

UWO Canadian Equity Fund Update on Reorganization Work

The purpose of this document is to explain the goals sought with the reorganization of the Canadian Equity Fund and explain the rationale for the changes that are being contemplated.

1. Main Goal

The main goal of the reorganization is to increase the expected return of the Canadian Equity Fund while lowering its volatility by: 1) dropping one of the existing four investment managers, 2) adding a Canadian small cap equity manager and 3) replacing the current Canadian equity value manager (AllianceBernstein).

2. Rationale for dropping one manager

- a) High correlation of returns among existing managers

Historical Return Correlation 4-Year Ending March 31, 2009

	Alliance Bernstein	CC&L Q- Core	Greystone	Highstreet
Alliance Bernstein	1.00	0.97	0.95	0.96
CC&L Q-Core		1.00	0.98	0.99
Greystone			1.00	0.98
Highstreet				1.00

Historical Return Correlation 4-Year Ending March 31, 2008

	Alliance Bernstein	CC&L Q- Core	Greystone	Highstreet
Alliance Bernstein	1.00	0.96	0.96	0.96
CC&L Q-Core		1.00	0.97	0.98
Greystone			1.00	0.97
Highstreet				1.00

Historical Return Correlation 4-Year Ending March 31, 2007

	Alliance Bernstein	CC&L Q- Core	Greystone	Highstreet
Alliance Bernstein	1.00	0.94	0.93	0.94
CC&L Q-Core		1.00	0.95	0.97
Greystone			1.00	0.92
Highstreet				1.00

The correlation of returns between the four managers of the Canadian Equity Fund has been extremely high in recent years. The average correlation coefficient between our four Canadian equity managers is 0.97 as of March 31, 2009. Like every other asset classes, correlations for Canadian equities have increased during

the financial crisis, but if we look at the 4-yr correlation coefficient as of March 31, 2007, it was still 0.94.

b) Similar holdings for all four managers

**Portfolio Concentration
As of March 31, 2009**

	# of Stocks	Average Weight
# Stocks in all 4 portfolios	13	40.66%
# Stocks in at least 3 portfolios	38	71.88%
# Stocks in at least 2 portfolios	71	89.33%
# Stocks in only one portfolio	109	

**Portfolio Concentration
As of December 31, 2008**

	# of Stocks	Average Weight
# Stocks in all 4 portfolios	15	47.26%
# Stocks in at least 3 portfolios	30	66.52%
# Stocks in at least 2 portfolios	63	84.81%
# Stocks in only one portfolio	114	

**Portfolio Concentration
As of December 31, 2007**

	# of Stocks	Average Weight
# Stocks in all 4 portfolios	13	40.23%
# Stocks in at least 3 portfolios	40	73.69%
# Stocks in at least 2 portfolios	69	87.32%
# Stocks in only one portfolio	117	

Looking at the Canadian Equity Fund at four different points in time (March 31, 2009, December 31, 2008 and December 31, 2007), we can observe significant overlap in portfolio holdings. At least 13 stocks were in all four portfolios at those points and they represented more than 40% of the portfolio.

Evolution of Stocks Held by All Four Canadian Equity Managers

	As of March 31, 2009			As of March 31, 2008			As of March 31, 2007		
	Ave	Min	Max	Ave	Min	Max	Ave	Min	Max
Bank of Nova Scotia	3.02%	0.80%	4.30%	3.10%	0.88%	4.50%	3.33%	1.29%	4.31%
Barrick Gold Corp.	4.04%	3.26%	4.70%	n/a	n/a	n/a	n/a	n/a	n/a
BCE Inc.	3.97%	2.80%	4.91%	3.48%	2.00%	5.39%	n/a	n/a	n/a
Bombardier Inc. Class B	n/a	n/a	n/a	2.07%	1.40%	3.01%	n/a	n/a	n/a
CAE Inc.	0.57%	0.10%	1.19%	n/a	n/a	n/a	n/a	n/a	n/a
Canadian Imperial Bank of Commerce	n/a	n/a	n/a	n/a	n/a	n/a	2.65%	1.60%	3.67%
EnCana Corp.	4.08%	2.99%	5.00%	5.36%	4.67%	5.80%	n/a	n/a	n/a
Finning International Inc.	n/a	n/a	n/a	n/a	n/a	n/a	1.26%	0.50%	1.67%
Husky Energy Inc.	n/a	n/a	n/a	n/a	n/a	n/a	2.20%	0.10%	3.91%
Manulife Financial Corp.	n/a	n/a	n/a	3.44%	1.70%	5.01%	3.72%	1.90%	5.00%
Nexen Inc.	n/a	n/a	n/a	2.69%	1.30%	4.27%	n/a	n/a	n/a
Petro-Canada	n/a	n/a	n/a	n/a	n/a	n/a	4.06%	3.50%	4.57%
Potash Corp. of Saskatchewan	3.73%	2.98%	4.43%	3.56%	2.66%	4.57%	n/a	n/a	n/a
Power Corp. of Canada	n/a	n/a	n/a	1.30%	0.19%	3.30%	2.33%	1.32%	3.90%
Research In Motion	2.89%	1.43%	3.90%	2.29%	1.61%	2.87%	3.97%	2.33%	5.10%
Rogers Comm Inc. Class B	n/a	n/a	n/a	n/a	n/a	n/a	2.07%	0.97%	3.71%
Royal Bank of Canada	5.55%	3.25%	6.70%	n/a	n/a	n/a	n/a	n/a	n/a
Suncor Energy Inc.	n/a	n/a	n/a	n/a	n/a	n/a	3.50%	1.36%	5.32%
Talisman Energy Inc.	2.35%	1.80%	2.80%	2.15%	1.40%	2.50%	n/a	n/a	n/a
Teck Cominco Ltd.	n/a	n/a	n/a	n/a	n/a	n/a	1.85%	0.73%	2.67%
Toronto-Dominion Bank	4.12%	3.60%	4.70%	4.00%	2.40%	5.85%	4.80%	2.80%	6.73%
TransCanada Pipelines Corp.	2.28%	0.44%	4.29%	n/a	n/a	n/a	n/a	n/a	n/a
Westjet Airlines Ltd.	0.85%	0.30%	1.10%	n/a	n/a	n/a	n/a	n/a	n/a

There are 23 stocks that have been held by all four managers at the 3 points in time observed. Bank of Nova Scotia, Manulife, Research in Motion and TD Bank have been in all four portfolios at each point in time.

- c) Reduce administrative work and operational risk of monitoring an extra manager

3. Rationale for adding small cap manager

- a) Diversification benefits; reduces overall volatility of the Canadian Equity Fund

The table below compares the standard deviation of five portfolios for periods ending March 31, 2009.

- 1) Diversified Equity Fund
- 2) Canadian Equity Fund
- 3) Canadian Equity Fund without Highstreet
- 4) Canadian Equity Fund without Highstreet and with a new Canadian small cap manager¹
- 5) Canadian Equity Fund without Highstreet, with a new Canadian small cap manager and with a new Canadian equity value manager (Beutel Goodman²)

Standard Deviation of Returns As of March 31, 2009

Portfolio	3-Yr	4-yr	5-Yr	6-Yr
1) Diversified Equity Fund	15.47%	14.59%	13.44%	13.19%
2) Canadian Equity Fund	17.90%	17.26%	15.95%	15.14%
3) 1/3 CC&L, 1/3 Alliance Bernstein, 1/3 Greystone	17.79%	17.20%	15.91%	15.06%
4) 30% CC&L, 30% Alliance Bernstein, 30% Greystone, 10% Small Cap Manager	17.62%	16.86%	15.61%	14.79%
5) 30% CC&L, 30% New Value Manager (Beutel Goodman), 30% Greystone, 10% Small Cap Manager	16.46%	15.56%	14.35%	13.70%

Removing Highstreet reduces the volatility of the portfolio for every time period. Adding a Canadian equity small cap manager further reduces the volatility for every time period. Replacing Alliance Bernstein with a low volatility Canadian equity value manager (Beutel Goodman in this example) substantially reduces the portfolio volatility.

¹ The Cdn Small Cap equity manager used for the simulation is Wutherich & Company, a Montreal-based small cap manager that I met and on which Russell is expected to conduct formal research later this month. This manager is not on the short list of small cap equity managers that we'll meet later this month. Its monthly historical returns were used to show that adding a focused, uncorrelated small cap equity mandate to the Canadian Equity Fund could actually reduce the volatility of the fund. Wutherich's 3-year standard deviation as of March 31, 2009 was 19.36%.

² Beutel Goodman is one of the four Canadian equity value managers that we'll meet later this month. It is not necessarily the manager that will be selected.

b) Increases expected return of the fund

Even though historical returns are a poor predictor of future performance, the table below shows the return that would have been achieved in the past three to six years if we had made the proposed changes.

**Annualized Returns
As of March 31, 2009**

	3-Yr	4-yr	5-Yr	6-Yr
Diversified Equity Fund	-12.36%	-4.97%	-2.21%	3.16%
Canadian Equity Fund	-8.76%	-0.34%	3.02%	8.00%
1/3 CC&L, 1/3 Alliance Bernstein, 1/3 Greystone	-9.11%	-0.67%	2.82%	7.54%
30% CC&L, 30% AllianceBernstein, 30% Greystone, 10% Small Cap Manager	-8.50%	-0.44%	3.23%	8.19%
30% CC&L, 30% New Value Manager (Beutel Goodman), 30% Greystone, 10% Small Cap Manager	-6.71%	0.32%	3.71%	8.94%

Although removing Highstreet would have slightly hurt performance in recent years, adding a small cap manager and replacing AllianceBernstein with Beutel Goodman would have improved return significantly.

**Sharpe Ratio
As of March 31, 2009**

	3-Yr	4-yr	5-Yr	6-Yr
Diversified Equity Fund	-1.04	-0.58	-0.41	0.00
Canadian Equity Fund	-0.70	-0.22	-0.01	0.32
1/3 CC&L, 1/3 Alliance Bernstein, 1/3 Greystone	-0.72	-0.24	-0.03	0.29
30% CC&L, 30% AllianceBernstein, 30% Greystone, 10% Small Cap Manager	-0.69	-0.23	0.00	0.34
30% CC&L, 30% New Value Manager (Beutel Goodman), 30% Greystone, 10% Small Cap Manager	-0.63	-0.21	0.03	0.42

Since the new portfolio would have had a higher return and a lower volatility, the Sharpe ratio of the proposed portfolio would have been higher for every time period.

4. Rationale for Dropping Highstreet Asset Management

- Pros
 - Superior ranking by Russell of CC&L for investment personnel, security selection, investment research

- Potential personnel instability at Highstreet
- Highstreet's returns have been more volatility than CC&L's since they were added to Western plans in August 2004 (17.13% versus 16.43%)
- Superior client research from CC&L
- CC&L has posted slightly better returns than Highstreet since added to Western plans (7.06% versus 7.01%)
- CC&L is privately-owned; they can afford to have a longer term view when managing their business
- Cons
 - Highstreet is a London based firm
 - Highstreet has slightly lower fees than CC&L

5. Finalist Investment Managers

- a) Canadian Equity Value
 - i. Beutel, Goodman
 - ii. Foyston, Gordon & Payne Inc.
 - iii. McLean, Budden Limited
 - iv. Scheer, Rowlett & Associates Investment Management Ltd.
- b) Canadian Small Cap
 - i. Hillsdale Investment Management Inc.
 - ii. QV Investors Inc.