



# Annual General Meeting Investments Review

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

November 15, 2017

Prepared by Aon Hewitt

# 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
- 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 + 3.75% 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 + 3.75%

## 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

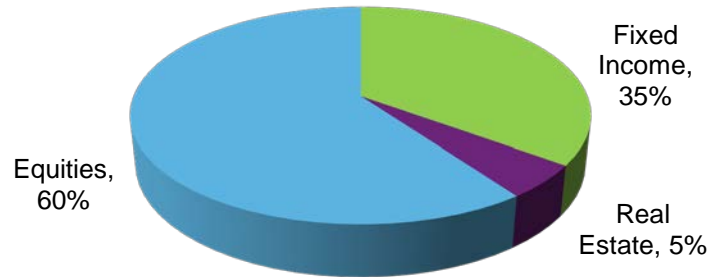
Asset Mix – designed to balance the two competing objectives:

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

# Asset Mix

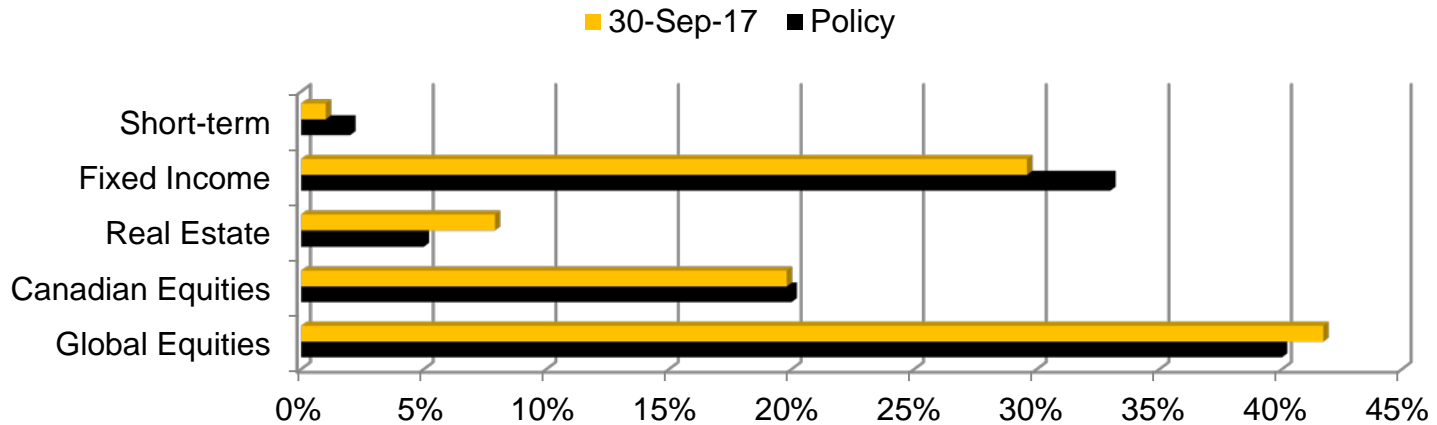
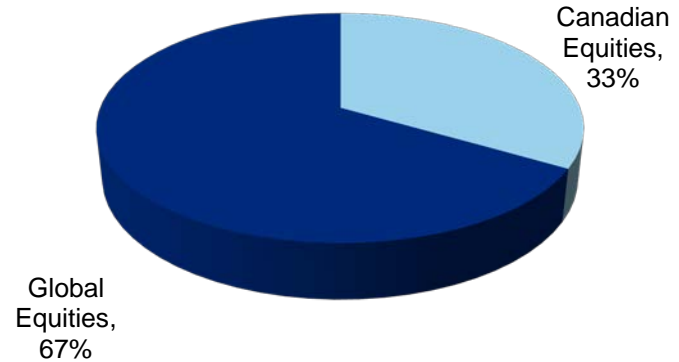
## Target Asset Mix Balancing Growth with Stability & Income

\$363 million as of Sep 30, 2017



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

## Target Asset Mix: Equities Diversifying "Narrow" Canadian Market



# Total Portfolio Performance

## Strategy Summary

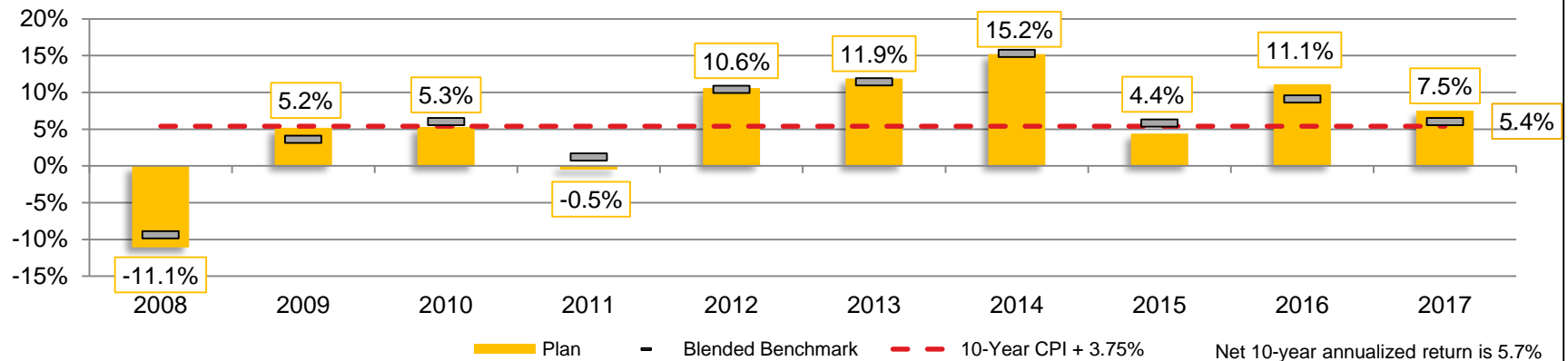
- Active management across all asset classes
- Fixed income and real estate mandates broadly diversified and with scope to include value-added strategies when appropriate
- Dual manager structures in Canadian and Global equities provide diversification by firm and investment approach

## Performance Commentary

- Long-term return target of CPI + 3.75% (i.e. +5.4%) has been exceeded 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

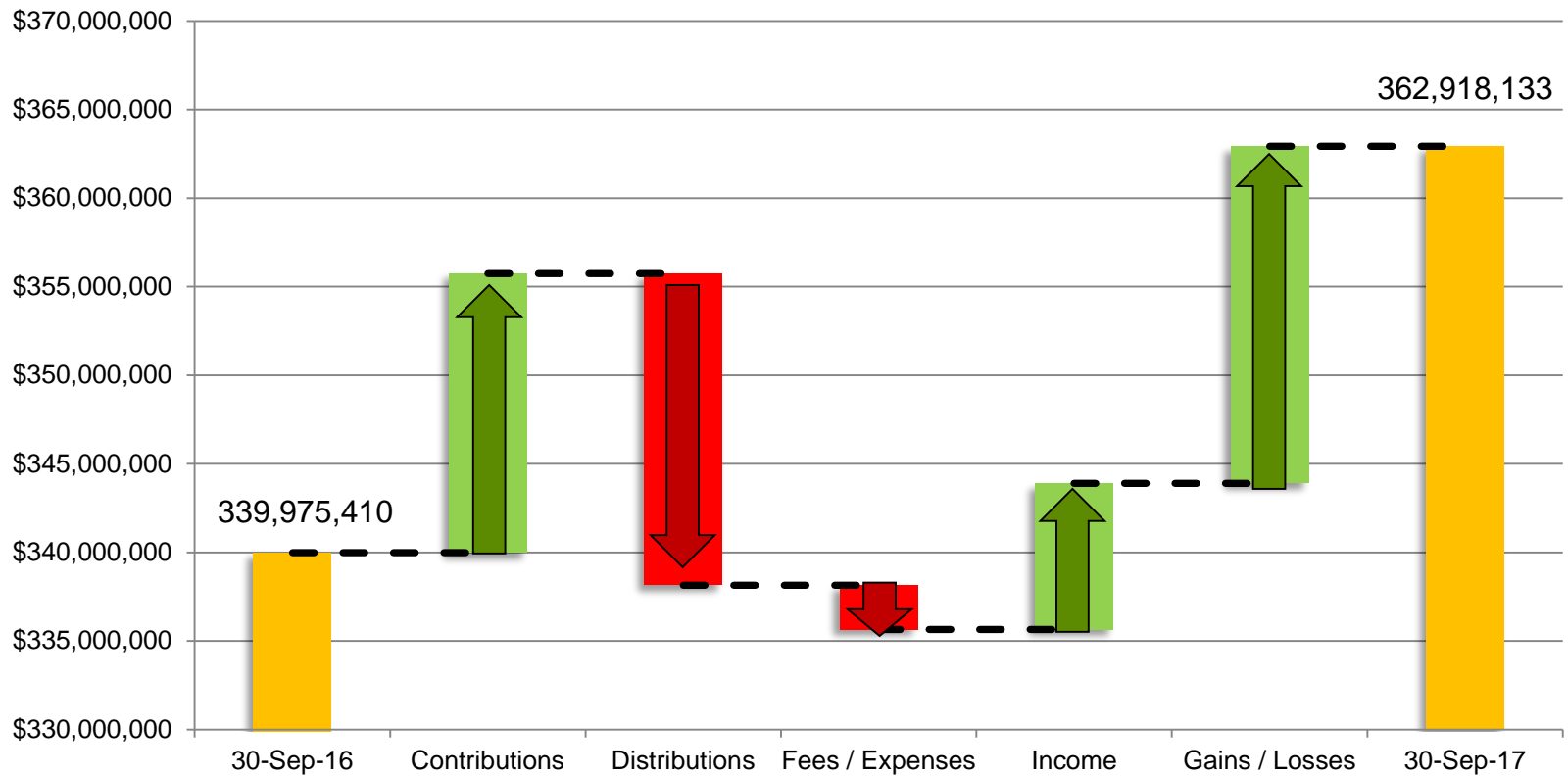
(net of fees, one year ending September 30)



\* 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)

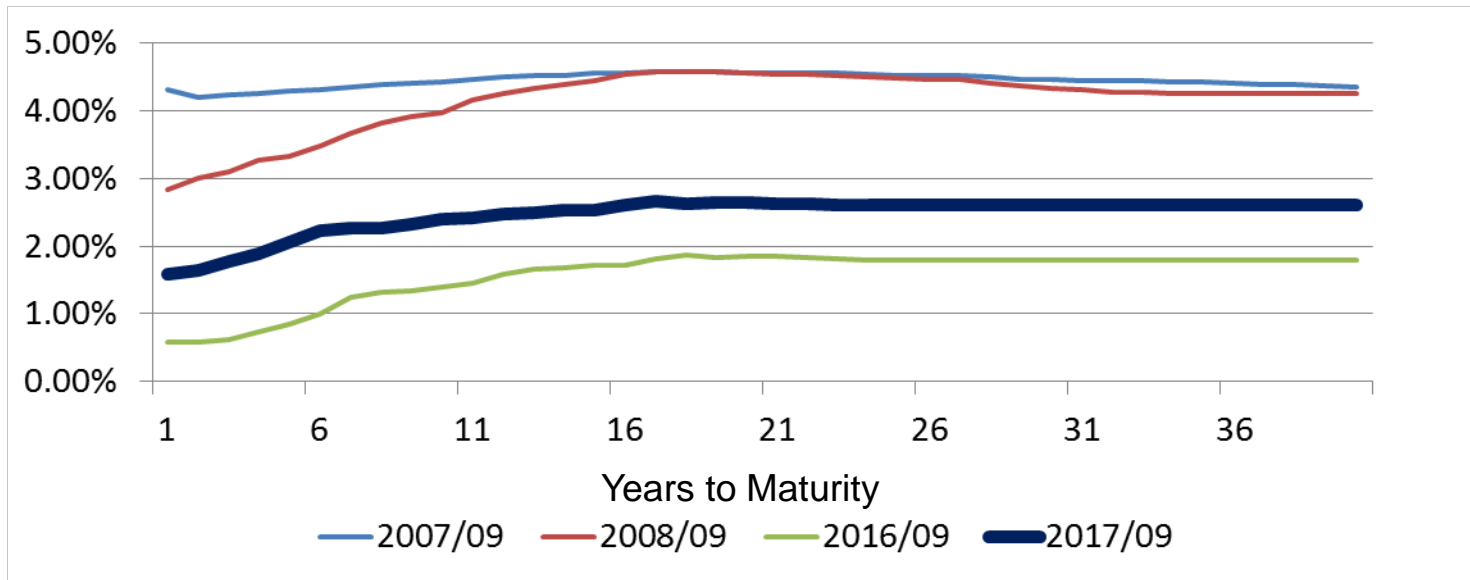


# Total Portfolio – Change in Market Value



## Rising Bond Yields Have Resulted in Negative Returns

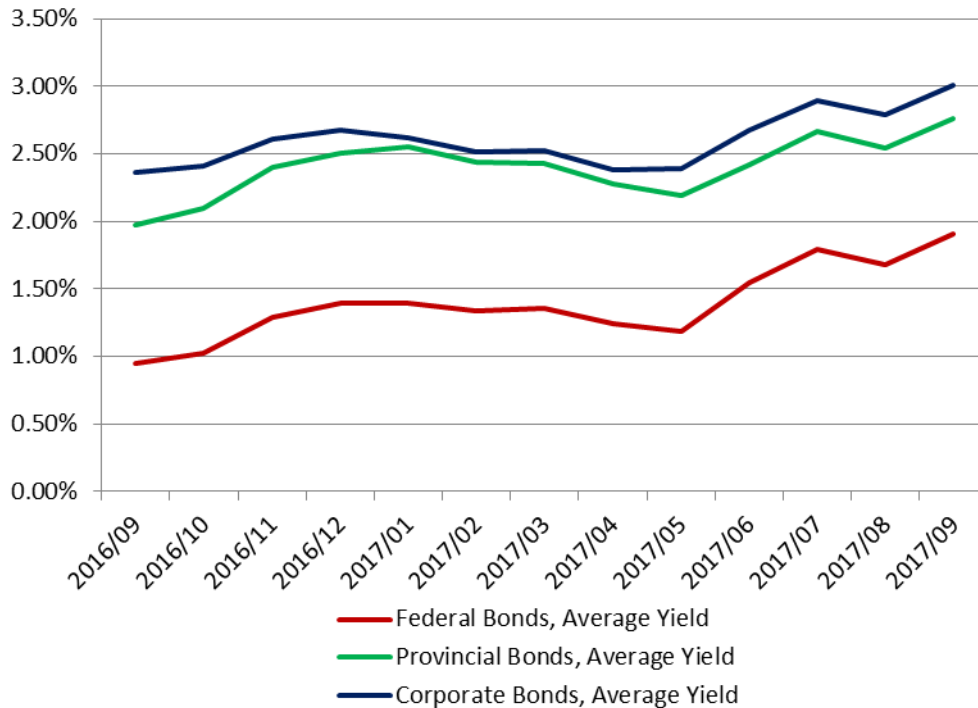
### Government of Canada Bond Yield Curves



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

Corporate Bonds	-0.36%
Provincial Bonds	-3.97%
Federal Bonds	-4.72%
Canadian Investment Grade Bond Market	-2.97%

Source: FTSE TMX Global Debt Capital Markets

## Market Update (continued)

---

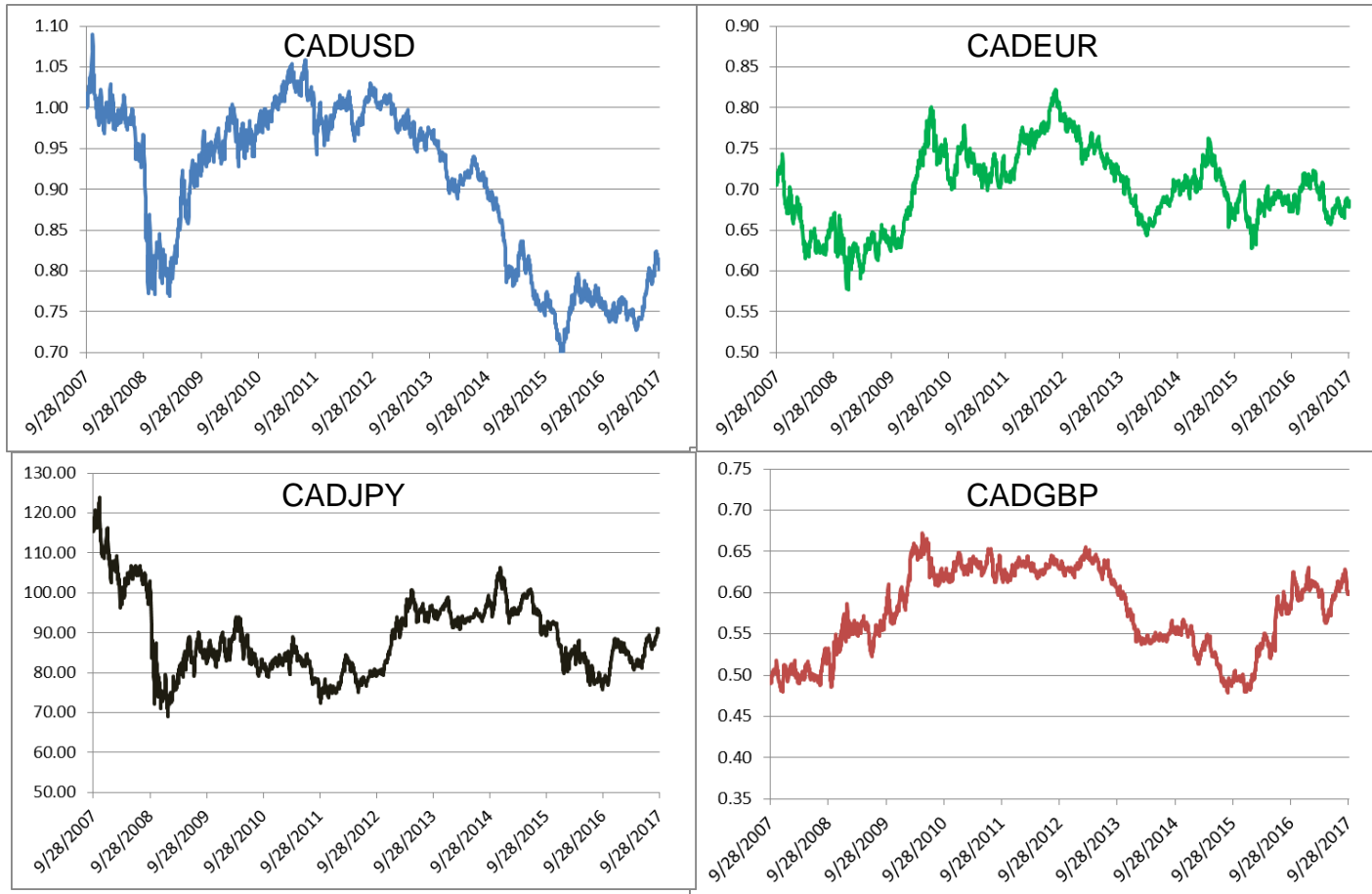
### Oil Continues to Languish



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

# Market Update (continued)

## Canadian Dollar Rebound: Will it continue?

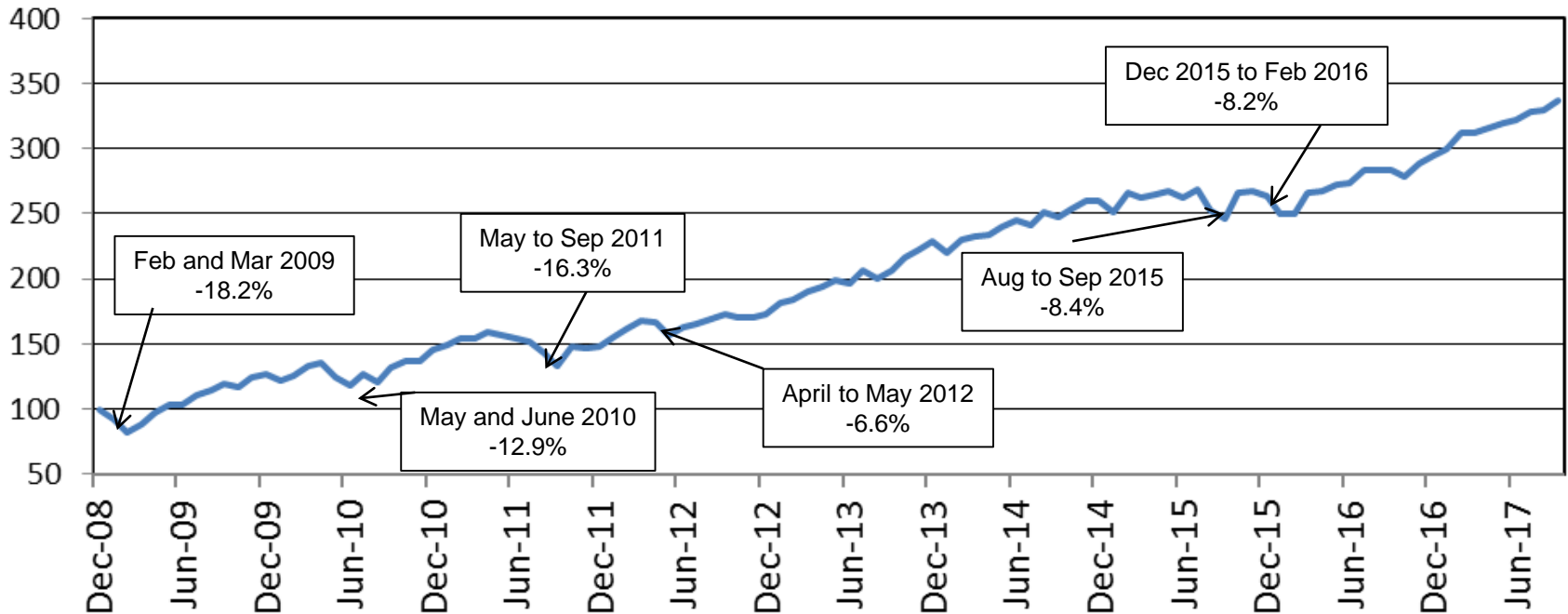


Source: Bank of Canada.

## Market Update (continued)

### Equity Markets Continue to Rise Higher

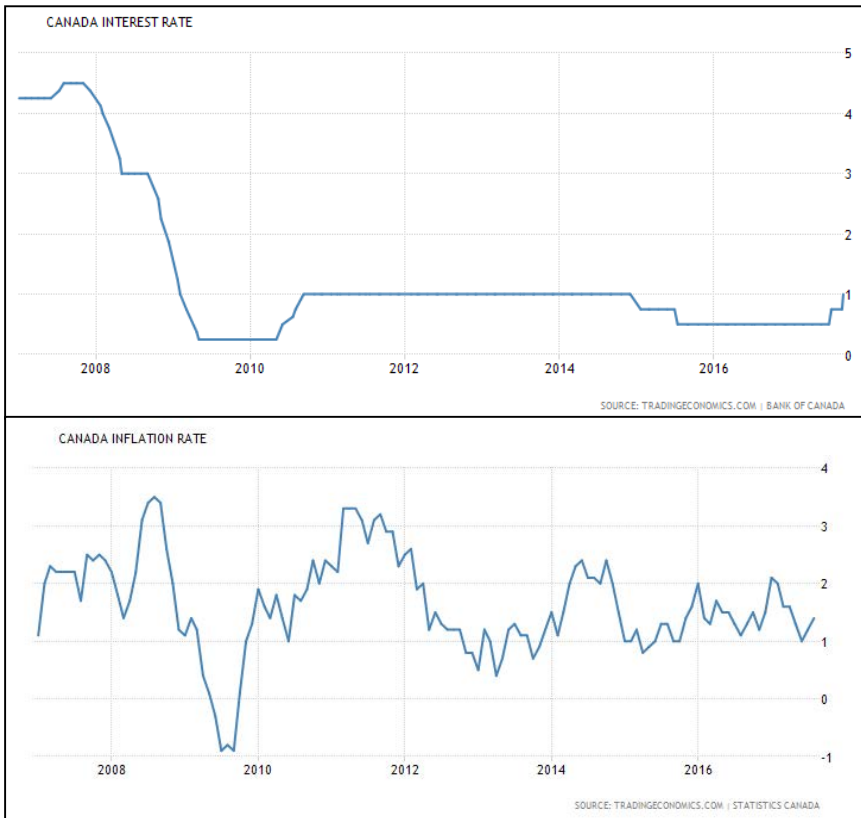
#### S&P500 (USD)



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.

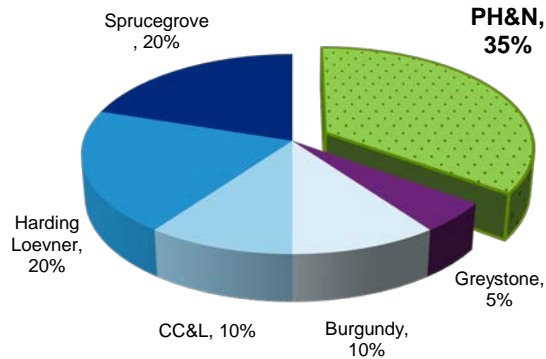
---

## Appendix – Asset Class Overview



# Canadian Fixed Income Allocation

## Manager Structure

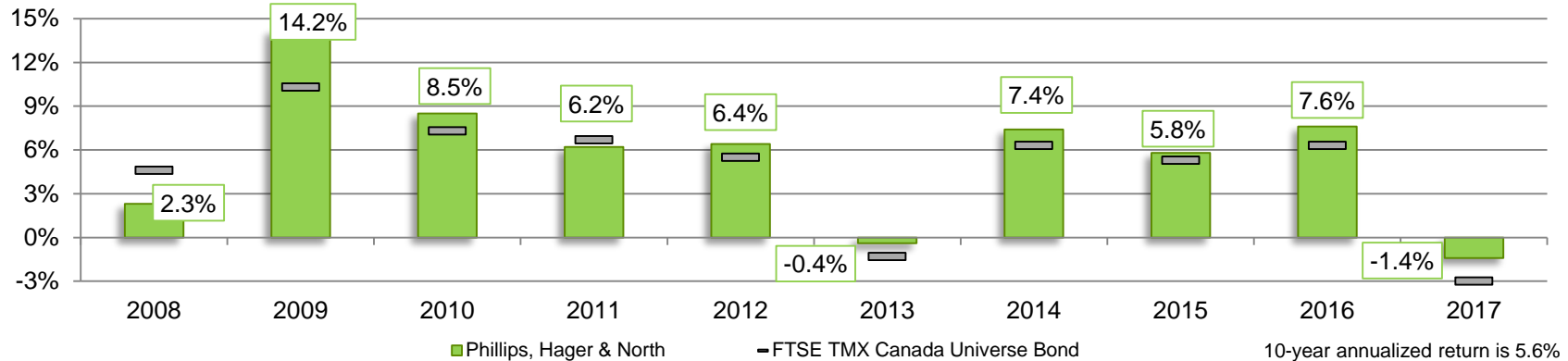


## Phillips, Hager & North (PH&N) Strategy Summary

- 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
- Added in 2016: additional strategies were added, including corporate high yield bonds and emerging market debt
- Annual fee is based on assets, currently about 0.28%

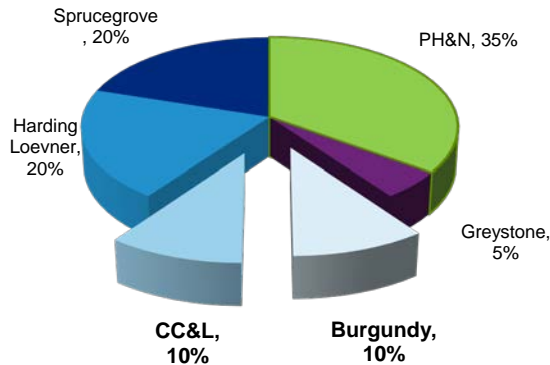
## Performance

(gross of fees, one year ending September 30)



# Canadian Equity Allocation

## Manager Structure



## Burgundy Strategy Summary

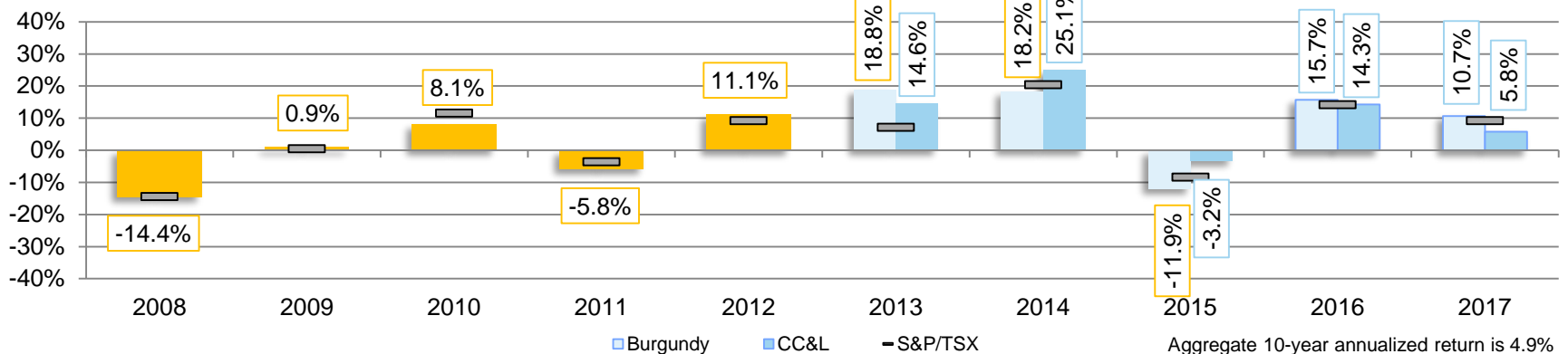
- An active, high conviction, buy-and-hold strategy that focuses on valuation and quality factors
- Hired in 2012; the five-year net of fees return has beat the benchmark
- Annual fee is based on assets, currently about 0.56%

## 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 five-year net of fees return has beat the benchmark
- Annual fee is based on assets, currently about 0.39%

## Performance

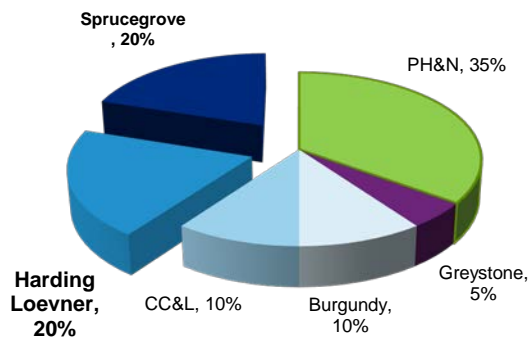
(gross of fees, one year ending September 30)



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

# Global Equity Allocation

## Manager Structure



## Harding Loevner Strategy Summary

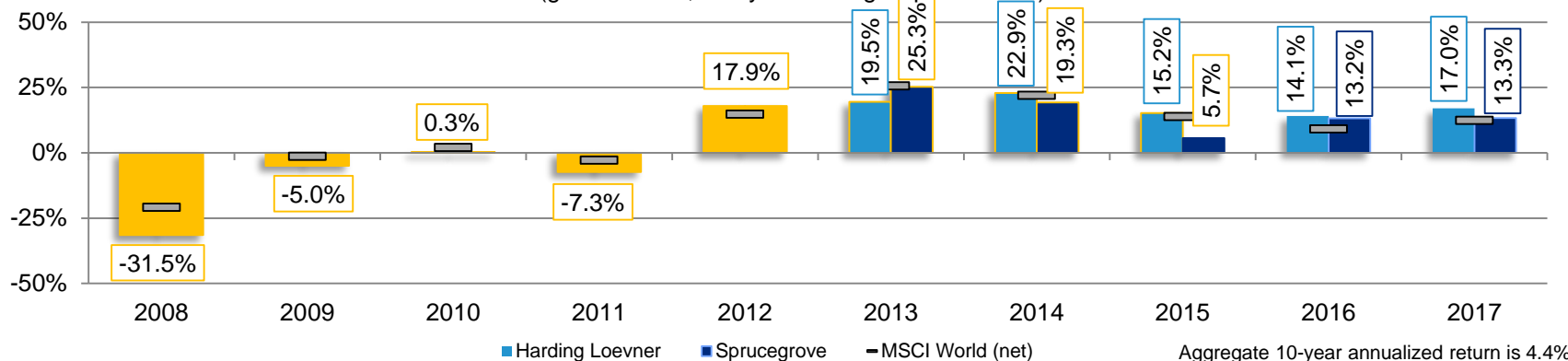
- An active strategy that invests in growing, high quality companies at reasonable prices
- Hired in 2012; the five-year net of fees return has beat the benchmark
- Annual fee is based on assets, currently about 0.66%

## Sprucegrove Strategy Summary

- An active, high conviction, buy-and-hold strategy that focuses on valuation and quality factors
- Hired in 2012; the two-year net of fees return has beat the benchmark
- Annual fee is based on assets, currently about 0.55%

## Performance

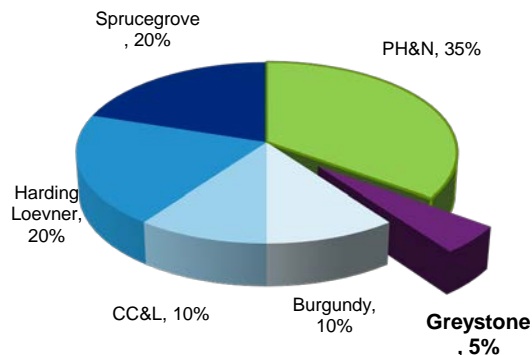
(gross of fees, one year ending September 30)



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

# Real Estate Allocation

## Manager Structure

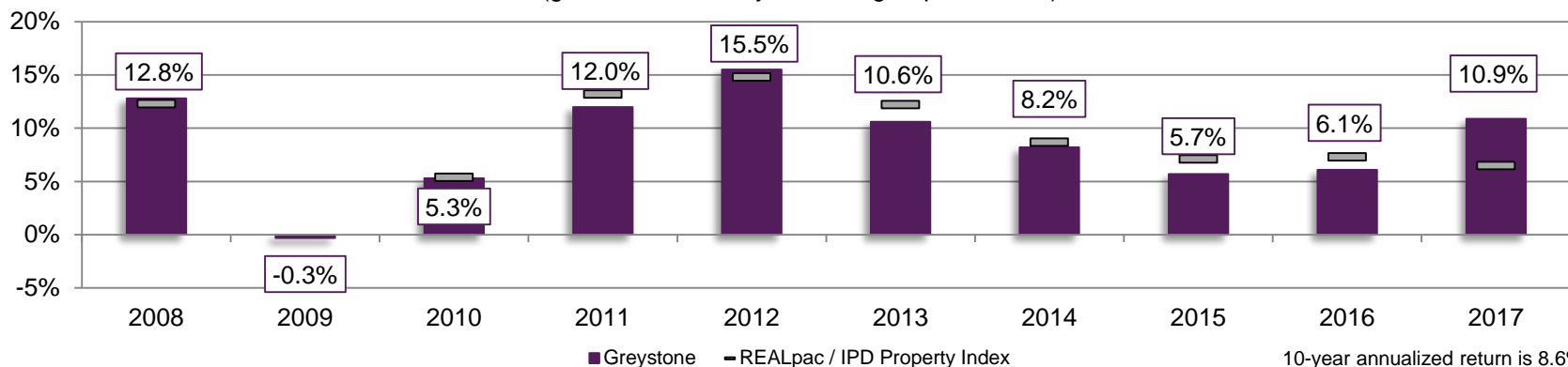


## Greystone Strategy Summary

- An active strategy that aims to exceed a proxy for the Canadian real estate market
- Greystone has achieved its goal, on a 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 are approximately 1.10% per annum

## Performance

(gross of fees, one year ending September 30)



# Legal Disclaimer

---

© 2017 Aon Hewitt Inc. All Rights Reserved.

This document contains confidential information and trade secrets protected by copyrights owned by Aon Hewitt. The document is intended to remain strictly confidential and to be used only for your internal needs and only for the purpose for which it was initially created by Aon Hewitt. No part of this document may be disclosed to any third party or reproduced by any means without the prior written consent of Aon Hewitt.