UNIVERSITY OF
TORONTO

Endowments

Annual Financial Report

For

The Year Ended April 30, 2010

HIGHLIGHTS

	April 30, 2010	April 30, 2009	% Change
Total Endowments:	(Millions of dollars)		
Fair value	$ 1,437.2	$ 1,286.3	11.7%
Change from previous year:			
Endowed donations	$ 19.5	$ 49.4	-60.5%
Endowed grants and other	$ 4.2	$ 27.0	-84.4%
Transfers from University's unrestricted funds	$ 1.4	$ 0.1	1300.0%
Investment income (loss)	$ 202.9	$ (528.1)	138.4%
Fees and expenses	$ (14.7)	$ (16.9)	-13.0%
Allocation for spending	$ (62.4)	$ -	N/A
Total change for the year	$ 150.9	$ (468.5)	132.2%
Endowments in Long-Term Capital Appreciation Pool (LTCAP):			
Proportion invested in LTCAP	96.10%	95.94%	0.2%
Number of units in LTCAP	8,667,075	8,495,672	2.0%
Fair value in millions	$ 1,381.1	$ 1,234.1	11.9%
Fair value per unit in dollars	$ 159.35	$ 145.27	9.7%
Allocation for spending per unit in dollars	$ 7.26	$ -	N/A
LTCAP time-weighted net returns*	14.7%	-31.0%	147.4%

*Returns net of investment fees and expenses.

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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 and it has educated hundreds of thousands of students and enjoys a global reputation in multiple fields of scholarship. It is one of seven 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. It is in part due to the generosity of donors, that the University of Toronto is recognized as a global leader for its excellence in research and teaching. Endowments enable students and academics from around the world to benefit from our distinguished faculty, groundbreaking research and wealth of innovative academic opportunities. University of Toronto endowments totaled $1.437 billion at April 30, 2010 and included over 5,150 individual endowment funds. In establishing these funds, donors have chosen to support the institution's highest, continuing academic priorities.

The recent economic turmoil has posed significant fiscal pressures for the University and its students. The University has been fortunate to face this deep recessionary period with some important advantages. Foremost among these advantages are the creativity and commitment of our faculty and staff, the inspiration that we derive from our outstanding students and the continued support that so many alumni and friends have given the University over the years. The University has therefore been able to sustain its trajectory of excellence, unique to Canada, rare in any public university, and increasingly relevant to Canada's international aspirations.

We want to ensure that endowments will provide the same level of economic support to future generations as they do today. Therefore, we adopted a policy that grows the capital value of the endowment while allowing spending to increase over time as a percentage of your original donation. To this end, our strategy is not to spend everything earned through the investment of funds in years when investment markets are good. In favorable years, funds in excess of the spending allocation are set aside and reinvested. This enables both a protection against inflation and builds up a reserve for years when investment markets are poor.

The 2008-09 year was very challenging in the investment markets and all major markets experienced significant losses due to the severe global financial and economic crisis. The University, like other organizations, was not immune to the shockwaves. The endowment reserve, so carefully and responsibly built up, did its job by absorbing the brunt of the external volatility and was eliminated by the end of 2009. As a result, the University suspended the endowment distribution for 2008-09 on a one-time-only basis to preserve the endowment's underlying value so the baseline for future growth could be maintained. However, in recognition of the importance of the initiatives funded by endowments, faculties and divisions reached into other reserves and went to extraordinary lengths to ensure that critical commitments such as endowment professorships and chairs, as well as endowed support for needs-based student aid, normally funded from endowment distributions, were met. In addition, the University's 2009-10 operating budget was structured to enable individual faculties and divisions to run deficits, where necessary, to be repaid over the next five years, to ensure that these commitments were 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. In 2009-10, that preservation strategy has enabled us to reinstate the endowment spending allocation at April 30, 2010 and to begin to rebuild the endowment reserve, which now stands at $124.5 million.

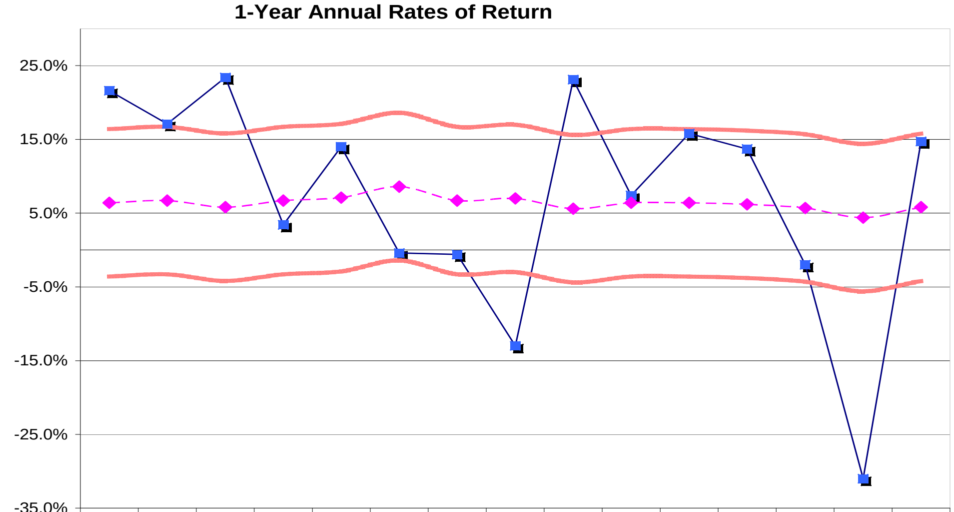
Endowments are managed in a unitized pool. Almost all of the University's endowments hold units in this unitized investment pool, entitled the Long-Term Capital Appreciation Pool (LTCAP). Each endowment account holds units in LTCAP that reflect the number of dollars contributed and the unit value on the dates of contribution. The target spending allocation is 3% to 5% of opening balance market value and the actual endowment spending allocation for 2009-10 was 5%. The market value of each unit has increased from $145.27 at April 30, 2009 to $159.35 at April 30, 2010.

Unit market value at May 1, 2009	$145.27
Investment income per unit	23.02
Fees and expenses	(1.68)
Endowment spending allocation	(7.26)
Unit market value at April 30, 2010	$159.35

The amounts pertaining to a particular endowment account are obtained by multiplying the value per unit by the number of units in the endowment accounts. For example, if an endowment account holds 750 units, the market value of the endowment at April 30, 2010 was 750 times $159.35 or $119,512.50.

To fund the spending allocation and to preserve capital against inflation over time, the University has established an investment return target of a 4% real investment return after inflation and net of investment fees and expenses with a risk tolerance of 10% over 10 years. The graph below shows the investment return as compared to the return target since 1996.

Long Term Capital Appreciation Fund (LTCAP)
1-Year Annual Rates of Return



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Actual investment return	21.6%	17.1%	23.4%	3.4%	14.0%	-0.4%	-0.6%	-13.0%	23.1%	7.4%	15.8%	13.7%	-2.0%	-31.0%	14.7%
Target return*	6.4%	6.7%	5.8%	6.7%	7.1%	8.6%	6.7%	7.0%	5.6%	6.4%	6.4%	6.2%	5.7%	4.4%	5.8%
Standard deviation +10%	16.4%	16.7%	15.8%	16.7%	17.1%	18.6%	16.7%	17.0%	15.6%	16.4%	16.4%	16.2%	15.7%	14.4%	15.8%
Standard deviation -10%	-3.6%	-3.3%	-4.2%	-3.3%	-2.9%	-1.4%	-3.3%	-3.0%	-4.4%	-3.6%	-3.6%	-3.8%	-4.3%	-5.6%	-4.2%

*** The target return from 1996 to 2002 was 5% plus CPI and after 2002, it was set at 4% plus CPI with a 10% standard deviation**

The investment to meet those targets is managed by the University of Toronto Asset Management Corporation (UTAM) under the direction of the University. The table below summarizes the one-year LTCAP investment performance for years ending April 30 and compares it to the University's investment return target. The return target was exceeded in each of the four years from 2004 to 2007, building the reserves that have absorbed the brunt of the recent downturn (2008 and 2009) in investment markets. The return target was again exceeded in 2010, enabling the University to make some progress towards rebuilding its reserves.

1-Year Annual Rates of Return

Year Ended April 30	LTCAP Annual Actual Return*	University Objective (4% plus CPI)
2010	**14.7%**	**5.8%**
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%
2004	23.1%	5.6%

** Returns are net of all investment fees and expenses. The 2004 to 2007 annual returns exclude returns on private investment interest.*

During 2010-11, as is done periodically, the University is reviewing the investment return targets and the risks surrounding investments to determine whether the targets continue to be appropriate.

26-year-old alumnus finances an African studies award.

Giving back is a concept that many alumni embrace in mid-career. For Isaac Jr. Olowolafe, the idea came sooner. This 26-year-old real estate entrepreneur and economics graduate of University of Toronto Mississauga is supporting a yearly award for students in the African Studies Program at New College on the St. George Campus.

"One of the mandates of Dream Makers is to give back to the community," Olowolafe says, referring to his real estate firm. "And what better way to give back than by supporting

decisions in life and affect positive change for their families and community."

Born in Ibadan, Nigeria, Olowolafe came to Canada at age four and grew up in Woodbridge,

$25,000 to the endowment, an amount matched by the Ontario government. Support from the Dream Maker Realty/Olowolafe Family Award will help a student gain insight into a

"For someone so young to support us shows confidence in the program," says African

from the University of Toronto."

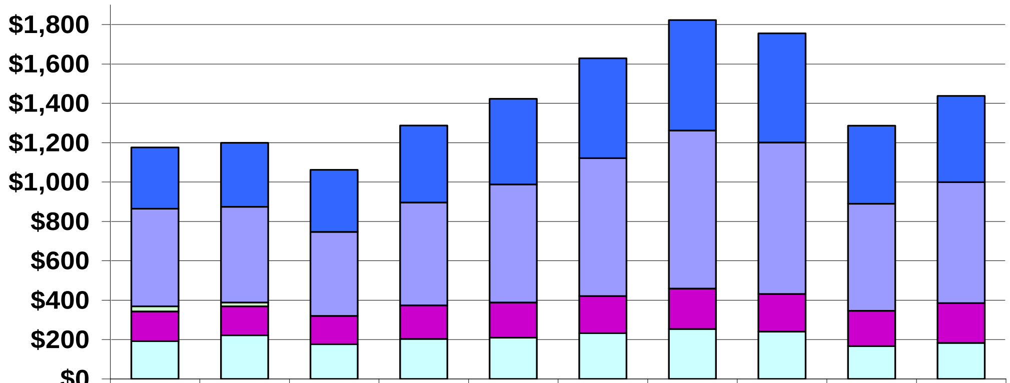
INTRODUCTION

Endowments enable students and academics from around the world to benefit from our distinguished faculty, groundbreaking research and wealth of innovative academic opportunities. University of Toronto endowments totaled $1.437 billion at April 30, 2010 and included over 5,150 individual endowment funds. 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. They 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 (84.3%) and internally restricted endowment funds designated as endowments by Governing Council in the exercise of its discretion (15.7%). 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)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total endowments	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	1,437.2
Chairs and professorships	311.4	324.5	314.4	390.7	434.8	507.6	560.5	554.4	395.5	437.4
Student aid	495.6	486.4	427.3	522.8	599.7	699.4	802.4	768.1	543.9	614.1
Matching funds	25.4	19.2								
Academic programs	151.5	148.0	143.8	170.3	179.0	189.0	205.9	191.8	180.3	203.1
Research	192.3	221.6	176.8	203.9	209.3	232.8	253.9	240.5	166.6	182.6

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, 2010, there were over 5,150 individual endowment funds, usually supported by a donor agreement, or reflecting a collection of small donations with common restrictions.

Almost all endowments, about 96.1% of fair value and 5,139 funds, are invested in the University's long-term capital appreciation pool (LTCAP). A small number of endowments (3.5% of fair value and 11 funds), 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 the LTCAP. The remainder represents

[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.

new endowed donations received after the LTCAP investment cut-off date and held temporarily in the University's expendable funds investment pool.

Endowments totaled $1,437.2 million fair value at April 30, 2010. This was an increase of $150.9 million over the previous year. This increase was comprised of:

Additions of:

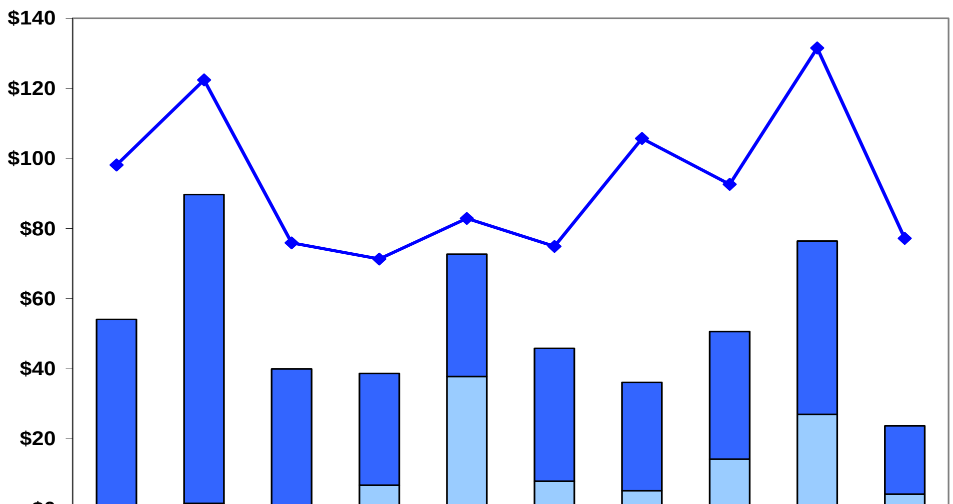
- $202.9 million of investment income,
- $19.5 million of endowed donations,
- $4.2 million of endowed government grants and other contribution, and
- $1.4 million of transfers from the University's unrestricted funds to endowments.

Minus:

- $62.4 million of allocation for spending and
- $14.7 million of fees and expenses.

The following graph shows endowed contributions and total donations (endowed and expendable) received since 2001. 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)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Endowed donations	53.8	88.1	39.3	31.9	34.9	37.9	30.9	36.4	49.4	19.5
Endowed grants	0.3	1.6	0.6	6.8	37.8	7.9	5.2	14.2	27.0	4.2
Total donations	98.1	122.4	75.9	71.3	82.9	74.9	105.7	92.6	131.5	77.2

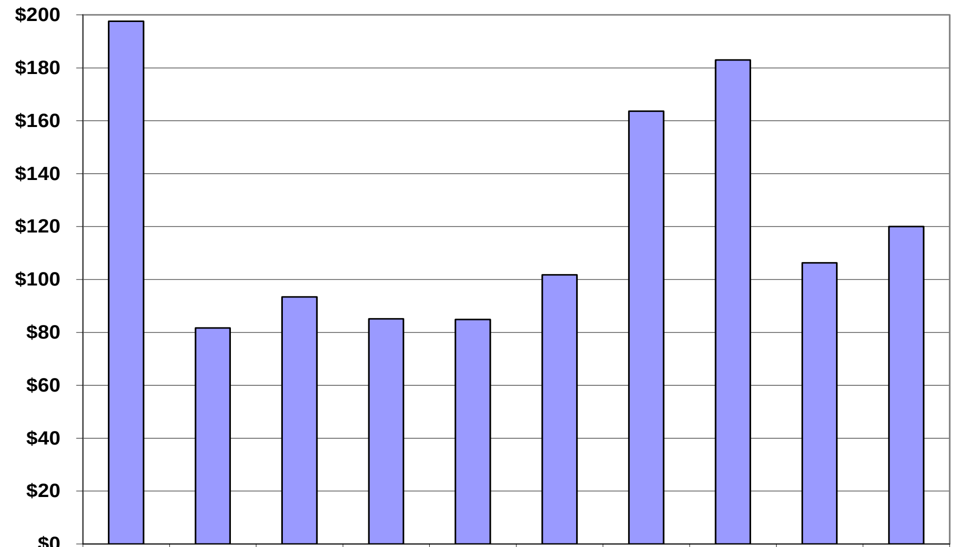
The graph illustrates that endowed donations represented 25.3% of total donations ($77.2 million) received by the University in 2010. Expendable gifts of $57.7 million were also received. Expendable gifts build essential infrastructure and support immediate academic priorities with rapid-cycle impact 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, 2010 was $120 million compared to $106 million in 2009. The decline in new pledges and gifts in 2009 and 2010 from the levels recorded in 2007 and 2008 fiscal years 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
(in millions)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total pledges raised	197.6	81.6	93.4	85.1	84.9	101.7	163.6	183.0	106.3	120.0

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 2009, Toronto ranked 15th in terms of size, and when compared with the same universities in terms of endowments per FTE student, Toronto only ranked 24th (see pages 13-14). Including the endowments of the federated universities, Toronto ranked 11th in terms of size and 18th in terms of endowments per FTE student.

Transforming Primary Care in Mississauga

Carlo Fidani's $10 million gift will help boost the number of primary care physicians in Ontario

Mississauga businessman Carlo Fidani has donated $10 million to the University of Toronto to advance medical education and construct a new Health Sciences Complex at U of T Mississauga, scheduled to open in August 2011. The gift is the single largest donation ever made to the University of Toronto Mississauga.

The $37 million complex will house the new Mississauga Academy of Medicine, one of the most advanced sites for training family medicine and community-based primary care physicians in Canada. Fifty-four new MDs will graduate from the academy every year,

Fidani, chairman of Orlando Corporation and president of its foundation, has pledged $10 million as part of a $20 million campaign that will support the creation of the Mississauga Academy of Medicine within a new Health Sciences Complex, and endow medical student bursaries and a chair in family and community medicine at the Faculty of Medicine. U of T will be seeking matching funds of $10 million for the Fidani gift.

"This is an extraordinarily generous gift from Mr. Fidani who, along with the provincial government, has been a catalyst for the creation of the Mississauga Academy of Medicine," says David Naylor, president of the University of Toronto. "We are deeply grateful for his

ultimately, for Canada as a whole."

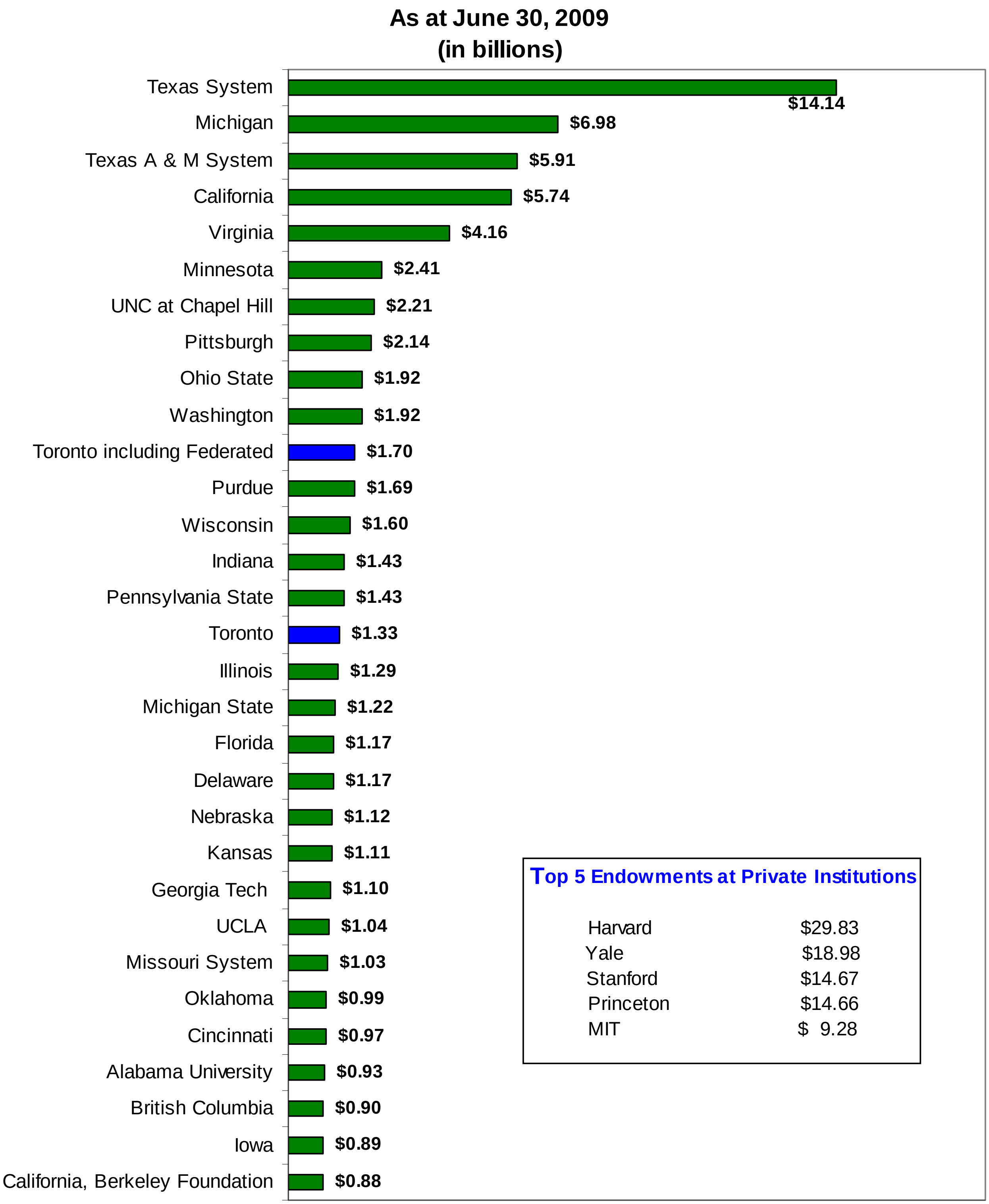
The four-storey Health Sciences Complex, currently under construction, will house the graduate biomedical communications program, research laboratories, classrooms and administrative offices in addition to the Mississauga Academy of Medicine. In the facility, researchers and scientists will work side by side with faculty members who will teach future medical practitioners, creating an environment that will bring theory to life for the academy's students.

With 54 students entering per year, by 2014 the academy will have a total of 216 students enrolled in the four-year program. Students will focus on primary care (family and community medicine) and the generalist specialties such as general surgery, general internal medicine and general psychiatry.

"Since the early 1980s, the University of Toronto has trained close to 50 per cent of the family physicians in Ontario, 25 per cent of all the specialist physicians in Canada and 83 per cent of the physicians working in the high-growth areas around Toronto," says Catharine Whiteside, dean of U of T's Faculty of Medicine and vice-provost, relations with health care institutions. "Because of Mr. Fidani's generosity, our students will have the opportunity to learn in one of the most dynamic communities and within two of the finest hospital environments in Canada."

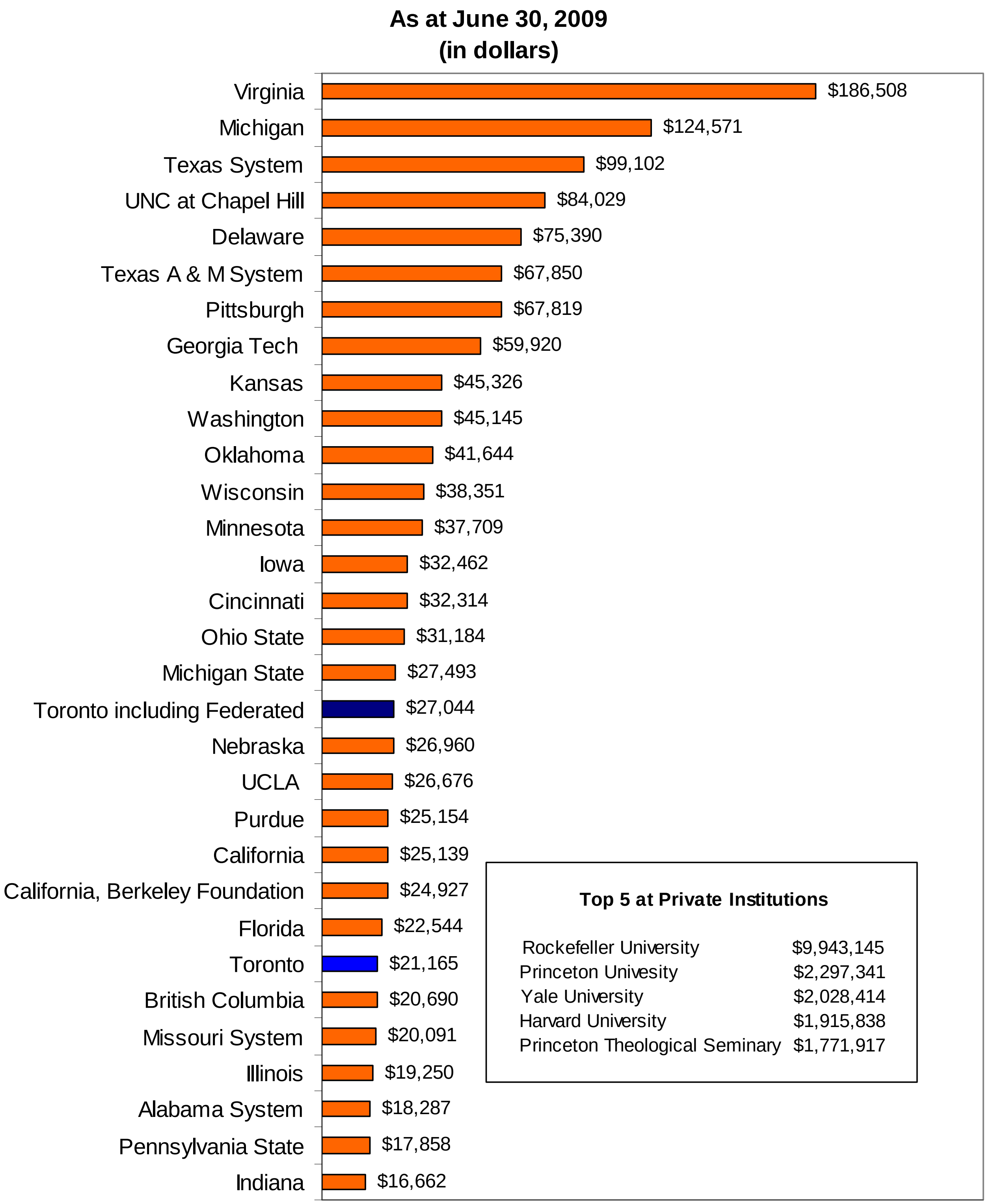
In 2009, the provincial government provided capital funding over three years, and announced additional medical school positions at U of T. The expansion is part of a province-wide initiative to increase the number of physicians across Ontario.

TOP 30 ENDOWMENTS AT PUBLIC INSTITUTIONS



Source: 2009 NACUBO Endowment Study, released January 2010, converted to Canadian dollars at an exchange rate of 1.1625

FAIR VALUE OF ENDOWMENTS PER FTE STUDENTS AT SELECTED PUBLIC INSTITUTIONS



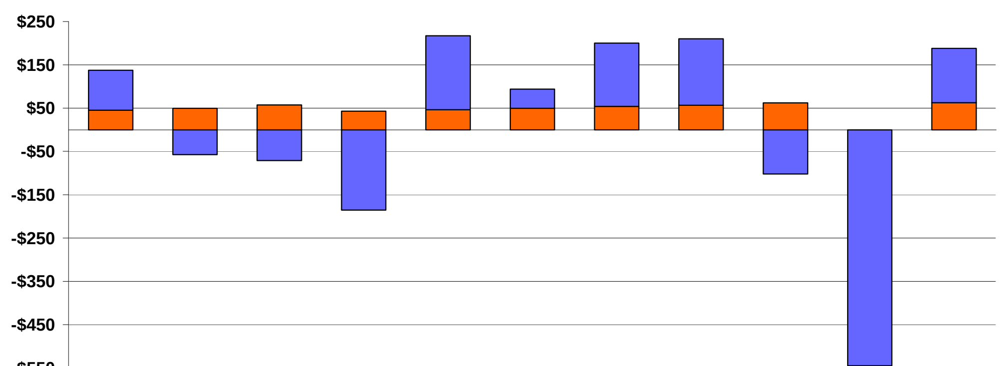
Source: 2009 NACUBO Endowment Study, released January 2010, converted to Canadian dollars at an exchange rate of 1.1625

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.

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



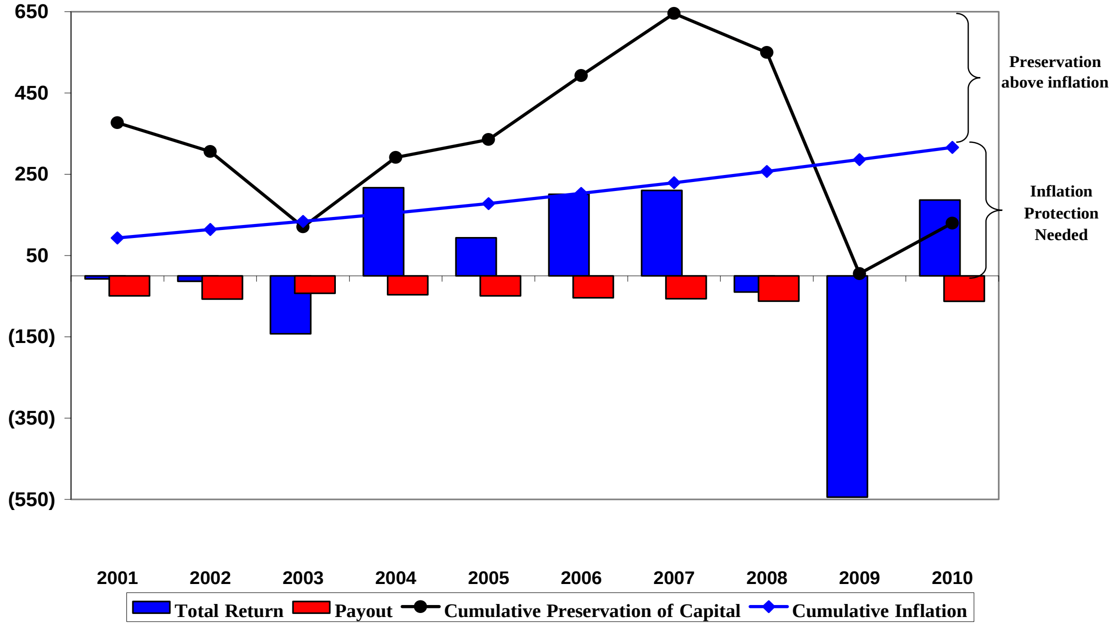
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Reinvested (draw down)	92.4	(57.6)	(70.9)	(185.5)	170.7	44.4	146.3	153.7	(101.9)	(545.0)	125.8
Allocation for spending	45.1	49.6	57.3	43.0	46.5	49.4	54.0	56.5	62.1	-	62.4

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. The University, like other organizations, has not been immune to the shockwaves of the recent economic crisis. 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 were eliminated in 2009. The University decided not to erode the endowment capital further so that the baseline for future growth can be maintained by suspending spending in 2009. 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 reached into other reserves and went to extraordinary lengths to ensure that critical commitments such as endowment professorships and chairs, as well as endowed support for needs-based student aid, normally funded from endowment distributions, were met. 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 was structured to enable individual faculties and divisions to run deficits, where necessary, to be repaid over the next five years, to ensure that those commitments were 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.

In 2010, the preservation strategy has enabled us to reinstate the annual endowment spending allocation at April 30, 2010 and to begin to rebuild the endowment reserve, which now stands at $124.5 million.

The chart below 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.

Endowment cumulative preservation of capital compared to cumulative inflation with total return and payout for the year ended April 30 (in millions)



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 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 $49.6 million. For 2010, $0.1 million was made available for spending from these endowments.

Historic Gift to U of T Makes Munk School a World Leader in Global Affairs

Thanks to a landmark $35 million gift from Peter and Melanie Munk, the University of Toronto recently launched the Munk School of Global Affairs. The Munk School will dramatically expand U of T's research capacity, enable the hiring of new faculty and drive the expansion of new facilities. This first-tier professional school will play a key role in educating Canadians as global leaders.

The Munk School of Global Affairs signals a new frontier of scholarship in Canada's higher education community. The Munk School positions U of T as a leading player in a broad range of subjects from water to cyber security. The new Munk School will welcome its first class of students to the Masters of Global Affairs program in September 2010. In the coming years, the school will offer a selective Bachelor of Arts program and a PhD in the Dynamics of Global Change.

Building on the foundation of the Munk Centre for International Studies, this transformation marks the largest single individual gift to U of T, bringing the Munks' total

Melanie and I could make this gift to the University of Toronto," said Peter Munk. "The world is changing. We want to do our part to ensure that Canada not only secures its place on the world stage but helps create the knowledge that improves people's lives."

Remarking on the impact of the announcement Dr. David Naylor, President of the University of Toronto, said: "This is a great day for our University—and, I believe, a great development for Ontario and for Canada. This exceptional gift means that the new Munk School will significantly increase the scale of our university's role in harnessing global opportunities, while tackling some of the world's most pressing challenges." President Naylor continued, saying, "As Canada reaffirms its position as leader on the global stage, the Munks' extraordinarily generous gift means that many more of the next generation of leaders will come from Canada."

The Munk School will offer an unmatched student experience promoting opportunities for international faculty and an increased number of student exchanges. The University will support this expansion through the provision of land and buildings that will grow the school's facilities at the landmark heritage building located at 315 Bloor Street West, the northern gateway to the University of Toronto. The University will also make room for a significant increase in cross-appointed faculty.

The Munks' gift is in addition to an important investment of $25 million made by the Government of Ontario in its 2008 budget. "Without the visionary investment made by the Government of Ontario in 2008, the Munk School simply would not have the critical mass of support necessary for Toronto to claim a unique role in the study of global affairs," President Naylor said.

"We are proud to support the Munk School of Global Affairs," said Dalton McGuinty, Premier of Ontario. "This school attracts the best and the brightest from around the world. Their work in understanding global economic trends and developing innovative policy ideas supports our Open Ontario plan to create new opportunities for growth and jobs in today's knowledge economy."

"Only ten years ago a generous gift from Peter and Melanie Munk helped create the Munk Centre for International Studies. The Centre has grown, becoming Canada's hub for discovery across a broad range of subjects," said Professor Janice Stein, Director of the Munk School. "Melanie and Peter's deep commitment to educating Canadians as global leaders has guided the work that we do here at the centre and will inspire generations of students and faculty at the new Munk School. We are very honoured to have the strong support from the province for this exciting project."

Peter Munk is an international entrepreneur who has built several dynamic businesses from start-up to success. He is chairman of Barrick Gold which he built into the world's leading gold producer. He and his wife Melanie, through family foundations, have made a significant contribution to a number of institutions as national and international philanthropists. In addition to their historic support for the University of Toronto and its global programs, Peter and Melanie have been important contributors to the Toronto General Hospital and to the Technion Institute. Through the Aurea Foundation, Peter and Melanie support the Munk Debates—a unique contribution to the growing and important

LONG-TERM CAPITAL APPRECIATION POOL (LTCAP) INVESTMENT POLICY

Almost all of the University's endowments (96.1% 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 $198.8 million expendable funds that are invested for the long-term, including the University's supplemental retirement arrangement fund, and $34.5 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 University establishes the return and risk parameters for LTCAP. UTAM develops and executes appropriate investment strategies and recommends the policy asset mix based on these return and risk parameters. UTAM operates on a calendar year basis.

A detailed review of the investment performance, which is managed and measured on a calendar year basis by UTAM is available on the UTAM website at 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 a Board of Directors. The UTAM Board is responsible for the oversight and direction of UTAM. UTAM reports on the investments under management to the University Administration and to the Business Board of the University of Toronto.

During late 2009 and into early 2010, the University conducted a wide-ranging review of the oversight and management of the University's investments. The recommendations of the review fall under the following three themes: closer alignment of management and governance with the University; clearer accountability; and stronger risk management. The UTAM Board has been reduced in size and its focus is corporate governance and compliance, rather than investment strategy per se. Strategic counsel on asset management is now being obtained from an independent blue-ribbon Investment Advisory Committee. The Committee held its first meeting on September 1st , 2010, and will meet again shortly. Last, UTAM's CEO has overseen substantial changes to the portfolio that should lead to both reduced fees and more effective risk management.

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

The fair value of LTCAP was $1,614.4 million at April 30, 2010, of which $1,381.1 million was endowments, representing 96.1% of all endowments.

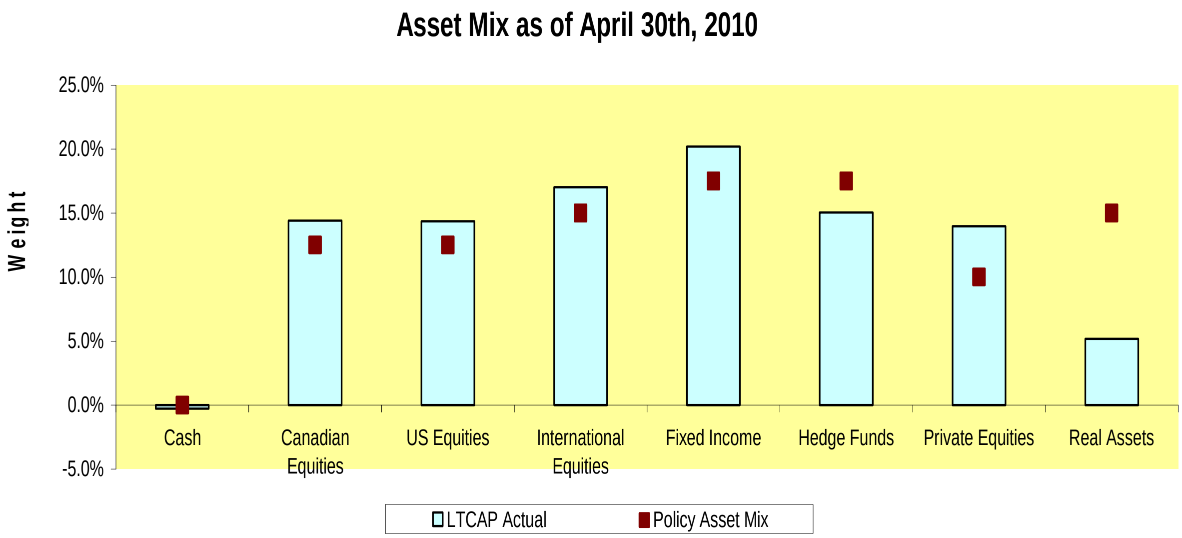
Asset Mix

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 10% standard deviation of the portfolio's annual returns over a 10-year period with the purpose of funding the target spending allocation and the preservation of capital over time. These parameters were established in 2003 and are currently under review by the University.

To achieve the required level of return, the portfolio must be exposed to risk. UTAM's investment philosophy is the framework which guides this task. It is built upon six core principles: appropriate asset allocation; a longer term focus; analysis and understanding of the risks being assumed; efficient diversification by geography, strategy and liquidity; an equity orientation with a value bias; and, a belief that active management can add value in certain areas.

The LTCAP Policy asset mix is reassessed annually by UTAM. The 2009 analysis reduced the targeted allocation to Equity assets (i.e. publicly listed Canadian, US & International equities, and Private equities) from a combined 55% to 50%, and increased the Fixed Income and Hedge Fund allocations from 15% to 17.5% each. The Real Assets' Policy allocation (i.e. Real Estate and Commodities) remained unchanged at 15%. This Policy mix was developed, based on more recently updated long term investment parameters for each asset class; a desire to reduce the overall risk of the portfolio from its starting position; a concern regarding inflation risk over the longer term; and, a belief that markets were likely to be quite choppy for a period of time. The new Policy mix was effective March 1st, 2010.

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 weights, 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). This was not a factor in the asset mix, as at April 30, 2010.

Secondly, investments in certain Alternative Asset strategies (i.e., hedge funds, private equities and real assets) require a longer time period to add, or reduce, investment exposure. The recently approved Policy asset mix entailed changes to the targets for Hedge Funds and Private Equities. As a result, the actual portfolio had below-target allocations to Hedge Funds and Real Assets, and an above-target allocation to Private Equities. At present, any underweight in the total of these Alternative Assets is allocated, on a pro rata basis, to the public market equities and fixed income asset classes. Consequently, the current allocations to these public market asset classes are slightly above Policy target levels.

Foreign Currency Exposure

The underlying philosophy at UTAM is to exploit global investment opportunities. This approach results in foreign exchange exposure. Based on research conducted on currency and asset returns, the currency hedging policy was set at 50% hedging on January 1, 2009. UTAM believes that such a policy will result in 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 objective (net of fees and expenses).

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

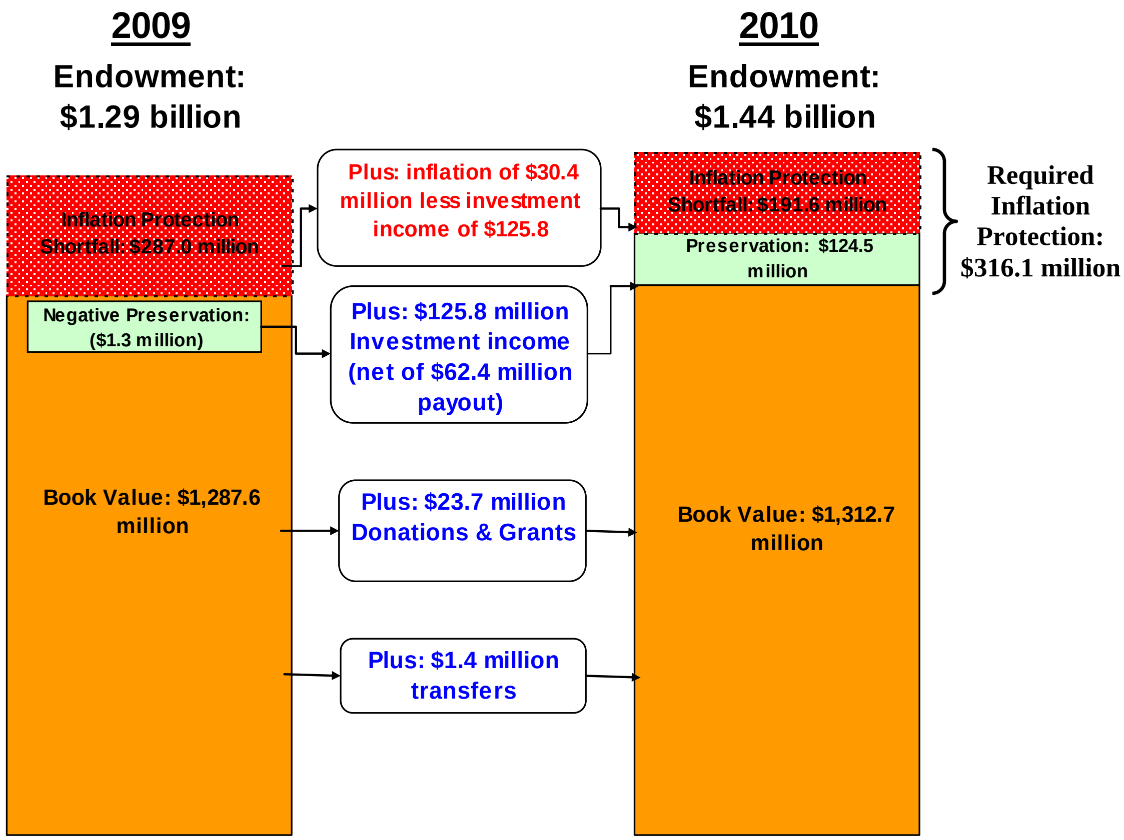
1-Year Annual Rates of Return

Year Ended April 30	LTCAP Annual Actual Return*	University Objective (4% plus CPI)
2010	**14.7%**	**5.8%**
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%
2004	23.1%	5.6%

**Returns are net of all investment fees and expenses. The 2004 to 2007 annual returns exclude returns on private investment interests.*

During 2010, all major financial markets rebounded sharply from the meltdown experienced during the fiscal year 2009. For the 12-months ending April 30, 2010, Canadian Equities (TSX) and US Equities (S&P) returned approx. 35% and 39%, respectively, while International Equities (EAFE) returned 28%. Fixed income (DEX Universe) returned 5% while Hedge Funds (actual portfolio) returned 18%. Private Equities (actual portfolio) returned approx. 26% and Real Assets (actual portfolio) returned -5% (all returns reported in local currency basis). Overall, the LTCAP portfolio achieved a Canadian dollar return of 14.7% net of fees or 15.84% gross of fees.

Compared to the University's objective of 5.8% over the same period, LTCAP outperformed the target by almost 9%. Therefore, in addition to funding a spending allocation at April 30, 2010, it was possible to begin to rebuild the endowment reserve, which now stands at $124.5 million. This progress is illustrated in the following chart.



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 2009 Annual Report.

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 1.1% of the 2010 opening unit market value consist of the following:

	2010 In millions	2009 In millions
Investment related management fees		
External managers	$ 12.0	$13.8
UTAM	1.2	1.2
Trustee and custodial fees	0.6	0.8
Foreign taxes	0.5	0.8
Professional and other fees	0.4	0.3
Total	$ 14.7	$16.9

UTAM has direct oversight of all fees and expenses related to managing the LTCAP assets. 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 discounted investment management fee rates (versus the standard schedule) 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 2010, total external manager fees were more than 10% lower as a result of the strength of the Canadian dollar and UTAM's efforts to restructure various components of the portfolio.

In addition to third party fees, a portion of 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.

SUMMARY OF CHANGES IN FAIR VALUE

The total return on LTCAP for 2009-10 was 14.7% (net of fees and expenses). In 2009, due to severe financial market losses, the endowment reserve so carefully built up as a protective cushion was eliminated; and therefore, the spending allocation was suspended. In 2010, the spending allocation was reinstated and progress was made in rebuilding the reserve which stood at $124.5 million by April 30, 2010. 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, 2009	$1,234.1	$145.27	8,495,672
Contributions	22.8	-	171,403
Investment income	201.2	23.02	-
Fees and expenses	(14.7)	(1.68)	-
Allocation for spending	(62.3)	(7.26)	-
Closing balance at April 30, 2010	$1,381.1	$159.35	8,667,075
2) Specifically invested endowments:			
Opening balance at May 1, 2009	$ 48.0	n/a	n/a
Contributions	-	n/a	n/a
Investment income	1.7	n/a	n/a
Amount available for spending	(0.1)	n/a	n/a
Closing balance at April 30, 2010	$ 49.6	n/a	n/a
3) Donations received to be invested in LTCAP:			
At April 30, 2010	$ 6.5	n/a	n/a
Total endowments at April 30, 2010	$1,437.2	n/a	n/a

The fair value of each endowment account in LTCAP is determined by multiplying the current fair value of the unit ($159.35 at April 30, 2010) by the number of units held by that endowment account.

Appendix

University of Toronto Endowments

Financial Information

April 30, 2010

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, 2010, 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, 2010 and the changes in these net investments for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
May 28, 2010.

University of Toronto Endowments
STATEMENT OF NET INVESTMENTS
APRIL 30, 2010
(with comparative figures at April 30, 2009)
(millions of dollars)

	2010	2009
ASSETS		
Investments at fair value *[note 3]*	**1,406.6**	1,164.4
Short-term notes and treasury bills *[note 4]*	**-**	15.9
Cash and cash equivalents *[note 4]*	**41.2**	38.6
Unrealized gains on derivative instruments *[note 3]*	**1.4**	21.7
Investment income and other receivables	**49.6**	49.9
	1,498.8	1,290.5
LIABILITIES		
Unrealized losses on derivative instruments *[note 3]*	**4.5**	0.7
Other payables and accruals	**57.1**	3.5
	61.6	4.2
NET INVESTMENTS HELD FOR ENDOWMENTS	**1,437.2**	1,286.3

On behalf of Governing Council:

Catherine J. Riggall
Vice-President, Business Affairs

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, 2010
(with comparative figures for the year ended April 30, 2009)
(millions of dollars)

	2010	2009
INCREASE IN NET INVESTMENTS		
Endowed donations	**19.5**	49.4
Endowed grants and other	**4.2**	27.0
Investment income *[note 5]*	**202.9**	-
Transfers from University's unrestricted funds	**1.4**	0.1
Total increase in net investments	**228.0**	76.5
DECREASE IN NET INVESTMENTS		
Investment loss *[note 5]*	**-**	528.1
Allocation for spending *[note 6]*	**62.4**	-
Fees and expenses *[note 7]*	**14.7**	16.9
Total decrease in net investments	**77.1**	545.0
Net increase (decrease) in net investments for the year	**150.9**	(468.5)
Net investments held for endowments, beginning of year	**1,286.3**	1,754.8
Net investments held for endowments, end of year	**1,437.2**	1,286.3

(see notes to financial information)

University of Toronto Endowments
NOTES TO FINANCIAL INFORMATION
APRIL 30, 2010

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. Bonds and publicly traded 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 85.6% (2009 – 85.3%) 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 $373.3 million (2009 - $47.4 million) of pooled funds, $47.4 million (2009 - $39.9 million) in hedge funds and $225.3 million (2009 - $148.5 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)			
	2010		2009	
	LTCAP	**Other**	LTCAP	Other
Government and corporate bonds	**275.3**	**6.2**	195.6	6.2
Canadian equities	**199.0**	**2.5**	133.0	2.3
United States equities	**197.3**	**0.3**	172.9	0.3
International equities	**232.6**	**0.1**	182.6	-
Hedge funds	**212.1**	**-**	224.6	-
Private equity and debt interests	**206.6**	**-**	172.8	-
Real asset interests	**58.3**	**16.3**	57.8	16.3
	1,381.2	**25.4**	1,139.3	25.1
Total investments	**1,406.6**		1,164.4	

During the year, the University recognized investment loss of $5.7 million (2009 - loss of $33.7 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 (loss).

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 market risk which encompasses a variety of financial risks, such as foreign currency risk, interest rate risk, price risk, and credit risk. Significant volatility in interest rates, equity values and the value of the Canadian dollar against the currencies in which the University's investments are held can significantly impact the value of these investments. To manage these risks within reasonable risk tolerances, the University, through the University of Toronto Asset Management Corporation, 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). To manage foreign currency risk, a 50% hedging policy has been implemented for the University's investments beginning on January 1, 2009. Previous to this date, the University had a 100% hedging policy for its foreign currency risk. Credit risk of financial instruments is the risk of loss arising from the potential failure of a counterparty, debtor or issuer to honour its contractual obligations. At April 30, 2010, $175.7 million (2009 – $94.1 million) or 54.6% (2009 – 73.1%) of government and corporate bonds have AAA or AA credit ratings.

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 values 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. They represent the principal or face value that is used to calculate the amounts exchanged on financial instruments. The amounts exchanged are based on the applicable rates applied to the notional values.

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)			
	2010		2009	
	Notional Value	**Fair Value**	Notional Value	Fair Value
Foreign currency forward contracts				
- U.S. dollars	**339.6**	**(0.9)**	432.1	7.3
- International	**60.3**	**1.3**	87.9	3.3
		0.4		10.6
Equity and commodity index futures contracts				
- United States	**271.8**	**(3.5)**	265.6	10.4
Total		**(3.1)**		21.0
Reported on the statement of net investments as:				
Unrealized gains on derivative instruments		**1.4**		21.7
Unrealized losses on derivative instruments		**(4.5)**		(0.7)
		(3.1)		21.0

Uncalled commitments

As at April 30, 2010, approximately 19.0% (2009 – 18.6%) 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, 2010, the endowments had uncalled commitments of approximately $125.1 million (2009 - $205.2 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 income (loss)

Investment income (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 2009, as a result of severe financial market losses, the University suspended the endowment distribution in order to preserve the underlying value of its endowments. Allocation for spending resumed in 2010.

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)	
	2010	2009
Investment management fees		
- External managers	**12.0**	13.8
- UTAM	**1.2**	1.2
Foreign taxes	**0.5**	0.8
Trustee and custodial fees	**0.6**	0.8
Professional and other fees	**0.4**	0.3
Total	**14.7**	16.9

8. Comparative financial information

The comparative financial information has been reclassified from information previously presented to conform to the presentation of the 2010 financial information.

UNIVERSITY OF
TORONTO