

NEWSLETTERS ON-LINE!

Lakehead University Plan Members have access to the Proteus website where you can view current and past newsletters, Proteus' performance updates, investment manager presentations and other pension plan related documents.

The website is
secure.proteusperformance.com/member

User ID: 'Lakehead'
Password: 'learning'

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PROTEUS

VALUE, KNOWLEDGE, SERVICE

Fund Rates of Return — Annual vs Annualized

As a member of the Plan, you may have money invested in one or more of the Plan accounts for a future purpose. You have been advised that it is wise to look at the fund returns from time to time to assess how your investments are performing. There will be times when they actually decrease due to market declines. The difficulty is that fund return tables have lots of performance numbers. This article will help explain the difference between “*annualized*” and “*annual*” returns.

Annual Returns reflect the return for a 12 month period, which could be ending any month of the year. Annual returns show only the change from the beginning to the end of the period, they do not show if the fund went up or down at other times during the period. Annual returns cannot be used to predict future returns, they only show what happened in the past.

Annualized Returns reflect the return for a specified time period of longer than 1 year. This shows the average annual compound rate of return



for a number of years. This uses the annual returns and multiplies these numbers over the number of years being covered. For example, if the annual return for the last three years was +6% then -4% and finally +8% the average annual compound rate of return is 3.19% (3 year annualized return). While the fund went up and down by different amounts for each year, the result was the same as if it had gone up by 3.19% each year.

When you are looking at a table that shows returns for 3, 5 and 10 years, this is the historical average annual compound rate of return for 3, 5 or 10 years. Annualized returns are helpful because they show the combined

impact of each years investment performance without having to look at all of the returns. As we are investing for long periods of time, it is logical to look at performance over longer periods and recognize short term volatility is not unusual. Annualized returns also only show the past and cannot be used to predict future returns.



Annual fund returns are how the fund performed for a 12 month period. The annual returns for more than 1 period are used to calculate annualized returns showing average performance over a longer period of time. Use annual and annualized returns of the funds to evaluate their performance to comparable investment options or to an index for relative performance (e.g. TSX for Canadian Equity).

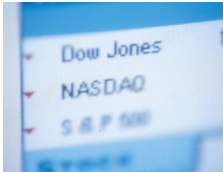
When you are looking at the value of your account, its change in value will never exactly match the fund return. This is because fund returns are before investment management fees which are deducted from fund returns. In addition, fund returns are based on the value of fund investments at the beginning and end of the period - your new contributions are invested at different points in the period.

If you are looking for the actual rate of return for your account that includes all of your investment options and is adjusted for the specific timing of your contributions this is called the Personal Rate of Return or PRR. While the PRR is an actual return for your account, it cannot be compared to either annual or annualized returns for relative performance.

REMINDER!

February 29th is the deadline to make a RRSP contribution for the 2011 tax year.

The Economy and Financial Markets



The Review

The Canadian economy regained some of the momentum it lost earlier in the year and posted positive GDP growth, while the U.S. witnessed positive but subdued growth in manufacturing and consumption.

The Canadian equity market as measured by the S&P/TSX Composite Index grew 3.6% over the quarter. Gains were led by the industrials sector followed by the energy sector. Information technology and materials were the only sectors posting negative results.

Global equity markets were also positive with the MSCI World Index returning 5.3% in Canadian Dollars (\$C), driven by the strong



performance of the United States. A flight to quality elevated the demand for U.S. securities, helping the S&P 500 Index to return 9.5% (\$C). Emerging markets continued to trail their developed counterparts.

Fixed income posted positive returns with the DEX Universe Bond Index advancing 2.1% as provincial and municipal bonds outperformed while federal and corporate issues underperformed. Long-term bonds continued to significantly outpace shorter-term maturities. The Bank of Canada maintained its overnight rate at 1.0%, while the U.S. Federal Reserve left the Fed Funds Rate target unchanged at 0–0.25%.

The Outlook

The uncertainty that dominated headlines throughout 2011 led to an overwhelming theme of volatility that is likely to persist through the first quarter of 2012. Problems in Europe, questions surrounding the sustainability of growth in China and an ever increasing U.S. debt are lingering. Over the course of the past year, investors illustrated little appetite for taking risk as evidenced by the strength of fixed income markets.

Given the heavy borrowing requirements of several Eurozone countries, the escalating European financial crises and a deepening recession within the region, the Canadian economy may experience some negative impacts. If major European economies such as Italy and Spain have

trouble refinancing maturing debt in the second half of the year, those countries that are viewed as in an uncertain state will have to pay higher interest to borrow the money they need to carry on. That, in turn, can make their budget deficits even worse and unsustainable in the long run.



While the downward pressure in interest rates may persist in the near term, the economy could expect that yields will begin to increase in the next 12-18 months towards levels that are more reflective of market fundamentals. With more solid financial positions

and stronger balance sheets, companies appear to be better able to withstand headwinds than when encountered in 2008.

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 Jaislowsky 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.

Underlying Investment Managers

Main Pension Plan

Balanced Funds

Jaislowsky 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.

Lakehead's Investment Structure and Managers



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 December 31, 2011				
	1 year	3 year	4 year	10 year
Lakehead Pension Total Portfolio	-0.8	8.7	1.4	5.5
<i>Benchmark</i>	<i>0.3</i>	<i>8.5</i>	<i>1.9</i>	<i>4.9</i>
Lakehead Short Term Account*	1.1	n/a	n/a	n/a
<i>Benchmark</i>	<i>1.0</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>

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.