



October 21, 2008

The impact of the economic decline on the University of Toronto.

As the volatility of the financial markets has continued, questions have been asked about how vulnerable the University of Toronto is to the decline and what we can do to minimize the impact. Those questions have primarily focused on the University's investments and the funds held in the pension plans.

The Endowment

Donors and beneficiaries have asked about the endowment and what is happening to the value of the fund and to our ability to make the annual payments to beneficiaries. Clearly, the University of Toronto is not immune to the crisis in the world financial systems and we have experienced a decline in the current value of the endowment. However, we are protected to some degree by the following:

- Our investment strategy is relatively conservative. We have defined a risk tolerance and a target return that are appropriate over the long term. Our strategy also assumes that there will be some years of losses.
- Our payout policy for endowments has always provided for the retention of a cushion that is created in years when investment returns are good, which is intended to permit the endowment payout to be made even if there are investment losses in the year, as was the situation last year.

However, significant and long term losses could effectively eliminate the cushion and could lead to a reduction or elimination of the payout. It is too early to assess what the final impact will be, as no decision about the payout is made until the March/ April timeframe, when market conditions may have stabilized and we will be in a better position to set the payout rate.

Investments other than the endowment

Income on investments other than the endowments is largely related to the expendable funds investment pool (EFIP), where we have adopted a minimal risk strategy and expect investment returns to be positive or only minimally negative.

The Pension Plan

Our pension plan is a defined benefit plan. With a defined benefit plan, there is a specified pension benefit (payment) calculated on the basis of defined percentages applied to salary and

years of pensionable service, so plan members can be assured that their pensions will be paid. The plan is in a deficit position at the present time, but given the long term nature of the organization, we plan for fluctuations in value, and expect fluctuations between surplus and deficit. For the past several years we have had a policy of making extra contributions to the pension plan to reduce the deficit and will continue to make these contributions. In addition, the University has created the Supplemental Retirement Arrangement plan and these funds remain available for the support of pensions.

It should be noted that payments to pensioners are made from the pension fund, which is a separate legal trust, not by the University of Toronto. There is more than enough cash in the pension fund to make the payments to existing retirees.

Debt and interest expenses

Many people have wondered how the financial crisis might affect our ability to borrow and whether we might have to pay higher interest. Interest expense on our current debt is largely fixed. We have borrowed for long terms at fixed rates, so we are not vulnerable to any rate movements. As long as we pay the interest, our loans cannot be called.

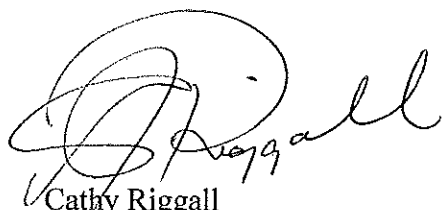
At this time, we are not able to assess what impact the current economic situation is likely to have on our ability to borrow in future. The impact on long-term borrowing interest rates for future borrowing and availability of borrowing is uncertain at this time. However, we have no immediate plan to issue another debenture and we can afford to wait until conditions are more stable.

The operating budget impact

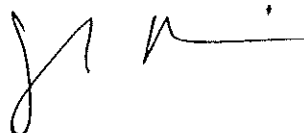
There is uncertainty about the impact of economic conditions on university funding from provincial or federal governments, which means that it is essential to take a cautious approach to expenditures. We urge divisions to review their discretionary expenditures very carefully.

The impact on students

Impacts on our students must also be anticipated. Job losses, or difficulty in getting jobs, difficulty in getting credit or loans, and loss of income or wealth of parents may all cause stress for our students. Students should be aware that the University will continue to honour our commitment to the Province's student access guarantee and will continue to make student aid a fund raising priority.



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