Pyramis Global Advisors
Investment Manager Review
January 23, 2009

EXECUTIVE SUMMARY

- On January 23, 2009 Pat Loria, Stephen Foerster and Martin Bélanger met Rajan Burney, Vice President, Institutional Client Management at Pyramis Global Advisors in London from 9:00 a.m. to 12:00 p.m. The following Pyramis professionals joined the meeting through conference call:
  - Michael Strong, Institutional Portfolio Manager
  - Cedric de la Chaise, Portfolio Manager Europe
- Ranked “Review” by Russell
- Pyramis is a solid organization with extensive resources
- Since our last review, the only change in investment personnel that affects our portfolio is the departure of Kirk Neureiter the appointment of Eileen Dibb on the Japanese portfolio in April 2008
- Performance on our mandate has been reasonable over the past year under the circumstances. The portfolio has outperformed its benchmark by 44 bps in 2008
- Since inception (on March 8, 2008), Pyramis has provided 1.77% of value added over the benchmark, annualized
- Currency fluctuations have added about 10% to performance in 2008
- Most the value added in 2008 was due to regional allocation, not stock selection
- The European portfolio manager has outperformed his benchmark, while the managers of the Japanese and Pacific Basin ex-Japan portfolio have significantly underperformed due to poor stock selection
- Their investment process has not materially changed in recent years and they have adequate risk controls in place
- Regarding environmental, social and governance issues, Fidelity looks very hard at company practices and they take into account any environmental, social and governance practices that would be detrimental to the company in the long run
- Cedric de la Chaise, the European portfolio manager, manages about $5.5 billion in assets, which leaves significant capacity to grow
- Fidelity doesn’t have any compliance issues, all accounts are in compliance with the portfolio guidelines, they’re not currently facing any major litigation and they have an adequate Code of Conduct

RECOMMENDATION

- Pyramis Global Advisors was able to add value in 2008, which very few of active managers could do.
- I was impressed by the insight and knowledge of Cedric de la Chaise, the European portfolio manager and by the relationship between Michael Strong, the lead portfolio manager and the regional portfolio managers; they clearly explained their investment thesis and were able to justify the positioning of their portfolio; they directly and honestly answered the tough questions, such as justifying the poor performance of some stocks in the portfolio; they also provided good examples of poor companies

that outperformed during the fall market meltdown, something that other portfolio managers could only partially do.

- Despite the “Review” rating by Russell, I don’t recommend making any changes to our relationship with Pyramis Global Advisors.

ORGANIZATION

- Pyramis Global Advisors is the institutional money management division of Fidelity Investments
- As of September 30, 2008 Pyramis Global Advisors had $6.1 billion in assets with Canadian clients and $148.5 billion worldwide
- Total assets managed by Fidelity Investments are about $1.2 trillion
- Western had $72.8 million in assets with Pyramis as of December 31, 2008
- Since the last review has Pyramis has only lost a few mandates: 1 from the International Growth Strategy due to a client moving to a global equity strategy; one from a different International Equity Strategy due to a client moving to passive investing and one from a large Canadian Institution that terminated all of its international equity managers
- Overall, Pyramis has won more mandates than it lost in 2008
- Fidelity Investments is privately owned but key employees are eligible to a phantom share plan
- Because of the current economic conditions, Fidelity started to reduce its workforce during the fourth quarter of 2008; they target an overall reduction of their workforce of about 4%
- Although Rajan initially said that there would be no impact on investment professionals, Cedric de la Chaise subsequently mentioned that there’s a 5% reduction among research analysts in London, mostly related to Small Cap and Emerging Markets, two areas not used by Cedric for our strategy
- It is easier to recruit in the current environment because other firms are letting people go, including sell side research
- Bonuses paid to sales people are linked to operating income, gross sales and net sales; they are also eligible to a short-term profit sharing plan that is linked to the financial health of the company
- Portfolio manager compensation is related to performance
    - Comparisons are made with the MSCI EAFE Index and a peer group universe
    - They measure performance over 1-year, 3-year and 5-year horizons
- Analysts performance is evaluated using quantitative metrics (70%) and qualitative metrics (30%)

INTERNATIONAL GROWTH MANDATE

Performance Analysis

As of December 31, 2008

	3-Month	6-Month	1-Year	3-Year	Since Inception (08/03/2005)
Pyramis International Growth	-7.20%	-23.43%	-28.74%	-4.00%	-1.78%
MSCI EAFE	-7.06%	-22.62%	-29.18%	-5.63%	-3.55%
Value Added	*-0.14%*	*-0.81%*	*0.44%*	*1.63%*	*1.77%*
Pyramis Europe	-8.31%	-24.80%	-29.43%	-1.62%	-1.66%
MSCI Europe	-10.36%	-25.57%	-32.98%	-4.83%	-4.32%
Value Added	*2.05%*	*0.77%*	*3.55%*	*3.21%*	*2.66%*
Pyramis Japan	0.26%	-14.53%	-17.88%	-12.40%	-3.62%
MSCI Japan	5.66%	-8.82%	-11.46%	-8.70%	-1.43%
Value Added	*5.40%*	*-5.71%*	*-6.42%*	*-3.70%*	*-2.19%*
Pyramis Pacific ex-Japan	*-14.71%*	-31.22%	-42.85%	1.62%	1.44%
MSCI Pacific ex-Japan	-12.95%	-31.76%	-38.08%	-3.35%	-3.08%
Value Added	*-1.76%*	*0.54%*	*-4.77%*	*4.97%*	*4.52%*

International Growth:

- The fund has 176 names:
  - 92 in Europe
  - 53 in Japan
  - 31 in Pacific ex-Japan
- The annual portfolio turnover is about 60%
- The Institutional Portfolio Manager is Michael Strong
  - He's responsible for regional allocation, complying with investment guidelines and cash management
- Stock selection is made by the regional portfolio managers:
  - Europe: Cedric de la Chaise (based in London, U.K.)
  - Japan: Eileen Dibb (based in Rhode Island)
  - Pacific: John Lo (based in Singapore
- The Fund has outperformed its benchmark by 1.77% since inception
  - The European and Pacific regions have added value; Japan has detracted value
- In 2008 the Fund's return was -28.74%, for a 0.44% value added over the benchmark

  - Currency fluctuations added 10% to returns
  - Europe was the only region to outperform
  - Regional allocation provided contributed 1.1% to the value added
  - Stock selection subtracted 0.7%; stock selection was positive in Europe (+1.3%) but negative in Japan (-1.4%) and in the Pacific region (-0.6%)
- The Fund uses the MSCI EAFE Index as a benchmark, not the MSCI EAFE Growth Index
  - MSCI has recently introduced several new indices; Pyramis uses the traditional MSCI EAFE benchmark (renamed the MSCI EAFE Standard) which includes large cap and mid cap companies; there's also a new MSCI EAFE index (MSCI EAFE Investable Market Index) which also includes small cap stocks, in addition to mid cap and large cap stocks; there have been no changes to their strategy as a result of changes in the MSCI indices.
- The top contributors to the performance of the portfolio in 2008 were:
  - Shionogi & Co. Ltd., a Japanese pharmaceutical company
  - Roche Holdings, a Swiss pharmaceutical company
  - K+S AG, a German supplier of fertilizers
- The top detractors were:
  - Volkswagen, a German car manufacturer
  - GlaxoSmithKline PLC, a British pharmaceutical company
  - Deutsche Börse AG, a German stock exchange
- From a sector point of view, their underweight in materials and banks, as well as their overweight in pharmaceuticals have added the most value
- Their overweight in Diversified Financials, Technology & Hardware and capital goods have been detractors
- Normally they would expect that most of the return should be coming from stock selection (normally 75% to 85%); that was not the case in 2008, regional allocation added about 1.1% while stock selection subtracted about 0.7% to performance
  - At the end of 2008 the portfolio was benchmark neutral in Europe; the underweight in Europe added value in 2008
  - The portfolio is currently underweight in Japan and is likely to remain underweight in 2009 because of the weakness of the Japanese economy
- The financial crisis has now extended to other sectors of the economy
- They expect companies' earnings per share to be 40-45% lower by the end of the year
- Like many other portfolio managers, Pyramis mentioned that poor quality companies have outperformed good quality ones. However, Pyramis was able to provide concrete examples. Beaten up companies like Mitsubishi Estate in the Real Estate sector and Nippon Steel, a steel producer recovered quickly. They feel that Nippon Steel is a poor quality company because of the collapse in demand and declining steel prices. Pharmaceuticals and utilities did worse when markets bounced. One of their largest holdings, Shionogi & Co. Ltd. did poorly even though it ranks higher in terms of quality.
- Stocks with the cheapest P/E and P/B ratios did better when markets bounced
- Michael Strong also commented on the absolute return generated by the portfolio in 2008 and how we should explain it to members:

    - The period we just experienced was unprecedented
    - The market tends to recover quickly, based on history
    - The first six months of 2009 are expected to be difficult; the economy's output is expected to drop and unemployment will go up
    - As U.S. housing prices stabilize, banks will lend more
    - If members have a sufficiently long time horizon, they should be all right

Europe:

- Cedric de la Chaise's investment philosophy involves looking for growth, quality and reasonable valuations
- Typical themes that he will try to exploit include cyclical recoveries
- The European component accounted for 65.4% of the portfolio as of December 31, 2008, compared to 65.6% for the benchmark
- The portfolio had a -29.43% return in 2008, compared to -32.98% for the benchmark, for a value added of 3.55%
- Since inception the European component has had a positive value added (2.66%, annualized)
- The top contributors to the performance of the European portfolio in 2008 were:
    - Roche Holdings, a Swiss pharmaceutical company
    - KPN, a Dutch telecommunications company
    - K+S AG, a German supplier of fertilizers
- The top detractors were:
    - Volkswagen, a German car manufacturer
    - GlaxoSmithKline PLC, a British pharmaceutical company
    - BP plc, a British integrated oil and gas producer
- From a sector point of view, their underweight in materials and banks, as well as their overweight in pharmaceuticals have added the most value
- Their underweight in the auto sectors and insurance, as well as their overweight in diversified financials have been detractors
- Since the end of 2007 Cedric has started to trim down secular growth names, companies with strong balance sheets and cash flows, because they were becoming expensive; those companies have been progressively replaced with cyclical stocks
- The banking system needs to regain confidence in order to start making loans again; U.S. home prices will be influential for the confidence of the banking system; the market currently has no faith in property related securities
- The Fund is trying to profit by exploiting widening credit spreads:
    - Several companies need to refinance their debt in the near term
    - Those companies have been severely marked down by the market because the market anticipates that they won't get any financing, which may be too pessimistic
    - Two recent purchases that meet this definition include: InBev (Belgium beer company) and William Hill (a U.K. gambling company)
- They feel that companies will need to rebuild their inventories at some points and that cyclical companies will benefit

- In the financial sector, they like insurance companies because they have more cash available and because they like the way the companies are managed; no European insurer has solvency issues
- Regarding prospects for the banking sectors, they feel that most of the writedowns have been taken, although there may be more to come; banks may also be hurt by the corporate loans they made to companies impacted by the recession
- Top active positions:
  - Roche Holdings: one of the few pharmaceutical companies to generate growth
  - Overweight in telecom companies (Vodafone Group, Deutsche Telekom) because of the large dividend yield
  - Royal Dutch Shell
    - They can support 2 or 3 years of high dividend yield
    - The Saudis want the oil price to be at around $70
    - Several oil producers have production costs of $80-85 and they will have to cut production if the price of oil remain low
    - The industry is experiencing a massive reduction in capital expenditures; this will lead to shortage of supply at some point
    - Fidelity uses a $55 price of oil in its projections
  - The size of an active position is determined as follows:
    - Take sector risk into consideration
    - A sector call may also cause a large active position
    - Technology stocks have higher volatility so active position are typically lower
    - The manager relies on Fidelity's research; if they have unique insight, the overweight will be larger
    - A small overweight is about 40 bps; average is about 80 to 120 bps and large is about 150 to 200 bps (the maximum is 300 bps)
- Largest underweights in the portfolio:
  - Consumers cyclicals such as auto makers (Volkswagen, Fiat)
    - Consumers are not spending and auto makers burn a large amount of cash
  - Technology stocks: they are concerned about reduction in capital expenditures by corporations
- The portfolio is relatively defensive at the moment, but they are starting to trim some of the defensive names in favour of cyclical companies
- Cedric de la Chaise was asked to give examples that have lost substantially more than the benchmark. He talked about Deutsche Börse (German stock exchange) and Telenor (Norwegian telecommunication company)
  - Deutsche Börse's business has significant fixed costs and trading volumes have gone down substantially, so revenues are down
    - The stock has a dividend yield of 5%-6% and a P/E ratio of about 11
    - Pyramis has kept the stock and they're tempted to add to their position; some very large shareholders (hedge funds) have had a

very bad year and they may have to liquidate their position, which would further depress the stock

- Telenor AS had exposure to Government telecommunication
  - In late Q3, early Q4 2008 they bought a license in India which was financed by a rights issue
  - It cost the portfolio about 33 bps

- Volkswagen was one of the largest detractor to performance in 2008 and they provided some explanations on the situation
  - Porsche started buying Volkswagen in late 2007
  - The price of Volkswagen went from 200 Euros to 945 Euros and it had the largest market capitalization in the world for a period of time
  - Long only managers could not purchase the stock because the free float was about 5% (Porsche owned 75% and the German state of Lower Saxony held about 20%)
  - Several investors sold the stock short but had to cover their position, triggering a huge run-up in the stock and the stock subsequently went down

Japan:

- The Japanese component accounted for 23.6% of the portfolio as of December 31, 2008, compared to 25.3% for the benchmark
- The portfolio had a -17.88% return in 2008, compared to -11.46% for the benchmark, for a value added of -6.42%
- Since inception the Japanese component has had a negative value added (-2.19%, annualized)
- The top contributors to the performance of the Japanese portfolio in 2008 were:
  - Shionogi & Co. Ltd., a pharmaceutical company; the company has strong growth prospects for the next 2 to 5 years and is well positioned
  - Tokyo Electric Power, a utility company
  - East Japan Railway, a railroad company
- The top detractors were:
  - Nippon Electric Glass, a manufacturer of specialty glass products
  - Asahi Glass Co., a manufacturer of sheet glass
  - Konica Minolta Holdings, a technology holding company
- From a sector point of view, their underweight in consumer durables & apparel, as well as their overweight in automobiles and pharmaceuticals have added the most value
- Their overweight in Technology & Hardware, capital goods and telecommunication services have been detractors
- Current portfolio positioning:
  - They don’t own electronics manufacturer at the moment because of weak consumer demand
  - They are underweight in the auto sector
  - They have removed their exposure to real estate
  - They are focusing on companies able to protect their earnings
  - They are overweight in utilities, healthcare and pharmaceuticals

  - They still own Nintendo
  - They are underweight in materials and real estate
- They still expect the unwinding of large positions by hedge funds, which would negatively impact the Japanese market
- There's still huge volatility in Japan

Pacific Basin ex-Japan:
- Because of the small weight in the MSCI EAFE Index (currently 9.1% of the Index), the Pacific Basin ex-Japan component of the portfolio is managed more aggressively than the other two components, i.e. the number positions is smaller (about 20-30) and the active positions are larger
- The expected tracking error of the sub-portfolio is 8% to 10%
- The Pacific Basin ex-Japan component accounted for 11.0% of the portfolio as of December 31, 2008, compared to 9.1% for the benchmark
- The portfolio had a -42.85% return in 2008, compared to -38.08% for the benchmark, for a value added of -4.77%
- Since inception the Pacific Basin ex-Japan component has had a positive value added (4.52%, annualized)
- The top contributors to the performance of the Pacific Basin ex-Japan portfolio in 2008 are:
  - CSL Ltd., an Australian pharmaceutical company
  - Hang Seng Bank, a Hong Kong bank
  - Oil Search Ltd., an Australian energy company
- The top detractors were:
  - WorleyParsons Ltd., an Australian energy company
  - Sunland Group Ltd., an Australian real estate company
  - Singapore Exchange Ltd., a Singapore stock exchange
- From a sector point of view, their underweight in banks, as well as their overweight in pharmaceuticals and insurance have added the most value
- Their overweight in diversified financials, as well as their underweight in utilities and transportation have been detractors
- In 2008 real estate was weak in Australia and Hong Kong; diversified financials also did poorly
- They didn't have any utilities in the portfolio in 2008
- Current Portfolio Positioning:
  - They own BHP Billiton and Rio Tinto; they are ready for a rebound
  - They are underweight in the transportation sector

Investment Personnel:
- Since our last review, the only major personnel change is the appointment of Eileen Dibb as portfolio manager for the Japanese portion of the portfolio; she replaces Kirk Neureiter
- We haven't met Eileen yet and we will request to have her available for the next review

- Michael Strong, Brian Hoesly and Chris Steward have remained in place as lead portfolio Manager of the strategy
- Cedric de la Chaise is still in charge of the European portfolio and John Lo is still the portfolio manager of the Pacific ex-Japan portfolio
- The firm has 439 investment professionals worldwide
- I have no issues with the investment personnel at Fidelity, but we need to meet the Japanese and Pacific ex-Japan portfolio managers at our next review; Cedric de la Chaise has generated good performance since he has started managing our portfolio and he appeared knowledgeable and insightful
- The structure they have in place (Michael strong as lead portfolio manager who makes the regional decision and the regional portfolios managed by dedicated portfolio managers using the research produced by local analysts) seems to be working for them; with a large pool of analysts located all over the world, Fidelity has a strong position compared to its competitors

Investment Process:

- Process hasn’t changed: bottom-up growth
- The strategy focuses on companies with above-average earnings growth combined with attractive relative valuations. Companies that possess fundamental strength in technology or business \ strategy that provide a competitive advantage are emphasized.
- Fidelity leverages its global research team to assess a company’s competitive position.
- Buy criteria:
    - Attractive business model
    - Favorable secular trends
    - Positive earnings surprises
    - Reasonable valuations
- Sell criteria:
    - Deterioration in company fundamentals
    - Excessive price appreciation
- Environmental, Social and Governance Factors:
    - Fidelity was getting pressured by some clients a few years ago to implement specific restrictions (e.g. Sudan, tobacco stocks)
    - They have tracked the performance of their screened portfolios with their unscreened portfolios for a few years now and the impact on performance has been small
    - Fidelity looks very hard at company practices on environmental, governance and social issues and they take into account any practices that would be detrimental to the company in the long run

Risk Controls:

- Risk controls are Michael Strong’s responsibility
    - Regional weights: Benchmark weight +/- 5%
    - Country weights: Benchmark weight +/- 5%
    - Industry group weights: Benchmark weight +/- 5%

    - Security weights: Benchmark weight +/- 3%
    - Market capitalization: Benchmark weighted average +/- 15%
- The portfolio manager has access to a web-based application that tracks several metrics, such as beta and tracking error
- The macro economic environment is also taken into consideration
- They target the stock specific risk to account for about 2/3 to 70% of total risk and the tracking error to be between 2% and 4%
- They monitor their exposure to growth and value and to dividend and momentum

Capacity:
- Russell raised some issues about capacity, more specifically that the assets managed by Cedric de la Chaise were too large for him to generate some value added
- He currently manages about $5.5 billion in European equity (down from $9-10 billion); the decline is due to market returns, they haven't lost a client
- The strategy was closed for a while, it has since reopened for new clients
- They have more capacity now because of the market decline

Trading:
- Rajan provided an update on the December 2008 redemption request that the Western Retirement Plans made
    - The redemption request for $2.7 million was made on December 23, 2008
    - Because of a liquidity issue around the holidays, the fact that there are several statutory holidays around that time of year in international markets (the Japanese markets are closed on December 30-31 and January 1 for example), Fidelity had problems handling our request
    - They typical hold 3% or less in cash; because of the market decline this represents much less than $2.7 million, so they had to raise money to meet the redemption request
    - They could ask brokers to do short settlement, but that would increase trading costs
    - Rajan will get back to us regarding the impact on the portfolio in terms of lost return
    - In the future, we agreed that we would double check the cash balance in the portfolio before requesting money
    - We will also request a schedule of bank holidays from the custodian

COMPLIANCE
- Rajan Burney reported on compliance issues
    - Quarterly compliance reports have been provided to UWO throughout the year; there were only minor issues in 2008
    - The compliance report for the fourth quarter of 2008 will be available shortly
- Regarding litigation, Rajan Burney that Fidelity faces on-going minor litigation issues, like any large organization, but that they are not facing major litigation
- Their auditor, PriceWaterhouseCooper, has recently conducted a pooled fund audit (Section 5970); there were no material issues

- A SAS 70 audit was conducted in September 2008; no material issues
- Rajan will provide details of their review by the SEC

UNIVERSITY OF WESTERN ONTARIO RETIREMENT PLANS
Pyramis Global Advisors
Meeting Agenda

Date: January 23, 2009
Meeting time: 9:00 AM to 11:00 AM
Location: The University of Western Ontario, Support Services Building, Room 5100

UWO Attendees:
Stephen Foerster, Prof. Richard Ivey School of Business
Pat Loria, Information Technology Services
Martin Bélanger, Associate Director, Retirement Plans

ORGANIZATION (10 Min):
- 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

INVESTMENT PERSONNEL (10 Min):
- Overview of key personnel on our mandates
- Discuss personnel turnover

REVIEW OF INTERNATIONAL GROWTH MANDATE (75 Min):
- Performance overview
- Attribution analysis
- Portfolio characteristics
- Overview of investment process and changes to investment philosophy, if any; please provide examples of stocks added that meet your investment criteria
- Buys/Sells for the year
- Detractors/contributors to performance
- Top 10 holdings
- Describe how you measure and control portfolio investment risk
- Report how you integrate environmental, social and governance factors in your investment process and the impact on your portfolio and investment strategy.

COMPLIANCE (10 Min):
- Confirm that all investments managed by Pyramis Global Advisors on behalf of UWO are in compliance with the terms and conditions of the Investment Manager Mandate and in compliance with all applicable laws
- Describe any material litigation to which your firm, key personnel or the funds 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

OTHER (15 Min):
- Market outlook and portfolio positioning