Endowments

Annual Financial Report

For the year ended April 30, 2012

UNIVERSITY OF TORONTO

BOUNDLESS IMPACT

HIGHLIGHTS

	April 30, 2012	April 30, 2011
Total Endowments:	(Millions of dollars)	
Fair value	$ 1,518.1	$ 1,539.4
Change from previous year:		
Endowed donations	$ 23.6	$ 21.4
Endowed grants	$ 2.5	$ 3.6
Transfers from University's unrestricted funds	$ 3.3	$ 2.1
Investment income	$ 32.2	$ 155.9
Fees and expenses	$ (14.0)	$ (15.0)
Allocation for spending	$ (68.9)	$ (65.8)
Total change for the year	$ (21.3)	$ 102.2

	April 30, 2012	April 30, 2011
Endowments in Long-Term Capital Appreciation Pool (LTCAP):		
Proportion invested in LTCAP	96.30%	97.99%
Number of units in LTCAP	9,035,771	9,004,575
Fair value in millions	$ 1,461.9	$ 1,508.4
Fair value per unit in dollars	$ 161.79	$ 167.52
Allocation for spending per unit in dollars	$ 7.56	$ 7.41
LTCAP time-weighted net returns*	1.0%	9.9%

*Returns net of investment fees and expenses.

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The University of Toronto was established in 1827 and is Canada's largest and most comprehensive university. It is one of the world's foremost research-intensive universities and it has educated hundreds of thousands of students and enjoys a global reputation in multiple fields of scholarship. It is one of only seven universities world-wide ranked in the top 22 across the broadest number of disciplines. Students have a chance to study with some of the world's top professors and alongside inspiring classmates.

It is in part due to the generosity of donors, that the University of Toronto is recognized as a global leader for its excellence in research and teaching. The traditions of philanthropy at the University of Toronto go back well over a century, and in the last 15 years alone, it is estimated that more than 130,000 different donors have contributed to the University.

Thanks to philanthropy, U of T has nearly 200 endowed chairs that help us attract and retain top scholars across a broad range of fields. Philanthropy has also helped provide more than $600 million in endowed financial aid—a vital resource that enables us to attract and support outstanding students regardless of economic background. The generosity of donors also provides vital support for research and teaching programs across the University, as well as state-of-the-art spaces where students can exercise their creativity and inquiry.

The University's last advancement campaign, *Great Minds for a Great Future*, launched in 1997 and concluded in 2003, raised $1 billion in private support. *Boundless: The Campaign for the University of Toronto*, which was launched in November 2011, has raised a further $1.09 billion towards a goal of $2 billion. The Boundless campaign will help expand U of T's global leadership across critical areas of knowledge and develop the talent, ideas and solutions for the defining challenges of our time. Endowment giving, which provides permanent, self-sustaining support to the University, will be critical to meeting these important objectives.

This report summarizes the performance, management and impact of our endowments over the past fiscal year. At April 30, 2012, University of Toronto endowments totaled $1.518 billion and included over 5,380 individual endowment funds. In establishing these funds, donors have chosen to support the institution's highest, continuing academic priorities.

To ensure that endowments will provide the same level of economic support to future generations as they do today, the University adopted a policy that grows the capital value of the endowment while allowing spending to increase over time as a percentage of the original donation. To this end, our strategy is not to spend everything earned through the investment of funds in years when investment markets are good. In favorable years, funds in excess of the spending allocation are set aside and reinvested. This enables both a protection against inflation and builds up a reserve for years when investment markets are poor.

Endowments are managed in a unitized pool. Almost all of the University's endowments hold units in this unitized investment pool, entitled the Long-Term Capital Appreciation Pool (LTCAP). Each endowment account holds units in LTCAP that reflect the number of dollars contributed and the unit value on the dates of contribution. The target spending allocation is 3% to 5% of opening balance market value and the actual endowment spending allocation for 2011-12 was 4.5%. The market value of each unit has decreased from $167.52 at April 30, 2011 to $161.79 at April 30, 2012.

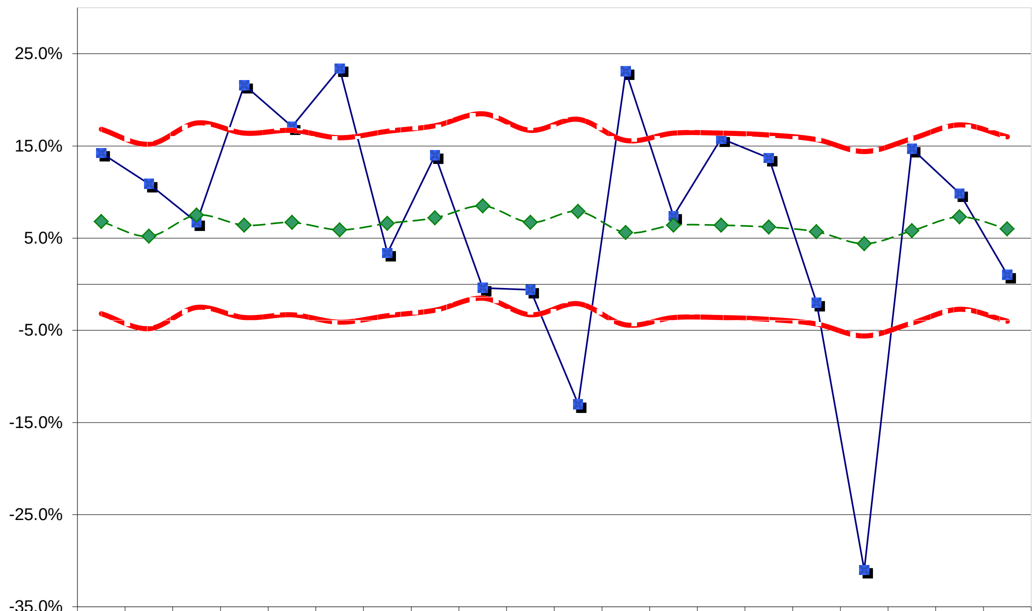
Unit market value at April 30, 2011	$167.52
Investment income per unit	3.46
Fees and expenses	(1.63)
Endowment spending allocation	(7.56)
Unit market value at April 30, 2012	$161.79

The amounts pertaining to a particular endowment account are obtained by multiplying the value per unit by the number of units in the endowment accounts. For example, if an endowment account holds 750 units, the market value of the endowment at April 30, 2012 was 750 times $161.79 or $121,342.

To fund the spending allocation and to preserve capital against inflation over time, the University has established an investment return target of a 4% real investment return after inflation and net of investment fees and expenses with a risk tolerance of 10% over 10 years. To meet those targets, the investment is managed by the University of Toronto Asset Management Corporation (UTAM) under the direction of the University.

Over a 20-year period, the one-year annual returns exceeded the target returns 12 times. Compared to the 10% risk corridor, returns over the same period were within the corridor 14 times, above it 4 times and below it twice.

Long Term Capital Appreciation Fund (LTCAP)
1-Year Annual Rates of Return



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Annual investment return	14.2%	10.9%	6.7%	21.6%	17.1%	23.4%	3.4%	14.0%	-0.4%	-0.6%	-13.0	23.1%	7.4%	15.8%	13.7%	-2.0%	-31.0	14.7%	9.9%	1.0%
Target return*	6.8%	5.2%	7.5%	6.4%	6.7%	5.9%	6.6%	7.2%	8.5%	6.7%	7.9%	5.6%	6.4%	6.4%	6.2%	5.7%	4.4%	5.8%	7.3%	6.0%
Standard deviation +10%	16.8%	15.2%	17.5%	16.4%	16.7%	15.9%	16.6%	17.2%	18.5%	16.7%	17.9%	15.6%	16.4%	16.4%	16.2%	15.7%	14.4%	15.8%	17.3%	16.0%
Standard deviation -10%	-3.2%	-4.8%	-2.5%	-3.6%	-3.3%	-4.1%	-3.4%	-2.8%	-1.5%	-3.3%	-2.1%	-4.4%	-3.6%	-3.6%	-3.8%	-4.3%	-5.6%	-4.2%	-2.7%	-4.0%

*** The target return from 1992 to 2002 was 5% plus CPI and after 2002, it was set at 4% plus CPI with a 10% standard deviation.**

Paving the Path for Others to Follow

It was a vision for a brighter future that led Predrag Jokovic to leave his native Serbia and begin an engineering career in Canada. Now he has ensured that qualified students from his high school will have the opportunity to study at Canada's top engineering school.

Jokovic's vision has inspired his employer Hatch, a global engineering and professional services consultancy, to make a gift of $860,000 to U of T's Faculty of Applied Science & Engineering. The newly established Hatch Entrance Scholarships will allow students from Belgrade's Mathematical Gymnasium, an award-winning high school that specializes in university-level math and physics, to pursue an engineering degree at U of T.

For Hatch, the scholarships will facilitate their objective of identifying the finest engineering minds from around the world. Hatch has long funded scholarships for students from the countries in which it operates.

"We're in a competitive global economy, and we need the world's best and brightest to meet Hatch's long-term goals," says Hatch's CEO and President John Bianchini (ChemE 8T5).

These new scholarships deepen the connection between Hatch and the University, first established by Hatch Executive Director, Dr. Bert Wasmund (ChemE PhD 6T6). Each year, Hatch has recruited U of T engineering students, and it has been a strong advocate for the Faculty within the industry.

"Whenever you can have a partnership with a world-class institution like the University of Toronto, you seek to maximize it," says Bianchini.

The new scholarships also support U of T's objective of continuing to attract the world's best students through globally competitive funding. "Our international reputation for engineering excellence is a powerful draw for many of the world's best students," says Professor Cristina Amon, Dean of the Faculty of Applied Science & Engineering. "However, we need to offer scholarship packages that match our peer institutions. Our gratitude to Hatch for their generosity."

Beginning September 2012, the first of a total of four Hatch Entrance Scholarship recipients will enter the Faculty. The awards will cover tuition, accommodations, school supplies and travel. Bianchini and Jokovic hope the scholarship winners choose to spend their school breaks working at Hatch, and then join the company after graduation.

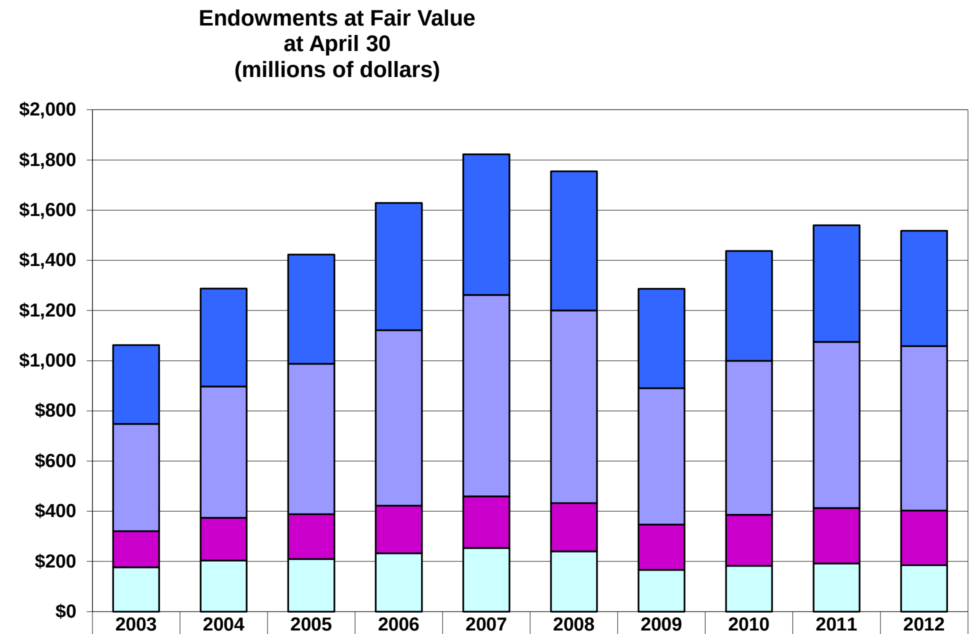
"We are a country built on immigration," Bianchini says. "We want to make sure that the best students from abroad look to Canada as home."

INTRODUCTION

Endowments enable students and academics from around the world to benefit from our distinguished faculty, groundbreaking research and wealth of innovative academic opportunities. University of Toronto endowments totaled $1.518 billion at April 30, 2012 and included over 5,380 individual endowment funds. In establishing these funds, donors have chosen to support the institution's highest, continuing academic priorities.

Endowments are restricted funds which must be used in accordance with purposes specified by donors or by Governing Council. Endowments are not available for use in support of general operating activities. They are subject to restrictions relating both to capital and to investment income. Endowment funds held by the University of Toronto are subject to the University's preservation of capital policy, the purpose of which is to ensure that the rate of growth in the capital value of the endowments matches or exceeds the rate of inflation over time. Endowments include externally restricted endowment funds (84.8%) and internally restricted endowment funds designated as endowments by Governing Council in the exercise of its discretion (15.2%). The Governing Council may have the right to subsequently remove the endowment designation on internally restricted funds; however, the use of such funds may continue to be restricted.

The investment income earned on endowments must be used in accordance with the various purposes established by the donor or Governing Council. As part of its fiduciary responsibilities, the University of Toronto ensures that all funds received with a restricted purpose or subsequently endowed for a particular purpose (and the investment income earned on such funds) are used only for that purpose. There are several broad categories of restrictions – chairs and professorships, student aid, academic programs and research. Within these broad categories, each endowment has its own specific terms and conditions which govern spending of investment income.



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total endowments	1,062.3	1,287.7	1,422.8	1,628.8	1,822.7	1,754.8	1,286.3	1,437.2	1,539.4	1,518.1
Chairs and professorships	314.4	390.7	434.8	507.6	560.5	554.4	395.5	437.4	464.6	460.4
Student aid	427.3	522.8	599.7	699.4	802.4	768.1	543.9	614.1	662.0	655.2
Academic programs	143.8	170.3	179.0	189.0	205.9	191.8	180.3	203.1	220.8	217.1
Research	176.8	203.9	209.3	232.8	253.9	240.5	166.6	182.6	192.0	185.4

This report deals with endowments reported in the University of Toronto's financial statements, and does not include the endowments of Victoria University, The University of Trinity College, University of St. Michael's College, Sunnybrook Health Sciences Centre, and the affiliated colleges under the memorandum of agreement with the Toronto School of Theology, each of which is a separate non-controlled corporate body, the endowments of which are reported in the financial statements of that body.

At April 30, 2012, there were over 5,380 individual endowment funds, usually supported by a donor agreement, or reflecting a collection of small donations with common restrictions.

Almost all endowments, approx. 96.3% of fair value and 5,347 funds, are invested in the University's long-term capital appreciation pool (LTCAP).

Endowments totaled $1,518.1 million fair value at April 30, 2012. This was a decrease of $21.3 million over the previous year. This decrease was comprised of:
Additions of:

- $32.2 million of investment income,

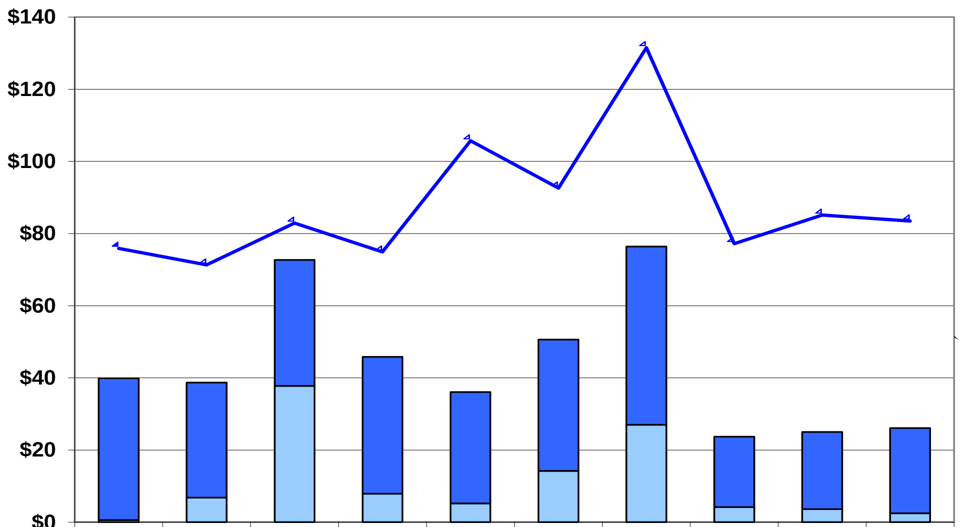
- $23.6 million of endowed donations,
- $2.5 million of endowed government grants, and
- $3.3 million of transfers from the University's unrestricted funds to endowments.

Minus:

- $68.9 million of allocation for spending and
- $14.0 million of fees and expenses.

The following graph shows endowed contributions and total donations (endowed and expendable) received since 2003. It tracks only cash received in the relevant year. There is usually a lag between the growth in pledges and related commitments, and the actual receipt of funds.

Endowed Contributions and Total Donations Received
for the year ended April 30
(millions of dollars)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Endowed donations	39.3	31.9	34.9	37.9	30.9	36.4	49.4	19.5	21.4	23.6
Endowed grants	0.6	6.8	37.8	7.9	5.2	14.2	27.0	4.2	3.6	2.5
Total donations	75.9	71.3	82.9	74.9	105.7	92.6	131.5	77.2	85.1	83.5

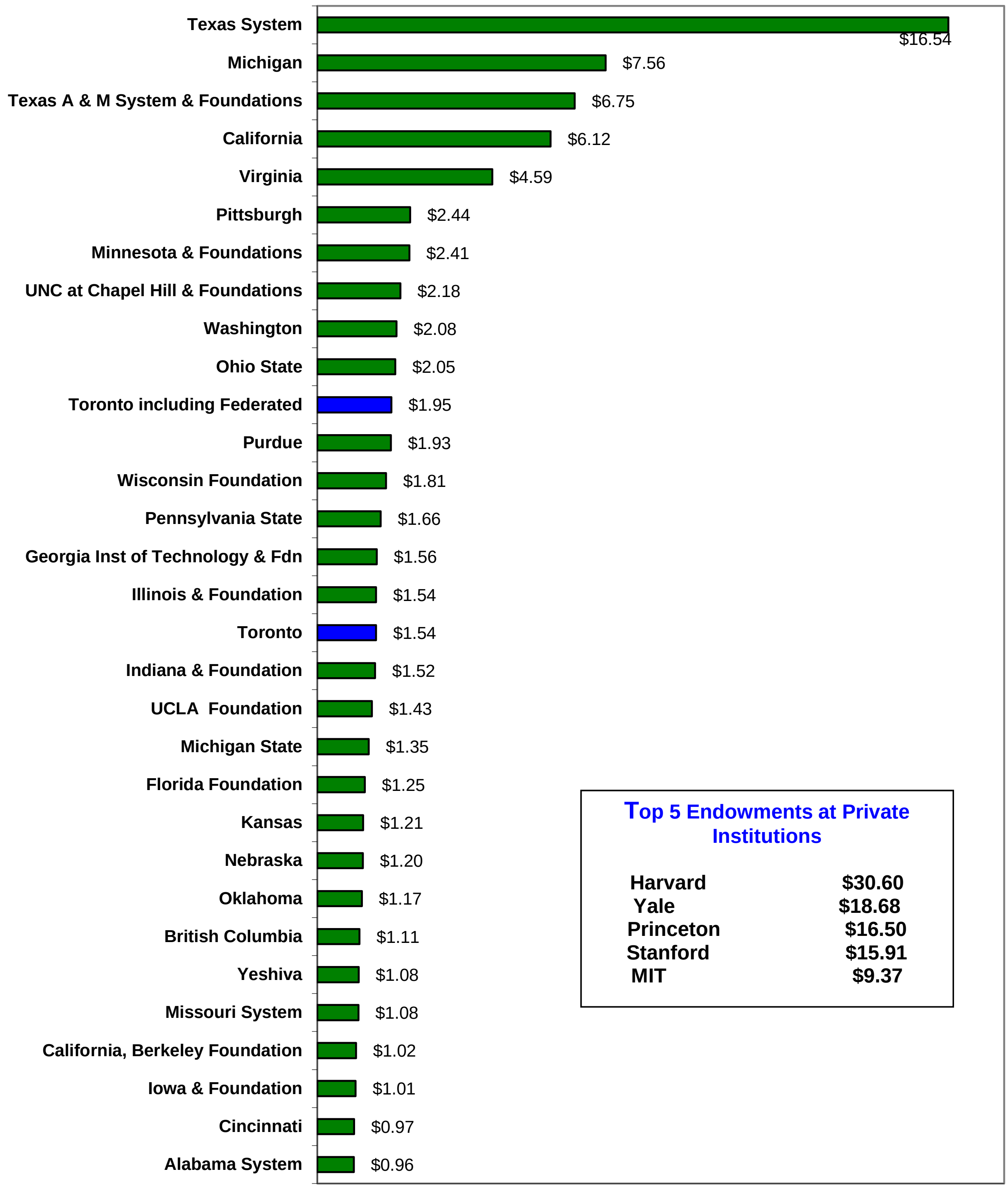
The graph illustrates that endowed donations represented 28.3% of total donations ($83.5 million) received by the University in 2012. Expendable gifts of $59.9 million were also received. Expendable gifts build essential infrastructure and support immediate academic priorities with rapid-cycle impact on the institution. Government grants which were added directly to endowments were for scholarships for Ontario resident students with financial need.

The University has been careful to ensure that fundraising is tied to academic priorities defined by academic leaders through formal and informal planning processes. The clear link with institutional planning enables the University to assure donors that the priorities they are being asked to support are critical to the achievement of teaching and research objectives.

It is important to note the University's endowments are not large in comparison to our U.S. public university peers. When we consider the top 30 endowments at Canadian and U.S. public institutions in 2011, Toronto ranked 16th in terms of size. Including the endowments of the federated universities, Toronto ranked 11th in terms of size. If we were to compare the endowment per FTE student with the same institutions, the University would rank lower since most of these institutions have a smaller number of FTE students.

TOP 30 ENDOWMENTS AT PUBLIC INSTITUTIONS

As at June 30, 2011
(in billions)



Source: 2011 NACUBO Endowment Study converted to Canadian dollars at an exchange rate of 0.9643

A Nursing Scholarship Honours the Memory of a Beloved Mother

At the annual awards ceremony of U of T's Lawrence S. Bloomberg Faculty of Nursing, most of the front row is filled with members of the Scanlan family. When Clare Scanlan, RN, died suddenly in 2003, her husband Bernard and their eight children chose to honour her memory by establishing a Bloomberg Nursing scholarship in her name.

"The Clare Scanlan Scholarship is a legacy to Mom," says Tom Scanlan, one of Clare's five sons. "Every fall at the awards ceremony, she's in the spotlight. It's a celebration of her life."

Clare graduated in 1945 from the nursing program at Hotel Dieu Hospital in Kingston. Clare, Bernard and their ever-increasing family then moved to Scarborough, where Clare worked the evening shift at East General Hospital and later at Providence Villa.

"When Mom got home from work at 11, she'd get out the cheese and crackers and talk to us," recalls Tom. "In the morning, if you wanted to talk to Mom or just needed a hug, you could crawl into bed with her," remembers Rosemarie McClean, Clare's second-youngest daughter.

It was Rosemarie who came up with the idea of honouring their mother's memory through a scholarship. "I thought of the linkage to the Faculty of Nursing, because Mom was so proud of being a nurse," says Rosemarie. "And she was a big believer in education."

The family endowed the scholarship, so it will be awarded annually in perpetuity. "The scholarship is based as much on need as academic prowess," adds Tom. "But it was the need that resonated with our family. It's something that matched our mother's generous spirit."

This year's recipient is Caroline Wang from the Class of 1T2. "The award lightened my financial burden," says Wang. "It helped pay for textbooks, which can be very costly, even the used ones." Wang's dream is to become a paediatric nurse.

For the Scanlan family, part of the joy of the scholarship comes from meeting the recipient at the annual awards ceremony. "I know my mother would have been thrilled with every single recipient," says Rosemarie. The occasion also offers the Scanlans the opportunity to tell the student about the woman whom the scholarship honours.

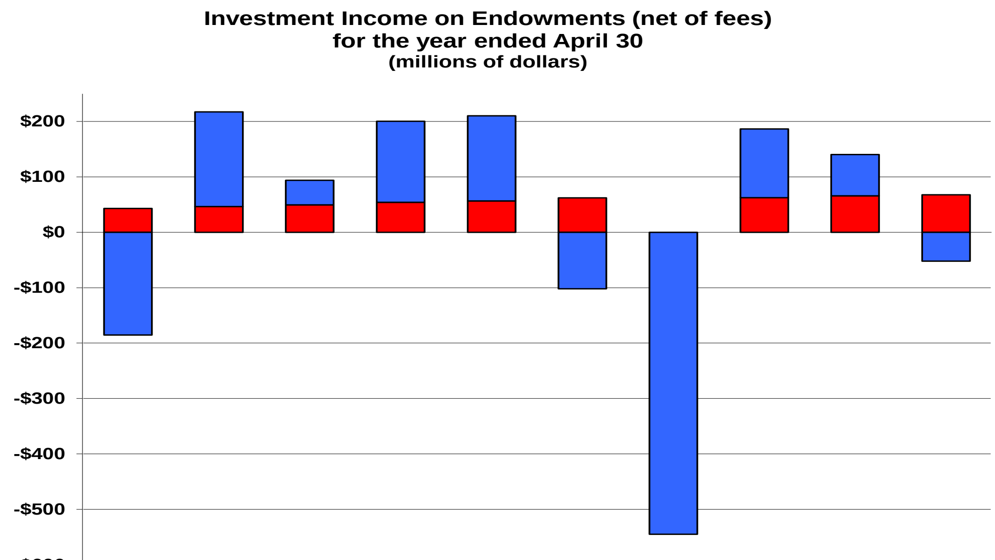
"Our Mom embodied the spirit of what a great nurse should be," says Tom. "But when we were growing up, it didn't really matter what her job was. We just knew she was a wonderful mother."

ALLOCATION FOR SPENDING AND PRESERVATION OF PURCHASING POWER

Endowments provide a strong base of funding for student aid, for endowed chairs, for research and for academic programs in support of the University's academic mission.

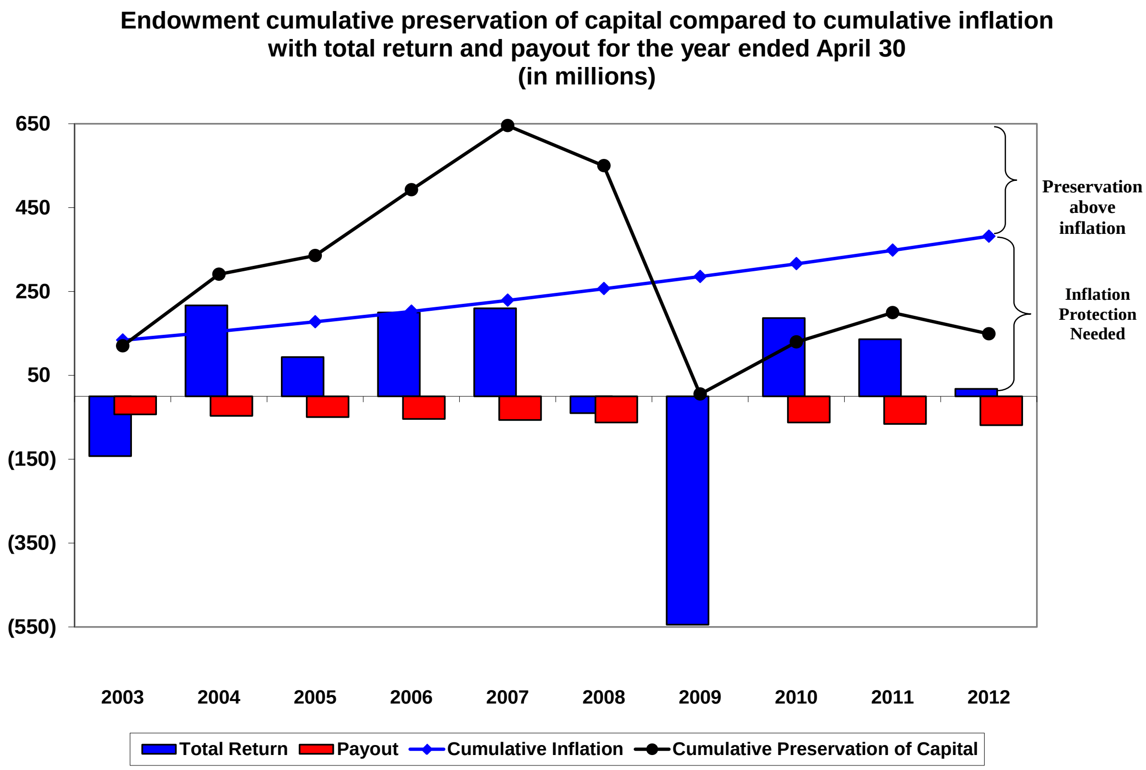
To ensure that endowments will provide the same level of economic support to future generations as they do today, with growth in the capital value of the endowment and with spending increasing over time as a percentage of the original donation, the University does not spend everything earned through the investment of funds in years when investment markets are good. In those years, the University sets aside and reinvests any amounts earned in excess of the spending allocation. This provides protection against inflation and builds up a reserve, which is expected to be used to fund spending in years when investment markets are poor. When investment income is less than the amount allocated for spending, or negative, the shortfall is expected to be funded from the accumulated investment income which has previously been added to the pool. The target spending allocation is 3% to 5% of opening balance market value and the actual endowment spending allocation for 2011-12 was 4.5%.

The following graph shows the spending allocation and the amounts reinvested and drawn down over the past ten years.



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Reinvested (drawdown)	(185.5)	170.7	44.4	146.3	153.7	(101.9)	(545.0)	124.3	74.4	(52.0)
Allocation for spending	43.0	46.5	49.4	54.0	56.5	62.1	-	62.3	65.8	67.7

The next chart illustrates the annual spending allocations, investment returns, required inflation protection and funds re-invested to reserve against years of poor investment markets over the past 10 years. It also shows the changing value of the reserves in response to varying investment returns over the period.



A Helping Hand for Off-Reserve Aboriginal Students

In the mid-2000s, Tom Mitchinson was an advisor to the Ipperwash Inquiry. Its mandate was to determine how and why an aboriginal man had been killed by the police during a protest and to recommend steps to avoid similar tragedies in the future.

“A lot of good work was done, but I left feeling discouraged,” Mitchinson remembers. “The issues were enormously complex and defied easy solutions. But one thing was clear. Aboriginal people have not been provided with the same educational opportunities as the rest of us.”

Mitchinson and his partner David Connolly decided to become involved. Mitchinson spoke to former Prime Minister Paul Martin, who had recently retired from politics and was now devoting time to aboriginal issues. Martin’s focus was on improving primary and secondary education for on-reserve children, and Mitchinson learned that funding was sometimes also available from native bands to help on-reserve students with post-secondary school costs.

“It seemed that off-reserve aboriginal students did not have a funding source,” says Mitchinson. “So, David and I decided to turn our attention to them.” He and Connolly endowed a scholarship for off-reserve aboriginal students at U of T’s Woodsworth College. The award provides funding for the full four years of undergraduate study in either the humanities or the social sciences.

Previously a senior government official, Mitchinson now hears cases at the Workplace Safety and Insurance Appeals Tribunal. Connolly is a retired social worker.

“So far, the award seems to be working,” says Mitchinson, who points out that downtown Toronto has more off-reserve aboriginal young people than any other Ontario community. “Woodworth’s staff consults with colleagues at First Nations House and with the local aboriginal community to identify qualified students. There have been several recipients and the current one is now in his second year of eligibility. We feel like we’re making a difference—and that’s a wonderful feeling.”

LONG-TERM CAPITAL APPRECIATION POOL (LTCAP) INVESTMENT POLICY

Almost all of the University's endowments (96.3% of fair value) are invested in LTCAP, a unitized pool. The fair value of an LTCAP unit is set each month, representing the market value of investments of the LTCAP divided by the total number of units held. Each endowment account has an assigned book value (nominal amount of dollars contributed to the endowment) and an allocation of LTCAP units based on the number of dollars contributed and the unit value on the dates of contribution.

In addition to endowments, LTCAP also includes $226.1 million expendable funds that are invested for the long-term, including the University's supplemental retirement arrangement fund, and $40.1 million of external funds of affiliated organizations and funds where the University is a beneficiary, representing historical arrangements.

The University, through the Business Board of Governing Council, is responsible for establishing the investment return objective and specifying the risk tolerance for LTCAP, which reflect the liability requirements and are reviewed regularly.

The University's investment policy for LTCAP reflects the spending allocation target and the preservation of capital policy. It has a real investment return objective of 4% (net of fees and expenses) and the risk tolerance of an annual standard deviation of 10% over 10 years. This means that the real return is expected to be between -6% and 14%, two thirds of the time over a ten-year period.

INVESTMENT MANAGEMENT AND OVERSIGHT

LTCAP investments are managed by the University of Toronto Asset Management Corporation (UTAM) as agent for the University. The University establishes the return and risk parameters for LTCAP and approves the investment strategy. UTAM recommends and executes appropriate investment strategies based on the risk and return objectives and the investment strategy established by the University. An Investment Advisory Committee provides investment advice to the President of the University.

A detailed review of the investment performance, which is managed and measured on a calendar year basis by UTAM is available on the UTAM website at www.utam.utoronto.ca.

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 Business Board of the University of Toronto.

LONG-TERM CAPITAL APPRECIATION POOL (LTCAP) INVESTMENT STRATEGY AND PERFORMANCE

The fair value of LTCAP was $1,728.1 million at April 30, 2012, of which $1,461.9 million was endowments, representing 96.3% of all endowments.

Asset Mix

LTCAP's total portfolio return target is a 4% real return (net of fees and expenses), and its investment risk tolerance is specified as a 10% standard deviation of the portfolio's annual returns over a 10-year period with the purpose of funding the target spending allocation and the preservation of capital over time. These parameters were established in 2003.

To achieve the target return, the portfolio must be exposed to risk. UTAM's investment philosophy is the framework which guides this task. It is built upon six core principles: appropriate asset allocation; a longer term focus; analysis and understanding of the risks being assumed; efficient diversification by geography, strategy and liquidity; an equity orientation with a value bias; and, a belief that active management can add value in certain areas.

The policy asset mix is periodically reviewed by UTAM for approval by the University based on advice from the President's Investment Advisory Committee. A complete and thorough review was undertaken during 2011-12 and the revised policy asset mix was implemented on March 1st, 2012. As part of this review, to provide a clear picture of the risk entailed in various investment vehicles, non-traditional assets and strategies (often referred to as alternative assets) were re-classified as equities or debt-related based on their underlying risk characteristics. This demonstrates, more clearly than before, that the policy asset mix is a 60% equity and 40% fixed income asset mix. The following chart shows the changes. The nomenclature has changed and the new policy asset mix is now referred to as the new Reference Portfolio (to distinguish it from the earlier reference portfolio which had a different purpose).

Asset Class	Policy Asset Mix Before March 1, 2012	New Reference Portfolio
Cash	0.0%	0.0%
Canadian Equities	12.5%	16.0%
US Equities	12.5%	18.0%
International Equities	15.0%	16.0%
Emerging Markets Equities	0.0%	10.0%
Income/Credit, Rates	17.5%	40.0%
Hedge Funds	17.5%	n/a*
Private Equities	10.0%	n/a*
Real Assets	15.0%	n/a*
	100.0%	**100.0%**

** hedge funds, privates, and real assets are grouped within the other asset classes based on risk characteristics*

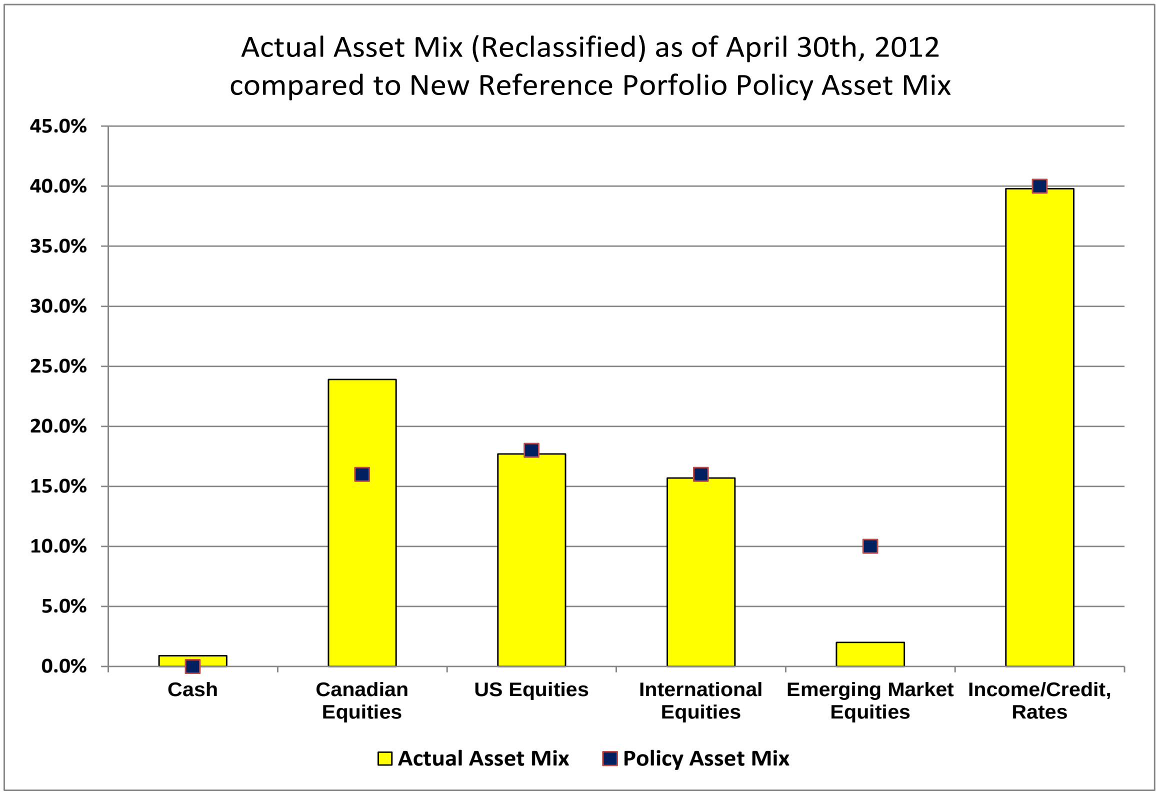
Notwithstanding this change, the underlying investment philosophy remains unchanged, which is to control the overall risk of the portfolio; to remain aware of inflation risk over the longer term; and to recognize that markets are likely to be quite choppy for a period of time.

The policy asset mix identifies a target portfolio; however, at any point in time, the actual asset mix will vary somewhat from the policy asset mix. The table below shows the actual asset mix as at April 30th under the old and new classification methods:

	LTCAP Actual based on former Policy Asset Mix	LTCAP Actual Reclassified using new Reference Portfolio
Cash	0.9%	0.9%
Canadian Equities	20.3%	23.9%
US Equities	8.7%	17.7%
International Equities	11.4%	15.7%
Emerging Market Equities	0.0%	2.0%
Income/Credit, Rates	24.6%	39.8%
Hedge Funds	15.1%	n/a*
Private Equities	12.4%	n/a*
Real Assets	6.6%	n/a*
	100.0%	**100.0%**

** Hedge Funds, Private Equities and Real Assets re-classified and grouped with remaining asset classes*

Finally, the chart below compares the actual asset mix (reclassified) to the Reference Portfolio policy asset mix as at April 30th:



* *Includes hedge funds, private equities and real assets grouped into the respective asset class components*

The only major weight difference was in the newly introduced Emerging Markets equity asset class, which is being built towards the target allocation over time. In the interim, the funds not yet invested in emerging markets are being held in Canadian equities, thus increasing that allocation beyond that envisaged by the policy asset mix.

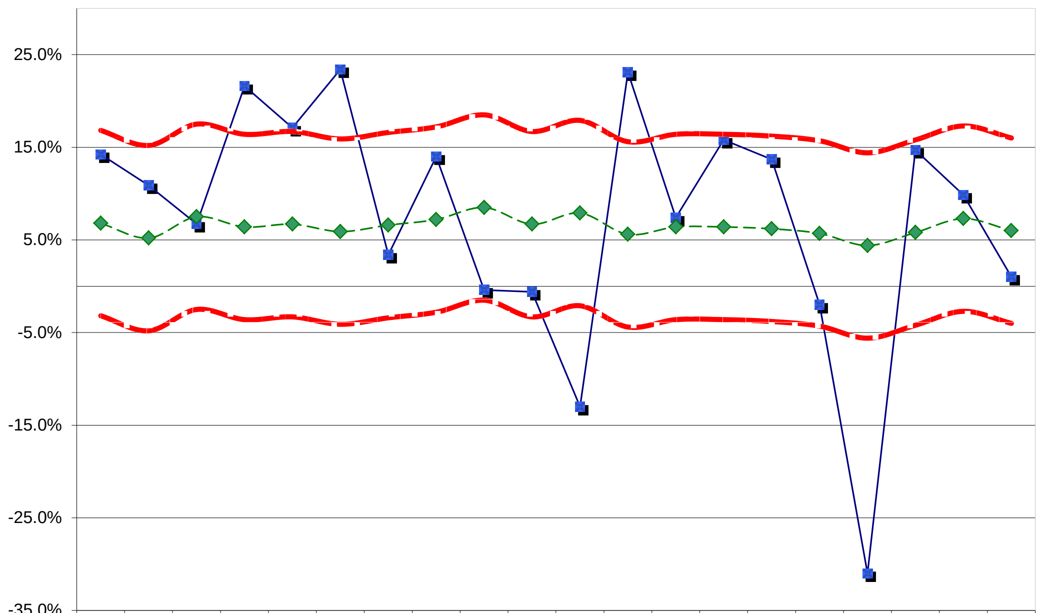
Foreign Currency Exposure

The underlying philosophy at UTAM is to exploit global investment opportunities. This approach results in foreign currency exposure. The currency hedging policy has been set at 50% hedging since January 1, 2009. With the introduction of the new Reference Portfolio and the expense for a long term investor of hedging emerging markets currencies, the President's Investment Advisory Committee encouraged a change in the hedging policy. Going forward, emerging markets currencies are not hedged and total foreign currency exposure is limited to between 5% and 25% of the portfolio's net asset value.

Investment Performance

Over a 20-year period, the one-year annual returns exceeded the target returns 12 times. Compared to the 10% risk corridor, returns over the same period were within the corridor 14 times, above it 4 times and below it twice.

Long Term Capital Appreciation Fund (LTCAP)
1-Year Annual Rates of Return

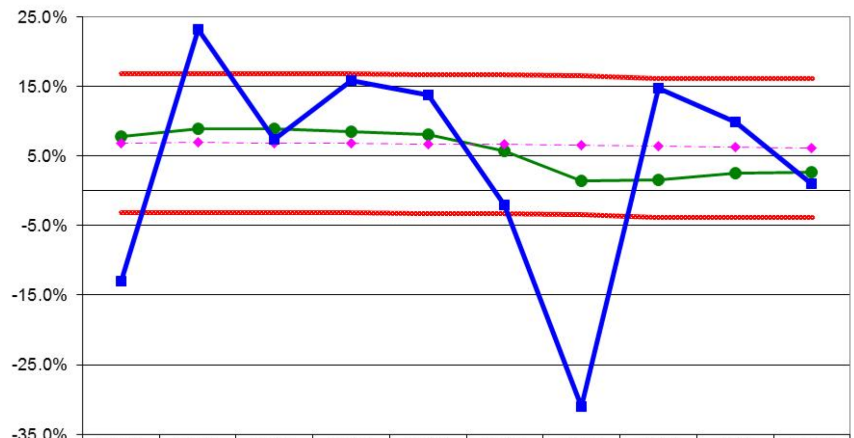


	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Annual investment return	14.2%	10.9%	6.7%	21.6%	17.1%	23.4%	3.4%	14.0%	-0.4%	-0.6%	-13.0	23.1%	7.4%	15.8%	13.7%	-2.0%	-31.0	14.7%	9.9%	1.0%
Target return*	6.8%	5.2%	7.5%	6.4%	6.7%	5.9%	6.6%	7.2%	8.5%	6.7%	7.9%	5.6%	6.4%	6.4%	6.2%	5.7%	4.4%	5.8%	7.3%	6.0%
Standard deviation +10%	16.8%	15.2%	17.5%	16.4%	16.7%	15.9%	16.6%	17.2%	18.5%	16.7%	17.9%	15.6%	16.4%	16.4%	16.2%	15.7%	14.4%	15.8%	17.3%	16.0%
Standard deviation -10%	-3.2%	-4.8%	-2.5%	-3.6%	-3.3%	-4.1%	-3.4%	-2.8%	-1.5%	-3.3%	-2.1%	-4.4%	-3.6%	-3.6%	-3.8%	-4.3%	-5.6%	-4.2%	-2.7%	-4.0%

*** The target return from 1992 to 2002 was 5% plus CPI and after 2002, it was set at 4% plus CPI with a 10% standard deviation.**

Based on 10-year rolling averages, the actual average returns exceeded the target returns every year until 2007. Beginning in 2008, the average actual returns fell below the average target returns due to losses from 2001 to 2003 and the financial crisis of 2009. It began to trend back towards the target in 2011.

Long Term Capital Appreciation Pool Fund (LTCAP)
Ten-Year Rolling Average Returns with Annual Returns



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Ten-Year rolling average return	7.8%	8.9%	9.0%	8.4%	8.1%	5.6%	1.5%	1.5%	2.5%	2.7%
Ten-Year rolling Standard deviation +10%	16.9%	16.9%	16.8%	16.8%	16.7%	16.7%	16.5%	16.4%	16.2%	16.2%
Ten-Year rolling target return*	6.9%	6.9%	6.8%	6.8%	6.7%	6.7%	6.5%	6.4%	6.2%	6.2%
Ten-Year rolling Standard deviation -10%	-3.1%	-3.1%	-3.2%	-3.2%	-3.3%	-3.3%	-3.5%	-3.6%	-3.8%	-3.8%
Annual investment return	-13.0%	23.1%	7.4%	15.8%	13.7%	-2.0%	-31.0%	14.7%	9.9%	1.0%

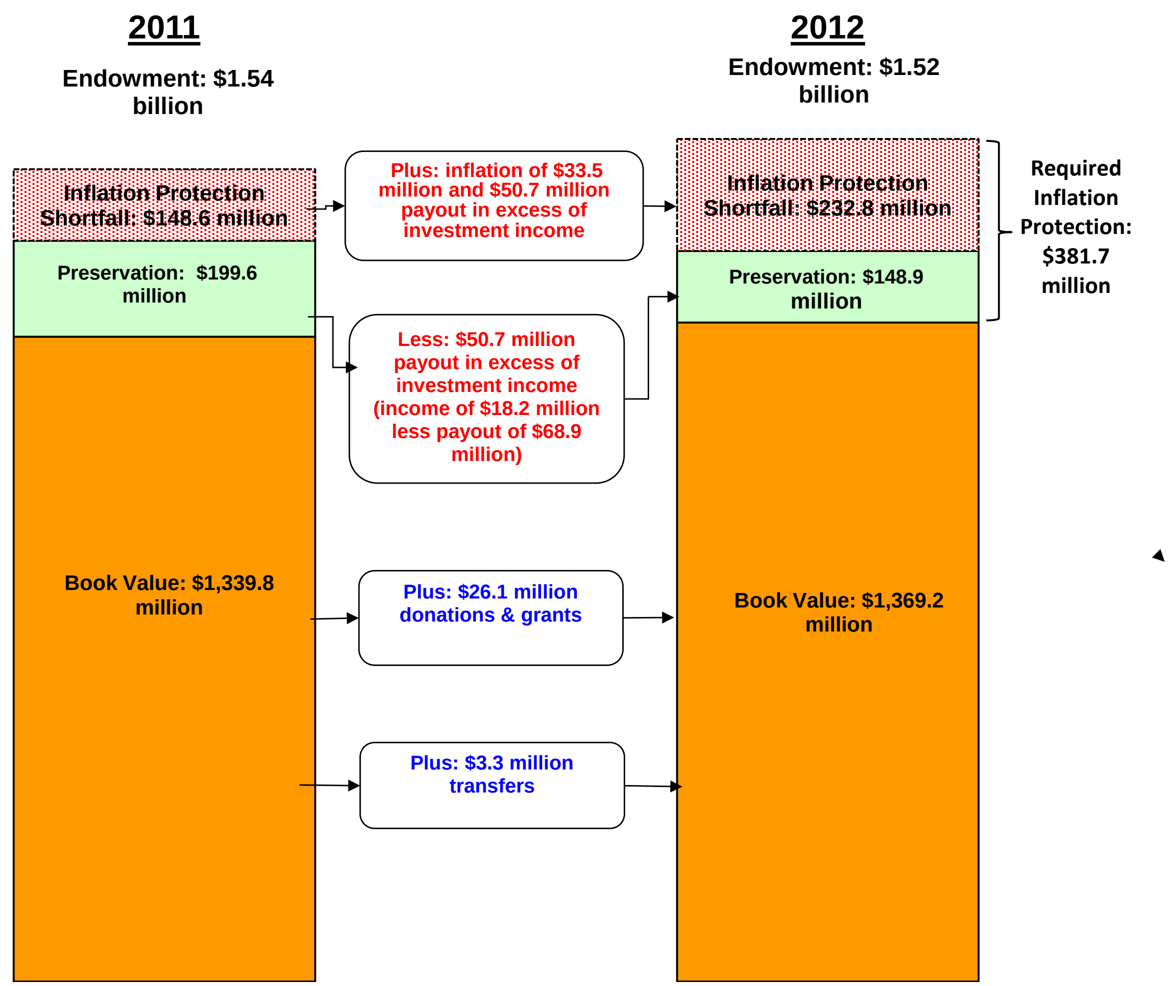
* **The target return is set at 4% plus CPI with a 10% standard deviation. The ten-year rolling returns are geometric average returns.**

While a longer term perspective is important, it is useful to regularly assess LTCAP short term returns compared to the objective set by the University. In this regard, performance is assessed versus the 4% real return objective (net of fees and expenses).

During the year ending April 30th 2012, global equity market performances were mixed in local currency terms, with Canadian (TSX) and International (EAFE) equities both suffering a loss of around -9% while US equities (S&P 500) recorded a return of about 5%. Fixed income as represented by the DEX Universe was the best performing asset class, gaining just under 9%. Among alternative assets, Hedge Funds (actual portfolio) gained 1.6% while Private Investments in aggregate (actual portfolio) gained about 4.5% in USD term. LTCAP also benefited from the Canadian dollar's depreciation against most major currencies, except for Euro, since our foreign currency assets were only half-hedged back to the Canadian dollar. Overall, the LTCAP portfolio achieved a Canadian dollar return of just over 1% net of all investment fees and expenses, or 1.6% gross of fees.

Compared to the University's 4% long-term real return objective (which translates to a 6% nominal return during the past year), LTCAP underperformed the long-term target by 5%. Compared against the 0.76% return of the short-term market benchmark (which incorporated the Reference Portfolio's return since March 1st), LTCAP outperformed the market benchmark by 26 basis points (net of fees).

Therefore, in order to provide the full annual spending allocation of $68.9 million, it was necessary to draw down the endowment reserve by $50.7 million, which now stands at $148.9 million. The change of the endowment is illustrated in the following chart.



A detailed review of investment performance, which is managed and measured on a calendar year basis by UTAM, is available on UTAM's website at www.utam.utoronto.ca and in UTAM's 2011 Annual Report.

FEES AND EXPENSES

Fees and expenses set out below represent the endowments' proportionate share of the expenses allocated to LTCAP. Fees and expenses amounting to 0.9% of the 2012 opening unit market value consist of the following:

	2012 In millions	2011 In millions
Investment related management fees		
External managers	$ 11.5	$12.2
UTAM	1.5	1.6
Trustee and custodial fees	0.3	0.5
Foreign taxes	0.3	0.5
Professional and other fees	0.4	0.2
Total	$ 14.0	$15.0

UTAM has direct oversight of all investment fees and expenses related to managing the LTCAP assets. Third party fees allocated to LTCAP include fees paid to external investment managers contracted by UTAM, trustee and custodial fees, and professional fees. UTAM strives to negotiate discounted investment management fee rates (versus the standard schedule) based on the total assets that UTAM assigns to an external manager, which would include LTCAP assets. The benefit of these lower rates is experienced by LTCAP in the form of lower total costs than would otherwise be the case. Third party fee rates can vary widely, depending on the nature of the asset being managed. For example, fee rates for domestic fixed income mandates are typically much lower than fee rates for private equity investments (domestic or foreign). Therefore, the mix of assets, and changes in asset mix over time, can have a significant impact on total costs year by year. In 2012, total external manager fees were reduced as effort to restructure and optimize the external manager line-up, particularly within the hedge fund component, continued.

In addition to third party fees, a portion of UTAM's total operating costs is allocated to LTCAP. This allocation is typically pro-rated based on the total assets that UTAM manages, which include LTCAP assets, other University assets available for investment and the assets of the University of Toronto Pension Master Trust.

SUMMARY OF CHANGES IN FAIR VALUE

The total return on LTCAP for 2011-12 was 1.0% (net of fees and expenses).

	Total Value (in millions)	Unit Value (in dollars)	Number of Units
1) Endowments pooled in LTCAP:			
Opening balance at May 1, 2011	$1,508.5	$167.52	9,004,575
Contributions plus transfers	5.3	-	31,196
Investment income	29.8	3.46	-
Fees and expenses	(14.0)	(1.63)	-
Allocation for spending	(67.7)	(7.56)	-
Closing balance at April 30, 2012	$1,461.9	$161.79	9,035,771
2) Specifically invested endowments:			
Opening balance at May 1, 2011	$ 25.8	n/a	n/a
Contributions	0.0	n/a	n/a
Investment income	2.4	n/a	n/a
Transferred from LTCAP	24.0		
Amount available for spending	(1.2)	n/a	n/a
Closing balance at April 30, 2012	$ 51.0	n/a	n/a
3) Donations received to be invested in LTCAP:			
At April 30, 2012	$ 5.2	n/a	n/a
Total endowments at April 30, 2012	$1,518.1	n/a	n/a

New donations received after the cut-off date at the end of the year had not yet been added to LTCAP.

The fair value of each endowment account in LTCAP is determined by multiplying the current fair value of the unit ($161.79 at April 30, 2012) by the number of units held by that endowment account.

Appendix

University of Toronto Endowments

Financial Information

April 30, 2012

Independent Auditors' Report

To the Members of Governing Council of University of Toronto:

We have audited the accompanying statement of net investments for University of Toronto Endowments as at April 30, 2012 and the statement of changes in net investments for the year then ended, and a summary of significant accounting policies and other explanatory information (together "the financial information"). The financial information has been prepared by management of the University of Toronto using the basis of accounting described in Note 2.

Management's responsibility for the financial information

Management of the University of Toronto is responsible for the preparation of the financial information in accordance with the basis of accounting described in Note 2: this includes determining that the applicable financial reporting framework is acceptable for the preparation of the financial information in the circumstances, and for such internal control as management determines is necessary to enable the preparation of the financial information that is free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial information for the year ended April 30, 2012 is prepared, in all material respects, in accordance with the basis of accounting described in Note 2.

Basis of accounting

Without modifying our opinion, we draw attention to Note 2 to the financial information, which describes the basis of accounting. The financial information is prepared to assist the University of Toronto in their reporting in their annual financial report on endowments.

Ernst & Young LLP

Toronto, Canada,
August 31, 2012.

Chartered Accountants
Licensed Public Accountants

University of Toronto Endowments
STATEMENT OF NET INVESTMENTS
APRIL 30, 2012
(with comparative figures at April 30, 2011)
(millions of dollars)

	2012	2011
ASSETS		
Investments, at fair value *[note 3]*	**1,496.0**	1,511.9
Short-term notes and treasury bills *[note 4]*	**3.9**	2.3
Cash and cash equivalents *[note 4]*	**6.1**	5.1
Unrealized gains on derivative instruments *[note 3]*	**6.6**	18.6
Investment income and other receivables	**8.8**	5.1
	1,521.4	1,543.0
LIABILITIES		
Unrealized losses on derivative instruments *[note 3]*	**0.9**	1.2
Other payables and accruals	**2.4**	2.4
	3.3	3.6
NET INVESTMENTS HELD FOR ENDOWMENTS	**1,518.1**	1,539.4

(see notes to financial information)

University of Toronto Endowments
STATEMENT OF CHANGES IN NET INVESTMENTS
FOR THE FISCAL YEAR ENDED APRIL 30, 2012
(with comparative figures for the year ended April 30, 2011)
(millions of dollars)

	2012	2011
INCREASE IN NET INVESTMENTS		
Endowed donations	**23.6**	21.4
Endowed grants	**2.5**	3.6
Investment income *[note 5]*	**32.2**	155.9
Transfers from University's unrestricted funds	**3.3**	2.1
Total increase in net investments	**61.6**	183.0
DECREASE IN NET INVESTMENTS		
Allocation for spending *[note 6]*	**68.9**	65.8
Fees and expenses *[note 7]*	**14.0**	15.0
Total decrease in net investments	**82.9**	80.8
Net decrease in net investments for the year	**(21.3)**	102.2
Net investments held for endowments, beginning of year	**1,539.4**	1,437.2
Net investments held for endowments, end of year	**1,518.1**	1,539.4

(see notes to financial information)

University of Toronto Endowments
NOTES TO FINANCIAL INFORMATION
APRIL 30, 2012

1. Description

This financial information presents the investments held for endowments of the University of Toronto (the "University") and the changes in these investments during the year. This financial information does not include other assets, liabilities, and net assets of the University. In addition, this financial information does not include the investments held for endowments of Victoria University, The University of Trinity College, University of St. Michael's College, Sunnybrook Health Sciences Centre, and the affiliated colleges under the memorandum of agreement with the Toronto School of Theology, each of which is a separate non-controlled corporate body, the investments of which are reported in their respective financial statements.

The University's endowments consist of externally restricted donations and grants received by the University and internal resources transferred by Governing Council, in the exercise of its discretion. Investment income is added to or deducted from endowments in accordance with the University's capital preservation policy. This policy limits the amount of income made available for spending and requires the reinvestment of excess income.

The majority of the endowments are invested in the University's long-term capital appreciation pool ("LTCAP"), with a small percentage invested outside the LTCAP according to donors' specific investment requirements. Donations are temporarily held in the University's expendable funds investment pool, an investment pool where all other University funds are invested, before being added to the LTCAP.

2. Summary of significant accounting policies and reporting practices

This financial information has been prepared in accordance with the significant accounting policies summarized below:

a) Investments -

Investments are carried at fair value except for the real estate directly held by the University. 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 investments.

The value of investments recorded in the financial statements is determined as follows:

1. Short-term notes and treasury bills are valued based on cost plus accrued income, which approximates fair value.

2. Bonds and publicly traded equities are determined based on the latest bid prices.

3. Investments in pooled funds are valued at their reported net asset value per unit.

4. Infrequently traded securities are based on quoted market yields or prices of comparable securities, as appropriate.

5. Real estate directly held by the University is valued at cost and, when donated, at the value determined through an appraisal process at the date of donation.

6. Private investments, which comprise private externally managed pooled funds with underlying investments in equities, debt, real estate assets, infrastructure assets and commodities, are determined based on the latest valuations provided by the external investment managers of the fund (typically December 31), adjusted for subsequent cash receipts and distributions from the fund, and cash disbursements to the fund through April 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because alternative investments 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 investments existed.

Transactions are recorded on a trade date basis and transaction costs are expensed as incurred.

b) Derivative financial instruments –

Derivative financial instruments are used to manage particular market and currency exposures for risk management purposes primarily with respect to the University's investments and as a substitute for more traditional investments. Derivative financial instruments and synthetic products that may be employed include debt, equity and currency futures, options, swaps and forward contracts. These contracts are generally supported by liquid assets with a fair value approximately equal to the fair value of the instruments underlying the derivative contract. Investment dealer quotes or quotes from a bank are available for substantially all of the University's derivative financial instruments.

Derivative financial instruments are carried at fair value, with changes in value during the year recorded in the statement of changes in net investments.

c) Revenue recognition –

Investment transactions are accounted for on the trade date. Interest income is recorded on an accrual basis and dividend income earned is recorded on the ex-dividend date.

d) Foreign currency translation –

Monetary assets and liabilities are translated at the exchange rates in effect at the financial information date. Purchases and sales of investments and revenues and expenses are translated at the rates of exchange prevailing on the respective dates of such transactions.

Realized and unrealized gains (losses) arising from foreign currency transactions and securities are included in investment income.

e) Financial instruments –

The University has chosen to apply Canadian Institute of Chartered Accountants ("CICA") 3861: Financial Instruments – Disclosure and Presentation in place of CICA 3862: Financial Instruments – Disclosures and CICA 3863: Financial Instruments – Presentation.

3. Investments

Most of the funds associated with the University's endowments are invested in LTCAP. These funds represent 84.6% (2011 – 85.3%) of the total LTCAP investments. Other investments represent investments held outside LTCAP due to donors' specific instructions. Direct investments are classified by asset-mix category based on the intent of the investment strategies of the underlying portfolio. This classification resulted in $62.3 million (2011- $ $205.0 million) of cash, money market funds, short-term notes and treasury bills set aside related to derivative contracts, $20.9 million (2011 –NIL) in other international equities, NIL (2011- $52.5 million) in hedge funds being reclassified to $13.4 million (2011- $16.4 million) in government and corporate bonds, $37.2 million (2011- $3.7 million) in Canadian equities, $32.6 million (2011- $ 184.3 million) in United States equities, NIL (2011 - $53.1 million) in other international equities.

The fair values of investment classes set out below include securities held for the University's endowments and the proportionate share of the investments in these categories held in LTCAP.

	(millions of dollars)			
	2012		2011	
	LTCAP	**Other**	LTCAP	Other
Government and corporate bonds	**360.9**	**17.3**	310.0	6.2
Canadian equities	**296.3**	**5.0**	224.0	0.9
United States equities	**126.9**	**0.4**	211.4	0.3
International equities	**167.0**	**7.1**	265.8	0.1
Hedge funds	**220.7**	**-**	204.1	-
Private equity and debt interests	**181.6**	**-**	184.8	-
Real asset interests	**96.5**	**16.3**	88.0	16.3
	1,449.9	**46.1**	1,488.1	23.8
Total investments	**1,496.0**		1,511.9	

During the year, \$2.1 million (2011 - \$17.4 million) of LTCAP's proportionate share of investment income related to endowments was recognized as a change in fair value that was estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. Management believes there are no other reasonable assumptions for these investments which would generate any material changes in investment income.

During the year, the University transferred substantially all of its publicly traded investments held for the LTCAP into new unitized investment pooled funds which are managed by the University of Toronto Asset Management Corporation, a wholly owned subsidiary of the University. These funds include two fixed income funds, a Canadian equity fund, a United States equity fund and an international equity fund. As at April 30, 2012, the total fair value of the University's investments in these pooled funds is \$817.0 million.

Risk management

Risk management relates to the understanding and active management of the risks associated with all areas of the University's investments. Investments are primarily exposed to market risk, which encompasses a variety of financial risks, such as foreign currency risk, interest rate risk, price risk, and credit risk. Significant volatility in interest rates, equity values and the value of the Canadian dollar against the currencies in which the University's investments are held can significantly impact the value of these investments. To manage these risks within reasonable risk tolerances, the University, through the University of Toronto Asset Management Corporation ("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 below). To manage foreign currency risk, a 50% hedging policy has been implemented for the University's investments beginning on January 1, 2009. Previous to this date, the University had a 100% hedging policy for its foreign currency risk. Credit risk of financial instruments is the risk of loss arising from the potential failure of a counterparty, debtor or issuer to honour its contractual obligations. At April 30, 2012, \$203.1 million (2011 – \$161.5 million) or 53.7% (2011 – 51.1%) of government and corporate bonds have AAA or AA credit ratings.

Derivative financial instruments

Description

The University has entered into various derivative contracts. The University has entered into equity index futures contracts which oblige it to pay the difference between a predetermined amount and the market value of certain equities 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 University has entered 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 University has significant contracts outstanding held in the U.S. dollar, Euro, Japanese yen and British pound, among others.

The notional values of the derivative financial instruments do not represent amounts exchanged between parties and are not a measure of the University's exposure resulting from the use of financial instrument contracts. They represent the principal or face value that is used to calculate the amounts exchanged on financial instruments. The amounts exchanged are based on the applicable rates applied to the notional values.

Risks

The University 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 endowments' proportionate share of the notional and fair values of each derivative financial instrument of LTCAP is as follows:

	(millions of dollars)			
	2012		2011	
	Notional Value	**Fair Value**	Notional Value	Fair Value
Foreign currency forward contracts				
- U.S. dollars	**398.1**	**5.1**	251.7	8.0
- International	**215.9**	**(0.3)**	99.2	-
		4.8		8.0
Equity and commodity index futures contracts				
- United States	**37.4**	**0.8**	265.6	9.4
- Other international	**29.7**	**0.1**		
		0.9		
Total		**5.7**		17.4
Reported on the statement of net investments as:				
Unrealized gains on derivative instruments		**6.6**		18.6
Unrealized losses on derivative instruments		**(0.9)**		(1.2)
		5.7		17.4

Uncalled commitments

As at April 30, 2012, approximately 18.8% (2011 – 18.0%) of the LTCAP's investment portfolio is invested in private funds managed by third party managers. These private funds typically take the form of limited partnerships managed by a General Partner. The legal terms and conditions of these private investment funds, 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 April 30, 2012, the endowments had uncalled commitments of approximately $76.5 million (2011 - $88.0 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.

4. Cash and short-term investments

a) The balances of cash and cash equivalents and short-term notes and treasury bills include the proportionate share of the investments in these categories held for the endowments in University investment pools.
b) Cash and cash equivalents consist of cash on deposit and units in a money market fund.

5. Investment income

Investment income is comprised of interest, dividend income, realized gains (losses) on sale of investments and unrealized appreciation (depreciation) on investments held.

6. Allocation for spending

The allocation for spending is governed by the University's preservation of capital policy, the purpose of which is to ensure that the rate of growth in the capital value of endowments matches or exceeds the rate of inflation over time. This policy limits the amount of income made available for spending and requires the reinvestment of excess income. The target allocation for spending is 3% to 5% of the opening market value. The actual endowment allocation for 2011-12 was 4.5% of the opening market value of endowment.

7. Fees and expenses

Fees and expenses set out below represent the endowments' proportionate share of the expenses allocated by the University to LTCAP. Fees and expenses consist of the following:

	(millions of dollars)	
	2012	2011
Investment management fees		
- External managers	**11.5**	12.2
- UTAM	**1.5**	1.6
Foreign taxes	**0.3**	0.5
Trustee and custodial fees	**0.3**	0.5
Professional and other fees	**0.4**	0.2
Total	**14.0**	15.0

UNIVERSITY OF
TORONTO