks branded the "Magnificent 7". These seven stocks, Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta Platforms and Tesla, accounted for 39% of the total MSCI ACW Index return in 2023, driven by Artificial Intelligence themes. U.S. Equities were the strongest performing region during the year, returning 26.3% in local currency terms,

CANADIAN FEDERAL YIELD CURVE



or 22.9% in Canadian dollar terms. Domestic markets also did well, with the S&P/TSX Composite returning 11.8%. As in the U.S., Information Technology was the strongest sector, returning 69%, with results driven by one single stock, Shopify, which returned 119% in the year, accounting for 20% of the Index return.

The Canadian commercial real estate market posted a 0.1% return (MSCI/REAL PAC Annual Property Index) in 2023. With the MSCI/REALpac Canada Quarterly Property Fund Index returning a weaker -2.0% return in the year. Rising capitalization rates and headwinds in office properties, along with macro-economic uncertainty drove negative returns in the real estate market.

PLAN PERFORMANCE

The University of Saskatchewan 1999 Academic Pension Plan delivered strong absolute returns over 2023. Equities and Fixed Income mandates we both major drivers of performance, while Real Estate only returned -0.1% over the year, largely due to property write-downs as a result of higher capitalization rates. Plan's assets increased by 9.3% in 2023, gross of investment management fees and expenses. Performance offered modest returns in the first half of the year followed by mixed performance in the second half.

Manager	Strategy	Q1	Q2	Q3	Q4	2023
BlackRock	Canadian Fixed Income	4.0%	0.0%	-6.8%	11.6%	8.2%
Arrowstreet	Global Equities	n/a	n/a	n/a	5.9%	n/a
TDAM – Epoch	Global Equities	3.0%	0.8%	-1.2%	6.5%	9.1%
TDAM – Greystone	Real Estate	-0.6%	1.5%	0.7%	-1.6%	-0.1%
Total Funds		4.0%	1.5%	-4.0%	7.8%	9.3%

2024 Outlook

BONDS

Last year's large upswing in bond yields followed by large falls to close the year almost at the levels at the year's start, highlighted the extent of inflation and interest rate uncertainty. This pattern was similarly reflected in Canadian Federal, U.S. and other G7 government bonds. Lower inflation is helping reduce some interest rate volatility, but inflation worries have not disappeared. From the U.S. Fed's perspective, wage and price setting that has reflected higher inflation expectations have a momentum of their own that takes time for tighter monetary policy to subdue.

However, monetary policy is not the only governmental factor impacting bond yields. We may also be reaching a point where markets cannot indefinitely ignore continued large fiscal deficits and rising government debt in the key developed markets. For many years, low bond yields suggested that budgetary problems in advanced economies were being very well tolerated. The bond risk premium (sometimes referred to as the 'term premium'), the component of bond yields which captures investors' perception of risks, stayed low, indeed mostly negative. We may, however, be reaching the point where bond markets become less tolerant. The large bond supply that continues to come from governments is then less easily absorbed.

This change in bond market mood comes from two factors. First, large deficits and rising government debt continue inexorably not just in the U.S. In Canada, Federal debt as a percentage of GDP seems low at 46.5%, but provincial indebtedness is another matter. Net debt has increased by over 180% in Alberta and over 120% in British Columbia since the Global Financial Crisis. The combined Federal and Provincial debt to GDP ratio is projected to rise to over 76% this year from 53% in 2008. Second, with interest rates now at pre-financial crisis levels, much higher debt levels mean large debt interest payments which are also pushing government borrowing higher. U.S. debt interest payments are more than twice the levels seen in the pre-Covid years. What are the implications? As bond markets price in higher risks, bond yields could stay high for longer or even rise further. The U.S. bond risk premium has been climbing for some time. A strong investor pushback to fiscal overruns and sudden rises in bond yields will shock markets at large and bring surging cross-asset class volatility.

Falling bond yields and tighter credit spreads late last year brought respite to investors nursing heavy credit losses since late 2021. Higher yields and de-risking from equities to credit bring institutional inflows, which helps explain tightening spreads even as economic growth weakens and credit risk rises. The key incentive for taking credit risk is to earn excess returns over government bonds of equivalent duration. While shorter-dated credit still offers scope to earn modest excess returns, longer-dated spreads are tight and depend on the soft-landing scenario and offer little return upside for investors even in benign economic conditions.

Bond yields are still attractive for strategic credit investors, but incentives for opportunistic buyers for earning excess returns are few. Lower risk, higher quality credit is a better choice in this environment. In fact, sub-investment grade credit is now unattractively priced on a spread basis, though high effective yields remain a support (U.S. high yield at around 8%) so long as risk appetites remain firm.

CURRENCIES

The strength of the U.S. dollar has had an impact on many currencies this year, not least the Canadian dollar. Yields have risen north and south of the border, of course, but U.S. yields have risen more, and this has been an important driver of Canadian dollar weakness.

Looking forward, it appears that the Bank of Canada rate cuts are now priced in, and sentiment is still very negative for the Loonie, which is often a contrary indicator. As global growth recovers, the Canadian dollar weakness against the U.S. dollar may be over for now.

EQUITIES

Approximately two thirds of the gains in the S&P 500 last year came from a handful of large stocks, branded the 'Magnificent Seven', which now make up 28% of U.S. market capitalization. Their strong market positions and high profit margins drive outperformance and higher valuations, with the rest of the U.S. and non-U.S. markets trailing. The 'Magnificent Seven' companies belong or are related to the technology sector often characterized by earnings growth that is expected to materialize further into the future. This longer 'duration', much like longer duration bonds, makes it sensitive to higher interest rates. It is striking then that it continues to outperform, by and large, even as bond yields have climbed. Notwithstanding this characteristic, the technology sector has been expensive for a long time with the highest price to earnings ratios (lowest earnings yield) in the US market.

The reasons for this are clear when we see profitability metrics, such as return on equity, net profit margins and cash generation, where technology still excels. Since tech represents the key component of 'growth' stocks, and financials are the bellwether sector for 'value', the lower cyclicality and earnings consistency of the technology sector vis a vis financials goes a long way in explaining why growth has continued to outperform value over such a long period.

Despite the impressive performance within the technology sector, it is important to remain cautious. Higher for longer interest rates and bond yields have reduced the expected excess returns in equities over bonds by lowering the equity risk premium to unattractive levels. While the global economy appears to have so far dodged recessionary headwinds, with high interest rates continuing and geopolitical event risk rising, the possibility of unforeseen shocks that hurt equities does not seem that far-fetched. This does not signal a particularly bearish view as such, but highlights the importance of portfolio rebalancing and strategy diversification towards strategies with lower sensitivity to economic cycles.

REAL ESTATE

Adapting to higher interest rates will continue to be challenging for segments of the market as existing debt matures. However, with publicly traded REITs having recovered from 2023 lows, it is expected that private market valuations may be close to bottoming out. In the context of elevated equity valuations and tight credit spreads, real estate has more adequately accounted for the risks from higher rates and global growth deceleration. Significant divergence of returns across real estate sectors over the next few years is expected, highlighting the importance of selective implementation and using high-quality managers.

SUMMARY

- Inflation is still falling, but slower than many market participants had hoped. Expectations for interest rate cuts later this year have been substantially scaled back.
- The geopolitical flashpoints globally have become too concerning for markets to carry on ignoring and they are now influencing markets.
- In a similar vein, still large government deficits and rising public debt that is more expensive to service, are harder for bond markets to shrug off.
- Any strong bond investor push-back to these fiscal trends would risk still higher bond yields, bringing prolonged market volatility. This is far from inevitable, but it is a rising risk that needs monitoring.
- On a two-year view, markets see yields being lower, but anticipate that the journey will remain a volatile one.
- Higher credit yields in recent years are a draw, but spreads are too tight, which indicates low reward for credit risk. Strategic credit buyers should 'average-in' and pace additional investments to take advantage of better entry points to come.
- The tech sector's long-term success in equity markets is fundamentally based on its lower earnings cyclicality and consistency. Excess optimism, not higher interest rates, are more likely threats to its performance lead.
- A low equity risk premium alongside a rising risk of macroeconomic or other setbacks keeps investors cautious on equities. Any rebalancing should keep portfolio weights no higher than target with spare cash deployed in other opportunities within alternative asset classes.
- Canadian dollar weakness versus the U.S. dollar may be coming to an end now.

USASK
PENSION

PENSION ADMINISTRATION AND SUPPORT

Pension Office, Administration
Room E140, Administration Building
105 Administration Place
Saskatoon, SK S7N 5A2

Tel: 306-966-6633
Email: **pension@usask.ca**
Web: **wellness.usask.ca/benefits/pension.php**