January 13, 2025

Western Pension Plans Annual Investment Commentary (2024)

The following commentary was prepared by Western University Management Staff on behalf of the Joint Pension Board for the year-ended December 31, 2024. A full description of the investment options, along with performance history, is available to members within their Sun Life Plan Member account. Members may log in at mysunlife.ca/western.

Market Summary

Despite several geopolitical issues impacting the world economies in 2024, many economic indicators turned out better than expected. Recessions were avoided in both Canada and the U.S. and both countries Central Banks made significant progress towards easing inflation. In Canada, the Consumer Price Index (CPI) fell to 1.9% in November 2024, down from 3.4% at the beginning of 2024, while in the U.S. the CPI dropped to 2.9% in December 2024, from 3.4% at the end of 2023. As a result, the Bank of Canada lowered its key interest rate from 5.00% to 3.25% during the year and the Federal Reserve in the U.S. lowered its key lending from 5.25%-5.50% to 4.25%-5.00%. However, strong employment data and economic output in the U.S. have lowered expectations for the Fed Funds rate cuts in 2025, which will have implications for stock market returns, bond returns and the currency exchange rate between the U.S. and Canada.

The impact of those economic developments on the fixed income markets was mixed, as short-term rates declined while long-term rates increased. In Canada, the yield on 10-yr bonds went from 3.10% to 3.23% in 2024, while in the U.S. it went from 3.87% to 4.57%, as economic growth and inflation are exceeding expectations, especially in the U.S. The FTSE Canada Universe Bond Index, the main measure of the Canadian bond market, posted a return of 4.23% in 2024, compared to 6.69% in 2023. The index was dragged down by long-term bonds, as the FTSE TMX Long-Term Bond Index returned 1.35% last year. Although the Bank of Canada reduced its policy rate by 1.75% during the year, the return on money market securities still exceeded the 2023 performance, with the FTSE 91-Day T-Bills Index returning 4.92% in 2024, compared to 4.73% in 2023. However, as the Bank of Canada key interest rate is starting 2025 at 3.25%, money market returns are expected to decline.

The combination of strong economic growth and declining interest rates was positive for the stock markets in 2024. The U.S. again led the way in 2024 with the S&P 500 returning 36.36% in Canadian dollars. As the U.S. dollar appreciated versus the Canadian dollar, the S&P 500 return in U.S. dollars was lower at 25.02%. The S&P 500 performance was again led by the Magnificent Seven from the index (Alphabet, Amazon.com, Apple, Meta, Microsoft, Nvidia and Tesla), which accounted for about half of the index total return. The Canadian stock market also posted a second year in a row of double-digit returns, with a total return of 21.64% on the back of a very strong second half. Non-North American markets lagged but also had a good year based on absolute returns, with the MSCI EAFE Index (Net) returning 13.24%. Emerging markets rebounded with the MSCI Emerging Markets Index (Net) returning 17.25%, up from 6.88% in 2023.

Although it’s hard to time the market as strong momentum can carry the markets higher, it’s unusual for the S&P 500 Index to post two consecutive years of total returns in excess of 20%. In addition, the valuation of the U.S. stock market is much higher than that of other markets. The cyclically adjusted price-to-earnings ratio (CAPE), a valuation metric that measures the relationship between a stock's price and its earnings over time, reached 37.92 at the end of 2024, a level reached the last time just before the tech bubble burst in 2000. While it is very difficult to predict returns over a one-year horizon, there is a strong correlation between high valuations and low returns over a horizon of 10 years. As such, it is important to maintain a diversified portfolio and not focus exclusively on past winners. A diversified portfolio minimizes the impact of the exposure to poor performing securities and allows an investor to keep compounding returns. As announced last year, further diversification into real assets, such as infrastructure and real estate, were added to the Diversified Equity Fund.

A summary of market performance by asset class follows:

Annualized returns (in Canadian dollars) for the periods ending December 31, 2024

Market index	1 year return	3 year return	5 year return
Cash/Money Market Funds			
FTSE TMX 91-Day T-Bill	4.92%	3.81%	2.48%
Bonds			
FTSE TMX Universe Bond	4.23%	-0.60%	0.79%
FTSE TMX Long Term Bond	1.35%	-4.59%	-1.49%
FTSE TMX Short Term Bond	5.70%	2.13%	2.13%
BC Global Aggregate Bonds - Hedged	2.41%	-1.23%	0.01%
Equities			
S&P/TSX Composite	21.65%	8.58%	11.08%
S&P 500 – Hedged	23.85%	7.72%	13.17%
S&P 500 – Unhedged	36.36%	13.76%	16.92%
MSCI ACWI SMID	18.53%	5.28%	8.85%
MSCI EAFE	13.24%	6.14%	6.92%
MSCI ACWI	28.15%	10.10%	12.37%
MSCI Emerging Markets	17.25%	2.42%	3.83%
Canadian versus U.S. Dollar	-8.08%	-4.13%	-2.03%

Responsible Investing Update

For the fourth year in a row, the annual commentary includes a responsible investing update. In 2024, Western Staff implemented a sustainable investment option that invests in companies providing positive social and environmental impacts, as measured by the United Nations Sustainable Development Goals. Since the inception of the fund in January 2024, the Sustainable Global Equity Fund has generated a strong absolute return of 17.26% (as of December 31, 2024), while also meeting some sustainable goals. Fund investments contribute to 16 of the 17 United Nations Sustainable Development Goals (SDGs), while no holdings in the portfolio have a negative impact. Moreover, portfolio companies are aligned with the Paris Accord in terms of limiting global temperature increases to less than 2^{o} C. The portfolio carbon emissions are also 60% lower than its benchmark as of November 30, 2024. The Sustainable Global Equity Fund is not an underlying component of the Diversified Equity Fund (and therefore also not a component of the Balanced Growth Fund or Balanced Income Fund). Members looking to invest in this fund would need to select it from the fund line-up.

In addition, the carbon footprint of the Western Pension Plans was measured for the fourth time. Western measured the following metrics[1] for the Western Pension Plans as of December 31, 2023:

- Weighted-average carbon intensity (WACI)
- Carbon emissions per dollar invested
- Potential emissions from fossil fuel reserves

As discussed in the past, those measurements are only the start of a discussion and will assist the Joint Pension Board in monitoring and identifying:

- Carbon emissions hot-spots and potential climate risks
- Exposure and holdings that merit further engagement with external managers
- A baseline from which to track future progress and report to stakeholders

Some of the findings for the recent analysis include:

- Overall, the carbon footprint, as measured by the carbon emissions and WACI, for the Canadian Equity Fund and the Diversified Equity Fund were both lower than their respective benchmark. Both measures were lower than in 2022 for the Canadian Equity Fund and the Diversified Equity Fund.
- The carbon footprint for the Non-North American Equity Fund was higher than its benchmark, while the carbon emissions and the WACI was lower than last year.
- The carbon emissions for the Diversified Bond Fund was similar to its benchmark, while the WACI was slightly higher, due to exposure to carbon-intensive companies in the energy and utilities sectors. However, it's important to note that coverage remains low for fixed income funds (less than 50%).
- Compared to their benchmarks, all actively managed equity investment options have materially lower exposure to potential emissions from owned fossil fuel reserves.

The analysis of these results will shape the Joint Pension Board future initiatives, notably regarding engagement with external managers.

What's New

During 2024 the Joint Pension Board and Western team implemented several of the changes that were worked on beginning in 2023. Those include:

- Launching the Sustainable Global Equity Fund in February 2024
- Adding a 5% allocation to an infrastructure fund (Brookfield Super-Core Infrastructure Partners) within the Diversified Equity Fund in April 2024
- Adding a 5% allocation to a real estate fund (CBRE Global Alpha) within the Diversified Equity Fund in December 2024.

A summary of the assets by fund and manager follows:

[1] For more information on the calculation of those metrics, please consult the document *Implementing the Recommendations of the Task Force on Climate-Related Financial Disclosures*, pp. 43-44.

Investment fund	Funds managed ($millions)	% of fund	% of total assets	Fund asset class	Manager style
MONEY MARKET FUND					
Sun Life Global Investments (Canada)	$36.7	100.0%	2.4%	cash	active
SUN LIFE GDIA					
Sun Life Global Investments (Canada)	$38.5	100.0%	2.5%	cash	n/a
DIVERSIFIED BOND FUND					
Romspen Investment Corporation	$48.3	14.9%	3.1%	commercial mortgages	active
BlackRock Asset Management Canada	$81.5	25.1%	5.3%	domestic bonds	passive
AB (AllianceBernstein)	$194.9	60.0%	12.6%	domestic and foreign bonds	active
	$324.7	100.0%	21.0%		
CANADIAN BOND FUND					
BlackRock Asset Management Canada	$17.3	100.0%	1.1%	domestic bonds	passive
LONG TERM BOND FUND					
BlackRock Asset Management Canada	$15.9	100.0%	1.0%	domestic bonds	passive
SUSTAINABLE GLOBAL EQUITY FUND					
Mirova	$27.2	100.0%	1.8%	global equity	active-value
ISLAMIC GLOBAL EQUITY FUND					
BlackRock Asset Management Canada	$2.1	100.0%	0.1%	global equity	active-value
DIVERSIFIED EQUITY FUND					
Connor Clark & Lunn Financial Group	$80.7	10.1%	5.2%	domestic equity	active-growth
Beutel, Goodman & Company	$80.8	10.1%	5.2%	domestic equity	active-value
Brookfield	$38.6	4.8%	2.5%	real estate	active
CBRE	$39.6	5.0%	2.6%	infrastructure	active
BlackRock Asset Management Canada	$80.1	10.0%	5.2%	US equity	passive
Arrowstreet Capital Global Small Cap	$40.0	5.0%	2.6%	global small-mid cap equity	active-core
T.Rowe Price	$99.7	12.5%	6.5%	global equity	active-growth
Fiera Capital Oakmark	$100.7	12.6%	6.5%	global equity	active-value
Fidelity Investments	$80.0	10.0%	5.2%	global equity	low volatility
MFS Investment Management	$39.8	5.0%	2.6%	international equity	active-growth
Boston Partners	$40.0	5.0%	2.6%	international equity	active-value
Connor Clark & Lunn Financial Group	$79.3	9.9%	5.1%	emerging markets equity	active-core
	$799.3	100.0%	51.8%		
CANADIAN EQUITY FUND					
Connor Clark & Lunn Financial Group	$48.8	50.0%	3.2%	domestic equity	active-growth
Beutel, Goodman & Company	$48.9	50.0%	3.2%	domestic equity	active-value
	$97.7	100.0%	6.3%		
US EQUITY HEDGED FUND					
State Street Global Advisors	$59.5	100.0%	3.9%	US equity (hedged)	passive
US EQUITY UNHEDGED FUND					
BlackRock Asset Management Canada	$89.5	100.0%	5.8%	US equity	passive
NON-NORTH AMERICAN FUND					
MFS Investment Management	$17.52	49.9%	1.1%	international equity	active-growth
Boston Partners	$17.61	50.1%	1.1%	international equity	active-value
	$35.1	100.0%	2.3%		
TOTAL PENSION	$1,543.5	100.0%	100.0%		
BALANCE INCOME FUND** (70% DBF + 30% DEF)	$57.4		3.7%		
BALANCE GROWTH FUND** (70% DEF + 30% DBF)	$511.3		33.1%		

OVERALL PLAN ASSET MIX	
Cash	4.9%
Bonds & Mortgages	23.2%
Equities	71.9%

These assets are included in the Diversified Bond Fund and the Diversified Equity Fund totals.