WESTERN RETIREMENT PLANS
Statement of Investment Beliefs

Investment Belief	**Rationale** *(Basis behind the belief)*	**Supporting Research** *(Practical or Academic Research Supporting the Belief)*	**Investment Strategy** *(How the investment belief can be exploited)*	**Organization** *(Links the practical exploitation of the belief to organizational choices and performance measures)*
1. Good governance policies improve investment returns	• Intuitively, one would expect that over the longer term, well-governed funds should be able to generate higher returns.	• Curwood, Bruce. "A Comprehensive Risk Management Framework for Investment Funds", *The Journal of Investment Consulting*, Vol. 8, No. 2, Summer 2007, pp. 55-67 • Curwood, Bruce. "Narrowing The Knowing-Doing Gap In Investments Through Effective Fund Governance", *Russell Investments Monograph*, October 2006. • Ambachtsheer, Keith, Capelle, Ronald, and Lum, Hubert. The Pension Governance	• Develop a Statement of Investment Policies and Procedures to facilitate efficient operations • Develop appropriate risk management processes • Delegate authority appropriately between Joint Pension Board and administration	• Review SIPP at least once a year • Review metrics of the risk management process • Review the application of the Joint Pension Board principles every year • Joint Pension Board approves policies and is ultimately responsible for results attained • Administration designs and implements policies directly and through contracted agents

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		Deficit: Still With Us", *Rotman International Journal of Pension Management*, Volume1, Issue 1, Fall 2008.		
2. Diversification is a risk management mechanism; it should provide protection in the downside	• Combining assets with correlation of returns lower than one should reduce the volatility of a portfolio	• Modern Portfolio Theory • Markowitz, Harry. "Portfolio Selection", *Journal of Finance*, pp. 77-91, 1952.	• Build portfolios that are diversified by: 1) asset class (debt, equity, cash, REITs); 2) active / passive management; 3) sector; 4) region; 5) investment style	• Monitor the risk of the portfolio • Select investment managers with a demonstrated ability to protect investors in the downside
3. Asset classes have specific risk/return characteristics	• Cash is usually the lowest returning asset class for a long term investor and should in most cases be minimized. • Equities should outperform bonds over the longer term • Emerging markets tend to be riskier than other equity markets due to poor legal enforcement, and disclosure, as well	• Historical return database	• Steer members toward equities at younger ages • Limit exposure to emerging markets	• Prepare communication material highlighting the benefits of investing for the long term • Determine an appropriate level of risk to expose the portfolios to • Offer a broad range of investment options to take into account the risk tolerance of our membership

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	as greater volatility.			
4. Alternative investments should be considered on a case by case basis	• Alternative investments typically have low correlation to capital markets (potential diversification) and usually higher costs. • Transparency is a problem with alternative investments; would increase the amount of internal resources to monitor them • Real estate is not a diversifier when we look at members' total portfolio, but could be to some extent if it is not residential in London, Ontario • Special hurdles for DC plans versus DB plans; e.g. communication, education and liquidity	• Smith, Mike. "Private Equity's Strategic Role in Institutional Investment Funds", *Russell Consulting Practice Note*, October 2000. • Eidelson, Bruce A. "Constructing a Real Estate Portfolio", *Russell Research*, June 2007. • Ansley, Craig. "Asset Allocation and Alternative Investments: How to Make Prudent and Profitable Decisions", *Russell's Research for Excellence*, 2004. • Ross, Leola B. "Risk Exposure and Hedge Funds", *Russell Research Commentary*, November 2002.	• Add appropriate alternative investments as diversifiers • Focus on non-residential real estate	• Select only transparent and highly liquid alternative investments • Special communication and education needs

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		• Collie, Robert. "Ten Things Investors Should Know about Hedge Funds", *Viewpoint*, September 2001. • Ilkiw, John, Scheer, Karl, and Payne, David. "Relative Importance of Manager Selection in the US Private and Public Equity Markets", *Consulting Practice Note*, January 2003. • Broad, Carol. "Why Invest in Real Estate?", *Russell Investment Group*, April 2005.		
5. Portfolio rebalancing allows us to maintain the risk of the portfolio, but is the member's responsibility (except for the Balanced Growth & Balanced Income funds).	Re-establishing the portfolio to its target asset mix has several advantages: • Since accurately forecasting equity returns is hard, it is extremely difficult to identify clear patterns	• Winkellman, K., Tavares, C. and Misra, R. 2008. "Rebalancing Policy – Time to Revisit?" *Global Investment Strategies Research Note.* November 2008. • Masters, S. 2002. "Is	• Maintain a policy to systematically rebalance the two balanced funds	• Establish threshold for rebalancing the Balanced Funds • Ensures that monthly cash flows are taken into account to reduce the transaction costs • Provide education and communication

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	that would allow a drifting policy to outperform. • Over several market cycles a rebalancing policy dominate a drift policy, as the former has lower drawdowns, on average, and achieves the same long run target return • Exploiting timing requires substantial investment knowledge and risk (deviations in weights). • If investors' long-term views on asset returns haven't changed, they should maintain their rebalancing policy, as rebalancing will allow them to maintain the risk of their portfolio at a constant level. • Consistent with the principle of selling high	There a Better Way to Rebalance?" *AllianceBernstein Global Investment Research.* • Weinstein, S., Tsai, C. and Laurie, J. 2003. "The Importance of Portfolio Rebalancing in Volatile Markets." *Retirement Planning,* July-August 2003.		material to members on the benefits of rebalancing

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	and buying low.			
6. Active management may add value in some markets but passive management is the Pension Board's default choice	It is the belief of the Joint Pension Board, based upon the survey of research that has been done for the Board, advice from the Board's investment consultant, and the Board's own historical experience, that in general active investment management cannot be expected to outperform passive management on a risk adjusted basis. Furthermore, the Board recognizes that active management is more costly than passive management. Finally, passive management has the advantage of making investment choices clearer to members. Possible grounds for exception:	• Yasenchak, Richard. "Active Management Headwinds Reverse Course", *Russell Research*, May 2009.	• Maintain active investment strategy for global equities, international equities, U.S. small cap equities, international fixed income and money market; maintain passive investment strategy for U.S. large and mid cap equities and Canadian fixed income.	• Monitor the success of active investment strategies • Keep up to date with research on active management • Consider performance based fee for active managers

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	• Implementation problems: for some asset classes it may be difficult to adopt a completely passive management policy. • Attractive active management: in some instances there may be good reasons to believe that such a manager could achieve out-performance and be easily monitored as to effectiveness. • No clearly attractive passive benchmark available. • Asset classes where superior active management has consistently added value to the benchmark, net of fees.			
7. Liquidity is extremely important for a Defined contribution	• If members are to be free to make investment changes on a monthly	• UWO Joint Pension Board Principles	• Invest in investment products that offer at least monthly valuation	• Ensure that investment managers can meet our monthly cash flow

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plan	basis, we need to offer only investments that have significant liquidity		• Invest in asset classes that offer significant liquidity and are less susceptible to face a liquidity crunch	requirements • Monitor the liquidity of our investments
8. Market timing doesn't generally work	• It is very difficult to repeatedly time the market through ongoing changes to the equity/bond mix and in individual elements of the portfolio	• "Short-Term Market Pains Can Lead to Long-Term Gains", *Russell Update*, January 2008.	• Build portfolios using a strategic asset allocation	• Regularly revisit long-term return assumptions • Stick to monthly valuation to prevent members from timing the market
9. Investment costs must be monitored	• Costs have a significant impact on pension accounts over the long term	• Internal research, annual report, annual member meeting	• Portfolio returns must be evaluated on net of fees basis	• Review investment costing – find a benchmark for our costs • Take fees into consideration when selecting managers • Monitor costs of retail investing
10. Foreign currency hedging is desirable to reduce risk	• Due to the diversity of our membership, members should be provided the choice to select a hedged or unhedged product	• Curwood, Bruce, Maeda, Yoshimori, and Robinson, Mary. "Currency Hedging Policy Formulation for Canadian Investors",	• The largest factors in considering a hedging policy are the proportion of equities invested outside of Canada and the	• Proportion of equities outside Canada needs to be monitored and investors' time horizon need to be assessed

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	• Where fund unable to allow selection (e.g Balanced Income & Balanced Growth funds), we need to provide for some currency hedging on assumption that most UWO plan members would have obligations in CDN$	*Russell Research*, October 2005.	investor’s time horizon • Implement passive currency hedging strategies, unless the manager has a proven capability in active currency management.	