University of Toronto Asset Management Corporation

Annual Report 2000

UTAM

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The University of Toronto Asset Management Corporation strives to create added value by providing both current and future financial resources for the University and its pension funds that will contribute to globally recognized education and research.

We will strive to provide state of the art investment management with diligence, competence and the highest of professional conduct and continually seek out and formulate the best investment ideas into prudently managed portfolios that optimally balance risk and return.

The idea of a separate investment management corporation with responsibility for developing strategy and overseeing the investments of the University of Toronto on a continual basis has been around for quite a few years. The incorporation of the University of Toronto Asset Management Corporation (UTAM) on April 25, 2000, represented the idea taking form and the opening up of a pathway that can lead this young organization toward its objective of becoming a University related investment operation that is best in its class.

We realize it takes several years to establish a leading investment management organization. It is an ongoing process and evolution. The results should be measured over years rather than months or quarters. The Board of Directors is confident that the new asset management corporation is well-positioned to move toward its objective, and that management's responsibilities and relationships with the Board and the University are established and operationally excellent.

UTAM is the first such asset management corporation formed by a Canadian university. It has as its model the results of University of Toronto's best practices review of major U.S. universities that have also gone this route with the intent of directing specialist effort toward managing investments, normally large endowment funds. The review was focused on main issues, including the rationale for establishing the company, the organizational structure and key management positions within the company, the role of the Board of Directors, corporate governance and audit arrangements.

Leading up to the creation of the University of Toronto Asset Management Corporation, the senior management of the University of Toronto had engaged in an extensive period of research and planning that spanned the preceding eighteen months. The lead-up period included the process of communicating the advancing idea to the University's own governance, including the Business Board and the Governing Council of the University of Toronto. The former Treasury Department of the University of Toronto had a range of responsibilities, including some that were not related to asset management, and through close work with the financial and related areas of the University's administration, the process of reallocation and formation took hold.

UTAM is unusual compared to its U.S. brethren because the university assets under management include pension funds. The University of Toronto's large pension assets contributed to the critical mass required to rationalize the formation of UTAM, and the existence of two large and very different pools of assets, the endowments and the pensions, contributes to the complexity of UTAM's responsibilities. It also provides an excellent opportunity for the UTAM staff to develop broad and deep knowledge of best institutional investor practices worldwide. The pension and the endowment differ significantly in their obligations: the beneficiaries, investment horizon, return objectives, regulatory environment, and their exposure to inflationary elements and the potential cost of capital erosion. The implication is significantly different investment objectives and asset mixes.

The results of the best practices review reinforced our belief that successful investment management is guided by the rigorous application of quantitative and qualitative modeling to the asset allocation process on a full-time basis. It can be demonstrated that significant pools of funds warrant a staff of investment professionals positioned for continual investigation and readiness to adapt to the changes in the investment environment. The investment team is then focused on generating investment ideas to add value to the process. The capital markets and their interrelationships are complex and changing, and the past year has been characterized by precipitous market declines, falling real rates of return, and growing inflation. This is a broadly difficult environment in which to develop healthy absolute returns. It is fortunate for the University of Toronto that the new asset management firm has been born at a time when market contraction demands changes in strategy. Moreover, the current market tone presents an opportunity for UTAM to prove its worth.

As Chairman of the University of Toronto President's Investment Committee since September 1995, and now Chairman of the Board of Directors of the newly formed asset management corporation, I have enjoyed the opportunity of contributing to the formation of UTAM. The existence of UTAM is an expression of the University's commitment to ensuring sustainable financial resources well into the future. The Board of Directors of UTAM is committed to making certain that management builds on its foundation and continually pursues its dominant objective of growing the purchasing power of the University's endowment and pension assets.

ROBERT W. KORTHALS
Chairman

It is a great privilege to have the opportunity to serve as the first President and Chief Executive Officer of the University of Toronto Asset Management Corporation (UTAM). UTAM was formed to manage the investments and pension funds under the administration of The Governing Council of the University of Toronto subject to and in accordance with the applicable policies approved by the Council. Operations commenced on May 1, 2000.

I am pleased that a number of important objectives were achieved during the first eight months of operation for the University's three main asset pools: the pension funds, the endowment fund, and the operating funds.

Asset allocation is the fundamental driver behind successful long-term results. We conducted a rigorous analysis of historical and forecasted stock and bond market real returns and the corresponding risk profiles. After an examination of the individual funds' investment objectives, an appropriate asset mix was established for each fund. Each asset mix is stated as a performance benchmark and is contained in its respective investment policy. By the end of 2000 the transition of assets to the new asset mix weights was completed and I am now confident that each fund is prudently diversified and well positioned to achieve its long-term objectives.

During the first eight months of operation new investment mandates were established that added significant value by further diversifying the equity exposure of the funds.

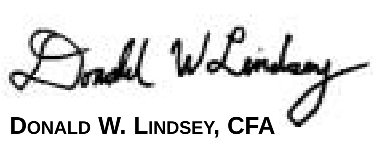
The year 2000 was a challenging time for money management. For UTAM this challenge was compounded by the added responsibility of building an investment operation as well as recommending new investment policies for the University of Toronto. Although most world equity markets experienced negative returns for the year, the three main asset pools under management achieved positive returns in excess of the composite benchmarks previously approved by the University.

In spite of the competitive labour market, we filled all four Managing Director positions by the end of the year. We now have an experienced team of investment professionals responsible for an extensive range of asset classes on a worldwide basis. I am certain that the entire UTAM team is highly competent and creative. The dedication of each individual has contributed greatly toward our vision of building an organization that is the best of its class in North America.

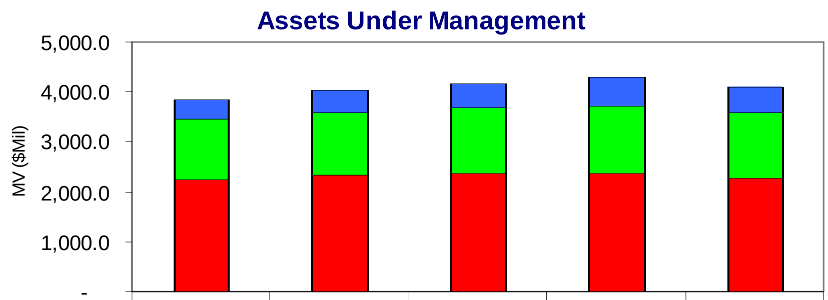
UTAM's investment team is positioned to seek out preeminent investment ideas on a global basis. A private equity program has been initiated and commitments to two private equity investments were made during the year. Going forward, we will be analyzing and committing capital to the best investments we can find in the areas of private equity, venture capital, buyout funds and real estate throughout the world, as well as a broad range of strategies involving publicly traded investments. The endowment in particular has a unique investment mandate due to its very long investment horizon. This long investment horizon provides for the opportunity to capitalize on more inefficient and less liquid investment strategies that offer the potential for returns in excess of those historically obtained through more traditional investment strategies.

The ever-increasing complexity and volatility of the world's investment markets underscores the need for an organization such as UTAM. Over the past several years, there has been a proliferation of investment products and strategies that have created opportunities to generate attractive returns in a wide range of economic environments. Taking advantage of these opportunities, however, necessitates stringent risk management and due diligence as well as a high level of professional expertise committed to the process on a daily basis.

The UTAM team is dedicated to this process of continual search for investment value added with the objective of improving the risk profile and the return potential of the University of Toronto funds under management. To be truly effective, UTAM needs a deep understanding of both the University of Toronto and the investment industry. At UTAM, we accept this inspiring responsibility with enthusiasm and energy.



Donald W. Lindsey, CFA
President and Chief Executive Officer



	31-Dec-99	31-Mar-00	30-Jun-00	30-Sep-00	31-Dec-00
EFIP	375.0	442.1	464.6	561.0	497.1
LTCAP	1,217.9	1,271.7	1,324.0	1,343.7	1,333.9
Pension	2,238.3	2,324.4	2,369.2	2,383.9	2,265.6

The assets under management are composed of the following:

Pension Master Trust: Combines for investment purposes the assets of the University of Toronto pension plan and the University of Toronto pension plan (former OISE plan).

Long-Term Capital Appreciation Pool (LTCAP): Consists primarily of endowed assets.

Expendable Funds Investment Pool (EFIP): Represents the operating funds of the University, including government grants and student fees as well as revenue from ancillary enterprise funds, capital construction funds, donations, research grants and trust funds.

In addition to the above three funds, UTAM oversees $100 million of specifically invested monies. Specific investments consist of endowed and expendable funds which cannot be pooled for investment purposes due to conditions or constraints of each trust.

Performance Summary

Fund Rates of Returns (%) and Comparison to Benchmarks
As at December 31, 2000

For the year ended December 31, 2000, the Pension Master Trust, LTCAP and EFIP returned 5.19%, 5.13% and 8.12% respectively. The performance benchmark for each fund is a composite of major market indexes representing Canadian, U.S. and other international equity markets, and Canadian bonds.

The Pension Master Trust, LTCAP and EFIP funds outperformed the individual benchmarks as had been set a year earlier by 227, 301 and 50 basis points respectively. These benchmarks were established by the former University of Toronto President's Investment Committee in compliance with investment policies approved by the University's Business Board. In the fall of 2000, a new asset allocation and composite performance benchmark was approved for each fund for implementation on January 1, 2001.

It is important to note, however, that the rate of return objectives for the Pension Master Trust and LTCAP are based on four-year time frames, not single years. This longer-term horizon establishes a disciplined approach to the investment process, which avoids making frequent and reactionary shifts in asset allocation.

In addition to attempting to provide performance in excess of the composite benchmarks, both the LTCAP and Pension Master Trust have an objective of returning at least above median returns in comparison to an appropriate investment fund universe comprised of funds with similar asset mix and return objectives. We believe that a universe consisting of North American university endowments, pension funds, and foundations is appropriate for this purpose and we will begin tracking this data for 2001 returns.

Funds return objectives must also be relative to the rate of inflation as this is an important measure of whether or not purchasing power is being maintained. Therefore, a final return objective for the LTCAP is to achieve an annualized rate of return in excess of endowment spending, currently set at 5%, plus inflation. For the year ended December 31, this figure is 8.2%. The Pension Master Trust has a return objective of inflation plus 4%, which is 7.2% for the year ended December 31, 2000. Consequently, neither fund achieved its return objective relative to inflation for the year. This emphasizes the importance of maintaining the appropriate asset mix for the long term such that returns during favorable market environments will offset returns achieved during difficult market environments.

A comparison of the year 2000 benchmarks and the new benchmarks for each fund is on page 12.

The EFIP composite benchmark is partially weighted by the benchmark for the LTCAP, as a portion of EFIP funds are invested in LTCAP.

The year 2000 was an unusual one for comparative performance among the funds. Due to steep declines in most of the world equity markets and good performance from fixed income instruments caused by falling interest rates over the course of the year, the EFIP outperformed the higher-equity-weighted Pension and LTCAP funds. EFIP was for most of the year composed of 90% fixed income versus 35% fixed income for the Pension and 30% fixed income in LTCAP. Periods of fixed income outperformance versus equities occur from time-to-time and outperformance during 2000 was welcomed after the negative returns to this category that were experienced in 1999.

Pension Master Trust	Fund Return	Benchmark Return	Over(Under) Performance
Canadian Equity	10.90	7.41	3.49
U.S. Equity	(1.52)	(5.79)	4.27
Non-North-American Equity	(7.50)	(10.82)	3.32
Bonds	10.13	10.25	(0.12)
Total Fund vs Benchmark	**5.19**	**2.92**	**2.27**

LTCAP			
Canadian Equity	8.84	7.41	1.43
U.S. Equity	(0.08)	(5.79)	5.71
Non-North-American Equity	(2.28)	(10.82)	8.54
Bonds	10.32	10.25	0.07
Total Fund vs Benchmark	**5.13**	**2.12**	**3.01**

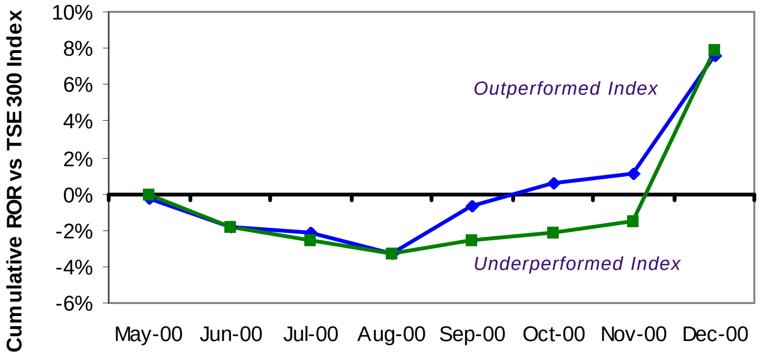
EFIP			
Investment in LTCAP	5.13	2.12	3.01
Short/Mid Term Bonds	9.61	9.58	0.03
Cash Equivalents	5.70	5.47	0.23
Total Fund vs Benchmark	**8.12**	**7.62**	**0.50**

Cumulative Equity Performance

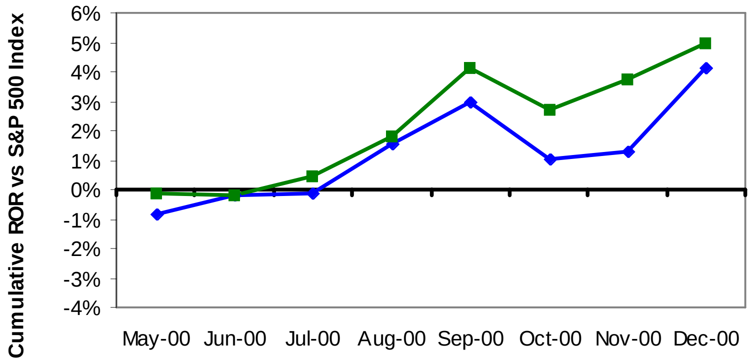
May 1, 2000 - December 31, 2000

From the inception of UTAM on May 1, 2000 to the end of the fiscal year, all three equity components outperformed their respective benchmarks on a cumulative basis. The greatest segment outperformance, derived from the Non-North-American equity component of both the Pension Master Trust and LTCAP, was 514 and 945 basis points respectively.

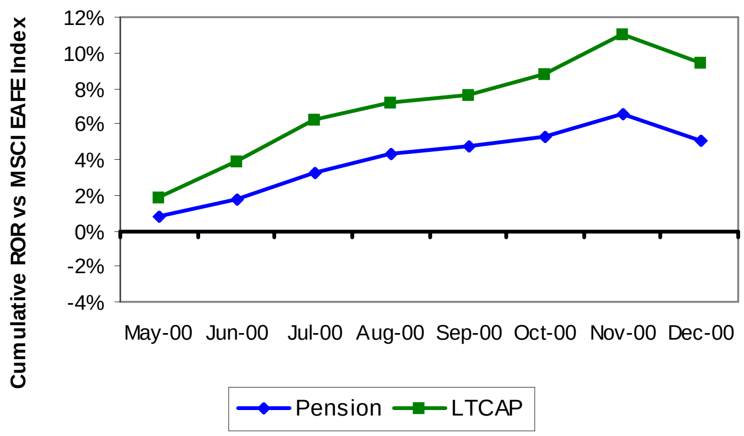
Canadian Equity - Cumulative Excess Rates of Return (8 months)



U.S. Equity - Cumulative Excess Rates of Return (8 months)



Non-North-American Equity - Cumulative Excess Rates of Return (8 months)



University of Toronto Investment Policies state investment rate of return targets on a four-year annualized basis. The tables below compare the Pension Master Trust and LTCAP returns to the various benchmarks and show assets under management as at December 31, 2000.

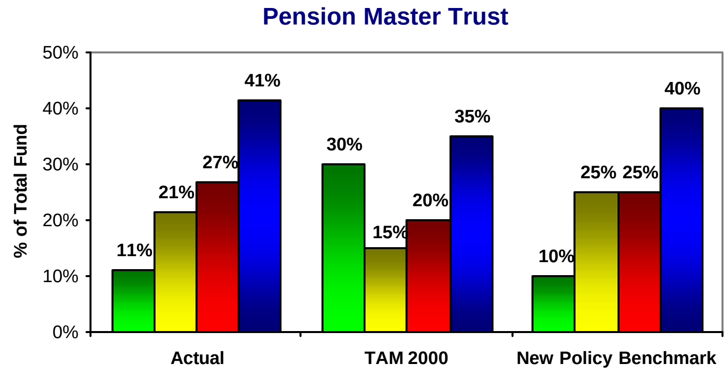
The return objectives state a long-term return requirement of the Consumer Price Index (CPI) plus 4% for the Pension Master Trust and CPI plus 5% for the LTCAP. The annualized return objective for the four years ended December 31, 2000 was 5.9% for the Pension Master Trust and 6.9% for the LTCAP. On a four-year annualized basis, the Pension Master Trust and LTCAP significantly exceeded these targets, with an annualized return of 10.1% and 11.7% respectively.

	Annual Rates of Return				*Annualized*
	2000	***1999***	***1998***	***1997***	***1997-2000***
Pension Master Trust					
Pension Master Trust Total Rate of Return	*5.2%*	12.9%	8.1%	14.2%	**10.1%**
Policy Four-Year Annualized Rate of Return Objectives					
Inflation (CPI) + 4%	7.2%	6.6%	5.0%	4.7%	**5.9%**
Fund versus Inflation + 4%	-2.0%	6.3%	3.1%	9.5%	**4.2%**
LTCAP					
LTCAP Fund Total Rate of Return	5.1%	14.6%	9.7%	17.7%	**11.7%**
Policy Four-Year Annualized Rate of Return Objectives					
Inflation (CPI) + 5%	8.2%	7.6%	6.0%	5.7%	**6.9%**
Fund versus Inflation + 5%	-3.1%	7.0%	3.7%	12.0%	**4.9%**

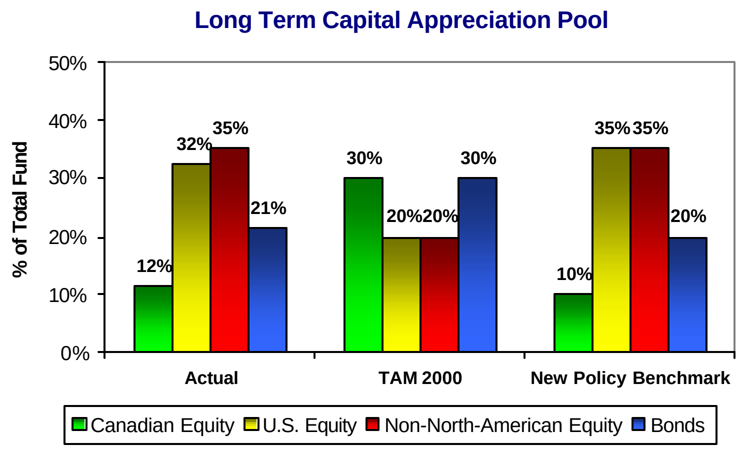
The charts depict the actual asset mix of the Pension Master Trust, LTCAP and EFIP as of December 31, 2000 relative to the two policy benchmark portfolios. The TAM 2000, or tactical asset mix 2000, was established by the former President's Investment Committee in accordance with the University's investment policy at the end of 1999.

The new policy benchmarks, approved in late November by the Business Board, come into effect at the start of 2001.

The major change to the Pension asset mix is a reduction to Canadian equity exposure and increases to U.S. and Non-North American equity investing. A stock/bond ratio of 60/40 is maintained in the new policy benchmark.

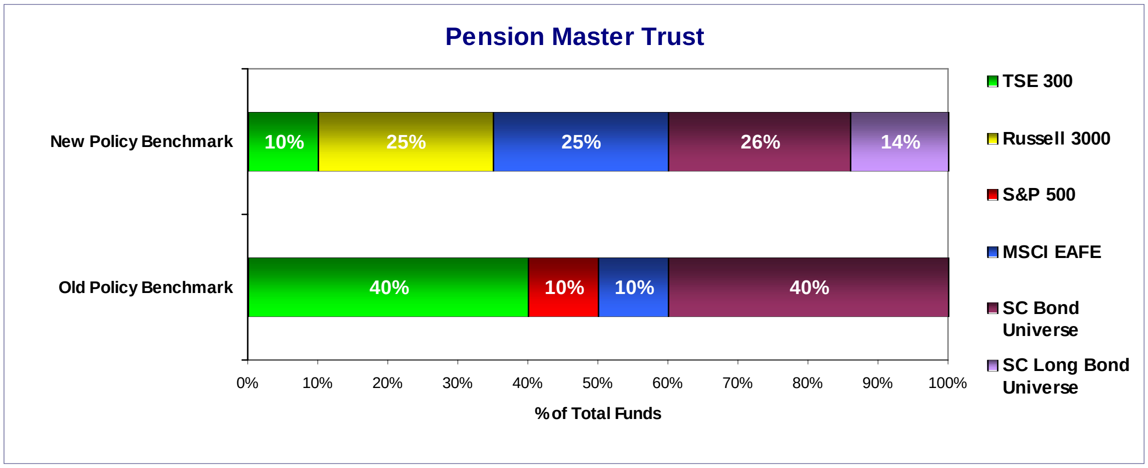


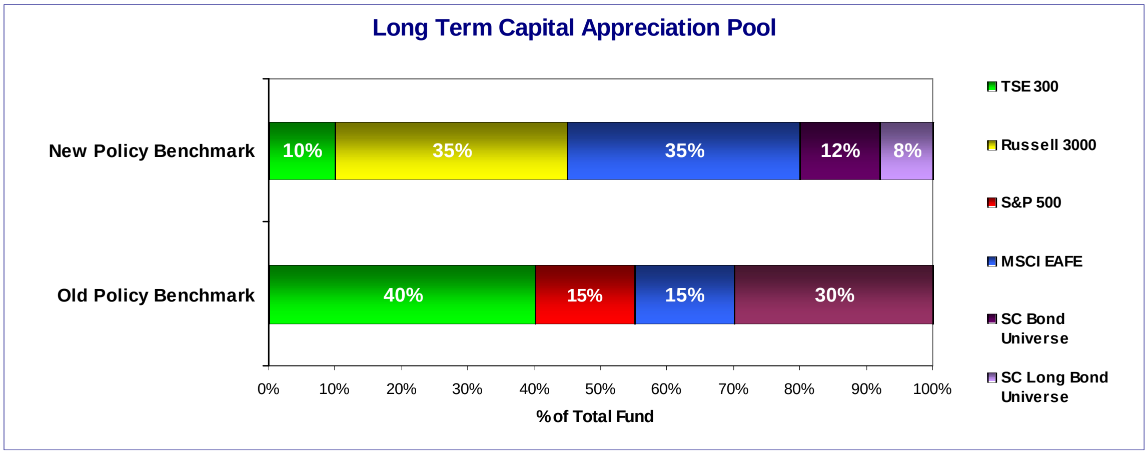
The 70/30 LTCAP stock/bond ratio in place in the prior policy benchmark was increased to an 80/20 stock/bond split in the new policy benchmark. In addition, the new policy benchmark reflects a reduced weight in Canadian equity and an increased weight in U.S. and Non-North American equity.

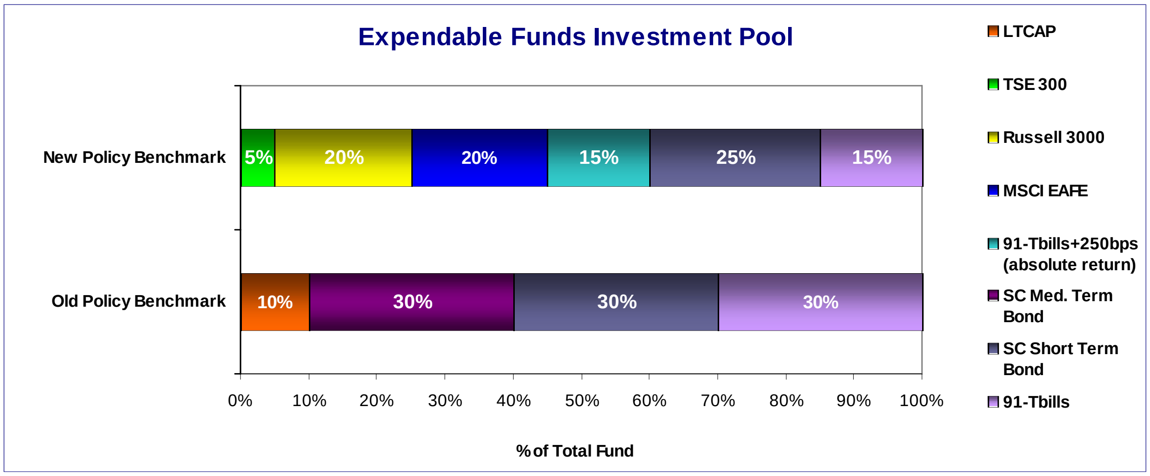


The new EFIP policy benchmark specifies an investment core, consisting of approximately 60% of the fund, with a medium-long horizon, and is invested in a combination of LTCAP, equity pooled funds and absolute return strategies. The approximate 40% of EFIP that is maintained in shorter duration investments is held in cash equivalents and short-term bonds with a benchmark weight of 15% 91-Day T-Bills and 25% Scotia Capital Short-Term Bond Index. Prior to the establishment of the new policy benchmark, the funds were invested primarily in cash equivalents, short and medium-term bonds, and an approximately 10% allocation invested in LTCAP.

Due to the typically large and stable core balance in EFIP, the new asset mix targets this core portion for a higher-risk, higher-return strategy in order to reduce the opportunity cost associated with holding cash balances for periods extending beyond the short term.


Pension Master Trust
New Policy Benchmark
10%
25%
25%
26%
14%
Old Policy Benchmark
40%
10%
10%
40%
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%
% of Total Funds
TSE 300
Russell 3000
S&P 500
MSCI EAFE
SC Bond Universe
SC Long Bond Universe


Long Term Capital Appreciation Pool
New Policy Benchmark
10%
35%
35%
12%
8%
Old Policy Benchmark
40%
15%
15%
30%
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%
% of Total Fund
TSE 300
Russell 3000
S&P 500
MSCI EAFE
SC Bond Universe
SC Long Bond Universe


Expendable Funds Investment Pool
New Policy Benchmark
5%
20%
20%
15%
25%
15%
Old Policy Benchmark
10%
30%
30%
30%
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%
% of Total Fund
LTCAP
TSE 300
Russell 3000
MSCI EAFE
91-Tbills+250bps (absolute return)
SC Med. Term Bond
SC Short Term Bond
91-Tbills

Equities

UTAM employs a combination of passive, enhanced indexation and active equity strategies. Passive management is simply replicating a particular index, such as the TSE 300 or the S&P 500. This is done either through buying the individual stocks that comprise the index or synthetically replicating it through futures contracts. Enhanced indexation is a hybrid of active and passive management whereby the portfolio managers will replicate the index but slightly over-weight or under-weight certain stocks in the index in order to attempt to add incremental value. Active portfolio managers do not attempt to replicate a particular index but rather build a portfolio of stocks designed to outperform the broad equity markets.

Throughout the year, UTAM added several actively managed mandates in an effort to reduce risk and enhance return relative to the composite benchmark each fund is measured against. The new mandates include enhanced index Canadian equity, active U.S. small-capitalization value equity, U.S. equity hedge funds, and active U.S. and Canadian small-capitalization growth equity.

The chart below depicts the percentage of each equity asset class for both the Pension Master Trust and LTCAP in active, passive, and enhanced indexed portfolios. Currently, external investment advisors manage all assets.

Strategy Exposures	Pension Master Trust			LTCAP		
	Passive	Active	Enhanced	Passive	Active	Enhanced
Canadian Equity	43%	43%	14%	32%	35%	33%
U.S. Equity	72%	29%	-	76%	24%	-
Non-North-American Equity	48%	52%	-	56%	44%	-
Bonds	100%	-	-	100%	-	-

Fixed Income

Currently all fixed income within the Pension Master Trust and LTCAP is passively managed. Throughout the month of December, the duration of the bond portfolios of both the Pension Master Trust and LTCAP was lengthened to approximately 7.5 years, in order to track the new benchmark, which is a composite consisting of both the Scotia Capital Universe Bond index and the Scotia Capital Long Bond index.

The University's operating funds, or Expendable Funds Investment Pool (EFIP) consisted of a 25.6% allocation to short-term bonds, 18.2% to medium term bonds, and 4.0% to money market instruments as of December 31, 2000.

The pie charts depict the geographical distribution of the equity segments for the Pension Master Trust and LTCAP as of December 31, 2000.

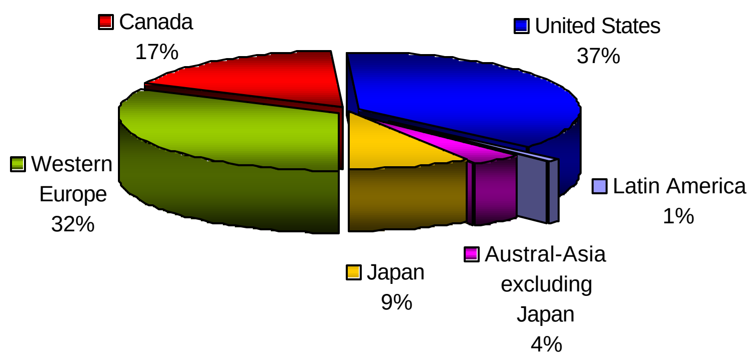
Synthetic equity is used to gain foreign equity market exposure within the Pension Master Trust to accomodate for the foreign property limit in the Federal Income Tax Act.

The market value of the futures exposure is fully collateralized by Treasury Bills. This replicates a cash position in the market so that leverage is not involved in the process.

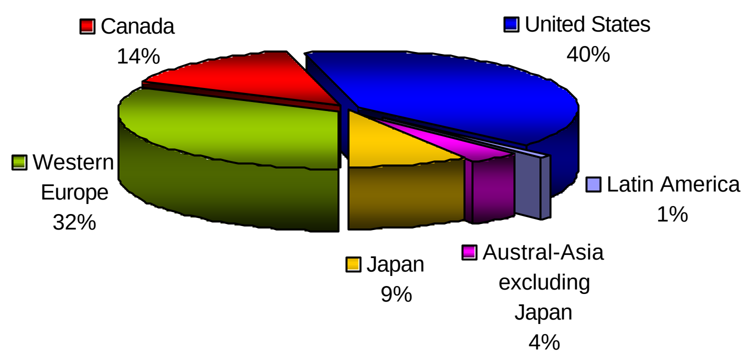
The actual foreign content of the Pension Master Trust as at December 31, 2000 was 20.48%.

Equity Distribution by Region

Pension Master Trust



Long Term Capital Appreciation Pool



ROBERT W. KORTHALS, *CHAIRMAN OF THE BOARD*

Senior advisor to the President of the University of Toronto on financial matters. He was President of the Toronto Dominion Bank from 1981 to 1995. He is a Commissioner of the Ontario Securities Commission. Mr. Korthals also serves as Chairman of the Ontario Teachers' Pension Plan Board, and as director of several other corporations including Cognos Inc., Co-Steel Inc., Rogers Communications Inc., and Suncor Energy Inc. Mr. Korthals holds a degree in Chemical Engineering from the University of Toronto and an MBA from the Harvard School of Business.

JALYNN H. BENNETT, *Chair of the Audit Committee*
Jalynn H. Bennett & Associates Ltd, President

H. GARFIELD EMERSON, *Chair of the Compensation Committee*
N. M. Rothschild & Sons Canada Ltd., President and CEO

ROBERT J. BIRGENEAU
University of Toronto, President

NEIL DOBBS, *Secretary*
University of Toronto, Deputy Secretary to the Governing Council

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C.N. Investments, Manager, Equity Investments

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Scotia Capital, Deputy Chairman

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Clairvest Group Inc, Executive Chairman

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DONALD W. LINDSEY, CFA
PRESIDENT AND CHIEF EXECUTIVE OFFICER
President and CEO of UTAM (University of Toronto Asset Management Corporation). He is also the Chief Investment Officer of the University of Toronto. Mr. Lindsey began his career with the University of Virginia Investment Management Company, where he served initially as Investment Analyst and proceeded to become Assistant Director of Investments, Senior Investment Officer and Director. He has taught in the McIntire School of Commerce at the University of Virginia. He holds the CFA designation, and has also taught CFA exam preparation and other courses in Croatia, Romania, Japan, South Africa, Switzerland, Italy and the United Kingdom.

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