

Panel 1

Designing an Effective Investment Strategy for Defined Contribution Plans

Moderator:

Michael Peters, former Senior Advisor to BCFSA's CEO

Panel members:

Debbie Wilson, University of British Columbia

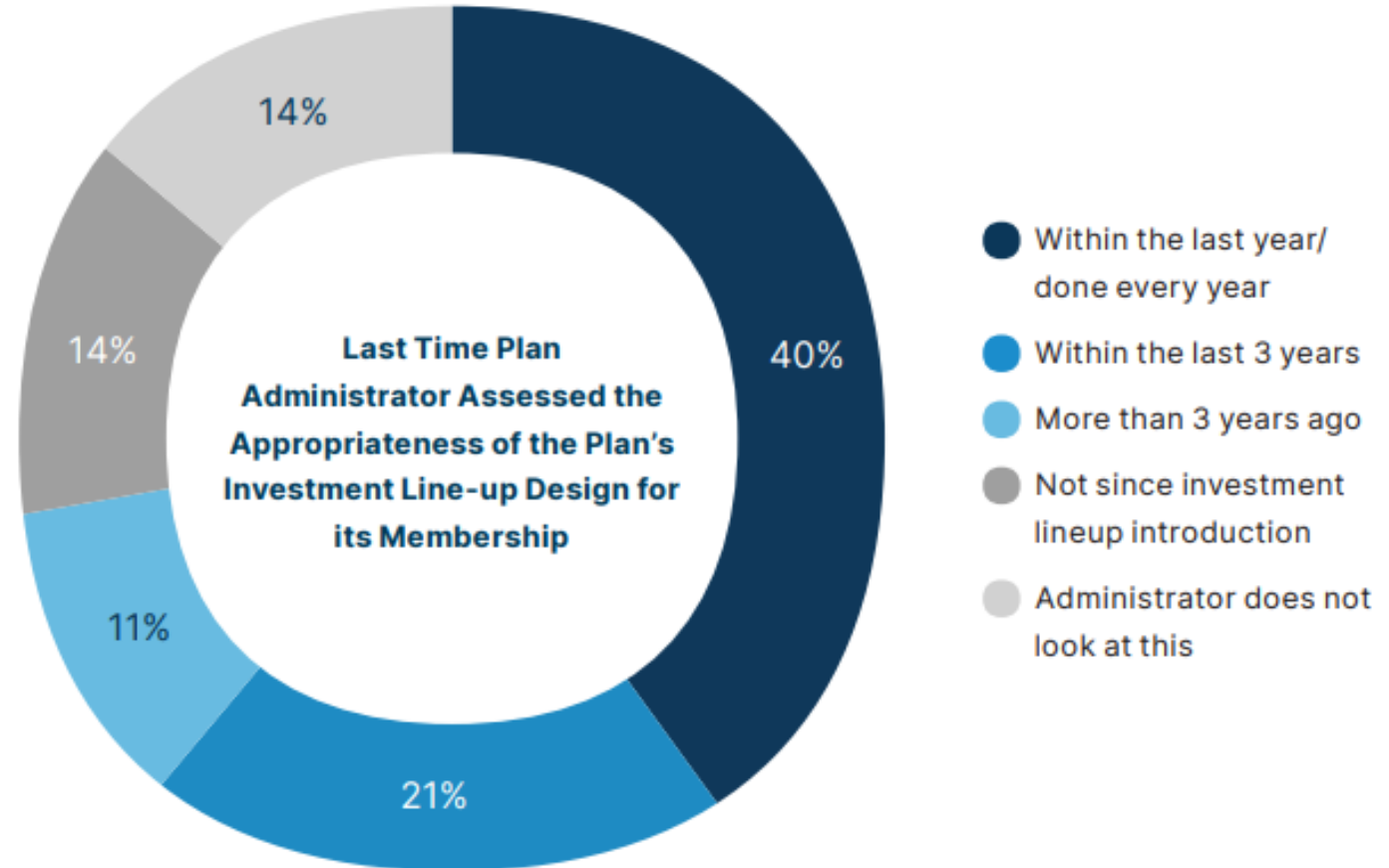
Jennifer Wood, Manulife

Bradley Hough, PBI Actuarial Consultants Ltd

Survey Highlights

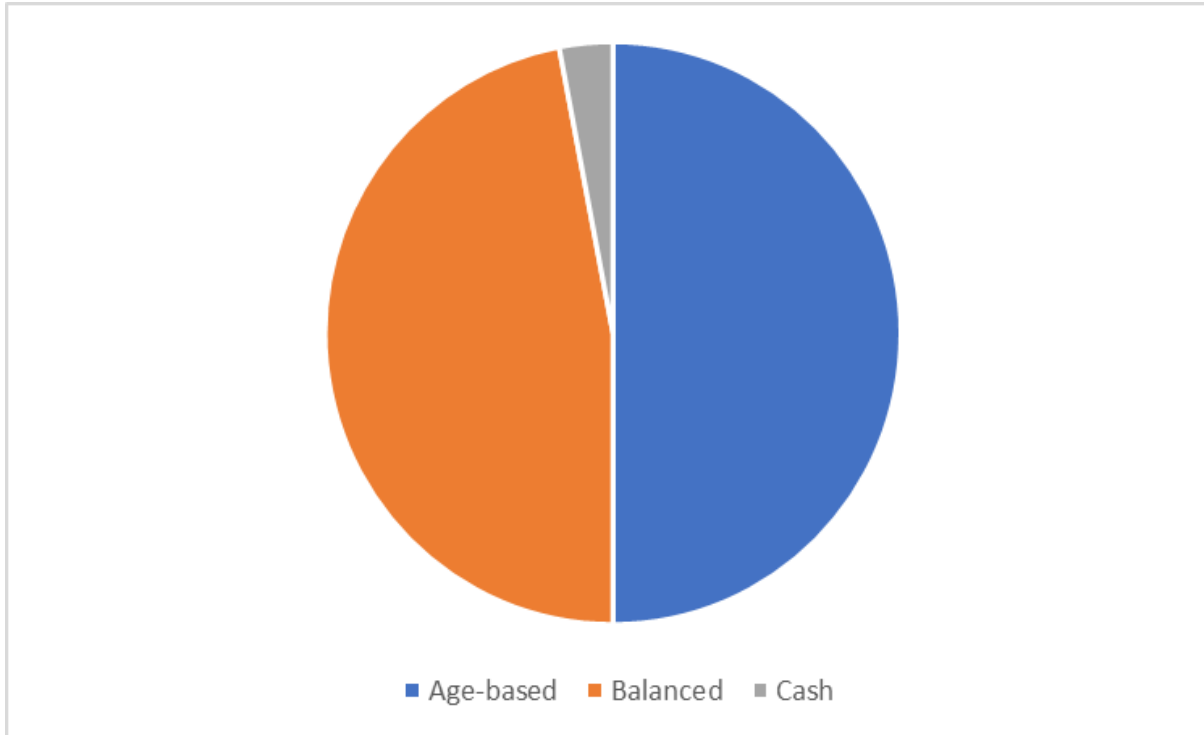
Investment Selection by Members

- 85 per cent of responding plans grant members investment choice
- Of those, 72 per cent provide a tool for members to assess their investment risk appetite, and
- 71 per cent provide investment selection tools that include information on the risks associated with each investment option.



Survey Highlights

Default Investment Option



Section 68(4) of the PBSR stipulates that, a plan document must provide one of the following default investment options:

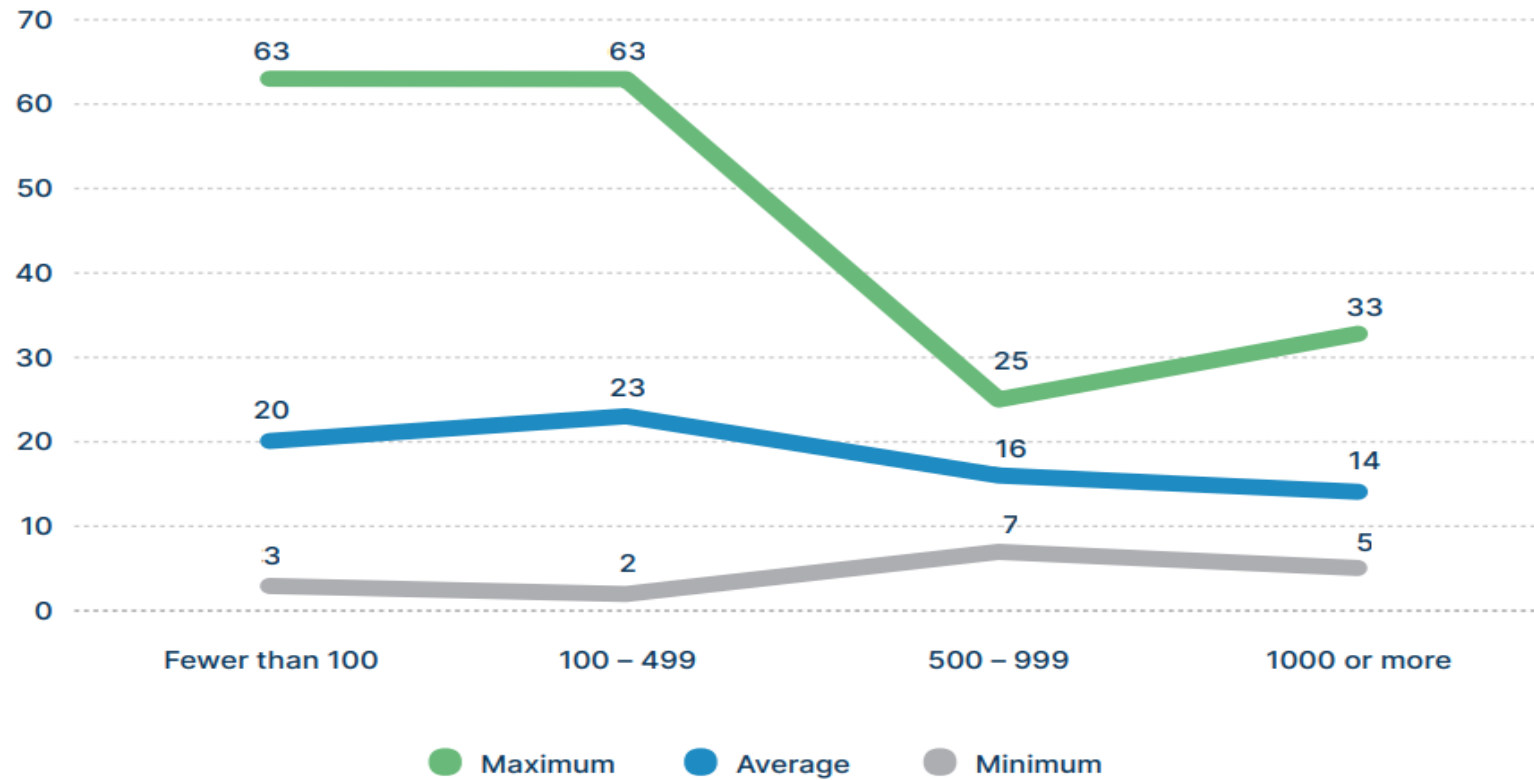
- i. A balanced fund;*
- ii. A portfolio of investments that takes into account the member's age.*



Survey Highlights

Investment Decisions - Daunting choices

Number of Investment Options (Plan Size by Number of Members)



CAPSA Guidelines – Consultation Drafts

GUIDELINES FOR CAPITAL ACCUMULATION PLANS

- Investment and Financial Planning Advice
- [Choosing a financial advisor](#)
- Provide tools and resources to help members understand:
 - Investment option selection
 - Projected level of savings and income
 - How to change course if desired
 - Impact of fees

ESG GUIDELINE

- Duty to consider material risks.
- Establish processes to monitor risks and opportunities.

LEVERAGE GUIDELINE

- Sophisticated risk management is prudent if leverage is used.
- Monitor market risk, counterparty risk and liquidity pressures.

Panelist

Debbie Wilson

Director, Pensions – University of British Columbia

UBC FACULTY PENSION PLAN

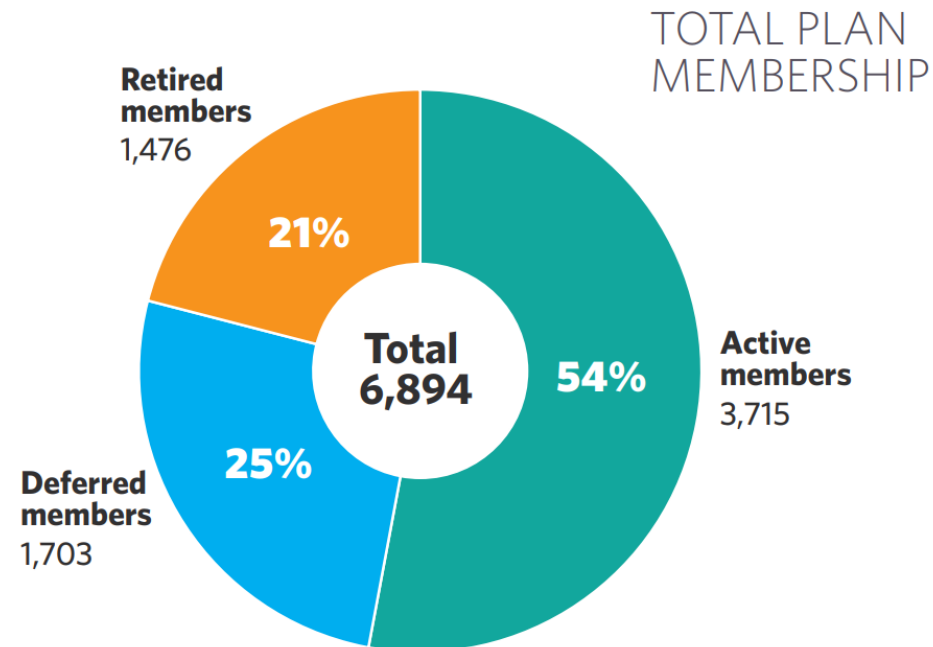
FOSSIL FUEL FREE INVESTMENT OPTION

DEBBIE WILSON, DIRECTOR, PENSIONS
OCT 13, 2022



UBC Faculty Pension Plan

- Defined Contribution Plan established in 1967
- Mandatory participation for most
- Member contribution of approximately 5% of salary
- Employer contribution of approximately 10% of salary

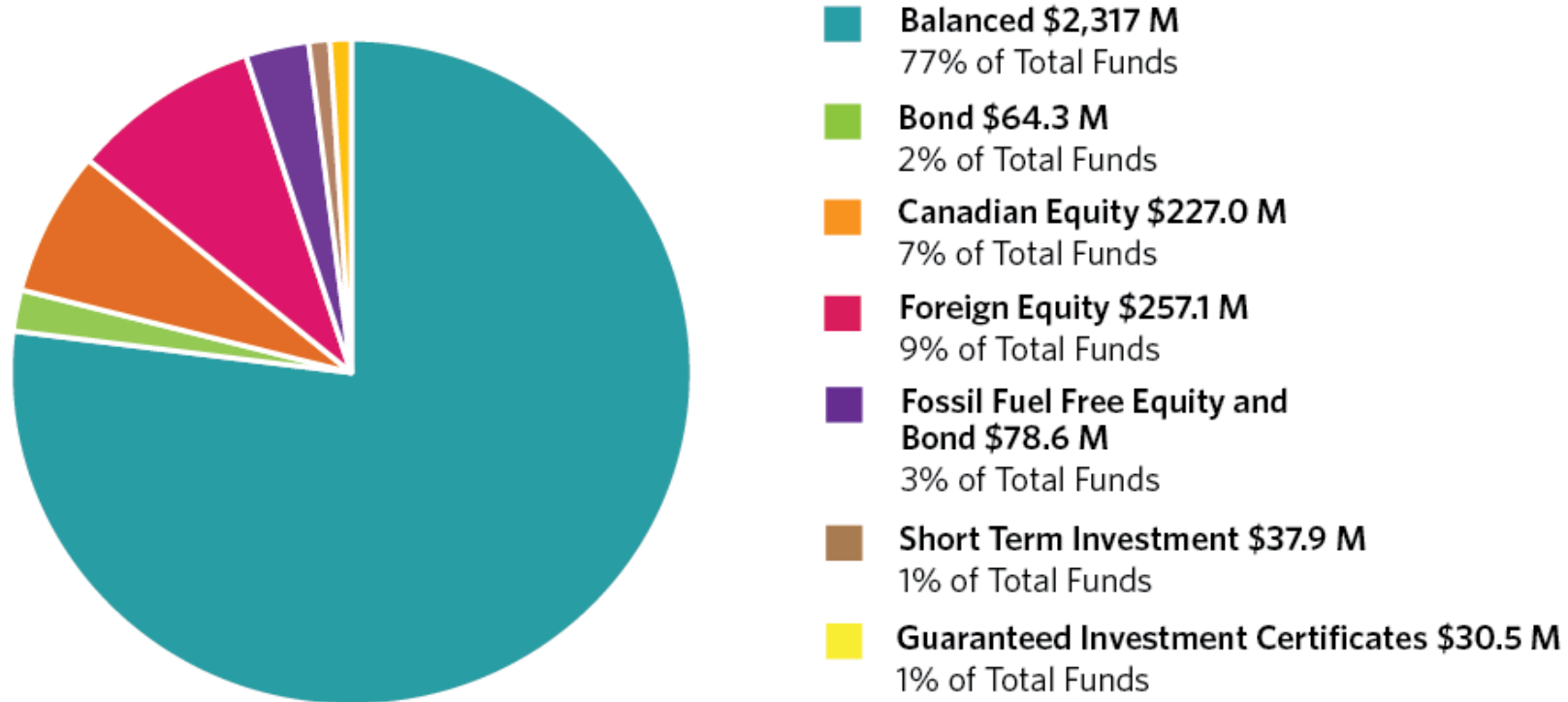


Plan Governance

- Independent trust managed by Board of Trustees
- Purpose of the Plan is to provide a well-managed, cost-effective plan that assists members to save and invest, both leading up to retirement and if members choose, through retirement.



Member Fund Utilization as of December 31, 2021



Total Assets \$3.0 Billion



Background on FFF Investment Option

- Small group of plan members advocating for divestment of pension assets starting in 2013
- University adopted a Responsible Investing Policy in 2014
- Growing pressure from students and faculty on the University to divest
- In 2018 the FPP Board began their review process



Board's Concerns

- Is there sufficient interest to warrant a FFF option
- Legal issues as fiduciaries
- Investment performance of FFF must not have a material negative impact on risk/returns versus a non-screened fund
- Fees and costs associated with FFF option



FPP Board Review Process

Oct 2018	Legal Opinion and Board roundtable discussion on investment beliefs
Feb 2019	Member communication/education - distinction between ESG integration and a FFF option
Mar 2019	Member survey to determine level of interest and how much they are prepared to invest in a FFF Balanced Fund option (% current account and % future contributions)
April 2019	Newsletter regarding survey results and next steps



Board Review Process

March 2019

Hired a consultant

- Comprehensive review of literature/studies
- Define the parameters of a FFF fund
- What type of pooled funds are available
- Verify the investment performance

Sept 2019

Board approved a FFF Fund option being added

Oct 2019

Investment manager selection



Implementation

- Operational requirements of adding a new FFF Fund to recordkeeper's platform
- Announcement to members in December 2019 that FFF option would be available on April 1, 2020
- \$2M in assets had to be invested before online transactions available



Member Communication

- Comprehensive Communication Plan and Strategy
 - education and resources to make the decision whether to invest in the FFF Fund
 - audience – actives, deferred and retired members
 - individual letter and custom form



Member Communication

- Table included in letter to members announcing new Fund

UBC FPP Fossil Fuel Free Equity and Bond Fund	UBC FPP Balanced Fund
Utilizes a screening process to significantly lower the carbon footprint versus the benchmark	Does not screen out any sectors
Does not have a real estate allocation	Has a real estate allocation
Has only one active manager (an active strategy)	Has multiple managers (combination of active and passive strategies)
One strategy per asset class	Multiple strategies for each asset class

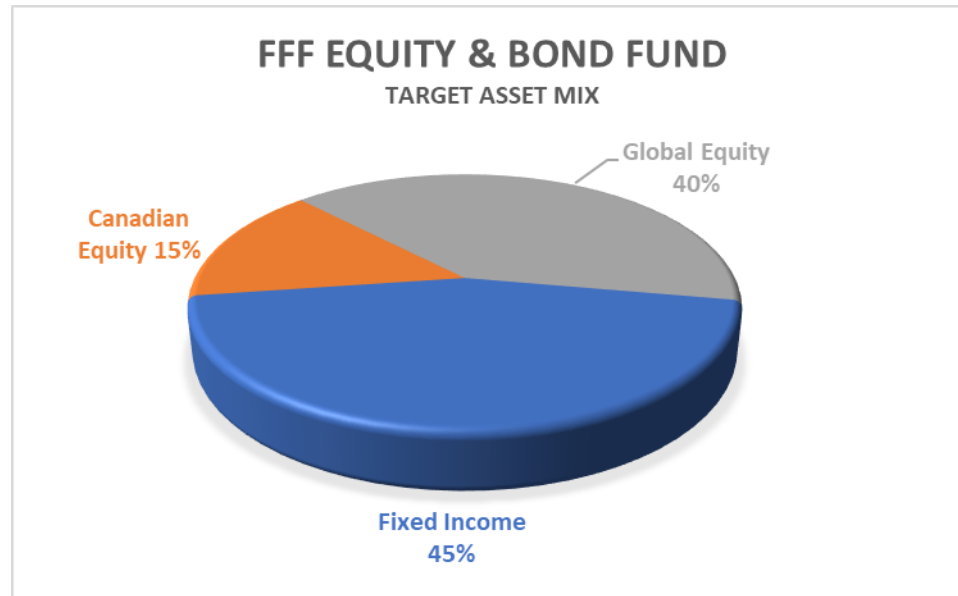


Success

- Reached \$2M by March 12, 2020
- \$20M at April 1, 2020
- Assets have continued to grow



Fossil Fuel Free Equity and Bond Fund



- Assets \$58M at Sept 1, 2022
- Composed of three underlying Fossil Fuel Free Funds managed by Jarislowsky Fraser
- New managers/strategies may be added at some point

Panelist

Jennifer Wood

Director of Investments, Canadian Retirement – Manulife

Defined Contribution Plans: *Improving* Member Outcomes

Jennifer Wood, CFA

October 13, 2022



A woman with voluminous curly hair, wearing a blue blazer over a white shirt, is smiling while looking at a tablet computer. She is in an office environment with a window in the background. The text 'Helping Sponsors Support Members' is overlaid on the left side of the image.

Helping Sponsors
Support Members

Customized Client Support and Services



Building

- Best in class managers
- Absolute, relative, risk and fee adjusted returns
- Appropriate for member demographics and behaviour
- Sponsor requirements
- Suggested Fund Line Up
- Certified Diversified Warranty



Reporting

- Comprehensive reporting to meet fiduciary and CAP Guideline responsibilities
- Performance vs peers and benchmarks
- i-Watch concerns
- Manager, fund and platform updates



Reviewing

- Review continued appropriateness of investment offering
- Evaluate existing funds vs all available fund options and current best practices
- Remove/replace underperforming funds
- Consider new investment managers, funds and asset classes

Certified Diversified® Warranty

- Innovative program provides additional measure of security for plan sponsors
- Warranty fund line-up meets CAP Guidelines for diversification
- Protects plan sponsors from legal costs and damages in the event of a successful claim

Asset Class

- Guaranteed Investments
- Target Date and/or Asset Allocation
- Balanced
- Money Market
- Fixed Income (Active)
- Fixed Income (Index)
- Canadian Equity (Active)
- Canadian Equity (Index)

Either:

- U.S. Equity (Active)
 - U.S. Equity (Index)
 - International Equity (Active)
 - International Equity (Index)
- Or**
- Global Equity (Active)
 - Global Equity (Index)

 **Manulife Financial** April 18, 2006

GROUP SAVINGS AND RETIREMENT SOLUTIONS

Investment Diversification Warranty Certificate

In selecting and monitoring the investment options that we make available to qualified retirement plans that are subject to the Capital Accumulation Plan (CAP) Guidelines and pension legislation (the "Plans"), we apply generally accepted investment theories and prevailing investment industry practices. These are similar to standards imposed on Plan Sponsors for satisfying their investment duties under the CAP Guidelines and pension legislation. While Manulife Financial is not acting as a fiduciary for the Plan in selecting and monitoring the investment options in our offering, if the Plan Sponsor properly discharges their responsibility to review and evaluate our investments, we stand behind our products.

- Indemnify and make the Plan whole for any Un-reimbursed Loss resulting from a breach of Manulife Financial's warranties as set forth in the preceding paragraph 1, as determined in a final, binding and valid adjudication ("Successful Claim"); and
- Reimburse the un-reimbursed costs, including legal fees of the Plan Sponsor in relation to defending a "Successful Claim" that is subject to this warranty.

The Responsibilities of Plan Sponsors

For our *Investment Diversification Warranty* to apply, a Plan Sponsor must:

- Review our investment selection and monitoring practices and adopt them as part of the due diligence process for the selection of investment alternatives for the Plan;
- Review the materials we provide about the investment options we offer;
- Evaluate the needs and abilities of the Plan and its participants and tailor the investment options available under the Plan to those needs and abilities by selecting, from among the investment options we offer, the investments that are suitable for the particular needs of the Plan and its participants.
- Include as available investment options under the plan, at least the investments in the chart shown on the reverse of this page. Additional detail about each fund appears in "the Group Investment Report" for Manulife Financial Group Savings and Retirement Solutions:

Our Investment Diversification Warranty

If the Plan Sponsor properly discharges the functions set forth below under "The Responsibilities of Plan Sponsors," and subject to the provisions set forth below under "Conditions and Limitations on our warranty":

1. The Manufacturers Life Insurance Company ("Manulife Financial") hereby represents, warrants and covenants that the investment options that the Plan Sponsor selects to offer to Plan participants:
 - Will satisfy certain CAP Guideline requirements for investments within a CAP plan by:
 1. Providing CAP members with investment options that are diversified by both investment style and investment objective; and,
 2. Monitoring the investment options regularly for adherence to investment style.
2. In the event of a third party claim that the investment options selected by the Plan Sponsor from Manulife Financial's Group Saving and Retirement Solutions investment line-up, contrary to our representations, warranties and covenants, fail to satisfy the CAP requirements as specified above, and as a result the Plan suffers loss, damage, expenses or liabilities not reimbursed by insurance or any other source ("Un-reimbursed Loss") Manulife Financial will:



**CERTIFIED
DIVERSIFIED**

Superior Fund Selection and Monitoring

Quantitative

- Performance vs. benchmarks and peer group over recent and long-term
- Performance consistency
- Upside/downside capture
- Stock selection
- Style consistency
- Volatility

Qualitative

- Face-to-face meetings with managers
- Stability of organization
- Depth and breadth of investment professionals
- Succession planning
- Investment professional turnover
- Consistency of investment process



A man with dark hair, glasses, and a goatee is smiling warmly. He is wearing a brown plaid blazer over a light purple shirt. He is looking towards the left of the frame, where the back of a person's head and shoulder in a white shirt is visible. The background is a blurred office or home setting with shelves and a lamp.

Helping Members
Through Advice

The key difference advice makes



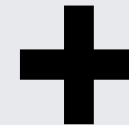
Advice



More
savings

x3.9

**more in savings
accumulated** for
investors with advisors
for 15 years or more¹



More
confidence

64%

of financially well Canadians
have an advisor vs.

22%

of financially unwell²



Better employee outcomes with a PlanRight Advisor

x13 Transfer to a group program¹

+77% Value of transfers¹

+43% In additional plans²

+100% Web usage³



On track towards financial fitness

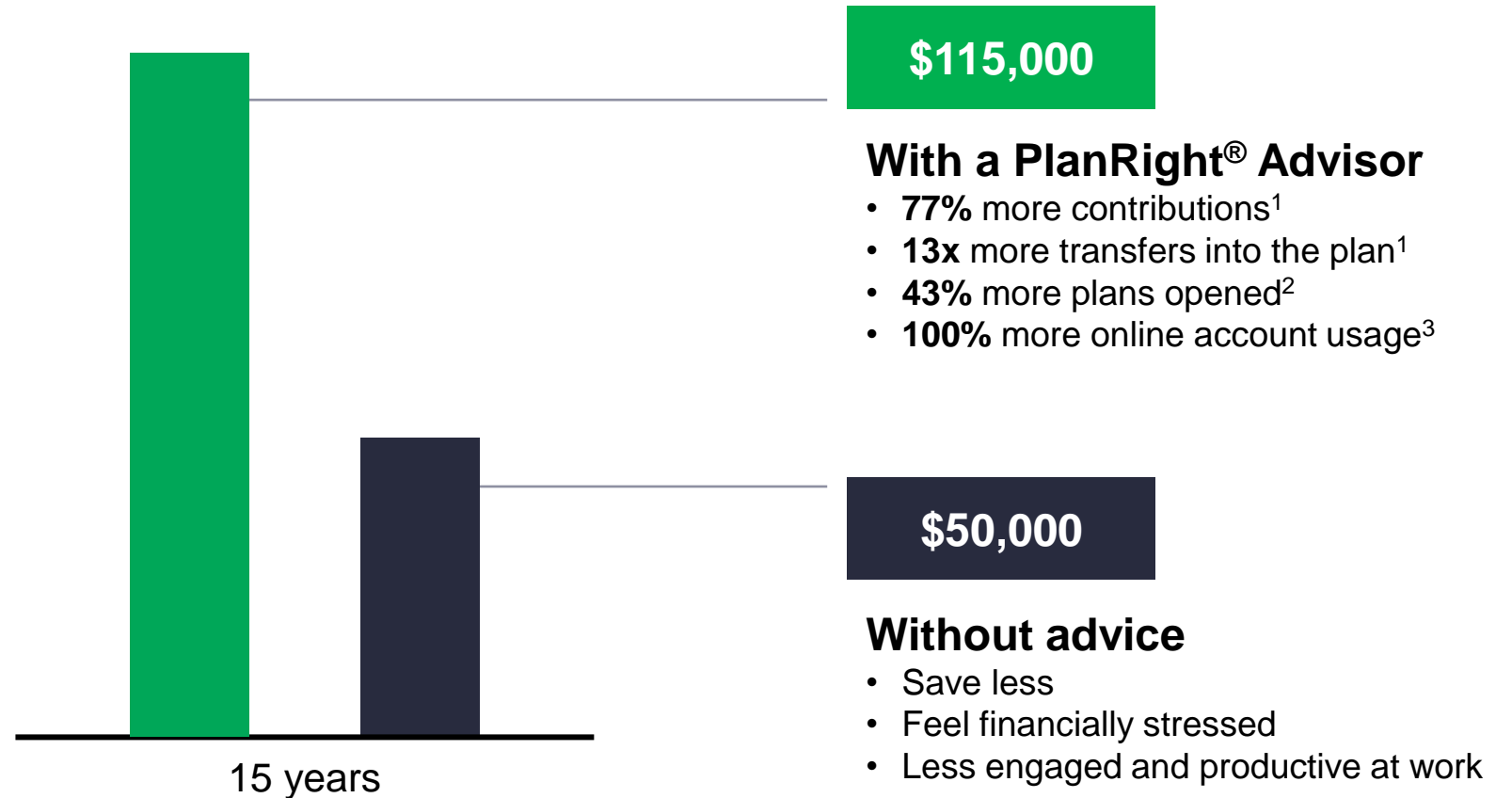
- Better financial decisions
- Higher confidence & engagement
- Feeling mentally, physically and financially healthier

¹Manulife data – Sept. 1 2018 to August 31 2019 ²Manulife data – 2018 to 2019 ³Manulife data – June 1 2019 to August 31 2019

The value of guidance & advice



Canadians who work with an advisor realize **2.3x** the savings after 15 years than those that go at it alone.*



For illustrative purposes only

*More on the value of financial advisors. Claude Montmarquette, Alexandre Prud'Homme ¹ Manulife data – Sept. 1 2018 to August 31 2019 ² Manulife data – 2018 to 2019 ³ Manulife data – June 1 2019 to August 31 2019

A photograph of two women in a professional setting, likely a meeting. The woman on the left has long dark hair and is wearing a white blouse, looking down at a stack of papers she is holding. The woman on the right is wearing a grey hijab and a red sweater, looking towards the papers. In the background, there are bookshelves and other people working, suggesting a library or office environment. A laptop is visible in the foreground on the right.

Meeting Member *Demands*

Values Based Investing



Values-based investing refers to looking beyond a company's balance sheet to invest in companies that do not conflict with personal beliefs and values.

- SRI (Socially Responsible Investing)
- Ethical Funds
- Green Funds
- Thematic Funds
- Development Funds
- ESG (Environmental Social Governance)
- Sustainable Funds
- Impact Investments
- Values Based Investing
- RI (Responsible Investing)
- Gender Diversity Funds
- Shariah Funds



Investors Evolving Values



Then

Socially Responsible Investing

- Focused on exclusions
- Returns secondary to values



Now

ESG Integrated

- ESG considerations within traditional investment process

ESG Tilted

- Favours companies with stronger ESG characteristics

ESG Thematic

- Investment thesis and strategy based on ESG factor(s)

ESG Values

- Invests according to religious or ethical considerations

ESG Impact

- Companies selected based on their environmental or social impact

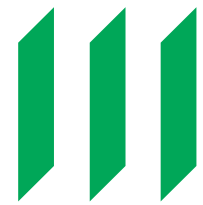
Return objective
Broad universe
Market aware



Impact objective
Narrow universe
Market agnostic

Statement of Disclosure

- This report is based on information available to Manulife Financial at the date of the report and takes no account of further developments after that date.
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- Past performance is not necessarily indicative of future performance.
- Returns for periods greater than one year are annualized.
- Fund performance reflects changes in its unit value and the reinvestment of all distributions and after deduction of operating expenses, but before the deduction of investment management fees, administrative charges and applicable taxes.
- The historical performance shown is that of the segregated fund or the underlying third-party fund. Performance may have been linked to the underlying investment fund to provide a longer performance history.
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Manulife

Panelist

Bradley Hough

Partner – PBI Actuarial Consultants Ltd

PBI

ACTUARIES &
CONSULTANTS

Effective Investment Strategy for Defined Contribution Plans

2022 BCFSA Pensions Forum

Q2 2022

Introduction

1. Defined Contribution – the efficiency challenge
2. Improving efficiency through governance
3. Small DC Plans and low governance investment models

Bradley Hough, FIA, ACIA, CAIA
Senior Consultant, Head of Investments



Key points

1. Studies suggest Defined Contribution Plans face some headwinds from lack of risk sharing, member behaviour and costs
2. Monitoring and good governance can mitigate many of those headwinds
3. Many smaller DC Plans have lower governance budgets – but adapting investment/business models to suit a lower governance budget can have good results

Efficiency of retirement arrangements



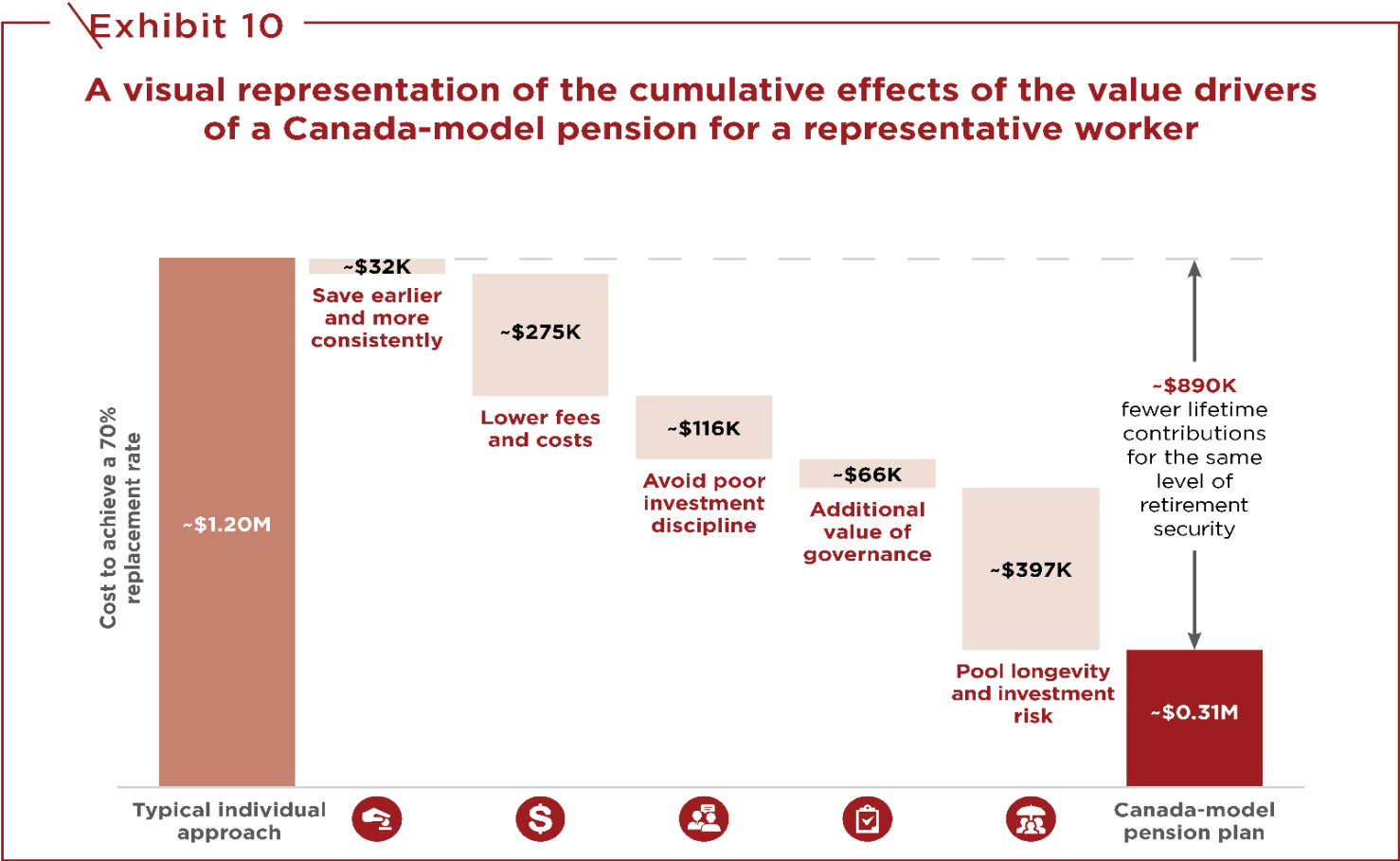
	“Canada” Model Pension Plan	Large Scaled Pooled Plan (DB)	Large Employer DC/Group RRSP	Small Employer DC/Group RRSP	Typical Individual Approach
How much does retirement cost? 1	\$0.31M	\$0.39M	\$0.79M	\$1.05M	\$1.20M
What is my retirement bang for buck? 2	\$5.32	\$4.19	\$2.58	\$1.94	\$1.70

Note 1: Total contributions required to achieve 70% replacement for a worker earning \$40,000 at the start of their career.

Note 2: Total retirement income, plus assets at death divided by total contributions.

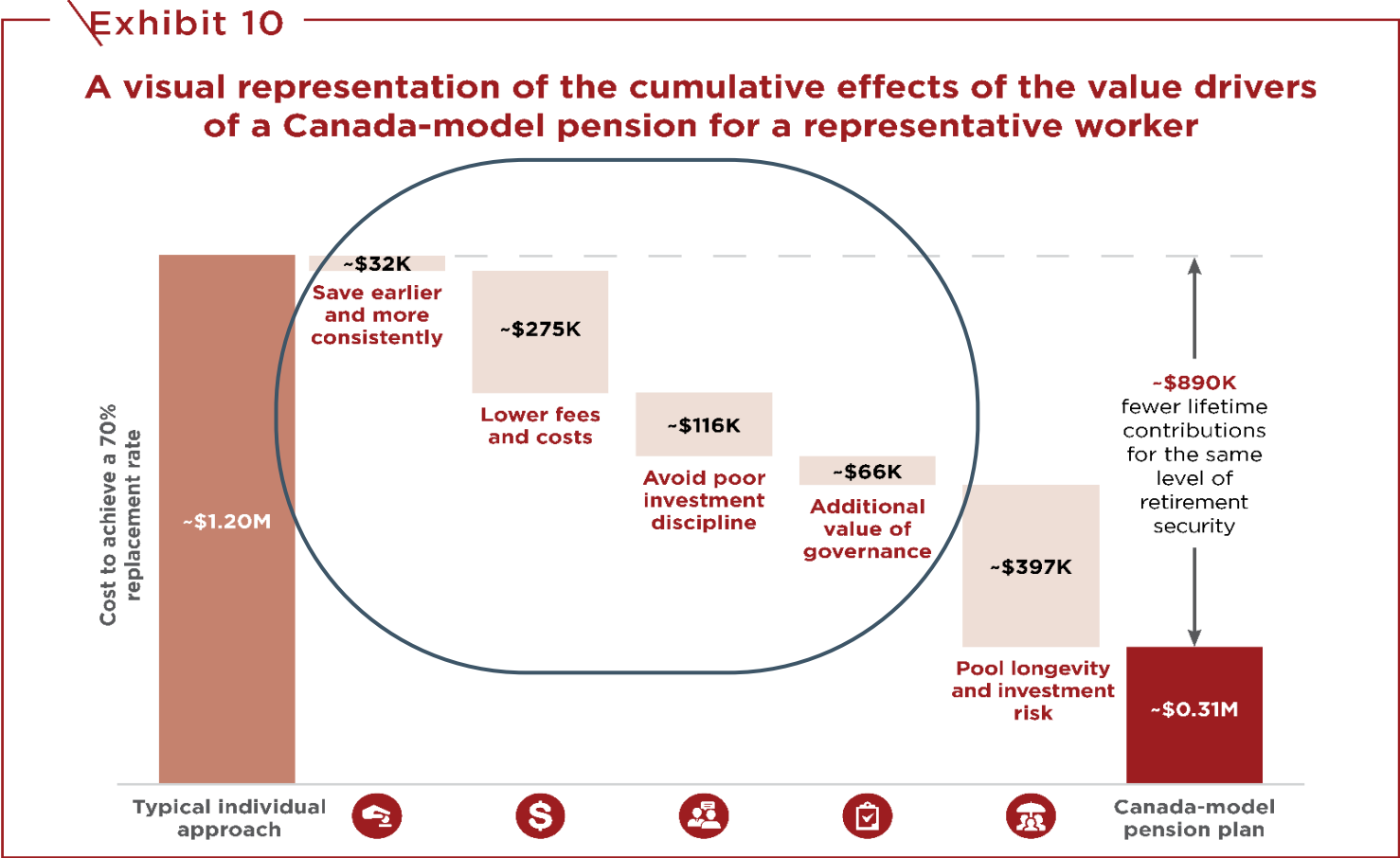
Source: 2018 study by Healthcare of Ontario Pension Plan – The Value of a Good Pension.

Value drivers



Source: 2018 study by Healthcare of Ontario Pension Plan – The Value of a Good Pension.

DC Plans have ability to influence fees, investment discipline and governance



Source: 2018 study by Healthcare of Ontario Pension Plan – The Value of a Good Pension.

DC Plans have ability to influence fees, investment discipline and governance

Value factor	Governance checklist
Lower fees and costs	<ul style="list-style-type: none">• Pooling assets in a DC Plan lowers fees and costs• Are fees competitive?
Avoiding poor investment choices	<ul style="list-style-type: none">• How are members allocating?• Does the fund line up meet their needs?• Education tools/communications to help members make informed choices?
Additional value of governance	<ul style="list-style-type: none">• Pre-selected asset mix (e.g. Target Date Funds): asset mix and glidepath appropriate?• Active funds choices: value add net of fees?• Passive fund choices: tracking benchmarks?

Low governance investment model

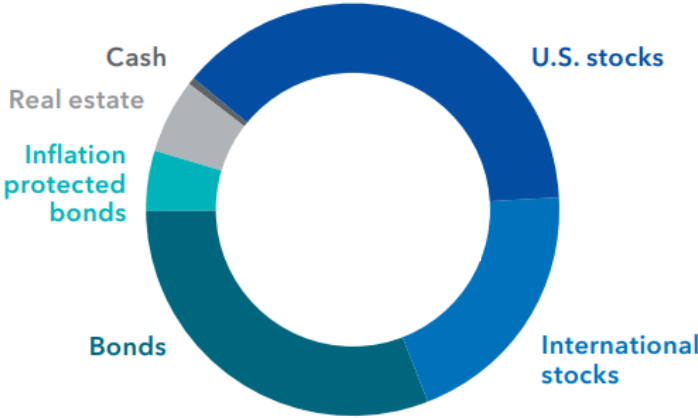
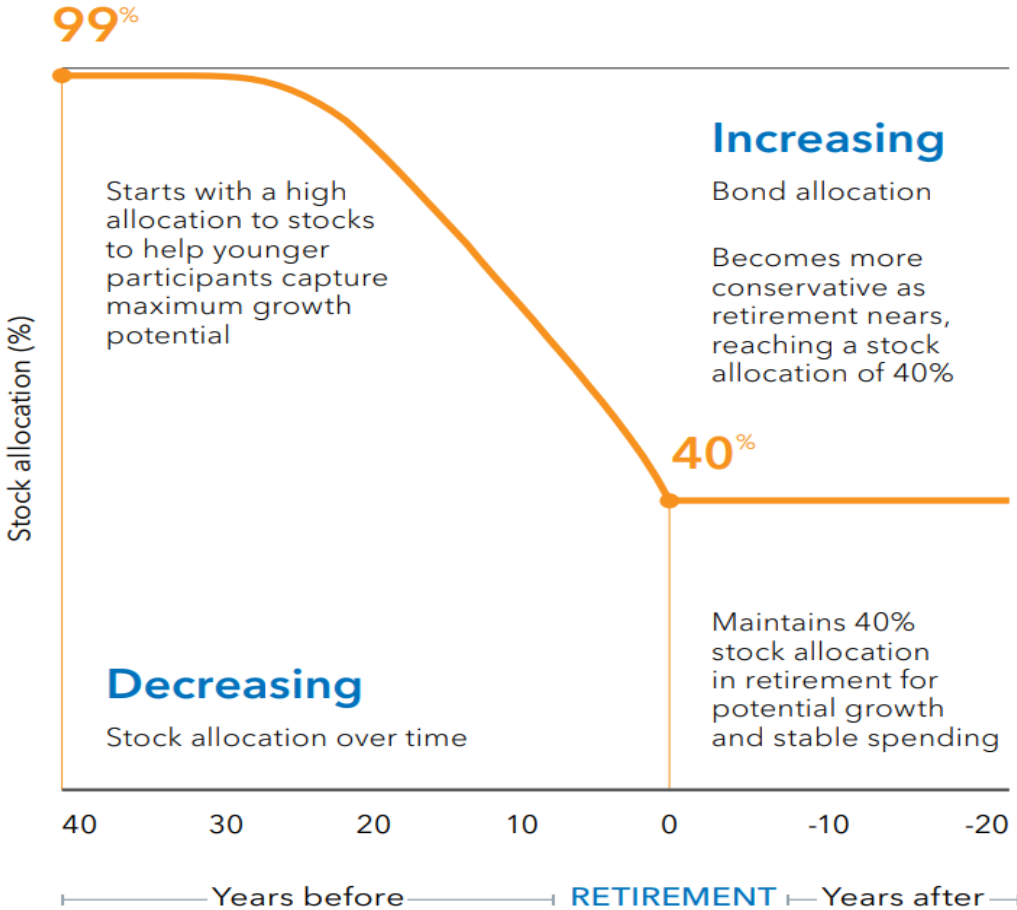
Philosophy

1. Simple fund line up
2. Focus on Target Date Funds or Pre-Mixed Funds
3. Minimize active management – lower cost passive managers/index tracking
4. Strong foundation to deliver retirement savings – additional customization done outside

Low governance model: focus time on highest impact areas

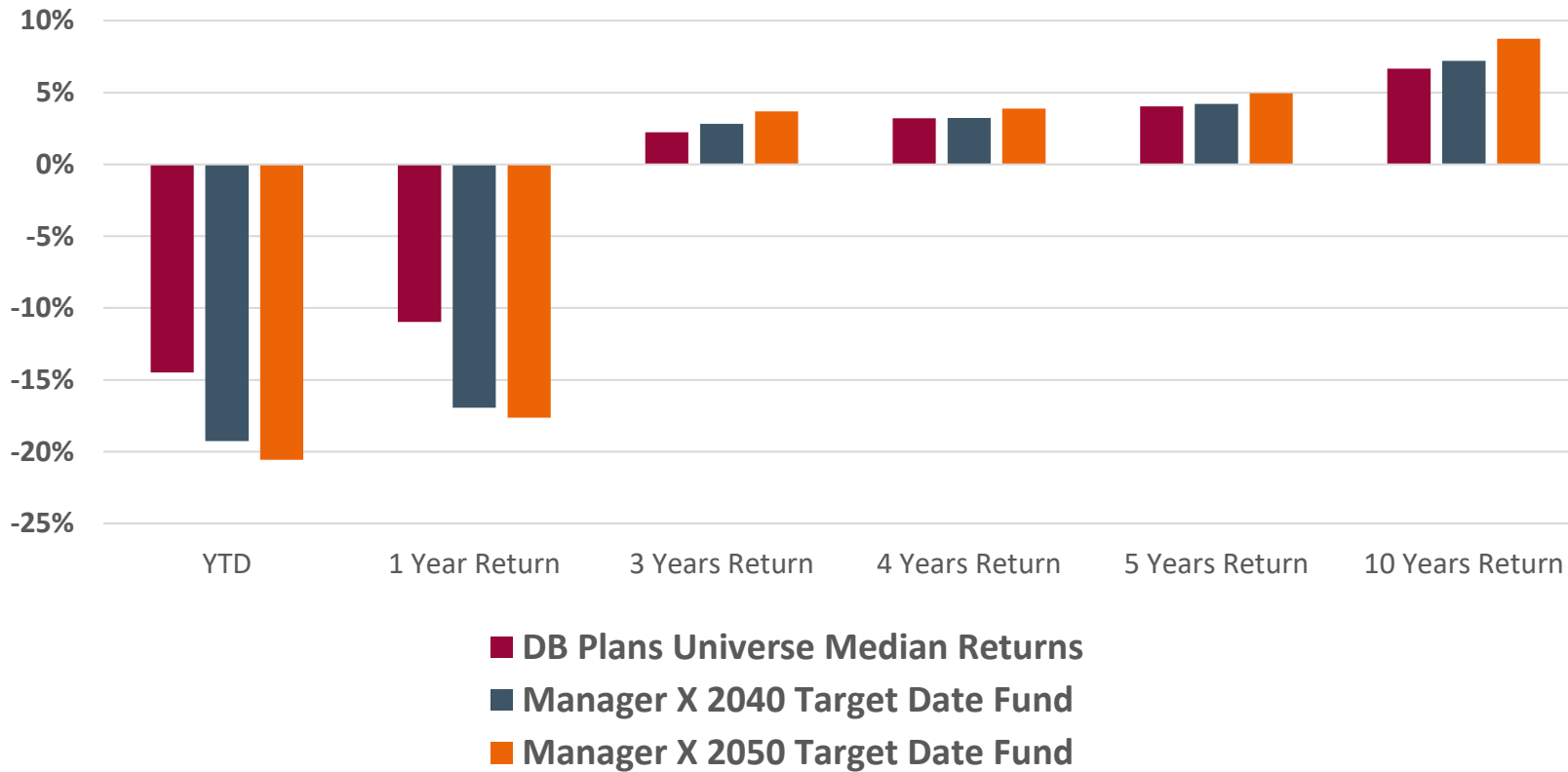
Value factor	Governance checklist	Impact of Low Governance Model
Lower fees and costs	<ul style="list-style-type: none"> • Pooling assets in a DC Plan lowers fees and costs • Are fees competitive? 	Passive options reduce investment management fees.
Avoiding poor investment choices	<ul style="list-style-type: none"> • How are members allocating? • Does the fund line up meet their needs? • Education tools/communications to help members make informed choices? 	Fewer funds reduces governance time while providing members with optimal choices.
Additional value of governance	<ul style="list-style-type: none"> • Pre-selected asset mix (e.g. Target Date Funds): asset mix and glidepath appropriate? • Active fund choices: value add net of fees? • Passive fund choices: tracking benchmarks? 	Passive investments reduce need for monitoring large suite of active manager performance/ongoing suitability.

Target date fund asset mix and glidepath



Target Date Funds have comparable performance to DB Pension Plans

Passive Target Date Funds vs. DB Pension Universe



Concluding remarks

- Good governance in DC Plans helps bridge the value gap
- Governance does not have to be complicated!