

# Management Discussion & Analysis • Year ended March 31, 2009

Management's discussion and analysis ("MD&A") is provided to enable a reader to assess our financial condition and results of operations for the fiscal year ended March 31, 2009, compared to the preceding year. This MD&A should be read in conjunction with our audited financial statements and related notes dated June 11, 2009. All amounts are based on financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP) except portfolio returns which are based on performance reporting methodology. The Calgary Foundation ("TCF") operates in accordance with The Calgary Foundation Act (Alberta, 1955) and bylaws and within the regulatory framework of the Income Tax Act (Canada), the Canada Revenue Agency ("CRA") guidelines and the Charitable Fund-raising Act and Regulations (Alberta). TCF has adopted Volunteer Canada's Code for Volunteer Involvement and Community Foundations of Canada's ("CFC") criteria for membership.

TCF promotes philanthropy, acts as a catalyst for community involvement, receives and manages endowed gifts, and grants to charitable organizations.

## BUSINESS ENVIRONMENT

TCF's finances are impacted by the performance of both the economy and the capital markets.

The tightening of the credit markets, initiated by the asset-backed commercial paper ("ABCP") crisis and exacerbated by the perceived counterparty risks throughout the lending industry, followed by the failure and government intervention in financial institutions and the retreat of the consumer has led to the first synchronized global recession since the Second World War. Governments around the world have taken unprecedented fiscal and monetary action in attempts to limit the effects of these events but the severity and longevity of the current economic slowdown are uncertain.

As 88% of financial contributions to TCF over the last five years have been from citizens of Calgary and area, the economic environment in Calgary is critical to future gifts and demand for the services provided by the charitable sector supported by TCF. Thus the impact on the economy of the region of prices for commodities, capital availability and demand for exports have particular bearing on the economic well being of current and future donors and the level of need in the community.

Over the long term, the amount of financial assistance that TCF provides to charitable organizations is greatly dependent on the real growth of the endowment funds from investments in the capital markets. The performance of these markets impacts the financial support to charitable organizations.

A business environment that fosters entrepreneurs and supports their business success is critical to the continued growth of assets through contributions. Strong employment that fosters consumer confidence is vital to the financial support provided to TCF. A community that is open and receptive to philanthropy is necessary for the successful implementation of our strategy.

The tax and regulatory environment also impacts TCF. The reduced (to zero) inclusion rate for capital gains arising from gifts of publicly-listed securities and the Alberta tax credit of 50% for charitable donations over \$200 in a calendar year will continue to affect giving levels in a positive manner. The federal government's removal of the advantage of giving publicly-listed securities to public foundations versus private foundations will negatively affect contributions to TCF.

## STRATEGIC DIRECTION

TCF is not immune to the current economic recession. However, success is not won or lost with daily market fluctuations. As a long term endowment builder, TCF will continue to focus on supporting a sustainable community that benefits Calgarians now and forever.

TCF will stay the course with its investment strategy, confident that it was crafted to protect against inevitable market downturns. As an investor with a long range view, we are more concerned with longer term market results. The structure of the investment portfolio and the long term investment perspective enable us to "weather the storm."

The strategic directions identified three years ago are still relevant and necessary for continued success.

Knowledge of community needs and the charitable sector are distinguishing characteristics of TCF which has a responsibility to lead in community building, as a convener, facilitator, and catalyst. Through the Vital Signs® initiative, TCF will convene community leaders to partner in exploring the quality of life of our city, to celebrate success, and to inspire action in areas of need so that this city remains the best city in which to live.

The past success in growth of the endowment allows expanded focus to go beyond asset growth to include community impact. While TCF will continue to inspire giving, it will seek to better understand the difference it makes in the community and to have a more strategic impact through grant making. This will be even more important as the needs of the charitable sector escalate in the face of declining fundraising revenues.

TCF will focus on understanding donors and their needs in order to deliver optimum service and to forge strong relationships with donors for the long term benefit of the community. TCF will engage donors in experiencing the impact of their gifts, knowing that passion for the cause is the motivation behind each gift.

The needs of the charitable sector exceed the ability of TCF to respond. TCF will further develop its capacity to support charities by growing endowment funds. Through the Forever Funds Initiative TCF will stir public interest and foster dialogue in 5 areas of unmet needs,

specifically Arts and Heritage, Mental Health, Environment, Diversity and Inclusion, and Seniors, and will inspire new gifts to address these needs.

## Key Areas

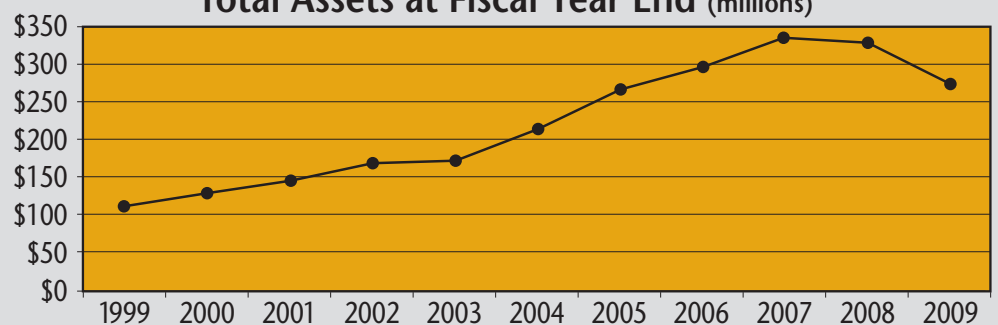
Particular attention will be paid to five key areas over the next three years to ensure the continued success.

- **Community Leadership:** *As a convener, a catalyst, and facilitator TCF demonstrates leadership as a builder of community and a builder of philanthropy.* We will focus our work on understanding the needs of the charitable sector and work proactively to meet these needs. The Forever Funds and Vital Signs® initiatives will be key components of our community leadership in the next few years.
- **Donor Engagement:** *Donors are satisfied and engaged with TCF for the long term.* We will invite feedback from our donors and stakeholders and be responsive to their needs through customized service. We will encourage family philanthropy and legacy planning to engage multigenerational participation.
- **Public Confidence and Profile:** *The community understands the uniqueness of TCF and values its contributions.* The TCF story is focused on community impact. Our communications strategy and materials will reflect this focus over the next year. Through partnerships and the Forever Fund Speaker Series TCF will reach new audiences.
- **Asset Growth:** *The asset base continues to grow through sound investments and new gifts.* We will continue our prudent fiscal management of the investments by improving the risk profile of the primary endowment portfolio. We will thoughtfully seek new markets for the TCF message in order to attract new gifts to the endowment funds.
- **Employee and volunteer engagement:** *Employees and volunteers are highly satisfied and energized to work as part of the TCF team.* Recognition and learning opportunities will be key strategies to attract and retain the best in the industry. Volunteers will have continued enriching and rewarding opportunities.

## ASSETS

TCF's assets under administration as at March 31, 2009 totalled \$274.1 million ('m') as compared to \$326.6 m at March 31, 2008. The March 31, 2009 figure represents a decrease of 16.1% from the prior year end. This single year decline was driven primarily by losses in the value of securities of \$64.9 m for foundation funds and \$3.1 m for managed funds. These losses outweighed the contributions (\$25.2 m) and realized investment income (\$14.6 m) for foundation funds and managed funds (\$1.1 m). Grants and service costs were \$26.4 m for foundation funds, including \$8.5 m of flow through grants. Withdrawals totalled \$0.3 m for managed funds. (Managed funds are endowments owned by other charitable organizations. The managed funds liability is represented on the Statement of Financial Position as a claim on TCF's primary endowment portfolio by these other charitable organizations.) This decrease in assets compares to a decrease of 2.2% in the twelve month period ended March 31, 2008.

Total Assets at Fiscal Year End (millions)



## Investments

The total assets at March 31, 2009 included \$244.3 m (2008 - \$298.3 m) in investments representing \$239.7 m (2008 - \$290.1 m) of primary endowment portfolio investments, \$3.9 m (2008 - \$7.4 m) of securities retained at the direction of the donors and \$0.7 m (2008 - \$0.8 m) in gifted securities in the process of being monetized, all at market value.

The primary endowment portfolio is managed by external investment managers in accordance with a statement of investment policy and procedures. The investment policy sets limits on the percentage of assets held in individual securities and classes and establishes quality,



liquidity and performance criteria. This policy is currently undergoing revisions in order to incorporate the outcome of the asset mix optimization exercise undertaken in fiscal 2008 and resulting changes to the portfolio structure. In September 2008, the new structure was partially implemented with the conversion of US and international equity mandates that represented 30% of the primary endowment portfolio to a global equity mandate. An allocation was also made to a new asset class, high yielding bonds.

At fiscal year-end, 32.1% (2008 - 36.2%) of the portfolio was invested in Canadian bonds, 27.6% (2008 - 34.4%) in Canadian equities, 32.0% (2008 - 28.0%) in non-Canadian global equities, 5.5% (2008 - nil) in high yield bonds and 2.8% (2008 - 1.4%) in cash.

On a gross of investment fees basis, the primary endowment portfolio lost 17.6% (2008 - 2.5%) during the fiscal year. By way of comparison, a weighting of the passive benchmark indices equal to that of the portfolio lost 19.0% (2008 - 1.2%) in the same year. The median return of a generally comparable group of endowment funds was negative 14.9% (2008 - negative 2.9%).

The Canadian bond mandate is indexed to the DEX Universe. This mandate has historically tracked the DEX Universe benchmark relatively closely, but over one year, the manager's 4.8% return was approximately 0.2% behind the index. Part of the reason for the variance was the volatility and significant spread widening in the corporate bond market and the fact that returns in the Canadian bond market have been very heavily skewed toward AAA government of Canada treasuries. Notwithstanding these relative results, the universe bond portfolio added absolute value in the fiscal year.

As at fiscal year end, the global equities mandate had been in place for six months. Although global equity returns continue to be extremely negative, the manager was able to deliver respectable relative results in the last quarter of the fiscal year and managed to make up some of the deficit lost in the third quarter. The mandate, blending a growth and value style offset, lost 8.2% in the quarter ending March 31, 2009 ranking it at the 44th percentile against the manager's peer group. This performance was better than both the median and the benchmark which lost 9.0% and 10.6% respectively. The weaker Canadian dollar over the full fiscal year helped reduce the losses in Canadian dollar terms. The manager's growth component drove the premium versus the broad market in the last quarter, but the value component beat its related style index by more. The growth sleeve drove the mandate's premium against the benchmark during the market drop earlier in the quarter; the value sleeve drove the premium during the late-quarter rebound. This led to the mandate outperforming the MSCI World index during the quarter.

After two consecutive quarters of strong performance, the Canadian equity manager's results weakened in the last quarter of the fiscal year. The mandate ended the March 31, 2009 year with a -32.3% return which matched the S&P/TSX Composite Capped index but fell short of the median by 1.3%. Attribution analysis showed that taking into account both the sector weight and stock performance, materials and energy sector caused the most damage (-249 basis points, "bps"); this was partially offset by the contribution from consumer staples and financials (+173 bps). The information technology sector also aided performance (+87 bps).

As at fiscal year end, the high yield bond mandate had been in place for two quarters. Although Canadian corporate bond valuations rebounded in the first quarter, this rally did not extend into the high yield bond segment of the market which continued to be dragged down by the market's elevated sense of risk aversion. Within this environment, the high yield bond manager's results exceed both the median and benchmark by a wide margin. The fund's 2.3% for the quarter ended March 31, 2009 was almost 10% better than the blended benchmark (50% DEX High Yield Bond Index and 50% Merrill Lynch High Yield Bond Canadian Issuers Index) and 1.5% better than the RBC Dexia High Yield Funds Universe.

1, 2004 and adopted by TCF on March 21, 2005. The BMO Harris Private Banking "Balanced Growth" portfolio, to which the gifts were made, that includes Canadian, US, international and emerging market equities with Canadian bonds and cash for the year ended March 31, 2009 lost 16.6%. The first gift to this investment alternative was made in December 2007.

The \$3.9 m (2008 - \$7.4 m) of gifts of securities retained at the direction of the donors, which is a second alternative for investing endowment gifts, is represented by units of Penn West Energy Trust (\$2.3 m - 2009, \$5.4 m - 2008) and units of Energy Savings Income Fund (\$1.6 m - 2009, \$2.0 m - 2008). The specific conditions of the gift agreements establish the manner in which these securities are administered.

A third alternative is to enable donors to have their endowment gift to TCF managed outside the primary endowment portfolio by another investment manager. Governance and investment policies are currently being drafted to ensure appropriate oversight and due diligence processes are in place to administer these relationships and appropriately invest these assets.

**Cash and cash equivalents**

Cash and cash equivalents increased to \$28.0 m from \$26.8 m at the prior fiscal year end. The March 31, 2009 investment in cash and cash equivalents, representing capital contributions received that are to be granted to charitable organizations in the short term ("flow through"), was \$14.8 m (\$18.5 m - March 31, 2008).

A balance of \$5.0 m at fiscal year end was held in money market instruments anticipating its management outside the primary endowment portfolio as per the third investment alternative identified above, \$2.2 m was managed by portfolio managers within the primary endowment portfolio and \$1.2 m represents distributions and related interest income from securities retained at the direction of the donors.

The amount held for liquidity for grants and operational expenses is greater than the previous fiscal year as concerns regarding future cash inflows from contributions and realizable investment income have grown in importance to match the primary endowment portfolio asset mix objective to be fully invested.

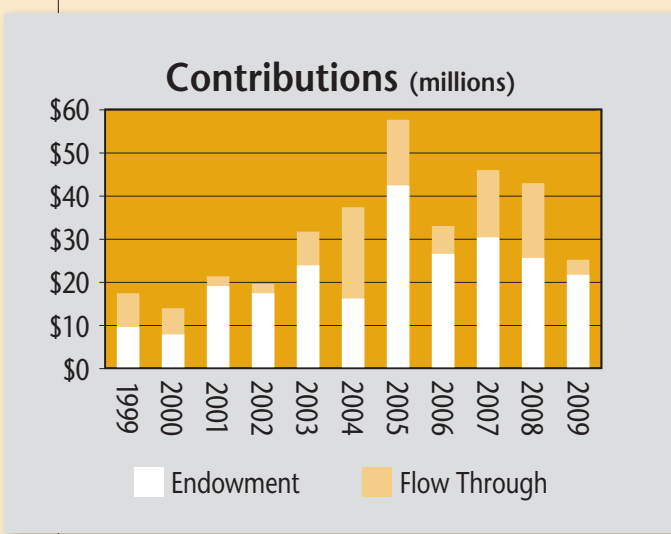
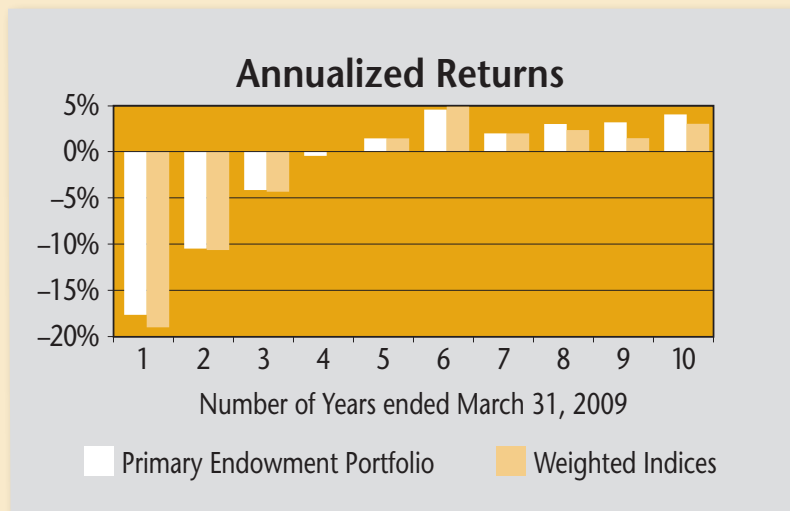
TCF did not incur any losses due to the asset-backed commercial paper (ABCP) issue that arose in mid-2007.

**OPERATIONS**

**Revenue**

During the twelve months ended March 31, 2009, contributions to TCF-owned endowment funds totalled \$21.8 m compared to \$25.6 m for the prior fiscal year. Contributions of \$2.3 m for the fiscal year, compared to \$2.8 m for the previous fiscal year, were directed to Community and Field of Interest funds (from which grants are directed to new and emerging needs of the community at the discretion of TCF). Donations of \$19.5 m for the period compared to \$22.8 m for the same prior year period were gifted to Donor-Advised and Designated funds. Flow through contributions added \$3.4 m in the period (\$17.1 m for the twelve months ended March 31, 2008).

Contributions of non-cash gifts of \$5.6 m were received as compared to \$16.2 m in the previous year. Substantially all of these non-cash gifts were gifts of publicly-listed securities which were converted to cash and reinvested. This marked decline in gifts of securities as compared to the previous years was a result of the significant capital market downturn that began in September 2008. Gifts of shares have made up nearly half of the gifts received in the past few years and are gifted primarily in November and December.



Bequests make up approximately 1/3 of gifts to the foundation. There is a trend towards an increase in bequests most likely related to the life cycle of the foundation and the demographics of the city. At 54 years old, the fruits of the development efforts in the early days of the Foundation are being harvested.

Expenses incurred to operate TCF are allocated to the funds. The allocation process is described below:

- (i) A percentage of the market value of the individual endowment funds is allocated to service costs on a monthly basis by way of a tiered schedule. The amount of this allocation totalled \$3.0 m in 2009 and \$3.1 m in 2008. The application of the schedule on a monthly basis produced revenue for service costs significantly higher in the first six months of the fiscal year than the latter half as the endowment funds lost market value with the precipitous drop in the equity markets starting in September 2008.
- (ii) Interest earned on the money market instruments, representing flow through contributions totalled \$0.3 m (\$0.7 m in 2008) and represented 9% of the revenue available to satisfy service costs in the year (17% in fiscal 2008). The interest revenue was significantly reduced as interest rates fell to historic lows.

In support of success in our key result area of Donor Engagement, alternatives to investing endowment gifts in the primary endowment portfolio are available.

The Bank of Montreal ("BMO")/Community Foundations of Canada ("CFC") alliance 'Supporting Your Community', which is one alternative, received gifts during the period and has grown to \$43 thousand ('k') (2008 - \$28 k) at fiscal year end. The alliance between BMO and 38 of Canada's community foundations was created to facilitate charitable gifts by clients of BMO and to maintain the "full service" relationship between BMO's financial advisors and their clients. A statement of investment policies was agreed to by BMO and CFC on February

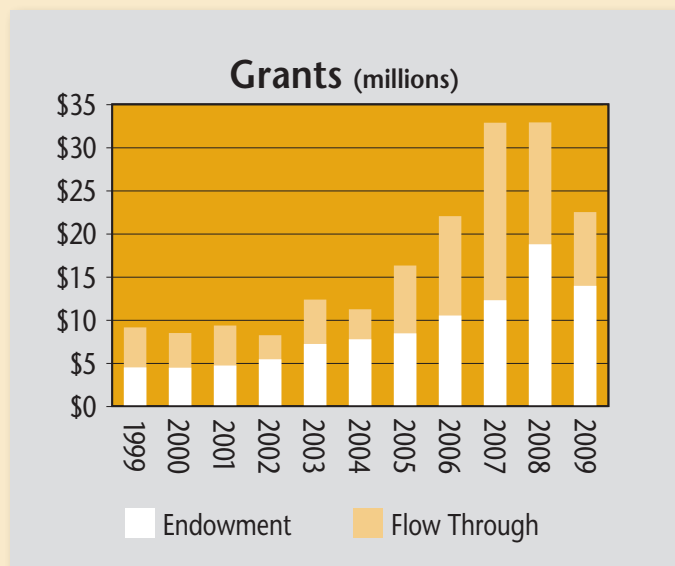
(iii) Managed funds fees of \$155 k (\$185 k in 2008) represented 4% of service costs for 2009 (5% for 2008) and has been decreasing as the balance of funds owned by other charitable organizations and managed by TCF has decreased since the amount peaked at \$36.5 m on March 31, 2002. As the managed funds are invested in the same way as the individual endowment funds, the market impacted this source of revenue in the same manner as i) above.

#### Expenditures

During the twelve month period, grants from endowment funds to charitable organizations totalled \$13.9 m, compared with \$18.7 m during the same period in 2007-08. Grants of \$2.1 m (\$5.5 m in the 2007-8 period) were made from Community and Field of Interest funds. Included in grants from these funds were grants to charitable organizations that applied for funding from the following programs at TCF: Community Grants, Neighbour Grants, Small Grants, Organization Development & Transformation Grants and Stepping Stones Grants. This year 21 Neighbour Grants supported cultural and generational exchange projects that strengthen understanding; local history and art projects that build a sense of belonging and sharing; and community garden, cycling and playground projects that enhance people's enjoyment of their neighbourhood. Distributions to charitable organizations of \$11.8 m and \$13.2 m were made in the twelve month periods ended March 31, 2009 and 2008 respectively from Donor-Advised and Designated Funds.

Flow Through grants were \$8.5 m this year, as compared to \$14.0 m for the fiscal year ended March 31, 2008. Flow through grants are grants of capital arising from gifts that are not endowed. The timing of these flow through grants is dependent on the timing of the donors' advice, the status of the recipient project, CRA's requirement to spend a minimum amount on charitable activities in a particular fiscal year ("disbursement quota") and TCF's disbursement quota accumulated from the five prior fiscal years.

To support success in the key result area of Public Confidence and Profile, work has begun to alter grant recipient reporting on funding received from TCF's Community Grants Program in order to better measure TCF's impact in the charitable sector. Additionally, efforts to translate grants data into information useful to understanding trends and allowing for analysis have begun.



The service costs incurred to execute the strategy and obtain results in the key areas totalled \$4.0 m in 2009 and 2008. Over two thirds of these costs are human resource costs (\$1.6 m - 2009, \$1.7 m - 2008) and investment management costs (\$1.2 m - 2009, \$1.1 m - 2008).

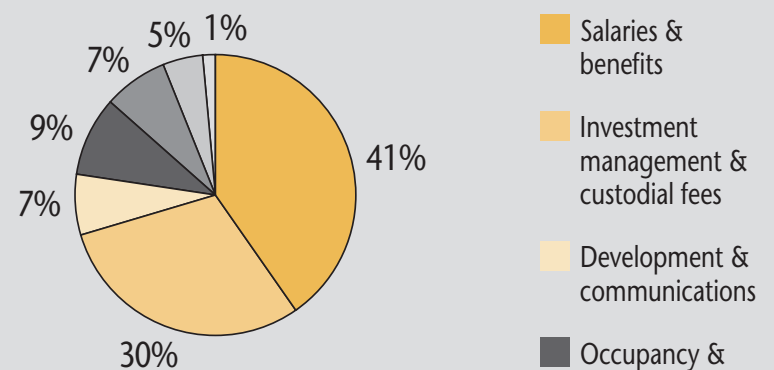
Service costs included in the chart below of \$147 k (2008 - \$140 k) were incurred to envision, plan, create, publish and evaluate TCF's second Vital Signs® report card – a report card where Calgarians have graded the city on our overall quality of life, providing a snapshot of their views on our city's wellness and liveability. To further our objectives in the three key result areas of Community Leadership, Donor Engagement and Public Confidence and Profile, Calgary's Vital Signs® will enhance the role TCF has played in the Calgary and area community. TCF has developed an understanding of the issues that affect our city through our relationships with our donors, fund holders, grantees and committee members who help guide our Community and Field of interest funds grant making decisions. Going forward, Vital Signs® will contribute to decisions by TCF in its role as grant maker.

Calgary's Vital Signs® is part of a national initiative of 11 community foundations across Canada, spearheaded by CFC, to measure the overall quality of life in Canadian communities and to help identify areas for improvement. Planned as a long-term initiative, Calgary's Vital Signs® is intended to support the community through collaborative leadership and to engage citizens in a manner that will spark discussion, encourage connections and inspire action.

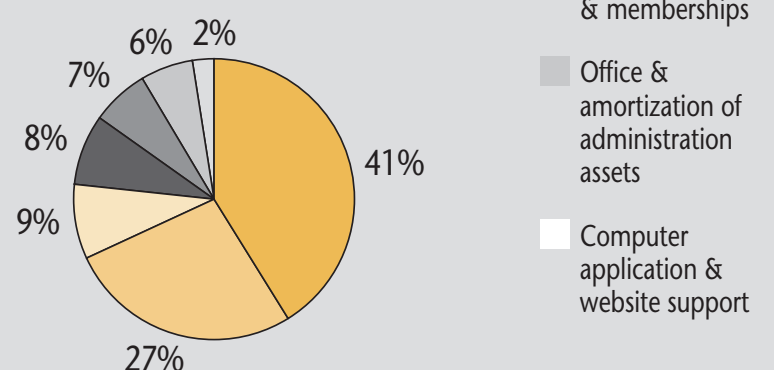
Included in the Professional fees and membership costs was \$76 k in membership fees paid to CFC to support community foundations across Canada to uphold TCF's leadership in connecting donors to community needs and opportunities.

Part of the Development and Communications costs was approximately \$24 k in expenditures to fund the Forever Fund Speaker Series activity. This activity supports the strategic direction of TCF for community leadership. Two speaker events took place, one focused on diversity and inclusion and the second on the environment.

#### Fiscal 2009 Service Costs

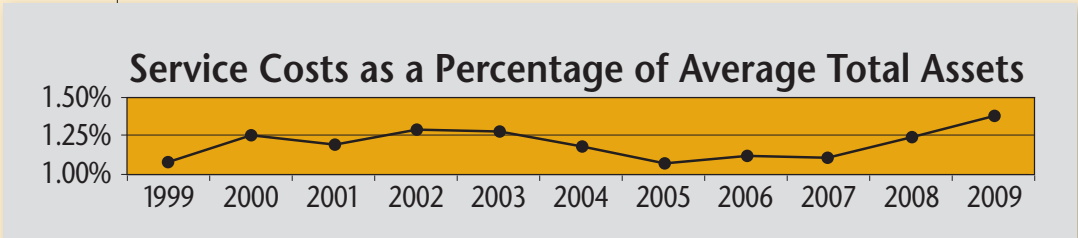


#### Fiscal 2008 Service Costs



After implementation costs of \$15 k in 2008 were incurred to implement DonorCentral® and online donations in support of the Donor Engagement and Asset Growth key result areas, \$1.5 k was incurred in 2009 to maintain these initiatives. DonorCentral® is an online tool to allow Endowment or Flow Through fund holders to view fund balances, gifts made to the funds, and grants from the funds. The ability to view and print monthly fund financial statements and make grant recommendations electronically is also incorporated. The capability to access TCF's current Community Grants projects as well as research grantee organizations is included.

Service costs as a percentage of average asset value has been commonly used by community foundations as a benchmark of efficiency. Service costs are impacted by the projects undertaken to support both operations and initiatives in the community. Strategic planning time horizons and longer term initiatives combined with uneven timing of contributions and short term vagaries of the capital markets result in wide dispersion of the ratio around the mean of 1.19% over the past decade.



#### OUTLOOK

Although the next twelve months are expected to be difficult in economic terms, thus increasing demand on many charitable organizations and reducing financial support for those same organizations, TCF assumes that its operations in the 2010 fiscal year will be materially consistent with those in 2009 except for the impact of those factors discussed in this outlook section.

**Donors:** The impact on donors' ability to financially support their favoured charitable causes will be dependent, in part, on the depth and breadth of the recession. The performance of the stock markets will also impact the level of giving of securities, which have made up a significant percentage by dollar value of gifts over the past number of years. It is anticipated that gifts of securities will not return to their prior levels until the market capitalization of publicly traded firms has recovered. Growth of the asset size of TCF through bequests is anticipated due to the increase in the number of bequests received annually.

**Grants:** TCF will continue to grant 5% of the March 31, 2009 market value of the endowment funds. This rate, although consistent with the prior year, will result in less funding dollars to charitable organizations in absolute terms over the next twelve months because of the negative impact of the returns in the capital markets.

**Primary Endowment Portfolio:** The implementation of the restructuring of the asset mix will be completed over the next twelve months. Additional investment managers with smaller-sized mandates, a reduction to indexed investments and increased oversight demands will add to the cost of the new structure. Although greater than normal volatility in the capital markets are anticipated, TCF expects that the changes to the asset mix will result in risk-adjusted returns that are better, after fees, than those that would have been produced by the previous portfolio.