JOINT PENSION BOARD MEETING

May 27, 2009

9:00 a.m.

SSB 4220

PRESENT: Ab Birch, Michelle Loveland, Stephen Hicock, Stephen Foerster, Stu Finlayson, Krys Chelchowski Martin Bélanger, Louise Koza, J. O'Brien, Ann Jones, Andrea Magahey, Deirdre Chymyck.

Guests: David Paribello (Robarts)

KPMG: David Arnold, James Cassidy

Regrets: Lonnie Wickman

1. Changes to Agenda:
None

2. Approval of April 15 Minutes:
Motion: S. Finlayson
Seconded: S. Hicock
Minutes approved with changes

3. Approval of April 24 Minutes
Motion: M. Loveland
Seconded: S. Hicock
Minutes approved with changes

Note: K. Chelchowski is assuming her role as a voting member of the Joint Pension Board effective immediately.

4. Presentation of the Master Trust Financial Statements
D. Chymyck presented the Master Trust Financial Statements report to the Joint Pension Board. It was a very poor year for the Pension Plans as a result of the write down due to ABCP and the losses due to the Economic Crisis. Overall the total assets were down 22% from the previous year. The ABCP write down was only applied to the assets for purposes of the financial reporting. As a result the plan balances shown on the financial statements are considerably lower than the balances on the University's pension system and what was reported to members.

To deal with the discrepancy the additional disclosure has been added to note 4 (a)

The note refers to the fact that under the terms of its trust agreement Northwater is able to determine the market value of the ABCP based on a good faith assessment and as unit holders we are subject to that unit value (this is the value needed to value our pension records). However, this value is different than the fair market value calculated in accordance with GAAP, and to comply with GAAP the fair market value of the ABCP needs to be reported in the financial statements, resulting in the discrepancy between the investments reported on our pension system and the value reported on the statements. The reconciliation at the bottom reflects the difference between the financial statements and the members' records.

There were two options facing management and the auditors on how to deal with the write down. The options were (1) reduce the value of the assets for the financial statements and have a discrepancy with the pension system, or (2) report based on the transactional value and have $9.3 million uncorrected audit differences that we could explain. The legal and political impact of each decision as well as the compliance issues with GAAP and FISCO were considered, and it was determined that writing down the ABCP was the most appropriate alternative.

Highlights of the Master Trust Financial Statements include the Statement of Changes in Net Assets. There was a decrease made up of a $230M unrealized losses and a $24 million realized loss on investments sold. There was also $11.8 million in Investment income, which was a $4.5 million or a 27% decrease from 2007 and an 8% increase in contributions which was offset by a 57% decrease in transfers into the plan.

Note 11 in the statements is new this year. Previously it was required to state what risks the plan was subject to; this year it was required to quantify these risks by showing how much the plan would be affected by changes in these risks. An analysis of what would happen to the plan's value with a 1% change in any one of these risks, each done in isolation was required.

Note 11 identifies the change that would result to the plan's net assets as a dollar amount and as a percentage of total assets from a 1% change in risk:
Market price risk +/- $4,759,103 or 0.52%
Foreign Currency Risk +/- $2,327,116 or 0.26%
Interest Rate Risk and +/- $21,246,568 or 2.33%
Liquidity risk can not be quantified

In the real world changes in one of these would not likely happen on its own without the other risks also being affected

It was noted that on the Statement of Net Assets for the Academic Pension Plan that instead of a cash balance it indicated Bank indebtedness as a liability. This is because the Academic cash account was in overdraft at year end. If the transfer coming from Harris Associates (as outlined in the audit report) had come in there would have been a balance of approximately $320,000 in this account. The Statement of Changes for the Academic Plan reflected a contribution increase of 5.5% and transfers into the plan were down 84.7%. The significant decrease in changes to net assets was due to decrease in unrealized change in fair value of investments, write down of ABCP and overall, and investment funds did not perform as well in 2008. The surplus for the Academic Staff Pension Plan has gone down because the equity component of the general account posted a negative return, although the surplus remains positive.

Highlights of the Administrative Staff Pension Plan include contributions were up 8.9% and transfers into the plan were down 33.4%, transfers to RIF were down 52%, and the net decrease in assets for the year was $93 million, for the same reasons as those of the Academic Pension Plan.

Highlights of the RIF Plan include transfers into plan of $17.5 million, a decrease of 26.5%.The decrease of transfers into plan is due to more members doing nothing at retirement (leaving their funds in the pension plan) and poor performance of the markets (smaller amounts to transfer.

D. Chymyck reviewed issues facing the plans that will have an impact on financial reporting for next year. These include carving out ABCP, transition of US Equity funds from Northwater to SSGA, merging of B funds with original funds and a new Canadian Equity Manager to replacing Alliance Bernstein.

J. O'Brien asked for clarification of the write down procedures. J. Cassidy explained that Northwater is basing the value of the ABCP on what they believe the true value will be if the assets are held until their value is realized, which is higher than what GAAP is stating. GAAP's value is based on what the value would be if sold at a given point in time. The Trust Agreement with Northwater binds us to Northwater's unit values; we have 120 days to challenge the Northwater values. L. Koza noted that the Joint Pension Board can strike the unit value, however this is an accounting issue and does not affect the value of members – it reflects a single point in time.

5. Presentation of Audit Findings

J. Cassidy provided a finding report review. KPMG agrees with management's conclusion regarding write down of the ABCP and its transparency. The valuation partner in Toronto was comfortable with the assumptions used. S. Foerster asked if there was a written documentation that the board could use to communicate with plan members. It was confirmed that there is an analysis with the report that can be used. M. Bélanger received a "lay person" memo from B. Curwood that can also be used.

It was explained that the cash transfer issue of $1 million resulted from a sale of securities not being processed until 2009, and the cash not received by December 31, 2008.

M. Bélanger asked what the Special Project costs were. J. Cassidy stated that KPMG will need to meet with management to review the parameters of the work expected and the costs. The two sides will need to agree on the approach used including testing and recalculations.

D. Chymyck, Martin Bélanger, A. Magahey and D. Paribello left the room at 10:00

6. In Camera Session with KPMG

J. Cassidy stated that the audit was well prepared, KPMG received all the cooperation required, people were very focused on the Audit, made themselves available, and were very upfront, ethical. L. Koza asked if it was clear that the write down was required. KPMG stated it was ready to proceed with the write down but the restated statements were not included. D. Arnold informed the board that there was confusion regarding the emails from D. Chymyck regarding the Northwater values write down. There was some miscommunication regarding the ABCP issue. J. O'Brien asked what the fee will be for dealing with the ABCP issue. J. Cassidy stated the scope of the report will define the costs, the amount of work involved and the depth of the investigation. L. Koza confirmed it will be a billable rate. Management will have to establish what is required and KPMG will need to review the expectations to establish the amount of work required. KMG will then give a cost estimate. J. O'Brien stated that the Audit Committee will need to review the cost estimate.

KPMG left at 10:10.

D. Chymyck, Martin Bélanger, and A. Magahey returned to the meeting. D. Chymyck was asked for her comments. D. Chymyck stated that she sensed that this audit was not D. Arnold's priority and did not respond to emails with issues requiring his attention. J. Cassidy was very good as was the team that worked on the audit.
(martin my minutes start here)
Louise Koza and Ann Jones left at 10:15am

A discussion followed regarding KPMG's audit service. M. Bélanger's assessment was that KPMG seemed very busy when it came to servicing the account. D. Chymyck explained that information about possible valuation with non-bank asset back commercial paper had been brought forward to them in January and that it seemed to have been overlooked by KPMG until it was raised by her again during the audit. A. Magahey noted it seemed to be a leadership issue. J. O'Brien inquired as to who had been our previous manager and was advised that it had changed a few times in the last year. J. O'Brien noted that the Board of Governors uses KPMG and it made sense to use them on the pension matters but that we should ensure appropriate level of service. M. Bélanger advised that moving to a new firm could mean an increase in audit fees.

Stephen Foerster moved to approve the Audit Findings
Seconded: Stuart Finlayson.

Stuart Finlayson moved to approve the Academic Staff Pension Plan Financial Statements
Seconded: Stephen Hicock.

Jane O'Brien moved to approve the Administrative Staff Pension Plan Financial Statements
Seconded: Krys Chelchowski.

D. Paribello returned to the meeting

7. First Quarter Performance Review
B. Curwood presented the first quarter performance and manager review from Russell Investments. He noted that though the 1st quarter was dismal there were some modest improvements at the end of the quarter. S&P/TSX Capped Composite Index return was -2.0% for the 1st quarter. Good areas were materials (+7.8%), Health Care (+4.3%) and Information Technology (+8.8%). Russell Index 3000 was down 24% for the year, while hedge indexes fared worse due to the sharply falling dollar.

It was noted by B. Curwood that markets were starting to move up at the end of the 1st quarter 2009, the end of May markets were better relative to the month of March, which maybe some indication that March might have been the bottom of the market with the possibility that the narrow rally in the end of the 1st quarter may be getting broader.

The Balanced Growth Fund lost -20 bps in the 1st quarter relative to its benchmark, while the Balanced Income Fund lost 102 bps relative to its benchmark. The Diversified Equity Fund outperformed the policy return for the 1st quarter by + 65 bps and underperformed by -.6% annualized over 5 years.

B. Curwood reviewed the performance of the equity fund managers. For the most part equity managers were taking modest bets and were hurt by stock selection. The combined Canadian Equity managers underperformed the TSX Composite Index by -66 bps in the 1st quarter. Alliance Bernstein performance is a concern, they underperformed the S&P/TSX by -245 bps for the year. Highstreet was a positive note as they matched benchmark in the quarter and have added value since inception. Overall nothing significant to report in the Canadian Stock Profile B. Curwood noted that some weak performance is a result of stock selection which has not been that great.

The total US equity strategy outperformed by +19 bps in the 1st quarter and +28 bps for the year. Northwater's returns were positively affected by interest payments received as part of the Pan Canadian restructuring plan for the non-bank asset backed commercial paper. The US stock selection profile for PanAgora showed modest sector bets.

Combined EAFE equity managers underperformed the MSCI EAFE Index in the 1st quarter by – 17bps for the 1st quarter and -4.0% for the year. Harris was a bright light in the global equity mandate adding +524 bps over the MSCI World Index in the 1st quarter.

On the fixed income side, B. Curwood noted that the underperformance of the Diversified Bond Fund of -773 bps for the year ending March 31, 2009 was impacted by to Alliance Bernstein's bonds selection and overweight position in corporate bonds affected by the bond spreads.

Stephen Foerster asked about the 4 year return analysis with regards to value. B. Curwood explained that the returns were fine for years 1-3 and that the issues in poor performance are attributable largely to the returns for the 4th year. In particular he noted that the pension funds were negatively impacted by four issues:

- Non - bank ABCB – but this was a relatively minor effect;

- EAFE performance could have been better;
- All equity managers were hurt; and
- Alliance Bernstein's overweight in corporate bonds and becoming a victim of the growing spreads.

B. Curwood commented that if we don't get an improvement from Alliance Bernstein in the 2nd quarter of 2009 we may want to consider a new manager search.

M. Bélanger reminded the board that all actively managed investment options were outperforming their benchmark over 3-year and 5-year horizons at the end of 2007, but that the 2008 markets negated all that value added. Stephen Foerster inquired about putting equity in a passive mandate in light of the 4 year returns. B. Curwood advised that a lot people are looking at passive over active but noted that last year was more dramatic than anyone would have thought. In particular, there was an absence of safe havens except gold and government bonds. B. Curwood noted that we need more tranquil markets to get some return on active market bets and that it is not the right time to consider going to a passive strategy but maybe something to consider a year hence. He advised that there have been a lot of changes to the portfolio and there is an upside in value but we have not seen it yet. The unusual markets in place 2008 have hurt the portfolio. S. Foerster suggested that perhaps it is time for the Board to re-consider its views on active management.

8. Update on Non Bank ABCP Restructuring

M. Bélanger advised that after contacting 6 firms, PIMCO was selected as the best firm to provide the valuation report. The report will be provided at the next meeting. Several firms contacted did not respond, while one firm felt that the size of the portfolio in question was too small. M. Bélanger noted that Merrill Lynch has an interest and a good understanding of this market and might be an option as a Liquidation Manager. He reported two recent transactions. One sale was for .35 cents on the dollar for A1 notes which would translate to about .28 cents for us as only 58% of restructured notes held by the retirement plans are A1 notes.

A. Magahey reported that the draft amendments would be presented to the Board at the June 17th, 2009 meeting along with a draft communication time line. A review of the Liquidating Trust would be done to determine what changes if any would be required.

9. Update on Canadian Equity Value Manager Search

M. Bélanger advised that a Canadian Equity Value manager search may include more than replacing Alliance Bernstein. Currently 4 of the Canadian managers are all holding many of the same stocks. There is an opportunity to do some re-organization and possible options include: a) finding a replacement for Alliance Bernstein, b) dropping Highstreet or Connor, Clark & Lunn c) maybe adding a small cap manager and d) moving the value mandate to Connor, Clark & Lunn. M. Bélanger will be meeting with a few prospective managers in the coming weeks and members of the board are welcome to attend. One manager on the list is Beutel Goddman who is used by the University 's Operating and & Endowment Fund and could be a good option. Stuart Finlayson commented that from the perspective of the Operating and Endowment Fund this manager has provided excellent service. J. O'Brien asked about the timing of this change and commented that it may be advisable not to delay this decision into the fall. It was agreed that a special meeting could be held in July as this would be preferable to waiting until September to deal with this issue. At that meeting, the preferred manager would be invited to attend.

Stephen Foerster summarized that we were currently rebuilding the strategy for the Canadian portfolio and there would be meetings with candidate managers in June and the aim is to have the identified manager and strategy reviewed by the Joint Board in July, it was agreed that the last two weeks of July would be the best times for the majority of the board for this special meeting and possible dates for this meeting would be provided. Stephen Foerster asked Martin Bélanger to provide the goals he's trying to achieve with the reorganization of the Canadian Equity Fund and the potential changes that he's contemplating.

10. Administrative Staff Pension Board Vacancy
Martin Bélanger advised that an election process was started to replace Pat Loria who was no longer on the Board. The calls for nominations would be on Monday June 1st, and he would advise the Board at the June 17th meeting as to whether there was going to be an election which would likely be held on either June 24, or June 25th looking to notify the winner on June 26th, 2009.

This position on the Administrative Staff Pension Board is for a term running from July 1, 2009 to July 1, 2012.

11. Other Business

Motion to Adjourn: Michelle Loveland
Seconded: Stephen Hicock
Meeting adjourned at 11:25am

12. Subsequent to the meeting the following motion was approved by email:
A motion to approve the Financial Statements for the Master Trust with a correction to note 5 to the Financial Statements.

Moved: Michelle Loveland.
Seconded: Stephen Foerster.