



**WSIB Update for  
Pension Funding Council 2013**



**Theresa Whitmarsh  
Executive Director**



## Overview



- ▣ Performance
- ▣ Capital Market Assumptions
- ▣ Economic Outlook
- ▣ Commingled Trust Fund (CTF) Diversification
- ▣ Alternative Assets – Private Equity and Real Estate
- ▣ Conclusion: Foundation of WSIB Performance

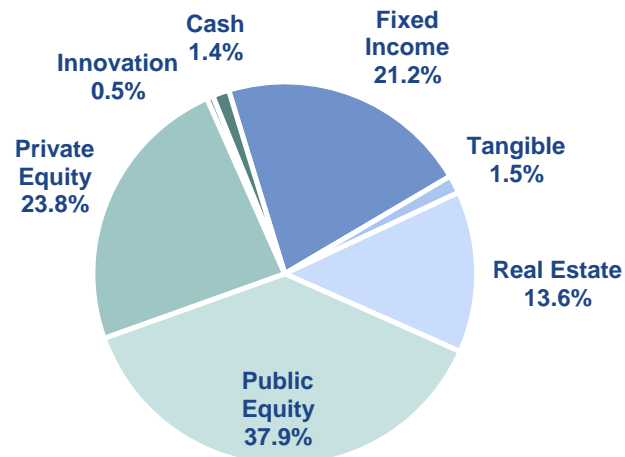
# Historical Performance

## CTF Performance & Market Values – June 30, 2013

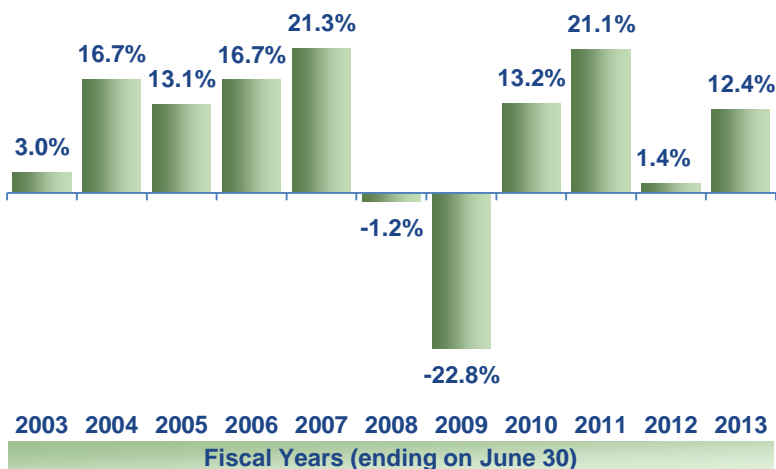
### Historical Market Value (billions)



### Actual Allocation



### Historical Fund Returns



### Market Values and Returns

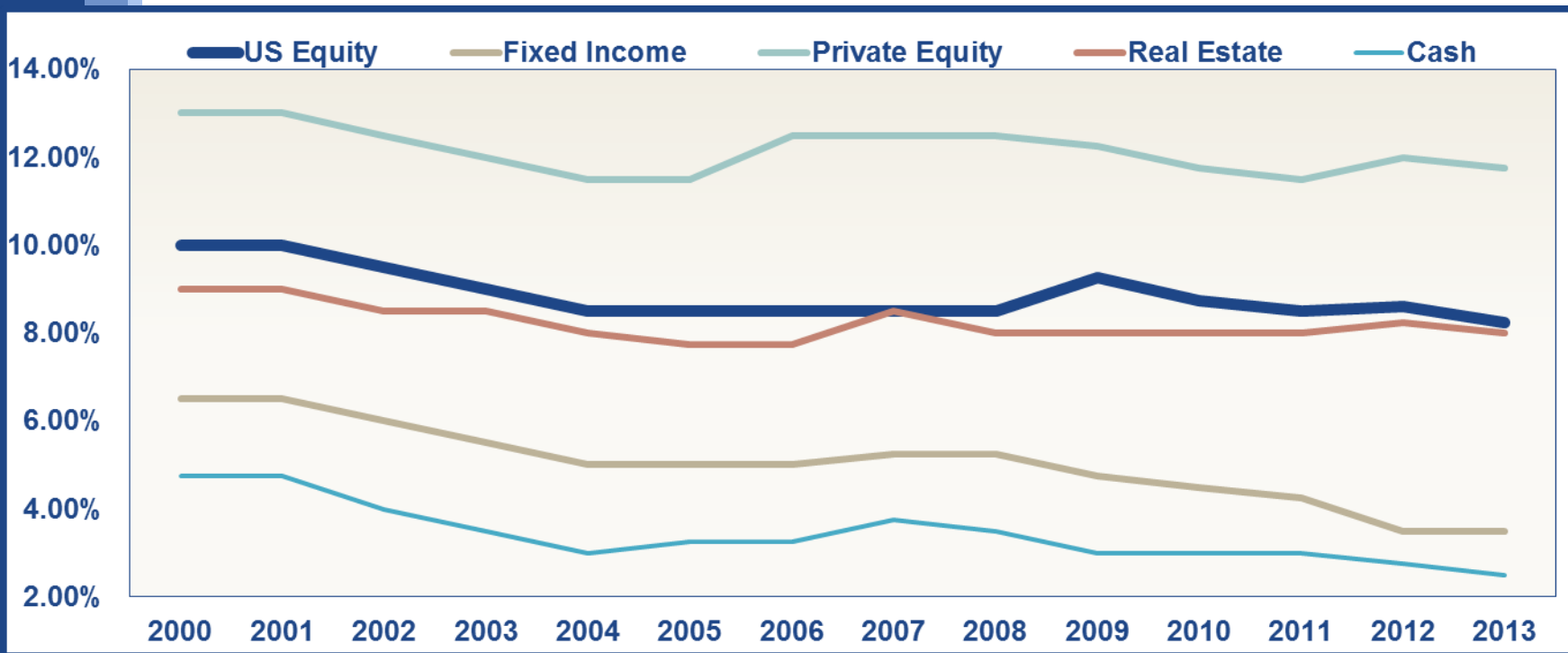
#### Commingled Trust Fund (CTF) Market Values and Returns

	Market Value (000s)	1 Year	3 Year	5 Year	10 Year
<b>Total CTF</b>	<b>\$67,902,495,169</b>	<b>12.36%</b>	<b>11.33%</b>	<b>3.81%</b>	<b>8.32%</b>
<b>Fixed Income</b>	<b>\$14,422,417,970</b>	<b>0.80%</b>	<b>4.56%</b>	<b>6.41%</b>	<b>5.55%</b>
<b>Tangibles</b>	<b>\$1,031,996,930</b>	<b>-1.75%</b>	<b>2.27%</b>	<b>1.34%</b>	<b>N/A</b>
<b>Real Estate</b>	<b>\$9,244,467,624</b>	<b>17.86%</b>	<b>13.54%</b>	<b>0.89%</b>	<b>9.51%</b>
<b>Public Equity</b>	<b>\$25,724,015,814</b>	<b>17.83%</b>	<b>13.30%</b>	<b>2.94%</b>	<b>7.72%</b>
<b>Private Equity</b>	<b>\$16,170,202,574</b>	<b>13.56%</b>	<b>14.12%</b>	<b>4.94%</b>	<b>14.03%</b>
<b>Innovation</b>	<b>\$363,365,896</b>	<b>30.63%</b>	<b>-0.44%</b>	<b>N/A</b>	<b>N/A</b>
<b>Cash</b>	<b>\$946,028,362</b>	<b>0.16%</b>	<b>0.16%</b>	<b>0.40%</b>	<b>1.79%</b>

# Historical Capital Market Assumptions

WSIB Historical Capital Market Assumptions

Return	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
U.S. Equity	10.00%	10.00%	9.50%	9.00%	8.50%	8.50%	8.50%	8.50%	8.50%	9.25%	8.75%	8.50%	8.60%	8.25%
Fixed Income	6.50%	6.50%	6.00%	5.50%	5.00%	5.00%	5.00%	5.25%	5.25%	4.75%	4.50%	4.25%	3.50%	3.50%
Private Equity	13.00%	13.00%	12.50%	12.00%	11.50%	11.50%	12.50%	12.50%	12.50%	12.25%	11.75%	11.50%	12.00%	11.75%
Real Estate	9.00%	9.00%	8.50%	8.50%	8.00%	7.75%	7.75%	8.50%	8.00%	8.00%	8.00%	8.00%	8.25%	8.00%
Cash	4.75%	4.75%	4.00%	3.50%	3.00%	3.25%	3.25%	3.75%	3.50%	3.00%	3.00%	3.00%	2.75%	2.50%

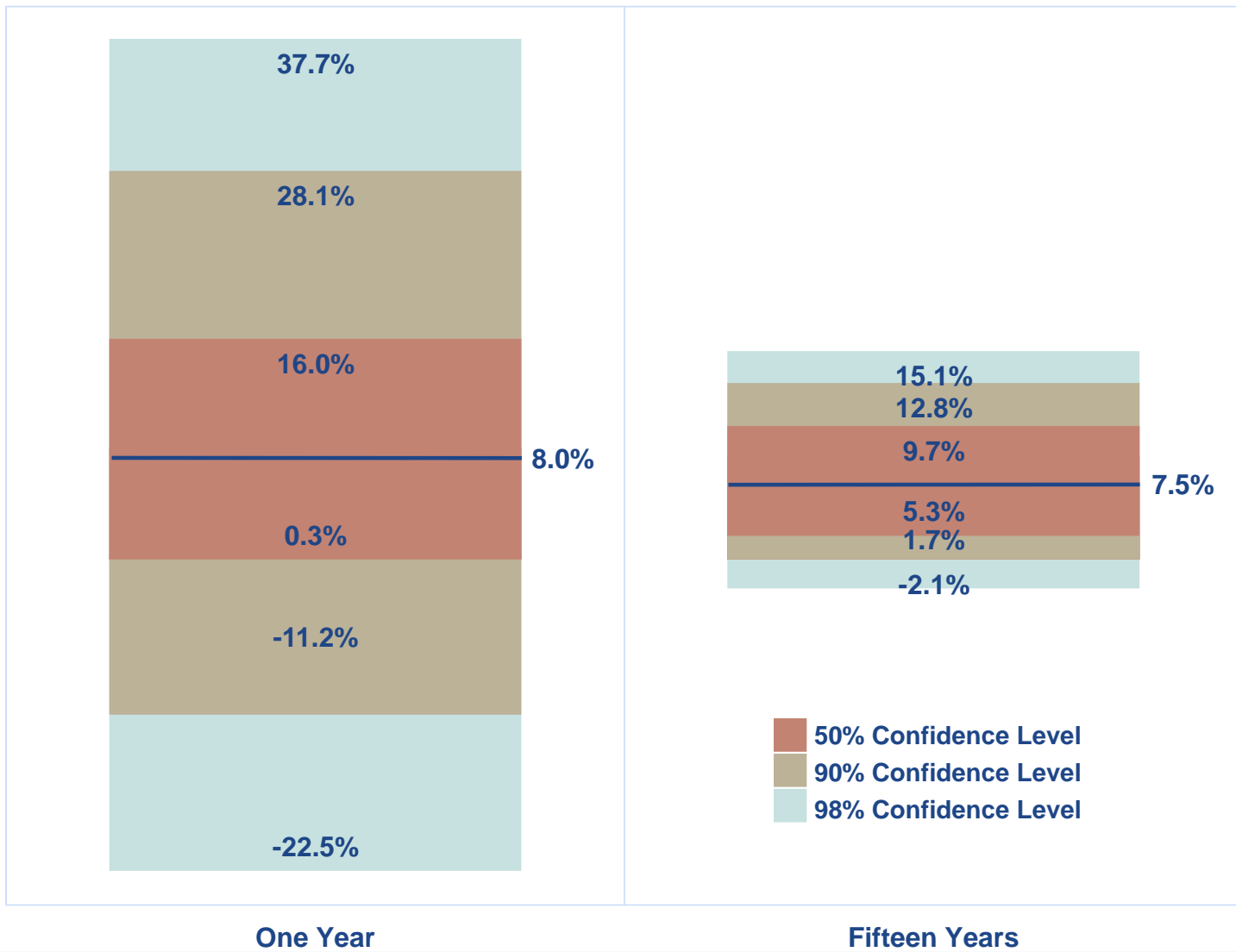




# CTF Return Expectations Using 2013 Capital Market Assumptions

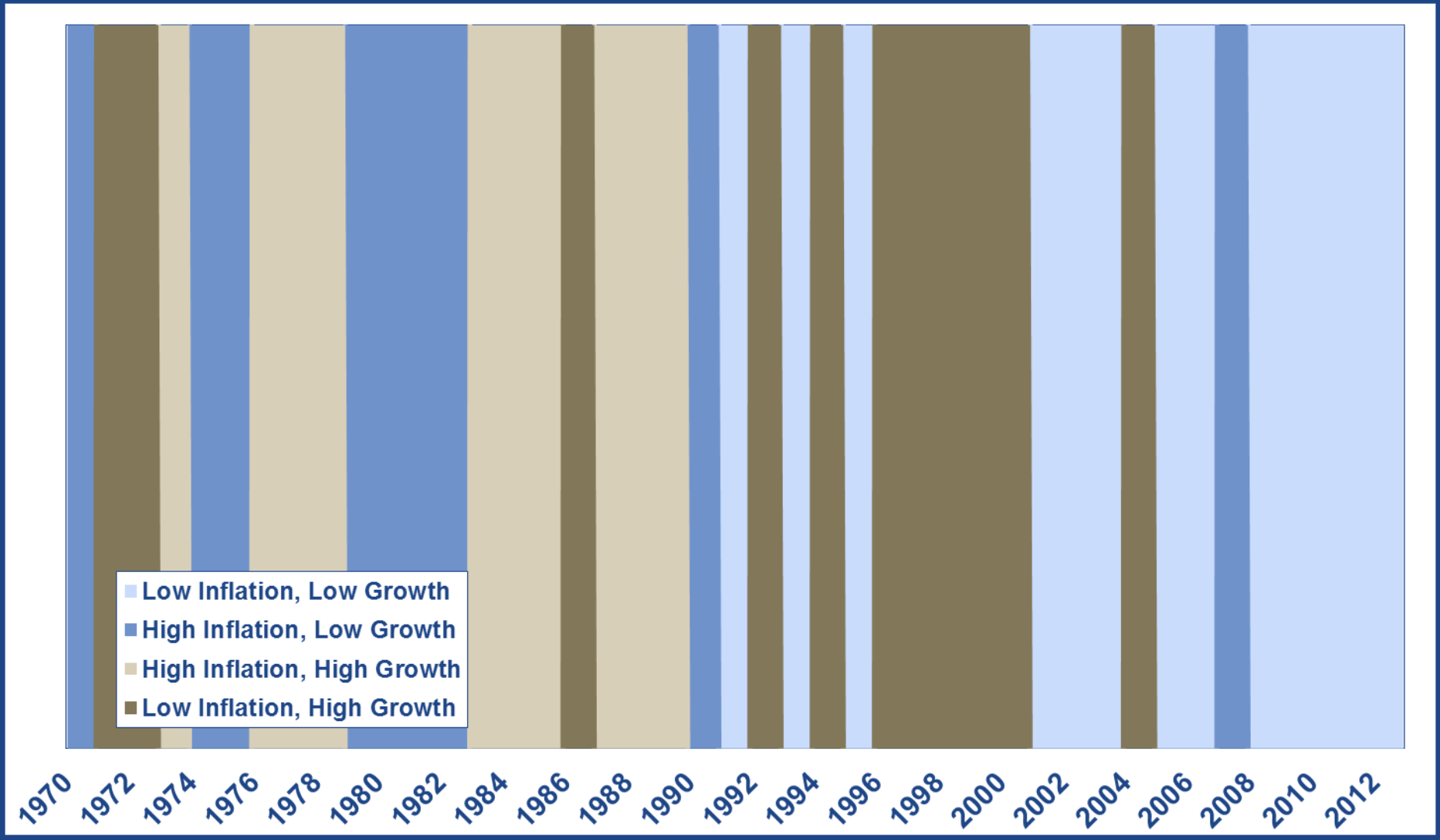
50.5% chance of making 7.9% in any one year

45.0% chance of earning 7.9% in 15 years





# Economic Regimes Impact on Capital Market Assumptions





## Global

- ❑ **Global recovery will be weak**
  - ❑ **Developed world will continue to have slow growth of 0 to 2 percent while emerging markets will have below-trend growth of 4 to 5 percent**
- ❑ **Productivity is key to higher-trend growth**
- ❑ **In many countries, monetary and fiscal policies have run their limits, implementing structural reforms becomes more urgent for recovery to be sustainable**
- ❑ **Emerging markets, though slowing, still have higher growth, lower debt, and lower fiscal deficits, in general, compared to the developed world**
- ❑ **Policy risk is high**
- ❑ **Other risks include geopolitical risk, protectionism, and social instability**
- ❑ **Problems of youth unemployment and income inequality are widespread**



## U.S.

- ❑ U.S. will continue to grow between 1 and 2 percent
- ❑ U.S. economy will continue to perform better than Europe and Japan
- ❑ Fiscal drag is still an issue
  - ❑ Higher taxes and spending cuts will slow growth
- ❑ Inflation will continue to be subdued
- ❑ Capital expenditures and employment are key to determining whether recovery is sustainable or not
- ❑ Housing will continue to recover, but is it sustainable?
  - ❑ In some markets, cash-rich investors are outbidding and pricing out first-time homebuyers who rely on mortgage loans
- ❑ Third round of Quantitative Easing (QE3) will end; timing is data dependent
- ❑ Is the economy strong enough for higher interest rates?
  - ❑ Data is still mixed as to whether or not U.S. growth is on strong footing
- ❑ Policy uncertainties are still weighing on consumer and business sentiment, growth, debt, and long-term fiscal balance
- ❑ Many believe QE has caused excessive risk taking





## Eurozone

- ❑ Still on track for negative growth in 2013
- ❑ Debt crisis is not over yet
- ❑ Governments attempt to strike a balance between growth and austerity
  - ❑ It is difficult to grow when economies are not competitive
- ❑ Fiscal and banking unions continue to be difficult to achieve
- ❑ Social instability due to high unemployment continues

## Japan

- ❑ Massive fiscal and monetary stimulus
- ❑ Structural reforms are needed to achieve sustainable growth

## Emerging Markets

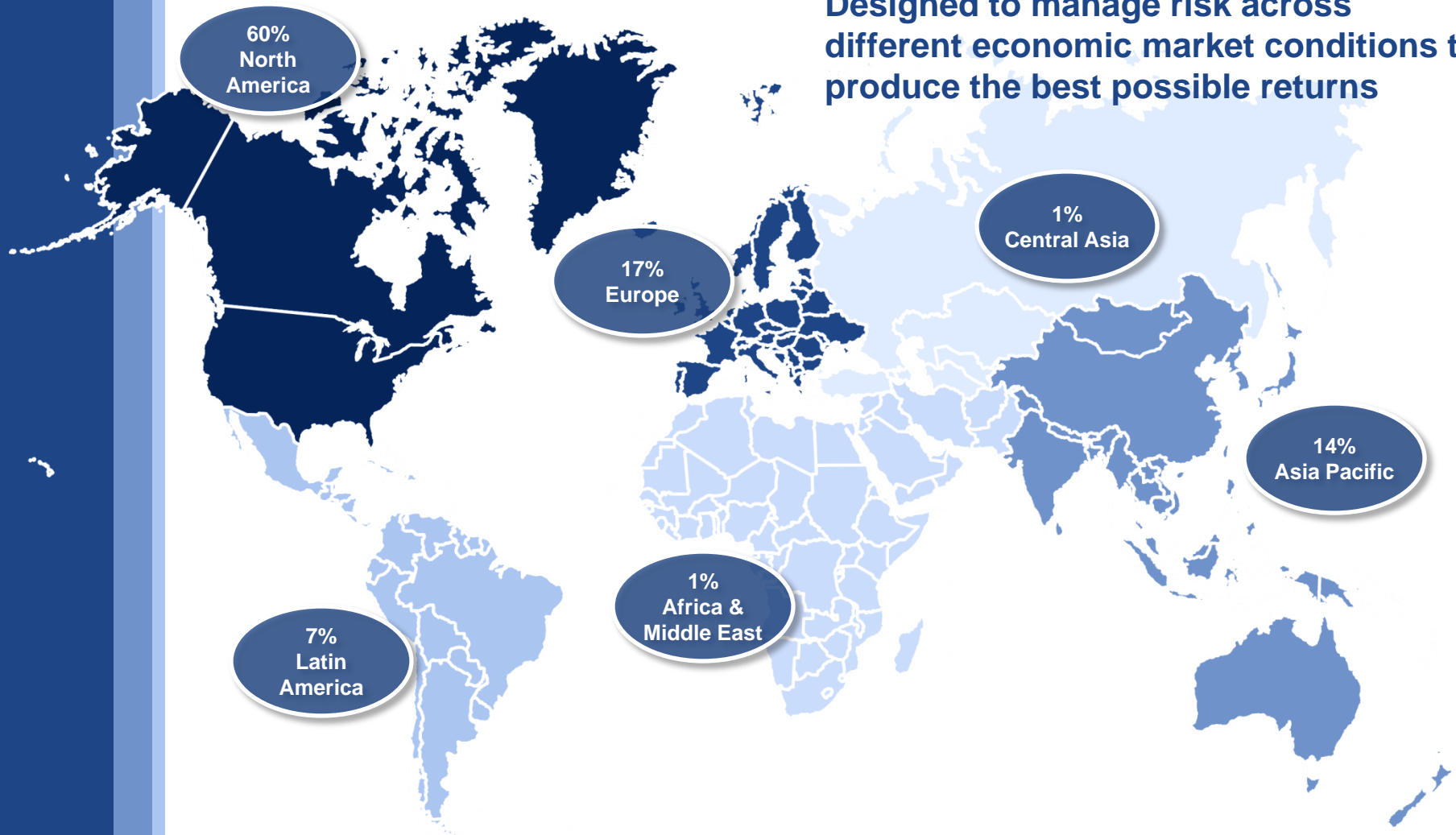
- ❑ Lack of demand from developed markets has caused slow down but long term secular trend still positive with strong demographics, sound fiscal policy and continuing urbanization and increase in consumer spending



# CTF Well Diversified – Geographic Diversification

June 30, 2013

Designed to manage risk across different economic market conditions to produce the best possible returns



## A Word on Private Assets – Private Equity



- ❑ We are long-term investors; this is a key differentiator of the WSIB and investments in private equity are consistent with the long-term nature of the underlying liabilities
- ❑ Private equity has sustainable competitive advantages over public equity
  - ❑ Manager selection is key in this asset class and WSIB has strong relationships with leading private equity partners
  - ❑ Skilled manager evaluation team in place at WSIB
  - ❑ The asset class has consistently outperformed public equity
  - ❑ Private equity managers have the ability to make operational adjustments to improve returns for shareholders
- ❑ Private equity provides diversification away from traditional capital market risks
- ❑ The private equity investment landscape has changed over the years and WSIB has adapted its strategy to respond to it (i.e., model portfolio)

## A Word on Alternative Assets – Real Estate



- ❑ Real Estate Portfolio invested in “core” real estate with a focus on holdings with strong cash flows that match the cash needs of the funds
- ❑ Invest through proprietary partnerships formed by the WSIB, achieving alignment of interest between WSIB and our Real Estate Operating Companies
- ❑ Hold properties for long periods, enabling WSIB to ride out market volatility
- ❑ Real Estate provides diversification away from traditional capital market risks – ten year return today is above public equity

## Conclusion: Foundation of WSIB Performance



- ❑ One of the most respected institutional investors in the nation: WSIB manages more than \$90 billion in 33 funds, invested in 74 countries, on six continents in 49 currencies
- ❑ Guided by an engaged and skillful Board that has made good governance a high priority, demonstrates respect for one another and staff, has committed to continually improving its investment decision making process, and conducts itself in a fully transparent and ethical manner
- ❑ Served by a highly professional staff that has been enhanced over the last decade by drawing from the best and brightest from both the private sector and from within state service who come to WSIB because they believe in it as a destination employer
- ❑ Served by the most sought after investment managers in the world because WSIB is a knowledgeable, fair, and consistent partner and its reputation enhances their position in the marketplace
- ❑ Aided by cutting edge technology and analytical services, as well as a robust and proprietary risk framework that gives WSIB insights into its portfolio that, when deployed correctly, will provide a significant competitive advantage over peers
- ❑ Enjoy a terrific reputation; supported by beneficiaries who believe in the WSIB brand and respected by stakeholders for our professional investment management services