

Western

ENDOWMENT REPORT: APRIL 30, 2010

A "THANK YOU" FOR YESTERDAY, TODAY & TOMORROW



Endowed giving ensures your vision for helping Western's students and faculty is carried out each and every year, in perpetuity. Last year was no exception – thanks to your foresighted gifts, endowments held by the University and Foundation Western provided more than \$12.7 million toward research, teaching and student programs. We were able to present 3,082 student awards and support 90 faculty members through Chairs, Professorships and Fellowships. Your endowment directly changed lives this year and for that we are deeply grateful. Thank you.

The University's endowed investments, managed by professional external investment managers with oversight from a volunteer committee of Western's Board of Governors, performed well last year. Our fiscal year ended April 30, 2010 with returns of 18.8% (net).

We still have ground to make up, but the total endowed assets under management by the University and Foundation Western climbed to \$319 million, from a low of \$266 million a year earlier. Importantly, we have continued to support all of the people and programs that benefit from endowments. Following last year's commitment to student access, Western will once again top-up the payouts on need-based student awards, ensuring accessibility remains at pre-market-crisis levels.

Building our endowment will take on an even greater focus in the years ahead. Recently, we launched an endowed Chair matching gift program, wherein the University will match a select number of endowed Chairs on a 1:1 basis – creating new fully endowed \$3-million Chairs by matching donor gifts of \$1.5 million. As we move forward with our fundraising efforts, we will also be announcing a major new scholarship program.

Whether we are working on student awards or faculty Chairs, we understand now more than ever the power of private philanthropy to build a truly great international university, one that develops leaders and translates its innovation and creativity to strengthen Canada's economy and have a global impact.

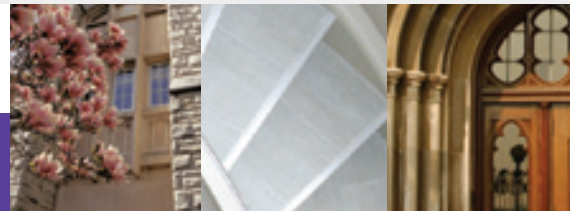
We are pleased to enclose a financial report on the specific endowment fund(s) of interest to you. Thank you for investing in Western's students, faculty, research and programs.

Your continued support is truly appreciated.

Kevin Goldthorp
Vice-President (External)

The University of Western Ontario





FINANCIAL HIGHLIGHTS

INVESTMENT RESULTS

The world financial markets have rebounded well over the past year and Western endowments have benefited accordingly.

Western's overall objective is to achieve a real rate of return of 5% over the long term of the portfolio, with an acceptable level of risk. Each year, the total return earned by the portfolio, less investment managers' fees of approximately 0.5%, is allocated proportionately to the capital of each endowed fund at April 30. For the period May 1, 2009 to April 30, 2010, investment returns were 18.8% (net of fees).

INVESTMENT COMMITTEE

The Investment Committee, a volunteer subcommittee of Western's Board of Governors, consists of members chosen for their knowledge and expertise in investment and financial management. The Committee manages the University's endowed investments according to policies established by the Board of Governors and selects and monitors investment management firms that are responsible for the daily investment activities of the portfolio.

ASSET MIX AND MANAGER STRUCTURE

Western's long-term investment strategies and asset mix for endowed funds have served the University well. The University's asset mix policy is currently 60% publicly traded equities; 25% fixed income; and 15% alternative investments. As at April 30, 2010, the actual asset mix was as follows:

ASSET MIX AND MANAGER STRUCTURE										
	EQUITIES (65%)								FIXED INCOME (34%)	ALTERNATIVE (1%)
Manager	Highstreet	Beutel Goodman	Greystone	State Street	State Street	JP Morgan	Templeton	MFS	State Street Global Advisors	Northwater
Asset Class	Canadian Equity	Canadian Equity	Canadian Equity	US Equity S&P 500 Hedged	US Equity S&P 400 Hedged	US Equity	Non North American Equity	Non North American Equity Hedged	Fixed Income	Hedge Fund
Allocation	7%	11%	6%	8%	4%	9%	12%	8%	34%	1%

RETURNS IN RELATION TO THE OBJECTIVE TO EARN 5% ABOVE THE RATE OF INFLATION

Western's Endowment Fund did not meet its first objective over the past five years, which is to earn a rate of return that exceeds the rate of inflation by 5%.

RETURNS IN RELATION TO THE OBJECTIVE TO ADD VALUE OVER THE RETURN OF INDICES

The Endowment Fund did exceed its second objective, which is to add value over the market indices over the long term. The table compares the historical performance of the Endowment Fund to its policy return. The policy return is what one would have received by investing the assets in index funds in proportion to the policy asset mix outlined. Our objective is to add value over the indices returns and this is achieved when active managers outperform their benchmarks.

HISTORICAL ANNUALIZED PERFORMANCE TO MARCH 31, 2010 IN RELATION TO INFLATION				
	1 YEAR	4 YEARS	5 YEARS	10 YEARS
Annualized fund return	23.1%	2.1%	4.3%	4.0%
CPI (Inflation)	1.4%	1.6%	1.7%	2.0%
Real return	21.7%	0.5%	2.6%	2.0%

HISTORICAL ANNUALIZED PERFORMANCE TO MARCH 31, 2010					
	3 MONTHS	1 YEAR	4 YEARS	5 YEARS	10 YEARS
Annualized fund return	2.2%	23.1%	2.1%	4.3%	4.0%
Policy return	2.4%	25.0%	1.7%	4.1%	3.1%
Value added	-0.2%	-1.9%	0.4%	0.2%	0.9%



SPENDING POLICY

THE UNIVERSITY'S ENDOWMENT SPENDING POLICY WORKS TO PRESERVE THE DONATED CAPITAL OF YOUR ENDOWMENTS WHILE CONTINUING TO PROVIDE A MEANINGFUL LEVEL OF FUNDING FOR GENERATIONS TO COME.

Effective April 30, 2009, the rate used to calculate the allocation for spending¹ from University endowments varies, in one of two ways, depending on the endowment value at the end of the fiscal year.

For endowments that have a market value equal to or greater than the original donated capital amount as at April 30 in any given year, the University's policy calls for 4.0% of the market value of each endowment to be allocated for spending to support the stated purpose of the endowment.

For endowments that have a market value less than the original donated capital amount as at April 30 in any given year, the annual allocation for spending for the next fiscal year is 2.5%. Western remains optimistic that future returns will restore existing endowments; however, analysis suggests a temporary reduction in spending is required to help rebuild these endowments to their original donated capital level and ensure long-term growth.

For all new University endowments established after May 1, 2008, payouts will commence on May 1 of the relevant fiscal year after the endowment has been held for one full fiscal year at the University. Western's fiscal year is May 1 to April 30.

¹The annual allocation for spending is calculated on the market value of each endowment, averaged over the most recent three years. This allocation is distributed in May of each year.

“The Métis Nation of Ontario Bursary enabled me to survive for the first few difficult months of transitioning to a very different lifestyle. My academic goals are to broaden my knowledge base and skill sets in the health sciences field. Receiving this generous bursary has made my studies and dreams possible.”

**Kevin Losier,
recipient of a
Métis Nation of
Ontario Bursary**

WESTERN'S ENDOWMENT FUND

Western has two main objectives for our endowment fund:

- To earn an annual real rate of return of 5% over the long term (which means to earn a return of 5% above the rate of inflation) on the understanding that in order to achieve this objective, there will be volatility in returns from quarter to quarter and from year to year.
- To add value over the return of indices by the use of active investment strategies.



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“Endowed funds are important to university research because they provide ongoing funding that allows the researcher to have flexibility and latitude. It also serves as seed money to initiate research that may attract significant industrial funding in the future, as in my case. My work on the development of novel, new, more efficient wastewater treatment systems has resulted in promising commercialization potential.”

**Dr. George Nakhla,
Salamander Chair in
Environmental Engineering**

ENDOWMENT FUND SUMMARY

Each endowment fund is managed through two distinct accounts to help foster transparency and accountability. The following glossary of terms is provided to assist you.

THE VALUE OF THE **CAPITAL ACCOUNT** REPRESENTS THE AMOUNT OF CAPITAL THAT IS ENDOWED

Total Donations	Cumulative gifts received
Prior Years Returns & Distributions	Investment returns earned in prior years, plus any capitalized expendable income, less annual distributions for spending prior to May 2009
2009/2010 Investment Returns	Investment returns in the current year calculated at 18.8% (after fees)
2009/2010 Distribution	Amount allocated for spending in 2009/2010 calculated at 4.0% or 2.5% of the capital balance, averaged over the three most recent years, transferred to the income account
Other Transactions as listed	Transfers from income or subsidies

THE VALUE OF THE **INCOME ACCOUNT** REPRESENTS THE TOTAL AMOUNT AVAILABLE FOR SPENDING

Opening Balance	Cumulative amount available for spending, less expenditures from prior years, and including prior interest earned on the income account balance
2009/2010 Investment Returns	Short-term interest for the income account balance, calculated at 0% in 2009/2010
2009/2010 Distribution	Amount allocated for spending in 2009/2010 calculated at 4.0% or 2.5% of the capital balance, averaged over the three most recent years, to support the stated purpose of the endowment
Other Transactions as listed	Expenditures, recoveries, transfers to/from expendable account
2010/2011 Distribution	Amount allocated for spending in 2010/2011 calculated at 4.0% or 2.5% of the capital balance, averaged over the three most recent years, to support the stated purpose of the endowment

For any additional information or questions about your financial report, please contact:

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