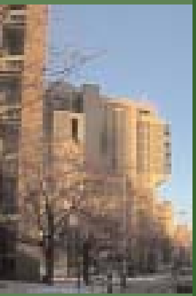


2002

Annual Report

University of Toronto Asset Management Corporation

Table of Contents

UTAM Annual Report 2002

UTAM Annual Report 2002

All returns mentioned in this report are in Canadian dollar terms, unless otherwise stated.

University of Toronto Asset Management Corporation

Annual Report 2002

Mission

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.

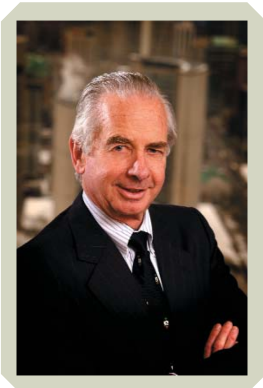
Introduction

The University of Toronto Asset Management Corporation (UTAM) was registered by the University of Toronto in April 2000. UTAM is an investment subsidiary wholly owned by the University and governed by an independent Board of Directors. The UTAM Board is responsible for the oversight and direction of UTAM and reports on the investments under management to the Business Board of the University of Toronto.

The audited financial statements for the operations of UTAM for the year ended December 31, 2002, are presented at the end of this report. The assets invested by UTAM are held by the University of Toronto and are reported in the University's financial statements for fiscal years ended April 30 and in the University of Toronto Pension Plan and OISE Pension Plan financial statements for fiscal years ended June 30.

Calendar year 2002 was the second complete year in which the funds were under management by UTAM.

UTAM



UTAM was incorporated in April 2000, about one month after the equity markets around the world reached all-time peaks. In its 31 months of existence, markets have broadly moved in only one direction: upward for bonds and downward for equities.

One of the purposes behind establishing a separate investment management corporation was to take a long view when developing investment strategies. Since, over long periods of time, equities historically have yielded better returns than those available in the fixed income markets, it was decided early on to accept the risk of more volatile returns year to year by investing substantially more funds in equity securities than in bonds. That has proven to be a costly strategy for two years in a row. In 2002, the endowment and pension funds had investment losses of $119 and $159 million respectively.

Prior to the formation of the Corporation, the University's funds had been largely invested passively - that is, in baskets of securities mirroring certain selected indices, or benchmarks, such as the Scotia Capital Universe Bond Index and the S&P/TSX Composite Index. A second purpose of UTAM, as the Corporation came to be called, was to seek out investment strategies that would lift our returns above these benchmarks. For the second successive year, management succeeded in meeting this objective: for both funds, our returns exceeded our benchmarks, thereby reducing our investment losses by $62 million and $39 million for the endowment and pension funds respectively. I would like to thank our staff for their hard work, diligence and perseverance during the depressing markets we have experienced, and for their considerable "value added" during the past year.

It saddens me to report that our President and Chief Executive Officer, Donald Lindsey, who came to us from the University of Virginia to start up UTAM, has decided to leave us to take up a more attractive offer back in the United States. It has been a pleasure to work with Don during these start-up years, and on behalf of the Board, I take this opportunity to say, thank you for a job well done.

Several of our Directors served for many years as volunteers on the President's Investment Committee, the predecessor of UTAM. Jalynn Bennett, Garfield Emerson, Russell Hiscock and Gordon Homer agreed to serve for a further two years to ensure the successful launch of UTAM. Their experience has been of enormous value and I thank each of them for the support they have provided the management of the Corporation.

This is also my last report to contributors and beneficiaries of the University's funds. I thank the University for giving me the privilege of serving as chairman of UTAM and its predecessors these past seven years. I wish my successor and all those involved much success in achieving our objective of building an investment operation that is "best in class".

Robert W. Korthals
Chairman

UTAM will finish its third year of operation on May 1, 2003. Establishing an investment management organization with a mandate such as UTAM's is a challenging task in any environment, and the negative markets of the past three years have been hazardous for all investors.

Investor psychology was severely damaged in 2002. After coming through the tragic events of September 11, 2001, equity markets were hard hit by a surge in high-profile bankruptcies, rampant accounting and corporate governance improprieties, financial analyst malfeasance and heightened geopolitical tensions. I am proud that the professionals comprising our young organization remained focused and driven throughout this period, the most difficult that any of us have faced in our investment careers. This excellent attitude is important as we continue to build a world-class investment organization.

A number of allocations were made during the year to deal with the current investment environment while keeping the long term in mind. The equity exposure was reduced systematically throughout the year, particularly in LTCAP. Alternative asset strategies were added in place of traditional equity exposure to reduce risk and preserve capital, including allocations to commodities, relative-value and global fixed income hedge funds and long-short equity hedge funds. Long-term commitments were made to fund managers investing in timberland, privately held oil and gas companies and early-stage biotech and health-care companies.

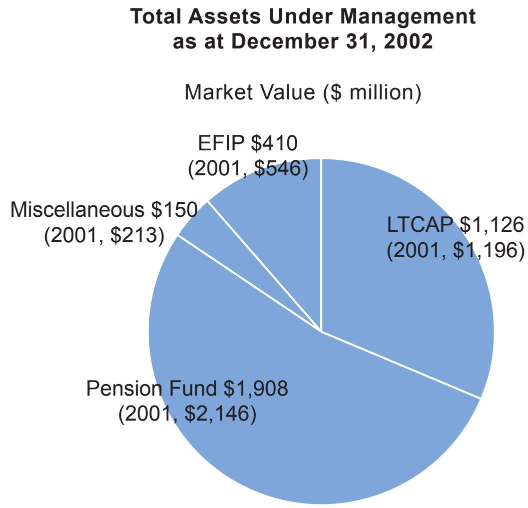
The underpinning of the investment management process is a thorough understanding of the liabilities that must be met both currently and in the future. While pension liabilities remained stable, UTAM management worked extensively with University of Toronto administration this past year as they evaluated various endowment spending policies and their impact on endowment asset allocation. While any change in endowment payout will likely result in some change in asset allocation, we believe this well-coordinated effort will ensure the ongoing financial stability of the University of Toronto.

The asset allocation designed to meet the liabilities must be based on the long term. It is a basic premise of modern capitalism that equity returns should outperform cash returns over long periods of time. The market performance of the last three years is symptomatic of the elimination of pricing excesses in the equity markets and a cyclical downturn rather than a reflection of systemic changes in capital markets. This period is also reminiscent of the 1970s in that inflation has outpaced the return on equities by a wide margin. Although history has shown that such a situation can continue for long periods of time, the foundation of capital formation underscores the role of equity in endowment and going-concern pension portfolios for the long term. While UTAM is very early in its life, we are pleased to have outperformed the relevant composite benchmarks over the past two years by a significant margin. As we strive to do this on a sustained basis, we feel confident that our asset allocation will provide significant financial resources in the future for the University of Toronto.

Investment management success is premised on the tenacity, integrity and thoughtfulness of the individuals engaged in the process. It has been an honour and a pleasure to work with the dedicated and talented staff and Board of Directors of UTAM.

Donald W. Lindsey

Donald W. Lindsey
President and CEO



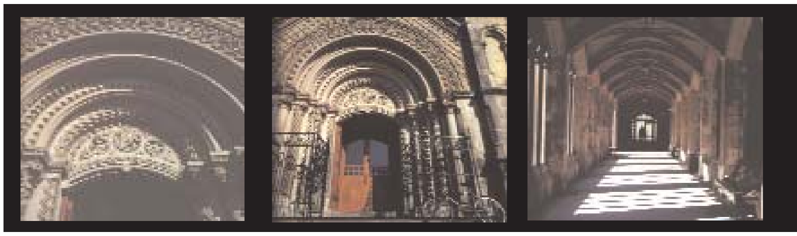
UTAM principally oversees the investment of the University of Toronto's three main asset pools. These three investment pools had an aggregate market value of $3.4 billion as at December 31, 2002. The assets under management are as follows.

LONG-TERM CAPITAL APPRECIATION POOL (LTCAP)

The Long-Term Capital Appreciation Pool (LTCAP) is a fund composed primarily of endowed assets, including quasi-endowments, which are unrestricted funds designated as long term by the University of Toronto. LTCAP had a market value of $1,126 million as at December 31, 2002, compared with $1,196 million one year earlier. The decrease in market value reflects declines in capital markets net of the fund's cash inflows from contributed donations and outflows for endowed spending. The decline of $70 million represented $119 million in investment losses and $49 million in net inflows from endowment payouts, donations and fund expenses.

PENSION MASTER TRUST (PENSION)

The Pension Master Trust (referred to hereafter as "the Pension fund") combines for investment purposes the assets of the University of Toronto Pension Plan and the University of Toronto OISE Pension Plan. It had a market value of $1,908 million as at December 31, 2002, compared to $2,146 million as at December 31, 2001. There were two main reasons for the decline in market value over the year: equity markets lost value in a globally difficult investment environment, and the Pension fund had net cash outflows as pension payments exceeded contributions. The decline of $238 million represented $159 million in investment losses and $79 million in net outflows from pension payments, contributions and fund expenses.



Expendable Funds Investment Pool (EFIP)

The Expendable Funds Investment Pool (EFIP) consists of short- and medium-term operating assets of the University of Toronto. It includes government grants and student fees as well as ancillary operations revenue, capital funds, donations, research grants and trust funds. EFIP had a market value of $410 million as at December 31, 2002, compared with $546 million at the end of the previous year. The decrease in market value reflects both a small investment decline and net outflows for University operating and capital expenditures. The decline of $136 million represented $8 million in investment losses and $128 million of net outflows for University expenditures and fund expenses.

Specifically Invested Funds

In addition to the three pools, total other miscellaneous investments of $150 million as at December 31, 2002 were administered by UTAM. These sundry accounts include capital held temporarily in reserve for University building projects, and specifically invested trust funds consisting of endowed and expendable assets that are segregated for investment according to conditions and constraints of the particular trusts. Miscellaneous assets totaled $213 million as at December 31, 2002; the reduction was a result of University capital project expenditures.

All market values and rates of return are expressed in Canadian dollar terms unless otherwise specified.

MANAGEMENT OF INVESTMENT RISKS

UTAM was established to manage investments and investment risk. Certain of these risks are reviewed here.

The greatest long-term risk to a fund is the risk that it will fail to meet its future obligations. To deal with the risk of future asset-liability mismatch, UTAM compares developments in capital markets to the liability structure of the University of Toronto's endowment fund, pension plan and operating funds on an ongoing basis. The long-term asset mixes of LTCAP and the Pension fund have been established based on estimated future needs and the estimated future returns of capital markets; these estimations are the subject of a constant review process.

Excessive volatility (variability of asset prices and returns) can be caused in the portfolios by concentrations that deviate from market weights for any security, sector, investment style or strategy. Concentrations and excessive risk also form in portfolios when prices rise in response to mass demand for a popular investment exposure. To manage concentration risk, UTAM focuses on broad asset diversification, holding many different types of exposures of limited and controlled magnitude.

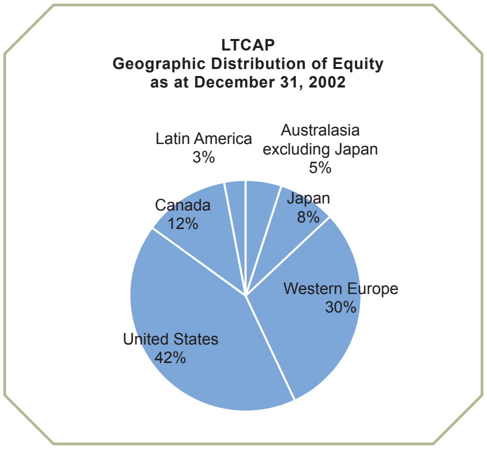
As a manager of managers, UTAM selects and assigns mandates to portfolio managers with specific skills that follow different investment strategies and styles. Investment risk and business risk are inherent in these allocations. Allocations of investment capital are assigned to managers following a due diligence process. Ongoing monitoring and compliance testing is conducted on the external managers' investment processes and operations. Relationships with external portfolio managers are handled with transparency and open communication to manage the risk of problems developing in external manager operations. Internal expertise allows management oversight of specialized strategies with complex characteristics, such as private equity and hedge funds, which are increasingly important for diversifying the traditional investment strategies of publicly-traded equities and bonds; UTAM staff members are responsible for continually upgrading their investment knowledge. Mandates are assigned with the requirement that the professionals in external organizations uphold the same standards adhered to by UTAM, which are those laid out in the Code of Ethics and Standards of Practice governed by the Association of Investment Management and Research (AIMR). UTAM and the external managers to which it delegates are investment fiduciaries; the primary duty of an investment fiduciary is to protect the interests of the fund beneficiaries consistent with the given mandate and objectives provided by the client.

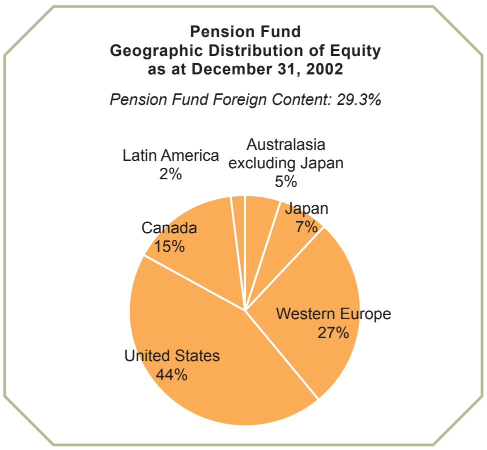
GEOGRAPHIC DIVERSIFICATION OF EQUITIES

Equities are allocated globally, mainly to developed markets.

For both funds, the proportion of equity invested in the United States is slightly less than the 50% capitalization weight that the U.S. market represents in global equity markets. Canadian equity is given a greater weight in the portfolios than its weight in world capitalization, which is less than 3%. Other countries with developed capital markets are represented in the international equity segments of the funds roughly in proportion to the capitalization weights of their markets. The normal weights in the Canadian, U.S. and international equity classes are prescribed by policy.

Selected equity market indexes imply the basis for





The pie charts illustrate the geographical distribution of the long-only equity segments for LTCAP and the Pension fund as of December 31, 2002.

making allocations and provide the means for measuring performance within the equity classes. Canadian equity is measured relative to the Standard and Poor's/Toronto Stock Exchange (S&P/TSX) Composite Index, formerly called the TSE 300 Index. U.S. equities are measured against the Russell 3000 Index; a much broader index than the S&P 500 Index, the Russell 3000 includes large-, mid- and small-capitalization stocks. International equity is measured against the Morgan Stanley Capital International Europe, Australasia, and Far East (MSCI EAFE) Index. The normal weights for the 21 countries that make up the non-North-American equities index are based on actual investable market capitalization.

Role of Fixed Income

Most of the fixed income investments held by LTCAP and the Pension fund are passively-managed Canadian bonds. The performance benchmark is composed of 60% Scotia Capital Universe Bond Index and 40% Scotia Capital Long Term Bond Index. The portfolios that track these benchmarks are composed of high-quality government and corporate bonds.

Fixed income portfolios perform the important strategic role of enhancing protection for pension and endowment funds during disinflationary periods, which are associated with falling equity prices, declining interest rates and rising bond prices. This environment characterized most of 2002. The policy duration target of 7.5 years was designed specifically to maximize the effectiveness of the disinflation hedging characteristics of the bond portfolio. Duration, expressed in years, is a measure of the price sensitivity of a fixed income instrument to a change in interest rates.

In July 2002 an actively-managed bond portfolio was established in-house with $100 million of LTCAP. The in-house mandate enables management to make moderate adjustments to portfolio duration in order to position fixed income assets for anticipated changes in the yield curve and in sector spreads.

Foreign Currency Exposure

Many academic studies have hypothesized that the currency component of foreign asset returns should not affect the long-term rate of return on foreign investments; however, practitioners have found that foreign exchange fluctuations can be a considerable source of short-term volatility and potential shortfall. In the past, Canadian investors have tended to hold foreign portfolios completely unhedged. However, increases in allocations to non-Canadian assets and the high volatility of currency markets have caused Canadian institutional investors to review currency risks and, increasingly, to adopt currency risk management programs.

UTAM's global diversified approach to asset allocation is attended by significant exposure to foreign exchange risk. Benchmark foreign currency exposures in LTCAP and the Pension fund are 70% and 50% of the total funds respectively. The actual direct exposure to foreign investments in the Pension fund was 29.3% at December 31, 2002; the balance of the foreign exposure was achieved through derivative structures.

A currency overlay manager is engaged to partially hedge the currency exposure of the non-Canadian assets. The objective of the currency management program is to moderate the volatility in funds arising from exchange-rate volatility. The policy 50% hedge ratio represents a neutral stance as to the direction of future currency exchange movements. To balance the costs and benefits of the currency overlay mandate, only exposures to major world currencies (U.S. dollar, euro, British pound, and Japanese yen) are half-hedged.

Management Strategies and Styles

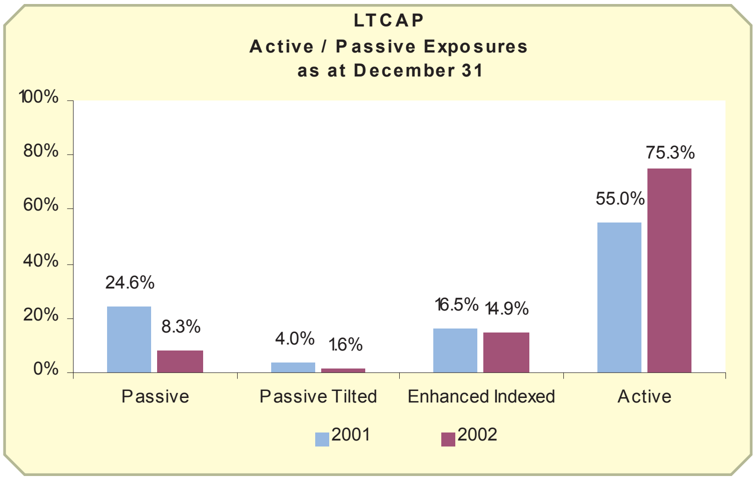
UTAM employs a range of investment strategies within each asset class, including passive, passive-synthetic, tilted synthetic, enhanced indexation and active management.

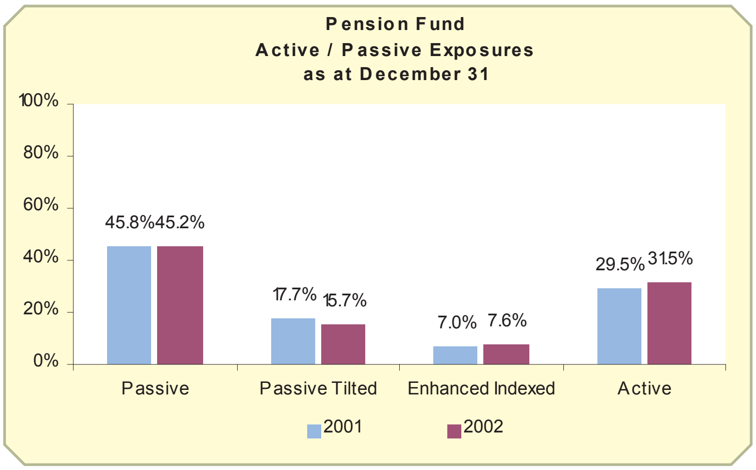
Alternative strategies, including hedge funds and private equity partnerships are included in the actively-managed strategies.

Manager styles represented in the equity segments range across specializations, including value and growth, concentration by capitalization size, and differing philosophies for combining quantitative, qualitative and fundamental investment analysis in the portfolio management process.

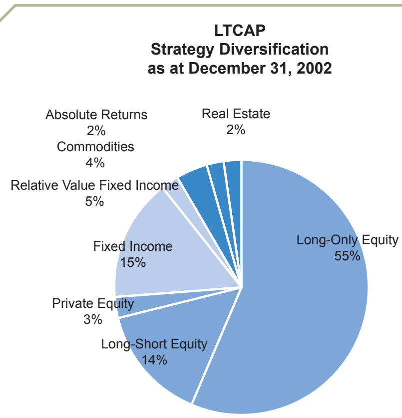
Portfolio strategies are further differentiated by the amount of active risk that a portfolio manager takes compared to the relevant index.

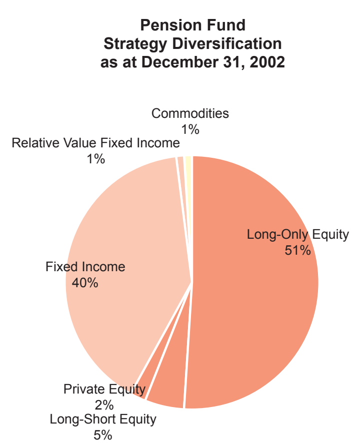
The passive exposure in LTCAP was reduced throughout 2002 and funds reallocated to active management. The significant differences between the strategy weights in LTCAP and in the Pension fund are largely due to constraints on the Pension fund. Foreign content rules make it necessary to allocate more assets to passive synthetic strategies deemed to be Canadian content in accordance with the Income Tax Act.





The charts illustrate the total fund exposures to different investment strategies in LTCAP and the Pension fund at the beginning and end of 2002.





The charts show the diversification at the end of 2002 for LTCAP and the Pension fund.

Strategy and Style Definitions

Passive management involves replicating the returns of a particular capital market index. This replication may be full, in which case the fund holds all the individual securities that comprise the index, or it may be selective, involving a stratified portfolio or sampling of securities that closely parallels the target index's characteristics. Alternatively, **passive synthetic** strategies may be used to reproduce the total return of an index through the use of derivative instruments. In these portfolios, the asset is created synthetically through holding positions in equity index futures contracts on a non-leveraged basis and collateralized with high-quality, short-term debt instruments. **Enhanced index** strategies employ risk-controlled techniques to add value to purely passive strategies. **Active management** is the process of a manager building and running a portfolio of equities designed to outperform the broad equity markets.

Within the actively-managed segments, mandates are further diversified by investment style. In this context, **style** refers to the methodology investment managers use to select securities for a portfolio. The most common style distinction is between value and growth. **Value** managers select equities that, for example, trade at a low multiple of price to earnings relative to the broad market, with the expectation that they are undervalued and will move up in price. **Growth** managers select equities with earnings growth rates that are higher than those of the broad market. Consequently, they tend to trade at a price-to-earnings multiple that is higher than that found in the broad market, but with the expectation that their higher growth will translate into equity price growth that outpaces the market.

Active Risk

The **active risk** of a portfolio is defined as one standard deviation of the difference between the portfolio's return and the index return. For example, if a portfolio is managed to have an active risk of 5%, its return is expected to be within one standard deviation (+/- 5%) of the index approximately two-thirds of the time, and within two standard deviations (+/- 10%) approximately 95% of the time. Active risk can be estimated on a forward-looking basis by analyzing the holdings compared to the index at a particular point in time, or on a retrospective basis, by looking at actual differences observed between the portfolio's returns and the index returns.

A passive portfolio manager takes no active risk relative to the target index; the portfolio contains the same securities in the same proportion as the target index, so its returns closely match the index returns. An active portfolio manager, on the other hand, selects securities to create a portfolio that is distinct from the index; the manager takes a degree of active risk and produces returns that are different from those of the index. An enhanced index manager takes a small degree of active risk. Over an investment horizon of several years - four years being the conventional standard for measurement purposes - enhanced index and active management strategies are expected to outperform the benchmark on an annualized basis due to the manager's skill.

Alternative Investment Strategies

Hedge funds are strategies that in general have the potential of earning positive returns regardless of the direction of the broad market. UTAM tends to use hedge fund strategies in which the investment manager buys undervalued securities expected to increase in price while simultaneously selling short securities perceived to be overvalued and thus expected to decline in price. The component of the portfolio that is sold short also acts as a hedge against broad market declines.

Private equity partnerships invest in privately held corporations in which fundamental changes are effected prior to the sale of the company or a public equity offering.

External and Internal Management

The assets under management at UTAM are mainly invested by external managers. These investment managers are selected for their specialized expertise in particular portfolio strategies.

For certain strategies, professionals within UTAM possess the experience and specialized expertise necessary to manage portfolios that provide particular advantages. The key benefits of internal management are a lower cost structure and the opportunity to establish several suitable strategies that are not available externally.

In September 2001, UTAM began internal management with $80 million of LTCAP assigned to a capitalization-tilted synthetic U.S. equity portfolio. The investment philosophy for this portfolio is that exploitable valuation differences arise from time to time among the capitalization strata of the U.S. equity market. Liquid and fairly priced futures contracts are available on the large-, mid- and small-capitalization market segments, represented by the S&P 500, S&P 400 and Russell 2000 contracts, respectively. Risk-adjusted excess returns are also available through selection in the short-term money market for the collateral portfolio that underlies the equity index futures positions.

In early 2002, UTAM hired a Director of Fixed Income and converted $100 million of LTCAP's formerly external, passively-managed bonds to an internal, actively-managed Canadian bond portfolio. In addition to the Canadian bonds, the internal fixed income manager invests the U.S. cash and short-duration fixed income portfolios that serve as underlying collateral for the capitalization-tilted synthetic U.S. equity portfolio.

Late in 2002, a plain synthetic U.S. equity portfolio in LTCAP was seeded with $25 million. The mandate allows temporary cash balances to be overlaid with liquid equity index futures contracts to maintain equity market exposure; it also serves as a simple vehicle for rebalancing among asset classes and raising liquidity as needed.

Also late in 2002, two small, diversified portfolios of Canadian income trusts were established for LTCAP and the Pension fund.

The internal mandates are market oriented and managed to standard benchmarks, including the Scotia Capital Universe Bond and Scotia Capital Long Bond indexes, the Russell 3000 Index, the S&P 500 Index and the S&P/TSX Composite Index.

Each internal mandate at UTAM is governed by an investment policy that establishes specific goals, guidelines and constraints for that portfolio.

In LTCAP, internally managed assets were 6.9% of the total fund at the beginning of 2002 and 17.2% as at December 31, 2002. In the Pension fund, internally managed assets were 0.1% at the end of 2002.

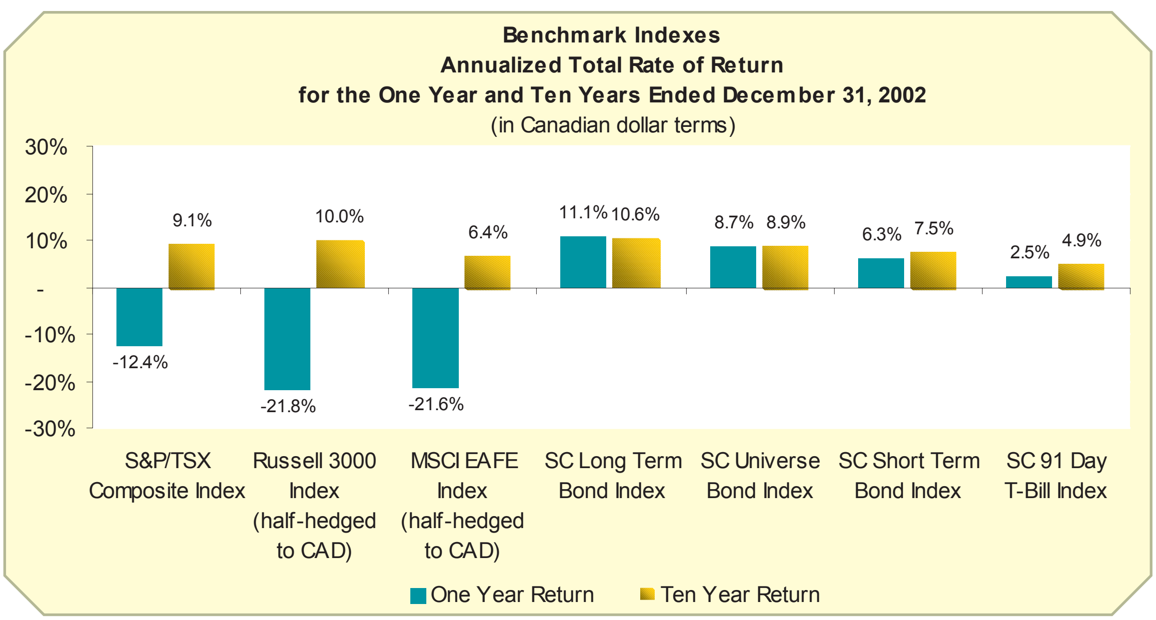
Most world equity markets produced negative returns in 2002 for the third consecutive year; the last time this occurred was 1939 through 1941. This environment had a very negative impact on investor confidence, causing large capital flows out of equities and into bonds and cash. The returns for Canadian, U.S. and international equity markets, and for the broad Canadian bond market, in 2002 were as follows:

Indexes	**2002 Return**
S&P/TSX Composite	-12.4%
Russell 3000	-22.4%
NASDAQ	-32.0%
MSCI EAFE	-16.2%
Scotia Capital Universe Bond	8.7%

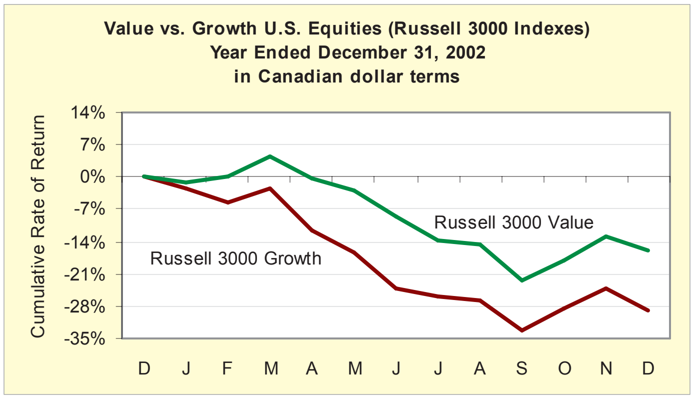
This was the third consecutive year in which fixed income investments outperformed equities.

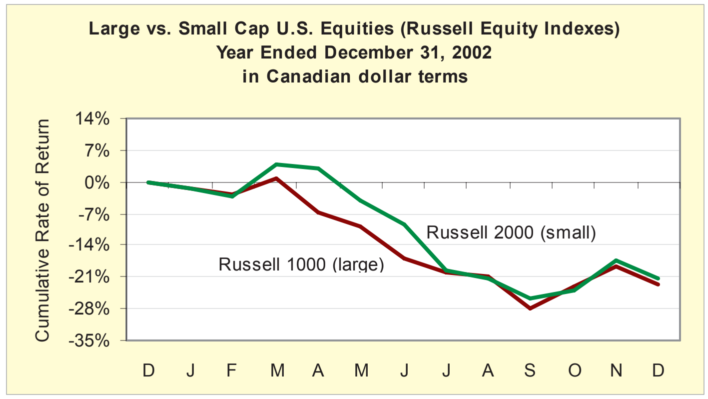
One of the most discussed and most researched issues among economists, analysts and policy makers in 2002 was the potential for worldwide deflation. While inflation is a normal part of an economic cycle and can be tempered when central bankers raise interest rates, deflation represents a much larger threat to economic growth. In a deflationary environment, corporations have extremely limited pricing power, so they cease making capital expenditures and stop hiring. The standard monetary policy tools for stimulating economic growth do not work in this environment.

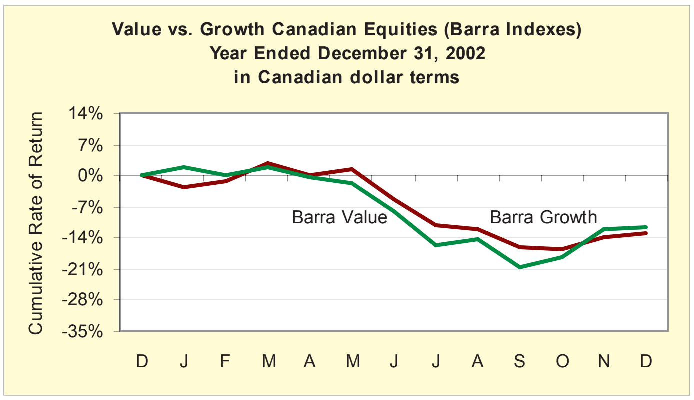
Ironically, many observers focused on deflation while one of the indicators of inflation rose substantially in 2002: commodity prices. The Goldman Sachs Commodity Index (GSCI) returned 30.7% for the year. Most of the increase took place in the energy sector and was driven by geopolitical tensions. Gold prices reached their highest levels in four years.

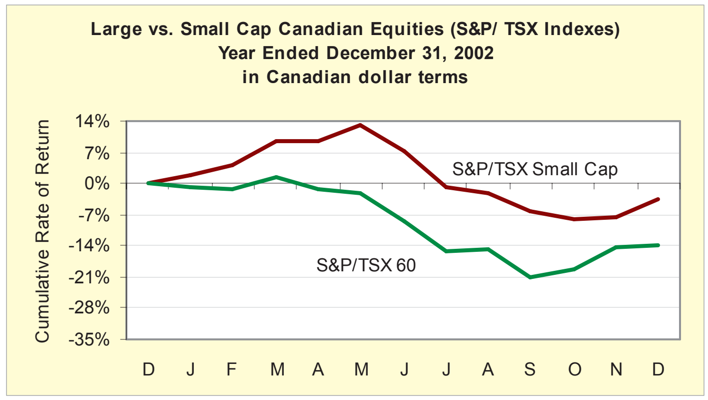


The bar chart shows the one-year and ten-year returns of the key indexes used for benchmarking the asset-class segments of the investments under management. The negative equity returns of the past year contrast sharply with the ten-year annualized returns.









North American Equities

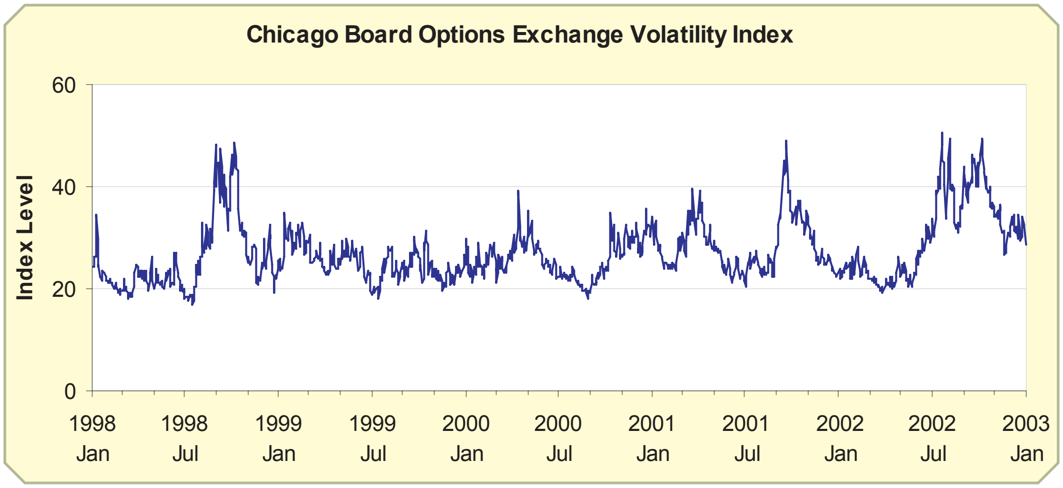
Three principal factors dominated North American equity markets throughout 2002: the contrast between value and growth styles; the variation among capitalization segments; and the level of volatility.

As the above charts show, the value style of investing outperformed the growth style for the third consecutive year. The value-over-growth differential in 2002 was wide in the U.S. but narrow in Canada. The U.S. Russell 3000 Value Index lost 16.1%, while the Russell 3000 Growth Index lost 28.8%; in Canada, the Barra Value Index lost 11.5% while the Barra Growth Index lost 13.1%.

Also for the third consecutive year, small-capitalization stocks outperformed large-capitalization stocks in 2002, by a wide margin in Canada but by only a narrow margin in the United States, as shown in the above charts. The small-capitalization Russell 2000 Index lost 21.3%, while the large-capitalization Russell 1000 Index lost 22.5%; in Canada, the S&P/TSX Small-Capitalization Index lost only 3.5% compared with a loss of 14.0% on the large-capitalization S&P/TSX 60 index.

The Canadian and U.S. markets differed dramatically in terms of equity price volatility; the volatility of the TSX Composite Index fell to less than two-thirds of its 2001 level, and the level in Canada was, on an annualized basis, about two-thirds of that observed in the U.S. equity market. U.S. equity market volatility, as measured by the volatility of Russell 3000 Index returns, remained unchanged from 2001 at over 20% per year, a historically high level.

The following graph of the Chicago Board Options Exchange Volatility Index illustrates the implied volatility of the equity market based on S&P 100 Index option prices, representing the most liquid and largest-capitalization U.S. stocks. The graph shows that the latter half of 2002 was an extended period of volatility when this indicator reached lofty heights similar to the peaks corresponding with the terrorist attacks of September 11, 2001, and



Markets have been characterized by periods of extreme volatility over the past five years, including a protracted period in 2002.

the Russian debt crisis of August 1998, but with the volatility being more protracted. This period of volatility was a reflection of the declining prices and extreme investor uncertainty that characterized this year of falling equity markets.

INTERNATIONAL EQUITIES

Undifferentiated across-the-board selling dominated international equity markets this year. The EAFE Index (Europe, Australasia and Far East) markets were down by 16.2% for the year. Every country in the index, except for the tiny markets of Austria and New Zealand, posted a negative return for the year. Of the major equity markets, Japan did best but was still down 11.2%, the United Kingdom declined by 16.1%, France was down 22.0% and Germany lost 33.9%.

In other bear markets, there has been some differentiation in the market. For example, in the past, higher quality companies held up better than troubled ones. This was not the case in 2002. Many managers believe cash outflows from mutual funds forced sales of better quality securities, putting those good names under selling pressure in the market. EAFE Value and EAFE Growth subindexes performed at almost exactly the same level, each returning within 0.1% of the overall index. Value did not protect on the downside or provide capital protection and the lack of differentiation between value and growth returns was unusual.

Each and every sector in the index had a negative return. A few defensive sectors such as consumer staples had small losses; the information technology sector in particular had a larger loss. Most sectors, including such diverse areas as financials, telecoms, industrials, health care, and consumer discretionary purchases, produced returns in the range of -15.9% to -23.7%.

PRIVATE EQUITIES

Calendar 2002 was a difficult year for private markets in North America and Europe; rates of return, the amount of capital invested and the number of funds raised all continued to fall after sharp declines in 2001. A recent survey of venture capital funds reported that the capital raised fell from U.S. $36 billion for 129 venture capital funds in 2001 to U.S. $15 billion for 83 funds this year[1]. The one-year internal rate of return for U.S. venture capital to September 30, 2002, was -22.3% (in U.S. dollar terms); the twenty-year return for venture capital to the same end date stood at 16.7%. While this rate still

[1] Source: VentureWire, January 2003.

significantly exceeds the 20-year return for public equities, it is lower than most investors in private equity have come to expect.

The markets for buyouts and mergers and acquisitions also came under pressure in 2002. While investments were available, making a profitable exit was difficult. Bank lending for these types of transactions was extremely difficult to obtain. The tighter lending climate affected the underlying companies, and a related result was the monthly default rate on corporate bonds (including debt-covenant breaches and bankruptcies) rose to 11.0% at the end of September 2002 compared to the average from 1971 to 2001 of 3.0%. While the tight credit market has made it harder for buyouts and mergers, it has however opened up an extensive new market in distressed securities.

Fixed Income

The Canadian fixed income markets produced a solid positive result during 2002; the Scotia Capital Universe Bond Index returned 8.7%. While the yield of this index declined by only 37 basis points during the year, this decline together with demand for fixed income generated a price return of 2.6%, which, when combined with the income return of 6.1%, resulted in the 8.7% total return.

Bond market returns for the year varied across term and across sector. The relationship between return and term was quite direct: long-term bonds (ten years and over) returned more than mid-term bonds (five to ten years), and mid-term bonds returned more than short-term bonds (one to five years). However, the return difference between the short-term and mid-term parts of the market was in contrast to that between the mid-term and long-term parts of the market. The mid-term part of the curve, on a duration-adjusted basis, was clearly the best part. Mid-term bonds outperformed short-term ones by 420 basis points, while lagging behind long-term bonds by only 59 basis points. Among the various issuer sectors, on a duration-adjusted basis, provincial bonds had the highest return, followed by corporate issues, then Government of Canada bonds.

Currencies

In 2002, the euro reversed course with respect to its four-year decline against the U.S. dollar, which depreciated against most major currencies. By the end of the year, the euro had risen 18.0% relative to the U.S. dollar and 16.6% relative to the Canadian dollar. The European Central Bank held its interest rates steady while the U.S. Federal Reserve continued its policy of reducing its rates to stimulate the economy and so, with the exception of the Japanese yen, the forward premium on most world currencies increased in attractiveness relative to the U.S. dollar. In July, the Canadian dollar rose briefly, then fell sharply, resulting in extreme volatility. However, the performance of the commodity and energy sectors that are important in the Canadian economy provided support, and the Canadian dollar ended the year up 1.0% relative to the U.S. dollar.

ASSET MIX

The policy asset mixes for the three funds under management were adopted on January 1, 2001. The asset mixes were developed by the University of Toronto in conjunction with UTAM and approved by the Business Board of the University in late 2000 following a study of each fund's expected obligations and the expected ten-year risk and return characteristics for capital markets.

Each fund's policy asset mix is characterized by its ratio of equity to fixed income, which is primarily determined by the long-term return requirements of the fund and the risk tolerance of the client fund. Funds with high rate-of-return objectives, such as the LTCAP that has a real return target of inflation plus 5%, are structured to include greater proportions in asset classes with higher long-term return potential-and corresponding higher levels of risk.

ASSET ALLOCATION

UTAM follows the investment discipline of managing asset class weights close to normal policy levels, rebalancing systematically with monthly sponsor-driven cash flows or more frequently if market prices have caused asset weights to drift from target weights. For certain asset classes, the target weights are adjusted by UTAM to strategically accommodate the inclusion of alternative investments in the total fund; the adjustments are managed within the asset weight ranges specified in the investment policies.

The cash category gained popularity during 2002 as growing risk aversion and negative market sentiment caused many investors, both individual and institutional, to place designated long-term assets in cash accounts. Given the prevailing angst that characterized this third-in-a-row year of falling equity markets, this type of decision demonstrated a desire for caution but also a willingness on the part of some investors to take benchmark risk, that is to deviate actual asset weights away from target weights. UTAM adhered to the long-term asset mix discipline and focused on diversifying equity exposure across styles and into alternative strategies that have low correlations with traditional equity styles. This is a portfolio approach that concentrates on the long-run investment horizon. Long-only equity exposure was reduced within the bounds of the established LTCAP and Pension fund policy asset mixes, which exclude cash and equivalents. EFIP has a substantial cash allocation due to the portion of the assets earmarked for short-term expenditure. One problem with cash investments is the certainty of negative real rates of return in the current environment of low nominal returns but rising inflation. A second problem is that unallocated cash balances raise the risk that key market turning points may be missed, to the detriment of long-term performance. This is a danger because markets tend to bounce quickly and sharply off their lows, and the timing of these market turns is unpredictable. The best defense is to maintain market exposure.

RETURN OBJECTIVES AND PERFORMANCE BENCHMARKS

The investment policies and goals specify three separate return objectives for LTCAP and for the Pension fund: a composite benchmark, a real return target, and a peer group hurdle.

The **composite benchmark** is central to the process of evaluation. Composite benchmarks are comprised of major market indexes weighted

Asset Mix

The **policy asset mix** refers to the normal benchmark weights assigned to asset classes (eg. Canadian equities) that a fund targets for the purposes of achieving its long-run investment objectives. The policy defines weight ranges for each asset class that guide the allocation of assets and constrain deviations from targets. The asset mix corresponds to a composite benchmark composed of capital market indexes. The composite benchmark characterizes a risk/reward profile for the funds that is commensurate with the liabilities. It represents the target investment return and corresponding level of risk (volatility) required to meet that fund's liabilities. Expected returns and volatilities are calculated from historical price data, adjusted to reflect the current market environment. Asset allocation has a much greater role in long-term results than any other decision. The asset mix decision is a key component of an investment program and of the policies that govern the fiduciaries who oversee and invest institutional funds.

Capital Market Index Selection

The Russell 3000 Index was chosen to benchmark U.S. equity performance due to its characteristics. For example, the Russell 3000 covers 98% of the publicly-traded stocks in the United States and reflects the broad opportunity set available to investors in that market. The proprietary index composition methodology for the Russell 3000 is transparent and robust, allowing for replication, and the index is stratified by capitalization size, style (growth and value) and industry sector, permitting different cross-sections for specialist coverage. These features allow portfolio managers to clearly specify and quantify their objectives relative to that benchmark. Each of the indexes that make up the composite benchmark has been selected for its representativeness of the investable market in its class, as well as for the transparency and accessibility provided by the proprietor.

according to the policy asset mix for the particular fund. For example, the Pension fund has a 25% normal asset weight in U.S. equity, which corresponds to the weight assigned to the Russell 3000 Index in the calculation of the rate of return generated by the performance benchmark. Composite benchmarks offer an objective, market-oriented evaluation method for judging investment performance, skill and risk-adjusted reward.

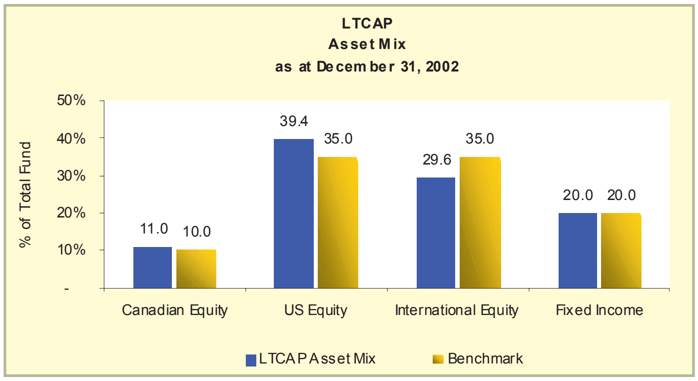
The **real return objective**, or inflation-adjusted objective, for an asset pool is the key that links the assets and the liabilities of the funds. Nominal returns are standard format for reporting investment performance; the actual real rate of return results from subtracting the inflation rate from the nominal rate of return. Comparing performance to the real return objective provides a measure of a fund's record for preserving capital and meeting fund objectives over long periods of time. Real returns are a function of the risk taken in the portfolio and the opportunities in the capital markets as a whole. Different nominal interest rate and inflation rate environments can cause real returns to diverge for extended periods from long-run averages. For example, five years ago, the inflation rate was 2% and real returns for equity-dominated portfolios were in the double digits, while during 2002, inflation was close to 4% and real returns for all equity classes were negative.

The third perspective is **comparative performance measurement**, which entails comparing the rate of return for a fund to a range of returns produced by a group of institutional funds considered to be peers. Identification of an appropriate peer group or "universe" is important for meaningful comparisons. A suitable universe contains a statistically significant number of participants with investment objectives and obligations similar to those of the fund being measured.

Proprietary comparative performance surveys gather sample data on returns in order to produce a universe of investment fund results. A peer group percentile ranking indicates how an individual fund compared relative to the sample group.

A key output of a peer group survey is the median return, which is the value in the middle of the range. While the median fund return is published, the strategy and objectives of the median fund are not provided. Therefore, further evaluation of the median fund is not possible with respect to the investments and strategies it selected that resulted in a median ranking. However, dollar-weighted statistics for the population of participants are available to provide a means of assessing how comparable the characteristics of the universe as a whole are to those of the fund being evaluated. Peer group universes of Canadian institutional investors include a range of participants that vary in size and in terms of objectives, commensurate with liability structure. Available peer groups include a range of very small to very large funds and incorporate pension, endowment and foundation funds.

For the LTCAP and the Pension fund, performance relative to each of the three objectives is evaluated on a rolling four-year annualized rate-of-return basis. The four-year horizon is a smoothing standard for evaluating the performance of long-term strategies.



The LTCAP asset weights at end of year relative to the benchmark weights.

The main objectives of endowment management are to provide a desired level of income to beneficiaries while protecting the purchasing power of the endowment fund into perpetuity. The LTCAP investment program is based on University of Toronto endowment spending objectives.

ASSET MIX

The LTCAP policy asset mix is 80% equities and 20% fixed income. The total equity weight may vary within policy bands of 70% to 90% of the total fund.

The year-end weights in both the U.S. and international equities vary from the respective policy weights due to the distribution among these classes of alternative strategies.

The actual weight in traditional long-only U.S. equity mandates was 21.9% of total fund at December 31, 2002, and the weight in long-only international equity mandates was 26.4%, indicating the heavier alternatives component captured by the U.S. equity class (17.5% of total fund) and the lighter weight in international equities (3.2% of total fund).

COMPOSITE BENCHMARK OBJECTIVE AND PERFORMANCE

The performance hurdle established for LTCAP is prescribed by the composite benchmark. LTCAP's benchmark is 10% S&P/TSX Composite (Canadian equity); 35% Russell 3000, half-hedged to the Canadian dollar (U.S. equity); 35% MSCI EAFE, half-hedged to the Canadian dollar (international equity); and 12% Scotia Capital Long-Term Bond and 8% Scotia Capital Universe Bond indexes (both fixed income).

The U.S. equity and international equity indexes are measured half-hedged for currency exposure. The currency-hedged benchmarks correspond to a currency management program for non-Canadian assets that has been established to manage currency risk. Currency risk is a source of price volatility that affects foreign investment portfolios but is generally unmanaged by investment managers who run the underlying portfolios of non-domestic assets; therefore, UTAM explicitly manages this large and uncompensated risk through a separate currency program.

LTCAP
One-Year and Two-Year Annualized Rates of Return and Comparison to Benchmarks
for Periods Ended December 31, 2002

	One-Year Annual Return			Two-Years Annualized Return		
	Fund Return	**Benchmark Return**	**Difference**	**Fund Return**	**Benchmark Return**	**Difference**
LTCAP						
Canadian Equity	(1.06)	(12.44)	11.38	(1.75)	(12.50)	10.75
U.S. Equity	(13.72)	(21.84)	8.12	(9.02)	(15.65)	6.63
International Equity	(19.85)	(21.59)	1.74	(14.73)	(18.93)	4.19
Fixed Income	9.26	9.66	(0.40)	8.43	8.47	(0.03)
Total	**(9.59)**	**(14.93)**	**5.34**	**(6.47)**	**(11.83)**	**5.37**
Indexes						
S&P/TSX Composite Index		(12.44)			(12.50)	
Russell 3000 Index (half-hedged)		(21.84)			(15.65)	
MSCI EAFE Index (half-hedged)		(21.59)			(18.93)	
SC Combined (60% Universe/40% LT Bond)		9.66			8.47	
SC Universe Bond Index		8.73			8.40	
SC Long Term Bond Index		11.05			8.53	
SC 91 Day T-Bill Index		2.51			3.61	

All returns are stated in Canadian dollar terms

The benchmark has been in place for two years; the annualized performance for one- and two-year periods is shown in the following table for the total fund, for individual asset classes and for benchmark indexes.

The LTCAP total fund rate of return of -9.59% exceeded the composite benchmark return of -14.93% by 534 basis points. The majority of the 534 basis points of value added in 2002 was produced by the Canadian and U.S. equity segments.

During 2002, all equity-class segments of LTCAP outperformed their respective market index benchmarks.

The fixed income component fell slightly short of the benchmark return year-over-year, due in part to cash drag from the liquidity accounts and to the performance of the relative value fixed income mandates during the last months of 2002.

The benchmark's negative return of -14.93% reflects the dominance of equities in its mix. Throughout the year, UTAM diversified LTCAP assets considerably into alternative strategies, however, the general level of market exposure prescribed in the policy asset mix was maintained in accordance with long-term management philosophy, and the brunt of this poor year for equity markets was felt by the fund.

In this period of such disappointing markets, UTAM remained focused on maintaining disciplined investment procedures, managing for the long-term horizon and selecting high-quality assets within broad asset classes.

LTCAP Comparison to Policy Objectives for the Annual and Four-Year Annualized Periods Ended December 31					
	Annual Rates of Return				Four-Year Annualized
	2002	*2001*	*2000*	*1999*	*1999-2002*
LTCAP	-9.59%	-3.23%	5.13%	14.60%	1.32%
Composite Benchmark	-14.93%	-8.62%	3.70%	17.00%	-1.45%
Difference	5.34%	5.39%	1.43%	-2.40%	2.77%
Inflation (CPI) + 5% Objective	8.88%	5.70%	8.23%	7.60%	7.60%
Difference	-18.47%	-8.93%	-3.10%	7.00%	-6.28%

The four-year annualized return for the composite benchmark geometrically links the previous 1999-2000 composite benchmark to the current 2001-2002 composite benchmark.

The table illustrates the returns relative to the benchmark and real return objective, for four years annualized as well as for the component years.

Four-Year Policy Objectives and Performance

Performance is measured on a policy basis against three distinct targets, the composite benchmark, the real return objective and a balanced-fund survey (or universe) of pension and other investment plans. The policy measurement horizon is four years; the assets have been managed by UTAM for two full years. The table above, illustrates the returns relative to the benchmark and real return objective, for four-years annualized as well as for the component years.

The four-year annualized rate of return for LTCAP was 1.32%, which exceeded the -1.45% return of the benchmark composite by 277 basis points annualized.

The real return target of inflation plus 5% over four years annualized was 7.60%, which represented an annualized shortfall of -6.28% against the fund's 1.32% return over that same horizon. Real returns have been negative for the past three years, with the most recent year being the worst of three due to a combination of a rise in the inflation rate to 3.9% and the double-digit negative equity returns.

The following table shows the LTCAP rate of return compared to the Cambridge Associates Colleges and Universities Endowment Survey (translated in the table to Canadian dollars) for the one-year period and the component asset class rates of return compared to the Russell/Mellon Analytical Services Canadian Trust Universe for the one-year and four-year periods. LTCAP began participation in the Colleges and Universities Endowment Survey in 2001.

The LTCAP total fund result is compared to U.S.-based university endowments because of their similar objectives and allocations to equities and alternative assets. The proprietor of the peer group data, Cambridge Associates, is a consulting group specializing in the analysis and reporting of U.S. university endowment results. University of Toronto is the only Canadian university endowment fund participating in the Cambridge Associates survey. A notable dissimilarity of LTCAP relative to the other survey participants is its target allocation of 30% to Canadian domestic fixed income and equity whereas

LTCAP
Comparison to Universe
for the One-Year and Four-Year Annualized Periods Ended December 31, 2002

	One-Year Annual Return			Four-Years Annualized Return		
	Universe Median Rate of Return	*LTCAP Rate of Return and Percentile*		*Universe Median Rate of Return*	*LTCAP Rate of Return and Percentile*	
Colleges and Universities Endowment Survey (*Cambridge Associates*)						
Total Fund *	-8.93%	-9.59%	*(60)*	*n/a*	*n/a*	
Canadian Trust Universe (*Russell/Mellon Analytical Services*)						
Canadian Equity	-11.82%	-1.06%	*(7)*	5.47%	6.70%	*(34)*
US Equity **	-22.12%	-13.97%	*(11)*	-6.05%	-2.02%	*(25)*
Non-North American Equity **	-17.02%	-15.41%	*(32)*	-4.81%	0.87%	*(16)*
Fixed Income	8.98%	9.26%	*(39)*	6.43%	6.11%	*(87)*

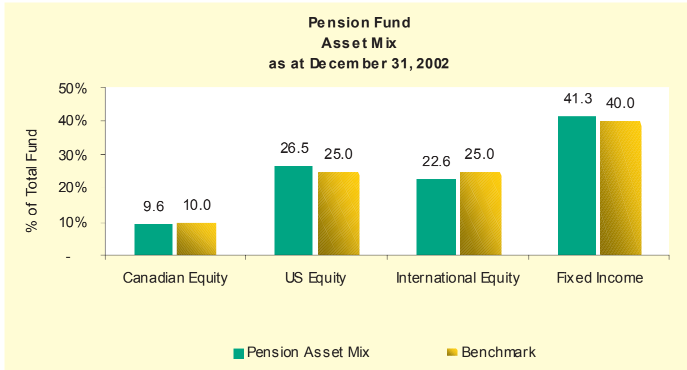
* Including currency overlay
** Excluding currency overlay

the U.S. universities in the survey invest domestically in U.S. markets.

Cambridge Associates reported that, at December 31, 2002, the median one-year rate of return for the Colleges and Universities Endowment Survey was -8.9% in Canadian dollar terms (-8.0% in U.S. dollar terms) compared to LTCAP's return of -9.6% in Canadian dollar terms (-8.6% translated to U.S. dollar terms). There were 139 participants in the survey. The results of the survey placed LTCAP in the 3rd quartile at the 60th percentile rank. The range of one-year returns for endowment participants surveyed to December 31, 2002 was -1.8% to -14.0% in Canadian dollar terms (-0.8 to -13.1% in U.S. dollar terms, converted to Canadian equivalency based on the one-year change in the exchange rate).

The U.S. operation of Russell/Mellon Analytical Services is the proprietor of a universe of U.S. foundations and endowments, which includes university endowments in its survey, among others. Russell/Mellon reported that at December 31, 2002 the median one-year rate of return for the Endowment and Foundations Universe was -9.9% in Canadian dollar terms (-9.0% in U.S. dollar terms) compared to the LTCAP return of -9.6% in Canadian dollar terms (-8.6% converted to U.S. dollar terms). There were 122 participants in the survey. The results of the survey placed LTCAP in the 2nd quartile. The 2002 annual returns reported for the Russell/Mellon endowment and foundation universe spanned a range, converted to Canadian dollar terms, of -3.9% to -18.8% for the 5th to 95th percentiles (-2.9% to -18.0% in U.S. dollar terms).

Individual asset class returns are compared to the Canadian Trust Universe that is prepared by Russell/Mellon Analytical Services for Canadian-domiciled clients. The universe is composed of Canadian institutional investors, mainly pension funds. There were 57 participants in the survey at the end of 2002. The comparisons within asset classes are favourable, ranking LTCAP above the median for all four classes for the year ended December 31, 2002, and above median for all equity classes for the four-year period. Because the LTCAP benchmark indexes for individual asset classes are the same as, or very similar to, the benchmark indexes used as standards by the other participants in the survey, this outcome is relevant and reflects favourably on the management strategy.



The Pension fund asset weights at end of year relative to the benchmark weights.

The Pension fund pools the assets of the University of Toronto Pension Plan and the OISE Pension Plan for the purposes of investment. The actuarially measured duration of liabilities, which is a function of the employee and retiree participants' profile, is approximately 13 years. Compared with other Canadian pension funds, the University of Toronto pension plans are moderately mature.

FOREIGN CONTENT

The Federal Income Tax Act restricts pension funds' holdings in non-Canadian assets to a maximum book value of 30%. The foreign content rule restricts optimization as it constrains global diversification strategies and allocations to alternative assets. The restriction is significant for the equity allocations, because 97% of world equity market capitalization is divided roughly evenly between the United States and non-North-American markets, while Canada's share is approximately 3%.

At December 31, 2002, the deemed foreign content of the Pension fund, calculated by book value in accordance with Canadian income tax rules, was 29.3%; the fund thus ended the year with less than a 1% cushion versus the 30% foreign content limit. The Pension fund's foreign content was 27.4% at the end of 2001; the small increase during 2002 reflected new allocations to mandates classified as foreign content, including active non-Canadian equities, private equities and hedge funds.

UTAM uses synthetic index strategies that are deemed Canadian content under Canadian law to gain exposure to U.S. and international markets. The use of derivatives is in compliance with the Income Tax Act; however, such passive synthetic equity strategies are less than ideal because they expose assets to the risks of non-Canadian markets but deliver only index-like returns. Funds invested in synthetic index strategies generally forego opportunities for either adding value or reducing risk, resulting in a much less attractive risk/return profile than that of actively-managed U.S. and international equity mandates.

These constraints affect over $400 million of Pension fund investments, which is the value of the portion of assets representing the gap between the Pension fund's policy asset mix of 50% and the foreign content limitation of 30%. Foreign content regulation, though relaxed somewhat in recent years, continues to be a source of inefficiency for institutional investors as it increases the costs and risks of investing Canadian pension assets.

ASSET MIX

The policy asset mix for the Pension fund is 60% equities and 40% fixed income. The Pension fund's total equity weight is permitted to vary within a range of 50%

Pension Fund
One-Year and Two-Year Annualized Rates of Return and Comparison to Benchmarks
for Periods Ended December 31, 2002

	One-Year Annual Return			Two-Years Annualized Return		
	Fund Return	Benchmark Return	Difference	Fund Return	Benchmark Return	Difference
Pension Fund						
Canadian Equity	(5.16)	(12.44)	7.28	(7.49)	(12.50)	5.01
U.S. Equity	(20.24)	(21.84)	1.60	(12.42)	(15.65)	3.23
International Equity	(19.50)	(21.59)	2.09	(15.14)	(18.93)	3.78
Fixed Income	9.87	9.66	0.21	8.63	8.47	0.16
Total	**(6.96)**	**(8.86)**	**1.90**	**(4.26)**	**(6.79)**	**2.53**
Indexes						
S&P/TSX Composite Index		(12.44)			(12.50)	
Russell 3000 Index (half-hedged)		(21.84)			(15.65)	
MSCI EAFE Index (half-hedged)		(21.59)			(18.93)	
SC Combined (60% Universe/40% LT Bond)		9.66			8.47	
SC Universe Bond Index		8.73			8.40	
SC Long Term Bond Index		11.05			8.53	
SC 91 Day T-Bill Index		2.51			3.61	

All returns are stated in Canadian dollar terms

to 70% of the total fund.

The difference between the year-end weights in the various asset classes and the benchmark weights is due in small part to market movements in the final month of the year and allocations to alternative strategies. For charts showing the composition of each asset class, see the Investments section of this report.

Composite Benchmark Objective and Performance

The performance expectations for the Pension fund are prescribed by the policy performance benchmark, which is 10% S&P/TSX Composite (Canadian equity); 25% Russell 3000, half-hedged to the Canadian dollar (U.S. equity); 25% MSCI EAFE, half-hedged to the Canadian dollar (international equity); and 24% Scotia Capital Long Bond and 16% Scotia Capital Universe Bond indexes (both fixed income). The benchmark has been in place for two years. The annualized performance of the total fund, the individual asset classes and the benchmark indexes are shown above for both the one- and two-year periods.

The total fund one-year rate of return of -6.96% exceeded the composite benchmark return of -8.86% by 190 basis points. All asset classes performed above the benchmark indexes. The value added at the total fund level is attributable in approximately equal parts to the positive contribution of the Canadian, U.S. and international equity classes.

Pension Fund
Comparison to Policy Objectives
for the Annual and Four-Year Annualized Periods Ended December 31

	Annual Rates of Return				Four-Year Annualized
	2002	*2001*	*2000*	*1999*	*1999-2002*
Pension Fund	-6.96%	-1.48%	5.19%	12.88%	2.14%
Composite Benchmark	-8.86%	-4.66%	5.60%	15.00%	1.35%
Difference	1.90%	3.18%	-0.41%	-2.12%	0.79%
Inflation (CPI) + 4% Objective	7.88%	4.70%	7.23%	6.60%	6.60%
Difference	-14.84%	-6.18%	-2.04%	6.28%	-4.46%

The four-year annualized return for the composite benchmark geometrically links the previous 1999-2000 composite benchmark to the current 2001-2002 composite benchmark.

The table illustrates the returns relative to the benchmark and real return objective, for four years annualized as well as for the component years.

Four-Year Policy Objectives and Performance

The Pension fund's performance, like that of LTCAP, is measured relative to three separate benchmarks: the composite benchmark is market oriented; the real return objective is a function of the liability structure; and a universe of Canadian-domiciled institutional funds represents the peer group for comparative purposes. The policy measurement horizon is four years annualized in all three cases.

The above table shows the returns relative to the composite benchmark and real return objective for four years annualized as well as for each of the component years.

The four-year annualized rate of return for the Pension fund was 2.14%. UTAM managed the assets during the most recent two full years, during which time the return relative to the benchmark composite has been positive. The fund's four-year annualized performance is 79 basis points above the benchmark return of 1.35% for the same period.

The Pension fund fell short of its four-year annualized real return objective of 6.60% by 4.46% annualized due to negative equity market conditions and a rising inflation rate.

Periods in which marketable securities return less than the inflation rate are occasional realities; the last such extended period was in the 1970s when North America experienced several years of double-digit inflation. Over long periods however, equities are expected to deliver returns above inflation. The presence of cyclical economic factors emphasizes the importance of adopting long-term investment objectives that tolerate difficult years of market volatility and negative performance. The Pension fund's objectives are moderate and the assets are balanced to tolerate unfavourable times.

The comparison of the Pension fund's one-year and four-year rates of return to the Russell/Mellon Analytical Services Canadian Trust Universe and its component asset classes is presented in the following table.

The Pension fund one-year and four-year

Pension Fund
Comparison to Universe
for the One-Year and Four-Year Annualized Periods Ended December 31, 2002

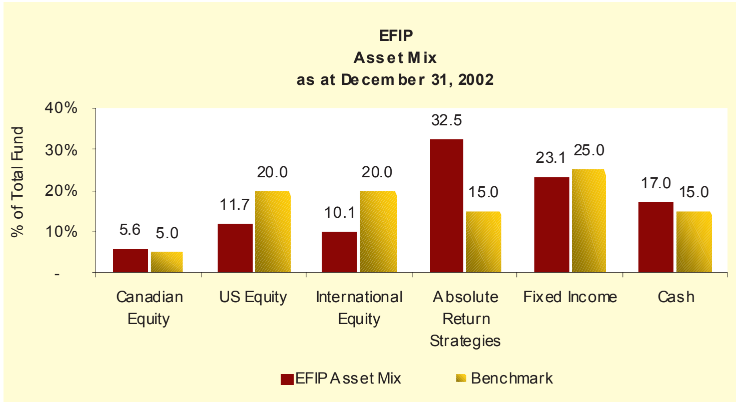
	One-Year Annual Return			Four-Years Annualized Return		
	Universe Median Rate of Return	*Pension Fund Rate of Return and Percentile*		*Universe Median Rate of Return*	*Pension Fund Rate of Return and Percentile*	
Canadian Trust Universe (*Russell/Mellon Analytical Services*)						
Total Fund *	-5.44%	-6.96%	*(78)*	4.10%	2.14%	*(83)*
Canadian Equity	-11.82%	-5.16%	*(24)*	5.47%	4.29%	*(64)*
US Equity **	-22.12%	-20.44%	*(37)*	-6.05%	-3.14%	*(32)*
Non-North American Equity **	-17.02%	-15.90%	*(34)*	-4.81%	-2.02%	*(43)*
Fixed Income	8.98%	9.87%	*(28)*	6.43%	6.10%	*(87)*

* Including currency overlay
** Excluding currency overlay

annualized total fund rates of return both placed in the fourth quartile of the Canadian Trust Universe. The peer group survey is supplied by its proprietor Russell/Mellon Analytical Services and is composed principally of Canadian pension funds. The Pension fund's allocation to the U.S. and international equity classes was larger than the average dollar-weighted foreign equity exposure of the peer groups and the lower returns in these asset classes, relative to Canadian equity and Canadian bonds, caused the Pension fund to place in the fourth quartile.

The Pension fund asset mix and the average asset class commitments of the Trust Universe participants have commonalities and differences. The Pension fund's 40% benchmark weight in the Canadian fixed income component corresponds closely to the 57 Universe participants' average dollar-weighted commitment of 39% of total assets to fixed income. However, equity composition is significantly different from that of the survey participants. The Pension fund targets a 10% weight in Canadian equity and 50% in combined U.S. and international equities, while the participants had average dollar-weighted asset commitments of 26% to Canadian equities and 30% to foreign equities.

The Pension fund's individual asset-class rankings for equities and bonds are more relevant than the Universe total fund ranking. This is because the target benchmark indexes for individual asset classes used by the Pension fund and the average participant in the survey are either similar or the same. The one-year rankings for each of the Pension fund’s four asset classes placed above the return of the median fund in those classes. The four-year rankings for U.S. and international equities also placed above the median fund's return, while the four-year Canadian equity and Canadian bonds returns were ranked below the median fund's return.



The EFIP asset weights at end of year relative to the benchmark weights.

ASSET MIX

EFIP is made up of University expendable funds with a short- to medium-term investment horizon. An analysis of the University of Toronto's working capital has identified a core of assets that is not required to meet liquidity demands during the normal annual operating cycle. This core is designated for treatment as a quasi-endowment and the assets are exposed to greater than short-term investment risk with the objective of enhancing returns to University operations.

The EFIP benchmark reflects long-, medium- and short-term segmentation of assets. The longer-term core assets, which represent 60% of assets at the height of the liquidity cycle, are allocated to a combination of equity and absolute return strategies (low-volatility, capital-preservation-oriented hedge funds). The medium-term assets, which represent 25% of the fund at its annual peak, are invested in short-duration bonds to provide greater than short-term yields and reasonably low levels of volatility. The near-term expendable assets, which represent 15% of the EFIP benchmark at the height of its liquidity cycle and close to 0% of EFIP at the trough (before the collection of fall tuition fees), are invested in cash and equivalents.

The seasonally fluctuating nature of the cash balance explains many of the deviations from the benchmark weights seen in the asset mix chart. Actual asset weights in the EFIP fund are not static due to the expansion and contraction of the liquidity portion through the University's annual cash cycle. The equity segments were reduced early in the year in order to limit downside risk in the portfolio, and were held at low levels for the remainder of the year. Correspondingly, the allocations to absolute return strategies were increased in order to take advantage of the low-volatility, positive-return properties of the segment.

COMPOSITE BENCHMARK OBJECTIVE AND PERFORMANCE

The performance goal for EFIP is prescribed by its policy performance benchmark, which consists of 5% S&P/TSX Composite (Canadian equity); 20% Russell 3000, half-hedged to the Canadian dollar (U.S. equity); 20% MSCI EAFE, half-hedged to the Canadian dollar (international equity); 15% 91-day Canada Treasury Bills total return plus 250 basis points annualized (absolute returns); 25% Scotia Capital Short Term Bonds and 15% 91-day Canada Treasury Bills total return (fixed income). The benchmark has been in

EFIP
One-Year and Two-Year Annualized Rates of Return and Comparison to Benchmarks
for Periods Ended December 31, 2002

	One-Year Annual Return			Two-Years Annualized Return		
	Fund Return	Benchmark Return	Difference	Fund Return	Benchmark Return	Difference
EFIP						
Investment in LTCAP	(9.59)	(14.93)	5.34	(6.47)	(11.83)	5.36
Canadian Equity	(5.89)	(12.44)	6.55	(8.31)	(12.50)	4.20
U.S. Equity	(21.85)	(21.84)	(0.01)	(15.33)	(15.65)	0.32
International Equity	(22.55)	(21.59)	(0.96)	(19.41)	(18.93)	(0.48)
Absolute Return	1.81	5.01	(3.20)	6.87	6.11	0.76
Short Bonds	6.85	6.27	0.58	7.91	7.81	0.10
Cash Equivalents	2.77	2.51	0.26	3.93	3.61	0.32
Total	**(2.59)**	**(7.06)**	**4.47**	**(1.26)**	**(4.39)**	**3.13**
Indexes						
S&P/TSX Composite Index		(12.44)			(12.50)	
Russell 3000 Index (half-hedged)		(21.84)			(15.65)	
MSCI EAFE Index (half-hedged)		(21.59)			(18.93)	
SC 91 Day T-Bill Index + 250 bp		5.01			6.11	
SC Short Term Bond Index		6.27			7.80	
SC 91 Day T-Bill Index		2.51			3.61	

All returns are stated in Canadian dollar terms

place for two years. The annualized performance for the total fund, individual asset classes and benchmark indexes are shown for both one- and two-year periods in the table above.

EFIP's total rate of return of -2.59% exceeded the composite benchmark return of -7.06% by 447 basis points. The performance in excess of the benchmark is due to the active underweighting of U.S. and international equities and corresponding overweighting of absolute return strategies. The Canadian equity and short-term bond components also outperformed their benchmark indexes.

This investments section reviews all asset classes and their performance during 2002. The strategy mix within each major asset class is illustrated in a pie chart in the appropriate subsections.

Equity Risk

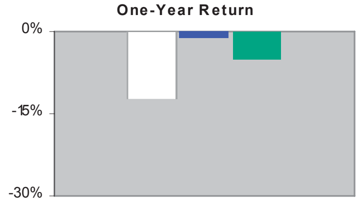
The equity components include significant allocations to alternative assets, which have had a beneficial impact on the segments' return and risk characteristics. In LTCAP the 80% equity weight was split 30% in alternatives, including hedge funds, private equity and commodities, and 50% in traditional equities. In the Pension fund, the 60% equity weight was split 9% in alternatives and 51% in traditional strategies.

The returns of each of the components of LTCAP and the Pension fund exceeded the returns of their respective benchmarks, and the risk, as measured by the annual standard deviation of returns, was either approximately equal to or lower than the level of risk observed in the benchmark index.

These equity results, viewed in terms of the relationship between risk and return, were highly favourable, demonstrating the responsiveness of the equity programs to the diversification work done through the year.

The one-year measures of return and risk for the Canadian, U.S. and international equity segments of LTCAP and the Pension fund are shown in the charts below. The U.S. and international equity results include the impact of the currency risk management program.

Canadian Equity Segment
One-Year Return

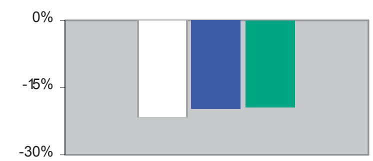


	Rate of Return (%)
S&P/TSX Composite Index	-12.44%
LTCAP - Cdn Eq	-1.06%
Pension - Cdn Eq	-5.16%

U.S. Equity Segment
One-Year Return

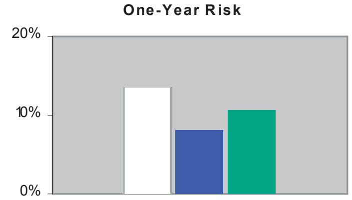
	Rate of Return (%)
Russell 3000 Index (Half-Hedged)	-21.84%
LTCAP - US Eq	-13.72%
Pension - US Eq	-20.24%

International Equity Segment
One-Year Return



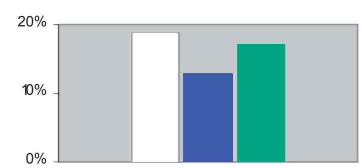
	Rate of Return (%)
MSCI EAFE Index (Half-Hedged)	-21.59%
LTCAP - Int'l Eq	-19.85%
Pension - Int'l Eq	-19.50%

Canadian Equity Segment
One-Year Risk



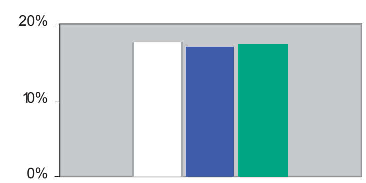
	Standard Deviation (%)
S&P/TSX Composite Index	13.59%
LTCAP - Cdn Eq	8.11%
Pension - Cdn Eq	10.67%

U.S. Equity Segment
One-Year Risk



	Standard Deviation (%)
Russell 3000 Index (Half-Hedged)	18.84%
LTCAP - US Eq	12.77%
Pension - US Eq	17.10%

International Equity Segment
One-Year Risk



	Standard Deviation (%)
MSCI EAFE Index (Half-Hedged)	17.56%
LTCAP - Int'l Eq	16.96%
Pension - Int'l Eq	17.47%

CANADIAN EQUITIES

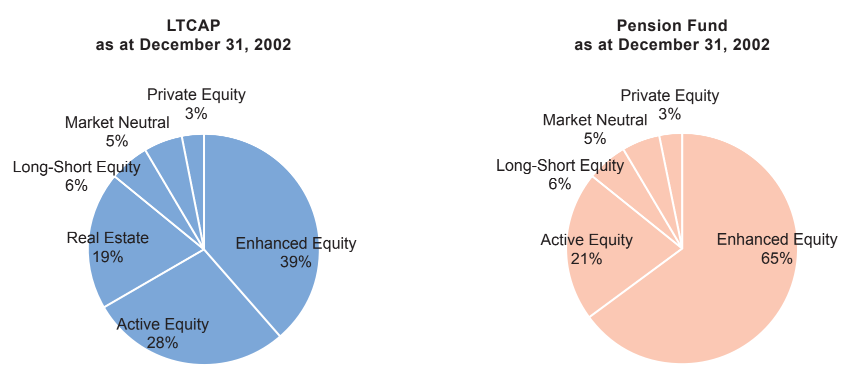
The beginning-of-year and end-of-year compositions of investment strategies within the Canadian equity asset classes are presented in the bar charts for LTCAP and the Pension fund.

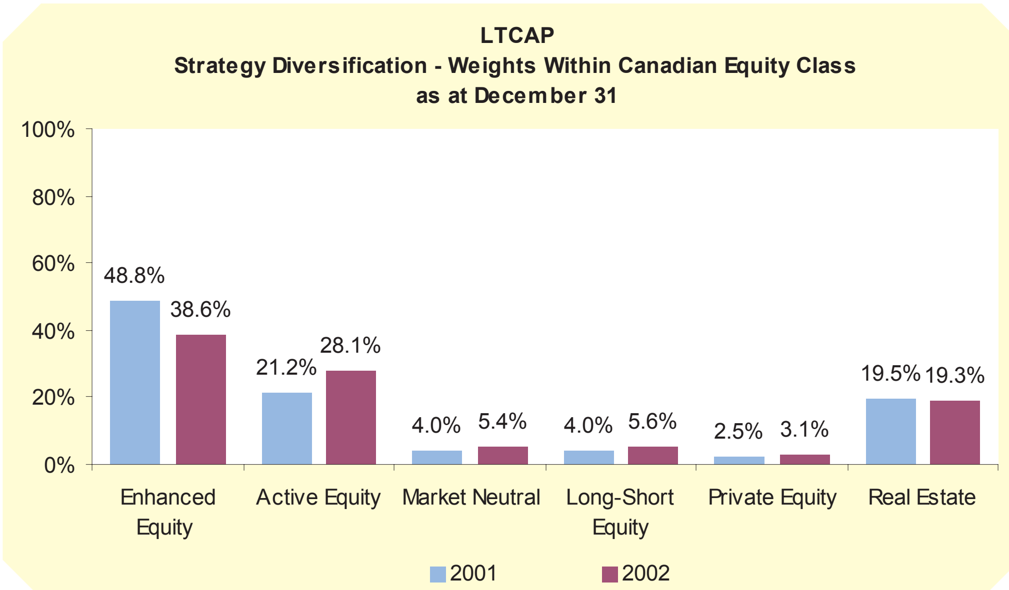
The strategy allocations within LTCAP are broadly diversified across strategies, including alternatives and a real estate component. The Pension fund strategy distribution is similar, but without the allocation to real estate. The year-end strategy composition for each fund is presented in the pie charts below.

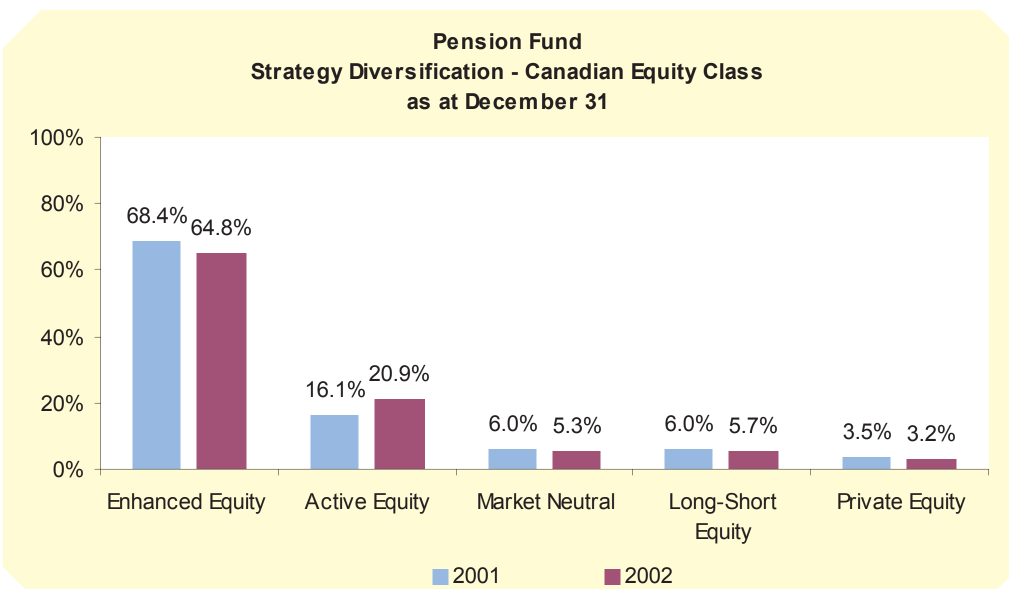
The Canadian equity segments in LTCAP and the Pension fund returned -1.7% and -5.2% respectively, compared with -12.4% for the TSX Composite Index. The funds' Canadian equity segments thus outperformed the index by 11.4% and 7.3% respectively. The Canadian equity returns in LTCAP were helped by investments in hedge funds, which returned -3.0%, and in real estate, which returned 10.7% for the year. The Pension fund's Canadian equity segment return benefited from its allocation to hedge funds which returned -3.0% for the year.

The real estate component of LTCAP is composed of holdings in three limited partnership funds established for pension and endowment investors, all of which are scheduled to reach term in the next three years. The real estate portfolios are invested in Canadian industrial and commercial properties.

STRATEGY DIVERSIFICATION - WEIGHTS WITHIN CANADIAN EQUITY CLASS




LTCAP
Strategy Diversification - Weights Within Canadian Equity Class
as at December 31
100%
80%
60%
40%
20%
0%
48.8%
38.6%
21.2%
28.1%
4.0%
5.4%
4.0%
5.6%
2.5%
3.1%
19.5%
19.3%
Enhanced Equity
Active Equity
Market Neutral
Long-Short Equity
Private Equity
Real Estate
2001
2002


Pension Fund
Strategy Diversification - Canadian Equity Class
as at December 31
100%
80%
60%
40%
20%
0%
68.4%
64.8%
16.1%
20.9%
6.0%
5.3%
6.0%
5.7%
3.5%
3.2%
Enhanced Equity
Active Equity
Market Neutral
Long-Short Equity
Private Equity
2001
2002

U.S. Equities

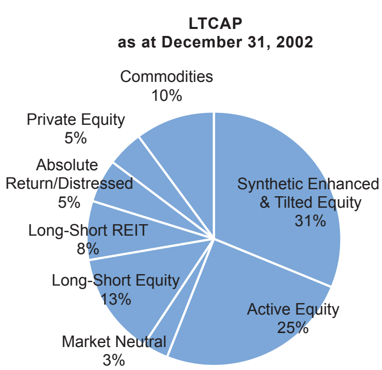
The beginning-of-year and end-of-year compositions of investment strategies within the U.S. equity asset classes are presented in the bar charts for LTCAP and the Pension fund.

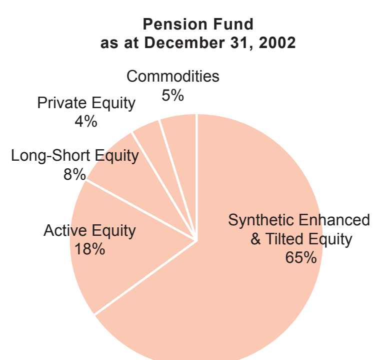
The strategy allocations within LTCAP are more broadly diversified across strategies, including larger allocations to alternatives and commodities than in the Pension fund. The strategy composition of both at year-end is presented in the pie charts below.

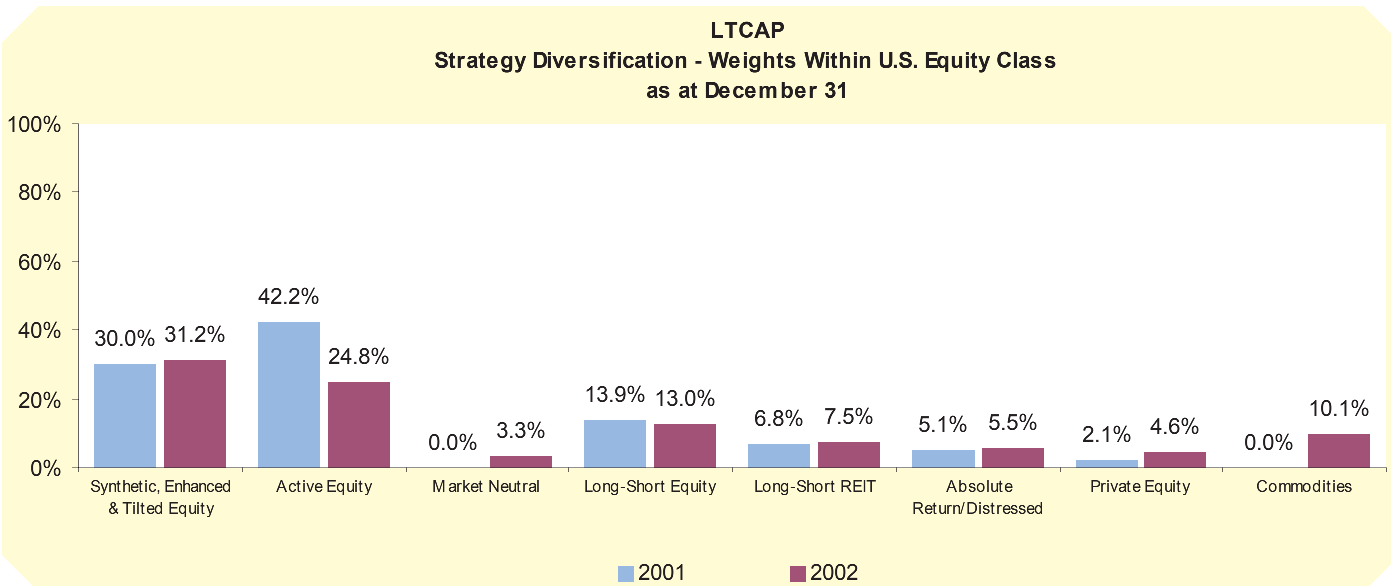
A number of changes were made to the U.S. equity segments during 2002. In addition to continuing to expand and diversify the private equity and hedge fund investments, allocations were made to commodity-related mandates. The reallocation work in LTCAP was broader relative to the Pension fund due to the foreign content constraints affecting the latter.

The U.S. equity segments within LTCAP and the Pension fund returned -14.0% and -20.5% respectively, compared with the Russell 3000 index return of -22.4% (excluding the impact of currency overlay). The returns on the funds' U.S. equity segments thus exceeded the index by 8.1% and 1.60% respectively. Hedge funds contributed positively to performance, producing returns of 2.8% and 1.8% in LTCAP and the Pension fund, respectively. Two commodities mandates in LTCAP contributed partial-year returns of 23.0% and 3.4% from their respective inception dates of June and September.

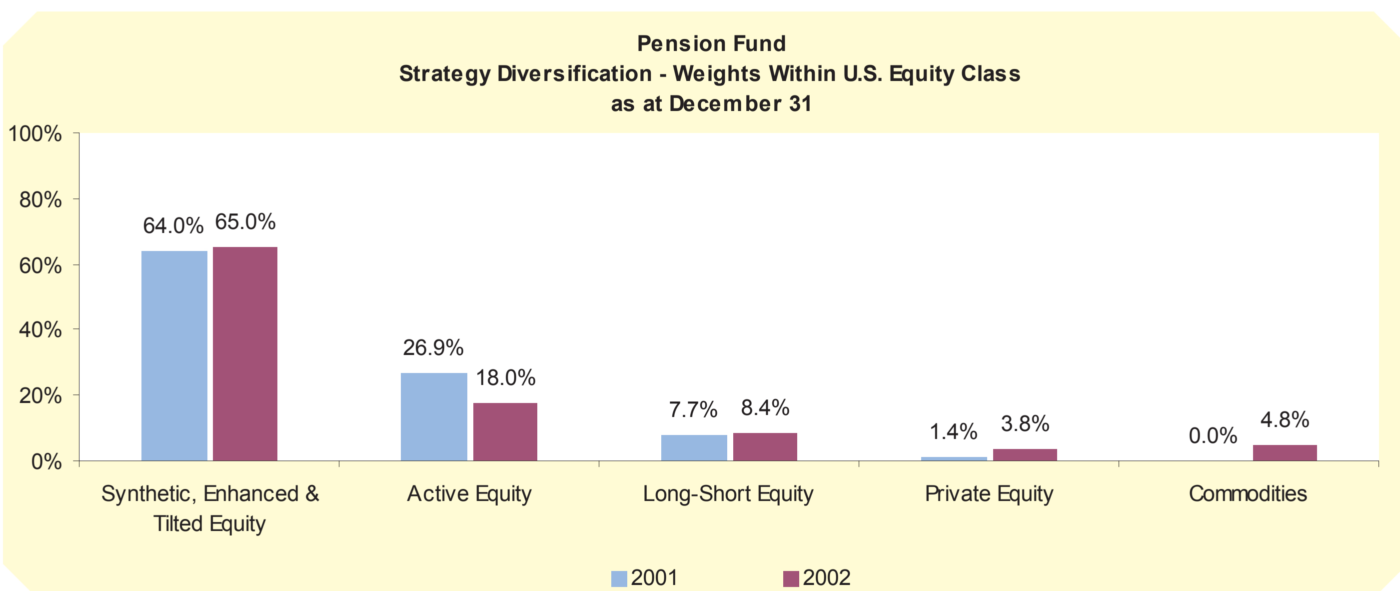
Strategy Diversification - Weights Within U.S. Equity Class







LTCAP
Strategy Diversification - Weights Within U.S. Equity Class
as at December 31
100%
80%
60%
40%
20%
0%
30.0%
31.2%
42.2%
24.8%
0.0%
3.3%
13.9%
13.0%
6.8%
7.5%
5.1%
5.5%
2.1%
4.6%
0.0%
10.1%
Synthetic, Enhanced & Tilted Equity
Active Equity
Market Neutral
Long-Short Equity
Long-Short REIT
Absolute Return/Distressed
Private Equity
Commodities
2001
2002



Pension Fund
Strategy Diversification - Weights Within U.S. Equity Class
as at December 31
100%
80%
60%
40%
20%
0%
64.0%
65.0%
26.9%
18.0%
7.7%
8.4%
1.4%
3.8%
0.0%
4.8%
Synthetic, Enhanced & Tilted Equity
Active Equity
Long-Short Equity
Private Equity
Commodities
2001
2002

International Equities

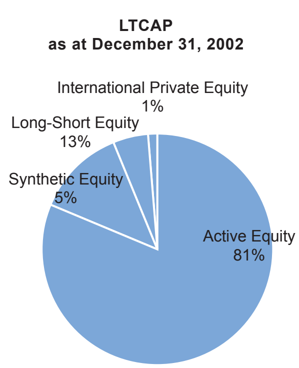
The beginning-of-year and end-of-year 2002 compositions of investment strategies within the international equity asset classes are shown in the bar charts for LTCAP and the Pension fund.

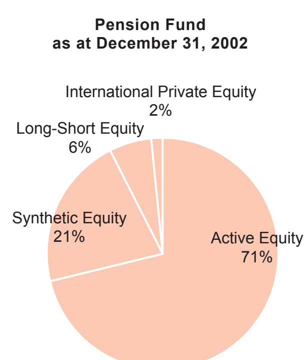
The strategy allocation in LTCAP and the Pension fund are similarly diversified across strategies, including allocations to alternative strategies. The year-end strategy composition of for each fund is shown in the pie charts below.

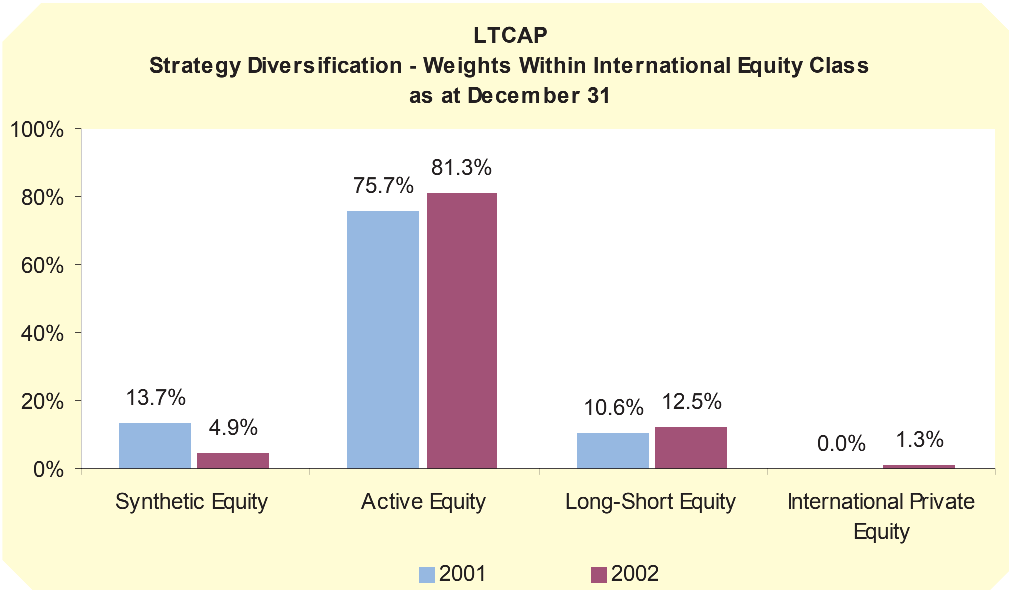
The differences between the LTCAP and the Pension fund distributions are caused by the Canadian government's foreign content restriction on pension investments, which constrain the Pension fund from holding a larger proportion in active international equity. Foreign content regulations also made it necessary to reduce long-short exposures in the Pension fund.

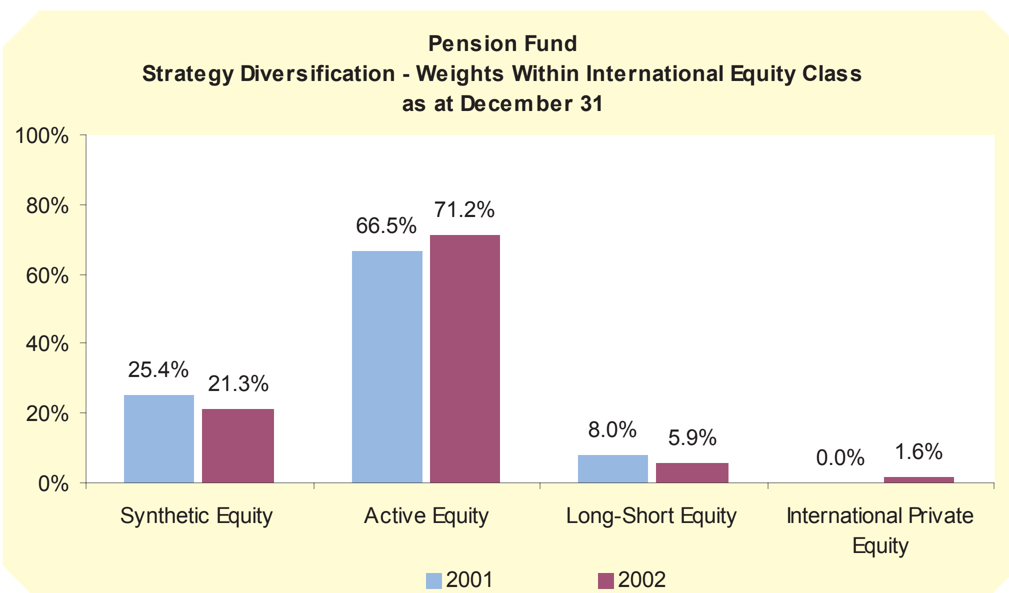
In a plunging international equity market, both LTCAP and the Pension fund performed slightly better than the market, with returns of -15.4% and -15.9% respectively, compared with the MSCI EAFE index return of -16.2% (excluding the impact of currency overlay). The international equity segments of the two funds thus outperformed the index by 83 and 34 basis points respectively. Hedge funds contributed positively to performance, producing returns of 1.2% in LTCAP and 1.6% in the Pension fund.

Strategy Diversification - Weights Within International Equity Class






LTCAP
Strategy Diversification - Weights Within International Equity Class
as at December 31
100%
80%
60%
40%
20%
0%
13.7%
4.9%
75.7%
81.3%
10.6%
12.5%
0.0%
1.3%
Synthetic Equity
Active Equity
Long-Short Equity
International Private Equity
2001
2002


Pension Fund
Strategy Diversification - Weights Within International Equity Class
as at December 31
100%
80%
60%
40%
20%
0%
25.4%
21.3%
66.5%
71.2%
8.0%
5.9%
0.0%
1.6%
Synthetic Equity
Active Equity
Long-Short Equity
International Private Equity
2001
2002

The beginning-of-year and end-of-year compositions of investment strategies within the fixed income asset classes are presented in the bar charts for LTCAP and the Pension fund.

The allocations within LTCAP are broadly diversified across strategies; including allocations to internally-managed active bonds and relative-value fixed income mandates. The Pension fund's fixed income component continues to be passively managed, and only a small allocation was made to relative-value fixed income due to foreign content constraints. The strategy composition of the bond segments is shown in the pie charts below.

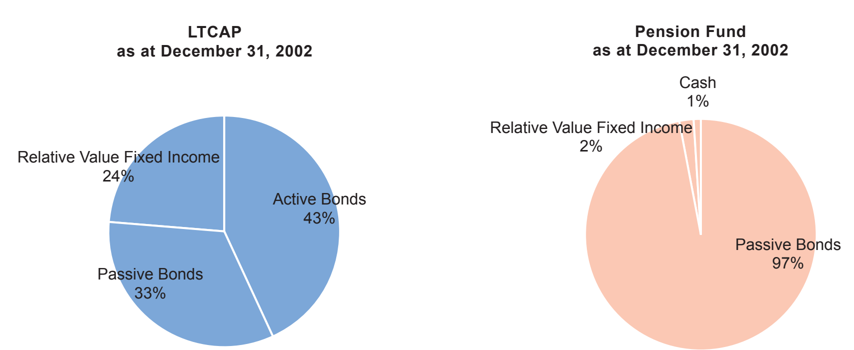
The fixed income segments of LTCAP and the Pension fund had returns of 9.3% and 9.9% respectively, compared with the combined benchmark return of 9.7%. Relative to the benchmark, the LTCAP's and Pension fund's fixed income segments underperformed by 0.2% and outperformed by 0.4% respectively.

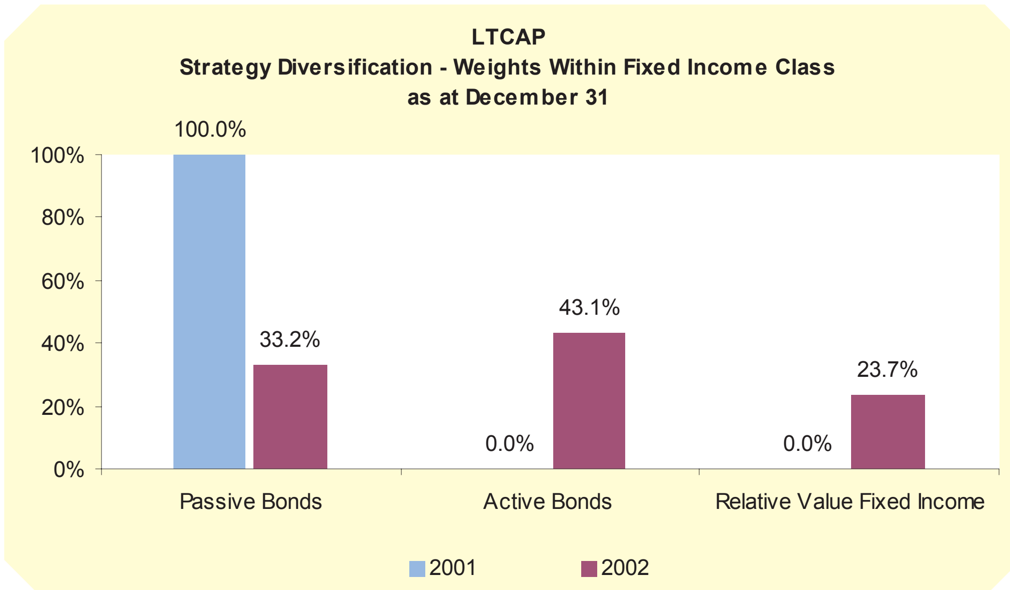
An in-house fixed income fund was established in LTCAP in July. The mandate of the fund is to target the highest level of total return within specified risk constraints. The specific objective is to provide total returns that exceed, on a four-year rolling basis, those of the benchmark, a combination of 60% Scotia Capital Universe Bond Index and 40% Scotia Capital Long Term Bond Index. At year end, the fund had exceeded its benchmark by 22 basis points since inception.

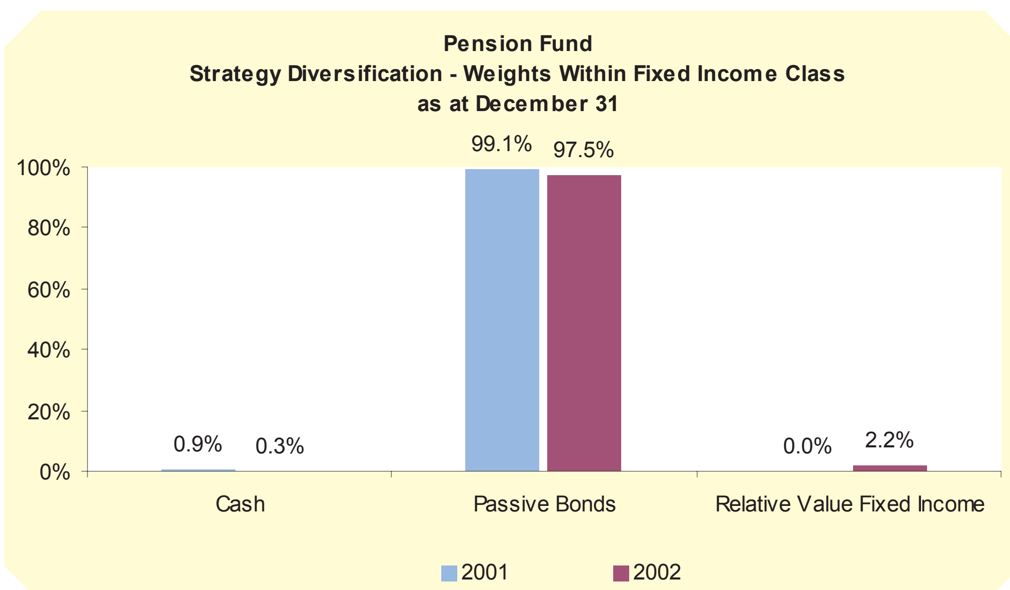
EFIP's fixed income component is managed with short and medium-term objectives. The exposure is split between cash and short-term bonds with the objective of meeting the University's operational spending needs from cash while taking moderate risk through short-term bond exposure.

During 2002, the Scotia Capital Short Term Bond Index total rate of return was 6.3%, while the EFIP actively managed short-term bond portfolio returned 6.9%. EFIP cash had a return of 2.8% on cash for the year, compared with 2.5% for the Scotia Capital 91-day Canada Treasury Bills Total Return Index. The return in excess of the benchmarks from these two actively-managed mandates was attributable to manager performance.

STRATEGY DIVERSIFICATION - WEIGHTS WITHIN FIXED INCOME CLASS




LTCAP
Strategy Diversification - Weights Within Fixed Income Class
as at December 31
100.0%
33.2%
0.0%
43.1%
0.0%
23.7%
100%
80%
60%
40%
20%
0%
Passive Bonds
Active Bonds
Relative Value Fixed Income
2001
2002


Pension Fund
Strategy Diversification - Weights Within Fixed Income Class
as at December 31
0.9%
0.3%
99.1%
97.5%
0.0%
2.2%
100%
80%
60%
40%
20%
0%
Cash
Passive Bonds
Relative Value Fixed Income
2001
2002

Hedge funds play an important role in LTCAP, the Pension fund and EFIP, diversifying the standard classes in the asset mix.

Funds are allocated to this alternative area in order to gain access to a broad group of specialist strategies that have non-traditional risk-return features and low correlations to major equity and fixed income markets.

Hedge fund strategies complement the traditional strategies of long-only equities and bonds, providing specific, risk-controlled exposures that take advantage of niche and arbitrage opportunities using a combination of market instruments.

Each hedge fund has a unique set of attributes based on the skill set and objectives of the manager. The objectives of UTAM's selected hedge funds vary from highly conservative, absolute return seeking (including risk arbitrage and event-driven strategies) to market oriented (statistical arbitrage strategies). The degree to which they were exposed directionally to markets affected their results.

The year 2002 was difficult for hedge funds and investors did not earn expected 10% to 15% absolute returns. Although the hedge fund exposure in all funds managed by UTAM provided significantly better returns than the broad equity markets, it was nevertheless disappointing that in general, hedge fund mandates did not achieve their target return.

A high single-digit return was considered outstanding this year for any manager in the long-short equity, arbitrage, market-neutral or fund-of-funds space. The one-year returns net of fees from the long-short mandates overseen by UTAM ranged from -6.8% to 9.3% in Canadian dollar terms. Directional strategies that were long equity market exposure tended to produce low single-digit negative returns, whereas strategies that took macro views in global currencies and fixed income, or took positions involving distressed securities, produced the strongest relative performances.

Financial assets such as equities and bonds represent economic interests in future activity, whereas commodities are more directly tied to concurrent economic conditions. Commodities tend to generate their best returns in periods when the strength of the economy is at a peak and their worst returns in recessionary environments.

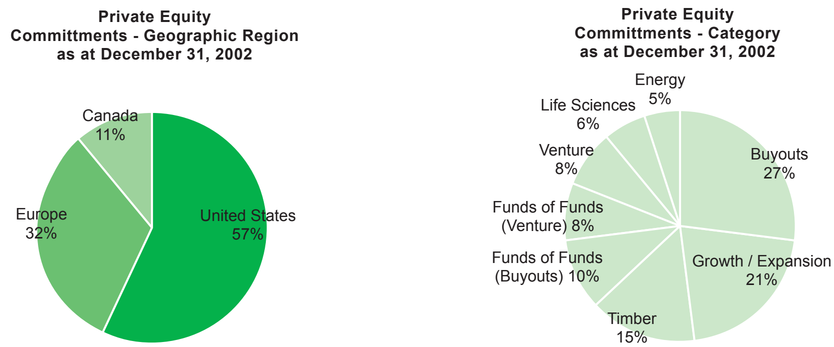
Portfolios of commodity futures weighted in the same proportions as the Goldman Sachs Commodities Index (GSCI) have historically provided returns similar to those of equities with similar volatility, but they have the additional valuable property of being relatively uncorrelated with equities.

Exposure in GSCI commodities within a typical equity and bond portfolio therefore could be expected to reduce total portfolio risk while at the same time contributing significantly to long-run returns. Also, because they reflect the actual effects of rises in price levels, portfolios of commodity futures perform well in an environment of rising inflation. GSCI commodity exposure was added to LTCAP at the end of May and has returned 23.0% since that time.

A long-short commodity futures strategy component was added to both LTCAP and the Pension fund in September; its return since inception has been 3.4%, a rate that trailed the U.S. equity index for that period.

Income trusts and royalty trusts have become increasingly popular with Canadian companies in the last decade as a way of monetizing assets with relatively stable revenue-generating characteristics, allowing these corporations to optimize their capital structures.

Initial positions in a portfolio of income trusts were established in both LTCAP and the Pension fund in late August, and although returns have lagged the S&P/TSX Composite index by about 1.4%, the portfolio is small and the impact on the funds was negligible.



The private equity commitments by geographic region and category are virtually identical for both LTCAP and the Pension fund.

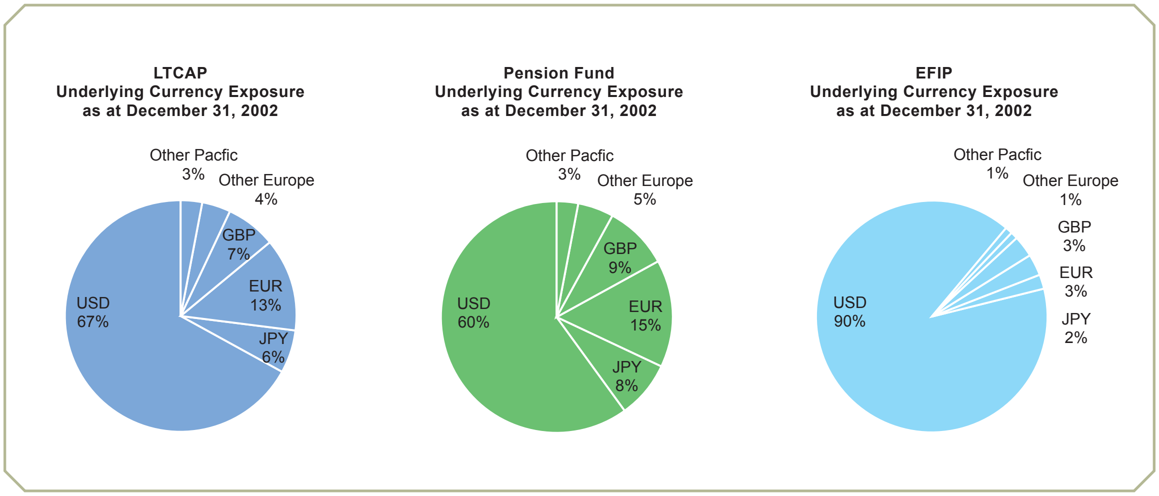
The private equity programs for LTCAP and the Pension fund, which are in their second year, were further developed and diversified in 2002. The private equity strategies are diversified by geographic exposure, by industry and by stage of development, as shown in the pie charts above. Fund managers are selected on the basis of their ability and the extent of their success in the past. Manager selection in this asset class tends to be the central determinant of performance.

In 2002 UTAM added to its existing private equity holdings of venture capital, buyouts, real estate and energy with commitments to a timberlands fund and a fund focused on life sciences. Timberland, over the last 32 years, has provided higher returns for lower risk than was available in U.S. equities. Timberland is negatively correlated with U.S. equities, fixed income and real estate, and provides a hedge against inflation. This commitment provides significant diversification to the portfolio with the expectation of meaningful returns. The LTCAP is among the first Canadian institutional entities to make a commitment to a private equity fund investing in timberland assets.

In addition, 2002 provided UTAM with the opportunity to purchase existing venture capital commitments at a discount to book value. These carefully selected funds are in the top tier of the venture capital industry. The funds were closed to new investors; but the purchase of these secondary opportunities will give UTAM access to future funds as well as participation in the existing funds.

Private equity programs take several years to invest; returns typically begin in the fourth year. Over the two years of program structuring that has taken place, UTAM has committed a total of $151 million from LTCAP to 13 funds, and a total of $162 million from the Pension fund to 10 private equity funds. At December 31, 2002, approximately 33.8% of LTCAP's commitment had been drawn down and invested. The comparable amount for the Pension Fund was 33.5%.

The private equity commitments by geographic region and category are virtually identical for both LTCAP and the Pension fund.



Asset reallocation implemented at the beginning of 2001 raised the level of foreign asset exposure and corresponding foreign currency exposure to levels significantly higher than in the past for all three funds. The currency exposures are an integral feature of global geographic allocation and diversification into alternative strategies.

The objective of the currency risk management program, established in 2001, is to moderate the impact of currency price volatility on the total fund return.

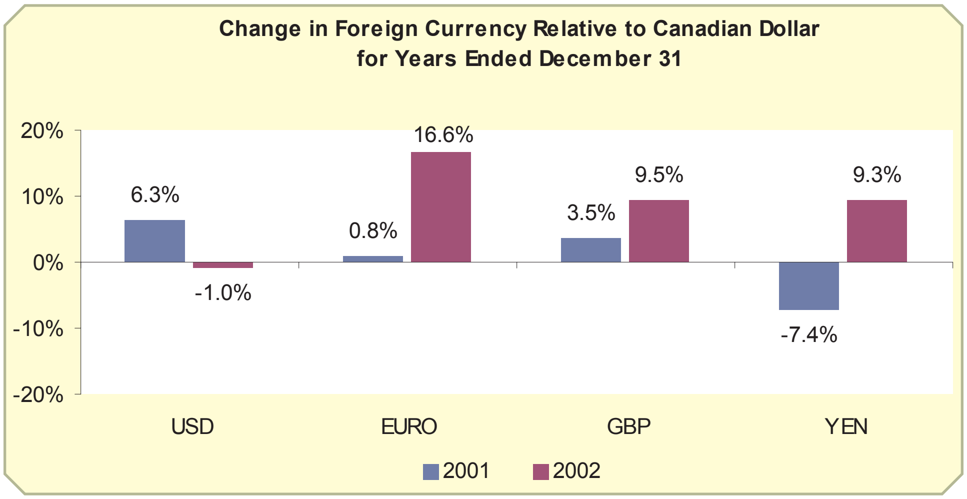
The program's 50% policy hedge ratio signifies a neutral stance toward the direction of exchange-rate trends. This approach is designed to protect the funds whether the Canadian dollar appreciates or depreciates against a foreign currency.

The main objective of active currency management is to control and dampen returns volatility, especially during episodes of extreme currency movements. A second objective is to contribute in a modest way, over multiple periods, to returns above the half-hedged stance.

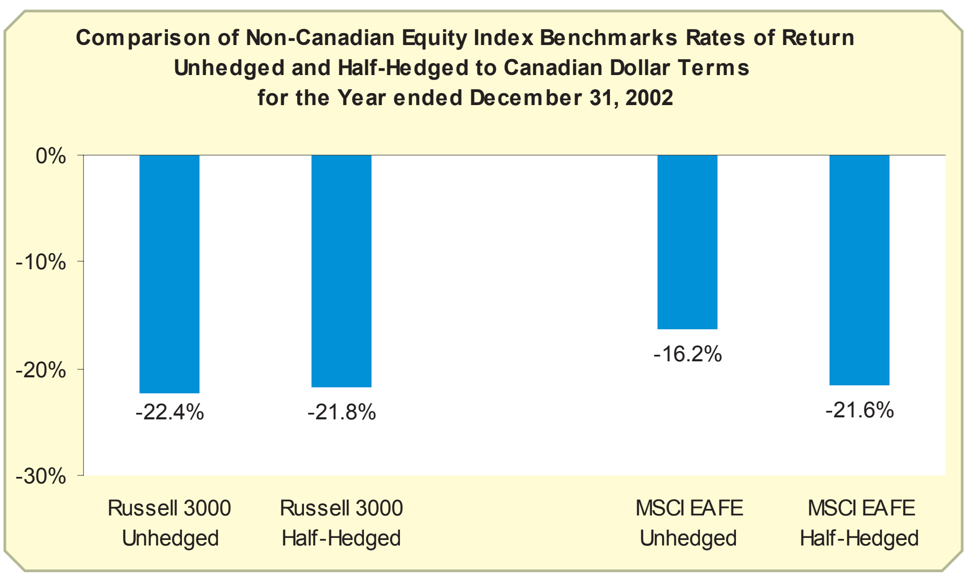
The exposures to the major currencies contained in the foreign-denominated portions of each fund as at December 31, 2002, are illustrated in the above pie charts.

During 2002, the Canadian dollar depreciated against the euro, the British pound and the Japanese yen by 16.6%, 9.5% and 9.3%, respectively. It rose against the U.S. dollar by 1.0%.

The chart below shows the changes in foreign currency relative to the Canadian dollar in 2001 and 2002.



The U.S. and international equity benchmark indexes, including the impact of the half-hedged currency policy, are illustrated below relative to the benchmarks on an unhedged basis for the year ended December 31, 2002.



The currency overlay program has a long-term investment horizon, matching that of the underlying assets that it is designed to protect.

To the Board of Directors of
University of Toronto Asset Management Corporation

We have audited the balance sheet of the **University of Toronto Asset Management Corporation** as at December 31, 2002 and the statement of expenses and recoveries for the year then ended. These financial statements are the responsibility of the company'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 company as at December 31, 2002 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada
January 30, 2003

Chartered Accountants

As at December 31	2002	2001
	$	$
ASSETS		
Current		
Cash	1,984	15,478
Due from the University of Toronto *[note 3]*	206,152	46,467
Accounts Receivable	6,501	6,479
	214,637	68,424
LIABILITIES		
Current		
Accounts Payable	157,331	61,117
Deferred Compensation Plan Payable *[note 4]*	57,306	7,307
Due to the University of Toronto *[note 3]*	-	-
	214,637	68,424

See accompanying notes

On behalf of the Board:

Robert W. Korthals, Chairman

Year ended December 31	2002 $	2001 $
EXPENSES		
Salaries and Benefits	**2,483,518**	2,090,240
Occupancy	**176,299**	134,610
Consulting Fees	**194,561**	136,171
Startup Costs	**-**	112,769
Office Supplies, Services and Equipment	**69,509**	68,456
Professional Development	**12,001**	10,201
Professional Fees	**68,097**	62,652
Telecommunications and Technology	**456,193**	167,557
Travel and Accommodation	**108,386**	69,775
Other Operating Expenses	**4,765**	10,201
	3,573,329	2,862,632
RECOVERIES		
CURIE Management Income	**24,059**	30,067
Recovery from the University of Toronto *[note 3]*	**3,549,270**	2,832,565
	3,573,329	2,862,632
NET INCOME FOR THE YEAR	**-**	-

See accompanying notes

DECEMBER 31, 2002

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).

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. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements present the financial position and operations 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.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

3. RELATED PARTY TRANSACTIONS

In accordance with the amended and restated Service and UTAM Personnel Agreement dated January 21, 2002 between the Governing Council of U of T and UTAM, U of T will pay UTAM for its services an amount which will enable it to recover the appropriate costs of operations. As at December 31, 2002, $206,152 is due from U of T [2001 - $46,467].

4. DEFERRED COMPENSATION PLAN

UTAM has entered into a deferred compensation plan with certain of its employees, which is based on the achievement of specific benchmarks and approved objectives by its Board of Directors. On approval of the Board of Directors after year-end, one half of the amount is payable immediately and included in the current year financial statements. The balance is deferred to be expensed over the vesting period which does not exceed three years. Funds for the deferred amount are used to acquire units in the Long Term Capital Appreciation Pool ["LTCAP"] investment fund of U of T. The deferred compensation plan represents units held at market value, for vested compensation due to employees.

In addition, at December 31, 2002, deferred compensation awarded but not yet vested included approximately $191,018 for payment in 2003, $181,549 for payment in 2004, and $107,876 for payment in 2005. The payment of the deferred compensation is subject to the employees meeting certain conditions of employment.

Any fluctuations in market value of the LTCAP units are at the risk of, or for the benefit of, the employee.

5. STATEMENT OF CASH FLOWS

A separate statement of cash flows has not been presented, since, in the opinion of management, the information it would contain is readily apparent from the other financial statements.

6. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to the presentation of the 2002 financial statements.

ROBERT W. KORTHALS
CHAIRMAN OF THE BOARD

Mr. Korthals was President of the Toronto Dominion Bank from 1981 to 1995. Mr. Korthals serves as Chairman of the Ontario Teachers' Pension Plan Board, and as director of several other corporations including Cognos Inc., Gerdau AmeriSteel, Rogers Communications Inc., and Suncor Energy Inc. He also is a Commissioner of the Ontario Securities Commission. 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 and Compliance Committee*
Jalynn H. Bennett & Associates Ltd, President

H. GARFIELD EMERSON, *Chair of the Compensation Committee*
Fasken Martineau DuMoulin, National Chair

ROBERT J. BIRGENEAU
University of Toronto, President

FELIX CHEE
University of Toronto, Vice-President Business Affairs and CFO

RUSSELL J. HISCOCK
C.N. Investments, Manager, Common Stocks

GORDON J. HOMER
Scotia Capital, Deputy Chairman

IRA GLUSKIN
Gluskin Sheff + Associates Inc., President and CIO

ERIC F. KIRZNER
Rotman School of Management, Director, Executive MBA Program

ANTHONY R. MELMAN
Onex Corporation, Vice-President

JAMES J. MOSSMAN
Blackstone Group, Senior Managing Director and CIO

ANDREA S. ROSEN
TD Canada Trust, President

JOSEPH L. ROTMAN
Roy-L Capital Corporation, Chairman and CEO

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

MASTER CUSTODIAN

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State Street Financial Centre
Toronto, Ontario M5C 3G6

AUDITORS

Ernst & Young
Ernst & Young Tower
Toronto, Ontario M5K 1J7

DONALD W. LINDSEY, CFA, MBA
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. He is a member of the Pension Committee of the St. Michael's Hospital in Toronto; and a member of the Investment Sub-Committee of Trinity Health in Novi, Michigan. Mr. Lindsey holds a BA in Political Science from Virginia Tech and an MBA from James Madison University.

MICHAEL C. DORAN, CFA, MBA
Managing Director, North American Equities

LAURIE M. LAWSON, CFA
Managing Director, Asset Allocation and Special Asset Classes

PHILIP E. PAROIAN, CFA, ASA
Managing Director, International Equity and Emerging Markets

BRIAN STEWART, CIM, MBA
Managing Director, Private Markets

JEFFREY D. SUTCLIFFE, CFA, FCSI
Director, Fixed Income

JULIANNA VARPALOTAI-XAVIER, CA
Chief Operating Officer

LISA CHUNG
Manager, Operations

RABINDER GREWAL
Investment Analyst

TANYA LAI, CFA
Performance Measurement Analyst

VERA LAU, CCM
Investment Operations Coordinator

JILLIAN MIRANDA
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ALL MEMBERS OF THE UTAM STAFF

WISH DON LINDSEY CONTINUED SUCCESS IN HIS NEW POSITION

AT GEORGE WASHINGTON UNIVERSITY. DON'S EXPERIENCE AND KNOWLEDGE

AS WELL AS HIS UNWAVERING INTEREST IN THE WELL-BEING OF THE STAKEHOLDERS IS INSPIRING.

IT HAS BEEN A PRIVILEGE AND PLEASURE TO HAVE WORKED WITH DON.

Editor: Laurie M. Lawson
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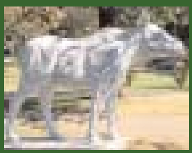

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