



*The University of Western Ontario*

# **Retirement Plans**

Review of the Diversified Equity Fund

January 2012

Draft

# Agenda

- Introduction
- Joint Pension Board Principles
- Statement of Investment Beliefs
- How is the Diversified Equity Fund managed?
- Historical performance
- Potential changes
- Members' feedback

# Introduction

- Project
- Goals
- Strategy
- Process
- Warnings

# Project

- Review the composition of the Diversified Equity Fund
  - Regular process to review the Diversified Equity Fund every 3 to 4 years
  - The Diversified Equity Fund was last reviewed in 2008

# Goals

- Educate members of the Western Retirement Plans on how the Diversified Equity Fund is managed
- Listen to members' feedback about the Fund
- Arrive at an optimal composition for the Fund

# Strategy

- Capture additional sources of return
- Add assets that reduce the overall risk of the Fund

# Process

- Review the current composition of the Fund
  - Existing investment managers
  - Current asset mix
- Review historical performance
- Review possible changes

# Warnings

- This session is not about:
  - Requesting additional investment options for the Western Retirement Plans
  - Requesting changes to the Retirement Plans administrative process



# Joint Pension Board Principles

1. Offer members the broad and diversified **CHOICE** of both investment and retirement vehicles
2. Maintain **FAIRNESS** among members in plan operations
3. Provide investment alternatives which possess high **LIQUIDITY**
4. Assist members in making **WELL—INFORMED DECISIONS** about investment and retirement alternatives
5. Solicit information about and be **RESPONSIVE TO MEMBER PREFERENCES** regarding the plan
6. Use **PRUDENCE** in assessing and reviewing plan decisions and operations
7. Assure **COST EFFECTIVE ADMINISTRATION** of plan operation

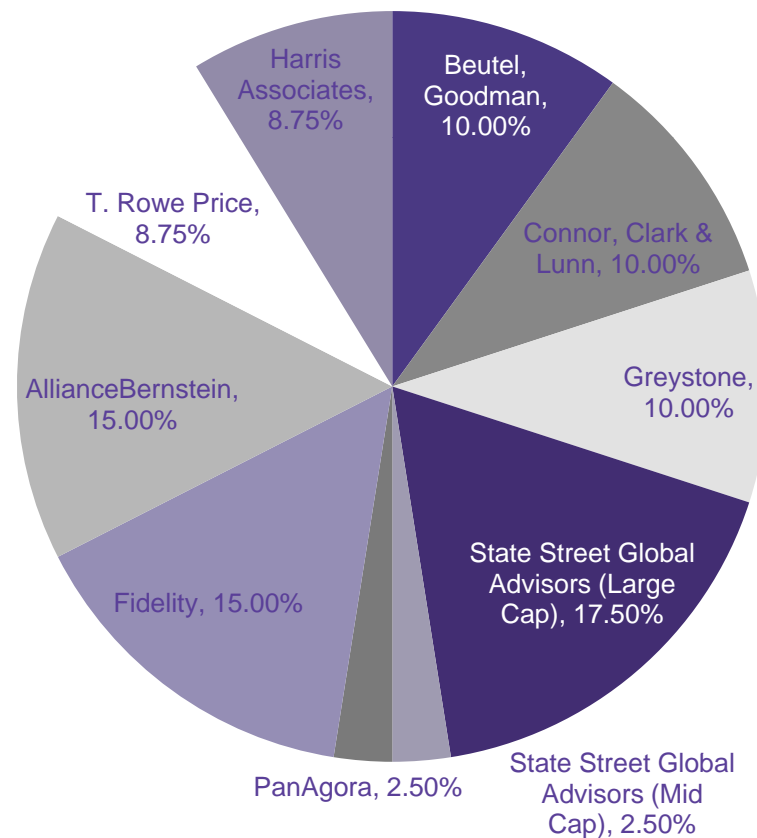
# Statement of Investment Beliefs

1. Good governance policies improve investment returns
2. Diversification is an investment risk management mechanism; it should provide protection on the downside and the long-term
3. Asset classes have specific risk/return characteristics
4. Alternative investments should be considered on a case by case basis and should meet the following three conditions:
  - They're fully liquid
  - They have a consistent valuation method
  - They're fully transparent
5. Portfolio rebalancing between asset classes allows members to maintain the risk of the portfolio and is the member's responsibility (except for the Balanced Growth & Balanced Income funds)
6. Active management may add value in some markets but passive management is the Pension Board's default choice
7. Liquidity is extremely important for a Defined contribution plan
8. It is very difficult to repeatedly time the market through ongoing changes to the equity/bond mix
9. Investment costs must be monitored
10. Foreign currency hedging is desirable to reduce risk

# How is the Fund Managed?

- All assets managed by external investment firms
- 10 underlying sub-portfolios
- \$445 million in assets as of October 31, 2011

Manager Mix



# Passive / Active Discussion

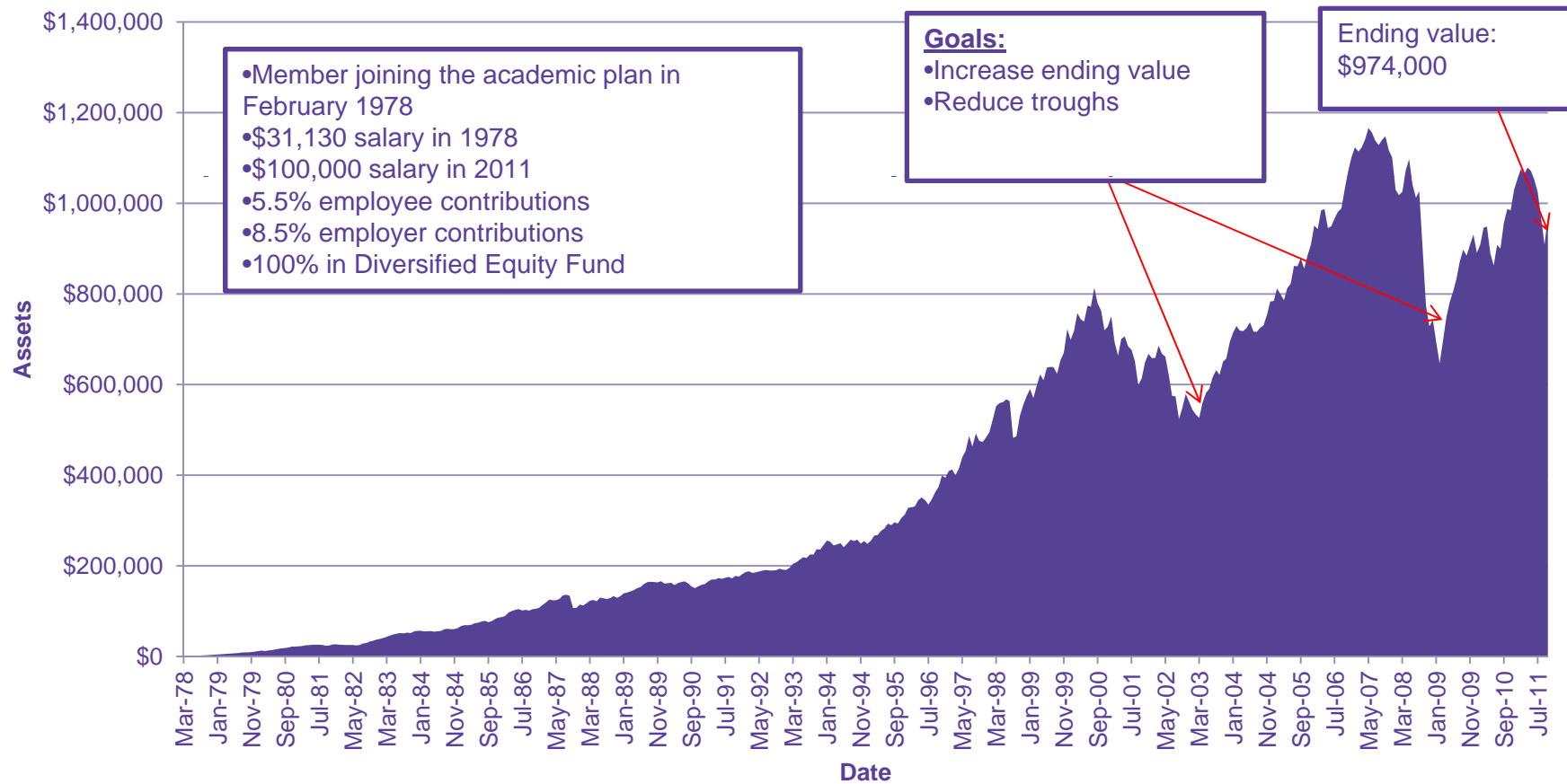
- 80% of the Fund is actively managed
  - The investment managers try to select the securities that will perform the best, within a specific category
- 20% of the Fund is passively managed
  - The investment managers purchase all the securities within a specific category

# Overview of the World's Financial Markets

- The markets are experiencing extreme volatility because of the Sovereign debt crisis in Europe and the U.S. economy
- Headline economic news influence the markets more than the quality of the companies
- The environment has made it difficult for active managers to generate strong returns relative to their benchmark

# Accumulated Assets

## Accumulated Assets



# Potential Changes

- Four types of assets:
  - Cash
    - Liquidity and safety of principal
  - Fixed income (or bonds)
    - Debt instrument
  - Equities (or stocks)
    - Ownership in a company
  - Alternative investments
    - Everything else
- Focus on equities and alternative investments

# Potential Changes

Asset Class	Product	Details
Equities	Smaller companies	Smaller companies are expected to outperform larger companies over the long-term, albeit with higher volatility
	Emerging markets equities	Emerging markets now represent approximately 13% of the world market capitalization are expected to be the engine of growth for the global economy
	Low-volatility strategies	<ul style="list-style-type: none"><li>•This type of strategy typically has low sensitivity to market movements and thus provides stronger relative performance in down markets</li><li>•The strategy can either be constructed by focusing on companies with low leverage and that operate in stable businesses; or by focusing on shares that are less volatile</li></ul>

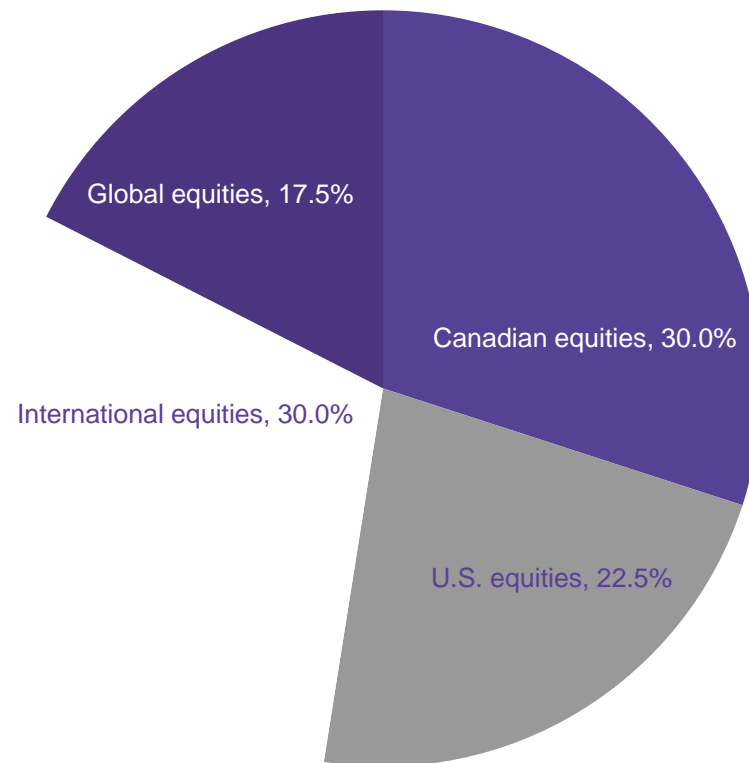


# Potential Changes

Asset Class	Product	Details
<b>Alternative Investments</b>	Real estate	Involves purchasing income producing properties
	Infrastructure	Involves taking ownership in roads, utilities, transport, water, ports, railroads, communication systems, etc.
	Private equity	Involves investing in companies that are not listed on a stock exchange
	Active currency management	Involves trading a basket of currencies.
	Global tactical asset allocation	Multi-strategy approach that seeks to add value based on views about the economy. The strategy incorporates asset class, country, sector, and currency opportunities.
	Commodities	Strategy that involves investing in a basket of commodity futures, such as oil, natural gas, gold, copper, zinc, coffee, livestock, wheat, etc.
	Market neutral strategies	Strategies that involve taking both long and short positions in stocks to minimize the exposure to some of the stock market risks
	Long/short strategies	Strategies that combine a conventional portfolio with a market neutral strategy

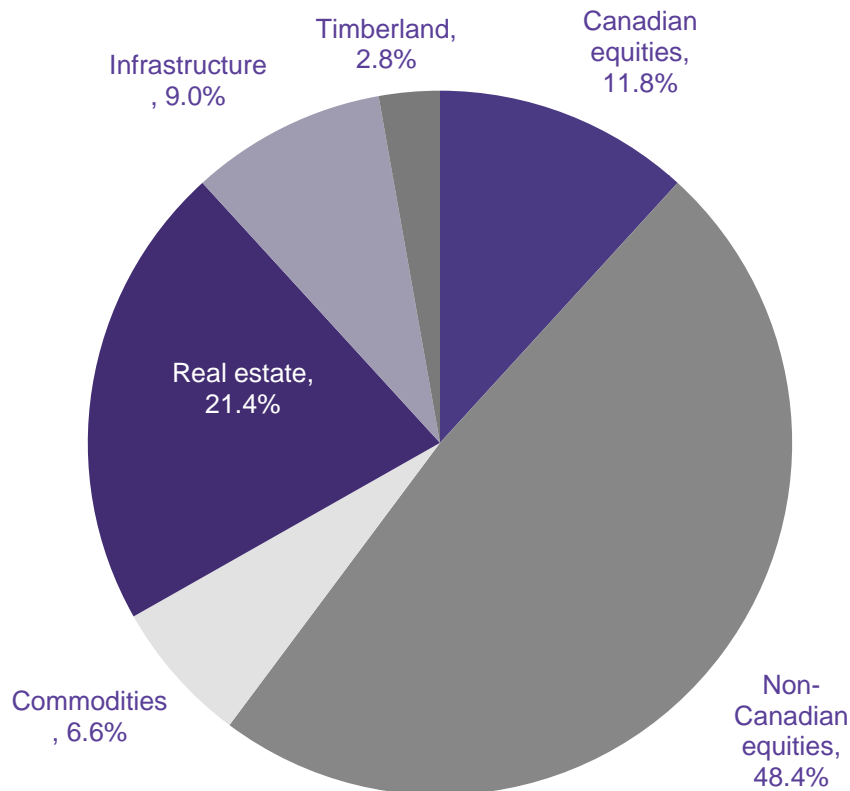
# Diversified Equity Fund Asset Mix

Asset Mix

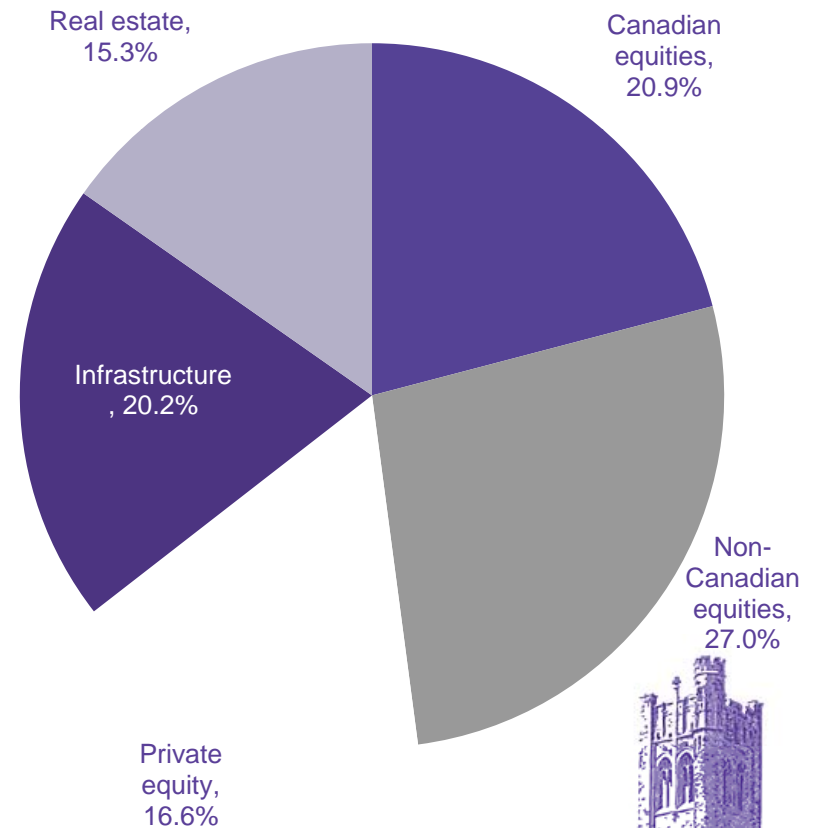


# Other Pension Plans

**Teachers' Pension Plan  
Equity Mix**



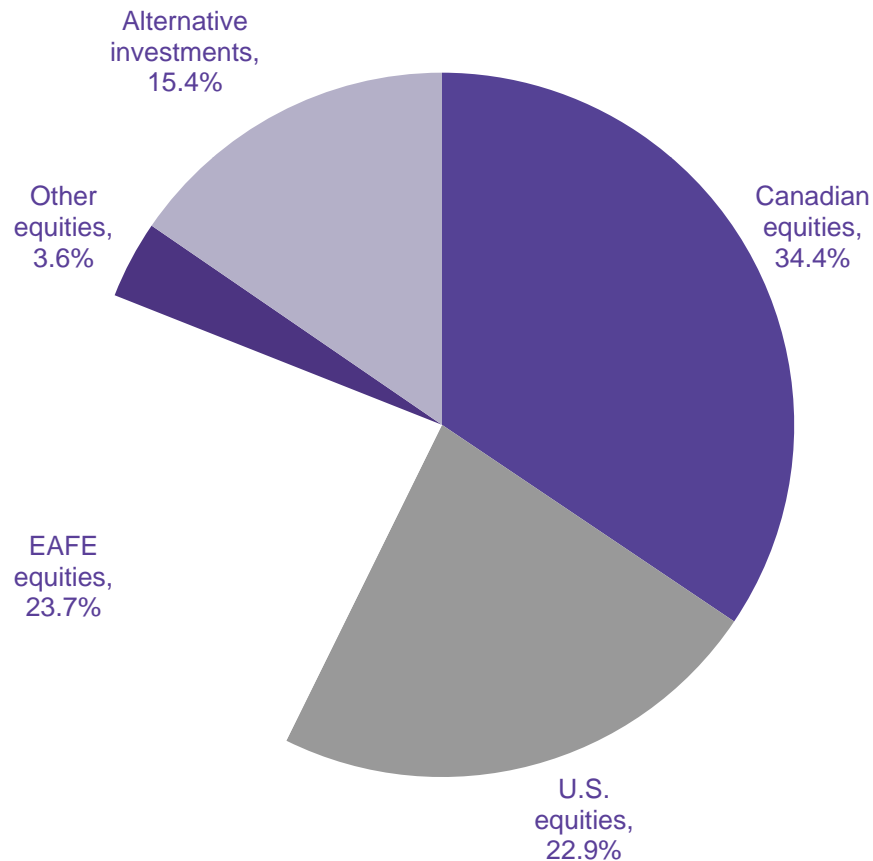
**OMERS' Pension Plan  
Equity Mix**



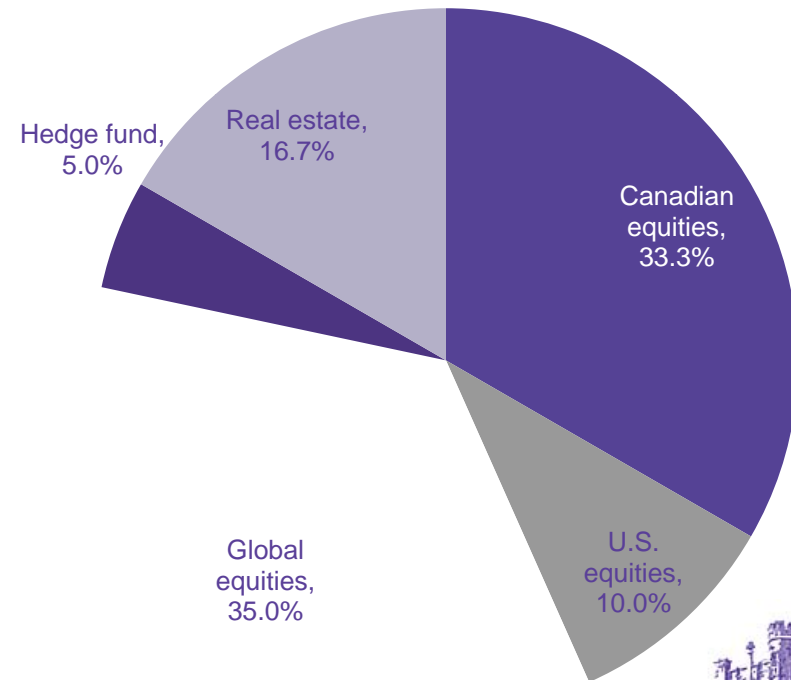
Western

# Other Pension Plans

**CAUBO  
Equity Mix**



**UBC Faculty Pension Plan  
Equity Mix of Balanced Fund**



# Simulation Assumptions

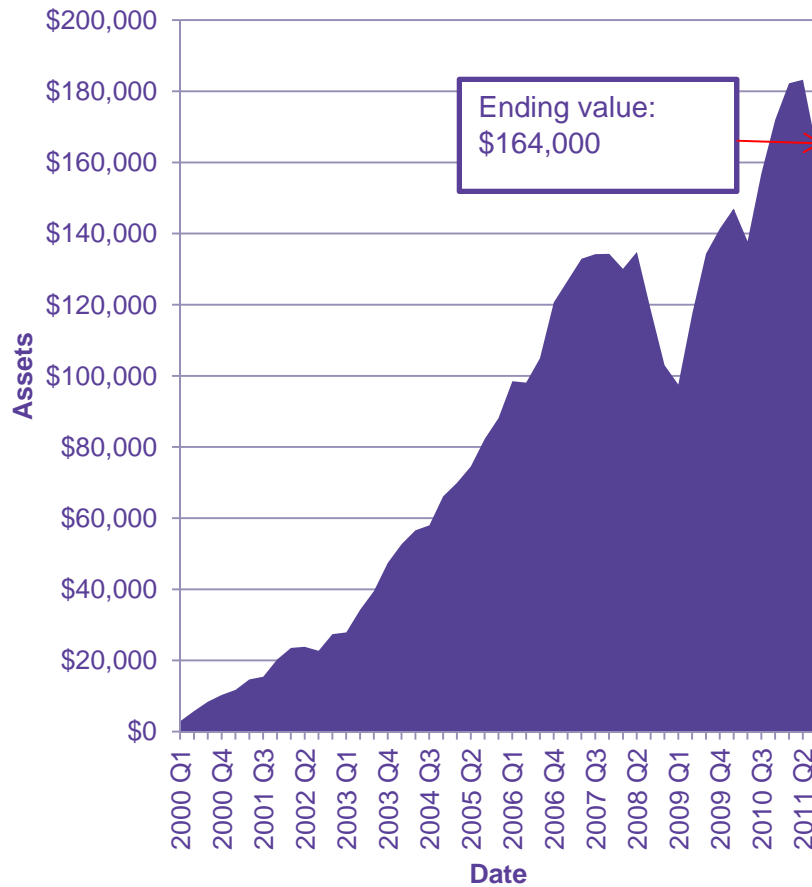
## Assumptions:

- Member joining the academic plan in January 2000
- \$79,720 salary in 2000
- \$100,000 salary in 2011
- 5.5% employee contributions
- 8.5% employer contributions
- 100% in Diversified Equity Fund

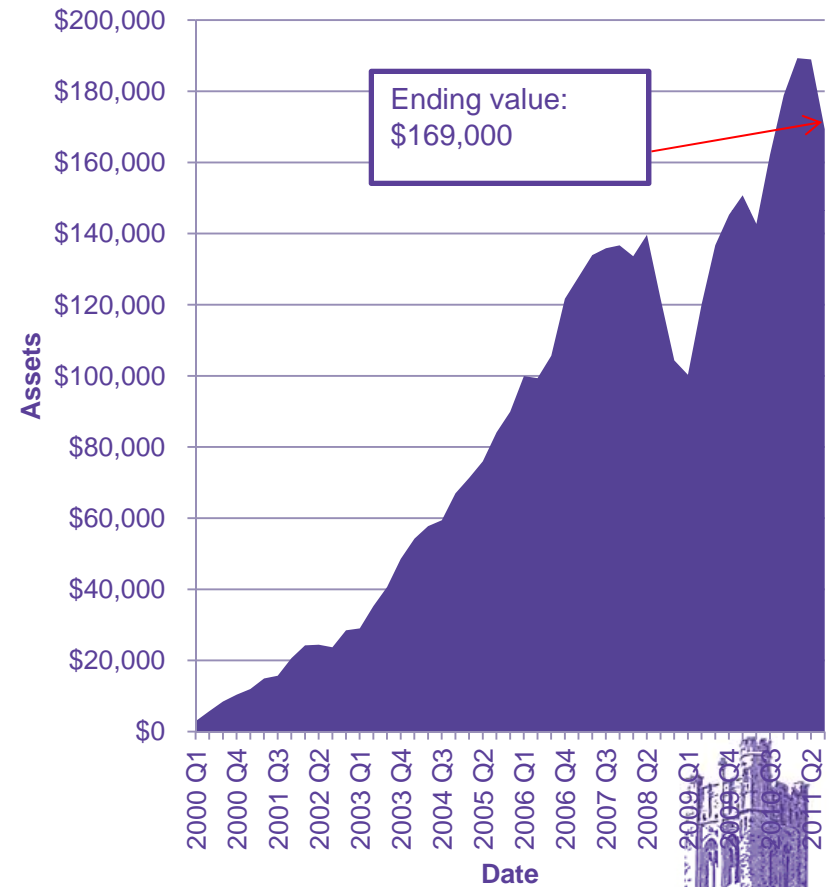
Portfolio	New Assets
1	Canadian small cap equity, emerging markets equity, private equity and commodities
2	Canadian small cap equity, emerging markets equity, private equity and global REITs
3	Canadian small cap equity, emerging markets equity, private equity and listed infrastructure
4	Canadian small cap equity, emerging markets equity, private equity and market neutral strategies
5	Canadian small cap equity, commodities, global REITs, listed infrastructure and market neutral strategies
6	Emerging markets equity, commodities, global REITs, listed infrastructure and market neutral strategies
7	Private equity, commodities, global REITs, listed infrastructure and market neutral strategies

# Accumulated Assets

Existing Allocation

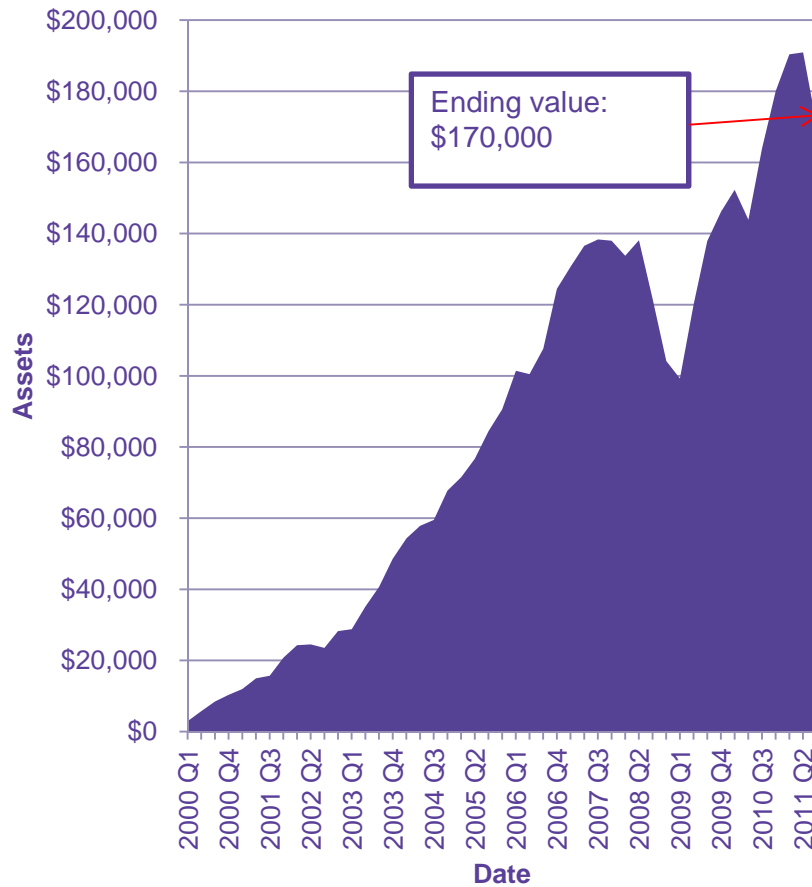


Portfolio 1

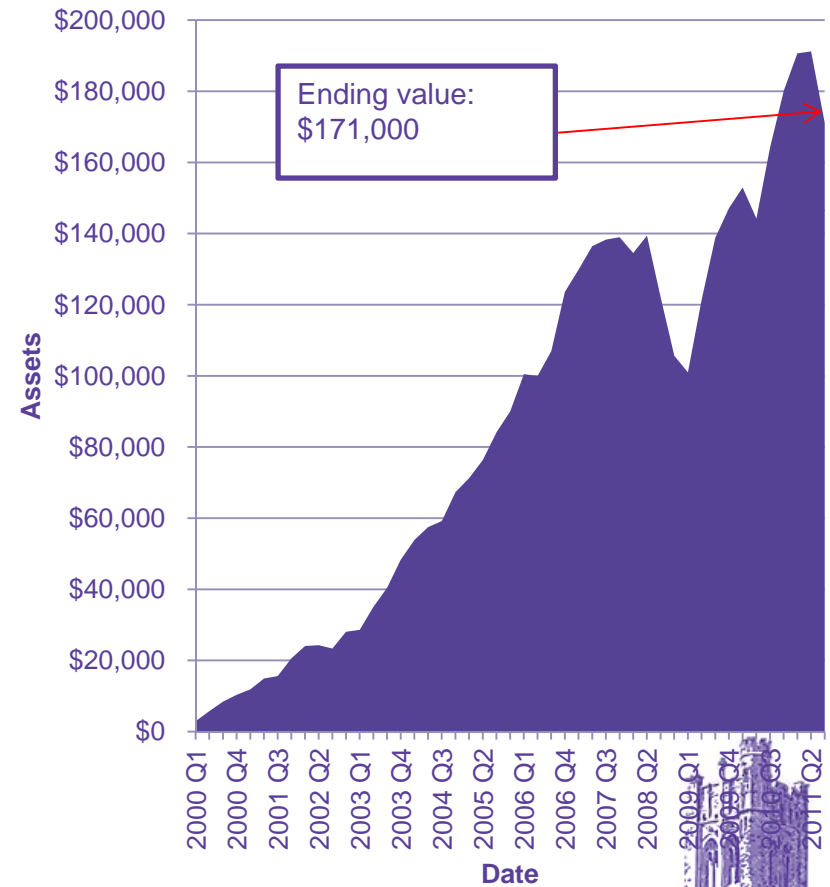


# Accumulated Assets

Portfolio 2

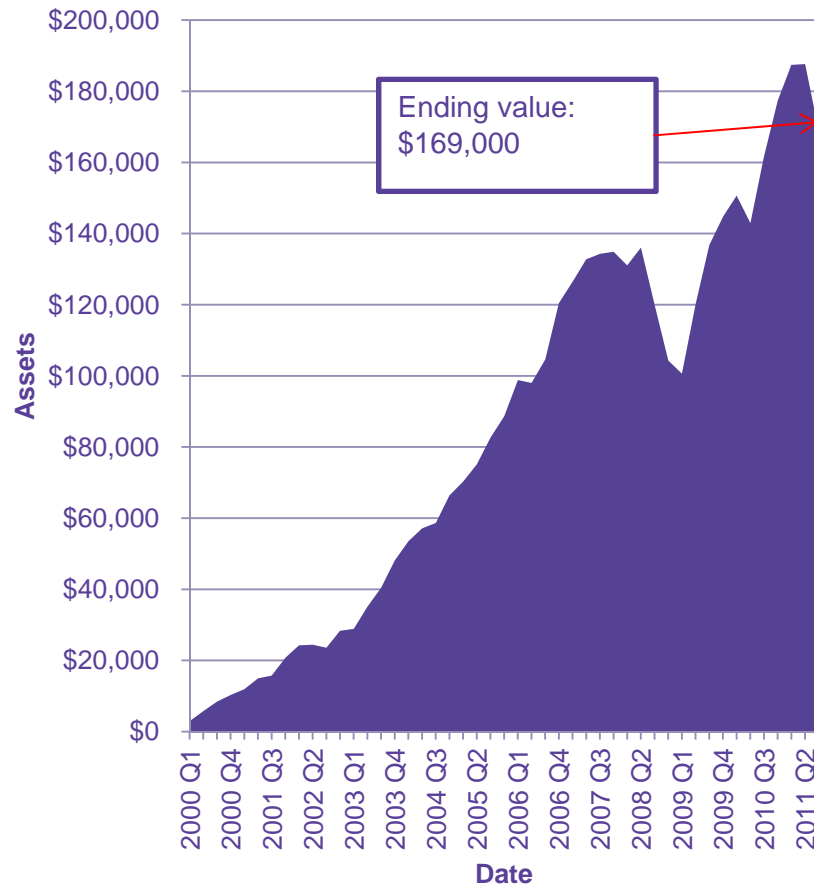


Portfolio 3

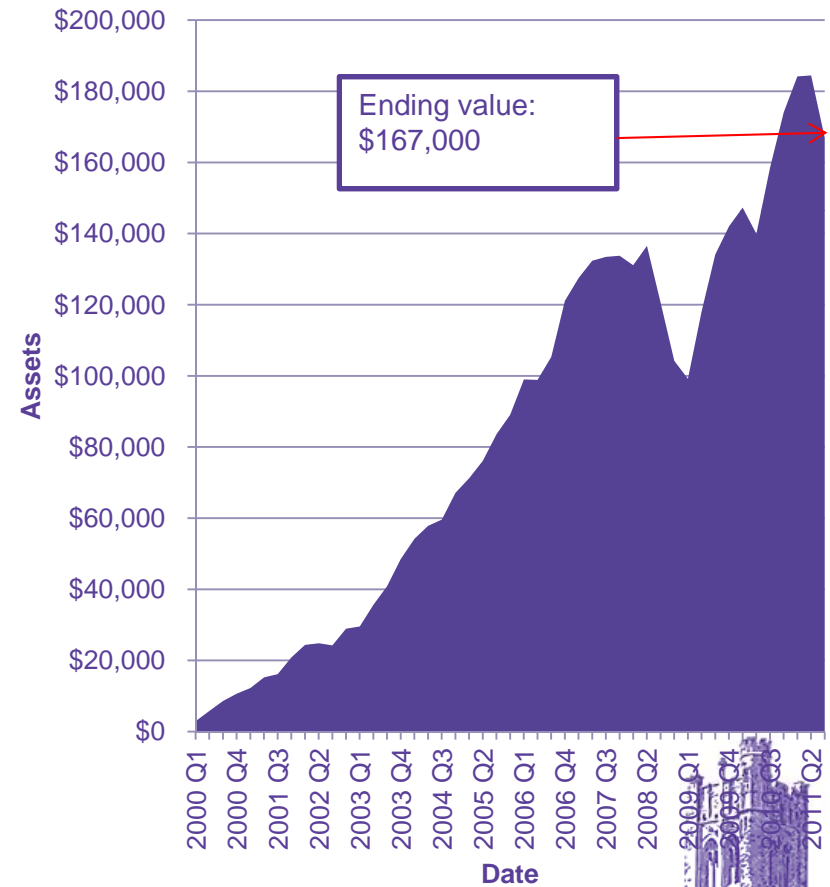


# Accumulated Assets

Portfolio 4



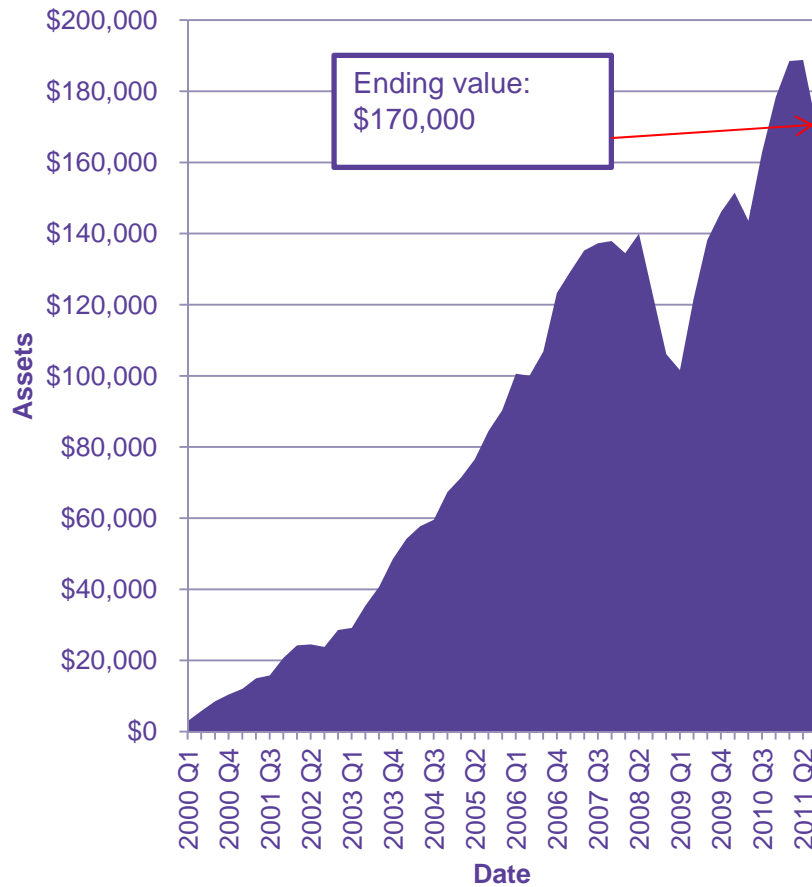
Portfolio 5



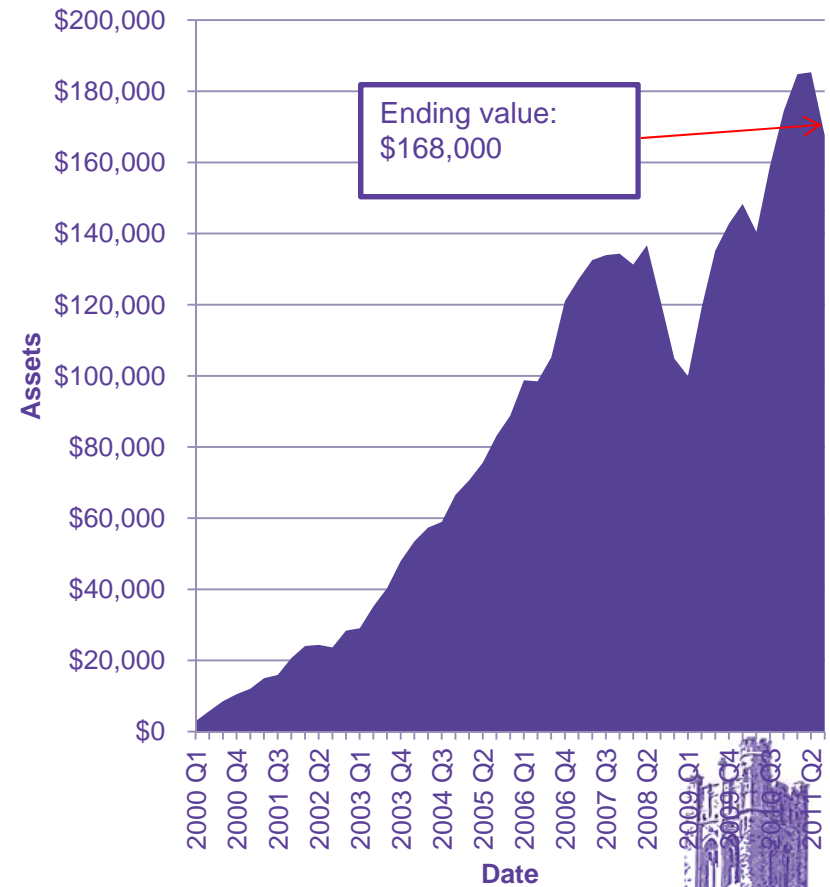


# Accumulated Assets

Portfolio 6



Portfolio 7



# Members' Feedback

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"They no longer take suggestions but  
they do offer tissues."