



**INVESTMENT COMMITTEE ANNUAL REPORT TO
THE BOARD OF GOVERNORS**

For the Year Ended March 31, 2014

UNIVERSITY OF ALBERTA

INVESTMENT COMMITTEE REPORT TO THE BOARD OF GOVERNORS

For the Year Ended March 31, 2014

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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 \$1,883 million as of March 31, 2014 (2013 - \$1,697 million). They are separated into Endowment Funds and Non-Endowed Funds, as summarized in Exhibit 1.

With very few exceptions, Endowment Funds are pooled together and invested collectively in the Unitized Endowment Pool or UEP. The investment objective of the UEP is to achieve a long-term rate of return that in real terms shall equal or exceed the rate of spending established in the UEP spending policy 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 provide liquidity and preservation of capital.

Endowment Funds - Highlights

- Non-Canadian 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 was flat over the year, but real estate had a positive year. The University's endowment fund returned 15.4% during the year.

- The market value of the endowments increased to \$994 million, an increase of \$114 million from \$880 million as at March 31, 2013.

- The real value of the endowments increased by 9.2%. This increase was comprised of a

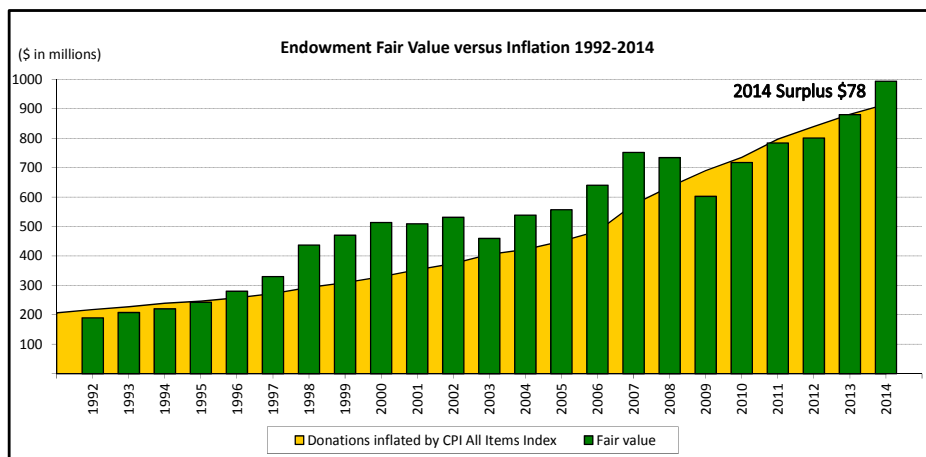
change in market value of 15.4% on the investment assets less total expenditures of 4.7% and inflation of 1.5%. As shown in Exhibit 2, the market value of the endowment assets now exceeds the inflation adjusted contributions by \$78 million (2013: -\$1 million), after falling short of its inflation tracking target for five years.

Exhibit 1

	2014	2013
Non-Endowed Funds	Millions	
Short-term	\$ 567	\$ 602
Mid-term	17	3
Long-term	190	110
ABCP*	115	102
	<u>889</u>	<u>817</u>
Endowment Funds	<u>994</u>	<u>880</u>
	<u>\$ 1,883</u>	<u>\$ 1,697</u>

*Asset Backed Commercial Paper

Exhibit 2



- Revisions to the University Funds Investment Policy were approved by the Board of Governors resulting in a reclassification of assets and changes to asset allocation targets.
- Several regional public equity investment mandates were transitioned to new global investment managers.
- Due diligence reviews related to the initial allocation to two private equity investments were completed.
- The fund's benchmark returned 17.0%, indicating an underperformance of 1.6% on a one year basis. On a ten year basis the fund has outperformed its benchmark by an annualized rate of 0.2%.
- The spending allocation, while based on a rate of 3.90%, 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 2012/13, the spending allocation of \$32.5 million was not indexed for inflation in the 2014 fiscal year.

Non-Endowed Investment Pool (NEIP) - Highlights

- The NEIP, comprised of three distinct strategies (short, mid and long-term), recorded an overall return of 6.0% for the year (2013: 3.5%).
- 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 \$33 million to \$14 million due primarily to the passage of time, increased liquidity, 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.
- Reviews and approves investment manager mandates.
- 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. 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.

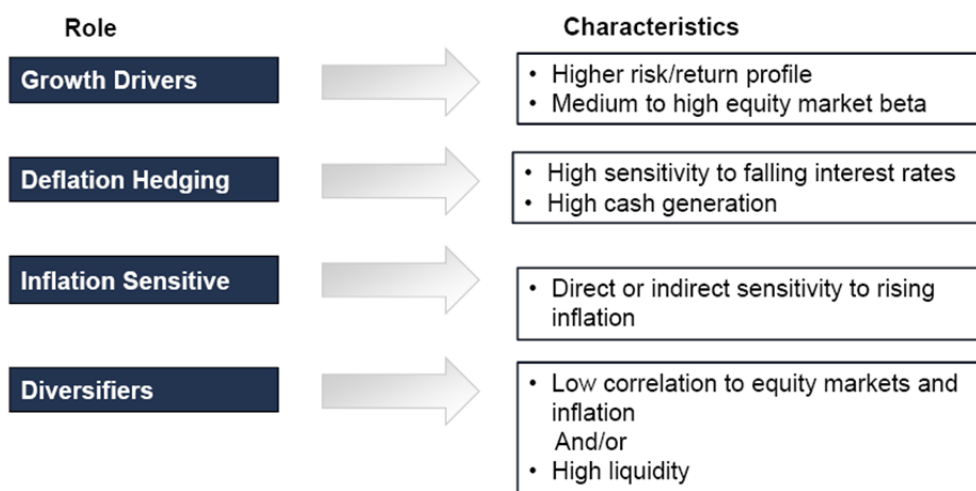
The Investment Committee monitors compliance with the approved investment policy, investment manager mandates, and related legal aspects on a regular basis. The allocation to global equities exceeds its policy maximum by 9.0% for reasons associated with the transition to the new investment policy. The restructured ABCP holdings are not in compliance with the investment policy, however when the original investments were made in 2007, they were in compliance. 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 maximize the value of the University's holdings.

Major Initiatives during the Year

Reclassification of Investment Strategies

The University Funds Investment Policy approved by the Board of Governors in June 2013 reclassified asset classes based on their strategic role in the portfolio and changed the overall asset allocation. The new classifications that were developed with the consulting firm Cambridge Associates are: Growth, Deflation Hedging, Inflation Sensitive and Diversifiers. Their roles are explained in the figure below:

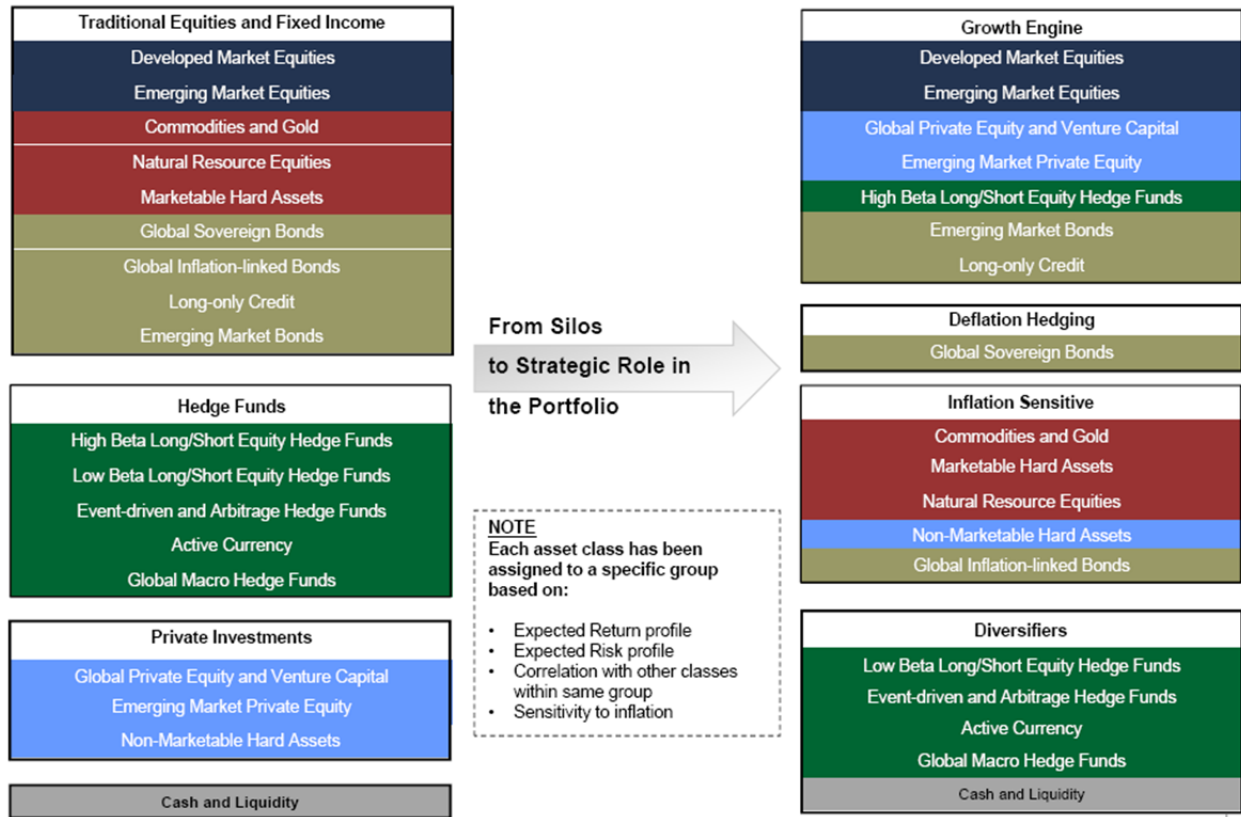
Exhibit 3



The reclassification brings a new perspective to asset allocation and diversification. Over the long-term, Growth investment strategies are expected to increase the value of the UEP, but can be volatile over shorter periods. Deflation Hedging assets are expected to increase or maintain their value in times of an economic crisis that is characterized by declining interest rates and a flight to safety. In such circumstances this category serves as a reserve that can be drawn upon to support endowment spending. The Inflation Sensitive component of the portfolio contains investment strategies that are expected to react positively to inflation on either an immediate or lagged basis. Protection against unexpected or systemic inflation is important since endowment spending is indexed by the rate of inflation. Diversifiers consist of investment strategies that are expected to have a return pattern with low correlation to capital markets.

Examples of how individual investment strategies map from traditional to the new classifications are shown below:

Exhibit 4



Revised Asset Allocation

In addition to a reclassification of investment strategies, the Investment Policy was changed to include a new asset allocation policy. The new asset mix and target portfolio are designed to:

- Increase the expected real rate of return while maintaining the present level of risk and volatility
- Increase the level of diversification in the investment program for the UEP
- Increase the inflation sensitivity of the UEP
- Maintain the current allocation to Canadian fixed income
- Retain a meaningful allocation to Canadian equity
- Minimize the allocation to illiquid investment strategies
- Optimize the number of investment mandates

Exhibit 5

Investment Strategies	UEP Portfolio (Mar 31 2013)	UEP Portfolio (Mar 31 2014)	Target UEP Portfolio
U.S. Equity	15.4%	0.0%	0.0%
Canada Equity	20.2%	20.2%	13.0%
Global Equity	30.9%	44.0%	30.0%
Emerging Market Equity	2.1%	4.5%	10.0%
Private Equity	0.0%	0.0%	6.0%
Canada (Government) Bonds	15.8%	13.5%	16.0%
Natural Resource Equity	0.0%	1.7%	5.0%
Commodities	0.0%	0.0%	5.0%
Real Estate	6.3%	6.0%	5.0%
Oil & Gas	0.0%	1.0%	5.0%
Absolute Return (Low Beta)	6.4%	5.6%	5.0%
Cash	3.0%	3.6%	0.0%
	100.0%	100.0%	100.0%
Expected Real Return	5.9%	6.1%	6.5%
Expected Standard Deviation	11.9%	12.3%	11.7%
Expected Sharpe Ratio	0.41	0.41	0.47
Growth Engine	69%	69%	59%
Deflation Hedging	16%	14%	16%
Inflation Sensitive	6%	9%	20%
Diversifiers	9%	9%	5%

At the target asset allocation, the Growth category will be reduced by 10%. Regional equity mandates, with the exception of Canadian equity, were recently transitioned to ones that are global in scope. For diversification and return enhancement purposes, the allocation to Emerging Markets and Private Equity will increase.

The Inflation Sensitive category will receive an 11% increase to its component investment strategies. While the UEP portfolio has an allocation to real estate, there were no dedicated investment strategies designed to combat unexpected or sustained inflation. The revised UEP portfolio adds natural resource equity, commodities and oil and gas investment strategies to the asset mix to improve sensitivity to inflation.

While inflation is likely not a major risk for the UEP over the short to medium term given the current level of excess capacity in most developed economies, the unprecedented amounts of monetary stimulus that have been created by most of the major central banks may be inflationary over the long-term.

The Deflation Hedging category consists of high quality sovereign bonds. During an economic crisis sovereign bonds are expected to remain liquid and either maintain or increase in value. Since the current allocation is to the broad Canadian fixed income market, exposure to corporate and provincial bonds will be eliminated.

Diversifiers primarily consist of hedge fund strategies that are not dependent on equity beta for returns as well as cash.

Transition

The Board Investment Committee receives quarterly updates from Management on the status of the transition to the new asset allocation, which is projected to be completed by March 31, 2016.

During the year, Management replaced three US and international public equity investment managers with four that have a global focus. The two new global large cap investment managers retained were selected to complement a pre-existing manager with a global investment mandate. Two global small cap equity investment managers were retained to increase diversification and replace a US small cap equity manager. This transition involved \$364.7 million in stocks and cash, representing over 1/3 of the total UEP portfolio.

During the year substantial progress was made on the private equity program for the UEP. Management completed due diligence on two secondaries fund of funds in late March 2014. Subsequent to fiscal year end, \$15 million in capital was committed to these two funds. Committed capital will be called as investment opportunities are identified by the investment managers.

New Mandates

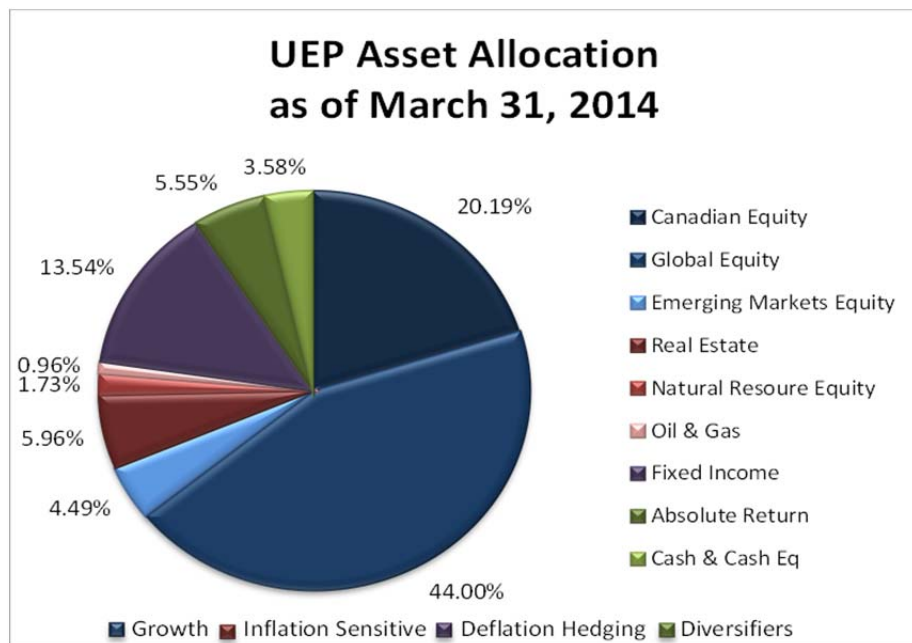
In addition to the move to global equity managers, an initial allocation to the natural resource equity and oil and gas portions of the Inflation Sensitive category of the portfolio was incorporated into the aforementioned equity transition. During the year three appropriate exchange traded funds (ETFs) were identified and purchased to commence building market exposure to these investment strategies. Over the next two years additional capital will be allocated to these ETFs while active and private investment opportunities for these strategies are investigated.

During the year the Board Investment Committee approved an internally managed mandate to replicate the FTSE TMX Federal Bond Index, under the Deflation Hedging category. This will leverage the internal resources presently in place to manage the short-term and mid-term components of the Non-Endowed Investment Pool and result in cost savings. It is anticipated that this mandate will be implemented early in the 2014/15 fiscal year.

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, global and emerging market equities, Canadian government and corporate bonds, real estate, alternative investment funds, and money market instruments.

Exhibit 6



Investment Policy & Risk

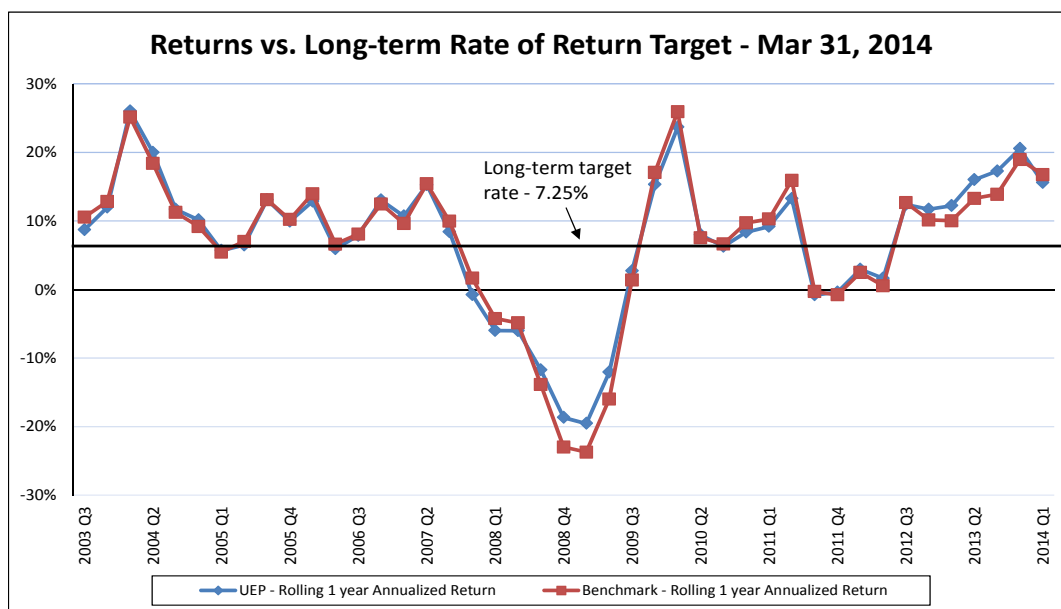
The primary investment objective is to achieve a long-term real rate of return that equals or exceeds total expenditures. The Investment Committee has implemented a number of strategies both to meet the UEP return objectives and also to control risk through the establishment of a target allocation portfolio that separates the assets in the portfolio into their respective roles: Growth, Inflation Sensitive, Deflation Hedging, and Diversifiers:

- In order to meet the spending targets and grow the value of the assets over time, a large allocation to public and private equity as well as hedge funds and other assets with exposure to equity market returns is necessary.

- Inflation sensitive assets are those that adjust to unexpected and/or rising inflation. The assets in this category include real estate, natural resource equities, commodities as well as exposure to energy (oil and gas) equity.
- Deflation sensitive assets are those that increase in value during times of extreme economic and capital market turmoil. This asset class consists of high-quality sovereign bonds.
- Diversifiers are any asset classes that have low or no correlation with the capital markets.

Asset allocation is regularly reviewed for appropriateness and for its ability to achieve the primary investment objective over the long-term. Exhibit 7 illustrates the UEP's historical performance relative to that objective.

Exhibit 7



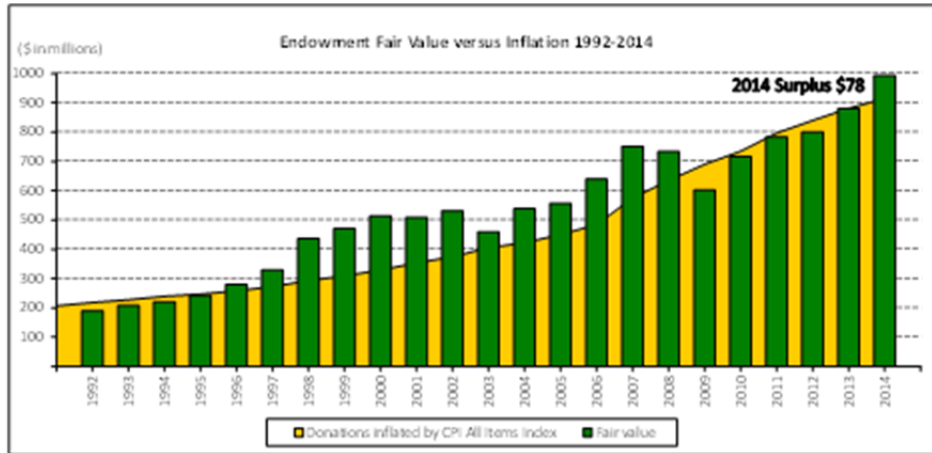
Investment Performance Relative to Objectives

The UEP returned 15.4% for the year ending March 31, 2014, surpassing total spending plus CPI of 6.2% by a healthy margin. The return of 15.4% reflects:

- strong global equity performance, and,
- an Investment Policy which strongly favours equities.

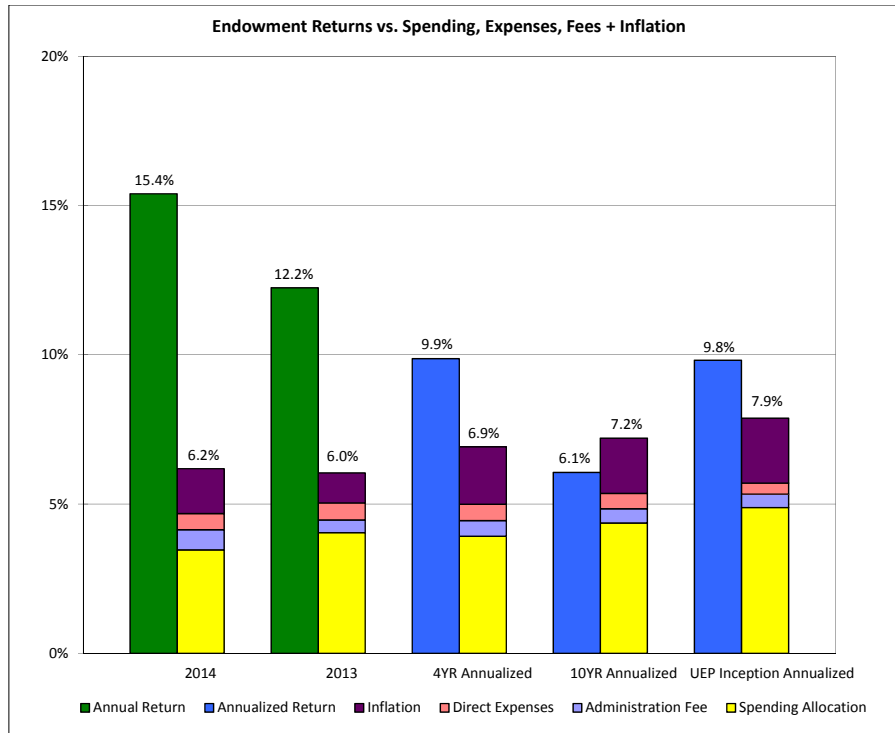
The market value of the endowments increased to \$994 million, up \$114 million from \$880 million as of the end of fiscal 2013. This increase is comprised of \$137.4 million in earnings, \$20.5 million in new contributions, less \$32.5 million spending allocation, \$6.3 million administrative

Exhibit 8



assessment, and \$5.1 million for investment management costs. During the year, the real value of the endowments increased by 9.2%. This increase was due to the aforementioned gain in market value of 15.4% on the investment assets less total expenditures of 4.7% and inflation of 1.5%. The value of the endowment fund rose above the inflation adjusted contributions by \$78 million at March 31, 2014.

Exhibit 9



As shown in Exhibit 9, the UEP has, since its April 1989 inception, produced an annualized return of 9.8%. This return has exceeded the annualized total spending plus inflation of 7.9% over that time period. This objective has been achieved over all time frames in the graph above with the exception of the 10 year annualized period.

Measuring Performance of Asset Classes Relative to Market Movements

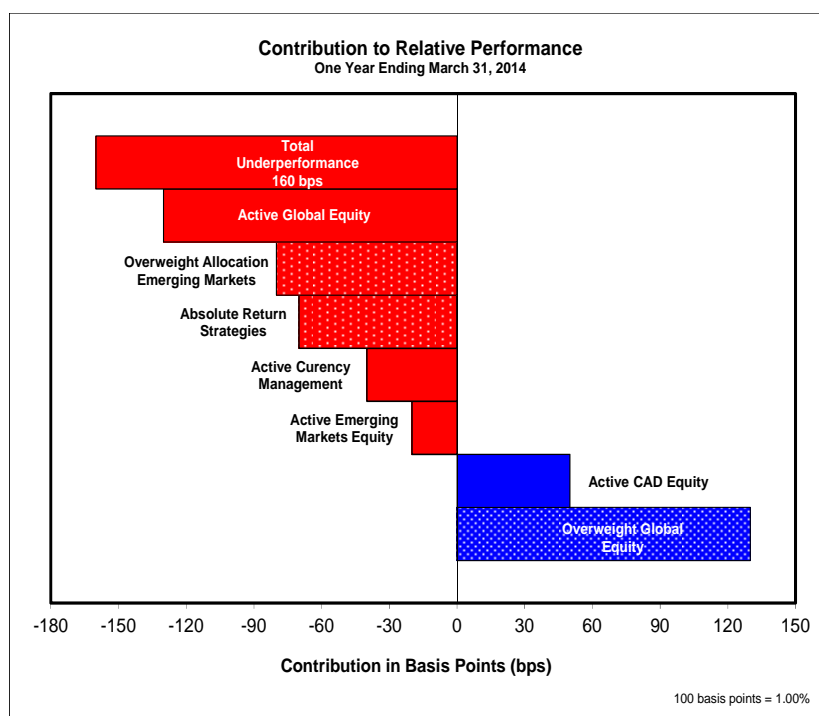
The returns of individual asset classes in the UEP are measured against established market index benchmarks. The total fund return is measured against the weighted return of the current asset mix benchmark as shown in Exhibit 10. The difference between the endowment's return and the benchmark return 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 10

UEP Investment Policy Benchmark

FTSE/TMX Canada Universe Bond Index	20%
S&P/TSX Composite Index	20%
MSCI World Ex-Canada Index (CAD)	23%
MSCI World Ex-Canada Index (Local)	23%
HFRI Fund of Funds Composite Index	8%
IPD/Realpac Canada Property Index	6%
	<u>100%</u>

Exhibit 11



With its 15.4% return, the fund underperformed its benchmark by 1.6% or 160 basis points. There were several reasons for this underperformance. First, active investment managers in aggregate underperformed their benchmarks contributing 170 basis points to total underperformance. This was partially offset by a positive contribution of 130 basis points from a higher than benchmark allocation to developed foreign equities. A small off benchmark allocation to the poorly performing emerging markets detracted 80 basis points. Lastly, the active currency manager also detracted 40 basis points from performance for the year. See Exhibit 11 for attribution analysis.

Canadian equities gained 18.3% for the year, outperforming the S&P/TSX Composite Index benchmark by 2.3%. This was a third quartile ranking in the BNY Mellon Canadian Master Trust Universe of peer Canadian large cap investment managers. A key reason for the outperformance was a sustained large underweight to the poorly performing Materials sector during the year. This underweight position accounted for 4.3% of the outperformance, offsetting underperformance from stock selection.

US equities returned 35.2%, outperforming the S&P 500 by 2.8%. This combined return from three individual managers was a solid second quartile performance for participants in the Canadian Master Trust Universe.

International equity returned 22.8%, underperforming the MSCI EAFE by 5.5%. This combined return from two individual managers was a fourth quartile performance for participants in the Canadian Master Trust Universe.

In aggregate, global equity (international plus US equities) underperformed the MSCI World benchmark for the fiscal year, returning 27.9% or 2.3% under the benchmark. This was third quartile performance. Traditionally most of the active returns for this investment strategy have come via stock selection but this year stock selection was a major detractor to returns. In aggregate the active investment strategies were more conservatively positioned than the broader market.

Canadian fixed income came in with a return of 0.74%, 10 basis points below the benchmark FTSE TMX Canada Bond Universe Index (formerly the DEX Bond Universe Index) return of 0.84%. This represents median ranking for fixed income portfolios in the Canadian Fixed Income Master Trust Universe. The majority of the fixed income asset class is invested passively: active investment management detracted value of 0.41%. This was due to security selection and duration management in Government of Canada, provincial and corporate bonds, and short-term trading strategies.

Absolute return strategies were overall positive for the year. The hedge fund of funds investment strategy returned 9.5%, while the managed futures fund of funds investment strategy lost -2.9%. These investments are both in Canadian dollar hedged share classes. The hedge fund of funds return was below the Hedge Fund Research Fund of Funds Composite Index return of 15.1% (CAD) but outperformed the US dollar return of 6.5%. The managed futures component underperformed for the year as trend following strategies performed poorly. Managed futures fund of funds underperformed the HFRX Macro / CTA Index of 5.4% (CAD), and equalled the US dollar return of -2.9%.

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 9.7%, which was 3.9% lower than the IPD Realpac Canadian Property Index. Most of the fund holdings are office, apartment, and industrial buildings located in Ontario, Alberta, and BC. The main US real estate investment is in an open-ended core diversified fund. This fund has returned 21.2% to the UEP. 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 5 buildings and has called just under half of committed capital. 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 negative impact on the portfolio this year, taking away 3.1% of the portfolio's return over an un-hedged portfolio return. During the fiscal year most major currencies appreciated in value against the Canadian dollar, including the British pound by 19.3%, the Swiss Franc by 16.5%, and the Euro by 16.6%. The US Dollar gained against the Canadian Dollar by 8.6%.

The strategy's 50% passive hedge benchmark fell 4.3% during the year; while the currency manager lost -5.0%, resulting in an excess return of -0.7%. This underperformance stems primarily from holding short Euro and Swiss Franc positions while these currencies continued to appreciate in value against the Canadian dollar. The Canadian dollar's poor performance reflected weaker domestic economic data and concerns that slower growth in emerging markets would put downward pressure on commodity prices

and the currency. 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 14.0%. 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 36th percentile, down from the 9th percentile ranking in fiscal 2013. This second quartile ranking is generally explained by the endowment fund's lower allocation to fixed income than other funds in a year when fixed income dramatically underperformed equity markets. On a ten-year basis the UEP returned 6.1% versus a CMTU median return of 6.8%.

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, 2012 and June 30, 2013 respectively. This data may make shorter-term comparisons less than informative due to timing. The University's ten year return of 5.6% for the period ending December 31, 2012 trailed the CAUBO 10 year median return of 6.0%, while the 6.1% (CAD) return for the ten year period ending June 30, 2013 trailed the NACUBO 10 year average US dollar return of 7.1%.

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. For the fiscal year ending March 31, 2014, \$32.5 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 \$6.3 million, representing 0.70% of the average market value of the fund.

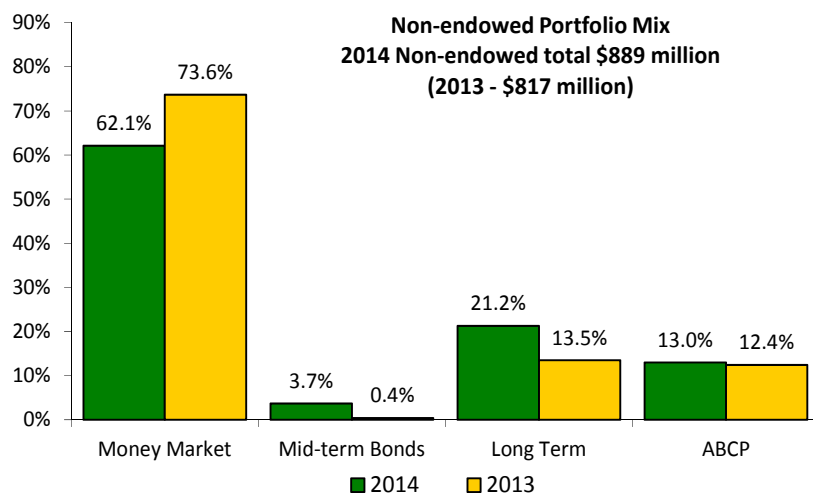
Costs

The fund incurred direct expenses (investment management and custodial fees) of \$5.1 million or 0.60% of the average market value of the fund. As part of a process of monitoring and managing costs, management participated in the 2012 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 7.4 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 over the long-term.

Non-Endowed Funds

Exhibit 12



The Non-endowed Investment Pool (NEIP) represents the University’s operating, capital, and restricted funds. Of this, \$568 million (2013 - \$602 million) is held in money market instruments while the remaining \$321 million (2013 - \$215 million) is invested in long-term notes, bonds and equities (see Exhibit 12). 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.

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 13, the NEIP, comprised of three distinct strategies (short, mid, and long-term), recorded an overall return of 6.0% for the year (2013: 3.5%). The short-term money market investments had a return of 1.3% (2013: 1.2%). This compares favourably with the benchmark FTSE TMX Canada Treasury Bill 91 Day Index return of 1.0% (2013: 1.0%) and is primarily attributable to the portfolio’s longer duration. The return was a second quartile performance in the Master Trust Universe.

Exhibit 13

	Year Ending March 31				Annualized
	2014	2013	2012	2011	4YR
	%	%	%	%	%
Short-term (combined)	1.3	1.2	1.3	0.9	1.2
<i>DEX 91-day index</i>	1.0	1.0	0.9	0.8	0.9
Mid-term bonds (combined)	18.0	10.8	6.3	5.8	10.1
<i>DEX short-term bond index</i>	1.9	2.9	4.4	3.4	3.2
Long-term (UEP)	15.4	12.2	3.0	9.2	9.9
<i>UEP Benchmark</i>	17.0	10.3	2.5	10.3	9.9
Overall Return	6.0	3.5	2.1	2.2	3.4
MTU Median	1.2	1.2	1.2	1.0	1.1

(Median of Canadian Money Market Fixed Income Portfolios)

The mid-term bond portfolio had a return of 18.0% (2013: 10.8%). This outperformed the benchmark FTSE TMX Canada Bond Short-term Index return of 1.9% (2013: 2.9%). 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 15.4% (2013: 12.2%).

Asset Backed Commercial Paper (ABCP)

As of March 31, 2014 the University held restructured notes and ABCP with a fair market value of \$115 million (2013 - \$102 million). Sales and redemptions totaled \$4 million during the year, while the valuation increase of the remaining notes was due primarily to the passage of time, increased liquidity, and improved credit conditions.

While the majority of the remaining notes are investment grade (88% rated above BBB by Dominion Bond Rating Service), the successful implementation of a periodic voluntary unwind auction process and the ongoing financial and regulatory risks surrounding these low yielding notes led the University to consider an exit strategy for these investments.

Subsequent to fiscal year end the University tendered restructured notes with a cost of \$117.6 million for redemption through a voluntary unwind auction process. As at March 31, 2014, these notes had been valued at 92.4% or \$108.7 million. The University was successful in redeeming notes with a cost of \$114.6 at a clearing price of 95.3%. The majority of the redemption proceeds of \$109.2 are expected to be received in cash in late July 2014, subject to the successful sale of the underlying collateral by the liquidation agent, while the remaining \$3.4 million will be returned in the form of indemnity holdback notes that mature in 2016 /2017.

Going Forward

This year's strong investment returns eliminated the gap in value against the cumulative endowment contributions indexed for inflation. Implementation of the University Funds Investment Policy together with the spending policy will continue, over the long-term, to enable the University to re-establish an appropriate surplus and preserve intergenerational equity in endowment spending.

With the oversight of the Investment Committee, management will be undertaking the following initiatives during the 2015 fiscal year:

- Continue to restructure the investment portfolio as contemplated by the new investment policy as outlined on pages 3 to 5 of this report,
- Continue to allocate to inflation sensitive investment strategies such as commodities and natural resources through exchange traded funds and research the appropriateness of active management strategies for these asset classes,
- Conclude the 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 2013 to June 2014:

Bob Kamp, Chair (external member)	Dave Lawson (external member)
Jim Drinkwater, Vice-Chair (external member)	Allister McPherson (external member)
Ken Bancroft (external member)	Sandy McPherson (external member)
Barbara Belch (external member)	Douglas Goss (ex-officio)
John Butler (external member)	Ralph Young (ex-officio)
Jane Halford (Board member)	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), CFA, CAIA - Senior Treasury Analyst

Appendix 1 - Investment Manager Structure

Asset Classes and Investment Managers as of March 31, 2014

<u>Category</u>	<u>Asset Class</u>	<u>Investment Manager</u>	<u>Endowed Assets</u>	<u>Non-endowed Assets</u>	<u>Total Assets under Management</u>
Growth	Global Equity	Walter Scott & Partners Limited	177	28	205
Growth	Global Equity	Causeway Capital	108	17	125
Growth	Global Equity	TD Asset Management	86	14	100
Growth	Global Equity	Hermes	43	7	50
Growth	Global Equity	Mawer	34	6	40
Growth	Canadian Equity	Jarislowsky Fraser	196	31	227
Growth	Canadian Equity	Index Linked ETFs - iShares S&P/TSX 60	10	2	12
Growth	Emerging Markets Equity	Walter Scott & Partners Limited	45	7	52
Inflation-sensitive	US Equity	Index Linked ETFs - SPDR S&P Global Natural Resources	9	1	10
Inflation-sensitive	US Equity	Index Linked ETFs - BMO Junior Gas Index	5	1	6
Inflation-sensitive	US Equity	Index Linked ETFs - BMO Junior Oil Index	4	1	5
Inflation-sensitive	Real Estate	Great West Life Realty Advisors	28	4	32
Inflation-sensitive	Real Estate	Invesco	17	3	20
Inflation-sensitive	Real Estate	Index Linked ETFs - Vanguard REIT	8	1	9
Inflation-sensitive	Real Estate	Tishman Speyer	4	1	5
Deflation-hedging	Fixed Income Passive	TD Asset Management	91	15	106
Deflation-hedging	Fixed Income Active	Fiera	50	8	58
Diversifiers	Absolute Return Strategies	BlackRock Alternative Advisors	31	5	36
Diversifiers	Absolute Return Strategies	LGT Capital Partners	24	4	28
Diversifiers	Cash	Custodied Cash	23	4	27
Diversifiers	Active Currency Overlay	JP Morgan Asset Management (\$582 notional)	-9	-1	-10
			<u>985</u>	<u>158</u>	<u>1,143</u>
	Money Market	Fiera Capital Corp	<u>0</u>	<u>1</u>	<u>1</u>
	Money Market	Internally Managed	0	566	566
	Fixed Income	Internally Managed	3	17	20
	ABCP	Internally Managed	0	115	115
	Various	Internally Managed	6	31	37
			<u>9</u>	<u>730</u>	<u>739</u>
			<u>994</u>	<u>889</u>	<u>1,883</u>

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 1.6% annualized value since inception. In dollar terms the cumulative added value is approximately \$139 million.

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

