RISING INTEREST RATES: TIME TO POSITION, NOT PANIC

It finally happened. After endless discussion about the potential for rates to rise, they finally did—in a big way. During May and June, yields on US Treasuries rose nearly a percent (and prices on Treasury bonds fell) in response to the Federal Reserve signaling that it would soon temper its bond-buying program. Canadian interest rates followed suit, with the 10-year Canadian government bond yield rising 0.74%, resulting in negative returns on the Dex Universe index for the second quarter.

Some observers think a “bear” market for bonds is now inevitable; they are warning investors to get out of bonds while they can.

Indeed, it seems likely that bond yields will continue to trend higher. However, a number of factors could moderate the impact.

First, insurance companies and private-sector pension plans could temper the pace at which yields rise. For these big investors, higher yields would likely spur significant buying that might, in part, offset the impact of the US Fed’s selling.

Also, it is important to consider the time frame over which rates rise. While increases in rates hurt returns in the near term, over the medium term the income that bonds pay is a positive for total return. In addition, investors can reinvest their income in progressively higher-yielding bonds, which increases portfolio yield.

Yield curve roll can also help. Roll is the natural price gain that a bond experiences as it ages. Even as rates rise, roll can reduce some of the impact of rising rates. All of these elements affect bond returns and should be considered when setting expectations for bond returns in a rising-rate environment.

Even amid rising rates, bonds should continue to play a role in investors’ portfolios—not least as a counterweight to equity volatility. But it is a good time to revisit your bond portfolio and check that it is positioned properly for the challenges ahead.

The good news is that the bond market isn’t a monolith, and there are ways to reduce a portfolio’s sensitivity to rising rates while staying true to investment goals. Here’s a brief look at strategies that may help Canadian bond portfolios weather a rising-rate environment:

**Go global.** Country and regional bond markets don’t travel in lockstep. Adding non-Canadian bonds to a portfolio has historically enhanced risk-adjusted returns. Although economic cycles, monetary policies and yield curves in different countries may briefly align, over long periods they’ve behaved differently. But there’s a catch: currency fluctuations can create unintended volatility, so investors can use a hedged approach to reduce non-Canadian currency exposure. (continued on page 2)
Access credit sectors. Stronger economic growth can make credit bonds more attractive, helping to support their prices even as rates rise. For example, high-yield bonds tend to be driven more by changing credit conditions than by rates. In fact, they have low correlation to government bonds and so they can complement other bonds as rates rise.

Don’t mirror the index. Staying too close to a benchmark may limit a portfolio’s ability to be nimble. For example, a country that issues more debt relative to others can become a bigger proportion of an index at a time when less exposure might make more sense. It’s worth considering a strategy that emphasizes total return and doesn’t track its benchmark too closely.

The best way to gain exposure to non-Canadian bonds and an actively managed portfolio of corporate bonds on the Western Retirement Plans is through the Diversified Bond Fund. Approximately 60% of the Diversified Bond Fund is managed with a strategy that normally has a significant exposure to non-Canadian and corporate bonds.

The fixed-income market offers significant flexibility to help investors prepare their portfolios for a rising rate environment. Instead of panicking, investors should revisit their strategy and make sure their bond portfolios are positioned effectively.

This article has been written for Western by AllianceBernstein, Fixed Income and Equity Manager for the Western Retirement Plans.

NEW PLAN SUMMARY OFFERS A CLEAR OVERVIEW OF YOUR PLAN

Pension plans can be complex, but our goal is to make information about your Western plan as simple as possible.

A new version of the Western Pension Plan Summary is available. Produced in a more reader-friendly format, it offers a clearer, less complicated overview of the plan. A broad range of topics are covered in the new document, including:

- Required and voluntary contributions
- Monitoring and changing your investments
- Fees
- How marital changes can affect your plan
- Risk and return
- Your responsibilities as a plan member

Jeff Symons, Western’s Manager, Pension Operations, is encouraging all members to take a look at the new summary.

“For many members, the Western Pension Plan represents a significant percentage of lifetime savings and investments. While the Plan Summary is especially helpful to those just joining the plan, we also anticipate it will be a great resource for those who are looking for specific details or clarification at any time.”

“As members continue their planning, we also know this can give rise to further questions,” said Symons. “We have other online resources to help and our pension team is available to answer questions and support members with decisions on their personal plan.”

The new summary is a good way to begin a review of your plan, and understand what you can do to maximize your contributions and retirement income. To view the new Plan Summary visit www.uwo.ca/hr. Choose Pension - Plan Information - Plan Summary.
Important Information Regarding Pension Benefits for Common Law Spouses

A landmark court case in Ontario is impacting the entitlement of some common law spouses to receive pre-retirement death benefit payments from pension plans. The ruling will be of interest and affect pension plan members who have both a common law spouse and a legally married spouse (living apart).

In the case, even though a pension plan member had a common law spouse, the Ontario Court of Appeal awarded death benefits to the legally married spouse and two children of the plan member. The legally married spouse and children had been the designated beneficiaries of the plan.

The message for those who may have both a legally married spouse and a common law spouse is clear – make sure that the person you wish to receive your pre-retirement death benefit, is named as your beneficiary. If this change applies to you, and you have questions please contact Human Resources at 519-661-2194 or hrhelp@uwo.ca for more information.

Change of Pension Beneficiary forms may be found on the HR website under Pension Forms and Presentations.

Pension Plan Error Update

In late June, those Western Pension Plan members who were affected were informed of a 2009 error that negatively impacted 4100 unitholders of the Diversified Equity Fund. The error resulted in too much investment income being allocated to the balanced funds (Balanced Growth Fund and Balanced Income Fund) and not enough investment income being allocated to the Diversified Equity Fund.

Western’s pension team apologized for this error, which occurred when Northern Trust, the custodian who holds the retirement plan assets, was allocating holdings of the Liquidating Trust. The team has reassured members that all accounts substantially affected in a negative way, will be reimbursed.

For further information and to read a copy of the letter sent to members whose accounts were affected at www.uwo.ca/hr/facultystaff/pension_unitization. An active Western user name and password are required.

Back to School!

As Western and other students head back to school, it is a reminder to consider our own education. Planning for retirement is often a sporadic activity, and it is easy to forget what you learned the last time you actively planned. This is a great reason to make pension and financial planning an ongoing activity.

This means periodically reviewing how the Western pension plan works and considering the decisions that are yours to make on your account, including:

- Whether to contribute extra to your pension
- How to invest the account among the options available, rebalance the mix over time and what changes to consider as retirement approaches
- When to retire;
- How to create a retirement income from the savings in the plan; and
- The lifestyle plan for retirement and the time and money needed to fulfil that plan.

To help you in your pension education there are a number of resources available:

- 2012 Investment Performance Review - updated annually, this provides a detailed profile of each investment fund available to you. It covers performance, risk, managers and more.
- The Financial Educator - this web-based curriculum provides financial planning resources for employees at all ages and stages of planning. The modular “lessons” allow you to learn at your own pace on the topics that matter to you.

If you are registering for the first time contact Human Resources for the username and password.

New Pension Team Member

The Western Pension team is pleased to welcome Sumeet Khullar as the new Human Resources Budget and Financial Analyst.

He will be working with the Pension team on the accounting processes and financial reporting for the retirement plans.

Sumeet is a graduate of University of Toronto (continued on page 4)
and is a Chartered Accountant. He has had experience supporting a variety of financial challenges with KPMG, Loblaw, Shoppers Drug Mart and more recently with Enablence Technologies.

In his spare time, Sumeet enjoys creative endeavours - photography, films and music.

New Members of the Joint Pension Board

Three new members have joined the Joint Pension Board.

Joanna Asuncion is Director of Administration for the Faculty of Information & Media Studies. Her role encompasses financial and budget responsibilities. Joanna has been a Western staff member since 2001. Her educational background is in Economics.

Josh Morgan is the Recruitment and Development Officer for the Local Government program at Western. He has a combined Honours degree in Economics and Political Science and a Masters in Political Science. He is a member of the University Senate and Chair of the London Public Library Board.

Stephen Watt joined Western in 1997 as Chair of the Department of Computer Science. In 2011 he was named Distinguished University Professor, which is Western’s highest recognition in academics. Stephen has served on three corporate boards of directors including a term as Board Chair of the Descartes Systems Group, which is dual listed on NASDAQ and the TSX.

In addition to being members of the Joint Pension Board, Stephen Watt is a member of the Academic Pension Board. Joanna Asuncion and Josh Morgan are members of the Administrative Staff Pension Board.

OUR COMMITMENT TO ACCESSIBILITY

Western University is committed to increasing the accessibility for persons with disabilities. We want to ensure that persons such as retirees, staff and faculty who have a disability receive access to our services in a way that recognizes the four principles of accessible service: dignity, independence, integration and equal opportunity. This goal is also consistent with the Accessibility Standard for Customer Service pursuant to the Accessibility for Ontarians with Disabilities Act.