

# INVESTMENT PERFORMANCE REPORT AT MARCH 31, 2013 SAINT MARY'S UNIVERSITY PENSION PLAN 25 JUNE 2013

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Partner

Toronto

# Agenda

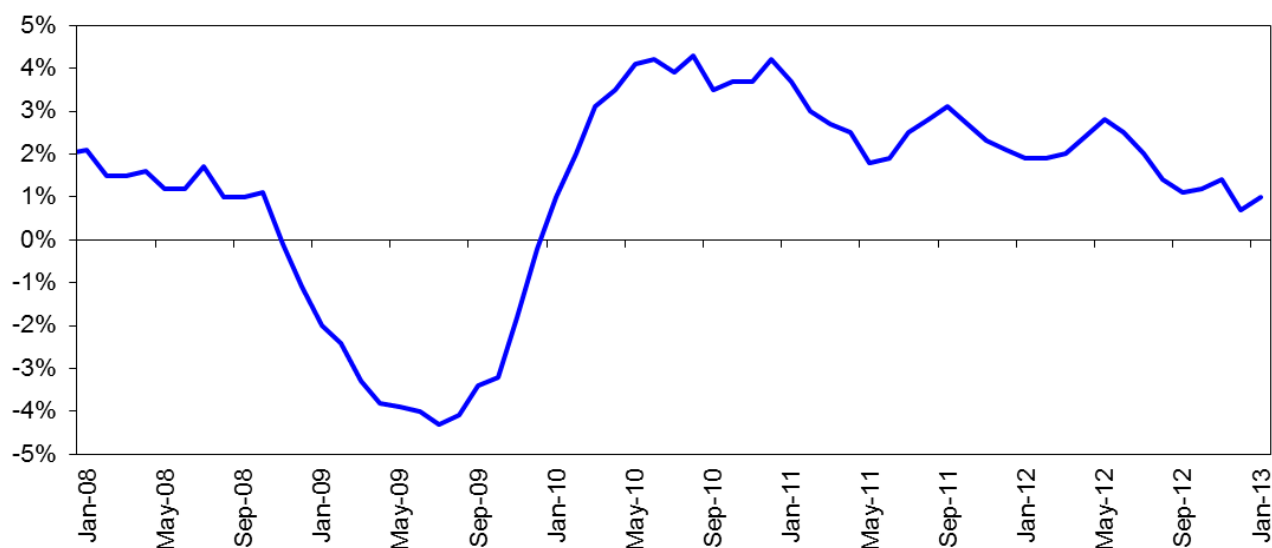
- Market review – what happened in 2012/2013
- Performance review of SMU funds
- Active manager review
- Member and sponsor fee analysis

MARKET REVIEW  
WHAT HAPPENED IN 2012/2013

# Economic Environment

## Canadian economic growth continues, albeit slowly

Canada GDP Growth



Source: Statistics Canada; 6-month % change

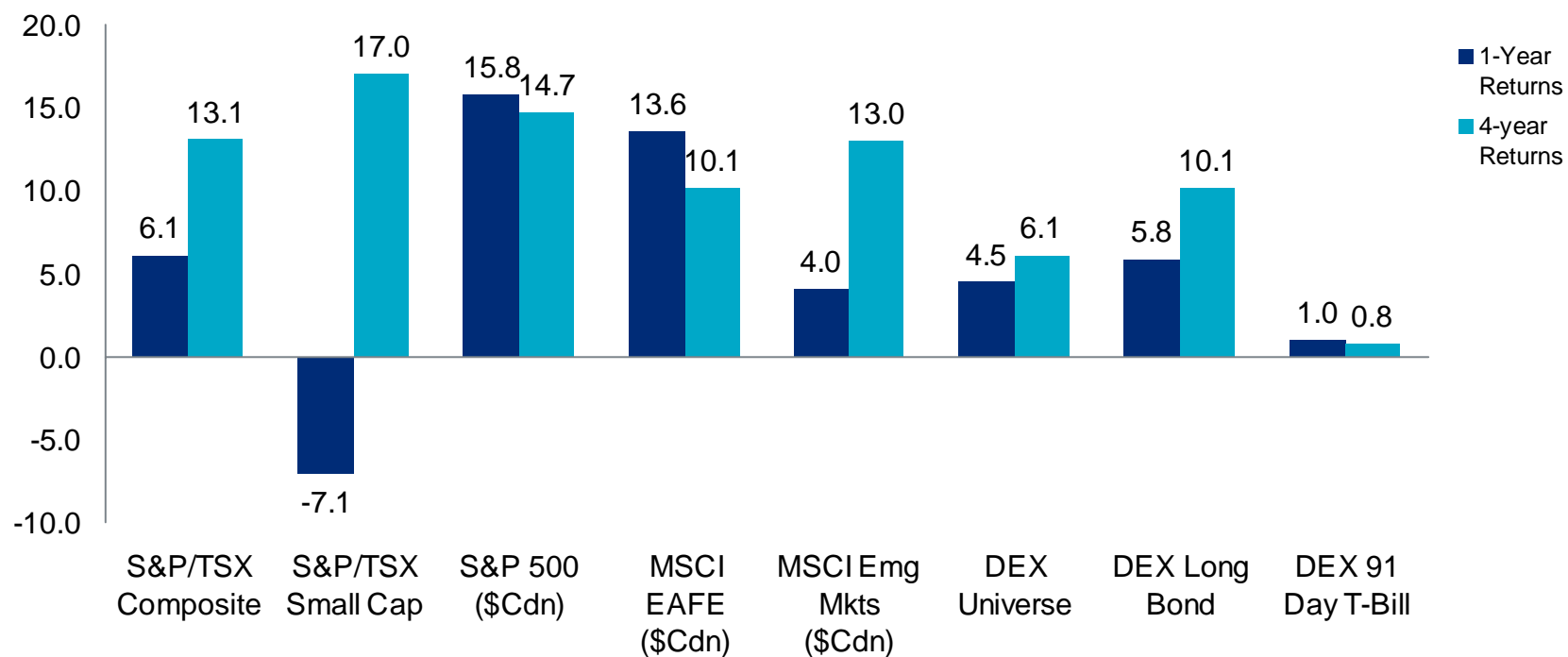
Canadian dollar vs. major currencies	Spot Rate* at Mar '13 / Dec '12 / Mar '12	Quarterly Direction	1 Year
U.S. dollar \$	0.9843 / 1.0043 / 1.0006	↓	↓
Euro €	0.7665 / 0.7618 / 0.7513	↑	↑
Yen ¥	92.544 / 86.838 / 82.340	↑	↑
British Pound £	0.6482 / 0.6179 / 0.6262	↑	↑

\* Units of foreign currency required to buy 1 Canadian dollar



# Market Index Returns As at March 31, 2013

## Annualized Returns to March 31, 2013



## Historical Market Returns

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

	<b>S&amp;P/TSX Composite</b>	<b>S&amp;P 500 \$Cdn</b>	<b>MSCI EAFE \$Cdn</b>	<b>MSCI EM \$Cdn</b>	<b>MSCI ACWI \$Cdn</b>
<b>10 years ending December 31, 2010</b>	6.6%	-2.7%	-0.3%	11.5%	-0.5%
<b>10 years ending December 31, 2000</b>	13.1%	20.5%	11.4%	11.1%	15.0%
<b>20 years ending December 31, 2010</b>	9.8%	8.3%	5.4%	11.3%	7.0%
<b>30 years ending December 31, 2010</b>	9.1%	10.0%	9.0%	-	-

# Canadian Equities

## Distribution of Historical Annual Returns

					2006	2010				
					2012	2004	2005			
					2007	1997	2003			
					2000	1995	1996			
					1987	1991	1989			
					1986	1988	1985			
			2011		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	
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 2012)

## Two Key Themes Continue

- **Equity market volatility** – Decreased relative to recent years, still much uncertainty over the near term
- **Continued declines in domestic bond yields** – A positive for returns in 2012, but what does this mean going forward?
- Returns experienced over next 10 years may be quite different than last
  - Tempting to say equities will do better
  - Still important to diversify to manage overall portfolio risk



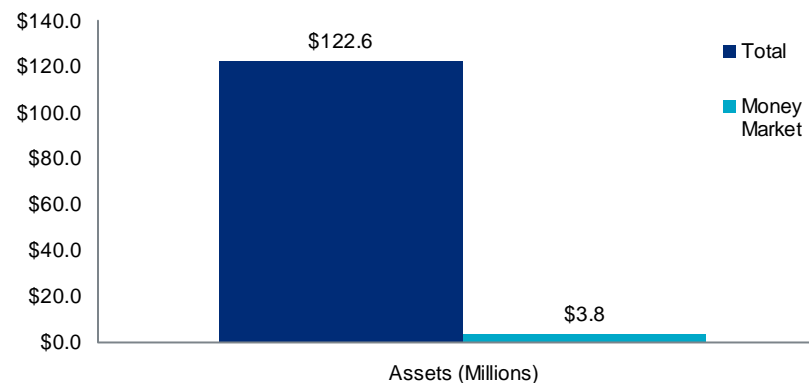
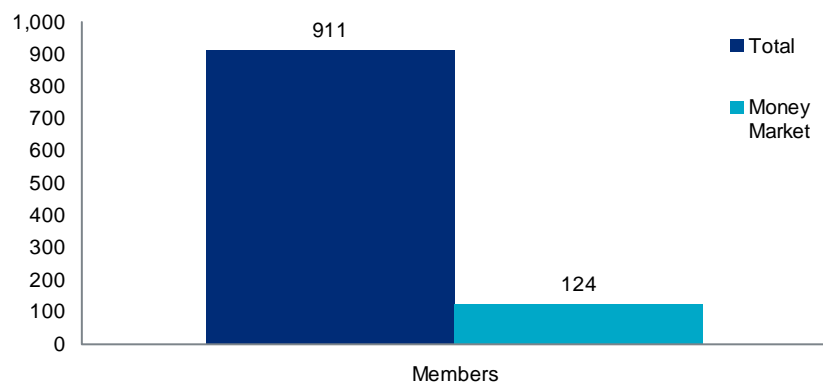
# FUND PERFORMANCE REVIEW

The background features a dark blue top section. Below it is a large teal shape that tapers from left to right. A horizontal light blue band is positioned in the middle. At the bottom, a darker teal shape tapers from left to right, mirroring the shape above.

# Gross Performance to March 31, 2013

## Money Market (Sun Life Financial)

	Fund Return	Value Added	Quartile Ranking
1 year	1.1%	0.1%	Q3
2 years	1.1%	0.1%	Q3
3 years	0.1%	0.2%	Q3
4 years	0.9%	0.1%	Q3
5 years	1.2%	0.1%	Q3



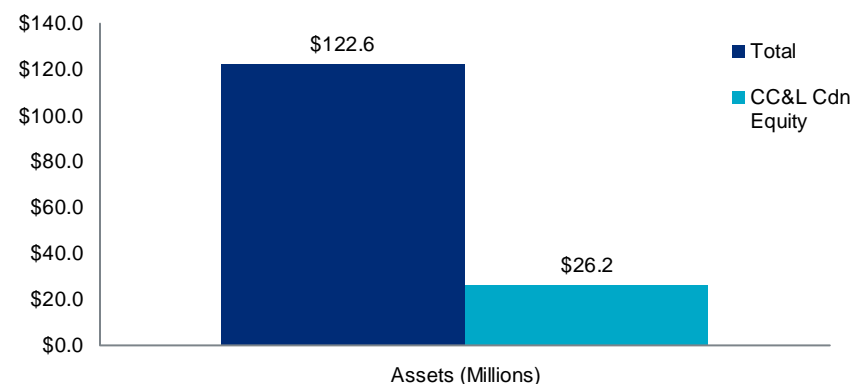
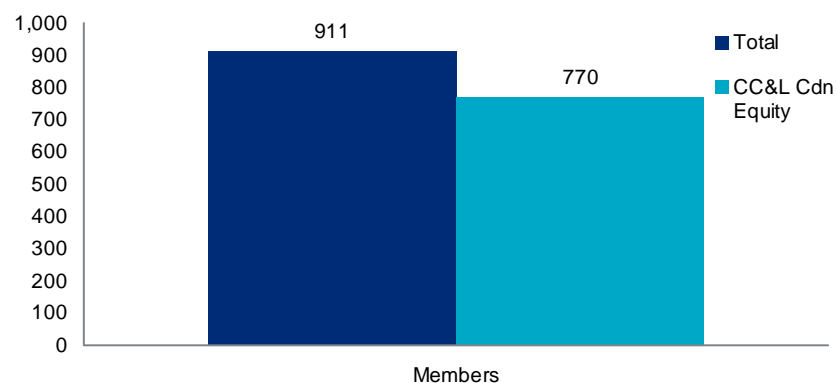
Note: Member usage figures represent results from the member investment behaviour analysis conducted in 2012.

# Gross Performance to March 31, 2013

## Canadian Equity (CC&L)

	Fund Return	Value Added	Quartile Ranking
1 year	9.8%	3.7%	Q2
2 years	-0.2%	1.9%	Q2
3 years	6.2%	1.3%	Q1
4 years	14.5%	1.4%	Q2
5 years	3.7%	1.6%	Q2

*Prior to April 2010, Canadian equities were managed by BlackRock. Accordingly, participants only experienced these returns since April 2010.*

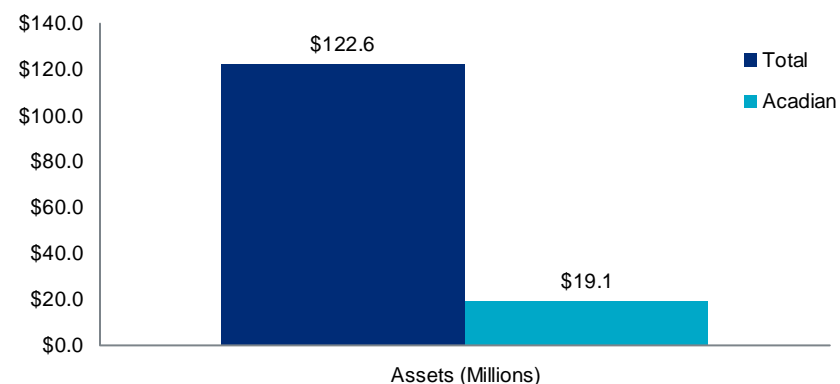
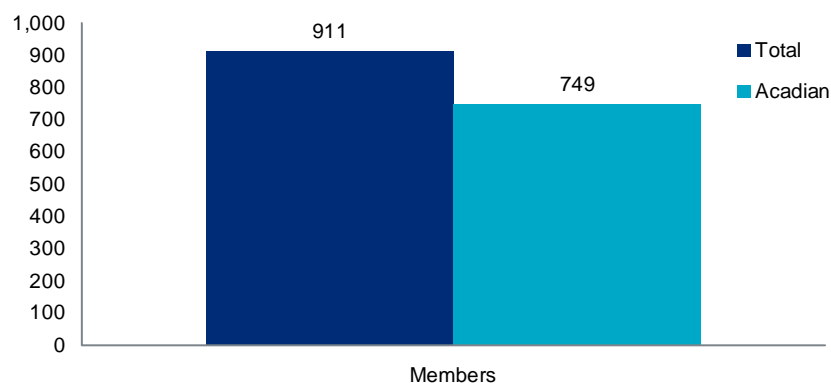


Note: Member usage figures represent results from the member investment behaviour analysis conducted in 2012.

Member and asset data include members who invest in the fund à la carte as well as members who access the strategy through the SMU portfolios

## Gross Performance to March 31, 2013 International Equity (Acadian)

	Fund Return	Value Added	Quartile Ranking
1 year	12.7%	-0.9%	Q3
2 years	4.9%	-0.2%	Q3
3 years	6.7%	1.2%	Q2
4 years	10.1%	0.0%	Q3
5 years	-2.9%	-2.3%	Q4



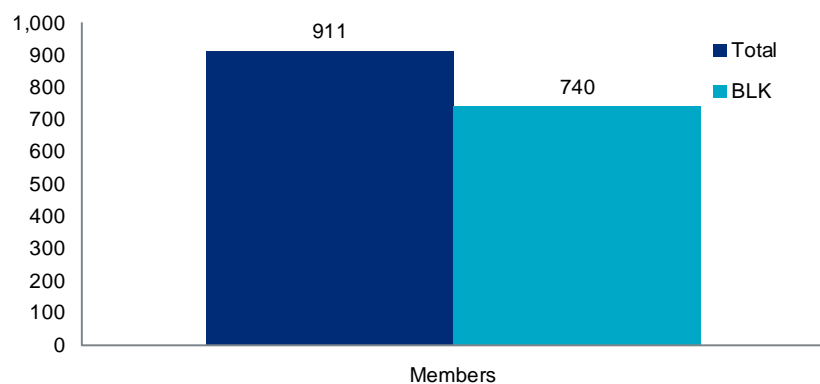
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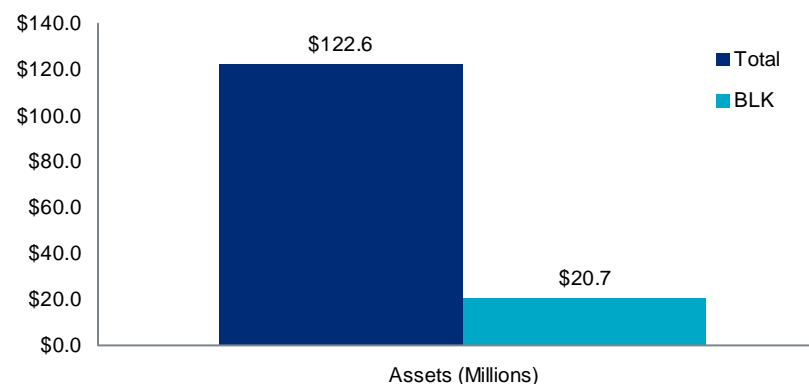
# Gross Performance to March 31, 2013

## U.S. Equity Index (BlackRock)

	Fund Return	Quartile Ranking
1 year	15.9%	Q2
2 years	13.7%	Q2
3 years	12.7%	Q2
4 years	14.7%	Q2
5 years	5.6%	Q2



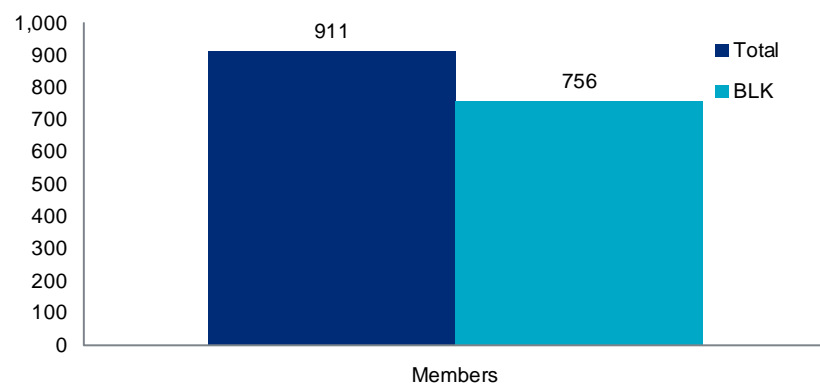
Note: Member usage figures represent results from the member investment behaviour analysis conducted in 2012.



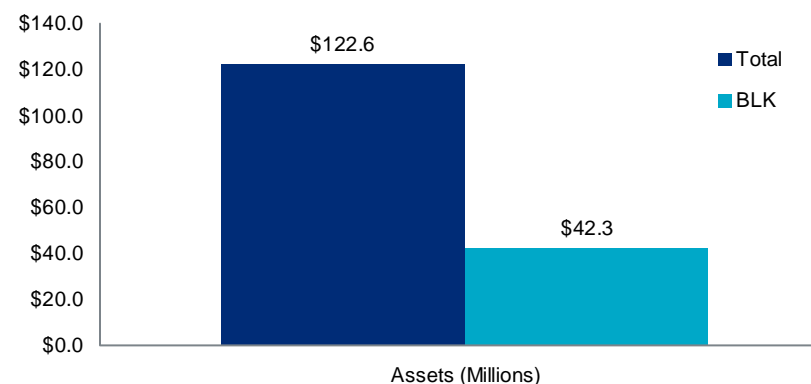
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## Gross Performance to March 31, 2013 Canadian Bond Index (BlackRock)

	Fund Return	Quartile Ranking
1 year	4.6%	Q4
2 years	7.2%	Q3
3 years	6.5%	Q4
4 years	6.2%	Q4
5 years	5.9%	Q4



Note: Member usage figures represent results from the member investment behaviour analysis conducted in 2012.



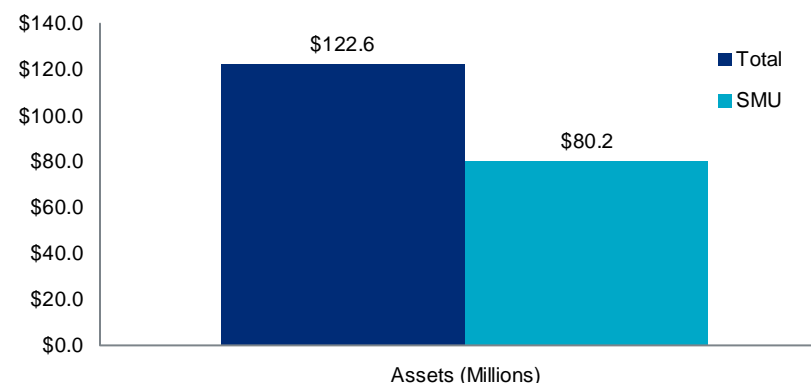
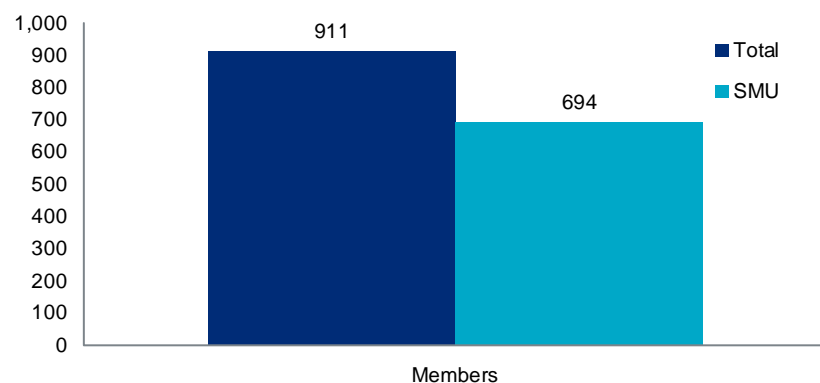
Member and asset data include members who invest in the fund à la carte as well as members who access the strategy through the SMU portfolios

# Gross Performance to March 31, 2013

## SMU Portfolios

	Conservative (30% equity)	Moderate (50% equity)	Balanced (60% equity)	Growth (70% equity)	Aggressive (80% equity)
1 year	7.1%	8.8%	9.6%	10.5%	11.3%
2 years	7.1%	7.0%	6.8%	6.8%	6.5%
3 years	7.3%	7.8%	8.0%	8.2%	8.4%
4 years	8.4%	9.8%	10.4%	11.1%	11.7%

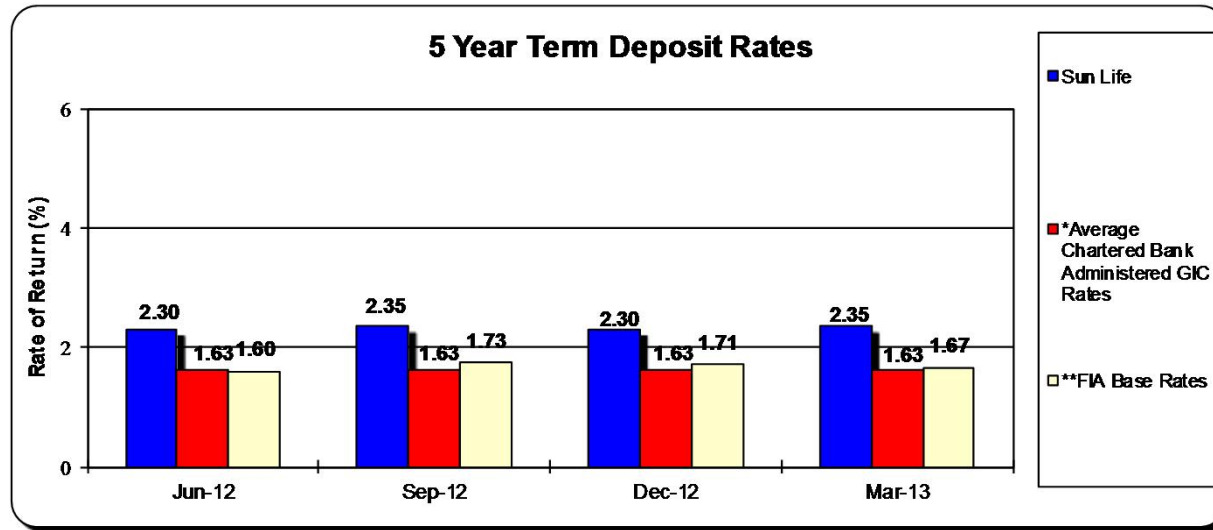
Returns for periods beyond 3 years are simulated based on historical target mixes and past gross returns of underlying funds



Note: Member usage figures represent results from the member investment behaviour analysis conducted in 2012.

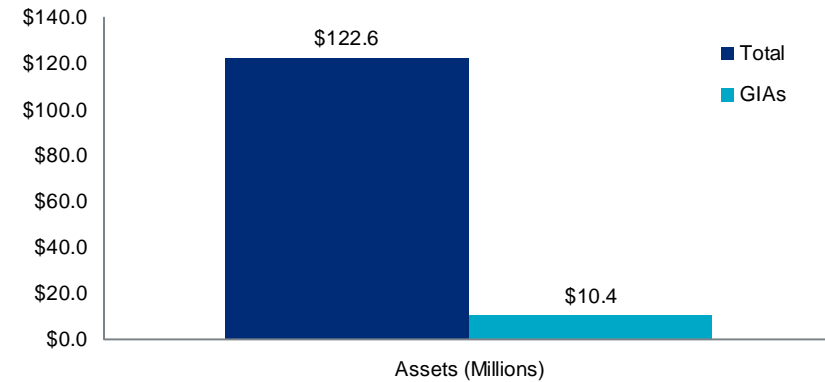
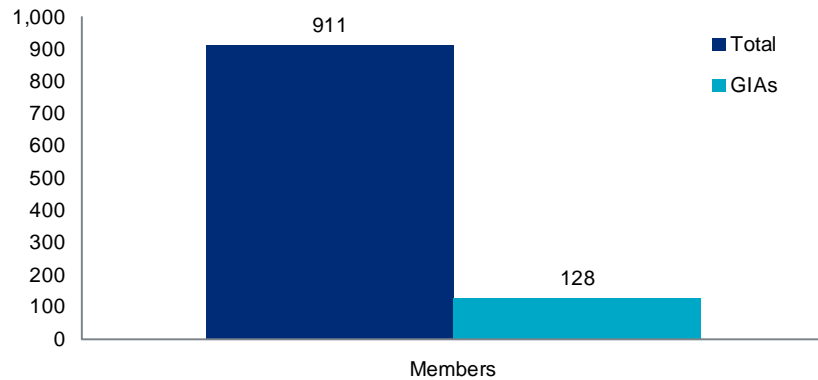
# GIA Competitiveness

## 5-Year GIAs



\* Bank of Canada Review, CANSIM Series V 122526.

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



Note: Member usage figures represent results from the member investment behaviour analysis conducted in 2012.



# ACTIVE MANAGER COMMENTARY



## Canadian Equity Manager Connor Clark & Lunn

- Broadly diversified portfolio
  - 50% quantitative, 50% fundamental
- Includes slight overweight to smaller companies
- No changes in teams or processes
- Have confidence that the fund will outperform over the long term

## International Equity Manager Acadian Asset Management

- Quantitative investment process
- Portfolio displays a strong value tilt and a favouring of smaller companies
- Turnover amongst the management team has continued to be low after several years of relatively high levels; succession at the Chairman and CEO levels was implemented as laid out in 2012
- Have confidence in the manager to outperform over the long term

# MEMBER AND SPONSOR FEE ANALYSIS

## Fees

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	0.87%

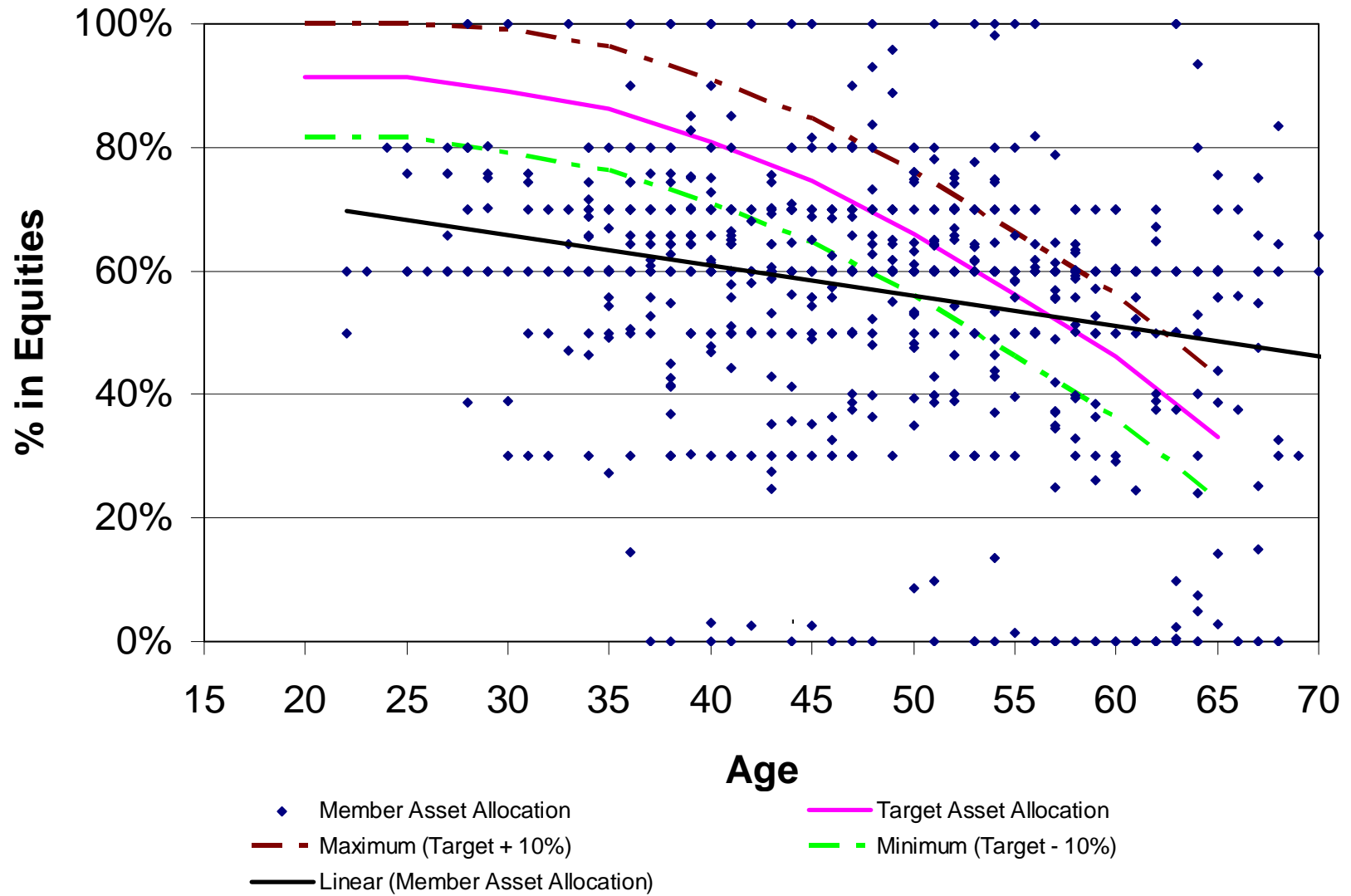
- In addition to the fees noted above, the segregated funds experience operating expenses on an as incurred basis. The expenses typically range from 0.03% to 0.05% p.a.
- Mercer 2013 report concluded fees were competitive for pension plans of similar size and characteristics
- These fees are substantially lower than retail mutual fund fees (even with high-net-worth programs), resulting in a big advantage for Plan members

Questions?



# APPENDIX MEMBER ASSET ALLOCATION ANALYSIS

# Member Equity Allocation As at March 31, 2012





## Conclusions from the Member Asset Allocation Study

- Continued strong preference from members for a simple investment solution
  - Currently the series of 5 target risk portfolio (conservative, ..., aggressive)
- On a positive note, overall trend line suggest that members on average are reducing their allocation to riskier assets as they approach retirement
  - Would hope pattern would be more conclusive and potentially steeper slope
  - Concentration of dots at specific equity levels (e.g. 30%, 60%, 70%) may suggest that some employees are not revisiting their risk profile as they approach retirement

## Recent Studies on Allocation of Contributions

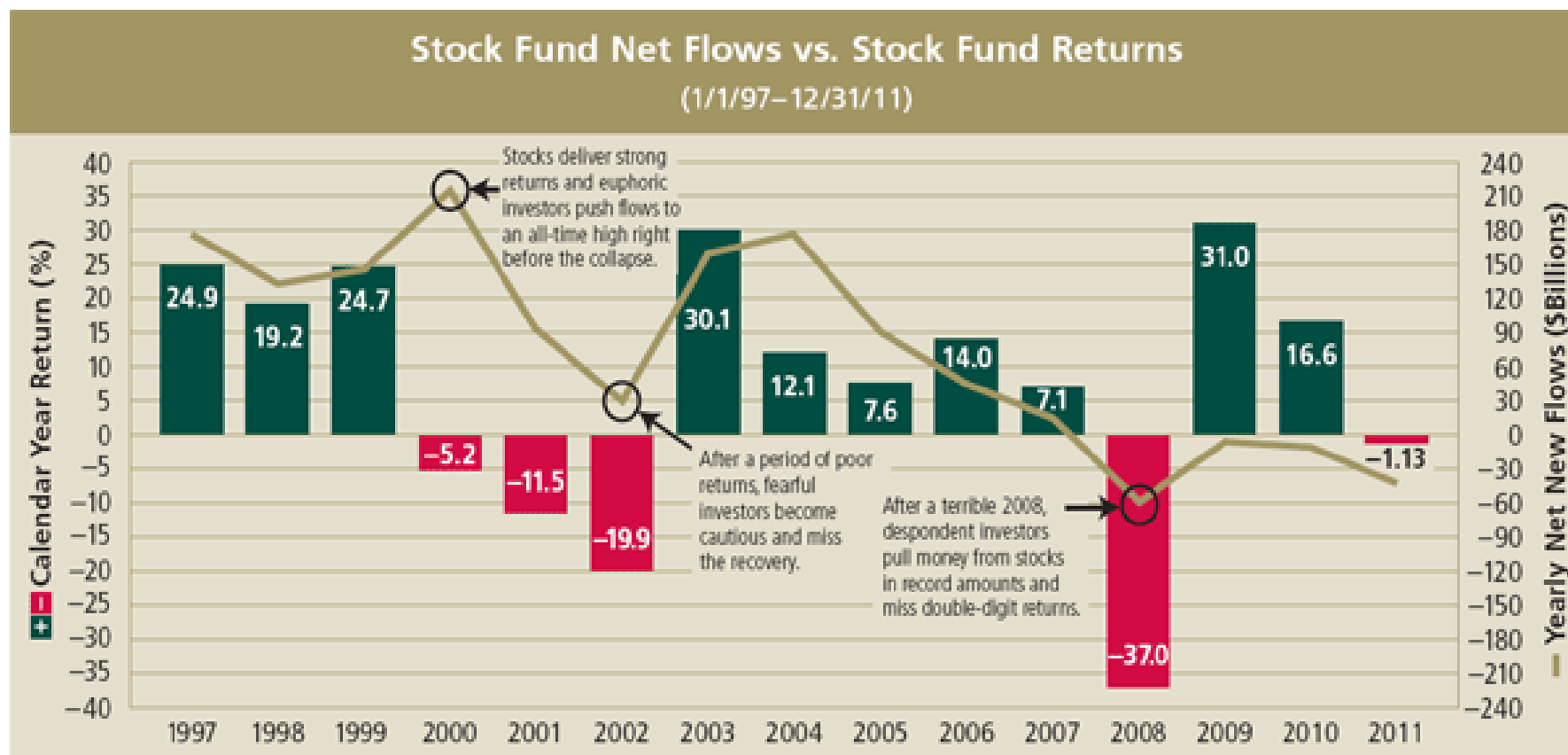
### Do members understand risk profile?

Participants were asked to allocate their assets twice	Percentage of participants having chosen the all-equity allocation
<p>Between a Target Risk Funds menu:</p> <ul style="list-style-type: none"><li>• <i>Very Conservative Fund (0% equity)</i></li><li>• <i>Conservative Fund (25% equity)</i></li><li>• <i>Moderate Fund (50% equity)</i></li><li>• <i>Growth Fund (75% equity)</i></li><li>• <i>Very Aggressive Fund (100% equity)</i></li></ul>	<p>51% in Very Aggressive Fund</p>
<p>Between an investment menu consisting of 2 funds:</p> <ul style="list-style-type: none"><li>• <i>A bond Fund</i></li><li>• <i>An equity fund</i></li></ul>	<p>15% in all equity</p>

Source: Behavior Economics by Richard Thaler

*Lesson learned: Try to ignore labels and complete Risk Profiler Tool.*

## Investors Behaving Badly



Source: Strategic Insight and Morningstar as of December 31, 2011. Stock funds are represented by domestic equity funds. Past performance is not a guarantee of future results.

## Two Other Frequently Observed Biases

### Anchoring and availability bias

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#### **Anchoring**

Decision-making is strongly influenced by starting values:

- Participants making an asset mix election during or after a market crisis will allocate a lesser percentage to equities
  - 84% of participants make an asset allocation upon election and never revisit their mix afterwards
- 

#### **Availability bias**

1. People tend to see patterns in small series of randomly drawn numbers and when making decisions, they attempt to impose some order or structure on the information that they see
  2. When faced with difficult decisions, people tend to rely on readily available information (e.g. recent memory).
- 

*Lessons learned: 1) revisit profile periodically and make changes as necessary 2) try to focus less on recent past and more on longer term*

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