INVESTMENT COMMITTEE REPORT TO THE BOARD OF GOVERNORS

For the Year Ended March 31, 2007

UNIVERSITY OF ALBERTA

INVESTMENT COMMITTEE REPORT TO THE BOARD OF GOVERNORS

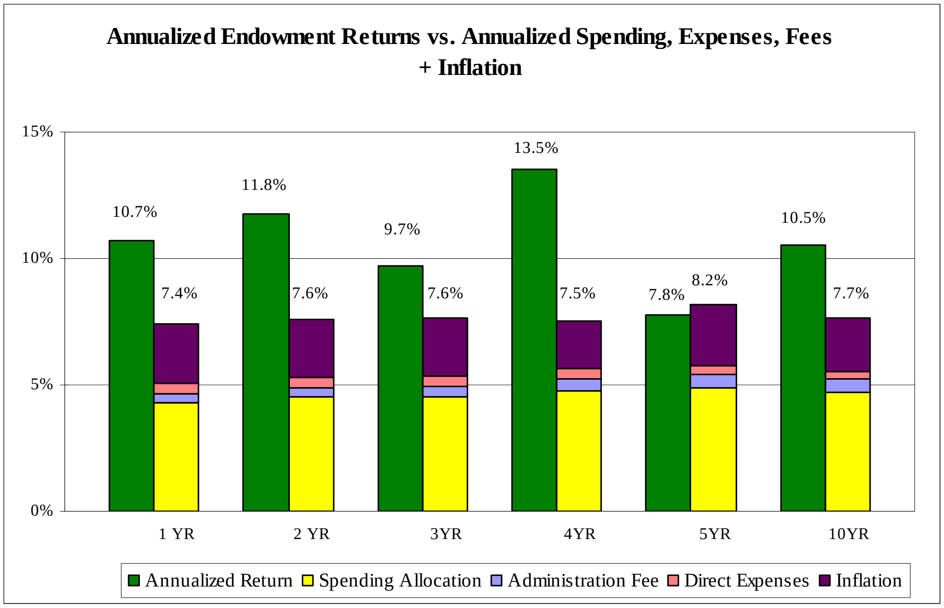
For the Year Ended March 31, 2007

CONTENTS:

The investment assets of the University of Alberta that are under the governance of the Investment Committee had a total market value of $1,184 million (2006 - $990 million) as of March 31, 2007. Of this amount, $751 million (2006 - $640 million) relates to endowments, while the remaining $433 million (2006 - $350 million) relates to non-endowed funds.

Endowment Funds - Highlights

- The market value of the endowments increased by $111 million to $751 million. The increase was comprised of investment earnings of $70 million and new contributions of $76 million, less spending allocations and administrative expenses of $35 million. The new contributions were composed of $46.5 million in donations, $24.5 million in Province of Alberta matching grants and $5 million from the Province of Alberta's Access to the Future fund.
- The Unitized Endowment Pool (UEP) investment portfolio posted a return of 10.7% for the year ending March 31, 2007. This return exceeds the primary goal of maintaining the real value of the UEP's assets. The spending allocation, administrative fees, direct expenses plus inflation totaled 7.4% for fiscal 2007. The UEP's returns are ahead of this target over the long-term as well, with a 10-year annualized return of 10.5% against a total expenditures plus inflation measure of 7.7%.



- As a result of these strong real returns the market value of the UEP exceeds the value of contributions indexed for inflation. This excess grew by 14% from $132 million in fiscal 2006 to $151 million by the end of fiscal 2007.
- For the year ending March 31, 2007, the endowment spending allocation provided $29.8 million in direct support towards a variety of University programs, research and scholars.
- The investment policy approved by the Board of Governors in June 2006 mandates an externally managed, well diversified portfolio of equity, fixed income and alternative investments. The Investment Committee continues to focus on a diversified approach with an emphasis on equities. The management structure of the UEP added value in fiscal 2007 as the portfolio return of 10.7% exceeded the benchmark return of 9.9%. The 80 basis points of added value represent approximately $6 million in additional market value. The investment managers have added value over the long-term as well. For the 10 years ending March 31, 2007, the UEP has returned 10.5% annualized, against the benchmark return of 9.0% for a 10-year annualized added value of 1.5%.
- The Investment Committee continues to implement the portfolio structure contained in the Investment Policy.
    - The University terminated the active Large Cap Core US Equity mandate with Wellington Investment Management LLP as of December 15, 2006. Wellington had underperformed their benchmark over the past four years.

- The money allocated to Wellington was used to fund a new enhanced index product with Barclays Global Investors (BGI). The committee determined that enhanced index products offer a risk-adjusted return advantage over a simple passive index. The BGI Russell 1000 Alpha Tilts mandate was formally funded as of January 4, 2007.

- The Investment Committee made a decision in September 2006 to reduce the allocation to Real Return bonds and invest the proceeds in a money market fund. Real Return bonds were originally added to the portfolio as a hedge against inflation. This asset class had provided good returns. However, analysis showed that the returns of the asset class were no longer correlated to inflation for a variety of reasons. Consequently the Committee took the opportunity to lower the UEP's exposure.

Non-Endowed Funds - Highlights

The non-endowed funds have increased by $83 million to $433 million. The funds were invested in high quality, liquid money market products ($248 million), bonds with duration of less than 5 years ($90 million), the UEP ($90 million), as well as $5 million of assigned value in shares of publicly traded spin-off companies. The increase in total non-endowed funds is attributable to research funding. During the fiscal year ending March 31, 2007, the University received restricted research funding that was not spent in its entirety by the end of the fiscal year.

At the end of fiscal 2007, the University completed a search for a short-term money market manager. In April 2007, the University began to utilize UBS Global Asset Management's "Cash in Action" product for a portion of its operating funds. The Cash in Action product has been able to generate similar returns to University of Alberta's internally managed short-term funds but with a lower risk profile. Treasury will use the UBS product for its daily liquidity needs which will allow the remainder of the funds to be invested in longer-term high-quality money market instruments.

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 the 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. 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 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. All non-compliance issues have been immaterial and have not resulted in any losses. All have been resolved and there is nothing material to report.

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 policy objective for the endowment funds is to maintain the real capital value of the endowment while providing an appropriate level of spending. This requires returns which meet or exceed the all in spending policy rate plus inflation over time within an acceptable level of risk.

The Investment Committee has implemented a number of strategies both to meet the UEP return objectives and to control risk:

- 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).

UEP Asset Mix as at March 31, 2007

	Policy Range Min.-Max. %	2007 Actual Asset Mix %	2006 Actual Asset Mix %
Fixed Income			
Money Market Securities	-5 - 10	5.0	2.4
Bonds, Debentures, Real Return Bonds	20 - 40	22.3	26.2
Total	20 - 40	27.3	28.6
Equity			
Canadian Equity	10 - 20	15.2	14.8
Foreign Equity	40 - 60	54.6	53.6
Alternative Assets	0 - 10	2.9	3.0
Total	60 - 80	72.7	71.4

- 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. The strategic foreign currency hedge ratio has been set at 50%.

Investment Performance
Measuring Performance of Endowment Funds

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 (with individual stocks capped at 10% of the Index), and the Morgan Stanley Capital International World Index.

UEP Investment Policy Benchmark

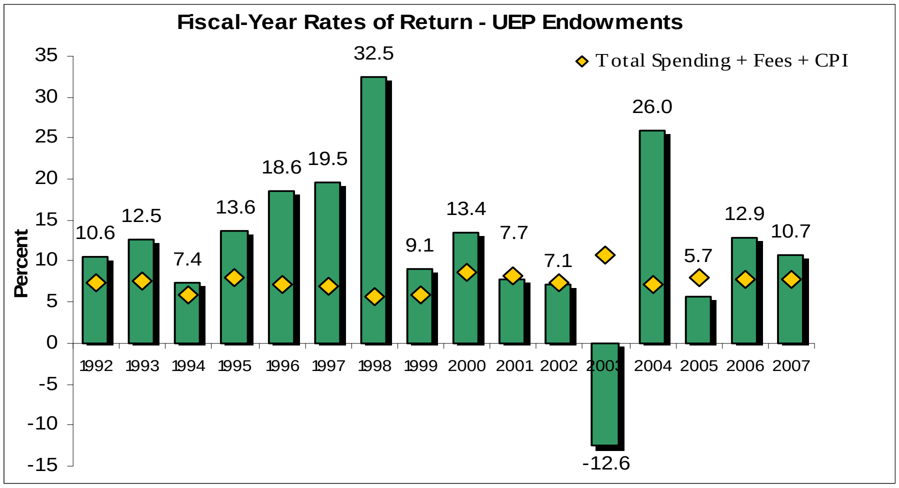
Scotia Capital Universe Bond Index	20%
Scotia Capital Real Return Bond Index	10%
S&P/TSX Composite Index (Cap 10)	15%
MSCI World Index 50% (Hedged to CAD)	55%
	100%

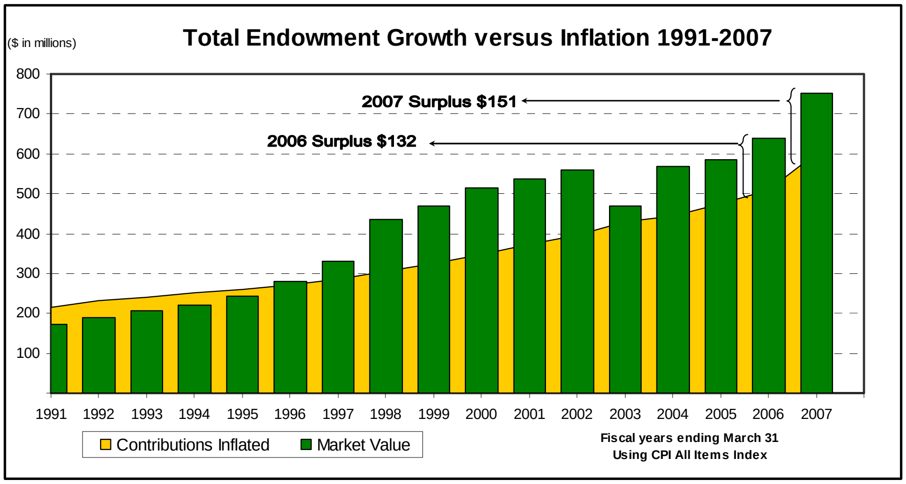
With the introduction of the currency overlay program to the UEP, the MSCI World Index return is now calculated with a 50% hedge to the Canadian dollar. The total fund return is measured against the return of the asset mix policy benchmark. The difference between the endowment's return and the benchmark 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 inform the Investment Committee's 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 Mellon Analytical Solutions Canadian Master Trust Universe (CMTU), the Canadian Association of University Business Officers (CAUBO), and the National Association of College and University Business Officers (NACUBO) endowment surveys.

Annual Endowment Fund Performance to March 31, 2007

The main objective of the endowment investment policy is the preservation of capital after providing for program spending. This objective was successfully met in fiscal 2007 as the real value of the endowments increased by 3.3%, comprised of the 10.7% return less all in spending allocation and expenses of 5.1% and less inflation of 2.3%.





As shown in the adjacent graph, the market value of the endowments currently exceeds the cumulative endowment contributions indexed for inflation by $151 million. This represents a 14% increase over the $132 million from 2006. The current year's position is consistent with the Board's policy objective of providing stable funding over time in real terms to current and future generations.

Absolute returns were influenced by two main factors: Strong global equity markets, particularly in Europe and the performance of the currency overlay program.

Though returns were not as high as in fiscal 2006, global equity markets still had a strong year in fiscal 2007. The MSCI World Index posted an un-hedged return of 14.7% in Canadian dollar terms. Canadian, US and Europe, Australasia and Far East (EAFE) markets all finished with double digit returns with EAFE the largest gainer at 19.4%. Consumer spending and high commodity prices fueled corporate earnings growth. The UEP had a 30.6% allocation to Non-North American equities, higher than many Canadian endowment and pension funds. The overweight position in EAFE equities improved returns on both an absolute and relative basis.

Though the decision to hedge 50% of the foreign portfolio to the Canadian dollar detracted 0.3% from overall performance this year, the University of Alberta is committed to the active currency hedging process. 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 managed by JP Morgan was a source of added value in the fiscal year. The benchmark measured by a passive 50% hedge ratio lost 1.3% for fiscal 2007. Through active management, the JP Morgan currency overlay lost only 0.5% for the same period.

In relative terms, the UEP also performed well in fiscal 2007 exceeding the benchmark return of 9.9% by 0.8%. Jarislowsky Fraser has been reducing their allocation to Canadian fixed income and moving these funds to EAFE equities. This tactical shift, along with strong absolute performance from the other two EAFE managers, Walter Scott and Brandes, has resulted in the UEP's asset mix having an above benchmark weighting in EAFE equities and a below benchmark weighting in Canadian fixed Income. As EAFE equities out-performed Canadian fixed income, the UEP benefited from the allocation. This strategic weighting, along with stock selection in Canadian equities, were the major factors in the 80 basis points of added value.

In the Mellon Analytical Services Canadian Master Trust Universe (CMTU), which is composed of Canadian institutional pensions, endowments, and foundations, the median fund returned 10.8%. 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 58th percentile, a positive change from fiscal 2006 where the 1yr return ranked in the 88th percentile. This is generally explained by the UEP's higher allocation to EAFE equities relative to other Canadian endowment and pension funds and lower allocation to Fixed Income than most. EAFE equities had the highest return in the fiscal year; conversely, Fixed Income posted the lowest returns. However, the currency hedging program detracted 0.3% from overall returns. Had the UEP been un-hedged, the return would have improved to the 2nd quartile of the CMTU.

On a five-year basis the UEP returned 7.8% versus a CMTU median return of 9.0%. The relative underperformance of the UEP reflects the relative out-performance of Canadian equities and fixed income versus Global equities during the past five years.

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

	1YR %	2YR %	3YR %	4YR %	5YR %	10YR %
Short Term Return	4.1	3.5	3.1	3.0	3.0	3.8
91-day Treasury Bill Return	*4.2*	3.5	3.1	3.1	3.0	3.7
Fixed Income (non-RRB)	5.4	4.9	4.8	6.3	6.8	6.5
SC Universe Bond Index	*5.5*	*5.2*	*5.1*	*6.5*	*7.0*	*7.0*
Fixed Income (Real Return Bonds)	0.1	5.7	7.4	9.2		
SC RRB Index	*0.0*	*5.7*	*7.4*	9.3		
Canadian Equity	12.3	18.8	19.3	22.9	14.0	15.8
S&P/TSX Composite Index (Cap 10)	*11.4*	*19.6*	*17.7*	*22.4*	*13.1*	*12.5*
Foreign Equity Total	14.1	13.5	9.3	15.3	4.1	11.4
MSCI World Index	*14.7*	*14.5*	*10.3*	*14.7*	*4.0*	*6.4*
Non-North American Equity	16.7	17.2	13.0	21.5	8.5	
MSCI EAFE Index	*19.4*	*19.9*	*15.2*	*21.2*	*8.9*	
U.S. Equity	10.4	8.5	4.8	8.1	-1.1	2.1
Standard and Poors 500 Index	*10.6*	*9.2*	*5.4*	*9.0*	*-0.4*	*6.3*
Absolute Return Strategies	*10.1*	*8.7*				
US T-Bills +6.0%	*11.1*	*10.3*				
Currency Overlay	-0.5					
50% passively hedged benchmark	*-1.3*					
Total Fund	10.7	11.8	9.7	13.5	7.8	10.5
Benchmark Return	9.9	12.0	9.8	13.5	7.7	9.0
CTU Median	10.8	13.0	11.2	14.4	9.0	8.8
CPI Index	2.3	2.3	2.3	1.9	2.4	2.1

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

	2007 %	2006 %	2005 %	2004 %	2003 %
Short Term Return	4.1	3.0	2.3	2.7	2.7
91Day Treasury Bill	*4.2*	*2.8*	*2.2*	*3.0*	*2.7*
Fixed Income (non-RRB)	5.4	4.4	4.7	10.9	9.2
SC Universe Bond Index	*5.5*	*4.9*	*5.0*	*10.8*	*9.2*
Fixed Income (Real Return Bonds)	0.1	11.7	10.7	15.0	
SC RRB Index	*0.0*	*11.8*	*10.7*	*15.3*	
Canadian Equity	12.3	25.5	20.5	34.3	-15.6
S&P/TSX Composite Index (Cap 10)	*11.4*	*28.4*	*13.9*	*37.7*	*-17.6*
Foreign Equity Total	14.1	12.9	1.5	35.7	-30.7
MSCI World Index	*14.7*	*14.3*	*2.3*	*29.2*	*-29.8*
Non-North American Equity	16.7	17.9	4.9	52.3	-30.9
MSCI EAFE Index	*19.4*	*20.4*	*6.3*	*41.3*	*-29.0*
U.S. Equity	10.4	6.7	-2.4	18.6	-30.7
Standard and Poors 500 Index	*10.6*	*7.7*	*-1.8*	*20.7*	*-30.6*
Absolute Return Strategies	10.1	7.2			
US T-Bills +6.0%	*11.1*	*8.5*			
Currency Overlay	-0.5				
50% passively hedged benchmark	*-1.3*				
Total Fund	10.7	12.9	5.7	26.0	-12.6
Benchmark Return	9.9	14.2	5.5	25.2	-12.7
CTU Median	10.8	14.9	8.2	24.5	-10.6
CPI Index	2.3	2.2	2.3	0.7	4.3

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, 2005 and June 30, 2006 respectively. The University of Alberta has had mixed performance versus the other 21 Canadian universities with assets greater than $100 million. The University's return of 9.9% for the year ending December 31, 2005 ranks 14th of the 22 largest Universities in terms of assets under management in CAUBO survey, but the 10 year return of 11.2% is ranked second overall.

In the NACUBO survey, the results are similar. The University's returns lagged in the short-term as the 1yr return ranked in the 4th quartile. However, over the long-term results are better as the University ranks in the second quartile for the 5yr period and first quartile for the 10yr period. The UEP 10yr return of 11.4% as of June 30, 2006 is ranked 35th overall of the over 750 universities surveyed in the NACUBO study.

Spending Policy

For the year ending March 31, 2007, $29.8 million was allocated to support program spending.

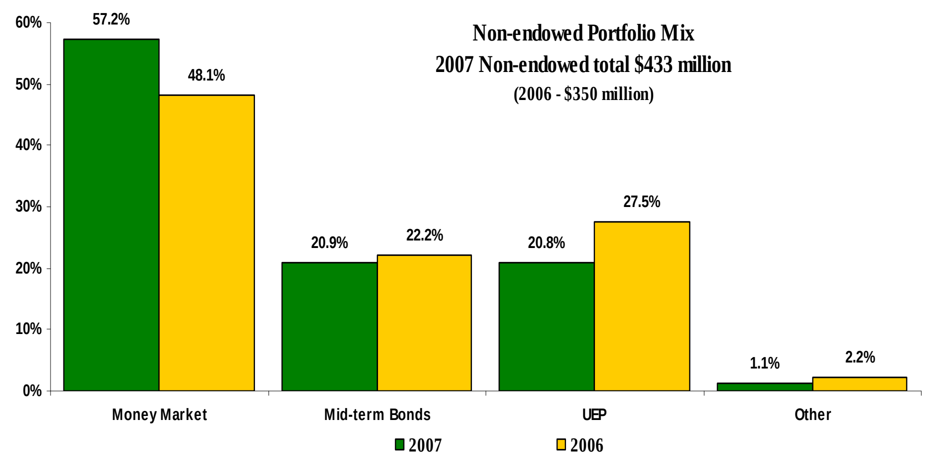
On April 1, 2004 the University implemented a Board of Governors approved long-term strategy to shift the endowment's spending model to a sustainable inflation indexed model with a spending allocation maximum of 6.0% of market value and a spending allocation minimum of 4.0% of market value. The move was required given that the effective rate of spending at the time significantly exceeded the long-term real return expectation of 5.0%. Under this strategy, the shift will occur gradually to limit the impact of spending allocation reductions on the programs being supported. The spending policy during the transition period will remain based on the 36-month averaging rule. The spending rate is being gradually reduced from 5.0% to 4.25% over a 4-year period. The spending rate for fiscal 2007 was 4.89% and will be reduced to 4.65% for fiscal 2008. It had been 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 years in the transition period. The 4-year annualized return of 13.5% for the period ending March 31, 2007 has had a favourable impact on the forecast year-over-year reductions in the spending allocation. The actual decline in the spending allocation for the fiscal year ending March 31, 2007 was 0.6%, while the spending allocation for fiscal 2008 will remain essentially unchanged from the previous year. Future investment returns will continue to impact these forecast reductions in the spending allocation.

Costs

The Administrative Fee totaled $2.5 million for fiscal 2007, representing 0.36% of average market value of the fund. The Administrative Fee supports indirect expenses associated with the programs supported by the Endowments. Direct expenses were $2.9 million during the same period or 0.41% of the average market value of the fund. These expenses include investment manager fees, custodial fees and other direct costs associated with the management of the endowment assets.

Non-Endowed Funds

The Non-endowed Investment Pool (NEIP) represents the University's operating, capital, and restricted funds, of which $248 million (2006 - $168 million) is held in money market instruments while the remaining $185 million (2006 - $182 million) is invested in 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 short and mid-term fixed income investments are currently 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 5.6% for the year. Cash and cash equivalent money market funds comprised 57.2% of the non-endowed funds at the end of the fiscal year. These funds provided a return of 4.4%, which exceeded the benchmark Scotia Capital 91 day T-Bill return of 4.2%.

Internally managed mid-term bonds with duration under 5 years comprise 20.9% or $90 million of the non-endowed funds; these bonds provided a return of 4.5%, which lagged slightly the benchmark Scotia Capital Short Term Bond index return of 4.6%.

At March 31, 2007 $90 million or 20.8% of the non-endowed funds was invested in the UEP, which returned 10.7% for the year.

Going Forward

The Investment Committee is currently conducting an asset/liability study for the long-term portfolio. The last asset mix study was completed in 2002. State Street Associates is performing supporting analysis.

After the study is completed, the following areas of the portfolio will be addressed:

- A long-term active management solution for the Fixed Income funds previously allocated to Legg Mason Canada Inc.
- An active US Equity Manager to replace Wellington Investment Management
- Suitable investment opportunities in the Alternatives asset class

The Investment Committee is also focusing on improved management of risk in the portfolio. The asset/liability study being conducted by State Street Associates will result in the creation of a risk budget for the UEP. It will be monitored and incorporated into the investment management process on a go forward basis.

Board of Governors Investment Committee established October 1997.
Investment Committee Membership for the period June 2006 to June 2007:

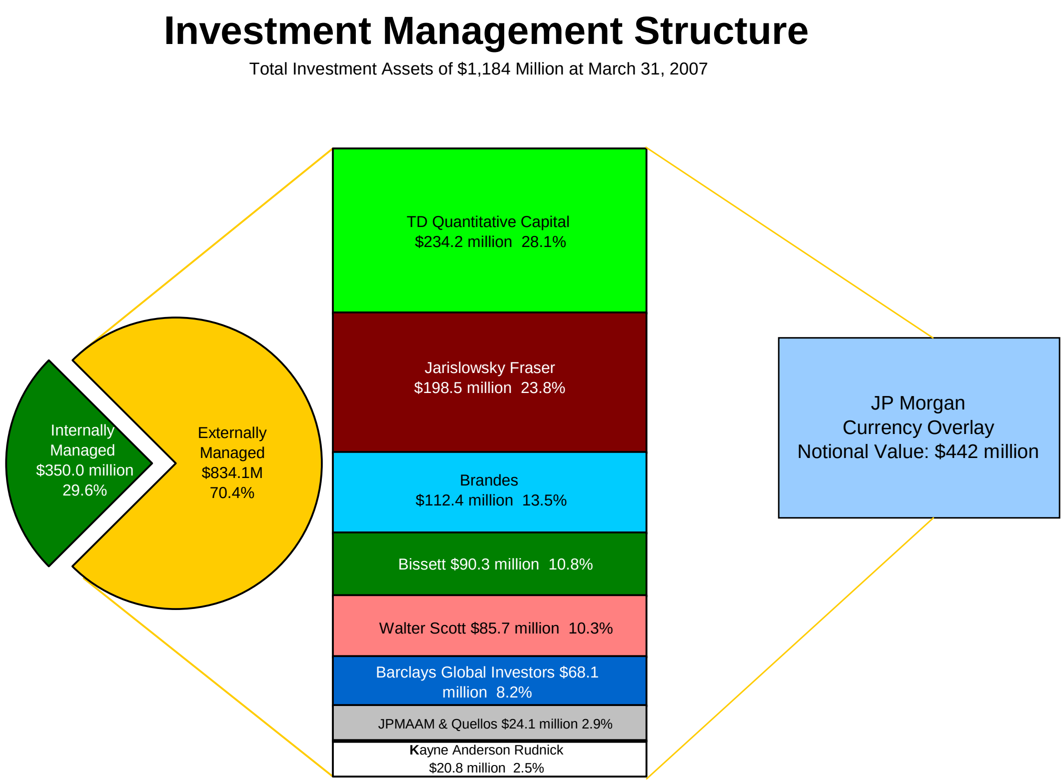
Bob Kamp, Chair (external member)
Ken Bancroft (external member)
Fred Barth (external member)
Barbara Belch (external member)
Marc de La Bruyère (Board member)
Jim Drinkwater (external member)
Lynne Duncan (external member)
Allister McPherson (external member)

Brian Heidecker (ex-officio)
Dr. Eric Newell (ex-officio)
Dr. Indira Samarasekera (ex-officio)

Prepared for Board Investment Committee
By Financial Services - Treasury

Appendix 1 - Investment Manager Structure

The University retains the services of ten external fund managers for the bond, equity and absolute return components of the endowment investment portfolio.



Barclays Global Investors has a Russell 1000 enhanced 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.

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.

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 and is fully implemented.

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 funded on December 1, 2003.

Quellos Capital Management has an absolute return strategy mandate. The University has invested in Quellos Strategic Partners II Ltd. which operates a hedge fund of funds product. Quellos Strategic Partners II invests in approximately 40 individual strategy funds run by managers outside of Quellos. These different strategies seek to generate a return by capitalizing on market inefficiencies and include relative value, event driven and hedged directional strategies. Quellos excludes certain strategies from their fund of funds, such as commodity trading and global macro. As well, Quellos seeks to identify and invest with new fund managers at an early stage to establish a long-term competitive advantage. Quellos Capital Management's mandate was funded on January 1, 2005.

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. In fiscal 2007 the University took a portion of the funds allocated to the Real Return bond mandate and invested it in the TD Emerald Short-term Income Fund. 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.

Appendix 2 - Investment Performance by Asset Class

Balanced Manager Performance

Jarislowsky Fraser's total return for the year of 11.9% exceeded their benchmark return of 11.4%. Jarislowsky Fraser was able to add value both through stock selection and tactical asset class allocation. In both the Canadian & US equity portions of the mandate the manager was able to beat their benchmark. Stock selection in the Energy and Consumer Discretionary sectors helped the Canadian equity portfolio, while holdings in the Health Care and Consumer Staples sectors were the top performers on the US equity side.

Throughout fiscal 2007 Jarislowsky has been tactically reducing their allocation to fixed income and reallocating the funds to US and EAFE equities. This shift in asset allocation contributed positively to the portfolio return as both asset classes substantially outperformed Canadian fixed income.

Individual Asset Class Performance

Fixed Income

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	11.66	5.0%	1.4%
Gov't of Canada RRB 4.25% 01-DEC-2026	10.82	4.7%	1.3%
Gov't of Canada RRB 4.25% 01-DEC-2021	10.57	4.6%	1.2%
Gov't of Canada RRB 3.00% 01-DEC-2036	8.98	3.9%	1.1%
Gov't of Canada 5.75% 01-JUN-2029	4.92	2.1%	0.6%
Gov't of Canada 8.00% 01-JUN-2023	3.40	1.5%	0.4%
Gov't of Canada 5.75% 01-JUN-2033	2.65	1.1%	0.3%
Gov't of Canada 6.00% 01-JUN-2011	2.11	0.9%	0.2%
Gov't of Canada 4.00% 01-SEP-2010	2.09	0.9%	0.2%
Province of Manitoba 25-JAN-2011	2.05	0.9%	0.2%

Fixed income includes publicly traded Canadian bonds, a Canadian bond index pool, real return bonds and privately issued mortgages. Currently 53.7% of the fixed income allocation is in the TD Emerald Canadian Index bond fund. The TD Emerald Real Return Bond Fund accounts for another 25.3%. Jarislowsky Fraser manages 19.0% of the bond portfolio, while the remaining 2.0% was managed internally. The overall fixed income portfolio returned 3.6% versus the UEP Fixed Income benchmark of 3.7%.

Bonds

Canadian bond rates of return for the endowments were 5.4% for the fiscal year. This return trails both the Scotia Capital (SC) Bond Universe return of 5.5% and the RMCTU median of 5.8%. After raising interest rates twice at the beginning of the fiscal year, the Bank of Canada ended their tightening cycle and maintained the overnight rate at 4.25% from May 2006 to the present. The yield curve in both Canada and the US inverted during the fiscal year. In the past, this has been a signal of a broad-based economic slowdown.

Jarislowsky Fraser underperformed the benchmark at 5.3%. The manager began the year with a shorter duration than that of the index but increased it after the first quarter to match the index. Jarislowsky targets the corporate credit market to add value to the portfolio. The manager noted that spread compression in the Canadian corporate bond market has limited their bond purchasing opportunities.

The TD Emerald Canadian Bond Index Fund is indexed to the SC Bond Universe and returned 5.4% which essentially tracked the benchmark.

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 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, 2007 the Scotia Capital Real Return Bond Index was basically neutral with return of 0.0%. The TD Asset Management Portfolio was slightly ahead of the index with a return of 0.1%. Real return bonds began the fiscal year with a break even inflation rate of 2.68% and ended the year at 2.44%. This contributed to the real return bond yield increasing from 1.58% to 1.76%. Priced in, this accounts for the majority of the return differential between the underperformance of the real return bonds to nominal long bonds, which returned 6.5%.

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 has created a supply/demand imbalance which has 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 ongoing inflation hedging, the Investment Committee reduced the allocation by one-third to 6.5% of the UEP.

Canadian Equity Component

The Canadian equity portfolio returned 12.3% for the period compared to a return of 11.4% for the Canadian equity benchmark S&P/TSX Composite Index, and a 13.5% return for the CMTU median. The Canadian market remains highly concentrated with 75.6% of the index composed of three sectors: Financials (32.0%), Energy (27.4%) and Materials (16.2%). While still posting a double digit return, the Canadian market trailed EAFE equities as the Energy sector did not perform as well as it did in fiscal 2006.

Top 10 Canadian Equity Holdings

Company	Market Value ($ millions)	% of CDN Equities	% of Portfolio
Royal Bank of Canada	6.70	5.2%	0.8%
Bank of Nova Scotia	6.48	5.0%	0.8%
Manulife Financial Corporation	6.10	4.7%	0.7%
Toronto Dominion Bank	4.97	3.8%	0.6%
Canadian National Railway Co.	4.54	3.5%	0.5%
Nexen Inc.	4.48	3.5%	0.5%
Power Financial Corporation	4.23	3.3%	0.5%
EnCana Corporation	3.76	2.9%	0.4%
Canadian Natural Resources Ltd.	3.44	2.7%	0.4%
Bank of Montreal	3.40	2.6%	0.4%

Jarislowsky Fraser's Canadian equity portfolio contributed positively to their mandate with a return of 14.3%. Successful stock selection in seven of the nine sectors that the manager was invested in drove returns. The largest source of positive added value on the year was the Energy sector. Though the energy sector lagged the overall index with a 1.6% loss, the manager's Energy holdings returned a positive 8.0%. The Energy sector comprised 30.0% of the portfolio as of year end so it was the top contributor by a wide margin.

For fiscal 2007, Bissett returned 11.2%, marginally trailing the benchmark by 0.2%. Bissett's focus on non-cyclical stocks resulted in a significant underweight to the Materials sector. The manager finished the year with only a 1.5% allocation to Materials versus a 16.2% weighting in the Index. This detracted from the portfolio. Bissett offset this loss through positive stock selection in six of the eight sectors they were invested in, most notably the Information Technology sector. Bissett also benefited from being underweight in the Energy sector which performed relatively poorly compared to the rest of the S&P/TSX.

Foreign Equity Component

Top 10 Foreign Equity Holdings

Company	Market Value ($Cdn millions)	% of Foreign Equities	% of Portfolio
Nestle	7.78	1.7%	0.9%
Exxon Mobil	5.94	1.3%	0.7%
GlaxoSmithKline	5.56	1.2%	0.7%
Microsoft	4.37	0.9%	0.5%
Reckitt Benckiser	4.32	0.9%	0.5%
Sanofi-Aventis	4.16	0.9%	0.5%
Johnson & Johnson	4.14	0.9%	0.5%
Mitsubishi UFJ Financial Group	4.07	0.9%	0.5%
General Electric Company	3.95	0.9%	0.5%
Pfizer	3.90	0.8%	0.5%

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 posted a return of 14.1% compared to the benchmark Morgan Stanley Capital International Composite World Index which gained 14.7% for the year. However, the endowments matched the CMTU median of 14.1%. These returns can be further broken down into their US and Non-North American components.

Jarislowsky Fraser's foreign equity portfolio had a return of 14.0%, which trailed MSCI World Index. The US equity component of the Jarislowsky Fraser foreign equity portfolio had a positive year with a return of 13.5% this exceeded the S&P 500 return of 10.6%. On the EAFE side, Jarislowsky Fraser underperformed, posting a return of 14.4% against the MSCI EAFE benchmark return of 19.4%. Jarislowsky Fraser concentrates on large-cap, non-cyclical stocks in their portfolios. Economic data was mixed in fiscal 2007 in the US market as some indicators point towards a significant slowdown. The manager was well positioned to take advantage of the market turning towards more defensive stocks. The highly cyclical Materials sector was still a top-performer, but more defensive sectors such as Health Care and Consumer Staples where Jarislowsky Fraser carried overweight allocations also out-performed the market. The opposite was true in the EAFE market where positive economic data from Europe and Asia fueled growth. Here, Jarislowsky Fraser's defensive posture detracted from the portfolio.

The Non-North American (EAFE) equity mandate managed by Brandes Investment Partners had a return of 22.7%, which exceeded the MSCI EAFE Index return of 19.4%. Brandes attributes the out-performance entirely to stock selection. The majority of positive contributors to the portfolio came from Europe. Through their bottom-up approach, Brandes has found many opportunities in Europe, particularly in the Netherlands where the Brandes portfolio carried a 12.5% allocation as of fiscal year-end. This compares to a weight of only 3.5% in the index. Brandes' Netherlands holdings also out performed returning 34.4% against an index return of 25.2%. Stock selection in countries such as Germany, the United Kingdom and Japan also provided out-performance.

Walter Scott & Partners' EAFE mandate posted a return of 13.2% for fiscal 2007, which surpassed the manager's absolute target of a 7%-10% real return per year. However, the Walter Scott portfolio did trail its relative target, the MSCI EAFE, by 4.9%. Walter Scott has maintained an overweight position in Japanese stocks, with the portfolio having a 40.5% allocation to Japan as of March 31, 2007. The manager focuses on companies that they view to have the potential to grow in excess of 20% per year. Walter Scott believes that China offers the highest growth potential but that there are too many risks associated with direct investment in China. Therefore, the manager looks mainly to Japanese companies that have significant business dealings in China. After strong performance in fiscal 2006 as the economy emerged from a recession, growth in Japan paused in fiscal 2007. Short-term interest rates increased in Japan for the first time since the 1990's. Though this is a positive sign for the future, there was a near-term negative impact. In turn, Japan significantly under-performed its European counterparts in the MSCI EAFE and as a result, the Walter Scott portfolio trailed the benchmark.

The U.S. equity portfolio managed by Wellington Management was terminated by the committee on December 15, 2006. As of the termination date, the portfolio had returned 8.4% against a benchmark return of 11.0%. Wellington generally underperformed for the past four years. Their strategy was to focus on the 100 largest companies in the S&P 500. This strategy had not worked as small-capitalization stocks had been on a run of out-performance against their large-cap counterparts for almost seven years. The market turned in fiscal 2007 and large-cap began to out-perform small-cap but the Wellington portfolio continued its disappointing performance.

In January 2007, Barclays Global Investors was appointed by the Investment Committee to manage an enhanced index product benchmarked to the Russell 1000. The Investment Committee remains committed to having a passive allocation to asset classes that are highly efficient such as US equities. However, research showed that enhanced index products could add value on a risk adjusted basis. The Russell 1000 Alpha Tilts portfolio that BGI has created is a portfolio of between 225 and 250 securities. BGI uses a tightly risk-controlled quantitative fundamental model to take slight overweight and underweight positions in certain stocks. The model is market neutral, meaning that the composition of the portfolio matches that of the Russell 1000 in terms of volatility and sector and industry allocation. The model is optimized on a daily basis and trades are made if necessary. The target for this portfolio is to provide 1-2% added value over the index with no more than a 2% tracking error.

The U.S small to mid-cap equity portfolio, managed by Kayne Anderson Rudnick, gained 7.5% for the fiscal year versus the benchmark Russell 2500 index return of 7.0%. 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. Yields and credit spreads continue to be historically low in the U.S. market. This allows weak companies to continue to operate through debt financing. With the low credit spreads, investors are not willing to pay a premium for quality which has suppressed high quality stock returns. Despite these conditions, Kayne Anderson was able to out-perform their benchmark in fiscal 2007. Management at Kayne Anderson believes that a slowdown in the US economy is coming and that the portfolio is well positioned for such an event.

The S&P 500 Index portfolio managed by TD Quantitative Capital returned 10.6% for fiscal 2007 essentially matching the S&P 500 benchmark return of 10.6%.

Alternative Asset Component

JPMAAM under-performed for the fiscal year with a return of 8.5% against a target US T-Bills + 6% return of 11.1%. One of JPMAAM underlying managers had a significant loss in January 2007 which detracted almost 1% from the total fund of funds return. In the remainder of the portfolio, JPMAAM saw the largest positive contribution from long/short equities strategies though both relative value and distressed securities strategies also performed well in the fiscal year. JPMAAM believes going forward that relative value and merger arbitrage/event driven offer the best opportunities. They have a negative view of the opportunistic macro space. JPMAAM has seen managers struggle to add value in this space and accordingly reduced the weight in the fund of funds to only one manager at 5.0%.

Quellos out-performed the target with a return of 11.8%. Though all strategy categories added value, the strongest contribution was from relative value strategies. Convertible arbitrage was a key sector and should remain strong going forward as strong credit demand, low yields and a steady new-issuance will provide opportunities. Merger/Acquisition arbitrage also offers opportunity going forward as surplus capital liquidity has driven a marked increase in both public mergers as well as public to private transactions. Quellos continues to focus on discovering new talent in the hedge fund space and believes that they will be able to continually access new value-adding strategies going forward.

Currency Overlay

The active currency overlay mandate by JP Morgan that was established on October 31, 2005 has now been fully implemented. The notional asset value is based on the UEP’s actual exposure to foreign currency. The overlay program finished the fiscal year with a notional value of $442 Million. To date the strategic hedge ratio of 50% detracted from total fund performance as the Canadian dollar slightly depreciated during fiscal 2007. However, the Investment Committee remains fully committed to the currency hedging program. With a 55% target allocation to non-Canadian securities, currency is a significant source of risk that must be managed. JP Morgan was able to add value to the portfolio by taking advantage of the Canadian dollar’s decline versus the US dollar as well as the US dollar decline versus the Euro. The overlay account lost 0.5% on the year against a benchmark loss of 1.3%.

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 returned to adding value after detracting from the portfolio in fiscal 2006.

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 represents the cumulative value added since inception. The black diamond single point marks the ten-year annualized value added.