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Welcome, Pension Plan Investment Structure and Short Term Account Option

Welcome to the first Lakehead University pension plan newsletter — *The Retirement Plan Review*. The newsletter will be available periodically and is designed to provide information on topical issues and update you on market trends and pension plan performance. This quarter's main article provides a brief introduction to your pension plan investment structure and the Short Term Account option.

Investment Structure



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 i.e. members who are not close to retirement or who will continue to invest in a balanced structure in retirement.

The investment structure has achieved significant capital growth over the long term (see page 4 for performance). However, investing for capital growth can expose the plan returns to shorter-term volatility—there will be some years like 2008 when the plan returns are negative and others like 2009 when the returns are strongly positive. This effects you as a member since your pension account is credited with the total plan rate of return every year.

Some members, with a shorter time horizon may not want to subject their pension plan retirement account to this level of 'volatility' if retirement is

imminent.

It is for these members the Short Term Account option was introduced.

Short Term Account

The Short Term Account was established on January 1, 2008 and is currently available to plan members who wish to direct a portion of your overall pension account to it — should you meet specified criteria.

The Short Term Account is held as a separate account within the overall Pension Fund. Members in this account will have a separate rate credited to your account..

The underlying investment is a money market fund, though this is subject to change from time-to-time. It is expected that this fund will be less volatile than the main plan (though it also has a lower mid-to-long term return expectation) and may be appropriate for members who have a short time horizon where capital loss is a primary concern.

The Short Term Account should not be utilized as a short term trading strategy. The decision to transfer assets into the Short Term Account is irreversible until retirement or termination.

Before changing your investment instructions, it is recommended that you seek the advice of a qualified financial professional.



The Economy and Financial Markets



The Review

Global stock markets rebounded during the third quarter although they remain volatile. While investors continued to cling to perceived safety in assets such as gold and federal debt, strengthening economic numbers began to appear and provided markets with some optimism later in the quarter.

The Canadian stock market roared back in the third quarter with the S&P/TSX Composite adding 10.3%. Materials led the gains as gold reached a new record high and fertilizer firms were up strongly following BHP Billiton's hostile bid for Potash Corp. Utilities and Consumer Staples also experienced strong returns. Small cap stocks strongly outperformed large caps.

Global equity markets enjoyed a rally during the third quarter. U.S. equities gained 8.1% in Canadian Dollars (\$) as measured by the S&P 500 Index. All ten sectors posted positive returns led by telecoms, materials

and consumer discretionary. Giving a 'boost' to foreign returns, the Canadian Dollar lost ground against most major currencies with the exception of the U.S. Dollar. International equity markets ended the quarter up 12.5% (\$) as fears about sovereign debt weakened and strong economic numbers were reported in a number of regions. Regionally, Europe outperformed the Pacific. Emerging markets were up 14.1% (\$).

Fixed income returns remained strong as the DEX Universe Index was up 3.2%. Performance was driven by provincial and municipal bonds while federal government bonds underperformed the Index. Long-term bonds significantly outperformed shorter-terms as the yield curve flattened and spreads narrowed between 30-yr bonds and 2-yr bonds. The Bank of Canada increased the overnight rate twice to 1% during the quarter, while the U.S. maintained their near zero interest rate policies.

The Outlook

While many investors have turned to fixed income markets for safety over the past few years, consideration should be given to the growth outlook for bonds going forward.

Most federal government debt in Canada and the U.S. is being issued with almost no return. Moving to corporate bonds, much of the additional return (yield) being offered only 18 months ago in order to compensate investors for additional risk has been squeezed out of the market and returns are likely to be lower.

Following two interest rate hikes from the Bank of Canada during the last quarter, monetary policy appears to again be on pause for the short-term as the economic recovery continues to work out its kinks. Stronger economic data in developed countries is providing some optimism for returning growth; however, new challenges

are arising as governments now attempt to deal with the hangover of massive debts and stimulus spending.

The resource heavy Canadian stock market appears likely to remain strong as emerging markets drive global commodity demand. Concern is beginning to grow that recent run-ups in stock prices need to be supported by solid and repeatable economic growth. Given the uncertainty that surrounds the recovery, investors should expect stock markets, both in Canada and around the globe to be volatile.



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.

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 50-50 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.

Canadian Equity Fund

Gluskin Sheff Canadian Equity — Invests in well-managed Canadian issuers that are generally under-followed, have strong track records, solid management, and attractive valuations on either a cash flow or net asset value basis.

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.

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 September 30, 2010				
	1 year	3 year	4 year	10 year
Lakehead Pension Total Portfolio	7.9	0.3	2.9	6.0
<i>Benchmark</i>	7.5	0.8	2.9	3.5
Lakehead Short Term Account	0.4	n/a	n/a	n/a
<i>Benchmark</i>	0.4	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.

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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:

- One member of each bargaining unit whose membership includes Employee Plan Members,
- One member of non-union staff, and
- Two persons chosen by the Board of Governors.