



UNIVERSITY OF TORONTO

PENSION FUND MASTER TRUST INVESTMENT POLICY (STATEMENT OF INVESTMENT POLICIES AND PROCEDURES)

To be read in conjunction with the Service and UTAM Personnel Agreement between the Governing Council of the University of Toronto and the University of Toronto Asset Management Corporation and the University of Toronto Asset Management Corporation Pension Fund Master Trust Investment Policy. Together, these two policies and the service agreement constitute the Statement of Investment Policies and Procedures for the University of Toronto Pension Plan and the University of Toronto (OISE) Pension Plan.

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UNIVERSITY OF TORONTO

PENSION FUND MASTER TRUST INVESTMENT POLICY

(STATEMENT OF INVESTMENT POLICIES & PROCEDURES)

Preamble

The University of Toronto sponsors the University of Toronto Pension Plan and the University of Toronto (OISE) Pension Plan to provide pension benefits to its employees. These plans are contributory defined benefit pension plans registered under and subject to the Ontario Pension Benefits Act.

For investment purposes, the University of Toronto pension plan and the plan for its OISE employees are pooled into a pension master trust. This pooling enables both funds to enjoy economies of scale and eliminates discrepancies in investment performance.

The University determines the return expectation and risk tolerance via this *University of Toronto Pension Fund Master Trust Investment Policy*, which is approved annually by its Business Board. The University delegates to the University of Toronto Asset Management Corporation (UTAM) the responsibility for management of pension master trust investments via the *Service and UTAM Personnel Agreement between the Governing Council of the University of Toronto and the University of Toronto Asset Management Corporation*, which is approved by its Business Board,

UTAM documents its responsibilities for investment of the pension master trust via the *University of Toronto Asset Management Corporation Pension Fund Master Trust Investment Policy*.

Together, these two policies and the service agreement constitute the *Statement of Investment Policies and Procedures* for the University of Toronto Pension Plan and the University of Toronto (OISE) Pension Plan.

1. PLAN DESCRIPTION AND GOVERNANCE

1.1 Type of Pension Plan

The pension plans are contributory defined benefit plans registered under and subject to the Ontario Pension Benefits Act. The Governing Council of the University of Toronto is the registered plan administrator. The current plans provide pension benefits for eligible employees, currently members of the academic, librarian, administrative and unionized staff of the University, the OISE division of the University, and its related affiliated organizations.

As of August 1, 2000, the University of Toronto pension fund for its OISE division was pooled into a master trust for investment purposes with the University's main pension fund. While they are two separate and distinct plans (University of Toronto Pension Plan registration number 0312827 and OISE Pension Plan registration number 0353854), the pooling for investment purposes enables both funds to enjoy economies of scale and eliminates discrepancies in investment performance. The plan provisions for the OISE plan are identical to the University of Toronto Pension Plan. Required member contributions under the plan each year are 4.5% of salary up to the year's maximum pensionable earnings (YMPE), plus 6% of salary in excess of the YMPE.

The Governing Council has delegated determination of asset mix and management of the plan's assets to achieve the return and risk tolerance objectives set out in this policy to the University of Toronto Asset Management Corporation in accordance with the Service Agreement dated May 1, 2000 between the Governing Council and the University of Toronto Asset Management Corporation (UTAM), as amended April 7, 2003. The investment decisions of UTAM and its Board of Directors are subject to the overall policy direction of the Business Board as reflected in this policy together with amendments to it that the Board may make from time to time and as reflected in the Service Agreement.

1.2 Nature of Plan Liabilities

The purpose of the plans is to provide retirement income for members of the plans. The plans provide an annual pension benefit to members based on a prescribed formula applied to years of participation.

Pension benefits are adjusted each year by an amount equal to the greater of:

- (a) 75% increase in the Consumer Price Index (CPI) for the previous year; or
- (b) the increase in the CPI for the previous year minus four percentage points.

As of July 1, 2003, there were 7,141 active members in the University of Toronto Pension Plan, 3,942 retired participants, 489 terminated vested members and 1,447 exempt or pending status. The average age of active members was 46.8 years, average service 12.8 years, and average pay was \$69,949. As of July 1, 2003 the market value of assets of the plan was \$1,863.2 million versus going concern accrued liabilities of \$2066.7 million.

As of July 1, 2003 the OISE Pension Plan had 176 active members, 131 retired members, and 16 terminated vested members. The average age of active members was 53.9 years, average service was 19.9 years and average pay was \$75,633. As of July 1, 2003 the market value of assets of the plan was \$90.5 million versus going concern accrued liabilities of \$83.4 million.

The going-concern liabilities are influenced by real interest rates, salary increases, CPI increases, turnover, mortality, and retirement age patterns. Appropriate allowance is made for these factors in the assumptions used for actuarial valuation purposes and it is not expected that actual experience will vary significantly from the valuation amounts over the long term.

The duration (a weighted-average sensitivity measure) of plan liabilities is 13.3 years and 13.2 years respectively for the University of Toronto and OISE pension plans. Duration is lengthened due to the plans' automatic inflation protection, which increases benefit payments over time. The long duration of liabilities is indicative of a long-term investment horizon for the assets.

Going-concern liabilities are determined using long-term assumptions and are not affected by short-term changes in interest rates. Solvency liabilities do fluctuate from year to year with market interest rates, but because the plans provide guaranteed indexing of 75% of the increase in the CPI, the market interest rate used to determine solvency liabilities depends more on the yield of real return bonds than on nominal bond yields. Real yields on real return bonds have been less volatile than nominal interest rates. Fluctuations in solvency liabilities caused by real interest rate changes can have an impact on cash contributions or pension expenses.

2. INVESTMENT POLICIES AND GOALS

2.1 Introduction

The University of Toronto has engaged the University of Toronto Asset Management Corporation (UTAM) to manage the pension master trust assets. As a client of UTAM, it is important that the University delivers to its fund manager a concise statement of return objectives as well as risk tolerance, and that these two components are congruous. The purpose of this policy is to establish both of these objectives with regard to the pension master trust.

2.2 Return Expectations and Risk Tolerance

In order to meet the planned payments of pensions to pensions, the return objective is a 4.0% real, inflation-adjusted return over a 10 year period. This return objective is net of all fees.

To keep risk at a reasonable level, UTAM shall manage the asset portfolio to achieve a target annual standard deviation of 10.0% or less in nominal terms over 10 year periods.

2.3 Asset Mix

UTAM shall establish the asset mix investment mandates and then select investment managers to be responsible for the management of the portfolios in accordance with those mandates. Funds will normally be allocated to external managers, or, when determined to be advantageous, may be allocated to internal management. Portfolio diversification, categories and subcategories of investments, use of derivatives, and investment restrictions will be accountabilities of UTAM.

Each investment manager shall adhere to this policy and shall follow the investment policies and goals with the care, diligence, and skill that a person skilled as a professional investment manager would use in dealing with pension plan assets and shall use all relevant knowledge and skill that the investment manager possesses or ought to possess. Investment managers are expected to be in compliance with the standards of professional conduct and code of ethics administered by the Association for Investment Management and Research (AIMR).

Performance benchmarks against market indices and peer universes will be established for the pension master trust. The details of the benchmarks will be described in the service agreement between the University and UTAM.

2.4 Restrictions

In addition to the restrictions developed by the University and UTAM, the policy will adhere to the restrictions specified within the Pensions Benefits Act, Regulation 909 of the Revised Regulations of Ontario 1990, and the Federal Income Tax Act, all as amended from time to time.

In accordance with the Federal Income Tax Act, foreign content shall not exceed the limitation for pension funds, currently 30% of the book value of the pension master trust assets since January 1, 2001

3. General

3.1 Conflict of Interest Guidelines

Anyone involved directly or indirectly with the University's fund investments shall immediately disclose to the Business Board, at the time of its discussion of the policy or of matters related to the investment of University funds, any actual or perceived conflict of interest that could be reasonably expected to impair, or could be reasonably interpreted as impairing, his/her ability to render unbiased and objective advice to fulfill his/her fiduciary responsibility to act in the best interests of the funds.

This standard applies to the University and to its employees, to the members of the Governing Council, its boards and committees and to employees and members of the board of UTAM, as well as to all agents employed by them in the execution of their responsibilities under the Pension Benefits Act (Ontario) (the "Affected Persons").

An "agent" is defined to mean a company, organization, association or individual, as well as its employees who are retained by the University to provide specific services with respect to the investment, administration and management of the assets of the Plan.

Disclosure:

In the execution of their duties, the Affected Persons shall disclose any conflict of interest relating to them, or any material ownership of securities, which could impair their ability to render unbiased advice, or to make unbiased decisions, affecting the administration of the Plan assets.

Further, it is expected that no Affected Person shall make any personal financial gain (direct or indirect) because of his or her fiduciary position. However, normal and reasonable fees and expenses incurred in the discharge of their responsibilities are permitted upon notification to the University.

No Affected Person shall accept a gift or gratuity or other personal favour, other than one of nominal value, from a person with whom the employees deals in the course of performance of his or her duties and responsibilities for the Plan.

It is incumbent on any Affected Person who believes that he or she may have a conflict of interest, or who is aware of any conflict of interest, to disclose full details of the situation to the attention of the Business Board immediately, The Business Board in turn, will decide what action is appropriate under the circumstances but, at a minimum, will table the matter at the next regular meeting of the Business Board.

No Affected Person who has or is required to make a disclosure as contemplated in this Policy shall participate in any discussion, decision or vote relating to any proposed investment or transaction in respect of which he or she has made or is required to make disclosure, unless otherwise determined permissible by unanimous decision of the Business Board.

3.2 Custody

Custody requirements will be an accountability of UTAM and a requirement that UTAM develop, approve and review these requirements will be incorporated into the service agreement between the University and UTAM.

3.3 Related Party Transactions:

The University, on behalf of the plan, may not enter into a transaction with a related party unless

- a) the transaction is both required for operation and or administration of the Plan and the terms and conditions of the transaction are no less favourable than market terms and conditions;
- b) securities of the related party are acquired at a public exchange; or
- c) the combined value of all transactions with the same related party is nominal or the transaction(s) is immaterial to the fund.

For the purposes of this section, only the market value of the combined assets of the Plan shall be used as the criteria to determine whether a transaction is nominal or immaterial to the Plan.

A “related party” is defined to mean the administrator of the Plan, including any officer, director or employee of the administrator, or any person who is a member of the University. It also includes UTAM and their employees, investment managers and their employees, a union representing employees of the employer, a member of the plan, a spouse or child of the persons named previously, or a corporation that is directly or indirectly controlled by the persons named previously, among others. Related party does not include government or a government agency, or a bank, trust company or other financial institution that holds the assets of the Plan, where that person is not the administrator of the Plan.

3.4 Responsibilities of Fund Managers and Professionals:

The University has overall responsibility for the Plans. The University has delegated certain responsibilities to UTAM and to third party agents.

- a) Investment managers:
The University has delegated responsibility for Investment Managers to UTAM. The Investment managers will:
 - (i) invest the assets of the Plans in accordance with this Policy;
 - (ii) notify UTAM in writing of any significant changes in the Investment manager’s philosophies and policies, personnel or organization and procedures
 - (iii) reconcile their own records with those of the custodian, at least monthly.
 - (iv) meet with UTAM as required and provide written reports regarding their past performance, their future strategies and other issues requested by UTAM, and
 - (v) file compliance reports as frequently as required by UTAM.
- b) Custodian/trustee:
The University has delegated responsibility to UTAM for the custodian/trustee. The custodian/trustee will:
 - (i) maintain safe custody over the assets of the Plans.
 - (ii) Execute the instructions of the University, of UTAM and of the investment managers.
 - (iii) record income and provide monthly financial statements to the University and to UTAM as required.
 - (iv) Meet with UTAM as required.
- c) Actuary:
The University appoints the actuary. The actuary will:
 - (i) perform actuarial valuations of the Plans as required.
 - (ii) advise the University on any matters relating to the Plans design, membership and contributions, and
 - (iii) assist the University in any other way required.

(iv) Meet with the University as required.

d) Accountant:

The University appoints the accountant. The accountant will provide annual audited financial statements of the Plans and meet with the University as required.

The University has the authority to retain other consultants/suppliers, as it deems necessary from time to time.

3.5 Policy Review

This statement shall be reviewed at least once a year and either confirmed or amended as necessary.

Catherine Riggall
Vice-President, Business Affairs
April 4, 2005

**Amended and Restated Service and UTAM Personnel Agreement
between the Governing Council of the University of Toronto and
the University of Toronto Asset Management Corporation***

**Excerpts regarding Delegation of Authority
to UTAM by the University of Toronto**

2. The University hereby appoints UTAM as its agent to act on its behalf as the sole and exclusive manager (subject to any permitted subdelegation hereunder) of such of the money, investments, investment funds and pension funds that come into the hands or are under the administration of the University as it determines to place under the management of UTAM (the "Managed Assets"), upon and subject to the terms and conditions of this Agreement and for an indefinite term, terminable by the University (i) forthwith upon any material breach of this Agreement by UTAM; or (ii) upon three month's prior written notice to UTAM.

3. In acting as agent for the University in providing investment management services (the "Services") hereunder, subject to the terms and conditions hereof (including UTAM's obligations in section 6 hereof to act in accordance with the Investment Policies (as hereinafter defined)), UTAM shall have the power and authority to take all such actions and execute all such documents as may be necessary or desirable in order for it to properly manage the Managed Assets, including without limitation, the power and authority to:

- (a) invest and re-invest the Managed Assets and the proceeds thereof in accordance with the Investment Policies (as hereinafter defined);
- (b) acquire, hold, manage, lease, repair, improve, alter, demolish, dispose of and otherwise deal with lands, buildings and other interests in real estate on behalf of and for the benefit of the University;
- (c) employ and retain the services of investment managers, counselors, advisers and other investment professionals and experts and delegate investment powers to such persons;
- (d) provide directions to, oversee any administration by and otherwise correspond with duly appointed trustees, custodians and subcustodians of the Managed Assets;
- (e) Investment Strategy: UTAM shall establish an investment strategy designed to meet the University's return and risk objectives. The strategy should take into account all the factors which UTAM believes are relevant, including asset mix, choice of asset classes, active versus passive management, and investment philosophy and approval. UTAM shall develop and put in place relevant and appropriate policies to deal with all relevant risks, reflecting a prudent approach. This will include, but not necessarily be restricted to, portfolio diversification, asset class limits, concentration limits, use of derivatives, compliance with relevant legislation and conflicts of interest;
- (f) performance benchmarks against market indices and peer universes will be established for both the fund and individual asset classes. The agreed to benchmarks will form an integral part of this agreement;

- (g) buy, sell, assign, transfer, exchange, convert or convey shares, stocks, bonds, debentures, rights, warrants, options or other securities;
 - (h) borrow money to purchase securities, purchase securities on margin or short-sell securities;
 - (i) exercise any proxy or voting rights and give any consents or waivers associated with any securities in which the Managed Assets are invested in the best interests of the fund, unless otherwise advised by the University;
 - (j) open accounts with banks, trust companies and other financial institutions and give instructions with respect to such accounts as may be necessary in order to invest the Managed Assets;
 - (k) enter into agreements relating to synthetic investment products including debt, equity, commodity, interest rate and currency futures, options, swaps and forward contracts, agreements relating to securities lending, investment and indemnity agreements and other agreements of every nature whatsoever related to the investment of the Managed Assets; and
 - (l) take any action contemplated by or incidental to implementing the Investment Policies.
6. UTAM will be subject to and act in accordance with relevant investment policies of, or approved by, the University or its Business Board (the "Business Board"), as amended from time to time, (the "Investment Policies") including without limitation, the following:
- University Funds Investment Policy and regulations thereunder
 - Expendable Fund Investment Pool Background Paper
 - Pension Fund Master Trust Investment Policy
 - Long-Term Capital Appreciation Pool Policy and regulations thereunder
 - Policy for the Preservation of Capital of Endowment Funds and regulations thereunder
 - Social and Political issues with respect to University Investment
- and other such policies as are declared by the University or its Business Board to be applicable to UTAM. In addition, UTAM will be subject to and act in accordance with other policies and instructions that may be approved from time to time by the University or the Business Board. Those instructions may relate, without limitation, to pooling or not pooling certain University funds for investment purposes, steps aimed at the preservation of the capital of University funds, and social and political criteria governing investments.
7. It shall be the duty of UTAM and its President and Chief Executive Officer to achieve the maximum possible rate of return on each Managed Asset, consistent with (i) applicable law, (ii) the Investment Policies referred to in the preceding clause hereof, (iii) a prudent standard of care for the safety of the capital and due attention to the special purposes and needs of each fund, and (iv) general good and prudent investment practices.

* approved by the Business Board at its meeting of April 7, 2003, with Schedule C to the service agreement approved by the Business Board at its meeting of January 19, 2004. The full text of the service agreement is available on the Governing Council website at www.utoronto.ca/govcncl, as part of the agendas for the April 7, 2003 and January 19, 2004 meetings.

SCHEDULE “C”

The investment returns achieved by UTAM are compared to performance benchmarks against market indices and peer universes. Effective January 1, 2005, these benchmarks¹ are:

LTCAP & Pension Master Trust

Composite Market Index Benchmark	
Canadian Equities	S&P/TSX Capped Composite ²
U.S. Equities	Russell 3000
NNA Equities	MSCI EAFE
Fixed Income - Nominal	Scotia Capital Bond Universe (50%) Scotia Capital Long Bond Index (50%)
- Real Return Bonds	Scotia Capital Real Return Bond Universe
Real Asset	Real Estate (50%) — NCREIF ³ Commodities (50%) — GSCI
Private Equities	Russell 3000 + 500 bps
Absolute Return	3 month LIBOR + 450 bps

Peer Universe Comparison	
Total Fund:	RBC GS ⁴ Balanced Funds Universe
Canadian Equity:	RBC GS Canadian Equity Funds Universe
U.S. Equity:	RBC GS U.S. Equity Funds Universe
International Equity:	RBC GS Non-North American Equity Funds Universe
Fixed Income:	RBC GS Canadian Fixed Income Funds Universe

EFIP

Target return for the calendar year ended 2004:

EFIP Total Fund:	Scotia Capital 365 Day (Canadian) Treasury Bill Index + 50 bps
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Foreign Exchange Currency Overlay Hedge Policy

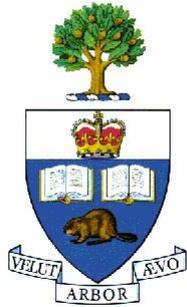
	Hedge Ratio
U.S. Equities	50%
International Equities	50%
Non-Canadian Fixed Income	100%
Absolute Return	75%
Private Equity	50%
Real Assets	50%

¹ Based on total return indexes.

² The S&P/TSX Capped Composite Index and the S&P/TSX Composite Index share the same constituents, but each stock in the capped index is limited to a maximum weight of 10% of the index, measured on a quarterly basis.

³ NCREIF – National Council of Real Estate Investment Fiduciaries Index.

⁴ RBC GS – RBC Global Services, formerly SEI Funds Universe



UNIVERSITY OF TORONTO ASSET MANAGEMENT CORPORATION

Pension Fund Master Trust Investment Policy
(Statement of Investment Policies & Goals)

University of Toronto Asset Management Corporation

Pension Fund Master Trust Investment Policy
(Statement of Investment Policies & Goals)

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Preamble

The University of Toronto sponsors the University of Toronto Pension Plan and the University of Toronto (OISE) Pension Plan to provide pension benefits to its employees. These plans are contributory defined benefit pension plans registered under and subject to the Ontario Pension Benefits Act.

For investment purposes, the University of Toronto pension plan and the plan for its OISE employees are pooled into a pension master trust. This pooling enables both funds to enjoy economies of scale and eliminates discrepancies in investment performance.

The University determines the return expectation and risk tolerance via the *University of Toronto Pension Fund Master Trust Investment Policy*, which is approved annually by its Business Board. The University delegates to the University of Toronto Asset Management Corporation (UTAM) the responsibility for management of pension master trust investments via the *Service and UTAM Personnel Agreement between the Governing Council of the University of Toronto and the University of Toronto Asset Management Corporation*, which is approved by its Business Board.

UTAM documents its responsibilities for investment of the pension master trust via this *University of Toronto Asset Management Corporation Pension Fund Master Trust Investment Policy*.

Together, these two policies and the service agreement constitute the *Statement of Investment Policies and Goals* for the University of Toronto Pension Plan and the University of Toronto (OISE) Pension Plan.

1. INVESTMENT POLICIES AND GOALS

1.1. Asset Mix

The long-term asset mix will be determined by these factors:

- a) Demographics of plan membership and the expected future growth of faculty and staff;
- b) Projected long-term cash flows;
- c) The correlation between the plans' assets, liabilities and cash flows;
- d) The objective for real rate of return;
- e) The desire to maintain a stable level of contribution for the members;
- f) The historic pattern of equity investments producing higher rates of return than debt instruments over the longer term, which pattern is expected to persist;
- g) Role of foreign markets and special asset classes in optimizing the trade off between risk (defined as volatility) and return, recognizing the restriction on foreign content for pension funds in the Federal Income Tax Act as amended from time to time.

The policy mix will be as follows: Asset Mix

Asset Class	(%)
Equities	
Canadian	10.0
U.S.	15.0
Non-North American	15.0
Total Equities	40.0
Bonds	
Universe	10.0
Long	10.0
Real Return	10.0
Total Bonds	30.0
Alternatives	
Real Assets	10.0
Private Equity	10.0
Absolute Return	10.0
Total Alternatives	30.0
Total Fund	100.0

The asset mix will be rebalanced weekly subject to the approved guideline.

UTAM shall establish mandates and then select investment managers to be responsible for the management of the portfolios in accordance with those mandates. Funds will normally be allocated

to external managers, or, when determined to be advantageous, may be allocated to internal management.

Each investment manager shall adhere to this policy and shall follow the investment policies and goals with the care, diligence, and skill that a person of ordinary prudence would use in dealing with the property of another and shall use all relevant knowledge and skill that the investment manager possesses or ought to possess. Investment managers are expected to be in compliance with the standards of professional conduct and code of ethics administered by the Association for Investment Management and Research (AIMR).

In conforming with the foregoing the:

(a) Investment managers will be required to:

- (i) invest the assets of the Plans in accordance with the investment policy;
- (ii) notify UTAM in writing of any significant changes in the investment manager's philosophies and policies, personnel or organization and procedures,
- (iii) reconcile their own records with those of the custodian, at least monthly,
- (iv) meet with UTAM as required and provide written reports regarding their past performance, their future strategies and other issues requested by UTAM, and
- (v) file compliance reports as frequently as required by UTAM.

(b) Custodian/Trustee will be required to:

- (i) maintain safe custody over the assets of the Plans,
- (ii) execute the instructions of the University, of UTAM and of the investment managers,
- (iii) record income and provide monthly financial statements to the University and to UTAM as required,
- (iv) meet with UTAM as required.

1.2. Portfolio Diversification

The objectives of diversification are to:

- a) Reduce the fund's total return variability;
- b) Reduce the exposure to any single component of the capital market;
- c) Reduce the risk of returns not tracking or exceeding inflation;
- d) Increase the longer-term risk-adjusted return potential of the fund.

To achieve diversification the fund will invest in the asset classes as outlined in the asset mix section.

1.3. Categories and Subcategories of Investments

Investments that are permitted shall be classified within the general categories of:

1.3.1. Equity Investments

Public and private equity securities, including common shares of domestic, foreign and emerging markets equity, ADR's, warrants, convertible bonds, initial public offerings, and equivalent exposures using derivatives.

1.3.2. Fixed Income Investments

Money market securities, including cash on hand both domestic and foreign, call loans, demand deposit notes, treasury bills, promissory notes (secured and unsecured), term loans (secured and unsecured), banker's acceptances, commercial paper, swap deposits, repurchase and reverse repurchase agreements, foreign pay bills, other money market securities, and equivalent exposures using derivatives.

Bonds, debentures, term loans, mortgages, real return bonds, including short and long dated publicly-traded debt securities, foreign-pay bonds, preferred shares, private placement debt and equivalent exposures using derivatives.

1.3.3. Private Equity, Real Estate and Other Investments

Real estate equity and debt, managed futures, venture capital and private equity, distressed securities, resource properties, leveraged buyouts, mezzanine financing, oil and gas, hedge funds, market neutral and long/short strategies.

Investment Managers may use pooled fund unit trust, mutual fund, or limited partnership vehicles that include any of the above categories.

1.4. Use of Derivatives

Derivatives may be used for hedging and risk management including the hedging of foreign currency exposure.

They may also be used as a substitute for more traditional investments if they are based on and consistent with achieving the fund's long-term asset mix goal and rate of return objectives. Such products include debt, equity, commodity and currency futures, options, swaps and forward contracts whether directly or through pooled, mutual or segregated funds that employ derivatives and synthetic products for purposes consistent with the investment objectives of the fund.

Derivatives used as a substitute for more traditional investments will be subject to specific applications and limits on required cash collateral as approved by the UTAM Board.

1.5. Restrictions

Investment restrictions apply within the context of the overall fund objectives and the asset mix policy described above.

In addition to the restrictions developed by the University and UTAM, the policy will adhere to the restrictions specified within the Pensions Benefits Act, Regulation 909 of the Revised Regulations of Ontario 1990, and the Federal Income Tax Act, all as amended from time to time.

1.5.1. Minimum Quality Standards for Debt Securities in the Fixed Income Asset Allocation

Credit ratings of individual holdings in passively-managed mandates will be in accordance with the construction of the major Canadian fixed income indexes. Corporate bonds, debentures and other debt securities purchased for the fund in actively-managed mandates shall have a rating of "A" or better or the equivalent thereof according to a recognized bond rating service. Should a debt security be downgraded to BBB subsequent to purchase, the investment manager will have complete discretion as to whether any remedial action should be taken.

In the case of private placements not rated by a recognized bond rating service, active managers shall apply standards consistent with a minimum "A" rating.

Short-term notes and other evidences of indebtedness of corporations, banks and trust companies shall have a rating of R-1 or the equivalent thereof according to a recognized bond rating service.

For the purposes of this policy, the approved credit rating and the approved credit line for counterparties, with respect to over-the-counter options and forward contracts or its equivalent debt shall be equal to or higher than the "A" rating level as above.

1.5.2. Limitations on Securities of any Single Issuer

Maximum 10% of the book value of plan assets to be loaned to any person, partnership or association, or company and its affiliates; excludes government bonds.

Maximum 5% of the book value of plan assets invested in any single holding categorized as real property and Canadian resource property.

Maximum 15% of the book value of plan assets in aggregate holdings of Canadian resource properties.

Maximum 25% of the book value of plan assets in aggregate of all properties. (Properties include both real property and Canadian resource properties)

Maximum 10% of the book value of total plan assets invested in any one equity holding.

1.5.3. Investment Manager Constraints

Investment Managers may not:

- i) make loans or invest with persons that have fiduciary, employer or employee status with respect to the fund;
- ii) except with the written consent of UTAM:
 - (a) use derivatives for financial leverage purposes;
 - (b) purchase or sell pre-specified derivative financial instruments;
 - (c) borrow money to purchase securities, purchase securities on margin or short-sell securities.

1.5.4. Foreign Content Limitation

In accordance with the Federal Income Tax Act, the Plan will conform to the foreign content limitation for pension funds, currently 30% of the book value of the Plan's assets since January 1, 2001. In order to benefit from global opportunities the actual foreign content may exceed 30% by utilizing structures that comply with all relevant legal and tax requirements. It is expected that actual foreign content exposure may range up to about 50%.

1.6. Liquidity of Investments

UTAM has an established liquidity policy which it adheres to when the pension fund requires liquidity in excess of its daily cash balance.

Due to the illiquid nature of alternative investments which consists of real assets, private equity and absolute return investments, these asset classes are assumed not to be a source of liquidity. Alternative investments account for 30% of the stated asset mix.

1.7. Currency Hedging

The UTAM policy is to have different hedge ratios for different asset classes as follows:

	Hedge Ratio
U.S. Equities	50%
International Equities	50%
Non-Canadian Fixed Income	100%
Absolute Return	75%
Private Equity	50%
Real Assets	50%

2. GENERAL

2.1. Securities Lending

The securities of the Pension Master Trust may be loaned to investment dealers and banks as part of the trustee/custodian's lending program when it is deemed that such lending may add to the return of the fund at minimal risk and provided that the loan is collateralized in accordance with industry standards and marked-to-market and adjusted on a daily basis.

2.2. Exercise of Proxies and Voting Rights

Unless the University advises UTAM otherwise, proxy or other voting rights, associated with any of the Pension Master Trust investments must be exercised by the investment manager in the best interest of the fund.

Annual reports of all proxies voted must be maintained. In the case where voting is done externally, the annual proxy report must be sent to UTAM.

The University has the authority to request a report from UTAM at anytime.

2.3. Pledging and Borrowing of Assets

UTAM has the authority to borrow money to purchase securities, purchase securities on margin or short-sell securities.

2.4. Fund Structure

UTAM has the authority to employ a mix of active and passive management styles. Active management has been adopted for a portion of the assets as it provides the opportunity to outperform specific investment benchmarks and it can provide lower absolute volatility of returns. Passive, or index, management has been adopted for a portion of the assets as it minimizes the risk of underperformance relative to a benchmark index and is generally less expensive than active management. This approach also diversifies the manager risk, making the Pension Fund less reliant on the skills of a single investment manager.

UTAM

Revised and reviewed March 2005

Approved by UTAM Board of Directors – March 9, 2005