JOINT PENSION BOARD MEETING

October 13, 2011

9:00am

SSB 4220

PRESENT: Stephen Foerster, Craig Dunbar, Michelle Loveland, Jim Loupos, Krys Chelchowski, James Stockford, Martin Bélanger, Lynn Logan, Louise Koza, Jane O'Brien, Ann Jones, Deirdre Chymyck, Bekki Ollson, Cara Bourdeau

Guests: Bruce Curwood, Russell Investments – by Conference Call

1. Completion and adoption of the Agenda

2. Approval of the September 19, 2011 minutes
Motion to Approve: Lynn Logan
Seconded: Craig Dunbar
All approved with minor changes

3. 2011 – 2012 Final Work Plan
M. Bélanger reviewed the changes to the 2011 – 2012 plan confirming the cancellation of the January 2012 and the April 2012 meetings. The Alliance Bernstein manager meeting is rescheduled for February 2012 and the CC&L meeting is rescheduled for May 2012.

M. Bélanger will provide monthly updates to the board regarding the progress of the review of the Diversified Bond Fund and the Diversified Equity Fund for final approval at the June 2012 Joint Pension Board meeting.

4. Statement of Investment Beliefs
There were no changes made to the Statement of Investment Beliefs at this time. The Board will continue to review the document on an on-going basis to confirm it is remaining true to its beliefs.

B. Curwood will provide updated documentation at the next meeting regarding managers' strategies.

Motion to Approve: L. Koza
Seconded: K. Chelchowski

5. Update on Joint Pension Board Priorities
The board agreed that it should focus its work this year on the Diversified Equity Fund with the review being focused on optimizing its performance. The focus will be to achieve higher returns without exposing the fund to higher risk.

The strategy is to capture sources of additional return by investing in higher return asset classes such as small caps, emerging markets and private equity, while lowering the risk of the portfolio by adding diversifiers such as real estate, infrastructure or low volatility strategies. All potential changes will be considered, including adding or terminating managers and reducing their exposure.

The fund requires managers of a variety of styles (Value, Growth). The board needs to ensure it is adding value and not just duplicating an existing index by combining various investment styles. Russell's quarterly Performance and Manager Review document provides information on the cap weight, sectors, price/book etc of each portfolio, combined and relative to the benchmark index. This is useful to refer to regularly to ensure we are getting diversification and not just replicating the index. B. Curwood will provide updated charts regarding the value added opportunity from active management for major components of the portfolio going forward.

It was suggested that plan members be kept informed of the project work and asked for their input, as we may regret getting all this work done and then members come forward later expressing concern that they were not asked for input. The pension councillors will forward input they receive from members during their counselling sessions and it was suggested that the request for input be included in the communications to members. It was also suggested that a "town hall" style meeting could be held, a mass email could be sent to members and a website could be developed to provide information to members regarding this project. Timing for these consultations should be in the next 3 months - the annual meetings in April would be too late.

At the November meeting the board will be provided research to help them identify asset classes to focus on, including additional ones such as commodities, currency, market neutral and long/short strategies. Some modelling will be provided using historical data and prospective returns to give a sense of the impact the potential changes will make on the fund. Russell maintains a database with prospective return, risk and correlation characteristics for various asset classes that will be used for the modelling.

The board needs to decide what the focus should be; it needs to look at its investment beliefs, determine the objective of the exercise, what it wants to achieve, and match what works best for the board. The risk management plan will have to be updated to take into account changes to the composition of the portfolio. In addition, the board needs to consider the additional internal and external resources required to monitor new asset classes under management, if any.

M. Bélanger stated that the goal for the Diversified Bond Fund was similar to that of the Diversified Equity Fund with new asset classes to be added for potential growth, although the number of potential new asset classes is much smaller. This Fund is currently outperforming the index.

6. Joint Pension Board Elections

A. Jones reviewed the time frame of the upcoming Joint Pension Board Elections. It was confirmed that although S. Foerster will be on sabbatical he is eligible to run for the Academic Board position. A. Jones will provide him the letter template that has been used previously by members requesting to be on the board during a sabbatical. C. Servos is the Administrative Board member whose current term expires June 30, 2012. There is also a need to fill S. Butler's position on the Board effective March 1, 2012 for 1 year as she goes on Parental Leave. The email calling for nominations will be sent out the first week of November.

7. Pension Newsletter
M. Bélanger provided an overview of the topics included in the most recent Pension Newsletter.

8. Beutel, Goodman Review Update
M. Bélanger informed the board that after 2 years with Beutel, Goodman there are no issues and no changes to be made. Beutel, Goodman will be presenting to the board at 11:00 today.

9. Other Business
L. Koza updated the board with results from the latest collective agreement discussions. Effective July 1, 2012 the Librarians and Archivists will be enrolled in the Academic Pension Plan and relevant plan amendments will be coming forward to the boards for approval. Also, a recently ratified collective agreement with the Post Doctoral Associates is likely to result in amendments to the Pension Plan for Administrative Staff.

Motion to adjourn: M. Loveland
Seconded: C. Servos
Meeting adjourned: 10:36 a.m.

Beutel, Goodman & Company Ltd.
Investment Manager Review
2011-10-13

Louise Koza, Michelle Loveland, Krys Chelchowski, Bekki Ollson, Cara Bourdeau, James Stockford, Deirdre Chymyck and Martin Bélanger met with Peter Clarke (Managing Director) at Beutel, Goodman.

Organization

Peter Clarke gave an overview of the organization. There haven't any material organizational changes at Beutel, Goodman since our last review conducted in October 2010. The firm is still privately owned (51% by 38 employees and 49% by AMG Canada Corp.). Assets under management were $24.4 billion as of June 30, 2011. Despite the market decline, P. Clarke mentioned that assets as of September 30, 2011 would be approximately the same due to client gains. For the first six months of 2011 the firm gained 11 new clients for $269.9 million in assets and lost one client with $196.6 million in assets. The Canadian equity team is still lead by Mark Thomson and has five investment professionals in total.

Investment Process

P. Clarke went through the investment process. Their investment process hasn't changed and is still based on the concepts of preservation of capital, free cash flow generation and investing in companies with low valuations.

Capacity was discussed. Currently Beutel, Goodman manages about $7.5 to $8.0 billion in Canadian equities. They feel that they can easily manage up to 1% of the total value of the S&P/TSX or about $13 billion. In addition, because of their investment style, Beutel, Goodman tends to buy stocks when the market is selling. Finally, they performed some simulations with the assistance of an outside consultant and they found out that they can sell a $250 million account within five days.

Regarding environmental, social and governance (ESG) factors, P. Clarke mentioned that they don't apply any specific ESG screenings to the portfolio. However, they do manage money in a socially responsible mandate for a client that screens their portfolio and 88% of their selections end up in the portfolio. The main reason is that they closely look at the liability risk before making an investment. For example, they will assess the risk of investing in mining company with foreign assets, the risk of investing in a tobacco company.

Performance and Portfolio Positioning

Beutel, Goodman has underperformed by 0.02% over the third quarter of 2011 and by 1.64% for the first nine months of the year. However, they have underperformed by 2.33% annualized since inception of the mandate in August 2009.

Most of the value added during the first nine months of the year was due to an overweight in Telecom and an underweight in materials and information technology. Security selection has detracted value over the period. The top contributors to the portfolio were Telus, TD Bank and Rogers Communications. The top detractors to performance were Cameco, Talisman Energy and Manulife Financial.

Regarding the positioning of the portfolio, they are currently overweight in Consumer Staples, Financials and Consumer Discretionary and underweight in Materials, Energy and Utilities. The portfolio is fully invested with less than 2% in cash. They have taken advantage of the recent downturn to increase their exposure to cyclical by over 6%. In Financials, they have added to their exposure to insurers based on undue concerns over the impact of yield curve moves on capital levels and they maintain their large exposure to the banking sector. Most of the companies in the portfolio (95%) generate free cash flows. The dividend yield of the portfolio is currently at 3.1% compared to 2.4% for the S&P/TSX.

The fund has added the following companies to the portfolio in the past quarter: Canadian Natural Resources, Inmet Mining and Teck Resources. They have added to their existing positions in Agrium, Potash, Finning and Magna. They have reduced their position in Canadian oil Sands, AltaGas, Enbridge and IGM Financial.

Despite the poor returns of the past quarter, Beutel, Goodman's view is that the risk of another global liquidity freeze is mitigated by the fact that the banking system is better capitalized, corporations have high cash levels and strong balance sheets and the lack of systemic threats from key sectors such as housing. Easing monetary conditions are expected to be maintained and they don't believe that we're heading into a recession.

P. Clarke also discussed their small cap fund. For the mandate that Beutel, Goodman manages for the Operating & Endowment Fund they have a target allocation to Canadian equity small cap of around 10%. It is currently at 7%. The exposure to small cap has been beneficial to the Operating & Endowment Fund. However, P. Clarke believes that we're entering a period where large cap stocks will outperform small cap stocks.

Compliance

The portfolio is in compliance with the investment guidelines of the investment management agreement. The company is not facing material litigation. There were no material issues resulting from their latest regulatory review. The OSC has not done an onsite review since 2000. The firm hires Ernst & Young to do a compliance check on an annual basis. Beutel, Goodman is registered with the Securities and Exchange Commission (SEC). They haven't done an onsite review yet but the reporting that Beutel, Goodman has to do is significant. Beutel, Goodman 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.