5 September 2012

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

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Contents

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Introduction and Conclusion

This report provides an updated evaluation of the investment strategy underlying the University of Western Ontario (UWO) defined contribution plan's socially responsible investment (SRI) global equity fund. The Aberdeen Asset Management's Ethical World Fund (EWF) is Aberdeen's 'flagship' global SRI pooled fund and has extensive screening criteria. Following the closing of the Mackenzie Universal Sustainable Opportunities Class fund, UWO now invests directly in the Aberdeen Asset Management Ethical World Fund following Aberdeen's agreement to waive the $5 million account size minimum.

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 assessments were conducted in August 2012 and February 2012 with previous assessments in July 2011, August 2010, 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 lead RI researcher based in the UK.

Rationale for Confirmation of B+ Rating

The EWF is based on Aberdeen's unconstrained global equity fund which is rated B+ by Mercer. A B+ rating indicates that Mercer believes the fund has above average prospects for outperformance. Further details on the meaning of this rating is contained in the Guide to Mercer's Ratings contained in Appendix B.

We continue to have a positive view on the strategy. We have confidence that the inputs to the EWF compare favourably with competing strategies in the global SRI universe. Recently, we have gained further confidence over the various regional teams and have upgraded a number of regional and global strategies. However, the reliance of the SRI team on a pre-approved buy list provided by the regional portfolios prevents us from awarding our highest rating to the strategy.

For the five year period ending 30 June 2012, the fund has returned -2.1% (gross) as compared to -3.2% for the MSCI World Index (CAD).[1] Five year performance remains top quartile.

Over the past twelve months to June 2012, the EWF has underperformed with the strategy returning 0.10% versus 0.97% for the benchmark (MSCI World (CAD). The EWF has also underperformed Aberdeen's Global Equity strategy by 415 bps over this period. Over this period, EWF has been significantly underweight in the Healthcare, Consumer Staples and Energy sectors as a result of several companies failing the ethical screening criteria (i.e. due to a screen on the sale of tobacco or against the use of animal testing). In turn, the Ethical world fund has held a higher weighting in companies operating in the Telecommunications and Technology sectors as well as slight overweight in Utilities and Financials that pass the funds screening. While some of these companies have performed relatively well in their own right, they have lagged the stronger performers of the World Equity fund and indeed the MSCI World Index. Most of this lag has materialised in the last 18 months where tobacco and healthcare stocks have been particularly strong.[2]

We 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 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. The senior analysts have highlighted an increased focus towards engagement with companies, whether these companies fail to meet the criteria for the SRI fund, or whether they are already in the SRI fund. Overall, this type of work 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. We have reaffirmed the ESG rating of ESG2. An ESG2 rating is the second highest rating we assign to strategies that, in Mercer's view, include ESG factors as part of decision making, with a strong level of commitment made at the firm-wide level. Further details on the meaning of this rating is contained in the Guide to Mercer's Ratings contained in Appendix B.

Conclusion

We highlight four findings from the evaluation of the investment strategy below. Overall, we do not see any reason to replace this fund in the UWO pension plan at this time.

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[1] Performance in Pounds Sterling (GBP) for the five years end 30 June 2012 was 3.08% (gross), outperforming the FTSE World Benchmark by 0.25%.

[2] In particular, companies that have performed relatively strongly and are not held in AEWF as a result of the screens include BAT, Philip Morris International (Tobacco screen), Roche (Animal Testing) and Fomento Economico Mexicano (Alcohol screen). On the other hand, while some companies not held have outperformed, some of the companies that were held such as Wincor Nixdorf and Metro (not held in World Equity) have not performed so strongly.

1. A B+ rating indicates that Mercer believes the fund has above average prospects for outperformance which supports its continuation in UWO's fund line up. An ESG2 rating is the second highest rating we assign to strategies that, in Mercer's view, include ESG factors as part of decision making, with a strong level of commitment made at the firm-wide level.

2. For the five year period ending 30 June 2012, the fund's performance has ranked in the upper quartile in the Mercer global equity universe.

3. There are very few alternative investments in the SRI global equity universe for Canadian defined contribution pension plans. Further, we have not identified any suitable alternatives for which we have an equivalent or stronger conviction. This was discussed in greater detail throughout the process in the Spring which ultimately resulted in UWO investing directly in the Aberdeen Asset Management Ethical World Fund.

4. In communicating to plan participants, it is important to emphasize that the ethical screens may have a significant impact on performance – and that this impact could be positive or negative. While we would expect some differences in performance due to ethical exclusions in the Ethical World Fund, we would not expect the magnitude of the recent underperformance in comparison to Aberdeen's Global Equity strategy to persist over a longer period of time. We will revisit this issue in our future meetings with the manager.

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Organisational Review

Firm background and history

Aberdeen Asset Management plc is an independent investment company listed on the London Stock Exchange. Headquartered in Aberdeen, Scotland the group has 31 offices across the world, including investment centres in London, Singapore, Hong Kong, Kuala Lumpur, Sao Paulo, Bangkok, Philadelphia and Tokyo. Although the group's roots go back to 1875, it was established in its present form in 1983 following a management buyout. It was listed on the London Stock Exchange in 1991 and is a constituent of the FTSE 100 Index.

The firm has grown both organically and by acquisitions, including: Murray Johnstone (2000, Scotland); EquitiLink (2000, Australia); Edinburgh Fund Managers (2003, Scotland); Deutsche Asset Management's fixed income business (2005); the UK business of Credit Suisse Asset Management (2009); and various asset management businesses from Royal Bank of Scotland (2010). Aberdeen also has a business alliance with Mitsubishi UFJ Trust and Banking Corporation, which has a 19.7% stake in Aberdeen.

Assets under management

As at 30 June 2012, Aberdeen Asset Management had C$291bn (an increase from C$286bn as of 30 June 2011) under management, with C$149bn in equities (compared to C$131bn as of 30 June 2011).

Organisational comments

There was no significant turnover during the 12 months ending July 2012.

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Investment Review

Key details: Aberdeen Global Equity SRI – Ethical World

Inception Year	1999
Assets under management in strategy	$1.2 billion as at 30 June 2012 ($1.5 billion as at 30 June 2011)
Estimated capacity	No limit*
Open/Closed	Open to All Investors
Most suitable benchmark index for strategy	MSCI World**
Outperformance target (% per annum) - Manager's estimate	3%
Expected tracking error range (%) - Manager's estimate	3% - 9%

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 product 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 40-60 stocks. The Responsible World product applies only the base exclusions but incorporates an engagement programme. Typically this results in exclusion of 5-6 stocks from the unscreened portfolio.

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

** FTSE World is used as a benchmark by Aberdeen for historical reasons though most of Aberdeen's global equity strategies benchmark to MSCI World. For this reason we compare portfolio holdings and performance to the MSCI World Index in this note, and we view it as the more appropriate benchmark.

Key decision makers

Stephen Docherty heads the global team, and has been with Aberdeen since 1994, with experience in both the US and LATAM markets. Bruce Stout is a 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.

Investment style/philosophy

Aberdeen follow a bottom-up, stock picking, approach which is benchmark agnostic and has a focus on absolute value. The firm emphasises 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.

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 portfolios, 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. 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. However, 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 and Asian 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. Aberdeen is no longer accepting any segregated accounts for the Global SRI strategy.

Issues to watch

Capacity is an issue to watch across Aberdeen strategies, especially the Asian and Emerging Markets products, which may impact the global team's ability to invest in certain areas of the market.

The SRI team works with a pre-approved buy list provided by the regional teams; any potential instability within these teams would lead us to review our rating of this strategy.

Highlights

This was an update on the Aberdeen Global SRI strategy, of which we continue to have a positive view. We feel the SRI team is well resourced and able to conduct in-depth ESG research on companies in Aberdeen's global buy list of approximately 300 stocks for the global SRI strategy. This team adds further value to the process through its sustainability analysis as its starting point is the Global Equity strategy, which works off the regional analysts' existing buy lists. More recently we have gained further confidence over the various regional teams and have upgraded a number of regional and global strategies (see Research Note on GIMD from 14 February 2012).

We discussed portfolio activity and performance of the strategy, both of which have more recently been driven by the regional teams' actions as well as the ethical exclusions in place. Much of the portfolio activity and sales of stocks in particular, have primarily been driven by stocks being sold out of the regional portfolios. Furthermore, recent performance compared to the Global Equity strategy has been weaker partly due to the ethical exclusions in place. This typically results in the team looking further down the buy list for replacement stocks which are potential ideas, but not the regional or global teams' current best ideas. This has resulted in the recent underperformance which is not unexpected, but we would expect these differences in performance to lessen over the longer term.

We briefly discussed how the team viewed risk. They tend to have regular model portfolio meetings to ensure the portfolio is adequately diversified by sector and business. They define risk in terms of investing in a poor quality company or in overpaying for a good one. The primary hurdles to pass continue to be the quality and valuation criteria and the team is constantly reviewing portfolio companies to evaluate whether this continues to hold, even though they may not have an upside target price. Given the in-depth analysis required prior to purchase, and the long term investment horizon, we think this view of risk is appropriate.

Aberdeen is no longer accepting any segregated accounts for both the Global Equity and the Global SRI equity strategies. Roughly two thirds of SRI assets are in pooled funds, and the remaining in segregated accounts. Whilst overall assets continue to grow for the business, there has been more limited growth in the SRI funds.

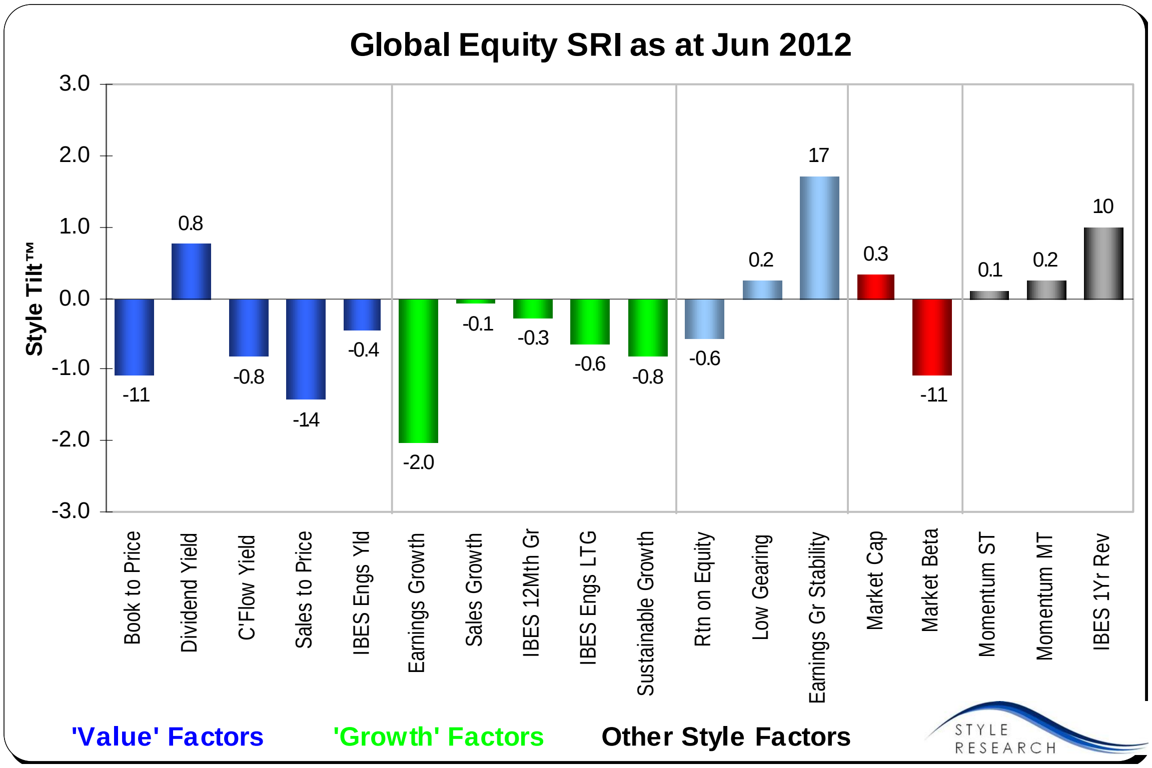
Portfolio holdings analysis

International - Global Equity - SRI - Global Equity SRI

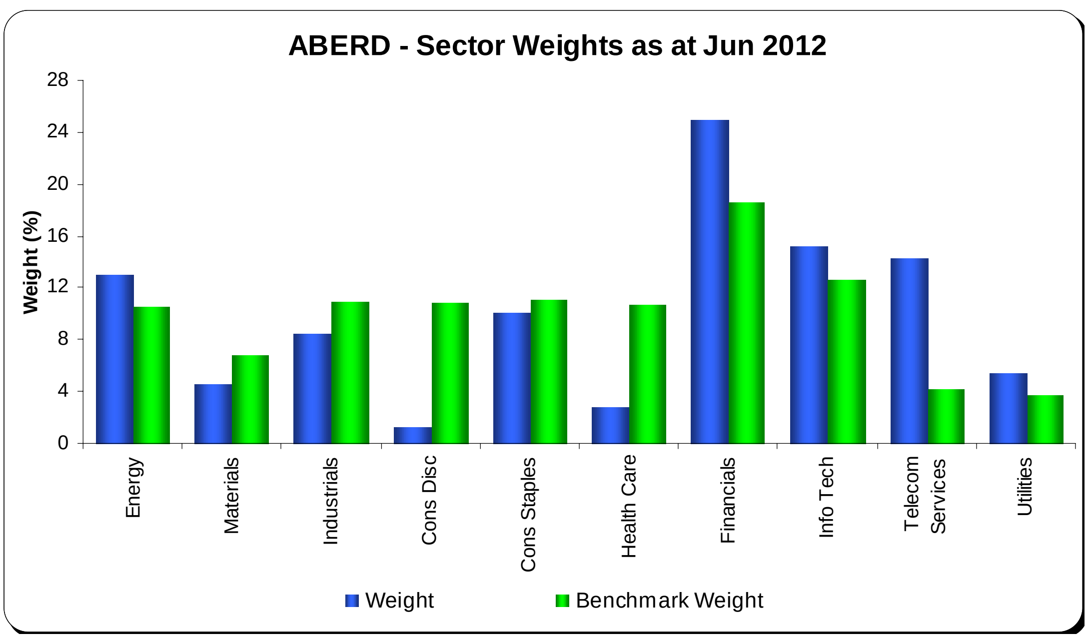
Date of analysis	30 June 2012
Benchmark used for analysis	MSCI World Free
Number of stocks	47
Predicted tracking error (%)	5.2
Adjustment used for Style Tilts	Country Adjusted
Cash (%)	1.6

The portfolio style skyline remains consistent with what we would expect, highlighting a positive tilt to dividend yields, high quality and low beta factors, which are likely to persist given the investment philosophy. This is also consistent with the skyline of the Global Equity portfolio with few exceptions, which is also expected given the high degree of overlap in names. Coverage versus the MSCI World is low at just over 6% indicating an actively managed strategy; yet stock specific risk contributes less than one quarter to relative risk. This has historically been the case with market risk the dominant risk contributor, primarily due to the under exposure to the US relative to the benchmark. We would expect this to remain the case.

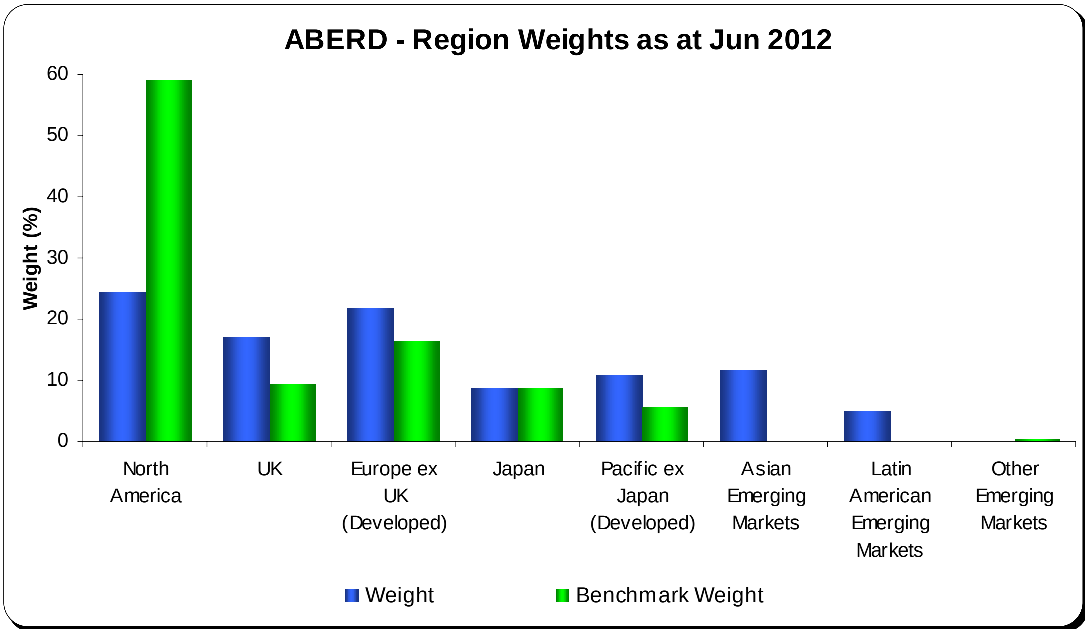
The Industrial Sector Skyline continues to show large active sector positions, with the underweight in Health Care, and Consumer Discretionary a result of the ethical exclusions in place and we would not expect this to change. The Global Ethical Equity strategy continues to have high overlap with the core Global SRI strategy, and the main exclusions include companies within the Energy, Pharma, and Consumer sectors (tobacco), although this is not exhaustive. The SRI team has replaced many of these with stocks in the Energy, Information Technology and Telecom sectors such as Singapore Telecom, Telus, and Comcast Corp.



The following chart shows the portfolio weightings to each sector.



The following chart shows the portfolio weightings to each region.



Past performance

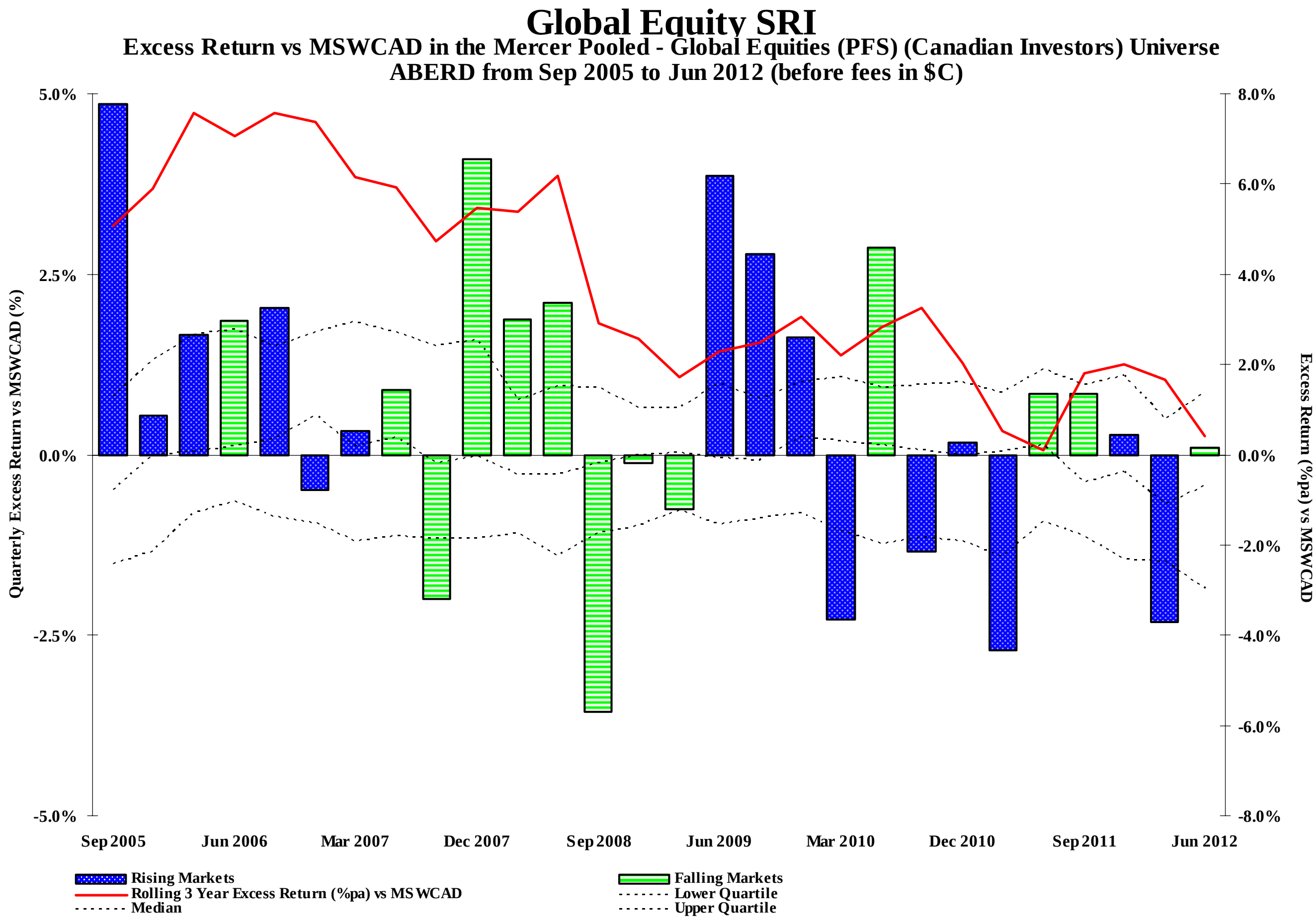
International - Global Equity - SRI - Global Equity SRI

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	$1.1 billion as at 30 June 2012

According to data provided by Aberdeen, the strategy underperformed over the past twelve months to June 2012 driven primarily by sector allocation and negative currency effects of investments in Emerging Markets and an underweight to the US. On the other hand, stock selection in Asia ex Japan, Canada and Europe mitigated some of the underperformance. The Telecoms sector was one of the strongest performing sectors, driven by both sector allocation and stock selection, followed by Materials and Industrials. The largest stock-driven detractor came from the Energy sector, which the analysts highlighted had resulted from Brazilian energy companies that were negatively impacted by weak commodity prices.

Exclusions in the SRI strategy also continue to impact performance relative to the Global Equity portfolio and this is not surprising. Specifically, Pharmaceutical and tobacco stocks have performed relatively well which are not in the SRI strategy. In addition to this, the stocks in the SRI strategy that replace the excluded ones did not perform as strongly, and therefore further detracted from performance against the Global Equity strategy. We would expect these differences in performance to persist although this is expected to lessen over the long term.

Rolling period chart

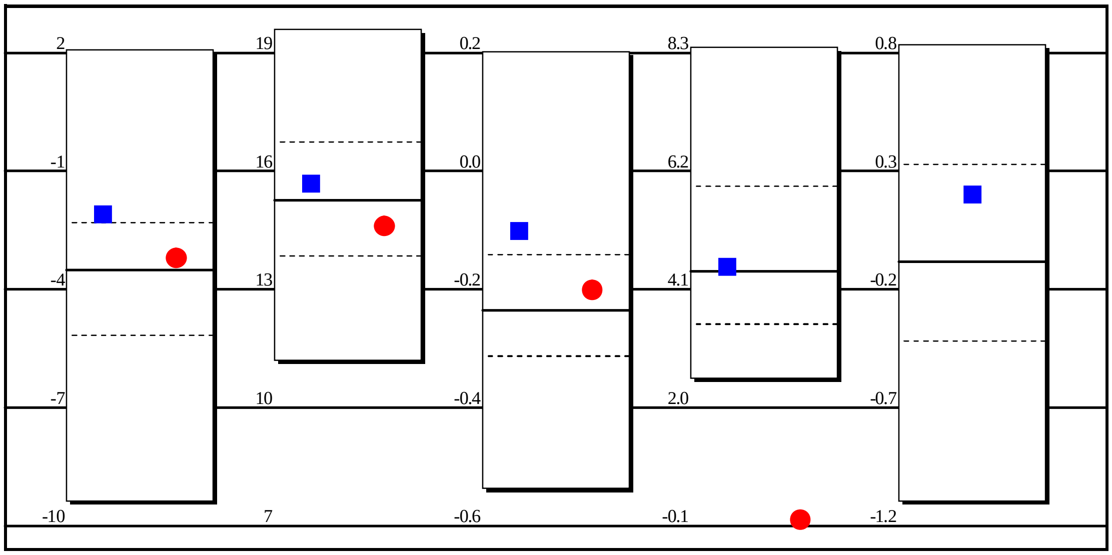


Risk/return characteristics

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 2012



	Return (% pa)	Std Deviation (% pa)	Reward to Risk Ratio	Tracking Error (% pa)	Information Ratio
ABERD ■	-2.1 *(10)*	15.7 *(16)*	-0.1 *(7)*	4.5 *(21)*	0.2 *(13)*
MSWCAD ●	-3.2 *(18)*	14.6 *(26)*	-0.2 *(12)*	0.0 *(43)*	na
95th Percentile	2.1	19.6	0.2	8.4	0.8
Upper Quartile	-2.3	16.7	-0.1	5.9	0.3
Median	-3.5	15.2	-0.2	4.4	-0.1
Lower Quartile	-5.2	13.8	-0.3	3.5	-0.4
5th Percentile	-9.4	11.2	-0.5	2.5	-1.1
Number of Funds	42	42	42	42	42

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 set by Aberdeen 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, we believe the SRI research team has improved its integration with the global equity team in identifying and addressing ESG issues that may be 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.

The SRI team continue to work with the regional analysts on engaging with companies, and will also travel throughout the year either to meet with companies on their own or accompany the regional analysts. The senior analysts have highlighted an increased focus towards engagement with companies, whether these companies fail to meet the criteria for the SRI fund, or whether they are already in the SRI fund. For example, ENI, an Italian energy company, previously failed the SRI screening due to its health and safety issues and consistent reporting of high fatality levels. The company has more recently shown considerable improvement and through engagement highlighted steps the company has taken to further educate operational and agency staff such that it has now been upgraded to “pass” for the ethical fund. Overall, this type of work 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. ESG2

SRI Screening Approaches

Negative screening approach allows the team to exclude companies based on both a percent of revenues (10% for most, 5% for pornography) as well as on negative 3-year performance on certain issues (such as environmental fines, lawsuits over business practices). However, they will typically begin engaging with a company once it shows a negative performance in the first year.

Engagement
- Environment
- Social – labour/human rights
- Corporate governance
- No exclusion

Hybrid
- Engagement
  - Environment, Social (labour/human rights)
  - Corporate governance
- Six negative screens:

Alcohol	Gambling
Military	Pornography
Tobacco	Weapons

Negative screening

Negative (based on % of revenues)
- Alcoholic beverages
- Gambling
- Military
- Nuclear energy
- Pornography
- Tobacco
- Weapons

Negative (based on 3 year performance)
- Environment
- Labour
- Human rights
- Business practices
- Product quality

Also screen for
- Community involvement
- Corporate governance

Exclusion
- Animal testing

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Mercer View and Rating

The following is the summary of Mercer's evaluation of the Aberdeen Ethical World Fund (8 August 2012).

Factor	Rating (-, =, + or ++)	Comments
Idea Generation	+	Idea generation for the SRI strategies is from the "universe" created by the unconstrained Global Equity strategy, which is built from the portfolios of the regional equity teams at Aberdeen. Aberdeen's house philosophy is sound and we believe the company research to be of high quality. We have gained further confidence in the regional teams which gives us conviction that the global team, and in turn the SRI team, has a list of high quality names on which to do further analysis. We believe that the SRI team is making a meaningful contribution in terms of integrating with the regional teams and identifying ESG issues that impact the fundamentals of company valuation. The team is well resourced and has improved the depth and quality of ESG analysis of Aberdeen's global buy list. The buy list enables the SRI team to analyse 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 have confidence that the inputs to the SRI strategy compare favourably with competing strategies in the global SRI universe.

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. Stocks no longer on the regional buy list must be sold out of this strategy.
Implementation	+	Capacity is currently not an issue in this strategy, although it is worth noting that Aberdeen manage a significant asset base with a common investment philosophy; asset levels in GEM and Asian 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. Aberdeen is no longer accepting any segregated accounts for the Global SRI strategy.
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 insulated from this, partly due to being based in the Edinburgh office.

Overall Rating (A, B+, B or C) **B+**	The Global equity portfolio management team is experienced, impressively stable, and comes across well in meetings. We 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 regard in which the SRI analysts are held within Aberdeen 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 the reliance of the global, and ultimately SRI universes on the non-negotiable list of stocks from the regional portfolios prevents us from awarding our highest rating to the strategy.

Additional Observations	Portfolios are benchmark agnostic. Whilst Aberdeen will manage portfolios to customised benchmarks they believe their skill set is in unconstrained global mandates. Portfolios will generally have a quality bias and a significant amount of off benchmark exposure towards emerging market countries.

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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.

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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

8 Aug 2012	Aberdeen Global Equity SRI update
14 Feb 2012	Aberdeen Global Equity update
26 July 2011	Aberdeen Global Equity SRI update
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 rating signifies Mercer's opinion of a strategy's prospects for outperforming a suitable benchmark over a time frame appropriate for the particular strategy (herein referred to as outperformance). The rating is recorded in the strategy's entry on Mercer's Global Investment Manager Database (GIMD™).

Mercer's ratings are normally assigned to strategies rather than to specific funds. In this context, the term "strategy" refers to the process that leads to the construction of a portfolio of investments, regardless of whether the strategy is offered in separate account format or through one or more investment vehicles.

Rating scale

A	Strategies assessed as having “above average” prospects of outperformance
B+	Strategies assessed as having “above average” prospects of outperformance, but which are qualified by at least one of the following: ▪ There are other strategies in which Mercer has greater conviction that outperformance will be achieved. ▪ Mercer requires more evidence to support its assessment.
B	Strategies assessed as having “average” prospects of outperformance
C	Strategies assessed as having “below average” prospects of outperformance
N/no rating	Strategies not currently rated by Mercer
R	The R rating is applied in three situations: ▪ Where Mercer has carried out some research but has not completed its full investment strategy research process ▪ In product categories[3] where Mercer does not maintain formal ratings but where there are other strategies in which we have a higher degree of confidence ▪ Mercer has in the past carried out its full investment strategy research process on the strategy but the strategy is closed and we are not maintaining full research coverage

The aim of assigning a rating scale is to convey Mercer’s opinion on the likelihood of a particular strategy outperforming a suitable benchmark. Strategies rated A are those for which Mercer has the highest degree of conviction that outperformance may be achieved.

Four factors considered in forming a rating

As part of Mercer’s overall rating analysis for a strategy, Mercer’s investment researchers review the strategy on the basis of four specific factors – idea generation, portfolio construction, implementation and business management – each of which is assigned one of four scores: negative (-), neutral (=), positive (+) or very positive (++).

Mercer believes the first three factors are the main components of every investment process:

Idea generation encompasses everything that the investment manager (herein referred to as manager) does to determine the relative attractiveness of different investments.

[3] A product category is a grouping of similar strategies normally having the same benchmark against which performance is assessed.

Portfolio construction refers to the manner in which the manager translates investment ideas into decisions on which investments to include in a portfolio and what weightings to give to each of these investments.

Implementation refers to the transaction capability and other implementation activities that are required to achieve the desired portfolio structure.

Mercer believes that managers that do these activities well should have above average prospects of outperformance. Mercer also believes that to remain competitive over longer periods, managers must be able to maintain and enhance their capabilities in these three areas. To do this, managers need to have significantly strong **business management**, which is the fourth factor Mercer assesses.

A strategy's overall rating is not determined as a weighted average of the four factor scores and no prescribed calculations are made to arrive at the four factor score or the overall rating. Instead, for each strategy, Mercer's investment researchers identify which factors Mercer believes are most relevant to a manager's investment process and place weight on the factors accordingly. Example considerations include:

- Mercer's confidence in the manager's ability to generate value-adding ideas
- Mercer's view on any specified outperformance target
- The opportunities available in the relevant market(s) to achieve outperformance
- An assessment of the risks taken to try to achieve outperformance
- An assessment of the strategy relative to peer strategies
- An assessment of the manager's business management and its impact on particular strategies

For liability-driven investment (LDI) strategies Mercer's investment researchers use different factor categories in their evaluation. For further information, please contact your Mercer consultant.

What do they not signify?

This section contains important exclusions and warnings, please read it carefully.

The rating assigned to a strategy may or may not be consistent with its past performance. While the rating reflects Mercer's expectations on future performance relative to a suitable benchmark over a time frame appropriate for the particular strategy, Mercer does not guarantee that these expectations will be fulfilled.

Also, unlike those of credit rating agencies, Mercer's ratings are not intended to imply any opinions about the creditworthiness of the manager providing the strategy.

As Mercer's ratings are normally assigned to strategies rather than to specific investment vehicles**,** potential investors in specific investment vehicles should consider not only the Mercer ratings for the strategies being offered through those investment vehicles but also any investment vehicle-specific considerations. These may include, for example, frequency of dealing dates and any legal, tax or regulatory issues relating to the type of investment vehicle and where it is domiciled. Mercer's ratings do not constitute individualized investment advice.

To determine ratings, Mercer does not generally take investment management fees into account. The rationale for this is that, due to differing account sizes, differing inception dates or other factors, the fees charged for a specific strategy will vary among clients. 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. The area of Alternative Investments is an exception – Mercer follows market practice for "Alternatives" and rates strategies on a net of fees basis.

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 the manager's back office operations, including any compliance, legal, accounting or tax analyses of the manager or the manager's investment vehicles. Research is generally limited to the overall investment decision-making process used by managers. In forming a rating, Mercer's investment researchers do not generally perform corporate-level operational infrastructure due diligence on a manager and do not perform financial or criminal background checks on investment management staff. Unless Mercer's investment researchers are aware of material information to the contrary (such as a view expressed by a manager's auditors) they assume that the manager's operational infrastructure is reasonable. Operational weaknesses that Mercer's investment researchers discover during their analysis of the four factors, however, will be noted and, where appropriate, taken into account in determining ratings. Mercer Sentinel®, a division within Mercer, undertakes separate operational risk reviews on managers on behalf of clients, covering some of the areas mentioned above but which reviews are not included as part of the manager research process. Contact your Mercer consultant for more information.

Ratings Review Committees

Mercer has a process for reviewing and ratifying the ratings proposed by individual investment researchers. For most product categories, strategy ratings are reviewed regularly by one of several Ratings Review Committees (RRCs) that operate within Mercer. These committees draw on research carried out by Mercer investment researchers and consultants. The role of the RRCs is to review this research from a quality control perspective and ensure consistency of treatment across strategies within a product category.

For certain asset classes, ratings will not have been reviewed by an RRC; however, the rating will have been reviewed by at least two suitably qualified investment researchers or consultants other than the recommending researcher. An R rating will not necessarily have been reviewed by an RRC but will have been reviewed by at least two suitably qualified investment researchers or consultants other than the recommending researcher.

Supplemental indicators

Provisional (P) ratings

If the Mercer strategy rating is followed by a (P) – for example, A (P) or B+ (P) – the rating is “provisional” – that is, there is temporary uncertainty about the rating, but it is expected that this will soon be resolved. For example, should two managers announce a merger, but without further details, this uncertainty may be highlighted by modifying the rating strategies for one or both of those firms – for instance from A to A (P) (see below on specific assignments of a (P) or (W) indicator). (P) indicators are intended to be temporary and should normally last for no more than two weeks. As soon as the temporary uncertainty has been resolved, or if it becomes apparent that this uncertainty is unlikely to be resolved quickly, the (P) indicator will be removed and the rating confirmed or changed, or the strategy will be assigned the indicator “watch” (W).

Watch (W) ratings

If the Mercer strategy rating is followed by a (W) – for example A (W) or B+ (W) – the rating is “watch” – there is some uncertainty about the rating and resolution is not expected soon, but Mercer believes there is a low probability that the resolution of this uncertainty will lead to a change in the strategy’s rating. (W) indicators are typically issued when there is an expectation of long-term uncertainty surrounding the rating – for example, a change, or potential change, in a manager’s ownership.

Specifically assigning (P) and (W) supplemental indicators

(P) and (W) indicators are assigned – and removed – by the regular ratings review process described earlier; however, there are circumstances where organizational or reputational issues that affect a manager warrant the specific assignment of a (P) or (W) indicator to an existing rating. In such circumstances, the decision to apply – or remove – a (P) or (W) indicator is taken by two senior members of the leadership group of the Manager Research team. These occasions are rare, and the relevant investment researchers will contribute to any discussions before a (P) or (W) indicator is assigned or removed.

High tracking error (T) ratings

If the Mercer strategy rating is followed by a (T) – for example, A (T) or B+ (T) – the strategy is considered to have the potential to generate a tracking error substantially higher than the average for the relevant product category. In this context “tracking error” refers to the variability of performance relative to the nominated benchmark for the strategy. A strategy may be assigned the (T) indicator 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. The absence of a (T) following a rating does not guarantee that the strategy’s tracking error will not be higher than the average for the relevant product category.

Preferred provider status

"Preferred Provider" status is assigned to strategies within product categories for which Mercer does not maintain formal ratings. This indicator normally applies to strategies for which the primary goal is not outperformance of a benchmark – for example, cash, passive and LDI strategies. Strategies assigned a Preferred Provider status may not have undergone an RRC review; however, they will have been reviewed by at least two suitably qualified investment researchers or consultants other than the researcher who recommended the status.

Environmental, social and corporate governance (ESG) ratings

Mercer also assigns ratings to strategies that represent Mercer's view on the extent to which environmental, social and corporate governance (ESG) and active ownership practices (voting and engagement) are integrated into the manager's investment process and decision making across asset classes. ESG factors are incorporated into the investment process on the basis that these issues can impact revenue, operating costs, competitive advantage and the cost of capital. During discussions with managers about ESG integration, Mercer assesses the use of ESG information to generate outperformance. Four factors are assessed to derive an overall ESG rating: idea generation, portfolio construction, implementation and firm-wide commitment.

ESG ratings are differentiated between those assigned by Mercer's investment researchers and those assigned by Mercer's Responsible Investment (RI) team. Ratings assigned by the RI team will include (RI) after the rating, indicating that a separate ESG research note has been written and that ESG factor scores are available in GIMD.

ESG rating scale

ESG1 / ESG1 (RI)	The highest ESG rating is assigned to strategies that Mercer believes to be leaders in integrating ESG and active ownership into their core processes, and that provide clear evidence that ESG overall, or a particular ESG theme, is core to idea generation and portfolio construction.
ESG2 / ESG2 (RI)	The second highest rating is assigned to strategies that, in Mercer's view, include ESG factors as part of decision making, with a strong level of commitment made at the firm-wide level and some indication that data and research are being taken into account by the managers in their valuations and investment processes.
ESG3 / ESG3 (RI)	The penultimate rating is assigned to strategies for which, in Mercer's view, the manager has made some progress with respect to ESG integration and/or active ownership, but for which there is little evidence that ESG factors are taken into consideration in valuations and investment processes.
ESG4 / ESG4 (RI)	The lowest ESG rating is assigned to strategies for which, in Mercer's view, little has been done to integrate ESG and active ownership into their core processes.

Confidentiality of Mercer's research ratings

Mercer's ratings, along with all other information relating to Mercer's opinions on managers and the investment strategies they offer, represent Mercer's confidential and proprietary intellectual property 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 managers) without Mercer's prior written permission.

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