UNIVERSITY OF TORONTO (OISE)
PENSION PLAN

FINANCIAL STATEMENTS

JUNE 30, 2014

INDEPENDENT AUDITORS' REPORT

To the Administrator of the **University of Toronto (OISE) Pension Plan**

We have audited the accompanying financial statements of the **University of Toronto (OISE) Pension Plan**, which comprise the statement of financial position as at June 30, 2014, and the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **University of Toronto (OISE) Pension Plan** as at June 30, 2014, and the changes in its net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada,
December 9, 2014.

UNIVERSITY OF TORONTO (OISE) PENSION PLAN

STATEMENT OF FINANCIAL POSITION
(with comparative figures as at June 30, 2013)
(thousands of dollars)

As at June 30

	2014	2013
	$	$
ASSETS		
Investment in Master Trust, at fair value *(note 3(a))*	**93,402**	82,139
Receivables and prepaid expenses	**622**	580
	94,024	82,719
LIABILITIES		
Accrued expenses	**349**	426
	349	426
Net assets available for benefits	**93,675**	82,293
Pension obligations *(note 7)*	**126,079**	116,018
Deficit	**(32,404)**	(33,725)

See accompanying notes

On behalf of the Governing Council of the University of Toronto:

(signed)
Ms. Sheila Brown
Chief Financial Officer

(signed)
Mr. Louis Charpentier
Secretary of the Governing Council

UNIVERSITY OF TORONTO (OISE) PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

(with comparative figures for the year ended June 30, 2013)
(thousands of dollars)

Year ended June 30

	2014	2013
	$	$
INCREASE IN NET ASSETS		
Increase in fair value of investment in Master Trust *(note 3(b))*	**14,501**	9,761
Employer contributions *(note 4)*	**4,076**	4,247
Employee contributions *(note 1(b))*	**416**	389
Total increase in net assets	**18,993**	14,397
DECREASE IN NET ASSETS		
Retirement benefits	**6,525**	6,295
Refunds and transfers *(note 5)*		1,258
Fees and expenses *(note 6)*	**1,086**	1,044
Total decrease in net assets	**7,611**	8,597
Net increase in net assets for the year	**11,382**	5,800
Net assets available for benefits, beginning of year	**82,293**	76,493
Net assets available for benefits, end of year	**93,675**	82,293

See accompanying notes

UNIVERSITY OF TORONTO (OISE) PENSION PLAN

STATEMENT OF CHANGES IN PENSION OBLIGATIONS

(with comparative figures for the year ended June 30, 2013)
(thousands of dollars)

Year ended June 30

	2014	2013
	$	$
INCREASE IN PENSION OBLIGATIONS		
Interest on accrued benefits	**6,808**	7,173
Benefits accrued	**1,417**	1,550
Assumption changes	**8,361**	429
Total increase in pension obligations	**16,586**	9,152
DECREASE IN PENSION OBLIGATIONS		
Benefits paid	**6,525**	7,553
Experience gains		3,349
Total decrease in pension obligations	**6,525**	10,902
Net increase (decrease) in pension obligations for the year	**10,061**	(1,750)
Pension obligations, beginning of year	**116,018**	117,768
Pension obligations, end of year	**126,079**	116,018

See accompanying notes

UNIVERSITY OF TORONTO (OISE) PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

1. Description of Plan

The following description of the University of Toronto Ontario Institute for Studies in Education (OISE) Pension Plan (the "Plan") is a summary only. For more complete information, reference should be made to the official Plan text.

a) General

The Plan is a defined benefit plan covering substantially all full-time and part-time employees of OISE who were members of the Plan as of June 30, 1996.

The Plan is registered under the Pension Benefits Act (Ontario) (Ontario Registration Number 0353854) and with the Canada Revenue Agency.

Effective July 1, 1996, the Governing Council of the University of Toronto (the "University") became the administrator of the Plan. Prior to July 1, 1996, the OISE Board of Governors acted as the administrator. The investments, through the University of Toronto Master Trust ("Master Trust"), are managed by the University of Toronto Asset Management Corporation ("UTAM"), a wholly-owned subsidiary of the University.

b) Funding

Plan benefits are funded by contributions and investment income. Required member contributions are made in accordance with a prescribed formula. The University's contributions are determined annually on the basis of an actuarial valuation taking into account the assets of the Plan and all other relevant factors.

c) Retirement benefits

At retirement, the number of years of pensionable service earned by a member is multiplied by a percentage of the average of the highest 36 months of earnings to determine the annual pension payable to that member. There are various early retirement provisions in place for different employee groups. Benefits are also payable in the case of termination of employment prior to retirement.

d) Death benefits

Death benefits are available for beneficiaries on the death of an active member and may be taken in the form of a survivor pension or a lump-sum payment. Death benefits may also be available for a spouse on the death of a retired member.

e) Escalation of benefits

The pension benefits of retirees are subject to cost of living adjustments equal to the greater of: i) 75% of the increase in the Consumer Price Index in Canada ("CPI") for the previous calendar year to a maximum CPI increase of 8% plus 60% of the increase in CPI in excess of 8%, or ii) the increase in the CPI for the previous calendar year minus 4%.

2. Summary of significant accounting policies

a) Basis of presentation

These financial statements have been prepared by the University in accordance with Canadian accounting standards for pension plans in Part IV (Section 4600) of the Chartered Professional Accountants of Canada ("CPA Canada") Handbook applied within the framework of the significant accounting policies summarized below.

Section 4600 provides specific accounting guidance on investments and pension obligations. In accordance with Section 4600, Canadian accounting standards for private enterprises in Part II of the CPA Canada Handbook have been chosen for accounting policies that do not relate to the investment portfolio or pension obligations to the extent that those standards do not conflict with the requirements of Section 4600.

b) Investments and investment income

Investments are carried at fair value. The Plan is invested in the Master Trust. The unit value of the Master Trust is calculated based on the fair value of the underlying investments of the Master Trust.

Income from investments is recorded on an accrual basis. Distributions from a master trust arrangement are recorded when declared. Changes in fair values, representing realized and unrealized gains and losses, from one year to the next are reflected in the statement of changes in net assets available for benefits.

c) University of Toronto Master Trust

Investments within the Master Trust 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.

Fair values of the investments held by the Master Trust are determined as follows:

(i) Short-term notes and treasury bills are valued based on cost plus accrued interest, which approximates fair value.

(ii) Bonds and equities are valued based on quoted closing market prices. If quoted closing market prices are not available for bonds, estimated values are calculated using discounted cash flows based on current market yields and comparable securities, as appropriate.

(iii) Investments in pooled funds (other than private investment interests and hedge funds) are valued at their reported net asset value per unit.

(iv) Hedge funds are valued based on the most recently available reported net asset value per unit adjusted for the expected rate of return of the fund through June 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value.

(v) Private investment interests consisting of private investments and real assets are comprised of private externally managed funds with underlying investments in equities, debt, real estate assets and commodities. The investment managers of these interests perform valuations of the underlying investments on a periodic basis and provide valuations periodically. Annual financial statements of the private investment interests are audited and are also provided by the investment managers. The value of the investments in these interests is based on the most recent valuation provided, adjusted for subsequent cash receipts and distributions from the fund and cash disbursements to the fund through June 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value.

(vi) Derivative financial instruments are used to manage particular market and currency exposures for hedging and risk management purposes with respect to the Master Trust's investments and as a substitute for more traditional investments. Derivative financial instruments and synthetic products that may be employed include debt, equity, commodity and currency futures, options, swaps and forward contracts. These contracts are supported by liquid assets with a fair value approximately equal to the fair value of the instruments underlying the derivative contract.

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

(vii) Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at year end.

Interest income is recorded by the Master Trust on an accrual basis. Dividends are recorded by the Master Trust as revenue on the record date. Realized gains and losses on investments are recorded based on the average cost of the related investments. Unrealized gains and losses on investments are recorded by the Master Trust as a change in fair value since the beginning of the year or since the date of purchase when purchased during the year.

Income and expenses are translated at exchange rates in effect on the date of the transaction. Gains or losses arising from those translations are included in income.

Purchases and sales of investments are recorded by the Master Trust on a trade date basis and transaction costs are expensed as incurred.

d) Revenue and expense recognition

All employer and employee contributions and other revenue are reflected in the year in which they are due. All expenses are recorded on an accrual basis.

e) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets during the reporting period. The more significant estimates used in these financial statements would involve the determination of the fair value of investments where the values are based on non-observable inputs that are supported by little or no market activity, and the use of actuarial assumptions in the determination of the pension obligations. Actual results could differ materially from those estimates.

f) Pension obligations

Pension obligations are determined based on an actuarial valuation prepared by an independent firm of actuaries using an actuarial valuation report prepared for funding purposes. This valuation uses the projected benefits method pro-rated on service and management's best estimate of various economic and non-economic assumptions.

3. University of Toronto Master Trust

On August 1, 2000, the Master Trust was established to facilitate the collective investment of the assets of the University's pension plans. Each pension plan holds units of the Master Trust. The value of each unit held by a plan increases or decreases monthly based on the change in fair value of the underlying assets of the Master Trust. This value is used as the basis for the purchase and sale of units by the pension plans in the following month.

On May 31, 2011, substantially all of the Master Trust's publicly traded investments were transferred into four new unitized investment pooled funds which are managed by UTAM. The overall investment strategy and risk profile of the Master Trust was not changed as a result of the new pooled funds.

During the year, four of the five UTAM pooled funds (UTAM International Equity Fund, UTAM US Equity Fund, UTAM Canadian Credit Fund and UTAM Canadian Fixed Income Fund) were dissolved, resulting in the Master Trust's pro rata share of the underlying investments of these pooled funds being transferred directly to the Master Trust. The overall investment strategy and risk profile of the Master Trust was not changed as a result of the dissolution of the UTAM pooled funds.

The directly held investments of the UTAM pooled funds are considered to be directly held investments of the Master Trust for risk analysis disclosure purposes. As at June 30, 2014, the UTAM pooled funds accounted for 10.1% (2013 – 41.4%) of the Master Trust's investments.

a) Investment in Master Trust

(thousands of dollars)

As at June 30, 2014, the Plan's investment in the Master Trust consisted of 539,737 (2013 – 556,732) of the 20,895,609 (2013 – 19,850,247) outstanding units of the Master Trust. The Plan's investment in the Master Trust was $93,402 (2013 – $82,139) of the total fair value of $3,607,140 (2013 – $2,919,010) of the Master Trust.

The investments of the Master Trust and the Plan's investments, if the Plan's investment in the Master Trust had been proportionately consolidated, consisted of the following as at June 30, taking into account certain reclassifications resulting primarily from the allocation of the effect of futures and total return swap contracts. These futures and total return swap contract reclassifications at the Master Trust level resulted in $298,918 (2013 – $207,239) of short-term investments being reclassified to Canadian equities of $155,900 (2013 – $113,048), to United States equities of $79,940 (2013 – $66,078), to international equities of nil (2013 – $3,226), to emerging markets equities of $18,154 (2013 – $15,866) and to government and corporate bonds of $44,924 (2013 – $9,021), as well as $4,486 (2013 – nil) of Canadian equities, $35,432 (2013 – nil) of United States equities and $3,817 (2013 – $13,943) of international equities being reclassified to short-term investments.

	Master Trust 2014	Master Trust 2013	University of Toronto (OISE) Pension Plan 2014	University of Toronto (OISE) Pension Plan 2013
	$	$	**$**	$
Short-term investments	**21,682**	2,282	**561**	66
Government and corporate bonds	**1,132,557**	882,696	**29,326**	24,838
Canadian equities	**573,618**	463,504	**14,854**	13,043
United States equities	**610,888**	521,020	**15,818**	14,661
International equities	**577,681**	478,634	**14,958**	13,468
Emerging markets equities	**359,511**	302,136	**9,309**	8,501
Absolute return funds	**306,298**	284,043	**7,931**	7,993
	3,582,235	2,934,315	**92,757**	82,570
Derivative-related net receivable (payable) (*note 3(d)*)	**24,905**	(15,305)	**645**	(431)
	3,607,140	2,919,010	**93,402**	82,139

Short-term investments consist of cash, money market funds, short-term notes and treasury bills.

Included within the Master Trust's investments are hedge funds, private investments and real assets. These investments have been classified as follows:

2014

	Canadian equities	United States equities	International equities	Emerging markets equities	Government and corporate bonds	Absolute return funds	**Total**
	$	$	$	$	$	$	**$**
Hedge funds				**54,939**	**75,081**	**306,298**	**436,318**
Private investments	**28,144**	**173,742**	**58,919**	**34,013**	**146,745**		**441,563**
Real assets	**28,422**	**57,720**	**71,081**				**157,223**
	56,566	**231,462**	**130,000**	**88,952**	**221,826**	**306,298**	**1,035,104**

2013

	Canadian equities	United States equities	International equities	Emerging markets equities	Government and corporate bonds	Absolute return funds	Total
	$	$	$	$	$	$	$
Hedge funds				33,080	100,723	284,043	417,846
Private investments	28,688	189,802	62,099	37,122	79,167		396,878
Real assets	42,432	71,957	59,256		29,260		202,905
	71,120	261,759	121,355	70,202	209,150	284,043	1,017,629

b) Changes in the Master Trust
(thousands of dollars)

The increase in fair value of the Master Trust was $541,651 (2013 – $340,085) of which the increase in fair value of the Plan's investment was $14,501 (2013 – $9,761). The following table shows the components of the net increase in net assets of the Master Trust for the years ended June 30:

	2014 **$**	2013 $
Increase in fair value		
Interest income		
Government and corporate bonds	**27,891**	21,730
Short-term investments	**1,501**	1,627
Dividend income		
Canadian	**14,842**	11,946
Foreign	**25,184**	43,104
Other income	**110**	123
	69,528	78,530
Net realized and unrealized gains from investments	**472,123**	261,555
Total increase in fair value of the Master Trust	**541,651**	340,085
Cash received on purchase of Master Trust units by pension plans	**367,796**	208,678
Cash paid on redemption of Master Trust units by pension plans	**(221,317)**	(211,733)
Net increase in net assets for the year	**688,130**	337,030
Net assets, beginning of year	**2,919,010**	2,581,980
Net assets, end of year	**3,607,140**	2,919,010

If the Plan had proportionately consolidated its share of the Master Trust, the investment income and changes in fair value of investments for the years ended June 30 would be comprised of the following:

	2014 **$**	2013 $
Interest income	**786**	670
Dividend income	**1,072**	1,580
Other income	**3**	4
	1,861	2,254
Net realized and unrealized gains from investments	**12,640**	7,507
	14,501	9,761

c) Individually significant investments
(thousands of dollars)

The details of investments where the fair value exceeds 1% of the total fair value or cost of the Master Trust in the underlying portfolios are listed below:

	Fair Value $
Government and corporate bonds	
Blackrock Canada Credit-Screened Bond Index Fund	**372,028**
RP Corporate Index Plus Fund A1	**131,881**
OZ Structured Product Overseas Feeder Fund II, L.P.	**40,324**
Canadian equities	
UTAM Canadian Equity Fund	**365,638**
United States equities	
GMO Quality Fund IV	**100,171**
Stelliam Long Fund L.P.	**88,100**
ValueAct Capital International II, L.P.	**63,419**
International equities	
MW Tops International Equity Fund Class B	**138,046**
Artisan International Value Fund	**88,788**
Arrowstreet EAFE Alpha Extension Fund II S6	**82,241**
Arrowstreet EAFE Alpha Extension Fund II S5	**55,802**
Cevian Capital Fund II Ltd.	**44,522**
Emerging markets equities	
Blackrock Emerging Market Alpha Advantage Fund Ltd.	**164,260**
LSV Emerging Market Equity Fund L.P.	**88,145**

d) Derivative financial instruments
(thousands of dollars)

Description
The Master Trust has entered into equity and commodity index futures contracts which oblige it to pay the difference between a predetermined amount and the market value 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 Master Trust 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 Master Trust has significant contracts outstanding held in United States dollars, euros, Japanese yen and British pound sterling.

The Master Trust has entered into total return equity swap contracts to obtain exposure to a security or market without owning such security or investing directly in that market. Total return swaps are agreements for the exchange of cash flows whereby one party commits to making payments based on the total return (income plus capital gains or losses) of an underlying instrument in exchange for fixed or floating rate interest payments. To the extent the total return of the instrument or index underlying the transaction exceeds or falls short of the offsetting interest rate obligation, the Master Trust will receive a payment from or make a payment to the counterparty.

The notional amounts of the derivative financial instruments do not represent amounts exchanged between parties and are not a measure of the Master Trust'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 Master Trust 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 maturity dates of the foreign currency forward and futures contracts as at June 30, 2014 range from July 2014 to December 2014. The maturity dates of the total return equity swap contracts as at June 30, 2014 range from December 2018 to March 2019. Collateral has been provided against these contracts as at June 30, 2014 in the form of short-term investments with a fair value of $5,155 (2013 – $5,345). The notional and fair value amounts of the derivative financial instruments as at June 30 are as follows:

	2014 $		2013 $	
	Notional Value	**Fair Value**	Notional Value	Fair Value
Derivative-related receivables:				
Foreign currency forward contracts				
- United States dollar	**922,279**	**17,353**	29,134	1,036
- Euro	**197,543**	**1,713**	166,989	321
- Other	**141,987**	**1,642**	91,498	353
		20,708		1,710
Futures contracts				
- United States dollar	**79,940**	**608**		
- Other	**42,366**	**99**	15,097	266
		707		266
Total return equity swap contracts	**155,900**	**5,986**		
Total derivative-related receivables		**27,401**		1,976
Derivative-related payables:				
Foreign currency forward contracts				
- United States dollar	**126,760**	**(1,922)**	825,479	(10,941)
- Other	**7,986**	**(2)**	156,632	(606)
		(1,924)		(11,547)
Futures contracts				
- United States dollar	**53,586**	**(543)**	81,944	(1,275)
- Other	**10,861**	**(29)**	18,303	(365)
		(572)		(1,640)
Total return equity swap contract			105,838	(4,094)
Total derivative-related payables		**(2,496)**		(17,281)
Derivative-related net receivable (payable)		**24,905**		(15,305)

e) Risk management

Risk management relates to the understanding and active management of the risks associated with all areas of the Master Trust's investments. The investments of the Master Trust are primarily exposed to market risk (which includes foreign currency risk, interest rate risk and other price risks), credit risk and liquidity risk. To manage these risks within reasonable risk tolerances, the Master Trust, through 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 note 3(d)).

f) Market risk

Market risk is the risk that the value of an investment will fluctuate because of changes in market prices. The Master Trust is exposed to market risk from its investing activities. Market risk encompasses a variety of financial risks, such as foreign currency risk, interest rate risk and other price risk. Significant volatility in interest rates, equity values and the value of the Canadian dollar against the currencies in which the Master Trust investments are held can significantly impact the value of these investments. The Master Trust manages market risk by investing across a wide variety of asset classes according to the approved policy asset mix and hedging strategies established in the University of Toronto Pension Master Trust Statement of Investment Policies and Procedures ("SIP&P"). The following are the key components of market risk:

(i) Foreign currency risk

Foreign currency exposure arises from the Master Trust's direct holdings of investments denominated in currencies other than the Canadian dollar. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. To manage foreign currency risk, the currency hedging policy, effective July 1, 2013, is to hedge 65% of developed markets' currency exposures and 0% of emerging markets' currency exposures. Previously, the currency hedging policy was to hedge 75% of developed markets' currency exposures and 0% of emerging markets' currency exposures. The Plan also has an indirect exposure to foreign currency risk to the extent that the Master Trust's direct holdings have underlying investments denominated in foreign currencies.

The following table summarizes the Master Trust's directly held investment holdings and the underlying investments in the UTAM pooled funds by currency exposure, the impact of the currency hedging program and the net currency exposure as at June 30:

	(thousands of dollars)			
	2014 $			2013 $
	Currency Exposure	**Net Currency Hedge**	**Net Currency Exposure**	Net Currency Exposure
United States Dollar	**1,007,221**	**(799,247)**	**207,974**	252,602
Chinese Renminbi	**65,887**		**65,887**	54,974
Euro	**255,164**	**(193,392)**	**61,772**	25,292
South Korean Won	**55,896**		**55,896**	44,039
New Taiwan Dollar	**43,668**		**43,668**	35,887
British Pound Sterling	**78,033**	**(34,991)**	**43,042**	40,667
Japanese Yen	**101,823**	**(61,522)**	**40,301**	37,976
Brazilian Real	**39,096**		**39,096**	34,155
South African Rand	**26,956**		**26,956**	21,681
Indian Rupee	**24,586**		**24,586**	20,479
Russian Ruble	**19,391**		**19,391**	17,436
Mexican Peso	**18,391**		**18,391**	16,381
Swiss Franc	**32,819**	**(14,675)**	**18,144**	15,216
Australian Dollar	**28,579**	**(12,699)**	**15,880**	14,912
Malaysian Ringgit	**14,054**		**14,054**	12,198
Indonesian Rupiah	**8,850**		**8,850**	9,619
Other	**80,314**	**(20,041)**	**60,273**	53,883
Total	**1,900,728**	**(1,136,567)**	**764,161**	707,397

Since all other variables are held constant in assessing foreign currency risk sensitivity, it is possible to extrapolate a 5% absolute change in foreign exchange rates to any absolute percentage change in foreign exchange rates. A 5% absolute change in foreign exchange rates would have the following impact on the fair value of foreign currency denominated assets, net of the currency hedges, of the Master Trust:

	(thousands of dollars)	
	2014	2013
	$	$
	Change in Net Investment Value	Change in Net Investment Value
United States Dollar	**10,399**	12,630
Chinese Renminbi	**3,294**	2,749
Euro	**3,089**	1,265
South Korean Won	**2,795**	2,202
New Taiwan Dollar	**2,183**	1,794
British Pound Sterling	**2,152**	2,033
Japanese Yen	**2,015**	1,899
Brazilian Real	**1,955**	1,708
Other	**10,326**	9,090
Total	**38,208**	35,370

(ii) Interest rate risk

Interest rate risk refers to the effect on the fair value of the Master Trust's assets and liabilities due to fluctuations in interest rates. Among the Master Trust's assets, the most significant interest rate risk relates to its fixed income investments. These investments are in the form of fixed income securities directly held by the Master Trust and direct holdings of the Master Trust where there are underlying fixed income investments.

The following table summarizes the profile of the Master Trust's directly held fixed income securities and the underlying fixed income securities directly held by the UTAM pooled funds which are subject to interest rate risk, based on term to maturity as at June 30:

	(thousands of dollars)			
	2014		2013	
Maturity Range	**Fair Value $**	**Weighted Average Yield**	Fair Value $	Weighted Average Yield
0-5 years	**145,213**	**1.41%**	205,037	1.94%
>5 years-10 years	**101,595**	**2.39%**	160,994	3.03%
>10 years	**115,090**	**3.33%**	107,131	3.66%
	361,898	**2.29%**	473,162	2.70%

As at June 30, 2014, for every 1% increase (decrease) in prevailing market interest rates, the fair value of the direct and indirect fixed income holdings in the Master Trust is estimated to decrease (increase) by approximately $27.5 million (2013 - $30.9 million).

(iii) Other price risk
(thousands of dollars)

Other price risk is the risk that the fair value of an investment will fluctuate because of changes in market prices (other than those arising from foreign currency risk or interest rate risk), whether those changes are caused by factors specific to the individual investment, its issuer, or factors affecting all similar securities traded in the market. The Master Trust's exposure to other price risk is primarily due to its equity investments. These investments are in the form of equity securities directly held by the Master Trust and direct holdings of the Master Trust where there are underlying equity investments.

The fair value of these equity investments subject to other price risk is $1,401,905 (2013 – $1,025,938). Since all other variables are held constant in assessing other price risk sensitivity, it is possible to extrapolate a 10% absolute change in the fair value to any absolute percentage change in fair value. A 10% absolute change in the fair value of these equity investments which are exposed to other price risk would be $140,190 (2013 – $102,594).

g) Credit risk
(thousands of dollars)

Credit risk of financial instruments is the risk of loss arising from the potential failure of a counterparty, debtor or issuer (collectively, the "debtor") to honour its contractual obligations. Credit risk can take the form of an actual default, such as a missed payment of borrowed principal or interest when it comes due, or can be based on an increased likelihood of default which could result in a credit rating downgrade by credit rating agencies. Both scenarios would result in a decrease in the fair value of the obligations issued by the debtor. The Master Trust's investments in non-government-guaranteed securities are exposed to credit risk. The fair value of these investments and other assets as presented in the statement of financial position represents the maximum credit risk exposure at the date of the financial statements. The use of forward foreign exchange contracts to hedge foreign currency risk exposure also exposes the Master Trust to credit risk. The Plan also has an indirect exposure to credit risk to the extent that the Master Trust's direct holdings have underlying investments in non-government-guaranteed securities.

The following table summarizes the fair value of directly held fixed income securities and the underlying fixed income securities directly held by the UTAM Canadian Fixed Income Fund and the UTAM Canadian Credit Fund which were exposed to credit risk, by credit rating, as at June 30:

	2014		2013	
Credit Rating	**Fair Value $**	**% of Fixed Income Securities**	Fair Value $	% of Fixed Income Securities
AAA	**215,915**	**59.66**	188,250	39.78
AA	**84,300**	**23.29**	104,006	21.98
A	**61,683**	**17.05**	135,021	28.54
BAA and other			45,885	9.70
	361,898	**100.00**	473,162	100.00

h) Liquidity risk

Liquidity risk is the risk of the Plan not being able to settle or meet its commitments in a timely manner. These commitments include payment of the Plan's pension obligations and operating expenses, margin requirements associated with synthetic investment strategies, and the Master Trust's future commitments in private investment interests. These liquidity requirements are managed through income and distributions generated from investments, monthly contributions made by the University and Plan members, and having a sufficient amount of assets invested in liquid instruments that can be easily sold and converted to cash.

i) Fair value hierarchy

(thousands of dollars)

The Plan is required to disclose, for each class of financial instruments, the methods and, when a valuation technique is used, the assumptions applied in determining fair values, through a three-level hierarchy, as at the financial statement date. The three levels are defined as follows:

Level 1: Fair value is based on quoted market prices in active markets for identical assets or liabilities. Level 1 assets and liabilities generally include equity securities traded in an active exchange market.

Level 2: Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar (but not identical) assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. This category generally includes mutual and pooled funds, hedge funds, Government of Canada, provincial and other government bonds, Canadian corporate bonds, and certain derivative contracts.

Level 3: Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Financial instruments are classified in this level when the valuation technique is based on at least one significant input that is not observable in the market or due to a lack of liquidity in certain markets. This category generally includes private investment interests (which are comprised of private, externally managed pooled funds with underlying investments in equities, real estate assets and commodities) and securities that have liquidity restrictions.

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Short-term investments	**279,152**	**267**		**279,419**
Government and corporate bonds		**932,888**	**154,745**	**1,087,633**
Canadian equities	**197,889**	**165,195**	**56,566**	**419,650**
United States equities	**83,228**	**251,690**	**231,462**	**566,380**
International equities		**451,498**	**130,000**	**581,498**
Emerging markets equities		**252,405**	**88,952**	**341,357**
Absolute return funds		**259,129**	**47,169**	**306,298**
	560,269	**2,313,072**	**708,894**	**3,582,235**
Derivative-related net receivable *(note 3(d))*	**6,121**	**18,784**		**24,905**
	566,390	**2,331,856**	**708,894**	**3,607,140**
Plan's share of Master Trust	**14,666**	**60,380**	**18,356**	**93,402**

	2013			
	Level 1 $	Level 2 $	Level 3 $	Total $
Short-term investments	230,815	264		231,079
Government and corporate bonds	305	723,535	144,979	868,819
Canadian equities	132,429	117,183	71,120	320,732
United States equities	61,938	130,832	261,759	454,529
International equities		367,487	121,355	488,842
Emerging markets equities		216,069	70,202	286,271
Absolute return funds		239,767	44,276	284,043
	425,487	1,795,137	713,691	2,934,315
Derivative-related net payable *(note 3(d))*	(5,468)	(9,837)		(15,305)
	420,019	1,785,300	713,691	2,919,010
Plan's share of Master Trust	11,819	50,237	20,083	82,139

For the purposes of the tables above, the fair value hierarchy of the underlying investments of the UTAM pooled funds held by the Master Trust has been disclosed, resulting in investments with a fair value of $200,443 and $165,195 (2013 – $229,949 and $976,983) being classified as Level 1 and Level 2 investments, respectively. The Master Trust's investments in the UTAM pooled funds would be considered Level 2 investments.

The following table summarizes the changes in the fair value of financial instruments classified in Level 3 of the Master Trust for the years ended June 30:

	2014 **$**	2013 $
Fair value, beginning of year	**713,691**	608,140
Purchases	**100,738**	161,197
Sales	**(123,764)**	(108,689)
Total realized gains	**11,135**	2,687
Total unrealized gains	**7,094**	50,356
Fair value, end of year	**708,894**	713,691

j) Hedge funds and private investment interests

The Master Trust invests in certain hedge funds and private investment interests which are comprised of externally managed funds with underlying investments in equities, debt, real estate assets and commodities. Because these investment interests are not readily tradable, 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 interests existed. Sensitivity analysis demonstrates that a 10% absolute change in the fair value of investments in hedge funds and private investment interests would result in a change to the total fair value of these investments of the Master Trust of $103.5 million (2013 – $101.8 million).

Refer to note 3(k) for a breakdown of the Master Trust's uncalled commitments related to private investment interests.

k) Uncalled commitments

As at June 30, 2014, approximately 16.6% (2013 – 20.5%) of the Master Trust's investment portfolio is invested in private investment interests managed by third party managers. These private investment interests typically take the form of limited partnerships managed by a General Partner. The legal terms and conditions of these private investment interests, which cover various areas of private equity investments and real asset investments (e.g., real estate and infrastructure), require that investors initially make an unfunded commitment and then remit funds over time (cumulatively up to a maximum of the total committed amount) in response to a series of capital calls issued to the investors by the manager. As at June 30, 2014, the Master Trust had uncalled commitments of approximately $197.3 million (2013 - $192.6 million). The capital committed is called by the manager over a pre-determined investment period, which varies by fund but is generally about three to five years from the date the fund closes. In practice, for a variety of reasons, the total amount committed to a fund is very rarely all called.

4. Employer contributions

The University has made $1.0 million (2013 – $1.1 million) in current service cost contributions and $3.1 million (2013 – $3.1 million) in additional special payments. The special payments were made to fund the unfunded liability, since the actuarial funding valuation as of July 1, 2011 showed the present value of accrued pension benefits exceeded the Plan's actuarial value of assets.

5. Refunds and transfers

(thousands of dollars)

Refunds and transfers consist of refunds of benefits payments upon death of nil (2013 – $1,258).

6. Fees and expenses

(thousands of dollars)

Fees and expenses consist of the following:

	2014 **$**	2013 $
Investment management fees:		
External managers[1]	**702**	633
UTAM[1,2]	**96**	78
Pension records administration	**117**	118
Actuarial and related fees	**80**	86
Administration cost - University of Toronto[2]	**61**	57
External audit fees	**15**	17
Trustee and custodial fees[1]	**10**	9
Transaction fees[1,3]	**3**	29
Other fees	**2**	17
	1,086	1,044

[1] Reflect expenses that are directly charged to the Master Trust and are allocated back to the Plan.

[2] Represent related party transactions.

[3] Transaction fees represent the cost of purchasing and selling investments. The decrease in transaction fees is due to high fees in 2013 as a result of the introduction of the new emerging markets equities asset class after the adoption of the Reference Portfolio in May 2012.

7. Pension obligations

Pension obligations are determined by applying best estimate assumptions agreed to by the University and the projected benefits method pro-rated on service. The pension obligations were determined by Aon Hewitt, a firm of actuaries, using an actuarial funding valuation performed as of July 1, 2013 which was extrapolated to June 30, 2014.

Significant assumptions used in the actuarial valuation are as follows:

	2014 **%**	2013 %
Interest rate	**5.75**	6.00
Consumer Price Index	**2.00**	2.25
Salary escalation rate	**4.00**	4.25

8. Capital management

The funding surpluses or deficits determined periodically in funding valuations prepared by an independent actuary are defined as the Plan's capital. The actuary's funding valuation is used to measure the long-term health of the Plan. A funding valuation is required to be filed with the pension regulator at least every three years. The most recently filed valuation was as of July 1, 2011 which disclosed an unfunded actuarial liability of $40.0 million on a going concern basis and a deficit of $46.2 million on a solvency basis. The next required actuarial funding valuation to be filed with the regulator will be as of July 1, 2014.

The objective of managing the Plan's capital is to ensure the Plan is funded to fully pay the benefits over the long term.

The University negotiates with the various employee groups to change member contribution levels to meet the ongoing funding of the Plan and makes special contributions to eliminate any deficits, all subject to meeting regulatory requirements. Contributions to the Plan have complied with all regulatory funding requirements during the reporting periods. No required contributions were past due as at June 30, 2014. More details on member and employer contributions can be found in the statement of changes in net assets available for benefits and in Note 4 – Employer Contributions.

In addition, the SIP&P provides guidance with respect to the investment of the Plan's assets in order to assist with the management of any funding surpluses or deficits. This guidance includes return objectives, normal risk tolerances, asset allocation and benchmarks for the evaluation of performance. The most recently amended SIP&P was approved by the administrator on June 2, 2014. There were no significant changes to the SIP&P as a result of the latest amendment.

The Plan holds units of the Master Trust, which invests across various asset classes and different geographical regions primarily through a number of segregated and pooled investments including third party managers and UTAM's pooled funds. The Plan's investments expose it to a variety of risks which are discussed in Notes 3(d) through 3(h). UTAM's manager selection and monitoring processes include a review of each third party pooled fund's risk management guidelines and processes. These reviews are generally based on discussions with the fund's manager and material provided by the manager. Reviews occur prior to making an investment and on an on-going basis thereafter to ensure a good understanding of each pooled fund's investment characteristics.

The Master Trust's asset allocation policy is governed and monitored by the University's Pension Advisory Committee ("PAC"). The performance of the Master Trust is prepared by UTAM and is reviewed periodically by the Plan's administrator. This review includes an assessment of investment returns, comparison of returns to benchmarks contained within the SIP&P, ranking of returns in comparison to an appropriate investment universe, and other risk analyses required or requested by the PAC and the University.

The SIP&P permits the following broad categories of assets: Equity, Credit, Rates and Other. Performance is measured against a reference portfolio benchmark that was introduced in May 2012. This reference portfolio benchmark return is made up of the weighted average of each category's benchmark return using the target allocation of the SIP&P to weight the various categories. The reference portfolio represents a shadow portfolio which is believed to be appropriate to the Master Trust's long-term horizon and risk profile. The overall target real return objective of the Master Trust is 4.0% (net of fees) over 10-year periods. The asset mix targets and ranges, along with the benchmark return indices for each asset category, are as follows:

		Asset Category Allocation		
Asset Categories	**Reference Portfolio Benchmark**	**Minimum**	**Target**	**Maximum**
		%	**%**	**%**
Equity				
Canadian	S&P TSX Composite Total Return Index	11.0	16.0	21.0
US	S&P 500 Total Return Index	13.0	18.0	23.0
Europe, Australasia and Far East	MSCI EAFE Total Return Index (net)	11.0	16.0	21.0
Emerging Markets	MSCI Emerging Markets Total Return Index (net)	5.0	10.0	15.0
Total Equity			60.0	
Credit	FTSE TMX Canada All Corporate Bond Total Return Index	10.0	20.0	25.0
Rates	FTSE TMX Canada All Government Bond Total Return Index	10.0	20.0	30.0
Other		0.0	0.0	15.0
			100.0	

The Master Trust's investments fell within the asset mix category ranges as at June 30, 2014.

9. Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2014 financial statements.