UNIVERSITY OF
TORONTO

Endowments

Annual Financial Report

For

The Year Ended April 30, 2007

HIGHLIGHTS

	April 30, 2007	April 30, 2006	% Change
Total Endowment:	(Millions of dollars)		
Fair value	$ 1,822.7	$ 1,628.8	11.9%
Change from previous year:			
Endowed donations	$ 30.9	$ 37.9	-18.5%
Endowed Government grants	$ 5.2	$ 7.9	-34.2%
Transfers from University's unrestricted funds	$ 4.1	$ 13.9	-70.5%
Investment income	$ 224.0	$ 215.0	4.2%
Fees and expenses	$ (13.8)	$ (14.7)	-6.1%
Allocation for spending	$ (56.5)	$ (54.0)	4.6%
Total change for the year	$ 193.9	$ 206.0	-5.9%
Endowments in Long-Term Capital Appreciation Pool (LTCAP):			
Proportion invested in LTCAP	97.15%	96.70%	0.5%
Number of units in LTCAP	7,982,019	7,775,867	2.7%
Fair value in millions	$ 1,770.8	$ 1,575.7	12.4%
Fair value per unit in dollars	$ 221.84	$ 202.63	9.5%
Allocation for spending per unit in dollars	$ 7.14	$ 7.00	2.0%
LTCAP time-weighted net returns*	13.7%	15.8%	-13.3%

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

TABLE OF CONTENTS

Executive summary 4

Introduction 7

Top 30 endowments at public institutions 11

Fair value of endowments per FTE students 12

Allocation for spending and preservation of purchasing power 14

Long-term capital appreciation pool investment policy 17

Investment management and oversight 18

Long-term capital appreciation pool investment strategy and performance 19

Fees and expenses 24

Summary of changes in fair value 26

Appendix

Financial information 27

Auditors' report 28

Statement of net investments 29

Statement of changes in net investments 30

Notes 31

EXECUTIVE SUMMARY

The University of Toronto is among the finest research-intensive public universities in the world. Endowments provide a strong base of funding in support of the University of Toronto's mission. University of Toronto endowments totaled $1.823 billion at April 30, 2007 and included over 4,750 individual endowment funds.

Endowment funds are used to support student aid, the work of professors through endowed chairs and academic and research programs. Endowments are expected to provide the same level of economic support to future generations as they do today, with growth in the capital value of the endowment and with spending increasing over time as a percent of original donations. The University also wants to ensure that funds are available for spending every year.

To meet these goals, the University has a target spending allocation of 4% of current market value within a corridor of 3% to 5%, with spending allocations growing annually to match inflation. The University does not spend everything earned through the investment of funds when investment markets are good. Investment earnings in excess of the spending allocation are set aside and reinvested. This provides protection against inflation and a reserve in the event of poor investment markets in a future year to ensure a smooth and predictable level of spending that rises with inflation every year.

Almost all of the University's endowments hold units in a unitized investment pool entitled the Long-Term Capital Appreciation Pool (LTCAP). Each endowment account holds units in LTCAP that reflect the number of dollars contributed and the unit value on the dates of contribution. The market value of each unit has grown from $202.63 at April 30, 2006 to $221.84 at April 30, 2007:

Unit market value at May 1, 2006		$202.63
Investment earnings per unit	$28.08	
Allocation for program spending	($ 7.14)	
Fees and expense	($ 1.73)	
Reinvested for inflation protection and reserve		$ 19.21
Unit market value at April 30, 2007		$221.84

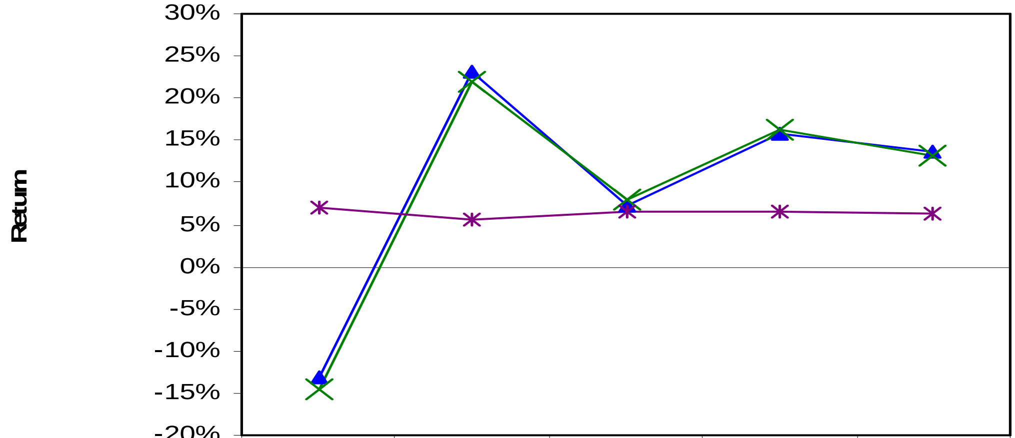
At April 30, 2007, the spending allocation was $7.14 per unit, representing 3.5% of the opening unit market value and reflecting a 2% inflation increase from last year. Excess investment income of $19.21 per unit was reinvested. To preserve the level of economic support, the spending rate has increased from $6.60 per unit in 2003, to $6.73 in 2004, $6.86 in 2005, $7.00 in 2006 and $7.14 in 2007.

The amounts for any particular endowment account are obtained by multiplying the value per unit by the number of units in the endowment account. For example, if an endowment account holds 750 units, the amount allocated for spending was 750 times $7.14 per unit, or $5,355 (pro-ration occurs when funds are added during the year) and the market value of that particular endowment account at April 30, 2007 was 750 times $221.84 or $166,380.

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

The investment of endowments to meet those targets is carefully managed by the University of Toronto Asset Management Corporation (UTAM) under the direction of the University, in accordance with the University's investment policies. Over the past several years, investment returns, net of investment fees and expenses, have comfortably exceeded the University's investment return target and have closely tracked appropriate market benchmarks, as shown in the following diagram.

Annual Rates of Return for years ended April 30



	2003	2004	2005	2006	2007
LTCAP (net)*	-13.0%	23.1%	7.4%	15.8%	13.7%
LTCAP Benchmark	-14.6%	21.9%	7.9%	16.2%	13.1%
4% plus CPI	7.0%	5.6%	6.4%	6.4%	6.2%

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

INTRODUCTION

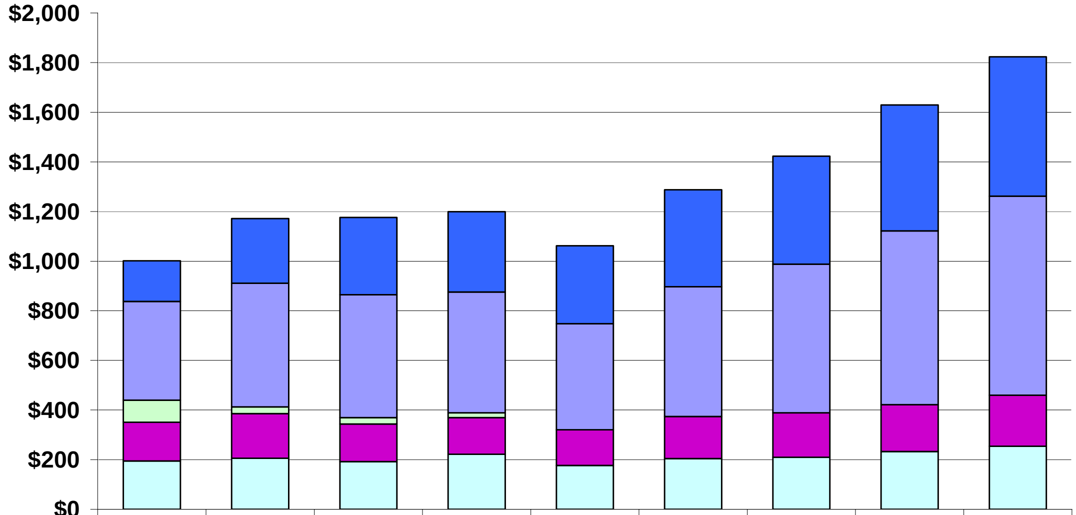
The University of Toronto is among the finest research-intensive public universities in the world. Endowments provide a strong base of funding for student aid, for endowed chairs, for research and for academic programs in support of this academic mission.

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

Endowments are subject to restrictions relating both to capital and to investment income. Endowment funds held by the University of Toronto are subject to the University's preservation of capital policy, the purpose of which is to ensure that the rate of growth in the capital value of the endowments matches or exceeds the rate of inflation over time. Endowments include externally restricted endowment funds (83.0%) and internally restricted endowment funds designated as endowments by the Governing Council in the exercise of its discretion (17.0%). 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 only for that purpose. There are several broad categories of restrictions – chairs and professorships, student aid, academic programs and research. Within these broad categories, each endowment has its own specific terms and conditions which govern spending of investment income. Prior to fiscal year 2003, the University had unrestricted endowments set aside for matching programs which have now been fully utilized for matching endowed donations.

Endowments at Fair Value
for the year ended April 30
(millions of dollars)



	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total endowments	1,001.2	1,171.3	1,176.2	1,199.7	1,062.3	1,287.7	1,422.8	1,628.8	1,822.7
Chairs and professorships	164.1	260.4	311.4	324.5	314.4	390.7	434.8	507.6	560.5
Student aid	397.2	498.0	495.6	486.4	427.3	522.8	599.7	699.4	802.4
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	205.9
Research	194.9	205.3	192.3	221.6	176.8	203.9	209.3	232.8	253.9

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.

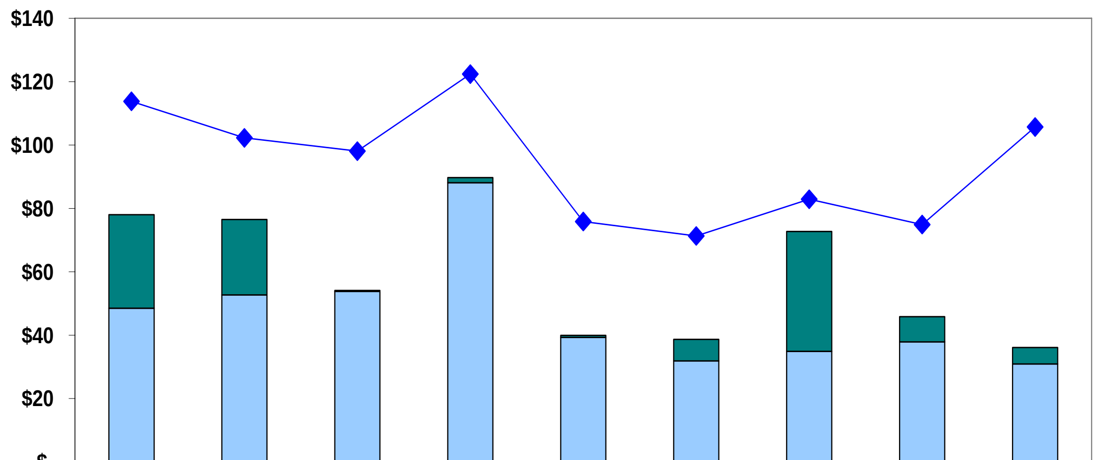
At April 30, 2007, there were over 4,750 individual endowment funds, usually supported by a donor agreement, or reflecting a collection of small donations with common restrictions.

Almost all endowments, about 97.2% of fair value and 4,789 funds, are invested in the University's long-term capital appreciation pool (LTCAP). A small number of endowments (1.7% 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. The remainder represents new endowed donations received after the LTCAP investment cut off date and are held in the University's expendable funds investment pool (EFIP).

Endowments totaled $1,822.7 million fair value at April 30, 2007. This was an increase of $193.9 million over the previous year. This increase was comprised of additions to endowments of $250.4 million minus $56.5 million which was allocated for program spending in accordance with the purposes specified by each endowment fund.

The addition to endowments of $250.4 million comprised $30.9 million of endowed donations and $5.2 million of endowed government grants, $4.1 million of transfers from the University's unrestricted funds to endowments, the majority as a result of the various matching programs, and $210.2 million investment income (net of fees and expenses of $13.8 million). The following graph shows endowed contributions and total donations (endowed and expendable) received since 1999.

Endowed Contributions and Total Donations Received
for the year ended April 30
(millions of dollars)



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

In 2006-07, the University received donations totaling $105.7 million, of which $30.9 million (29.2%) was added to endowments and the balance was taken into revenue and used for capital projects and other purposes based on the conditions attached to the donation. Endowed grants received from Government were for scholarships for Ontario resident students with financial need.

The University has had an enormously successful fundraising campaign over the past years and has the largest endowment in Canada. The University is grateful for the generosity of its supporters and is delighted to have taken Canadian university fundraising to new levels of expectation.

However, it is important to note the University's endowments are not large in comparison to our U.S. public university peers. When we consider the top 30 endowments at Canadian and US public institutions in 2006, Toronto ranked 12th in terms of size, and when compared with the same universities in terms of endowments per FTE student, Toronto only ranked 23rd (see pages 11-12). Including the endowments of the federated universities, Toronto ranked 10th in terms of size and 19th in terms of endowment per FTE student.

Seeds of Hope

(By Elizabeth Monier-Williams, selection from UofT magazine – Winter 06)

A man whose Czechoslovakian parents came to Toronto more than 70 years ago seeking opportunities has made a gift to U of T to help students make the most of theirs.

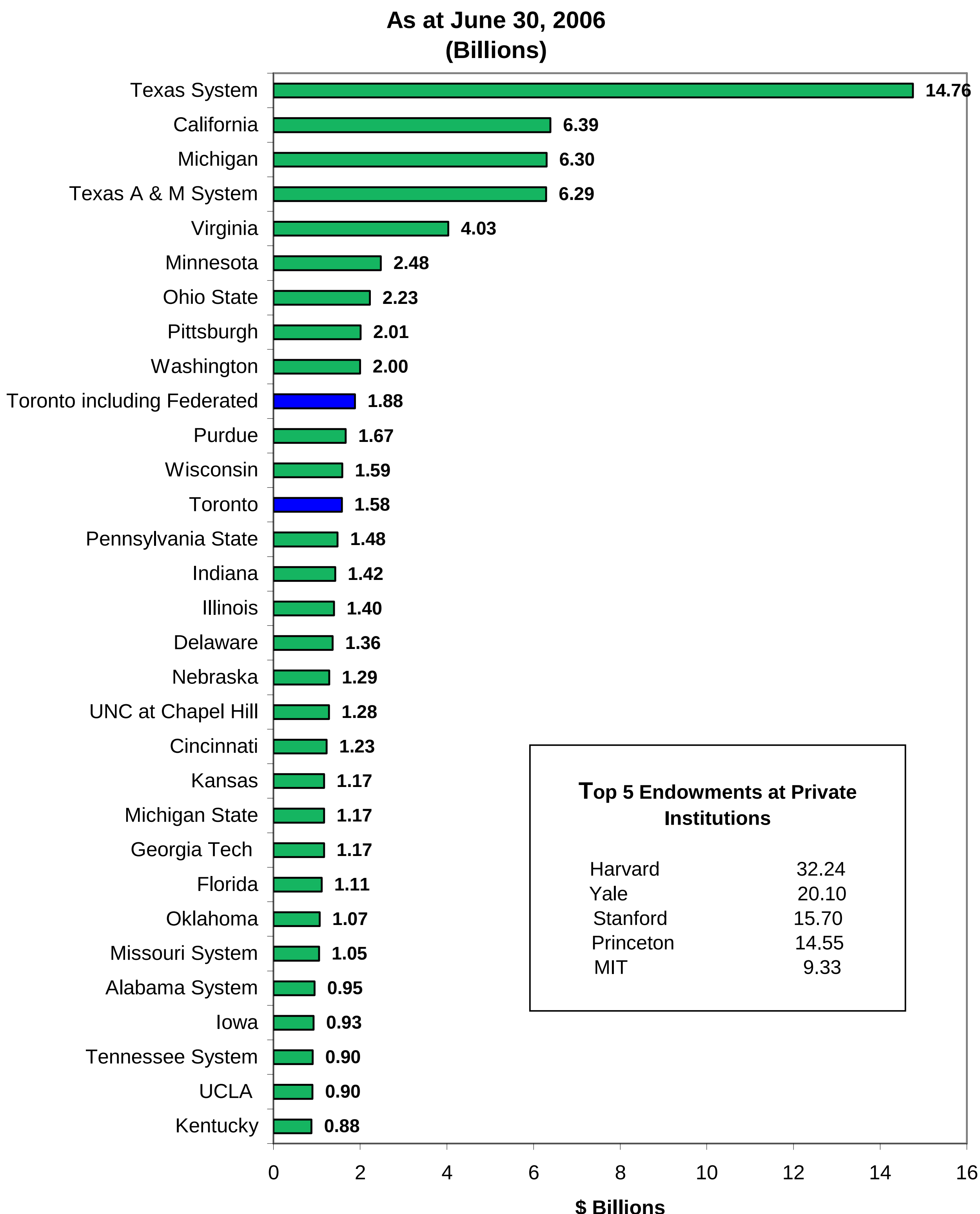
James Hosinec has donated $1 million to support first-year undergraduate scholarships for students in need. The 82-year-old Toronto resident will augment his gift with a bequest of approximately $1.5 million to increase the annual value of the scholarships over time. "I want to help ambitious students take advantage of opportunities I never had," he says.

Born in the Czechoslovakian village of Kuzmino, located in present-day Ukraine, Hosinec arrived in Canada with his mother in 1934. His father had been living in Toronto for several years, and, fearing another war, had borrowed money to bring his family out of Europe. "In my youth, I thought about becoming a doctor or lawyer," says Hosinec. "But I decided to work. My family needed the money."

Hosinec joined the Canadian Armed Forces and was stationed in British Columbia and Nova Scotia during the Second World War. After the war, he worked as a photographer before joining Ontario Hydro.

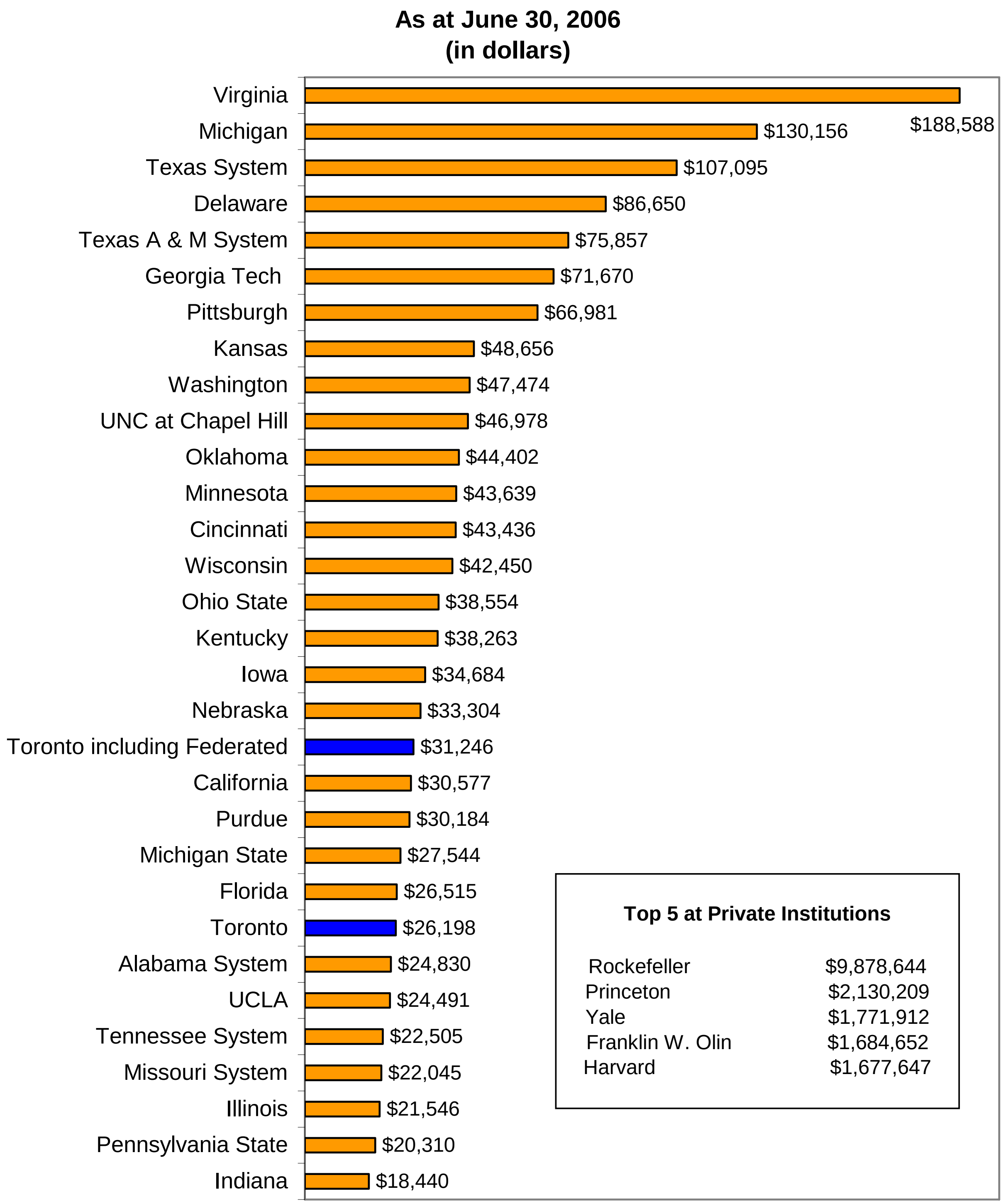
Although Hosinec had no affinity to U of T prior to his donation, he says he wanted to give money to an established institution whose graduates will make a difference. "These scholarships will help students make something of themselves," he says. “And that will benefit society as a whole."

TOP 30 ENDOWMENTS AT PUBLIC INSTITUTIONS



Source: 2006 NACUBO Endowment Study converted to Canadian dollars at an exchange rate of 1.115

FAIR VALUE OF ENDOWMENTS PER FTE STUDENTS AT SELECTED PUBLIC INSTITUTIONS



Source: 2006 NACUBO Endowment Study converted to Canadian dollars at an exchange rate of 1.115

Raptors, Leafs Owner Establishes Scholarships for Student-Athletes

Dean lauds support for amateur athletics

(By Althea Blackburn-Evans, selection from UofT Press release – April 2007)

Outstanding student athletes entering university this fall have one more reason to choose the University of Toronto, thanks to a $1 million commitment from Maple Leaf Sports and Entertainment chair Larry Tanenbaum and his wife, Judy, to establish 14 annual athletic awards.

The Larry and Judy Tanenbaum Athletic Awards, valued at $3,500 each, will be granted to exceptional male and female hockey and basketball players who have achieved an A average in their final year of high school.

"It's an exciting time for Canadian sport and there is just a tremendous amount of potential in our developing young athletes," said Larry Tanenbaum. "Judy and I wanted to help these athletes get the very best education while pursuing their athletic dreams."

Beginning in fall 2007, U of T will offer four awards each in men's and women's hockey and three each in men's and women's basketball.

"These awards represent a much-needed show of support for amateur athletics in this country," said Professor Bruce Kidd, dean of U of T's Faculty of Physical Education and Health. "We want to keep the very brightest and most talented student-athletes here in Canada – learning, competing and strengthening their skills on their home soil. We need the continued generosity of citizens like the Tanenbaums make this happen."

CTV sportscaster Brian Williams, who is a member of U of T's Varsity Centre campaign advisory board and a proud father of a recent U of T physical education and health graduate, also lauded the gift. "In my opinion, athletics and academics are not mutually exclusive. I am thrilled to see that funds are being raised to assist talented student-athletes to attend Canadian universities."

Larry Tanenbaum has a long-standing interest in furthering Canadian sport. The chair and chief executive officer of construction conglomerate Kilmer Group and chair of Kilmer Capital Fund, Tanenbaum also serves as a governor of the National Hockey League, the National Basketball Association and Major League Soccer.

ALLOCATION FOR SPENDING AND PRESERVATION OF PURCHASING POWER

Endowments provide a strong base of funding for student aid, for endowed chairs, for research and for academic programs in support of the University's academic mission. For 2006-07, $56.5 million was allocated for program spending in accordance with the purposes specified by each endowment fund.

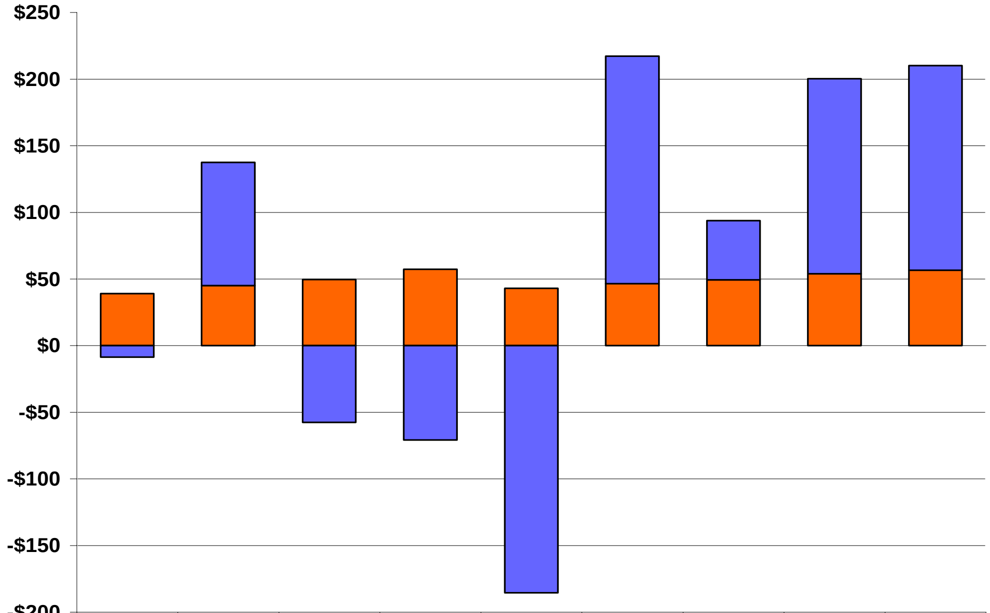
The University's endowments are expected to provide the same level of economic support to future generations as they do today. To achieve this, the allocation of income for spending is governed by the University's preservation of capital policy, the purpose of which is to ensure that the rate of growth 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 within a corridor of 3% to 5%. The allocation for spending is expressed as dollars per investment unit. The spending allocation is normally increased annually by the rate of inflation to reflect growth in the fair value of the endowments.

Any excess investment income is reinvested to protect against inflation and to provide a reserve in the event of poor investment markets in a future year. 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. In summary, the most important goal in managing endowments is to ensure that funds will be available in perpetuity.

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

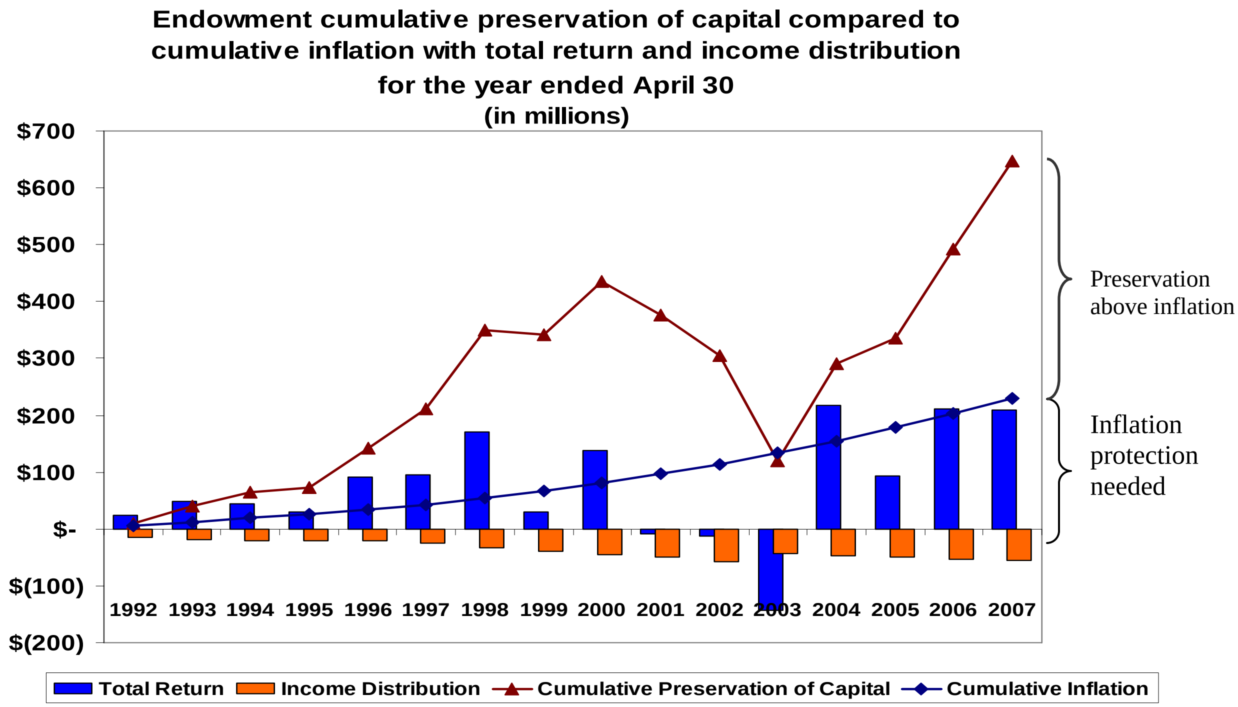
Investment Income on Endowments
for the year ended April 30
(millions of dollars)



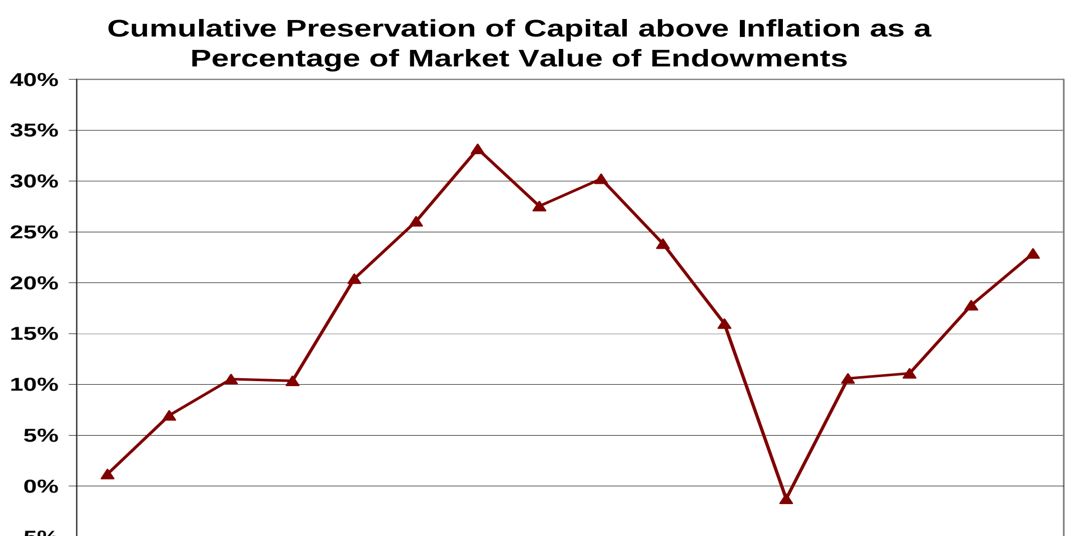
	1999	2000	2001	2002	2003	2004	2005	2006	2007
Reinvested (draw down)	(8.7)	92.4	(57.6)	(70.9)	(185.5)	170.7	44.4	146.3	153.7
Allocation for spending	39.1	45.1	49.6	57.3	43.0	46.5	49.4	54.0	56.5

At April 30, 2007, the spending allocation was $7.14 per unit, representing 3.5% of the opening unit market value and reflecting a 2% inflation increase from the April 30, 2006 allocation of $7.00 per unit. The spending allocation for each endowment account was calculated by multiplying the number of units in the endowment account by $7.14 per unit and prorating if some or all of the funds were not invested in LTCAP for the full fiscal year. The allocation for spending takes place in April of each year, with the funds generally used to fund expenditures in the next fiscal year. The spending allocation has risen from $6.60 per unit in 2003 to $6.73 in 2004, $6.86 in 2005, $7.00 in 2006 and $7.14 in 2007.

For 2006-07, the allocation for spending amounted to $56.5 million. The balance of investment income of $153.7 million was reinvested, increasing the fair value of the endowments. The total amount allocated for spending over the last 10 years was $472.8 million and the total amount reinvested to protect against inflation and provide a reserve against investment return fluctuation was $423.9 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, mostly very long-standing ones or ones with very specific characteristics such as the Joker's Hill property in King City, are specifically invested outside of LTCAP. Their individual investment performance reflects those specific investments. These endowments are not subject to the preservation of capital policy and, in most cases, all investment income is made available for spending. There were 11 funds in this category with a total fair value of $32.1 million. For 2007, $0.1 million was made available for spending.



	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Preservation	1.2%	7.0%	10.5%	10.4%	20.4%	26.1%	33.2%	27.6%	30.2%	23.8%	16.0%	-1.3%	10.6%	11.1%	17.8%	22.9%

LONG-TERM CAPITAL APPRECIATION POOL (LTCAP) INVESTMENT POLICY

Almost all of the University's endowments (97.2% of fair value) are invested in LTCAP, a unitized pool. The fair value of an LTCAP unit is set each month representing the market value of investments of the LTCAP divided by the total number of units held. Each endowment account has an assigned book value (nominal amount of dollars contributed to the endowment) and an allocation of LTCAP units based on the number of dollars contributed and the unit value on the dates of contribution.

In addition to endowments, LTCAP also includes $204.5 million expendable funds that are invested for the long-term, including the University's supplemental retirement arrangement fund; and $58.0 million of external funds of affiliated organizations and funds where the University is a beneficiary, representing historical arrangements.

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

The University's investment policy for LTCAP reflects the spending allocation target and the need to preserve the inflation-adjusted capital of the pool. It has a real investment return objective of 4% and the risk tolerance of an annual standard deviation of 10% over 10 years. This means that the real return is expected to be between -6% and 14%, two thirds of the time over a ten-year period.

INVESTMENT MANAGEMENT AND OVERSIGHT

LTCAP investments are managed by the University of Toronto Asset Management Corporation (UTAM) as agent for the University. The assets are managed in accordance with the University's investment policy (www.utam.utoronto.ca). UTAM, which was formed in April 2000, is a professional investment management organization that is wholly owned by the University and governed by its own Board of Directors. The UTAM Board is responsible for the oversight and direction of UTAM and reports on the investments under management to the Business Board of the University of Toronto.

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

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

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

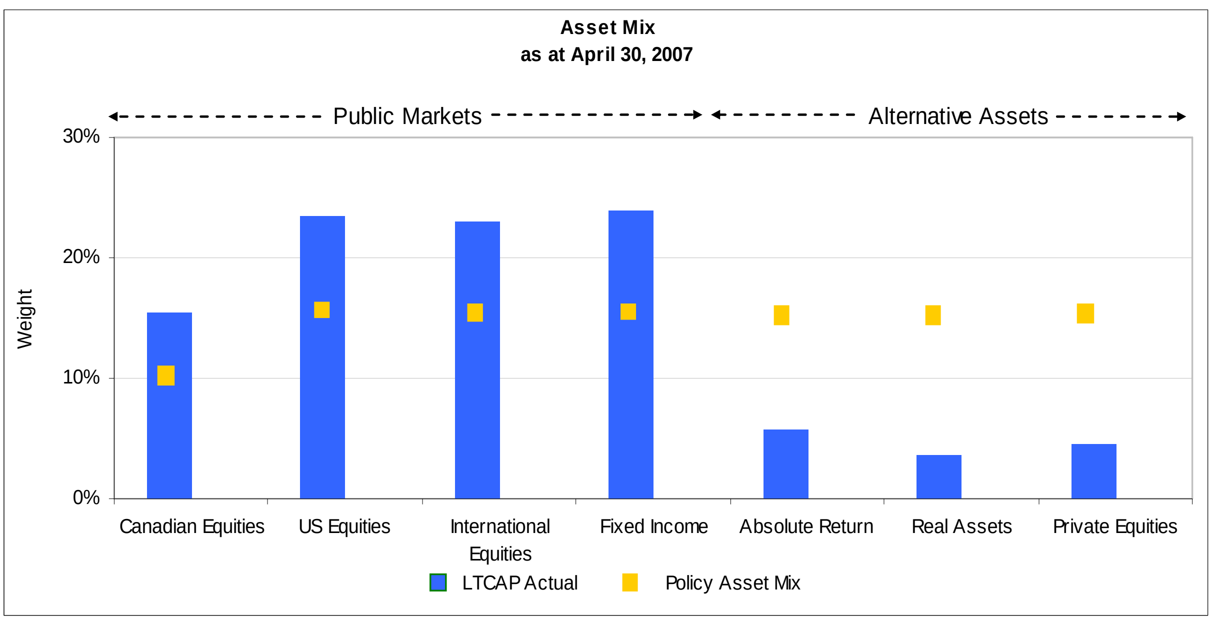
The fair value of LTCAP was $2,033.3 million at April 30, 2007, of which $1,770.8 million was endowments, representing 97.2% of all endowments.

Asset Mix

LTCAP's total portfolio return target is a 4% real return (i.e. after inflation, 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.

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

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



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

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

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

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

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

Foreign Exposure

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

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) objective. In addition, the University places a secondary emphasis on market benchmarks composed of major market indices such as Canadian, United States and international equities and Canadian fixed income. The table below summarizes the 1-year LTCAP investment performance for years ending April 30.

	2003	2004	2005	2006	2007
LTCAP (net)*	-13.0%	23.1%	7.4%	15.8%	13.7%
LTCAP Benchmark	-14.6%	21.9%	7.9%	16.2%	13.1%
4% plus CPI	7.0%	5.6%	6.4%	6.4%	6.2%

**Returns are time-weighted, calculated in accordance with investment industry 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, 2007 was 13.7%. This significantly exceeded the University's target return of 6.2% and continues the outperformance experienced over the past few years. The return also exceeded the 13.1% return of the overall market indices benchmark (i.e. the target composition of different asset classes), with outperformance contribution from all asset classes, except International Equities and Fixed Income. A detailed review of investment performance, which is managed and measured on a calendar year basis by UTAM, is available on UTAM's website at www.utam.utoronto.ca, and in UTAM's 2006 Annual Report.

To Our Health

(By Scott Anderson, selection from UofT magazine - Spring 07)

Lawrence Bloomberg has delivered the largest donation ever to a Canadian nursing faculty.

Photo: Jim Panou

Lawrence Bloomberg, the founder and former CEO of Canadian investment dealer First Marathon Inc., has delivered a $10-million donation to U of T's Faculty of Nursing. The gift – the largest ever to a Canadian nursing faculty – will boost U of T's international profile in nursing research and education, and help Canada's health-care system meet the demands of an aging population, says dean Sioban Nelson.

The faculty, established in 1920 as the Department of Public Health Nursing, will be named the Lawrence Bloomberg Faculty of Nursing (making it the first named nursing faculty in Canada) and will launch initiatives in three key areas: education, research and student support. "This gift will completely transform U of T's nursing faculty over the next decade," says Nelson. "It will have an enormous impact on the faculty's international standing and on the kind of clinicians and researchers we're producing."

As Canada's population ages and demands on the health-care system increase, nurses are being asked to assume greater responsibility for patient care in a variety of areas, including chronic illness and pain management. The Bloomberg gift will fund two educational initiatives: a Centre for Innovation and Excellence in Nursing Education, which will focus on enhancing the quality of the student experience; and a Continuing Education Unit, to keep nursing graduates up to date with the latest knowledge and innovations – and thus improve patient care.

“As the skills that nurses perform become more complex, it’s vital that students and clinicians learn how to react to difficult situations in a simulated environment so they are not encountering them for the first time in the field,” says Nelson. These initiatives will also help prepare students to work in health-care teams, where co-ordination can be a challenge. Research shows that well-functioning health-care teams are important to patient safety, she says.

The gift will also help boost research and attract top senior and junior international researchers to the faculty. A portion of the funds will be used to create four limited-term professorships and 20 international visiting professorships and postdoctoral fellowships over the next 10 years. “This will put us on the map internationally as a place for study, work and collaboration,” says Nelson.

With $4 million earmarked for scholarship endowment, the gift will also create 50 new scholarships, which almost triples the number of awards available to U of T nursing students. Nelson says the new scholarships will enable the faculty to attract more of the country’s best students and to expand its master’s program. Scholarships are particularly important in nursing, she adds, because most undergraduate students carry debt from their first degree, while nursing master’s students are commonly mid-career women with family responsibilities.

As a volunteer and philanthropist, Lawrence Bloomberg is well acquainted with the health-care sector. He serves as chairman of Mount Sinai Hospital in Toronto. It is in this role, he says, that he observed the need for greater support for nursing education: “With this gift, I wanted to ensure that nurses would play their rightful role as full members of the health-care team,” he says. Bloomberg adds that he plans to remain involved with the faculty’s evolution and hopes his donation will challenge his peers to also recognize the importance of nursing. “I don’t think people appreciate enough the role nurses play.”

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 0.9% of the 2007 opening unit market value consist of the following:

	2007 In millions	2006 In millions
Investment related management fees		
External managers	$ 10.5	$ 7.3
UTAM	$ 1.2	$ 1.3
Trustee and custodial fees	$ 0.6	$ 0.4
Foreign taxes	$ 0.7	$ 0.6
Professional and other fees	$ 0.4	____
	$ 13.4	$ 9.6
University of Toronto – administration costs	$ 0.4	$ 5.1
Total	$ 13.8	$14.7

Total fees and expenses for fiscal year 2007 represented 76 basis points of the market value of the endowment at the end of the year.

UTAM has direct oversight of all fees and expenses related to managing the LTCAP assets, except for the University's administration costs. Third party fees allocated to LTCAP include fees paid to external investment managers contracted by UTAM, trustee and custodial fees, and professional fees. UTAM 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. 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 2006-07 was 13.7% net of fees. From that total investment return, $7.14 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 9.5% 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 received after the cut off date at the end of the year had not yet been added to LTCAP.

	Total Value (in millions)	Unit Value (in dollars)	Number of Units
1) Endowments pooled in LTCAP:			
Opening balance May 1, 2006	$1,575.7	$202.63	7,775,867
Contributions	42.0	-	206,152
Investment income	223.3	$ 28.07	-
Fees and expenses	(13.8)	($ 1.72)	-
Allocation for spending	(56.4)	($ 7.14)	-
Closing balance April 30, 2007	$1,770.8	$221.84	7,982,019
2) Specifically invested endowments:			
Opening balance May 1, 2006	$ 31.5	n/a	n/a
Investment income	0.7	n/a	n/a
Amount available for spending	(0.1)	n/a	n/a
Closing balance April 30, 2007	$ 32.1	n/a	n/a
3) Donations received to be invested in LTCAP: at April 30, 2007	$ 19.8	n/a	n/a
Total endowments at April 30, 2007	$1,822.7	n/a	n/a

The fair value of each endowment account in LTCAP is determined by multiplying the current fair value of the unit ($221.84 at April 30, 2007) by the number of units held by that endowment account.

Appendix

University of Toronto Endowments

Financial Information

April 30, 2007

Auditors' Report

To the Members of Governing Council of University of Toronto:

We have audited the financial information related to investments held for University of Toronto Endowments as at and for the year ended April 30, 2007, 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, 2007 and the changes in these investments for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
May 31, 2007.

University of Toronto Endowments
STATEMENT OF NET INVESTMENTS
APRIL 30, 2007
(with comparative figures at April 30, 2006)
(millions of dollars)

	2007	2006
ASSETS		
Investments at fair value *[note 3]*	**1,654.0**	1,570.8
Short-term notes and treasury bills *[note 4]*	**5.7**	9.3
Cash and cash equivalents *[note 4]*	**95.1**	27.5
Unrealized gains on derivative instruments *[note 3]*	**65.8**	17.0
Investment income and other receivables	**9.7**	7.9
	1,830.3	1,632.5
LIABILITIES		
Unrealized losses on derivative instruments *[note 3]*	**2.5**	0.6
Other payables and accruals	**5.1**	3.1
	7.6	3.7
NET INVESTMENTS HELD FOR ENDOWMENTS	**1,822.7**	1,628.8

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, 2007
(with comparative figures for the year ended April 30, 2006)
(millions of dollars)

	2007	2006
INCREASE IN NET INVESTMENTS		
Investment income *[note 5]*	**224.0**	215.0
Endowed donations	**30.9**	37.9
Endowed grants	**5.2**	7.9
Transfers from University's unrestricted funds	**4.1**	13.9
Total increase in net investments	**264.2**	274.7
DECREASE IN NET INVESTMENTS		
Allocation for spending *[note 6]*	**56.5**	54.0
Management fees and expenses *[note 7]*	**13.8**	14.7
Total decrease in net investments	**70.3**	68.7
Net increase in net investments for the year	**193.9**	206.0
Net investments held for endowments, beginning of year	**1,628.8**	1,422.8
Net investments held for endowments, end of year	**1,822.7**	1,628.8

(see notes to financial information)

NOTES TO FINANCIAL INFORMATION
APRIL 30, 2007

1. Description

This financial information presents the investments held for endowments of the University of Toronto (the "University") and the changes in these investments during the year. This financial information does not include other assets, liabilities, and net assets of the University. In addition, this financial information does not include the investments held for endowments of Victoria University, The University of Trinity College, University of St. Michael's College, Sunnybrook Health Sciences Centre, and the affiliated colleges under the memorandum of agreement with the Toronto School of Theology, each of which is a separate non-controlled corporate body, the investments of which are reported in their respective financial statements.

The University's endowments consist of externally restricted donations and grants received by the University and internal resources transferred by Governing Council, in the exercise of its discretion. Investment income is added to or deducted from endowments in accordance with the University's capital preservation policy. This policy limits the amount of income made available for spending and requires the reinvestment of excess income.

The majority of the endowments are invested in the University's long-term capital appreciation pool ("LTCAP"), with a small percentage invested outside the LTCAP according to donors' specific investment requirements. Donations are temporarily held in the University's expendable funds investment pool, an investment pool where all other University funds are invested, before being added to the LTCAP.

2. Summary of significant accounting policies and reporting practices

This financial information has been prepared in accordance with Canadian generally accepted accounting principles applied within the framework of the significant accounting policies summarized below:

a) Investments -

Investments are carried at fair value except for the real estate directly held by the University. Fair value amounts represent estimates of the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. The calculation of estimated fair value is based upon market conditions at a specific point in time and may not be reflective of future fair values. Changes in fair values from one year to the next are reflected in the statement of changes in net investments.

The value of investments 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) 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 at the date of donation.
v) Private investment interests, which comprise private externally managed pooled funds with underlying investments in equities, debt, real estate assets and commodities, are determined based on the latest valuations provided by the external investment managers of the fund (typically December 31), adjusted for subsequent cash receipts and distributions from the fund, and cash disbursements to the fund through April 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because alternative investments are not readily traded, their estimated values are subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

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 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.

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 87.1% (2006 – 88.0%) of the total LTCAP investments. Other investments represent investments held outside LTCAP due to donors' specific instructions. Direct investments are classified by asset-mix category based on the intent of the investment strategies of the underlying portfolio. This classification required $75.4 million (2006 - $209.1 million) of pooled funds, $354.7 million (2006 - $53.2 million) in hedge funds and $178.2 million (2006 - $318.8 million) of cash, money market funds, short-term notes and treasury bills set aside related to derivative contracts to be reclassified to their appropriate investment categories.

The 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)			
	2007		2006	
	LTCAP	**Other**	LTCAP	Other
Government and corporate bonds	**368.8**	**6.2**	316.2	6.3
Canadian equities	**266.8**	**8.7**	216.4	8.1
United States equities	**339.7**	**0.4**	372.7	0.4
International equities	**405.1**	**0.1**	413.0	0.2
Hedge funds	**99.0**		93.7	
Private equities	**78.2**		61.3	
Real assets	**64.7**	**16.3**	66.2	16.3
	1,622.3	**31.7**	1,539.5	31.3
Total investments	**1,654.0**		1,570.8	

Risk management

Risk management relates to the understanding and active management of the risks associated with all areas of the University's investments. Investments are primarily exposed to foreign currency risk, interest rate volatility and 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 alternative assets, requiring diversification within categories and setting limits on the size of exposure to individual investments and counterparties. In addition, derivative instruments are used in the management of these risks (see below).

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 has entered into foreign currency forward contracts to minimize exchange rate fluctuations and the resulting uncertainty on future financial results. All outstanding contracts have a remaining term to maturity of less than one year. The University has significant contracts outstanding held in U.S. dollars, Euro, Japanese yen and the British pound, among others.

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

Risks

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

Terms and conditions

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

	2007 (millions of dollars)		2006	
	Notional Value	**Fair Value**	Notional Value	Fair Value
Foreign currency forward contracts				
- U.S. dollars	**870.5**	**37.2**	398.0	12.6
- International	**342.8**	**7.9**	104.0	(0.5)
		45.1		12.1
Equity and commodity index futures contracts				
- Canadian	**90.2**	**2.3**		
- United States	**354.6**	**11.1**	284.7	2.0
- International	**119.1**	**4.8**	136.5	2.3
		18.2		4.3
Total		**63.3**		16.4
Reported on the statement of net investments as:				
Unrealized gains on derivative instruments		**65.8**		17.0
Unrealized losses on derivative instruments		**(2.5)**		(0.6)
		63.3		16.4

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

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

	(millions of dollars)	
	2007	2006
Investment management fees		
- External managers	**10.5**	7.3
- UTAM	**1.2**	1.3
Foreign taxes	**0.7**	0.6
Trustee and custodial fees	**0.6**	0.4
Professional and other fees	**0.4**	
Administration cost – University of Toronto	**0.4**	5.1
Total	**13.8**	14.7

8. Comparative financial information

The comparative financial information has been reclassified from information previously presented to conform to the presentation of the 2007 financial information.