Lakehead UNIVERSITY

Fall/Winter 2013

RETIREMENT PLAN REVIEW

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 "DEX Universe". The DEX 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 couple of decades — 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 for the last couple of years 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 and could increase. 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.

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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VALUE, KNOWLEDGE, SERVICE

Ready to Retire? *Remember: What, When and Where*

We have all dreamed about retirement from time to time. It's a good dream to have and thinking of retirement is an enormously useful process. Whether you know it or not, just trying to visualize what you want to do in retirement helps determine the resources you will need to make it happen.

Typically, financial planning focuses on how much money you will need to retire to maintain a specific level of lifestyle — often based on the lifestyle you have while you are working. Your retirement might involve a number of different elements.

Consider three things when dreaming of your retirement: What, When and Where. The result of this will be very helpful to determine "how much" you will need to make it happen.

If you are thinking of retiring to a small community where you and your spouse will focus on gardening, fishing and hiking, this will be much less expensive than if you want to stay in your house in the city and travel. While retirement may be a long way off, dreaming of it years in advance will give you the benefit of planning for it financially.

Of course, you could just focus on the amount of money you will have when you reach the age you will retire. This is not an uncommon approach and the result may support the lifestyle you want at retirement. Most people find the dreaming of what they want to do more pleasant than the math of hitting a specific financial target. Of course doing both the dreaming and planning of what you want to do; where you want to live; and how much you will need is the optimal solution. For now, dreaming is a great start.

Do you have a retirement topic for a future edition?
retirement@proteusperformance.com

Market Review

Canadian stocks were up 6.2% over the quarter, returning year-to-date gains into positive territory and outperforming the broad global index. The utilities sector continued to be weighed down as a result of rising bond yields and was the only sector with a negative return. The materials sector continued its struggle by underperforming the broad market by 1.7%. Gains continued to be led by the health care, consumer discretionary and information technology sectors. Small-cap stocks outperformed their large-cap counterparts over the quarter.

Global stocks were positive with the MSCI World Index returning 5.5% in Canadian dollars. Gains were led by European markets as they significantly outperformed the U.S and Japan. In the U.S., concerns regarding the limits on the debt ceiling and looming shut-down of essential government activities hindered performance for both itself and its major trading partners. The weakening of the U.S. dollar versus the Canadian dollar detracted from U.S. market performance.

Fixed income held its position with the DEX Universe Bond Index rising 0.1%. The corporate sector outperformed the broader Index while government bonds underperformed. Short-term bonds outperformed longer term issues as yields rose. 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

Advisory Research American Small Cap Value — Focuses on value-oriented companies with market capitalizations within the range of the Russell 2000 Value Index at time of purchase. Bottom up stock selection is utilized.

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, 2013				
	1 year	3 year	4 year	10 year
Lakehead Pension Total Portfolio	15.0	8.2	8.1	7.5
Benchmark	*8.9*	*6.5*	*6.6*	*6.5*
Lakehead Short Term Account*	1.3	n/a	n/a	n/a
Benchmark	*1.1*	*n/a*	*n/a*	*n/a*

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

**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.