Lakehead UNIVERSITY

Spring/Summer 2012

RETIREMENT PLAN REVIEW

What if interest rates go up?

Interest rates have been declining for decades to their current historic lows. The lower rates have been great for mortgages and car purchases. The same rates have not been so great for GICs and savings accounts, driving many people from these classic investment options.

Eventually rates will start to rise - this is a virtual certainty. Most people will hear about this in terms of the higher cost of carrying debt. We will also hear about the higher payout or "yield" from bonds which will sound like good news. Unfortunately, bonds being held today that pay a lower rate will automatically be worth less in the market. There is nothing we can do as investors to predict or control when rates might increase or by how much but we should be aware of how rate changes can impact our savings. In short, higher rates can have a negative impact to existing savings in interest sensitive investments.

Bonds have many attractive qualities. They are generally less volatile than equity. Bonds provide regular income through coupons, which are interest payments that investors receive. The "Yield to Maturity" tells the investors what the return will be if the bond is held to maturity. Bonds are contractual obligations and must be repaid unless the issuer ultimately goes bankrupt. However, that does not mean that bonds are immune from market changes, including negative returns.

We know that market changes impact all asset classes - equities, bonds, cash and GICs. The purpose of diversification is to spread out the risks and rewards of these investments. As we cannot predict the timing of changes, we cannot time the market to select one investment versus another. It's about balance and setting realistic expectations so we are not being taken by surprise. The biggest and most common mistake in investing is using past returns as predictors of future results.

In 2011, the typical Canadian bond fund return was in excess of 9% while the Canadian stock market declined by 9%. While we do not know what equity funds will return in 2012, we can be reasonably certain that bonds will not achieve the returns of last year. With rates at a virtual bottom, they have no further to fall.

Everyone wants a predictable and consistent return on their investments. Global factors and investor fear and sentiment have produced an investment climate that is more volatile. This new environment requires patience and investment diversification that includes both equities and bonds.

So, when interest rates do start to increase don't be surprised. These changes will likely impact some of your investments. As with any changes in the market, this is a good time to review your investments and ensure they are still structured to help you achieve your long-term objectives and that they are in line with your personal risk tolerance. Speak to a qualified financial advisor if you have any questions.

The bright side is that higher rates will be a benefit to new allocations to bonds or GICs, and over time, the older investments that had a lower rate can also be reinvested in higher yield investments.

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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Ready to Retire?

No matter how fulfilling someone considers their career to be, every person thinks of retiring one day. That retirement 'dream' is different for everyone. For some, it may be travelling and spending more time on favourite hobbies. For others, retirement might mean a chance to devote more time to family and friends. For others still, retirement may mean an opportunity to pursue a new career or continuing to work part-time.

Regardless of the retirement that someone envisions, and regardless of whether that retirement is 5 years away or 25 years away, the likelihood of achieving the retirement dreamed of is greatly increased by planning for it. Surprisingly, even though most people spending 40 years of their lifetime working towards retirement, industry surveys show that a large majority of people spend less then 1 hour each year planning for retirement.

Retirement planning does not need to be difficult. Even a simple plan is better then leaving everything to chance. Deciding whether you are 'Ready to Retire' boils down to two main questions: 1) How much income do I need? and 2) Where is the money going to come from? Obviously there are a lot of other questions that need to be considered in order to come up with answers for those two - and the answers to those questions may change over time – but with a plan in place, you can keep yourself on target and help to ensure that you will be Ready to Retire.

Do you have a retirement topic for a future edition?
Submit your ideas to
retirement@proteusperformance.com

Market Review

The Canadian economy benefited from a soft landing in the Chinese economy, a recovery of the U.S. economy and a temporary rescue of the Euro banking system.

The Canadian equity market as measured by the S&P/TSX Composite Index grew 4.4% over the first quarter. Gains were led by the health care sector. Other notable outperformers included consumer discretionary and financials. The energy sector was the only negative performer, returning -1.2%.

Global equity markets were also positive with the MSCI World Index returning 9.7% in Canadian Dollars ($C) driven by increased liquidity in the European banking system and eased sovereign debt concerns across the region. U.S equities continued their resurgence from the previous quarter gaining 10.6% ($C) while Japanese equities enjoyed their best quarterly performance in 8 years, up 9.3% ($C). Emerging market equities outpaced their developed counterparts, finishing the quarter up 12.0%.

Fixed income posted negative returns with the DEX Universe Bond Index decreasing 0.2%. Corporate bonds, along with maple and high-yield bonds outperformed the overall Index. Long-term bonds trailed shorter-term maturities. 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 0.25%.

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 65-35 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.

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 March 31, 2012				
	1 year	3 year	4 year	10 year
Lakehead Pension Total Portfolio	0.6	11.3	3.1	5.7
Benchmark	*2.1*	*11.1*	*3.2*	*5.3*
Lakehead Short Term Account*	1.1	n/a	n/a	n/a
Benchmark	*0.9*	*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.