

## **NORTHWATER CAPITAL MANAGEMENT INC.**

### **MANAGER SPECIALIZATION:**

Northwater Capital Management Inc. (“the Manager”) has been appointed by the Joint Pension Board of The University of Western Ontario as an investment manager to manage a segment of the pension fund portfolio Master Trust for the University of Western Ontario Pension Plans and Retirement Income Funds (the “Master Trust”). The manager will manage, on an interim basis, a synthetic U.S. equity portfolio.

### **INVESTMENT OBJECTIVE:**

The main objective of the fund is to maintain the U.S. equity exposure of the various funds exposed to non-bank asset-backed commercial paper (“ABCP”) by applying a stock index futures overlay to a portfolio of money market securities. Most of the currency exposure will be hedged but a component will remain unhedged due to the presence of ABCP denominated in U.S. dollars.

The fund will seek to replicate the performance of the S&P 500 Index.

### **EFFECTIVE COMMENCEMENT DATE:**

This mandate will be in effect as at February 1<sup>st</sup>, 2009 and will remain until the earliest of: 1) the maturity of the remaining restructured notes in the portfolio; 2) such time when the Joint Pension Board decides to liquidate the restructured notes. This Investment Manager Mandate and Performance Standard statement will be reviewed on an annual basis to ensure the content is still appropriate. Any proposed changes will be forwarded to the Manager and reviewed by them for comments.

### **INVESTMENT GUIDELINES:**

The Manager will have full discretion to manage this segment of the Master Trust subject to the following guidelines:

#### ***Permissible Investments***

The portfolio will have three components:

1. Futures contracts on the S&P 500 Index
2. Restructured notes received as a result of the ABCP restructuring
3. High quality Canadian money market instruments

The Canadian money market instrument component invests in Treasury bills, short-term government bonds (federal, provincial and municipal); other short-term government securities (promissory notes, repurchase agreements, coupons, residuals, floating-rate notes); banks (bankers’ acceptances, term deposits, bearer deposit notes, floating-rate notes, short-term bonds); and cash on hand.

Corporate securities (commercial paper, bank sponsored commercial paper, non-bank commercial paper, floating-rate notes, short-term bonds) are prohibited.

**Asset Mix (of the Canadian money market instrument component)**

Class	% Range
Governments	0% - 100%
Banks	0% - 30%
Corporates	0%

**Risk Controls**

- a) The minimum quality standard is: R1-mid.
- b) The maximum exposure to any single issuer (excluding Governments) is limited to 10%.
- c) Money market holdings will be limited to Canadian issues denominated in Canadian dollars.
- d) Sufficient liquid assets will be maintained to cover all margin requirements.
- e) Leverage is prohibited.

**INVESTMENT CONSTRAINTS:**

All securities held must meet qualification investment rules for the Registered Retirement Income Funds and Registered Retirement Savings Plans under Sections 146.3 and 204 of the Income Tax Act and Section 4900 of the Regulation to the Income Tax Act (the "Act").

As well, the investments are subject to the specific constraints covered by the Regulations under the Pension Benefits Act, the Pension Benefits Standards Act, and the Income Tax Act.

**CODE OF CONDUCT:**

For these mandates, investment activities should be conducted in a manner consistent with the Code of Ethics and The Standards of Professional Conduct adopted by CFA Institute.

**PERFORMANCE STANDARDS :**

Performance results will be monitored and evaluated on a quarterly basis against appropriate market indices.

The performance objective for this Synthetic Hedged U.S. Stock portfolio is as follows:

Benchmark	:	S&P 500 Index (partially hedged to Canadian dollar) <sup>1</sup>
Tracking error	:	50 basis points per annum
Time Frame	:	Moving, four-year annualized periods

<sup>1</sup> Some of the restructured notes will be denominated in U.S. dollars. This will cause the portfolio to be partially unhedged.

Performance results will also be monitored and evaluated on a twelve-month, moving-average basis to determine if performance is within an appropriate tolerance range on either side of the benchmark.

**PERSONNEL/STYLE :**

Continuity in personnel is vitally important to a successful investment management programme. Northwater has been selected as an investment management organization for the skills provided by the current professional staff. If any key individual should leave the firm, for any reason, a full discussion and presentation to UWO may be required.

It is also understood that any changes in ownership, investment management philosophy, style, approach and/or fees will be discussed with UWO.

**MANAGER CONTACTS:**

Mohamed Khaki, Vice President, will be the primary account manager for this account.

**MEETING FREQUENCY:**

Performance review meetings will be held regularly but not less frequently than annually with the Joint Pension Board or internal staff of the University of Western Ontario.

**TERMINATION:**

Reasons for termination may include, but are not limited to, the following:

- 1) Not adhering to the stated investment guidelines.
- 2) Performance results consistently different from the stated performance objectives.
- 3) Changes in personnel, ownership, organizational structure, style, approach and/or fees which might be deemed to affect the overall risk level of the fund assets or reduce the potential return of the fund.
- 4) Changes in UWO's overall investment strategy.
- 5) The removal of the restructured notes from the portfolio, either through reaching maturity or sale.

The University of Western Ontario retains the right to terminate for any reason.

**ADDENDUM:**

If any item, guideline or constraint within this Investment Manager Mandate and Performance Standards statement proves to be too restrictive, in practice, given certain market conditions, it will be the responsibility of the investment manager to prepare a

written report on the specific item for consideration by the Investment Policy Committee of the University of Western Ontario.

This document may be amended from time to time. The University of Western Ontario agrees to provide the Manager with any and all such amendments.

**UNIVERSITY OF WESTERN ONTARIO**

**NORTHWATER CAPITAL MANAGEMENT INC.**

By: \_\_\_\_\_

Name: Louise Koza

Title: Secretary Joint Pension Board of  
The University of Western  
Ontario

Date: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_