



Annual General Meeting Investments Review

Presentation to the Members of the University of Saskatchewan and Federated Colleges
Non-Academic Pension Plan

November 10, 2016

Prepared by Aon Hewitt

Aon Hewitt
Proprietary & Confidential | November 10, 2016

Agenda

- 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 Non-Academic Pension Plan is to provide for the accumulation of pension assets on behalf of the Plan’s participants and provide members of the Plan with retirement benefits prescribed under the terms thereof.”

Guiding Risk Philosophy

*“Plan assets 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 Non Academic Pension and Benefits Committee.”*

Dual Investment Objectives

Benchmark Portfolio(s)

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

Inflation Targeting

(CPI + 3.90% over 10+ years)

Role of Pension Committee

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

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

Fund Purpose - Provide Pension Benefits

- Ensure safety of capital
- Adequate return to support pension promise
 - Target long-term return of CPI + 3.90%

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

Real Estate – provides diversification benefits and some inflation protection

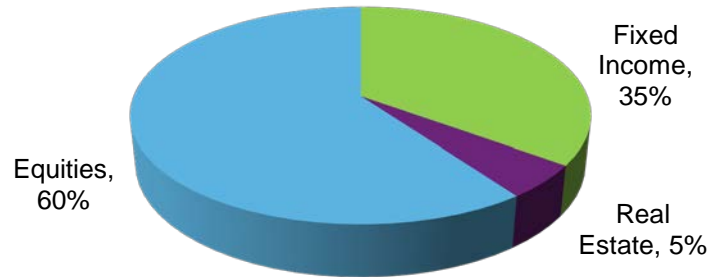
Asset Mix – designed to balance the two competing objectives:

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

Asset Mix

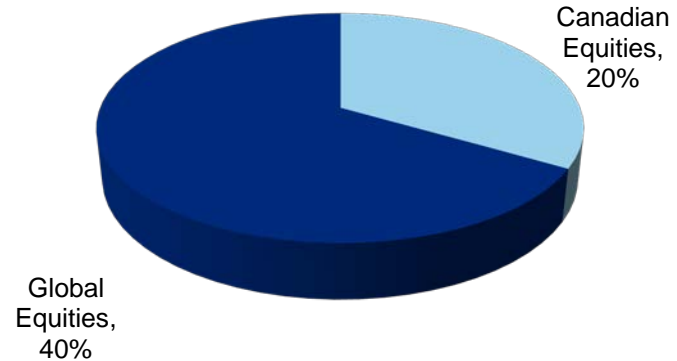
Target Asset Mix Balancing Growth with Stability & Income

\$340 million as of Sep 30, 2016

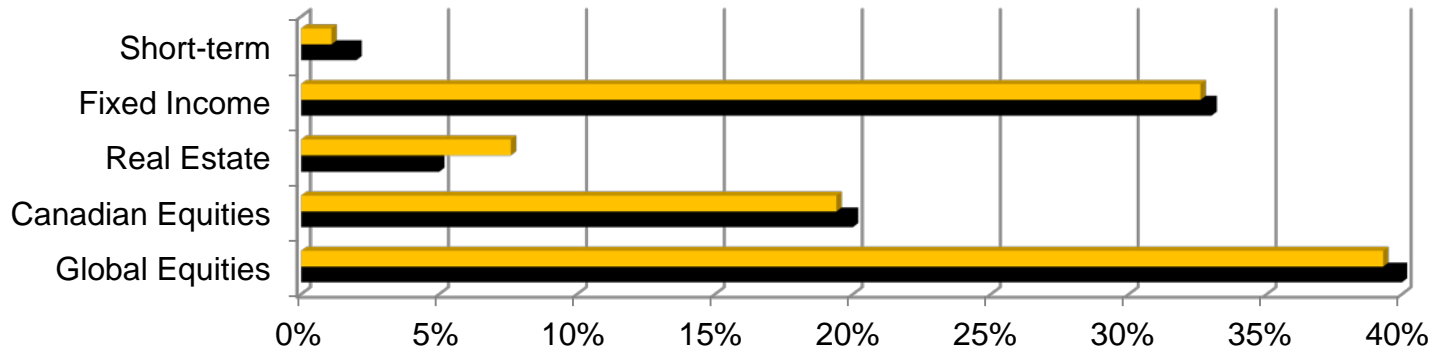


Bonds help hedge impact of interest rate changes on liabilities.

Target Asset Mix: Equities Diversifying "Narrow" Canadian Market



■ 30-Sep-16 ■ Policy



Total Portfolio Performance

Strategy Summary

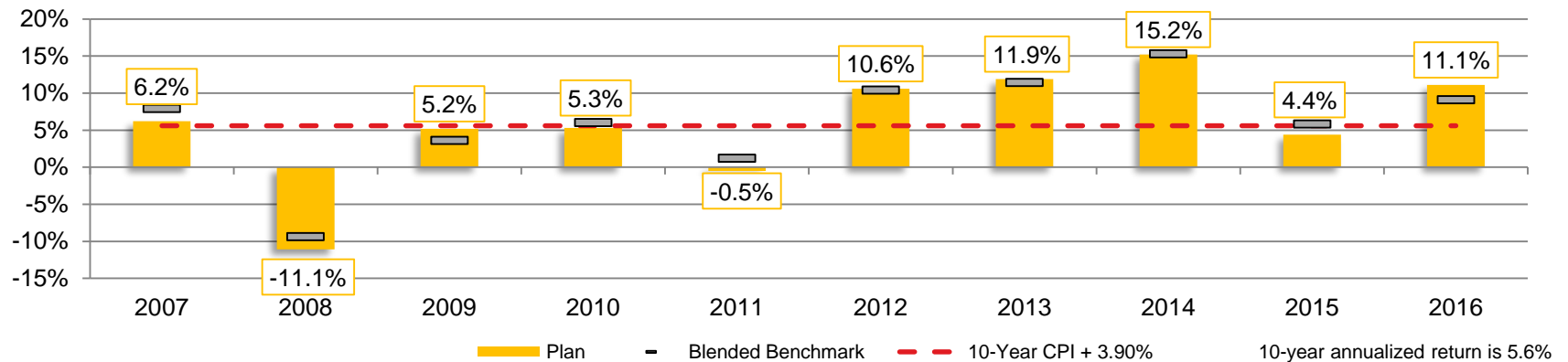
- Active management across all asset classes
- Fixed income and real estate mandates broadly diversified and with scope to include value-added strategies when appropriate
- Dual manager structures in Canadian and Global equities provide diversification by firm and investment approach

Performance Commentary

- Long-term return target of CPI + 3.90% (5.6%) has been matched on a net of fee basis over 10 years
- Performance versus the capital markets has been exceeded on a gross of fees basis
- Long-term performance has been broadly based across all major asset classes
- Annual investment management fees are based on assets, currently about 0.52% of the total portfolio.

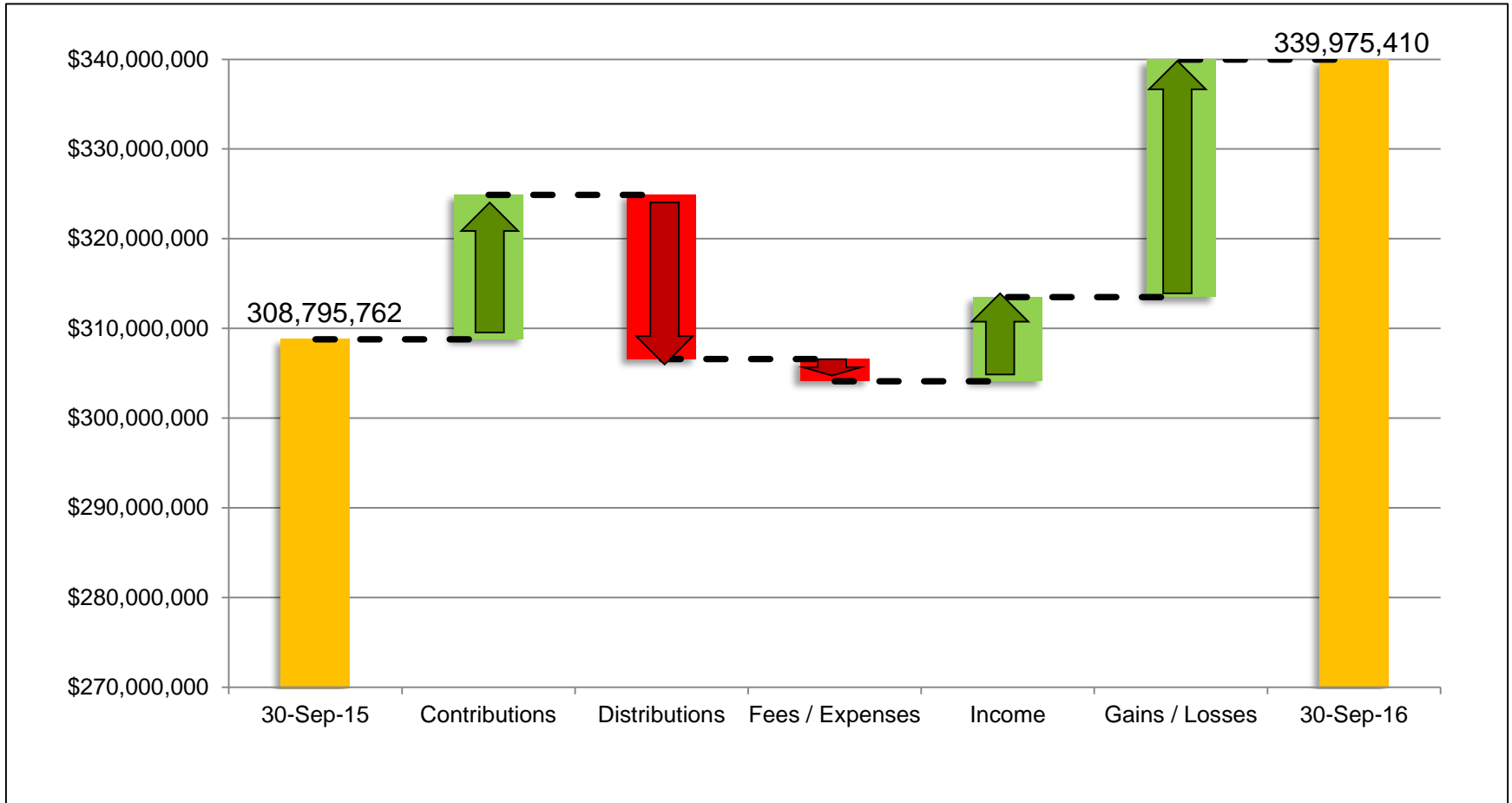
Performance

(net of fees, one year ending September 30)

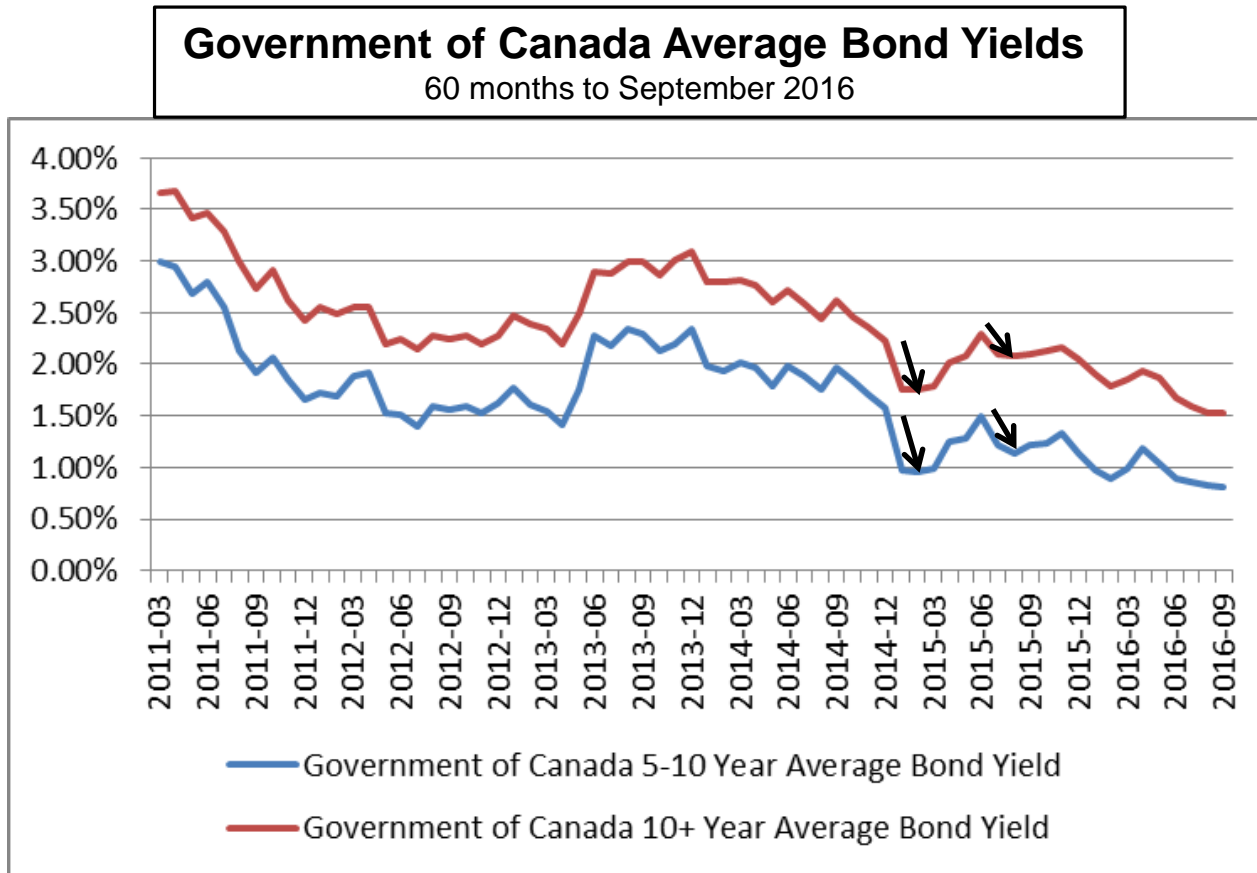


* 2% 91-day FTSE TMX Canada T-Bill, 33% FTSE TMX Canada Universe Bond, 5% REALpac / IPD Canada Property Index, 20% S&P/TSX Composite, 40% MSCI World (net withholding tax) (CAD)

Total Portfolio – Change in Market Value



Lower For Longer? Canadian Bond Yields

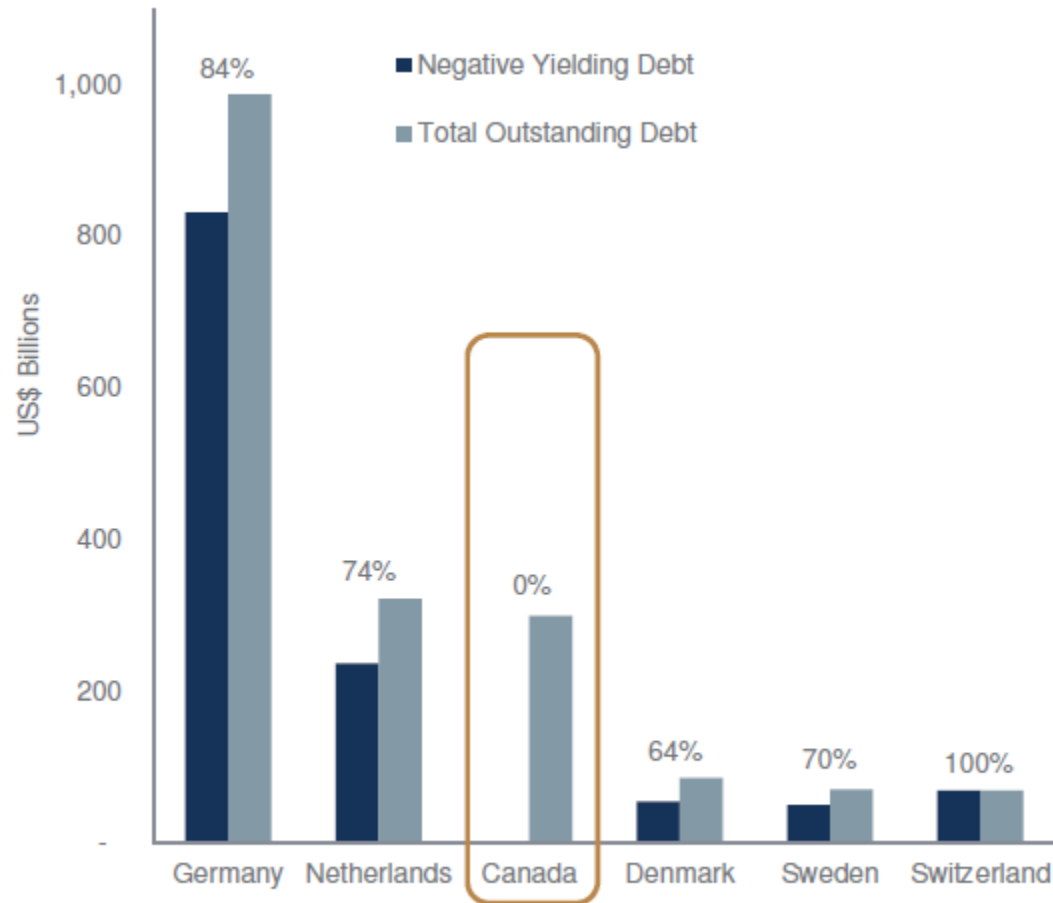


Source: Bank of Canada

→ 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)

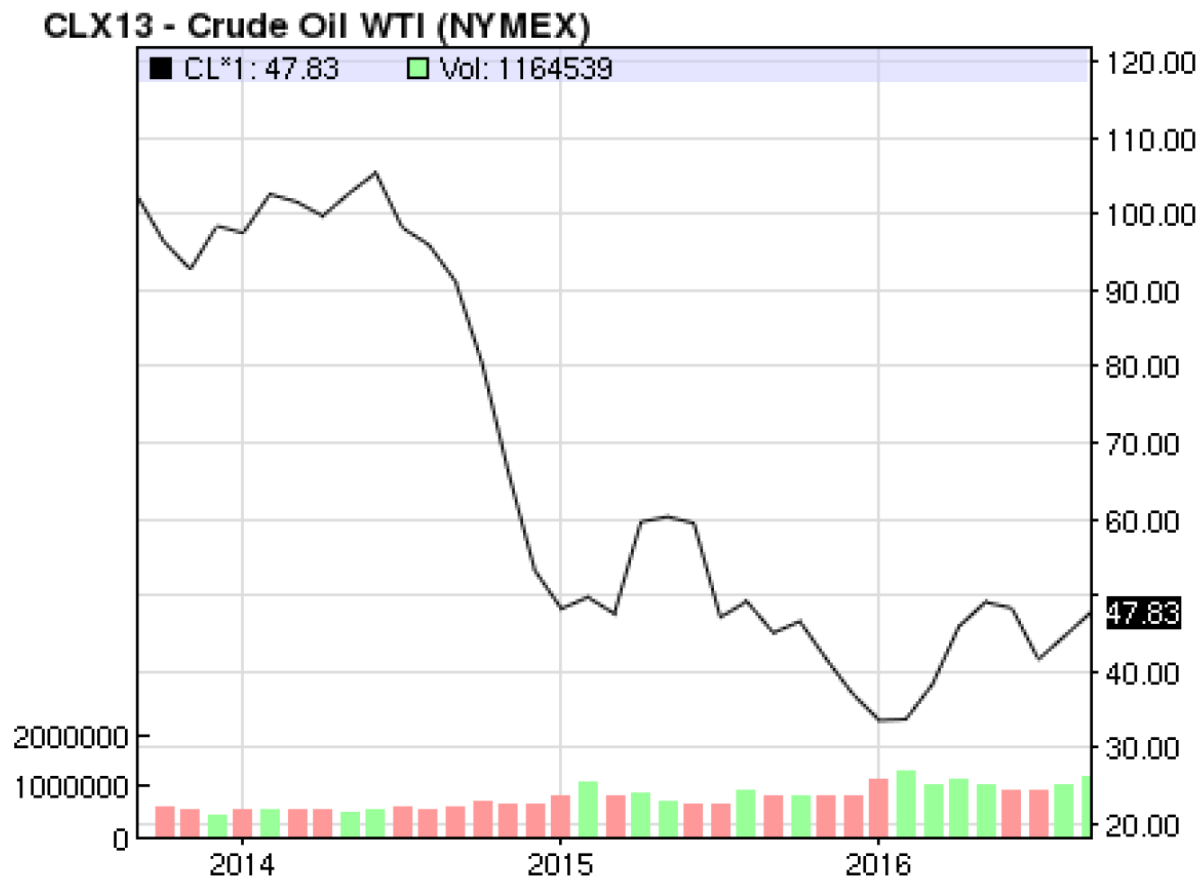
Lower For Longer? Chinese Growth



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

Market Update (continued)

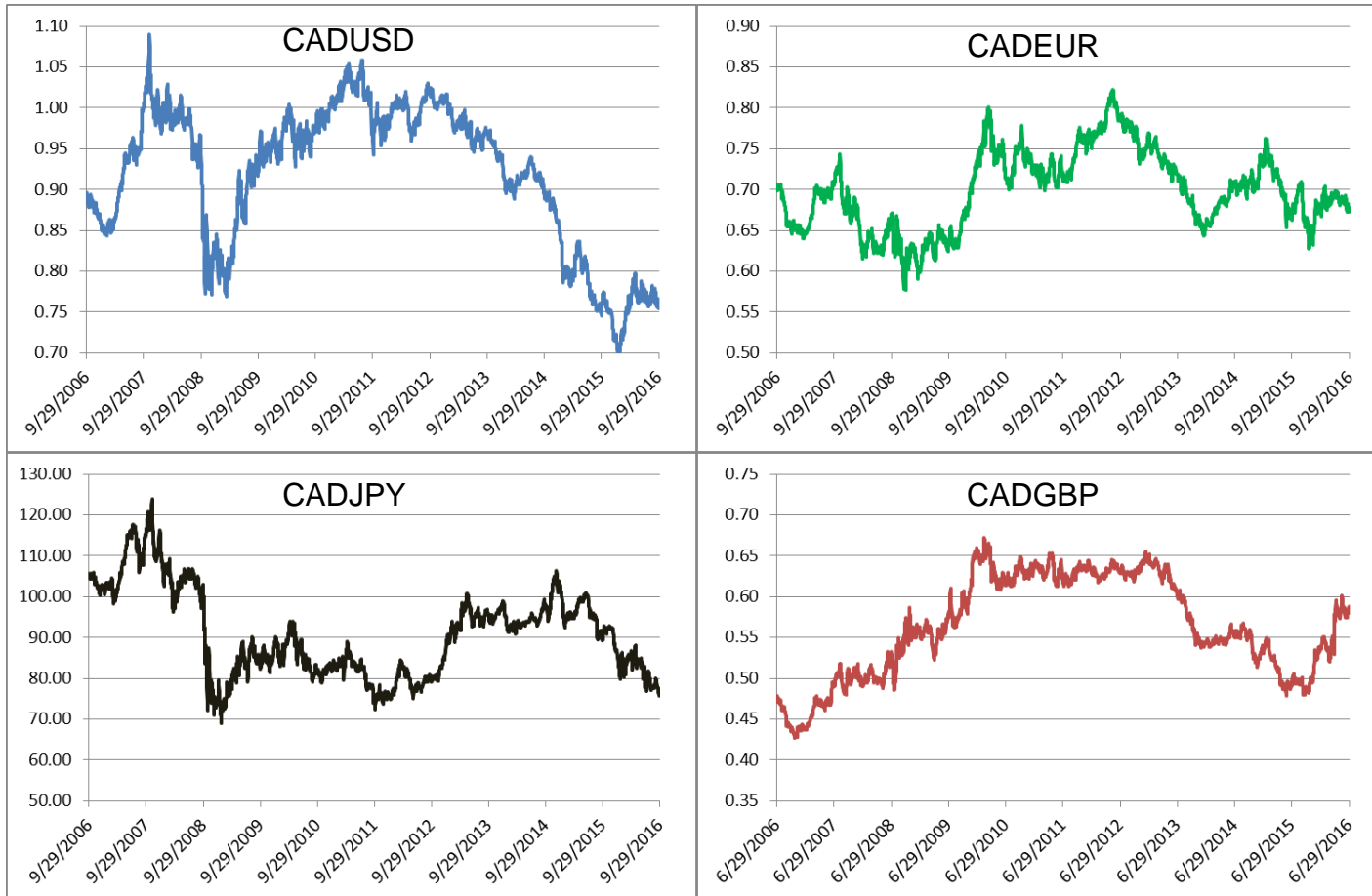
Lower For Longer? The Price of Oil



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

Market Update (continued)

Lower For Longer? Canadian Dollar Weakness

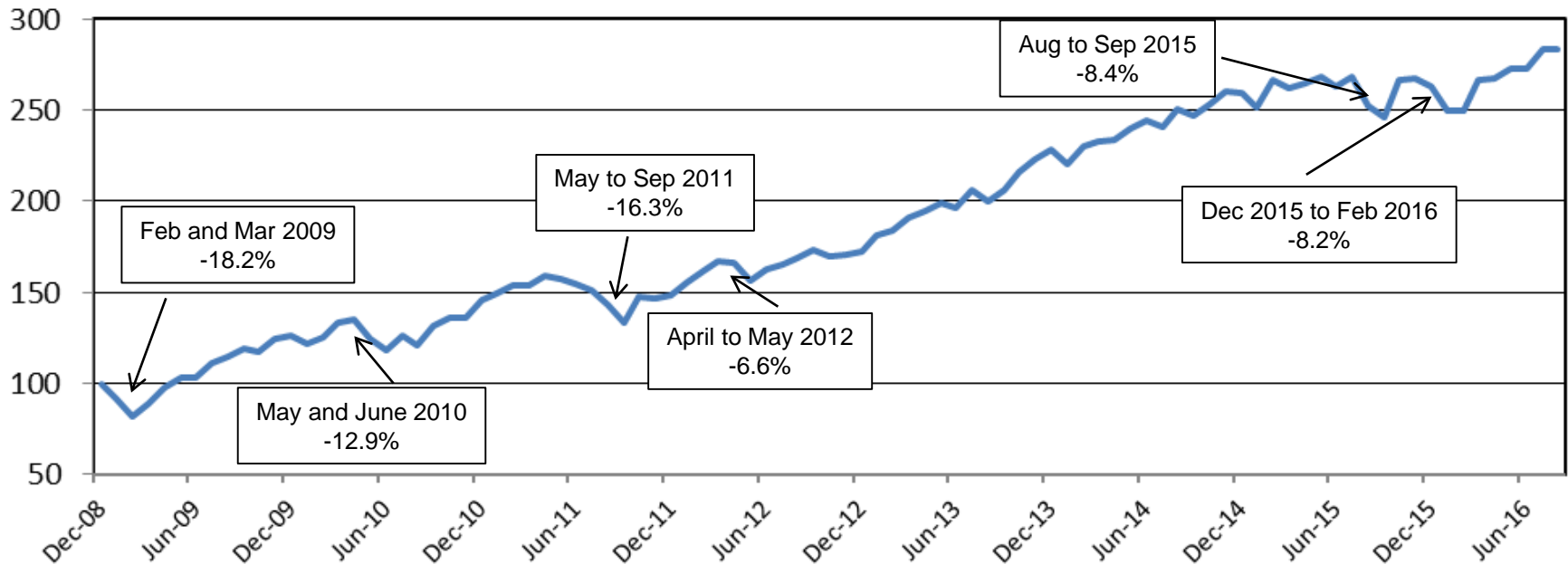


Source: Bank of Canada.

Market Update (continued)

Is the Rally in Equity Markets Starting to Stall?

S&P500 (USD)



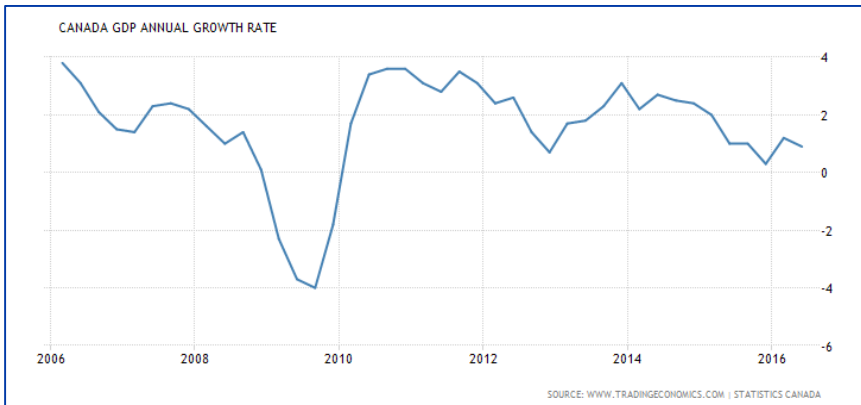
Source: Standard & Poor's.

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?

Raymond Aoki

Senior Consultant

Aon Hewitt

Investment Consulting

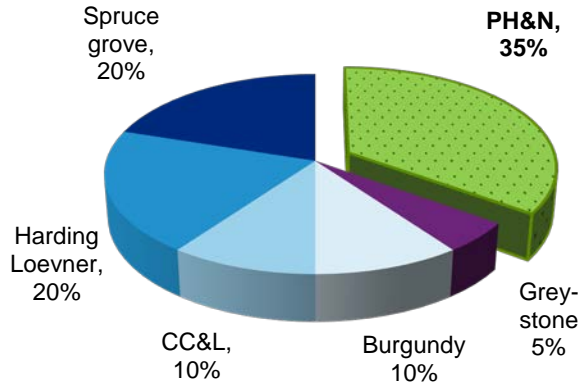
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Appendix – Asset Class Overview

Canadian Fixed Income Allocation

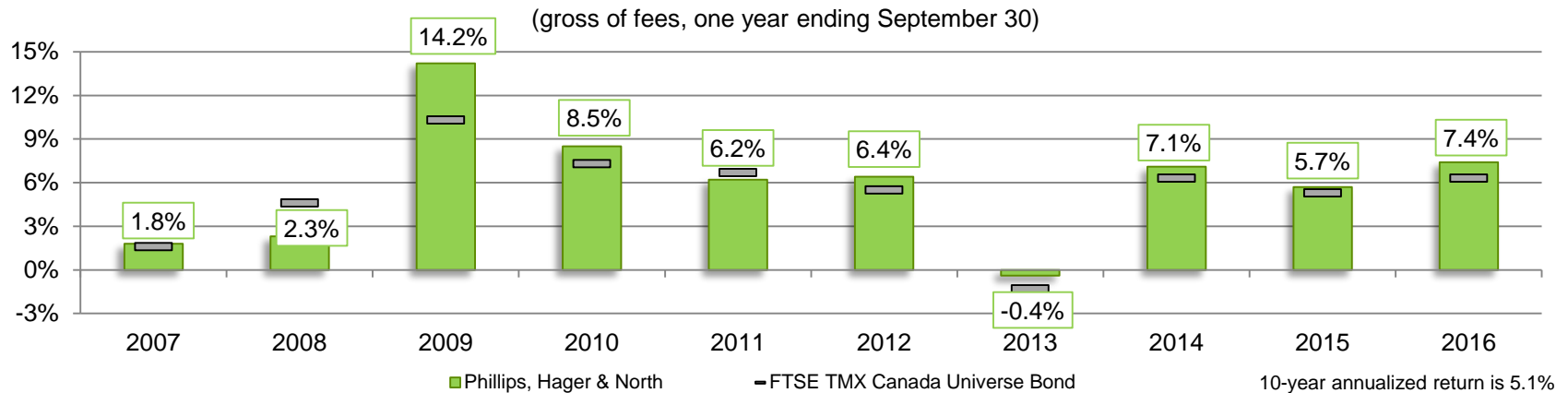
Manager Structure



Phillips, Hager & North (PH&N) Strategy Summary

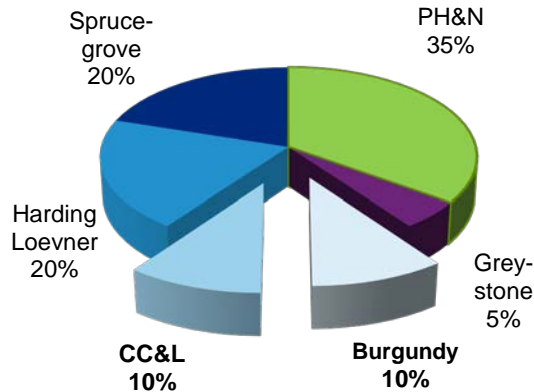
- An active strategy that aims to exceed a broad measure of the Canadian bond market
- PH&N has achieved this goal on a net of fees basis
- PH&N utilizes multiple strategies: security and sector selection, rate anticipation, mortgage investing.
- **New in 2016: mandate changed to “Core Plus”; additional strategies include corporate high yield bonds and emerging market debt.**
- Annual fee is based on assets, currently about 0.28%

Performance



Canadian Equity Allocation

Manager Structure



Burgundy Strategy Summary

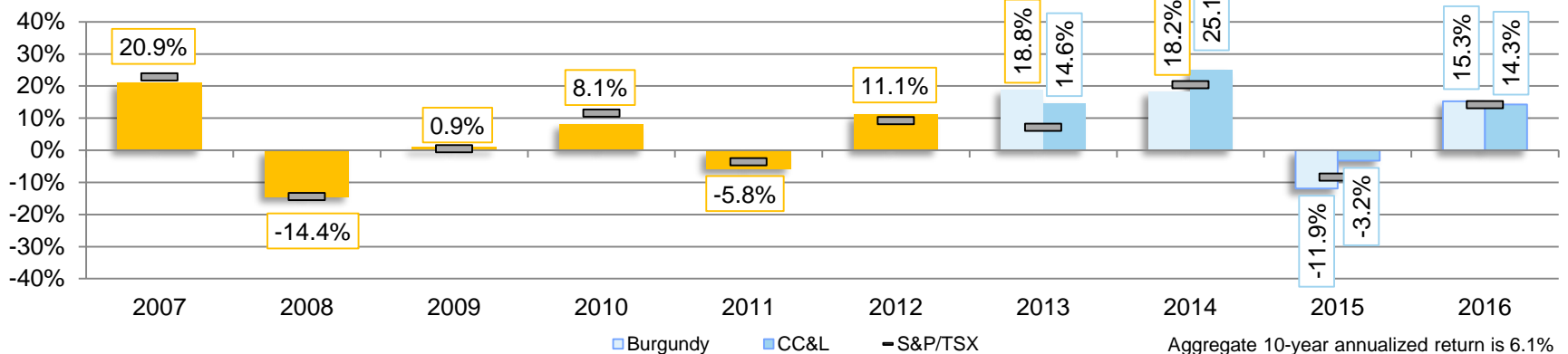
- An active, high conviction, buy-and-hold strategy that focuses on valuation and quality factors
- Hired in 2012; the four-year gross of fees return has beat the benchmark
- Annual fee is based on assets, currently about 0.57%

Connor, Clark & Lunn (CC&L) Strategy Summary

- An active, broadly diversified strategy that aims to consistently exceed the market return in all environments
- Hired in 2012; the four-year gross of fees return has beat the benchmark
- Annual fee is based on assets, currently about 0.40%

Performance

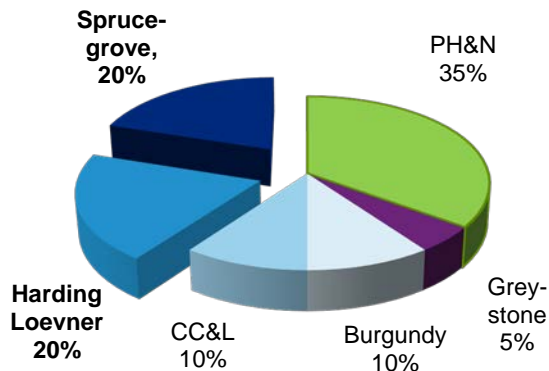
(gross of fees, one year ending September 30)



Total Canadian Equity performance (in orange) shown prior to 2013.

Global Equity Allocation

Manager Structure



Harding Loevner Strategy Summary

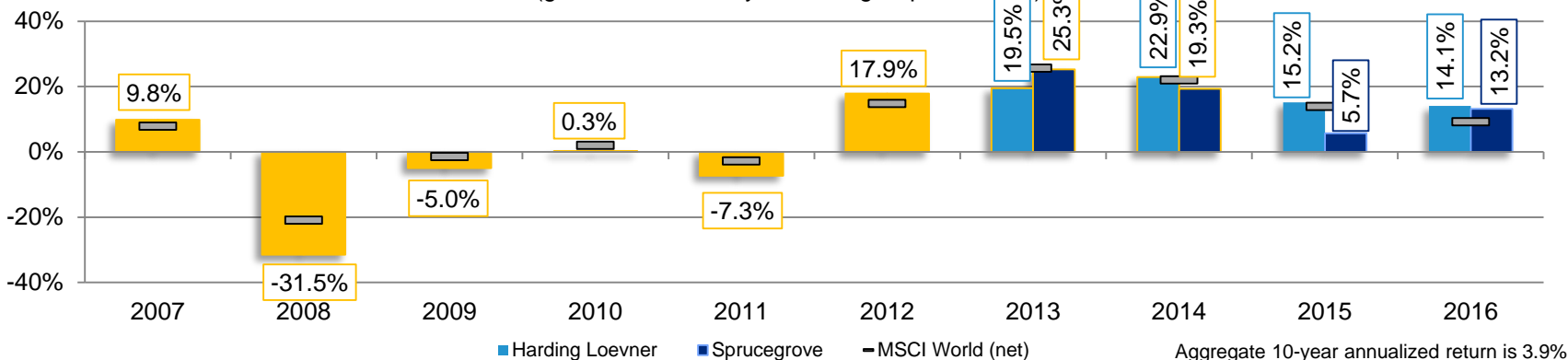
- An active strategy that invests in growing, high quality companies at reasonable prices
- Hired in 2012; the four-year gross of fees return has beat the benchmark
- Annual fee is based on assets, currently about 0.71%

Sprucegrove Strategy Summary

- An active, high conviction, buy-and-hold strategy that focuses on valuation and quality factors
- Hired in 2012; the three-year pre-fee return is below the benchmark
- Annual fee is based on assets, currently about 0.58%

Performance

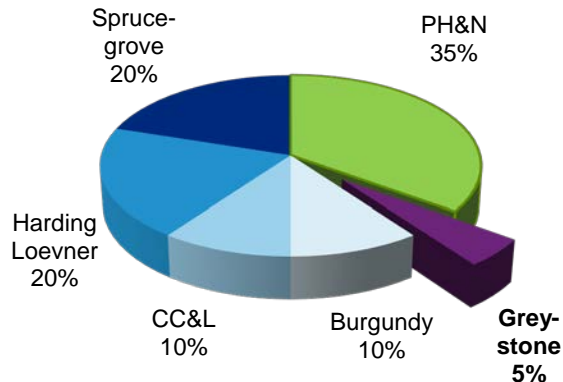
(gross of fees, one year ending September 30)



Total Global Equity performance (in orange) shown prior to 2013.

Real Estate Allocation

Manager Structure

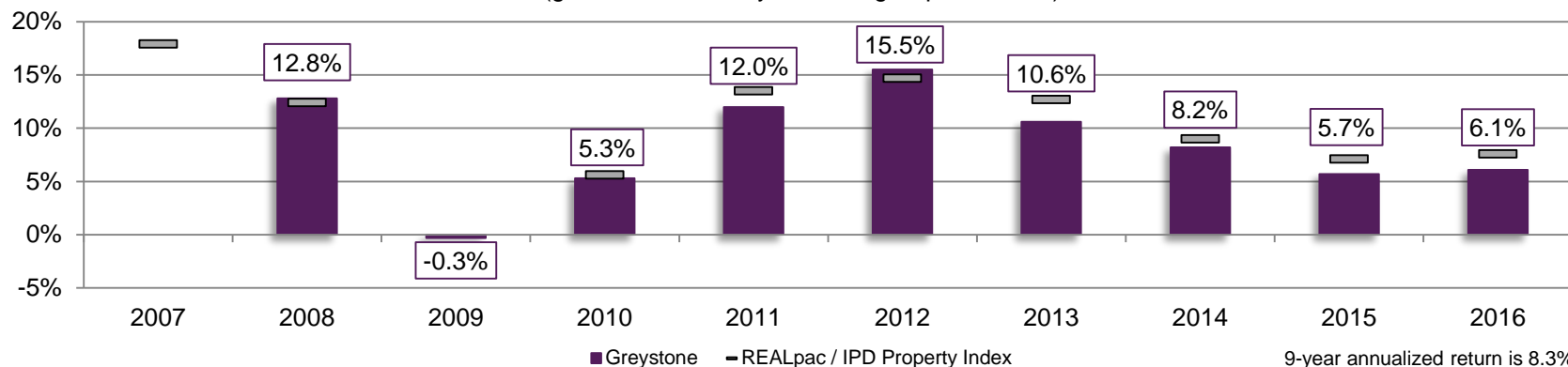


Greystone Strategy Summary

- An active strategy that aims to exceed a proxy for the Canadian real estate market
- Greystone has not achieved this goal on a pre- or post-fee basis, but the REALpac / IPD Property index is not ideal for pooled fund investors
- Greystone primarily invests in income-producing properties, but does have limited exposure to “value-add” and development properties
- The portfolio is well diversified by region and property type
- Annual fee is based on gross assets. As a percentage of net assets, the investment management fees is approximately 1.15% per annum.

Performance

(gross of fees, one year ending September 30)



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