University of Toronto Endowments

Annual Financial Report

For

The Year Ended April 30, 2006

HIGHLIGHTS

	April 30, 2006	April 30, 2005	%Change
Total Endowment:	(Millions of dollars)		
Fair value	$1,628.8	$1,422.8	14.5%
Change from previous year:			
Endowed donations	$ 37.9	$ 34.9	8.6%
Endowed Government grants	$ 7.9	$ 37.8	(79.1%)
Transfers from University's unrestricted funds	$ 13.9	$ 18.0	(22.8%)
Investment income	$ 215.0	$ 111.1	93.5%
Fees and expenses	($ 14.7)	($ 17.3)	(15.0%)
Allocation for spending	($ 54.0)	($ 49.4)	9.3%
Total change for the year	$ 206.0	$ 135.1	52.5%

Endowments in Long-Term Capital Appreciation Pool (LTCAP):			
Proportion invested in LTCAP	96.7%	93.7%	3.2%
Number of units in LTCAP	7,775,867	7,320,731	6.2%
Fair value in millions	$1,575.7	$ 1,333.9	18.1%
Fair value per unit in dollars	$ 202.63	$ 182.21	11.2%
Allocation for spending per unit in dollars	$ 7.00	$ 6.86	2.0%
LTCAP time-weighted net returns*	15.8%	7.4%	113.5%

* Returns net of investment fees and expenses and exclude returns on private investment interests.

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EXECUTIVE SUMMARY

The University of Toronto's vision is to be a leader among the world's best public 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, mostly very long-standing ones, are invested outside the LTCAP due to donors' 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.

To assess how adequately LTCAP returns are meeting the objective set by the University, performance is assessed versus the 4% real return objective. 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 the 1-year LTCAP investment performance for years ending April 30.

1-Year Annual Rates of Return

Year Ended April 30	LTCAP Fund*	Market Indices Benchmark	4% plus CPI
2006	15.8%	16.2%	6.4%
2005	7.4%	7.9%	6.4%
2004	23.1%	21.9%	5.6%

**Returns are time-weighted, calculated in accordance with industry standards and are net of investment fees and expenses and exclude returns on private investment interests.*

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 allocation of income 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 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 should fall within a range of 3% to 5%.

For 2005-06, the payout was $7.00 per unit, representing 3.8% of the opening unit market value and reflecting a 2% inflation increase from the prior year. The excess income ($20.42 per unit) was 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 11.2% from $182.21 at April 30, 2005 to $202.63 at April 30, 2006.

Summary of changes in LTCAP unit fair value

The following chart shows the change in fair value of an LTCAP investment unit for the last two years starting May 1, 2004, 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, 2006		Year ended April 30, 2005	
	Per unit	Percentage of opening unit value	Per unit	Percentage of opening unit value
Unit market value, opening	182.21		176.07	
Investment earnings	29.33	16.1%	15.41	8.8%
Fees and expenses				
External managers	(0.95)	-0.5%	(1.35)	-0.8%
UTAM fees	(0.17)	-0.1%	(0.18)	-0.1%
Other investment related fees	(0.13)	-0.1%	(0.18)	-0.1%
UofT administration expenses	(0.66)	-0.4%	(0.70)	-0.4%
Allocation for spending on programs	(7.00)	-3.8%	(6.86)	-3.9%
Reinvested	20.42	11.2%	6.14	3.5%
Unit market value, closing	202.63		182.21	

INTRODUCTION

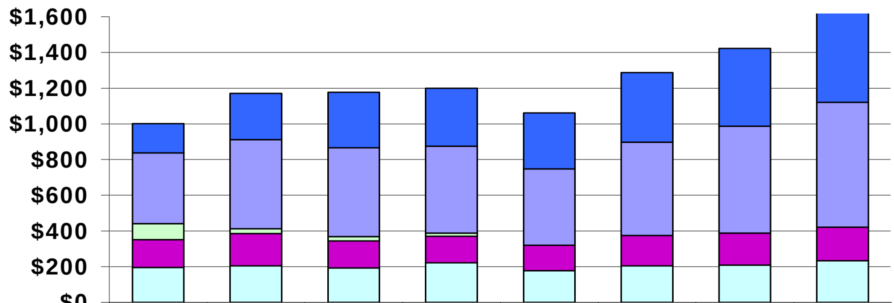
The University of Toronto is an internationally significant university that seeks to be a leader among the world's best public universities. It is known for its discovery, preservation and sharing of knowledge, and for its commitment to excellence and equity. Endowments provide a strong base of funding for student aid, for endowed chairs, for research and for academic programs in support of this academic vision. Examples of how endowments have been used to meet these objectives are provided on page 25.

Endowments are RESTRICTED FUNDS which must be used in accordance with purposes specified by donors or by Governing Council. Endowments are NOT available for use in support of general operating activities.

Endowments are subject to restrictions relating both to capital and to investment income. Endowments are funds held by the University of Toronto that 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 endowment matches or exceeds the rate of inflation over time. Endowments include externally restricted endowment funds (82.5%) and internally restricted endowment funds designated as endowments by the Governing Council in the exercise of its discretion (17.5%). The Governing Council may have the right to subsequently remove the endowment designation on internally restricted funds; however the use of such funds may continue to be restricted.

The investment income 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 income. Prior to fiscal year 2003, the University had unrestricted endowments set aside for matching programs which have now been fully utilized for matching endowed donations.

Endowments at Fair Value at April 30 (millions of dollars)



	1999	2000	2001	2002	2003	2004	2005	2006
Total endowments	1,001.2	1,171.3	1,176.2	1,199.7	1,062.3	1,287.7	1,422.8	1,628.8
Chairs and professorships	164.1	260.4	311.4	324.5	314.4	390.7	434.8	507.6
Student aid	397.2	498.0	495.6	486.4	427.3	522.8	599.7	699.4
Matching funds	89.0	27.5	25.4	19.2	-	-	-	-
Academic programs	156.0	180.1	151.5	148.0	143.8	170.3	179.0	189.0
Research	194.9	205.3	192.3	221.6	176.8	203.9	209.3	232.8

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 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.

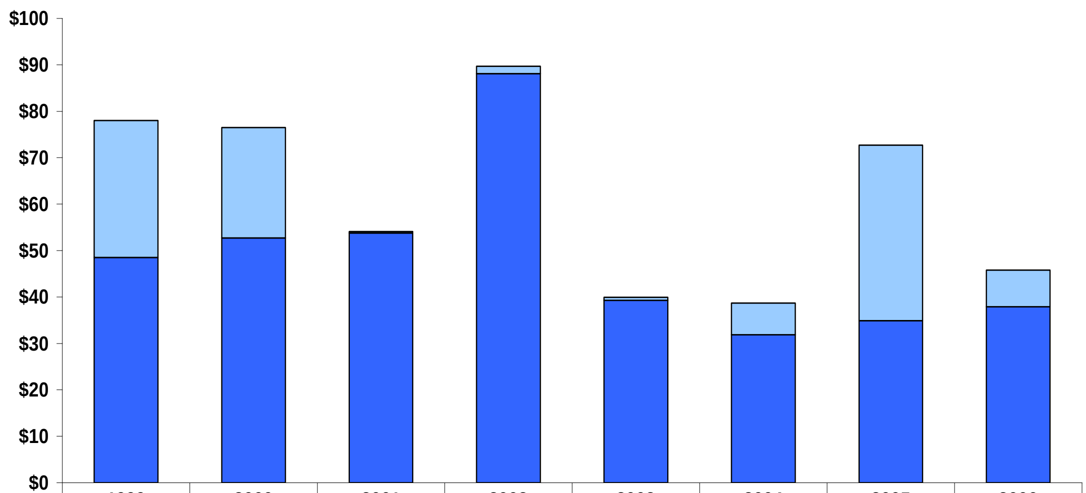
At April 30, 2006, there were 4,624 individual endowment funds, usually supported by a donor agreement, or reflecting a collection of small donations with common restrictions.

Almost all endowments, about 96.7% of fair value and 4,579 funds, are invested in the University's long-term capital appreciation pool (LTCAP). A small number of endowments (2.0% of fair value and 11 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 the investment income is used to support fund-raising 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 1.3% of the fair value of endowments.

Endowments totaled $1,628.8 million fair value at April 30, 2006. This was an increase of $206.0 million over the previous year. This increase was comprised of additions to endowments of $260.0 million minus $54.0 million which was allocated for program spending in accordance with the purposes specified by each endowment fund.

The addition to endowment capital of $260.0 million comprised $37.9 million of endowed donations and $7.9 million of endowed government grants, $13.9 million of transfers from the University's unrestricted funds to endowments, the majority as a result of the various matching programs, and $200.3 million investment income (net of fees and expenses of $14.7 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	2006
Endowed grants	29.5	23.8	0.3	1.6	0.6	6.8	37.8	7.9
Endowed donations	48.5	52.7	53.8	88.1	39.3	31.9	34.9	37.9

Endowed donations of $37.9 million received for 2005-06, represented 50.6% of total donations received by the University of Toronto for the year. Endowed grants received from Government were mainly for scholarships 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 (96.7% 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 $164.0 million expendable funds that are invested for the long-term, including the University's supplemental retirement arrangement fund; and $50.8 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.

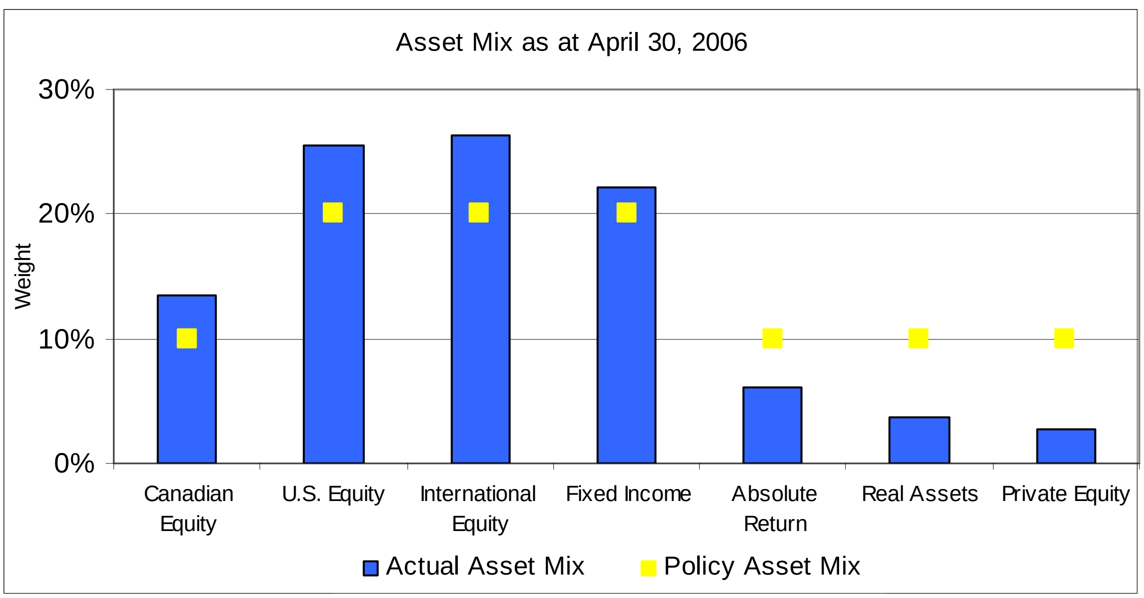
LONG-TERM CAPITAL APPRECIATION POOL (LTCAP)
INVESTMENT STRATEGY AND
INVESTMENT PERFORMANCE

The fair value of LTCAP was $1,790.6 million at April 30, 2006, of which $1,575.7 million was endowments, representing 96.7% of all endowments.

Asset Mix

LTCAP's total portfolio return target is 4% real (i.e. after inflation) after fees and levies, and its investment risk tolerance is specified as a maximum 10% standard deviation of the portfolio's annual returns over a 10-year period. These parameters were reviewed and updated by the University in 2003. No change has been considered necessary since that update. The LTCAP policy asset mix, which is reviewed annually, remains unchanged for 2006.

The following chart compares the actual asset mix to the policy asset mix as at April 30, 2006:



LTCAP can be viewed as a "balanced fund", which would traditionally have about a 60% allocation to equities and 40% to fixed income. In this context, part of

LTCAP's "balanced fund" fixed income allocation has been devoted to investments in Absolute Return investments (i.e. hedge funds) and Real Assets (e.g. real estate, commodities). Similarly, part of the "balanced fund" equities allocation has been devoted to private equities investments. 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 among asset class returns) while enhancing return potential. In addition, the Absolute Return allocation provides the opportunity for lower volatility, and the Real Assets allocation provides a hedge against inflation.

There are two key sources of divergence between the policy asset mix, or target weight, and the actual asset mix.

Firstly, UTAM management has the discretion to diverge from the policy asset mix to a pre-determined modest limit, which depends on the size of the target weight (i.e. more latitude for larger target weights).

Secondly, participation in certain asset classes (e.g. 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 such holdings are being built up, UTAM allocates the shortfall from their target weights to public equities and fixed income on a pro rata basis.

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 has been in place since 2003. The hedge ratios for the applicable non-Canadian asset classes and their benchmarks are as follows:

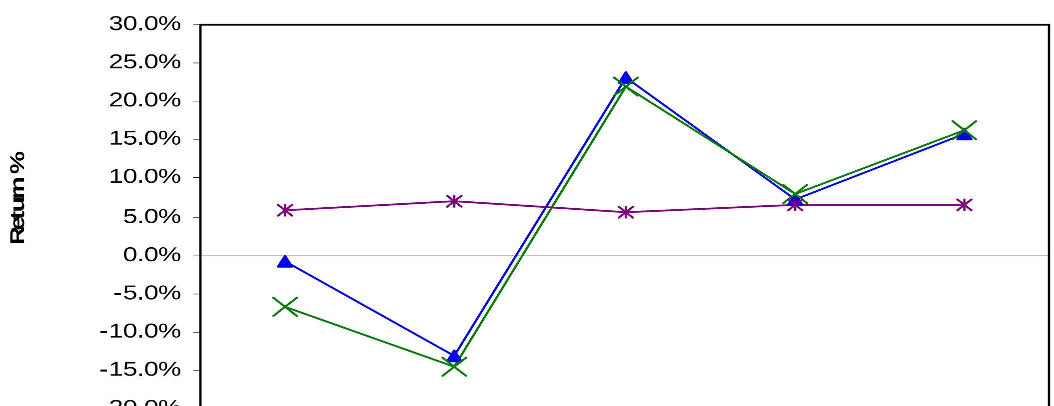
Equities (including Private Equities) and Real Assets	50%
Fixed Income	100%
Absolute Return	75%

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 span both fixed income 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

To assess how adequately LTCAP returns are meeting the objective set by the University, performance is assessed versus the 4% real return (net of fees and levies) objective. 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 the 1-year LTCAP investment performance for years ending April 30.

Annual Rates of Return for years ended April 30



	2002	2003	2004	2005	2006
LTCAP (net)*	-0.8%	-13.0%	23.1%	7.4%	15.8%
LTCAP Benchmark	-6.7%	-14.6%	21.9%	7.9%	16.2%
4% plus CPI	5.7%	7.0%	5.6%	6.4%	6.4%

**Returns are time-weighted, calculated in accordance with investment standards and are net of investment fees and expenses and exclude returns on private investment interests.*

The LTCAP return for the year ending April 30, 2006 was 15.8%. This significantly exceeded the University's target return of 6.4% and continues the outperformance experienced over the past few years. The return for the year was marginally lower than the overall market indices benchmark (i.e. the target composition of different asset classes), primarily due to Canadian equities. Performance in each asset class exceeded the applicable market index benchmark, except for Canadian equities and fixed income securities (i.e. nominal bonds). Canadian equities performance was negatively impacted by exposure to small capitalization stocks. Fixed income modestly underperformed due to defensive positioning (shortened duration) through the first part of the fiscal year. 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.

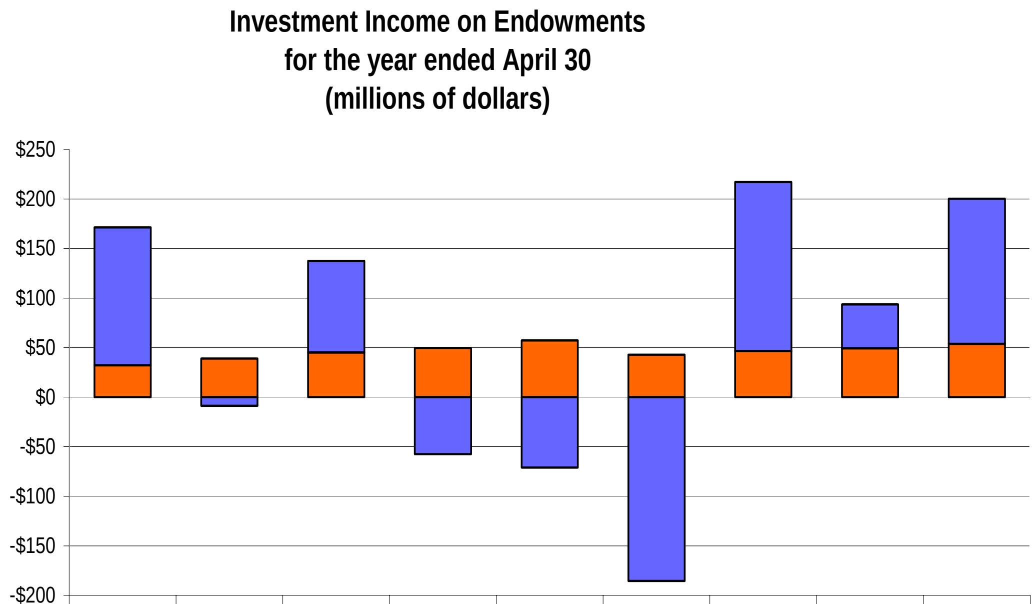
ALLOCATION FOR SPENDING AND PRESERVATION OF PURCHASING POWER

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 allocation of income for spending is governed by the University's preservation of capital policy, the purpose of which is to ensure that the rate of growth in the capital value of endowments matches or exceeds the rate of inflation over time. This policy limits the amount of income made available for spending and requires the reinvestment of excess income.

The target allocation for spending is about 4% of fair value of endowments. 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 should 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 endowments. 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.

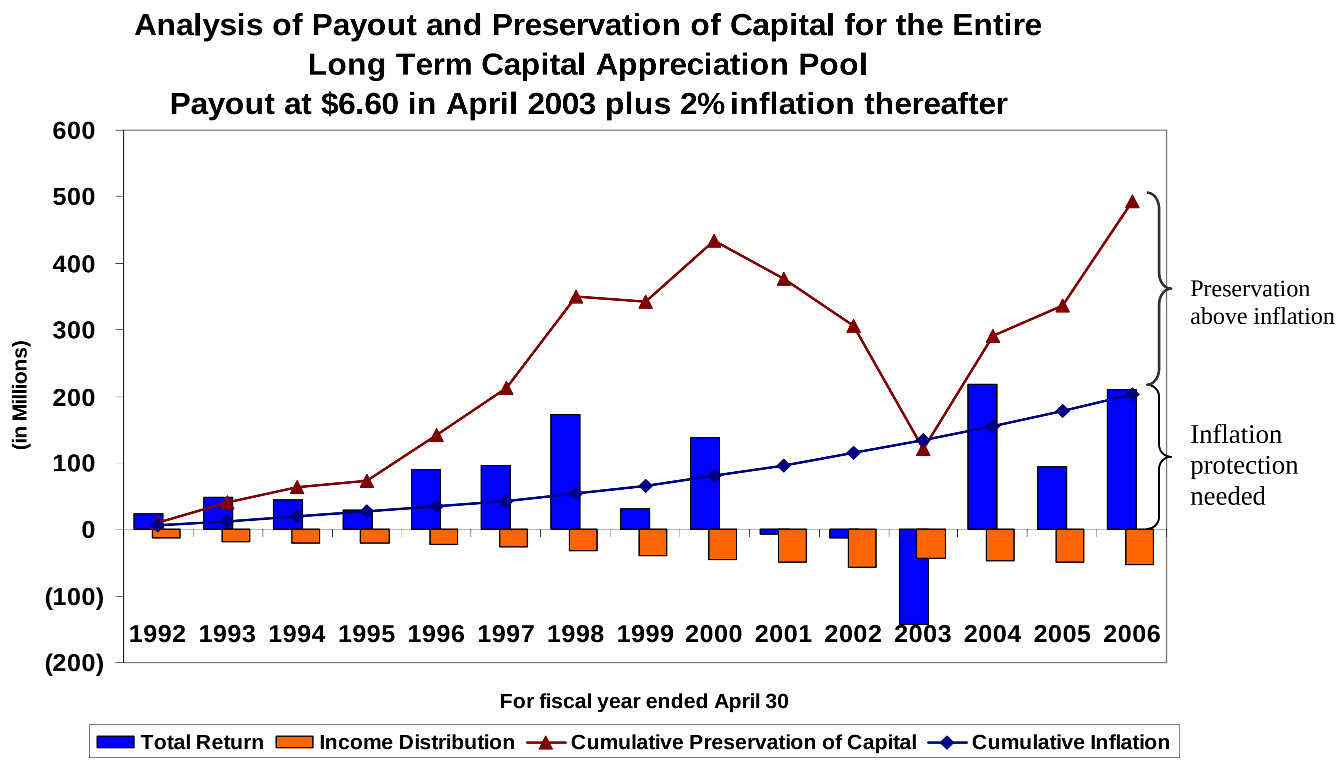
The following graph shows the spending allocation and the amounts reinvested and drawn down over the past several years.



	1998	1999	2000	2001	2002	2003	2004	2005	2006
Reinvested (draw down)	139.1	(8.7)	92.4	(57.6)	(70.9)	(185.5)	170.7	44.4	146.3
Allocation for spending	32.3	39.1	45.1	49.6	57.3	43.0	46.5	49.4	54.0

For 2005-06, the payout was $7.00 per unit at April 30, 2006, representing 3.8% of the opening unit market value and reflecting a 2% inflation increase from the April 30, 2005 payout of $6.86 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 $7.00 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 2005-06, the allocation for spending amounted to $54.0 million. The balance of investment income of $146.3 million was reinvested, increasing the fair value of the endowments. The total amount allocated for spending over the last 10 years was $441.7 million and the total amount reinvested to protect against inflation or provide a cushion against investment return fluctuation was $340.1 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 income is made available for spending. There were 11 funds in this category with a total fair value of $31.5 million and, for 2006, $0.3 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 1.1% of the 2006 opening unit market value consist of the following:

	2006 In millions	2005 In millions
Investment related management fees		
External managers	$ 7.3	$ 9.7
UTAM	$ 1.3	$ 1.3
Trustee and custodial fees	$ 0.4	$ 0.6
Foreign taxes	$ 0.6	$ 0.7
	$ 9.6	$12.3
University of Toronto – administration costs	$ 5.1	$ 5.0
Total	$14.7	$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 investment management related costs within the University and managing and administering endowments, such as the processing of receipts and disbursements, bookkeeping and accounting and the cost of producing financial reports to donors.

These administration fees are being reviewed as part of the University's implementation of a revised resource allocation model. A significant portion of these fees has been eliminated effective May 1, 2006 and review is ongoing.

SUMMARY OF CHANGES IN FAIR VALUE

The total investment return on the LTCAP for 2005-06 was 15.8% net of fees. From that total investment return, $7.00 per unit was allocated for spending, while the balance of the investment income, after allowing for fees and expenses, was added back to endowments and resulted in an increase of 11.2% in the fair value of each unit. Fair values of specifically invested endowments changed as a result of the returns of 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, 2005	$1,333.9	$182.21	7,320,731
Contributions	84.8	-	455,136
Investment income	225.4	$ 29.33	-
Fees and expenses	(14.7)	($ 1.91)	-
Allocation for spending	(53.7)	($ 7.00)	-
Closing balance April 30, 2006	$1,575.7	$202.63	7,775,867
2) Specifically invested endowments:			
Opening balance May 1, 2005	$ 42.2	n/a	n/a
Write down of investments	(10.9)	n/a	n/a
Investment income	0.5	n/a	n/a
Amount available for spending	(0.3)	n/a	n/a
Closing balance April 30, 2006	$ 31.5	n/a	n/a
3) Donations not yet in LTCAP (on hold): at April 30, 2006,	$ 21.6	n/a	n/a
Total endowments at April 30, 2006	$1,628.8	n/a	n/a

The fair value of each endowment account in LTCAP is determined by multiplying the current fair value of the unit ($202.63 at April 30, 2006) by the number of units held by that endowment account.

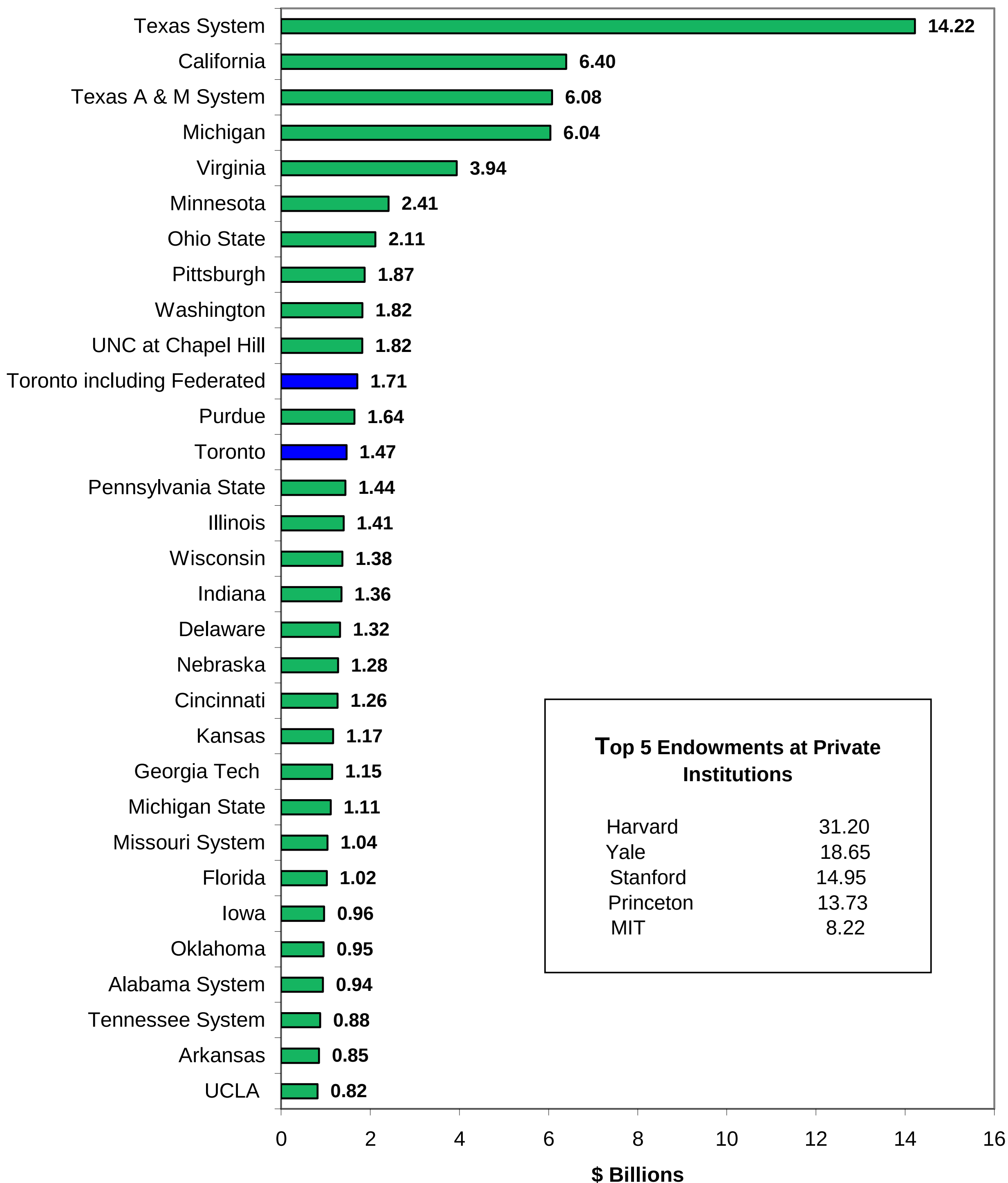
THE IMPORTANCE OF ENDOWMENTS TO THE UNIVERSITY OF TORONTO

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 2005, Toronto ranked 12th in terms of size, and when compared with the same Universities in terms of endowments per FTE student, Toronto only ranked 22nd (see pages 23-24). Including the endowments of the federated universities, Toronto ranked 11th in terms of size and 21st in terms of endowment per FTE student.

TOP 30 ENDOWMENTS AT PUBLIC INSTITUTIONS

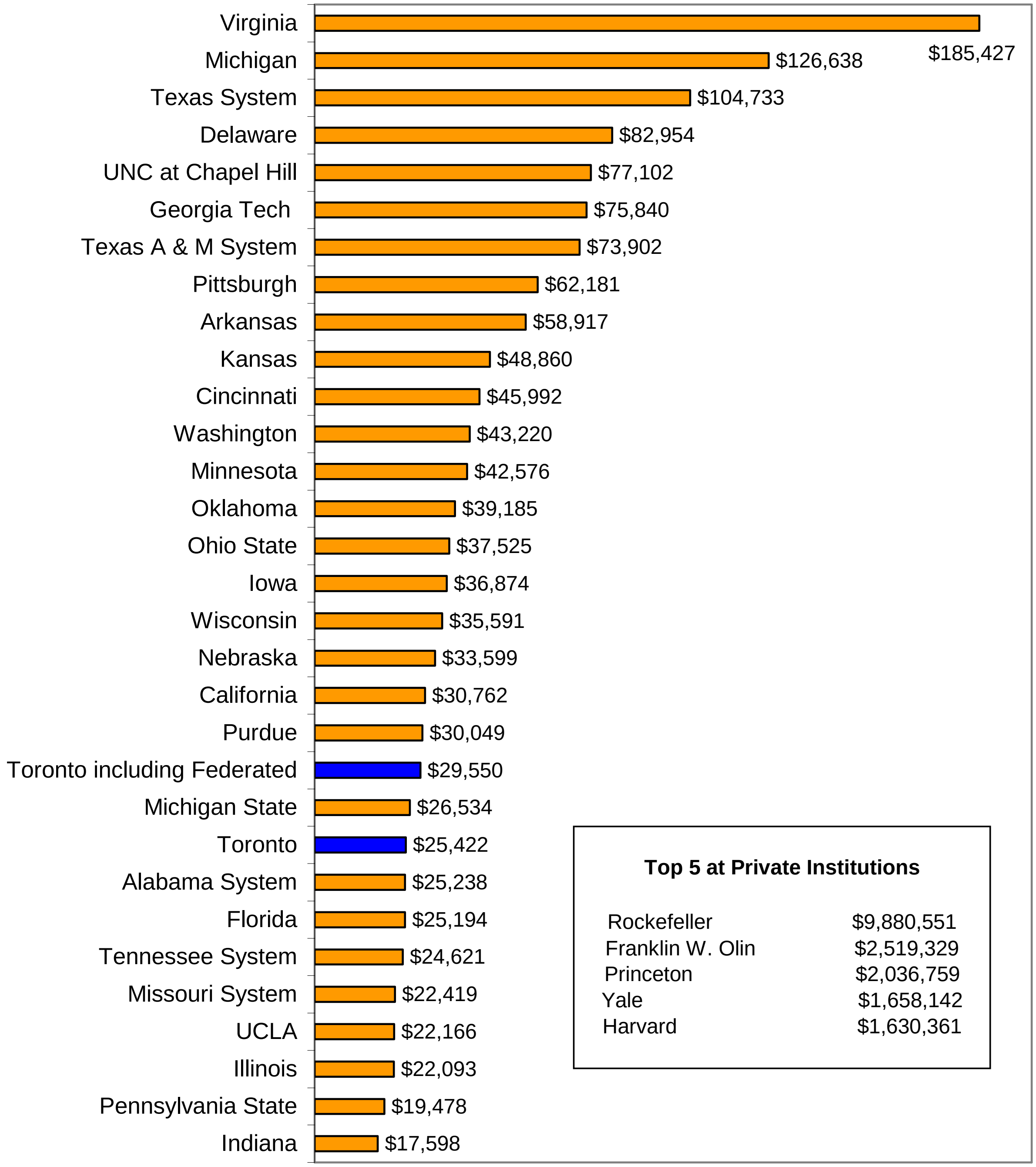
As at June 30, 2005
(Billions)



Source: 2005 NACUBO Endowment Study converted to
Canadian dollars at an exchange rate of 1.2248

FAIR VALUE OF ENDOWMENTS PER FTE STUDENTS AT SELECTED PUBLIC INSTITUTIONS

As at June 30, 2005
(in dollars)



Top 5 at Private Institutions

Rockefeller	$9,880,551
Franklin W. Olin	$2,519,329
Princeton	$2,036,759
Yale	$1,658,142
Harvard	$1,630,361

Source: 2005 NACUBO Endowment Study converted to Canadian dollars at an exchange rate of 1.2248

PROGRAM SUPPORT

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 vision. For 2005-06, $54.0 million was allocated for program spending in accordance with the purposes specified by each endowment fund. Examples of how the income of these endowments has been used to meet the University's teaching and research objectives are presented below.

Good Karma

(By Jenny Hall and Elizabeth Raymer, selection from UofT magazine – Summer 2006)

Buddhist Studies at University of Toronto Scarborough has received a major boost from a group looking to inspire public interest in Buddhism in Canada and around the world.

Tung Lin Kok Yuen, a Hong Kong-based non-profit Buddhist organization, has donated $4 million to establish an endowed visiting professorship and a series of conferences and public lectures at U of T Scarborough (UTSC). "The foundation's generosity is putting Canada on the map in terms of Buddhist studies," says U of T president David Naylor. The gift is the largest in UTSC's history.

Robert Ho is chairman of Tung Lin Kok Yuen, a Buddhist group that has given $4 million to U of T

The visiting professorship will enable UTSC to attract international experts and scholars in a variety of subjects, says William Bowen, chair of UTSC's humanities department. "One year, we'll have a specialist in Buddhist art, another year in Buddhist philosophy."

U of T currently offers an undergraduate program in Buddhism and Asian religions in the department for the study of religion. "This gift will create the momentum needed to propel the University of Toronto into the ranks of leading institutions in the study of Buddhism," says Kwong-loi Shun, UTSC's principal. "We have prominent faculty in related areas of study, one of the most extensive library collections in North America and support from the local community."

UTSC is building a "diversity-informed curriculum" to reflect the makeup of its student population, says Shun, who notes that the campus's first-year world religions class routinely fills to its capacity of 500.

In addition to advancing Buddhist Studies as a scholarly field, the gift will promote research findings through a series of conferences and public lectures. "This is an opportunity to connect the university to the community," says Bowen. Public lectures can also be attached to conferences, he adds, providing "a nice interaction between the public and scholars."

Centre for Sexual Diversity Studies Receives $1 Million

(By F. Michah Rynor, selection from UofT magazine - Summer 06)

Toronto businessman and University College alumnus Mark Bonham (BComm 1982) has made a $1-million commitment to the University of Toronto's Centre for Sexual Diversity Studies, the largest the centre has received since its undergraduate program was founded in 1998.

Located at UC, the centre offers both major and minor undergraduate degree programs, hosts academic and community events, and promotes research into a variety of sexual identities, including gay, lesbian, bisexual, transgendered and heterosexual. The centre – one of only a few in North America – acts as a hub for faculty and about 150 undergraduate and graduate students. It also serves as an academic resource for community members interested in understanding how society perceives sexual diversity and sexual practice.

"Mark has been a strong supporter of SDS for years," says the centre's director, Professor David Rayside. "His generosity and commitment made a real difference for our students in the early years of our undergraduate program. Now once again, and more dramatically than ever, Mark has shown great confidence in what we have accomplished, and in the dreams we have for the centre's future." Bonham's gift will provide ongoing support for program expenses, distinguished academic visitors and conferences.

Born in Guelph, Ontario, in 1959, Bonham is chairman and CEO of Stoney Ridge Estate Winery in Vineland, Ont. He directs the M. Bonham Charitable Foundation and serves on the advisory board of the annual Inside Out Lesbian and Gay Film and Video Festival in Toronto. In 1999, he received U of T's Arbor Award for volunteer service to the university. "I'm proud to be able to support this important program at University College, and I'm pleased that this new endowment will enable the program to carry on well into the future," says Bonham.

The Evolution of Medicine

(By Diana Kuprel, selection from UofT magazine - Summer 06)

Medical education often focuses on the latest scientific advances, but a new chair in the Faculty of Arts and Science will support the study of illness and medical practice through history.

Professor Emerita Pauline Mazumdar and her husband, Dipak Mazumdar, have committed $3 million to create the Pauline M.H. Mazumdar Chair in the History of Medicine at the Institute for the History and Philosophy of Science and Technology (IHPST). The centre's director Paul Thompson says the chair will deepen the organization's expertise in life sciences and raise its international profile. "This gift guarantees that the institute will play a key role in advancing our understanding of the origins and evolution of medicine, and in making its history available to students," he says.

Trained as a medical doctor in England before shifting her focus to the history of medicine, Pauline Mazumdar taught in the Faculty of Arts and Science for 23 years. She retired from the IHPST in 1999, but continues to teach and supervise doctoral students. Dipak Mazumdar, an economist, is an adjunct professor affiliated with U of T's Centre for International Studies.

Pauline believes her academic specialty has a unique and vital mandate. "The history of medicine allows students to explore political, cultural and technical history," she says. "Owsei Temkin, a past W.H. Welch Chair in the History of Medicine at Johns Hopkins University, used to say that all eras are worth understanding for their own sake. I decided to fund a chair at U of T to perpetuate that ideal."

Professor Pekka Sinervo, dean of the Faculty of Arts and Science, says the history of medicine is an important part of the university's teaching and research endeavours. "This gift ensures that future generations of students will be able to engage in a crucial area of academic and social inquiry," he says.

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Appendix

University of Toronto Endowments

Financial Information

April 30, 2006

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, 2006, 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, 2006 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, 2006

Chartered Accountants

University of Toronto Endowments
STATEMENT OF NET INVESTMENTS
APRIL 30, 2006
(with comparative figures at April 30, 2005)
(millions of dollars)

	2006	2005
ASSETS		
Investments at fair value *[note 3]*	**1,570.8**	1,273.6
Short-term notes and treasury bills *[note 4]*	**9.3**	96.3
Cash and cash equivalents *[note 4]*	**27.5**	67.2
Unrealized gains on derivative instruments *[note 3]*	**17.0**	12.4
Investment income and other receivables	**7.9**	9.2
	1,632.5	1,458.7
LIABILITIES		
Unrealized losses on derivative instruments *[note 3]*	**0.6**	26.1
Other payables and accruals	**3.1**	9.8
	3.7	35.9
NET INVESTMENTS HELD FOR ENDOWMENTS	**1,628.8**	1,422.8

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, 2006
(with comparative figures for the year ended April 30, 2005)
(millions of dollars)

	2006	2005
INCREASE IN NET INVESTMENTS		
Investment income *[note 5]*	**215.0**	111.1
Endowed donations	**37.9**	34.9
Endowed grants	**7.9**	37.8
Transfers from University's unrestricted funds	**13.9**	18.0
Total increase in net investments	**274.7**	201.8
DECREASE IN NET INVESTMENTS		
Allocation for spending *[note 6]*	**54.0**	49.4
Management fees and expenses *[note 7]*	**14.7**	17.3
Total decrease in net investments	**68.7**	66.7
Net increase in net investments for the year	**206.0**	135.1
Net investments held for endowments, beginning of year	**1,422.8**	1,287.7
Net investments held for endowments, end of year	**1,628.8**	1,422.8

(see notes to financial information)

NOTES TO FINANCIAL INFORMATION
APRIL 30, 2006

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 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. 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 directly held by the University is valued at cost and, when donated, at the value determined through an appraisal process.

v) Private investment interests, which include private equities with underlying investments in equities, debt and real estate assets, are determined based on the latest valuations provided by the external investment managers as of January 1, adjusted for cash receipts, cash disbursements and securities distributions 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.

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.

Hedges are documented at inception, detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the liability being hedged, the type of derivative used and how effectiveness is measured. The derivative must be highly effective in accomplishing the objective of offsetting changes in cash flows attributable to the risk being hedged both at inception and over the life of the hedge. When derivatives designated as hedges cease to exist, have been terminated or cease to be effective prior to maturity, any gains, losses, revenue or expenses deferred previously as a result of applying hedge accounting continue to be deferred and are recognized in income over the period in which the underlying item is recognized. Derivative transactions that do not qualify for hedge accounting are carried at fair value, with changes in value during the year recorded as income. Investment dealer quotes or quotes from a bank are available for substantially all of the University's 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 an average cost basis.

d) Foreign currency translation –

Monetary 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 endowments are invested in LTCAP. These funds represent 88.0% (2005 – 88.7%) 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)			
	2006		2005	
	LTCAP	**Other**	LTCAP	Other
Government and corporate bonds	**316.2**	**6.3**	385.9	7.3
Canadian equities	**216.4**	**8.1**	142.8	17.9
United States equities	**319.5**	**0.4**	149.5	0.5
International equities	**413.0**	**0.2**	290.0	0.2
Hedge funds	**146.9**		149.3	
Private equities	**61.3**		61.0	
Real assets	**66.2**	**16.3**	52.9	16.3
	1,539.5	**31.3**	1,231.4	42.2
Total investments	**1,570.8**		1,273.6	

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 the 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 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 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.

The notional amounts of the derivative financial instruments do not represent amounts exchanged between parties and are not a measure of the University's exposure resulting from the use of financial instrument contracts. The amounts exchanged are based on the applicable rates applied to the notional amounts.

Risks

The University is exposed to credit-related losses in the event of non-performance by counterparties to these financial instruments, but it does not expect any counterparties to fail to meet their obligations given their high credit ratings.

Terms and conditions

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

	(millions of dollars)			
	2006		2005	
	Notional Value	**Fair Value**	Notional Value	Fair Value
Foreign currency forward contracts				
-U.S. dollars	**398.0**	**12.6**	287.0	(10.8)
-Global	**104.8**	**(0.5)**	122.6	(5.5)
		12.1		(16.3)
Equity index future contracts	**421.2**	**4.3**	157.1	2.6
Total		**16.4**		(13.7)
Reported on the statement of net investments as:				
Unrealized gains on derivative instruments		**17.0**		12.4
Unrealized losses on derivative instruments		**(0.6)**		(26.1)
		16.4		(13.7)

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 about 4% of the fair value of endowments.

7. Management 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)	
	2006	2005
Investment management fees		
- External managers	**7.3**	9.7
- UTAM	**1.3**	1.3
Trustee and custodial fees	**0.4**	0.6
Administration cost – University of Toronto	**5.1**	5.0
Foreign taxes	**0.6**	0.7
Total	**14.7**	17.3

8. Comparative financial information

The comparative financial information has been reclassified from information previously presented to conform to the presentation of the 2006 financial information.