EMERGING MARKETS EQUITY
Mandate Search

Recommended:
That William Blair & Company be appointed as a manager for an emerging markets equity mandate. The strategy to be used will be William Blair & Company Emerging Markets Leaders. William Blair will be managing 5% of the Diversified Equity Fund. The strategy will be benchmarked to the MSCI Emerging Markets Index.

Rationale for Recommending William Blair:
- Strong and reputable organization founded in 1935.
- 100% employee owned.
- $49.6 billion in assets under management.
- Approximately $5.8 billion in emerging markets equity.
- More than 16 years of emerging markets equity investing.
- Experience dealing with large DC plans.
- Stable and experienced investment team with more than 20 years of industry experience.
- Clear investment process and disciplined implementation.
- The firm has a good track record of closing strategies when assets reach a certain level.
- The strategy has generated 264 bps of value added annualized over the MSCI Emerging Markets Index over the past four years.
- The portfolio has been significantly less volatile than the benchmark since its inception.
- The portfolio has posted strong Sharpe and Information ratios since inception.
- The portfolio has done well in the past when the markets were rising, while protecting in the downside.
- The strategy is a good fit with the existing managers in the Diversified Equity Fund, as its strategy of selecting companies with quality growth consistently underweights the Energy and Materials sectors, which are large with for other managers in the fund, especially the Canadian equity component. The strategy has also posted the lowest correlation of returns with the Diversified Equity Fund among the three finalists.
- Management fees are low compared to peers.
- William Blair will create a pooled fund for Canadian investors to enable Western to invest in the strategy.

Weaknesses of the Manager:
- The strategy's constant underweight in the Energy and Materials sectors may result in underperformance if the price of commodities rises significantly.
- The firm's risk management process is not as developed as their peers and is limited to guidelines regarding to individual, sector and geographic weightings.
- Currently the portfolio is more expensive than the market on a price-to-earnings ratio, reflecting the recent increase in prices of quality companies.

BACKGROUND

At its December 3, 2012 meeting, the Joint Pension Board (JPB) approved a 5% allocation to an emerging markets equity mandate. A list of 13 top-ranked emerging markets equity managers was provided by Russell Investments. The strategies proposed either had a market-oriented investment style or minimal growth or value biases, given that only one manager would be selected.

The investment managers reviewed included:

- AQR Capital Management LLC
- Arrowstreet Capital, L.P.
- ClariVest Asset Management LLC
- Genesis Asset Managers, LLP
- Harding Loevner L.P.
- Neuberger Berman, LLC
- OFI Institutional Asset Management, Inc.
- Robeco Institutional Asset Management, B.V.
- The Boston Company Asset Management LLC
- Trilogy Advisors, LLC
- Victoria 1522 Investments, L.P.
- Westwood Global Investments, LLC
- William Blair & Company, LLC

The universe was further narrowed down to three managers using the following screening criteria:

Organization

- Established investment firm with a strong reputation. The stability of the organization is important.
- Employee ownership or any program increasing stability of the investment team is preferred.
- Sufficient level of assets under management (preferably in the $20 billion to $100 billion range) .
- A focus on emerging markets equity management and optimal level of assets under management in this asset class (preferably in the $500 million to $10 billion range).

Investment Personnel

- Large, experienced and stable research and investment team is preferred.

Product

- Long track record of managing emerging markets equity, preferably more than 10 years.
- Clear investment process.
- Strong competitive advantages.
- A fairly concentrated portfolio is preferred, due to the size of the allocation (5% of the Diversified Equity Fund).
- Investment style that can outperform in various environments.
- Low turnover is preferred.
- Good fit with the existing managers in the Diversified Equity Fund.

Performance

- Demonstrated ability to generate value added over the MSCI Emerging Markets Index.
- Lower risk than the MSCI Emerging Markets Index.
- Strong risk-adjusted returns.
- Demonstrated ability to outperform in both rising and declining markets.

Other

- No compliance issues.

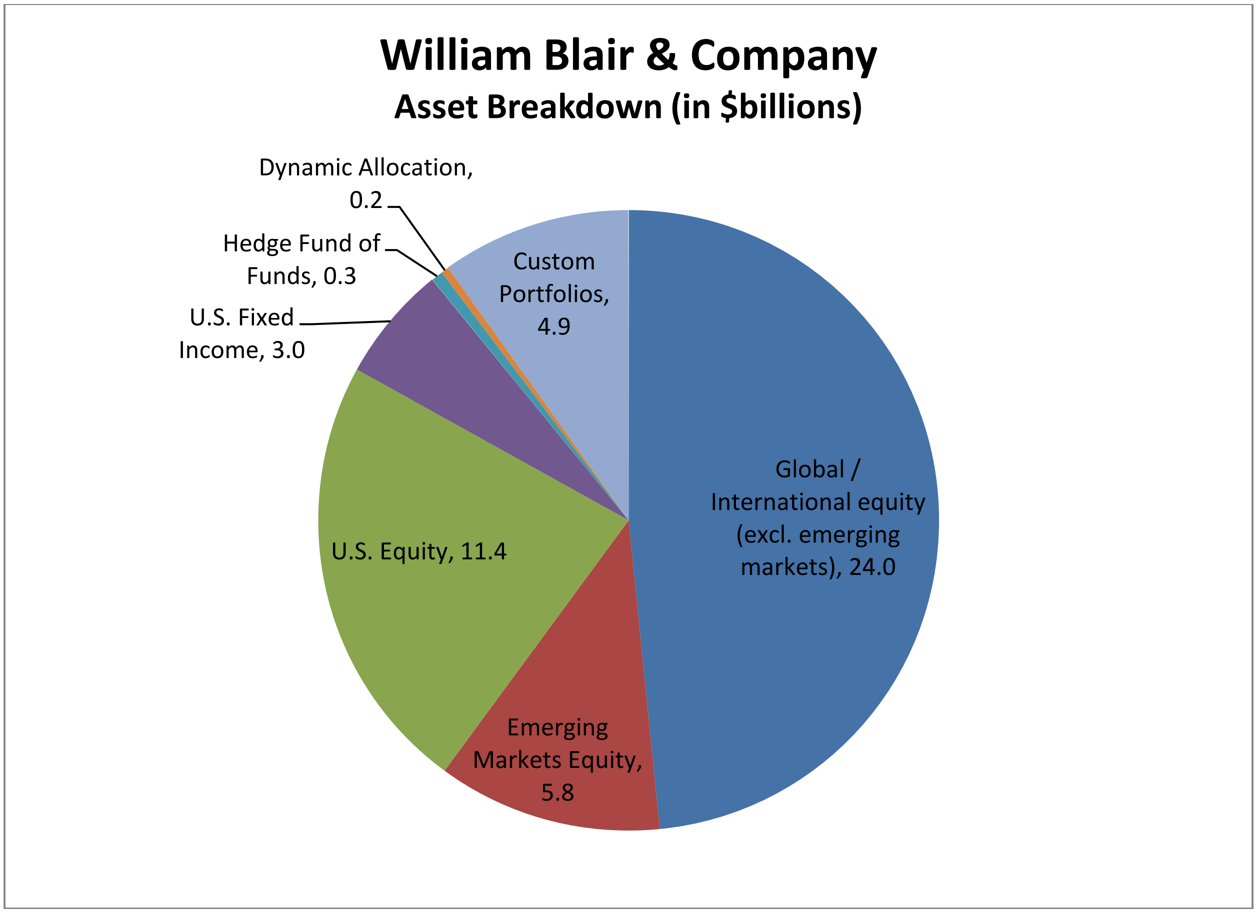
- Low investment management fees.
- Availability of a pooled fund for Canadian investors.

After applying the screening criteria listed above, onsite due diligence was performed with three investment firms: Harding Loevner L.P., Neuberger Berman, LLC and William Blair & Company, LLC

Genesis Asset Managers, LLP and OFI Institutional Asset Management, Inc. were withdrawn from consideration because their strategy is closed to new assets.

ORGANIZATION

Founded in 1935, William Blair & Company is a global investment banking and asset management firm. The firm is 100% employee owned and is headquartered in Chicago with additional investment professionals in London, U.K. Approximately 65% of the firm is owned by members of the investment team. William Blair has been managing emerging markets equity since 1996. As of December 31, 2012, the firm has U.S. $49.6 billion in assets under management, broken down as follows:



The firm manages $1.5 billion for Canadian clients, including another university. William Blair expects that future growth will come from the following core tenets:

- Actively managed products
- No product proliferation

- New products to fall within their global equity expertise

PERSONNEL

William Blair's Asset Management Division employs 109 investment professionals. The International Investment Team, which is responsible for managing the emerging markets mandates, employs 34 investment professionals, including a team of 14 sector analysts. International portfolio managers have on average 23 years of industry experience and have been with the firm for 10 years on average. The investment team has been fairly stable in recent years.

INVESTMENT PHILOSOPHY AND PROCESS

William Blair's investment philosophy is based on the following three tenets:

- Strong corporate performance is the foundation of superior long-term investment returns.
- The essence of corporate success lies in building intrinsic strengths in the management of human capital, financial resources, and stakeholder relationships, and delivering quality, innovation, service, and value to customers.
- Companies that lead in these critical areas have produced better returns on capital, over a longer time horizon, with greater consistency and less risk.

The investment team seeks for companies with the following characteristics:

- Organic value creation
- Peer group leadership
- Consistent earnings growth
- High return on capital and assets
- Positive earnings trends over time
- Low leverage

The investment process starts with defining an eligibility list from the investment universe through the use of quantitative screens. Extensive fundamental analysis is performed on the stocks in the eligibility list by looking in depth at the following criteria: quality, growth, valuation, operating performance and strategic considerations. The portfolio is then constructed using sector and geographic diversification guidelines. The target number of holdings is 50 to 80. As of January 31, 2013, the portfolio had 54 holdings.

PERFORMANCE

Tables 1 & 2 below show calendar year returns and annualized returns as of December 31, 2012.

Table 1

	Calendar Year Returns			
	2012	**2011**	**2010**	**2009**
Harding Loevner	20.04%	-15.46%	14.69%	38.82%
William Blair	**18.43%**	**-15.62%**	**18.15%**	**55.10%**
Neuberger Berman	20.30%	-22.09%	17.10%	58.56%
MSCI Emerging Markets	16.00%	-16.15%	12.98%	52.03%
Value Added Harding Loevner	*4.04%*	*0.68%*	*1.71%*	*-13.20%*
Value Added William Blair	***2.43%***	***0.53%***	***5.17%***	***3.08%***
Value Added Neuberger Berman	*4.30%*	*-5.94%*	*4.13%*	*6.53%*

Table 2

	Annualized Returns As of December 31, 2012			
	1-Yr	**2-Yr**	**3-Yr**	**4-Yr**
Harding Loevner	20.04%	0.73%	5.19%	12.74%
William Blair	**18.43%**	**-0.04%**	**5.69%**	**16.33%**
Neuberger Berman	20.30%	-3.18%	3.15%	14.86%
MSCI Emerging Markets	16.00%	-1.37%	3.19%	13.69%
Value Added Harding Loevner	*4.04%*	*2.11%*	*1.99%*	*-0.95%*
Value Added William Blair	***2.43%***	***1.34%***	***2.50%***	***2.64%***
Value Added Neuberger Berman	*4.30%*	*-1.81%*	*-0.04%*	*1.17%*

Table 3 below shows the finalists standard deviation of returns over 3-yr and 4-yr horizons.

Table 3
Standard Deviation
As of December 31, 2012

	3-Yr	**4-yr**
Harding Loevner	13.88%	15.69%
William Blair	13.71%	14.75%
Neuberger Berman	14.99%	16.05%
MSCI Emerging Markets	14.96%	16.62%

Tables 4 & 5 below show Sharpe Ratios and Information Ratios, two measures of risk-adjusted returns, for the three finalists.

Table 4
Sharpe Ratio
As of December 31, 2012

	3-Yr	**4-Yr**
Harding Loevner	0.31	0.76
William Blair	0.35	1.05
Neuberger Berman	0.15	0.88

Table 5
Information Ratio
As of December 31, 2012

	3-Yr	**4-Yr**
Harding Loevner	0.41	-0.20
William Blair	0.49	0.49
Neuberger Berman	-0.01	0.29

Table 6 below shows capture ratios for the three finalists. A downside capture ratio of 88% implies that when the MSCI Emerging Markets Equity Index drops by 1%, the portfolio drops by approximately 0.88%.

Table 6
Capture Ratios
As of December 31, 2012

	3-Yr		4-Yr	
	Up	**Down**	**Up**	**Down**
Harding Loevner	93.6%	84.4%	93.8%	84.1%
William Blair	100.0%	88.3%	100.0%	88.0%
Neuberger Berman	102.4%	102.5%	102.4%	102.5%

FEES

Fees on the mandate will be calculated according to the following fee schedule.

Table 7

Account Size	Annual Investment Management Fee
First $20 million	0.90%
Next $30 million	0.70%
Next $50 million	0.60%
Next $50 million	0.55%
Over $150 million	0.50%

Given Western's expected investment of $20-25 million, annual investment management fees will be 0.90%, plus HST. In additional, operational costs (legal, auditing, custodians, etc.) will be charged to the fund. Those fees will be capped at 0.20% and spread across investors as the number of investors in the fund increases.

IMPLEMENTATION

The funding of the emerging markets equity mandate will be made by redeeming assets from the two international equity mandates managed by AllianceBernstein and MFS Investments. The eligibility of this mandate for the RIF program because of tax considerations has been confirmed by the law firm Hicks, Morley, as the legal structure of the fund was modified in 2008 when two global equity mandates were added.

The major steps in the implementation process include:

1. Having legal counsel review the subscription agreement for the pooled fund.
2. Setting up new account with Northern Trust.
3. Selecting transition manager.
4. Notifying performance measurement provider.
5. Developing and implementing communication strategy to announce the change to plan members.
6. Modifying internal monthly cash flow process to account for the new manager.

THE UNIVERSITY OF WESTERN ONTARIO RETIREMENT PLANS
William Blair & Company
Meeting Agenda

Date: March 4th, 2013
Meeting time: 9:00 AM to 9:45 AM
Location: The University of Western Ontario, Support Services Building, Room 4210

Western Attendees

• Stephen Foerster, Prof. Richard Ivey School of Business • Michelle Loveland, Prof. DAN Program in Management and Organizational Studies • Ab Birch, Systems Support Analyst, Financial Services • Jim Loupos, Internal Audit • Jane O'Brien, Associate Vice-President, Human Resources • Louise Koza, Director, Total Compensation • Lynn Logan, Associate Vice-President, Financial Services • Krys Chelchowski, Director of Administration, Faculty of Health Sciences	• Craig Dunbar, Prof. Richard Ivey School of Business • Martin Bélanger, Director, Investments • Jeffrey Symons, Manager, Pension Operations • Bruce Curwood, Investment Consultant, Russell Investment Group • Stephen Watt, Prof. Applied Mathematics and Computer Science • Joanna Asuncion, Director, Administration & Finance, Faculty of Information and Media Studies

1) <u>ORGANIZATION (5 minutes)</u>
- History
- Culture
- Corporate structure
- Asset breakdown
- Business goals and objectives

2) <u>INVESTMENT PERSONNEL (5 minutes)</u>
- Background
- Responsibilities

3) <u>INVESTMENT PROCESS (25 minutes)</u>
- Investment philosophy
- Portfolio construction
- Techniques/models/tools used
- Approach to research
- Buy/sell criteria
- Risk controls
- Sector / country allocation
- Currency management
- Portfolio characteristics

4) PERFORMANCE (5 minutes)

- Review performance and risk metrics
- Attribution analysis

5) QUESTIONS (5 minutes)