SOCIALLY RESPONSIBLE INVESTING: A BACKGROUNDER

Socially responsible investing allows you to incorporate environmental, social and corporate governance issues into your financial decisions. It is not a new idea. In fact, by the mid-1800s some members of the British aristocracy had adopted “sin screens” to ensure that their investments weren’t tainted by cigarette or alcohol revenues. But another century would go by before the first mutual funds began to withhold investments from companies with poor records on the environment or questionable business practices. In 1987, Gro Harlem Brundtland, then the Prime Minister of Norway and Chair of the World Commission on Environment and Development, brought SRI into focus when she defined “sustainability” as “meeting the needs of the present without compromising the ability of future generations to meet their own needs.” Today, more and more companies are including social and environmental issues in their corporate plans. As a result, you’ll now find that many firms from around the world meet the requirements for inclusion in SRI mutual funds. This investment approach is now clearly in the mainstream and is rapidly expanding: nearly $500 billion in assets held by pension funds and other Canadian institutions are reviewed for their adherence to environmental and social guidelines. In the United States, that number has grown to $2.3 trillion, or one out of every ten dollars under professional management.

The SRI fund available to the University of Western Ontario Retirement Plans, Mackenzie Universal Sustainable Opportunities Class, is a global equity fund, meaning it invests in stocks in various countries around the world. Over the past 10 years, global stocks have underperformed Canadian stocks due to currency effects and the outperformance of resource stocks, which represent a relatively higher percentage of the Canadian market. Over previous decades, global markets have had sustained periods of outperformance versus the Canadian market.

Inside Mackenzie Universal Sustainable Opportunities Class:

After a number of minutes spent interviewing Jamie Cumming, portfolio manager at Aberdeen Asset Management Inc, responsible for management of the fund, a strange realization sets in: although he manages socially responsible investment (SRI) mandates, he doesn’t talk about SRI very much. He talks about investing, plain and simple. Yes, the fund he manages for Mackenzie ensures all companies he invests in meet the fund’s SRI criteria. But the screen is applied only after the regional equity teams at Aberdeen have gone through a rigorous analysis, selecting a small watch-list of high-quality companies with strong management and business models, trading at reasonable prices.

Approximately 330 stocks pass the quality test; of those, about 80 pass the price test. After that comes the screen for SRI factors, such as human rights, labour practices, environmental record and so on. This translates to a portfolio of 41 names (as of March 31, 2010).

What drives the performance of the fund?

Jamie Cumming: We focus on fundamentals when we buy. We do a lot of work on companies, visiting them, talking to them, checking balance sheets and making sure that everything about the companies we invest in is solid, sound and strong. Once we have determined that the companies are well managed and the quality is very good, we try to buy the companies at the right price.

How is the Fund positioned from a sector perspective?

Jamie Cumming: We are very benchmark agnostic, meaning we focus on quality companies first and foremost, not the sector they operate in. We don’t mind if our sectors are overweight, within reason. We’re generally looking for companies that offer good value, and that means strong balance sheets, low gearing (debt/equity), are generating cash and are returning that cash to shareholders in terms of yield or dividend. If we find that these characteristics are more prevalent in a given sector, there may be an overweight.

In energy, some of the integrated oil company stocks have failed the screens but others have passed, so we do have energy exposure. Petroleo Brasiliiero SA of Brazil is an excellent example of an integrated oil & gas company that has come a long way in terms of its corporate social responsibility practices and policies and is a holding in the Fund. The company has spent time and money formulating its environmental and labour policies and has a robust social programme in place, which invests in local communities. The company has made major contributions in rejecting child labour and through its annual Social and Environmental report, displays excellent transparency on a range of corporate
social responsibility (CSR) issues.

Natural gas companies and oil service companies can also give exposure to that area, if the valuations are right and they pass the SRI screens.

**What are the ingredients to making SRI work as an investment?**

Jamie Cumming: The temptation is to look at companies from an SRI point of view first and say, “That’s a great, green company; I want to invest in that.” But if you approach it that way, the company might not have the best prospects as a viable business. What we’ve discovered through the years, is that if you focus on good companies to begin with, and make sure they meet your SRI criteria, then you’ll have a solid, fundamentally driven portfolio, and you’ll have good companies giving you good returns. For example, several of the Fund’s holdings have exceptional records from an environmental, social and/or governance perspective. For example, Nordea Bank, a pan-Nordic financial services group, has strong corporate governance and adheres to standards of the UNEP (United Nations Environment Programme) on environmental and sustainable performance; and Samsung Electronics, a global consumer electronics company based in South Korea, has 90% of its Korean operations ISO 14001 certified (a certification for an organization that wishes to establish, implement, maintain and improve an environmental management system and/or to ensure conformity to its stated environmental policy) and aims to expand this to its global operations. The company sponsors a number of social programmes, including computer classes for the blind and a prize for environmental friendliness and operates a green management programme.

You invest in companies for the long term, but you’ve mentioned that you “top-slice” a bit when you feel they’ve met your target price and also buy in more when you feel they are bottoming. Can you expand on that?

Jamie Cumming: In the short term, if a stock reaches what we feel is an appropriate target price, unless the underlying earnings change and have appreciated beyond what the original calculation was based on, then we would have to sell, because the stock had reached our price. Sometimes those would be for reasons that aren’t company-driven, but that doesn’t really matter.

We normally cut back positions when they get close to 5% of the portfolio. We “slice” the top off to put it into a company that has been underperforming. If there’s a company that we feel has been sold down for a reason that isn’t based on fundamentals – because of a political event or because of cash being withdrawn from the market or some other reason – if we still like the stock, we’ll top up that company.

**What is your outlook for SRI investing?**

Jamie Cumming: Over the longer term, we believe the demand for SRI screens within investment portfolios will increase in both the institutional and retail marketplace as concerns grow regarding issues such as human rights and the environment.

**Invest Wisely:** Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

**ABCP UPDATE**

Redemption Restrictions Lifted Effective May 31, 2010

Western’s Joint Pension Board, with the assistance of the Kilgour Advisory Group has been monitoring the market for the Restructured Notes (“Notes”), formerly non-bank Asset Backed Commercial Paper held in the Liquidating Trust Fund. The Board has determined that there is now a sufficiently liquid market for the Notes so that members who want to redeem their Liquidating Trust Fund units in full or part in any month may do so, beginning May 31, 2010.

An announcement was released on April 20, 2010 and a copy is available at: http://www.uwo.ca/humanresources/ABCP/index.htm

Pension plan members now have the following options:

1. Redeem all or some Liquidating Trust units at the market value for the month of the redemption and reallocate those funds to another investment fund, or
2. Continue to hold all or some of their Liquidating Trust units with the option of redeeming them in the future.

Though the redemption restrictions have been removed starting May 31, 2010 this is not a recommendation to sell Liquidating Trust units or an endorsement that the current market price is the fair value for the Liquidating Trust units.

Key points to consider:

- The Liquidating Trust holds different kinds of fixed income securities, mostly Restructured Notes (Notes). These Notes were received in exchange for non-bank Asset Backed Commercial Paper.
- The Notes are fixed income securities and 90% of the Notes are rated investment grade BBB or A by external rating agencies.
- The Notes are not guaranteed and their value is affected by market factors including credit risk.
- The Notes earn a variable rate of interest at the rate paid by bankers’ acceptances minus 0.50%. As of April 30, 2010, the rate on 3-month bankers’ acceptances was 0.64% annualized. The market price for a Liquidating Trust unit was $61.88 at March 31, 2010.
- Though we cannot predict what the value of the Notes will be in the future, the estimated expected value of a Liquidating Trust unit at maturity in January 2017, excluding interest payments, based on a variety of economic scenarios, ranges between Optimistic at $101 to Worst Case at $0 with the moderate estimated value being $94.
Considerations when deciding whether to redeem Liquidating Trust units:

- Get informed. Take the time to watch the online workshop and review the additional print materials.
- Consider the amount of your exposure relative to your portfolio and your need for liquidity.
- Assess your risk tolerance for your portfolio as a whole and remember to re-balance your portfolio.
- Consider the upside and downside potential of redeeming or holding your Liquidating Trust Units. If you redeem your Liquidating Trust units, you will lose the opportunity for any improvements in price but will have eliminated the risk that these securities may lose further value.
- If you take no action to sell your Liquidating Trust units now or in future months, the units will remain in your retirement account until the Liquidating Trust investment fund is closed.
- Seek advice from an independent financial advisor.

TARGET DATE FUNDS

The Target Date Fund 2010 (TDF 2010) matured May 31, 2010. If you owned units of this fund, you should have received a letter advising you about its closing and of the launch of the new Target Date Fund 2016. The letter also requested that you provide an investment direction by May 25, 2010 to reallocate both the money invested in TDF 2010 and future contributions, or for RIF members, future payments. If you do not make an investment selection, your money will automatically be invested in the Money Market Fund.

As mentioned above, effective June 1, 2010 there is a new Target Date Fund 2016. This means that in total there are three Target Date Funds, each with a different target date, and the newest fund has a maturity date of June 1, 2016. Each week, updated expected rates are posted on our web site for each of the Target Date Funds. A projected rate for the TDF 2016 is available online.

A Target Date Fund, or TDF, is a unique portfolio of secure, high-quality Government Bonds. The fund is expected to offer a return similar to a Guaranteed Investment Certificate (GIC), assuming the investments are held to the target date.

If you need more information or if you have any questions about Target Date Funds, contact: hr-communication@uwo.ca or call 519-661-2194.

RETIREMENT PREPARATION CHECKLIST

Now is a good time to look at your retirement benefits and consider putting time into planning for retirement but a recent survey found that for most pension plan members the process starts and ends with members looking at their annual retirement plan statements.

Why not make the review of your 2009 annual pension plan statement the starting point for reviewing your retirement benefits and investment strategy?

Members received their 2009 annual pension statements in April. The statement outlines a member’s retirement benefits and the value of their investments in the University pension plans or the Western Retirement Income Fund. This is a good starting point to review the details of your account, make sure your beneficiary designation is properly updated and of course to consider your investment strategy and fund selections. Why not look at your contribution level and perhaps find out more about making voluntary contributions. Consider re-balancing your portfolio if you have not done this recently.

It is important to recognize that we need to make the time to think about retirement planning goals and needs. A survey in Benefits Canada found that only 17% of respondents spent more than 20 hours over the past year planning for retirement. The average time spent was 9 hours for the year and the survey also found that plan sponsors were seeing a decrease in attendance at educational sessions, one conclusion was that members read their annual statements but that this is where member engagement stopped – as if reviewing the annual statement was the end of the engagement process rather than the start.

Now What – the Checklist:

Contact HR Communications or access the online pension system if you need to make changes or corrections on your account.

Log in to The Financial Educator™, a learning website to teach you and your family members about financial and retirement planning. This website is written in simple, easy-to-understand language. Go to: www.thefinancialeducator.com. Access is paid for by the University. Contact HR Communications at 519-661-2194 or ext. 82194 for a username and password to access the website.
Did you attend one of the annual presentations to members, an education session, or a retirement planning workshop? Refer to our website for upcoming information sessions.

You can download the 2009 Annual Member Presentation from: http://www.uwo.ca/humanresources/docandform/docs/pension/annreport/annualreport.pdf

Is it time to meet with a UWO retirement consultant or your independent financial advisor or both? To make an appointment with a pension consultant please contact: hr-communications.

What about your contribution levels? Are you making voluntary contributions – what does your current savings rate and investment return project for retirement?

Be explicit about your personal retirement goals and take steps to understand what you need to do to achieve these.

Consider using the online tools to review your retirement planning needs available at: http://www.uwo.ca/humanresources/facultystaff/comp/pension/investment_tools.htm

Are you one of the members who have never made an investment decision about your account and you have your pension funds invested in the default option? If so, inform yourself about the fund options, seek assistance and make sure that the investment choice in your account reflects your risk tolerance and investment objectives.

If you have questions, ask – we are here to assist you.- hr-communication@uwo.ca or at 519- 661-2194

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### Historical Investment
### Returns at March 31, 2010

<table>
<thead>
<tr>
<th>FUND</th>
<th>1-month</th>
<th>1-year</th>
<th>5-year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TIER 1</strong></td>
<td></td>
<td></td>
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<tr>
<td>Balanced Income</td>
<td>1.32%</td>
<td>21.44%</td>
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<td>Balanced Growth</td>
<td>2.88%</td>
<td>30.85%</td>
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<td><strong>TIER 2</strong></td>
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<tr>
<td>Diversified Bond</td>
<td>0.13%</td>
<td>14.53%</td>
<td>4.85%</td>
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<tr>
<td>Diversified Equity</td>
<td>4.04%</td>
<td>33.86%</td>
<td>1.99%</td>
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<td><strong>TIER 3</strong></td>
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<tr>
<td>Money Market</td>
<td>0.02%</td>
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<td>TDF- June/2010</td>
<td>0.03%</td>
<td>1.10%</td>
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<td>TDF- June/2012</td>
<td>-0.79%</td>
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<td>TDF- June/2014</td>
<td>-1.39%</td>
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<td>Canadian Bond</td>
<td>-0.77%</td>
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<td>Long Term Bond</td>
<td>-0.27%</td>
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<td>SRI Fund – Equity</td>
<td>2.04%</td>
<td>28.78%</td>
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<td>Canadian Equity</td>
<td>4.19%</td>
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<td>US Equity (Hedged)</td>
<td>5.83%</td>
<td>48.52%</td>
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<td>US Equity (Unhedged)</td>
<td>1.80%</td>
<td>20.90%</td>
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<td>Non-North Am. Equity</td>
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<td>Liquidating Trust</td>
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