

University of Saskatchewan Academic Money Purchase Pension Plan

Investment Review

Annual General Meeting Presentation – March 8, 2019

Prepared by Aon



Agenda

- Plan Objectives & Guiding Risk Philosophy
- Investment Objectives
- Role of the Pension Committee
- Expected Risk/Return Spectrum of Investment Options
- Academic Money Purchase Pension Plan Utilization
- Prescribed Retirement Income Fund Utilization
- Market Update
- Environmental, Social & Governance (“ESG”) Integration
- Appendix – Investment Options Overviews

Plan Objectives & Guiding Risk Philosophy

Plan Objectives

"It is recognized that the long-term objective of Members is to maximize the value of benefits derived from the Plan contributions, subject to an acceptable degree of risk."

Guiding Risk Philosophy

"As members have differing risk preferences, several investment options are available to allow members to customize a portfolio to meet their investment needs.

To achieve appropriate long-term investment goals, members should invest in assets that have uncertain returns, such as Canadian equities, foreign equities and non-government bonds.

However, the overall level of risk can be reduced by diversifying the asset classes within the Life Cycle funds and, where appropriate, further diversifying within each individual asset class by Investment Manager."

Investment Objectives

Life Cycle Funds

To earn a rate of return that exceeds the rate of return earned on a benchmark portfolio.

Active Managers

- 1. To generate a return in excess of a benchmark index, with a level of volatility consistent with the investment mandate provided to the Investment Manager.*
- 2. To deliver above median returns over four year periods relative to an active manager peer universe.*

Passive Managers

To deliver a total return with a permissible tracking error of +/-0.1% per year to the relevant benchmark.

Role of the Pension Committee

Establish and maintain investment policy

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

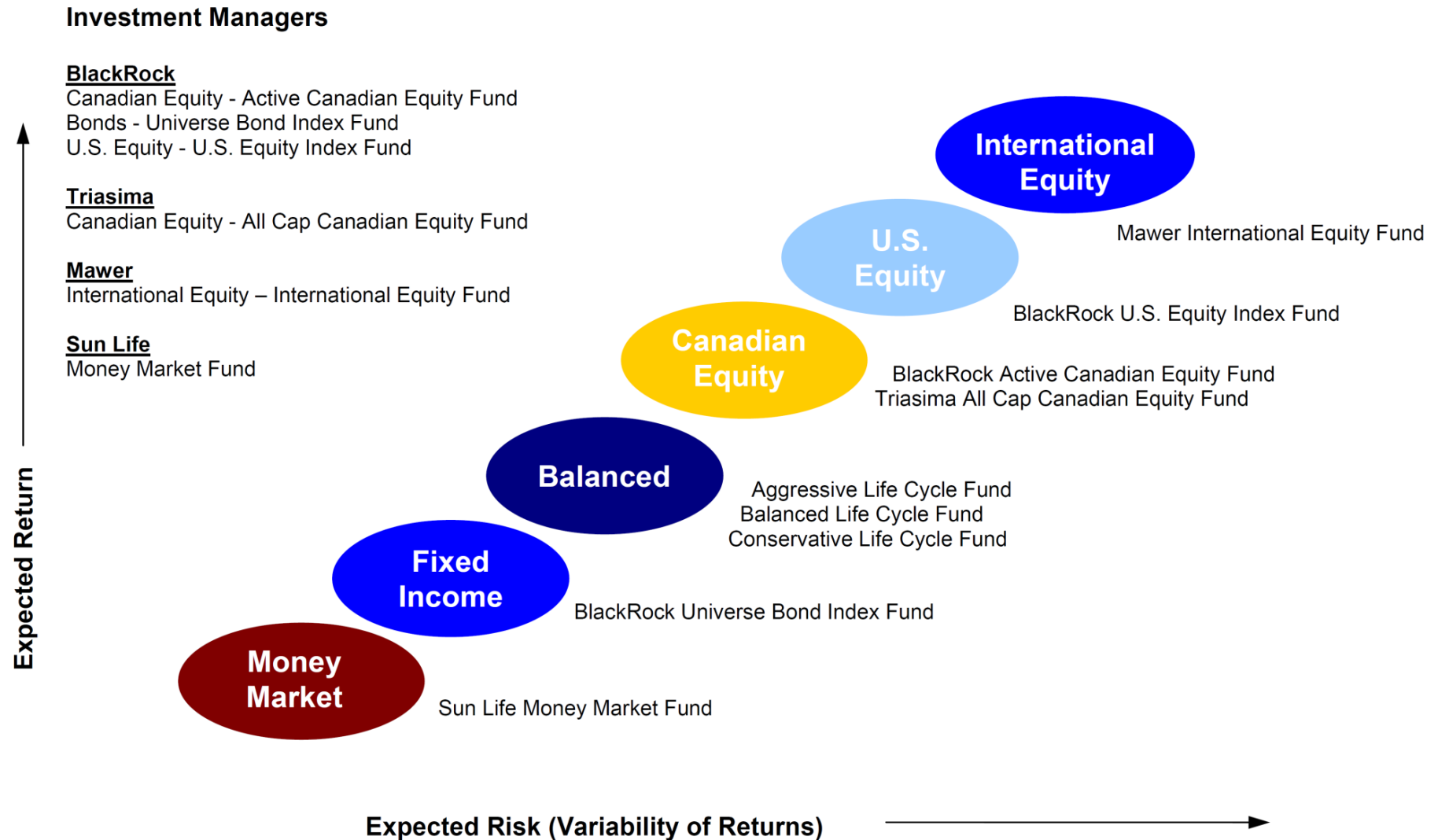
Monitor investment performance versus Plan objectives

- Overall fund
- Individual managers
- Compliance with investment policy

Replace investment managers as required

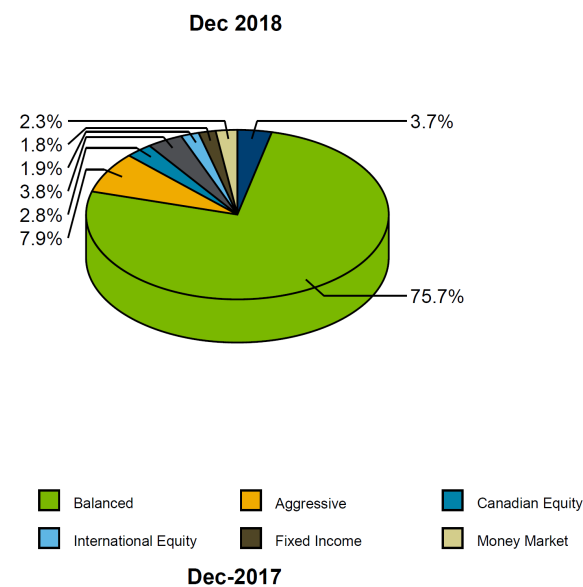
Members are reminded of their responsibility to periodically review the portfolio structure of their participation in the Plan and to revise it as appropriate given their needs.

Expected Risk/Return Spectrum of Investment Options



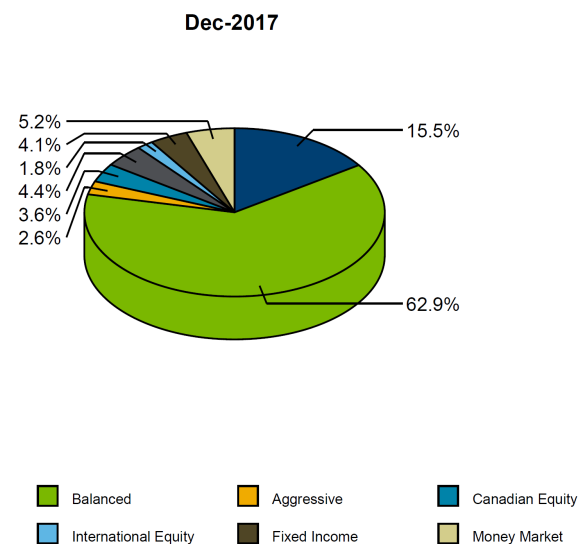
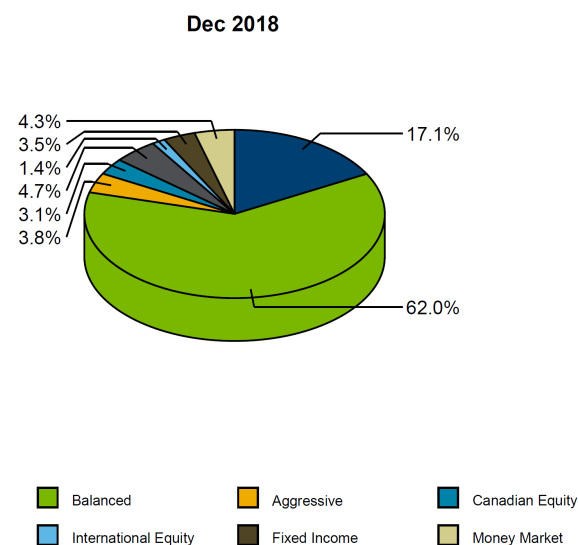
Academic Money Purchase Pension Plan - Utilization by Fund

	Dec 2018		Dec-2017	
	(\$)	%	(\$)	%
Life Cycle Funds				
Conservative	22,738,327	3.7	23,350,138	3.6
Balanced	470,036,646	75.7	486,341,542	75.9
Aggressive	48,838,519	7.9	52,331,181	8.2
Canadian Equity				
Canadian Equity	17,638,641	2.8	22,617,953	3.5
U.S. Equity				
BlackRock	23,592,906	3.8	22,209,213	3.5
International Equity				
Mawer	11,982,876	1.9	13,670,853	2.1
Fixed Income				
BlackRock	11,355,960	1.8	8,965,723	1.4
Money Market				
SunLife	14,346,663	2.3	11,204,694	1.7
Total Fund				
Total Fund	620,530,537	100.0	640,691,299	100.0



Prescribed Retirement Income Fund - Utilization by Fund

	Dec 2018		Dec-2017	
	(\$)	%	(\$)	%
Life Cycle Funds				
Conservative	21,134,403	17.1	16,696,923	15.5
Balanced	76,669,051	62.0	67,767,603	62.9
Aggressive	4,698,394	3.8	2,781,003	2.6
Canadian Equity				
Canadian Equity	3,869,226	3.1	3,849,676	3.6
U.S. Equity				
BlackRock	5,858,510	4.7	4,689,880	4.4
International Equity				
Mawer	1,747,897	1.4	1,891,500	1.8
Fixed Income				
BlackRock	4,268,684	3.5	4,415,562	4.1
Money Market				
Sun Life	5,324,853	4.3	5,595,627	5.2
Total Fund				
Total Fund	123,571,017	100.0	107,687,773	100.0



Market Update

Fund Performance up to December 31, 2018

As of 31 December 2018

	1 Year	2 Years	3 Years	4 Years	10 Years
Life Cycle Funds					
Conservative Life Cycle Fund	0.6	2.8	2.8	3.4	5.5
Conservative Benchmark*	0.4	2.6	2.9	2.8	5.3
Value Added	0.2	0.2	-0.1	0.6	0.2
Balanced Life Cycle Fund	-1.1	4.3	4.4	5.6	8.1
Balanced Benchmark*	-1.6	3.7	4.9	3.7	7.5
Value Added	0.5	0.6	-0.5	1.9	0.6
Aggressive Life Cycle Fund	-2.1	5.0	5.2	6.7	9.3
Aggressive Benchmark*	-2.7	4.2	5.9	4.0	8.5
Value Added	0.6	0.8	-0.7	2.7	0.8
Canadian Equity Fund - BlackRock & Triasima*					
S&P/TSX Capped Composite	-8.9	-0.3	6.4	2.5	7.9
Value Added	-2.3	-1.9	-3.4	-1.0	-0.5
U.S. Equity Fund - BlackRock					
S&P 500	4.1	8.9	8.6	11.7	14.3
Value Added	0.1	0.0	0.0	0.0	-0.1
International Equity Fund - Mawer**					
MSCI EAFE (Net)	-6.1	4.7	2.3	6.2	7.4
Value Added	3.5	5.2	3.5	3.4	2.0
Fixed Income Fund - BlackRock					
FTSE Canada Universe Bond	1.4	2.0	1.9	2.3	4.2
Value Added	0.0	-0.1	-0.1	-0.1	-0.1
Money Market Fund - Sun Life					
FTSE Canada 91 Day TBill	1.4	1.0	0.8	0.8	0.8
Value Added	0.1	0.2	0.2	0.1	0.1

Returns are reported gross of fees and are annualized for periods greater than one year.

*BlackRock and Triasima became the Canadian Equity Fund managers in December 2013.

**Mawer became the International Equity Fund manager in August 2014.

Market Update

Quarterly Performance in 2018

	1 Quarter Ending Mar-2018	1 Quarter Ending Jun-2018	1 Quarter Ending Sep-2018	1 Quarter Ending Dec-2018
Life Cycle Funds				
Conservative Life Cycle Fund	0.2	1.4	-0.6	-0.3
Conservative Benchmark*	0.0	1.2	-0.5	-0.3
Value Added	0.2	0.2	-0.1	0.0
Balanced Life Cycle Fund	0.5	3.1	0.1	-4.6
Balanced Benchmark*	-0.1	2.5	0.5	-4.4
Value Added	0.6	0.6	-0.4	-0.2
Aggressive Life Cycle Fund	0.6	4.0	0.5	-6.9
Aggressive Benchmark*	-0.2	3.2	0.9	-6.4
Value Added	0.8	0.8	-0.4	-0.5
Canadian Equity Fund - BlackRock & Triasima*				
S&P/TSX Capped Composite	-2.3	7.5	-1.6	-14.1
S&P/TSX Capped Composite	-4.5	6.8	-0.6	-10.1
Value Added	2.2	0.7	-1.0	-4.0
U.S. Equity Fund - BlackRock				
S&P 500	2.1	5.5	5.8	-8.6
S&P 500	2.1	5.5	5.9	-8.7
Value Added	0.0	0.0	-0.1	0.1
International Equity Fund - Mawer**				
MSCI EAFE (Net)	2.3	1.6	-1.5	-4.8
MSCI EAFE (Net)	1.3	0.7	-0.4	-7.7
Value Added	1.0	0.9	-1.1	2.9
Fixed Income Fund - BlackRock				
FTSE Canada Universe Bond	0.1	0.5	-1.0	1.7
FTSE Canada Universe Bond	0.1	0.5	-1.0	1.8
Value Added	0.0	0.0	0.0	-0.1
Money Market Fund - Sun Life				
FTSE Canada 91 Day TBill	0.3	0.4	0.4	0.5
FTSE Canada 91 Day TBill	0.3	0.3	0.3	0.5
Value Added	0.0	0.1	0.1	0.0

*Performance is reported gross of fees.

Market Update (continued)

Year-to-date Performance up to February 28, 2019

Conservative Life Cycle Fund	+2.9%
Balanced Life Cycle Fund	+5.5%
Aggressive Life Cycle Fund	+6.9%
Canadian Equity Fund – BlackRock & Triasima	+11.8%
U.S. Equity Fund – BlackRock	+7.5%
International Equity Fund – Mawer	+5.1%
Fixed Income Fund – BlackRock	+1.5%
Money Market Fund – Sun Life	+0.3%

*Performance is reported gross of fees.

Market Update (continued)

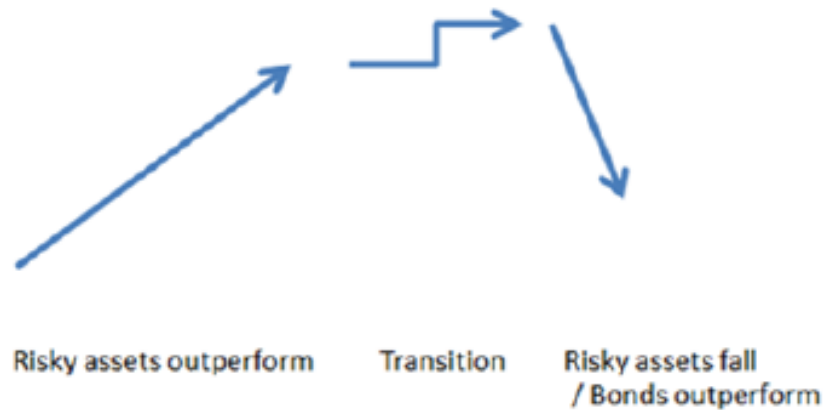
What's happening?

	Q4-2018	Q1-2019
Interest rates	Rising	Unchanged
Trade actions	Threatening	Moderating
U.S. yield curve	Flattening	Steepening
Oil prices	Decreasing	Increasing
Slowing global economic growth	Concerning	Concerning

Market Update (continued)

What we have is a transition environment

How this market transition might be working

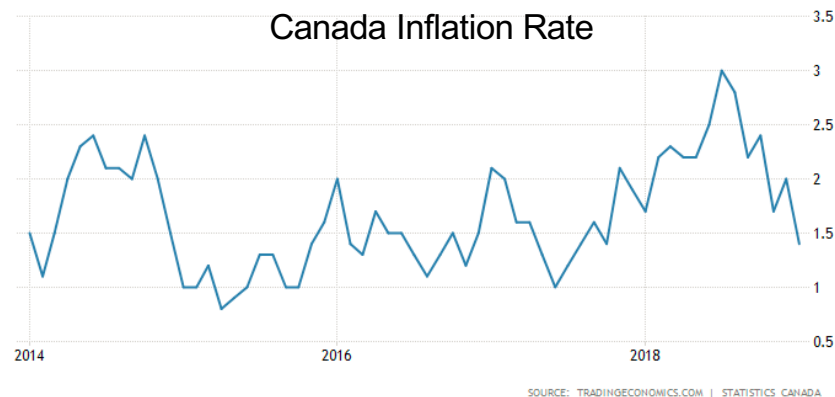
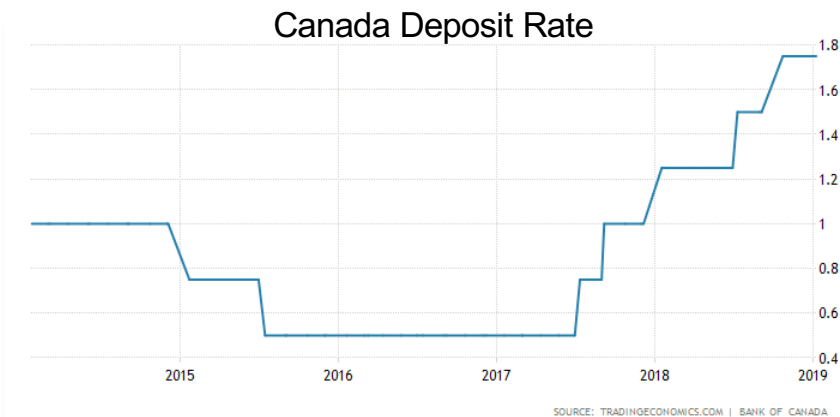


Key features of the market transition phase



Market Update (continued)

Investing in Cash – Only Slightly Positive in Real Terms



For the first time since 2013, the deposit rate is above the inflation rate in Canada.

As a result, Canadian investors are now making money in real terms by investing in cash. However, given the Bank of Canada's recent indication that future interest rate hikes are uncertain, this may not remain the case.

Environmental, Social & Governance (“ESG”) Integration

As part of our continued commitment to the United Nations Principles of Responsible Investing (“UN PRI”), we introduced qualitative ESG ratings for most of the investment strategies that we review on an ongoing basis in 2018.

We start the process using a proprietary ESG due diligence questionnaire populated by fund managers. At the same time, we conduct a review of managers’ policies and procedures, including a review of their Responsible Investment (“RI”) policy (if available), active ownership, proxy voting and/or stewardship policies, and we look for real-time examples of these policies in action.

The mere presence of an RI or proxy voting policy that covers ESG is not sufficient. Due to the extreme ranges of policies and procedures utilized by investment managers, we have concluded that detailed qualitative reviews are required for each fund/strategy, rather than a “check the box” approach.

We also consider additional factors such as dedicated personnel senior executive buy-in and compensation of staff based on ESG integration, as well as engagement in “best practice” organizations such as the UN PRI.

Environmental, Social & Governance (“ESG”) Integration

BlackRock

ESG Policy Highlights:

- Member of UN PRI since 2008.
- Active Canadian Equity Fund: The premise of this team’s ESG/sustainability research is that companies have important interactions with the world around them, both positive and negative. Data about these interactions, which companies are not required to report, are gathered, analyzed, and incorporated into the portfolio.
- U.S. Equity Index Fund: In 2018, the firm sent letters to companies in the Index with fewer than two women on their boards, asking them to explain their lack of progress. BlackRock believes that more diverse boards get better results and currently has five women on its 18-member board.
- Universe Bond Index Fund: BlackRock is conducting product research on a new suite of passive fixed income vehicles that would be benchmarked against a standard market benchmark, but would incorporate certain ESG dimensions, including values and norms based screens as well as ESG integration.

Environmental, Social & Governance (“ESG”) Integration

Triasima

ESG Policy Highlights:

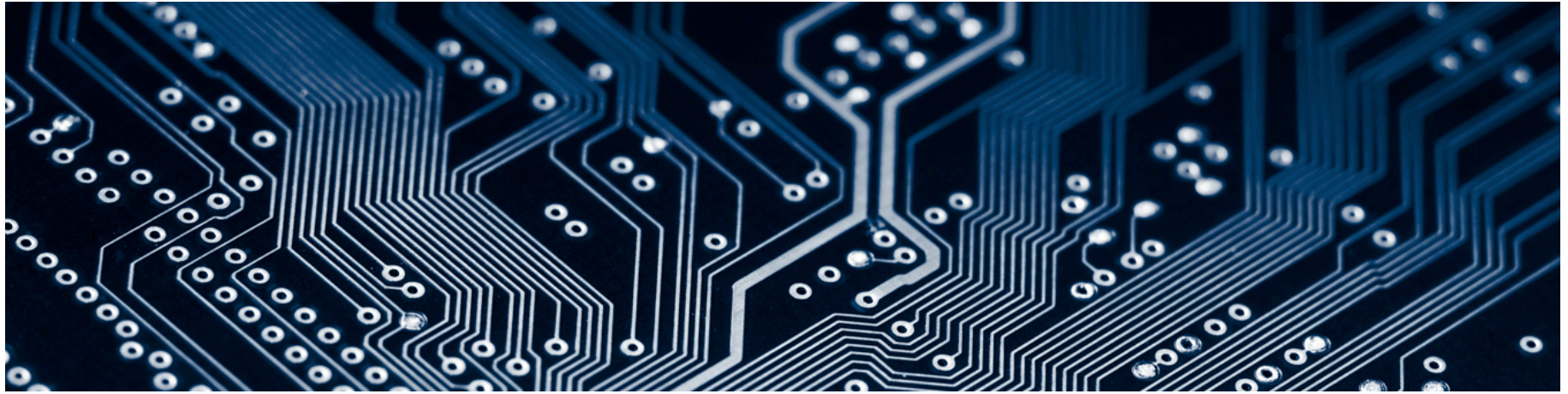
- Member of UN PRI since 2018.
- Triasima’s investment approach consists of combining three analytical methods – fundamental, quantitative, and trend analysis – in an effort to capture all aspects that may influence the future performance of securities. The firm calls this proprietary methodology the Three-Pillar Approach™.
- ESG factors have been a variable of the fundamental pillar since the strategy’s inception. Triasima’s approach is based on the assumption that businesses are doing the right thing. The firm uses ESG factors to better understand the entities it invests in and to mitigate risk.

Environmental, Social & Governance (“ESG”) Integration

Mawer

ESG Policy Highlights:

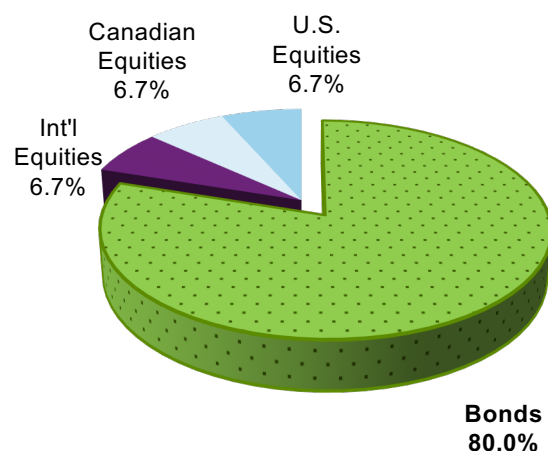
- Mawer believes that high standards of corporate responsibility and behaviour help a company succeed in creating shareholder value. More specifically, the firm believes that good ESG practices can help businesses achieve long-term sustainability, an improved corporate brand, enhanced staff loyalty and increased ability to attract top talent.
- ESG factors are a consideration in Mawer’s analytical, portfolio construction, and risk management processes. The firm actively votes all of its own proxies and believes in exerting positive influence and, where possible, will engage with companies on issues.
- If a company does not behave in a way that is aligned with Mawer’s values, the firm considers avoiding, reducing, or exiting the investment.



Appendix –Investment Options Overviews

Investment Options Overview - Conservative Life Cycle Fund

Fund Structure

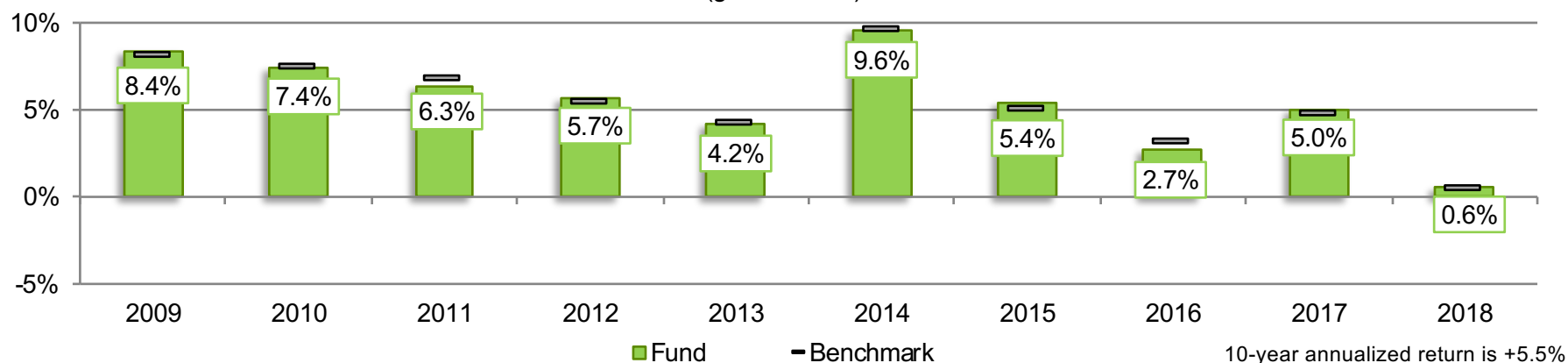


Conservative Life Cycle Strategy Summary

- Most conservative balanced fund option offered.
- Bonds and U.S. equities are passively managed by BlackRock.
- Canadian equities are co-managed actively by BlackRock and Triasima.
- International equities are managed actively by Mawer.
- Performance over the past ten years has exceeded the return of the blended benchmark of indices with positive returns in each year.

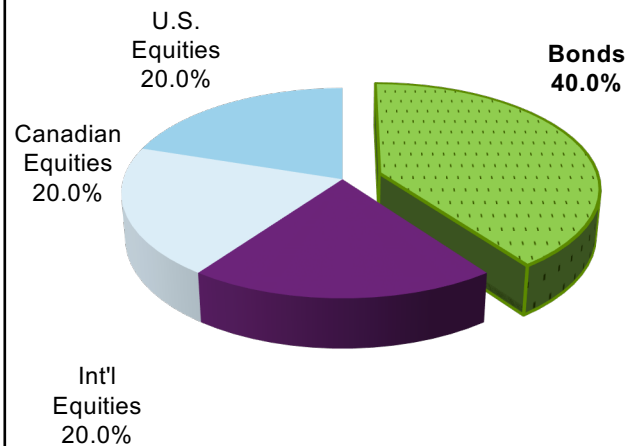
Performance

(gross of fees)



Investment Options Overview - Balanced Life Cycle Fund

Fund Structure

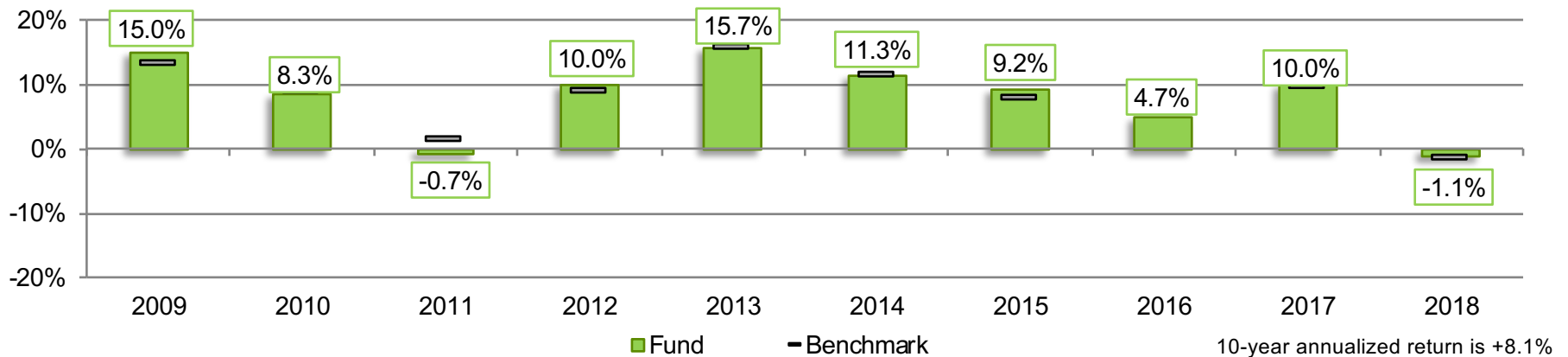


Balanced Life Cycle Strategy Summary

- Default balanced fund option.
- Bonds and U.S. equities are passively managed by BlackRock.
- Canadian equities are co-managed actively by BlackRock and Triasima.
- International equities are managed actively by Mawer.
- Performance over the past ten years has exceeded the return of the blended benchmark of indices.

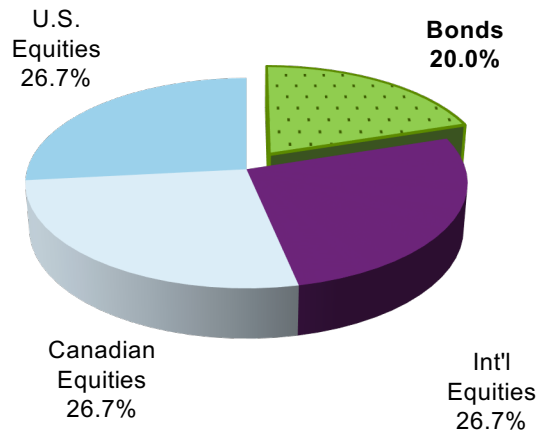
Performance

(gross of fees)



Investment Options Overview - Aggressive Life Cycle Fund

Fund Structure

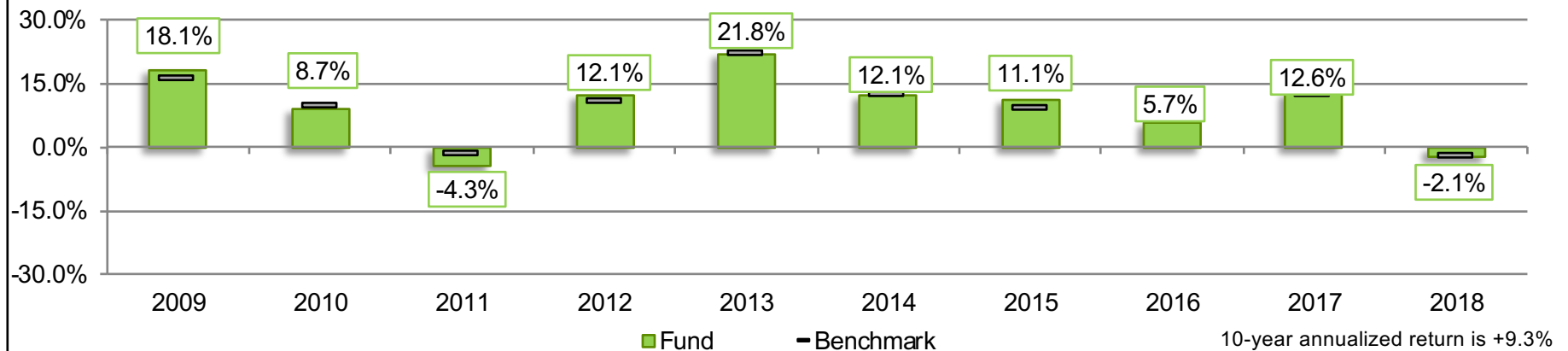


Aggressive Life Cycle Strategy Summary

- Most aggressive balanced fund option.
- Bonds and U.S. equities are passively managed by BlackRock.
- Canadian equities are co-managed actively by BlackRock and Triasima.
- International equities are managed actively by Mawer.
- Performance over the past ten years has exceeded the return of the blended benchmark of indices.

Performance

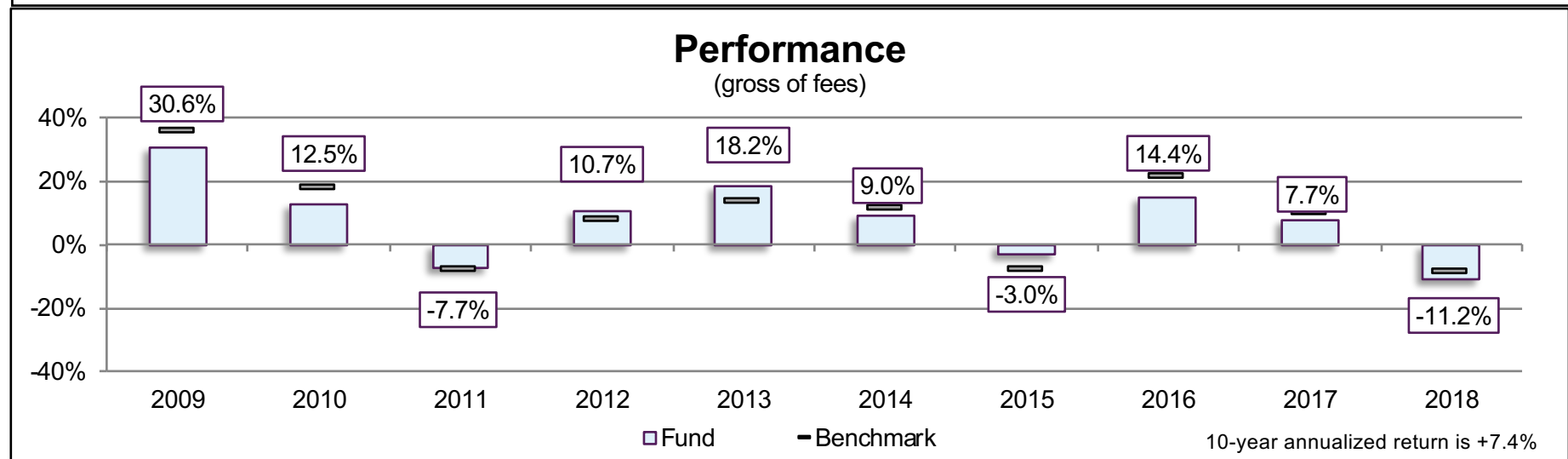
(gross of fees)



Market Update (continued)

Canadian Equity Strategy

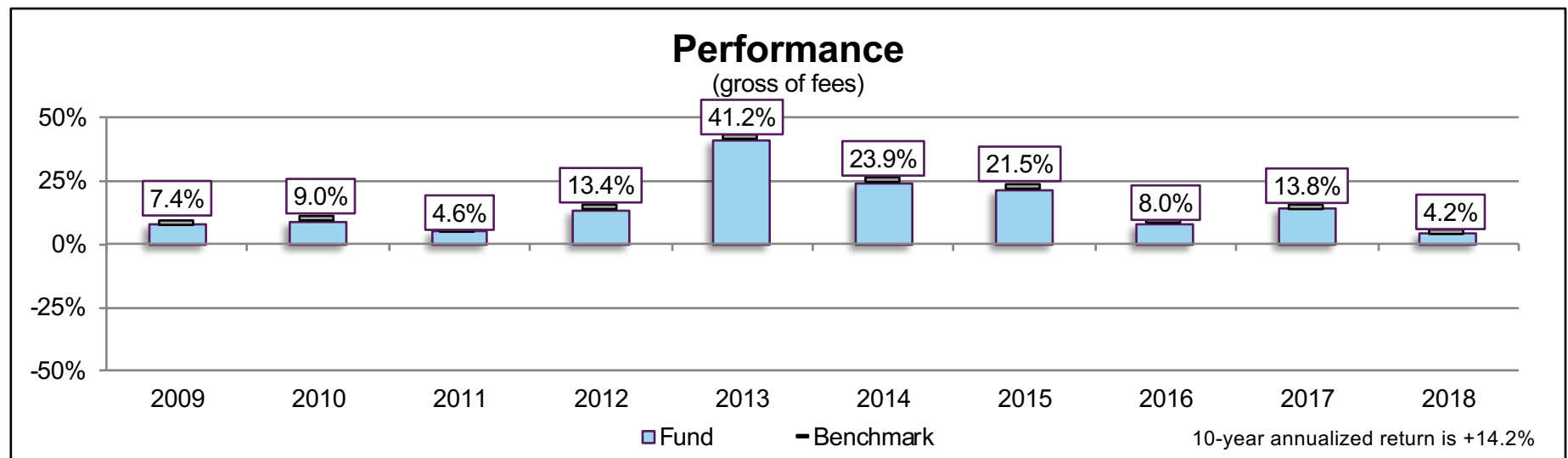
- Actively co-managed by BlackRock and Triasima since December 2013.
- The BlackRock Active Canadian Equity Fund has a quantitative core style investment approach that seeks to outperform the benchmark in small amounts in all market conditions.
- The Triasima All Cap Canadian Equity Fund utilizes a core investment style that blends quantitative, fundamental and thematic approaches in order to outperform the benchmark.
- The performance of the combined strategies of the Fund underperformed the return of the S&P/TSX Capped Composite Index in each of the past three years. However, the 10-year annualized returns of BlackRock and Triasima have exceeded the performance of the Index.



Investment Options Overview - U.S. Equity Fund

U.S. Equity Strategy Summary

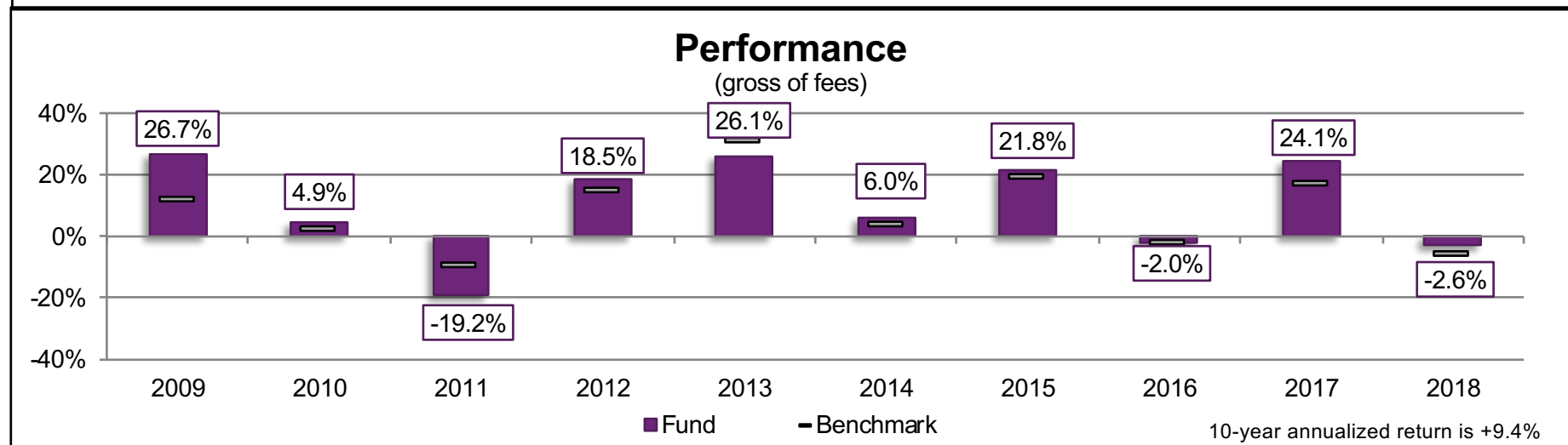
- Passively managed by BlackRock.
- Seeks to replicate the performance of the S&P500 Total Return Index in Canadian dollar terms.
- Invests in the 500 largest U.S. public companies by market capitalization.
- Has delivered a total return within the permissible tracking error of +/- 0.1% per year to the benchmark in the past ten years with positive returns in each year.



Investment Options Overview - International Equity Fund

International Equity Strategy Summary

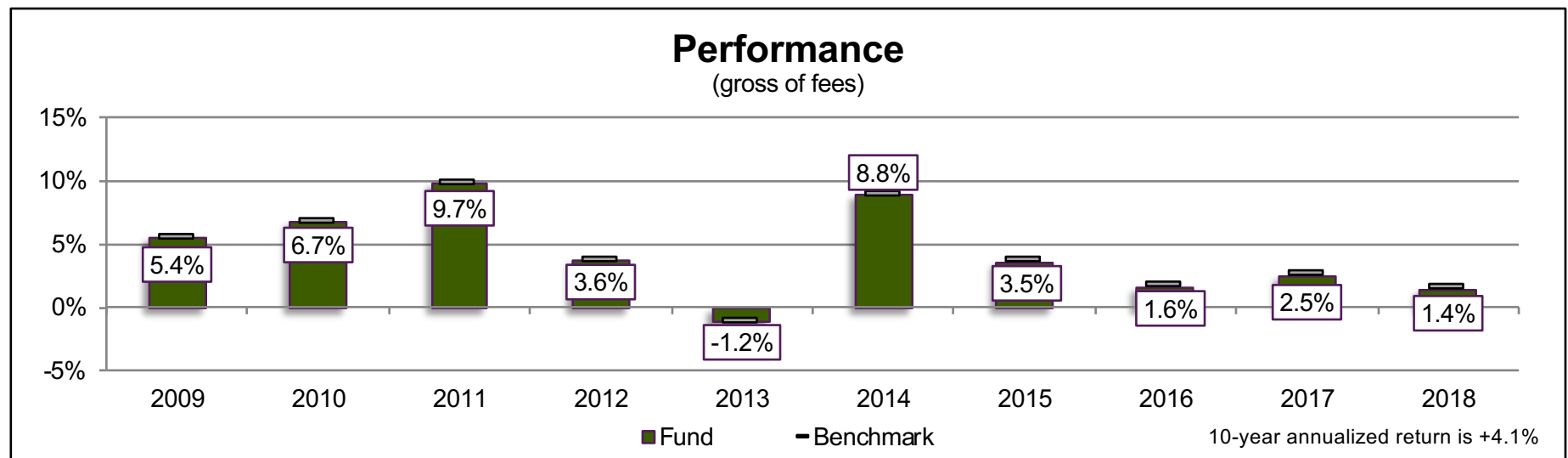
- Actively managed by Mawer since August 2014.
- The Mawer International Equity Fund's investment style is defined as "Quality at the Right Price". Mawer focuses on wealth-creating companies which are defined as companies that have a return on invested capital greater than their cost of capital. It is this difference between return on capital and cost of capital that Mawer believes allows companies to provide growing economic returns to shareholders. Mawer purchases these companies at what it believes to be a discount to the companies' intrinsic value.
- Mawer's performance has exceeded its benchmark, the MSCI ACWI ex-USA Total Return Index in Canadian dollars, since being added to the fund lineup. The 10-year annualized returns of the Fund, as well as Mawer, have exceeded the performance of the Index.



Investment Options Overview - Canadian Bond Fund

Canadian Bond Strategy Summary

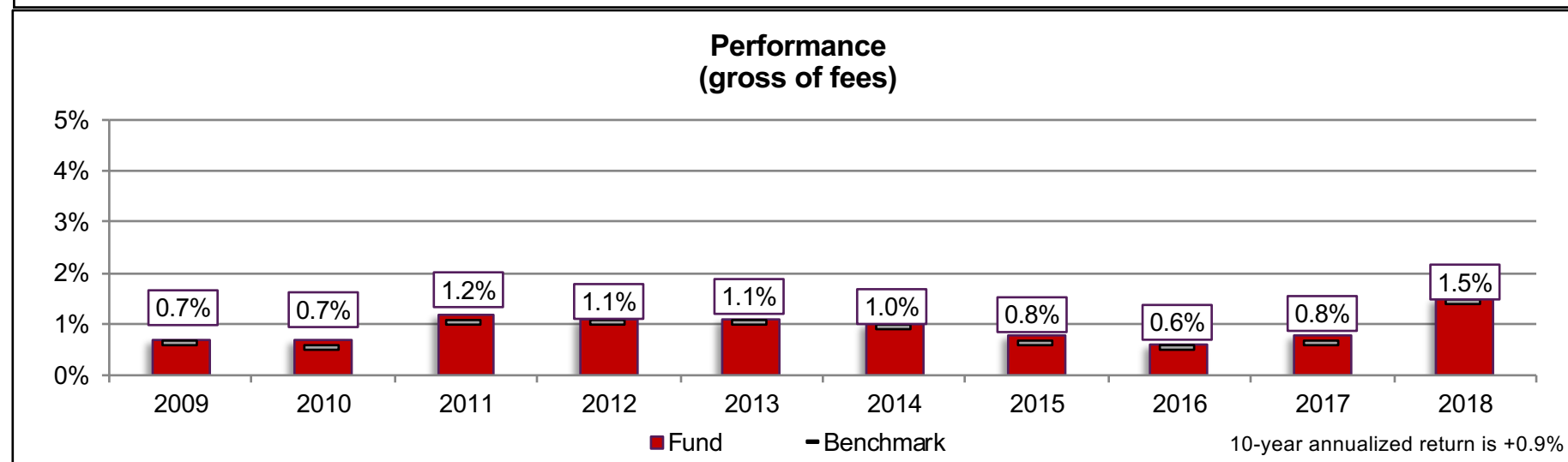
- Passively managed by BlackRock.
- Seeks to replicate the performance of the FTSE Canada Universe Bond Index.
- Invests in Government of Canada, provincial, corporate and municipal bonds.
- Invests only in bonds that are rated investment grade (i.e. BBB or higher).
- Invests only in bonds denominated in Canadian dollars.
- Has delivered a total return within the permissible tracking error of +/- 0.1% per year to the benchmark over the past ten years.



Investment Options Overview - Canadian Money Market Fund

Canadian Money Market Strategy Summary

- Actively managed by Sun Life and sub-advised by MFS Investment Management
- Seeks to exceed the performance of the FTSE Canada 91-Day TBill Index.
- The Fund's strategy is to protect capital and to maintain liquidity by investing primarily in Canadian dollar-denominated money market instruments.
- Performance has exceeded the Index in each of the past ten years.
- The Fund represents the only money market fund on the Sun Life platform.



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