UNIVERSITY OF TORONTO

Endowments

Annual Financial Report

For

The Year Ended April 30, 2011

Courtesy of Terry Jones

HIGHLIGHTS

	April 30, 2011	April 30, 2010
Total Endowments:	(Millions of dollars)	
Fair value	$ 1,539.4	$ 1,437.2
Change from previous year:		
Endowed donations	$ 21.4	$ 19.5
Endowed grants	$ 3.6	$ 4.2
Transfers from University's unrestricted funds	$ 2.1	$ 1.4
Investment income	$ 155.9	$ 202.9
Fees and expenses	$ (15.0)	$ (14.7)
Allocation for spending	$ (65.8)	$ (62.4)
Total change for the year	$ 102.2	$ 150.9
Endowments in Long-Term Capital Appreciation Pool (LTCAP):		
Proportion invested in LTCAP	97.99%	96.10%
Number of units in LTCAP	9,004,575	8,667,075
Fair value in millions	$ 1,508.4	$ 1,381.1
Fair value per unit in dollars	$ 167.52	$ 159.35
Allocation for spending per unit in dollars	$ 7.41	$ 7.26
LTCAP time-weighted net returns*	9.9%	14.7%

*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 six universities in the world that is ranked by global peers in the top 25 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 $1.539 billion at April 30, 2011 and included over 5,270 individual endowment funds. In establishing these funds, donors have chosen to support the institution's highest, continuing academic priorities.

To ensure that endowments will provide the same level of economic support to future generations as they do today, the University adopted a policy that grows the capital value of the endowment while allowing spending to increase over time as a percentage of the 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 the University to reinstate the endowment spending allocation and to rebuild the endowment reserve to $124.5 million. In 2010-11, investment returns enabled the endowment reserve to continue to grow and it now stands at $199.6 million at April 30, 2011.

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 2010-11 was 4.6%. The market value of each unit has increased from $159.35 at April 30, 2010 to $167.52 at April 30, 2011.

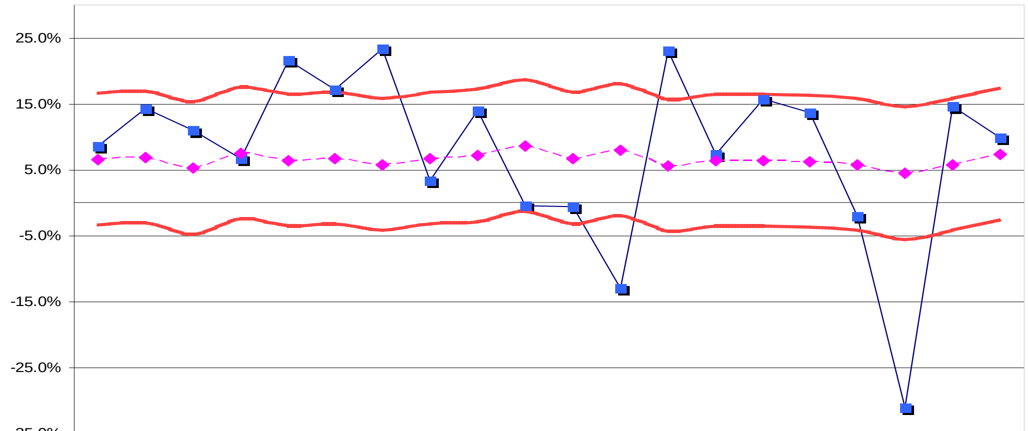
Unit market value at April 30, 2010	$159.35
Investment income per unit	17.24
Fees and expenses	(1.66)
Endowment spending allocation	(7.41)
Unit market value at April 30, 2011	$167.52

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, 2011 was 750 times $167.52 or $125,640.

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. To meet those targets, the investment is managed by the University of Toronto Asset Management Corporation (UTAM) under the direction of the University.

Over a 20-year period, the one-year annual returns exceeded the target returns 13 times. Compared to the 10% risk corridor, they were within the corridor 14 times, 4 times they were above it and 2 times below it.

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



	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Annual investment return	8.6%	14.2%	10.9%	6.7%	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%	9.9%
Target return*	6.6%	6.8%	5.2%	7.5%	6.4%	6.7%	5.8%	6.7%	7.1%	8.6%	6.7%	7.9%	5.6%	6.4%	6.4%	6.2%	5.7%	4.4%	5.8%	7.3%
Standard deviation +10%	16.6%	16.8%	15.2%	17.5%	16.4%	16.7%	15.8%	16.7%	17.1%	18.6%	16.7%	17.9%	15.6%	16.4%	16.4%	16.2%	15.7%	14.4%	15.8%	17.3%
Standard deviation -10%	-3.4%	-3.2%	-4.8%	-2.5%	-3.6%	-3.3%	-4.2%	-3.3%	-2.9%	-1.4%	-3.3%	-2.1%	-4.4%	-3.6%	-3.6%	-3.8%	-4.3%	-5.6%	-4.2%	-2.7%

*** The target return from 1992 to 2002 was 5% plus CPI and after 2002, it was set at 4% plus CPI with a 10% standard deviation.**

During 2010-11, as is done periodically, the University reviewed the investment return targets and the risks surrounding investments and determined that these targets continued to be appropriate.

Northern Vision

The late Edward Dawson creates a new scholarship for Aboriginal students

The commitment of alumni can take many forms at a great university. Edward Dawson, 1920-2010, who often traveled to the Far North as a geophysicist for the federal government, chose to link his profound attachment to the Inuit people with his gratitude to the University of Toronto by establishing a university-wide endowed scholarship for aboriginal students.

Between 1953 and 1981, Dawson went on several expeditions to the Canadian Arctic for the department of Energy, Mines and Resources to measure changes in the Earth's magnetic field. He often lived and worked in Inuit communities.

Dawson assembled a large collection of Inuit art, which he and his wife, Dorothy, proudly displayed in their Ottawa home. "He became enamored with the Inuit people," says his niece, Phyllis Johnson. "He may have seen the scholarship as an opportunity to give to the children up there."

Born in Scotland in 1920, Dawson came to Canada as a youth to live with his aunt and uncle in Hamilton, Ontario. He served in the Royal Canadian Air Force during the Second World War and was awarded the Italy Star, a volunteer service medal. After returning to Canada, he earned a bachelor's degree from McMaster University and, in 1952, a master's from U of T, where he studied under renowned geophysicist J. Tuzo Wilson.

"Edward had a very strong affection for the University of Toronto," Johnson says. "He came from humble beginnings but through education made something of himself."

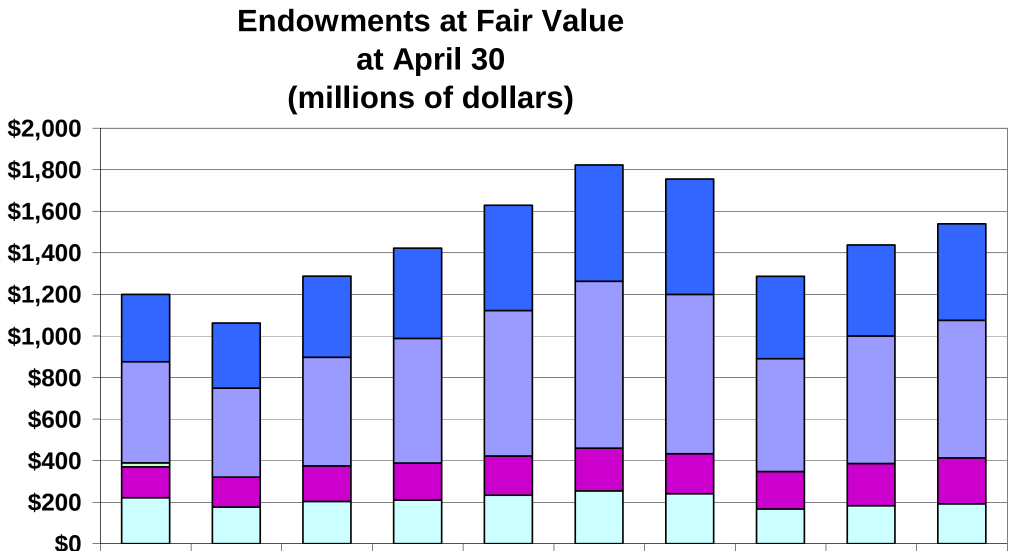
By making U of T the beneficiary of his life insurance policy, Edward Dawson allowed others to have this opportunity. By creating an endowed scholarship, he ensured that it would last in perpetuity.

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 $1.539 billion at April 30, 2011 and included over 5,270 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 (84.6%) and internally restricted endowment funds designated as endowments by Governing Council in the exercise of its discretion (15.4%). 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.



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total endowments	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	1,539.4
Chairs and professorships	324.5	314.4	390.7	434.8	507.6	560.5	554.4	395.5	437.4	464.6
Student aid	486.4	427.3	522.8	599.7	699.4	802.4	768.1	543.9	614.1	662.0
Matching funds	19.2									
Academic programs	148.0	143.8	170.3	179.0	189.0	205.9	191.8	180.3	203.1	220.8
Research	221.6	176.8	203.9	209.3	232.8	253.9	240.5	166.6	182.6	192.0

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, 2011, there were over 5,270 individual endowment funds, usually supported by a donor agreement, or reflecting a collection of small donations with common restrictions.

Almost all endowments, approx. 98.0% of fair value and 5,249 funds, are invested in the University's long-term capital appreciation pool (LTCAP). A small number of endowments (1.7% of fair value and 12 funds), mostly very long-standing ones or ones with very specific characteristics such as the Jokers Hill[1] property in

[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.

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 $1,539.4 million fair value at April 30, 2011. This was an increase of $102.2 million over the previous year. This increase was comprised of:

Additions of:

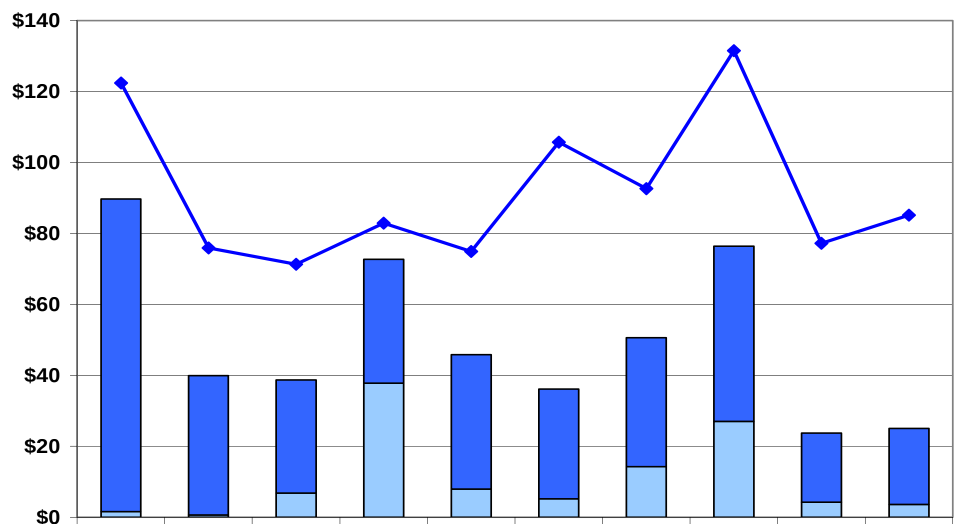
- $155.9 million of investment income,
- $21.4 million of endowed donations,
- $3.6 million of endowed government grants, and
- $2.1 million of transfers from the University's unrestricted funds to endowments.

Minus:

- $65.8 million of allocation for spending and
- $15.0 million of fees and expenses.

The following graph shows endowed contributions and total donations (endowed and expendable) received since 2002. 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)



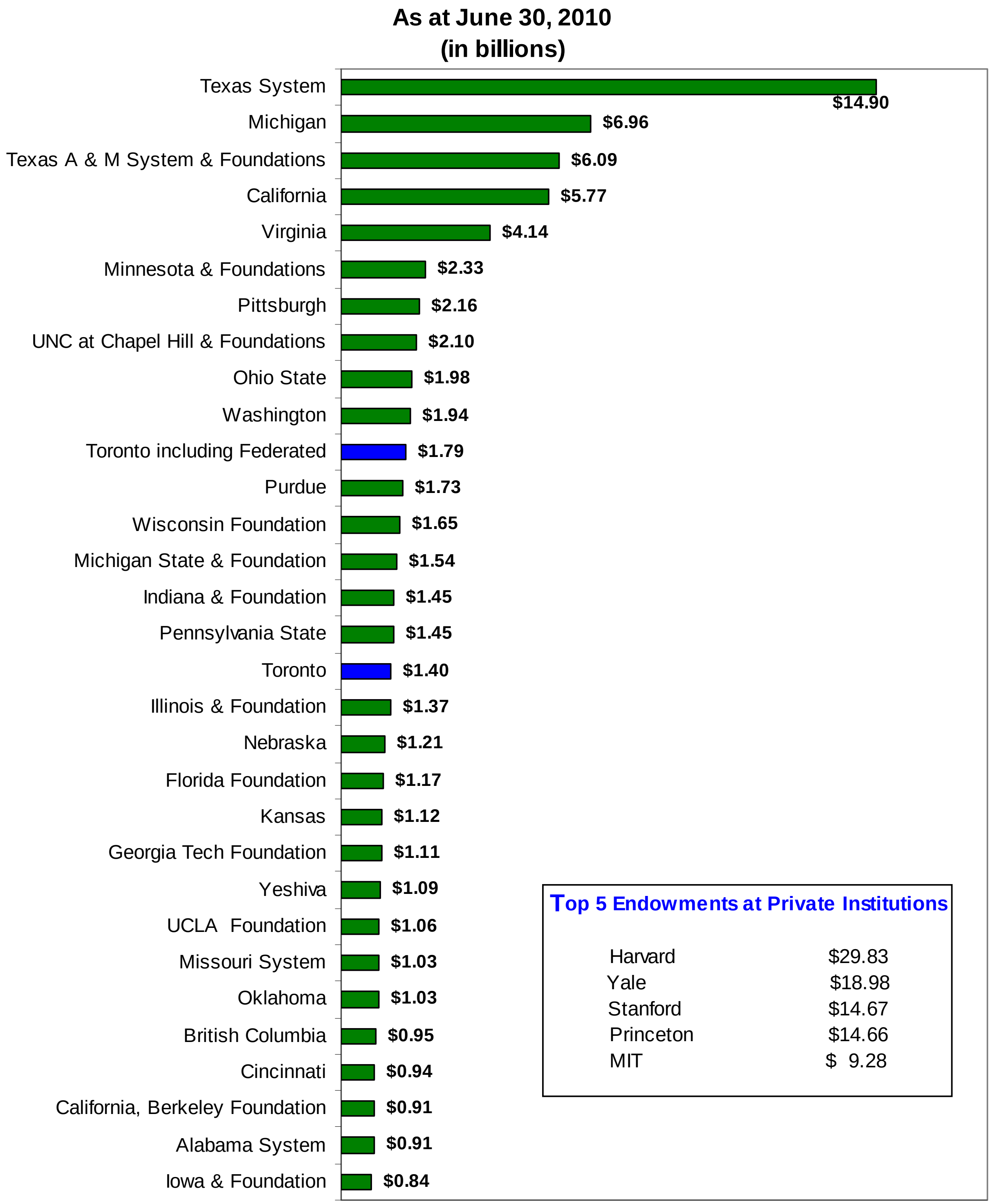
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Endowed donations	88.1	39.3	31.9	34.9	37.9	30.9	36.4	49.4	19.5	21.4
Endowed grants	1.6	0.6	6.8	37.8	7.9	5.2	14.2	27.0	4.2	3.6
Total donations	122.4	75.9	71.3	82.9	74.9	105.7	92.6	131.5	77.2	85.1

The graph illustrates that endowed donations represented 25.2% of total donations ($85.1 million) received by the University in 2011. Expendable gifts of $63.7 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.

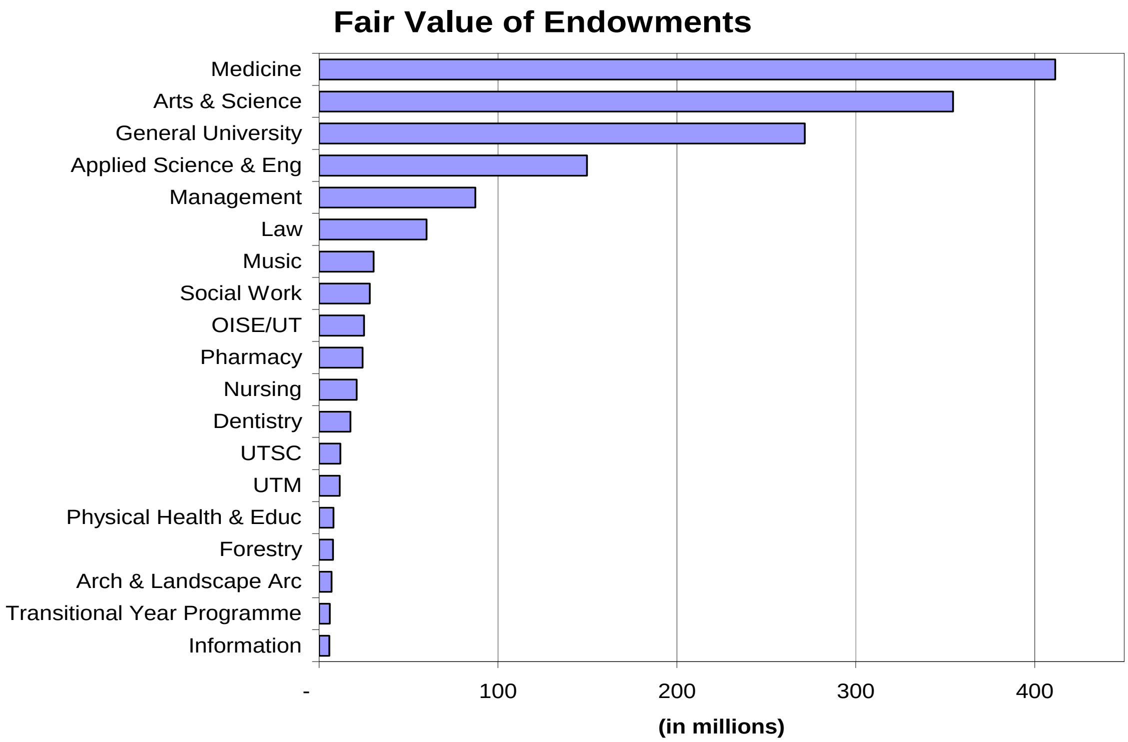
It is important to note the University's endowments are not large in comparison to our U.S. public university peers. When we consider the top 30 endowments at Canadian and U.S. public institutions in 2010, Toronto ranked 16th in terms of size. Including the endowments of the federated universities, Toronto ranked 11th in terms of size. If we were to compare the endowment per FTE student with the same institutions, the University would rank lower since most of these institutions have a smaller number of FTE students. Page 13 shows the University's endowment by Faculties, including the endowment per FTE student.

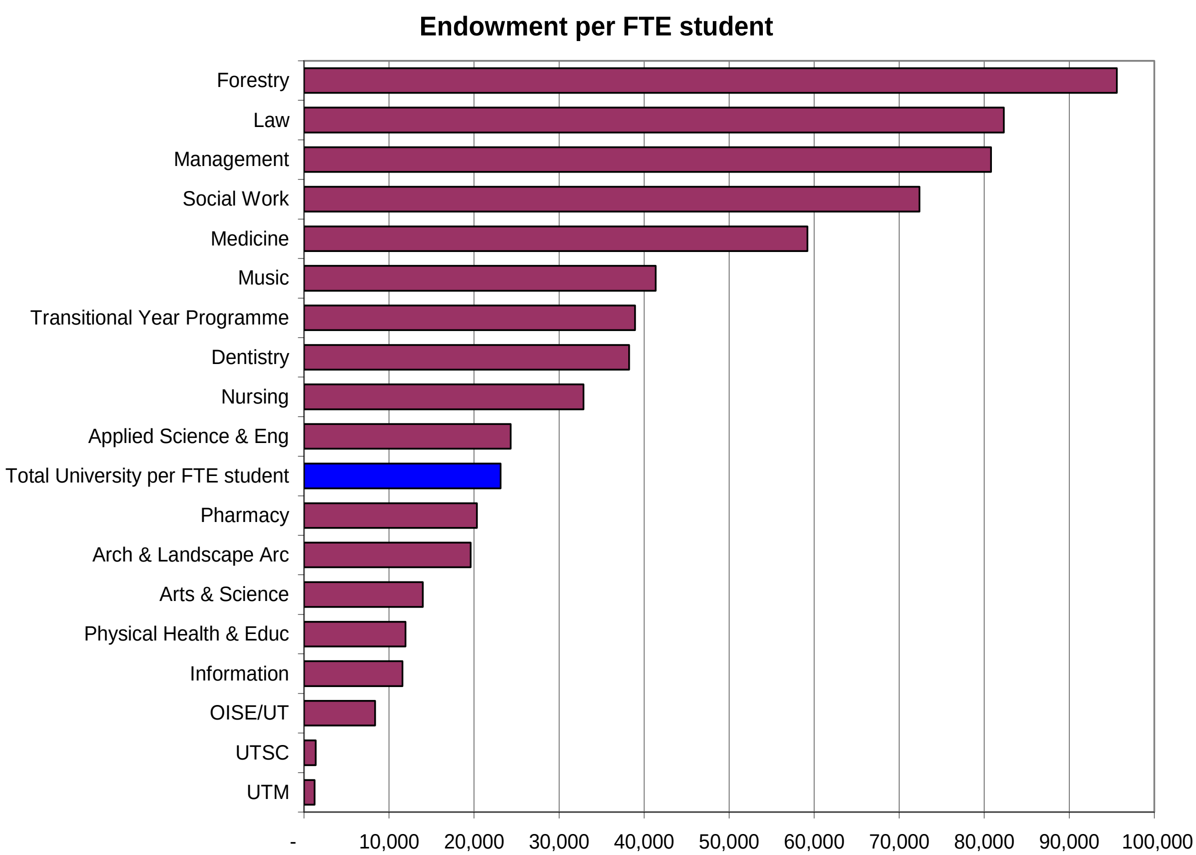
TOP 30 ENDOWMENTS AT PUBLIC INSTITUTIONS



Source: 2010 NACUBO Endowment Study, released January 2011, converted to Canadian dollars at an exchange rate of 1.0606

ENDOWMENTS BY FACULTIES





Promoting the History and Culture of the Ukraine

The late John Yaremko provides a surge of support for Ukrainian Studies

The University of Toronto has long enjoyed a fruitful collaboration with the Ukrainian-Canadian community in Toronto. In 1980, members of the community established a foundation to create the first endowed Chair in Ukrainian Studies in Canada. Now a $2-million gift from the late John Yaremko, an alumnus, has supplemented this original endowment and enabled further support of research and teaching in the history, culture and politics of Ukraine. On November 9, 2010 the Chair was formally renamed the John Yaremko Chair in Ukrainian Studies.

It is a fitting link. The Honourable John Yaremko was an iconic figure in the Ukrainian-Canadian community. His name was synonymous with advancing issues related to Ukrainian-Canadians and multicultural issues more generally. At U of T, he was one of the founding members of the foundation that established the Chair in Ukrainian Studies.

"John took immense pride in the University of Toronto and its connection to the Ukrainian community," says Ihor Bardyn, President of the University of Toronto Chair in Ukrainian Studies Foundation. "He felt it was crucial to establish a bridge between Canada and Ukraine so that we can further our understanding of Ukrainian culture and the Ukrainian-Canadian way of life."

Born in Welland, Ontario, in 1918 and educated at the University of Toronto and Osgoode Hall Law School, Mr. Yaremko had a long and distinguished career. He was the first Ukrainian-Canadian member of the Legislative Assembly and the first to be appointed a cabinet minister in Ontario. A passionate voice for human rights, social justice and multiculturalism in the cabinets of premiers Leslie Frost, John Robarts and Bill Davis, Mr. Yaremko held a number of ministerial portfolios, including transportation, citizenship, and social and family services.

"The University of Toronto is proud of its long engagement in the study of Ukraine," says President David Naylor. "Now, thanks to John Yaremko, an eminent alumnus and longstanding benefactor, we will be able to support and foster future generations of scholars committed to teaching, to producing leading-edge research and to furthering our understanding of Ukrainian history, politics and culture."

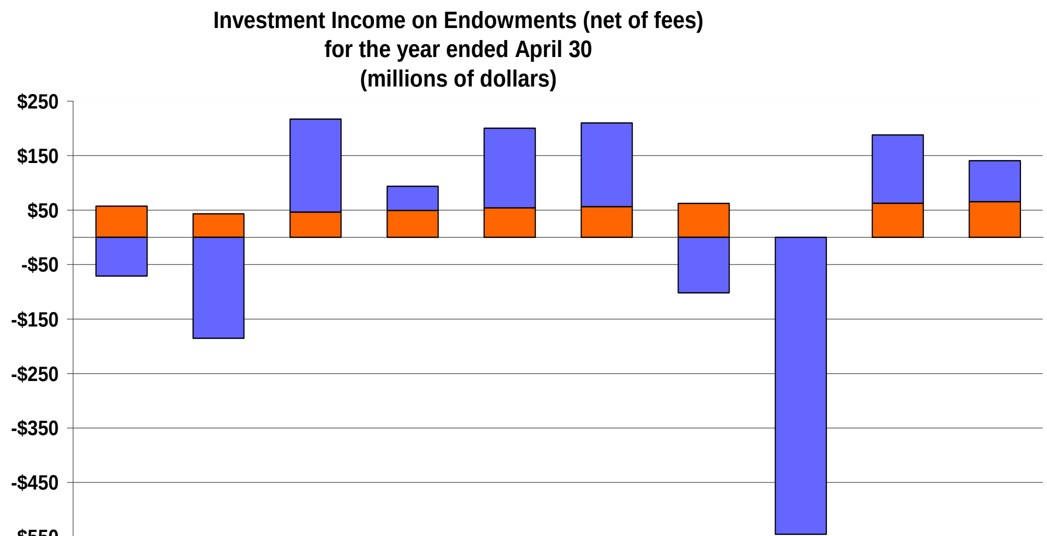
The John Yaremko Chair is held by Prof. Paul Magosci, who has published extensively on the history of nationalism and immigration. He is the author of *Galicia: An Historical Survey and Bibliographic Guide* (1983); *The Russian Americans* (1989); *The Rusyns of Slovakia* (1991); *The Roots of Ukrainian Nationalism* (2002); and *Ukraine: An Illustrated History* (2007).

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, the University does not spend everything earned through the investment of funds in years when investment markets are good. In those years, the University sets aside and reinvests 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 target spending allocation is 3% to 5% of opening balance market value and the actual endowment spending allocation for 2010-11 was 4.6%.

The following graph shows the spending allocation and the amounts reinvested and drawn down over the past ten years.



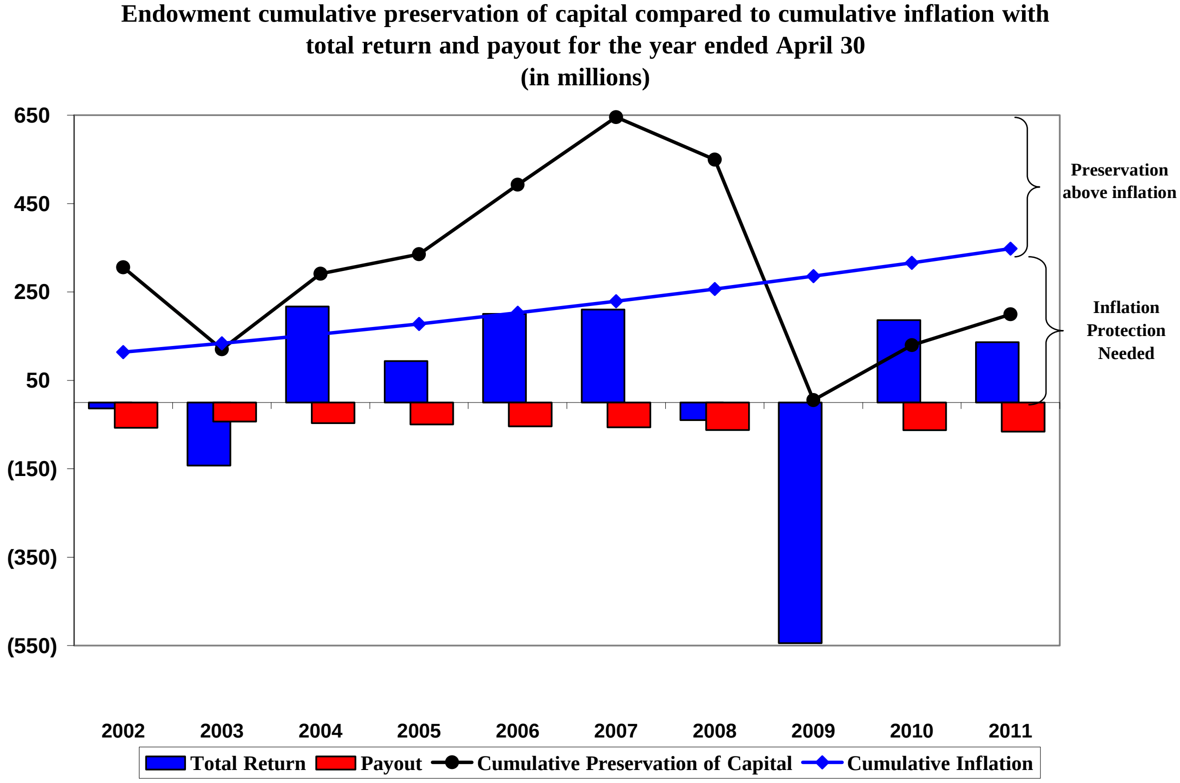
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Reinvested (draw down)	(70.9)	(185.5)	170.7	44.4	146.3	153.7	(101.9)	(545.0)	125.8	75.1
Allocation for spending	57.3	43.0	46.5	49.4	54.0	56.5	62.1	-	62.4	65.8

In 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 2009-10, that preservation strategy has enabled us to reinstate the endowment spending allocation and to rebuild the endowment reserve to $124.5 million. In 2010-11, investment returns enabled the endowment reserve to continue to grow. It now stands at $199.6 million at April 30, 2011.

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.



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 12 funds in this category with a total fair value of $25.8 million. For 2010-11, $39 thousand was made available for spending from these endowments.

Improving the Lives of Seniors

Retired Teachers of Ontario establish a Chair in Geriatrics

The trajectory is clear: older Canadians will occupy a higher and higher proportion of the population as the century progresses. By pledging $3 million towards a Chair in Geriatrics, the Retired Teachers of Ontario/ Les enseignantes et enseignants retraités de l'Ontario (RTO/ERO) are ensuring a strong commitment to this vital area of research at the University of Toronto. They will be funding the chair through voluntary contributions from their membership, more than 65,000 strong.

Their decision to support geriatric research at the University of Toronto was not haphazard. The University boasts a wide array of top investigators from the many disciplines related to the study of aging. The Department of Medicine also has the largest regional geriatric program in Ontario, with a network of 28 institutions spanning the continuum of hospital and community care. These include not only the great hospitals of Toronto but institutions in Peterborough, Barrie, Newmarket, Brampton, Georgetown, Mississauga, Markham, Ajax, Lakeridge, Oshawa and Whitby.

All this provides a superb environment for the RTO/ERO Chair holder, who will be a specialist physician dedicated to research on the quality of life of seniors, including the training of health care workers who serve seniors. This is an endowed gift that can only continue to grow in importance to our society.

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 $221.9 million expendable funds that are invested for the long-term, including the University's supplemental retirement arrangement fund, and $38.6 million of external funds of affiliated organizations and funds where the University is a beneficiary, representing historical arrangements.

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

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 and approves the investment strategy. UTAM recommends and executes appropriate investment strategies based on the risk and return objectives and the investment strategy established by the University.

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 in the same way any external investment manager would do.

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. These recommendations were implemented in 2010-11 with the establishment of an Investment Advisory Committee to provide investment advice to the President, the repositioning of the UTAM Board to provide oversight to the operation of the corporation, stronger focus by UTAM management on risk management, and reversion to the University of the authority for approval of investment strategy, including asset allocation.

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

The fair value of LTCAP was $1,769.0 million at April 30, 2011, of which $1,508.4 million was endowments, representing 98.0% of all endowments.

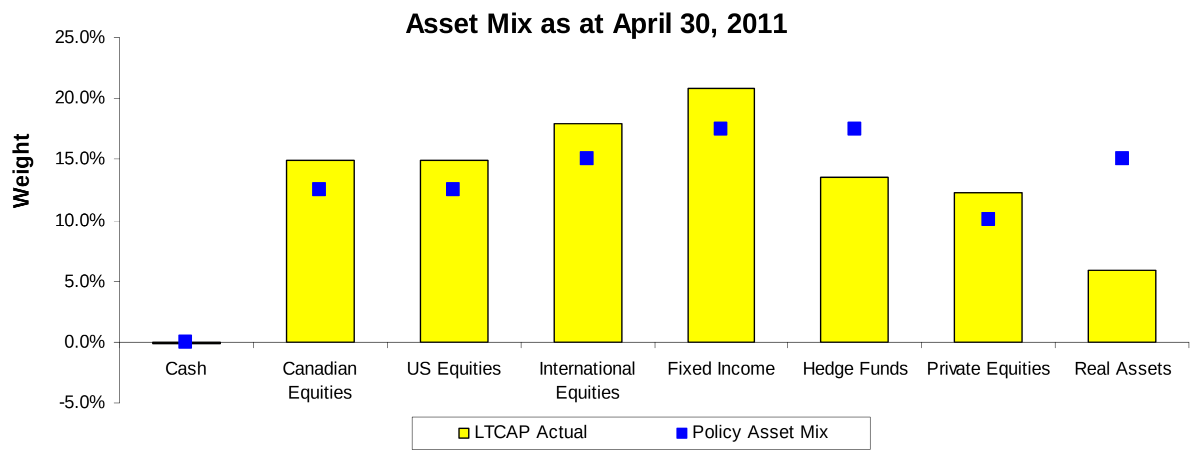
Asset Mix

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 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.

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 Policy mix has been effective since 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, 2011.

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.

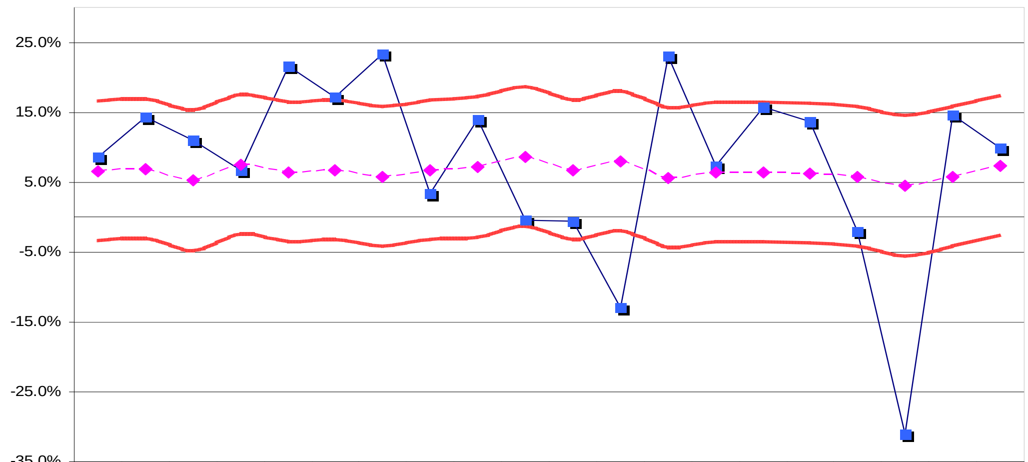
Foreign Currency Exposure

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 has been set at 50% hedging since 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

Over a 20-year period, the one-year annual returns exceeded the target returns 13 times. Compared to the 10% risk corridor, they were within the corridor 14 times, 4 times they were above it and 2 times below it.

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

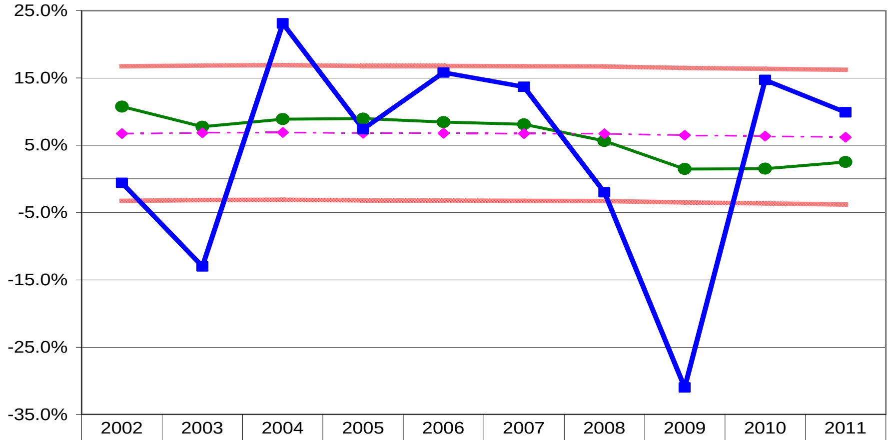


	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Annual investment return	8.6%	14.2%	10.9%	6.7%	21.6%	17.1%	23.4%	3.4%	14.0%	-0.4%	-0.6%	-13.0	23.1%	7.4%	15.8%	13.7%	-2.0%	-31.0	14.7%	9.9%
Target return*	6.6%	6.8%	5.2%	7.5%	6.4%	6.7%	5.8%	6.7%	7.1%	8.6%	6.7%	7.9%	5.6%	6.4%	6.4%	6.2%	5.7%	4.4%	5.8%	7.3%
Standard deviation +10%	16.6%	16.8%	15.2%	17.5%	16.4%	16.7%	15.8%	16.7%	17.1%	18.6%	16.7%	17.9%	15.6%	16.4%	16.4%	16.2%	15.7%	14.4%	15.8%	17.3%
Standard deviation -10%	-3.4%	-3.2%	-4.8%	-2.5%	-3.6%	-3.3%	-4.2%	-3.3%	-2.9%	-1.4%	-3.3%	-2.1%	-4.4%	-3.6%	-3.6%	-3.8%	-4.3%	-5.6%	-4.2%	-2.7%

*** The target return from 1992 to 2002 was 5% plus CPI and after 2002, it was set at 4% plus CPI with a 10% standard deviation.**

Based on 10-year rolling averages, the actual average returns exceeded the target returns every year until 2007. Beginning in 2008, the average actual returns fell below the average target returns due to losses from 2001 to 2003 and the financial crisis of 2009. It has begun to trend back towards the target in 2011.

Long Term Capital Appreciation Pool Fund (LTCAP)
Ten-Year Rolling Average Returns with Annual Returns



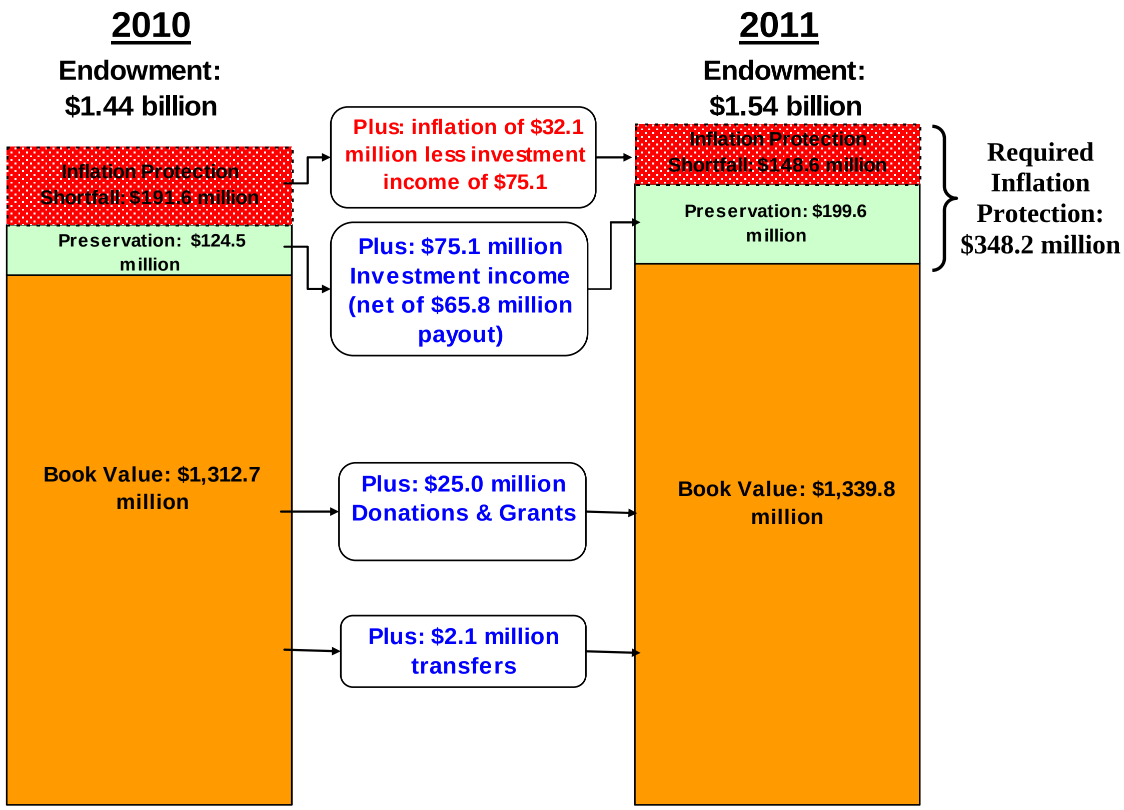
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Ten-Year rolling average return	10.7%	7.8%	8.9%	9.0%	8.4%	8.1%	5.6%	1.5%	1.5%	2.5%
Ten-Year rolling target return +10%	16.7%	16.9%	16.9%	16.8%	16.8%	16.7%	16.7%	16.5%	16.4%	16.2%
Ten-Year rolling target return*	6.7%	6.9%	6.9%	6.8%	6.8%	6.7%	6.7%	6.5%	6.4%	6.2%
Ten-Year rolling target return -10%	-3.3%	-3.1%	-3.1%	-3.2%	-3.2%	-3.3%	-3.3%	-3.5%	-3.6%	-3.8%
Annual investment return	-0.6%	-13.0%	23.1%	7.4%	15.8%	13.7%	-2.0%	-31.0%	14.7%	9.9%

*** The target return for 2002 was 5% plus CPI and after 2002, it was set at 4% plus CPI with a 10% standard deviation.**
The ten-year rolling returns are geometric average returns

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).

During 2011, all major financial markets continued to recover from the meltdown experienced during the fiscal year 2009. For the 12-months ending April 30, 2011, Canadian Equities (TSX) and US Equities (S&P) both returned approx. 17%, while International Equities (EAFE) returned 5%. Fixed income (DEX Universe) returned 6% while Hedge Funds (actual portfolio) returned 7.5%. Private Equities (actual portfolio) returned approx. 18% and Real Assets (actual portfolio) returned 20% (all returns reported in local currency basis). Overall, the LTCAP portfolio achieved a Canadian dollar return of 9.9% net of all investment fees and expenses or 10.8% gross of fees.

Compared to the University's nominal investment return objective of 7.3% over the same period, LTCAP outperformed the target by 2.6%. Therefore, in addition to funding a spending allocation at April 30, 2011, it was possible to continue to add to the endowment reserve, which now stands at $199.6 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 2010 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 1.0% of the 2011 opening unit market value consist of the following:

	2011 In millions	2010 In millions
Investment related management fees		
External managers	$ 12.2	$12.0
UTAM	1.6	1.2
Trustee and custodial fees	0.5	0.6
Foreign taxes	0.5	0.5
Professional and other fees	0.2	0.4
Total	$ 15.0	$14.7

UTAM has direct oversight of all investment 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 2011, total external manager fees were essentially unchanged as a result of the strength of the Canadian dollar offsetting the incremental fees resulting from a larger endowment portfolio than previous year.

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, other University assets available for investment and the assets of the University of Toronto Pension Master Trust.

SUMMARY OF CHANGES IN FAIR VALUE

The total return on LTCAP for 2010-11 was 9.9% (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. At April 30, 2011, the reserve grew to $199.6 million. Fair values of specifically invested endowments changed mainly as a result of the transferring of investments to the LTCAP. 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, 2010	$1,381.1	$159.35	8,667,075
Contributions plus transfers	53.1	-	337,500
Investment income	155.1	17.24	-
Fees and expenses	(15.0)	(1.66)	-
Allocation for spending	(65.8)	(7.41)	-
Closing balance at April 30, 2011	$1,508.5	$167.52	9,004,575
2) Specifically invested endowments:			
Opening balance at May 1, 2010	$ 49.6	n/a	n/a
Contributions	2.0	n/a	n/a
Investment income	0.8	n/a	n/a
Transferred to LTCAP	(26.6)		
Amount available for spending	0.0	n/a	n/a
Closing balance at April 30, 2011	$ 25.8	n/a	n/a
3) Donations received to be invested in LTCAP:			
At April 30, 2011	$ 5.1	n/a	n/a
Total endowments at April 30, 2011	$1,539.4	n/a	n/a

The fair value of each endowment account in LTCAP is determined by multiplying the current fair value of the unit ($167.52 at April 30, 2011) by the number of units held by that endowment account.

Appendix

University of Toronto Endowments

Financial Information

April 30, 2011

Independent Auditors' Report

To the Members of Governing Council of University of Toronto:

We have audited the accompanying financial information related to the net investments held for University of Toronto Endowments, which comprise the statement of net investments as at April 30, 2011 and the statement of changes in net investments for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial information

Management is responsible for the preparation and fair presentation of the financial information in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of the financial information that is free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the financial information based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial information. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial information, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial information presents fairly, in all material respects, the net investments held for the University of Toronto Endowments as at April 30, 2011, and the changes in these net investments for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
June 23, 2011.

University of Toronto Endowments
STATEMENT OF NET INVESTMENTS
APRIL 30, 2011
(with comparative figures at April 30, 2010)
(millions of dollars)

	2011	2010
ASSETS		
Investments, at fair value *[note 3]*	**1,511.9**	1,406.6
Short-term notes and treasury bills *[note 4]*	**2.3**	-
Cash and cash equivalents *[note 4]*	**5.1**	41.2
Unrealized gains on derivative instruments *[note 3]*	**18.6**	1.4
Investment income and other receivables	**5.1**	49.6
	1,543.0	1,498.8
LIABILITIES		
Unrealized losses on derivative instruments *[note 3]*	**1.2**	4.5
Other payables and accruals	**2.4**	57.1
	3.6	61.6
NET INVESTMENTS HELD FOR ENDOWMENTS	**1,539.4**	1,437.2

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, 2011

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

	2011	2010
INCREASE IN NET INVESTMENTS		
Endowed donations	**21.4**	19.5
Endowed grants	**3.6**	4.2
Investment income *[note 5]*	**155.9**	202.9
Transfers from University's unrestricted funds	**2.1**	1.4
Total increase in net investments	**183.0**	228.0
DECREASE IN NET INVESTMENTS		
Allocation for spending *[note 6]*	**65.8**	62.4
Fees and expenses *[note 7]*	**15.0**	14.7
Total decrease in net investments	**80.8**	77.1
Net increase in net investments for the year	**102.2**	150.9
Net investments held for endowments, beginning of year	**1,437.2**	1,286.3
Net investments held for endowments, end of year	**1,539.4**	1,437.2

(see notes to financial information)

University of Toronto Endowments
NOTES TO FINANCIAL INFORMATION
APRIL 30, 2011

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 Canadian Institute of Chartered Accountants ("CICA") 3861: Financial Instruments – Disclosure and Presentation in place of CICA 3862: Financial Instruments – Disclosures and CICA 3863: Financial Instruments – Presentation.

3. Investments

Most of the funds associated with the University's endowments are invested in LTCAP. These funds represent 85.3% (2010 – 85.6%) 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 $545.2 million (2010 - $373.3 million) of pooled funds, $52.5 million (2010 - $47.4 million) in hedge funds and $202.7 million (2010 - $225.3 million) of cash, money market funds, short-term notes and treasury bills set aside related to derivative contracts to be reclassified to their appropriate investment categories.

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

	(millions of dollars)			
	2011		2010	
	LTCAP	**Other**	LTCAP	Other
Government and corporate bonds	**310.0**	**6.2**	275.3	6.2
Canadian equities	**224.0**	**0.9**	199.0	2.5
United States equities	**211.4**	**0.3**	197.3	0.3
International equities	**265.8**	**0.1**	232.6	0.1
Hedge funds	**204.1**	**-**	212.1	-
Private equity and debt interests	**204.3**	**-**	206.6	-
Real asset interests	**68.5**	**16.3**	58.3	16.3
	1,488.1	**23.8**	1,381.2	25.4
Total investments	**1,511.9**		1,406.6	

During the year, the University recognized investment income of $17.4 million (2010 - loss of $5.7 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.

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 ("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). 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, 2011, $161.5 million (2010 – $150.2 million) or 51.1% (2010 – 53.4%) 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)			
	2011		2010	
	Notional Value	**Fair Value**	Notional Value	Fair Value
Foreign currency forward contracts				
- U.S. dollars	**251.7**	**8.0**	339.6	(0.9)
- International	**99.2**	**-**	60.3	1.3
		8.0		0.4
Equity and commodity index futures contracts				
- United States	**265.6**	**9.4**	271.8	(3.5)
Total		**17.4**		(3.1)
Reported on the statement of net investments as:				
Unrealized gains on derivative instruments		**18.6**		1.4
Unrealized losses on derivative instruments		**(1.2)**		(4.5)
		17.4		(3.1)

Uncalled commitments

As at April 30, 2011, approximately 18.0% (2010 – 19.0%) 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, 2011, the endowments had uncalled commitments of approximately $88.0 million (2010 - $125.1 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.

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

Investment income 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 3% to 5% of the opening market value. The actual endowment allocation for 2010-11 was 4.6% of the opening market value of endowment.

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)	
	2011	2010
Investment management fees		
- External managers	**12.2**	12.0
- UTAM	**1.6**	1.2
Foreign taxes	**0.5**	0.5
Trustee and custodial fees	**0.5**	0.6
Professional and other fees	**0.2**	0.4
Total	**15.0**	14.7

UNIVERSITY OF
TORONTO