

Harris Associates
Investment Manager Review
May 5, 2010

EXECUTIVE SUMMARY

- On May 5, 2010 Martin Bélanger met with the following Harris Associates professionals from 9:00 a.m. to 2:00 p.m. at their Chicago office:
 - Vineeta Raketich, Director, International Operations & Client Relations
 - Bob Levy, Chairman and Chief Investment Officer
 - Tony Coniaris, U.S Equities Analyst
 - Frank Carsello, Senior International Equity Trader
 - Pierre O. Py, International Equity Analyst
 - Colin P. McFarland, Chief Compliance Officer
 - Debra L. Austin, Director, Investment Advisory and Client Relations
- Ranked “Hire” by Russell
- Harris Associates manages 8.75% of the Diversified Equity Fund
- UWO had \$41.0 million with Harris as of April 30, 2010 and annualized investment management fees are 0.75% at that asset level
- Harris investment style is bottom-up, value
- Harris was hired on September 30, 2008
- The Retirement Plans invest in a limited partnership managed by Harris. There’s about US\$ 115 million in total in the L.P.
- There have been no changes to Harris’s corporate structure since our last review
- The Global Large managed by Harris Associates posted a return of 30.17% for the 1-year period ending April 30, 2010, outperforming the MSCI World Index by 12.59%.
 - Most of the outperformance came from stock selection
- There have been no changes to the lead portfolio managers on our portfolio. Bob Levy is in charge of U.S. equities and David Herro is in charge of international equities.
- Harris’s investment process has not changed since we’ve hired them.
- Their research process considers environmental, social or governance factors to some extent. Governance is important for them and they will avoid investing in countries that don’t have an adequate regulatory environment. They will assess the financial impact of environmental issues.
- The strategy has US\$ 2.4 billion in assets under management and is not closed to new business.
- Harris doesn’t have any major compliance issues. They were facing one litigation action that was ruled in their favour in March 2010. They have an adequate code of conduct, the funds managed on behalf of UWO are in compliance with the Limited Partnership Agreement and Harris is not aware of any conflict of interest involving its personnel. The SEC conducted a review in 2005 and there were no major issues.
- Harris has an adequate business continuity plan.

RECOMMENDATION

- Harris has outperformed its benchmark by 14.41% annualized since inception in October 2008
- They have a disciplined and clearly articulated approach
- Their process is very proactive and it allowed them to significantly outperform during the market rebound
- There have been no personnel changes on our mandate
- Harris' strengths include its proprietary and disciplined process consistently applied throughout the firm
- Given the above and Russell's "Hire" recommendation, I don't recommend making any changes to our relationship with Harris Associates.

ORGANIZATION

- The firm had US\$ 56 billion in assets under management as of March 31, 2010, including US\$ 2.4 billion in global large cap, the strategy the UWO Retirement Plans invest in
- In total Harris manages about US\$6.7 billion in global equities (as of March 31, 2010); they feel comfortable managing up to US\$10 billion in global equities
- For the 12-month period ending March 31, 2010 they lost one client and gained one in the global large cap strategy, for a net loss of US\$ 71 million in assets
- UWO had \$41.0 million with Harris as of April 30, 2010
- The firm is a subsidiary of Natixis Global Asset Management, L.P. and operates independently. Natixis is a France based holding company that owns investment management firms from all over the world.
- There have been no changes to Harris corporate structure since our last review
- Harris had 26 investment professionals as of April 30, 2010
- Harris has an adequate business continuity plan. The firm operates an alternative site located in Lisle, Illinois. They do live tests once a year.

GLOBAL EQUITY MANDATE*Performance Analysis*

	Periods Ended April 30, 2010		
	YTD 2010	One Year	Since Inception (September 30, 2008)
Harris Associates Global Large	3.88%	30.17%	13.71%
MSCI World	0.28%	17.58%	-0.70%
Value Added	3.60%	12.59%	14.41%

- The fund has 42 names (as of April 30, 2010); the Fund will typically hold between 40 and 50 stocks
- Their investable universe is comprised of companies with a market capitalization greater than US\$5 billion located in global developed and emerging markets
- Harris outperformed its benchmark by 12.59% for the 12 month period ending April 30, 2010
 - Most of the value added came from stock selection
 - The main contributors were GAM Holdings (asset management business), Richemont (luxury goods) and Bank of Ireland (banking)
- In March 2009 their strategy was as follows:
 - They focused on business values
 - They focused on stocks that would do well during a recovery
 - They avoided stocks with a narrow range of outcome
 - They avoided companies in weak financial positions; they made the decision to avoid balance sheet risk
- Turnover was higher than normal last year at around 38%
- Looking forward, they are as comfortable as they were in March 2009. Valuation is hardly extended. They feel there's currently more risk in bonds than in equities. Pessimism is starting to reduce.
- Currently the portfolio's largest sector overweights are in Consumer Discretionary, Information Technology and Financials and Consumer Discretionary; the largest underweights are in Energy, Health Care and Consumer Staples
- From a regional point of view, the portfolio is currently overweight in Europe ex U.K., Latin America and Japan and underweight in the U.S., U.K. and Canada
- The size of an active position is based on the following considerations:
 - They identify companies that represent a good fit for the portfolio
 - Expected return
 - Confidence level in the company
 - Potential controversy that can affect a company

Investment Personnel

- There have been no changes to the lead portfolio managers on our strategy
 - Bob Levy, CIO is the lead portfolio manager for the U.S. and David Herro is the lead portfolio manager for the international equity component
 - They have a close relationship and put the portfolio together
- Over the past year they have let go one U.S. equity analyst and they have hired two international equity analysts
- The portfolio managers are supported by a global research platform composed of 26 equity research analysts.
- 95% of the decisions are analyst driven
- Analysts are generalist and typically spend more than half their time on new prospects
- Analysts present their new ideas to the portfolio managers at their weekly meetings
- Analysts generate ideas from various sources (regulatory filings, headline news, Bloomberg, press wires, other companies, etc.)
- Analysts' performance is evaluated based on two metrics:

- Long-term contribution to the portfolio
- Process: ability to answer questions about companies covered
- Early on his/her career, the analyst's compensation is about 50% fixed and 50% variable. Once the analyst has made it to Partner, there's a much larger variable component.
- I met with two equity analysts:
 - Tony Coniaris, U.S Equities Analyst
 - Pierre O. Py, International Equity Analyst
- They both explained their research process, the metrics they focus on when analyzing companies and how they evaluate management
- They were both very insightful about their recommendations and they came across as inquisitive, thorough and disciplined in their research

Investment Process

- Process hasn't changed: bottom-up value
- Harris uses a bottom-up value investment process. The firms' investment philosophy has three tenets:
 - Buy businesses trading at a significant discount to their estimate of intrinsic value
 - Invest in companies expected to grow their intrinsic value over time
 - Invest with management teams that think and act as owners

Their process has 6 steps:

1. *Defining the universe*: Harris defines its universe using qualitative screens that focus on regulatory and legal issues, currency issues, ownership issues and liquidity.
2. *Idea generation*: the firm applies quantitative and qualitative research to identify attractive stocks in the mid and large cap segments. Their valuation screens include low price to net asset value, low enterprise value to net operating income and return on capital employed. The firm also tries to leverage their local intelligence network and take advantage of opportunistic events.
3. *Fundamental research*: their fundamental research focuses on understanding the economics of the business, assessing the quality of management, evaluating the alignment of shareholders' interests and performing field work.
4. *Approved lists*: their investment process results in the creation of a U.S. and a non-U.S. approved lists that must be used by portfolio managers to select securities. Securities on the approved list have attractive businesses, have been thoroughly scrutinized, have a value assigned and a sell price has been established and are the focus of ongoing intensive research.
5. *Portfolio construction and risk management*: the final portfolio is constructed from the most attractive securities from both approved lists. Market capitalization must be greater than US\$ 5 billion at the time of purchase. The maximum weights are 7% per holding, 25% per industry, 30% per country (except U.S. where the limit is 65%) and 15% in emerging markets. Risk controls are taken into account by their philosophy, their rigorous research process, their diversification and their currency management.

6. *Sell criteria*: they sell when the price reaches its intrinsic value, when other more attractive alternatives are identified or when they realized that they made a mistake. They also trim stocks according to future potential.
- Harris hedges currencies defensively, from a U.S. investor's point of view
 - Currently the following currencies are hedged: Swiss Franc, Euro and Yen
 - They use research provided by street analysts to review industry dynamics
 - Environmental, Social and Governance Factors (ESG):
 - They don't have any official statement about ESG
 - Governance is important for them
 - They will avoid some countries (e.g. Russia) if they feel that they don't have an adequate regulatory environment
 - From a company specific point of view, they favour companies that have a separation of Chairman and CEO and management that has an ownership in the company
 - They will assess the financial impact of environmental issues
 - They will look at any ESG factor that may have be a value detractor

Risk Management

- Harris defines risk as loss of capital, not benchmark risk
- When assessing risk they focus on the following metrics:
 - Discount to fair market value
 - Diversification
 - Internal research, knowledge of the company
 - Balance sheet
 - An assessment of the factors that can go wrong
- The portfolio has the following risk controls in place:
 - Maximum per holding: 7%
 - Maximum per country (other than the U.S.): 30%
 - Maximum per industry: 25%
 - Maximum in emerging market: 15%
 - Maximum in non-U.S. based companies: 65%
 - Minimum in non-U.S. based companies: 35%
 - Minimum number of stocks: 40
- The portfolio doesn't use any derivatives

Capacity

- They currently manage US\$ 6.7 billion in global equity mandates, including US\$ 2.4 billion in Global large cap, our strategies
- They feel that they can handle up to US\$ 10 billion in global equities
- One of the metrics they use to assess capacity is whether they can build a 5% position in the portfolio without owning more than 5% of a company
- The portfolio managers make the capacity decisions, not the trading personnel

Trading

- I met with Frank Carsello, Senior International Equity Trader

- Harris has a global trading desk, with 3 international equity traders, 3 U.S. equity traders and 3 fixed income traders
- There's one technology specialist on the trading desk
- Trades are initiated by the portfolio manager. Then compliance checks are done. Next the trade is entered into the firm's order management system. Finally they choose the best venue to execute the trade.
- They use all the venues available:
 - LiquidNet: electronic market place for asset management firms
 - Algorithms for bulge brokers
 - They use Bloomberg for indications of interests
- There's more liquidity going into dark pools
- Traditional brokerage firms run alternate venues, but there's still a need for a cash desk, although it's diminishing
- The industry is getting more fragmented and there's regularly new regulation coming in; they need to constantly educate themselves on regulation and new technology
- Harris uses commission sharing arrangements
 - They have 10 arrangements with broker dealers
 - For every \$1 of commissions, \$0.20 is paid to a pool to be used to purchase eligible services
- They use the Macgregor Financial Trading Platform as their front office system; it is used to run compliance checks
- They evaluate their brokers the following way:
 - They do quarterly cost analyses
 - They look at industry reports, such as Greenwich Associates
 - They look at how brokers can arrange meetings with companies
 - They meet with the fund board annually to review brokers' performance
- They regularly review their technology to ensure that they're up-to-date
- Overall Harris has adequate trading capabilities

COMPLIANCE

- I met with Colin McFarland, Harris' Chief Compliance Officer
- Colin reports to Janet Reali, the firm's general counsel
- We discussed the lawsuit that Harris is facing, which was originally disclosed to us at the October 2009 review meeting
 - Some unitholders of the Oakmark Funds (Harris' mutual fund arm) argued that Harris charged excessive fees
 - Harris claims that they use industry standards
 - A decision was rendered by the Supreme Court on March 30, 2010
 - The Supreme Court confirmed the Gartenberg Standard regarding mutual fund fees, i.e. to be found excessive, the trustee's fee must be so disproportionately large that it bears no reasonable relationship to the services rendered and could not have been the product of arm's-length bargaining.
- Harris, its funds or its personnel are not facing any other litigation

- The SEC conducted a normal review in December 2005. They issued a letter in the spring of 2006 and there were no major issues. They are due for a new review soon.
- The firm has an adequate code of ethics
 - Every employee is an access person
 - Everyone has to pre-clear personal transactions
 - Less than 10 employees trade
 - There are 5 to 15 transactions per week
- Gifts are limited to \$100; everyone is required to report gifts
- Market timing issues are taken care of by their transfer agents who handle the mutual fund transactions
- Harris uses fair market pricing
 - They use IDC as a vendor to supply them with prices
 - Fair market pricing is triggered for specific funds
- Harris is not aware of any conflict of interest involving its personnel
 - The firm has a very broad conflict of interest policy. Employees have to report their outside business activities.
- The funds managed on behalf of UWO are in compliance with the Limited Partnership Agreement dated June 25, 2007
- PriceWaterhouseCoopers audits Harris' financial statements
- Deloitte Touche audits the Oakmark Funds
- Ernst & Young is the firm's internal auditor
- Overall Harris has adequate compliance processes in place.

THE UNIVERSITY OF WESTERN ONTARIO RETIREMENT PLANS
Harris Associates
Meeting Agenda

Date: May 5, 2010

Meeting time: 9:00 AM to 2:00 PM

Location: Two North Lasalle Street, Suite 500, Chicago, Illinois

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 UWO PORTFOLIO:

- 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
- Discuss changes made to the portfolio
- Detractors/contributors to performance
- 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.
- Discuss portfolio positioning
- Market outlook

INVESTMENT RESEARCH:

- Review global research platform
- Review approach to research
- Discuss research reports with analysts

TRADING:

- Overview of trading systems and methodology
- Execution analysis

- Discuss total trading costs analysis
- Discuss soft dollars allocation
- Discuss broker/dealer selection
- Discuss stock exchange selection

COMPLIANCE:

- Provide an overview of your compliance processes
- Confirm that all investments managed by Harris Associates on behalf of UWO are in compliance with the Investment Manager and Performance Standard document signed with UWO on September 25, 2008 and Harris Associates Global Large Cap L.P. Confidential Offering Memorandum dated August, 2007.
- 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
- Confirm that any conflict of interest or potential conflict of interest involving Harris Associates or key investment personnel has been disclosed

OTHER:

- Office tour