

Review of Diversified Bond Fund

Goal: Optimize the Diversified Bond Fund by increasing its expected return and/or reducing its volatility.

Review items:

- Allocation between State Street Global Advisors and AllianceBernstein
- Review of foreign exposure
- Review of currency hedging policy
- Consider adding the following mandates:
 - Commercial mortgages
 - Real return bonds

Implementation

Tasks	Timeline
<ul style="list-style-type: none"> • Review goals and objectives • Review composition of Diversified Bond Fund • Review historical performance • Review preliminary Russell research 	October / November 2011
Review the addition of new asset classes: <ul style="list-style-type: none"> • Commercial mortgages • Real return bonds 	November 2011 / February 2012
Optimize asset mix: <ul style="list-style-type: none"> • Review currency hedging • Review foreign exposure 	March 2012
Manager search	April / May 2012
Fund approval	June 2012

Background:

The Diversified Bond Fund was launched in February 1978. Of the 15 investment options offered by the Western Retirement Plans, it has the second most assets. As at June, 2011 the fund had \$256 million in assets, or 23.0% of all assets of the Retirement plans. The fund was last modified in February 2007 when the global bond and the Canadian bond components that were separately managed by AllianceBernstein were merged into a single Canadian core plus strategy.

Asset Mix:

The Diversified Bond Fund is currently constructed as follows:

Investment Manager	% of the Fund	Manager Style
State Street Global Advisors	33%	Passive – Canadian core
AllianceBernstein Capital Management	67%	Active – Canadian core plus

Foreign Exposure:

- Non-Canadian content can be as high as 70%; there's no formal minimum

Foreign Currency Exposure:

- Up to 25% of the currency exposure can be unhedged

Active/Passive Management:

- 67% of the portfolio is actively managed and 33% is passively managed

Risk/Return Profile:**Annualized Returns (net of fees) as of August 31, 2011**

	1-Yr	2-Yr	3-Yr	4-Yr	5-Yr	10-Yr
Diversified Bond Fund	5.50%	8.37%	7.25%	6.76%	6.18%	5.76%
Benchmark	4.56%	6.12%	6.51%	6.53%	5.96%	5.79%
DEX Universe Bond Index	5.44%	6.51%	6.75%	6.93%	5.91%	6.36%
Value Added (benchmark)	0.95%	2.26%	0.74%	0.24%	0.22%	-0.03%
Value Added (DEX Universe)	0.06%	1.86%	0.51%	-0.16%	0.26%	-0.60%

Annualized Volatility as of August 31, 2011

	1-Yr	2-Yr	3-Yr	4-Yr	5-Yr	10-Yr
Diversified Bond Fund	2.80%	2.76%	5.00%	4.40%	4.10%	3.93%
Benchmark	2.78%	2.95%	3.55%	3.21%	3.14%	3.55%
DEX Universe Bond Index	2.99%	3.33%	3.88%	3.49%	3.39%	3.58%
Difference (benchmark)	0.02%	-0.20%	1.46%	1.19%	0.96%	0.39%
Difference (DEX Universe)	-0.19%	-0.57%	1.12%	0.91%	0.71%	0.36%