INVESTMENT COMMITTEE REPORT TO THE BOARD OF GOVERNORS

For the Year Ended March 31, 2009

UNIVERSITY OF ALBERTA

INVESTMENT COMMITTEE REPORT TO THE BOARD OF GOVERNORS

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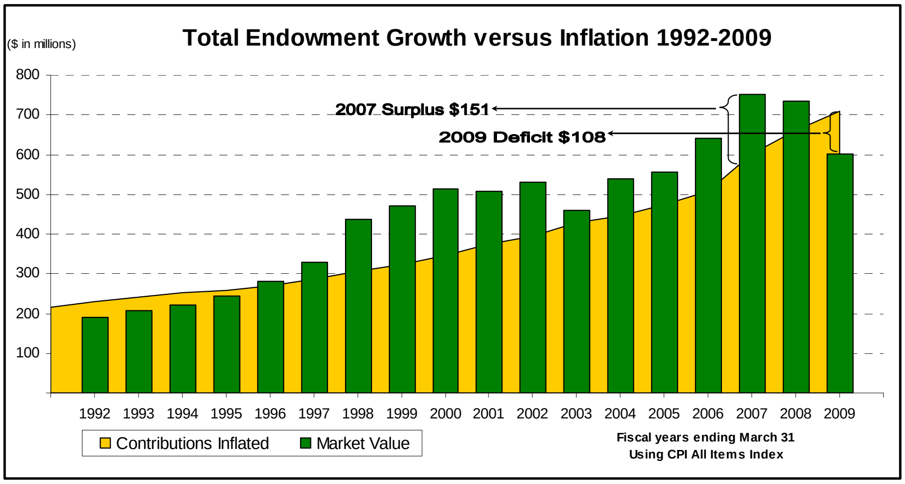
		2009	2008
Non-Endowed Funds		Millions	
	Short-term	$ 814	$ 437
	Mid-term	42	63
	Long-term	77	115
	ABCP	93	130
		1,026	745
Endowment Funds		602	734
		$ 1,628	$ 1,479

The investment assets of the University of Alberta that are under the governance of the Investment Committee had a total market value of $1,628 million (2008 - $1,479 million) as of March 31, 2009.

Endowment Funds - Highlights

The 2007 credit crisis evolved into a financial crisis and a synchronized global economic downturn in 2008, the magnitude of which had not been experienced in over 50 years. Virtually all asset classes except cash and bonds suffered substantial losses as extreme levels of uncertainty resulted in a flight to safety in short-term sovereign debt. While the University's endowment fund fared better than many in this environment, significant losses were incurred.



The market value of the endowments decreased by $132 million to $602 million during the year. The real value of the endowments declined by 27.0%. This decline was comprised of a loss in market value of 19.5% on the investment assets together with total expenditures of 6.3% and inflation of 1.2%. Given the magnitude of the past two years' cumulative losses, the value of the fund now trails the inflation adjusted contributions by $108 million at March 31, 2009. This represents a very significant decrease from the surplus of $151 million in 2007; and reflects the magnitude of the economic crisis.

Although the endowment fund experienced a loss in market value of 19.5% which fell significantly short of the 7.5% return required for expenditures on university programs, fees, expenses and the impact of inflation, it outperformed its benchmark by 4.2%. This result reflects:

- a capital market environment in which all equities experienced significant losses (the Canadian S&P TSX lost 32.4% while the MSCI World Index fell by 29.1%);
- the investment policy which strongly favours equities (equities account for 70% of the policy benchmark) and
- the strategic long-term investment decision to hedge 50% of the fund's exposure to foreign currencies (almost 50% of the funds' assets are denominated in foreign currencies, the Canadian dollar depreciated by over 20% against the US dollar and the Japanese Yen this past year).

The endowments' primary 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. To maintain intergenerational equity, the value of the endowments should be preserved over time in real terms. The endowments' spending rate for the 2009 fiscal year was 4.45% and provided $34.7 million to support program spending. The spending rate for the 2010 fiscal year was to be 4.25% as part of a 4-year transition period to gradually reduce program spending. 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. A decision on the spending rate for future years will be made in the fall.

In November of 2007 the Board approved a revised Investment Policy following a comprehensive asset-liability study. The Policy is designed to maximize long-term returns with an acceptable level of risk while maintaining the long-term real value of the endowments after spending and expenses. Given the level of economic uncertainty and volatility, certain aspects of the Investment Policy have not been implemented. Management with the direction of the Investment Committee will re-assess the Investment Policy, and where appropriate, develop implementation strategies or propose changes to the policy. Key features of the Investment Policy that have not been implemented include the following:

- The increased allocation to equities from 70% to 80% offset by a corresponding decrease in the fixed income allocation was not implemented given the level of economic uncertainty that persisted throughout the year.
- Within the equity component the increased allocation to alternative investment strategies from 5% to 20% was not implemented. Of this amount, 10% was to be allocated to hedge funds, while 5% was to be allocated to private equity and 5% to real estate. The long-term viability of certain investment strategies employed by hedge funds is uncertain, making an increased allocation inappropriate at this point in time. Valuation concerns resulted in the deferral of any allocation to the private equity and real estate asset classes.

Non-Endowed Funds - Highlights

The performance of the non-endowed funds was -1.3% versus a benchmark rate of return of -4.5%. The loss reflects the impact of both the investment in the Unitized Endowment Pool (UEP) and the asset backed commercial paper (ABCP) holdings which were written down by a further $31 million this fiscal year due primarily to deteriorating credit market conditions. The cumulative write down of the ABCP holdings now stands at $72 million representing 43.6% of the ABCP par value. Excluding the impact of these items, the non-endowed funds returned 3.3%. The ABCP write down detracted 2.8% from the aggregate return, while the investment in the UEP detracted 1.8%. The outperformance relative to the benchmark is attributable to the fact that the amount of NEIP assets invested in the UEP was substantially less than the 33% contemplated by the investment policy.

The non-endowed funds have increased by $281 million to $1,026 million, primarily due to capital funding. During the fiscal year ending March 31, 2009, the University received restricted capital funding that was not spent in its entirety by the end of the fiscal year. The funds were invested in highly rated, liquid money market products ($814 million), bonds with a duration of less than 5 years ($42 million), restructured long-term notes related to ABCP ($93 million), the UEP ($61 million), as well as $16 million in shares of publicly traded spin-off companies.

Deteriorating economic and credit market conditions created substantial challenges for the ABCP restructuring process. On January 16, 2009, ABCP subject to the Montreal Accord, was successfully restructured into long-term floating rate notes that match the duration of the underlying assets. The majority of the restructured notes are expected to mature within the next 8 years and have received a credit rating of A or higher from the Dominion Bond Rating Service (DBRS). To date, an active market for the restructured notes has not evolved. It is highly probable that the restructured notes will be held to maturity. Using a comprehensive, long-term cash flow forecast, management has concluded that the exposure to ABCP does not represent a liquidity issue for the University. All existing obligations and commitments will continue to be met.

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. 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 and investment manager mandates.
- Addresses and resolves any identified non-compliance matters.

Management provides the Investment Committee with quarterly reports on investment performance. The Investment Committee forwards to the Board an annual investment review. Management 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 governance matters, asset-liability studies 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 aforementioned 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. 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. The Investment Committee has provided the Board of Governors with regular updates on the ABCP restructuring process. 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. 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:

UEP Asset Mix as at March 31, 2009

	New Policy Range Min.-Max.%	Old Policy Range Min.-Max. %	2009 Actual Asset Mix %	2008 Actual Asset Mix %
Fixed Income				
Money Market Securities	-5 - 5	-5 - 10	3.4	5.6
Bonds, Debentures, Real Return Bonds	10 - 30	20 - 40	32.1	25.9
Total	15 - 25	20 - 40	35.5	31.4
Equity				
Canadian Equity	10 - 20	10 - 20	13.1	15.6
Foreign Equity	40 - 50	40 - 60	46.7	49.2
Alternative Assets	15 - 25	0 - 10	4.7	3.8
Total	75 - 85	60 - 80	64.5	68.6

- The asset mix policy has established allocations to fixed income products for income, and to equities and alternative assets for growth.
- The asset mix is regularly reviewed for appropriateness and to monitor the risk of the UEP not meeting its primary objective of earning the spending rate plus expense plus inflation (shortfall risk). Given the level of economic uncertainty and the need for capital preservation, the increased allocation to equities as contemplated by the new investment policy was not implemented.
- The allocation of equities across Canada, the United States of America and other international capital markets diversifies market specific risk.
- The allocation of funds among different fund managers diversifies manager style risk. Please refer to Appendix 1 for details.
- The allocation of funds between both active and passive investment strategies controls active management risk.
- The University has retained a number of managers who are defensive in nature to mitigate losses in a market downturn.
- An active currency manager has been retained to manage currency risk in the portfolio.

Investment Performance
Measuring Performance of Endowment Funds

UEP Investment Policy Benchmark	Current	Target
DEX Universe Bond Index	20%	20%
DEX Real Return Bond Index	10%	0%
S&P/TSX Composite Index (Cap 10)	15%	15%
MSCI World Index 50% (Hedged to CAD)	55%	45%
Absolute Return (US 3 Month T-Bill + 6.0%)	0%	10%
Private Equity (Venture Economics Index)	0%	5%
Real Estate (IPD Index)	0%	5%
	100%	100%

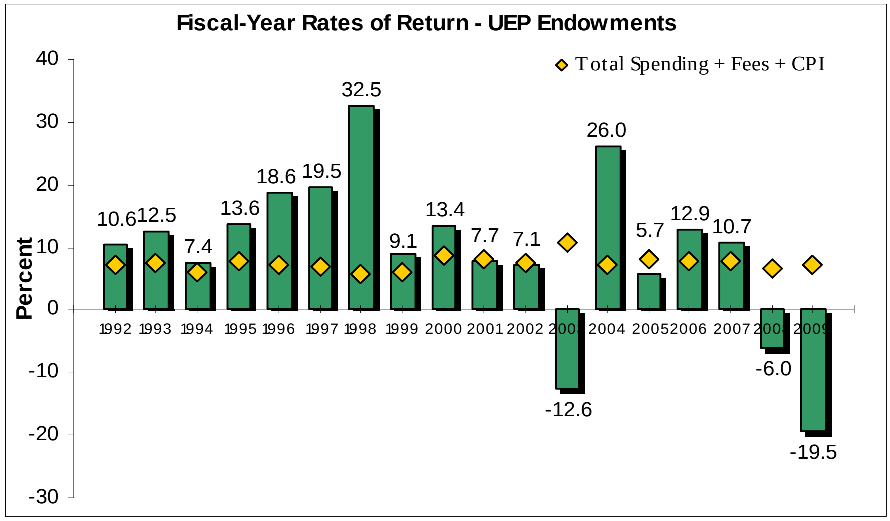
The returns of individual asset classes in the Fund are measured against established market benchmarks.

With the UEP's currency overlay program the benchmark MSCI World Index return is calculated with a 50% hedge to the Canadian dollar. The total fund return is measured against the return of the asset mix policy benchmark. The difference between the endowment's return and the benchmark return reflects the value added by strategic and investment policy allocation decisions together with active management 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 above table.

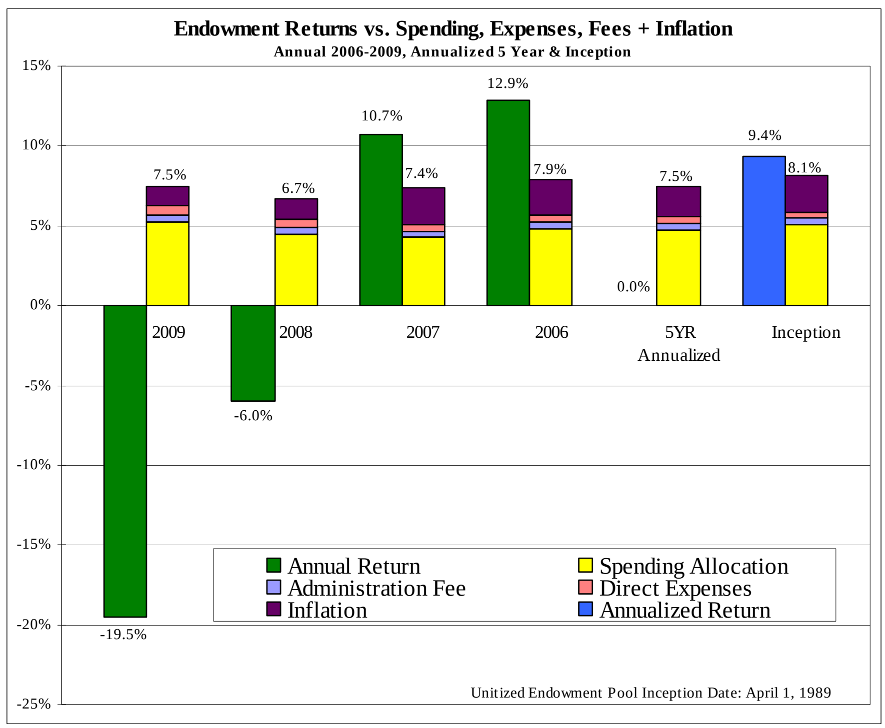
To assist the Investment Committee in its on-going assessment of the investment policy's effectiveness, the Committee monitors the performance of other similar, though not necessarily directly comparable, funds. It does so through participation in BNY Mellon Asset Servicing Canadian Master Trust Universe (CMTU), the Canadian Association of University Business Officers (CAUBO), and the U.S.A National Association of College and University Business Officers (NACUBO) endowment surveys.

Annual Endowment Fund Performance to March 31, 2009

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 accompanying charts show how the actual investment performance has fared relative to this primary objective. This objective was not met for the year ending March 31, 2009, as the fund experienced a loss in market value of 19.5%, which was substantially short of the 7.5% return required for expenditures on university programs, fees, expenses and the impact of inflation.



There were three main factors behind the poor performance in the portfolio: first, the synchronized global recession, which resulted in large losses in all equity markets, second, the asset mix of the fund with its 70% allocation to equities, and third, the policy to hedge 50% of the fund's underlying exposure to foreign currencies, because during the latest fiscal year the Canadian dollar depreciated significantly against several major currencies.



The US sub-prime mortgage crisis resulted in a contraction of credit and liquidity in the global financial sector. Central banks responded in a coordinated fashion by injecting liquidity on numerous occasions, but this failed to stabilize the world's major economies. Several large financial institutions failed, others were quasi-nationalized, while others were acquired with government support. As the global economy continued to deteriorate, investors sought safety in short-term sovereign debt. Yields on sovereign debt fell to historical lows and spreads on corporate debt widened to historical highs. Equity and commodity prices collapsed. Central banks responded with further monetary easing, effectively moving to a zero interest rate policy; and they began to introduce the concept of quantitative easing. With the flight to "quality", fixed income was the only asset class to post a positive return with the DEX Universe Bond Index returning 4.9%.

Most of this positive performance was attributable to strong returns from shorter term government bonds, while performance for longer term bonds and corporate credits trailed the broader index.

As for equities, the MSCI World Index posted a loss of 29.1% in Canadian dollar terms. The US and the Europe, Australasia and Far East (EAFE) markets all posted large double digit losses for the year. Canada's equity market with its significant weighting in commodity based sectors fared poorly, with a loss of 32.4%: most commodity prices fell sharply in anticipation of reduced global demand. On the basis of the investment policy the UEP had a 46.7% allocation to foreign equities, higher than many Canadian endowment and pension funds. In contrast to previous years, the overweight position in foreign equities dampened losses on both an absolute and relative basis.

The policy to hedge 50% of the portfolio to the Canadian dollar had a negative impact on the portfolio, detracting 3.7% from overall performance this year. During the fiscal year the Canadian dollar depreciated by 22.6%, 23.6% and 2.7% against the US dollar, the Japanese Yen and the Euro respectively, but appreciated by 11.6% against the Pound Sterling. With a 55% target allocation to Non-Canadian securities, currency is a significant source of risk and volatility in the portfolio. It is prudent to manage this risk. However, the active currency overlay managed by JP Morgan was not a source of added value in the fiscal year. The benchmark, measured by a passive 50% hedge ratio, lost 6.6% for fiscal 2009, while the actively managed currency overlay lost 8.1% for the same period.

Overall the fund outperformed its benchmark return by 4.2% in fiscal 2009. The majority of the University of Alberta's active, external managers, with the exception of the absolute return and currency overlay mandates, were able to add value to the portfolio in fiscal 2009. Typically our active managers outperform their benchmarks in "down" equity markets. The aggregate impact of this outperformance was 2.5% as shown in the graph on the following page. Deviation from the benchmark asset mix contributed 1.7% to relative performance, as

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

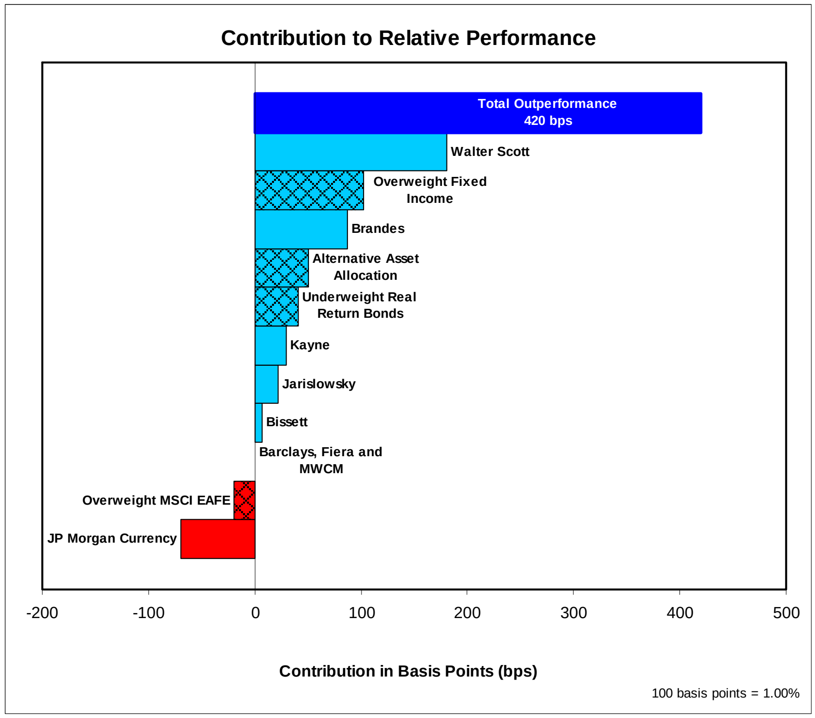
	1YR %	2YR %	3YR %	4YR %	5YR %	10YR %
Short Term Return	6.5	5.5	5.0	4.5	4.1	4.0
91-day Treasury Bill Return	*2.4*	*3.5*	*3.7*	*3.5*	*3.3*	*3.6*
Fixed Income (non-RRB)	4.9	5.2	5.3	5.0	5.0	
DEX Universe Bond Index	*4.9*	*5.4*	*5.4*	*5.3*	*5.2*	*6.1*
Fixed Income (Real Return Bonds)	-0.9	2.6	1.8	4.2	5.4	
DEX RRB Index	*-0.8*	*2.7*	*1.8*	4.2	5.5	8.8
Canadian Equity	-29.1	-17.3	-8.4	-0.9	3.0	7.4
S&P/TSX Composite Index (Cap 10)	*-32.4*	*-16.2*	*-7.8*	*0.1*	*2.8*	*4.9*
Foreign Equity Total	-22.1	-18.5	-8.8	-3.8	-2.8	0.4
MSCI World Index	*-29.1*	*-21.7*	*-11.1*	*-5.3*	*-3.8*	*-3.6*
Non-North American Equity	-22.5	-17.7	-7.5	-1.8	-0.5	
MSCI EAFE Index	*-34.0*	*-24.3*	*-11.9*	*-4.7*	*-2.6*	*-2.3*
U.S. Equity	-21.8	-19.7	-10.8	-6.7	-5.8	
Standard and Poors 500 Index	*-24.1*	*-19.9*	*-10.8*	*-6.5*	*-5.6*	*-4.8*
Absolute Return Strategies	*-21.3*	*-10.3*	*-4.0*	*-1.3*		
US T-Bills +6.0%	*7.2*	*8.9*	*9.6*	*9.6*		
Currency Overlay	-8.1	*-3.7*	*-2.6*			
50% passively hedged benchmark	*-6.6*	*-2.4*	*-2.0*			
Total Fund	-19.5	-13.0	-5.8	-1.4	0.0	3.7
Benchmark Return	-23.7	-14.5	-7.1	-2.2	-0.7	2.3
CTU Median	-17.2	-10.3	-3.5	0.9	2.1	4.3
CPI Index	1.2	1.3	1.6	1.8	1.9	2.2

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

	2009 %	2008 %	2007 %	2006 %	2005 %
Short Term Return	6.5	4.5	4.1	3.0	2.3
91Day Treasury Bill	*2.4*	*4.6*	*4.2*	*2.8*	*2.2*
Fixed Income (non-RRB)	4.9	5.5	5.4	4.4	4.7
DEX Universe Bond Index	*4.9*	*5.8*	*5.5*	*4.9*	*5.0*
Fixed Income (Real Return Bonds)	-0.9	6.3	0.1	11.7	10.7
DEX RRB Index	*-0.8*	*6.4*	*0.0*	*11.8*	*10.7*
Canadian Equity	-29.1	-3.6	12.3	25.5	20.5
S&P/TSX Composite Index (Cap 10)	*-32.4*	*4.0*	*11.4*	*28.4*	*13.9*
Foreign Equity Total	-22.1	-14.7	14.1	12.9	1.5
MSCI World Index	*-29.1*	*-13.5*	*14.7*	*14.3*	*2.3*
Non-North American Equity	-22.5	-12.6	16.7	17.9	4.9
MSCI EAFE Index	*-34.0*	*-13.1*	*19.4*	*20.4*	*6.3*
U.S. Equity	-21.8	-17.7	10.4	6.7	-2.4
Standard and Poors 500 Index	*-24.1*	*-15.6*	*10.6*	*7.7*	*-1.8*
Absolute Return Strategies	-21.3	2.3	10.1	7.2	
US T-Bills +6.0%	7.2	*10.9*	*11.1*	*8.5*	
Currency Overlay	-8.1	1.0	-0.5		
50% passively hedged benchmark	-6.6	*2.1*	*-1.3*		
Total Fund	-19.5	-6.0	10.7	12.9	5.7
Benchmark Return	-23.7	-4.2	9.9	14.2	5.5
CTU Median	-17.2	-2.5	10.8	14.9	8.2
CPI Index	1.2	1.4	2.3	2.2	2.3

indicated by the shaded areas.

In the BNY Mellon Asset Servicing Canadian Master Trust Universe (CMTU), which is composed of Canadian institutional pensions, endowments, and foundations, the median fund lost 17.2%. 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 U of A 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 77th percentile, while the benchmark return ranked in the 97nd percentile. This poor ranking is generally explained by the UEP's currency hedging strategy and its higher allocation to equities relative to other Canadian endowment and particularly pension funds and lower allocation to Fixed Income than most. Eliminating the impact of the currency hedging program would have resulted in a high second quartile performance.



On a ten-year basis the UEP returned 3.7% versus a CMTU median return of 4.3%. 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 lower allocation to these two asset classes.

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, 2007 and June 30, 2008 respectively. This data is not fully reflective of the large losses incurred by equity markets this past year, making shorter-term comparisons less than informative. Longer-term results as measured by the 10 year return of 8.1% for the period ending December 31, 2007 and 6.7% for the period ending June 30, 2008 continue to rank in the first and second quartiles of the two respective studies.

Spending Policy

For the year ending March 31, 2009, $34.7 million was made available from the Endowments to support program spending. On April 1, 2004 the University implemented a Board of Governors approved long-term strategy to shift the endowment's spending model to a sustainable inflation indexed model. The spending rate maximum is 6.0% of market value and a spending rate minimum is 4.0%. The move was required because the effective rate of spending at the time exceeded the long-term real return expectation of 5.0%. Under this strategy, the shift was occurring gradually, in order to limit the impact of spending allocation reductions on the programs being supported. The spending policy during the transition period was based on a 36-month average of market value. The spending allocation was being gradually reduced from 5.0% to 4.25% over a 4-year period. The spending rate for fiscal 2009 was 4.45% and was to be reduced to 4.25% for fiscal 2010.

Given the investment performance, the value of the endowments had fallen below the cumulative contributions indexed for inflation. In other words the real value of the endowments had been impaired. In light of this, the

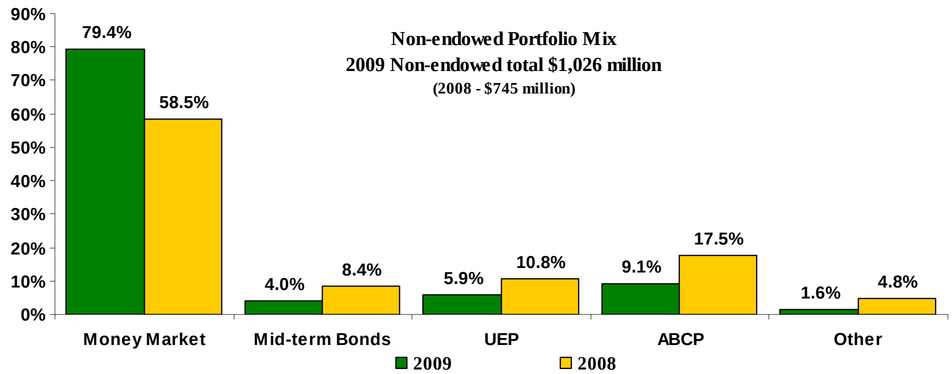
Board of Governors, on March 27, 2009, approved a proposal to reduce the spending rate from 4.25% to 3.50% for the 2010 fiscal year. This will reduce the amount available for program spending in 2010 by $8.0 million or 23.0% from the prior year.

Costs

An Administrative Fee to support centrally funded indirect costs associated with endowment programs is charged to the endowments. For 2009 this amounted to $3.8 million, representing 0.52% of average market value of the fund. The fund also incurred direct expenses of $3.7 million or 0.51% of the average market value of the fund with respect to investment management and custodial fees.

Non-Endowed Funds

The Non-endowed Investment Pool (NEIP) represents the University's operating, capital, and restricted funds, of which $814 million (2008 - $567 million) is held in money market instruments while the remaining $212 million (2008 - $178 million) is invested in long-term notes, bonds and equities.



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. The majority of the short-term fixed income investments are managed by UBS Global Asset Management in their "Cash in Action" fund. It is expected that this fund will generate comparable returns but with a lower risk profile than could be achieved by internal management. The fund is being used to meet the University's daily liquidity requirements, which has allowed the remainder of the short-term funds to be invested in longer-term high-quality treasury bills and bankers acceptances.

The non-endowed funds posted a loss of 1.3% for the year. This was the result of both the additional $31 million write down, related to the University's $165 million asset backed commercial paper holdings (ABCP), and also the 19.5% loss in market value on funds allocated to the long-term investment strategy. Excluding the impact of these items, the non-endowed funds returned 3.3%. The ABCP write down detracted 2.8% from the aggregate return, while the allocation to the long-term strategy detracted 1.8%. Cash and cash equivalent money market funds comprised 79.4% or $814 million of the non-endowed funds at the end of the fiscal year. Of this amount $525 million is managed by UBS. UBS posted a return of 2.9%, outperforming the benchmark DEX 91 day T-Bill return of 2.4%.

Asset Backed Commercial Paper (ABCP)

Legal challenges combined with rapidly deteriorating economic and credit market conditions created substantial challenges for the ABCP restructuring process this past year. While many of these challenges were successfully resolved, it became clear that the restructuring could only be accomplished with credit support from the Government of Canada and various provincial governments (including the Government of Alberta). On January 16, 2009, ABCP subject to the Montreal Accord, was successfully restructured into long-term floating rate notes that matched the duration of the underlying assets. Two bank sponsored ABCP holdings were similarly restructured in the past year, directly with the sponsoring banks. In total the University now holds 41 separate long-term floating rate notes arising from the restructuring program. While the maturity dates of the restructured notes vary significantly, approximately 90% of the notes by value are expected to mature within the next 8 years. More than 75% of the restructured notes by value have received a credit rating of A or higher from DBRS. To date, an active market for the restructured notes has not evolved: it is highly probable that the restructured notes will be held to maturity. Using a comprehensive, long-term cash flow forecast, management has concluded that the exposure to ABCP does not represent a liquidity issue for the University. All existing obligations and commitments will continue to be met.

During the year, the University's holdings of ABCP declined by $5 million from $170 million to $165 million. As part of the restructuring process certain underlying trades were unwound resulting in a total loss of principal for note holders. The University's exposure to these trades was $3 million. The restructuring of one bank sponsored ABCP holding resulted in a cash payment to the University of $2 million. During the year the write down related to the University's ABCP holdings was increased by $31 million to $72 million (43.6%) (2008 - $41 million (24%)). This increase was primarily due to deteriorating credit market conditions.

Other Assets

Internally managed mid-term bonds with a duration of under 5 years comprised 4.0% or $42 million of the non-endowed funds: these bonds provided a return of 4.8%, which trailed the benchmark DEX Short Term Bond index return of 6.9%. Federal agencies, and provincial government bonds comprised the majority of the holdings in the mid-term strategy. Given the flight to quality of sovereign debt, performance in these sectors trailed that of bonds issued by the Government of Canada. At March 31, 2009, $61 million, or 5.9% of the non-endowed funds, was invested in the UEP. As previously reported its market value was down 19.5% for the year.

Going Forward

This years' loss, which resulted in a large short fall in value against the cumulative endowment contributions indexed for inflation, will require a comprehensive review and re-evaluation at both the policy and investment strategy levels. Management has recently recruited two investment professionals to fill one existing vacancy and one new position. These additional dedicated resources will serve to position the University for the challenges that lie ahead. Management with the direction of the Investment Committee will:

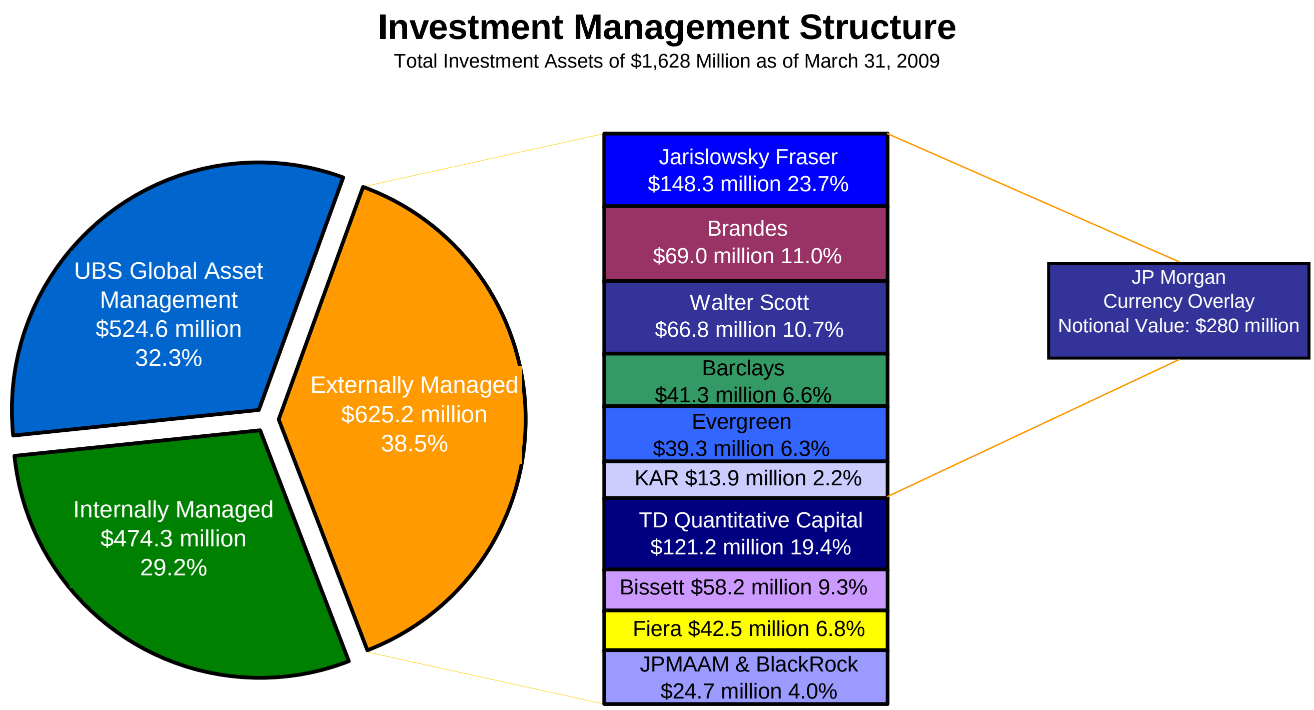
- Complete a comprehensive sustainability analysis of the UEP Spending Policy that takes into account the existing University Funds Investment Policy and future expected capital market conditions.
- Re-assess the continued appropriateness of the University Funds Investment Policy and where appropriate develop implementation strategies for the various alternative asset classes or propose changes to the policy.
- Continue to assess the ongoing appropriateness of all existing investment strategies and mandates.
- Incorporate risk budgeting into 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 2008 to June 2009:

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

Appendix 1 - Investment Manager Structure

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



Barclays Global Investors has a Russell 1000 enhanced US equity mandate. BGI uses a fundamental multi-factor quantitative model to provide returns in excess of the benchmark. This mandate is tightly risk-controlled as BGI strives to provide annual excess returns of 1-2% with an active risk of no more than 2.0%. BGI has been a fund manager for the University of Alberta since January 2007.

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.

Blackrock (Institutional) Canada Ltd is the asset manager and administrator for the restructured long-term asset backed commercial paper notes. This mandate commenced in January 2009.

BlackRock Alternative Advisors (formerly Quellos Capital Management) has an absolute return strategy mandate. The University has invested in Q-BLK Strategic Partners II Ltd. which operates a hedge fund of funds product. Q-BLK Strategic Partners II invests in approximately 40 individual strategy funds run by managers outside of BlackRock. These different strategies seek to generate a return by capitalizing on market inefficiencies and include relative value, event driven, fundamental long/short, direct sourcing and directional trading strategies. BlackRock excludes certain strategies from their fund of funds, such as global macro and managed futures. This mandate was funded on January 1, 2005.

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.

Evergreen – Metropolitan West Capital Management (MWCM) has an active US large cap equity mandate. MWCM's style is that of an intrinsic value manager. Their fundamental research utilizes a long-term focus that takes advantage of opportunities presented by short-term anomalies in high-quality businesses. MWCM's mandate was funded in November of 2008.

Fiera Capital has two active Canadian fixed income mandates. For both mandates the investment process is top down and seeks to add value primarily from duration management by investing mainly in government issued or backed bonds. The active mandate is more diversified and duration constrained while the tactical mandate is highly concentrated and relatively unconstrained from a duration perspective. Fiera's mandates were funded in November of 2008.

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 25 years.

JP Morgan Alternative Asset Management has an absolute return strategy mandate. The University of Alberta has invested in JPMAAM's Multi-Strategy Fund Ltd. which operates a hedge fund of funds product. The Multi-Strategy Fund invests in approximately 30 individual strategy funds run by managers outside of JPMAAM. These different strategies seek to capitalize on market inefficiencies which include relative value, opportunistic/macro, long/short equities, merger arbitrage/event driven, distressed securities and dedicated short selling strategies. JPMAAM selects well-established hedge fund managers with assets under management greater than $50 million. JP Morgan Alternative Asset Management's mandate was funded on January 1, 2005.

JP Morgan Asset Management has an active currency overlay mandate. JP Morgan uses both quantitative and qualitative measures to actively track seventeen different currency pairs. The manager uses a series of currency forward contracts to either increase or decrease the university's exposure to a certain currency, in the context of a strategic hedge ratio of 50% that is based on the UEP's actual exposure associated with its foreign equity holdings. The primary goal of the mandate is to manage the UEP's underlying currency risk exposure, with a secondary goal of return enhancement. The long-term objective for this mandate is to generate a 1.0% excess return over that of the strategic hedge ratio with a target tracking error of 2.0%. The mandate commenced on October 31, 2005.

Kayne Anderson Rudnick Investment Management LLC (KAR) 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 funded on December 1, 2003.

TD Quantitative Capital has a DEX Bond Universe index mandate. The U.S. equity S&P500 index mandate was terminated to fund the MWCM mandate. The TD Emerald Short-term Income Fund mandate was terminated to fund the Fiera mandates. The DEX Real Bond index mandate was also terminated this past year. 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 funded on July 1, 2003.

UBS Global Asset Management has an active Canadian money market mandate. Utilizing their internal global credit team UBS seeks to add value by interest rate anticipation, sector allocation, yield curve management, and security selection. UBS was first funded on April 25, 2007.

Appendix 2 - Investment Performance by Asset Class

Balanced Manager Performance

Jarislowsky Fraser's loss for the year of 19.6% was better than their benchmark's loss of 20.4%. Jarislowsky's investment style, with its focus on companies in non-cyclical sectors, resulted in good outperformance in all equity asset classes this past year. This, however, was not the case within Canadian fixed income. They held a much higher than benchmark weight in corporate bonds: this resulted in significant underperformance in this asset class. In terms of asset allocation within their balanced mandate, since 2007 Jarislowsky Fraser had been tactically reducing their allocation to fixed income and reallocating funds to US and EAFE equities. This shift in asset allocation detracted from performance: as both equity classes substantially underperformed Canadian fixed income. As at March 31, 2009 the allocation to Canadian fixed income had climbed back to its benchmark weight. Jarislowsky believes that the portfolio is appropriately positioned: within the Canadian fixed income component they expect strong performance as corporate credit spreads begin to narrow.

Individual Asset Class Performance
Fixed Income

Fixed income includes publicly traded Canadian bonds, a Canadian bond index pool and privately issued mortgages. Currently 52.8% of the fixed income allocation is in the TD Emerald Canadian Index bond fund. Fiera manages 18.5% while Jarislowsky Fraser manages 20.1% of the bond portfolio. 8.6% is managed internally. The overall fixed income portfolio returned 3.0% versus the UEP Fixed Income benchmark of 3.2%.

Bonds

Canadian bond rates of return for the endowments were 4.9% for the fiscal year. This return matched the DEX Bond Universe return of 4.9% and exceeded the CMTU Fixed Income median of 2.9%. In response to the worsening credit crisis and a dramatically slowly economy, the Bank of Canada cut its overnight rate six times, bringing it from 3.50% to just 0.50% as at March 31, 2009. The yield curves in both Canada and the US steepened dramatically during the year, with the most movement coming at the short end of the curve. Corporate credit spreads widened to historical records, peaking at 440 basis points over Government of Canada bonds.

Canadian Bonds Sector Allocation

Sector	Market Value ($ millions)	% of Bonds	% of Portfolio
Federal	78.72	38.38%	12.22%
Provincial	44.98	21.93%	6.98%
Municipal	2.57	1.25%	0.40%
Corporate	78.68	38.36%	12.22%

Jarislowsky Fraser underperformed the benchmark with a return of 3.4%. Jarislowsky targets the corporate bonds to add value to the portfolio. The worsening credit crisis resulted in a dramatic widening of corporate spreads to all time historical levels, and led to a flight to quality government bonds. This negatively impacted performance. The index return for corporate bonds of 1.6% fell well short of the 8.4% return for Government of Canada bonds and 3.4% return for Provincial Government bonds.

The TD Emerald Canadian Bond Index Fund is indexed to the DEX Bond Universe and essentially tracked the benchmark, with a return of 4.8%. The Fiera mandates which were funded in November of 2008 outperformed the benchmark by 1.0% for the quarter ending March 31, 2009. Value added came primarily from trading associated with duration management.

Real Return Bonds

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 DEX Real Bond Index. The fund invests in federal and provincial real return bonds and debentures with a minimum A credit rating requirement for any holding. For the year ending March 31, 2009, the DEX Real Bond Index lost 0.8%. The TD Asset Management Portfolio was slightly behind the index, with a loss of 0.9%. The poor performance of this asset class is reflective of declining long-term inflation expectations that resulted in a reduced premium for real return bonds.

In September 2006, the committee decided to reduce the UEP's allocation to Real Return bonds. The high demand for these bonds by Canadian pension funds had created a supply/demand imbalance which skewed returns for the asset class. This imbalance reduced the bonds' inflation hedging attributes. Due to significant positive past performance and a concern about the ability of the bonds to provide effective inflation hedging over shorter periods, the Investment Committee reduced the allocation by one-third to 6.5% of the UEP. The remaining allocation to real return bonds was eliminated over the course of the past year, with the last sale occurring in March of 2009.

Canadian Equity Component

The Canadian equity portfolio lost 29.8% for the period compared to a loss of 32.4% for the Canadian equity benchmark S&P/TSX Composite Index, and -30.7% for the CMTU Canadian Equity median. The Canadian market remains highly concentrated (75.5%) in three sectors: Financials (27.8%), Energy (27.7%) and Materials (20.0%). The heavy concentration in commodity based sectors, combined with the collapse of global commodity prices, resulted in the Canadian market posting a significant loss. Despite the highly concentrated nature of the Canadian market the median manager was able to outperform the broader benchmark index.

Top 10 Canadian Equity Holdings

Company	Market Value ($ millions)	% of CDN Equities	% of Portfolio
Thomson Reuters	3.97	4.67%	0.61%
Royal Bank of Canada	3.79	4.46%	0.59%
Canadian National Railway	3.54	4.16%	0.55%
Bank of Nova Scotia	3.53	4.16%	0.55%
Toronto Dominion Bank	3.33	3.92%	0.51%
EnCana Corporation	3.20	3.77%	0.50%
Rogers Communications	3.01	3.54%	0.47%
Talisman Energy	2.76	3.25%	0.43%
Alimentation Couche-Tard	2.75	3.23%	0.42%
Manulife Financial Corporation	2.71	3.19%	0.42%

Jarislowsky Fraser's Canadian equity portfolio lost 24.5%; and it significantly outperformed the benchmark. Successful stock selection in eight of the nine industry sectors that the manager was invested in, helped minimize losses. Losses were further minimized by maintaining an overweight position in 3 of the 7 sectors that performed better than the index (Consumer Staples, Consumer Discretionary and Industrials).

For fiscal 2009, Bissett's loss of 31.7% slightly outperformed the benchmark by 0.7%. Bissett's investment philosophy of investing in growing companies at reasonable prices has resulted in a focus on non-cyclical sector stocks and at the same time a significant underweight to the Materials stocks and a lesser focus on Energy stocks. Falling commodity prices resulted in substantial losses for stocks in these sectors. Portfolio sector positioning together with good stock selection benefited performance in the first part of the year. However, much of this relative outperformance was lost in March of 2009 as the commodity based sectors outperformed the broader index on a rally in commodity prices.

Foreign Equity Component

The foreign equity component is comprised of a US position and also one in Europe, Australasia, Far East, and emerging market (EAFE). The endowment's foreign equity component posted a loss of 22.8%, compared to the benchmark Morgan Stanley Capital International Composite World Index loss of 29.1% for the year. The endowments outperformed the CMTU Non-Canadian Equity median loss of 29.4%. 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
Nestlé	3.73	1.24%	0.58%
Ericsson Telephone	3.26	1.08%	0.50%
Exxon Mobil	3.13	1.04%	0.48%
Deutsche Telekom	2.94	0.97%	0.45%
Chevron	2.82	0.93%	0.44%
Sanofi-Aventis	2.75	0.91%	0.43%
Colruyt	2.74	0.91%	0.42%
Fanuc Ltd.	2.60	0.86%	0.40%
Essilor International	2.59	0.86%	0.40%
Apple Inc.	2.56	0.85%	0.40%

Jarislowsky Fraser's foreign equity portfolio had a loss of 27.3%, outperforming the MSCI World Index by 1.8%. The US equity component of the Jarislowsky Fraser foreign equity portfolio had a positive relative return of minus 22.4% compared to the S&P 500 of minus 24.1%. On the EAFE side, Jarislowsky Fraser again performed better than the benchmark, posting minus 31.2% against the MSCI EAFE minus 34.0%. Jarislowsky Fraser concentrates on large-cap, non-cyclical stocks in their portfolios. All sectors in the US market posted losses for the year, but the divergence was extreme. The worst performing Financial sector posted a loss of 54.7%: the best, Health Care, posted a loss of only 1.6%. Jarislowksy Fraser was positioned to take advantage of the market turning towards more defensive stocks, however this was partially offset by poor stock selection in the Financial sector. Similar extreme conditions prevailed in the EAFE market. Jarislowsky's performance in the EAFE market was positively impacted by an overweight position in each of the top 4 performing sectors, Health Care, Telecommunication Services, Energy and Consumer Staples.

The Non-North American (EAFE) equity mandate managed by Brandes Investment Partners had a loss of 25.3%, which was significantly better than the MSCI EAFE Index loss of 34.0%. This is primarily attributable to stock selection in the Health Care and Telecommunication sectors. Country and sector allocations are for the most part a function of Brandes' bottom up stock selection process. The portfolio's overweight positions in the better performing Health Care and Telecommunication sectors contributed positively. While the Japanese equity market in local terms performed in line with global markets, the appreciating Yen had a strong positive impact on performance from a Canadian dollar perspective. The portfolio's higher than benchmark allocation to Japan benefited relative performance.

Walter Scott & Partners' EAFE mandate posted a loss of 15.9% for fiscal 2008, which was dramatically better than the MSCI EAFE. The focus on companies that are growing, profitable, generating strong cash flow with low or debt free balance sheets, clearly benefited performance this past year. The manager focuses on companies that they view to have the potential to grow in excess of 20% per year. Companies in which they invest in must be profitable, with break-even levels significantly lower than their peer group. The manager also focuses on companies that can generate sufficient cash flow to finance their short, medium and long-term growth, resulting in less reliance on debt. Walter Scott's strong relative performance this year is primarily attributable to their stock selection process. Country and sector allocations are for the most part a function of their bottom up stock selection process. An overweight position in the better performing Health Care and Consumer Staples sectors combined with an underweight position in the worst performing Financials sector also contributed to their strong relative performance. Walter Scott's higher than benchmark allocation to Japanese equities also benefited performance as the Japanese Yen appreciated significantly against the Canadian dollar this past year.

The Barclays Global Investors (BGI) Russell 1000 Alpha Tilts mandate lost 24.4%, and was in line with the benchmark loss of 24.3% for the Russell 1000 index. BGI uses a tightly risk-controlled quantitative fundamental model, which is optimized daily, to take slight overweight and underweight positions in approximately 500 securities. The model is market neutral, meaning that the composition of the portfolio matches that of the Russell 1000 in terms of Beta exposure and sector and industry allocation. The target for this portfolio is to provide 1-2% added value over the index with no more than a 2% tracking error. Barclays has implemented numerous new proprietary indicators into their quantitative model in response to the previous year's poor performance, resulting in improved, but only benchmark like performance. While the earnings quality indicators performed strongly this year, this was offset by the poorly performing relative value indicators. The relative value indicators failed to add value as investors did not focus on forward projections of earnings. The dispersion, as measured by generic valuation signals, between relatively inexpensive and expensive stocks reached record levels this year. At the same time the correlation between all individual stocks in the index also reached record levels. The sentiment factors failed to fully capitalize on this trend.

The U.S small to mid-cap equity portfolio, managed by Kayne Anderson Rudnick, lost 9.6% for the fiscal year dramatically outperforming the benchmark Russell 2500 index loss of 24.3%. 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 on companies with an S&P rating of A- or better. With the US economic recession and the dramatic widening credit spreads, investors shifted heavily towards higher quality stocks. This benefitted the strategy. The significant outperformance for the year is entirely attributable to strong stock selection in 7 of the 9 sectors in which the manager was invested in.

The S&P 500 Index portfolio managed by TD Quantitative Capital was terminated in November 2008 to fund the Metropolitan West Capital Management (MWCM) mandate. During this period of time this mandate performed in line with the index. The MWCM US Large Cap Intrinsic Value mandate which was funded in November 2008, posted a loss of 6.5% for the quarter ending March 31, 2009 outperforming the S&P 500 which posted a loss of 9.3% for the same time period. Outperformance is primarily attributable to stock selection in the Information Technology, Industrials and Consumer Discretionary sectors.

Alternative Asset Component

JPMAAM under-performed for the fiscal year with a loss of 19.2% against a target US T-Bills + 6% return of 7.2%. Although the mandate fell significantly short of its target return, it outperformed both the HFR Composite loss of 20.5%, the HFRX Equity Hedge index which lost 21.1% and the S&P 500 which lost 24.1%. JPMAAM reported that all sub-strategies with the exception of short selling incurred losses during the year. The main drivers impacting performance were deleveraging, illiquidity and government intervention. Deleveraging and redemption requests forced many of the underlying managers to sell illiquid long positions at distressed prices and buy into short positions. The imposition of the short selling ban in September 2008 significantly limited the ability for some managers to generate profits. JPMAAM believes going forward that relative value strategies that are focused on volatility and commodities will offer the best opportunities. Over the medium to long-term it is expected that distressed and privately structured credit strategies will offer the best opportunities. They have a cautious view on both the long-short equity and merger arbitrage strategies given the potential for limitations on shorting and the expected decreased deal flow.

Blackrock under-performed their target return of 7.2% with a loss of 23.8%. Blackrock reported that all sub-strategies incurred losses during the year. Blackrock's performance was impacted by the same general market conditions as JPMAAM, but their higher allocation to relative value managers was particularly hard-hit by the combination of a historically illiquid market environment and rising risk premiums. Pricing relationships became highly volatile, which particularly impacted highly leveraged convertible and fixed income arbitrage strategies creating substantial losses on certain trades. Going forward Blackrock anticipates that investors will continue to exit hedge funds, which will create a broader secondary market in hedge fund interests, an area in which they plan to selectively participate in situations where value can be accrued from motivated sellers. For relative value strategies, economic uncertainty and emergent economic news are expected to generate actionable opportunities that could be very attractive. Blackrock anticipates that the environment for direct sourcing managers will be favorable for some time as traditional lenders continue to maintain a restrictive lending posture.

Currency Overlay

The notional asset value of the JP Morgan active currency mandate is based on the UEP's actual exposure to foreign currency. With a 55% target allocation to non-Canadian securities, currency is a significant source of risk that must be managed. The overlay program finished the fiscal year with a notional value of $280 million. The strategic hedge ratio of 50% detracted 300 basis points to the UEP's benchmark performance as the Canadian dollar depreciated significantly in value against several major currencies, most notably the US dollar (22.6%) and the Japanese Yen (23.6%), during fiscal 2009. The overlay account detracted a further 70 basis points from the fund's overall performance: it lost 8.1% for the year versus a benchmark loss of 6.6%. This underperformance is primarily attributable first to a sustained high short position against the Euro throughout the year as it appreciated modestly against the Canadian dollar, second to a long position on the Swedish Krona and Norwegian Krone when these currencies depreciated in value against the Canadian dollar. The longstanding underweight Euro position is the result of negative interest rate and investor flow factors, and overvaluation from a purchasing power perspective in their models. The overweight Swedish Krona and Norwegian Krone positions were driven by positive interest rate, trend and investor flow factors. Value added on long positions in the Japanese Yen and Australian dollar were offset by losses on positions related to the US dollar, the Pound Sterling and the New Zealand Dollar.

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. This graph demonstrates that active management strategies have successfully added value over the longer term. Active management strategies added 4.2% in value this year after six years of marginal and mixed results.

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