INVESTMENT COMMITTEE REPORT TO THE BOARD OF GOVERNORS

For the Year Ended March 31, 2011

UNIVERSITY OF ALBERTA

INVESTMENT COMMITTEE REPORT TO THE BOARD OF GOVERNORS

For the Year Ended March 31, 2011

CONTENTS:

Highlights

The investment assets of the University of Alberta that are under the governance of the Investment Committee had a total market value of $1,754 million as of March 31, 2011 (2010 - $1,690 million). They are separated into Endowment Funds and Non-Endowed Funds, as summarized in Exhibit 1.

Exhibit 1

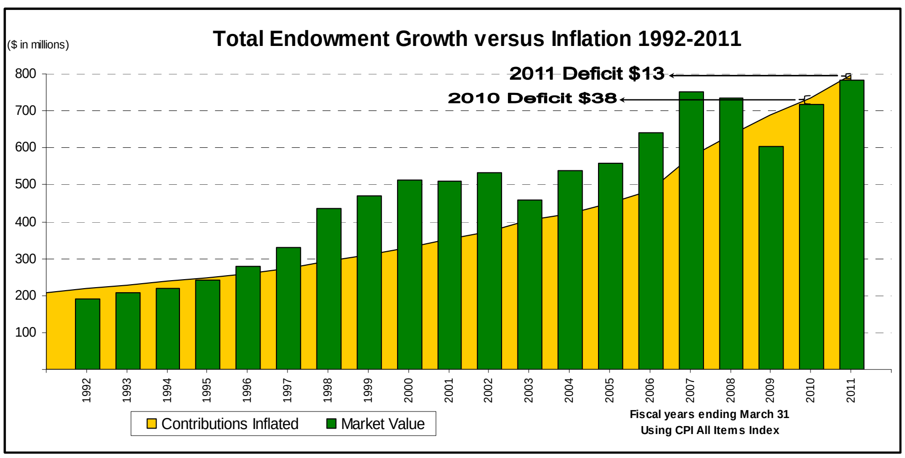
	2011	2010
Non-Endowed Funds	Millions	
Short-term	$ 762	$ 764
Mid-term	30	37
Long-term	87	83
ABCP	92	89
	971	973
Endowment Funds	783	717
	$ 1,754	$ 1,690

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

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

Endowment Funds - Highlights

Exhibit 2



- The global economy continued its rebound in the past fiscal year with virtually all asset classes participating in market gains. The University's endowment fund returned 9.2% during the year.
- The market value of the endowments increased to $783 million, up $66 million from $717 million as at March 31, 2010. The real value of the endowments increased by 0.8%. This increase was comprised of a change in market value of 9.2% on the investment assets less total expenditures of 5.1% and inflation of 3.3%. As shown in Exhibit 2, the market value of the endowment assets now trails the inflation adjusted contributions by $13 million (2010: $38 million).
- The fund's benchmark returned 10.3%, indicating underperformance of 1.1% on a one year basis. On a longer term basis the fund has outperformed its benchmark for four and ten years by annualized rates of 0.2% and 0.5% respectively.
- Implementation of the investment policy changes made in 2010 was started in 2011. The allocation to Canadian equities was increased from 15% to 20% of the portfolio's weight, in conjunction with the conversion of a balanced fixed income and equities mandate to Canadian equities only. Two external equity investment manager mandates were terminated during the year for performance related reasons. Further consolidation was accomplished through the change of an international to a global equity mandate.

- The spending rate increased from 3.50% to 3.80% during the year, and provided $30.4 million for program spending. It will move back to 4.25% for fiscal 2012 and from 2013 onward, future spending allocation increases will be linked to inflation, provided the real value of the endowment portfolio is able to meet certain conditions.

Non-Endowed Investment Pool (NEIP) - Highlights

- The NEIP, comprised of three distinct strategies (short, mid and long-term), recorded an overall return of 2.2% for the year (2010: 3.4%).
- The majority of NEIP is invested in the short term money market products which outperformed its 91 day T-bill benchmark.
- Provisions related to the asset-backed commercial paper (ABCP) portfolio declined during the year from $58.1 million to $49.1 million due to the passage of time and improving credit conditions that resulted in positive valuation adjustments.

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 forwards to the Board an investment review. The Investment Committee:

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

Management provides the Investment Committee with quarterly reports on investment performance. To assist management with this responsibility, the services of independent external consultants that specialize in performance measurement are engaged. Management also has regular meetings or conference calls with external investment managers to discuss performance and other topics that may affect the assets of the University. Specialized consultants are retained from time to time to assist with governance matters, asset-liability studies, transition management and manager searches.

The Investment Committee monitors compliance with the approved investment policy, investment manager mandates and related legal aspects on a regular basis. The restructured ABCP holdings are not in compliance with the investment policy. Management has recommended that in order to maintain value, it is in the University's best interest to hold the restructured securities for the time being. In accordance with the authority delegated to the Investment Committee in this matter by the Board of Governors on September 25, 2007, the Investment Committee has approved three ABCP restructuring plans that seek to maintain value of the University's holdings. All other non-compliance issues have been immaterial, have been resolved and have not resulted in any losses.

Endowment Funds

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

Investment Policy & Risk

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

- In order to achieve these goals, the UEP will have to maintain a higher allocation to equity and alternative investments relative to fixed income securities than in the past. This is based on projected capital market assumptions which indicate that fixed income securities will not provide a sufficient return after adjusting for inflation to meet the dual goals of maintaining the real value of assets and a strong and stable level of support to the current operations of the University. Fixed income securities will serve as a source of diversification and stability.

Exhibit 3
UEP Asset Mix as at March 31, 2011

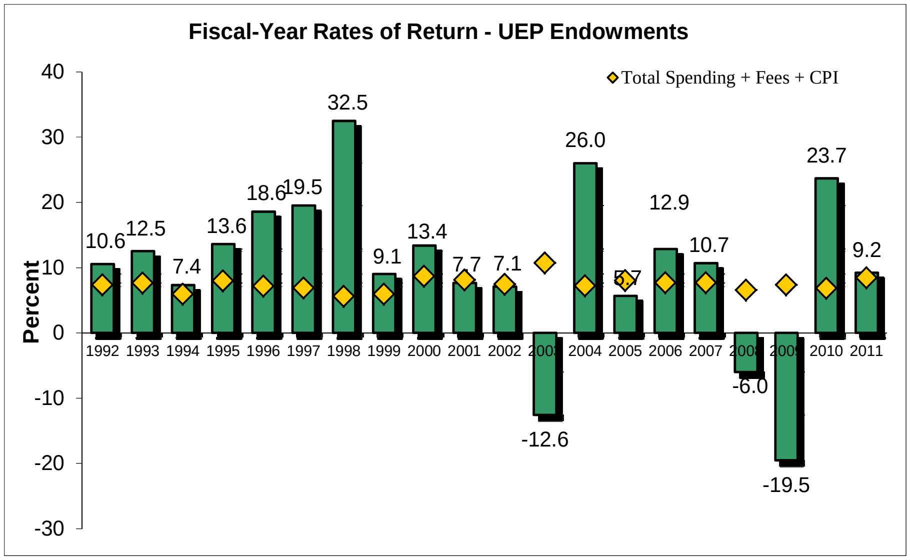
	New Policy Range Min.-Max.%	Old Policy Range Min.-Max. %	2011 Actual Asset Mix %
Fixed Income			
Money Market Securities	-5 - +5	-5 - +10	5.0
Bonds, Debentures, Real Return Bonds	10 - 30	20 - 40	25.3
Total	15 - 25	20 - 40	30.3
Equity			
Canadian Equity	15 - 25	10 - 20	20.8
Foreign Equity	35 - 45	40 - 60	45.4
Alternative / Non-Marketable Assets	15 - 25	0 - 10	3.5
Total	75 - 85	60 - 80	69.7

- Asset mix is regularly reviewed for appropriateness and its ability to achieve the primary investment objective over the long-term. The increased allocation to alternative assets as contemplated by the investment policy in Exhibit 3, approved by the Board in January 2010, was not fully implemented during fiscal 2011. Given the nature of certain alternative investment strategies, the transition to the new asset mix will occur over a period of several years. At fiscal year-end, investment manager searches had commenced to increase the allocation to alternative assets (fund of hedge funds and real estate).
- The allocation of equities across Canada, the United States of America, Japan and other international capital markets diversifies market specific risk.
- Allocation of funds among different fund managers diversifies manager style risk. Please refer to Appendix 1 for details.
- The allocation of funds between active investment strategies to control market risk and add value over time; and passive investment strategies to manage risk and control costs.
- The University has retained a number of investment managers who are defensive in nature to mitigate losses in a market down-turn.
- An active currency overlay strategy has been employed to manage currency risk in the portfolio.

Investment Performance Relative to Objectives

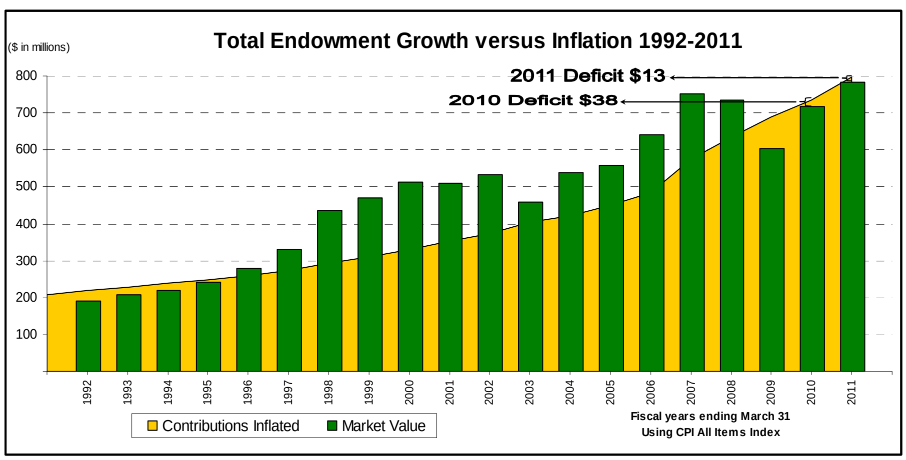
Fiscal 2010 saw virtually all asset classes participate in major market gains during the year. Fiscal 2011 continued with those gains, albeit at a much slower rate of growth and with increased volatility. The University's endowment fund fared well relative to its return objective. As shown in Exhibit 4, the fund's 2011 return of 9.2% exceeded total spending plus CPI of 8.4%. Nonetheless, this was a fourth quartile return in the BNY Mellon Asset Servicing Canadian Master Trust Universe. The return of 9.2% reflects:

Exhibit 4



- a volatile capital market environment in which equities generally experienced negative returns until September, after which there were overall gains;
- the investment policy which strongly favours equities, and
- the strategic long-term investment decision to hedge 50% of the fund's exposure to foreign currencies. During the fiscal year the Canadian dollar appreciated against the US dollar and since a substantial portion of the fund's assets are US dollar denominated, the hedge benefitted returns.

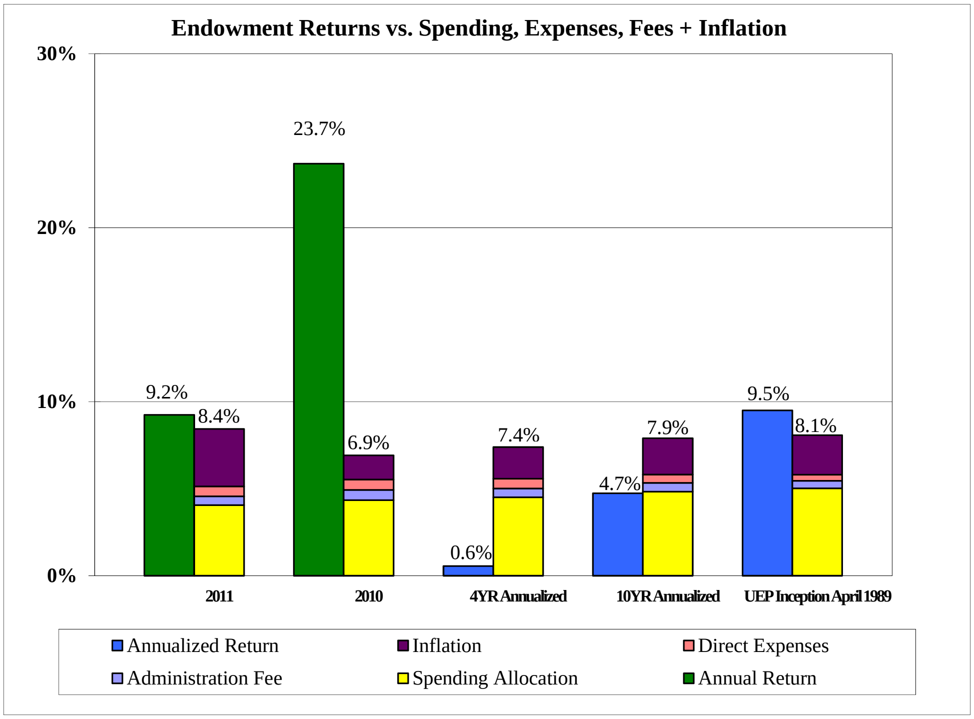
Exhibit 5



The market value of the endowments increased to $783 million, up $66 million from $717 million as of the end of fiscal 2010. This increase is comprised of $67 million in earnings, $37 million in new contributions, less $38 million in total spending for the year. During the year, the real value of the endowments increased by 0.8%. This increase was due to the aforementioned gain in market value of 9.2% on the investment assets less total expenditures of 5.1% and inflation of 3.3%. Despite this positive performance, the value of the endowment fund still trails the inflation adjusted contributions by $13 million at March 31, 2011 as shown in Exhibit 5, due to the magnitude of the loss in fiscal 2009 and 2008.

As shown in Exhibit 6, the endowment fund has since inception, produced an annualized return of 9.5%. This return has exceeded the annualized total spending plus inflation of 8.1% over that time period. However this objective has not been achieved over more recent time periods.

Exhibit 6



As an example, over the past ten years, the endowment fund has returned 4.7% annualized and has outperformed its benchmark by 0.5%. Nonetheless, this is below the ten year annualized total spending plus inflation of 7.9%. It is this underperformance that prompted investment policy changes with a higher allocation to equities and alternative investment strategies and a more sustainable spending policy.

The main factor behind the 2011 performance of the portfolio was the continued positive returns of global equity markets as government and central banks continued with their accommodative fiscal and monetary policies. Canada, with globally solid banks, substantial energy and materials wealth, participated strongly in this market environment. The Canadian equity market, as measured by the S&P/TSX Capped Composite Index returned 20.4%. Mid and small cap stocks, performed even better, with returns of 29.9% and 34.3% respectively. Growth outperformed value for the year, primarily due to strong returns in the Materials (34.2%) and Energy (25.7%) sectors. Outside of Canada US equity returns were also very strong. The S&P 500 Index was up 10.9% in Canadian dollars but up 14.6% in US dollars, reflecting the impact of a rising Canadian dollar. As in Canada, growth outperformed value stocks and small and mid cap stocks outperformed large cap stocks. Outside of North America, the MSCI EAFE Index was up by 6.3% in Canadian dollars, but down by 1.2% on a local currency basis, reflecting the impact of the ongoing sovereign debt crisis in Europe, the impact of the Japanese earthquake and tsunami and the fact that the Canadian dollar depreciated against many of the underlying currencies. MSCI's World Index had a Canadian dollar return of 9.3% for the year, which was 6.7% in local currency terms. Canadian bonds, as measured by the DEX Universe were up 5.1% on the year, essentially the same as in fiscal 2010, with municipal and provincial bonds outperforming corporate bonds and Government of Canada bonds.

Measuring Relative Performance of Endowment Funds

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

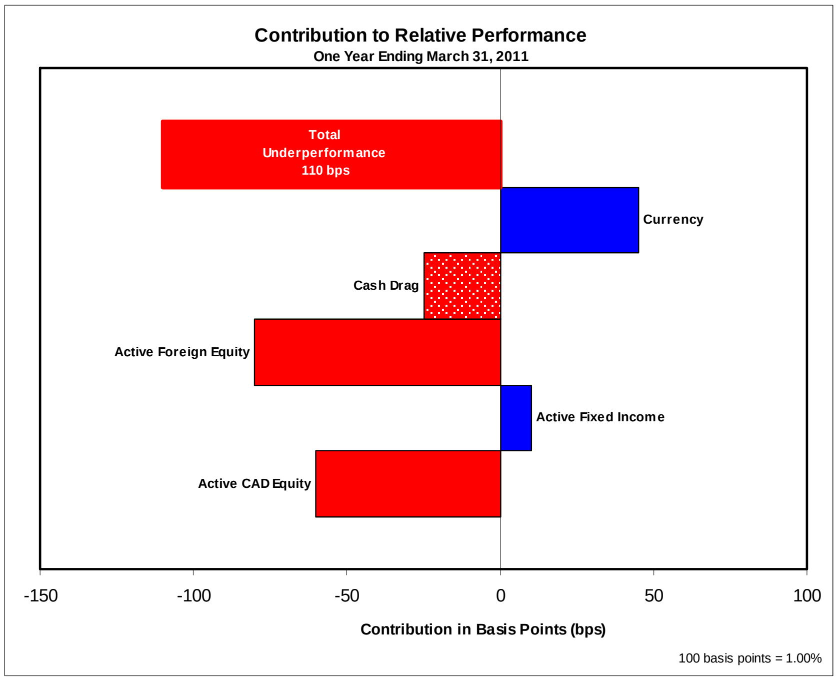
Exhibit 7

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

In spite of its 9.2% return, the fund underperformed its benchmark by 1.1% or 110 basis points. The main reason for this underperformance was the defensive style of the portfolio's equity managers. Their investment style was beneficial during the financial crisis of 2008, but in the past year their underweight holdings in the more risky cyclical commodity sectors tended to pull performance down. See Exhibit 8 for attribution analysis.

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

Exhibit 8



Canadian equities returned 17.7% for the year, underperforming by 2.7% against the S&P/TSX Composite Index benchmark. This was a third quartile ranking in the Canadian Master Trust Universe of peer Canadian investment managers. Overall, sector selection was a key reason for the underperformance, as there was a large underweight to the strong performing Materials sector during most of the year. This was only partially offset by positive asset allocation contributions from underweight positions in the poorly performing Information Technology and Financials sectors. Stock selection in Financials and Energy sectors also detracted from performance.

US equities returned 11.2%, outperforming the S&P 500 by 0.3%. The return equalled the median for US equity managers in the Canadian Master Trust Universe and was held back by underperformance from a manager that was terminated during the year. The retained large cap manager returned 16.1%, out-performing the benchmark S&P 500 by 5.2%, a first quartile performance. An overweight position and stock selection in the Information Technology sector was the largest contribution to this outperformance. Stock selection in the Consumer Discretionary and an underweight position in Health Care sectors also added value. The largest detractor from returns was a large underweight allocation to the top performing Energy sector. Small and mid cap performance of 18.2% underperformed its benchmark of 20.9%, with stock selection in the Information Technology and Health Care sectors detracting from relative performance. Positive contributors came from stock selection in Financials and an overweight position in the Energy sector.

The international equity return of 5.1% was a fourth quartile performance during the year. The University's investment managers in this asset class construct defensive portfolios of high-quality companies and as such, their combined underperformance against the benchmark was 1.2%. This relative underperformance is attributable to stock selection in the Consumer Staples sector and a large underweight in the Materials and Industrial sectors. From a geographic perspective stock selection in Europe and the United Kingdom also detracted from performance. Performance was positively impacted by stock selection in Emerging Markets as well as an underweight in Utilities.

Exhibit 9
Return - UEP Endowments

Relative to Asset Class Benchmarks	**Year Ending March 31**				**Annualized**	
	2011 %	**2010 %**	**2009 %**	**2008 %**	**4YR %**	**10YR %**
Short Term Return	0.2	1.8	6.5	4.5	3.2	3.1
91-day Treasury Bill Return	*0.8*	*0.3*	*2.4*	*4.6*	*2.0*	*2.7*
Fixed Income	5.4	6.1	3.0	5.6	5.0	
Fixed Income Benchmark	*5.1*	*5.1*	*3.2*	*6.0*	*4.9*	*6.4*
Canadian Equity	17.7	49.4	-29.1	-3.6	4.4	10.1
S&P/TSX Composite Index (Cap 10)	*20.4*	*42.2*	*-32.4*	*4.0*	*4.7*	*8.9*
Foreign Equity Total	7.6	21.0	-22.1	-14.7	-3.8	
MSCI World Index	*9.3*	*23.6*	*-29.1*	*-13.5*	*-4.6*	*-0.2*
Non-North American Equity	5.1	20.6	-22.5	-12.6	-4.2	
MSCI EAFE Index	*6.3*	*25.2*	*-34.0*	*-13.1*	*-6.5*	*0.9*
U.S. Equity	11.2	23.0	-21.8	-17.7	-3.1	
S&P 500 Index	*10.9*	*20.8*	*-24.1*	*-15.6*	*-3.8*	*-1.6*
Absolute Return Strategies	8.1	18.0	-21.3	2.3	0.7	
US T-Bills + 6.0%	*6.2*	*6.2*	*7.2*	*10.9*	*7.5*	
Currency Overlay	0.6	9.3	-8.1	1.0	0.5	
50% passively hedged benchmark	*-0.4*	*9.0*	*-6.6*	*2.1*	*0.9*	
Total Fund	9.2	23.7	-19.5	-6.0	0.6	4.8
Benchmark Return	10.3	25.9	-23.7	-4.2	0.4	4.2
CTU Median	10.6	21.6	-17.2	-2.5	2.3	5.9
CPI Index	3.3	1.4	1.2	1.4	1.8	2.1

Global equity (international plus US equities) received its first dedicated equity manager in the second quarter as one manager's mandate switched from international to global. For the last seven months of the fiscal year the return was 11.1% or 0.6% over the benchmark. Stock selection in the Health Care sector added value while stock selection in the Consumer Discretionary and Telecommunications sectors detracted. Both an underweight allocation to the strong performing Materials sector and stock selection in that sector detracted from performance. US and Asian stocks helped to add value, but European and United Kingdom stock selection and an underweight allocation to those regions subtracted from returns.

Canadian fixed income came in with a return of 5.4%, 30 basis points above the benchmark (DEX Universe Index) return of 5.1%. With the majority of the fixed income asset class invested passively, it was the active investment managers who added value due to underweight positions in Government of Canada bonds, overweight positions in provincial and corporate bonds as well as through short-term trading strategies. The combined return of the active fixed income mandates was 6.3%, exceeding the benchmark return by 2.2%, and about 1% over the median score for fixed income managers in the Master Trust Universe.

Absolute return strategies gained 7.9% for the year as each of the two multi-strategy hedge fund of funds produced virtually the same return. This was 1.7% above their benchmark of US T-Bills + 6%. The performance of these hedge fund-of-funds was aided by strong returns in relative value, equity long/short and distressed credit managers.

The policy to hedge 50% of the portfolio to the Canadian dollar had a small negative impact on the portfolio, detracting 0.2% from the policy return. This was more than offset by good active currency management, which added 0.5% to overall performance this year. During the fiscal year the US Dollar declined against the Canadian Dollar by 4.1%. The Japanese Yen rose 8.1% against the Canadian dollar while the Swiss Franc was up 10.3%. Gains by the main European currencies were more muted, with the British Pound rising 1.3% and the Euro gaining 0.6%. With a 55% 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. The active currency overlay mandate was a source of additional returns this past year, as the benchmark, measured by a passive 50% hedge ratio, lost 0.4%, while the manager returned 0.5%.

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 10.6%. 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 84th percentile, down substantially from the 23rd percentile ranking in fiscal 2010. This fourth quartile ranking is generally explained by the endowment fund's conservative equity managers, the stringent fixed income quality standards and the higher allocation to non-Canadian equities relative to other Canadian endowment and pension funds.

On a ten-year basis the UEP returned 4.7% versus a CMTU median return of 5.9%. The relative underperformance of the UEP stems from the fact that Canadian equities and fixed income performed better than foreign equities during the past ten years, while the UEP had a relatively lower allocation to these two asset classes. Foreign equity returns, and in particular US equity returns faced headwinds from a Canadian investor's perspective as the Canadian dollar appreciated by 60% against the US dollar during this time period.

The University of Alberta participates in benchmark studies sponsored by the Canadian Association of University Business Officers (CAUBO) and the USA's National Association of College and University Business Officers (NACUBO). The most recent published data from these organizations is for the periods ending December 31, 2009 and June 30, 2010 respectively. This data may make shorter-term comparisons less than informative due to timing. The University's ten year return of 4.6% for the period ending December 31, 2009 and 3.6% for the period ending June 30, 2010 are both comparable to the CAUBO and NACUBO 10 year median returns.

Spending Policy

To maintain intergenerational equity, the value of the endowments should be preserved over time in real terms. After the capital market retrenchments of 2008, as an interim measure to protect the real value of the endowments, the Board of Governors, at its March 27, 2009 meeting, approved a temporary one year reduction in the endowment spending rate from 4.25% to 3.50% for the 2010 fiscal year. For fiscal 2011, the spending rate was increased to 3.8%. As a result, a total of $30.4 million was provided to support program spending in fiscal 2011, up from the $28.7 million in fiscal 2010. In accordance with the Board of Governors approved spending policy, the spending rate was increased back to 4.25% for fiscal 2012. Effective April 1, 2012 the spending allocation will be indexed annually by inflation, provided that total endowment spending remains within 4.0% and 6.0% of the fund's market value. The new spending policy also contains provisions designed to restore and maintain the real value of the endowments. Inflation indexing will be subject to a minimum of 0.0% and a maximum of 5.0%. Index based adjustments to the spending allocation will not be applied unless the endowment market value exceeds the cumulative contributions indexed for inflation by at least 10.0%, which in an environment of modest returns may take several years to achieve.

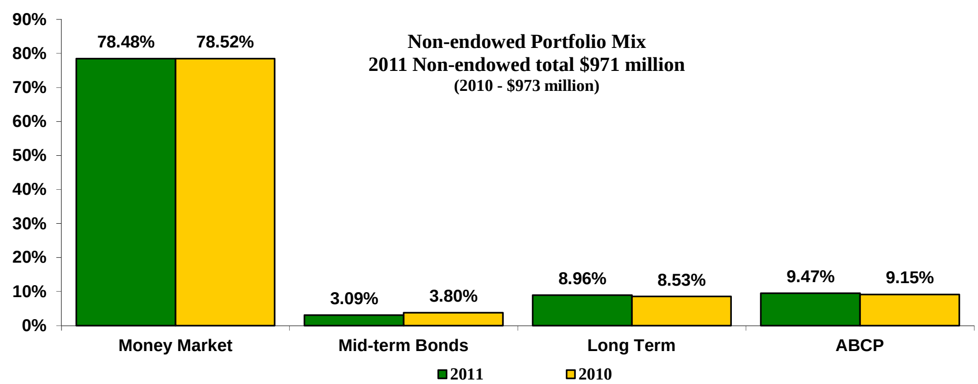
Costs

An administrative fee to support centrally funded indirect costs associated with endowment programs is charged to the endowments. For 2011 this amounted to $3.8 million (2010: $3.9 million), representing 0.5% of the average market value of the fund. The fund also incurred direct expenses of $3.8 million (2010: $3.3 million) or 0.5% of the average market value of the fund with respect to investment management and custodial fees.

As part of a process of monitoring and managing costs, management participated in the 2010 CEM Survey. CEM Benchmarking Inc. is a Toronto based firm that specializes in measuring the performance and costs of pension plans, foundations and endowments. To adjust for differences in fund size and asset mix, CEM calculates an individualized benchmark cost for each fund. Preliminary results indicate that our actual cost is essentially equal to our benchmark cost.

Non-Endowed Funds

Exhibit 10



The Non-endowed Investment Pool (NEIP) represents the University's operating, capital, and restricted funds, of which $762 million (2010 - $764 million) is held in money market instruments while the remaining $209 million (2010 - $209 million) is invested in long-term notes, bonds and equities as shown in Exhibit 10.

The investment policy approved by the Board of Governors in June 2005 identified that only a portion of non-endowed funds are required for short-term cash flow management, with the remainder being available for medium to long-term investment strategies. The policy objective of the short and mid-term funds is to earn the highest return possible on investments that ensure the security of the invested capital.

As shown in Exhibit 11, the NEIP, comprised of three distinct strategies (short, mid and long-term), recorded an overall return of 2.2% for the year (2010: 3.4%). The short-term money market investments had a return of 0.9% (2010: 1.1%). This compares favourably with the benchmark DEX 91 Day Treasury

Bill Index return of 0.8% (2010: 0.3%) and is primarily attributable to the portfolio's longer duration. The return of 0.9% was a median performance in the Master Trust Universe.

The mid-term bond portfolio had a return of 5.8% (2010: 7.8 %). This outperformed the benchmark DEX Short Term Bond Index return of 3.4% (2010: 3.3 %). 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 9.2% (2010: 23.7%).

Exhibit 11

Returns - NEIP

	Year Ending March 31				Annualized
	2011 %	**2010 %**	**2009 %**	**2008 %**	**4YR %**
Short-term (combined)*	0.9	1.1	0.0	-3.2	-0.3
DEX 91-day index	0.8	0.3	2.4	4.6	2.0
Mid-term bonds (combined)*	5.8	7.8	3.4	6.0	5.7
DEX short-term bond index	3.4	3.3	6.9	6.4	5.0
Long-term (UEP)	9.2	23.7	-19.5	-6.0	0.6
UEP Benchmark	10.3	25.9	-23.7	-4.2	0.3
Overall Return	2.2	3.4	-1.3	-2.8	0.3
MTU Median	1.0	0.7	2.9	4.6	2.3

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

Asset Backed Commercial Paper (ABCP)

As of March 31, 2011 the University's holdings of restructured notes and ABCP amounted to $141.5 million (2010: $147.3 million). A provision of $49.1 million representing 34.7% of the total value (2010: $58.1 million representing 39.5% of the total value) was recorded. The $5.8 million decrease in ABCP holdings reflects the fact that during the year $2.2 million in restructured notes were redeemed at par value while an additional $3.6 million in fully provisioned notes were cancelled. The $9.0 million decrease in the provision reflects the passage of time, note cancellations and a general improvement in credit conditions that resulted in a narrowing of credit spreads on corporate issued debt. A substantial portion of the restructured notes may be impacted by regulations being developed pursuant to the *Dodd-Frank Wall Street Reform and Consumer Protection Act* of the United States of America. The outcome remains uncertain and is being monitored.

Exhibit 12 Asset Backed Commercial Paper Continuity Schedule

	Estimated fair value 2010	Cost 2010	Note cancellations	Redemptions	Cost 2011	Estimated fair value 2011
Total	$ 89,118	$ 147,262	$ (3,616)	$ (2,137)	$141,508	$ 92,367

The majority of the restructured notes are investment grade. In aggregate 76% of the restructured notes by value have received an investment grade credit rating of BBB (low) or higher from the Dominion Bond Rating Service. While the maturity dates of the restructured notes vary significantly, 89% of the notes by value are expected to mature within the next six years. It is the University's intention to hold these notes to maturity. A comprehensive long-term cash flow forecast has been prepared and management is confident that the exposure to the restructured notes does not represent a liquidity issue for the University and all obligations and commitments will continue to be met.

Going Forward

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

At the direction of the Investment Committee, management will be making the following changes to implement the new investment policy during the 2012 fiscal year:

- Finalize hedge fund of funds search to build out policy asset allocation to this investment strategy,
- Finalize institutional real estate searches to build out policy allocation to this asset class,
- Commence a search for and fund a dedicated emerging markets equity mandate,
- Commence a search for private equity fund of funds and commit capital to this asset class,
- Increase the investment manager monitoring and compliance capabilities,
- Continue to assess the ongoing appropriateness of all existing investment strategies and mandates, and
- Research and develop a risk budgeting framework for all aspects of the investment strategy including the performance monitoring process.

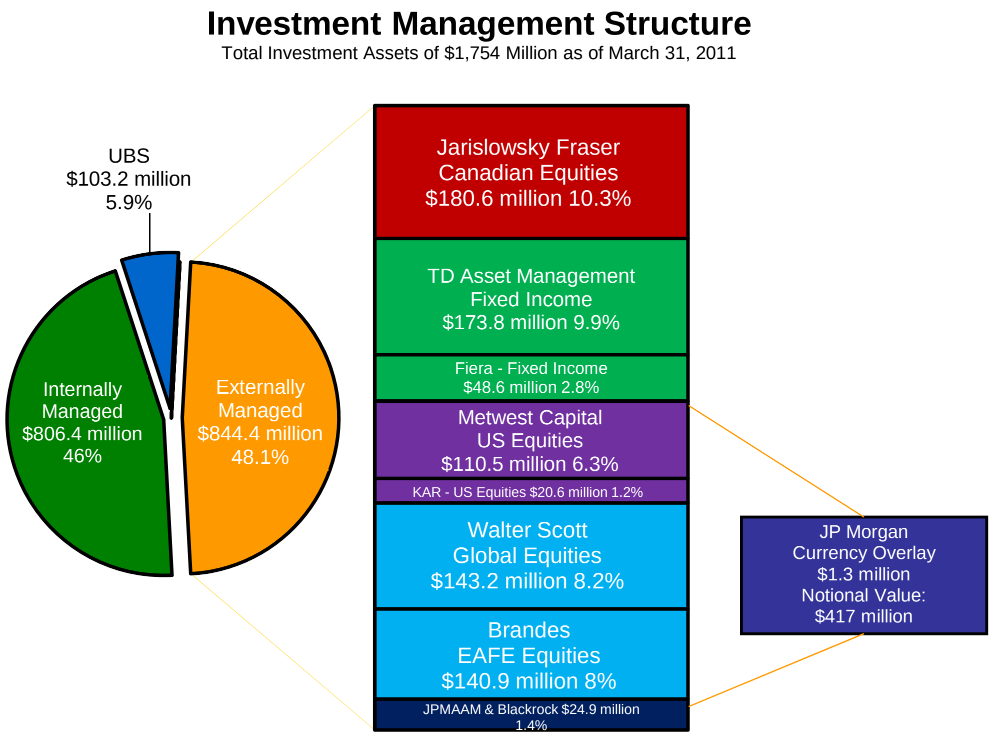
Board of Governors Investment Committee established October 1997.
Investment Committee Membership for the period June 2010 to June 2011:

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

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

Richard Allin, BComm (Alberta) - Cash Manager
Pamela Connors, Dipl. Admin (Nova Scotia Community College) - Cash Analyst
Julie Fang, BComm (Alberta) - Cash Analyst (to January 2011)
Richard Iwuc, BSc, MBA (Manitoba), CFA - Portfolio Manager
Phil Poon, BComm (Alberta) - Associate Director, Investments & Treasury
Ron Ritter, BComm (Alberta), CA - Director, Investments & Treasury
Chad Yaskiw, BComm (Alberta) - Senior Treasury Analyst

Appendix 1 - Investment Manager Structure



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

Asset Classes and Investment Managers as of March 31, 2011

Asset Class	Investment Manager	Endowed Assets	Non-endowed Assets	Total Assets under Management
Canadian Equity	Jarislowsky Fraser	165	16	$181
Fixed Income Passive	TD Asset Management	159	15	174
Fixed Income Active	Fiera	45	4	49
US Equity	Metropolitan West Capital Management	100	10	110
US Equity	Kayne Anderson Rudnick Investment Mgmt	19	2	21
Non-North American Equity	Brandes Investment Partners	129	12	141
Global Equity	Walter Scott & Partners Limited	130	13	143
Absolute Return Strategies	BlackRock Alternative Advisors	11	1	12
Absolute Return Strategies	JP Morgan Alternative Asset Management	11	1	12
Active Currency Overlay	JP Morgan Asset Management ($417 notional)	1	0	1
		$770	$74	$844
Money Market	UBS Global Asset Management	$0	$103	$103
Money Market	Internally Managed	$6	$659	$665
Fixed Income	Internally Managed	2	$30	32
ABCP	Internally Managed	0	$92	92
Various	Internally Managed	5	13	18
		$13	$794	$807
		$783	$971	$1,754

Appendix 2 - Long-Term Value Added

The graph below depicts the UEP's return in excess of the benchmark return since inception. The benchmark has varied over time as changes have been made to the UEP's investment policy. This graph demonstrates that active management strategies have successfully added value over the longer term. Although active management strategies detracted 1.1% in value this year, over a ten year period they have added 0.5% annualized.

The yellow bars depict annual performance in relationship to the benchmark. The blue line annualizes these amounts over a rolling ten-year period. The red line represents the cumulative value added since inception.