

CC&L Investment Management
Investment Manager Review
March 31, 2009

EXECUTIVE SUMMARY

- On March 31, 2009 Martin Bélanger met with the following CC&L Investment professionals from 9:00 a.m. to 12:30 p.m. at their Vancouver office:
 - Q-core team: Martin Gerber and Dion Roseman
 - Client Servicing: Phil Cotterill
 - Compliance: Kathleen Leavens
 - Trading: Don Towers, Head Trader, Nancy Kwok and Joanne Carnell
- Ranked “Hire” by Russell
- CC&L assets under management have declined from \$23.3 billion to \$17.4 in 2008, mostly due to the market downturn; CC&L gained 9 clients and lost 2 in 2008
- There have been no changes to CC&L ownership structure, although there are three new partners; the firm currently has 22 partners
- CC&L outperformed its benchmark by 1.4% in 2008, the only Canadian equity manager on our plans to outperform last year
 - Most of the outperformance was due to stock selection and was concentrated in the fourth quarter (value added of 1.5% in Q4)
 - Good stock selection in the energy producer, metals and technology sectors contributed to most of the outperformance
 - Relatively poor selection in the consumer discretionary, communication and banking sectors slightly subtracted value
- Since our last review, Bill Tilford has left the firm; he was replaced as portfolio manager by Dion Roseman and Chris Archbold; the transition seemed to go fairly smoothly, in part due to the quality process and systems in place
- The Q-core team has added some more depth and now has 20 members with the addition of a research analyst and a data analyst
- Their investment process has not materially changed in recent years, but they keep improving it and they have an extensive research agenda
- They have adequate risk controls in place as their model features an integrated proprietary risk management system and risk metrics are reviewed on a weekly basis by a Risk Management Committee comprised of senior management
- Their model doesn’t include environmental, social or governance factors but they give a lot of attention to proxy voting
- No issue with capacity on our strategy at this point; they currently have \$3.4 billion under management in Canadian quantitative strategies
- CC&L doesn’t have any compliance issues; their fund is in compliance with the investment manager mandate, CC&L Statement of Investment Policies and Procedures and the pension and tax legislation; they’re not currently facing any litigation and they have an adequate code of ethics

RECOMMENDATION

- CC&L was the best performing Canadian equity manager on the Western Plans in 2008
- Despite the departure of a senior investment professional in 2008 (Bill Tilford), CC&L has significant depth in its quantitative team and their research capability are above average for Canadian quantitative manager
- Given Russell's "Hire" recommendation, the overall quality of the firm, the discipline of their investment process, the quality of their research and relatively good recent investment performance, I don't recommend making any changes to our relationship with CC&L Investment.

ORGANIZATION

- \$17.4 billion in assets under management as of December 31, 2008, including \$1.9 billion in their Canadian Q-Core product (UWO's mandate)
- Assets are down from \$23.3 billion as of December 31, 2007
- Most of the decline is due to the market downturn; CC&L gained 9 new clients (for \$710 million in new assets) in 2008 and lost 2 (for \$790 million)
- UWO had \$41.6 million with CC&L as of December 31, 2008 (\$40.5 million as of February 28, 2009)
- No major changes to the management of the firm as a result of the decline in assets; CC&L mentioned that hiring is easier with the market downturn
- No changes in the ownership structure although the firm has three new partners: Johanne Bouchard, Simon McNair and David George
- The number of CC&L employees who are shareholders of the firm has increased to 22
- CC&L launched an active currency management product in 2008
- CC&L implemented a major upgrade of their portfolio management system

CANADIAN EQUITY MANDATE

	Periods Ending December 31, 2008				
	Q4 2008	One Year	Two Years	Three Years	Four Years
CC&L Q-Core	-21.2%	-31.6%	-13.4%	-4.6%	1.9%
S&P/TSX	-22.7%	-33.0%	-14.2%	-4.8%	1.7%
Value Added	1.5%	1.4%	0.8%	0.2%	0.2%

- The fund has 145 names (as of December 31, 2008)
- Their investable universe is comprised of any Canadian company with a market capitalization greater than \$150 million. Stocks must also satisfy certain minimum requirements in terms of daily volume traded, length of trading on the TSX index, and earnings reporting history.

- The fund outperformed by 1.4% in 2008
 - Most of the outperformance was due to stock selection and was concentrated in the fourth quarter (value added of 1.5% in Q4)
 - Good stock selection in the energy producer, metals and technology sectors contributed to most of the outperformance
 - Relatively poor selection in the consumer discretionary, communication and banking sectors slightly subtracted value
- Positive contributors to the performance of the portfolio in 2008 include:
 - Teck Cominco (underweight)
 - Enbridge (overweight)
 - Fairfax Financial Holdings (overweight)
- Negative contributors to the performance of the portfolio in 2008 include:
 - CIBC (underweight)
 - Rogers Communications (underweight)
 - Thomson Reuters Corporation (underweight)
- The size of an active position is a tradeoff between the following considerations:
 - Expected return (security specific plus industry return forecast)
 - Risk (proprietary risk forecasts and daily estimates)
 - Transactions costs (commissions and fixed charges; proprietary market impact model)
- Portfolio turnover was about 180% in 2008
- Additions to the portfolio in 2008 include Shoppers Drug Mart, Penn West Energy Trust, Loblaw, Crescent Point Energy Trust
- Stocks that were removed from the portfolio in 2008 include Thomson Reuters Corporation, Canfor Pulp Income Fund, Bell Alliant and Northgate Minerals

Investment Personnel

- Since the last review, Bill Tilford has left the firm and he was replaced as portfolio manager by Dion Roseman, with Chris Archbold as his back-up and they have also hired one research analyst (Jenny Chen) and one data analyst (Kyle Ingham)
- Since the portfolio is quantitatively managed, Bill Tilford's departure is not as crucial as it would have been for a fundamental strategy; the quality process and systems infrastructure in place allowed for a smooth transition from Bill to Dion and Chris
- Current personnel for the strategy:
 - Martin Gerber is the team leader for the strategy
 - Dion Roseman and Chris Archbold are the portfolio managers
 - Steven Huang and Tate Higgins are in charge of research
 - The team is supported by 3 traders, 4 systems analysts, 4 research analysts and 4 data analysts

Investment Process

- Process hasn't changed: bottom-up core
- The firm ensures that the portfolio has better-than-market value, momentum and quality characteristics, while constraining the portfolio to have market-like risk characteristics (profitability, financial strength and stability)

- Value characteristics include price-to-earnings and price-to-cash flow ratios; Momentum characteristics include earnings and revenue growth, relative strength, investor sentiment changes; Quality characteristics assess how conservatively a company reports its earnings; Profitability characteristics include return on equity and return on assets; Financial Strength characteristics include debt/cash flow ratio; Stability characteristics include EPS and price volatility
- In the coming months CC&L will expand the number of industries it breaks the Canadian market into and will remove the income trust classification; their model will have a total of 36 industries
- Environmental, Social and Governance Factors:
 - Their model doesn't include any specific environmental, social, and governance factors
 - However they give a lot of attention to proxy voting
 - They feel that their model assesses the economic benefits of socially responsible investing

Risk Controls

- They have a proprietary risk management system that is integrated into their model
- Portfolio risk is reviewed by the Risk Management Committee; the Committee is comprised of Gary Baker (Head of Fundamental Equities), Martin Gerber (Head of Quantitative Equities), Brian Eby (Head of Fixed Income), Kathy Leavens (Compliance Officer) and Larry Lunn (Chief Investment Officer); Larry Lunn is the Chair of the Committee
- Sector weights are allowed to deviate from the benchmark weights by 1.5% to 2%
- No securities lending
- No derivatives used in the management of the portfolio

Research Agenda

- Martin Gerber reviewed the research agenda
- Research initiatives can be classified into 3 categories: forecast improvements, portfolio construction and trading strategies
- In 2008, forecast improvements initiatives focused on:
 - Reviewing momentum factors – Is momentum stock specific or common to other stocks?
 - Reclassification of income trusts into industry groups
 - Global industry insights
 - Industry reclassification in Canada
- In 2008, portfolio construction initiatives focused on:
 - Expanding the horizon for transaction cost forecasts
 - Multi-period optimization
- In 2008, trading strategies initiatives focused on:
 - Liquidity opportunities
- For 2009, forecast improvements initiatives they are working on include:
 - Proprietary industry reclassification in the U.S.
 - Enhance their forecast correlations – how are companies with similar characteristics correlated?

- Review of the value factors
- Beta forecasting
- For 2009, portfolio construction initiatives they are working on include:
 - Time horizon of forecasts – how long will characteristics stick around?
 - Dynamic risk budgeting
 - Practical application of multi-period optimization
- For 2009, trading strategies initiatives they are working on include:
 - Short-term insights for trading

Capacity

- Capacity is not an issue now; they currently have about \$1.9 billion in their Canadian Q-Core strategy and about \$3.4 billion in all their Canadian quantitative strategies.

Market Overview

CC&L expects that the global recession will be one of the worst since the Great depression but that it won't turn into a depression. They expect Canada to fare relatively well due to its better fiscal position both at the consumer and government level. The amount of de-leveraging needed to restore balance sheets to more reasonable levels is fairly large, but so are Government efforts to fight the problem. Some encouraging signs that their effort is bearing fruit include narrowing corporate spreads on high quality paper and inter-bank lending picking up. Equity markets are showing encouraging signs with their recent rebound and volatility decline.

Trading

- CC&L has three full time dedicated traders
- They have increased the amount of trading they do in dark pool and the amount of trading they do without using an investment dealer
- I met with the three traders (Don Towers, Head Trader, Nancy Kwok and Joanne Carnell) and we reviewed how they handle trade requests from the portfolio managers and how they evaluate brokers/dealers to implement trades
- Overall they have adequate trading systems and people in place to provide efficient trading

COMPLIANCE

- Kathleen Leavens, Compliance Officer, answered questions about compliance.
- CC&L is in compliance with:
 - Investment manager mandate
 - CC&L Statement of Investment Policies and Procedures
 - Pension Benefits Act
 - Income Tax Act and qualified investments
 - Suppression of Terrorism
- PricewaterhouseCoopers is their auditor
- CC&L or its employees are not facing major or minor litigation
- Their last regulatory review was done by the British Columbia Securities Commission in 2007; only minor issues, related to marketing material, were raised
- Employees have to comply annually with a Code of Ethics

- Personal trading rules apply to all employees and pre-trade clearance is required
- They use soft dollars; their policy is compliant with CFA guidelines and securities regulations
- They conduct a Section 5970 operations and controls audit every two years
 - The audit reviews all controls in place
 - The audit is conducted by PWC

THE UNIVERSITY OF WESTERN ONTARIO RETIREMENT PLANS
CC&L Investment Management
Meeting Agenda

Date: March 31, 2009

Meeting time: 9:00 AM to 1:00 PM

Location: 2200 – 1111 West Georgia Street, Vancouver, BC

UWO Attendees:

Martin Bélanger, Associate Director, Retirement Plans

ORGANIZATION:

- Introduction – relationship review
- Discuss any meaningful change to your corporate structure since the last review
- Review changes in assets under management
- Discuss clients gained and lost
- Overview of new products
- Briefly discuss your business continuity plan

INVESTMENT PERSONNEL:

- Introduction to key personnel on our mandate
- Discuss personnel turnover for our mandate

REVIEW OF UWO PORTFOLIOS:

- Performance overview
- Attribution analysis
- Portfolio characteristics
- Overview of investment process and changes to investment philosophy, if any; please provide examples of stocks added that meet your investment criteria
- Buys/Sells for the year
- Detractors/contributors to performance
- Top 10 holdings
- Describe how you measure and control portfolio investment risk
- Report how you integrate environmental, social and governance factors in your investment process and the impact on your portfolio and investment strategy.

RESEARCH:

- Review of models and systems
- Portfolio construction
- Overview of research agenda

TRADING:

- How do you monitor the quality of execution?
- Discuss total trading costs (how are they measured and monitored?)
- Discuss broker/dealer selection

- Overview of trading systems

COMPLIANCE:

- Confirm that all investments managed by CC&L Investment Management on behalf of UWO are in compliance with the terms and conditions of the Investment Manager Mandate, the Managed Account Agreement and in compliance with all applicable laws
- Describe any material litigation to which your firm, key personnel or the funds have been party over the past year
- Describe any material issue raised as a result of recent regulatory reviews
- Confirm that your key investment personnel complies with an appropriate code of ethics

OTHER:

- Economic and market outlook
- Office tour