UWO Retirement Plans

Restructuring Plan Proposal for Non - Bank Asset Back Commercial Paper Update

April 2009

TABLE OF CONTENTS

EXECUTIVE SUMMARY **1**

ASSET FOCUS **2**

ASSET BREAKDOWN *3*
IMPACT OF ASSET-BACKED COMMERCIAL PAPER (ABCP) *3*
CURRENCY MANAGEMENT *4*

MOTIVATION FOR PROPOSAL **4**

CURRENT STATUS OF THE NON-BANK ABCP MARKET **4**

OVERVIEW OF MEMBERSHIP WITH ABCP **5**

RESTRUCTURING PROPOSALS **6**

REVISED PROPOSAL #1-A) - CARVE OUT THE RNS FOR ALL 5 RESTRICTED FUNDS *7*
REVISED PROPOSAL #1-B) CARVE OUT THE RNS FOR THE REGIONAL FUNDS *7*
REVISED *8*
PROPOSAL #2 - RETAIN THE RNS WITHIN THEIR RESPECTIVE PORTFOLIO AND MARK-TO-MARKET THE RNS *8*
RECOMMENDED APPROACH *9*
IMPLEMENTATION ISSUES *10*
a) Expert Opinion on Liquidity *10*
b) Transferring Non-Bank ABCP to the Liquidating Trust *10*
c) Selling Out of the Liquidating Trust *11*
d) Communications *11*
e) Ensuring that Northwater remains the best option for the management of the RNs *11*
JOINT PENSION BOARD PRINCIPLES *11*
RECOMMENDATION: *12*

APPENDIX A **13**

PROPOSAL #1: STAY WITH NORTHWATER *13*
PROPOSAL #2: MOVE OUT OF NORTHWATER FUNDS AND NO EQUITIZATION OF THE RESTRUCTURED NOTES (RNS) *13*
a) Keep the RNs within the UWO funds *13*
PROPOSAL #3: MOVE OUT OF NORTHWATER AND EQUITIZE THE RNS (OPTION APPROVED IN NOVEMBER 2008) *14*
a) Equitization done by Northwater *14*
b) Equitization done by Another Manager *15*

APPENDIX B **16**

MANAGER DESCRIPTION *16*
ADMINISTRATIVE CONSTRAINTS AND PREFERENCES *16*
SIZE OF ALLOCATIONS *16*
QUALIFIED INVESTMENT FOR RIFS *16*
CURRENCY HEDGING *17*
FEES *17*

Executive Summary

The Joint Pension Board began considering restructuring the Diversified Equity Fund at the 2007 Joint Pension Board Retreat. Due to the larger tracking error inherent to a synthetic indexing strategy, the Joint Pension Board decided to conduct a search to find a replacement on the retirement plans' passive U.S. equity mandates.

In November 2008, after a review of the responses to the Request For Proposal and the associated due diligence the Joint Pension Board approved appointing State Street Global Advisors ("SSgA") as manager of 3 mandates: U.S. Equity Hedged, U.S. Equity Unhedged and U.S. MidCap Hedged. At the same time, the Joint Pension Board considered how to respond to the anticipated closing of the CCAA restructuring plan for the non-bank asset backed commercial paper ("ABCP").

In November 2008 it was unknown when the CCAA re-structuring plan would close and when the exchange of ABCP for restructured notes ("RNs") would occur. Another unknown factor was whether there would develop, in a relatively short time horizon, a liquid market for the RNs. The situation was made more difficult by the worsening global economic crisis and extremely difficult credit markets. Nonetheless, recognizing that it was necessary to consider how to respond to the anticipated closing of the CCAA plan, the Joint Pension Board approved a recommendation to retain Northwater Capital Management ("Northwater") to manage the RNs and to equitize these notes in a segregated account. A key motivation for this recommendation was the prospect that equitizing the RNs would maintain equity exposure in anticipating of the development of a liquid market in the relatively near future to enable redemption restrictions, which had been in effect since September 2007, to be lifted.

The purpose of this proposal ("the Proposal") is to detail the implementation of the new passive US equity manager, State Street Global Advisors, and to recommend a revised approach for the handling of the RNs in light of new information. In particular, a better understanding of the nature of the market for the RNs and the continued to recognition that it is in the interest of members and the University to have the restriction redemptions removed from the affected funds in the relatively near future.

The total asset transfer of the passively managed US equity funds is estimated as follows:

State Street	**Assets (as at Feb 27/09)**
U.S. Equity Hedged	$46.2 million
U.S. Equity Unhedged	$5.7 million
U.S. MidCap Hedged	$5.5 million
Total SSgA	**$57.4 million**
Northwater	
Restructured notes	$17.6 million (based on most recent valuation)
Total Northwater	**$17.6 million**
TOTAL ASSETS	**$75.0 million**

The reasons for selecting SSgA have been documented in the November 2008 recommendation. However, the fund transfer was not completed in December 2008 because of the delays in the closing of the CCAA plan for the ABCP. The funding to SSgA is now expected to be completed in two steps: April 16, 2009 for the "B" funds, those without exposure to ABCP and later in the year for the remainder of the assets.

Based on the current market conditions and the operational issues raised with the prior decision to equitize the RNs with Northwater we are recommending a new approach for the RNs:

1) Move the U.S. equity assets managed by Northwater to State Street Global Advisors in two phases with the B Funds moving in April 2009 and the old funds moving once there was been a resolution on the approach for the ABCP/RNs.
2) Carve out the RNs representing the non-bank ABCP from the five restricted funds and transfer the RNs to the Liquidating Trust, resulting in 5878 members holding units in the Liquidating Trust;
3) Merge the B funds with the old ones; and
4) Remove redemption restrictions on the affected funds, with the exception of the Liquidating Trust

This approach raises significant implementation issues that will need to be dealt with in order to finalize this plan. These issues will need to be thoroughly explored before the Joint Pension Board ("JPB") can make a final decision to implement this proposal. Implementation issues identified include:

1) Obtaining a third party report to confirm the assessment of the liquidity prospects for the RNs,
2) Amendments to the plans,
3) A consultation and notice period with stakeholders, and
4) A review of the terms and management of the Liquidating Trust

Asset Focus

The Proposal still involves reallocating the passively managed U.S. equity assets of the Diversified Equity Fund and of the Tier 3 U.S. equity funds, currently managed with synthetic index strategies, to strategies investing in physical assets. The reallocation allows us to minimize the risk exposure to Northwater and will impact the following funds:

- Tier 3 U.S. Equity Unhedged Fund and U.S. Equity Unhedged Fund B
- Tier 3 U.S. Equity Hedged Fund and U.S. Equity Hedged Fund B
- Tier 2 Diversified Equity Fund and Diversified Equity Fund B (three segments of the fund will be impacted: U.S. Equity Hedged, U.S. Equity Unhedged and U.S. MidCap Hedged)
- Tier 1 Balanced Growth Fund, Balanced Growth Fund B, Balanced Income Fund and Balanced Income Fund B (through the reallocation of the Diversified Equity Fund and the Diversified Equity Fund B)

Asset Breakdown

Total assets to be reallocated to SSgA and Northwater in two phases total approximately to $75.0 million for the Retirement Plans as of February 27, 2009. The Endowment Fund has invested an additional $60 million, which will be taken into account when calculating investment management fees.

Asset Breakdown

Fund	Assets
Diversified Equity Fund	
U.S. Large Cap Hedged	$45,700,000
U.S. Large Cap Unhedged	$0
U.S. Mid Cap Hedged	$6,300,000
Diversified Equity Fund B	
U.S. Large Cap Hedged	$7,600,000
U.S. Large Cap Unhedged	$0
U.S. Mid Cap Hedged	$800,000
U.S. Large Cap Hedged	$6,600,000
U.S. Large Cap Hedged B	$2,100,000
U.S. Large Cap Unhedged	$4,300,000
U.S. Large Cap Unhedged B	$1,600,000
Total Assets	**$75,000,000**

Asset Breakdown Per Strategy

Strategy	Assets
U.S. Large Cap Hedged	$61,900,000
U.S. Large Cap Unhedged	$6,000,000
U.S. Mid Cap Hedged	$7,100,000
Total Assets	**$75,000,000**

Impact of Asset-Backed Commercial Paper (ABCP)

A portion of the assets managed by Northwater is currently exposed to ABCP. The ABCP was exchanged for RNs in January 2009. In November 2008 the JPB had decided to proceed with a plan to equitize the RNs, once they were received in exchange for the ABCP. The RNs would be held in a segregated account with Northwater, who would be retained only for the management of that account.

This decision was made prior to the closing of the CCAA re-structuring plan and was contingent on there being a liquid market for the RN's in relatively short time. As such, it was implied that the decision to proceed to implement equitization would have to wait until the CCAA plan was completed and would be conditional on a re-assessment of market conditions to ensure that market conditions existed at the relevant time that made the equitization on appropriate approach for handling the RNs.

The main goal of the restructuring of the ABCP for the JPB continues to be the removal of redemption restrictions and the fair and equal treatment of the members in accordance with the principles of the JPB. At this point, there is no substantive market for these notes and given that there is no real prospect for a liquid market for the RNs it is appropriate to refine our approach in dealing with the RNs.

Given current market conditions for the RNs the horizon for the divesting of these notes is likely considerably longer than what the JPB anticipated in November 2008. In light of the prospect of this long horizon, it is in members' best interest to look for an approach that enables members to separate ABCP from their decisions regarding equity exposure. It is also important to consider how to best ensure that members holding RNs have a best opportunity possible to maximize their return on the RNs.

The table below shows the approximate exposure to ABCP as of February 27, 2009 of the three strategies managed by Northwater.

ABCP Exposure
As of February 27, 2009

Strategy	ABCP Exposure (%)	ABCP Exposure ($)
U.S. Large Cap Hedged	27.95%	$15,700,000
U.S. Large Cap Unhedged	4.69%	$200,000
U.S. Mid Cap Hedged	23.06%	$1,600,000
	Total:	**$17,500,000***

* the numbers above have been rounded

Currency Management

As previously approved by the JPB in November 2008 the currency hedging will be maintained on every strategy that is already hedged.

Motivation for Proposal

The decision to reallocate the management of passive U.S. equity assets to a new manager was based on the following: i) the current passive investment strategy is a synthetic one, which involves a larger tracking error than a passive investment strategy investing in physicals and ii) a growing lack of confidence in Northwater.

Northwater's target tracking error on their synthetic index strategies is 0.25% per annum and may be as high as 0.50% per quarter. SSgA's 4-year tracking error on their S&P 500 unhedged strategy was 0.02% as of April 30, 2008. The annualized target tracking error on their S&P 500 strategy is 0.05% and 0.05% to 0.10% on their S&P 400 MidCap strategy. The US/CAD currency hedging is expected to add approximately 0.08% to 0.10% to the tracking error.

Current Status of the Non-Bank ABCP Market

Despite the completion of the non-bank ABCP restructuring, there is currently (as of March 10, 2009) no liquid market. Based on discussions with market participants, there

does not seem to be a market for non-bank ABCP at the moment. The following anecdotal evidence has been gathered:

1. Fulcrum Capital, a Texas-based investment firm that specializes in distressed securities and special situations, contacted Martin Bélanger and Stu Finlayson on February 11, 2009 regarding our restructured note holdings. They expressed an interest in buying our A-1 notes for $0.20. Considering about 60% of the restructured notes that Western received are A-1, the offer represents approximately $3.2 million, out of $26.3 million of face value.
2. McGill University received an expression of interest from JPMorgan for about $0.20 for their A-1 notes and $0.10 for their A-2 notes. This would represent $4 million for the Western plans. In January 2009, the administration of McGill University purchased all the non-bank ABCP in the pension plan Money Market pool for $0.65.
3. Louis Basque, Fixed Income Portfolio Manager at State Street Global Advisors, told Martin Bélanger that there is currently no market for non-bank ABCP. No quotes are published and it trades like a distressed security at the moment. He has heard anecdotes about bids ranging from $0.20 to $0.30. SSgA is not considering ABCP for inclusion in any of their portfolio.
4. Scott DiMaggio, Fixed Income Portfolio Manager at AllianceBernstein, told Martin Bélanger that he is not aware of any trading in the restructured notes. He said that AllianceBernstein may consider them for their fixed income portfolios but they would require liquidity and pricing.

Recognizing that the forecasting on the expectation of a liquid market for RNs is difficult, we recommend that an expert third party opinion be obtained to confirm the anecdotal information noted above.

Overview of Membership With ABCP

Approximately 80% of members of the Western Retirement Plans are exposed to non-bank ABCP. Out of 7223 members who have assets in the plans, 5878 members are exposed to non-bank ABCP, either through an investment in one of the five restricted funds or through the Liquidating Trust. Approximately 1400 members have an exposure greater than $5,000.

Non-Bank ABCP Exposure
UWO Retirement Plans
As of December 31, 2008

	Balanced Income	Balanced Growth	Diversified Equity	U.S. Equity Hedged	U.S. Equity Unhedged	Total (in funds)	Liquidating Trust	Total ABCP
Number of members	625	1432	3923	658	427	5465	705	5878
Average exposure to non-bank ABCP	$499	$1,079	$4,209	$3,456	$571	$3,822	$3,383	$3,959
Largest Exposure to non-bank ABCP	$15,632	$23,428	$59,426	$34,848	$5,724	$68,679	$43,852	$69,078
Exposure	**Number of Members**							
$0 - $100	286	381	457	69	139	674	132	749
$101 - $500	218	493	621	112	142	1026	134	1096
$501 - $1000	61	234	410	77	70	654	80	679
$1001 - $2000	32	136	559	112	51	720	87	751
$2001 - $5000	13	116	803	145	23	1057	117	1118
$5001 - $10000	12	45	590	88	2	731	88	802
$10,001 - $25,000	3	27	423	46	0	529	60	592
$25,001 - $50,000	0	0	0	0	0	0	0	0
Over $50,000	0	0	3	0	0	5	0	5

Restructuring Proposals

The report that was presented to the Joint Pension Board in November 2008 detailed three restructuring plans which were evaluated by the board. At that time, the Board approved proceeding with SSGA as the new US passive equity fund manager and approved the future implementation of a segregated account with Northwater to equitize the RNs (proposal 3a). However, in recognition of the current market conditions and the assessment that there is little prospect for a liquid market for these RNs over a significant period of time it is appropriate to review the JPB's approach for dealing with the RNs.

Equitization was approved on the basis that it maintains equity exposure for the assets on the assumption that liquidity would return and that this would enable the removal of the redemption restrictions on the affected funds something which was recognized as being in the best interest of members. Additionally, since the decision was taken in November 2008, concerns have been discussed in regard to leaving a significant portion of U.S. investment portfolio with Northwater. Operational concerns related to the administrative complexity of implementing the recommended equalization approach in the face of continued redemption restrictions were also raised by Northern Trust.

In light of these developments, we are recommending a new approach for dealing with the RNs. Two new proposals are shown below (the other proposals presented to the JPB in November 2008 are attached as Appendix A).

Revised Proposal #1-a) - Carve out the RNs for all 5 restricted funds

Description:

- The RN component of the Diversified Equity Fund (DEF), the U.S. Equity Hedged Fund (USH), the US Equity Unheeded Fund (USU), the Balanced Growth Fund (BGF) and the Balance Income Fund (BIF) would be carved out and transferred to the Liquidating Trust.
- The remaining assets managed by Northwater would be transferred to SSgA
- The B funds could be merged with the old ones and redemption restrictions would be lifted on all the affected funds except for the Liquidating Trust.

Pros	Cons
• Redemption restrictions could be lifted on all 5 funds • No cash drag on the equity funds since the RNs would be held outside • Holding the RNs in a segregated account would make it easier to influence valuation • Allows members flexibility and separate the ABCP decision from the other investment decisions • Equity Funds could be placed with the fund manager of choice other than the illiquid restructured notes • Members could rebalance their portfolios to the equity exposure of choice • Does not require a liquid market for RNs • Enables the funds to be merged	• Complex to administer as close to 6000 members will be impacted • Would require external assistance to ensure the accuracy of the transaction and to assess potential liability • Significant communication effort required as almost all members will be impacted • Some members would be transferred to the Liquidating Trust without providing instructions to sell. • Members in the restricted funds would lose some of their stock market exposure • The liquidation of the Liquidating Trust holdings will be much more challenging since more members will be involved

Revised Proposal #1-b) Carve out the RNs for the regional funds

Description:

- The RN component of the USH and the USU would be carved out and transferred into the Liquidating Trust
- The Diversified Equity Fund (DEF) would hold the RNs directly
- The USH B and USU B Funds could be merged with the USH and USU Funds

Pros	Cons
• Easy to administer • Redemption restrictions could be lifted	• Cash drag on the DEF since there would be no market exposure on a portion of

Pros	Cons
on the regional funds • Holding the RNs in a segregated account would make it easier to influence valuation • Fewer members will have a portion of their investment in the Liquidating Trust in comparison to carving out all 5 funds (1000-1800 members instead of 5878)	the portfolio (5%-7%) • Members in the USH and the USU would lose some of their stock market exposure • Members would be have a portion of their units transferred to the Liquidating Trust without their consent as part of the re-structuring of the funds • The ABCP decision would be commingled with the decision to invest in the Diversified Equity Fund, which would make things more difficult for members • Redemption restrictions could only be lifted after a liquid market develops for the RNs • No possibility of merging the DEF B with the DEF until there's a liquid market for the RNs

Revised Proposal #2 - Retain the RNs within their respective portfolio and mark-to-market the RNs

Description:

- The remaining assets managed by Northwater would be transferred to SSgA
- The RNs would remain in their respective funds
- The RNs would be marked-to-market (possibly as low as $0.12 on the dollar)
- The B funds could be merged with the old ones and redemption restrictions lifted

Pros	Cons
• Redemption restrictions could be lifted on all 5 funds • No forced transfer of members to the Liquidating Trust • Holding the RNs in a segregated account would make it easier to influence valuation	• Would create a significant one-time loss (more than 20% for U.S. Equity Hedged) • Would "tie" members' hands i.e. if they sell out of the Diversified Equity Fund, they would lose any rebound in the price of the RNs • Small cash drag on the equity funds as non-equitized RNs would be held • Significant communication effort required as to explain the poor returns • Members in the restricted funds would lose some of their stock market exposure

Recommended Approach

In November 2008, we recommended the following:
1) Stay with Northwater until the ABCP restructuring plan is done, and
2) Once the ABCP restructuring is implemented, move out of Northwater, and equitize the RNs with Northwater.

Now that the ABCP restructuring has been completed, and given the current market conditions and operational issues involved with the equitization of the ABCP, we are revising the recommendation as follows:

1)Move the U.S. equity assets managed by Northwater to State Street Global Advisors in two phases with the B Funds moving in April 2009 and the old funds moving once there was been a resolution on the approach for the ABCP.
2)Carve out the RNs representing the non-bank ABCP from the five restricted funds and transfer the RNs to the Liquidating Trust however, this will likely require plan amendments to all three plans;
3) Merge the B funds with the old ones, and
4) Remove redemption restrictions.

Given that approximately 1400 of our members have a non-bank ABCP exposure greater than $5,000, this is the solution that presents the highest degree of fairness to our members. In particular, enabling the redemption restrictions to be lifted and ensuring that the U.S. equity portfolios are in transferred to SSgA, the newly selected fund manager. The lack of a prospect for a liquid market and the concerns identified with staying with Northwater and investing more funds with them as is required in equitization is no longer an effective approach to managing the RNs.

First Stage (B Funds only):

Mandate	Assets
U.S. Equity Large Cap Hedged	$11.8 million
U.S. Equity Large Cap Unhedged	$1.6 million
U.S. Equity Mid Cap Hedged	$0.7 million

Second Stage (Using February 27, 2009 values):

Mandate	Assets
U.S. Equity Large Cap Hedged	$34.4 million
U.S. Equity Large Cap Unhegded	$4.1 million

Mandate	Assets
U.S. Equity Mid Cap Hedged	$4.7 million
Liquidating Trust	$17.6 million

Implementation Issues

a) Expert Opinion on Liquidity

We need to obtain a third party expert opinion on the nature of market and the prospect for liquidity for the RNs.

b) Transferring Non-Bank ABCP to the Liquidating Trust

The transfer of the non-bank ABCP from the five restricted funds to the Liquidating Trust will involve the following steps:

- At the direction of the JPB, all investments in the Northwater funds will be redeemed. The cash proceeds will be invested in pooled fund units managed by SSgA. The illiquid redemption proceeds (RNs) will be transferred to the Liquidating Trust.

- Operationally, members will redeem units of the affected funds and will allocate those investment proceeds for repurchase of units of the USU, USH,BIF,BGF and/or DEF, and the Liquidating Trust.

- Redemption restrictions will be lifted on the affected funds (The Liquidating Trust will remain restricted).

- The B funds will be merged with the old funds to streamline investment offerings.

- Amendments to the retirement plans will be necessary to authorize the division of the members' investment between the original fund (DEF, USH, USU, BIF, and BGF) and the Liquidating Trust as this alters the investment allocation to members' accounts. The plan amendments will specifically enable us to alter the investment allocation of members to allow for the Liquidating Trust allocation. The amendment is unlikely to be considered an adverse amendment[1] for members.

- Members will purchase units of the affected funds at a lower unit value with the cash portion coming from the redemption; and hold the difference in the value in units of the Liquidating Trust.

[1] Section 26 of the Ontario Pension Benefits Act, has special notice and approval provisions for an amendment that is considered adverse. An adverse admendment is one that would result in a reduction of benefits or adversely affect the rights of member or spouses. In such cases the provincial pension regulator may require special steps before registering the amendment including providing written notice of the proposed amendment to plan members prior to the effective date of the amendment.

We will request the assistance of KPMG, our auditors to review the transaction, reconcile members' accounts and provide confirmation of the accuracy of the transaction.

c) Selling Out of the Liquidating Trust

Given market conditions regarding the RNs, we don't expect that members will be allowed to sell their units of the Liquidating Trust in the foreseeable future.

Further a review of the terms of the Liquidating Trust and consideration of the ongoing investment management of the RNs is necessary to determine whether any changes are desirable in light of the fact that the Liquidating Trust would hold all the RNs due to the divestment from Northwater, rather than the Liquidating Trust holding only the RNs from member -initiated redemption decisions as has been the case since September 2007.

d) Communications

It is anticipated that we would provide information to members about what the JPB has decided as an approach for the RNs at the April annual members meetings to obtain feedback and concerns from members – this information together with the information from the other implementation issues will then be presented to the JPB when a final decision as to whether to proceed with the recommended approach would be considered later in 2009. If the decision to proceed is finalized then the amendments would be drafted and notice of the amendments would be provided to the bargaining groups, regulatory agents and the all plan members.

e) Ensuring that Northwater remains the best option for the management of the RNs

Northwater has been selected to retain the RNs in the Liquidating Trust because they can manage these funds at the nominal charge of $1.00 and because Northwater is managing the RNs for other clients and is therefore in a good position to understand the market. Recognizing, however, that the proposal will leave approximately $17,600,000 of the portfolio with Northwater in the form of RNs held in the Liquidating Trust, it is recommended that a report be provided to the JPB assessing options for the management of the Liquidating Trust.

Joint Pension Board Principles

1) Offer members the broad and diversified CHOICE of both investment and retirement vehicles.

The choice of investment options would remain the same after the restructuring.

2) Maintain FAIRNESS among members in plan operations.

Given the number of members exposed to non-bank ABCP, the size of their exposure and the lack of a liquid market, the proposed option offers the highest degree of fairness. Leaving the RNs inside the funds and marking them down to market would severely

penalize members who must sell (because they are retiring, nearing retirement or leaving the university). They would be either forced to maintain an equity exposure that is out of their comfort zone or sell their RNs at a fire sale price.

3) Provide investment alternatives which possess high LIQUIDITY.
Liquidity would be re-established for the main investment options.

4) Assist members in making WELL—INFORMED DECISIONS about investment and retirement alternatives.
The proposed restructuring would allow members to separate the equity allocation decision with the decision to sell or retain their RNs, which would normally lead to better investment decisions.

5) Solicit information about and be RESPONSIVE TO MEMBER PREFERENCES regarding the plan.
The redemption restrictions limit members' freedom to make investment changes when they want. As such, removing the redemption restrictions would be consistent with what they want. In an effort to be responsive to members, the approach proposed will be presented to members for discussion at the annual member meetings to be held in April.

6) Use PRUDENCE in assessing and reviewing plan decisions and operations.
The proposed restructuring involves many complex transactions. Care will need to be exercised to ensure that the members' assets are reconciled and remain exposed to markets. Assistance from KPMG will be requested to ensure a smooth transition. In terms of investment and operational risk, the proposed strategy is less risky than a strategy using equitization as the risk will be limited to that of the RNs and there will not be any stock index futures contracts.

7) Assure COST EFFECTIVE ADMINISTRATION of plan operation.

We anticipate administrative cost savings once the redemption restrictions are lifted.

Recommendation:

That the JPB direct the pension administration staff to review the implementation issues of the recommended proposal, being the carving out of the restructed notes from the Diversified Equity Fund, the US Equity Hedged Fund, the US Equity Unhedged Fund, the Balanced Growth Fund and the Balanced Income Fund to the Liquidating Trust. The JPB will consider a final decision on proceeding with the recommended approach once the implementation issues have been canvassed and evaluated by the board.

APPENDIX A

The following proposals were discussed at the November 2008 meeting of the Joint Pension Board.

Proposal #1: Stay with Northwater

Description: Leave the assets with Northwater in their pooled funds.

Pros	Cons
• Easiest way to maintain stock market exposure • No cash drag • Cheaper to maintain the full equity exposure than with another manager • Only members who voluntarily redeem would be in the Liquidating Trust	• Reputational issue with Northwater • Concern that Northwater is losing clients • Redemption restrictions on affected funds could only be lifted if there's a very liquid market on the restructured notes • Higher tracking error because of the synthetic strategy and particularly with RNs • Will not be moving funds to the fund manager of choice

Though on the face the least disruptive of the options, there are possible concerns that have been identified with maintaining a significant portion of the retirement funds with Northwater. There has been a reputational issue in regard to our relationship with Northwater since August 2007 when the ABCP issue came to light, it has also been identified since the 2007 Joint Board Retreat that the tracking error with Northwater is more significant because of Northwater's use of its synthetic indexing. In November 2008 a preferred fund manager was selected which would provide expertise, cost effectiveness and smaller tracking errors. There has also been concern expressed by JPB regarding the recent loss of clients and funds under management by Northwater and the impact on Northwater's ability to provide strong investment management services to our funds in light of these developments. This was discussed after the December 17, 2008 annual meeting with Northwater. Equitizing would require that approximately $17,600,000 million in funds be left with Northwater to manage together with the RNs. In light of the above developing a new account with Northwater to manage these funds is not in the best interest of members.

Proposal #2: Move out of Northwater Funds and No Equitization of the Restructured Notes (RNs)

a) Keep the RNs within the UWO funds

Description:

- The Diversified Equity Fund (DEF) would hold the restructured notes directly
- The restructured note component of the USH and the USU would remain inside the regional funds

Pros	Cons
• Easy to administer • No need to move members into the Liquidating Trust • Only members who chose to be in the Liquidating Trust would be in the fund • Holding the RNs in a segregated account would make it easier to influence valuation	• Redemption restrictions could only be lifted after a liquid market develops for the RNs • No possibility of merging the B funds until there's a liquid market for the RNs • Cash drag on the DEF since there would be no market exposure on a portion of the portfolio (5%-7%) • Cash drag on the regional funds, especially on the USH with 30% exposure • Members in the affected funds would lose some of their stock market exposure

Proposal #3: Move out of Northwater and Equitize the RNs (OPTION APPROVED IN November 2008)

a) Equitization done by Northwater

Description:

- The DEF would hold the RNs directly
- The three UWO funds exposed to the RNs (DEF, USH and USU) would still hold the RNs; Northwater would manage the cash component and stock index futures would be overlaid to the RNs to maintain the stock market exposure

Pros	Cons
• Stock market exposure would be maintained • No cash drag • Only members who voluntarily redeem would be in the Liquidating Trust • Cheaper to have Northwater do the equitization than the new managers • Holding the RNs in a segregated account would make it easier to influence valuation	• Redemption restrictions could only be lifted after a liquid market develops for the RNs • No possibility of merging the B funds with the old ones until there's a liquid market for the RNs • More operationally complex solution • More expensive solution than not equitizing • Since the RNs would not be eligible as collateral for margin requirement, this scenario would require keeping

	some cash in addition to the RNs, which would reduce the amount to be invested in physical assets

b) Equitization done by Another Manager

Description:

- The DEF would hold the RNs directly
- The three UWO funds exposed to RNs (DEF, USH and USU) would still hold the RNs; the new managers would manage the cash component and stock index futures would be overlaid to the RNs to maintain the stock market exposure

Pros	Cons
• Stock market exposure would be maintained • No cash drag • Only members who voluntarily redeem would be in the Liquidating Trust • Holding the RNs in a segregated account would make it easier to influence valuation	• Redemption restrictions could only be lifted after a liquid market develops for the RNs • No possibility of merging the B funds with the old ones until there's a liquid market for the RNs • More operationally complex solution • Since the RNs would not be eligible as collateral for margin requirement, this scenario would require keeping some cash in addition to the RNs, which would reduce the amount to be invested in physicals • Much more expensive than Northwater

APPENDIX B

Summary of the State Street Global Advisors Selection Points[2].

Manager Description

State Street Global Advisors was established as the asset management division of State Street in 1978, to provide institutional investment management services. The firm now has about $2.0 trillion in assets under management, with offices in 27 cities and 12 investment centers worldwide, including Toronto and Montréal.

SSgA is a division of State Street Bank and Trust Company, a wholly owned subsidiary of State Street Corporation. State Street Corporation is a publicly traded bank holding company whose shares are traded on the New York Stock Exchange under the symbol "STT."

The firm has over 500 investment professionals worldwide, including 23 from the Boston office and 5 from the Montréal office who will be directly involved with the strategy.

Administrative Constraints and Preferences

As noted previously because of the high level of liquidity of the strategies involved, SSgA is not expected to have problems handling our monthly trade instructions. In addition, we have been dealing with SSgA for several years now and are satisfied with their process.

Size of Allocations

State Street	**Assets (Feb 27,2009)**
U.S. Equity Hedged	$46.2 million
U.S. Equity Unhedged	$5.7 million
U.S. MidCap Hedged	$5.5 million
Total SSgA	**$57.4 million**
Northwater	
Restructured notes	$17.6 million
Total Northwater	**$17.6 million**

Qualified Investment for RIFs

In order for an investment to qualify for the RIF product, it must meet the Income Tax Act definition of "qualified" investment. Based on current regulations, shares of a corporation listed on a designated stock exchange in or outside Canada are qualified investments for a plan trust. Shares of a public corporation (other than a mortgage investment corporation) are also qualified investments for a plan trust. Due to the nature of the mandates, there are no issues with the qualified nature of the investments.

[2] Taken from the November 2008 Joint Pension Board Report "Passive US Equity Manager Search"

Currency Hedging

SSgA uses monthly forward contracts to hedge the currency exposure. As such, they don't have to post collateral with brokers/dealers.

Fees

The fee schedules of each manager are as follows:

SSgA

.075% of the first	$50,000,000
.06% of the next	$50,000,000
.05% thereafter	

Minimum annual fee $60,000

Northwater

For the management of the Liquidating Trust: $1

Based on the above fee schedules and taking into account the fact that the Endowment Fund will invest $60 million with SSgA, total fees should be about $38,876, or 0.05% of the total assets of $75.0 million.

EXHIBIT I