Report of the Investment Committee

FOR INFORMATION

This report outlines the performance of the operating and endowment investment portfolio and the recent activities of the Investment Committee.

Performance

The investment performance of the portfolio for the past four years was as follows:

Asset Class	Annual Sept 30 2012	Annual Sept 30 2011	Annual Sept 30 2010	Annual Sept 30 2009	Annualized for Four years Ending Sept 30, 2012
Fixed Income	5.3%	6.5%	7.5	9.9%	7.2%
Alternative Investments:					
Hedge funds	-	-	-	-	-
Private equity	18.5	10.6	-	-	-
Real Estate	12.3	-	-	-	-
Equities:					
Canadian	12.1	(5.8)	10.6	(0.3)	3.9
US	26.5	0.2	8.6	(12.7)	4.7
Non North American	14.3	(8.9)	3.8	0.3	2.0
Absolute Return Strategies	-	-	-	-	-
Total Return	12.8%	(0.6)%	7.6%	2.8%	5.5%
Policy Return	12.5%	(0.5)%	7.8%	3.2%	5.7%

For additional information, please refer to the attached pages, which show the amounts held by each investment manager at September 30, 2012, the annual and annualized returns by manager over the five years ending September 30, 2012.

Returns in relation to the real rate of return objective

One of the Investment Committee's objectives is to earn a 4% real rate of return over the long term (i.e., to earn 4% over the rate of inflation, as measured by the Consumer Price Index). Inflation has averaged 1.7% per year for the past five years and 1.9% for the past ten years.

For the four years ending September 30, 2012, the annualized real rate of return was 4.2%, consisting of a nominal return of 5.5% less inflation of 1.3%. For the five years ending September 30, 2012, the annualized real rate of return for the portfolio was 0.4%, which consisted of a nominal (actual) annualized return of 2.1% less 1.7% for inflation. The 5 year annualized return does not meet the Investment Committee's performance objective of a real rate of return of 4%.

Value added by Active Management

Another of the Investment Committee's objectives is to earn the return produced by the asset mix policy based on the returns of the market indices plus a premium to reflect the additional fees related to active management. In order to achieve this objective, investment managers with active investment mandates need to outperform their benchmark indices. For example, Canadian equity managers need to outperform the TSX Composite Index over time.

Over the five years ending September 30, 2012, the actual annualized return for the portfolio was 2.1% and the return generated by the market indices for the portfolio was 2.1% (the policy return). Over this period, our combination of managers achieved the same results that could have been achieved by a passive or index style of management. It should be noted that 60% of the total portfolio is actively

managed and 40% is passively managed.

Book and Market Value of the Portfolio

As at September 30, 2012, the operating and endowment portfolio had a book value of $461,005,000 and market value of $536,759,000 as follows:

	Book Value ($000's)	Market Value ($000's)	Actual Asset Mix	Policy Asset Mix
Fixed Income	$114,849	$163,868	30.5%	25.0%
Alternative Investments	43,194	44,543	8.3	15.0
Canadian equities	90,830	107,445	20.0	20.0
US equities	88,316	116,499	21.7	20.0
Non-North American equities	123,816	104,404	19.5	20.0
Total	$461,005	536,759	100.0%	100.0%

At September 30, 2012 the portfolio consisted of the following components:

Portion related to Endowed funds	*$227,615,000*	*42.4%*
Portion related to Operating and Non-endowed funds	*309,144,000*	*57.6%*
Total market value of portfolio	*$536,759,000*	*100.0%*

Update on Investment Committee Activities

- The infrastructure subcommittee short listed the candidates for the infrastructure mandate and carried out on-site due diligence.
- The subcommittee made a recommendation for approval to the committee at the December meeting.
- The recommendation to hire a two-manager structure (Hastings and First State) was approved and carried.
- Hastings will be allocated $35 million and First State will be allocated $15 million.
- The Committee continued its discussions regarding the Canadian equity portfolio and the composition of managers. The Committee will continue its discussion at the next meeting to determine what changes, if any, need to be made within this asset class.
- The Committee approved and recommended to P&F, the appointment of one new member. This brings the committee membership to full complement.