

Canadian Pensions Begin New Path for Future

Through Liability-Driven Investing Programs, Defined Contribution Enhancements and Strategic Partnerships

Introduction

In Canada, defined benefit (DB) plan sponsors are confronting a number of challenges as they seek to provide retirement security benefits programs for their employees. The good news is that at federal and provincial levels, Canadian DB plan sponsors are relieved temporarily from solvency funding issues. Pension reforms are being debated to improve the Canadian pension system in the long run. However, Canadian DB plan sponsors are still facing challenges to diversify their total portfolio more effectively to better cope with future market volatility. The responses they provided to the recent Pyramis Global Advisors Canadian DB

Pulse Poll in November 2009 reveal they are taking proactive steps to address the challenges and maintain the value and responsiveness of their retirement benefit programs.

Interest in, Adoption of LDI Captures Strong Response

The Pyramis Canadian Pulse Poll gauged current views on liability-driven investing (LDI) strategies among corporate and public DB plan sponsors. Broadly defined, LDI strategies seek to better match the risks of assets and liabilities

Authors:

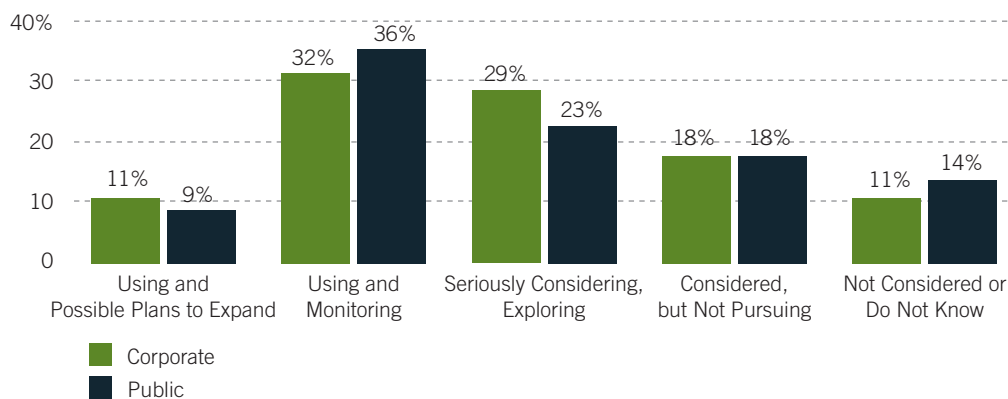
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EXHIBIT I: WHAT IS YOUR CURRENT STATUS REGARDING LDI?



within the DB plan structure. Both public and corporate plans responded in higher percentages that they were using or seriously considering LDI strategies, understandable given concerns over long-term funding status and upcoming accounting changes.

Among corporate plans, 43% said they have, may expand or are currently using and monitoring an LDI implementation, while another 29% are seriously considering or are in the early stages of exploring LDI. Among public plans, 45% have, may expand or are currently using and monitoring an LDI strategy, while 23% are considering or are exploring LDI. Larger plans (72%), those with \$1 billion or more of assets under management, are somewhat more likely to be using

EXHIBIT II: WHAT IS YOUR CURRENT STATUS REGARDING LDI?

Using or Seriously Considering

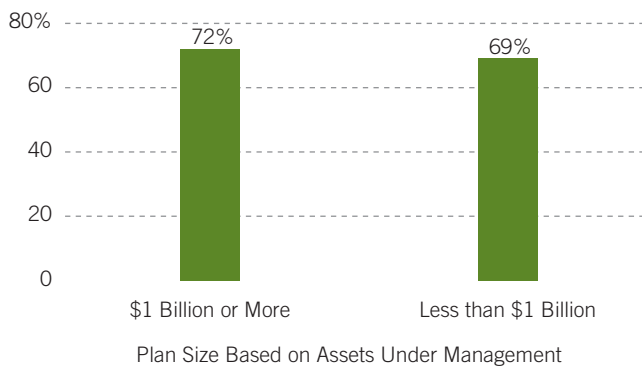
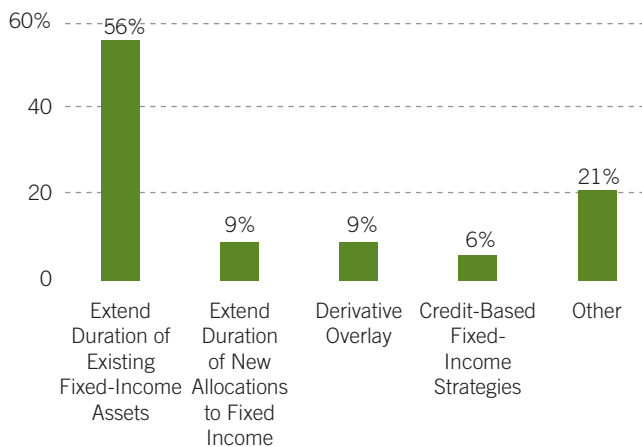


EXHIBIT III: HOW ARE YOU IMPLEMENTING LDI?



or seriously considering an LDI strategy than mid-size plans (69%) with less than \$1 billion of assets under management.

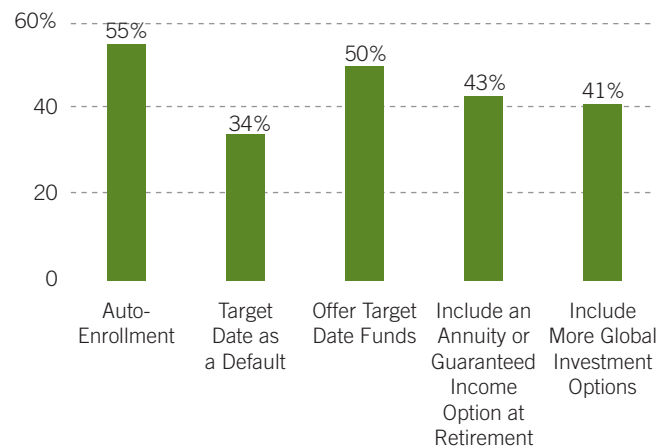
Extending the duration of current fixed-income assets is the most common method of implementing LDI (56% of plans), followed by extending the duration of new allocations to fixed income (9%), using derivative overlay (9%) and using credit-based fixed-income allocations – corporate bonds – which was named by 6%.

Inclinations Are to Enhance DC Plans with DB-Like Features

Both corporate and public plan sponsors offering a defined contribution (DC) plan are looking at ways to enhance the offering to encourage enrolment, offer additional investment flexibility, and provide options for assuring income security after retirement.

Poll responses indicate sponsors are committed to providing these new options to their plan participants. More than half (55%) said they strongly agree or agree with automatically enrolling participants in the DC plan, half (50%) strongly agree or agree with offering target date funds, and 34% approve of target date funds as a default option. Offering additional global investment options was favoured by 41% of respondents. Auto-enrolment and using target date funds as a default are all examples of incorporating DB plan features into DC plans. Target date funds and global equities/bonds provide DC participants with the ability to leverage DB-like plan strategies.

EXHIBIT IV: WHAT ARE YOUR INTENTIONS TO ENHANCE YOUR DEFINED CONTRIBUTION PLAN?

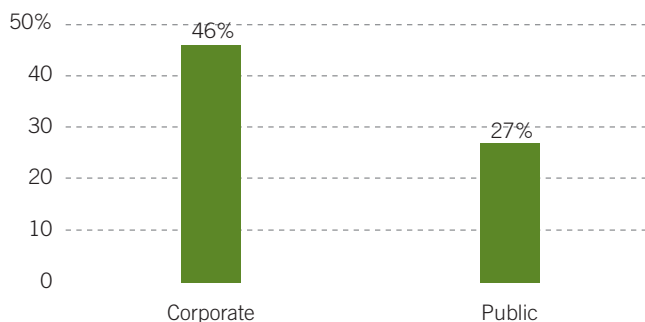


Strategic Partnership Trend Gains Force

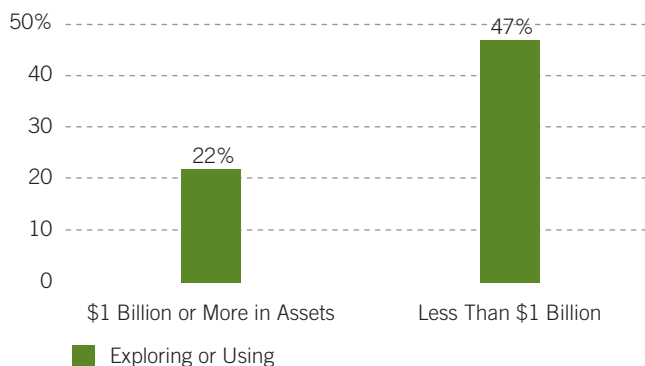
The emerging trend of institutional investors awarding asset managers multi-asset class mandates that have wider asset allocation latitude with respect to changing market dynamics has gained some force in Canada, the U.S. and other markets. These arrangements have been variously referred to in trade journals as, among other names, “outsourced CIO” arrangements or “strategic partnerships.” Although a relatively new term in Canada, almost half of corporates (46%) and 27% of public plans indicated they currently use or would consider a strategic partnership. The highest interest levels are among the mid-sized DB plans with less than \$1 billion in assets under management (47%), as compared to larger plans managing more than \$1 billion in assets that indicate they are using or exploring a strategic partnership arrangement (22%).

EXHIBIT V: HAVE YOU ENGAGED IN A STRATEGIC PARTNERSHIP?

Using/Considered by Plan Type



Exploring or Using



Trends that may be emerging in the wake of the 2008 financial crisis include

- Among DB plan sponsors, awareness of and interest in LDI investment strategies is strong as they seek to better manage DB plan assets and liability relationships.
- DB plan providers are moving ahead with enhancements to their DC plans, from adding target date funds and global investment options to automatically enrolling participants in a DC plan and providing additional options for receiving income from DC savings after retirement.
- Institutions investing assets for their defined benefit plans continue to seek asset managers with broader skill sets and the capability of helping the plan sponsor understand and adapt to changing economic and investment market conditions. ■

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Methodology

The 2009 Pyramis Global Advisors Pension Pulse Poll data were collected through online questionnaires and telephone interviews conducted with institutions in the U.S., Canada, the U.K. and Northern Europe. Results are based on a representative sample of chief investment officers, treasurers and executive directors at 427 corporate and public pension plans in 12 countries who cumulatively manage in excess of US \$1 trillion in assets.

Pyramis conducted surveys of institutional investors during November 2009 among 217 U.S. pension plans (142 corporate, 75 public), 50 Canadian pension plans (28 corporate, 22 public) and 160 U.K. and Northern European institutional investors (80 private pensions, 36 public pensions, 19 insurers, 25 multi-managers) in ten countries (41 U.K., 36 Switzerland, 21 Netherlands, 13 Sweden, 12 Finland, seven Germany, seven Norway, six Austria, six Iceland, five Denmark and six others). The polls were limited to one response per plan.

The surveys were executed in association with Asset International, Inc., in the U.S., Rogers Communications in Canada and the *Financial Times* in the U.K. and Northern Europe. Pyramis was responsible for interpretation of results of the survey.

For more information on the Pyramis Global Pension Pulse Poll, please email pyramis@pyramis.com.



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