U of T's strengths have also been evident in its highly effective fundraising activities, leveraging its brand name and reputation to maintain a competitive advantage in attracting donations relative to peers, reaching nearly CAD2 billion already of its fundraising campaign (Defy Gravity) launched in 2021 with a goal of reaching CAD4 billion in donations over 10 years. The university receives significant donations and gifts for research and capital projects, which demonstrate its ability to capitalize on its brand name and profile and to generate sizeable philanthropic interest and donations despite competition for fundraising dollars both domestically and internationally.

Overall leverage is low relative to peers, with very strong debt affordability that exceeds most peers. The university last issued debentures in 2011 and we do not anticipate new debt issues over the next three years, as the university will instead look to finance capital projects from non-debt sources, including operating reserves, provincial and federal funding, and donations. Debt affordability, as measured by annual debt service coverage, stood at 4.4x at April 30, 2024, a level that is in line with most peers but has declined in recent years given falling EBIDA levels.

At the same time, pension-related pressures have significantly eased in the last three years. While U of T historically recorded large pension deficits with large unfunded pension liaiblities, it transitioned to a jointly sponsored defined benefit pension plan (the University Pension Plan Ontario (UPP)) as of July 1, 2021, with several other universities. As of December 31, 2023, the UPP was in a surplus of CAD249.3 million. Under the UPP, U of T is required to fund any future deficits on the assets and liabilities transferred into the plan for the first 10 years, which could create funding pressure on the university, however subsequently the costs will be gradually shared equally between participating employers and employees in the UPP. U of T also maintains a pension risk contingency of CAD89 million (2023-24; with a gradual decline to CAD50 million by 2026-27) to mitigate potential future declines in the funded status.

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U of T is Canada's largest and top ranked public post-secondary institution and one of the top 20 global schools in international rankings, underpinning its international brand. The university operates through three campuses: its main campus in downtown Toronto (the St. George campus), Mississauga and Scarborough. The strength of its reputation is supported by an ability to attract top talent for faculty, strong levels of selectivity of students, and exceptional research strength.

Along with its affiliations, including several hospitals, U of T has consistently been at the top of Canadian universities in securing federal government research funding from the three granting councils and from other federal programs. U of T's research strength is also evident in the number of prestigious research chairs, including "Canada Research Chairs" and "Canada 150 Research Chairs" at the university.

U of T's excellent market profile and global recognition has contributed to very strong enrolment demand even in the face of provincial funding and enrolment constraints. The number of total full-time equivalent (FTE) students has grown consistently each year to 88,652 in 2023-24, up more than 7% over the last five years.

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We view the university's management and governance characteristics as very strong. The success of U of T in maintaining a very strong balance sheet and balancing its core odons o w5 , t- t pt p p -

U of T currently faces a number of operating challenges as a result of operating and capital cost escalation, and constraints related to provincial actions which adversely impact the university's fiscal profile and contributed to a sustained period of declining EBIDA margins.

U of T's key expense pressure derives from cost escalation of operating expenses, including rising salaries and benefits which currently make up approximately 60% of total expenses, and capital expenses including higher construction, materials and labour costs. In addition, the Ontario government's repeal of its own Bill 124 in early 2024 following a court decision that deemed it unconstitutional has added further wage pressure for the university. Bill 124 previously capped salary increases for public sector workers at 1% annually for the fiscal years 2020, 2021 and 2022. The repeal required U of T to negotiate higher salary increases for its labour unions, resulting in retroactive payments, which contributed to the 13% increase in salaries and benefits for 2023-24 over the prior year. At this time, the province has not confirmed any reimbursement of these expenses.

On the revenue side, limited growth in provincial operating grants, along with mandated freezes in domestic tuition rates over the last four years – which follows a mandated 10% reduction in 2019-20 - have resulted in modest shortfalls relative to budget forecasts. The efforts in recent years to diversify its international student population from the significant concentration in Chinese students, with strong international student growth from India, Indonesia, Turkiye, Brazil and Iran.

In January 2024 the federal government announced a 2-year cap on international student permits, resulting in a 35% reduction in the number of international students that will be permitted to enrol in first year undergraduate programs for the 2024-25 and 2025-26 academic years relative to 2023-24 levels. Allocations were provided to each province based on their share of Canada's population, with each province subsequently allocating places to each higher education institution. U of T estimates that the cap resulted in a modest revenue shortfall for 2024-25 (around 1% of revenue), although we expect enrolment demand to remain very strong in the next few years and help offset these risks.

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Exhibit 4

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The BCA of aa1 assigned by the rating committee is in line with the scorecard indicated outcome of aa1. For details of our rating approach, please refer to the Higher Education (July 2024) and Government-Related Issuers (January 2024) methodologies.

Exhibit 6

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