# Investment Committee Report

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 Dec 31 2012 | Annual Dec 31 2011 | Annual Dec 31 2010 | Annual Dec 31 2009 | Annualized for Four years Ending Dec 31, 2012 |
|---|---|---|---|---|---|
| **Fixed Income** | 3.5% | 9.4% | 6.8 | 5.5% | 6.3% |
| **Alternative Investments:** | | | | | |
| Hedge funds | - | - | - | - | - |
| Private equity | 10.2 | 16.4 | - | - | - |
| Real Estate | 11.7 | - | - | - | - |
| **Equities:** | | | | | |
| Canadian | 11.0 | (9.8) | 17.0 | 28.9 | 10.8 |
| US | 16.6 | (0.1) | 13.7 | 20.4 | 12.4 |
| Non North American | 19.6 | (9.2) | 5.7 | 20.1 | 8.3 |
| **Absolute Return Strategies** | - | - | - | - | - |
| ***Total Return*** | 11.4% | (1.0)% | 10.2% | 16.7% | 9.1% |
| **Policy Return** | 10.3% | (0.8)% | 10.8% | 17.3% | 9.2% |

For additional information, please refer to the attached pages, which show the amounts held by each investment manager at December 31, 2012, the annual and annualized returns by manager over the five years ending December 31, 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 1.6% per year for the past five years and 1.8% for the past ten years.

For the four years ending December 31, 2012, the annualized real rate of return was 7.4%, consisting of a nominal return of 9.1% less inflation of 1.7%. For the five years ending December 31, 2012, the annualized real rate of return for the portfolio was 1.2%, which consisted of a nominal (actual) annualized return of 2.8% less 1.6% 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 December 31, 2012, the actual annualized return for the portfolio was 2.8% and the return generated by the market indices for the portfolio was 2.7% (the policy return). Over this period, our combination of managers achieved slightly better results than what could have been achieved by a passive or index style of management. It should be noted that approximately 65% of the total

portfolio is actively managed and 35% is passively managed.

**Book and Market Value of the Portfolio**

As at December 31, 2012, the operating and endowment portfolio had a book value of $476,539,000 and market value of $557,730,000 as follows:

| | Book Value ($000's) | Market Value ($000's) | Actual Asset Mix | Policy Asset Mix |
|---|---|---|---|---|
| Fixed Income | $109,044 | $151,841 | 27.2% | 25.0% |
| Alternative Investments | 59,291 | 61,518 | 11.0 | 15.0 |
| Canadian equities | 93,400 | 111,337 | 20.0 | 20.0 |
| US equities | 88,116 | 118,098 | 21.2 | 20.0 |
| Non-North American equities | 126,688 | 114,936 | 20.6 | 20.0 |
| Total | $476,539 | 557,730 | 100.0% | 100.0% |

At December 31, 2012 the portfolio consisted of the following components:

| | | |
|---|---|---|
| Portion related to Endowed funds | *$236,960,000* | *42.5%* |
| Portion related to Operating and Non-endowed funds | *320,770,000* | *57.5%* |
| Total market value of portfolio | *$557,730,000* | *100.0%* |

**Update on Investment Committee Activities**

- At the December 2012 meeting, the recommendation to hire two infrastructure managers (Hastings and First State) was approved and carried.
- Since that time, Administration has been busy conducting legal and tax due diligence on these two managers.
- Hastings will be allocated $35 million and First State will be allocated $15 million.
- Next on the agenda for the Committee is developing an integrated risk management plan that would include risk budgeting, assessing downside risk protection strategies and developing a currency hedging policy.
- Future priorities include evaluating real estate products to reach the target allocation of 5%; reviewing the portfolio's allocation to private assets and the Canadian equity structure; and discussing new asset classes such as emerging markets debt and equity, global equity and Canadian core plus fixed income.
- The Committee approved and recommended to P&F, the reappointment of a member. The committee membership remains at full complement.

# University of Western Ontario Endowment Plan

Asset Summary

As of December 31, 2012

| | Total Market Value | % of Total Fund | % of Asset Class | Equity & Convertible | | Fixed Income | | Real Estate | | Cash & Equivalents | | Alternative | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total Fund** | | | | | | | | | | | | | |
| UWO Endowment - Total Fund | $ 557.7 | 100.0% | 100.0% | $ 342.9 | 61.5% | $ 159.9 | 28.7% | $ 39.3 | 7.0% | $ 1.4 | 0.3% | $ 14.1 | 2.5% |
| **Canadian Stock Managers** | **111.3** | **20.0** | **100.0** | **109.9** | **98.7** | -- | -- | -- | -- | **1.4** | **1.3** | -- | -- |
| Beutel, Goodman Capital Mgmt. | 61.9 | 11.1 | 55.6 | 60.5 | 97.7 | -- | -- | -- | -- | 1.4 | 2.3 | -- | -- |
| Greystone Canada | 49.4 | 8.9 | 44.4 | 49.4 | 100.0 | -- | -- | -- | -- | -- | -- | -- | -- |
| **U.S Stock Managers** | **118.1** | **21.2** | **100.0** | **118.1** | **100.0** | -- | -- | -- | -- | -- | -- | -- | -- |
| SSgA Midcap Hedge Blend | 23.4 | 4.2 | 19.8 | 23.4 | 100.0 | -- | -- | -- | -- | -- | -- | -- | -- |
| J.P. Morgan 130/30 | 47.7 | 8.6 | 40.4 | 47.7 | 100.0 | -- | -- | -- | -- | -- | -- | -- | -- |
| SSgA S&P 500 Hedge Blend | 47.0 | 8.4 | 39.8 | 47.0 | 100.0 | -- | -- | -- | -- | -- | -- | -- | -- |
| **Non-North American Mgrs** | **114.9** | **20.6** | **100.0** | **114.9** | **100.0** | -- | -- | -- | -- | -- | -- | -- | -- |
| Templeton International | 55.3 | 9.9 | 48.1 | 55.3 | 100.0 | -- | -- | -- | -- | -- | -- | -- | -- |
| MFS/SSgA Hedge Blend | 59.6 | 10.7 | 51.9 | 59.6 | 100.0 | -- | -- | -- | -- | -- | -- | -- | -- |
| **Fixed Income Managers** | **151.8** | **27.2** | **100.0** | -- | -- | **133.2** | **87.7** | **18.7** | **12.3** | -- | -- | -- | -- |
| State Street Global Advisors | 133.2 | 23.9 | 87.7 | -- | -- | 133.2 | 100.0 | -- | -- | -- | -- | -- | -- |
| Greystone Capital Management | 18.7 | 3.3 | 12.3 | -- | -- | -- | -- | 18.7 | 100.0 | -- | -- | -- | -- |
| **Private Equity** | | | | | | | | | | | | | |
| Adams Street Partners | 14.1 | 2.5 | 100.0 | -- | -- | -- | -- | -- | -- | -- | -- | 14.1 | 100.0 |
| **Real Estate Managers** | **20.6** | **3.7** | **100.0** | -- | -- | -- | -- | **20.6** | **100.0** | -- | -- | -- | -- |
| Bentall Investment Management | 13.1 | 2.3 | 63.4 | -- | -- | -- | -- | 13.1 | 100.0 | -- | -- | -- | -- |
| GPM | 7.6 | 1.4 | 36.6 | -- | -- | -- | -- | 7.6 | 100.0 | -- | -- | -- | -- |
| **Other Absolute Return Strategy** | | | | | | | | | | | | | |
| Romspen | $ 26.7 | 4.8% | 100.0% | $ -- | -% | $ 26.7 | 100.0% | $ -- | -% | $ -- | -% | $ -- | -% |

# Performance Summary by Portfolio

## Annual Value Added by Asset Class – December 31, 2012

| | Market Value | Rolling One Year Periods | | | | | |
|---|---|---|---|---|---|---|---|
| | | 12/31/12 | 12/31/11 | 12/31/10 | 12/31/09 | 12/31/08 | 12/31/07 |
| **UWO Endowment - Total Fund** | **$ 557.73** | **11.37%** | **(1.03)%** | **10.21 %** | **16.66 %** | **(18.89)%** | **3.64 %** |
| Total Fund Policy | | *10.25* | *(0.81)* | *10.79* | *17.26* | *(19.65)* | *2.87* |
| **Canadian Stock Managers** | **111.34** | **10.96** | **(9.83)** | **16.95** | **28.93** | **(31.43)** | **11.21** |
| Beutel, Goodman Capital Mgmt. | 61.91 | 12.86 | (5.03) | 16.64 | 26.76 | (21.99) | 6.38 |
| Greystone Canada | 49.43 | 8.17 | (15.22) | 18.12 | 27.81 | (36.73) | 12.97 |
| S&P/TSX Composite Index | | *7.19* | *(8.71)* | *17.61* | *35.05* | *(33.00)* | *9.83* |
| **U.S Stock Managers** | **118.10** | **16.59** | **(0.08)** | **13.72** | **20.43** | **(36.40)** | **(1.25)** |
| SSgA Midcap Hedge Blend | 23.37 | 17.82 | (3.35) | 24.78 | 33.98 | (39.05) | 4.49 |
| J.P. Morgan 130/30 | 47.70 | 16.57 | (0.37) | 9.44 | 16.92 | -- | -- |
| SSgA S&P 500 Hedge Blend | 47.03 | 16.02 | 1.42 | 13.57 | (32.54) | -- | -- |
| S&P 400 Canada Dollar Hedged | | *18.13* | *(2.65)* | *24.85* | *34.70* | *(39.11)* | *6.21* |
| S&P 500 - Total Return Index | | *13.43* | *4.64* | *9.06* | *7.39* | *(21.20)* | *(10.53)* |
| S&P 500 Canada Dollar Hedged | | *16.27* | *1.63* | *13.55* | *24.10* | *(39.03)* | *3.79* |
| **Non-North American Mgrs** | **114.94** | **19.55** | **(9.21)** | **5.70** | **20.10** | **(32.76)** | **0.93** |
| Templeton International | 55.33 | 15.26 | (9.48) | 0.45 | 17.56 | (31.00) | (0.98) |
| MFS Investment Management | 59.85 | 20.80 | (7.41) | 5.25 | 13.19 | (19.28) | -- |
| MFS/SSgA Hedge Blend | 59.61 | 23.69 | (9.11) | 12.73 | 23.98 | (34.60) | -- |
| MSCI EAFE Hedged to C$ w/Gross Dividends~ | | *18.23* | *(11.70)* | *5.00* | *24.08* | *(41.48)* | *4.16* |
| MSCI EAFE Index | | *15.29* | *(9.55)* | *2.56* | *12.49* | *(28.78)* | *(5.32)* |
| **Fixed Income Managers** | **151.84** | **3.55** | **9.39** | **6.82** | **5.49** | **7.01** | **3.71** |
| State Street Global Advisors | 133.18 | 3.56 | 9.45 | 6.82 | 5.49 | 7.01 | 3.71 |
| DEX Bond Universe Index | | *3.60* | *9.67* | *6.74* | *5.41* | *6.41* | *3.68* |
| **Private Equity Manager** | | | | | | | |
| Adams Street Partners | 14.13 | 10.20 | 16.44 | -- | -- | -- | -- |
| MSCI All Country World Index | | *14.21* | *(4.56)* | *7.31* | *14.99* | *(27.26)* | *(4.85)* |

SSgA Midcap Hedge Blend includes the history of the Northwater hedges.
SSgA S&P 500 Hedge Blend includes the history of the Northwater hedges.
MFS/SSgA Hedge Blend includes the history of the Northwater hedges.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Real Estate Managers** | | | | | | | |
| Bentall Investment Management | $ 13.07 | 13.52% | --% | --% | --% | --% | --% |
| GPM | 7.56 | 7.40 | -- | -- | -- | -- | -- |
| Bentall - IPD All Property Ind | | *9.84* | -- | -- | -- | -- | -- |
| GPM - IPD Industrial Index | | *10.38* | -- | -- | -- | -- | -- |

Russell Investments

# Performance Summary by Portfolio

## Annualized Value Added by Asset Class – December 31, 2012

| | Market Value | Quarter | Annualized 1 Year | 3 Years | 4 Years | 5 Years |
|---|---|---|---|---|---|---|
| **UWO Endowment - Total Fund** | **$ 557.73** | **3.11%** | **11.37%** | **6.70 %** | **9.11 %** | **2.82 %** |
| *Total Fund Policy* | | *2.48* | *10.25* | *6.61* | *9.18* | *2.68* |
| **Canadian Stock Managers** | **111.34** | **3.62** | **10.96** | **5.38** | **10.83** | **0.68** |
| Beutel, Goodman Capital Mgmt. | 61.91 | 5.64 | 12.86 | 7.73 | 12.20 | 4.33 |
| Greystone Canada | 49.43 | 1.20 | 8.17 | 2.70 | 8.47 | (2.61) |
| *S&P/TSX Composite Index* | | *1.72* | *7.19* | *4.79* | *11.65* | *0.81* |
| **U.S Stock Managers** | **118.10** | **1.45** | **16.59** | **9.83** | **12.39** | **0.29** |
| SSgA Midcap Hedge Blend | 23.37 | 3.79 | 17.82 | 12.42 | 17.46 | 3.02 |
| J.P. Morgan 130/30 | 47.70 | 2.01 | 16.57 | 8.32 | 10.41 | -- |
| SSgA S&P 500 Hedge Blend | 47.03 | (0.22) | 16.02 | 10.15 | (2.56) | -- |
| *S&P 400 Canada Dollar Hedged* | | *3.78* | *18.13* | *12.81* | *17.93* | *3.33* |
| *S&P 500 - Total Return Index* | | *0.81* | *13.43* | *8.99* | *8.59* | *1.84* |
| *S&P 500 Canada Dollar Hedged* | | *(0.21)* | *16.27* | *10.30* | *13.60* | *0.30* |
| **Non-North American Mgrs** | **114.94** | **9.34** | **19.55** | **4.69** | **8.34** | **(1.52)** |
| Templeton International | 55.33 | 9.25 | 15.26 | 1.57 | 5.35 | (3.20) |
| MFS Investment Management | 59.85 | 10.23 | 20.80 | 5.59 | 7.44 | 1.47 |
| MFS/SSgA Hedge Blend | 59.61 | 9.40 | 23.69 | 8.22 | 11.96 | 0.55 |
| *MSCI EAFE Hedged to C$ w/Gross Dividends~* | | *7.65* | *18.23* | *3.11* | *7.99* | *(4.46)* |
| *MSCI EAFE Index* | | *7.88* | *15.29* | *2.27* | *4.73* | *(3.04)* |
| **Fixed Income Managers** | **151.84** | **0.33** | **3.55** | **6.56** | **6.29** | **6.44** |
| State Street Global Advisors | 133.18 | 0.30 | 3.56 | 6.58 | 6.31 | 6.45 |
| Greystone Capital Management | 18.66 | 0.58 | 3.32 | -- | -- | -- |
| *DEX Bond Universe Index* | | *0.30* | *3.60* | *6.64* | *6.33* | *6.35* |
| *Dex ST 60 + MT 40 +50bp* | | *0.49* | *3.56* | -- | -- | -- |
| **Private Equity Manager** | | | | | | |
| Adams Street Partners | 14.13 | 0.68 | 10.20 | -- | -- | -- |
| *MSCI All Country World Index* | | *4.24* | *14.21* | *5.36* | *7.69* | *(0.44)* |

SSgA Midcap Hedge Blend includes the history of the Northwater hedges.
SSgA S&P 500 Hedge Blend includes the history of the Northwater hedges.
MFS/SSgA Hedge Blend includes the history of the Northwater hedges.

| | | | | | | |
|---|---|---|---|---|---|---|
| **Real Estate Managers** | | | | | | |
| Bentall Investment Management | $ 13.07 | 1.99% | 13.52% | --% | --% | --% |
| GPM | 7.56 | 1.69 | 7.40 | -- | -- | -- |
| *Bentall - IPD All Property Ind* | | *2.20* | *9.84* | -- | -- | -- |
| *GPM - IPD Industrial Index* | | *2.50* | *10.38* | -- | -- | -- |
| **Other Absolute Return Strategy** | | | | | | |
| Romspen | 26.75 | 2.06 | 8.70 | -- | -- | -- |
| *Dex ST 60 + MT 40 +50bp* | | *0.49* | *3.56* | -- | -- | -- |

Russell Investments

# UWO Operating - Combined

## Total Fund Real Returns – December 31, 2012

### A Real Return of 7.4% Over The Last 4 years, Above the 4% Real Objective Over the Long Term

| | 1 Year | 2 Years | 3 Years | 4 Years | 5 Years | 6 Years | 7 Years | 8 Years | 9 Years | 10 Years | 20 Years |
|---|---|---|---|---|---|---|---|---|---|---|---|
| UWO Annualized Returns | 11.4 | 5.0 | 6.7 | 9.1 | 2.8 | 3.0 | 4.3 | 5.1 | 5.6 | 6.3 | 7.9 |
| CPI (Inflation) | 0.8 | 1.6 | 1.8 | 1.7 | 1.6 | 1.7 | 1.7 | 1.8 | 1.8 | 1.8 | 1.8 |
| Real Return | 10.5 | 3.4 | 4.9 | 7.4 | 1.2 | 1.2 | 2.6 | 3.3 | 3.7 | 4.5 | 6.1 |

| | Yr Ending 12/31/2012 | Yr Ending 12/31/2011 | Yr Ending 12/31/2010 | Yr Ending 12/31/2009 | Yr Ending 12/31/2008 | Yr Ending 12/31/2007 | Yr Ending 12/31/2006 | Yr Ending 12/31/2005 | Yr Ending 12/31/2004 | Yr Ending 12/31/2003 |
|---|---|---|---|---|---|---|---|---|---|---|
| UWO Annual Returns | 11.4 | -1.0 | 10.2 | 16.7 | -18.9 | 3.6 | 12.9 | 10.6 | 9.3 | 13.2 |
| CPI (Inflation) | 0.8 | 2.3 | 2.4 | 1.3 | 1.2 | 2.4 | 1.7 | 2.1 | 2.1 | 2.1 |
| Real Return | 10.5 | -3.3 | 7.9 | 15.3 | -20.1 | 1.3 | 11.2 | 8.5 | 7.2 | 11.1 |

# UWO Operating - Combined

## Total Fund Value Added – December 31, 2012

### Generally value added from active management despite poor hedge fund performance

| | 1 Year Annualized | 2 Years Annualized | 3 Years Annualized | 4 Years Annualized | 5 Years Annualized | 6 Years Annualized | 7 Years Annualized | 8 Years Annualized | 9 Years Annualized | 10 Years Annualized |
|---|---|---|---|---|---|---|---|---|---|---|
| UWO Annualized Return (1) | 11.4 | 5.0 | 6.7 | 9.1 | 2.8 | 3.0 | 4.3 | 5.1 | 5.6 | 6.3 |
| Policy Return (2) | 10.3 | 4.6 | 6.6 | 9.2 | 2.7 | 2.7 | 4.0 | 4.9 | 5.3 | 6.1 |
| Value Added | 1.1 | 0.4 | 0.1 | -0.1 | 0.1 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 |

| | Yr Ending 12/31/2012 | Yr Ending 12/31/2011 | Yr Ending 12/31/2010 | Yr Ending 12/31/2009 | Yr Ending 12/31/2008 | Yr Ending 12/31/2007 | Yr Ending 12/31/2006 | Yr Ending 12/31/2005 | Yr Ending 12/31/2004 | Yr Ending 12/31/2003 |
|---|---|---|---|---|---|---|---|---|---|---|
| UWO Annual Return (1) | 11.4 | -1.0 | 10.2 | 16.7 | -18.9 | 3.6 | 12.9 | 10.6 | 9.3 | 13.2 |
| Policy Return (2) | 10.3 | -0.8 | 10.8 | 17.3 | -19.6 | 2.9 | 12.0 | 11.1 | 9.1 | 13.3 |
| Value Added | 1.1 | -0.2 | -0.6 | -0.6 | 0.8 | 0.8 | 0.9 | -0.5 | 0.2 | -0.1 |

| Policy Mix as of December 31 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| S&P/TSX Composite | 20% | 20% | 20% | 20% | 20% | 20% | 20% | 20% | 20% | 20% |
| S&P 500 | 5% | 5% | 5% | 5% | 5% | 15% | 15% | 10% | 20% | 20% |
| S&P 500 Hedged Currency | 11% | 11% | 11% | 11% | 10% | 5% | 5% | 10% | 0% | 0% |
| S&P 400 Hedged Currency | 4% | 4% | 4% | 4% | 5% | 5% | 5% | 5% | 5% | 5% |
| MSCI EAFE | 10% | 10% | 10% | 10% | 10% | 10% | 10% | 10% | 10% | 10% |
| MSCI EAFE Hedged Currency | 10% | 10% | 10% | 10% | 10% | 5% | 5% | 5% | 5% | 5% |
| Total Equity | 60% | 60% | 60% | 60% | 60% | 60% | 60% | 60% | 60% | 60% |
| DEX Universe (3) | 25% | 25% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% |
| MSCI All Country World (ACWI) | 5% | 5% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 90-Day LIBOR | 5% | 5% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Real Estate (4) | 5% | 5% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |

Notes:
(1) All returns are before deducting investment managers' fees.
(2) The UWO Policy Return is the return that would have been earned (before investment managers' fees) by investing the portfolio in index funds in proportion to the target or policy asset mix.
(3) Includes hedge fund and private equity prior to July 2010
(4) Current 5% allocation consists of 2.5% REALpac / IPD Canada - All Property Index and 2.5% REALpac / IPD Canada - All Industrials Index



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