



Lakehead
UNIVERSITY

retirement

PLAN REVIEW

Spring/Summer 2022

Contents

PERFORMANCE SUMMARY

**YOUR INVESTMENT FUNDS +
INVESTMENT STRATEGY**

HIGH INFLATION AND RISING INTEREST RATES

READY TO RETIRE

MARKET REVIEW

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.

www.proteusperformance.com

User ID: Lakehead-Member | Password: learning

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, 2022 | | | | |
|----------------------------------|------------|------------|------------|------------|
| | 1 year | 3 year | 4 year | 10 year |
| Lakehead Pension Total Portfolio | 4.0 | 6.9 | 6.2 | 8.1 |
| <i>Benchmark</i> | <i>6.0</i> | <i>8.1</i> | <i>7.8</i> | <i>7.8</i> |
| Lakehead Short Term Account* | 0.3 | 0.9 | 1.1 | 1.1 |
| <i>Benchmark</i> | <i>0.3</i> | <i>0.8</i> | <i>1.0</i> | <i>0.9</i> |

**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

Burgundy Global Equity — Follows a value philosophy with a quality bias, on the basis that capital preservation is a key element in generating strong returns over the long term. Burgundy's objective is to buy high quality businesses at attractive valuations and hold them for the long term. Valuation is built based on 5-year cash flows model which is discounted back at 8% or higher.

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.

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.

T. Rowe Price Global Growth Equity — Seeks long-term capital appreciation and applies a growth-oriented approach, but with a mind-set that valuation always matters in generating alpha and in controlling absolute and relative risks. The strategy also maintains a focus on companies that they believe offer sustainability and robustness in their future earnings and cash flow growth, that have strong business models, and that apply rational deployment of capital.

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.

High Inflation and Rising Interest Rates

Inflation and interest rates are two hot topics of conversation right now. Inflation is at a 30 year high in Canada and the U.S., and interest rates are increasing to try to suppress it. From a consumer's perspective, the concern with higher inflation is the rising cost of goods and services. From an investor's perspective, the concern with higher inflation is ensuring your portfolio is adequately positioned to protect its 'real' value.

You may be looking at your statements this quarter and wondering why your fixed income returns are negative. In an inflationary environment like today, interest rates tend to rise, which decreases bond returns. Unfortunately, when rates go up the value of existing investments with lower rates will drop as their value must compete with higher return options. In 2022 so far, interest rates have increased across the entire yield curve and, as a result, fixed income markets have performed poorly. In the first quarter of 2022, the standard Canadian investment grade bond market declined by 7%.

Rising rates, however, also mean that new bond investments will yield a higher return over the life of the investment. The cost of paying for debt will rise, along with the returns you see for both new bonds issued and Guaranteed Investment Certificates (GICs). Higher rates for savings can be seen as a positive step forward for investors and is a sign the economy is getting stronger.

As we are still seeing a higher-than-average level of inflation, it's important to note that retirement plan members earlier in their careers tend to have a natural hedge against inflation as wages tend to increase over time and employment income acts as a steady cash flow stream. Members at a later stage in their careers, especially those expecting to retire soon, may not have that steady employment income stream for much longer and are naturally more risk-averse in their investments, as their goal shifts towards capital preservation. For this reason, it is important that members of all ages periodically revisit their portfolio and speak to a qualified financial advisor to ensure their allocation fits their time horizon, risk tolerance and return objectives.

It's important to understand your comfort level with volatility and continually confirm your investment mix is right for you and for the years of investing ahead of you. Remember to focus on the long-term and do not make rash investment decisions based on near-term concerns.

Investment Governance: Know What You Have!

Reviewing your investment mix periodically to understand what's in your portfolio is an important step in personal governance.

If you are invested in target date funds, asset allocation funds and/or balanced funds, these are often presented as “set it and forget it” fund options, as they include a mix of Canadian equity, foreign equity and bonds. Many people choose these options and don't end up looking at their asset mix for years, however, it's important to have a basic understanding of their composition to ensure you are comfortable with the equity exposure in your portfolio.

Balanced funds typically have a 60%/40% weight of equity and bonds. Asset allocation funds also have a set mix of equity and bond investments but the level of equity for conservative asset allocation funds can be as low as one quarter of the fund and aggressive asset allocation funds can be almost entirely invested in equity. Understanding the level of equity for each fund will enable you to determine if the choices you initially selected are still appropriate for your retirement objectives.

Target date funds also contain Canadian equities, foreign equities and bonds, but unlike balanced and asset allocation funds the level of equity declines over the life of the fund. A fund that has a maturity date of 2060 may have more than 90 per cent in equities while one dated 2030 might just have 35 per cent in equity. Understanding how target date funds operate in terms of equity levels is important to periodically ensure you are comfortable with the level of market risk you have assumed.

You can determine the equity level of your funds by reviewing the quarterly fund fact pages online. Likewise, you can call your program's record-keeper and have them help you find that information online. Once you know what you have, you can evaluate whether it is appropriate for your long-term savings objectives.



MARKET REVIEW

Canadian Equities

- Canadian Equities increased by 3.8% during the first quarter of 2022.
- The top performing sectors were the energy, materials, and communication services sectors.
- Canadian equities outperformed all other major equity indexes.
- Within the S&P/TSX Composite Index, the consumer discretionary, health care, information technology, and real estate sectors generated negative returns.

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 down 6.1% and 5.7% respectively for the quarter.
- The MSCI EAFE Index (C\$) was down by 6.8%.

Fixed Income

- The U.S. Federal Reserve decided to raise its key interest rate from 0.25% to 0.50% during the quarter and anticipates that increases in the interest rate target range will be ongoing.

- Similarly, the Bank of Canada decided to increase its key interest rate from 0.25% to 0.50%.
- Over the quarter, indicators of economic activity and employment measures have continued to strengthen.
- Similar to previous quarters, elevated levels of inflation related to the pandemic persists, along with higher energy prices and broader price pressures caused by the invasion in Ukraine by Russia.
- The U.S. Federal Reserve is expected to begin reducing its holdings of Treasury securities as well as agency and agency mortgage-backed securities in future meetings.
- The Bank of Canada also cites added price pressures to oil and other commodities caused by the invasion crisis in Ukraine.
- The Governing Council expects interest rates will need to rise further to keep inflation expectations well-anchored and achieve the 2% inflation target.

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.

Russell Investment Group (Russell) is the source and owner of any data, trademarks, service marks and copyrights contained in this material related to the Russell Indexes. Unauthorized use, disclosure, copying, dissemination or redistribution is strictly prohibited. Material is presented “as is” and Russell Investment Group is not responsible for the formatting or configuration of this material or for any inaccuracy in presentation thereof.

Any MSCI related information contained in the report is the exclusive property of MSCI Inc. (MSCI). All rights reserved. This information may not be reproduced or disseminated in any form and may not be used to create any financial products without MSCI’s express prior written permission. The information is provided “as is”. In no event shall MSCI or any of its affiliates have any liability to any person or entity arising from or related to this information.

TSX© Copyright 2017 TSX Inc. All Rights Reserved. The information is provided “as is”. In no event shall MSCI or any of its affiliates have any liability to any person or entity arising from or related to this information.

Created by:

