UNIVERSITY OF ALBERTA

INVESTMENT COMMITTEE REPORT TO THE BOARD OF GOVERNORS

For the Year Ended March 31, 2012

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Introduction

The investment assets of the University of Alberta that are under the governance of the Investment Committee had a total market value of $1,648 million as of March 31, 2012 (2011 - $1,754 million). They are separated into Endowment Funds and Non-Endowed Funds, as summarized in Exhibit 1.

Exhibit 1	2012	2011
Non-Endowed Funds	Millions	
Short-term	$ 656	$ 762
Mid-term	10	30
Long-term	86	87
ABCP	96	92
	848	971
Endowment Funds	800	783
	$ 1,648	$ 1,754

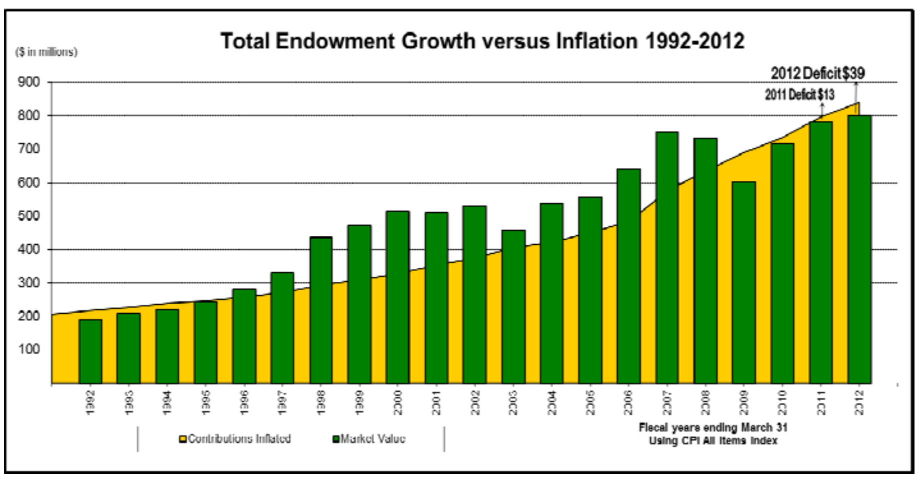
The investment goal of the Endowed Funds is to preserve the value of the assets in real (adjusting for inflation) terms over time, and do so with an acceptable level of risk, in order to provide the same level of support to future generations as current beneficiaries receive. This implies that that the real, long term rate of return must equal or exceed the rate of spending.

The purpose of the Non-Endowed Funds is to pool capital that is predominately short-term in nature. Consequently the primary investment focus is on money market securities which will provide liquidity and preservation of capital.

Endowment Funds - Highlights

- The global economic rebound stalled in the past fiscal year. Fixed income securities gained in value and equities generally posted more modest gains or declines. The University's endowment fund returned 3.0% during the year.

Exhibit 2



- The market value of the endowments increased to $800 million, up $17 million from $783 million as at March 31, 2011. However, the real value of the endowments decreased by 4.0%. This decrease was comprised of a change in market value of 3.0% on the investment assets less total expenditures of 5.1% and inflation of 1.9%. As shown in Exhibit 2, the market value of the endowment assets now trails the inflation adjusted contributions by $39 million (2011: $13 million).

- The fund's benchmark returned 2.5%, indicating an outperformance of 0.5% on a one year basis. On a longer term basis the fund has outperformed its benchmark for four and ten years by annualized rates of 0.8% and 0.1% respectively.

- Implementation of the investment policy changes made in prior years continued in 2012. The late fourth quarter saw a change to the hedge fund of funds program as one diversified multi-strategy hedge fund of funds investment manager was terminated and a managed futures fund of funds was engaged. The first allocation to real estate funds was also made in this quarter with the funding of an open ended Canadian core real estate fund. Also a US real estate REIT ETF was purchased to gain exposure to this geographic sector while the endowment remains in the queue for an open ended US core real estate fund, and until capital is called for a closed-ended US commercial real estate fund. An emerging markets equity manager search was initiated in the latter part of the fiscal year and will be completed in fiscal 2013.

- The spending rate increased from 3.80% to 4.25% during the year, and supported $25 million in program spending. From fiscal 2013 onward, future spending allocation increases will be linked to inflation, provided the real value of the endowment portfolio is able to meet certain conditions.

Non-Endowed Investment Pool (NEIP) - Highlights

- The NEIP, comprised of three distinct strategies (short, mid and long-term), recorded an overall return of 2.1% for the year (2011: 2.2%).
- The majority of NEIP is invested in the short term money market products which outperformed its 91 day T-bill benchmark.
- Provisions related to the asset-backed commercial paper (ABCP) portfolio declined during the year from $49 million to $44 million due primarily to the passage of time as credit conditions did not change materially during the year.

Governance and Compliance

The Board has delegated to the Investment Committee responsibility and authority to make decisions on behalf of the Board in the Committee's defined area of responsibility, except to the extent that such authority has been specifically limited by the Board in its Terms of Reference for the Committee. The Investment Committee meets regularly as part of its governance responsibility for oversight and implementation of the investment policy. Annually, it presents the Board with this report. The Investment Committee:

- Reviews and recommends to the Board investment objectives and policies for the Endowment and Non-Endowed funds.
- Approves investment manager mandates, appointments and terminations.
- Monitors compliance to the investment policy.
- Reviews investment manager mandates and performance.
- Addresses and resolves any identified non-compliance matters.

Management provides the Investment Committee with quarterly reports on investment performance. To assist management with this responsibility, the services of an independent external consultant that specializes in performance measurement are used. Management also has regular meetings or conference calls with external investment managers to discuss performance and other topics that may affect the assets of the University. Specialized consultants are retained from time to time to assist with governance matters, asset-liability studies, transition management and investment manager searches. Specialized legal counsel is retained to advise the University in tax matters related to foreign jurisdictions and in the review of new investment management agreements.

The Investment Committee monitors compliance with the approved investment policy, investment manager mandates and related legal aspects on a regular basis. The restructured ABCP holdings are not in compliance with the investment policy, however when the original investments were made in 2007, they were in compliance. Management has recommended that in order to maintain value, it is in the

University's best interest to hold the restructured securities for the time being. In accordance with the authority delegated to the Investment Committee in this matter by the Board of Governors on September 25, 2007, the Investment Committee has approved three ABCP restructuring plans that seek to maintain value of the University's holdings. All other non-compliance issues have been immaterial, have been resolved and have not resulted in any losses.

Endowment Funds

Endowments consist of the Unitized Endowment Pool (UEP) and a small number of other endowed funds managed outside the UEP. Endowment investments are comprised of Canadian, U.S., global and international equities, Canadian government and corporate bonds, mortgages, real estate, alternative investment funds and money market instruments.

Investment Policy & Risk

The primary investment objective is to achieve a long-term real rate of return that equals or exceeds total expenditures, with an acceptable level of risk. The Investment Committee has implemented a number of strategies both to meet the UEP return objectives and also to control risk through the establishment of a target allocation portfolio that defines both the asset mix and major asset classes:

Exhibit 3

UEP Asset Mix as at March 31, 2012

	Current Policy Range Min.-Max.%	Prior Policy Range Min.-Max. %	2012 Actual Asset Mix %
Fixed Income			
Money Market Securities	-5 - +5	-5 - +10	1.9
Bonds, Debentures, Real Return Bonds	10 - 30	20 - 40	18.8
Total	15 - 25	20 - 40	20.6
Equity			
Canadian Equity	15 - 25	10 - 20	20.5
Foreign Equity	35 - 45	40 - 60	45.3
Alternative Assets	15 - 25	0 - 10	13.6
Total	75 - 85	60 - 80	79.4

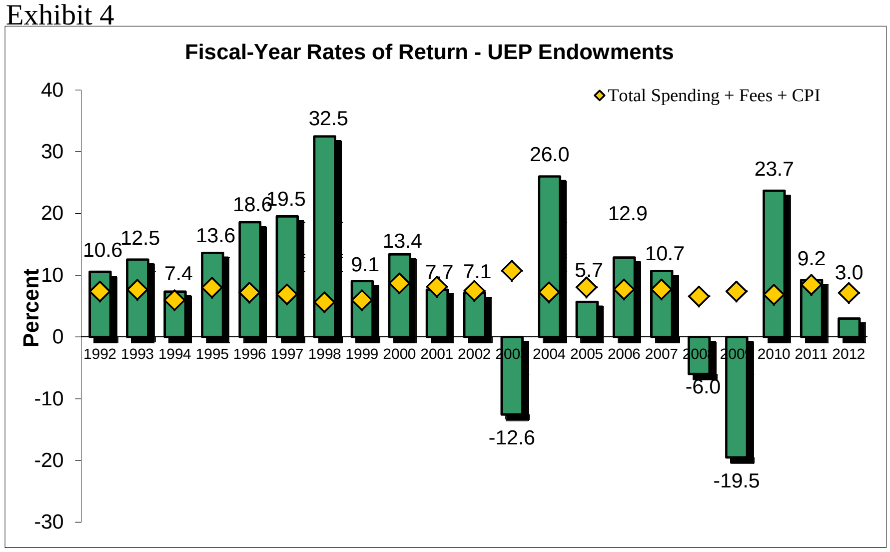
- In order to achieve its primary objective, the UEP maintains a higher allocation to equity and alternative investments than to fixed income securities. This is based on projected capital market assumptions, which indicate that over longer periods of time fixed income securities will not provide a sufficient return after adjusting for inflation to meet the dual goals of maintaining the real value of assets and providing a strong and stable level of support to the current operations of the University. Fixed income securities serve as a source of portfolio diversification and stability.
- Asset allocation is regularly reviewed for appropriateness and for its ability to achieve the primary investment objective over the long-term. The increased allocation to alternative assets as contemplated by the investment policy in Exhibit 3, and approved by the Board in January 2010, moved closer to full implementation during fiscal 2012. Investments in real estate and hedge funds were completed. Given the nature of certain alternative investment strategies, such as private equity, the complete transition to the target allocation will occur over a period of several years.
- The allocation of equities across North America, Europe, Asia and other international capital markets diversifies market specific risk.
- Allocation of funds among different fund managers with different investment styles diversifies manager risk. Please refer to Appendix 1 for details.
- There is an allocation of funds between active investment strategies (to manage market risk and add value over time) and passive investment strategies (to manage risk and control costs).

- The University has retained a number of investment managers who are defensive in nature in order to mitigate losses in a market down-turn.
- An active currency overlay strategy has been employed to manage currency risk in the portfolio.

Investment Performance Relative to Objectives

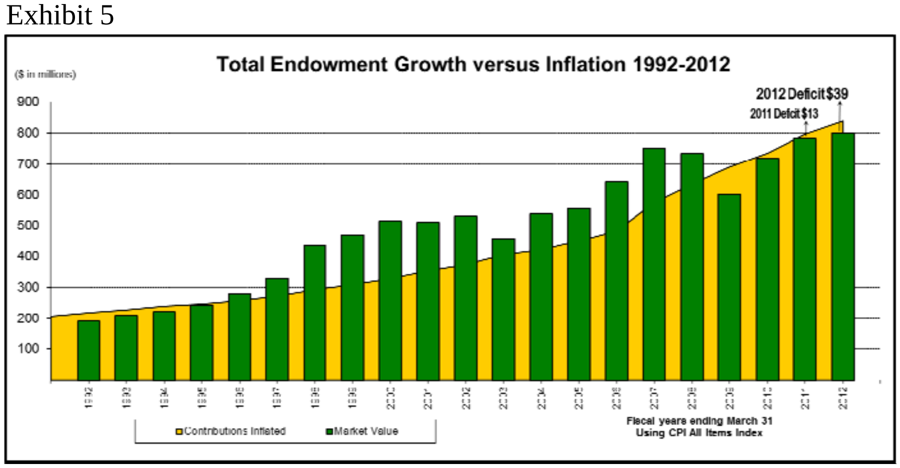
The global economic rebound that started in 2010 was negatively impacted by the European sovereign debt crisis in 2011. Equity markets sold off sharply on concerns that fiscal austerity measures in one of the world's largest economic zones could lead to a protracted global economic slowdown or recession. European governments and monetary authorities were successful in temporarily averting that crisis. This action, coupled with signs of sustained economic growth in the US, resulted in strong gains from equity markets in early 2012. Against this backdrop the fund returned 3.0% for the year ending March 31, 2012: it fell short of total spending plus CPI of 7.0%. The return of 3.0% reflects:

Exhibit 4



- a volatile capital market environment in which equities generally experienced negative returns until December, after which there were overall gains;
- the investment policy which strongly favours equities, and
- the strategic long-term investment decision to hedge 50% of the fund's exposure to foreign currencies. During the fiscal year the Canadian dollar depreciated in value against all major currencies with the exception of the Euro. Since a substantial portion of the fund's assets are non-Canadian dollar denominated, the hedge detracted from returns this year. The endowment portfolio's return without the currency hedge would have been 3.8%, or 80 basis points higher.

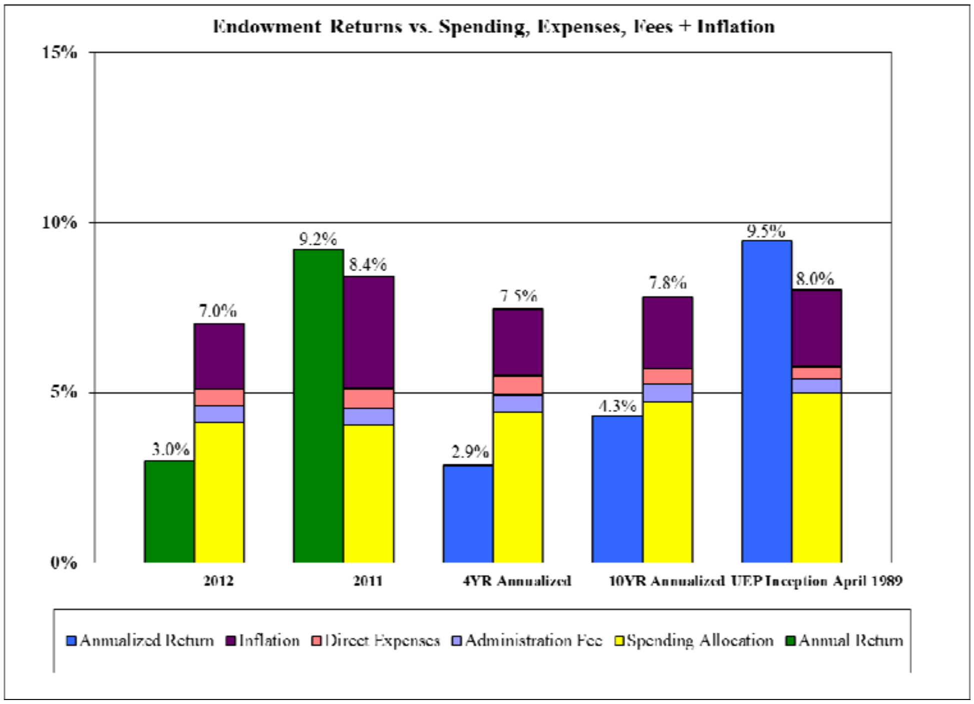
Exhibit 5



The market value of the endowments increased to $800 million, up $17 million from $783 million as of the end of fiscal 2011. This increase is comprised of $23 million in earnings, $27 million in new contributions, less $33 million in total spending for the year. During the year, the real value of the endowments decreased by 4.0%. This decrease was due to the aforementioned gain in market value of 3.0% on the investment assets less total expenditures of 5.1% and inflation of 1.9%. The value of the endowment fund trailed the inflation adjusted contributions by $39 million at March 31, 2012 as shown in Exhibit 5, due to the magnitude of the declines in fiscal 2009 and 2008 and modest return for fiscal 2012.

As shown in Exhibit 6, the endowment fund has since inception, produced an annualized return of 9.5%. This return has exceeded the annualized total spending plus inflation of 8.0% over that time period. However this objective has not been achieved over more recent time periods.

Exhibit 6



As an example, over the past ten years, the endowment fund has returned 4.3% annualized and has outperformed its benchmark by 0.1%. Nonetheless, this is below the ten year annualized total spending plus inflation of 7.8%. It is this underperformance that prompted investment policy changes including a higher allocation to equities and alternative investment strategies, and a more sustainable spending policy.

The year ended March 31, 2012 was a very volatile period. In the United States, legislative impasses to reducing spending or increasing taxes led to a downgrade of US Treasury debt in August. While the ongoing flight to the perceived quality of US Treasuries was not impacted by this downgrade, equity markets sold off on the news. The slow recovery in employment and in the housing sector continued to weigh on the US economy, resulting in the Federal Reserve commencing its “Operation Twist” (an open market operation involving the purchase of long-term bonds and the sale of short-term bonds to lower long-term interest rates relative to short-term interest rates) program in September. Equity markets, which had been negative during the first half of the year, rebounded. In Europe, the second year of the euro crisis saw austerity programs instituted across the Eurozone. This was done in order to reign in government deficits, and to avoid insolvency of several governments (Greece, Ireland, Italy, Spain and Portugal) and potentially several major European banks. China, the world’s second largest economy, continued to see its rate of economic growth decelerate in light of reduced demand for Chinese goods from the developed world, and also financial issues with their banks and municipal governments. Japan spent the first two quarters with reduced economic output due to the earthquake and tsunami that struck the north-east coast in March of 2011. Slowing global economic activity and reduced demand affected Canada. With a large sector weight in the economically sensitive Materials sector, the Canadian stock market struggled to keep pace with its peers in the rest of the developed world.

The Canadian equity market, as measured by the S&P/TSX Capped Composite Index declined 9.8% for the fiscal year. Small cap stocks performed even worse, with declines of 15.1%. Mid cap stocks were slightly better than the S&P/Capped Composite Index with a loss of 8.7%. Growth underperformed value for the year, primarily due to poor returns in the Materials (-20.0%) and Energy (-17.5%) sectors. US equity returns were strong in the last half of the fiscal year, overcoming a weak first half. The S&P 500 Index returned 11.5% in Canadian dollar terms but was up only 8.6% in US dollars, reflecting the impact of a weaker Canadian dollar. As in Canada, value stocks outperformed growth stocks, and small and mid-cap stocks underperformed large cap stocks. Outside of North America, the MSCI EAFE Index lost 2.7% in Canadian dollars, but was down by 3.7% on a local currency basis. This reflected the impact of the ongoing sovereign debt crisis in Europe, the impact of the Japanese earthquake and tsunami and the fact that the Canadian dollar depreciated against many of the underlying currencies. In a bit of a reversal, growth outperformed value. MSCI's World Index had a Canadian dollar return of 3.9% for the year, which was 1.9% in local currency terms. Canadian bonds, as measured by the DEX Universe, were up 9.7% on the year. This was almost twice as much as the previous year, as interest rates continued to decline. The strongest performance came from long dated bonds.

Measuring Relative Performance of Endowment Funds

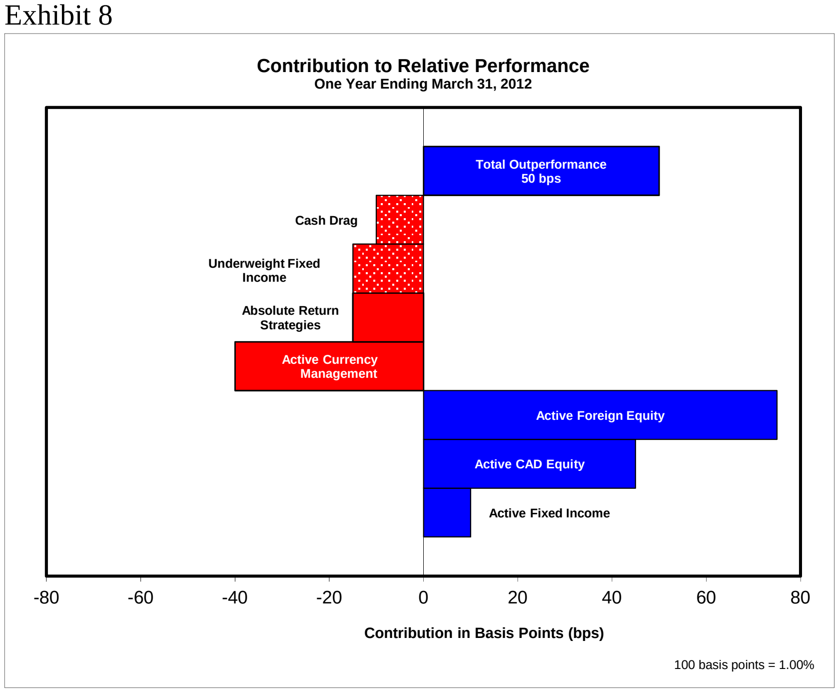
The returns of individual asset classes in the Fund are measured against established market benchmarks. The total fund return is measured against the weighted return of the current asset mix benchmark as shown in Exhibit 7. The difference between the endowment's return and the benchmark return reflects the impact of strategic and investment policy allocation decisions together with the results of active management decisions by our investment managers. Appendix 2 provides long-term value added information.

Exhibit 7

	Asset Mix	
UEP Investment Policy Benchmark	**Current**	**Target**
DEX Universe Bond Index	30%	20%
S&P/TSX Composite Index (Cap 10)	20%	20%
MSCI World Index 50% (Hedged to CAD)	50%	40%
Absolute Return (US 3 Month T-Bill +6.0%)	0%	8%
Private Equity (Venture Economics Index)	0%	6%
Real Estate (IPD Index)	0%	6%
	100%	100%

With its 3.0% return, the fund outperformed its benchmark by 0.5% or 50 basis points. The main reason for this outperformance was the defensive style of the portfolio's equity managers. Their investment style was beneficial during this uncertain market environment. In general, their collective underweight holdings in the cyclical commodity sectors helped performance. See Exhibit 8 for attribution analysis.

Exhibit 8



The detailed performance of the portfolio by asset class relative to individual benchmarks is summarized in Exhibit 9.

Canadian equities lost 7.6% for the year, outperforming the S&P/TSX Composite Index benchmark by 2.2%. This was a high second quartile ranking in the Canadian Master Trust Universe of peer Canadian investment managers. Overall, sector selection was a key reason for the outperformance: there was a sustained large underweight to the poorly performing Materials sector during most of the year. Consumer stocks also performed well during the year, and an overweight position in this sector also contributed towards relative performance.

US equities returned 12.7%, outperforming the S&P 500 by 1.2%. This combined return from 3 individual managers was first quartile for plans in the Canadian Master Trust Universe. It was primarily attributable to exceptionally strong performance from our global equity manager. The US equity portion of the global manager's portfolio returned 19.6% for the year, outperforming the S&P 500 by 8.1%, for a high first quartile performance. This outperformance was attributable to stock selection in the Information Technology, Consumer Discretionary and Industrial sectors. The specialist US large cap manager underperformed during the year, returning 7.6%, which trailed the benchmark S&P 500 by 3.9%, This was a third quartile performance. Stock selection in the Financial sector and opportunistic allocations to non-US stocks were the main performance detractors. However, stock selection in the Consumer Discretionary sector and an overweight position in Information Technology sector both added value. The small and mid-cap specialist's performance of 10.5% more than doubled their benchmark return of 4.1%, for a first quartile performance. Stock selection in the Industrials sector led the way. Stock selection in Health Care and Consumer Discretionary were also accretive. Detractors included an overweight position in Energy and poor stock selection in the Financial sector.

Exhibit 9

Return - UEP Endowments

Relative to Asset Class Benchmarks	**Year Ending March 31**				**Annualized**	
	2012 %	**2011 %**	**2010 %**	**2009 %**	**4YR %**	**10YR %**
Short Term Return	2.4	0.2	1.8	6.5	2.7	3.0
91-day Treasury Bill Return	*0.9*	*0.8*	*0.3*	*2.4*	*1.1*	*2.4*
Fixed Income	10.1	5.4	6.1	3.0	6.1	6.9
Fixed Income Benchmark	*9.7*	*5.1*	*5.1*	*3.2*	*5.8*	*6.9*
Canadian Equity	-7.6	17.7	49.4	-29.1	3.4	7.8
S&P/TSX Composite Index (Cap 10)	*-9.8*	*20.4*	*42.2*	*-32.4*	*1.1*	*7.2*
Foreign Equity Total	5.4	7.6	21.0	-22.1	-2.1	1.0
MSCI World Index	*3.9*	*9.3*	*23.6*	*-29.1*	*-3.0*	*0.5*
Non-North American Equity	-0.4	5.1	20.6	-22.5	-3.5	2.4
MSCI EAFE Index	*-2.7*	*6.3*	*25.2*	*-34.0*	*-5.8*	*1.3*
U.S. Equity	12.7	11.2	23.0	-21.8	-0.1	-0.6
S&P 500 Index	*11.5*	*10.9*	*20.8*	*-24.1*	*-0.9*	*-0.6*
Absolute Return Strategies	1.1	8.1	18.0	-21.3	0.4	
US T-Bills + 6.0%	*6.0*	*6.2*	*6.2*	*7.2*	*6.4*	
Currency Overlay	-1.6	0.6	9.3	-8.1	-0.2	
50% passively hedged benchmark	*-0.8*	*-0.4*	*9.0*	*-6.6*	*0.1*	
Total Fund	3.0	9.2	23.7	-19.5	2.9	4.3
Benchmark Return	2.5	10.3	25.9	-23.7	2.1	4.2
CTU Median	3.8	10.6	21.6	-17.2	3.7	5.7
CPI Index	1.9	3.3	1.4	1.2	2.0	2.1

The international equity manager lost 2.0%, which was second quartile performance compared to managers with similar mandates during the year. The University's investment manager in this asset class constructs a portfolio of stocks based on value orientated criteria, and outperformed the benchmark by 0.7%. This relative outperformance is attributable to good stock selection and underweight positions in the Financial and Materials sectors. Technology and Telecommunications stock selection were detractors for the year. From a geographic perspective stock selection in Europe and Asia contributed to performance, especially Japanese stock selection. Performance was negatively impacted by allocations to emerging markets.

The global equity (international plus US equities) manager performed very well during the fiscal year, returning 9.5% or 5.6% over the benchmark. This was first quartile performance. Stock selection in eight of the ten sectors contributed towards performance, while stock selection in the Energy and Consumer Staple sectors detracted from performance. From a geographic perspective both U.S. and European stocks helped to add value, while the contribution from Asian stocks was marginal.

Canadian fixed income came in with a return of 10.1%, 40 basis points above the benchmark (DEX Bond Universe Index) return of 9.7%. With the majority of the fixed income asset class invested passively, it was the active investment managers who added value. This was due to security selection and duration management in Government of Canada bonds, provincial and corporate bonds, and short-term trading strategies. The combined return of the two active fixed income mandates was 11.3%, exceeding the benchmark return by 1.6%. This represents the highest result for fixed income managers in the Master Trust Universe.

Absolute return strategies gained 1.1% for the year. One hedge fund of funds manager returned 2.3%, and the other 0.3%. The combined return was well below their benchmark of US T-Bills + 6%. However, the two fund of funds managers easily bested the Hedge Fund Research Fund of Funds Conservative Index return of -3.1%. Underlying performance was modestly positive in most of the underlying strategies, with relative value trading strategies contributing the most.

The strategic long-term investment decision to hedge 50% of the non-Canadian dollar denominated portion of the portfolio back to Canadian dollars through an actively managed currency overlay strategy had a negative impact on the portfolio this year, detracting 0.80% from the un-hedged policy return. During the fiscal year the Canadian dollar depreciated in value against most major currencies. The US Dollar gained against the Canadian Dollar by 2.7%. The Japanese Yen rose 3.5% while the Swiss Franc was up 4.0% and the British Pound increased in value by 2.4%. The Euro, however declined in value by 3.6% against the Canadian Dollar. The 50% benchmark hedge lost 0.8% during the year and detracted 0.4% from overall returns. The active currency overlay strategy lost 1.6%, underperforming the benchmark by 0.8%, and detracted a further 0.4% from overall returns. This underperformance stems primarily from nearly fully hedged positions that were maintained in the first part of the year on Japanese Yen and Swiss Franc exposure. Both of these currencies appreciated sharply in the first half of the year generating losses for the currency overlay strategy. In September the Swiss central bank began intervening in currency markets, in effect pegging the Franc at 1.2 to the Euro. Although the Yen began to depreciate in value in 2012 the gains generated were not sufficient to offset the earlier losses. With a 50% target allocation to non-Canadian securities, currency is a significant source of risk and volatility in the portfolio and it is prudent to manage this risk.

Other Perspectives on Relative Performance

To assist the Investment Committee in its on-going assessment of the investment policy's effectiveness, the Committee monitors the performance of other similar, though not necessarily directly comparable, institutional investment funds. In the BNY Mellon Asset Servicing Canadian Master Trust Universe (CMTU), which is composed of Canadian institutional pensions, endowments, and foundations, the median fund gained 3.8%. Because of differing regulatory and operational constraints on these funds, their returns at any point in time are not strictly comparable to one another or to the University's endowment fund. Nonetheless they do provide information on the relative performance of differing investment strategies. Within this universe the endowment's investment performance was ranked in the 63rdth percentile, up from the 84thrd percentile ranking in fiscal 2011. This third quartile ranking is generally explained by the endowment fund’s lower allocation to fixed income than other funds in a year when fixed income outperformed most equity markets. The median plan in the CMTU had a 39.1% allocation to fixed income. 50% of the plans in the CMTU had fixed income allocation between 32.9% and 45.7%, which is well above the endowment’s allocation to this asset class.

On a ten-year basis the UEP returned 4.3% versus a CMTU median return of 5.7%. The relative underperformance of the UEP stems from the fact that Canadian equities and fixed income performed better than foreign equities during the past ten years, while the UEP had a relatively lower allocation to these two asset classes. Foreign equity returns, and in particular US equity returns faced headwinds from a Canadian investor’s perspective as the Canadian dollar appreciated by approximately 60% against the US dollar during this time period. The UEP’s currency hedging mandate was only in place for six years of the past ten years.

The University of Alberta participates in benchmark studies sponsored by the Canadian Association of University Business Officers (CAUBO) and, in the United States, the National Association of College and University Business Officers (NACUBO) in conjunction with Commonfund. The most recent published data from these organizations is for the periods ending December 31, 2010 and June 30, 2011 respectively. This data may make shorter-term comparisons less than informative due to timing. The University’s ten year return of 4.2% for the period ending December 31, 2010 is comparable to the CAUBO 10 year median return but the 4.6% return for the ten year period ending June 30, 2011 trails the NACUBO 10 year median return of 5.6%.

Spending Policy

To maintain intergenerational equity, the value of the endowments should be preserved over time in real terms. The global financial crisis of 2008 prompted an interim measure to protect the real value of the endowments. The Board of Governors, at its March 27, 2009 meeting, approved a temporary one year reduction in the endowment spending rate from 4.25% to 3.50% for the 2010 fiscal year. In 2011 the spending rate was increased to 3.8%, followed by an increase back to 4.25% in 2012. The spending allocation supported a total of $25.5 million in program spending for fiscal 2012. Effective April 1, 2012 the spending allocation is indexed annually by inflation, provided that total endowment spending remains between 4.0% and 6.0% of the fund’s market value. The spending policy also contains provisions designed to restore and maintain the real value of the endowments. Inflation indexing will be subject to a minimum of 0.0% and a maximum of 5.0%. Index based adjustments to the spending allocation will not be applied unless the endowment market value exceeds the cumulative contributions indexed for inflation by at least 10.0%. In an environment of modest returns this may take several years to achieve.

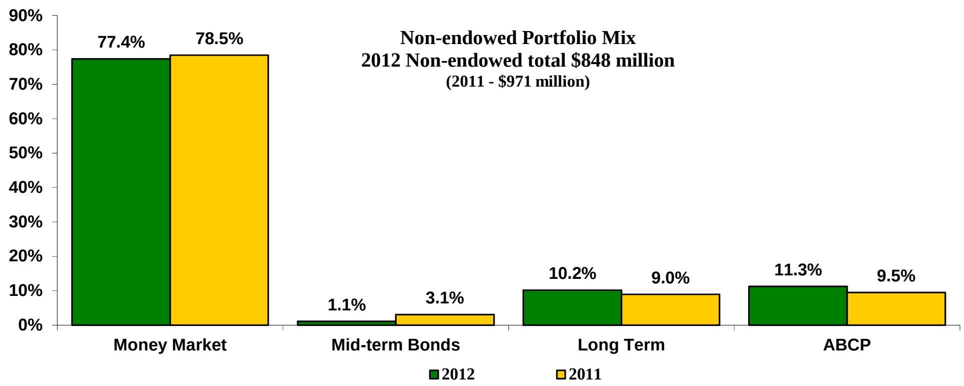
An administrative fee to support centrally funded indirect costs associated with endowment programs is charged to the endowments. For 2012 this amounted to $3.7 million, representing 0.47% of the average market value of the fund.

Costs

The fund incurred direct expenses of $4.1 million or 0.52% of the average market value of the fund with respect to investment management and custodial fees. As part of a process of monitoring and managing costs, management participated in the 2011 CEM Survey. CEM Benchmarking Inc. is a Toronto based firm that specializes in measuring the performance and costs of pension plans, foundations and endowments. The final report was not yet available, but historically costs have been in line with the CEM calculated benchmark.

Non-Endowed Funds

Exhibit 10



The Non-endowed Investment Pool (NEIP) represents the University's operating, capital, and restricted funds. Of this $656 million (2011 - $762 million) is held in money market instruments while the remaining $192 million (2011 - $209 million) is invested in long-term notes, bonds and equities (see Exhibit 10). The investment policy approved by the Board of Governors in June 2005 identified that only a portion of non-endowed funds are required for short-term cash flow management, with the remainder being available for medium to long-term investment strategies. The policy objective of the short and mid-term funds is to earn the highest return possible on investments that ensure the security of the invested capital.

As shown in Exhibit 11, the NEIP, comprised of three distinct strategies (short, mid and long-term), recorded an overall return of 2.1% for the year (2011: 2.2%). The short-term money market investments had a return of 1.3% (2011: 0.9%). This compares favourably with the benchmark DEX 91 Day Treasury Bill Index return of 0.9% (2011: 0.8%) and is primarily attributable to the portfolio's longer duration. The return was a first quartile performance in the Master Trust Universe.

The mid-term bond portfolio had a return of 6.3% (2011: 5.8 %). This outperformed the benchmark DEX Short Term Bond Index return of 4.4% (2011: 3.4%). This outperformance is primarily attributable to valuation adjustments on the restructured asset backed commercial paper (ABCP) in the portfolio.

The long-term portion of the NEIP, which is invested in the UEP, added to performance with a return of 3.0% (2011: 9.2%).

Exhibit 11

Returns - NEIP	**Year Ending March 31**				**Annualized**
	2012 %	**2011 %**	**2010 %**	**2009 %**	**4YR %**
Short-term (combined)*	1.3	0.9	1.1	0.0	0.8
DEX 91-day index	0.9	0.8	0.3	2.4	1.1
Mid-term bonds (combined)*	6.3	5.8	7.8	3.4	5.8
DEX short-term bond index	4.4	3.4	3.3	6.9	4.5
Long-term (UEP)	3.0	9.2	23.7	-19.5	2.9
UEP Benchmark	2.5	10.3	25.9	-23.7	2.1
Overall Return	2.1	2.2	3.4	-1.3	1.6
MTU Median	1.2	1.0	0.7	2.9	1.4

* In 2010, restructured ABCP notes are included with mid-term bonds, prior to 2010 ABCP was included in short-term.

Asset Backed Commercial Paper (ABCP)

As of March 31, 2012 the University's holdings of restructured notes and ABCP amounted to $140.0 million (2011: $141.5 million). The initial provision on ABCP notes was made in 2008; this fiscal year's provision of $44.3 million represents 31.6% of the total value (2011: $49.1 million representing 34.7% of the total value). The $1.5 million decrease in ABCP holdings reflects the fact that during the year certain restructured notes were redeemed at par value. The $4.8 million decrease in the provision primarily reflects the passage of time: credit conditions did not change materially during the year. A substantial portion of the restructured notes may be impacted by regulations being developed pursuant to the *Dodd-Frank Wall Street Reform and Consumer Protection Act* of the United States of America. The outcome remains uncertain and is being monitored.

Exhibit 12 Asset Backed Commercial Paper Continuity Schedule

	Estimated fair value 2011	Cost 2011	Note cancellations	Redemptions	Cost 2012	Estimated fair value 2012
Total	$ 92,367	$ 141,508	$ -	$ (1,559)	$139,950	$ 95,710

The majority of the restructured notes are investment grade. In aggregate, 82% of the restructured notes by fair value have received an investment grade credit rating A (high) or BBB (high) from the Dominion Bond Rating Service. While the maturity dates of the restructured notes vary significantly, 94% of the notes by fair value are expected to mature within the next five years. It is the University's intention to hold these notes to maturity, subject to monitoring and market conditions. A comprehensive long-term cash flow forecast has been prepared and management is confident that the exposure to the restructured notes does not represent a liquidity issue for the University, and that all obligations and commitments will continue to be met.

Going Forward

This year's modest investment returns have failed to narrow the gap in value against the cumulative endowment contributions indexed for inflation. Implementation of the investment policy together with the spending policy is expected, over the long-term, to enable the University to eliminate the remaining gap in value and preserve intergenerational equity in endowment spending.

At the direction of the Investment Committee, management will be making the following changes to implement the investment policy during the 2013 fiscal year:

- Complete the search for and fund a dedicated emerging markets equity mandate,
- Commence a search for private equity funds mandate and commit capital to this asset class,
- Continue to increase the investment manager monitoring and compliance capabilities,
- Review all aspects of the currency hedging programme,
- Complete a comprehensive asset-liability study to ensure that investment policy's long-term target asset allocation will support anticipated future spending levels on an inflation adjusted basis,
- Continue to assess the ongoing appropriateness of all existing investment strategies and mandates, and
- Continue to develop a risk budgeting framework for all aspects of the investment strategy including the performance monitoring process.

Board of Governors Investment Committee established October 1997.
Investment Committee Membership for the period June 2011 to June 2012:

Bob Kamp, Chair (external member)
Jim Drinkwater, Vice-Chair (external member)
Ken Bancroft (external member)
Barbara Belch (external member)
Gordon Clanachan (Board member)
Lynne Duncan (external member)
Dave Lawson (external member)
Allister McPherson (external member)
Jerry Naqvi (Board member)
Brian Heidecker/Douglas Goss (ex-officio)
Linda Hughes (ex-officio)
Dr. Indira Samarasekera (ex-officio)

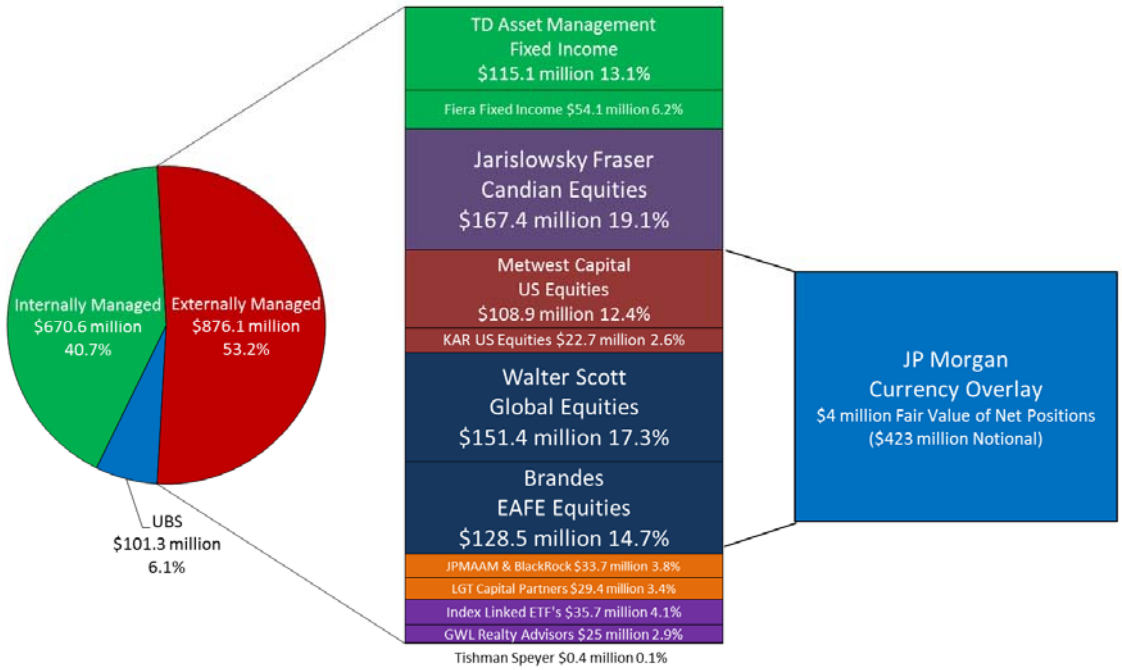
Prepared for the Board Investment Committee by Financial Services – Investments & Treasury

Richard Allin, BComm (Alberta) - Cash Manager
Pamela Connors, Dipl. Admin (Nova Scotia Community College) - Cash Analyst
Richard Iwuc, BSc, MBA (Manitoba), CFA - Portfolio Manager
Phil Poon, BComm (Alberta) - Associate Director, Investments & Treasury
Ron Ritter, BComm (Alberta), CA - Director, Investments & Treasury
Chad Yaskiw, BComm (Alberta) - Senior Treasury Analyst

<u>**Appendix 1 - Investment Manager Structure**</u>

Investment Management Structure

Total Investment Assets of $1648 million as of March 31, 2012



JPMAAM, BlackRock, & LGT are Absolute Return. Great West Life and TIshman Speyer are Real Estate. Index Linked ETF's are in Canadian Equities and US Real Estate.

The University retains the services of fourteen external fund managers for the investment portfolio.

Asset Classes and Investment Managers as of March 31, 2012

Asset Class	Investment Manager	Endowed Assets	Non-endowed Assets	Total Assets under Management
Canadian Equity	Jarislowsky Fraser	153	14	$167
Canadian Equity	Index Linked ETFs - iShares S&P/TSX 60	10	1	$11
Fixed Income Passive	TD Asset Management	106	9	115
Fixed Income Active	Fiera	50	4	54
US Equity	Metropolitan West Capital Management	100	9	109
US Equity	Kayne Anderson Rudnick Investment Mgmt	21	2	23
Non-North American Equity	Brandes Investment Partners	118	11	129
Global Equity	Walter Scott & Partners Limited	139	12	151
Absolute Return Strategies	BlackRock Alternative Advisors	19	2	21
Absolute Return Strategies	JP Morgan Alternative Asset Management	12	1	13
Absolute Return Strategies	LGT Capital Partners	27	2	29
Real Estate	Index Linked ETFs - Vanguard REIT	23	2	25
Real Estate	Great West Life Realty Advisors	23	2	25
Real Estate	Tishman Speyer	0	0	0
Active Currency Overlay	JP Morgan Asset Management ($423 notional)	4	0	4
		$804	$72	$876
Money Market	UBS Global Asset Management	$0	$101	$101
Money Market	Internally Managed	$0	$555	$555
Fixed Income	Internally Managed	3	$10	12
ABCP	Internally Managed	0	$96	96
Various	Internally Managed	-7	14	7
		-$4	$675	$671
		$800	$848	$1,648

Appendix 2 - Long-Term Value Added

The graph below depicts the UEP's return in excess of the benchmark return since inception. The benchmark has varied over time as changes have been made to the UEP's investment policy. This graph demonstrates that active management strategies have successfully added value over the longer term. Since inception they have added 1.7% annualized.

The yellow bars depict annual performance in relationship to the benchmark. The red line represents the cumulative value added since inception.