UNIVERSITY OF TORONTO

Endowments

Annual Financial Report

For

The Year Ended April 30, 2008

Courtesy of Karin Imhof

HIGHLIGHTS

	April 30, 2008	April 30, 2007	% Change
<u>Total Endowments:</u>	(Millions of dollars)		
Fair value	$ 1,754.8	$ 1,822.7	-3.7%
Change from previous year:			
Endowed donations	$ 36.4	$ 30.9	17.8%
Endowed Government grants	$ 14.2	$ 5.2	173.1%
Transfers from University's unrestricted funds and deferred contributions	$ 5.2	$ 4.1	26.8%
Transfer of endowments to UTS	$ (21.8)		
Investment income (loss)	$ (20.3)	$ 224.0	-109.1%
Fees and expenses	$ (19.5)	$ (13.8)	41.3%
Allocation for spending	$ (62.1)	$ (56.5)	9.9%
Total change for the year	$ (67.9)	$ 193.9	-135.0%

<u>Endowments invested in Long-Term Capital Appreciation Pool (LTCAP):</u>			
Proportion invested in LTCAP	98.04%	97.15%	0.9%
Number of units in LTCAP	8,187,065	7,982,019	2.6%
Fair value in millions	$ 1,720.4	$ 1,770.8	-2.8%
Fair value per unit in dollars	$ 210.16	$ 221.84	-5.3%
Allocation for spending per unit in dollars	$ 7.65	$ 7.14	7.1%
LTCAP time-weighted net returns*	-2.0%	13.7%	-114.6%

*Returns net of investment fees and expenses. Returns on private investment interest were excluded in 2007.

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EXECUTIVE SUMMARY

The University of Toronto is among the finest research-intensive public universities in the world. Endowments provide a strong base of funding in support of the University of Toronto's mission. University of Toronto endowments totaled $1.755 billion at April 30, 2008 and included over 4,850 individual endowment funds.

To ensure that endowments will provide the same level of economic support to future generations as it does 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 used to fund spending in years such as this one when investment markets are poor.

This has been a very challenging year in the investment markets and we experienced a loss of 2.0%. This result was strongly influenced by the difficult market conditions, particularly in the first quarter of 2008. All major equity markets experienced losses for the fiscal year, except the Canadian stock market, which posted a small increase due to large gains by a very limited number of large cap stocks. However, our reserving strategy has enabled us to continue to preserve inflation-adjusted capital for the endowment pool and to increase the spending allocation by 7% this year to fund inflation of about 2% and to provide an additional 5% in spending to maintain the position of our spending allocation within our target spending corridor of 3% to 5% of opening balance market value.

At April 30, 2008, the endowment spending rate was $7.65 per unit, which provided $62.1 million for spending and represented 3.5% of the opening market value of endowments. The spending rate has increased from $6.60 per unit in 2003, to $7.65 in 2008.

Almost all of the University's endowments hold units in a 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 market value of each unit has decreased from $221.84 at April 30, 2007 to $210.16 at April 30, 2008:

Unit market value at May 1, 2007	$221.84
Investment loss per unit	(1.70)
Allocation for program spending	(7.65)
Fees and expenses	(2.33)
Unit market value at April 30, 2008	$210.16

The amounts for any particular endowment account are obtained by multiplying the value per unit by the number of units in the endowment account. For example, if an endowment account holds 750 units, the amount allocated for spending would be 750 times $7.65 per unit, or $5,738 (pro-ration occurs when funds are added during the year) and the market value of that particular endowment account at April 30, 2008 would be 750 times $210.16 or $157,620.

The University has established a prudent investment return target of 4% real investment return (net of fees and expenses) with a risk tolerance of an annual standard deviation of 10% over 10 years. This means that the real investment return is expected to be between -6% and +14%, two thirds of the time over a ten-year period. This is designed to provide sufficient funds to meet the annual spending target and to protect endowment spending against inflation over time.

The investment of endowments to meet the above targets is carefully 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 LTCAP return for the year ending April 30, 2008 was a loss of 2.0% (net of fees and expenses), well below the University's target return of 5.7% for the year and represents the first 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)
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.*

INTRODUCTION

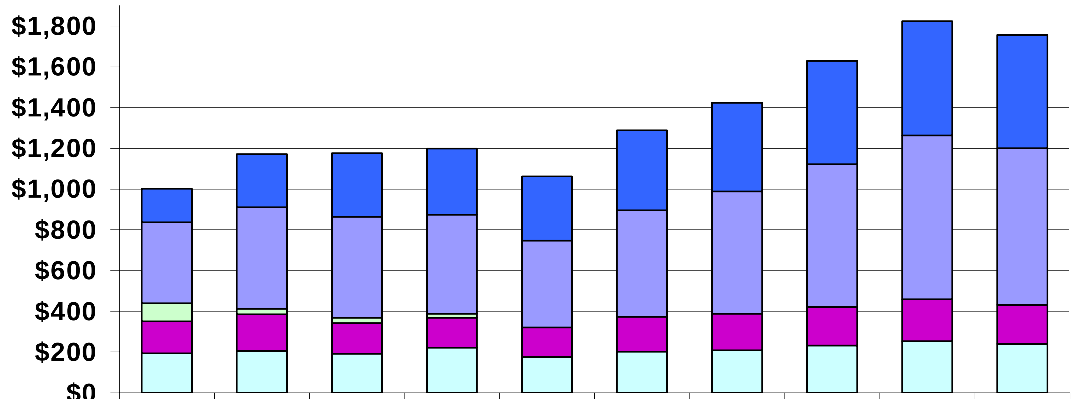
The University of Toronto is among the finest research-intensive public universities in the world. Endowments provide a strong base of funding for student aid, for endowed chairs, for research and for academic programs in support of this academic mission.

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 (83.5%) and internally restricted endowment funds designated as endowments by Governing Council in the exercise of its discretion (16.5%). 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)



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total endowments	1,001.2	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
Chairs and professorships	164.1	260.4	311.4	324.5	314.4	390.7	434.8	507.6	560.5	554.4
Student aid	397.2	498.0	495.6	486.4	427.3	522.8	599.7	699.4	802.4	768.1
Matching funds	89.0	27.5	25.4	19.2						
Academic programs	156.0	180.1	151.5	148.0	143.8	170.3	179.0	189.0	205.9	191.8
Research	194.9	205.3	192.3	221.6	176.8	203.9	209.3	232.8	253.9	240.5

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, 2008, there were over 4,850 individual endowment funds, usually supported by a donor agreement, or reflecting a collection of small donations with common restrictions.

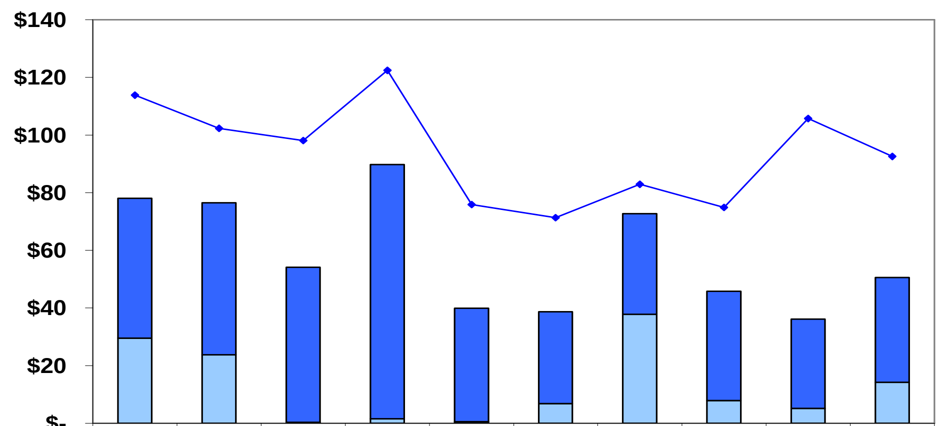
Almost all endowments, about 98.0% of fair value and 4,854 funds, are invested in the University's long-term capital appreciation pool (LTCAP). A small number of endowments (1.5% of fair value and 10 funds), mostly very long-standing ones or ones with very specific characteristics such as the Joker's 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 $1,754.8 million fair value at April 30, 2008. This was a decrease of $67.9 million over the previous year. This decrease was comprised of:

- $62.1 million allocated for program spending in accordance with the purposes specified by each endowment fund,
- $39.8 million of investment loss (including fees and expenses of $19.5 million),
- $21.8 million of funds transferred to University of Toronto Schools (UTS) under the terms of a long-term affiliation and license agreement. UTS has become independent and this is a one time transfer of endowed funds which will continue to be used for their original purposes but will now be managed by UTS,
- offset by $36.4 million of endowed donations, $14.2 million of endowed government grants and $5.2 million of transfers from the University's unrestricted funds and deferred contributions to endowments.

The following graph shows endowed contributions and total donations (endowed and expendable) received since 1999. 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)

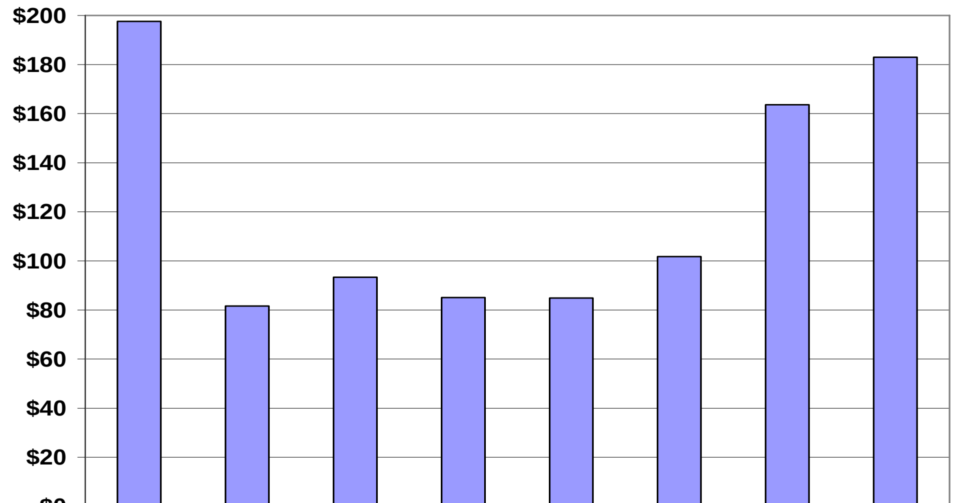


	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Endowed donations	48.5	52.7	53.8	88.1	39.3	31.9	34.9	37.9	30.9	36.4
Endowed grants	29.5	23.8	0.3	1.6	0.6	6.8	37.8	7.9	5.2	14.2
Total donations	113.8	102.3	98.1	122.4	75.9	71.3	82.9	74.9	105.7	92.6

The graph illustrates that endowed donations represented 39% of total donations ($92.6 million) received by the University in 2008. Expendable gifts of $56.2 million were also received. Expendable gifts provide immediate relief to the University's financial pressures and provide immediate funding towards academic and capital infrastructure projects. Endowed grants received from Government, which were added directly to endowment, were for scholarships for Ontario resident students with financial need and to fund Ontario Research Chairs.

The University has had enormous success with fundraising over the past years and has the largest endowment in Canada. 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 year 2001 was unusual because of a $50 million gift associated with the wind-up of the McLaughlin Foundation, leading to a sharp rise in endowed donations for 2002 as shown in the graph above. Otherwise, this past year represents the most successful fund-raising year in the University's history.

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



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

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 2007, Toronto ranked 12th in terms of size, and when compared with the same universities in terms of endowments per FTE student, Toronto only ranked 21st (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.

Tanenbaums Create Engineering Scholarships

(by Scott Anderson, selection from UofT magazine – Winter 08)

In April 1951, Joey Tanenbaum left first-year civil engineering to join his father's steel company. But his initial foray into the working world didn't last long. Tanenbaum returned to classes a year later – against his father's wishes – and went on to graduate second in his class, with a BASc, in 1955. He says going back to school was the smartest thing he's ever done.

Toby and Joey Tanenbaum

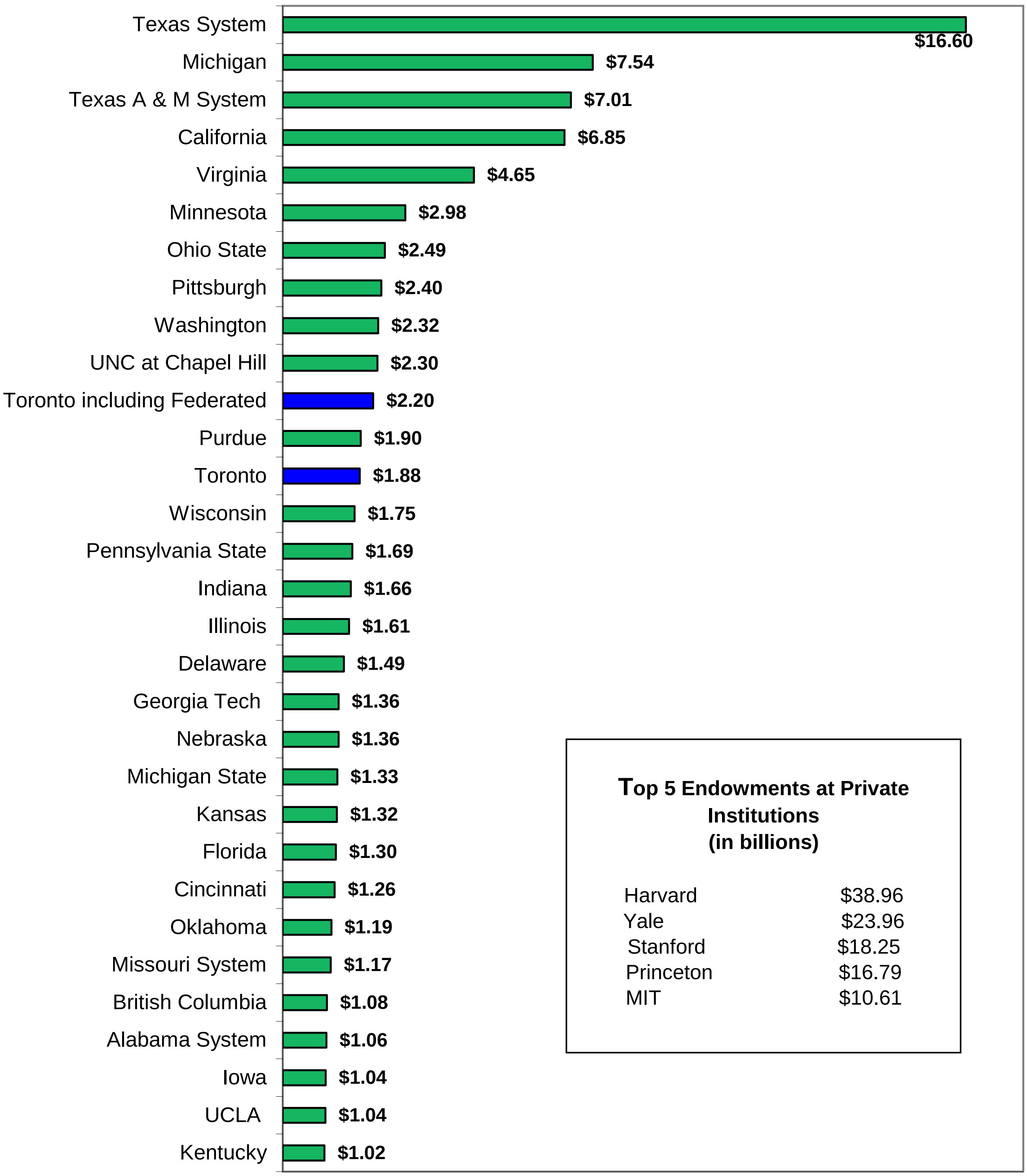
Photo: Art Gallery of Ontario

Now, Tanenbaum and his wife, Toby, want to ensure a new generation of students can afford to attend university, and have pledged $1 million to establish the Joey and Toby Tanenbaum Admission Scholarships in the department of civil engineering. The gift will be matched in part by the faculty's Academic Excellence Fund to create a total endowment of $1.5 million for scholarships. Cristina Amon, dean of the Faculty of Applied Science and Engineering, said the new scholarships will help the department of civil engineering attract "exceptional students" who could become "the leaders of tomorrow and contribute to the technological innovation, economic development and prosperity of Canada."

The Tanenbaums are well known for their philanthropy: they have donated significant art collections to the Art Gallery of Ontario, the Art Gallery of Hamilton and the Royal Ontario Museum, and are also major supporters of the University. "You've got to give back to the community when you've done well," says Tanenbaum, whose grandparents left Poland with their two children in 1911. "I am a first-generation Canadian. We were brought up to give back to Canada and appreciate what this country has done for us.

TOP 30 ENDOWMENTS AT PUBLIC INSTITUTIONS

As at June 30, 2007
(in billions)



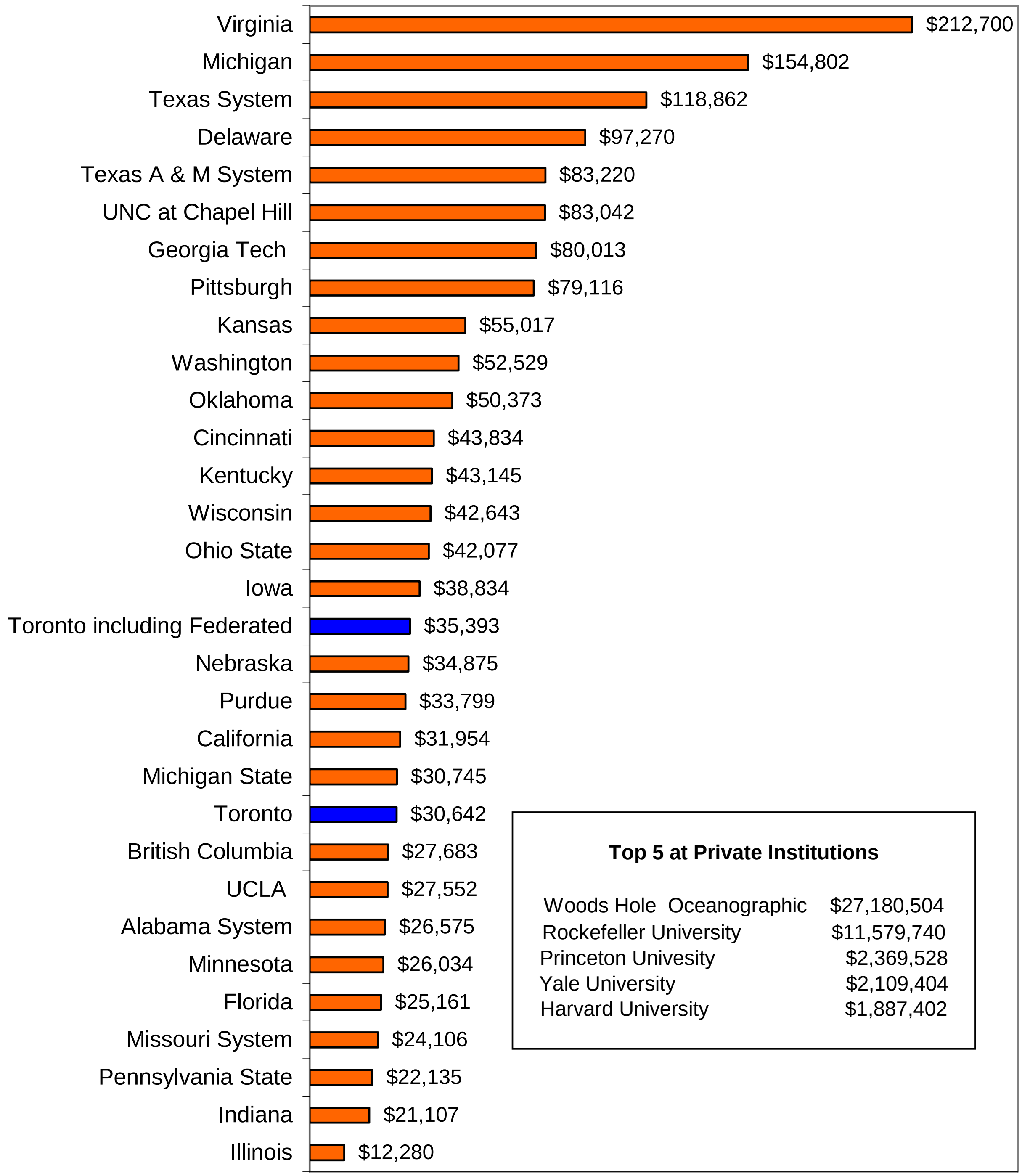
Top 5 Endowments at Private Institutions (in billions)

Harvard	$38.96
Yale	$23.96
Stanford	$18.25
Princeton	$16.79
MIT	$10.61

Source: 2007 NACUBO Endowment Study converted to Canadian dollars at an exchange rate of 1.0634

FAIR VALUE OF ENDOWMENTS PER FTE STUDENTS AT SELECTED PUBLIC INSTITUTIONS

As at June 30, 2007
(in dollars)



Source: 2007 NACUBO Endowment Study converted to
Canadian dollars at an exchange rate of 1.0634

Social Work Receives $15 Million

(by Ruta Pocius and Scott Anderson, selection from UofT magazine – Autumn 07)

Donors Sheldon Inwentash and Lynn Factor

Photo: Caz Zyvatkauskas

A Toronto couple with a deep commitment to social justice and the welfare of children has donated $15 million to the Faculty of Social Work at the University of Toronto. The gift is the largest ever made to a social work faculty in North America.

The donation from Lynn Factor, a social worker for 25 years, and her spouse, Sheldon Inwentash (BCom 1978 New College), will establish 50 graduate student scholarships and five endowed chairs. In recognition of the donors, the faculty will be renamed the Factor-Inwentash Faculty of Social Work.

Dean Cheryl Regehr calls the gift "groundbreaking," and says it will help the faculty attract a diverse and talented group of students as it expands its master's program from 215 to 355 places. "The scholarships will help ensure that the additional graduate spaces are accessible to students from all backgrounds," she says.

The five new chairs will help maintain the student-professor ratio as the faculty expands, and will foster research in such important areas as children's mental health and child welfare and protection, as well as immigration and the law, says Regehr. "The kind of preventive work done in child welfare is hugely beneficial for Canadian society, as well as the kids and families who are actually being helped." Factor has worked for much of her career in child protection and child welfare. "Social workers are concerned with the least advantaged in our society," she says. "With our gift we hope to advance the profession and cause of social work."

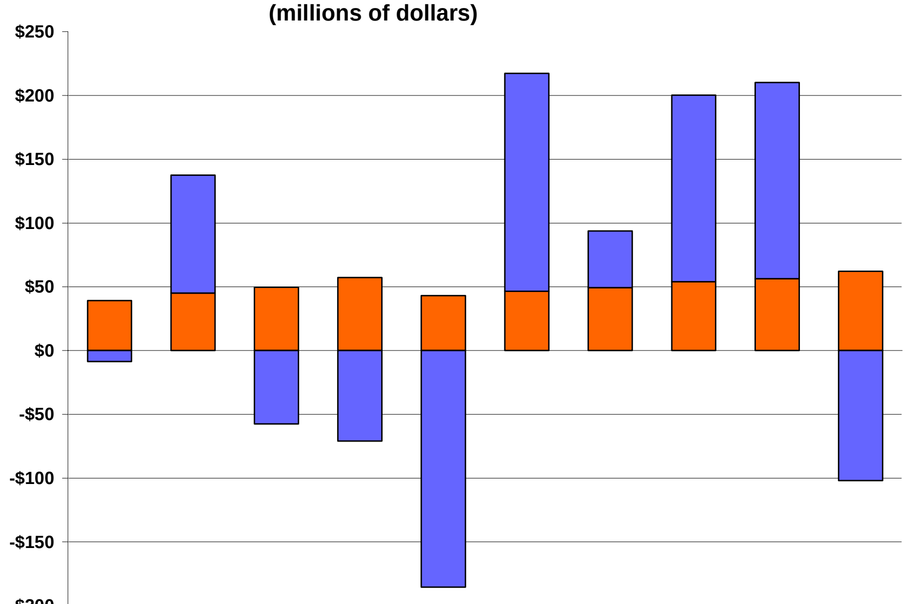
Inwentash, a Bay Street financier, says the gift has given him an opportunity to thank U of T for the education he received, and he hopes it will shine some attention on a sometimes overlooked but much-needed profession. "With this gift we have the chance to give something back to this great university."

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. For 2007-08, $62.1 million was allocated for program spending in accordance with the purposes specified by each endowment fund.

To ensure that endowments will provide the same level of economic support to future generations as it does 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 used to fund spending in years such as this one when investment markets are poor. When investment income is less than the amount allocated for spending, or negative, the shortfall is 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
for the year ended April 30
(millions of dollars)

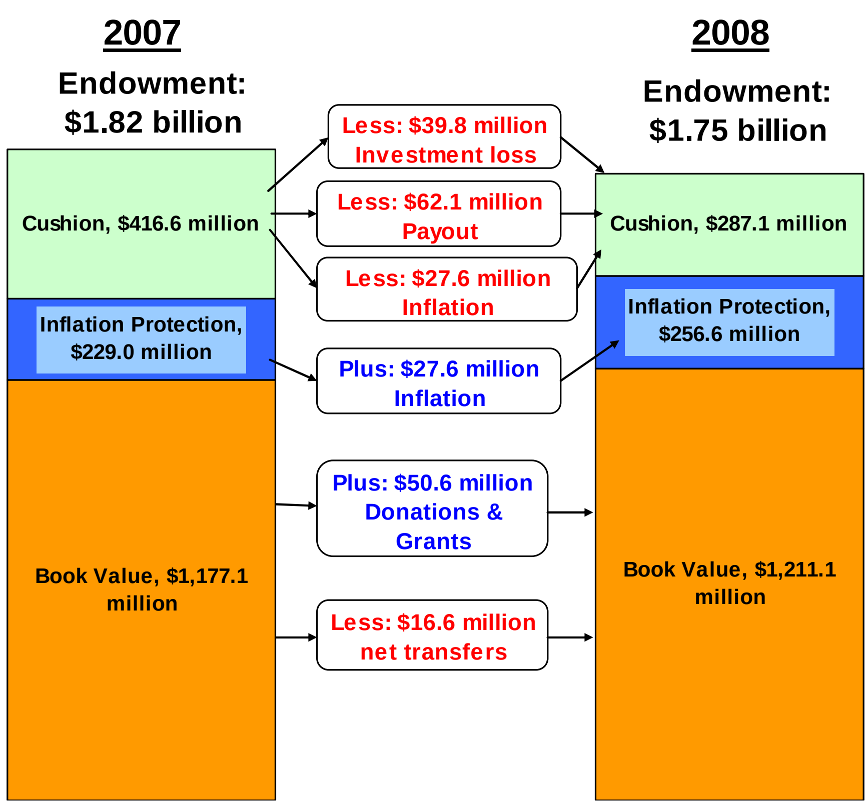


	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Reinvested (drawn down)	(8.7)	92.4	(57.6)	(70.9)	(185.5)	170.7	44.4	146.3	153.7	(101.9)
Allocation for spending	39.1	45.1	49.6	57.3	43.0	46.5	49.4	54.0	56.5	62.1

The total amount allocated for spending over the last 10 years was $502.6 million and the total amount reinvested to protect against inflation and provide a reserve against investment return fluctuation was $182.9 million.

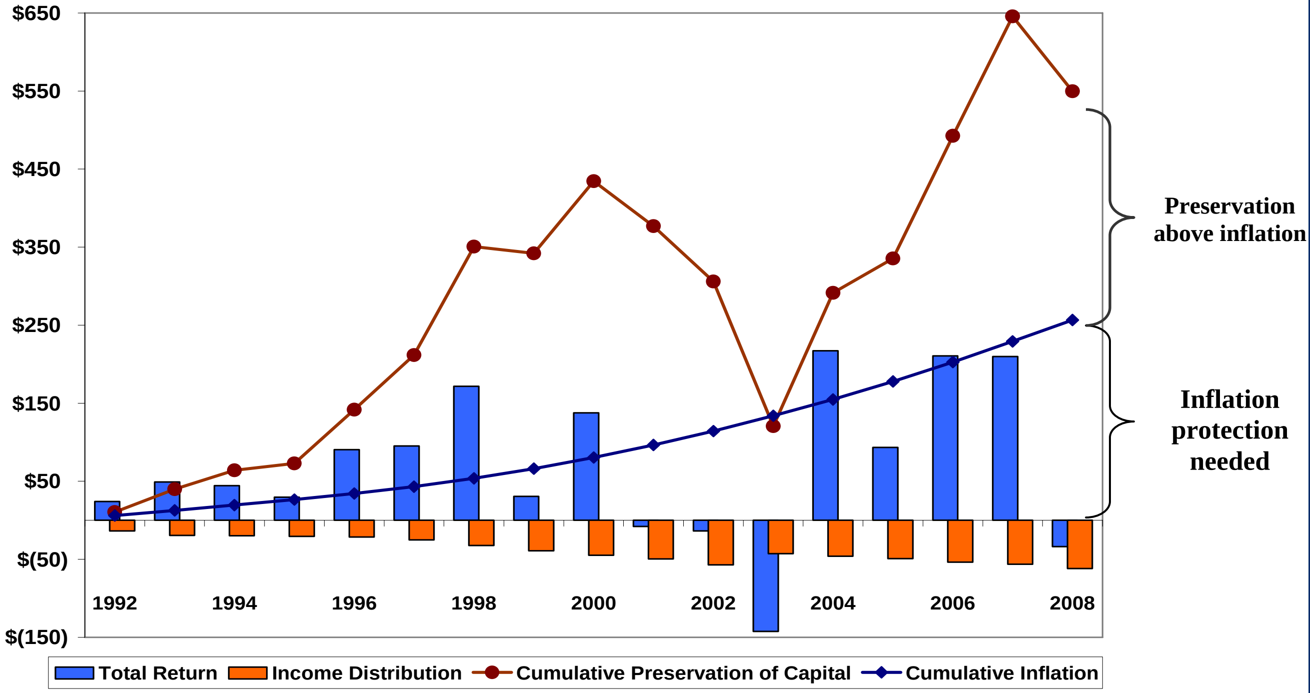
However, for individual endowment funds without sufficient accumulated reinvestment income, donated endowment capital is used for the allocation and the capital is expected to be replenished by future investment income. In summary, the most important goal in managing endowments is to ensure that funds will be available in perpetuity.

For 2007-08, the allocation for spending amounted to $62.1 million. A drawdown of $101.9 million from previously re-invested income was required to cover this year's investment loss and continue to provide for a stable and increasing distribution for spending. The cushion above inflation declined by the amount made available for spending, by $39.8 million in investment losses, and by $27.6 million which was transferred from the cushion and added to inflation protection, as shown in the diagram below.



The inflation-adjusted value of the pool has been protected, as demonstrated in the following graphs.

Endowment Cumulative Preservation of Capital Compared to Cumulative Inflation with Total Return and Income Distribution for the year ended April 30 (in millions)



Cumulative Preservation of Capital above Inflation as a Percentage of Endowments' Contributed Capital plus Inflation (for the year ended April 30, 2008)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Preservation	1.3%	8.1%	12.8	12.4	27.6	33.5	50.9	40.9	46.2	33.2	20.0	-1.3%	12.4	13.0	22.3	30.5	20.5

On a per unit basis, at April 30, 2008, the spending allocation was $7.65 per unit, representing 3.5% of the opening market value and reflecting a 2% inflation increase from the April 30, 2007 allocation of $7.14 per unit plus an additional 5% increase in spending to maintain the position of our spending allocation within our target spending corridor of 3% to 5% of opening balance market value.

The spending allocation for each endowment account was calculated by multiplying the number of units in the endowment account by $7.65 per unit and prorating if some or all of the funds were not invested in LTCAP for the full fiscal year. The allocation for spending takes place in April of each year, with the funds generally used to fund expenditures in the next fiscal year. The spending allocation has risen from $6.60 per unit in 2003 to $7.65 in 2008.

As previously noted, a very small number of endowments, mostly very long-standing ones or ones with very specific characteristics such as the Joker's 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 10 funds in this category with a total fair value of $25.8 million. For 2008, $0.1 million was made available for spending.

LONG-TERM CAPITAL APPRECIATION POOL (LTCAP) INVESTMENT POLICY

Almost all of the University's endowments (98.0% 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 $233.1 million expendable funds that are invested for the long-term, including the University's supplemental retirement arrangement fund; and $52.4 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.

Public Policy's Crucial Role

(by Scott Anderson, selection from UofT magazine – Autumn 07)

A grad who has dedicated his career to addressing the complexities of global development has given U of T's School of Public Policy and Governance $1 million, to be divided between student scholarships and a visiting scholar fellowship.

Paul Cadario (BASc 1973), a senior manager with the World Bank in Washington, says public-policy experts are crucial: they determine how to apply solutions to pressing global concerns, such as climate change, health care and energy production."The big problems of our age all have certain technical solutions, and the world will eventually figure them out," he says.The challenge will be "to mobilize the will to put the solutions into place and implement them soundly."

U of T's School of Public Policy and Governance launched last fall and welcomed its inaugural class of 25 students this September. Graduates of the two-year program earn a master's degree in public policy. Director Mark Stabile says the university will match the scholarship portion of Cadario's gift to create 10 awards a year worth about $6,000 each. Finding a donor to support scholarships was a high priority for the school. "Making sure the program is accessible is really important," says Stabile."We want to make sure that the most qualified students can attend this program, regardless of whether they intend to pursue high-paying careers."

The first Cadario Scholarships will be awarded next year, while the Cadario Visiting Scholar will be invited for the following academic year.

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

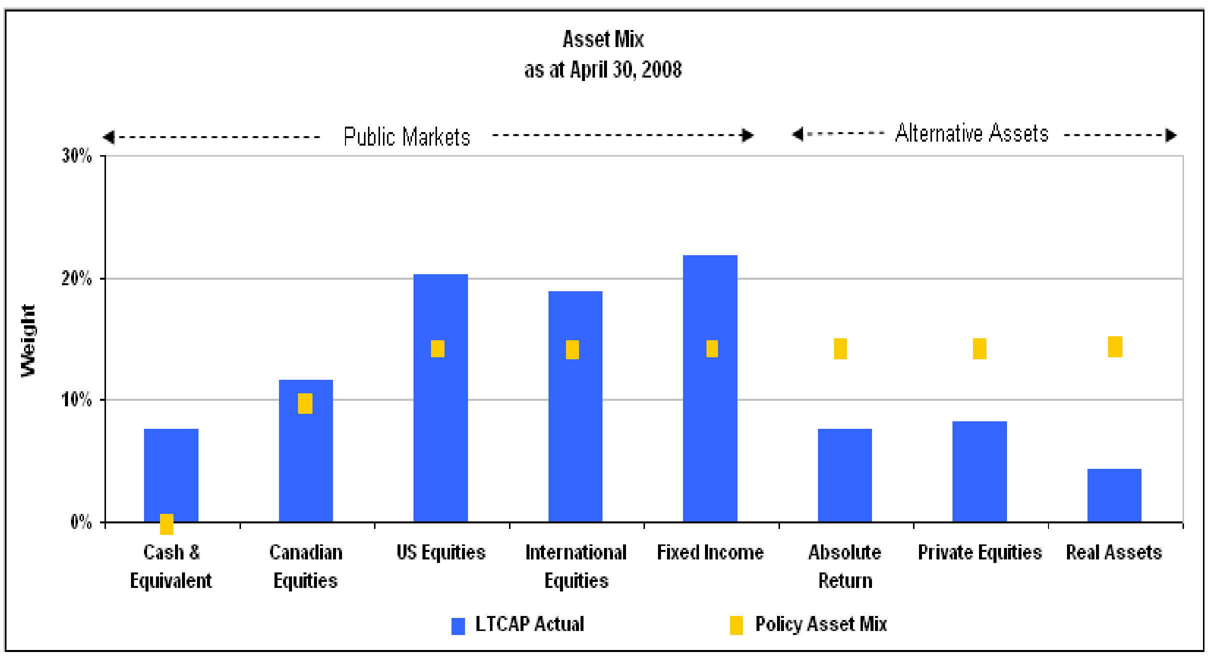
The fair value of LTCAP was $2,005.9 million at April 30, 2008, of which $1,720.4 million was endowments, representing 98.0% of all endowments.

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. It was revised effective January 1, 2007 to further improve the expected long-term risk-adjusted return profile of the portfolio. The allocation to alternative assets was increased from 30% to 45% and the allocation to public markets assets was correspondingly reduced from 70% to 55%. Alternative assets include private equities, real assets (e.g. real estate, commodities) and absolute return investments (i.e. hedge funds). Public markets assets include publicly listed securities in equities (Canadian, U.S. and International) and fixed income securities.

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



LTCAP can be viewed as essentially a “balanced fund”, which would traditionally have about a 60% allocation to equities and a 40% allocation to fixed income. The resulting 3:2 ratio (i.e. 60:40) is roughly approximated in the overall policy asset mix for the portfolio. In this context, part of LTCAP’s “balanced fund” fixed income allocation has been devoted to investments in absolute return investments (i.e. hedge funds) and real assets (e.g. real estate, commodities), which each have a policy asset mix weight of 15%. Similarly, part of the “balanced fund” equities allocation has been devoted to private equities, which also has a policy asset mix weight of 15%. In total, alternative assets represent 45% of the policy target weight. This allocation provides the opportunity to benefit from diversification (through lower correlations among asset class returns) while enhancing return potential. In addition, the absolute return allocation provides the opportunity for lower volatility, and the real assets allocation provides a hedge against inflation.

There are two key 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).

Secondly, participation in certain asset classes (e.g. hedge funds, private equities) requires significant time and effort to source investment managers and to transact investments, compared to sourcing public markets investment managers, where funds can be invested more quickly. As a result, holdings in hedge funds, private equities and real assets accumulate slowly over time such that the actual asset mix builds gradually towards the policy asset mix. In the interim while holdings are being built up, UTAM allocates the underweight from the policy asset mix weights, on a pro rata basis, to the public markets equities and fixed income asset classes. This reallocation process creates near-term target weights (not shown in the chart above) that provide the flexibility for a disciplined build-up in the private equities and real assets holdings over time, towards the policy asset mix shown.

The impact of the interim reallocation process can be readily seen in the chart above, where the three alternative assets categories are each below their policy asset mix weight and the four public markets asset classes are each above their policy asset mix weight. This situation is expected to persist for a number of years, as private equity and real assets investment managers are sourced for the investment program. Over time, actual holdings in public markets will decrease towards the target levels and alternative assets holdings will increase towards target levels.

Foreign Currency Exposure

The underlying philosophy at UTAM is to exploit global investment opportunities. This focus results in foreign exchange exposure. To control the volatility from foreign currency fluctuations impacting overall portfolio returns, the foreign currency hedging policy was changed as of January 1, 2007 from partial hedging (the policy in place since 2003) to fully-hedged. This change had a beneficial impact on returns in 2007, given the strengthening of the Canadian dollar. Some of this beneficial impact was reversed in the first few months of 2008 as the Canadian dollar depreciated.

Investment Performance

To assess how adequately LTCAP returns are meeting the objective set by the University, performance is assessed versus the 4% real return (net of fees and expenses) objective.

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)
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.*

This has been a very challenging year in the investment markets and we experienced a loss of 2.0%. This result was strongly influenced by the difficult market conditions, particularly in the first quarter of 2008. All major equity markets experienced losses for the fiscal year, except the Canadian stock market, which posted a small increase due to large gains by a very limited number of large cap stocks. However, our reserving strategy has enabled us to continue to preserve inflation-adjusted capital for the endowment pool and to increase the spending allocation by 7%.

Hal Jackman Doubles Gift to the Humanities

(by Diana Krupel, selection from UofT magazine–Summer 07)

Hal Jackman has given another $15-million to the humanities at U of T, doubling a commitment he made five years ago.

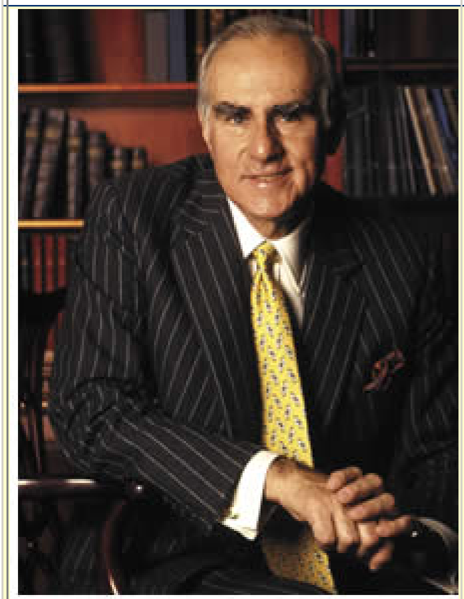


Photo: Laura Arsie

A new $15-million gift by the Honourable Henry N. R. Jackman will double a commitment he made five years ago to the humanities at the University of Toronto.The $30-million total donation is the largest gift to the humanities from an individual that has ever been made to a Canadian university. Double matched by the university, it effectively triggers a $90.5-million increase in investment in U of T's humanities departments.

"What is perhaps more significant than my gift is the fact that the university is allocating over $60 million in additional funding. This funding will help establish a level of excellence that would not otherwise be possible," says Jackman (BA 1953 Victoria, LLB 1956). "A further motivation is the strong commitment to the humanities of my family. My wife, Maruja, taught humanities at both the University of Toronto and York University. All my five children have post-graduate degrees in the humanities and two of them teach humanities at universities."

Maruja Jackman (BA 1959 Trinity, MA 1963) says the humanities are crucial to a comprehensive education because they shape how people engage as citizens. "By examining the cultural, historical, philosophical and creative dimensions of human experience, the humanities help us to understand better the diversity and complexity of our world." In 2002, the Jackmans donated $15 million to the humanities, which was double-matched by the university to create a $45-million endowment to support academic chairs, graduate scholarships, faculty research fellowships and a program for the arts. The new gift is similarly matched.

Part of the new gift will establish the Jackman Humanities Building, through extensive renovation of the Medical Arts Building. Located on the northwest corner of St. George Street and Bloor Street West, the art deco building will house some of the university's key humanities departments and centres. Another portion of the funds will create the Jackman Humanities Institute, providing it with the equivalent of a $22-million endowment. This endowment will strengthen U of T's ability to recruit top graduate students in the humanities by setting up a graduate fellowship fund. It will also support research and teaching at the Jackman Humanities Institute.

"The humanities are – and have always been – central to U of T's mission of teaching and research excellence," says David Naylor, president of the University of Toronto."We are grateful to the Honourable and Mrs. Jackman for their vision and their generosity." Jackman, who served as chancellor of the University of Toronto from 1997 to 2003, is a former lieutenant-governor of Ontario and the honorary chairman of E-L Financial Corporation Ltd. He is chairman of The Hal Jackman Foundation and the J.P. Bickell Foundation.

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 2008 opening unit market value consist of the following:

	2008 In millions	2007 In millions
Investment related management fees		
External managers	$ 15.8	$10.5
UTAM	1.3	1.2
Trustee and custodial fees	0.8	0.6
Foreign taxes	0.9	0.7
Professional and other fees	0.4	0.4
	19.2	13.4
University of Toronto – administration costs	0.3	0.4
Total	$ 19.5	$13.8

Total fees and expenses for fiscal year 2008 also represented 1.1% of the market value of the endowments at the end of the year.

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 2008, a higher investment allocation was made to hedge funds and private equity investments as compared to 2007; thereby, substantially increasing fees paid to external managers.

In addition to third party fees, UTAM allocates a portion of its total operating costs 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 will no longer be charged against endowments effective May 1, 2008.

SUMMARY OF CHANGES IN FAIR VALUE

The total return on LTCAP for 2007-08 was a loss of 2.0% (net of fees and expenses) due to poor investment markets. The reserve established for this purpose from previously re-invested income was utilized to fund this year's spending allocation and to provide for the required inflation protection. 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, 2007	$1,770.8	$221.84	7,982,019
Contributions	45.5	-	205,046
Investment loss	(14.3)	(1.70)	-
Fees and expenses	(19.5)	(2.33)	-
Allocation for spending	(62.1)	(7.65)	-
Closing balance at April 30, 2008	$1,720.4	$210.16	8,187,065
2) Specifically invested endowments:			
Opening balance at May 1, 2007	$ 32.1	n/a	n/a
Contributions	0.8		
Transfer to LTCAP	(1.8)		
Investment loss	(5.2)	n/a	n/a
Amount available for spending	(0.1)	n/a	n/a
Closing balance at April 30, 2008	$ 25.8	n/a	n/a
3) Donations received to be invested in LTCAP:			
At April 30, 2008	$ 8.6	n/a	n/a
Total endowments at April 30, 2008	$1,754.8	n/a	n/a

The fair value of each endowment account in LTCAP is determined by multiplying the current fair value of the unit ($210.16 at April 30, 2008) by the number of units held by that endowment account.

Appendix

University of Toronto Endowments

Financial Information

April 30, 2008

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, 2008, 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, 2008 and the changes in these net investments for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada,
May 30, 2008.

Chartered Accountants
Licensed Public Accountants

University of Toronto Endowments
STATEMENT OF NET INVESTMENTS
APRIL 30, 2008
(with comparative figures at April 30, 2007)
(millions of dollars)

	2008	2007
ASSETS		
Investments at fair value *[note 3]*	**1,607.8**	1,654.0
Short-term notes and treasury bills *[note 4]*	**19.5**	5.7
Cash and cash equivalents *[note 4]*	**90.3**	95.1
Unrealized gains on derivative instruments *[note 3]*	**31.6**	65.8
Investment income and other receivables	**15.5**	9.7
	1,764.7	1,830.3
LIABILITIES		
Unrealized losses on derivative instruments *[note 3]*	**1.2**	2.5
Other payables and accruals	**8.7**	5.1
	9.9	7.6
NET INVESTMENTS HELD FOR ENDOWMENTS	**1,754.8**	1,822.7

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, 2008
(with comparative figures for the year ended April 30, 2007)
(millions of dollars)

	2008	2007
INCREASE IN NET INVESTMENTS		
Investment income *[note 5]*		224.0
Endowed donations	**36.4**	30.9
Endowed grants	**14.2**	5.2
Transfers from University's unrestricted funds	**2.8**	4.1
Transfer from University's deferred contributions	**2.4**	
Total increase in net investments	**55.8**	264.2
DECREASE IN NET INVESTMENTS		
Investment loss *[note 5]*	**20.3**	
Transfer to University of Toronto Schools *[note 8]*	**21.8**	
Allocation for spending *[note 6]*	**62.1**	56.5
Fees and expenses *[note 7]*	**19.5**	13.8
Total decrease in net investments	**123.7**	70.3
Net increase (decrease) in net investments for the year	**(67.9)**	193.9
Net investments held for endowments, beginning of year	**1,822.7**	1,628.8
Net investments held for endowments, end of year	**1,754.8**	1,822.7

(see notes to financial information)

University of Toronto Endowments
NOTES TO FINANCIAL INFORMATION
APRIL 30, 2008

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) Change in accounting policies –

Effective May 1, 2007, the University adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Section 3855: Financial Instruments – Recognition and Measurement; CICA 3861: Financial Instruments - Disclosure and Presentation; and CICA 3865: hedges. CICA 3855 establishes standards for recognizing and measuring financial instruments, including the accounting treatment for changes in fair value. As required by CICA 3855 and consistent with the accounting policy for investments used to prepare the prior year's financial statements, investments continue to be presented at fair value. In accordance with CICA 3865, consistent with prior years, all derivatives are measured at fair value and included on the balance sheet. The adoption of CICA 3855, 3861 and 3865 did not have a significant impact on the financial statements in the prior or current year.

b) 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.

c) 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.

d) 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.

e) 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.

3. Investments

Most of the funds associated with the University's endowments are invested in LTCAP. These funds represent 85.8% (2007 – 87.1%) 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 $65.9 million (2007 - $75.4 million) of pooled funds, $314.7 million (2007 - $354.7 million) in hedge funds and $0.3 million (2007 - $178.2 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)			
	2008		2007	
	LTCAP	**Other**	LTCAP	Other
Government and corporate bonds	**369.2**	**6.2**	368.8	6.2
Canadian equities	**249.4**	**2.7**	266.8	8.7
United States equities	**259.9**	**0.4**	339.7	0.4
International equities	**357.8**	**0.1**	405.1	0.1
Hedge funds	**132.2**		99.0	
Private equity and debt interests	**138.8**		78.2	
Real asset interests	**74.8**	**16.3**	64.7	16.3
	1,582.1	**25.7**	1,622.3	31.7
Total investments	**1,607.8**		1,654.0	

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 as investment income $6.7 million (2007 - $1.4 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)

	2008		2007	
	Notional Value	**Fair Value**	Notional Value	Fair Value
Foreign currency forward contracts				
- U.S. dollars	**769.8**	**5.5**	870.5	37.2
- International	**280.4**	**5.4**	342.8	7.9
		10.9		45.1
Equity and commodity index futures contracts				
- Canadian	**69.2**	**3.4**	90.2	2.3
- United States	**147.9**	**6.8**	354.6	11.1
- International	**106.5**	**9.3**	119.1	4.8
		19.5		18.2
Total		**30.4**		63.3
Reported on the statement of net investments as:				
Unrealized gains on derivative instruments		**31.6**		65.8
Unrealized losses on derivative instruments		**(1.2)**		(2.5)
		30.4		63.3

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%.

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)	
	2008	2007
Investment management fees		
- External managers	**15.8**	10.5
- UTAM	**1.3**	1.2
Foreign taxes	**0.9**	0.7
Trustee and custodial fees	**0.8**	0.6
Professional and other fees	**0.4**	0.4
Administration cost – University of Toronto	**0.3**	0.4
Total	**19.5**	13.8

8. Transfer to University of Toronto Schools

On June 30, 2006, the University entered into a long-term affiliation and license agreement with the University of Toronto Schools ("UTS"), whereby the University agreed to cover certain expenses and to transfer to UTS, subject to court approval, assets which the University held in connection with endowed and expendable funds held for bursaries and scholarships, building and other purposes related to the operations of UTS. Court approval was obtained in August 2007 and $21.8 million of endowed funds was transferred to UTS. This transfer consisted of the following:

	(millions of dollars)
Externally restricted endowments for bursaries and scholarships	**15.6**
Internally restricted endowments	**6.2**
	21.8