UNIVERSITY OF
TORONTO

University of Toronto Pension Plans

Annual Financial Report

For the Year Ended June 30, 2010

Highlights[1]

As at July 1, 2010

With Comparative Figures at July 1, 2009

At July 1, 2010 (millions of dollars)	Accrued Liabilities	Market Value of Assets	Market surplus (deficit)
University of Toronto Pension Plan (RPP)			
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)
University of Toronto (OISE) Pension Plan - RPP(OISE)			
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)
Supplemental Retirement Arrangement (SRA)			
Going concern actuarial valuation	138.3	115.8	(22.5)
Pension Plan Reserve		24.9	24.9

At July 1, 2009 (millions of dollars)	Accrued Liabilities	Market Value of Assets	Market surplus (deficit)
University of Toronto Pension Plan (RPP)			
Going concern actuarial valuation	2,983.8	1,954.8	(1,029.0)
Solvency actuarial valuation [2]	2,833.8	1,953.8	(880.0)
Hypothetical wind-up actuarial valuation [2]	3,780.1	1,953.8	(1,826.3)
University of Toronto (OISE) Pension Plan - RPP(OISE)			
Going concern actuarial valuation	106.6	71.5	(35.1)
Solvency actuarial valuation [2]	104.1	71.1	(33.0)
Hypothetical wind-up actuarial valuation [2]	138.5	71.1	(67.4)
Supplemental Retirement Arrangement (SRA)			
Going concern actuarial valuation	136.1	117.0	(19.1)
Pension Plan Reserve		12.4	12.4

[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 11 and 12 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, 2010

With Comparative Figures at July 1, 2009

Participants	July 1, 2010	July 1, 2009
RPP	16,041	15,595
RPP(OISE)	270	270

	For the year-ended	
Contributions	June 30, 2010	June 30, 2009
Employer - Current service	73.3	69.6
Employer - Special payments	27.6	30.2
Total Employer *	**100.9**	**99.8**
Total Employee - Current Service	**36.5**	**35.1**

* Employer contributions for the year-ended June 30, 2011 are estimated to be $105.1 million, which include $77.9 million current service funding and $27.2 planned special funding. Of the $27.2 planned special funding, $9.8 million represents required going concern funding, $5.0 million represents special solvency funding, and $12.4 will be transferred to the pension reserve.

	For the year-ended	
Investment Earnings	June 30, 2010	June 30, 2009
Actual investment return **	8.2%	-27.6%
Target return (4.0% plus CPI)	5.0%	3.7%

** 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, 2010	July 1, 2009
Increase in consumer price index (CPI)	2.5%	2.5%
Increase in salaries	4.5%	4.5%
Discount rate on liabilities	6.5%	6.5%

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Purpose of this Report

The University of Toronto (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. Plan advisors are State Street Trust Company (custodian of assets), Hewitt Associates Corp. (actuaries and consultants), Ernst & Young LLP (external auditors) and University of Toronto Asset Management Corporation (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, is responsible for the financial administration of the funds including liaison with the custodian, actuarial consultant, investment manager and external auditors.

The purpose of this report is to provide the Audit Committee and the Business Board[1] with:

- an assessment of the current financial health of the plans.
- an assessment whether the current policies and strategies are adequate to ensure sufficient assets are available to pay current and future pension benefits.
- an assessment whether the requirements for provision of pensions can be achieved without exposing the University to undue risk. Undue risk would be a requirement to make large unplanned special payments to meet regulatory requirements.

The purpose of this report is also to seek approval of the audited pension fund financial statements for the RPP and RPP(OISE) at June 30, 2010.

[1] *Once the Pension Committee is operational, it will assume many of the responsibilities currently assigned to the Business Board.*

How a Defined Benefit Pension Plan Works

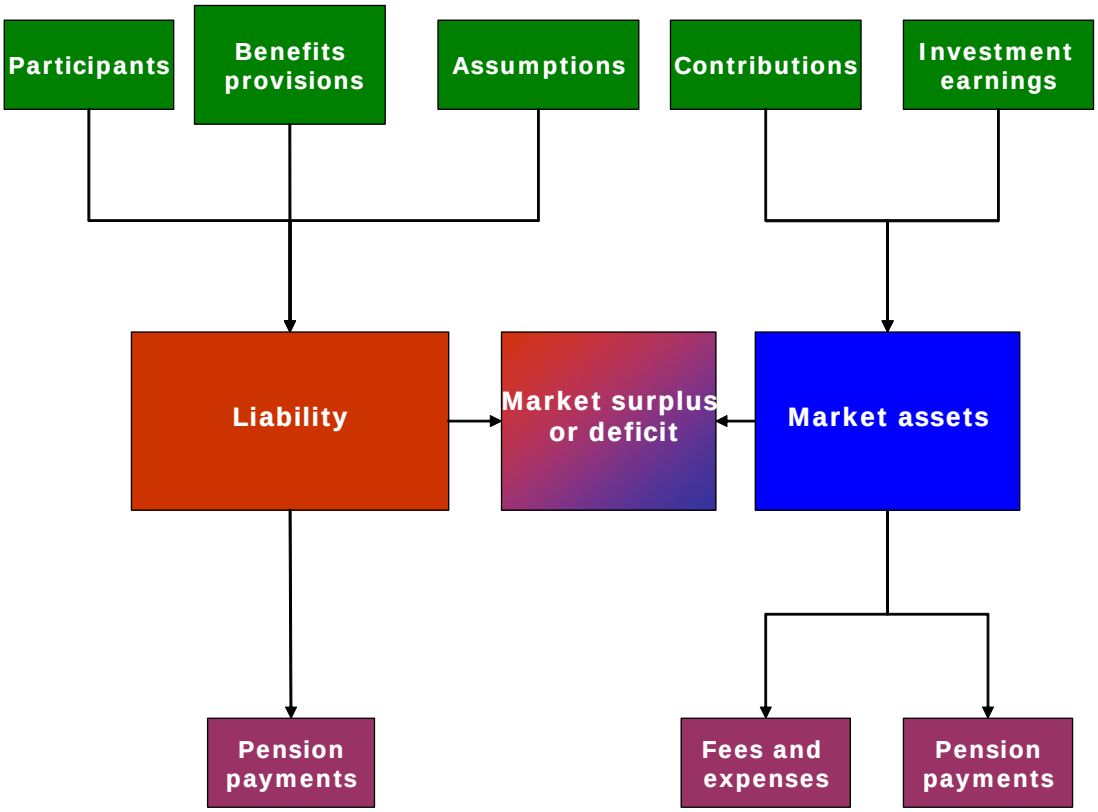
A pension plan is any arrangement by which an employer promises to provide retirement income to members. There are essentially two types of pension plans currently permitted under pension legislation in Ontario – a defined contribution plan and a defined benefit plan. A defined contribution plan provides 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 results 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.

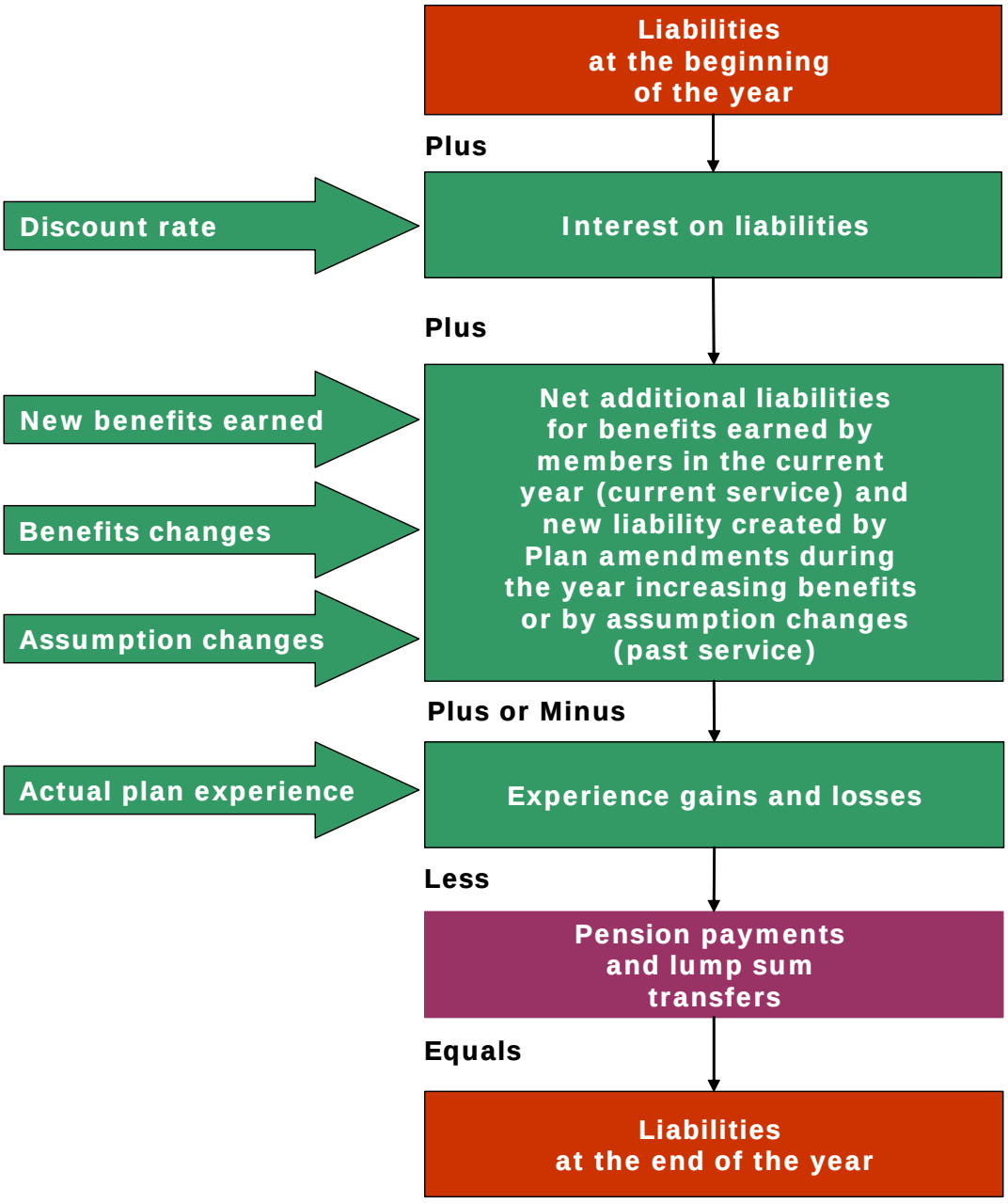
The challenge for defined benefit plans is to find a way to reasonably estimate the current net present value of what pensions will be paid to retired members over time (the liabilities) and to set aside money now to support payment of those pensions in future (the assets). The relationship is illustrated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

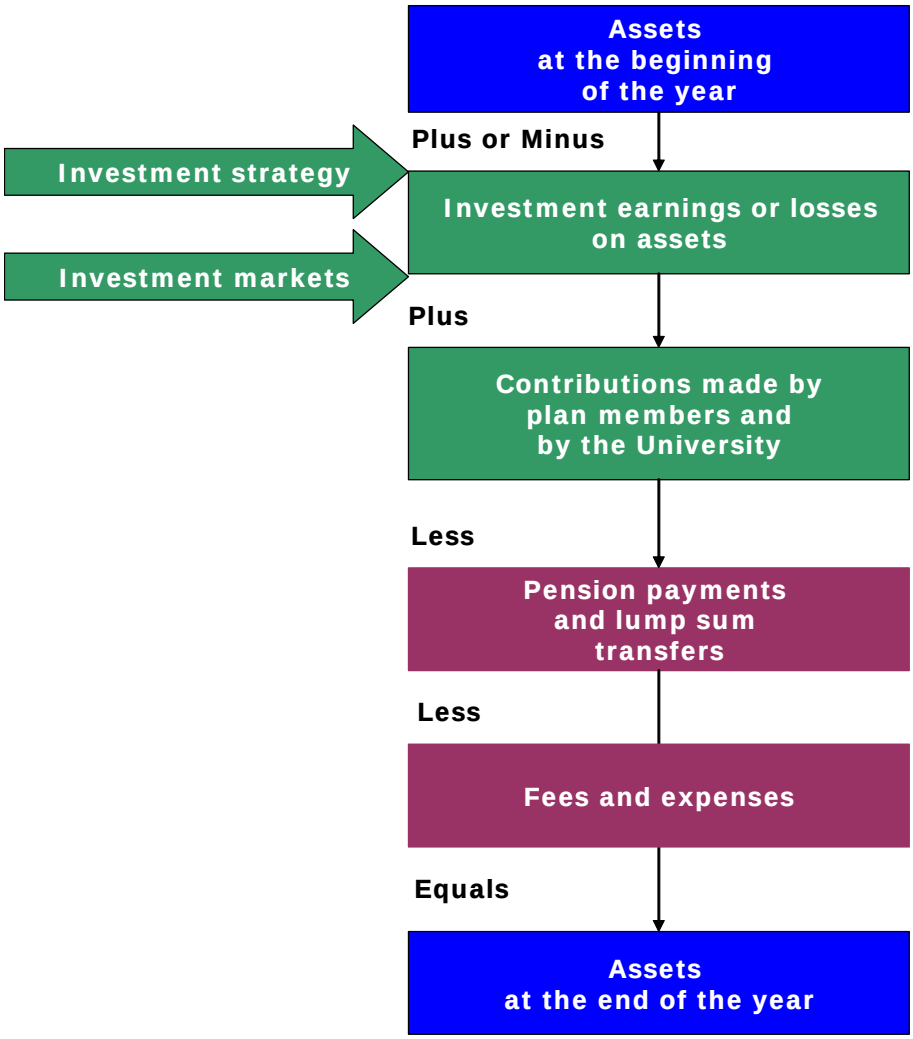
- members work an additional year, thus increasing their pension benefit at retirement. This is known as current service and increases the liability.
- members receive a larger pension benefit for the same salary and years of service through improvements to past service benefits. This increases the liability.
- 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 and our analysis focus 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, 2010 and will apply the elements of defined benefit pension plans shown in the diagram on page 7 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, 2010

At July 1, 2010, the going concern accrued liabilities[1] and market value of 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%)

At July 1, 2009, the liabilities[1] and assets for the University of Toronto defined benefit plans were:

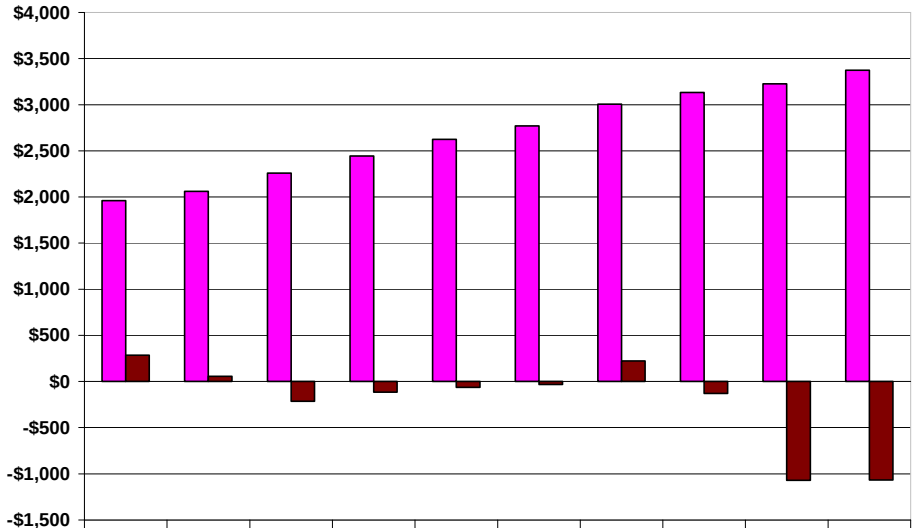
July 1, 2009	Going Concern Liabilities[1]	Market Value of Assets	Market Surplus (Deficit)	Market Surplus (Deficit) as % of Liabilities
RPP	2,983.8	1,954.8	(1,029.0)	(34%)
RPP(OISE)	106.6	71.5	(35.1)	(33%)
SRA	136.1	117.0	(19.1)	(14%)
Pension Reserve		12.4	12.4	
Total	3,226.5	2,155.7	(1,070.8)	(33%)

As you can see from the above tables, the overall financial health of pensions stayed essentially the same between July 1, 2009 and July 1, 2010. The main reason was interest charged on the pension deficit which was offset by investment performance that exceeded the University target return for the period, as well as additional actual special funding of $27.2 million ($14.8 million to the RPP and $12.4 million to the pension reserve) injected by the University in addition to the normal current service cost contributions made by the members and by the University. In addition there were $0.4 million in transfers made by the University to cover the Voluntary Early Academic Retirement Program plan liability. The special funding of $27.2 million in 2010 exceeded the $14.8 million required to be put into the plans under the terms of the Pension Benefits Act and its regulations.

[1] *For staff groups for whom salary increases had not been finalized at the date of the valuation, actual salaries at the valuation date were used. For Faculty and Librarians, salaries as of July 1, 2010 were estimated based on the arbitration award released on October 12, 2010.*

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

University of Toronto RPP, RPP(OISE)[1] and SRA Combined as at July 1
(millions of dollars)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total accrued liablities	1,961.1	2,062.6	2,258.7	2,445.3	2,623.6	2,771.3	3,006.5	3,133.6	3,226.5	3,373.3
Total market surplus (deficit)	284.2	57.6	(213.8)	(115.9)	(63.4)	(31.4)	224.8	(129.3)	(1,070.8)	(1,065.9)

[1] Including partial wind-up members in years up to 2007

Between 2003 and 2007 there was a distinct improvement trend in the status of the plans. However, beginning in 2008, and much more pronounced in 2009, the impact of the financial crisis was to reduce market returns significantly. The overall financial position of the plans was stable between 2009 and 2010.

We want to assess whether the pension plans are financially healthy and whether the current strategies are appropriate. To do this we need information on current financial health and projections of future financial health.

IMPORTANT NOTE

For the purposes of the following analysis, 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, for purposes of analysis and assessment of the University's ability to satisfy the pension promise, 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.

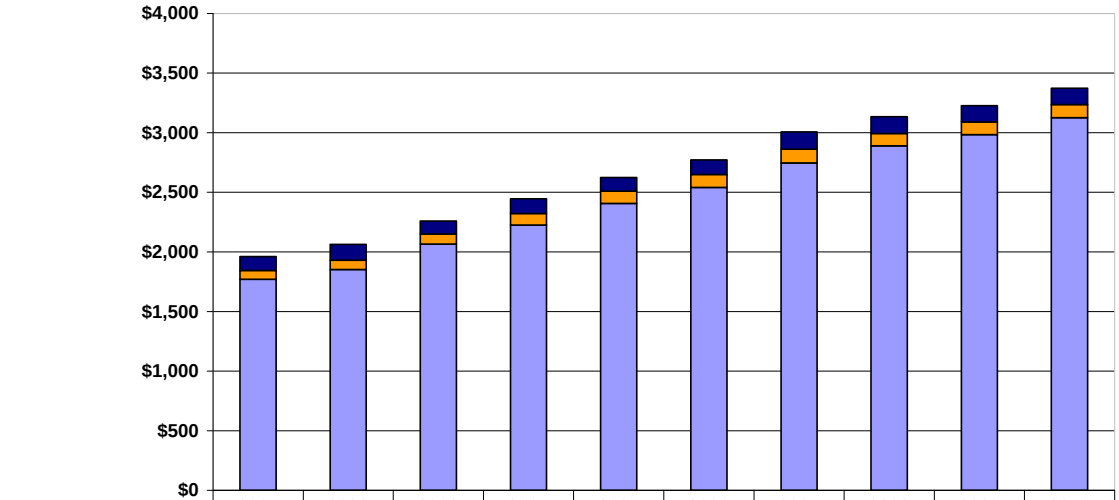
Pension Liabilities

Going concern pension liabilities for the University of Toronto plans totaled $3,373.3 million at July 1, 2010, comprising:

$	3,126.0 million	RPP pension liabilities
$	109.0 million	RPP(OISE) pension liabilities
$	138.3 million	SRA pension liabilities

The growth in those liabilities since 2001 is shown on the following chart.

Going Concern Pension Liabilities [1]
at July 1
(millions of dollars)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SRA liabilities	116.8	131.8	108.6	122.7	112.9	122.1	145.4	139.8	136.1	138.3
RPP(OISE) liabilities	73.8	77.9	83.4	97.6	103.7	108.6	115.3	104.2	106.6	109.0
RPP liabilities	1,770.5	1,852.9	2,066.7	2,225.0	2,407.0	2,540.6	2,745.8	2,889.6	2,983.8	3,126.0

[1] Including partial wind-up members in RPP(OISE) liabilities in years up to 2007

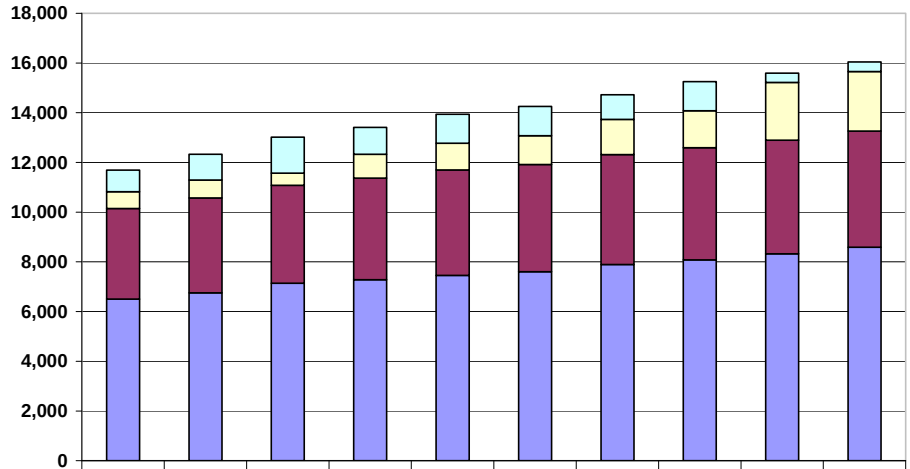
As noted earlier, pension liabilities are valued at July 1 and are dependent on a number of factors. The following sections will examine the impact of these factors on the total going concern pension liabilities for the University of Toronto plans.

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, 2010, total member participation was 16,041.

RPP
Member Participation
at July 1



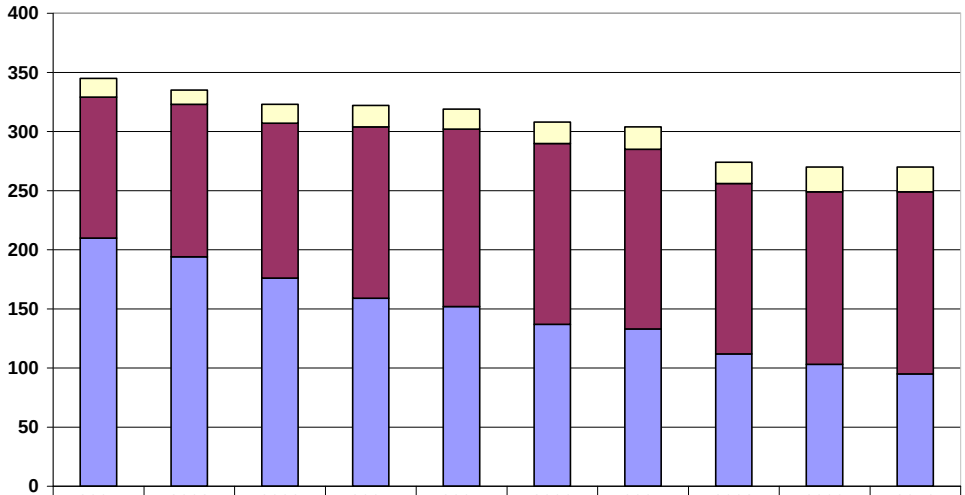
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Suspended, exempt, pending	868	1,033	1,447	1,076	1,164	1,178	999	1,168	374	382
Terminated, vested	677	724	489	961	1,072	1,154	1,413	1,493	2,326	2,402
Retired members	3,642	3,813	3,942	4,078	4,246	4,323	4,421	4,514	4,569	4,670
Active members	6,504	6,759	7,141	7,288	7,452	7,599	7,894	8,078	8,326	8,587

The continued growth in active membership helps to maintain a stable duration[1] 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 270 at July 1, 2010.

RPP(OISE)
Member Participation [1]
at July 1



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Terminated, vested	16	12	16	18	17	18	19	18	21	21
Retired members	119	129	131	145	150	153	152	144	146	154
Active members	210	194	176	159	152	137	133	112	103	95

[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, 2010.**

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 $136,522) 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 2013 to 2014. The liabilities in the SRA increased from $136.1 million in 2009 to $138.3 million in 2010.

Pension Liabilities

Assumptions

No one knows what salaries will be for member 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 established annually by the plan's actuary, Hewitt Associates, and reviewed with University administration. The same actuarial assumptions are in place for all three pension plans. Key actuarial assumptions at July 1, 2010 are as follows (see appendix 3 for a full list).

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

Mortality rates:	1994 Uninsured Pensioner Mortality Table, with mortality improvements under Scale "AA" projected to 2015.	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 Income Tax Act* maximum benefit limit:	$2,494.44 in 2010 increasing at a rate of 3.5% thereafter (assumes a maximum salary of $136,522 in 2010 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.

Interest rate (Discount rate on liabilities):	6.5% per annum (2.5% CPI plus 4.0% real return).	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.

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.

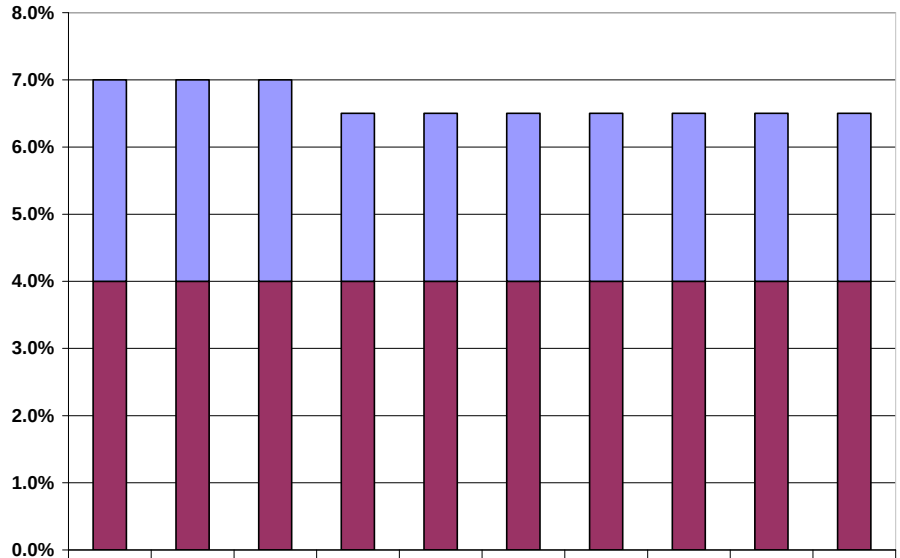
Each year, the actuarial valuation records the actual results and compares them to the assumptions. These variances, over time, provide a rationale for ongoing adjustments to the assumptions. Consistent variances in one direction, either negative or positive, suggest that an assumption needs to be changed. 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, 2010, they are 2.5% increase in CPI, 4.5% increase in salaries (2.5% CPI and 2.0% merit and promotion), and 6.5% interest rate (2.5% CPI and 4.0% real return). **There have been no changes in these assumptions from 2009.**

A Matter of Interest (Discount Rate on Liabilities)

The following chart illustrates the history of this assumption from 2001 and shows that the discount assumption has 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 has been in place for many years.

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



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CPI	3.0%	3.0%	3.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Interest rate in excess of CPI	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

The discount rate that has been assumed by defined benefit pension plans has been the subject of considerable debate in the pension community over the past several years.

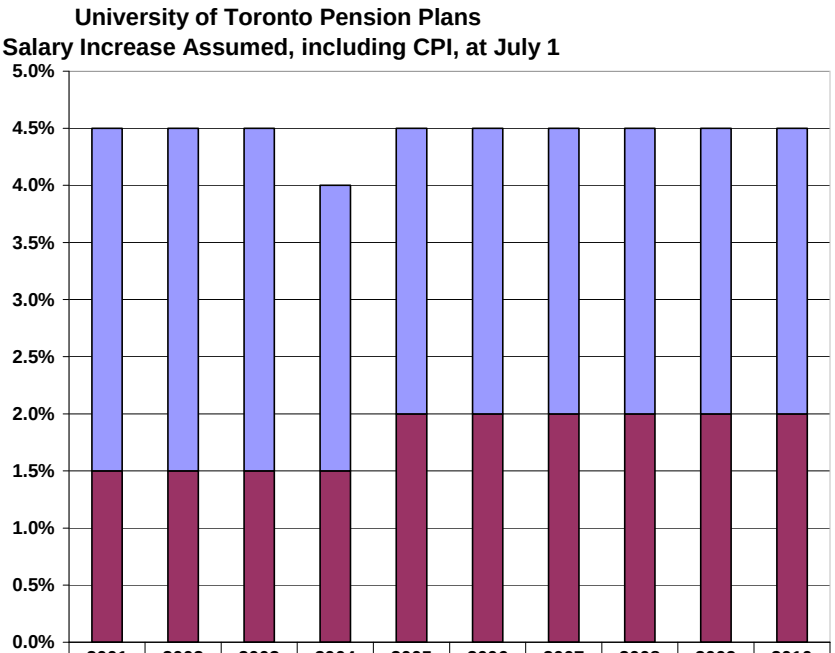
The key point of debate regarding this assumption is the difference between the assumed rate of return and what the long-term assumption would be for minimal risk, essentially fixed income, investments. When the assumed rate is higher than the minimal risk rate, a pension plan is assuming that it will receive additional investment return over the long-term from investments such as equities, which are more risky than fixed-income investments, in advance of it being earned. This is known as the *risk premium*. If the investment risk and return targets, which are currently being reviewed, were lowered, the discount rate assumption would also need to be lowered.

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% for the past several years. 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.



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CPI	3.0%	3.0%	3.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Increase in salaries in excess of CPI	1.5%	1.5%	1.5%	1.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

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.

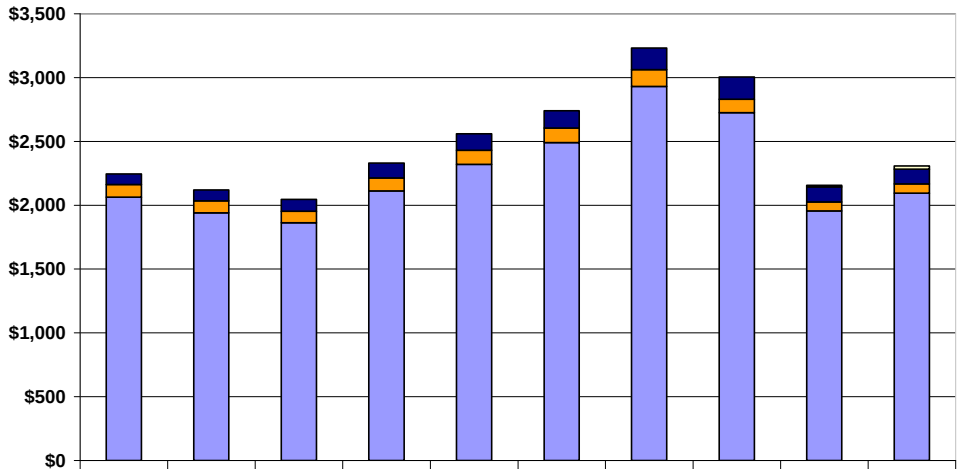
Pension Assets

Total assets for the three pension plans (including the pension reserve) were $2,307.4 million at June 30, 2010, comprising:

$2,093.9 million	RPP pension assets
$ 72.8 million	RPP(OISE) pension assets
$ 115.8 million	SRA university assets
$ 24.9 million	Pension reserve university assets

The change in those assets since 2001 is shown on the following chart.

Market Value of Pension Assets [1]
at June 30
(millions of dollars)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Pension reserve assets	-	-	-	-	-	-	-	-	12.4	24.9
SRA assets	82.2	85.5	91.2	115.8	130.6	136.2	170.0	174.2	117.0	115.8
RPP(OISE) assets	100.2	94.7	90.5	101.8	109.0	113.8	131.6	105.9	71.5	72.8
RPP assets	2,062.9	1,940.0	1,863.2	2,111.8	2,320.6	2,489.9	2,929.7	2,724.2	1,954.8	2,093.9

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

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 results 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 come from contributions and how much should be targeted to come from investment earnings?

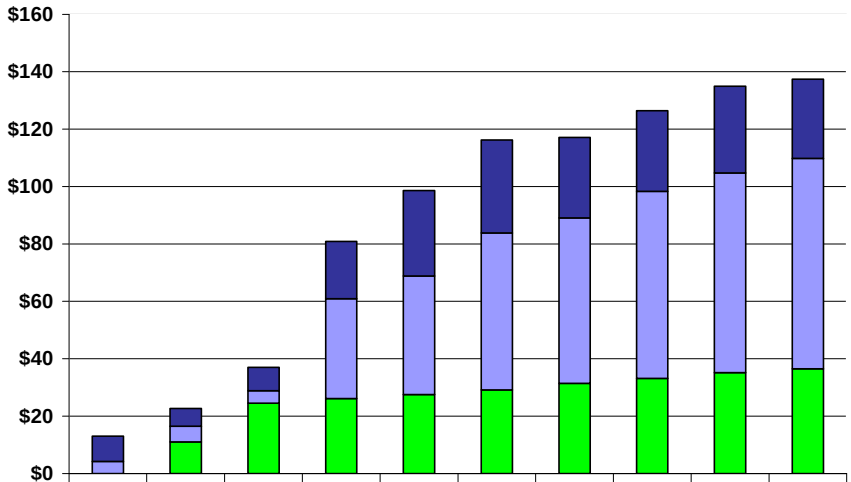
The higher the investment earnings that can be generated, the lower the contributions needed to be provided by members and by the University. However, there are significant risks inherent in investment markets and the higher the return that is targeted, the higher the risk of losing money is likely to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

Contributions by Source (Employee and Employer) Across All Plans [1]
for the year ended June 30
(millions of dollars)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
ER special payments	8.8	6.2	8.1	19.9	29.8	32.4	28.1	28.1	30.2	27.6
ER current service contribution	4.2	5.5	4.4	34.7	41.3	54.6	57.6	65.1	69.6	73.3
EE current service contribution	0.0	11.0	24.5	26.2	27.5	29.2	31.4	33.2	35.1	36.5

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

The chart shows that the University has contributed $629.5 million to the pension plans for the 10-year period from 2001 through 2010, while members have contributed $254.6 million over the same period. If we look at a longer period from July 1, 1986 and project expected contributions forward to June 30, 2011, a 25-year period, University contributions are expected to total approximately $845 million, while member contributions are expected to total about $425 million. This essentially represents a contribution by the University of $2 for each $1 contributed by members.

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. Proposed legislation by the Province on Ontario to provide an opportunity for certain institutions in the broader public sector to fund solvency payments over a longer period is discussed in the section on Options for Funding the Pension Deficit. It should be noted that, in the determination of special payment requirements, asset smoothing is used.

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.

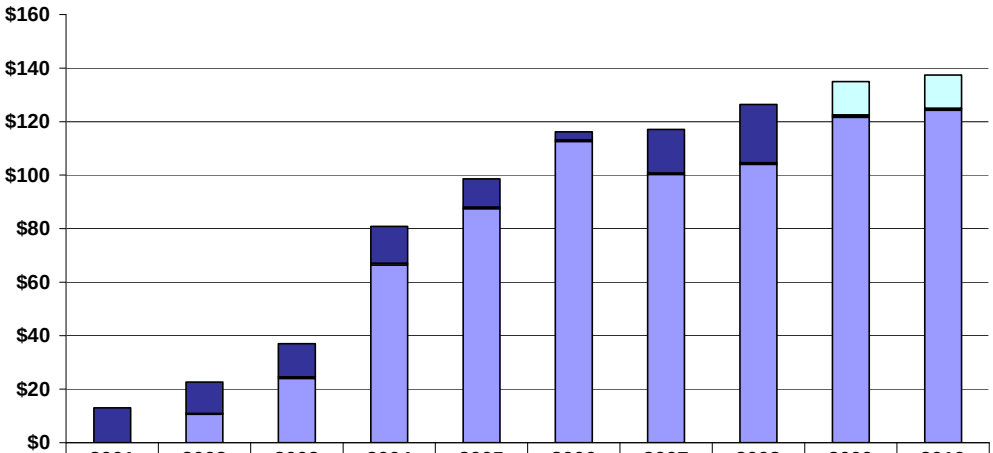
After 2002, due in large part to poor investment markets, the surplus declined significantly. The University adopted a new pension contribution strategy, approved by the Business Board in January 2004, with the objective of providing smoothed funding to deal with these deficits over a multi-year period, 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 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.
- 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 over the past several years.

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



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Pension reserve	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	12.4	12.4
SRA	13.0	11.7	12.4	13.7	10.5	3.0	16.3	21.8	0.3	0.2
RPP (OISE/UT)	0.0	0.3	0.6	0.7	0.6	0.6	0.6	0.6	0.5	0.5
RPP	0.0	10.7	24.0	66.4	87.5	112.6	100.2	104.0	121.7	124.3

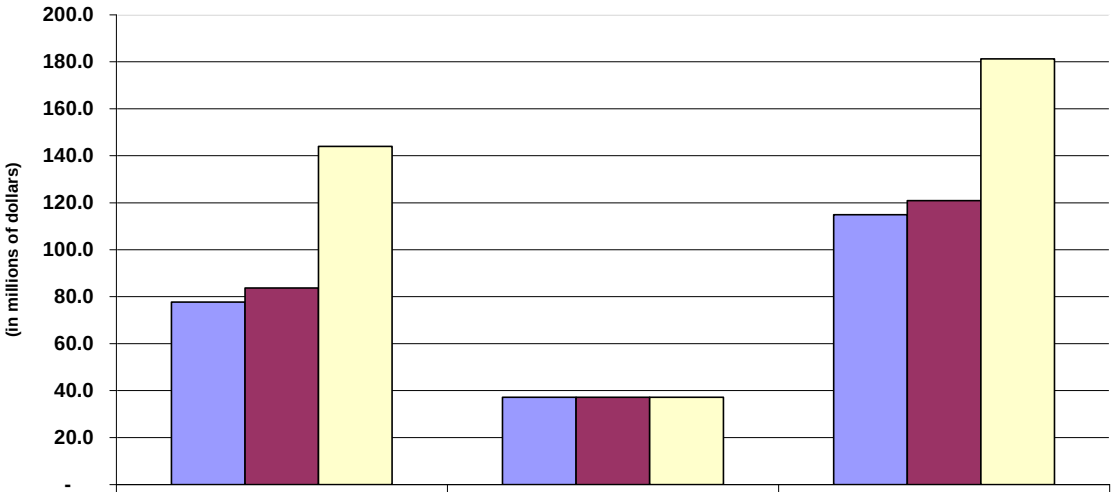
Sensitivity of current service cost to changes in discount rates:

As noted earlier, there are only two ways of funding a defined benefit pension plan – contributions and investment earnings. Therefore the level of contributions required is highly dependent upon assumptions about future investment earnings. A lower investment return assumption means that less pension plan funding is being generated from investment returns, and therefore, that higher contribution levels are needed to pay the promised pension benefits.

The University's current assumption of a 4.0% real investment return results in required employer current service contributions to the RPP of $77.7 million per annum (assuming the current employee contribution formula). A reduction of 0.25% in the assumed rate from 4.0% to 3.75% would increase employer current service contributions to the RPP by $6.0 million per annum to $83.7 million. A larger reduction in the assumed rate, from 4.0% to 2.0% (a low-risk investment portfolio assumption) would cause the required employer current service contribution to the RPP to increase by 85.3%, from $77.7 million per annum to $144.0 million per annum.

Such an increase in the annual employer current service contribution requirement would be separate and apart from any past service special payments required to fund the pension going concern deficit or solvency deficit. Please see the following graph for the impact of a change in assumed investment return on current service costs.

University of Toronto Pension Plan (RPP)
Current Service Cost for 2010-11
Under Varying Real Investment Return Assumptions



	Employer	Employee	Total
4.00%	77.7	37.2	114.9
3.75%	83.7	37.2	120.9
2.00%	144.0	37.2	181.2

This analysis clearly demonstrates the sensitivity of the current service contribution requirement to a small change in the assumed real investment return, assuming the additional costs were completely borne by the employer.

Commentary on the effectiveness of the University's contribution strategy can be found in a later section. Its effectiveness must be judged in concert with the evaluation of investment strategy, which is discussed in the next section.

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 generally performing, in Canada and around the world?

In the funding model described above, there is obviously pressure to earn good investment returns. However, the overriding purpose of the pension assets – to be there to fund payments to retired members – means that pension plans should not incur too much risk of loss in trying to earn acceptable investment returns. To assess the appropriateness of the policy around investment earnings, we can ask:

- how are the investment risk and return targets established?
- how risky are the investment risk and return targets and are they appropriate for the pension plans?
- do they provide sufficient investment earnings to moderate contributions to an acceptable level without exposing the pension plans to a large risk of loss?
- who manages the investments and are there sufficient controls in place to ensure that the assets are complete and accurate?
- what happens if there is a large investment loss?

This section will attempt to answer these questions.

The registered pension plans are invested through the unitized pension master trust which combines for investment purposes the assets of the RPP and the RPP(OISE). The master trust 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 targets 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 Pension Fund Master Trust Investment Policy ("policy") was most recently approved by the Business Board on December 14, 2009. As required by the Financial Services Commission of Ontario, the Business Board annually reviews the investment policies and goals and confirms or amends them as appropriate. The policy stipulates a maximum 10% risk tolerance and a minimum 4.0% real investment return target, both measured over 10-year periods. This means that the real return is expected to be between -6% and 14%, two thirds of the time over a ten-year period. These risk parameters are currently under review by the University. There are additional risk protection strategies in place to complement the risk tolerance specified in the investment policy. These include the annual $27.2 million special payment contribution for pensions, over and above the amount allocated annually for current service cost, and the requirement for reserving, both of which were discussed earlier under Contributions.

The University of Toronto Asset Management Corporation (UTAM), which was formed in April 2000, is a professional investment management organization that is wholly owned by the University and governed by a Board of Directors. The UTAM Board is responsible for the oversight and direction of UTAM. UTAM reports on the investments under management to the University Administration and to the newly established Pension Committee.

UTAM is charged with several professional service objectives: adherence to the policy including the management of return and risk to within the target levels stated in the investment policy; assistance to the University to help ensure that the plan's custodian maintains complete and accurate records of the assets; and maintenance of an appropriate infrastructure to attain the aforementioned objectives.

During late 2009 and into early 2010, the University conducted a wide-ranging review of the oversight and management of the University's investments. The recommendations of the review fall under the following three themes: closer alignment of management and governance with the University; clearer accountability; and stronger risk management. The UTAM Board has been reduced in size and its focus is corporate governance and compliance, rather than investment strategy per se. Strategic counsel on asset management is now being obtained from an independent blue-ribbon Investment Advisory Committee. The Committee held its first meeting on September 1st , 2010, and will be meeting regularly from now on. Finally, UTAM's CEO has overseen substantial changes to the portfolio that should lead to both reduced fees and more effective risk management.

The pension master trust investment strategy has been established, and is 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.

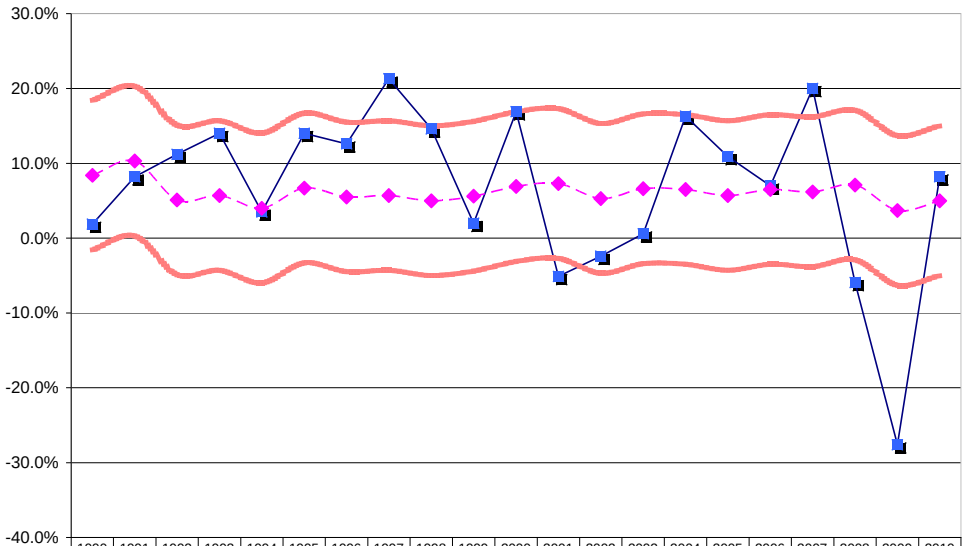
While a longer term perspective is important, it is useful to regularly assess the pension master trust short term returns compared to the objective set by the University. In this regard, performance is assessed, as stated above, versus the 4% real return (net of fees and expenses) objective. Performance is also measured against the Reference Portfolio[1] 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, 2010 for the pension master trust was 8.2%, net of investment fees and expenses, which was above the University's target return of 5.0% (4.0% real return plus 1.0% CPI). The positive investment return of 8.2% in 2010 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.

[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).*

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 1990.

Pension Master Trust
1-Year Annual Rates of Return



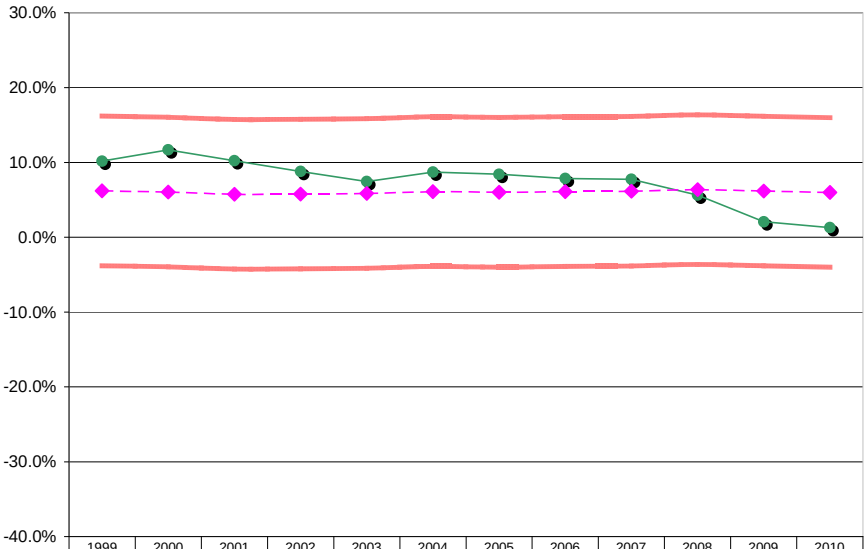
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Actual investment return *	1.9%	8.2%	11.2%	14.0%	3.5%	14.0%	12.6%	21.3%	14.6%	2.0%	16.9%	-5.1%	-2.4%	0.6%	16.3%	10.9%	7.0%	20.0%	-5.9%	-27.6	8.2%
Target return **	8.4%	10.3%	5.1%	5.7%	4.0%	6.7%	5.5%	5.7%	5.0%	5.6%	6.9%	7.3%	5.3%	6.6%	6.5%	5.7%	6.5%	6.2%	7.1%	3.7%	5.0%
Standard deviation +10%	18.4%	20.3%	15.1%	15.7%	14.0%	16.7%	15.5%	15.7%	15.0%	15.6%	16.9%	17.3%	15.3%	16.6%	16.5%	15.7%	16.5%	16.2%	17.1%	13.7%	15.0%
Standard deviation -10%	-1.6%	0.3%	-4.9%	-4.3%	-6.0%	-3.3%	-4.5%	-4.3%	-5.0%	-4.4%	-3.1%	-2.7%	-4.7%	-3.4%	-3.5%	-4.3%	-3.5%	-3.8%	-2.9%	-6.3%	-5.0%

* 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 1990, 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 19-year period from 1990 to 2008, the average annual actual return was 8.2% compared to an average annual target return of 6.3%. If we include the 2009 and 2010 years, a 21-year period, the average annual actual return was 6.1% compared to the average annual target return of 6.1%. Over the period since 1990, actual returns have exactly met the University target return of CPI + 4%.

Pension Master Trust
Ten-Year Rolling Average Return



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Ten-Year rolling average return	10.2%	11.7%	10.2%	8.8%	7.5%	8.7%	8.4%	7.9%	7.7%	5.6%	2.1%	1.3%
Ten-Year rolling target return	6.2%	6.1%	5.8%	5.8%	5.9%	6.1%	6.0%	6.1%	6.2%	6.4%	6.2%	6.0%
Ten-Year rolling Standard deviation +10%	16.2%	16.1%	15.8%	15.8%	15.9%	16.1%	16.0%	16.1%	16.2%	16.4%	16.2%	16.0%
Ten-Year rolling Standard deviation -10%	-3.8%	-4.0%	-4.3%	-4.2%	-4.1%	-3.9%	-4.0%	-3.9%	-3.8%	-3.6%	-3.8%	-4.0%

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 market crash began 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 the market, 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, 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.

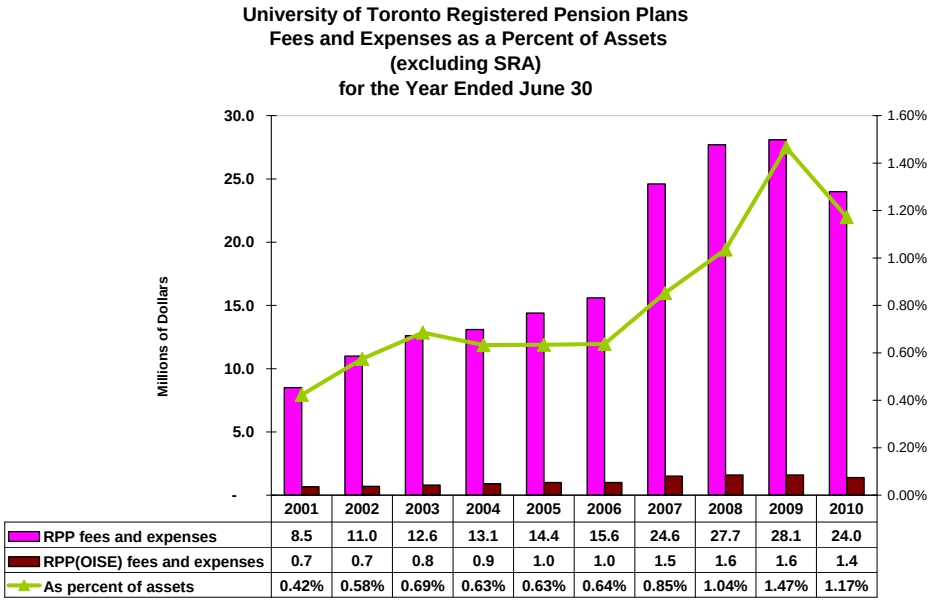
Pension Assets

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, 2010 were as follows, for the RPP and RPP(OISE), in millions of dollars:

	RPP	RPP(OISE)	2010 Total	2009 Total
Investment management fees - external managers	19.0	1.0	20.0	23.6
Investment management costs - UTAM	1.9	0.1	2.0	2.1
Custodial costs	0.8	0.0	0.8	0.9
Pension administration services	0.7	0.1	0.8	0.8
Transaction fees	0.7	0.0	0.7	1.0
University of Toronto administrative costs	0.3	0.1	0.4	0.4
Actuarial and audit fees	0.3	0.1	0.4	0.5
Legislative fees	0.3	0.0	0.3	0.4
Total	24.0	1.4	25.4	29.7

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



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
RPP fees and expenses	8.5	11.0	12.6	13.1	14.4	15.6	24.6	27.7	28.1	24.0
RPP(OISE) fees and expenses	0.7	0.7	0.8	0.9	1.0	1.0	1.5	1.6	1.6	1.4
As percent of assets	0.42%	0.58%	0.69%	0.63%	0.63%	0.64%	0.85%	1.04%	1.47%	1.17%

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 1.08% in 2009-10 (no change from 2008-09).

External investment management fees, which represent 79% of total master trust fees in 2010, are normally related to the size of assets under management. During 2010, although total assets under management increased due to valuation improvement across capital markets, total external investment management fees fell approximately 15%, or $3.6 million, from the 2009 level. The reduction is due to a shift in the master trust's asset composition during 2010 from asset classes and strategies with higher investment management fees (such as hedge funds and actively-managed equities), to those with lower fees (such as fixed income and passive indexing strategies). 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, 2010, approximately 46% of the master trust's assets were investments for which management fees were denominated in foreign currencies.

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 pension master trust return of 8.2% for 2010 was above the University target return of 5.0% (i.e. CPI +4%). Fees and expenses as a percentage of assets, as can be seen from the previous graph, decreased from 1.47% in 2009 to 1.17% in 2010, due to the combined effect of an increase in asset values and a drop in fees and expenses (primarily external management fees). 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 pension master trust's 10-year target objectives of a 4% real return and a 10% standard deviation of returns (i.e. risk tolerance).

For more information on fees and expenses refer to note 6 of the University of Toronto Pension Plan financial statements (page 113 of this report), and note 6 of the University of Toronto (OISE) Pension Plan financial statements (page 131 of this report).

Pension Assets

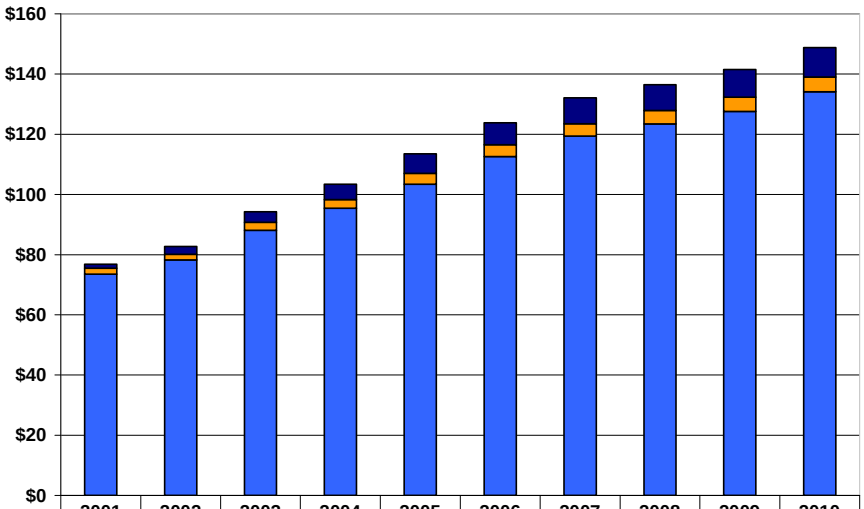
Payments

The section on participants showed that the number of retired members in the RPP has increased from 3,642 in 2001 to 4,670 in 2010, an increase of 28.2% while the number of retired members in the RPP(OISE) has increased from 119 to 154, an increase of 29.4%. During this period, 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 $76.8 million in 2001 to $148.8 million in 2010, an increase of 93.8%.

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 recent retired members reflecting higher average earnings.

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



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SRA retirement payments	1.3	2.6	3.6	5.1	6.5	7.3	8.6	8.5	9.2	9.8
RPP(OISE) retirement payments	2.0	1.9	2.6	2.9	3.6	3.9	4.1	4.5	4.7	4.9
RPP retirement payments	73.5	78.2	88.1	95.4	103.4	112.6	119.4	123.4	127.6	134.1

Pension Market Deficit

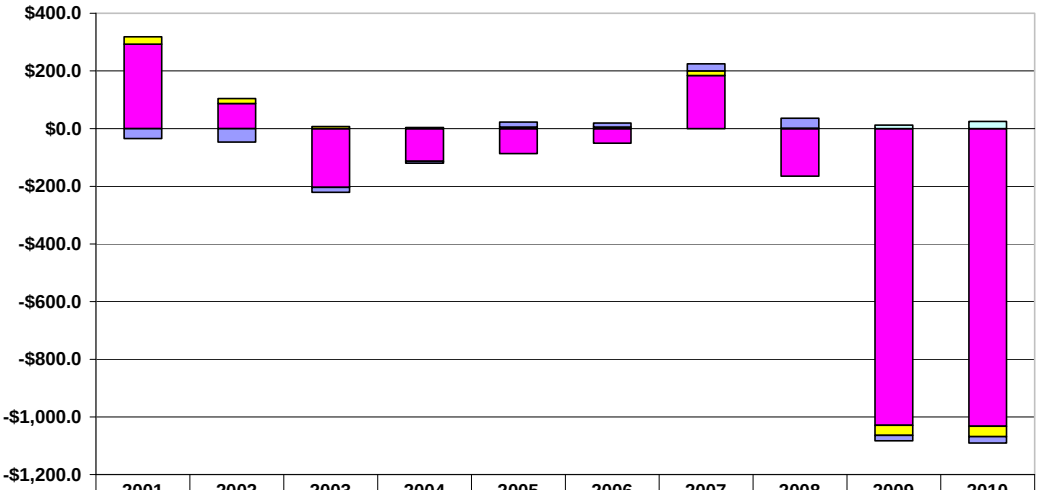
Going concern pension liabilities minus pension assets at market value results in the net funded status of the pension plans, the market surplus or market deficit. The going concern market deficit at July 1, 2010 totaled $1,065.9 million, comprising:

$ (1,032.1) million	RPP market deficit
$ (36.2) million	RPP(OISE) market deficit
$ (22.5) million	SRA market deficit
$ 24.9 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 2001 is shown on the following chart:

Going Concern Market Surplus (Deficit)
as at July 1
(millions of dollars)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Pension reserve	-	-	-	-	-	-	-	-	12.4	24.9
SRA	(34.6)	(46.3)	(17.4)	(6.9)	17.7	14.1	24.6	34.4	(19.1)	(22.5)
RPP(OISE)	26.4	16.8	7.1	4.2	5.3	5.2	16.3	1.7	(35.1)	(36.2)
RPP	292.4	87.1	(203.5)	(113.2)	(86.4)	(50.7)	183.9	(165.4)	(1,029.0)	(1,032.1)

Since 2001, the RPP position has varied from a surplus high of $292.4 million in 2001 to a deficit low of $1,032.1 million in 2010. The current market deficit of $1,032.1 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 as a result of increased plan liabilities offset by an improvement in investment earnings.

The RPP(OISE) plan moved to a market deficit position in 2009 after being in a surplus position for many years. The plan deficit position has worsened slightly from a deficit of $35.1 million in 2009 to a market deficit of $36.2 million in 2010 mainly due to the increase in plan liabilities offset by an improved financial environment as described above.

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 $22.5 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 32% of liabilities in 2010. A number of issues could impact future results, including a potential need to make current service payments into the RPP(OISE), current solvency deficit funding requirements, ongoing expected volatility in investment returns and financial markets and potential variances from other actuarial assumptions. There are also legislative and regulatory changes that will change how defined benefit plans are required to be managed. Additionally, the University is reviewing its pension funding strategy and investment risk and return targets, all of which may impact future results.

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.

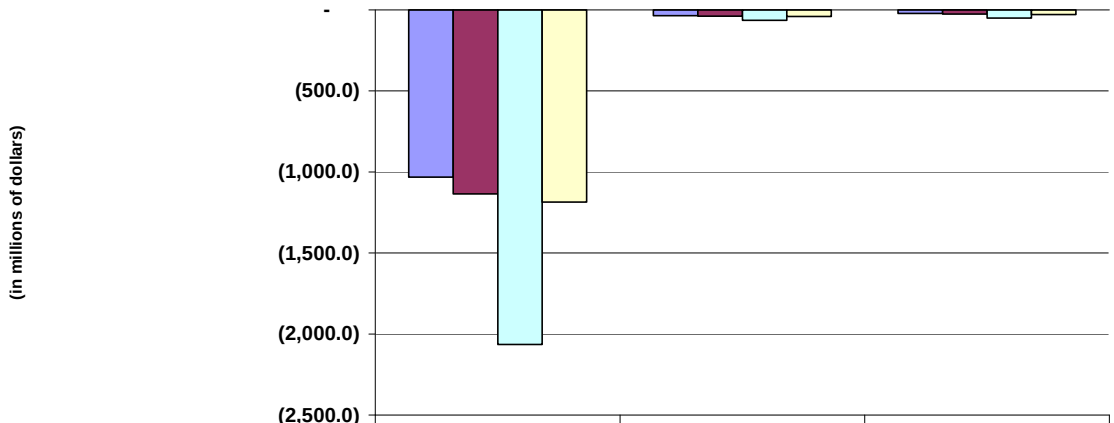
Sensitivity of market surplus (deficit) to changes in discount rates:

The charts below show the impact of changes in the real rate of return (4.00%, 3.75% and 2.00%), as well as the impact of using alternative assumptions, on the market deficit as at July 1, 2010. The 2% real rate of return represents a low investment risk portfolio.

It is important to note that the intent of the sensitivity modeling around the discount rate is not to predict a range of investment outcomes. Rather, its intent is to illustrate the effect on the deficit of recognizing different proportions of risk premium (the additional investment return over the long-term from investments, such as equities, which are more risky than fixed-income investments) in advance of it being earned.

The current actuarial assumption for the discount rate is 6.5%, composed of 2.5% CPI and 4.0% real return, net of all fees. It should be noted that inflation would impact the results under all the real discount rate assumptions below.

University of Toronto Pension Plans
Market Deficit at July 1, 2010
Under Varying Real Discount Rate Assumptions for Liabilities



	RPP	OISE/UT	SRA
4.00%	(1,032.1)	(36.2)	(22.5)
3.75%	(1,135.9)	(39.2)	(25.6)
2.00%	(2,064.7)	(64.6)	(51.1)
3.75% + alternative assumptions	(1,186.3)	(40.9)	(28.6)

The above graph shows the sensitivity of our pension plans to changes in the real discount rate. A reduction of 2.00% in the RPP real discount rate from 4.00% to 2.00% (i.e. including CPI, a reduction in the discount rate from 6.50% to 4.50%) would increase the market deficit of $1,032.1 million by $1,032.6 million at July 1,

2010, resulting in a July 1, 2010 deficit of $2,064.7 million. This would increase the special payment requirement significantly to fund this deficit over the required period.

In addition, the graph shows the impact of the following alternative assumptions:

- The increase in the CPI reduced to 2.25% from 2.5%, and the real investment return lowered from 4.0% to 3.75%. These two assumptions result in a lower investment return assumptions of 6.0% (from 6.5%)
- Increase in salaries reduced from 4.5% to 4.25%
- Increase in the CPP maximum salary reduced from 3.5% to 3.25%
- Increase in the Income Tax Act maximum pension reduced from 3.5% to 3.25%
- Mortality table projection extended from 2015 to 2020

These alternative assumptions show the sensitivity of the RPP to a lower long-term inflation rate, build more margin into the discount rate and reflect continuing improvements in pensioner longevity.

As the graph shows, even a small change in the discount rate of 0.25% from 4.0% to 3.75% would have an impact, since the actual numbers are so large. It would increase the market deficit by $103.8 million from $1,032.1 million to $1,135.9 million at July 1, 2010. If we were to adopt the alternative assumptions, the market deficit for the RPP would increase by $154.2 million, from $1,032.1 million to $1,186.3 million. Again, these changes would increase the special payment requirement.

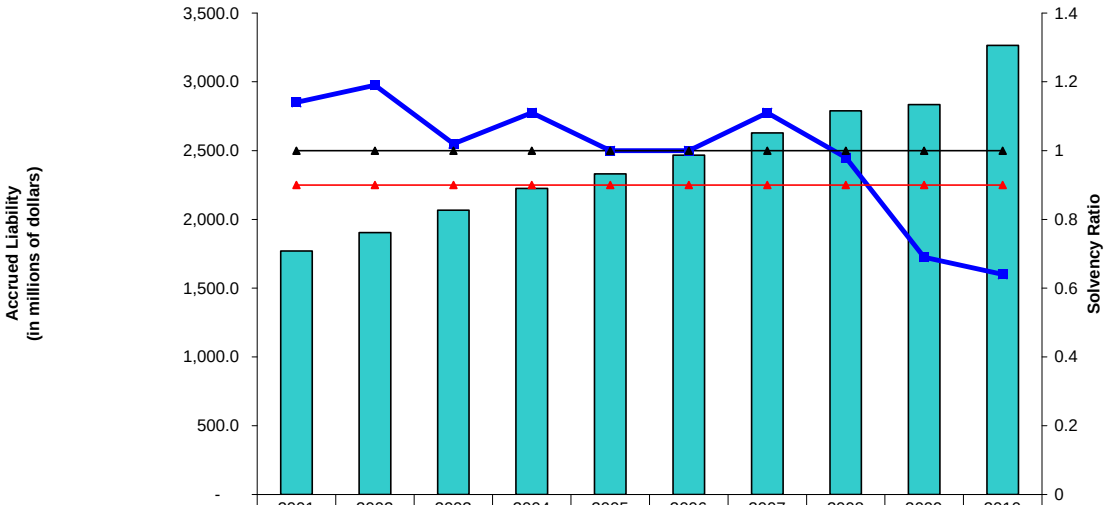
We will be reviewing all the assumptions for the July 1, 2011 actuarial valuations, which will be filed with regulators.

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) worsened from 0.69 at July 1 2009 to 0.64 at July 1, 2010. As of July 1, 2010, the plan had a solvency deficit of $1.17 billion versus a solvency deficit of $880.0 million as of July 1, 2009. The main reasons for the current solvency deficit of the RPP include the unprecedented investment losses during 2008 and 2009, a drop in discount rates used to value solvency liabilities and an update to the table used for the mortality rates assumption. The University filed a July 1, 2008 actuarial valuation, and is making annual special payments of $5.0 million for the period required by the valuation. This is in addition to the going concern special payments of $9.8 million.

RPP
Solvency Ratio and Accrued Liability
as at July 1



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Accrued Liabilities	1,770.5	1,904.9	2,066.7	2,225.0	2,330.2	2,467.6	2,628.4	2,788.7	2,833.8	3,264.2
Solvency Ratio	1.14	1.19	1.02	1.11	1.00	1.00	1.11	0.98	0.69	0.64
Solvency Ratio of 1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Solvency Ratio of 0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9

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 0.9 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 0.9. Otherwise, valuations must be filed at least triennially. Since the most recent actuarial valuation filed with the regulators at July 1, 2008 showed a solvency ratio greater than 0.9, the next valuation must be filed with the regulators with an effective date no later than 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 $2.15 billion.

The RPP(OISE) solvency ratio was 0.62 at July 1, 2010 as compared to 0.69 at July 1, 2009.

Options for 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, 2010. 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 $1.17 billion for the RPP) over five years, the Province of Ontario has proposed legislation with a two stage process that is intended to provide institutions in the broader public sector with an opportunity to make solvency payments over a longer period than would otherwise be required. Generally, these institutions, such as the University of Toronto, would need to negotiate with plan members and their representatives to "enhance the sustainability" of our defined benefit pension plans.

To enter stage one, universities will need to submit a plan to the Ministry of Finance that identifies how they intend to address the sustainability issue and to share that plan with members and collective bargaining agents. Stage one would be a three-year period (i.e. from July 1, 2011 to July 1, 2014 for the RPP and RPP(OISE)) during which there would be a solvency funding exemption, subject to going concern special payments at least covering interest on the solvency deficit. At the end of stage one, each plan would 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 two of the process. Under stage two, the solvency deficiency at the beginning of stage two can be amortized over 10 years, instead of the regular 5-year period. Plans that fail to enter stage two 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.

The University is investigating various alternatives to funding the pension plans, given the current solvency deficit of the plans. After these alternatives have been fully vetted and analyzed, the end result will be our pension funding strategy going forward and, pending approval by the Business Board, this funding strategy will replace the Pension Contribution Strategy currently in place (see Appendix 1).

The options that we are currently analyzing include the following:

INTERNAL UNIVERSITY AND MEMBER FUNDING:

- **Transfer Pension Reserve** – The University created a pension reserve in 2009 into which $12.4 million was transferred in each of the years 2009 and 2010. In accordance with the pension contribution strategy approved by the Business Board in 2004, the amounts transferred to the pension reserve represent the operating budget's special funding of $27.2 million, less the required going concern funding and special solvency funding of $14.8 million. The balance of the pension reserve at June 30, 2010, including interest, totaled $24.9 million, and is expected to be $37.3 million at June 30, 2011. The reserve has been held outside the registered pension plans for the purpose of funding the plans should the need arise.

- **Utilize the Supplemental Retirement Arrangement (SRA) Assets** – SRA assets totaled $115.8 million at June 30, 2010. This option would be to transfer the SRA assets into the registered pension plans. This option is only possible because the increase in the maximum salary permitted to be covered by a registered plan is projected to exceed $150,000 per annum by 2013. It is also assumed that the current $150,000 salary cap on the pension benefit will not be increased. After 2013, all pension liabilities would therefore be included in the registered plans, and the SRA would essentially be a closed plan, funding pension payments to those who had already retired. This amount required to fund retirement payments, increasing with 75% of CPI, would be slightly less than $10 million per annum, decreasing slowly to zero. This SRA annual retirement payment could be funded through the operating budget by increasing the staff benefits budget by this amount. The SRA is an unregistered pension plan that was established by the University which is not required to be funded by a pool of assets. Its funding strategy was approved by the Business Board in 2004 as part of the pension contribution strategy, and can be changed by that Board.

- **Increase member contributions** – As noted earlier, there are only two ways to fund a defined benefit pension plan – contributions and investment earnings. Contributions come from two sources – the employer and the employee. Since the inception of the current pension plan in 1966, the

contribution rate by employees has been about one half that of the employer, that is a 2:1 ratio employer/employee. The Province of Ontario has taken a strong position that the Ontario taxpayer should not be expected to shoulder such a large proportion of the funding for a public sector pension plan and that a more appropriate funding ratio is a 1:1 contribution model with the employee and the employer each supplying half of the required contributions. The Province has indicated that to qualify for temporary solvency relief, an institution in the broader public sector must submit a plan to the Ministry of Finance outlining a proposal for how its pension plans could be made more sustainable. The Province has made it clear that member contribution increases are expected to form an integral part of such a proposal and that it would be unlikely that an institution could obtain solvency relief without such a provision. At U of T, any increase to member contributions must be negotiated with the 10 unions participating in the pension plans and with the Faculty Association. This will be a top priority for negotiations going forward.

- **Increase Operating Fund and Special Payments Budget** – The current pension contribution strategy provides $27.2 million in the operating budget for special payments to deal with pension deficits. These special payments have been used to: 1) to make any going concern and solvency funding payments required by FSCO regulations and, 2) to set aside funds in the SRA and the Pension Reserve to provide for future required contributions. This option entails an increase to the pension special payments in the operating budget to a level that will provide budgetary consistency as well as promote long-term sustainability of our plans.

- **Borrow Internally from the Expendable Funds Investment Pool (EFIP) –** This option is to borrow from the EFIP under the standard borrowing program and put the borrowed funds into the pension master trust. Interest rates would be based on market rates at that time. Repayment under the standard program would be blended principal and interest payments which would require an increase in the operating expense budget. The University's borrowing strategy would need to be revised to increase the internal borrowing component from $200 million by the amount of the internal borrowing. The advantage of this option is that the repayment term can be fixed and longer, rather than being bound by the pension regulation deficit repayment period.

EXTERNAL BORROWING

This option would have the University borrow externally (i.e. issue a debenture). The proceeds of the debenture would be transferred to the master trust, and principal and interest payments would be required annually over the term of the debenture. Similar to the internal borrowing option, this option allows the University to fix the repayment term, rather than being bound by the pension regulation deficit repayment period. An increase in the operating expense budget would be required to cover the annual principal and interest payments.

ISSUE LETTERS OF CREDIT

The Ontario pension regulations announced on August 25, 2010 permit the use of irrevocable letters of credit to meet the solvency special payment requirements, up to a maximum amount equal to 15% of the pension plan's solvency liabilities. There are significant obligations faced by the University if a letter of credit is utilized to fund a solvency deficiency. The University would be responsible for all fees related to the letter of credit, which would be funded by an increase in the operating expense budget.

COMBINING OPTIONS INTO A VIABLE PENSION STRATEGY

A viable pension funding strategy must weigh all the options at hand, looking at the legality, advantages, disadvantages, financial implications and prudence of each option. Certain options are easier to implement and are viable from a legal and practical standpoint (e.g. a transfer from the pension reserve or the utilization of the SRA assets). These options lend themselves to more immediate implementation, and have few disadvantages or consequences. Other options must be negotiated with the numerous employee groups (e.g. increased employee contributions). Certain options have significant implications to the University's operating budget and borrowing strategy (i.e. increased special payments, borrowing from the EFIP, external borrowing and letters of credit), and must be planned in concert with the other options under consideration.

The University is currently considering all the available options.

Conclusions about Pension Financial Health

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 and 8.2% in 2010. 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:

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%.
- Salary increase assumption increased from 4.0% to 4.5% in 2005.
- Strengthening of mortality rates in 2007 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.

The SRA has assets of $115.8 million and a market deficit of $22.5 million. In addition, there is a pension reserve asset of $24.9 million. As noted earlier, these

funds represent reserves to deal with investment volatility, solvency funding issues and other uncertainties and would be available to be deposited into the RPP should the need arise.

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 0.64 at July 1, 2010. It has decreased from 0.69 at July 1, 2009. On a hypothetical wind-up basis (after indexing) the deficit would be $2.15 billion.

As stated previously in the section on solvency, special solvency payments are necessary, since the RPP solvency ratio was below 1.0 as of the most recent filing of the actuarial report at July 1, 2008.

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 five 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. The solvency ratio decreased from 0.68 as at July 1, 2009 to 0.62 as at July 1, 2010.

Overall conclusion:

The result for 2010 was a $1,032.1 million market deficit for the RPP, a $36.2 million market deficit for RPP(OISE), a $22.5 million SRA market deficit (excess of SRA liabilities over SRA assets) and a $24.9 million pension reserve. The $24.9 million pension reserve represents University assets that are available to be deposited into the RPP and RPP(OISE) should that be required. However, there cannot be any transfers of funds between the RPP and the RPP(OISE) or from either the RPP or RPP(OISE) to the SRA or the pension reserve.

The unfunded position of the plans has stabilized at a large deficit. There are a number of issues that continue to cause concern, including current solvency deficit funding requirements, potential volatility in investment returns over the coming years as the global economy deals with the fallout from the financial crisis, the potential need to make payments into the RPP(OISE), and whether it will be possible to meet the long-term return expectations given financial market trends.

The next required filing of the actuarial reports is July 1, 2011. At this time, and based on current legislation and regulation, it is expected that significant additional special funding will be required into the registered plans.

In addition to the pension funding options that are being considered, the University is reviewing its pension funding strategy and investment risk and return targets, all of which may impact future results. Additional changes in assumptions are under consideration. It was shown earlier in this report that a reduction in investment return targets would trigger a reduction in the going concern discount rate, thus increasing liabilities. Other assumption changes would also change the liabilities, and these potential changes will also need to be taken into account in determining the pension funding strategy going forward.

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

UNIVERSITY OF TORONTO

PENSION FUND MASTER TRUST INVESTMENT POLICY

(STATEMENT OF INVESTMENT POLICIES & PROCEDURES)

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UNIVERSITY OF TORONTO

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 as 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 ASSET MANAGEMENT CORPORATION

Pension Fund Master Trust Investment Policy

(Statement of Investment Policies & Goals)

Approved by UTAM's Board of Directors
March 26, 2010

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 annually[1].

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 mix[2] 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 collaterized 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, 2010

Summary

The going concern actuarial valuation has been prepared based on the actuarial assumptions and methods used for the last filed actuarial valuation as of July 1, 2008. A complete review of the actuarial assumptions will be undertaken for the next actuarial valuation as of July 1, 2011 which will be filed with the regulators. For purposes of this report, the going concern actuarial valuation as of July 1, 2010 has also been prepared under an alternative set of assumptions and methods to show the sensitivity to changes.

			As of July 1, 2010[1]	
(Thousands of Dollars)	As of July 1, 2008[2]	As of July 1, 2009[3]	Valuation Assumptions and Methods	Alternative Assumptions and Methods[4]
Going Concern Valuation Results				
Past Service				
Actuarial Value of Assets	$ 2,797,128	$ 2,345,818	$ 2,349,947	$ 2,512,626
Less: Accrued Liability	2,889,572	2,983,818	3,125,979	3,280,125
Surplus (Unfunded Accrued Liability)	$ (92,444)	$ (638,000)	$ (776,032)	$ (767,499)
As a % of Accrued Liability	(3.2%)	(21.4%)	(24.8%)	(23.4%)
Market Value of Assets	$ 2,724,186	$ 1,954,848	$ 2,093,855	$ 2,093,855
Deferred Asset Gain (Loss)	$ (72,942)	$ (390,970)	$ (256,092)	$ (418,771)
Current Service				
Total Current Service Cost	$ 102,885	$ 108,270	$ 114,821	$ 122,579
Less: Required Participant Contributions[5]	33,896	35,171	37,155	37,155
University Current Service Cost	$ 68,989	$ 73,099	$ 77,666	$ 85,424
As a % of Participant Salary Base (Capped at $150,000)	10.77%	10.94%	10.98%	12.07%
Participant Salary Base (Capped at $150,000)	$ 640,837	$ 668,100	$ 707,461	$ 707,461

[1] For a small number of unionized employees for whom salary increases had not been finalized at the date the July 1, 2010 valuation was prepared, actual salaries at the valuation date have been used. For Faculty and Librarians, salaries as of July 1, 2010 have been estimated based on the arbitration award released on October 12, 2010

[2] Most recently filed valuation

[3] For staff groups for whom salary increases had not been finalized at the date the July 1, 2009 valuation was prepared, actual salaries at the valuation date have been used

[4] Increase in CPI, Salaries, CPP Maximum Salary and ITA maximum pension lowered by 0.25%; investment return lowered by 0.50% (i.e., real investment return lowered from 4.00% to 3.75%); mortality table projection extended from 2015 to 2020; new asset method with five-year smoothing

[5] Includes participant contributions made by University on behalf of disabled participants

Summary (continued)

(Thousands of Dollars)	As of July 1, 2008[1]	As of July 1, 2009	As of July 1, 2010
Solvency Valuation Results			
Solvency Assets[2]	$ 2,723,186	$ 1,953,848	$ 2,092,855
Solvency Liability—Without Escalated Adjustments	2,788,727	2,833,788	3,264,217
Solvency Excess/(Deficit)	$ (65,541)	$ (879,940)	$ (1,171,362)
Solvency Ratio	0.98	0.69	0.64
Hypothetical Wind-Up Valuation Results			
Wind-Up Assets[2]	$ 2,723,186	$ 1,953,848	$ 2,092,855
Wind-Up Liability—With Escalated Adjustments	3,862,179	3,780,061	4,244,566
Wind-Up Excess/(Deficit)	$ (1,138,993)	$ (1,826,213)	$ (2,151,711)
Transfer Ratio	0.71	0.52	0.49

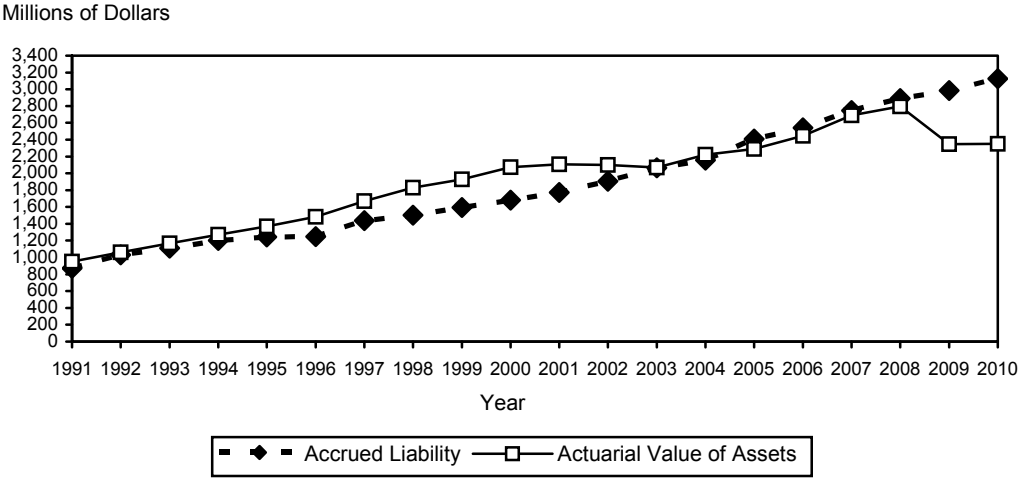
[1] Most recently filed valuation
[2] Net of provision of $1,000,000 for estimated wind-up expenses

Summary (continued)

(Thousands of Dollars)	As of July 1, 2008[1]	As of July 1, 2009	As of July 1, 2010
Going Concern Funding Requirements			
Required Participant Contributions	$ 33,896	$ 35,171	$ 37,155
University Current Service Cost[2]	$ 68,989	$ 71,954	76,194
Plus: Special Payments to Amortize Unfunded Liability[2]	9,789	9,789	9,789
University Contributions	$ 78,778	$ 81,743	$ 85,983
Plus: Additional University Discretionary Contributions	5,006	5,006	5,006
Total University Contributions	$ 83,784	$ 86,749	$ 90,989
As a % of Participant Salary Base (Capped at $150,000)	13.07%	12.98%	12.86%
Statutory Minimum Required University Contribution[3]	$ 67,443	$ 70,907	$ 75,643
Personnel Data			
Active and Disabled Participants	8,078	8,326	8,587
Retired Participants	4,514	4,569	4,670
Terminated Vested Participants	1,493	2,326[4]	2,402
Suspended, Exempt or Pending Status	1,168	374[4]	382
Total	15,253	15,595	16,041

[1] Most recently filed valuation
[2] On basis of July 1, 2008 valuation filed with regulators—the University contribution is 10.77% of Participant Salary Base plus special payments
[3] 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
[4] Reflects reclassification of members from pending status to terminated vested participants

History of Accrued Liability and Surplus/(Deficit)



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%)

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

Going Concern Valuation Results (Thousands of Dollars)

The going concern valuation results are shown below with the Accrued Liability broken down by participant category.

Past Service		
Actuarial Value of Assets		$ 2,349,947
Less: Accrued Liability		
Active and Disabled Participants	$ 1,546,723	
Retired Participants	1,470,131	
Terminated Vested Participants	93,538	
Suspended, Exempt or Pending Status	15,587	
Total		$ 3,125,979
Surplus (Unfunded Accrued Liability)		$ (776,032)
As a % of Accrued Liability		(24.8%)
Market Value of Assets		$ 2,093,855
Deferred Asset Gain (Loss)		$ (256,092)
Current Service		
Total Current Service Cost		$ 114,821
Less: Required Participant Contributions		37,155[1]
University Current Service Cost		$ 77,666
As a % of Participant Salary Base (With $150,000 Pay Cap)		10.98%
Participant Salary Base (With $150,000 Pay Cap)		$ 707,461

[1] Includes participant contributions made by University on behalf of disabled participants

Solvency and Hypothetical Wind-Up Valuation Results

(Thousands of Dollars)	Solvency Valuation	Hypothetical Wind-Up Valuation
(1) Market Value of Assets	$ 2,093,855	$ 2,093,855
(2) Less: Estimated Wind-Up Expenses	1,000	1,000
(3) Assets Net of Wind-Up Expenses	$ 2,092,855	$ 2,092,855
(4) Solvency/Wind-Up Liability		
Active and Disabled Participants	$ 1,620,564	$ 2,189,838
Retired Participants	1,527,073	1,871,692
Terminated Vested Participants	100,993	167,449
Suspended, Exempt or Pending Status	15,587	15,587
Total	$ 3,264,217	$ 4,244,566
(5) Surplus/(Deficiency), (3) – (4)	$ (1,171,362)	$ (2,151,711)
(6) Solvency Ratio, (1)/(4)	0.64	N/A
(7) Transfer Ratio, (1)/(4)	N/A	0.49

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 $980,349,000.

The assumptions used to determine the Solvency Liability are summarized on page 48 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 $2,151,711,000 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.

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

Surplus/(Deficit) at July 1, 2009		$	(638,000)
Less:	University Current Service Cost for Plan Year Ending June 30, 2010		73,543
Plus:	University Contributions:		
	University Current Service Cost Contributions		73,543
	Special Payments		14,795
Plus:	Interest at 6.5% per annum		(40,988)
Equals:	Expected Surplus/(Unfunded Liability) at July 1, 2010, Before Experience Gains (Losses)	$	(664,193)
Plus:	Increase (Decrease) at July 1, 2010 Due to:		
	Gains (Losses):		
	Return on Actuarial Value of Assets	$	(128,027)
	Indexation of Benefits		13,097
	Increase in Salaries		2,213
	Increase in *Income Tax Act* Maximum Pension		9,642
	Increase in CPP Maximum Salary		(1,377)
	Termination Experience		3,320
	Retirement Experience		1,393
	Mortality Experience		(8,772)
	Reclassification of Statuses		(2,853)
	All Other Sources		(475)
Equals:	Surplus/(Unfunded Liability) at July 1, 2010	$	(776,032)

Comments Regarding Experience

Return on Assets

The assumed rate of return for actuarial valuation purposes was 6.5% per annum or $151,838,000, based on the actuarial value of assets as at July 1, 2009. After allowance is made for the market value adjustment under the asset valuation method of $(128,027,000), the net return on the actuarial value of assets was 1.0% or $23,811,000. The market value adjustment of $(128,027,000) represents the asset loss under the asset valuation method. The total return based on the actual market value of assets after allowing for the full amount of capital appreciation during the year was 8.2% after expenses, assuming contributions and benefit payments take place in the middle of the year.

Indexation of Benefits

Benefit entitlements for retired and terminated vested participants as of July 1, 2010 increased by 1.0% 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 $13,097,000.

Increase in Salaries

The assumed salary increase used for the July 1, 2009 actuarial valuation was 4.5% per year. Actual salary increases varied by staff group, resulting in an actuarial gain of $2,213,000.

Income Tax Act Maximum Pension

The increase in the *Income Tax Act* maximum pension from 2009 to 2010 was 2.0%. This was lower than the expected 3.5% per year, resulting in an actuarial gain of $9,642,000. A portion of this actuarial gain, $4,086,000, represents liability that was transferred to the Supplemental Retirement Arrangement.

CPP Maximum Salary

The increase in the CPP Maximum Salary from 2009 to 2010 was 1.94%. This was lower than the expected 3.50% per year, resulting in an actuarial loss of $1,377,000.

Termination Experience

The number of terminations since July 1, 2009 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 $3,320,000.

Retirement Experience

Retirement ages for retirements since July 1, 2009 were slightly later than expected under the valuation assumptions. This resulted in an actuarial gain of $1,393,000.

Mortality Experience

Mortality rates since July 1, 2009 were lower than expected under the valuation assumptions (actual deaths for pensioners and beneficiaries were approximately 80% of expected deaths). This resulted in an actuarial loss of $8,772,000.

Reclassification of Statuses

During the year, a number of suspended members and members on a leave of absence returned to active status. This resulted in an actuarial loss of $2,853,000

All Other Sources

Other factors such as personnel changes and data adjustments, etc., deviated from expected, resulting in a net actuarial gain of $475,000.

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 65½[1].
Mortality Rates	1994 Uninsured Pensioner Mortality Table, with mortality improvements under Scale AA 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)	2.5% per annum.
Cost-of-Living Adjustments	1.875% per annum (75% of CPI)[2].
Increase in CPP Maximum Salary	3.5% per annum.
Increase in *Income Tax Act* Maximum Pension	$2,494.44 in 2010; increasing by 3.5% per annum thereafter.
Increase in Salaries	4.5% per annum (2.5% CPI + 2.0% merit and promotion).
Investment Return	6.5% per annum (2.5% CPI + 4.0% real return, net of all fees).
Interest Rate on Participant Contributions	6.5% per annum.
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

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 33⅓% toward market value. The Actuarial Value of Assets is limited to 120% of the Market Value of Assets.
Actuarial Cost Method	Unit credit cost method.

Actuarial Report (Excerpts)

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

As of July 1, 2010

Summary

Summary (Thousands of Dollars)	As of July 1, 2008[2]	As of July 1, 2009[3]	As of July 1, 2010[1] Valuation Assumptions and Methods	As of July 1, 2010[1] Alternative Assumptions and Methods[4]
Going Concern Valuation Results[5]				
Past Service				
Actuarial Value of Assets	$ 108,852	$ 85,800[6]	$ 82,179	$ 87,371
Less: Accrued Liability	104,204	106,636	109,036	113,721
Surplus (Unfunded Accrued Liability)	$ 4,648	$ (20,836)	$ (26,857)	$ (26,350)
As a % of Accrued Liability	4.5%	(19.5%)	(24.6%)	(23.2%)
Market Value of Assets	$ 105,856	$ 71,500	$ 72,809	$ 72,809
Deferred Asset Gain (Loss)	$ (2,996)	$ (14,300)	$ (9,370)	$ (14,562)
Current Service				
Total Current Service Cost	$ 1,852	$ 1,911	$ 1,827	$ 1,926
Less: Required Participant Contributions[7]	550	523	517	517
University Current Service Cost	$ 1,302	$ 1,388	$ 1,310	$ 1,409
As a % of Participant Salary Base (Capped at $150,000)	13.41%	13.68%	13.04%	14.02%
Participant Salary Base (Capped at $150,000)	$ 9,712	$ 10,147	$ 10,050	$ 10,050

[1] For a small number of unionized employees for whom salary increases had not been finalized at the date the July 1, 2010 valuation was prepared, actual salaries at the valuation date have been used. For Faculty and Librarians, salaries as of July 1, 2010 have been estimated based on the arbitration award released on October 12, 2010

[2] Most recently filed valuation

[3] For staff groups for whom salary increases had not been finalized at the date the July 1, 2009 valuation was prepared, actual salaries at the valuation date have been used

[4] Increase in CPI, Salaries, CPP Maximum Salary and ITA maximum pension lowered by 0.25%; investment return lowered by 0.50% (i.e., real investment return lowered from 4.00% to 3.75%); mortality table projection extended from 2015 to 2020; new asset method with five-year smoothing

[5] 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

[6] Actuarial value of assets capped at 120% of market value of assets

[7] Includes participant contributions made by University on behalf of disabled participants

Summary (continued)

(Thousands of Dollars)	As of July 1, 2008[1]	As of July 1, 2009	As of July 1, 2010
Funding Requirements			
Required Participant Contributions	$ 550	$ 523	$ 517
University Current Service Cost	$ 1,302	$ 1,388	$ 1,310
Less: Permitted Application of Surplus[2]	(1,302)	(1,388)	(1,310)
Plus: Special Payments to Amortize Unfunded Liability[2]	0	0	0
Minimum Required University Contributions	$ 0	$ 0	$ 0
Solvency Valuation Results			
Solvency Assets[3]	$ 105,456	$ 71,100	$ 72,409
Solvency Liability—Without Escalated Adjustments[4]	102,327	104,070	117,452
Solvency Excess/(Deficit)	$ 3,129	$ (32,970)	$ (45,043)
Solvency Ratio	> 1.0	0.69	0.62
Hypothetical Wind-Up Valuation Results			
Wind-Up Assets[3]	$ 105,456	$ 71,100	$ 72,409
Wind-Up Liability—With Escalated Adjustments[4]	140,644	138,466	150,321
Wind-Up Excess/(Deficit)	$ (35,188)	$ (67,366)	$ (77,912)
Transfer Ratio	0.75	0.52	0.48

[1] Most recently filed valuation
[2] Based on surplus assets in existence in July 2008 actuarial valuation and no requirement to file July 1, 2009 or July 1, 2010 valuation with the Financial Services Commission of Ontario
[3] Net of provision of $400,000 for estimated wind-up expenses
[4] The Solvency Liability excludes the liabilities associated with future escalated adjustments (indexing) pursuant to the Regulations to *the Pension Benefits Act* (Ontario). The Wind-Up Liability is calculated including the value of future escalated adjustments

	As of July 1, 2008[1]	As of July 1, 2009	As of July 1, 2010
Personnel Data			
Participants Not Affected by Partial Wind-Up			
Active and Disabled Participants	106	101	93
Retired Participants	144	146	154
Terminated Vested Participants	18	21	21
Suspended/Pending Participants	4	2	2
Total	272	270	270
Partial Wind-Up Participants With Entitlements Remaining in Plan			
Partial Wind-Up Participants Pending Elections	2	0	0
Total	2	0	0

[1] Most recently filed valuation

Going Concern Valuation Results (Thousands of Dollars)

The going concern valuation results are shown below with the Accrued Liability broken down by participant category.

Past Service		
Actuarial Value of Assets		$ 82,179
Less: Accrued Liability		
Active and Disabled Participants	$ 47,548	
Retired Participants	59,204	
Terminated Vested Participants	2,274	
Suspended Participants	10	
Total		$ 109,036
Surplus (Unfunded Accrued Liability)		$ 26,857
As a % of Accrued Liability		24.6%
Market Value of Assets		$ 72,809
Deferred Asset Gain (Loss)		$ (9,370)
Current Service		
Total Current Service Cost		$ 1,827
Less: Required Participant Contributions		517[1]
University Current Service Cost		$ 1,310
As a % of Participant Salary Base (With $150,000 Pay Cap)		13.04%
Participant Salary Base (With $150,000 Pay Cap)		$ 10,050

[1] Includes participant contributions made by University on behalf of disabled participants

Solvency and Hypothetical Wind-Up Valuation Results

(Thousands of Dollars)	Solvency Valuation	Hypothetical Wind-Up Valuation
(1) Market Value of Assets	$ 72,809	$ 72,809
(2) Less: Estimated Wind-Up Expenses	400	400
(3) Assets Net of Wind-Up Expenses	$ 72,409	$ 72,409
(4) Solvency/Wind-Up Liability		
Active and Disabled Participants	$ 53,598	$ 70,662
Retired Participants	61,282	75,731
Terminated Vested Participants	2,562	3,918
Suspended Participants	10	10
Total	$ 117,452	$ 150,321
(5) Surplus/(Deficiency), (3) – (4)	$ (45,043)	$ (77,912)
(6) Solvency Ratio, (1)/(4)	0.62	N/A
(7) Transfer Ratio, (1)/(4)	N/A	0.48

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 $32,869,000.

The assumptions used to determine the Solvency Liability are summarized on page 42 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 $77,912,000, 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.

Reconciliation of Going Concern Surplus (Thousands of Dollars)

Surplus at July 1, 2009	$	(20,836)
Less: Surplus Applied Against Current Service Cost		(1,388)
Plus: Interest at 6.5% per annum		(1,400)
Equals: Expected Surplus at July 1, 2010, Before Experience Gains (Losses)	$	(23,624)
Plus: Increase (Decrease) in Surplus at July 1, 2010 Due to:		
Gains (Losses):		
Return on Assets	$	(4,684)
Indexation of Benefits		381
Increase in Salaries		37
Increase in *Income Tax Act* Limit		403
Termination Experience		(1)
Retirement Experience		1,315
Mortality Experience		(592)
All Other Sources		(92)
Equals: Surplus/(Deficit) at July 1, 2010	$	(26,857)

Comments Regarding Experience

Return on Assets

The assumed rate of return for actuarial valuation purposes was 6.5% per annum or $5,435,000, based on the actuarial value of assets as at July 1, 2009. After allowance is made for the market value adjustment under the asset valuation method of $(4,684,000), the net return was 0.9% or $751,000. The market value adjustment of $(4,684,000) represents the asset loss under the asset valuation method. The total return based on the actual market value of assets was 8.2% after expenses, assuming contributions and benefit payments take place in the middle of the year.

Indexation of Benefits

Benefit entitlements for retired and terminated vested participants as of July 1, 2010 increased by 1.0% under the 75% of CPI indexing provision (and corresponding higher percentages for retirees under one of the pre-integration provisions). The increase was less than the 1.875% increase anticipated under the actuarial assumptions, resulting in an actuarial gain of $381,000.

Increase in Salaries

The assumed salary increase used for the July 1, 2009 actuarial valuation was 4.5% per year. Actual salary increases varied by staff group, resulting in an actuarial gain of $37,000.

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 by 2.0% from 2009 to 2010 resulting in an actuarial gain of $403,000.

Termination Experience

Termination experience since July 1, 2009 was lower than expected under the valuation assumptions. This resulted in an actuarial loss of $1,000.

Retirement Experience

The age at which members retired since July 1, 2009 was later than expected under the valuation assumptions. This resulted in an actuarial gain of $1,315,000.

Mortality Experience

Mortality rates since July 1, 2009 were lower than expected under the valuation assumptions. This resulted in an actuarial loss of $592,000.

All Other Sources

Other factors such as personnel changes and data adjustments, etc., deviated from expected, resulting in a net actuarial loss of $92,000.

Actuarial Report (Excerpt)

Supplemental Retirement Arrangement

As of July 1, 2010

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, including preparing the actuarial valuation under an alternative set of assumptions to show the sensitivity to a change in assumptions.

		As of July 1, 2010	
(Thousands of Dollars)	**As of July 1, 2009**	**Valuation Assumptions**	**Alternative Assumptions[1]**
Going Concern Valuation Results			
Past Service[2]			
Accrued Liability for SRA			
Active Participants	$ 19,175	$ 18,389	$ 19,954
Retired Participants	116,971	119,919	124,375
Total	$ 136,146	$ 138,308	$ 144,329
Current Service[2]			
Current Service Cost for SRA	$ 694	$ 643	$ 699
As a % of Participant Salary Base (With $150,000 Pay Cap)	0.10%	0.09%	0.10%
Participant Salary Base	$ 678,247	$ 717,511	$ 717,511

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 $115,752,800 as of June 30, 2010. 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] Increase in CPI, Salaries, CPP Maximum Salary and ITA maximum pension lowered by 0.25%; interest rate lowered by 0.50% (i.e., real interest rate lowered from 4.00% to 3.75%); mortality table projection extended from 2015 to 2020

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

Financial Statements

University of Toronto
Pension Plan

June 30, 2010

AUDITORS' REPORT

To the Administrator of the
University of Toronto Pension Plan

We have audited the statement of net assets available for benefits of the **University of Toronto Pension Plan** as at June 30, 2010 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's Administrator. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Plan's Administrator, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as at June 30, 2010 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,
October 29, 2010.

UNIVERSITY OF TORONTO PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

(with comparative figures as at June 30, 2009)

(thousands of dollars)

As at June 30

	2010	2009
	$	$
ASSETS		
Investments, at fair value *(note 3(a))*	**2,083,691**	1,946,049
Receivables and prepaid expenses	**12,648**	12,174
	2,096,339	1,958,223
LIABILITIES		
Refunds in transit	**1,042**	1,816
Accrued expenses	**1,442**	1,559
	2,484	3,375
Net assets available for benefits	**2,093,855**	1,954,848

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, 2009)
(thousands of dollars)

Year ended June 30

	2010	2009
	$	$
INCREASE IN NET ASSETS		
Net investment income from Master Trust *(note 3(b))*	**182,748**	
Employer contributions *(note 4)*	**88,338**	87,054
Employee contributions	**35,969**	34,606
Transfers from other plans	**1,629**	2,237
Total increase in net assets	**308,684**	123,897
DECREASE IN NET ASSETS		
Net investment loss from Master Trust *(note 3(b))*		721,431
Retirement payments	**134,104**	127,568
Refunds and transfers *(note 5)*	**11,514**	16,115
Fees and expenses (*note 6)*	**24,059**	28,121
Total decrease in net assets	**169,677**	893,235
Net increase (decrease) in net assets for the year	**139,007**	(769,338)
Net assets available for benefits, beginning of year	**1,954,848**	2,724,186
Net assets available for benefits, end of year	**2,093,855**	1,954,848

See accompanying notes

UNIVERSITY OF TORONTO PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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 earnings. Member contributions are made in accordance with a prescribed formula. The University's contribution is 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 for 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) Change in accounting policies

Effective July 1, 2009, the Plan adopted amendments to the recommendations of the Canadian Institute of Chartered Accountants ("CICA") contained within CICA Handbook Section 3862 "Financial Instruments – Disclosures". These amendments enhance disclosures about fair value measurement, including the relative reliability of the inputs used in those measurements, as well as liquidity risk. In terms of fair value measurement, the standard establishes a three-level hierarchy based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

b) 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 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.

c) 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 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 yearend.

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.

d) 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.

e) 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.

f) Future accounting changes

The Plan will need to adopt CICA Handbook Section 4600 "Pension Plans" effective July 1, 2011, with earlier adoption permitted. The standard establishes new reporting requirements for measurement and presentation of information in general purpose financial statements of pension plans, as well as financial statements disclosures. The Plan has not assessed 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 every month 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.

a) Investments

As at June 30, 2010, the Plan held 18,256,972 (2009 - 18,521,409) of the 18,895,284 (2009 - 19,204,556) 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 $69.0 million (2009 - $66.7 million) of hedge funds, $283.9 million (2009 - $245.2 million) of cash, money market funds, short-term notes and treasury bills, and $26.7 million (2009 - $128.9 million) of government and corporate bonds being reclassified to Canadian equities of $28.5 million (2009 - $18.9 million), to United States equities of $237.2 million (2009 - $141.1 million) and to international equities of $114.0 million (2009 - $22.9 million).

	(thousands of dollars)	
	2010	2009
	$	$
Cash, money market funds, short-term notes and treasury bills	**18,170**	154,616
Government and corporate bonds	**416,947**	319,894
Canadian equities	**279,192**	207,176
United States equities	**273,766**	284,511
International equities	**341,139**	272,563
Hedge funds	**356,812**	394,166
Private equities	**387,488**	291,687
Real assets	**106,903**	112,126
	2,180,417	2,036,739
Derivative-related net payable (*note 3(d)*)	**(23,875)**	(18,956)
	2,156,542	2,017,783
University of Toronto Pension Plan (96.6% (2009 – 96.4%) of Master Trust)	**2,083,691**	1,946,049

b) Changes in investments
(thousands of dollars)

For the year ended June 30

	2010 **$**	2009 $
Net investment income (loss)	**189,818**	(749,627)
Cash received on purchase of Master Trust units by pension plans	**126,430**	124,410
Cash paid on redemption of Master Trust units by pension plans	**(177,489)**	(186,614)
Net increase (decrease) in net assets for the year	**138,759**	(811,831)
Net assets, beginning of year	**2,017,783**	2,829,614
Net assets, end of year	**2,156,542**	2,017,783
University of Toronto Pension Plan (96.6% (2009 – 96.4%) of Master Trust)	**2,083,691**	1,946,049

Net investment income (loss) for the year ended June 30 for the Master Trust is comprised of the following:

	2010 **$**	2009 $
Interest income		
Government and corporate bonds	**15,049**	12,074
Short-term investments	**132**	2,884
Dividend income		
Canadian	**5,608**	5,986
Foreign	**15,496**	15,122
Net realized and unrealized gains (losses) from investments	**153,225**	(785,814)
Other income	**308**	121
	189,818	(749,627)
University of Toronto Pension Plan (96.3% (2009 – 96.2%) of Master Trust investment income (loss))	**182,748**	(721,431)

The net investment income (loss) is reported in the Plan's statement of changes in net assets available for benefits as net investment income from Master Trust in 2010, and as net investment loss from Master Trust in 2009.

c) Individually significant investments
(thousands of dollars)

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

	Weighted Average Coupon Rate	Maturity Range	Fair Value $
Money market funds, treasury bills and government bonds			
Blackrock Canadian Universe Index Fund			93,899
TD Emerald Canadian Treasury Fund			46,705
Government of Canada Bonds	3.61%	2011 – 2037	36,078
TD Emerald Canadian Bond PF Trust			30,964
Canadian equities			
Blackrock Active Canadian Equity Fund			91,948
Hedge funds			
Lighthouse Diversified Fund			30,888
Avenue Special Situation Fund V			29,888
Blackrock ARS III			28,108
Blackstone Value Recovery Offshore Fund			24,934
Oaktree Capital Management Opportunities VII			24,150
Robeco-Sage Capital International, Ltd. – Class C			22,700
Fintan Investments			22,076

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 2010 to December 2010. The notional and fair value amounts of the derivative financial instruments are as follows:

	2010 **$**		2009 $	
	Notional Value	**Fair Value**	Notional Value	Fair Value
Foreign currency forward contracts:				
- United States	**576,832**	**(9,865)**	498,410	(13,740)
- Other	**72,187**	**(1,593)**	84,471	(2,840)
		(11,458)		(16,580)
Equity and commodity index futures contracts:				
- United States	**197,948**	**(6,083)**	158,905	(2,034)
- Euro	**48,885**	**(2,271)**	321	(7)
- British Pound Sterling	**23,434**	**(1,405)**	-	-
- Canadian	**1,196**	**(1,325)**	148,338	(447)
- Other	**42,146**	**(1,333)**	21,189	112
		(12,417)		(2,376)
Total		**(23,875)**		(18,956)

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 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 has been implemented for the Master Trust beginning on January 1, 2009 (vs. 100% during 2008).

The following schedule summarizes the Master Trust's investments by currency exposure, the impact of the currency hedging program and the net currency exposure as at June 30:

(thousands of dollars)

	2010			2009
	$			$
	Currency Exposure	**Net Currency Hedge**	**Net Currency Exposure**	Net Currency Exposure
United States Dollar	**1,117,368**	**(576,832)**	**540,536**	552,487
Euro	**132,818**	**(49,071)**	**83,747**	84,645
Japanese Yen	**51,514**	**(13,460)**	**38,054**	38,731
British Pound Sterling	**33,007**	**(4,878)**	**28,129**	29,163
Swiss Franc	**14,160**	**(2,419)**	**11,741**	9,863
Australian Dollar	**9,137**	**-**	**9,137**	6,368
Swedish Krona	**8,048**	**(2,359)**	**5,689**	5,308
Others	**16,133**	**-**	**16,133**	18,095
Total	**1,382,185**	**(649,019)**	**733,166**	744,660

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 $73.3 million (2009 - $74.4 million) impact on the foreign currency assets, net of currency hedge, 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.

The following table summarizes the profile of the Master Trust's fixed-income holdings in the underlying portfolios based on term to maturity as at June 30:

	(thousands of dollars)			
	2010		2009	
Maturity Range	**Fair Value $**	**Weighted Average Yield**	Fair Value $	Weighted Average Yield
0-5 years	**195,175**	**2.42%**	78,053	3.02%
>5 years-10 years	**165,045**	**4.30%**	62,808	5.30%
>10 years	**83,407**	**4.73%**	50,481	5.60%
	443,627	**3.56%**	191,342	4.45%

As at June 30, 2010, for every 1% increase (decrease) in prevailing market interest rates, the fair value of the fixed-income holdings in the Master Trust is estimated to fall (rise) by approximately $26.4 million (2009 - $11.8 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 following table demonstrates the sensitivity of the Master Trust's net assets to a 10% absolute change in fair value of all public equity investments and private investment interests in the underlying portfolios which are exposed to price risk:

	2010 $		2009 $	
	Fair Value	**Impact of 10% Absolute Change in Fair Value on Net Assets**	Fair Value	Impact of 10% Absolute Change in Fair Value on Net Assets
Public equities	**514,405**	**51,441**	581,337	58,134

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, "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 fall 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 represent 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 following table summarizes the fair value of fixed-income securities in the underlying portfolios by credit rating as of June 30:

	2010		2009	
Credit Rating	**Fair Value $**	**% of Fixed-Income Securities**	Fair Value $	% of Fixed-Income Securities
AAA	**135,972**	**30.65%**	54,608	28.55%
AA	**112,777**	**25.42%**	36,593	19.12%
A	**121,705**	**27.43%**	63,724	33.30%
BAA and other	**73,173**	**16.50%**	36,417	19.03%
	443,627	**100.00%**	191,342	100.00%

h) Liquidity risk

Liquidity risk is the risk of not being able to settle or meet commitments of the Plan 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 measurements 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. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. 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. The valuation technique may also be based, in part, on observable market inputs. The gains and losses presented hereafter may therefore include changes in fair value based on observable and unobservable inputs. 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 table presents, as at June 30, 2010, the level within the fair value hierarchy for each of the financial assets and liabilities (excluding cash of $253.2 million) measured at fair value:

	(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**
	419,268	**850,882**	**657,047**	**1,927,197**
Derivative-related net payable *(note 3(d))*	**(12,417)**	**(11,458)**		**(23,875)**
	406,851	**839,424**	**657,047**	**1,903,322**

There have been no material transfers between the different levels in the reporting period.

The following table summarizes the changes in the fair value of financial instruments classified in Level 3 in the Master Trust for the year ended June 30, 2010:

	(thousands of dollars) **Total $**
Fair value as at July 1, 2009	**609,854**
Total realized and unrealized gains	**36,049**
Purchases	**168,879**
Sales	**(154,735)**
Fair value as at June 30, 2010	**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 traded, 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 in the Master Trust of $92.0 million (2009 - $86.5 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, 2010, approximately 22.93% (2009 - 20.01%) 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 assets investments (e.g., real estate, 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, 2010, the Master Trust had uncalled commitments of approximately $209.5 million (2009 - $340.8 million). The capital committed is called by the manager over a pre-defined 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. The Master Trust generally makes commitments to newly formed private investment funds each year as part of an overall investment program centred on such funds.

4. Plan contributions

The University has made $73.1 million (2009 - $69.3 million) in current service cost contributions and $15.2 million (2009 - $17.8 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:

	2010	2009
	$	$
Refunds of contributions:		
Upon termination	**2,462**	2,150
Upon death	**589**	2,808
	3,051	4,958
Transfers to other plans upon termination	**8,463**	11,157
	11,514	16,115

6. Fees and expenses

Fees and expenses consist of the following:

	(thousands of dollars)	
	2010	2009
	$	$
Investment management fees:		
External managers[1,2]	**19,027**	22,394
UTAM [2,4]	**1,949**	1,964
Transaction fees[2,3]	**696**	999
Trustee and custodial fees[2]	**706**	868
Pension records administration	**666**	718
Administration cost – University of Toronto[4]	**381**	375
Actuarial and consulting fees	**304**	366
Legislative fees	**281**	364
External audit fees	**36**	35
Other fees	**13**	38
	24,059	28,121

[1] The decrease of $3.4 million is mainly due to a $1.6 million decrease in fees relating to hedge funds due to the appreciation in the Canadian dollar and an overall decrease in investments. The decrease in public investment fair values, and the impact of the appreciation of the Canadian dollar in 2010 on United States dollar-denominated fees, resulted in a decrease in fees of $0.9 million in public investments and a decrease of $0.9 million of fees in private investment interests.

[2] Reflect expenses that are directly charged to the Master Trust and are allocated back to the Plan.

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

[4] Represents related party transactions. Beginning July 1, 2008, the University no longer charges the Plan for administrative costs incurred with respect to investment management.

7. Obligations for pension benefits

(thousands of dollars)

The actuarial present value of accrued pension benefits is determined by applying best estimate assumptions and the projected benefit method pro-rated on services. An actuarial valuation was performed as of July 1, 2010 by Hewitt Associates Corp., a firm of consulting actuaries.

The actuarial present value of accrued pension benefits as at July 1, 2010 and 2009 and the principal components of changes during the year are as follows

	2010	2009
	$	$
Actuarial present value of accrued pension benefits, beginning of year	**2,983,818**	2,889,572
Interest on accrued benefits	**192,787**	186,569
Benefits accrued	**108,270**	102,885
Transfer from other plans	**1,629**	2,237
Benefits paid	**(145,618)**	(143,683)
Experience gain	**(14,907)**	(53,762)
Actuarial present value of accrued pension benefits, end of year	**3,125,979**	2,983,818

Significant assumptions used in the actuarial valuation are as follows:

	2010	2009
	%	%
Interest rate	**6.50**	6.50
Consumer Price Index	**2.50**	2.50
Salary escalation rate	**4.50**	4.50

8. Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2010 financial statements.

Financial Statements

University of Toronto (OISE) Pension Plan

June 30, 2010

AUDITORS' REPORT

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

We have audited the statement of net assets available for benefits of the **University of Toronto (OISE) Pension Plan** as at June 30, 2010 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's Administrator. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Plan's Administrator, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as at June 30, 2010 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,
October 29, 2010.

UNIVERSITY OF TORONTO (OISE) PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

(with comparative figures as at June 30, 2009)

(thousands of dollars)

As at June 30

	2010	2009
	$	$
ASSETS		
Investments, at fair value *(note 3(a))*	**72,851**	71,734
Prepaid expenses	**451**	412
	73,302	72,146
LIABILITIES		
Accrued expenses	**497**	646
	497	646
Net assets available for benefits	**72,805**	71,500

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, 2009)
(thousands of dollars)

Year ended June 30

	2010	2009
	$	$
INCREASE IN NET ASSETS		
Net investment income from Master Trust *(note 3(b))*	**7,070**	
Employee contributions *(note 4)*	**495**	512
Total increase in net assets	**7,565**	512
DECREASE IN NET ASSETS		
Net investment loss from Master Trust *(note 3(b))*		28,196
Retirement payments	**4,870**	4,718
Refunds and transfers *(note 5)*		389
Fees and expenses *(note 6)*	**1,390**	1,565
Total decrease in net assets	**6,260**	34,868
Net increase (decrease) in net assets for the year	**1,305**	(34,356)
Net assets available for benefits, beginning of year	**71,500**	105,856
Net assets available for benefits, end of year	**72,805**	71,500

See accompanying notes

UNIVERSITY OF TORONTO (OISE) PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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 earnings. Member contributions are made in accordance with a prescribed formula. The University's contribution is 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 for 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) Change in accounting policies

Effective July 1, 2009, the Plan adopted amendments to the recommendations of the Canadian Institute of Chartered Accountants ("CICA") contained within CICA Handbook Section 3862 "Financial Instruments – Disclosures". These amendments enhance disclosures about fair value measurement, including the relative reliability of the inputs used in those measurements, as well as liquidity risk. In terms of fair value measurement, the standard establishes a three-level hierarchy based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

b) 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 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.

c) 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 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 yearend.

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.

d) 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.

e) 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.

f) Future accounting changes

The Plan will need to adopt CICA Handbook Section 4600 "Pension Plans" effective July 1, 2011, with earlier adoption permitted. The standard establishes new reporting requirements for measurement and presentation of information in general purpose financial statements of pension plans, as well as financial statements disclosures. The Plan has not assessed 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 every month 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.

a) Investments

As at June 30, 2010, the Plan held 638,312 (2009 - 683,147) of the 18,895,284 (2009 - 19,204,556) 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 $69.0 million (2009 - $66.7 million) of hedge funds, $283.9 million (2009 - $245.2 million) of cash, money market funds, short-term notes and treasury bills, and $26.7 million (2009 - $128.9 million) of government and corporate bonds being reclassified to Canadian equities of $28.5 million (2009 - $18.9 million), to United States equities of $237.2 million (2009 - $141.1 million) and to international equities of $114.0 million (2009 - $22.9 million).

	(thousands of dollars)	
	2010	2009
	$	$
Cash, money market funds, short-term notes and treasury bills	**18,170**	154,616
Government and corporate bonds	**416,947**	319,894
Canadian equities	**279,192**	207,176
United States equities	**273,766**	284,511
International equities	**341,139**	272,563
Hedge funds	**356,812**	394,166
Private equities	**387,488**	291,687
Real assets	**106,903**	112,126
	2,180,417	2,036,739
Derivative-related net payable (*note 3(d)*)	**(23,875)**	(18,956)
	2,156,542	2,017,783
University of Toronto (OISE) Pension Plan (3.4% (2009 – 3.6%) of Master Trust)	**72,851**	71,734

b) Changes in investments
(thousands of dollars)

For the year ended June 30

	2010 **$**	2009 $
Net investment income (loss)	**189,818**	(749,627)
Cash received on purchase of Master Trust units by pension plans	**126,430**	124,410
Cash paid on redemption of Master Trust units by pension plans	**(177,489)**	(186,614)
Net increase (decrease) in net assets for the year	**138,759**	(811,831)
Net assets, beginning of year	**2,017,783**	2,829,614
Net assets, end of year	**2,156,542**	2,017,783
University of Toronto (OISE) Pension Plan (3.4% (2009 – 3.6%) of Master Trust)	**72,851**	71,734

Net investment income (loss) for the year ended June 30 for the Master Trust is comprised of the following:

	2010 **$**	2009 $
Interest income		
Government and corporate bonds	**15,049**	12,074
Short-term investments	**132**	2,884
Dividend income		
Canadian	**5,608**	5,986
Foreign	**15,496**	15,122
Net realized and unrealized gains (losses) from investments	**153,225**	(785,814)
Other income	**308**	121
	189,818	(749,627)
University of Toronto (OISE) Pension Plan (3.7% (2009 – 3.8%) of Master Trust investment income (loss))	**7,070**	(28,196)

The net investment income (loss) is reported in the Plan's statement of changes in net assets available for benefits as net investment income from Master Trust in 2010, and as net investment loss from Master Trust in 2009.

c) Individually significant investments
(thousands of dollars)

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

	Weighted Average Coupon Rate	Maturity Range	Fair Value $
Money market funds, treasury bills and government bonds			
Blackrock Canadian Universe Index Fund			93,899
TD Emerald Canadian Treasury Fund			46,705
Government of Canada Bonds	3.61%	2011 – 2037	36,078
TD Emerald Canadian Bond PF Trust			30,964
Canadian equities			
Blackrock Active Canadian Equity Fund			91,948
Hedge funds			
Lighthouse Diversified Fund			30,888
Avenue Special Situation Fund V			29,888
Blackrock ARS III			28,108
Blackstone Value Recovery Offshore Fund			24,934
Oaktree Capital Management Opportunities VII			24,150
Robeco-Sage Capital International, Ltd. – Class C			22,700
Fintan Investments			22,076

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 2010 to December 2010. The notional and fair value amounts of the derivative financial instruments are as follows:

	2010 $		2009 $	
	Notional Value	**Fair Value**	Notional Value	Fair Value
Foreign currency forward contracts:				
- United States	**576,832**	**(9,865)**	498,410	(13,740)
- Other	**72,187**	**(1,593)**	84,471	(2,840)
		(11,458)		(16,580)
Equity and commodity index futures contracts:				
- United States	**197,948**	**(6,083)**	158,905	(2,034)
- Euro	**48,885**	**(2,271)**	321	(7)
- British Pound Sterling	**23,434**	**(1,405)**	-	-
- Canadian	**1,196**	**(1,325)**	148,338	(447)
- Other	**42,146**	**(1,333)**	21,189	112
		(12,417)		(2,376)
Total		**(23,875)**		(18,956)

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 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 has been implemented for the Master Trust beginning on January 1, 2009 (vs. 100% during 2008).

The following schedule summarizes the Master Trust's investments by currency exposure, the impact of the currency hedging program and the net currency exposure as at June 30:

	(thousands of dollars)			
	2010			2009
	$			$
	Currency Exposure	**Net Currency Hedge**	**Net Currency Exposure**	Net Currency Exposure
United States Dollar	**1,117,368**	**(576,832)**	**540,536**	552,487
Euro	**132,818**	**(49,071)**	**83,747**	84,645
Japanese Yen	**51,514**	**(13,460)**	**38,054**	38,731
British Pound Sterling	**33,007**	**(4,878)**	**28,129**	29,163
Swiss Franc	**14,160**	**(2,419)**	**11,741**	9,863
Australian Dollar	**9,137**	**-**	**9,137**	6,368
Swedish Krona	**8,048**	**(2,359)**	**5,689**	5,308
Others	**16,133**	**-**	**16,133**	18,095
Total	**1,382,185**	**(649,019)**	**733,166**	744,660

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 $73.3 million (2009 - $74.4 million) impact on the foreign currency assets, net of currency hedge, 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. The following table summarizes the profile of the Master Trust's fixed-income holdings in the underlying portfolios based on term to maturity as at June 30:

(thousands of dollars)

Maturity Range	**2010** Fair Value $	**2010** Weighted Average Yield	2009 Fair Value $	2009 Weighted Average Yield
0-5 years	**195,175**	**2.42%**	78,053	3.02%
>5 years-10 years	**165,045**	**4.30%**	62,808	5.30%
>10 years	**83,407**	**4.73%**	50,481	5.60%
	443,627	**3.56%**	191,342	4.45%

As at June 30, 2010, for every 1% increase (decrease) in prevailing market interest rates, the fair value of the fixed-income holdings in the Master Trust is estimated to fall (rise) by approximately $26.4 million (2009 - $11.8 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 following table demonstrates the sensitivity of the Master Trust's net assets to a 10% absolute change in fair value of all public equity investments and private investment interests in the underlying portfolios which are exposed to price risk:

	2010 $		2009 $	
	Fair Value	**Impact of 10% Absolute Change in Fair Value on Net Assets**	Fair Value	Impact of 10% Absolute Change in Fair Value on Net Assets
Public equities	**514,405**	**51,441**	581,337	58,134

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, "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 fall 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 represent 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 following table summarizes the fair value of fixed-income securities in the underlying portfolios by credit rating as of June 30:

	2010		2009	
Credit Rating	**Fair Value $**	**% of Fixed-Income Securities**	Fair Value $	% of Fixed-Income Securities
AAA	**135,972**	**30.65%**	54,608	28.55%
AA	**112,777**	**25.42%**	36,593	19.12%
A	**121,705**	**27.43%**	63,724	33.30%
BAA and other	**73,173**	**16.50%**	36,417	19.03%
	443,627	**100.00%**	191,342	100.00%

h) Liquidity risk

Liquidity risk is the risk of not being able to settle or meet commitments of the Plan 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 measurements 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. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. 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. The valuation technique may also be based, in part, on observable market inputs. The gains and losses presented hereafter may therefore include changes in fair value based on observable and unobservable inputs. 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 table presents, as at June 30, 2010, the level within the fair value hierarchy for each of the financial assets and liabilities (excluding cash of $253.2 million) measured at fair value:

	(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**
	419,268	**850,882**	**657,047**	**1,927,197**
Derivative-related net payable *(note 3(d))*	**(12,417)**	**(11,458)**		**(23,875)**
	406,851	**839,424**	**657,047**	**1,903,322**

There have been no material transfers between the different levels in the reporting period.

The following table summarizes the changes in the fair value of financial instruments classified in Level 3 in the Master Trust for the year ended June 30, 2010:

	(thousands of dollars) Total $
Fair value as at July 1, 2009	**609,854**
Total realized and unrealized gains	**36,049**
Purchases	**168,879**
Sales	**(154,735)**
Fair value as at June 30, 2010	**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 traded, 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 in the Master Trust of $92.0 million (2009 - $86.5 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, 2010, approximately 22.93% (2009 - 20.01%) 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 assets investments (e.g., real estate, 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, 2010, the Master Trust had uncalled commitments of approximately $209.5 million (2009 - $340.8 million). The capital committed is called by the manager over a pre-defined 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. The Master Trust generally makes commitments to newly formed private investment funds each year as part of an overall investment program centred on such funds.

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:

	2010	2009
	$	$
Refunds of contributions upon termination	**-**	160
Transfers to other plans upon termination	**-**	229
	-	389

6. Fees and expenses

Fees and expenses consist of the following:

	(thousands of dollars)	
	2010	2009
	$	$
Investment management fees:		
External managers[1,2]	**1,001**	1,178
UTAM[2,4]	**103**	103
Pension records administration	**108**	109
Actuarial and consulting fees	**53**	31
Administration cost - University of Toronto[4]	**42**	42
Trustee and custodial fees[2]	**37**	46
Transaction fees[2,3]	**27**	39
External audit fees	**14**	13
Legislative fees	**2**	2
Other fees	**3**	2
	1,390	1,565

[1] The decrease of $177 thousand is mainly due to a $42 thousand decrease in fees relating to hedge funds due to the appreciation in the Canadian dollar and an overall decrease in investments. The decrease in public investment fair values, and the impact of the appreciation of the Canadian dollar in 2010 on United States dollar-denominated fees, resulted in a decrease in fees of $47 thousand in public investments and a decrease of $48 thousand of fees in private investment interests.

[2] Reflects expenses that are directly charged to the Master Trust and are allocated back to the Plan.

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

[4] Represents related party transactions. Beginning July 1, 2008, the University no longer charges the Plan for administrative costs incurred with respect to investment management.

7. Obligations for pension benefits

(thousands of dollars)

The actuarial present value of accrued pension benefits is determined by applying best estimate assumptions and the projected benefit method pro-rated on services. An actuarial valuation was performed as of July 1, 2010 by Hewitt Associates Corp., a firm of consulting actuaries.

The actuarial present value of accrued pension benefits as at July 1, 2010 and 2009 and the principal components of changes during the year are as follows:

	2010	2009
	$	$
Actuarial present value of accrued pension benefits, beginning of year	**106,636**	104,204
Interest on accrued benefits	**6,833**	6,667
Benefits accrued	**1,843**	1,852
Benefits paid	**(4,870)**	(5,107)
Experience gain	**(1,406)**	(980)
Total obligation for pensions	**109,036**	106,636

Significant assumptions used in the actuarial valuation are as follows:

	2010	2009
	%	%
Interest rate	**6.50**	6.50
Consumer Price Index	**2.50**	2.50
Salary escalation rate	**4.50**	4.50

8. Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2010 financial statements.