

RBC Dexia: Poll shows Canadian pension plan sponsors looking for less talk, more action

Toronto, June 14, 2010 – RBC Dexia Investor Services said today that 92 per cent of defined benefit plan sponsors believe that federal and provincial governments are not making sufficient progress on pension reform. This is according to a survey conducted by RBC Dexia to gauge the opinions of Canada's defined benefit pension plan sponsors on key issues in the pension industry. This is the second RBC Dexia Pension Quick Poll, with the inaugural poll conducted in October 2009.

"Whether it's closed door meetings, open letters from pension plan powerhouses or our surveys, Canadian pension plan sponsors are looking for more definitive decisions regarding pension plan reform," said Scott MacDonald, Head, Pensions, Financial Institutions and Client Service for RBC Dexia. "And while pension reform is the hot topic, the challenges facing plan sponsors today are relatively consistent with responses generated six months ago. Aligning assets with future liabilities and the subsequent management of risk is still the primary consideration."

Reform efforts average at best

In RBC Dexia's inaugural pension quick poll, respondents were vocal about the lack of a consistent approach in aligning the interests of plan members and plan sponsors. The results of our second poll indicate the perception of progress made by federal and provincial regulators is average at best. A full 92 per cent of respondents rated progress on pension reform "average" or "poor."

Risk remains most relevant

Through the financial turmoil of 2008 and 2009 and more recently, the sovereign debt crisis, plan sponsors remain focused on the many different types of risk they have to deal with on a day-to-day basis. Plan sponsors were asked to indicate how the recent financial turmoil has changed their risk management focus. Liquidity risk topped the list with 96 per cent of respondents indicating that this risk was still of high importance or had become even more relevant and important. Shortfall risk ranked as a close second with 92 per cent identifying this as having the same importance or more importance. Respondents' perspectives on interest rate risk and counterparty risk was also significant with 91 per cent and 89%, respectively, identifying these as being important—seemingly, a reflection of their increased use of derivatives to hedge risk.

Balanced attack

With the many different risk factors at play, how have asset allocation strategies changed and are they likely to change for the remainder of the year? Plan sponsors for the most part are satisfied with their positions, with roughly two thirds not making any adjustments to their foreign bonds, domestic equities and foreign equities (68%, 65%, and 67% respectively) allocations. As RBC Dexia's recent quarterly benchmark survey noted the top performing asset class for Canadian plans was domestic equities, climbing 3.8 per cent in the first quarter and 44.7 per cent over 12 months, making plan sponsor's asset allocation strategies in line with current market performance.

Interesting to note is 28 per cent of plans with over \$1 billion in assets will likely change allocations to “other” assets, with the most frequently quoted classes expected to increase, primarily including: real estate, infrastructure, private equity, and more generally, alternatives. This is compared to the 14 per cent of overall respondents who will increase their allocation to this sector.

The more things change...

Respondents' priorities have changed very little in the last six months. When asked to rank the single biggest challenge facing pension plans over the next year, matching liabilities with assets and low returns were still the two most dominant challenges (43% and 35% respectively) decreasing only slightly (48% and 38%) from October 2009. Canada remains in an enviable position on the global stage for both its weathering the financial crisis and having a relatively strong pension system in place. The RBC Dexia survey reveals that plan sponsors believe there is still much work to be done on pension reform and while understanding the need for broad discussion with many different stakeholders, progress remains stagnant and more tangible action plan needs to be implemented as the cries for change become more vocal.

Methodology

In May 2010, RBC Dexia Investor Services surveyed Canadian pension plan sponsors from coast to coast. 166 respondents, with pension plan assets ranging from less than CAD 100 million to over CAD 1 billion, formed the results of this particular survey.

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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 5,300 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 2.5 trillion in client assets under administration. www.rbcdexia.com

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