



A New Path Forward for Canadian Pensions

*A Long Duration Solution That
Delivers Precision and Performance*



The Evolving Needs of Canadian Pension Plans

Canadian pension plans with long-dated liabilities have always needed to thoughtfully align their assets and liabilities. Many recent asset liability studies have suggested the benefits of a larger fixed income component in an asset mix, thanks in large part to higher interest rates and the elevated valuations of equities.

This has prompted many open, “young” plans to add to their fixed income allocation, particularly long-dated corporate bonds. For more mature plans, higher interest rates improved their funded status with many if not most plans now above 100% funded. Many mature plans have sought to “lock in” those gains by investing with more liability awareness – without fully de-risking the plan.

As both young and mature plans seek to increase their long-duration credit exposure to support these goals, the range of solutions available to meet this demand remains limited.

The Current Menu of Long Duration Options

Pension plans currently have two main avenues for obtaining long duration exposure:

		Pros	Cons
1	Government/Provincial Bonds	• Low credit risk • The ability to achieve a very precise duration match	• Modest expected returns, which after fees, often fail to exceed the liability discount rate (typically based on an AA-rated corporate curve)
2	Long Corporate or Core Plus Strategies	• Higher expected returns due to the credit risk premium	• Duration matching perhaps less precise • Most are quasi-passive (excess returns are from credit beta, not alpha) • Core Plus may include 10–20% of non-investment-grade debt or mortgages, adding complexity and risk

While these options may bring investors close to the required headline duration exposure, they often do not deliver on their risk and return objectives, especially after fees. As well, many clients are heavily Canadian-focused due to their Canadian-denominated liabilities. This presents a return challenge as the Canadian long corporate bond market is highly concentrated and illiquid, thus limiting opportunities for diversification and active value creation.

A New Approach for a Changing Environment

The gaps in the existing menu of solutions are pain points we have heard from pension plans trying to find the right balance in their long-duration exposure. **Rather than choosing between precision and performance, we believe plans can have both.**

A long duration corporate strategy with modest geographic flexibility across Canadian and US markets combines the best of both worlds. Such a strategy offers strong return potential, better diversification, and a closer index-matching risk profile. Unlike existing Core Plus options, focusing entirely on investment grade bonds means the credit risk of the long duration corporate strategy remains high quality and liquid.

An actively managed long-duration corporate credit strategy can strike the right balance that both young and mature plans need in this changing environment.

A More Effective Solution

We launched the **RP Long Term Corporate Bond** strategy to bridge this gap, wherein pension plans can lean on a solution that respects the defensive role of fixed income while still aiming to deliver alpha. By combining the **discipline of liability-aware investing** with the **opportunity set and dynamism of active credit selection**, this strategy offers a new path forward for Canadian pension plans facing long-duration challenges.

The **RP Long Term Corporate Bond** strategy is designed to:

- Provide **closer duration matching** to a long corporate benchmark
- Invest actively across both **Canadian and US corporate bonds**
- Fully hedge all **foreign currency risk (CAD-hedged)**

Matching duration to a long corporate benchmark and expanding the opportunity set to Canadian and US corporate bonds without the currency risk offers several advantages:

1. Better Liability Alignment

The strategy maintains the duration profile that pension plans require in order to align assets with their long-dated liabilities. Plans can achieve their goals, whether they be de-risking focused or benchmark alignment, without sacrificing return potential as you would with a government bond approach.

2. Credit Diversification

Investing across both Canadian and US bond markets helps overcome the strong home bias of existing solutions which severely limits diversification. This broader opportunity set allows for a more diversified credit portfolio, reducing idiosyncratic risk.

To put this in perspective, the Canadian long corporate universe is highly concentrated: the top three sectors represent about 70% of the index, and there are only 109 unique issuers. In contrast, the US long corporate universe has 690 issuers and 9x as many individual securities, with the top three sectors making up just 46% of the index. Moreover, Canada lacks exposure to sectors like Technology and Materials, which are meaningful in the US market.

	Canada Long Corporate Universe	US Long Corporate Universe
Name	BBG Canada Long Corporate Bond Index	BBG US Long Corporate Bond Index
Number of Bonds	339	3084
Unique Issuers	109	690
Wgt Avg. Liquidity Score	27	36
Sector		
Utilities	30.8%	13.6%
Energy	23.3%	9.6%
Industrials	16.0%	8.4%
Health Care	4.3%	16.3%
Financials	6.5%	15.9%
Communications	12.2%	11.0%
Technology	0.0%	8.8%
Consumer Staples	3.3%	7.3%
Consumer Discretionary	3.7%	5.7%
Materials	0.0%	3.4%

Canada's top 3 sectors represent 70% of the index.

The US has more issuers and the top 3 sectors make up just 46% of the index.

Source: Bloomberg. Data as of September 5, 2025.

3. Potential for Alpha Through Active Management

Differences in market structure, such as issuance patterns, liquidity trends, and spread dynamics, create opportunities where credit exposures can be composed of the best risk-adjusted opportunities at the best price. Issuers with debt trading in both Canadian and US markets can have bonds priced differently in each jurisdiction, allowing skilled managers to capture value from mispriced securities. Active management goes beyond simply harvesting credit beta and enables the portfolio to adapt to changing conditions, repositioning to manage risks and add value.

Conclusion

The Canadian pension landscape is evolving. Higher rates, improved funded statuses, and changing return expectations are reshaping asset allocations. Yet the tools available to implement these changes have not kept pace.

The RP Long Term Corporate Bond strategy was built to close that gap by providing Canadian pension plans with a purpose-built, actively managed, long-duration corporate bond solution that aligns with liabilities, diversifies the opportunity set, and seeks to deliver consistent alpha.

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