



June 14, 2011

## **Investment Performance Report at March 31, 2011 Saint Mary's University Pension Plan**

Yvan Breton, Montreal

**NOT COMPLETE  
WITHOUT COMMENTARY**

# Agenda

- Market review – what happened in 2010/2011
- Performance review of SMU funds
- Active manager issues
- Managing risk

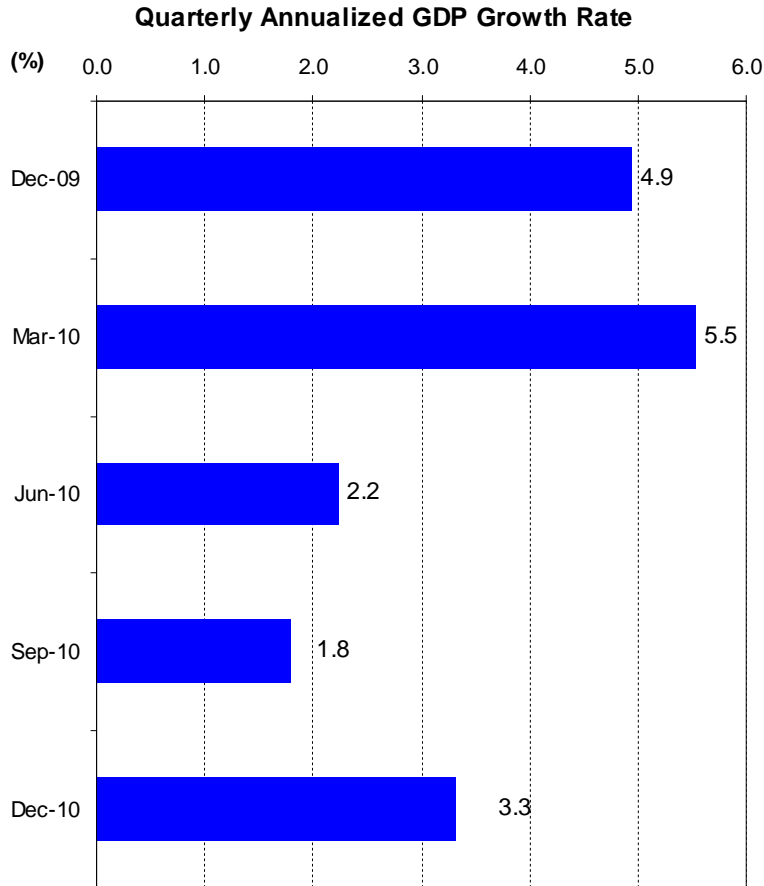


# **Market Review**

What happened in 2010/2011

# Economic Environment

Canada recovery continuing, currency still a factor



Source: Statistics Canada

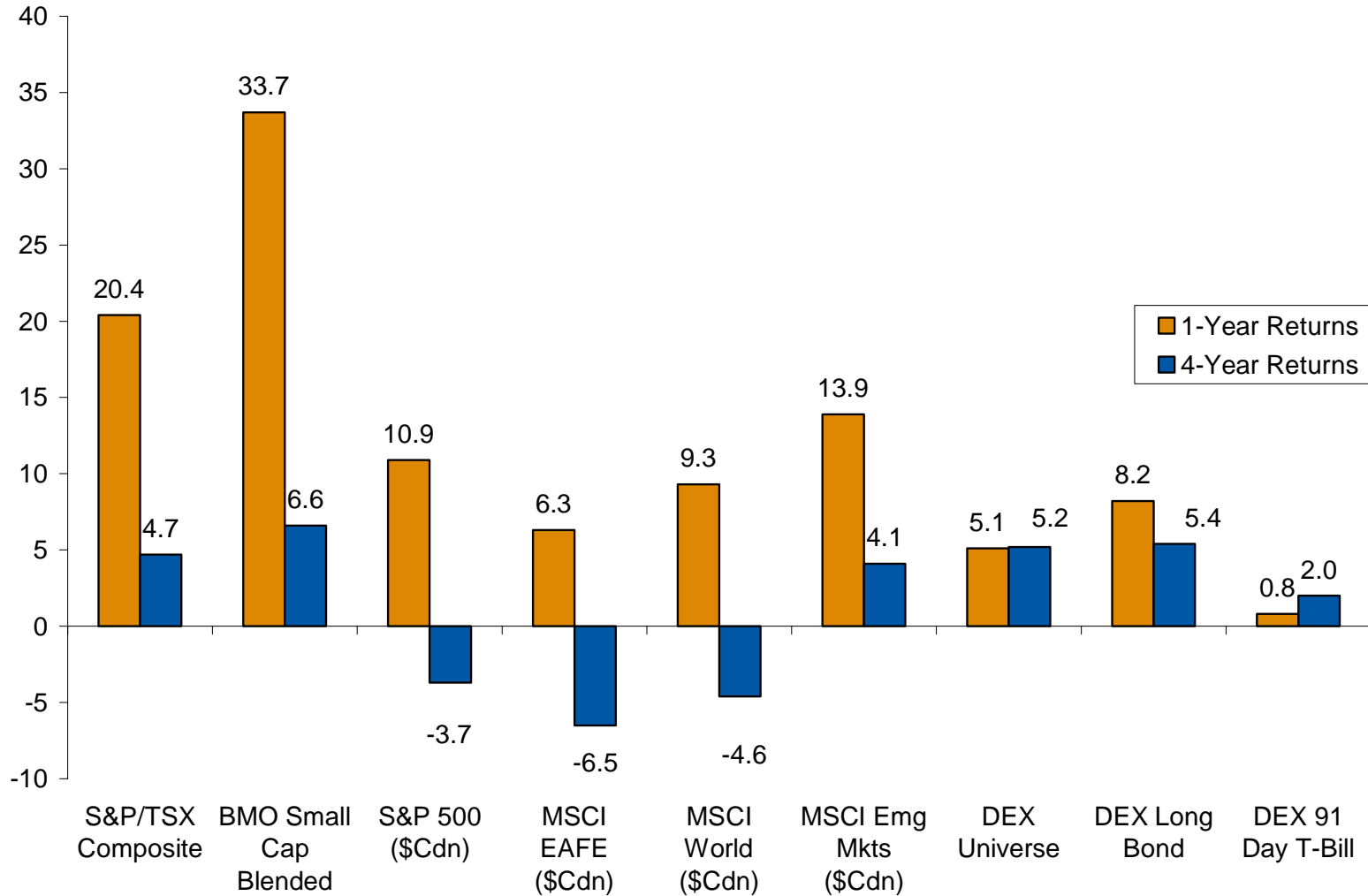
## Quarterly Canadian Dollar Performance to March 31, 2011

	Qtr	6-Month	1-Year
\$C vs. \$US	2.1%	5.5%	4.3%
\$C vs. €	-3.4%	1.5%	-0.6%
\$C vs. £	-0.2%	3.7%	-1.3%
\$C vs. ¥	4.4%	4.6%	-7.5%

# Market Indices Return

As at March 31, 2011

## Annual Returns to March 31, 2011



## Historical Market Returns

The table below compares the returns of the international equity market to the Canadian equity market over different time periods

	S&P/TSX Composite	S&P500 \$ CAN	MSCI EAFE \$ CAN	MSCI EM \$ CAN	MSCI ACWI \$ CAN
10 years ending December 31, 2010	6.6%	-2.7%	-0.3%	11.5%	-0.5%
10 years ending December 31, 2000	13.1%	20.5%	11.4%	11.1%	15.0%
20 years ending December 31, 2010	9.8%	8.3%	5.4%	11.3%	7.0%
30 years ending December 31, 2010	9.1%	10.0%	9.0%	-	-

# Canadian Equities

## Distribution of historical annual returns

					2006	2010			
					2004	2005			
				2007	1997	2003			
				2000	1995	1996			
				1987	1991	1989			
				1986	1988	1985			
				1982	1977	1978	2009		
		1998		1973	1976	1972	1999		
		1994		1971	1975	1968	1993		
		2002	1992	1965	1967	1964	1983		
		2001	1984	1960	1963	1955	1980		
		1990	1970	1959	1956	1951	1961		
		1981	1969	1953	1948	1949	1958		
		1940	1966	1952	1944	1936	1954		
2008		1937	1962	1947	1943	1934	1945		
1931	1974	1932	1946	1941	1942	1926	1935	1979	1950
1930	1957	1929	1939	1938	1924	1925	1928	1927	1933
-40 to -30	-30 to -20	-20 to -10	-10 to 0	0 to 10	10 to 20	20 to 30	30 to 40	40 to 50	> 50

Source: Canadian Institute of Actuaries (1924 to 1955); Toronto Stock Exchange (1956 to 2010)





# Fund Performance Review

## Gross Performance to March 31, 2011

Money Market (Sun Life Financial) (3.2% of funds)

Period	Fund Return	Value Added	Quartile Ranking
1 year	0.9%	0.1%	Q2
2 years	0.7%	0.1%	Q3
3 years	1.2%	0.0%	Q4
4 years	2.1%	0.1%	Q3
5 years	2.5%	0.0%	Q4

## Gross Performance to March 31, 2011

Canadian Equity (CC&L) (was 11.6% of funds\*)

Period	Fund Return <sup>1</sup>	Value Added	Quartile Ranking
1 year	20.1%	-0.3%	Q2
2 years	31.3%	0.5%	Q2
3 years	6.5%	1.5%	Q2
4 years	6.1%	1.4%	Q1
5 years	7.3%	1.3%	Q1

<sup>1</sup> Benchmark for the Fund is S&P/TSX Capped Index

\* Note: Prior to April 2010, Canadian equities were managed by BlackRock. Accordingly, participants only experienced these returns since April 2010. Following is the 5-year blended annual rate of return (return of CC&L over past 12 months, and BlackRock for the four years ending March 31, 2010).

5 years

6.9%

0.9%

Q2

## Gross Performance to March 31, 2011

International Equity (Acadian) (3.1% of funds)

Period	Fund Return	Value Added	Quartile Ranking
1 year	10.4%	4.1%	Q1
2 years	15.6%	0.2%	Q3
3 years	-7.8%	-3.6%	Q4
4 years	-9.8%	-3.3%	Q4
5 years	-4.2%	-2.3%	Q4

<sup>1</sup> The Acadian fund was only used from March 31, 2007 onward. Before April 2007, international equities were managed by UBS. Accordingly, participants only experienced these returns since April 2007. Following is the 5-year blended annual rate of return (return of Acadian over past 4 years, and UBS for the one-year period ending March 31, 2007).

5 years	-4.9%	-3.0%	Q4
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## Gross Performance to March 31, 2011

Index Passive Funds (BlackRock) (Bonds: 8.1%; US Equity: 3.7% of funds)

Period	Fixed Income	US Equity
1 year	5.2%	10.9%
2 years	5.3%	15.8%
3 years	5.0%	0.6%
4 years	5.2%	-3.7%
5 years	5.2%	-1.0%

## Gross Performance to March 31, 2011\*

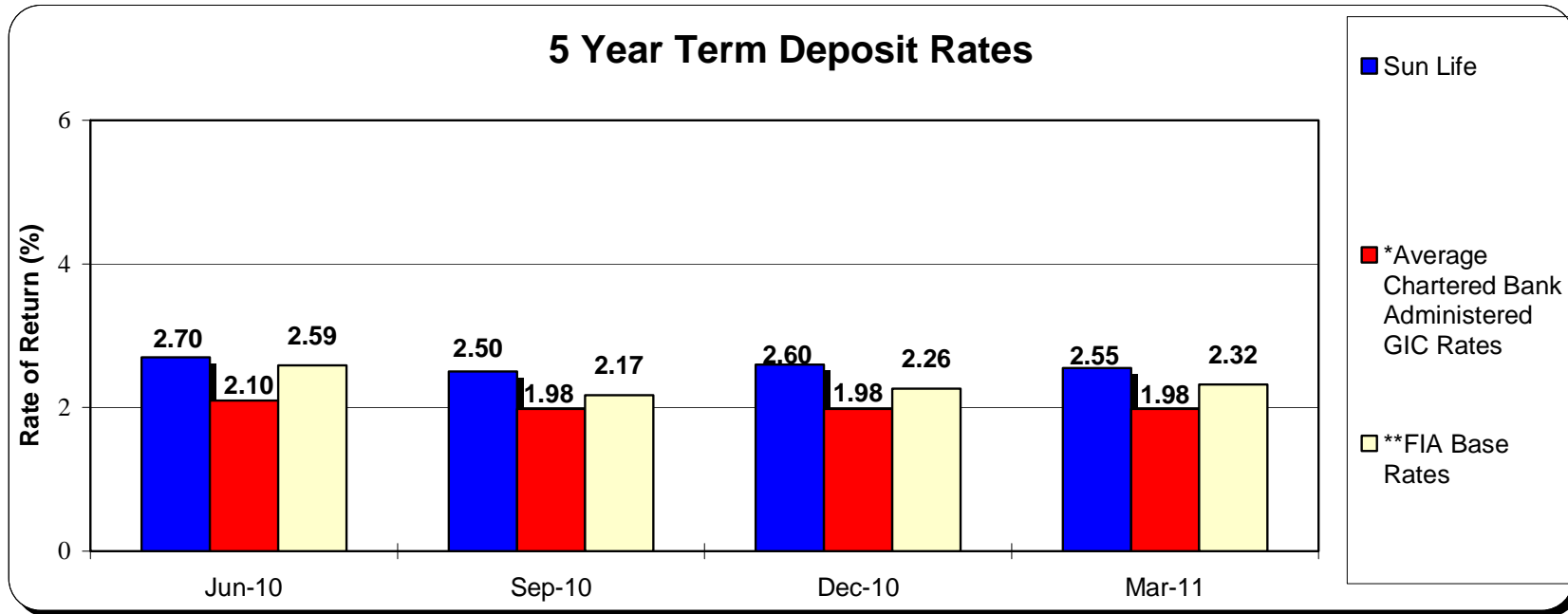
SMU Portfolios (62.6% of funds)

Period	Conservative (30% equity)	Moderate (50% equity)	Balanced (60% equity)	Growth (70% equity)	Aggressive (80% equity)
1 year	7.9%	9.6%	10.5%	11.2%	12.1%
2 years	9.7%	12.6%	14.2%	15.5%	17.1%
3 years	3.8%	2.7%	2.3%	1.6%	1.0%
4 years	3.1%	1.5%	0.8%	-0.2%	-0.9%

*\* Returns beyond 1 year are simulated based on historical target mixes and past gross returns of underlying funds.*

# GIA Competitiveness

5-Year GIAs (7.6% of funds)



\* Bank of Canada Review, CANSIM Series V122526.

\*\* Financial Institution Average (FIA) calculated from GIC base rates of 6 large Canadian insurance companies.



# Active Manager Commentary



## Canadian Equity Manager - Connor Clark & Lunn

- Broadly diversified portfolio
- Includes slight overweight to smaller companies
- No changes in teams or processes
- Have confidence that the fund will outperform over the long term

## Acadian Asset Management – International Equities

- Following market turbulence of 2008 and 2009, Acadian's approach added significant value last year
- Has been some turnover in management team, but core team continues to be strong
- Have confidence in manager to outperform over the long term

## Fees Remain Low

Period	Fee before HST
Money Market Fund	0.15%
Canadian Bond Index Fund	0.16%
Canadian Equity Fund	0.25%
U.S. Equity Index Fund	0.16%
International Equity Fund	0.88%

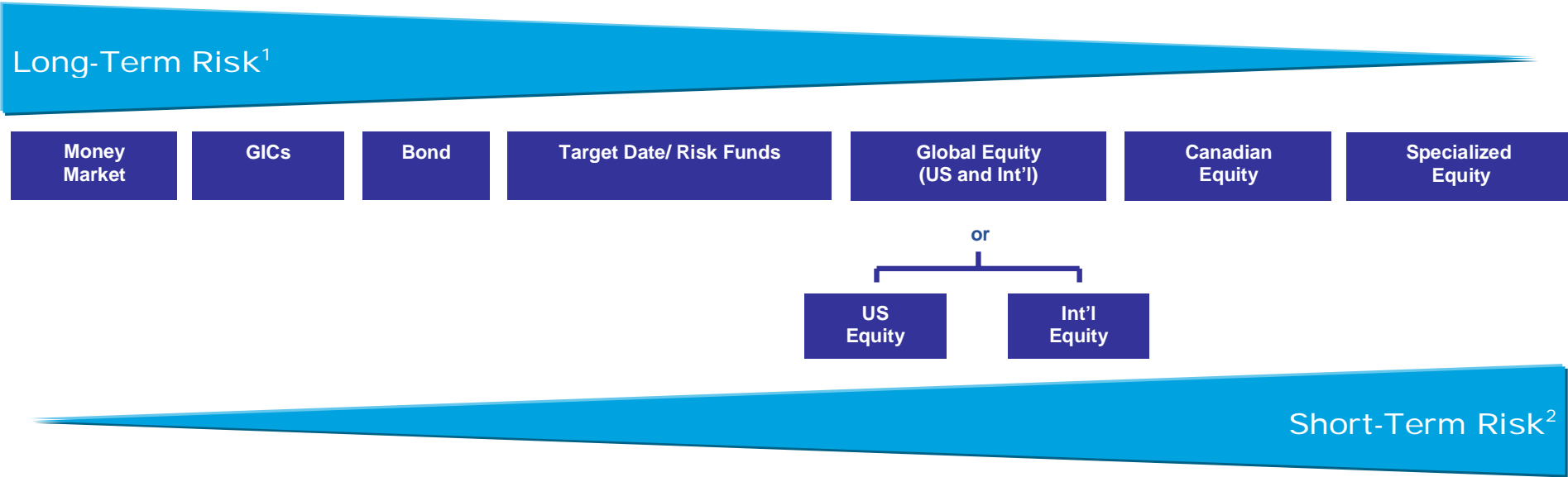
- In addition to fees noted above, the segregated funds experience operating expenses on an as incurred basis. The expenses typically range from 0.03% to 0.05% p.a.
- **Mercer 2011 report concluded fees were competitive for pension plans of similar size and characteristics**
- These fees are substantially lower than retail mutual fund fees (even within high-net-worth programs), resulting in a big advantage for Pension Plan members



# Managing Risk

# Two Dimensions of Risk

## Short Term Volatility vs. Long Term Return

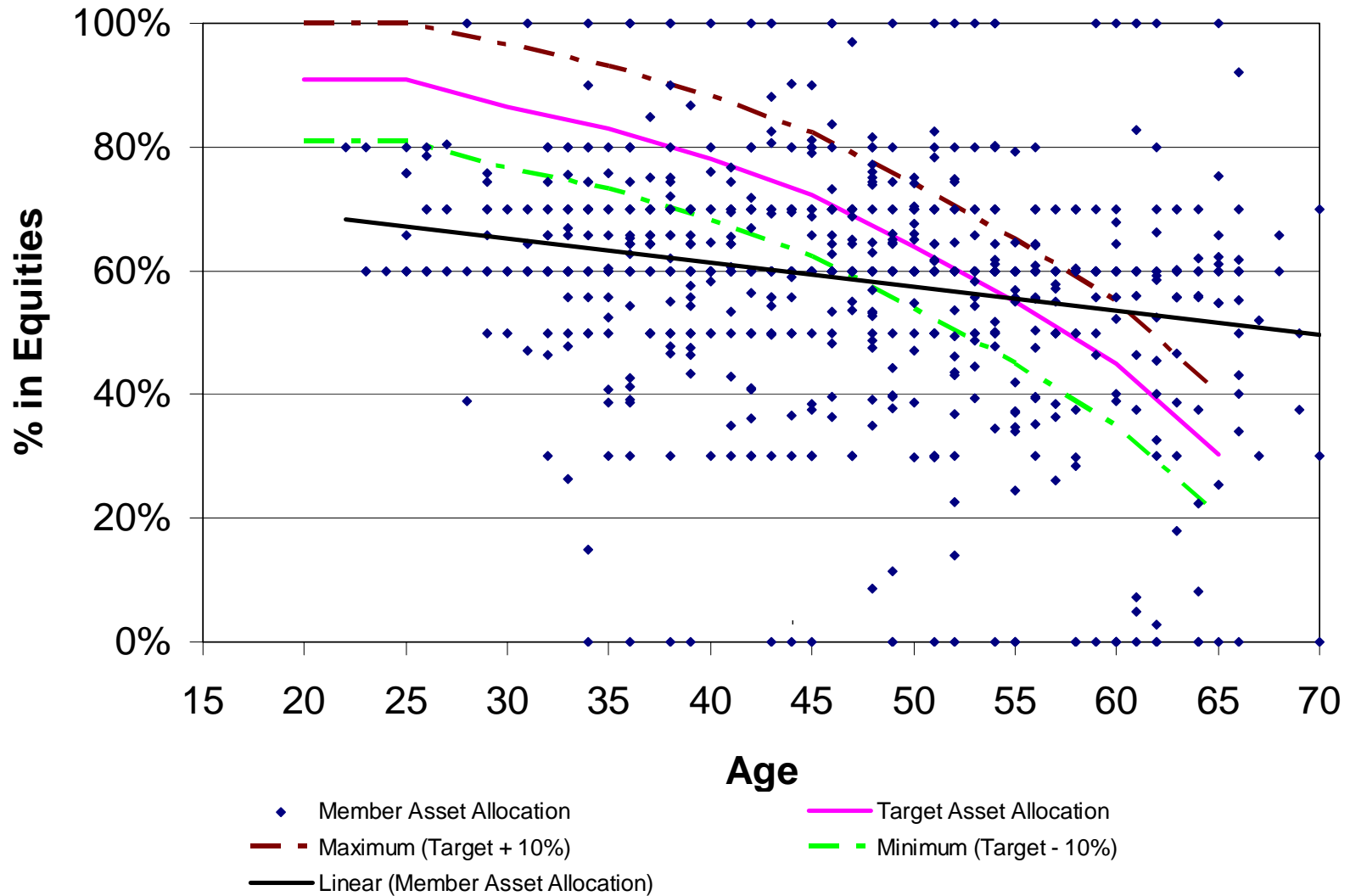


1) Long-term risk is defined as inadequate long term real returns to reach retirement objectives

2) Short-term risk is defined as volatility of returns on account balance

# Investment Patterns of SMU DC Participants

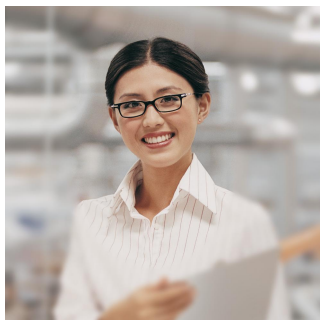
Results from March 2010 analysis



# Tolerance for Short Term Risk Varies with Proximity to Retirement

## Two examples

What if 30% decline in account balance?



Jane, age: 35                      Service: 2 years  
 Salary: \$50,000                  Balance: \$15,000

*Projected retirement replacement ratio (% of average pay at retirement):*

- From government programs:	31%
- From current balance:	4%
- From future contributions & investment returns thereon:	<u>42%</u>
Total	77%

**New Balance: \$10,500**

⇒	31%
⇒	3%
⇒	<u>42%</u>
⇒	<b>76%</b> ↓ 1%



John, age: 60                      Service: 30 years  
 Salary: \$100,000                  Balance: \$500,000

*Projected retirement replacement ratio (% of average pay at retirement):*

- From government programs:	18%
- From current balance:	41%
- From future contributions & investment returns thereon:	<u>5%</u>
Total	64%

**New Balance: \$350,000**

⇒	18%
⇒	29%
⇒	<u>5%</u>
⇒	<b>52%</b> ↓ 12%

## Inertia

Few changes in allocations during “normal times”



- Newton's first law of motion states that "An object at rest tends to stay at rest and an object in motion tends to stay in motion with the same speed and in the same direction unless acted upon by an unbalanced force." This tendency to resist changes in their state of motion is described as **inertia**.
- In Behavioural Finance **Inertia** relates to members being reluctant to change a decision made or update it at a later date. Also known as **Status Quo Bias**

Once an initial asset allocation is selected, participants seldom revisit asset allocation (unless there is a significant market event).

The end result is members approaching retirement frequently have higher allocations to equities than they might otherwise select if they revisited their risk profile.



# Inertia or Path of Least Resistance

## Desire vs Action

Financial Education and Actual vs Planned Savings Changes			
	Seminar Attendees		Non Attendees
Planned action	Planned change	Actual change	Actual change
Enrol in plan	100%	14%	7%
Increase contribution rate	28%	15%	5%
Change fund selection	47%	10%	10%

Source: Saving for Retirement on the Path of Least Resistance, James J. Choi, David Laibson, Brigitte Madrian and Andrew Metrick, 2006

## Tools Offered under the SMU Plan

- Sun Life Tools
  - Risk assessment questionnaire
  - Retirement planning tools
  - [www.sunlife.ca/member](http://www.sunlife.ca/member)
- Five target risk asset allocation portfolios
- If not using pre-built portfolios:
  - Remember the benefits of diversification
  - Periodically check to see whether you need to re-balance your allocation back to your target
- Remember: risk tolerance will likely change over your career
  - Check your risk tolerance periodically and make changes as you deem appropriate

## Notices and risk warnings

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