The Endowment in 2008

Through the continuing generosity of donors and the prudent work of the University Investment Trust ("UIT"), the endowment has more than doubled in size from 2000 to 2008. At $342 million, it is the 9th largest university endowment fund in Canada, and it supports a wide variety of needs within the university. This year, the University Investment Trust (“UIT”) received over $19 million in new gifts, and another $9 million was received by specific trust funds, most of which will directly support new and existing capital projects. The endowment also generated over $13 million in available spending for beneficiaries. The primary objective of the endowment investments is to maintain real spending power while providing a predictable allocation for the individual accounts of the fund. The annualized rate of return over the past five years is 10.5%, which has funded the 4.5% spending rate, and has also increased the market value of each individual endowment account.

It was a difficult year as foreign equity investment returns were adversely affected by the appreciation of the Canadian dollar, and most stock markets continued to struggle in the aftermath of the sub-prime credit crisis. The University of Manitoba endowment realized a loss of 4.2% in the 2008 fiscal year. The market value of the endowment has grown from $338 million on March 31, 2007 to $342 million on March 31, 2008. These totals include specific trust funds, which are assets held outside of the pooled investments of the UIT. Although most individual trust and endowment accounts are invested in the UIT, there are a small number of accounts that are invested in fixed income and short term cash investments due to either donor restrictions or liquidity requirements. These investments amounted to $26 million in 2007 and $35 million in 2008.

From the Chair of the Trust Investment Committee

It is my pleasure to introduce you to the first Endowment Annual Report for the University of Manitoba. The endowment is a key contributor in supporting the many activities of the University, and its success over the past years has been the result of gifts from our many generous donors, and the hard work of the Trust Investment Committee. Our goal was to create a report that would provide our many endowment stakeholders with more in-depth information about how we manage both the endowment and the underlying investments. It is unfortunate that our first ever report coincided with a very turbulent year in the investment marketplace. The sub-prime mortgage issue and the resulting credit crisis sent many of the world’s stock markets in downward spirals. It has been a very challenging year, to say the least, but we are optimistic that we have a strong group of investment managers handling our funds, and the endowment asset mix is structured to provide students and the University with a growing stream of income, now and into the future. I would like to thank the Trust Investment Committee for their ongoing commitment to making the University of Manitoba’s endowment a strong and vibrant asset, and I look forward to the working with the Committee in the upcoming year.

Deborah McCallum
Vice President (Administration)
Purpose of the Endowment

The endowment provides much needed funding that enables the University to offer competitive tuition support, provide high quality academic programs, attract faculty and researchers, provide support for buildings and infrastructure, and ensure students have access to exceptional education.

The endowment is currently made up of more than 1,700 individual accounts, the vast majority of which were established by donors to provide perpetual financial support for a specific purpose. Distributions generated from the endowment amounted to $13.2 million in 2008. These distributions provide support for a wide variety of needs at the University, such as research, operating expenses, academic chairs and professorships, capital projects, athletics, libraries, and of course, a large part of the endowment is directed toward student support by way of scholarships, bursaries, and awards.

The annual distributions from the endowment are made in accordance with the spending policy approved by the Trust Investment Committee.
The spending policy is designed to balance the conflicting goals of providing a stable stream of income for current needs and ensuring that the existing endowment funds will be able to provide the same level of support for future generations of students. The Committee reviews the spending policy every year in conjunction with complete reviews of the endowment’s asset mix, asset mandates, and investment return objectives.
New Developments in 2008

A new Investment Policy Statement was approved by the Board of Governors in November 2006. At the core of the policy was a new asset allocation for the endowment. This new mix continued to be an equity oriented investment strategy with an allocation of 70% of the total assets to equities (35% Canadian, 20% U.S., and 15% EAFE), along with 15% invested in long government bonds, and 15% invested in real estate. The transition from the old asset mix to the new asset mix continues as investment managers sell off existing investments and buy new investments at the most opportune times.

In January 2007 the endowment commenced investing into real estate, which is an ideal asset class to hold as a hedge against long-term inflation, and it also has diversification benefits versus both stocks and bonds. This diversification reduces overall investment risk within the portfolio. An allocation of 15% of the endowment, or approximately $50 million, has been targeted towards real estate investments, with initial investments commencing into the Great West Life Real Estate Pooled Fund. Currently there is $32 million invested in this fund, which has performed admirably in 2008 achieving a 15.1% return.

In June 2007, the Trust Investment Committee approved a change in investment managers for the EAFE (International) equity investments.
Legg Mason Brandywine. The Committee is very optimistic that the Legg Mason Brandywine International Equity Fund will deliver strong long-term performance that will help the endowment achieve its real return objectives over full market cycles. Brandywine’s offices are located in Philadelphia, PA, and the firm is a wholly owned subsidiary of Legg Mason, a large global asset management company. Brandywine will be managing the portfolio, and their value-oriented investment philosophy is to consistently exploit the differences between current stock prices and the intrinsic value of a business by using a disciplined investment approach.

Finally, the investment firm of Jarislowsky Fraser Limited will manage the investments that support the new endowment fund, the Jarislowsky Chair in Modern History of the Middle East and North Africa. These investments are approximately $2 million and are included in the specific trusts and endowment funds.
Giving Back, Growing Endowments

The growth of the endowment fund over the past decade—nearly 300 per cent—is due in large part to the extraordinary generosity of donors and to the success of the University of Manitoba’s fundraising staff and volunteers.

“Donors recognize the benefits of endowments to ensure that their support of a student award or program lasts in perpetuity,” says Elaine Goldie, Vice-President (External). “These outstanding financial accomplishments are also a result of the professionalism and dedication shown by staff in Development and Advancement Services, who work with donors to secure gifts, both endowed and non-endowed, that make a difference to the University of Manitoba.”

This past year, donors committed more than $37 million to the University of Manitoba in new gifts and pledges for buildings, student awards, high-tech classrooms and labs, innovative research, exchange programs, student-athletes, and more. That support—detailed in the University of Manitoba’s Annual Report to Donors—helps build a bright future for students, researchers, faculty, staff and the rest of the University community.
Endowment Management, Governance and Investment Philosophy

Each individual endowed account is pooled for investment purposes and tracked with unit accounting, similar to a mutual fund. The unitized pool is referred to as the University Investment Trust (“UIT”), and the use of a pooled fund concept ensures new gifts purchase units and receive a pro-rata share of earnings, while existing account holders maintain their equitable ownership in the pool. The pooled fund concept also allows all endowment account holders to take advantage of the diversification benefits available to large institutional investors like the University of Manitoba.

The endowment is managed by the Trust Investment Committee (“the Committee”), which has general authority over the investment of the assets of the endowment. Members of the Committee are appointed under the authority of the Board of Governors, and are accountable to the Board through the Finance, Administration, and Human Resources Committee. The Committee establishes guidelines for investing assets, and is responsible for hiring and reviewing investment managers. This includes establishing the investment mandates for each asset class and the review of performance for each mandate, as well as the overall portfolio, to ensure that the goals and objectives of the endowment are being achieved.

The investment philosophy centers on building a portfolio of investment assets designed to meet the long-term objectives of the endowment. The long-term objective of the

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**Endowment Highlights**

**In the past 5 years**

- In the five years since 2003, the endowment has doubled in size from $170 million to $342 million, which includes $35 million invested in specific trusts funds
- The endowments’ spending allocation made $52.2 million available for support of various activities over this five year period
- Its five year annualized return is 10.5%, and the annualized real return (net of 1.8% inflation) is 8.7%
- It is the 9th largest university endowment fund in Canada
endowment is the preservation of capital to ensure inter-generational equity. The concept of inter-generational equity is to ensure the endowment meets the needs of current students, and that the purchasing power of the endowment will ensure a future student will receive the same benefits as a current student would receive. This is achieved in part by setting a realistic spending policy which will allow the portfolio to grow at least by the rate of inflation over complete market cycles.

The cornerstone of the endowment’s investment philosophy is its diversified target asset allocation which will meet these objectives within an acceptable level of risk. Because of the long-term investment horizon and the endowment’s vulnerability to inflation, an equity oriented investment strategy is used, and it is complimented by inflation hedging asset classes such as long government bonds and real estate. The primary building blocks of the portfolio are core asset classes that rely on market based returns to contribute specific characteristics to the portfolio.

The endowment is governed through an Investment Policy Statement to clearly articulate both long-term investment objectives and the commensurate level of market risk required to achieve these objectives. This governing document is a composite of many factors but none more important than a reliance on historical rates of return for various asset classes and the degree of fluctuation of those rates of return over long time periods. This document also provides a link between the endowment’s long-term objectives and the daily work of the endowment’s investment managers.

Investment Managers
AMI Partners
• Canadian Bonds
• Canadian Equities
• US Equities
Legg Mason Brandywine
• EAFE Equities
Great West Life
• Real Estate
Asset Mix and Investment Performance

The asset mix of the UIT, as of March 31, 2008 is as follows:

Total market value of UIT - $307.0 million

<table>
<thead>
<tr>
<th>Investment Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate</td>
<td>11%</td>
</tr>
<tr>
<td>Cdn Bonds</td>
<td>19%</td>
</tr>
<tr>
<td>Cdn Equities</td>
<td>35%</td>
</tr>
<tr>
<td>US Equities</td>
<td>20%</td>
</tr>
<tr>
<td>EAFE Equities</td>
<td>15%</td>
</tr>
</tbody>
</table>

Investment Performance and Real Returns of the UIT
As at March 31, 2008 (Annualized)

<table>
<thead>
<tr>
<th>Category</th>
<th>1 year</th>
<th>3 year</th>
<th>5 year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Fund</td>
<td>-4.2%</td>
<td>6.6%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Inflation (CPI)</td>
<td>1.9%</td>
<td>2.0%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Real Return</td>
<td>-6.1%</td>
<td>4.6%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Canadian Bonds</td>
<td>6.2%</td>
<td>5.5%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Canadian Equities</td>
<td>-0.6%</td>
<td>11.2%</td>
<td>16.8%</td>
</tr>
<tr>
<td>U.S. Equities</td>
<td>-17.1%</td>
<td>-0.2%</td>
<td>4.6%</td>
</tr>
<tr>
<td>EAFE Equities</td>
<td>-14.9%</td>
<td>5.8%</td>
<td>11.0%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>15.1%</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

The Specific Trust investments of $35 million are largely managed by BMO Nesbitt Burns and Jarislowsky Fraser Limited, with a few smaller assets held by other investment managers. The asset mix and investment performance of these investments are not included in the UIT information noted above.
THE TRUST INVESTMENT COMMITTEE IN 2008

University Staff and Members of the Board of Governors

DEBORAH MCCALLUM, CHAIR
Vice President (Administration)
University of Manitoba

EMOKE J. SZATHMÁRY
President and Vice Chancellor
University of Manitoba

RICHARD LOBDELL
Vice Provost (Programs)
University of Manitoba

ALFRED BLACK
Board of Governors
University of Manitoba

RICHARD SIGURDSON
Dean of Arts
University of Manitoba

TOM HAY
Comptroller
University of Manitoba

LANCE MCKINLEY
Manager of Treasury Services
University of Manitoba

Community Members

JOHN SMITH
President
GWL Investment Management

RON QUECK
Director of Investments
HEPP of Manitoba

NORMAN LONG
Retired Comptroller
University of Manitoba

WAYNE ANDERSON
President
St. Boniface Pallet Co. Ltd.

Investment Consultant

ALAN BROWNRIDGE
Retired Managing Partner
Investors Group Investment Management Ltd.

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