University of Toronto Asset Management Corporation

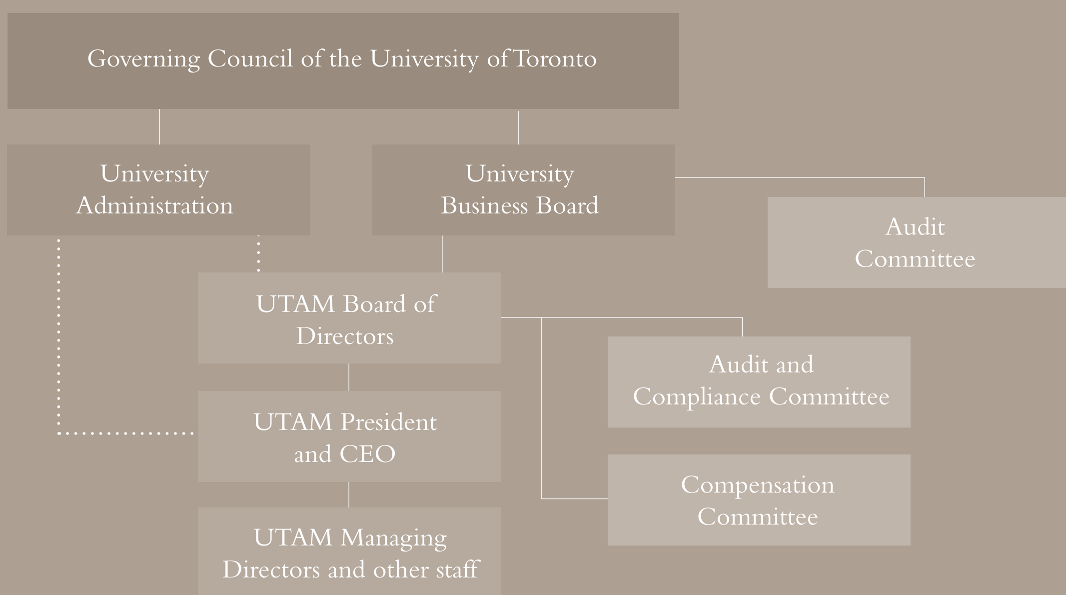
2006 Annual Report

VELUT ARBOR ÆVO

our mission

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

ORGANIZATION CHART



The University of Toronto Asset Management Corporation (UTAM) was established by the University of Toronto in April 2000. The intent was to create a professional investment management organization to manage the University's Endowment fund, Pension fund and financial assets. UTAM is wholly owned by the University and is governed by its own 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.

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

who we are

The University of Toronto Asset Management Corporation (UTAM) manages $5.4 billion of assets in three portfolios: the University's $2 billion Endowment fund, the University's $2.9 billion Pension fund and the University's working capital pool of $500 million.

The nature of investing means that change is continual. We nonetheless maintain a keen focus on our primary mandate to add value to the University's funds. This will help advance the broader goals of the University and its many stakeholders. Over the past four years, UTAM has generated cumulative value added of more than $970 million above the University's return targets for the three portfolios. For the Endowment and Pension portfolios, the value added represents 20% of the total value of these portfolios at December 31, 2006.

The day-to-day management of the underlying assets in each portfolio is undertaken primarily through our selection of best-of-class third-party investment managers. This approach has provided several advantages to the University, including access to specialized investment expertise and enhanced diversification of assets. At the same time, it has allowed UTAM to maintain a small staff (13 full-time individuals) that is able to concentrate on areas in which we can add the most value. These include investment strategy, portfolio construction and finding the best third-party investment managers available. The asset classes in which we invest cover all the major asset classes and investment markets around the world.

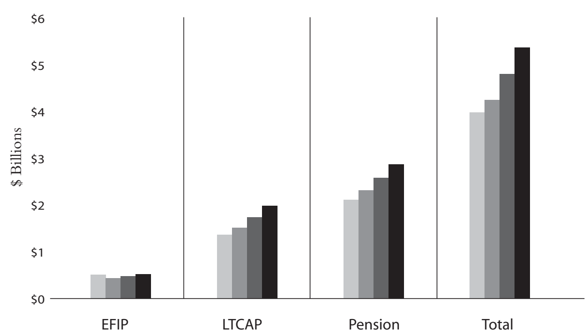
A number of important changes have resulted from the evolution of UTAM over the past few years. Investment strategies more heavily focused on maximizing risk-adjusted returns have led to changes in the line-up of third-party managers that are used for Public Equities and Public Fixed Income holdings. These manager changes are still unfolding. An increased emphasis on diversification led to a complete overhaul of Hedge Fund investments. A ground-up examination of asset mix led to an increased allocation to Alternative Assets, such as Hedge Funds, Private Equity and Real Estate. The investment programs for Alternative Assets were significantly upgraded starting in 2005, with a more focused strategy and an increased pace of participation in order to reach target levels over time.

what we have done

UTAM oversees the University of Toronto's three pools of assets, shown in Exhibit 1. In total, these were valued at $5.37 billion at December 31, 2006 ($4.80 billion at December 31, 2005), an increase of 11.7% over the prior year-end.

Exhibit 1

Assets Under Management as at December 31



	EFIP	LTCAP	Pension	Total
2003	0.51	1.36	2.11	3.98
2004	0.43	1.51	2.31	4.25
2005	0.48	1.74	2.58	4.80
2006	0.52	1.98	2.87	5.37

These assets are invested by UTAM. The assets are held by the University of Toronto and are reported, as applicable, in the University's financial statements, and in the University of Toronto Pension Plan and the OISE Pension Plan financial statements.

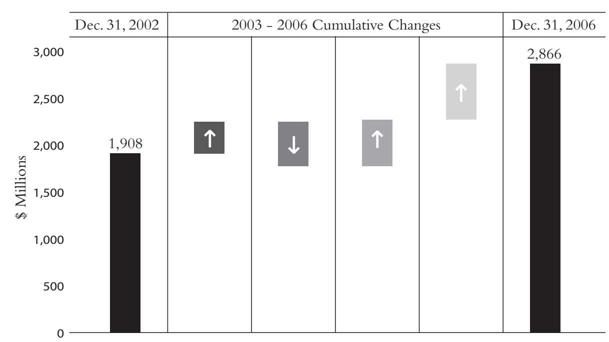
PENSION MASTER TRUST

The Pension Master Trust (Pension) investment fund combines the assets of the University of Toronto Pension Plan and the OISE Pension Plan. The market value of these assets at December 31, 2006 was $2.87 billion, an increase of $286 million (11.1%) over the previous year-end.

The growth in assets of the Pension fund primarily reflects the combined effect of pension contributions, pension payments to retirees and investment income earned on the Pension assets. UTAM's objective is to further add value to the Pension fund by outperforming the return target set by the University, which is a 4% real return (net after fees), and with a risk tolerance of a 10% annual standard deviation of returns over a rolling 10-year period. On this basis, the main components of the growth in Pension assets are captured in Exhibit 2.

Exhibit 2

Pension – Key Sources of Change (2003-2006)



■ Total Pension portfolio (market value).
■ Value added by UTAM (investment income in excess of the University's target return).
■ Investment income corresponding to University's target return.
■ Contributions to Pension fund.
■ Distributions from Pension fund.

Over the past four years (2003-2006), UTAM has generated cumulative value added of $595 million above the return target for the Pension fund. This represents almost 21% of the total value of the portfolio at December 31, 2006.

The market value of LTCAP assets increased by 13.7% to $1.98 billion in 2006, driven by investment performance. The fund generated a net return of 12.8%, which was more than double the University's target return.

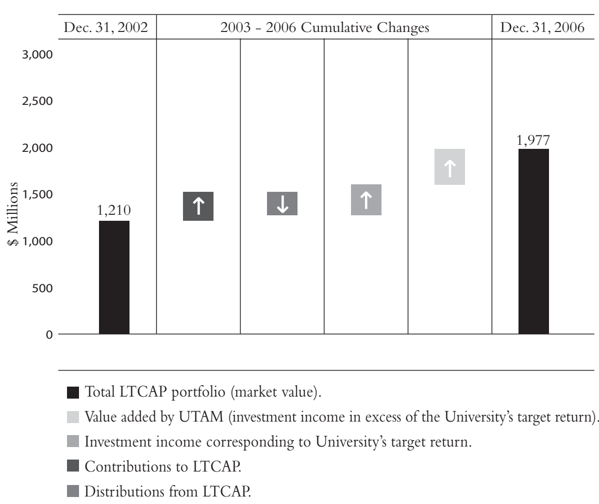
LTCAP

The Long Term Capital Appreciation Pool (LTCAP) essentially represents the Endowment fund of the University. The market value of assets in LTCAP at December 31, 2006 was $1.98 billion, an increase of $238 million (13.7%) over the previous year-end.

The growth in assets of the LTCAP fund primarily reflects the combined effect of endowment contributions, payouts on endowments and investment income earned. UTAM's objective is to further add value by outperforming the return target set by the University, which is a 4% real return (net after fees), and with a risk tolerance of a 10% annual standard deviation of returns over a rolling 10-year period. On this basis, the main components of the growth in LTCAP assets are captured in Exhibit 3.

Exhibit 3

LTCAP – Key Sources of Change (2003-2006)



Over the past four years (2003-2006), UTAM has generated cumulative value added of more than $375 million above the return target for LTCAP. This represents 19% of the total value of the portfolio at December 31, 2006.

EFIP

The Expendable Funds Investment Pool (EFIP) consists of the University's expendable funds that are pooled for investment for the medium term. The nature of these assets, which generally represent the University's daily working capital, means that the total assets in EFIP can fluctuate significantly over time. The market value of EFIP assets at December 31, 2006 was $0.52 billion, an increase of $37 million over the previous year-end.

The change in assets of EFIP reflects the combined effect of many factors, such as student tuition fees, University expenses for salaries, expenses for maintaining facilities, government grants and investment income earned on EFIP assets. UTAM's objective is to further add value by outperforming the benchmark for the fund, which is 1-year Canadian Treasury Bills plus 50 basis points (rolling 12-month basis), with a low tolerance for risk.

chair's message

On behalf of the Board of Directors, it is my privilege to welcome you to the University of Toronto Asset Management Corporation 2006 Annual Report. The past year was another good one for UTAM, as the organizational restructuring that followed the appointment of Felix Chee, and the hiring of his new Senior Management team, really began to bear fruit.

Our primary responsibility, as Directors of UTAM, is to monitor and evaluate the performance of Senior Management and report on the success of their investment strategies to the Business Board of the University of Toronto.

Each year, the Business Board establishes the rate of return and risk parameters for the Pension fund, the Long Term Capital Appreciation Pool (LTCAP) and the Expendable Funds Investment Pool (EFIP). Under our oversight, it is the job of UTAM management to develop the right asset policy mix and the investment strategies to meet those objectives. I am pleased to report that in 2006, UTAM management significantly exceeded the investment rate of return targets established by the University, without exceeding the specified limits for risk. In fact, management created $279 million of additional value in the investment funds for which they are responsible.

Let me remind you of what is unique about UTAM in the Canadian context. A great majority of Canadian Universities and Colleges utilize Investment Committees to manage their investments. We are different because we utilize a professional staff, headed by Mr. Chee. Obviously, there is a cost to this approach, which we consider to be modest in view of the possible increase in returns. UTAM has made a significant investment over the years into the area of Alternative Assets, such as Hedge Funds and Private Equity funds, which we believe will be highly productive over time. We would have never been able to undertake such an effort without highly qualified professional staff.

Looking ahead, we believe that UTAM is well positioned to help the University keep its promises to retiring employees and generate the income required to sustain a vital and growing academic institution. The process of outsourcing investment management to outside specialists has allowed UTAM's Senior Executives to concentrate exclusively on overall investment strategy and portfolio construction, areas in which we are confident they will continue to add the most value.

In closing, I would like to acknowledge our gratitude for the wise counsel and unwavering dedication of Mr. Joseph Rotman, who retired as Vice Chairman during 2006 after serving on the UTAM Board since UTAM's inception almost 7 years ago.

Ira Gluskin

Ira Gluskin
Chairman

president's message

2006 was another busy, successful year for UTAM; one in which we advanced several key initiatives while significantly exceeding the University's investment rate of return targets. Key initiatives included the restructuring of our Public Markets platform for Equities and Fixed Income, and changing the asset mix for the Pension fund to match that of the Endowment fund. The year was also marked by significant portfolio and external manager changes.

In Public Equities and Fixed Income, $743 million of new investment mandates were added across five managers, while mandates of $392 million across six managers were discontinued. As expected, this meant that more funds were parked passively in indexed accounts during the year. In the longer term, however, the transitioning of the portfolios has positioned UTAM for stronger investment returns.

2006 was also a busy year for investing in Alternative Assets (Hedge Funds, Private Equity and Real Assets). Hedge Fund investments increased by $490 million, reflecting an increased allocation to our Enhanced Index investment programs, where the return from Hedge Funds is combined with the Index Returns from various Public Markets such as U.S. and Canadian Equities. The aim of these Enhanced Index investment programs is to generate superior risk-adjusted returns. For Private Equity and Real Assets, new commitments totaled just under $400 million in Venture Capital, Buyout, Distressed Debt, Real Estate and Commodities.

With respect to performance, our primary objective is to meet the University's return target within the risk tolerance specified. We did that, and more, as $277 million of value added above the target return was realized in 2006 for the Pension and Endowment portfolios. Since 2003, the cumulative excess return added now exceeds $970 million.

Relative to market benchmarks, the Endowment fund just exceeded its benchmark for 2006, while Pension fell short of its benchmark, reflecting the major asset mix transitioning of Pension in early 2006. Compared to other funds, both Pension and Endowment were in the top half in 2006, but remain solidly in the top 25% of comparable funds for the past three-year and four-year periods.

2006 also saw the implementation of an improved Risk Management platform, where the focus is on constructing portfolios that provide the best risk-adjusted returns possible. We will be building on this platform in 2007.

I would like to thank our Board of Directors for their support and dedication to the organization, and the staff at UTAM, who continue to focus on delivering the best results possible to our stakeholders.

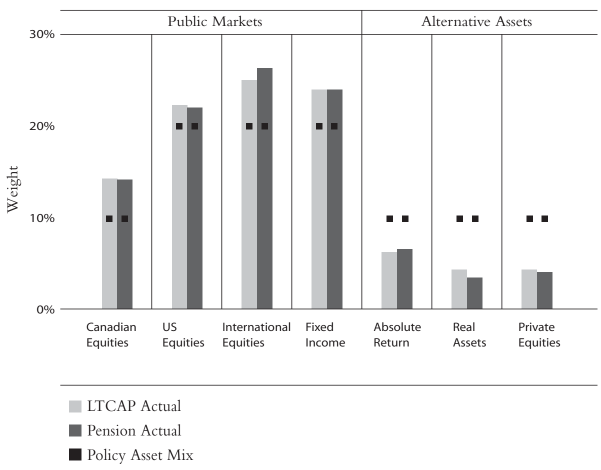
Felix P. Chee
President and CEO

asset mix

The long-term policy asset mix and the actual asset mix of Pension and LTCAP as at December 31, 2006 are shown in Exhibit 4.

Exhibit 4

Assets Mix as at December 31, 2006



UTAM's policy asset mix calls for a continued increase in the allocation to Alternative Assets, in order to achieve better risk-adjusted returns.

POLICY ASSET MIX

UTAM establishes the policy asset mix, and develops and executes appropriate investment strategies, based on the risk and return parameters established by the University. The policy asset mix of the portfolios is periodically subjected to a comprehensive review, in conjunction with the liability requirements of the portfolios.

In the fourth quarter of 2005, a comprehensive asset mix study was undertaken for Pension and LTCAP. It was concluded that the existing long-term policy asset mix for LTCAP, as shown in Exhibit 4 above, would be retained for 2006.

However, the policy asset mix for Pension would be changed to match LTCAP effective January 1, 2006. The return target for Pension had previously been changed such that it was the same as LTCAP. After taking this into account, as well as the Federal Government's formal elimination of the foreign content rules for pensions in the third quarter of 2005, it was concluded that the Pension policy asset mix for 2006 should be the same as LTCAP's.

A full review of EFIP was undertaken in early 2005. This resulted in a number of changes to the policy asset mix for that portfolio at that time. No change in policy asset mix was considered necessary for 2006.

The Pension and LTCAP portfolios can be viewed as essentially "balanced funds", which would traditionally have about a 60% allocation to Equities and 40% to Fixed Income. The resulting 3:2 ratio (i.e. 60:40) is roughly approximated in the overall policy asset mix for these portfolios.

Alternative Assets are represented by a 10% target allocation for each of: (i) Absolute Return, which is comprised of Hedge Fund investments; (ii) Real Assets, which is comprised of investments in Real Estate, the Energy sector (e.g. power plants) and Commodities (e.g. oil and gas); and (iii) Private Equities, which is comprised of investments in funds which cover Venture Capital, Buyouts and Distressed Debt. The introduction of a 30% total target weight in Alternative Assets, as shown in Exhibit 4 above, provides the opportunity for diversification benefits, through lower correlation to traditional asset classes in Public Markets, and for higher potential investment returns. In addition, the Absolute Return allocation provides the opportunity for lower volatility and the Real Assets allocation provides a hedge against inflation.

UTAM establishes the policy asset mix, and develops and executes appropriate investment strategies, based on the risk and return parameters established by the University.

For EFIP, the primary consideration is liquidity. The asset mix is primarily in cash and short-term Fixed Income securities, with medium-term bonds and Absolute Return Hedge Funds providing enhanced investment returns. The amount allocated for these latter two components reflects the core amount in EFIP that is not subject to seasonal fluctuations.

ACTUAL ASSET MIX

There are two key sources of divergence between the policy asset mix and the actual asset mix.

Firstly, UTAM management has the discretion to diverge from the policy asset mix to a pre-determined modest limit, which depends on the size of the policy asset mix weight (i.e. more latitude for larger weights).

Secondly, participation in Hedge Funds, Private Equity and Real Assets requires significant time and effort to source investment managers and to transact investments, compared to sourcing Public Markets investment managers, where funds can be invested more quickly. As a result, holdings in Hedge Funds, Private Equity and Real Assets accumulate slowly over time such that the actual asset mix builds gradually towards the policy asset mix. In the interim while holdings are building up, UTAM allocates the underweight from the policy asset mix weights, on a pro rata basis, to the Public Markets Equities and Fixed Income asset classes. This reallocation process creates near-term target weights (not shown in Exhibit 4 above) that provide the flexibility for a disciplined build-up in Hedge Funds, Private Equity and Real Assets holdings over time, towards the policy asset mix shown in Exhibit 4.

The impact of the interim reallocation process can be readily seen in Exhibit 4, where the three Alternative Assets categories are each below their policy asset mix weight and the four Public Markets asset classes are each above their policy asset mix weight. This situation is expected to persist for a number of years. Over time, actual holdings in Public Markets will decrease towards target levels and Alternative Assets holdings will increase towards target levels.

ALTERNATIVE ASSETS

Over the past several years, UTAM has been actively implementing the investment strategies that were developed for Alternative Assets.

For Absolute Return, a strategic decision was made mid-2004, and implemented by early 2005, that resulted in a reduction of direct Hedge Fund holdings and an increased investment into Hedge Fund-of-Funds. This shift provided a significant reduction in risk, partly through increased diversification, and an improvement in return versus what had been held before.

Prior to the overhaul of Absolute Return, Hedge Fund holdings consisted of about $335 million (Pension, LTCAP and EFIP) invested with eleven direct Hedge Fund managers. At year-end 2006, the total Hedge Fund holdings in the three portfolios were approximately $1.01 billion, which was placed with eleven Hedge Fund-of-Funds managers and three direct Hedge Fund managers, only one of which was in the manager line-up in mid-2004. These Hedge Funds provide the underlying investments for the Absolute Return component of the asset mix, as well as for the Enhanced Index investment programs (sometimes called Alpha Transport or Portable Alpha investment strategies) that are an integral part of the Public Markets asset classes (discussed below). A complete list of the Hedge Fund managers to which investments have been made at December 31, 2006 is provided at our website (www.utam.utoronto.ca).

The shortfall from policy asset mix at year-end in Absolute Return that can been seen in Exhibit 4 above simply reflects a less than complete build-out of the total program, as we continue to source new Absolute Return Hedge Fund managers to complete the full strategy.

The Enhanced Index investment programs for Public Markets generally consist of overlaying Absolute Return Hedge Fund investments onto passive index futures holdings (e.g. Canadian Equity index futures) while investing some of the underlying assets in money market securities (rather than Hedge Funds) in order to maintain a cushion for liquidity. The programs are structured to generate a risk level comparable to an active manager in the corresponding Public Markets asset class, but with a superior risk-adjusted return.

Private Equity and Real Assets holdings cannot be built up to target levels as quickly as Absolute Return Hedge Fund holdings. Over the past two years, the number of private investment funds to which investment commitments have been made for Pension and LTCAP has increased from 14 to 41, with corresponding investment commitments increasing from approximately $290 million to almost $900 million. On a global basis, these private funds cover Venture Capital, Buyout, Distressed Debt, Real Estate, Energy and Commodities. The structure of these private investment funds results in committed amounts being called by the fund manager over a number of years as underlying investments are made. Therefore, the invested amounts are typically much lower than the committed amounts, particularly when an investment program is still building towards target levels. It will take a number of years for the invested amount holdings to build up and for the investment performance to emerge. A complete list of the private investment fund managers to which commitments were outstanding at December 31, 2006 is provided at our website (www.utam.utoronto.ca).

As a result of the activity in Absolute Return Hedge Funds, Private Equity and Real Assets described above, the total asset mix weight in Alternative Assets continued to increase in 2006, toward target levels. The increase was more pronounced for Hedge Funds, as these investments are used for the Absolute Return category and as underlying investments for the Enhanced Index investment programs in Public Equities and Fixed Income, as discussed under Investment Performance below.

FOREIGN CURRENCY EXPOSURE

The underlying philosophy at UTAM is to exploit global opportunities. This focus results in foreign currency exposure. To control the volatility from foreign currency fluctuations adversely impacting overall returns, a foreign currency hedging policy with varying hedge ratios for different asset classes was established in 2003 and remained in place for 2006. The hedge ratios for the applicable benchmarks were: (i) 50% for Equities and Real Assets; (ii) 100% for Fixed Income; and (iii) 75% for Absolute Return.

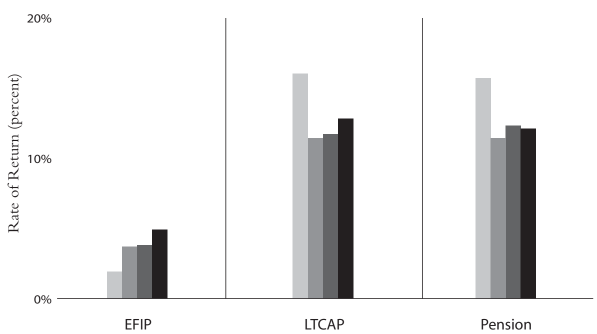
The 50% hedge ratio for Equities and Real Assets reflects a "minimum regret" outcome on hedging. For Fixed Income, where stable returns are desired, the 100% hedge ratio insulates the asset class from foreign currency fluctuations but expands the opportunity set for bonds to the global bond markets. The 75% hedge ratio for the Absolute Return category recognizes that the strategies employed reflect bonds as well as equities. An active foreign currency overlay strategy, within operating limits, is employed in managing the foreign currency exposure. The results of this active overlay strategy, combined with the policy hedging overlay impact, are provided in Exhibit 8.

investment performance

The total net return for each portfolio for 2006, and for the prior three years, is summarized in Exhibit 5.

Exhibit 5

Total Fund Net Rate of Return for Years Ended December 31



	EFIP	LTCAP	Pension
2003	1.9	16.0	15.7
2004	3.7	11.4	11.4
2005	3.8	11.7	12.3
2006	4.9	12.8	12.1

The Pension fund generated a net return of 12.1% in 2006, which was slightly lower than the 2005 result. LTCAP produced a net return of 12.8%, which exceeded the 11.7% return of the prior year. EFIP earned 4.9% in 2006, which was notably higher than the prior year's 3.8% return.

The Pension fund and LTCAP had the same policy asset mix as of January 1, 2006. However, for Pension this represented a new policy asset mix which came into effect on that date. As a result, there was a transition period required to realign Pension holdings.

This transition required changes to the allocations to third-party investment managers, in order to bring Pension closer to the new policy asset mix and therefore more in line with LTCAP. On a steady-state basis, we would expect the net return for Pension and LTCAP to be closer together, since their policy asset mix and return objective are now the same. There are some differences in the allocations to third-party investment managers within each fund, which would also create return differences between the two funds, but we expect to also bring these manager allocations more into alignment over time.

UTAM evaluates investment performance in three key ways: (i) versus the University's return target; (ii) versus passive market index returns (benchmarks) at the portfolio and asset class levels; and (iii) versus peers based on total portfolio performance. Each of these is discussed below.

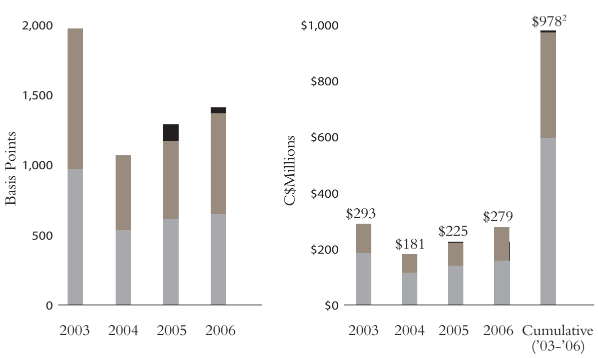
1. Performance Versus University's Return Target

The return target specified by the University, for both Pension and LTCAP, is a 4% real return net of all fees. For EFIP, the target is 1-year Canadian Treasury Bills plus 50 basis points (on a rolling 12-month basis).

The difference between actual investment performance and the applicable target can be measured on an investment return basis (e.g. 12% actual return versus 11% target return results in 1% value added) and converted to a dollar value equivalent (e.g. 1% return above the target return on a $500 million portfolio equates to $5 million of value added). The performance of the three portfolios on both of these bases is summarized in Exhibit 6.

Exhibit 6

Value Added Versus University Return Target[1] for Years Ended December 31



EFIP
LTCAP
Pension

[1] Value Added refers to the actual return less the University's target return.
[2] Cumulative total includes all three portfolios.

Over the past four years (2003-2006), UTAM has generated cumulative value added of more than $970 million above the return target for Pension and LTCAP combined. This represents 20% of the total value of these portfolios at December 31, 2006. The University's return targets are meant to be achieved over a 10-year period. In this regard, the investment return achieved over the past four years is equivalent to the investment return that should be achieved over eight years at the target return level.

Investment performance in 2006 substantially exceeded the University's return targets for all three portfolios. Value added of 647 basis points was generated for the Pension fund, 720 basis points for LTCAP and 42 basis points for EFIP. In total, this equates to C$279 million of value added across the three portfolios. This continues the favourable results produced over the past several years.

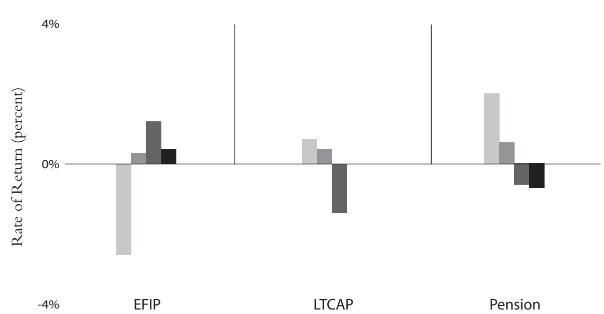
The return target for EFIP (which is also the benchmark return) was reset at the beginning of 2005. For 2006, UTAM generated value added of about $2 million above the University's return target.

2. Performance Versus Benchmarks (Passive Market Index Returns)

Formal policy benchmarks, based on passive market indices, are in place at the total portfolio level and at asset class levels. Total portfolio performance versus benchmark is summarized in Exhibit 7.

Exhibit 7

Value Added Versus University Benchmarks[1] for Years Ended December 31



	EFIP	LTCAP	Pension
2003	-2.6	0.7	2.0
2004	0.3	0.4	0.6
2005	1.2	-1.4	-0.6
2006	0.4	0.0	-0.7

[1] Value Added refers to the actual return, net of fees, less the benchmark return.

Over the past four years (2003-2006), UTAM has generated cumulative value added of more than $970 million above the return target for Pension and LTCAP combined. This represents 20% of the total value of these portfolios at December 31, 2006.

For 2006, LTCAP performed at the market benchmark. Pension was 72 basis points behind its benchmark. This was due to the transition of Pension holdings to the new policy asset mix that became effective January 1, which was reflected in a change to the benchmark as of that date. However, the actual transition of holdings took place throughout January. If the change in benchmark for Pension had been set at the end of January, to allow for transition, then Pension value added would also be at benchmark. EFIP outperformed its market benchmark by 42 basis points in 2006.

In key respects, the investment performance results versus benchmarks for 2006 reflect partial completion of a substantial portfolio restructuring process for Public Markets (mainly Equities, but also Fixed Income) that was commenced partway through 2005. The reasons for 2006 performance results are discussed in detail below, with more detailed figures provided in Exhibit 8.

PUBLIC EQUITIES

The restructuring of the third-party investment manager line-up for Public Equities continued in 2006. The near-term realignment of Canadian Equities was largely completed, but changes for US Equities and International Equities did not proceed as quickly as initially planned.

Canadian Equities in total outperformed the benchmark in 2006 by 149 basis points in Pension and 144 basis points in LTCAP. All the underlying managers exceeded their benchmarks except for one manager, but that manager continues to outperform the benchmark on a 2-year and 3-year basis. In addition, the Canadian Equity Enhanced Index investment program that was introduced mid-year added significant excess return versus the benchmark. The Enhanced Index program consists of overlaying Hedge Fund investments onto passive Canadian Equity index futures holdings, while investing some of the underlying assets in money market securities (rather than Hedge Funds) in order to maintain a cushion for liquidity. The combined elements of the Enhanced Index program can be thought of as a single active manager. The program is structured to generate a risk level comparable to an active Canadian Equity manager, but with a superior risk-adjusted return. The Enhanced Index investment programs for other asset classes are structured with similar intent.

US Equities in total also outperformed the benchmark in 2006, by 40 basis points in Pension and 96 basis points in LTCAP. All the underlying managers in LTCAP exceeded their benchmarks.

However, value added was lower than otherwise in both portfolios due to a higher than desired level of passive index holdings, as re-structuring of the manager line-up continues to unfold. The US Equity Enhanced Index investment program, that started with a pilot program in mid-2005 and which was expanded in 2006, generated significant excess return. The value added for Pension was less than LTCAP as a result of: (i) the transition of Pension to a new policy asset mix in January 2006, and resulting benchmark change; and (ii) different manager level allocations than LTCAP, which were realigned during the year.

International Equities in total performed below benchmark in 2006, by 66 basis points in Pension and by 79 basis points in LTCAP. This was mainly due to one active manager, although a second active manager also underperformed, but to a lesser extent. The impact was accentuated by a higher than desired allocation to these managers, which resulted from the manager realignment proceeding more slowly than planned. The allocations to these managers were reduced later in the year, as restructuring progressed. The International Equity Enhanced Index investment program, which was introduced in the middle of 2006, added significant excess return versus the benchmark.

Restructuring of the Public Equities manager line-up is expected to be completed during 2007.

PUBLIC FIXED INCOME

Fixed Income holdings were largely indexed during 2006, consistent with prior years. In addition, the holdings are about evenly split between nominal bonds and real return bonds. Value added was therefore close to benchmark in all respects.

Late in the year, plans were made to establish a Fixed Income Enhanced Index investment program, which will be put in place during 2007. Some of the indexed holdings will also be transitioned to active managers. The deployment into active management for Fixed Income has proceeded more slowly than planned, as the Public Equities manager realignment was considered a higher priority.

ABSOLUTE RETURN

The Hedge Fund investments outperformed benchmarks in 2006. Returns exceeded the formal policy benchmark by 45 basis points in Pension and 60 basis points in LTCAP. In addition, the returns exceeded a well known Hedge Fund index (HFRI) by 108 basis points in Pension and 123 basis points in LTCAP. This was achieved at very low volatility levels versus most other asset classes, and with modest correlation to Equities and little correlation to Fixed Income, which reduces overall portfolio risk. Most of the Hedge Fund holdings in our investment programs are US$ denominated.

During 2006, we expanded the number of third-party Hedge Fund managers and increased the allocation to some of the existing managers. The new investments resulted in an increased asset mix weight in Absolute Return through 2006 (although still below the near-term target weight), and provided the underlying investments for the Enhanced Index investment programs in the three Public Equities asset classes.

FOREIGN CURRENCY

Foreign currency had a modest impact on performance in 2006. The active currency manager contributed positively for the year on the active portion of the program versus benchmark. However, the policy hedging portion of the program resulted in an overall modest negative impact on net returns for Pension and LTCAP, as shown in Exhibit 8.

Exhibit 8

Rates of Return and Comparison to Benchmarks for Periods Ended December 31, 2006

	Rate of Return (%)		Value Added[1] (%)	
	1-Year	3-Year	1-Year	3-Year
PENSION				
Canadian Equities	18.7	19.6	1.5	1.1
US Equities (USD)	16.1	10.8	0.4	(0.4)
International Equities[2]	21.0	14.3	(0.7)	(0.3)
Fixed Income – Total	0.7	7.7	0.2	(0.2)
Nominal Bonds	4.0	7.0	0.0	(0.6)
Real Return Bonds	(2.9)	9.6	0.0	0.0
Absolute Return (USD)	10.2	7.4	0.4	(0.6)
Total Fund Unhedged	**12.5**	**10.7**	**(0.3)**	**(0.2)**
Currency Overlay	(0.4)	1.2	n.a.	n.a.
Total Fund Including Hedging	**12.1**	**12.0**	**(0.7)**	**(0.2)**
LTCAP				
Canadian Equities	18.7	20.2	1.4	1.7
US Equities (USD)	16.7	10.9	1.0	(0.3)
International Equities[2]	22.3	14.7	(0.8)	(0.2)
Fixed Income – Total	0.8	8.3	0.3	(0.3)
Nominal Bonds	4.2	6.8	0.1	(0.8)
Real Return Bonds	(2.8)	9.7	0.0	0.1
Absolute Return (USD)	10.3	6.7	0.6	(1.3)
Total Fund Unhedged	**13.3**	**10.1**	**0.2**	**(0.9)**
Currency Overlay	(0.5)	1.9	n.a.	n.a.
Total Fund Including Hedging	**12.8**	**11.9**	**0.0**	**(0.4)**

Asset Class	Benchmark	Rate of Return (%)	
		1-Year	3-Year
Canadian Equities	S&P/TSX Composite Index	17.3	18.6
US Equities (USD)	Russell 3000	15.7	11.2
International Equities – PENSION[2]	MSCI EAFE[2]	21.7	14.5
International Equities – LTCAP[2]	MSCI EAFE[2]	23.0	14.9
Nominal Bonds	50% SCU, 50% SCL	4.1	7.6
Real Return Bonds	SC Real Return Bonds	(2.9)	9.6
Absolute Return (USD)	3-month LIBOR + 4.5%	9.7	8.0

[1] Refers to the actual return, net of fees, less the benchmark return.
[2] Figures are a weighted composite of hedged and unhedged figures, where appropriate.

3. Performance Versus Peers

Pension and LTCAP both achieved second quartile performance versus peers on a 1-year basis for 2006, with Pension at the 43rd percentile and LTCAP at the 27th percentile. The different percentile ranking reflects the impact of the Pension transition in January 2006 and the different manager allocations, as discussed previously.

Detailed peer universe rank information is provided in Exhibit 9.

Exhibit 9

Peer Comparison Percentile Ranking[1] for Periods Ended December 31

	Pension				LTCAP			
	2006		2005		2006		2005	
	1-Year	3-Year	1-Year	3-Year	1-Year	3-Year	1-Year	3-Year
Total Fund	**43**	**21**	**30**	**14**	**27**	**20**	**36**	**12**
Canadian Equities	35	26	36	33	35	18	37	17
US Equities[2]	35	53	64	54	31	51	61	42
International Equities[2]	59	56	60	40	60	55	59	33
Fixed Income	99	12	11	14	99	11	11	8

[1] RBC Global Services Balanced Fund and Asset Class Universes.
[2] Unhedged CDN$ returns.

Although not all the multi-year results are shown in Exhibit 9, on a 2-year, 3-year and 4-year basis both portfolios are consistently 1st quartile, except for Pension on a 2-year basis, which was just below 1st quartile (28th percentile).

This strong overall performance was generated despite some of the challenges from restructuring the portfolios, which is reflected in the asset class rankings, particularly for International Equities. For total Fixed Income, the low percentile rank in 2006, and significant decline from prior years, reflects the fact that: (i) an indexed position placed lower in the ranking in 2006 and Fixed Income rank is very sensitive to modest return differences; and (ii) the policy asset mix for Pension and LTCAP is comprised of 50% nominal bonds and 50% real return bonds, and the peer universe ranking is only available for nominal bonds. Real return bonds generated significantly lower returns than nominal bonds in 2006.

risk versus return

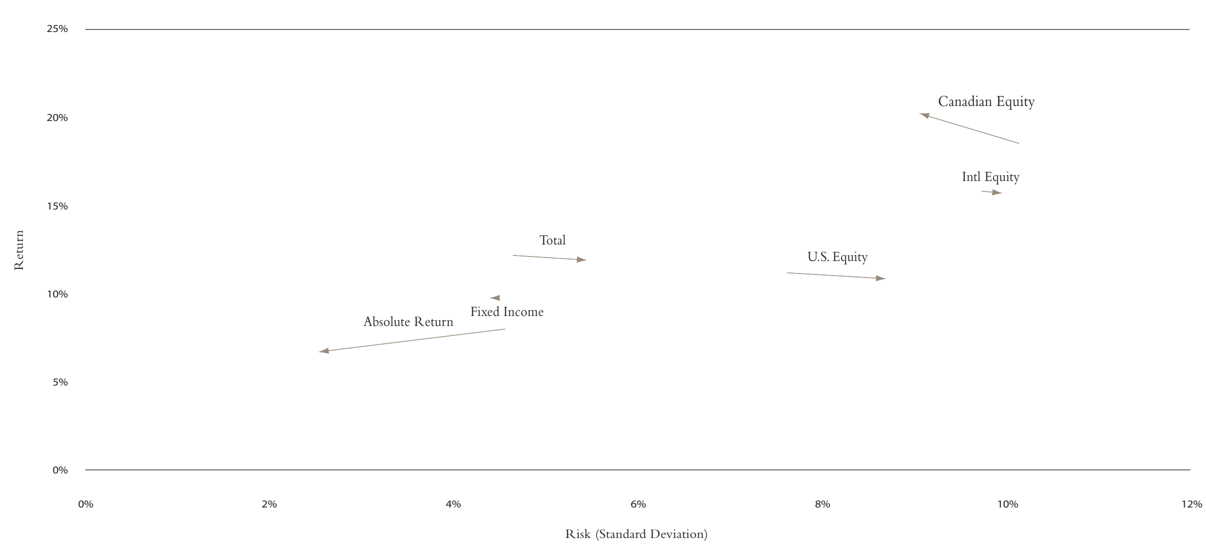
Over the past several years, UTAM has devoted increased attention to the risk management aspects of investment strategy. This has been reflected in our sourcing and review process for considering new managers, not only in assessing a manager's performance and investment methods, but also in our operational due diligence work on their activities. This emphasis was also considered appropriate because of the increasing amount of investment in Alternative Assets. These asset categories, and the underlying investment strategies (particularly for Hedge Funds), often involve a different risk profile than is associated with a traditional, long-only, active Equity or Fixed Income investment manager.

The emphasis on risk assessment is premised on the simple belief that the appetite for investment returns is essentially unlimited, but the appetite for risk is limited. It logically follows that optimizing the asset mix, and the third-party investment manager line-up, should be centred around maximizing the investment return per unit of risk, while investing for higher returns up to the acceptable total risk tolerance specified by the client.

In 2006, UTAM internally developed a more formalized approach to incorporating risk metrics into our quantitative review practices. We assess potential new managers in terms of not only their particular strengths and how well they fit with our investment strategy for the asset class, but also with respect to how they are expected to interact quantitatively with the other managers in our line-up. Our work in this area will continue to evolve as we pursue improvements to processes and practices.

Exhibit 10

Pension Risk and Return Relative to Benchmark – 36 Months



risk versus return

LTCAP Risk and Return Relative to Benchmark – 36 Months

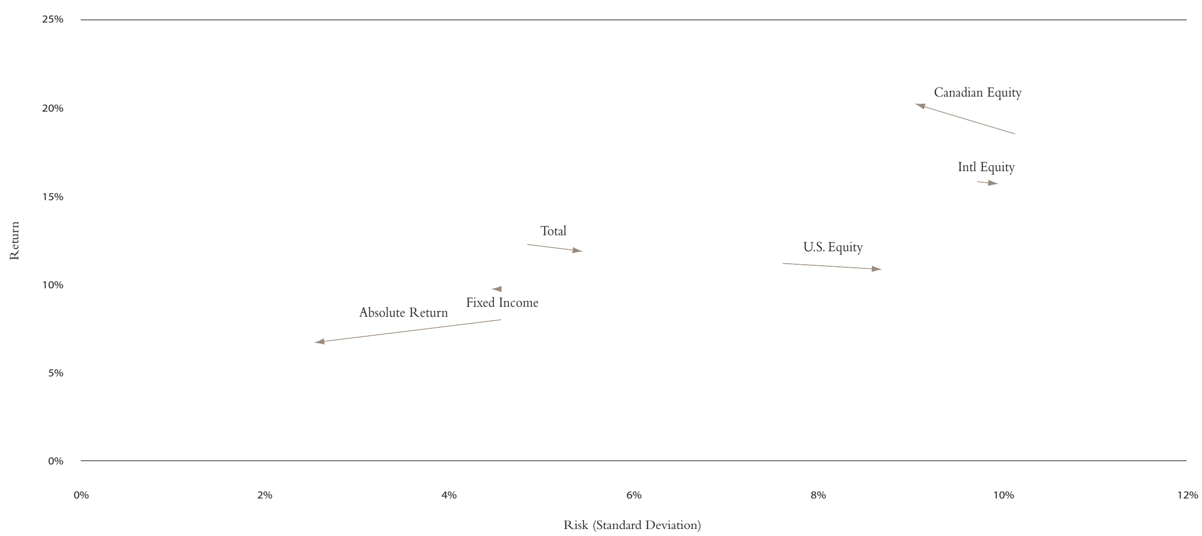


Exhibit 10 provides an illustration of the interaction of risk and return over time for the Pension and LTCAP portfolios. It maps the actual versus benchmark risk/return position of each portfolio in total, and at the individual asset class level. It is based on a 36-month set of data, in order to obtain a more stable and reliable view of changes over time. From a statistical perspective, the outcome becomes less reliable the shorter the time-frame used, because there are fewer data points with which to do the analysis. However, the use of a 36-month period means that the results only partially capture changes in investment strategy and the investment manager line-up that have taken place over the past one to two years.

The base of each arrow represents the risk/return point of the benchmark, while the head of each arrow represents the actual position of the portfolio or asset class. The arrow's direction indicates how active management has altered the risk/return profile versus the benchmark.

The arrow for the total portfolio indicates that total portfolio risk/returns are close to benchmarks. International Equities and US Equities show modest deviation from benchmarks, which reflects the higher than desired level of index holdings over the past few years, as portfolio restructuring unfolds. Canadian Equities, where the restructuring is more advanced over the period shown, displays a higher return and lower risk profile than the benchmark. Fixed Income is essentially at benchmark, as expected, given the indexed make-up of the holdings over the period. Absolute Return shows a notable reduction in risk and minor reduction in return, reflecting the restructuring that was initiated in late 2004.

auditors' report

To the Directors of
University of Toronto Asset Management Corporation

We have audited the balance sheet of **University of Toronto Asset Management Corporation** as at December 31, 2006 and the statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Corporations Act (Ontario), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Ernst & Young LLP

Chartered Accountants
Toronto, Canada,
January 26, 2007

balance sheet

As at December 31	2006 $	2005 $
ASSETS		
Current		
Cash	**10,221**	22,281
Due from University of Toronto *[note 7]*	**137,332**	436,125
Accounts receivable *[note 4]*	**55,006**	–
Prepaid expenses	**–**	17,599
Total current assets	**202,559**	476,005
Capital assets, net *[note 5]*	**371,997**	374,655
Total Assets	**574,556**	850,660
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	**202,559**	476,005
Total current liabilities	**202,559**	476,005
Deferred capital contributions *[note 6]*	**371,997**	374,655
Total liabilities	**574,556**	850,660
Net assets	**–**	–
Total Liabilities and Net Assets	**574,556**	850,660

See accompanying notes

statement of operations and changes in net assets

Year ended December 31	2006 $	2005 $
EXPENSES *[note 7]*		
Staffing	**2,480,163**	2,199,037
Occupancy	**171,762**	159,778
Consulting fees	**151,150**	201,956
Office supplies and services	**120,703**	81,042
Professional fees	**142,150**	122,018
Communications and information technology support	**180,053**	306,198
Travel	**189,491**	81,479
Amortization of capital assets	**37,736**	2,997
Reorganization charges *[note 8]*	**–**	540,152
Relocation	**–**	30,348
	3,473,208	3,725,005
RECOVERIES AND OTHER INCOME		
Recoveries from University of Toronto *[note 7]*	**3,435,472**	3,696,745
Amortization of deferred capital contributions	**37,736**	2,997
Other income	**–**	25,263
	3,473,208	3,725,005
Net income for the year	**–**	–
Net assets, beginning of year	**–**	–
Net assets, end of year	**–**	–

See accompanying notes

statement of cash flows

Year ended December 31	2006 $	2005 $
OPERATING ACTIVITIES		
Net income for the year	–	–
Add (deduct) items not involving cash		
Amortization of capital assets	**37,736**	2,997
Amortization of deferred capital contributions	**(37,736)**	(2,997)
	–	–
Changes in non-cash working capital balances related to operations		
Accounts receivable	**(55,006)**	8,059
Prepaid expenses	**17,599**	52,495
Accounts payable and accrued liabilities	**(273,446)**	92,464
Deferred compensation plan payable	–	(140,030)
Cash provided by (used in) operating activities	**(310,853)**	12,988
INVESTING AND FINANCING ACTIVITIES		
Purchase of capital assets	**(35,078)**	(377,652)
Deferred capital contributions to fund purchase of capital assets	**35,078**	377,652
Decrease in due from University of Toronto	**298,793**	7,691
Cash provided by investing and financing activities	**298,793**	7,691
Net increase (decrease) in cash and cash equivalents during the year	**(12,060)**	20,679
Cash and cash equivalents, beginning of year	**22,281**	1,602
Cash and cash equivalents, end of year	**10,221**	22,281

See accompanying notes

notes to financial statements

December 31, 2006

1. RELATIONSHIP WITH THE UNIVERSITY OF TORONTO

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

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

2. BASIS OF PRESENTATION

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial instruments
The carrying values of UTAM's financial instruments approximate their fair values.

Use of estimates
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of recoveries and expenses during the reporting period. Actual results could differ from those estimates.

Capital assets
Leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the lease term of ten years and six months [note 7[d]].

Revenue recognition
Recoveries from U of T are recorded when expenses are incurred. Recoveries related to the purchase of capital assets are deferred and amortized over the life of the related capital asset. Service revenue is recorded when services are rendered.

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

4. ACCOUNTS RECEIVABLE

The premises occupied by UTAM are leased in the name of the Governing Council, which, in accordance with the University of Toronto Act, 1971, s.o. 1971, c.56, is exempt from municipal property taxation. A request has been formally submitted to the landlord to make the necessary application for such tax exemption to the assessment authority on the Governing Council's behalf. Until such time as the tax exemption is granted and a refund is received, all payments made by UTAM in respect of property taxation are recorded as accounts receivable.

5. CAPITAL ASSETS

Capital assets consist of the following:

	2006		
	Cost $	Accumulated amortization $	Net book value $
Leasehold improvements	412,730	40,733	371,997

	2005		
	Cost $	Accumulated amortization $	Net book value $
Leasehold improvements	377,652	2,997	374,655

6. DEFERRED CAPITAL CONTRIBUTIONS

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

	2006 $	2005 $
Balance, beginning of year	374,655	–
Recoveries received during the year related to capital asset purchases	35,078	377,652
Amortization of deferred capital contributions	(37,736)	(2,997)
Balance, end of year	371,997	374,655

7. RELATED PARTY TRANSACTIONS

[a] In accordance with the amended and restated Service and UTAM Personnel Agreement dated May 14, 2003 between the Governing Council and UTAM, U of T will reimburse UTAM for its services an amount which will enable it to recover the appropriate costs of operations. U of T reimburses UTAM on a quarterly basis based on the approved budget. As at December 31, 2006, $137,332 is due from U of T [$436,125 in 2005], reflecting the net amount yet to be reimbursed.

[b] Eligible employees of UTAM are members of U of T's pension plan and participate in other employee future benefit plans offered by U of T. In 2006, contributions of $112,722 [$85,143 in 2005] related to these plans have been expensed.

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

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

	$
2007	110,721
2008	110,721
2009	110,721
2010	110,721
2011	110,721
Thereafter	470,564

In addition to the above minimum rent payments, there are additional payments in respect of operating and tenant in-suite hydro costs that are subject to change annually based on market rates and actual usage. These components totalled $72,395 in 2006.

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

8. REORGANIZATION CHARGES

During 2005, UTAM undertook a number of staff reorganization initiatives. The one-time staff costs associated with these initiatives are presented as reorganization charges on the statement of operations and changes in net assets.

UTAM BOARD OF DIRECTORS
(as at March 31, 2007)

IRA GLUSKIN
Chair of the Board

Ira Gluskin has served as a Director of Gluskin Sheff + Associates, and as the Company's President and Chief Investment Officer, since he co-founded the Company with Gerry Sheff in 1984. Prior to co-founding Gluskin Sheff, Mr. Gluskin had worked in the investment industry for 20 years. Mr. Gluskin is a well-known industry commentator and currently writes a bi-weekly column in The Globe and Mail's Report on Business. He is Chairman of the University of Toronto Asset Management Corporation, which has responsibility for overseeing the management of approximately $5.4 billion in investable assets on behalf of the University. He is a member of the Mount Sinai Hospital Investment, Budget and Resource Committees, as well as being a member of its Foundation. Mr. Gluskin is the former Chair of the Investment Advisory Committee for the Jewish Foundation of Greater Toronto and is a member of the Foundation Board. Mr. Gluskin received a Bachelor of Commerce degree in 1964 from the University of Toronto.

ROBERT W. MORRISON, *Vice Chair*

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

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

FELIX P. CHEE
University of Toronto Asset Management Corporation,
President and CEO

CATHERINE A. DELANEY
C.A. Delaney Capital Management

WILLIAM E. HEWITT
William E. Hewitt Associates, Financial & Investment Consultants

ANTHONY R. MELMAN
Onex Corporation, *Special Advisor, Strategic Acquistions*

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Swindon Investments Ltd., *President*

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Retired Senior Managing Director and Chief Investment Officer of the Blackstone Group

DAVID C. NAYLOR
University of Toronto, *President*

CATHERINE J. RIGGALL
University of Toronto, *VP Business Affairs*

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

UTAM CORPORATION
(as at March 31, 2007)

FELIX P. CHEE
President and Chief Executive Officer

President and CEO of University of Toronto Asset Management Corporation. He was previously Vice President of Business Affairs at the University of Toronto. Prior to joining the University of Toronto he held the positions of Executive Vice President and Chief Investment Officer at Manulife Financial; Senior Vice-President of Corporate Finance at Ontario Hydro Corporation; and Senior Investment Officer of the International Finance Corporation at the World Bank Group. He currently serves as Director of The University of Toronto Innovation Foundation, MaRS, CenterPlate, Ontario Infrastucture Projects Corporation and also UTAM. Felix holds a Bachelor of Technology (Honours) from Loughborough University of Technology; a Masters of Science from the Imperial College of Science and Technology; and a Masters of Business Administration from York University.

JOHN L. W. LYON, CFA, CA
Managing Director, Investment Strategy

KAREN J. COLL, CFA
Managing Director, Public Investments

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

ROSLYN ZHANG, CFA
Director, Portfolio Research and Analysis

TIFFANY PALMER
Manager, Compliance

CARI McCRORIE
Manager, Finance and Administration

BENJAMIN ABRAMOV, MBA, LLB
Investment Analyst

ADRIAN CHINTEA
Investment Analyst

RYAN CONNOLLY, CFA
Investment Analyst

JULIANA ING, CFA, FRM
Portfolio Performance and Risk Analyst

ANNE LEE
Investment Operations Analyst

JILLIAN MIRANDA
Administrative Assistant

MASTER CUSTODIAN

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