2016 ANNUAL REPORT FOR THE

UNIVERSITY OF REGINA

TRUST AND ENDOWMENT FUND

University of Regina

The University of Regina Trust & Endowment Fund – Overview

The University of Regina Trust & Endowment Fund (TEF) consists of 374 nonexpendable endowed trust accounts and 145 expendable non-endowed trust accounts. Each individual account was created for a specific purpose such as a scholarship and has terms of reference which govern the use of the funds. In addition, the University has institutional policies which govern the administration of the TEF with which each individual trust account must comply. As at December 31, 2016, the fair market value of the TEF was $86.1 million (2015 - $77.8 million). $84.6 million of the TEF was managed by contracted professional investment managers and $1.5 million was allocated to the UR Investment program in the Faculty of Business Administration.

Oversight of the TEF is provided by the Trust & Endowment Committee (TEC), which is a five person subcommittee reporting to the University of Regina Board of Governors. TEC members are University of Regina Board members or employees appointed by the Board of Governors. The TEC operates in accordance with terms of reference approved by the Board. The TEC makes operational decisions regarding the TEF and makes recommendations to the Board for approval on significant matters, in accordance with the terms of reference.

The TEC works closely with investment consultants Aon Hewitt to monitor and manage the TEF. Annually, the Statement of Investment Policies and Goals is updated by TEC with the advice of Aon Hewitt. The TEF portfolio consists of diversified investment accounts investing in domestic and international equities, fixed income and real estate. The goal of the annual update of investment asset mix is to obtain the required rate of return for the TEF within an acceptable level of investment risk. The primary long-term objective of the TEF is to generate a minimum annual rate of return after inflation of 4% which is the rate necessary to support an annual expenditure of 4% of the endowed trust accounts in perpetuity. This objective enables endowed scholarship funds to pay out annual scholarships of 4% of the fund balance forever while maintaining the purchasing power of both the annual scholarship and the remaining trust fund balance.

Later in this report, investment returns are compared to "benchmark returns." Those benchmark returns are established in relation to specific investment asset classes and economic circumstances to assess investment performance, but the underlying primary objective remains to generate a real rate of return of 4% per year. As at December 31, 2016, the TEF has achieved this primary objective by exceeding a 4% real rate of return over the past one, four and ten year investment periods.

Almost all TEF funds are invested as a pool of funds through several investment managers. The majority of the investment managers employed are also employed by the University of Regina Pension Master Trust Fund. By employing the same investment managers for the TEF and the University's two defined benefit pension plans, each of the three funds can be managed as separate funds, yet combined for investment manager fee calculations. This enables economies of scale to be reached which results in lower investment manager fees for both the TEF and the pension funds.

The one exception to all TEF funds being invested as a pool is in relation to the UR Investing program. Specific trust funds have designated that part of its assets be invested by UR Investing, with the resulting investment gains or losses being attributed directly back to those specific trust funds. UR Investing assets and investment returns are not comingled with the other TEF assets. As at December 31, 2016, $1.5 million of the TEF assets were managed by UR Investing.

UR Investing is a program within the University of Regina Faculty of Business Administration. It is a structured program for degree credit which enables University students to learn about investments using real money and investing in real stock market investments through an external stock broker. The program is an example of the programs used to achieve the University's strategic goal of providing students with experiential learning environments.

The remainder of this report has been written by investment consultants Aon Hewitt. The report analyzes in detail the performance of the investment portfolio held by the TEF. The purpose of this analysis is to provide past, present and future benefactors to the University of Regina with information regarding the sound investment management practices employed by the University of Regina to ensure that the maximum benefit is derived from their gifts to the University.

Review of 2016 Investment Performance

The Markets

- Global equity markets finished 2016 on a broadly positive note with the MSCI All Country World Index (a proxy for global equities including emerging markets) returning 4.1% in Canadian dollar terms. Despite the positive returns, markets were highly volatile over the year, resulting from slow global growth, Brexit, rising interest rates, rising commodity prices, and the U.S. election.

- ***Equities***
- For the year ending December 31, 2016, foreign equity returns were stronger in local currency terms, but weaker in Canadian dollar terms, as the appreciation of the Canadian dollar versus other currencies decreased returns for Canadian investors. The Canadian market, as represented by the S&P/TSX Composite Index, posted a strong return of 21.1%. The U.S. equity market, as represented by the S&P 500, returned 12.0% in U.S. dollar terms. The appreciation of the Canadian dollar versus the U.S. dollar decreased returns for Canadian investors by 3.9% over the year. Non-North American equities, as represented by the MSCI EAFE Index, were up 5.3% in local currency terms. The appreciation of the Canadian dollar versus the basket of EAFE currencies subtracted 7.8% from the Index, leaving Canadian investors with a -2.5% return. Across equity markets, the Energy and Materials sectors had the strongest returns for the year as oil and commodity prices rebounded. The Health Care and Consumer sectors were generally weaker in foreign markets.

- ***Fixed Income***
- The Canadian bond market, as measured by the FTSE TMX Universe Bond Index, was up 1.7% in the year ending December 31, 2016. Yields decreased throughout most of the year, however rose sharply in the fourth quarter after the U.S. presidential elections. The rise in yields caused negative returns in the fourth quarter, with longer dated bonds losing the most value, however still outperforming shorter maturities over the year. By sector, corporate bonds outperformed federal and provincial bonds, as credit outperformed in 2016.

Plan Overview

- ***Investment Performance (excluding UR Investing) - 2016***
- The University of Regina Trust and Endowment return was 7.4% in 2016.

- The Total Fund return matched the benchmark return. Value added by strong relative returns in universe bonds, mortgages and non-North American equities was offset by weak relative returns in Canadian and emerging market equities and high yield bonds. Asset mix was slightly positive. Trends by asset class included:

  - Mixed relative performance in Canadian equities, with PH&N adding value and Mawer subtracting. PH&N added 2.4% to the 21.1% Index, while Mawer's 17.5% return was 3.6% below the S&P/TSX Composite Index. Both managers were underweight gold stocks over the year, a position which detracted as gold surged in the first half of 2016.

  - In the U.S. equity market, BlackRock's performance tracked very tightly to the 8.1% S&P 500 return, which is the objective for this passive strategy.

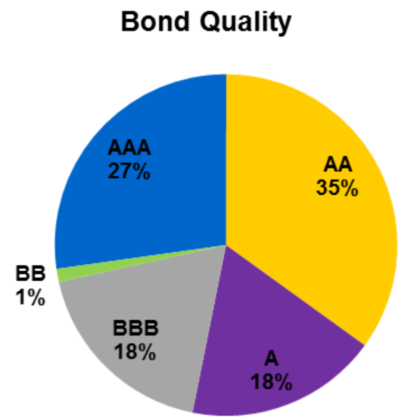
  - The non-North American equity manager, Mawer, beat the MSCI EAFE Index by 0.4% in the year, returning -2.1%. Mawer's 15% allocation to emerging market names, and the 6% allocation to two U.S. stocks added value.

  - GMO's global equity mandate was slightly above the 4.1% benchmark (net of fees), generating a 4.2% return. A double the Index weight in emerging market names added value, but was offset by a 20% underweight in U.S. names.

  - GMO's emerging markets equity mandate was weak, returning 0.4% and subtracting 6.9% from the 7.3% MSCI Emerging Market Index in the year.

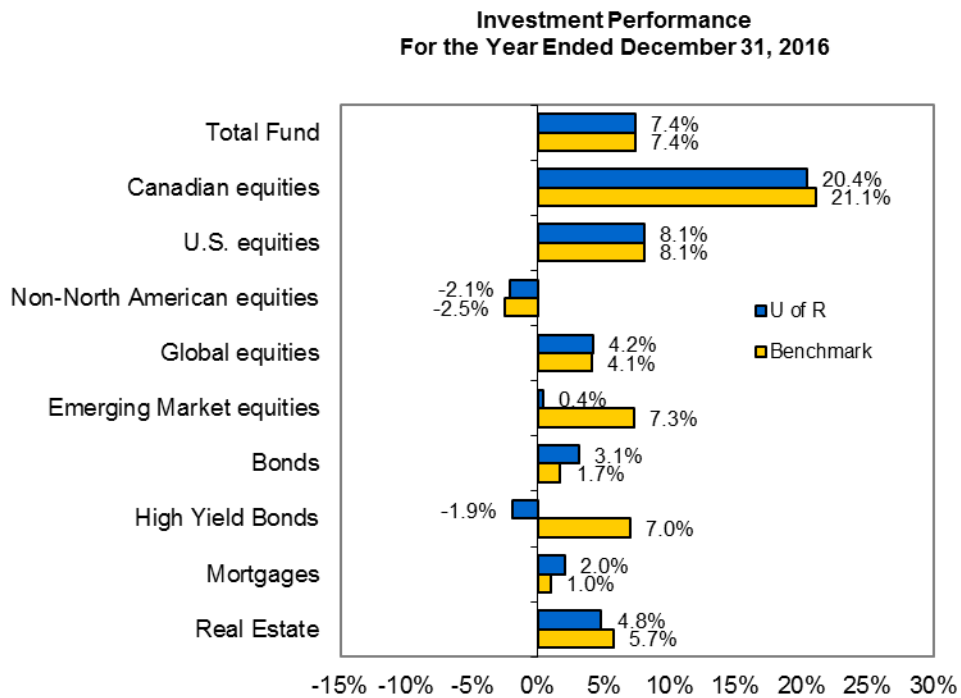
  - PH&N manages a Universe Bond mandate and mortgages for the Trust and Endowment. Over the year, total bonds returned 3.1%, above the FTSE TMX Universe Bond Index by 1.4%, due to positioning in corporate bonds and the high yield bond allocation. Mortgages were subdued in the year, returning 2.0% versus the 1.0% FTSE TMX Short Term Bond Index.

- PH&N primarily holds investment grade bonds, with 1% of the portfolio rated BB and lower. The breakdown of the bond quality is shown in the graph below.



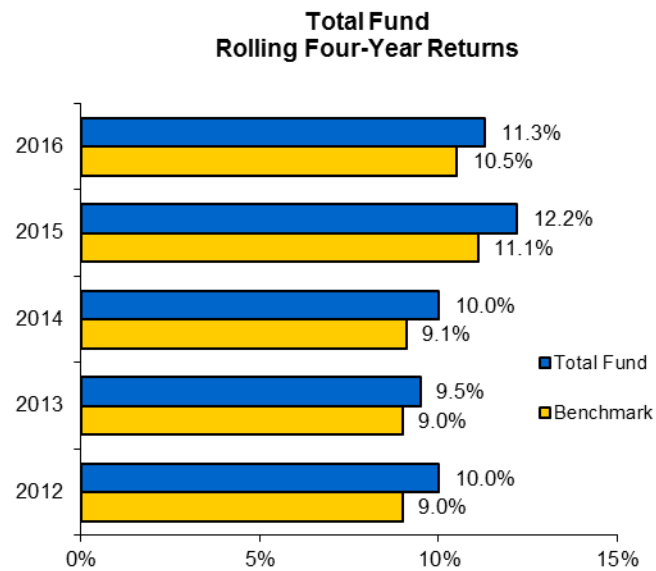
- In a difficult year for high yield bonds, BlueBay's high yield bond strategy struggled, falling 1.9% in the year versus their 7.0% hurdle rate. Due to a large number of redemptions following senior level turnover, BlueBay chose to liquidate the Fund in October 2016. BlackRock has been chosen to replace this mandate, and was funded in early 2017.

- Real Estate is managed by Bentall and IAM. In the year, Bentall and IAM posted returns of 5.2% and 3.6%, respectively, both below the 5.7% IPD Benchmark. Returns were predominantly from income as capital appreciation within the real estate market has slowed. Generally, properties in B.C. and Ontario contributed positively to returns, while lower property appraisals in Alberta detracted value.



Investment Performance – Rolling Four-Year Returns

- Another of the Fund's investment objectives is to exceed the benchmark return over rolling four-year periods. The Total Fund return over the past four years was 11.3%, outpacing the benchmark by 0.8%. The following chart provides the longer-term track record of the Fund, with each period a rolling four-year result. The most recent result shows a strong absolute return led by equities. Over the past 10 years, the Total Fund return was 6.0% per year, which tracked 0.4% ahead of the benchmark return.



- ***Investment Performance – Relative to Peers***

- In addition to monitoring performance relative to the benchmark return, the Fund performance can be put in perspective by comparing the result against those of a universe of institutional funds. The following table shows the Total Fund return and individual asset class returns relative to other funds in the Aon Hewitt Universe for pooled funds over the past year and four-year periods.

- The 2016 Total Fund result of 7.4 % placed just below the 7.8% earned by the median balanced pooled fund. Over the past four years, the Total Fund return of 11.3% exceeded the 9.7% median manager result.

2016 Relative Performance		
Asset Class	2016 Quartile [1]	4-Year Quartile [1]
Canadian equities	2	1
U.S. equities	2	2
Non-North American equities	2	2
Global equities	2	4
Emerging Market equities	4	n/a
Bonds	1	1
Mortgages	3	n/a
Real Estate	4	2
Total Fund	3	1

[1] Indicates the placement of the return relative to the Aon Hewitt Universe for institutional pooled funds. Quartile 1 include the top 25% of funds by return, Quartile 2 represents firms in the 26-49% range, M is the median return, and so on.

- By asset class, bonds placed in the first quartile over the year, while emerging market equities and real estate placed in the fourth quartile. Developed market equities (Canadian, U.S., non-North American and Global) all placed in the second quartile of managers. Over four years, Canadian equities and bonds tracked in the top quartile, while the Global equity mandate was below the median manager result.

Investment Performance Objectives

A number of performance objectives are set out for the Trust & Endowment Fund. As noted above, one objective is that the Total Fund return exceeds a benchmark portfolio return over rolling four-year periods in order to achieve the primary long term objective of exceeding a 4% real rate of return over the past one, four and ten year investment periods.

Benchmark Portfolio Return and Asset Mix

- The benchmark portfolio return is calculated by using index returns and target asset class weights. The current policy asset mix is shown below. Within the various asset classes, the objective is to exceed the relevant index return for actively managed mandates, and to track within 0.10% of the relevant index for passively managed mandates. In addition, the returns are evaluated on a relative basis to a universe of other pension plan returns.

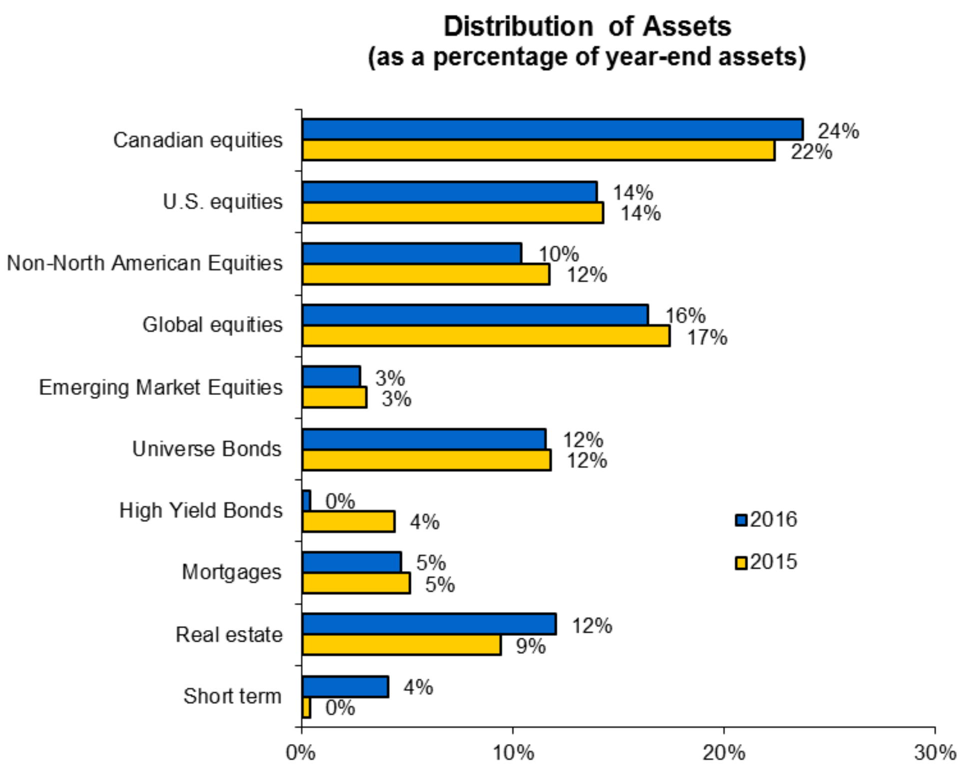
Asset Class	2016 Benchmark Portfolio (Market Value %)
Canadian equities	21%
U.S. equities	11%
Non-North American	11%
Global equities	17%
Emerging Market equities	3%
Bonds	12%
High Yield Bonds	5%
Mortgages	5%
Real estate	15%
Short-term investments	0%

The Trust and Endowment Fund

At the end of 2016, the Trust and Endowment assets had a market value of $86.1 million. This is up from $77.8 million at the end of 2015 as income, capital market gains and net cash inflows grew the plan.

The distribution of assets for the Trust and Endowment is shown below.

Asset Mix Summary



Distribution of Assets by Manager

At the end of 2016, Phillips, Hager & North managed approximately 26.7% of the Trust and Endowment assets in a domestic balanced mandate (Canadian equities and fixed income). Mawer manages both a Canadian and a non-North American equity mandate. Grantham, Mayo and Van Otterloo (GMO) manages the Fund's Global and Emerging Market equities. BlackRock manages a passive U.S. equity fund. BlueBay managed an allocation to High Yield Bonds, which was in transition to BlackRock as of year-end. IAM and Bentall Kennedy oversee the investments in real estate.

Manager	Mandate	2016	2015
Phillips, Hager & North	Domestic Balanced	26.7%	26.7%
Mawer	Canadian & NNA equities	23.7%	24.3%
BlackRock	U.S. equities	14.0%	14.3%
GMO	Global & Emerging equities	19.2%	20.5%
BlueBay	High Yield Bonds	0.4%	4.4%
IAM	Real Estate	3.1%	4.0%
Bentall Kennedy.	Real Estate	8.9%	5.8%
Cash Account	Transition	4.1%	0.0%
		100.0%	100.0%