

# INVESTMENT MARKET UPDATE

## UBC FACULTY PENSION PLAN

MIKE LESLIE, FACULTY PENSION PLAN  
NEIL WATSON, LEITH WHEELER



MARCH 7, 2017

# PRESENTERS



**Mike Leslie**

Executive Director, Investments  
Faculty Pension Plan

**Neil Watson**

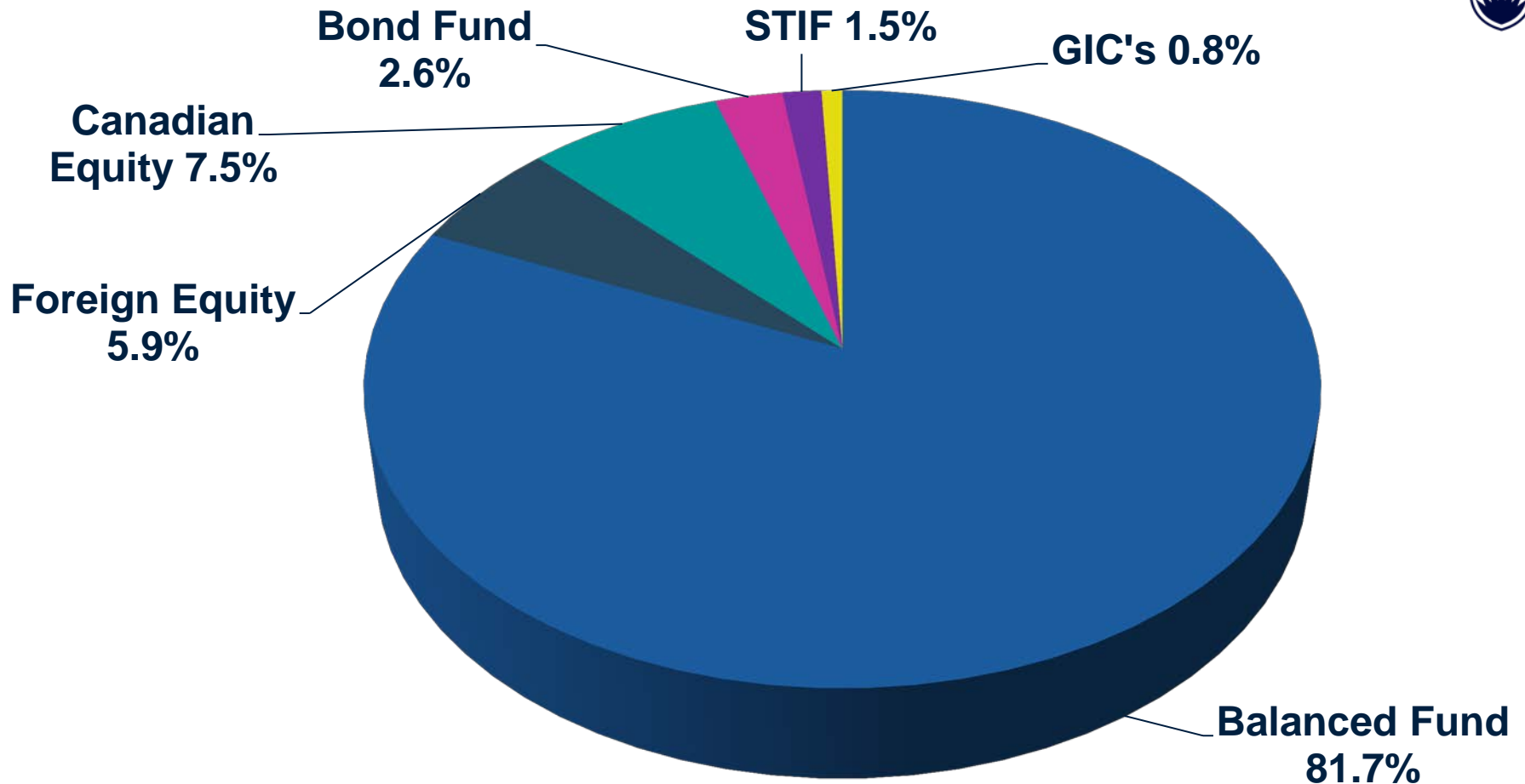
Vice President  
Leith Wheeler Investment Counsel

# AGENDA



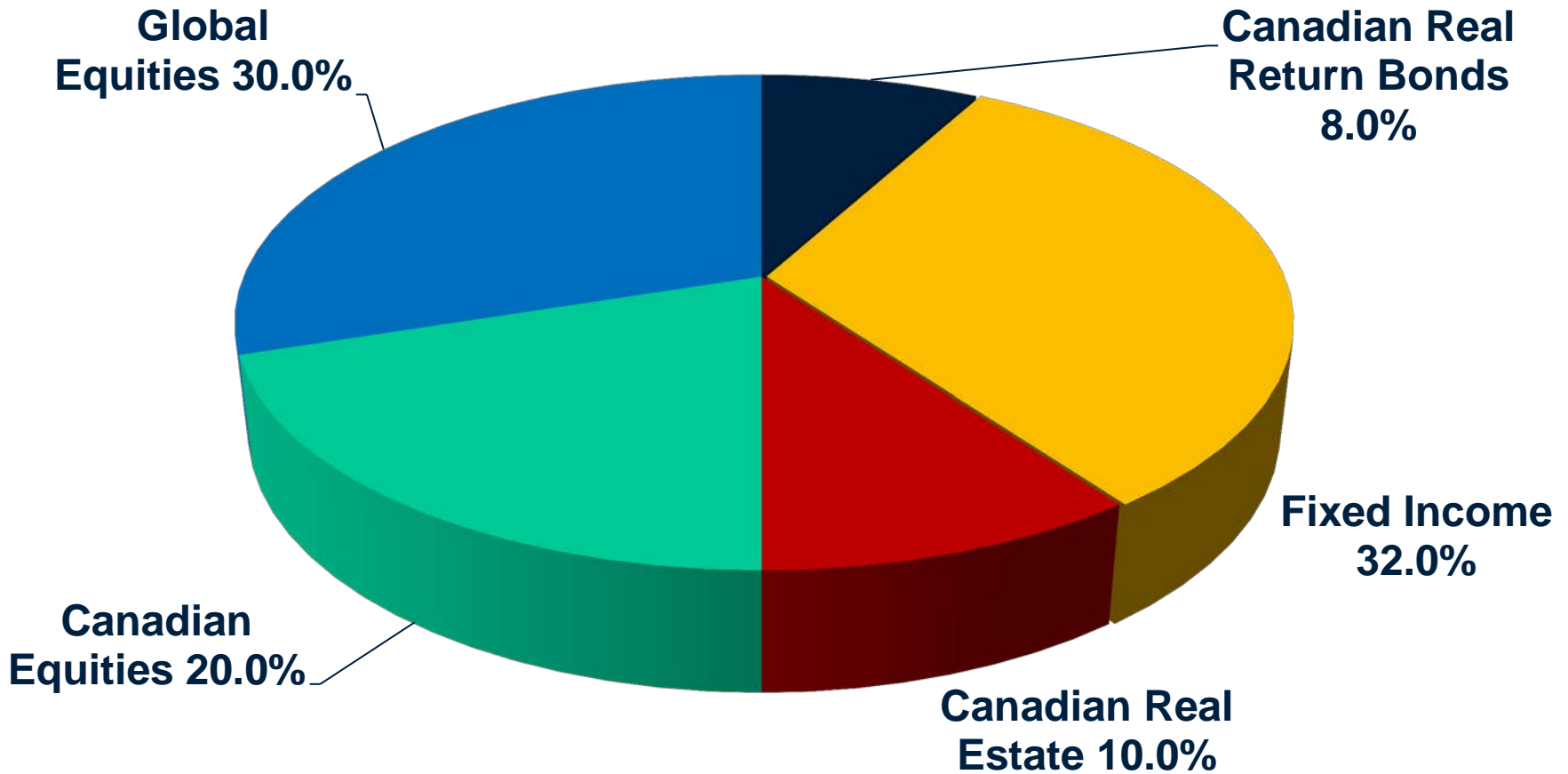
- Introductions
- Plan – Fund Weightings & Asset Mix
- Fund Returns
- Investment Market Update
- Question Period

# Plan's Fund Weightings as of December 31, 2016



\*Total Assets \$2.1 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, 2016)



Fund	1 Yr.	5 Yrs.	10 Yrs.
Balanced Fund	6.1%	9.6%	6.1%
Bond Fund	1.8%	3.1%	5.1%
Canadian Equity Fund	21.3%	10.9%	6.3%
Foreign Equity Fund	3.2%	18.0%	5.7%
Short Term Investment Fund	0.7%	1.1%	1.5%

\*Before Fees

# Proposed Agenda

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- Review of 2016
- Outlook for the Next 3 to 5 Years
- Conclusion
- Questions?

# Key Themes in 2016

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- Global Monetary Policy still very accommodative
  - However Fed started to hike rates in US
- Canadian bond yields declined for most of the year then moved up in Q4
- Energy prices improved
  - WTI – January 2016 – \$27
  - WTI – December 2016 – \$53
- Commodity prices improved
- Brexit
- Trump



# Return of a Balanced\* Portfolio

## Annualized Returns As of December 31, 2016

	1 Year	4 Years	10 Years
Sample Passive Balanced Portfolio*	7.8%	9.0%	5.1%
CPI	1.5%	1.5%	1.6%

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

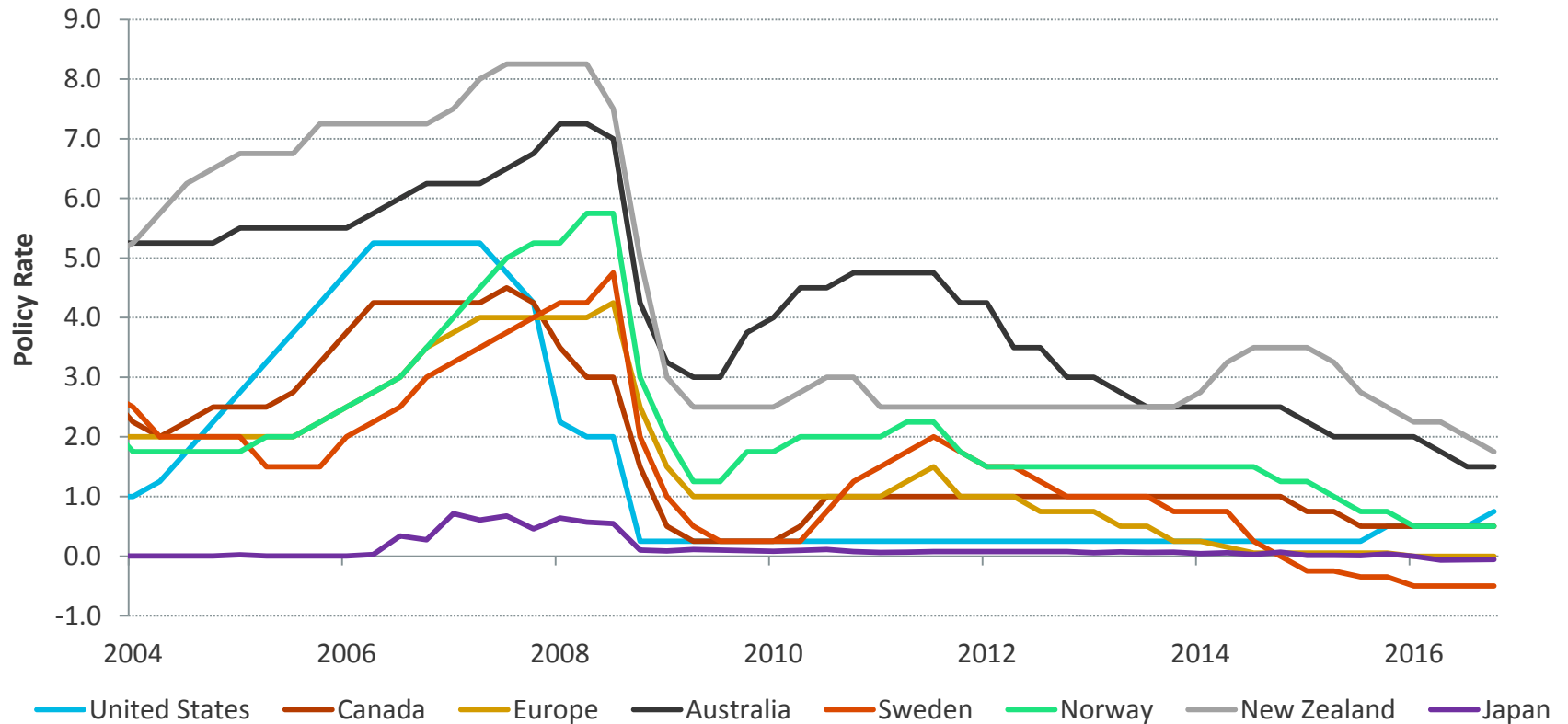
# Review of 2016

	Q1	Q2	Q3	Q4	1 Year
Canadian Equities	4.5%	5.1%	5.5%	4.5%	21.1%
U.S. Equities (C\$)	-5.0%	2.8%	4.7%	6.3%	8.6%
International Equities (C\$)	-9.1%	-1.2%	7.3%	1.6%	-2.0%
Bonds	1.4%	2.6%	1.2%	-3.4%	1.7%

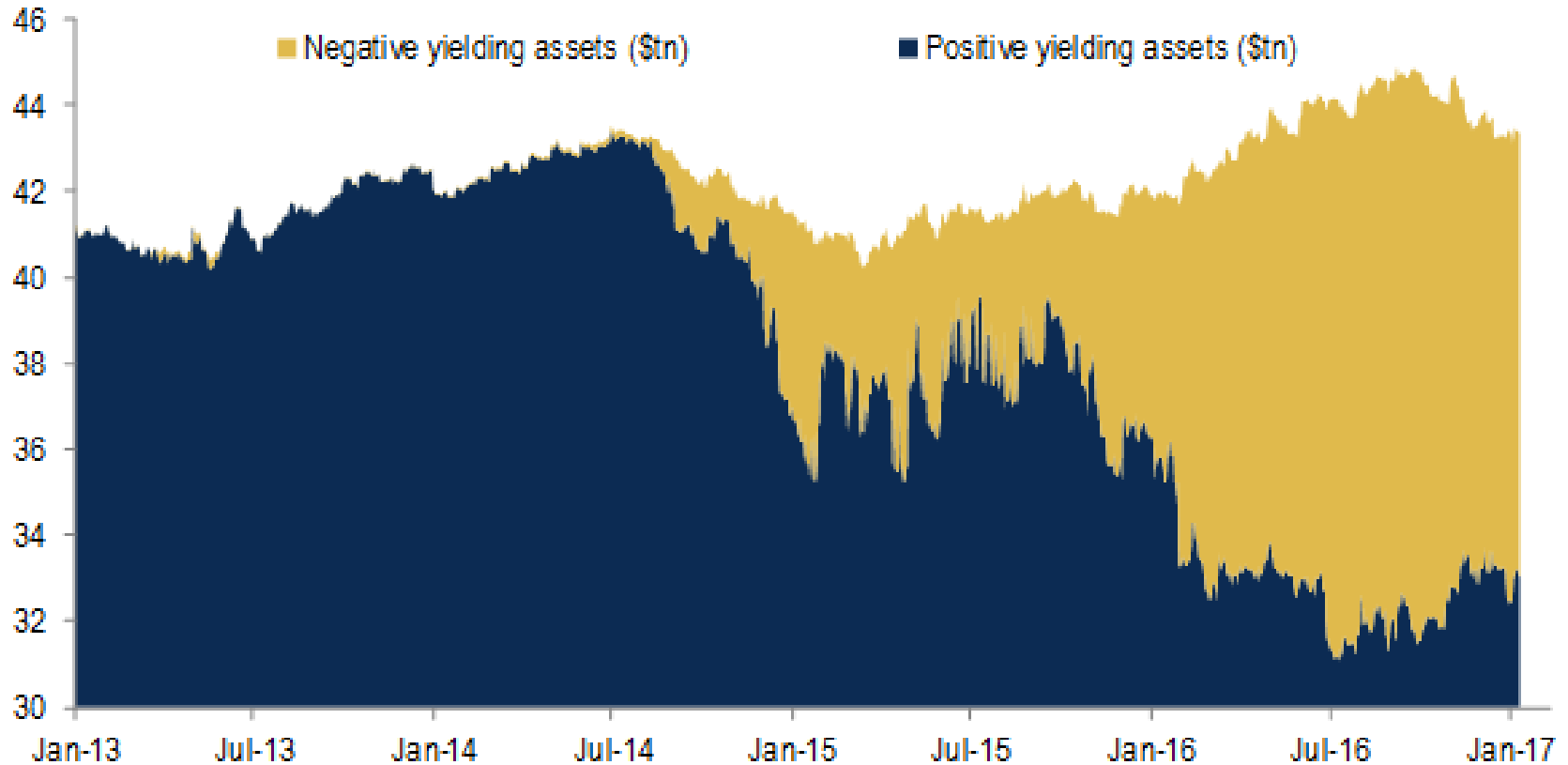
# Global Policy Interest Rates

## Global Policy Rates

Source: Bloomberg



# How Pervasive Are Negative Yields?



Source: BofA

# Which Countries Have Negative Policy Rates?

Inflation

Currency

- Sweden – July 2009, July 2014
- Denmark – July 2012, September 2014
- European Central Bank – June 2014
- Switzerland – December 2014
- Japan – January 2016



# Are Negative Policy Rates A Tax?

- Banks reluctant to pass on negative interest rates to depositors for fear of customer backlash.

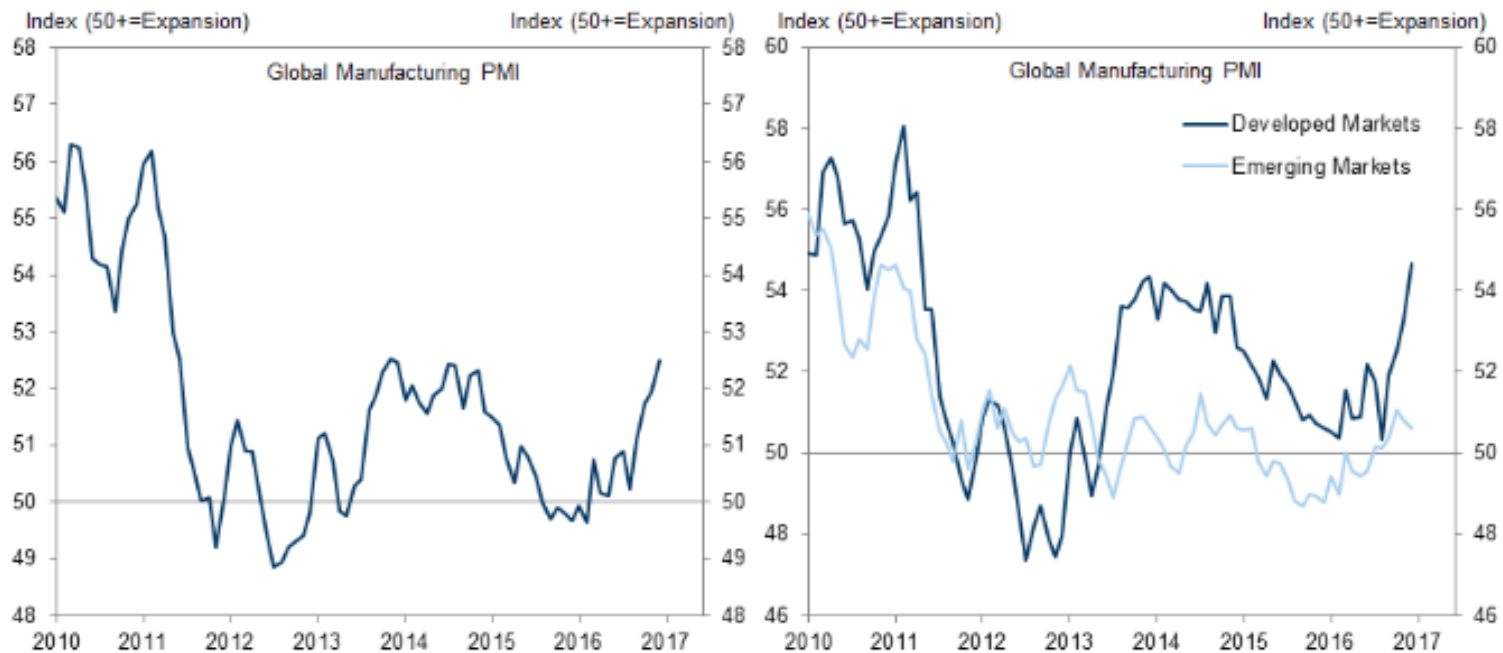
## Deutsche Bank Interest Rates

Time Deposit	up to: 0.15%	Jun, 2016
Savings Accounts	up to: 0.01%	Jun, 2016
Loans	from: 0.89%	Jun, 2016
Home Loans	from: 0.89%	Jun, 2016
Personal Loans	from: 5.25%	Jun, 2016

- Result has been:
  - lower bank profits, and
  - higher (not lower) borrowing costs

# Global Manufacturing, A Positive Growth Shock

Exhibit 1: Global Manufacturing PMI Hits Three-Year High in December



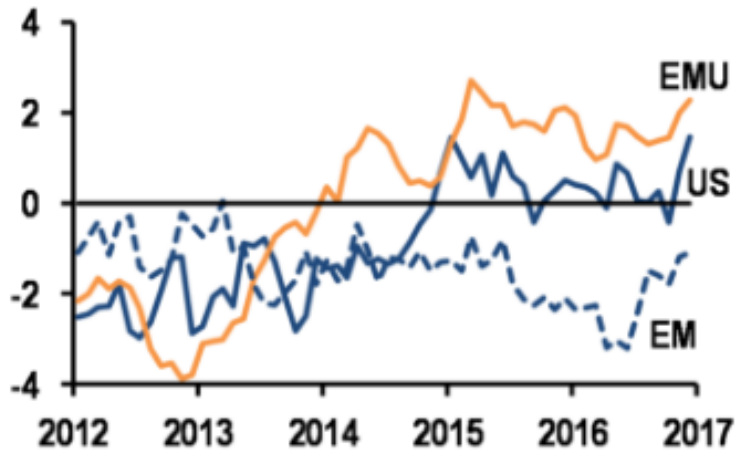
Source: Haver Analytics, Goldman Sachs Global Investment Research

- ***The Global Manufacturing PMIs have reached 3-year highs in December, driven by a sharp uptick in Developed Markets manufacturing surveys.***

# Global Confidence Is Materially Rising

**Figure 1: Global consumer confidence**

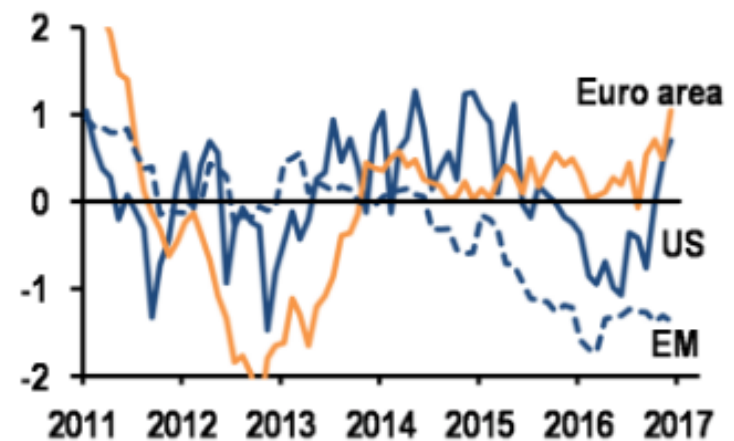
Standard deviation from historical average



Source: J.P. Morgan

**Figure 2: Global business confidence**

Std. dev from historical average



Source: J.P. Morgan

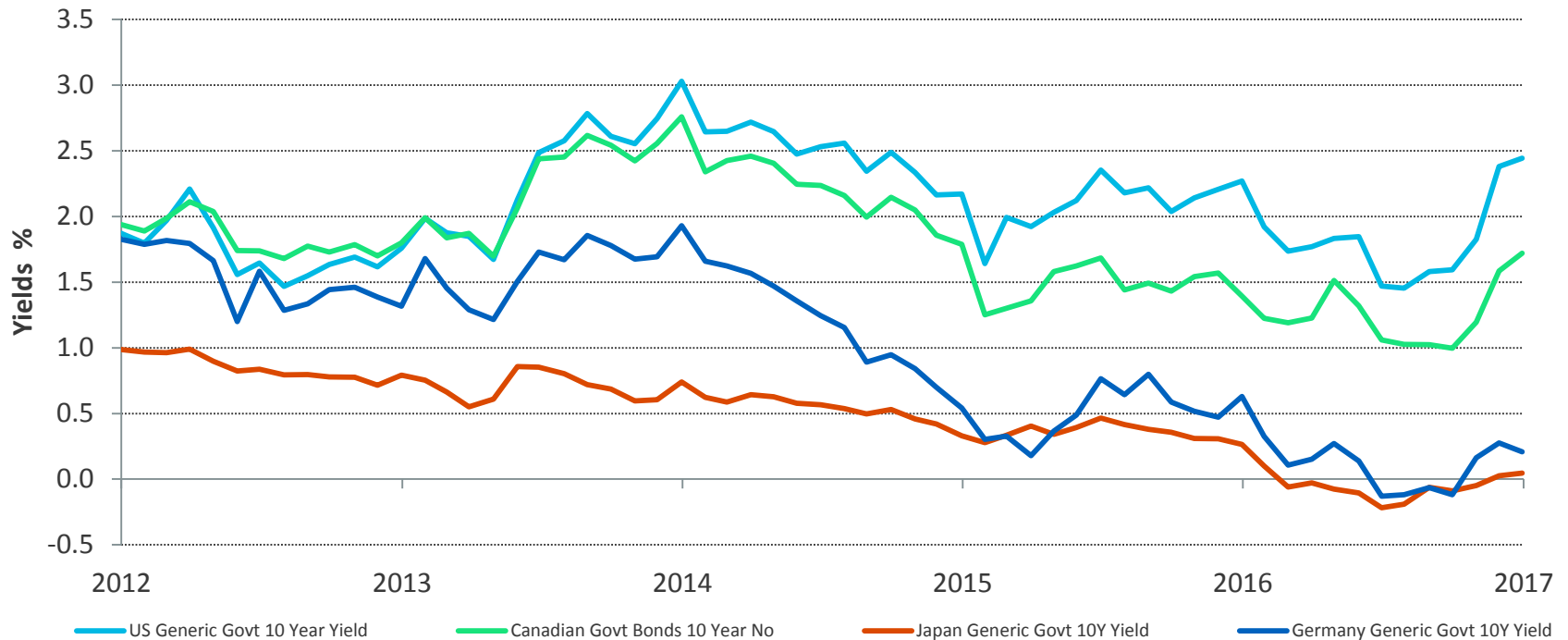
- *Both consumer and business confidence globally has improved significantly in developed market economies over the past year.*



# Global Yields Have Moved Higher

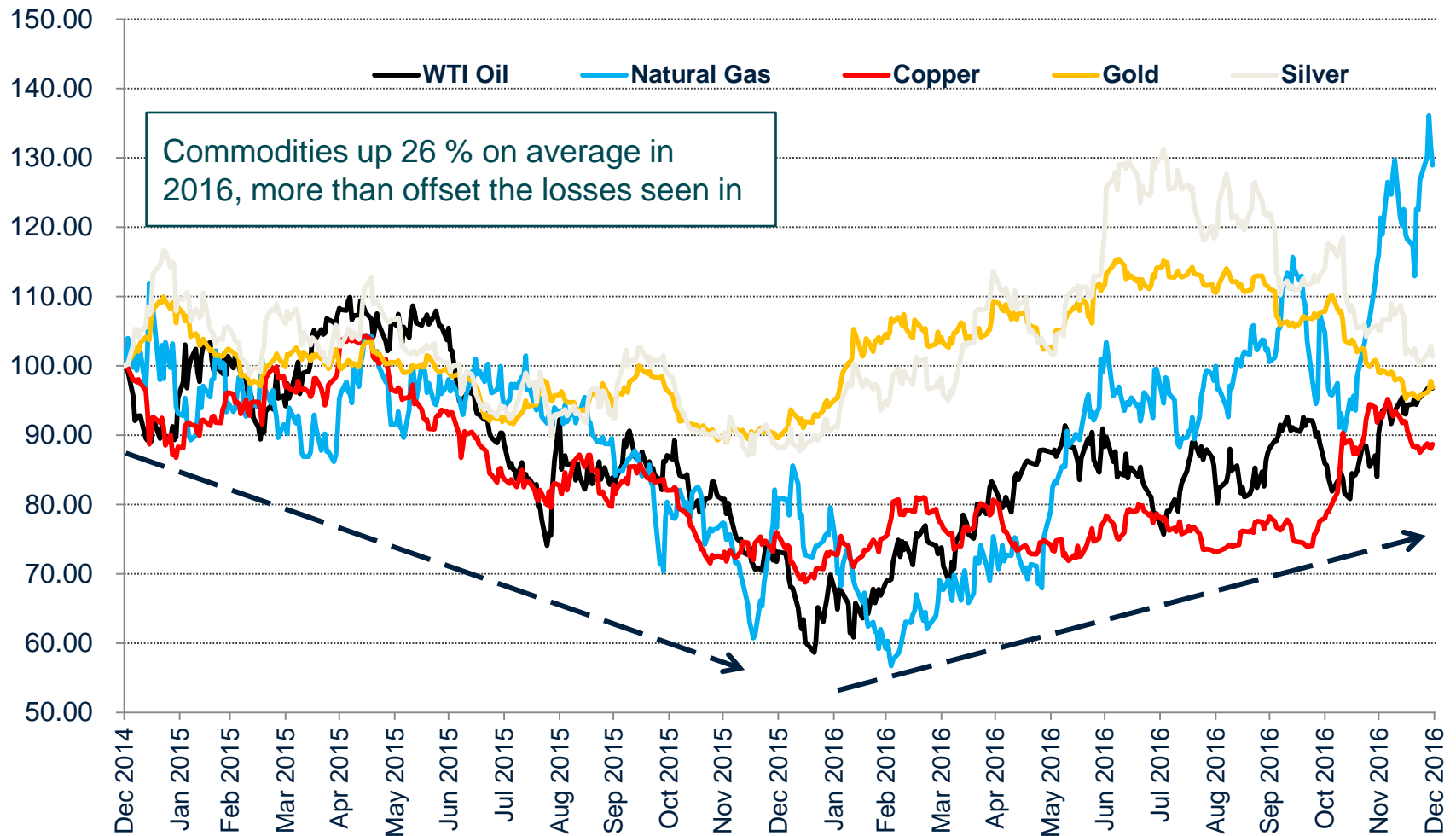
## Global 10 Year Yields

Source: Bloomberg, Leith Wheeler Investment Counsel



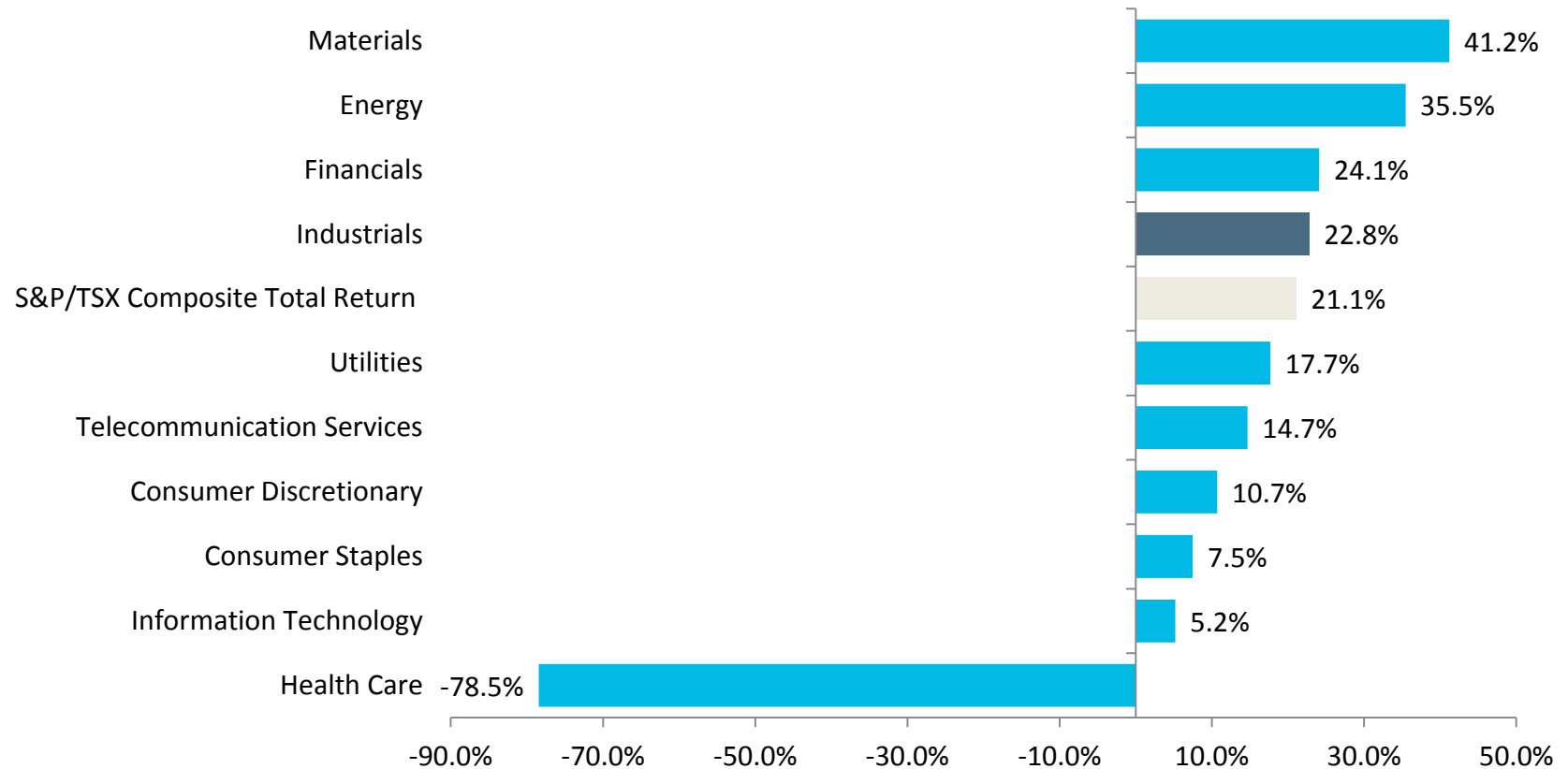
- *Global bond yields have started to rise, led by the United States.*
- *Canada has followed, although yields in Europe and Japan remain extremely low.*

# Commodities Prices Increased During 2016



# S&P/TSX Composite Index Sector Performance – 2016

As of December 31, 2016



Note: Real Estate sector effective September 1, 2016. Performance not available for 12 months

# Rotation Out of Defensive Sectors

<b>Defensive Stocks</b>	<b>2016 H1 Total Return</b>	<b>2016 H2 Total Return</b>
Utilities	+17.3%	+0.3%
Real Estate	+10.6%	-1.4%
Telecom	+14.8%	-0.1%

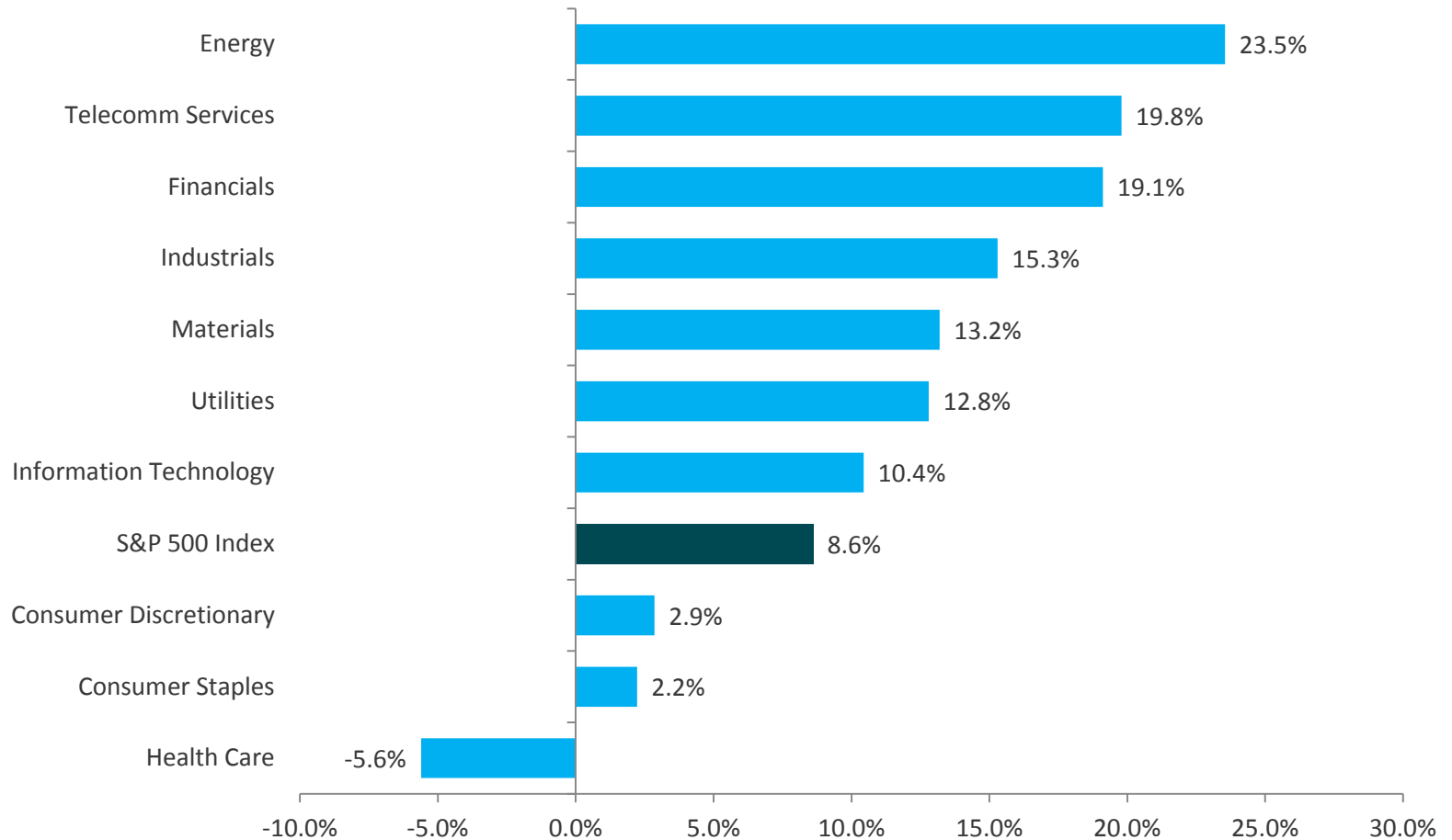
<b>Economically Sensitive</b>	<b>2016 H1 Total Return</b>	<b>2016 H2 Total Return</b>
Info Tech	-5.7%	+11.5%
Banks	+7.9%	+20.7%
Industrials	+5.3%	+16.6%
Cons. Discretionary	+0.1%	+10.6%

<b>TSX Composite</b>	<b>9.8%</b>	<b>10.4%</b>
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*Utilities, Real Estate and Telecom sectors have all been affected by a rotation out of defensive stocks.*

# S&P 500 Sector Performance (C\$) in 2016



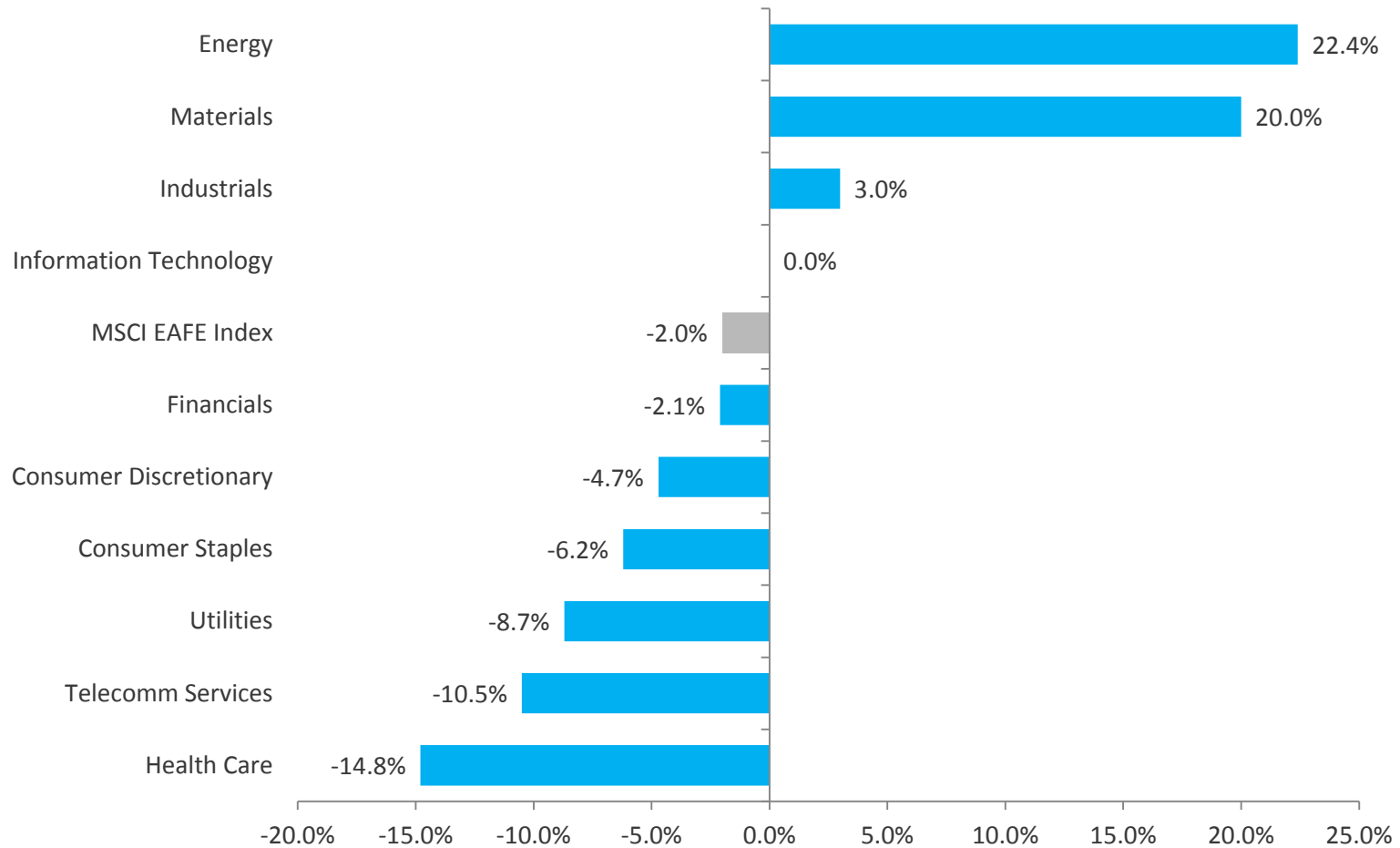
# 2016 Global Market Performance

- After significantly enhancing foreign equity returns in 2015, currency detracted from performance in 2016
- The British Pound fell significantly post-Brexit
- Japan and Europe underperformed during the year
- Emerging markets substantially outperformed developed markets

Stock Market	Local Currency	Canadian Dollars
Canada	20.3%	20.3%
United States	10.9%	7.6%
Pacific (Ex. Japan)	8.3%	4.6%
Japan	-0.7%	-0.7%
United Kingdom	19.2%	-3.1%
Europe (Ex. U.K.)	2.3%	-3.5%
MSCI World	9.0%	4.3%
Emerging Markets	9.7%	7.9%

\* Source: MSCI Developed & Emerging Market Indices

# MSCI EAFE Sector Performance (C\$) in 2016



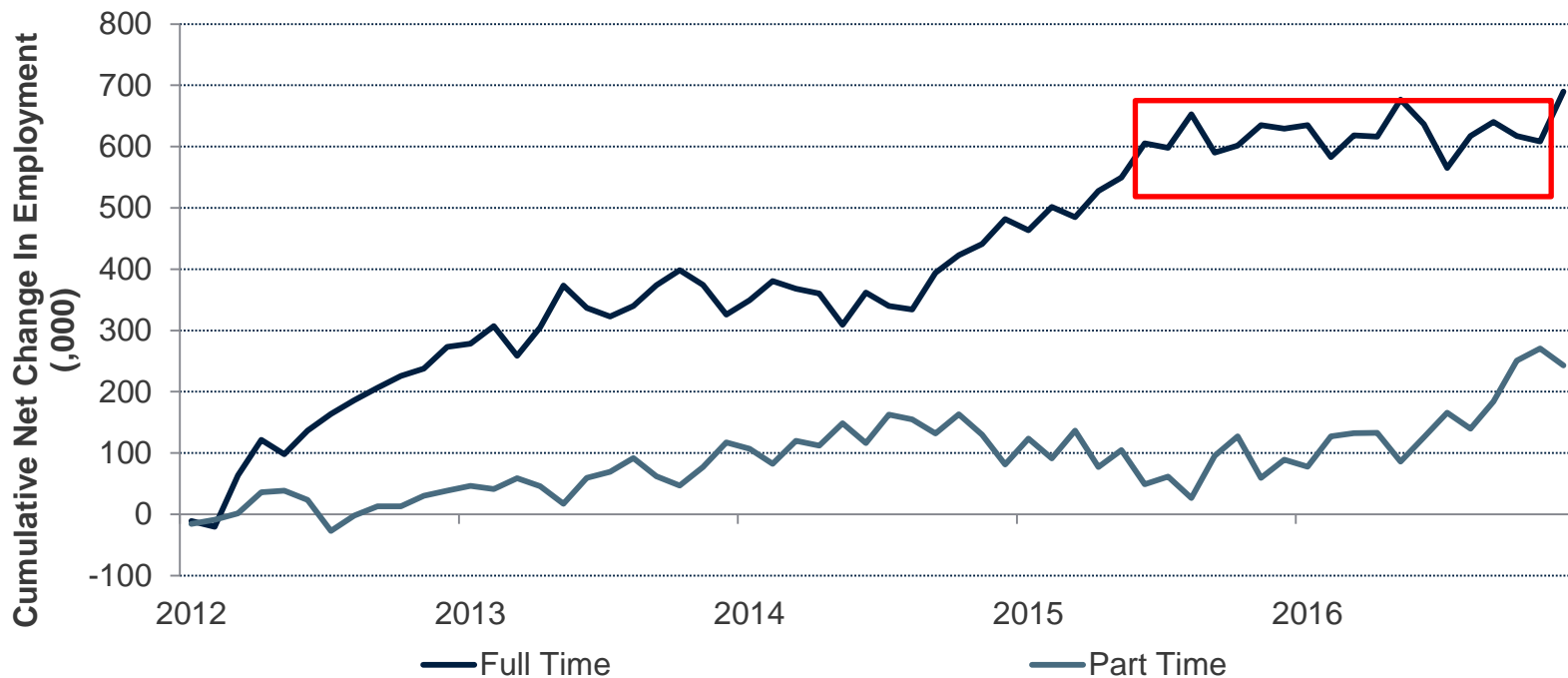
- **Our Outlook  
for the Next  
3-5 Years**
-



# Canada Full-Time Job Growth Has Been Limited

## Cumulative Net Change In Employment

Source: Stat Canada

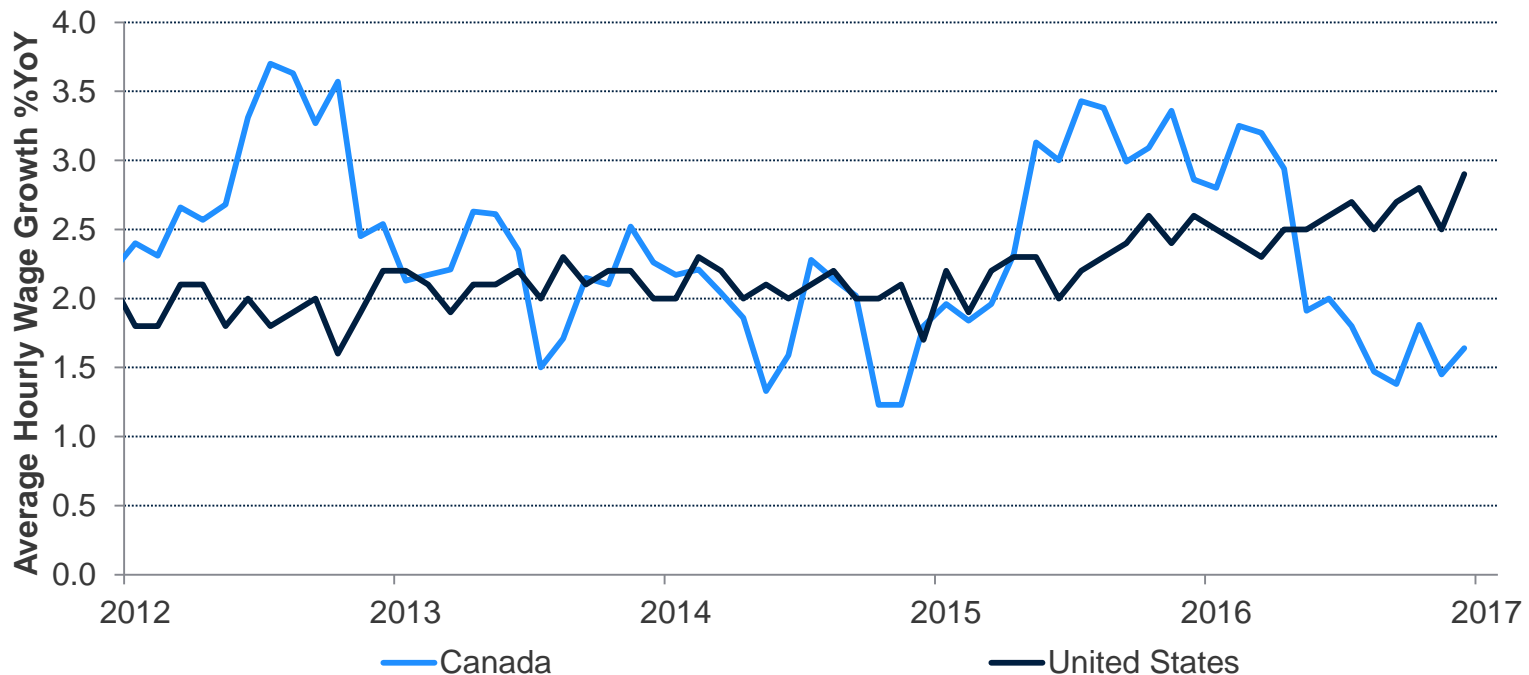


- Limited growth in full-time jobs (excluding one strong report last month) suggests that slack remains in the labor market and wage pressures are likely to remain limited for Canada in 2017.**

# Weaker Employment Growth Has Constrained Canadian Wage Gains

## Average Hourly Wage Growth

Source: Stat Canada, Bureau Of Labor Statistics

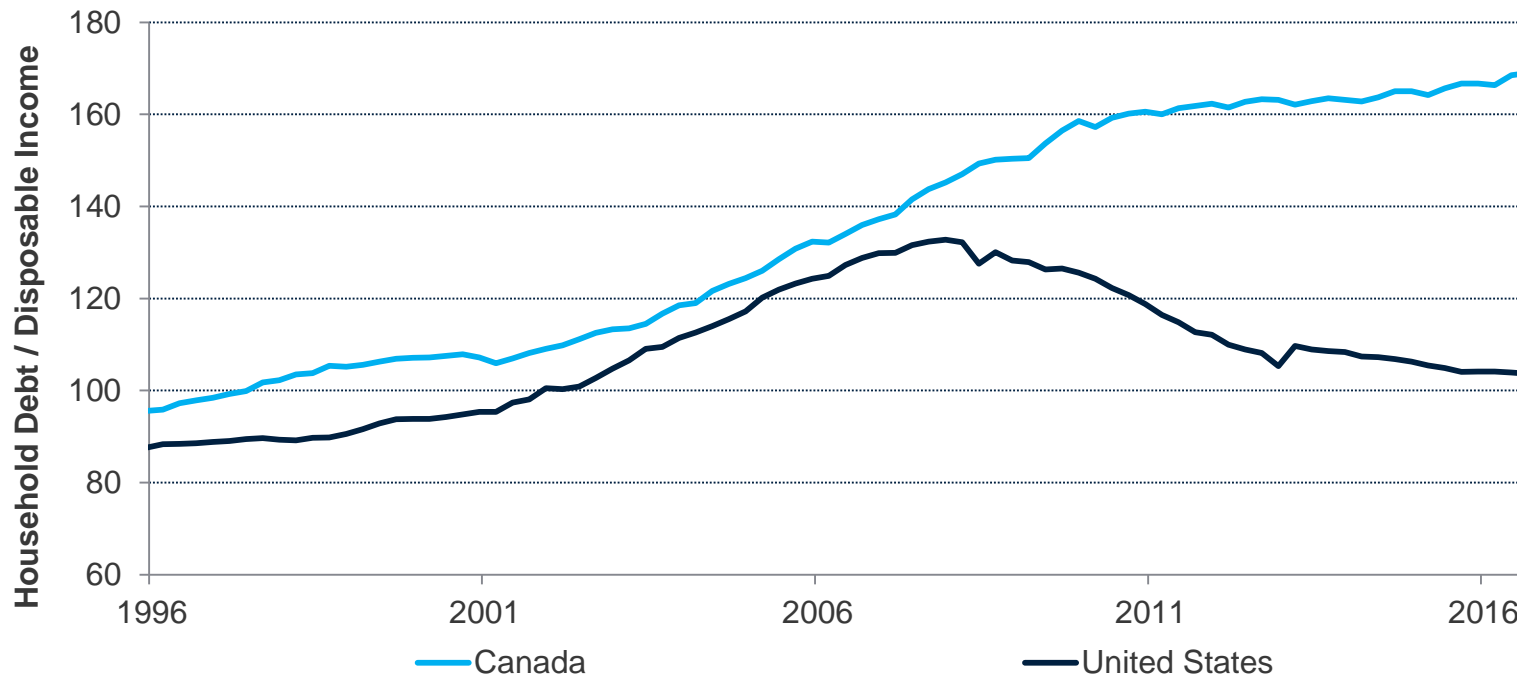


- **Canadian average hourly earnings growth remains weak due to the rotation of from higher-paying energy sector jobs. This is in stark contrast to emerging tightness in US jobs data.**

# Canada Hasn't Deleveraged

## Household Debt to Disposable Income

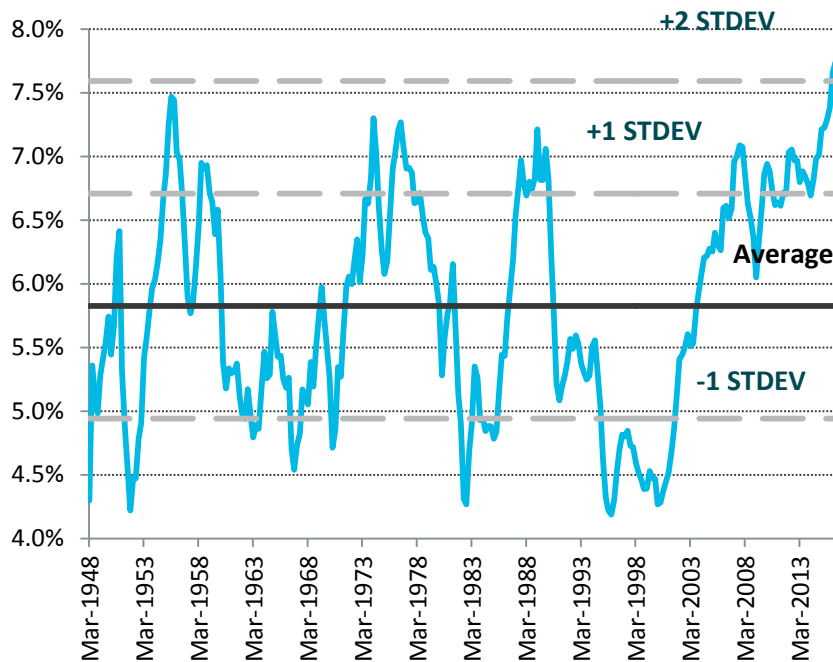
Source: Bloomberg, Bank Of Canada



- ***U.S. households materially delevered following 2008. Canadian household leverage, by contrast, has continued to increase and will provide a headwind to future consumption-led growth.***

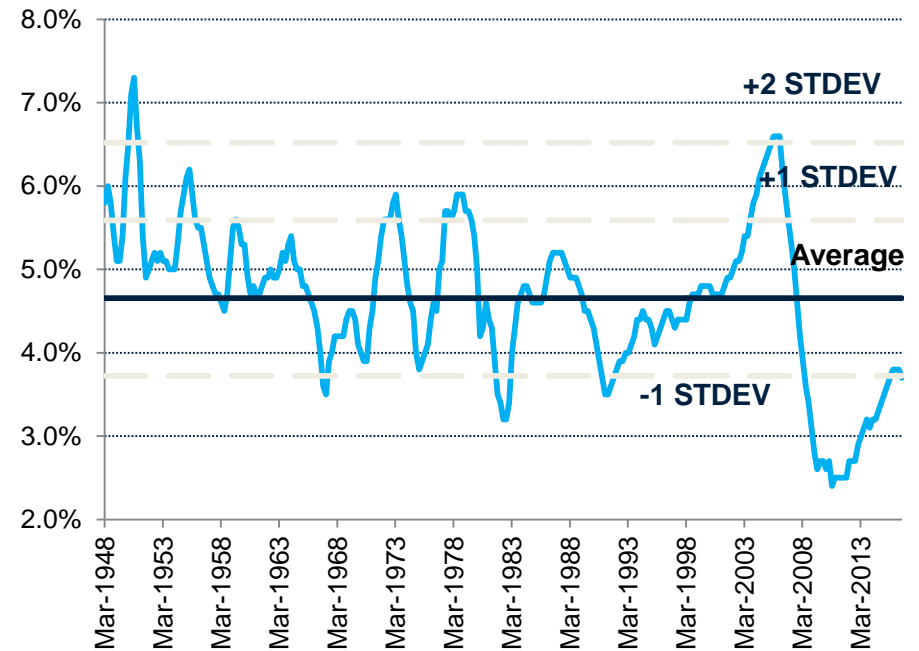
# Growth Overly Reliant On Residential Investment

Canada Residential Investment as Share of GDP



— Canada Nominal Residential Investment Share of Nominal GDP

US Residential Investment as Share of GDP



— US Residential Investment Share of GDP

- ***The Canadian economy has become increasingly dependent on residential investment and as a share of GDP and is now at extreme levels versus the long term average.***

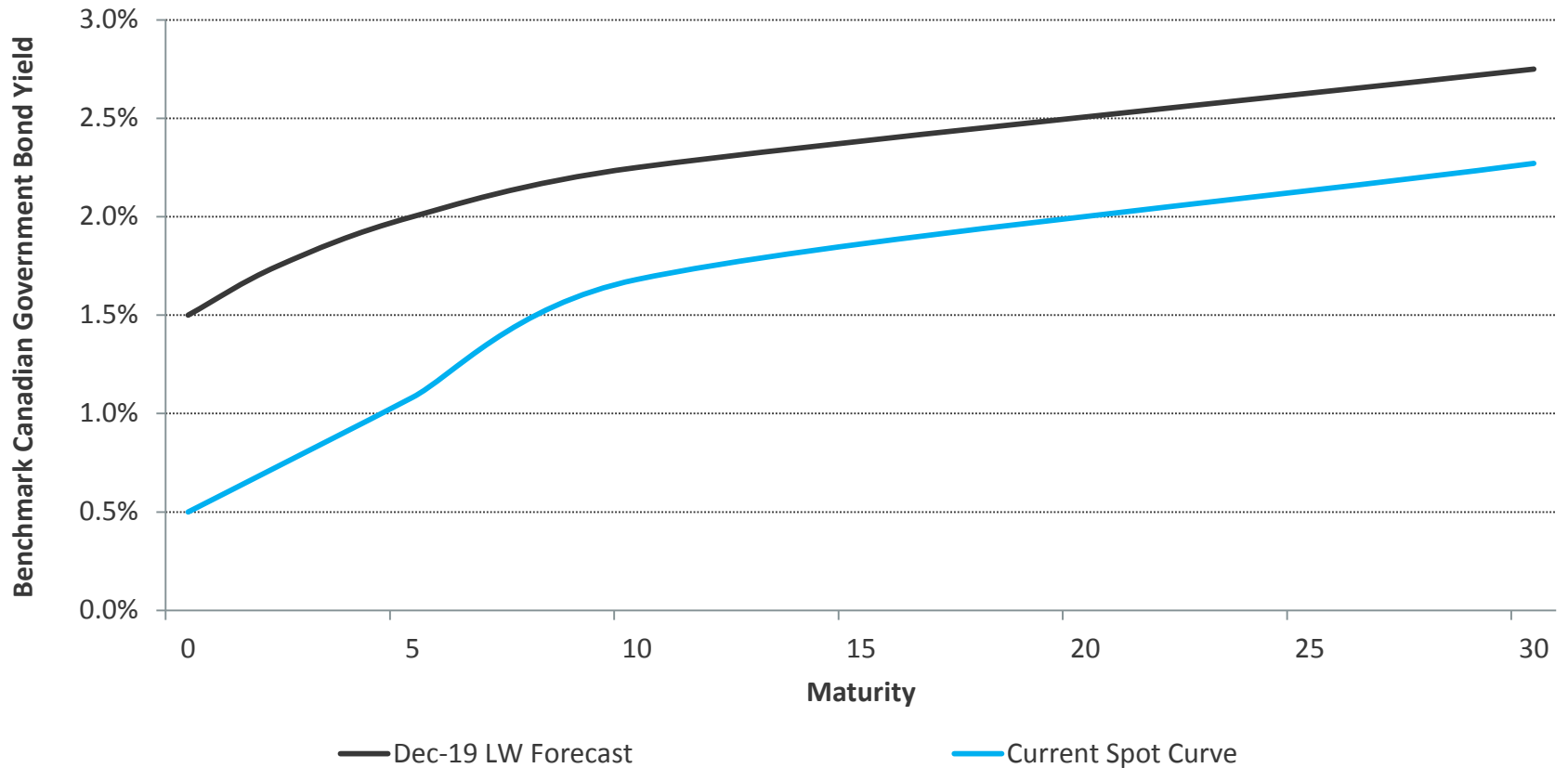
# Where Do Interest Rates Go From Here?

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- The surprise result in the US election has led to a belief that Trump's policies will lift US inflation and growth
- Our view is that the US Federal Reserve will likely continue to increase interest rates at a measured pace (they have communicated three rate hikes this year)
- The path for the Bank of Canada is less clear as the Canadian Economy continues to deal with the fallout from lower commodity prices, an inflated housing market/indebted consumer and a disappointing recovery in exports
- We continue to believe that interest rates will trend higher but at a very gradual rate over the next several years

# Canada

## Long Term Yield Curve Forecast



# Themes Looking Forward

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## Low interest rates remain

- Last 10 years have seen unprecedented monetary policy rates
- Fed has started to increase interest rates, accompanied by strong dollar

## Global GDP growth is improved but not robust

- US economy is recovering gradually with low unemployment
  - Canadian economic growth is a concern
    - Consumer debt
    - Housing
    - US policy proposal impacting Canadian exports
  - Europe several years behind US economic recovery
  - China has stable GDP growth at 6.7%
    - Steady retail sales growth
    - Capital investment has slowed
    - Modest risk in trade deficit in 2017
  - Developing markets are struggling with weak productions and challenging demographics
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# Market Concerns

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Brexit

US policy

- Impact on global trade
- Tax cuts/deficits
- Infrastructure spending
- Political instability

Other?



# Long Term Asset Class Returns

## Investment Results (Growth of \$100 from December 1949 to December 2016)

Value of \$100  
(Annualized  
Rate of Return)

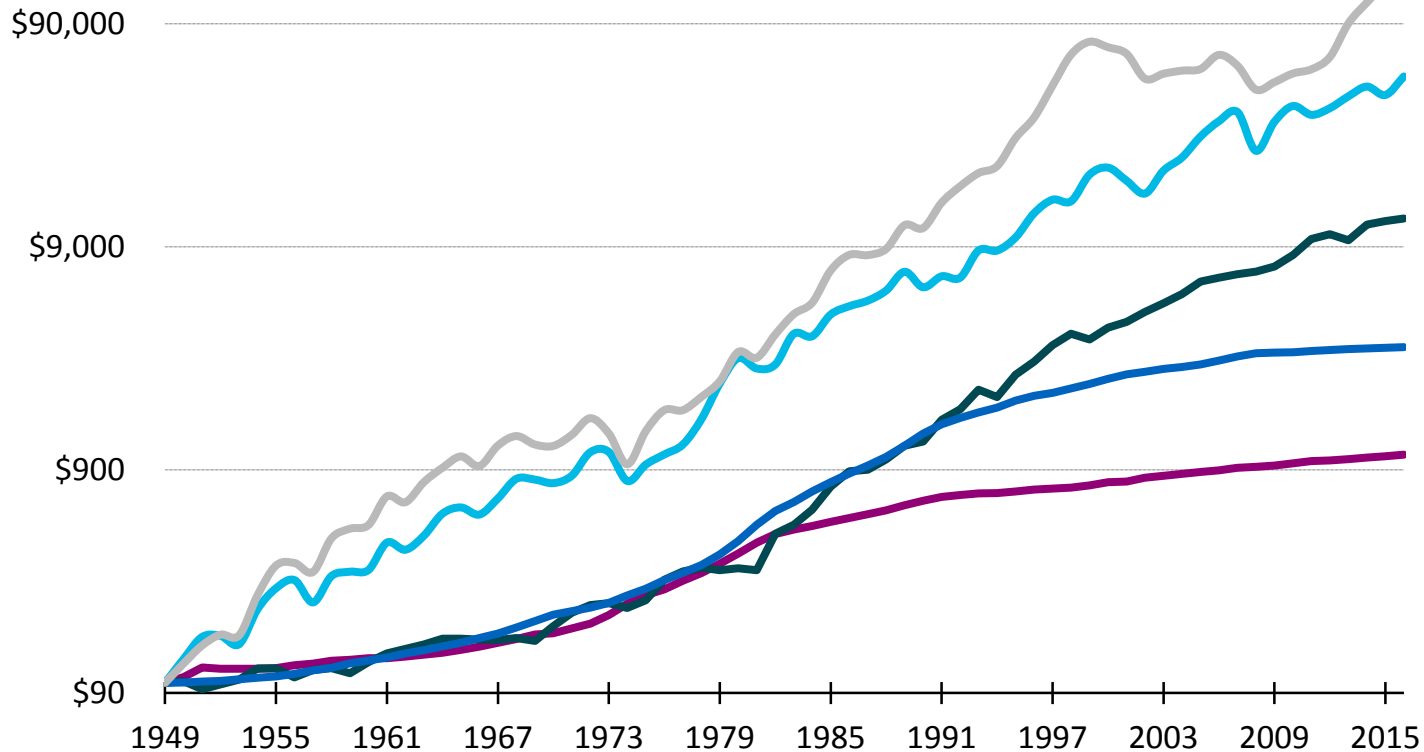
**US Equities in \$C:**  
\$147,354 (11.5%)

**Canada  
Equities:**  
\$52,300 (9.8%)

**Bonds:**  
\$12,050 (7.4%)

**T-Bills:**  
\$3,197 (5.3%)

**Inflation**  
\$1,054 (3.6%)



# 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 with low unemployment
- High levels of Canadian debt

## Strength and Recovery

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

## Return Potential

- Bond returns look like they will be 1-2% p.a.
- Equity returns in Canada and the U.S. around 5-6% p.a.

# 2017 UBC Faculty Pension Plan Forum



- Wednesday, May 10, 2017
- Commons Block Ballroom, Marine Drive Residence
- 2205 Lower Mall
- 10:00 a.m. to 1:00 p.m.
- More information will be forthcoming

# 2017 UBC Faculty Pension Plan Forum



Presentation begins at 10:30 a.m.

- Plan performance in 2016
- Review 2016 and 2017 Initiatives

Information Tables & Guest Exhibitors – 11:45 a.m. to 1:00 p.m.

- New to the Plan table
- Retirement
- UBC Retirement & Survivor Benefits
- Faculty Relations
- EFAP
- Association of Professors Emeriti

**Thank you!**



**Questions?**

# APPENDIX





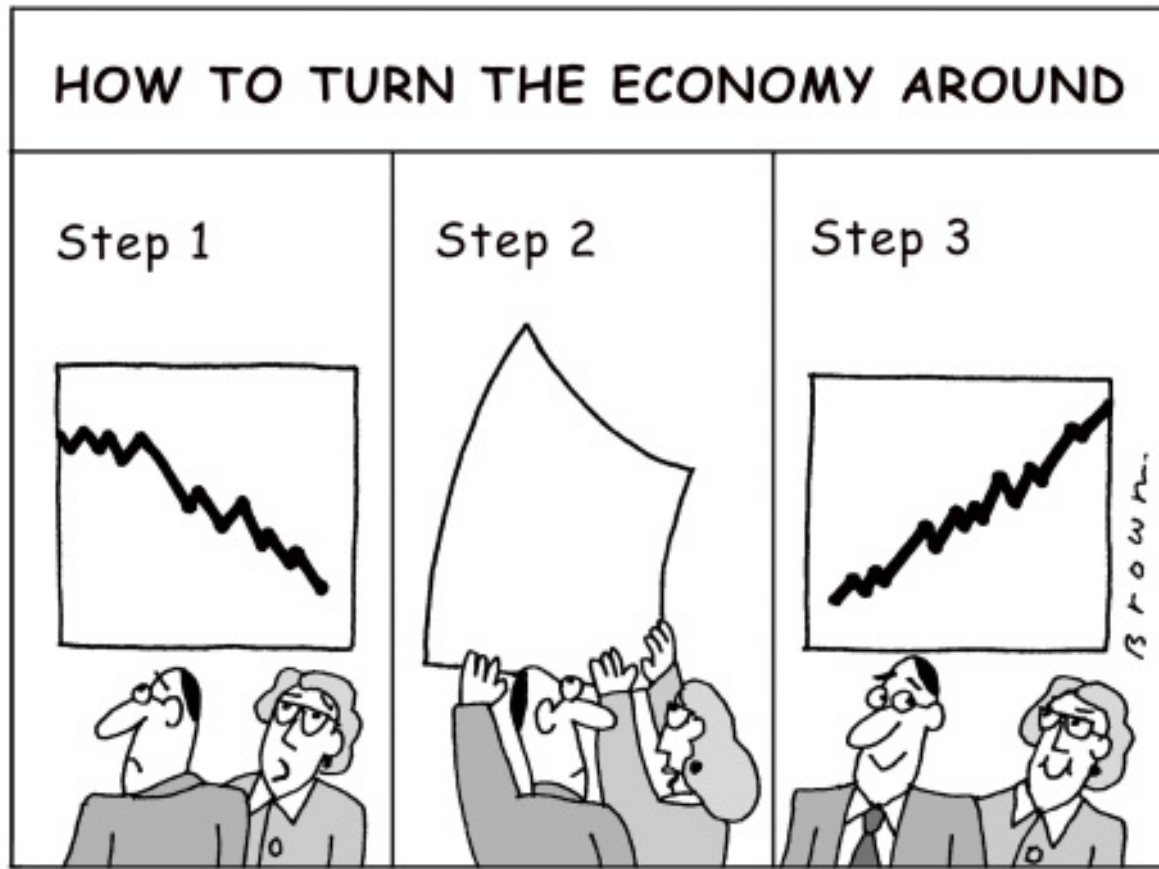
# Asset Class Winners and Losers

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Highest</b>	14.2	33.9	28.3	39.2	37.7	31.7	13.7	8.8	11.3	26.7	14.5	24.1	26.3	9.8	6.2	35.1	20.6	18.8	14.8	48.4	24.0	21.0	21.1
	7.4	26.3	23.4	27.7	28.5	19.7	7.4	5.7	2.5	20.5	12.0	14.0	18.3	4.4	3.3	14.4	17.6	4.4	13.8	41.5	17.9	18.3	17.7
	5.4	25.0	17.5	18.6	15.0	14.3	5.5	4.7	-7.1	13.4	10.2	10.4	17.3	4.4	-15.6	12.6	12.1	1.0	13.5	31.3	14.4	14.0	8.6
	4.0	19.9	16.9	16.2	13.4	14.1	3.4	-3.7	-12.4	12.4	10.2	10.0	15.7	0.9	-17.9	8.7	9.5	1.0	8.3	14.8	11.4	6.0	7.2
	1.8	14.5	14.1	15.0	4.7	12.8	0.8	-6.5	-16.6	8.0	9.0	2.6	13.0	-5.7	-21.9	8.1	9.3	-2.0	7.2	13.0	10.6	4.5	1.3
	-0.2	8.2	6.4	6.2	4.4	4.7	-5.5	-12.6	-21.1	5.3	3.3	1.6	4.0	-10.5	-29.8	1.2	2.4	-8.7	4.0	1.0	3.7	0.6	0.5
<b>Lowest</b>	-7.8	7.4	5.0	3.2	-1.6	-6.2	-10.8	-16.6	-22.7	2.9	2.3	1.3	3.9	-16.5	-33.0	0.6	0.5	-10.2	1.0	-7.0	0.9	-8.3	-2.0

Small Cap: Russell 2000 (C\$)	Large Cap: S&P 500 (C\$)	Large Cap: TSX Composite	International: MSCI EAFE - Net (C\$)	Long Term Gov't Bonds: FTSE TMX Canada Long Gov't	Treasury: 91 Day T-Bills	Diversified
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\* Diversified: 25% TSX Composite, 20% S&P 500 (C\$), 15% MSCI EAFE – Net (C\$), 40% FTSE TMX Canada Universe Bond Index

# Summary





# Performance Disclaimer

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Investment performance returns are presented before investment management fees, but after the deduction of brokerage commissions. Returns are calculated on a time weighted, total return basis which includes all dividends (except non-cash stock dividends), interest, and realized and unrealized gains and losses after the deduction of applicable withholding taxes. Past performance is not an indicator of future results.

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a place of mind  
THE UNIVERSITY OF BRITISH COLUMBIA

THE UNIVERSITY OF BRITISH COLUMBIA