JOINT PENSION BOARD MEETING

January 21, 2011

9:00am

SSB 4220

PRESENT: Stephen Foerster, Krys Chelchowski, Ab Birch, Martin Bélanger, Stephen Hicock, Craig Dunbar, Louise Koza, Jim Loupos, Lynn Logan, Michelle Loveland, Andrea Magahey, Cindy Servos, Bekki Ollson, Cara Bourdeau

Guests: Bruce Curwood, Russell Investments, Ann Hutchison

Regrets: Jane O'Brien

1. Completion and adoption of the Agenda:
One item was added under Other Business

2. Approval of November 17th, 2010 Minutes:

Approval of the November 17th, 2010 Minutes
Motion: A. Birch
Seconded: Louise Koza
All in Favour

3. Business Arising from the Minutes –SSGA Review

Martin Bélanger had provided an email report dated December 17, 2010 to the board regarding his two calls with senior management at SSGA. SSGA explained that the personnel turnover in the fixed income team had been significant because when one individual left SSGA he took SSGA team members with him. SSGA has made changes to address the stability and compensation structure for its fixed income team. In regards to client service, SSGA has taken steps to ensure that their response is improved and would consider replacing our SSGA client service representative if we requested it. We are seeing improved client service subsequent to these discussions and are not planning at this stage to ask for a new representative. Bruce Curwood advised that Russell Investments has nothing new to report in regards to SSGA but that Russell Investments remains satisfied with the passive team at SSGA.

4. Update on the Joint Pension Board Priority "Enhancing our Education Programs"

Ann Hutchison, Director Client Service for Human Resource Services provided an overview of the draft Communication Plan. This plan was prepared to further develop member communication tools and education on pension and retirement in an effort to increase member engagement. It was developed by the pension team in conjunction with Ann. The timeline, proposed metrics and a sample GAP statement tool were presented to the Board. A discussion followed. It will be important not to only to rely on web based information and education but to be responsive to the needs of members who may not be as comfortable with computer based information. The need to address financial literacy and the wide variety of financial and pension knowledge among members was discussed. The Board is asked to provide any further comments by January 28th and the final version of the Communication Plan will be presented at the February 9th, 2011 board meeting.

5. Review Risk Management Plan

A. Magahey reviewed the 2010-2011 Risk management Plan. The plan has been updated since last year and serves as a tool for the Joint Pension Board when considering how to manage pension plan risk. Internal audit has a similar plan that also has a "performance measurement activity" item and it is worth looking at that format for consideration in the development of next year's Risk Management Plan. This plan is an important tool for the University as pension plan sponsor and as such is provided to the Audit Committee and is useful from an operations standpoint because it provides documented analysis of key risks, together with the resources and processes to manage risk. A copy of the 2010-2011 Risk Management Plan will be posted on the Joint Pension Board website.

Approval of the 2010-2011 Risk Management Plan
Motion: S. Foerster
Seconded: M. Loveland
All in Favour

6. Fidelity Emerging Markets Exposure

The Board discussed the proposal to enable Pyramis to invest up to 15% of its mandate in an opportunistic manner into emerging markets in the Pyramis Emerging Market Equity Trust. The proposal would enable opportunistic investing in emerging markets for Pyramis, something that is already in place with our other global equity managers. For example, Harris has discretion to invest up to 15% in emerging markets, Mackenzie can invest up to 20%, AllianceBernstein could go up to 20-25% and T. Rowe Price can invest up to 15% in excess of the MSCI World All-Country Index exposure to emerging markets. A discussion followed regarding whether a comprehensive review, perhaps at the annual board retreat, regarding the Board's investment strategy for emerging markets should be undertaken.

Arguments in favour of enabling Pyramis to invest opportunistically in this manner were presented to the Board. Analysis demonstrates that enabling Pyramis to have invested opportunistically in up to 15% in the Pyramis Emerging Market Equity Trust over the last 5 years (as at September 30, 2010) would have added 1.35% annualized to the portfolio though with some increased volatility. Permitting this investment in the mandate would not cause an increase in fees making this investment opportunity cost effective. Since Pyramis would be able to opportunistically invest in emerging markets to beat their MSCI EAFE Index benchmark we should ask Pyramis to report on a blended benchmark that includes the relative weight of the permissible market exposure in the MSCI Emerging Market Index.

That Fidelity/Pyramis Global Advisors be allowed to invest up to 15% of its International Growth Mandate into the Pyramis Emerging Market Equity Trust and that the benchmark for the Pyramis Mandate include reporting by Pyramis on both the MSCI EAFE Index and the MSCI Emerging Markets Index.
Motion: L. Koza
Seconded: S. Hicock

All in Favour

7. Staff Updates

The dates for the Annual Member Meetings have been tentatively set for April 27, 2011 in the evening, April 28th, 2011at noon and May 6th, 2011 at noon. KPMG will be presenting its audit plan at the next meeting. L. Koza updated the board on the pension related changes in recently ratified collective agreements. UWOFA members who join the Academic Pension Plan after November 16th, 2010 are required to make regular contributions at the rate of 5.5%. UWOFA members who were pension plan members on November 16, 2010 will have a one time irrevocable option to select a regular contribution rate of either 1.5% or 5.5%. PMA members will have increased regular employee and employer contribution rates that will come into effect later in 2012. These changes will increase the rate of member savings into the pension plans for some large employee groups.

8. Other Business

Michelle Loveland was approached by a member inquiring about the pension plans offering a dividend fund. Currently the plans do not offer such a fund, though this type of funds was looked at previously. Participation in Canadian equity funds would enable plan members to benefit from dividend performance. Moreover, dividend funds do not provide an effective tax benefit when provided within the ambit of tax sheltered pension plans.

Motion to adjourn
Motion: M. Loveland
Seconded: L. Koza
All in Favour

Meeting adjourned at 10:40am

PanAgora - Manager Review Meeting January 21, 2011 11:00am –Room 4220

Board members were invited to stay for the PanAgora Manager Review

In attendance: M. Loveland, K. Chelchowski, C. Servos, A. Birch, J. Loupos, L. Koza, A. Magahey, M. Bélanger, B. Curwood

PanAgora: Kevin Dowie, Director Client Service & Jane Zhao, Portfolio Manager Equity

Organization

Kevin Dowie gave an overview of the organization. The firm currently has about US$20 billion in assets under management as of December 31, 2010, up from US$16 billion as of December 31, 2009. Their Dynamic Global Equity Strategy has done well and is partly responsible for their asset growth. The Dynamic U.S. Small Cap strategy that the Western Retirement Plans invests in currently has about US$150 million in assets under management, down from US$1.2 million 3 years ago. There have been no changes to the corporate structure; Great-West Life still owns 66% of the firm. This summer will mark the 3-year anniversary of PanAgora's purchase by Great-West Life and they may revisit the corporate structure, as per the purchase agreement.

There have been no changes to the personnel in charge of our portfolio. Jane Zhao is the dedicated research professional on the portfolio. She is supported by Sanjoy Ghosh and Joel Feinberg and the rest of the equity team. PanAgora is looking to add three more professionals to support them.

Russell raised an issue about personnel in their latest research report on PanAgora. They mentioned that "The firm's decision to no longer provide the Dynamic Small Cap Core team with dedicated research support is not viewed favorably." We questioned PanAgora about this and they mentioned that it was just a misunderstanding with the research analyst because the research analysts, including Jane Zhao, are now part of a combined Equity team.

Investment Process

There have been no changes to PanAgora's investment process for the U.S. Dynamic Small Cap Core strategy. They keep researching new factors to improve their model but the process itself hasn't changed. They are in the process of developing a new risk model that will be used in the portfolio construction process. The rationale for this is that it is possible for other investors to arbitrage the BARRA model. They still have about two months to go before the model is ready. Then they will run the BARRA model in parallel with their existing model. Regarding environmental, social and governance (ESG) factors, based on backtest that they've conducted they haven't found any link with performance.

Research

We reviewed some of PanAgora's research projects. Following the quantitative meltdown of 2007 they took significant measures to improve their model. They use non-traditional databases and try to be innovative compared to their peers. They believe that all fundamental information must be included in their model and they try to continuously add new factors. Some of their factor research has focused on pension funding implications and ranking U.S. states in terms of income to assess the quality of REITs. Their process includes a long-term model and a short-term model. The long-term model has a 9 to 12 month horizon and is based on fundamental research. The short-term model has a 2 week horizon and focuses on short term indicators, such as option prices, volumes and market sentiment. The short-term model has been successful in adding value.

They recently revamped their model for the financial sector as a result of the financial crisis. This model is used to select banks, insurance companies and REITs. The model looks at loan quality, loan types, information reported to the FDIC, etc. The model has added value in 2009-2010.

Their portfolio construction model has an indicator for stocks that would benefit from infrastructure spending, which has proved useful recently with the various government stimulus packages. Regarding trading, they try to be more anonymous and trade more through dark pools.

Performance and Portfolio Positioning

The portfolio has underperformed since inception but it has outperformed its benchmark by 99 bps in 2010, following three years of underperformance. All quantitative managers were impacted in 2007 as a result of a hedge fund liquidation and of having similar holdings. In 2008 the underperformance was caused by their trading in illiquid names while liquid stocks happened to outperform and their financial model needed to be revamped. In 2009 there was a junk rally. Stock selection from the Industrials and Financials sectors contributed the most to the outperformance in 2010. The top three individual stock contributors for 2010 were Verifone Hldgs, Ellis Perry Intl Inc. and Entegris. The top three detractors were Jones Group Inc, Euronet Svcs Inc. and Riverbed Technology. Currently the portfolio is overweight in the Information Technology, Healthcare and Materials sectors and is underweight the most in Utilities, Financials and Energy.

They added most of the value in the third quarter. They have added 46 bps of value in 2010 by investing in stocks ranked in the bottom three deciles by their long-term model. The stocks were picked up by their short-term model, which has a two to four week horizon. There were significant macroeconomic events in 2010, such as the European debt crisis, the U.S. midterm election and the second round of quantitative easing which were factored in by their short-term model.

They believe that there are currently significant opportunities to outperform and it is a good time to be an active manager as there's currently a big discount for quality.

Compliance

PanAgora doesn’t have any compliance issues. The portfolio is in compliance with the investment management agreement. The firm or its personnel are not facing any material litigation. Representatives of the U.S. Securities and Exchange Commission did a review of PanAgora in 2007. No material issue was raised as a result by the regulator. The firm has an adequate code of ethics. The firm has no conflict of interest to report.