Investment Advisor's Report

20th September 2022

We often here about the 60/40 allocation between equities and fixed income as a prudent allocation for long-term investors looking for the expected long-term return equities provide combined with the income and risk reduction afforded by holding fixed income. Unfortunately, during the first half of 2022 global equity markets and USD fixed income securities became positively correlated leaving investors with little cover.

As of 30th June, the S&P 500 index was down 20.6% YTD, and the US yield curve made a parallel shift upwards with the 2yr and 10yr yields increasing by 2.19% and 1.46% respectively. The impact of rising yields is reflected in the Vanguard Intermediate Term Government (VGIT) ETF, which was down 7.99% YTD.

In the six months ended 30th June 2022, the Plan was down -18.09% versus -16.64% for the Plan's benchmark. Over the last 12 months the Plan declined by -15.97% versus -12.81% for the benchmark. Since, inception, the Plan returned 3.02% per annum compared to 4.53% per annum for the benchmark.

The table below shows the performance of the asset managers used by the Plan. Weaver C. Barksdale plus cash accounted for approximately 33% of the portfolio, while equities accounted for approximately 67% of the portfolio.

Fuller & Thaler and OAM outperformed their respective benchmarks, and Janus Henderson is effectively in-line with its benchmark. Polen and Aristotle significantly underperformed and are currently being reviewed by the Plan's investment committee.

RF Pension Plan
Performance (Net) vs. Benchmark (As at June 30, 2022)

Manager	Strategy	Portfolio	Benchmark	Difference	Comment
Weaver C. Barksdale	USD Fixed Income	-6.59%	-6.77%	0.18%	In Line
Polen Capital - Large Cap	US Large Cap Growth	-32.78%	-28.07%	-4.71%	Underperformed
Aristotle Value Equity	US Large Cap Value	-18.61%	-12.86%	-5.75%	Underperformed
Fuller & Thaler SC Behav Eq	US Small Cap	-16.69%	-23.43%	6.74%	Outperformed
Janus Henderson Global Life Science	Health Care	-12.26%	-11.64%	-0.62%	Underperformed
OAM Asian Recovery	Asian Equities	-15.23%	-17.25%	2.02%	Outperformed
OAM European Value	European Equities	-20.87%	-24.21%	3.34%	Outperformed
RF Pension Plan		-18.09%	-16.64%	-1.45%	Underperformed

The tables below detail estimates for the value of the S&P 500 index at the end of 2022 and 2023. The table on the left is based on the replies of 23 leading strategists to Bloomberg. The median forecast of 4,400 is based on EPS of $226 and a P/E multiple of 19.47.

We feel corporate earnings will miss on the downside and rising interest rates will pull rich P/E multiples closer to the long-run average of 16-17 times. The table on the right details RF's target range for the S&P 500 as at 2023 Y/E, which is between 4,000 and 4,500. We are in the camp that feels US core inflation will remain sticky and the Fed will increase the Fed funds rate higher and for longer than equity markets expect.

Strategists' S&P 500 Index Ests. for Year-End 2022			
	2022 Close	2022 EPS	Implied P/E
Average	4,376	$ 225	19.45
Median	4,400	$ 226	19.47
High	5,100	$ 245	20.82
Low	3,400	$ 200	17.00
No. of replies	23	23	
Source: Bloomberg			

RF Estimate		P/E Range				
Gth Assp	2023 Y/E Est.	16	17	18	19	20
3.50%	$ 233.91	3,743	3,976	4,210	4,444	4,678
4.50%	$ 236.17	3,779	4,015	4,251	4,487	4,723
5.50%	$ 238.43	3,815	4,053	4,292	4,530	4,769
6.50%	$ 240.69	3,851	4,092	4,332	4,573	4,814

The table below details equity classes that were trading below their 20-year average P/Es as of 16th September.

Equity Class	Current P/E	20-Yr Ave P/E	Current Exposure
US Mid-Cap Value	**12.3**	**14.5**	**Nil**
US Small-Cap Value	**11.6**	**17.6**	**Fuller & Thaler**
Europe Equity	**11.1**	**13.1**	**OAM**
Japan Equity	**12.6**	**15.9**	**Nil**
Asia Pacific ex Japan Equity	**13.6**	**14.5**	**OAM**
Emerging Markets	**10.9**	**11.4**	**Nil**

Currently the Plan's investments in the OAM funds account for 30% of the total portfolio, which is the maximum allowed in non-US equities. We do not plan to reduce our exposure to OAM given their proven track record of adding alpha. However, we are looking at reducing exposure to US Large-Cap Growth, the richest equity class, and adding to US Small-Cap Value and US Treasury Bills.

We expect equity markets to remain volatile through Q1 2023 but given the risk of trying to time the market, we will stick to tried and true adage that it is time in the market and not timing the market that matters.