UNIVERSITY OF ALBERTA

2024

ANNUAL INVESTMENT REPORT

INVESTMENTS AT A GLANCE

$3.4 BILLION
TOTAL ASSETS

$1.8 BILLION
ENDOWMENT ASSETS

$1.6 BILLION
NON-ENDOWED ASSETS

8.5% 2024 Fiscal Year Return

6.5% 2024 Fiscal Year Return

$62 Million
2024 SPENDING ALLOCATION

$70 Million
2024 OPERATING & STRATEGIC SUPPORT
(approximately $1,700 per student)

8.5% 10 year Annualized Return

3.9% 10 year Annualized Return

$480 MILLION
10 YEAR CUMULATIVE SPENDING ALLOCATION

$413 MILLION
10 YEAR CUMULATIVE SUPPORT

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Letter from the Chair

Investment Committee as of March 31, 2024

Appointed:
Chair: Derek Brodersen, CFA

Vice-Chair: Maria Holowinsky, CFA
Kelly Featherstone, CFA
Kevin McDowell, CFA
Jai Parihar, CFA
Peter Pontikes, CFA
Rakesh Saraf, CFA

Ex-Officio:
Kate Chisholm, K.C.
Bill Flanagan
Peggy Garritty

On behalf of the University of Alberta Investment Committee, I am proud to present the 2024 Annual Investment Report. The University's investment assets totaled $3.4 billion as of March 31, 2024, of which $1.8 billion represented endowment capital. Over the year, endowment support for scholarships, faculty, and research reached a record $62 million, roughly $1.2 million per week.

The University Endowment Pool (UEP) returned 8.5% for the year as global equity markets were robust while fixed income remained challenged. Over the past decade, the UEP has exceeded its long-term target of 7.25% with an 8.5% annualized return. Since the UEP's inception 35 years ago, performance has been strong with a 9.4% annualized return, well ahead of the 7.7% historical rate of spending plus inflation. As a result, the UEP has been able to generate compound growth in principal while simultaneously providing annual spending support. This impressive long-term record of accomplishment has resulted in investment assets reaching another all-time record high, enabling increased funding support across campus. The Non-Endowed Investment Pool (NEIP) returned 6.5%, bouncing back nicely after soft performance last year. As a result, the portfolio, under the care of Investments & Treasury, was able to provide continued strong annual financial support to the University.

The past year proved unique for a variety of reasons. Many market participants were surprised at the level of resilience exhibited by economies around the world, namely the United States. The recession many called for at the start of last year failed to materialize, as tight labour markets globally coupled with moderating inflation have, thus far, resulted in the elusive 'soft landing'. Amidst this backdrop of full employment and sticky inflation, interest rates have remained at elevated levels with various implications for different asset classes: public equities, hedge funds, and cash performed well while private equity, real estate, and fixed income were more challenged.

A key theme over the past year was a heightened level of global geopolitical conflict. As a result, the 30-year plus peace dividend has come to an abrupt end as governments are now forced to rethink their approach to national security. With multiple wars currently ongoing and global alliances being redrawn, the implications for geopolitics and financial markets are more important than they have been for many decades.

The UEP benefitted from allocations to Growth and Diversifying strategies this past year, while Inflation Sensitive and Deflation Hedging strategies were relative detractors in absolute terms. In contrast, the NEIP saw positive contribution from all three strategies: Liquidity, Yield, and Return Seeking. The Investment Committee continued to oversee Management's implementation of the UEP and NEIP's respective investment programs, and also completed its annual review of all policy documents with minimal revisions.

I would like to thank members of the Investment Committee and Management for their continued hard work and dedication in support of the University and its stakeholders. The Investment Committee especially wishes Phil Poon, the former Treasurer, a long and happy retirement after his 36 years of service to the University.

Derek Brodersen, CFA
Chair, Board Investment Committee

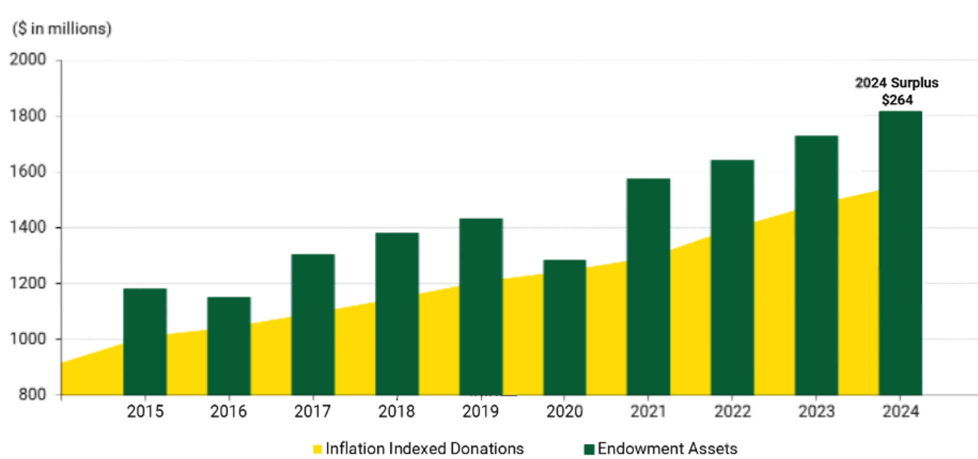
2024 Highlights

Endowment Assets

With few exceptions, endowment assets are pooled and invested collectively in the University Endowment Pool (UEP). Endowment assets represent permanently restricted capital, and annually only a portion of the earnings can be allocated for their specified purpose. The investment objective of the UEP is to achieve a long-term rate of return that in real terms (i.e. adjusted for inflation) meets or exceeds total endowment spending, as outlined in the UEP Spending Policy. By meeting this objective, the University is able to preserve intergenerational equity for students and researchers, ensuring a comparable level of support between current beneficiaries and future generations.

- The market value of endowment assets ended the 2024 fiscal year at $1.8 billion, up $87 million from 2023. A total of $62 million was made available for support of academic programs, faculty, research, and scholarships, an increase of $2 million from last year.
- The UEP returned 8.5% during the year as Growth, Deflation Hedging, and Diversifying strategies all generated positive performance. Inflation Sensitive strategies were soft after several consecutive years of robust gains following the post-pandemic inflation spike. Over the past ten years, the UEP's annualized return was also 8.5%, well above the long-term objective of 7.25%. Since inception in 1989, the UEP has generated an annualized return of 9.4%.
- The real value of the endowments increased by 0.9%, as the 8.5% return exceeded total spending plus inflation of 7.6%. In dollar terms after adjusting for inflows and considering timing differences, the value of the endowments over their cumulative inflation adjusted target ticked up slightly to 17% or $264 million as shown in Exhibit 1. The current surplus is required to protect capital from future market volatility, similar to what was experienced in 2020, and allow for stable spending support.

Exhibit 1: Endowment Assets vs. Inflation Indexed Donations

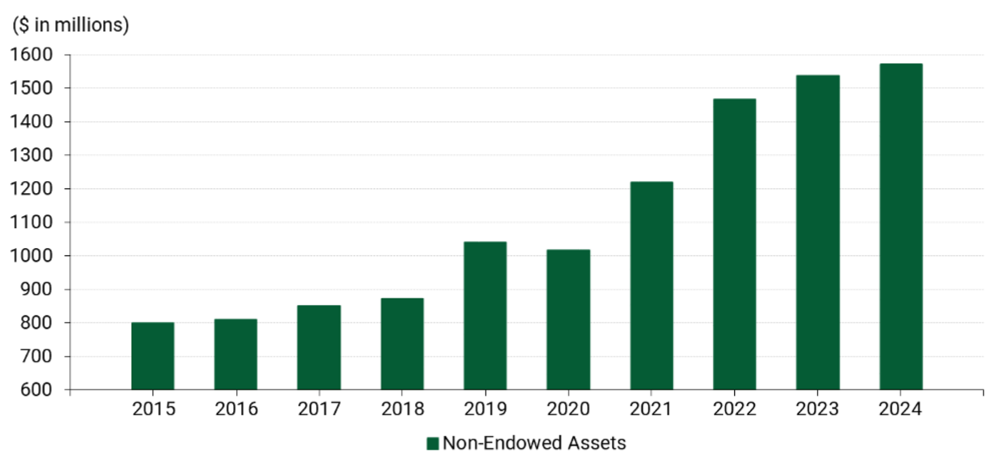


Non-Endowed Assets

The Non-Endowed Investment Pool (NEIP) consists primarily of expendable operating and research funds. Its time horizon is shorter-term in nature and it has a commensurately lower risk profile. Like the UEP, these assets are pooled together for investment purposes until required. Investment earnings derived from this program directly support the University's annual operating budget and future strategic initiatives.

- The market value of non-endowed assets ended the 2024 fiscal year at $1.6 billion as outlined in Exhibit 2, up $35 million from 2023.
- The NEIP returned 6.5% for the year with positive contribution from all three strategies: Liquidity, Yield, and Return Seeking. Over the past ten years, the NEIP's annualized return was 3.9%.
- A total of $30 million of income was made available for operating budget support, and $39 million was transferred to the investment income reserve, bringing its balance combined with that of the Strategic Initiatives Fund to a total of $132 million.
- The value of the NEIP's Yield and Return Seeking strategies exceeded their cost and underlying obligations by $328 million or 35% as of March 31, 2024. This includes both realized and unrealized earnings and fully meets the policy targets established for risk management purposes.

Exhibit 2: Non-Endowed Assets



Endowment Assets

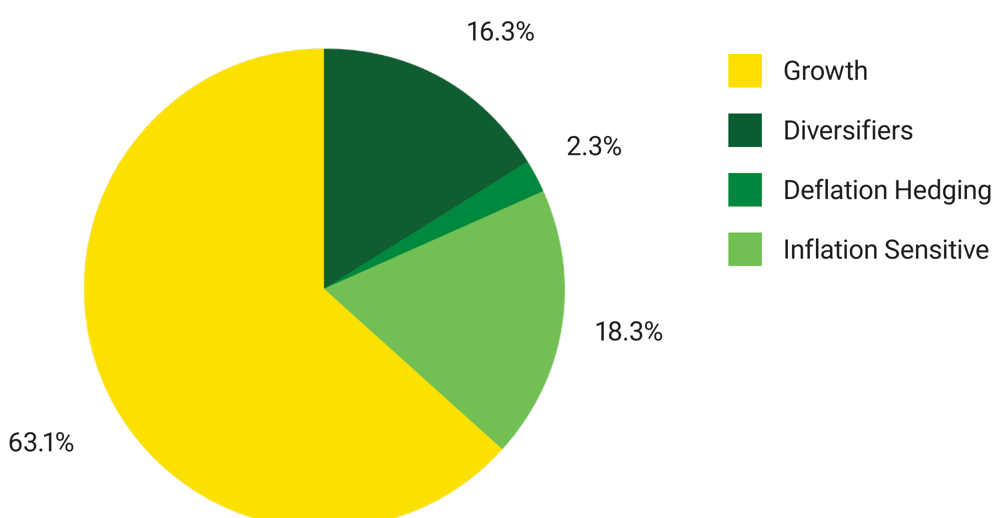
The primary investment objective for the UEP is to achieve a long-term real rate of return that equals or exceeds total endowment spending and inflation.

Emphasis is placed on preserving intergenerational equity to ensure all beneficiaries, current and future, receive comparable levels of support. Assets are classified based on the strategic role they perform within the portfolio, specifically: Growth, Inflation Sensitive, Deflation Hedging, and Diversifiers.

- To meet spending targets and grow the value of the assets over time, a large allocation to growth assets such as public and private equities is necessary.
- Inflation sensitive assets are those that respond favourably to unexpected and/or rising inflation. The assets in this category include real estate, infrastructure, natural resource equities, energy and renewables, mining, and commodities.
- Deflation hedging assets are expected to remain liquid and maintain their value during times of extreme economic and capital market turmoil. This strategy consists of high-quality sovereign bonds.
- Diversifiers are investment strategies that have low or no expected correlation with the capital markets or inflation and include hedge funds and cash.

Endowment assets are summarized by Strategic Role in Exhibit 3.

Exhibit 3: UEP Asset Allocation by Strategic Role as of March 31, 2024

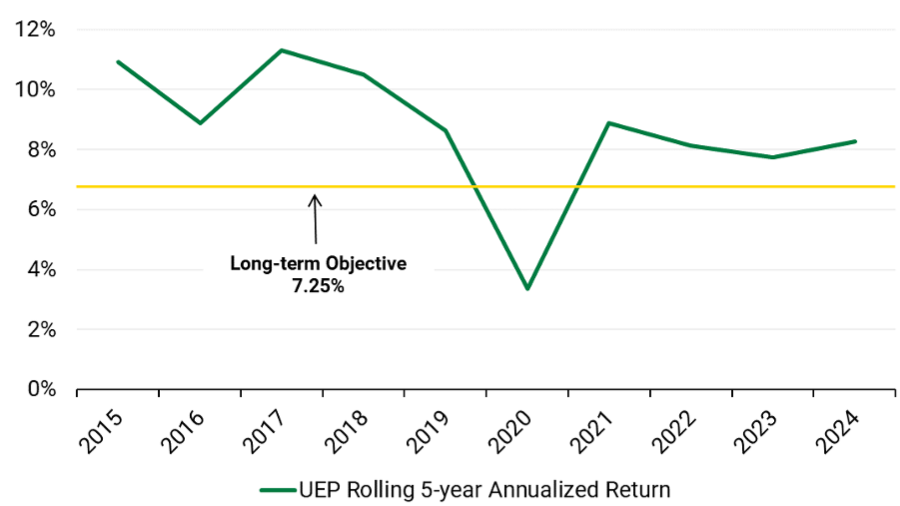


Investment Performance Relative to Long-Term Objectives

The UEP's annualized return over the past five and ten years was 8.3% and 8.5% respectively, well ahead of the 7.25% objective. Since inception in 1989, the UEP has produced an annualized return of 9.4%. The ten year and since inception annualized excess return above spending and inflation as of March 31, 2024 were 1.4% and 1.7% respectively. This indicates that the UEP's investment program has been able to grow endowment principal in real terms over its history.

The UEP remains invested for the long-term with the expectation of providing a return in excess of spending and inflation in some years to compensate for years when this is not the case. Exhibit 4 illustrates the UEP's historical performance relative to the return objective of 7.25%.

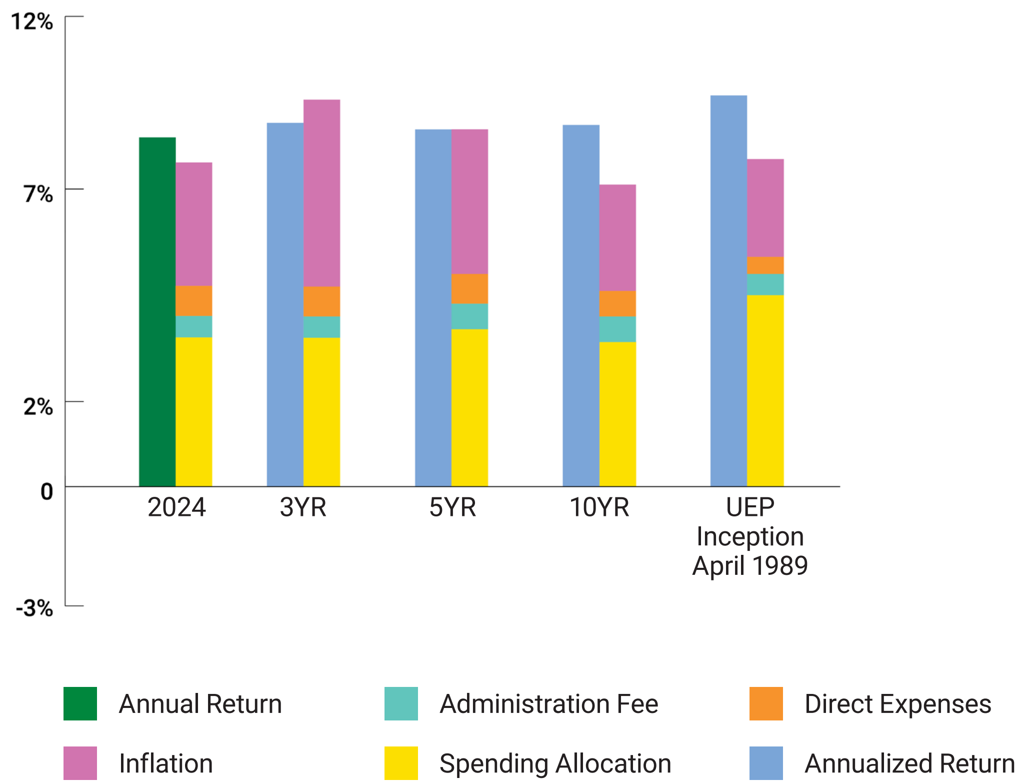
Exhibit 4: Historical Performance vs. Long-term Objective



Investment Performance Relative to Long-Term Objectives *cont'd*

As shown in Exhibit 5, since inception the UEP has exceeded annualized endowment spending plus inflation of 7.7% by 1.7%. Performance has also either met or exceeded spending plus inflation over the past five and ten year periods. The only period where performance fell short of this objective was the past three years, when inflation surged to levels not seen in half a century following the pandemic. The UEP remains in a position to allow for stable support for students, researchers, and the University during this highly uncertain environment.

Exhibit 5: Endowment Returns vs. Spending, Expenses, Fees + Inflation



2024 Investment Performance

Management measures the performance of all underlying strategies against relevant benchmarks while the Total Fund is compared to the benchmark outlined in Exhibit 6. Deviations in performance between the UEP and its benchmark reflect the impact of Management's allocation decisions and value added or detracted by external investment partners.

Exhibit 6: UEP Investment Policy Benchmark

UEP Investment Policy	Benchmark
MSCI ACWI IMI	50%
MSCI ACWI IMI + 3% (3 month lag)	10%
IPD/Realpac Global Property Index	10%
S&P Global Natural Resources Index	10%
FTSE Canada Federal Bond Index	5%
SOFR + 6%	15%
Total	**100%**

The UEP returned 8.5% over the past year, which trailed the benchmark return of 15.1%. Growth strategies led the way as public equities performed strongly, with developed markets outperforming emerging markets and larger companies generally leading their smaller peers. Interestingly, both Inflation Sensitive and Deflation Hedging strategies were challenged, as inflation moderated while interest rates rose. Diversifying strategies performed well in an environment of higher interest rates, increased volatility, and select market trends, creating opportunities across a variety of strategies. Lastly, for the first time in many years cash and T-bills were attractive assets particularly compared to fixed income, and contributed positively to overall performance. Performance details about each of the UEP's Strategic Roles for the year are provided below.

Growth

Growth assets generated an 11.5% return for the year principally due to gains in public equity, while private markets were a mild detractor. The public equity program posted a return of 15.2%, which underperformed the MSCI ACWI IMI return of 22.4%. After lagging global peers in 2023, the United States dominated global equity performance. Returns were concentrated in several large-cap information technology stocks related to artificial intelligence (AI). Amidst this US exceptionalism, emerging markets (specifically China) struggled, and smaller companies lagged their larger peers. From a factor perspective, select value investment strategies outperformed while low volatility underperformed. At various points throughout the year, management redeemed capital from Canadian and global strategies for liquidity purposes. The portfolio remains tilted towards smaller companies and is more globally diversified than the benchmark resulting in a material underweight to US equities relative to the benchmark.

Over the past year the private markets program posted a -3.7% return after several consecutive positive years. The main reason for softer performance this year was due to valuation adjustments put through by select venture capital funds. Management also made one new fund commitment to venture capital during the year, which will call capital over the next several years.

Inflation Sensitive

Inflation Sensitive assets posted a return of -0.9% over the year with divergent performance from the underlying allocations. The real estate & infrastructure program generated a -4.2% return as core real estate strategies were challenged, particularly in the US, which experienced valuation write downs throughout the year. Value-add strategies were mixed while infrastructure performed well. The allocation to real estate & infrastructure remains underweight reflecting Management's continued cautious stance relative to other available opportunities.

In contrast, the real assets program offset most of this poor performance with a 1.0% return, and remained overweight all year. Gains were broad based across natural resource public equities and energy and renewables private equity, with directional commodity futures the only soft spot. Management closed on four new fund commitments – three in energy and renewables and one in real assets during the year. Over the coming years Management will continue to opportunistically redeploy capital with a focus on enhancing diversification across real assets.

Deflation Hedging

The internally managed Deflation Hedging strategy produced a return of 1.8% for the year, outpacing the benchmark FTSE Canada Federal Bond Index return of 0.8%. This was the fourth consecutive year of outperformance as Management continues to implement the strategy with a defensive bias. A small amount of capital was allocated to the strategy halfway through the year as yields began to look more attractive relative to other available opportunities. While the yield curve remained heavily inverted at the end of the 2024 fiscal year, Management expects to selectively add further capital to the strategy over the coming year to close the underweight allocation.

Diversifiers

In aggregate, Diversifiers were the second best performing strategy this year with an 8.9% return. While performance was strong, it lagged the benchmark return of 11.7%. The UEP's diversified hedge fund program was up 10% over the past year and benefited again from a high allocation to trend following and global macro managers. Heightened volatility across markets persisted, creating many opportunities for relative value strategies across equities, fixed income, and volatility. Lastly, insurance linked securities posted their best performance in many years, mainly due to higher interest rates and fewer loss events. The portfolio maintained a higher allocation to cash for most of the year given its relative attractiveness, generating a return of 2.4%. Management expects to opportunistically shift the cash allocation into the Deflation Hedging strategy's fixed income over the coming year.

Investment Performance Relative to Endowment Peers

The University of Alberta participates in annual benchmark studies sponsored by the Canadian Association of University Business Officers (CAUBO) and the National Association of College and University Business Officers (NACUBO). Together these studies summarize the asset allocation, endowment spending policies and results of over 700 endowments. This information is primarily used to help guide Management's research and investment strategy development. Given the different reporting periods, currencies, and asset allocation, return comparisons are less meaningful. The University of Alberta's endowment performance ranks above average across most longer time frames, when compared against the largest Canadian endowments as reported in the most recent CAUBO University Investment Survey.

Investment Program Costs

Investment management fees of $12.6 million or 0.7% were paid by the endowments during the year. An administrative fee to support centrally funded indirect costs associated with endowment programs is charged to the endowments. For 2024, this amounted to $8.5 million or 0.5%.

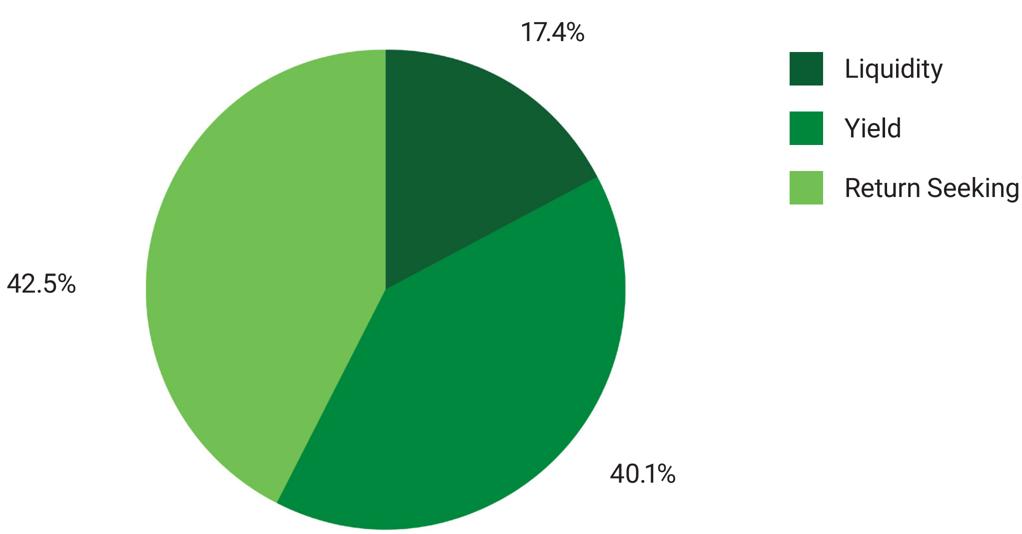
Non-Endowed Assets

The Non-Endowed Investment Pool (NEIP) represents the University's operating, capital, and restricted funds, which are pooled together for investment purposes.

Cash flow analysis indicates a substantial portion of the investment pool will not be needed to be spent in the next fiscal year. Accordingly, the NEIP can generate additional income by investing in three distinct strategies, with varying maturity profiles, as summarized in Exhibit 7.

- To meet the university's cash flow requirements, the Liquidity strategy focuses primarily on the preservation of capital and invests in money market securities maturing within one year.
- To generate additional returns above Liquidity assets, the Yield strategy is diversified across global fixed income, preferred shares, private credit, commercial mortgages, and absolute return strategies. The investments within the Yield generally have a five to ten year investment horizon.
- To further enhance long-term returns, the Return Seeking strategy accesses global public and private markets by investing in the UEP.

Exhibit 7: NEIP Asset Allocation by Strategic Role as of March 31, 2024



2024 Investment Performance

The NEIP returned 6.5% for the year, which trailed the benchmark return of 9.4%. All three strategies had positive returns, led by Return Seeking and followed by Yield and Liquidity. Further commentary on each of the NEIP's strategic roles is provided below.

Liquidity

The internally managed Liquidity program returned 5.1%, the strongest year in decades as the positive impact of higher interest rates was experienced for the entire year. Management continues to generate roughly 5.0% on incremental investments, which provides stable core support to the University's operating budget.

Yield

The Yield program returned 5.7% with mixed results from the underlying allocations, and slightly underperformed the Consumer Price Index + 3% benchmark of 6.0%. Canadian preferred shares were the top performing strategy both in absolute and relative terms with a return of 20.6%. Management began to trim the overweight allocation to this strategy at the end of the year. In contrast, global unconstrained fixed income managers posted more modest gains as the benefit of higher carry and spread compression was partially offset by rising interest rates. Absolute return strategies generated gains, capitalizing from long and short positions across a variety of asset classes. Private credit strategies generated good performance in aggregate, with the allocation growing as capital continued to be called by various general partners (GPs). Management allocated additional capital to Canadian mortgages over the course of the year, which returned 7.0% while also providing stability and diversification. Towards the end of the year, Management closed on a commitment to real estate debt with an existing GP to augment the allocation.

Return Seeking

The Return Seeking strategy invests in the UEP with the objective of enhancing growth over time. This strategy returned 8.5% and was discussed in detail above. As of March 31, 2024 the Return Seeking allocation was an all-time high of $648 million and slightly above its target weight. Management will look to opportunistically redeem capital over the coming year to bring down the overweight.

Following another year of positive performance, the value of the Yield and Return Seeking strategies over their underlying cost stood at $328 million or 35%, a new all-time high. The surplus value supports the University's investment income reserve, which is one element of the NEIP's risk management strategy. Amounts in excess of 17% may be used for future strategic initiatives. As at March 31, 2024 the combined balance of the investment income reserve and the Strategic Initiatives Fund was $132 million.

Responsible Investment

The University's Statement of Investment Principles and Beliefs (SIP&B) includes the following two statements on responsible investment:

In general, the Board Investment Committee believes that:

The integration and assessment of environmental, social, and governance (ESG) risks in the investment process along with proactive engagement, where appropriate, can lead to improved long-term financial performance.

And

Higher levels of equity, diversity, inclusion, and indigeneity (EDII) contributes positively towards employee engagement and organizational success.

Responsible investment considerations are a part of Management's routine activities as it carries out its fiduciary duty in stewardship of the University's investments. The majority of the University's investments are externally managed by partners whose investment time horizon is long-term in nature. As part of its ongoing due diligence, Management regularly engages with its trusted investment partners on ESG and EDII matters. While the carbon intensity reduction of select portfolios remains a consideration where appropriate, the scope is broader and includes emphasis on social and governance considerations. ESG and EDII remain a key part of the due diligence process for all new investment strategies across both the UEP and NEIP. Management has selected two examples that highlight a commitment to ESG while simultaneously generating strong investment performance.

Walter Scott & Partners – Novo Nordisk

The University has maintained a relationship with Walter Scott & Partners (WSP) since 2003, with allocations to their global and emerging market equity strategies. WSP has incorporated responsible investment as part of their investment process for decades, emphasizing environmental, climate, social, and corporate governance considerations as key inputs into investment decisions. This long-term focus has resulted in an average holding period of over eight years - though some select securities have been held in their portfolio since the inception of the firm in 1983.

Currently, the largest holding in the global portfolio is Danish pharmaceutical pioneer Novo Nordisk. A long-term holding for WSP dating back multiple decades, the company has recently enjoyed tremendous success with its revolutionary GLP-1 drugs used to treat diabetes and obesity. While still early, the company has experienced positive clinical trials that indicate these drugs may also prove beneficial for heart disease. Given very low penetration for GLP-1 drugs globally, the opportunity set for the company going forward is very attractive. The potential impact on healthcare from GLP-1 drugs cannot be understated in terms of keeping or aiding people to become healthier.

Novo Nordisk has also demonstrated exceptional treatment of its employees. In 2023, the company increased its headcount by 9,000 (17%) over 2022, despite compensation that on average is lower than its European and US pharmaceutical peers. While Management believes its compensation structure is appropriate, employees cite company culture as one of the main reasons for strong recruitment and retention. Employees believe Novo Nordisk's sustainable long-term focus is something that aligns with their personal values, and is a key reason why the company has been able to recruit talent from its competitors. Given its size, Novo Nordisk's employment growth has also been a significant positive contributor to the overall economy of Denmark.

HitecVision – Vårgrønn

Vårgrønn is an offshore wind company operating in Northern European markets, and is one of the investments in HitecVision's New Energy Fund. Vårgrønn seeks profitable opportunities in the full cycle of developing, constructing, operating, and owning offshore wind projects and related infrastructure. The company is targeting at least 5 GW of installed and sanctioned offshore wind capacity by 2030, that is approximately the same as the presently installed wind generation capacity in all of Alberta. Vårgrønn has a 20% percent share in Dogger Bank, located off the North East coast of England. Dogger Bank is set to be the world's largest offshore wind farm when it is completed in 2026. Vårgrønn's pipeline of projects and prospective projects spans Scotland, Ireland, Norway, and the Baltics.

In addition to generating electricity without carbon dioxide emissions, the company is focused on sustainability in all phases of its wind farm projects. Vårgrønn engages in research projects to understand the environmental impact of offshore wind development and participates in discussions with stakeholders to determine the best solutions moving forward. One of the research projects the company is engaged with is SeaTrack, which aims to map the distribution of seabird breeding in colonies in the North Atlantic. Another example is participation in the pilot project ReWind by DNV, to develop a digital tool that aims to help wind farm owners and operators improve sustainable resource use and optimise costs of decommissioning at the end of life, and through this, increase the circularity of projects.

Social responsibility is a key aspect of Vårgrønn's operations, with health and safety a top priority. The company strives for zero harm to all employees and contractors, and places great importance on the well-being of its employees. The company has achieved one of its goals for gender diversity, the minimum of 40% female employees by year-end 2023 and is progressing towards at least 40% of each gender in leadership positions by year-end 2025.

In 2023, Vårgrønn strengthened its work within governance and compliance. The company has further developed and established fit-for-purpose processes and governing documents to comply with new regulations and to support its goal of becoming an ESG forerunner in the offshore wind industry. The company has developed an awareness training program to emphasize the importance of ESG and governance initiatives, covering topics such as competition law, anti-corruption, IT and cyber security, and whistleblowing and reporting of misconduct.

Looking Forward

Despite a successful year that saw the University's investment assets reach another all-time record high, Management and the Investment Committee are far from complacent.

Amidst a highly uncertain economic and geopolitical backdrop, future returns are likely to be more difficult to come by than over the past 15 years. As a result, greater emphasis on tactical positioning at the margin is likely required, as well there is a recognition that asset class performance may potentially shift in this environment. As always, Management will continue to engage regularly with its more than 70 trusted investment partners, both in-person and virtually, and remain focused on risk. In addition to posting a list of its investment partners online, Management will look to publish the UEP investment holdings as of March 31, 2024 in the near future.

Over the coming year, Management plans to conduct a comprehensive review of the UEP and NEIP Yield asset allocations to ensure they remain appropriate and in line with the commensurate risk profile of each portfolio. In addition, the UEP and NEIP will continue to see the allocation to illiquid assets increase through investments with existing and new GPs. Lastly, Management and the Investment Committee will continue to maintain a highly collaborative relationship, remaining focused on ensuring the risk-return profiles of the UEP and NEIP remain consistent with their respective objectives and time horizons.

UNIVERSITY OF ALBERTA

Investments & Treasury
2nd Floor, Enterprise Square
10230 Jasper Ave

Edmonton, AB
Canada T5J 4P6

uab.ca/invest