JOINT PENSION BOARD MEETING

September 20, 2010

9:00 a.m.

SSB 2390

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

Guests: Bruce Curwood, Russell Investments

Regrets: Jane O'Brien

1. Changes to Agenda:
No changes to the Agenda required

2. Approval of June 14 Minutes:
Motion: C.Servos
Seconded: Jim Loupos
All in favour - Minutes approved.

3.Board Chair Election:
Chair for the Administrative Staff Pension Board – Jim Loupos
Motion: Lynn Logan
Seconded: Cindy Servos
All in favour

Chair for the Academic Pension Board – Professor Stephen Hicock
Motion: Michelle Loveland
Seconded: Craig Dunbar
All in favour

Chair for the Joint Pension Board – Jim Loupos
Motion: Michelle Loveland
Seconded: Lynn Logan
All in favour

4. Second Quarter Performance Review
Bruce Curwood presented the 2nd Quarter Performance Review. Concerns in the markets likely attributable to Europe's financial crisis caused a belief that the markets were softening which drove gold, silver and other precious metals and their stocks up significantly. Consequently, equity managers would have needed to have been overweight in gold to hit top quartile performance. Most managers would not have overweight in gold relative even to their corresponding indexes. In Canada value managers under performed relative to growth managers.

The Balanced Growth Income Fund has had 1st quartile performance over last year. Connor, Clark & Lunn have provided 1st quartile performance. A discussion regarding the rating review change from Russell Investments on AllianceBernstein followed. AllianceBernstein would be attending today for a manager review meeting after the Joint Pension Board meeting. Much of the review rating change is driven by the unknown impact of changes in the responsibilities of members of the senior management team. On the US equity side performance has been good for the year with 226 bps of value added over the policy; currency hedging was not beneficial this quarter though it has been over the long term. PanAgora has added value in the past few weeks although it still underperformed in the last quarter. Harris continues to outperform the benchmark and provide significant value added. Fixed income performed well with 1st quartile performance from the Diversified Bond Fund, and AllianceBernstein for the year. Martin Bélanger noted that the 2016 Target Date Fund had a deviation for excess cash at inception that has since been remedied. Bruce Curwood will provide an update on Fidelity as the manager has been rated “Review” by Russell for about three years now.

5. Joint Pension Board Retreat Summary

A summary of the comments on the priorities for the Joint Pension Board was reviewed. A preamble will be added to the report provided to the board to ensure that it is clear that these were comments and rankings of various possible priorities that the board was considering.

Communication and education to members will be a major focus for the priorities for 2010 and 2011 and the board will consider its role in the development and implementation of these initiatives.

6. 2010-2011 Joint Pension Board Work Plan

The work plan developed from the priorities identified at the Joint Pension Board Retreat was reviewed. It will be used to inform the work that the board will be undertaking in the 2010/2011.

7. Update on ABCP

11.2% of the Liquidating Trust units have been sold by members to date. An additional 3% of the Liquidating Trust’s Notes were presold as authorized by the board to ensure that there is cash in the portfolio to meet future redemption demands. The board has authorized that up to 20% of the Notes can be pre- sold to manage the liquidity needs and de-risk the portfolio. The market for the Notes slowed in the summer and larger sell orders attract better prices so no Notes were sold over the summer months but we expect to sell Notes in September.

8. Kilgour Advisory Group Quarterly Report

The report from the Kilgour Advisory Group was discussed the unknown but possible risk of changes in US regulation on the Notes was discussed. The issue is being monitored by external consultants and external counsel. The last newsletter article on the ABCP update referenced this issue.

9. Aberdeen Investment Monitoring Report

The board reviewed the investment management report from Mercer on the Aberdeen Asset Management Ethical World fund (SRI Fund). This review is undertaken by Mercer as Russell Investments does not undertake these reviews. The review concluded that the SRI team’s capability had been strengthening resulting in upgraded ratings, the performance returned 1.9% (gross) as opposed to -2.2% for the MSCI World Index for the five year period ending June30, 2010 and there is generally a lack of such alternative investment in the socially responsible universe for DC pension plan, and as such, no action to make a change in manager was recommended. To date the member participation has not hit the 5 million dollar level that is normally required by the manager for institutional fund management rates. An extension was obtained previously for the Western plans to enable more time for participation and contributions to the fund to grow while charging the institutional rate for the fund. This extension is due to expire in February 2011 and Western will need to secure an extension or consider some other negotiated resolution regarding rates. Though the participation to date has not been as robust as anticipated there is a segment of members who need to have this type of investment option.

11. Other Business
No other business at this time.

Motion to Adjourn: L. Logan
Seconded: C. Dunbar
All in favour

Meeting adjourned at 10:15am

AllianceBernstein Manager Review Meeting

Board members were invited to stay for the AllianceBernstein Manager Review

In attendance (to confirm): J. Loupos, S. Foerster, M. Bélanger, B. Curwood, A. Magahey, S. Hicock, M. Loveland, L.Koza, Ab Birch, D.Chymyck

Kevin Boreen, Scott DiMaggio and Michael Parsons of AllianceBernstein provided the annual review.

Michael Parsons gave an overview of AllianceBernstein corporate structure. Assets under management as of June 30, 2010 were C$486 million firm wide and C$24 billion for Canadian clients. Although equity assets are down from late 2008 due to the market downturn and client terminations, fixed income assets are slightly up, by about $300-$500 million. The firm has 64 value analysts and 58 fixed income analysts. They recently hired a fixed income analyst who previously worked at Credit Suisse. There has been some attrition in the Value team, mostly on the retail side of the business. There's typically a 10% annual turnover for analysts. Senior portfolio managers on our account have been with the firm for more than 20 years.

Michael Parsons discussed the recent appointment of Sharon Fay as CIO of Equities and addressed the concerns that she won't have as much time to devote to the Value team. She has delegated some of her administrative duties, such as sitting on information technology committees, to alleviate the burden.

We also discussed headcount at the broader company level. From a peak of about 5000 employees company wide, total headcount is now about 4400. Some cuts were made in performance analytics. Although Michael Parsons assured us that there would be no impact on the quality of servicing, we need to keep monitoring this.

Kevin Boreen reviewed the performance of the International Value mandates. Both international value mandates significantly underperformed for various investment horizons under 5 years. Global stocks fell in the second quarter because of concerns about Europe, uncertainty about China's economic growth and a possible double dip in the U.S. The main detractors to performance were Barclays, a U.K. based financial services firm, Xstrata, Kazakhmys and Rio Tinto, three companies in the Materials sectors negatively impacted by concerns about China, Esprit, a Hong Kong based clothing company impacted by concerns about Europe, BP, Thomas Cook, a travel agency impacted by the Icelandic volcano and Nokia. Contributors to performance include Electrolux, Casino, Carlsberg, BMW, AstraZeneca and Telstra.

The International Value mandate also underperformed the MSCI Value index. The explanation given by Kevin Boreen is that AllianceBernstein's value style is deeper than the MSCI Value index, i.e. stock prices are more depressed. AllianceBernstein tend to outperform the broad MSCI EAFE index when value outperforms growth and vice versa. AllianceBernstein feels that the portfolio is well positioned to do well in coming months due to four factors: 1) low valuations in the portfolio, 2) strong balance sheets with lots of cash, 3) cash can be redeployed to increase dividend or buy back shares and 4) equities are attractively valued across most sectors. Global equities currently trade at a price-to-book ratio lower than the historical average, the indebtedness of companies is at record lows and companies are generating more cash flows than ever.

Kevin Boreen then gave us some perspectives on the value style Setbacks are typical of every value recovery as value portfolios trail the market during the early part of a market recovery but tend to do better at the end. Kevin Boreen advised that the UWO portfolio is well positioned in terms of value and cash flows to do well in the future. As of June 30, 2010 the price-to-cash flow ratio of the portfolio was 4.6 times, compared to 5.8 times for the MSCI EAFE Index. In addition, 35% of the portfolio is made of companies with a cash flow yield greater than 10%, compared to 21% for the index. This combination of low valuation and strong cash flows could benefit the portfolio through share buybacks, dividend increases, P/E multiple expansions and takeovers.

In terms of changes to the portfolio, in response to the volatile environment they have purchased stocks with stronger balance sheets and lower volatility. More specifically, they have purchased or added to their position in Novartis, Asahi and Japan Tobacco due to changing industry dynamics, while they have sold or trimmed Hynix and Bayer for the same reasons. Changes in company fundamentals have triggered increases in Bouygues and Sony and decreases in Wolseley and Deutsche Post. Credit fears have led them to purchase National Australian Bank and sell Banco Santander and Crédit Agricole. Finally, they have added Vale and Xstrata and reduced BASF in response to China’s economic growth.

AllianceBernstein provided an analysis on two companies in the portfolio: Capgemini and BP. Capgemini is an information technology services company which operates in business segments that tend to recover from through later stages of an economic cycle. The company has also increased staff in cheaper offshore markets, which should give it a competitive advantage. The firm is attractively valued on a P/E basis and generates strong cash flows. BP is an oil company and AllianceBernstein feels that its stock has been overly penalized by the oil spill. The company’s market capitalization dropped by US$97 billion while losses caused by the spill will be around US$40 billion. Even after potential costs are factored in, BP still trades at a discount to its net asset value.

The portfolio characteristics are in line with what is generally expected from a value manager. Price-to-earnings, price-to-book and price-to-cash flow ratios are all significantly lower than the index, while return on equity is slightly below the index.

Martin Bélanger asked AllianceBernstein to provide an update on their emerging markets exposure and their policy regarding environmental, social and governance (ESG) factors. The maximum the portfolio can invest in emerging markets is 10% and it is currently at around 6%. They’re typically invested in industrial commodities and energy, but they find compelling opportunities in various sectors and valuations for emerging market equities are in line with those of developed markets. They normally take a more holistic global view and they tend to obtain significant exposure to emerging markets through global companies. Regarding ESG factors, they recognize that sometimes they have a significant impact. If a company faces an issue that is related to ESG factors, an alert message will show on their research system for that company. They also buy ESG data from specialized providers.

Scott DiMaggio presented the review of the Canadian Core Plus Fixed Income Fund. They try to add value through security selection, sector allocation, country/yield curve decisions and currency management. Performance has been great over the past year with 590 basis points of value added over the one year period ending August 31, 2010 and 230 basis points of value added year-to-date. Year-to-date their overweight in commercial mortgage-backed securities (CMBS), their overweight in investment grade corporate bonds, shorting the Euro and overweight in Canadian bonds have added value. Their underweight in sovereign debt, overweight in provincial bonds, exposure to Norwegian Krone, Japanese Yen, shorting the U.S. dollar as well as their overweight in Australian bonds have detracted value.

Their view is that the global economic recovery will continue as leading indicators point to a continued expansion. Emerging markets are doing well but they're getting expensive. They believe that capital preservation will become more important at some point. They are in the process of reducing their underweight in Canadian bonds, their exposure to European banks, as financials are getting expensive, and they are maintaining their short position in the Euro. They don't have any exposure to Portugal, Ireland, Italy, Greece and Spain (PIIGS), the European countries with the most problems. They have taken exposure off riskier names and transferred to safer ones. Credit spreads remain above average in some sectors (investment grade corporates, global high yield bonds and U.S. AAA CMBS), so credit risk is still worth taking, but not as much as in the past. They are underweight interest sensitive sectors and they work closely with the equity team to analyze companies. In order to reduce the risk of credit spreads widening, they have maintained a longer duration in the portfolio to pick up additional yield. They feel that Canada will experience a stronger recovery and that rate hikes are already priced into the currency. They are favouring the U.S. over the core European area and Japan due the steeper yield curve in the U.S. and they are maintaining their significant underweight in the PIIGS countries.

Martin Bélanger asked AllianceBernstein to go over their exposure to emerging markets and high yield bonds. As of August 31, 2010, 4.6% of the portfolio was invested in emerging markets and 4.1% was invested in high yield bonds (BB or lower).

Martin Bélanger asked Michael Parsons whether AllianceBernstein or any of its staff was facing litigation, whether a material issue was raised as a result of a recent regulatory review or if the firm or its staff were in conflicts of interest. Michael Parsons answered no to all of these questions.