# Joint Pension Board Meeting

## May 22, 2012

## 9:00 AM

## SSB4220

Present: Prof. Stephen Foerster, Ms. Krys Chelchowski, Mr. Jim Loupos, Mr. Martin Bélanger, Mr. Jeffrey Symons, Ms. Bekki Ollson, Mr. James Stockford, Ms. Louise Koza, Prof. Craig Dunbar, Ms. Michelle Loveland, Ms. Cara Bourdeau, Ms. Lynn Logan, Ms. Cindy Servos, Ms. Jane O'Brien, Ms. Deirdre Chymyck

Guests: Mr. Bruce Curwood, Russell Investments; John Leitch, KPMG; Eric Mallory, KPMG

Regrets: Ms. Shannon Butler, Mr. Ab Birch

**1. Completion and adoption of the Agenda**

**2. Approval of the April 9th minutes**

Motion: Cindy Servos

Seconded: Jim Loupos

All in Favour

**3. Presentation of the Master Trust Financial Statements**

Deirdre Chymyck presented Exhibit I to the Joint Pension Board, highlighting financial performance over the past year and a comparison against the previous period. L. Koza asked to include the special solvency payments under note 6 of the statements. A board member asked about differences in the statements for the Academic versus the Administrative plans. The board was then asked to approve the statements.

**Academic Plan:**

Motion: Craig Dunbar

Second: Michelle Loveland

**Administrative Plan:**

Motion: Lynn Logan

Second: Krys Chelchowski

**Master Trust and RIF**:

Motion: Louise Koza

Second: Jim Loupos

All motions unanimously approved by the board(s).

**4. Presentation of the Audit Findings**

Representing KPMG, Eric Mallory presented the audit findings contained in Exhibit II. Eric also provided an update on accounting standards related to the pension plans. A board member asked about KPMG's possible conflicts of interest in dealing with the pension plans and Mr Mallory responded by saying all potential conflicts had been disclosed to the University.

**5. In camera session with KPMG**

All staff was asked to leave the meeting room during this segment. Jeff Symons, Martin Bélanger, Deirdre Chymyck, James Stockford, Bekki Ollson, and Cara Bourdeau all left during this segment and rejoined for the next topic.

**6. Update on UWOFA Grievance**

Acting as Director, Total Compensation during this segment, Ms. Louise Koza presented an update on the UWOFA Grievance regarding ABCP. Ms. Koza discussed the initial grievance brought forth in 2008 which was based on a complaint that the University had breached its obligations in administering the pension plan. Ms. Koza described the protections afforded to the University under the CCAA provisions which were part of the restructuring of the notes. An arbitrator was engaged to oversee the process and the two parties arranged a number of dates to meet and discuss the issue. As a settlement measure, the University afforded UWOFA an orientation to their existing access to the Joint Pension Board website. Access to the site was also granted on a time limited basis to the UWOFA legal counsel. UWOFA will be given the opportunity to present to the Joint Pension Board during the upcoming September retreat, and attend Joint Pension Board meetings as priorities for the next year are set. In exchange, only one arbitration date has been retained and will be cancelled at UWOFA's option. If this session is cancelled, all parties agree the grievance is dropped.

Members of the JPB representing the Academic Plan are asked to ensure their attendance at the September retreat.

**7. Update on SRI Fund**

Jeffrey Symons shared progress on the SRI replacement manager. Aberdeen has been hired and will be taking over the mandate which MacKenzie Financial had terminated. At the time of the Joint Pension Board meeting, agreements were being ratified by the University. The new fund will be a slightly lower fee for members.

**8. Update on Joint Pension Board Priority "Reviewing the Diversified Equity Fund"**

Martin Bélanger opened the discussion by requesting that the Joint Pension Board discuss some of these strategies at the September retreat, which would give more time for a comprehensive discussion. Mr. Bélanger also talked about timing of any implementation which would be affected by the need for a thorough review of all strategies.

Mr. Bruce Curwood then presented the Exhibit on low volatility strategy to the Joint Pension Board. A Joint Pension Board member asked about how Low Volatility indices are constructed, and Mr. Curwood described the process as well as tracking error versus standard indices. The Joint Pension Board also asked about sustainability of low volatility strategies, given market attention given to this strategy. The group discussed how to communicate and how to measure this mandate if implemented. Martin Bélanger was asked to present a back tested version of the Diversified Equity Fund to the Joint Pension Board with this strategy included.

The Joint Pension Board agreed to continue discussion of this strategy.

Ms. Lynn Logan left the meeting at this time.

**9. Kilgour Advisory Group Quarterly Report**

Mr. Martin Bélanger updated the Joint Pension Board on the IIROC settlement, and stated no funds were due to the plans as no notes were bought during the period covered by the agreement. There is also no option at this time to have underlying assets delivered in exchange for the notes.

**11. Other Business**

Mr. Martin Bélanger updated the Joint Pension Board on the annual member meetings. Attendance at the meetings was about 100-125 for all three meetings combined, although attendance at the evening session was hurt by weather. M. Bélanger thanked the Board for having at least two Board members attending each meeting. Members who attended did provide feedback, including a desire for more education on replacement rates and for attribution analysis.

Motion to adjourn

Motion: Jane O'Brien

Seconded: Michelle Loveland

All in Favour

Meeting adjourned

**10. Connor, Clark & Lunn Review Update – Held after the Joint Pension Board Meeting**

**Connor, Clark & Lunn**
**Investment Manager Review**
**2012-05-22**

Jeffrey Symons, Stephen Foerster, Louise Koza, Jane O'Brien, Michelle Loveland, James Stockford, Cara Bourdeau, Bekki Ollson, Bruce Curwood and Martin Bélanger met with Phil Cotterill, Head of the Client Solutions Team at CC&L.

**Organization**

P. Cotterill gave an overview of the organization. There have been no changes the organizational structure. The firm is 78% owned by 23 partners and the rest is owned by the CC&L Financial Group. He mentioned that there's consolidation in the investment industry. As of March 31, 2012 CC&L had $22 billion in assets under management, which is an increase of 10-15% over the past 18 months. He added that CC&L was committed to maintain its independence and not sell to a large institution like many of its competitors have done. The firm has gained 16 new mandates over the past year.

There have been no changes to key investment personnel at CC&L. However, most teams have added some personnel at the junior level. Regarding the Q-Core Team, they have added one individual on the research team and one on the data team. One of the key personnel issues at CC&L is the managing partner transition from Larry Lunn, one of the firm's founders, to Martin Gerber, the Leader of the Q-Core Team. This is an important issue as Martin Gerber is a key member of the team managing Western's portfolio. The role change has allowed Dion Roseman, portfolio manager and Steven Huang, Head of Research to take on additional leadership responsibilities. Following the transition, Larry Lunn will join the Client Servicing Group for at least three to four years. CC&L has implemented a 3-year plan to provide leadership development work to its senior managers.

**Canadian Q-Core Portfolio Review**

P. Cotterill reviewed the Canadian Q-Core portfolio. He started by an overview of the markets. He mentioned that risk appetites have improved in the first quarter of 2012, as the European crisis was averted and the U.S. recovery broadens. On the fixed income side, long-term bond yields ended modestly higher and corporate bonds have outperformed. CC&L has a bias towards equities. There's no persistent theme in the market, although there has been a decline in correlation in the Canadian market place, which bodes for managers with a bottom-up stock selection process. CC&L expects that 80% of its value added to be explained by stock selection and 20% by sector allocation.

The portfolio returned 4.6% in the first quarter of 2012, compared to 4.4% for the S&P/TSX, for 0.2% of value added. For the one-year period ending March 31, 2012, the portfolio posted a -7.9% return, compared to -9.8% for the benchmark, for 1.9% of value added. Stock selection has added 2.2% of value over the past one-year, while sector allocation has subtracted 0.3%. Most of the value added due to stock selection came in the Information Technology sector, as an underweight to Research in Motion has helped. The momentum and growth factors in CC&L's model didn't look good for RIM. Positions in OpenText, Wi-Lan and CGI Group have added value. Their underweight in the Energy sector has added value, but poor stock selection has detracted value. There was also positive stock selection in the Materials sector, as not owning Sino-Forest helped.

In terms of portfolio positioning, they have further reduced their exposure to the Energy sector as momentum deteriorates and they have increased their exposure to the banking sector, as momentum and value factors improve. The number of stocks in the portfolio has increased, which has reduced the level of risk of the portfolio. The portfolio's tracking error is currently below 2%.They feel that given the level of opportunities this is the appropriate risk level. They are currently underweight large cap stocks and underweight mid and small cap stocks. The portfolio continues to have greater exposure to momentum, although the exposures to all factors have declined with reduced opportunity and rotation in leadership.

CC&L has made some enhancements to its investment process in the first quarter of 2012. Their investment framework has evolved from single country models for Canada and the U.S. to a North American Investment model. The change increases the number of comparable companies for each sector and is expected to improve forecasts and risk management by adding insights gained in the U.S. market to the Canadian market. Other research projects implemented in the first quarter of 2012 include work on industry betas and market risk factors.

For 2012, the research agenda includes work on stock efficiency, stock specific risk forecast and capital efficiency in growth stocks, i.e. whether incremental capital generates incremental returns.

**Compliance**

The portfolio is in compliance with the investment guidelines. CC&L or its personnel are not facing material litigation. CC&L is currently preparing for an upcoming visit of the British Columbia Securities Commission. The Securities Commission comes every four to five years for a three week review. The firm has one conflict of interest that it reports on a regular basis. Gord MacDougall, a non-advising director of CC&L, is a director of International Forest Products Limited.