University of Toronto Endowments

Annual Financial Report

For

The Year Ended April 30, 2005

HIGHLIGHTS

	April 30, 2005	April 30, 2004
Total Endowment:	(Millions of dollars)	
Fair value	$1,422.8	$1,287.7
Change from previous year:		
Endowed donations	$ 34.9	$ 31.9
Endowed Government grants	$ 37.8	$ 6.8
Transfers from University's unrestricted funds	$ 18.0	$ 16.0
Investment earnings	$ 111.1	$ 235.5
Fees and expenses	($ 17.3)	($ 18.3)
Allocation for spending	($ 49.4)	($ 46.5)
Total change for the year	$ 135.1	$ 225.4

Endowments in Long-Term Capital Appreciation Pool (LTCAP):		
Proportion invested in LTCAP	93.7%	94.9%
Number of units in LTCAP	7,320,731	6,942,558
Fair value in millions	$ 1,333.9	$ 1,222.4
Fair value per unit in dollars	$ 182.21	$ 176.07
Allocation for spending per unit in dollars	$ 6.86	$ 6.73
LTCAP time-weighted gross returns	7.9%	22.6%

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EXECUTIVE SUMMARY

The University of Toronto's vision is to be a leader among the world's best public teaching and research universities in its discovery, preservation and sharing of knowledge through its teaching and research and its commitment to excellence and equity. Endowments provide a strong base of funding for student aid, for endowed chairs, for research and for academic programs in support of this academic vision.

Almost all of the University's endowments are invested in the long-term capital appreciation pool (LTCAP), a unitized pool managed by the University that is structured somewhat like a mutual fund. The fair value of an LTCAP unit is set each month. Each endowment account has an assigned book value, which is the nominal amount 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. A very small number of endowments, most very long-standing ones are invested outside the LTCAP due to donor's specific investment instructions. Donations pending addition to the LTCAP are temporarily held in the University's Expendable Funds Investment Pool (EFIP).

The University, through the Business Board of Governing Council, is responsible for establishing the investment return objective and specifying the risk tolerance for LTCAP. The University's investment target for LTCAP is a real investment return objective of 4% 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.

Investment Strategy and Investment Return

LTCAP investment strategy and activity is managed by the University of Toronto Asset Management Corporation (UTAM) as agent for the University, in accordance with the University's investment policy. UTAM is an investment subsidiary wholly owned by the University and governed by its own board of directors. UTAM is responsible for selecting the asset mix appropriate to the University's investment policy.

LTCAP has a long-term horizon so investment performance is evaluated over a multi-year period. To assess how the LTCAP return compared to the markets, a benchmark comprising four major market indices - Canadian equities, U.S. equities, international equities and Canadian bonds was used. To assess how the LTCAP return met University expectations during 2004-05, it was compared to the investment return target of a 4% real return plus the rate of inflation.

Below are the annual rates of return (gross of fees) for the one-year period ended April 30, 2005 and the annualized rates of return for the four-year period ended April 30, 2005 for LTCAP and for these two comparators:

	Gross LTCAP Return*	Market Indices Benchmark	University Policy Benchmark
One-year	7.9%	8.2%	6.4%
Four years	3.8%	1.4%	6.7%

* Time-weighted return, calculated in accordance with investment industry standards.

Allocation for Spending and Preservation of Spending Power

The University's endowments are expected to provide future generations with the same level of economic support for scholarships, teaching, research and other educational programs as they provide today. To achieve this, the return objectives of LTCAP are 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 earnings made available for spending and requires the reinvestment of excess earnings.

The target allocation for spending on endowed programs is about 4% of the fair market value of endowments. This allocation is expressed as a payout per investment unit. The payout is normally increased annually by the rate of inflation to reflect growth in the fair value of endowments. The payout as a percentage of the fair value per unit must fall within a range of 3% to 5%.

For 2004-05, the payout was $6.86 per unit, representing 3.9% of the opening unit market value and reflecting a 2% inflation increase from the prior year. The excess earnings ($6.14 per unit) were reinvested to protect against inflation and against future years when investment returns are less than the payout. This resulted in an increase in market value of 3.5% from $176.07 at April 30, 2004 to $182.21 at April 30, 2005.

Summary of changes in LTCAP unit fair value

The following chart shows the change in fair value of an LTCAP investment unit during 2004-05, and thus shows the total investment return, the fees and expenses, and the amount allocated for spending on a per unit basis.

	Year Ended April 30, 2005 per unit	Percent of opening unit value
Unit market value, at May 1, 2004	$176.07	
Investment earnings	$ 15.41	8.8%
Fees and expenses:		
External managers	($ 1.35)	(0.8%)
UTAM fees	($ 0.18)	(0.1%)
Other investment related fees	($ 0.18)	(0.1%)
UofT administration expenses	($ 0.70)	(0.4%)
Allocation for spending on programs	($ 6.86)	(3.9%)
Reinvested	$ 6.14	3.5%
Unit market value, at April 30, 2005	$ 182.21	

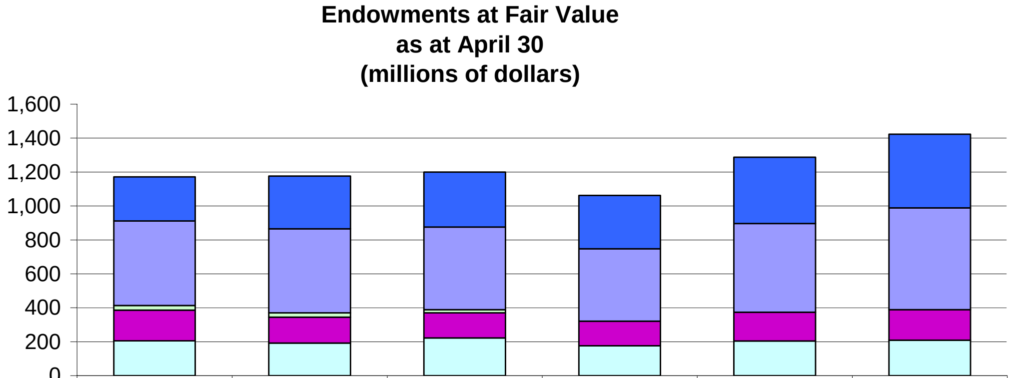
INTRODUCTION

The University of Toronto is an internationally significant university that seeks to be a leader among the world's best public teaching and research universities. It is known for its discovery, preservation and sharing of knowledge, and for its commitment to excellence and equity. Endowments provide a strong base of funding for student aid, for endowed chairs, for research and for academic programs in support of this academic vision.

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 earnings. Endowments are funds held by the University of Toronto that are subject to the University's preservation of capital policy and only the investment income from such funds may be used by the University. Endowments include externally restricted endowment funds (81%) and internally restricted endowment funds designated as endowments by the Governing Council in the exercise of its discretion (19%). 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 from endowments must be used in accordance with the various purposes established by the donor or the 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 on such funds) are used 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 earnings. Prior to fiscal year 2002, the University had unrestricted endowments set aside for matching programs which have now been fully utilized for matching endowed donations.



	2000	2001	2002	2003	2004	2005
Chairs and professorships	260.4	311.4	324.5	314.4	390.7	434.8
Student aid	498.0	495.6	486.4	427.3	522.8	599.7
Matching funds	27.5	25.4	19.2	-	-	-
Academic programs	180.1	151.5	148.0	143.8	170.3	179.0
Research	205.3	192.3	221.6	176.8	203.9	209.3
Total	1,171.3	1,176.2	1,199.7	1,062.3	1,287.7	1,422.8

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 & Women's College Health Science 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.

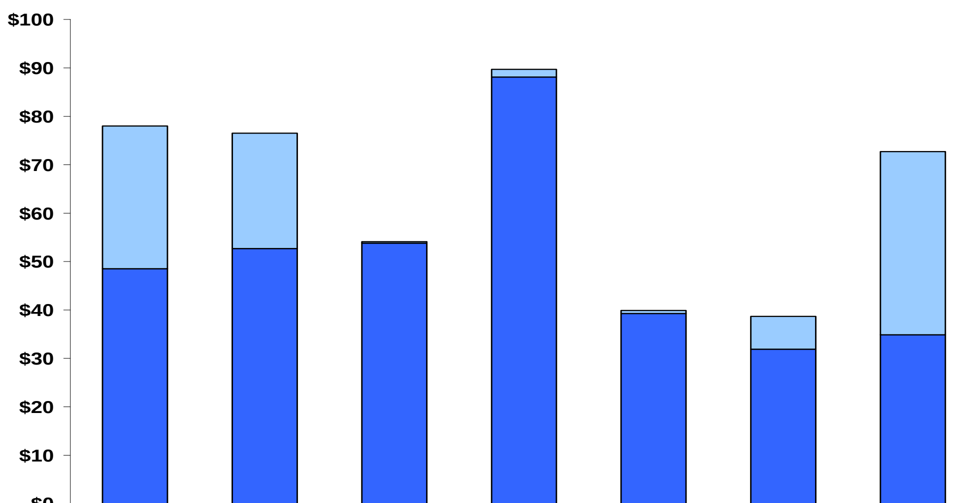
At April 30, 2005, there were 4,269 individual endowment funds, usually supported by a donor agreement, or reflecting a collection of small donations with common restrictions.

Almost all endowments, about 93.7% of fair value and 4,255 funds, are invested in the University's long-term capital appreciation pool (LTCAP). A small number of endowments (3.0% of fair value and 14 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. Currently all new endowed donations are invested for 4 months in the University's expendable funds investment pool (EFIP) and those investment earnings are used to support campaign expenses. At the end of four months, all new endowed donations are added to LTCAP. New endowed donations currently held in EFIP, not yet added to the LTCAP, represented 3.3% of the fair value of endowments.

Endowments totaled $1,422.8 million fair value at April 30, 2005. This was an increase of $135.1 million over the previous year. This increase was comprised of additions to the endowment of $184.5 million minus $49.4 million which was allocated for program spending in accordance with the purposes specified by each endowment fund.

The addition to endowment capital of $184.5 million comprised $34.9 million of endowed donations and $37.8 million of endowed government grants, $18.0 million of transfers from the University's unrestricted funds to endowments, the majority as a result of the various matching programs, and $93.8 million investment earnings (net of fees and expenses of $17.3 million). The following graph shows endowed donations and grants received since 1999.

Endowed Contributions
for the year ended April 30
(millions of dollars)



	1999	2000	2001	2002	2003	2004	2005
Endowed grants	29.5	23.8	0.3	1.6	0.6	6.8	37.8
Endowed donations	48.5	52.7	53.8	88.1	39.3	31.9	34.9

Endowed donations of $34.9 million received for 2004-05, represented 42.1% of total donations received by the University of Toronto for the year. Endowed grants received from Government were mainly for Ontario resident students with financial need and for graduate students.

LONG-TERM CAPITAL APPRECIATION POOL (LTCAP) INVESTMENT POLICY

Almost all of the University's endowments (93.7% of fair value) are invested in LTCAP, a unitized pool that is structured somewhat like a mutual fund. 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 $123.4 million expendable funds that are invested for the long-term, including the University's supplemental retirement arrangement fund; and $46.2 million of external funds of affiliated organizations and funds where the University is a beneficiary.

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 has a real investment return objective of 4% 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 investment strategy and activity is managed by the University of Toronto Asset Management Corporation (UTAM) as agent for the University, in accordance with the University's investment policy (www.utam.utoronto.ca). UTAM, which was formed in April 2000, is an investment management subsidiary 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 and reports on the investments under management to the Business Board of the University of Toronto.

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

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

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

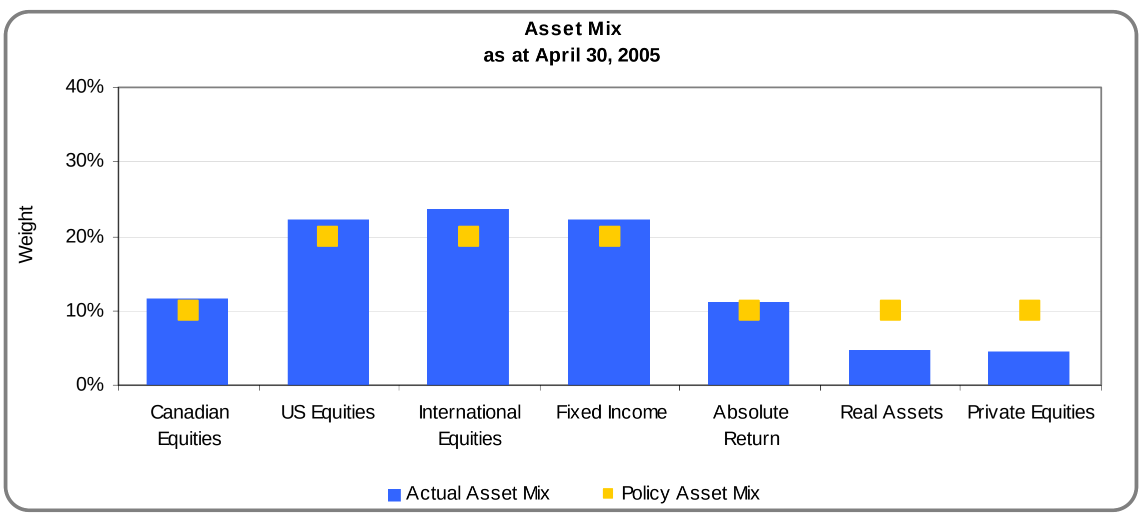
The fair value of LTCAP was $1,503.5 million at April 30, 2005, of which $1,333.9 million was endowments, representing 93.7% of all endowments.

Asset Mix

During 2003, the asset mix of LTCAP was revised due to a fundamental review of liability requirements, which resulted in a re-specification of return expectations and risk tolerances by the University.

For LTCAP, the return target is a 4% real return and the risk tolerance is specified as an annual standard deviation of 10% over 10 years. These parameters were unchanged for 2004 and 2005, such that no changes were considered necessary for the LTCAP policy asset mix.

The following table compares the actual asset mix as at April 30, 2005 to the policy asset mix:



LTCAP can be viewed as a "balanced fund", which would traditionally have about a 60% allocation to equities and 40% to fixed income (i.e. 3:2 ratio). This is approximated in the LTCAP policy asset mix, except that part of the "balanced fund" fixed income allocation has been devoted to Absolute Return (e.g. hedge funds) and Real Assets (e.g. real estate, commodities, timber). The introduction of a 10% target weight for each of Absolute Return and Real Assets, when combined with 10% for Private Equities, collectively represents a 30% allocation to Alternative Assets. This allocation provides the opportunity to benefit from diversification (through lower correlations) and enhance 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. Private Equities and Real Assets) requires significant time and effort to source and fund investments, compared to public market securities. As a result, holdings accumulate slowly over time. In the interim, while holdings are built up, UTAM allocates the shortfall from the target weight, on a pro rata basis, to public equities and fixed income.

Foreign Exposure

The underlying philosophy at UTAM is to exploit global opportunities. This focus results in foreign exchange exposure. To control the volatility from foreign currency fluctuations, a hedging policy with varying hedge ratios for different asset classes was established in 2003. The hedge ratios for the applicable benchmarks are as follows:

Equities and Real Assets	50%
Non-Canadian Fixed Income	100%
Absolute Return	75%

The 50% hedge ratio for Equities and Real Assets reflects a "minimum regret" outcome on hedging. For Fixed Income, where stable returns are desired, the 100% hedge ratio insulates the asset class from foreign exchange fluctuations but expands the opportunity set for bonds to the global bond markets. The 75% hedge ratio for the Absolute Return category recognizes that the strategies employed reflect both bonds and equities. An active overlay strategy is employed in managing the foreign exchange exposure, whereby the external manager assigned to manage this exposure is permitted to deviate, to an established degree, from the target hedge ratios in order to generate additional returns.

Investment Performance

The investment of endowments has a long-term horizon. Therefore, investment performance is typically assessed over a multi-year period.

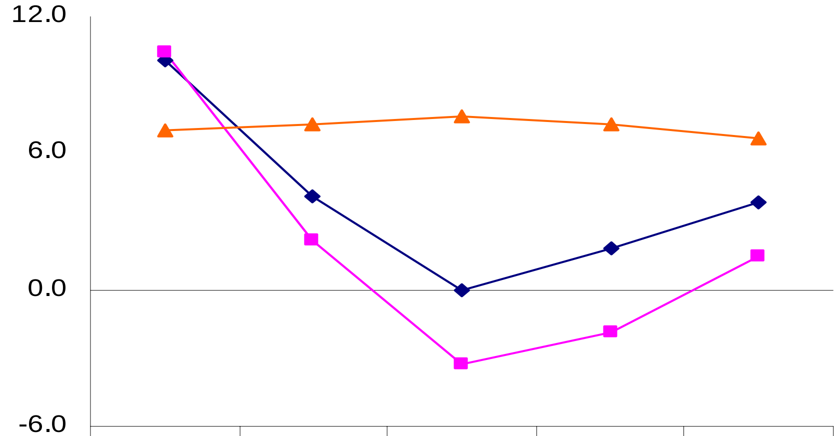
To assess how adequately LTCAP returns are meeting the longer term requirements set by the University for its endowments, performance is assessed versus a 4% real return, plus inflation (the University's return target for LTCAP).

In addition, performance is evaluated versus a market index benchmark comprised of major market indices such as Canadian Equities, US Equities, International Equities and Canadian Fixed Income. The table below summarizes LTCAP investment performance for periods ending April 30, 2005.

Period Ended April 30	**One-Year Annual Rates of Return**			**Four-Year Annualized Rates of Return**		
	LTCAP Fund *	Market Indices Benchmark	CPI Plus 4% **	LTCAP Fund *	Market Indices Benchmark	CPI Plus 4% **
2005	7.9	8.2	6.4	3.8	1.4	6.7
2004	22.6	22.8	5.6	1.8	-1.9	7.2
2003	-11.7	-14.6	8.0	0.0	-3.3	7.6
2002	-0.6	-6.7	6.7	4.1	2.2	7.3
2001	-0.4	-5.3	8.6	10.1	10.4	7.0

* Refers to the actual return, gross of fees.
** Except 2001, 2002, 2003 which are CPI Plus 5%, the return requirement then in effect.

LTCAP - 4 Year Annualized Rates of Return
for the Periods Ended April 30



	2001	2002	2003	2004	2005
LTCAP Fund *	10.1	4.1	0.0	1.8	3.8
Market Indices Benchmark	10.4	2.2	-3.3	-1.9	1.4
CPI Plus 4% **	7.0	7.3	7.6	7.2	6.7

* Refers to the actual return, gross of fees.

** Except 2000, 2002, 2003 which are CPI Plus 5%, the return requirement in effect.

Annual performance has exceeded or been very close to the market indices every year in the past five years. In 2005, performance lagged the market marginally, primarily due to: (i) weaker performance in the Absolute Return category, as hedge funds generally experienced a difficult period (low market volatility, low interest rates, tight credit spreads); and (ii) US Equities, where the active managers generally underperformed. In the past two years, annual performance has been comfortably ahead of the CPI plus 4% return target, but during the difficult market conditions of 2001 through 2003, they lagged the target return.

On a 4-year annualized basis, performance has consistently exceeded market indices and has been moving back towards the CPI plus 4% return target over the past few years.

ALLOCATION FOR SPENDING AND PRESERVATION OF PURCHASING POWER

The University's endowments are expected to provide future generations with the same level of economic support for scholarships, teaching, research and other educational programs as they provide today. To achieve this, the return objectives for LTCAP are 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 earnings made available for spending and requires the reinvestment of excess earnings.

The target allocation for spending is about 4% of fair value of the endowment. The 4% real investment return objective reflects this target and the need to preserve the inflation-adjusted capital of the pool. The allocation for spending is expressed as a payout per investment unit. The payout is normally increased annually by the rate of inflation to reflect growth in the fair value of the endowments. The payout as a percentage of the fair value per unit must fall within a range of 3% to 5%. Please note that prior to fiscal year 2003, the target allocation for spending was set at 5% of fair value of endowment. This reduction reflects the University's objective to reduce risk on the endowment returns.

In any given year, if net investment income exceeds the amount allocated for spending, the excess is reinvested and added to the pool. If net 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. 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 net investment income.

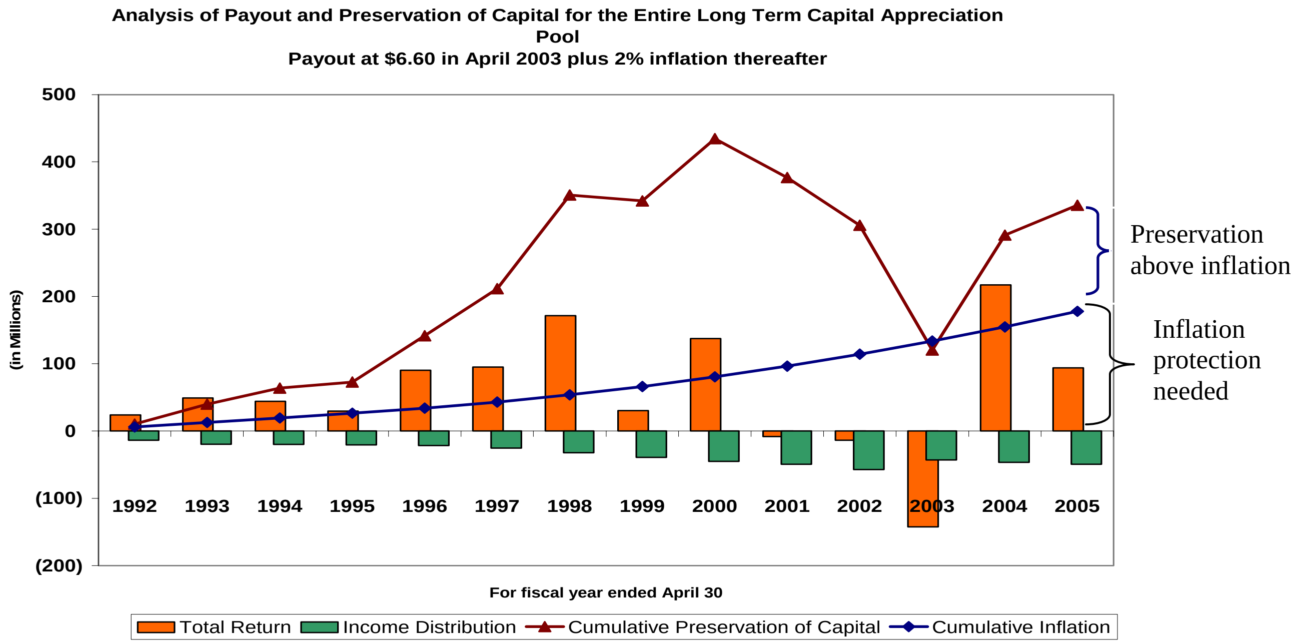
The following graph shows the spending allocation and the amounts reinvested and drawn down over the past several years.

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

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Reinvested (draw down)	69.9	139.1	(8.7)	92.4	(57.6)	(70.9)	(185.5)	170.7	44.4
Allocation for spending	25.4	32.3	39.1	45.1	49.6	57.3	43.0	46.5	49.4

For 2004-05, the payout was $6.86 per unit at April 30, 2005, representing 3.9% of the opening unit market value and reflecting a 2% inflation increase from the April 30, 2004 payout of $6.73 per unit. The spending allocation for each endowment account was calculated by multiplying the number of units in the endowment account by the payout rate of $6.86 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.

For 2004-05, the allocation for spending amounted to $49.4 million. The balance of investment earnings of $44.4 million was reinvested, increasing the fair value of the endowments. The total amount allocated for spending over the last 10 years was $409.2 million and the total amount reinvested to protect against inflation or provide a cushion against investment return fluctuation was $262.6 million. The inflation-adjusted value of the pool has been protected, as demonstrated in the following graph.



As previously noted, a very small number of endowments are invested outside of LTCAP, and their individual investment performance reflects the required holding of the investment portfolios. These endowments are not subject to the preservation of capital policy and, in most cases, all investment earnings are made available for spending. There were 14 funds in this category with a total fair value of $42.2 million and, for 2005, $0.2 million was made available for spending.

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 1.4% of the 2005 opening unit market value consist of the following:

	2005 In millions
Investment related management fees	
External managers	$ 9.7
UTAM	$ 1.3
Trustee and custodial fees	$ 0.6
Foreign taxes	$ 0.7
	$12.3
University of Toronto – administration costs	$ 5.0
Total	$17.3

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 (e.g. audit costs). UTAM is often able 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 addition to third party fees, UTAM allocates a portion of its total operating costs to LTCAP. This allocation is typically pro rata 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 are costs incurred by central and divisional units which include managing and administering endowments. These include the processing of receipts and disbursements, bookkeeping and accounting and the cost of producing financial reports to donors.

SUMMARY OF CHANGES IN FAIR VALUE

The total investment return on the LTCAP for 2004-05 was 7.9% gross of fees. From that total investment return, $6.86 per unit was allocated for spending, while the balance of the investment earnings, after allowing for fees and expenses, were added back to the endowment and resulted in an increase of 3.5% in the fair value of each unit. Endowments invested outside the LTCAP grew at the rates resulting from their individual investment portfolios and payouts. New donations on hold 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 May 1, 2004	$1,222.4	$176.07	6,942,558
Contributions	67.4	-	378,173
Investment earnings	110.6	$ 15.41	-
Fees and expenses	(17.3)	($ 2.41)	-
Allocation for spending	(49.2)	($ 6.86)	-
Closing balance April 30, 2005	$1,333.9	$182.21	7,320,731
2) Specifically invested endowments:			
Opening balance May 1, 2004	$ 42.5	n/a	n/a
Transfer to LTCAP	(0.6)	n/a	n/a
Investment earnings	0.5	n/a	n/a
Amount available for spending	(0.2)	n/a	n/a
Closing balance April 30, 2005	$ 42.2	n/a	n/a
3) Donations not yet in LTCAP (on hold):			
at April 30, 2005,	$ 46.7	n/a	n/a
Total endowments at April 30, 2005	$1,422.8	n/a	n/a

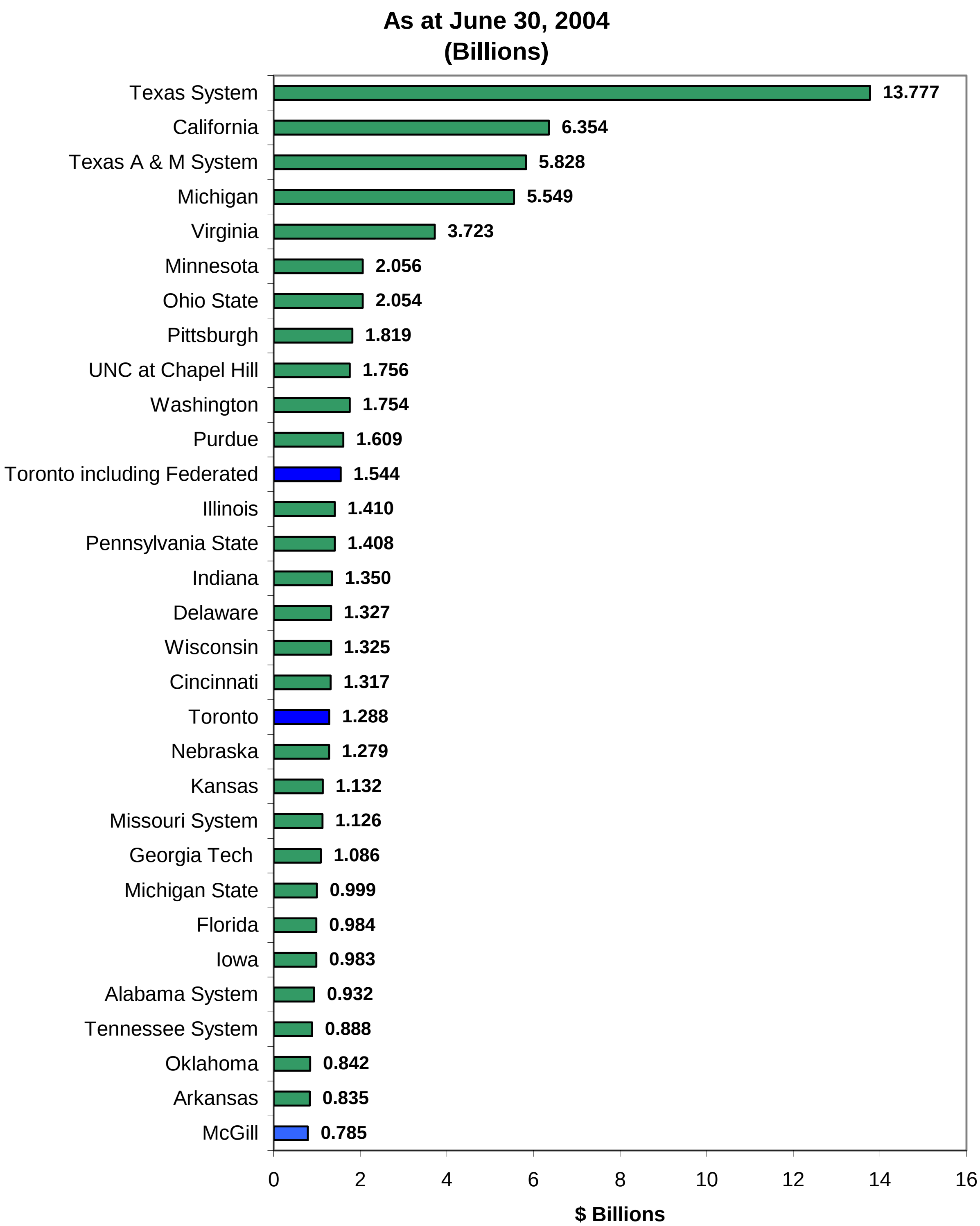
The fair value of each endowment account in LTCAP is determined by multiplying the current fair value of the unit ($182.21 at April 30, 2005) by the number of units held by that endowment account.

THE IMPORTANCE OF ENDOWMENTS TO THE UNIVERSITY OF TORONTO

Endowments are very important to the University of Toronto. The University of Toronto has had an enormously successful fundraising campaign over the past years. The University is grateful and overjoyed with the generosity of its supporters and is delighted to have taken Canadian university fundraising to new levels of expectation by raising over $1 billion, a significant proportion of which has been added to endowments. Specific examples of how the income of these endowments has been used to meet the University's teaching and research objectives have been provided on page 25.

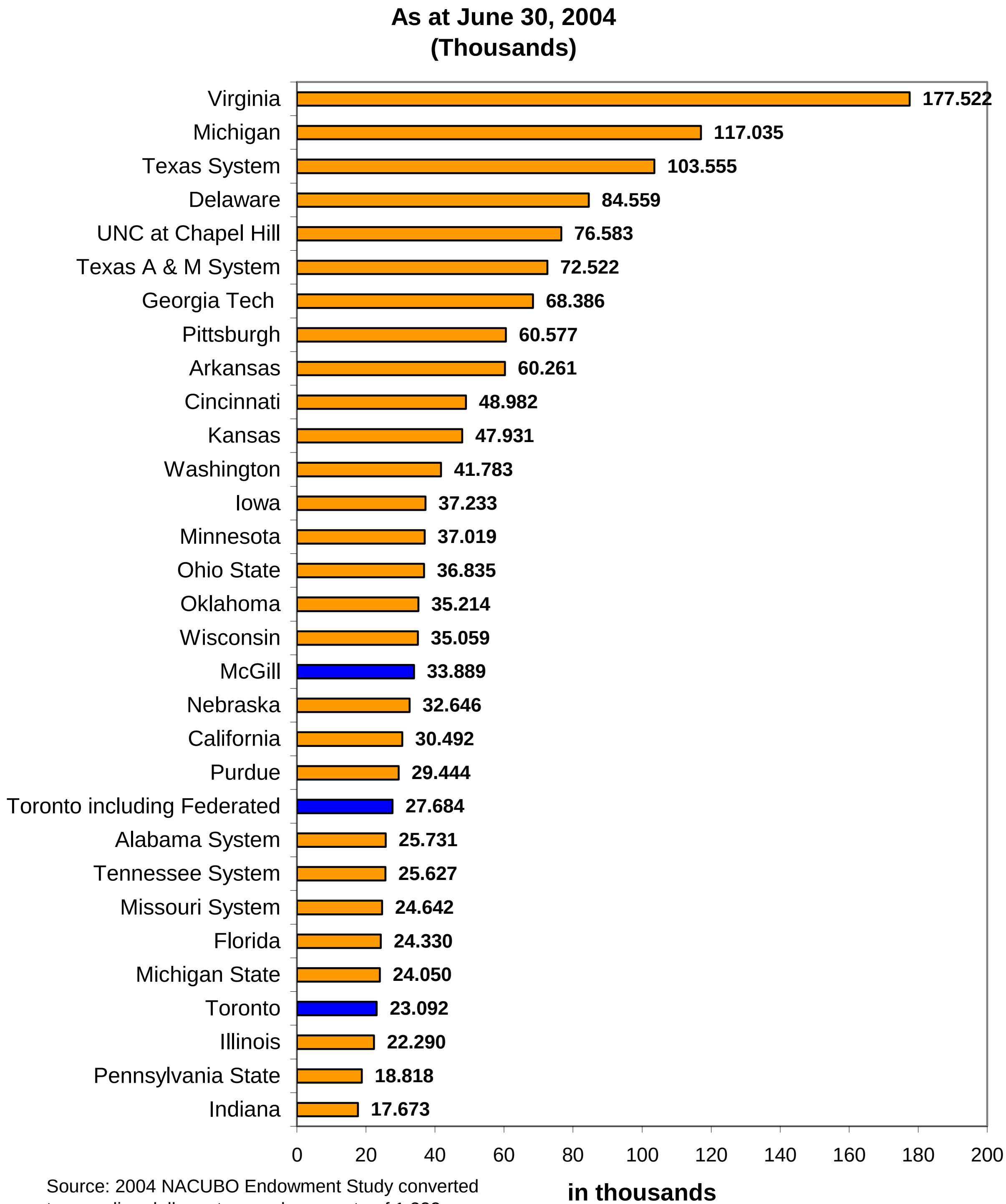
However, it is important to note the University's endowments are not large in comparison to our public university peers. When we consider the top 30 endowments at Canadian and US public institutions in 2004, Toronto ranked 18th in terms of size, and when compared with the same Universities in terms of endowments per FTE student, Toronto only ranked 27th (see pages 23-24). Including the endowments of the federated universities, Toronto ranked 12th in terms of size and 22nd in terms of endowment per FTE student.

TOP 30 ENDOWMENTS AT PUBLIC INSTITUTIONS



Source: 2004 NACUBO Endowment Study converted to canadian dollars at an exchange rate of 1.333

FAIR VALUE OF ENDOWMENT ASSETS PER FTE STUDENTS



Source: 2004 NACUBO Endowment Study converted to canadian dollars at an exchange rate of 1.333

PROGRAM SUPPORT

The Ghost of Business Past
(*By Sue Toye,* selection from UofT Magazine – Winter 2005)

Business students will be better equipped to make sound management decisions thanks to the establishment of a $3-million chair in Canadian business history - the first in the country - at the Joseph L. Rotman School of Management. "Today's business leaders must be able to place the business problems they face within a historical and societal context so they can anticipate future changes in the marketplace," says Roger Martin, dean of the Rotman School. "This gift will enable our students to understand the world they will face as future business leaders."

The chair will fund research that explores the evolution of commerce in Canada and examines the legal, economic and political events that have shaped it. Joseph Martin, executive-in-residence at the Rotman School, has also developed an MBA course in Canadian business history that will be offered next year. An international search is currently underway for a scholar to hold the chair.

The L.R. Wilson/R.J. Currie Chair in Canadian Business History was funded by several prominent business leaders, including Lynton (Red) Wilson, chairman of the board for both CAE Inc. and Nortel Networks, and Richard Currie, chairman of BCE. The chair was also funded by Anthony Fell, chairman of RBC Capital Markets and University Health Network board of trustees; James Fleck, professor emeritus of business government relations at the Rotman School and president of Fleck Management Services; Henry N.R. (Hal) Jackman, former chancellor of U of T; and John McArthur, dean emeritus of Harvard University's Graduate School of Business Administration.

A Researcher's Rare Legacy
(*By Lisa Boyes*, selection from UofT Magazine – Winter 2005)

A young scientist's exceptional achievements and his family's generosity are reflected in a new Faculty of Medicine fellowship.

Photograph courtesy of the Hani family

Eric Hani, a talented microbiologist who died in 2002 at age 36, helped create a valuable diagnostic tool while completing his PhD at U of T. Together with his friend and mentor, Dr. V.L. (Ricky) Chan, Hani (BA 1988 UC, MSc 1991, PhD 1997) cloned a gene central to the rapid detection of a major bacterial causative agent associated with Guillain-Barré syndrome, reactive arthritis and other conditions.

Chan described Hani, whose work has been published in several major international microbiology journals, as "among that rare, top five per cent of PhD and post-doctoral students" whose productivity and knowledge are now showing widespread benefit.

The first Eric Hani Fellowship will be awarded in 2005 to a graduate student undertaking research in microbiology. Hani's parents, Rita and Kurt, and his sister, Cora Donely, designated Hani's estate to his university, and the provincial government matched the contribution through the Ontario Student Opportunity Trust Fund, creating a $240,000 endowment.

Donely says Hani "kept in very close touch with the University of Toronto, a place [that was] very special to him. He received all his degrees there and was awarded several scholarships. Our family wished to reciprocate on his behalf, and a scholarship to remember him seemed just the right way."

Project Blue - Teamwork 101
(From UofT Campaign Quarterly Publication – Summer 2003)

Teamwork 101. Don't look for this course in any University of Toronto calendar. It's an unofficial offering found wherever U of T athletes practice and compete, where they learn lessons of co-operation and confidence valuable in and out of the sports arena—lessons that are living still in the alumni athletes who remember their triumphs and reach out to support the teams of tomorrow. As Varsity Blues swim coach Byron MacDonald puts it, in an era of tight government funding and expanding program needs, "the alumni are our future."

Since it was launched in 1997, more than 3,200 donors have contributed to Project Blue for endowments supporting teaching and research, student financial assistance and enhanced team funding. Support has come from within the university as well as without: faculty and staff have contributed almost $204,000 towards Project Blue. A major component of the campaign is the Varsity Blues Legacy Fund, which is building endowments for each of U of T's 44 intercollegiate teams.

From reunion events to monthly credit card donations, awards dinners to golf tournaments, established teams found great support from alumni and friends. Newer teams received a significant boost from $100,000 gifts from two anonymous donors supporting women's programs and less traditional sports. Team endowments will enhance funding for everything from training support to specialized equipment and team travel.

For example, the swimming endowment has been used to allow athletes to attend an altitude training camp, hire a strength trainer and expand the traveling squad. Engineering and swimming alumnus Henry Vehovec (BASc 1979) kick started swimming's legacy drive with e-mail messages that reached alumni as far away as Los Angeles and Singapore. "It shows that we care," he said of the impact of alumni support. "There is merit in rising to a challenge."

An endowment means the funds are there for the teams every year, said the faculty's director of advancement, Robin Campbell (BPHE 1968). "To our knowledge we are the first Canadian university to establish a multi-sport endowment to support the operation of intercollegiate teams," he said. "Sport is a major function of a university but we have been woefully underfunded in this area in Canada. As we and our dedicated alumni and friends show leadership in developing these endowments, other universities will follow suit."

Visiting Composer In Residence Program

(*By Rhea Seymour,* selection from UofT Magazine – Spring 2004)

Budding composer Diego Soifer says the Visiting Composer in Residence Program strikes a chord with students

One of the most memorable moments in Diego Soifer's music education came last October: the aspiring composer and third-year student in U of T's Faculty of Music shared one of his fledgling compositions with Argentinean composer Mario Davidovsky, a Pulitzer Prize winner. A pivotal figure in electro-acoustic music, Davidovsky spent five days on campus as a guest of the Roger D. Moore Distinguished Visitor in Composition Program. Davidovsky, who has gained international acclaim for combining live performances with electronic sounds, also gave lectures and critiqued student compositions. "He gave me feedback on one of my compositions, which gave me a different perspective on my music. He liked my composition and tried to understand who I was through my work," says Soifer. "And I was able to sit in on his rehearsal with student performers, so I was able to see how he dealt with musicians and made the music work."

The Visiting Composer in Residence Program has also brought in another Pulitzer Prize-winning composer, Joseph Schwantner of Spofford, N.H. Schwantner visited for six days in January. Montreal composer Gilles Tremblay was the guest musician in March. In the next school year, the guests will include Ottawa composer Kelly-Marie Murray, whose music has been performed by the Toronto Symphony Orchestra, and Heinz Holliger, a noted Swiss composer and oboist.

"We're delighted with the program. The visitors all compose music but in very different styles and idioms," says David Beach, dean of the Faculty of Music. "Any young composer should be exposed to as many ideas as possible during a four-year degree."

The program was launched with two $250,000 gifts, one from Roger D. Moore, the former vice-president and director of I.P. Sharp Associates Inc., and one from Michael Koerner, president of Canada Overseas Investment Ltd. Through the Special Initiatives in the Humanities and Social Sciences, funded by the

Connaught Fund, their generous contributions were matched. The annual interest generated from the two $750,000 endowments brings two composers to the University of Toronto campus for several days, or up to an entire term. As well, the Michael & Sonja Koerner Fund enables the Faculty of Music to alternate between inviting Canadian and international composers, and to have the invited artists compose a new work to be performed for the first time by U of T music students.

Koerner, an enthusiast of both contemporary music and 17th- and 18th-century harpsichord and organ music, is a longtime U of T supporter through his involvement with the University of Toronto Art Centre and the Joseph L. Rotman School of Management. He hopes that the program will be an inspiration to students. “It’s exciting for students to be involved in a new piece, to get to work with a composer and eventually to have the opportunity to play a public premiere performance,” he says. “Hopefully the creativity around it will be very stimulating to all concerned.”

The dean points out that the new program also sets U of T apart from other university music programs. “Other good music schools occasionally have visitors, but we’re guaranteeing that two a year will come here and do something unique,” says Beach. “And with the commissions, we’re building up a body of work written specifically for students in the Faculty of Music.”

Judging by Soifer's enthusiasm, the program has struck a chord with students. "Every composer has something to say," Soifer says. “I’m interested in learning how to write music in a technical way, but that’s just the starting point of the discussions with the composers. They talk about their lives and different experiences, and they teach us how to be artists. That’s what being at U of T gives us – opportunities that we wouldn’t have anywhere else.”

University of Toronto Endowments

Financial Information

April 30, 2005

Auditors' Report

To the Members of Governing Council of University of Toronto:

We have audited the financial information related to University of Toronto investments held for endowments as at and for the year ended April 30, 2005, 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 investments held for University of Toronto Endowments as at April 30, 2005 and the changes in these investments for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada,
May 31, 2005

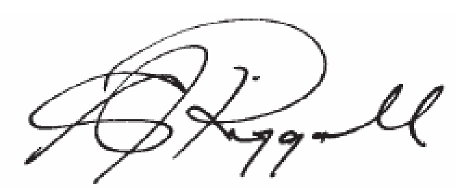
Chartered Accountants

University of Toronto Endowments
STATEMENT OF NET INVESTMENTS
APRIL 30, 2005

(with comparative figures at April 30, 2004)
(millions of dollars)

	2005	2004
ASSETS		
Investments at fair value *[note 3]*	**1,240.0**	1,230.3
Short-term notes and treasury bills *[note 4]*	**170.6**	58.7
Cash and cash equivalents *[note 4]*	**26.5**	12.2
Unrealized gains on derivative instruments *[note 3]*	**12.4**	4.6
Investment income and other receivables	**9.2**	11.0
	1,458.7	1,316.8
LIABILITIES		
Unrealized losses on derivative instruments *[note 3]*	**26.1**	23.2
Other payables and accruals	**9.8**	5.9
	35.9	29.1
NET INVESTMENTS HELD FOR ENDOWMENTS	**1,422.8**	1,287.7

On behalf of Governing Council:



Catherine J. Riggall
Vice-President, Business Affairs

Sheila Brown
Chief Financial Officer

(see notes to financial information)

University of Toronto Endowments
STATEMENT OF CHANGES IN NET INVESTMENTS
FOR THE FISCAL YEAR ENDED APRIL 30, 2005
(with comparative figures for the year ended April 30, 2004)
(millions of dollars)

	2005	2004
INCREASE IN NET INVESTMENTS		
Investment income *[note 5]*	**111.1**	235.5
Endowed donations	**34.9**	31.9
Endowed grants	**37.8**	6.8
Transfers from University's unrestricted funds	**18.0**	16.0
Total increase in net investments	**201.8**	290.2
DECREASE IN NET INVESTMENTS		
Allocation for spending *[note 6]*	**49.4**	46.5
Management fees and expenses *[note 7]*	**17.3**	18.3
Total decrease in net investments	**66.7**	64.8
Net increase in net investments for the year	**135.1**	225.4
Net investments held for endowments, beginning of year	**1,287.7**	1,062.3
Net investments held for endowments, end of year	**1,422.8**	1,287.7

(see notes to financial information)

NOTES TO FINANCIAL INFORMATION
APRIL 30, 2005

1. Description

This financial information presents the investments held for the endowment 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 & Women's College 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 or deducted from endowments in accordance with the University's capital preservation policy. This policy limits the amount of earnings made available for spending and requires the reinvestment of excess earnings.

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. 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.

Fair value of investments is determined as follows:

i) Publicly traded bonds and equities are determined based on quoted fair values.
ii) Investments in pooled funds are valued at their net asset value per unit.
iii) Unlisted or infrequently traded securities are based on quoted market yields or prices of comparable securities, as appropriate.
iv) Real estate is generally valued through an appraisal process, which utilizes discounted future cash flows. In estimating future cash flows, certain assumptions are made with respect to future economic conditions and rates of return. The appraisal process is carried out periodically by accredited appraisers. A year-end estimate is then arrived at by considering the appraisals performed.

b) Derivative financial instruments –

Derivative financial instruments are used to manage particular market and currency exposures for hedging and risk management purposes 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 supported by liquid assets with a fair value approximately equal to the fair value of the instruments underlying the derivative contract.

For all derivative financial instruments, the gains and losses arising from changes in the fair value of such derivatives are recognized as investment income (loss) in the year in which the changes in fair value occur. The fair value of derivative financial instruments reflect the daily quoted market amount of those instruments, thereby taking into account the current unrealized gains or losses on open contracts. Investment dealer quotes or quotes from a bank are available for substantially all of the University's endowments derivative financial instruments.

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. Realized gains (losses) on sale of investments and unrealized appreciation (depreciation) of investments are calculated on average cost basis.

d) Foreign currency translation –

Assets and liabilities are translated into Canadian dollars 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 transactions of foreign currencies and securities are included in investment income.

3. Investments

Most of the funds associated with the University's endowment are invested in LTCAP. These funds represent 88.7% (2004 – 88.4%) of the total LTCAP investments. Other investments represent investments held outside LTCAP due to donors' specific instructions. The balances 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)			
	2005		2004	
	LTCAP	**Other**	LTCAP	Other
Government and corporate bonds	**385.9**	**7.3**	289.4	7.8
Canadian equities	**153.0**	**17.9**	131.8	17.6
United States equities	**183.8**	**0.5**	296.3	0.5
International equities	**312.8**	**0.2**	264.7	0.2
Hedge funds	**149.3**		185.7	
Real estate	**13.0**	**16.3**	20.0	16.3
	1,197.8	**42.2**	1,187.9	42.4
Total investments	**1,240.0**		1,230.3	

Risk management

Risk management relates to the understanding and active management of the risks associated with all areas of the University's financial instruments. Investments are primarily exposed to foreign currency risk, interest rate volatility, market and credit risks. The University, through its University of Toronto Asset Management Corporation ("UTAM"), has formal policies and procedures in place governing asset mix among equity, fixed income and real estate instruments, 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).

Derivative financial instruments

Description

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

The University enters 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 U.S. dollars, the Euro, Japanese yen and the British pound.

Risks

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.

The University is exposed to credit-related losses in the event of non-performance by counterparties to these financial instruments, but its does not expect any counterparties to fail to meet their obligations given their high credit ratings. The University limits its derivative financial instruments' credit risk by dealing with counterparties that are at least rated A.

Terms and conditions

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

	(millions of dollars)			
	2005		2004	
	Notional Value	**Fair Value**	Notional Value	Fair Value
Foreign currency forward contracts				
-U.S. dollars	**287.0**	**(10.8)**	290.9	(17.3)
-Global	**122.6**	**(5.5)**	118.6	(2.7)
		(16.3)		(20.0)
Equity index future contracts				
-U.S. dollars	**157.1**	**2.6**	70.0	1.4
Total		**(13.7)**		(18.6)

Reported on the statement of net investments as:		
Unrealized gains on derivative instruments	**12.4**	4.6
Unrealized losses on derivative instruments	**(26.1)**	(23.2)
	(13.7)	(18.6)

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 earnings made available for spending and requires the reinvestment of excess earnings. The target allocation for spending is about 4% of the fair value of endowments.

7. Fees and expenses

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

	(millions of dollars)	
	2005	2004
Investment management fees		
- External managers	**9.7**	9.9
- UTAM	**1.3**	1.2
Trustee and custodial fees	**0.6**	0.7
Administration cost – University of Toronto	**5.0**	5.8
Foreign taxes	**0.7**	0.7
Total	**17.3**	18.3