



Lakehead
UNIVERSITY

retirement

PLAN REVIEW

Spring/Summer 2020

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Access newsletters online:

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

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PERFORMANCE SUMMARY



INVESTMENT STRATEGY

Capital Markets are unpredictable over short time periods and a well-diversified portfolio will help protect your capital over the long-term. Successful long-term investors do not focus on poor performance in any given year – they review their strategy and make sure it is well aligned with their long-term objectives. Completing a ‘Risk Profile’ will help to determine the type of investor you are. If you are unsure of the best strategy for you, you should seek independent professional advice before making your investment decisions.

Period Ending March 31, 2020				
	1 year	3 year	4 year	10 year
Lakehead Pension Total Portfolio	-8.3	-0.1	3.3	6.2
<i>Benchmark</i>	-3.7	2.3	4.5	6.2
Lakehead Short Term Account*	1.8	1.6	1.4	1.2
<i>Benchmark</i>	1.9	1.4	1.2	1.0

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

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.

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, Canadian commercial mortgages, American large-cap and small cap equities and International large-cap and small-cap equities.

Underlying Investment Managers

Main Pension Plan

Balanced Fund

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.

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 Funds

Letko Brosseau Equity — Invests in the Letko Brosseau RSP Equity fund. Equity portfolios typically consist of 80 to 120

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.

companies diversified by sector, geography, and individual security. The process is driven by security selection.

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 Funds

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.

Addenda Commercial Mortgages Fund — Invests in commercial mortgages which are held until maturity unless their annual review process indicates a cause for concern.

Timing the Market vs. Time in the Market

Last year, after a volatile December 2018, Proteus published an article entitled 'Keep Calm and Diversify'. This article is on the Proteus website and is worth a read as the advice is even more applicable now than it was back then. If you're reading this now, it's important to heed the advice in the first part of that article title and "Keep Calm".

As a retirement plan member receiving this newsletter you are most likely allocating a portion of each paycheck to investments in a plan administered by your employer. With the uncertainty of today's current environment, it is important to take a step back and not make reactive decisions.

There are always people who are trying to 'time the market', but what you need to remember is that what matters more than timing the market is 'time in the market'. Jeremy Shneider, the creator of the website 'PersonalFinanceClub' published an article in 2018 on this concept that illustrates the benefits of consistent investing over time versus trying to time the market's peaks and valleys. Proteus has updated the study with current values to include the current COVID-19 crisis the world is currently experiencing.

The study illustrates and models three different portfolios that began saving and investing 40 years ago. The first, **Portfolio A**, is a hypothetical portfolio investing in the S&P 500 and has the world's worst market timing.

Portfolio A begins saving \$200/month in a savings account getting 3% interest waiting for the perfect time to invest. Unfortunately when the time comes to invest, the portfolio always gets invested at the worst possible time, the days before the five biggest market crashes:

Black Tuesday (-33%), Kuwait War (-20%), Dot-Com Crash (-49%), the Global Financial Crisis (-56%), and now the COVID-19 crisis. Even with this terrible timing, the buy-and-hold strategy resulted in a portfolio value of \$569,881. Since the portfolio never sold, the investments always recovered and flourished as the market inevitably recovered.

Portfolio B as a contrast, has the world's best market timing. Timing the market perfectly by investing the day the market was the very lowest after the four crashes. As the COVID-19 crisis is still ongoing, Portfolio B has not re-invested at March 31, 2020. It cannot be stressed enough how difficult it is to predict the bottom of the market. In 1990 with war breaking out in the Middle East, the bottom of the market was down 19%, but in 2007, the market dropped all the way down to -56%. Portfolio B predicted these bottoms and invested all the built-up cash just in time for the recovery. Portfolio B now has a current market value of \$830,236, over \$250,000 more than Portfolio A.

Portfolio C didn't try and time anything. Portfolio C simply set up an auto deposit for the \$200 per month investing in an index fund each time; like your typical retirement plan. Portfolio C ended up with a market value of \$1,194,937, over than \$350,000 more than Portfolio B.

These scenarios illustrate that whether you're worried the market is due for another bottom, or you want to wait for the drop to invest – think of these three portfolios. If you're investing for the long term (as a typical pension investor should be) remember, "keep calm".

Investor Instincts

Humans have long formed instinctual behavioural patterns that enable us to survive. In most cases this makes perfect sense. However, when investing this desire for security may negatively impact performance.

Recognize Your Need for Security

If you are driving on a late winter evening in heavy snow with decreased visibility you may decide to check into a hotel for the night to avoid driving through treacherous conditions. This reaction to seek shelter in the face of danger may not be the best approach when investing.

If financial markets are performing poorly and you decide to sell your under-performing funds, this means you are effectively locking in your loss.

The instinct that drives us to seek shelter during a storm is the same instinct that drives us to seek shelter in bad markets. Waiting for the storm to clear makes sense when driving, but not always when investing. Do not freeze, but do not overreact either. Instead, you should be loyal to your long-term investment plan. Reassess your portfolio to decide whether to rebalance your investment selection to ensure that, over time, your investments are still on course with your original targets.

Don't Rely on Your First Instincts

An investor may choose to invest in a particular fund based on strong historical performance and their first instinct is that this trend will naturally continue. However, past history is not a reliable indicator of future performance. High past returns may also be coupled with high risk. Before selecting funds, an investor needs to determine their risk profile and then invest accordingly. An investor risk profile questionnaire is available when you login to your plan account.

Do Your Homework

In many cases a person who is traveling to an unfamiliar environment will plan their trip by researching their destination. This common sense habit is not always applied to investing.

If an investor is faced with a number of investment funds to choose from, he or she may invest an equal amount in each fund. The individual may believe this strategy is achieving diversification. However, this method shows a lack of understanding of risk and its consequences because the diversification, if any, that is achieved will be a result of the list of funds offered in the plan, and will not be tailored to the requirements of the individual member.

As humans, we are emotional individuals who successfully rely on instincts in many situations. However, in the world of investing you need to develop a personalized investment plan. Change *your* plan if *your* situation changes, not necessarily if the things around you change (these are often short term in nature).



MARKET REVIEW

Canadian Equities

- Canadian equities fell by 20.9% this quarter. Energy was hit the hardest, followed by the health care, consumer discretionary and real estate sectors.
- Canadian equities underperformed international, global, emerging markets and U.S. equities during the first quarter.
- All sectors of the Canadian market generated negative returns in the first quarter, headlined by the drop in oil prices, weighing significantly on the energy sector.

International Equities

- World markets, represented by the MSCI World Index (C\$), and the U.S. market represented by the S&P 500 (C\$) were down 13.2% and 11.7% respectively for the quarter.
- The MSCI EAFE Index (C\$) declined by 15.2%.

- All equity markets were down in the first quarter as the novel coronavirus forced consumers into self isolation and businesses worldwide to shut down.

Fixed Income

- The Bank of Canada lowered its interest rate to the lower bound rate of 0.25%, the lowest it has said it's willing to go.
- The U.S. Federal Reserve also cut the key interest rate to the targeted range of 0-0.25%.
- Central banks injected billions into the credit markets to curb the liquidity crunch.
- Governments passed record levels of fiscal stimulus to combat the growing unemployment numbers, as well as support those corporations severely impacted by the spread of the virus over the course of only a couple weeks.

A note about the performance summary:

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

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