

How Low Can We Go?

The 2002 Risk Management Conference

St. Andrews-by-the-Sea, New Brunswick August 21 – 23, 2002



2002 RISK DELEGATES

Ronald Abraham, Towers Perrin; Lori Bak, *Canadian Investment Review*; Ken Bancroft, Alberta Teachers' Retirement Fund Board; Dexton Blackstock, State Street Global Markets.; Fred Blackwell, Workers' Compensation Board; Laurence Booth, Rotman School of Management, University of Toronto; Mike Brooks, Baillie Gifford; Michael Butera, Canada Post Pension Fund; Caroline Cakebread, *Canadian Investment Review*; Andrew Campbell, Nunavut Trust; Julie Cays, Hospitals of Ontario Pension Plan (HOOPP); Jamie Colliver, Integra Global Advisors; Jean-François Courville, State Street Global Markets; Stefan Cowell, Workers' Compensation Board of Alberta; Oswald D'Mello, Nortel Networks; Robert A. Daigneault, CDP Capital; Harindra de Silva, Analytic Investors; James Donegan, Ontario Municipal Employees Retirement System (OMERS); Pierre Drolet, Domtar Inc.; Michel Bruce Dubois, Ville de Montréal; Cathy Duquette, Allied Domecq; Philip Falls, IWA - Forest Industry Pension and Ltd. Plans; Bill Forbes, Queen's University; Mario Galizia, Towers Perrin; Serge Germain, University of Sherbrooke Pension Plan; Frank Giffen, Scotia Capital; Marven Grant, City of Fredericton; Paul Halpern, Rotman School of Management, University of Toronto; Jeff Horbal, Fidelity Investments; Jim Hoult, Stelco Inc.; Christopher Huckle, Baillie Gifford; Eric Innes, YMG Capital Management; Pierre Jetté, CDP Capital; Larry Johnson, Abitibi-Consolidated Inc.; Michael Keenan, Bimcor Inc.; Gordon Kosokowsky, CDP Capital; Lawrence Kryzanowski, Concordia University; Claire Kyle, Bank of Montreal Pension Fund; Andrew Lapkin, Measurisk; Tristram Lett, YMG Capital Management; David Linds, CIBC Mellon; Richard MacDonald, Canada Mortgage and Housing Corporation; John Mackinnon, Canada Post Pension Fund; Ravi Mantha, Fidelity Investments; Josephine Marks, Maritime Life Assurance Company; Richard McAlooney, Nova Scotia Association of Health Organizations Pension Plan (NSAHO); Gayle McDade, City of Regina; Shawn Menard, Russell/Mellon Analytical Services; Roger Moss, Integra Capital Management; Gary Ostoich, McMillan Binch; Paul Owens, Colleges of Applied Arts and Technology (CAAT) Pension Plan; Bill Pacula, Baillie Gifford; Sébastien Page, State Street Associates; Hal Parker, Prince Edward Island Provincial Treasury; Tom Phelps, Brascan Financial Corporation; Johnny Quigley, Fondation Lucie et André Chagnon; Dr. Bill Rentz, University of Ottawa; André Robitaille, University of Quebec Pension Fund; Mike Rodgers, New Brunswick Investment Management Corporation; David Scoon, Fidelity Investments; David Service, Towers Perrin; William Shadwick, Finance Development Centre; Colin Spinney, Dalhousie University; Gary Stewart, Elliott and Page; Terri Troy, Royal Bank and Royal Trust Pension Plans; Elizabeth Vandenberg, Province of Nova Scotia; Blake Walker, Local Authorities Pension Plan (LAPP); Michael Walsh, Elliott and Page; Alan White, Rotman School of Management, University of Toronto; Mark White, Nova Scotia Association of Health Organizations Pension Plan (NSAHO); Paul Williams, Rogers Media; Ke Hua Zhou, New Brunswick Investment Management Corporation of Fredericton; Catalin Zimbresteanu, PSP Investments; Mike Zych, Scotia Capital.

After two years of poor equity

market performance and shrinking pension fund surpluses, this year's Risk Management Conference was dominated by one basic question — "Will plan sponsors be able to meet their liabilities in the future?" It's a question we wouldn't have asked when the conference was first held during the bull market of the late 1990s, but it loomed large during our two-day discussion. Just how low can pension surpluses and equity market returns sink? And how are sponsors of Canada's defined benefit pension plans going to be able to meet their liabilities in the coming years?

To answer these questions, we started off with a session on the basics—asset allocation and risk. Laurence Booth, professor of finance at the Rotman School of Management, looked at the equity market risk premium and where it might go in the future, both short- and long-term. David Service from Towers Perrin then argued that Canada's pension plans are in better shape than many would have us believe.

The main message from this year's conference: risk management is more important than ever when it comes to improving returns in challenging times. The articles that follow will take you through the two-day agenda, starting with the basics, and moving into new and interesting areas such as derivatives, manager style, absolute return strategies and new concepts such as the "Omega" function. Indeed, this year's conference coverage contains something for everyone.