

Dismal year for Canadian pensions: RBC Dexia

TORONTO, January 23, 2009 — Canadian pension plans suffered the steepest annual decline on record as global equity markets continued to plunge in the fourth quarter of 2008, according to a survey just released by RBC Dexia Investor Services, which maintains the industry's most comprehensive universe of Canadian pension plans and money managers.

Within the CAD 310 billion RBC Dexia universe, pension assets fell 7.0 per cent in the quarter ending December 2008, pushing 12-month losses to 15.9 per cent. "The last two quarters of 2008 were particularly brutal, but the pull-back actually started in the summer of 2007," noted Don McDougall, Director of Advisory Services for RBC Dexia.

"The dismal outcome for 2008 eclipses the previous annual record set in 1974 when pension portfolios shrank by 12.7 per cent," according to McDougall. "Mind you, pension performance data goes back only to the early 1960's. Before that, we would have to look to the Great Depression of 1929-32, but figures are sketchy. Pensions were uncommon in that era and, in any case, equity exposure would have been quite limited."

Domestic equity was the hardest hit asset class as the S&P TSX Composite index lost 33.0 per cent over the year. "Pensions fared a little better, outperforming the index by 1.5 per cent on the strength of their holdings in Consumer Staples – the only sector to remain unscathed," said McDougall. All other sectors retreated, shedding between 21.1 and 48.4 per cent from the start of the year. Financials, the last major group to succumb, tumbled 29.6 per cent in the final quarter, as the S&P TSX dropped 22.7 per cent.

In Canadian dollar terms, global equities lost 27.8 per cent for the year, lagging the MSCI World Index by 1.9 per cent. "Most pension funds remained under-exposed to the US market," reported McDougall.

With many global stock markets reporting record declines in 2008, the MSCI World index sank 38.7 per cent in local currency terms. "However, fortunately for unhedged Canadian investors, the weaker loonie went a long way to soften the blow," explained McDougall. In the fourth quarter alone, the Canadian dollar depreciated by 12.9 per cent against a basket of world currencies.

Thanks to a late fourth quarter rally, Canadian bonds earned 4.5 per cent for the year – although this fell short of the 6.4 per cent gain in the DEX Universe broad market benchmark. McDougall observed, "Shorter duration bonds prevailed. Credit quality was king across all maturity categories. Long-term federal bonds outdid long-term corporate debt by 24 per cent for the year."

About RBC Dexia Investor Services

RBC Dexia Investor Services offers a complete range of investor services to institutions worldwide. Our unique offshore and onshore solutions, combined with the expertise of our 5,200 professionals in 16 markets, help clients grow their business and sustain enhanced performance through efficiency improvements and robust risk management processes. Equally-owned by RBC and Dexia, the company ranks among the world's top 10 global custodians with USD 2.8 trillion in client assets under administration. rbcdexia.com

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