

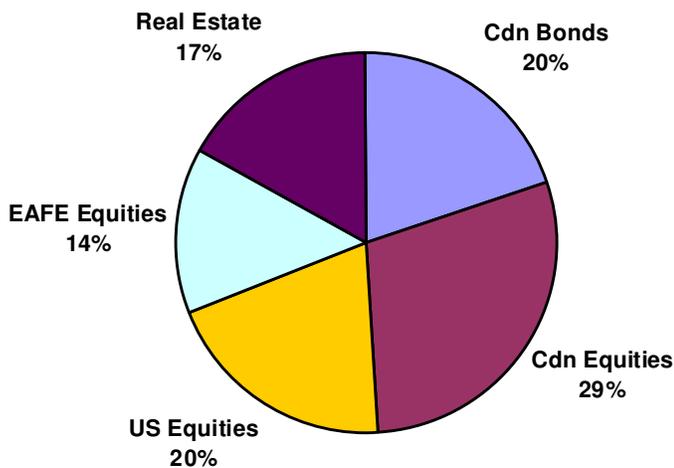


**The University Investment Trust (Endowment)
Quarterly Review for the period ending December 31, 2008**

The University Investment Trust (UIT) – the endowment operates as a large pooled fund that supports a wide variety of needs at the University, such as research, operating expenses, 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 endowment grows through gifts from generous donors, and through investment returns. The endowment is a key contributor to ensuring the University is successful in achieving its goals and objectives. Since the end of fiscal 2000, the endowment has grown from \$144 million to the current value of \$260 million. On top of that, there are trust and endowment funds outside of the UIT that also support various activities. Due to donor’s wishes or liquidity requirements, these funds are invested in fixed income instruments. The value of these funds is currently \$38.7 million.

Asset Mix, Investment Managers and Investment Performance

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



Investment Managers

- AMI Partners
 - Canadian Bonds
 - Canadian Equities
 - US Equities
- Legg Mason
 - EAFE Equities
- Great West Life
 - Real Estate

Total market value of UIT - \$259.7 million

Real Return Investment Performance - Overall UIT
As at December 31, 2008

	3 months	1 year	3 year	5 year
Annualized Return	-10.7%	-19.4%	-3.3%	2.4%
CPI	-1.3%	2.0%	2.0%	2.1%
Real Return	-9.4%	-21.4%	-5.3%	0.3%

Investment Performance – Individual Asset Mandates

As at December 31, 2008

Annualized Returns for the Individual Asset Mandates

	3 months	1 year	3 year	5 year
Canadian Bonds	10.4%	11.0%	6.7%	6.7%
Canadian Equities	-22.8%	-33.7%	-7.3%	2.9%
U.S. Equities	-11.8%	-20.4%	-7.2%	-3.0%
EAFE Equities	-8.3%	-30.2%	-6.9%	-0.1%
Real Estate	-7.7%	-0.5%	n/a	n/a

Investment Performance Recap – The autumn of 2008 will long be remembered as one of the worst periods of economic turmoil that the world has ever seen. There was essentially no place to hide, as stock markets in every corner of the globe fell dramatically; interest rates were cut to all time low levels; and real estate values plummeted. In the one year period from December 2007 to December 2008, the University Investment Trust (“UIT”), or endowment fund, has seen the market value of its investments fall from \$317.0 million to \$259.7 million. The 1 year loss was -19.4%, due largely to falling equity prices: over this period, the S&P/TSX lost -33.0%; the S&P 500 was down -21.9% (in \$Cdn); and the MSCI EAFE index fell -29.4% (in \$Cdn).

This is a very challenging time for university endowment funds. The long term goal of earning a real return to support the on-going commitments of universities has been severely undermined by the economic downturn of the past 6 months. Universities are reacting in different ways: some are maintaining their spending rates; some are reducing these rates; and others have suspended income allocations from their endowment funds. The Trust Investment Committee has reviewed this issue, and the decision was made to maintain the 4.5% spending rate for another year (fiscal 2009/2010). However, the Committee will closely monitor investment returns and market outlooks over the next year to assess the long term viability of maintaining a 4.5% spending rate.

Since this rate is based on a 3-year rolling average of market values, the amount available for spending will be reduced regardless of maintaining a 4.5% formula. This is simply due to the severity of the drop in market values over the past six months. Based on our calculations to date, we estimate a 4-to-5% decrease in funds available for beneficiaries of the various individual UIT accounts. In fiscal 2008/2009 there was a total of \$13.1 million made available for spending through the annual income allocation. Most of these funds are directed towards faculty and school support (40%), and student support through scholarships and bursaries (35%). The remainder supports chairs and professorships, research, athletics, libraries, and other restricted and unrestricted causes. The effect of the drop in spending will be felt in all of these areas, especially when commitments were based on inflationary increases over last year’s amounts. The immediate concern is the following fiscal years, and the risk that markets may take years to recover to the levels they had previously been. Thus, if there is little to no recovery, the 3-year rolling average will no longer benefit from previous years of strong investment performance, and spending allocations could fall further to reflect a prolonged drop in value of the endowment fund.

The Trust Investment Committee will be proactive over the next year to review all possible options available to the endowment fund, and strive to meet its goals and objectives. The long term goal is to maintain the capital of the fund, adjusting for inflation. The Committee is continually aware of balancing the needs of current students versus the needs of future students, and that will be the primary focus of all decisions and policies changes in the upcoming year.

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