

ALTERNATIVES: COMMUNICATING TO YOUR BOARD

The difficulty lies not so much in developing new ideas,
as in escaping from old ones.

John Maynard Keynes



Disclaimer

This is not an offer, or the solicitation of an offer, to buy or sell any securities or services, or to adopt any investment strategy.

This is intended as an outline for informational purposes and does not purport to summarize or contain all relevant information or provisions.

Historic returns, back testing, and pro-forma statistics are illustrative and provided for information only. Although Keel Capital believes them to be a fair reflection of the assumptions mentioned, Keel Capital cannot guarantee the accuracy of these contents.

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Investing entails risks, including possible loss of principal.

Past performance may not be indicative of future performance.

Estimated returns were used for the month of September 2005.

The annualized rates of return are the annual compounded total returns for the period ended September 30, 2005. Annualized returns are used to illustrate the effects of compounding returns and are not intended to reflect future returns on investment.

Performance data includes hypothetical performance of the Legg Mason Absolute Return Master Trust (the "Fund"). The Fund began operations on November 30, 2004. Prior performance data is based upon the performance track record of a substantially similar investment mandate commencing May 1, 2001 for a Canadian pension plan, which was also managed by the principals of Keel Capital Management Inc. This prior performance data is in U.S. dollars and is unaudited. The Fund intends to generally hedge its U.S. dollar exposure back to Canadian dollars and the Fund's performance is reported in Canadian dollars. Performance numbers do not include management fees and operating expenses of the Fund prior to November 30, 2004. Please refer to the Confidential Offering Memorandum of the Fund for a description of the fees and operating expenses associated with an investment in the Fund.



Agenda

1. How has the NSAHO Pension Plan's Strategy Evolved?
2. Has it Worked for the NSAHO PP?
3. How did they Get There?
4. Lessons Learned
5. What if ... ?



3

1. HOW HAS THE NSAHO PP's STRATEGY EVOLVED ?

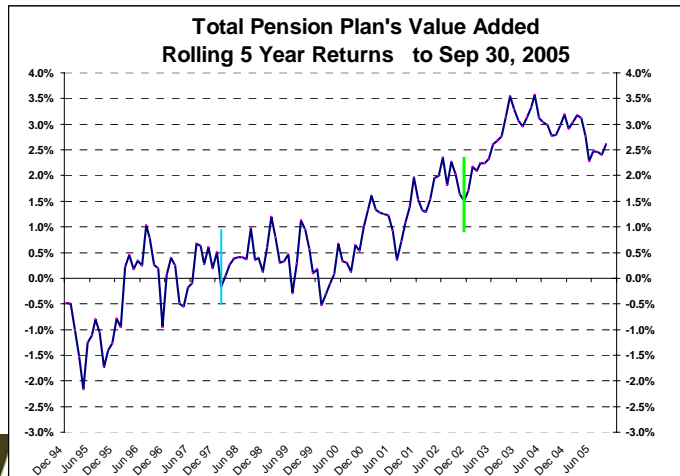
Starting Dates:

Absolute Return	May 2001
Bond Alternative	Jun 2001
Commodities	Jan 2002



4

2. HAS IT WORKED FOR THE NSAHO PP?



So far, so good.

3. HOW DID THEY GET THERE?

What is Your Investment Objective?

1. Minimize maverick risk?
2. Beat your peers?
3. Beat a passive investible index?
4. Satisfy your liabilities?

INVESTING FOR THE NEXT DECADE

25 years of persistently declining interest rates have dominated financial markets

1. Bond returns have been inflated by high beginning yields and capital gains.
2. Declining discount rates drove high valuation multiples and thus high equity returns.
3. Stock and bond returns have been highly correlated.

Return from beta alone met return targets ... in the past

“You can’t get there from here”

More tools may be required going forward.

As Einstein said,

“It will take a higher level of thinking to resolve today’s problems than we employed to create them.”



7

THREE PATHS TO IMPROVED RETURNS

1. Consider Other Asset Classes

- Stocks and Bonds are not the only choices.
- Unconventional assets may be priced to offer better returns.

2. Seek More Alpha & More Diversified Alpha

3. Actively Manage the Asset Mix

- Include alternative assets in these decisions.
- Seek assets which are out of favor, priced for better returns.

All Three Can Be Pursued Simultaneously!



8

KEY SUCCESS FACTOR!

Ensure you are answering the appropriate Question!
(Einstein)

The question is not
“Should I include Alternatives?”

The more logical question is
“As fiduciaries, can we justify NOT broadening significantly beyond stocks and bonds?”

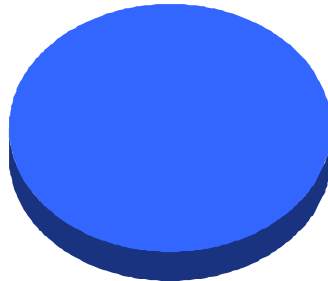


9

FUNDAMENTAL LAW OF ACTIVE MANAGEMENT

A Broader Opportunity Set increases
Risk Adjusted Returns

All possible investment vehicles and strategies

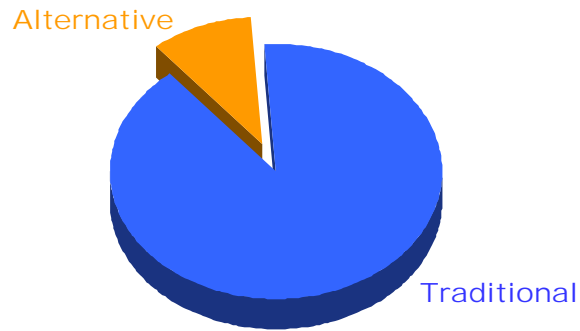


10

FUNDAMENTAL LAW OF ACTIVE MANAGEMENT

A Broader Opportunity Set increases
Risk Adjusted Returns

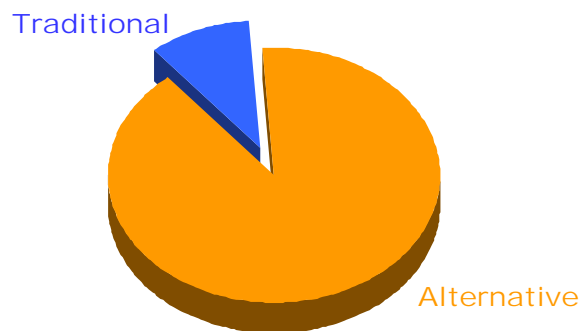
We act as if:



FUNDAMENTAL LAW OF ACTIVE MGMT

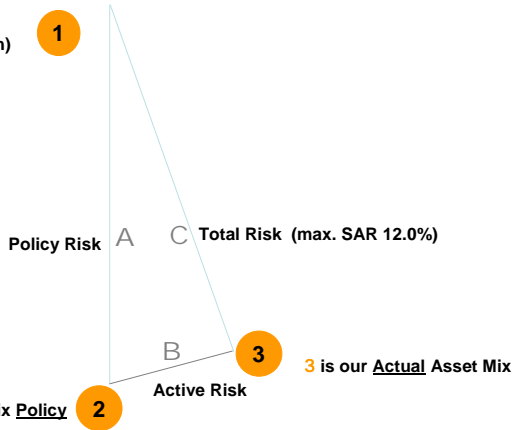
A Broader Opportunity Set Increases
Risk Adjusted Returns

Reality is:



IF DIVERSIFIED ENOUGH, ACTIVE RISK MAY ACTUALLY REDUCE TOTAL RISK

1 is the Asset Mix which (if assets were large enough) would approx. immunize the liabilities for:
 i) Interest rate changes
 ii) Inflation
 iii) Rate of return



2 is our Asset Mix Policy

3 is our Actual Asset Mix



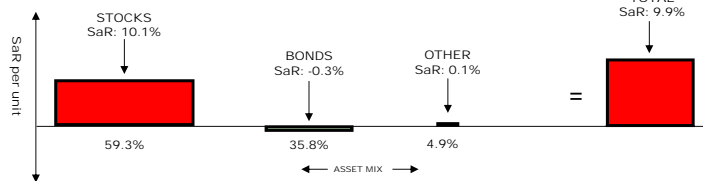
CONCLUSION: ACTIVE RISK_(B) CAN ACTUALLY REDUCE TOTAL RISK_(C)

SURPLUS AT RISK

Do NOT confuse Familiarity for Risk

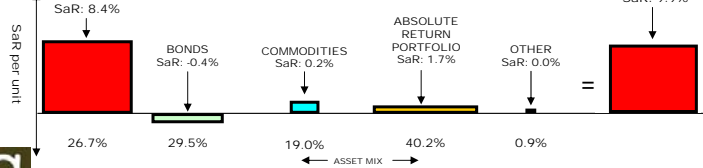
CEM Average Pension Plan: Actual Asset Mix

(December 2004)



NSAHO Pension Plan: Actual Asset Mix

(December 2004)



4. LESSONS LEARNED 1 OF 2

Our views have not changed much over the past 5 years, i.e.:

- A. Pension Plans are unlikely to be able to deliver on their pension promise if they rely solely on stock and bond returns.
- B. Fearful of this, we have been very pro-active in diversifying both our asset class exposures and active management exposures (primarily via our Absolute Return Master Trust).
- C. After significantly increasing our Active Risk, our Total Risk (SaR) has decreased.
- D. Two pieces of good news:
 - i. It's working.
 - ii. Our approach has become much less maverick as the pension industry is now aggressively diversifying into alternative investments.



15

LESSONS LEARNED 2 OF 2

Nothing trumps the protection of only dealing with Ethical People

Alignment of Interests

Adhere to First Principles

Diversify

Liquidity

Risk Measurement AND Action!

It's NOT Easy but it has been worthwhile



16

5. WHAT IF ... ?

Hypothetical Examples of Potential Impact on Total Pension Plan

Assuming an Asset Mix = 60 / 40

(20 + 13 + 12 + 15) / (34 + 6)

Hypothetical Results based upon May 2001 to Sep 2005 Data		
Incremental Pro Rata Allocation to Absolute Return	Return Enhancing (i.e. Tastes Great!) bps per yr	Risk Reducing (i.e. Less Filling!) Average % Decrease in SaR
0%	0 bps per year	0% Avg Decrease in SaR
10%	50 bps per year	5% Avg Decrease in SaR
20%	100 bps per year	10% Avg Decrease in SaR
30%	148 bps per year	14% Avg Decrease in SaR
40%	196 bps per year	18% Avg Decrease in SaR



17

I hope this overview of our experience will be helpful as you deliberate the challenge of funding your liabilities on a go forward basis.

Thank you for your time and attention.

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18