Active / Passive Discussion

University of Western Ontario

Bruce Curwood, MBA, CFA, CIMA, Acc.Dir.
Director, Investment Strategy

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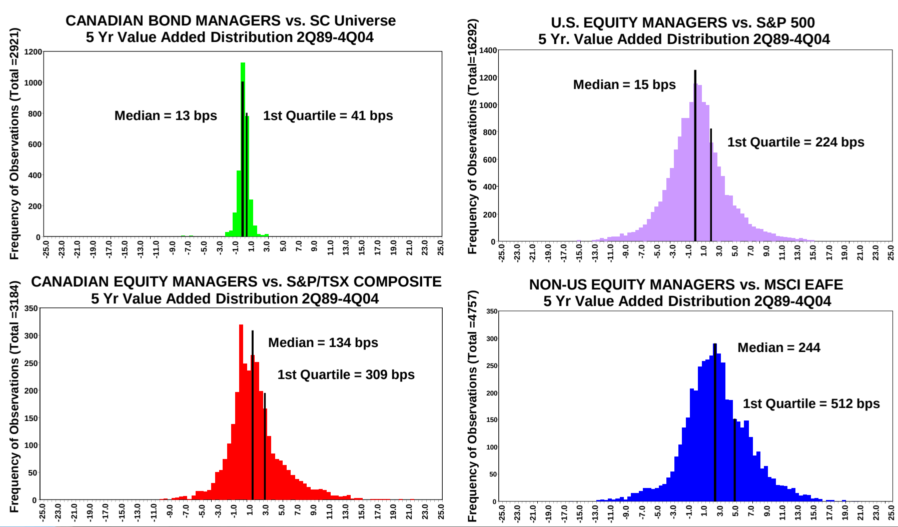
Statement of Investment Beliefs for the UWO Joint Pension Board

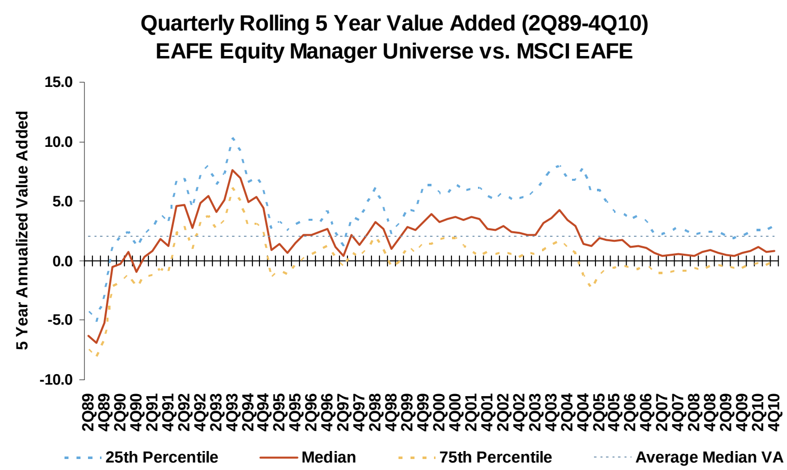
- **Belief: Active Management may add value in some markets but passive management is the JPB's default choice**
- **Strategy: Maintain active investment strategy for Canadian equities, global equities, international equities, US small cap equities, international fixed income and money market;**
  - Monitor the success of active investment strategies;
  - Keep up to date with research on active management;
  - Monitor investment fees paid to ensure we maintain a net value added.

Decision Algorithm

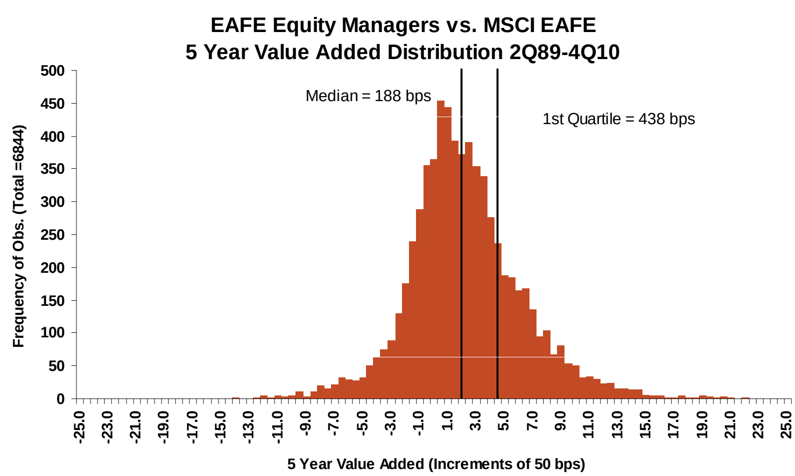
Active Managers can Add Considerable Value in Cdn and EAFE Equity



Recently it has been Harder for the Median EAFE Manager to Add Value

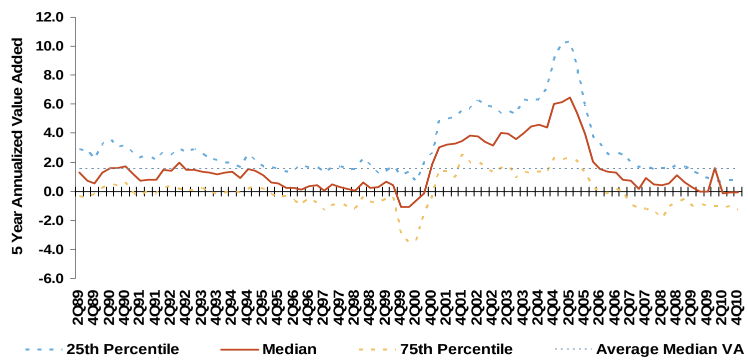


Net of Fees the Median EAFE Manager, Long Term has still Added 1% Value with Considerable Upside for Superior Capability



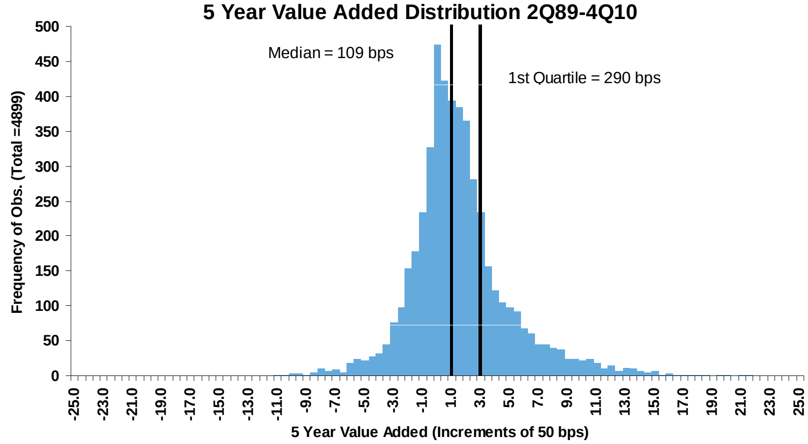
Recently it has been Very Hard for the Median Cdn Equity Manager to Add Value!

Quarterly Rolling 5 Year Value Added (2Q89-4Q10)
Canadian Equity Manager Universe vs. S&P/TSX Composite



Net of Fees the Median Cdn Equity Manager, Long Term has still Added .75% Value with Considerable Upside for Superior Capability

Canadian Equity Managers vs. S&P/TSX Composite
5 Year Value Added Distribution 2Q89-4Q10



Dalbar Study 2010 (>25 Years of actual history)
1984 to 2010

S&P 500 return	9.14%
Average US equity fund investor	3.83%
Difference	-5.31%

- Investor returns continue to lag buy-and-hold returns significantly over the long term
- "Investors are driven to do the wrong thing by psychological factors that overtake rational decision-making" (loss aversion, regret etc)

  "The alpha killing psychological factors must be curbed to produce desirable results for alpha seeking investors. The key to curbing undesirable reactions is to introduce a pause in the flow to assess the facts."

Active Management can Pay Off, But Not in All Markets nor in All Time Periods

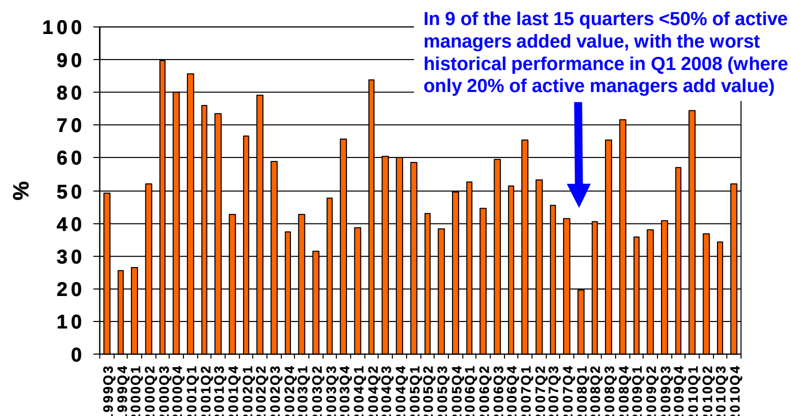
- Passive management guarantees Index minus returns
- Some less efficient markets offer the opportunity for active managers to add considerable added value
- Make sure the odds are in your favour and you've done your homework
- Pick your fights carefully!
- Often a combination of active (EAFE & Cdn equity) and passive makes sense
- But you must be patient as value add is inconsistent and often comes sporadically
- Manager selection / termination by committee seldom works
- Use the best research and staff with time for the necessary due diligence and oversight!

Russell's Hire Ranked Managers Perform

- >90% of Russell Hire ranked managers outperform the benchmark over rolling 10 years periods;
- >80% of Russell Hire ranked managers outperform the median manager over rolling 10 year periods;
- Russell Hire ranked Cdn equity managers average about 2.0% VA above index over the long term
- Russell Hire ranked EAFE equity managers average about 2.5% VA above index over the long term
- The narrowness of the Cdn equity market has lead to some erosion of value added as most active managers have underperformed over the last 4 years

Cdn Equity Active Management Environment:

% of Large Cap Managers that Outperformed

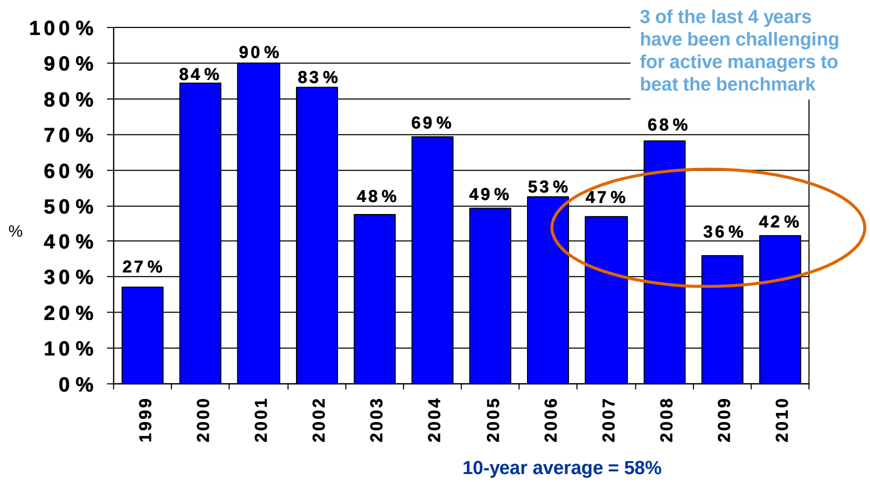


Long term Average = 53%

Casinos make $billions on these types of odds!

How 2010 Compared to History:

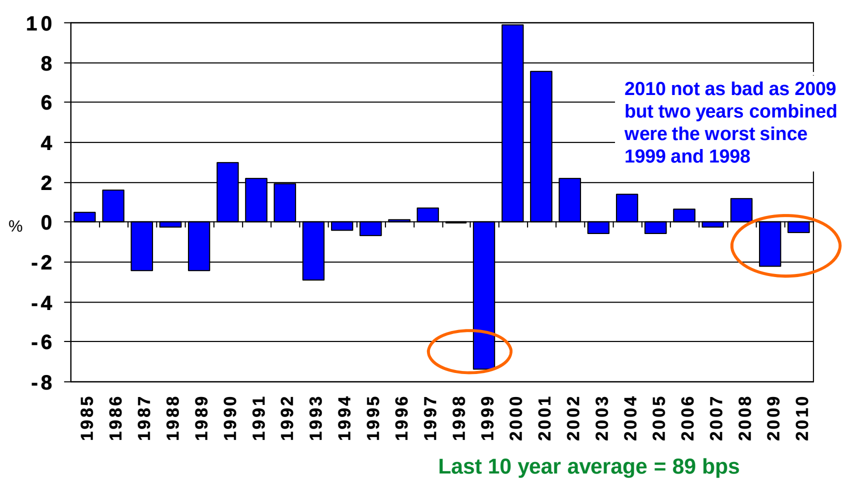
% of Large Cap Managers that Outperformed



Source: Russell Investments Canada Limited using Russell Universe data

How Recent Years Compared to History:

Value added of the median Cdn large cap equity manager



The S&P/TSX Returns for the Last 5 Years are Largely Attributable to the Materials Sector

(as of 12/31/2010)

	Weight	5 Year Return
S&P/TSX	100%	6.5%
Materials	24%*	19.7%
Telecom		7.1%
Industrials		7.1%
Utilities		6.1%
Energy	27%	3.7%
Financials	28%	3.7%
Health Care		2.4%
Consumer disc		2.4%
Consumer staples		2.3%
Info Tech		2.0%

A highly concentrated market with narrow sector performance!

*5 years ago was 15%

Active Managers Generally Tend to Underperform in Narrow Markets

- **Only 3 of 10 sectors outperform TSX 6.5% over last 5 years**
  - 2 sectors marginally Telecom & Industrials both 7.1%
  - Only 1 sector outperforms significantly Materials with 19.7%
- **Most managers underweight materials like gold, particularly value managers**
- **Today's narrow markets are somewhat similar 1999 when active managers underperformed as Info Tech did so well, which later corrected 2000-2002 (remember Nortel)**

Forward-Looking

- Much better sector breadth – gives skilled managers chance to shine on stock-picking.
- Lower stock correlations better for stock picking.
- Looks like value style might be back in favour after two quarters of growth.

Key Take-Aways:

- Style leadership keeps changing which favours a multi-style, multi-manager approach
- Passive indexing may NOT be the best way to go particularly in a narrow concentrated market. Managers can actively take advantage of opportunities.

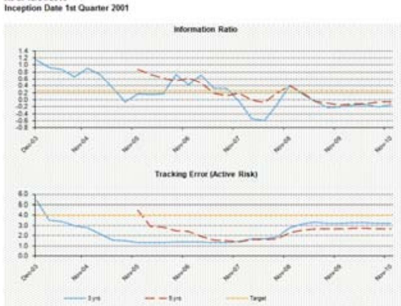
Even in these Tough Times UWO's Cdn Equity Managers Performed no Worse than Passive

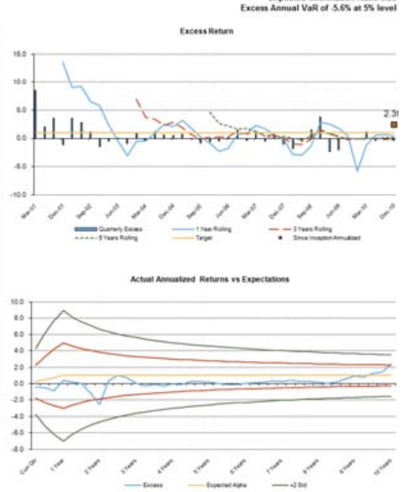
1/3 Beutel Goodman, CC&L Q Core, Greystone

S&P/TSX Composite Index
Canadian Large Cap Stocks with Cash Portfolios Universe
As of 12/31/2010
Inception Date 1st Quarter 2001

UWO Pension

Expected Annualized Alpha 100 b.p.
Expected Annualized Tracking Error 400 b.p.
Expected Information Ratio 0.25
Excess Annual VaR of -5.6% at 5% level





Performance Table

	Annualized Return 12/31/2010					Calendar Return				
	1 Yr	2 Yrs	3 Yrs	5 Yrs	Incept	2010	2009	2008	2007	2006
Absolute Return	18.0	23.5	2.1	6.7	9.0	18.0	29.3	(30.1)	9.6	18.2
Benchmark Return	17.6	26.0	2.1	6.5	6.6	17.6	35.1	(33.0)	9.8	17.3
Excess Return	0.4	(2.5)	0.1	0.2	2.4	0.4	(5.8)	2.9	(0.2)	1.0
Universe Rank %Tile	29%	55%	53%	43%	–	29%	68%	40%	48%	45%
Tracking Error	–	–	3.20	2.67	3.83	–	–	–	–	–
Information Ratio (IR)	–	–	(0.14)	(0.05)	0.49	–	–	–	–	–
IR T-Stat	–	–	(0.24)	(0.12)	1.56	–	–	–	–	–
Beta	–	–	0.92	0.92	0.87	–	–	–	–	–
Standard Deviation	–	–	21.8	17.8	15.8	–	–	–	–	–
Sharpe Ratio	–	–	0.05	0.25	0.40	–	–	–	–	–

Consistency of Excess Returns (rolling quarterly periods)

	Qtr	1 Yr	3 Yrs	5 Yrs
% Periods Outperform	48%	65%	69%	81%
Avg Excess Return	0.5	1.3	0.9	0.8
Number of Observations	40	37	29	21

Canadian Equity Portfolio

- Common data period: Q1 2001 to Q4 2010
- Manager performance history:
  - Beutel Goodman: UWO Pension performance (Q4 2009 to Q4 2010), UWO Endowment performance (Q3 1992 to Q3 2009)
  - CC&L Q Core: UWO Pension performance (Q1 2005 to Q4 2010), eVestment Alliance separate account composite (Q1 2001 to Q4 2004)
  - Greystone: UWO Pension performance (Q2 2003 to Q4 2010), eVestment Alliance separate account composite (Q2 1996 to Q1 2003)

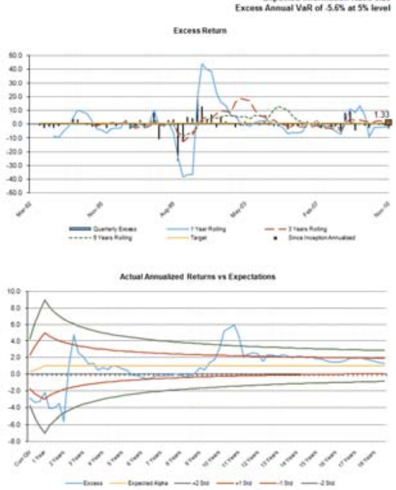
Somewhat Inconsistent but Long Term Value Added (Value Manager)

Beutel Goodman Div Equity

S&P/TSX Composite Index
Canadian Large Cap Stocks with Cash Portfolios Universe
As of 12/31/2010
Inception Date 3rd Quarter 1992

UWO Pension

Expected Annualized Alpha 100 b.p.
Expected Annualized Tracking Error 400 b.p.
Expected Information Ratio 0.25
Excess Annual VaR of -5.6% at 5% level



Performance Table

	Annualized Return 12/31/2010					Calendar Return				
	1 Yr	2 Yrs	3 Yrs	5 Yrs	Incept	2010	2009	2008	2007	2006
Absolute Return	15.4	20.4	4.2	7.2	11.4	15.4	25.7	(22.0)	6.4	17.4
Benchmark Return	17.6	26.0	2.1	6.5	10.1	17.6	35.1	(33.0)	9.8	17.3
Excess Return	(2.2)	(5.6)	2.1	0.7	1.3	(2.2)	(9.3)	11.0	(3.5)	0.1
Universe Rank %Tile	66%	86%	22%	28%	–	66%	88%	6%	71%	52%
Tracking Error	–	–	8.35	6.76	10.64	–	–	–	–	–
Information Ratio (IR)	–	–	0.10	(0.02)	0.05	–	–	–	–	–
IR T-Stat	–	–	0.17	(0.05)	0.21	–	–	–	–	–
Beta	–	–	0.75	0.76	0.60	–	–	–	–	–
Standard Deviation	–	–	18.6	15.4	13.0	–	–	–	–	–
Sharpe Ratio	–	–	0.17	0.32	0.60	–	–	–	–	–

Consistency of Excess Returns (rolling quarterly periods)

	Qtr	1 Yr	3 Yrs	5 Yrs
% Periods Outperform	45%	46%	56%	69%
Avg Excess Return	0.1	0.7	1.6	1.9
Number of Observations	74	71	63	55

High Consistency and Good Long Term Value Added (Market Oriented Manager)

Connor, Clark & Lunn Inv Mgmt

S&P/TSX Composite Index
Canadian Large Cap Stocks with Cash Portfolios Universe
As of 12/31/2010
Inception Date 1st Quarter 2001

UWO Pension

Expected Annualized Alpha 100 b.p.
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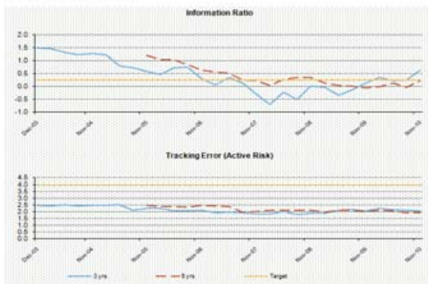

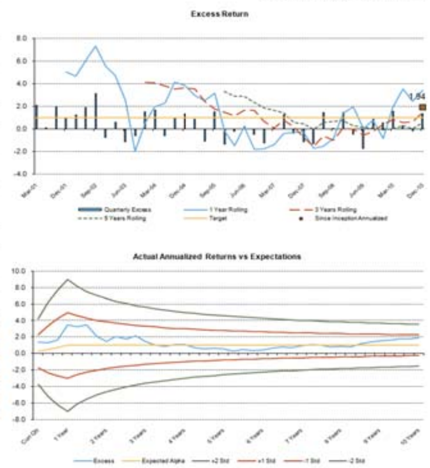

Performance Table

	Annualized Return 12/31/2010					Calendar Return				
	1 Yr	2 Yrs	3 Yrs	5 Yrs	Incept	2010	2009	2008	2007	2006
Absolute Return	21.1	27.5	3.6	7.1	8.5	21.1	34.2	(31.6)	9.6	15.5
Benchmark Return	17.6	26.0	2.1	6.5	6.6	17.6	35.1	(33.0)	9.8	17.3
Excess Return	3.5	1.5	1.5	0.6	1.9	3.5	(0.8)	1.4	(0.2)	(1.7)
Universe Rank %Tile	13%	27%	33%	29%	–	13%	40%	52%	48%	75%
Tracking Error	–	–	2.10	1.95	2.31	–	–	–	–	–
Information Ratio (IR)	–	–	0.64	0.24	0.74	–	–	–	–	–
IR T-Stat	–	–	1.12	0.53	2.34	–	–	–	–	–
Beta	–	–	0.98	0.98	0.96	–	–	–	–	–
Standard Deviation	–	–	23.4	19.0	17.1	–	–	–	–	–
Sharpe Ratio	–	–	0.11	0.25	0.35	–	–	–	–	–

Consistency of Excess Returns (rolling quarterly periods)

	Qtr	1 Yr	3 Yrs	5 Yrs
% Periods Outperform	63%	65%	79%	95%
Avg Excess Return	0.4	1.6	1.2	1.0
Number of Observations	40	37	29	21

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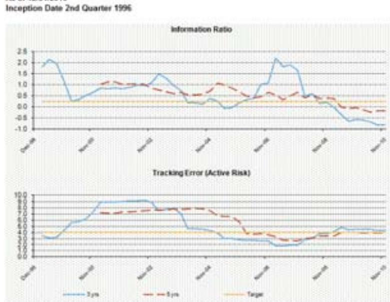
Good Consistency but High Long Term Value Added (Growth Manager –GARP)

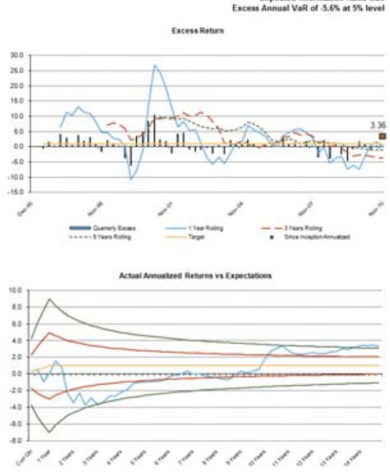
Greystone Capital Management

S&P/TSX Composite Index
Canadian Large Cap Stocks with Cash Portfolios Universe
As of 12/31/2010
Inception Date 2nd Quarter 1996

UWO Pension

Expected Annualized Alpha 100 b.p.
Expected Annualized Tracking Error 400 b.p.
Expected Information Ratio 0.25
Excess Annual VaR of -5.6% at 5% level





Performance Table

	Annualized Return 12/31/2010					Calendar Return				
	1 Yr	2 Yrs	3 Yrs	5 Yrs	Incept	2010	2009	2008	2007	2006
Absolute Return	17.6	22.6	(1.6)	5.5	12.6	17.6	27.8	(36.7)	12.9	21.8
Benchmark Return	17.6	26.0	2.1	6.5	9.2	17.6	35.1	(33.0)	9.8	17.3
Excess Return	0.0	(3.4)	(3.7)	(1.0)	3.4	0.0	(7.3)	(3.7)	3.1	4.6
Universe Rank %Tile	34%	65%	95%	70%	–	34%	81%	86%	20%	12%
Tracking Error	–	–	4.30	3.92	5.56	–	–	–	–	–
Information Ratio (IR)	–	–	(0.82)	(0.19)	0.52	–	–	–	–	–
IR T-Stat	–	–	(1.41)	(0.42)	2.01	–	–	–	–	–
Beta	–	–	1.01	1.02	0.89	–	–	–	–	–
Standard Deviation	–	–	24.4	20.0	17.6	–	–	–	–	–
Sharpe Ratio	–	–	(0.11)	0.16	0.53	–	–	–	–	–

Consistency of Excess Returns (rolling quarterly periods)

	Qtr	1 Yr	3 Yrs	5 Yrs
% Periods Outperform	68%	70%	79%	83%
Avg Excess Return	0.7	3.3	3.6	4.1
Number of Observations	59	56	48	40

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Conclusions

- Some markets are very efficient and hard to beat (US equity & Cdn FI) with active management, especially net of fees
- The median manager in EAFE & Cdn equities generally adds value, even net of fees;
- Excellent qualitative research and proper oversight are required
  - Russell Hire ranked managers have exceeded the median and benchmark consistently over rolling 10 year periods;
  - Staff and the consultant have the time to collect the facts and do appropriate due diligence
- However, Active management is difficult!
  - Added Value from active management comes in waves (usually underperformance followed by outperformance)
    e.g. Bernstein 2008 bonds, Beutel 1999 Cdn equity
  - Active management often underperforms in narrow markets, when particular stocks or sectors do well
    (IT 1999, gold & oil 2008 to 2010);
- Patience is critical to receive your payoff (Dalbar Studies)

Recommendations

- Retain your 3 current Cdn equity managers, who have added value over the long term and are ranked well by Russell and staff
- Remember changes were made in the last few years
  - terminated Bernstein & Highstreet
- Consider an increase in:

1) global active commitment; or
2) monitoring of EAFE managers.

Russell Investments

www.russell.com

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