

## UNIVERSITY OF WESTERN ONTARIO RETIREMENT PLANS

### AllianceBernstein Review

September 28, 2009 11:00am to 1:00pm

#### **UWO Attendees:**

Stephen Foerster, Professor Ivey Scholl of Business  
Stephen Hicock, Professor Earth Science  
Michelle Loveland, Professor, Management & Organizational Studies  
Louise Koza, Director Total Compensation  
Andrea Magahey, Pension Staff  
Martin Belanger, Director Investments  
Krys Chelchowski, Student Information Services  
Ab Birch, Finance

#### **AllianceBernstein Attendees:**

Michael Parsons Director Client Relationships, Toronto  
Morgan Harding Senior Portfolio Manager –Value Equities, New York  
Scott DiMaggio – Director Fixed Income, New York

**Location:** University of Western Ontario

#### **Organization**

Michael Parsons reported that Alliance Bernstein is doing well and is still a sizable firm. Currently, funds under management in USD (Billions) are \$447 in the 2<sup>nd</sup> quarter of 2009 down from \$462 in 2008 and the 5 year high of \$850. The bulk of the loss in funds under management is attributed to loss in market value, but also lost mandates for the blended business in the UK, strategic value equities and clients with liquidity issues. Alliance Bernstein has a strong commitment to research including having 54 value buy-side analysts. There is continuity in investment expertise in the leadership and senior personnel of the firm.

#### **Investment Personnel:**

Alliance Bernstein has a strong commitment to research including having 54 value buy-side analysts.

In response to a question for Martin Bélanger regarding their new CEO explained that Peter Krause came from Goldman Sachs and was well known to the AXA board when it was decided a change was needed. This change has been positive but has not affected how our account is managed.

#### **Review of Equity Performance:**

Morgan Harding reviewed equity performance and he advised that the intensity of AllianceBernstein 's approach was greater than that of other managers during the downturn, which explains the lower returns, but is expected to improve returns as value factors have performed well during market recoveries. M. Harding also said that currency risk has hurt performance. There is still a good deal of anxiety in the market and volatility should remain high for the foreseeable future.

AllianceBernstein also sees opportunities to rotate the portfolio.

Mr. Harding discussed environmental, social and governance (ESG) issues.

AllianceBernstein considers EGS issues when they impact earnings and risk. He also outlined the ESG alert system to provide research on controversial business issues and evaluate any possible business concern.

He commented that AllianceBernstein has the right factors in their value approach but the recent difficult market and particularly the recent credit market challenges highlighted that some priorities like liquidity may need to be moved forward.

Alliance Bernstein is still in very strong shape and for example it is one of the only three managers selected by the US Treasury to manage its assets under TARP. In terms of future opportunities Mr. Harding commented that the value opportunities in the emerging markets is somewhat higher than in developed markets.

### **Review of the Fixed Income**

Scott DiMaggio discussed the recent challenges in the fixed income market. He noted that volatility in the fixed income market has been extreme and that has caused some poor performance. He advised that the portfolio is well positioned to recuperate the lost value over the next 6 to 9 months. So far only 20-25 basis points of default losses has been locked-in. The benchmark for the fund is 50% Lehman Global Aggregate (hedged to the Canadian dollar) and 50% DEX Universe. He explained that like on the Equity side, Alliance has models that have the right factors but Alliance does realize that recent market challenges mean there is a need to refine how to prioritize them. Liquidity issues are more important now.

Concern was expressed by members of the Joint Pension Board regarding the amount of volatility that was experienced by investors in this fund. This was a particular concern because this is a Defined Contribution Pension Plan and members who are invested in the Diversified Bond Fund would have done it looking to escape market volatility but they did not get that out of this fund. The question was asked of AllianceBernstein if there was anything that could be done differently to limit the volatility that members experienced. Scott Di Maggio advised that there were things that could have been done, such as tightening corporate exposure. However, even a 5-7% overweight in corporates would have hurt a lot last fall. It wouldn't have been in the fund's interest of selling in the middle of the market disruption as there were huge discounts with selling corporate bonds back then.

Credit markets are continuing to recover as debt issues surge and credit spreads start to narrow. Scott Di Maggio was of the view that the fixed income performance would continue to improve. Business and consumer sentiment was improving globally but there was still uncertainty that was keeping 10 year government bond yields extremely low.

### **Compliance**

No compliance issues, Michael Parsons will follow up with written confirmation that there is no ongoing litigation and that the SEC review was without anything to report.