Appendix B
Report #104 of the
Business Board

UNIVERSITY OF TORONTO

Report of the President's Investment Committee to the President and the Business Board For the Year Ended December 31, 1999

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University of Toronto

Report of the President's Investment Committee to the President and the Business Board For the Year Ended December 31, 1999

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EXECUTIVE SUMMARY

The executive summary provides an overview of funds under management by the President's Investment Committee.

ASSETS UNDER MANAGEMENT

The university's ***total assets*** under management are shown below as at December 31, 1999 and 1998.

Market Value of Assets ($ Millions)

	University Funds			Pension Funds		Total Assets
Year End	EFIP[1]	Specific[2]	CIP[3]	UT Pension	OISE	
December 31, 1999	**307.8**	**40.1**	**1,217.9**	**2,136.4**	**101.9**	**3,804.1**
December 31, 1998	275.4	40.1	996.3	1,967.5	94.7	3,374.0
Change	$ 32.4	$ 0.0	$ 221.6	$ 168.9	$ 7.2	$ 430.1

1. *Expendable Funds Investment Pool: short/medium-term funds, pooled for investment.*
2. *Specifically invested funds: medium/long-term endowed and expendable funds, not pooled due to conditions of trust.*
3. *Consolidated Investment Pool: long-term/permanent endowed and other funds, pooled for investment.*

Total assets under management as at December 31, 1999 of $3,804.1 million, represents an increase in of 12.7% over the previous year.

The CIP as at December 31, 1999 is composed of the following:

Type of Assets	$ Mil
Endowed Funds	$1,073.3
Expendable Funds (EFIP)	67.3
Supplementary Retirement Arrangement (SRA)	67.9
Other Non-Endowed Funds	9.4
Consolidated Investment Pool (CIP)	$1,217.9

The ***market value of endowments*** contained in the CIP was $1,073.3 million as at December 31, 1999, or 88.1% of the fund. Specifically-invested endowments, excluded from the CIP, had a market value of $10.5 million. The total market value of endowments invested as at December 31, 1999 was $1,083.8 million, an increase of 20.3% over the December 31, 1998 value of $900.4 million. This endowment figure does not include the University of Toronto Federated Universities – Victoria University, Trinity College and University of St. Michael's College - which were together $163.9 million as at December 31, 1999.

PERFORMANCE

Rates of return for the ***four-year annualized*** and ***one-year annual*** measurement periods ended December 31, 1999 are reported below for the CIP, pension and OISE pension funds.

Total Returns for Periods Ended December 31, 1999

		Rates of Return		
Period		CIP %	Pension %	OISE %
4 Years	**Fund return, Annualized**	**15.5**	**13.2**	**11.9**
	Objective (a) - Real return	6.6	5.6	5.6
	Objective (b) - Benchmark return	16.0	14.6	14.6
1 Year	**Fund return, Annual**	**14.6**	**12.9**	**13.1**
	Objective (a) - Real return	7.6	6.6	6.6
	Objective (b) - Benchmark return	17.0	15.0	15.0

CONSOLIDATED INVESTMENT POOL

The **Consolidated Investment Pool (CIP),** $1,218 million as at December 31, 1999, consists of the university's endowed and other funds of a permanent or long-term nature. The policy rate of return objectives for the CIP are to exceed over four-year annualized periods (a) the increase in the Consumer Price Index (CPI) plus 5%, and (b) the composite benchmark return of 40% Canadian equity, 15% US equity, 15% non-North-American (NNA) equity, and 30% bonds.

For the ***four years*** ended December 31, 1999, the **CIP** return was **15.5%.** The fund return was:

- Greater than objective (a) - *the increase in the CPI index plus 5%* - by 8.9%.
- Less than objective (b) - *the benchmark return* - by 0.5%.

For the ***one year*** ended December 31, 1999, the **CIP** return was **14.6%.** The fund return was:

- Greater than objective (a) - *the increase in the CPI index plus 5%* - by 7.0%.
- Less than objective (b) - *the benchmark return* - by 2.4%.

Comparatively, the CIP's four-year performance ranked in the top quartile (13th percentile) of balanced funds in a universe measured by SEI. The one-year performance ranked in the second quartile (34th percentile). A return above the median (50th percentile rank) indicates the fund as a whole has outperformed the majority of its peers.

Active investment managers are hired based on their investment style and demonstrated ability to outperform over longer periods. The committee has selected domestic and international equity managers with predominantly value styles, balanced with allocations to growth and small capitalization stocks. During 1999, the value style was out of favour in the markets, as it had also been in 1998. Canadian and US active equity managers as a group underperformed the TSE 300 and S&P 500 indexes. The active NNA equity managers as a group outperformed the MSCI EAFE index by a wide margin.

Passive portfolios track benchmark indexes and are assigned to index managers. Individually, the passive mandates successfully tracked their respective indexes with minimal dispersion. However, two passive portfolios, mandated to track certain equity and bond indexes that were not among those composing the policy benchmark, were responsible for the negative passive effect during 1999.

Tactical decisions to over or underweight asset categories relative to the policy benchmark weights are decided by the committee for implementation over one-year horizons. Tactical choices are based on capital markets expectations given the committee's outlook on macroeconomic variables and country-specific risk over the ensuing calendar year. Decisions implemented in 1999 were to underweight Canadian equity and overweight US equity, NNA equity and long bonds versus the policy benchmarks.

The CIP's total fund passive exposure was 55% at the beginning of 1999 and rose to 74% by December 31, 1999. The increase in passive exposure helped to curb the negative effects of active management that were largely deriving from an unusual market dynamic in North America. In an environment where the advances in the TSE 300 and S&P 500 were dominated by a very small number of large capitalization stocks, the index proved the right place to be.

The Canadian ***currency*** appreciated against most global currencies during 1999. This contributed to the success of two synthetic equity mandates managed on a currency-hedged basis.

Interest rates rose during 1999 reflecting inflation concerns. Bond prices and returns suffered accordingly, particularly at the long end of the term structure.

PENSION AND OISE PENSION FUNDS

The **pension fund**, $2,136 million as at December 31, 1999, represents the invested assets of the University of Toronto Pension Plan. The **OISE pension fund**, $102 million as at December 31, 1999, represents the invested assets of the University of Toronto OISE Pension Plan. The policy rate of return objectives, for both pension funds, are to exceed over four-year annualized periods (a) the increase in the CPI plus 4%, and (b) the composite benchmark return of 40% Canadian equity, 10% US equity, 10% NNA equity, and 40% bonds.

For the ***four years*** ended December 31, 1999, the **pension fund** return was **13.2%** and was:

- Greater than objective (a) - *the increase in the CPI index plus 4%* - by 7.6%.
- Less than objective (b) - *the benchmark return* - by 1.4%.

For the ***one year*** ended December 31, 1999, the **pension fund** return was **12.9%** and was:

- Greater than objective (a) - *the increase in the CPI index plus 4%* - by 6.3%.
- Less than objective (b) - *the benchmark return* - by 2.1%.

Comparatively, the pension fund's four-year performance ranked just under the median near the top of the third quartile (54th percentile), of funds measured in a universe of balanced funds by SEI. The one-year performance ranked in the second quartile (44th percentile).

For the ***four years*** ended December 31, 1999, the **OISE pension** return was **11.9%** and was:

- Greater than objective (a) - *the increase in the CPI index plus 4%* - by 6.3%.
- Less than objective (b) - *the benchmark return* - by 2.7%.

For the ***one year*** ended December 31, 1999, the **OISE pension** return was **13.1%** and was:

- Greater than objective (a) - *the increase in the CPI index plus 4%* - by 6.5%.
- Less than objective (b) - *the benchmark return* - by 1.9%.

Active investment managers and passive portfolios produced effects in the pension funds corresponding to those described above for the CIP.

During 1999, the ***tactical*** decision to overweight US and NNA equities and underweight Canadian equity resulted in the fund's foreign exposure being raised from 20% to 30%. Since Revenue Canada assesses a punitive tax on the amount of foreign investment capital in excess of 20%, the new exposures were achieved through synthetic equity mandates classified as Canadian content.

Passive management was increased in 1999. Over the year, the pension fund passive exposure rose from 67% to 72% while the OISE pension fund's passive exposure moved from 70% to 72% of total fund. The increased passive exposures served to ease the impact of active manager underperformance.

February 2000

1.0 INTRODUCTION

This report on the University of Toronto investments for the year ended December 31, 1999 is prepared in accordance with article 2 (i) of the terms of reference of the President's Investment Committee (PIC). The report will address:

i). investment performance as measured against the rate-of-return objectives and benchmarks established in the investment policies, and the reasons for the results;

ii). portfolio risk compared to the risk tolerances established in the investment policies;

iii). the costs for managing each fund; and

iv). the committee's investment decisions.

2.0 KEY DECISIONS

There were no material amendments to the investment policies in 1999.

Strategic decisions made by the committee during the year were:

- At the February 15, 1999 PIC meeting, it was agreed that a search for an additional active NNA equity manager would be undertaken for the two pension funds. At the June 7, 1999 PIC meeting, Murray Johnstone International was appointed to manage $50 million.
- At the September 13, 1999 PIC meeting, it was agreed that proceeds from the termination of an active Canadian equity mandate would be allocated to a TSE 300 indexed portfolio. It was also decided that pension and CIP assets removed from two active US equity managers would be reallocated to an S&P 500 indexed portfolio.
- At the October 29, 1999 PIC meeting, it was agreed that no changes would be made to the long-term asset mixes for the pensions and CIP. It was also decided that services of a third active US equity manager would be terminated and the funds transferred to an S&P 500 index fund.
- At the December 13, 1999 PIC meeting, the committee set the tactical asset mixes for the performance year 2000. The tactical mix for the pension funds is 30% Canadian equities, 15% US equities, 20% NNA equities and 35% bonds. The tactical mix for the CIP is 30% Canadian equities, 20% US equities, 20% NNA equities and 30% bonds. It was also decided that the segment tracking the SC Long Term Bond index would be reallocated to the SC Universe Bond index.

At the June 7, 1999 PIC meeting, the committee decided to engage the firm of Portfolio Analytics Ltd., now Morningstar Canada Inc., to provide a customized value-at-risk analysis for the CIP and pension funds. The new analysis, currently under development, examines the levels of relative return at risk for each fund based on asset exposures, differentials to tactical and policy asset mixes, and manager selection.

3.0 CONSOLIDATED INVESTMENT POOL (CIP)

3.1 CIP - Rate of Return Objectives

The policy rate of return objectives for the CIP are, over four-year periods, to (a) achieve a four-year annualized return of at least five percentage points more than the increase in the Consumer Price Index and (b) exceed the four-year annualized return of a benchmark composed of standard market indexes. The policy benchmark is presented in section 3.5.

Fund return and fund risk must necessarily be considered together in the determination of the appropriate asset mix required to generate a return sufficient to meet the fund's liabilities. The four-year period is a reasonable horizon and an accepted industry standard over which to measure returns and to manage the returns volatility that is normal to capital markets and the investment of long-term funds.

3.2 CIP - Fund Assets and Returns Comparisons

The CIP's year-end asset allocation and returns for the periods ended December 31, 1999 are reported below.

	December 31, 1999		Annualized Rates of Return	
CIP Assets	Market Value $Mil	Weight %	One Year %	Four Years %
Canadian Equity	$ 400.8	32.9	244	15.5
U.S. Equity	247.2	20.3	7.4	NA
NNA Equity	250.0	20.5	37.9	NA
Fixed Income	319.9	26.3	-2.1	6.8
Total Fund	**$1,217.9**	**100.0** %	**14.6**	**15.5**
Rate of Return Objectives				
(a) Consumer Price Index plus 5%			7.6	6.6
(b) Benchmark return			**17.0**	**16.0**
Fund variance to benchmark			**- 2.4**	**- 0.5**

The real rate of return objective of 5%, nominally 7.6% for one year and 6.6% for four years, was easily surpassed by the one-year and four-year performances, the product of an ongoing low-inflation environment. The CIP's performance on a relative basis fell short of the benchmark return over the one-year period by 2.4% and over the four-year period by 0.5%.

The factors affecting the 1999 performance are examined in section 3.6 of this report.

3.3 CIP - Comparative Performance

Comparative measurement services are provided by a consultant, SEI Inc. The CIP return is measured and its relative rank determined within a universe of balanced funds. The results of the universe comparison provide additional information for performance evaluation.

For the twelve-month period ended December 31, 1999 the CIP total rate of return of 14.6% ranked in the second quartile (34th percentile) relative to the median balanced fund return of 11.3% (50th percentile). For the four years ended December 31, 1999 the CIP had an annualized total rate of return of 16.0% and ranked in the top quartile (13th percentile) compared to the median balanced fund return of 13.5%.

Schedule 4 appended to this report shows the annual rates of return and the fund rankings for the past 10 years as measured by SEI. Schedule 5 shows the annualized rates of return and rankings for the past 10 years.

3.4 CIP - Portfolio Risk

The perpetual nature of endowments presents an extremely long time horizon for investment purposes allowing the CIP to assume a moderately-high to high degree of risk. The corresponding level of acceptable investment risk stated in the policy is within a range of 60% to 80% equity. The normal long-term asset mix is set at 70% equity and 30% debt and is prescribed to achieve the high real return needed for the CIP within tolerable levels of returns volatility. The level of risk determined to be suitable for the investments incorporates the need for a sustainable real spending rate. The payout formula has been set to stabilize the spending rate over time by using a four-year moving average market value. It is consistent with the fund's rate of return objectives and preservation of capital policy.

The central objective of endowed assets management is to protect the corpus from inflation and to produce a spending stream that provides consistent purchasing power to the beneficiaries over a very long time horizon.

3.5 CIP - Asset Mix

The CIP's average asset weights during 1999 are reported in the table below together with the policy benchmark and tactical asset mix weights. The policy benchmark is a four-year annualized return objective, while the tactical asset mix is devised to take advantage of the committee's expectations for various asset classes over a shorter horizon, generally one year. The table displays the rates of return for the standard market indexes that composed the policy benchmark, alongside the reference weights for each asset class.

		Index Annualized Returns		CIP Asset Weights		
Asset Class	Index	1999 %	1996-99 %	Policy %	Actual %	Tactical %
Canadian Equity	TSE 300	31.7	17.6	40.0	31.8	32.5
US Equity	S&P 500	13.9	28.2	15.0	20.8	20.0
NNA Equity	MSCI EAFE	20.0	15.0	15.0	18.8	17.5
Bonds	SC Universe	-1.1	7.4	30.0	28.6	30.0
				100.0 %	100.0 %	100.0 %

During 1999, the TSE 300 was the best performing index followed by the MSCI EAFE index, then the S&P 500 index. The Scotia Capital (SC) Universe Bond index fell into negative territory reflecting the effect of rising interest rates on fixed income assets.

3.6.0 CIP - Performance Evaluation

Fund performance for the CIP is compared to the policy benchmark via an attribution analysis performed by Morningstar Canada Inc., formerly Portfolio Analytics Limited, a consultant specializing in performance measurement. The analysis is designed to quantify the effects on total fund performance of certain committee decisions and other factors. The summary results of Morningstar's 1999 policy implementation analysis, tabled below, present an evaluation of asset allocation and manager selection within the CIP. The individual effects are detailed in the Sections 3.6.1 through 3.6.5.

The nominal values for each of the below effects do not translate directly to percentage points gained or lost. The policy implementation analysis measures the differential return between the fund and the benchmark return on a proportional basis, then attributes it to the key decisions types. A key feature of the analysis is that it measures in simple standardized percentages so that the magnitudes of each effect can be compared or linked among the decision types and across time. This comparability is important for providing explanatory content which can be used toward improving future prospects for the funds.

Effects:	Tactical Asset Mix	- 0.96
	Asset Weighting	+ 0.17
	Active Management	- 1.50
	Passive	- 0.53
	Currency Hedging	+ 0.80
	Total Plan Management, 1999	- 2.03

The total plan management effect for 1999 was negative (-2.03), the causes for which are described in the following sections.

3.6.1 CIP - Tactical Asset Mix Effect

Tactical asset mix had a negative (-0.96) effect during 1999. The analysis measured the contribution of the committee decisions to overweight or underweight asset categories relative to the policy benchmark. Tactical underweighting of Canadian equities had greatest negative impact during the final quarter of 1999 when the Canadian equity index rose dramatically, driven largely by two large-cap technology stocks, Nortel and BCE. Tactical overweighting of US equities had a small negative impact over the year. Tactical overweighting of NNA equities, the second best performing asset category during 1999, was positive. However, the relatively small NNA equity overweighting (+2.5%) compared to the more significant Canadian equity underweighting (-7.5%) more than offset the positive effect of that decision.

3.6.2 CIP - Asset Weighting Effect

Asset weighting had a positive (+0.17) effect in 1999. This measure captures the extent and timing of actual asset weight deviations from the tactical asset weights. There are various causes for deviation from the tactical mix including the performance of the asset classes themselves; for example, the most recent overperformers tend to become overweighted. The timing of rebalancing activity with respect to market volatility also affects asset weights. During 1999, the average monthly weights in US and NNA equities were slightly over, while the fixed income weight was slightly under the tactical weights established by the committee.

3.6.3 CIP - Active Management Effect

Active management had a negative effect (-1.50) during 1999. Active managers' underperformance versus the indexes was the chief reason the fund failed to meet the policy and tactical benchmarks. Canadian and US active equity managers deeply underperformed the TSE 300 and S&P 500 indexes while NNA equity managers greatly outperformed the MSCI EAFE index.

In the second half of 1999, the performance of active Canadian equity managers as a group began to diverge from the returns of passive managers that held the TSE 300 index. The influence of two stocks, Nortel and BCE, caused significant challenges for the Canadian investment community during 1999 and was the subject of much media attention. Nortel Networks (a provider of internet hardware) and BCE (a communications conglomerate and major stakeholder in Nortel) made up 27.7% of the TSE 300 index market capitalization as at December 31, 1999. Together, they were responsible for 72.2% of the 1999 total return of the TSE 300 index (31.7%).

Several of the CIP's Canadian equity managers held no Nortel and BCE or were underexposed versus their policy weight. These active decisions prevented the CIP from having maximum exposure to the best-performing companies in the market. The shortfall arising from the underexposure has raised questions about the processes that the managers employ to meet their performance objectives. On one hand, active Canadian equity managers were subject to exposure constraints for individual securities and in many cases were limited to less than index weights in the two powerhouses; the constraints are specified in the fund policy and are in line with prudent diversification rules overseen by industry regulators. On the other hand, risk from underexposure to significant index components was a major concern in 1999 as those managers that held less than the maximum permissible weighting in Nortel and BCE were with few exceptions subject to particularly low returns. The matter of risk from underexposure is under examination; periods of longer than one year are needed to properly gauge the success of a manager's investment strategies and whether the risks that were assumed were appropriate.

3.6.4 CIP - Passive Effect

The passive effect was negative (-0.53) during 1999 due to the underperformance of the passively managed long-term bond exposure compared to the Scotia Capital Universe Bond index. During a period of rising interest rates, long bonds because of their duration (risk) characteristics declined more in value than the broad bond market. The exposure to long bonds, a tactical decision made in 1997, was the principal cause of the passive effect being negative. A smaller negative contribution was generated by the benchmark shortfall of an S&P 400 Midcap index mandate compared to the S&P 500.

Passive managers are assigned to emulate specified market indexes and as a group had a small tracking error across all asset classes. Tracking error is the product of the deviations in the return produced by the passive portfolios compared to their indexes. Variances between actual returns and the indexes may occur over short runs but tracking error trends to zero over multiple periods. Deviations can be attributed both to manager skill and the timing of cash flows in and out of a manager's account; the latter tends to have a more significant impact.

3.6.5 CIP - Currency Hedging Effect

The currency hedging effect was positive (+0.80) during 1999. This indicated that the hedging of two mandates (8% of total fund) to the Canadian dollar, during a time when the Canadian dollar was generally appreciating against the basket of world currencies represented in the EAFE index and against the US dollar, served to enhance the return of a synthetic NNA equity and a synthetic US equity mandate.

3.7 CIP - Investment Expense

Investment expense includes the costs for management, custody and administration. Expenses amounted to $2.6 million during calendar 1999, as shown in section 3.11. This sum excludes $0.4 million of fees charged direct by managers of two pooled funds. Total investment expense for 1999 was $3.0 million, a fund expense ratio of 28 basis points on the average market value.

3.8 CIP - Management

Changes to the investment mandates that took place during 1999 were:

- One active Canadian equity mandate that had represented 8% of total fund was terminated.
- Three active U.S. equity mandates that had together represented 13% of total fund were terminated.
- One investment manager assignment was split into two separate mandates for administrative tracking purposes. No change was made to the underlying synthetic exposures to the S&P 400 (mid-cap index) and the S&P 500 (large cap index).

In all, 1 new mandate was assigned, 4 were terminated, and 15 manager mandates including 2 real estate partnership exposures continued without change. At the end of 1999, 17 individual mandates and 11 separate managers were employed by the CIP compared to 20 mandates and 14 managers at the end of 1998.

3.9.0 CIP - Guideline Strategies

The PIC has established guidelines to address a broad range of issues. These include the (1) active/passive split appropriate to the equity and bond segments, (2) treatment and monitoring of foreign currency exposure, and (3) management of bonds. Guidelines are reviewed annually by PIC and are described below.

3.9.1 CIP - Active/Passive Strategy

The policy's investment philosophy states that the fund will normally have a mix of active and passive management. Active mandates are awarded to investment managers that have demonstrated skill and a track record of outperforming the index over the medium to long term. Passive mandates are assigned to replicate the return of a market index. Fee savings accrue due to the non-discretionary nature of the indexing strategy. The university has been able to achieve economies of scale by assigning multiple indexed mandates to a small number of passive managers. The proportion of each asset class assigned to track the index reflects the committee's view on efficiencies in the various world equity markets, the probability of skilled managers outperforming a particular index, and the outlook for securities composing the index.

The guideline active/passive splits by asset category and on a total fund basis for the CIP are shown below:

	Active	Passive
Canadian Equity	70%	30%
US Equity	30%	70%
NNA Equity	70%	30%
Bonds	0%	100%
Total Fund	**41%**	**59%**

3.9.2 CIP - Currency Strategy

The committee does not view currencies as a separate asset class since the returns to foreign exchange have on average been zero over long periods. Active currency management may be conducted in anticipation of major currency realignments.

3.9.3 CIP - Bonds Strategy

The fixed income segment is normally (1) invested in domestic bonds; (2) passively invested, tracking a bond index or indexes; (3) at least fifty percent invested in the universe, or broad-market, index to ensure a portfolio well-diversified by maturity date and issuer; and (4) risk controlled with its duration maintained in the range of 2.0 to 8.0 years. The committee may implement structured strategies, such as immunization, cash flow matching or horizon matching, and active strategies, such as interest rate anticipation, credit spread and duration tilts.

3.10 CIP - Payout Policy

The university's payout policy is to distribute 5% of a four-year moving average of the CIP unit market value annually to CIP unit holders. The moving-average formula smoothes the effects of market volatility producing a stabilized income stream that is reasonably expected to increase over time with the market value of the fund assets. For the fiscal year ending April 30, 2000, this will amount to a payout per unit of $8.33, an increase of 9.6% over the $7.60 per unit distributed in the fiscal year ended April 30, 1999.

3.11 CIP - Change in Market Value

The market value as at December 31, 1999 was $1,217.9 million compared to $996.3 million one year earlier, an increase of $221.6 million, or 22.2%. The change in market value is analysed below.

	Increase (Decrease) *$ Million*
Investment Gains	
Realized Gain on Sale of Securities	$ 77.5
Unrealized Market Appreciation	29.5
Investment Income Earned	48.4
Total Investment Gains	155.4
Less Disbursements	
Investment Expense	(2.6)
Endowed Purposes	(47.0)
Total Disbursements	(49.6)
Net Investment Gains	105.8
New Capital	115.8
Total Increase in Market Value	$ 221.6

4.0 EXPENDABLE FUNDS INVESTMENT POOL (EFIP)

As at December 31, 1999, EFIP assets were allocated among:

1) High quality money market instruments.
2) Passive bond funds, tracking equal-weighted SC Short Term and Mid Term Bond indexes.
3) Units in the CIP, subject to its asset mix of 30% bonds and 70% equity.

Total EFIP assets were $375.1 million as at December 31, 1999 of which $307.8 million was invested in fixed income and $67.3 million in units of the CIP. The fund assets and one-year rates of return by asset category at the end of 1999 were:

	December 31, 1999		Rates of Return
	Market Value	Weight	One Year
Asset Category	$Mil	%	%
30-day T-Bills	$ 91.5	24.4	4.6
Short Term/Mid Term Bonds	216.3	57.7	0.2
CIP (70% equity)	67.3	7.9	14.6
Total Fund	**$375.1**	**100.0** %	

Expendable funds sufficient to meet the university's liquidity needs over a minimum three-month time horizon were held in Treasury Bills and high quality short-term issues. Investments for this portion historically have been managed internally. In mid 1999, a short-term mandate was assigned to an external manager on the bases of enhanced return and high liquidity features available through a large pool of diversified cash equivalents.

The allocation to Short Term/Mid Term bonds represented funds that were not required in the near term. The longer duration of these investments requires that cash flows be minimized for proper safeguarding of the capital over a medium horizon. During 1999, the Short/Mid bonds underperformed 30-day T-Bills due to rising interest rates. During the fourth quarter, the exposure to this segment was eased in favour of increasing the proportion held in the short-term mandate.

A portion of EFIP is available for investment over a multiple-year horizon. This small segment is therefore designated as able to assume additional risk to enhance the overall EFIP return and has been invested in units of the CIP.

5.0 SPECIFICALLY INVESTED FUNDS

Total specifically invested funds had a market value of $40.1 million as at December 31, 1999, and were composed as follows:

	$ Mil
Bahen Designated Fund	0.9
Long Term Disability Fund	23.6
Internally Managed Specific Fund	15.6
	$40.1

The Bahen Designated Fund is a university endowment managed by a specified external manager at the donor's request. The university's long-term disability insurance assets are invested in a balanced fund mandate with an external manager. The internally-managed specific funds are made up of endowed and expendable funds which cannot be pooled for investment due to constraints or conditions of each trust. There are 33 specific accounts, including 16 that are endowed and have market values greater than $100,000. Overall, 87% of the specific account assets are held in fixed income securities, mostly government issues. The performance of these accounts is not measured against a university benchmark since the security selection is not discretionary by the terms of the individual trusts.

6.0 PENSION FUND

6.1 Pension - Rate of Return Objectives

The policy rate of return objectives for the pension fund are, over four-year periods, to (a) achieve a four-year annualized return of at least four percentage points more than the increase in the Consumer Price Index and (b) exceed the four-year annualized return of a benchmark composed of standard market indexes. The policy benchmark is presented in section 6.5.

Fund return and fund risk must necessarily be considered together in the determination of the appropriate asset mix required to generate a return sufficient to meet the fund's liabilities. The four-year period is a reasonable horizon and an accepted industry standard over which to measure returns and to manage the returns volatility that is normal to capital markets and the investment of long-term funds.

6.2 Pension - Fund Assets and Returns Comparisons

The pension fund's asset allocation and returns for the periods ended December 31, 1999 are reported below.

	December 31, 1999		Annualized Rates of Return	
Pension Fund Assets	Market Value $Mil	Weight %	One Year %	Four Years %
Canadian Equity	$ 684.6	32.0	25.4	16.3
U.S. Equity	312.9	14.7	12.1	NA
NNA Equity	378.4	17.7	31.9	NA
Fixed Income	760.5	35.6	-2.4	6.2
Total Fund	**$2,136.4**	**100.0** %	**12.9**	**13.2**
Rate of Return Objectives				
a) Consumer Price Index plus 4%			6.6	5.6
b) Benchmark return			**15.0**	**14.6**
Fund variance to benchmark			**- 2.1**	**- 1.4**

The real rate of return objective of 4%, nominally 6.6% for one year and 5.6% for four years, was easily surpassed by the one-year and four-year performance, the product of an ongoing low-inflation environment. The pension fund performance on a relative basis fell short of the benchmark return over the one-year period by 2.1% and over the four-year period by 1.4%.

The factors affecting the 1999 performance are examined in section 6.6 of this report.

6.3 Pension - Comparative Performance

Comparative measurement services are provided by a consultant, SEI Inc. The pension fund return is measured and its relative rank determined within a universe of balanced funds. The results of the universe comparison provide additional information for performance evaluation.

For the twelve-month period ended December 31, 1999 the pension fund total rate of return of 12.9% ranked in the second quartile (44th percentile) relative to the median balanced fund return of 11.3%

(50th percentile). For the four years ended December 31, 1999 the pension fund had an annualized total rate of return of 13.2% and ranked in the third quartile (54th percentile) compared to the median balanced fund return of 13.5%.

Schedule 6 appended to this report shows the annual rates of return and the fund rankings for the past 10 years as measured by SEI. Schedule 7 shows the annualized rates of return and rankings for the past 10 years.

6.4 Pension - Portfolio Risk

The duration of pension plan liabilities indicates the length of the investment horizon and is the key determinant of acceptable investment risk. The university-wide pension plan had a duration of liabilities of 13.6 years at June 30, 1999, as valuated by the actuaries, Hewitt Associates.

The pension plan is relatively mature; retiree liabilities currently represent over 48% of the total plan. The duration of plan liabilities increased during 1999, after a decline in 1998 due to amended actuarial assumptions.

Assessing portfolio risk includes measuring the magnitude and direction of fund cash flows. The participants' contribution holiday continues until June 30, 2001; in combination with the university's own contribution holiday, net negative outflows have been taking place at a rate of $6 million per month over the past several years. The contribution holidays have been possible due to the ongoing plan surplus. However, future fund surplus will depend on both the cash flows, which turned negative in 1998, investment return and risk tolerance. The university and investment committee recognize both the maturity of the fund and the benefits of maintaining the surplus, demands which produce opposing investment objectives since the relative maturity of the plan would call for lower risk while higher return is desired to extend the surplus. The policy's normal range of 30-50% debt and 50-70% equity asset mix continues to offer the appropriate balance to these two important considerations.

6.5 Pension - Asset Mix

The pension fund's average asset weights during 1999 are reported in the table below together with the policy benchmark and tactical asset mix weights. The policy benchmark is a four-year annualized return objective, while the tactical asset mix is devised to take advantage of the committee's expectations for various asset classes over a shorter horizon, generally one year. The table displays the rates of return for the standard market indexes that composed the policy benchmark, alongside the reference weights for each asset class.

		Index Annualized Returns		Pension Asset Weights		
Asset Class	Index	1999 %	1996-99 %	Policy %	Actual %	Tactical %
Canadian Equity	TSE 300	31.7	17.6	40.0	30.5	30.0
U.S. Equity	S&P 500	13.9	28.2	10.0	15.6	15.0
NNA Equity	MSCI	20.0	15.0	10.0	14.8	15.0
Bonds	SC Universe	-1.1	7.4	40.0	39.1	40.0
				100.0 %	100.0 %	100.0 %

During 1999, the TSE 300 was the best performing index followed by the MSCI EAFE index, then the S&P 500 index. The SC Universe Bond index fell into negative territory reflecting the effect of rising interest rates on fixed income assets.

6.6.0 Pension - Performance Evaluation

Fund performance for the pension fund is compared to the policy benchmark via an attribution analysis performed by Morningstar Canada Inc., formerly Portfolio Analytics Limited, a consultant specializing in performance measurement. The analysis is designed to quantify the effects on total fund performance of certain committee decisions and other factors. The summary results of Morningstar's 1999 policy implementation analysis, tabled below, present an evaluation of asset allocation and manager selection within the pension fund. The individual effects are detailed in the Sections 6.6.1 through 6.6.5.

The nominal values for each of the below effects do not translate directly to percentage points gained or lost. The policy implementation analysis measures the differential return between the fund and the benchmark return on a proportional basis, then attributes it to the key decisions types. A key feature of the analysis is that it measures in simple standardized percentages so that the magnitudes of each effect can be compared or linked among the decision types and across time. This comparability is important for providing explanatory content which can be used toward improving future prospects for the funds.

<u>Effects:</u>	Tactical Asset Mix	- 1.20
	Asset Weighting	+ 0.48
	Active Management	- 0.82
	Passive	- 0.63
	Currency Hedging	+ 0.29
	Total Plan Management, 1999	- 1.88

The total plan management effect for 1999 was negative (-1.88), the causes for which are described in the following sections.

6.6.1 Pension - Tactical Asset Mix Effect

Tactical asset mix had a negative (-1.20) effect during 1999. The analysis measured the contribution of the committee decisions to overweight or underweight asset categories relative to the policy benchmark. Tactical underweighting of Canadian equities had greatest negative impact during the final quarter of 1999 when the Canadian equity index rose dramatically, driven largely by two large-cap technology stocks, Nortel and BCE. Tactical overweighting of US equities had a small negative impact over the year. Tactical overweighting of NNA equities, the second best performing asset category during 1999, was positive. The positive effect from the NNA overweighting of +5.0% did not offset the more significant Canadian equity underweighting of -10.0%.

6.6.2 Pension - Asset Weighting Effect

Asset weighting had a positive (+0.48) effect in 1999. This measure captures the extent and timing of actual asset weight deviations from the tactical asset weights. There are various causes for deviation from the tactical mix including the performance of the asset classes themselves; for example, the most recent overperformers tend to become overweighted. The timing of rebalancing activity with respect to market volatility also affects asset weights. During 1999, the average monthly weights in Canadian and US equities were slightly over and the fixed income weight slightly under the tactical weights established by the committee.

6.6.3 Pension - Active Management Effect

Active management had a negative effect (-0.82) during 1999. Active managers' underperformance versus the indexes was the chief reason the fund failed to meet the policy and tactical benchmarks. Canadian and US active equity managers deeply underperformed the TSE 300 and S&P 500 while NNA equity managers greatly outperformed the MSCI EAFE index. See section 3.6.3 for additional detail.

6.6.4 Pension - Passive Effect

The passive effect was negative (-0.63) during 1999 due to the underperformance of the passively managed long-term bond exposure compared to the Scotia Capital Universe Bond index. During a period of rising interest rates, long bonds because of their duration (risk) characteristics declined more in value than the broad bond market. It was the exposure to long bonds, a tactical decision made in 1998, that caused the magnitude of the negative effect since the divergent long bond segment, though tracing its respective long bond index, was measured against the Universe bond index. See section 3.6.4 for detail on passive manager responsibility.

6.6.5 Pension - Currency Hedging Effect

The currency hedging effect was positive (+0.29) during 1999. This indicated that the hedging of one mandate (2 % of total fund) to the Canadian dollar, during a time when the Canadian dollar was generally appreciating against the basket of world currencies represented in the EAFE index, served to enhance the return of a synthetic NNA equity mandate.

6.7 Pension - Investment Expense

Investment expense includes the costs for management, custody and administration. The expenses, billed to the fund as shown in Section 6.9 of this report, were $3.7 million. This amount excluded $0.4 million of fees charged direct by the manager of one pooled fund. The total investment expense for 1999 of $4.1 million represented a cost of 21 basis points of the average market value of the fund.

6.8 Pension - Management

Changes to the investment mandates that took place during 1999 were:

- One active Canadian equity mandate that had represented 7% of total fund was terminated.
- One active US equity mandate that had represented 4% of total fund was terminated.
- One passive synthetic US equity mandate was assigned, representing 8% of total fund.
- One active NNA equity mandate was assigned, representing 3% of total fund.
- One passive synthetic NNA equity mandate was assigned, representing 2% of total fund.

In all, 3 new mandates were assigned, 2 were terminated, and 14 manager mandates including a mortgage pool exposure continued without change. At the end of 1999, 17 individual mandates and 9 separate managers were employed by the pension fund compared to 16 mandates and 11 managers at the end of 1998.

6.9 Pension - Guideline Strategies

The PIC has established guidelines to address a broad range of issues. These include the (1) active/passive split appropriate to the equity and bond segments, (2) treatment and monitoring of foreign currency exposure, and (3) management of bonds. Guidelines are reviewed annually by PIC. The guideline active/passive splits by asset category and on a total fund basis for the pension funds are shown below.

	Active	Passive
Canadian Equity	70%	30%
US Equity	30%	70%
NNA Equity	70%	30%
Bonds	0%	100%
Total Fund	**36%**	**64%**

See sections 3.9.1 to 3.93 for additional detail on guidelines.

6.10 Pension - Change in Market Value

The market value at December 31, 1999 was $2,136.4 million compared to $1,967.5 million one year earlier, an increase of $168.9 million, or 8.6%. The change in market value is analysed below.

	Increase (Decrease) *$ Million*
Investment Gains	
Realized Gain on Sale of Securities	$ 66.6
Unrealized Market Appreciation	114.8
Investment Income Earned	66.1
Total Investment Gains	247.5
Less Disbursements	
Distribution to Fund Members	(74.7)
Investment Expense	(3.7)
Other Plan Expense	(0.9)
Total Disbursements	(79.3)
Net Investment Gains	168.2
New Capital	0.7
Total Increase in Market Value	$ 168.9

7.0 OISE PENSION FUND

7.1 OISE - Rate of Return Objectives

The policy rate of return objectives for the pension fund are, over four-year periods, to (a) achieve a four-year annualized return of at least five percentage points more than the increase in the Consumer Price Index and (b) exceed the four-year annualized return of a benchmark composed of standard market indexes. The policy benchmark is presented in section 7.5.

7.2 OISE - Fund Assets and Returns Comparisons

The OISE pension fund's asset allocation and returns for the periods ended December 31, 1999 are reported below.

	December 31, 1999		Annualized Rates of Return	
OISE Fund Assets	Market Value $Mil	Weight %	One Year %	Four Years %
Canadian Equity	$ 31.8	31.2	26.4	14.1
U.S. Equity	14.6	14.3	14.3	23.1
NNA Equity	18.5	18.2	30.0	NA
Fixed Income	37.0	36.3	-2.4	6.0
Total Fund	**$101.9**	**100.0** %	**13.1**	**11.9**
Rate of Return Objectives				
a) Consumer Price Index plus 4%			6.6	5.6
b) Benchmark return			**15.0**	**14.6**
Fund variance to benchmark			**- 1.9**	**- 2.7**

The real rate of return objective of 4%, nominally 6.6% for one year and 5.6% for four years, was easily surpassed by the one-year and four-year performances, the product of an ongoing low-inflation environment. The OISE pension fund performance on a relative basis fell short of the benchmark return over the one-year period by 1.9% and over the four-year period by 2.7%.

The factors affecting the 1999 performance are examined in section 6.6 of this report.

7.3 OISE - Comparative Performance

OISE's return, though not measured by SEI, may be compared to the SEI balanced fund universe. OISE's one-year performance of 13.1% ranked in SEI's second quartile; the four-year return of 11.9% ranked it in the fourth quartile.

7.4 OISE - Portfolio Risk

As discussed in the pension fund section 6.4, the duration of liabilities is the principal determinant of a fund's risk tolerance. The OISE pension plan had a duration of liabilities of 12.6 years, as valuated at fiscal year ended June 30, 1999 by the actuaries, Hewitt Associates. This is up from 12.5 years at the end of the prior fiscal period. Comparatively, the university-wide plan's current retirees represented 48% of total plan liabilities whereas the OISE plan's current retirees represented 29% of total plan liabilities. However, the OISE plan is more mature because the average age of retirees and current participants is significantly greater than in the university-wide plan.

The OISE assets are managed separately but in a similar fashion to the university-wide fund even though OISE plan characteristics are different. Compared to the university-wide plan, the OISE plan has a shorter horizon, proportionately more negative cash flows, and is closed to entrants. As the current group of OISE/UT employees retire and leave, the size of the plan will continue to decline. Cash flows have been negative because of (a) the three-year participant contribution holiday and (b) the continuing decline in the number of active participants. As long as the plan continues in a surplus position, in theory there is no concern with the negative cash flows. For now, the characteristics of the OISE plan and university-wide plan are sufficiently alike to warrant their sharing investment policies and goals.

7.5 OISE - Asset Mix

The OISE pension fund's average asset weights during 1999 are reported in the table below together with the policy benchmark and tactical asset mix weights. The policy benchmark is a four-year annualized return objective, while the tactical asset mix is devised to take advantage of the committee's expectations for various asset classes over a shorter horizon, generally one year. The table displays the rates of return for the standard market indexes that composed the policy benchmark, alongside the reference weights for each asset class.

		Index Annualized Returns		OISE Asset Weights		
Asset Class	Index	1999	1996-99	Policy	Actual	Tactical
		%	%	%	%	%
Canadian Equity	TSE 300	31.7	17.6	40.0	31.6	30.0
US Equity	S&P 500	13.9	28.2	10.0	15.3	15.0
NNA Equity	MSCI EAFE	20.0	15.0	10.0	13.6	15.0
Bonds	SC Universe	-1.1	7.4	40.0	39.5	40.0
				100.0 %	100.0 %	100.0 %

7.6 OISE - Performance Evaluation

See section 6.6.0 through 6.6.5 for detail on the factors and contributions to fund performance, quantified below, measured by the policy implementation analysis provided by Morningstar.

Effects:	Tactical Asset Mix	- 1.20
	Asset Weighting	+ 0.53
	Active Management	- 1.11
	Passive	- 0.29
	Currency Hedging	+ 0.35
	Total Plan Management, 1999	- 1.72

7.7 OISE - Investment Expense

Investment expense includes the costs for management, custody and administration, and was $0.26 million in 1999. This represented a cost of 27 basis points on the average annual market value of the OISE fund.

7.8 OISE - Management

The decision to exactly mirror the university pension fund mandates resulted in the following changes to investment mandates during 1999:

- One active Canadian equity mandate was assigned, representing 8% of total fund
- One active US equity mandate was assigned, representing 2% of total fund.
- One passive synthetic US equity mandate was assigned, representing 9% of total fund.
- Two active NNA equity mandates were assigned, representing 7% of total fund.

In all, 6 new mandates were assigned, none were terminated, and 10 manager mandates continued without change. At the end of 1999, 16 individual mandates and 9 separate managers were employed by the OISE fund compared to 9 mandates and 5 managers at the end of 1998.

7.9 OISE - Change in Market Value

The market value at December 31, 1999 was $101.9 million compared to $94.7 million one year earlier, an increase of $7.2 million or 7.6%. The change in market value may be analysed as follows:

	Increase (Decrease) *$ Million*
Investment Gains	
Realized Gain on Sale of Securities	$ 0.8
Unrealized Market Appreciation	7.8
Investment Income Earned	3.2
Total Investment Gains	11.8
Less Disbursements	
Distribution to Fund Members	(4.3)
Investment Expense	(0.3)
Other Plan Expense	0.0
Total Disbursements	(4.6)
Net Investment Gains	7.2
New Capital	0.0
Total Increase in Market Value	$ 7.2

Robert W. Korthals
Chairman
President's Investment Committee

CONSOLIDATED INVESTMENT POOL

Assets & Performance as at December 31, 1999

ASSETS

Asset Class/Manager	Manager Mandate	Since	December 31, 1999 $ mil	December 31, 1999 %	December 31, 1998 $ mil	December 31, 1998 %
Canadian Equity						
Barclays Global	*Passive TSE 300*	*Jun 97*	133.1	*11.0*	57.6	*5.8*
TD Asset	*Passive TSE 300*	*Feb 97*	131.6	*10.8*	58.2	*5.8*
Bissett	*Active*	*Jan 98*	50.2	*4.1*	48.0	*4.8*
BonaVista	*Active*	*Oct 97*	49.9	*4.1*	42.8	*4.3*
I A Michael	*Active*	*Dec 97*	14.9	*1.2*	13.4	*1.3*
Sceptre	*Active*	*Sep 97*	-	-	82.4	*8.3*
Greiner Pacaud	*Real Estate*	*Nov 92*	14.8	*1.2*	13.3	*1.3*
Roycom	*Real Estate*	*Nov 92*	6.0	*0.5*	6.0	*0.6*
Other	*Private Placements*	-	0.3	*0.0*	0.0	*0.0*
			$400.8	*32.9*	$321.7	*32.2*
U.S. Equity						
Barclays Global	*Passive S&P 500*	*May 97*	184.6	*15.2*	45.0	*4.5*
Newcastle	*Passive Synthetic S&P 500 Hedged*	*Jul 99*	23.7	*1.9*	41.8	*4.2*
Newcastle	*Passive Synthetic S&P 400*	*Jul 99*	26.8	*2.2*	-	-
Formula Growth	*Active*	*Mar 98*	12.1	*1.0*	11.1	*1.1*
Jarislowsky	*Active*	*Jul 91*	-	-	73.8	*7.4*
Oppenheimer	*Active*	*Mar 98*	-	-	21.7	*2.2*
Sceptre	*Active*	*Sep 97*	-	-	30.4	*3.1*
			$247.2	*20.3*	$223.8	*22.5*
Non-North-American Equity						
Newcastle	*Passive Synthetic EAFE Hedged*	*May 93*	76.9	*6.3*	47.3	*4.7*
Brandes	*Active*	*Nov 97*	109.5	*9.0*	51.4	*5.2*
Templeton	*Active*	*Nov 97*	63.6	*5.2*	50.2	*5.0*
			$250.0	*20.5*	$148.9	*14.9*
Bonds						
Barclays Global	*Passive SC Universe*	*Jun 97*	137.7	*11.4*	148.3	*14.9*
TD Asset	*Passive SC Universe*	*May 97*	113.8	*9.3*	96.5	*9.7*
TD Asset	*Passive SC Long*	*Jan 98*	67.8	*5.6*	55.3	*5.6*
Other	*Cash*	-	0.6	*0.0*	1.8	*0.2*
			$319.9	*26.3*	$301.9	*30.4*
Total Fund Assets - Consolidated Investment Pool			**$1,217.9**	*100.0*	**$996.3**	*100.0*

PERFORMANCE to December 31

		Asset Weights	Annual Rates of Return (%) 1999	1998	1997	1996	1995	Annualized FOUR YEARS 1996-1999
Total Fund - Actual	*Average:*	*100.0%*	14.6	9.7	17.7	19.9	20.1	15.5
Canadian Equity		*31.8%*	24.4	-3.9	14.5	30.4	13.4	15.7
US Equity		*20.8%*	7.4	27.5	36.1	*na*	*na*	*na*
NNA Equity		*18.8%*	37.9	15.0	6.3	*na*	*na*	*na*
Foreign Equity		-	20.9	21.7	29.3	18.6	31.5	22.6
Fixed Income		*28.6%*	-2.1	9.7	9.5	10.7	17.9	6.8
Policy Four-Year Annualized Rate of Return Objectives								
(a) CPI + 5%			**7.6**	6.0	5.7	7.2	6.8	**6.6**
(b) Composite Benchmark	*Policy:*	*100%*	**17.0**	12.0	15.6	19.6	18.3	**16.0**
TSE 300		*40%*	31.7	-1.6	15.0	28.4	14.5	17.6
S&P 500		*15%*	13.9	37.8	39.2	23.6	33.9	28.2
MSCI EAFE		*15%*	20.0	28.8	6.3	6.6	8.1	15.0
SC Universe Bond		*30%*	-1.1	9.2	9.6	12.3	20.7	7.4
Comparative Returns								
Tactical Asset Mix			15.8	14.1	18.7	-	-	-
Balanced Fund Universe Median			11.3	8.0	14.8	18.8	17.4	13.5
CIP Balanced Fund Ranking			**34**	**29**	**18**	**27**	**17**	**13**

Tactical Asset Mix 1999: 32.5% Cdn Equity, 20% U.S. Equity, 17.5% NNA Equity, 30% Bonds.

Tactical Asset Mix 1998: 35% Cdn Equity, 22.5% U.S. Equity, 12.5% NNA Equity, 30% Bonds.

SEI Balanced Fund Median Asset Weights at December 31, 1999: 36.4% Cdn Equity, 19.2% Foreign Equity, 37.2% Bonds, 4.9% Cash.

SOURCES: Valuations, Royal Trust; Returns, SEI (L1199) US & NNA equity segment returns, Portfolio Analytics; Median fund and ranking data, SEI; Average weights based on monthly data.

PENSION FUND

Assets & Performance as at December 31, 1999

ASSETS *Asset Class/Manager*	*Manager Mandate*	*Since*	December 31, 1999 $ mil	December 31, 1999 %	December 31, 1998 $ mil	December 31, 1998 %
Canadian Equity						
Barclays Global	Passive TSE 300	Nov 96	179.3	8.4	79.5	4.0
TD Asset	Passive TSE 300	Oct-96	187.8	8.8	104.9	5.3
BonaVista	Active	Mar 97	145.8	6.8	120.2	6.1
Connor Clark & Lunn	Active	Dec 96	162.4	7.6	149.9	7.6
Sceptre	Active	Oct 97	-	-	144.1	7.3
Other	Private Placements	-	9.3	0.4	7.6	0.4
			$684.6	32.0	$606.2	30.7
U.S. Equity						
Barclays Global	Passive S&P 500	Nov 96	87.5	4.1	191.2	9.7
Barclays Global	Passive Synthetic S&P 500	Jan-99	178.4	8.4	-	-
Formula Growth	Active	Feb 97	47.0	2.2	45.0	2.3
Oppenheimer	Active	Feb 97	-	-	71.9	3.7
			$312.9	14.7	$308.1	15.7
Non-North-American Equity						
Barclays Global	Passive Synthetic EAFE	Jan 99	41.4	1.9	-	-
Newcastle	Passive Synthetic EAFE Hedged	May 93	59.6	2.8	44.7	2.3
Newcastle	Passive Synthetic EAFE	Dec 98	42.0	2.0	34.1	1.7
Brandes	Active	Nov 97	104.1	4.9	62.0	3.2
Murray Johnstone	Active	Jul 99	60.1	2.8	-	-
Templeton	Active	Nov 97	71.2	3.3	55.4	2.8
			$378.4	17.7	$196.2	10.0
Bonds						
Barclays Global	Passive SC Universe	Nov 96	352.2	16.5	370.4	18.8
TD Asset	Passive SC Universe	Oct 96	214.2	10.0	245.0	12.5
TD Asset	Passive SC Long	Nov 97	192.5	9.0	206.5	10.5
Canada Life	Mortgages	1980	0.3	0.0	0.6	0.0
Other	Cash	-	1.3	0.1	34.5	1.8
			$760.5	35.6	$857.0	43.6
Total Fund Assets - Pension Fund			$2,136.4	100.0	$1,967.5	100.0

PERFORMANCE to December 31		*Asset Weights*	*Annual Rates of Return (%)* 1999	1998	1997	1996	1995	*Annualized FOUR YEARS 1996-1999*
Total Fund - Actual	*Average:*	100.0%	12.9	8.1	14.2	17.6	16.2	13.2
Canadian Equity		30.5%	25.4	-3.0	16.6	29.0	15.2	16.3
US Equity		15.6%	12.1	29.6	38.2	na	na	na
NNA Equity		14.8%	31.9	16.2	5.3	na	na	na
Foreign Equity		-	21.8	24.2	22.8	12.4	15.0	20.2
Fixed Income		39.1%	-2.4	10.0	8.1	10.2	17.9	6.2
Policy Four-Year Annualized Rate of Return Objectives								
(a) CPI + 4%			6.6	5.0	4.7	6.2	5.8	5.6
(b) Composite Benchmark	*Policy:*	100%	15.0	9.9	14.4	19.3	18.3	14.6
TSE 300		40%	31.7	-1.6	15.0	28.4	14.5	17.6
S&P 500		10%	13.9	37.8	39.2	23.6	33.9	28.2
MSCI EAFE		10%	20.0	28.8	6.3	6.6	8.1	15.0
SC Universe Bond		40%	-1.1	9.2	9.6	12.3	20.7	7.4
Comparative Returns								
Tactical Asset Mix			13.7	10.1	14.5	-	-	-
Balanced Fund Universe Median			11.3	8.0	14.8	18.8	17.4	13.5
Pension Balanced Fund Ranking			44	49	59	80	81	54

Tactical Asset Mix 1999: 30% Cdn Equity, 15% U.S. Equity, 15% NNA Equity, 40% Bonds.

Tactical Asset Mix 1998: 40% Cdn Equity, 12.5% U.S. Equity, 7.5% NNA Equity, 40% Bonds.

SEI Balanced Fund Median Asset Weights at December 31, 1999: 36.4% Cdn Equity, 19.2% Foreign Equity, 37.2% Bonds, 4.9% Cash.

SOURCES: Valuations, Royal Trust; Returns, SEI (F1889) US & NNA equity segment returns & 1997, Portfolio Analytics; Median fund and ranking data, SEI; Average weights based on monthly data.

OISE PENSION FUND

Assets & Performance as at December 31, 1999

ASSETS *Asset Class/Manager*	*Manager Mandate*	*Since*	*December 31, 1999* $ mil	%	*December 31, 1998* $ mil	%
Canadian Equity						
Barclays Global	*Passive TSE 300*	*Feb 97*	4.1	*4.0*	3.1	*3.3*
TD Asset	*Passive TSE 300*	*Jan 97*	13.3	*13.1*	7.6	*8.0*
BonaVista	*Active*	*Jul 97*	6.5	*6.4*	23.9	*25.2*
Connor Clark & Lunn	*Active*	*Mar 99*	7.9	*7.7*	-	-
			$31.8	*31.2*	$34.6	*36.5*
U.S. Equity						
Barclays Global	*Passive S&P 500*	*Feb 97*	2.9	*2.9*	15.6	*16.5*
Barclays Global	*Passive S&P 500 Synthetic*	*Jan 99*	9.4	*9.2*	-	-
Formula Growth	*Active*	*Mar 99*	2.3	*2.2*	-	-
			$14.6	*14.3*	$15.6	*16.5*
Non-North-American Equity						
Barclays Global	*Passive Synthetic EAFE*	*Mar 99*	4.6	*4.5*	-	-
Newcastle	*Passive Synthetic EAFE*	*Jul 97*	2.9	*2.9*	2.9	*3.1*
Brandes	*Active*	*Apr 99*	4.7	*4.7*	-	-
Murray Johnstone	*Active*	*Jul 99*	2.9	*2.8*	-	-
Templeton	*Active*	*Nov 97*	3.4	*3.3*	4.4	*4.6*
			$18.5	*18.2*	$7.3	*7.7*
Bonds						
Barclays Global	*Passive SC Universe*	*Feb 97*	17.0	*16.7*	18.9	*20.0*
TD Asset	*Passive SC Universe*	*Feb 97*	10.1	*9.9*	9.2	*9.7*
TD Asset	*Passive SC Long*	*Jan 98*	9.4	*9.2*	7.8	*8.2*
Other	*Cash*	-	0.5	*0.5*	1.3	*1.4*
			37.0	*36.3*	$37.2	*39.3*
Total Fund Assets - OISE Pension Fund			101.9	*100.0*	$94.7	*100.0*

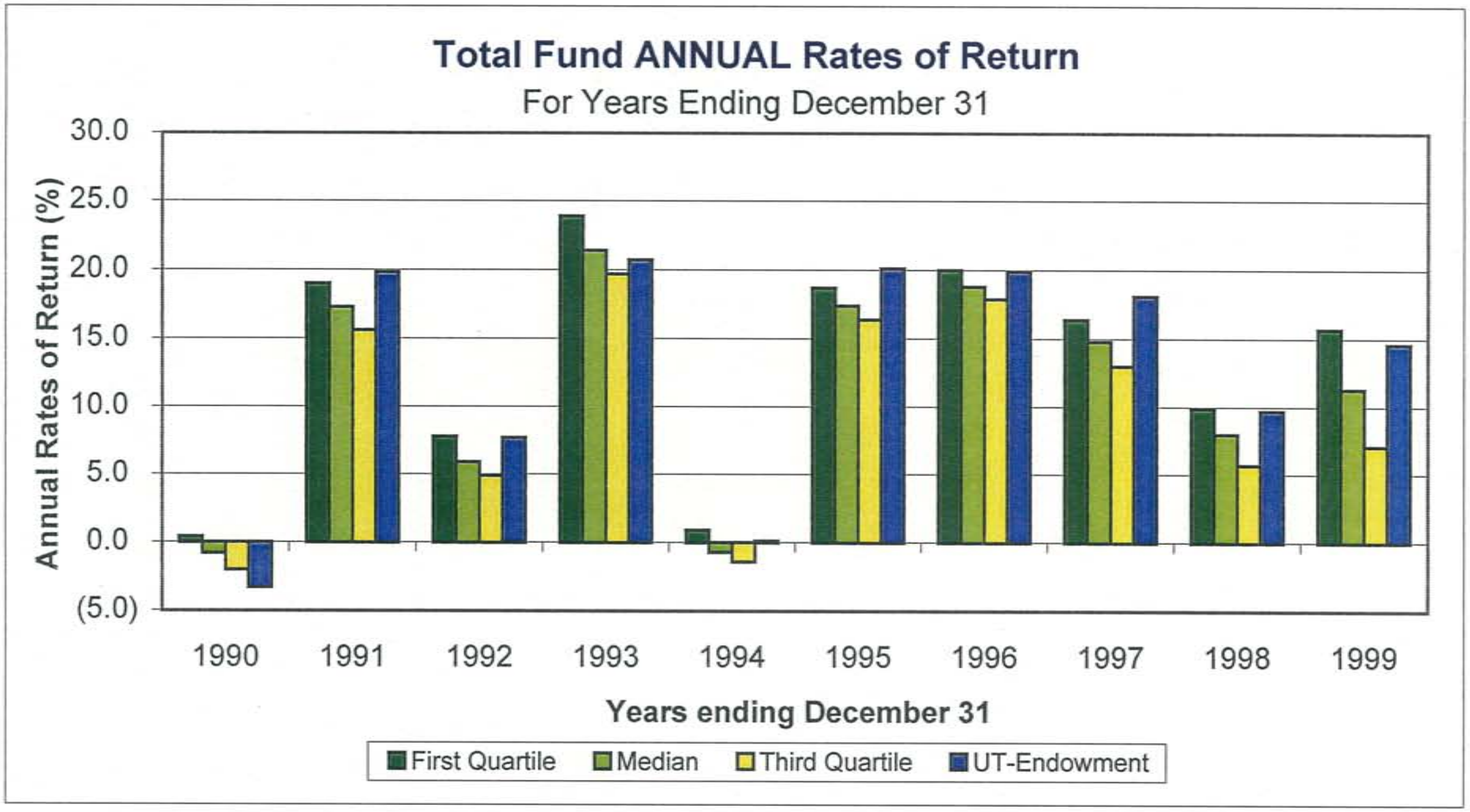
PERFORMANCE to December 31		*Asset Weights*	*Annual Rates of Return (%)* *1999*	*1998*	*1997*	*1996*	*1995*	*Annualized FOUR YEARS 1996-1999*
Total Fund - Actual	*Average:*	*100.0%*	**13.1**	7.6	10.1	17.2	14.7	**11.9**
Canadian Equity		*31.6%*	26.4	-4.1	10.1	27.2	11.2	14.1
US Equity		*15.3%*	14.3	38.4	20.9	20.2	23.9	23.1
NNA Equity		*13.6%*	30.0	11.6	-4.1	*na*	*na*	*na*
Fixed Income		*39.5%*	-2.4	9.2	8.7	8.8	19.6	6.0
Policy Four-Year Annualized Rate of Return Objectives								
(a) CPI + 4%			**6.6**	5.0	4.7	6.2	5.8	**5.6**
(b) Composite Benchmark	*Policy:*	*100%*	**15.0**	9.9	14.4	19.3	18.3	**14.6**
TSE 300		*40%*	31.7	-1.6	15.0	28.4	14.5	17.6
S&P 500		*10%*	13.9	37.8	39.2	23.6	33.9	28.2
MSCI EAFE		*10%*	20.0	28.8	6.3	6.6	8.1	15.0
SC Universe Bond		*40%*	-1.1	9.2	9.6	12.3	20.7	7.4
Comparative Returns								
Tactical Asset Mix			13.7	10.1	14.5	-	-	-
Balanced Fund Universe Median			11.3	8.0	14.8	18.8	17.4	13.5

Tactical Asset Mix 1999: 30% Cdn Equity, 15% U.S. Equity, 15% NNA Equity, 40% Bonds.

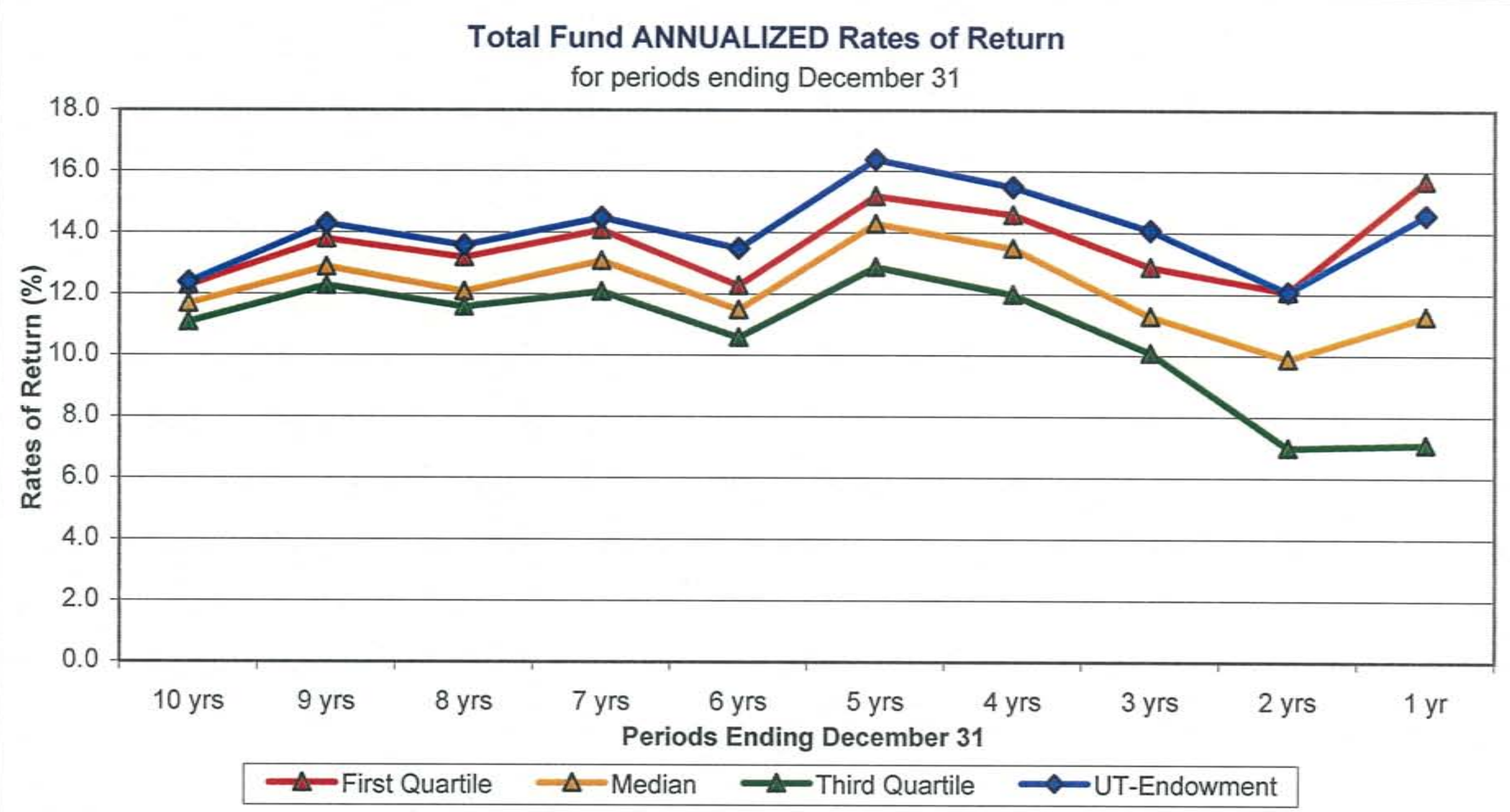
Tactical Asset Mix 1998: 40% Cdn Equity, 12.5% U.S. Equity, 7.5% NNA Equity, 40% Bonds.

SEI Balanced Fund Median Asset Weights at December 31, 1999: 36.4% Cdn Equity, 19.2% Foreign Equity, 37.2% Bonds, 4.9% Cash.

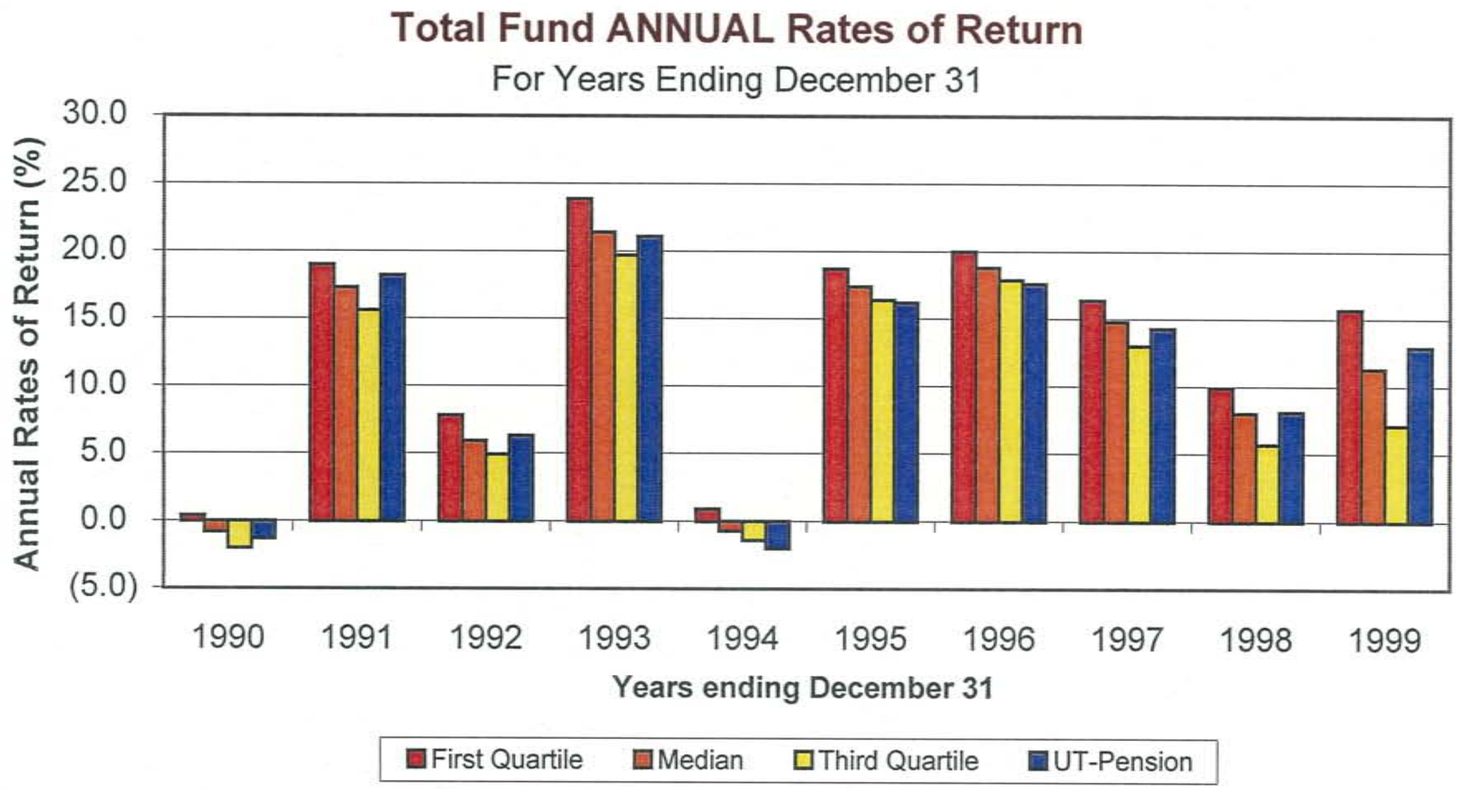
SOURCES: Valuations, Royal Trust; 1998-9 Returns, Portfolio Analytics; Pre-1998 Returns, Royal Trust; Median fund data, SEI.



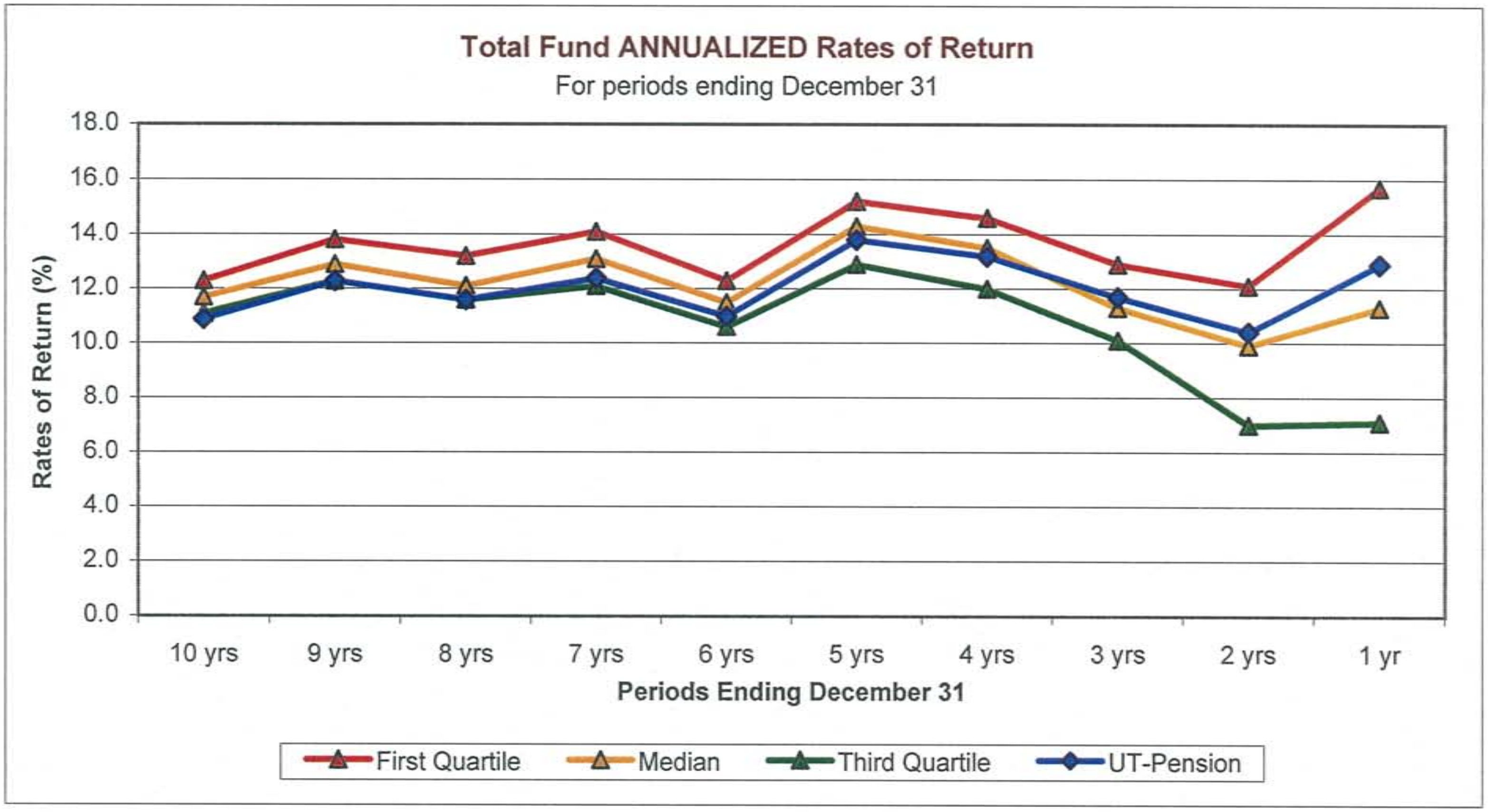
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
First Quartile	0.4	19.0	7.8	23.9	0.9	18.7	20.0	16.4	9.9	15.7
Median	(0.8)	17.3	5.9	21.4	(0.7)	17.4	18.8	14.8	8.0	11.3
Third Quartile	(2.0)	15.6	4.9	19.7	(1.4)	16.4	17.9	13.0	5.7	7.1
UT-Endowment	(3.3)	19.8	7.7	20.7	0.1	20.1	19.9	18.1	9.7	14.6
Rank	*90*	*14*	*26*	*67*	*40*	*17*	*27*	*18*	*29*	*34*



	10 yrs	9 yrs	8 yrs	7 yrs	6 yrs	5 yrs	4 yrs	3 yrs	2 yrs	1 yr
First Quartile	12.3	13.8	13.2	14.1	12.3	15.2	14.6	12.9	12.1	15.7
Median	11.7	12.9	12.1	13.1	11.5	14.3	13.5	11.3	9.9	11.3
Third Quartile	11.1	12.3	11.6	12.1	10.6	12.9	12.0	10.1	7.0	7.1
UT-Endowment	12.4	14.3	13.6	14.5	13.5	16.4	15.5	14.1	12.1	14.6
Rank	*18*	*14*	*11*	*13*	*8*	*6*	*13*	*11*	*24*	*34*



	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
First Quartile	0.4	19.0	7.8	23.9	0.9	18.7	20.0	16.4	9.9	15.7
Median	(0.8)	17.3	5.9	21.4	(0.7)	17.4	18.8	14.8	8.0	11.3
Third Quartile	(2.0)	15.6	4.9	19.7	(1.4)	16.4	17.9	13.0	5.7	7.1
UT-Pension	(1.3)	18.2	6.3	21.1	(2.0)	16.2	17.6	14.3	8.1	12.9
Rank	*62*	*32*	*44*	*59*	*83*	*81*	*80*	*59*	*49*	*44*



	10 yrs	9 yrs	8 yrs	7 yrs	6 yrs	5 yrs	4 yrs	3 yrs	2 yrs	1 yr
First Quartile	12.3	13.8	13.2	14.1	12.3	15.2	14.6	12.9	12.1	15.7
Median	11.7	12.9	12.1	13.1	11.5	14.3	13.5	11.3	9.9	11.3
Third Quartile	11.1	12.3	11.6	12.1	10.6	12.9	12.0	10.1	7.0	7.1
UT-Pension	10.9	12.3	11.6	12.4	11.0	13.8	13.2	11.7	10.4	12.9
Rank	*82*	*74*	*75*	*72*	*60*	*57*	*54*	*47*	*44*	*44*

KEY TERMS

The ***investment policies*** for the University of Toronto's Consolidated Investment Pool, pension fund and OISE pension fund each contain a long-term asset mix and two rate of return objectives. The asset mixes and return objectives were developed to match the liability structures, long-term spending requirements, liquidity needs and risk tolerance characteristics of the endowment and pension funds.

The ***long-term asset mix*** for each fund is specified as a normal debt to equity ratio. Fund debt and equity weights may be varied within twenty-percent ranges of the policy normal weights.

The ***rate of return objectives*** for each fund are to exceed over four-year annualized periods first, an inflation-adjusted (real) return on an absolute basis and, second, a benchmark composite of market indexes on a relative basis. Comparative performance measurement to a universe of peers is provided for additional information in this report.

The ***real return objective*** is an inflation-adjusted rate of return hurdle. While inflation has been low and stable over the last decade, historically it has been a threat to purchasing power of invested funds, particularly endowments due to their perpetual nature. The pension funds, because of plan indexing of liabilities, are not as sensitive to damage from inflation. Capital preservation is a fundamental tenant of the university's endowment management.

The ***policy benchmark*** for each fund is a weighted composite of major market indexes representing four broad asset categories. The benchmark is an objective rendering of the investment policies and goals and is the focal point of performance evaluation. The benchmark intentionally excludes cash reflecting the philosophy that the funds must be fully invested to maximize long-term return. In practice, endowment and pension funds experience regular cashflows due to contributions and withdrawals representing fund obligations; cashflows are the subject of regular asset allocation activity conducted for the funds.

Asset allocation for each fund is conducted in compliance with the asset mix targets and the policy asset exposure parameters specified for diversification purposes. The policies have set minima and maxima exposures for Canadian equities and fixed income and US and non-North-American (NNA) equities. Fund asset weights are rebalanced if these limits are approached.

Active and passive asset allocations form part of the investment strategy. Guideline weights for exposure to active management have been established for each asset category, dependent on the market efficiency and composition of the various indexes. Active managers are selected based on their potential to provide risk-adjusted returns in excess of the return of the benchmark index over four-year measurement periods.

Total fund risk is controlled through the asset mix and manager selection in accordance with investment strategies and diversification rules outlined in the investment policies. Levels of risk are measured and monitored against the policy levels of risk prescribed in the benchmark composites of broad market indexes for equities and fixed income.

Investment portfolio risk is managed by individual asset managers within the guidelines of their assigned mandates. External investment managers are subject to the sector and security diversification parameters and constraints established in the university's policies.

KEY TERMS (cont'd)

***Long-term Asset Mix (LTAM) Benchmark*:** the performance associated with passive and exact implementation, over the analysis period, of the plan's long-term asset mix (LTAM) weights.

***Tactical Asset Mix (TAM) Benchmark*:** the performance associated with passive and exact implementation, over the analysis period, of the plan's tactical asset mix (TAM) weights.

***Plan Management Effect*:** the performance of the overall fund, relative to the Long-Term Asset Mix benchmark.

***Tactical Asset Mix Effect*:** the performance of the Tactical Asset Mix benchmark, relative to the Long-Term Asset Mix Benchmark.

***Asset Weighting Effect*:** the performance effect of over-or under-weighting asset classes, relative to their weights in the Tactical Asset Mix benchmark.

***Active Management Effect*:** the performance effect of differences between the performance of the fund's actively-managed assets and the performance of the corresponding market indexes included in the tactical Asset Mix benchmark.

***Hedge Effect*:** the hedging effect measurement compares the return that would have been earned by the plan, had all hedged passive components earned hedged index returns, with the return that would have been earned had the hedged passive components earned unhedged index returns.

***Passive Effect*:** the effect of deviations between the performance of the fund's passively-managed assets and the performance of the corresponding market indexes included in the tactical Asset Mix benchmark.