Retirement Plan Review

Spring/Summer 2016

Lakehead UNIVERSITY

Measuring volatility via fund performance

The performance swing of Canadian equities during January provided a clear example of market volatility. In the first 20 days of 2016, the S&P TSX Composite index was down almost 10 per cent and by the end of January the market was down over 2.4 per cent.

As a plan member you likely, and correctly, have a diversified mix of investments to help moderate the volatility of a single market. The investment returns you see for your plan reflect both the performance of funds and their overall volatility.

Tracking the fund performance of your investments is an important part of financial planning and there are various tracking measures available, including: annual returns, annualized returns, average cost and personal rate of return (PRR). Let's take a closer look into what all these measures mean.

Annual returns reflect the return of the fund over a 12 month period (note that the return will be to the end of that month and is not shown just for the calendar period). In the investment world, 12 months is a very short period of time and returns for this period (like any historical numbers) are not predictive of future performance. If you want to evaluate performance over any period of time, the easiest way to do so is to compare the fund return to a comparable benchmark. An example of this would be to compare your Canadian equity fund return to the S&P TSX Composite return.

Annualized returns provide the average annual return over two or more years. Looking at annualized returns over several years provides a better indication of how the fund has been doing and can cover periods when markets are both increasing or declining in value. Annualized returns can be compared to a benchmark to evaluate fund performance, but recognize that all fund managers will have periods in time where they may lead or lag the broad market returns for various reasons.

When you look at the annual and annualized returns for your account, you may notice it does not reflect the actual return you see in your account. The reason for this is because you contribute on a regular basis, and annual and annualized returns look at the fund performance assuming all assets are in the plan from the beginning of the period.

The **personal rate of return (PRR)** is the return of your account based on the actual timing and amount of your contributions. PRR is invested from the date the funds are received by the fund manager to ensure the underlying fund performance is correct.

When you view your statement or account online, you will also see your **average cost**, which is a measure that shows the average purchase price for units you have bought in the fund. While unit value will increase or decrease with market volatility, the average cost can be compared to the current unit value to determine if your investment has increased over time.

Remember, fund performance is an important contributor to your overall financial wellbeing, before and after retirement. Make sure you keep track of how your funds are performing and make sure your investment mix stays in-line with your comfort level of market risk and volatility. As always, it's a good idea to periodically discuss your investments with an independent financial adviser.

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
Password: learning

Connect with Proteus on social media for more retirement tips and information.

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Ready to Retire?

Disproving a common fear

A common fear of many soon-to-be retirees is retiring at a "bad time" when the stock market is "down". This fear is currently a hot topic in Canada, as over the past year falling oil prices have hurt our economy and the Canadian stock market as a whole. However, the fear is unfounded for two reasons.

The first is the vast majority of soon-to-be retirees are not truly "down" with their stocks and they aren't selling many (or any) of their investments during this "bad time". It's quite common that most plan members are fully engaged with their retirement plan until they are close to retiring. However, once retirement age approaches, the soon-to-be retirees begin keeping tabs on the amount of their accumulated savings, which becomes their reference point against future gains and losses. In truth, any plan member who started investing 10 to 40 years is certainly very "up" over the long term.

The second reason why retiring at a "bad time" is not a fair assessment is because most retirees will not sell their investments all at once. Group retirement plan assets form part of the nest egg (the lump sum) intended to support members throughout retirement. The CPP and Old Age Security (OAS) are two other sources of retirement income, in addition to group retirement plans, accumulated throughout your career and personal savings.

While you will likely have to transfer your group retirement savings out of your employer plan once you retire, you should ensure that you immediately reinvest the funds so that the growth of your investments can financially support you for the rest of your life.

If you are not comfortable making your own investment decisions or deciding how much you will need to withdraw from your retirement savings, consider engaging a financial advisor to ensure you're prepared and ready for retirement.

Market Review

Canadian equities were up this quarter, gaining 4.5%. All sectors had positive returns, with the exception of the health care sector, which fell 67.3%. This was once again largely due to the continued crash of Valeant Pharmaceuticals (-75.8% this quarter), which makes up the large majority of the Canadian health care sector. Canadian exports continued strong growth this quarter. Sales of commodities and related products account for almost half of Canadian export volumes. However, recently it has been the sale of non-commodity products that have boosted exports.

World markets, represented by the MSCI World Index (C$), were down 7.1% at the end of the quarter. The S&P 500 (C$) and The MSCI EAFE Index (C$) were down 5.0% and 9.6%, respectively, over the quarter. Declines in foreign markets were attributable to the increased strength of the Canadian dollar over the quarter. In local currency terms, markets were generally flat, after falling sharply to mid-February and rebounding in the second half of the quarter. The MSCI Emerging Markets ($C) Index performed relatively well and was down only 1.5% at the end of the quarter.

The gap between Canadian and U.S. interest rates closed this quarter, as Canadian rates fell 7 basis points while U.S. rates fell 42 basis points. The Bank of Canada left its overnight rate unchanged at 0.50% during the first quarter, as fourth quarter GDP was stronger than expected. However, they have left the door open to lower rates further as their outlook for a slower economy has not changed. The FTSE TMX Canada Universe Bond Index was up 1.4% for the quarter. Provincial and corporate bonds outperformed as spreads in the corporate sector tightened, reacting to an increase in the price of oil.

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

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.

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.

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

Period Ending March 31, 2016				
	1 year	3 year	4 year	10 year
Lakehead Pension Total Portfolio	-1.7	8.7	9.4	6.1
Benchmark	*-1.9*	*7.9*	*7.9*	*5.3*
Lakehead Short Term Account*	0.9	1.1	1.1	n/a
Benchmark	*0.5*	*0.8*	*0.9*	*n/a*

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.