

APRIL 2010 – LL764 PENSION COMMITTEE REPORT

The Ex-CAIL pension committee met with the Company on April 12th in YUL for our semi-annual meeting. We met the new Manager of Pension Investment for Air Canada and he gave us an overview of the new pension investment strategy and the investment department that has been created to have more direct oversight of the pension investments.

In general, the Company is moving to a more conservative asset mix that will see the current 60 – 40 equities to fixed asset ratio change to a 45 – 55 asset mix. This is in line with a review of the Master Trust fund's asset mix allocation and a letter of intent signed with the Unions as part of the June 2009 collective bargaining agreements to lessen the risk exposure of the plan assets to the vagaries of the equities markets.

There are a couple of reasons for this change. First, fixed income investments (bonds) are not subject to the volatility of equities (stocks) and therefore pose a lower risk to the money invested in them. The second reason is that the rate of return on bonds more closely tracks interest rates and offers a measure of protection against changes in the discount (interest) rates used to calculate the liabilities of the plan. The theory behind this change is to better protect the assets of the Master Trust fund from the increased liability costs created by the low discount rates that have been experienced since 2001 by tying the assets more closely to the liabilities than to the markets.

As with any investment, lower risk also means lower returns. The plan cannot afford to completely move out of the equities investments and move 100% to fixed assets because of the higher rate of return that equities provide. This additional return is needed to help bring the plan back to a fully funded status sooner.

The Master Trust fund was valued at \$9.94B as at 12/31/09. Moving 15% of this money from equities to fixed investments means selling and buying \$1.5B worth of investments in the open markets. As you can appreciate, deals of this magnitude take some time to complete, particularly when divesting stocks. If you sell too much too quickly, you can actually drive down your selling price by flooding the market with a particular stock. This asset reallocation has been underway for about 6 months now and will take between 2 and 3 years to complete.

A third change in the plan investment strategy is to invest about 20% of the equities assets in what are called alternative investments. Think utilities, infrastructure, commercial real estate, energy generation etc. The money will not be invested in new startup ventures with the possibility for higher rates of return and higher associated risk, but rather with established companies and projects that provide a steady revenue stream with limited risk to invested capital. This is a further hedge that provides the income of equity investments with a lower associated risk potential.

Email is the most effective way to reach me. I may be contacted at pres764@telus.net with any questions or concerns that you may have.

Respectfully Submitted,

Christopher Hiscock
Chairman, LL764 Pension Committee