JOINT PENSION BOARD MEETING

March 23, 2011

1:00pm

SSB 4220

PRESENT: Stephen Foerster, Ab Birch, Martin Bélanger, Stephen Hicock, Craig Dunbar, Louise Koza, Jane O'Brien, Jim Loupos, Michelle Loveland, Andrea Magahey, Shannon Butler, Cindy Servos, Bekki Ollson, Deirdre Chymyck

Guests: Bruce Curwood, Russell Investments, Ann Hutchison

Regrets: Krys Chewcholski, Lynn Logan

1. Completion and adoption of the Agenda

2. Approval of the February 9th, minutes

Motion: M. Loveland
Seconded: C. Dunbar
All in Favour

3. Fourth Quarter Performance Review

Bruce Curwood of Russell Investments presented the 4th quarter results for the Western funds. The capital markets generally had good returns in the 4th quarter 2010, except in bonds, and the Canadian dollar continues to appreciate. In terms of sector performance in Canada in the fourth quarter of 2010 only 4 of 10 sectors beat the S&P/TSX Index, although all 10 sectors had positive returns. The Balanced Growth Fund underperformed its policy by 37 bps in 2010, while the Balanced Income Fund outperformed by 106 bps. The Diversified Equity fund underperformed its policy by 16 bps over the last year and the Canadian Equity Fund underperformed the S&P/TSX. Beutel Goodman underperformed the S&P/TSX for the quarter and the year. The historical returns for Beutel Goodman include back history from AllianceBernstein. CC& L continued to post 1st quartile performance. Greystone added 26 bps over the S&P/TSX for the quarter and are on benchmark for the year. All three Canadian equity managers made moderate sector bets though Beutel Goodman had a significant overweight position in Financials. U.S. Equity Managers overall outperformed the policy by 20 bps for the year and currency hedging has been beneficial. SSgA matched the benchmark for the quarter and the year for their two U.S. equity mandates. PanAgora had a relative value loss of 8 bps for the 4th quarter but outperformed by 173 bps for the year. EAFE managers outperformed for the 4th quarter but underperformed by 144 bps for the year. AllianceBernstein is down 5% for the year versus the MSCI EAFE Index and has underperformed by 4.8% over the last 4 years. They have been below the value index over the last 4 years by 2.9%. Pyramis/Fidelity had moderate performance but was hurt by stock selection. They have outperformed the MSCI EAFE Index by 211 bps in 2010, but they underperformed by 205 bps relative to the MSCI EAFE Growth Index. Harris is providing very good performance with value added in the 4th quarter of 146 bps and 281 bps for the year over the MSCI World Index. T.Rowe Price lost 222 bps for the quarter and 85 bps for the year relative to the MSCI World Index. Mackenzie/Aberdeen's return is on line with the benchmark for the year, and is taking some strong bets.

On the fixed income side, the Diversified Bond Fund achieved 1st quartile of performance largely due to AllianceBernstein. SSgA's bond fund is slightly below benchmark since inception. The Diversified Bond profile shows a slightly lower quality bias with 4% of the portfolio in bonds rated lower than BBB. In response to an inquiry from a board member, M. Bélanger advised that the AllianceBernstein mandate does allow them to invest up to 15% of the portfolio in non-investment grade bonds (BB and lower) and the fund still holds Lehman Brothers. In regards to the situation in Japan, Bruce Curwood commented that all EAFE managers would have been caught offside by this risk and that it is hard to know at this point what the full the impact that the crisis in Japan will have on the markets. The Money Market Fund added 27 bps over its benchmark for 2010 and the Target-Date Funds are performing as expected.

L. Koza inquired regarding what the level of expectation from the board was in regard to active manager performance. She noted that the board should remain aware of how the members would be looking at the 2010 annual investment report and that members might be querying on the board's role and expectation for investment manager performance. In the case of AllianceBernstein's past performance, Ms Koza noted that it did not seem that active management had worked to return significant value added. M. Bélanger reminded the board that AllianceBernstein had recently been reviewed and that given the quality of their current holdings including undervalued good quality stocks and it was decided it was not the right time to move away from them. A discussion about what should be expected from active managers like AllianceBernstein followed. M. Bélanger and Bruce Curwood would prepare information on this matter for the Board's information at the next meeting.

4. Update on Joint Pension Board Priority

A. Magahey and A. Hutchison updated the board on the communication plan. A phone survey of 300 or some members would be starting shortly in follow up from the recent distribution of pension statements. Information on the results would be provided to the board once this became available.

5. Joint Pension Board Retreat

M. Bélanger canvassed the board for their preferences in dates for the 2011 Joint Pension Board Retreat. Likely the best time for most members was in the first or second week of September. In regard to the length of the retreat it was suggested that the day be about 4-5 hours long maybe from 8:00 am to 1:00 pm. The Board discussed some possible topics including, emerging markets, alternative investments and pension reform. Given the significant amount of pension legislation coming in Ontario an outside speaker on pension reform was of interest. Survey and other member data on communications would be available in time for the retreat and there would be an opportunity to provide some information on this the in pension plan overview presentation at the retreat.

6. Newsletter Content

A. Magahey outlined the next newsletter content. Articles on the upcoming UWOFA election for regular contributions, an article on major shocks and their impact on markets, a feature on a fictional plan member and some updates regarding unlocking rules for RIF members would be featured.

7. Management Announcement

M. Bélanger advised that all annual member pension plan statements had been distributed to plan members in mid March with no major issues. Annual member meetings are scheduled for April 27th, 28th and May 6th with Beutel Goodman coming as a guest speaker to the evening April 27th session

8. Other Business

The Board was advised that the UWOFA non bank Asset Backed Commercial Paper grievance would start on April 20th, 2011.

Motion to adjourn
Motion: Michelle Loveland
Seconded: S.Foerster
All in Favour
Meeting adjourned at 2:40pm

Mackenzie Investments / Aberdeen Asset Management
Investment Manager Review Meeting
March 23, 2011 – 11:00 AM to 12:30 PM

Ab Birch, Jim Loupos, Andrea Magahey, Martin Bélanger and Bruce Curwood met with Sheila Doherty (Vice President, Strategic Alliances at Mackenzie Financial), Kimberley Woolverton (Senior Business Development Manager at Aberdeen Asset Management). Also joining by conference call were the following individuals from Abersdeen: Martin Connaghan, Investment Manager, Jamie Govan, SRI Analyst, Fionna Ross, SRI Analyst.

Organization

Sheila Doherty gave an overview of Mackenzie and its relationship with Aberdeen Asset Management. There have been no major organizational changes at Mackenzie, other than the fact that Howson, Tattersall has been amalgamated under Mackenzie. The firm currently has $70 billion of assets under management, $45 billion on the retail side and $25 billion on the institutional side.

Kimberley Woolverton gave an overview of Aberdeen. There have been no major organizational changes. The firm has $6 billion in assets under management in Canada and $285 billion worldwide. Aberdeen is publicly traded and employees owned 8.4% of the firm as of December 31, 2010. Aberdeen gained 1 client in its SRI Global Equity strategy in 2010, for $51.9 million in assets. No client was lost for that mandate. The SRI Global Equity strategy had $1.52 billion in assets as of December 31, 2010.

She highlighted some personnel changes. Ella-Kara Brown, formerly SRI Analyst, was promoted to Assistant Investment Manager in June 2010. Samantha Fitzpatrick was promoted to Senior Investment Manager in August 2010. Gail McCullie was hired as SRI Researcher in August 2010. Fionna Ross and Jamie Govan were promoted to SRI Analyst in September 2010. She also highlighted some personnel changes in the regional teams. The regional teams produce research that the global equity team uses to construct its portfolios.

K. Woolverton also discussed the compensation structure with investment professionals. The bonus structure includes a small amount in cash and the rest is in shares of Aberdeen and it is received over three years.

The whole team works as a group and there are no individual decision makers. Steven Docherty is the Head of the Global Equity team and Jamie Cumming is the Head of SRI.

The SRI Global Equity mandate is the only mandate that Aberdeen manages for Mackenzie. The CIO of Mackenzie performs due diligence on Aberdeen from an investment point of view. Mackenzie's compliance department monitors Aberdeen's compliance practices.

Investment Process

The investment process hasn't changed, their process can still be characterized as bottom-up value. The firm focuses on two main metrics: quality and price. They perform extensive company visits and they make sure that they understand the business they invest in. They meet with management twice every 12 months. They look for transparent companies, with strong cash flows and good corporate governance. They stop their research on a company if the quality is not adequate. They are typically conservative in their forecasts.

Investment risk is reviewed at the company level.

The global team takes the research produced by the regional team and tries to add value. They take the global equity buy list and they perform comparative analysis to come down to a model portfolio of about 50 names. Once the model, unscreened portfolio has been constructed, they apply SRI screens.

Performance and Portfolio Positioning

The portfolio has underperformed by 340 bps for the one-year period ending February 28, 2011. The portfolio also had negative value added for the past 3 years, mostly due to the impact of the 2008 financial crisis. The SRI portfolio was negatively impacted by the absence of defensive stocks such as tobacco companies. For the one-year period ending February 28, 2011, poor stock selection in the U.S. and, to a lesser extent, an underweight in the U.S. have detracted value. Their large underweight in the U.S. is due to their belief that having 50% in a single country doesn’t create a diversified portfolio. The underperformance coming from the U.S. was due to poor stock selection, not their underweight in the country. Their investment in Cisco has detracted value. They may add one or two U.S. names in the coming months. An overweight in Asia-Pacific ex-Japan has added value, while overweights in Italy and Switzerland have subtracted value. Poor stock selection Australia has detracted value, while stock selection in Japan has added value. They currently have a small overweight in Japan. They speak regularly to their colleagues in Japan regarding the earthquake situation. The primary functions of most of the Japanese companies they own are not located in Japan. Canon had several plants that were closed due to the earthquake. Some Japanese companies are very energy intensive and will be negatively impacted. They will continue to monitor the situation. They expect that new opportunities will emerge because of the situation, but also some decisions to sell out will have to be made.

The situation in the Middle East and its impact on the portfolio was discussed. In Egypt, Vodafone had to close its network, but Egypt only represents 2% of its revenues. Eni SPA, an Italian energy company has operations in Libya, but it only represents 5% of its revenues. They had to evacuate their employees. They will write off their Libyan exposure but the decision to invest in Eni by Aberdeen was not based on the company’s Libyan assets.

Poor stock selection detracted value in Information Technology, Energy, Materials and Healthcare. Good stock selection in Financials, Industrials and Consumer Staples have added value. Sector allocation was neutral. They were underweight in Materials mostly because of the ethical screens.

The portfolio underperformed significantly in February 2011. M. Bélanger asked if it was due to their emerging markets investments. Aberdeen’s response was that they have reduced their exposure to cyclical, but cyclical companies have continued to perform well.

Regarding changes made to the portfolio over the past year, they have sold AstraZeneca and purchased Novartis. AstraZeneca is experiencing issues with a number of patents expiring, while Novartis is ramping up R&D spending and has a more diversified portfolio.

They also initiated a position in Casino, a French chain of retail stores, due to the positive outlook of its overseas business. In the Information Technology sector, they sold Oracle and purchased Intel.

Other purchases include Banco Bradesco, Gilead Sciences and Daito Trust Construction and major sells include Deutsche Post, Sysco Corp. and Royal Dutch Shell.

Currently approximately 15-16% of the portfolio is invested in emerging markets, based on market capitalization. Historically the exposure to emerging markets has been higher. The maximum allowed is 30%. Approximately 25-30% of the portfolio companies revenues come from emerging markets.

The portfolio is currently overweight in Switzerland, with positions in Roche Holdings, Novartis and Zurich Financial Services, in Taiwan, with positions in Taiwan Semiconductor and Taiwan Mobile and in Italy with positions in Eni and pipe manufacturer Tenaris.

The portfolio is underweight the U.S., Canada (the only holding is Canadian National Railway) and the U.K.

From a sector point of view, the portfolio is overweight in Energy, with positions in Schlumberger, Tenaris and Hess Corp, in Information Technology, with positions in Ericsson, Samsung Electronics and Taiwan Semiconductor and in Telecommunication Services, with positions in China Mobile, Singapore Telecommunications, Taiwan Mobile and Vodafone Group.

They are underweight Consumer Discretionary, due to the fact that consumers are overleveraged in developed markets, in Materials, because many companies in the sector fail ethical screens and in Utilities, also due to ethical screens.

The portfolio characteristics of the portfolio were reviewed and B. Curwood inquired about the negative 3-yr EPS growth of the portfolio. Aberdeen couldn’t answer right away and said they would get back to us.

SRI Screens

The SRI review is conducted on an annual basis. Aberdeen determines a pass or fail score for each company. Companies that fail are taken out of the portfolio over 30 days. They will review a company more than once a year if a significant event occurred.

Some stocks from the unscreened portfolio that have failed the SRI screens include United Technologies, because of its involvement in the armament sector, Centrica (nuclear power), BAT and Philip Morris (tobacco) and Shell, due to environmental issues (air pollution incident). Seven of the top ten holdings in the SRI portfolio are also in the unscreened portfolio.

There have been no changes to the SRI screens applied by Aberdeen. Nuclear power is still not allowed because of security concerns with waste management. For the portfolio that Aberdeen manages for Mackenzie, there are additional screens: animal testing for cosmetics, uranium screens, fur screens and timber screens.

There have been a few trends in socially responsible investing in recent years. In the U.S. SRI has grown at a faster pace than the rest of the industry. BP has ignited shareholder engagement. The nature of SRI has changed; now the focus is more on company engagement than screening companies out. Companies typically receive more questions from analysts on environmental, social and governance (ESG) factors. Aberdeen has observed increased transparency from companies that have been engaged by shareholders on ESG issues.

Market Outlook

Aberdeen believes that the markets will continue to remain volatile and we have to be cautious on outlook. Interest rates will remain low for the medium term. The portfolio doesn't follow any particular themes, but they are more active in defensive areas and in developed markets. Overall, they are comfortable about the long-term outlook for equities, but they are cognizant of margins and valuation for some companies.

Compliance

Mackenzie provided a summary of its compliance oversight processes. The company is not allowed to disclose information to one investor but they confirm that they haven't forced to make announcements about compliance concerns in the past year.

Aberdeen confirmed that the company and its personnel haven't been party to any litigation in the past year.

The last regulatory review of Aberdeen took place in 2007 and was conducted by the Securities and Exchange Commission. The SEC requested that Aberdeen make two minor modifications to its ADV, enhance two of its procedures and conduct two additional forensic tests. There were no other findings, deficiencies or recommendations from this examination.

All employees of Aberdeen are required to comply with a formal code of ethics.

Regarding conflicts of interest, Aberdeen does not anticipate any potential conflict that may affect the firm. In June 2008, Aberdeen Fund Distributors (AFD), a wholly owned subsidiary of Aberdeen, was established as a limited purpose broker-dealer formed to distribute proprietary mutual funds for Aberdeen. There are no trades conducted through this broker-dealer.