

In spring 2022, we invited questions from members about the Western pension plan. This member asks "I have completed the asset allocation tool in my Sun Life account, but I'm confused as to how to choose the investments to get the suggested asset mix".

This is a really good question, and arises for us in the western pension plan, because we have a custom investment structure, designed and evolved over time by Western's Academic Pension Board, and Administrative Pension Board, that most other pension plans being supported by Sun Life will not experience.

Among the investment options are some pre built portfolios to help members build a well diversified asset mix. The asset allocation tool is one of the core tools that we recommend all members complete to receive guidance on allocating savings between the three traditional asset classes of cash/cash-like investments, bonds or fixed income, and stocks or equities.

The tool asks eight questions, and while there are no right or wrong answers, your answers will reflect your personal tolerance for risk and likely behavior under different scenarios.

The results of your answers will be one of five risk profiles: conservative, moderate, balanced, growth, or aggressive; and each risk profile suggests an underlying mix of investments in cash/cash-like investments, fixed income or bonds, and to the different equity markets, that is investment in Canada, the US and international.

Here's an example of the result for someone who is currently invested 100% in Canadian equity, but might be more appropriately invested in a Balanced mix as per their responses to the questions of the asset allocation tool.

The suggested portfolio is 40% fixed income, and 60% in equity. More specifically, we can see that the tool on the right hand side suggests the mix of equities might be 25% Canadian equity 20% US equity and 15% International equity.

One way to create this mix is a 'let me do it' approach, where you choose from some of the strategy specific funds that are available in the plan. You can see here that you have strategy specific options in each of the asset classes, and that the equity options include those categories of Canadian equity, US equity and international equity, which is also called non North American equity that were identified in the asset allocation tool results; these could be selected to create a 60% allocation to equities. However, there is another option.

You'll notice the diversified bond, and diversified equity options.

Here we see the 'help me do it approach'.

In this case, the Western plan offers two funds that have pre built diversification.

With option two, you can use a combination of the two diversified funds to build your mix of 40% fixed income and 60% equity.

The diversified bond segregated fund is a mix of investment in the different fixed income markets; the mix includes Canadian and non-Canadian, as well as commercial mortgages investments by choosing this one fund, you have a diversified portfolio of fixed income.

While the asset allocation tool, didn't identify a specific Fixed Income Fund, or market. The 40% allocation could be made to the diversified bond fund.

Similarly, the diversified equity segregated fund is an equity fund unique to the Western pension plan. It is a mix of investments in different equity markets, and the pension board reviews their goals for the fund and hires different investment managers for their expertise in investing the unique components. You can see here that the mix includes Canadian equity, US equity, and international equity, just as we saw in the asset allocation tool recommendation.

But it also includes investment in various global equity strategies, as well as in emerging markets. You are probably noticing that this equity mix is a bit different from the Canadian US and international mix that was suggested by the tool, and you are of course correct. The simple reason is that it is unique for our plan to include an investment option with pre built diversification, and the asset allocation tool isn't able to take this into consideration.

What you can see is that although the mix is different. It offers further diversification. The goal of this added diversification is to improve returns, while managing risk. This means that both the diversified bond fund and diversified equity fund can be used to create your asset allocations to these markets. If you're ready to see what your risk profile looks like. Log into your pension account at some life by visiting [www.mysunlife.ca/Western](http://www.mysunlife.ca/Western) and use either your Western or Sun Life credentials to log in.