JOINT PENSION BOARD MEETING

February 13, 2012

2:00 pm

SSB 4220

PRESENT: Stephen Foerster, Michelle Loveland, Krys Chelchowski, Shannon Butler, Ab Birch, Jim Loupos, Jane O'Brien, Martin Bélanger, Louise Koza, Lynn Logan, Ann Jones, Deirdre Chymyck, James Stockford

Guests: Bruce Curwood, Russell Investments
Auditors from KPMG: Jim Cassidy, David Arnold, Eric Mallory

Regrets: Craig Dunbar, Cindy Servos,

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

2. **Approval of the November 30, 2011 minutes**
   Motion to approve: Michelle Loveland
   Seconded: Jane O'Brien
   All approved

3. **KPMG Audit Planning Report**
   J. Cassidy presented the Audit Planning Report and introduced the team members David Arnold and Eric Mallory. David has worked on the pension plan audit in previous years and is now transitioning to new responsibilities; Eric Mallory is the new team member. Changes from last year include accounting standards, the requirement that the auditors annually inquire about our knowledge of risks of fraud; this has been done and no risks of fraud have been reported. The timing of the audit is similar to previous years and is expected to be complete for the May 22, 2012 meeting. The audit fee this year is $35,000.

   It was confirmed that KPMG is satisfied with the methodology and prices being derived for the Liquidating Trust notes. It was also confirmed that in the event that more Level 3 assets are added to the portfolio that there is the potential for higher auditor fees due to the increased complexity. It will depend on the risk concerns and the needs for specialists at the time of the audit. If necessary these costs could be identified as a separate cost for the year the assets are added to the portfolio.

   Auditors left the room at 2:15 pm

   Motion to Approve: L. Logan
   Seconded: J. O'Brien
   All in favour

4. **Adams Street Partners**
   John Gray of Adams Street Partners provided a presentation providing an overview of Adams Street Partners Secondary Investment Program, including an overview of the organization, the track record, the philosophy and the process. The fund targets an internal

rate of return of 15% or a terminal value of 1.5 times the cost paid for each holding. The target fund size is US$750 million. There's less venture capital in their secondary fund than there is in their global offering. In total there will be about 100 underlying companies in the fund. Currently, UBS and an Australian pension plan are the only two defined contributions plans investing with Adams Street Partners. They are also having discussions with Vanguard and Fidelity to manage money for their DC platform. Most DC plans are looking at both their secondary fund and their global offering.

5. **Update on Joint Pension Board Priorities**
   M. Bélanger presented the update on the JPB priority "Reviewing the Diversified Equity Fund and the Diversified Bond Fund. M. Bélanger asked board members to complete a worksheet that would provide him input regarding the board's preferred options for the Diversified Equity Fund.

   The board was informed that the Town Hall meetings that were held to present and receive input from members regarding the potential changes to the Diversified Equity Fund. There were some good suggestions, but most attendees came to the meeting as a learning session.

   B. Curwood stated the board has a decision to make – the status quo or a new alternative. He suggested using caution when making the decision; look at the numbers, be careful with the models (look at conceptually not necessarily quantitatively). B. Curwood provided the presentation "Diversified Equity & Fixed Income Reviews, The Process. It was noted that the world has changed and the investment ideas have to be viewed in the current environment. The worksheet that board members have been asked to complete will be used by Russell Research for further modelling; to narrow the focus for the comfort level demonstrated by the board.

   A vote is required by the next board meeting if the board wants to proceed this year with private equity with Adams Street Partners. If the board is not comfortable with investing in private equity by the end of April it will be another year before that strategy can be implemented.

   Review of the Diversified Bond Fund: the composition will remain similar to its current format.

6. **Pension Statement Commentary and Assumptions**
   M. Bélanger presented the draft version of the 2011 Annual Pension Statement. The expected rate of return is down from 5.75% to 5.5%; the level of retirement income is down by about 10% due to a reduction from 4.25% to 3% of the annuity rate used. Replacement rates are also lower. It was agreed by the board that some information about the assumptions used to calculate the retirement income and replacement ratios should be included in the commentary and not just in the mass email that will be sent to members informing them that their Pension Statements are being mailed out.

7. **PanAgora Manager Review**
   PanAgora continues to be ranked review by Russell; although there have been some positive developments, there are still concerns regarding personnel and the assets have dropped significantly in the strategy that they manage for Western. M. Bélanger suggests the board review the allocation of funds of the Diversified Equity Fund to PanAgora. If

positive developments continue and comfort level with PanAgora increases the board may want to consider increasing the fund’s exposure, otherwise the board should consider terminating PanAgora.

8. **AllianceBernstein Review**
   A meeting was held earlier today (February 13, 2012) and the Global Bond Component is doing well and there is no recommendation to make a change at this time.

9. **Kilgour Advisory Group Quarterly Report**
   There was nothing new to report. The increase in the January value is a reflection of the Liquidating Trust notes association with the credit markets.

10. **Other Business**
    None

Motion to adjourn: M. Loveland
Seconded: A. Birch
Meeting adjourned: 4:07 pm.

AllianceBernstein
Investment Manager Review
2012-02-13

James Stockford and Martin Bélanger met with Erin Bigley, Senior Portfolio Manager, Fixed Income, Chris Marx, Senior Portfolio Manager, Value Equities and Matt McCormick, Managing Director, Institutional Investments.

Organization

Matt McCormick gave an overview of the organization.There haven't been any material organizational changes at AllianceBernstein since our last review (conducted in May 20110, although Matt warned us that that changes will be announced in the coming days. The firm now manages CA$413 billion. Most of the assets are in fixed income strategies, which have done better than equities in recent years. Despite the redemptions, the firm still manages CA$84 billion in value equities. Most of the redemptions have come from institutional investors. Canadian investors account for CA$12 billion of their assets.

The firm is financially strong with about US$550 million in operating income and no long-term debt. Total headcount at AllianceBernstein is now around 3500. The headcount has been reduced through normal attrition; some positions haven't been refilled. They expect the headcount to come down further, especially in the distributions area. They have added several senior people at the firm though. They have outsourced some of their operational services to State Street. These include trade settlement, portfolio administration and reconciliation, derivative operations, client reporting, and performance measurement.

Global Bond Review

E. Bigley provided a review of the global bond portfolio. There have been no changes to the investment process. Scott DiMaggio is still the lead manager on the portfolio. Erin Bigley is the portfolio manager who meets with clients.

Performance has been strong in 2011, both on absolute and on relative terms. The portfolio returned 8.69%, compared to 8.00% for the benchmark. Most of the value added has come from yield curve and country selection (+0.97%). Their underweight Japan, overweight to the U.K. and underweight in the European periphery have added value. Sector allocation has detracted value (-0.57%), mostly their overweight to corporate bonds. Security selection and currency selection have added 0.23% and 0.06% respectively.

Yields have come up in February 2012. So far in 2012 the portfolio has added 32 bps over the benchmark.

Going forward, Europe will remain challenging. There's too much debt and a lack of competition. The solution would involve establishing a fiscal union, getting more support from the European Central Bank and implementing some write-downs and economic restructuring for growth. Outside Europe there are reasons to be positive. Emerging markets' growth remain solid and they have the ability to ease if necessary. Although the U.S. fiscal policy is uncertain and housing remains at risk, there's a growing number of factors that are supportive for the U.S. economy. These include a revival in consumption, healthy corporate balance sheets, robust exports, stable government spending, benign inflation, favourable monetary policy and modestly improving employment. Global GDP growth is expected to be around 3%.

Overall, prudence is required. Large developed economies are facing budgetary restraints, deleveraging, slow growth and low rates, while capital markets are still facing continued uncertainty and heightened volatility.

Portfolio positioning includes reducing non-Canadian risk, reducing the investment grade corporate overweight, having a neutral exposure to financials, having a limited exposure to CMBS and high yield bonds, avoiding euro-area peripherals and having a neutral duration for the portfolio.

Corporate spreads appear attractive and U.S. corporate balance sheets are solid, but AllianceBernstein's proprietary tool indicates that we are in a period of heightened risk aversion. Canadian financials spreads widened less than their peers and remain less attractive on average, but there exist pockets of opportunity in Canada. The portfolio manager is trying to capitalize on steep yield curves. They have added Mexican, South American and Quatar bonds since the beginning of the year. The portfolio is underweight Spain and Italy. Most of the currency is hedged back in Canadian dollars, but they've increased some of the currency exposures since the beginning of the year. Overall, they have been reducing the active risk on the portfolio.

International Value Equities

Chris Marx reviewed the international value equity portfolio. There have been no changes in investment process or lead portfolio managers. Kevin Simms and Henry D'Auria are still co-CIO for the strategy.

The portfolio has underperformed the benchmark significantly in 2011 and over longer horizons. Total return in 2011 was -16.10%, compared to -9.97% for the benchmark. Since inception, the value added is still positive at 0.42%. The exposure to deep value stocks has hurt performance, especially in financials and industrial commodities. Detractors in financials include ING Groep, Société Générale (they have trimmed their exposure to Société Générale), KBC, Lloyds Banking Group and in industrial commodities they include JFE Holdings and Xstrata. Other detractors include Esprit (which they have sold), Tokyo Electric Power, Au Optronics and Renault.

Many defensive companies have contributed to performance. These include Japan Tobacco, AstraZeneca, NTT, Vodafone and Roche. Other contributors include BP, Samsung Electronics, National Bank of Australia and Bridgestone. They feel that BP is still trading at a discount, even with the litigation behind them.

They consider equities to be cheap compared to fixed income. Corporations have significant cash balances. They believe that the value opportunity exceeds that seen during the peaks of the 2008-2009 crisis. Portfolio fundamentals are improving, but have been overwhelmed by negative sentiment. Their portfolios have done well in the past when risk aversion has eased.

Going forward, most of their investment thesis is intact in the portfolio and valuations are extremely attractive across sectors. In the Euro area periphery, their exposure is limited to telecom, energy and utility stocks. Their European bank holdings have strong balance sheets, attractive business franchises and trade at around half tangible book value.

They are currently modestly overweight in Japan for the first time in over 13 years. There are solid multinational companies in Japan and they trade at attractive valuations.

They see more opportunities in emerging markets. Emerging markets currently account for 8.5% of the portfolio. The maximum allowed is 15%. Emerging markets have better growth prospects and fewer systemic challenges than developed markets. Despite better profitability, emerging market stocks trade at comparable valuations to developed market stocks. They have increased their exposure to emerging markets because they continue to find compelling opportunities across a variety of sectors. AllianceBernstein also offers an International Value All-Country strategy that has neutral weight of about 25% to emerging markets.

Overall, they seek stocks with solid fundamentals but depressed valuations. They have positioned the portfolio in deep-value territory to capture the opportunity for a value recovery.

Compliance

The portfolio is in compliance with the investment guidelines. AllianceBernstein is not facing material litigation. They have had one regulatory audit with the SEC recently and the initial feedback has been positive. AllianceBernstein has no conflict of interest to disclose and has procedures in place to deal with conflicts of interest. Employees have to comply with a code of ethics on an annual basis.