



**UNIVERSITY OF
TORONTO**

University of Toronto Pension Plans

Annual Financial Report

For the Year Ended June 30, 2011

Highlights¹

As at July 1, 2011

With Comparative Figures at July 1, 2010

At July 1, 2011 (millions of dollars)			
	<u>Accrued Liabilities</u>	<u>Market Value of Assets</u>	<u>Market surplus (deficit)</u>
<u>University of Toronto Pension Plan (RPP)</u>			
Going concern actuarial valuation, current assumptions	3,274.1	2,486.3	(787.8)
Going concern actuarial valuation, new assumptions	3,443.5	2,486.3	(957.2)
Solvency actuarial valuation ²	3,496.8	2,485.3	(1,011.5)
Hypothetical wind-up actuarial valuation ²	4,754.6	2,485.3	(2,269.3)
<u>University of Toronto (OISE) Pension Plan - RPP(OISE)</u>			
Going concern actuarial valuation, current assumptions	111.6	76.1	(35.5)
Going concern actuarial valuation, new assumptions	116.1	76.1	(40.0)
Solvency actuarial valuation ²	121.8	75.7	(46.1)
Hypothetical wind-up actuarial valuation ²	161.7	75.7	(86.0)
<u>Supplemental Retirement Arrangement (SRA)</u>			
Going concern actuarial valuation, current assumptions	135.5	120.8	(14.7)
Going concern actuarial valuation, new assumptions	140.4	120.8	(19.6)
At July 1, 2010 (millions of dollars)			
	<u>Accrued Liabilities</u>	<u>Market Value of Assets</u>	<u>Market surplus (deficit)</u>
<u>University of Toronto Pension Plan (RPP)</u>			
Going concern actuarial valuation	3,126.0	2,093.9	(1,032.1)
Solvency actuarial valuation ²	3,264.2	2,092.9	(1,171.3)
Hypothetical wind-up actuarial valuation ²	4,244.6	2,092.9	(2,151.7)
<u>University of Toronto (OISE) Pension Plan - RPP(OISE)</u>			
Going concern actuarial valuation	109.0	72.8	(36.2)
Solvency actuarial valuation ²	117.5	72.4	(45.1)
Hypothetical wind-up actuarial valuation ²	150.3	72.4	(77.9)
<u>Supplemental Retirement Arrangement (SRA)</u>			
Going concern actuarial valuation	138.3	115.8	(22.5)
<u>Pension Plan Reserve</u>			
		24.9	24.9

¹ Going concern valuations assume that the plan is continuing to operate for the foreseeable future. Solvency and hypothetical wind-up valuations assume that the plan will be wound-up as at the valuation date. See pages 12 and 13 for a full discussion of the different types of valuations.

² The market value of assets are net of wind-up expenses which are estimated to be \$1.0 million for the RPP and \$0.4 million for the RPP(OISE).

Highlights (continued)

As at July 1, 2011

With Comparative Figures at July 1, 2010

Participants	July 1, 2011	July 1, 2010
RPP	16,437	16,041
RPP(OISE)	265	270

Contributions	For the year-ended	
	June 30, 2011	June 30, 2010
Employer - Current service	77.9	73.3
Employer - Special payments	165.2	27.6
Total Employer *	243.1	100.9
Total Employee - Current Service	38.4	36.5

* Employer contributions for the year-ended June 30, 2012 are estimated to be \$144.3 million, which include \$93.0 million current service funding and \$51.3 budgeted special funding.

Investment Earnings	For the year-ended	
	June 30, 2011	June 30, 2010
Actual investment return **	12.7%	8.2%
Target return (4.0% plus CPI)	7.2%	5.0%

** Returns are time-weighted, calculated in accordance with industry standards, and are net of investment fees and expenses.

Going Concern Key Actuarial Assumptions	July 1, 2011	July 1, 2010
Increase in consumer price index (CPI)	2.50%	2.50%
Increase in salaries	4.50%	4.50%
Discount rate on liabilities	6.25%	6.50%

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Purpose of this Report

The Governing Council of the University of Toronto (the “University of Toronto” or the “University”) provides pension benefits to current and future retired members via three defined benefit pension plans:

- the University of Toronto Pension Plan (RPP).
- the University of Toronto (OISE) Pension Plan (RPP(OISE)).
- the Supplemental Retirement Arrangement (SRA), an unregistered arrangement that provides pensions above the maximum pension benefit allowed under the Income Tax Act, up to a University specified maximum salary of \$150,000.

The Governing Council of the University of Toronto is the legal administrator of the registered RPP and RPP(OISE), both of which are separate legal entities.

The Pension Committee of Governing Council is composed of 11 members of Governing Council and 9 members representing employee groups with members who participate in the pension plans. It has delegated authority¹ to act for Governing Council in respect of the administration of the pension plans except for matters which Governing Council or its Business Board are required by statute to approve; or which are reserved to Governing Council or the Business Board via the Pension Committee terms of reference, as amended from time to time by Governing Council.

Plan advisors are State Street Trust Company (custodian of assets), Aon Hewitt (actuaries), Ernst & Young LLP (external auditors) and University of Toronto Asset Management Corporation (“UTAM”, investment manager).

The Vice-President, Human Resources and Equity, is responsible for formulation of pension policy, member communication, benefits administration and negotiation of benefits. The Vice-President, Business Affairs (the Chief Financial Officer beginning January 1, 2012), is responsible for the financial administration of the funds including liaison with the custodian, actuarial consultant, investment manager and external auditors.

¹ *The Pension Committee performs the role with respect to pension plan administration that was previously delegated by the Governing Council to the Business Board. The general limitations on that delegated authority are identical to those that apply to the Governing Council's delegation of authority to the Business Board.*

The purpose of this report is to provide the Pension Committee, the Audit Committee and the Business Board¹ with an update on the financial status of the plans to June 30, 2011 and an update on current activities.

Normally this report would also seek approval of the audited pension financial statements for the RPP and the RPP(OISE) at June 30, 2011; however these financial statements were approved separately on December 14, 2011 prior to the issuance of this report.

¹ *The Pension Committee has assumed many of the responsibilities that were previously assigned to the Business Board.*

How a Defined Benefit Pension Plan Works

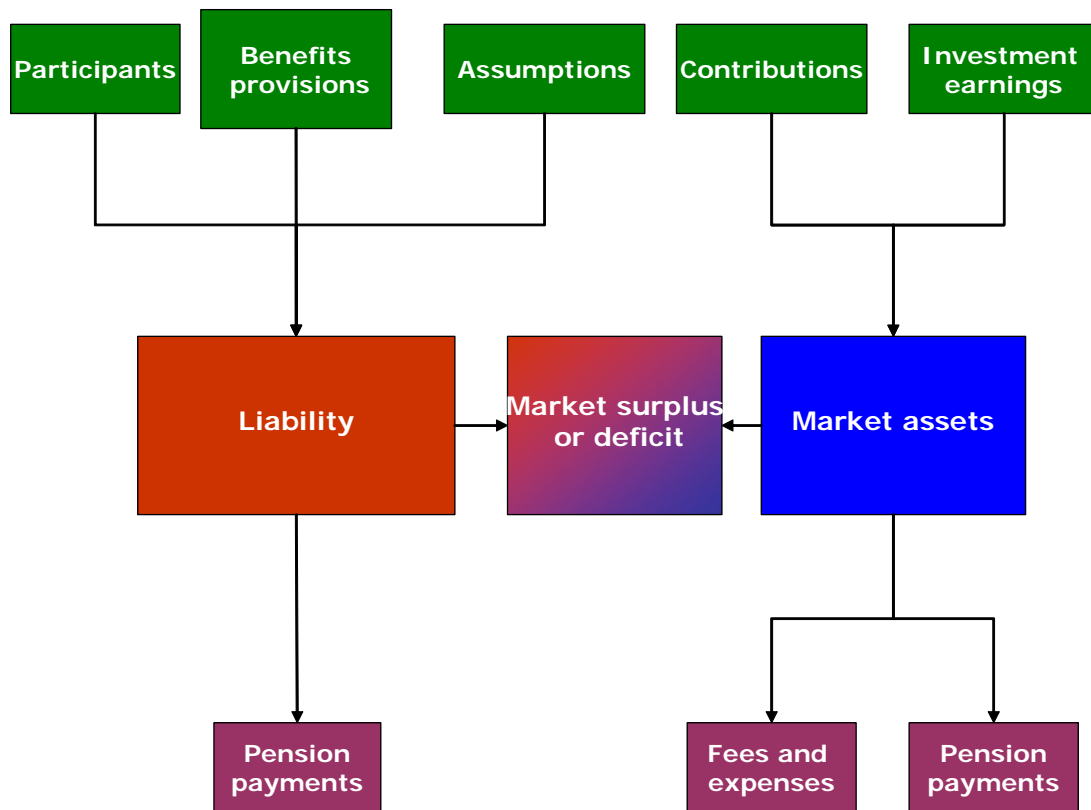
A pension plan is any arrangement by which an employer promises to provide retirement income to members. There are essentially two types of pension plans currently permitted under pension legislation in Ontario – a defined contribution plan and a defined benefit plan. A defined contribution plan provides pension benefits to each retired member on the basis of member and employer contributions and investment earnings on those contributions over time. The ultimate pension benefit depends on the amount of funding contributed and the investment earnings both before and after the date of retirement. The investment risk is borne by the member in a defined contribution plan.

A defined benefit pension plan provides pension benefits to each retiring member on the basis of defined percentages applied to salary and years of service. Members and the employer provide funding, and the member will ultimately receive pension benefits that result from the salary and years of service formula. The investment risk is borne by the employer in a defined benefit plan.

The University of Toronto pension plans are defined benefit plans. For each year that the member works and participates in the plan, an additional year of pensionable service is earned. At retirement, the number of years of pensionable service is multiplied by a percentage of the average of the highest 36 months of average earnings to determine the annual pension payable to that person. After retirement, pension payments are indexed at 75% of the consumer price index (CPI).

The objective of a defined benefit pension plan is to ensure that there are sufficient resources to pay for the current pensions of retired members and to ensure that there will be sufficient funds to pay for the pensions of members who will retire in the future. The plan engages an actuary to determine what the annual funding of the plan must be to ensure that this objective is met.

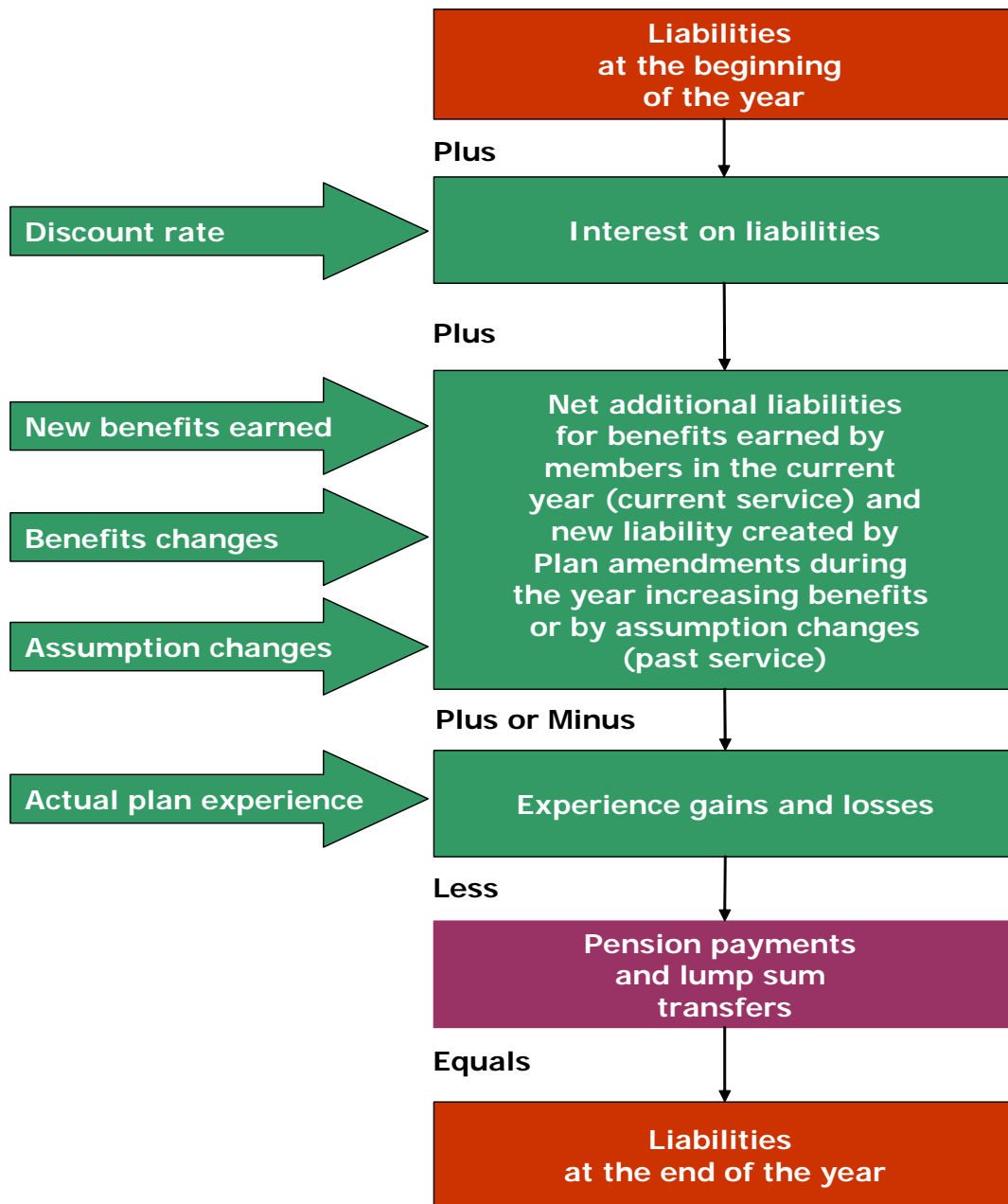
The challenge for defined benefit plans is to find a way to reasonably estimate the current net present value of what pensions will be paid to retired members over time (the liabilities) and to set aside money now to support payment of those pensions in future (the assets). The relationship is illustrated as follows.



As you can see from the diagram, the difference between the estimated net present value of current and future pensions (the liabilities), and the amount of funds actually on hand (the market assets) is the market surplus or deficit.

The Liability

The net present value of current and future pensions (the liability) depends on assumptions made about the members in the pension plan, including their length of service, their estimated salaries at retirement, the kinds of benefits they are receiving or will receive, and future inflation. The liability represents the discounted net present value of pension benefits earned for service up to the valuation date, based on those assumptions. The following table shows how liabilities change from year to year.



As shown above, liabilities change when:

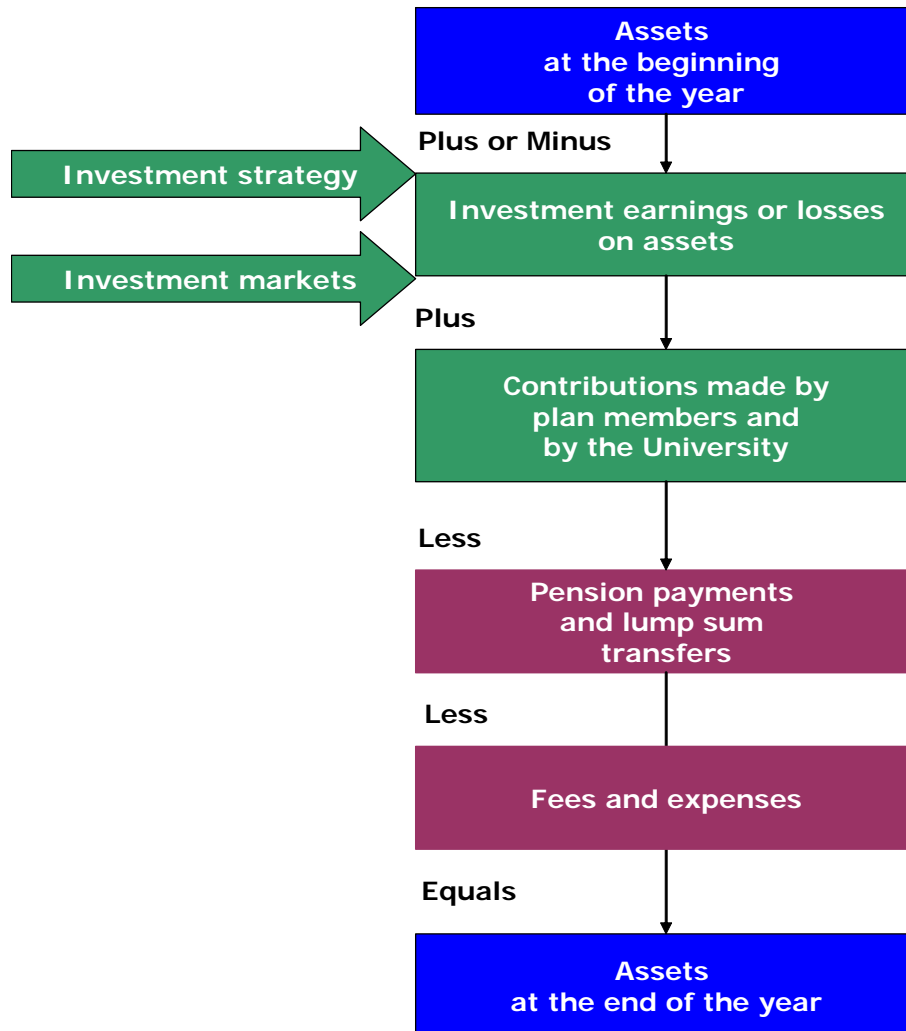
- members work an additional year, thus increasing their pension benefit at retirement. This is known as current service and increases the liability.
- members receive a larger pension benefit for the same salary and years of service through improvements to past service benefits. This increases the liability.
- new participants are added to the plan. This adds to the liability over time.

- assumptions that forecast the amount of pension benefits to be paid in future (e.g. salary increase assumption) change. These changes may increase or decrease the liability.
- assumptions that discount future liabilities to the present change. Increases in the discount rate DECREASE the liability while decreases in the discount rate INCREASE the liability.
- actual experience in the plan (e.g. actual salary increases, terminations, longevity, etc.) results in actual benefit payments that are different from those expected according to the actuarial assumptions. Actual experience may increase or decrease the liability.

Liabilities also have interest calculated on them, just like any other discounted obligation that has to be paid in future. This interest is added to the liabilities and also increases them.

The Assets

The amount of money that has actually been set aside (the assets) comes from only two sources: 1) contributions from members and from the University (including transfers in from other plans), and 2) investment earnings. The pension financial statements report the assets at fair value (which is essentially market value) at June 30th. (The SRA assets are University assets which are reported in the University's financial statements at April 30th of each year and which are also valued at June 30th each year and included in a footnote in the SRA actuarial report.) The following table shows how assets change from year to year.



The Surplus or Deficit

The difference between the liabilities and assets is a surplus if the assets exceed liabilities or a deficit if liabilities exceed assets. When the assets are valued at market value, the difference is a “market” surplus or deficit. Pension regulation also permits an “actuarial” surplus or deficit, whereby changes in market value are smoothed over more than one year instead of being recognized immediately. The actuarial surplus is used for certain requirements under the Pension Benefits Act. However, for our financial evaluation purposes, to assess the financial health of our plans, the market surplus or deficit is more useful, since it records all gains or losses immediately. This report focuses primarily on the market value of assets and the market deficit.

Tools for Assessment of Pensions

The key tools for assessing the current financial health of the pension plans are actuarial reports and financial statements:

- **Pension financial statements** provide an audited confirmation of the fair value (essentially market value) of the pension assets contained in each registered plan, which is a separate legal entity, at the valuation date. The plan fiscal year for the RPP and RPP(OISE) is July 1 to June 30. Assets for each registered plan are valued at June 30 of each year and reported on the registered pension plan balance sheets, which are called the *statement of net assets available for benefits*. The changes in assets from one year to the next are shown on the registered pension plan income statements, which are called the *statement of changes in net assets available for benefits*. (SRA assets are University assets, which are reported on the University's audited financial statements.)
- **Pension actuarial reports** estimate the net present value of the pension benefits based on assumptions, as noted earlier, and compare that net present value to the audited assets reported in the financial statements to determine the financial status of the plan at the valuation date. For all plans, the actuarial valuation date is July 1 of each year, incorporating the annual salary increases that become effective on that date.

Various financial reporting and regulatory requirements result in four types of valuations that make different assumptions and that produce very different results. Under these different types of valuations, the liabilities can change dramatically. However the assets are normally valued at fair value as of the date of valuation, with some very minor adjustments made to asset values for different types of valuations. Here are the similarities and differences between them.

Going Concern Actuarial Valuation:

This valuation assumes that the pension plan is a going concern. This means that it is expected to be continuing to operate for the foreseeable future. Assumptions that determine the net present value of the benefits are long-

term. Assets are valued at the fair value as of the date of valuation as reported on the audited financial statements. This valuation is done for a single point in time, as of July 1 each year and is used for purposes of funding the pension plan.

Solvency Actuarial Valuation:

This valuation varies from the going concern valuation in that it assumes the plan will be wound-up on the valuation date and uses a market interest rate assumption. It assumes that benefits will be settled through purchase of annuities or payment of lump sum values. However, indexation (inflation) after termination or retirement is excluded from the liability calculation, in accordance with regulation. This valuation utilizes the audited fair value of the assets as reported on the audited financial statements, and adjusts that audited value with a provision for hypothetical wind-up costs. It is done on the plan year, as of July 1 each year. To the extent there is a deficiency under a filed solvency valuation, additional funding may be required.

Hypothetical Wind-up Actuarial Valuation:

This valuation takes the solvency valuation and provides for the indexation that occurs before and after retirement. It also assumes that benefits will be settled through purchase of annuities or payment of lump sum values. And it also adjusts the audited fair value of the assets with a provision for hypothetical wind-up costs. It is done on the plan year, as of July 1 each year.

Accounting Valuation:

This valuation is done for accounting purposes and estimates numbers that are required to be included in the University's financial statements (not the pension financial statements). This valuation is done on the University's fiscal year end, April 30th. Although this valuation assumes that the pension plans are a going concern, it does not permit any advance recognition of risk premium that is expected to be earned from investments in equities or other types of non-fixed income risk-bearing investments. Therefore, it requires that the liabilities be discounted at the then-current long-term corporate bond

rate. The results from this valuation can be quite different from a going concern actuarial valuation, depending largely on the size of the difference between the discount rates used in the two cases, and contributes to significant differences we are currently seeing between going concern actuarial results as reported in the actuarial reports and accounting results as reported in the University financial statements. SRA assets are not taken into account in the accounting valuation. However, liabilities for salaries in excess of the Income Tax Act maximum salary up to the University-specified maximum salary ARE included in the accounting valuation. This also contributes to the differences between the accounting valuation and the going concern valuation.

While it is important to be aware of the existence of these various valuations, and their purposes, this report assumes that the pension plans are going concerns and evaluates pension financial health using the going concern actuarial valuation. The following sections will show the status of the pension plans at July 1, 2011 and will apply the elements of defined benefit pension plans shown in the diagram on page 8 to the University pensions, with particular emphasis on the assumptions, the contributions, and the investment earnings, and their associated policies and strategies.

Pension Status at July 1, 2011

At July 1, 2011, the going concern accrued liabilities¹ and market value of assets for the University of Toronto defined benefit plans were:

July 1, 2011	Going Concern Liabilities ¹	Market Value of Assets	Market Surplus (Deficit)	Market Surplus (Deficit) as % of Liabilities
RPP	3,443.5	2,486.3	(957.2)	(28%)
RPP(OISE)	116.1	76.1	(40.0)	(34%)
SRA	140.4	120.8	(19.6)	(14%)
Pension Reserve			-	
Total	3,700.0	2,683.2	(1,016.8)	(27%)

At July 1, 2010, the liabilities¹ and assets for the University of Toronto defined benefit plans were:

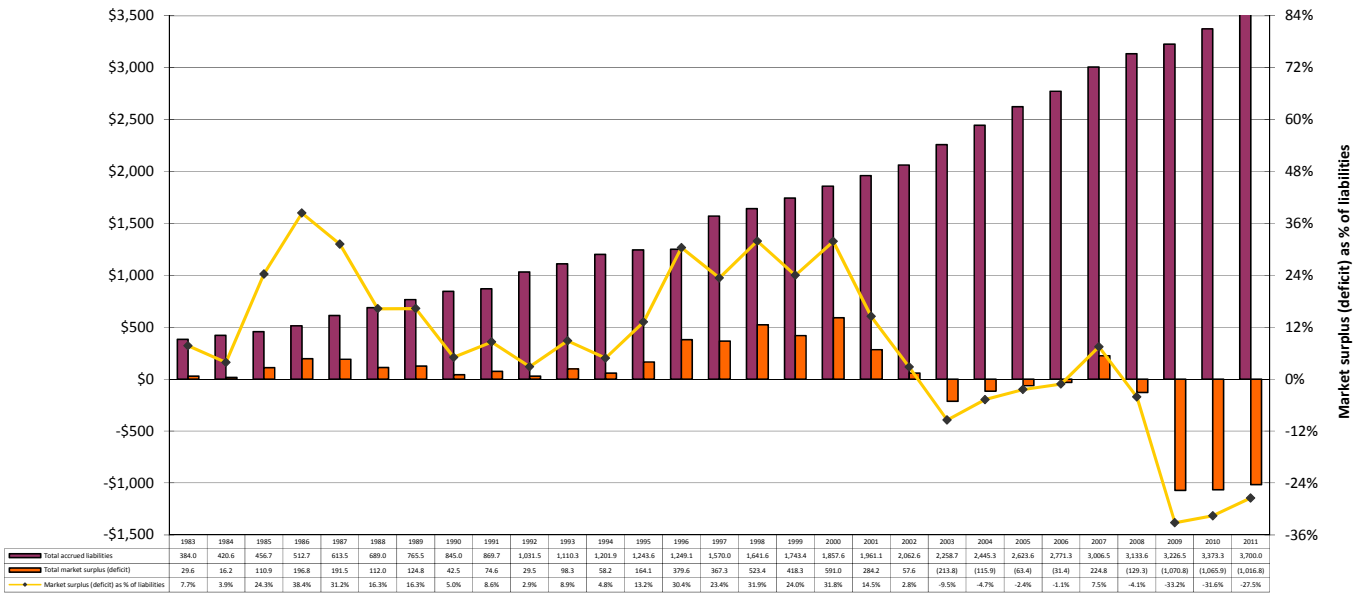
July 1, 2010	Going Concern Liabilities ¹	Market Value of Assets	Market Surplus (Deficit)	Market Surplus (Deficit) as % of Liabilities
RPP	3,126.0	2,093.9	(1,032.1)	(33%)
RPP(OISE)	109.0	72.8	(36.2)	(33%)
SRA	138.3	115.8	(22.5)	(16%)
Pension Reserve		24.9	24.9	
Total	3,373.3	2,307.4	(1,065.9)	(32%)

As you can see from the above tables, the overall financial health of pensions showed a slight improvement between July 1, 2010 and July 1, 2011 due to a) investment returns of 12.7% that exceeded the target return of 7.2% for the period and b) employer special payments totaling \$165.2 million, which were partly offset by actuarial assumption changes.

A longer history of combined results for the three plans is shown on the following graph.

¹ Using new assumptions for (1) the discount rate [changed to 6.25% from 6.50%], and (2) mortality rates [changed to 1994 Uninsured Pensioner Mortality Table with fully generational mortality improvements under Scale AA, from 1994 Uninsured Pensioner Mortality Table with mortality improvements projected to 2015]

**University of Toronto RPP, RPP(OISE) and SRA Combined
Accrued Liabilities and Market Surplus (Deficit)
as at July 1
(millions of dollars)**



As you can see from the above chart, for the entire period from 1983 to 2002, the plans were in surplus. A deficit emerged in 2003 which was extinguished by 2007. Beginning in 2008, and much more pronounced in 2009, the impact of the global financial crisis was to reduce market returns significantly. The overall financial position of the plans was essentially unchanged between 2009 and 2010, and improved somewhat in 2011 as a result of a rebound in markets and additional special contributions from the University.

IMPORTANT NOTE

For the purposes of this report, we have added together the three plans so that the big picture can easily be discerned.

However, it is very important to note that each of the registered plans (RPP, RPP(OISE)) is a separate legal entity in which the assets are held in trust. Funds cannot be transferred between the two registered plans or from either of the registered plans to the SRA or the pension reserve.

SRA assets and pension reserve assets are not held in trust. For financial accounting purposes the University from time to time appropriates funds which are set aside as a “fund for specific purpose” in respect of the obligations under the SRA. In accordance with an Advance Income Tax Ruling, which the University has received, such assets do not constitute trust property, are available to satisfy University creditors, may be applied to any other purpose that the University may determine from time to time, are commingled with other assets of the University, and are not subject to the direct claim of any members.

Strategies that are put in place from time to time must take these important restrictions into account. Nevertheless, it is helpful to consider the registered plans, the SRA and the pension reserve together since the pension payment to any particular member may include two of these entities. Liabilities move back and forth between the RPP and the SRA depending on increases in the Income Tax Act maximum pension, increases in salaries and age at retirement.

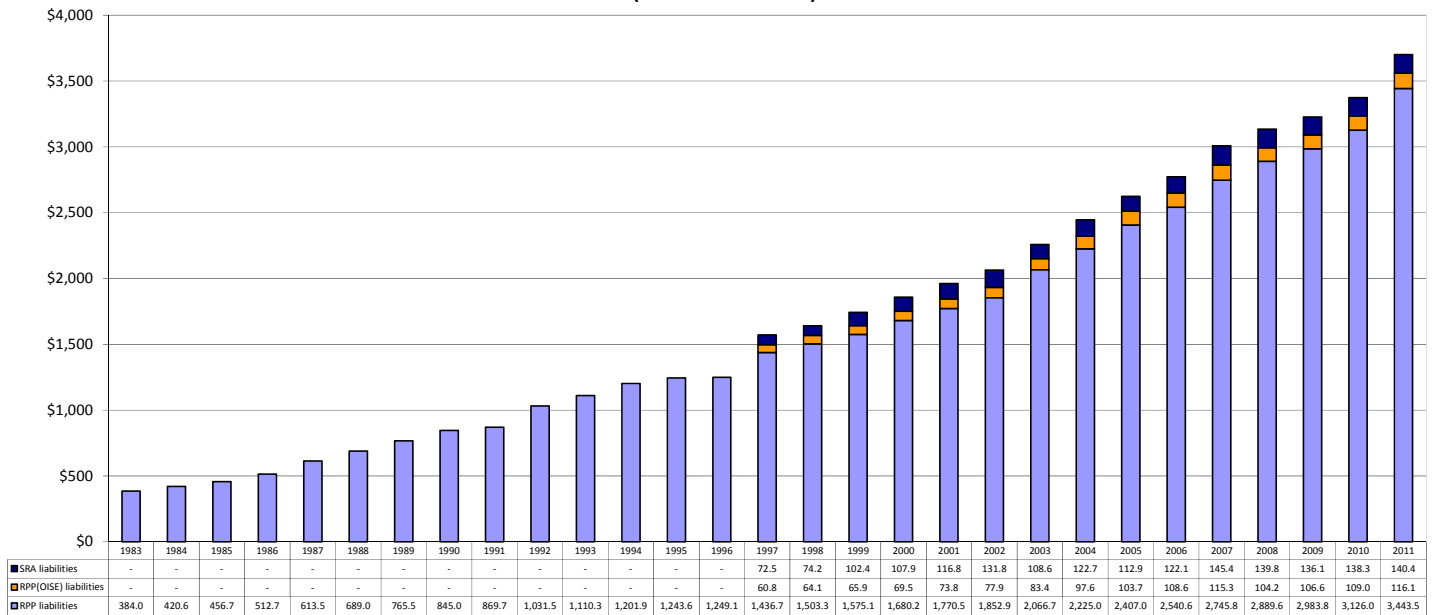
Pension Liabilities

Going concern pension liabilities for the University of Toronto plans totaled \$3,700.0 million at July 1, 2011, comprising:

- \$ 3,443.5 million RPP pension liabilities
- \$ 116.1 million RPP(OISE) pension liabilities
- \$ 140.4 million SRA pension liabilities

The growth in those liabilities since 1983 is shown on the following chart.

**Going Concern Pension Liabilities
RPP, RPP(OISE) and SRA
at July 1
(millions of dollars)**

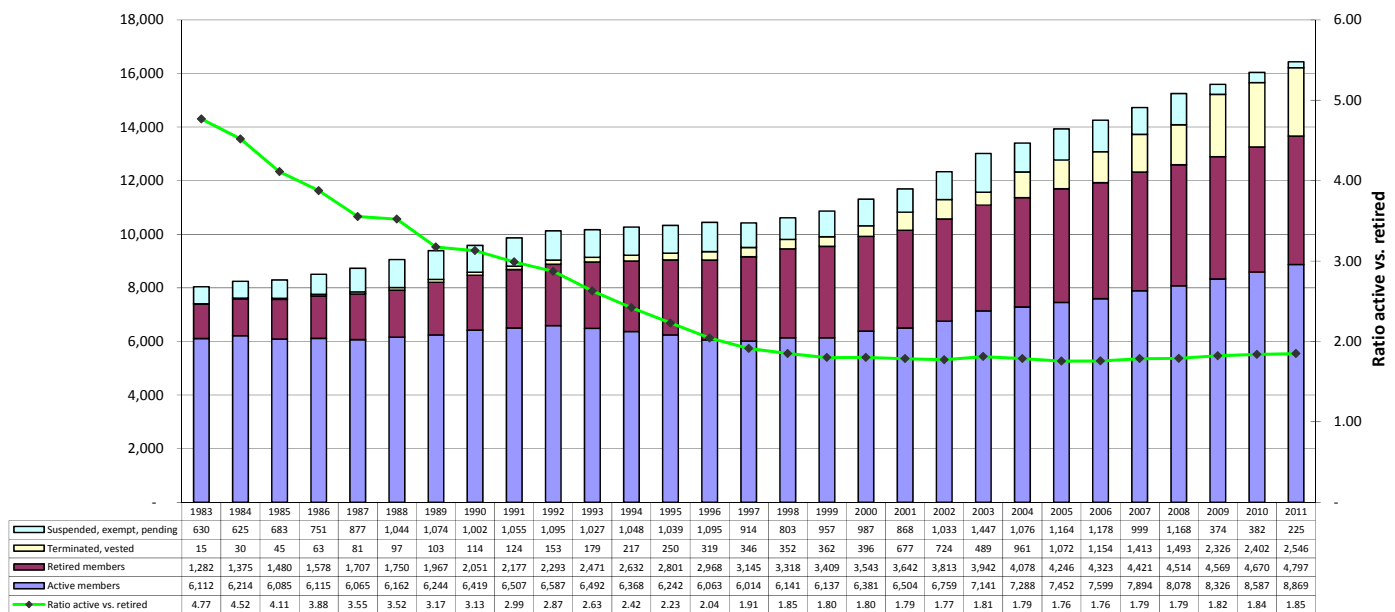


As noted earlier, pension liabilities are valued at July 1 and are dependent on a number of factors. The following sections will examine the impact of these factors on the total going concern pension liabilities for the University of Toronto plans.

Pension Liabilities Participants

The RPP is a growing plan, with member participation increasing over time. An increase in the number of plan participants adds to pension liabilities over time. At July 1, 2011, total member participation was 16,437.

**RPP
Member Participation
at July 1**

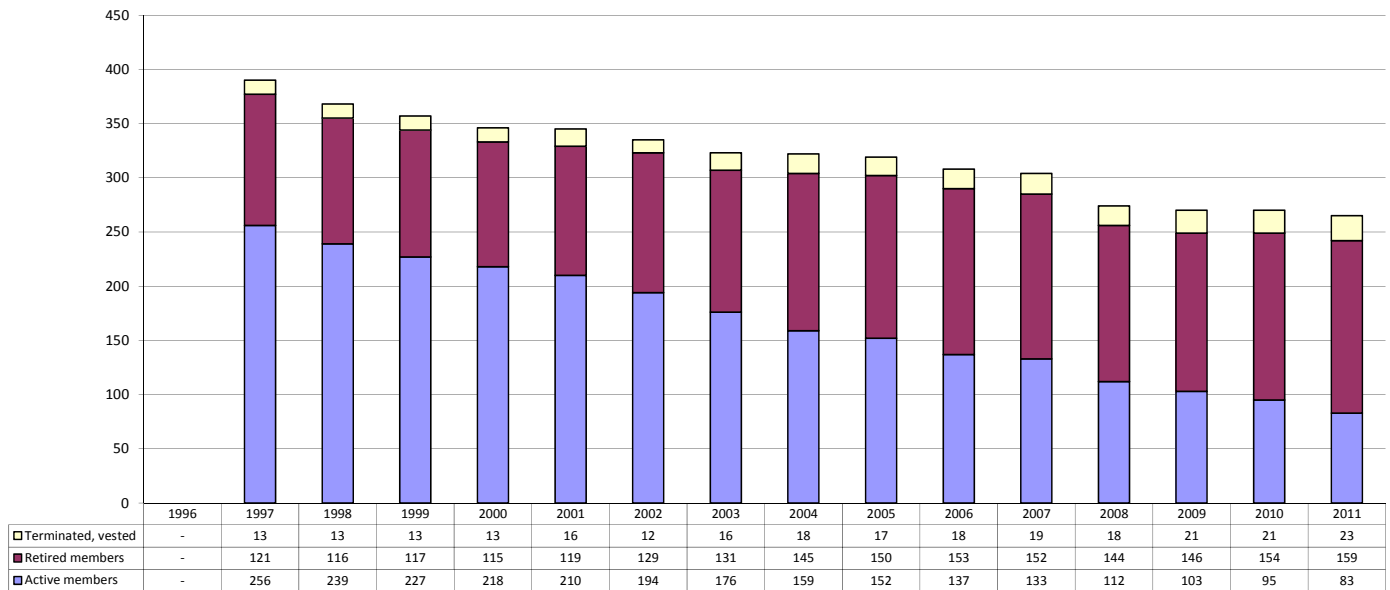


The continued growth in active membership helps to maintain a stable duration¹ of liabilities, with the ratio of active to retired liabilities remaining relatively constant. It also supports the growth of cash flow into the plan due to increasing contributions from both participants and the University.

¹ Duration is a weighted-average sensitivity measure which calculates the average length of time to the payment of benefits.

The RPP(OISE) is a closed plan, and has been closed to new entrants since 1996 when the Ontario Institute for Studies in Education merged with the University of Toronto's Faculty of Education. All new employees who are eligible for the University's pension plan become members of the RPP. Therefore, the RPP(OISE) has a declining participation that totaled 265 at July 1, 2011.

**RPP(OISE)
Member Participation ¹
at July 1**



¹ Including partial wind-up members up to 2007. The partial wind-up distribution was approved by the Financial Services Commission of Ontario on October 1, 2007, and partial wind-up members have been excluded since 2008.

Pension Liabilities

Pension Benefit Provisions

The pension benefit is the provision of retirement income to participants in the pension plan. It is calculated on the basis of defined percentages ("benefit rates") applied to the salary and years of pensionable service for each plan participant. Pension benefits are the same for the members in any particular member group, and the SRA provides coverage for all members whose salary exceeds the Income Tax Act maximum pension, regardless of whether they have service in the RPP or the RPP(OISE).

Benefits improvements arise from negotiations with member groups and from mediation and arbitration and are not normally determined unilaterally. Pension benefits are the same for the RPP and the RPP(OISE), with the SRA providing pensions above the Income Tax Act maximum benefit in support of both plans.

Key benefit provisions are as follows.

Benefits

accrual: Pension benefits accrue at the rate of 1.5% of highest average salary up to the average CPP maximum salary (1.6% for USW members, various other unions and non-unionized administrative staff) plus 2.0% of highest average salary in excess of the average CPP maximum salary to a maximum of \$150,000 per annum.

Retirement

dates: The normal retirement date is the June 30th following the 65th birthday. Retirement is possible within 10 years of the normal retirement date, with a minimum of 2 years of service, with a reduction of 5% per annum between actual retirement and normal retirement. No reduction is applied once members reach 60 years of age, and meet certain service requirements, which vary by staff group. There is no longer a requirement to retire at age 65.

Cost of living

adjustments: The pension benefits of retired members are subject to cost of living adjustments equal to the greater of a) 75% of the increase in the CPI for the previous calendar year to a maximum CPI increase of 8% plus 60% of the increase in CPI in excess of 8% and b) the increase in the Consumer Price Index for Canada (CPI) for the previous calendar year minus 4.0%. The first cost of living adjustment is made at date of retirement.

An improvement in the benefit being provided to current retired members and/or to be provided to future retired members results in an increase to the pension liabilities. **There were no new benefits improvements during the year ended June 30, 2011.**

When benefits improvements are agreed, they may be implemented in various ways – for active participants only, or for both retired and active participants, on current service only or on both current and past service. When provided for current service, they require current service contributions from members and the University on a go forward basis. When provided for past service as well as current service, they require current service contributions and funding of past service costs as well. Benefits improvements to retired persons, such as augmentation, generate past service costs. There are only two ways of funding defined benefit pension plans, including benefits improvements – contributions and investment earnings. These elements of defined benefit plans will be discussed in later sections of this report.

As noted earlier, the SRA provides defined benefits for members with salaries in excess of the salary at which the Income Tax Act maximum pension is reached (currently \$139,686) to a capped maximum salary of \$150,000 per year. For many years, the Income Tax Act maximum pension was fixed, resulting in growing membership in the SRA. Beginning in 2004, the Income Tax Act maximum pension started to increase at a fixed rate through 2009 and then, in 2010, at the rate of increase in the Average Industrial Wage. Therefore, beginning in 2004, participation in the SRA fluctuates depending upon the relationship between salary increases for member plan participants and the increase in the Income Tax Act maximum pension.

Over time, provided that government policy remains unchanged and the Income Tax Act maximum pension continues to increase at the rate of increase in the average industrial wage, and provided that the RPP and RPP(OISE) retain maximum salaries at \$150,000, participation in the SRA is expected to decline, eventually to zero once the Income Tax Act maximum pension is reached at a salary of \$150,000. At the current rates of increase, this would be expected to occur in the period from 2014 to 2015. The liabilities in the SRA increased from \$138.3 million in 2010 to \$140.4 million in 2011.

Pension Liabilities Assumptions

No one knows what salaries will be for plan participants at retirement, and therefore, what their actual pension benefit will be, nor does anyone know how long plan participants will receive those benefits after retirement or what the cost of living adjustments will be after retirement. Actuarial assumptions are used to estimate the pension benefits that will be paid to current and future retired members in the future. Those estimated pension benefits are then discounted to the present time, using an interest discount rate to calculate the net present value.

Changes in actuarial assumptions impact the value of the liabilities. Some changes increase liabilities while other changes decrease liabilities and some assumptions are interrelated in their impact on the value of the liabilities.

Actuarial assumptions are approved annually by the Pension Committee. The same actuarial assumptions are in place for all three pension plans. Key actuarial assumptions at July 1, 2011 are as follows (see appendix 3 for a full list).

Assumption	Description	Impact of assumption change on liabilities
Retirement age	<i>Academic staff and librarians</i> – retirement rates from ages 60 to 70, but not earlier than one year after valuation date, subject to early retirement provisions, if applicable. <i>Administrative Staff, unionized administrative staff, unionized staff and research associates</i> – age 63, subject to early retirement provisions.	The earlier the retirement age with an unreduced pension, the higher the liability.

Mortality rates: (mortality table was changed effective July 1, 2011)	1994 Uninsured Pensioner Mortality Table with fully generational mortality improvements under scale AA	Increases in life span increase liabilities.
Increase in Consumer Price index (CPI):	2.5% per annum.	An increase in CPI alone increases liabilities, but should be considered in concert with salary increases and discount rate.
Cost of living adjustments:	1.875% per annum (75% of CPI).	An increase in cost of living adjustments increases liabilities.
Increase in CPP maximum salary:	3.5% per annum.	An increase in CPP maximum salary decreases liability since pensionable service is accumulated at 1.5% or 1.6% up to the CPP maximum salary and at 2.0% over that maximum.
Increase in <i>Income Tax Act</i> maximum benefit limit:	\$2,552.22 in 2011 increasing at a rate of 3.5% per annum thereafter (assumes a maximum salary of \$139,686 in 2011 increasing at a rate of 3.5% per annum thereafter).	An increase in the Income Tax Act maximum pension increases the liability in the RPP and decreases the liability in the SRA.
Increase in Salaries:	4.5% per annum (2.5% CPI plus 2.0% merit and promotion).	An increase in the total assumption, whether impacted by CPI or by merit and promotion, increases liabilities.

<p>Interest rate (Discount rate on liabilities): (changed effective July 1, 2011)</p>	<p>6.25% per annum (2.5% CPI plus 3.75% real return). <i>Previous valuation was 6.5% per annum (2.5% CPI plus 4.0% real return).</i></p>	<p>An increase in the interest rate, whether through an increase in CPI or real return, DECREASES liabilities. Conversely, a decrease in the interest rate INCREASES liabilities.</p>
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It is very important to note that these assumptions are **long-term** assumptions. In other words, they predict the results over a very long-term horizon.

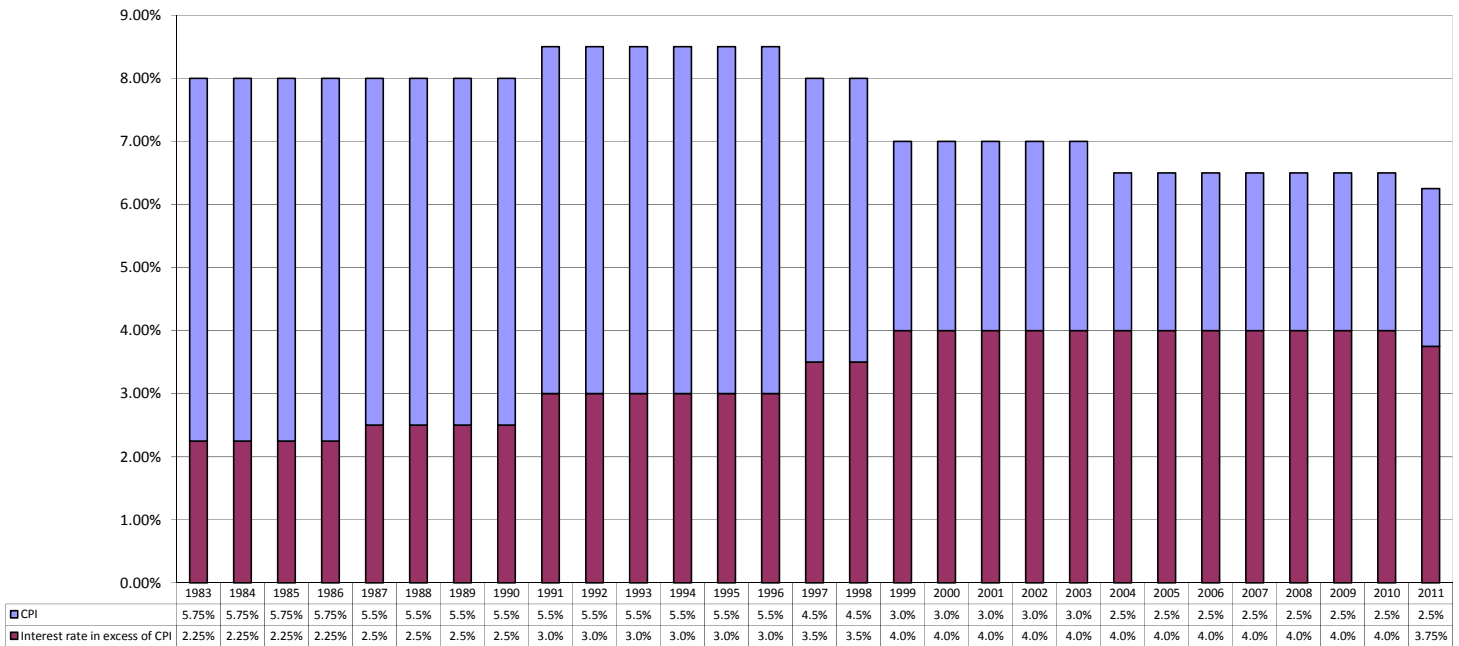
Each year, the actuarial valuation records the actual results and compares them to the assumptions. These variances, over time, provide a rationale for ongoing adjustments to the assumptions. Consistent variances in one direction, either negative or positive, suggest that an assumption needs to be changed. When actuarial assumptions do change, they tend to be adjusted in very small increments, rather than in the larger swings that can be experienced in the short and medium term.

Key interdependent assumptions are the assumed increase in CPI, and the assumed increases in salaries and the interest rate (discount rate), both of which reflect the CPI assumption. At July 1, 2011, they are 2.5% increase in CPI, 4.5% increase in salaries (2.5% CPI and 2.0% merit and promotion), and 6.25% interest rate (2.5% CPI and 3.75% real return). The interest rate assumption decreased to 6.25% at July 1, 2011 from 6.5% at July 1, 2010, reflecting a drop in the real rate of return assumption from 4.0% to 3.75%.

Discount Rate on Liabilities

The following chart illustrates the history of this assumption from 1983 and shows that the discount assumption had remained quite steady over the past several years with the only variation coming from changes in CPI. For purposes of the actuarial report, a 4.0% real return discount assumption had been in place for many years. Effective July 1, 2011 the discount rate on liabilities was reduced to 6.25% from 6.5%, reflecting a reduction in the real return discount assumption from 4.0% to 3.75% (the CPI assumption remaining at 2.5%).

**University of Toronto Pension Plans
Interest Rate Assumed on Investments, including CPI, at July 1**

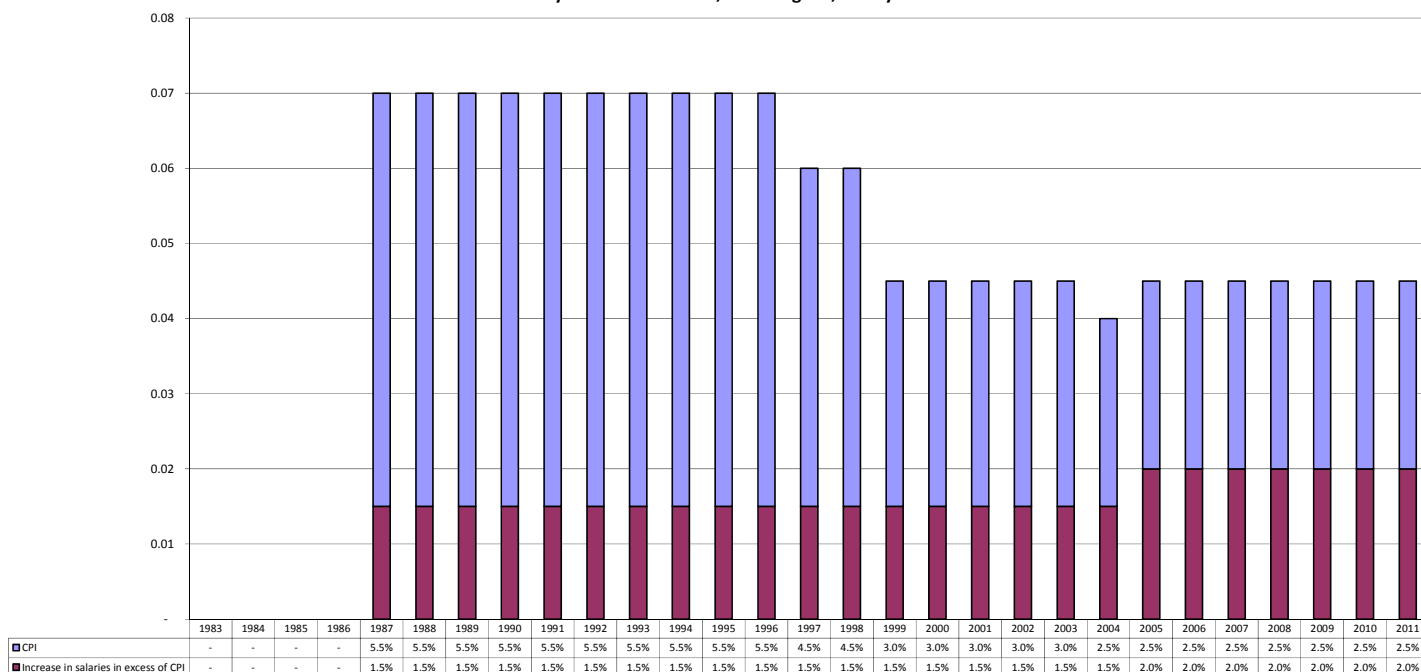


The significance of this assumption is that the liabilities represent the discounted net present value of future pension payments, and the discount rate is used to discount the pension payments to the present. The lower the discount rate, the higher the liabilities and the higher the funding needed for the defined benefit pension. Or another way of looking at this, the lower the expected investment earnings, the more funding that has to come from contributions.

Salary increase assumption

With the exception of 2004, the salary increase assumption has remained steady at 4.5% since 1999. In 1997 and 1998, the assumption was 6%, and between 1987 and 1996 the assumption was 7%. This assumption attempts to predict what salary increases will be over the long term, and thus what will be the 36 months of highest average earnings for each plan participant at retirement.

**University of Toronto Pension Plans
Salary Increase Assumed, including CPI, at July 1**



The percentage increase in salary in excess of CPI was adjusted in 2005 to reflect ongoing salary settlements that, including merit and promotion, are trending higher than 4.0%. Although the inflation assumption was reduced, the salary settlements themselves did not seem to decline. Therefore, the 4.5% total percentage assumption was re-established in 2005.

Mortality Rate Assumption

Over the past several years, pension plan members have been living longer, resulting in consistent variances of actual experience as compared to the mortality rate assumption. This year the assumption has been changed to more closely reflect experience.

Effective July 1, 2011, the mortality rates for plan members and the discount rate on liabilities (see previous section) were changed thereby increasing the accrued liabilities in the RPP by \$183.9 million, and increasing the current service cost by \$10.1 million. The mortality rates continue to be drawn from the 1994 Uninsured Pensioner Mortality Table but now use fully generational mortality improvements under Scale "AA" rather than mortality improvements projected to 2015.

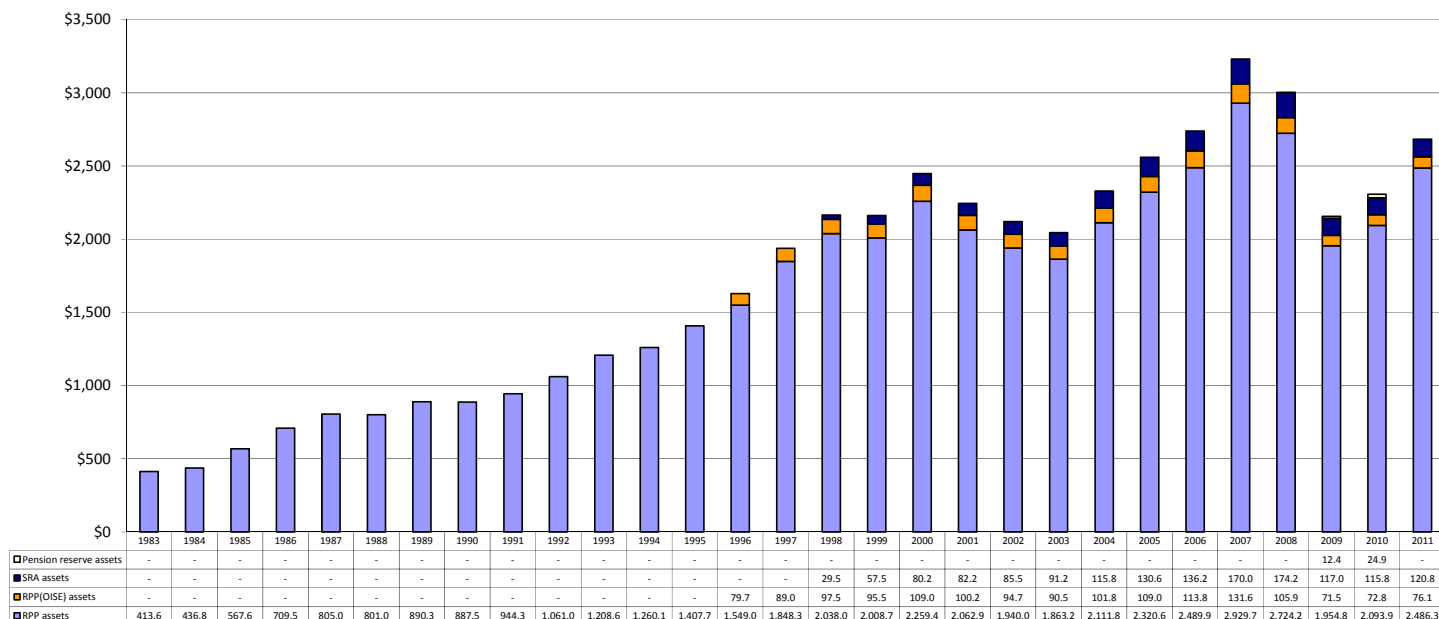
Pension Assets

Total assets for the three pension plans were \$2,683.2 million at June 30, 2011, comprising:

\$2,486.3 million	RPP pension assets
\$ 76.1 million	RPP(OISE) pension assets
\$ 120.8 million	SRA university assets
\$ 0	Pension reserve university assets

The change in those assets since 1983 is shown on the following chart.

Market Value of Pension Assets ^{1,2}
at June 30
(millions of dollars)



¹ Including partial wind-up members in RPP(OISE) assets in years up to 2007

² Pension reserve assets were transferred to the RPP in 2011.

The RPP and RPP(OISE) represent separate legal trusts containing pension assets, and their financial statements are attached in appendix 4. The SRA assets and pension reserve assets are University funds that are not held in trust. This report considers contributions to the SRA and the pension reserve but does not focus on investment earnings of those funds. The SRA is invested together with the

University's endowments under those policies. The investment issues for the SRA, however, are similar to those for pension assets.

As noted earlier, there are only two ways of funding a defined benefit pension plan – contributions and investment earnings. Contributions, plus investment earnings, minus the fees and expenses incurred in administering the pension plans and earning investment returns, and minus the payments to retired members result in the pension assets that are on hand and set aside to meet the pension liabilities.

It is important to note that there is a strong relationship between contributions and investment earnings. Since the amount that must be set aside in assets is driven by the pension liabilities, the key question on the asset side is:

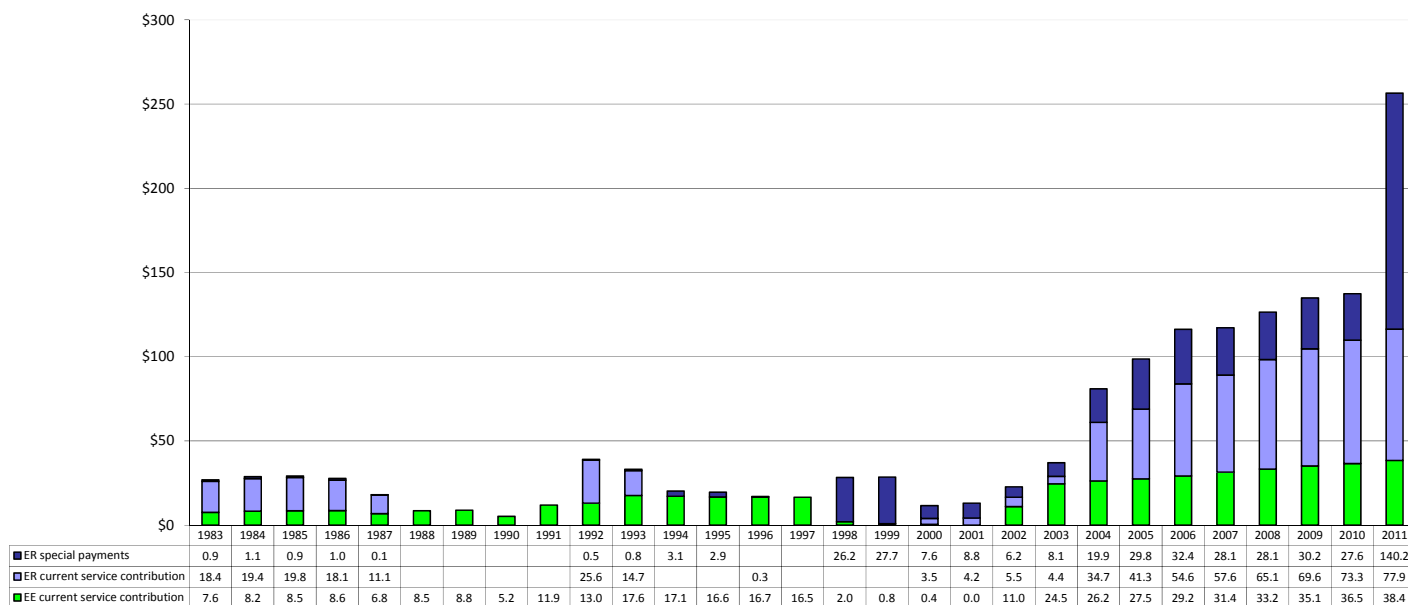
How much of the pension funding should be targeted to come from contributions and how much should be targeted to come from investment earnings?

The higher the investment earnings that can be generated, the lower the contributions needed to be provided by members and by the University. However, there are significant risks inherent in investment markets and the higher the return that is targeted, the higher the risk of losing money is likely to be. The next two sections will examine the role of contributions and investment earnings and the following two sections will discuss fees and expenses and payments.

Pension Assets Contributions

The University of Toronto pension plans are defined benefit **contributory** plans. As noted earlier, there are only two ways of funding a defined benefit pension plan – contributions and investment earnings. This section focuses on the contributions that have been made by the University and by employees. The following chart shows the contributions made by the University and by employees since 1983.

Contributions by Source (Employee and Employer) Across All Plans ^{1,2}
for the year ended June 30
(millions of dollars)



¹ Voluntary Early Academic Retirement Program (VEARP) contributions included in ER special payments.

² ER special payments in 2011 exclude the \$25.0 million transfer from the pension reserve to the RPP (for total ER special payments to the RPP of \$165.2 million) since pension reserve amounts have already been included as contributions in previous years for the purposes of the Pension Report.

Contributions are to be made by members and by the employer to fund pension benefits earned in the current year, also known as the current service cost. The member share of those contributions is determined by formula, with the employer contribution representing the difference between the total current service contribution required (actuarially determined) and the portion paid by members.

Contributions by employers are not permitted under the Income Tax Act (Canada) into registered plans when there is an actuarial surplus greater than 25% of accrued liabilities (changed from 10% in 2010).

Contributions by employers are required to fund any going concern deficits over 15 years. These special payment contributions are in addition to regular current service contributions.

Contributions by employers are required to fund any solvency deficits over 5 years. These special payment contributions are in addition to regular current service contributions. (The Province of Ontario has established a temporary solvency funding relief programme that makes provision to vary this requirement – described later in this section).

During most years from the late 1980's to 2002, the RPP had a sufficiently high actuarial surplus that no employer contributions were permitted except for two years where a partial contribution was permitted, and four years (1990-1994) where a full contribution was permitted. Members experienced a pension contribution holiday from 1997 to 2002. The University redirected \$88.1 million of its contribution holiday to fund the SRA over the 5 year period following its establishment in 1997, which included current service contributions and special payments to fund past service. The RPP(OISE) was in surplus throughout the period.

After 2002, due in large part to poor investment markets, the surplus declined significantly. The University adopted a new pension contribution strategy, approved by the Business Board in January 2004, with the objective of providing smoothed funding to deal with these deficits over a multi-year period, while permitting stable, predictable funding via the University's operating budget and while taking the Income Tax Act funding constraint into account. The key elements of the current pension contribution strategy are as follows:

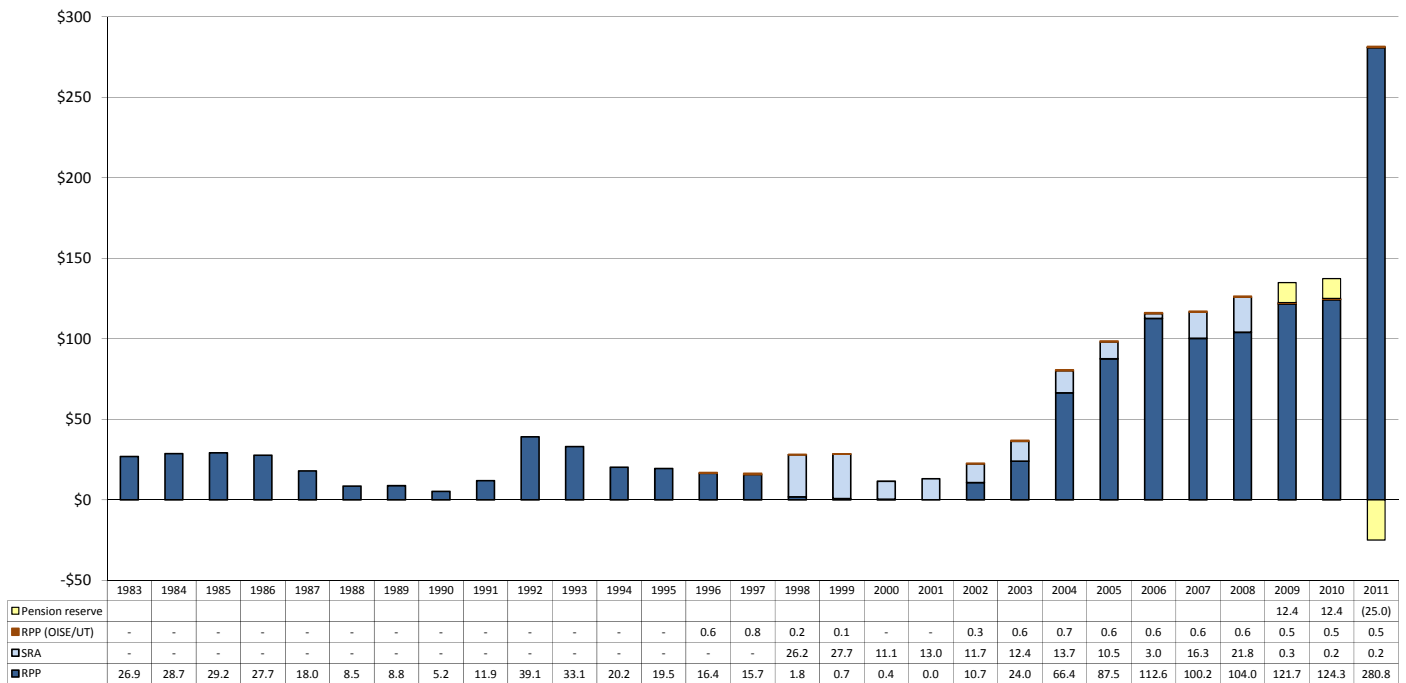
- Members and the University contribute 100% annual current service contributions (no contribution holidays).
- The SRA is "funded" on the same basis as the registered pension plans, that is over 15 years.
- The University allocates special payments of no less than \$26.4 million (increased to \$27.2 million to reflect subsequent benefits enhancements) to

deal with the RPP and SRA deficits by way of a smoothed budget allocation over 15 years. This smoothed approach provided for higher payments than required in the earlier years, with the intent of protecting against solvency issues and providing for budget predictability within the University’s operating fund.

- If some, or all, of the special payment amount is not needed or permitted to be made into the RPP under the Income Tax Act, it must be set aside and reserved outside the RPP.

The following chart shows the allocation of contributions by plan since 1983.

**Allocation of Contributions (both Employer and Employee) by Plan ¹
for the year ended June 30
(millions of dollars)**



¹ Pension reserve assets were transferred to the RPP in 2011. Since additions to the pension reserve in 2009 and 2010 were shown as contributions in those years, the transfer from the pension reserve to the RPP in 2011 is shown as a negative contribution to the pension reserve in that year, and a positive contribution to the RPP.

In 2010 the Province of Ontario put in place a two stage process that is intended to provide institutions in the broader public sector (which includes universities) with an opportunity to make net solvency payments over a longer period than would otherwise be required. The University has been accepted to Stage 1 of this process, which means that required special payments are known for the period July 1, 2011 through June 30, 2015, absent any plan changes that would

require that actuarial valuations be filed with the Financial Services Commission of Ontario during the intervening period.

To qualify for Stage 2 of this process, the Government expects institutions to negotiate with plan members, and their representatives, ways to enhance the long term sustainability of defined benefit pension plans. It is the Government's view that employees, particularly within universities, are not paying a sufficiently high percentage of salary towards the retirement benefits they are earning and the Government expects those employee contributions to increase significantly to be more in line with the value of the benefit. The Government also requires that during the relief period, and for a significant period of time following the relief period, contribution holidays would be restricted and any benefit improvements would require accelerated funding.

To date the University has negotiated increases to member contributions with several employee groups and is continuing to work towards this objective with other employee groups.

A revised contribution strategy, including a plan for funding the pension deficit, is planned to be submitted to the Business Board in Spring 2012.

Pension Assets

Investment Earnings

As noted earlier, pension assets arise from only two sources of funding – contributions (including transfers in) and investment earnings. These sources of funding must pay for the fees and expenses incurred in administering and investing the pension plans, payments to retired members and lump sum transfers.

Investment earnings are dependent on several elements:

- how much risk are we willing to take to try to achieve an acceptable level of investment earnings, understanding that the higher the investment earnings we want, generally speaking, the higher the risk of loss we are going to have to tolerate and plan for?
- what investments do we make – the investment strategy, including the asset mix – to try to achieve investment earnings?
- how are investment markets performing, in Canada and around the world?

The registered pension plans are invested through the unitized pension master trust (PMT) which combines for investment purposes the assets of the RPP and the RPP(OISE). The (PMT) was created on August 1, 2000 to provide the two funds' assets with the same economies of scale, diversification and investment performance.

Investment risk and return objectives are established on the basis of actuarial modeling that evaluates the likely outcome of various investment strategies under a large variety of market conditions. The Financial Services Commission of Ontario requires annual review of the investment policies and goals and their confirmation or amendment as appropriate.

The Pension Fund Master Trust Investment Policy ("policy"), approved by the Business Board on December 14, 2009, that applies to the period to June 30, 2011¹, stipulated a maximum 10% risk tolerance and a minimum 4.0% real investment

¹ *The Pension Committee has approved return and risk targets for the PMT at its meeting of October 18, 2011. For a discussion and the approval, please see <http://assets.governingcouncil.utoronto.ca/BoardsCommittees/pc/a1018.pdf>. As of Spring 2012, the Pension Committee is considering the Statement of Investment Policies and Goals for the PMT, including the asset allocation.*

return target, both measured over 10-year periods. This means that the real return was expected to be between -6% and 14%, two thirds of the time over a ten-year period. Additional risk protection strategies in place to complement the risk tolerance included the annual special payment contribution for pensions that was established in 2004 and the requirement for reserving, both of which were discussed earlier under Contributions.

The University owns the University of Toronto Asset Management Corporation (UTAM). The University has formally delegated to UTAM the authority for management of PMT investments. UTAM reports on the investments under management to the University Administration and to the Pension Committee.

Strategic counsel on asset management is obtained from an independent blue-ribbon Investment Advisory Committee, which meets regularly.

The pension master trust investment strategy was established, and designed, to deliver the desired performance based on a long-term horizon as stipulated by the policy and its return and risk targets, against which investment performance should be evaluated.

While a longer term perspective is important, it is also useful to regularly assess the pension master trust short term returns compared to the objective set by the University. In this regard, performance is assessed, as stated above, versus the 4% real return (net of fees and expenses) objective. Performance is also measured against the Reference Portfolio¹ benchmark that was established by the University at the end of 2008. This Reference Portfolio, developed by the University and its actuarial consultant, represents a simple, passively managed portfolio that would be expected to achieve the return objective (i.e. 4% real) over the 10-year time horizon specified by the University.

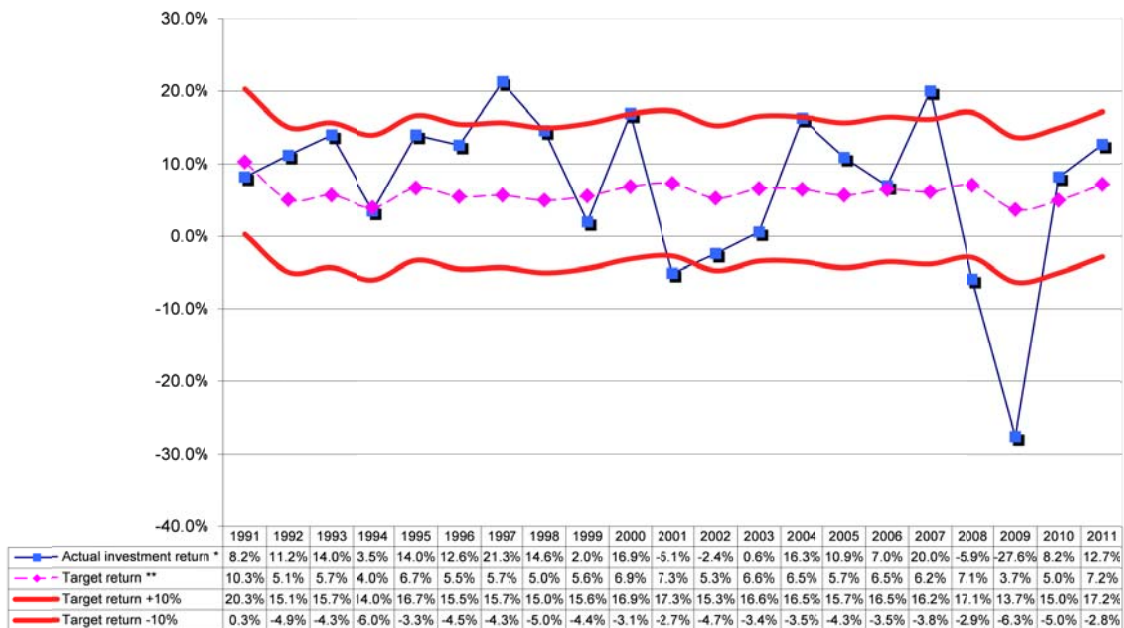
The one-year return to June 30, 2011 for the pension master trust was 12.7%, net of investment fees and expenses, which was above the University's target return of 7.2% (4.0% real return plus 3.2% CPI). The positive investment return of 12.7% continued the positive trend after a return of 8.2% in 2010. The

¹ *The Reference Portfolio is comprised of: 35% Cdn Universe Bonds, 5% Cdn Real Return Bonds, 30% Cdn Equities, 15% US Equities (half currency hedged), and 15% International Equities (half currency hedged).*

last two years was a marked improvement over the disappointing returns of 2008 and 2009. During 2010, all major financial markets rebounded from the meltdown experienced in 2008 and 2009.

The following charts show the actual, nominal returns, compared to the pension plan target return, and compared to the 10% risk corridor. The first chart shows the nominal one-year returns and the second chart shows the ten-year rolling average returns, both from 1991.

**Pension Master Trust
1-Year Annual Rates of Return**



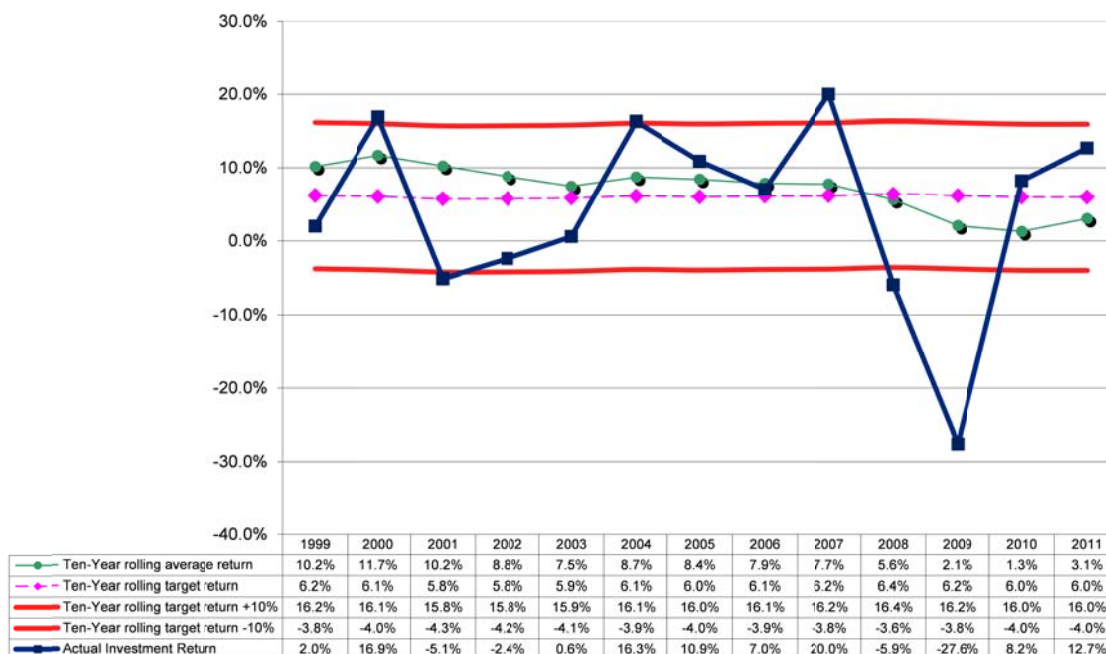
* Returns are time-weighted, calculated in accordance with industry standards, are net of investment fees and expenses, and exclude returns on private investment interests prior to 2008.

** 4% plus CPI

If we look at the long-term investment history of the pension plan since 1991, and if we ascribe to the same +/-10% corridor to nominal returns for the entire period as those in place for the master trust since 2003, we find the following: over the 21-year period, the returns for 16 (76%) of the years were within the 10% risk corridor, and those for 5 (24%) of the years were outside the risk corridor (2 above and 3 below). For the 18-year period from 1991 to 2008, the average annual actual return was 8.6% compared to an average annual target return of 6.2%. If we include the years 2009 through 2011, a 21-year period, the average annual actual

return was 6.7% compared to the average annual target return of 6.1%. Over the period since 1991, actual returns have slightly exceeded the University target return of CPI + 4%.

**Pension Master Trust
Ten-Year Rolling Average Returns with Annual Returns**



If we look at the ten-year rolling averages, we find that for the entire period from 1990 to 2007, the actual 10-year average returns were at or above the University's target return, and that all years were within the 10% risk factor.

However, if we concentrate on the more recent past, returns are more variable, as expected when a shorter period is studied. From 2004 to 2007 UTAM investment performance was excellent, outperforming the target real return and exceeding benchmarks. Results were within the target range except in 2007, when they exceeded the top of the corridor. In 2008, the global financial crisis ensued and the master trust suffered a negative return of 5.9%, although the result was still within the risk corridor. In 2009, the bottom fell out of global markets, and the result was a negative return of 27.6%, although the 10-year return remained positive and within the corridor. A number of events came together to create the perfect storm. During 2010 and 2011, all major financial markets rebounded from the meltdown experienced in 2008 and 2009.

A detailed review of the investment performance, which is managed and measured on a calendar basis by UTAM, is available on the UTAM website at www.utam.utoronto.ca. Please see the next section for a discussion of fees and expenses.

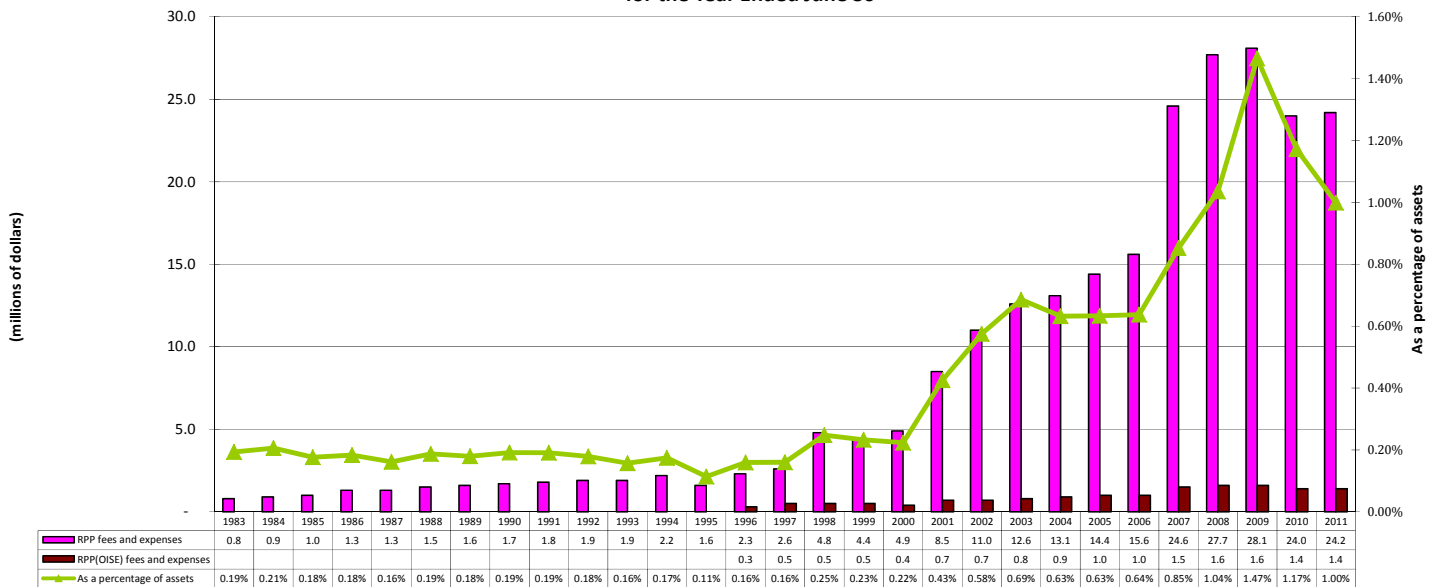
Pension Assets Fees and Expenses

It costs money to manage, administer and invest pension plan assets. There are several categories of fees, including those for pension administration services (e.g. recordkeeping, calculation of benefits, payments to retired members), custody of pension assets, and investment of pension funds. The fees and expenses incurred for the pension master trust (excluding the SRA which is managed together with University endowments) for the year ended June 30, 2011 were as follows, for the RPP and RPP(OISE), in millions of dollars:

	<u>RPP</u>	<u>RPP(OISE)</u>	<u>2011 Total</u>	<u>2010 Total</u>
Investment management fees - external managers	18.8	1.0	19.8	20.0
Investment management costs - UTAM	2.4	0.1	2.5	2.0
Pension administration services	0.7	0.1	0.8	0.8
Actuarial and administration fees	0.6	0.1	0.7	0.4
Transaction fees	0.6	0.0	0.6	0.7
Custodial costs	0.5	0.0	0.5	0.8
University of Toronto administrative costs	0.4	0.1	0.5	0.4
Other fees	0.2	0.0	0.2	0.3
Total	24.2	1.4	25.6	25.4

The following chart provides a historical perspective on the fees and expenses.

**University of Toronto Registered Pension Plans
Fees and Expenses as a Percent of Assets
(excluding SRA)
for the Year Ended June 30**



The management expense ratio (MER) is a standard investment industry ratio that compares the costs of investment management, both direct and indirect, to the total assets under management. The MER includes expenses incurred by UTAM and all investment management fees. It excludes other pension administration costs such as external audit fees, records administration, actuarial fees and University of Toronto administrative fees. It also uses the average annual market values for the year. The MER for the pension master trust was 0.97% in 2010-11 (a drop from 1.08% in 2009-10).

External investment management fees, which represent just over 77% of total master trust fees in 2011, are normally related to the size of assets under management. During 2011, RPP and RPP(OISE) assets under management increased from \$2.167 billion to \$2.562 billion due to positive capital market performance across all underlying asset classes. Additionally, as a result of the appreciation of the Canadian dollar during the year against most major foreign currencies, foreign-denominated management fees were lower in Canadian dollar terms. As at June 30, 2011, approximately 53% of the PMT's assets were foreign-denominated investments for which fees were denominated in foreign currencies. Due to the combination of these two factors, although total external investment management fees during 2011 were essentially unchanged versus the prior year, when measured

as a MER of total RPP and RPP(OISE) pension assets, fees were in fact lower by 0.11%.

A question of obvious interest is why total fees and expenses for the RPP and RPP(OISE) have increased in percentage terms, particularly during the period from 2000 to 2003, and during the period 2007 to 2009. The answer is that investment management for the pension plans changed between 2000 and 2003 from a passive, balanced fund, type strategy, to an active professional investment strategy managed by UTAM since 2000. In addition, the investment strategy also placed increasing emphasis on alternative assets such as hedge funds and private investment interests, which generally have higher investment management fees than traditional investments such as public fixed income or public equities. It is anticipated that despite their higher management fees, alternative assets will generate higher investment returns in the long-run as well as diversify portfolio risk.

It is important to note that fees and expenses cannot be evaluated on their own, but need to be viewed in the context of the underlying assets' return potential in the long-term. The PMT return of 12.7% for 2011 was above the University target return of 7.2% (i.e. CPI + 4.0%). Fees and expenses as a percentage of assets, as can be seen from the previous graph, decreased from 1.17% in 2010 to 1.00% in 2011, due to the increase in asset values while fees and expenses remained essentially unchanged. While it is desirable to have positive and high investment returns each year, it is important to bear in mind that there will be variability in returns from one year to another due to general market cycle and conditions, but perhaps more importantly, that the investment strategy is crafted for a long-term horizon that aligns with the PMT's 10-year target objectives.

For more information on fees and expenses refer to note 6 of the University of Toronto Pension Plan financial statements (page 112 of this report), and note 6 of the University of Toronto (OISE) Pension Plan financial statements (page 130 of this report).

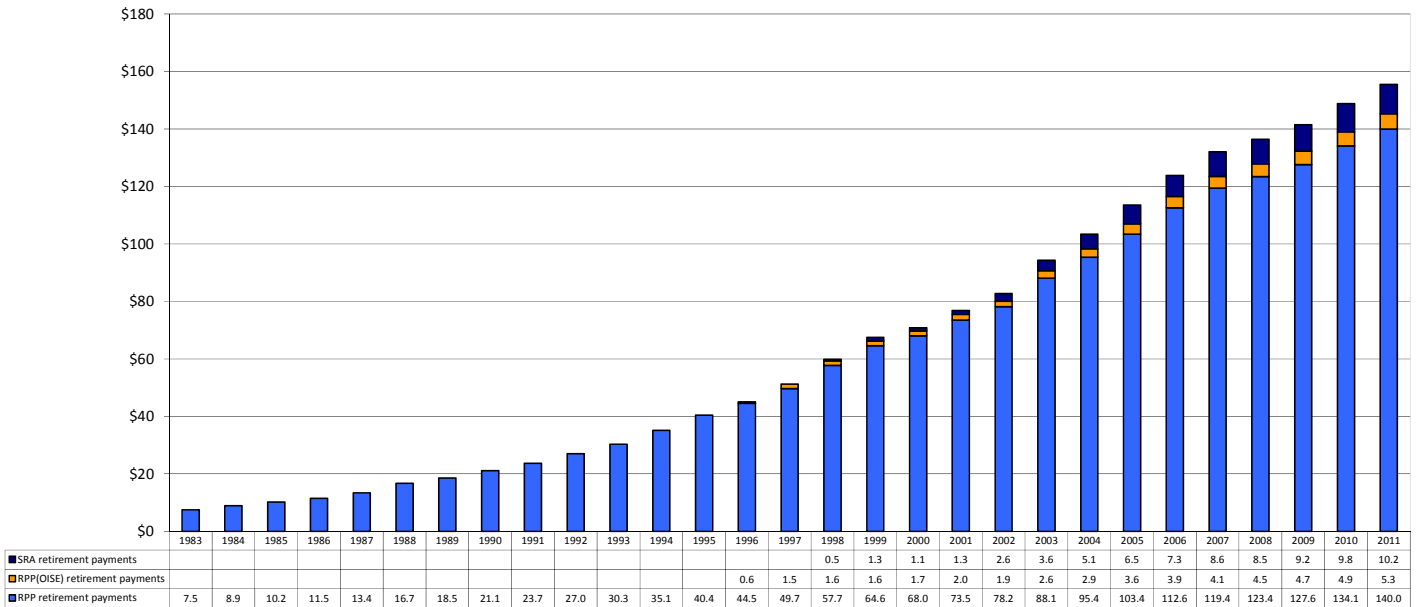
Pension Assets Payments

The section on participants showed that the number of retired members in the RPP has increased from 1,282 in 1983 to 4,797 in 2011, an increase of 274.2%; the number of retired members in the RPP(OISE) has increased from 121 in 1997 to 159 in 2011, an increase of 31.4%. Payments to retired members reflect this increase in numbers as well as the cost of living adjustments and augmentations that have occurred in certain years for certain member groups.

The dollar value of payments for the three plans has increased from \$7.5 million in 1983 to \$155.5 million in 2011.

The rate of increase in payments is higher than the rate of increase in the number of members mainly due to pension indexation, augmentation of existing pension payments and higher starting pensions for more recently retired members reflecting higher average earnings.

**University of Toronto Pension Plans
Retirement Payments for the year ended June 30
(millions of dollars)**



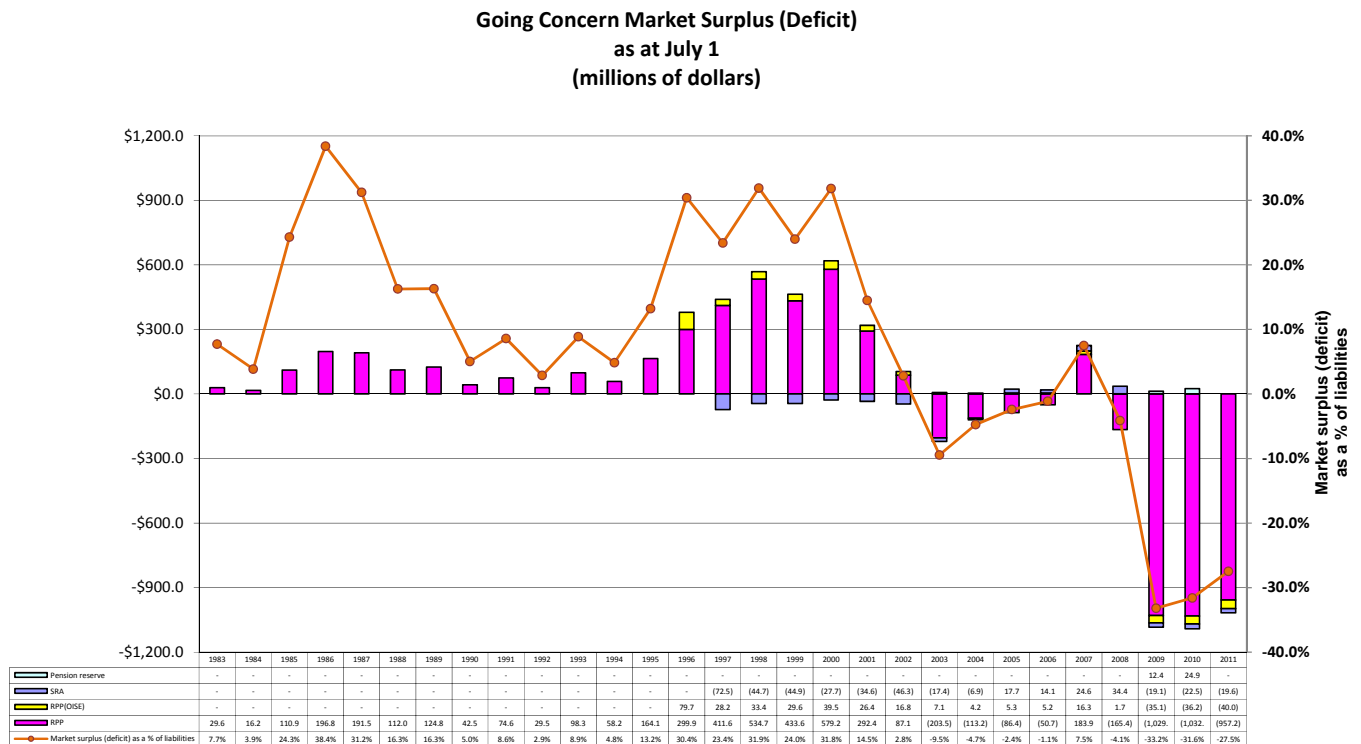
Pension Market Deficit

Going concern pension liabilities minus pension assets at market value result in the net funded status of the pension plans, the market surplus or market deficit. The going concern market deficit at July 1, 2011 totaled \$1,016.8 million, comprising:

\$ (957.2) million	RPP market deficit
\$ (40.0) million	RPP(OISE) market deficit
\$ (19.6) million	SRA market deficit
\$ 0.0 million	Pension Reserve asset

As noted earlier, funds cannot be transferred between the two registered plans or from either of the registered plans to the SRA or the pension reserve. Funds can be transferred from the SRA or the pension reserve into either of the registered plans.

The change in the market surplus or deficit since 1983 is shown on the following chart:



Since 1983, the RPP position has varied from a surplus high of \$579.2 million in 2000 to a deficit low of \$1,032.1 million in 2010. The current market deficit of \$957.2 is due in large part to the unprecedented level of investment losses resulting from the global financial and economic crisis, which increased the market deficit from \$165.4 million in 2008 to \$1,029.0 million in 2009. In 2010, the deficit increased slightly to \$1,032.1, and then improved in 2011 to a deficit of \$957.2 million mainly as a result of improved investment earnings offset by the impact of changes to assumptions on plan liabilities.

The RPP(OISE) plan moved to a market deficit position in 2009 after being in a surplus position for many years¹. The plan deficit position worsened slightly in 2010 mainly due to the increase in plan liabilities offset by an improved financial environment, and worsened again in 2011 mainly due to the increase in plan liabilities (primarily the result of changes to plan assumptions) offset by improved investment earnings.

The SRA was established in 1997, with a five year funding plan. Subsequent benefit enhancements affecting SRA funding were also funded over five years. In 2004, SRA funding was put on the same basis as the registered plans (deficits funded over 15 years). The current position in the SRA is a deficit of \$19.6 million. The surplus/deficit changes with the variation in where liabilities are recorded, reflecting the impact of the Income Tax Act maximum pension.

The financial position of all of the plans has worsened since 2008, moving from a small deficit overall, representing about 4% of liabilities to a much larger deficit overall representing about 27% of liabilities in 2011. As noted earlier, the Ontario Government has put in place a two stage process that is intended to provide institutions in the broader public sector (which includes universities) with an opportunity to make net solvency payments over a longer period than would otherwise be required. The University has been accepted to Stage 1 of this process and is working to meet the conditions required for acceptance to Stage 2 of the process. A revised contribution strategy reflecting plans to deal with the pension deficit has been developed for consideration by the Business Board in Spring 2012.

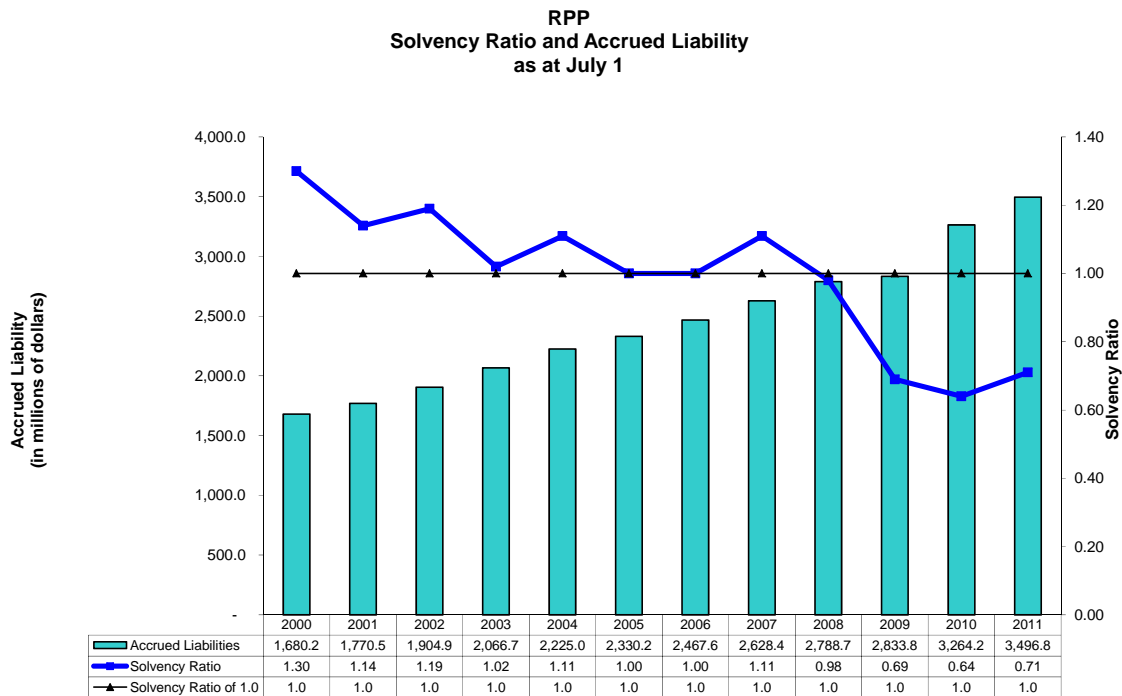
¹ A partial wind-up distribution was approved by the Financial Services Commission of Ontario on October 1, 2007.

The market surplus (deficit) varies with the type of actuarial valuation and with the assumptions used to estimate the liabilities. The following section shows the impact of solvency and hypothetical wind-up assumptions on the surplus or deficit.

The Role of Solvency and Hypothetical Wind-up Valuations

As noted earlier, we are legally required to do solvency and hypothetical wind-up actuarial valuations, which have different assumptions from the going concern valuation. The solvency valuation essentially determines the status of a pension plan as if it were to be wound up on the valuation date and requires that the liabilities be discounted at current market rates, rather than at long-term rates, but without indexing.

The RPP solvency ratio (the ratio of assets to solvency liabilities) improved from 0.64 at July 1, 2010 to 0.71 at July 1, 2011. As of July 1, 2011, the plan had a solvency deficit of \$1.01 billion versus a solvency deficit of \$1.17 billion as of July 1, 2010. The main reasons for the current solvency deficit of the RPP include the unprecedented investment losses during 2008 and 2009, a continuing decline in interest rates that has resulted in a continuing decline in the discount rates that must be used to value solvency liabilities and lengthening life spans which has required an update to the table used for the mortality rates assumption.



As stated previously, the solvency ratio refers to the ratio of solvency assets to solvency liabilities (excluding indexation). A solvency ratio of 1.0 or higher means that at a particular point in time there is a solvency excess. A solvency ratio of less than 1.0 indicates that at a particular point in time there is a solvency deficit. If the solvency ratio is less than 0.85 at the time the valuation is filed with the regulators, an actuarial valuation must then be filed annually until such a point when the solvency ratio is above 0.85. Otherwise, valuations must be filed at least triennially. Since the actuarial valuation filed with the regulators at July 1, 2008 showed a solvency ratio greater than 0.85, the next valuation must be filed with the regulators with an effective date no later than July 1, 2011. The RPP solvency ratio was 0.71 at July 1, 2011.

The hypothetical wind-up valuation extends the solvency valuation by adding in the indexing and incorporating early retirement windows. On a hypothetical wind-up basis, the RPP market deficit would be \$2.27 billion.

The RPP(OISE) solvency ratio was 0.62 at July 1, 2011, no change from July 1, 2010.

The RPP solvency ratio of 0.71 at July 1, 2011 would normally trigger large net solvency payments over a five year period. As noted earlier, the Ontario Government has put in place a two stage process that is intended to provide institutions in the broader public sector (which includes universities) with an opportunity to make net solvency payments over a longer period than would otherwise be required. The University has been accepted to Stage 1 of this process and is working to meet the conditions required for acceptance to Stage 2 of the process. A revised contribution strategy reflecting plans to deal with the pension deficit has been developed for consideration by the Business Board in Spring 2012.

Funding the Pension Deficit

As can be seen from the previous sections, the plans are currently in a significant deficit position as of July 1, 2011. The University must file a valuation report with the Financial Services Commission of Ontario (FSCO) as of July 1, 2011. While the University would normally be required to fund any solvency deficits (currently \$1.01 billion for the RPP) over five years, the Province of Ontario has established a two stage process that is intended to provide institutions in the broader public sector (which includes universities) with an opportunity to make solvency payments over a longer period than would otherwise be required.

To enter Stage 1, universities needed to submit a plan to the Ministry of Finance that identified how they intended to address the sustainability issue and to share that plan with members and collective bargaining agents. Stage 1 is a three-year period (i.e. from July 1, 2011 to July 1, 2014 for the RPP and RPP(OISE)) during which there is a solvency funding exemption, subject to going concern special payments at least covering interest on the solvency deficit. At the end of Stage 1, each plan will be assessed, based on technical measures, to determine whether sufficient progress in meeting their sustainability commitments had been made. Those plans that demonstrate sufficient steps have been taken towards sustainability would be eligible to enter Stage 2 of the process. Under Stage 2, the solvency deficiency at the beginning of Stage 2 can be amortized over 10 years, instead of the regular 5-year period. Plans that fail to enter Stage 2 would be required to fund their solvency deficits over 5 years. During the funding relief period, and for a period of time following the relief period, contribution holidays would be restricted and any benefit improvements would require accelerated funding.

As noted earlier, the University has been accepted to Stage 1 of this process and is working to attempt to meet the conditions required for acceptance to Stage 2 of the process.

Required special payments into the pension plans are expected to be \$45.2 million for 2011-12 and \$66.6 million for each of 2012-13, 2013-14 and 2014-15 as per the actuarial valuation results at July 1, 2011 and taking into account the one year-deferral permitted under regulation, absent any plan changes that would require that actuarial valuations be filed with the Financial Services Commission of Ontario during the intervening period.

Based on the earlier projections done for the January 31, 2011 document to Business Board, entitled *Ensuring a Sustainable Pension Plan for the University of Toronto*, which included many financial assumptions, and assuming acceptance to Stage 2, the special payments would increase to \$110 million per annum (\$104 million adjusted by interest to reflect a one-year deferral) from July 1, 2015 until July 1, 2024. Of that \$110 million projected special payment, \$76 million would be planned to be cash payments and \$34 million, representing the net solvency deficit payments, would be planned to be addressed through utilization of non-cash letters of credit. At July 1, 2025, the annual special payment is projected to drop to \$76 million per annum until July 1, 2030.

A revised contribution strategy reflecting plans to deal with the pension deficit and with this projected stream of required special payments has been developed for consideration by the Business Board in Spring 2012. The funding plan to deal with the deficit will be described in detail in that proposal, but is expected to contain the following elements:

- \$300 million in lump sum payments (of which the first \$150 million was made prior to June 30, 2011). The second \$150 million payment is planned to be made by June 30, 2014, a significant portion of which is expected to be funded from a transfer of assets from the SRA fund.
- an increase of \$70 million per annum to the operating fund pension annual special payments budget, increasing it from \$27.2 million per annum in 2010-11 to \$97.2 million by 2015-16, via a series of base budget increases (\$30 million in 2011-12, \$20 million in 2012-13, \$10 million in 2013-14, \$5 million in 2014-15 and \$5 million in 2015-16.). This operating fund special payments budget will be used to fund special payments into the registered pension plans, and for other related costs, including Pension Benefits Guarantee Fund payments, the cost of issuing letters of credit, and the costs related to the lump sum payments (principal and interest payments on up to \$150 million of borrowing and SRA payments to pensioners which must be funded from the operating fund once the SRA assets are utilized towards the second \$150 million lump sum payment).

It is important to note that even if interest rates increase and the deficit (calculated on a solvency basis) decreases, the operating budget special payments budget is not expected to decrease since the net solvency payments simply represent an acceleration of going concern special payments.

If the University were not accepted to Stage 2 of the temporary solvency funding relief programme, the annual special payments beginning in 2015-16 would be much higher than provided for in the current plan, and could be as much as \$200 million per annum.

Conclusion

RPP and SRA:

When the pension contribution strategy was formulated in January 2004, it projected a market deficit for the RPP of \$236 million in 2005 and \$144.6 million in 2015. Since then, the University has contributed full current service costs and has made significant additional special payments well in excess of those required under legislation.

During the intervening years, the pension master trust has experienced investment returns (net of fees and expenses and excluding returns on private investment interests until 2007) of 16.3% in 2004, 10.9% in 2005, 7.0% in 2006, 20.0% in 2007, -5.9% in 2008, -27.6% in 2009, 8.2% in 2010 and 12.7% in 2011. Significant investment losses during 2008 and 2009 have contributed to asset values that are less than what were projected back in January 2004.

At the same time, there have been several factors that contributed to the growth in liabilities:

- *Declining interest rates*
 - Declining interest rates have significantly increased the solvency and hypothetical wind-up liabilities.

- *Assumption changes:*
 - CPI assumption reduced from 3.0% to 2.5% in 2004 resulting in decrease in nominal interest rate from 7.0% to 6.5%. A reduction in the real interest rate assumption from 4.0% to 3.75% in 2011 further reduced the nominal interest rate from 6.5% to 6.25%.
 - Salary increase assumption increased from 4.0% to 4.5% in 2005.
 - Strengthening of mortality rates in 2007, and again in 2011, to reflect future mortality improvements

- *Benefits changes:*
 - Accrual rate below the CPP maximum was increased from 1.5% to 1.6% for USW members, various other unions and non-unionized administrative staff for both past and future pensionable service.
 - Augmentation from 75% CPI to 100% CPI occurred for retired faculty members periodically.

At July 1, 2011, the RPP had liabilities of \$3.44 billion, assets of \$2.48 billion, and a going concern market deficit of \$957.2 million.

The SRA had assets of \$120.8 million and a going concern market deficit of \$19.6 million.

The RPP solvency ratio, which is a measure of the assets' market value as compared to the solvency liability of the RPP (before indexing), was 0.71 at July 1, 2011. It has increased from 0.64 at July 1, 2010. On a hypothetical wind-up basis (after indexing) the deficit would be \$2.27 billion.

RPP(OISE):

When the pension contribution strategy was formulated in January 2004, it projected a market surplus for the RPP(OISE). It also seemed unlikely at the time that the University would have to make current service contributions in the near future. At July 1, 2003, the market surplus was \$7.1 million.

Within the past eight years, the same changes have occurred to the RPP(OISE) as to the RPP. In addition, an actuarial report for partial plan wind-up was filed with the Superintendent of Financial Services of Ontario. Unprecedented investment losses in 2008 and 2009 resulted in a market deficit of \$35.1 million at July 1, 2009. This worsened slightly to a market deficit of \$36.2 million in 2010 and, with the new actuarial assumptions for the discount rate on liabilities and mortality rates, worsened further in 2011 to a market deficit of \$40.0 million. The solvency ratio was 0.62 as at July 1, 2011 unchanged from 2010.

In summary, the unfunded position of the plans has stabilized at a large going concern market deficit and with a solvency deficiency that would normally trigger net solvency payments. Ongoing issues include the need to fund the pension deficit, potential volatility in investment returns over the coming years as the global economy deals with the ongoing fallout from the global financial crisis, and continued very low interest rates.

The Ontario government has responded with a two stage process for temporary solvency funding relief. The University has been accepted to Stage 1 of the process, is working to attempt to meet the conditions required for acceptance to Stage 2 of the process, and has developed a strategy for dealing with the pension deficit based on projections of the deficit in the future and based on acceptance to Stage 2 of the Government's process.

Appendix 1

Pension Contribution Strategy

January 12, 2004

To: Members of the Business Board

From: Sheila Brown, Acting Chief Financial Officer

Subject: **Pension Strategy - Funding of Pension Plans and Supplemental Retirement Arrangement**

The purpose of this report is to recommend a strategy for funding the pension plans and supplemental retirement arrangement to ensure that the plans can continue to meet their obligations to provide pensions to current and future pensioners.

The University of Toronto has two registered pension plans and one unregistered plan. The University of Toronto Pension Plan ("RPP") is the main plan which covers most employees at the university. The University of Toronto (OISE) Pension Plan ("OISE") covers University of Toronto employees who were previously employees of OISE prior to June 30, 1996 and are either continuing employees of the University or retirees. The unregistered Supplemental Retirement Arrangement ("SRA") was established in 1997 and provides additional retirement income to compensate for the limitations prescribed under the Income Tax Act (Canada) on the amount of lifetime retirement benefits payable from the registered pension plans.

Financial Status of Pension Plans at July 1, 2003:

University of Toronto Pension Plan:

- Deficit based on market value of assets \$203.5 million
- Surplus based on actuarial value of assets \$ 2.2 million
- Solvency ratio excluding indexing 1.02

Supplemental Retirement Arrangement:

- Deficit at market value of assets \$17.4 million

University of Toronto (OISE) Pension Plan:

- Surplus based on market value of assets \$ 7.1 million
- Surplus based on actuarial value of assets \$18.0 million

Current pension funding strategy:

The current pension plan funding strategy was approved by the Business Board in 1997 and was imbedded in the University's long-range budget plan. This strategy recognized that the University was prohibited under the Income Tax Act from contributing to the University Pension Plan since the pension surplus at the time was greater than 10% of liabilities. This strategy established the supplemental retirement arrangement and provided for the funding of its past service cost over five years as a first priority for allocation of funds generated from the required employer contribution holiday. The resulting operating budget strategy provided for the ongoing base budget for the current service costs of the RPP to be maintained at its then current level,

which amounted to 75% of the annual employer current service cost. The OISE current service cost base budget was eliminated since the interest on the OISE surplus each year was sufficient to cover the yearly current service cost obligations.

What has changed since 1997?

The RPP has moved from a market surplus position to a market deficit position due to poor investment returns, pension enhancements and employer and employee contribution holidays. The SRA is no longer a new plan and enough funds have been set aside to cover the original SRA obligation of \$78.0 million. Some of the liability is transferring back and forth between the SRA and the RPP in accordance with the increase in the Income Tax Act maximum pension. The University and employees must contribute the full current service cost and the University will be required to make additional special payments to deal with the pension deficit. These factors require a revised pension strategy going forward.

Proposed pension strategy:

The University's actuary, Hewitt Associates, has modeled a number of alternative strategies that have been considered. The proposed strategy is the one that best combines the need for financial prudence, maintenance of a solvency ratio greater than 1.0, and operating budget predictability. The proposed strategy incorporates the following recommendations:

1. Employees make their regular annual contributions.
2. For the 2003-04 fiscal year, the University contributes \$26.8 million to the RPP and \$9.5 million to the SRA.
3. Beginning May 1, 2004, the University contributes 100% of the required employer current service cost for the RPP and SRA. This will require restoration of the operating budget pension budget to 100% of the RPP current service cost.
4. Beginning May 1, 2004, the SRA is put on the same basis as the RPP with respect to deficits. With the achievement of full funding of the original past service liability occurring at the time the SRA was established in 1997 and because a portion of the liabilities will move back and forth between the SRA and the RPP in accordance with the Income Tax Act maximum pension over time, future SRA deficits should now be treated like those of the RPP and funded over 15 years.
5. Beginning May 1, 2004, the University makes special payments of no less than \$26.4 million annually to deal with the RPP and SRA deficits by way of a smoothed budget allocation over about 15 years. This smoothed approach provides for higher payments than required in the earlier years, thus holding off any possible solvency issues and providing for predictability.
6. The OISE plan is a closed plan (no new members) and is still in a surplus position. It is unlikely that the university will have to make a current service cost contribution to this plan in the near future and therefore no budget is proposed for this.
7. Steadfastly make a special payment of no less than \$26.4 million annually in respect of the RPP and the SRA even if investment returns reduce plan deficits. By doing this, the University will be making provision for future periods of poor investment returns.

8. Continue to set these funds aside, regardless of Income Tax Act restrictions. If not permitted to make contributions to the RPP, reserves should be set aside outside the RPP.

This strategy provides for prudent financial management of the pension plans combined with a level of predictability for the operating long-range budget plan.

Pension Projections Illustrating this Strategy:

The graphs at the end of this paper illustrate the impact of the proposed strategy on the pension surplus (Graph # 1) and on the pension budget (Graph # 2). It is important to note that:

-the nominal investment return assumption used for both the RPP and the SRA is 7% for 2004 and thereafter. The models are therefore based on a 7% per annum average return over 15 years. It should be noted that 67% of the time, actual returns will fluctuate between minus 3% and plus 17%.

-The annual special payment has been determined by the actuary to be \$26.4 million representing approximately the amount that would be required to amortize the expected market value deficit as of July 1, 2004 in the combined RPP and the SRA over 15 years. The \$26.4 million annual payment will be allocated as follows, \$24.8 million in the RPP and \$1.6 million in the SRA.

-the proposed strategy, and thus these projections, includes the cost of pension augmentation from 75% of CPI to 100% of CPI for faculty and librarian retirees up to and including July 1, 2004, but not beyond July 1, 2004.

What about Possible Future Augmentations

As noted above, the recent UTFA settlement provided for an augmentation to faculty and librarian pensioners benefits from 75% to 100% of inflation for 2003 and 2004. The cost of that augmentation is \$12 million for faculty and librarian retirees. The cost of this augmentation has been amortized over 15 years with the addition of \$1.4 million per annum to the annual special payment required. This does not however address the possibility of other future augmentations. Over the past years, augmentation has essentially represented a distribution of surplus. In the absence of a pension surplus, provision of further augmentation is very uncertain. However any augmentations that might be provided in future would have to be funded, either by contributions to the plan or from any future pension surpluses. The latter strategy makes the most sense given the rationale for making augmentations. Therefore, this gives rise to the following additional recommendation:

9. Make provision for funding any future augmentations that might occur by setting aside the corresponding amount from pension surpluses existing at the time.

To implement this strategy, the University's operating budget allocation for pensions must rise from \$31.2 million for fiscal year 2003-04 to \$65.9 million for 2004-05, \$75.5 million for 2005-06, \$77.8 million in 2006-07, \$80.3 million in 2007-08, \$82.7 million in 2008-09 and \$85.0 million in 2009-10.

With these contributions and if the assumptions contained in the projections with respect to investment returns, participation, etc. would be achieved, the RPP deficit would increase to about \$236 million in 2004-05 and then gradually decline over time. The SRA deficit would remain approximately at current levels even though liabilities are projected to rise. There is

considerable variability expected in these liabilities since they will be influenced by the rate of increase in the Income Tax Act maximum pension, which is pegged to the increase in the industrial wage starting in 2006.

The impact on the financial statements is expected to be an increase in pension expense on the income statement from \$39.7 million in 2002-03 to about \$90 million annually. Pension liability on the balance sheet is expected to rise to about \$131 million by 2007-08 and then begin to fall as the deficit is reduced over time.

Recommendation

That the Business Board approves the funding strategy contained in the nine recommendations provided above.

Appendix 2
Pension Fund Master Trust Investment Policy



UNIVERSITY OF
TORONTO

PENSION FUND MASTER TRUST INVESTMENT POLICY



UNIVERSITY OF TORONTO
PENSION FUND MASTER TRUST INVESTMENT POLICY
(STATEMENT OF INVESTMENT POLICIES & PROCEDURES)

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PENSION FUND MASTER TRUST INVESTMENT POLICY

(STATEMENT OF INVESTMENT POLICIES & PROCEDURES)

PREAMBLE

The Governing Council of the University of Toronto is the legal administrator of 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 owns the University of Toronto Asset Management Corporation (UTAM). The University has formally delegated to UTAM the authority for management of pension master trust investments by resolution of the Business Board of Governing Council and establishes the terms and conditions under which UTAM provides investment management services. The investment decisions of UTAM and its Board of Directors are subject to the overall policy direction of the University.

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 defined 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% or 5% of salary (depending on the staff group) up to the year's maximum pensionable earnings (YMPE), plus 6% of salary in excess of the YMPE.

1.2 Nature of Plan Liabilities

The purpose of the plans is to provide retirement income for members of its 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, 2009, there were 8,326 active members in the University of Toronto Pension Plan, 4,569 retired participants, 2,326 terminated vested members and 374 exempt or pending status. The average age of active members was 47.4 years, average service 12.3 years, and average pay was \$85,810. As of July 1, 2009 the market value of assets of the plan was \$1,954.8 million versus going concern accrued liabilities of \$2,983.8 million.

As of July 1, 2009 the OISE Pension Plan had 103 active members, 146 retired members, and 21 terminated vested members. The average age of active members was 58.0 years, average service was 25.4 years and average pay was \$106,401. As of July 1, 2009 the market value of assets of the plan was \$71.5 million versus going concern accrued liabilities of \$106.6 million (including partial wind-up).

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 13.2 years and 11.3 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 Risk and Return Objectives

To keep risk at a reasonable level, the risk objective is an annual standard deviation of 10.0% or less in nominal terms over 10 year periods. The University has less appetite for downside risk than for upside risk and prefers that risk be managed to minimize the downside, and particularly to avoid returns less than 0% where ever possible.

In order to meet the planned payments of pensions to pensioners, the return objective is at least a 4.0% real, inflation-adjusted return over a 10 year period, net of all investment fees and expenses, plus CPI, but with the target real return to be no greater than that which is achievable within the 10% allowable risk objective.

Actual investment performance will be evaluated against these objectives over time.

2.3 Asset Mix

The University has formally delegated to UTAM the authority for investment strategy and execution including, without limitation, establishment of the asset mix investment mandates, selection of investment managers to be responsible for the management of the portfolios in accordance with those mandates, determination of portfolio diversification, categories and subcategories of investments, use of derivatives, and investment restrictions.

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).

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.

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 employee 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

The University has overall responsibility for custody of pension assets, operational oversight of which it delegates to 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,
- (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
December 14, 2009



UNIVERSITY OF
TORONTO

UNIVERSITY OF TORONTO ASSET MANAGEMENT CORPORATION

Pension Fund Master Trust Investment Policy

(Statement of Investment Policies & Goals)

Approved by UTAM's Board of Directors
March 23, 2011

University of Toronto Asset Management Corporation

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

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Roles and Responsibilities

The Governing Council of the University of Toronto (the “University”) is the legal administrator of the University of Toronto Pension Plan and the University of Toronto (OISE) Pension Plan, which 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 assets of the University of Toronto Pension Plan and the University of Toronto (OISE) Pension Plan are pooled into a pension fund master trust (“PMT”). This pooling enables both funds to enjoy economies of scale, which is highly desirable, given their coincident investment objectives.

The University determines the risk and return targets for the PMT 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 authority to manage PMT investments via a Delegation Of Authority approved by the University’s Business Board. This Delegation of Authority, together with the Investment Management Agreement (“IMA”) between the University and UTAM, sets out the scope, roles and responsibilities of the University and UTAM in respect of the PMT investments.

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

In carrying out its responsibilities with respect to PMT investments, UTAM is bound by the provisions of the:

- University of Toronto Pension Fund Master Trust Investment Policy
- Delegation of Authority from the University to UTAM
- Investment Management Agreement (“IMA”) between the University and UTAM.

The two investment policies (University, UTAM), the Delegation of Authority and the IMA collectively 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 (or “policy”) asset mix and investment strategy for the PMT are developed by UTAM based on the risk (defined as volatility of returns) and return objectives specified by the University. The strategy and policy mix are approved by UTAM’s Board of Directors annually¹.

The policy asset mix specifies the long-term target weights for various asset classes. However, it is recognized that alternative assets (i.e. hedge funds, private equities and real assets), given the nature of their investments and liquidity, will need to be accumulated prudently over a multi-year horizon to achieve their desired long-term weights. The investment strategy for alternative assets is in fact based on the expectation that holdings in alternative assets will be built up gradually over a number of years in order to reach target levels. During the intervening time period while alternative assets are being accumulated towards target levels, the actual portfolio weights of the alternative asset classes are set to be their ‘near-term’ target weights for asset mix monitoring and rebalancing purposes. The resulting aggregate underweight attributable to alternative assets (relative to their policy target weight) is re-distributed pro-rata among the remaining traditional public markets asset classes (i.e. Canadian, US, and International Equities; Fixed Income). Until the desired policy weights for alternative assets have been attained, the adjusted asset mix and the corresponding asset class weights (“near-term target asset mix”) derived from this pro-ration methodology forms the basis of the operating asset mix for on-going portfolio management purposes. When alternative assets get relatively close to long-term target levels, there will no longer be a need for separate near-term targets.

The approved policy asset mix and the near-term target asset mix² are as follows:

	Policy Asset Mix (& Allowable Range)	Near Term Target Asset Mix (& Allowable Range)
Equities- Canadian	12.5% (+/- 5%)	14.0% (+/-5%)
Equities – U.S.	12.5% (+/-5%)	14.0% (+/-5%)
Equities – Non-North American	15% (+/-5%)	16.8% (+/-5%)
Equities – Private	10% (+/-5%)	14.3% (max 15%)
Fixed Income	17.5% (+/-5%)	19.6% (+/-5%)
Hedge Funds	17.5% (+/-5%)	15.7% (+/-5%)
Real Assets	15% (+/-5%)	5.6% (max 20%)
Total	100%	100%

** Asset class weights subject to fluctuation based on actual portfolio weights of alternative assets.*

¹ UTAM Board of Director Meeting, December 9, 2009.

² Near-term target asset mix as at March 8, 2010.

UTAM shall establish investment mandates and select investment managers (either external or internal as appropriate) to manage the underlying assets in accordance with these mandates. A mix of passive and active investment management styles will be used as considered appropriate by UTAM.

UTAM will ensure that each investment manager manages the assets with the care, diligence and skill that a person of ordinary prudence would use in dealing with the property of another and uses all relevant knowledge and skill that the investment manager possesses or ought to possess. Engagement of external managers is subject to due diligence set out in UTAM's policies. Investment managers are expected to be in compliance with the standards of professional conduct and code of ethics administered by the CFA Institute or such other code of ethics policy that is deemed to be satisfactory by UTAM.

1.2. Portfolio Diversification

The objectives of diversification are to:

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

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

1.3. Categories and Subcategories of Investments

Consistent with the approved policy asset mix and investment strategy, 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

Eligible Instruments

Money market securities, including cash on hand (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.

Credit Quality

Fixed income assets shall be of investment grade credit quality at the time of purchase, except as noted below. The treatment of investments which subsequently become rated below investment grade will be at UTAM's discretion.

Investment in non-investment grade assets within the fixed income asset class in excess of 10% of the total Fixed Income portfolio will require approval by the UTAM Board.

1.3.3. Alternative Investments

In addition to the aforementioned equities and fixed income investments, alternative investments are also permitted, provided they fall within the approved investment strategy and asset mix limits. These include hedge funds and private-investments such as real estate, commodities, venture capital, growth equity, leveraged buy-outs and distressed debt.

Investment Managers may utilize various investment vehicles such as pooled fund unit trusts, mutual funds or limited partnerships.

1.4. Use of Derivatives

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

Derivatives may also be used as a substitute for more traditional investments, if they are based on and consistent with achieving the PMT's asset mix and rate of return objectives. These may include fixed income, 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 approved investment strategy of the PMT.

1.5. Restrictions

All investments must conform to the approved investment strategy and policy asset mix referenced above.

In addition to any restrictions developed by the University from time to time, 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. Related Party Transactions

The University of Toronto Pension Fund Master Trust Investment Policy defines a “related party” and places restrictions on related party transactions. This policy further clarifies that restriction. In the case of fixed income or cash equivalent securities issued by a related party that otherwise meet the requirement of the University policy referenced in this section, such transactions will be considered nominal if they are held within a pooled fund, selected by a manager acting independently, and constitute in the aggregate less than 5% of the market value of that pooled fund. In the case of any other asset class, a transaction or series of transactions will be considered nominal if the combined value of all transactions respecting a related party does not exceed 3% of the market value of the plan assets. In determining the amount of any transaction or series of transactions:

- Any contingency or potential liability related to or arising from the transaction or series of transactions must be included;
- If the level of risk attached to any assets of the PMT is affected by the transaction, the total value of these assets must also be included; and
- For this purpose, if the transaction is part of a series of transactions that may continue in the future, the value of all projected transactions must be included.

1.6. Liquidity of Investments

UTAM has an established liquidity policy which it adheres to when liquidity is required in excess of the PMT’s cash balance.

1.7. Currency Hedging

UTAM’s currently approved hedging policy is to hedge 50% of foreign currency exposures..

1.8. Conflict of Interests

UTAM shall maintain a Code of Ethics that governs employees’ conduct, including situations where potential conflicts of interest may arise.

2. GENERAL

2.1. Securities Lending

The securities of the PMT 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 PMT 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 PMT investments must be exercised by the investment manager in the best interest of the PMT.

Annual reports of all proxies voted must be maintained. In the case where voting is done externally, a proxy report must be sent to UTAM by each manager periodically or upon request by UTAM.

2.3. Pledging and Borrowing of Assets

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

2.4. Annual Review

This policy is subject to annual review and approval by the UTAM Board.

UTAM

Appendix 3
RPP Actuarial Report (Excerpts)

Actuarial Report (Excerpts)

University of Toronto Pension Plan (RPP)

As of July 1, 2011

Summary

(Thousands of Dollars)	As of July 1, 2008 (Prior Filed Valuation)	As of July 1, 2011	
		Before Change in Assumptions and Methods	After Change in Assumptions and Methods ¹
Going Concern Valuation Results			
Past Service			
Actuarial Value of Assets	\$ 2,797,128	\$ 2,727,312	\$ 2,856,089
Less: Accrued Liability	<u>2,889,572</u>	<u>3,274,047</u>	<u>3,443,483</u>
Surplus (Unfunded Accrued Liability)	\$ (92,444)	\$ (546,735)	\$ (587,394)
As a % of Accrued Liability	(3.2%)	(17.0%)	(17.1%)
Market Value of Assets	\$ 2,724,186	\$ 2,486,272	\$ 2,486,272
Deferred Asset Gain (Loss)	\$ (72,942)	\$ (241,040)	\$ (369,817)
Current Service			
Total Current Service Cost	\$ 102,885	\$ 119,920	\$ 129,901
Less: Required Participant Contributions ^{2 3}	<u>33,896</u>	<u>37,832</u>	<u>37,832</u>
University Current Service Cost	\$ 68,989	\$ 82,088	\$ 92,069
As a % of Participant Salary Base (Capped at \$150,000)	10.77%	11.14%	12.49%
Participant Salary Base (Capped at \$150,000)	\$ 640,837	\$ 736,882	\$ 736,882

¹ Investment return lowered by 0.25% (i.e., real investment return lowered from 4.00% to 3.75%); mortality table projection includes generational improvements; asset method changed to 25% adjustment towards market value; interest credited on participant contributions lowered by 2.00%

² Includes participant contributions made by University on behalf of disabled participants

³ Does not include change in required participant contributions coming into effect in 2012

Summary (continued)

(Thousands of Dollars)	As of July 1, 2008 (Prior Filed Valuation)	As of July 1, 2011
Solvency Valuation Results		
Solvency Assets ¹	\$ 2,723,186	\$ 2,485,272
Solvency Liability—Without Escalated Adjustments	<u>2,788,727</u>	<u>3,496,808</u>
Solvency Excess/(Deficit)	\$ (65,541)	\$ (1,011,536)
Solvency Ratio	0.98	0.71
Hypothetical Wind-Up Valuation Results		
Wind-Up Assets ¹	\$ 2,723,186	\$ 2,485,272
Wind-Up Liability—With Escalated Adjustments	<u>3,862,179</u>	<u>4,754,552</u>
Wind-Up Excess/(Deficit)	\$ (1,138,993)	\$ (2,269,280)
Transfer Ratio	0.71	0.52 ²

¹ Net of provision of \$1,000,000 for estimated wind-up expenses

² 0.45 as of January 1, 2012

Summary (continued)

(Thousands of Dollars)	As of July 1, 2008 (Prior Filed Valuation)	As of July 1, 2011 ^{1 2}
Going Concern Funding Requirements		
Required Participant Contributions	\$ 33,896	\$ 37,832
University Current Service Cost	\$ 68,989 ³	92,069
Plus: Special Payments to Amortize Unfunded Liability	<u>9,789³</u>	<u>59,780⁴</u>
University Contributions	\$ 78,778	\$ 151,849
Plus: Additional University Discretionary Contributions	<u>5,006</u>	<u>0</u>
Total University Contributions	\$ 83,784	\$ 151,849
As a % of Participant Salary Base (Capped at \$150,000)	13.07%	20.61%
Statutory Minimum Required University Contribution ⁵	\$ 67,443	N/A
Personnel Data		
Active and Disabled Participants	8,078	8,869
Retired Participants	4,514	4,797
Terminated Vested Participants	1,493	2,546
Suspended, Exempt or Pending Status	<u>1,168</u>	<u>225</u>
Total	15,253	16,437

¹ On basis of solvency funding relief granted on February 16, 2012

² After change in actuarial assumptions and asset valuation method

³ On basis of July 1, 2008 valuation filed with regulators—the University contribution is 10.77% of Participant Salary Base plus Special Payments

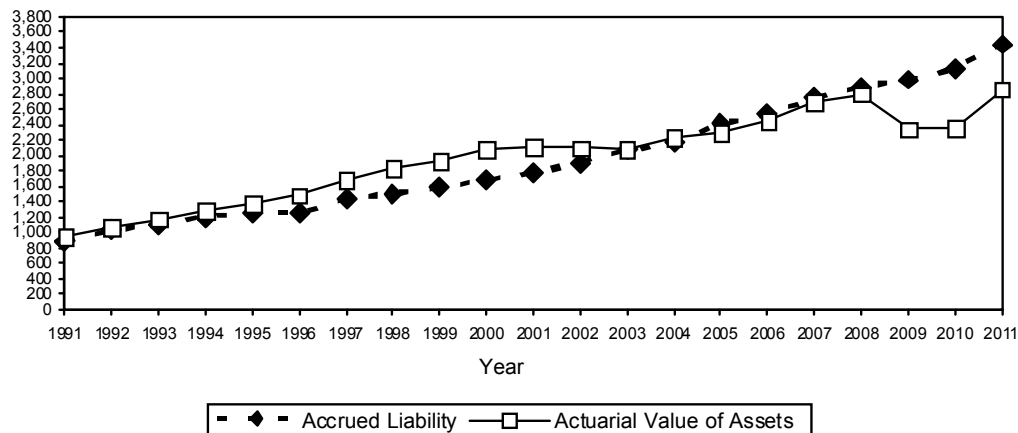
⁴ Before application of one-year deferral of start date for the increase in Special Payments as per solvency funding relief measures

⁵ On basis of July 1, 2008 valuation filed with regulators—the Statutory Minimum Required University Contribution is 8.22% of Participant Salary Base, plus special payments, plus Escalated Adjustments effective July 1, 2009 and July 1, 2010, based on excluding the value of future Escalated Adjustments from the Going Concern Accrued Liabilities and Current Service Cost and therefore funding the future Escalated Adjustments when granted

Summary (continued)

History of Accrued Liability and Surplus/(Deficit)

Millions of Dollars



Year	Actuarial Value of Assets (AVA)	Accrued Liability (AL)	Surplus/(Deficit)	Surplus/(Deficit) as a Percentage of AL
(millions of dollars)				
1991	\$ 949.4	\$ 869.7	\$ 79.8	9.2%
1992	\$ 1,061.0 ¹	\$ 1,031.5 ¹	\$ 29.4 ¹	2.9%
1993	\$ 1,169.3	\$ 1,110.3	\$ 59.1	8.3%
1994	\$ 1,271.7	\$ 1,201.9	\$ 69.9	5.8%
1995	\$ 1,370.5	\$ 1,243.6	\$ 126.9	10.2%
1996	\$ 1,484.3	\$ 1,249.1 ²	\$ 235.2 ²	18.8%
1997	\$ 1,671.4	\$ 1,436.7 ³	\$ 234.7 ³	16.3%
1998	\$ 1,830.6	\$ 1,503.3	\$ 327.4	21.8%
1999	\$ 1,927.2 ⁴	\$ 1,593.6 ⁴	\$ 333.6 ⁴	20.9%
2000	\$ 2,072.0	\$ 1,680.2	\$ 391.9	23.3%
2001	\$ 2,108.2	\$ 1,770.5	\$ 337.7	19.1%
2002	\$ 2,098.9	\$ 1,904.9 ⁵	\$ 194.1 ⁵	10.1%
2003	\$ 2,068.9	\$ 2,066.7	\$ 2.2	0.1%
2004	\$ 2,155.8	\$ 2,225.0	\$ (69.2) ⁶	(3.1%)
2005	\$ 2,289.8	\$ 2,407.0	\$ (117.2) ⁷	(4.8%)
2006	\$ 2,447.3	\$ 2,540.6 ⁸	\$ (93.4) ⁸	(3.7%)
2007	\$ 2,690.0	\$ 2,745.8 ⁹	\$ (55.8) ⁹	(2.0%)
2008	\$ 2,797.1	\$ 2,889.6	\$ (92.5)	(3.2%)
2009	\$ 2,345.8 ¹⁰	\$ 2,983.8	\$ (638.0)	(21.4%)
2010	\$ 2,349.9	\$ 3,125.9	\$ (776.0)	(24.8%)
2011	\$ 2,856.1 ¹¹	\$ 3,443.5 ¹¹	\$ (587.4)	(17.1%)

¹ After plan amendments and restatement of actuarial value of assets

² After six-year deferral of the increase in the maximum pension limit

³ After plan amendments and change in actuarial assumptions

⁴ After plan amendments for all staff groups (interim cost certificate) and change in assumptions

⁵ After plan amendments

⁶ After plan amendments and change in actuarial assumptions

⁷ After plan amendments and change in actuarial assumptions

⁸ After plan amendments (and related assumptions changes)

⁹ After plan amendments and change in actuarial assumptions

¹⁰ After reflecting maximum value of 120% of market value

¹¹ After change in actuarial assumptions and asset valuation method

Assets and Liabilities

Going Concern Valuation Results (Thousands of Dollars)

The going concern valuation results are shown below with the Accrued Liability broken down by participant category, after reflecting the changes in actuarial assumptions and asset valuation method.

Past Service

Actuarial Value of Assets		\$ 2,856,089
Less: Accrued Liability		
Active and Disabled Participants	\$ 1,752,292	
Retired Participants	1,582,039	
Terminated Vested Participants	102,623	
Suspended, Exempt or Pending Status	<u>6,529</u>	
Total		<u>\$ 3,443,483</u>
Surplus (Unfunded Accrued Liability)		\$ (587,394)
As a % of Accrued Liability		(17.1%)
Market Value of Assets		\$ 2,486,272
Deferred Asset Gain (Loss)		\$ (369,817)
Current Service		
Total Current Service Cost		\$ 129,901
Less: Required Participant Contributions		<u>37,832¹</u>
University Current Service Cost		\$ 92,069
As a % of Participant Salary Base (With \$150,000 Pay Cap)		12.49%
Participant Salary Base (With \$150,000 Pay Cap)		\$ 736,882
As a % of Capped Participant Salary Base Under Assumed Retirement Age ²		13.04%
Capped Participant Salary Base Under Assumed Retirement Age		\$ 705,929

¹ Includes participant contributions made by University on behalf of disabled participants; does not reflect increase in required participant contributions starting January 1, 2012

² Excludes salary for members of the administrative staff, unionized administrative staff and unionized staff who are not included in Current Service Cost since they are over the assumed retirement age of age 63

Assets and Liabilities (continued)

Solvency and Hypothetical Wind-Up Valuation Results

(Thousands of Dollars)	Solvency Valuation	Hypothetical Wind-Up Valuation
(1) Market Value of Assets	\$ 2,486,272	\$ 2,486,272
(2) Less: Estimated Wind-Up Expenses	<u>1,000</u>	<u>1,000</u>
(3) Assets Net of Wind-Up Expenses	\$ 2,485,272	\$ 2,485,272
(4) Solvency/Wind-Up Liability		
Active and Disabled Participants	\$ 1,776,866	\$ 2,529,669
Retired Participants	1,607,354	2,025,723
Terminated Vested Participants	106,059	192,631
Suspended, Exempt or Pending Status	<u>6,529</u>	<u>6,529</u>
Total	<u>\$ 3,496,808</u>	<u>\$ 4,754,552</u>
(5) Surplus/(Deficiency), (3) – (4)	\$ (1,011,536)	\$ (2,269,280)
(6) Solvency Ratio, (1)/(4)	0.71	N/A
(7) Transfer Ratio, (1)/(4)	N/A	0.52

As provided under the Regulations to the *Pension Benefits Act* (Ontario), the Solvency Liability excludes the liabilities associated with escalated adjustments (future indexing). Reflecting future escalated adjustments in the Hypothetical Wind-Up Valuation increases the liabilities by \$1,257,744,000.

The assumptions used to determine the Solvency Liability are summarized on page 52 of this report. Note that the interest rates-with escalated adjustments reflect the value of future indexation of pensions during both the preretirement and postretirement periods.

In our opinion, the value of Plan assets, less a reasonable allowance for wind-up expenses, would be less than the actuarial liabilities (including escalated adjustments) by \$2,269,280,000 if the Plan were wound-up on the valuation date, assuming that there is a competitive market for inflation-indexed annuities, or that a reasonable fixed rate of indexation could be substituted for inflation-linked indexation to facilitate annuity purchases.

The Transfer Ratio as of January 1, 2012 is 0.45.

Experience

Reconciliation of Going Concern Surplus/(Deficit) (Thousands of Dollars)

	2008/2009	2009/2010	2010/2011
Surplus/(Unfunded Liability) at July 1	\$ (92,444)	\$ (638,000)	\$ (776,032)
Less: University Current Service Cost	68,989	73,543	76,896
Plus: University Current Service Cost Contributions	72,259	73,543	76,896
Plus: University Special Payments	14,795	14,795	165,997
Plus: Interest at 6.5% per annum	<u>(5,421)</u>	<u>(40,988)</u>	<u>(45,047)</u>
Equals: Expected Surplus/(Unfunded Liability) at End of Year, Before Experience Gains/(Losses)	\$ (79,800)	\$ (664,193)	\$ (655,082)
Plus: Increase/(Decrease) Due to: Gains/(Losses):			
Return on Actuarial Value of Assets	(612,694)	(128,027)	89,783
Indexation of Benefits	14,967	13,097	1,767
Increase in Salaries	14,348	2,213	12,743
Increase in Income Tax Act Maximum Pension	0	9,642	8,428
Increase in CPP Maximum Salary	- ¹	(1,377)	(1,079)
Termination Experience	3,262	3,320	92
Retirement Experience	8,695	1,393	5,776
Mortality Experience	5,972	(8,772)	(9,909)
All Other Sources	<u>7,250</u>	<u>(3,328)</u>	<u>746</u>
Equals: Surplus/(Unfunded Liability) at End of Year, Before Changes in Assumptions/Methods	\$ (638,000)	\$ (776,032)	\$ (546,735)
Plus: Increase/(Decrease) Due to: Change in Assumptions/Methods:			
Change in Mortality Table			(56,763)
Change in Discount Rate			(113,851)
Change in Assumed Interest on Participant Contributions			1,178
Change in Asset Valuation Method			<u>128,777</u>
Equals: Surplus/(Unfunded Accrued Liability) at June 30			\$ (587,394)

¹ Not separately identified for this actuarial valuation

Experience (continued)

Comments Regarding Experience from July 1, 2008 to July 1, 2011

Return on Assets

The assumed rate of return for actuarial valuation purposes was 6.5% per annum based on the actuarial value of assets as at July 1, 2008. After allowance is made for the market value adjustment under the asset valuation method, the net return on the actuarial value of assets was -5.5%, -3.5%, and 3.0% in 2008/2009, 2009/2010, and 2010/2011 respectively, resulting in an asset loss of \$650,938,000. The total return after expenses based on the actual market value of assets after allowing for the full amount of capital appreciation during the year, assuming contributions and benefit payments take place in the middle of the year was as follows:

- 2008/2009: -27.6%
- 2009/2010: 8.2%
- 2010/2011: 12.5%

Indexation of Benefits

Benefit entitlements for retired and terminated vested participants were increased by 0.9% at July 1, 2009, 1.0% at July 1, 2010, and 1.76% at July 1, 2011 under the regular indexation formula. The increase was lower than the 1.875% increase anticipated under the actuarial assumptions, resulting in an actuarial gain of \$29,831,000 over the three-year period.

Increase in Salaries

The assumed salary increase used for the July 1, 2008 actuarial valuation was 4.5% per year. Actual salary increases varied by staff group but on average were lower than assumed, resulting in an actuarial gain of \$29,304,000 over the three-year period.

Income Tax Act Maximum Pension

The increase in the *Income Tax Act* maximum pension from 2008 to 2009 was as per the schedule of increases. The increase in the *Income Tax Act* maximum pension from 2009 to 2010 was 2.0% and from 2010 to 2011 was 2.3%. This was lower than the expected 3.5% per year from 2010 onward, resulting in an actuarial gain of \$18,070,000 over the two-year period.

CPP Maximum Salary

The increase in the CPP Maximum Salary was lower than the expected 3.50% per year, resulting in an actuarial loss of \$2,456,000 over the three-year period.

Termination Experience

The number of terminations since July 1, 2008 was higher than expected under the valuation assumptions. This results in an actuarial gain which is partially offset by commuted values that were higher than expected because of decreasing interest rates. The net impact is an actuarial gain of \$6,674,000 over the three-year period.

Retirement Experience

Retirement ages for retirements since July 1, 2008 were slightly later than expected under the valuation assumptions. This resulted in an actuarial gain of \$15,864,000 over the three-year period.

Mortality Experience

Mortality rates since July 1, 2008 were lower than expected under the valuation assumptions. This resulted in an actuarial loss of \$12,709,000 over the three-year period.

Experience (continued)

All Other Sources

Other factors such as personnel changes and data adjustments, etc., deviated from expected, resulting in a net actuarial gain of \$4,668,000 over the three-year period. A large portion of this gain is the result of a reclassification of pending statuses to terminated vested members.

Discussion of Changes in Actuarial Assumptions and Asset Valuation Method

Effective July 1, 2011, the following assumptions were changed:

- Nominal discount rate lowered from 6.50% to 6.25% per year, resulting in a decrease in the real discount rate from 4.00% to 3.75% per year.
- Mortality table changed from 1994 Uninsured Pensioner Mortality with mortality improvements projected to 2015 at scale AA, to 1994 Uninsured Pensioner Mortality with fully generational mortality improvements at scale AA.
- Interest on required participant contributions lowered from 6.50% to 4.50%.

These changes in actuarial assumptions combined to increase the Accrued Liability by \$169,436,000, and the Total Current Service Cost by \$9,981,000 (1.35% of Participant Salary Base).

Effective July 1, 2011, the asset valuation method was changed from a one-third adjustment toward market value to a one-quarter adjustment towards market value using the write-up method. A cap on the actuarial value of assets of 115% of the market value of assets has also been added to the asset valuation method.

This change in asset valuation method increased the Actuarial Value of Assets by \$128,777,000 as of July 1, 2011.

Actuarial Assumptions

Going Concern Valuation

Demographic Assumptions

Retirement Age

Academic Staff and Librarians

In accordance with Table A following, but no earlier than one year after valuation date, subject to early retirement provisions.

Administrative Staff, Unionized Administrative Staff, Unionized Staff and Research Associates

Age 63, subject to early retirement provisions

Terminated Vested Participants

Age 65½¹.

Mortality Rates

1994 Uninsured Pensioner Mortality Table, with fully generational mortality improvements under Scale AA, (previous valuation used 1994 Uninsured Pensioner Mortality Table with mortality improvements projected to 2015).

Withdrawal Rates

Table B following.

Disability Rates

None assumed.

Percentage With Spouse

86.7%; female spouse assumed to be 4 years younger than male spouse.

Economic Assumptions

Increase in Consumer Price Index (CPI)

2.50% per annum.

Cost-of-Living Adjustments

1.875% per annum (75% of CPI)².

Increase in CPP Maximum Salary

3.50% per annum.

Increase in *Income Tax Act* Maximum Pension

\$2,552.22 in 2011; increasing by 3.50% per annum thereafter.

Increase in Salaries

4.50% per annum
(2.50% CPI + 2.00% merit and promotion).

Discount Rate

6.25% per annum
(2.50% CPI + 3.75% real return, net of all fees),
(previous valuation used 6.50%).

Interest Rate on Participant Contributions

4.50% per annum, (previous valuation used 6.50%).

Loading for Administrative Expenses

Implicit in investment return.

¹ Reflects that Normal Retirement Date is June 30th coincident with or following age 65

² Not applicable for statutory minimum required contribution for July 1, 2008 actuarial valuation

Actuarial Assumptions (continued)

Going Concern Valuation (continued)

Methods

Valuation of Assets

The actuarial value of assets has been determined by writing up the prior year's actuarial value and net cash flow at the valuation interest rate and then adjusting the result 25% toward market value. The Actuarial Value of Assets is limited to 115% of the Market Value of Assets. (The previous valuation adjusted the results 33 $\frac{1}{3}$ % toward market value.)

Actuarial Cost Method

Unit credit cost method.

RPP (OISE) Actuarial Report (Excerpts)

Actuarial Report (Excerpts)

University of Toronto (OISE) Pension Plan (RPP (OISE))

As of July 1, 2011

Summary

Summary (Thousands of Dollars)	As of	As of July 1, 2011	
	July 1, 2008 (Prior Filed Valuation)	Before Change in Assumptions and Methods	After Change in Assumptions and Methods ¹
Going Concern Valuation Results²			
Past Service			
Actuarial Value of Assets	\$ 108,852	\$ 85,809	\$ 87,460 ³
Less: Accrued Liability	<u>104,204</u>	<u>(111,608)</u>	<u>(116,129)</u>
Surplus (Unfunded Accrued Liability)	\$ 4,648	\$ (25,799)	\$ (28,669)
As a % of Accrued Liability	4.5%	(23.1%)	(24.7%)
Market Value of Assets	\$ 105,856	\$ 76,052	\$ 76,052
Deferred Asset Gain (Loss)	\$ (2,996)	\$ (9,757)	\$ (11,408)
Current Service			
Total Current Service Cost	\$ 1,852	\$ 1,586	\$ 1,677
Less: Required Participant Contributions ^{4 5}	<u>550</u>	<u>427</u>	<u>427</u>
University Current Service Cost	\$ 1,302	\$ 1,159	\$ 1,250
As a % of Participant Salary Base (Capped at \$150,000)	13.41%	13.66%	14.73%
Participant Salary Base (Capped at \$150,000)	\$ 9,712	\$ 8,487	\$ 8,487

¹ Investment return lowered by 0.25% (i.e., real investment return lowered from 4.00% to 3.75%); mortality table projection includes generational improvements; asset method changed to 25% adjustment towards market value; interest credited on participant contributions lowered by 2.00%

² On August 16, 2000, the Superintendent of Financial Services ordered that the Plan be wound-up in part in relation to participants who terminated employment between February 1996 and June 1996 under special voluntary retirement or severance programs in effect at that time. On June 23, 2005, a Partial Plan Wind-Up Report was filed with the Financial Services Commission of Ontario to determine the portion of assets allocable to the partial wind-up group as of June 30, 1996, and to update the assets allocable to the partial wind-up group to June 30, 2004. For valuations on or after July 1, 2005, the valuation results exclude assets and liabilities related to partial wind-up participants

³ Actuarial value of assets capped at 115% of market value of assets

⁴ Includes participant contributions made by University on behalf of disabled participants

⁵ Does not include changes in Required Participant Contributions coming into effect in 2012

Summary (continued)

(Thousands of Dollars)	As of July 1, 2008 (Prior Filed Valuation)	As of July 1, 2011 ^{1 2}
Funding Requirements		
Required Participant Contributions	\$ 550	\$ 427
University Current Service Cost	\$ 1,302	\$ 1,250
Less: Permitted Application of Surplus	(1,302)	0
Plus: Special Payments to Amortize Unfunded Liability	0	2,918 ³
Plus: Special Payments to Amortize Solvency Deficiency	<u>0</u>	<u>0</u>
Minimum Required University Contributions	\$ 0	\$ 4,168
Solvency Valuation Results		
Solvency Assets ⁴	\$ 105,456	\$ 75,652
Solvency Liability—Without Escalated Adjustments	<u>102,327</u>	<u>121,823</u>
Solvency Excess/(Deficit)	\$ 3,129	\$ (46,171)
Solvency Ratio	> 1.0	0.62
Hypothetical Wind-Up Valuation Results		
Wind-Up Assets ⁴	\$ 105,456	\$ 75,652
Wind-Up Liability—With Escalated Adjustments	<u>140,644</u>	<u>161,705</u>
Wind-Up Excess/(Deficit)	\$ (35,188)	\$ (86,053)
Transfer Ratio	0.75	0.47 ⁵

¹ Based on solvency relief granted February 16, 2012

² After change in actuarial assumptions and asset valuation method

³ Before application of one-year deferral of start date for the increase in Special Payments as per solvency funding relief measures

⁴ Net of provision of \$400,000 for estimated wind-up expenses

⁵ 0.41 as of January 1, 2012

Summary (continued)

	As of July 1, 2008 (Prior Filed Valuation)	As of July 1, 2011
Personnel Data		
<i>Participants Not Affected by Partial Wind-Up</i>		
Active and Disabled Participants	106	81
Retired Participants	144	159
Terminated Vested Participants	18	23
Suspended/Pending Participants	<u>4</u>	<u>2</u>
Total	272	265
<i>Partial Wind-Up Participants With Entitlements Remaining in Plan</i>		
Partial Wind-Up Participants Pending Elections	<u>2</u>	<u>0</u>
Total	2	0

Assets and Liabilities

Going Concern Valuation Results (Thousands of Dollars)

The going concern valuation results are shown below with the Accrued Liability broken down by participant category, after the changes in actuarial assumptions and asset valuation method.

Past Service

Actuarial Value of Assets	\$	87,460
---------------------------	----	--------

Less: Accrued Liability

Active and Disabled Participants	\$	46,297
Retired Participants		66,608
Terminated Vested Participants		3,214
Suspended Participants		<u>10</u>

Total	\$	<u>116,129</u>
-------	----	----------------

Surplus (Unfunded Accrued Liability)	\$	(28,669)
--------------------------------------	----	----------

As a % of Accrued Liability	(24.7%)
-----------------------------	---------

Market Value of Assets	\$	76,052
------------------------	----	--------

Deferred Asset Gain (Loss)	\$	(11,408)
----------------------------	----	----------

Current Service

Total Current Service Cost	\$	1,677
----------------------------	----	-------

Less: Required Participant Contributions	<u>427¹</u>
--	------------------------

University Current Service Cost	\$	1,250
---------------------------------	----	-------

As a % of Participant Salary Base (With \$150,000 Pay Cap)	14.73%
--	--------

Participant Salary Base (With \$150,000 Pay Cap)	\$	8,487
--	----	-------

As a % of Capped Participant Salary Base Under Assumed Retirement Age ²	15.86%
--	--------

Capped Participant Salary Base Under Assumed Retirement Age	\$	7,880
---	----	-------

¹ Includes participant contributions made by University on behalf of disabled participants; does not reflect increase in required participant contributions starting January 1, 2012

² Excludes salary for members of the administrative staff, unionized administrative staff and unionized staff who are not included in Current Service Cost since they are over the assumed retirement age of age 63

Assets and Liabilities (continued)

Solvency and Hypothetical Wind-Up Valuation Results

(Thousands of Dollars)	Solvency Valuation	Hypothetical Wind-Up Valuation
(1) Market Value of Assets	\$ 76,052	\$ 76,052
(2) Less: Estimated Wind-Up Expenses	<u>400</u>	<u>400</u>
(3) Assets Net of Wind-Up Expenses	\$ 75,652	\$ 75,652
(4) Solvency/Wind-Up Liability		
Active and Disabled Participants	\$ 50,922	\$ 70,180
Retired Participants	67,180	85,513
Terminated Vested Participants	3,711	6,002
Suspended Participants	<u>10</u>	<u>10</u>
Total	<u>\$ 121,823</u>	<u>\$ 161,705</u>
(5) Surplus/(Deficiency), (3) – (4)	\$ (46,171)	\$ (86,053)
(6) Solvency Ratio, (1)/(4)	0.62	N/A
(7) Transfer Ratio, (1)/(4)	N/A	0.47

As provided under the Regulations to the *Pension Benefits Act* (Ontario), the Solvency Liability excludes the liabilities associated with escalated adjustments (future indexing). Reflecting future escalated adjustments in the Hypothetical Wind-Up Valuation increases the liabilities by \$39,882,000.

The assumptions used to determine the Solvency Liability are summarized on page 49 of this report. Note that the interest rates-with escalated adjustments reflect the value of future indexation of pensions during both the preretirement and postretirement periods.

In our opinion, the value of Plan assets, less a reasonable allowance for wind-up expenses, would be less than the actuarial liabilities (including escalated adjustments) by \$86,053,000, if the Plan were wound-up on the valuation date, assuming that there is a competitive market for inflation-indexed annuities, or that a reasonable fixed rate of indexation could be substituted for inflation-linked indexation to facilitate annuity purchases.

The Transfer Ratio at January 1, 2012 is 0.41.

Experience

Reconciliation of Going Concern Surplus/(Deficit) (Thousands of Dollars)

	2008/2009	2009/2010	2010/2011
Surplus/(Unfunded Liability) at July 1	\$ 4,648	\$ (20,836)	\$ (26,857)
Less: University Current Service Cost	1,302	1,388	1,364
Plus: University Current Service Cost Contributions	0	0	0
Plus: University Special Payments	0	0	0
Plus: Interest at 6.5% per annum	<u>259</u>	<u>(1,400)</u>	<u>(1,789)</u>
Equals: Expected Surplus/(Unfunded Liability) at End of Year, Before Experience Gains/(Losses)	\$ 3,605	\$ (23,624)	\$ (30,010)
Plus: Increase/(Decrease) Due to: Gains/(Losses):			
Return on Assets	(25,578)	(4,684)	4,164
Indexation of Benefits	497	381	109
Increase in Salaries	(24)	37	49
Increase in <i>Income Tax Act</i> Maximum Pension	0	403	288
Termination Experience	150	(1)	149
Retirement Experience	318	1,315	153
Mortality Experience	(443)	(592)	(845)
All Other Sources	<u>639</u>	<u>(92)</u>	<u>144</u>
Equals: Surplus/(Unfunded Liability) at End of Year, Before Changes in Assumptions/Methods	\$ (20,836)	\$ (26,857)	\$ (25,799)
Plus: Increase/Decrease due to: Change in Assumptions/Methods			
Change in Mortality Table, Discount Rate and Interest Credit on Participant Contributions			(4,521)
Change in Asset Valuation Method			<u>1,651</u>
Equals: Surplus/(Unfunded Accrued Liability) at June 30			\$ (28,669)

Experience (continued)

Comments Regarding Experience from July 1, 2008 to July 1, 2011

Return on Assets

The assumed rate of return for actuarial valuation purposes was 6.5% per annum. After allowance is made for the market value adjustment under the asset valuation method, the net return was -5.9%, -2.9% and 0.9% in 2008/2009, 2009/2010 and 2010/2011 respectively, resulting in an actuarial loss of \$26,098,000.

The total return based on the actual market value of assets was as follows, assuming contributions and benefit payments take place in the middle of the year:

- 2008/2009: -28.7%
- 2009/2010: 8.2%
- 2010/2011: 12.5%

Indexation of Benefits

Benefit entitlements for retired and terminated vested participants were increased by 0.9% at July 1, 2009, 1.0% at July 1, 2010 and 1.76% at July 1, 2011 under the 75% of CPI indexing provision (and corresponding higher percentages for retirees under one of the pre-integration provisions). The increases were less than the 1.875% increase anticipated under the actuarial assumptions, resulting in an actuarial gain of \$987,000 over the three-year period.

Increase in Salaries

The assumed salary increase used for the July 1, 2008 actuarial valuation was 4.5% per year. Actual salary increases varied by staff group, resulting in an actuarial gain of \$62,000 over the three-year period.

Income Tax Act Maximum Pension

The assumed increase in the *Income Tax Act* maximum pension was 3.5% per year. The *Income Tax Act* maximum pension increased as per the schedule of increases from 2008 to 2009. The increase in the *Income Tax Act* maximum pension was 2.0% from 2009 to 2010, and 2.3% from 2010 to 2011, resulting in an actuarial gain of \$691,000 over the two-year period.

Termination Experience

Termination experience since July 1, 2008 was higher than expected under the valuation assumptions. This resulted in an actuarial gain of \$298,000 over the three-year period.

Retirement Experience

The age at which members retired since July 1, 2008 was later than expected under the valuation assumptions. This resulted in an actuarial gain of \$1,786,000 over the three-year period.

Mortality Experience

Mortality rates since July 1, 2008 were lower than expected under the valuation assumptions. This resulted in an actuarial loss of \$1,880,000 over the three-year period.

All Other Sources

Other factors such as personnel changes and data adjustments, etc., deviated from expected, resulting in a net actuarial gain of \$691,000 over the three-year period.

SRA Actuarial Report (Excerpts)

Actuarial Report (Excerpts)

Supplemental Retirement Arrangement

As of July 1, 2011

Valuation Results

The going concern actuarial valuation of the SRA is prepared based on the same actuarial assumptions and methods used for the actuarial valuation of the Registered Pension Plan.

(Thousands of Dollars)	As of July 1, 2008	As of July 1, 2011	
		Before Change in Assumptions	After Change in Assumptions ¹
Going Concern Valuation Results			
<i>Past Service</i>²			
Accrued Liability for SRA			
Active Participants	\$ 27,384	\$ 13,621	\$ 14,858
Retired Participants	<u>112,369</u>	<u>121,928</u>	<u>125,522</u>
Total	\$ 139,753	\$ 135,549	\$ 140,380
<i>Current Service</i>²			
Current Service Cost for SRA	\$ 745	\$ 455	\$ 474
As a % of Participant Salary Base (With \$150,000 Pay Cap)	0.11%	0.06%	0.07%
Participant Salary Base	\$ 650,549	\$ 713,809	\$ 713,809

For financial accounting purposes, the University from time to time appropriates funds which are set aside as a "fund for specific purpose" in respect of the obligations under the SRA. The assets in this fund are \$120,771,643 as of June 30, 2011. In accordance with an Advance Income Tax Ruling which the University has received, such assets do not constitute trust property, are available to satisfy University creditors, may be applied to any other purpose that the University may determine from time to time, are commingled with other assets of the University, and are not subject to the direct claim of any members.

¹ Interest rate lowered by 0.25% (i.e., real interest rate lowered from 4.00% to 3.75%); mortality table projection includes generational improvements

² Includes participants in both the University of Toronto Pension Plan and University of Toronto (OISE) Pension Plan

Appendix 4 – Pension Financial Statements
University of Toronto Pension Plan

Financial Statements

University of Toronto
Pension Plan

June 30, 2011

INDEPENDENT AUDITORS' REPORT

To the Administrator of the **University of Toronto Pension Plan**

We have audited the accompanying financial statements of the **University of Toronto Pension Plan**, which comprise the statement of net assets available for benefits as at June 30, 2011, and the statement of changes in net assets available for benefits for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

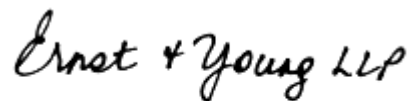
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of the **University of Toronto Pension Plan** as at June 30, 2011 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
December 14, 2011.



Chartered Accountants
Licensed Public Accountants

UNIVERSITY OF TORONTO PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

(with comparative figures as at June 30, 2010)

(thousands of dollars)

As at June 30

	2011	2010
	\$	\$
<hr/>		
ASSETS		
Investments, at fair value (<i>note 3(a)</i>)	2,475,609	2,083,691
Receivables and prepaids	12,367	12,648
	<hr/> 2,487,976	<hr/> 2,096,339
<hr/>		
LIABILITIES		
Refunds payable	852	1,042
Accrued expenses	852	1,442
	<hr/> 1,704	<hr/> 2,484
Net assets available for benefits	<hr/> 2,486,272	<hr/> 2,093,855

See accompanying notes

On behalf of the Governing Council of the University of Toronto:

Ms. Catherine J. Riggall
Vice-President, Business Affairs

Mr. Louis Charpentier
Secretary of the Governing Council

UNIVERSITY OF TORONTO PENSION PLAN

**STATEMENT OF CHANGES IN NET ASSETS
AVAILABLE FOR BENEFITS**

(with comparative figures for the year ended June 30, 2010)
(thousands of dollars)

Year ended June 30	2011	2010
	\$	\$
INCREASE IN NET ASSETS		
Net investment income from Master Trust <i>(note 3(b))</i>	286,029	182,748
Employer contributions <i>(note 4)</i>	242,893	88,338
Employee contributions	37,925	35,969
Transfers from other plans	4,018	1,629
Total increase in net assets	570,865	308,684
DECREASE IN NET ASSETS		
Benefit payments	139,986	134,104
Refunds and transfers <i>(note 5)</i>	14,258	11,514
Fees and expenses <i>(note 6)</i>	24,204	24,059
Total decrease in net assets	178,448	169,677
Net increase in net assets for the year	392,417	139,007
Net assets available for benefits, beginning of year	2,093,855	1,954,848
Net assets available for benefits, end of year	2,486,272	2,093,855

See accompanying notes

UNIVERSITY OF TORONTO PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

1. Description of Plan

The following description of the University of Toronto Pension Plan (the “Plan”) is a summary only. For more complete information, reference may be made to the official Plan text.

a) General

The Plan is a contributory defined benefit plan open to all full-time and part-time employees of the University of Toronto (the “University”) meeting the eligibility conditions.

The Plan is registered under the Pension Benefits Act (Ontario) (Ontario Registration Number 0312827) and with the Canada Revenue Agency.

The Governing Council of the University of Toronto acts as administrator for the Plan and the investments are managed by the University of Toronto Asset Management Corporation (“UTAM”).

b) Funding

Plan benefits are funded by contributions and investment income. Member contributions are made in accordance with a prescribed formula. The University’s contributions are determined annually on the basis of an actuarial valuation taking into account the assets of the Plan and all other relevant factors.

c) Retirement pensions

At retirement, the number of years of pensionable service earned by a member is multiplied by a percentage of the average of the highest 36 months of earnings to determine the annual pension payable to that member. There are various early retirement provisions in place for different employee groups. Benefits are also payable in the case of termination of employment prior to retirement.

d) Death benefits

Death benefits are available for beneficiaries on the death of an active member and may be taken in the form of a survivor pension or a lump-sum payment. Death benefits may also be available for a spouse on the death of a retired member.

e) Escalation of benefits

The pension benefits of retirees are subject to cost of living adjustments equal to the greater of: i) 75% of the increase in the Consumer Price Index in Canada (“CPI”) for the previous calendar year to a maximum CPI increase of 8% plus 60% of the increase in CPI in excess of 8% or, ii) the increase in the CPI for the previous calendar year minus 4%.

2. Summary of significant accounting policies

These financial statements have been prepared by the University in accordance with Canadian generally accepted accounting principles applied within the framework of the significant accounting policies summarized below:

a) Investments and investment income

Investments, which include accrued income, are carried at fair value.

The Plan is invested in the University of Toronto Master Trust (the “Master Trust”). Investments include the Plan’s proportionate share of the underlying investments in the Master Trust. The unit value of the Master Trust is calculated based on the fair value of the underlying investments of the Master Trust. Net investment income (or loss) from the Master Trust includes interest, dividends, foreign exchange gains (losses), realized gains (losses) and the net change in unrealized gains (losses) on investments held by the Master Trust.

b) University of Toronto Master Trust

Investments are carried at fair value. Fair value amounts represent estimates of the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. The calculation of estimated fair value is based upon market conditions at a specific point in time and may not be reflective of future fair values. Changes in fair values from one year to the next are reflected in the statement of changes in net assets available for benefits.

Fair values of the investments held by the Master Trust are determined as follows:

- (i) Short-term notes and treasury bills are valued based on cost plus accrued interest, which approximates fair value.
- (ii) Bonds and equities are valued based on quoted closing market prices.
- (iii) Investments in pooled funds (other than private investment interests and hedge funds) are valued at their reported net asset value per unit.
- (iv) Hedge funds are valued based on the most recently available reported net asset value per unit adjusted for the expected rate of return of the fund through June 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value.
- (v) Private investment interests consisting of private equities and real assets are comprised of private, externally managed funds with underlying investments in equities, debt, real estate assets and commodities. The investment managers of these interests perform valuations of the underlying investments on a periodic basis and provide valuations periodically. Annual financial statements of the private investment interests are audited and are also provided by the investment managers. The value of the investments in these interests included in the statement of net assets available for benefits is based on the most recent valuation provided, adjusted for subsequent cash receipts and distributions from the fund and cash disbursements to the fund through June 30. The University

believes the carrying amount of these financial instruments is a reasonable estimate of fair value.

- (vi) Derivative financial instruments are used to manage particular market and currency exposures for hedging and risk management purposes with respect to the Master Trust's investments and as a substitute for more traditional investments. Derivative financial instruments and synthetic products that may be employed include debt, equity, commodity and currency futures, options, swaps and forward contracts. These contracts are supported by liquid assets with a fair value approximately equal to the fair value of the instruments underlying the derivative contract.

For all derivative financial instruments, the gains and losses arising from changes in the fair value of such derivatives are recognized as investment income (loss) in the year in which the changes in fair value occur. The fair value of derivative financial instruments reflects the daily quoted market amount of those instruments, thereby taking into account the current unrealized gains or losses on open contracts. Investment dealer quotes or quotes from a bank are available for substantially all of the Master Trust's derivative financial instruments.

- (vii) Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at year end.

Interest income is recorded by the Master Trust on an accrual basis. Dividends are recorded by the Master Trust as revenue on the record date. Realized gains and losses on investments are recorded based on the average cost of the related investments. Unrealized gains and losses on investments are recorded by the Master Trust as a change in fair value since the beginning of the year or since the date of purchase when purchased during the year.

Income and expenses are translated at exchange rates in effect on the date of the transaction. Gains or losses arising from those translations are included in income.

Purchases and sales of investments are recorded by the Master Trust on a settlement-date basis and transaction costs are expensed as incurred.

c) Revenue and expense recognition

All employer and employee contributions and other revenue are reflected in the year in which they are due. All expenses are recorded on an accrual basis.

d) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets during the reporting period. Actual results could materially differ from those estimates.

e) **Future accounting changes**

The Plan will need to adopt CICA Handbook Section 4600 “Pension Plans” effective July 1, 2011. The standard establishes new reporting requirements for measurement and presentation of information in general purpose financial statements of pension plans, as well as financial statement disclosures. The University is currently assessing the impact of this new pronouncement.

3. University of Toronto Master Trust

On August 1, 2000, the Master Trust was established to facilitate the collective investment of the assets of the University’s pension plans. Each pension plan holds units of the Master Trust. The value of each unit held by a plan increases or decreases monthly based on the change in fair value of the underlying assets of the Master Trust. This value is used as the basis for the purchase and sale of units by the pension plans in the following month.

On May 31, 2011, substantially all of the Master Trust’s publicly traded investments representing 43.2% of the total Master Trust’s investments were transferred into four new unitized investment pooled funds which are managed by UTAM. The overall investment strategy and risk profile of the Master Trust has not changed as a result of the new pooled funds. As a result, the directly held investments of the new unitized UTAM pooled funds were considered as directly held investments of the Master Trust for risk analysis disclosure purposes.

a) **Investments**

As at June 30, 2011, the Plan held 19,201,552 (2010 - 18,256,972) of the 19,782,953 (2010 - 18,895,284) outstanding units of the Master Trust. The Master Trust investments held at fair value as at June 30 are summarized below, and have been classified by asset-mix category by primarily allocating the effect of futures contracts. This classification resulted in \$92.9 million (2010 - \$27.2 million) of hedge funds, \$384.2 million (2010 - \$274.9 million) of cash, money market funds, short-term notes and treasury bills and nil (2010 - \$27.5 million) of government and corporate bonds being reclassified to Canadian equities of \$35.9 million (2010 - \$28.2 million), to United States equities of \$320.8 million (2010 - \$191.9 million), to international equities of \$118.4 million (2010 - \$109.5 million) and to government and corporate bonds of \$2.0 million (2010 – nil).

	(thousands of dollars)	
	2011	2010
	\$	\$
Cash, money market funds, short-term notes and treasury bills	725	24,618
Government and corporate bonds	528,165	417,822
Canadian equities	393,492	279,193
United States equities	363,856	228,547
International equities	436,218	337,210
Hedge funds	315,716	398,636
Private equities	340,483	387,488
Real assets	152,550	106,903
	2,531,205	2,180,417
Derivative-related net receivable (payable) (<i>note 3(d)</i>)	19,763	(23,875)
	2,550,968	2,156,542
University of Toronto Pension Plan		
(97.0% (2010 – 96.6%) of Master Trust)	2,475,609	2,083,691

b) **Changes in investments**
(thousands of dollars)

For the year ended June 30

	2011	2010
	\$	\$
Net investment income	296,378	189,818
Cash received on purchase of Master Trust units by pension plans	286,199	126,430
Cash paid on redemption of Master Trust units by pension plans	(188,151)	(177,489)
Net increase in net assets for the year	394,426	138,759
Net assets, beginning of year	2,156,542	2,017,783
Net assets, end of year	2,550,968	2,156,542
University of Toronto Pension Plan (97.0% (2010 – 96.6%) of Master Trust)	2,475,609	2,083,691

Net investment income for the year ended June 30 for the Master Trust is composed of the following:

	2011	2010
	\$	\$
Interest income		
Government and corporate bonds	18,886	15,049
Short-term investments	1,997	132
Dividend income		
Canadian	7,577	5,608
Foreign	20,609	15,496
Net realized and unrealized gains from investments	246,456	153,225
Other income	853	308
	296,378	189,818
University of Toronto Pension Plan (96.5% (2010 – 96.3%) of Master Trust investment income)	286,029	182,748

The net investment income is reported in the Plan's statement of changes in net assets available for benefits as net investment income from Master Trust.

c) Individually significant investments

(thousands of dollars)

The details of investments where the fair value exceeds 1% of the total fair value or cost of the Master Trust in the underlying portfolios are listed below:

	Fair Value
	<u>\$</u>
Money market funds and treasury bills	
TD Emerald Canadian Treasury Fund	229,106
Government and corporate bonds	
UTAM Canadian Fixed Income Fund	436,845
Canadian equities	
UTAM Canadian Equity Fund	357,161
United States equities	
UTAM United States Equity Fund	43,010
International equities	
UTAM International Equity Fund	265,169
Blackrock EAFE	52,621
Hedge funds	
Lighthouse Diversified Fund	30,839
Blackrock ARS III Fund	27,963

d) Derivative financial instruments

(thousands of dollars)

Description

The Master Trust has entered into equity and commodity index futures contracts which oblige it to pay the difference between a predetermined amount and the market value when the market value is less than the predetermined amount, or receive the difference when the market value is more than the predetermined amount.

The Master Trust enters into foreign currency forward contracts to minimize exchange rate fluctuations and the resulting uncertainty on future financial results. All outstanding contracts have a remaining term to maturity of less than one year. The Master Trust has significant contracts outstanding held in United States Dollars, Euros, Japanese Yen and British Pound Sterling.

The notional amounts of the derivative financial instruments do not represent amounts exchanged between parties and are not a measure of the Master Trust's exposure resulting from the use of financial instrument contracts. The amounts exchanged are based on the applicable rates applied to the notional amounts.

Risks

The Master Trust is exposed to credit-related losses in the event of non-performance by counterparties to these financial instruments, but it does not expect any counterparties to fail to meet their obligations given their high credit ratings.

Terms and conditions

The maturity dates of the derivative financial instrument contracts range from July 2011 to December 2011. The notional and fair value amounts of the derivative financial instruments are as follows:

	2011		2010	
	\$		\$	
	<u>Notional Value</u>	<u>Fair Value</u>	<u>Notional Value</u>	<u>Fair Value</u>
Foreign currency forward contracts:				
- United States Dollar	436,901	3,536	576,832	(9,865)
- Other	130,151	734	72,187	(1,593)
		<u>4,270</u>		<u>(11,458)</u>
Equity and commodity index futures contracts:				
- United States Dollar	320,294	11,612	197,948	(6,083)
- Euro	50,193	1,442	48,885	(2,271)
- Japanese Yen	24,834	1,348	27,530	(597)
- British Pound Sterling	25,822	633	23,434	(1,405)
- Canadian Dollar	37,895	214	57,007	(1,325)
- Other	18,061	244	14,616	(736)
		<u>15,493</u>		<u>(12,417)</u>
Total		<u><u>19,763</u></u>		<u><u>(23,875)</u></u>

e) Risk management

Risk management relates to the understanding and active management of the risks associated with all areas of the Master Trust's investments. Investments are primarily exposed to market risk (foreign currency, interest rate and price risks), credit risk and liquidity risk. To manage these risks within reasonable risk tolerances, the Master Trust, through UTAM, has formal policies and procedures in place governing asset mix among equity, fixed-income and alternative assets, requiring diversification within categories, and setting limits on the size of exposure to individual investments and counterparties. In addition, derivative instruments are used in the management of these risks (see note 3(d)).

f) Market risk

Market risk is the risk that the value of an investment will fluctuate because of changes in market prices. The Master Trust is exposed to market risk from its investing activities. Market risk encompasses a variety of financial risks, such as foreign currency risk, interest rate risk and price risk. Significant volatility in interest rates, equity values and the value of the Canadian dollar against the currencies in which the Master Trust investments are held can significantly impact the value of

these investments. The Master Trust manages market risk by investing across a wide variety of asset classes according to the approved policy asset mix and hedging strategies established in the UTAM Pension Fund Master Trust Investment Policy and the University of Toronto Pension Master Trust Investment Policy. The following are the key components of market risk:

(i) Foreign currency risk

Foreign currency exposure arises from the Master Trust's direct holdings of investments denominated in currencies other than the Canadian dollar. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. To manage foreign currency risk, a 50% hedging policy is in place for the Master Trust. The Plan also has an indirect exposure to foreign currency risk to the extent that the Master Trust's direct holdings have underlying investments denominated in foreign currencies.

The following table summarizes the Master Trust's directly held investment holdings and the underlying investments in the UTAM pooled funds by currency exposure, the impact of the currency hedging program and the net currency exposure as at June 30:

	(thousands of dollars)			
	2011			2010
	\$			\$
	Currency Exposure	Net Currency Hedge	Net Currency Exposure	Net Currency Exposure
United States Dollar	987,028	(436,901)	550,127	540,536
Euro	196,979	(80,775)	116,204	83,747
Japanese Yen	65,121	(20,933)	44,188	38,054
British Pound Sterling	49,968	(11,911)	38,057	28,129
Swiss Franc	21,667	(6,021)	15,646	11,741
Australian Dollar	15,421	(2,617)	12,804	9,137
Swedish Krona	10,616	(3,358)	7,258	5,689
Other	18,760	(4,536)	14,224	16,133
Total	1,365,560	(567,052)	798,508	733,166

Since all other variables are held constant in assessing foreign currency risk sensitivity, it is possible to extrapolate a 10% absolute change in foreign exchange rates to any absolute percentage change in foreign exchange rates. A 10% absolute change in foreign exchange rates would have a \$79.9 million (2010 - \$73.3 million) impact on the foreign currency assets, net of the currency hedges, of the Master Trust.

(ii) Interest rate risk

Interest rate risk refers to the effect on the fair value of the Master Trust's assets and liabilities due to fluctuations in interest rates. Among the Master Trust's assets, the most significant interest rate risk relates to its fixed-income investments. These investments are in the form of fixed-income securities directly held by the Master Trust and direct holdings of the Master Trust where there are underlying fixed-income investments.

The following table summarizes the profile of the Master Trust's directly held fixed-income holdings and the underlying fixed-income investments of the UTAM pooled funds which are subject to interest rate risk, based on term to maturity as at June 30:

Maturity Range	(thousands of dollars)			
	2011		2010	
	Fair Value \$	Weighted Average Yield	Fair Value \$	Weighted Average Yield
0-5 years	234,868	2.35%	195,175	2.42%
>5 years-10 years	182,730	3.93%	165,045	4.30%
>10 years	107,685	4.50%	83,407	4.73%
	525,283	3.34%	443,627	3.56%

As at June 30, 2011, for every 1% increase (decrease) in prevailing market interest rates, the fair value of the direct and indirect fixed-income holdings in the Master Trust is estimated to decrease (increase) by approximately \$31.9 million (2010 - \$26.4 million).

(iii) Price risk

(thousands of dollars)

Price risk is the risk that the fair value of an investment will fluctuate because of changes in market prices (other than those arising from foreign currency risk or interest rate risk), whether those changes are caused by factors specific to the individual investment, its issuer, or factors affecting all similar securities traded in the market. The Master Trust's exposure to price risk is primarily due to its equity investments. These investments are in the form of equity securities directly held by the Master Trust and direct holdings of the Master Trust where there are underlying equity investments.

The fair value of these equity investments subject to price risk is \$718,447 (2010 - \$514,405). A 10% absolute change in the fair value of these equity investments which are exposed to price risk is \$71,845 (2010 - \$51,441).

Since all other variables are held constant in assessing price risk sensitivity, it is possible to extrapolate a 10% absolute change in the fair value to any absolute percentage change in fair value.

g) Credit risk

(thousands of dollars)

Credit risk of financial instruments is the risk of loss arising from the potential failure of a counterparty, debtor or issuer (collectively, the "debtor") to honour its contractual obligations. Credit risk can take the form of an actual default, such as a missed payment of borrowed principal or interest when it comes due, or can be based on an increased likelihood of default which could result in a credit rating downgrade by credit rating agencies. Both scenarios would result in a decrease in the fair value of the obligations issued by the debtor. The Master Trust's investments in non-government-guaranteed securities are exposed to credit risk. The fair value of these investments and other assets as presented in the statement of net assets available for benefits represents the maximum credit risk exposure at the date of the financial statements. The use of forward foreign exchange

contracts to hedge foreign currency risk exposure also exposes the Master Trust to credit risk. The Plan also has an indirect exposure to credit risk to the extent that the Master Trust's direct holdings have underlying investments in non-government-guaranteed securities.

The following table summarizes the fair value of both directly held fixed-income securities and the underlying investments of the UTAM Canadian Fixed Income Fund which are exposed to credit risk, by credit rating, as at June 30:

Credit Rating	2011		2010	
	Fair Value \$	% of Fixed-Income Securities	Fair Value \$	% of Fixed-Income Securities
AAA	171,633	32.67	135,972	30.65
AA	134,145	25.54	112,777	25.42
A	132,634	25.25	121,705	27.43
BAA and other	86,871	16.54	73,173	16.50
	525,283	100.00	443,627	100.00

h) Liquidity risk

Liquidity risk is the risk of the Plan not being able to settle or meet its commitments in a timely manner. These commitments include payment of the Plan's pension obligations and operating expenses, margin requirements associated with synthetic investment strategies, and the Master Trust's future commitments in private investment interests. These liquidity requirements are managed through income and distributions generated from investments, monthly contributions made by the University and Plan members, and having a sufficient amount of assets invested in liquid instruments that can be easily sold and converted to cash.

i) Fair value hierarchy

CICA Handbook Section 3862 requires disclosure of a three-level hierarchy for fair value measurement of financial instruments based on the transparency of inputs to the valuation of an asset or liability as of the financial statement date. The three levels are defined as follows:

Level 1: Fair value is based on quoted market prices in active markets for identical assets or liabilities. Level 1 assets and liabilities generally include equity securities traded in an active exchange market.

Level 2: Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar (but not identical) assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. This category generally includes mutual and pooled funds, hedge funds, Government of Canada, provincial and other government bonds, Canadian corporate bonds, and certain derivative contracts.

Level 3: Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Financial instruments are classified in this level when the valuation technique is based on at least one significant input that is not observable in the market or due to a lack of liquidity in certain markets. This category generally includes private investment interests (which are comprised of private, externally managed pooled

funds with underlying investments in equities, real estate assets and commodities) and securities that have liquidity restrictions.

The following tables present, as at June 30, the level within the fair value hierarchy for each of the financial assets and liabilities, excluding cash of \$155.4 million (2010 - \$253.2 million), measured at fair value:

	(thousands of dollars)			
	Level 1	Level 2	Level 3	2011
	\$	\$	\$	\$
Money market funds, short-term notes and treasury bills		229,493		229,493
Government and corporate bonds		526,185		526,185
Canadian equities	417	357,161		357,578
United States equities		43,010		43,010
International equities	69	317,790		317,859
Hedge funds		243,749	164,863	408,612
Private equities			340,483	340,483
Real assets			152,550	152,550
	<u>486</u>	<u>1,717,388</u>	<u>657,896</u>	<u>2,375,770</u>
Derivative-related net receivable (note 3(d))	<u>15,493</u>	<u>4,270</u>		<u>19,763</u>
	<u><u>15,979</u></u>	<u><u>1,721,658</u></u>	<u><u>657,896</u></u>	<u><u>2,395,533</u></u>

	(thousands of dollars)			
	Level 1	Level 2	Level 3	2010
	\$	\$	\$	\$
Money market funds, short-term notes and treasury bills		48,938		48,938
Government and corporate bonds		443,627		443,627
Canadian equities	155,588	95,137		250,725
United States equities	36,559			36,559
International equities	227,121			227,121
Hedge funds		263,180	162,656	425,836
Private equities			387,488	387,488
Real assets			106,903	106,903
	<u>419,268</u>	<u>850,882</u>	<u>657,047</u>	<u>1,927,197</u>
Derivative-related net payable (note 3(d))	<u>(12,417)</u>	<u>(11,458)</u>		<u>(23,875)</u>
	<u><u>406,851</u></u>	<u><u>839,424</u></u>	<u><u>657,047</u></u>	<u><u>1,903,322</u></u>

During the year, substantially all of the Master Trust's publicly traded investments were transferred to the UTAM pooled funds resulting in a significant shift in the fair value of investments from Level 1 to Level 2 in the fair value hierarchy.

The following table summarizes the changes in the fair value of financial instruments classified in Level 3 of the Master Trust for the year ended June 30:

	(thousands of dollars)	
	2011	2010
	\$	\$
Fair value, beginning of year	657,047	609,854
Total realized and unrealized gains	17,076	36,049
Purchases	133,835	165,879
Sales	(150,062)	(154,735)
Fair value, end of year	657,896	657,047

j) Hedge funds and private investment interests

The Master Trust invests in certain hedge funds and private investment interests which are comprised of externally managed funds with underlying investments in equities, debt, real estate assets and commodities. Because these investment interests are not readily tradable, their estimated values are subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such interests existed. Sensitivity analysis demonstrates that a 10% absolute change in the fair value of investments in hedge funds and private investment interests would result in a change to the total fair value of these investments of the Master Trust of \$90.2 million (2010 - \$92.0 million).

Refer to note 3(k) for a breakdown of the Master Trust's uncalled commitments related to private investment interests.

k) Uncalled commitments

As at June 30, 2011, approximately 19.33% (2010 - 22.93%) of the Master Trust's investment portfolio is invested in private investment interests managed by third-party managers. These private investment interests typically take the form of limited partnerships managed by a General Partner. The legal terms and conditions of these private investment interests, which cover various areas of private equity investments and real asset investments (e.g., real estate and infrastructure) require that investors initially make an unfunded commitment and then remit funds over time (cumulatively up to a maximum of the total committed amount) in response to a series of capital calls issued to the investors by the manager. As at June 30, 2011, the Master Trust had uncalled commitments of approximately \$162.8 million (2010 - \$209.5 million). The capital committed is called by the manager over a pre-determined investment period, which varies by fund but is generally about three to five years from the date the fund closes. In practice, for a variety of reasons, the total amount committed to a fund is very rarely all called.

4. Plan contributions

The University has made \$77.7 million (2010 - \$73.1 million) in current service cost contributions and \$165.2 million (2010 - \$15.2 million) in additional special payments. The special payments were made to fund the unfunded liability, since the actuarial valuation as of July 1, 2008 showed the present value of accrued pension benefits exceeded the Plan's actuarial value of assets.

5. Refunds and transfers

(thousands of dollars)

Refunds and transfers consist of the following:

	2011	2010
	\$	\$
Refunds of contributions:		
Upon termination	2,807	2,462
Upon death	1,603	589
	4,410	3,051
Transfers to other plans upon termination	9,848	8,463
	14,258	11,514

6. Fees and expenses

(thousands of dollars)

Fees and expenses consist of the following:

	2011	2010
	\$	\$
Investment management fees:		
External managers ¹	18,840	19,027
UTAM ^{1,2,4}	2,346	1,949
Pension records administration	727	666
Transaction fees ^{1,3}	568	696
Actuarial and administration fees	555	304
Trustee and custodial fees ¹	549	706
Administration cost – University of Toronto ⁴	441	381
Other fees	178	330
	24,204	24,059

¹ Reflect expenses that are directly charged to the Master Trust and are allocated back to the Plan.

² The increase in UTAM fees mainly due to salary increase and additional staff.

³ Transaction fees represent the cost of purchasing and selling investments.

⁴ Represents related party transactions.

7. Obligations for pension benefits

(thousands of dollars)

The actuarial present value of accrued pension benefits is determined by applying best estimate assumptions agreed to by the University and the projected benefit method pro-rated on services. The accrued pension benefits balance was determined by Aon Hewitt, a firm of consulting actuaries, through the use of an actuarial funding valuation as of July 1, 2010 which was extrapolated to June 30, 2011 using actual benefit payments during the period July 1, 2010 to June 30, 2011 and assuming no liability experience gains or losses during the intermittent period.

The actuarial present value of accrued pension benefits as at June 30, 2011 and 2010 and the principal components of changes during these years are as follows:

	2011	2010
	\$	\$
Actuarial present value of accrued pension benefits, beginning of year	3,125,979	2,983,818
Interest on accrued benefits	202,038	192,787
Benefits accrued	114,821	108,270
Transfer from other plans	4,018	1,629
Benefits paid	(154,244)	(145,618)
Experience gain		(14,907)
Assumption changes	170,228	
Actuarial present value of accrued pension benefits, end of year	3,462,840	3,125,979

Significant assumptions used in the actuarial valuation are as follows:

	2011	2010
	%	%
Interest rate	6.25	6.50
Consumer Price Index	2.50	2.50
Salary escalation rate	4.50	4.50

University of Toronto (OISE) Pension Plan

Financial Statements

University of Toronto (OISE) Pension Plan

June 30, 2011

INDEPENDENT AUDITORS' REPORT

To the Administrator of the **University of Toronto (OISE) Pension Plan**

We have audited the accompanying financial statements of the **University of Toronto (OISE) Pension Plan**, which comprise the statement of net assets available for benefits as at June 30, 2011, and the statement of changes in net assets available for benefits for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

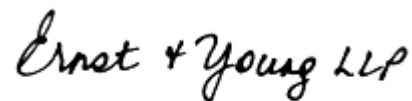
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of the **University of Toronto (OISE) Pension Plan** as at June 30, 2011 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
December 14, 2011.



Chartered Accountants
Licensed Public Accountants

UNIVERSITY OF TORONTO (OISE) PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

(with comparative figures as at June 30, 2010)

(thousands of dollars)

As at June 30

	2011	2010
	\$	\$
<hr/>		
ASSETS		
Investments, at fair value (<i>note 3(a)</i>)	75,359	72,851
Prepays	1,158	451
	<hr/> 76,517	<hr/> 73,302
<hr/>		
LIABILITIES		
Accrued expenses	465	497
	<hr/> 465	<hr/> 497
Net assets available for benefits	<hr/> 76,052	<hr/> 72,805

See accompanying notes

On behalf of the Governing Council of the University of Toronto:

Ms. Catherine J. Riggall
Vice-President, Business Affairs

Mr. Louis Charpentier
Secretary of the Governing Council

UNIVERSITY OF TORONTO (OISE) PENSION PLAN

**STATEMENT OF CHANGES IN NET ASSETS
AVAILABLE FOR BENEFITS**

(with comparative figures for the year ended June 30, 2010)
(thousands of dollars)

Year ended June 30	2011	2010
	\$	\$
INCREASE IN NET ASSETS		
Net investment income from Master Trust <i>(note 3(b))</i>	10,349	7,070
Employee contributions <i>(note 4)</i>	463	495
Total increase in net assets	10,812	7,565
DECREASE IN NET ASSETS		
Benefit payments	5,340	4,870
Refunds and transfers <i>(note 5)</i>	814	
Fees and expenses <i>(note 6)</i>	1,411	1,390
Total decrease in net assets	7,565	6,260
Net increase in net assets for the year	3,247	1,305
Net assets available for benefits, beginning of year	72,805	71,500
Net assets available for benefits, end of year	76,052	72,805

See accompanying notes

UNIVERSITY OF TORONTO (OISE) PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

1. Description of Plan

The following description of the University of Toronto Ontario Institute for Studies in Education (OISE) Pension Plan (the “Plan”) is a summary only. For more complete information, reference may be made to the official Plan text.

a) General

The Plan is a defined benefit plan covering substantially all full-time and part-time employees of OISE who were members of the Plan as of June 30, 1996.

The Plan is registered under the Pension Benefits Act (Ontario) (Ontario Registration Number 0353854) and with the Canada Revenue Agency.

Effective July 1, 1996, the Governing Council of the University of Toronto (the “University”) became the administrator of the Plan. Prior to July 1, 1996, the OISE Board of Governors acted as the administrator. The investments are managed by the University of Toronto Asset Management Corporation (“UTAM”).

b) Funding

Plan benefits are funded by contributions and investment income. Member contributions are made in accordance with a prescribed formula. The University’s contributions are determined annually on the basis of an actuarial valuation taking into account the assets of the Plan and all other relevant factors.

c) Retirement pensions

At retirement, the number of years of pensionable service earned by a member is multiplied by a percentage of the average of the highest 36 months of earnings to determine the annual pension payable to that member. There are various early retirement provisions in place for different employee groups. Benefits are also payable in the case of termination of employment prior to retirement.

d) Death benefits

Death benefits are available for beneficiaries on the death of an active member and may be taken in the form of a survivor pension or a lump-sum payment. Death benefits may also be available for a spouse on the death of a retired member.

e) Escalation of benefits

The pension benefits of retirees are subject to cost of living adjustments equal to the greater of: i) 75% of the increase in the Consumer Price Index in Canada (“CPI”) for the previous calendar year to a maximum CPI increase of 8% plus 60% of the increase in CPI in excess of 8% or, ii) the increase in the CPI for the previous calendar year minus 4%.

2. Summary of significant accounting policies

These financial statements have been prepared by the University in accordance with Canadian generally accepted accounting principles applied within the framework of the significant accounting policies summarized below:

a) Investments and investment income

Investments, which include accrued income, are carried at fair value.

The Plan is invested in the University of Toronto Master Trust (the “Master Trust”). Investments include the Plan’s proportionate share of the underlying investments in the Master Trust. The unit value of the Master Trust is calculated based on the fair value of the underlying investments of the Master Trust. Net investment income (or loss) from the Master Trust includes interest, dividends, foreign exchange gains (losses), realized gains (losses) and the net change in unrealized gains (losses) on investments held by the Master Trust.

b) University of Toronto Master Trust

Investments are carried at fair value. Fair value amounts represent estimates of the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. The calculation of estimated fair value is based upon market conditions at a specific point in time and may not be reflective of future fair values. Changes in fair values from one year to the next are reflected in the statement of changes in net assets available for benefits.

Fair values of the investments held by the Master Trust are determined as follows:

- (i) Short-term notes and treasury bills are valued based on cost plus accrued interest, which approximates fair value.
- (ii) Bonds and equities are valued based on quoted closing market prices.
- (iii) Investments in pooled funds (other than private investment interests and hedge funds) are valued at their reported net asset value per unit.
- (iv) Hedge funds are valued based on the most recently available reported net asset value per unit adjusted for the expected rate of return of the fund through June 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value.
- (v) Private investment interests consisting of private equities and real assets are comprised of private, externally managed funds with underlying investments in equities, debt, real estate assets and commodities. The investment managers of these interests perform valuations of the underlying investments on a periodic basis and provide valuations periodically. Annual financial statements of the private investment interests are audited and are also provided by the investment managers. The value of the investments in these interests included in the statement of net assets available for benefits is based on the most recent valuation provided, adjusted for subsequent cash receipts and distributions from the fund and cash disbursements to the fund through

June 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value.

- (vi) Derivative financial instruments are used to manage particular market and currency exposures for hedging and risk management purposes with respect to the Master Trust's investments and as a substitute for more traditional investments. Derivative financial instruments and synthetic products that may be employed include debt, equity, commodity and currency futures, options, swaps and forward contracts. These contracts are supported by liquid assets with a fair value approximately equal to the fair value of the instruments underlying the derivative contract.

For all derivative financial instruments, the gains and losses arising from changes in the fair value of such derivatives are recognized as investment income (loss) in the year in which the changes in fair value occur. The fair value of derivative financial instruments reflects the daily quoted market amount of those instruments, thereby taking into account the current unrealized gains or losses on open contracts. Investment dealer quotes or quotes from a bank are available for substantially all of the Master Trust's derivative financial instruments.

- (vii) Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at year end.

Interest income is recorded by the Master Trust on an accrual basis. Dividends are recorded by the Master Trust as revenue on the record date. Realized gains and losses on investments are recorded based on the average cost of the related investments. Unrealized gains and losses on investments are recorded by the Master Trust as a change in fair value since the beginning of the year or since the date of purchase when purchased during the year.

Income and expenses are translated at exchange rates in effect on the date of the transaction. Gains or losses arising from those translations are included in income.

Purchases and sales of investments are recorded by the Master Trust on a settlement-date basis and transaction costs are expensed as incurred.

c) Revenue and expense recognition

All employer and employee contributions and other revenue are reflected in the year in which they are due. All expenses are recorded on an accrual basis.

d) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets during the reporting period. Actual results could materially differ from those estimates.

e) Future accounting changes

The Plan will need to adopt CICA Handbook Section 4600 “Pension Plans” effective July 1, 2011. The standard establishes new reporting requirements for measurement and presentation of information in general purpose financial statements of pension plans, as well as financial statement disclosures. The University is currently assessing the impact of this new pronouncement.

3. University of Toronto Master Trust

On August 1, 2000, the Master Trust was established to facilitate the collective investment of the assets of the University’s pension plans. Each pension plan holds units of the Master Trust. The value of each unit held by a plan increases or decreases monthly based on the change in fair value of the underlying assets of the Master Trust. This value is used as the basis for the purchase and sale of units by the pension plans in the following month.

On May 31, 2011, substantially all of the Master Trust’s publicly traded investments representing 43.2% of the total Master Trust’s investments were transferred into four new unitized investment pooled funds which are managed by UTAM. The overall investment strategy and risk profile of the Master Trust has not changed as a result of the new pooled funds. As a result, the directly held investments of the new unitized UTAM pooled funds were considered as directly held investments of the Master Trust for risk analysis disclosure purposes.

a) Investments

As at June 30, 2011, the Plan held 581,401 (2010 – 638,312) of the 19,782,953 (2010 - 18,895,284) outstanding units of the Master Trust. The Master Trust investments held at fair value as at June 30 are summarized below, and have been classified by asset-mix category by primarily allocating the effect of futures contracts. This classification resulted in \$92.9 million (2010 - \$27.2 million) of hedge funds, \$384.2 million (2010 - \$274.9 million) of cash, money market funds, short-term notes and treasury bills and nil (2010 - \$27.5 million) of government and corporate bonds being reclassified to Canadian equities of \$35.9 million (2010 - \$28.2 million), to United States equities of \$320.8 million (2010 - \$191.9 million), to international equities of \$118.4 million (2010 - \$109.5 million) and to government and corporate bonds of \$2.0 million (2010 – nil).

	(thousands of dollars)	
	2011	2010
	\$	\$
Cash, money market funds, short-term notes and treasury bills	725	24,618
Government and corporate bonds	528,165	417,822
Canadian equities	393,492	279,193
United States equities	363,856	228,547
International equities	436,218	337,210
Hedge funds	315,716	398,636
Private equities	340,483	387,488
Real assets	152,550	106,903
	<u>2,531,205</u>	<u>2,180,417</u>
Derivative-related net receivable (payable) (note 3(d))	19,763	(23,875)
	<u>2,550,968</u>	<u>2,156,542</u>
University of Toronto (OISE) Pension Plan (3.0% (2010 – 3.4%) of Master Trust)	<u>75,359</u>	<u>72,851</u>

b) Changes in investments
(thousands of dollars)

For the year ended June 30

	2011	2010
	\$	\$
Net investment income	296,378	189,818
Cash received on purchase of Master Trust units by pension plans	286,199	126,430
Cash paid on redemption of Master Trust units by pension plans	(188,151)	(177,489)
Net increase in net assets for the year	394,426	138,759
Net assets, beginning of year	2,156,542	2,017,783
Net assets, end of year	2,550,968	2,156,542
University of Toronto (OISE) Pension Plan (3.0% (2010 – 3.4%) of Master Trust)	75,359	72,851

Net investment income for the year ended June 30 for the Master Trust is composed of the following:

	2011	2010
	\$	\$
Interest income		
Government and corporate bonds	18,886	15,049
Short-term investments	1,997	132
Dividend income		
Canadian	7,577	5,608
Foreign	20,609	15,496
Net realized and unrealized gains from investments	246,456	153,225
Other income	853	308
	296,378	189,818
University of Toronto (OISE) Pension Plan (3.5% (2010 – 3.7%) of Master Trust investment income)	10,349	7,070

The net investment income is reported in the Plan's statement of changes in net assets available for benefits as net investment income from Master Trust.

c) Individually significant investments

(thousands of dollars)

The details of investments where the fair value exceeds 1% of the total fair value or cost of the Master Trust in the underlying portfolios are listed below:

	Fair Value
	<u>\$</u>
Money market funds and treasury bills	
TD Emerald Canadian Treasury Fund	229,106
Government and corporate bonds	
UTAM Canadian Fixed Income Fund	436,845
Canadian equities	
UTAM Canadian Equity Fund	357,161
United States equities	
UTAM United States Equity Fund	43,010
International equities	
UTAM International Equity Fund	265,169
Blackrock EAFE	52,621
Hedge funds	
Lighthouse Diversified Fund	30,839
Blackrock ARS III Fund	27,963

d) Derivative financial instruments

(thousands of dollars)

Description

The Master Trust has entered into equity and commodity index futures contracts which oblige it to pay the difference between a predetermined amount and the market value when the market value is less than the predetermined amount, or receive the difference when the market value is more than the predetermined amount.

The Master Trust enters into foreign currency forward contracts to minimize exchange rate fluctuations and the resulting uncertainty on future financial results. All outstanding contracts have a remaining term to maturity of less than one year. The Master Trust has significant contracts outstanding held in United States Dollars, Euros, Japanese Yen and British Pound Sterling.

The notional amounts of the derivative financial instruments do not represent amounts exchanged between parties and are not a measure of the Master Trust's exposure resulting from the use of financial instrument contracts. The amounts exchanged are based on the applicable rates applied to the notional amounts.

Risks

The Master Trust is exposed to credit-related losses in the event of non-performance by counterparties to these financial instruments, but it does not expect any counterparties to fail to meet their obligations given their high credit ratings.

Terms and conditions

The maturity dates of the derivative financial instrument contracts range from July 2011 to December 2011. The notional and fair value amounts of the derivative financial instruments are as follows:

	2011		2010	
	\$		\$	
	<u>Notional Value</u>	<u>Fair Value</u>	<u>Notional Value</u>	<u>Fair Value</u>
Foreign currency forward contracts:				
- United States Dollar	436,901	3,536	576,832	(9,865)
- Other	130,151	734	72,187	(1,593)
		<u>4,270</u>		<u>(11,458)</u>
Equity and commodity index futures contracts:				
- United States Dollar	320,294	11,612	197,948	(6,083)
- Euro	50,193	1,442	48,885	(2,271)
- Japanese Yen	24,834	1,348	27,530	(597)
- British Pound Sterling	25,822	633	23,434	(1,405)
- Canadian Dollar	37,895	214	57,007	(1,325)
- Other	18,061	244	14,616	(736)
		<u>15,493</u>		<u>(12,417)</u>
Total		<u><u>19,763</u></u>		<u><u>(23,875)</u></u>

e) Risk management

Risk management relates to the understanding and active management of the risks associated with all areas of the Master Trust's investments. Investments are primarily exposed to market risk (foreign currency, interest rate and price risks), credit risk and liquidity risk. To manage these risks within reasonable risk tolerances, the Master Trust, through UTAM, has formal policies and procedures in place governing asset mix among equity, fixed-income and alternative assets, requiring diversification within categories, and setting limits on the size of exposure to individual investments and counterparties. In addition, derivative instruments are used in the management of these risks (see note 3(d)).

f) Market risk

Market risk is the risk that the value of an investment will fluctuate because of changes in market prices. The Master Trust is exposed to market risk from its investing activities. Market risk encompasses a variety of financial risks, such as foreign currency risk, interest rate risk and price risk. Significant volatility in interest rates, equity values and the value of the Canadian dollar against the currencies in which the Master Trust investments are held can significantly impact the value of these investments. The Master Trust manages market risk by investing across a wide variety of asset classes according to the approved policy asset mix and hedging strategies

established in the UTAM Pension Fund Master Trust Investment Policy and the University of Toronto Pension Master Trust Investment Policy. The following are the key components of market risk:

(i) Foreign currency risk

Foreign currency exposure arises from the Master Trust's direct holdings of investments denominated in currencies other than the Canadian dollar. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. To manage foreign currency risk, a 50% hedging policy is in place for the Master Trust. The Plan also has an indirect exposure to foreign currency risk to the extent that the Master Trust's direct holdings have underlying investments denominated in foreign currencies.

The following table summarizes the Master Trust's directly held investment holdings and the underlying investments in the UTAM pooled funds by currency exposure, the impact of the currency hedging program and the net currency exposure as at June 30:

	(thousands of dollars)			
	2011		2010	
	\$	\$	\$	\$
Currency Exposure	Net Currency Hedge	Net Currency Exposure	Net Currency Exposure	Net Currency Exposure
United States Dollar	987,028	(436,901)	550,127	540,536
Euro	196,979	(80,775)	116,204	83,747
Japanese Yen	65,121	(20,933)	44,188	38,054
British Pound Sterling	49,968	(11,911)	38,057	28,129
Swiss Franc	21,667	(6,021)	15,646	11,741
Australian Dollar	15,421	(2,617)	12,804	9,137
Swedish Krona	10,616	(3,358)	7,258	5,689
Other	18,760	(4,536)	14,224	16,133
Total	1,365,560	(567,052)	798,508	733,166

Since all other variables are held constant in assessing foreign currency risk sensitivity, it is possible to extrapolate a 10% absolute change in foreign exchange rates to any absolute percentage change in foreign exchange rates. A 10% absolute change in foreign exchange rates would have a \$79.9 million (2010 - \$73.3 million) impact on the foreign currency assets, net of the currency hedges, of the Master Trust.

(ii) Interest rate risk

Interest rate risk refers to the effect on the fair value of the Master Trust's assets and liabilities due to fluctuations in interest rates. Among the Master Trust's assets, the most significant interest rate risk relates to its fixed-income investments. These investments are in the form of fixed-income securities directly held by the Master Trust and direct holdings of the Master Trust where there are underlying fixed-income investments.

The following table summarizes the profile of the Master Trust's directly held fixed-income holdings and the underlying fixed-income investments of the UTAM pooled funds which are subject to interest rate risk, based on term to maturity as at June 30:

Maturity Range	(thousands of dollars)			
	2011		2010	
	Fair Value \$	Weighted Average Yield	Fair Value \$	Weighted Average Yield
0-5 years	234,868	2.35%	195,175	2.42%
>5 years-10 years	182,730	3.93%	165,045	4.30%
>10 years	107,685	4.50%	83,407	4.73%
	525,283	3.34%	443,627	3.56%

As at June 30, 2011, for every 1% increase (decrease) in prevailing market interest rates, the fair value of the direct and indirect fixed-income holdings in the Master Trust is estimated to decrease (increase) by approximately \$31.9 million (2010 - \$26.4 million).

(iii) Price risk

(thousands of dollars)

Price risk is the risk that the fair value of an investment will fluctuate because of changes in market prices (other than those arising from foreign currency risk or interest rate risk), whether those changes are caused by factors specific to the individual investment, its issuer, or factors affecting all similar securities traded in the market. The Master Trust's exposure to price risk is primarily due to its equity investments. These investments are in the form of equity securities directly held by the Master Trust and direct holdings of the Master Trust where there are underlying equity investments.

The fair value of these equity investments subject to price risk is \$718,447 (2010 - \$514,405). A 10% absolute change in the fair value of these equity investments which are exposed to price risk is \$71,845 (2010 - \$51,441).

Since all other variables are held constant in assessing price risk sensitivity, it is possible to extrapolate a 10% absolute change in the fair value to any absolute percentage change in fair value.

g) Credit risk

(thousands of dollars)

Credit risk of financial instruments is the risk of loss arising from the potential failure of a counterparty, debtor or issuer (collectively, the "debtor") to honour its contractual obligations. Credit risk can take the form of an actual default, such as a missed payment of borrowed principal or interest when it comes due, or can be based on an increased likelihood of default which could result in a credit rating downgrade by credit rating agencies. Both scenarios would result in a decrease in the fair value of the obligations issued by the debtor. The Master Trust's investments in non-government-guaranteed securities are exposed to credit risk. The fair value of these investments and other assets as presented in the statement of net assets available for benefits represents the maximum credit risk exposure at the date of the financial statements. The use of forward foreign exchange contracts to hedge foreign currency risk exposure also exposes the

Master Trust to credit risk. The Plan also has an indirect exposure to credit risk to the extent that the Master Trust's direct holdings have underlying investments in non-government-guaranteed securities.

The following table summarizes the fair value of both directly held fixed-income securities and underlying investments of the UTAM Canadian Fixed Income Fund which are exposed to credit risk, by credit rating, as at June 30:

Credit Rating	2011		2010	
	Fair Value \$	% of Fixed-Income Securities	Fair Value \$	% of Fixed-Income Securities
AAA	171,633	32.67	135,972	30.65
AA	134,145	25.54	112,777	25.42
A	132,634	25.25	121,705	27.43
BAA and other	86,871	16.54	73,173	16.50
	525,283	100.00	443,627	100.00

h) Liquidity risk

Liquidity risk is the risk of the Plan not being able to settle or meet its commitments in a timely manner. These commitments include payment of the Plan's pension obligations and operating expenses, margin requirements associated with synthetic investment strategies, and the Master Trust's future commitments in private investment interests. These liquidity requirements are managed through income and distributions generated from investments, monthly contributions made by the University and Plan members, and having a sufficient amount of assets invested in liquid instruments that can be easily sold and converted to cash.

i) Fair value hierarchy

CICA Handbook Section 3862 requires disclosure of a three-level hierarchy for fair value measurement of financial instruments based on the transparency of inputs to the valuation of an asset or liability as of the financial statement date. The three levels are defined as follows:

Level 1: Fair value is based on quoted market prices in active markets for identical assets or liabilities. Level 1 assets and liabilities generally include equity securities traded in an active exchange market.

Level 2: Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar (but not identical) assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. This category generally includes mutual and pooled funds, hedge funds, Government of Canada, provincial and other government bonds, Canadian corporate bonds, and certain derivative contracts.

Level 3: Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Financial instruments are classified in this level when the valuation technique is based on at least one significant input that is not observable in the market or due to a lack of liquidity in certain markets. This category generally

includes private investment interests (which are comprised of private, externally managed pooled funds with underlying investments in equities, real estate assets and commodities) and securities that have liquidity restrictions.

The following tables present, as at June 30, the level within the fair value hierarchy for each of the financial assets and liabilities, excluding cash of \$155.4 million (2010 - \$253.2 million), measured at fair value:

	(thousands of dollars)			
	Level 1	Level 2	Level 3	2011
	\$	\$	\$	\$
Money market funds, short-term notes and treasury bills		229,493		229,493
Government and corporate bonds		526,185		526,185
Canadian equities	417	357,161		357,578
United States equities		43,010		43,010
International equities	69	317,790		317,859
Hedge funds		243,749	164,863	408,612
Private equities			340,483	340,483
Real assets			152,550	152,550
	<u>486</u>	<u>1,717,388</u>	<u>657,896</u>	<u>2,375,770</u>
Derivative-related net receivable (note 3(d))	15,493	4,270		19,763
	<u>15,979</u>	<u>1,721,658</u>	<u>657,896</u>	<u>2,395,533</u>

	(thousands of dollars)			
	Level 1	Level 2	Level 3	2010
	\$	\$	\$	\$
Money market funds, short-term notes and treasury bills		48,938		48,938
Government and corporate bonds		443,627		443,627
Canadian equities	155,588	95,137		250,725
United States equities	36,559			36,559
International equities	227,121			227,121
Hedge funds		263,180	162,656	425,836
Private equities			387,488	387,488
Real assets			106,903	106,903
	<u>419,268</u>	<u>850,882</u>	<u>657,047</u>	<u>1,927,197</u>
Derivative-related net payable (note 3(d))	(12,417)	(11,458)		(23,875)
	<u>406,851</u>	<u>839,424</u>	<u>657,047</u>	<u>1,903,322</u>

During the year, substantially all of the Master Trust's publicly traded investments were transferred to the UTAM pooled funds resulting in a significant shift in the fair value of investments from Level 1 to Level 2 in the fair value hierarchy.

The following table summarizes the changes in the fair value of financial instruments classified in Level 3 of the Master Trust for the year ended June 30:

	(thousands of dollars)	
	2011	2010
	\$	\$
Fair value, beginning of year	657,047	609,854
Total realized and unrealized gains	17,076	36,049
Purchases	133,835	165,879
Sales	(150,062)	(154,735)
Fair value, end of year	657,896	657,047

j) Hedge funds and private investment interests

The Master Trust invests in certain hedge funds and private investment interests which are comprised of externally managed funds with underlying investments in equities, debt, real estate assets and commodities. Because these investment interests are not readily tradable, their estimated values are subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such interests existed. Sensitivity analysis demonstrates that a 10% absolute change in the fair value of investments in hedge funds and private investment interests would result in a change to the total fair value of these investments of the Master Trust of \$90.2 million (2010 - \$92.0 million).

Refer to note 3(k) for a breakdown of the Master Trust's uncalled commitments related to private investment interests.

k) Uncalled commitments

As at June 30, 2011, approximately 19.33% (2010 - 22.93%) of the Master Trust's investment portfolio is invested in private investment interests managed by third-party managers. These private investment interests typically take the form of limited partnerships managed by a General Partner. The legal terms and conditions of these private investment interests, which cover various areas of private equity investments and real asset investments (e.g., real estate and infrastructure) require that investors initially make an unfunded commitment and then remit funds over time (cumulatively up to a maximum of the total committed amount) in response to a series of capital calls issued to the investors by the manager. As at June 30, 2011, the Master Trust had uncalled commitments of approximately \$162.8 million (2010 - \$209.5 million). The capital committed is called by the manager over a pre-determined investment period, which varies by fund but is generally about three to five years from the date the fund closes. In practice, for a variety of reasons, the total amount committed to a fund is very rarely all called.

4. Plan contributions

Employer contributions were not made in the current fiscal year since the Plan's assets exceeded the Plan's liabilities as reported in the actuarial valuation as of July 1, 2008.

5. Refunds and transfers

(thousands of dollars)

Refunds and transfers consist of the following:

	2011	2010
	\$	\$
Refunds of contributions upon termination	250	
Transfers to other plans upon termination	564	
	814	

6. Fees and expenses

(thousands of dollars)

Fees and expenses consist of the following:

	2011	2010
	\$	\$
Investment management fees:		
External managers ¹	992	1,001
UTAM ^{1,2,4}	123	103
Pension records administration	115	108
Actuarial and administration fees	63	53
Administration cost - University of Toronto ⁴	49	42
Trustee and custodial fees ¹	29	37
Transaction fees ^{1,3}	20	27
Other fees	20	19
	1,411	1,390

¹ Reflect expenses that are directly charged to the Master Trust and are allocated back to the Plan.

² The increase in UTAM fees mainly due to salary increase and additional staff.

³ Transaction fees represent the cost of purchasing and selling investments.

⁴ Represents related party transactions.

7. Obligations for pension benefits

(thousands of dollars)

The actuarial present value of accrued pension benefits is determined by applying best estimate assumptions agreed to by the University and the projected benefit method pro-rated on services. The accrued pension benefits balance was determined by Aon Hewitt, a firm of consulting actuaries, through the use of an actuarial funding valuation as of July 1, 2010 which was extrapolated to June 30, 2011 using actual benefit payments during the period July 1, 2010 to June 30, 2011 and assuming no liability experience gains or losses during the intermittent period.

The actuarial present value of accrued pension benefits as at June 30, 2011 and 2010 and the principal components of changes during these years are as follows:

	2011	2010
	\$	\$
Actuarial present value of accrued pension benefits, beginning of year	109,036	106,636
Interest on accrued benefits	6,947	6,833
Benefits accrued	1,827	1,843
Benefits paid	(6,154)	(4,870)
Experience gain		(1,406)
Assumption changes	4,578	
Actuarial present value of accrued pension benefits, end of year	<u>116,234</u>	<u>109,036</u>

Significant assumptions used in the actuarial valuation are as follows:

	2011	2010
	%	%
Interest rate	6.25	6.50
Consumer Price Index	2.50	2.50
Salary escalation rate	4.50	4.50