# INVESTMENT ADVISOR'S REPORT

PENSION
PLANS

# Looking Forward

**Dear Members and Stakeholders,**

As we gather once again to review the annual report of our pension plan, I want to begin by expressing my gratitude for the trust you have placed in us. Serving as the Vice President of Pension Services, I take the responsibility of safeguarding your financial future to heart. The past year has brought its own set of challenges, and I want to assure you that your concerns have not gone unnoticed.

Our pension plan's performance over the past year has, admittedly, fallen short of our desired outcomes. The economic landscape has been turbulent, and we recognize the impact it has had on your retirement savings. We empathize with the frustration and uncertainty that can accompany such times. However, I firmly believe that in times of adversity, true strength is revealed. It is during these moments that we must keep our faith in the journey ahead, and I want to assure you that there is indeed light at the end of the tunnel.

Our confidence in our investment managers remains unshaken. They have demonstrated unwavering dedication and an unwavering commitment to your financial well-being. In the face of adversity, they have worked tirelessly to steer our investments through the storm, and their expertise continues to be our greatest asset.

As we look forward to the coming year and beyond, I am excited to share some significant developments that give us reason for optimism:

**Introduction of Five New Investment Strategies:** We are diversifying our investment portfolio with the introduction of five new strategies. These strategies have been meticulously researched and chosen to not only enhance performance but also to mitigate risk. By broadening our investment horizons, we aim to better navigate the ever-changing financial landscape.

**Growing Team to Support Pension Members:** We understand that your needs extend beyond the pension plan itself. To better serve you, we have expanded our team dedicated to supporting pension members. This team will provide complimentary financial planning services to help you make informed decisions about your retirement goals, investments, and financial future.

**Upgrades to Our Online Pension Portal:** Your convenience and satisfaction are paramount. We are committed to providing you with a user-friendly experience, and as part of this commitment, we are upgrading our online pension portal. These enhancements will simplify account management, increase transparency, and make accessing your pension information easier than ever before.

Each of these developments is essential to our mission of ensuring your financial security in retirement. They reflect our commitment to adapt and evolve in response to the challenges of today's world. We recognize that your trust is not something we can take for granted, and we are dedicated to earning it anew with each passing day.

In closing, I want to thank you for your continued confidence in our pension plan. While we acknowledge the challenges we have faced, I am optimistic about our future. Together, we will overcome these challenges and continue on the path towards a secure retirement for all members.

Thank you for being an integral part of our pension plan family. Your future is our priority, and we look forward to a brighter tomorrow.

**Cleora Farquharson**
Vice President of Pension Services
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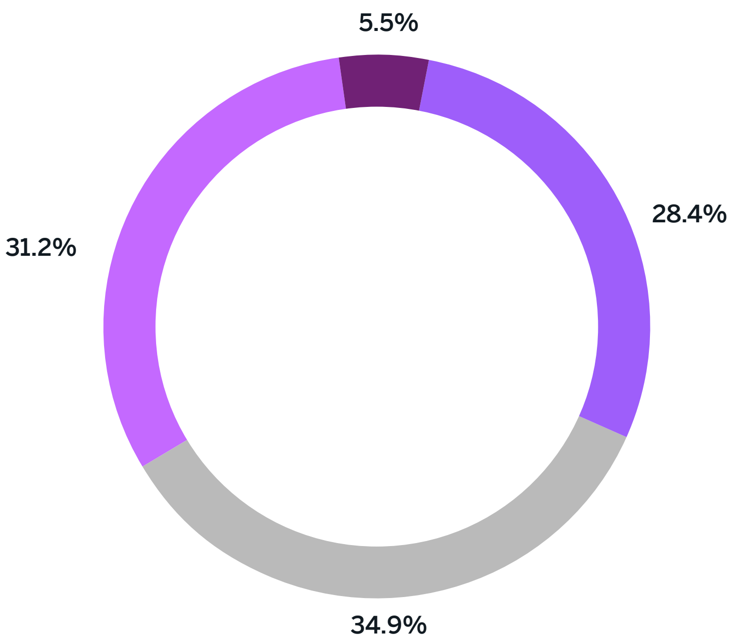
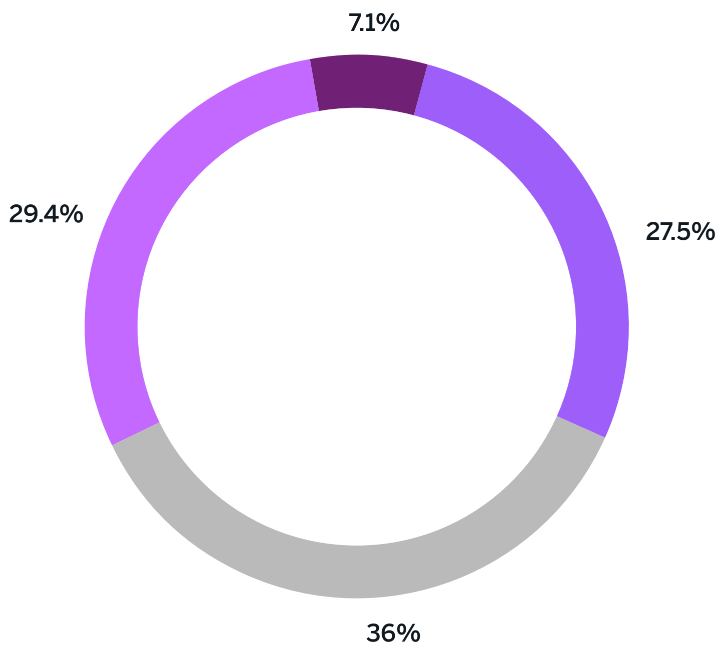
# Report

The RF Pension Plan (the "Plan") returned 2.93% in June and 5.80% for the first six months on calendar 2023. The Plan's return for fiscal 2023 ended 30th June 2023, was 5.75% versus 10.87% for the Plan's benchmark. The Plan is heavily weighted (48.2%) in value while the benchmark has a heavier weighting in growth. In July the Plan was up 2.65% versus 2.36% for the benchmark.

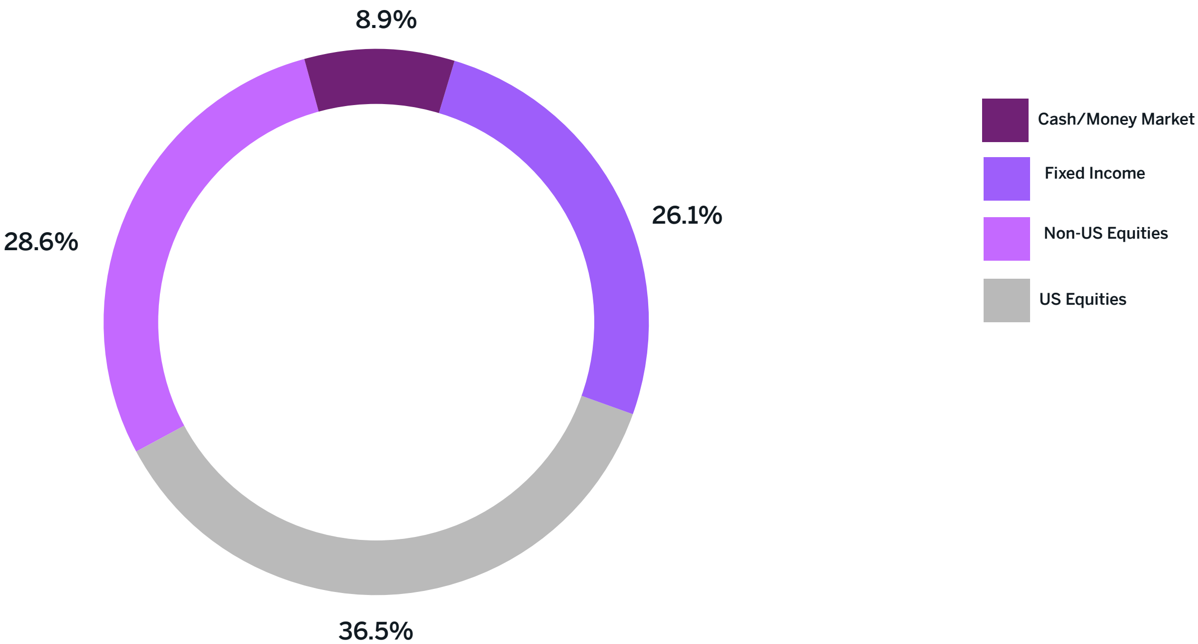
The charts below detail the Plan's broader asset allocation. The key change between the end of 2022 and June 2023 is the increase in cash/money market position from 5.5% to 8.9%. The rise in US interest rates makes holdings cash attractive with short term rates of more than 5%.




RFPP Asset Allocation 31st Dec. 2022



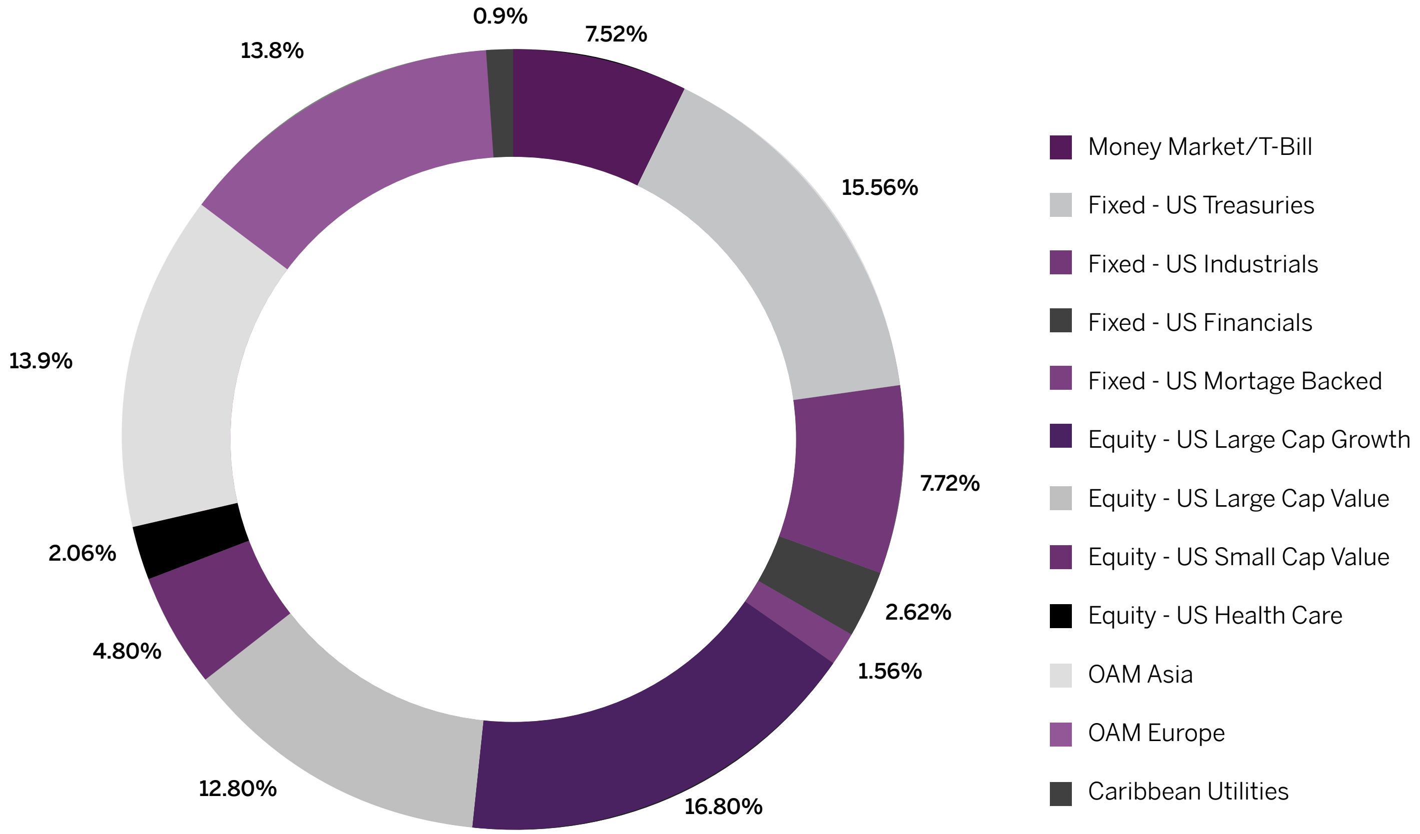

RFPP Asset Allocation 31st Mar. 2023




RFPP Asset Allocation 30th June 2023

The chart below provides a detailed breakdown of the Plan's asset allocation on 30th June 2023, while the table details the Plan's top U.S. equities sector exposures. The top two US equity sector exposures are information technology and health care.

## RF Pension Plan Portfilio Allocation - 30 June 2023




| Top US Equity Exposure | %Total Portfolio |
|---|---|
| Information Technology | 7.90% |
| Health Care | 6.43% |
| Consumer Discretionary | 5.00% |
| Financials | 4.73% |
| Communications Services | 2.67% |
| Industrials | 2.30% |
| Materials | 1.51% |
| Consumer Staples | 0.98% |
| Energy | 0.58% |
| Utilities | 0.54% |
| Real Estate | 0.46% |
| Other | 3.34% |

*“As sure as the spring will follow the winter, prosperity and economic growth will follow recession.”*

Robert Forster Bennett

The table below notes the individual asset managers selected by RF and their performance. The fixed income portfolio is managed by Weaver C. Barksdale, the US equity portfolio is managed by Polen Capital, Aristotle Capital Management, Fuller & Thaler Asset Management, and Janus Henderson Global Life Science. The non-US equity portfolio is invested in the OAM Asian Recovery Fund and the OAM European Value Fund.

# RF Pension Plan

## Performance (Net) vs. Benchmark (As at June 30, 2023) - YTD

| Manager | Strategy | Portfolio | Benchmark | Difference | Comment |
|---|---|---|---|---|---|
| Weaver C.Barksdale | USD Fixed Income | 1.63% | 1.49% | 0.14% | In Line |
| Polen Capital - Large Cap | US Large Cap Growth | 26.48% | 29.02% | -2.54% | Underperformed |
| Aristotle Value Equity | US Large Cap Value | 8.19% | 5.12% | 3.07% | Outperformed |
| Fuller & Thaler SC Behav Eq | US Small Cap Value | 8.67% | 8.09% | 0.58% | Outperformed |
| Janus Henderson Global Life Science | Health Care | 4.84% | -0.18% | 5.02% | Outperformed |
| OAM Asian Recovery | Asian Equities | 4.46% | 1.84% | 2.62% | Outperformed |
| OAM European Value | European Equities | 1.39% | 11.36% | -9.97% | Underperformed |
| RF Pension | | 5.80% | 9.97% | -3.99% | Underperformed |

The only manager that is significantly underperforming YTD is the OAM European Value. We had a conference call with the Fund's investment manager and reviewed the Fund's top holdings. Based on this conversation and our analysis of the key positions, we are comfortable with retaining this position. Also, the medium to long-term performance of an asset manager is key. The table below shows that in July the OAM European Value Fund appreciated by 4.18% and outperformed the benchmark by 1.10%.

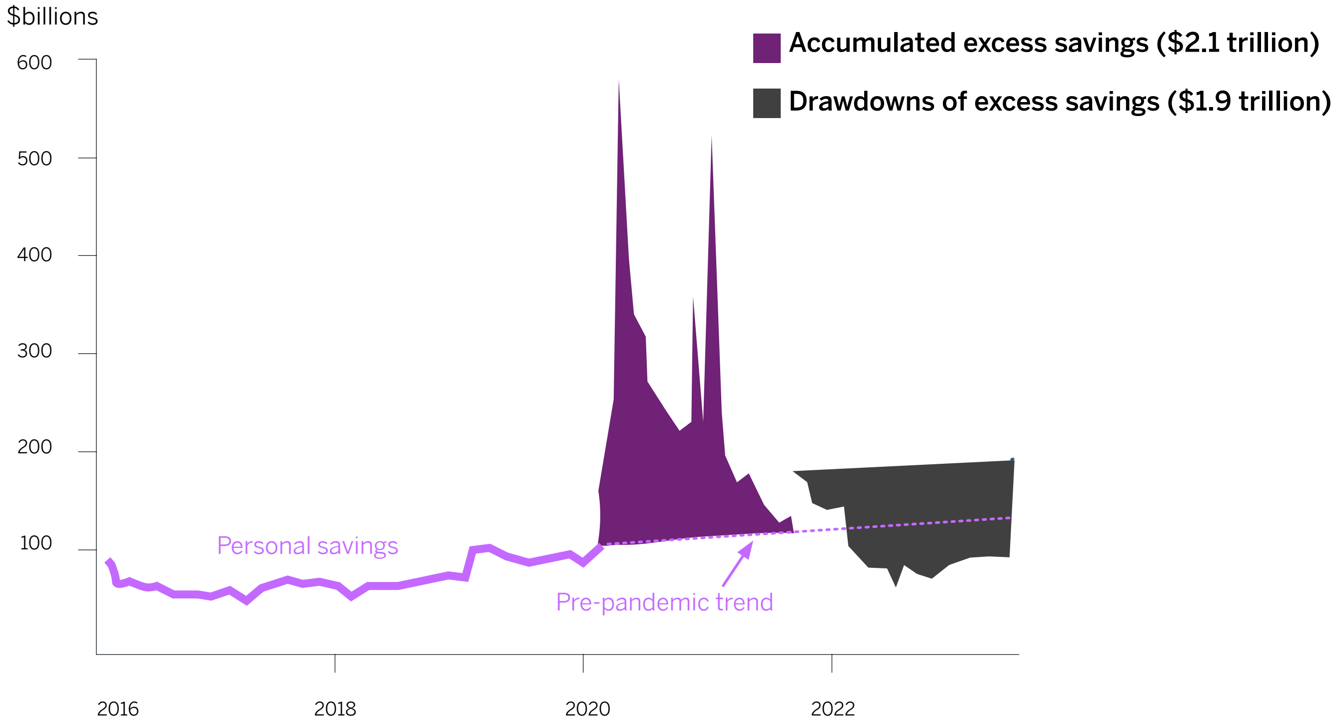
## OAM Fund Performance as at July 31, 2023

| Fund | YTD | Jul-23 | Jun-23 | May-23 | Apr-23 | Mar-23 | Feb-23 | Jan-23 | 2022 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| ARF(OAMASRI KY) | 9.38% | 4.71% | 3.60% | -1.14% | 0.68% | 0.82% | -3.31% | 3.91% | -14.79% | 9.27% |
| Benchmark (MXASJ) | 7.62% | 5.68% | 2.17% | -2.09% | -2.19% | 3.29% | -6.86% | 8.18% | -19.17% | -6.36% |
| Difference | 1.76% | -0.97% | 1.43% | 0.95% | 2.87% | -2.47% | 3.55% | -4.27% | 4.37% | 15.64% |
| EVF (OAMEUVA KY) | 5.63% | 4.18% | 4.08% | -4.42% | 2.20% | -4.67% | 0.47% | 4.11% | -13.03% | 25.85% |
| Benchmark (MXER) | 14.78% | 3.07% | 4.65% | -6.46% | 3.64% | 1.86% | -0.72% | 8.53% | -21.54% | 13.58% |
| Difference | -9.15% | 1.10% | -0.57% | 2.03% | -1.44% | -6.53% | 1.19% | -4.42% | 8.42% | 12.27% |

In previous reports we discussed our view that US equity markets would correct and that we wanted to ensure the Plan had sufficient liquidity to benefit from the pullback. We are of the view that we were simply early and not incorrect, but only time will tell. Recently Goldman Sachs lowered their estimate of recession risk to 15%. On the other hand, according to David Rosenberg the NY Fed and the St. Louis Fed place the probability of a US recession in 2024 at 96% and 76%, respectively. Effectively 100%! Rosenberg expects a recession in Q1 2024 if not Q4 2023.

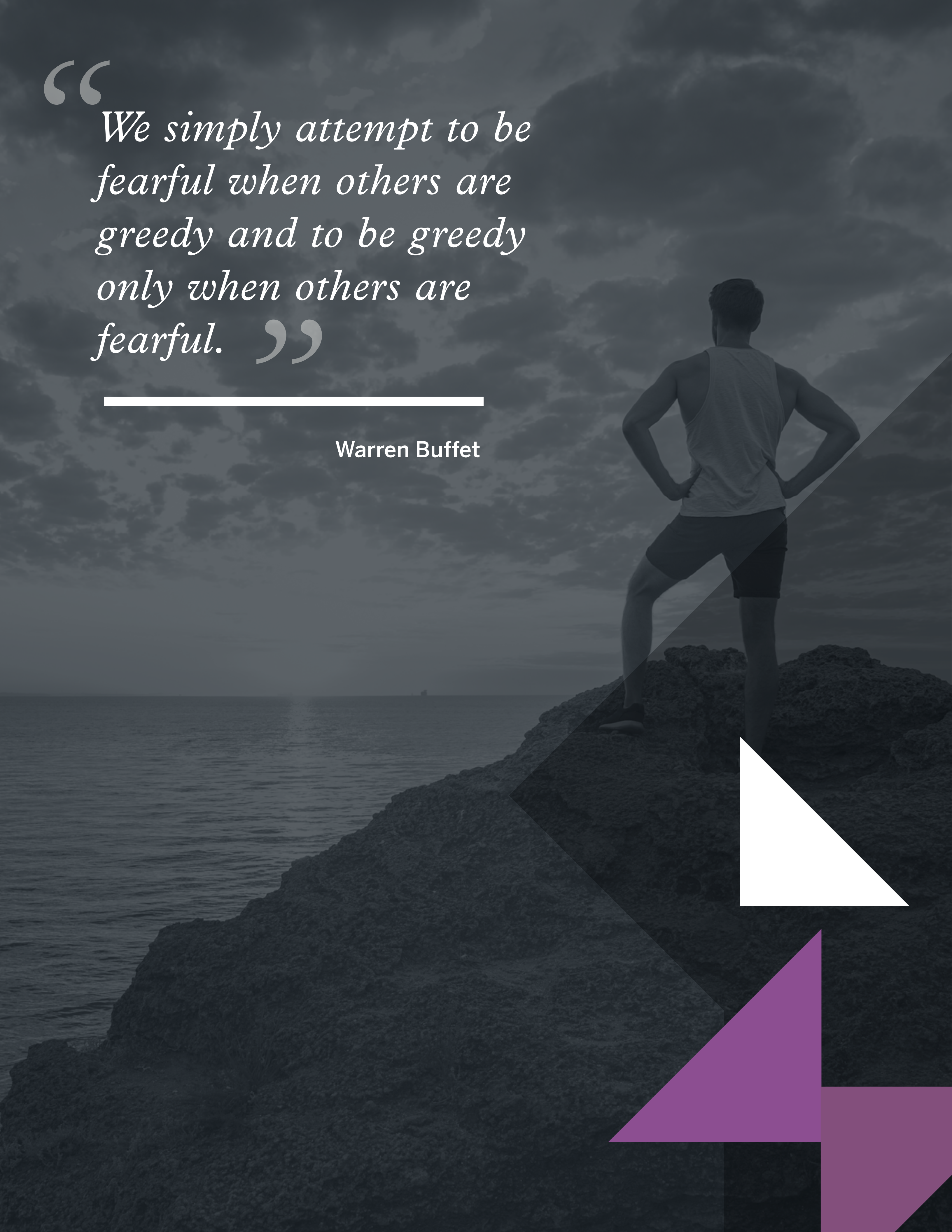
The chart below shows US accumulated excess savings of $2.1 trillion from fiscal support during the pandemic and the drawdown of $1.9 trillion of this excess savings by June 2023. The burn rate is around $100 billion per month, so by September all the excess savings will have been drawn down.

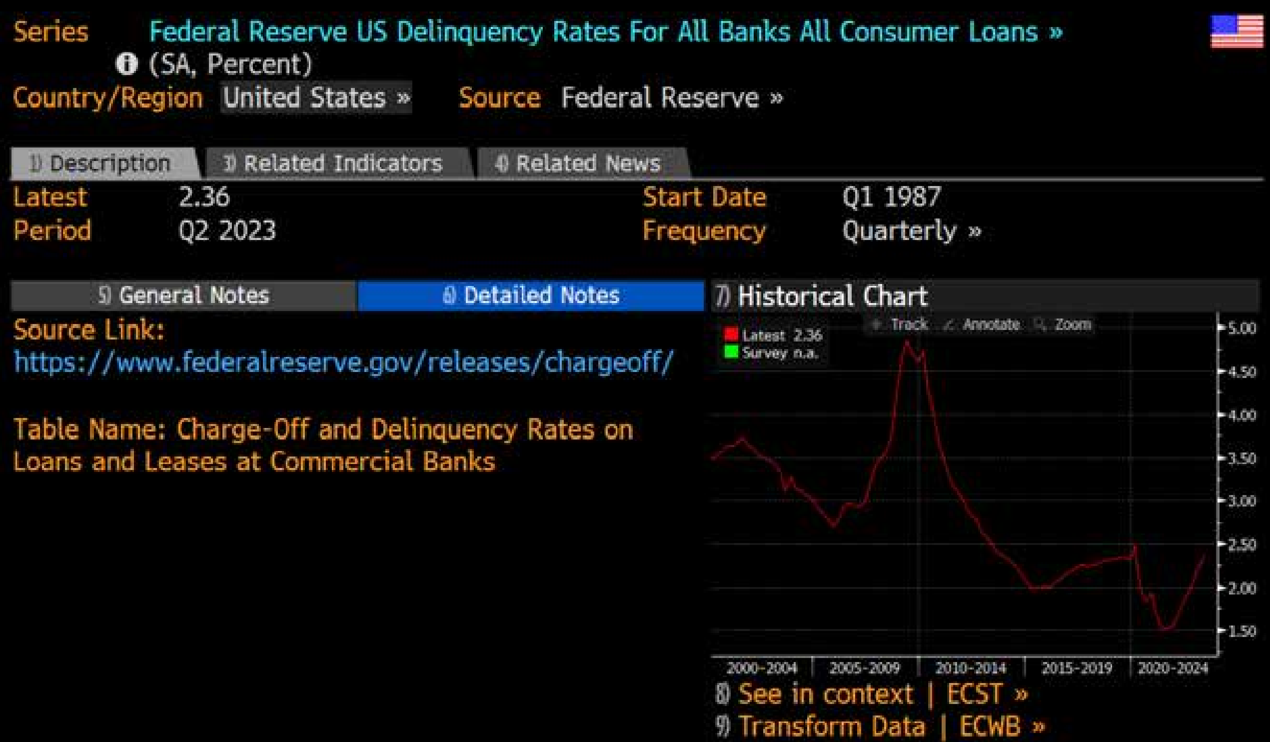
Figure 1: Aggregate personal savings versus the pre-pandemic trend



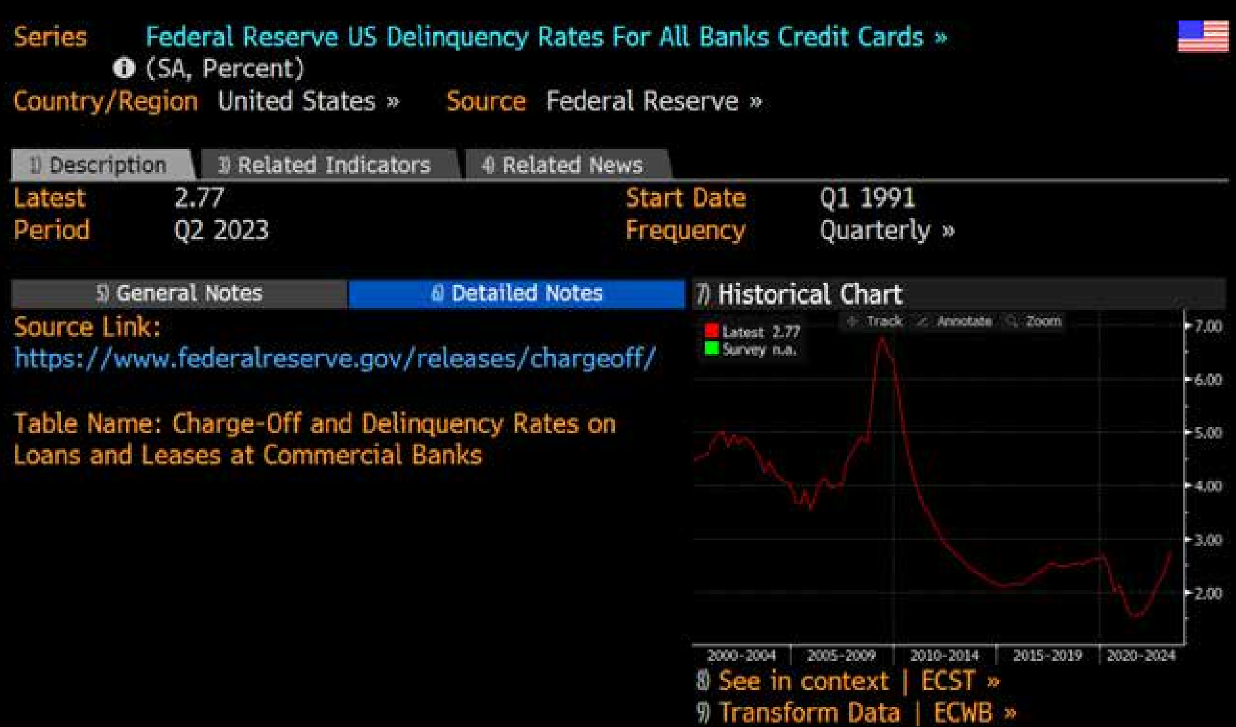

Source: **Bureau of Economic Analysis** and author's calculations.
Note: Excess savings calculated as the accumulated difference in actual de-annualized personal savings and trend implied by data for the 48 month leading up to the first month of the 2020 recession as defined by the National Bureau of Economic Research

Approximately 70% of US GDP is based on consumption which has been fueled by the $2.1 trillion in pandemic stimulus and post pandemic mindset of "YOLO" and "FOMO" which is "you only live once" and "fear of missing out". The YOLO effect has also been called "revenge spending" on things like travel and high-ticket items. US consumers have also used consumer and credit card debt to fund spending. The charts below show delinquency rates on consumer loans and credit card debt up to June 2023. Consumer loan delinquency rates are near pre pandemic levels, while credit card delinquency rates have exceeded pre pandemic levels. Some analysts have referred to the impressive resilience of the US consumer, but unfortunately it appears that their endurance will be severely tested in short order.


We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful.
Warren Buffet



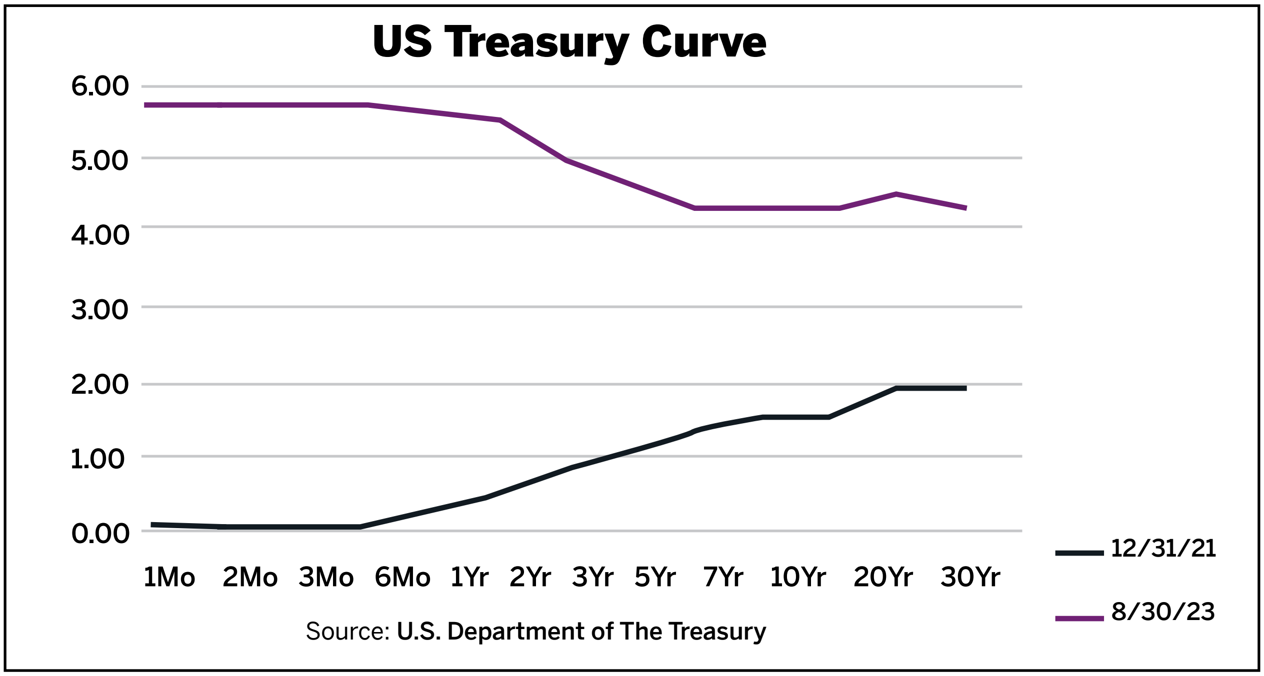

Source: **Bloomberg**



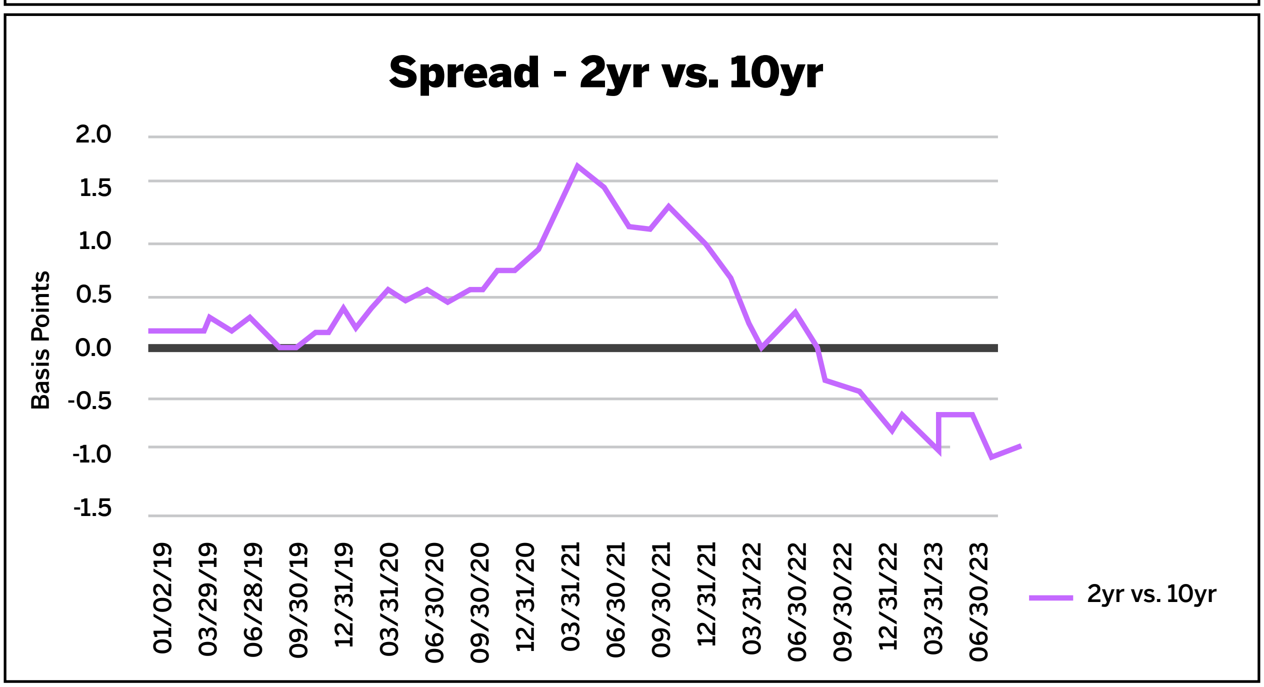

Source: **Bloomberg**

At the end of the day the value of an asset is dependent on the cash flows it can generate today and into the future. Future cash flows are discounted by a discount rate to estimate the present value of these cash flows. The first component of the discount rate is the risk-free rate, which is based on the US treasury curve. The chart below left shows the significant increase in US treasury rates since the end of 2021. The calculus is simply, when interest rates go up, asset prices eventually come down.

The chart below right shows the spread between the 2yr and 10yr treasuries invested in June 2022 and at the end of August the spread was -0.78%. Historically when these curves invest a recession follows within 12-18 months. It has been 15 months since they inverted and based on the past a recession is likely to start in Q4 2023 or Q1 2024. According to David Rosenberg, "we've had the biggest interest rate shock since 1981…and 1981 was followed by 1982, which was not a mild recession by the way." Rosenberg feels only the impact of fiscal stimulus, which runs out this month, held off a recession to this point.




Source: U.S. Department of The Treasury home.treasury.gov



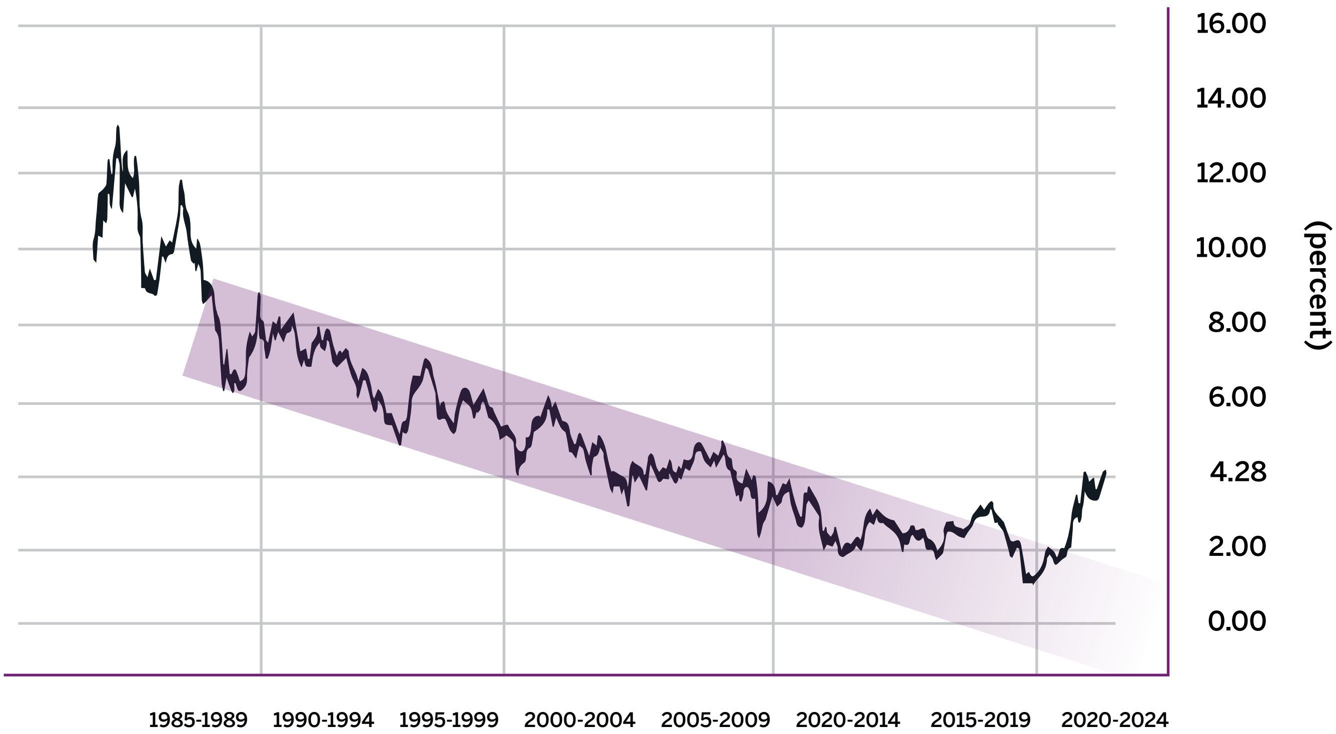

Source: U.S. Department of The Treasury home.treasury.gov

We, like many investment managers, were expecting a pullback in equities combined with a recovery in fixed income/bond prices. The chart below shows that the losses on bonds in 2022 and 2023 YTD were greater than at anytime over the last 40 years. Our view is that a slowing US economy will motivate the Fed to lower rates in 2024. That said, we expect the bond market to start recovering prior to an actual rate decrease.

# Bond Losses Are Historic

## We've broken a near-40 year trend line

**10Yr US Treasury Yield**




Source: **Bloomberg**

As at the end of June the Plan had $4.9 million invested in money market funds and T-bills yielding annualized returns of nearly 5.0%. We still hold the view that a high probability of a U.S. equity market correction warrants having liquidity, yielding 5%, to buy into such a pull back. The Plan is still 65% invested in US, European, and Asian equities, so if the expected equity pull back doesn't materialize, then the Plan will still benefit.

**David Slatter, CFA**
**RF VP & Group Head of Investments**
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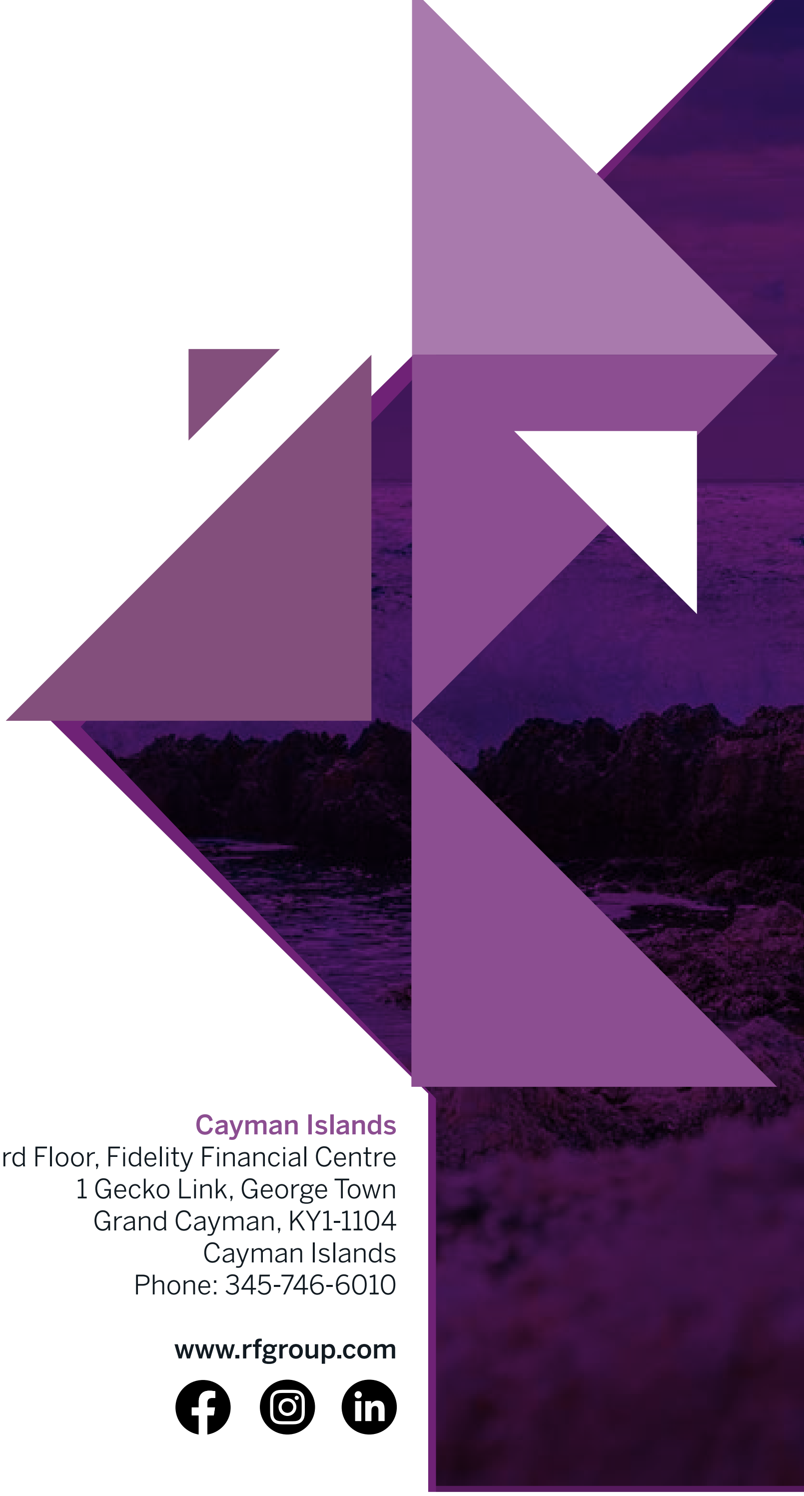


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