

**BOB BERTRAM**

Executive vice-president, investments, and chief investment officer, Ontario Teachers' Pension Plan

What About Bob?

EXECUTIVE VICE-PRESIDENT BOB BERTRAM TALKS ABOUT HIS YEARS AT TEACHERS' AND HIS ADVISORY ROLE WITH THE PENSION FUND AFTER RETIREMENT. **BY BROOKE SMITH**

During your time at the Ontario Teachers' Pension Plan, what was your greatest achievement?

Probably developing an overall investment program where we integrated risk management compensation systems and portfolio management into a single set of measurements. Basically, integrating our programs so they were centred on risk management and then tying the compensation system into the risk management budget.

What was your greatest challenge?

I think the greatest challenge was, and always is, getting people to focus on managing the balance sheet. In other words, do your best to match assets and liabilities before you try to add value.

How do you balance risk and return in pension plan investing?

One of the things I'm most satisfied with is that we've decided to run this place like a business. What we do is budget out risks. The risks become a constraint on what people can do within their portfolios. What we look for from a portfolio is, if they have a benchmark of the TSX 60, they need to have a return equal to the TSX 60 benchmark, plus they have to have a return on the risk capital that they employ. We measure the amount of risk they take relative to the benchmark and we expect to get, on average, a 10% return on that risk. That way, we can tie compensation into those 10% numbers as well, so everybody is compensated for the same number—the return on the risks that they employ, as opposed to the return on the assets they employ.

How has Teachers' fared during the recent market volatility?

It's been a challenging environment. We are certainly down, but there are two numbers that are important to us. One is the value of the assets. We measure on a mark-to-market basis on our assets, and they've clearly gone down. The other is the liabilities, and our liabilities are tied directly to a real rate of return because they're indexed to inflation. The value of the liabilities

goes in inverse proportion to changes in real rates, and real rates are up a bit, which means the liabilities are worth less. The challenge is to achieve a match between assets and liabilities.

Can you comment on the plan's long-term investment outlook?

We think there's going to be, in the immediate future, a little higher return than normal because the equity markets will come back toward a mean. But in the long run, we would see risk premiums a little lower than what they would have been, say, for the average of the last 25 years. So maybe a 3% nominal return on fixed income and 5% to 6% [on equity].

People are worried about where this economy is, but it's not going to be a doomsday scenario. The government is taking the appropriate action; these markets will eventually return to normal.

What is Teachers' strategy to avoid future funding shortfalls?

We're working on conditional indexing so it gives us the opportunity, in the worst-case scenarios, to reduce the level of indexing that's provided on future pensions.

Do you foresee any significant changes to the way the fund is managed as a result of Neil Petroff's leadership?

No, but Neil will bring his own presence. Things will be done differently, but I think the basics are in place. Neil has been here since '93, and if he had disagreed with them, I would have heard about it by now.

What are your plans for retirement?

I'm going to stay involved with a number of boards and foundations and do some consulting for the board itself—not so much in a consulting role but in a mentoring role here at Teachers'. I'll retain an office in the building, and my phone number and email address.

Read the full interview at www.benefitscanada.com/extras

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