JOINT PENSION BOARD MEETING

May 18, 2011

9:00am

SSB 4220

PRESENT: Stephen Foerster, Ab Birch, Martin Bélanger, Stephen Hicock, Craig Dunbar, Louise Koza, Jim Loupos, Michelle Loveland, Andrea Magahey, Cindy Servos, Deirdre Chymyck, Krys Chelchowski, Jane O'Brien, Lynn Logan

Guests: Bruce Curwood, Russell Investments, David Arnold KPMG, Jim Cassidy KPMG

1. Completion and adoption of the Agenda

2. Approval of the April 27 minutes

Motion: Cindy Servos
Seconded: S. Hicock
All in Favour

3. Presentation of the Master Trust Financial Statements

Deirdre Chymyck presented the financial statements for the Master Trust, the Academic Pension Plan and the Administrative Staff Pension Plan for the year ending December 31, 2010.

Master Trust
The net assets available for benefit and retirement income payments were $1.1 billion, an increase of 7% over 2009. Note 4(b) outlines the investment and income of the Master Trust which was $8.8 million in 2010. Fund managers fees include fees paid by the custodian to the various funds and only represent the fund manager fees not captured in the units values. The total fees paid were $2.6 million. There is a new line in the administrative costs paid by the University under note 8 to report on the new HST accrual that requires the University to report on the value of deemed services provided by the University for pension administration and to remit GST on that amount. Overall, the funds performed well with an average return at 8.51% per member.

The Academic Pension Plan
The net assets available for benefits at December 31, 2010 were $532 million. Transfer of assets from the pension to the RIF were significant in 2010. Transfers out included members who worked past normal retirement transferring out larger accounts, one member with an account in excess of $1 million moving the account out of the registered pension plan to comply with tax laws relating to age limits and member take up on the University's retirement incentive program. The general account which represents the assets available to meet the ongoing pension liabilities of the University's obligations that results from the benefits payable to the special members had an investment allocation change to a 100% immunized bond fund in 2010. To

better reflect the expected return on this fund, the discount rate was adjusted to 2.55%. This resulted small funding deficit in respective of these special members of $257,000 for which special payments are made.

The Administrative Pension Plan

The net assets available for benefits at December 31, 2010 were $373 million. Total increase in assets for the year was $2.9 million. D. Chymyck noted a net unrealized change in the fair value of investments of $29 million. As with the Academic Pension Plan, the general account already invested in an immunized bond fund had a discount rate change for the purposes of special member liabilities to 2.59%. This was to better reflect the expected rate of return on the immunized bond fund but resulted in a small deficit of $119,000.

The Retirement Income Fund

The Board is not responsible for the approval of the financial statements for the RIF. However D. Chymyck briefly reviewed the RIF's statements. Transferred assets in were higher than 2009 by 5 million largely from the Academic Pension Plan. Cost of the administration of the RIF is offset by fees charged to members of the RIF program. The fee rate for members was increased to $1150 in 2011. The cost for administering the RIF was comparable to 2009 at $257,811.

L. Koza inquired any special requirements in regard to the deficit for special member benefits in the plans. M. Bélanger confirmed that special solvency payments are made.

4. Presentation of the Audit Findings

Jim Cassidy commented the audit went very well. There were no significant issues to disclose and no significant account issues. The new audit standards require that the opinion be signed effective as of the approval date today for the statements.

5. In camera session with KPMG

Following the in-camera session, Jim Cassidy and David Arnold left the meeting

Motion
Approval of the Master Trust Financial Statements for the year ended December 31, 2010
Motion: L. Logan
Seconded: L. Koza
All in Favour

Motion
Approval of the Academic Plan Financial Statements for the year ended December 31, 2010
Motion: C. Dunbar
Seconded: S. Foerster
All in Favour

Motion
Approval of the Administrative Plan Financial Statements for the year ended December 31, 2010

Motion: K. Chelchowski
Seconded: C. Servos
All in Favour

6. Pension Staff Update

M. Bélanger advised the Board that a historical pension account value requested by a member had been reported incorrectly. Because of the Board's role as fiduciary and because of the delegation of the day to day operations of the plans to the HR by the Board it is important to advise of the error and the steps taken to address this risk.

The information had been requested for the purposes of marriage breakdown and the incorrect values have been incorporated into a separation agreement. The error was brought to pension staff's attention by one of the parties to the agreement. No funds have been transferred out of the plan or out of the member's account. The error occurred because of an individual manual calculation that is required to be made when historical values are requested.

A legal opinion has been obtained. The Board inquired about the steps taken to address the risk for future calculations, the size of the reporting error and the risk for litigation. A. Magahey advised that the administration of marriage breakdowns is a complex and onerous process with very varied separation agreement and little clarity under the existing pension regulations. This makes this issue a significant burden for administrators. There are changes in legislation to be enacted shortly that will assist in providing a much clearer regulated process for how and when these marriage breakdown calculations will be administered but the administrative work will continue to be demanding. For this reason, included in this legislation is the opportunity to charge members fees for the service of valuing and splitting a pension account for the purpose of marriage breakdowns. The Board requested a summary of those regulatory changes for a subsequent meeting.

7. First Quarter Performance Review

Bruce Curwood presented the Performance and Manager Review for the First Quarter 2011. Global equity markets had fairly strong performance in the 1st quarter. The S&P/TSX global composite index returned 5.6% in the period. The bond market sold off in the face of continued economic recovery with corporate bonds outperforming relative to government bonds.

There is still a very narrow Canadian equity market with only 4 out of 10 sectors ahead. One stock in the health care sector was responsible for a significant portion of the returns in that sector.

The Diversified Equity Fund underperformed for the year down 208bps and down 92bps for the quarter. Canadian Equity performance is in the 3rd quartile for the year but we should see value added in the 2nd quarter with anticipated corrections for commodities. Though Beutel was down in the quarter they have outperformed by 73bps for the year compared to the value benchmark. CC&L also underperformed in the 1st quarter but added value over the year of 10bps. Greystone lost 164bps for the quarter and down 2.2% relative to the growth style index over 4 years. In response to a question regard the correlation between the Canadian equity managers Bruce Curwood indicated he did not have a report on this but that it was likely in the region of 90%.

US Equity had good absolute returns, adding 78bps for the year over the benchmark. Large caps matched the benchmark with mid caps slightly lower than benchmark for the year. PanAgora though down for the quarter is returning value of 16 bps over the Russell 2000 Index for the year. Russell liked the adjustments made by PanAgora to their model. The Non-North American Fund underperformed by 195pbs for the year. Alliance Bernstein still has value added of 0.5% annualized since inception but is down 681 bps for the year and has underperformed by 4.7% for the last 4 years. Pyramis has added value for the year of 120bps.The EAFE stock profile shows a value tilt, with modest sector and country bets and is cap neutral. Harris though down for the quarter has consistently posted strong performance adding 7.2% since inception. T.Rowe Price was down 80bps for the quarter.

The Diversified Bond Fund is up by 163 bps over the benchmark for the year, providing 1st quartile performance. Most of this is attributable to AllianceBernstein who were up 50bps for the quarter and 245 bps for the year. The Canadian Bond fund is on benchmark for the quarter and the year, as is the Long Term Bond fund. Money markets funds outperformed by 1bps for the quarter and Target Date Funds are tracking as expected.

In response to a comment from a board member that AllianceBernstein continues to disappoint on the EAFE side, Bruce Curwood noted that the Russell has them ranked "Review". There is a management review of AllianceBernstein on May 24, 2011 which will be reported on at the next meeting. The Board asked for inclusion in the report of how much currency hedging decisions have detracted from performance. Once the 2nd quarter performance is available and the review report has been provided the Board can determine what steps, if any, it wishes to take in regard to this mandate.

8. Kilgour Advisory Group Quarterly Performance Report

M. Bélanger highlighted some of the material in the Kilgour report. The notes are still discounted relative to the value of their collateral by 6-7% percent.

Member redemptions have slowed down since the initial months following May 2010 when the redemptions were lifted and member redemption rates were high. Notes have had good performance since May 2010 in part due to the activities of hedge funds.

9. Other Business

Motion to adjourn
Motion: M. Loveland
Seconded: L. Logan
All in Favour
Meeting adjourned at 10:30am

Harris Associates
Investment Manager Review
May 18, 2011 – 11:00 AM to 1:00 PM

Michelle Loveland, Louise Koza, Andrea Magahey and Martin Bélanger met with Vineeta Raketich (Director, International Operations and Client Relations) and Ed Loeb (Partner and Portfolio Manager).

Organization

Vineeta Raketich gave an overview of the organization. The firm had US$65.7 billion in assets under management as of March 31, 2011.They have regained the assets they had before 2008. They have gained significant new business in the past two years. Most of the growth was in international and growth products and came from overseas accounts. As a result of the growth in assets, they are monitoring certain strategies and will consider closing them if assets get too large. The two strategies that they are monitoring closely are those that include small cap stocks, due to the narrower small cap segment. The international small cap strategy, with US$ 3 billion in assets and the global all cap strategy (which includes a small cap component) may be closed. There are no capacity issues with the global large cap strategy, the one that the Western Retirement Plans invest in. There is currently US$8.8 billion in assets in all the global equity strategies.

There have been no changes to the portfolio managers in charge of our portfolio. Bob Levy is in charge of the U.S. equity component and David Herro is in charge of the international equity component. However, they have experienced some turnover in their analyst group over the past year. Four analysts have left and they have hired three; two in international equity and one in U.S. equity. Initially as a result of the departures, David Herro took on more responsibility regarding industry and country coverage. With the new hires, he won't have company coverage anymore. Investment professionals at Harris have on average 15 years of experience. The firm didn't make any layoffs during the financial crisis.

Investment Process

The investment process hasn't changed, their process can still be characterized as bottom-up value. The firm's investment philosophy has three tenets: 1) Buy businesses trading at a significant discount to their estimate of intrinsic value; 2) Invest in companies expected to grow their intrinsic value over time; and 3) Invest with management teams that think and act as owners.

Regarding their risk management process, they believe that the best risk management tool is buying great businesses at cheap prices. They have recently upgraded their compliance and trading systems.

They don't formally integrate environmental, social and governance (ESG) factors in their investment process. They look for companies that are not subject to strong legal exposure and where management makes good cash allocation.

Performance and Portfolio Positioning

The portfolio has outperformed by 7.21% annualized since inception (on October 1, 2008). However the portfolio has underperformed by 2.84% over the past year ending April 30, 2011 and by 2.27% year-to-date. Currency hedging has hurt performance by about 2% over the past year. Hedging the Swiss Franc is responsible for about two thirds of the loss and hedging the Japanese yen for the remaining one third. They never hedge more than 85% of a currency exposure and the currency must be overvalued by at least 20% for them to hedge. Currency hedging has added about 60 bps since the inception of the fund.

Stock selection in industrials and financials has added value over the one-year period ending April 30, 2011 due in part to Caterpillar (Industrials) and Julius Baer Group (Financials). Sector and stock selection in information technology have detracted value, in part because of Intel and Hewlett-Packard as both have detracted value.

They see a lot of upside in several markets and there is a wide amount of skepticism about the financial markets. Valuations are low and dividends are rising; this should set the state for positive returns. Currently their exposure to emerging markets is about 3% of the portfolio. The have the conviction that the U.S. stock market is undervalued.

Some of the portfolio transactions made during the year include:

- They sold Hewlett-Packard. They have concerns about their corporate structure and their recent change in strategy.
- They purchased Master Card and Visa. They are really technology companies even though they're associated with the financial sector. Financial stocks have been under pressure and as a result of the stock of both companies trade at around 14-15 times earnings.
- They reduced their position in Caterpillar. They bought the stock during the financial crisis. The company had the foresight on keep it service centers open during the financial crisis. Harris has tripled its money with the investment.

Intel is the largest holding in the portfolio. M. Bélanger asked them to describe their investment thesis for the stock. Harris had higher expectations for the stock. Intel has a strong franchise and holds a 70%-75% market share. The company has lots of cash and no debt. They spend more than their competitors on research and development. The company is currently trading at about 10 times earnings and has a dividend yield of 2.5%. Intel recently initiated a US$10 billion stock repurchase.

Andrea Magahey asked them to explain their investment thesis on Toyota, given the current environment in Japan. Toyota's exposure to Japan is small. They have better governance structures in place. Harris is of the opinion that Toyota is one of the best manufacturing companies in the world. Only 30%-40% of their manufacturing capacity is in Japan. They believe that they will operate at close to 70% capacity by mid-summer. The stock has been weak lately, but Harris believes that the loss in economic value has been small. Their expected return on the stock is positive and they have bought more of it lately.

The portfolio doesn't have a specific theme, but Harris puts more emphasis now on company balance sheets. Currently the portfolio is overweight Europe, underweight U.S. and overweight Japan. Only 3% of the portfolio is invested in emerging markets.

Compliance

The portfolio is in compliance with the investment guidelines of the limited partnership. Regarding litigation, Harris has updated us on the case they are a defendant in. The case has been disclosed to us in previous reviews. The litigation is regarding allegations that Harris overcharged unit holders in its mutual funds. The case was recently sent down from the Supreme Court to the Court of Appeals to be resolved because the Court of Appeals had applied a different standard than the Supreme Court in its ruling.

Harris has not had a regulatory review conducted by the Securities and Exchange Commission since 2005. The SEC reviewed one of their sister companies (Aurora Investments) in 2010. Harris expects that they will be reviewed in the relatively near future. The firm or its personnel doesn't face any conflict of interests and the firm has an adequate code of ethics in place.