

AllianceBernstein
Investment Manager Review
May 24, 2011

EXECUTIVE SUMMARY

- On May 24, 2011 Martin Bélanger met with the following AllianceBernstein professionals from 8:30 a.m. to 12:30 p.m. at their New York office:
 - Matt McCormick, Managing Director, Institutional Investments
 - Henry D’Auria, Co-CIO, International Value Equities
 - Kevin Boreen, Senior Portfolio Manager, Value Equities
 - Scott DiMaggio, Director, Canada Fixed Income
 - John Akkerman, Senior Manager Director, Global Institutions
 - Mark Anderson, Senior Vice President and Counsel
 - Frank Loughlin, Senior Vice President, Americas Equity Trading
 - Michelle Dunstan, Senior Research Analyst
 - Eric Yu, Senior Research Analyst
- AllianceBernstein manages 15% of the Diversified Equity Fund and 50% of the Non-North American Equity Fund with an international equity strategy and 67% of the Diversified Bond Fund with a Canadian core plus fixed income strategy
- The international equity mandate is ranked “Review” by Russell; the fixed income mandate is ranked “Hire” by Russell
- As of April 30, 2011 UWO had \$83.3 million with AllianceBernstein in international equity (EAFE) value mandates and \$173.8 million in a Canadian core plus fixed income strategy, for a total of \$257.1 million
- At that asset level, the annualized investment management fees are 0.66% for the international equity mandate and 0.23% for the Canadian core plus fixed income mandate
- There have been no changes to AllianceBernstein’s ownership structure (publicly traded company listed on the New York stock exchange), but there are organizational issues around asset losses and analyst turnover
- AllianceBernstein’s investment style is bottom-up value for the international equity mandate and they use security selection, sector selection, country/yield curve positioning and currency management for the fixed income mandate
- AllianceBernstein has been managing international equities for UWO since November 1997 and fixed income since March 2001; the fixed income mandate was modified in February 2007
- The AllianceBernstein International Value Fund has underperformed the benchmark by 5.80% for the one-year period ending March 31, 2011
 - Most of the detractors were Japanese stocks impacted by the Japanese earthquake
- The AllianceBernstein Fixed Income Mandate has outperformed the benchmark by 2.1% for the one-year period ending March 31, 2011
 - Sector and security selection have added the most value
- There have been no changes to the senior professionals managing our portfolios:
 - Henry D’Auria and Kevin Simms are still the co-CIOs of International Value Equities

- Scott DiMaggio is still the lead portfolio manager of the Canadian Core Plus Fixed Income mandate
- However, there has been significant personnel turnover at the analyst level, with a 30% reduction in the number of analysts since 2007
- The investment process related to the management of international equities has not materially changed in recent years, as corroborated by a review of portfolio positions, portfolio characteristics, portfolio transactions and attribution analysis
- There have been no material changes to the investment process of the Canadian Core Plus Fixed Income mandate
- Risk controls on the management of the portfolios appear adequate
- AllianceBernstein considers environmental, social and governance factors when they have a material impact on the company's earnings
- There are currently no issues related to capacity
- AllianceBernstein has adequate compliance processes, although a number of minor deficiencies related to their compliance have been raised the SEC staff during their last review. AllianceBernstein has responded to SEC and provided details to Western staff

RECOMMENDATION

- AllianceBernstein has a number of issues related to the equity side of the organization:
 - Underperformance over the past 5 years
 - Significant assets under management lost from the equity side
 - Significant reduction in the number of analysts since 2007
 - Dual reporting structure for equity analysts
- The company has numerous strengths still:
 - They have stuck to their investment process
 - There's exceptional stability at the portfolio manager level
 - There's still significant depth within the investment research team
 - The international value portfolio looks very undervalued compared to peers
- There are no issues with the management of Canadian Core Plus Fixed Income portfolio; performance has been good, there has been stability among investment professionals on the fixed income team and the product is ranked "Hire" by Russell
- Despite Russell's review rating on the international equity mandate, I don't recommend making changes to our relationship with AllianceBernstein for both the International Equity and the Canadian Core Plus Fixed Income mandates
- The underperformance on the equity mandate is attributable more to their investment style than their organizational issues and there is no evidence that asset redemptions prevent investment professionals from focusing on their work nor that they negatively impact returns

ORGANIZATION

- The firm \$424 billion in assets as of March 31, 2011, significantly down from close to \$800 billion in 2007
- They manage a total of \$27 billion in various international value equity mandates, including \$16 billion in the mandate that UWO invests in
- AllianceBernstein manages \$19 billion for Canadian clients

- For the 12-month period ending March 31, 2011 the firm lost 340 accounts worth US\$54.6 billion and gained 68 accounts for US\$12.6 billion
- For the International Value Group, they lost 16 accounts for US\$4.7 billion and didn't gain any over the same period
- Asset losses were mainly due to poor performance, but also due to clients de-risking their portfolio
- Despite the asset losses, the firm is still very profitable and financially sound; net income for 2010 was US\$442 million and as of December 31, 2010 the firm had US\$ 225 million of debt, for a debt-to-equity ratio of 5%
- As of April 30, 2011 UWO had \$83.3 million with AllianceBernstein in international equity (EAFE) value mandates and \$173.8 million in a Canadian core plus fixed income strategy, for a total of \$257.1 million
- AllianceBernstein is a publicly traded company listed on the New York Stock Exchange
- There have been no changes to AllianceBernstein corporate structure since our last review
- AllianceBernstein had 350 investment professionals as of March 31, 2011, 240 in equities and 110 in fixed income
- The table below shows the evolution of the number of equity analysts since 2004; it's a little disconcerting as AllianceBernstein has always maintained that they have kept the number of analysts fairly stable and that the job losses were in operations and distributions

	2004	2005	2006	2007	2008	2009	2010	1Q11
Value analysts	69	68	78	83	73	61	61	59
Growth analysts	75	79	81	92	85	69	60	51
Blend analysts	0	1	1	5	7	13	14	14
Total equity analysts	144	148	160	180	165	143	135	124

- They explain the decline in the number of analysts as follows:
 - They built up extra capacity during the years 2004-2007 as they were anticipating losing a number of analysts to the hedge fund industry
 - They built a short side research team
 - As a result of the financial crisis, the decline of the hedge fund industry and the lower than anticipated growth in short products, they took away some of the excess capacity
 - In addition some analysts were transferred internally and there have been layoffs due to performance issues
- Currently the value analysts at AllianceBernstein have an average of 14 years of industry experience
- On average, AllianceBernstein analysts cover 30 to 50 stocks, although it varies by sector and seniority
- Total headcount at the firm is about 4300 people, down from 5600 at the peak; according to AllianceBernstein, most personnel reduction were in operations and distribution
- AllianceBernstein has an adequate business continuity plan

- Since our last review, Michael Parsons, Director, Client Relations has resigned; Matt McCormick has taken over as relationship manager on our account
- The firm has introduced a number of new products in recent months, including variable annuities with dynamic asset allocation in the U.S.; a fund of hedge funds and a real estate strategy
- For some of these new strategies some professionals were internally re-allocated and others were externally hired
- AllianceBernstein does have some organizational issues. Asset losses and the reduction in the number of investment professionals in recent years are problematic. Also, the firm's corporate structure (publicly traded) is not optimal for an investment firm, as it causes management to focus more on short term issues. On the other hand the firm is still extremely profitable, despite a recent drop in earnings, the depth of the investment staff is still greater than at most of its peers and many areas of the firm are currently doing very well.

INTERNATIONAL VALUE MANDATES

Performance Analysis

	Q1 2011	Periods Ended March 31, 2011				
		One Year	Three Years	Four Years	Five Years	Since Inception (November 10, 1997)
AllianceBernstein International Value	-0.15%	0.07%	-8.92%	-10.96%	-5.32%	3.07%
MSCI EAFE	1.19%	5.87%	-4.72%	-6.88%	-2.31%	2.24%
Value Added	-1.34%	-5.80%	-4.20%	-4.07%	-3.01%	0.83%

- The fund's performance goal is to outperform the MSCI EAFE Index by 300 bps per annum over 4-year moving averages
- The fund's performance target hasn't been met
- The fund has consistently underperformed relative to the benchmark in recent years
- Most of the underperformance is explained by stock selection, which is consistent with the firm's bottom-up approach; sector selection and currency had a much smaller impact. The following table breaks down the value added (or detracted) over the past four quarters:

Period	MSCI EAFE	Stock Selection	Sector Selection	Currency Selection	AllianceBernstein International Value
Q1 2011	1.19%	-1.17%	+0.01%	-0.18%	-0.15%
Q4 2010	3.26%	-0.66%	+0.17%	+0.06%	2.84%
Q3 2010	12.44%	+0.75%	+0.33%	-0.80%	12.72%
Q2 2010	-9.90%	-4.13%	+0.30%	+0.18%	-13.54%

- Since our last review held in September 2011, the fund bounced back but was significantly impacted by the earthquake in Japan
 - For the period September 2010 to February 2011, the fund had outperformed the MSCI EAFE by 126 bps
 - It underperformed by 240 bps in March to end up with 152 bps of underperformance for September 2010 to March 2011
- Most of the detractors for the first quarter of 2011 are Japanese stocks:
 - In capital equipment, Renault and Nissan Motor
 - In Utilities, Tokyo Electric Power and E.ON
 - In industrial commodities, JFE Holdings, a Japanese steel producer was impacted
 - In Technology, AU Optronics, a producer of LCD panels was impacted because of low LCD panel prices
- Since the last review, the largest detractors have been:
 - Tokyo Electric Power in the Utilities sector
 - AstraZeneca in the Health Care sector
 - Esprit Holdings in the Consumer Discretionary sector
 - East Japan Railway in the Industrials sector
- The fund was overweight Japanese stocks before the earthquake, mostly in the auto industry as demand for cars has gone up; they feel that the companies' long-term five-year estimates haven't been impacted
- The overweight in Japan was based on bottom-up factors, including the growth in emerging markets, which some Japanese companies are positioned to take advantage of
- AllianceBernstein's Japanese holdings underperformed the benchmark because of their position in Tokyo Electric Power
 - They believe that the stock has been permanently impacted by the earthquake but that the current price is cheap and assumes a more adverse outcome; they have added to their position
- Although based in Germany, E.ON, a power group was also impacted as they were asked by the German government to close their old nuclear plants; E.ON is also a natural gas producer so the impact in the nuclear division might be offset by the natural gas side
- Although based in France, Renault holds a significant position in Nissan
- Overall AllianceBernstein has made several investments in Japan following the earthquake to take advantage of the depressed prices (see the section *Portfolio Positioning* for more details)
- The positive contributors for the first quarter of 2011 include:
 - Gazprom in the Energy sector
 - Telecom Italia in the Telecommunications sector
 - Société Générale, UniCredit and Allianz in the Financial sector
 - Cap Gemini in the Technology sector
- Since the last review, the largest contributors include:
 - Xstrata, ThyssenKrupp and Rio Tinto in the Materials sector
 - Allianz in the Financial sector

- Portfolio turnover has been higher in recent months at 60%-65%; historically it's been around 30%-40%

Review of August 31, 2010 Investment Thesis

- The August 31, 2010 portfolio positioning was based on the following rationale:
 - Global equities trade at attractive valuations
 - Companies have strong balance sheets and hold large amounts of cash
 - Excess cash can be used to boost dividends and buy back shares
 - Equities are attractively valued in most sectors
- The thesis is still valid:
 - With a price/book ratio of 1.1x for the portfolio and 1.5x for the MSCI EAFE as of March 31, 2011, the portfolio and the market are still attractive on a historical basis as the average price/book ratio of the past 30 years has been slightly above two
 - Non-financial companies have very strong balance sheets; recent data shows that the net debt/equity ratio of the MSCI World ex-financials is currently at around 35-40%, compared to an average of 65-70% over the past 25 years
 - As of March 31, 2011, 35% of the portfolio was invested in companies with free-cash flow yield greater than 10%, compared to 20% for the MSCI EAFE Index
 - This excess cash generated by the portfolio can be used to boost dividends (30% of the companies in the portfolio have the capacity to double dividend, compared to 25% for the index) and share repurchase announcements have multiplied since 2009
 - Valuation multiples are still very low in a number of industries (ranging from 4x to 8x), including Iron Ore, Aerospace, IT services, Diversified Resources, Pharmaceuticals and Retail
- Since August 31, 2010, only 3 of the top 30 holdings in the portfolio have been sold
 - Telefonica: The company is a large telecommunications operator in Spain with a large wireless presence in Latin America; the stock was sold based on weaker than expected wireless revenues and the belief that other telecommunication holdings offered superior investment opportunities
 - Bayer AG: A German pharmaceutical company, Bayer was sold because they found more attractive stocks as the company performed strongly in Q4
 - BMW: A German auto maker, the stock reached its fair market value after a strong market performance
- One stock for which the investment thesis has not materialized yet is AU Optronics, a manufacturer of LCD panels. They still own the stock. They feel should have sold and repurchased. The LCD industry built too much production capacity that led to a temporary glut in supply, which caused prices to fall. Capital spending went down by 20% in the industry this year and that should lead to improved pricing. The stock trades at about 0.8 times book value.

Portfolio Positioning

- The portfolio's emerging markets exposure is about 6%-6.5% and represents the single largest risk in the portfolio

- AllianceBernstein expects that emerging markets will do well in the second half of the year
- Currently, the portfolio is more concentrated as they have placed more weight on their higher conviction bets
- As some of the headwinds subside, a positive environment should develop
 - The setting is better today, although there are still concerns about Europe
 - Systematic risk is lower
 - Stock correlations are trending lower as investors are starting to discriminate amongst companies
- Free cash flow yields are high but they are penalized in the current environment
- AllianceBernstein feels that the value recovery is still in early stages as demonstrated by the ratio of expensive stocks to cheap stocks, based on P/B ratios; it is currently at 7.2 and on average at a typical trough it is at 4.7
- Over the past year their investment thesis has evolved as described below:

July 2010 – March 2011	Outcome	March 2011 –	Current Positioning
<ul style="list-style-type: none"> • Commodity prices will remain strong as the global economy remains strong 	<ul style="list-style-type: none"> • Thesis confirmed • Holdings include Xstrata, Kazakhmys and Rio Tinto 	<ul style="list-style-type: none"> • Still believe that global commodity prices are likely to remain higher than consensus forecasts 	<ul style="list-style-type: none"> • They trimmed copper producers but they hold a number of resources companies that are low cost producers who will benefit from global commodity prices likely to remain high • They're overweight in the Resources sector, particularly in energy and industrial commodities • They own Royal Dutch Shell as they expect the company's cash flow to rise as new production comes online, which should provide support for dividends • They own Nexen as they expect Nexen's Long Lake oil sands project in Western Canada to yield big earnings improvements • They have relatively little exposure to Middle East and North Africa oil production and are attractively valued compared to the sector (P/B ratio of 1.3 compared to 1.7 for the index) • In Industrial commodities they have a position in Hindalco, an aluminum producer that should benefit from Indian infrastructure projects, given they it owns low-cost bauxite and energy supplies
<ul style="list-style-type: none"> • Capital ratios for banks are sufficient 	<ul style="list-style-type: none"> • Thesis confirmed • Holdings include Hana Financial, ORIX, Société Générale 	<ul style="list-style-type: none"> • Still believe that there are attractive opportunities in the financial sector 	<ul style="list-style-type: none"> • They continue to hold a number of financial institutions that are cheap relative to their balance sheets and future earnings • They're overweight in Financials, with positions in Société Générale, ING Groep, National Australian Bank, KB Financial
<ul style="list-style-type: none"> • Companies will benefit from cyclical demand 	<ul style="list-style-type: none"> • That thesis has played for some stocks such as BMW, which they have sold 	<ul style="list-style-type: none"> • They still hold cyclicals that will benefit from recovering 	<ul style="list-style-type: none"> • They're overweight in the cyclicals sector • They have a position in AU Optronics as they believe that the price of LCD panels is due for a rebound

July 2010 – March 2011	Outcome	March 2011 –	Current Positioning
	<ul style="list-style-type: none"> It hasn't played out for LCD panel manufacturers such as Sharp and AU Optronics 	sales in their segments, including autos, IT outsourcing and LCD panels	
N/A	N/A	<ul style="list-style-type: none"> Defensive companies that hold significant cash balances and generate strong cash flows should benefit share repurchases and higher dividends 	<ul style="list-style-type: none"> They're overweight in defensive stocks, with positions in Japan Tobacco, Vodafone, AstraZenaca and Roche
N/A	N/A	N/A	<ul style="list-style-type: none"> With their bottom-up approach, AllianceBernstein has also invested in a number of companies that don't fit in a specific theme

- AllianceBernstein's portfolio is cheap compared to other value managers in terms of P/B and P/CF ratios; at the end of 2010 AllianceBernstein's P/B ratio was at the 20th percentile compared to a sample of 56 value managers and the P/CF ratio was at the 6th percentile compared to a sample of 46 value managers
- AllianceBernstein's portfolio makeup reflects their investment thesis and tries to exploit stock specific opportunities with high conviction
- AllianceBernstein has made several investments in Japan following the earthquake to take advantage of the depressed prices
 - Select purchases include JFE Holdings, Japan Tobacco, SUMCO (a producer of silicon wafers), Gazprom, Tokyo Electric Power and Toshiba
- In addition to the Japanese stocks purchased as a result of the market decline following the earthquake, AllianceBernstein's largest purchases since the last review were as follows:
 - ING Group, a Netherlands bank and insurance company. AllianceBernstein believes that ING can repay the Dutch Government and its core debt by selling its insurance business. They believe that the divestment of the insurance part of the company will highlight the undervaluation of the bank
 - Toyota Motor Corp, a Japanese car manufacturer. Due to recall issues and a stronger yen, Toyota's profit recovery has lagged its peers. AllianceBernstein has a positive view of the auto market and they believe that Toyota will catch up. In addition, the company has a strong balance sheet and AllianceBernstein believes that the soft demand due to the Japanese earthquake is temporary
 - Roche, a Swiss pharmaceutical company. The stock has underperformed for two years in a row and its valuation is now in line with the rest of the sector, which is

- depressed due to concerns about patent expirations. AllianceBernstein believes that these worries are overstated and that Roche has a strong drug pipeline
- KBC Group, a Belgian retail bank. The stock suffered due to structured asset losses but received a large capital injection from the Belgian government. It is on track to deliver strong results, it has leading market shares in countries with low consumer debt, such as Belgium and the Czech Republic and it has divested some non-core assets
 - Sumitomo Electric Industries is a Japanese auto parts maker. AllianceBernstein believes that the company will benefit from the recovery in the auto market. They have confidence in management and believe the ongoing restructuring at the company will yield good results

Investment Personnel

- No changes in portfolio managers: Kevin Simms, Henry D’Auria and Sharon Fay are still the members of the Investment Policy Group making the buy and sell decisions on our portfolio
- The number of analysts is down by more than 30% since the peak of 2007, which is a concern
- In 2009 they re-organized their global research platform:
 - Analysts report to a Director of Research in their respective region and to the Global Head of Fundamental Value Research
 - Each global sector is led by a sector team leader, which enables analysts to view their coverage universe in a global context
 - As the firm opened new offices outside the U.S. it made sense to have more regionalized coverage
 - AllianceBernstein believes that the structure allows their investment theme to maintain both a global and local perspective
 - This decision didn’t change the composition of the Investment Policy Group, which makes the ultimate investment decisions
- I met with two equity analysts:
 - Michelle Dunstan, Senior Research Analyst, Commodities
 - Eric Yu, Senior Research Analyst, Information Technology
- They both explained their research process, how they look for value, how they interact with the portfolio managers and the metrics they focus on when analyzing companies
- They were both very insightful about their recommendations and they came across as inquisitive, thorough and disciplined in their research, although they were very tentative when asked to provide an example of a stock recommendation that didn’t do well
- It is encouraged to be a career analyst at AllianceBernstein
- Analysts’ variable compensation is based on the following criteria:
 - Breadth and depth of research
 - Knowledge of companies
 - Communication skills
 - 1-yr, 3-yr and 5-yr returns
- Overall, the quality of investment professionals at AllianceBernstein is adequate, despite some issues. The portfolio managers on the strategy that Western invests in

haven't changed since 1997 and these professionals have on average 26 years of industry experience and an average of 21 years at AllianceBernstein. The number of analysts has declined over the years, but there's still significant depth and the dual reporting structure, although potentially cumbersome, is somehow offset by having analysts on the field all over the world.

Investment Process

- Process hasn't changed: bottom-up value
- The firm looks for companies suffering from temporary troubles whose stocks are selling at a discount
- They use a combination of quantitative and fundamental research to determine a company's long-term earnings power
 - Their quantitative approach involves looking at price multiples such as price-to-earnings and price-to-book ratios, but also success factors such as return on equity, price momentum and earnings revisions
 - Their fundamental research involves finding what went wrong and determining whether the company can recover. They do this by conducting interviews with company management, suppliers and competitors
- Ideas are generated from the regional portfolios by the sector analysts; ideas need to be attractive from a quantitative point of view
- Downside risk is managed mostly through individual stock analysis
 - They review what could cause the stock to go down
 - They focus on balance sheet trends
 - They stress test companies at the portfolio level:
 - Using RiskMetrics
 - What if there's a spike in credit costs?
 - What is there's a spike in the VIX Index?
- Regarding currency management, they will buy less of a stock if the currency is less attractive, but they're not doing much hedging back
- They consider environmental, social and governance factors when they have a material impact on the company's earnings
 - They look for sustainable returns when they invest in companies
 - They assess the issues and policies surrounding environment and workers' rights
 - When analysts look at stock they are provided with warnings for stocks with ESG issues
 - They use KLD for ESG research
- There is strong evidence that AllianceBernstein has remained true to its investment process, which is commendable given the portfolio's underperformance and the asset losses. Turnover has been relatively low, i.e. there have been no evidence of significant rotations out of stocks for which the investment thesis has not panned out; the portfolio positioning is consistent with the firm's investment process, i.e. the firm still invests in stocks that are undervalued compared to the market because of a temporary investment controversy; the portfolio characteristics (P/B, P/E and P/CF) ratios are still much lower than the market.

Other

- No capacity issues
 - They continuously assess how big they can get
 - They look at cross sections
 - They have studies that show that they can manage up to 1.2% of the market; currently they're at 0.4%
- Derivatives:
 - Use stock futures index to equitize cash
 - Use currency forwards to defensively hedge some of the positions in the portfolio
 - They don't do securities lending

FIXED INCOME PORTFOLIO

Performance Analysis

	Periods Ended March 31, 2011				
	Q1 2011	One Year	Three Years	Five Years	Since Inception*
UWO Fixed Income	0.36%	6.88%	6.17%	6.92%	4.03%
Benchmark	-0.15%	4.87%	5.31%	6.28%	3.43%
Value Added	0.51%	2.01%	0.86%	0.64%	0.60%

*February 1, 2007 (Neutral mix: 50% Canada; 50% foreign); prior to February 1, 2007: 70% Canada, 30% foreign

- The fund's performance goal is to outperform a customized benchmark made of 50% of the Barclays Capital Aggregate hedged in Canadian dollars and 50% DEX Universe Bond Index
- The fund's performance goal has not been met, despite relative good performance over the past three years
- Sector and security selection have generated most of the value
- Credit selection and overweights in non-government sectors; AllianceBernstein considers that the environment is still a carry phase, i.e. when spreads reverting towards more normal levels and yield curves flattening
- Effects of individual country and currency decisions were mixed
- The following table breaks down the value added (or detracted) over the past four quarters:

Period	Benchmark	Country / Yield Curve	Sector Selection	Security Selection	Currency Selection	Portfolio
Q1 2011	-0.15%	-0.04%	0.36%	0.25%	-0.05%	0.36%
Q4 2010	-1.07%	-0.18%	0.42%	0.28%	0.07%	-0.48%
Q3 2010	2.78%	0.52%	0.57%	0.28%	0.03%	4.19%
Q2 2010	2.61%	0.63%	-0.74%	0.14%	-0.09%	2.55%

Investment Personnel

- No changes to the team: Scott DiMaggio is still the lead portfolio manager
- There are 140-150 professionals in fixed income in total
- They are looking for emerging markets corporate exposure
- 32 credit analysts in total; down from 42 in 2007
 - Six analysts were transferred to the portfolio management group and four went to another section of fixed income
 - They're in the process of hiring another analyst

Investment Process

- Hasn't changed
- Combines quantitative forecasts with fundamental credit and economic research
- Portfolio construction focuses on:
 - Security selection
 - Sector allocation
 - Country/yield curve decisions
 - Currency
- The goal is to generate 25 bps of value added per strategy, for a total of 100 bps
- Sources of tracking error:
 - Sector/security
 - Currency
 - Country/yield curve
- They do their own credit analysis
 - They compare their internal ratings with those of rating agencies
 - They're cognizant of ratings to meet clients' constraints
- More scenario analysis is performed to manage risk
- Derivative usage:
 - Canadian bond futures to manage duration
 - Forward currency contracts

Outlook

- They expect returns in the 3%-5% range in the foreseeable future
- The global economic recovery remains on track but unfolding global crises cloud the outlook
- Rising yields are still on the horizon

Portfolio Positioning

- They continue to overweight non-Canadian non-governments
- They will reduce portfolio duration
- They will make modest reductions in overall risk budget
- They are underweight the peripheral Euro area due to ongoing uncertainty; they try to avoid Greece, Ireland, Portugal and Spain; they're trying to figure out the trigger for investors to get out
- They're overweight in core Europe: Germany, Finland, Netherlands, U.K.
- Also overweight in New Zealand

- Underweight Japan
- Neutral Canada and slight underweight U.S.
- They favour bonds of countries with relatively steep yield curves
- Underweight Canada as argument for rate rise builds
- The fund is short the Canadian dollar
- Portfolio yield is at 3.8% vs 3.1% for benchmark due to credit overweight
- Currently the portfolio has 4.8% exposure to high yield and a 7% exposure to emerging markets
- Exposure to high yield typically gained through BB rated bonds

TRADING OVERVIEW

- I met with Frank Loughlin, Senior Vice President, Americas Equity Trading
- We reviewed the trading practices at AllianceBernstein
 - 5 trading desks around the world
 - They have a common trading platform
 - They measure total expected costs based on external output
 - Brokers are selected based on pattern of good execution
 - Regarding exchange selection, they are venue agnostic, they try to optimize venue use
 - They have comprehensive soft dollars programs
- Trading team works closely with portfolio managers
 - They incorporate momentum in trading strategies
 - Prioritization of portfolio decisions
 - Incorporate research (trading has access to research queue and they will give cost estimates to portfolio managers)
 - Work with portfolio managers to determine strategy's capacity; the portfolio manager will make the call, using the trading team's research
 - New trading system has reduced costs
 - Fundamental traders and quantitative traders work together
- Overall, AllianceBernstein has adequate trading practices

COMPLIANCE

- I met with Mark Anderson, Senior Vice President and Counsel
- There are 43 individuals dedicated to compliance at AllianceBernstein
- Mark Manley is the Chief Compliance Officer
- The last SEC review was conducted in 2008; they expect the next review to take place during the fourth quarter of 2011
 - A number of non-material deficiencies were identified
 - AllianceBernstein provided the SEC letter that described the deficiencies, along with the firm's response to the SEC; AllianceBernstein's response acknowledges the issues, provides some context as to why it happened and mentions corrective actions that will be made to eliminate those deficiencies
 - These deficiencies relate to the following:
 - The treatment of a claim processing error
 - The documentation around employee personal trading

- The lack of best execution practices for the fixed income group
 - The documentation of clients' complaints
 - The content of compliance reports for AllianceBernstein's mutual fund group
 - Compliance with AllianceBernstein's Collateralized Debt Obligations guidelines
 - Upon review of these deficiencies and given that AllianceBernstein has been very transparent regarding this matter, I conclude that these deficiencies are not material
- AllianceBernstein hires compliance consultants to review its compliance practices; they benchmark themselves against other asset managers
- All investments managed by AllianceBernstein on behalf of UWO are in compliance with the terms and conditions of the Investment Manager Mandate and in compliance with all applicable laws
- Currently, they're involved with one litigation; a settlement has been agreed upon, they just need it to go through the courts for approval; it is related to an old market timing investigation
- They have a conflict committee that reviews potential
 - They meet every quarter to discuss new regulations
 - They have to upgrade the conflict section in the ADV regulator filing
 - There are no conflicts of interest to disclose
- They have an adequate code of ethics that is upgraded every year (AllianceBernstein Code of Business Conduct and Ethics)
 - All employees need to pre-clear trades
 - They have a gift policy
- Overall, AllianceBernstein has adequate compliance processes

APPENDIX
THE UNIVERSITY OF WESTERN ONTARIO RETIREMENT PLANS
AllianceBernstein
Meeting Agenda

Date: May 24, 2011

Meeting time: 8:00 AM to 12:00 PM

Location: 1345 Avenue of the Americas, New York 14-A

UWO Attendee:

Martin Bélanger, Director, Investments

1) ORGANIZATION (10 min):

- Introduction – relationship review
- Discuss any meaningful change to your corporate structure since the last review
- Review changes in assets under management
- Discuss clients gained and lost
- Overview of new products
- Discuss your business continuity plan

2) INVESTMENT PERSONNEL (10 min):

- Introduction to key personnel on our mandates
- Discuss personnel turnover

3) REVIEW OF INTERNATIONAL VALUE MANDATE (90 min):

- Performance overview
- Attribution analysis
- Detractors/contributors to performance
- Portfolio characteristics
 - Compare portfolio characteristics as of August 31, 2010 and April 30, 2011 and explain changes
- Overview of portfolio changes since August 31, 2010 (last review)
 - Discuss investment thesis of top 10 holdings in the portfolio as of August 31, 2010
 - Discuss stocks for which thesis has materialized
 - Discuss stocks for which thesis has not materialized
 - Discuss changes made to the portfolio (provide list of all buys and sells between August 31, 2010 and April 30, 2011, with rationale for each decision)
 - Discuss current portfolio positioning (as of April 30, 2011)
- Overview of investment process and changes to investment policy, if any; please provide examples of stocks added that meet your investment criteria
- Provide an overview of the investment guidelines for this mandate
- Discuss your exposure to emerging markets
- Describe how you measure and control portfolio investment risk

- Discuss currency management
- Address how you handle capacity issues
- Report how you integrate environmental, social and governance factors in your investment process and the impact on your portfolio and investment strategy

4) REVIEW OF GLOBAL BOND MANDATE (30 min):

- Performance overview
- Attribution analysis
- Detractors/contributors to performance
- Portfolio characteristics
- Overview of investment process and changes to investment policy, if any
- Provide an overview of the investment guidelines for this mandate
- Describe the use of derivatives in the portfolio
- Discuss your exposure to high yield bonds
- Discuss your exposure to emerging markets
- Describe how you measure and control portfolio investment risk
- Discuss currency management
- Report how you integrate environmental, social and governance factors in your investment process and the impact on your portfolio and investment strategy

5) INVESTMENT RESEARCH (45 min):

- Review global research platform
- Review approach to research
- Discuss research reports with analysts

6) TRADING (30 min):

- Overview of trading systems and methodology
- Execution analysis
- Discuss total trading costs analysis
- Discuss soft dollars allocation
- Discuss broker/dealer selection
- Discuss stock exchange selection

7) COMPLIANCE (15 min):

- Provide an overview of your compliance processes
- Confirm that all investments managed by AllianceBernstein on behalf of UWO are in compliance with the terms and conditions of the Investment Manager Mandate and in compliance with all applicable laws
- Describe any material litigation to which your firm, key personnel or the funds have been party over the past year
- Describe any material issue raised as a result of recent regulatory reviews
- Confirm that your key investment personnel complies with an appropriate code of ethics
- Confirm that any conflict of interest or potential conflict of interest involving AllianceBernstein or key investment personnel has been disclosed

8) OTHER (10 min):

- Office tour