January 31, 2024

Western Pension Plans Annual Investment Commentary (2023)

The following commentary was prepared by Western University on behalf of the Joint Pension Board for the year-ended December 31, 2023. 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

Several macroeconomic and geopolitical stories shaped the landscape for financial markets in 2023. Central banks continued on their journey to increase interest rates. The Bank of Canada increased its key interest rate from 4.25% to 5.00%, while the Federal Reserve in the U.S. increased its key lending rate from 4.25%-4.50% to 5.25%-5.50%. The hard work undertaken by central banks seems to be paying off as inflation eased throughout the year. The Consumer Price Index fell from 6.3% in Canada at the end of 2022 to 3.4% at the end of December 2023. It was a similar story in the U.S., with the CPI dropping from 6.5% at the beginning of the year to 3.4% at the end of the of December 2023. The end result is that the U.S. economy appears to be on track to experience a soft landing in 2024. Although economic conditions are not as rosy in Canada, in part due to higher consumer debt levels, no recession is expected, with economic projections only pointing to a slowdown in 2024. The impact on financial markets were uneven throughout the year.

Capital markets fluctuated during the year, as investors' expectations for inflation reduction targets being met and economies achieving a soft landing[1] took different directions. After a strong start, equity markets weakened in the middle year, before roaring back to life in the last quarter of 2023. The U.S. stock market led the way, with the S&P 500 returning 22.9% in Canadian dollars. As the U.S. dollar weakened versus the Canadian dollar, the S&P 500 return in U.S. dollars was 26.3%. However, if you exclude the Magnificent Seven from the index (Alphabet, Amazon.com, Apple, Meta, Microsoft, Nvidia and Tesla), total return in U.S. dollars would have been around 9.9%. Those seven companies had an average total return of 104.7%, accounting for 62.2% of the S&P 500's 26.3% total return for 2023. The Canadian stock market also rebounded after a negative 2022, with the S&P/TSX returning 11.8% for the year, most of it achieved during the last two months of the year. Non-North American markets also had a good year, with the MSCI EAFE Index (Net) returning 15.1%. Emerging markets were weaker than developed markets, with the MSCI Emerging Markets Index (Net) returning 6.9%.

Investment style was again a factor in 2023. However, unlike in 2022 where value stocks (companies that are considered to be undervalued based on some metrics such as price-to-earnings ratio) outperformed growth stocks (companies that experience significant growth in revenues and earnings), growth stocks outperformed value stocks by about 30%, as measured by the differential return of the Russell 3000 Growth Index and the Russell 3000 Value Index. This was driven by the performance of the Magnificent Seven, which fall in the growth category. In Canada, the gap was as not as pronounced at only about 5%, as measured by the return differential between the MSCI Canada Value Index and the MSCI Canada Growth Index. The six equity options offered to members of the Western Pension Plans posted strong returns in this environment, returning between 10.4% and 24.5%, after all fees and

[1] Economic scenario that involves lower inflation, coupled with slower and modest growth and thus avoiding a recession.

management expenses were taken into account. However, it was more difficult to beat a benchmark last year, as most of the gains were concentrated into a few companies.

Fixed income markets followed the same pattern as the equity markets, with a strong start of the year, followed by some weakness during the middle part of the year and a strong finish. In Canada, the yield on 10-year bonds started the year at 3.3%, went as high as 4.3% and finished the year at 3.1%. In the U.S., the 10-yr bond yield started the year at 3.9% and ended the year at the same level, but the yield went as high as 5.0%. Bond prices and interest rates move in opposite directions. When yields increase, bond prices decline, and vice versa. The FTSE Canada Universe Bond Index, the main measure of the Canadian bond market, posted a return of 6.7% in 2023, with all of the positive returns coming in November and December. Interest rate changes have a greater impact on bonds with longer maturities and as such, the FTSE TMX Long-Term Bond Index returned 9.5% last year. As the Bank of Canada increased its policy rate by 0.75% during the year, the return on money market securities also increased, with the FTSE 91-Day T-Bills Index returning 4.7% in 2023, compared to 1.8% in 2022. However, as central banks are contemplating interest rate cuts in the near future, money market returns are expected to trend lower.

As stated in the past, it is beneficial to build a diversified and resilient portfolio to navigate the current markets. A diversified portfolio minimizes the impact of the exposure to poor performing securities and allows an investor to keep compounding returns. As announced earlier this month, further diversification into real assets, such as infrastructure and real estate, will soon be 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, 2023

Market index	1 year return	3 year return	5 year return
Cash/Money Market Funds			
FTSE TMX 91-Day T-Bill	4.7%	2.2%	1.8%
Bonds			
FTSE TMX Universe Bond	6.7%	-2.8%	1.3%
FTSE TMX Long Term Bond	9.5%	-6.5%	0.6%
FTSE TMX Short Term Bond	5.0%	-0.1%	1.6%
BC Global Aggregate Bonds - Hedged	6.3%	-2.5%	1.0%
Equities			
S&P/TSX Composite	11.8%	9.6%	11.3%
S&P 500 - Unhedged	22.9%	11.3%	14.9%
S&P 500 - Hedged	24.7%	9.0%	14.3%
MSCI ACWI SMID	12.9%	4.3%	8.9%
MSCI EAFE	15.1%	5.2%	7.4%
MSCI ACWI	18.9%	7.0%	10.9%
MSCI Emerging Markets	6.9%	-4.0%	3.0%
Canadian versus U.S. Dollar	2.4%	-1.3%	0.6%

Responsible Investing Update
For the third year in a row, the annual commentary includes a responsible investing update. In 2023, the Joint Pension Board continued its work on building its expertise in responsible investing, while Western Staff were busy researching a sustainable investment option that invests in companies providing positive social and environmental impacts, as measured by the United Nations Sustainable Development Goals.

In late 2023, the Joint Pension Board approved a change for the responsible investment option available to members. Starting February 1, 2024, the Sustainable Global Equity Fund will be available for members looking to align the investment of their Western pension plan in a manner that creates a positive impact. The current Socially Responsible Global Equity Fund will close April 3, 2024. The changes were announced on January 16, 2024.

In addition, the carbon footprint of the portfolio was measured for the third time. Western measured the following metrics[2] for the Western Pension Plans as of December 31, 2022:

- 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 2021 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 WACI was lower than last year.
- Carbon emissions for the Socially Responsible Global Equity Fund were lower than its benchmark, while the WACI was higher. However, both measures were down from 2021.
- The carbon footprint for the Diversified Bond Fund was similar to its benchmark, which is due to the change in methodology for public fixed income funds. However, it is important to note that coverage remains low (less than 60%) for fixed income funds.
- Compared to their benchmarks, all actively managed 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.

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[2] 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. 50-54.

What's New

Although the Joint Pension Board and Western Staff worked on several changes in 2023, only the addition of the Islamic Global Equity Fund was completed during the year. The Islamic Global Equity Fund provides an investment option that is in compliance with Islamic investment principles.

A summary of the assets by fund and manager follows:

Western Pension Plan as of December 31, 2023

Investment fund	Funds managed ($millions)	% of fund	% of total assets	Fund asset class	Manager style
MONEY MARKET FUND					
Sun Life Global Investments (Canada)	$38.0	100.0%	2.8%	cash	active
SUN LIFE GDIA					
Sun Life Global Investments (Canada)	$37.0	100.0%	2.7%	cash	n/a
DIVERSIFIED BOND FUND					
Romspen Investment Corporation	$50.1	16.7%	3.7%	commercial mortgages	active
BlackRock Asset Management Canada	$73.4	24.5%	5.4%	domestic bonds	passive
AB (AllianceBernstein)	$176.3	58.8%	13.0%	domestic and foreign bonds	active
	$299.8	100.0%	22.0%		
CANADIAN BOND FUND					
BlackRock Asset Management Canada	$15.1	100.0%	1.1%	domestic bonds	passive
LONG TERM BOND FUND					
BlackRock Asset Management Canada	$15.8	100.0%	1.2%	domestic bonds	passive
SOCIALLY RESPONSIBLE EQUITY FUND					
MFS Investment Management	$22.9	100.0%	1.7%	global equity	active
ISLAMIC GLOBAL EQUITY FUND					
BlackRock Asset Management Canada	$1.5	100.0%	0.1%	global equity	passive
DIVERSIFIED EQUITY FUND					
Connor Clark & Lunn Financial Group	$71.0	10.1%	5.2%	domestic equity	active-growth
Beutel, Goodman & Company	$71.7	10.2%	5.3%	domestic equity	active-value
BlackRock Asset Management Canada	$69.8	9.9%	5.1%	ACWI-ex Canada	passive
BlackRock Asset Management Canada	$69.4	9.9%	5.1%	US equity	passive
Arrowstreet Capital Global Small Cap	$34.9	5.0%	2.6%	global small-mid cap equity	active-core
T.Rowe Price	$87.5	12.4%	6.4%	global equity	active-growth
Fiera Capital Oakmark	$87.4	12.4%	6.4%	global equity	active-value
Fidelity Investments	$70.4	10.0%	5.2%	global equity	low volatility
MFS Investment Management	$35.4	5.0%	2.6%	international equity	active-growth
AB (AllianceBernstein)	$35.4	5.0%	2.6%	international equity	active-value
William Blair & Company	$35.4	5.0%	2.6%	emerging markets equity	active-growth
Connor Clark & Lunn Financial Group	$35.4	5.0%	2.6%	emerging markets equity	active-core
	$703.8	100.0%	51.7%		
CANADIAN EQUITY FUND					
Connor Clark & Lunn Financial Group	$41.3	49.7%	3.0%	domestic equity	active-growth
Beutel, Goodman & Company	$41.7	50.3%	3.1%	domestic equity	active-value
	$83.0	100.0%	6.1%		
US EQUITY HEDGED FUND					
State Street Global Advisors	$49.0	100.0%	3.6%	US equity (hedged)	passive
US EQUITY UNHEDGED FUND					
BlackRock Asset Management Canada	$63.5	100.0%	4.7%	US equity	passive

NON-NORTH AMERICAN FUND					
MFS Investment Management	$15.44	50.0%	1.1%	international equity	active-growth
AB (AllianceBernstein)	$15.46	50.0%	1.1%	international equity	active-value
	$30.9	100.0%	2.3%		
TOTAL PENSION	$1,360.3	100.0%	100.0%		
BALANCE INCOME FUND** (70% DBF + 30% DEF)	$55.1		4.1%		
BALANCE GROWTH FUND** (70% DEF + 30% DBF)	$431.2		31.7%		

OVERALL PLAN ASSET MIX	
Cash	5.5%
Bonds & Mortgages	24.3%
Equities	70.2%

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