Lakehead UNIVERSITY

retirement PLAN REVIEW

Spring/Summer 2021

Contents

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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, 2021				
	1 year	**3 year**	**4 year**	**10 year**
Lakehead Pension Total Portfolio	27.9	7.0	6.3	7.7
Benchmark	*23.8*	*8.4*	*7.3*	*7.4*
Lakehead Short Term Account*	0.6	1.4	1.3	1.2
Benchmark	*0.2*	*1.2*	*1.1*	*0.9*

**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.

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 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 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.

Should I Keep My Bonds?

Bonds are a key component to any investment portfolio. It is highly likely that you own bonds in your retirement plan account. If you have any money in a Balanced fund; Diversified fund; Asset Allocation fund; or Target Date fund then it is a certainty that you are a bond owner. It is also very possible that you own a specific fund holding only bonds — one that actively invests in bonds or it may invest in bonds to follow a common basket of bonds called the "FTSE Canada Universe". The FTSE is a collection of over 1000 bonds issued by corporations and provincial as well as federal governments.

All bonds are a loan to either the government or a corporation. In return, they promise to repay the loan at a specific date in the future and pay interest until the bond is repaid. We have all seen what has happened to interest rates in the last year — they have dropped to levels we never thought would be possible. You can see this when looking at mortgage rates (when you are borrowing and have to pay the interest) or when you are investing in GICs (when you are lending money to the bank and they are paying you interest).

The interest paid on bonds has also dropped and there have been ongoing discussions about when rates will increase. Most would think this would be great news for bonds — the reality is that it is a good news and bad news story. The "good news" is that when rates go up the new bonds that you buy pay a higher interest rate. The "bad news" is that the ones you own are worth a bit less as they pay less than the new bonds. This means that during a period when interest rates are increasing there can be a period where the overall change in value of your bonds is low or even negative.

The logical question we ask ourselves is "Why would I hold bonds if expected interest rate changes might result in bond values growing slowly or possibly declining?". The answer is diversification which is the key to investing. You want to have bonds as part of your portfolio as they offer an offset to the other investment options which are equity related as we know equities can be volatile and produce large changes both positive and negative. Getting rid of your bonds would substantially increase the risk profile of your portfolio. Bonds are there for a buffer and there will be times over the life of your portfolio that they produce less or more income than equities.

We know that interest rates will change over time — common thought at this point is they could stay low for somewhat longer. An increase in rates will most likely be a signal of an improving economic environment and that is good for everything including equities and bonds. So what is happening to bonds? They are doing what bonds have always done — offering diversification and balance to your portfolio.

Ready to Retire

Stress Test Your Retirement Strategy

As you prepare for retirement, there are some very important facets that you need to consider such as the review of your investment objectives and risk tolerance profiles to make sure they are aligned with your retirement goals. Generally, as people move towards retirement, investments become more conservative as the need to preserve the capital becomes greater. However, it is important to remember that you will potentially have to cover expenses for a time horizon of 25+ years and may need potential growth in the investments in order to achieve your retirement vision. Diversification and discipline are key – stay invested!

To understand the key financial risks of retirement planning, some questions that need to be addressed when consulting with a financial advisor include:

- What if I live longer than I expect?
- What if my money doesn't keep up with inflation?
- Is my asset mix suited to my needs and time horizon?
- How will my plan be impacted by large, unexpected withdrawals, especially early on in retirement?
- What if my health deteriorates and I need extra health care?

Tools are available, at no cost, to stress-test your retirement strategy. On-line calculators and budget spreadsheets can be found on-line from your plan administrator's website and most financial institutions. Do it! You will have a clearer view of your future cash flow and your current retirement outlook. And remember to seek financial advice to ensure that your portfolio is optimized and aligned with your retirement strategy.

MARKET REVIEW

Canadian Equities

- Canadian Equities increased by 8.1% during the first quarter of 2021.
- The health care, energy, financials, and consumer discretionary sectors let the quarter as the top performing sectors.
- Canadian equities outperformed U.S. equities, international equities, global equities and emerging markets during the quarter.
- All sectors within the S&P/TSX Composite Index except for materials and information technology generated positive returns during the quarter.

Foreign Equities

- World markets, represented by the MSCI World Index (C$), and the U.S. market represented by the S&P 500 Index (C$) were up 3.6% and 4.7% respectively for the quarter.
- The MSCI EAFE Index (C$) rose by 2.2%.

Fixed Income

- The Bank of Canada and U.S. Federal Reserve's key interest rated have remained unchanged since lowered in March 2020 to 0.25% and 0-0.25%, respectively. In both cases, it is unlikely interest rates will rise over the short term.
- As had been the case since the beginning of the pandemic, governments and central banks have continued to inject fiscal and monetary stimulus into the economy. In March 2021, U.S. President Biden signed the American Rescue Plan Act of 2021, a $1.9 trillion coronavirus rescue package designed to mitigate the economic and health effects of the COVID-19 pandemic.
- The U.S. Federal reserve will continue its $120 billion in monthly bond purchases and tapering is not expected until substantial further progress is achieved with respect to their employment and inflation goals. Meanwhile, the Bank of Canada's quantitative easing program consists of $4 billion in weekly government bond purchases, down from $5 billion per week at the beginning of the program.

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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