

Joint Pension Board Meeting

October 5, 2012

8:15 AM

SSB4220

Present: Prof. Stephen Foerster, Ms. Louise Koza, Mr. Ab Birch, Ms. Lynn Logan, Ms. Krys Chelchowski, Ms. Cindy Servos, Mr. Jim Loupos, Prof. Craig Dunbar, Ms. Michelle Loveland

Management and Consultants: Mr. Martin Bélanger, Mr. Jeffrey Symons, Mr. James Stockford, Mr. Bruce Curwood, Russell Investments via dial in, Ms. Jennifer Schroeder, Ms. Michele Parkin

Regrets: Ms. Shannon Butler, Ms. Jane O'Brien, UWOFA scheduled representation

1. Completion and adoption of the Agenda

2. Approval of the June 7 minutes

Motion: Ms. Louise Koza

Seconded: Mr. Jim Loupos

All in Favour

3. Approval of the June 25 minutes

Motion: Ms. Cindy Servos

Seconded: Mr. Stephen Foerster

All in Favour

4. Second Quarter Performance Review – Exhibit 1

Mr. Bruce Curwood presented the Exhibit to the Joint Pension Board, including individual manager performances and Russell's analysis of the results. Mr. Martin Bélanger illustrated for the group the tracking error which has persisted on the SSGA US equity funds, due to the currency hedging. Mr. Jeffrey Symons gave the group his perspective on what was involved in moving the US equity funds from a US based custody arrangement with a currency hedging overlay, to a Canadian custody position where the currency hedging was included in the activities of the fund. The plans would have to pay for the

transition, and discussions with the asset manager were ongoing for reducing these costs. A Joint Pension Board member asked about the performance of Alliance Bernstein for international assets, and what plan may be in place to improve the return on this fund. Mr. Bélanger stated that the manager is a value style manager and currently value is out of favour. Mr. Bélanger commented that the manager was adhering to the discipline of their mandate, and that making a change now would not be recommended.

5. Board Vice-Chair Election – Exhibit 2

The Joint Pension Board passed a motion on September 19, 2011 that the Vice Chair of the Joint Pension Board shall be the member of the opposite Board to the Board chair who is in their third year of their term (2nd last year of term).

According to the terms of this motion, Ms. Michelle Loveland is named as Vice Chair of the Joint Pension Board.

In addition, according to the September 19, 2011 motion the Chairs of the Academic and Administrative Staff Plans shall be decided by those individual Boards.

At this time Ms. Krys Chelchowski was elected as Administrative Staff Board Chair with all eligible members present voting in favour.

At this time Prof. Craig Dunbar was elected as Academic Board Chair with all eligible members present voting in favour.

6. Joint Pension Board Retreat Summary – Exhibits 3 & 4

Mr. Bélanger commented on the feedback received from the Joint Pension Board Retreat, including how useful some of the presentations were. The feedback indicated that the presentation by legal counsel for UWOFA (Mr. Darrell Brown) was well received and informative, however some other parts such as learning about commodities were not rated as highly. Mr. Bélanger reflected on the parts of the UWOFA presentation that illustrated the need to focus on communication with members, improved reporting of investment portfolio details, and governance. There was discussion within the group that these areas could always be improved upon, whenever the Joint Pension Board or management could identify opportunities to do so. Ms. Koza in her capacity as Director, Total Compensation, reflected on the table discussions that formed part of her presentation at the retreat. She contrasted the table discussions with survey results of about 100 pension plan members regarding pension statement and other information which Human Resources had recently conducted. In particular the members are seeing value in the projected retirement income and replacement ratios. The feedback from the member survey and the retreat discussions is being used to help form a revised education program for the plan members. Within that program, Ms. Koza asked the Joint Pension Board for their perspective on the role of the existing Pension consultants on staff in Human Resources. Specifically whether members should receive information and education only on their pension plan, or should they be providing a more comprehensive of how the retirement planning strategy fits within the family's financial plan?

In considering the question, the members of the Joint Pension Board asked a number of questions. There was discussion around liability for the University in expanding the information and tools provided. Could waivers be developed that protect the University? Can we outsource financial planning? Can we hire a firm on retainer? Mr. Bélanger advised that any external provider would need to be monitored and approved by the Joint Pension Board in accordance with CAP guidelines. Professor Foerster suggested that if we consider an outsourced solution, there are some organizations (e.g. Institute of Advanced Financial Planners) which pre-approve membership that may be a good resource. The general consensus was that the board does not recommend developing and delivering these comprehensive services using the University internal resources. Mr. Curwood suggested that he could provide the names of trade organizations within the financial industry that the Joint Pension Board could use to create a list of approved advisors if that was determined to be the best course of action. These organizations could help screen advisors according to internal codes of conduct, background and educational requirements.

The Joint Pension Board agreed to set the issue aside until a list of trade organizations could be provided.

7. 2012-2013 Joint Pension Board Deliverables – Exhibit 5

Mr Bélanger reviewed the exhibit with the Joint Pension Board. As part of the plan, improved reporting to members was suggested as a priority. This initiative is to address the investment disclosure issue raised in the UWOFA legal counsel presentation at the retreat. Mr. Bélanger pointed out that implementing continuous disclosure and complete portfolio details is likely unachievable given our current structure with external pooled funds. To restructure portfolios to eliminate external pools and provide daily valuations would be very costly and resource intensive. The additional investment management costs to members would likely exceed 70 bps per annum. Mr. Bélanger asked for guidance from the Joint Pension Board, and received support for making recommendations for improvements, where practical and cost effective, and adding this item to the worklist.

The Board discussed the lines of communication with Human Resource Department, The Board of Governors and the Joint Pension Boards, reflecting on comments and recommendations made by UWOFA legal counsel during the retreat. Members of both boards voiced strong opinions that they were not too passive in investment manager monitoring as suggested, but improvements can be made in the documentation and reporting of significant compliance work completed by HRD on an on-going basis (e.g. production and distribution of member statements in accordance with statute). A project to review enhancement reporting was added to the deliverables.

The board discussed the UWOFA recommendation for a comprehensive agency review policy. Some issues were raised regarding frequent requests for proposal, where a movement between providers comes at a high cost such as custodial or recordkeeping firms. Management highlighted some of the measures, such as performance standards agreements and regular service calls, being used to ensure maximum value from our vendors. An updated agency review policy was added to the deliverables for the year.

The Joint Pension Board also discussed other issues raised by UWOFA, such as the transparency of relationships, audit independence, and the trust structure in general. The Joint Pension Board indicated they were satisfied with these arrangements but that recommendations to the board in these areas could be prepared if resources did not have to be taken from other areas to do so.

Discussion then turned to the Investment Personality Questionnaire (IPQ) and proposed GAP statements for members. Mr. Bélanger mentioned that both were important tools to show progress against individual goals to members.

Low enrollment in the plans for part time members was discussed as an important issue. Options for increasing interest in the plans for these employees were brought forth for discussion including automatic enrollment, increasing awareness, and the role of the plans in collective bargaining.

8. 2012-2013 Preliminary Work Plan – Exhibit 6

Mr. Bélanger discussed components of the plan including Investing, Communications, and Administration. During the discussion Investment Management Reviews, Member Support and Governance Issues were highlighted. Mr. Bélanger asked for feedback from the Joint Pension Board, and the group agreed that the work plan should be driven by member need.

Mr. Bélanger asked the Joint Pension Board to forward any comments or questions on the work plan to him.

9. Update on Joint Pension Board Priorities “Reviewing the Diversified Equity Fund” – Exhibits 7 & 8

Mr. Bélanger presented the exhibits to the Joint Pension Board. He reiterated the goal of the review and the strategy to be used to reach the goal. He then reviewed the items that the Joint Pension Board will have to make a decision on regarding the review of the Diversified Equity Fund. They include: selecting investment strategies, the asset mix, the currency hedging strategy, the small cap vs large cap decision and the Canadian equity component of the portfolio.

Mr. Bélanger provided pros and cons for the four strategies still under consideration: global small cap equities, emerging markets equities, low volatility equity and commodities. Members were generally uncomfortable with adding commodities to the portfolio, but generally had a positive view on global small cap equities, emerging markets equities and low volatility equity. However, some members expressed some reservation about the timing of investing in small cap equities, the timing of investing in emerging markets equities and the fact that the Diversified Equity Fund already has an exposure of about 5% to emerging markets equities. Regarding low volatility equity, members were in favour, but with a moderate initial investment, given the short history of the strategy.

When asked for comments, members asked what strategy would be used for an eventual implementation. Mr. Bélanger responded by saying a manager for any chosen strategy would come through a “request for proposal” and assets would be carved out of existing mandates.

Mr. Bélanger shared a comparison of the Western Plans with similar plans at UBC. A discussion of similarities and differences followed, including questions around timing and the size of any changes.

Mr. Bélanger asked the Joint Pension Board to consider the review and give him any further comments prior to the next meeting.

10. Kilgour Advisory Group Quarterly Report – Exhibit 9

Mr. Bélanger reviewed the exhibit, stating that prices for the ABCP assets had risen 16% this year. A successful vote was held a few months ago on an optional redemption process that should support pricing going forward.

11. Aberdeen Investment Monitoring Report – Exhibit 10

Mr. Bélanger stated that there had been no change in the rating received by the firm, and that no significant changes to staffing were reported. Mr. Bélanger stated that the firm had successfully taken over direct investment management for the Socially Responsible Investment (SRI) fund offered by the Western Plans (previously brokered through MacKenzie Financial).

12. Other Business

Motion to adjourn

Motion: Ms. Lynn Logan

Seconded: Ms. Michelle Loveland

All in Favour

Meeting adjourned at 11:40 am