



Lakehead  
UNIVERSITY

# *retirement*

**PLAN REVIEW**

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Fall/Winter 2017

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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.

**[www.proteusperformance.com](http://www.proteusperformance.com)**

**User ID: Lakehead | 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 September 30, 2017				
	1 year	3 year	4 year	10 year
Lakehead Pension Total Portfolio	7.9	7.0	9.2	6.2
<i>Benchmark</i>	<i>5.2</i>	<i>6.1</i>	<i>8.3</i>	<i>5.5</i>
Lakehead Short Term Account*	0.8	0.9	1.0	n/a
<i>Benchmark</i>	<i>0.5</i>	<i>0.6</i>	<i>0.7</i>	<i>1.1</i>

## 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 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 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.

#### 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.

### 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.

#### 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.

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

# BENCHMARKING YOUR FUNDS

How do I monitor a fund for its performance? One common method is comparing the performance of one fund to a collection (or a benchmark) of similar investments over various time periods, also known as benchmarking.

An appropriate benchmark must have several attributes to make it acceptable, such as being investable, transparent, accessible, relevant and independent. An appropriate benchmark serves to provide a quick reference relative to your fund – where a benchmark is provided with your fund returns you can assume it is the correct benchmark. For example, if your Canadian equity fund has gone down by 5% over the last year when its benchmark has gone up by 10%, then you have reason to question underperformance.

Benchmarks are often called an “index” and are used to compare funds where the fund manager actively selects the holdings. If you are investing in an index fund, they will perform very much like their benchmark.

A few common stock related benchmarks include S&P TSX (Canadian Equities); S&P 500 (US Equities), MSCI EAFE (International Equities) and MSCI World (Global Equities). Keep in mind that Global Equity is a combination of both US and International equity. For Canadian Bonds, the most common benchmark is the FTSE TMX. Some bond funds may invest in securities outside of Canada, which can have a significant impact on performance.

Benchmarks are an appropriate tool to quickly review if your active manager (one that selects investments through research) is performing in-line with expectations over various periods of time. Even the best active managers will have periods where they are performing below the benchmark, especially over shorter periods, but you cannot evaluate a manager on short term performance. In short, using benchmarks to look at your fund performance is the right thing to do but do not be surprised to see periods where they do not beat a passive benchmark. Over longer periods, fund returns in excess of the benchmark are a sign of success.

## Q: What is loss aversion?

Loss aversion is a bias that's often felt when individuals make investment decisions based on perceived gains instead of perceived losses. Basically, it's the idea of avoiding any potential risk that could cause money loss.

Loss aversion is a tendency all humans share, because let's face it, no one likes to lose money. We can't, however, avoid potential loss altogether. Why? Because favouring perceived gains over losses can consequently have probable negative impacts. Sure, you might not be losing money when avoiding the risk of loss, but you're losing opportunities for potentially greater gains. If you're always investing in a safe option, you could risk the opportunity to be growing your portfolio with an investment that's a little riskier.

### How to Manage Loss Aversion

Instead of avoiding potential risk altogether, here are a few tips to help you safely bet your cards.

1. Think long-term: When it comes to juggling risk, long-term investments are a safer bet than short-term investments. If the market dips with a long-term investment, it has a longer time to bounce back. If the market dips with a short-term investment, you might be feeling the pain of loss.
2. Avoid short-term news: Often, short-term news can suggest the potential for bad news to occur with investments. Acting on this news can stir up emotional, quick decisions to occur, which may not be beneficial in the long run. Remember that short-term news tends to lead to short-term, temporary outcomes. If you can avoid short-term news, you will be less likely to make quick decisions.
3. Reassess your risk tolerance (if needed): If you can't ignore the short-term news and aren't comfortable with your current portfolio, it's probably time to sit down with your financial advisor to reassess the risk of your portfolio and how you can switch it up.

When it comes to making any financial decision, take your time and do your research. Speak with a financial advisor to safely determine the best investment decisions for your portfolio.



# MARKET REVIEW

## Canadian Equities

- Canadian equities achieved a 3.7% return in the third quarter.
- The financials, energy and materials sectors (the three largest sectors that make up two thirds of the composite) were three of the four top performing sectors in the third quarter after a weak second quarter.

## International Equities

- World markets, represented by the MSCI World Index (C\$), and the U.S. market represented by the S&P 500 (C\$) were up 1.1% and 0.6% respectively for the third quarter.
- The MSCI EAFE Index (C\$) was up 1.6% for the third quarter.
- The MSCI Emerging Markets (C\$) Index was also up for the third quarter, achieving a return of 4.0%.

## Fixed Income

- The Bank of Canada raised the key interest rate twice during the third quarter to 1%. The second rate hike of 25 bps occurred in September, which surprised the market as the increase was initially estimated to take place in October.
- In the wake of the two rate hikes, Governor Poloz – Governor of the Bank of Canada – confirmed that a gradual, data dependent approach to interest rate determination will be taken. Currently the market has fully priced in three more interest rate increases prior to the end of 2018.
- The FTSE TMX Canada Universe Bond Index was down 1.8% for the third quarter.
- Provincial and Municipal bonds underperformed the index for the third quarter while Federal and Corporate bonds outperformed.

## 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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