Executive Summary

This is an overview of the proposal for the management of non-bank Asset Backed Commercial Paper ("ABCP") that is currently being considered by the Joint Pension Board ("the Board").

The goals for the management of non-bank ABCP, which have now been converted to Restructured Notes (RNs) are as follows:

- Fairness and equitable treatment between members;
- Management of RNs in a consolidated pool to assist in a search for buyers;
- Timely removal of assets under management with Northwater;
- Removal of redemption restrictions on 5 UWO funds;
- Merging the old funds with the B funds (those established to accept new contributions since the market disruption - not exposed to ABCP);
- Providing members with the ability to re-balance their portfolios separate from the RN sell decision;
- Enabling members to decide when and whether to sell the RNs, and provide a mechanism whereby members have the option to hold their RNs until maturity;
- Consistency with the Joint Pension Board's principles; and
- Reduction of operational risks stemming from the inherent complexity of administering redemption restrictions on the 5 UWO funds.

November 2008 Proposal

In November 2008, the Board approved the appointment of State Street Global Advisors ("SSgA") as manager of 3 mandates: S&P 500 Hedged, S&P 500 Unhedged and S&P Midcap Hedged to replace the current manager, Northwater Capital Management ("Northwater"). Under this proposal, Northwater was to be retained to manage the restructured notes ("RNs") that would be received in exchange for the non-bank ABCP as part of the CCAA restructuring plan, and would apply a stock index futures overlay to maintain the equity exposure on the RNs. This "equitization" of the RNs would require approximately $17.6 million in collateral under Northwater management together with $17.6 million in RNs. The equitization of the RNs was selected in part because it would provide equity exposure while a liquid market developed for the RNs.

Equitization of the RNs was to be a transitional step with the goal of enabling redemption restrictions, in place since the fall of 2007, to be lifted. The redemption restrictions currently have a significant impact on members' ability to invest and manage their funds. When members want to make changes within the affected funds, a portion of their fund holdings is redeemed held in the form of Liquidating Trust units. The redemption restrictions on the affected funds as of March 31, 2009 range from 1.91% for the Balanced Income Fund to 29.02% in the US Equity Hedged Fund.

Modifications to the November 2008 Proposal

As of April 22, 2009, the “B” US equity funds (those funds with no RNs) have been moved to SSgA. The balance of passive US equity portfolio remains with Northwater and there has been no implementation of the Joint Pension Board’s decision to equitize the RNs. Currently there is no liquid market for the RNs. This situation is likely exacerbated by the worsening global economic crisis and extremely difficult credit markets. The rationale for considering a different approach is as follows:

- No liquid market for the RNs
- Operational concerns raised by Northern Trust with implementing the equitization proposal.

Moreover, the Board identified that that moving funds out of Northwater sooner rather than later is a priority due to:

- A larger tracking error inherent in synthetic strategies, and
- That the recent loss of clients, investment personnel and funds under management could impact Northwater’s ability to manage funds.

The revised approach being recommended is:

- Carve out the RNs from the five restricted funds and transfer them to the Liquidating Trust, resulting in 5878 members holding units directly in the Liquidating Trust (this would require amendments to both Pension Plans and the RIF because members would be holding Liquidating Trust units without electing that investment option);
- Remove redemption restrictions on the affected funds, with the exception of the Liquidating Trust;
- Merge the B funds with the old funds; and
- Search for a buyer for all or some of the RNs, including approaching the Operating and Endowment Fund of the University (subject to related party rules and fiduciary duties).

A decision as to whether to implement the approach would be made by the Board only after the implementation issues have been reviewed, detailed and addressed.

Implementation Issues

This approach raises significant implementation issues. These issues require a thorough review before any final decision to implement would be considered by the Board.

The implementation steps would include:

- Obtaining an expert opinion on the liquidity and valuation for the RNs;
- A draft for plan amendments to transfer the RNs into Liquidating Trust without member consent;
- A detailed valuation approach for the write down of the RNs;
- A review of the Liquidating Trust; and
- A comprehensive communication strategy for members including an opportunity to provide feedback and advance notice on the proposed amendments.

Communications about the advantages of this approach for members will be an important part of the implementation. Recognizing that there may be concerns about the need to amend the retirement plans in order to create member interests in the Liquidating Trust, we will need to carefully communicate that the amendment is simply a mechanism to transfer the RNs to the Liquidating Trust in this isolated situation and not a fundamental change in the powers members have to make investment decisions.

Best Interest of Plan Members

The approach is in the interest of plan members for a variety of reasons. Firstly it would allow for the removal of redemption restrictions on 5 affected funds. Removing the redemption restrictions is in the best interest of all members, even if they're not planning to make investment changes:

- Redemption restrictions can be confusing for some members and could potentially lead to inaction;
- Redemption restrictions are complex to administer and could cause operational risk for members, such as erroneous rates of return or delay in updating pension records;
- Once redemption restrictions are lifted we will be able to merge the affected funds with the "B" funds; this is expected to translate into lower fees for members;
- Members will also be able to trade freely among the 15 regular investment options;
- Initially, the Diversified Equity Fund B was designed to mirror the Diversified Equity Fund, with the only difference being the absence of non-bank asset-backed commercial paper in the "B" fund. Since then, modifications have been made to the Diversified Equity Fund (the addition of two global equity managers). As such, our claim that the funds are similar (which appears on the rates of return sheet and various other documents) is arguably no longer entirely accurate;
- The current situation doesn't allow the pension plans to invest new contributions with Harris Associates and T.Rowe Price. If the redemption restrictions stay in place for an extended period of time, fees will increase with these managers and the relationship could potentially be impacted.

Other benefits of the new approach include:

- Allows members the flexibility to separate the RNs decision from the other investment decisions;
- Enables members to either hold or sell the RNs at their choice, something they cannot do when the RNs are comingled with the 5 affected UWO funds;
- Members could also rebalance their portfolios to the equity exposure of choice;
- This approach can provide for these benefits without the pre-condition of a liquid market for the RNs.

Authority to make the decision

Under the governance structure for the Pension Plans the Boards may make a decision in regard to the treatment of the ABCP for the Pension Plans and is empowered to make plan amendments. However, the University Board of Governors must make the amendment with regard to the RIF program.

A special meeting of the Board will be held on April 24th, 2009 to consider the following:

1.0 Given that there is currently no liquid market for the Restructured Notes such that equitization would not meet the goals for the management of the Restructured Notes, the Joint Pension Board moves not proceed with the November 28th, 2008 decision to equitize the Restructured Notes with Northwater Capital Management Inc.

2.0 A motion that the Joint Pension Board has endorsed a recommended approach for the management of the Restructured Notes, being:

i) carving out the Restructured Notes from the Diversified Equity, Balance Growth Fund, Balanced Income Fund, US Equity Hedged Fund and US Equity Unhedged Fund.
ii) transferring the Restructured Notes to the Liquidating Trust, thereby giving plan members direct holdings in the Liquidating Trust,
iii) merging the" B" funds with the original affected UWO funds; and
iv) removing the redemptions restrictions on the UWO affected funds, with the exception of the Liquidating Trust

This" Recommended Approach" is conditional on a final decision from the Joint Pension Board as to whether to implement this approach after the implementation issues have been reviewed and assessed.

3.0 A motion that the pension administration staff obtain a third party expert report on the liquidity and valuation of the RNs and drafts of the proposed amendments for the retirement plans.