JOINT PENSION BOARD MEETING

June 15, 2011

9:00am

SSB 4220

PRESENT: Stephen Foerster, Martin Bélanger, Craig Dunbar, Jim Loupos, Andrea Magahey, Lynn Logan.

Absent:
Jane O'Brien, Louise Koza, Michelle Loveland, Steven Hicock, Krys Chelchowski, Cindy Servos, Ab Birch

Guests: Bruce Curwood, Russell Investments

1. Completion and adoption of the Agenda

2. Approval of the May 18 minutes
The approval of the minutes will be requested by email shortly after the meeting.

3. Anticipated administrative changes to marriage breakdown under pension reform

Andrea Magahey reviewed the anticipated administrative and pension plan amendment changes that will be required to meet the new rules relating to marriage breakdown calculations as outlined in Bill 133 *The Family Statute Law Amendment Act* and the draft regulations. Hicks Morley provided a detailed overview for the Boards information and in the report advised that it is likely that the new marriage breakdown process will be in force no sooner than January 1, 2012.

4. AllianceBernstein Manager Review

The recent review of AllianceBernstein was discussed in detail by the Board. AllianceBernstein's International Value Fund has underperformed the benchmark by 5.8% for the year ending March 31, 2011 and the Fixed Income Mandate has outperformed the benchmark by 2.1% for the one year period ending March 31, 2011. The fund performance target for the international equity has not been met. The fixed income mandate is ranked "Hire" by Russell and the international equity mandate is ranked "Review.

Martin Bélanger explained that the investment process and the personnel of AllianceBernstein on the equity side was good and advised that AllianceBernstein have not changed their investment process. The portfolio is still invested in 90% of the same stocks as in September 2010 such that the investment value strategy has not changed. There has been great stability of portfolio managers. However, the firm has some organizational issues and there have been significant reductions in the number of investment professionals. Given these factors combined with the underperformance on the international equity side and the

Russell rating of "review" the Board discussed what actions are needed in regard to the future the AllianceBernstein's international equity mandate. To ensure that the Board fully understands the meaning of the "Review" rating from Russell Investments Bruce Curwood was asked about the Russell ranking system. Bruce Curwood explained that not all the sections of the Russell report factors were weighted equally and that the ratings are done primarily by the analyst responsible for reviewing the product.

Though it was decided not to change managers at this time the Board discussed and identified triggers that would likely precipitate a change of manager. The triggers were identified for the purpose of the Board making a future change in manager. In particular a change in manager would likely occur if AllianceBernstein changed a key portfolio manager on our mandate, if they made a significant changes in the investment approach, implemented a change that resulted in a significant drop in the number of investment analysts or if performance became extremely poor. Also the board directed that management to monitor on a monthly basis: significant trades, any changes in investment personnel, changes in value characteristics, or major changes in portfolio.

The Board is not, given the current information, going to replace AllianceBersnetin for the Non-North American equity mandate, this may become a possibility in the future and as such getting a plan in place to identify a replacement manager is a good precaution. A search for a replacement manager should be started given that replacing a manager can take about 4-6 months. A search for a possible manager change will be accelerated for the fall but in the meantime the Operating & Endowment Fund has a good relationship with another international equity manager called Templeton as an option though at this stage that would not be the preferred way to proceed which is to undertake the formal search for the new manager.

To conclude this discussion, the Board requested that the Russell Investment analyst for this AllianceBernstein product be available on the phone for the next meeting to answer the Boards questions. Bruce Curwood indicated the analyst would be available.

5. Non-Bank ABCP Liquidation

Martin Bélanger provided a written update on the UWO Liquidating Trust. The market activity has been driven by hedge funds and the MAV II Notes have increased in value. Kilgour Advisory group is of the view that risk relating to the MAV II Note structure is reducing as the notes come closer to maturity, however, given that the market is unique and some of the price to date has been driven by hedge funds who want to get the structure of notes broken down to access the collateral there is an external risk that if the hedge funds believe they will not be successful that they will stop accumulating Notes and that could cause a significant price drop prior to maturity. In order to de-risk the portfolio they recommend that the cash balance in the UWO liquidating Trust be in the order of $775,000 in line with the heaviest redemption month of the Notes to date.

It was suggested that the mandate for management should be restated to clearly outline the cash limits that management is suggesting with the advice of the Kilgour Advisory Group for the UWO Liquidating Trust. Though it is likely that $1 million is enough liquidity in the portfolio the Board wants to ensure that if more needs to be sold in the interest of members, because of significant market change affecting price, that if there is support from Kilgour to do this that management have the latitude to sell more MAV II Notes than what would be required to provide the 1 million dollar cash buffer. A motion on the managements mandate for selling MAV II Notes for approval by the Board will be prepared and sent via email to the Board to vote on. This is being done to ensure that all board members have an opportunity to review all the materials and ask questions and then vote on this motion

6. Other Business

The meeting was adjourned

Following the meeting the following motions were provided to the Board via email

Motion 1

Approval of the May 18th Minutes
All in favour

Motion 2

June 15, 2010 – Liquidating Trust Update

Background

The Liquidating Trust Update being Exhibit IV (attached for reference to this email) which was provided to the Joint Pension Board highlighted that the current mandate to provide management with discretion to sell up to 20% of the portfolio has been an effective risk management strategy. Given the relatively new and unique market for MAV II Notes it continues to be desirable to: have this risk management strategy in place, and to ensure that management retain some discretion in the selling of MAV II Notes. The current mandate provided to management at the May 2010 meeting needs to be re-stated so that management has a clear mandate that is easily monitored. The goal of this mandate is to provide management with the ability to manage liquidity in the event of a change in market circumstances and accordingly the Board is interested in restating the mandate to specify the level cash to be held in the UWO Liquidating Trust rather than expressing the discretion of management to sell notes as percentage of the portfolio being sold.

The highest level of redemptions experienced to date was $775,000 in June 2010 when the redemption restrictions were first removed. Attached as Schedule A to this motion is a spreadsheet showing the sales MAV II Notes made to date (including member redemptions and redemptions made by management). Based on this information, the Board has determined that a cash level of up to 1 million dollars is a reasonable quantum for management's discretion. The mandate should also enable management to have greater discretion to sell notes, if the Kilgour Advisory Group recommends that the market warrants this. In such instances, management would be allowed to sell more notes than is needed for the establishment of the 1 million dollar buffer but notice of this action would need to be provided to the Joint Pension Board.

Motion

That the prior mandate for management provided by the Board in May 2010 "to provide management with the flexibility to sell up to 20% of the portfolio, before needing to obtain further direction from the Board" be replaced effective the month of June 2011 with the following: management has discretion to sell the requisite number of MAV II Notes, in excess of the any sales required to fund member directed redemptions, in order to maintain a cash balance in the UWO Liquidating Trust of up to 1 million dollars each month. In the event that the Kilgour Advisory Group recommends that more MAV II Notes should be sold than is required to maintain the 1 million dollars monthly cash limit, management may proceed to exercise its discretion to sell the recommended amount of MAV II Notes but will need to advise the Board forthwith of this action."

All in favour

Greystone Managed Investments
Investment Manager Review
June 15, 2011 – 11:00 AM to 1:00 PM

Jim Loupos, Bruce Curwood, James Stockford, Andrea Magahey and Martin Bélanger met with Mary Robinson (Relationship Manager), Rod Balkwill (Vice-President) and Donnie Mackay (Managing Director).

Organization

Mary Robinson gave an overview of the organization. She is the new Client Relationship Manager servicing the University, taking over Betty-Jane Thomas who recently retired. The firm had $35.4 billion in assets under management as of March 31, 2011. The firm has about 120 employees. Greystone is still private and independent and employees owned about 68% of the firm. The Canadian equity team has six investment professionals responsible for the investment decisions. They each cover approximately 15% to 20% of the market. The analysts covering the Energy and Materials sectors typically follow more companies. The team also has two product specialists who are the interface between the portfolio managers and the clients. They also perform portfolio analytics. They are currently looking for a junior analyst.

Investment Process

Donnie Mackay and Rod Balkwill went through the investment process. There have been no changes to their investment process since the last review. They reviewed the main portfolio characteristics of the fund and compared them to the index. The portfolio reported strong earnings surprises compared to the benchmark recently. The environment remains subject to macro shocks. Currently the portfolio has about 44-45 names, which is higher than normal, because of the risk factors. Portfolio turnover has been 38% for the past 12 months, which is higher than usual.

Next, they talked about the firm's investment risk management initiative. Scott Linner, who was previously on the Canadian equity team, is leading this initiative. This new initiative is intended to complement Greystone's bottom-up process and improve the information available to the equity team. They want to quantify the equity risk measures. Some data is already available but they're still proofing it.

Regarding environmental, social and governance (ESG) factors, they use them as a check on risk and as a confirmation of the quality of a company. They take into consideration all factors that can impact costs or risk, such as the amount of energy or water used, if the company's business model is sustainable, etc.

Performance and Portfolio Positioning

Greystone has underperformed by 1.6% over the first quarter and it has also underperformed over the last few years. During the first quarter of 2011 stocks that did well in 2010 underperformed. These include Magna International, Teck Resources and Pacific Rubiales. Gold producers, such as Kinross Gold and Eldorado Gold, haven't done well despite the strength in the price of gold. Valeant Pharmaceutical was the strongest performer in the first quarter. The company's earnings and revenues were ahead of market expectations, they increased their 2011 expected earnings and they made a takeover bid for Cephalon, a specialty drug marker.

Greystone has underperformed during the financial crisis of 2008 and during the bull market of 2009. Greystone explains the underperformance by the fact that small cap stocks and stocks with a low price-to-book value have excelled during the recovery.

The impact of Sino-Forest on the portfolio was reviewed. Sino-Forest has cost 25 bps to the portfolio by the end of May and 100 bps so far in June. Greystone is in a wait and see mode. They are comfortable that the Board of Directors and the company's auditors haven't resigned. Greystone is waiting for report to be produced by an independent committee. It will take about 90 days to produce.

Martin Bélanger asked them to explain how they assess the risk of the other companies in the portfolio that have foreign assets. Donnie Mackay answered that they rely on brokerage firms, such as Scotiabank, to review the risk environment of various countries. They then weigh in the geographic and political risk.

The current portfolio positioning is based on three themes: 1) global equities will remain robust despite natural disasters and heightened geopolitical tension; 2) the portfolio is positioned for continued global expansion and 3) Greystone remains positive on equity markets.

Greystone expects to benefit from continued higher oil prices. One company they like is MEG Energy, in the oil sands, due to their higher productivity. They have a position in Finning International, to benefit from capital expenditures tied to global growth. They have invested in Potash Corp. as global food demand will lead to supply pressures and fertilizer producers should do well in this environment. They have a position in Magna International to benefit from the recovery in global auto sales. The largest holding in the portfolio is TD Bank due to its high quality earnings mix.

Currently, the portfolio is underweight in Energy and Financials and is overweight in Materials (ex-gold), but overweight in gold producers.

<u>Compliance</u>

The portfolio is in compliance with the investment guidelines of the pooled fund. The company is not facing material litigation. There were no material issues resulting from their latest regulatory review. Mary Robinson will provide more details on these reviews. Greystone has no conflict of interest to disclose and has procedures in place to deal with conflicts of interest. The firm is in the process of hiring a new Chief Compliance Officer, following the departure of Nadine Krenosky in April.