



# **Annual General Meeting Investments Review**

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

October 19, 2017

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 (Current)

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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
- 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 \*\*

# Role of Asset Mix (Future)

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## Additional Components

### Canadian Commercial Real Estate

- expected to provide diversification benefits and some inflation protection
- returns are expected to be better than fixed income but less than equities
- returns are expected to be less volatile than equities but more volatile than fixed income

### Global Low Volatility Equities

- expected to provide market-like equity returns when markets are strong
- expected to significantly outperform the market when equity markets are weak
- returns are expected to be better than fixed income and real estate but less than traditional equities
- returns are expected to be less volatile than traditional equities and real estate and in line with fixed income

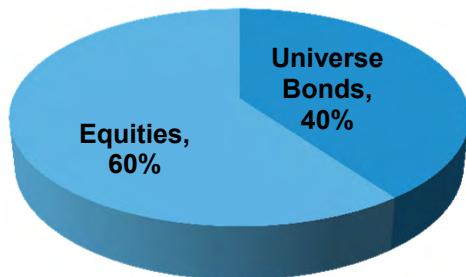
### Long Term Bonds (i.e. investing in bonds with maturities of 10 years or greater)

- maturity profile is more in line with the liabilities of the Plan
- allocation to increase as the Plan's financial position improves

# Asset Mix

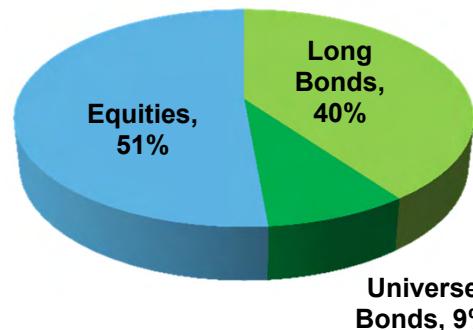
**Target Asset Mix as of June 30, 2016**

Market Value: \$176 million

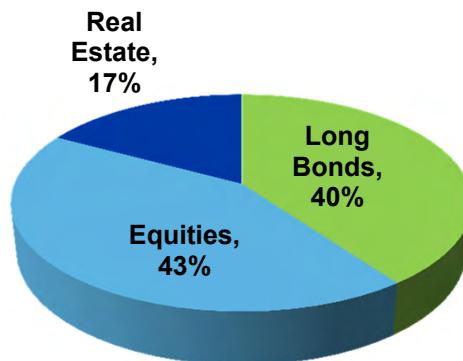


**Target Asset Mix as of June 30, 2017**

Market Value: \$182 million



**Future Target Asset Mix**



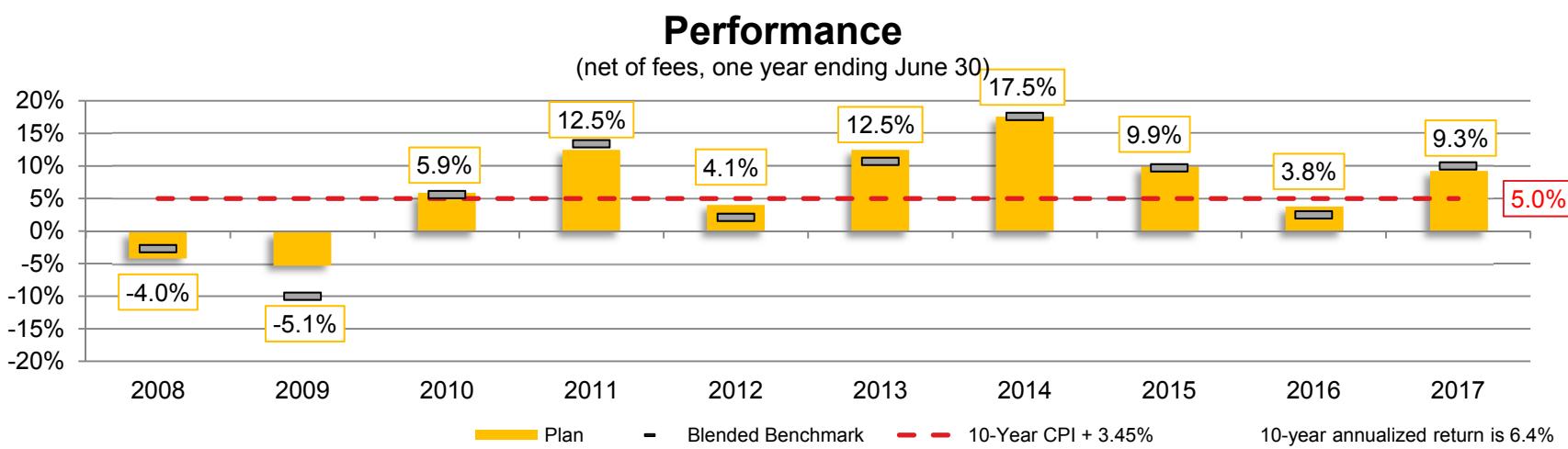
# Total Portfolio - Performance

## 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

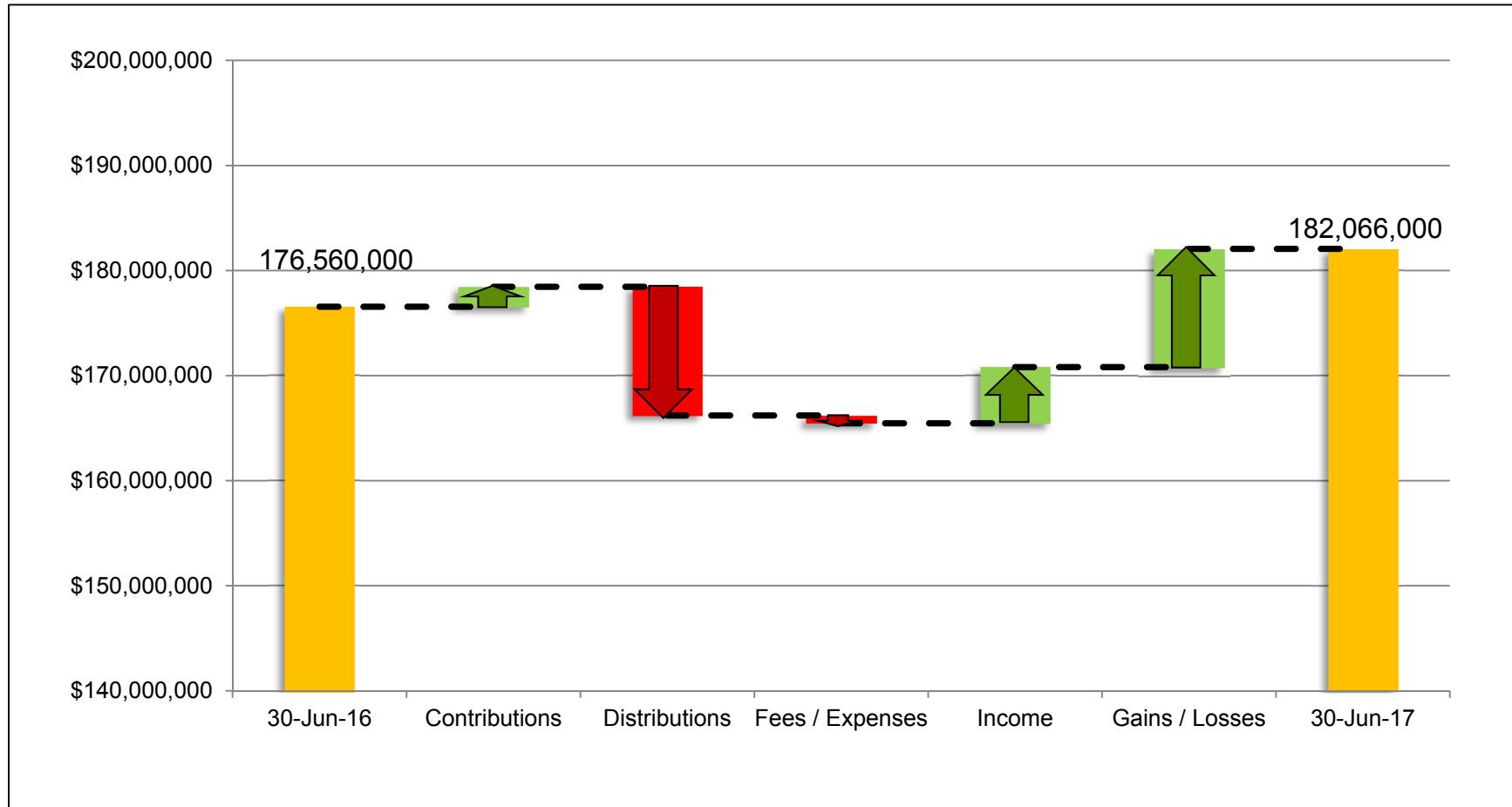
## Performance Commentary

- Long-term annual return target of CPI + 3.45% (5.0%) has been exceeded by 1.4% 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%



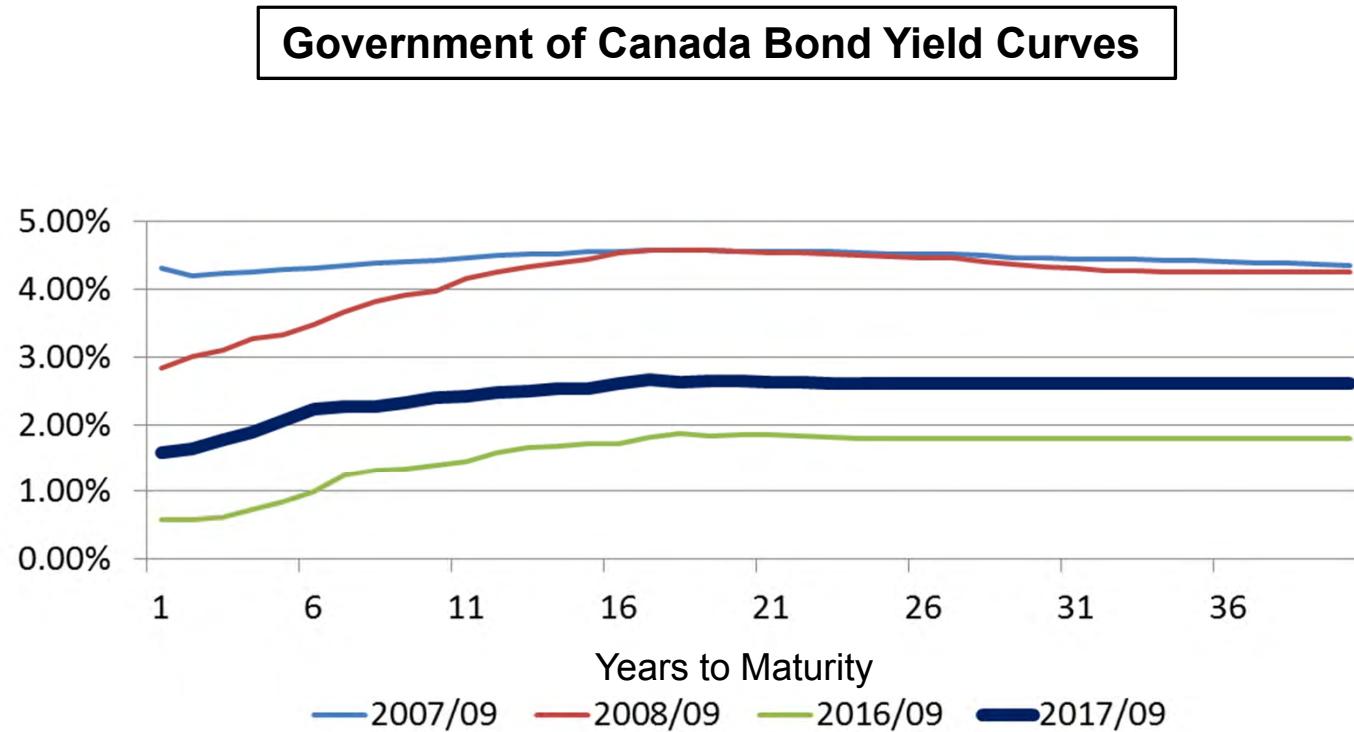
\* 1% 91-day FTSE TMX Canada T-Bill, 39% FTSE TMX Canada Universe Bond, 20% S&P/TSX Composite, 20% S&P500 (CAD), 20% MSCI EAFE (net withholding tax) (CAD)

## Total Portfolio – Change in Market Value



## Market Update

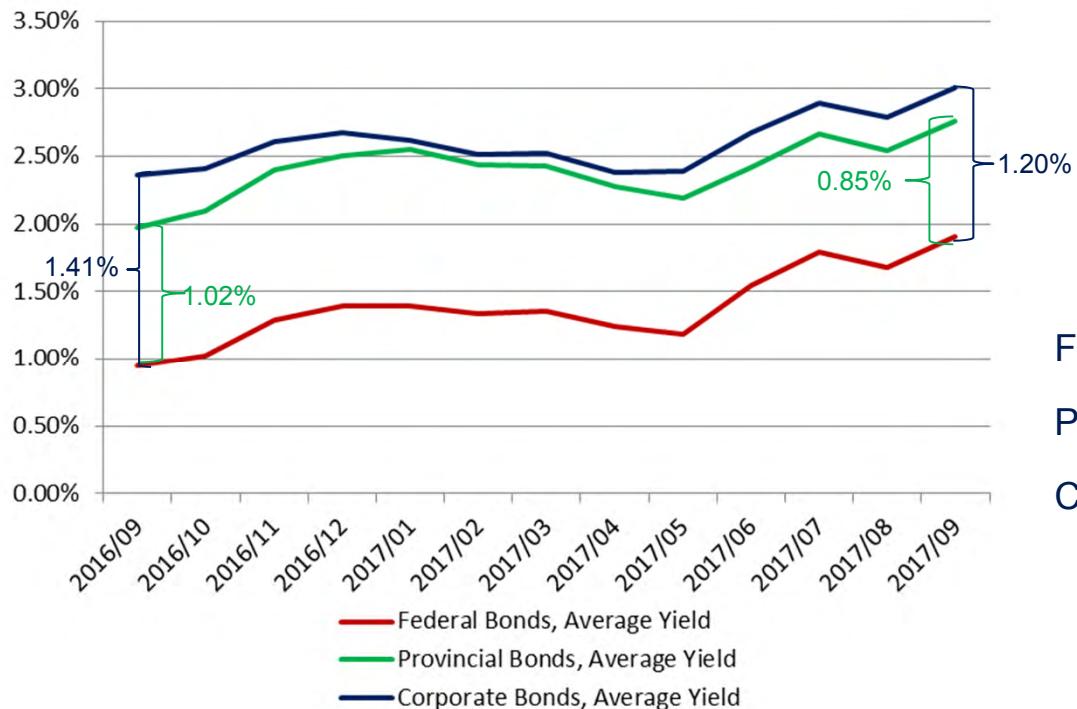
### Rising Bond Yields Have Resulted in Negative Returns



Source: FTSE TMX Global Debt Capital Markets

## Market Update (continued)

### Rising Bond Yields Have Resulted in Negative Returns



1-Year Return to  
Sept. 30, 2017

Federal Bonds	-4.72%
Provincial Bonds	-3.97%
Corporate Bonds	-0.36%

Source: FTSE TMX Global Debt Capital Markets

## Market Update (continued)

### Chinese Growth – Have We Found A Bottom at 6.7%?



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

## Market Update (continued)

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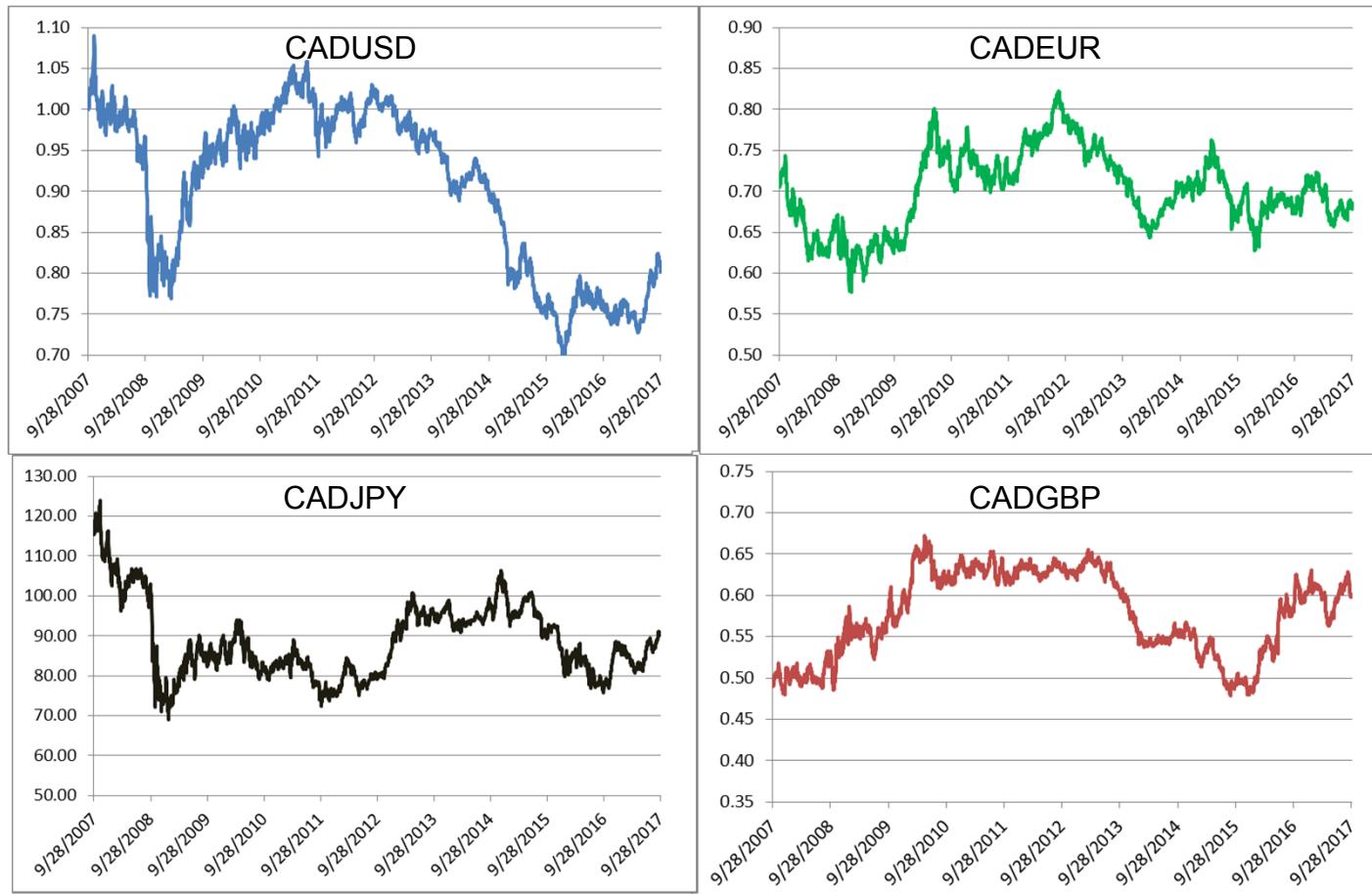
### Oil Continues to Languish



Source: West Texas Crude. NASDAQ as of September 29, 2017 in US dollar terms.

## Market Update (continued)

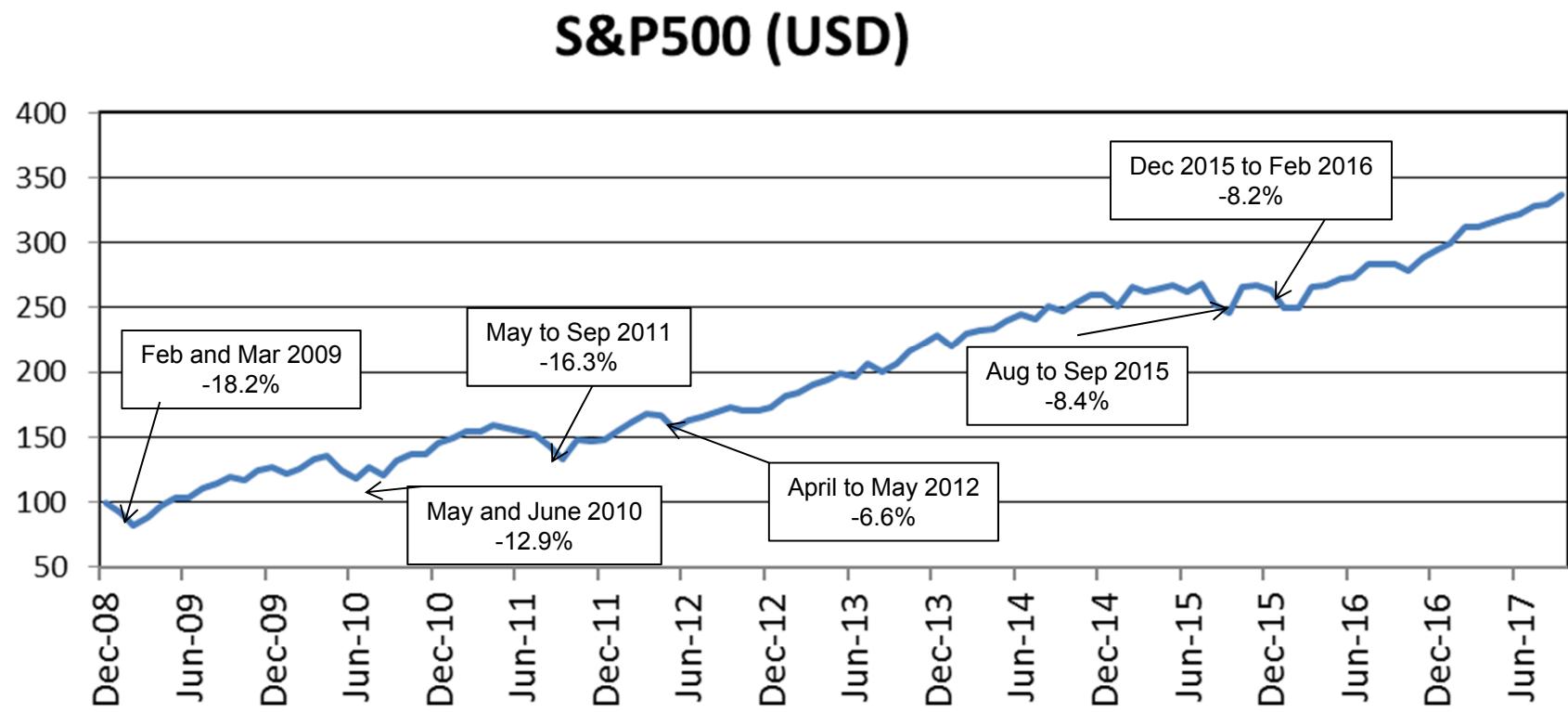
### Canadian Dollar Rebound: Will it continue?



Source: Bank of Canada.

## Market Update (continued)

### Equity Markets Continue to Rise Higher



Source: Standard & Poor's.

## Market Update (continued)

### Investing in Cash – Still Negative in Real Terms



Deposit rates have been below inflation rates in Canada since 2013.

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

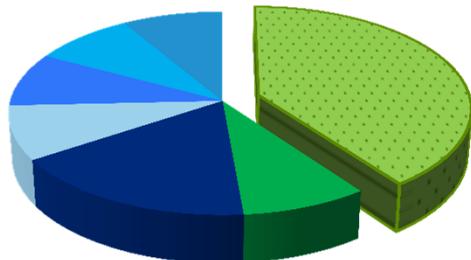
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## Appendix – Asset Class Overview

# Canadian Bond Allocation – Long Bonds

## Manager Structure

BlackRock Long Bonds, 40%

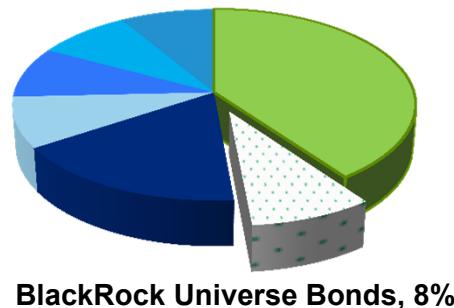


## BlackRock Long Bonds Strategy Summary

- Index strategy aims to match the performance of the broad Canadian investment grade long bond market
- BlackRock has achieved this goal on a pre-fee basis historically
- BlackRock is the world's largest asset manager
- Current yield is approximately 2.95%
- Annual management fee is approximately 0.033%
- Initial investment was made in June 2017.

# Canadian Bond Allocation – Universe Bonds

## Manager Structure

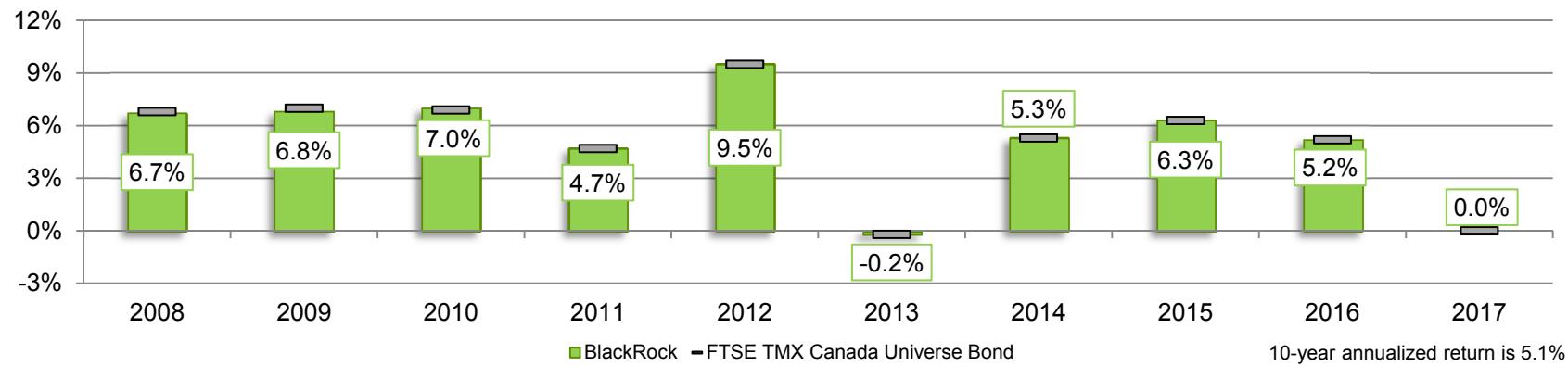


## BlackRock Universe Bonds Strategy Summary

- 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 the world's largest asset manager
- Current yield is approximately 2.25%
- Annual management fee is approximately 0.033%

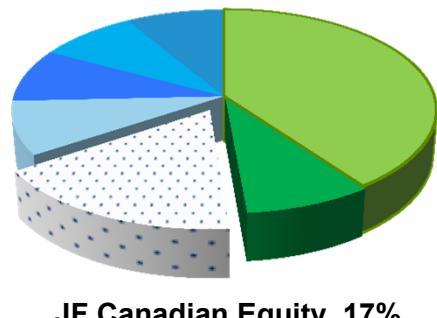
## Performance

(gross of fees, one year ending June 30)



# Canadian Equity Allocation

## Manager Structure

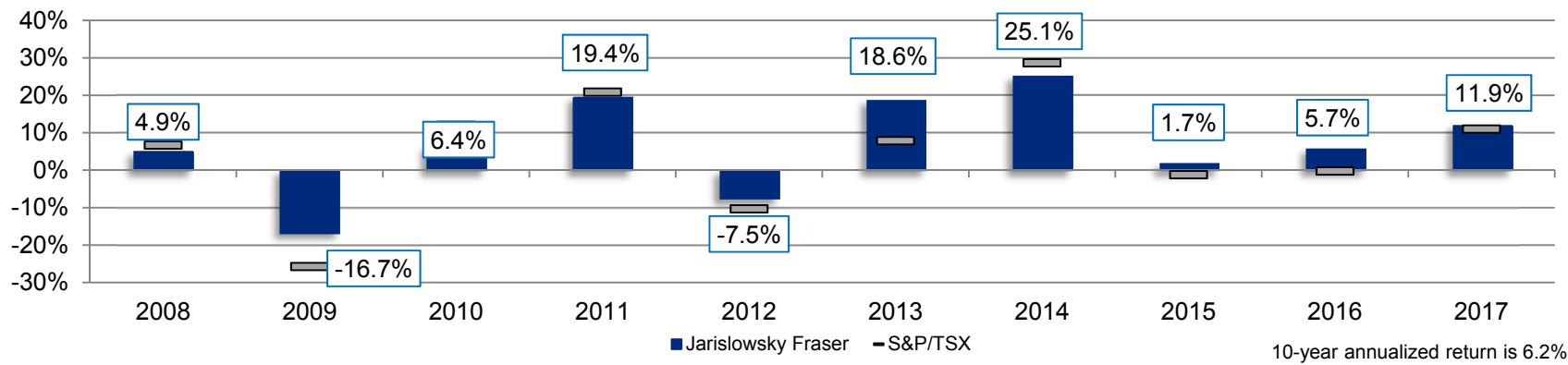


## Jarislowsky Fraser (JF) Strategy Summary

- 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 2.8%
- Blended management fee based on assets under management is approximately 0.33% per annum

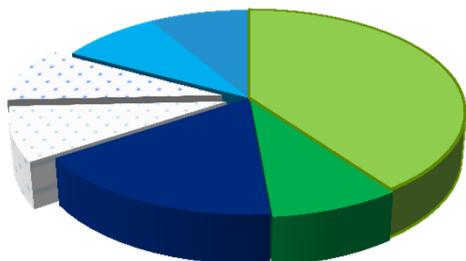
## Performance

(gross of fees, one year ending June 30)



# U.S. Equity Allocation

## Manager Structure



JF & BlackRock US Equity, 17%

## BlackRock Strategy Summary

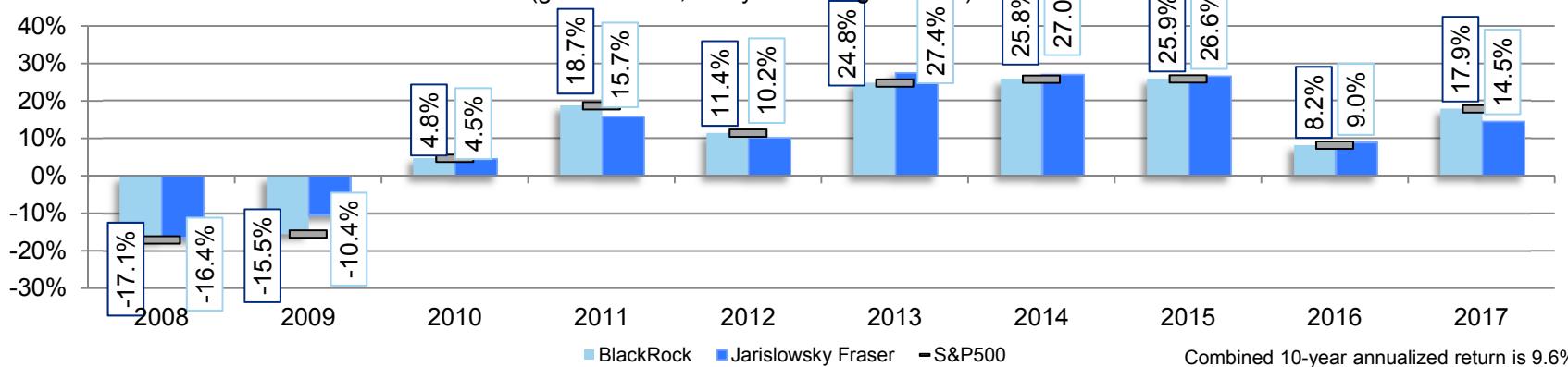
- Index strategy aims to match the performance of the 500 largest companies in the U.S. stock market
- BlackRock has achieved this goal on a pre-fee basis
- Annual management fee is approximately 0.033%

## 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 0.33%

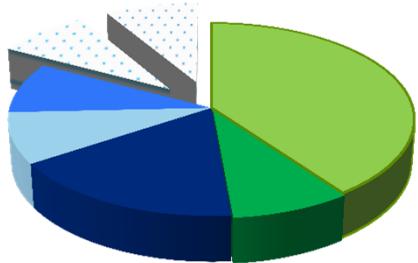
## Performance

(gross of fees, one year ending June 30)



# International Equity Allocation

## Manager Structure



JF & Tweedy Browne Int'l Equity, 17%

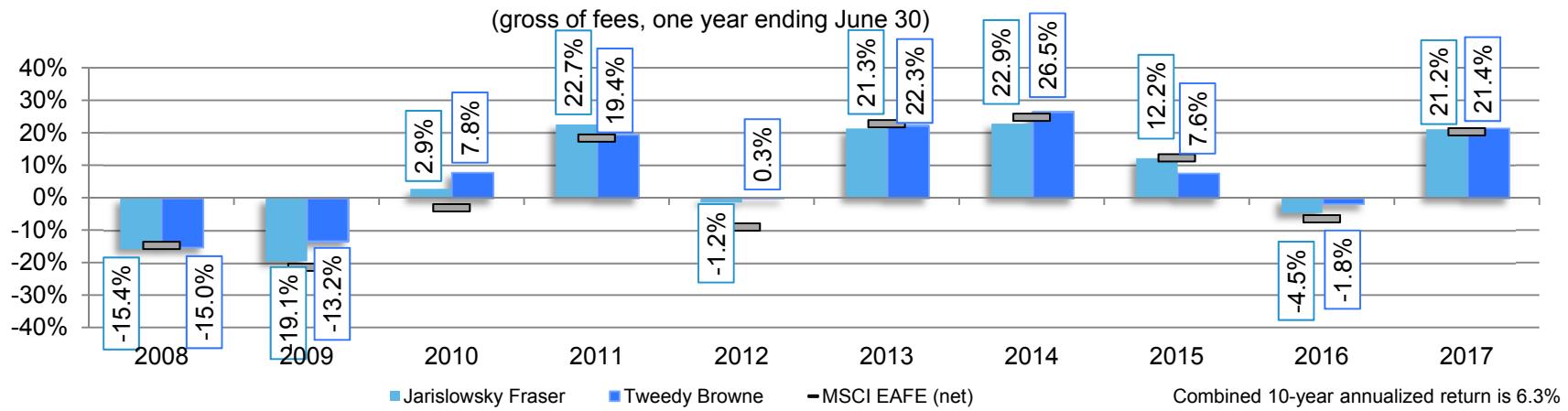
## Jarislowsky Fraser (JF) Strategy Summary

- 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%

## Tweedy Browne 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



## Questions?

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**Raymond Aoki**

Senior Consultant

Aon Hewitt

Investment Consulting

+1.604.443.2539

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

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