



The Pierre Elliott Trudeau Foundation
Business Plan 2007-2008

Prepared for Industry Canada as an Internal Document Only

June 2007

1. BACKGROUND

An independent and non-partisan Canadian charity, the Pierre Elliott Trudeau Foundation was created in 2002 with an original endowment of \$125 million from the Government of Canada as a memorial to the former Prime Minister.

The Pierre Elliott Trudeau Foundation funds outstanding scholars who conduct research in crucial societal issues, and creates opportunities for dialogue and collaboration across organizations and disciplines under four key themes: Human Rights and Social Justice, Responsible Citizenship, Canada and the World, and Humans in their Natural Environment. Since being established, the Foundation has granted over 100 major awards to top researchers and highly accomplished individuals, in Canada and abroad.

The Foundation is governed by a diverse and highly distinguished board of up to 18 directors, including two directors appointed by the Minister of Industry and two representatives of the family of the late Pierre Trudeau. Directors oversee the approximately \$139 million endowment and an annual operating budget of \$5 to \$6 million, and they set policies and program directions for the Foundation.

The Mission Statement adopted by the Board of Directors inspires the work of the Trudeau Foundation, and shapes its Business Plan for 2007-2008.

MISSION STATEMENT

The Pierre Elliott Trudeau Foundation promotes outstanding research in the humanities and social sciences, and fosters a fruitful dialogue between scholars and policymakers in the arts community, business, government, the professions, and the voluntary sector.

The Foundation

- *encourages emerging talent through the awarding of Trudeau Scholarships to the most talented doctoral students in Canada and abroad;*
- *appoints distinguished Trudeau Fellows and Mentors for their knowledge and wisdom to build an intellectual community supporting the work of the Scholars;*
- *creates and maintains an international network of Trudeau Fellows, Scholars, and Mentors.*

2. TRUDEAU FOUNDATION PROGRAMS

The focus of the Foundation's activities is the delivery of four inter-related programs: selection and support of Fellows, Scholars and Mentors, and the Public Interaction Program (PIP).

Trudeau Fellows

Up to five Fellows are chosen each year in recognition of outstanding achievement, innovative approaches to issues of public policy and commitment to public engagement. The Foundation provides support for Fellows to make extraordinary contributions in their fields through leading-edge research and creative work. As the Fellows Program grows, Fellows build a network of imaginative people working together from a variety of perspectives to address fundamental social and policy issues.

Trudeau Scholars

Up to 15 Scholarships are awarded each year to support doctoral candidates pursuing research of compelling present-day concern, touching upon one or more of the four themes of the Foundation. Scholars are highly gifted individuals who are actively engaged in their fields and expected to become leading national and international figures.

Trudeau Scholars are encouraged to work with Trudeau Mentors and Fellows. Interaction with the Trudeau community, non-academic spheres and the general public is an important element of the Scholars program.

Trudeau Mentors

Up to 12 Mentors are appointed each year in recognition of their ability to provide outstanding policy analysis and implementation in non-academic fields within the humanities and social sciences: the arts, business, government, the professions and the voluntary sector. While recognizing that the Scholar's university-appointed supervisor has full responsibility for the direction of the student's dissertation, the Mentor offers the Scholar the benefit of his or her wisdom, opens a new world of practical experience, and provides access to coveted connections. Mentors also engage actively in the evolving Trudeau Foundation community.

Mentors are drawn from an impressive array of professional backgrounds, including journalism, public service, international organizations, the legal profession, public policy, research and advocacy and the NGO sector. Most have an international background.

Public Interaction Program (PIP)

This program brings together all Trudeau award winners – Fellows, Scholars and Mentors – to generate informed and lively debates on major issues of public policy affecting Canadians and global society. The Foundation is building a community of creative and critical thinkers while providing ways for them and the public to work together to generate and communicate ideas that matter.

PIP comes to life through six major annual events – the Trudeau Conference, the Trudeau Lectures, the Fellows meeting, the Scholars-Mentors meeting, the Scholars Workshop, and the Summer Institute. In addition, members of the Trudeau Community are encouraged to organize events linked to one or several of the Foundation themes with a view to generating a richer public debate on important societal issues.

3. BUILDING ON AN IMPRESSIVE FOUNDATION

In 2005, the Trudeau Foundation voluntarily mandated an interim external review conducted by Philip Rawkins of Rawkins International Associates. The review acknowledged the many accomplishments of the Foundation, as well as the outstanding quality of its award-holders. It also emphasized the exemplary quality of management and administration and the relevance of the four themes guiding the Foundation programs.

“[...] The Pierre Elliott Trudeau Foundation seeks to address pressing social and policy issues by creating an innovative network of study and intellectual exchange. The Foundation identifies and supports creative individuals who want to make a difference to the world and the communities in which they live. The Foundation is entirely non-partisan in its approach, and strives to give voice to a broad variety of perspectives. Its programs emphasize four themes, widely recognized as central to Canada’s present and future.”¹

Building on these impressive results, the Foundation enters this year a new stage of its development. A strategic plan for 2008-2012 will be discussed by the Board of Directors, with the goal of addressing three major challenges:

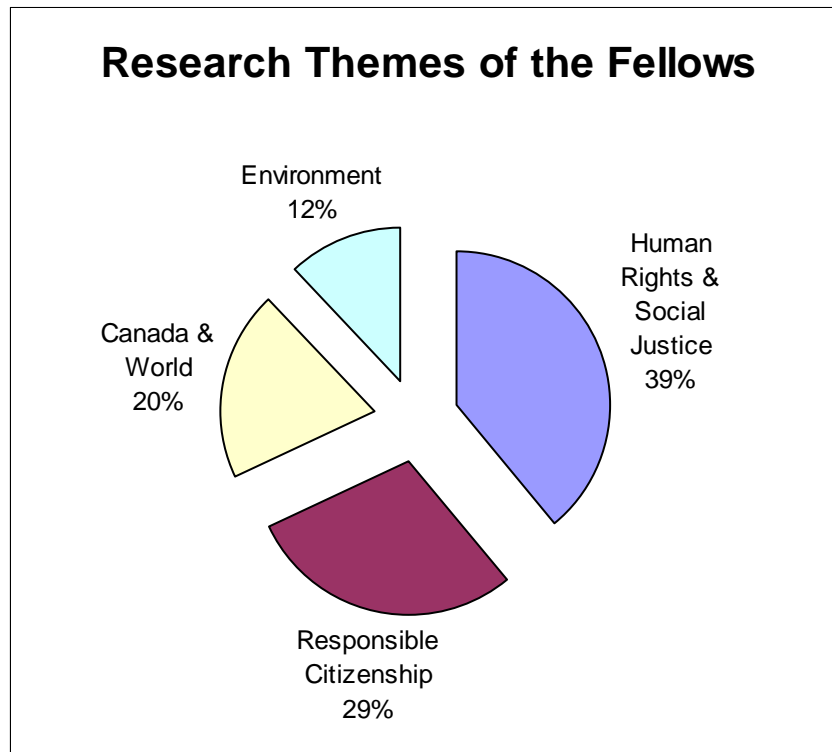
- **Knowledge exchange:** how to improve and increase channels of communication between innovators in the social sciences and the humanities and the world of policy development and decision-making?
- **Public awareness:** how to contribute to public literacy in social and policy studies, while encouraging citizen involvement in research planning and research utilization?
- **Internationalization:** how to capitalize on advances in the resolution of major societal problems to promote Canadian research on the global scene and attract new talents?

All three key areas are natural extensions of approaches and questions the Foundation has pursued since its creation. Accordingly, most ongoing activities are already contributing to very similar objectives.

¹ Philip Rawkins’ Report can be consulted at www.trudeaufoundation.ca/tf/Admin_Docs/Foundation_Evaluation

Trudeau Fellows

An impressive number of Canadian universities are represented by the Trudeau Fellows, who are currently located in Newfoundland, Quebec, Ontario, and British Columbia. Moreover one Fellow, who is originally from Saskatchewan, holds a position with the University of Oxford. Research programs of the Fellows are by definition oriented toward important public policy issues, including at this time: gender and the law (**Backhouse**—Ottawa), Aboriginal law (**Borrows**—Victoria), Afro-Canadian history (**Clarke**—Toronto), global social movements (**Coleman**—McMaster), transnational financial relations (**Helleiner**—Waterloo), family policy (**Jenson**—Montreal), multiculturalism (**Kymlicka**—Queen’s), historiography in nation-building (**Létourneau**—Laval), culture and health technologies (**Lock**—McGill), fisheries and community resilience (**Neis**—Memorial), language and identity (**Poplack**—Ottawa), landscape and environmental design (**Poullaouec-Gonidec**—Montreal), ecological footprint analysis (**Rees**—UBC), political identity of francophone communities (**Thériault**—Ottawa), and Canada’s international presence (**Welsh**—Oxford). Research conducted by the Fellows may fall under one or more of the four themes privileged by the Foundation:



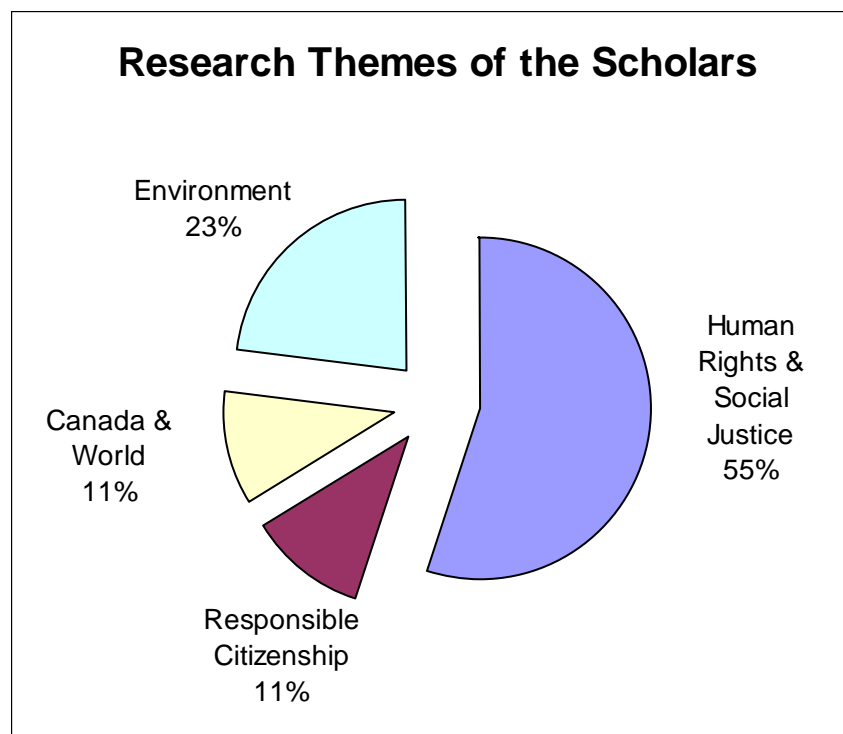
Criteria for the selection of Fellows have been reviewed in 2006-2007, to ensure that new award recipients have first-hand experience in knowledge-to-policy work, as well as a record in public communication of research results and perspectives. The nomination process should also be reviewed in 2007-2008, with the dual objective of identifying potential candidates in a wider range of research fields and disciplines, as well as Canadian researchers living outside of the country.

- ❖ The Foundation intends to appoint five new Fellows in 2008, as required under our Funding Agreement.

Trudeau Scholars

The Foundation currently supports 64 Scholars (as of July 1st, 2007). They come from a wide variety of disciplines and represent all regions of the country. Scholars are recruited with the expectation that they will identify and illuminate new and emerging crucial social issues, within the four priority domains of the Foundation.

Scholars have access to funds to support travel to meetings and to visit collaborators at other institutions. They are also encouraged to participate in all Foundation public activities and to organize workshops and working groups. The program is designed to bridge the gap between the academic and policy communities. Not only are the Scholars engaging in policy-oriented research, but they receive advice and support from a Mentor with direct experience in the policy world. Post-doctoral Scholars are specifically invited to disseminate their research results to audiences beyond the academic community.



At least 12 Trudeau Scholars should complete their Ph.D. degrees in 2007-2008, for a total of 19 Ph.Ds. since the creation of the program. Because of the level and depth of the support provided to the students, Trudeau Scholars need less time on average than other doctoral students to complete their degree. The Foundation supports 11 Canadian Scholars studying in foreign institutions, mostly in the UK and the USA; it has also been

successful in attracting 5 foreign doctoral students to Canadian universities. As intended, former Trudeau Scholars stay in Canada after they complete their Ph.D., mostly opting for career paths within education and public service.

- ❖ The Foundation intends to select 15 new Trudeau Scholars in 2007-2008.

Trudeau Mentors

The Trudeau Mentorship program was a bold experiment, based on the premise that Ph.D. students need help and hindsight to integrate a policy perspective in their doctoral research, as well as to learn how to translate their results to a complex set of audiences. In 2006, Mentors were invited to participate more extensively in Foundation events. Also their term was extended from 12 to 18 months. This new approach has given the Scholars more opportunity to interact with their designated Mentor, but it has also given them access to the full roster of Trudeau Mentors on a regular basis.

As demonstrated in the following list of current Trudeau Mentors (2007-2008), this group is indeed a unique pool of talent, experience and intellectual resources.

| Trudeau Mentor | | Year | Position at time of mentorship |
|-----------------------|-----------|------|-----------------------------------------------------------------------------------------|
| Axworthy | Lloyd | 2007 | President, U of Winnipeg |
| Battle | Ken | 2007 | Director, Caledon Institute of Social Policy |
| Bégin | Monique | 2007 | Professor, U of Ottawa |
| Catley-Carlson | Margaret | 2006 | Chair, Global Water Partnership (Stockholm) |
| Davis | Elizabeth | 2007 | Health Care Advocate, Sisters of Mercy of Newfoundland and Labrador |
| Franklin | Ursula | 2007 | Physicist, U of Toronto |
| Johnston | Donald | 2006 | Former Secretary General, Organization for Economic Co-operation and Development (OECD) |
| Labelle | Huguette | 2007 | President & Chancellor, U of Ottawa |
| Morley | David | 2006 | Executive Director, Save the Children Canada |
| Nolen | Stephanie | 2006 | Author; journalist; international and national Affairs (<i>Globe and Mail</i>) |
| Smith | Gordon | 2007 | Executive Director, Centre for Global Studies, U of Victoria |

- ❖ The Foundation intends to select and appoint approximately 9 new Mentors in 2007-2008.

Public Interaction Program (PIP)

The Public Interaction Program (PIP) helps to ensure that the people supported by the Foundation through our major granting programs get their voices heard by policy makers, the media and the public. It includes two complementary streams of events. One stream consists of four major meetings recurring every year: the Trudeau Policy Conference, the Fellows meeting, the Scholars-Mentors meeting and the Summer Institute. A second stream includes workshops and meetings initiated by members of the Trudeau Community and supported by the Foundation, with the aim of disseminating the results of their research and engaging the public in a dialogue on important policy issues. Trudeau Scholars and Fellows are also expected to participate individually in all sorts of conferences and other scholarly meetings, where they help build a wider and stronger policy network around the Foundation.

In 2007-2008, the Foundation will hold its annual policy conference in Calgary (AB) in November, under the theme “A Climate of Reconciliation: Economy, Social Justice and the Environment.” The policy conference is organized in partnership with the Canada West Foundation and should bring together close to 200 participants. The Scholars-Mentors meeting will be held at Massey College, Toronto, in February 2008. The meeting is an occasion to consult the Trudeau community on the mentorship program and to foster relationships between Scholars and the group of Mentors as a whole. In May, the Fellows meeting offers newly appointed Fellows an occasion to discuss their plans and projects with the Foundation staff and selected guests. Finally, the Summer Institute will convene in Quebec City in May 2008. The Summer Institute is the one occasion during the year when the Trudeau community meets with an array of invited guests, to discuss important strategic issues and to familiarize itself with new questions and methodologies. For example, the Summer Institute 2007 which took place in Banff (AB) in May gave way to sessions on scientific integrity and multidisciplinary research, which were attended by specialists from Canada and the USA.

Starting in 2008-2009, the Foundation will add a series of public lectures to this list. The Trudeau Lectures will be presented five times a year in as many different Canadian cities, and will give rise to a new publication: the Trudeau Foundation Papers, published yearly. Plans for these new activities will be developed during the year.

Other considerations

To select and support the best Fellows, Scholars and Mentors, the Foundation must continue to anticipate and respond to Canadian crucial social and policy issues. It must also attract and engage a large audience of decision-makers and opinion leaders, who could benefit from ideas and projects developed by members of Trudeau community. The

Foundation should also maintain its strategic alliances with partners in the academic world and the research world, while creating new partnerships in other sectors of society. Since its creation, the Trudeau Foundation has been able to successfully address all these challenges and more, but it is essential that the organization and its resources keep in line with a demanding new environment. This includes the legislative landscape created by the Federal Accountability Act, which has imposed new legal and financial obligations on the Foundation. It also includes Canada's most recent Science and Technology Framework, which promises many new opportunities.

Starting September 2007, the Foundation will revisit its staffing and structure. While keeping to the commitment of having a lean organization, where resources are used primarily in program delivery, it is important that there be enough staff to fill program needs and to protect the Foundation against disruption in services and processes. Currently, as of July 2007, the Trudeau Foundation staff consists of only four FTE (Scholarships, Knowledge Exchange, President, and Assistant), one part-time employee (Communication), and one student intern (ATIP). The aim in 2007-2008 will be to provide for one new executive position for Corporate Affairs and one full time support staff. A comprehensive staffing plan will also be developed, as part of the Foundation new strategic plan.

To support the Lectures and the Foundation Papers new project, the Foundation has successfully started to invite donations from corporate donors. This highly targeted campaign also serves as a pre-test for a more ambitious fundraising campaign, now planned for fiscal year 2008-2009.

4. BUDGET IMPLICATIONS

Program Costs

Overall Budget Framework for Programs

In the *Strategic Plan 2003*, approved by the Board of Directors, the core programs of the Foundation were described, for budgetary purposes, as follows:

Fellowships are tenable for three years, the stipend being \$50,000 per year. An additional \$25,000 per year (the "ATA") is available for approved travel and networking expenses associated with events and joint projects undertaken within the framework of the Foundation's programs.

For presentation purposes, the stipend is reflected within the Fellowship program budget, whereas the ATA forms an integral part of the PIP budget.

Scholarships are tenable for three years, with a possible fourth year extension to permit either the completion of the doctorate, or the undertaking of a post-doctoral opportunity.

The Foundation offers this extension only where there is strong evidence that the doctorate will be completed during this fourth year, or upon proof of an exceptional post-doctoral opportunity. Supervisors are contacted directly to provide detailed reports on the students' progress. The stipend is \$35,000 per year, to include the cost of tuition and reasonable living expenses. An additional \$15,000 per year (the "ATA") is available to support approved research-related travel, and to cover networking expenses associated with events and joint projects undertaken within the framework of the Foundation's programs.

In April 2004, the Board of Directors approved a policy with regard to the accumulation of awards. Essentially, the Trudeau Scholarship allows for the accumulation of awards each year in amounts up to the annual stipend plus \$10,000. When a Scholar's total external awards in a given year exceed \$10,000, the stipend for that year is reduced by the amount in excess of \$10,000. The ATA of \$15,000 is never reduced by outside scholarship income, but any unused balance at the end of a fiscal year reverts to the general ledger of the Foundation.

Where a fourth year extension is granted, the Scholar receives the stipend (\$35,000 for completion of the doctoral studies, or \$10,000 for post-doctoral work) and the ATA (\$2,000 for completion, or \$15,000 for post-doctoral), the stipend being subject to the restriction on accumulation of awards.

For presentation purposes, the stipend is reflected within the Scholarship program budget, whereas the ATA forms an integral part of the PIP budget.

Mentorships, originally tenable for one year, are now tenable for 18 months, as modified by the Board of Directors in November 2005. The honorarium is \$20,000 per 18-month term. An additional \$15,000 per term (the "ATA") is available to cover approved networking expenses associated with events and joint projects undertaken within the framework of the Foundation's programs.

For presentation purposes, the honorarium is reflected within the Mentorship program budget, whereas the ATA forms an integral part of the PIP budget.

Public Interaction Program (PIP). Fulfilling as it does the specific mandate to build "an innovative network of study and exchange", the ATA component from each of the Fellowship, Scholarship and Mentorship programs constitutes the bulk of the PIP budget. As two out of three of these programs are now running at capacity, the utilization of the ATA is approaching its maximum budget. In any given year, the ATA could now be drawn upon by as many as 20 Fellows (\$25,000 per fellow), 60-75 Scholars (\$15,000± per scholar), and 16 Mentors (\$15,000 per mentor).

The balance of the PIP budget consists mainly of expenses for one-time and regular annual events, the costs to maintain and update the Trudeau Foundation website, and communication expenses for public engagement activities.

Budgeted Program Costs for 2007-2008

Fellows

The Fellows budget represents the third largest budgetary envelope among Program costs, and reflects the selection costs and awards committed to 2008 Fellows.²

The ATA budget for all active Fellows is included within the PIP budget.

Scholars

The single largest program expense is base awards to the Scholars, with allowances made for the various mitigating factors. The 2008 budget anticipates 15 new scholars, 10 fourth-year extensions, and a number of stipend reductions due to the external prizes that have been awarded to our Scholars.³

The ATA budget for all active Scholars is included within the PIP budget.

Mentors

The Mentorship program anticipates the selection and appointment of nine new Mentors in January 2008. In similar fashion to the Fellows and Scholars, multiple groups of Mentors will be active participants during fiscal 2007-2008.⁴

The ATA budget for all active Mentors is included within PIP budget.

PIP

The Public Interaction Program accounts for the second largest program expenditure in 2007-2008.

The PIP program's steady growth from fiscal 2006 through fiscal 2008 stems mainly from the increasing use of ATA funds by Fellows, Mentors and Scholars. It is worth

² These Prizes are expensed in a lump-sum each year in order to comply with accounting standards. In actual fact, however, four groups of Fellows will be receiving funding during fiscal 2007-2008, being at various stages of their respective mandates: the five Fellows named in April 2005 will be receiving their final installments during 2007-08; the April 2006 Fellows receiving funding from 2006-2009; the April 2007 Fellows from 2007-2010. The 2008 Fellows will receive their funding from fiscal 2008 through fiscal 2011.

³ The Scholarships are expensed in a lump-sum each year in order to comply with accounting standards. In actual fact, however, six cohorts will be receiving some form of funding during fiscal 2007-2008, being at various stages of their studies. In addition to the 15 Scholars of 2008, the 12 Scholars of 2003 will be receiving the last of their extensions during 2007-08; of the 2004 cohort, 11 will be receiving fourth-year funding; of the 2005 cohort, 13 will be receiving their third-year installments; the 15 Scholars of the 2006 cohort will be receiving their second-year installments; and the 15 Scholars of the 2007 cohort will be receiving their first-year installments.

⁴ The seven Mentors named in January 2007 will be funded in 2007 and 2008, and the nine Mentors appointed in January 2008 will be funded in 2008 and 2009.

remembering that unlike the Awards, the ATA expenses are reflective of the actual payout in a given year. As multiple cohorts of Fellows, Scholars and Mentors are now participating alongside each other in any one year, the ATA costs are expected to rise year over year, until maximum participation levels are achieved.

The evolution of the PIP program's organized activities is also reflected in Budget 2008, with the elaboration of six major annual events comprising the second largest element within this budgetary envelope.

Operating Costs

Overall Budget Framework and Budgeted Costs for 2007-2008

In May of 2004, the *Funding Agreement* was amended to allow the Foundation to spend up to 1.5% of the total value of the Fund on “**operating costs**”, as defined in Article I.

Every effort is made to keep operating costs under strict control. During the 2007 fiscal year, the Foundation had one part-time and five full-time staff members to run its ambitious programs. For 2007-2008, the operations and program staffing will be revised in order to better manage the increasing responsibilities. To limit salary and benefit costs, some work, especially in the areas of accounting, communications and information services will continue to be contracted out. Investment counsel fees, which are a function of the Portfolio's fair market value, fall squarely within the range typical of fixed-income portfolios.

- ❖ The budget for 2007-2008 projects an expenditure of roughly 1.16% on operating costs, which encompasses investment counsel fees, administrative expenses, all program planning and delivery, and costs related to the Foundation's obligations under ATIP legislation.

In order to protect the buying power of the Foundation endowment, the Board of Directors had decided to internally restrict 1.5% of the value of the original Fund (\$125 million) each year as a hedge against **inflation**. This effectively requires the Foundation to operate so as to guarantee a cash surplus of \$1.875 million each year.

The *Funding Agreement* requires that a **Comprehensive Program Evaluation** be undertaken every 5 years, as a part of Program Planning and Delivery. The Foundation undertook a preliminary external evaluation, which was completed and reviewed by the Evaluation Steering Committee in June 2006. Due in part to the thoroughness of this preliminary review, the Foundation Board's good governance practices and the Foundation's rapid implementation of the evaluator's recommendations, the Steering Committee submitted a request to Industry Canada that the comprehensive evaluation of 2007 be postponed to 2009, which was approved.

- ❖ The 2008 budget for Program Delivery includes the first \$50,000 of the total cost that is anticipated for the 2009 evaluation.

The Trudeau Foundation is now subject to the **Access to Information and Privacy Act** (“ATIP”), effective April 1, 2007. A certain number of processes and documents need to be created in order to assure our compliance under this Act, although the actual costs are difficult to assess at this point. As per Industry Canada’s directive, these costs must be absorbed by the Operating budget and as such fall within the 1.5% spending cap.

- ❖ The 2008 budget includes a provision of \$65,980 for costs related to ATIP compliance.

The *Funding Agreement* also requires that an **Annual Report** be prepared each year, and this is included within Administrative expenses. In order to minimize costs and adhere to good environmental practices, the Annual Report is primarily web-based, with hard copies being produced only where necessary.

5. INVESTMENT PERFORMANCE

Investments remain in fixed-income securities with little significant variation in the rate of return. Two critical constraints, that is, the restriction against equity holdings and the internal restriction for inflationary protection, remain in force. As a result, both income and expenses are essentially in equilibrium, and the investment portfolio is expected to remain fairly stable for the time being, barring unforeseen circumstances.

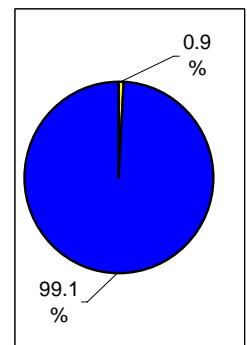
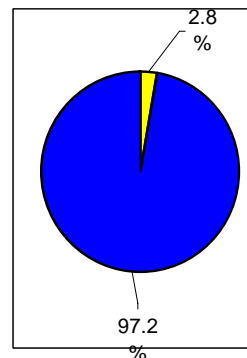
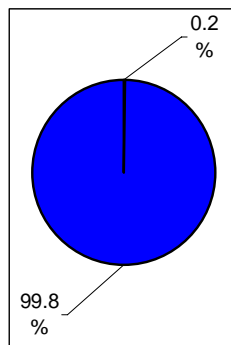
An average 5.0% return was used to project interest income for the 2008 budget, before GAAP adjustments. For the purposes of comparison, it should be noted that the investments shown in Appendix 1 and on audited financial statements are adjusted to reflect GAAP, whereas the portfolio values in the charts are quoted at their fair market value.

As at 31 May 2007, the market value of all Fund investments stood at \$139,732,690 compared with \$139,334,600 at 31 May 2006. From the following chart, we note a slight shortfall in the lifetime rate of return compared to its benchmark, although the one-year return of 3.74% compares favourably to the benchmark return of 3.67%. During the 12 months ended May 31st, 2007, a little over \$4.6 million was withdrawn to provide operating capital. **The stagnant level of the investment portfolio at our restrained levels of activity highlights the urgent necessity of amending the Funding Agreement in order to avail ourselves of investment options that will provide modestly higher returns and allow greater levels of activity.**

The Pierre Elliott Trudeau Foundation
Average Annual Compounded Rate of return of investments (gross of fees)
Market value - May 31, 2007

| | BMO - Harris Rate of return | RBC Investments Rate of return | Combined Rate of return |
|-----------------------------------------------------------------------|--------------------------------|-----------------------------------|----------------------------|
| Rate of Return since inception | 5.45% | 4.44% | 5.06% |
| | vs | vs | vs |
| Benchmark Scotia MacLeod MT (50%), ST (50%) BI | 5.12% | 5.12% | 5.12% |
| One-year Rate of Return for the period ended May 31st, 2007 | 3.73% | 3.76% | 3.74% |
| | vs | vs | vs |
| Benchmark Scotia MacLeod MT (50%), ST (50%) BI | 3.67% | 3.67% | 3.67% |
| Total funds invested | \$ 94 553 920 | \$ 31 936 913 | \$ 126 490 833 |
| Investment Counsel fees | \$ 1 071 134 | \$ 618 291 | \$ 1 689 425 |
| Transferred to operating | \$ 16 102 871 | \$ 707 687 | \$ 16 810 558 |
| Total cash withdrawn | \$ 17 174 005 | \$ 1 325 978 | \$ 18 499 983 |
| Market value - May 31, 2007 | \$ 102 373 498 | \$ 37 359 192 | \$ 139 732 690 |
| Market value - May 31, 2006 | \$ 103 197 125 | \$ 36 137 475 | \$ 139 334 600 |

Cash & short-term investments
 Fixed income



6. FINANCIAL ISSUES

As mentioned earlier, the internal restriction inserted as a hedge against **inflation**, requires the Foundation to operate so as to guarantee a cash surplus of \$1.875 million each year. This surplus is reinvested in the Fund as a “reserve against inflation” in accordance with the investment parameters set out in the Funding Agreement. In 2004-2005, when programs were almost fully rolled out, the Foundation was able to meet the 1.5% target. However, in 2005-2006, the Foundation was obliged to draw from its unrestricted net assets in order to meet this target. To deal with this problem, which had been anticipated, the Foundation undertook a three pronged strategy during 2005-2006: (1) careful control of expenses and a possible contraction of future program expenditures; (2) development of a private fundraising initiative; (3) opening negotiations with the Government of Canada to amend the funding agreement to allow for a wider spectrum of investments to improve financial performance of the endowment fund, while ensuring the long-term protection of the capital.

In the 2007-2008 budget, a marked erosion of the accumulated surplus is in evidence. Consequently, the strategy noted above remains in effect.

In early 2006, a revised Investment Policy Statement was drawn up after extensive consultation with independent experts, and with officials from Industry Canada, the Department of Finance and Treasury Board. Discussions are underway to secure Treasury Board’s adoption of the **revised Funding Agreement**, after which the necessary modifications to portfolios can be planned and implemented.

Appendix 1—Financial Information, follows.