

**Mackenzie Financial  
Investment Manager Review  
March 2, 2010**

**EXECUTIVE SUMMARY**

- On March 2, 2010 Martin Bélanger met with the following Mackenzie and Aberdeen professionals from 10:00 a.m. to 1:00 p.m. at Mackenzie's Toronto office:
  - Sheila Doherty, Regional Vice-President, Strategic Alliances
  - Dough Heighington, Senior Vice President
  - Samantha Fitzpatrick, Investment Manager (by conference call)
  - Ella-Kara Brown, SRI Analyst (by conference call)
  - Fionna Ross, SRI Researcher (by conference call)
- Ranked "Indicative B" by Mackenzie Investment Consulting (the equivalent of a "Retain" rating by Russell)
- Mackenzie, with Aberdeen Asset Management as a sub-advisor, manages the Socially Responsible Global Equity Fund
- UWO had \$2.5 million with Mackenzie as of December 31, 2009 and annualized investment management fees are 0.85% at that asset level
- Aberdeen's investment style is bottom-up, value
- Mackenzie was hired on March 1, 2008
- The Retirement Plans invest in an institutional mutual fund (the Mackenzie Universal Sustainable Opportunities Class) through Mackenzie Financial; the fund is sub-advised by Aberdeen Asset Management
- Mackenzie had CAD\$ 19.7 million in that strategy as of January 31, 2010
- Aberdeen had CAD\$ 243.5 billion in assets under management as of January 31, 2010; the firm had a net loss of assets of CAD\$16.1 billion and a net loss of 71 clients in 2009
- There has been no change in Aberdeen's corporate structure since our last review
- The firm has an adequate business continuity plan
- The portfolio significantly outperformed its benchmark for the year ending January 21, 2010, posting a 28.1% return compared to 19.9% for the benchmark
- The portfolio outperformed the unconstrained global equity strategy by 4.6% over the same horizon
- Most of the value added was generated through stock selection in the Energy, Industrials and Financials sectors
- Aberdeen's overweight in Europe and Korea, as well as their underweight in the U.S. have added value; their underweight in Canada has detracted value
- There have been some minor internal personnel changes on our strategy. However, Stephen Docherty, the Head of Global Equities and Jamie Cumming, the lead portfolio manager on the SRI Global Equity strategy remain in place.
- There have been no changes to Aberdeen investment process since our last review
- There have been no changes to the environmental, social and governance screens that Aberdeen applies to the portfolio, although there has been a trend of incorporating more social and environmental factors into the investment process.
- There are no capacity issues with the strategy at present time

- Aberdeen and Mackenzie are not facing major compliance issues. Mackenzie funds are in compliance with regulatory requirements including National Instrument 81-102, Securities Act, Proceeds of Crime (Money Laundering) and Terrorist Act as well as prospectus investment objectives and strategies. They have not faced material litigation in the past year. There have been no major issues raised as a result of the last regulatory review conducted by the OSC. Any potential conflict of interest is disclosed in IGM Financial Annual Information Form, which is publicly available. Mackenzie Code of Conduct also includes a section on conflict of interests.

### **RECOMMENDATION**

- Aberdeen posted excellent results in 2009.
- Aberdeen's disciplined investment strategy and adequate social screens meet our needs for this mandate.
- Given the above and Mercer Investment Consulting's "Indicative B" rating, I don't recommend making any changes to our relationship with Mackenzie.

### **ORGANIZATION**

- Aberdeen had CAD\$ 243.5 billion in assets under management as of January 31, 2010
- Aberdeen manages CAD\$ 4 billion in Canada in various global equity mandates
- In January 2010, the firm acquired £13.5 billion in fund management assets from the Royal Bank of Scotland; the acquisition will enable Aberdeen to increase the breadth of its assets under management
- Aberdeen recently opened offices in Toronto and Sao Paolo
- Aberdeen is publicly traded and its staff owns 7.4% of the shares as of January 31, 2010
- Aberdeen gained 100 clients in 2009 for CAD\$12.1 billion in new assets and lost 171 clients for CAD\$28.2 billion in assets
- On global equity mandates only, Aberdeen gained 33 new clients in 2009 for CAD\$2.9 billion in new assets and lost 6 clients for CAD\$94.3 million in assets
- Aberdeen has detailed disaster recovery procedures, including off-site backup facilities and details of disaster recovery teams for all departments. In the event of a major disaster, even in their primary offices, core task capability would be restored and functional within 24 hours. Contracts are in place for on-site recovery within 4 hours and off-site recovery within 8 hours. Detailed recovery plans are available for inspection at Aberdeen's offices. Overall Aberdeen has an adequate business recovery plan.

**MACKENZIE UNIVERSAL SUSTAINABLE OPPORTUNITIES CLASS  
MANDATE**

*Performance Analysis (As of January 31, 2010)*

	1-Mth	3-Mth	6-Mth	9-Mth	1-Yr	Since Inception (March 1, 2008)	2-Yr	3-Yr
Mackenzie <sup>1</sup> Series O	-3.5%	0.8%	7.4%	19.0%	28.1%	-7.2%	-8.0%	-9.5%
MSCI World	-2.4%	0.6%	7.4%	14.4%	19.9%	-6.2%	-7.1%	-9.7%
<b>Value added</b>	<b>-1.1%</b>	<b>0.2%</b>	<b>0.0%</b>	<b>4.6%</b>	<b>8.2%</b>	<b>-1.0%</b>	<b>-0.9%</b>	<b>0.2%</b>
Aberdeen Global Equity <sup>2</sup>	-3.5%	0.2%	7.4%	17.9%	23.5%	-2.6%	N/A	N/A
UWO SRI Fund <sup>3</sup>	-3.4%	0.7%	7.3%	18.5%	28.9%	-7.8%	N/A	N/A

- The Fund is concentrated and typically holds between 40 and 60 names
- Their investable universe is comprised of companies with a market capitalization greater than US\$1 billion located in global developed and emerging markets
- Aberdeen outperformed its benchmark by 8.2% for the one-year period ending January 31, 2010
  - Several cyclical companies were out of favour. They added more cyclical names in the spring of 2009. Recently they have taken a more cautious stance and have re-deployed money in more defensive sectors
- Most of the value added came from stock selection (more than 95%)
- Stock selection in Energy, Industrials and Financials have added the most value
- Stock selection in Health Care, Materials and Pharmaceuticals detracted value
- From a regional point of view, overweights in Europe and Korea, as well as their underweight in the U.S. have added value
- Their underweight in Canada has detracted value
- Country and sector allocations are by-product of their stock selection process
- Positive contributors to the performance of the portfolio for the one-year period ending January 31, 2010 include:
  - Petroleo Brasileiro (Brazilian integrated oil and gas company)
  - Samsung Electronics (South Korean electronics company)
  - Tenaris (Italian based seamless pipe specialist)

<sup>1</sup> This is the fund that the Western Retirement Plans invest in.

<sup>2</sup> This is the un-constrained version of the fund that UWO invests in

<sup>3</sup> This is the net return (after fees) of the UWO Socially Responsible Global Equity Fund. From time to time the Fund may post returns greater than that of the underlying fund because of cash flow timing.

- Negative contributors to the performance of the portfolio for the one-year period ending January 31, 2010 include:
  - Wolseley Ord (U.K. based distributor of plumbing, heating and air conditioning equipment)
  - Takeda (Japanese pharmaceutical company)
  - Satyam Computer (Indian information technology services provider)
- The portfolio is currently overweight in the following markets:
  - Italy: through holdings in Tenaris and Intesa Sanpaolo, an Italian bank
  - Sweden: Ericsson (provider of telecommunications systems) and Nordea Bank (financial services company)
  - Brazil: core holding in state owned energy company Petrobras (oil producer)
- The portfolio is currently underweight in the following markets:
  - U.S.: Aberdeen is underweight U.S. for risk management purposes, not because of a negative view on the country. They recently added food manufacturer Kellogg to the portfolio.
  - Canada: the only Canadian holding is Canadian National Railway
  - France: exposure to France through industrial company Schneider Electric
- From a sector point of view, the portfolio is currently overweight in the following sectors:
  - Industrials: core holdings in the sector include ASUR (Mexican airport operator), Philips Electronics (Dutch diversified industrials company) and Schneider Electric (French company that specializes in electricity distribution and automation management)
  - Information Technology: core holdings include, Ericsson, Samsung Electronics and Intel (U.S. based semiconductor chip maker)
  - Financials: Hold a variety of investments across banking, insurance and real estate
- The portfolio is currently underweight in the following sectors:
  - Consumer Discretionary: avoided a number of companies due to the overleveraged position the consumers find themselves in and pressure on disposable income. They continue to hold Adidas (German producer of sportswear and sports equipment).
  - Materials: Many companies in the sector don't pass the portfolio's quality and valuation screens. They maintain a position in Japanese company Shin-Etsu Chemical (chemical manufacturing company).
  - Utilities: No holdings at all in Utilities, mostly because of ethical screens.
- The portfolio's largest active positions are:
  - Petrobras: they continue to have one of the best production growth rates of the major listed oil companies and are still finding oil off the east coast of Brazil. The size of the position was recently reduced after strong price appreciation
  - Taiwan Semiconductor (Taiwanese manufacturer of integrated circuits): World's leading foundry business.
  - Zurich Financial Services (Swiss financial services provider): Increased the position on weakness during the fourth quarter.
- The portfolio's largest underweight positions are:
  - Exxon Mobil (U.S. integrated oil and gas company): the company fails the portfolio's ethical screen on environmental performance

- Microsoft (U.S. software manufacturer): they prefer other companies in the tech area
- HSBC (U.K. global banking and financial services company): they prefer other international banks due mostly to valuation
- The size of an active position is based on the following considerations:
  - They initiate a position at 1%
  - The maximum they will invest in any given stock is 5%
  - The size of the position is not benchmark sensitive
  - They will review the size of the position based on the stock performance and the company's results
- Aberdeen's outlook for equity markets is generally positive, as long as high levels of liquidity persists
- However they caution that rising saving rates and unemployment in the developed markets and the need for governments and individuals to reduce debt levels will constrain the recovery in consumption and growth.
- Revenue growth will be essential for company to maintain earnings growth and sustain the equity rally.
- Aberdeen expects disappointments regarding earnings in the coming months and thus opportunities to selectively add to existing holdings.

#### ***Investment Personnel***

- There have been some changes in investment personnel related to our strategy since our last review
  - Jeremy Whitley, Senior Investment Manager on the Global Equity Team, transferred within Aberdeen to become Head of the Pan European Equity Team
  - Stewart Methven joined the Global Equity Team on January 1, 2010 as a Senior Investment Manager. Previously he was a Senior Investment Manager on the Pan-European team.
  - Peter Hames, Head of Asian Equities at Aberdeen Asset Management Asia Limited in Singapore is to leave the company later this year.
- The Global Equity Team has 13 members in total, including the four SRI analysts
- Stephen Docherty remains the head of global equities and Jamie Cumming is the head of the SRI global equity mandate

#### ***Investment Process***

- Process hasn't changed: bottom-up value
- Aberdeen relies on two key concepts when selecting companies: quality and price.
  - They define a quality company as one with a core franchise, strong growth prospects, a competent management team, financial strength and good corporate governance (transparency and commitment to create shareholder value).
  - Once a company has met their quality criteria, they will look at several measures to ensure that the price they pay is not excessive.
- SRI screening. After this initial stock selection is made, some ethical screens are applied to the portfolio. The screen may be a positive one, whereby companies pass when they demonstrate an awareness and propensity for positive practices within a defined ethical criterion. The screen may be a negative one, whereby a company is

excluded from the portfolio if it demonstrates a combination of problematic trends or if it contravenes established limits.

- Aberdeen doesn't use any currency hedging at all. Analysts will review how a company is exposed to certain currencies. Hedging is left to the client.

### ***Socially Responsible Screens***

- There have been no changes to the environmental, social and governance screens that Aberdeen applies to the portfolio, although there has been a trend of incorporating more social and environmental factors into the investment process. Governance factors have always been part of Aberdeen's assessment of quality.
- Aberdeen has also noticed that clients want more engagement with the underlying companies and less negative screening. As such, companies are given more leeway.
- Aberdeen uses a combination of positive and negative screens to select companies for its socially responsible global equity portfolio
- Regarding shareholder activism, Aberdeen will discuss issues with management but they won't sponsor proposals at shareholders' meetings and they also carefully vote all their proxies

### ***Risk Management***

- Aberdeen's manages risk by doing a thorough analysis of the companies it invests in and by applying the following risk controls:
  - Maximum 5% per individual stock
  - Sector exposure: benchmark weight +/- 15%
  - Country exposure: benchmark weight +/- 35%
  - Emerging markets exposure: maximum 30%
  - Minimum market capitalization: US\$1 billion

### ***Capacity***

- As of December 31, 2009, Aberdeen managed CAD\$17.3 billion in global equity mandates, including CAD\$1.3 billion in global equity SRI mandates
- Aberdeen closely monitors capacity issues. Currently there's no capacity issue for their global equity strategy. The main criterion they use to assess capacity is whether or not they would compromise on their quality stock screen. If they had to compromise quality they would close the strategy.
- Emerging markets mandates are currently closed

### ***Trading***

- Aberdeen has traders located in London and Singapore
- There's one global equity model
- There's one central dealing desk that coordinates trading across all portfolios
- Aberdeen uses Charles River portfolio management / trading system
- Due to Aberdeen's low turnover, transaction costs tend to be low; the trading team closely monitors transaction costs
- Prices are carefully scrutinized against quoted numbers on Bloomberg or Reuters and any unusual variance will be analyzed and followed up with the broker concerned

- Aberdeen's equity trading desk works with approximately 12 approved brokers whose services are reviewed every quarter
- The criteria used to evaluate brokers are: providing competitive execution, quality of after-sales support, quality and depth of research, and assistance rendered in organizing company visits.
- The broker review is done by the heads of each investment desk, head of finance, central dealing and compliance officer.
- Overall Aberdeen has adequate trading capabilities

## COMPLIANCE

- I met with Lynn Vickers, Vice President and Chief Compliance Officer to review Mackenzie Financial compliance processes
- The Chief Compliance Officer reports to the firm's General Counsel
- From a compliance point of view, the firm is organized between mutual funds and separately managed accounts
- Mackenzie Financial has in place committees to oversee fund activities including, valuation, derivative usage, privacy, anti-money laundering, best execution, short term trade monitoring as well as compliance with regulatory requirements and prospectus objectives.
- Mackenzie Financial has an internal committee to oversee sub-advisor operations, such as the relationship they have with Aberdeen. The oversight activities include a review of operational reports, site visits, semi-annual collection and review of conflict of interest policies and periodic compliance certifications.
- We reviewed Mackenzie's compliance policies with respect to proxy voting, trade allocation, personal trading, market timing and late trading, soft dollars, gifts, fair market pricing and fund manager oversight;
  - All investment management professionals must attend an annual training session to review compliance procedures
  - Proxy voting on UWO's account is done by Aberdeen Asset Management as they are the investment manager
  - Personal trading is allowed. Mackenzie has a policy related to personal trading. The policy incorporates the Investment Funds Institute of Canada standards. The firm's Compliance Department is responsible for managing the compliance program.
  - Mackenzie has had a policy for fair value pricing in foreign markets for the past five years
  - Mackenzie uses soft dollars for order execution and research only. All new soft dollar uses must be approved by the firm's CIO.
  - Mackenzie employees are allowed to receive unsolicited gifts where there's no attempt to influence Mackenzie personnel, the gift has a nominal retail value and meals and/or entertainment are business related.
- Mackenzie funds are in compliance with regulatory requirements including National Instrument 81-102, Securities Act, Proceeds of Crime (Money Laundering) and Terrorist Act as well as prospectus investment objectives and strategies.

- Mackenzie Financial, its funds or its key personnel have not faced material litigation in the past year
- There have been no major issues raised as a result of the last regulatory review conducted by the OSC
- Deloitte Touche audits Mackenzie funds
- Any potential conflict of interest is disclosed in IGM Financial Annual Information Form, which is publicly available. Mackenzie Code of Conduct also includes a section on conflict of interests.
- Mackenzie Financial has strong compliance processes in place. They are not very open at sharing information, but this is part due to mutual fund regulations that prevent them from selectively disclosing information to some unitholders. Over the years the firm's compliance processes have enabled it to avoid legal and regulatory problems, such as the Ontario Securities Commission market timing probe of 2003.



**UNIVERSITY OF WESTERN ONTARIO RETIREMENT PLANS**  
**Mackenzie Investments**  
**Meeting Agenda**

**Date:** March 2, 2010

**Meeting time:** 10:00 AM to 1:00 PM

**Location:** 180 Queen Street West, Toronto, Ontario

**UWO Attendee:**

Martin Bélanger, Director, Investments

**ORGANIZATION:**

- Introduction – relationship review
- Discuss any meaningful change to your corporate structure since the last review
- Review changes in assets under management
- Discuss clients gained and lost
- Overview of new products
- Discuss your business continuity plan

**INVESTMENT PERSONNEL:**

- Introduction to key personnel on our mandates
- Discuss personnel turnover

**REVIEW OF MACKENZIE UNIVERSAL SUSTAINABLE OPPORTUNITIES CLASS:**

- Performance overview
- Attribution analysis
- Detractors/contributors to performance
- Portfolio characteristics
- Overview of investment process and changes to investment philosophy, if any; please provide examples of stocks added that meet your investment criteria
- Overview of socially responsible criteria and changes, if any, to the screens used
- Discuss changes made to the portfolio
- Describe how you measure and control portfolio investment risk
- Discuss portfolio positioning
- Overview of trends in SRI research
- Market outlook

**COMPLIANCE:**

- Provide an overview of your compliance processes
- Confirm that all investments managed by Mackenzie Investments on behalf of UWO are in compliance with the terms and conditions of the Investment Manager Mandate, the Mackenzie Mutual Funds Prospectus and in compliance with all applicable laws
- Describe any material litigation to which your firm, key personnel or the fund have been party over the past year

- Describe any material issue raised as a result of recent regulatory reviews
- Confirm that your key investment personnel complies with an appropriate code of ethics
- Confirm that any conflict of interest or potential conflict of interest involving Mackenzie Investments, its sub-advisor Aberdeen Asset Management or key investment personnel has been disclosed

**OTHER:**

- Office tour