The Endowment Fund in 2009

The past year will go down in history as one of the most trying times for endowment fund managers and trustees. The global economic collapse hit endowments and foundations around the world. Equity returns were hit hard as all major stock exchanges and indexes realized losses. In Canadian dollars, as at March 31, 2009, the one year rate of return for the S&P/TSX Index (Canada) was -32.4%, the S&P 500 Index (U.S.) was -24.1%, and MSCI EAFE Index (Non-North American) was -34.4%. In fact, the three worst years in the history of the S&P Index from the period 1900 to 2008 were 1931, 1937, and now, 2008.

The performance of the University of Manitoba endowment fund was no exception. Like most major university endowment funds in Canada, the investments are equity oriented in order to match the endowment fund’s ongoing commitments. The University of Manitoba has an annual spending allocation (or income distribution) of 4.5%, adjusted for inflation. This objective means the investments have to earn long term returns of 4.5% plus inflation, or stated otherwise, returns of 6.0% to 7.0% on investments is needed over the long term. This challenging objective requires equities to be a significant component of the asset mix. The endowment fund has a target equity allocation of 70% of the total asset mix, with 35% targeted towards Canadian equities, 20% to U.S. equities, and 15% to International equities.

For the fiscal period ending March 31, 2009, the endowment fund experienced a loss of -20.0%, and the calendar year end loss at December 31, 2008 was -19.4%. The market value of the endowment fund has dropped from $342 million in March
of 2008 to $282 million in March of 2009. These totals include specific trust funds, which are assets held outside of the pooled investments of the University Investment Trust (“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 $35 million in 2008 and $32 million in 2009.

The good news is the endowment fund continues to benefit from the generosity of donors. Over the past year, another $23 million in gifts were received by the endowment, and a total of 61 new endowment accounts were established. A further $6 million in gifts were received by specific trust funds, most of which will directly support new and existing capital projects. The fund is now the 8th largest endowment fund of the universities across Canada.

In light of the recent economic turmoil and the drop in endowment fund values, trustees of most endowment funds are analyzing the ability of continuing with existing spending policies and at the same time, protecting the capital of the fund. Since the distribution of income from an endowment fund is dependent on invested funds, the ongoing ability to continue a consistent level of support for the University is always vulnerable to market fluctuations. The investment policy governing spending rates focuses on the purchasing power of the endowment fund since its inception, and the asset allocation strategy combined with the spending rate is the key to maintaining purchasing power of the endowment.

After much discussion and analysis, the Trust Investment Committee decided to maintain the endowment spending rate at 4.5% for the 2009/2010 fiscal year. So far, liquidity has not been a
concern as the fund is carrying more cash, and there is still a good inflow of new contributions that help fund the cash requirements within the endowment. Nevertheless, market returns and liquidity will be closely monitored over the next year to assess the long term viability of continuing with a 4.5% spending rate.

Due to the drop in the market value of the endowment fund, most beneficiaries will see their individual spending accounts reduced between 4% and 5%, compared to last year. Even on declining investment values, the smoothing effect of the three-year average market value calculation helps alleviate the problem in the first year of the downturn. However, for beneficiaries of the fund, the concern is not only the 2009/2010 fiscal year, but the following years. If the economies of the world remain in difficulty and there are relatively flat earnings over the next year or two, the spending allocations will be further reduced as the three year calculation will include more than one year of poor returns.

The Trust Investment Committee plans to be proactive over the next year by closely monitoring markets, reassessing asset mandates, and reviewing asset mix strategies. The Committee will explore all possible options in order for the fund to meet its goals and objectives. The long term goal is to maintain the real value of capital in the fund, and this will be the primary consideration in all decisions made in the upcoming year.
Endowment Support

The endowment provides ongoing funding that enables the University to provide student support, attract faculty and researchers, provide programs in faculties and schools, support chairs and professorships, and add to library resources, to name a few.

A gift invested in the UIT will grow over the long term. The key objective is ensuring a gift made today will not be eroded by inflation in the future, yet at the same time the gift distributes income to support the programs designated by donors.

The growth of the endowment fund is due in large part to the generosity of donors. Donors gave more than $23 million in new gifts over the past year. There are now 1,878 individual endowed accounts, and the majority of these accounts were established to provide perpetual financial support for a specific purpose.

Distributions generated from the endowment increased to $13.5 million in 2009, and over the past five years, the fund has provided $56.8 million in program support through these distributions.

The annual distributions from the endowment are made in accordance with the spending policy approved by the Trust Investment Committee. The spending policy authorizes the annual transfer of a certain percentage of the endowment market value and is designed to balance the 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.
Asset Mix and Investment Performance

The asset mix of the UIT, as of March 31, 2009 is as follows:

- Real Estate: 17%
- Canadian Bonds: 21%
- International Equities: 13%
- US Equities: 19%
- Canadian Equities: 30%

Total market value of UIT - $249.8 million

The Specific Trust investments of $32 million are largely managed by BMO Nesbitt Burns and Jarislowsky Fraser Limited. The asset mix and investment performance of these investments is not included in the UIT information noted on this page.

Real Return Investment Performance (UIT)
As at March 31, 2009

<table>
<thead>
<tr>
<th></th>
<th>1 year</th>
<th>3 year</th>
<th>5 year</th>
<th>10 year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annualized Return</td>
<td>-20.0%</td>
<td>-5.9%</td>
<td>0.8%</td>
<td>3.3%</td>
</tr>
<tr>
<td>CPI</td>
<td>1.4%</td>
<td>1.8%</td>
<td>1.9%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Real Return</td>
<td>-21.4%</td>
<td>-7.7%</td>
<td>-1.1%</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

Investment Performance - Individual Asset Mandates
As at March 31, 2009 (Annualized)

<table>
<thead>
<tr>
<th></th>
<th>1 year</th>
<th>3 year</th>
<th>5 year</th>
<th>10 year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canadian Bonds</td>
<td>7.1%</td>
<td>6.7%</td>
<td>6.1%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Canadian Equities</td>
<td>-30.9%</td>
<td>-9.1%</td>
<td>2.0%</td>
<td>6.8%</td>
</tr>
<tr>
<td>U.S. Equities</td>
<td>-24.1%</td>
<td>-12.1%</td>
<td>-5.9%</td>
<td>n/a</td>
</tr>
<tr>
<td>International Equities</td>
<td>-33.4%</td>
<td>-13.4%</td>
<td>-3.8%</td>
<td>n/a</td>
</tr>
<tr>
<td>Real Estate</td>
<td>-2.3%</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

The investment of assets in US and International Equities commenced in March 2001, so 10 year investment performance is not applicable. The investment of assets in Real Estate commenced over 2007 and 2008, so 3, 5, and 10 year investment performance is not applicable.
Endowment Expenses for 2009

Total dollars and the percentage based on the fund’s average market value in 2009:

**Investment Management Fees**
- $974,000 or 0.35%

**Other Fees and Expenses**
- $450,000 or 0.16%

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**Fees and Expenses of the Fund**

The endowment fund incurs expenses related to the management and safekeeping of investment assets. These include: investment management fees; custodial expenses; performance reporting and analytical expenses; consulting fees; and administration fees.

Institutions such as the University pay investment management fees that are much lower than the retail fees the general public would pay. The total investment management fees paid in 2009 was $974,000, or 0.35% of the average market value of the fund over that period. The total expenses of the fund in 2009 were $1,424,000, or 0.51% of the average market value of the investments for the year. A summary of the expenses is displayed in the accompanying chart.

Overall, compared to similar sized endowment funds and foundations, the fee structure is low, and the trustees are committed to ensuring that controlling costs is an important objective in the decision making process.
New Developments

There were no changes to the Investment Policy Statement as the asset mix continues 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% International), along with 15% invested in long government bonds, and 15% invested in real estate. The investment in the Great West Life Real Estate Fund reached its target allocation of 15% in the month of July 2008, and at the end of March 2009 there was $43.5 million invested in this fund.

The most significant development in the year was a change in Canadian equity managers. In March 2009, the Trust Investment Committee approved the hiring of Burgundy Asset Management to manage the investment of Canadian equities on behalf of the endowment fund. Burgundy replaced AMI Partners as the sole manager of this asset mandate. Burgundy is an independent investment firm based in Toronto with a long track record of great performance in the Canadian marketplace. Their philosophy fits very well with an endowment fund as they focus on the best possible long-term absolute returns, not short-term relative performance, by following a disciplined, bottom-up investment approach supported by intensive fundamental research. The transfer of the Canadian equity portfolio was scheduled for April 2009.
Endowment Management

The endowment fund is a permanent fund established to support specific purposes at the University of Manitoba. Each year, a portion of the investment return is used to support current year programs and therefore contributes to the quality of teaching, student accessibility, research, athletics, and public service at the university. The fund is currently comprised of almost 1,900 individual accounts, each with a specific purpose.

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.

Investment Managers
AMI Partners
• Canadian Bonds
• Canadian Equities
• US Equities
Legg Mason Global Currents
• International Equities
GWL Investment Management
• Real Estate
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 endowment is the preservation of capital to ensure inter-generational equity. The concept of inter-generational equity is to ensure current university students are neither advantaged nor disadvantaged relative to future students. 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 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.
THE TRUST INVESTMENT COMMITTEE IN 2009

University Staff and Members of the Board of Governors

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

DAVID BARNARD
President and Vice Chancellor
University of Manitoba

RICHARD LOBDELL
Vice Provost (Programs)
University of Manitoba

PAT BOVEY
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 BROWN RIDGE
Retired Managing Partner
Investors Group Investment Management Ltd.

BACKGROUND: Aboriginal House. Photos: Public Affairs