University of Toronto Asset Management Corporation

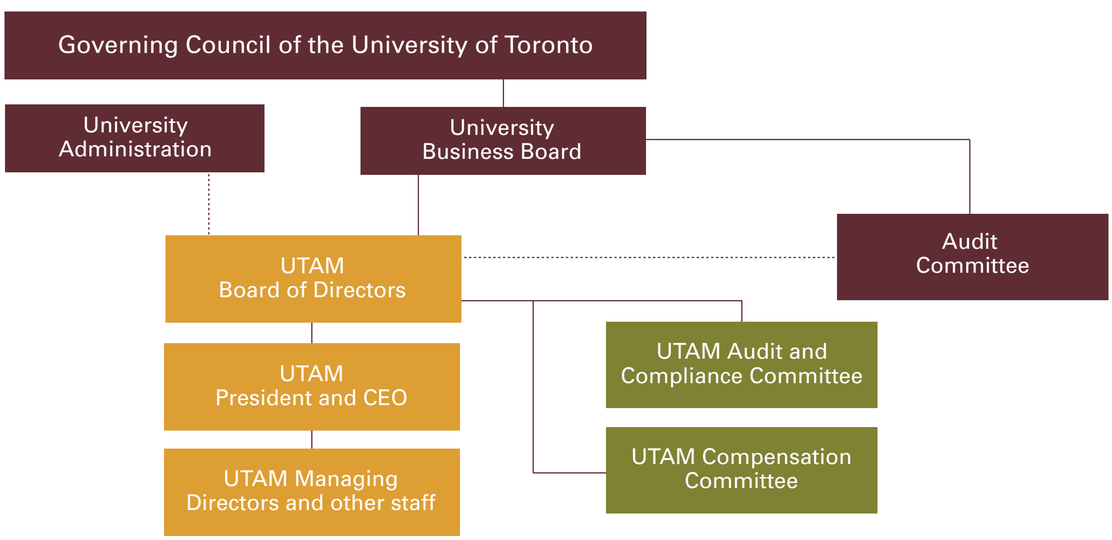
ANNUAL REPORT 09

Our Mission

The mission of UTAM is to deliver consistent superior investment returns through skilled investment management applied with the highest standards of professional conduct.

ORGANIZATION CHART

The chart below provides a schematic representation of the key organizational inter-relationships of the governing bodies involved in oversight of UTAM and its investment activities.

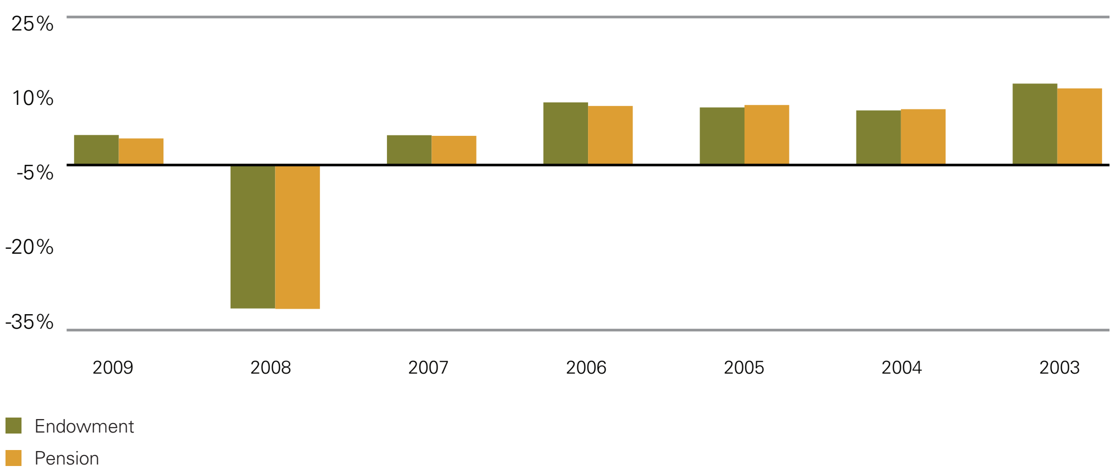


CONTENTS

All figures in this Annual Report are in Canadian dollar terms, unless stated otherwise.

The Report In Brief

ANNUAL RETURNS



	2009			5 - YEAR (2005-2009		7 - YEAR (2003-2009)	
	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	ENDOWMENT	PENSION
University Target Return[1]	5.3%	5.3%	1.8%	5.7%	5.7%	5.8%	5.8%
Reference Portfolio Return[2]	18.2%	18.2%	n.a.	4.8%	4.8%	7.1%	7.1%
Benchmark Portfolio Return[3]	7.9%	7.0%	n.a.	1.7%	1.4%	4.8%	4.4%
Actual Net Return[2]	6.2%	5.4%	2.4%	0.1%	-0.2%	3.8%	3.6%
Assets (December 31; millions)							
2009	$1,627	$2,161	$786				
2008	$1,506	$2,079	$818				

n.a. = not applicable

1 For the Endowment and Pension portfolios, the target return is a 4% real return plus inflation (CPI). For EFIP, the target return is the 365-day Canadian T-bill Index plus 50 basis points.

2 Gross return less fees and costs.

3 Gross return (assumes no fees or costs).

- Calendar year 2009 is best described as a year of transition where UTAM made considerable progress on the objectives of simplifying the overall portfolio structure, reliquifying and restructuring several of the asset class programs for long term performance, building out the infrastructure and the staff needed to better manage the underlying risks in the portfolios and narrowing the focus and efforts of the team to better align with areas of needed core competency.

- Portfolio returns once again exceeded the target levels set by the University as markets rebounded and risk appetite returned.

- Actual performance was still somewhat disappointing since the Endowment and Pension portfolio returns trailed the results of the Benchmark and Reference portfolios – the latter by more than 1000 basis points.

- Virtually all of the performance gap with the Reference Portfolio was caused by the lower exposure to Canadian equities and the offsetting higher exposure to Private Investments and Real Assets where 'short term' results are difficult to interpret and performance data is only available with a delay. The combined impact of the weighting differences and the lagged reporting effect on 'short term' performance was approximately 989 basis points for the Endowment fund and 1050 basis points for the Pension fund.

- The underperformance of the Endowment and Pension portfolios relative to their Benchmark portfolios was mainly concentrated in the first half of the year and also reflected the ongoing restructuring of the portfolios as well as a decision to constrain risk levels within the portfolios. Manager selection was generally a positive contributor to performance.

- As the year progressed, actual performance of the portfolios began to track more similarly to the Benchmark and Reference portfolios. While this might be viewed favorably, it is important to remember that our main objective is 'long term' performance and not 'short term' tracking to the Reference Portfolio.

- Looking ahead, we believe that the University's portfolios are now better positioned, from both a risk and return standpoint, to address an environment that will remain complex and challenging. Similarly, we believe that UTAM as an organization has an improved capability to deliver the long-term performance objective.

President's Message

Looking back, 2009 was a truly extraordinary year. It began with one of the worst starts ever recorded as a craving for safety and liquidity caused several market indexes to move below the lows recorded in the prior 2001-2002 bear market. Then almost as abruptly, markets soared, registering their largest rally in more than 70 years and ignoring the reality that many of the macroeconomic issues that precipitated the 2008 experience were far from being rectified. After the March 2009 low, the winning strategy was to simply add riskier assets across the board.

Managing the University's portfolios through this period of significant volatility was indeed challenging. Nevertheless, we continued to execute on our objectives of simplifying the overall portfolio structure, reliquifying and rebalancing the asset programs, building out the infrastructure and staff needed to better manage the underlying risks in the portfolio and focusing the efforts of our team on areas that align with needed core competencies.

As part of this transitioning, we made a number of changes which reduced the overall complexity and risk within the portfolios (thereby better matching the investment strategy to available resources) and a number of other changes that were designed to strengthen UTAM as an organization going forward.

With respect to the portfolios, we undertook a thorough review of the longer term Policy Target asset mix and the process used, recognizing that due to the illiquid nature of a portion of the existing portfolio and the make-up of the UTAM team there were clear constraints on what we could do and what we could change. Our review incorporated the following considerations: (1) a desire to reduce the overall equity exposure and thus the overall risk of the portfolio from its starting position; (2) a desire to reduce the level of 'alternative assets' generally and the more illiquid 'alternatives', in particular; (3) a desire to reduce somewhat the need to hedge foreign currency exposure; (4) a desire to add modestly to longer term inflation protection; and, (5) a desire to have a better understanding of the risk and return profiles of various Policy Target asset mix alternatives in many different scenarios.

With respect to strengthening the UTAM platform, late in the year we added two experienced investment professionals to the team. This allowed us to reassign and refocus some responsibilities. In further support of improving the foundation, we added a number of components to our risk analytics toolkit and initiated a pilot project with a third party risk system provider (still in pilot mode). We also initiated a revision of our performance attribution framework to better identify certain areas of the portfolio that previously had received limited focus and yet in the current environment were highly likely to impact performance.

Looking at full year performance, we remain disappointed that although all three portfolios outperformed the University's target return, two of the three portfolios trailed the results of the main benchmarks against which they are measured. As this year's report indicates, a portion of this gap reflects some of the fundamental restructuring that was required earlier in the year, some reflects the unique attributes of Private Markets investments and some reflects a conscious de-risking of the portfolio. Regardless, results during the second half of 2009 indicate a much improved tracking with the Benchmark and Reference portfolios.

As we navigate through this new fiscal year, there will continue to be significant crosscurrents regarding the overall outlook and it is likely that markets will exhibit a much choppier pattern than that witnessed over the last 10-12 months. In this environment, active management and a longer term focus will be increasingly important. With the changes implemented over the past year and those that we continue to work on, we believe that UTAM is much better positioned to rise to the challenges and better succeed in fulfilling its original mission.

In closing, I would be remiss if I did not take the opportunity to extend a word of sincere thanks from the UTAM management team to our dedicated volunteer Board of Directors. Through exceptionally difficult times, they provided an extremely useful sounding board and sage counsel on a wide range of issues and remained committed to making UTAM a better organization. Last but certainly not least, I would like to thank the UTAM team. Despite a meaningful increase in work load for a significant portion of the year, their hard work, commitment and professionalism never wavered.

William Moriarty, CFA
President & Chief Executive Officer

Management's Discussion And Analysis

MANDATE

UTAM manages $4.57 billion of assets in three portfolios: (i) the University's $1.63 billion Endowment fund; (ii) the University's $2.16 billion Pension Master Trust fund; and (iii) the University's working capital pool (Expendable Funds Investment Pool; 'EFIP') of approximately $800 million.

The Endowment fund, which is formally called the Long Term Capital Appreciation Pool ('LTCAP'), primarily represents the collective endowment funds of the University. However, it also contains certain other assets invested for the long-term, including assets which back the University's Supplemental Retirement Arrangement. The growth in assets of LTCAP is the net result of endowment contributions, withdrawals to fund endowment projects and investment income earned on LTCAP assets.

The Pension Master Trust fund ('Pension') consists of the assets of the University of Toronto Pension Plan and the OISE Pension Plan. The change in assets of the Pension fund is the net result of pension contributions, pension payments to retirees and investment income earned on the Pension assets.

EFIP consists of the University's expendable funds that are pooled for investment for the short and medium term. The nature of these assets, which generally represent the University's daily working capital, means that the total assets in EFIP can fluctuate significantly over time. The change in assets of EFIP reflects the combined effect of many factors, such as student tuition fees, University expenses for salaries, expenses for maintaining facilities, government grants and investment income earned on EFIP assets.

The University establishes a return objective and risk tolerance for each of the three portfolios that UTAM manages. The Endowment and Pension portfolios have the same target return and risk tolerance. EFIP's return target and risk tolerance are unique to that portfolio. Our primary objective is to exceed the target return for each portfolio while managing the assets within the applicable risk tolerance.

The target return and risk tolerance for the Endowment and Pension portfolios are stated as a 4% real return with a 10% risk tolerance (measured by the annual standard deviation of nominal returns) over a rolling ten-year period. The target return and risk tolerance for EFIP are stated as the 365-day Canadian T-bill Index return plus 50 basis points (i.e., 0.50%), with minimal risk.

INVESTMENT BELIEFS

A number of fundamental guiding principles, or investment beliefs, provide a foundation for the investment strategies that UTAM develops and uses to construct the portfolios.

1. **Asset allocation** is one of the most important decisions any investor makes. More specifically, asset allocation decisions anchor the portfolio's risk and return objectives and are the backbone of any investment program. This, in turn, reflects the fact that more than 90% of the variability of investment returns (and a large component of differences in the risk of a portfolio) are attributable to such decisions.

2. A **longer term focus** expands the investment opportunity set, allowing a portfolio to benefit from the periodic irrationality in markets and to exploit more illiquid assets, including alternatives. The ability of investment strategies to create value varies over time. Some strategies are suited to short periods of time, or certain parts of a typical business cycle. Other strategies require a long period of time and more patience to allow the value to emerge. The time perspective of the Endowment and Pension funds is relatively long term, so the investment strategies for these portfolios can encompass strategies which take time to show the value they can add. The time perspective of the EFIP portfolio is quite short, so the suitable investment strategies are more limited.

3. Designing and implementing an investment program to achieve a desired level of return must incorporate a thorough **analysis of the risks** assumed, utilizing both judgment and quantitative methods. This focus must encompass not only 'market' risk but also other dimensions of risk such as liquidity risk, counterparty credit risk, etc. Moreover, the risk environment is not static; it changes over time and a given asset allocation necessarily will have higher risk in times when macroeconomic risk is higher.

4. The principle of **diversification** has a long and distinguished history and represents one of the key risk mitigants that should accompany any portfolio. There are many dimensions to diversification. These include making investments which span a range of asset classes, geographies, investment styles, investment managers and individual securities. Diversification cannot protect against loss during a broad-based systemic event but it will protect against the worst outcome.

5. An **equity orientation** combined with a **'value' style** bias will create portfolios with higher levels of expected return. Over long periods, equity investments have exhibited consistently strong performance compared to less risky assets such as bonds and cash. Equity investments are often classified as 'value' or 'growth'. We believe that 'value' oriented investments normally have a built–in margin of safety and are more likely to provide superior returns over longer periods of time.

6. An **active management approach** can add value (after fees) although, at times, some markets will be relatively efficient and can be better accessed through a more passive approach. More specifically, we believe that active (rather than passive) investment strategies have a greater probability of producing market outperformance in less developed, or severely dislocated, markets.

All of these principles, or investment beliefs, are reflected in the investment strategies that we develop and implement. As implied above, the strategies are not static, but continually evolve over time in response to our view on the potential for each strategy as the macroeconomic and market environment changes.

The day-to-day management of the underlying assets in each portfolio is undertaken primarily through UTAM's selection of what we believe are among the best-of-class third party investment managers. This approach should provide several advantages to the University including access to specialized investment expertise, enhanced diversification of assets and some additional level of risk control. At the same time, it should allow UTAM to maintain a relatively small staff complement that is able to concentrate on areas in which UTAM can add value. These include investment strategy, portfolio construction, risk oversight and finding the best third party investment managers available.

We typically develop a three to five year outlook, but update the underlying investment strategies each year and present them to our Board for approval.

PERFORMANCE ASSESSMENT

We use three measures to assess our investment performance as follows:

- In comparison to the University's target return and risk tolerance for each portfolio, since this is the overriding objective. However, this is an 'always positive' fixed target return (4% real return, in the case of the Endowment and Pension portfolios) with a ten-year time frame. Therefore, the assessment is mainly relevant over long periods of time.

- In comparison to the return achieved by the Reference Portfolio established by the University for the Endowment and Pension portfolios. The Reference Portfolio was designed to represent a relatively conventional portfolio (i.e., a balance of equities and bonds) that could be invested passively at relatively low cost yet be expected to deliver the University's return objective over the longer term. The advantage of the Reference Portfolio is that its risk characteristics are more easily measurable than those of a Peer Universe and its return will vary each year based on the market return for each asset class included in that portfolio. The Reference Portfolio was formally introduced at the start of 2009.

- In comparison to the return earned by the Benchmark Portfolio. This portfolio is based upon the Policy Target asset mix developed by UTAM and approved by the UTAM Board. Like the Reference Portfolio return, the Benchmark Portfolio return will vary each year based on the market returns for each asset class. UTAM has the ability to vary the asset mix from the Benchmark Portfolio, but only within established limits approved by the UTAM Board.

UTAM strives to add value to the portfolios we manage by generating long term returns which exceed the University's target return, the Reference Portfolio return and the Benchmark Portfolio return, while not exceeding the risk tolerance for the portfolios. This applies to the Endowment and Pension portfolios we manage. For EFIP, there is only a University target return (no Reference Portfolio or Benchmark Portfolio) and a 'minimal' risk tolerance.

The University prepares a comprehensive Annual Report each fiscal year on the status and activity of each of the three portfolios that UTAM manages. The fiscal year-end of the University (re: Endowment fund and EFIP) is April 30 and the fiscal year-end of the Pension fund is June 30. UTAM reports on the assets and investment performance in detail each year on a calendar year basis, which is the reporting convention used in the investment management industry.

ASSET MIX

Reference Portfolio Asset Mix

The Reference Portfolio asset mix, established by the University, is shown in Table 1 below. This asset mix should not change over time, unless the University changes its return objective and/or its risk tolerance.

	TABLE 1
Canadian Equity	30%
US Equity	15%[1]
International Equity	15%[1]
Fixed Income - Nominal Bonds	35%
Fixed Income - Real Return Bonds	5%
Total	100%

1 The asset mix weight is based 50% on the local index return and 50% on the local index return translated to Canadian dollars. The outcome is approximately equivalent to a foreign investment exposure that is 50% hedged to the Canadian dollar.

BENCHMARK PORTFOLIO ASSET MIX

The Policy Target asset mix and the Benchmark Portfolio asset mix will generally be quite different from that of the Reference Portfolio. The Policy Target asset mix is developed by UTAM and approved by the UTAM Board. This asset mix reflects UTAM management and the Board's assessment of the best mix of assets for the portfolios, given their expectations regarding the long-term risk and return characteristics of many different asset classes. The Policy Target asset mix for 2009 is shown in Table 2 below.

TABLE 2

	Policy Target	Benchmark Portfolio	
	2009	**ENDOWMENT (2009 AVERAGE)[1]**	**PENSION (2009 AVERAGE)[1]**
Canadian Equity	10%	11.7%	11.1%
US Equity	15%	17.5%	16.7%
International Equity	15%	17.5%	16.7%
Fixed Income	15%	17.5%	16.7%
Hedge Funds	15%	16.8%	18.0%
Private Investments[2]	15%	13.5%	14.8%
Real Assets[3]	15%	5.4%	6.0%
Cash	0%	0%	0%
Total	100%	100%	100%

1 Weights are based on the average of month-end weights.
2 Includes venture, buyout and distressed debt investments.
3 Includes real estate, infrastructure and commodity investments.

The Policy Target asset mix contains an allocation to Alternative Assets (hedge funds, private investments and real assets) that is not contained in the Reference Portfolio. This more broadly diversified portfolio was adopted to reflect the fact that there is considerable academic analysis and also real world experience to support the belief that, properly constructed, such a portfolio should generate returns that surpass conventional equity-and-bond portfolios, yet with a similar level of risk.

The Benchmark Portfolio asset mix weights are directly linked to the Policy Target asset mix. UTAM recognized a number of years ago that it would take time to build up Alternative Assets allocations to the Policy Target weights. Therefore, we use an asset mix adjustment mechanism to take into account the intention for a gradual build-up in Alternative Assets exposures. When Alternative Assets are considered to be at/around the Policy Target weights on a reasonably stabilized basis, the Benchmark Portfolio asset class weights will be fixed at the Policy Target weights.

The evolution of the Policy Target asset mix is shown in Table 3 below, followed by the Benchmark Portfolio asset mix in Table 4.

TABLE 3

	Endowment					Pension				
(POLICY TARGET)	**2005**	**2006**	**2007**	**2008**	**2009**	**2005**	**2006**	**2007**	**2008**	**2009**
Canadian Equity	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
US Equity	20%	20%	15%	15%	15%	15%	20%	15%	15%	15%
International Equity	20%	20%	15%	15%	15%	15%	20%	15%	15%	15%
Fixed Income	20%	20%	15%	15%	15%	30%	20%	15%	15%	15%
Hedge Funds	10%	10%	15%	15%	15%	10%	10%	15%	15%	15%
Private Investments	10%	10%	15%	15%	15%	10%	10%	15%	15%	15%
Real Assets	10%	10%	15%	15%	15%	10%	10%	15%	15%	15%
Cash	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

The Policy Target asset mix has been the same for the Endowment and Pension portfolios since 2006. As a result, the Benchmark asset mix for these portfolios has become more closely aligned. This has contributed to simplifying the management of the portfolios. The Policy Target for Alternative Assets was increased to 45% in 2007 for both portfolios. Following a thorough asset mix study and a review of the Private Investments portfolio, this weight was decreased to 42.5% for 2010.

TABLE 4

	Endowment[1]					Pension[1]				
(BENCHMARK PORTFOLIO)	**2005**	**2006**	**2007**	**2008**	**2009**	**2005**	**2006**	**2007**	**2008**	**2009**
Canadian Equity	12.8%	13.2%	15.2%	13.8%	11.7%	12.8%	13.4%	15.3%	13.7%	11.1%
US Equity	25.4%	26.7%	23.3%	20.7%	17.5%	19.0%	26.6%	23.5%	20.6%	16.7%
International Equity	25.4%	26.7%	23.3%	20.7%	17.5%	19.0%	26.6%	23.5%	20.6%	16.7%
Fixed Income	25.4%	26.7%	23.3%	20.7%	17.5%	38.1%	26.6%	23.5%	20.6%	16.7%
Hedge Funds	11.1%	6.7%	6.0%	10.2%	16.8%	11.1%	6.8%	6.2%	10.5%	18.0%
Private Investments	0.0%	0.0%	4.8%	9.2%	13.5%	0.0%	0.0%	4.3%	9.4%	14.8%
Real Assets	0.0%	0.0%	4.1%	4.7%	5.4%	0.0%	0.0%	3.7%	4.6%	6.0%
Cash	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

1 Weights are based on the average of month-end weights.

In recent years, the average Benchmark Portfolio weights in Alternative Assets increased due to additional investments being made in these areas as well as, more recently, the so-called 'denominator' effect. There was a corresponding decrease in Public Markets asset class weights. Time-weighted returns for Private Investments and Real Assets were calculated starting in 2007, at which time these assets were included in the Benchmark Portfolio.

ACTUAL PORTFOLIO ASSET MIX

The actual asset mix for the Endowment fund and the Pension fund at the end of 2009 and the end of 2008 is shown in Table 5 below. The weights are shown on an exposures basis, which means that the asset weight includes the dollar value of any index futures positions used to maintain an asset class at the desired weight. The cash underlying the index futures amounts are deducted in the Cash section (note: this offset is required in order to balance back to the actual portfolio values as recorded by the custodian). We believe that the presentation on this exposures basis provides a more accurate representation of the actual portfolio exposures.

TABLE 5

	Endowment		Pension	
(AS AT DECEMBER 31)	**2008**	**2009**	**2008**	**2009**
Canadian Equity[1,2]	9.4%	12.8%	9.2%	12.2%
US Equity[1,2]	14.9%	18.5%	14.7%	17.7%
International Equity[1,2]	15.9%	18.6%	15.7%	17.5%
Fixed Income - Nominal Bonds[1]	11.3%	18.6%	10.3%	17.6%
Fixed Income - Real Return Bonds[2]	4.2%	0.0%	4.6%	0.0%
Hedge Funds	23.0%	12.5%	23.2%	14.0%
Private Investments	14.8%	13.1%	15.8%	14.7%
Real Assets	6.4%	4.9%	7.0%	5.5%
Cash (including notional offsets)[3]	0.1%	0.9%	-0.5%	0.7%
Total	100.0%	100.0%	100.0%	100.0%
Cash (actual)[4]	9.7%	22.9%	10.3%	18.4%
Total Hedge Funds[5]	31.2%	15.5%	33.1%	17.1%
Total Alternative Assets[6]	52.4%	33.5%	55.9%	37.3%
Portfolio Value (millions)	$1,506	$1,627	$2,079	$2,161

1 Includes the dollar value of index futures positions which are used to maintain the asset class at approximately the desired weight. The offset to balance to the total portfolio value is included in Cash.

2 Includes Enhanced Index platform holdings (applicable to 2008 Canadian Equity, US Equity, International Equity and Real Return Bonds and 2009 US Equity).

3 Includes mark-to-market value of foreign currency hedging contracts and offset to notional amount of index futures exposures (see footnote 1).

4 Includes the cash backing the dollar value of index futures (see footnotes 1 and 3).

5 Hedge funds are used for the Enhanced Index platforms (see footnote 2) and for the separate Hedge Funds allocation. The weight shown is the combined total of all hedge funds.

6 Combined weight of Total Hedge Funds, Private Investments and Real Assets.

The changes in actual asset weights from the prior year are a function of several factors, including the differing performance of various assets classes and foreign exchange rates. However, they also reflect a restructuring of the portfolios that began in late 2008 and which continues. The more significant changes are briefly noted below.

First, as was implied in the 2008 Annual Report, we launched a thorough review of our hedge fund portfolio and its use both within the 'enhanced index' strategy and as a separate allocation. This review led to a decision to eliminate the 'enhanced index' strategy within the Canadian Equity, International Equity and Fixed Income programs and to reduce the total commitment to hedge fund investments within the overall portfolio. Implementation of this decision reduced the weight of hedge funds and alternative assets in the portfolio considerably. This, in turn, contributed to an increase in the weight of each of the public markets asset classes.

Second, we suspended making any new commitments in the Private Investments and Real Assets areas, pending a thorough review of the strategies being pursued and the status of uncalled commitments. In addition, since a large percentage of these investments are denominated in foreign currencies and the Canadian dollar rose in 2009, this contributed to a decline in the weight of Private Investments.

Third, we significantly restructured the Fixed Income portfolio in 2009 when liquidity in the portfolio allowed us to implement. This involved the unwinding of the 'enhanced index' part of the portfolio and a move to more conventional active management in order to capitalize on the elevated level of corporate spreads.

Fourth, the restructuring of the portfolios led to a greater use of index futures in order to maintain public markets asset classes at the desired weight. This is evident in the increase in the level of 'actual' cash in Table 5.

Lastly, we maintained an underweight position in Canadian, US and International equity for most of the year. The offsetting net overweight was in Cash (not evident in Table 5). This was initiated in February 2009 in response to the significant increase in the volatility in capital markets, the need to maintain liquidity given the sizeable uncalled commitments in the Private Investments program and the need to reduce the level of 'market' risk in the overall portfolios. We eliminated this equity underweight in mid-December of 2009, following a review of asset mix and risk within the portfolio.

The impact on investment performance of UTAM's decisions on asset mix is discussed more fully in the Investment Performance section of this Annual Report.

INVESTMENT PERFORMANCE

Table 6 below summarizes the performance of the Reference Portfolio, the Benchmark Portfolio, the Endowment fund, the Pension fund and EFIP for 2009 and the six-year period prior to 2009 (the latter period covers the most significant period of build-up in Alternative Assets and significant changes in investment strategy).

TABLE 6

	2009			6 - Year (2003-2008)		
	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP
University Target Return[1]	5.3%	5.3%	1.8%	5.9%	5.9%	4.3%
Reference Portfolio Return[2,3]	18.2%	18.2%	n.a.	5.3%	5.3%	n.a.
Benchmark Portfolio Return[4]	7.9%	7.0%	n.a.	4.3%	4.0%	n.a.
Actual Net Return[3]	6.2%	5.4%	2.4%	3.5%	3.3%	3.3%

n.a. = not applicable

1 For the Endowment and Pension portfolios, the target return is a 4% real return plus inflation (CPI). For EFIP, the target return is the 365-day Canadian T-bill Index plus 50 basis points.

2 The foreign currency hedging ratio for the Reference Portfolio is equivalent to 50%. The policy hedging ratio for the Endowment and Pension portfolios was 100% in 2008 and was changed to 50% for 2009.

3 Gross return less fees and costs.

4 Gross return (assumes no fees or costs).

Compared to the University Target Return, all three portfolios outperformed in 2009 as a result of the much improved capital markets environment. However, none of the portfolios were able to exceed the Target Return over the prior six years – a fact which suggests that the target return was aggressive relative to what was actually achievable in capital markets.

Investment performance for 2009 is discussed in greater detail below.

BENCHMARK PORTFOLIO RETURN VERSUS REFERENCE PORTFOLIO RETURN

TABLE 7

(VALUE ADDED; BASIS POINTS)	ENDOWMENT	PENSION
Reference Portfolio Return	1819[2]	1819[2]
Costs included in Reference Portfolio	18	18
Public Equity - Canadian underweight plus Foreign overweight	-238	-249
Fixed Income underweight	218	224
Alternative Assets[1] overweight	-1029	-1109
Total Value Added	-1031	-1117
Benchmark Portfolio Return	788	702

1 Includes hedge funds, venture, buyout, distressed debt, real estate, infrastructure and commodity investments.
2 1,819 basis points = 18.19%.

The Reference Portfolio represented a high standard in 2009 as it substantially outperformed the 15.5% median return for Canadian pension funds with assets greater than $1 billion (RBC Dexia Investor Services data). Table 7 indicates that the Benchmark Portfolios underperformed the Reference Portfolio by more than 1000 basis points in 2009. The primary contributors were the lower exposure to Canadian Equity and the over allocation to Alternative Assets. Within the public markets equity groupings in the portfolio, Canadian equity meaningfully outperformed both U.S. and International equities, reflecting the much heavier weighting of the energy and materials sectors in Canada. Within Alternative Assets, the major factor was the exposure to Private Investments and Real Assets and the lagged reporting that is a reality of investing in this area (see Private Investments section for further detail). It is worth pointing out that the Benchmark Portfolio was constructed based on a time horizon greater than one year and that diversification into foreign markets and Alternative Assets has added value in prior years and is expected to do so over longer periods of time.

ACTUAL PORTFOLIO RETURN VERSUS BENCHMARK PORTFOLIO RETURN

UTAM's investment principles and beliefs also have a significant influence on the positioning of the portfolios around the Benchmark Portfolio asset mix, and the portfolio construction and manager selection within each asset class. The table below summarizes the impact of the key items which explain the difference in performance between the actual portfolio return and the Benchmark Portfolio return in 2009.

TABLE 8

(VALUE ADDED; BASIS POINTS)	ENDOWMENT	PENSION
BENCHMARK PORTFOLIO RETURN	788[2]	702
Portfolio Asset Mix[1]	-279	-283
Manager Selection[3]		
Public Equity	-50	-51
Fixed Income	5	-17
Hedge Funds	178	190
Other	0	-1
Miscellaneous	-26	3
TOTAL VALUE ADDED	-173	-158
ACTUAL PORTFOLIO RETURN	615	545

1 Impact arises from differences between the actual asset class weights and the Benchmark Portfolio weights.
2 788 basis points = 7.88%.
3 Manager Selection includes impact of style tilts.

Table 8 indicates that an additional 160-170 basis points of value was eroded in 2009 by a combination of the asset mix decisions made by UTAM and manager selection in Public Equity and Fixed Income (pension only). A more granular analysis of this cost indicates that it was concentrated in the first half of 2009 and that the primary factors were the decision to maintain a cash reserve (in order to reduce risk), the costs associated with restructuring the various 'enhanced index' platforms and the Fixed Income portfolio and delays in the implementation of desired changes.

As noted previously, a 6% cash reserve was initiated in February 2009 and eliminated in December. The resulting equity underweight position cost the portfolios approximately 245 basis points of performance in 2009 (the cash overweight in 2008 added 310 basis points of value). On a positive note, it is worth noting that the selections within the hedge fund portfolio added 180-190 basis points to performance in 2009.

INVESTMENT RETURNS BY ASSET CLASS – ENDOWMENT FUND AND PENSION FUND

Table 9 below shows the asset class level returns (excluding any index futures positions) and the corresponding market benchmark returns for 2009 and for the six-year period prior to 2009. An examination of this table indicates that most asset classes posted positive returns in 2009 and, within the more liquid asset classes; all but one of the UTAM sub-portfolios outperformed its asset class benchmark. UTAM only began calculating time-weighted returns for Private Investments and Real Assets in 2007, so six-year results are not available for these asset classes. In addition, we have not yet established a methodology for calculating value added for these two asset classes. In the interim, the benchmark return has been set equal to the actual return.

TABLE 9

	ENDOWMENT[1]		PENSION[1]	
	2009	**6 - Year (2003-2008)**	**2009**	**6 - Year (2003-2008)**
Canadian Equity	34.2%	7.4%	36.5%	7.1%
US Equity (USD)	28.8%	1.3%	29.2%	0.5%
International Equity[2]	15.5%	0.8%	16.3%	0.2%
Fixed Income	6.4%	5.3%	6.5%	4.6%
Hedge Funds (USD)	15.1%	2.1%	15.2%	2.9%
Private Investments (USD)[3]	-0.3%	n.a.	-0.1%	n.a.
Real Assets (USD)[3]	-16.6%	n.a.	-16.7%	n.a.
Currency Overlay	4.2%	0.9%	4.7%	-1.2%
Total Portfolio	6.2%	3.5%	5.4%	3.3%

1 Returns are in Canadian dollar terms unless noted otherwise.
2 Figures are weighted composite of hedged and unhedged where appropriate.
3 Calculation of time-weighted returns commenced on January 1, 2007; therefore, 6-year returns are not available.

TABLE 9 (CONTINUED)

MARKET BENCHMARKS[1]		2009	6 - Year (2003-2008)
Canadian Equity	S&P/TSX Composite Index	35.1%	7.6%
US Equity (USD)	Russell 3000 Index (USD)	28.3%	2.9%
International Equity - Endowment	MSCI EAFE Index[2]	13.4%	1.9%
International Equity - Pension	MSCI EAFE Index[2]	13.8%	1.7%
Fixed Income - Endowment	Dex Universe[3]	4.6%	6.2%
Fixed Income - Pension	Dex Universe[3]	4.2%	5.9%
Hedge Funds (USD)	HFRI FoF Conservative True -up Index (USD)	6.0%[5]	2.8%
Private Investments (USD)	Benchmark = actual return	see actual results	n.a.[4]
Real Assets (USD)	Benchmark = actual return	see actual results	n.a.[4]
Total Portfolio - Endowment	Weighted roll-up of asset classes	7.9%	4.3%
Total Portfolio - Pension	Weighted roll-up of asset classes	7.0%	4.0%

1 Returns are in Canadian dollar terms unless noted otherwise.
2 Figures are weighted composite of hedged and unhedged where appropriate.
3 Figures are weighted composite of Dex Universe, Long and RRB where appropriate.
4 Calculation of time-weighted returns commenced on January 1, 2007; therefore, 6-year returns are not available.
5 Includes adjustments for 2008 by the index service provider after the UTAM cut-off date for 2008 reporting.

Public Equities

All areas of public equity posted solid returns; in fact, calendar year 2009, despite a rocky start, turned out to be the best year for global equities since 1999 and only a handful of countries returned less than 20% in local currency terms.

Our active public equity manager portfolios produced returns close to the market benchmarks; the U.S. and International pools were able to outperform in 2009. The slight underperformance of the active Canadian pool is perhaps not surprising given that 67% of Canadian equity managers in the Mellon Analytical Solutions Peer Universe failed to beat the benchmark return in 2009.The bias in our manager line-up is generally towards a 'value' style of investment, which is consistent with our expectation that this style will outperform 'growth' over longer periods of time. This also did not aid performance as 'growth' stocks substantially outperformed 'value' in the U.S.

During the year, we rebalanced a number of mandates, as we continued to evolve our overall manager line-up. Early in 2010 we moved the bulk of the U.S. Equity portfolio to an index based strategy and reduced exposure by 2.5% reflecting our view that when combined with the Private Equity portfolio we were over exposed to U.S. equities. These funds were redeployed to Canadian equities.

Public Fixed Income

Fixed income within the UTAM portfolios outperformed the benchmark index in 2009 due to the decision to introduce active strategies and capitalize on the cheapness of corporate bonds compared to government bonds. The margin of outperformance would have been more significant had we had the liquid resources available to implement this change earlier in the year. Transition costs associated with this restructuring also detracted from performance.

Our fixed income holdings had been primarily passively invested for a number of years, and were comprised of real return bonds and nominal bonds. We wound up the Enhanced Index platform in early February 2009 and the balance of the indexed positions over the next few months. Over the short/medium term, we expect active investment strategies to provide superior return opportunities. Consistent with this, we funded three active fixed income mandates at the end of the second quarter of 2009 and continue to explore additional opportunities. This structure has been integrated with our work on liquidity and risk management for the portfolios.

Hedge Funds

Hedge funds had a better year in 2009, again producing returns part way between those of equity and fixed income investments. In 2008, the index return was initially reported as a loss of 17% (USD) but subsequently adjusted to a loss of almost 20% (USD) by the index provider after our cut-off reporting date. The effect of this revision was to reduce the benchmark index return calculated for 2009. Nevertheless, our holdings outperformed both benchmark measures in 2009.

At the beginning of 2009, the combined weight of hedge funds in the Enhanced Index platforms and in the separate Hedge Funds category was 31.2% ($470 million) in the Endowment fund, and 33.1% ($686 million) in the Pension fund. During the year, we received redemption proceeds of approximately US$443 million in both portfolios, a small portion of which was reinvested into direct hedge funds. At the end of 2009, the total weight of hedge funds was 15.5% ($253 million) in the Endowment fund and 17.1% ($369 million) in the Pension fund (see Table 5 above), levels which were slightly below the Policy Target weight of 17.5% adopted for 2010. In terms of performance, direct hedge fund investments (+28.8%) significantly outperformed the fund of funds portfolio (+12.6%).

Hedge funds' access to a range of investment strategies that can provide diversification in the face of significant market volatility means that they should continue to represent an important part of the portfolios. Consequently, we developed a fulsome set of guidelines for the hedge fund portfolio going forward and continued our shift away from fund of funds investments toward direct fund investments. This will result in more transparency regarding the underlying strategies and investments, more control over the liquidity of the portfolio, more control over the underlying strategies used and lower costs.

Private Investments

We suspended further commitments to our Private Investments program in early 2009 and initiated a thorough review of the strategy in this area focusing on how it could complement the balance of the portfolio and whether UTAM has the appropriate resources to effectively manage all aspects of the program going forward. While we reduced the Policy Target weight to 10% for 2010, this is not meant to imply that Private Equity investments do not offer the potential for strong equity returns. Rather, it reflects the overall size of the previous commitments and the reality that the present portfolio has a higher than desired concentration to certain vintage years and to the large 'buyout' area. On a positive note, the portfolio also has a solid allocation to the distressed / restructuring segment that is performing well and should continue to do so over the next several years.

The nature of private funds is that it takes many years to fully develop an investment program and achieve a reasonably stabilized invested base around a target level. Moreover, investments in private equity have a number of features that set them apart from their public counterparts – limited liquidity, multi-period cash flows, negative cash flows in the early years as investments are made and poorer ones culled from the portfolio, management fees based on committed capital, valuation constraints, etc. Over and above the operational issues that arise, these features also clearly impact performance statistics, especially for relatively young programs like that of the UTAM portfolios. More specifically in the early years of a fund's life, performance may well appear poor, even though the returns on the underlying investments may be quite attractive over the entire life of a fund.

As implied above, the calculation and interpretation of performance for this type of investment program is complex. This is further complicated by the fact that valuations are only available with a lag (generally one quarter). Consequently, we have not yet established a methodology for calculating value added and there is no standard industry practice. For now, we set the benchmark return equal to the actual return, such that no 'value added' is measured but the performance is included in the total portfolio return. We intend to develop a 'value-add' measure in the current fiscal year.

Performance in 2009 showed a loss of about 0.3% (USD) in the Endowment fund and 0.1% (USD) in the Pension fund. On a local currency basis, the returns in 2009 were a loss of about 1.1% in each of the Endowment and Pension portfolios.

As noted above, values for these private funds are typically reported on a one quarter lag basis. Consequently, the reported returns do not yet reflect fourth quarter 2009 valuation updates Instead, they encompass two full quarters when equity markets were literally in free fall (Q4/08 and Q1/09) and thus are not directly comparable to Public Markets returns.

Real Assets

We also suspended making new commitments to our private real estate and private commodity funds investments program in 2009, pending a complete strategy review. Since Real Estate was the asset class with the largest discrepancy between actual and Policy Target allocations the review of the Real Estate strategy was prioritized and completed in Q4. A new strategy was approved, in principle, by the Board and is now in the process of being further developed. Generally the strategy calls for a redirection of investment activity toward a 'core' real estate portfolio which provides relatively steady income combined with inflation protection and away from more risky strategies. With respect to Commodities, we intend to undertake a full strategy review in 2010.

The commentary above for Private Investments performance calculations applies equally to Real Assets. Performance in 2009 showed a loss of 16.6% (USD) in the Endowment fund and 16.7% (USD) in the Pension fund. On a local currency basis, the returns in 2009 were a loss of 18.0% in both portfolios, reflecting mainly the real estate component of the investment pool.

Foreign Currency

The UTAM portfolios contain a significant exposure to foreign markets and thus to foreign exchange. The foreign currency hedging policy chosen for the Endowment and Pension portfolios is an important consideration and has varied over the years. During 2007 and 2008, a 100% foreign currency hedging policy was in place. Implementation of this policy was through a currency overlay program at the total portfolio level and resulted in significant liquidity issues in 2008.

As 2008 unfolded and we reassessed risks in various parts of the portfolios, we reconsidered the extent of non-Canadian investment exposures and how the underlying exposures interacted with currency exchange rate movements over short, medium and long periods of time. In a world of increased market risks and volatility, this became a more significant area of investigation since we realized we would be moving closer to the University's risk target more quickly than earlier anticipated. We therefore updated and expanded the earlier analysis on foreign currency hedging. The results showed a negative correlation between the market index returns and exchange rate movements over most time periods (particularly for the US dollar, which is the primary currency exposure in the portfolios). Simply put, this meant that not fully hedging should reduce portfolio risk from the combined interaction of underlying securities exposures and currency exposure. The hedging ratio across which this occurs indicated little difference between about 40% and 60% hedging. Therefore, we implemented a 50% hedging policy for the Endowment and Pension portfolios, subsequent to Board approval. This decision did reduce returns in 2009, but it also reduced expected risk in the portfolios considerably. Over the longer term, the performance impact should wash out but the risk reduction should remain.

We also consolidated the foreign currency hedging overlay strategy with one provider in 2009 (previously there were two) and with the aid of a newly developed performance analysis framework were able to identify a noticeable amount of leakage that arose due to the manner in which the hedging program was being implemented. This has resulted in a number of operational changes to the program.

INVESTMENT PERFORMANCE AND ASSET MIX - EFIP

The University set the target return for EFIP as the 365-day Canadian T-bill Index return plus 50 basis points. There is no Reference Portfolio or Benchmark Portfolio for EFIP. There is also no multi-year performance assessment. The target is essentially a relatively stable, always positive, return. However, minimal risk and liquidity are the overriding requirements.

The total size of the EFIP portfolio can fluctuate widely during the year, given the nature of the use of the funds by the University. To accommodate this situation, the investment strategy is framed around an assumed $600 million portfolio and contains various asset classes. UTAM has a high degree of flexibility to position the portfolio around the single-point target weight for each asset class.

UTAM monitors the performance of each asset class in EFIP versus an appropriate market index benchmark return. However, unlike the Endowment and Pension portfolios, the asset class level returns and their market benchmark returns are not weighted and rolled up to derive a Benchmark Portfolio return and calculate value added. Rather, the total portfolio return is simply compared to the University target return to calculate value added.

The average asset mix and 2009 investment performance for EFIP are summarized in Table 10 below. At the end of 2009, the EFIP portfolio had a market value of $786 million (2008; $818 million).

TABLE 10

	ASSET MIX (2009 AVERAGE)[1]	ACTUAL RETURN
Cash	58.1%	1.1%
Short-Term Bonds	31.8%	3.5%
Medium-Term Bonds[2]	2.8%	0.8%
Hedge Funds (USD)	7.3%	9.7%
Currency Overlay[3]	n.a	1.5%
Total	100%	2.4%

1 Weights are based on the average of average monthly weights.
2 Partial year return. Performance starts from September 1, 2009.
3 Foreign currency exposures are 100% hedged to the Canadian dollar.

EFIP generated a net return of 2.4% in 2009, which was 53 basis points above the 1.8% University target return. The primary reasons for the above target performance were the allocations to short-term bonds and hedge funds. We continue to reduce the hedge fund allocation and redemptions are pending with a number of hedge funds in this portfolio.

While recognizing that protection of capital and liquidity are key requirements, in mid-2009, corporate credit exposure in EFIP was increased as the yield pick-up on quality corporate securities was extremely attractive. The duration of the portfolio was also increased modestly to capitalize on market conditions and the steepness of the yield curve.

RISK MANAGEMENT

University Risk Targets

The University establishes the risk target for each portfolio. For the Endowment and Pension portfolios, the risk tolerance is specified as a 10% annual standard deviation of nominal returns over a rolling ten-year period. There are many technical nuances to this risk specification, but in general statistical terms, it means that the annual real return, on average, could be outside the range -6% to +14% (i.e. 10% either side of the 4% net real return target) in approximately three out of any ten years. Risk as measured by the standard deviation of returns is a commonly used risk statistic in the investment industry (albeit an incomplete one). For EFIP, the risk target is simply stated as minimal risk tolerance, with no quantitative specification.

UTAM's Approach to Portfolio Risk Management

UTAM's emphasis on risk assessment is premised on the simple belief that the appetite for returns is essentially unlimited, but the pursuit of returns entails risk, the appetite for which is clearly limited by the risk tolerance. It logically follows that optimizing the asset mix, and the third party investment manager line-up, should be centered on identifying the various risks being assumed.

UTAM attempts to evaluate and control key sources of risk through a number of actions. At the total portfolio level, we have introduced extensive modeling to assist us in better understanding the portfolio results of various Policy Target asset mix alternatives in many different scenarios. In constructing the portfolios around the Policy Target asset mix, we maintain strong diversification across a number of key areas, including asset classes, managers, geographies, industries, investment styles, investment strategies within asset classes and individual security positions.

Manager diversification is important, particularly for Alternative Assets. These assets typically bring particular diversification benefits (albeit some additional risks), through lower correlation of returns with more traditional asset classes. The breadth of manager and strategy diversification helps control some of the sources of risk within the overall portfolio.

Alternative Assets investments also bring unique liquidity risks, particularly in private markets limited partner funds. The nature of these private funds is such that an investor makes a commitment to the fund, and portions of the total committed amount are then drawn by the General Partner over a multi-year period as the General Partner identifies investments suitable for the fund. The fund lifetime is usually more than ten years, although investors normally receive distributions along the way before final fund wind-up. A secondary market for limited partnership interests exists, but it is a very opaque market and cannot be relied upon for either valuation or sale.

Hedge fund investments can also have limited liquidity. These fund investments can be redeemed on a regular basis, but there are a variety of constraints which may affect the speed with which the redemption proceeds can be received, The liquidity is much better than private limited partner funds. However, in difficult market conditions, such as we experienced in 2008, some of these hedge fund holdings may become more difficult to redeem on a timely basis.

Because Alternative Assets are an important component in the Benchmark Portfolio for the Endowment and Pension portfolios, we regularly prepare cash forecasts to help manage the liquidity impact of these investments on the overall portfolio. In addition, we now undertake regular portfolio stress test modeling to gauge the potential impact of any acceleration in capital calls (among other things) for the remaining undrawn commitments to limited partner funds.

A new feature in the past year is that we have developed a basic risk model to better assess the risk profile of the existing hedge fund portfolio, analyze the impact of adding or removing other hedge fund investments and better understand the interaction of the current hedge fund program with the balance of the portfolio. This assessment is extremely important as we move from fund-of-funds to more direct fund investments.

Manager selection is an important source of risk control. In our sourcing and review process for considering all new managers for the portfolios, we not only assess a manager's performance and investment methods, but also conduct thorough operational due diligence work on their activities. This analysis is performed by UTAM staff, generally with the assistance of external advisors. Our work in this area will continue to evolve as we pursue improvements to processes and practices.

More generally, during the past year we have explored a number of third-party risk systems which would allow UTAM to examine risk more fully at the manager, asset class and portfolio level. Based on this work, we have initiated a pilot project with one of the providers in order to better determine their ability to address our needs. In addition, we have added staff with considerable experience in the risk management area.

As we pointed out last year, risk management is a complex area, and one which requires constant re-examination. Such a review of our risk measures and tools was one of our key priorities in the past year. It will remain so in the year ahead.

Portfolio Volatility Levels Versus the University's Risk Tolerance

Exhibit 1 (below) shows one risk measure for the portfolios (the rolling 60-month volatility of returns (i.e. standard deviation) in relation to the University's 10% risk target). The exhibit also shows the Benchmark Portfolio and Reference Portfolio risk on a comparable measurement basis.

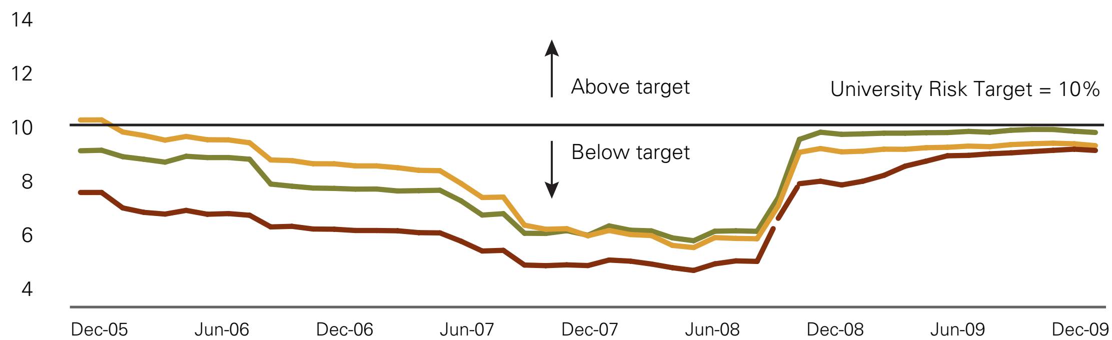
Prior to 2008, portfolio risk, measured on this basis, was running well below the University's quantitative risk tolerance. This calculation of risk excluded Private Investments and Real Assets until performance measurement started in January 2007 (they are included in risk results since then). However, these investments have a short history in the portfolios and were at modest invested levels prior to 2007. As such, there would be little impact on risk for prior years.

We currently monitor a rolling 60-month period for this risk measure because the applicable performance history of the portfolios is limited (as the actual historical performance data set expands over time, we will move towards using a ten-year rolling period). The starting point in Exhibit 1 is December 2005, which requires a starting point of January 2001 for the data.

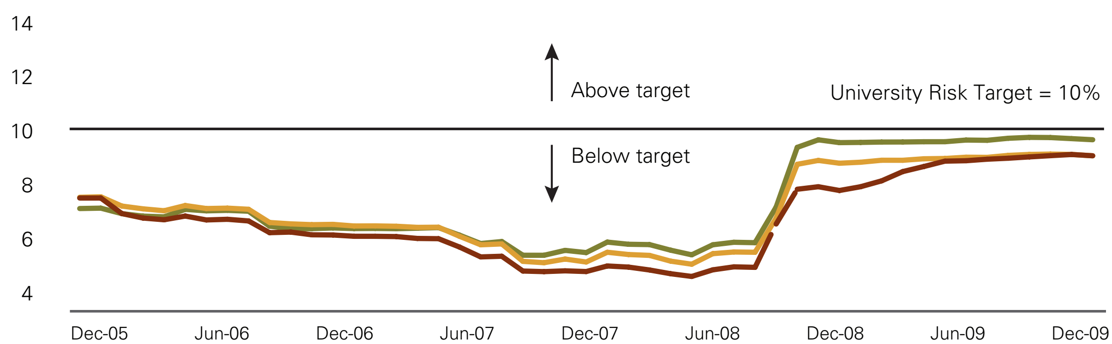
PORTFOLIO VOLATILITY LEVELS OVER TIME [1]

Exhibit 1

ENDOWMENT
Standard Deviation (%)



PENSION
Standard Deviation (%)



Actual
Historical Benchmark Portfolio
Reference Portfolio

(1) Rolling 60-month standard deviation of returns. Includes private investments an real assets starting in January 2007.

Measured on this basis, risk within the portfolios is marginally below the University's ten-year rolling risk target at the end of 2009. However, it is important to appreciate that this measure of risk is backward looking. As the previous comments should make evident, we are very mindful of the many dimensions of risk and attempt to consider the risk profile of the portfolios versus the University target from a broader perspective. Both the cash reserve that we maintained during a large portion of 2009 and a number of changes that we have made to the portfolios were designed to contain volatility and other risk measures on a forward looking basis.

Unlike the Endowment and Pension portfolios, EFIP has a low tolerance for risk and no quantitative risk target. The EFIP investments are predominantly a well diversified set of Government and high quality corporate holdings, mostly with shorter terms to maturity. These are the primary means of controlling risk for such a short-term oriented portfolio.

MARKET OUTLOOK

The massive efforts to reflate the global economy have been quite successful. As virtually all would agree, the major economies have stabilized and begun to trace out a renewed pattern of growth. But even if the short term outlook is encouraging, the ability of the global economy to sustain a sharp "V" or normal type of trajectory through this year and beyond is a matter for considerable debate. In the "normal" cycle, the bottoming and recovery process is initiated by the application of fiscal and monetary stimulus, reinforced by the inventory adjustment cycle (i.e., production which has been cut to below consumption levels is increased) and then sustained by a period of above trend growth in consumer spending, housing, business investment and sometimes exports as previously deferred demand is satisfied. In the current cycle, the first two actors have played their respective roles but there is strong reason to believe that the third act will not unfold in typical fashion. In particular, we would point to:

- Record debt levels and lower wealth levels at the household level combined with high unemployment will no doubt temper growth in personal consumption outlays;
- With foreclosure rates likely to remain high, the likelihood of a meaningful turnaround in U.S. housing prices and thus new investment is low;
- Low capacity utilization rates combined with moderate top line revenue growth will act to constrain business investment spending;
- Government fiscal and monetary policy stimulus needs to be withdrawn and higher taxation is inevitable;
- Parts of the financial system remain balance sheet constrained and are facing re-regulation which will moderate the normal financial intermediation cycle; and,
- Changes in the composition of world demand as consumption shifts from advanced to emerging economies may require changes in the structure of production and thus take time.

Based on this environmental scan, we find ourselves closer to the camp which sees a 'square root' type of recovery, a trajectory which incorporates an initial bounce in GDP followed by some period where growth rates remain below historical trends. We also assign a reasonable probability to the 'double dip; or 'inverted square root' scenarios which would come about as a result of government policy mistakes or an unexpected shock to the system. Against this backdrop we expect inflation to return to closer to core rates (although not immediately) and move moderately higher thereafter.

Our examination of valuation levels leads us to the conclusion that while equity markets are considerably cheaper than was the case through much of the last decade, one is hard pressed to make the case that markets are undervalued. Combined with our expectations on the economy, this suggests a very real possibility that equity markets will prove to be range bound for a period of time (perhaps somewhat similar to the 1976-1978 period).

Looking at fixed income markets, we see little immediate reason to believe that longer term rates will break out of their recent trading range. However, the return of risk taking, a heavy supply calendar, the need for central bank exit strategies and the potential for somewhat higher inflation rates going forward suggest that the risk is for higher interest rates. Credit spreads still appear somewhat attractive but unlike the case early in 2009, many spreads are now within what might be considered as a more normal range.

CONCLUDING COMMENT

Reflecting on the past year, we are encouraged by the progress made. As we begin this New Year, we believe that the University's portfolios are better positioned from both a risk and return standpoint. Flexibility has been improved and leverage and external management costs have been reduced. Further, the collective experience of the current UTAM team provides a much improved capability to analyze attractive investment themes and to manage the inherent risks in a capital markets environment that is likely to remain complex and challenging. Yet while we have made considerable progress, there is still more to do in achieving our objective of maximizing the effectiveness of UTAM as an organization that will deliver consistent and superior long-term investment results. We look forward to continuing this work.

Auditors' Report

To the Directors of
University of Toronto Asset Management Corporation

We have audited the balance sheet of **University of Toronto Asset Management Corporation** as at December 31, 2009 and the statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Corporations Act (Ontario), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
March 26, 2010.

Balance Sheet

As at December 31

	2009	2008
	$	$
ASSETS		
Current		
Cash	237,754	33,408
Accounts receivable *[note 4]*	50,000	154,386
Prepaid expenses	41,523	43,546
Total current assets	329,277	231,340
Capital assets, net *[note 5]*	309,498	295,239
	638,775	526,579
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	188,903	206,296
Due to University of Toronto *[note 7[a]]*	140,374	25,044
Total current liabilities	329,277	231,340
Deferred capital contributions *[note 6]*	309,498	295,239
Total liabilities	638,775	526,579
Net assets	—	—
	638,775	526,579

See accompanying notes

Statement of Operations and Change in Net Assets

Year ended December 31

	2009	2008
	$	$
EXPENSES *[note 7]*		
Staffing	**2,932,102**	2,586,866
Occupancy	**269,753**	247,267
Consulting fees	**158,294**	139,156
Office supplies and services	**84,874**	80,566
Professional fees	**200,290**	249,628
Communications and information technology support	**234,770**	167,751
Travel	**108,080**	171,312
Amortization of capital assets	**39,814**	39,814
	4,027,977	3,682,360
RECOVERIES AND OTHER INCOME		
Recoveries from University of Toronto *[note 7]*	**3,988,163**	3,642,546
Amortization of deferred capital contributions *[note 6]*	**39,814**	39,814
	4,027,977	3,682,360
Net income for the year	**—**	—
Net assets, beginning of year	**—**	—
Net assets, end of year	**—**	—

See accompanying notes

Statement of Cash Flows

Year ended December 31

	2009	2008
	$	$
OPERATING ACTIVITIES		
Net income for the year	—	—
Add (deduct) items not involving cash		
Amortization of capital assets	39,814	39,814
Amortization of deferred capital contributions	(39,814)	(39,814)
	—	—
Changes in non-cash working capital balances related to operations		
Accounts receivable	104,386	(55,376)
Prepaid expenses	2,023	(9,514)
Accounts payable and accrued liabilities	(17,393)	(1,663)
Due to University of Toronto	115,330	(12,149)
Cash provided by (used in) operating activities	204,346	(78,702)
INVESTING ACTIVITIES		
Purchase of capital assets	(54,073)	—
Cash used in investing activities	(54,073)	–
FINANCING ACTIVITIES		
Deferred capital contributions to fund purchase of capital assets	54,073	—
Cash provided by financing activities	54,073	—
Net increase (decrease) in cash during the year	204,346	(78,702)
Cash, beginning of year	33,408	112,110
Cash, end of year	237,754	33,408

See accompanying notes

Notes to Financial Statements

Year ended December 31

1. RELATIONSHIP WITH THE UNIVERSITY OF TORONTO

University of Toronto Asset Management Corporation ["UTAM"] is a corporation without share capital incorporated on April 25, 2000 by the Governing Council of the University of Toronto [the "Governing Council"] under the Corporations Act (Ontario). UTAM is a non-profit organization under the Income Tax Act (Canada) and, as such, is exempt from income taxes.

The principal objectives of UTAM are to create added value by providing both current and future financial resources for the University of Toronto ["U of T"] and its pension funds that will contribute to globally recognized education and research.

2. BASIS OF PRESENTATION

These financial statements present the financial position, results of operations and cash flows of UTAM as a separate legal entity. The securities representing the investments of the funds of U of T are held on behalf of U of T in the names of such trustees or nominees as may be directed by UTAM, but not in the name of UTAM.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of UTAM have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized as follows:

Change in accounting policies

As of January 1, 2009, UTAM adopted retroactively changes to the presentation of the statement of cash flows required as a result of adopting CICA 1540: Cash Flow Statements. The only change required was to separate investing and financing activities into different sections.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 recoveries and expenses during the reporting period. Actual results could differ from those estimates.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Leasehold improvements	term of lease
IT infrastructure equipment	5 years

Revenue recognition

Recoveries from U of T are recorded when expenses are incurred. Recoveries related to the purchase of capital assets are deferred and amortized over the life of the related capital asset.

Employee future benefits

UTAM's contributions to U of T's employee future benefit plans are expensed when due *[note 7[b]]*.

4. ACCOUNTS RECEIVABLE

The premises occupied by UTAM are leased in the name of the Governing Council, which, in accordance with the University of Toronto Act, 1971, s.o. 1971, c.56, is exempt from municipal property taxation. All payments made by UTAM in respect of property taxation were included as part of accounts receivable. As at December 31, 2008, $154,386 was included in accounts receivable. A request was formally submitted to the landlord to make the necessary application for such tax exemption to the assessment authority on the Governing Council's behalf. In 2009, the property tax exemption was approved and all property taxes paid were fully recovered by the end of the year.

5. CAPITAL ASSETS

Capital assets consist of the following:

			2009
	COST $	ACCUMULATED AMORTIZATION	NET BOOK VALUE $
Leasehold improvements	**415,600**	**160,175**	**255,425**
IT infrastructure equipment	**54,073**	**—**	**54,073**
	469,673	**160,175**	**309,498**

			2008
	COST $	ACCUMULATED AMORTIZATION $	NET BOOK VALUE $
Leasehold improvements	415,600	120,361	295,239

The IT infrastructure equipment is not yet in service and therefore no amortization has been recorded.

6. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of recoveries from U of T received in connection with the purchase of capital assets. The amortization of deferred capital contributions is recorded as income in the statement of operations and changes in net assets. The continuity of deferred capital contributions is as follows:

	2009 $	2008 $
Balance, beginning of year	**295,239**	335,053
Recoveries received during the year related to capital asset purchases	**54,073**	—
Amortization of deferred capital contributions	**(39,814)**	(39,814)
Balance, end of year	**309,498**	295,239

7. RELATED PARTY TRANSACTIONS

[a] In accordance with the amended and restated Service and UTAM Personnel Agreement dated May 14, 2003 and subsequently replaced by the Investment Management Agreement dated November 26, 2008 between the Governing Council and UTAM, U of T will reimburse UTAM for its services an amount which will enable it to recover the appropriate costs to support its operations. U of T reimburses UTAM on a quarterly basis based on the approved budget. As at December 31, 2009, $140,374 [2008 - $25,044] is due to U of T as a result of reimbursements exceeding actual cost of operations.

[b] Eligible employees of UTAM are members of U of T's pension plan and participate in other employee future benefit plans offered by U of T. In 2009, contributions of $113,677 [2008 - $93,149] related to these plans have been expensed.

[c] UTAM obtains certain services from U of T, such as payroll and IT support. There is a charge for some of these services. U of T pays UTAM's salaries, benefits and certain other costs and is reimbursed by UTAM.

[d] The Governing Council entered into a lease with a term of ten years and six months commencing October 1, 2005 for the premises occupied by UTAM. UTAM will pay the following amounts to the landlord directly, which represent the minimum rent component of the lease obligations:

	$
2010	106,724
2011	106,724
2012	106,724
2013	106,724
2014	106,724
Thereafter	133,404
	667,024

In addition to the above minimum rent payments, there are additional payments in respect of operating and tenant in-suite hydro costs that are subject to change annually based on market rates and actual usage. These components totaled $152,478 in 2009 [2008 - $137,657].

[e] Transactions with U of T are measured at the exchange amount, which is the amount of consideration agreed to by the parties. Amounts due to/from U of T are non-interest bearing and due on demand.

8. CAPITAL MANAGEMENT

In managing capital, UTAM focuses on liquid resources available for operations. U of T provides funds as required to allow UTAM to meet its current obligations. As at December 31, 2009, the Corporation has met its objective of having sufficient liquid resources to meet its current obligations.

UTAM Board Of Directors

(As at December 31, 2009)

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Gluskin Sheff + Associates Inc., *Co Founder and Vice-Chairman*

ROBERT W. MORRISON, *Vice Chair of the Board*
Corporate Director

ERIC F. KIRZNER, *Chair of the Audit and Compliance Committee*
Rotman School of Management, *Professor of Finance*

THOMAS H. SIMPSON, *Chair of the Compensation Committee*
Corporate Director

SHEILA BROWN
University of Toronto, *Chief Financial Officer*

ALLAN CROSBIE
Crosbie & Company, *Chairman*

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C.A. Delaney Capital Management, *President*

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William E. Hewitt Associates, Financial & Investment Consultants

FLORENCE R. MINZ
Governing Council of the University of Toronto,
Swindon Investments Ltd., *Partner*

WILLIAM W. MORIARTY
University of Toronto Asset Management Corporation,
President and Chief Executive Officer

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University of Toronto, *Vice President, Business Affairs*

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Specialty Foods Group Inc., *President and CEO*

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VentureLink LP, *Chief Executive Officer and Managing Partner*

NEIL H. DOBBS, University of Toronto Asset Management Corporation,
Secretary to the Board
Governing Council of the University of Toronto, *Deputy Secretary to the Governing Council*

University of Toronto Asset Management Corporation Staff

(As at December 31, 2009)

WILLIAM W. MORIARTY, CFA
President and Chief Executive Officer

MICHEL MALO, CFA
Managing Director, Investment Strategy and Co-Chief Investment Officer

KAREN J. COLL, CFA
Managing Director, Public Investments

JOHN T. HSU, MBA, FCMA
Managing Director, Risk Management and Operations

ADRIAN HUSSEY, CFA
Director, Portfolio Research and Analysis

DAREN SMITH, CFA, CAIA, FRM, FCIA
Director, Hedge Funds

TIFFANY PALMER
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BENJAMIN ABRAMOV, MBA, LLB
Vice President, Private Markets

KELVIN HU, MFE
Analyst, Portfolio Research and Analysis

JULIANA ING, CFA, FRM
Portfolio Performance and Risk Analyst

REBECCA MUDGE, CFA
Investment Analyst

SONG WU, MFE
Investment Analyst

ANNE LEE
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