

# UBC FACULTY PENSION PLAN PENSION FORUM

**MR. JOOST BLOM, CHAIR, BOARD OF TRUSTEES**  
**MS. ORLA COUSINEAU, EXECUTIVE DIRECTOR, PENSIONS**  
**MR. MIKE LESLIE, EXECUTIVE DIRECTOR, INVESTMENTS**  
**MAY 15, 2019**



# Agenda

- **Welcome by Chair**
- **2019 Board Initiatives and Projects**
- **Plan's Financial and Membership Update**
- **Investment Review for 2018 and First Quarter 2019**
- **ESG Investing and the FPP**
- **Questions**



# Role of the Board

- Board is responsible for oversight of the Plan
- Board reviews and amends the fund options' asset mixes, as appropriate
- Board selects and monitors the investment managers and the investment options available under the Plan
- Fiduciary duties: prudence and best interests of the Plan members and beneficiaries.



# 2019 Board Initiatives and Projects

- Implementing changes to the asset mixes (Balanced & Bond Funds) from the recent Asset Mix Review
- Follow-up to Member survey results regarding a potential Fossil Fuel Free fund (“FFF”) option
- Continued oversight of Plan’s investment managers
- Member awareness and education about the benefits of the Plan, and the flexible retirement income options



# Potential Fossil Fuel Free Balanced Fund Option

- Survey in February 2019 to assess level of member interest and commitment to new potential FFF fund option
- 921 (15.5%) members responded to survey
- 565 (61.3%) members expressed interest; 356 (38.7%) members are not interested
- Sufficient interest for Board to further investigate whether a new FFF fund option can be offered



# Next Steps

- Define the parameters of a FFF Fund
- Ensure a FFF Fund option would be compatible with Board's legal duties
- Review operational requirements
- If above steps are satisfactorily completed, a manager search would be performed
- New FFF Balanced Fund option could be available within 12 months if all conditions are met



# Board of Trustees

## **Mr. Joost Blom, Chair**

Professor Emeritus, Peter A.  
Allard School of Law

## **Dr. Robert Heinkel, Vice- Chair**

Professor, Sauder School of  
Business

## **Dr. Joy Begley**

Associate Professor, Sauder  
School of Business

## **Dr. Joyce Boon**

Associate Professor Emerita,  
Biology, UBCO

## **Dr. Ken Carty**

Professor Emeritus, Political  
Science

## **Dr. Murray Carlson**

Professor, Sauder School of  
Business

## **Dr. Lorenzo Garlappi**

Associate Professor, Sauder  
School of Business

## **Mr. Vijay Verma**

Researcher Emeritus, TRIUMF





# Financial and Membership Update

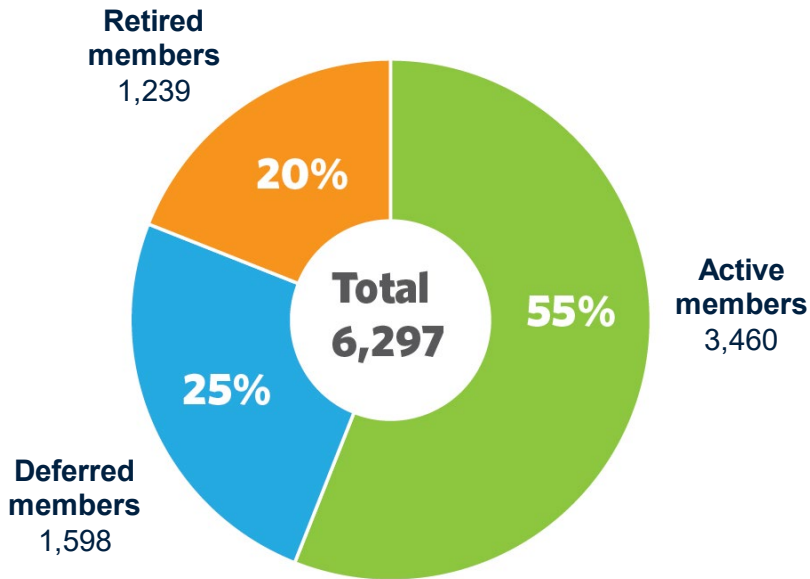
**Orla Cousineau**  
Executive Director, Pensions



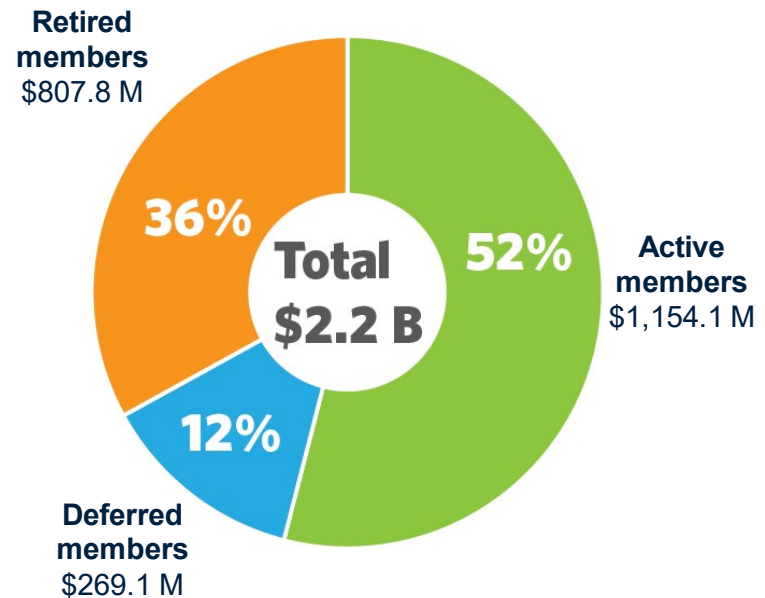
# Plan Statistics December 31, 2018



## Total Plan Membership

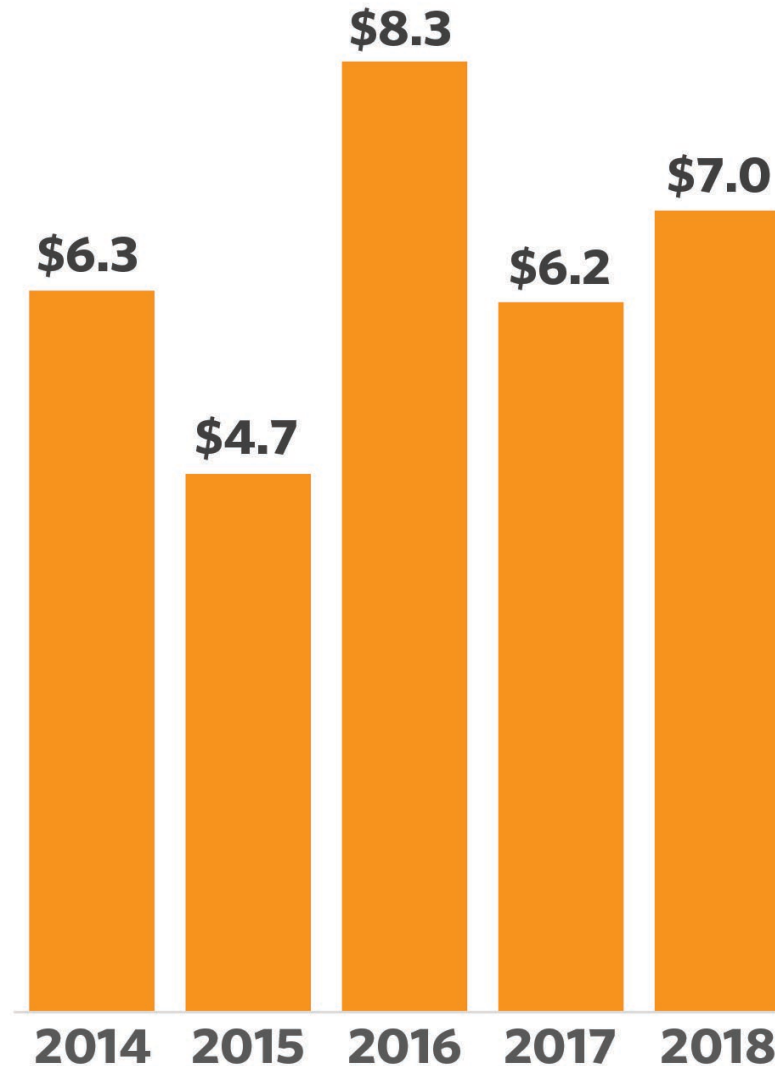


## Plan Assets



# Total Transfers into the Plan\*

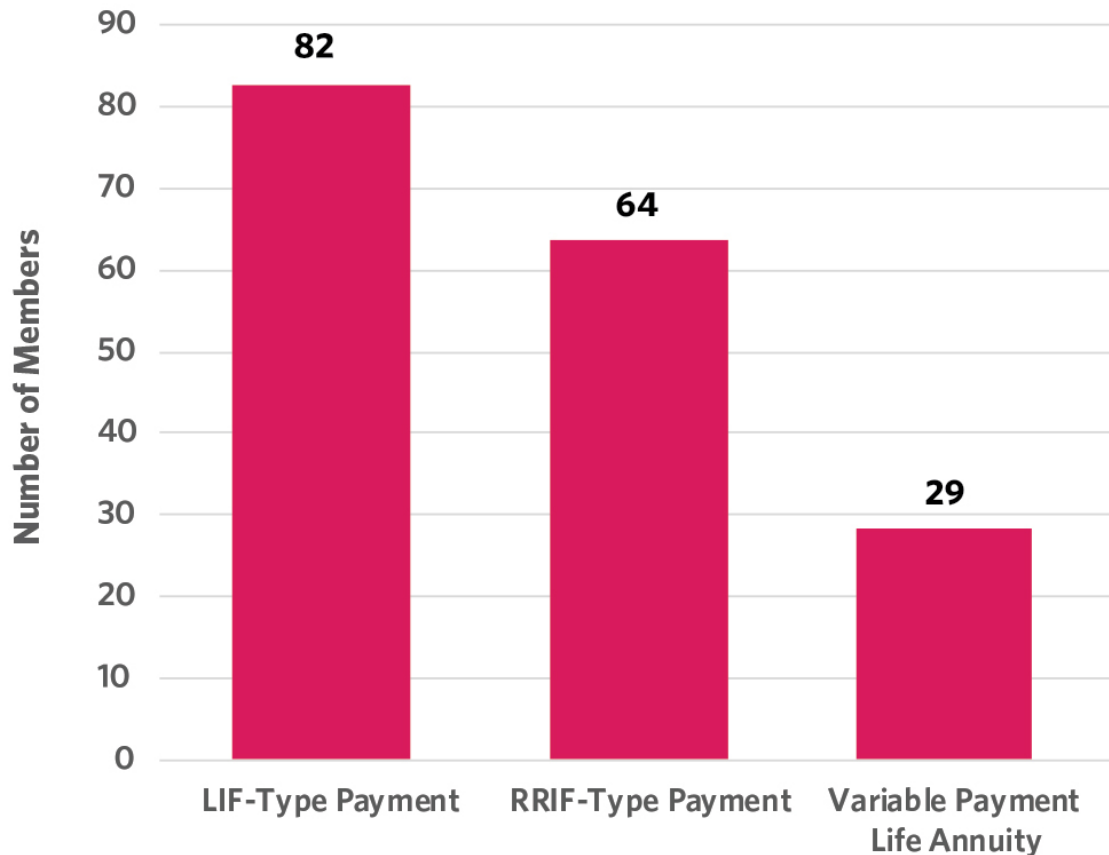
(\$millions)



\*Registered money only



# Pensions Started in 2018



Total assets transferred to retirement income within the Plan **\$105.4 M**

Percentage of member assets that stayed in the Plan for retiring members **75%**



# Sun Life

- Recordkeeper and custodian of the Plan
- Co-administration of the Plan by Sun Life and Pension Administration Office (PAO)
- Board is responsible for oversight of Sun Life and UBC PAO
- Sun Life's website for the Plan provides you with online access to your pension account



# UBC PAO Member Services

- In person assistance
- One on one meetings
- 9 workshops during 2018
- 2 newsletters, and the topics covered included:
  - importance of beneficiary designation
  - options at retirement
  - new Retirement Guide available
  - My Sun Life mobile app – access to account details
  - ESG investing and member survey



# Board of Trustees Election

- Election for 2 Trustees in Fall 2019
- Four year term from January 1, 2020 to December 31, 2023
- Nomination packages will be available in September 2019
- For more information on the process, contact Orla Cousineau





# Investment Review of 2018

**Mike Leslie**

Executive Director, Investments

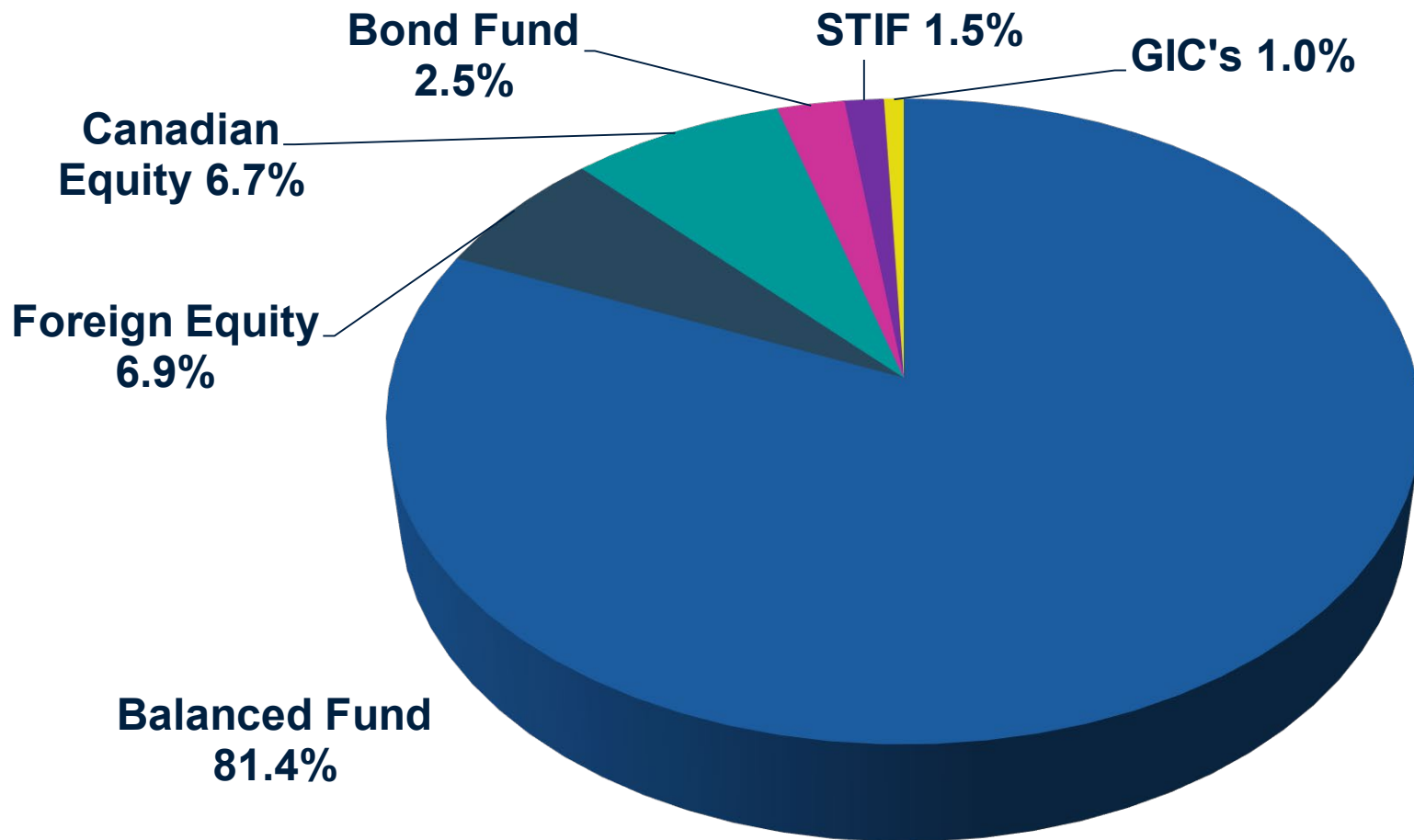
# Agenda

- Plan – Fund Weightings & Asset Mix
- Setting Plan’s Asset Mix
- Fund options – Asset Mix Changes
- Fund Returns
- Investment Market Update
- ESG Investing with the FPP





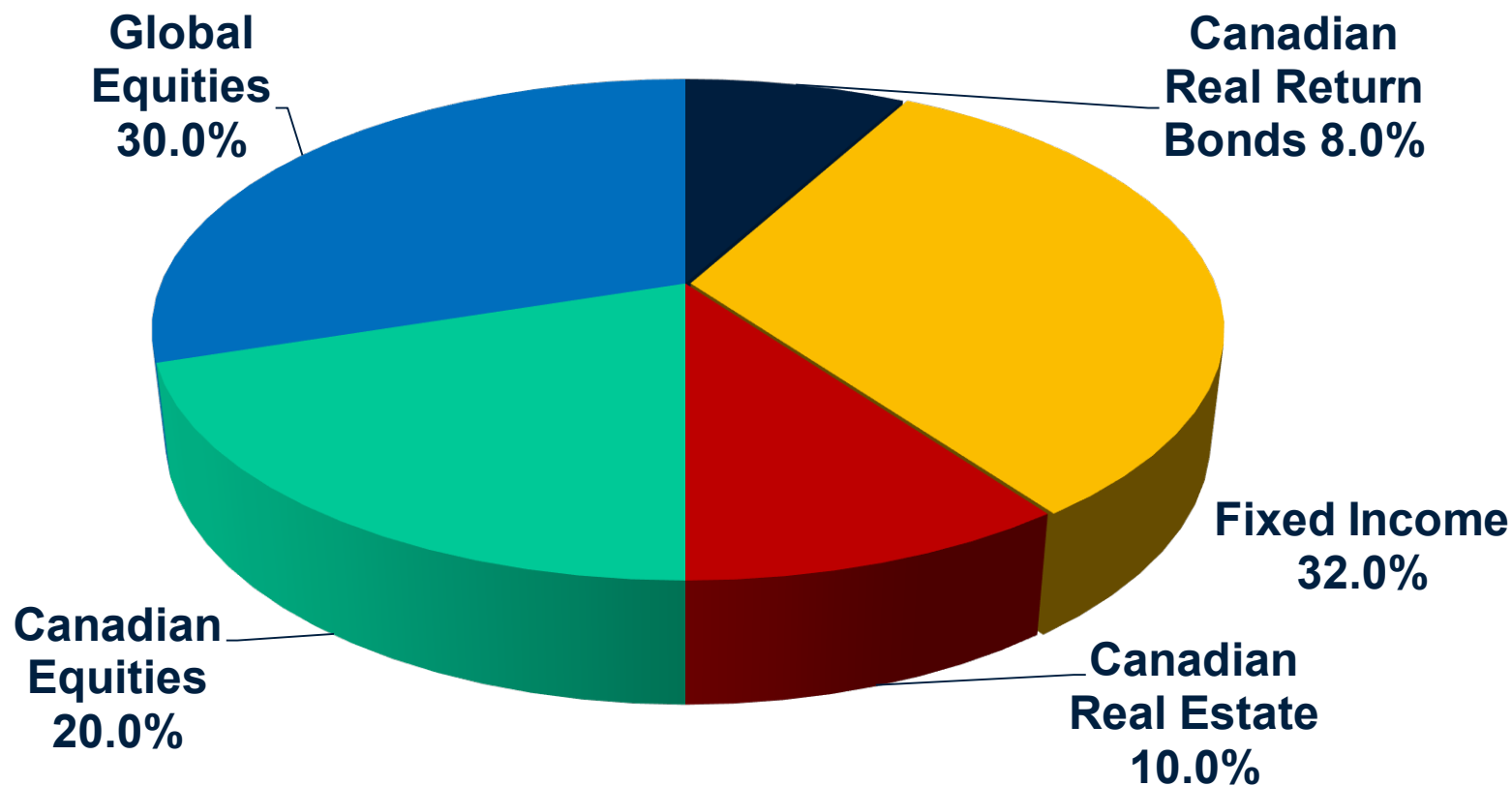
# Plan's Fund Weightings as of December 31, 2018



\*Total Assets \$2.2 Billion



# Balanced Fund – Policy Asset Mix



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

# Setting Balanced Fund Asset Mix

## Plan's Investment Objectives:

- A. Earn a return so “typical” member can achieve a >50% income replacement ratio (“IRR”) of final salary
  - “typical” = 30 years invested in Balanced Fund, retires at 65
  
- B. Mitigate the probability of a negative annualized 3-year return.

IRR – percentage of final monthly (or annual) income that the member's accumulated assets could replicate at retirement based on a 5.5% rate



# Pending Asset Mix Changes

## 1. Balanced Fund Option

1. remove the Real Return Bonds (8%)
2. proceeds from #1 to Universe Bonds
3. new Foreign Real Estate mandate of 5%
4. decrease Cdn equity by 5% (to 15%)

New Asset Mix:

Bonds 40%, Cdn equity 15%, Foreign equity 30%, Real Estate 15% (10% Cdn, 5% Foreign)



# Pending Asset Mix Changes

## 2. Bond Fund Option

1. remove the Real Return Bonds (20%)
2. proceeds from #1 to Universe Bonds

New Asset Mix:

Universe Bonds 47%, Core Plus Bonds 53%



# Key Themes In 2018

- First major annual correction in stock markets since 2008
- Global economic growth weakened in most regions
- Concerns remain; ongoing trade wars, slowing Chinese growth, geopolitical tensions, Brexit, increasing interest rates
- Canada – stock market down 10.1% in Q4/18 as price of oil dropped 38%
- Bond returns continued low (1.4%) in 2018
- Bank of Canada raised rates to 1.75% in Q4, highest rate in almost 10 years



# 2018 Fund Returns / Peer Rankings

Fund	Returns (%)			Return Ranking (percentile)*		Risk** Ranking (percentile)*
	1 Yr	5 Yr	10 Yr	1 Year	10 Years	4 Years
Balanced	-0.4	6.5	8.1	2 <sup>nd</sup>	48 <sup>th</sup>	65 <sup>th</sup>
Bond	1.0	3.8	4.8	87 <sup>th</sup>	30 <sup>th</sup>	6 <sup>th</sup>
Canadian Equity	-9.0	4.7	9.1	71 <sup>st</sup>	32 <sup>nd</sup>	30 <sup>th</sup>
Foreign Equity	1.0	10.9	11.9	27 <sup>th</sup>	26 <sup>th</sup>	42 <sup>nd</sup>
Short Term	1.5	1.0	1.0	54 <sup>th</sup>	49 <sup>th</sup>	N/A

Gross returns to Dec. 31/18

\* 1<sup>st</sup> percentile – highest ranking best performance, 100<sup>th</sup> percentile – lowest ranking

\*\* Risk - as measured by annual standard deviation of returns

- a lower ranking number (say 80<sup>th</sup> percentile) means less risky

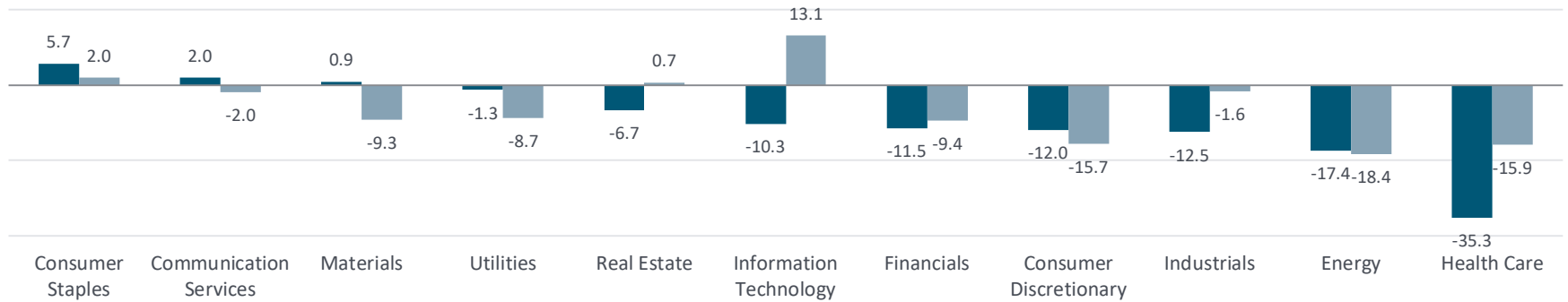


# Market Overview

Fourth Quarter 2018

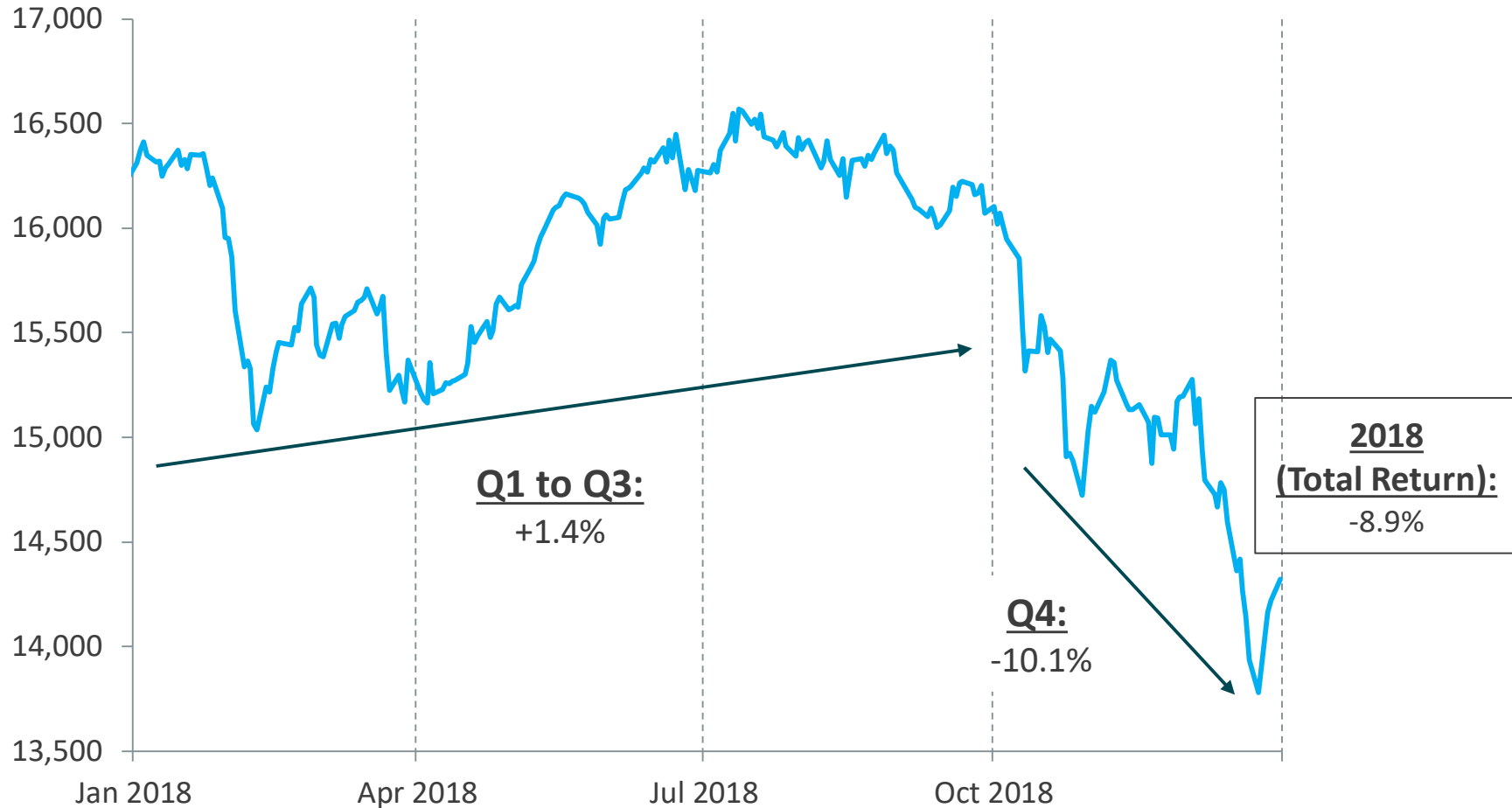
Canadian Equity performance (%) (CAD) as of 31-Dec-18

■ Fourth quarter 2018 ■ One year





# Weakness in Q4 dragged down returns for the year

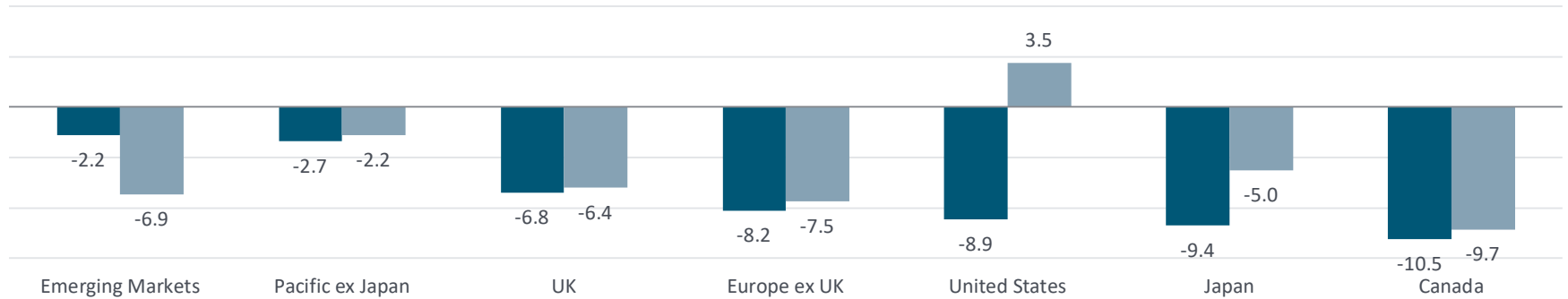


# Market Overview

Fourth Quarter 2018

Global Equity performance (%) (CAD) as of 31-Dec-18

■ Fourth quarter 2018 ■ One year



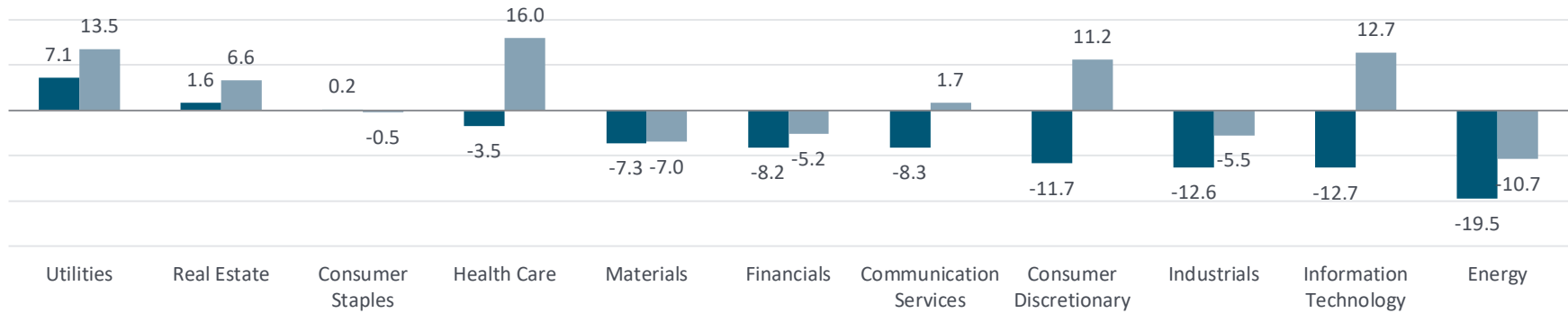
Source: FactSet. Region performance based on MSCI regional/country indexes.

# Market Overview

Fourth Quarter 2018

U.S. Equity performance (%) (CAD) as of 31-Dec-18

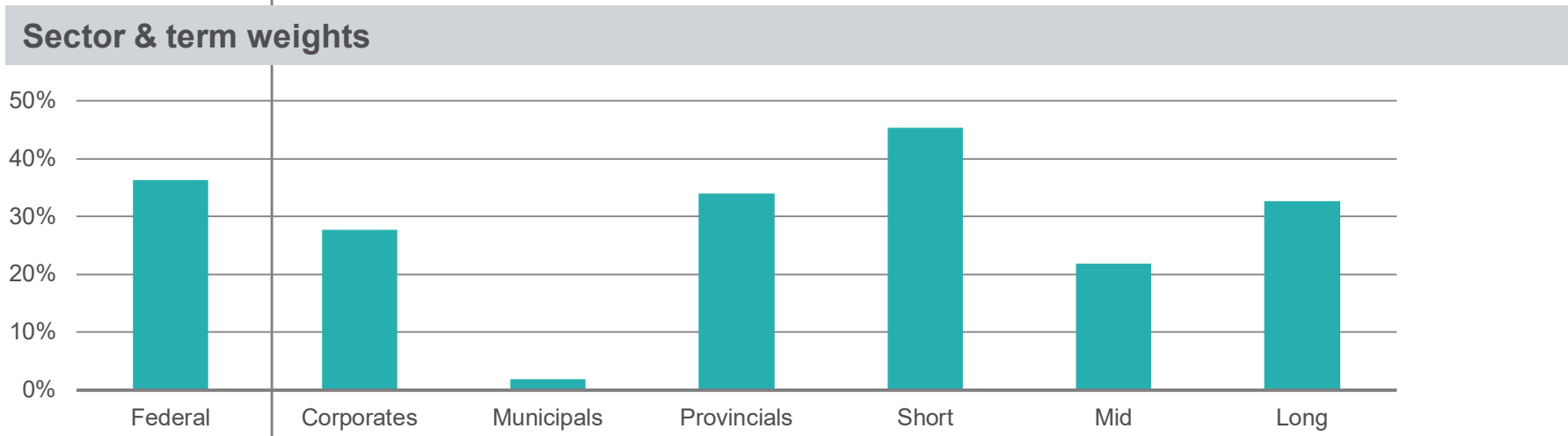
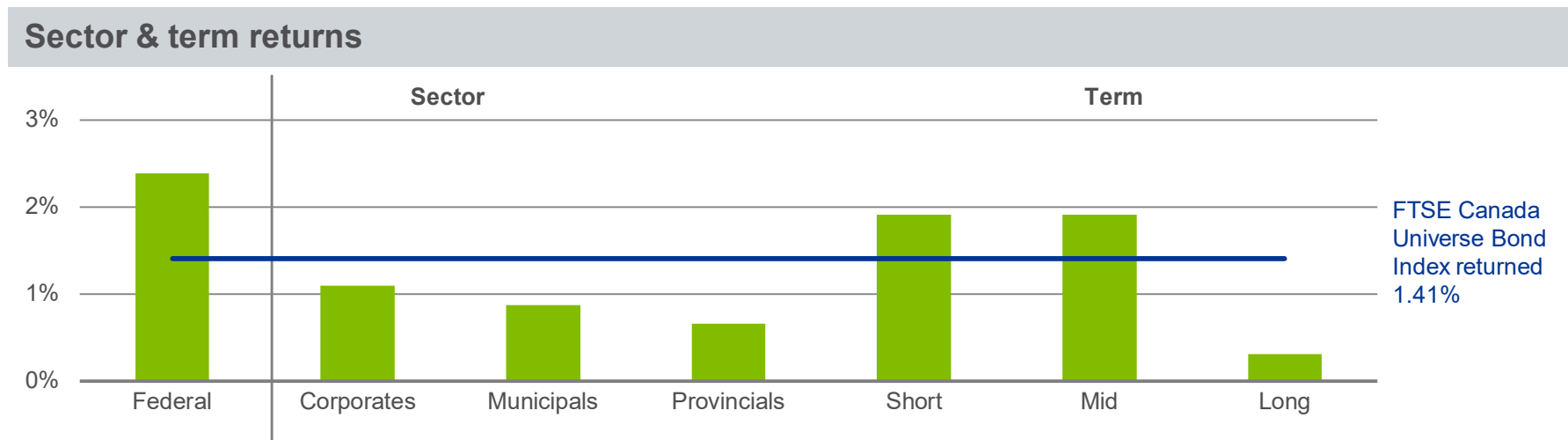
■ Fourth quarter 2018 ■ One year



Source: FactSet. Sector performance based on MSCI sector classification. The analysis of S&P 500 Index constituents are broken out by MSCI defined sectors.

# Canadian bond market

## Sector returns vs. sector weights



1 year ending 31 December 2018

Past performance is not necessarily indicative of future performance

Sources: BlackRock; FTSE Global Debt Capital Markets Inc.

# Commercial Real Estate

(Note: Approximately 10% of Balanced Fund)

<b>Returns to December 31, 2018</b>			
	<u>1 Year</u>	<u>5 Year</u>	<u>10 Year</u>
	8.0%	6.3%	6.9%

<b>Property Type (Overall) as at December 31, 2018</b>	
Office	35%
Retail	23%
Industrial	20%
Residential-Multi	18%
Other	4%

<b>By Region</b>	
BC	27%
Alberta	23%
Ontario	44%
Quebec/Other	6%



# FPP Fund Option Fees (as of April 2019)

(basis points) 1bp = 0.01%

	<b>Administration</b>	<b>Investment Manager</b>	<b>Operating Expenses of I. M.</b>	<b>Total Fee</b>
Balanced	12	22	11	0.45%
Bond	12	16	5	0.33%
Canadian Equity	12	24	6	0.42%
Foreign Equity	12	33	9	0.54%
STIF	12	2.5	0.5	0.15%

Note: All fees reduced by .02% (.03% for Foreign Equity) from April 2018. An additional .02% reduction effective May 1, 2019.



# 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	2017	2018
<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	16.8	4.0
	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	13.8	1.4
	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	9.1	0.3
	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	8.5	-1.8
	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	7.3	-3.2
	-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	7.1	-6.3
<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	0.6	-8.9

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

\* Diversified: 25% TSX Composite, 20% S&P 500 (C\$), 15% MSCI EAFE – Net (C\$), 40% FTSE TMX Canada Universe Bond Index

# Results to March 31, 2019





# Fund Rates of Return\* to March 31, 2019

Fund	Q1/2019	1 Yr.	5 Yrs.	10 Yrs.
Balanced Fund	7.5%	6.8%	7.2%	9.3%
Bond Fund	4.4%	5.0%	3.9%	5.1%
Canadian Equity Fund	12.8%	5.8%	6.0%	10.9%
Foreign Equity Fund	10.2%	9.0%	12.0%	14.2%
Short Term Investment Fund	0.5%	1.7%	1.1%	1.0%

\* Before investment manager and administration fees



# Powell Pivot

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3 October 2018:

*“We’re a long way from neutral on interest rates”*

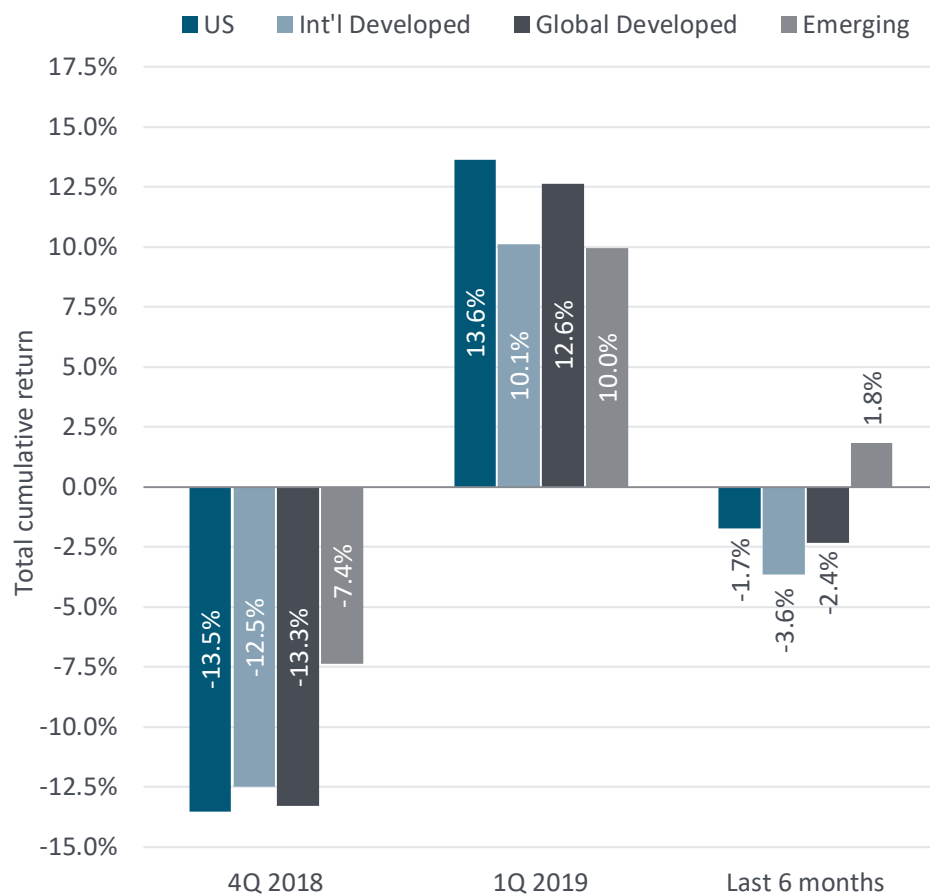


20 March 2019:

*“The data are not currently sending a signal that we need to move in one direction or another,”*

# Despite volatility, market has been flat over last 6 months

Negative 4Q18 Returns were virtually offset by strong 1Q19 rebound



Issue	4Q18	Now
Slowing Global Growth	✓	✓
Slowing Growth in China	✓	✓
Uncertainty with Fed Policy	✓	
Trade/Tariff Concerns	✓	✓
Geopolitical Risks	✓	✓

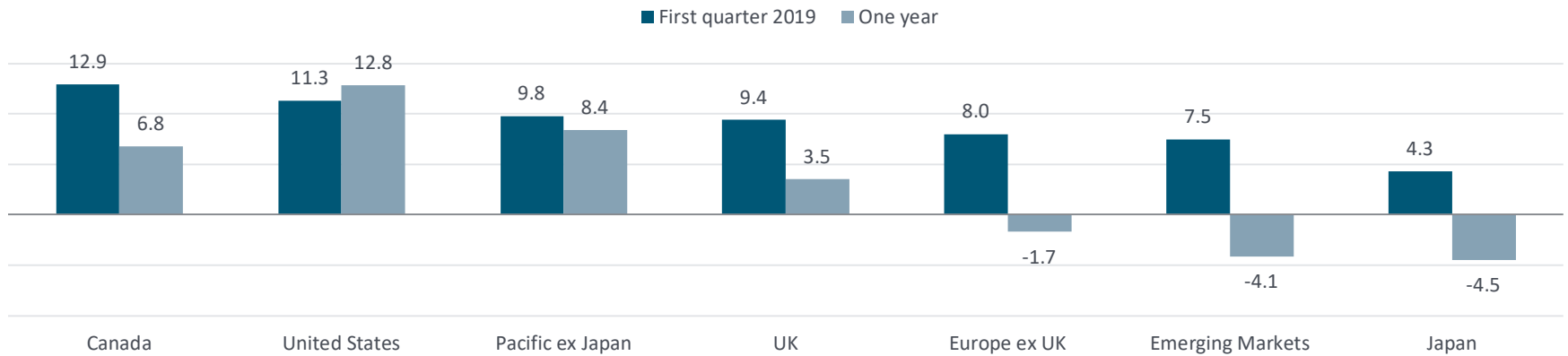
Source: FactSet, MSCI Global and S&P US. Quarterly data as of 28 September 2018 to 29 March 2019. Total returns are gross and in US dollars. US = S&P 500. Int'l Developed = MSCI EAFE. Global Developed = MSCI World. Emerging = MSCI Emerging Markets.

Many of the concerns that drove 4Q18 downside volatility are still unresolved

# Market Overview

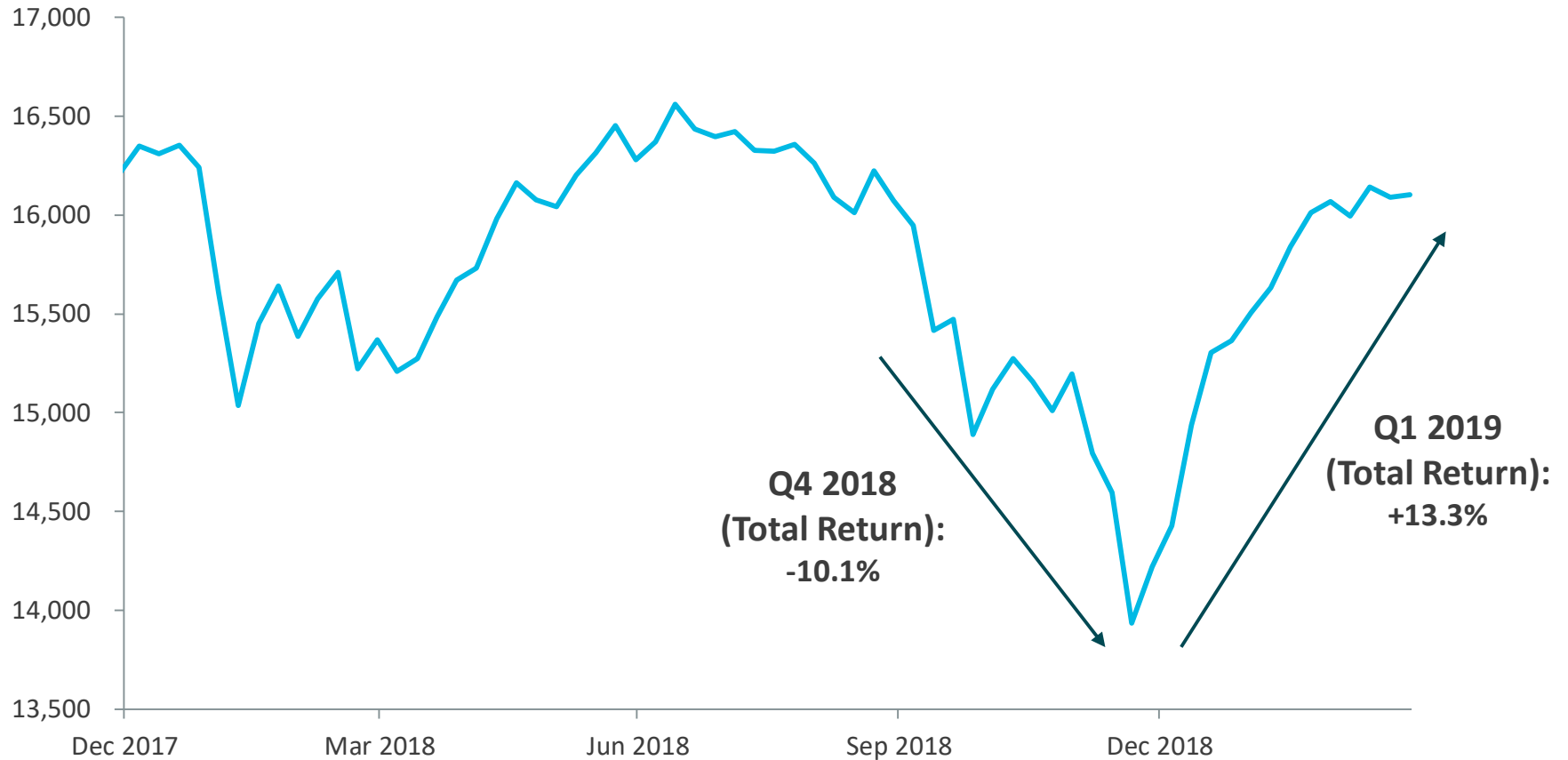
First Quarter 2019

Global Equity performance (%) (CAD) as of 31-Mar-19



Source: FactSet. Region performance based on MSCI regional/country indexes.

# The S&P/TSX Index Has Rebounded to Start the Year

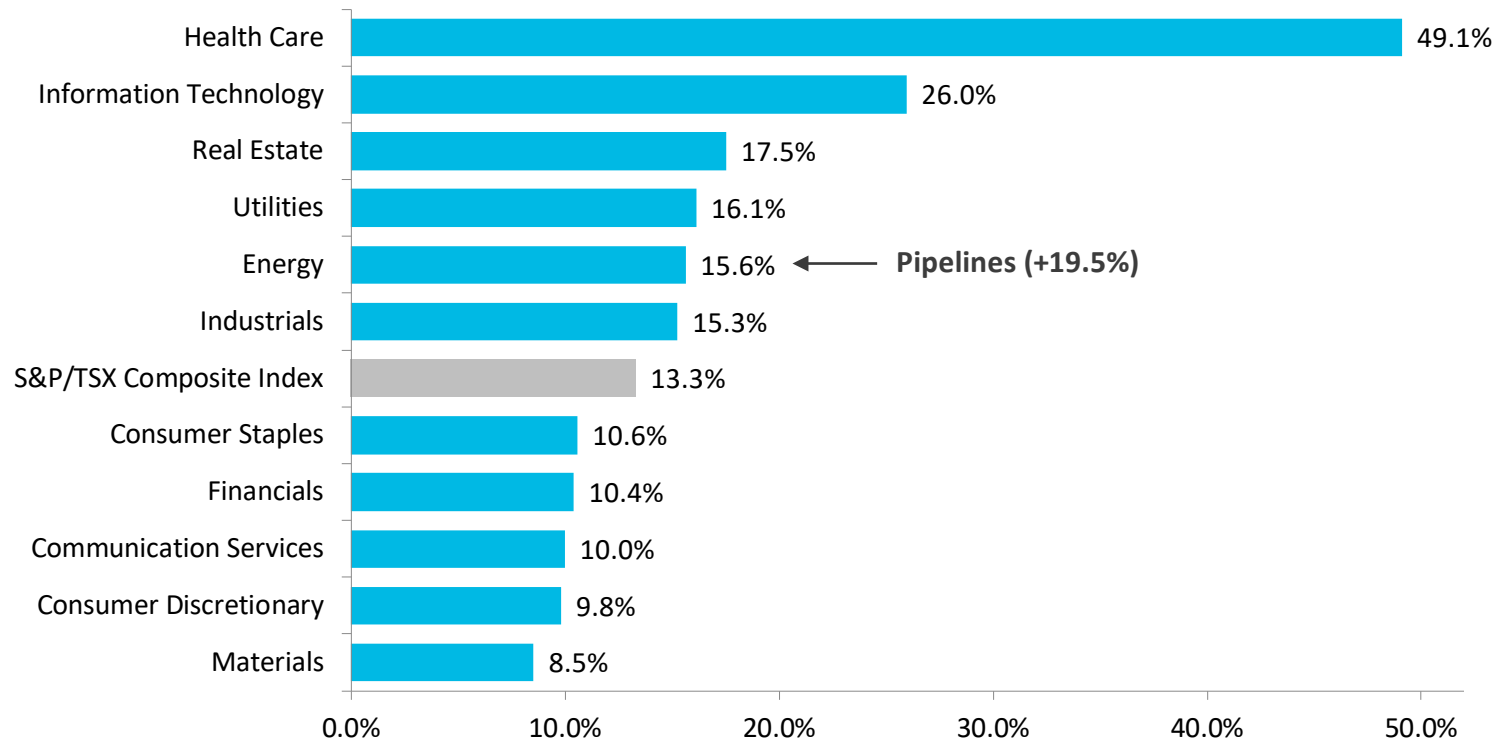


*Trade concerns eased and central banks changed tone to allow for more accommodative policy*

# S&P/TSX Composite Index

## Sector Performance – Q1 2019

### Total Return as of March 31, 2019



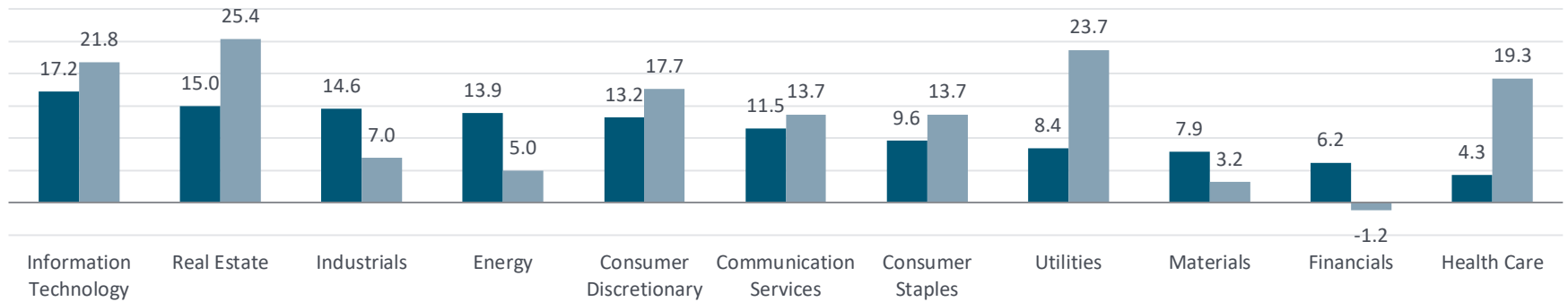
*Interest-sensitive sectors of Real Estate, Utilities, and Pipelines did well as interest rates fell. . .  
But other sectors, including cyclicals bounced back on improved sentiment*

# Market Overview

First Quarter 2019

### U.S. Equity performance (%) (CAD) as of 31-Mar-19

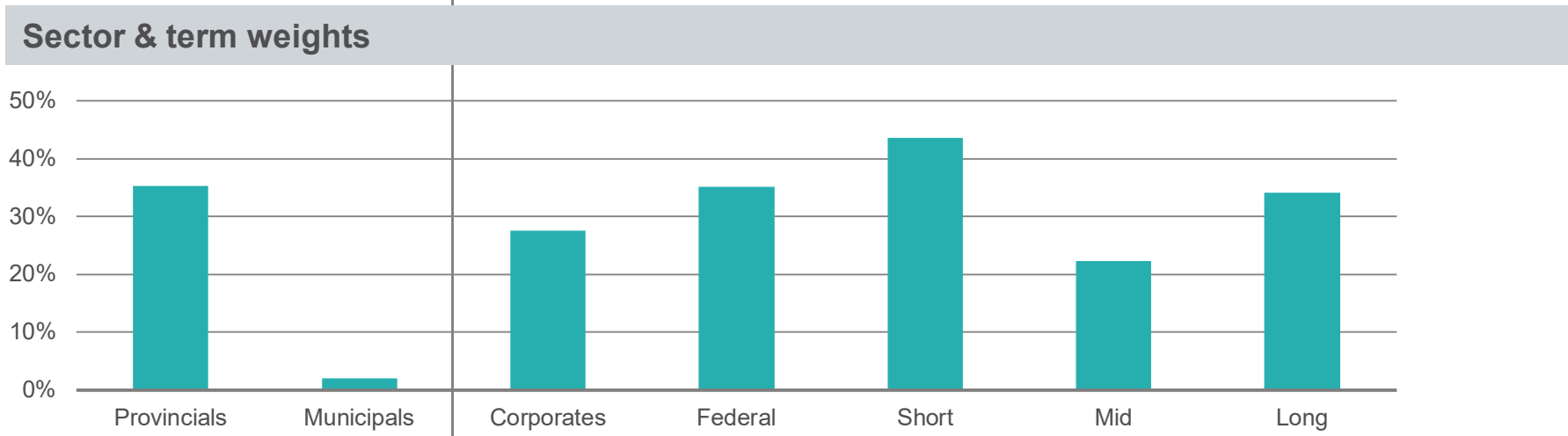
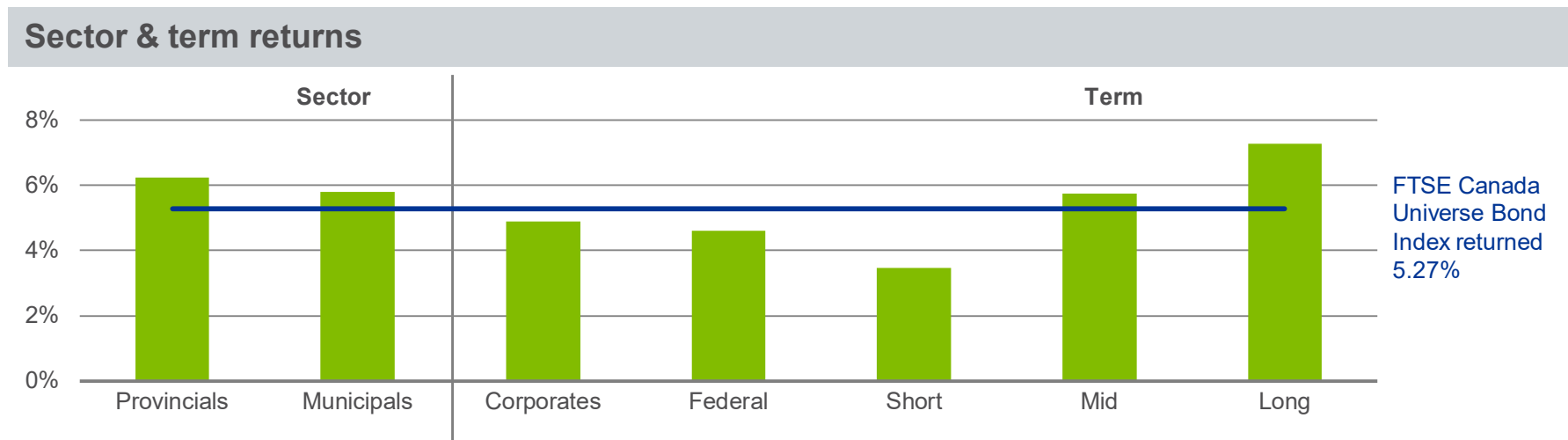
■ First quarter 2019 ■ One year



Source: FactSet. Sector performance based on MSCI sector classification. The analysis of S&P 500 Index constituents are broken out by MSCI defined sectors.

# Canadian bond market

## Sector returns vs. sector weights



1 year ending 31 March 2019

Past performance is not necessarily indicative of future performance

Sources: BlackRock; FTSE Global Debt Capital Markets Inc.



# ESG investing and the FPP

- 3 Factors – Environmental, Social and Governance (ESG)

## ESG integration approach

- part of financial decision making process to measure the long term sustainability of investing in a company or business
  - addition of more information into the manager's investment decision making process
  - more and better ESG information is becoming available
- FPP Board – supports our managers assessing and integrating financially relevant ESG factors into their investment process
  - See FPP Update Article dated Feb 5, 2019 on ESG



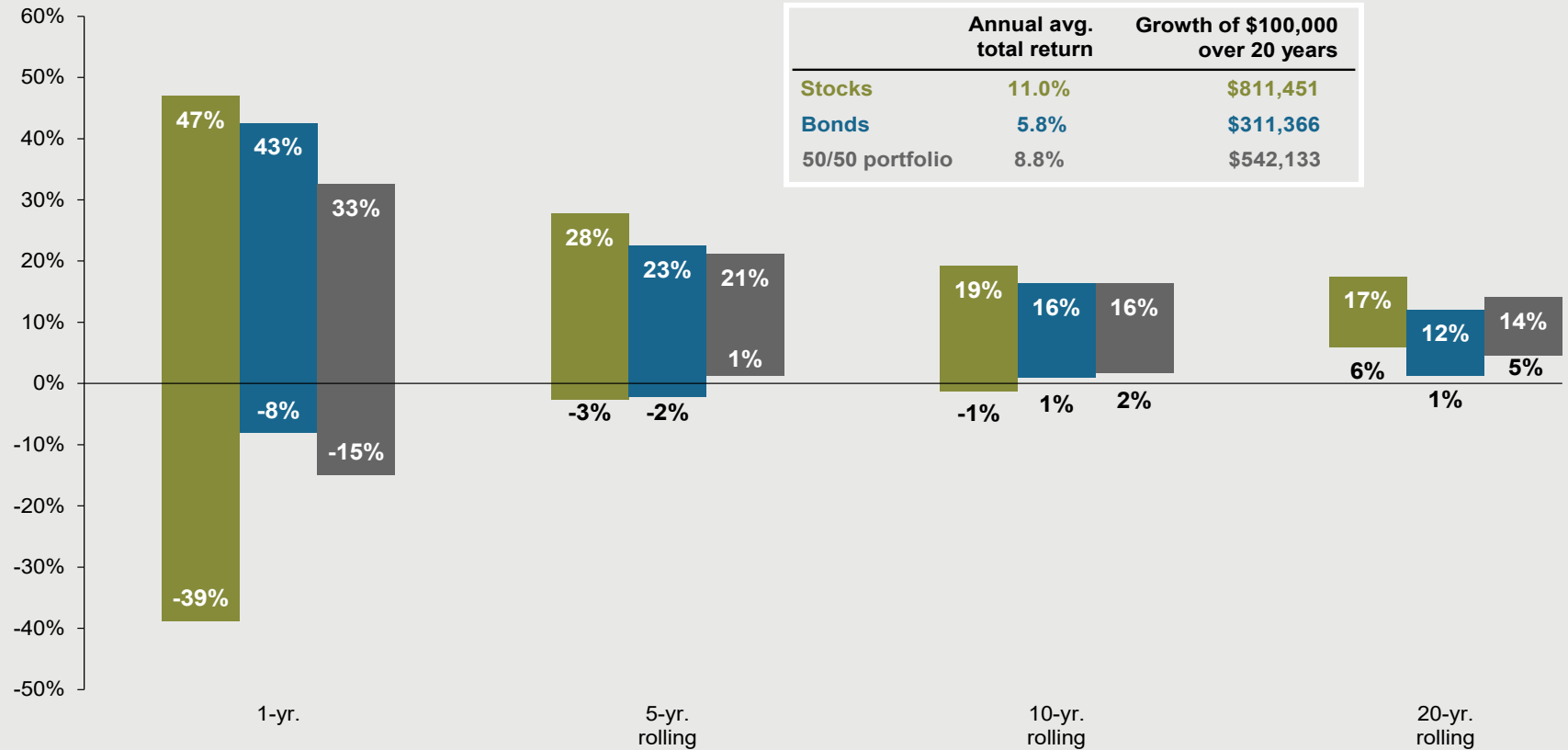
# ESG investing

- FPP uses external investment managers
- We invest through their pooled funds which are; cost effective, offer broad diversification and operationally expedient
- We can't dictate specific ESG screening criteria
- In selecting and monitoring our investment managers we require each manager to address how they deal with ESG factors
- Almost all of our managers are signatories of the UNPRI
  - reflects their interest/commitment to ESG investing



## Range of stock, bond and blended total returns

Annual total returns, 1950-2018



Source: Barclays, Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management. Returns shown are based on calendar year returns from 1950 to 2018. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Barclays Aggregate thereafter. Growth of \$100,000 is based on annual average total returns from 1950 to 2018.

Guide to the Markets – U.S. Data are as of March 31, 2019.

# Conclusions

- Stock market returns have been strong since 2008 but economic growth hasn't matched this rise
- Political uncertainty, trade wars and government policy risks remain
- Equity Returns have been good over the last 5-10 years, Bond returns moderate
- Relatively minor changes to the Balanced and Bond Fund asset mixes in 2019
- Our large plan size (\$2.2 billion) allows for low fees and broad diversification by asset classes, investment styles and managers



# Thank You!

## Questions?

Information Tables Open after  
Presentation and Q&A

Sun Life  
Financial

UBC FPP  
Retirement

UBC FPP  
New to the Plan

Presentation  
Stage

You  
are here

UBC Emeritus  
College

UBC Health,  
Wellbeing &  
Benefits  
(EFAP, RSB)



# Information Tables Open after Presentation and Q&A

## Sun Life Financial

- [mysunlife.ca/ubcfpp](https://mysunlife.ca/ubcfpp) member website
- services, tools and contact information

## Contact

- [mysunlife.ca/ubcfpp](https://mysunlife.ca/ubcfpp)
- 1-844-UBC-3131

## UBC FPP Retirement

- retirement income options
- transferring in from other registered plans
- working past age 65 and deferring retirement
- retirement seminars

- Lorraine Heseltine
- [lorraine.heseltine@ubc.ca](mailto:lorraine.heseltine@ubc.ca)
- 604-822-3485

## UBC FPP New to the Plan

- investment options
- beneficiary designations
- changing investment allocations
- voluntary contributions
- new member seminars

- Lily Lee
- [lily.lee@ubc.ca](mailto:lily.lee@ubc.ca)
- 604-827-2208

## UBC Emeritus College

- becoming a member of the College
- academic and social events for Emeriti
- travel and extended health insurance
- receiving our newsletter

- [admin@emeriti.ubc.ca](mailto:admin@emeriti.ubc.ca)
- 604-822-1752

## UBC Health, Wellbeing & Benefits (EFAP, RSB)

- Employee & Family Assistance Program (EFAP): information and immediate support resources to resolve personal, work, health and life issues
- Retirement & Survivor Benefits (RSB): working past age 65, health benefits, changes to other UBC benefits

- Julia Carandang
- [julia.carandang@ubc.ca](mailto:julia.carandang@ubc.ca)
- 604-822-4580

