UNIVERSITY OF ALBERTA

INVESTMENT COMMITTEE REPORT TO THE BOARD OF GOVERNORS

For the Year Ended March 31, 2004

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

INVESTMENT COMMITTEE REPORT TO THE BOARD OF GOVERNORS

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The investment assets of the University of Alberta that are under the governance of the Investment Committee had a total market value of $881 million (2003 - $724 million). Of this amount, $564 million (2003 - $471 million) relates to endowments, while the remaining $317 million (2003 - $253 million) relates to non-endowed funds.

Endowment Funds - Key Points

- The market value of the endowments increased by $93 million to $564 million. This increase of $93 million was comprised of investment earnings of $113 million and new donations of $14 million, less spending allocations and administrative expenses of $34 million.
- The Unitized Endowment Pool (UEP) investment portfolio had a return of 26.0% for the year ending March 31, 2004. This return compares favorably to the benchmark return of 25.2% and represents an improvement from the loss of 12.6% in the prior year. In spite of this improvement, the excess of endowment market values over contributions indexed for inflation of $119 million has not recovered to the March 31, 2000 level of $167 million. Although the Investment Committee is encouraged by the past year's strong returns, the spending policy review conducted in the autumn of 2003 concluded that an all in spending rate of 4.75% was more realistic and aligned with the long-term future expected rate of return after inflation. This expected rate of return is in line with the endowment's actual five-year annualized rate of return of 7.6% less inflation of 2.4%. The Investment Committee remains committed to the spending policy changes that were approved by the Board of Governors in November 2003. The Investment Committee will continue to focus on a balanced approach to grow the endowments through portfolio diversification of the asset mix and fund management with an emphasis on equities as outlined in the investment policy approved by the Board of Governors in May 2002.
- The portfolio structure contained in the Investment Policy that was approved by the Board of Governors on May 3, 2002 is complete with the exception of implementing the alternative investment strategies.

Non-Endowed Funds - Key Points

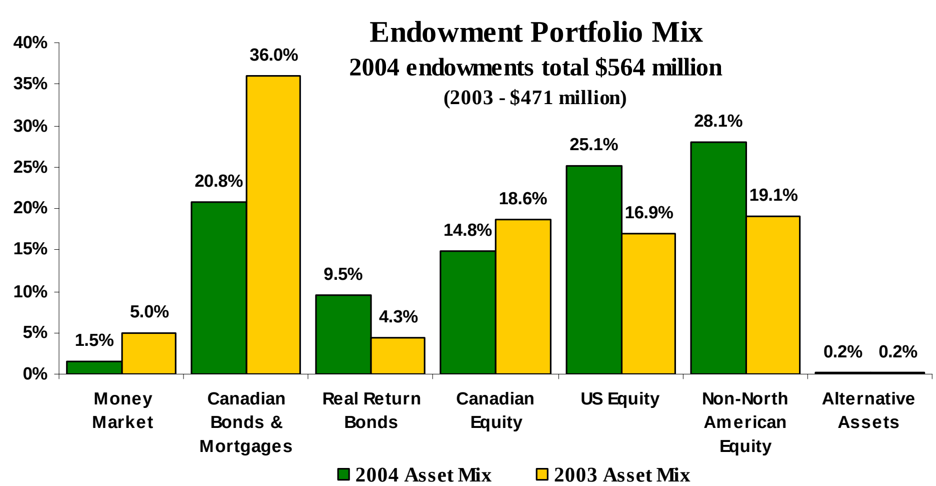
- The non-endowed funds have increased by $64 million to $317 million. The funds were mainly invested in high quality, liquid money market products ($140 million with a return of 2.7%) or bonds with duration of less than 5 years ($82 million with a return of 8.0%), or the UEP ($90 million with a return of 26.0%).

Endowment Funds

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

Investment Policy

The investment policy approved by the Board of Governors on May 3, 2002, wherein the UEP's allocation to equities was increased to 70% while fixed income was reduced to 30%, required a number of operational changes. The implementation of these changes was completed in July of 2003.



The endowment investment policy objectives are to meet or exceed the spending policy rate plus inflation over time within an acceptable level of risk, and to maintain the real capital value of the endowment while providing an appropriate level of spending.

UEP Endowment Asset Mix as at March 31, 2004

	Policy Range Min.-Max. %	2004 Actual Asset Mix	2003 Actual Asset Mix
Fixed Income			
Money Market Securities	-5 - 10	1.5%	5.0%
Bonds, Debentures, Real Return Bonds	20 - 40	30.3%	40.3%
Total	20 - 40	31.8%	45.3%
Equity			
Canadian Equity	10 - 20	14.8%	18.6%
Foreign Equity	40 - 60	53.2%	35.9%
Alternative Assets	0 - 10	0.2%	0.2%
Total	60 - 80	68.2%	54.7%

Portfolio diversification is used to help ensure that the endowment investment objectives are met. Diversification is achieved through the following strategies:

- The asset mix policy that established allocations to fixed income products for income and to equities for growth.
- The allocation within equities between Canada, the United States of America and other international capital markets to diversify market specific risk.
- The allocation of funds amongst different fund managers to diversify manager style risk. Please refer to Appendix 1 for details.
- The allocation of funds between both active and passive investment approaches to control active management risk.

Investment Performance

Measuring Performance of Endowment Funds

Treasury provides the Investment Committee with quarterly reports on endowment investment performance and the Investment Committee forwards to the Board an annual investment review. The Investment Committee retains the services of independent external consultants that specialize in evaluating fund performance on a quarterly basis. Specialized consultants are retained from time to time to assist with asset-liability studies and manager searches.

The returns of individual asset classes in the Fund are measured against established market benchmarks, such as the Scotia Capital (SC) Universe Bond Index, the Scotia Capital Real Return Bond Index, the S&P/TSX Composite Index capped at 10%, and the Morgan Stanley Capital International World Index. The total fund return is measured against the benchmark asset mix policy return. The difference between the endowment's return and the benchmark return reflects the value added by our investment managers. Please refer to Appendix 3 for details. The benchmark return for the endowment pool is calculated from the asset mix and the benchmark indices as outlined in the adjacent table. As the fund was still in transition during the first 3 months of the year to the new investment policy, the benchmark was changed on a monthly basis to reflect this transition.

UEP Investment Policy Benchmark at March 31

	2004	2003
91-Day Treasury Bill Return	0%	2%
Scotia Capital Universe Bond Index	20%	33%
Scotia Capital Real Return Bond Index	10%	4%
S&P/TSX Composite Index (Cap 10)	15%	20%
MSCI World Index	55%	43%
	100%	100%

The performance is also measured against that of other funds through participation in Russell/Mellon Analytical Services Canadian Trust Universe, the Canadian Association of University Business Officers (CAUBO), and the National Association of College and University Business Officers (NACUBO) endowment survey. The Investment Committee uses these universes as reference points to monitor whether or not the University's endowment investments have achieved competitive rates of return.

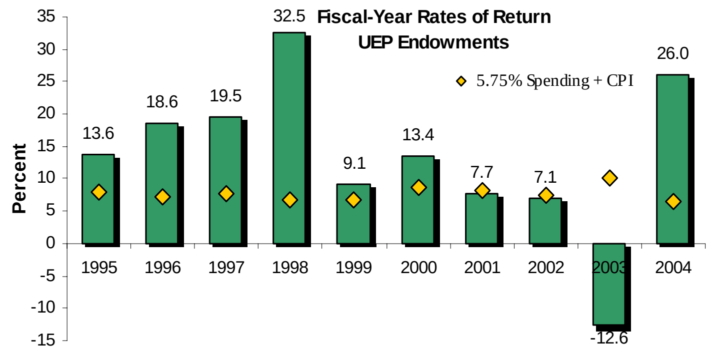
Annual Endowment Fund Performance to March 31, 2004

The University's endowment investments returned 26.0% for the year ending March 31, 2004. This compares favorably with the benchmark return of 25.2%. Sustained fiscal and monetary stimuli have resulted in renewed global economic growth. This in turn has led to improved corporate profitability. While geopolitical risks remain high, the level of uncertainty has decreased. Global equity markets responded strongly to this improved overall environment. This was in sharp contrast to the previous year that was characterized by a global economic slowdown and high degree of political and economic uncertainty.

The fund's significant out performance in Non-North American equities against the established benchmark more than compensated for the underperformance by active managers with Canadian and US equity mandates, resulting in a slight out performance against the overall benchmark. Please refer to Appendix 2 for a detail discussion of performance by asset class.

In the Russell/Mellon Analytical Services Canadian Trust Universe (CTU), which is composed of Canadian institutional pensions, endowments, and foundations, the median fund returned 24.5%. Within this universe the endowment's investment performance was ranked in the 28th percentile. On a five-year basis the endowment returned 7.6% versus a CTU median return of 6.5%. On this five-year basis the endowment's performance is within CTU's top 14% of all funds surveyed. It should be noted that the CTU is heavily influenced by pension plans, many of which have higher fixed income and lower foreign equity exposure than the UEP.

The University of Alberta participates in benchmark studies sponsored by the Canadian Association of University Business Officers and the National Association of College and University Business Officers (USA). The most recent published data from these organizations is for the periods ending December 31, 2002 and June 30, 2003 respectively. The University of Alberta's return consistently ranks in either the first or second quartile for all time periods analyzed in both studies, except for the most recent year in the NACUBO study where performance was significantly impacted by the appreciating Canadian Dollar. An informal survey of investment performance for the year ending March 31, 2004 at several other major Canadian universities revealed that returns ranged from 19.0% to 28.3%. Conclusions are



Annual Performance - UEP Endowments
Relative to Asset Class Benchmarks — **Years Ending March 31**

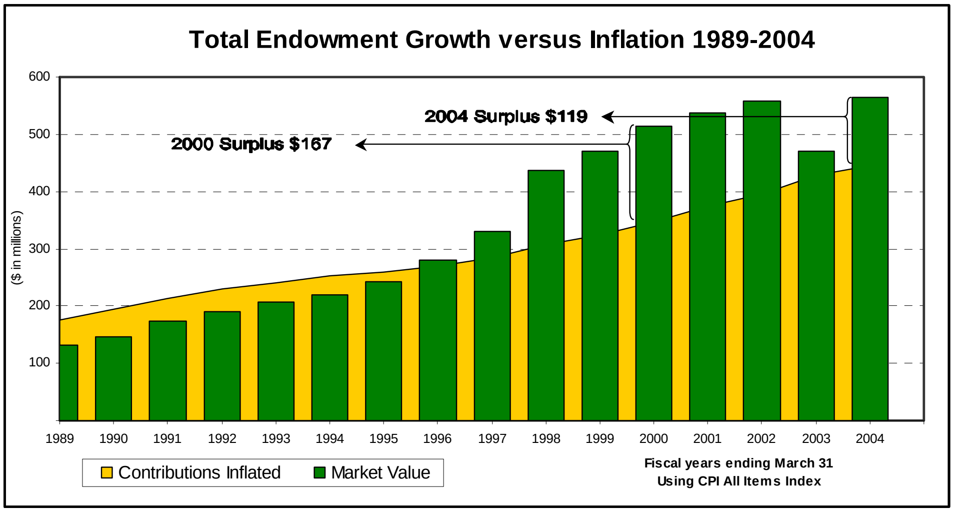
	2004 %	2003 %	2002 %	2001 %	2000 %
Short Term (Avg. Yield 00-02)	2.7	2.7	3.7	5.7	5.0
91Day Treasury Bill (Avg. Yield 00-02)	3.0	2.7	3.1	5.4	4.8
Fixed Income (non-RRB)	10.9	9.2	4.9	9.7	0.7
SC Universe Bond Index	10.8	9.2	5.1	8.7	1.3
Fixed Income (Real Return Bonds)	15.0				
SC RRB Index	15.3				
Canadian Equity	34.3	-15.6	13.9	3.1	31.5
S&P/TSX Composite Index (Cap 10)	37.7	-17.6	5.2	-8.9	45.5
Foreign Equity Total	35.7	-30.7	3.0	9.7	13.9
MSCI World Index	29.2	-29.8	-3.1	-18.3	15.9
Non-North American Equity	52.3	-30.9	2.6	6.8	31.5
MSCI EAFE Index	41.3	-29.0	-7.3	-19.6	20.0
U.S. Equity	18.6	-30.7	4.0	15.6	-12.2
Standard and Poors 500 Index	20.7	-30.6	1.4	-14.8	13.3
Total Fund	26.0	-12.6	7.1	7.7	13.2
Benchmark Return	25.2	-12.7	2.6	-4.8	19.0
CTU Median	24.5	-10.6	5.4	-1.0	17.7
CPI Index	0.7	4.3	1.8	2.5	3.0

Annualized Return - UEP Endowments
Relative to Asset Class Benchmarks — **Year Ending March 31**

	1YR %	2YR %	3YR %	4YR %	5YR %
Short Term (Avg. Yield 00-02)	2.7	2.7	3.0	3.7	3.9
91Day Treasury Bill (Avg. Yield 00-02)	3.0	2.9	3.0	3.6	3.8
Fixed Income (non-RRB)	10.9	10.0	8.3	8.7	7.0
SC Universe Bond Index	10.8	10.0	8.3	8.4	6.9
Fixed Income (Real Return Bonds)	15.0				
SC RRB Index	15.3				
Canadian Equity	34.3	6.4	8.9	7.4	11.8
S&P/TSX Composite Index (Cap 10)	37.7	6.5	6.1	2.1	9.6
Foreign Equity Total	35.7	-3.0	-1.1	1.5	3.9
MSCI World Index	29.2	-4.8	-4.2	-8.0	-3.6
Non-North American Equity	52.3	2.6	2.6	3.6	8.7
MSCI EAFE Index	41.3	0.2	-2.4	-7.0	-2.1
U.S. Equity	18.6	-9.3	-5.1	-0.3	-2.8
Standard and Poors 500 Index	20.7	-8.5	-5.3	-7.8	-3.9
Total Fund	26.0	5.0	5.7	6.2	7.6
Benchmark Return	25.2	4.5	3.9	1.6	4.9
CTU Median	24.5	5.5	5.3	3.9	6.5
CPI Index	0.7	2.5	2.2	2.3	2.4

difficult to draw from this small sample size, especially since the asset mix varied from 80% equities and 20% fixed income to 63% equities and 37% fixed income.

The main objective of the endowment investment policy is the preservation of capital. Past performance has accomplished this objective. This year the real value of the endowments increased by 19.6%, comprising the 26.0% return less the 5.0% spending allocation, less the 0.75% administrative fee and less inflation of 0.7%. Although this is in sharp contrast to the 22.7% decline in real value for the prior year, it is important to note that this year's increase has not been sufficient to restore the real value of the endowments to previous levels. The five-year annualized real rate of return of 5.2% has failed to exceed the 5.75% total spending rate.



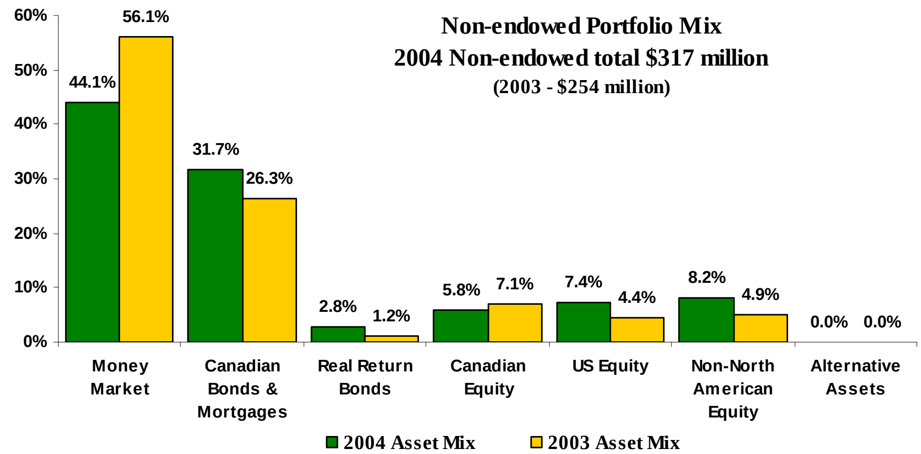
As shown in the adjacent graph, the market value of the endowments currently exceeds the cumulative endowment contributions indexed for inflation by $119 million. Although this represents a healthy improvement over the excess of $42 million as at March 31, 2003, it remains considerably below the $167 million excess as at March 31, 2000. The current year's position is consistent with the Board's policy objective of providing stable funding in real terms over time to current and future generations while seeking growth in the real value of the fund.

Spending Policy

This past year the Board Investment Committee and management evaluated the sustainability of the spending policy and the all in 5.75% spending rate against anticipated economic scenarios and return assumptions. It was concluded that an inflation indexed spending model subject to a 6.0% maximum and a 4.0% minimum of market value was optimal. It was also identified that a transition period to this new policy was required given that the current effective rate of spending significantly exceeds the long-term real return expectation. Moreover, the impact of spending allocation reductions on the programs being supported needed to be minimized. The spending policy during the transition period would remain based on the 36-month averaging rule, but the administrative fee would be reduced from 0.75% to 0.50% effective April 1, 2004. The spending allocation would be gradually reduced from 5.0% to 4.25% over a 6-year period. The Board of Governors approved the new spending policy with its transitional provisions on November 7, 2003. At that time it was forecast that this new spending policy would result in year over year declines in the spending allocation of approximately 3.0% in each of the next 6 years. This year's strong investment returns now result in forecast declines in the spending allocation that are significantly less than previously estimated. In spite of this improvement, the Board Investment Committee remains committed to both the new spending policy and the underlying long-term return assumptions on which the policy was based.

Non-Endowed Funds

The Non-endowed Investment Pool (NEIP) represents the University's operating, capital, and restricted funds, of which $140 million (2003 - $144 million) is held in money market instruments while the remaining $177 million (2003 - $109 million) is invested in bonds and equities.



The investment policy approved by the Board of Governors on May 3, 2002 identified that only a portion of non-endowed funds are required for short-term cash flow management, with the remainder being available for medium to long-term investment strategies. The allocation between short and mid-term fixed income investments as well as long-term investments, using the UEP, was fully implemented during the year. 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.

The short and mid-term fixed income investments are managed internally, using a buy and hold to maturity strategy. Yield curve analysis, duration management, and credit quality are taken into account in the pre-trade fixed income analysis.

The return on the non-endowed funds was 10.7% for the year. Cash and cash equivalent money market funds comprised 44.0% or $140 million of the non-endowed funds at the end of the fiscal year. These funds provided a return of 2.7%, which fell short of the benchmark Scotia Capital 91 day T-Bill return of 3.0%. The negative economic impact of several natural disasters, SARS, a prolonged power failure in Ontario and a sharply appreciating Canadian Dollar prompted the Bank of Canada to decrease the bank rate on four occasions this year, to stimulate the Canadian economy. The bank rate was reduced from a high of 3.5% in April of 2003 to 2.5% as at March 31, 2004. Short-term interest rates decreased during the year, with the yield on 91-day Treasury Bills falling from 3.1% to 1.9% by March 31, 2004.

Internally managed mid-term bonds with duration under 5 years comprise 26% or $82 million of the non-endowed funds; these bonds provided a return of 8.0%, and slightly under-performed the benchmark Scotia Capital Short Term Bond index return of 8.3%.

At March 31, 2003 $90 million, or 29% of the non-endowed funds was invested in the unitized endowment pool, which returned 26.0% for the year.

Going Forward

The investment policy approved by the Board of Governors in 2002 introduced alternative asset classes, which are expected to enhance returns and reduce the overall volatility due to the lack of correlation these asset classes have with more traditional asset classes. This coming year the Investment Committee will finalize a search for a hedge fund of funds manager(s). The primary objective in this search will be to reduce the overall volatility of the endowment assets by identifying managers that are expected to deliver a consistent absolute return, regardless of overall market conditions, that is comparable to the overall return objectives for the Unitized Endowment Pool. Key focal points of this search will be manager experience, the limited use of leverage, risk controls and diversification both across individual strategies and managers. The target allocation to this investment strategy will be approximately 2.5% of the overall endowment assets or $15 million.

The Investment Committee will also begin work on identifying suitable private equity fund of funds managers. The primary objective from this asset class will to enhance the returns of the endowment assets by identifying general partners with a demonstrated long-term ability to generate superior returns. Given the very long-term nature of such investments, the due diligence component of the search process will be of primary importance.

Board of Governors Investment Committee established October 1997.
Investment Committee Membership for the period June 2003 to June 2004:

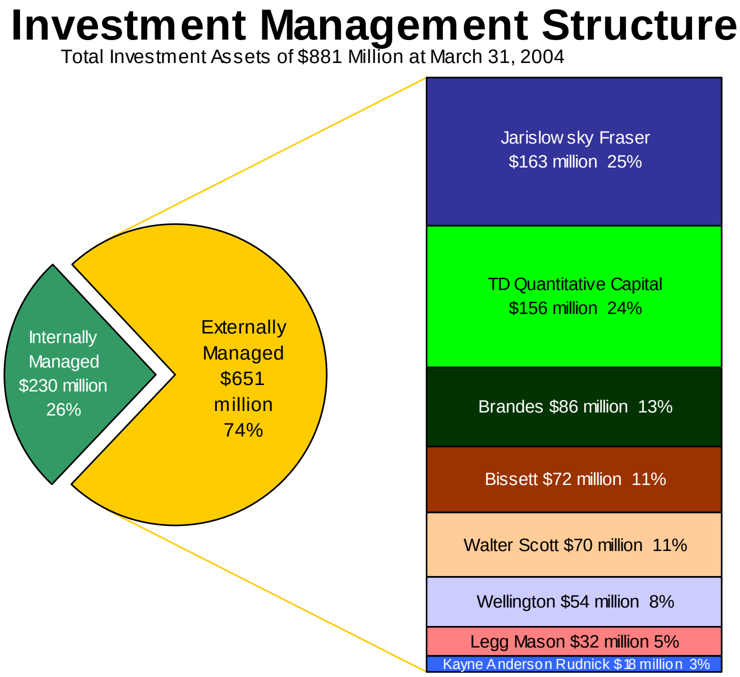
Bob Kamp, Chair (external member)
Ken Bancroft (external member)
Fred Barth (external member)
Barbara Belch (external member)
Lynne Duncan (external member)
J.D. Hole (board member)
Allister McPherson (external member)

Jim Edwards (ex-officio)
John Ferguson (ex-officio)
Dr. Rod Fraser (ex-officio)

Prepared for Board Investment Committee
By Financial Services - Treasury

Appendix 1 - Investment Manager Structure

The University retains the services of eight external fund managers for the bond and equity components of the endowment investment portfolio.



Bissett Investment Management has an active Canadian equity mandate. Bissett's approach is to identify companies that have good growth potential and are presently trading at reasonable prices. Bissett has been managing funds on behalf of the University since November 1998.

Brandes Investment Partners has an active international equity mandate that includes Europe, Australia, the Far East, and emerging markets. Brandes' style is that of a value manager, in which undervalued companies are identified and investments are made for future growth. Brandes has been a fund manager for the University since November 1998.

Jarislowsky Fraser Ltd. has an active, balanced mandate that includes bonds, Canadian equities and international equities. Jarislowsky Fraser's equity style can be described as a hybrid value/growth style that focuses on a company's long-term fundamentals rather than on short-term events. Their fixed income style includes interest rate anticipation, yield curve management and sector rotation. Jarislowsky Fraser has been a fund manager for the University for more than 20 years.

Kayne Anderson Rudnick Investment Management LLC, has an active US small-mid cap equity mandate. Kayne Anderson Rudnick invests in high quality companies at a reasonable price, seeking to identify the next generation of blue chip companies through bottom up fundamental research focused on companies with an S&P rating of A- or better. Kayne Anderson Rudnick's mandate was formally funded on December 1, 2003.

Legg Mason Canada Inc. (Perigee Investment Council Inc.) has an active Canadian bond mandate. Although Legg Mason had acquired Perigee in early 2000 the firm's name was not changed until this year. Legg Mason is a duration specialist that seeks to add value through holding bonds with maturity terms that differ from that of its benchmark index. Legg Mason has been managing funds on behalf of the University since November 1998.

TD Quantitative Capital has a passive U.S. equity S&P500 index mandate, a Scotia Capital Universe bond index mandate, and a Scotia Capital Real Return bond index mandate. The University has been using the services of TD Quantitative Capital since 1996.

Walter Scott & Partners Limited has an active international equity mandate that includes Europe, Australia, and the Far East. Walter Scott seeks to invest in companies capable of sustaining an internal rate of return growth above 20% per annum. Walter Scott's mandate was formally funded on July 1, 2003.

Wellington Management Company LLP has an active core United States equity mandate for large corporations. Wellington's style uses a balanced process that takes both top down and bottom up analysis into account in sector weighting and security selection. Both growth and value considerations are taken into account in the buy and sell discipline. Wellington has been managing funds on behalf of the University since July 2001.

Appendix 2 - Investment Performance by Asset Class

Balanced Manager Performance

Jarislowsky Fraser's total return for the year of 17.2% fell significantly short of their benchmark return of 24.9%. During the year Jarislowsky Fraser maintained a defensive asset allocation with overweight positions in cash and fixed income. Although this approach was successful in adding relative value for the year ending March 31, 2003, it detracted from performance this year given the strength of global equity markets. This defensive asset allocation position accounts for approximately one quarter of their 7.7% underperformance. The remainder of their underperformance was attributable to country and industry sector allocation as discussed in the Individual Asset Class Performance section. Jarislowsky Fraser began to reverse its defensive asset allocation stance in early 2004.

Individual Asset Class Performance

Fixed Income

Fixed income includes publicly traded Canadian bonds, a Canadian bond index pool, real return bonds, and privately issued mortgages. 17% of the bond portfolio is in the Legg Mason Active Bond Fund. The TD Emerald Canadian Index Bond Fund comprises 23% of the bonds. The TD Emerald Real Return Bond Fund held 33% of the bonds at the end of March. Jarislowsky Fraser managed the remaining 27% of the bond holdings.

Top 10 Canadian Fixed Income Holdings

Company	Market Value ($ millions)	% of CDN Bonds	% of Portfolio
Gov't of Canada RRB 4.00% 01-DEC-2031	19.02	10.0%	2.9%
Gov't of Canada RRB 4.25% 01-DEC-2021	18.02	9.5%	2.8%
Gov't of Canada RRB 4.25% 01-DEC-2026	18.02	9.5%	2.8%
Gov't of Canada 5.500% 01-JUN-2010	6.52	3.4%	1.0%
Gov't of Canada 8.000% 01-JUN-2023	5.08	2.7%	0.8%
Gov't of Canada 5.250% 01-JUN-2013	4.34	2.3%	0.7%
Gov't of Canada RRB 3.00% 01-DEC-2036	3.51	1.8%	0.5%
Cda Housing Trust 4.100% 15-DEC-2008	3.36	1.8%	0.5%
Gov't of Canada 7.000% 01-DEC-2006	2.82	1.5%	0.4%
Gov't of Canada 4.250% 01-SEP-2008	2.78	1.5%	0.4%

Bonds

Fixed income rates of return for the endowments were 10.9% for the fiscal year. This return compares favorably with the Scotia Capital (SC) Bond Universe return of 10.8%, but it was slightly below the CTU median return of 11.0%. As inflation pressures eased, there were increased expectations that the Bank of Canada would reduce interest rates, which resulted in strong gains for Canadian bonds. Bonds returns were also enhanced from international demand, as foreign investors were attracted by Canada's comparatively high interest rates and strengthening currency. Corporate bonds generally followed a similar pattern of solid performance, which was supported by an improving economy. Corporate spreads narrowed as the economy and corporate earnings improved during the year.

Legg Mason's return for the year was 11.4% outperforming by 60 basis points the SC Bond Index return of 10.8%. 50 basis points is attributable to a movement of $55 million in assets from this bond mandate to equities during the week of June 16, 2003. The bond market had rallied strongly during this quarter, but there was a sharp reversal to this trend during the last two weeks of June. The remaining 10 basis points of value added came from the portfolio's duration being slightly longer than the index, in anticipation of a downward move in the yield curve. An additional positive contribution to relative performance came from an overweight position in corporate bonds. Legg Mason expects yields to rise in the longer run and plans to maintain both a shorter duration than the index and a slight overweight to corporate bonds.

Jarislowsky Fraser's bond return for the year was 10.7%. This slight under-performance is attributable to small positions in foreign denominated bonds that detracted from performance due to the appreciating Canadian Dollar. With inflation expected to increase, Jarislowsky Fraser plans to maintain a duration that is shorter than the SCMU Bond Index but with an overweight allocation to high quality corporate bonds.

The TD Emerald Canadian Bond Fund is indexed to the SCMU Bond Index and returned 10.5%. This under-performance is primarily attributable to the fact that this fund does not invest in any BBB rated bonds. Corporate bonds and therefore BBB rated bonds have become a larger portion of the SCMU Bond Index. Corporate bonds and in particular BBB rated bonds performed well this year as yield spreads narrowed. The University Funds Investment Policy limits exposure to BBB rated bond to 10% in actively managed portfolios.

Real Return Bonds

The transition into real return bonds was completed in June 2003 through the TD Emerald Canadian Real Return Bond Pooled Fund in June 2003. The total allocation to this strategy stood at $64 million as at March 31, 2004. Real return bonds are bonds that pay a rate of return that is adjusted for inflation. Unlike regular (nominal) bonds, this feature ensures that purchasing power is maintained regardless of the future rate of inflation. The real return bond fund investment strategy is to invest in Canadian issued bonds that are selected and weighted mathematically to approximate the overall risk and return characteristics of the Scotia Capital Real Return Bond Index. The fund invests in federal and provincial real return bonds and debentures with a minimum A credit rating requirement for the purchase of individual securities. For the year ending March 31, 2004 the real return bonds returned 15.0% under-performing the Scotia Capital Real Return Bond Index return of 15.3%. This very strong absolute performance is primarily attributable to the fact that all real return bonds are long in duration, and the Scotia Capital Long Term Bond Index returned 14.1% this past year. A secondary reason for this strong performance is that the demand from pension and endowment funds for these financial instruments exceeds their supply. As a consequence, yields on real return bonds were compressed this past year.

Canadian Equity Component

The Canadian equity portfolio returned 34.3% for the period compared to a return of 37.7% for the Canadian equity benchmark S&P/TSX Composite Index and 37.3% for the CTU median. This relative under-performance against the benchmark can be attributed to a below market weight positions by both active managers in the technology and materials sectors as these were the two best performing sectors this past fiscal year with returns of 112.0% and 42.1% respectively. Both managers tended to avoid these sectors due to their cyclical nature and, in the case of technology because the sector's valuations were ahead of future growth expectations. Jarislowsky Fraser's Canadian equity return for the year was 34.0%, while Bissett returned 33.7%.

Top 10 Canadian Equity Holdings

Company	Market Value ($ millions)	% of CDN Equities	% of Portfolio
Bank of Nova Scotia	5.91	6.1%	0.9%
Royal Bank of Canada	4.77	4.9%	0.7%
Manulife Financial Corp.	4.61	4.8%	0.7%
Nexen Inc.	4.09	4.2%	0.6%
Power Financial Corp.	3.95	4.1%	0.6%
Magna International Inc.	2.64	2.7%	0.4%
Suncor Energy Inc.	2.62	2.7%	0.4%
Dorel Industries Inc.	2.51	2.6%	0.4%
Alimentation Couche-Tard Inc.	2.44	2.5%	0.4%
Petro-Canada	2.42	2.5%	0.4%

Our passive allocation to Canadian equities continued to be trimmed during the early part of the year and was eliminated in June 2003, as studies have shown that active management in Canadian equities can expect to add value with respect to the index over time.

Given the Canadian economy's dependence on the U.S., our fund managers' outlook for the Canadian equity market is heavily influenced by the U.S. economy. The robust U.S. economic growth is expected to lead to inflationary pressures and higher interest rates. The preferred asset class in an inflationary environment will remain equities. Economic growth is expected to moderate from its current levels, so the focus will remain on companies in less cyclical industries. Despite the strong headwinds created for Canadian economy by the rapidly appreciating Canadian Dollar, corporate profits trended upwards this past year. It is expected that Canada/U.S. interest rate differentials and the currency impact will moderate going forward, providing further, but more moderate upside potential for Canadian equities. The investment focus remains on company fundamentals including cash flows, strong balance sheets, and solid management for the equities in the portfolio and potential additions.

Foreign Equity Component

The foreign equity component is comprised of U.S. equities and units in three Europe, Australasia, Far East, and emerging market (EAFE) funds. The endowment's foreign equity component gained 35.7%. The benchmark Morgan Stanley Capital International Composite World Index gained 29.2% for the year and the CTU median was 31.8%. These returns can be further broken down into their US and Non-North American components.

Top 10 Foreign Equity Holdings

Company	Market Value ($Cdn millions)	% of Foreign Equities	% of Portfolio
Pfizer Inc. US	5.07	1.5%	0.8%
Nestle Switzerland	4.65	1.3%	0.7%
Microsoft Corp. US	4.53	1.3%	0.7%
Exxon Mobil Corp. US	4.21	1.2%	0.6%
American Int'l Group Inc. US	4.15	1.2%	0.6%
General Electric Co. US	4.13	1.2%	0.6%
Citigroup Inc. US	3.75	1.1%	0.6%
Mitsubishi Financial Group Japan	3.33	1.0%	0.5%
SABMiller UK	2.99	0.9%	0.5%
Wal Mart Stores Inc. US	2.86	0.8%	0.4%

Jarislowsky Fraser’s foreign equity portfolio had a return of 20.2%, which compares unfavorably to the MSCI World Index return of 29.2% and the CTU median of 31.8%. This under-performance is in part due to Jarislowsky Fraser’s overweight allocation to U.S. equities of 61% as compared to the MSCI World Index weight of 55%. For the year ending March 31, 2004, the S&P 500 returned 20.7% while the MSCI EAFE Index returned 41.3%. Jarislowsky Fraser’s U.S. equity return of 14.9% fell short of the S&P 500 benchmark return due to underweight positions in some of the best performing sectors such as information technology, as well as overweight positions in some of the worst performing sectors including consumer staples and health care. Returns in the U.S. market were dominated by small and mid-cap companies, which outperformed large-cap names by a significant margin. The one-year return for the largest 75 companies in the S&P 500, based on market capitalization, was 14.6%. Jarislowsky Fraser’s investment style tends to focus primarily on larger companies.

Jarislowsky Fraser’s EAFE equity return of 29.1% also fell short of the MSCI EAFE benchmark. A significant portion of this under-performance is attributable to a below benchmark allocation of 8.0% to Japanese equities: the MSCI EAFE Index weight for Japan is approximately 22.0%. Japan was one of the best performing countries in the MSCI EAFE Index with a return of 52.9%. As was the case with U.S. equities, Jarislowsky Fraser’s relative performance in EAFE equities was also negatively impacted by their underweight position in some of the best performing sectors such as information technology, and their overweight positions in some of the worst performing sectors including consumer staples and health care. Jarislowsky Fraser cautions that equity valuations around the world are at historically high levels, and there are limited opportunities to buy excellent companies at reasonable prices. Equity holdings in their balanced portfolio are still at below average levels and less cyclical stocks will gradually be added as opportunities present themselves.

The Non-North American (EAFE) equity, managed by Brandes Investment Partners, had an extremely strong return of 63.7%, which exceeded the MSCI EAFE Index return of 41.3% by a wide margin. This marks a sharp turn around from Brandes’ loss of 31.7% for the fiscal year ending March 31, 2003. This out performance was almost entirely related to stock specific issues. Many of the investments that contributed heavily to last year’s under-performance were the ones that performed the best this year. There were numerous investments from various sectors in Japan, Germany and the United Kingdom that appreciated in excess of 100% this past year from their March 31, 2003 values. Brandes will continue to adhere to the value principles of investing that have served them well in the past. Companies will only be selected if they meet Brandes’ strict investment criteria. Country and industry weightings will continue to be the direct result of their individual security selection process.

Walter Scott & Partners’ EAFE mandate was funded on July 1, 2003 and has returned 30.9% for the nine months ending March 31, 2004. This compares favorably to the MSCI EAFE Index return for the same time period of 27.9%. This out performance primarily attributable to an overweight allocation to Japanese equities of 44.8%, while the MSCI EAFE Index weight for Japan is approximately 22.0%. For the nine months ending March 31, 2004, Japan was the best performing country in the MSCI EAFE Index with a return of 47.2%. Walter Scott & Partners remain concerned about the economic prospects for the U.S. and Europe. However, given the potential impact of China on both the world economy and in particular the Japanese economy, there is mounting evidence that all economic indicators in Japan are moving in the right direction for the first time in 15 years, and that this is the beginning of a longer-term sustainable trend.

The U.S. equity portfolio, managed by Wellington Management, returned 18.2% but underperformed its S&P 500 benchmark of 20.7% and the CTU median of 22.5%. This past year the U.S. equity market can be characterized as a year in which volatile, low priced small-cap equities out performed more stable, high priced large-cap equities by a wide margin. Wellington Management's investment mandate is to focus primarily on U.S. large-cap equities. The one-year return for the largest 75 companies in the S&P 500, based on market capitalization, was 14.6%, while the return for the smallest 100 was nearly 50.0%. Looking at the broader Russell 3000 Index, the more speculative smaller companies whose shares trade at prices below $5.00 returned almost 70% for the year ending March 31, 2004, while those of more established companies that trade at values in excess of $40.00 returned only 13.0%. Wellington Management acknowledges that the early phases of an economic growth/recovery cycle often tend to favor smaller more speculative corporations, but that synchronized global economic recovery combined with a weaker U.S. Dollar will favor high quality large corporations. Wellington has positioned the portfolio's market capitalization relative to the S&P 500 at its highest level in ten years.

The U.S small to mid-cap equity portfolio, managed by Kayne Anderson Rudnick, was formally funded on December 1, 2003. The return for the quarter ending March 31, 2004 was 4.7% while the benchmark Russell 2500 Index returned 7.7%. Although small and mid-cap stocks continued to outperformed large-cap stocks during this period of time in the economic recovery, the prolonged low interest environment in the U.S. has favored highly leveraged companies with below investment grade credit ratings. The stocks of these lower quality companies have outperformed the higher quality names. Kayne Anderson Rudnick invests in high quality companies at a reasonable price, seeking to identify the next generation of blue chip companies through bottom up fundamental research focused on companies with an S&P rating of A- or better.

The transition into an S&P 500 Index portfolio managed by TD Quantitative Capital in January 2003 was completed at the end of June 2003. The return for the year from this indexed portfolio was 20.2%, which fell short of the S&P 500 return of 20.7% due to implementation issues in the quarter ending June 30, 2003.

Appendix 3 - 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. In general this graph demonstrates that the active management strategies have successfully added value. The yellow bars depict annual performance in relationship to the benchmark. The green line annualizes these amounts over a moving four-year period. The red line is a cumulative sum over the annual amounts.