26 August 2010

Investment Monitoring Report

of the Aberdeen Asset Management Ethical World Fund for the University of Western Ontario

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Consulting. Outsourcing. Investments.

Contents

1

Introduction and Conclusion

This report provides a qualitative evaluation of the investment strategy underlying the University of Western Ontario (UWO) defined contribution plan's socially responsible investment (SRI) global equity fund. The underlying investment strategy is Aberdeen Asset Management's Ethical World Fund. The Ethical World Fund (EWF) is Aberdeen's 'flagship' global SRI pooled fund and has extensive screening criteria. The UWO selected Aberdeen to manage a socially responsible investment option which is invested through the Mackenzie Universal Sustainable Opportunities Class mutual fund in order to meet monthly cash flow requirements. The Mackenzie Universal Sustainable Opportunities Class fund is modeled on Aberdeen's Ethical World Fund.

The views presented are based on ongoing Mercer manager research coverage of Aberdeen Asset Management and this investment strategy. Specific Mercer research coverage of the Aberdeen Ethical World Fund began in 2001. The most recent formal research assessment was conducted in August 2010 with previous assessments in June 2009, June 2008, May 2007 and August 2005 (see details in Appendix A). The comments provided reflect the findings of these most recent research meetings held by our researcher in the UK.

Rationale for change in recommended rating

The SRI strategy is based on Aberdeen's unconstrained global equity fund. The underlying fund is rated B by Mercer due mainly to the team's reliance on the output of Aberdeen's regional equity team with limited further value add, and a lack of insight on our part into the quality of these regional teams. However, we believe that the SRI team does provide an important value add to the regional ideas, and in comparison with a universe of Global SRI strategies we see the input of Aberdeen's regional teams of specialists as an advantage. The SRI team's capability has been strengthened by the cumulative effect of several years of development, such that in addition to providing an ethical verdict on companies the SRI team is now well integrated with the global and regional teams and is proactively identifying issues that impact the fundamental valuation of companies. We are therefore upgrading the Global SRI strategy from a B to a B+.

The greater integration of ESG analysis into the fundamental stock analysis for this strategy, as well as progress in Aberdeen's approach to active ownership, also leads us to upgrade the ESG rating from ESG3 to ESG2.

Conclusion

We do not see any reason to replace this fund in the UWO plan and propose that it continue to be offered to your members. There are three primary reasons for this recommendation.

1. The SRI team's capability has been strengthened and is now well integrated with the global and regional teams, resulting in upgraded ratings for the Global SRI strategy from a B to B+, and ESG rating from ESG3 to ESG2.
2. Historical performance of the Aberdeen Ethical World Fund has been acceptable and members would likely question its removal. As indicated in the section entitled Past Performance, the fund has returned 1.9% (gross) as compared to -2.2% for the MSCI World Index for the five year period ending June 30, 2010 and ranked in the first quartile in the Mercer global equity universe. Performance in the last year has exceeded the MSCI World Index by a substantial amount; and
3. There are relatively few alternative investments in the SRI global equity universe for Canadian defined contribution pension plans.

2

Organisational Review

Firm background and history

Aberdeen Asset Management plc (AAM) is an independent investment company listed on the London stock exchange. AAM is head quartered in Aberdeen, Scotland and also has investment offices in Chicago, Connecticut, Fort Lauderdale (covering Latin America), London, Edinburgh and Asia. The group was founded in 1876 and has concentrated on investment management since 1982. In 1991, it was listed on the London Stock Exchange. In 2000, AAM acquired the Scottish fund manager, Murray Johnstone, and EquitiLink, an Australian based fund manager. In 2003, AAM acquired Edinburgh Fund Managers Group plc, a United Kingdom based fund manager. In 2005, AAM acquired Deutsche Asset Management's fixed income teams and businesses. In June 2008 AAM acquired the UK fund management business of Credit Suisse Asset Management (CSAM), with Credit Suisse taking a 23.9% stake in Aberdeen. In January 2010 Aberdeen announced the acquisition of various assets from Royal Bank of Scotland ('RBS'), mainly Fund of Hedge Fund and Long Only Multi Manager assets.

Aberdeen has an alliance with Mitsubishi UFJ Trust and Banking Corporation (MUTB) whereby MUTB have a stake of 18.6% in Aberdeen, with MUTB distributing certain Aberdeen products in Japan.

Assets under management

As at 30 June 2010, Aberdeen Asset Management had C$261bn (31 December 2008, C$196bn) under management, with C$ 96.7bn (31 December 2007, C$54.6bn) in equities.

Organisational comments

There was no significant turnover during the 12 months ending Aug 2010.

3

Investment Review

Key details: Aberdeen Global Equity SRI – Ethical World

Inception Year	1999
Assets under management	£754 million as at 30 June 2010
Estimated capacity	No limit*
Open/Closed	Open to All Investors
Most suitable benchmark	FTSE World**
Outperformance target	3% (Manager's estimate)
Expected tracking error range	3-9%, (Manager's estimate; historically this has usually been 4-5%)
SRI characteristics	Two versions of the strategy are offered – Ethical World and Responsible World. Six basic exclusions are applied to both: no alcohol, gambling, military, pornography, tobacco or weapons. The Ethical World strategy also excludes nuclear and companies with poor track records in the following areas: the environment, labour issues, product quality, human rights, animal testing, community involvement and corporate governance. Typically this results in exclusion of 12-15 stocks from the unscreened portfolio of c.50 stocks. The Responsible World strategy applies only the base exclusions but incorporates an engagement programme. Typically this results in exclusion of 5-6 stocks from the unscreened portfolio of c.50 stocks.

* Aberdeen is not willing to assess capacity in the global equity strategy however we have some concerns over capacity at a firm wide level.

** This benchmark is used for historical reasons though most of Aberdeen's global equity strategies benchmark to MSCI World and for this reason we compare performance to MSCI World in this note.

Key decision makers

Stephen Docherty heads the global team, and has been with Aberdeen since 1994, with experience of the US and LATAM markets. Bruce Stout is the senior portfolio manager and has over 19 years experience, joining when Aberdeen acquired Murray Johnstone. He has managed US, LATAM and Asian mandates in the past. The global equity team are all based in Edinburgh. Hugh Young, Head of Equities, is responsible for the regional teams as well as the Global team and so is seen as critical to the overall equity offering. He joined Aberdeen in 1985 and is based in Asia. Cindy Rose heads SRI research and leads a team of four who are an integral part of the Edinburgh based Global Equity team.

The research meeting in August 2010 was held in London with Jamie Cumming, Global Equity Portfolio Manager and Zohra Nazar, Consultant Relations.

Investment style/philosophy

Bottom-up, stock picking, approach which is benchmark agnostic and has a focus on absolute value. The firm focuses on quality and price, aiming to find good quality stocks with cheap valuations and hold them for the longer term. In terms of socially responsible investing, Aberdeen believes that it has the leverage to influence companies and that 'power' should be used to encourage companies to become better corporate citizens. In this way, a company will be able to enhance its reputation, enable it to improve turnover, avoid litigation and generate higher returns to shareholders. Engagement with companies plays an important role in Aberdeen's approach.

Investment process

The starting universe for the global team is the ideas which form the regional unconstrained model portfolios, totalling approximately 300 to 350 companies. The regional teams assess companies in two stages, quality then price. Quality encompasses management quality, business strategy/prospects, financials (strength of balance sheet, use of gearing) and corporate governance (transparency and commitment to shareholder value). The assessment of quality is derived from company meetings where a series of questions is used to determine a pass/fail. The regional team will not recommend a company without first meeting the management. Following a company meeting the regional analyst produces a detailed stock note which is circulated to the broader teams and stored on an internal database. Stocks that pass the quality test will then be assessed based on price. Stocks are valued relative to key financial ratios (P/E, P/CF, NAV, Dividend Yield), the market, the peer group and business prospects. Criteria vary by sector/industry and comparisons are made cross-border. Stocks that are too expensive will go onto a watch list.

The global team take the stocks that make it past the quality and price criteria, and get included in the regional model portfolios, as their universe. They then apply a market capitalisation minimum of $500m, which usually excludes another 20 names. They conduct an additional layer of comparative assessment of company valuation across the world.

The global team meet weekly to discuss changes to the regional buy lists, portfolio transactions, cash levels, performance and compliance. The output from this Monday meeting is a 'model' unconstrained global portfolio. This portfolio is the starting point for the ‘SRI overlay’. Six basic exclusions are applied to both versions of the strategy (Responsible World and Ethical World): no alcohol, gambling, military, pornography, tobacco or weapons. The Ethical World strategy also excludes nuclear and companies with poor track records in the following areas: the environment, labour issues, product quality, human rights, animal testing, community involvement and corporate governance. The SRI team undertakes detailed reviews of company practices and policies in order to identify whether they meet the ethical criteria, and also to identify potential fundamental issues related to ESG issues that may impact the valuation of each company. Such issues are proactively brought to the attention of the regional and global portfolio managers so they can be taken into account for both the unconstrained and ethical portfolios. When a company in the global equity model portfolio fails the SRI screens, the team will usually seek an alternative which has similar risk and exposure characteristics, though it need not be within the same sector. Companies that fail the screens may also become candidates for Aberdeen’s engagement programme and if improvement is shown it is possible for them to be approved for investment.

The global SRI strategy invests primarily in mid and large cap stocks and holds between 40 and 50 stocks and may at time be slightly more concentrated than the unconstrained portfolio. The expected holding period is long term and turnover is expected to be low. New holdings are introduced at 1-2% (and are capped at 5%). Decisions on final positions are usually made by consensus, although Docherty does have the right of veto if necessary. Although this is primarily a bottom-up approach, country views are taken into account during portfolio construction. Risk relies on common sense checks and the principles of diversification. Aberdeen does not equate risk with divergence from benchmark, but with investing in companies that do not deliver the expected return.

Stocks are sold when there is a deterioration in quality (changes in management, dishonesty/fraud, loss of business focus/direction, industry factors etc), a deterioration in value (price increases outpace growth potential or other better-priced stocks emerge), or due to corporate activity (mergers/acquisitions etc). When the stock is removed from the regional model portfolio or is deemed to no longer meet the ethical requirements of the strategy by the SRI team the Global team have 30 days to sell their holding - although typically they will be aware of the removal ahead of the event and participate with the other teams. Currencies are not actively hedged.

Implementation

While capacity is not likely to be an issue in this strategy it is worth noting that Aberdeen manage a significant asset base with a common investment philosophy; asset levels in GEM equities have been raised as an area of concern in the regional strategies. The global team use a central order system for posting trades, and deals are picked up by either the London or Singapore team, both comprising experienced dealers.

Issues to watch

Capacity remains an issue across Aberdeen's strategies, particularly in Asian stocks. This may have an impact on the global team's ability to invest in certain areas of the market.

If our view of the underlying regional and global equity strategies changed this could have an impact on our view of the global SRI strategy. We currently have a positive view (B+ or higher) of Aberdeen's Emerging Markets and some Asian equity strategies, and a preliminary view of the US equity team in 2009 was also positive. It must be noted that we have not had the chance to form a view of many of the regional equity teams and this leads us to be cautious in our ratings for both the global SRI and the global equity strategies.

Any changes to the regional equity teams or the leadership of Docherty and Rose in Edinburgh would impact this strategy and lead us to reassess the rating.

Highlights

The process and philosophy at Aberdeen is unchanged, and both the SRI and global equity teams have remained stable over the last twelve months. Notable small changes include the addition of a new SRI analyst to the team, without direct financial or SRI experience but with eight years work experience, while Ella-Kara Brown has moved from an SRI analyst role into an assistant investment manager role. On the global equity team Stewart Methven, a senior investment manager, has joined the team from the pan-European equity team to replace Jeremy Whitley who moved to the pan-European team. Turnover at Aberdeen is remarkably low, and we understand that it is even lower in the regional teams.

We regard the change in role of Brown as particularly interesting since the SRI research is deliberately kept quite separate to the financial company research, so there is no direct route to moving into an investment role for SRI analysts until they show particular interest and ability. We see it as a positive that Aberdeen recognises and develops talent from within. There are now two members of the investment team that have previously worked on the SRI analysis – Brown and Martin Connaghan, an investment manager. This helps considerably with integration of the SRI team into the global equity team.

We see clear signs that the SRI and global equity teams are working together much more closely than in the past, not just sitting physically close to one another. Over the last two years the SRI team has undertaken a comprehensive review of all the companies in the global equity buy list (i.e. the stocks in all the regional equity portfolios). This is complete so the team is now able to work on additional value add research. The SRI research has always been available to all portfolio managers though there is no obligation for them to use it, but the fundamental company research notes now incorporate a section where ESG issues that could have a fundamental impact are identified. Cumming also cited some recent examples of meetings with companies where both the SRI and mainstream analysts had been involved and worked together.

Although Cumming appears to take on the bulk of the marketing activity and consultancy meetings for this strategy, and also global equity, he is not solely responsible for any of the portfolios. The team has a collegiate approach and any of the other senior investment managers could step into his place.

The Ethical World version of the Global SRI strategy remains Aberdeen's flagship product, though the Responsible World version (launched 2007 with fewer screens) is proving particularly popular with European clients. UK clients appear to prefer the more heavily screened Ethical World product. Assets have been growing faster in the unconstrained global equity strategy over the last twelve months than in the SRI strategy, though Nazar felt this could be due to not having had a significant marketing push behind the SRI strategy.

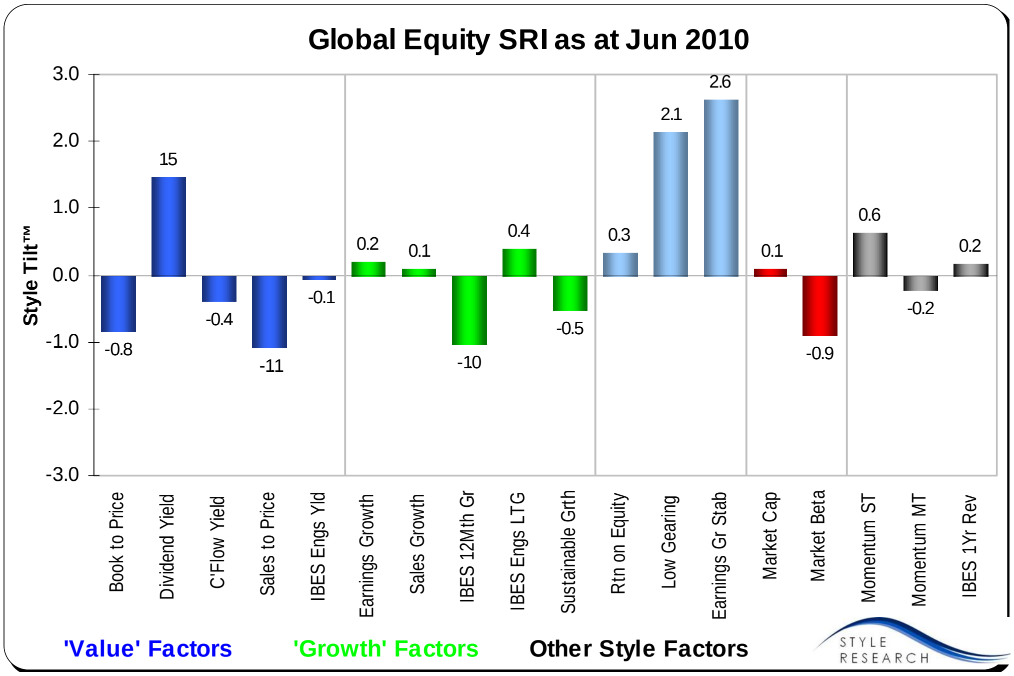
Portfolio holdings analysis

International - Global Equity - SRI - Global Equity SRI

Date of analysis	30 June 2010
Benchmark used for analysis	MSCI World Free
Number of stocks	48
Predicted tracking error (%)	5.3
Average value score	-0.2
Average growth score	-0.2
Adjustment used for Style Tilts	Country Adjusted
Cash (%)	-0.4

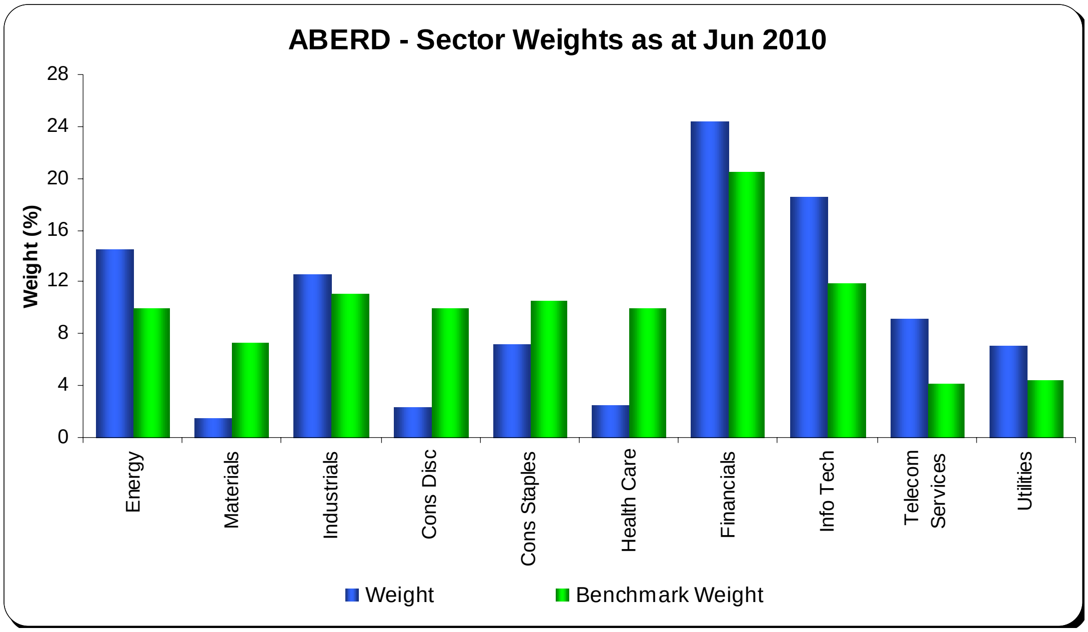
The following chart shows the 'style tilts' for the Ethical World portfolio. It is consistent with historical analyses with no significant growth or value tilts. A tilt to quality (low gearing and high earnings growth stability, though not ROE) is apparent and a reflection of Aberdeen's core research process. We expect these tilts to persist.

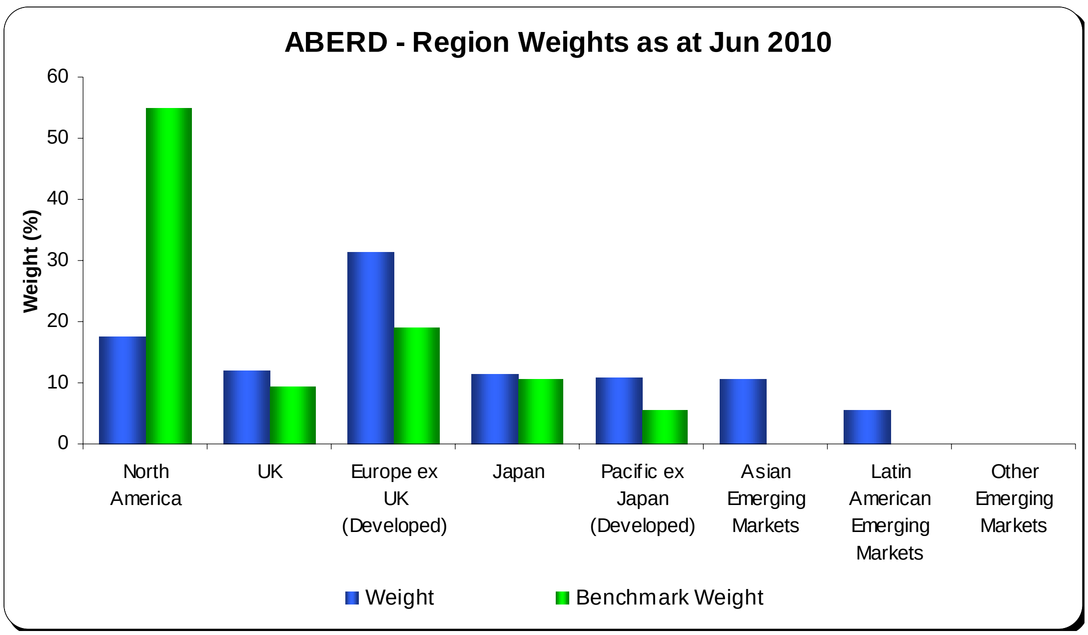
The main difference between this fund and the unconstrained global equity fund is the impact of 16 exclusionary ethical screens. The portfolio may be slightly more concentrated, although usually replacement stocks are chosen that might not be in the unconstrained fund, but must be from the global buy list made up of the stocks in the regional model portfolios. The SRI portfolio is constructed to reflect similar style characteristics and risk exposures to the unconstrained portfolio. Overlap between the two funds is usually around 75% of stocks, although currently this is higher at around 90%. Cumming explained that this was partly because the increased engagement programme as a result of launching the Responsible World version of the strategy had led to a number of companies improving their performance on ESG issues and becoming eligible for the SRI portfolio.



The Responsible World portfolio, having fewer negative screens, has characteristics that are broadly mid-way between the Ethical World portfolio and the unconstrained portfolio, with typically only 5-6 stocks different from the unconstrained portfolio.

Relative to the benchmark the fund is underweight the US and overweight Europe and Emerging Markets. By sector it is underweight Materials and Healthcare and overweight Financials, IT, Energy and Industrials. Some of these are due to the ethical screens e.g. many healthcare companies are excluded for animal testing, and therefore will persist. This positioning is very similar to twelve months ago.


ABERD - Sector Weights as at Jun 2010
Weight (%)
28
24
20
16
12
8
4
0
Energy
Materials
Industrials
Cons Disc
Cons Staples
Health Care
Financials
Info Tech
Telecom Services
Utilities
Weight
Benchmark Weight


ABERD - Region Weights as at Jun 2010
Weight (%)
60
50
40
30
20
10
0
North America
UK
Europe ex UK (Developed)
Japan
Pacific ex Japan (Developed)
Asian Emerging Markets
Latin American Emerging Markets
Other Emerging Markets
Weight
Benchmark Weight

Past performance

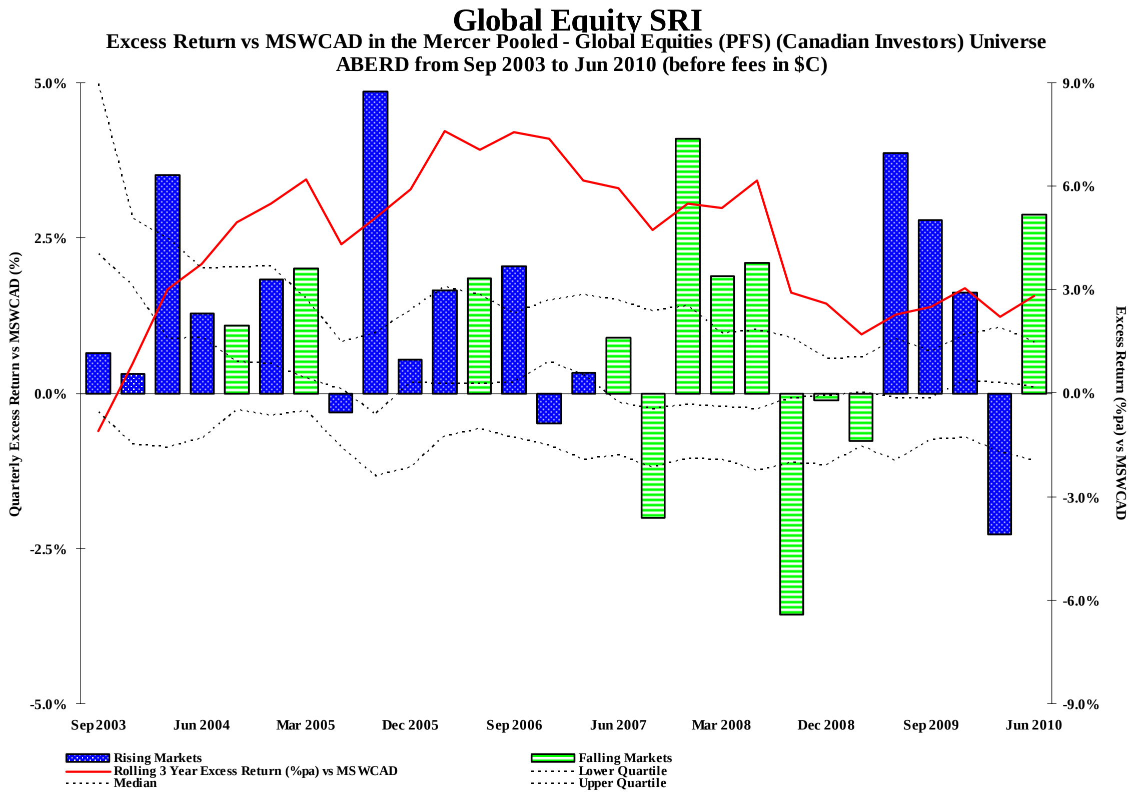
International - Global Equity - SRI - Global Equity SRI

Track Record	Global Equity SRI (MPA)
Currency	$C
Benchmark	MSCI World CAD
Mercer Universe	Pooled - Global Equities (PFS) (Canadian Investors) ($C)
Track record type	Composite
Track Record Assets	$940 million as at 30 June 2010

In general Aberdeen has had a strong twelve months, partly due to sector positioning and rebounding of cyclical sectors, but stock selection also drove much of the outperformance in 2009. Early 2010 saw some underperformance across all of the global equity funds as the underweight US position hurt from both a regional performance and currency perspective, but that reversed in Q2. Since the end of 2009 the team has been shifting away from some cyclical sectors seeing better value in defensive sectors such as telecoms. This has led to a few new names in the SRI portfolio including some Asian telecoms stocks and Brazilian banks. On the whole though the biggest names in the portfolio have not changed much.

Over the last five years the SRI portfolio has tended to underperform the unscreened global equity portfolio over most periods, partly due to the effect of the ethical screens. The Responsible World portfolio, with fewer negative screens, tends to perform in between the unscreened global equity and the Ethical World portfolios.

Rolling period chart

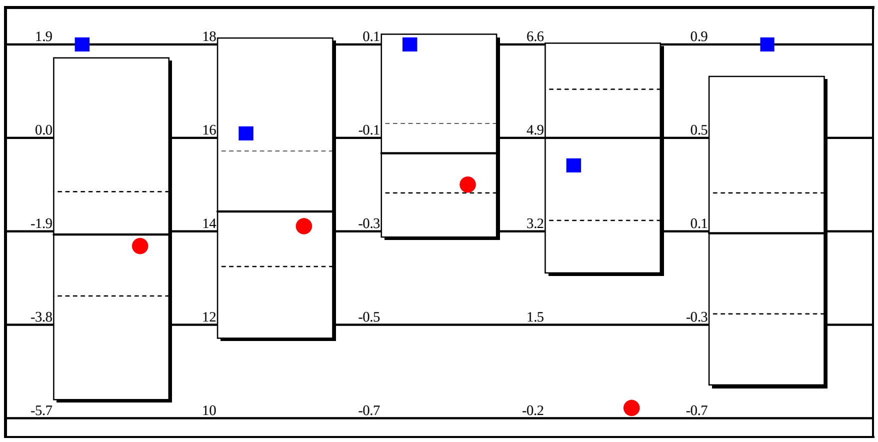


Risk/return characteristics

Global Equity SRI

Comparison with the Mercer Pooled - Global Equities (PFS) (Canadian Investors) Universe

Risk and Return Characteristics (calculated quarterly) versus MSWCAD and Actual Ranking for the 5 Years ended Jun 2010



	Return (% pa)	Std Deviation (% pa)	Reward to Risk Ratio	Tracking Error (% pa)	Information Ratio
ABERD	1.9 *(3)*	16.1 *(7)*	0.1 *(3)*	4.4 *(21)*	0.9 *(2)*
MSWCAD	-2.2 *(20)*	14.1 *(21)*	-0.2 *(19)*	0.0 *(36)*	na
95th Percentile	1.6	18.1	0.1	6.6	0.8
Upper Quartile	-1.1	15.7	-0.1	5.8	0.3
Median	-2.0	14.4	-0.1	4.9	0.1
Lower Quartile	-3.2	13.2	-0.2	3.4	-0.3
5th Percentile	-5.4	11.7	-0.3	2.4	-0.6
Number of Funds	35	35	35	35	35

Further Detail

ESG and Active Ownership

Aberdeen's Global SRI strategy is based on its unconstrained global equity portfolio with an ethical overlay of negative screens and a programme of engagement for change with companies. The negative screens are based purely on ethical values and the research for this carried out completely separately to the financial evaluation of stocks, hence we do not consider this an integrated approach. However, there is increasing evidence that the SRI research team is beginning to integrate more with the global equity team and impact on the decision making process through identification of ESG issues that are likely to impact fundamental valuations. The team is forging stronger links with the investment team through the career progression of some of the analysts, and linking in with the regional equity teams to get access to companies.

In addition the engagement programme at Aberdeen has stepped up. The engagement programme targets companies that fail to meet the criteria for the SRI fund, and when progress is noted they may become eligible e.g. ENI has been approved this year following an improvement in health and safety record, but Cumming described how this type of work also gives the global equity team greater conviction in their best ideas since many of the problem areas can also develop into fundamental issues over time.

Corporate governance is also seen as an important overlap between the SRI team and the global equity team in evaluating companies. This progress leads us to upgrade the global SRI strategy from, ESG3 to ESG2.

4

Mercer View and Rating

The following is the summary of Mercer's evaluation of the Aberdeen Ethical World Fund (16 August 2010).

Factor	Rating (-, =, + or ++)	Comments

Idea Generation	+	Idea generation for the SRI strategies is dependent on the unconstrained Global Equity strategy, which is rated + for 'idea generation' and B overall by Mercer, due to the global team themselves being dependant on the idea generation of the regional equity teams at Aberdeen. The philosophy is sound and we believe the company research to be of high quality in a number of the teams (particularly Asia and GEM), however, we have not rated the US, Japan or European teams and we struggled to identify any meaningful value add from the global equity team other than in comparing valuations across regions. The global team has little control over the analytical resource and is a recipient of ideas rather than a primary idea generator. However we believe that the SRI team is now making a more meaningful contribution in terms of integrating with the regional teams and identifying ESG issues that impact the fundamentals of company valuation. The team is better resourced than it has been in the past and over the last two years has improved the depth and quality of ESG analysis of Aberdeen's global buy list. While we feel that the restricted short list limits the potential for the global equity team to add value, it benefits the SRI team to be able to get to know companies in more depth than they would be able to with a wider universe, and the input of these regional investment specialists is a competitive advantage. As such we now have more confidence that the inputs to the SRI strategy compare favourably with competing products in the SRI market.
Portfolio Construction	+	The portfolio is a relatively focused one, constructed with little reference to the benchmark. A longer term perspective is taken when adding stocks to the portfolio and the team appear to be prepared to maintain holdings that they believe have long term capital appreciation potential. Portfolio controls are relatively loose, but positions seem reasonably well calibrated. Only those companies on the house "Global Buy List" that also pass all of the negative screens qualify for inclusion in SRI portfolios.
Implementation	+	While capacity is not likely to be an issue in this strategy it is worth noting that Aberdeen manage a significant asset base with a common investment philosophy; asset levels in GEM equities have been raised as an area of concern in the regional strategies. The global team use a central order system for posting trades, and deals are picked up by either the London or Singapore team, both comprising experienced dealers.

Business Management	+	Management is clearly supportive of both the global equity and SRI research teams and of the approach which they see as making the best use of the resources they have. Remuneration is structured so as to complement and support the team approach to investment. Aberdeen's acquisition trail continues in some areas however the global team have been relatively immune to this, partly due to being based in the Edinburgh office. The acquisition of businesses from CSAM and RBS has had little impact on the global team.
Overall Rating (A, B+, B or C) **B+**	The Global equity portfolio management team is experienced, impressively stable, and comes across well in meetings. However the unconstrained strategy relies purely on the output of the regional teams – a non-negotiable list of potential stocks for inclusion in portfolios and a requirement to sell stocks if the regional teams remove them from their buy list, or the SRI team removes them from their approved list. As such we feel it is difficult for the global equity team to add value. However we do feel that the SRI team is increasingly adding value at a global level, not just in identifying high quality candidates for inclusion in the SRI portfolio, but in working with the regional teams to identify ESG issues that could impact the fundamental valuation of a company. The SRI team has also been stable, and analysts that were previously comparatively junior are growing within the firm. The regard in which the SRI analysts are held is reflected in the movement of some of them between the SRI team and the investment team. The limited buy list allows the SRI team to get to know the companies in greater depth, and the input of a global team of regional specialists gives this strategy an advantage, in our view, in comparison with other Global SRI strategies. However it must be noted that we have not had the chance to form a view of all the regional equity teams and this leads us to be cautious in our ratings on both the global SRI and the global equity strategies.	
Additional Observations	Portfolios are benchmark agnostic. Whilst they will manage portfolios to customised benchmarks they believe their skill set is in unconstrained global mandates. Portfolios will generally have a value bias and an overweight towards emerging market countries.	

Notices and risk warnings

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed. Past performance does not guarantee future results.

This does not contain investment advice relating to your particular circumstances. No investment decision should be made based on this information without first obtaining appropriate professional advice and considering your circumstances.

Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

This does not constitute an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products.

Research ratings

Mercer's rating of an investment strategy signifies Mercer's opinion as to the strategy's prospects for outperforming a suitable benchmark, on a risk-adjusted basis, over a full market cycle. Strategies rated A are those assessed as having above average prospects. Those rated B are those assessed as having average prospects. Those rated C are assessed as having below average prospects. B+ is an intermediate category in between A and B. If the rating shown is N, or if no rating is shown at all, this signifies that the strategy is not currently rated by Mercer. Some strategies may carry an additional rating (e.g. T (Higher Tracking Error), P (Provisional), and W (Watch)). For some product categories, Mercer does not maintain formal ratings but instead assigns a Preferred Provider status. For the most recent approved ratings, and a fuller explanation of their meanings, refer to your Mercer representative or to the Mercer Global Investment Manager Database (GIMD™) as appropriate.

The term "strategy" is used in this context to refer to the process that leads to the construction of a portfolio of investments, regardless of whether it is offered in separate account format or through one or more funds. The rating assigned to a strategy may or may not be consistent with its historical performance. While the rating reflects Mercer's expectations on future performance relative to its benchmark, Mercer does not provide any guarantees that these expectations will be fulfilled.

Mercer does not generally take the investment management fees of a given manager into account in determining ratings. Managers' fees charged for a specific strategy will often vary among investors, either because of differing account sizes, inception dates or other factors. Mercer does not perform operational infrastructure due diligence or personal financial or criminal background checks on investment managers.

Mercer's research process and ratings do not include an evaluation of a manager's custodian, prime brokerage, or other vendor relationships or an assessment of its back office operations. Research is generally limited to the overall investment decision-making process used by managers.

Mercer's investment consulting business rates and/or recommends strategies of investment managers, some of whom are either Mercer clients, Mercer affiliates or clients of Mercer's affiliates. The services provided to those managers may include a broad range of consulting services as well as the sale of licenses to use Mercer's proprietary software and databases and/or subscriptions to Mercer's investment forums. Policies are in place to address these and any other conflicts of interest that may arise in the course of Mercer's business. This is only a summary of Mercer's conflicts of interest. For more information on Mercer's conflict of interest policies, contact your Mercer representative.

Universe notes

Mercer manager universes are constructed using data and information provided to Mercer either directly or via third party providers. The universes are intended to provide collective samples of strategies that best allow for robust peer group comparisons to be conducted over a chosen timeframe. Mercer does not assert that the peer groups are wholly representative of and applicable to all strategies available to individual investors. Universe distributions are calculated based on the data that was in our database at the time that the universe was constructed, and may therefore change over time due to additional information supplied by an investment manager or revisions to data.

Risk warnings

- The value of stocks and shares, including unit trusts, can go down as well as up and you may not get back the amount you have invested.
- Investments denominated in a foreign currency will fluctuate with the value of the currency.
- Certain investments, such as illiquid, leveraged or high-yield instruments or funds and securities issued by small capitalization and emerging market issuers, carry additional risks that should be considered before choosing an investment manager or making an investment decision.
- For higher volatility investments, losses on realisation may be high because their value may fall suddenly and substantially.
- Where investments are not domiciled and regulated locally, the nature and extent of investor protection will be different to that available in respect of investments domiciled and regulated locally. In particular, the regulatory regimes in some domiciles are considerably lighter than others, and offer substantially less investor protection. Where an investor is considering whether to make a commitment in respect of an investment which is not domiciled and regulated locally, we recommend that legal advice is sought prior to the commitment being made.

Appendix A

Mercer IC research coverage of Aberdeen Asset Management Global Equities and Ethical World Fund

16 Aug 2010	Aberdeen Global Equity SRI
23 June 2009	Aberdeen Ethical World Fund
30 Jun 2008	Aberdeen Ethical World Fund
30 Oct 2007	Meeting with SRI team on site
13 Aug 2007	Global Equity update
12 Jun 2007	SRI update
21 Jul 2006	Global Equity update
14 Oct 2005	Aberdeen Ethical World Fund
30 Jun 2005	Environmental, social and corporate governance (ESG) assessment
4 May 2005	Business update with Martin Gilbert
14 Sep 2004	General Business Update
17 Jun 2003	SRI update
5 Dec 2001	SRI update
22 Mar 2001	Global Equity update (EFM)

Appendix B

Guide to Mercer Ratings

What do Mercer's research ratings signify?

Mercer's research rating of an investment strategy signifies Mercer's opinion as to its prospects for outperforming a suitable benchmark, on a risk-adjusted basis, over a full market cycle. The rating is recorded in the entry for the strategy on Mercer's Global Investment Manager Database (GIMD™).

Strategies rated A are those assessed as having above average prospects. Those rated B are those assessed as having average prospects. Those rated C are assessed as having below average prospects. B+ is an intermediate category in between A and B. Strategies which are B+ rated would satisfy at least one of the following:

1. Above average probability of beating the benchmark but there are a significant number of strategies more likely to beat the benchmark;

2. Likely to have above average probability of beating the benchmark but more "evidence" is needed to confirm this assessment; or

3. Above average probability of beating the benchmark but there is a potential for downward re-assessment due to uncertainly regarding the strategy or organisation.

If the rating shown on GIMD is N, or if no rating is shown at all, this signifies that the strategy is not currently rated by Mercer.

Mercer has an established process for ratifying and reviewing the ratings that are proposed by individual researchers. For most categories ratings are reviewed regularly by one of several Ratings Review Committees that operate within Mercer. These Committees draw on research carried out by Mercer manager researchers and consultants. The role of these Committees is to review this research from a quality control perspective and ensure consistency of treatment across strategies within a product category, rather than to redo the research from scratch.

For certain asset classes ratings will not have been reviewed by a Rating Review Committee. They will however have been reviewed by at least two suitably qualified researchers/consultants other than the researcher who recommended the rating.

What do they not signify?

The rating assigned to a strategy may or may not be consistent with its past performance history. While the rating reflects Mercer's expectations on future performance relative to benchmark, Mercer does not provide any guarantees that these expectations will be fulfilled.
Also, unlike credit ratings assigned by agencies such as Moodys and S&P, the research ratings are not intended to imply any views about the creditworthiness of the investment manager providing the strategy.

Mercer research ratings are assigned to strategies rather than to specific funds. We use the term "strategy" in this context to refer to the process that leads to the construction of a portfolio of investments, regardless of whether it is offered in separate account format or through one or more funds. Potential investors in specific funds should therefore consider not only the Mercer ratings for the strategies being offered through those funds, but also any fund-specific issues such as fees, frequency of dealing dates and any legal or regulatory issues relating to the type of fund and where it is domiciled.
Mercer does not generally take investment management fees into account in determining ratings. The rationale for this is that the fees charged for a specific strategy will often vary from one client to the next, due to differing account sizes, differing inception dates or other factors. Potential investors in a specific strategy should therefore consider not only the Mercer rating for that strategy, but also the competitiveness of the fee schedule that they have been quoted for that strategy.
Mercer's research process and ratings do not include an evaluation of a manager's custodian, prime brokerage, or other vendor relationships or an assessment of its back office operations. Research is generally limited to the overall investment decision-making process used by managers. Mercer does not perform operational infrastructure due diligence or personal financial or criminal background checks on managers. Mercer's manager researchers start from the assumption that the manager's back office is satisfactory from an operational point of view unless we are aware that the manager's auditors or regulators have a contrary view. Having said that, any operational weaknesses that do come to light in the course of Mercer's manager research are noted and taken into account in determining ratings as appropriate.

Provisional (P) ratings

If the Mercer rating for a strategy is followed by (P) – e.g. A(P), B+(P) etc - this denotes that the rating is provisional. This means that there is some temporary uncertainty about the rating that we expect will be resolved soon. An example would be a case where two firms have announced that they will be merging, but no further details are yet available. In this type of case the rating for a strategy may be changed to provisional – e.g. from A to A(P) - to highlight this uncertainty. The intention is that provisional ratings should only be temporary and normally last for no more than two weeks. Once the temporary uncertainty has been resolved, or if it becomes apparent that this uncertainty is unlikely to be resolved quickly, the provisional rating will be replaced with a firm rating or it will be assigned the designation Watch (W).

Watch (W) ratings

If the Mercer rating for a strategy is followed by (W) – e.g. A(W), B+(W) etc - this denotes that the rating is Watch. This means that there is some uncertainty about the rating that we do not expect to be resolved soon, but we do not believe the resolution of this uncertainty will lead to a change in the rating for that strategy. W ratings would most likely be used where ownership changes, or the potential for ownership changes exists, and there is an expectation of long term uncertainty surrounding the rating.

High tracking error (T) ratings

If the Mercer rating for a strategy is followed by (T) – e.g. A(T), B+(T) etc - this denotes that the strategy is considered to have potential to generate a tracking error substantially higher than the average for the product category concerned. In this context, “tracking error” refers to the variability of performance relative to the nominated benchmark for the strategy. A strategy may be assigned this type of rating either because the potential for high tracking error has been demonstrated by the strategy’s past performance, and/or because the nature of the investment process is such that a significantly higher than average tracking error could be expected.

Preferred provider status

Preferred provider status is assigned to strategies within product categories for which Mercer does not maintain formal ratings. Examples include Cash, Passive and LDI strategies. Most Preferred Provider lists will not have been reviewed by a Ratings Review Committee. They will however have been reviewed by at least two suitably qualified researchers/consultants other than the researcher who recommended the rating.

Four factor ratings

In deriving Mercer’s overall rating for a strategy, manager researchers also arrive at ratings for four specific factors labelled idea generation (IG), portfolio construction (PC), implementation (Imp) and business management (BM) respectively. Each of these factors is rated as either negative (-), neutral (=), positive (+) or very positive (++).
To explain these four factors, every investment process can be thought of as consisting of three main components as follows:

1. Idea generation – this covers everything that the manager does to arrive at views on the relative attractiveness of different investments.

2. Portfolio construction – this covers how the manager goes about translating its investment ideas into decisions on which investments it wants to include in a portfolio, and what weightings to give to each of these investments.

3. Implementation – this covers the implementation of the buy and sell trades required to achieve the desired portfolio structure.

Mercer believes managers that can do these three things well should have above average prospects for outperforming.
Over longer periods, managers must be able to maintain and enhance their capabilities in these three areas in order to remain competitive. To do this they need to manage their business well. This is where the business management factor comes in.
Whilst the overall rating for a strategy will take into account the four factor ratings for that strategy, it is not determined as some sort of weighted average of the four factor ratings. The final decisions on ratings take into account the relative importance of each of the four factor ratings to the overall performance prospects of the strategy under consideration on a case-by-case basis.

Environmental, social and corporate governance (ESG) ratings

Mercer also assigns ratings to investment management firms that represent Mercer's view on the extent to which ESG and active ownership practices (voting and engagement) are integrated into the fund manager's strategy – the four factors include idea generation, portfolio construction, implementation, and business management.
The ratings scale is ESG1 to ESG4, with ESG1 being the highest assigned to managers that are assessed as being 'leaders' in integrating ESG and active ownership into their core processes, with clear evidence that it is core to idea generation and portfolio construction.
ESG2 indicates that ESG factors are part of decision making with a strong level of commitment made at the firm wide level and some indication that data and research is being taken into account by the fund managers in their valuations.
An ESG3 rating is given to strategies where, in Mercer's view, the manager has made some progress with respect to ESG integration and active ownership, but there is little evidence that ESG factors actually factor into valuations and investment processes.
Strategies rated ESG4 have, in Mercer's view, done very little with respect to ESG integration or active ownership.

Confidentiality of Mercer's research ratings

Mercer's research ratings, along with all other information relating to Mercer's opinions on investment managers and the investment strategies that they offer, represent Mercer's confidential and proprietary intellectual capital and are subject to change without notice. The information is intended for the exclusive use of the parties to whom it was provided by Mercer and may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity (including investment managers) without Mercer's written permission.

Mercer's manager researchers do provide constructive feedback to the investment management firms that they research as part of their efforts to maintain good working relationships with these firms. Manager researchers do have discretion to disclose the overall rating for a strategy to the firm concerned as part of this feedback, subject to a proviso that the firm concerned must first give an undertaking to Mercer to keep this information confidential and not to pass it on to any third parties. Mercer does not however permit its clients to communicate ratings and related information directly to the investment management firms to which they relate. Any investment management firms who have questions about Mercer's opinions on their investment strategies should be advised to contact their Mercer manager researcher directly with these questions.

April 2010

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Mercer (Canada) Limited
161 Bay Street
P.O. Box 501
Toronto, Ontario M5J 2S5
416 868 2000

Consulting. Outsourcing. Investments.