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Long Term Versus Short Term Options

Welcome to the second Lakehead University pension plan newsletter — *The Retirement Plan Review*. This edition provides additional background information regarding the difference between the main plan investments and the Short Term Account option.

Short Term Account

The investment structure of the main plan balances the twin priorities of long-term capital growth and capital preservation. The structure is designed for mid-to-long term investors.

Some members, with a shorter time horizon may not want to subject their pension plan retirement account to the same level of 'volatility' as the main plan. It was for these members that the Short Term Account was introduced.

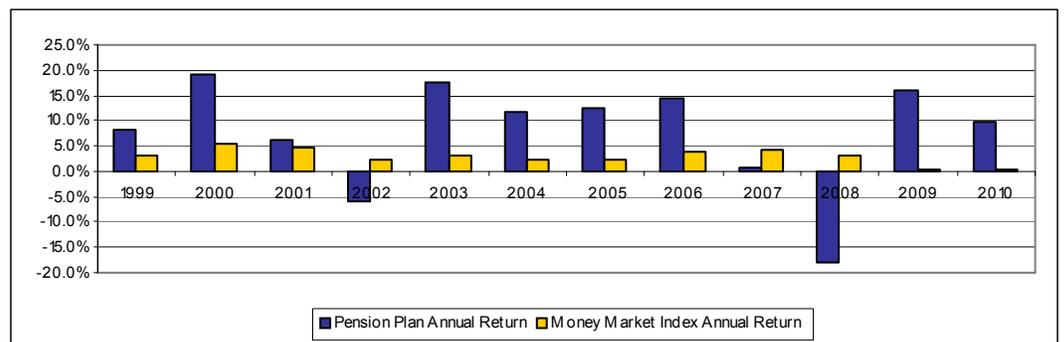
The underlying investment for the Short Term account is currently a money market fund (subject to change) which is expected to be less volatile than the main plan (though it also has a lower mid-to-long term expected return).

As recent years and recent months have illustrated, investing for capital growth can expose investors to significant shorter-term volatility. This effects you as a member since your pension account

is credited with the total plan rate of return every year.

This can be illustrated by examining the chart at the bottom of the page. The chart compares the return experienced by the main plan versus that of a money market investment benchmark. The first thing to notice is that over this period the main plan has experienced negative annual returns from time-to-time while the money market returns have not. The money market benchmark return profile should be similar to the current Short Term Account underlying investment.

As well the overall range of returns has been much larger for the main plan. In other words the returns of the main plan have been more volatile. Over the long-term increased volatility should be rewarded though higher long term returns — and in the case of the pension plan it has — with a 7.1% annualized return for the main plan versus a 2.9% annualized return for the money market benchmark (of course past performance may not be indicative of future performance). However, this added return has not been without added risk for those who have a shorter time horizon.



The Economy and Financial Markets



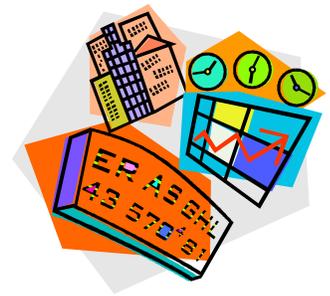
The Review

The Canadian equity market slowed down during the second quarter with the S&P/TSX Composite Index down 5.1%. Losses were led by the technology, energy and the materials sectors as commodity prices corrected from large gains in the previous two quarters. Losses were partially offset by strong performance in the telecom sector. Small cap stocks lagged their large cap counter parts.

Global equity markets posted positive results, outpacing the Canadian equity market, whereas U.S. equity returns were relatively flat. Gains were led by the health care and utilities sectors. The appreciation of the Canadian dollar against most major currency negatively impacted foreign returns to Canadian-based investors. The European region posted positive returns of 2.0% in Canadian Dollars (\$) in spite of concerns of potential economic bail-outs for peripheral European countries. In international markets, the MSCI EAFE returned 1.0% (\$). Emerging markets trailed developed markets as worries

regarding fast rising inflation rates weighed down on the regions.

Fixed income returns were positive as the DEX Universe Bond Index advanced 2.5%. Provincial bond issues led the way returning 3.2% with municipals at 3.0%, corporate bonds returning 2.4% and federal bonds returning 2.2%. Long term bonds outpaced shorter maturities. The spread between corporate yields and Government of Canada yields increased by 4 basis points from 132.5 bps to 136.9 bps at the end of Q2 11. The yield curve shifted downward in a parallel fashion. The Bank of Canada maintained the overnight rate at 1%, while the U.S. Federal Reserve maintained their target of 0 - 0.25%.



The Outlook

Europe's ongoing debt crisis along with the end of stimulus spending in the U.S. have led many to believe that economic growth in Canada has peaked and will slow over the next few years.



Rising levels of household debt is a prominent issue facing Canadian families. Possible higher interest rates and a slowing pace of job creation will

likely cool housing demand over the next year. In contrast to Canadian households, American consumers are expected to increase spending considerably as the last few years have been spent deleveraging.

While an increase in U.S. GDP as well as strong continued expansion in China will help Canadian exporters, export-oriented sectors of the economy will continue to be hindered by a high Canadian dollar.

The impact of restructuring Greek debt on the European banking system is far from known. The prospect of a default by member (s) of the Eurozone is a sobering one and becoming more probable. Austerity measures passed in Q2 11 have alleviated near-term default concerns; however the underlying problem is still prevalent. The Greece debacle has also affected Portugal and Ireland's ability to regain investor confidence. Exposure to this debt has left the rest of Europe and the world watching with keen interest. Moreover, political instability in the Middle East and North Africa provides further uncertainty.

Investment Structure

Lakehead University Main Pension Plan

Lakehead Pension Total Portfolio — The pension plan investment structure is comprised of a number of underlying investment funds managed by various investment management firms (see below). The goal of the investment mix is to provide long term capital growth and capital preservation. The Portfolio is currently invested in Canadian large-cap and mid-cap equities, Canadian bonds, American large-cap and small cap equities and International large-cap and small-cap equities.

Lakehead University Short Term Account

Short Term Account — The Short Term Account is comprised of one underlying investment fund managed by Jarislowsky Fraser (JF). The underlying fund is a money market fund. Money market funds invest in short term interest bearing (or discount) securities of governments, corporation and other short term borrowers with a time horizon generally under one-year. The rate of return for the fund should be consistent with short term Canadian interest rates.

Lakehead's Investment Structure and Managers



Underlying Investment Funds - Main Pension Plan

Balanced Funds

Jarislowsky Fraser Total Portfolio — Invests in the pooled JF Canadian equity and bond funds. The target allocation is a 65-35 split between the two funds. The JF Canadian equity fund emphasizes buying long-term growth at a reasonable price. The JF Bond fund is managed based on safety of principal, conservative duration management, and optimization of yield.

Letko Brosseau Total Portfolio — Invests in the Letko Brosseau RSP Balanced and RSP Equity funds. Equity portfolios typically consist of 80 to 120 companies diversified by sector, geography, and individual security. The process is driven by security selection. In fixed income the emphasis is on high quality bonds that meet the objectives of stability and income. Turnover on fixed income is approximately 10% per year.

American Equity Fund

Advisory Research American Small Cap Value

— Focuses on value-oriented companies with market capitalizations within the range of the Russell 2000 Value Index at time of purchase. Bottom up stock selection is utilized.

Global Equity Fund

State Street Global Advisors (SSgA) — A portfolio of primarily large capitalization global equity stocks that is intended to match the return on the MSCI World Index..

International Equity Fund

Dimensional International Small Cap Value — Invests primarily in securities of small-cap international (non-U.S.) companies.

Fixed Income Fund

Addenda Bond Fund — Invests in a diversified portfolio of bonds and provides investors with interest income and safety of principal along with opportunities for moderate capital growth.

Canadian Equity Portfolio Management – Update

The Pension Board and Pension Advisory Committee jointly moved to terminate the relationship with Gluskin Sheff + Associates. The Canadian Equity assets managed by Gluskin Sheff + Associates for both the

Professional and Employee pension plans were liquidated and used to purchase units of the Jarislowsky Fraser Canadian Equity pooled fund. All assets invested with Gluskin were liquidated by the end of the second quarter.

Investment Strategy

Long Term Investing

Capital Markets are unpredictable over short time periods, making attempts to shift between asset classes and ‘time the market’ difficult for even professional investors. Because of short-term volatility, a well diversified portfolio and a long time horizon generally offer the best protection from fluctuating markets.

A long term investor typically does not focus on poor performance in any given year. Instead, they review their strategy and consider whether the investment still fits with their long term objectives. If you are a long way from retirement, a mix of stocks and bonds may be prudent. If you are close to retirement, a more conservative investment approach may be appropriate as there is less time to recover investment losses. If you are unsure of the best strategy for you, you should seek independent professional advice before making your investment decisions.



Performance Summary

Period Ending June 30, 2011				
	1 year	3 year	4 year	10 year
Lakehead Pension Total Portfolio	14.1	2.8	1.5	6.0
<i>Benchmark</i>	13.7	2.9	2.1	3.5
Lakehead Short Term Account*	1.0%	n/a	n/a	n/a
<i>Benchmark</i>	0.9%	n/a	n/a	n/a

Returns are shown before fees unless indicated. Past performance of a fund is not necessarily indicative of future performance.

** performance shown is for the underlying pooled fund*

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Plan Governance

Plan Governance is handled by the Pension Board and Pension Advisory Committee.

The Professional Plan is administered by the Pension Board which is advisory to the Board of Governors. The Pension Board consists of the following members:

- Two Members of the Faculty (Bargaining Units #1 and #2),
- One Pensioner,
- One Member of Non-Faculty Staff, and
- Two persons chosen by the Board of Governors.

The Employee Plans is administered by the Pension Advisory Committee, which is advisory to the Board of Governors of the University. The Committee consists of:

- Two members appointed by the Board of Governors;
- One member of each bargaining unit;
- One member of non-union staff; and
- One member of non-union Technical staff.