

# INVESTMENT MARKET UPDATE

## UBC FACULTY PENSION PLAN

MIKE LESLIE, FACULTY PENSION PLAN  
NEIL WATSON, LEITH WHEELER



FEBRUARY 9, 2016

# PRESENTERS



**Mike Leslie**

Executive Director, Investments  
Faculty Pension Plan

**Neil Watson**

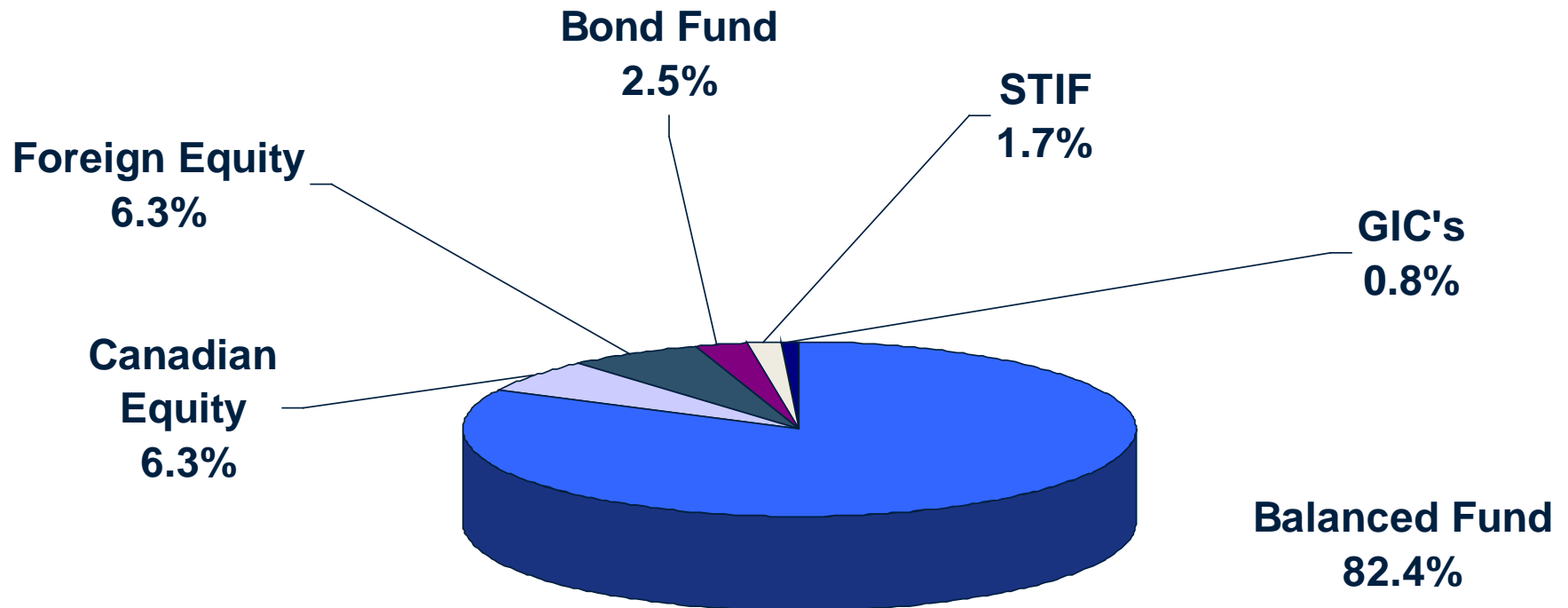
Vice President  
Leith Wheeler Investment Counsel

# AGENDA



- Introductions
- Plan – Fund Weightings & Asset Mix
- Fund Returns
- Investment Market Update
- Question Period

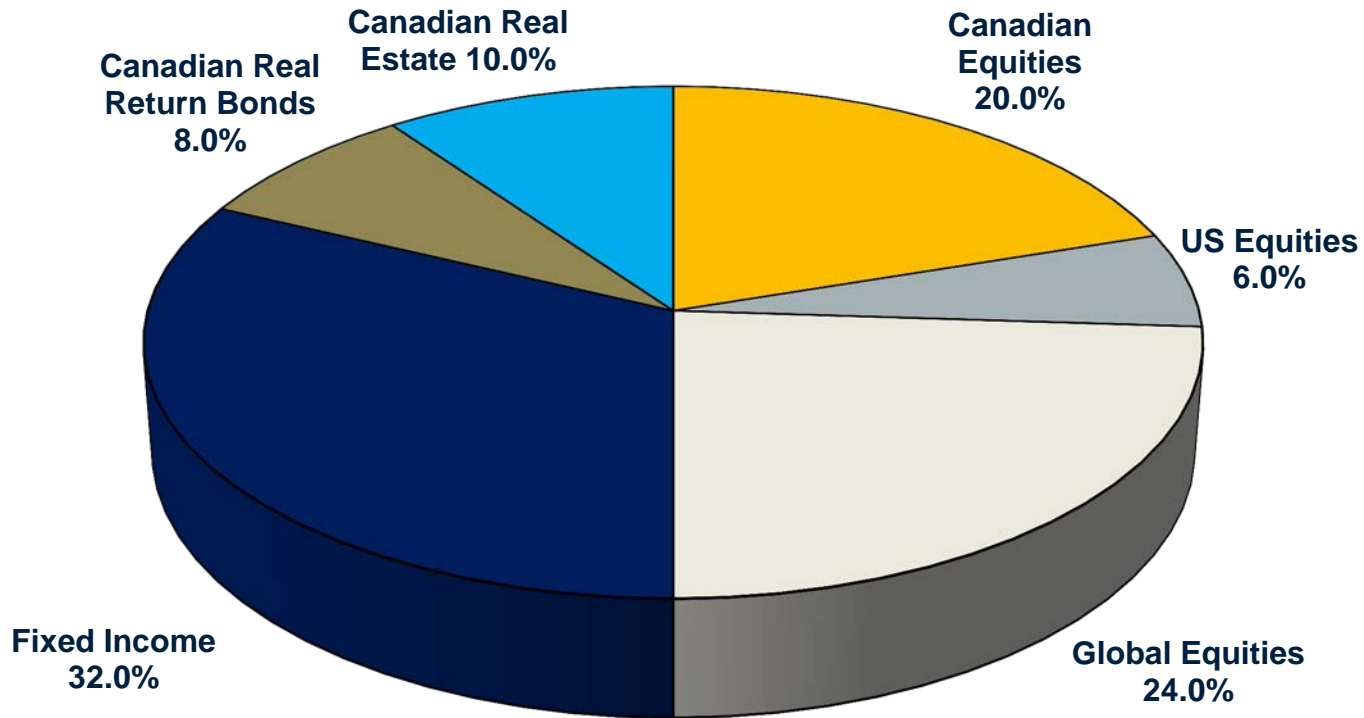
# Plan's Fund Weightings as of December 31, 2015



\*Total Assets \$2.0 Billion



# Balanced Fund – Policy Asset Mix



*\* Global Equities includes investments in both U.S. Equities and Non-North American Equities*

# Fund Rates of Return\*

## (to December 31, 2015)



Fund	1 Yr.	5 Yrs.	10 Yrs.
Balanced Fund	6.6%	9.0%	6.9%
Bond Fund	3.5%	4.8%	5.3%
Canadian Equity Fund	- 6.8%	5.0%	6.1%
Foreign Equity Fund	19.6%	16.7%	7.3%
Short Term Investment Fund	1.0%	1.2%	1.9%

\*Before Fees

# Proposed Agenda

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- Review of 2015
- Outlook for the Next 3 to 5 Years
- Conclusion
- Questions?

# Return of a Balanced\* Portfolio

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## Annualized Returns December 31, 2015

	1 Year	4 Years	10 Years
Balanced Portfolio*	4.4%	9.0%	5.6%
CPI	1.6%	1.3%	1.6%

*\* 5% Cash, 35% Bonds, 30% Canadian Equities, 15% U.S. Equities (C\$), 15% International Equities (C\$). Index Returns.*



# Review of 2015

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	Q1	Q2	Q3	Q4	1 Year
Canadian Equities	2.6%	-1.6%	-7.9%	-1.4%	-8.3%
U.S. Equities (C\$)	10.4%	-1.4%	0.5%	10.6%	21.0%
International Equities (C\$)	14.7%	-1.0%	-3.6%	8.2%	18.3%
Bonds	4.2%	-1.7%	0.2%	1.0%	3.5%

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# Key Themes in 2015

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## Further Collapse in Energy Prices

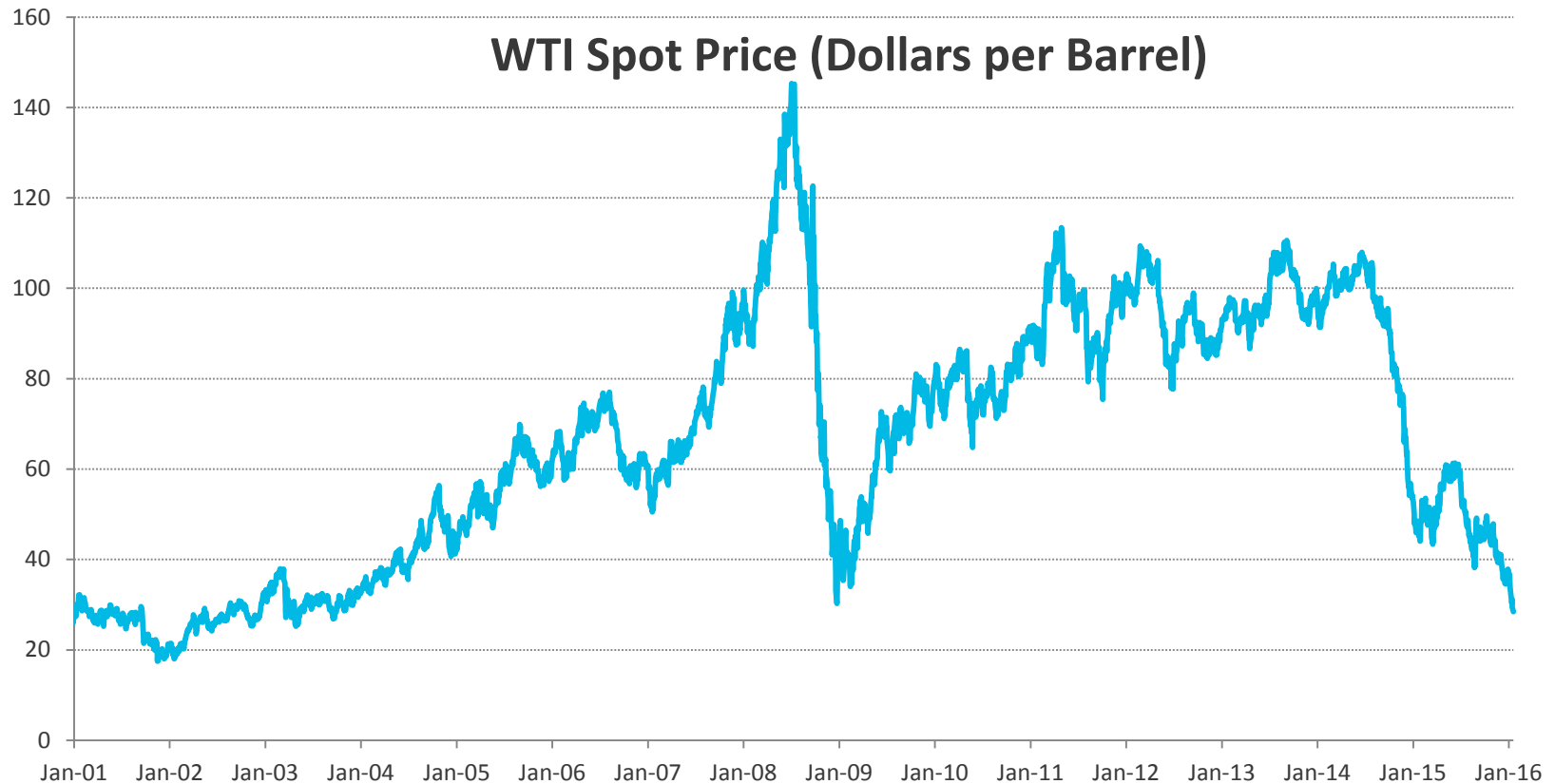
- WTI – December 31, 2014           \$53.27
- WTI – December 31, 2015           \$36.60

## Slowdown in Emerging Markets

- China, Brazil, Russia

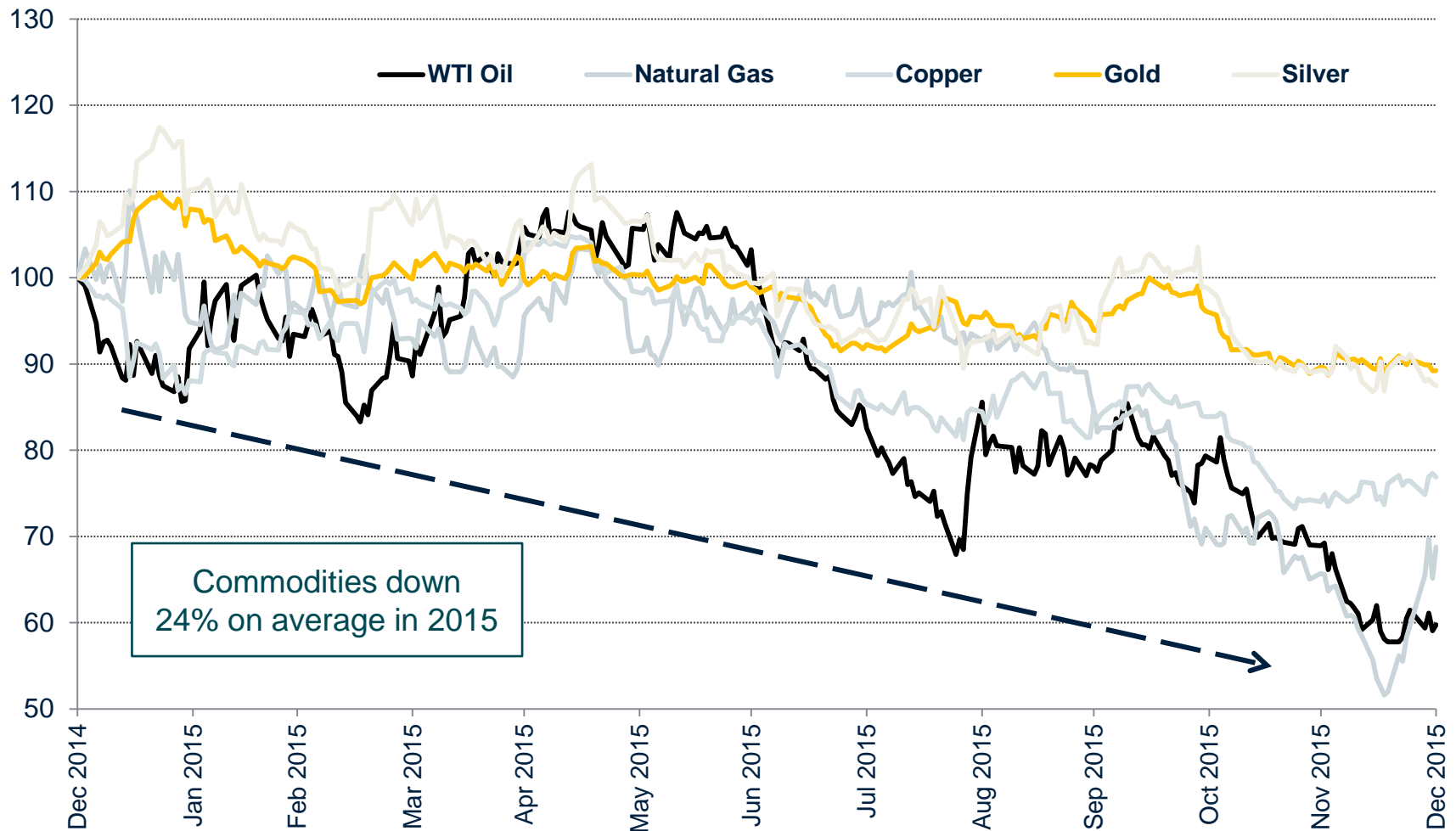
## Decline in Commodity Prices

# Crude Oil Prices Have Been Volatile Over the Last 15 Years



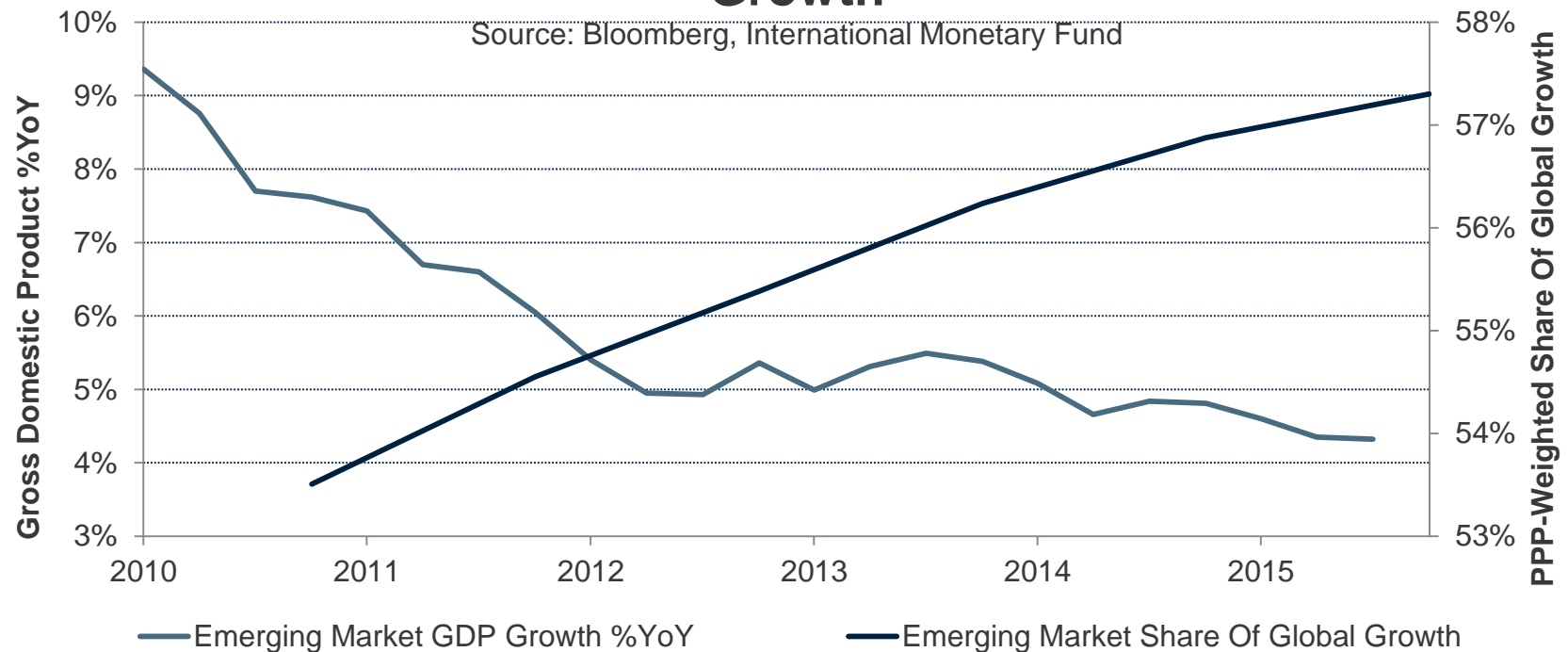
Source: eia, U.S. Energy Information Administration

# Commodities Prices Have Fallen Across the Board



# Emerging Market Economies Are Slowing...

## Emerging Market GDP Growth & Share Of Global Growth

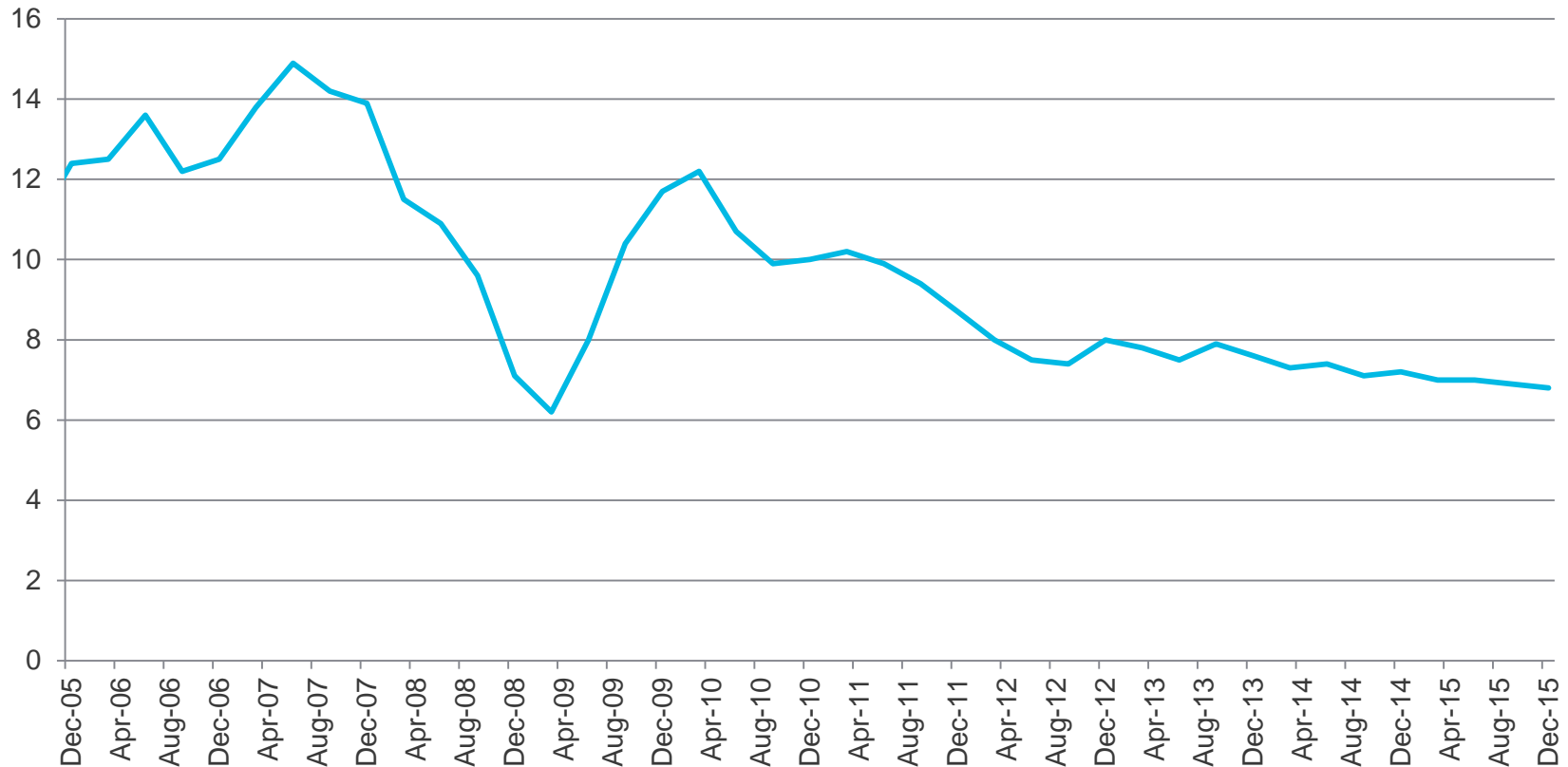


***Growth in emerging market economies continues to slow, despite their growing share of global growth.***

# Slowdown in Growth in China

## China Official GDP % YoY 10 Years Ending December 31, 2015

Source: Bloomberg

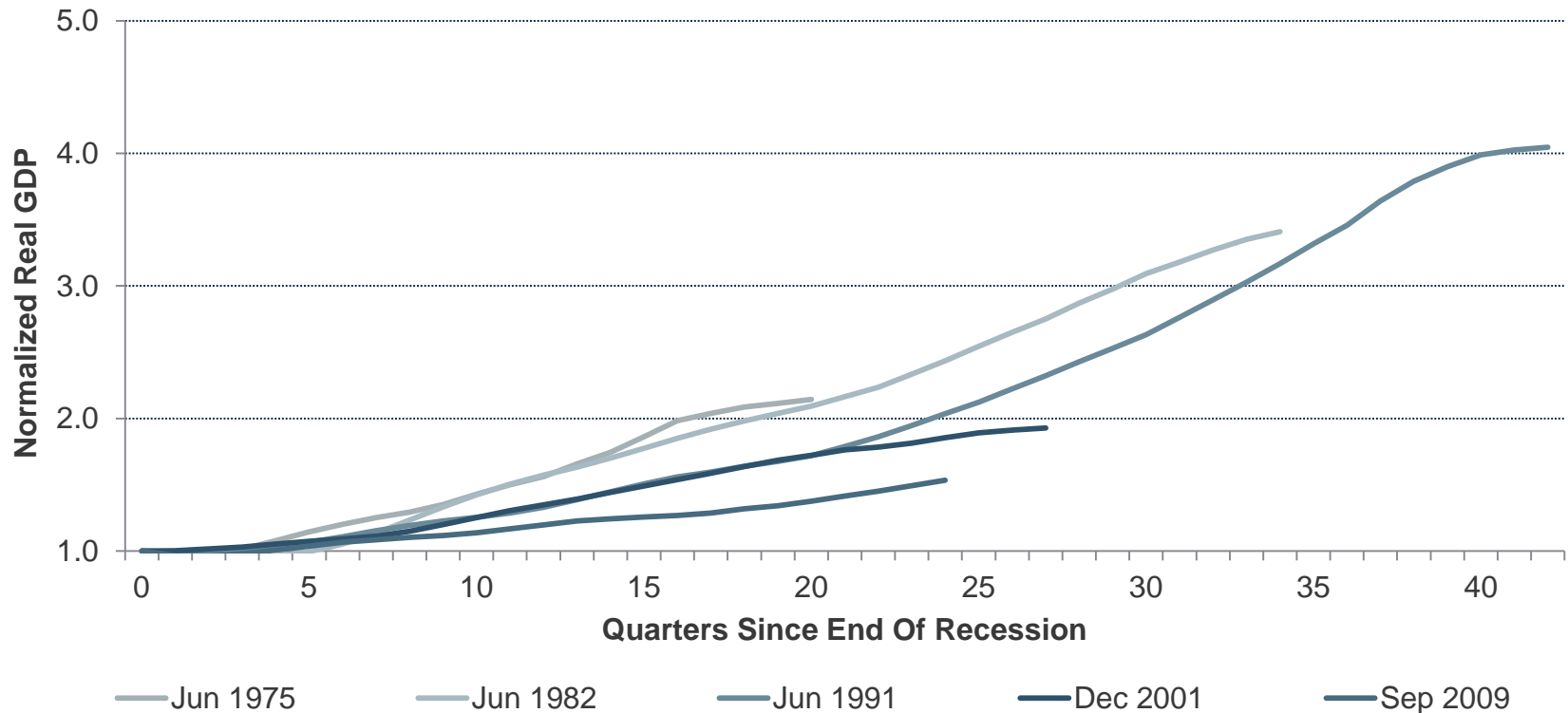




# US Economic Recovery Is Continuing Slowly...

## US Economic Recovery

Source: Bureau Of Economic Analysis, Leith Wheeler Investment Counsel



# The U.S. Labour Market Continues to Tighten

## U.S. Unemployment Rate & Initial Jobless Claims

Source: Bureau Of Labor Statistics, Department Of Labor

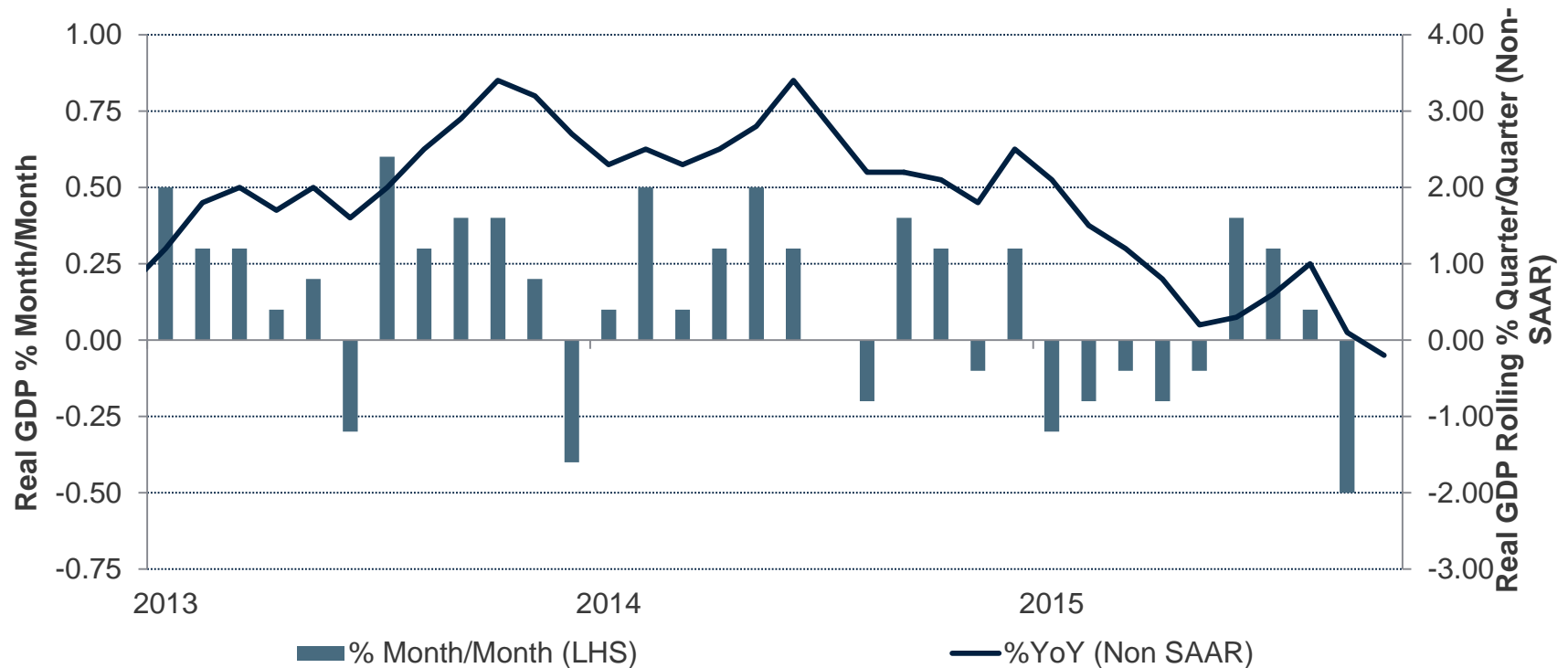


***Both initial jobless claims and the broad U-3 unemployment rate continue to fall. Historically, sub-5% unemployment has tended to be associated with wage inflation 1-year ahead.***

# Growth In Canada Has Stalled Again...

## Real Gross Domestic Product

Source: Stat Canada



***The rebound in Canadian GDP following the H1 2015 technical recession proved to be short-lived, with Q3 2015 growth the worst since 2008.***

# Interest Rates Moved Down Last Year

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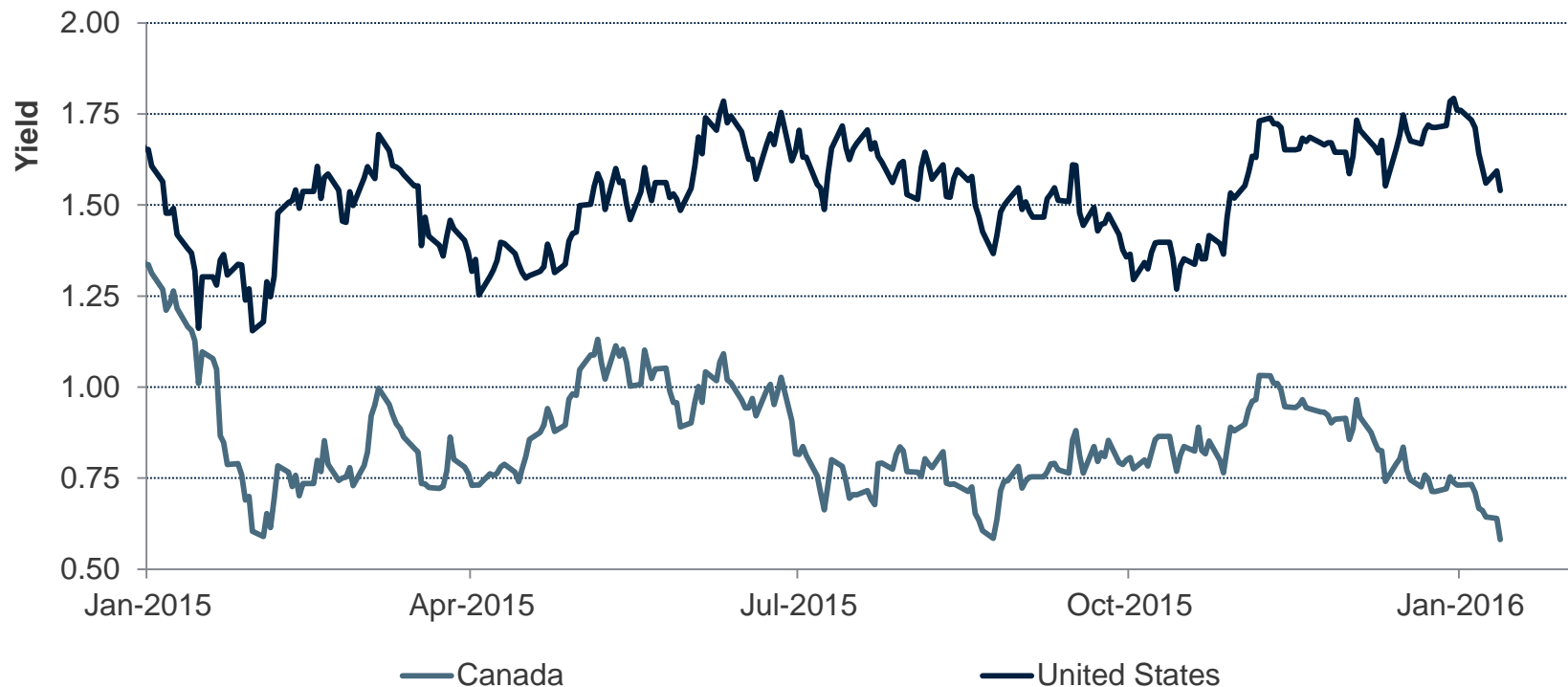
Canada Bond Yields	2012	2013	2014	2015
Overnight Lending Rate	1.00%	1.00%	1.00%	0.50%
5 Year	1.38%	1.94%	1.41%	0.73%
10 Year	1.80%	2.75%	1.87%	1.39%
30 Year	2.36%	3.23%	2.35%	2.15%

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# Canadian And US Yields Are Diverging

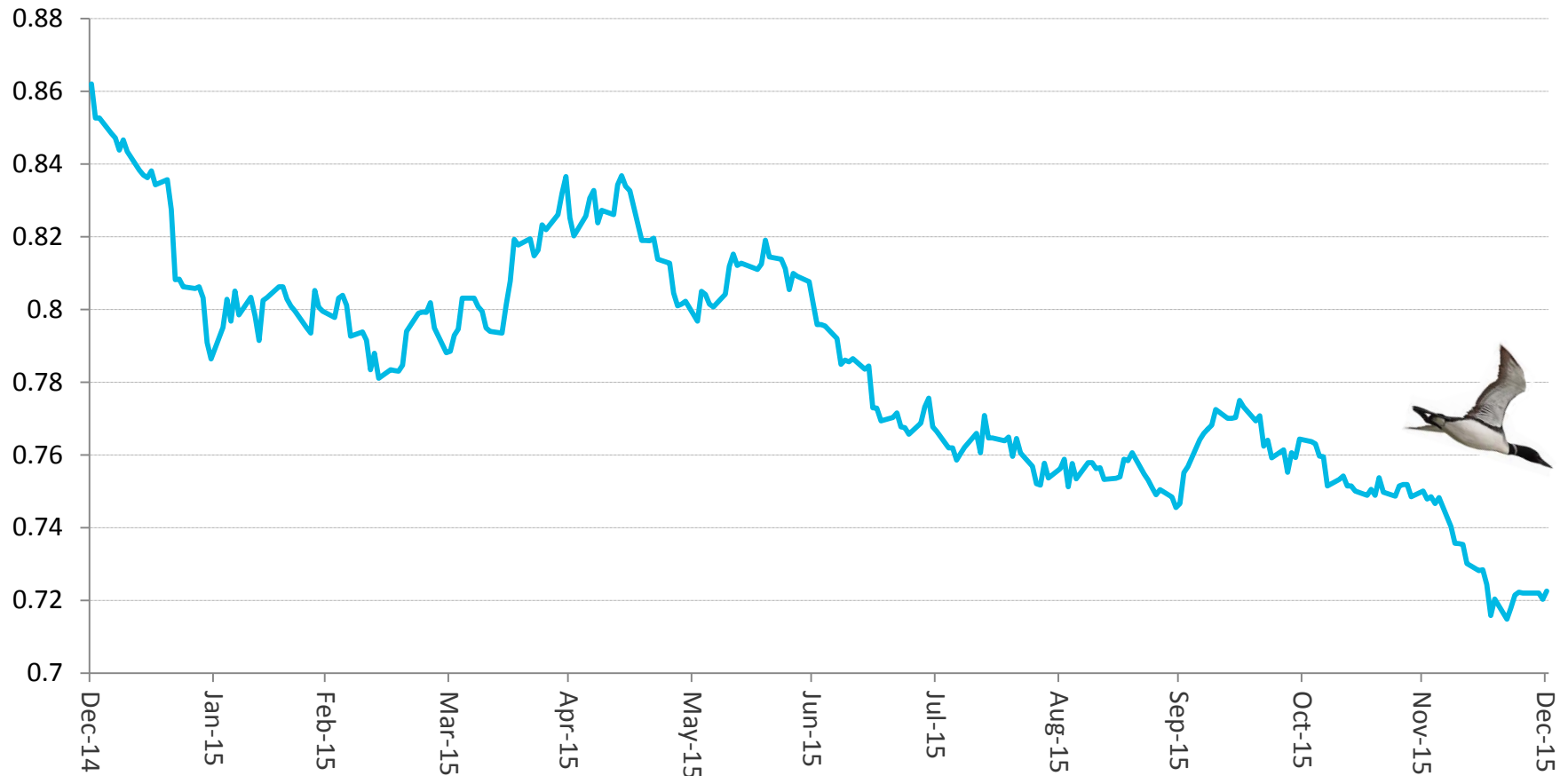
## US and Canadian 5-Year Government Bond Yields

Source: Bloomberg



***Canadian and US yields are diverging significantly as a result of the start of monetary tightening in the United States and the ongoing decline in energy prices.***

# The Canadian Dollar



***Currency Added Over 19% to the Canadian Dollar S&P 500 Return in 2015.***



# Foreign Currencies vs. Cdn Dollar

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**As of December 31, 2015**

<b>Country</b>	<b>1 Year</b>	<b>2 Year</b>
U.S. Dollar	19.3%	30.1%
Japanese Yen	18.9%	13.8%
Chinese Renminbi	14.0%	21.3%
British Pound	12.9%	15.8%
Euro	7.1%	2.6%
Australian Dollar	6.4%	6.2%

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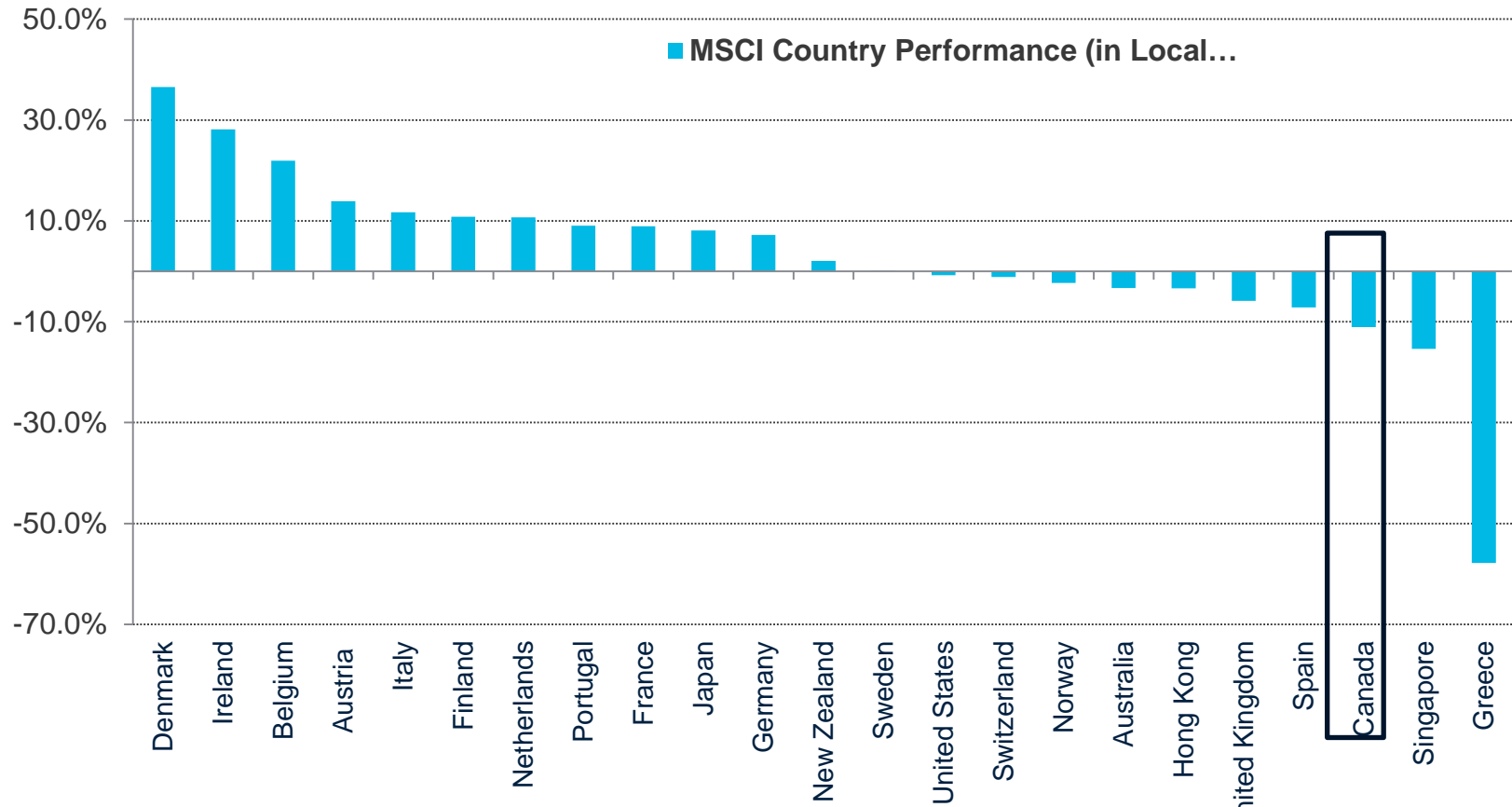
# 2015 Global Market Performance

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Stock Market (YTD)	Local Currency	Canadian Dollars
Japan	9.9%	30.7%
Europe (Ex. U.K.)	8.3%	18.5%
United States	0.7%	20.1%
United Kingdom	-2.2%	10.3%
Canada	-9.0%	-9.0%
Pacific (Ex. Japan)	-1.0%	9.2%
MSCI World	2.1%	18.3%
Emerging Markets	-5.8%	1.5%

\* Source: MSCI Developed & Emerging Market Indices

# It Was A Challenging Year For Canadian Equities



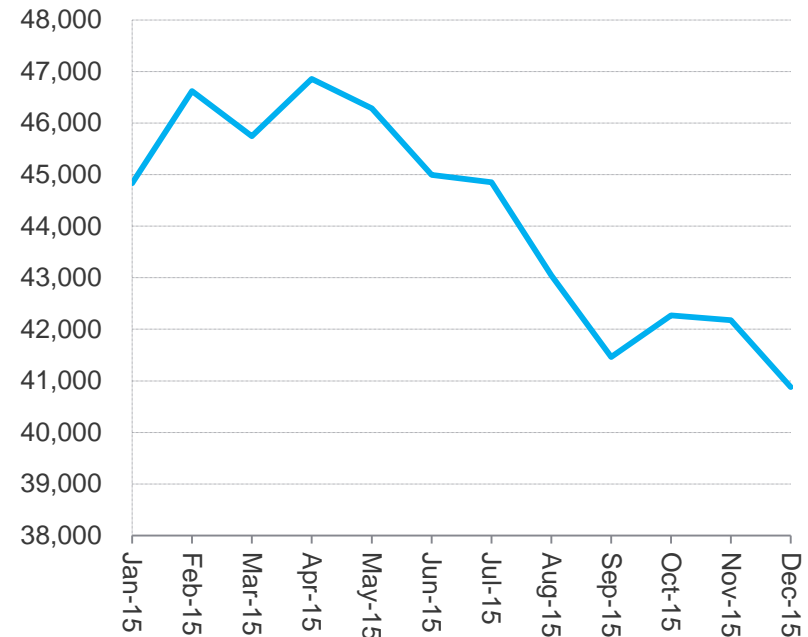
***Canada was among the worst performing countries in the developed world.***

# Review of 2015

- Flat to negative return from most global stock markets due to:

- Declining Energy and Commodity Prices
- Slowdown in growth in China and other Emerging Markets
- Weak growth in Europe
- Unrest in Middle East
- Decoupling globally as U.S Economy continues to improve

**S&P/TSX Composite**



	2014	2015	2016
Balanced Portfolio Return	10.4%	4.4%	???

- **Our Outlook  
for the Next  
3-5 Years**

# Many Concerns for Equity Investors in 2016

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- *China moves had the effect of confusing investors*
- *The oil rout has left Saudi's currency peg to the dollar at its most vulnerable point in over a decade*
- *More oil bankruptcies seen*
- *The Saudis sharply cut prices in Europe, a move that could undercut Iran*
- *Macy's announces layoffs, lists 36 store closures*
- *Apple is scaling back orders for its iPhones*
- *Barclays is planning to close most of Asia cash-equities business*
- *Medical debt often crushing even for insured*
- *North Korea says it detonated hydrogen bomb*

Source: Evercore ISI



# Panic in the Headlines – Has the Market Hit Bottom?



"Be fearful when others are greedy and greedy when others are fearful"  
- Warren Buffett

# Reasons for Optimism

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- U.S. economy has been strengthening
- Low oil prices benefit consumers and many businesses
- Europe is recovering
- Monetary policy is very stimulative
  - Global low interest rates
  - Quantitative easing in Europe and Japan
- China is still growing
- India's economy is stronger
- Global growth is below trend... but not in recession

# How Does This Market Sell Off Compare to Others?

## TSX Composite Price Index Since 1945

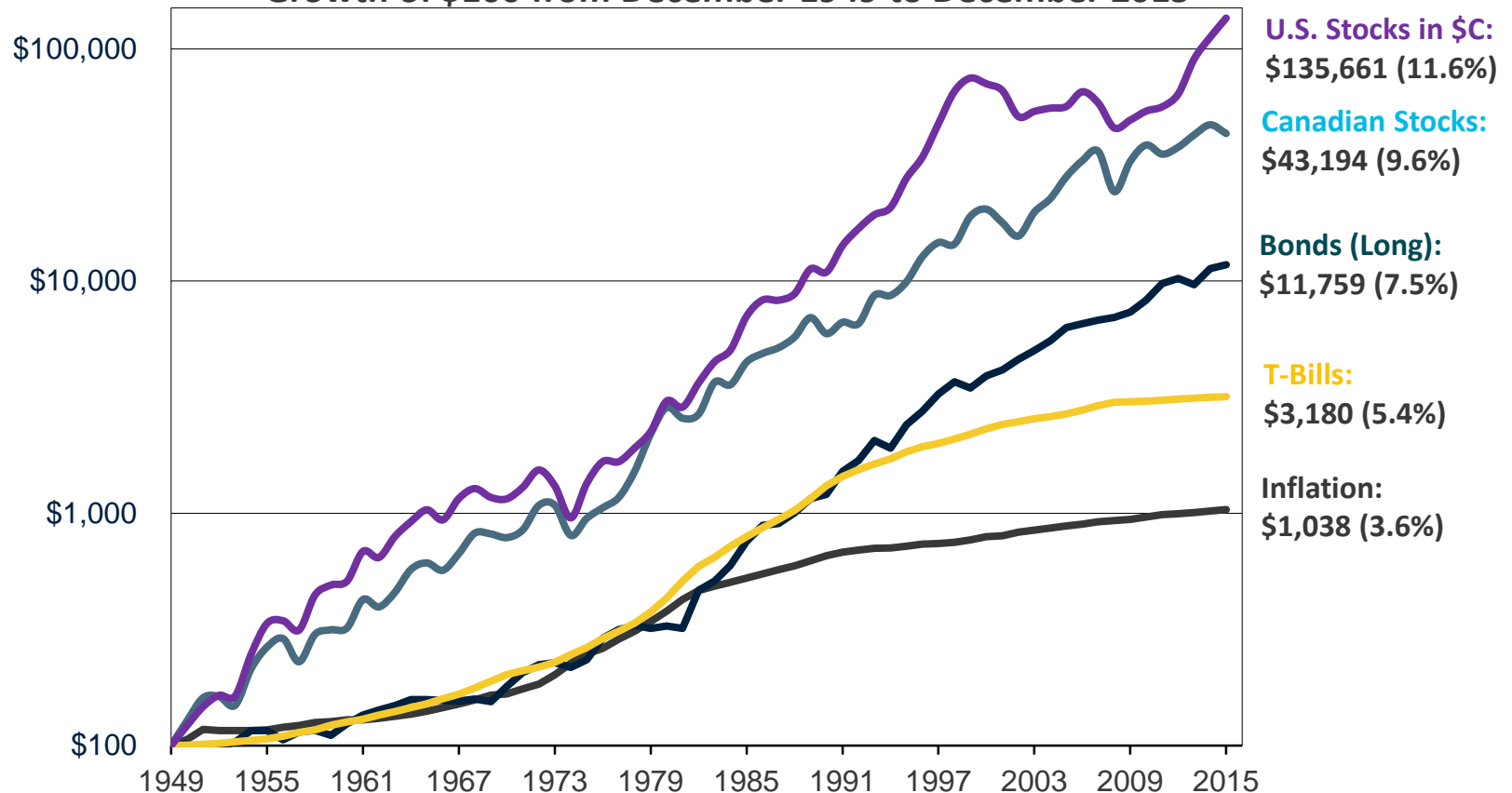
Date of Low	Decline From Peak	Duration (months)	Performance After Low		
			6m	12m	24m
Mar-48	-21%	22	6%	6%	32%
Oct-57	-24%	19	1%	20%	21%
Jun-70	-28%	13	17%	23%	36%
Nov-74	-36%	13	21%	11%	8%
Jun-82	-43%	19	43%	79%	62%
Nov-87	-26%	4	9%	11%	32%
Oct-90	-23%	14	13%	14%	8%
Aug-98	-28%	4	14%	26%	103%
Sep-02	-45%	25	3%	20%	40%
Feb-09	-45%	9	34%	43%	74%
Jan-16	-24%	16	??	??	??
Average	-31%	14	16%	25%	42%

\*Based on month-end index levels. Price-only returns.

# Long Term Market Returns

## Investment Results

Growth of \$100 from December 1949 to December 2015



# Benefits of a Diversified Portfolio

10 Year Annualized Returns  
As of December 31

	Last 5 Years	2010	2000	1990	1980
TSX Composite	2.3%	4.2%	10.6%	3.7%	9.1%
S&P 500 (C\$)	20.3%	-4.5%	17.9%	9.0%	5.6%
MSCI EAFE (C\$)	10.7%	-3.0%	9.4%	13.9%	11.1%

— Best Performer

# Canada Yield Curve Forecast

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	<b>Current (25Jan2016)</b>	<b>1 Year Forecast</b>	<b>Our Long Term Forecast</b>
Overnight Lending Rate	0.50%	0.39%	2.00%
2-Year	0.41%	0.54%	2.50%
5-Year	0.69%	0.89%	3.00%
10-Year	1.24%	1.59%	3.25%
30-Year	2.06%	2.28%	3.50%

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# Themes in 2016

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## Low Interest Rates Remain

- Quantitative easing in the U.S. has ended. The pace and timing of interest rate increases will be gradual
- Quantitative easing in Europe and Japan

## U.S. Continues to be Strong

- Improving labour market, healthier consumer

## Aftershocks from Dramatic Decline in Oil

- Reduced capital expenditures by Energy companies
- Net positive for consumers – lower gas prices, more disposable income

## Gradual Improvement in Europe

- Additional stimulus provided to jump start economy

## China's Economy will Continue to Grow... but at a Slower Pace

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# Conclusion

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## Inflation

- We expect inflation to remain low around 1-2% p.a

## Consumer and Government Debt

- U.S. consumers in good shape. Strong jobs market and low oil prices.
- High levels of Canadian debt

## Strength and Recovery

- Global growth is below trend... but not in recession

## Return Potential

- Bond returns look like they will be 1-3% p.a.
- Equity returns in Canada and the U.S. around 7% p.a.

# 2016 UBC Faculty Pension Plan Forum



- Wednesday, May 25, 2016
- Commons Block Ballroom, Marine Drive Residence
- 2205 Lower Mall
- 10:15 a.m. to 1:00 p.m.
- More information will be forthcoming

# 2016 UBC Faculty Pension Plan Forum



Presentation begins at 10:30 a.m.

- Plan performance in 2015
- Review 2015 and 2016 Initiatives

Information Tables & Guest Exhibitors – 11:30 a.m. to 1:00 p.m.

- New to the Plan table
- Retirement
- UBC Retirement & Survivor Benefits
- Faculty Relations
- Service Canada

# Thank you!



## Questions?

# APPENDIX

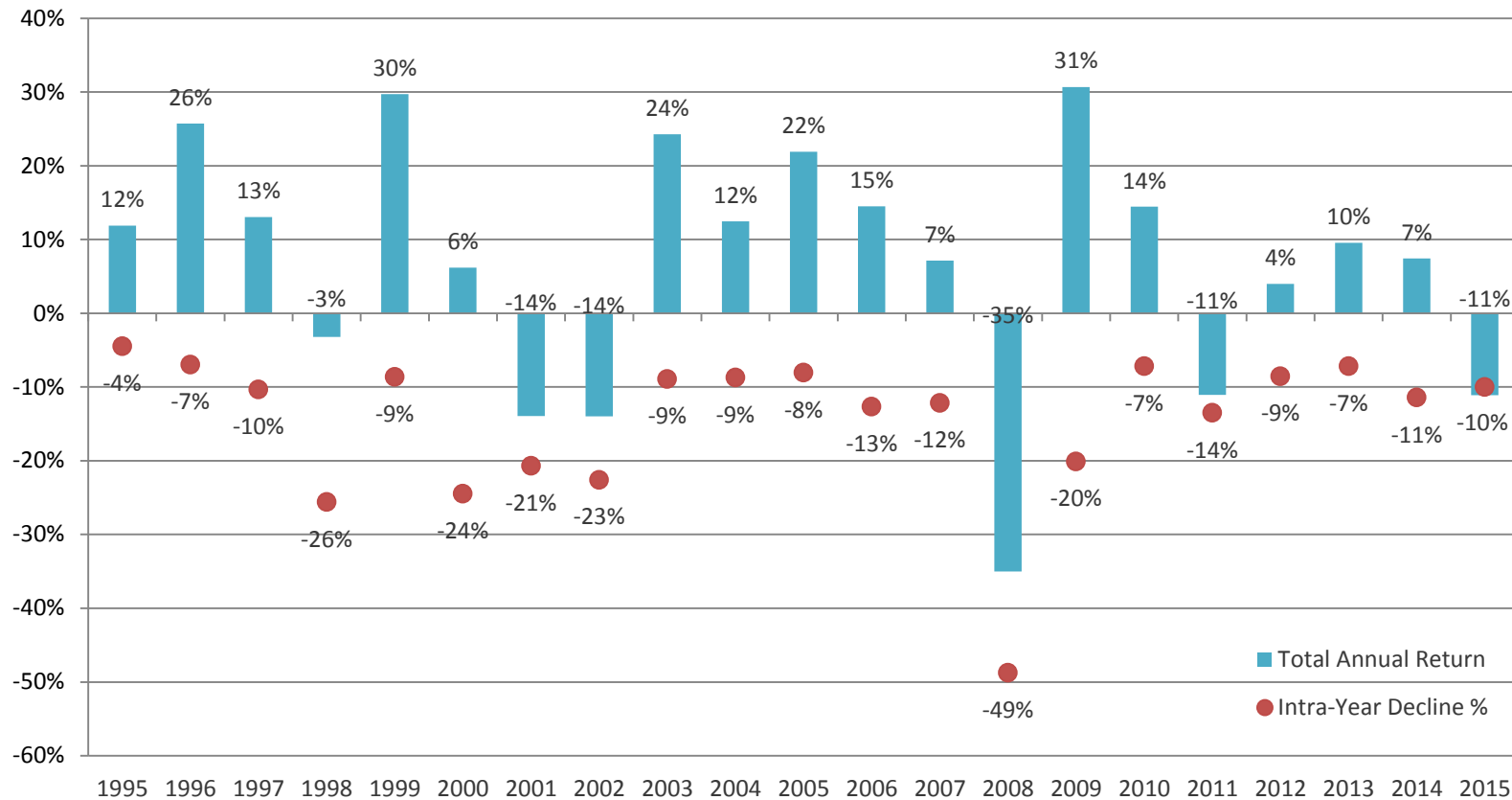


# Bonds – We are in a Very Low Interest Rate Environment

**Government of Canada 30 Year Bond Yield**  
**From December 1961 to December 2015**



# TSX Composite Intra-Year Declines vs. Calendar Year Returns

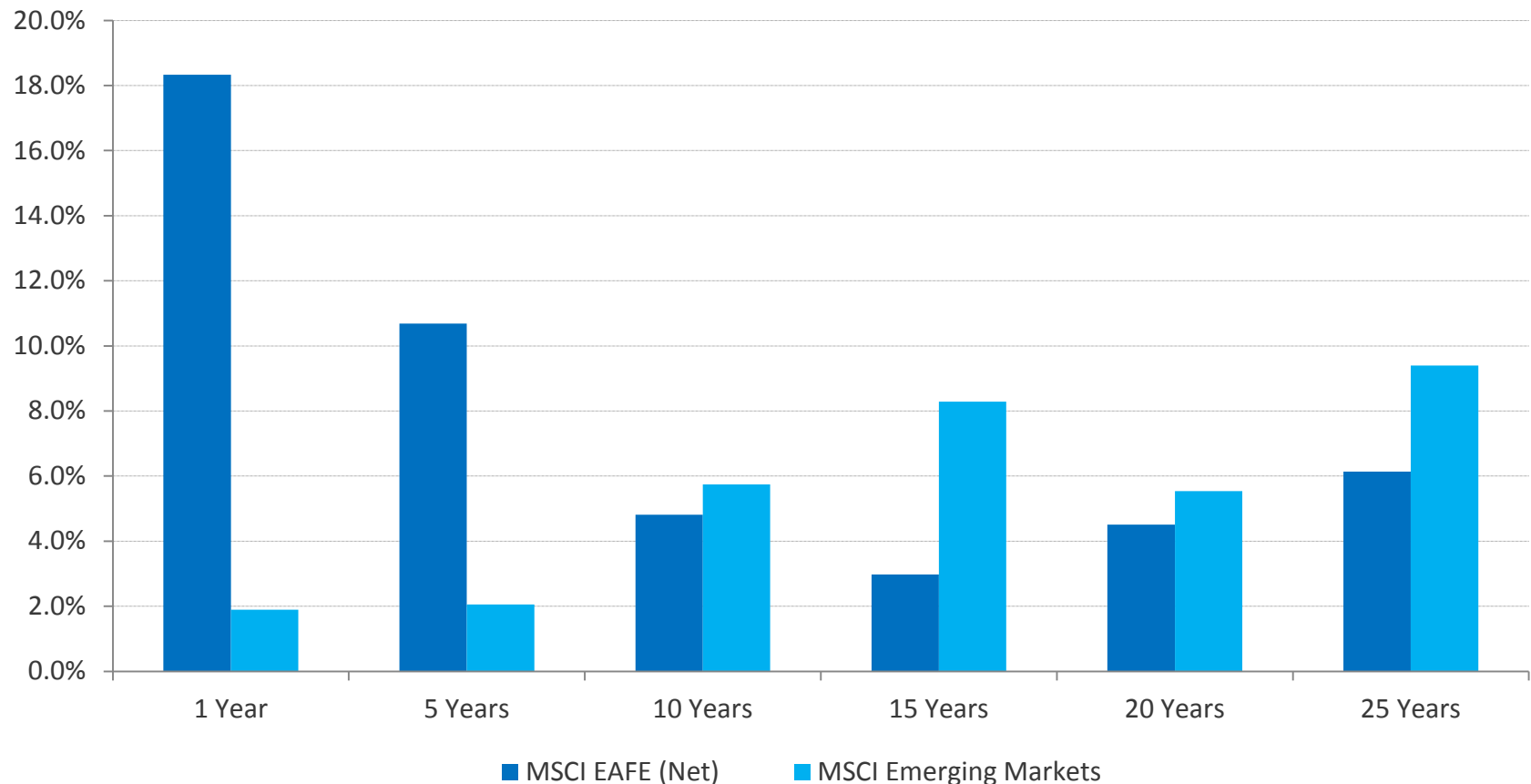


Source: Factset. TSX Composite Price Returns.



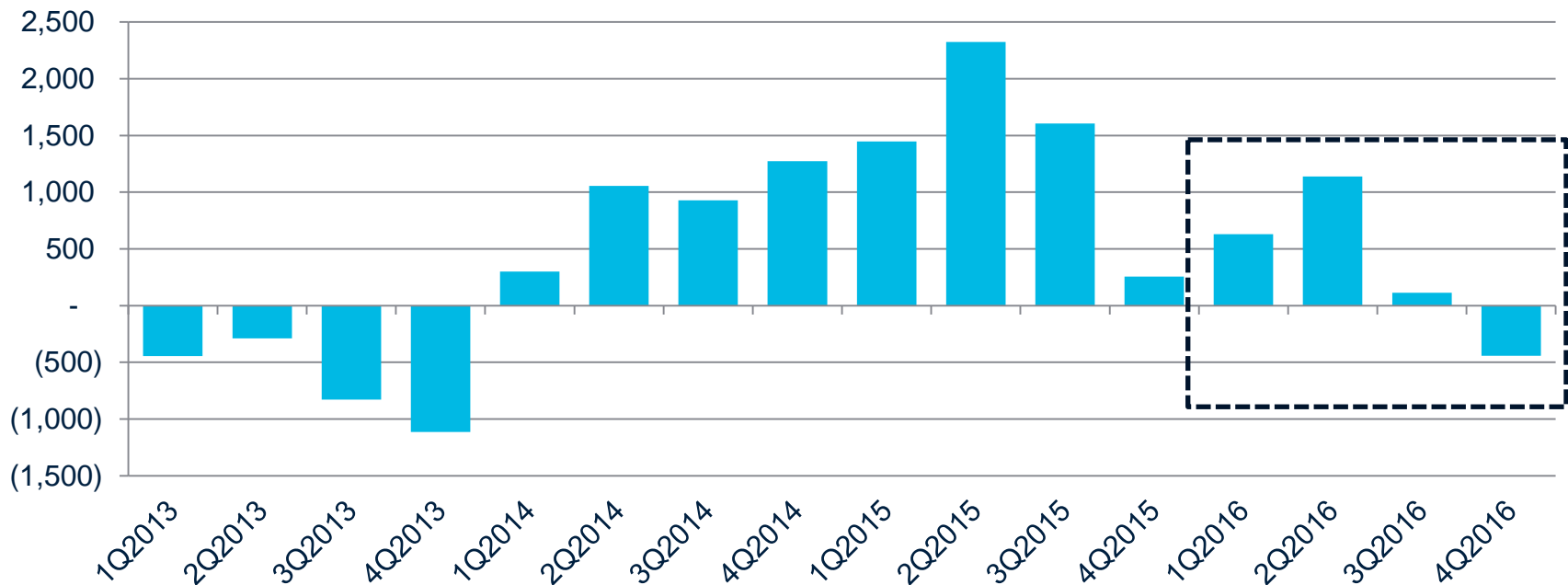
# Emerging Markets Have Performed Well Over The Long Run

## Annualized Performance (\$Cdn) As of December 31, 2015



# We Expect the Supply and Demand Gap to Tighten Over the Year

## Global Oil Market Balance (000's of bbl/d)



Source: Bank of America Merrill Lynch, Leith Wheeler Investment Counsel.

***We expect the market to tighten in the later part of 2016, as production cuts and capacity constraints leads to drawdowns in inventory.***

# Bonds versus Stocks: Which has a Better Yield?

**December 31, 2015**

<b>Bond Yields</b>	<b>Canada</b>	<b>Corporate</b>	<b>5 Year GICs</b>
5 Year	0.73%	1.90%	1.5%
10 Year	1.39%	2.85%	n/a
30 Year	<b>2.15%</b>	4.24%	n/a

<b>Dividend Yields</b>	
TSX Composite	<b>3.3%</b>
S&P 500	2.2%
MSCI EAFE	3.3%

*Source: Bloomberg, Debt Market Indices, Bank of Canada*

# Price is What You Pay Value is What You Get

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## 10 Year Returns Based on Starting Period P/B Multiple

Beginning P/B Values	Average 10 Year Returns
0.5-1x	15.9%
1-1.25x	13.8%
1.25-1.5x	10.1%
1.5-1.75x	8.8%
1.75-2x	7.7%
>2x	7.4%

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*Current P/B valuation is 1.5x on January 21, 2016*

# Potential Long Run Equity Returns

## 10 Year Returns Based on Starting Period P/E Multiple

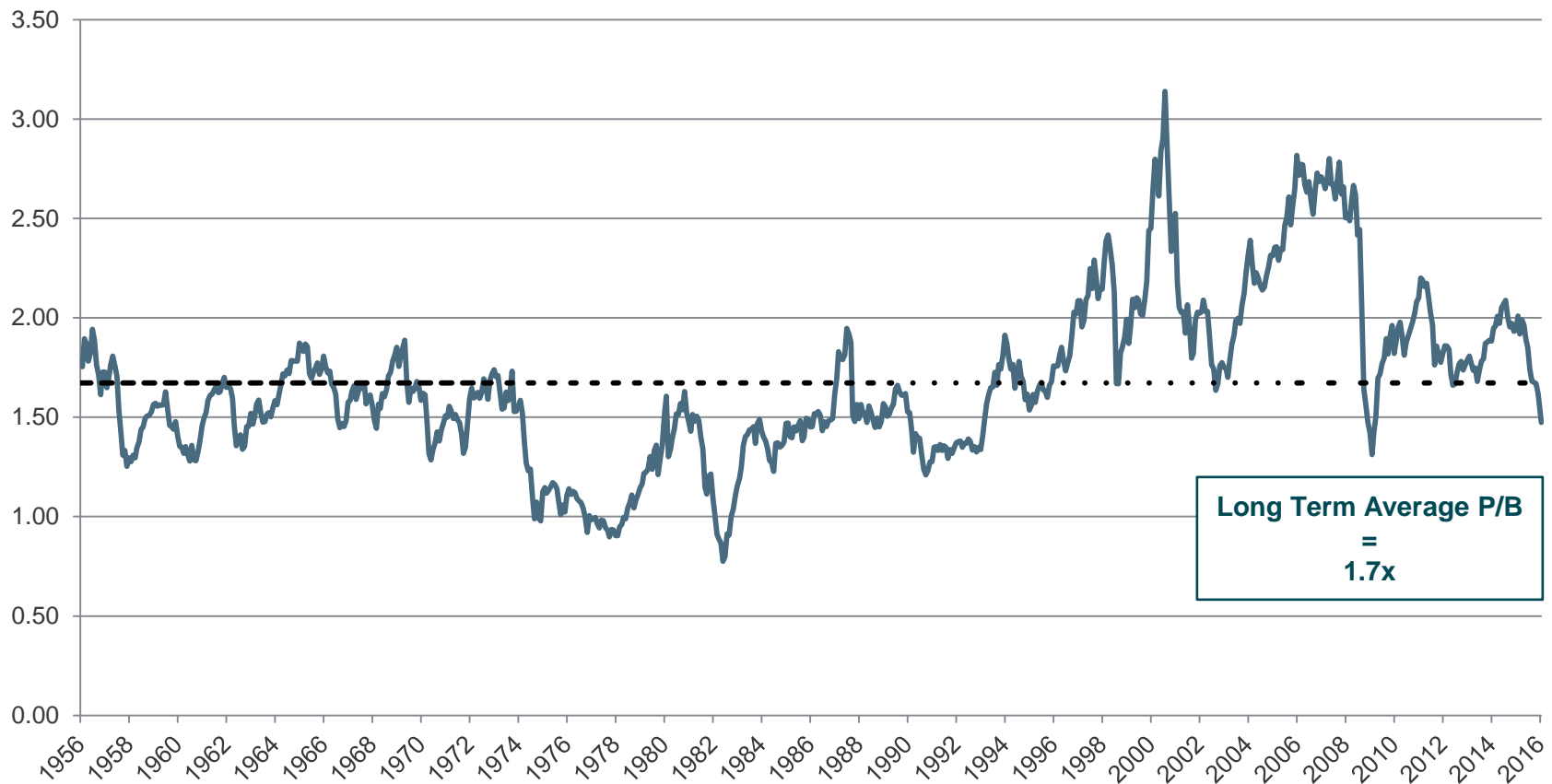
P/E Multiple Range	10 Year Return
25x – 50x	1.5%
16.6x – 25x	8.1%
12.5x – 16.6x	10.7%
10x – 12.5x	13.3%
8x – 10x	14.8%
7x – 8x	16.5%

Source: Bloomberg

**P/Es as of December 31, 2015:**  
**TSX Composite 20x    S&P 500 18.3x**

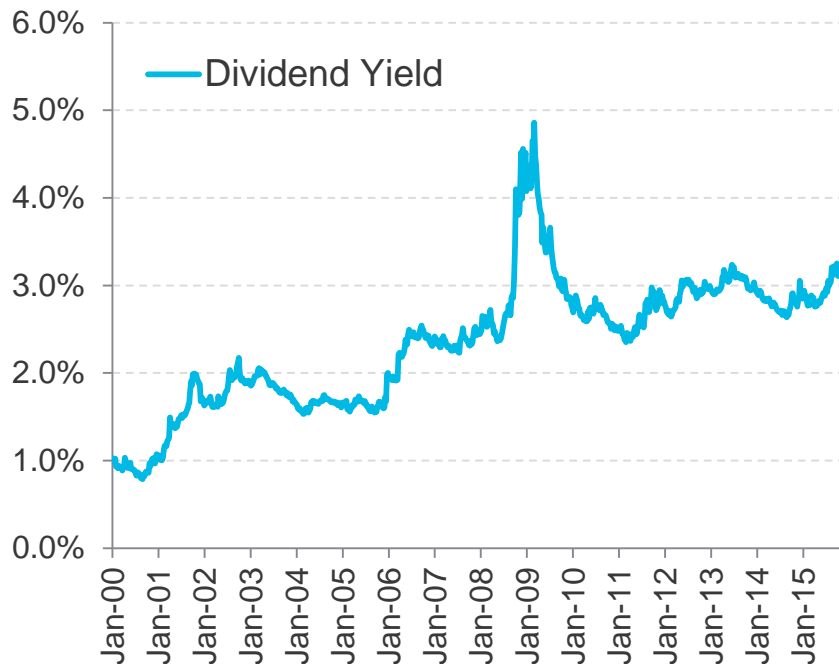
# S&P/TSX Valuations Looking More Attractive

## S&P/TSX Total Return Index & P/B Ratios



# The Long View – Stocks Remain Attractive

## S&P/TSX Composite Valuation Dividend Yield and Price Earnings Ratio over 15 Years



**Dividend Yields Remain Attractive**

Source: Bloomberg

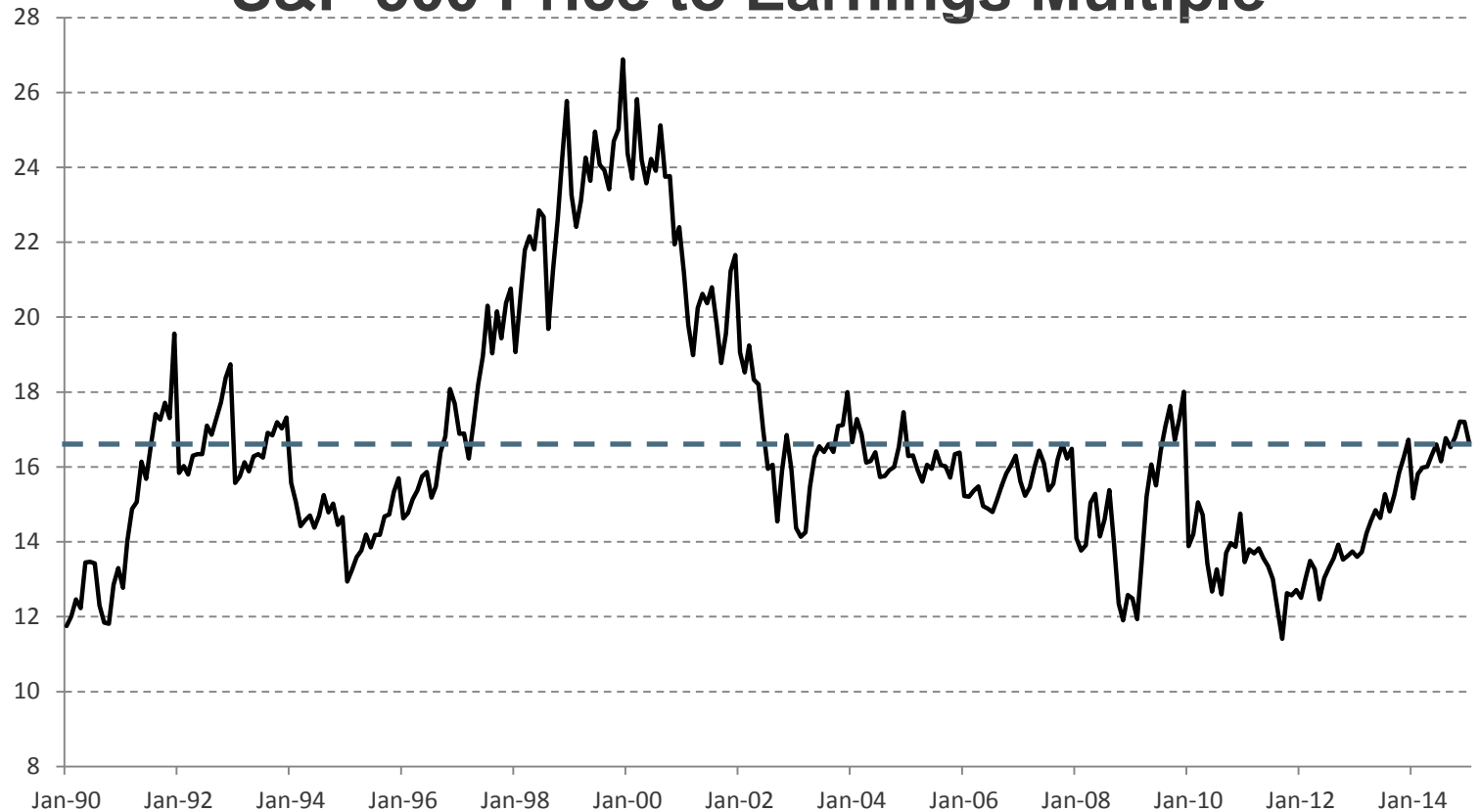


**Valuations are Not Stretched (but Not Cheap)**

Source: Bloomberg

# Stock Markets Remain Reasonably Priced

## S&P 500 Price to Earnings Multiple



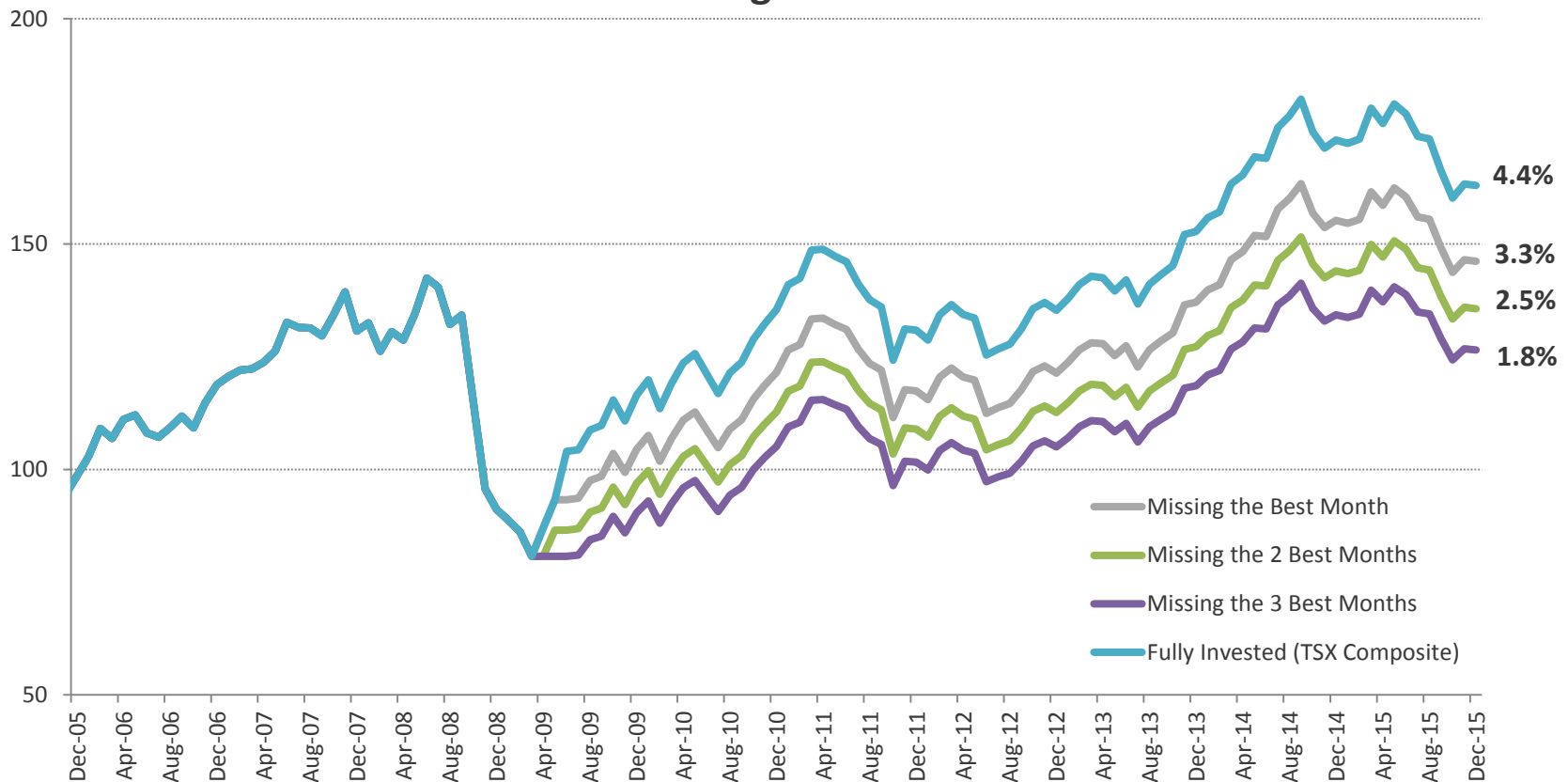
***Long Term Forward Price to Earnings Average  $\approx$  16.6x***



# Timing the Market

## Missing the Best Months of Performance

**TSX Composite Performance  
10 Years Ending December 2015**



# Performance Disclaimer

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Investment returns are prepared in accordance with CFA Institute Performance Presentation Standards. Returns reflect historic gross performance, with no deduction for investment management fees. Past performance is not indicative of future performance. A full presentation, in compliance with CFA Institute Performance Presentation Standards, is available upon request.

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