JOINT PENSION BOARD MEETING

October 20, 2010

9:00 a.m.

SSB 4220

PRESENT: Stephen Foerster, Cindy Servos, Krys Chelchowski, Ab Birch, Martin Bélanger, Louise Koza, Jim Loupos, Michelle Loveland, Andrea Magahey.

Guests: Bruce Curwood, Russell Investments

Regrets: Jane O'Brien, Prof. Craig Dunbar, Lynn Logan, Prof. Stephen Hicock

1. Changes to Agenda:
No changes to the Agenda required, L. Koza will be speaking to a matter under other business but this will be done after the matters for approval have been completed instead of at the end of the agenda.

2. Approval of September 20th Minutes:
Motion: A. Birch
Seconded: M. Loveland
All in favour - Minutes approved.

3. The Governance Self Assessment Questionnaires

The Governance Self Assessment Questionnaires for each pension plan were reviewed by the board and discussed. A few updates were made to the questionnaires that were approved by the Academic and Administrative boards last year. The boards will be reviewing the questionnaires for the pension plans on a regular basis. The updated questionnaire for each pension plan will be prepared, reviewed by the respective Academic or Administrative Board. Following a discussion on the content of the questionnaires a suggestion was made to include the statutory filing worksheet as an appendix to each pension plan's governance questionnaires.

Motion to approve the 2010 Self Assessment Questionnaire for the Academic Pension Plan
Motion: S. Foerster
Seconded: M. Loveland
All in favour

Motion to approve the 2010 Self Assessment Questionnaire for the Administrative Staff Pension Plan
Motion: K.Chelchowski
Seconded: C.Servos
All in favour

4. Statement of Investment Beliefs
The Statement of Investment Beliefs that was adopted by the Board earlier this year was reviewed again to ensure that no changes or amendments to the statement were needed. The

Statement of Investment Belief will be reviewed annually like the Statement of Investment Policies and Procedures (SIPP). It is not a required document but rather has been developed as a useful reference for the board. Bruce Curwood advised that adoption of a Statement of Investment Beliefs is consistent with best practice and something that more plan sponsors and administrators are starting to do. The supporting research for the content of the statement is all linked into the document. The possibility of combining the Statement of Investment Belief with the SIPP into the one document for each pension plan will be considered for the next time the documents are brought to the Board for approval.

Motion to approve the Statement of Investment beliefs
Motion: S.Foerster
Seconded: A. Birch
All in favour

Other Business

L. Koza updated the Board in regard to contingency plans in the event that either or both of the current unions in a strike positions were to go on strike in November.

5. Update on Joint Pension Board priority "Enhancing our Education programs"

Martin Bélanger reviewed the current education initiatives provided to members and discussed the plans to enhance those initiatives by improving the retirement plans website and to introduce a tool so that members can have access to GAP statements. In 2009 we provided over 1100 counselling hours to individual members, and we are developing a tool to obtain feedback post counselling. The Financial educator website is free for all members and currently has 661 registered users. We offered four one-day financial and retirement planning workshops in 2010. There are typically about 40 participants, including spouses. The feedback from participants remains positive, although we are still having problems engaging faculty members. It was suggested to offer weekend sessions to increase attendance. Though we make substantial efforts in delivery of education programs this is a challenging area that we will be focusing on. The Board suggested possible resources to be considered in the development of enhanced education programs including accessing the learning expertise of colleagues in teaching services. Improved education initiatives may include efforts to reach out into the work environment, the development of shorter sessions, and narrow topics of specific interest.

Communication and education to members is to be a major focus for the priorities for 2010 and in 2011. The board will be asked to provide direction in feedback on various education initiatives as they are being developed. A working group will be formed to develop the educational initiatives and an invitation will be extended to interested board members to join.

Andrea Magahey reviewed the presentation from Watson Wyatt on Creating an Optimal DC Journey Plan. Continued improvement of communication and education resources for DC plan members is becoming a focus for many DC plans. Member education ideally would include members being encouraged to understand the importance of setting an individual retirement goal and monitoring progress to that goal. Gap statements will enable members to set a retirement goal and track their progress. A communication plan for the pension plans will be developed and this will include messages and resources for member education.

6. Joint Pension Board Elections
Andrea Magahey advised the board that one member of each board has their term ending in June 30, 2011. Consequently a call for nomination for both boards will be released shortly and if necessary an election will be held. The call for nominations will occur around the end of October.

7. Pension Newsletter Content
The Board was provided with the proposed content for the 3rd newsletter.

Motion to Adjourn: K.Chelchowski
Seconded: M. Loveland
All in favour

Meeting adjourned at 10:50am

SSGA Manager Review Meeting
Investment Manager Review
2010-10-20

Board members were invited to stay for the SSGA Manager Review

Michelle Loveland, Andrea Magahey and Martin Bélanger met with Catherine Biernis of State Street Global Advisors (SSgA). The following individuals from SSgA also joined by conference call: Claudio Ferri (fixed income manager), Sophie Mayrand (S&P 500 and S&P Midcap), Mark Abbott (head of currency).

<u>Organization</u>

Catherine Biernis gave an overview of the organization and the changes it has gone through in the past year. Sophie Mayrand has been with SSgA for 12 years, Claudio Ferri for 10 and Mark Abbott for 15.

Since the beginning of 2010 there have been several changes. Gregory Chrispin, the former SSGA President left to become Chief Investment Officer at Desjardins. He left for family reasons as moving up within SSgA would have involved relocating to either Boston or Toronto. He was replaced as President by Peter Lindley who is also Head of Investments. Peter Lindley has been with SSgA for 5 years. Denis Sénécal is the new Head of Fixed Income. They also have 3 new individuals on the fixed income team, including 2 on the credit team. There are 8 people in total in fixed income. The cash and fixed income teams have been amalgamated under one team. Yves Desjardins, who was UWO's lead manager on the passive fixed income strategies left in May and went to work for PSP, the public pension fund where Nick Arvanaitis (the previous Head of Fixed Income) went. Two individuals in total left following the departure of Nick. It is disappointing that the departure of Yves Desjardins was not even communicated to us at the time. As a result of this change, Claudio Ferri will take over the passive fixed income strategies. The team currently has two portfolio managers, Claudio and Jean Gauthier. Jean Gauthier is in charge of cash management. Jean Gauthier and Denis Sénécal also work together on global fixed income mandates.

There have been changes on the currency team too. Yan Dépin left to start his own firm and was replaced by Mark Abbott who was promoted from the operations team.

Patrice Denis, Head of Sales, Client Services and Consultant Relations left for PIMCO. He had been with SSgA for 7 years but only for one year in his current role. No replacement has been announced yet.

They will be adding to the team in the coming months.

One of the key tasks that Peter Lindley worked on in the past few months is improving the stability of the investment team. Compensation was reviewed to ensure it was competitive.

The entire SSgA firm has 2500 employees worldwide, including 445 investment professionals. They have made some personnel changes at the broader company level to address poor performance. Paul Brakke, who is in charge of passive equities will retire at the end of the year. He'll be replaced by Lynn Blake who has been the head of the Global Structured Products team for 18 years.

Regarding clients' turnover, the client listing in Canada has been stable according to Catherine Biernis. She mentioned that one client left. Catherine Biernis will provide a detailed list of clients gained and lost. They have experienced some redemptions related to securities lending.

The personnel turnover experienced by SSgA Canada is a concern. It is a positive development that the Head of Investments has made a priority of improving the stability of the investment team.

<u>Review of Canadian Fixed Income</u>

Claudio Ferri is now in charge of the passive strategies (Canadian Bond Fund and Long-Term Bond Fund) since the departure of Yves Desjardins. Christian Hoffman was currently managing the portfolios, following Yves Desjardins' departure. Claudio is also in charge of the TDFs, the Immunized Bond Funds and the Money Market Fund. Claudio doesn't expect more interest rate hikes until the first half of next year.

Claudio mentioned the controls that are now in place regarding the pricing of the Money Market Fund to ensure consistency between SSgA and Northern Trust. Currently the portfolio has a very short duration because of the recent rate hikes by the Bank of Canada. They expect to invest in longer term floating rate notes.

The Canadian Bond Fund experienced a higher than normal tracking error. The one-year tracking error as of August 31, 2010 was 19 bps. Claudio mentioned that 30% of the tracking error is due to differences in pricing between SSgA and Northern Trust. The market volatility has caused the portfolio to be not as optimal as they would have liked. They also have a slight overweight in corporates. It is worrying that the increase in tracking error also coincides with the departure of the lead portfolio manager on the strategy and that they are moving Claudio back in charge of the strategy.

The tracking error of the Long-Term Bond Fund was also higher than usual as of August 31, 2010 at 15 bps. Claudio said that the higher tracking error was caused by an increase in volatility at the long end of the yield curve.

Regarding the TDFs, there was a $90,000 unrealized gain in September for the TDF 2012. Cash flows are tougher to match on the Immunized Bond Fund. Provincial spreads have tightened a lot.

<u>Review of Passive U.S. Equities</u>

Regarding the passive U.S. equity strategies, there's a new global Head of Indexing, Lynn Blake. The Global Structured Product Group had assets of $618,197,000 as of September 30, 2010. The tracking error on the S&P 500 strategy was caused by corporate actions.

Regarding the S&P Midcap 400, the tracking error in US$ has been acceptable. There's more turnover with the S&P Midcap 400 strategy.

No environmental, social and governance criteria are used on these strategies, although SSgA does manage about $38 billion in strategies using ESG criteria.

David Chin is the manager of the S&P 500 and S&P Midcap 400 strategies.

The tracking error on the hedged strategies is caused by the timing of cash flows. Contributions are received the last day of the month but they used the previous day pricing. The following day the gains and losses coming from the currency hedging are reinvested.

There are three reasons for the tracking errors on the hedged strategies: 1) the underlying equity fund performance; 2) the currency hedging strategy and 3) the interactions between the gains and losses coming from hedging and contributions. In September 2010 there was a cash flow of 4% of total assets and the market went up. The tracking error over the last 12 months was 39 bps but it was concentrated into four months (October 2009, June 2010, August 2010, September 2010). The foreign exchange transactions are made in Boston.

To reduce the tracking error it was suggested that the proceeds coming from the currency overlay should remain in U.S. $. We could also reduce the size of the cash flows.

Mark Abbott discussed the counterparties used for currency hedging. Their strategy is to spread the risk. Using a larger number of counterparties, like the Operating & Endowment Fund is doing due to its 15% limit on counterparty, increases fees by $500 to $1000 per month.

<u>Compliance Review</u>

There are no compliance issues and no legal issues other than those previously reported. The only material issue coming from their latest regulatory review performed by the SEC was regarding securities lending. They were asked to change the way they communicate with their clients to ensure fairness.

Conclusion

The recent developments at SSgA are a cause for concerns, especially given the significant assets that the University has with them. There are some indications that the personnel turnover may have contributed to the higher tracking error of the passive strategies. SSgA mentioned that it was caused by market volatility but it also coincided with the departure of the previous manager. In addition, the client servicing that we've been receiving from SSgA has been substandard. I recommend that we start investigating potential back up managers for the strategies managed by SSgA