UNIVERSITY OF TORONTO

PENSION FUND MASTER TRUST INVESTMENT POLICY

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PREAMBLE

The Governing Council of the University of Toronto is the legal administrator of the University of Toronto Pension Plan and the University of Toronto (OISE) Pension Plan to provide pension benefits to its employees. These plans are contributory defined benefit pension plans registered under and subject to the Ontario Pension Benefits Act.

For investment purposes, the University of Toronto pension plan and the plan for its OISE employees are pooled into a pension master trust. This pooling enables both funds to enjoy economies of scale and eliminates discrepancies in investment performance.

The University determines the return expectation and risk tolerance via this *University of Toronto Pension Fund Master Trust Investment Policy*, which is approved annually by its Business Board.

The University owns the University of Toronto Asset Management Corporation (UTAM). The University has formally delegated to UTAM the authority for management of pension master trust investments by resolution of the Business Board of Governing Council and establishes the terms and conditions under which UTAM provides investment management services. The investment decisions of UTAM and its Board of Directors are subject to the overall policy direction of the University.

1. PLAN DESCRIPTION AND GOVERNANCE

1.1 TYPE OF PENSION PLAN

The pension plans are contributory defined benefit plans registered under and subject to the Ontario Pension Benefits Act. The Governing Council of the University of Toronto is the registered plan administrator. The current plans provide defined pension benefits for eligible employees, currently members of the academic, librarian, administrative and unionized staff of the University, the OISE division of the University, and its related affiliated organizations.

As of August 1, 2000, the University of Toronto pension fund for its OISE division was pooled into a master trust for investment purposes with the University's main pension fund. While they are two separate and distinct plans (University of Toronto Pension Plan registration number 0312827 and OISE Pension Plan registration number 0353854), the pooling for investment purposes enables both funds to enjoy economies of scale and eliminates discrepancies in investment performance. The plan provisions for the OISE Plan are identical to the University of Toronto Pension Plan. Required member contributions under the plan each year are 4.5% or 5% of salary (depending on the staff group) up to the year's maximum pensionable earnings (YMPE), plus 6% of salary in excess of the YMPE.

1.2 Nature of Plan Liabilities

The purpose of the plans is to provide retirement income for members of its plans. The plans provide an annual pension benefit to members based on a prescribed formula applied to years of participation.

Pension benefits are adjusted each year by an amount equal to the greater of:

(a) 75% increase in the Consumer Price Index (CPI) for the previous year; or
(b) the increase in the CPI for the previous year minus four percentage points.

As of July 1, 2009, there were 8,326 active members in the University of Toronto Pension Plan, 4,569 retired participants, 2,326 terminated vested members and 374 exempt or pending status. The average age of active members was 47.4 years, average service 12.3 years, and average pay was $85,810. As of July 1, 2009 the market value of assets of the plan was $1,954.8 million versus going concern accrued liabilities of $2,983.8 million.

As of July 1, 2009 the OISE Pension Plan had 103 active members, 146 retired members, and 21 terminated vested members. The average age of active members was 58.0 years, average service was 25.4 years and average pay was $106.401. As of July 1, 2009 the market value of assets of the plan was $71.5 million versus going concern accrued liabilities of $106.6 million (including partial wind-up).

The going-concern liabilities are influenced by real interest rates, salary increases, CPI increases, turnover, mortality and retirement age patterns. Appropriate allowance is made for these factors in the assumptions used for actuarial valuation purposes and it is not expected that actual experience will vary significantly from the valuation amounts over the long term.

The duration (a weighted-average sensitivity measure) of plan liabilities is 13.2 years and 11.3 years respectively for the University of Toronto and OISE pension plans. Duration is lengthened due to the plans' automatic inflation protection, which increases benefit payments over time. The long duration of liabilities is indicative of a long-term investment horizon for the assets.

Going-concern liabilities are determined using long-term assumptions and are not affected by short-term changes in interest rates. Solvency liabilities do fluctuate from year to year with market interest rates, but because the plans provide guaranteed indexing of 75% of the increase in the CPI, the market interest rate used to determine solvency liabilities depends more on the yield of real return bonds than on nominal bond yields. Real yields on real return bonds have been less volatile than nominal interest rates. Fluctuations in solvency liabilities caused by real interest rate changes can have an impact on cash contributions or pension expenses.

2. INVESTMENT POLICIES AND GOALS

2.1 Introduction

The University of Toronto has engaged the University of Toronto Asset Management Corporation (UTAM) to manage the pension master trust assets. As a client of UTAM, it is important that the University delivers to its fund manager a concise statement of return objectives as well as risk tolerance, and that these two components are congruous. The purpose of this policy is to establish both of these objectives with regard to the pension master trust.

2.2 Risk and Return Objectives

To keep risk at a reasonable level, the risk objective is an annual standard deviation of 10.0% or less in nominal terms over 10 year periods. The University has less appetite for downside risk than for upside risk and prefers that risk be managed to minimize the downside, and particularly to avoid returns less than 0% where ever possible.

In order to meet the planned payments of pensions to pensioners, the return objective is at least a 4.0% real, inflation-adjusted return over a 10 year period, net of all investment fees and expenses, plus CPI, but with the target real return to be no greater than that which is achievable within the 10% allowable risk objective.

Actual investment performance will be evaluated against these objectives over time.

2.3 Asset Mix

The University has formally delegated to UTAM the authority for investment strategy and execution including. without limitation, establishment of the asset mix investment mandates, selection of investment managers to be responsible for the management of the portfolios in accordance with those mandates, determination of portfolio diversification, categories and subcategories of investments, use of derivatives, and investment restrictions.

Each investment manager shall adhere to this policy and shall follow the investment policies and goals with the care, diligence, and skill that a person skilled as a professional investment manager would use in dealing with pension plan assets and shall use all relevant knowledge and skill that the investment manager possesses or ought to possess. Investment managers are expected to be in compliance with the standards of professional conduct and code of ethics administered by the Association for Investment Management and Research (AIMR).

2.4 Restrictions

In addition to the restrictions developed by the University and UTAM, the policy will adhere to the restrictions specified within the Pensions Benefits Act, Regulation 909 of the Revised Regulations of Ontario 1990, and the Federal Income Tax Act, all as amended from time to time.

3. GENERAL

3.1 Conflict of Interest Guidelines

Anyone involved directly or indirectly with the University's fund investments shall immediately disclose to the Business Board, at the time of its discussion of the policy or of matters related to the investment of University funds, any actual or perceived conflict of interest that could be reasonably expected to impair, or could be reasonably interpreted as impairing, his/her ability to render unbiased and objective advice to fulfill his/her fiduciary responsibility to act in the best interests of the funds.

This standard applies to the University and to its employees, to the members of the Governing Council, its boards and committees and to employees and members of the board of UTAM, as well as to all agents employed by them in the execution of their responsibilities under the Pension Benefits Act (Ontario) (the "Affected Persons").

An "agent" is defined to mean a company, organization, association or individual, as well as its employees who are retained by the University to provide specific services with respect to the investment, administration and management of the assets of the Plan.
Disclosure:

In the execution of their duties, the Affected Persons shall disclose any conflict of interest relating to them, or any material ownership of securities, which could impair their ability to render unbiased advice, or to make unbiased decisions, affecting the administration of the Plan assets.

Further, it is expected that no Affected Person shall make any personal financial gain (direct or indirect) because of his or her fiduciary position. However, normal and reasonable fees and expenses incurred in the discharge of their responsibilities are permitted upon notification to the University.

No affected Person shall accept a gift or gratuity or other personal favour, other than one of nominal value, from a person with whom the employee deals in the course of performance of his or her duties and responsibilities for the Plan.

It is incumbent on any Affected Person who believes that he or she may have a conflict of interest, or who is aware of any conflict of interest, to disclose full details of the situation to the attention of the Business Board immediately. The Business Board in turn, will decide what action is appropriate under the circumstances but, at a minimum, will table the matter at the next regular meeting of the Business Board.

No Affected Person who has or is required to make a disclosure as contemplated in this Policy shall participate in any discussion, decision or vote relating to any proposed investment or transaction in respect of which he or she has made or is required to make disclosure, unless otherwise determined permissible by unanimous decision of the Business Board.

3.2 Custody

The University has overall responsibility for custody of pension assets, operational oversight of which it delegates to UTAM.

3.3 Related Party Transactions

The University, on behalf of the plan, may not enter into a transaction with a related party unless

a) the transaction is both required for operation and or administration of the Plan and the terms and conditions of the transaction are no less favourable than market terms and conditions;
b) securities of the related party are acquired at a public exchange; or
c) the combined value of all transactions with the same related party is nominal or the transaction(s) is immaterial to the fund.

For the purposes of this section, only the market value of the combined assets of the Plan shall be used as the criteria to determine whether a transaction is nominal or immaterial to the Plan.

A 'related party' is defined to mean the administrator of the Plan, including any officer, director or employee of the administrator, or any person who is a member of the University. It also includes UTAM and their employees, investment managers and their employees, a union representing employees of the employer, a member of the plan, a spouse or child of the persons named previously, or a corporation that is directly or indirectly controlled by the persons named previously, among others. Related party does not include government or a government agency, or a bank, trust company or other financial institution that holds the assets of the Plan, where that person is not the administrator of the Plan.

3.4 Responsibilities of Fund Managers and Professionals

The University has overall responsibility for the plans. The University has delegated certain responsibilities to UTAM and to third party agents.

a) Investment managers
The University as delegated responsibility for investment managers to UTAM. The Investment managers will:

(i) invest the assets of the Plans in accordance with this Policy,
(ii) notify UTAM in writing of any significant changes in the investment manager's philosophies and policies, personnel or organization and procedures,
(iii) reconcile their own records with those of the custodian, at least monthly,
(iv) meet with UTAM as required and provide written reports regarding their past performance, their future strategies and other issues requested by UTAM,
(v) file compliance reports as frequently as required by UTAM.

b) Custodian/trustee:
The University has delegated responsibility to UTAM for the custodian/trustee. The custodian/trustee will:
(i) maintain safe custody over the assets of the Plans,
(ii) execute the instructions of the University, of UTAM and of the investment managers,
(iii) record income and provide monthly financial statements to the University and to UTAM as required,
(iv) meet with UTAM as required.

c) Actuary:
The University appoints the actuary. The actuary will:
(i) perform actuarial valuations of the Plans as required,
(ii) advise the University on any matters relating to the Plans design, membership and contributions, and
(iii) assist the University in any other way required,
(iv) meet with the University as required.

d) Accountant:
The University appoints the accountant. The accountant will provide annual audited financial statements of the Plans and meet with the University as required.

The University has the authority to retain other consultants/suppliers, as it deems necessary from time to time.

3.5 Policy Review

This statement shall be reviewed at least once a year and either confirmed or amended as necessary.

Catherine Riggall
Vice-President, Business Affairs
December 14, 2009