Joint Pension Board Meeting

February 4, 2013

9:00 AM

SSB4210

Alliance Bernstein Manager Review at 11:00 a.m.

State Street Global Advisors Manager Review at 1:00 p.m.

Present: Prof. Stephen Foerster, Ms. Louise Koza, Mr. Ab Birch, Ms. Krys Chelchowski, Ms. Michelle Loveland, Ms. Jane O'Brien

Management and Consultants: Mr. Martin Bélanger, Mr. Jeffrey Symons, Mr. James Stockford, Mr. Bruce Curwood, Russell Investments, Ms. Cara Bourdeau, Ms. Bekki Olson

Regrets: Ms. Shannon Butler, Ms. Lynn Logan, Ms. Cindy Servos, Mr. Jim Loupos, Prof. Craig Dunbar

1. Completion and adoption of the Agenda

2. Approval of the December 3 minutes

Motion: Ms. Louise Koza

Seconded: Ms. Michelle Loveland

All in Favour

3. KPMG Audit Planning Report - Exhibit 1

Mr. Jim Cassidy and Mr. Eric Mallory presented the KPMG Planning Report to the Joint Pension Board. The discussion touched on highlights in the report and differences noted compared to previous years. The Joint Pension Board asked questions around the material, and there was discussion regarding the audit fees for the blocker corporation. Fees for the audit in general have been moderately increased due to the added complexity and stand alone nature of the blocker corporation. The Joint Pension Board also requested comments from KPMG on whether the pension audit had sufficient independence from the broader audit of the University. Mr. Jim Cassidy responded by confirming that the normal practice for other organizations was to have the same firm audit both the pension and any other operations. Mr. Cassidy also confirmed that the two audits were completed by separate teams.

A motion was called for the Joint Pension Board to approve the KPMG Audit Planning Report, and the changes to estimated fees.

Motion: Ms. Louise Koza

Seconded: Mr. Ab Birch

All in Favour

4. Statement of Investment Policies and Procedures – Exhibits 2a & 2b

Mr. Jeffrey Symons presented updates for the Statement of Investment Policies and Procedures to the Joint Pension Board. There was discussion regarding language that was added to strengthen the formal review of passive mandates within the funds. During the review of the manager documents, several new managers were included for the first time. There were questions regarding the benchmarks and timeframes used to measure new managers. Mr. Martin Bélanger responded to this question by confirming that where a pooled fund was used, the manager document would reflect the internal target for each manager.

After requesting some changes to wording within the document, a motion was called to approve the Statement of Investment Policies and Procedures for The Academic Pension Board and for The Administrative Staff Pension Board. Wording changes to be circulated via email after the meeting.

Motion for the Academic Pension Board: Prof. Stephen Foerster

Seconded: Ms. Michelle Loveland

All in Favour

Motion for the Administrative Staff Pension Board: Mr. Ab Birch

Seconded: Ms. Louise Koza

All in Favour

5. Pension Statement Commentary & Assumptions – Exhibit 3

Mr. Martin Bélanger discussed updates to interest rate assumptions to be used on the current set of pension statements. Dates for the Annual Member Meetings have been set for 2013, and Ronald Lloyd of Romspen Investment Corporation has been selected as the guest speaker for this year. The Joint Pension Board discussed the relatively low attendance at Annual Member Meetings in previous years, and how attendance might be improved going forward.

6. Kilgour Williams Group Quarterly Report – Exhibit 4

Mr. Martin Bélanger reviewed the Exhibit with the Joint Pension Board. Currently the notes advised on by Kilgour Williams trade at a discount of approximately nine percent. During the latest one year period, the UWO Liquidating Trust returned a total of twenty-one percent. Mr. Bélanger commented that the fund had the highest one year return of any of the funds available within the Western program. Ms. Cara Bourdeau suggested that during the Annual Member Meetings, some information be added to put the return into context for members.

7. Alliance Bernstein Review Update – Exhibits 5 to 11

Mr. Martin Bélanger reviewed the Exhibits with the Joint Pension Board. Mr. Bélanger discussed the performance of the manager since 1997 and the effect of "value spread" on performance. In recent years Alliance Bernstein has seen net outflows from their mandate with other clients; however these outflows are not affecting the ability of the manager to adhere to their investment style. The Joint Pension Board noted that Western will be funding some of the changes to the Diversified Equity Fund from the Alliance Bernstein mandate, and asked whether market timing played a role in pulling assets from this manager. Mr. Bruce Curwood responded by saying that Alliance Bernstein had done very well in the previous quarter, and the while market timing is not an investment belief or practice for Western it was a good time to do a rebalancing of the portfolio.

8. State Street Global Advisors Review Update – Exhibits 7 to 16

Mr. Martin Bélanger presented the Exhibits to the Joint Pension Board. During the presentation Mr. Bélanger confirmed the returns quoted on Exhibit 12 are at December 31, 2012 not August 2010 which is noted in the material.

9. U.S. Low Volatility Equity Strategy – Exhibits 17 & 18

Mr. Marco Larocque and Mr. Emiliano Rabinovich of State Street Global Advisors joined the meeting. Mr. Larocque presented the Exhibits to the Joint Pension Board. During the presentation, the Joint Pension Board asked about portfolio characteristics and how the portfolio reduces volatility. The Joint Pension Board also asked about specific benchmarks for the fund. Mr. Larocque responded to these questions confirming the average capitalization within the portfolio was $35B USD, and that it was targeting a lower overall Beta than the index, with index-like returns. After the presentation, Mr. Larocque and Mr. Rabinovich left the meeting.

The Joint Pension Board asked what the explicit goal of the portfolio would be, and how the Joint Pension Board could measure whether that goal had been met. Mr. Bruce Curwood commented that the index return would be the long term target, but that additionally lower overall volatility and down side protection were important. The Joint Pension Board asked for comments regarding other firms that had been investigated. Mr. Martin Bélanger gave several options. BlackRock offered an exchange traded fund solution, and when funds under management were large enough could offer a segregated option. Hedging for BlackRock appeared to be relatively more expensive than the SSGA option. There were also several active managers in the same space; however they charged approximately 40 basis points in additional fees for active management. Mr. Bélanger stated his recommendation for SSGA was based on costs and lower risks. The Joint Pension Board asked about whether the fund was permitted to hold cash. Mr. Bélanger responded by saying the presentation stated the fund seeks to be fully invested, however SSGA could confirm the practice.

A motion was put forward to the Joint Pension Board to approve the implementation of a Low Volatility Strategy within the Diversified Equity Fund with State Street Global Advisors. 3

Motion: Ms. Louise Koza

Seconded: Mr. Ab Birch

All in Favour

10. Other Business

Motion to adjourn

Motion: Prof. Stephen Foerster

Seconded: Ms. Michelle Loveland

All in Favour

Meeting adjourned at 10:50 am

Investment Manager Reviews to follow the adjournment of the Joint Pension Board Meeting.

AllianceBernstein

Investment Manager Review

2013-02-04

Cara Bourdeau, Bekki Ollson, Louise Koza, Krys Chelchowsky, James Stockford, Jeffrey Symons, Michelle Loveland, Bruce Curwood and Martin Bélanger met with Chris Marx, Senior Portfolio Manager, Value Equities and Matt McCormick, Managing Director, Institutional Investments of AllianceBernstein. Erin Bigley, Senior Portfolio Manager, Fixed Income, joined by phone.

<u>Organization</u>

Matt McCormick gave an overview of the organization. There haven't been any material organizational changes at AllianceBernstein since our last review (conducted in February 2012). Assets under management are at $423 billion, up from $413 billion at the same time last year. The firm still manages about $15 billion in international and global value mandates and about $7.7 billion in total for Canadian investors. Cash outflows in the International Value strategy were about $2 billion in each of 2011 and 2012. However, the firm experienced positive cash flows during the fourth quarter of 2012, which was the first time since 2008. The firm has received $60 to $70 million in new assets in 2012.

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. There has been one change to the team, the addition of Stacey Rubin. She is based in New York.

Performance has been good in 2012 and in recent years. In 2012 the portfolio returned 7.05%, compared to 5.07% for its benchmark. Over the past three years, AllianceBernstein has added 2.08% over the benchmark, outpacing the target 100 bps of value added over full market cycles. There have been no changes in the yield curve shape in both Canada and the U.S. In the U.S. the yield curve is much steeper though. Their underweight position in Japan added value. There was a rally in European bonds in 2012. The fund’s underweight in Spain and Italy detracted.

The portfolio has added value from yield curve/country positioning, sector and security selection and currency management. Their overweight in high yield and corporate bonds added value. The portfolio is currently underweight the Eastern Canadian provinces and overweight British Columbia. The fund currently has a 2% exposure to high yield bonds. They have increased it throughout the year. They have increased the risk of the portfolio as uncertainty is dissipating. In terms of country exposure, they are currently overweight the U.S. and underweight duration in Canada. They are also overweight the U.K.

International Value Equities

Chris Marx reviewed the International Value Equity portfolio. There have been no changes in investment process. However, there has been a change in the portfolio manager structure. Kevin Simms and Henry D’Auria used to be co-CIOs for the strategy. Kevin Simms is now sole CIO on the strategy and Henry

D'Auria focuses on the emerging markets equity strategy. The portfolio's emerging markets equity exposure is based on Henry D'Auria's selections.

The portfolio has outperformed by 112 bps during the fourth quarter of 2012, although it still underperformed for the full year. C. Marx mentioned that they made some mistakes during the financial crisis of 2008-2009 but that since then, their underperformance is due to the fact that their investment style is out of favour. S. Foerster asked what did they learn during the financial crisis. C. Marx mentioned that the firm now tries to have a better understanding of what can go wrong and they focus their analysts' efforts on elements that the organization can control. C. Marx mentioned that they added to their position to BP PLC after there was more clarify following the oil spill.

The discussion moved to the concept of value spread. C. Marx explained that their portfolio typically outperformed when the value spread (the difference in valuation between the most expensive and the cheapest stocks) compresses. C. Marx showed a chart that illustrates that the spread has increased in recent years and remains high on a historical level. He also mentioned, following a question by S. Foerster, that if they underperformed during a period of value spread compression, they should be terminated.

Currently the portfolio is overweight Japan but underweight the yen. The portfolio has 106 holdings and the weighted average market capitalization of the portfolio is $51 billion. The exposure to emerging markets is currently 7.5%.

The discussion then shifted to environmental, social and governance (ESG) factors. M. McCormick mentioned that AllianceBernstein is a signatory of the United Nations Principles for Responsible Investing. He mentioned that there has been an evolution regarding ESG factors. The investment industry has moved form an exclusionary framework to integrating ESG factors into the investment process. Reviewing ESG factors is now part of AllianceBernstein's process.

<u>Compliance</u>

The portfolios are in compliance with the investment guidelines. AllianceBernstein is not facing material litigation. Their last regulatory audit with the SEC was about one and a half year ago and there were no major concerns. 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.

State Street Global Advisors

Investment Manager Review

2013-02-04

Cara Bourdeau, James Stockford, Jeffrey Symons and Martin Bélanger met with Louis Basque, Marco Larocque and Emiliano Rabinovich of State Street Global Advisors (SSgA).

Organization

Marco Larocque gave an overview of the organization. As of December 31, 2012, SSgA has CAD 2.1 trillion in assets under management, including about $12 billion in Canadian fixed income. Of the $12 billion in Canadian fixed income assets, $2.95 billion are passively managed.

Fixed Income Portfolios Review

Louis Basque provided a review of the fixed income portfolios, starting with the Money Market Fund. The Money Market Fund has 27 day duration, much shorter than the benchmark duration of 91 days. The fund's largest exposure is to senior bank floating-rate notes. A security must have a minimum credit rating of R1-Low and be on SSgA's approved list in order to be added to the portfolio. Western has $62.3 million invested in the fund. In 2012, the fund had a 1.13% return, compared to a benchmark return of 1.01%. The fund has a target value added of 0.15% over a four-year horizon, which has been met.

The Canadian Bond Fund was reviewed next. The portfolio characteristics were in line with the benchmark. Western has $142.1 million invested in the fund at the end of 2012. The fund's tracking error in 2012 was 0.01%, well within the guidelines of 0.10%.

The Long-Term Bond Fund was reviewed next. The portfolio characteristics were in line with the benchmark. L. Basque mentioned that there's less sampling with the longer bonds in the portfolio during to their greater interest rate sensitivity. There was $33.9 million in assets in the fund at the end of 2012 and the tracking error was 0.02% in 2012, well within the guidelines of 0.10%.

C. Bourdeau asked why has the duration of Long-Term Bond Fund increased in recent years. L. Basque answered that it is due to a combination of factors: 1) bond yields are lower, 2) some issuers have increased the duration of their bonds and 3) bonds issued by public-private partnerships in the infrastructure sector typically have longer duration.

The Target-Date Funds were reviewed next. The benchmark for these funds is a Government of Canada Bond maturing at the same time as the funds. The funds' durations are all within 5% of their maturity date, as per the guidelines. There were $57.9 million in the three Target-Date Funds at the end of 2012. Returns are in line with expectations.

L. Basque also reviewed the two Immunized Bond Funds used to invest the assets backing the liabilities of the Academic Staff Pension Plan and the Administrative Staff Pension Plan. There is $5.7 million in total in those funds. The Academic Staff Pension Plan Fund had a return of 5.38% since inception in July 2010 and the Administrative Staff Pension Plan Fund had a return of 5.42% since inception in October 2006.

<u>Equity Portfolios Review</u>

Emiliano Rabinovich provided an overview of SSgA's Global Equity Beta Solutions. SSgA uses a full replication approach to manage Western's equity index funds. The tracking error for the S&P 500 Hedged strategy was 0.25% for the portion managed in the Diversified Equity Fund and 0.29% for the portion managed as part of the U.S. Equity Hedged Fund. This is above the 0.10% target provided in the investment guidelines. The main reason is due to the impact of market volatility on currency hedging. By comparison, the S&P 500 Unhedged strategy had a tracking error of 0% in 2012. One way to reduce the tracking error related to currency hedging would be to transfer the management of these equity funds from Boston to Montréal, where the currency hedging could be incorporated in the portfolio, which would reduce the lag to re-invest the profits or losses coming from currency hedging. The S&P Midcap 400 strategy had a 0.29% tracking error in 2012, which was also above the 0.10% target.

Environmental, social and government (ESG) factors were discussed next. SSgA mentioned that they have an ESG department, but that because of their passive nature, no ESG process is applied to the Western portfolios.

Compliance

The portfolios are in compliance with the investment guidelines. SSgA is not facing material litigation and there are no issues to disclose following recent regulatory reviews. SSgA 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.