

## RBC Dexia Pension Plan Quick Poll: Inflationary Risk Concerns, Increased Exposure to Alternatives, Highlight Latest Results

**Toronto, June 28, 2011** – RBC Dexia Investor Services said today that 84 per cent of defined benefit plan sponsors are concerned about the threat of inflation and the potential impact it can have on plan assets. RBC Dexia's latest survey of Canadian pension plan sponsors also found that the largest plans are increasing their allocations to infrastructure assets and other alternatives to act as natural hedge against inflationary pressure and to take advantage of this growing asset class.

"The threat of inflation is not just a concern of the every day consumer, but it is front and centre in the minds of Canadian pension plan sponsors," said Scott MacDonald, Head, Pensions, Insurance, Financial Institutions Product for RBC Dexia. "It's also particularly interesting to note the disparity between public and private plans, both in identifying what risks are most relevant and the differences in asset allocation strategies."

### The threat of inflation

Momentum and performance in Canadian markets has been strong over the last several months but inflation speculation, combined with the ongoing low interest rate environment and a strong Canadian dollar, is generating some unease.

When asked to indicate their level of concern about the threat of inflation and the impact on plan assets, 84 per cent of plan members reported some degree of concern (ranging from extremely concerned to somewhat concerned), whereas only a small population, 16%, indicated they were not concerned at all.

### Mitigating the risk

It is clear that inflationary concerns are pressing and Canadian pension plans are assessing their portfolio structures in an effort to guard against this possible threat. With the level of concern mounting, managers were asked to describe the measures and strategies they were taking, or contemplating, to mitigate against inflationary trends. The tactics varied, but several trends emerged. The first and most frequently cited approach was the use of real return bonds (RRBs) in portfolios—seen as a sound strategy to better match indexed pensions. The inflation risk is transferred to the issuer, but the higher price represents the 'risk premium'. Several respondents confirmed their allocations to this asset class and the range extended from 15% to 35% of their total portfolios.

### What's hot and what's not

Respondents were asked to forecast how they expect to change their allocation strategies in the next six months to a year. Alternatives came out on top with 21 per cent of respondents looking to increase their allocation. And it's certainly where the large plans are headed with 46 per cent of the 'over a billion' club set to increase investment in alternatives. On the other hand, 26 per cent of private plans have no allocation to that segment.

Increases in other asset classes include 19 per cent of respondents bumping up emerging market equity positions, 17% increasing bonds in developed markets, 9 per cent growing emerging market bond holdings followed by only 7 per cent of respondents that expect to increase positions in developed market equities.

### Funding status improving

Our survey reports that 85 per cent of respondents confirm that their funded status ranged from 80 per cent to 100 per cent. Moreover, 6 per cent of our respondents' funded status exceeded 100 per cent.

Funding status	Percentage of survey respondents
50% to 69%	2%
70% to 79%	7%
80% to 89%	42%
90% to 95%	21%
96% to 100%	22% (largely private plans)
Over 100%	6%

### Pensions in the news

The status and viability of pension plans has featured heavily in the news in Canada over the past year, with changes to federal pension solvency funding rules and investment limits and provincial funding relief options also attracting coverage, not to mention a surge of interest during the recent federal election campaign.

Respondents commented on their plans communication efforts on two fronts. First, they were asked if the plans had adjusted their communications strategies with plan members to meet increasing demands for information transparency. For the majority of respondents, 58%, no changes were necessary. But for 42% of respondents, new approaches were put in place.

Second, respondents were asked specifically about whether the plans had to provide their members with more information on plan solvency and stability. More than two-thirds of respondents, 67%, said that they have not had to provide any additional information to quell concerns, reflecting a confidence (either real or perceived) that plans sponsors have with how they are communicating to their members.

### A new chapter

This chapter in the Canadian pension plan story is punctuated by ongoing market uncertainty, a shifting spectrum of risks, asset allocation strategies that need to hedge against inflation and portfolios that need to perform—to ensure that the pension promise for Canadians is not compromised.

RBC Dexia will continue to monitor the pension landscape and share insights on the trends and key themes that are emerging. The full report is available for download [here](#).

## Methodology

In April 2011, RBC Dexia Investor Services surveyed Canadian pension plan sponsors from coast to coast. 108 respondents, with pension plan assets ranging from less than CAD 100 million to over CAD 1 billion, formed the results of this particular survey.

## 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 5,500 professionals in 15 markets, help clients grow their business and sustain enhanced performance through efficiency improvements and robust risk management practices.

Equally owned by RBC and Dexia, the company ranks among the world's top 10 global custodians with USD 2.9 trillion in client assets under administration.

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