RBC Investor & Treasury Services

Canadian pensions' assets rebound in Q4, ending 2015 in the black: RBC Investor & Treasury Services

Global equities posted biggest gain in 2015; Canadian equities remained under pressure

Toronto, February 18, 2016 – Volatile market conditions and global economic uncertainty persisted in Q4 2015; however, Canadian pension plans finished the year in positive territory with an annual return rate of 5.4 per cent, according to the $650 billion RBC Investor & Treasury Services All Plan Universe, the industry's most comprehensive universe of Canadian pension plans.

RBC Investor & Treasury Services reported that Canadian defined benefit pension plan assets rebounded from back-to-back losses in the second and third quarters of 2015, posting a gain of 3.1 per cent in Q4 2015 compared with -2.0 per cent in Q3 2015 and -1.6 per cent in Q2 2015.

"Canadian pension plans were not immune to the persisting market and economic headwinds that buffeted 2015, posting back-to-back quarters of negative returns at the mid-year mark, but they closed the year in positive territory with a moderate 5.4 per cent annual return rate," said David Heisz, Chief Executive Officer, RBC Investor Services Trust, RBC Investor & Treasury Services. "Canadian pension plans clearly benefited from global diversification portfolio strategies. The positive 2015 return rate can largely be attributed to a lift from global equities which offset much of the downward pressure from weaker domestic sectors, particularly commodities, resources and energy, over the course of the year."

Canadian equities improve while global equities shine

Pension returns from global equities ended Q4 2015 and the full year up 8.9 per cent and 18.9 per cent respectively in line with the MSCI World Index, mitigating the drag from their Canadian counterparts which registered annual returns of -7.4 per cent.

According to Craig Wright, Senior Vice President and Chief Economist, RBC, "Returns from global equities were boosted due to the ongoing weakness in the Canadian dollar, which had a tumultuous year on the back of tumbling crude oil prices. Ranked as the worst-performing G10 currency, the Canadian dollar finished the fourth quarter of 2015 with a loss of 3.6 per cent against the U.S. greenback."

Falling crude prices continued to reverberate in the wider Canadian economy, adding to the woes of the commodities and materials sectors, and placing pressure on Canadian equities. "A large part of the economy's subpar performance in 2015 was due to an estimated 30 per cent drop in spending by energy companies and support services that shaved more than a percentage point from the year's annual growth rate," added Wright.

Returns from Canadian equities saw some light at the end of the tunnel in Q4 after posting a loss of -0.5 per cent, compared to -7.8 per cent in the previous quarter. Canadian pension plans again proved resilient and remained historically underweighted in the sector, outperforming the S&P/TSX Composite benchmark performance of -1.4 per cent for the last quarter and -8.3 per cent for the year.

Fixed income assets: Steady as she goes

Returns from Canadian fixed income assets also helped underpin the overall positive performance of defined benefit plans, registering a 1.1 per cent return in Q4 and ending the year at 3.6 per cent, compared to the FTSE TMX Universe Canadian Bond Index with its 3.5 per cent annual return.

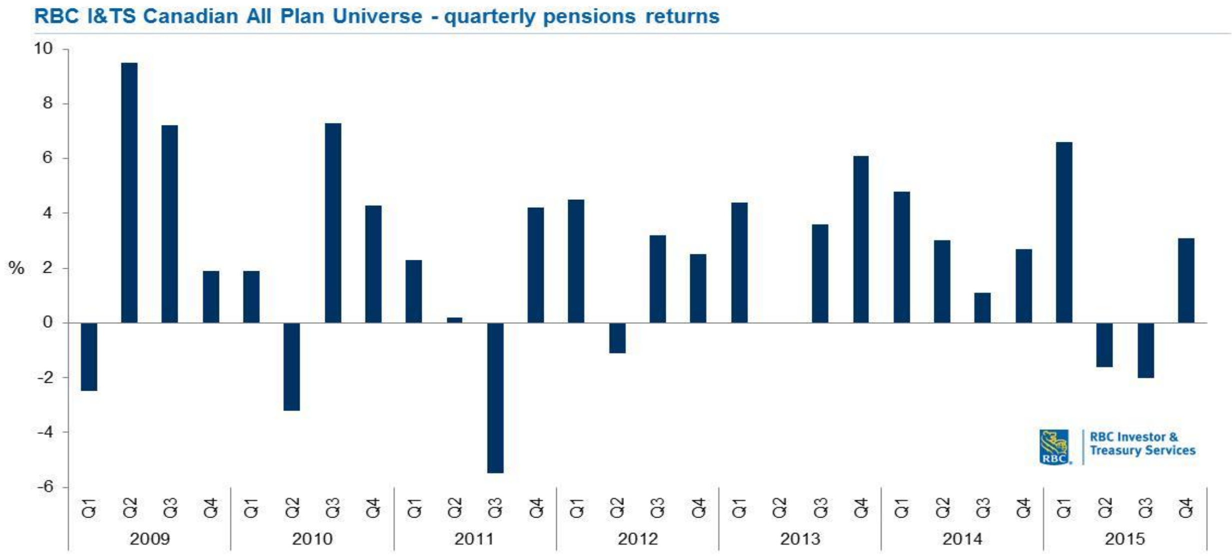
“Fixed income assets were also impacted by ongoing economic volatility in 2015,” said Heisz. “Highly variable inflation as well as gloomy economic and central bank outlooks meant bond yields experienced a wide range of movement. That said, short term yields recovered enough to allow pensions to register positive returns for the last quarter, breaking a negative streak in the two preceding.”

Looking ahead to 2016

China’s slowing economy, geopolitical issues and oil prices are likely to continue to have an impact on the performance of Canadian pension funds in 2016. Markets will remain unsettled, while China continues to experience slow growth amid efforts to rebalance itself from imports and exports to the consumer. However, as U.S. economic growth strengthens, and in light of the Canadian dollar’s weakness, the Canadian manufacturing sector stands to benefit from increasing demand for Canadian exports from south of the border.

RBC I&TS Canadian All Plan Universe-quarterly pensions returns

Period	Return (%)	Period	Return (%)
Q1, 2009	-2.5	Q3, 2012	3.2
Q2, 2009	9.5	Q4, 2012	2.5
Q3, 2009	7.2	Q1, 2013	4.4
Q4, 2009	1.9	Q2, 2013	0.0
Q1, 2010	1.9	Q3, 2013	3.6
Q2, 2010	-3.2	Q4, 2013	6.1
Q3, 2010	7.3	Q1, 2014	4.8
Q4, 2010	4.3	Q2, 2014	3.0
Q1, 2011	2.3	Q3, 2014	1.1
Q2, 2011	0.2	Q4, 2014	2.7
Q3, 2011	-5.5	Q1, 2015	6.6
Q4, 2011	4.2	Q2, 2015	-1.6
Q1, 2012	4.5	Q3, 2015	-2.0
Q2, 2012	-1.1	Q4, 2015	3.1



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About the RBC Investor & Treasury Services All Plan Universe

For the past 30 years, RBC Investor & Treasury Services (RBC I&TS) has managed one of the industry's largest and most comprehensive universes of Canadian pension plans. The "All Plan Universe" currently tracks the performance and asset allocation of over $650 billion in assets under management across Canadian defined benefit (DB) pension plans, and is a widely-recognized performance benchmark indicator. The RBC Investor & Treasury Services "All Plan Universe" is produced by RBC I&TS' Risk & Investment Analytics (R&IA) service. R&IA work in partnership with best-in-class technology to deliver independent and cost effective solutions designed to help institutional investor clients monitor investment decisions, optimize performance, reduce costs, mitigate risk and increase governance capability.

About RBC Investor & Treasury Services

RBC Investor & Treasury Services (RBC I&TS) is a specialist provider of asset services, custody, payments and treasury services for financial and other institutional investors worldwide. We serve clients from 18 locations across North America, Europe, Asia and Australia, delivering services to safeguard client assets, maximize liquidity and manage risk in multiple jurisdictions with a focus on operational risk management. Rated by our clients as the #1 global custodian for five consecutive years*, RBC I&TS has the highest credit ratings among our peers, and is trusted with nearly USD 3 trillion in client assets under administration. (as at October 31, 2015). *Source: Global Custody Survey, Global Investor ISF, 2011 to 2015

About RBC

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