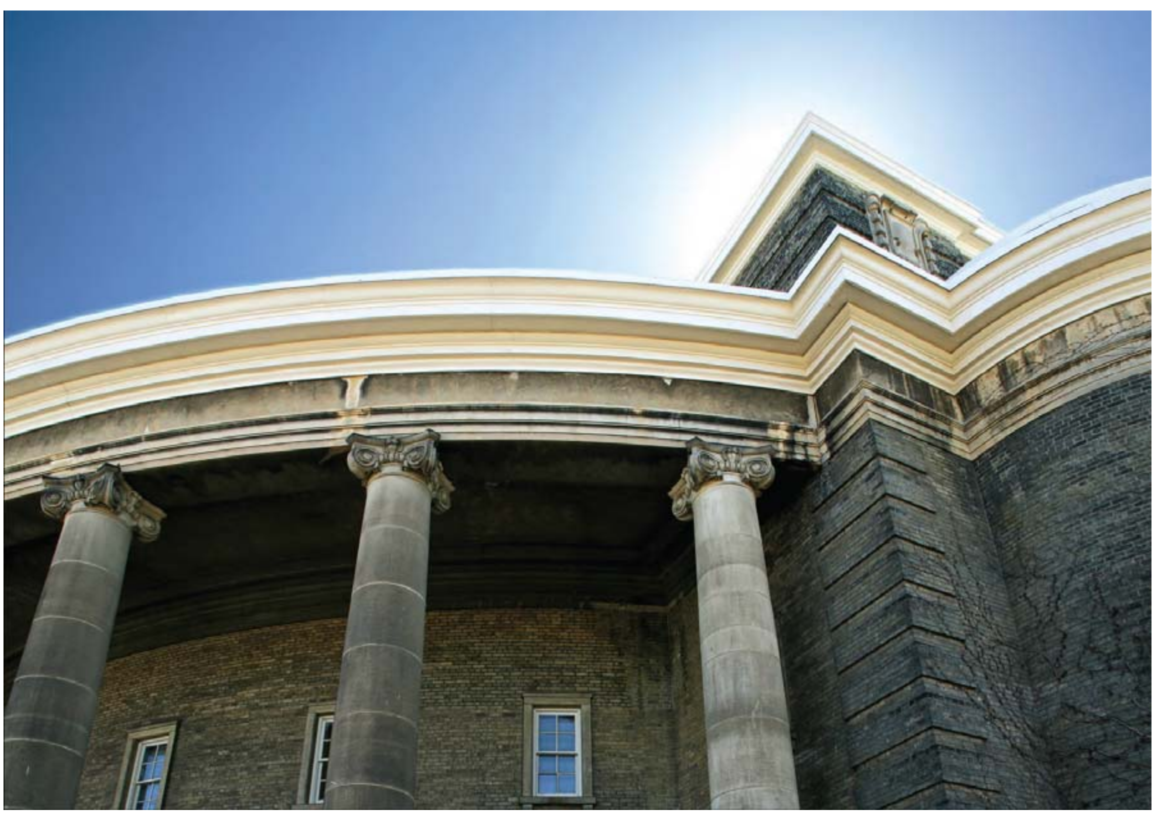
UNIVERSITY OF
TORONTO

Endowments

Annual Financial Report

For

The Year Ended April 30, 2009



53101

HIGHLIGHTS

	April 30, 2009	April 30, 2008	% Change
Total Endowment:	(Millions of dollars)		
Fair value	$ 1,286.3	$ 1,754.8	-26.7%
Change from previous year:			
Endowed donations	$ 49.4	$ 36.4	35.7%
Endowed grants and other	$ 27.0	$ 14.2	90.1%
Transfers from University's unrestricted funds	$ 0.1	$ 2.8	-96.4%
Transfer from deferred contributions		$ 2.4	
Transfer of endowments to UTS		$ (21.8)	
Investment losses	$ (528.1)	$ (20.3)	2501.5%
Fees and expenses	$ (16.9)	$ (19.5)	-13.3%
Allocation for spending	$ -	$ (62.1)	-100.0%
Total change for the year	$ (468.5)	$ (67.9)	590.0%
Endowments in Long-Term Capital Appreciation Pool (LTCAP):			
Proportion invested in LTCAP	95.94%	98.04%	-2.1%
Number of units in LTCAP	8,495,672	8,187,065	3.8%
Fair value in millions	$ 1,234.1	$ 1,720.4	-28.3%
Fair value per unit in dollars	$ 145.27	$ 210.16	-30.9%
Allocation for spending per unit in dollars	$ -	$ 7.65	-100.0%
LTCAP time-weighted net returns*	-31.0%	-2.0%	1450.0%

*Returns net of investment fees and expenses.

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The University of Toronto was established in 1827 and is Canada's largest and most comprehensive university. It is one of the world's foremost research-intensive universities. It has educated hundreds of thousands of students and enjoys a global reputation in multiple fields of scholarship. It is one of only eight universities in the world that is ranked by global peers in the top 20 across the broadest number of disciplines. Students have a chance to study with some of the world's top professors and alongside inspiring classmates Endowments provide a strong base of funding in support of the University of Toronto's academic mission. University of Toronto endowments totaled \$1.286 billion at April 30, 2009 and included over 4,950 individual endowment funds. In establishing these funds, donors have chosen to support the institution's highest, continuing academic priorities.

The University, like other organizations, has not been immune to the shockwaves of the current economic crisis and the endowment experienced a loss of \$545.0 million in 2008-09 as a result of severe financial market losses. The endowment reserve, so carefully and responsibly built up, has done its job by absorbing the brunt of the extreme volatility of the financial markets. Both the inflation protection of \$256.6 million plus a cushion of \$287.1 million built up as of April 2008 have been eliminated.

As a result, the University suspended the endowment distribution in 2008-09 in order to preserve the underlying value of its endowment. The University decided not to erode the endowment capital further so that the baseline for future growth can be maintained. Without this suspension, the University could have impeded its ability to return to the usual endowment distribution levels as the investments supporting the endowments recover their value. This prudent management of the endowment is part of the responsible stewardship of funds that was designed to support the University's faculty and students for generations to come. In recognition of the importance of the initiatives funded by endowments, faculty and staff have gone to extraordinary lengths to ensure that critical commitments such as endowment professorships and chairs, as well as endowed support for needs-based student aid are being met from other sources of funds. Their efforts reflect positively on the priorities funded so generously by our benefactors, friends and governments. Together, these actions reflect our commitment to preserve the underlying value of these legacies and to sustain the important purposes for which they were established. They also signal our collective respect for all those who have supported the institution with endowed gifts.

University of Toronto endowments are managed in a unitized pool called the Long-Term Capital Appreciation Pool (LTCAP). Almost all of the University's endowments hold units in this unitized investment pool entitled the LTCAP. Each endowment account holds units in LTCAP that reflect the number of dollars contributed and the unit value on the dates of contribution. The market value of each unit has decreased from $210.16 at April 30, 2008 to $145.27 at April 30, 2009:

Unit market value at May 1, 2008	$210.16
Investment loss per unit	(62.88)
Fees and expenses	(2.01)
Unit market value at April 30, 2009	$145.27

The value of any particular endowment account is obtained by multiplying the value per unit by the number of units in the account. For example, if an endowment account holds 750 units, the market value of that particular endowment account at April 30, 2009 would be 750 times $145.27 or $108,952.

The investment of endowment funds is managed by the University of Toronto Asset Management Corporation (UTAM) under the direction of the University, in accordance with the University's investment policies. The return for the year ending April 30, 2009 was a loss of 31.0% (net of fees and expenses), well below the University's target return of 4.4% for the year and represents the second year in the past five years where performance did not exceed the University's target, as shown in the following table.

1-Year Annual Rates of Return

Year Ended April 30	LTCAP annual actual return*	University objective (4% plus CPI)
2009	**(31.0%)**	**4.4%**
2008	(2.0%)	5.7%
2007	13.7%	6.2%
2006	15.8%	6.4%
2005	7.4%	6.4%

**Returns are net of all investment fees and expenses. The 2005 to 2007 annual returns exclude returns on private investment interests.*

As a result, a commission is being established to review the fundamental principles underlying endowment management strategies, spending policies and investments.

INTRODUCTION

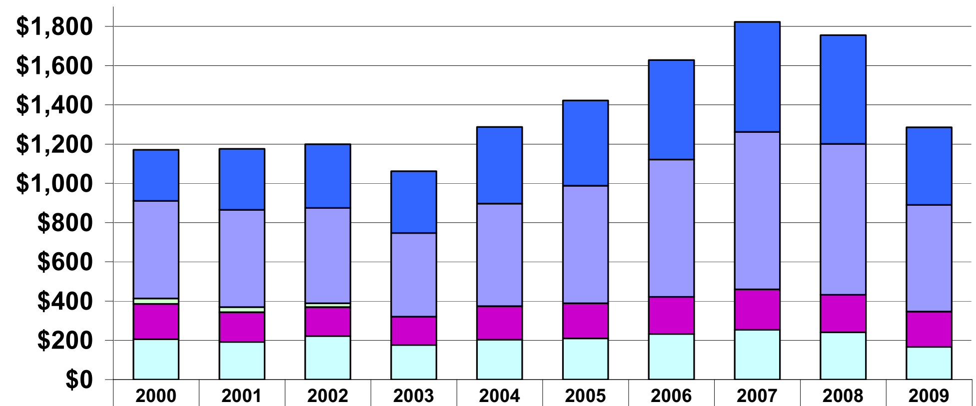
The University of Toronto was established in 1827 and is Canada's largest and most comprehensive university. It is one of the world's foremost research-intensive universities. It has educated hundreds of thousands of students and enjoys a global reputation in multiple fields of scholarship. It is one of only eight universities in the world that is ranked by global peers in the top 20 across the broadest number of disciplines. Students have a chance to study with some of the world's top professors and alongside inspiring classmates. Endowments provide a strong base of funding for student aid, for endowed chairs, for research and for academic programs in support of the academic mission. In establishing these funds, donors have chosen to support the institution's highest, continuing academic priorities.

Endowments are restricted funds which must be used in accordance with purposes specified by donors or by Governing Council. Endowments are not available for use in support of general operating activities.

Endowments are subject to restrictions relating both to capital and to investment income. Endowment funds held by the University of Toronto are subject to the University's preservation of capital policy, the purpose of which is to ensure that the rate of growth in the capital value of the endowments matches or exceeds the rate of inflation over time. Endowments include externally restricted endowment funds (84.1%) and internally restricted endowment funds designated as endowments by Governing Council in the exercise of its discretion (15.9%). The Governing Council may have the right to subsequently remove the endowment designation on internally restricted funds; however, the use of such funds may continue to be restricted.

The investment income earned on endowments must be used in accordance with the various purposes established by the donor or Governing Council. As part of its fiduciary responsibilities, the University of Toronto ensures that all funds received with a restricted purpose or subsequently endowed for a particular purpose (and the investment income earned on such funds) are used only for that purpose. There are several broad categories of restrictions – chairs and professorships, student aid, academic programs and research. Within these broad categories, each endowment has its own specific terms and conditions which govern spending of investment income. Prior to fiscal year 2003, the University had unrestricted endowments set aside for matching programs which have now been fully utilized for matching endowed donations.

Endowments at Fair Value
at April 30
(millions of dollars)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total endowments	1,171.3	1,176.2	1,199.7	1,062.3	1,287.7	1,422.8	1,628.8	1,822.7	1,754.8	1,286.3
Chairs and professorships	260.4	311.4	324.5	314.4	390.7	434.8	507.6	560.5	554.4	395.5
Student aid	498.0	495.6	486.4	427.3	522.8	599.7	699.4	802.4	768.1	543.9
Matching funds	27.5	25.4	19.2							
Academic programs	180.1	151.5	148.0	143.8	170.3	179.0	189.0	205.9	191.8	180.3
Research	205.3	192.3	221.6	176.8	203.9	209.3	232.8	253.9	240.5	166.6

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

At April 30, 2009, there were over 4,950 individual endowment funds, usually supported by a donor agreement, or reflecting a collection of small donations with common restrictions.

Almost all endowments, about 96.0% of fair value and 4,965 funds, are invested in the University's long-term capital appreciation pool (LTCAP). A small number of endowments (3.7% of fair value and 11 funds), mostly very long-standing ones or ones with very specific characteristics such as the Jokers Hill property in King

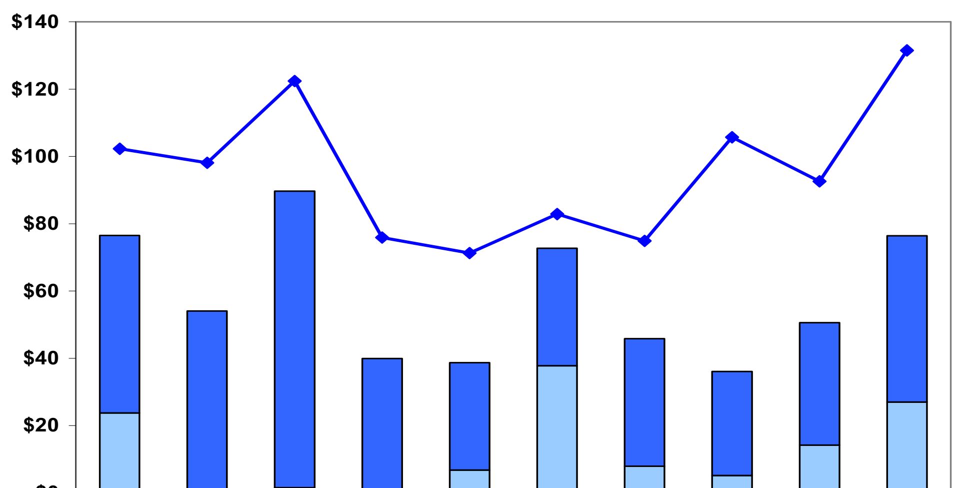
City, are specifically invested outside the LTCAP. The remainder represents new endowed donations received after the LTCAP investment cut-off date and held temporarily in the University's expendable funds investment pool.

Endowments totaled $1,286.3 million fair value at April 30, 2009. This was a decrease of $468.5 million over the previous year. This decrease was comprised of:

- $545.0 million of investment loss (including fees and expenses of $16.9 million),
- offset by $49.4 million of endowed donations, $27.0 million of endowed government grants and other contribution, and $0.1 million of transfers from the University's unrestricted funds to endowments.

The following graph shows endowed contributions and total donations (endowed and expendable) received since 2000. It tracks only cash received in the relevant year. There is usually a lag between the growth in pledges and related commitments, and the actual receipt of funds.

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



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Endowed donations	52.7	53.8	88.1	39.3	31.9	34.9	37.9	30.9	36.4	49.4
Endowed grants	23.8	0.3	1.6	0.6	6.8	37.8	7.9	5.2	14.2	27.0
Total donations	102.3	98.1	122.4	75.9	71.3	82.9	74.9	105.7	92.6	131.5

The graph illustrates that endowed donations represented 37.6% of total donations ($131.5 million) received by the University in 2009. Expendable gifts of $82.1 million were also received. Expendable gifts build essential infrastructure and support immediate academic priorities with rapid-cycle impact on the institution.

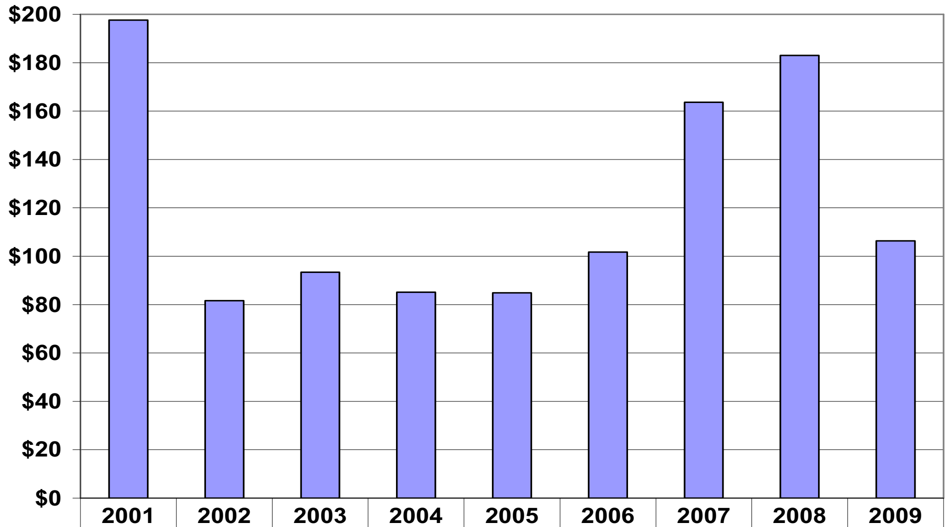
Government grants which were added directly to endowment were for scholarships for Ontario resident students with financial need.

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

The University is grateful for the generosity of its supporters and is delighted to have taken Canadian university fundraising to new levels of expectation. The table below shows the total pledges raised for the University (including federated universities and other affiliated institutions) since 2001. Some pledges are fulfilled with receipts of cash or gifts-in-kind in the year in which they are made and some pledges extend over several years, with cash receipts flowing in over a multi-year period.

The total of new pledges raised for the University (including federated universities and other affiliated institutions) for the year ending April 30, 2009 was $106.3 million compared to $183.0 million in 2008. The decline in new pledges and gifts is attributed to the economic downturn which particularly affected the acquisition of major gifts, typically driven by appreciated securities.

Total Pledges Raised
for the year ended April 30
(millions of dollars)



	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total pledges raised	197.6	81.6	93.4	85.1	84.9	101.7	163.6	183.0	106.3

It is important to note the University's endowments are not large in comparison to our U.S. public university peers. When we consider the top 30 endowments at Canadian and U.S. public institutions in 2008, Toronto ranked 13th in terms of size, and when compared with the same universities in terms of endowments per FTE student, Toronto only ranked 22nd (see pages 11-12). Including the endowments of the federated universities, Toronto ranked 11th in terms of size and 17th in terms of endowments per FTE student.

Classically endowed in perpetuity: A U of T family's legacy lives on

The commitment of faculty members to their students, disciplines, departments, colleges and faculties is one of the pillars of a great university. At the University of Toronto that commitment expresses itself in many ways during one's progress through the ranks. But with the passage of time and in an ever growing number of cases, its expression takes the form of bequests, ensuring that one's life work can continue, often as a named scholarship or other student award, in perpetuity.

In addition to the many remarkable individual cases of this kind of continuing commitment, there are those extraordinary family legacies that see several generations of scholars and, more often than not, their former students, colleagues, relatives and friends, endow a succession of scholarships and bursaries in several fields. Such is the case of U of T's Wallace family.

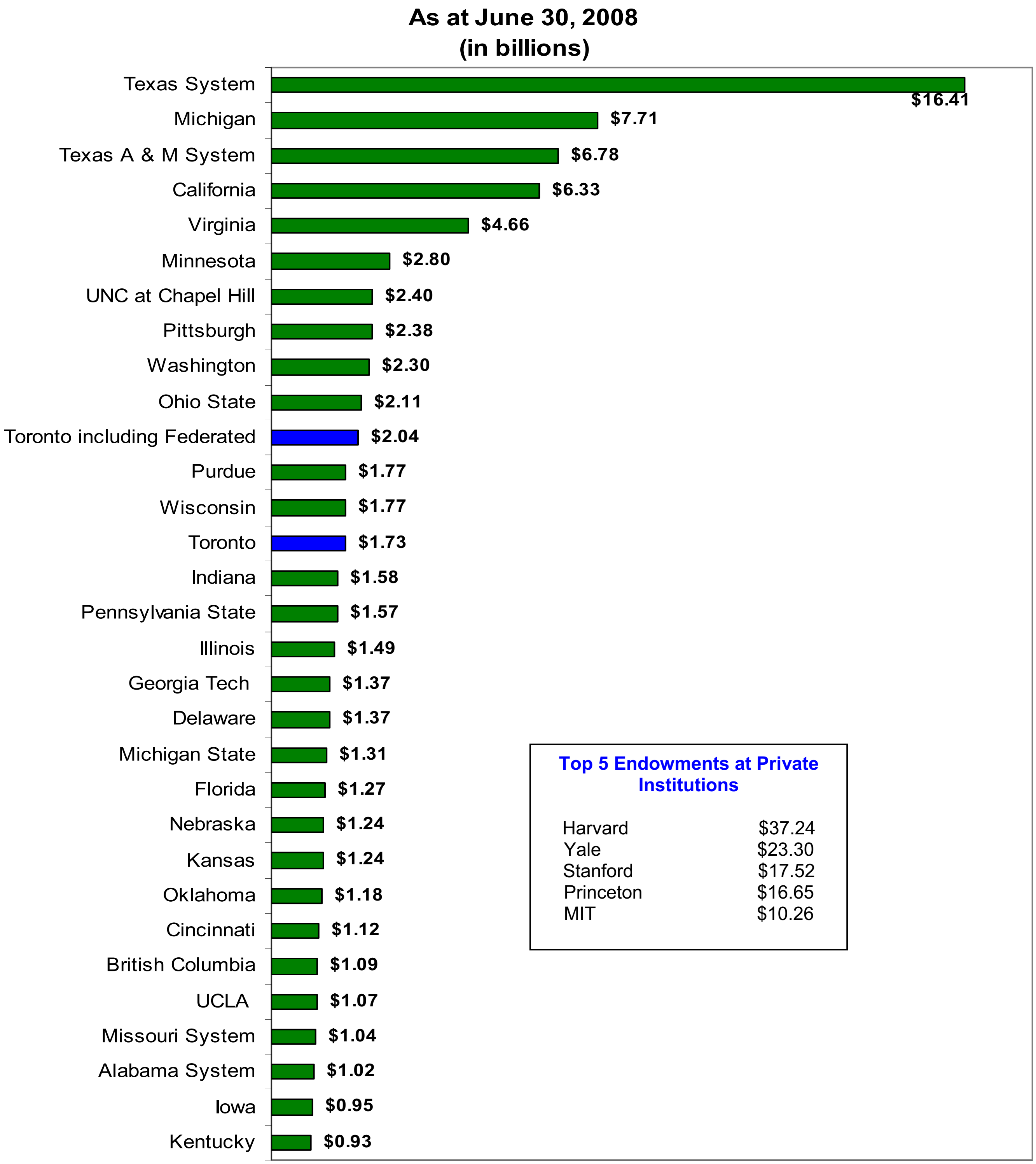
Professor Malcolm (Mac) B. Wallace of the Department of Classics, himself a triple U of T graduate (BA 1963 UC, MA 1966, PhD 1972), taught at the University for almost 40 years. An expert in Herodotus, verse inscriptions, Greek federalism and interstate relations, Athenian law and numismatics, he was a dedicated scholar, teacher, mentor and colleague. When Mac Wallace died last year, his sister, Philippa Matheson, in keeping with his wishes, donated $150,000 from his estate to establish the M.B. Wallace Memorial Graduate Award in Classics. His aunt, Professor Elisabeth Wallace, who taught political economy at U of T from 1945 to 1976, other family members, friends and colleagues pledged an additional $50,000 and the University matched their gifts to create a $400,000 endowment to support the award. Elisabeth Wallace herself died earlier this year and in her will she left a sizeable sum to University College in support of scholarships established in memory of her father—Mac Wallace's grandfather. Malcolm W. Wallace was principal of UC from 1928 to 1944. He is memorialized in named awards, one for excellence in any subject, the other for outstanding students of English.

Thus, three generations of Wallaces will continue to support the students and disciplines they loved in perpetuity.

The M.B. Wallace Graduate Award in Classics will be conferred annually on a student of Greco-Roman antiquity. Professor Alison Keith, chair of the Department of Classics, says she hopes the first award can be made in 2010. The funds will help to reduce the financial burden on graduate student recipients, giving them the opportunity to concentrate on their scholarly research in Greek or Latin, ancient history or philosophy, art, archeology or other topics in a wide-ranging discipline. "The establishment of this endowment is an opportunity to honour the memory of a valuable colleague," says Professor Keith. "And we are very excited at the prospect of being better able to recruit strong students to the study of ancient history, a field that is flourishing once again."

The Wallace family legacy—perhaps a little like that of ancient Greece itself—lives on.

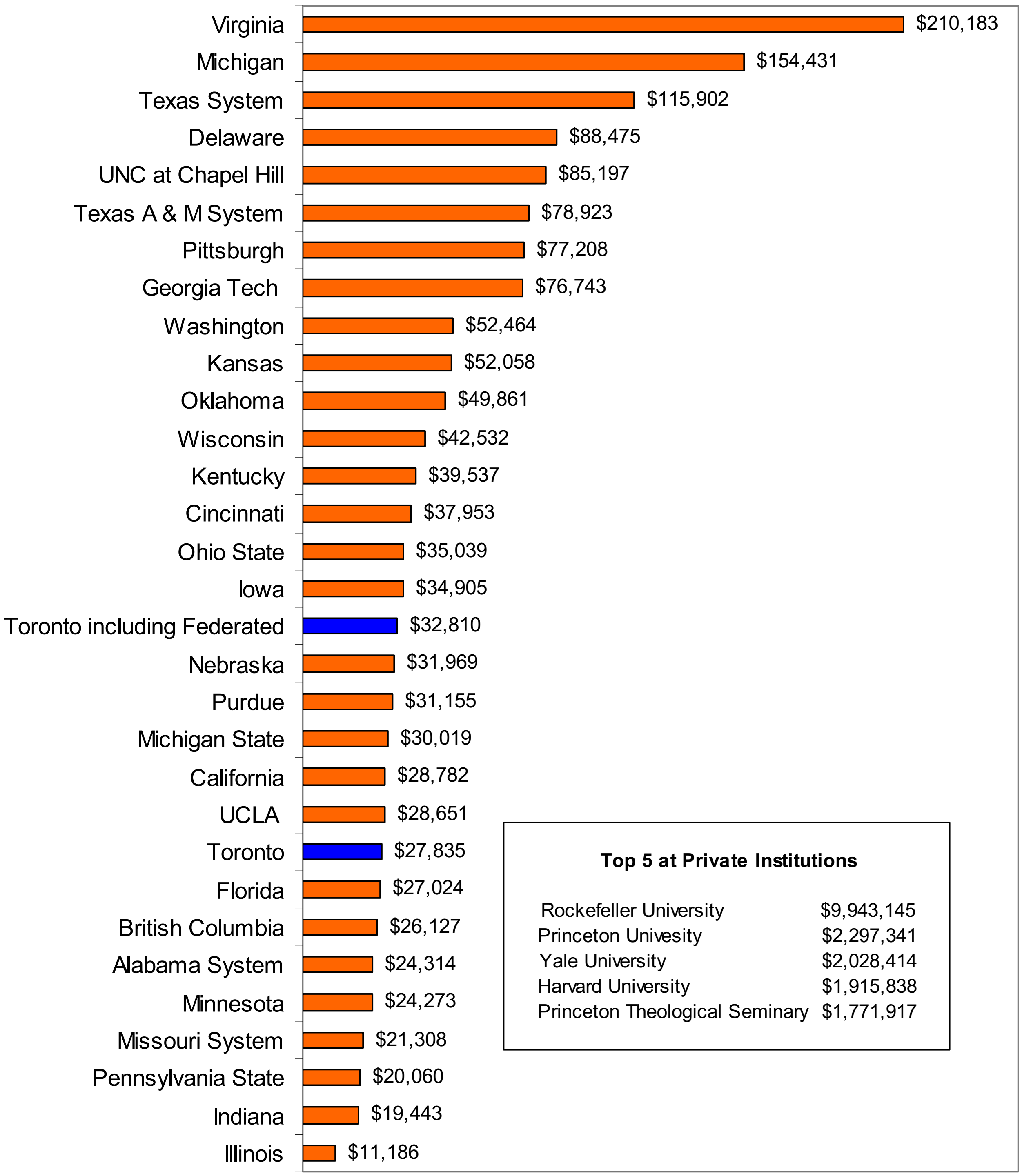
TOP 30 ENDOWMENTS AT PUBLIC INSTITUTIONS



Source: 2008 NACUBO Endowment Study, released January 2009, converted to Canadian dollars at an exchange rate of 1.0186

FAIR VALUE OF ENDOWMENTS PER FTE STUDENTS AT SELECTED PUBLIC INSTITUTIONS

As at June 30, 2008
(in dollars)



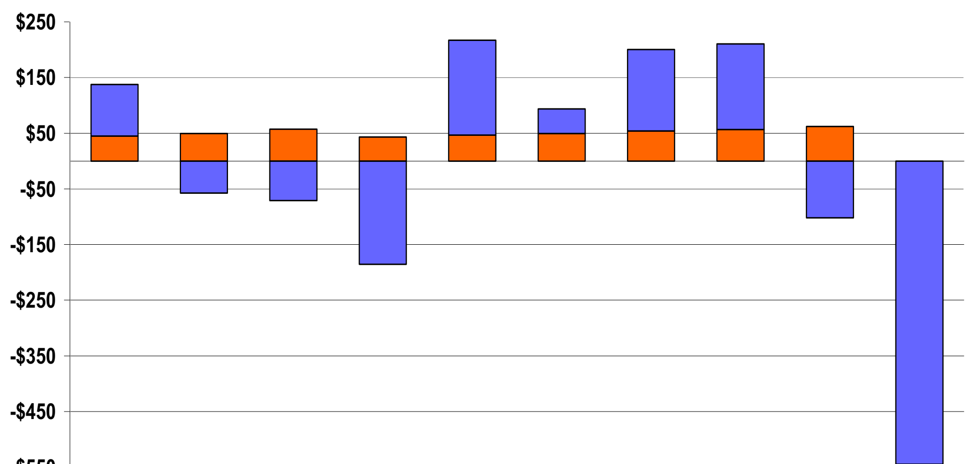
Source: 2008 NACUBO Endowment Study, released January 2009, converted to Canadian dollars at an exchange rate of 1.0186

ALLOCATION FOR SPENDING AND PRESERVATION OF PURCHASING POWER

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

To ensure that endowments will provide the same level of economic support to future generations as they do today, with growth in the capital value of the endowment and with spending increasing over time as a percentage of the original donation, we do not spend everything earned through the investment of funds in years when investment markets are good. In those years, we set aside and reinvest any amounts earned in excess of the spending allocation. This provides protection against inflation and builds up a reserve, which is expected to be used to fund spending in years when investment markets are poor. When investment income is less than the amount allocated for spending, or negative, the shortfall is expected to be funded from the accumulated investment income which has previously been added to the pool. The following graph shows the spending allocation and the amounts reinvested and drawn down over the past several years. For 2008-09, as a result of the severe losses in the world's financial markets, the allocation for program spending was suspended to conserve endowment capital.

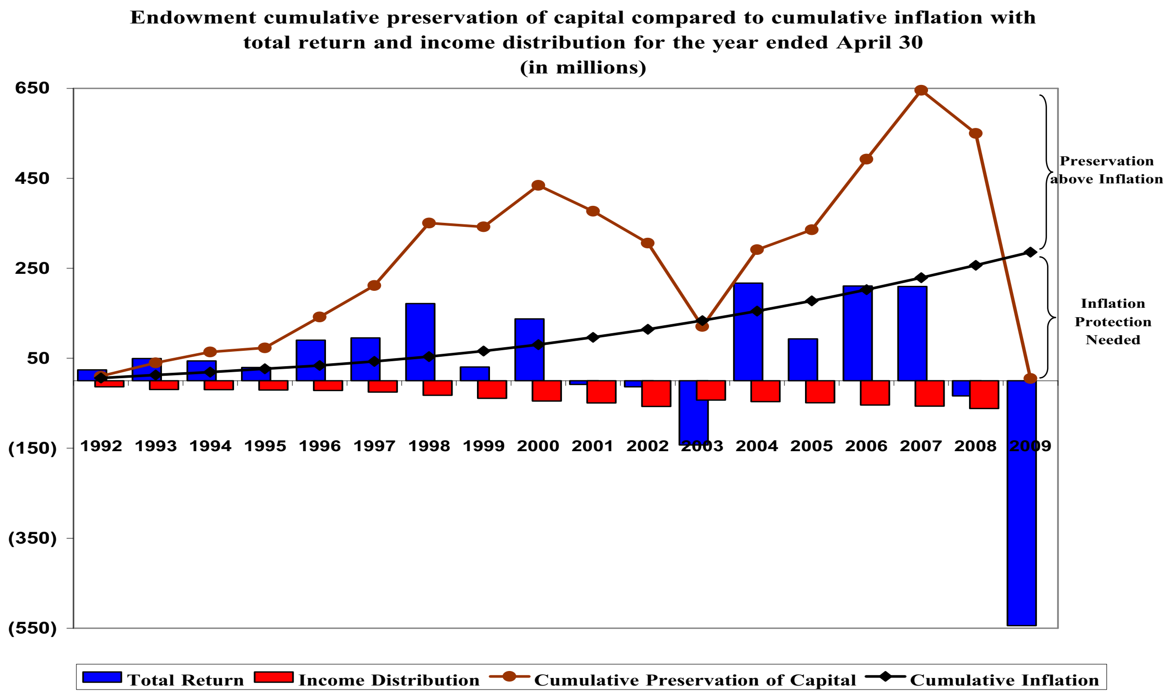
Investment Income on Endowments
for the year ended April 30
(millions of dollars)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Reinvested (draw down)	92.4	(57.6)	(70.9)	(185.5)	170.7	44.4	146.3	153.7	(101.9)	(545.0)
Allocation for spending	45.1	49.6	57.3	43.0	46.5	49.4	54.0	56.5	62.1	-

The University, like other organizations, has not been immune to the shockwaves of the current economic crisis and the endowment experienced a loss $545.0 million in 2008-09 as a result of severe financial market losses. The endowment reserve that the University has so carefully and responsibly built up over the years has done its job by absorbing the brunt of the extreme volatility of the financial markets. Up to April 2008, the endowment had accumulated a cushion of $287.1 million on top of the required inflation protection of $256.6 million. Unfortunately, both of these amounts have been eliminated in 2009 due to investment losses of $545.0 million. As a result, a commission, chaired by the Hon. Henry N.R. Jackman, is being established to review the fundamental principles underlying endowment management strategies, spending policies and investments.

Given these results, the University suspended the endowment distribution in 2008-09 in order to preserve the underlying value of its endowments. The University decided not to erode the endowment capital further so that the baseline for future growth can be maintained. Without this suspension, the University could have impeded its ability to return to the usual endowment distribution levels as the investments supporting the endowments recover their value. This prudent management of the endowment is part of the responsible stewardship of funds that was designed to support the University's faculty and students for generations to come. In recognition of the importance of the initiatives funded by endowments, faculties and divisions have reached into other reserves and have gone to extraordinary lengths to ensure that critical commitments such as endowment professorships and chairs, as well as endowed support for needs-based student aid that would normally have been met from endowment distributions. Their efforts reflect positively on the priorities funded so generously by our benefactors, friends and governments. In addition, the University's 2009-10 operating budget has been structured to enable individual faculties and divisions to run deficits, where necessary, that are to be repaid over the next five years, to ensure that those commitments are met. Together, these actions reflect our commitment to preserve the underlying value of these legacies and to sustain the important purposes for which they were established. They also signal our collective respect for all those who have supported the institution with endowed gifts.



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

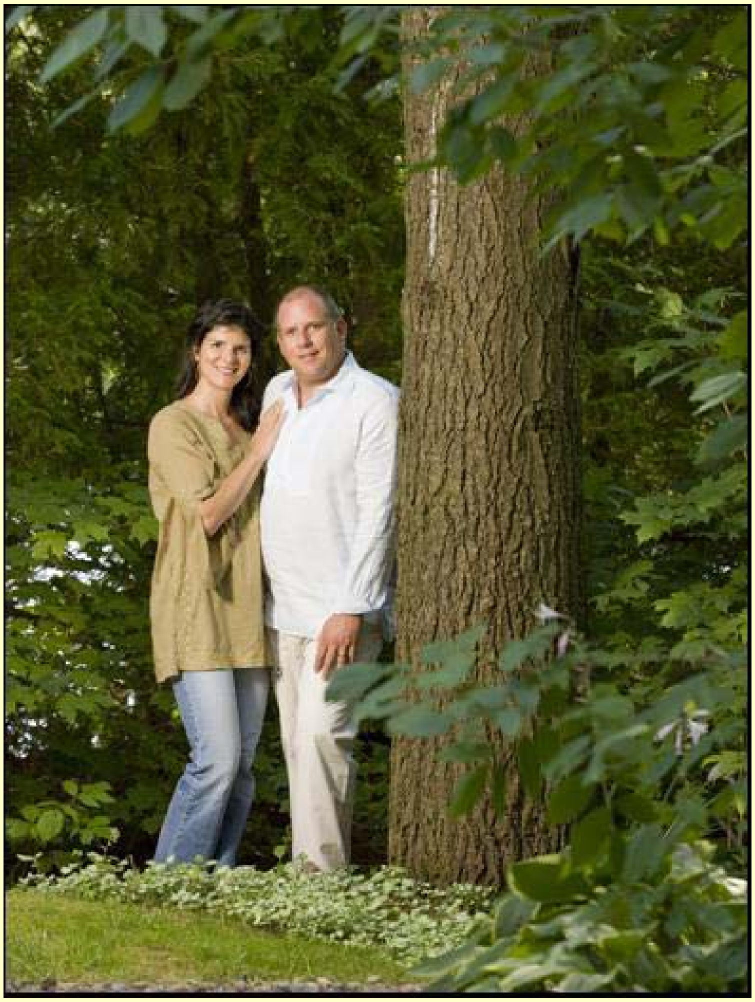
As previously noted, a very small number of endowments, mostly very long-standing ones or ones with very specific characteristics such as the Jokers Hill[1] property in King City, are specifically invested outside of LTCAP. Their individual investment performance reflects those specific investments. These endowments are not subject to the preservation of capital policy and, in most cases, all investment income is made available for spending. There were 11 funds in this category with a total fair value of $48.0 million. For 2009, no distribution was made available for spending.

[1] Jokers Hill is a large property in King City that was gifted to the University some years ago. It is a real estate holding that is used for academic purposes and thus is not expected to earn returns in accordance with the target established for LTCAP.

The Dalla Lanas Make Their Mark

$20-million gift to the U of T will help refurbish Canada's role as an innovator in public health *(By Scott Anderson)*

Paul Dalla Lana doesn't believe in doing worthwhile things in small measure. The real estate entrepreneur gave $20 million to U of T last April to establish the Dalla Lana School of Public Health, and says the desire to make a significant contribution simply reflects the way he does business.



Four years ago, he founded NorthWest Healthcare Properties REIT, now the largest private owner and manager of medical buildings in Canada. "We've always tried to do things at a scale and with a level of commitment that's bigger rather than smaller," says Dalla Lana, who lives in Toronto. "My view is that if it's worth doing, then you should do it fully."

In supporting the new School of Public Health, Dalla Lana and his wife, Allessandra, saw an opportunity to contribute to a Toronto institution that aims to rank among the best in the world. They liked the idea of refurbishing Canada's image as an international innovator in public health. And they hope that the school will find ways to improve Canada's own health-care system, which is struggling to meet the demands of an aging population. "We wanted to give a much-needed boost to an area that has been sometimes overlooked," he says.

A Vancouver native, Dalla Lana earned an economics degree from the University of British Columbia and worked for a short time as an economist. He returned to UBC to earn an MBA, and, after graduating in 1994, founded NorthWest Value Partners (the parent company of Northwest Healthcare Properties REIT). The real estate market was in a slump and most of his classmates were landing jobs in investment banking or management consultancy. Dalla Lana, 42, opted for the road less taken. "My mindset has always been to look where others are not," he says.

A strong believer in the value of education, Dalla Lana describes his family's history as "the classic immigrant story." All four of his grandparents immigrated to Canada from Italy, and made educating their children a priority. "My grandparents, if they were here, would be overwhelmed by how successful their clan has been."

Dalla Lana says he and Alessandra are looking forward to working with the school's founding director, Jack Mandel, to further enhance the University of Toronto's leading role in Canadian health care. "You spend a lot of your time imagining how you can create or contribute to great things," he says. "This is an opportunity to do just that."

Dalla Lana's $20-million gift for the Dalla Lana School of Public Health created three endowment funds which will be used to support the Director of the School, four Chairs and the Dalla Lana Scholarship Program.

LONG-TERM CAPITAL APPRECIATION POOL (LTCAP) INVESTMENT POLICY

Almost all of the University's endowments (95.9% of fair value) are invested in LTCAP, a unitized pool. The fair value of an LTCAP unit is set each month, representing the market value of investments of the LTCAP divided by the total number of units held. Each endowment account has an assigned book value (nominal amount of dollars contributed to the endowment) and an allocation of LTCAP units based on the number of dollars contributed and the unit value on the dates of contribution.

In addition to endowments, LTCAP also includes $173.8 million expendable funds that are invested for the long-term, including the University's supplemental retirement arrangement fund, and $38.6 million of external funds of affiliated organizations and funds where the University is a beneficiary, representing historical arrangements.

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

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

INVESTMENT MANAGEMENT AND OVERSIGHT

LTCAP investments are managed by the University of Toronto Asset Management Corporation (UTAM) as agent for the University. The assets are managed in accordance with the University's investment policy (www.utam.utoronto.ca). UTAM, which was formed in April 2000, is a professional investment management organization that is wholly owned by the University and governed by its own Board of Directors. The UTAM Board is responsible for the oversight and direction of UTAM. UTAM reports on the investments under management to the Business Board of the University of Toronto.

The University establishes the return and risk parameters for LTCAP. UTAM then develops and executes appropriate investment strategies, including the policy asset mix, based on these return and risk parameters. The policy asset mix for LTCAP is periodically subjected to a comprehensive review, in conjunction with the requirements of the underlying endowments.

UTAM operates on a calendar year basis and reports monthly to the UTAM Board of Directors (and semi-annually to the Business Board) on the performance of the investments.

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

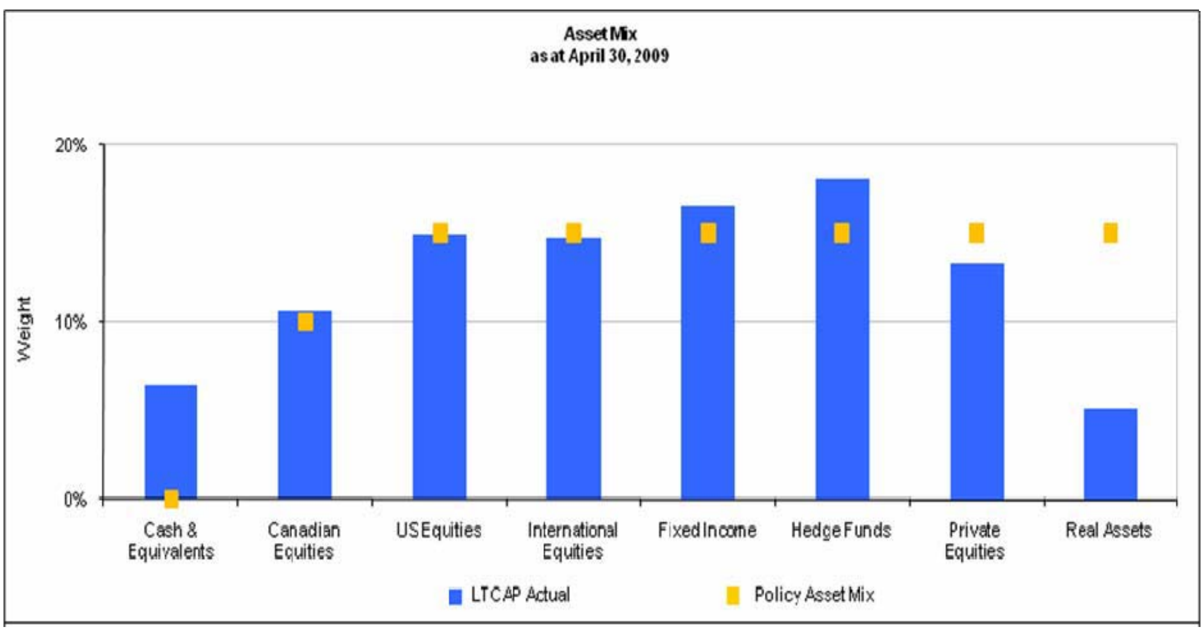
The fair value of LTCAP was $1,446.5 million at April 30, 2009, of which $1,234.1 million was endowments, representing 95.9% of all endowments.

Asset Mix

LTCAP's total portfolio return target is a 4% real return (net of fees and expenses), and its investment risk tolerance is specified as a maximum 10% standard deviation of the portfolio's annual returns over a 10-year period. These parameters were established in 2003 and are reviewed regularly.

The LTCAP policy asset mix is reviewed annually by UTAM. The most recent review, which was conducted in September 2008 and approved by the UTAM Board, maintained the asset mix that has been in place since January 2007. The asset mix comprises a 55% allocation to traditional assets (i.e., publicly listed Canadian, US and International equities and fixed income securities) and 45% to alternative assets (i.e., private equities, real estate, infrastructure, commodities and hedge funds). This allocation was designed to maximize the investment return per unit of risk assumed, over the long term.

The chart below compares the actual asset mix to the policy asset mix.



There are two potential sources of divergence between the policy asset mix, or target weight, and the actual asset mix.

Firstly, UTAM management has the discretion to diverge from the policy asset mix to a pre-determined modest limit, which depends on the size of the target weight (i.e. more latitude for larger target weights). As the table illustrates, the current portfolio includes a higher allocation to 'cash and equivalents' than the policy portfolio.

Secondly, participation in certain asset classes (e.g. hedge funds, private equities, etc.) requires significant time and effort to source investment managers and to transact investments, compared to sourcing public markets investment managers, where funds can be rebalanced more quickly. As the chart above indicates, Hedge Funds and Private Equities combined are currently slightly above their aggregate policy asset weight, while the allocation to Real Assets is still below its long term target. At present, any underweight in the total of these Alternative Assets is allocated, on a pro rata basis, to the public markets equities and fixed income asset classes

Foreign Currency Exposure

The underlying philosophy at UTAM is to exploit global investment opportunities. This focus results in foreign exchange exposure. The currency hedging policy, until the end of 2008, had been to fully hedge all foreign currency exposures, reflecting a view that over the longer term, currency returns were approximately zero. This policy had an adverse impact on both returns and volatility (risk) this past year (compared to a more common 50% hedging policy) given the significant decline in the Canadian dollar vis a vis the US dollar during the final calendar quarter of 2008. Since December 31, 2008, the currency hedging policy has been changed to 50% hedging based on further analysis that led UTAM to conclude that such a policy would lead to reduced shorter-term volatility in the Canadian dollar returns earned by the portfolio.

Investment Performance

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

Reference Portfolio[2] benchmark that was established by the University at the end of 2008. This Reference Portfolio, developed by the University and its actuarial consultant, represents a simple, passively managed portfolio that would be expected to achieve the return objective (i.e. 4% real) over the 10-year time horizon specified by the University.

The table below summarizes the 1-year LTCAP investment performance for years ending April 30.

1-Year Annual Rates of Return

Year Ended April 30	LTCAP Annual Actual Return*	University Objective (4% plus CPI)
2009	**(31.0%)**	**4.4%**
2008	(2.0%)	5.7%
2007	13.7%	6.2%
2006	15.8%	6.4%
2005	7.4%	6.4%

**Returns are net of all investment fees and expenses. The 2005 to 2007 annual returns exclude returns on private investment interests.*

The loss of 31% on the year was disappointing. The major factor was the extremely challenging market environment wherein all major markets and asset classes (except for nominal[3] fixed income and short term investments) experienced an unprecedented level of losses and volatility. Losses associated with Canadian, US and International equities were abnormal and generally well in excess of -31%. Because equities provide superior returns over the long term and because the LTCAP portfolio has a longer term focus and thus heavier exposure to equity related investments, its 2009 performance suffered accordingly. Moreover, the 100% foreign currency exposure hedging policy did not allow the portfolio to benefit from the steep Canadian dollar depreciation in late 2008. A detailed review of investment performance, which is managed and measured on a calendar year basis by UTAM, is available on UTAM's website at www.utam.utoronto.ca and in UTAM's 2008 Annual Report.

[2] *The Reference Portfolio is comprised of: 35% Cdn Universe Bonds, 5% Cdn Real Return Bonds, 30% Cdn Equities, 15% US Equities (half currency hedged), and 15% International Equities (half currency hedged).*

[3] *Excluding real return bonds, which also had a negative return for the year ending April 30, 2009*

While it is always difficult to compare returns among funds because funds have different return goals and risk tolerances that drive asset allocation decisions and result in very different portfolios, some comparisons are helpful in putting this year in context. Most of the loss occurred in the July to December period of 2008 and on that basis the endowment results are very similar to those of many comparable funds. Our endowments lost 26.3% in that period while U.S. endowments were down 24.1%. To put this in a broader context, Canadian equities as measured by the TSX composite index lost 37.7% while U.S. equities as measured by the S&P 500 lost 28.5% over the same July to December period.

January and February 2009 were quite negative from a return perspective. Most equity markets bottomed out in early March, with the result that many markets were still negative on a January to April basis. Since March, markets have improved and the LTCAP unit market value has increased from $145.27 per unit at April 30, 2009 to $149.98 per unit at June 30, 2009, an increase of 3.2% over that two month period. It is also important to note that valuations in the Private Equity and Real Asset areas generally follow trends in the public markets, but with a lag, so that losses in these areas resulting from the poor markets in calendar 2008 are being reflected in the first several months of 2009.

Looking at our performance in comparison to our peers over a longer horizon also helps put this year in perspective. For the five years ending June 30, 2008, our endowment performance ranked second among a group of peer universities (Alberta, Arizona, Berkeley, B.C., Illinois, McGill, Minnesota, Ohio, Queen’s, Texas, Washington and Wisconsin). Ten year performance to the same year-end ranked us third. This ranking indicates that our endowment performance has been a major contributor to the financial health of the University of Toronto over the past decade.

FEES AND EXPENSES

Fees and expenses set out below represent the endowments' proportionate share of the expenses allocated to LTCAP. Fees and expenses amounting to 1.0% of the 2009 opening unit market value (1.3% of ending market value) consist of the following:

	2009 In millions	2008 In millions
Investment related management fees		
External managers	$ 13.8	$15.8
UTAM	1.2	1.3
Trustee and custodial fees	0.8	0.8
Foreign taxes	0.8	0.9
Professional and other fees	0.3	0.4
	16.9	19.2
University of Toronto – administration costs	0.0	0.3
Total	$ 16.9	$19.5

UTAM has direct oversight of all fees and expenses related to managing the LTCAP assets, except for the University's administration costs. Third party fees allocated to LTCAP include fees paid to external investment managers contracted by UTAM, trustee and custodial fees, and professional fees. UTAM strives to negotiate lower fee rates (volume related) based on the total assets that UTAM assigns to an external manager, which would include LTCAP assets. The benefit of these lower rates is experienced by LTCAP in the form of lower total costs than would otherwise be the case. Third party fee rates can vary widely, depending on the nature of the asset being managed. For example, fee rates for domestic fixed income mandates are typically much lower than fee rates for private equity investments (domestic or foreign). Therefore, the mix of assets, and changes in asset mix over time, can have a significant impact on total costs year by year. In 2009, total external manager fees were lower as a result of decline in asset valuation, which forms the basis for investment management fee calculations.

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

The University of Toronto administration costs reflects investment management related costs within the University. As part of the University's implementation of a revised resource allocation model, these costs were no longer charged against endowments effective May 1, 2008.

The power of creative philanthropy: Endowing innovation in urban education

The University of Toronto's role in specialized areas of graduate education is growing, part of an historic expansion supported by the government of Ontario and our visionary benefactors. In this domain, no field is more important than education itself. The provision of advanced teacher education is critical to Ontario's ability to sustain and enhance the quality of its schools, particularly those serving children and young adults from economically disadvantaged neighbourhoods.

Last fall Dr. William R. Waters and Mrs. Phyllis J. Waters demonstrated yet again their capacity for empathy, creativity and effectiveness in the pursuit of better schools by committing $100,000 of a new $1 million gift to endow the William Waters Scholarships in Urban Education at the Ontario Institute for Studies in Education (OISE). The expendable portion of their gift will top up the amount available for the scholarships while also funding two complementary initiatives at OISE—the William Waters Teacher-in-Residence in Urban Education and the William Waters Symposium on Urban Education—for five years. The latest Waters gift combines the long-term support of endowed funds with the immediate impact of expendable resources.

Carol Fan, a teacher with the Toronto District School Board, is the first recipient of the Waters Scholarship. On leave from her position at the City Adult Learning Centre, she begins the program in curriculum studies and teacher development at OISE in 2009. "With the Waters' support, I will be able to immerse myself in the world of academia and join the community of learners at OISE/UT," Fan says. She is anxious to better understand and respond to deficiencies in literacy and numeracy skills of at-risk students.

The Waters' support for advanced professional studies at OISE is the latest in a long list of contributions at U of T and elsewhere designed to foster accessibility, enhance education at every level and provide incentives to others to give. Not only are they among the University's most generous benefactors but they are also among the most innovative. Through their willingness to embrace transformation programs and their skillful combination of endowed and expendable contributions, they have achieved maximum impact. And, by providing "challenge funds" to match others' donations (at Rotman Commerce, the Faculty of Music, the Transitional Year Programme and Woodsworth College, for example) they have initiated and sustained a widening circle of support.

Through a new vision of philanthropy, the Waters have helped to ensure that the University of Toronto is better able to nurture the wide range of innovators and creative catalysts that Canadians will need in the years ahead if they are excel in a rapidly changing global economy.

SUMMARY OF CHANGES IN FAIR VALUE

The total return on LTCAP for 2008-09 was a loss of 31.0% (net of fees and expenses) due to severe financial market losses. The reserve established for this purpose from previously re-invested income has been eliminated by the brunt of the extreme volatility in the financial markets, and the spending allocation for this year has been suspended so that the baseline for future growth can be maintained. Fair values of specifically invested endowments changed as a result of the returns of their individual investment portfolios and payouts. New donations received after the cut-off date at the end of the year had not yet been added to LTCAP.

	Total Value (in millions)	Unit Value (in dollars)	Number of Units
1) Endowments pooled in LTCAP:			
Opening balance at May 1, 2008	$1,720.4	$210.16	8,187,065
Contributions	58.2	-	308,607
Investment loss	(527.6)	(62.88)	-
Fees and expenses	(16.9)	(2.01)	-
Allocation for spending	-	-	-
Closing balance at April 30, 2009	$1,234.1	$145.27	8,495,672
2) Specifically invested endowments:			
Opening balance at May 1, 2008	$ 25.8	n/a	n/a
Contributions	22.5		
Investment loss	(0.3)	n/a	n/a
Amount available for spending	-	n/a	n/a
Closing balance at April 30, 2009	$ 48.0	n/a	n/a
3) Donations received to be invested in LTCAP:			
At April 30, 2009	$ 4.2	n/a	n/a
Total endowments at April 30, 2009	$1,286.3	n/a	n/a

The fair value of each endowment account in LTCAP is determined by multiplying the current fair value of the unit ($145.27 at April 30, 2009) by the number of units held by that endowment account.

Appendix

University of Toronto Endowments

Financial Information

April 30, 2009

Auditors' Report

To the Members of Governing Council of University of Toronto:

We have audited the financial information related to net investments held for University of Toronto Endowments as at and for the year ended April 30, 2009, comprising the following:

Statement of net investments
Statement of changes in net investments

This financial information is the responsibility of the administration of the University. Our responsibility is to express an opinion on this financial information based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial information. An audit also includes assessing the accounting principles used and significant estimates made by the administration, as well as evaluating the overall presentation of the financial information.

In our opinion, this financial information presents fairly, in all material respects, the net investments held for University of Toronto Endowments as at April 30, 2009 and the changes in these net investments for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
May 29, 2009.

University of Toronto Endowments
STATEMENT OF NET INVESTMENTS
APRIL 30, 2009
(with comparative figures at April 30, 2008)
(millions of dollars)

	2009	2008
ASSETS		
Investments at fair value *[note 3]*	**954.2**	1,607.8
Short-term notes and treasury bills *[note 4]*	**15.9**	19.5
Cash and cash equivalents *[note 4]*	**177.6**	90.3
Unrealized gains on derivative instruments *[note 3]*	**21.7**	31.6
Investment income and other receivables	**138.7**	15.5
	1,308.1	1,764.7
LIABILITIES		
Unrealized losses on derivative instruments *[note 3]*	**0.7**	1.2
Other payables and accruals	**21.1**	8.7
	21.8	9.9
NET INVESTMENTS HELD FOR ENDOWMENTS	**1,286.3**	1,754.8

On behalf of Governing Council:

(signed)
Catherine J. Riggall
Vice-President, Business Affairs

(signed)
Sheila Brown
Chief Financial Officer

(see notes to financial information)

University of Toronto Endowments
STATEMENT OF CHANGES IN NET INVESTMENTS
FOR THE FISCAL YEAR ENDED APRIL 30, 2009
(with comparative figures for the year ended April 30, 2008)
(millions of dollars)

	2009	2008
INCREASE IN NET INVESTMENTS		
Endowed donations	**49.4**	36.4
Endowed grants and other	**27.0**	14.2
Transfers from University's unrestricted funds	**0.1**	2.8
Transfer from University's deferred contributions		2.4
Total increase in net investments	**76.5**	55.8
DECREASE IN NET INVESTMENTS		
Investment loss *[note 5]*	**528.1**	20.3
Transfer to University of Toronto Schools		21.8
Allocation for spending *[note 6]*		62.1
Fees and expenses *[note 7]*	**16.9**	19.5
Total decrease in net investments	**545.0**	123.7
Net decrease in net investments for the year	**(468.5)**	(67.9)
Net investments held for endowments, beginning of year	**1,754.8**	1,822.7
Net investments held for endowments, end of year	**1,286.3**	1,754.8

(see notes to financial information)

University of Toronto Endowments
NOTES TO FINANCIAL INFORMATION
APRIL 30, 2009

1. Description

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

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

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

2. Summary of significant accounting policies and reporting practices

This financial information has been prepared in accordance with Canadian generally accepted accounting principles applied within the framework of the significant accounting policies summarized below:

a) Investments -

Investments are carried at fair value except for the real estate directly held by the University. Fair value amounts represent estimates of the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. The calculation of estimated fair value is based upon market conditions at a specific point in time and may not be reflective of future fair values. Changes in fair values from one year to the next are reflected in the statement of changes in net investments.

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

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

2. Publicly traded bonds and equities are determined based on the latest bid prices.

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

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

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

6. Private investment interests, which comprise private externally managed pooled funds with underlying investments in equities, debt, real estate assets and commodities, are determined based on the latest valuations provided by the external investment managers of the fund (typically December 31), adjusted for subsequent cash receipts and distributions from the fund, and cash disbursements to the fund through April 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because alternative investments are not readily traded, their estimated values are subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

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

b) Derivative financial instruments –

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

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

c) Revenue recognition –

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

d) Foreign currency translation –

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

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

e) Financial Instruments –

The University has chosen to apply CICA 3861: Financial Instruments – Disclosure and Presentation in place of CICA 3862: Financial Instruments – Disclosures and CICA 3863: Financial Instruments – Presentation.

3. Investments

Most of the funds associated with the University's endowments are invested in LTCAP. These funds represent 85.3% (2008 – 85.8%) of the total LTCAP investments. Other investments represent investments held outside LTCAP due to donors' specific instructions. Direct investments are classified by asset-mix category based on the intent of the investment strategies of the underlying portfolio. This classification required $47.4 million (2008 - $65.9 million) of pooled funds, $39.9 million (2008 - $314.7 million) in hedge funds and $9.5 million (2008 - $0.3 million) of cash, money market funds, short-term notes and treasury bills set aside related to derivative contracts to be reclassified to their appropriate investment categories.

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

	(millions of dollars)			
	2009		2008	
	LTCAP	**Other**	LTCAP	Other
Government and corporate bonds	**108.1**	**6.2**	369.2	6.2
Canadian equities	**105.3**	**2.3**	249.4	2.7
United States equities	**117.3**	**0.3**	259.9	0.4
International equities	**143.2**	**-**	357.8	0.1
Hedge funds	**224.6**		132.2	
Private equity and debt interests	**172.8**		138.8	
Real asset interests	**57.8**	**16.3**	74.8	16.3
	929.1	**25.1**	1,582.1	25.7
Total investments	**954.2**		1,607.8	

Risk management

Risk management relates to the understanding and active management of the risks associated with all areas of the University's investments. Investments are primarily exposed to foreign exchange risk, interest rate price risk and market and credit risks. To manage these risks within reasonable risk tolerances, the University, through the University of Toronto Asset Management Corporation ("UTAM"), has formal policies and procedures in place governing asset mix among equity, fixed income and alternative assets, requiring diversification within categories, and setting limits on the size of exposure to individual investments and counterparties. In addition, derivative instruments are used in the management of these risks (see below).

During the year, the University recognized investment loss of $33.7 million (2008 – income of $6.7 million) as a change in fair value that was estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. Management believes there are no other reasonable assumptions for these investments which would generate any material changes in investment income.

Derivative financial instruments

Description

The University has entered into various derivative contracts. The University has entered into equity index futures contracts which oblige it to pay the difference between a predetermined amount and the market value of certain equities when the market value is less than the predetermined amount, or receive the difference when the market value is more than the predetermined amount.

The University has entered into foreign currency forward contracts to minimize exchange rate fluctuations and the resulting uncertainty on future financial results. All outstanding contracts have a remaining term to maturity of less than one year. The University has significant contracts outstanding held in the U.S. dollar, Euro, Japanese yen and British pound, among others.

The notional amounts of the derivative financial instruments do not represent amounts exchanged between parties and are not a measure of the University's exposure resulting from the use of financial instrument contracts. The amounts exchanged are based on the applicable rates applied to the notional amounts.

Risks

The University is exposed to credit-related losses in the event of non-performance by counterparties to these financial instruments, but it does not expect any counterparties to fail to meet their obligations given their high credit ratings.

Terms and conditions

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

	(millions of dollars)			
	2009		2008	
	Notional Value	**Fair Value**	Notional Value	Fair Value
Foreign currency forward contracts				
- U.S. dollars	**432.1**	**7.3**	769.8	5.5
- International	**87.9**	**3.3**	280.4	5.4
		10.6		10.9
Equity and commodity index futures contracts				
- Canadian			69.2	3.4
- United States	**265.6**	**10.4**	147.9	6.8
- International			106.5	9.3
		10.4		19.5
Total		**21.0**		30.4
Reported on the statement of net investments as:				
Unrealized gains on derivative instruments		**21.7**		31.6
Unrealized losses on derivative instruments		**(0.7)**		(1.2)
		21.0		30.4

Uncalled commitments

As at April 30, 2009, approximately 18.6% (2008 – 12.3%) of the LTCAP's investment portfolio is invested in private funds managed by third party managers. These private funds typically take the form of limited partnerships managed by a General Partner. The legal terms and conditions of these private investment funds, which cover various areas of private equity investments and real assets investments (e.g., real estate, infrastructure) require that investors initially make an unfunded commitment and then remit funds over time (cumulatively up to a maximum of the total committed amount) in response to a series of capital calls issued to the investors by the manager. As at April 30, 2009, the endowments had uncalled commitments of approximately $205.2 million (2008 - $211.0 million). The capital committed is called by the manager over a pre-defined investment period, which varies by fund but is generally about three to five years from the date the fund closes. In practice, for a variety of reasons, the total amount committed to a fund is very rarely all called. The University generally makes commitments to newly formed private investment funds each year as part of an overall investment program centered on such funds.

4. Cash and short-term investments

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

5. **Investment loss**

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

6. **Allocation for spending**

The allocation for spending is governed by the University's preservation of capital policy, the purpose of which is to ensure that the rate of growth in the capital value of endowments matches or exceeds the rate of inflation over time. This policy limits the amount of income made available for spending and requires the reinvestment of excess income. The target allocation for spending is about 4% of the fair value of endowments within a corridor of 3% to 5%. In 2008-09, as a result of severe financial market losses, the University suspended the endowment distribution in order to preserve the underlying value of its endowments.

7. **Fees and expenses**

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

	(millions of dollars)	
	2009	2008
Investment management fees		
- External managers	**13.8**	15.8
- UTAM	**1.2**	1.3
Foreign taxes	**0.8**	0.9
Trustee and custodial fees	**0.8**	0.8
Professional and other fees	**0.3**	0.4
Administration cost – University of Toronto	**-**	0.3
Total	**16.9**	19.5