

# Annual General Meeting Investments Review

Presentation to the Members of the University of Saskatchewan 1999 Academic Pension Plan

October 24, 2016

Prepared by Aon Hewitt



# Agenda

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- Investment Objectives
- Role of Pension Committee
- Role of Investment Consultant
- Role of Asset Mix
- Asset Mix
- Total Portfolio - Performance
- Total Portfolio - Change in Market Value
- Market Update
- Questions?
- Appendix - Asset Class Overview

# Investment Objectives

## Plan Objectives

*“The purpose of the Fund is to provide for the accumulation of pension benefits to eligible members and to provide members of the Plan with retirement benefits prescribed under the terms thereof.”*

## Guiding Risk Philosophy

*“The assets of the Plan should be prudently managed to assist in managing funding volatility and excessive volatility in annual rates of return. The Plan uses a number of investment strategies to achieve the **relative** and **absolute** performance objectives set by the Committee.”*

## Dual Investment Objectives

### Benchmark Portfolio

(Performance, net of fees, relative to capital market indices that reflect target asset mix)

### Inflation Targeting

(CPI + 3.45% over 10+ years)

# Role of Pension Committee

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## **Establish, maintain and review investment policies and procedures**

- Investment objectives
- Asset mix / manager structure
- Permitted investments

## **Monitor investment performance versus Plan objectives**

- Overall fund
- Individual managers
- Compliance with investment policy

## **Replace investment managers as required**

# Role of Investment Consultant

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The Investment Consultant's responsibility is to provide strategic advice regarding the Pension Plan's investment policies, investment managers and investment performance issues.

## **Quarterly Committee Meetings**

- Performance Monitoring
- Compliance Reviews
- Market & Manager Updates
- Investment Trends Amongst Pension Plans & Institutional Investors

## **Annual Investment Policy Statement Reviews**

- Oversight of Regulatory Requirements
- Working Alongside the Pension Plan's Actuaries
- Discussion and Incorporation of Best Practices

## **Annual General Meeting**

- Updating the Pension Plan members

## **Other Projects**

# Role of Asset Mix

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## Fund Purpose - Provide Pension Benefits

- Ensure safety of capital
- Adequate return to support pension promise
  - Target long-term return of CPI + 3.45%

## Components

Bonds – provide stable and predictable income

- Low risk vehicle to help fund pension benefit payments
- But projected returns are well below the Plan's long term objective

Equities – provide potential for higher returns, but with greater risk

- Diversification by region helps reduce risk

Asset Mix – designed to balance the two competing objectives:

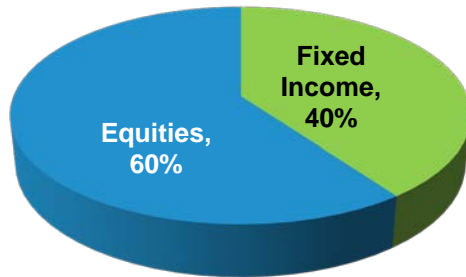
\*\* Safety of capital \*\*    \*\* Adequate returns \*\*

# Asset Mix

## Target Asset Mix

Balancing Growth with Stability & Income

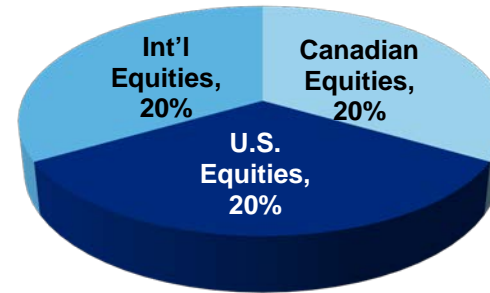
\$176 million as of June 30, 2016



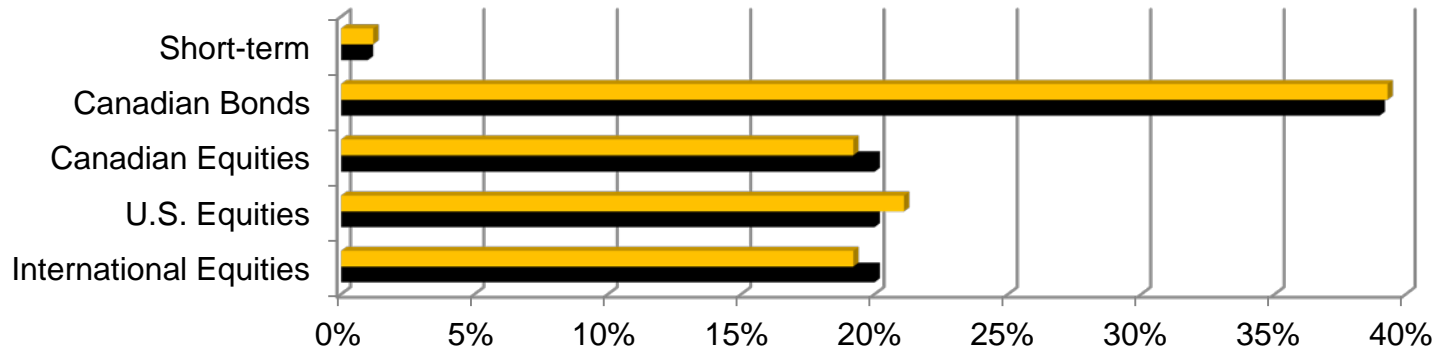
*Bonds help hedge impact of interest rate changes on liabilities.*

## Target Asset Mix: Equities

Diversifying "Narrow" Canadian Market



■ 30-Jun-16 ■ Policy



# Total Portfolio - Performance

## Strategy Summary

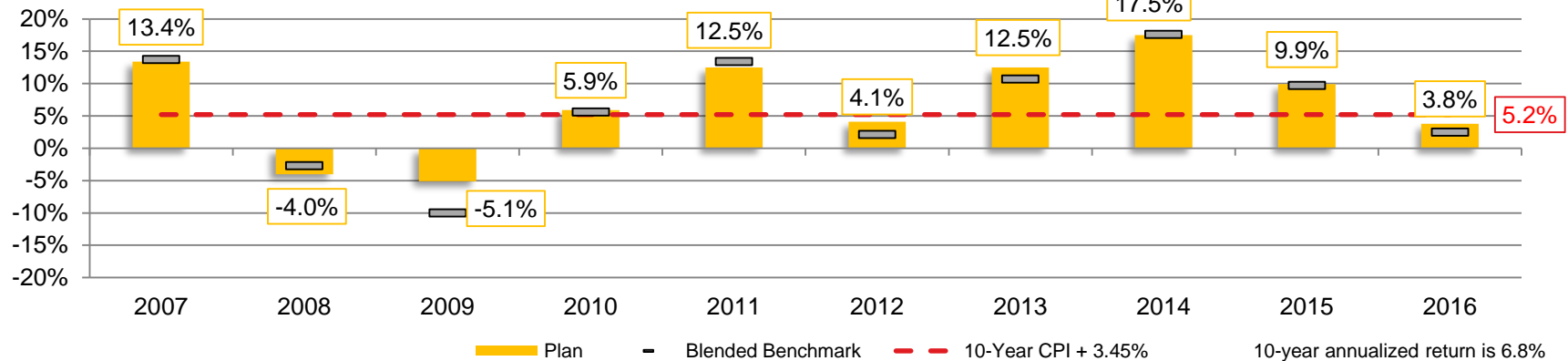
- Low cost passive management in bonds and U.S. equities, where adding value has proven difficult.
- Active equity manager of about 150 stocks with a Canadian focus, “growth at a reasonable price” investment philosophy and moderate active positioning versus the capital market indices
- Active international equity manager with a fairly concentrated deep value approach and a track record of outperforming the markets during negative return periods

## Performance Commentary

- Long-term annual return target of CPI + 3.45% (5.2%) has been exceeded by 1.6% net of fees over 10 years
- Performance versus capital market indices has also been positive (net of fees), but by a smaller margin
- Long-term performance has been superior in down markets, as expected given the manager structure
- Majority of value-added performance has come from Canadian and international equities
- Annual management fee is currently about 0.30%

## Performance

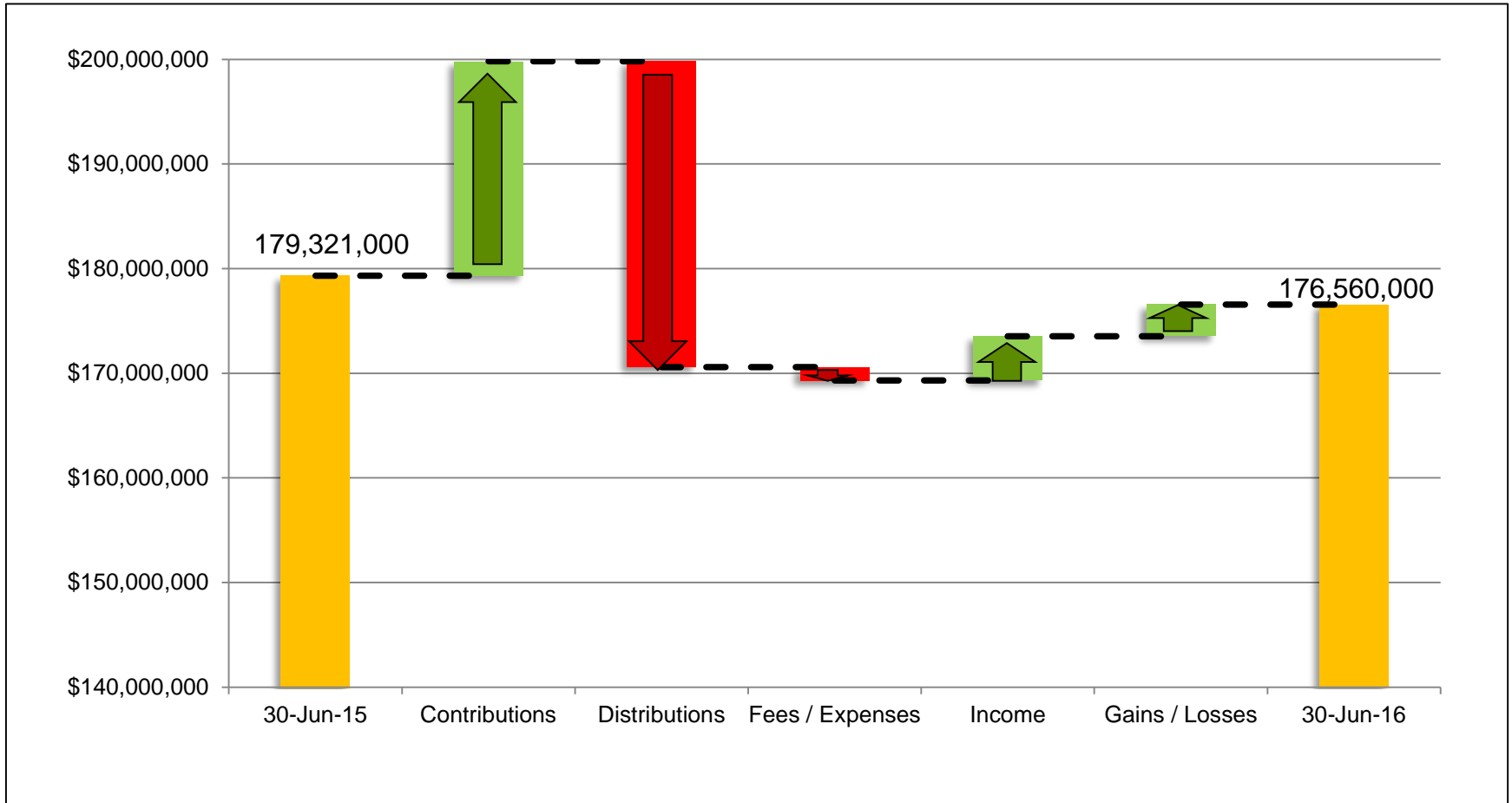
(net of fees, one year ending June 30)



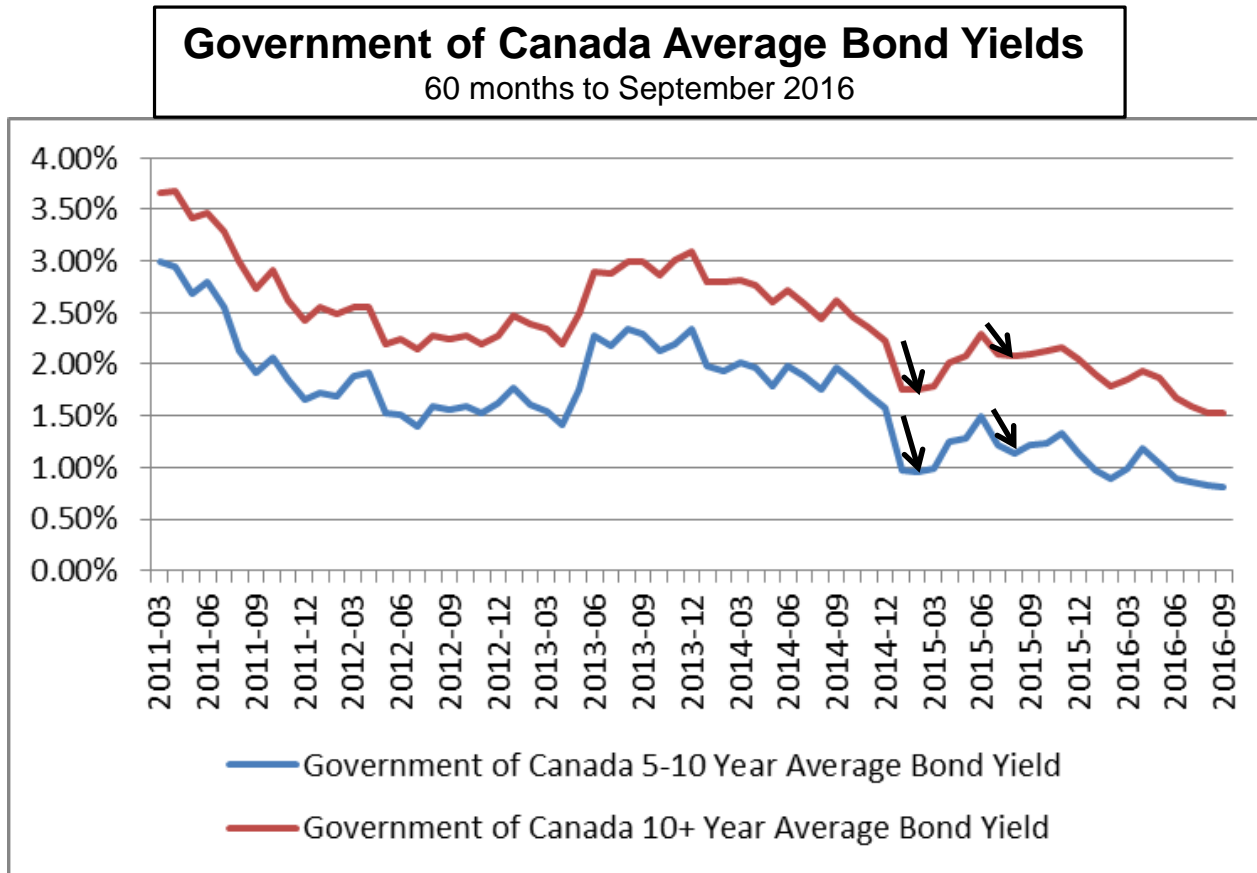
\* 1% 91-day FTSE TMX Canada T-Bill, 39% FTSE TMX Canada Universe Bond, 20% S&P/TSX Composite, 20% S&P500 (CAD), 20% MSCI EAFE (net withholding tax ) (CAD)



# Total Portfolio – Change in Market Value



## Lower For Longer? Canadian Bond Yields

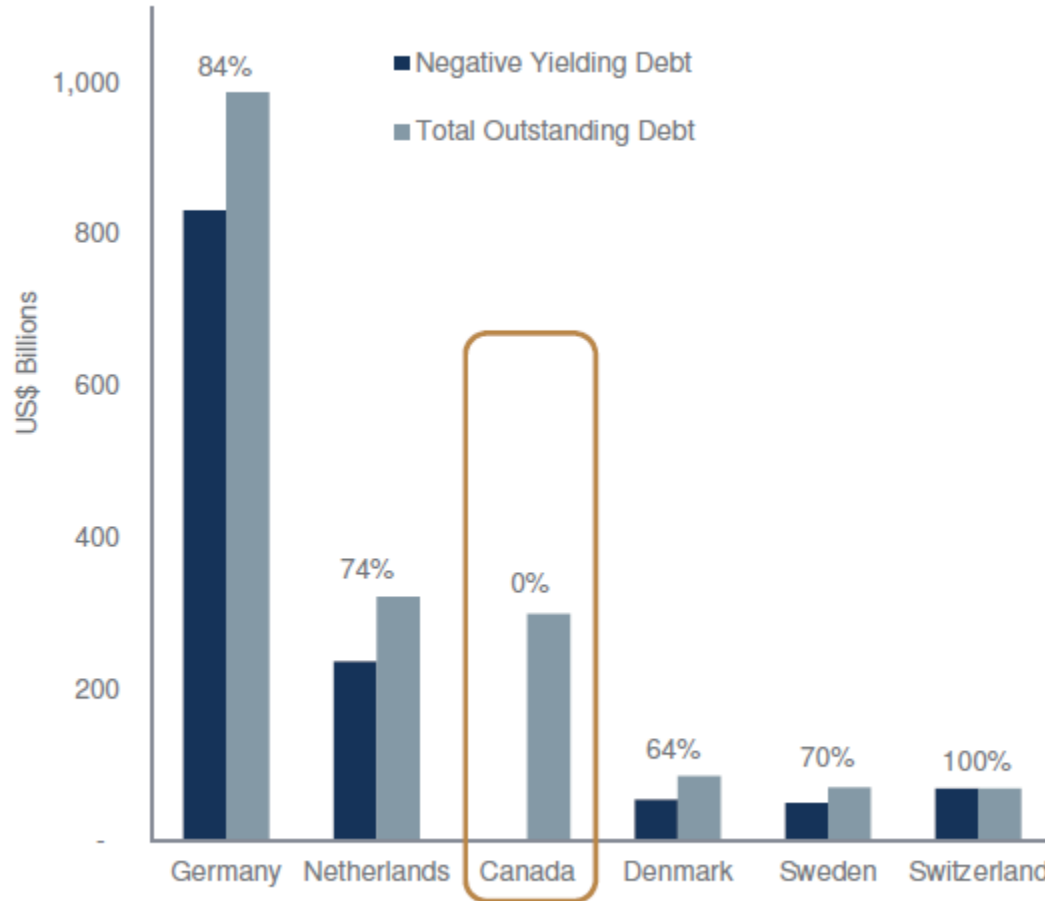


Source: Bank of Canada

→ Bank of Canada rate cuts

# Market Update (continued)

## Lower For Longer? Global Bond Yields



As at June 30, 2016  
Source: Bloomberg Global Developed Sovereign Bond Index

## Market Update (continued)

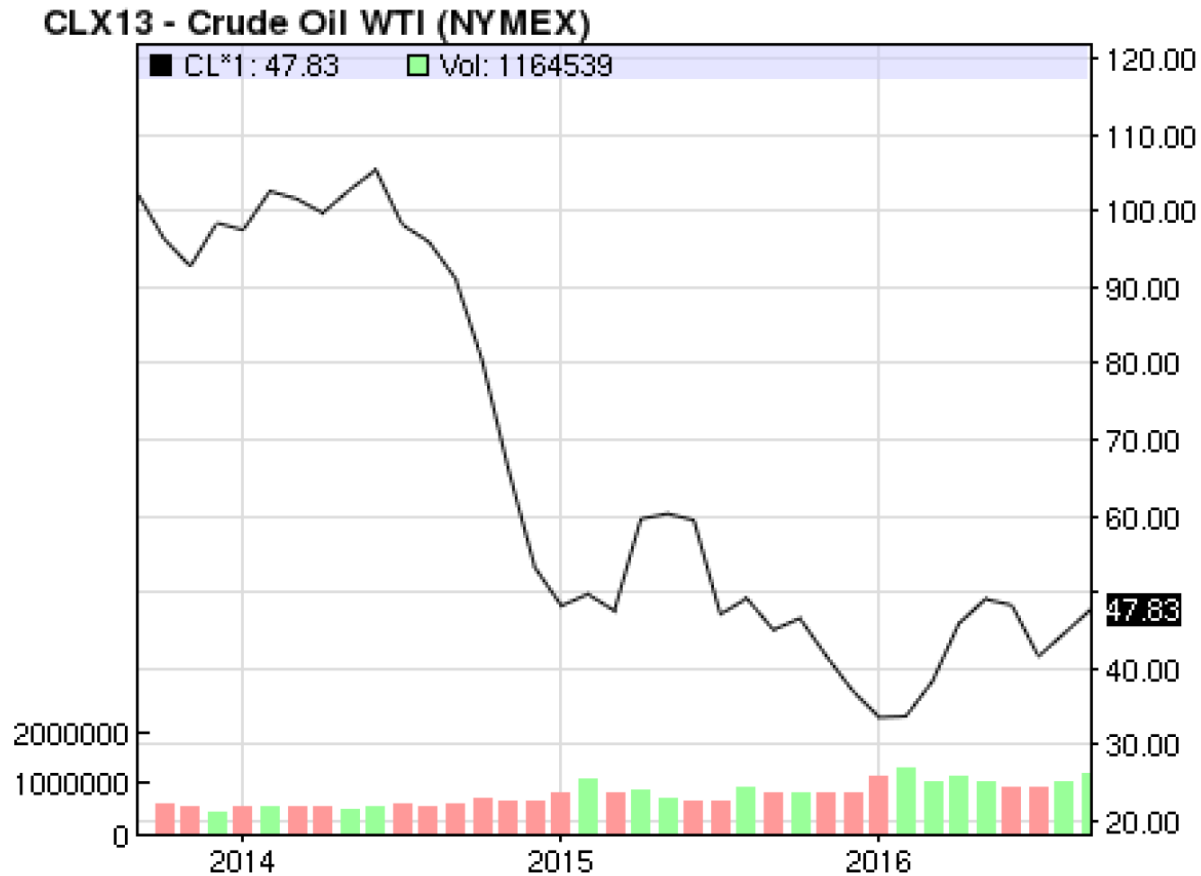
### Lower For Longer? Chinese Growth



SOURCE: WWW.TRADINGECONOMICS.COM | NATIONAL BUREAU OF STATISTICS OF CHINA

## Market Update (continued)

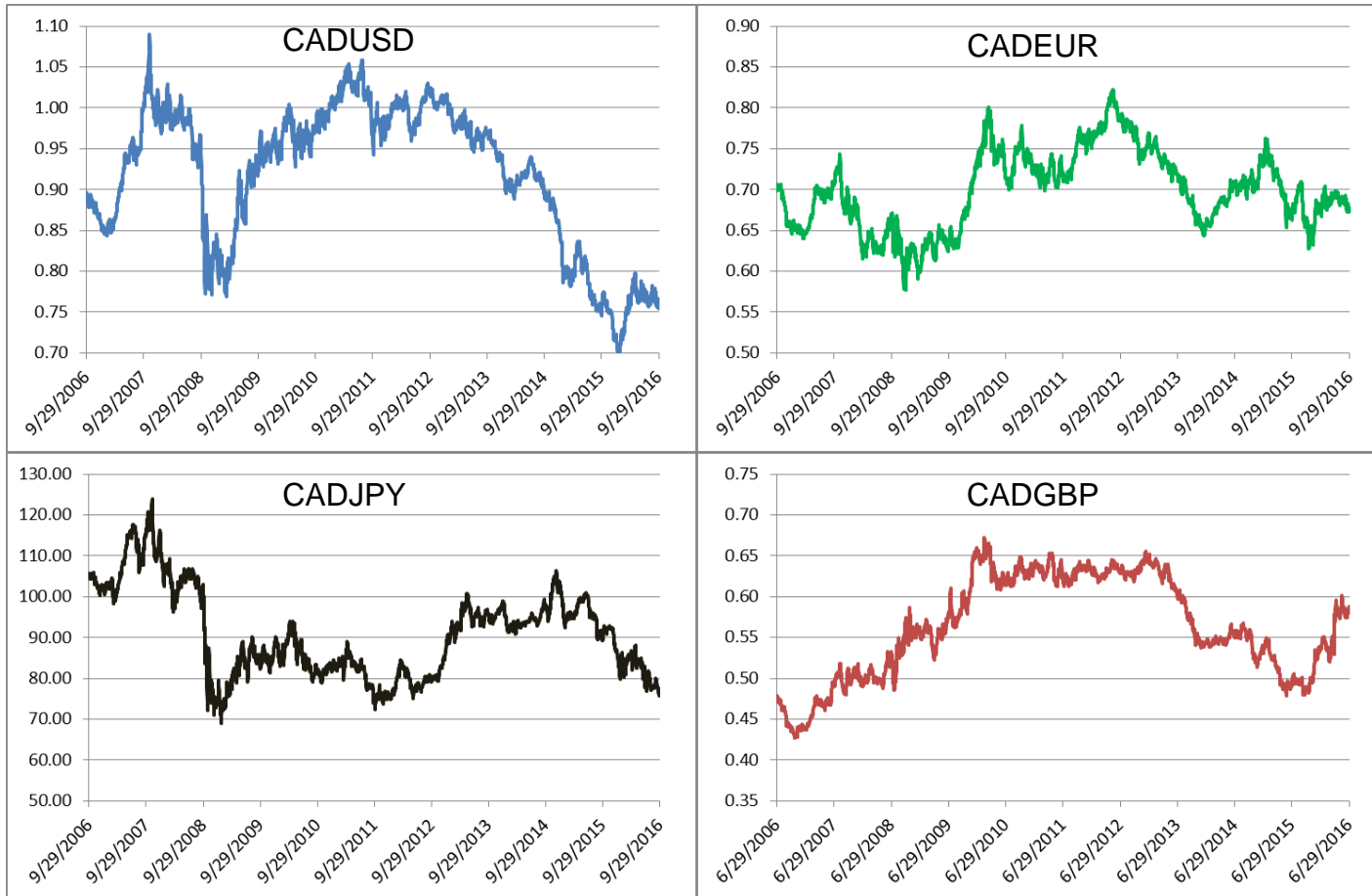
### Lower For Longer? The Price of Oil



Source: NASDAQ as of September 29, 2016 in US dollar terms.

# Market Update (continued)

## Lower For Longer? Canadian Dollar Weakness

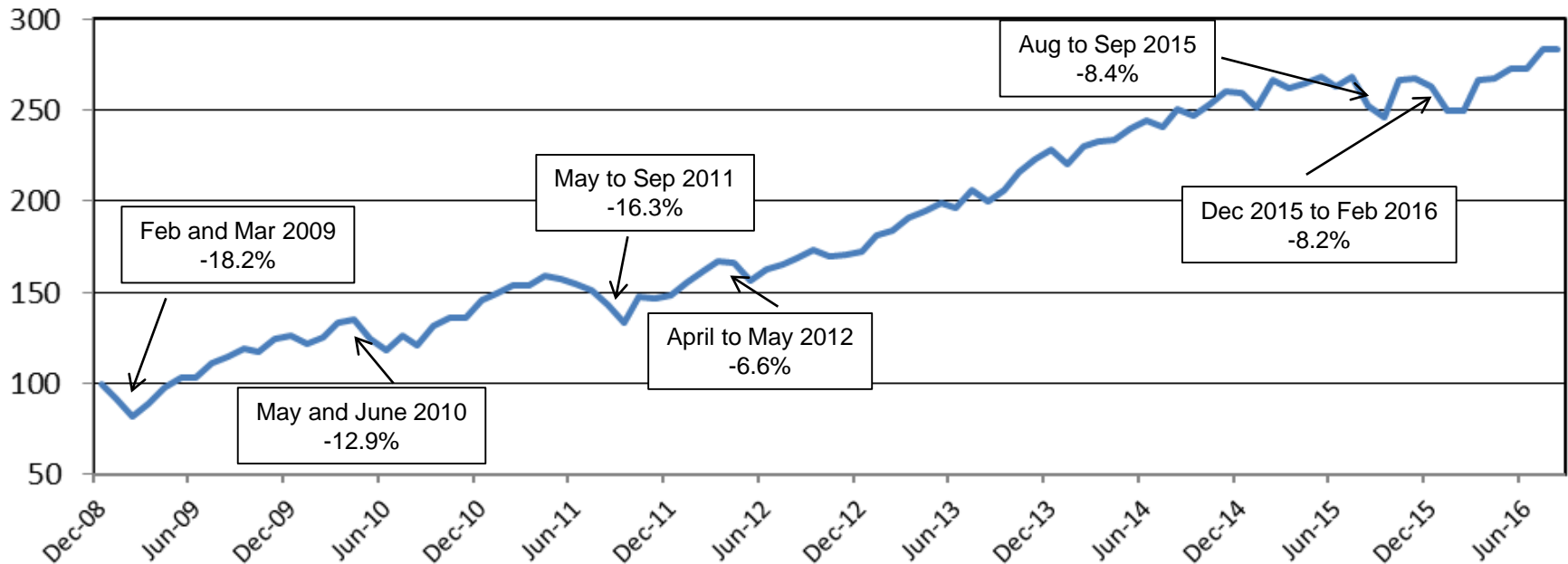


Source: Bank of Canada.

## Market Update (continued)

### Is the Rally in Equity Markets Starting to Stall?

#### S&P500 (USD)



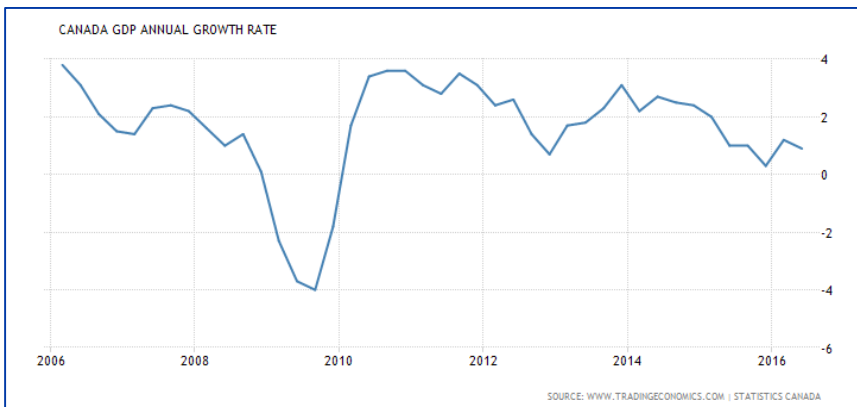
Source: Standard & Poor's.

## Market Update (continued)

### What is an Investor to do?



Deposit rates have been below the annual GDP growth rates in Canada since 2010.



As a result, Canadian investors are losing money in real terms by investing in cash.

*“The key to making money is to stay invested.”*

**Suzie Orman**



## Questions?

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Senior Consultant

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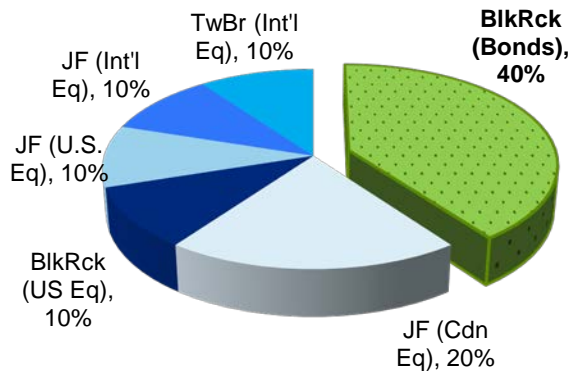
[raymond.aoki@aonhewitt.com](mailto:raymond.aoki@aonhewitt.com)

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## Appendix – Asset Class Overview

# Canadian Bond Allocation

## Manager Structure

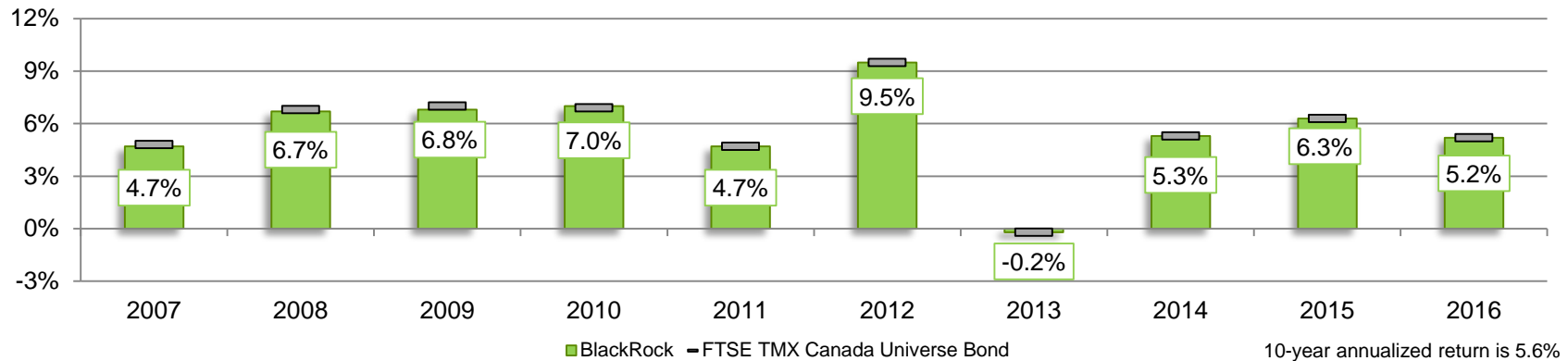


## BlackRock (BlkRck) Strategy Summary

- Index strategy aims to match the performance of the broad Canadian investment grade bond market
- BlackRock has achieved this goal on a pre-fee basis
- BlackRock is a large and well resourced manager
- Yield is approximately 1.8%
- Annual management fee is approximately 0.1%

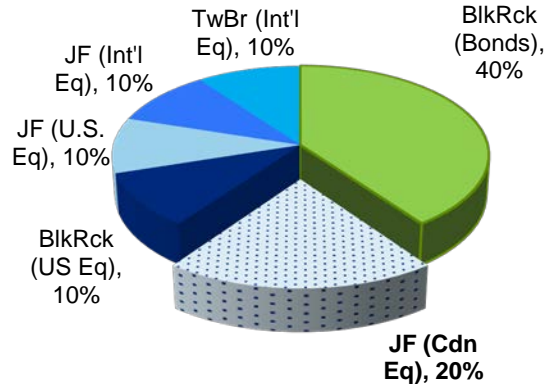
## Performance

(gross of fees, one year ending June 30)



# Canadian Equity Allocation

## Manager Structure

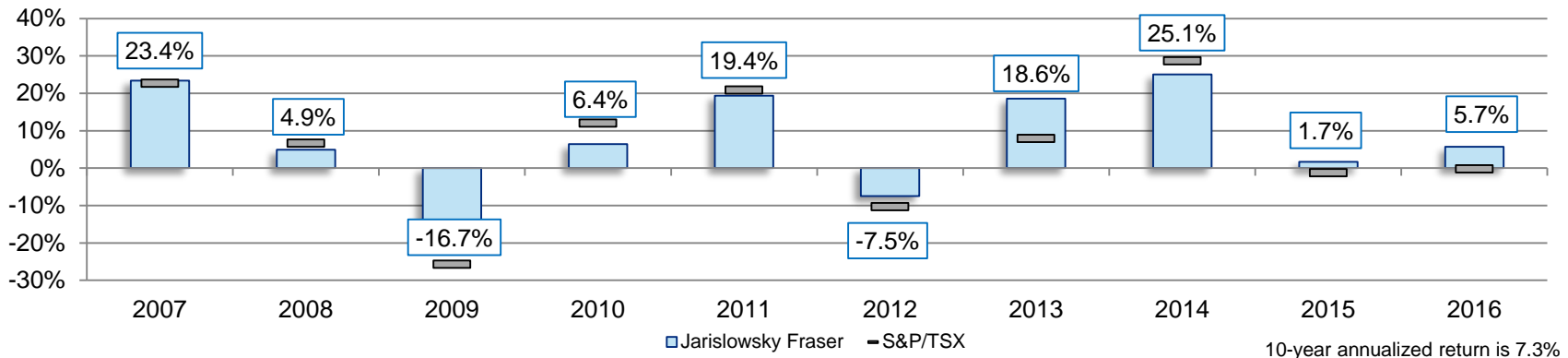


## Jarislowsky Fraser (JF) Strategy Summary

- Active mandate part of an equity portfolio, allowing tactical geographic shifts between Canada, U.S. and international equities
- Approach is “growth at a reasonable price”
- Dividend yield is approximately 2.9%
- Blended management fee based on assets under management is approximately 0.3% per annum

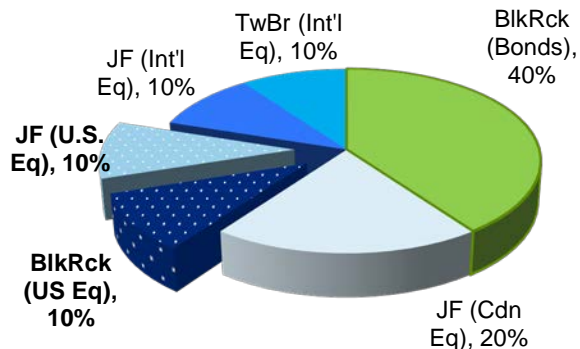
## Performance

(gross of fees, one year ending June 30)



# U.S. Equity Allocation

## Manager Structure



## BlackRock (BlkRck) Strategy Summary

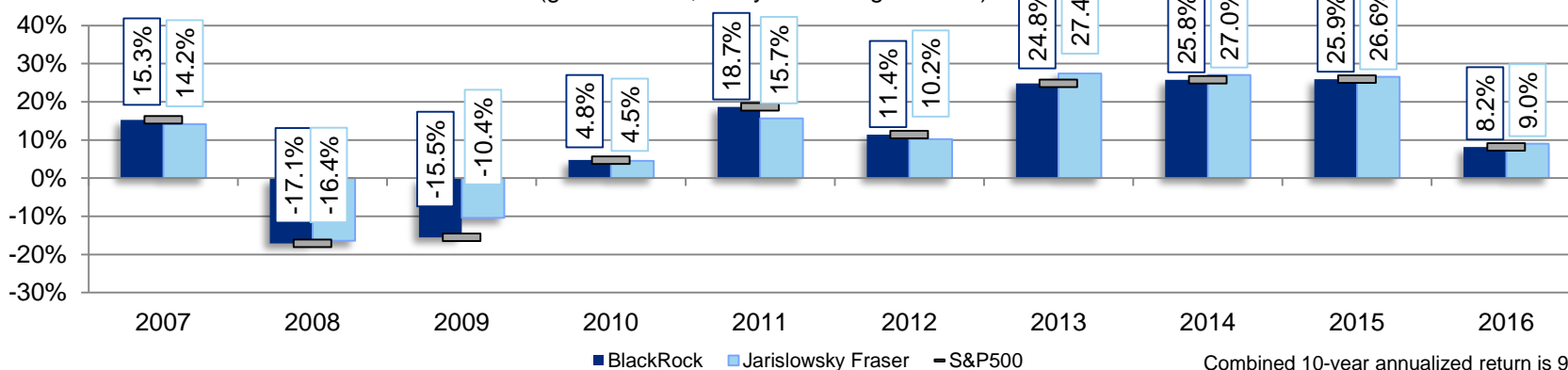
- Index strategy aims to match the performance of the 500 largest companies in the U.S. stock market
- BlackRock has achieved this goal on a pre-fee basis
- Annual management fee is approximately 0.1%

## Jarislowsky Fraser (JF) Strategy Summary

- Active mandate part of a global equity portfolio, allowing tactical geographic shifts between Canada, U.S. and international equities
- Approach is “growth at a reasonable price”
- Blended annual fee based on assets is approximately 0.3%

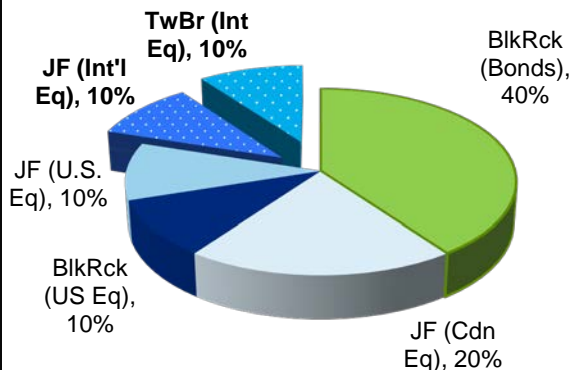
## Performance

(gross of fees, one year ending June 30)



# International Equity Allocation

## Manager Structure



## Jarislowsky Fraser (JF) Strategy Summary

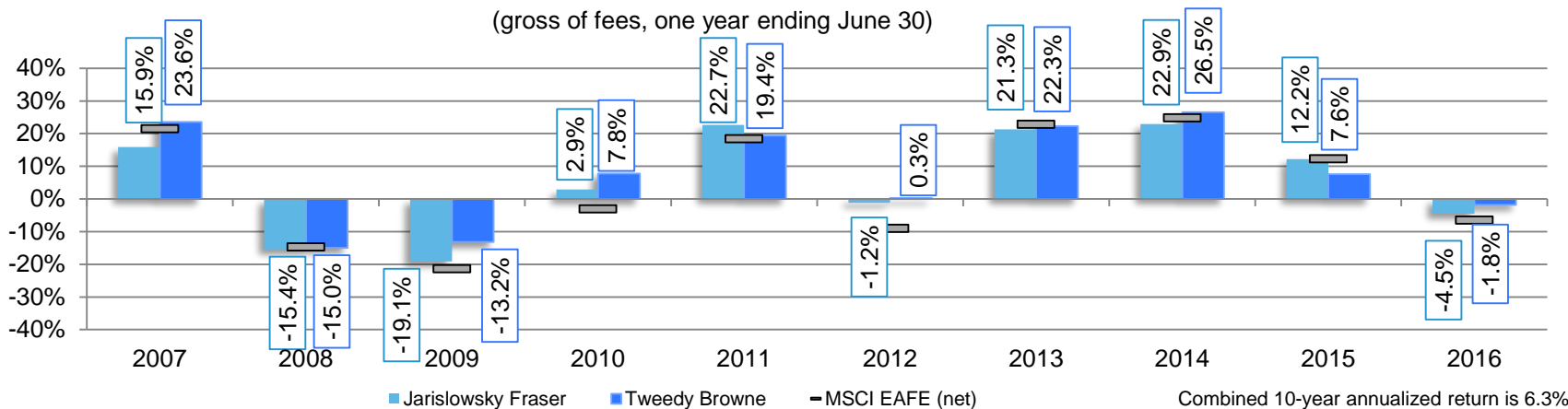
- Active mandate part of a global equity portfolio, allowing tactical geographic shifts between Canada, U.S. and international equities
- Approach is “growth at a reasonable price”
- Annual management fee of 0.7%

## Twedy Browne (TwBr) Strategy Summary

- Active international equity manager with a fairly concentrated deep value approach and a track record of outperforming the markets during negative return periods
- Annual management fee of approximately 1.4%

## Performance

(gross of fees, one year ending June 30)



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