

About the Academic and Administrative Pension Plan

The Academic and Administrative Pension Plan was established on 1 July 1965. The plan is a defined-benefit plan, meaning that a member's pension is calculated using a formula based on the member's salary history and years of service at retirement. The plan also allows the transfer of entitlements — including the portion of the accumulated contributions contributed by the University — out of the plan upon retirement, death or resignation.

A defined-contribution (DC) component was added effective January 1, 2000. Active members had the choice of participating in the new DC component (for past and future service or for future service only) or remaining in the existing defined benefit (DB) component. Members who enrolled in the plan on or after January 1, 2000 automatically joined the DC component.

Membership in the plan is compulsory for academic and administrative staff. The plan currently has about 920 members, of whom about 23% are retired members receiving pension benefits under the plan.

Mandate of the Committee

The Academic and Administrative Benefits Committee is a sub-committee of the Human Resources Committee of the Board of Governors. The mandate of the Committee is to advise the Board on matters relating to benefit plans for academic and administrative staff, including:

- The Academic and Administrative Pension Plan
- The Group Life Insurance Plan
- The Salary Continuance Plan
- The Travel Insurance Plan
- The Extended Health Plan
- The Family Dental Plan

Message from the Chair

The year 2000 was a busy one for the Academic and Administrative Benefits Committee (AABC). The AABC met eleven times over the year. In addition, the Joint Investment Committee (JIC), whose members include the AABC and members of the Committee on Employee Benefits, met five times in 2000. The JIC oversees all aspects of the investment of the Master Trust Fund, including monitoring investment performance, meeting with representatives of the investment companies employed by the Fund, assessing investment policies, and so on. The Master Trust Fund invests the assets of the three University of Regina pension plans.

There were a number of changes to the pension plan in 2000. The most significant was the implementation of the decision to switch the plan from defined benefit (DB) to defined contribution (DC) for new members as of January 1, 2000. In addition, individuals already in the plan were given a one-time option of

staying with the DB component, switching to DC for future service only (effective January 1, 2000) or to switch past and future service to the DC component. The Committee put on well-attended seminars to assist plan members in making this important decision. In the end, 32 people chose to switch only their future service, 148 people decided to switch all of their service, and 443 people remain in the DB component as at December 31, 2000.

Another major change in the pension and insurance plans in 2000 was a further improvement in pension indexing – the new provision gives inflation protection of the rise in the Consumer Price Index less 0.2%, with full inflation protection if the price level increases by 3.8% or less.

The implementation of the change in the benefit structure of the Plan received a significant amount of time and attention from AABC members. However, Committee members, along with their counterparts on the Committee on Employee Benefits, continued to devote a significant amount of time and resources to monitoring the investment performance of the Master Trust Fund. With stock markets the world over giving investors a wild ride, the pension fund had a very successful year with an overall return of 10.6% in 2000. Investment performance will be discussed in depth in subsequent sections of this report.

The AABC received and continues to receive outstanding support from its actuarial consultants, Aon Consulting, throughout the process of implementing

the changes to the pension plan. The plan's actuary, Don Ireland, Shannan Keet Corey and Barbara Larson of Aon Consulting provided information to the Committee including pre- and post-conversion actuarial reports on the Plan and were the main presenters at the information seminars. The AABC, as always, is grateful for their work and I am sure that those attending the information seminars are also grateful for the thoughtful and well-prepared presentations.

In recent times, the performance of index funds relative to managed funds has led some to question the value of investment advice. In the year 2000, there was a reversal of this trend, as the benefits of professional investment advice became evident. I would like to acknowledge the contributions of John Montalbano, the primary fund manager, and Tom Bradley, President of PH&N, for achieving a 21.8% return on Canadian equities in a year when the TSE 300 index was up only 7.4%.

The Committee's efforts were also supported by Janet Julé of James P. Marshall who provided consulting services to the Committee, assistance in assessing investment performance, advice with respect to investment policy and keeping the Committee up to date on the evolution of the pension industry. Special thanks go to the Committee's recording secretary, Bonnie Dobni, as well as her associates in Human Resources - Darlene Marchuk, Louise Doan and Jeanette Pageot – for their efficient day-to-day administration of the pension and insurance

plans. Bonnie Dobni is especially deserving of the Committee's gratitude for her work related to the implementation of the changes in the pension plan.

The Committee's membership had two changes in 2000. The Board appointed Bob McCulloch to replace Frank Proto. The Committee welcomes Bob back after his brief absence and thanks Frank for his contributions. Keith Johnson left the Committee due to his retirement and the Committee thanks Keith for his contributions and welcomes Peter Hemingway as his replacement.

This is my first year of Chair of the AABC. I would like to take this opportunity to thank the former Chair, Jim Tompkins, for his 25 years of service as Chair and his continuing contribution as a member of the Committee. This Committee could not function effectively without the professional support of the actuaries, consultants, investment advisors and administrative staff. However, in my opinion it is at least as important for the Committee to have the support of plan members, the faculty association, senior administration and the Board. It is a tribute to Jim's efforts as well as the work of all Committee members over the years, that we have a workable, effective and broadly supported system of governance for our pension and insurance plans.

Gary Tompkins,

Chair

May 2001

The Pension Plan

REVIEW OF 2000 INVESTMENT PERFORMANCE

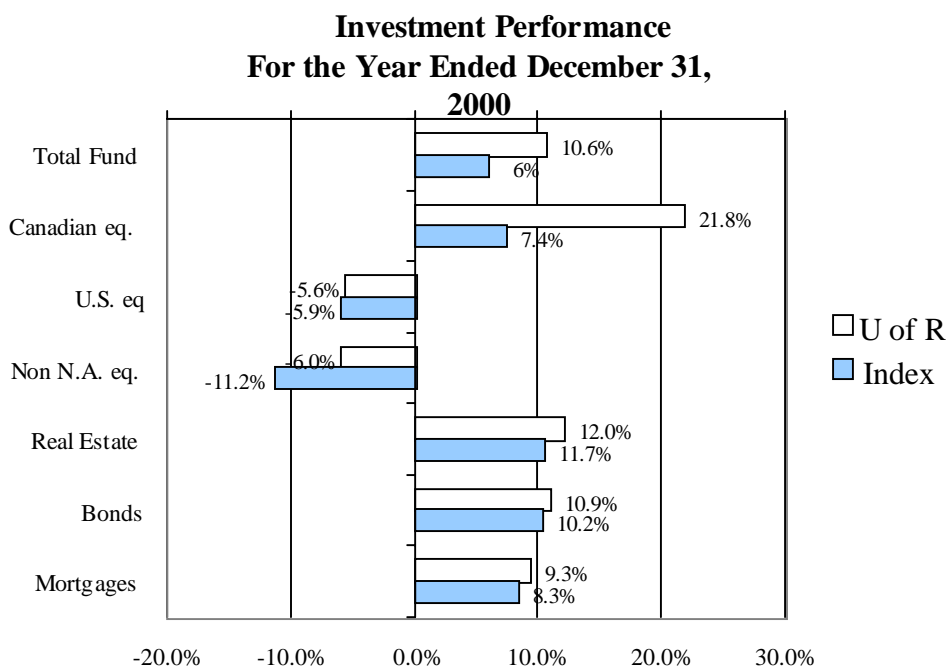
2000 provided a 10.6% return for the University Pension Plans

The year 2000 was one of extremes in the financial markets. After a rally early in the year, investors sold off equities, driving down prices globally, favouring instead the quality and relative stability of bonds.

The Canadian equity market was one of the few equity markets worldwide to generate a positive return in 2000. The TSE 300, led by Nortel, was up as much as 34% during the year, but a fourth quarter collapse, including a 47% decline in Nortel's share price, left the index with just 7.4% for the year. In the U.S., weakness in technology stocks left the S&P 500 down 5.9% in Canadian dollars while the technology biased NASDAQ index lost a third of its value, off 52% from its high in the first quarter. The Europe, Australia and Far East (EAFE) index fell 11.2% in Canadian dollars in the year providing negative returns in most regions, particularly those with a higher exposure to technology, media and telecommunications stocks.

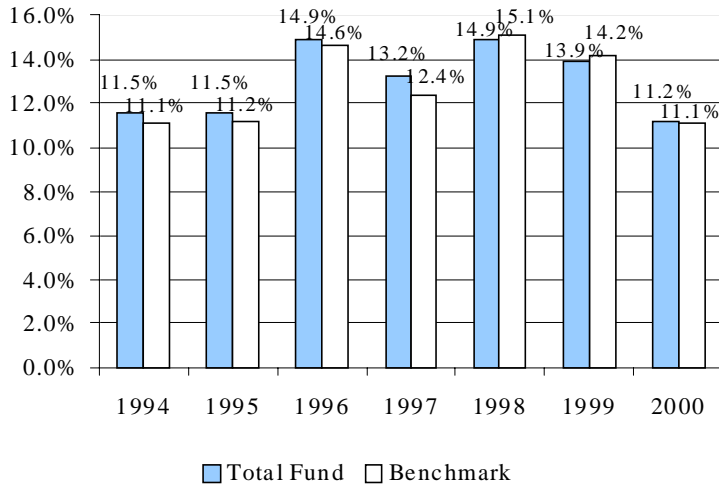
In contrast to the weak equity markets, bonds had a very strong year as falling interest rates generated capital gains. In Canada, the Universe Bond Index advanced 10.2% led by a 13.0% return for long bonds.

Healthy Canadian equity and bond returns offset foreign equity losses providing positive returns for most balanced funds in 2000. The University of Regina Master Trust was no exception, providing 10.6% for the year. Performance was strong in Canadian equities, which was the main reason why the Fund outperformed the 6.0% benchmark return. All asset classes tracked ahead of the relevant index in the year, as shown below.



The Plan's primary investment objective is to exceed the benchmark return over rolling four-year periods. Over the past four years, the Total Fund return exceeded the objective by 0.1%. The following chart provides the longer-term track record of the Fund.

Academic Plan Rolling Four-Year Returns



In addition to monitoring performance relative to the benchmark return, the Fund performance can be put in perspective by comparing the result against those of a universe of pension funds. The 2000 result of 10.6% tracked ahead of the median fund return of 9.8% in the Canadian Trust Universe Comparison Service (CTUCS). While in past years the University's result benefited from having a greater foreign equity exposure than the median fund, this was not the case in the most recent year. Strong performance in several asset classes helped push up the Fund's relative ranking. Over the past four years, the Fund placed just back of the median fund return of 11.8%, with an 11.2% result.

Performance of the 80% of the Master Trust assets managed by Phillips, Hager and North Limited (PH&N) is compared in the following table to other funds in the CTUCS survey over the past year and four-year periods.

2000 RELATIVE PERFORMANCE		
Asset Class	2000 Percentile ¹	4-Year Percentile ¹
Canadian equities	27	75
U.S. equities	58	81
Non-N.A. equities ²	75	100
Bonds	36	40
Total Fund ²	23	53
¹ Indicates the percentage of funds in the CTUCS survey that reported better performance than the U of R fund. Small numbers signify excellent performance relative to other funds, while numbers close to 100 indicate poor relative performance.		
² Refers to assets managed by PH&N only.		

The PH&N portfolio result was above median over the past year, and in the top 25% of funds. Canadian equities and bonds fared well compared to the universe, while the Non-North American equities managed by PH&N slipped back in the pack. U.S. equities have struggled in the past few years, however were closer to median in 2000. On a total fund basis, the PH&N portfolio return benefited from an above median exposure to Canadian equities. This was part policy driven and part active asset allocation.

Investment Performance Objectives

A number of performance objectives are set out for the pension plans. The primary objective is that the Total Fund return exceeds a benchmark portfolio return over rolling four-year periods.

The benchmark portfolio return is calculated by using index returns and asset class weights, which are currently: Canadian equities 34%; U.S equities 8%; Non-North American equities 12%; real estate 5%; bonds 38%; and short term investments 3%.

Within the various asset classes, the objective is to exceed the relevant index return. For Canadian and U.S. equities the return objective is at least 110% of the index return. For bonds and mortgages, the value added objective is 105%.

The pension plans also have a long-term objective of earning a real return (net of inflation) of 3% per year.

In addition, the returns are evaluated on a relative basis to a universe of other pension plan returns.

The Master Trust

The University of Regina Pension Plan assets are invested in a “mini mutual fund” format. All of the assets are invested in a Master Trust, which in turn are invested by the various managers under different mandates. Each of the pension plans: the Academic and Administrative Plan (defined benefit and defined contribution), The Non-Academic Plan and the Eligible Part Time Employees Plan buy (sell) units in the Master Trust based on the net inflows (outflows) for that plan. At the end of 2000, the Master Trust assets had a market value of \$300.2 million.

The market value of the assets of the Academic and Administrative Pension Plan (including both the DC and DB components) increased by \$10.9 million over the past year. Growth from income and capital gains more than offset by the impact of net withdrawals from the plan by members.

	December 2000	December 1999
Academic Plan Market Value	\$244,011,631	\$233,072,075

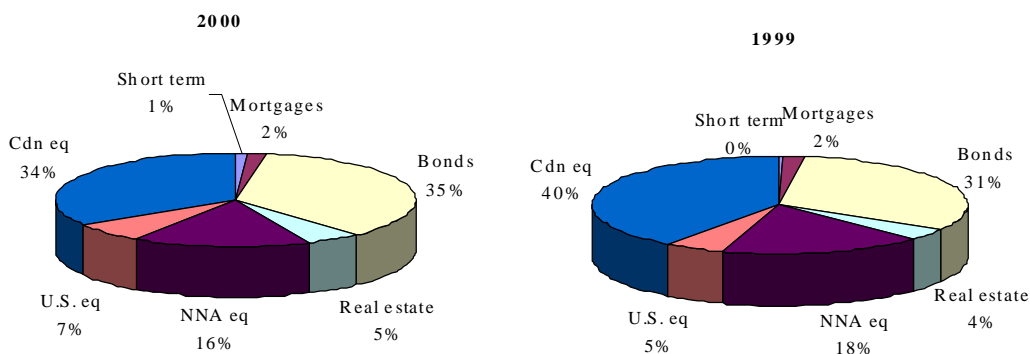
Asset Mix Summary

The Master Trust maintained a higher than benchmark equity weight over the past year, in part based on the balanced manager’s (PH&N) slight preference for Canadian and international equities and underweight in bonds. In addition, the international equity mandates have grown, providing a bias to equities relative to the long-term benchmark. One of the tasks before the Joint Investment

Committee is a review of the long-term asset mix in light of the regulatory changes that have expanded the foreign content room for pension funds. The following charts show the asset mix of the Master Trust as of December 2000 and 1999.

Distribution of Assets

(as a percentage of year-end market values)



Distribution of Assets by Manager

Throughout 2000, Phillips, Hager & North continued to manage a balanced mandate and most of the Master Trust assets. Baring and Templeton manage non-North American equities for the University. The other three specialty managers oversee real estate investments.

	2000	1999
Phillips, Hager & North	80.7%	80.6%
Penreal Property Trust	2.1%	1.4%
Westpen Developments	1.8%	1.2%
Sun Life	1.2%	1.2%
Baring	3.5%	4.5%
Templeton	<u>10.7%</u>	<u>11.1%</u>
	100.0%	100.0%

Detailed Analysis of Investment Returns

Canadian Stocks

While the Canadian equity market was able to generate a positive 7.4% return in 2000, the market was not immune to the market volatility seen worldwide. For the second consecutive year, the TSE 300 index's fortunes were heavily influenced by Nortel. In 1999, and much of 2000, that influence pushed the market up. Since September 2000 the slide in the Nortel price, as well as other technology stocks, has led the market's decline.

On a sector basis, leadership in the market shifted in 2000 to Pipelines and Financial Services, both up more than 50% in the year, after suffering negative returns in 1999. Industrial Products, which was up 104% in 1999 in large part due to the strength of Nortel, was the worst performing sector in 2000, down 21%.

The Fund's Canadian equity portfolio benefited from a policy driven underweight in Nortel, as well as good representation in strong performing names in the Financial Services sector. The 21.8% result was well above the index and median return. Over four years, the 14.1% Canadian equity return was above the 12.5% index return, but below median.

U.S. Stocks

A sell-off in technology stocks pulled the U.S.\$ S&P 500 return into negative territory with a -9.1% return for 2000. The 2000 result was the first calendar year since 1990 that the S&P 500 earned a negative return, and broke a string of

five consecutive years of 20%+ U.S.\$ returns for the index. The Canadian dollar weakened against the U.S. dollar over the year “improving” the index result to -5.9% in Canadian dollars. With the decline in technology, the S&P 500 Value index outperformed the Growth Index for the first time since 1993. The differential in 2000 was significant with growth stocks falling 19.4% and value stocks advancing 9.8%. Also a sign that market returns were broadening was the mid cap and small cap market indices outperforming the large cap S&P 500 in the year.

While the market returns were negative, these market shifts provided more opportunity for active management to add value, and the Fund’s U.S. portfolio outperformed the S&P 500 Index slightly in the year. Over the past four years, the University’s result was below the index and ranked in the fourth quartile of the CTUCS survey.

Non-North American Stocks

The Europe, Australia and Far East (EAFE) index fell 11.2% in Canadian dollars in the year, as the downturn in telecommunication and technology stocks was experienced worldwide. Negative returns were seen in most regions, including Europe -5.2%, Japan -25.7% and Pacific ex-Japan -12.7%. The weakness in 2000 contrasts sharply with the strong gains seen in many regions in 1999. From a currency perspective, a stronger Euro provided currency gains late in 2000, but over the year Canadian investors suffered foreign exchange losses when converting most foreign returns back to Canadian dollars (with the

notable exception being in the U.S.).

The non-North American equity portfolio outperformed the -11.2% EAFE index return in the year, but nonetheless was down 6%. As in North America, market volatility was accompanied by a shift away from many growth stocks and into value-oriented holdings. As a result, Templeton, the Fund's value manager, led the market and the other managers by a wide margin. Over four years, Templeton has also outperformed, pulling the total asset class return above index, while the mandates managed by Baring and PH&N underperformed. Relative to other funds, the combined effort of the University's international managers placed just below median over four years.

Real Estate

The real estate market, as measured by the Russell Canadian Property Index (RCPI™), provided a double-digit result again in 2000, with a return of 11.7%. The fund's investments in real estate are made via Westpen Properties and Sun Life, which provided 14.9% and 8.4% respectively. The former return reflects the impact of an additional investment in Westpen at a discount to the appraised value. As the trend in real estate returns has improved, the Fund's return has improved to 13% per year over the past four years. The Fund also has exposure to a real estate financing vehicle through Penreal Property Trust. The portfolio returned 9.3% over the past four years.

Bonds and Mortgages

In contrast to the weak equity markets, bonds had a strong year as falling interest rates generated capital gains, providing a 10.2% return. The interest rate cuts of 2000 unwound the interest rate hikes of 1999, which had resulted in the bond index declining by 1.1%. The Universe Bond Index return was led by a 13.0% return for long bonds while short-term bonds returned 8.2%. Mid-term bonds provided a 10.9% return for the year. Corporate spreads widened (prices fell relative to Canadas) through the year. This left corporate bonds lagging provincial and federal issues. The return pattern was a reversal from 1999 where the corporate sector outperformed provincials and Canadas. Government of Canada Real Return Bonds, which are not part of the index, led all other sectors, with a 16.6% return on the year.

The University's bond portfolio outperformed the index with a 10.9% return. Value was added through the management of interest rate and credit exposure, as well as by holding some real return bonds. The result was a strong absolute and relative return. Over four years, the impact of two solid years of value added against the index are apparent, with a 7.4% annualized result tracking ahead of the 6.9% index return, and above median.

The mortgage component of the fixed income portfolio provided an income only return of 9.3% for the year, which compared favourably to the index return of 8.3%. Longer term, the mortgage portfolio has also outperformed with a 9.1% return over four years, relative to a 7.3% index return.

Investment Policy Review

There were no substantial changes made to the Plan's investment policy in 2000, with the Committee's attention focused on the implementation of the new DC plan. However, the Committee is now conducting a major review of our investment policy. The intent of the review is to assess our foreign content guidelines as well as our investment manager structure. Both of these changes are intended to promote greater diversification of investments and investment styles.

Last year's report contained a brief discussion of a concern facing many Canadian pension plans - the sudden predominance of Nortel Networks in the TSE 300 Index. Investment funds normally assess the performance of their managers either by comparing their returns to those of other pension plans or by comparing the returns achieved in a specific asset class with an appropriate index (e.g. Canadian equity returns versus the TSE 300 index). There are a number of practical problems associated with comparing pension fund returns:

- Pension funds typically have an investment policy set by a Pension Committee or similar body that constrains the investment advisor. It is difficult to assess whether a relative under- or over-performance is due to differences in investment policy or differences in the quality of the investment advice;
- Markets often have periods when a particular investment style is in vogue. Until this year, growth investors have been difficult to beat as the "dot com" stocks outperformed other sectors. This has reversed since the third quarter of 2000. This means

that difference in returns may reflect the investment style of the pension committee or investment advisor rather than the advisor's ability to effectively invest according to the chosen style.

For these reasons, we have chosen to rely more heavily on comparing our returns across asset classes to returns of relevant indexes. The rationale of this approach is that indexes are typically well-diversified portfolios that may be inexpensively purchased through index-linked funds. In theory, this comparison can allow us to evaluate the decisions of the managers (e.g. their choice of country/sector weights, stock picks) and to assess whether the investment managers are “earning” their fees and commissions. The problem in Canada is that the TSE 300 index is not a diversified portfolio because of the relatively small market. While the TSE 300 “gorillas” of 1999, BCE and Nortel have been downsized, they still dominate the index to such an extent that most pension funds would not hold a portfolio similar to the TSE 300 index because of a lack of diversification.

Recent publications have contained many often conflicting articles dealing with issues surrounding how to assess an investment manager, and other issues related to investment policy and investment management structure. The evaluation of investment results and the choice of investment management structure is not an easy job and the Committee believes that the fees we pay consultants for assistance in this endeavour are well-spent.

2001 Interest Rate

For members with entitlements under the defined-benefit component of the pension plan on 31 December 2001, interest will be credited on account balances at a rate of 10.25% on that date. As required by the plan document, this rate is equal to the annualized rate of return over the four calendar years from 1997 to 2000, less 0.5 percentage points, less administrative expenses.

Actuarial Valuation

The provincial *Pension Benefits Act* requires the Actuary to conduct a formal valuation of the pension plan every three years. An actuarial valuation is designed to assess the financial status of the pension plan and, in particular, to find out whether the plan's assets are sufficient to pay the promised benefits. Of necessity, the actuary must make assumptions about future investment performance, inflation rates, mortality rates, salary increases, and other unknowns. For the purpose of the valuation, the Actuary will use a smoothing technique to reduce the market value of assets when investment markets have exhibited strong performances. On the basis of these assumptions, the actuary can calculate the current value of all pension entitlements earned to date and in the future and then can compare that value with the pension fund's assets to see if there is a surplus or a deficit.

The plan's Actuary, Don Ireland of Aon Consulting, performed a valuation as at the end of 1999 which reflects the defined contribution conversion option

given to members with effect from January 1, 2000. The valuation showed the plan to be in a strong surplus position. The results of the valuation are summarized below.

Summary of Actuarial Valuation (as at 31 December 1999)

Assets

Market value of assets	\$200,882,000
Present value of future revenues	<u>33,518,000</u>
Total assets	\$234,400,000

Actuarial Liability and Surplus

Actuarial present value of benefits for:

• Active and disabled members – accrued benefits	\$ 91,577,000
• Active and disabled members – future members	53,531,000
• Pensioners (non-temporary)	59,924,000
• Inactive members	3,412,000
• Temporary pensions	1,486,000
• Other liabilities	6,268,000

Total liabilities	\$216,198,000
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Surplus before reserve	\$ 18,202,000
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Less: Contingency Reserve	<u>\$ 10,291,000</u>
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Actuarial surplus	\$ 7,911,000
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Negotiations on Distribution of Future Surpluses

The Income Tax Act places limits on how generous a defined-benefit pension plan can be. The Academic and Administrative Pension Plan already provides the maximum pension formula permitted by law, and its early-retirement

provisions cannot be improved. After the indexing improvement approved in 2000, we are only 0.2% away from achieving full CPI indexing. The Board and URFA, on the recommendation of the Committee, have entered into negotiations to determine how future pension fund surpluses will be distributed and the process that will be followed. At the time of writing, the negotiations are at a preliminary discussion phase.

The New Defined-Contribution Component

After a lengthy and time consuming process, the new DC component of the pension plan has been implemented. This new plan consists of everyone who became members on or after January 1, 2000 as well as those members who opted to have their future service or all of their service under the DB component moved to the new DC component. In terms of structure, both the DB and DC components are parts of one plan which is administered and whose funds are invested collectively. As the DC component matures and grows, the Committee will be considering whether this unified administrative structure is in the interests of plan members.

Amendments to the Plan

The pension plan was amended twice during 2000. Plan members have received detailed information about the amendments, but the amendments will be summarized here for completeness.

Amendment 00-01 confirmed the introduction of the new DC plan and related changes.

Amendment 00-02 improved the pension indexing formula. Retired members' pensions will now be increased by the full increase in the Consumer Price Index (CPI) in years when the CPI rises by less than 3.8% during the previous year; 3.8% if the change in the CPI is between 3.8% and 4.0%; and the increase in CPI less 0.2%, when the CPI rises by 4.0% or more.

Audited statements

The Provincial Auditor audits the financial status of the pension plan each year. During 2000, the Provincial Auditor provided an unqualified opinion of the 1999 financial statements of the Master Trust and the University's three pension plans. We expect the audits for the year 2000 to be completed late in the summer of 2001. Any member who would like to receive a copy of any of the audited statements should contact Human Resources (4165) or consult the Human Resources web site www.uregina.ca/hr.

Insurance Plan Changes

There were no changes to the insurance plans in 2000. However, extended benefits introduced in 1999 have cost considerably more than anticipated and future premium increases are likely.

Questions about the plans should be directed to Human Resources.

In the past, the salary continuance plan has been funded in part by the pension plan. Members who were on disability leave did not pay pension contributions and these were in effect covered by pension plan surpluses. However, DC plans by their nature do not have surpluses. The Committee decided that to ensure equal treatment of all members, DC plan members would also have their pension contributions covered by pension plan surpluses until a review of the salary continuance plan is completed.

In last year's report, it was reported that the Committee intended to review both the group life plan and the salary continuance plans during 2000. The numerous twists and turns of the implementation process has delayed this process. The Committee intends to pursue the review in 2001.

Members of the Committee

- Norm Beirnes Mathematics and Statistics (retired)
- Brian Johnson Member of Board of Governors
- Peter Hemingway Education
- Gaynor Kybett Computing Services
- Bob McCulloch Associate Vice-President (Administration)
- Jim Tomkins Vice-President (Administration)
- Gary Tompkins Economics

Recording Secretary

- Bonnie Dobni Human Resources

Plan Administrator

- Jim Tomkins Vice-President (Administration)

Actuary

- Don Ireland Aon Consulting Group, Saskatoon

Pension Consulting Services

- James P. Marshall, a Hewitt Company, Regina

Investment Management Firms

- Phillips, Hager and North Limited, Vancouver
- Penreal Capital Management Inc.
- Sun Life
- Baring
- Templeton

Custodian

- CIBC Mellon Trust, Calgary

Measurement Service

- Canadian Trust Universe Comparison Service (CTUCS)

Committee Web Site

- Visit the AABC web site at: www.cas.uregina.ca/~aabc/