UNIVERSITY OF
TORONTO

University of Toronto Pension Plans

Annual Financial Report

For the Year Ended June 30, 2012

Highlights[1]

As at July 1, 2012

With Comparative Figures at July 1, 2011

At July 1, 2012 (millions of dollars)	Accrued Liabilities	Market Value of Assets	Market surplus (deficit)
University of Toronto Pension Plan (RPP)			
Going concern actuarial valuation	3,631.0	2,515.8	(1,115.2)
Solvency actuarial valuation [2]	4,262.7	2,514.8	(1,747.9)
Hypothetical wind-up actuarial valuation [2]	5,618.3	2,514.8	(3,103.5)
University of Toronto (OISE) Pension Plan - RPP(OISE)			
Going concern actuarial valuation	117.8	76.5	(41.3)
Solvency actuarial valuation [2]	139.2	76.1	(63.1)
Hypothetical wind-up actuarial valuation [2]	178.2	76.1	(102.1)
Supplemental Retirement Arrangement (SRA)			
Going concern actuarial valuation	135.2	111.0	(24.2)
Pension Plan Reserve		2.4	2.4

At July 1, 2011 (millions of dollars)	Accrued Liabilities [1]	Market Value of Assets	Market surplus (deficit)
University of Toronto Pension Plan (RPP)			
Going concern actuarial valuation	3,443.5	2,486.3	(957.2)
Solvency actuarial valuation [2]	3,496.8	2,485.3	(1,011.5)
Hypothetical wind-up actuarial valuation [2]	4,754.6	2,485.3	(2,269.3)
University of Toronto (OISE) Pension Plan - RPP(OISE)			
Going concern actuarial valuation	116.1	76.1	(40.0)
Solvency actuarial valuation [2]	121.8	75.7	(46.1)
Hypothetical wind-up actuarial valuation [2]	161.7	75.7	(86.0)
Supplemental Retirement Arrangement (SRA)			
Going concern actuarial valuation	140.4	120.8	(19.6)

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

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

Highlights (continued)

As at July 1, 2012

With Comparative Figures at July 1, 2011

Participants	July 1, 2012	July 1, 2011
RPP	16,854	16,437
RPP(OISE)	259	265

	For the year-ended	
Contributions	June 30, 2012	June 30, 2011
Employer - Current service	92.9	77.9
Employer - Special payments	50.6	165.2
Total Employer *	**143.5**	**243.1**
Total Employee - Current Service	**40.0**	**38.4**

* Employer contributions for the year-ended June 30, 2013 are estimated to be $161.4 million, which include $94.8 million current service funding and $66.6 million special payment funding.

	For the year-ended	
Investment Earnings	June 30, 2012	June 30, 2011
Actual investment return **	0.9%	12.7%
Target return (4.0% plus CPI)	5.5%	7.2%

** 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, 2012	July 1, 2011
Increase in consumer price index (CPI)	2.50%	2.50%
Increase in salaries	4.50%	4.50%
Discount rate on liabilities	6.25%	6.25%

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Purpose of this Report

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

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

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

The Pension Committee of Governing Council is composed of 11 members of Governing Council and 9 members representing employee groups with members who participate in the pension plans. It has delegated authority[1] to act for Governing Council in respect of the administration of the pension plans except for matters which Governing Council or its Business Board are required by statute to approve; or which are reserved to Governing Council or the Business Board via the Pension Committee terms of reference, as amended from time to time by Governing Council.

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

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

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

The purpose of this report is to seek approval of the audited pension financial statements for the RPP and the RPP(OISE) at June 30, 2012.

How a Defined Benefit Pension Plan Works

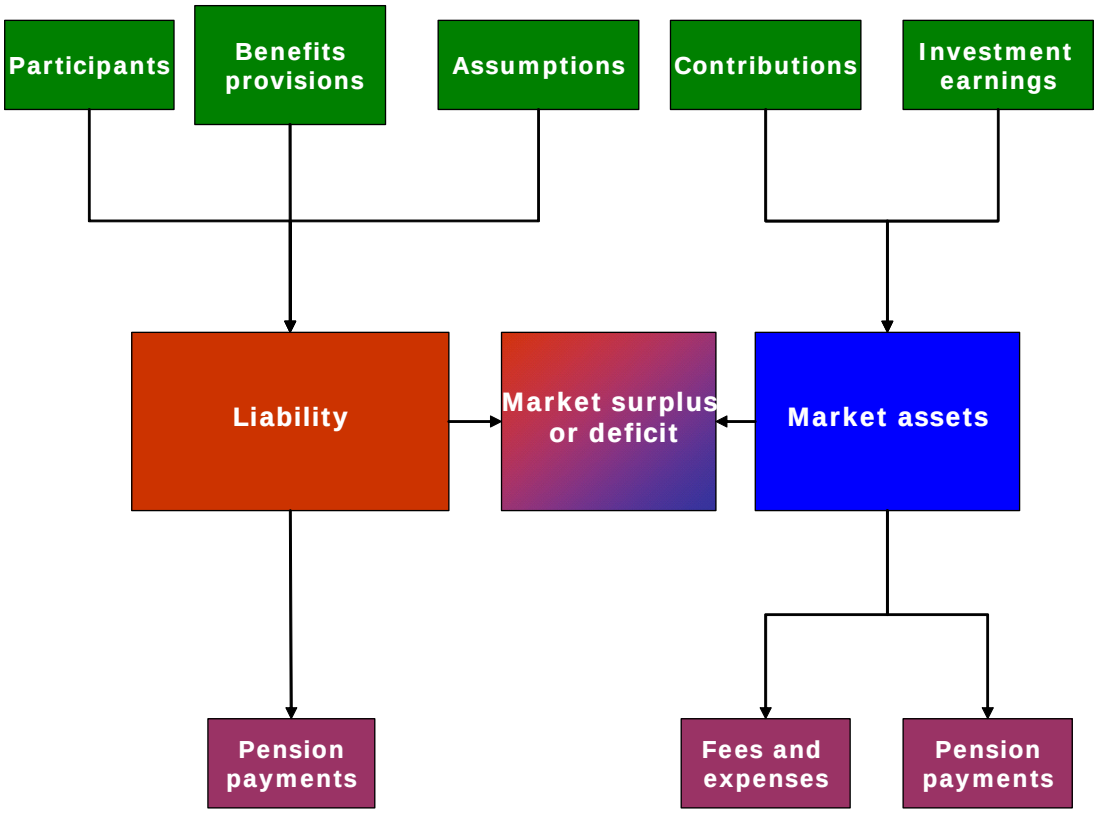
A pension plan is any arrangement by which an employer promises to provide retirement income to members. There are essentially two types of pension plans currently permitted under pension legislation in Ontario – a defined contribution plan and a defined benefit plan. A defined contribution plan provides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

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

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

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

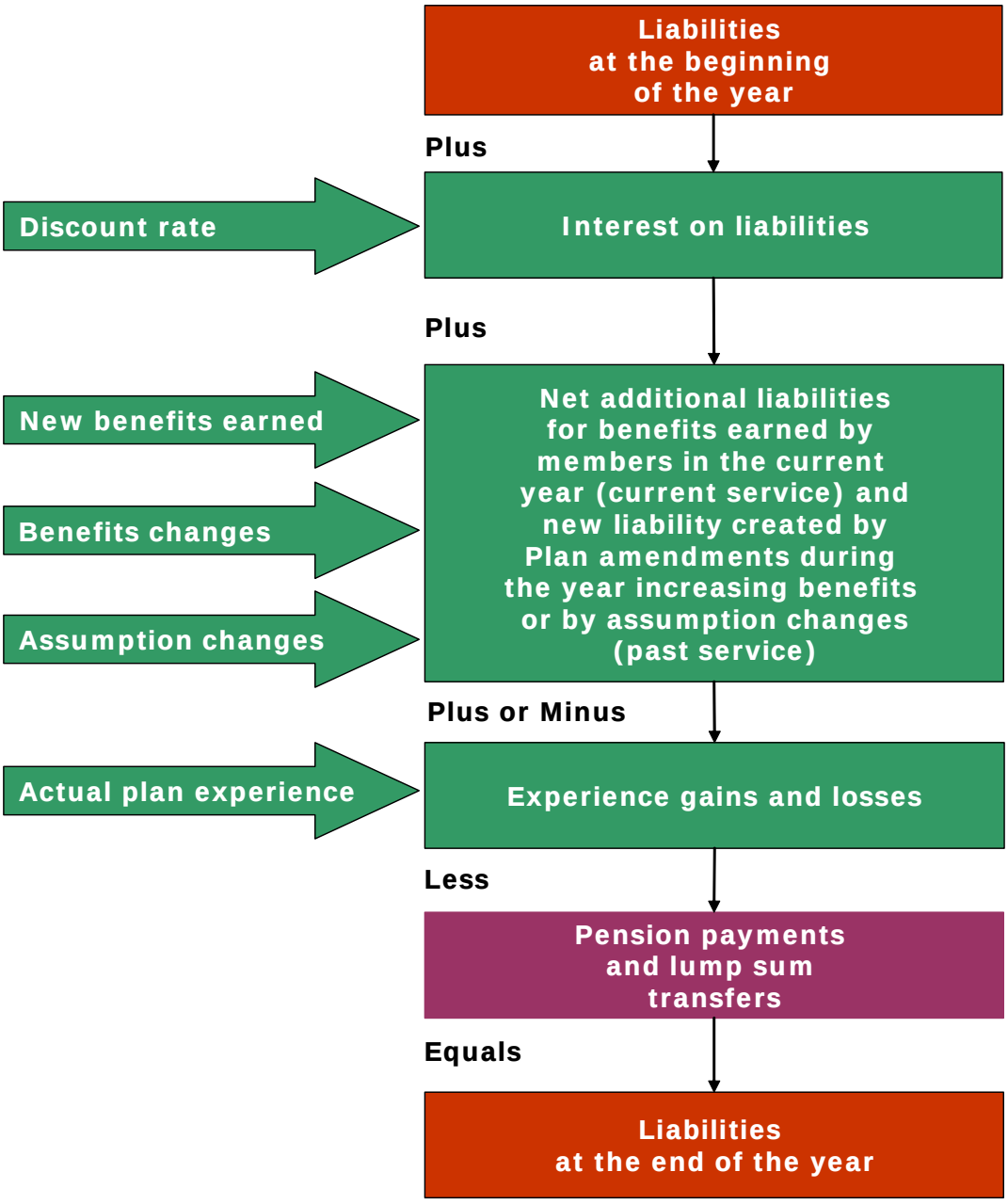
The challenge for defined benefit plans is to find a way to reasonably estimate the current net present value of what pensions will be paid to retired members over time (the liabilities) and to set aside money now to support payment of those pensions in future (the assets). The relationship is illustrated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



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

The Liability

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



As shown above, liabilities change when:

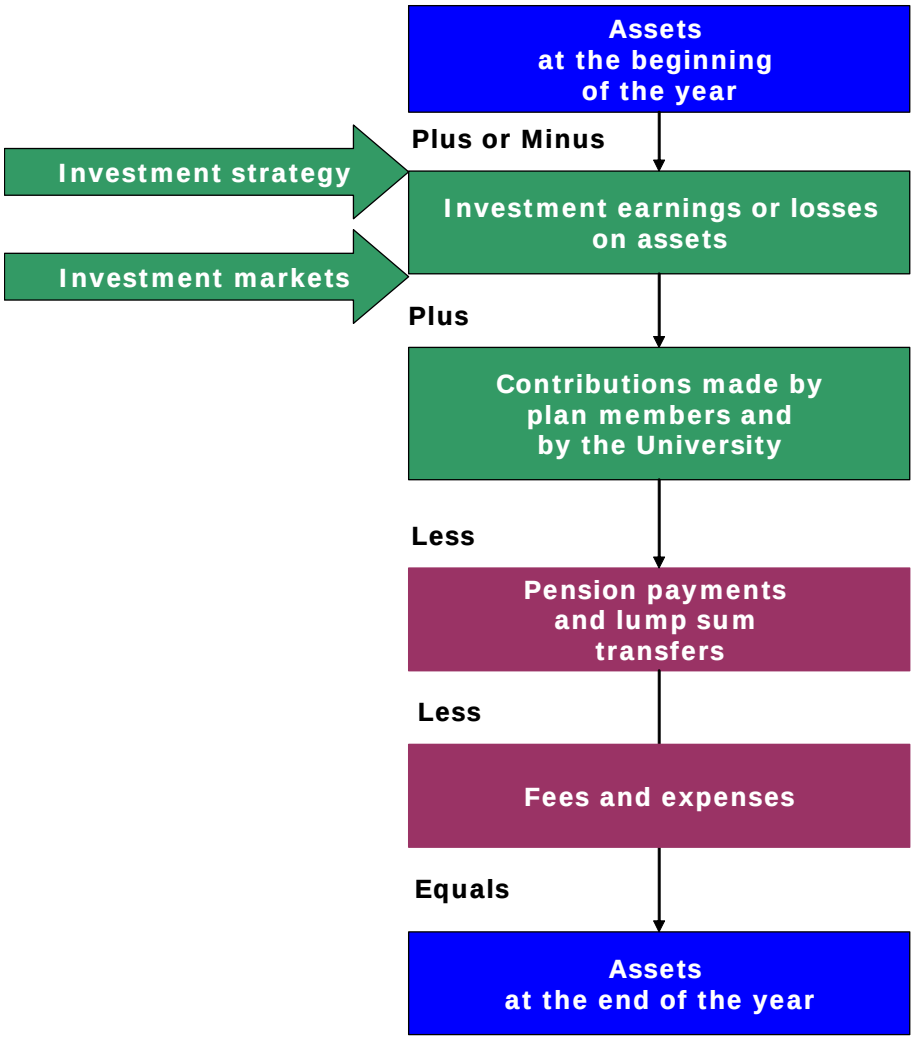
- members work an additional year, thus increasing their pension benefit at retirement. This is known as current service and increases the liability.
- members receive a larger pension benefit for the same salary and years of service through improvements to past service benefits. This increases the liability.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

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

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

The Assets

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



The Surplus or Deficit

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

Tools for Assessment of Pensions

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

- **Pension financial statements** provide an audited confirmation of the fair value (essentially market value) of the pension assets contained in each registered plan, which is a separate legal entity, at the valuation date. The plan fiscal year for the RPP and RPP(OISE) is July 1 to June 30. Assets for each registered plan are valued at June 30 of each year and reported on the registered pension plan balance sheets, which are called the *statement of financial position*. 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 30. Effective April 30, 2013, new accounting rules will be implemented that will change the estimation of pension liabilities. Up to April 30, 2012, although this valuation assumed that the pension plans were a going concern, it did 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 required that the liabilities be discounted at the then-current long-term corporate bond rate. The results from this valuation were often 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 contributed to significant differences between going concern actuarial results as reported in the actuarial reports and accounting results as reported in the University financial statements. Effective April 30, 2013, pension liabilities will be valued using the funding assumptions utilized for the going concern valuation, thus reducing the difference between the two to one of measurement period (May-April versus July-June) and to differences in how SRA assets are recorded. 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, 2012 and will apply the elements of defined benefit pension plans shown in the diagram on page 8 to the University pensions, with particular emphasis on the assumptions, the contributions, and the investment earnings, and their associated policies and strategies.

Pension Status at July 1, 2012

At July 1, 2012, the going concern accrued liabilities[1] and market value of assets for the University of Toronto defined benefit plans were:

July 1, 2012	Going Concern Liabilities[1]	Market Value of Assets	Market Surplus (Deficit)	Market Surplus (Deficit) as % of Liabilities
RPP	3,631.0	2,515.8	(1,115.2)	(31%)
RPP(OISE)	117.8	76.5	(41.3)	(35%)
SRA	135.2	111.0	(24.2)	(18%)
Pension Reserve		2.4	2.4	
Total	3,884.0	2,705.7	(1,178.3)	(30%)

At July 1, 2011, the liabilities[1] and assets for the University of Toronto defined benefit plans were:

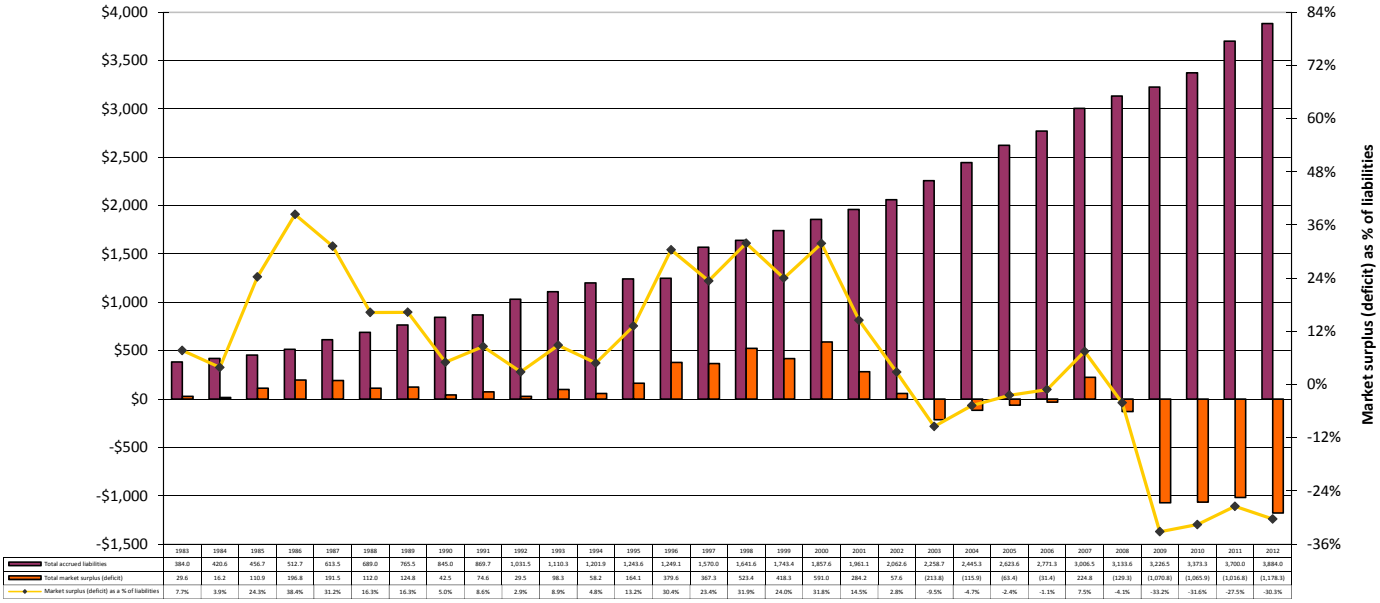
July 1, 2011	Going Concern Liabilities[1]	Market Value of Assets	Market Surplus (Deficit)	Market Surplus (Deficit) as % of Liabilities
RPP	3,443.5	2,486.3	(957.2)	(28%)
RPP(OISE)	116.1	76.1	(40.0)	(34%)
SRA	140.4	120.8	(19.6)	(14%)
Total	3,700.0	2,683.2	(1,016.8)	(27%)

As you can see from the above tables, the overall financial health of pensions showed a slight decline between July 1, 2011 and July 1, 2012 due mainly to investment returns of 0.9% for the period as compared to a target return of 5.5%.

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

[1] *Using new assumption for interest on participant contributions, which was changed to 3.00% per annum from 4.50% per annum]*

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



	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total accrued liabilities	384.0	420.6	456.7	512.7	613.5	689.0	765.5	845.0	869.7	1,031.5	1,110.3	1,201.9	1,243.6	1,249.1	1,570.0	1,641.6	1,743.4	1,857.6	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	3,700.0	3,884.0
Total market surplus (deficit)	29.6	16.2	110.9	196.8	191.5	112.0	124.8	42.5	74.6	29.5	98.3	58.2	164.1	379.6	367.3	523.4	418.3	591.0	284.2	57.6	(213.8)	(115.9)	(63.4)	(31.4)	224.8	(129.3)	(1,070.8)	(1,065.9)	(1,016.8)	(1,178.3)
Market surplus (deficit) as a % of liabilities	7.7%	3.9%	24.3%	38.4%	31.2%	16.3%	16.3%	5.0%	8.6%	2.9%	8.9%	4.8%	13.2%	30.4%	23.4%	31.9%	24.0%	31.8%	14.5%	2.8%	-9.5%	-4.7%	-2.4%	-1.1%	7.5%	-4.1%	-33.2%	-31.6%	-27.5%	-30.3%

As you can see from the above chart, for the entire period from 1983 to 2002, the plans were in surplus. A deficit emerged in 2003 which was extinguished by 2007. Beginning in 2008, and much more pronounced in 2009, the impact of the global financial crisis was to reduce market returns significantly. The overall financial position of the plans was essentially unchanged between 2009 and 2010, improved somewhat in 2011 as a result of a rebound in markets and additional special contributions from the University. In 2012, with markets underperforming target returns, the market deficit of the plans increased slightly.

IMPORTANT NOTE

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

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

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

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

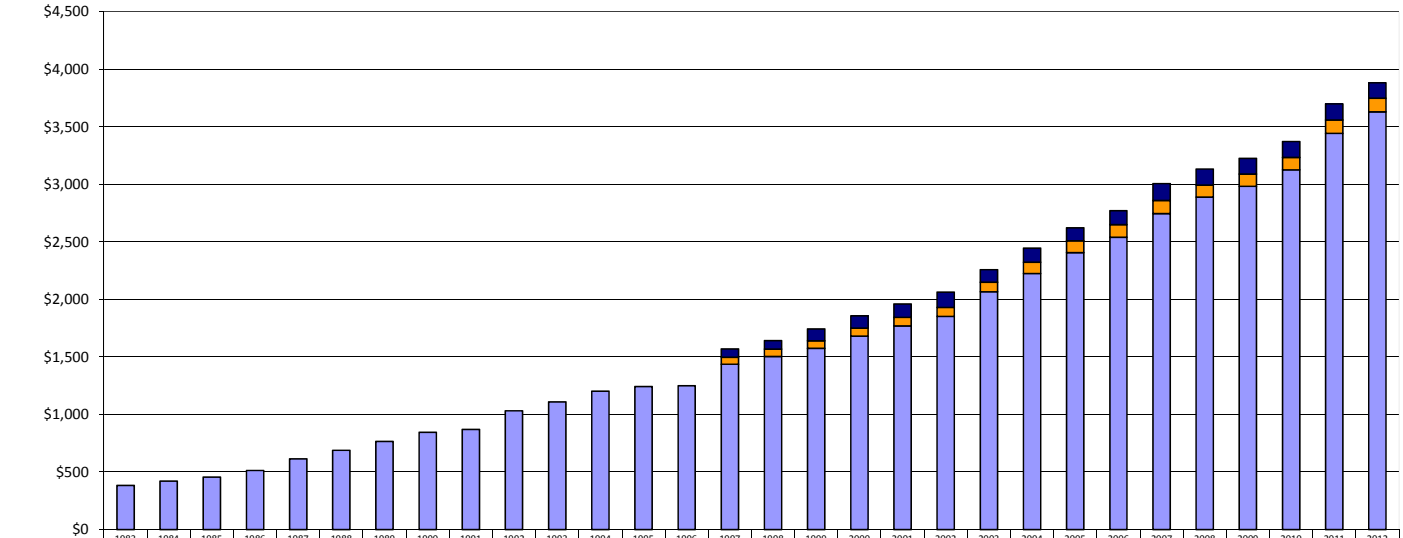
Pension Liabilities

Going concern pension liabilities for the University of Toronto plans totaled $3,884.0 million at July 1, 2012, comprising:

$	3,631.0 million	RPP pension liabilities
$	117.8 million	RPP(OISE) pension liabilities
$	135.2 million	SRA pension liabilities

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

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



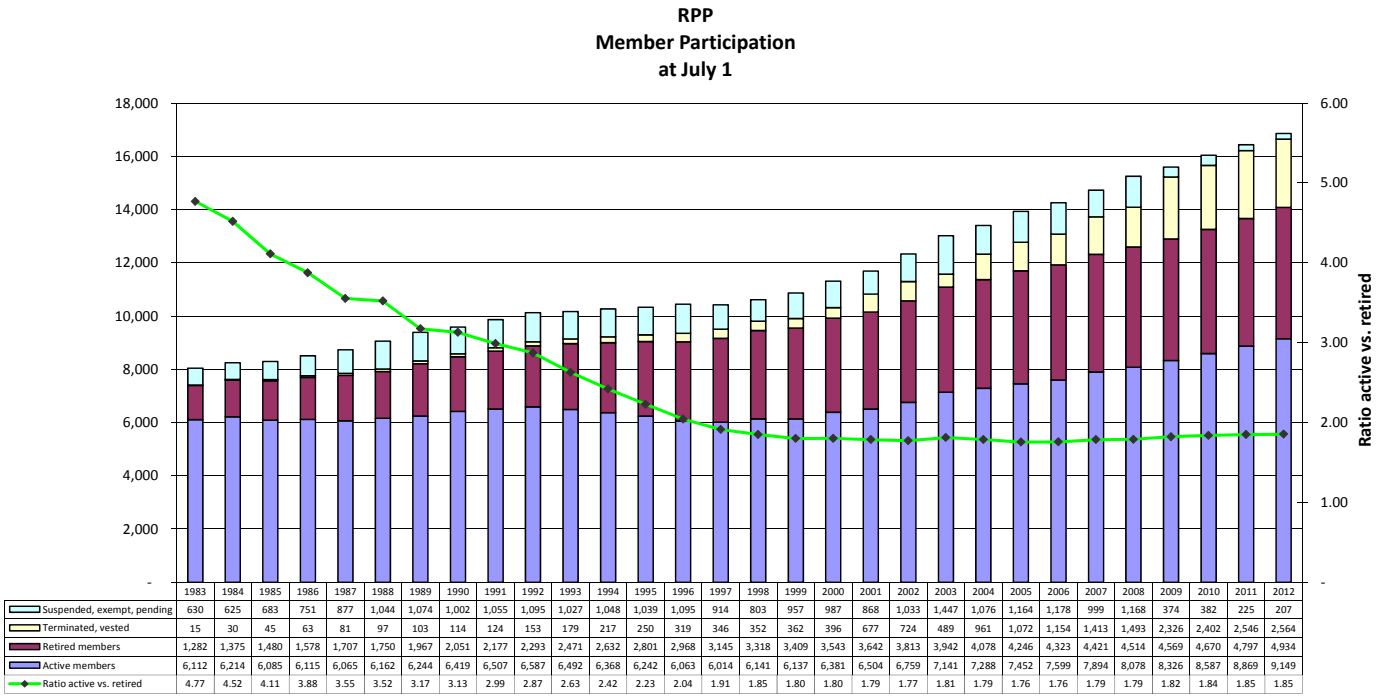
	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
SRA liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	72.5	74.2	102.4	107.9	116.8	131.8	108.6	122.7	112.9	122.1	145.4	139.8	136.1	138.3	140.4	135.2
RPP(OISE) liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	60.8	64.1	65.9	69.5	73.8	77.9	83.4	97.6	103.7	108.6	115.3	104.2	106.6	109.0	116.1	117.8
RPP liabilities	384.0	420.6	456.7	512.7	613.5	689.0	765.5	845.0	869.7	1,031.5	1,110.3	1,201.9	1,243.6	1,249.1	1,436.7	1,503.3	1,575.1	1,680.2	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	3,443.5	3,631.0

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, 2012, total member participation was 16,854.



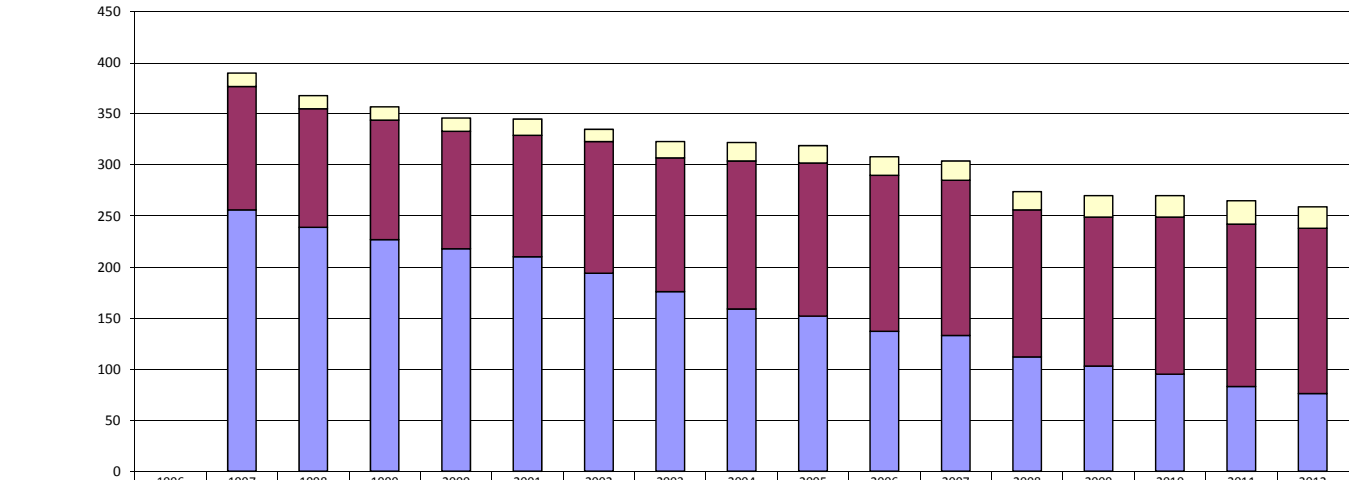
	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Suspended, exempt, pending	630	625	683	751	877	1,044	1,074	1,002	1,055	1,095	1,027	1,048	1,039	1,095	914	803	957	987	868	1,033	1,447	1,076	1,164	1,178	999	1,168	374	382	225	207
Terminated, vested	15	30	45	63	81	97	103	114	124	153	179	217	250	319	346	352	362	396	677	724	489	961	1,072	1,154	1,413	1,493	2,326	2,402	2,546	2,564
Retired members	1,282	1,375	1,480	1,578	1,707	1,750	1,967	2,051	2,177	2,293	2,471	2,632	2,801	2,968	3,145	3,318	3,409	3,543	3,642	3,813	3,942	4,078	4,246	4,323	4,421	4,514	4,569	4,670	4,797	4,934
Active members	6,112	6,214	6,085	6,115	6,065	6,162	6,244	6,419	6,507	6,587	6,492	6,368	6,242	6,063	6,014	6,141	6,137	6,381	6,504	6,759	7,141	7,288	7,452	7,599	7,894	8,078	8,326	8,587	8,869	9,149
Ratio active vs. retired	4.77	4.52	4.11	3.88	3.55	3.52	3.17	3.13	2.99	2.87	2.63	2.42	2.23	2.04	1.91	1.85	1.80	1.80	1.79	1.77	1.81	1.79	1.76	1.76	1.79	1.79	1.82	1.84	1.85	1.85

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 259 at July 1, 2012.

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



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Terminated, vested	-	13	13	13	13	16	12	16	18	17	18	19	18	21	21	23	21
Retired members	-	121	116	117	115	119	129	131	145	150	153	152	144	146	154	159	162
Active members	-	256	239	227	218	210	194	176	159	152	137	133	112	103	95	83	76

[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 30 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, 2012.**

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 highest average salary at which the Income Tax Act maximum pension is reached (currently $144,150) to a capped maximum salary of $150,000 per year. For many years, the Income Tax Act maximum pension was fixed, resulting in growing membership in the SRA. Beginning in 2004, the Income Tax Act maximum pension started to increase at a fixed rate through 2009 and then, in 2010, at the rate of increase in the Average Industrial Wage. Therefore, beginning in 2004, participation in the SRA fluctuates depending upon the relationship between

salary increases for member plan participants and the increase in the Income Tax Act maximum pension.

Over time, provided that government policy remains unchanged and the Income Tax Act maximum pension continues to increase at the rate of increase in the average industrial wage, and provided that the RPP and RPP(OISE) retain maximum salaries at $150,000, participation in the SRA is expected to decline, eventually to zero once the Income Tax Act maximum pension is reached at a salary of $150,000. At the current rates of increase, this would be expected to occur in the period from 2014 to 2015. The liabilities in the SRA decreased from $140.4 million in 2011 to $135.2 million in 2012 due to pension payments exceeding new accruals under the plan.

Pension Liabilities

Assumptions

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

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

Actuarial assumptions are approved annually by the Pension Committee. The same actuarial assumptions are in place for all three pension plans. Key actuarial assumptions at July 1, 2012 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 fully generational mortality improvements under scale AA	Increases in life span increase liabilities.
Increase in Consumer Price index (CPI):	2.5% per annum.	An increase in CPI alone increases liabilities, but should be considered in concert with salary increases and discount rate.
Cost of living adjustments:	1.875% per annum (75% of CPI).	An increase in cost of living adjustments increases liabilities**.**
Increase in CPP maximum salary:	3.5% per annum.	An increase in CPP maximum salary decreases liability since pensionable service is accumulated at 1.5% or 1.6% up to the CPP maximum salary and at 2.0% over that maximum.
Increase in *Income Tax Act* maximum benefit limit:	$2,646.67 in 2012 increasing at a rate of 3.5% per annum thereafter (assumes a highest average maximum salary of $144,150 in 2012 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):	6.25% per annum (2.5% CPI plus 3.75% 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.

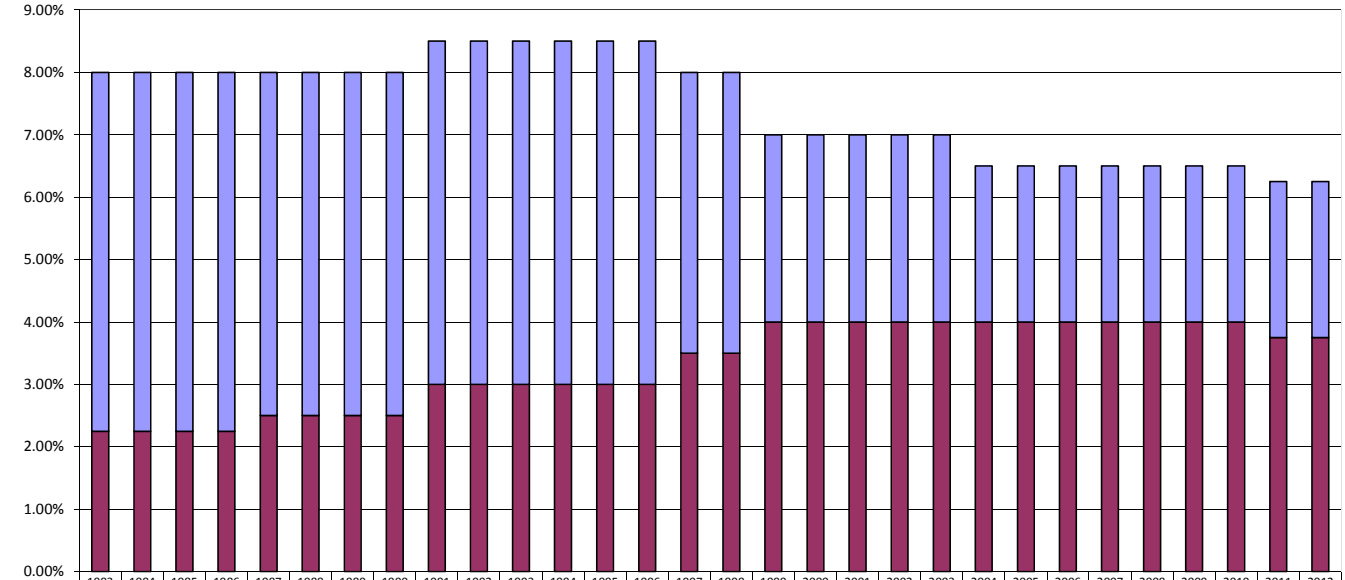
Each year, the actuarial valuation records the actual results and compares them to the assumptions. These variances, over time, provide a rationale for ongoing adjustments to the assumptions. Consistent variances in one direction, either negative or positive, suggest that an assumption needs to be changed. 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, 2012, they are 2.5% increase in CPI, 4.5% increase in salaries (2.5% CPI and 2.0% merit and promotion), and 6.25% interest rate (2.5% CPI and 3.75% real return).

Discount Rate on Liabilities

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

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

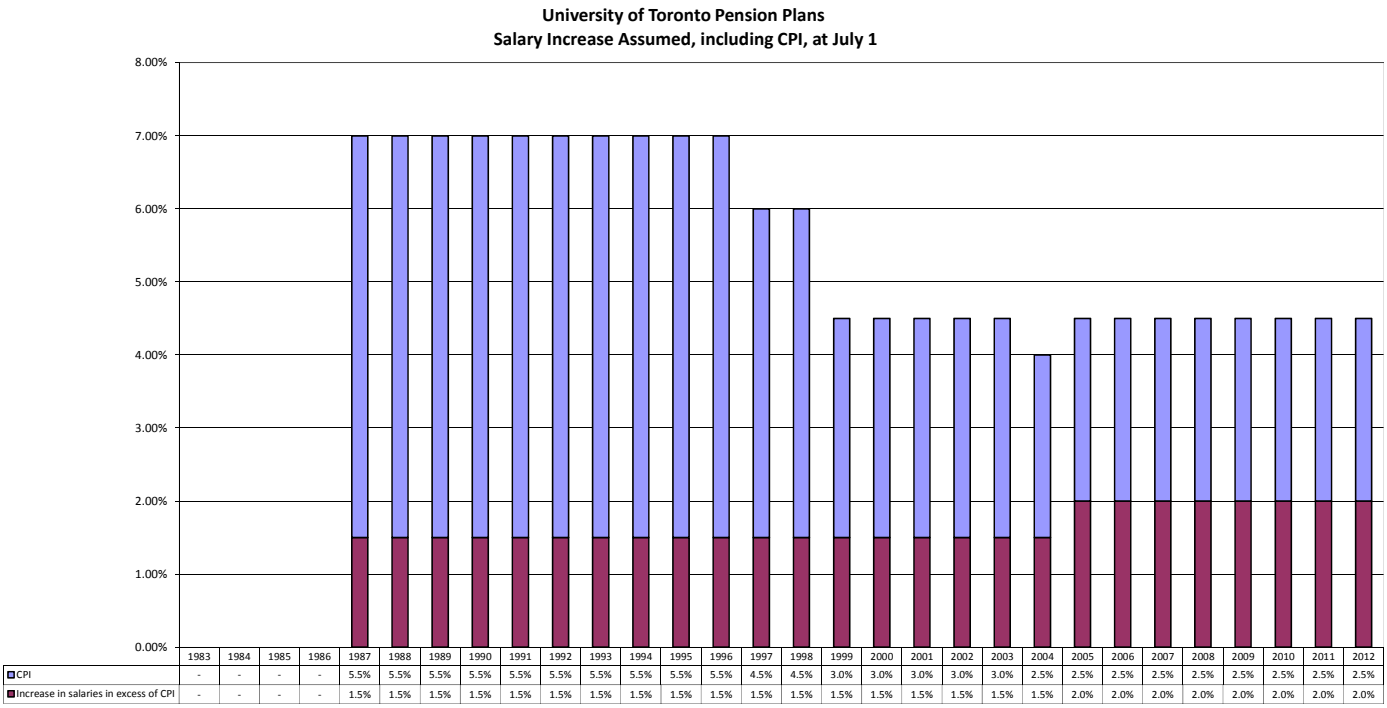


	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CPI	5.75%	5.75%	5.75%	5.75%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	4.5%	4.5%	3.0%	3.0%	3.0%	3.0%	3.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Interest rate in excess of CPI	2.25%	2.25%	2.25%	2.25%	2.5%	2.5%	2.5%	2.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.5%	3.5%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	3.75%	3.75%

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

Salary increase assumption

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



	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CPI	-	-	-	-	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	4.5%	4.5%	3.0%	3.0%	3.0%	3.0%	3.0%	2.5%	2.5%	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%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	2.0%	2.0%	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.

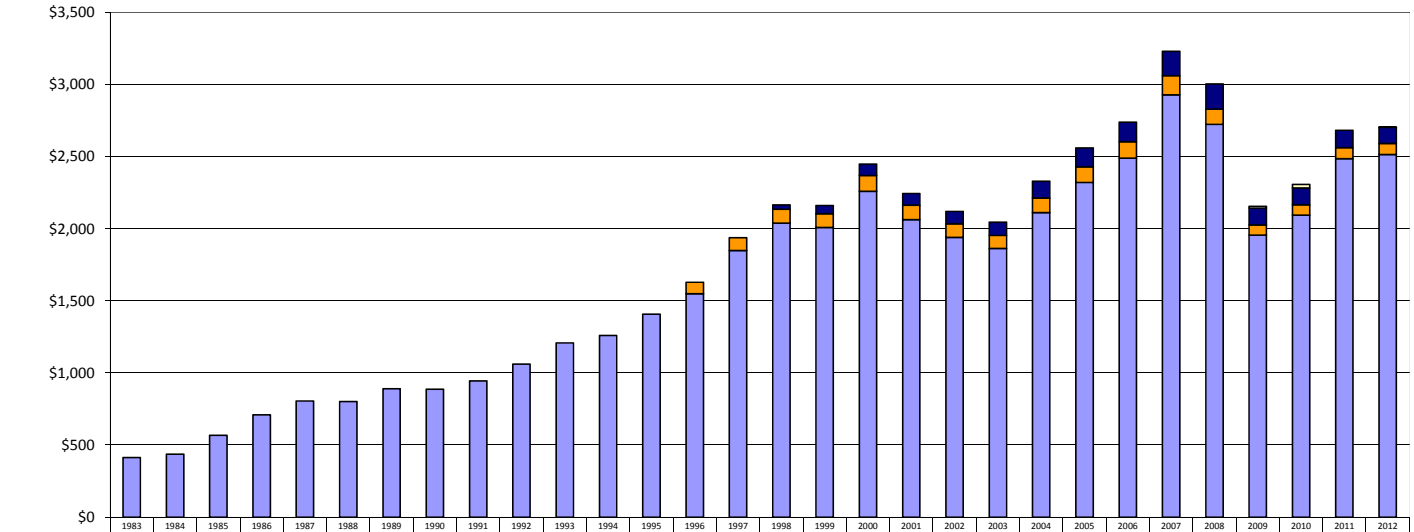
Pension Assets

Total assets for the three pension plans were $2,705.7 million at June 30, 2012, comprising:

$2,515.8 million	RPP pension assets
$ 76.5 million	RPP(OISE) pension assets
$ 111.0 million	SRA university assets
$ 2.4 million	Pension reserve university assets

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

Market Value of Pension Assets [1, 2]
at June 30
(millions of dollars)



	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Pension reserve assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12.4	24.9	-	2.4
SRA assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	29.5	57.5	80.2	82.2	85.5	91.2	115.8	130.6	136.2	170.0	174.2	117.0	115.8	120.8	111.0
RPP(OISE) assets	-	-	-	-	-	-	-	-	-	-	-	-	-	79.7	89.0	97.5	95.5	109.0	100.2	94.7	90.5	101.8	109.0	113.8	131.6	105.9	71.5	72.8	76.1	76.5
RPP assets	413.6	436.8	567.6	709.5	805.0	801.0	890.3	887.5	944.3	1,061.0	1,208.6	1,260.1	1,407.7	1,549.0	1,848.3	2,038.0	2,008.7	2,259.4	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	2,486.3	2,515.8

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

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

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

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

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

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

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

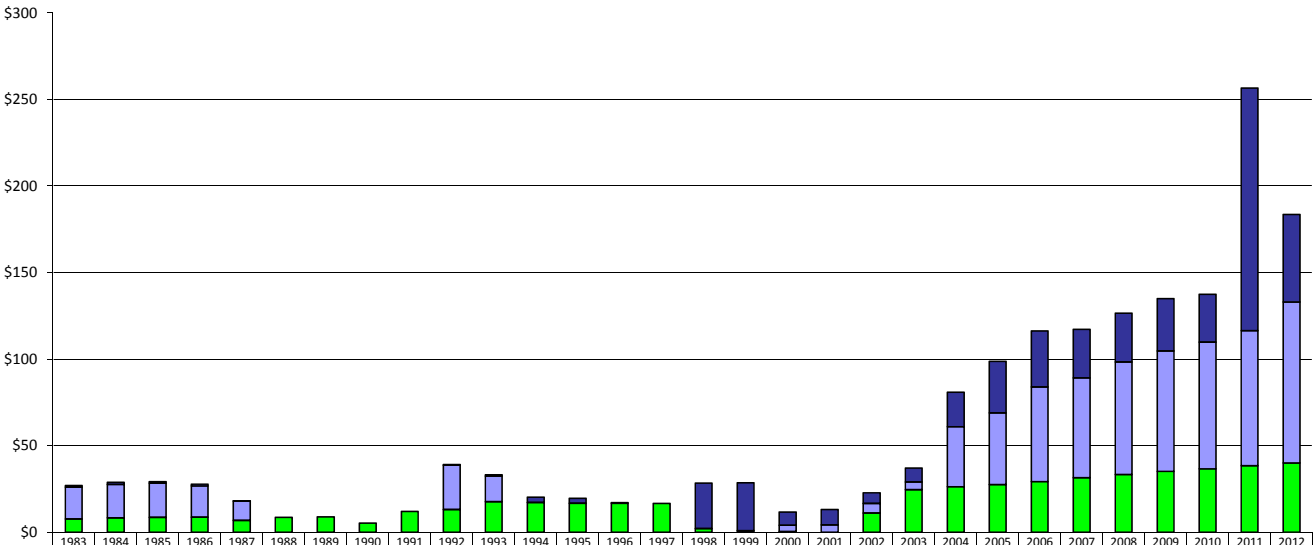
The higher the investment earnings that can be generated, the lower the contributions needed to be provided by members and by the University. However, there are significant risks inherent in investment markets and the higher the return that is targeted, the higher the risk of losing money is likely to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

Pension Assets

Contributions

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

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



	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
ER special payments	0.9	1.1	0.9	1.0	0.1					0.5	0.8	3.1	2.9			26.2	27.7	7.6	8.8	6.2	8.1	19.9	29.8	32.4	28.1	28.1	30.2	27.6	140.2	50.6
ER current service contribution	18.4	19.4	19.8	18.1	11.1					25.6	14.7			0.3				3.5	4.2	5.5	4.4	34.7	41.3	54.6	57.6	65.1	69.6	73.3	77.9	92.9
EE current service contribution	7.6	8.2	8.5	8.6	6.8	8.5	8.8	5.2	11.9	13.0	17.6	17.1	16.6	16.7	16.5	2.0	0.8	0.4	0.0	11.0	24.5	26.2	27.5	29.2	31.4	33.2	35.1	36.5	38.4	40.0

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

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

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

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

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

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

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

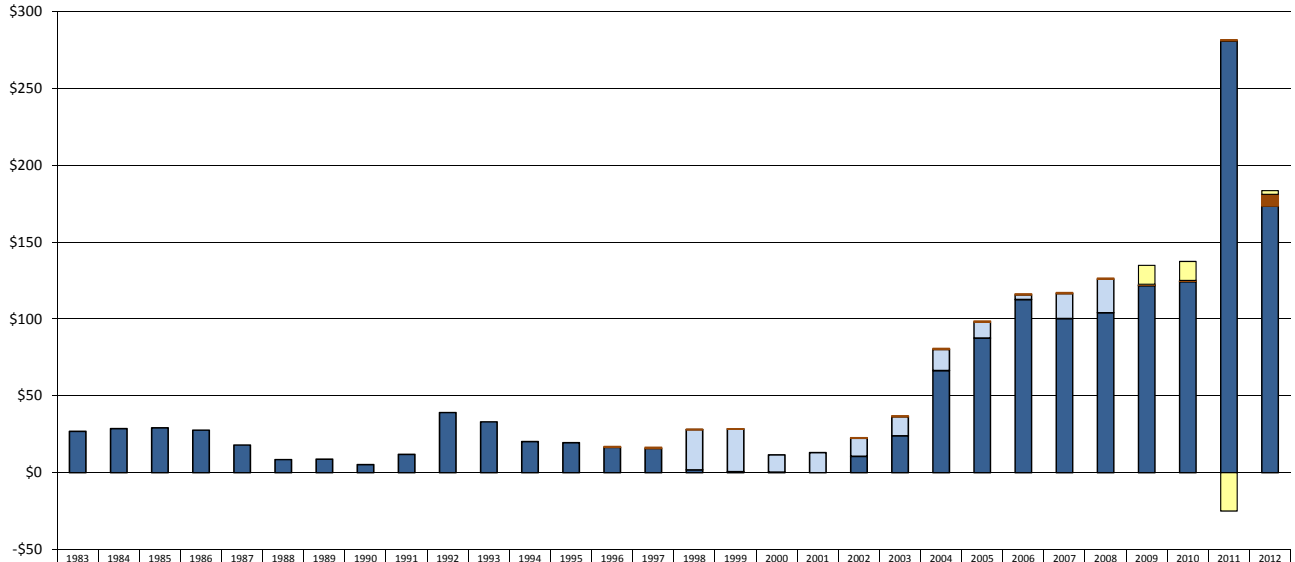
After 2002, due in large part to poor investment markets, the surplus declined significantly. The University adopted a new pension contribution strategy, approved by the Business Board in January 2004, with the objective of providing smoothed funding to deal with these deficits over a multi-year period,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

- Members and the University contribute 100% annual current service contributions (no contribution holidays).
- The SRA would be "funded" on the same basis as the registered pension plans, that is over 15 years.

- The University would allocate special payments of no less than $26.4 million (increased to $27.2 million to reflect subsequent benefits enhancements) to deal with the RPP and SRA deficits by way of a smoothed budget allocation over 15 years. This smoothed approach provided for higher payments than required in the earlier years, with the intent of protecting against solvency issues and providing for budget predictability within the University's operating fund.
- If some, or all, of the special payment amount is not needed or permitted to be made into the RPP under the Income Tax Act, it must be set aside and reserved outside the RPP.

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

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



	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Pension reserve																											12.4	12.4	(25.0)	2.4
RPP (OISE/UT)	-	-	-	-	-	-	-	-	-	-	-	-	-	0.6	0.8	0.2	0.1	-	-	0.3	0.6	0.7	0.6	0.6	0.6	0.6	0.5	0.5	0.5	7.6
SRA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	26.2	27.7	11.1	13.0	11.7	12.4	13.7	10.5	3.0	16.3	21.8	0.3	0.2	0.2	0.1
RPP	26.9	28.7	29.2	27.7	18.0	8.5	8.8	5.2	11.9	39.1	33.1	20.2	19.5	16.4	15.7	1.8	0.7	0.4	0.0	10.7	24.0	66.4	87.5	112.6	100.2	104.0	121.7	124.3	280.8	173.4

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

This contribution strategy delivered additional funding to the pension plan to deal with the deficit that had emerged in 2003 and, through the requirement to maintain the $27.2 million per annum special payments budget even after the deficit

was extinguished, made provision for a base funding level in the event of future deficits.

Beginning in 2008, and much more pronounced in 2009, the impact of the global financial crisis was to reduce market returns significantly, necessitating an overhaul of the pension contribution strategy to address the resulting large deficit. Rapidly falling interest rates also impacted solvency calculations, necessitating government action around solvency funding regulations.

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

To qualify for Stage 2 of this process, the Government expected institutions to negotiate with plan members, and their representatives, ways to enhance the long term sustainability of defined benefit pension plans. The University has put into place member contribution increases to meet the conditions required for acceptance to Stage 2 of the process. The Government also requires that during the relief period, and for a significant period of time following the relief period, contribution holidays would be restricted and any benefit improvements would require accelerated funding.

The pension contribution strategy was significantly revised to address the deficit and to reflect the Government's temporary solvency relief programme. This revised pension contribution strategy, including a plan for funding the pension deficit, was approved by the Business Board on May 3, 2012 based on actuarial results to July 1, 2011 and assumptions about future years to 2030. The key elements of the current pension contribution strategy are as follows:

- Members and the University make 100% of required current service contributions into the registered pension plans each year.

- University pension plan current service contributions are to be no less than 10.77% of the capped participant salary base.
- In the event that legislation or regulation prohibits some or all of the University current service contributions from being deposited into the registered pension plans, those contributions will be reserved for pensions outside the registered pension plans.
- Supplemental Retirement Arrangement (SRA):
    - No further current service or special payment contributions will be made into the SRA.
    - The balance of the SRA assets will be deposited into the registered pension plan(s) by June 30, 2014 (see point below regarding second lump sum payment).
    - SRA payments to current and future pensioners will be made by the University.
- A second lump sum payment in the amount of $150 million will be made into the registered pension plans before July 1, 2014, utilizing SRA assets (see above) and approved internal borrowing as required.
- Up to $150 million of internal borrowing for pensions (Note: the Business Board approved internal borrowing for pensions of up to $150 million on January 31, 2011. Inclusion of this item again here is for completeness).
- Letters of Credit will be utilized to address the net solvency special payments to the fullest extent permitted by legislation and regulation.
- Increase Operating Fund Special Payments Budget:
    - To an amount deemed sufficient to meet the plan's special payment funding requirements, currently estimated to be $97.2 million per annum.
    - To fund special payments into the registered pension plans and other costs related to this pension contribution strategy such as borrowing repayment costs, SRA pension payments for pensioners, letter of credit fees, and Pension Benefit Guarantee Fund (PBGF) fees.
    - Maintain that higher budget, currently estimated at $97.2 million, until the pension deficit is extinguished.
    - Maintain the annual special payments budget at $27.2 million per annum, even after the deficit and other costs related to this strategy have been extinguished.
    - Maintain the Pension Reserve structure.

The full text of the Pension Contribution Strategy can be found on the governing council website at: http://www.governingcouncil.utoronto.ca/AssetFactory.aspx?did=8516.

Update on pension contribution strategy:

What has been the impact on the pension contribution strategy of the actual results to July 1, 2012? With respect to going concern results, there has been an actual nominal investment return of 0.9% as compared to 6.25% assumed by the strategy. Given the nature of the Government's solvency relief programme, there is no impact on the going concern special payments for 2012, 2013 or 2014. At July 1, 2015, everything else remaining unchanged, the going concern special payment projected in the strategy of $76 million per annum for 15 years would rise to $85 million per annum for 15 years, thus requiring an increase of $9 million per annum to the operating fund special payments budget.

Any possible impact on the net solvency payment is much harder to gauge, given the continuing uncertainties around the policy climate. A key requirement for acceptance to stage 2 of the temporary solvency relief programme in its current form was an increase in member contributions. The University has put in place the required increases to member contributions, thus meeting the requirements for stage 2 acceptance and thus meeting the fundamental assumption in the pension contribution strategy with respect to solvency payments. However, whether or not universities will be permitted to deal with net solvency payments via letters of credit is still uncertain. And interest rates continue to be volatile, making it very hard to predict what the solvency deficit might be at July 1, 2014, and therefore what the net solvency payments might be beginning July 1, 2015, even with acceptance to stage 2. The government is considering 50/50 sharing of current service costs, and continues to investigate other regulatory changes that could affect what might ultimately be required with respect to net solvency payments.

Pension Assets
Investment Earnings

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

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

The registered pension plans are invested through the unitized pension master trust which combines for investment purposes the assets of the RPP and the RPP(OISE). The pension 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 objectives are established on the basis of actuarial modeling that evaluates the likely outcome of various investment strategies under a large variety of market conditions. The Financial Services Commission of Ontario requires annual review of the investment policies and goals and their confirmation or amendment as appropriate.

The Pension Fund Master Trust Statement of Investment Policies and Goals[1] ("policy"), approved by the Pension Committee on March 28, 2012, stipulated a real investment return of at least 4.0% over 10-year periods, while taking on an appropriate amount of risk to achieve this target, but without undue risk of loss.

[1] *see http://www.finance.utoronto.ca/Assets/Finance+Digital+Assets/policies/PFMTSIPG.pdf for the most recent policy.*

Additional risk protection strategies in place include the 0.25% real difference between the 3.75% real discount rate and the 4.0% target real investment return.

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. UTAM reports on the investments under management to the University Administration and to the Pension Committee.

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

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

While a longer term perspective is important, it is also useful to regularly assess the pension master trust short term returns compared to the objective set by the University. In this regard, performance is assessed, as stated above, versus the 4% real return (net of fees and expenses) objective. Performance is also measured against the Reference Portfolio[1] benchmark that was revised during 2012. The Reference Portfolio represents a "shadow" portfolio which is believed to be appropriate to the pension master trust's long-term horizon and risk profile and yet capable of achieving the return objective. The principle underlying its composition requires exposures which are: low-cost, simple and passive; representative of the investable market; and, appropriate to the objectives of the University.

Given the current environment, it is believed that a Reference Portfolio that is limited to 60% equity exposure (and the associated level of risk) may have difficulty achieving the 4% real return objective. It is currently projected that it would earn about 3.5% real return. In order to achieve the 4.0% real return objective, successful active management is required. This includes altering asset class weights,

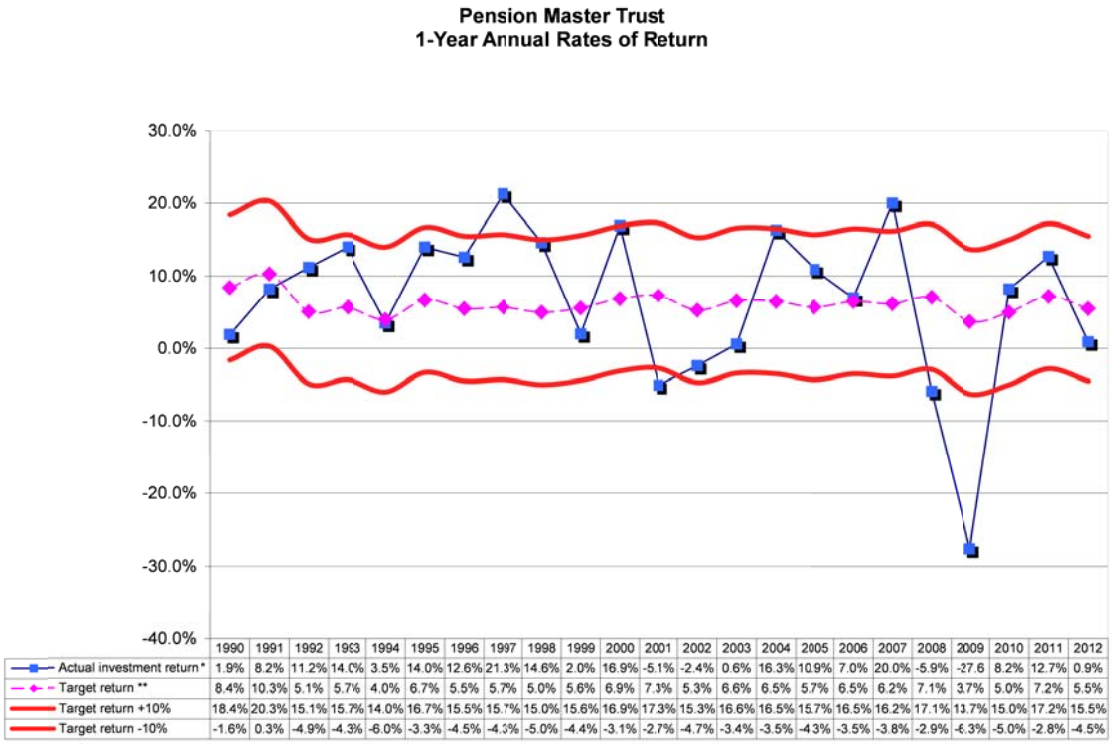
[1] *Until April 30, 2012 the Reference Portfolio comprised 35% Cdn Universe Bonds, 5% Cdn Real Return Bonds, 30% Cdn Equities, 15% US Equities (half currency hedged), and 15% International Equities (half currency hedged). Beginning May 1, 2012, the new reference portfolio benchmark comprised 60% Equities (16% Cdn, 18% US, 16% EAFE, and 10% Emerging Markets), 20% Credit, and 20% rates, hedging 75% of developed markets' currency exposures and 0% of emerging markets currency exposure.*

adding assets and strategies not included in the Reference Portfolio and hiring top tier managers, etc. while ensuring that such changes do not result in the assumption of undue risk.

Given this decision to allow an active management approach as defined above, it is prudent to establish a pension master trust-level risk limit integrating market risk and credit risk within which UTAM has discretion to make and implement investment decisions with the objective of earning returns above the Reference Portfolio. This pension master trust-level risk limit is defined as the risk determined for the Reference Portfolio plus 75 basis points (0.75%).

The one-year return to June 30, 2012 for the pension master trust was 0.9%, net of all investment-related fees and expenses, which was below the University's target return of 5.5% (4.0% real return plus 1.5% CPI) due to challenging capital markets conditions. Equities markets during the period were generally negative, with Canadian equities, as represented by S&P/TSX composite total return index declining 10.3% while European markets generally registering worse results in local currency terms (e.g. German DAX declined 13%, French CAC declined 16%, UK FTSE declined 2.7%). The only market that registered a gain was the US, where the S&P 500 advanced 5.5% in USD terms on the year. Fixed Income, as represented by the DEX Universe, however gained 9.5% on the year.

The following charts show the actual, nominal returns, compared to the pension plan target return, and compared to the 10% risk corridor that was in place until the March 2012 update to the Pension Fund Master Trust Statement of Investment Policies and Goals. The first chart shows the nominal one-year returns and the second chart shows the ten-year rolling average returns, both from 1990.



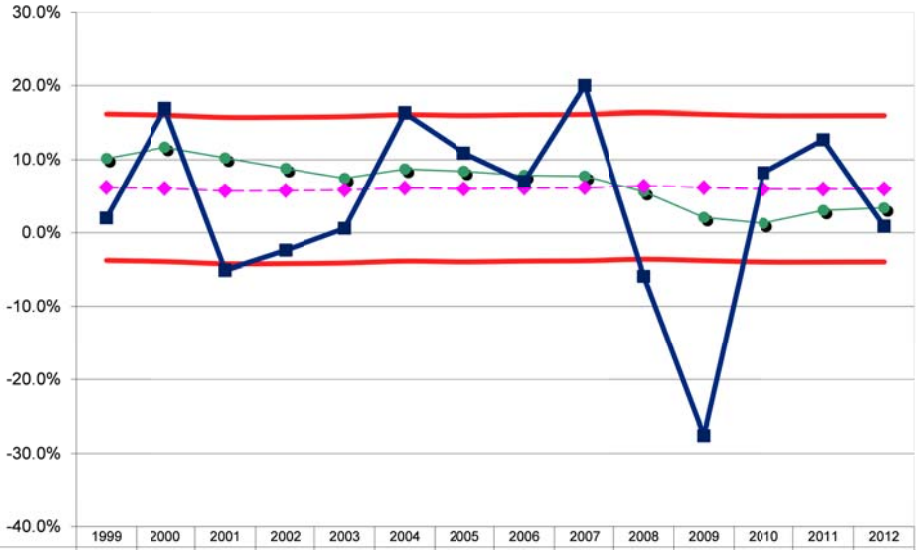
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Actual investment return *	1.9%	8.2%	11.2%	14.0%	3.5%	14.0%	12.6%	21.3%	14.6%	2.0%	16.9%	-5.1%	-2.4%	0.6%	16.3%	10.9%	7.0%	20.0%	-5.9%	-27.6	8.2%	12.7%	0.9%
Target return **	8.4%	10.3%	5.1%	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%	7.2%	5.5%
Target return +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%	17.2%	15.5%
Target return -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%	-2.8%	-4.5%

* 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 23-year period, the returns for 18 (78%) of the years were within the 10% risk corridor, and those for 5 (22%) 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 years 2009 through 2012, a 23-year period, the average annual actual return was 6.2% compared to the average annual target return of 6.1%. Over the period since 1990, actual returns have slightly exceeded the University target return of CPI + 4%.

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



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
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%	3.1%	3.4%
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%	6.0%	6.0%
Ten-Year rolling target return +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%	16.0%	16.0%
Ten-Year rolling target return -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%	-4.0%	-4.0%
Actual Investment Return	2.0%	16.9%	-5.1%	-2.4%	0.6%	16.3%	10.9%	7.0%	20.0%	-5.9%	-27.6%	8.2%	12.7%	0.9%

If we look at the ten-year rolling averages, we find that for the entire period from 1999 to 2007, the actual 10-year average returns were at or above the University's target return, and that all years were within the 10% risk factor.

However, if we concentrate on the more recent past, returns are more variable, as expected when a shorter period is studied. From 2004 to 2007 UTAM investment performance was excellent, outperforming the target real return and exceeding benchmarks. Results were within the target range except in 2007, when they exceeded the top of the corridor. In 2008, the global financial crisis ensued and the master trust suffered a negative return of 5.9%, although the result was still within the risk corridor. In 2009, the bottom fell out of global markets, and the result was a negative return of 27.6%, although the 10-year return remained positive and within the corridor. A number of events came together to create the perfect storm. During 2010 and 2011, all major financial markets rebounded from the meltdown experienced in 2008 and 2009. In 2012, the master trust had a return of 0.9% which was below the target return, however the 10-year return increased slightly from the previous year. It should be noted that, beginning next year, the actual returns will be compared to the new Reference Portfolio benchmark returns.

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.

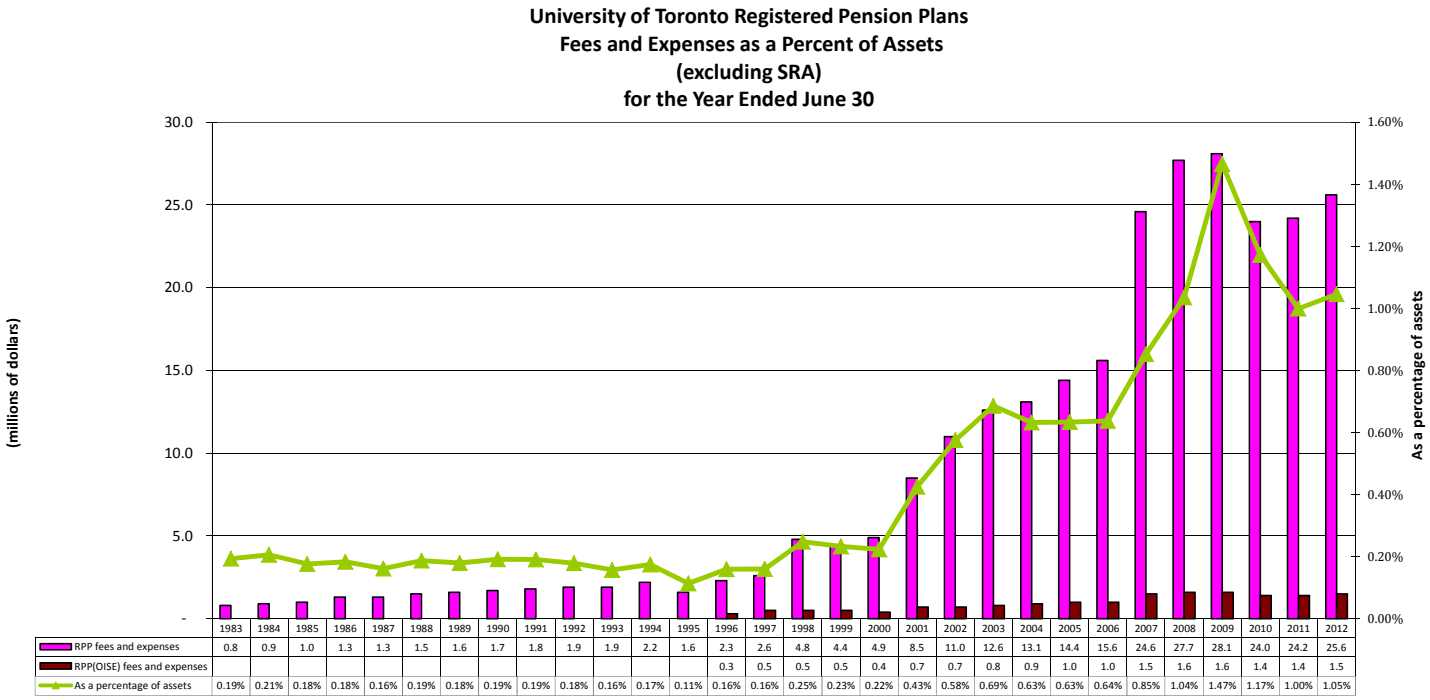
Pension Assets
Fees and Expenses

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, 2012 were as follows, for the RPP and RPP(OISE), in millions of dollars:

	RPP	RPP(OISE)	2012 Total	2011 Total
Investment management fees - external managers [1]	20.2	1.0	21.2	19.8
Investment management costs - UTAM	2.7	0.1	2.8	2.5
Pension administration services	0.7	0.1	0.8	0.8
Actuarial and administration fees	0.5	0.1	0.6	0.7
Transaction fees	0.3	0.0	0.3	0.6
Custodial costs	0.5	0.0	0.5	0.5
University of Toronto administrative costs	0.5	0.1	0.6	0.5
Other fees	0.2	0.1	0.3	0.2
Total	25.6	1.5	27.1	25.6

[1] includes additional HST costs of $0.7 million in 2012

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



	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
RPP fees and expenses	0.8	0.9	1.0	1.3	1.3	1.5	1.6	1.7	1.8	1.9	1.9	2.2	1.6	2.3	2.6	4.8	4.4	4.9	8.5	11.0	12.6	13.1	14.4	15.6	24.6	27.7	28.1	24.0	24.2	25.6
RPP(OISE) fees and expenses														0.3	0.5	0.5	0.5	0.4	0.7	0.7	0.8	0.9	1.0	1.0	1.5	1.6	1.6	1.4	1.4	1.5
As a percentage of assets	0.19%	0.21%	0.18%	0.18%	0.16%	0.19%	0.18%	0.19%	0.19%	0.18%	0.16%	0.17%	0.11%	0.16%	0.16%	0.25%	0.23%	0.22%	0.43%	0.58%	0.69%	0.63%	0.63%	0.64%	0.85%	1.04%	1.47%	1.17%	1.00%	1.05%

The management expense ratio (MER) is a standard investment industry ratio that compares the costs of investment management, both direct and indirect, to the total assets under management. The MER includes expenses incurred by UTAM and all investment management fees. It excludes other pension administration costs such as external audit fees, records administration, actuarial fees and University of Toronto administrative fees. It also uses the average annual market values for the year. The MER for the pension master trust was 0.96% in 2011-12 (relatively unchanged from 0.97% in 2010-11).

External investment management fees, which represent just over 78% of total master trust fees in 2012 (77% in 2011), are normally related to the size of assets under management. During 2012, RPP and RPP(OISE) assets under management increased from $2.562 billion to $2.592 billion. The one-year return of the pension master trust ending June 30, 2012 net of all investment-related expenses was 0.9%, which was below the University's target return of 5.5% (i.e. CPI + 4.0%). Total external investment management fees increased by 7% from 2011, of which approximately half of the increase was due to the impact of HST and the remaining increase due to a slight increase in investment fees related to private investments and hedge funds.

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. This was due to several factors. Investment management for the pension plans changed between 2000 and 2003 from a 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 also important to note that, prior to 1997, the University absorbed pension costs that were subsequently charged to the pension plans when such pension costs were more fully identifiable.

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. Fees and expenses as a percentage of assets, as can be seen from the previous chart, increased from 1.00% in 2011 to 1.05% in 2012, partly due to the impact of introducing HST, and partly due to a slight increase in private investments and hedge funds 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.

For more information on fees and expenses refer to note 6 of the University of Toronto Pension Plan financial statements (page 95 of this report), and note 6 of the University of Toronto (OISE) Pension Plan financial statements (page 115 of this report).

Pension Assets

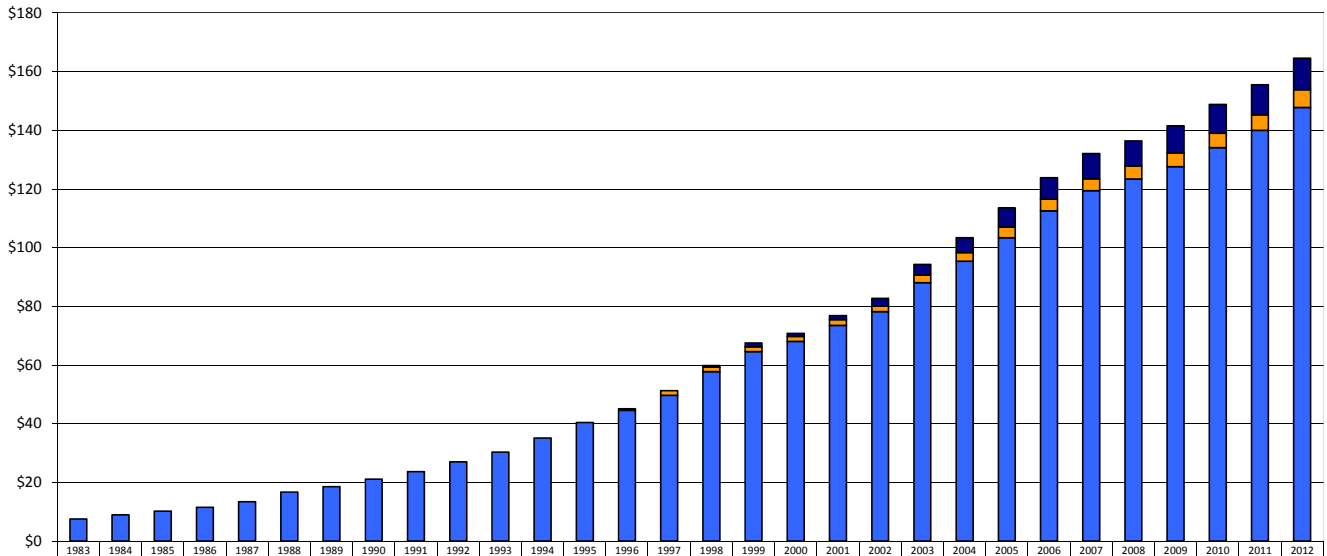
Payments

The section on participants showed that the number of retired members in the RPP has increased from 1,282 in 1983 to 4,934 in 2012, an increase of 284.9%; the number of retired members in the RPP(OISE) has increased from 121 in 1997 to 162 in 2012, an increase of 33.9%. Payments to retired members reflect this increase in numbers as well as the cost of living adjustments and augmentations that have occurred in certain years for certain member groups.

The dollar value of payments for the three plans has increased from $7.5 million in 1983 to $164.6 million in 2012.

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

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



	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
SRA retirement payments																0.5	1.3	1.1	1.3	2.6	3.6	5.1	6.5	7.3	8.6	8.5	9.2	9.8	10.2	10.8
RPP(OISE) retirement payments														0.6	1.5	1.6	1.6	1.7	2.0	1.9	2.6	2.9	3.6	3.9	4.1	4.5	4.7	4.9	5.3	6.0
RPP retirement payments	7.5	8.9	10.2	11.5	13.4	16.7	18.5	21.1	23.7	27.0	30.3	35.1	40.4	44.5	49.7	57.7	64.6	68.0	73.5	78.2	88.1	95.4	103.4	112.6	119.4	123.4	127.6	134.1	140.0	147.8

Pension Market Deficit

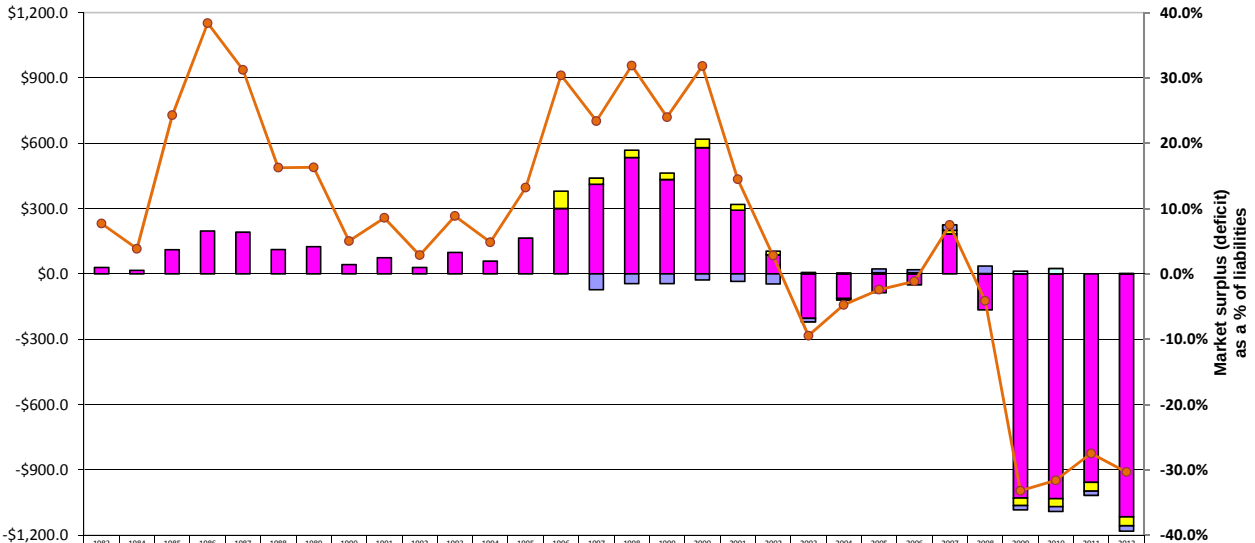
Going concern pension liabilities minus pension assets at market value result in the net funded status of the pension plans, the market surplus or market deficit. The going concern market deficit at July 1, 2012 totaled $1,178.3 million, comprising:

$ (1,115.2) million	RPP market deficit
$ (41.3) million	RPP(OISE) market deficit
$ (24.2) million	SRA market deficit
$ 2.4 million	Pension reserve university assets

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

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

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



	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Pension reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12.4	24.9	-	2.4
SRA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(72.5)	(44.7)	(44.9)	(27.7)	(34.6)	(46.3)	(17.4)	(6.9)	17.7	14.1	24.6	34.4	(19.1)	(22.5)	(19.6)	(24.2)
RPP(OISE)	-	-	-	-	-	-	-	-	-	-	-	-	-	79.7	28.2	33.4	29.6	39.5	26.4	16.8	7.1	4.2	5.3	5.2	16.3	1.7	(35.1)	(36.2)	(40.0)	(41.3)
RPP	29.6	16.2	110.9	196.8	191.5	112.0	124.8	42.5	74.6	29.5	98.3	58.2	164.1	299.9	411.6	534.7	433.6	579.2	292.4	87.1	(203.5)	(113.2)	(86.4)	(50.7)	183.9	(165.4)	(1,029.	(1,032.	(957.2)	(1,115.
Market surplus (deficit) as a % of liabilities	7.7%	3.9%	24.3%	38.4%	31.2%	16.3%	16.3%	5.0%	8.6%	2.9%	8.9%	4.8%	13.2%	30.4%	23.4%	31.9%	24.0%	31.8%	14.5%	2.8%	-9.5%	-4.7%	-2.4%	-1.1%	7.5%	-4.1%	-33.2%	-31.6%	-27.5%	-30.3%

Since 1983, the RPP position has varied from a surplus high of $579.2 million in 2000 to a deficit low of $1,115.2 million in 2012. The current market deficit of $1,115.2 is due in large part to the unprecedented level of investment losses resulting from the global financial and economic crisis, which increased the market deficit from $165.4 million in 2008 to $1,029.0 million in 2009. In 2010, the deficit increased slightly to $1,032.1 million, improved in 2011 to a deficit of $957.2 million (the net result of actuarial assumption changes offset by a $150 million lump sum contribution and investment returns of 12.7%), and then increased to $1,115.2 million mainly as a result of investment returns of only 0.9% in 2012 while pension liabilities continued their upward trend.

The RPP(OISE) plan moved to a market deficit position in 2009 after being in a surplus position for many years[1]. The plan deficit position worsened slightly in 2010 mainly due to the increase in plan liabilities offset by an improved financial environment, worsened in 2011 mainly due to the increase in plan liabilities (primarily the result of changes to plan assumptions) offset by improved investment earnings, with the deficit increasing further in 2012 with a continued increase in liabilities which was only slightly offset by investment earnings which were below target.

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 $24.2 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 30% of liabilities in 2012. As noted earlier, the Ontario Government has put in place a two stage process that is intended to provide institutions in the broader public sector (which includes universities) with an opportunity to make net solvency payments over a longer period than would

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

otherwise be required. The University has been accepted to Stage 1 of this process and expects to qualify for Stage 2 given the increases being made to member contribution rates. A revised contribution strategy reflecting plans to deal with the pension deficit was approved by the Business Board on May 3, 2012.

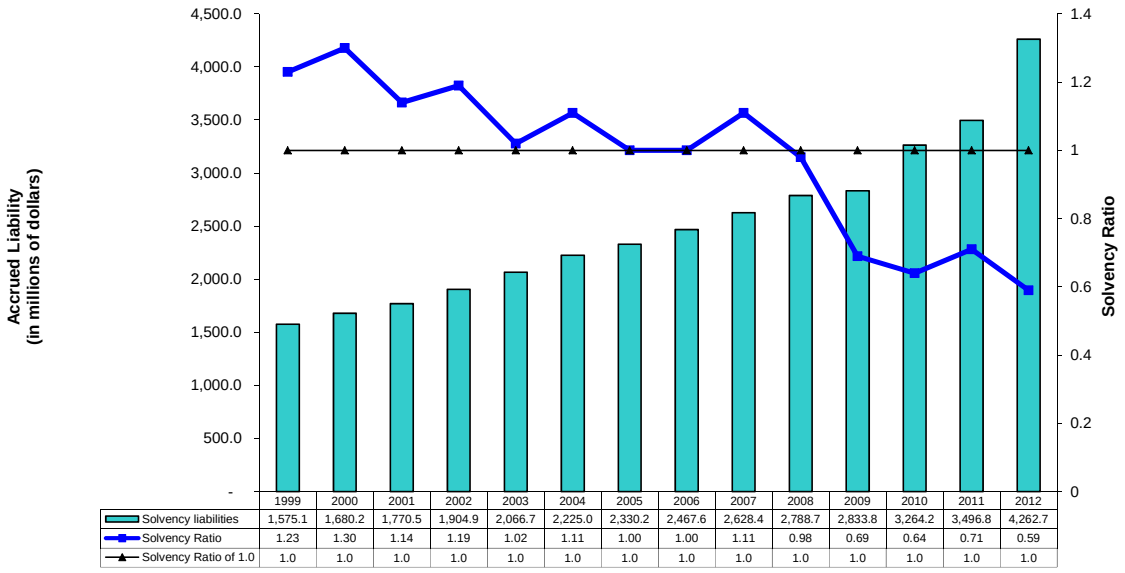
The market surplus (deficit) varies with the type of actuarial valuation and with the assumptions used to estimate the liabilities. The following section shows the impact of solvency and hypothetical wind-up assumptions on the surplus or deficit.

The Role of Solvency and Hypothetical Wind-up Valuations

As noted earlier, we are legally required to calculate the 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 0.71 at July 1, 2011 to 0.59 at July 1, 2012. As of July 1, 2012, the plan had a solvency deficit of $1.75 billion versus a solvency deficit of $1.01 billion as of July 1, 2011. The main reasons for the current solvency deficit of the RPP include the unprecedented investment losses during 2008 and 2009, a continuing decline in interest rates that has resulted in a continuing decline in the discount rates that must be used to value solvency liabilities and lengthening life spans which has required an update to the table used for the mortality rates assumption in 2011.

RPP
Solvency Ratio and Solvency Liability (without Escalated Adjustments)
as at July 1



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Solvency liabilities	1,575.1	1,680.2	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	3,496.8	4,262.7
Solvency Ratio	1.23	1.30	1.14	1.19	1.02	1.11	1.00	1.00	1.11	0.98	0.69	0.64	0.71	0.59
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	1.0	1.0	1.0	1.0

It is interesting to note that if interest rates had not dropped between 2011 and 2012 and we used the same solvency assumption discount rates as last year, the solvency valuation liabilities (and deficit) for the RPP as at July 1, 2012 would have been lower (better) by approximately $603.5 million. The solvency ratio would have been 0.69 rather than 0.59.

As stated previously, the solvency ratio refers to the ratio of solvency assets to solvency liabilities (excluding indexation). A solvency ratio of 1.0 or higher means that at a particular point in time there is a solvency excess. A solvency ratio of less than 1.0 indicates that at a particular point in time there is a solvency deficit. If the solvency ratio is less than 0.85 at the time the valuation is filed with the regulators, an actuarial valuation must then be filed annually until such a point when the solvency ratio is above 0.85. Otherwise, valuations must be filed at least triennially. However, as a result of qualifying for Stage 1 of the temporary solvency relief funding process, the effective date of the next required actuarial valuation to be filed with the regulators is July 1, 2014.

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 $3.10 billion.

The RPP(OISE) solvency ratio was 0.55 at July 1, 2012, an decrease from a solvency ratio of 0.62 at July 1, 2011.

Similar to the RPP, it is interesting to note that if interest rates had not dropped between 2011 and 2012 and we used the same solvency assumption discount rates as last year, the solvency valuation liabilities (and deficit) for the RPP(OISE) as at July 1, 2012 would have been lower (better) by approximately $15.1 million. The solvency ratio would have been 0.61 rather than 0.55.

The RPP solvency ratio of 0.59 at July 1, 2012 would normally trigger large net solvency payments over a five year period. As noted earlier, the Ontario Government has put in place a two stage process that is intended to provide institutions in the broader public sector (which includes universities) with an opportunity to make net solvency payments over a longer period than would otherwise be required. The University has been accepted to Stage 1 of this process

and has put into place member contribution increases to meet the conditions required for acceptance to Stage 2 of the process. As described earlier in this document (page 34), a revised pension contribution strategy reflecting plans to deal with the pension deficit was approved by the Business Board on May 3, 2012. This section of the document includes an update that assesses the impact of the results to July 1, 2012 (page 36).

Conclusion

Both the overall economic and financial climate and the regulatory landscape continue to be very uncertain with respect to pensions. Interest rates continue to be at historic lows, affecting investment returns and risk taking, and making it much more difficult to achieve investment returns. This is reflected in the pension results for the year, which have worsened slightly even though significant contributions have been made into the pension plans. The market deficit for the three plans combined has increased from 27% of assets at July 1, 2011 to 30% of assets at July 1, 2012 due primarily to actual nominal investment returns of 0.9% being lower than target. The solvency ratio or the RPP has declined from 0.71 to 0.59, due to a decline in the prescribed interest rate from 4.2% per annum at July 1, 2011 to 3.05% per annum at July 1, 2012.

From a going concern perspective, the current strategy of increased member contributions, which enhance the sustainability of the pension plans by providing additional funding to the plans, and the pension contribution strategy, which provides significant additional University funding to address the deficit continue to be reasonable. Based on one year of additional experience only a modest increase of $9 million per annum in going concern special payments has been identified.

From a solvency perspective, the continuing fall in interest rates makes more difficult the Government's efforts to deal with this regulatory issue through its temporary solvency relief programme. Discussions continue between the Government and universities, and it is not yet known what additional measures, if any, will be introduced to deal with net solvency payment issues.

Appendix 1

Pension Contribution Strategy

The pension contribution strategy approved by the Business Board on May 3, 2012 may be found at the following link:

http://www.governingcouncil.utoronto.ca/AssetFactory.aspx?did=8516

Appendix 2

Pension Fund Master Trust -

Statement of Policies and Goals

The Pension Fund Master Trust Statement of Policies and Goals approved by the Pension Committee on March 28, 2012 may be found at the following link:

http://www.finance.utoronto.ca/Assets/Finance+Digital+Assets/policies/PFMTSIPG.pdf

Appendix 3

RPP Actuarial Report (Excerpts)

Actuarial Report (Excerpts)

University of Toronto Pension Plan (RPP)

As of July 1, 2012

Summary

(Thousands of Dollars)	As of July 1, 2011	As of July 1, 2012
Going Concern Valuation Results		
Past Service		
Actuarial Value of Assets	$ 2,856,089	$ 2,893,135[1]
Less: Accrued Liability	3,443,483	3,630,969
Surplus/(Unfunded Accrued Liability)	$ (587,394)	$ (737,834)
As a % of Accrued Liability	(17.1%)	(20.3%)
Market Value of Assets	$ 2,486,272	$ 2,515,770
Deferred Asset Gain/(Loss)	$ (369,817)	$ (377,365)
Current Service		
Total Current Service Cost	$ 129,901	$ 135,894
Less: Required Participant Contributions[2] [3]	37,832	41,825
University Current Service Cost	$ 92,069	$ 94,069
As a % of Participant Salary Base (Capped at $150,000)	12.49%	12.31%
Participant Salary Base (Capped at $150,000)	$ 736,882	$ 764,024

[1] Actuarial value of assets capped at 115% of market value of assets
[2] Includes participant contributions made by University on behalf of disabled participants
[3] Does not include change in required participant contributions coming into effect after the valuation date

(Thousands of Dollars)	As of July 1, 2011	As of July 1, 2012
Solvency Valuation Results		
Solvency Assets[1]	$ 2,485,272	$ 2,514,770
Solvency Liability—Without Escalated Adjustments	3,496,808	4,262,724
Solvency Excess/(Deficit)	$ (1,011,536)	$ (1,747,954)
Solvency Ratio	0.71	0.59
Hypothetical Wind-Up Valuation Results		
Wind-Up Assets[1]	$ 2,485,272	$ 2,514,770
Wind-Up Liability—With Escalated Adjustments	4,754,552	5,618,319
Wind-Up Excess/(Deficit)	$ (2,269,280)	$ (3,103,549)
Transfer Ratio	0.52	0.45

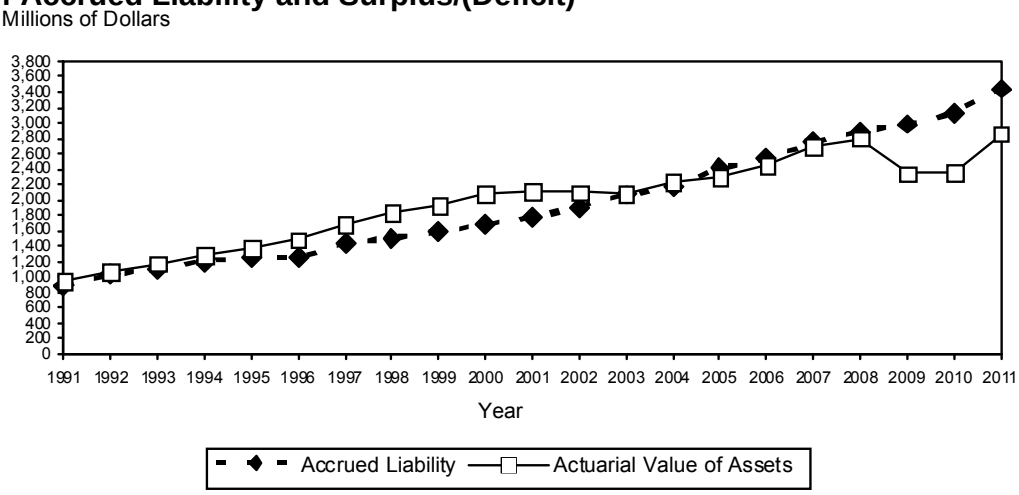
[1] Net of provision of $1,000,000 for estimated wind-up expenses

Summary (continued)

(Thousands of Dollars)	As of July 1, 2011[1] [2]	As of July 1, 2012
Going Concern Funding Requirements		
Required Participant Contributions	$ 37,832	$ 41,825
University Current Service Cost	$ 92,069	$ 92,905[3]
Plus: Special Payments to Amortize Unfunded Liability	59,780[4]	63,516
University Contributions	$ 151,849	$ 156,421
Plus: Additional University Discretionary Contributions	0	0
Total University Contributions	$ 151,849	$ 156,421
As a % of Participant Salary Base (Capped at $150,000)	20.61%	20.63%
Personnel Data		
Active and Disabled Participants	8,869	9,149
Retired Participants	4,797	4,934
Terminated Vested Participants	2,546	2,564
Suspended, Exempt or Pending Status	225	207
Total	16,437	16,854

1 On basis of solvency funding relief granted on February 16, 2012
2 After change in actuarial assumptions and asset valuation method
3 12.16% of Participant Salary Base (capped at $150,000) in accordance with July 1, 2011 actuarial valuation
4 Before application of one-year deferral of start date for the increase in Special Payments as per solvency funding relief measures

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%)
2011	$ 2,856.1[11]	$ 3,443.5[11]	$ (587.4)	(17.1%)
2012	$ 2,893.1	$ 3,630.9	$ (737.8)	(20.3%)

[1] After plan amendments and restatement of actuarial value of assets
[2] After six-year deferral of the increase in the maximum pension limit
[3] After plan amendments and change in actuarial assumptions
[4] After plan amendments for all staff groups (interim cost certificate) and change in assumptions
[5] After plan amendments
[6] After plan amendments and change in actuarial assumptions
[7] After plan amendments and change in actuarial assumptions
[8] After plan amendments (and related assumptions changes)
[9] After plan amendments and change in actuarial assumptions
[10] After reflecting maximum value of 120% of market value
[11] After change in actuarial assumptions and asset valuation method

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		$ 2,893,135
Less: Accrued Liability		
Active and Disabled Participants	$ 1,835,182	
Retired Participants	1,682,707	
Terminated Vested Participants	107,077	
Suspended, Exempt or Pending Status	6,003	
Total		$ 3,630,969
Surplus (Unfunded Accrued Liability)		$ (737,834)
As a % of Accrued Liability		(20.3%)
Market Value of Assets		$ 2,515,770
Deferred Asset Gain (Loss)		$ (377,365)
Current Service		
Total Current Service Cost		$ 135,894
Less: Required Participant Contributions		41,825[1]
University Current Service Cost		$ 94,069
As a % of Participant Salary Base (With $150,000 Pay Cap)		12.31%
Participant Salary Base (With $150,000 Pay Cap)		$ 764,024
As a % of Capped Participant Salary Base Under Assumed Retirement Age[2]		12.89%
Capped Participant Salary Base Under Assumed Retirement Age		$ 729,720

[1] Includes participant contributions made by University on behalf of disabled participants; does not reflect increase in required participant contributions coming into affect after the valuation date

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

Solvency and Hypothetical Wind-Up Valuation Results

(Thousands of Dollars)	Solvency Valuation	Hypothetical Wind-Up Valuation
(1) Market Value of Assets	$ 2,515,770	$ 2,515,770
(2) Less: Estimated Wind-Up Expenses	1,000	1,000
(3) Assets Net of Wind-Up Expenses	$ 2,514,770	$ 2,514,770
(4) Solvency/Wind-Up Liability		
Active and Disabled Participants	$ 2,227,516	$ 3,051,387
Retired Participants	1,886,793	2,320,328
Terminated Vested Participants	142,412	240,601
Suspended, Exempt or Pending Status	6,003	6,003
Total	$ 4,262,724	$ 5,618,319
(5) Surplus/(Deficiency), (3) – (4)	$ (1,747,954)	$ (3,103,549)
(6) Solvency Ratio, (1)/(4)	0.59	N/A
(7) Transfer Ratio, (1)/(4)	N/A	0.45

As provided under the Regulations to the *Pension Benefits Act* (Ontario), the Solvency Liability excludes the liabilities associated with escalated adjustments (future indexing). Reflecting future escalated adjustments in the Hypothetical Wind-Up Valuation increases the liabilities by $1,355,595,000.

The assumptions used to determine the Solvency Liability are summarized on page 50 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 $3,103,549,000 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.

Experience

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

		2011/2012
Surplus/(Unfunded Liability) at July 1		$ (587,394)
Less:	University Current Service Cost	91,606
Plus:	University Current Service Cost Contributions	91,606
Plus:	University Special Payments	42,176
Plus:	Interest at 6.25% per annum	(35,394)
Equals:	Expected Surplus/(Unfunded Liability) at End of Year, Before Experience Gains/(Losses)	$ (580,612)
Plus:	Increase/(Decrease) Due to:	
	Gains/(Losses):	
	Return on Actuarial Value of Assets	(150,657)
	Indexation of Benefits	2,392
	Increase in Salaries	11,679
	Increase in Income Tax Act Maximum Pension	(1,503)
	Increase in CPP Maximum Salary	237
	Termination Experience	(3,174)
	Retirement Experience	(667)
	Mortality Experience	(13,125)
	All Other Sources	(2,952)
Equals:	Surplus/(Unfunded Liability) at End of Year, Before Changes in Assumptions/Methods	$ (738,382)
Plus:	Increase/(Decrease) Due to:	
	Change in Contribution Interest Rate Resulting From Plan Change	548
Equals:	Surplus/(Unfunded Accrued Liability) at July 1	$ (737,834)

Comments Regarding Experience from July 1, 2011 to July 1, 2012

Return on Assets

The assumed rate of return for actuarial valuation purposes was 6.25% per annum based on the actuarial value of assets as at July 1, 2011. After allowance is made for the market value adjustment under the asset valuation method, the net return on the actuarial value of assets was 1.0% in 2011/2012, resulting in an asset loss of $150,657,000. The total return after expenses based on the actual market value of assets after allowing for the full amount of capital appreciation during the year, assuming contributions and benefit payments take place in the middle of the year, was 0.8%.

Indexation of Benefits

Benefit entitlements for retired and terminated vested participants were increased by 1.73% at July 1, 2012 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 $2,392,000.

Increase in Salaries

The assumed salary increase used for the July 1, 2011 actuarial valuation was 4.5% per year. Actual salary increases varied by staff group but on average were lower than assumed, resulting in an actuarial gain of $11,679,000.

Income Tax Act Maximum Pension

The increase in the *Income Tax Act* maximum pension from 2011 to 2012 was 3.7%. This was higher than the expected 3.5% per year, resulting in an actuarial loss of $1,503,000.

CPP Maximum Salary

The increase in the CPP Maximum Salary was higher than the expected 3.5% per year, resulting in an actuarial gain of $237,000.

Termination Experience

The commuted values paid to terminated members were higher than expected because of decreasing interest rates. A large number of members summarized as terminated vested members in the July 1, 2011 valuation received lump-sum transfer during the year. The impact is an actuarial loss of $3,174,000.

Retirement Experience

Retirement ages for retirements since July 1, 2011 were slightly earlier than expected under the valuation assumptions. This resulted in an actuarial loss of $667,000.

Mortality Experience

Mortality rates since July 1, 2011 were lower than expected under the valuation assumptions. This resulted in an actuarial loss of $13,125,000.

All Other Sources

Other factors such as personnel changes and data adjustments, etc., deviated from expected, resulting in a net actuarial loss of $2,952,000.

Change in Contribution Interest Rate

The interest credited on participant contributions was changed from 4.50% per year to 3.00% per year as a result of a change in plan provisions effective July 1, 2012. This resulted in an actuarial gain of $548,000.

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 fully generational mortality improvements under Scale AA.
Withdrawal Rates	Table B following.
Disability Rates	None assumed.
Percentage With Spouse	86.7%; female spouse assumed to be 4 years younger than male spouse.

Economic Assumptions

Increase in Consumer Price Index (CPI)	2.50% per annum.
Cost-of-Living Adjustments	1.875% per annum (75% of CPI)[2].
Increase in CPP Maximum Salary	3.50% per annum.
Increase in *Income Tax Act* Maximum Pension	$2,646.67 in 2012; increasing by 3.50% per annum thereafter.
Increase in Salaries	4.50% per annum (2.50% CPI + 2.00% merit and promotion).
Discount Rate	6.25% per annum (2.50% CPI + 3.75% real return, net of all fees).
Interest Rate on Participant Contributions	3.00% per annum, (previous valuation used 4.50% 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 for July 1, 2008 actuarial valuation

Going Concern Valuation (continued)

Methods

Valuation of Assets	The actuarial value of assets has been determined by writing up the prior year's actuarial value and net cash flow at the valuation interest rate and then adjusting the result 25% toward market value. The Actuarial Value of Assets is limited to 115% of the Market Value of Assets.
Actuarial Cost Method	Unit credit cost method.

Actuarial Report (Excerpts)

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

As of July 1, 2012

Summary

Summary (Thousands of Dollars)	As of July 1, 2011	As of July 1, 2012
Going Concern Valuation Results[1]		
Past Service		
Actuarial Value of Assets	$ 87,460[2]	$ 87,967[2]
Less: Accrued Liability	116,129	117,768
Surplus/(Unfunded Accrued Liability)	$ (28,669)	$ (29,801)
As a % of Accrued Liability	(24.7%)	(25.3%)
Market Value of Assets	$ 76,052	$ 76,493
Deferred Asset Gain/(Loss)	$ (11,408)	$ (11,474)
Current Service		
Total Current Service Cost	$ 1,677	$ 1,550
Less: Required Participant Contributions[3] [4]	427	402
University Current Service Cost	$ 1,250	$ 1,148
As a % of Participant Salary Base (Capped at $150,000)	14.73%	15.02%
Participant Salary Base (Capped at $150,000)	$ 8,487	$ 7,645

[1] 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

[2] Actuarial value of assets capped at 115% of market value of assets

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

[4] Does not include changes in Required Participant Contributions coming into effect after the valuation date

Summary (continued)

(Thousands of Dollars)	As of July 1, 2011	As of July 1, 2012[1] [2]
Funding Requirements		
Required Participant Contributions	$ 427	$ 403
University Current Service Cost	$ 1,250	$ 1,105[3]
Less: Permitted Application of Surplus	0	0
Plus: Special Payments to Amortize Unfunded Liability	2,918[4]	3,100
Plus: Special Payments to Amortize Solvency Deficiency	0	0
Minimum Required University Contributions	$ 4,168	$ 4,205
Solvency Valuation Results		
Solvency Assets[5]	$ 75,652	$ 76,093
Solvency Liability—Without Escalated Adjustments	121,823	139,177
Solvency Excess/(Deficit)	$ (46,171)	$ (63,084)
Solvency Ratio	0.62	0.55
Hypothetical Wind-Up Valuation Results		
Wind-Up Assets[4]	$ 75,652	$ 76,093
Wind-Up Liability—With Escalated Adjustments	161,705	178,218
Wind-Up Excess/(Deficit)	$ (86,053)	$ (102,125)
Transfer Ratio	0.47	0.43

[1] Based on solvency relief granted February 16, 2012
[2] After change in actuarial assumptions and asset valuation method
[3] 14.49% of Participant Salary Base (capped at $150,000) in accordance with July 1, 2011 actuarial valuation
[4] Before application of one-year deferral of start date for the increase in Special Payments as per solvency funding relief measures
[5] Net of provision of $400,000 for estimated wind-up expenses

	As of July 1, 2011	As of July 1, 2012
Personnel Data		
Participants Not Affected by Partial Wind-Up		
Active and Disabled Participants	81	73
Retired Participants	159	162
Terminated Vested Participants	23	21
Suspended/Pending Participants	2	3
Total	265	259

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		$ 87,967
Less: Accrued Liability		
Active and Disabled Participants	$ 42,969	
Retired Participants	71,833	
Terminated Vested Participants	2,699	
Suspended Participants	267	
Total		$ 117,768
Surplus (Unfunded Accrued Liability)		$ (29,801)
As a % of Accrued Liability		(25.3%)
Market Value of Assets		$ 76,493
Deferred Asset Gain (Loss)		$ (11,474)
Current Service		
Total Current Service Cost		$ 1,550
Less: Required Participant Contributions		402[1]
University Current Service Cost		$ 1,148
As a % of Participant Salary Base (With $150,000 Pay Cap)		15.02%
Participant Salary Base (With $150,000 Pay Cap)		$ 7,645
As a % of Capped Participant Salary Base Under Assumed Retirement Age[2]		16.25%
Capped Participant Salary Base Under Assumed Retirement Age		$ 7,067

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

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

Solvency Valuation Sensitivity Results

The CIA practice-specific standards for pension plans require the disclosure of the impact on the Solvency Liability of using a discount rate 1.00% lower than that used for the Solvency Valuation. The table below shows both the impact of using a discount rate 1.00% lower than that used for the Solvency Valuation and the impact of using a discount rate 1.00% higher than that used for the Solvency Valuation.

Solvency Valuation Sensitivity Results		July 1, 2012 (000's)
Solvency Liability		
Solvency Liability at solvency discount rates	$	139,177
Solvency Liability at solvency discount rates less 1.00%	$	156,152
Impact of 1.00% decrease in solvency discount rates	$	16,975
Percentage increase from 1.00% decrease in solvency discount rates		12.2%
Solvency Liability at solvency discount rates plus 1.00%	$	125,130
Impact of 1.00% increase in solvency discount rates	$	14,047
Percentage decrease from 1.00% increase in solvency discount rates		10.1%

Solvency Valuation Incremental Cost

The CIA practice-specific standards for pension plans also require the calculation of the incremental cost on a solvency basis. This represents the present value at July 1, 2012 of the expected aggregate change in the Solvency Liability between July 1, 2012 and June 30, 2014, the date of the next required valuation. The Actuarial Assumptions section of this report provides more detail regarding the calculation methodology and assumptions. An educational note was published in December 2010 by the Canadian Institute of Actuaries to provide guidance to actuaries for this calculation.

The main purpose of this new disclosure requirement is to provide insight regarding the expected growth in the Solvency Liability, assuming there will be no change in applicable discount rates. This disclosure requirement is more useful when combined with the expected return on Plan assets and comparing this net amount with the total current service cost contributions and special payments expected to be paid into the fund between those dates.

Based on this methodology and on these assumptions, the incremental cost on a solvency basis for the period from July 1, 2012 to June 30, 2014 is estimated to be $3,845,000.

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

			2011/2012
Surplus/(Unfunded Liability) at July 1		$	(28,669)
Less:	University Current Service Cost		1,246
Plus:	University Current Service Cost Contributions		1,246
Plus:	University Special Payments		5,923[1]
Plus:	Interest at 6.5% per annum		(1,607)
Equals:	Expected Surplus/(Unfunded Liability) at End of Year, Before Experience Gains/(Losses)	$	(24,353)
Plus:	Increase/(Decrease) Due to:		
	Gains/(Losses):		
	Return on Assets		(5,431)
	Indexation of Benefits		16
	Increase in Salaries		279
	Increase in *Income Tax Act* Maximum Pension		(46)
	Termination Experience		97
	Retirement Experience		380
	Mortality Experience		462
	All Other Sources		(1,205)
Equals:	Surplus/(Unfunded Liability) at End of Year, Before Changes in Assumptions/Methods	$	(29,801)
Plus:	Increase/(Decrease) Due to:		
	Change in Contribution Interest Rate Resulting From Plan Change		0
Equals:	Surplus/(Unfunded Accrued Liability) at July 1	$	(29,801)

[1] $3,019 of this payment was in respect of University Current Service Cost for the period from July 1, 2009 to June 30, 2011.

Comments Regarding Experience from July 1, 2011 to July 1, 2012

Return on Assets

The assumed rate of return for actuarial valuation purposes was 6.25% per annum. After allowance is made for the market value adjustment under the asset valuation method, the net return was 0.1%, resulting in an actuarial loss of $5,431,000. The total return based on the actual market value of assets was 0.0%, assuming contributions and benefit payments take place in the middle of the year.

Indexation of Benefits

Benefit entitlements for retired and terminated vested participants were increased by 1.73% at July 1, 2012 under the 75% of CPI indexing provision (and corresponding higher percentages for retirees under one of the pre-integration provisions). The increases were less than the 1.875% increase anticipated under the actuarial assumptions, resulting in an actuarial gain of $16,000.

Increase in Salaries

The assumed salary increase used for the July 1, 2011 actuarial valuation was 4.5% per year. Actual salary increases varied by staff group, resulting in an actuarial gain of $279,000.

Income Tax Act Maximum Pension

The assumed increase in the *Income Tax Act* maximum pension was 3.5% per year. The increase in the *Income Tax Act* maximum pension was 3.7% from 2011 to 2012, resulting in an actuarial loss of $46,000.

Termination Experience

Termination experience since July 1, 2011 was higher than expected under the valuation assumptions. This resulted in an actuarial gain of $97,000.

Retirement Experience

The age at which members retired since July 1, 2011 was later than expected under the valuation assumptions. This resulted in an actuarial gain of $380,000.

Mortality Experience

Mortality rates since July 1, 2011 were higher than expected under the valuation assumptions. This resulted in an actuarial gain of $462,000.

All Other Sources

Other factors such as personnel changes and data adjustments, etc., deviated from expected, resulting in a net actuarial loss of $1,205,000.

Change in Assumptions: Interest Rate on Participant Contributions

The interest rate on participant contributions was changed 4.50% per year to 3.00% per year as a result of a change in plan provisions effective July 1, 2012. This assumption change did not have an impact on the going concern accrued liability.

Actuarial Report (Excerpts)

Supplemental Retirement Arrangement

As of July 1, 2012

Valuation Results

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

(Thousands of Dollars)	As of July 1, 2011	As of July 1, 2012
Going Concern Valuation Results		
Past Service[1]		
Accrued Liability for SRA		
Active Participants	$ 14,858	$ 5,138
Retired Participants	125,522	130,049
Total	$ 140,380	$ 135,187
Current Service[2]		
Current Service Cost for SRA	$ 474	$ 147
As a % of Participant Salary Base (With $150,000 Pay Cap)	0.06%	0.02%
Participant Salary Base	$ 745,369	$ 771,669

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 $110,988,540 as of June 30, 2012. 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] 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, 2012

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the **University of Toronto Pension Plan**, which comprise the statements of financial position as at June 30, 2012 and 2011, and the statements of changes in net assets available for benefits and changes in pension obligations for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **University of Toronto Pension Plan** as at June 30, 2012 and 2011, and the changes in its net assets available for benefits and changes in its pension obligations for the years then ended in accordance with Canadian accounting standards for pension plans.

Toronto, Canada,
December 12, 2012.

UNIVERSITY OF TORONTO PENSION PLAN

STATEMENTS OF FINANCIAL POSITION
(with comparative figures as at June 30, 2011)
(thousands of dollars)

As at June 30

	2012	2011
	$	$
ASSETS		
Investment in Master Trust, at fair value *(note 3(a))*	**2,505,689**	2,475,609
Receivables and prepaid expenses	**13,845**	12,367
	2,519,534	2,487,976
LIABILITIES		
Refunds payable	**2,435**	852
Accrued expenses	**1,329**	852
	3,764	1,704
Net assets available for benefits	**2,515,770**	2,486,272
Pension obligations *(note 7)*	**3,630,969**	3,462,840
Deficit	**(1,115,199)**	(976,568)

See accompanying notes

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

Ms. Sheila Brown
Chief Financial Officer

Mr. Louis Charpentier
Secretary of the Governing Council

UNIVERSITY OF TORONTO PENSION PLAN

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

(with comparative figures for the year ended June 30, 2011)
(thousands of dollars)

Years ended June 30

	2012	2011
	$	$
INCREASE IN NET ASSETS		
Increase in fair value of investment in Master Trust *(note 3(b))*	**46,147**	286,029
Employer contributions *(note 4)*	**133,782**	242,893
Employee contributions *(note 1(b))*	**39,578**	37,925
Transfers from other plans	**2,109**	4,018
Total increase in net assets	**221,616**	570,865
DECREASE IN NET ASSETS		
Retirement benefits	**147,845**	139,986
Refunds and transfers *(note 5)*	**18,706**	14,258
Fees and expenses (*note 6)*	**25,567**	24,204
Total decrease in net assets	**192,118**	178,448
Net increase in net assets for the year	**29,498**	392,417
Net assets available for benefits, beginning of year	**2,486,272**	2,093,855
Net assets available for benefits, end of year	**2,515,770**	2,486,272

See accompanying notes

UNIVERSITY OF TORONTO PENSION PLAN

STATEMENTS OF CHANGES IN PENSION OBLIGATIONS
(with comparative figures for the year ended June 30, 2011)
(thousands of dollars)

Years ended June 30

	2012	2011
	$	$
INCREASE IN PENSION OBLIGATIONS		
Interest on accrued benefits	**215,350**	202,038
Benefits accrued	**129,978**	114,821
Assumption changes		170,228
Transfers from other plans	**2,109**	4,018
Total increase in pension obligations	**347,437**	491,105
DECREASE IN PENSION OBLIGATIONS		
Benefits paid	**166,551**	154,244
Experience gains	**12,209**	
Assumption changes	**548**	
Total decrease in pension obligations	**179,308**	154,244
Net increase in pension obligations for the year	**168,129**	336,861
Pension obligations, beginning of year	**3,462,840**	3,125,979
Pension obligations, end of year	**3,630,969**	3,462,840

See accompanying notes

UNIVERSITY OF TORONTO PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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, through the University of Toronto Master Trust ("Master Trust"), are managed by the University of Toronto Asset Management Corporation ("UTAM"), a wholly-owned subsidiary of the University.

b) Funding

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

c) Retirement pensions

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

d) Death benefits

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

e) Escalation of benefits

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

2. Summary of significant accounting policies

These financial statements have been prepared by the University in accordance with Canadian accounting standards for pension plans applied within the framework of the significant accounting policies summarized below:

a) Adoption of Canadian accounting standards for pension plans

Effective July 1, 2011, the Plan adopted Section 4600, Pension Plans, of the Canadian Institute of Chartered Accountants' ("CICA") Handbook, on a retrospective basis.

In accordance with Section 4600, Canadian accounting standards for private enterprises in Part II of the CICA Handbook have been chosen for accounting policies that do not relate to the investment portfolio or pension obligations to the extent that those standards do not conflict with the requirements of Section 4600. The selection of Part II of the CICA Handbook had no effect on the accounting policies of the Plan.

As a result of the implementation of the new accounting standards, the "statements of net assets available for benefits" have been renamed the "statements of financial position" and certain information on the pension obligations of the Plan previously disclosed in the notes to the financial statements is now disclosed in a separate "statements of changes in pension obligations".

In satisfying the fair value measurement requirements for investment assets and investment liabilities in Section 4600, the Plan has chosen to early adopt IFRS 13, Fair Value Measurement, in Part I of the CICA Handbook effective July 1, 2010. IFRS 13 has been adopted on a prospective basis as permitted under Section 4600. The early adoption of IFRS 13 had no effect on the accounting policies of the Plan.

In accordance with Section 4600, the Plan presents its investment in the Master Trust in the same manner as an interest in a pooled fund and no longer proportionately consolidates its interest in the Master Trust in the financial statements. As a result of this change in accounting, the Plan's investment income now only includes distributions from the Master Trust instead of the Plan's proportionate share of the investment income from the underlying investments within the Master Trust. There were no distributions from the Plan's investment in the Master Trust in 2012 or 2011. If the Plan were to have proportionately consolidated its share of the Master Trust's investment income, comprised of interest, dividends and other income, the Plan's investment income would have increased by $40.7 million and $48.2 million in 2012 and 2011 respectively, with an equal offset to the increase in the fair value of the investment in the Master Trust. This change in accounting had no effect on the overall investment returns of the Plan.

These changes had no impact on the overall financial position, the overall net change in net assets available for benefits or the overall pension obligations of the Plan for the reporting periods.

Additional disclosures have also been provided in the notes to the financial statements in accordance with Section 4600.

b) Investments and investment income

Investments are carried at fair value. The Plan is invested 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.

Income from investments is recorded on an accrual basis. Distributions from a master trust arrangement are recorded when declared. Changes in fair values, representing realized and unrealized gains and losses, from one year to the next are reflected in the statement of changes in net assets available for benefits.

c) University of Toronto Master Trust

Investments within the Master Trust 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.

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. If quoted closing market prices are not available for bonds, estimated values are calculated using discounted cash flows based on current market yields and comparable securities, as appropriate.

(iii) Investments in pooled funds (other than private investment interests and hedge funds) are valued at their reported net asset value per unit.

(iv) Hedge funds are valued based on the most recently available reported net asset value per unit adjusted for the expected rate of return of the fund through June 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value.

(v) Private investment interests consisting of private equities and real assets are comprised of private externally managed funds with underlying investments in equities, debt, real estate assets and commodities. The investment managers of these interests perform valuations of the underlying investments on a periodic basis and provide valuations periodically. Annual financial statements of the private investment interests are audited and are also provided by the investment managers. The value of the investments in these interests is based on the most recent valuation provided, adjusted for subsequent cash receipts and distributions from the fund and cash disbursements to the fund through June 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value.

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

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

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

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

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

Purchases and sales of investments are recorded by the Master Trust on a trade 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 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) Pension obligations

Pension obligations are determined based on an actuarial valuation prepared by an independent firm of actuaries using an actuarial valuation report prepared for funding purposes. This valuation uses the projected benefits pro-rated on service method and management's best estimate of various economic and non-economic assumptions.

3. University of Toronto Master Trust

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

On May 31, 2011, substantially all of the Master Trust's publicly traded investments were transferred into four new unitized investment pooled funds which are managed by UTAM. The overall investment strategy and risk profile of the Master Trust was not changed as a result of the new pooled funds. The directly held investments of the UTAM pooled funds are considered to be directly held investments of the Master Trust for risk analysis disclosure purposes. As at June 30, 2012, the UTAM pooled funds accounted for 45.0% (2011 - 43.2%) of the Master Trust's investments.

a) Investment in Master Trust
(thousands of dollars)

As at June 30, 2012, the Plan's investment in the Master Trust consisted of 19,190,644 (2011 - 19,201,552) of the 19,773,064 (2011 - 19,782,953) outstanding units of the Master Trust. The Plan's investment in the Master Trust was $2,505,689 (2011 - $2,475,609) of the total fair value of $2,581,980 (2011- $2,550,968) of the Master Trust.

The investments of the Master Trust and the Plan's investments, if the Plan's investment in the Master Trust had been proportionately consolidated, consisted of the following as at June 30, taking into account certain reclassifications resulting primarily from the allocation of the effect of futures contracts:

	Master Trust		**University of Toronto Pension Plan**	
	2012	2011	**2012**	2011
	$	$	**$**	$
Cash, money market funds, short-term notes and treasury bills	**95,151**	4,820	**92,340**	4,677
Government and corporate bonds	**641,819**	526,914	**622,854**	511,348
Canadian equities	**430,399**	393,491	**417,682**	381,867
United States equities	**200,492**	363,249	**194,568**	352,518
International equities	**329,942**	435,911	**320,193**	423,033
Hedge funds	**376,719**	313,787	**365,588**	304,518
Private equities	**342,915**	340,483	**332,783**	330,425
Real assets	**161,465**	152,550	**156,694**	148,044
	2,578,902	2,531,205	**2,502,702**	2,456,430
Derivative-related net receivable (*note 3(d)*)	**3,078**	19,763	**2,987**	19,179
	2,581,980	2,550,968	**2,505,689**	2,475,609

These reclassifications at the Master Trust level resulted in $140,627 (2011 - $380,108) of cash, money market funds, short-term notes and treasury bills and nil (2011 - $94,825) of hedge funds being reclassified to Canadian equities of $69,050 (2011 - $35,914), to United States equities of $51,649 (2011 - $320,239), to international equities of $19,374 (2011 - $118,051) and to government and corporate bonds of $554 (2011 – $729).

b) Changes in the Master Trust
(thousands of dollars)

The increase in fair value of the Master Trust was $47,640 (2011 - $296,378) of which the increase in fair value of the Plan's investment was $46,147 (2011 - $286,029). The following table shows the components of the net increase in the net assets of the Master Trust for the years ended June 30:

	2012 **$**	2011 $
Increase in fair value		
Interest income		
Government and corporate bonds	**17,493**	18,886
Short-term investments	**2,618**	1,997
Dividend income		
Canadian	**8,763**	7,577
Foreign	**12,947**	20,609
Other income	**213**	853
	42,034	49,922
Net realized and unrealized gains from investments	**5,606**	246,456
Total increase in fair value of the Master Trust	**47,640**	296,378
Cash received on purchase of Master Trust units by pension plans	**183,049**	286,199
Cash paid on redemption of Master Trust units by pension plans	**(199,677)**	(188,151)
Net increase in net assets for the year	**31,012**	394,426
Net assets, beginning of year	**2,550,968**	2,156,542
Net assets, end of year	**2,581,980**	2,550,968

If the Plan had proportionately consolidated its share of the Master Trust, the investment income and changes in fair value of investments for the years ended June 30 would be comprised of the following:

	2012 **$**	2011 $
Interest income	**19,481**	20,154
Dividend income	**21,030**	27,202
Other income	**206**	823
	40,717	48,179
Net realized and unrealized gains from investments	**5,430**	237,850
	46,147	286,029

c) Individually significant investments
(thousands of dollars)

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

	Fair Value $
Money market funds and treasury bills	
TD Emerald Canadian Treasury Fund	103,391
Government and corporate bonds	
UTAM Canadian Fixed Income Fund	290,830
UTAM Canadian Credit Fund	254,750
Blackrock CDN Credit Screened Bond Index Fund	99,075
Canadian equities	
UTAM Canadian Equity Fund	313,291
Blackrock Canadian Equity Index Fund	47,642
United States equities	
GMO Quality Fund	67,111
UTAM United States Equity Fund	45,295
ValueAct Capital International II Fund	36,435
International equities	
UTAM International Equity Fund	257,683
Blackrock Emerging Markets Alpha Advantage Fund Ltd.	31,712
Hedge funds	
GSA Capital International Fund	29,591
Stratus Capital Management Fund	25,547
Private equities	
Providence VI Fund	26,381

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 as at June 30, 2012 range from July 2012 to September 2012. The notional and fair value amounts of the derivative financial instruments are as follows:

	2012 **$**		2011 $	
	Notional Value	**Fair Value**	Notional Value	Fair Value
Foreign currency forward contracts:				
- United States Dollar	**568,554**	**360**	436,901	3,536
- Other	**263,152**	**(702)**	130,151	734
		(342)		4,270
Equity and commodity index futures contracts:				
- Canadian Dollar	**68,360**	**1,244**	37,895	214
- United States Dollar	**50,388**	**1,736**	320,294	11,612
- Euro	**9,121**	**196**	50,193	1,442
- British Pound Sterling	**5,515**	**46**	25,822	633
- Japanese Yen	**2,335**	**186**	24,834	1,348
- Other	**1,983**	**12**	18,061	244
		3,420		15,493
Total		**3,078**		19,763

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. The investments of the Master Trust are primarily exposed to market risk (which includes foreign currency, interest rate and other 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 other 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 Statement of Investment Policies and Goals. The following are the key components of market risk:

(i) Foreign currency risk

Foreign currency exposure arises from the Master Trust's direct holdings of investments denominated in currencies other than the Canadian dollar. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. To manage foreign currency risk, the currency hedging policy, effective May 1, 2012, is to hedge 75% of developed markets' currency exposures and 0% of emerging markets' currency exposures. Previously, a 50% hedging policy was in place for the Master Trust. The Plan also has an indirect exposure to foreign currency risk to the extent that the Master Trust's direct holdings have underlying investments denominated in foreign currencies.

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

(thousands of dollars)

	2012			2011
	$			$
	Currency Exposure	**Net Currency Hedge**	**Net Currency Exposure**	Net Currency Exposure
United States Dollar	**967,431**	**(568,554)**	**398,877**	550,127
Euro	**176,071**	**(132,085)**	**43,986**	116,204
British Pound Sterling	**64,207**	**(43,571)**	**20,636**	38,057
Japanese Yen	**51,683**	**(40,148)**	**11,535**	44,188
Australian Dollar	**17,134**	**(11,254)**	**5,880**	12,804
Swedish Krona	**8,133**	**(8,505)**	**(372)**	7,258
Swiss Franc	**11,431**	**(15,550)**	**(4,119)**	15,646
Other	**12,241**	**(12,039)**	**202**	14,224
Total	**1,308,331**	**(831,706)**	**476,625**	798,508

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 $47.7 million (2011 - $79.9 million) impact on the foreign currency assets, net of the currency hedges, of the Master Trust.

(ii) Interest rate risk

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

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

(thousands of dollars)

	2012		2011	
Maturity Range	**Fair Value $**	**Weighted Average Yield**	Fair Value $	Weighted Average Yield
0-5 years	**262,070**	**1.96%**	234,868	2.35%
>5 years-10 years	**223,583**	**2.94%**	182,730	3.93%
>10 years	**155,613**	**3.66%**	107,685	4.50%
	641,266	**2.72%**	525,283	3.34%

As at June 30, 2012, for every 1% increase (decrease) in prevailing market interest rates, the fair value of the direct and indirect fixed income holdings in the Master Trust is estimated to decrease (increase) by approximately $42.6 million (2011 - $31.9 million).

(iii) Other price risk

(thousands of dollars)

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

The fair value of these equity investments subject to other price risk is $642,091 (2011 - $714,997). Since all other variables are held constant in assessing other price risk sensitivity, it is possible to extrapolate a 10% absolute change in the fair value to any absolute percentage change in fair value. A 10% absolute change in the fair value of these equity investments which are exposed to price risk is $64,209 (2011 - $71,500).

g) Credit risk
(thousands of dollars)

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

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

	2012		2011	
Credit Rating	**Fair Value $**	**% of Fixed Income Securities**	Fair Value $	% of Fixed Income Securities
AAA	**181,364**	**28.28**	171,633	32.67
AA	**146,376**	**22.83**	134,145	25.54
A	**197,152**	**30.74**	132,634	25.25
BAA and other	**116,374**	**18.15**	86,871	16.54
	641,266	**100.00**	525,283	100.00

h) Liquidity risk

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

i) Fair value hierarchy
(thousands of dollars)

The Plan is required to disclose, for each class of financial instruments, the methods and, when a valuation technique is used, the assumptions applied in determining fair values, through a three-level hierarchy, as of the financial statement date. The three levels are defined as follows:

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

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

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

The following tables present, as at June 30, the level within the fair value hierarchy for each of the financial assets and liabilities held by the Master Trust, excluding cash and cash equivalents of $319,980 (2011 - $162,148) of which $187,854 (2011 - $6,713) relates to the UTAM pooled funds, measured at fair value:

	Level 1 **$**	**Level 2** **$**	**Level 3** **$**	**Total 2012** **$**
Money market funds, short-term notes and treasury bills		**103,652**		**103,652**
Government and corporate bonds		**632,080**		**632,080**
Canadian equities	**116,844**	**155,141**		**271,985**
United States equities	**44,556**	**103,547**		**148,103**
International equities	**116,744**	**105,259**		**222,003**
Hedge funds		**272,959**	**103,760**	**376,719**
Private equities			**342,915**	**342,915**
Real assets			**161,465**	**161,465**
	278,144	**1,372,638**	**608,140**	**2,258,922**
Derivative-related net receivable *(note 3(d))*	**3,420**	**(342)**		**3,078**
	281,564	**1,372,296**	**608,140**	**2,262,000**

	Level 1 $	Level 2 $	Level 3 $	Total 2011 $
Money market funds, short-term notes and treasury bills		229,493		229,493
Government and corporate bonds		522,922		522,922
Canadian equities	192,161	164,017		356,178
United States equities	42,805			42,805
International equities	263,393	52,621		316,014
Hedge funds		243,749	164,863	408,612
Private equities			340,483	340,483
Real assets			152,550	152,550
	498,359	1,212,802	657,896	2,369,057
Derivative-related net receivable *(note 3(d))*	15,493	4,270		19,763
	513,852	1,217,072	657,896	2,388,820

For purposes of the tables above, the fair value hierarchy of the underlying investments of the UTAM pooled funds held by the Master Trust has been disclosed, resulting in investments with a fair value of $278,144 and $690,383 (2011 - $497,872 and $597,599) being classified as Level 1 and Level 2 investments, respectively. The Master Trust's investments in the UTAM pooled funds would be considered Level 2 investments.

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

	2012 **$**	2011 $
Fair value, beginning of year	**657,896**	657,047
Purchases	**80,875**	133,835
Sales	**(124,081)**	(150,062)
Transfer out to Level 2[1]	**(17,077)**	
Total realized losses	**(5,541)**	(6,632)
Total unrealized gains	**16,068**	23,708
Fair value, end of year	**608,140**	657,896

[1]A hedge fund investment was transferred out from Level 3 to Level 2 during the period due to the removal of the redemption restrictions.

j) Hedge funds and private investment interests

The Master Trust invests in certain hedge funds and private investment interests which are comprised of externally managed funds with underlying investments in equities, debt, real estate assets and commodities. Because these investment interests are not readily tradable, their estimated values are subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such interests existed. Sensitivity analysis demonstrates that a 10% absolute change in the fair value of investments in hedge funds and private investment interests would result in a change to the total fair value of these investments of the Master Trust of $88.1 million (2011 - $90.2 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, 2012, approximately 19.5% (2011 - 19.3%) of the Master Trust's investment portfolio is invested in private investment interests managed by third party managers. These private investment interests typically take the form of limited partnerships managed by a General Partner. The legal terms and conditions of these private investment interests, which cover various areas of private equity investments and real asset investments (e.g., real estate and infrastructure), require that investors initially make an unfunded commitment and then remit funds over time (cumulatively up to a maximum of the total committed amount) in response to a series of capital calls issued to the investors by the manager. As at June 30, 2012, the Master Trust had uncalled commitments of approximately $130.3 million (2011 - $162.8 million). The capital committed is called by the manager over a pre-determined investment period, which varies by fund but is generally about three to five years from the date the fund closes. In practice, for a variety of reasons, the total amount committed to a fund is very rarely all called.

4. Employer contributions

The University has made $91.6 million (2011 - $77.7 million) in current service cost contributions and $42.2 million (2011 - $165.2 million) in additional special payments. The special payments were made to fund the unfunded liability, since the actuarial funding valuation as of July 1, 2011 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:

	2012	2011
	$	$
Refunds of contributions and other benefit payments:		
Upon termination	**3,998**	2,807
Upon death	**2,311**	1,603
	6,309	4,410
Transfers to other plans upon termination	**12,397**	9,848
	18,706	14,258

6. Fees and expenses

(thousands of dollars)

Fees and expenses consist of the following:

	2012	2011
	$	$
Investment management fees:		
External managers[1,2]	**20,161**	18,840
UTAM [1,3,4]	**2,695**	2,346
Pension records administration	**662**	727
Trustee and custodial fees[1]	**543**	549
Actuarial and related fees	**520**	555
Administration cost - University of Toronto[4]	**492**	441
Transaction fees[1,5]	**255**	568
External audit fees	**45**	45
Other fees	**194**	133
	25,567	24,204

[1] Reflect expenses that are directly charged to the Master Trust and are allocated back to the Plan.
[2] Fees for external managers include additional HST costs of $654 in 2012.
[3] The increase in UTAM fees is mainly due to additional HST.
[4] Represent related party transactions.
[5] Transaction fees represent the cost of purchasing and selling investments.

7. Pension obligations

Pension obligations are determined by applying best estimate assumptions agreed to by the University and the projected benefits pro-rated on service method. The pension obligations were determined using an actuarial funding valuation performed as of July 1, 2012 by Aon Hewitt, a firm of actuaries.

Significant assumptions used in the actuarial valuation are as follows:

	2012 **%**	2011 %
Interest rate	**6.25**	6.25
Consumer Price Index	**2.50**	2.50
Salary escalation rate	**4.50**	4.50

8. Capital management

The funding surpluses or deficits determined periodically in funding valuations prepared by an independent actuary are defined as the Plan's capital. The actuary's funding valuation is used to measure the long-term health of the Plan. A funding valuation is required to be filed with the pension regulator at least every three years. The most recently filed valuation was as at July 1, 2011 which disclosed an unfunded actuarial liability of $957.2 million on a going concern basis and a deficit of $1,011.5 million on a solvency basis. The next required actuarial funding valuation to be filed with the regulator must be at a date no later than July 1, 2014, absent of any changes that would trigger a valuation in the interim.

The objective of managing the Plan's capital is to ensure the Plan is funded to fully pay the benefits over the long term. The University changes contribution levels and negotiates with the various employee groups to change member contribution levels to meet the ongoing funding of the Plan and makes special contributions to eliminate any deficits, all subject to meeting regulatory requirements. In addition, the University of Toronto Pension Master Trust Statement of Investment Policies and Goals provides guidance with respect to the investment of the Plan's assets in order to assist with the management of any funding surpluses or deficits. Contributions to the Plan have complied with all regulatory funding requirements during the reporting periods.

9. Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2012 financial statements.

Appendix 4(b) – Pension Financial Statements

University of Toronto (OISE) Pension Plan

Financial Statements

University of Toronto (OISE) Pension Plan

June 30, 2012

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the **University of Toronto (OISE) Pension Plan**, which comprise the statements of financial position as at June 30, 2012 and 2011, and the statements of changes in net assets available for benefits and changes in pension obligations for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **University of Toronto (OISE) Pension Plan** as at June 30, 2012 and 2011, and the changes in its net assets available for benefits and changes in its pension obligations for the years then ended in accordance with Canadian accounting standards for pension plans.

Toronto, Canada,
December 12, 2012.

UNIVERSITY OF TORONTO (OISE) PENSION PLAN

STATEMENTS OF FINANCIAL POSITION
(with comparative figures as at June 30, 2011)
(thousands of dollars)

As at June 30

	2012	2011
	$	$
ASSETS		
Investment in Master Trust, at fair value *(note 3(a))*	**76,291**	75,359
Receivables and prepaid expenses	**571**	1,158
	76,862	76,517
LIABILITIES		
Accrued expenses	**369**	465
	369	465
Net assets available for benefits	**76,493**	76,052
Pension obligations *(note 7)*	**117,768**	116,234
Deficit	**(41,275)**	(40,182)

See accompanying notes

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

Ms. Sheila Brown
Chief Financial Officer

Mr. Louis Charpentier
Secretary of the Governing Council

UNIVERSITY OF TORONTO (OISE) PENSION PLAN

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

(with comparative figures for the year ended June 30, 2011)
(thousands of dollars)

Years ended June 30

	2012	2011
	$	$
INCREASE IN NET ASSETS		
Increase in fair value of investment in Master Trust *(note 3(b))*	**1,493**	10,349
Employer contributions *(note 4)*	**7,169**	
Employee contributions *(note 1(b))*	**412**	463
Total increase in net assets	**9,074**	10,812
DECREASE IN NET ASSETS		
Retirement benefits	**6,002**	5,340
Refunds and transfers *(note 5)*	**1,121**	814
Fees and expenses *(note 6)*	**1,510**	1,411
Total decrease in net assets	**8,633**	7,565
Net increase in net assets for the year	**441**	3,247
Net assets available for benefits, beginning of year	**76,052**	72,805
Net assets available for benefits, end of year	**76,493**	76,052

See accompanying notes

UNIVERSITY OF TORONTO (OISE) PENSION PLAN

STATEMENTS OF CHANGES IN PENSION OBLIGATIONS
(with comparative figures for the year ended June 30, 2011)
(thousands of dollars)

Years ended June 30

	2012	2011
	$	$
INCREASE IN PENSION OBLIGATIONS		
Interest on accrued benefits	**7,094**	6,947
Benefits accrued	**1,677**	1,827
Assumption changes		4,578
Total increase in pension obligations	**8,771**	13,352
DECREASE IN PENSION OBLIGATIONS		
Benefits paid	**7,123**	6,154
Experience gains	**114**	
Total decrease in pension obligations	**7,237**	6,154
Net increase in pension obligations for the year	**1,534**	7,198
Pension obligations, beginning of year	**116,234**	109,036
Pension obligations, end of year	**117,768**	116,234

See accompanying notes

UNIVERSITY OF TORONTO (OISE) PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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, through the University of Toronto Master Trust ("Master Trust"), are managed by the University of Toronto Asset Management Corporation ("UTAM"), a wholly-owned subsidiary of the University.

b) Funding

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

c) Retirement pensions

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

d) Death benefits

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

e) Escalation of benefits

The pension benefits of retirees are subject to cost of living adjustments equal to the greater of: i) 75% of the increase in the Consumer Price Index in Canada ("CPI") for the previous calendar year to a

maximum CPI increase of 8% plus 60% of the increase in CPI in excess of 8%, or ii) the increase in the CPI for the previous calendar year minus 4%.

2. Summary of significant accounting policies

These financial statements have been prepared by the University in accordance with Canadian accounting standards for pension plans applied within the framework of the significant accounting policies summarized below:

a) Adoption of Canadian accounting standards for pension plans

Effective July 1, 2011, the Plan adopted Section 4600, Pension Plans, of the Canadian Institute of Chartered Accountants' ("CICA") Handbook, on a retrospective basis.

In accordance with Section 4600, Canadian accounting standards for private enterprises in Part II of the CICA Handbook have been chosen for accounting policies that do not relate to the investment portfolio or pension obligations to the extent that those standards do not conflict with the requirements of Section 4600. The selection of Part II of the CICA Handbook had no effect on the accounting policies of the Plan.

As a result of the implementation of the new accounting standards, the "statements of net assets available for benefits" have been renamed the "statements of financial position" and certain information on the pension obligations of the Plan previously disclosed in the notes to the financial statements is now disclosed in a separate "statements of changes in pension obligations".

In satisfying the fair value measurement requirements for investment assets and investment liabilities in Section 4600, the Plan has chosen to early adopt IFRS 13, Fair Value Measurement, in Part I of the CICA Handbook effective July 1, 2010. IFRS 13 has been adopted on a prospective basis as permitted under Section 4600. The early adoption of IFRS 13 had no effect on the accounting policies of the Plan.

In accordance with Section 4600, the Plan presents its investment in the Master Trust in the same manner as an interest in a pooled fund and no longer proportionately consolidates its interest in the Master Trust in the financial statements. As a result of this change in accounting, the Plan's investment income now only includes distributions from the Master Trust instead of the Plan's proportionate share of the investment income from the underlying investments within the Master Trust. There were no distributions from the Plan's investment in the Master Trust in 2012 or 2011. If the Plan were to have proportionately consolidated its share of the Master Trust's investment income, comprised of interest, dividends and other income, the Plan's investment income would have increased by $1.3 million and $1.7 million in 2012 and 2011, respectively, with an equal offset to the increase in the fair value of the investment in the Master Trust. This change in accounting had no effect on the overall investment returns of the Plan.

These changes had no impact on the overall financial position, the overall net change in net assets available for benefits or the overall pension obligations of the Plan for the reporting periods.

Additional disclosures have also been provided in the notes to the financial statements in accordance with Section 4600.

b) Investments and investment income

Investments are carried at fair value. The Plan is invested 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.

Income from investments is recorded on an accrual basis. Distributions from a master trust arrangement are recorded when declared. Changes in fair values, representing realized and unrealized gains and losses, from one year to the next are reflected in the statement of changes in net assets available for benefits.

c) University of Toronto Master Trust

Investments within the Master Trust 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.

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. If quoted closing market prices are not available for bonds, estimated values are calculated using discounted cash flows based on current market yields and comparable securities, as appropriate.

(iii) Investments in pooled funds (other than private investment interests and hedge funds) are valued at their reported net asset value per unit.

(iv) Hedge funds are valued based on the most recently available reported net asset value per unit adjusted for the expected rate of return of the fund through June 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value.

(v) Private investment interests consisting of private equities and real assets are comprised of private externally managed funds with underlying investments in equities, debt, real estate assets and commodities. The investment managers of these interests perform valuations of the underlying investments on a periodic basis and provide valuations periodically. Annual financial statements of the private investment interests are audited and are also provided by the investment managers. The value of the investments in these interests is based on the most recent valuation provided, adjusted for subsequent cash receipts and distributions from the fund and cash disbursements to the fund through June 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value.

(vi) Derivative financial instruments are used to manage particular market and currency exposures for hedging and risk management purposes with respect to the Master Trust's investments and as a substitute for more traditional investments. Derivative financial instruments and synthetic products that may be employed include debt, equity,

commodity and currency futures, options, swaps and forward contracts. These contracts are supported by liquid assets with a fair value approximately equal to the fair value of the instruments underlying the derivative contract.

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

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

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

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

Purchases and sales of investments are recorded by the Master Trust on a trade 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 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) Pension obligations

Pension obligations are determined based on an actuarial valuation prepared by an independent firm of actuaries using an actuarial valuation report prepared for funding purposes. This valuation uses the projected benefits pro-rated on service method and management's best estimate of various economic and non-economic assumptions.

3. University of Toronto Master Trust

On August 1, 2000, the Master Trust was established to facilitate the collective investment of the assets of the University's pension plans. Each pension plan holds units of the Master Trust. The value of each unit held by a plan increases or decreases monthly based on the change in fair value of the

underlying assets of the Master Trust. This value is used as the basis for the purchase and sale of units by the pension plans in the following month.

On May 31, 2011, substantially all of the Master Trust's publicly traded investments were transferred into four new unitized investment pooled funds which are managed by UTAM. The overall investment strategy and risk profile of the Master Trust was not changed as a result of the new pooled funds. The directly held investments of the UTAM pooled funds are considered to be directly held investments of the Master Trust for risk analysis disclosure purposes. As at June 30, 2012, the UTAM pooled funds accounted for 45.0% (2011 - 43.2%) of the Master Trust's investments.

a) Investment in Master Trust
(thousands of dollars)

As at June 30, 2012, the Plan's investment in the Master Trust consisted of 582,420 (2011 – 581,401) of the 19,773,064 (2011 - 19,782,953) outstanding units of the Master Trust. The Plan's investment in the Master Trust was $76,291 (2011 - $75,359) of the total fair value of $2,581,980 (2011- $2,550,968) of the Master Trust.

The investments of the Master Trust and the Plan's investments, if the Plan's investment in the Master Trust had been proportionately consolidated, consisted of the following as at June 30, taking into account certain reclassifications resulting primarily from the allocation of the effect of futures contracts:

	Master Trust		University of Toronto (OISE) Pension Plan	
	2012	2011	**2012**	2011
	$	$	**$**	$
Cash, money market funds, short-term notes and treasury bills	**95,151**	4,820	**2,811**	142
Government and corporate bonds	**641,819**	526,914	**18,965**	15,566
Canadian equities	**430,399**	393,491	**12,717**	11,624
United States equities	**200,492**	363,249	**5,924**	10,731
International equities	**329,942**	435,911	**9,749**	12,877
Hedge funds	**376,719**	313,787	**11,131**	9,270
Private equities	**342,915**	340,483	**10,132**	10,058
Real assets	**161,465**	152,550	**4,771**	4,507
	2,578,902	2,531,205	**76,200**	74,775
Derivative-related net receivable (*note 3(d)*)	**3,078**	19,763	**91**	584
	2,581,980	2,550,968	**76,291**	75,359

These reclassifications at the Master Trust level resulted in $140,627 (2011 - $380,108) of cash, money market funds, short-term notes and treasury bills and nil (2011 - $94,825) of hedge funds being reclassified to Canadian equities of $69,050 (2011 - $35,914), to United States equities of $51,649 (2011 - $320,239), to international equities of $19,374 (2011 - $118,051) and to government and corporate bonds of $554 (2011 – $729).

b) Changes in the Master Trust
(thousands of dollars)

The increase in fair value of the Master Trust was $47,640 (2011 - $296,378) of which the increase in fair value of the Plan's investment was $1,493 (2011 - $10,349). The following table shows the components of the net increase in the net assets of the Master Trust for the years ended June 30:

	2012	2011
	$	$
Increase in fair value		
Interest income		
Government and corporate bonds	**17,493**	18,886
Short-term investments	**2,618**	1,997
Dividend income		
Canadian	**8,763**	7,577
Foreign	**12,947**	20,609
Other income	**213**	853
	42,034	49,922
Net realized and unrealized gains from investments	**5,606**	246,456
Total increase in fair value of the Master Trust	**47,640**	296,378
Cash received on purchase of Master Trust units by pension plans	**183,049**	286,199
Cash paid on redemption of Master Trust units by pension plans	**(199,677)**	(188,151)
Net increase in net assets for the year	**31,012**	394,426
Net assets, beginning of year	**2,550,968**	2,156,542
Net assets, end of year	**2,581,980**	2,550,968

If the Plan had proportionately consolidated its share of the Master Trust, the investment income and changes in fair value of investments for the years ended June 30 would be comprised of the following:

	2012	2011
	$	$
Interest income	**630**	729
Dividend income	**680**	984
Other income	**7**	30
	1,317	1,743
Net realized and unrealized gains from investments	**176**	8,606
	1,493	10,349

c) Individually significant investments
(thousands of dollars)

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

	Fair Value $
Money market funds and treasury bills	
TD Emerald Canadian Treasury Fund	103,391
Government and corporate bonds	
UTAM Canadian Fixed Income Fund	290,830
UTAM Canadian Credit Fund	254,750
Blackrock CDN Credit Screened Bond Index Fund	99,075
Canadian equities	
UTAM Canadian Equity Fund	313,291
Blackrock Canadian Equity Index Fund	47,642
United States equities	
GMO Quality Fund	67,111
UTAM United States Equity Fund	45,295
ValueAct Capital International II Fund	36,435
International equities	
UTAM International Equity Fund	257,683
Blackrock Emerging Markets Alpha Advantage Fund Ltd.	31,712
Hedge funds	
GSA Capital International Fund	29,591
Stratus Capital Management Fund	25,547
Private equities	
Providence VI Fund	26,381

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 as at June 30, 2012 range from July 2012 to September 2012. The notional and fair value amounts of the derivative financial instruments are as follows:

	2012 **$**		2011 $	
	Notional Value	**Fair Value**	Notional Value	Fair Value
Foreign currency forward contracts:				
- United States Dollar	**568,554**	**360**	436,901	3,536
- Other	**263,152**	**(702)**	130,151	734
		(342)		4,270
Equity and commodity index futures contracts:				
- Canadian Dollar	**68,360**	**1,244**	37,895	214
- United States Dollar	**50,388**	**1,736**	320,294	11,612
- Euro	**9,121**	**196**	50,193	1,442
- British Pound Sterling	**5,515**	**46**	25,822	633
- Japanese Yen	**2,335**	**186**	24,834	1,348
- Other	**1,983**	**12**	18,061	244
		3,420		15,493
Total		**3,078**		19,763

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. The investments of the Master Trust are primarily exposed to market risk (which includes foreign currency, interest rate and other 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 other 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 Statement of Investment Policies and Goals. The following are the key components of market risk:

(i) Foreign currency risk

Foreign currency exposure arises from the Master Trust's direct holdings of investments denominated in currencies other than the Canadian dollar. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. To manage foreign currency risk, the currency hedging policy, effective May 1, 2012, is to hedge 75% of developed markets' currency exposures and 0% of emerging markets' currency exposures. Previously, a 50% hedging policy was in place for the Master Trust. The Plan also has an indirect exposure to foreign currency risk to the extent that the Master Trust's direct holdings have underlying investments denominated in foreign currencies.

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

(thousands of dollars)

	2012			2011
	$			$
	Currency Exposure	**Net Currency Hedge**	**Net Currency Exposure**	Net Currency Exposure
United States Dollar	**967,431**	**(568,554)**	**398,877**	550,127
Euro	**176,071**	**(132,085)**	**43,986**	116,204
British Pound Sterling	**64,207**	**(43,571)**	**20,636**	38,057
Japanese Yen	**51,683**	**(40,148)**	**11,535**	44,188
Australian Dollar	**17,134**	**(11,254)**	**5,880**	12,804
Swedish Krona	**8,133**	**(8,505)**	**(372)**	7,258
Swiss Franc	**11,431**	**(15,550)**	**(4,119)**	15,646
Other	**12,241**	**(12,039)**	**202**	14,224
Total	**1,308,331**	**(831,706)**	**476,625**	798,508

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 $47.7 million (2011 - $79.9 million) impact on the foreign currency assets, net of the currency hedges, of the Master Trust.

(ii) Interest rate risk

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

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

(thousands of dollars)

	2012		2011	
Maturity Range	**Fair Value $**	**Weighted Average Yield**	Fair Value $	Weighted Average Yield
0-5 years	**262,070**	**1.96%**	234,868	2.35%
>5 years-10 years	**223,583**	**2.94%**	182,730	3.93%
>10 years	**155,613**	**3.66%**	107,685	4.50%
	641,266	**2.72%**	525,283	3.34%

As at June 30, 2012, for every 1% increase (decrease) in prevailing market interest rates, the fair value of the direct and indirect fixed income holdings in the Master Trust is estimated to decrease (increase) by approximately $42.6 million (2011 - $31.9 million).

(iii) Other price risk

(thousands of dollars)

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

The fair value of these equity investments subject to other price risk is $642,091 (2011 - $714,997). Since all other variables are held constant in assessing other price risk sensitivity, it is possible to extrapolate a 10% absolute change in the fair value to any absolute percentage change in fair value. A 10% absolute change in the fair value of these equity investments which are exposed to price risk is $64,209 (2011 - $71,500).

g) Credit risk
(thousands of dollars)

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

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

	2012		2011	
Credit Rating	**Fair Value $**	**% of Fixed Income Securities**	Fair Value $	% of Fixed Income Securities
AAA	**181,364**	**28.28**	171,633	32.67
AA	**146,376**	**22.83**	134,145	25.54
A	**197,152**	**30.74**	132,634	25.25
BAA and other	**116,374**	**18.15**	86,871	16.54
	641,266	**100.00**	525,283	100.00

h) Liquidity risk

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

i) Fair value hierarchy
(thousands of dollars)

The Plan is required to disclose, for each class of financial instruments, the methods and, when a valuation technique is used, the assumptions applied in determining fair values, through a three-level hierarchy, as of the financial statement date. The three levels are defined as follows:

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

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

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

The following tables present, as at June 30, the level within the fair value hierarchy for each of the financial assets and liabilities held by the Master Trust, excluding cash and cash equivalents of $319,980 (2011 - $162,148) of which $187,854 (2011 - $6,713) relates to the UTAM pooled funds, measured at fair value:

	Level 1 **$**	**Level 2** **$**	**Level 3** **$**	**Total 2012** **$**
Money market funds, short-term notes and treasury bills		**103,652**		**103,652**
Government and corporate bonds		**632,080**		**632,080**
Canadian equities	**116,844**	**155,141**		**271,985**
United States equities	**44,556**	**103,547**		**148,103**
International equities	**116,744**	**105,259**		**222,003**
Hedge funds		**272,959**	**103,760**	**376,719**
Private equities			**342,915**	**342,915**
Real assets			**161,465**	**161,465**
	278,144	**1,372,638**	**608,140**	**2,258,922**
Derivative-related net receivable *(note 3(d))*	**3,420**	**(342)**		**3,078**
	281,564	**1,372,296**	**608,140**	**2,262,000**

	Level 1 $	Level 2 $	Level 3 $	Total 2011 $
Money market funds, short-term notes and treasury bills		229,493		229,493
Government and corporate bonds		522,922		522,922
Canadian equities	192,161	164,017		356,178
United States equities	42,805			42,805
International equities	263,393	52,621		316,014
Hedge funds		243,749	164,863	408,612
Private equities			340,483	340,483
Real assets			152,550	152,550
	498,359	1,212,802	657,896	2,369,057
Derivative-related net receivable *(note 3(d))*	15,493	4,270		19,763
	513,852	1,217,072	657,896	2,388,820

For purposes of the tables above, the fair value hierarchy of the underlying investments of the UTAM pooled funds held by the Master Trust has been disclosed, resulting in investments with a fair value of $278,144 and $690,383 (2011 - $497,872 and $597,599) being classified as Level 1 and Level 2 investments, respectively. The Master Trust's investments in the UTAM pooled funds would be considered Level 2 investments.

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

	2012 **$**	2011 $
Fair value, beginning of year	**657,896**	657,047
Purchases	**80,875**	133,835
Sales	**(124,081)**	(150,062)
Transfer out to Level 2[1]	**(17,077)**	
Total realized losses	**(5,541)**	(6,632)
Total unrealized gains	**16,068**	23,708
Fair value, end of year	**608,140**	657,896

[1]A hedge fund investment was transferred out from Level 3 to Level 2 during the period due to the removal of the redemption restrictions.

j) Hedge funds and private investment interests

The Master Trust invests in certain hedge funds and private investment interests which are comprised of externally managed funds with underlying investments in equities, debt, real estate assets and commodities. Because these investment interests are not readily tradable, their estimated values are subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such interests existed. Sensitivity analysis demonstrates that a 10% absolute change in the fair value of investments in hedge funds and private investment interests would result in a change to the total fair value of these investments of the Master Trust of $88.1 million (2011 - $90.2 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, 2012, approximately 19.5% (2011 - 19.3%) of the Master Trust's investment portfolio is invested in private investment interests managed by third party managers. These private investment interests typically take the form of limited partnerships managed by a General Partner. The legal terms and conditions of these private investment interests, which cover various areas of private equity investments and real asset investments (e.g., real estate and infrastructure), require that investors initially make an unfunded commitment and then remit funds over time (cumulatively up to a maximum of the total committed amount) in response to a series of capital calls issued to the investors by the manager. As at June 30, 2012, the Master Trust had uncalled commitments of approximately $130.3 million (2011 - $162.8 million). The capital committed is called by the manager over a pre-determined investment period, which varies by fund but is generally about three to five years from the date the fund closes. In practice, for a variety of reasons, the total amount committed to a fund is very rarely all called.

4. Employer contributions

The University has made $1.2 million (2011 - nil) in current service cost contributions and $6.0 million (2011 - nil) in additional special payments. The special payments were made to fund the unfunded liability, since the actuarial funding valuation as of July 1, 2011 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:

	2012	2011
	$	$
Cash refund upon termination	**296**	250
Transfers to other plans upon termination	**825**	564
	1,121	814

6. Fees and expenses

(thousands of dollars)

Fees and expenses consist of the following:

	2012	2011
	$	$
Investment management fees:		
External managers[1,2]	**1,061**	992
UTAM[1,3,4]	**143**	123
Pension records administration	**113**	115
Actuarial and related fees	**78**	63
Administration cost - University of Toronto[4]	**55**	49
Trustee and custodial fees[1]	**29**	29
External audit fees	**17**	18
Transaction fees[1,5]	**8**	20
Other fees	**6**	2
	1,510	1,411

[1] Reflect expenses that are directly charged to the Master Trust and are allocated back to the Plan.
[2] Fees for external managers include additional HST costs of $34 in 2012.
[3] The increase in UTAM fees is mainly due to additional HST.
[4] Represent related party transactions.
[5] Transaction fees represent the cost of purchasing and selling investments.

7. Pension obligations

Pension obligations are determined by applying best estimate assumptions agreed to by the University and the projected benefits pro-rated on service method. The pension obligations were determined using an actuarial funding valuation performed as of July 1, 2012 by Aon Hewitt, a firm of actuaries.

Significant assumptions used in the actuarial valuation are as follows:

	2012 **%**	2011 %
Interest rate	**6.25**	6.25
Consumer Price Index	**2.50**	2.50
Salary escalation rate	**4.50**	4.50

8. Capital management

The funding surpluses or deficits determined periodically in funding valuations prepared by an independent actuary are defined as the Plan's capital. The actuary's funding valuation is used to measure the long-term health of the Plan. A funding valuation is required to be filed with the pension regulator at least every three years. The most recently filed valuation was as at July 1, 2011 which disclosed an unfunded actuarial liability of $40.0 million on a going concern basis and a deficit of $46.2 million on a solvency basis. The next required actuarial funding valuation to be filed with the regulator must be at a date no later than July 1, 2014, absent of any changes that would trigger a valuation in the interim.

The objective of managing the Plan's capital is to ensure the Plan is funded to fully pay the benefits over the long term. The University changes contribution levels and negotiates with the various employee groups to change member contribution levels to meet the ongoing funding of the Plan and makes special contributions to eliminate any deficits, all subject to meeting regulatory requirements. In addition, the University of Toronto Pension Master Trust Statement of Investment Policies and Goals provides guidance with respect to the investment of the Plan's assets in order to assist with the management of any funding surpluses or deficits. Contributions to the Plan have complied with all regulatory funding requirements in respect of the reporting periods.

9. Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2012 financial statements.