Lakehead UNIVERSITY

Fall/Winter 2014

RETIREMENT PLAN REVIEW

Portfolio Funds — Understanding the Differences

Selecting the investment mix for your retirement assets can be a daunting task for your corporate or individual retirement savings accounts. For those who are comfortable with selecting a mix of market related funds the process not only involves selecting the funds and their level of use, but also requires ongoing monitoring for rebalancing and adjustment for changing the level of market risk as one gets older. Given these demands, it's not surprising that most opt for some form of "portfolio option" where the ongoing asset mix is managed by a professional.

Portfolio options come in a variety of products and while they all share the basic element of a basket of securities there are some very distinct differences to consider when looking at these for your corporate plan account or individual retirement savings.

Balanced Funds

These funds hold a combination of common stock or shares of Canadian and foreign companies in addition to bonds. The level of equity vs bonds is generally consistent based on the fund managers' investment policy, which can range from 50-70% equity.

Asset Allocation Funds

These funds often come in a group of options with the adjective of Conservative, Moderate or Aggressive in the fund name and like Balanced funds they contain common stock of Canadian and foreign companies. Aggressive funds will have a much higher weighting of common stock or equity (it can be as high as 100%) vs Conservative funds. Some Asset Allocation funds are composed of individual funds in the plan and packaged into a mix that provides a range of equity that fits into the Conservative, Moderate or Aggressive risk profile selected by each plan member.

Target Date Funds

These funds have common features to Asset Allocation funds in that they hold different levels of equity. Unlike Asset Allocation funds or Balanced funds, the name of these funds will include a year such as 2020, 2025, 2030 etc. Instead of being linked to a moderate risk profile, these funds adjust the level of equity in each fund based on how many years you have till the year you are planning to retire.

These funds can have an equity weighting of as much as 90% or more for funds like 2045, 2050, whereas funds like 2020, 2025 will have somewhat lower equity weighting (even as low as 40-45%). The equity weighting, which is viewed as the riskiest part of any fund and also the part which drives growth, gradually reduces each year as the fund approaches its maturity date. Once these funds reach their maturity date, they are invested in a Retirement Income fund, which has a very constant level of equity in the range of 35%.

Selecting a portfolio type of product gets rid of the need to pick individual investment funds and depending on the type of fund selected; you may still need to review your selection as your comfort level for market volatility can change over time. Review your mix regularly and speak with a financial adviser to make sure your selection is the best fit for your long term savings objectives.

NEWSLETTERS ON-LINE!

Lakehead University Plan Members have access to the Proteus website where you can view current and past newsletters, Proteus' performance updates, investment manager presentations and other pension plan related documents.

The website is secure.proteusperformance.com/member User ID: **Lakehead** Password: **learning**

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Ready to Retire?

If you're within 5 years of retirement, now is the time to assess your cost of living and your projected annual retirement income. If your pension income exceeds your expenses, and you have calculated all the costs, including discretionary disbursements, you are on your way to a financially sound retirement. If you have a gap to close, or if you would like to increase your future income, here are some important steps that can help you.

1. Pay Off Debt

Once you retire, your ability to earn additional income for debt payments is reduced and as you get older, your health may prevent you from continuing to work even part-time. If you do have outstanding debts, you should work out a plan to eliminate as much as possible before retirement.

2. Align Your Investment Strategy

Re-assess your investment portfolio to determine whether your money is invested in a way that seeks to optimize your cash flow through retirement. If you still hold too much high-risk investments that can jeopardize your future cash flow, now may be the time to redefine the ideal strategy for your situation. Alternatively, you may be invested too conservatively, which can have a cost of foregone potential income.

3. Continue Saving

During our working careers, we are normally advised to keep 3-6 months' worth of expenses in an emergency savings account. After retirement, our ability to find new income is often reduced and many advisors recommend keeping up to 2 years' worth of living expenses in safe, liquid savings, should something unexpected happen. Unexpected events include needing to make a major repair on your home, or having a family member fall ill and require your financial support. Having an emergency savings account can also help you cover increased fees for insurance policies.

4. Estate Planning

Is your estate planning up to date? Have you reviewed your will recently? Do you have powers of attorney in place in the event you become unable to manage your affairs, even temporarily? Have you named estate administrators, beneficiaries, trustees, guardians for minor children?

5. Get Help

Getting professional advice is the best way to ensure that your money and estate are well taken care of. While the costs may seem high, it is worthwhile to get qualified financial advice to help avoid costly mistakes.

Do you have a retirement topic for a future edition? If so, please send to: retirement@proteusperformance.com

Market Review

Canadian stocks fell by 0.6% during the quarter. Despite positive gains in the first two months, they were more than offset by negative results in September. The resource sectors were a significant drag on performance as the materials and energy sectors posted returns of -10.1% and -6.6% respectively. This was the result of falling commodity prices. The consumer staples sector posted a 12.5% gain thanks to the strong performance of food retailers. The industrials and health care sectors were the next strongest performers at 9.4% and 7.4% respectively. Small-cap stocks significantly underperformed large-cap stocks.

Global stocks continued with their positive momentum as the MSCI World Index increased by 2.8% in Canadian dollars. This was largely a result of strong gains in the U.S. as the S&P 500 increased by 6.2%. Japanese equities posted gains, while Europe posted losses of -2.4%. The Canadian dollar depreciated against the U.S. dollar, but appreciated against most major currencies. Emerging markets lagged the broader developed markets as a whole, but were still in positive territory.

The FTSE TMX Canada Universe Bond Index posted a 1.1% return for the quarter as yields decreased across the Canadian curve, especially at the long end. The provincials and municipals sectors outperformed the broader market, each increasing 1.6%. Corporate and federal bonds both underperformed the broader market, returning 0.8% and 0.9% respectively. The Bank of Canada maintained its overnight rate at 1.0%, while the U.S. Federal Reserve left the Fed Funds Rate target unchanged at 0-0.25%.

Lakehead's Investment Structure and Managers

Investment Structure

Lakehead University Main Pension Plan

Lakehead Pension Total Portfolio — The pension plan investment structure is comprised of a number of underlying investment funds managed by various investment management firms (see below). The goal of the investment mix is to provide long term capital growth and capital preservation. The Portfolio is currently invested in Canadian large-cap and mid-cap equities, Canadian bonds, American large-cap and small cap equities and International large-cap and small-cap equities.

Lakehead University Short Term Account

Short Term Account — The Short Term Account is comprised of one underlying investment fund managed by Jarislowsky Fraser (JF). The underlying fund is a money market fund. Money market funds invest in short term interest bearing (or discount) securities of governments, corporation and other short term borrowers with a time horizon generally under one-year. The rate of return for the fund should be consistent with short term Canadian interest rates.

Underlying Investment Managers

Main Pension Plan

Balanced Funds

Jarislowsky Fraser Total Portfolio — Invests in the pooled JF Canadian equity and bond funds. The target allocation is a 50-50 split between the two funds. The JF Canadian equity fund emphasizes buying long-term growth at a reasonable price. The JF Bond fund is managed based on safety of principal, conservative duration management, and optimization of yield.

Letko Brosseau Total Portfolio — Invests in the Letko Brosseau RSP Balanced and RSP Equity funds. Equity portfolios typically consist of 80 to 120 companies diversified by sector, geography, and individual security. The process is driven by security selection. In fixed income the emphasis is on high quality bonds that meet the objectives of stability and income. Turnover on fixed income is approximately 10% per year.

Canadian Equity Fund

CGOV Canadian Equity — Attempts to buy companies at a sufficient discount to their intrinsic values. The companies are diversified across a minimum of globally recognized industry sectors with the mandate limited to 25 companies. The fund is not expected to exhibit index-like characteristics.

American Equity Fund

Dimensional US Equity Small Cap Value — Invests primarily in securities of small-cap U.S. companies.

Global Equity Fund

State Street Global Advisors (SSgA) — A portfolio of primarily large capitalization global equity stocks that is intended to match the return on the MSCI World Index.

International Equity Fund

Dimensional International Small Cap Value — Invests primarily in securities of small-cap international (non-U.S.) companies.

Fixed Income Fund

Addenda Bond Fund — Invests in a diversified portfolio of bonds and provides investors with interest income and safety of principal along with opportunities for moderate capital growth.

Investment Strategy

Long Term Investing

Capital Markets are unpredictable over short time periods, making attempts to shift between asset classes and 'time the market' difficult for even professional investors. Because of short-term volatility, a well diversified portfolio and a long time horizon generally offer the best protection from fluctuating markets.

A long term investor typically does not focus on poor performance in any given year. Instead, they review their strategy and consider whether the investment still fits with their long term objectives. If you are a long way from retirement, a mix of stocks and bonds may be prudent. If you are close to retirement, a more conservative investment approach may be appropriate as there is less time to recover investment losses. If you are unsure of the best strategy for you, you should seek independent professional advice before making your investment decisions.

Performance Summary

Period Ending September 30, 2014				
	1 year	3 year	4 year	10 year
Lakehead Pension Total Portfolio	16.1	13.8	10.1	7.7
Benchmark	*15.2*	*11.2*	*8.6*	*6.9*
Lakehead Short Term Account*	1.2	1.2	n/a	n/a
Benchmark	*0.9*	*1.0*	*n/a*	*n/a*

**Performance shown is for the underlying pooled fund.*

Returns are shown before fees unless indicated. Past performance of a fund is not necessarily indicative of future performance.

Plan Governance

Plan Governance is handled by the Pension Board and Pension Advisory Committee.

The Professional Plan is administered by the Pension Board which is advisory to the Board of Governors. The Pension Board consists of the following members:

- Two Members of the Faculty (Bargaining Units #1 and #2);
- One Pensioner;
- One Member of Non-Faculty Staff; and
- Two persons chosen by the Board of Governors.

The Employee Plans is administered by the Pension Advisory Committee, which is advisory to the Board of Governors of the University. The Committee consists of:

- Two members appointed by the Board of Governors;
- One member of each bargaining unit;
- One member of non-union staff; and
- One member of non-union Technical staff.