INVESTMENT COMMITTEE REPORT TO THE BOARD OF GOVERNORS

For the Year Ended March 31, 2013

U N I V E R S I T Y   O F   A L B E R T A

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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 $1,697 million as of March 31, 2013 (2012 - $1,648 million). They are separated into Endowment Funds and Non-Endowed Funds, as summarized in Exhibit 1.

Exhibit 1

		2013		2012
Non-Endowed Funds		Millions		
Short-term	$	602	$	656
Mid-term		3		10
Long-term		110		86
ABCP*		102		96
		817		848
Endowment Funds		880		800
	$	1,697	$	1,648

*Asset Backed Commercial Paper

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

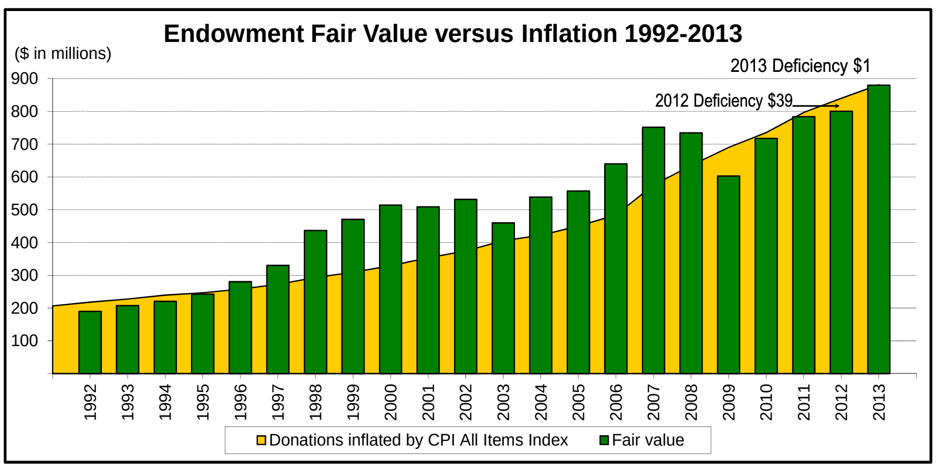
The purpose of the Non-Endowed Funds is to pool capital that is predominately short-term in nature. Consequently the primary investment focus is on money market securities which will provide liquidity and preservation of capital.

Endowment Funds - Highlights

- Renewed economic growth in the USA, abatement in the European sovereign debt crisis, and continued monetary stimulus by most major central banks all contributed to a positive environment for assets. Foreign equities generated strong returns, while returns for the Canadian equity market with its high exposure to cyclical commodity-based sectors, were more modest. Canadian fixed income produced moderate gains over and above coupon payments. The University's endowment fund returned 12.2% during the year.

- The market value of the endowments increased to $880 million, an increase of $80 million from $800 million as at March 31, 2012. The real value of the endowments increased by 6.2%. This increase was comprised of a change in market value of 12.2% on the investment assets less total expenditures of 5.0% and inflation of 1.0%. As shown in Exhibit 2, the market value of the endowment assets now trails the inflation adjusted contributions by only $1 million (2012: $39 million).

Exhibit 2



- The fund's benchmark returned 10.3%, indicating an outperformance of 1.9% on a one year basis. On a ten year basis the fund has outperformed its benchmark by an annualized rate of 0.4%.

- During the year a major asset allocation study was completed with the assistance of a preeminent US-based endowment consultant. It was concluded that the current total rate of spending was sustainable in real terms, but the probability of achieving this long-term goal could be improved by altering the asset allocation in the University Funds Investment Policy. The study recommended an increased allocation to emerging markets equities and assets that respond well in times of inflation, such as commodities, natural resource equities, real estate, and private oil and gas. Another recommendation was to decrease the allocation to public equities in developed markets as well as to Canadian fixed income. Recommendations from the study will be incorporated into a proposed new University Funds Investment Policy for consideration by the Investment Committee and the Board of Governors in Fiscal 2014.
- The spending allocation, while based on a rate of 4.25%, is linked to inflation, provided the real value of the endowment portfolio is able to meet certain conditions. One of those conditions is that the market value of the UEP must exceed its inflation tracking target by at least 10%. Since this condition had not been met in 2011/12, the spending allocation of $33.9 million was not indexed for inflation in 2012/13.

Non-Endowed Investment Pool (NEIP) - Highlights

- The NEIP, comprised of three distinct strategies (short, mid and long-term), recorded an overall return of 3.5% for the year (2011: 2.1%).
- The majority of the NEIP is invested in short term money market products which outperformed their 91-day T-bill benchmark.
- Provisions for losses related to the asset-backed commercial paper (ABCP) portfolio declined during the year from $44 million to $33 million due primarily to the passage of time and improved credit conditions.

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 the spending policy, investment objectives, asset allocation 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 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-allocation studies, manager monitoring, 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 allocation to foreign equities exceeds its policy maximum by 3.3% and the allocation to alternative assets is below its policy minimum by 2.3% for reasons associated with the transition to the new investment policy. 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.

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, US, international and emerging market 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:

- In order to achieve its primary objective, the UEP maintains a higher allocation to a combination of equity and alternative investments (hedge fund of funds and real estate) than to fixed income securities. This is based on capital market assumptions, which project 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.

Exhibit 3

UEP Asset Mix as at March 31, 2013

	Current Policy Range Min.-Max%	Prior Policy Range Min.-Max. %	2013 Actual Asset Mix%
Fixed Income			
Money Market Securities	-5 - +5	-5 - +10	3.0
Bonds, Debentures, Real Return Bonds	10 - 30	20 - 40	15.8
Total	15 - 25	20 - 40	18.8
Equity			
Canadian Equity	15 - 25	10 - 20	20.2
Foreign Equity	35 - 45	40 - 60	48.3
Alternative Assets	15 - 25	0 - 10	12.7
Total	75 - 85	60 - 80	81.2

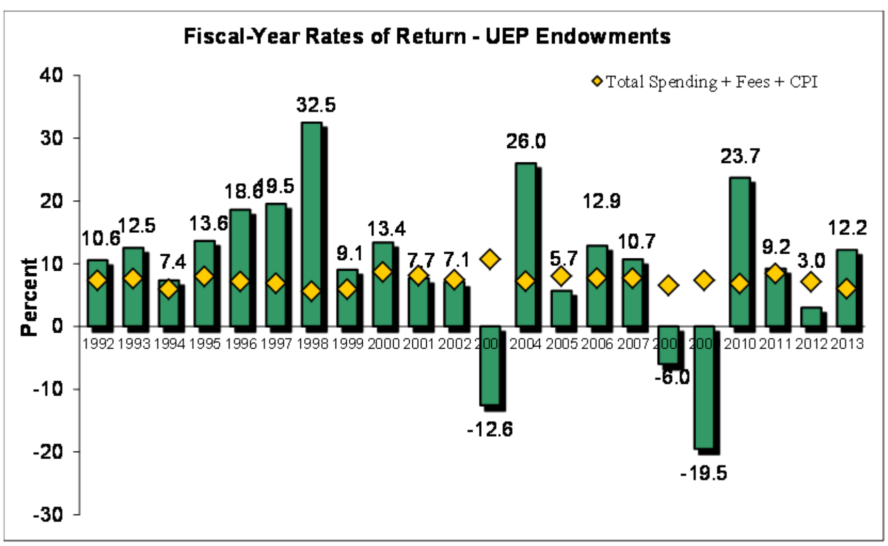
- Asset allocation is regularly reviewed for appropriateness and for its ability to achieve the primary investment objective over the long-term. The increased allocation to alternative assets as contemplated by the investment policy in Exhibit 3, and approved by the Board in January 2010, moved closer to full implementation during fiscal 2013. 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 emerging 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

Sustained high levels of monetary stimulus by most major central banks through a combination of historically low policy rates and quantitative easing measures provided strong support for risk assets this past year. The European Central Bank's commitment to "do whatever it takes" to support the Euro and the monetary union brought about an abatement of the European sovereign debt crisis. These actions, combined with economic growth in the US that was led by a recovery in the housing sector and increased consumer spending, resulted in strong gains for equity markets in late 2012 and early 2013. Precious metals, particularly gold, sold off strongly in this environment. Continued concerns about slowing economic growth in China led to price weakness in many commodities. The Canadian equity market, which is dominated by cyclical natural resource based sectors, significantly underperformed most foreign equity markets. Against this backdrop the fund returned 12.2% for the year ending March 31, 2013, surpassing total spending plus CPI of 6.0% by a healthy margin. The return of 12.2% reflects:

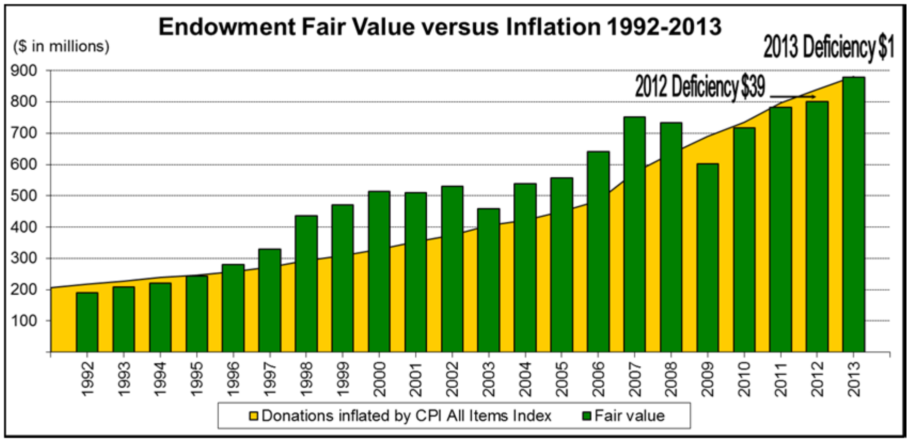
Exhibit 4



- a volatile capital market environment in which equities generally experienced negative returns until June, after which there were strong overall gains, with some broad market indices hitting all-time record highs in late March;
- 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 appreciated in value against all major currencies with the exception of the US dollar. Since a substantial portion of the

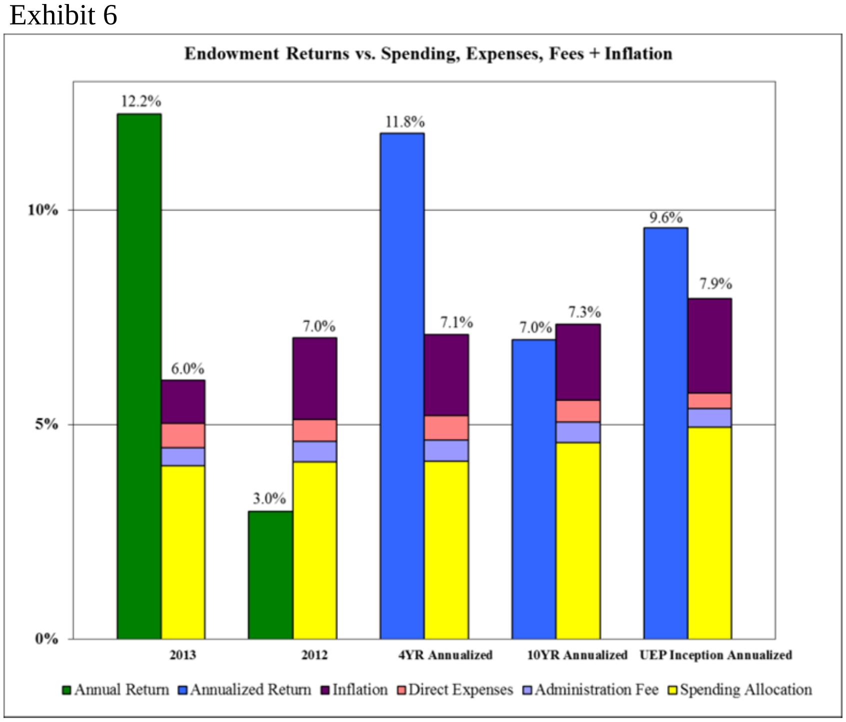
fund's assets are non-Canadian dollar denominated, the hedge added to returns this year. The endowment portfolio's return without the currency hedge would have been 10.8% or 140 basis points lower.

Exhibit 5



The market value of the endowments increased to $880 million, up $80 million from $800 million as of the end of fiscal 2012. This increase is comprised of $96 million in earnings, $33 million in new contributions, less $33.9 million spending allocation, $3.6 million administrative assessment $4.8 million for investment management costs and $7 million related to the prior year's spending allocation. During the year, the real value of the endowments increased by 6.2%. This increase was due to the aforementioned gain in market value of 12.2% on the investment assets less total expenditures of 5.0% and inflation of 1.0%. The value of the endowment fund trailed the inflation adjusted contributions by $1 million at March 31, 2013 as shown in Exhibit 5, due to the magnitude of the declines in fiscal 2008 and 2009.

Exhibit 6



As shown in Exhibit 6, the UEP has, since its April 1989 inception, produced an annualized return of 9.6%. This return has exceeded the annualized total spending plus inflation of 7.9% over that time period. However this objective has not been achieved over all time frames.

As an example, over the past ten years, the endowment fund has returned 7.0% annualized and has outperformed its benchmark by 0.4%. Nonetheless, this is below the ten year annualized total spending plus inflation of 7.3%. It is this underperformance to spending plus inflation that prompted investment policy changes such as a higher allocation to equities and alternative investments, and a more sustainable spending policy.

The year ended March 31, 2013 was a volatile period. The first three months were dominated by the pending "fiscal cliff" in the United States, the European sovereign debt crisis, and the threat of slowing growth in emerging market economies. During this period of uncertainty global equities posted losses and commodities, with the exception of precious metals, declined in value. This trend was reversed over the summer through coordinated central bank intervention by the Federal Reserve, the European Central Bank, and the People's Bank of China. Risk assets such as equities and real estate performed strongly in the winter after a resolution to the "fiscal cliff" in the United States and the Japanese central bank's commitment to target a specific level of inflation, which would weaken the Yen and in turn provide strong support to their export driven economy. Enhanced levels of monetary stimulus through quantitative easing by the Japanese central bank in early 2013 propelled equity markets even higher. Against this backdrop, corporate profits generally exceeded market expectations throughout the year by expanding margins through cost reductions. 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 returned 6.1% for the fiscal year. Small cap stocks performed worse, declining 7.1%. Mid cap stocks slightly underperformed the S&P/TSX Capped Composite Index with a gain of 5.4%. Growth stocks underperformed value stocks for the year, primarily due to poor returns in the Materials (-15.6%) and Energy (4.1%) sectors. US equity returns were strong in the last three quarters of the fiscal year, overcoming a weak first quarter. The S&P 500 Index returned 15.8% in Canadian dollar terms. As in Canada, value stocks outperformed growth stocks, but small and mid-cap stocks outperformed large cap stocks.

Outside of North America, the MSCI EAFE Index returned 13.6% in Canadian dollars. All major countries in the index posted strong double digit returns with the exception of Italy (-4.4%) and Spain (+3.9%). In contrast with North America, growth stocks outperformed value stocks. MSCI's World Index had a Canadian dollar return of 14.4% for the year, which was higher than the 11.7% return in local currency terms.

Canadian bonds, as measured by the DEX Universe, were up 4.5% on the year. This was half the return of the previous year, as interest rates declined only marginally. The strongest performance came from corporate bonds as corporate credit spreads over Government of Canada bonds narrowed during the year.

Measuring Performance of Endowment Funds Relative to Market Movements

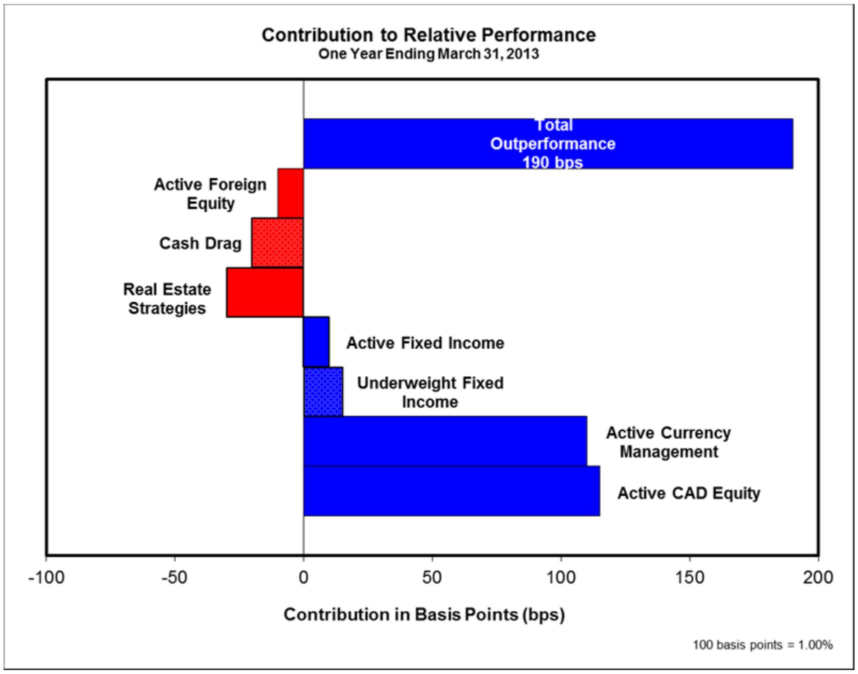
The returns of individual asset classes in the Fund are measured against established market index benchmarks. The total fund return is measured against the weighted return of the current asset mix benchmark as shown in Exhibit 7. The difference between the endowment's return and the benchmark return 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	20%	20%
S&P/TSX Composite Index (Cap 10)	20%	20%
MSCI World Ex-Canada Index (CAD)	23%	20%
MSCI World Ex-Canada Index (Local)	23%	20%
Absolute Return (HFRI Fund of Funds Composite Index)	8%	8%
Real Estate (IPD/Realpac Canada Property Index)	6%	6%
Private Equity (Cambridge Associates Index)	0%	6%
	100%	100%

With its 12.2% return, the fund outperformed its benchmark by 1.9% or 190 basis points. There were two main reasons for this outperformance. First, the defensive style of the portfolio's Canadian equity manager was beneficial during this market environment. In general, the Canadian equity manager's underweight holdings in the materials sector helped performance. Second, the active currency manager

Exhibit 8



also added value from positions that benefitted from exchange rate changes. See Exhibit 8 for attribution analysis.

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

Canadian equities gained 11.9% for the year, outperforming the S&P/TSX Composite Index benchmark by 5.8%. This was a first quartile ranking in the BNY Mellon Canadian Master Trust Universe of peer Canadian investment plans. A key reason for the outperformance was a sustained large underweight to the poorly performing Materials sector during the year. This accounted for 5.6% of the outperformance.

US equities returned 16.7%, outperforming the S&P 500 by 0.9%. This combined return from three individual managers was near median for plans in the Canadian Master Trust Universe. It was primarily attributable to exceptionally strong performance from our US large cap equity manager who returned 19.1% for the year, outperforming the S&P 500 by 3.3%, for a first quartile performance. This outperformance was attributable to stock selection in the Consumer Discretionary and Information Technology sectors. The global equity manager's US equity allocation underperformed during the year, returning 13.1%, which trailed the benchmark S&P 500 by 2.7%, This was a third quartile performance. The small and mid-cap specialist's performance of 12.7% was substantially under their Russell 2500 benchmark return of 19.7%, for a fourth quartile performance. Detractors included stock selection in the Consumer Discretionary and Industrial sectors. An underweight to Technology and stock selection in Energy were positive to attribution.

Exhibit

Return - UEP Endowments

Relative to Asset Class Benchmarks	**Year Ending March 31**				**Annualized**	
	2013 %	**2012 %**	**2011 %**	**2010 %**	**4YR %**	**10YR %**
Short Term Return	1.5	2.4	0.2	1.8	1.5	2.9
91-day Treasury Bill Return	*1.0*	*0.9*	*0.8*	*0.3*	*0.8*	*2.2*
Fixed Income	4.9	10.1	5.4	6.1	6.6	6.2
Fixed Income Benchmark	*4.5*	*9.7*	*5.1*	*5.1*	*6.1*	*6.1*
Canadian Equity	11.9	-7.6	17.7	49.4	16.3	10.9
S&P/TSX Composite Index (Cap 10)	*6.1*	*-9.8*	*20.4*	*42.2*	*13.2*	*10.0*
Foreign Equity Total	14.1	5.4	7.6	21.0	11.9	6.2
MSCI World Index	*14.4*	*3.9*	*9.3*	*23.6*	*12.6*	*5.5*
Non-North American Equity	11.6	-0.4	5.1	20.6	8.9	7.4
MSCI EAFE Index	*13.6*	*-2.7*	*6.3*	*25.2*	*10.1*	*6.2*
U.S. Equity	16.7	12.7	11.2	23.0	15.8	4.7
S&P 500 Index	*15.8*	*11.5*	*10.9*	*20.8*	*14.7*	*4.6*
Absolute Return Strategies	3.6	1.1	8.1	18.0	7.5	
HFRI Fund of Funds Composite Index	*4.8*	*-3.4*	*5.2*	*12.6*	*4.6*	
Real Estate	11.9					
IPD Canada Real Property Index	*17.7*					
Currency Overlay	2.3	-1.6	0.6	9.3	2.5	
50% passively hedged benchmark	*0.7*	*-0.8*	*-0.4*	*9.0*	*2.0*	
Total Fund	12.2	3.0	9.2	23.7	11.8	7.0
Benchmark Return	10.3	2.5	10.3	25.9	11.9	6.6
CTU Median	9.7	3.8	10.6	21.6	11.4	7.7
CPI Index	1.0	1.9	3.3	1.4	1.9	1.8

The international equity manager's portfolio returned 7.4 % during the year, which was fourth quartile performance compared to managers with similar mandates. The University's investment manager in this asset class constructs a portfolio of stocks based on "deep value Graham and Dodd" criteria, and underperformed the benchmark by 6.2%. This relative underperformance is primarily attributable to poor stock selection in Telecommunications. Performance was also negatively impacted by allocations to emerging markets.

In aggregate the global equity (international plus US equities) manager performed in line with the benchmark for the fiscal year, returning 14.1% or 0.3% under the benchmark. This was second quartile performance. This manager traditionally makes most of its active returns via stock selection. Stock selection in seven of the ten sectors contributed towards performance, while stock selection in the Energy, Industrials, and Telecommunications sectors detracted from performance.

Canadian fixed income came in with a return of 4.9%, 40 basis points above the benchmark (DEX Bond Universe Index) return of 4.5%. This represents a second quartile ranking for fixed income portfolios in the Canadian Fixed Income Master Trust Universe. The majority of the fixed income asset class is invested passively: the active investment managers added value. This was due to security selection and duration management in Government of Canada, provincial and corporate bonds, and short-term trading strategies. The combined return of the two active fixed income mandates was 5.6%, exceeding the benchmark return by 1.1%.

Absolute return strategies gained 3.6% for the year. One hedge fund of funds manager returned 6.7%, and the other 0.0%. The combined return was well below the benchmark of US T-Bills + 6% and the Hedge Fund Research Fund of Funds Conservative Index return of 4.8%. Underlying performance was modestly positive in most of the underlying strategies, with relative value trading strategies contributing the most, followed by event driven trading. The managed futures fund of funds underperformed for most of the year as trend following strategies performed poorly until a clear direction in global markets emerged in late 2012. However, the managed futures fund of funds still managed to outperform the Barclays Commodity Trading Advisor (CTA) Index by 1.7%.

The UEP invests in both Canadian and US real estate. On the Canadian side, the investment is in an open-ended core diversified real estate fund. This fund returned 17.8% which was 0.1% higher than the IPD Realpac Canadian Property Index. Most of the fund holdings are office, apartment and industrial buildings located in Ontario, Alberta, and BC. There are two US real estate investments. The main US real estate investment is in an open-ended core diversified real estate fund that was financed in July 2012. Over three quarters, this fund has returned 6.5% to the UEP, lower than its benchmark return of 7.5%. This manager invests across the United States in all four major real estate categories. The University continued to fund its capital commitments to a private (closed-ended) real estate fund that specializes in a value added strategy focused on commercial properties. To date, this fund has purchased two buildings. The primary target markets for this fund are six major supply-constrained US cities.

The Endowment Fund has a strategic long-term investment policy to hedge 50% of the non-Canadian dollar denominated portion of the portfolio back to Canadian dollars through an actively managed currency overlay strategy. This had a positive impact on the portfolio this year, adding 1.4% to the portfolio's return over the un-hedged portfolio policy return. During the fiscal year most major currencies depreciated in value against the Canadian dollar, including the Japanese Yen by 11.0%, the British pound by 3.4%, the Swiss Franc by 3.0% and the Euro by 2.0%. The US Dollar, however, gained against the Canadian Dollar by 1.7%.

The strategy's 50% passive hedge benchmark rose 0.7% during the year; this was easily bettered by the currency manager who generated returns of 2.3%, resulting in an excess return of 1.6%. This outperformance stems primarily from an underweight position on the Japanese Yen and Euro. Both of these currencies declined in value relative to the Canadian Dollar in the latter part of the fiscal year. The Yen declined in value due to new inflation generating initiatives by the Japanese central bank, while the Euro fell on weak growth, the fiscal situation in Cyprus, and deadlock that ensued after the Italian election. The US Dollar increased in value post "fiscal cliff" and on sustained signs of economic growth in the US. 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 9.7%. 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 9th percentile, up from the 63rd percentile ranking in fiscal 2012. This first quartile ranking is generally explained by the endowment fund's lower allocation to fixed income than other funds in a year when fixed income underperformed most equity markets. The median plan in the CMTU had a 36.9% allocation to bonds. 50% of the plans in the CMTU had bond allocations between 30.2% and 43.4%, which is well above the endowment's allocation of 15.8% to this asset class.

On a ten-year basis the UEP returned 7.0% versus a CMTU median return of 7.7%. 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 and 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 44% against the US dollar during this time period. The UEP's currency hedging mandate has been in place for seven 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, 2011 and June 30, 2012 respectively. This data may make shorter-term comparisons less than informative due to timing. The University's ten year return of 3.9% for the period ending December 31, 2011 is comparable to the CAUBO 10 year median return of 4.2% but the 4.1% return for the ten year period ending June 30, 2012 trails the NACUBO 10 year median return of 6.2%.

Spending Policy

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%. Inflation-linked 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 order to help rebuild a prudent surplus. The spending allocation was not indexed for inflation this past year as this condition was not met. In an environment of expected modest returns it may take several years to achieve inflation indexing. For the fiscal year ending March 31, 2013, $33.9 million was made available for program spending.

An administrative fee to support centrally funded indirect costs associated with endowment programs is charged to the endowments. For 2013 this amounted to $3.6 million, representing 0.43% of the average market value of the fund.

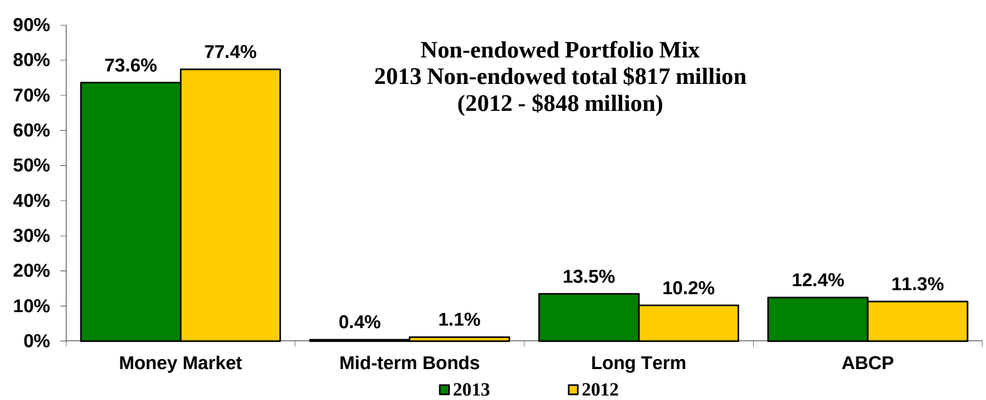
Costs

The fund incurred direct expenses (investment management and custodial fees) of $4.8 million or 0.57% of the average market value of the fund. 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 report found that the fund's actual costs were 9 basis points higher than the benchmark for funds of similar size and structure. The higher cost is primarily attributable to the funds' use of an active currency overlay strategy and the emphasis on active investment strategies, which in aggregate added value this past year.

Non-Endowed Funds

The Non-endowed Investment Pool (NEIP) represents the University's operating, capital, and restricted funds. Of this, $602 million (2012 - $656 million) is held in money market instruments while the remaining $215 million (2012 - $192 million) is invested in long-term notes, bonds and equities (see Exhibit 10). It has been identified that only a portion of non-endowed funds are required for short-term cash flow management, making the remainder available for medium to long-term investment strategies.

Exhibit 10



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 3.5% for the year (2012: 2.1%). The short-term money market investments had a return of 1.2% (2012: 1.3%). This compares favourably with the benchmark DEX 91 Day Treasury Bill Index return of 1.0% (2012: 0.9%) and is primarily attributable to the portfolio's longer duration. The return was a second quartile performance in the Master Trust Universe.

Exhibit 11

Returns - NEIP	Year Ending March 31				Annualized
	2013 %	2012 %	2011 %	2010 %	4YR %
Short-term (combined)	1.2	1.3	0.9	1.1	1.1
DEX 91-day index	1.0	0.9	0.8	0.3	0.8
Mid-term bonds (combined)	10.8	6.3	5.8	7.8	7.7
DEX short-term bond index	2.9	4.4	3.4	3.3	3.5
Long-term (UEP)	12.2	3.0	9.2	23.7	11.8
UEP Benchmark	10.3	2.5	10.3	25.9	11.9
Overall Return	3.5	2.1	2.2	3.4	2.8
MTU Median	1.2	1.2	1.0	0.7	1.0

In 2010, restructured ABCP notes are included with mid-term bonds

The mid-term bond portfolio had a return of 10.8% (2012: 6.3 %). This outperformed the benchmark DEX Short Term Bond Index return of 2.9% (2012: 4.4%). 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 12.2% (2012: 3.0%).

Asset Backed Commercial Paper (ABCP)

As of March 31, 2013 the University's holdings of restructured notes and ABCP amounted to $134.6 million (2012: $140.0 million). The initial provision on ABCP notes was made in 2008; this fiscal year's provision of $32.9 million represents 24.4% of the total value (2012: $44.3 million representing 31.6% of the total value). The decrease in ABCP holdings reflects the fact that during the year $3.3 million in restructured notes were redeemed at par value and $1.9 million in fully provisioned for notes were cancelled. The $11.4 million decrease in the provision from the prior year reflects $5.6 million associated with the passage of time, $2.5 million attributable to improved credit conditions, $1.4 million related to other valuation adjustments, and $1.9 million on the cancellation of fully provisioned for notes. 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 2012	Cost 2012	Note cancellations	Redemptions	Sales	Cost 2013	Estimated fair value 2013
Total	$ 95,710	$ 139,954	$ (1,943)	$ (3,309)	$ (85)	$ 134,617	$ 101,720

The majority of the restructured notes are investment grade. In aggregate, 84% 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, 96% of the notes by fair value are expected to mature within the next four 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 strong investment returns have nearly eliminated the gap in value against the cumulative endowment contributions indexed for inflation. Implementation of the proposed University Funds Investment Policy together with the spending policy is expected, over the long-term, to enable the University to re-establish a surplus and preserve intergenerational equity in endowment spending.

With the oversight of the Investment Committee, and pending approval of the proposed University Funds Investment Policy, management will be undertaking the following initiatives during the 2014 fiscal year:

- Transition away from EAFE and US equity mandates towards global mandates,
- Complete a search for private equity fund of funds mandate focused on acquiring limited partnerships interests in the secondary market and commit capital to this asset class,
- Commence allocations to inflation sensitive asset classes such as commodities and natural resources through exchange traded funds and research the appropriateness of active management strategies for these asset classes,
- Search for and engage a dedicated Canadian small cap equity manager,
- Continue to increase the investment manager monitoring and compliance capabilities,
- Commence a search for a second and complementary emerging markets equity manager,
- Continue to assess the ongoing appropriateness of all existing investment strategies and mandates,
- Continue to develop a risk budgeting framework for all aspects of the investment strategy including the performance monitoring process, and
- Increase the NEIP's allocations to both the mid-term and long-term investment strategies.

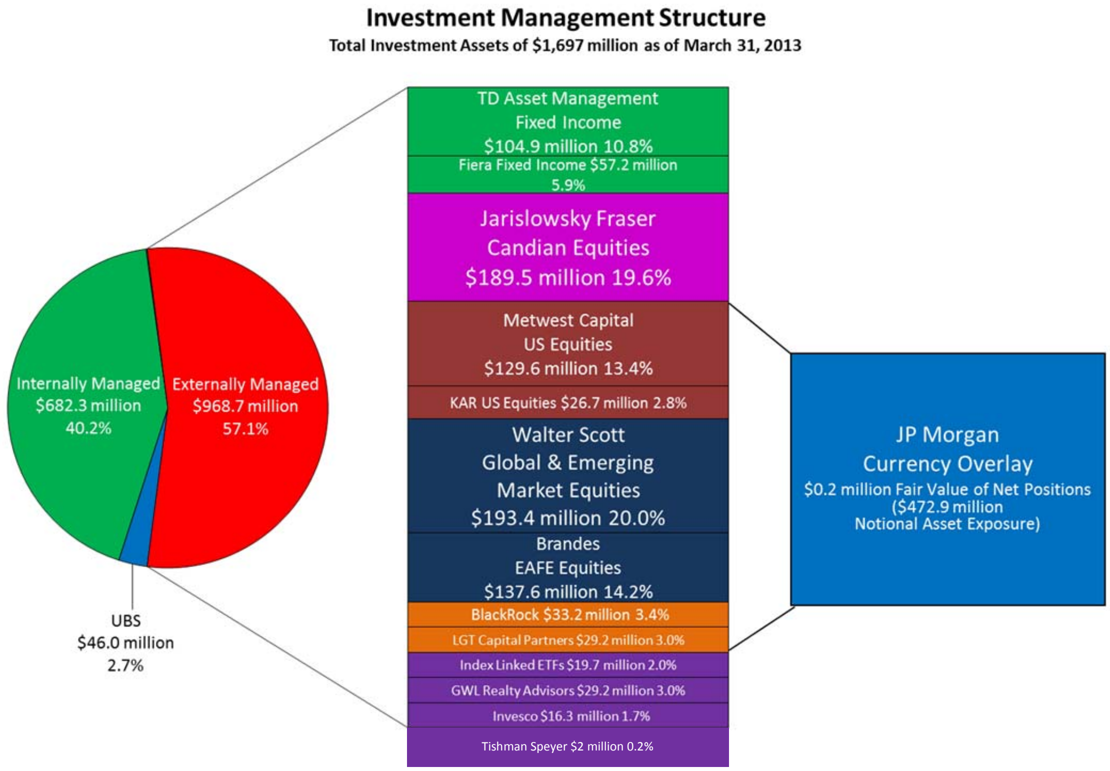
Board of Governors Investment Committee (established October 1997)
Investment Committee Membership for the period June 2012 to June 2013:

Bob Kamp, Chair (external member)
Jim Drinkwater, Vice-Chair (external member)
Ken Bancroft (external member)
Barbara Belch (external member)
Dave Lawson (external member)
Allister McPherson (external member)
Sandy McPherson (external member)
Jerry Naqvi (Board member)
Douglas Goss (ex-officio)
Linda Hughes/Ralph Young (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

Appendix 1 - Investment Manager Structure



BlackRock & LGT are Absolute Return. Great West Life, Invesco, 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, 2013

Asset Class	Investment Manager	Endowed Assets	Non-endowed Assets	Total Assets under Management
Canadian Equity	Jarislowsky Fraser	173	17	$190
Canadian Equity	Index Linked ETFs - iShares S&P/TSX 60	10	1	$11
Fixed Income Passive	TD Asset Management	96	9	105
Fixed Income Active	Fiera	52	5	57
US Equity	Metropolitan West Capital Management	118	12	130
US Equity	Kayne Anderson Rudnick Investment Mgmt	25	2	27
Non-North American	Brandes Investment Partners	125	12	137
Global Equity	Walter Scott & Partners Limited	158	15	173
Emerging Markets Equity	Walter Scott & Partners Limited	19	2	21
Absolute Return	BlackRock Alternative Advisors	30	3	33
Absolute Return	LGT Capital Partners	26	3	29
Real Estate	Index Linked ETFs - Vanguard REIT	8	1	9
Real Estate	Great West Life Realty Advisors	26	3	29
Real Estate	Invesco	15	1	16
Real Estate	Tishman Speyer	2	0	2
Active Currency Overlay	JP Morgan Asset Management ($423 notional)	0	0	0
		$883	$86	$969
Money Market	UBS Global Asset Management	$0	$46	$46
Money Market	Internally Managed	$0	$556	$556
Fixed Income	Internally Managed	$3	$3	$6
ABCP	Internally Managed	$0	$102	$102
Various	Internally Managed	-$6	$24	$18
		-$3	$685	$682
		$880	$817	$1,697

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. Investment management strategies have added 1.7% annualized value since inception. In dollar terms the cumulative added value is approximately $154 million.

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