UNIVERSITY OF
TORONTO

University of Toronto Asset Management Corporation

ANNUAL REPORT 11

CONTENTS

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

The Report In Brief

Investment performance for 2011 and prior periods ending 2011 is summarized below.

	2011			2 - YEAR (2010-2011)			4-YEAR (2008-2011)		
	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP
University Target Return[1]	6.3%	6.3%	2.4%	6.3%	6.3%	1.9%	5.8%	5.8%	3.0%
Reference Portfolio Return[2]	0.2%	0.2%	n.a.	5.2%	5.2%	n.a.	1.4%	1.4%	n.a.
Actual Net Return[3]	1.2%	1.2%	2.5%	5.1%	5.2%	2.3%	-4.6%	-4.7%	2.1%
Assets (December 31; millions)									
2011	$1,754	$2,504	$1,006						
2010	$1,757	$2,336	$909						

n.a. = not applicable

1. For the Endowment and Pension portfolios, the target return is a 4% return plus inflation (CPI). For EFIP, the target return is the 365-day Canadian T-bill index return plus 50 basis points.
2. Gross return less an assumed 15 bps implementation costs. Note that the Reference Portfolio was only adopted in 2009.
3. Gross return less all fees and costs including UTAM costs, custody costs, etc.

President's Message

Another very challenging year for investment portfolio managers is the best way to describe 2011. Equity investments, which typically account for the majority of the risk in traditional portfolios, recorded peak-to-trough swings in excess of 20%. Moreover when the year ended, the vast majority of global equity markets had produced negative total returns. Heightened risk aversion and additional infusions of monetary liquidity by global central banks made quality and selective fixed income assets the investments of choice. Underlying this performance were two very familiar themes: the European debt crisis; and, concerns regarding the state of the global economy.

In spite of this difficult investing environment, we were encouraged by the fact that all three of the main University portfolios not only were able to record positive returns but also outperformed the passive 'shadow' portfolio benchmarks that the University had previously established (the Reference Portfolio in the case of the Pension and Endowment portfolios). The performance improvement was made more robust as its source was not one single factor but rather a contribution of asset mix, manger selection and currency decisions.

In the past few years much of this message has been directed towards some of the steps that we were taking to improve flexibility and risk management within the portfolios and to enhance the skill, experience and infrastructure within UTAM. By definition, this task will never be complete. However, I believe that the past year could be characterized as bringing UTAM into the home stretch for this initiative. We have made great progress in strengthening our internal team. At the same time our new internal structure and strategic partnerships foster greater interchange as we explore investment alternatives for the portfolios. Similarly, our revised governance structure (with the new Pension Committee and the President's Investment Advisory Committee) is creating much improved transparency and communication around the opportunity and risk that characterize the University portfolios at any point in time. In short, UTAM is a very different organization than it was only a few years ago and, as such, much better positioned to deliver on its original objective.

Although we cannot control the outcome of investment markets and thus portfolio returns, we are able to influence the costs that are expended in attempting to earn returns and we take this task seriously. As was the case last year, we were again able to meaningfully reduce 'total' investment management costs.

The last year was an extremely demanding one, not only with respect to markets, but also in terms of the time required by the UTAM Board and the two new Committees in working with the UTAM team to fine-tune our approach and work plan. All of us at UTAM are very appreciative of their commitment to the University and their input to UTAM. Our common purpose is to enhance the University's boundless possibilities.

William Moriarty, CFA
President & Chief Executive Officer

Management's Discussion And Analysis

MANDATE

UTAM manages $5.3 billion of assets in three main portfolios: (i) the University's $1.8 billion Endowment fund; (ii) the University's $2.5 billion Pension Master Trust fund; and (iii) the University's $1.0 billion working capital pool (Expendable Funds Investment Pool; "EFIP").

The main Endowment fund, which is formally called the Long Term Capital Appreciation Pool ("LTCAP"), primarily represents the collective endowment funds of the University. The growth in assets of LTCAP is largely the net result of endowment contributions, withdrawals to fund endowment projects, net transactions in the other asset pools and investment income earned on LTCAP assets.

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

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

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

For 2011, the target return and risk tolerance for the Endowment and Pension portfolios were stated as a 4% real return with a 10% risk tolerance (measured by the annual standard deviation of nominal returns) over a rolling ten-year period. The target return and risk tolerance for EFIP were stated as the 365-day Canadian T-bill Index return plus 50 basis points (i.e. 0.50%), with minimal risk. For 2012, the objectives for the Endowment and Pension have been restated as a 4% real return over a rolling ten-year period while taking an appropriate amount of risk to achieve this target, but without undue risk of loss. More specifically, the risk limit will be related to a Reference Portfolio.

In 2009, the University Administration and the UTAM Board established a Reference Portfolio benchmark comprised of traditional public markets assets. During 2011, the Reference Portfolio was comprised of 30% Canadian equities, 15% U.S. equities, 15% International equities, 35% Canadian Universe bonds and 5% Canadian Government real return bonds. Foreign currency assets were 50% hedged.

This portfolio was designed to represent an easily implementable, low cost approach to an investment program that would produce returns in line with the University's longer term objectives. As such, it was also meant to provide an objective measure of return and risk against which alternative portfolios and the 'active' approach employed by UTAM could be evaluated over time.

UTAM's INVESTMENT BELIEFS

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

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

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

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

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

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

6 An **active management approach** can add value (after fees) although, at times, some markets will be relatively efficient and can be better accessed through a more **passive approach**. More specifically, we believe that active investment strategies have a greater probability of producing market outperformance in less-developed, or severely dislocated, markets. Objective consideration of alternative investment strategies and structures is also an important component of an active approach since these can provide access to unique strategies, talented investment managers and often the potential to reduce downside risk.

All of these principles, or investment beliefs, are reflected in the investment strategies that we research internally and implement through external money managers. Some of our managers oversee a passive portfolio while some focus in niches. Some use leverage and sell securities short. Some invest in Private Markets. Although many of these investment strategies differ from the traditional approach embedded in the University's Reference Portfolio benchmark, the mix of strategies selected is designed to produce returns and risk exposures that will outperform the Reference Portfolio benchmark. As implied above, the strategies are not static, but gradually evolve over time in response to our view on the potential for each strategy as the macroeconomic and market environment changes.

ASSET MIX

2011 Reference Portfolio Asset Mix

The Reference Portfolio asset mix, established by the University, is shown in Table 1 below. The University will periodically review its composition as part of a general review of the macroeconomic environment, its return objectives and its risk tolerance. During 2011, the University initiated such a review.

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

1 50% hedged to the Canadian dollar.

Actual Portfolio Asset Mix

The asset mix for the Endowment fund and the Pension fund at the end of 2011 and the end of 2010 is shown in Table 2 below. The weights are shown on an exposure basis, which means that the asset weight includes the notional dollar value of any index futures positions used to maintain an asset class at the desired weight. The cash collateral underlying the index futures notional amounts is deducted in the Cash section (note: this offset is required in order to balance back to the actual portfolio values as recorded by the custodian).

This presentation is identical to that used in previous annual reports but differs somewhat from the asset allocation methodology that UTAM has recently developed and intends to use in 2012. Instead of classifying investments using a traditional asset class framework, UTAM is now classifying investments by their main risk characteristics and mapping them back to the components of the Reference Portfolio. For example, Private Investments will no longer be viewed as a separate asset class. Instead, those Private Investments that are equity-like in nature will be included with other equity investments and those that are more debt-like in nature will be included with other credit related investments. Next year's annual report will outline the advantages of this framework in greater detail.

Table 2

	Endowment		Pension	
(as at December 31)	**2010**	**2011**	**2010**	**2011**
Canadian Equity[1]	14.6%	14.5%	14.0%	14.3%
US Equity[1,2]	14.6%	14.3%	13.9%	14.1%
International Equity[1]	17.4%	17.2%	16.7%	16.9%
Fixed Income - Nominal Bonds[1]	20.4%	20.0%	19.5%	19.8%
Hedge Funds	14.6%	15.4%	15.0%	14.9%
Private Investments	13.0%	12.8%	15.0%	13.7%
Real Assets	5.6%	6.4%	6.0%	6.3%
Cash (including notional offsets)[3]	-0.1%	-0.6%	0.0%	-0.1%
Total	100%	100%	100%	100%
Cash (actual)[4]	16.0%	13.9%	13.4%	13.8%
Portfolio Value (millions)	$1,757	$1,754	$2,336	$2,504

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

2. Includes Enhanced Index platform holdings until June 30, 2011, when the program was suspended.

3. Includes mark-to-market gain or loss of foreign currency hedging contracts and is net of the notional dollar amount of index futures.

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

The changes in actual asset weights from the prior year are a function of several key factors, including active decisions, cash inflows and outflows and the differing performance of various assets classes and foreign exchange rates. In light of the University's review process, no significant tactical changes in broad asset mix were made in 2011.

INVESTMENT PERFORMANCE

Investment performance at its most basic level is the result of asset mix and asset class returns. Looking at broad asset class returns first, the year just ended was a challenging one for Canadian investors pursuing a traditional approach to building their portfolios. Table 3 details the performance of various public markets assets and the two major currencies for 2011 (and over the last four years). It clearly highlights the fact that investors were not rewarded for holding higher-risk public markets equities in 2011.

Table 3

Public Markets Index Returns (Local)
(Before Fees)

	2008	2009	2010	2011	Cum. 2008-11
Canadian Equity (C$)	-33.0%	35.1%	17.6%	-8.7%	-2.9%
U.S. Equity (U$)	-37.3%	28.3%	16.9%	1.0%	-5.0%
International Equity (Local)	-40.3%	24.7%	4.8%	-12.2%	-31.4%
Fixed Income (C$)	6.4%	5.4%	6.7%	9.7%	31.3%
USDCAD	25.1%	-15.1%	-5.2%	2.5%	3.2%
EURCAD	18.9%	-12.3%	-11.4%	-0.8%	-8.4%

Better results were available to those investors that had adopted a broader definition of asset classes and then pursued greater diversification among different types of assets within the main categories of equity and debt (i.e., made use of so-called alternative assets). While there are many indexes that are designed to track ‘alternative asset’ performance, most of them are not investable and thus are less than ideal measures of performance. In our opinion, the actual returns (net of fees) earned on the University’s actual investments in these assets and strategies (shown in Table 4 below) provide a better measure. As a comparison of these results with Table 3 above illustrates, the University’s alternative investments generally outperformed passive public markets investments in 2011. Moreover, this is also the case when performance is measured over the last four years.

Table 4

Actual Alternative Asset Returns (Local)

(After Fees)

	2008	2009	2010	2011	Cum. 2008-11
Private Investments	**1.5%**	**-1.2%**	**20.2%**	**14.8%**	**38.4%**
Buyout	-0.2%	-9.7%	25.5%	14.9%	30.0%
Distressed	-7.3%	15.8%	17.6%	8.1%	36.5%
Venture	19.9%	-6.9%	2.4%	27.4%	45.7%
Real Assets	**-2.9%**	**-18.0%**	**13.1%**	**9.0%**	**-1.9%**
Real Estate & Infrastructure	-0.3%	-26.2%	15.3%	12.5%	-4.5%
Commodities	-8.9%	-0.8%	8.8%	1.8%	0.1%
Hedge Funds	**-19.9%**	**15.1%**	**7.4%**	**2.1%**	**1.1%**

Table 5 below summarizes the performance of the Endowment fund, the Pension fund and EFIP for 2011 and the eight-year period prior to 2011 (the latter period covers the most significant period of build-up in Alternative Assets and a number of significant changes in investment strategy).

Reflecting the very difficult capital markets environment, the Endowment and Pension portfolios underperformed the University Return Target in 2011 while the fixed income focused EFIP portfolio outperformed the target. Unfortunately, none of the portfolios were able to exceed the Target Return over the prior eight years, mainly as a result of the 2008-9 experience.

Table 5

	2011			8-Year (2003-2010)		
	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP
University Target Return[1]	6.3%	6.3%	2.4%	5.9%	5.9%	3.6%
Reference Portfolio Return[2,3]	0.2%	0.2%	n.a.	n.a.	n.a.	n.a.
Actual Net Return[3]	1.2%	1.2%	2.5%	4.5%	4.3%	3.1%

n.a. = not applicable

1. For the Endowment and Pension portfolios, the target return is a 4% real return plus inflation (CPI). For EFIP, the target return is the 365-day Canadian T-bill index return plus 50 basis points.
2. The foreign currency hedging ratio for the Reference Portfolio is 50%. The policy hedging ratio for the Endowment and Pension portfolios was changed to 50% in 2009 – the year that the Reference Portfolio was adopted.
3. Gross return less all fees and costs, including UTAM costs, custody costs, etc.

The performance of the Reference Portfolio provides a useful benchmark with respect to the difficulties faced by investment managers in 2011; total return was a modest 0.2% and well below the University's objective. Table 5 also shows that the University Pension and Endowment portfolios each outperformed the Reference Portfolio in 2011 by approximately 1%.

Table 6

2011 Performance Attribution (%)

	Endowment		Pension	
Reference Portfolio Return (Local)		**0.07%**		**0.07%**
Estimated Costs	-0.15%		-0.15%	
FX Exposure (50%)	0.31%		0.31%	
Reference Portfolio Return (C$)		**0.24%**		**0.24%**
Value Added Versus Reference Portfolio:				
Asset Mix Differences	0.19%		0.24%	
Manager Selection	0.71%		0.73%	
Incremental FX Exposure	0.18%		0.18%	
Other	-0.17%	**0.91%**	-0.24%	**0.91%**
Actual Portfolio Performance (C$)		**1.15%**		**1.15%**

Table 6 sets out the factors underlying the performance differences from the Reference Portfolio for these two larger University portfolios. As the table illustrates, differences in asset mix had a modestly positive impact on returns in 2011. In this regard, the negative impact of the portfolios being underweight Fixed Income assets (compared to the Reference Portfolio) was more than offset by the positive contribution of the overweight in Private Investments and the underweight position in Canadian Equity. Manager selection was a sizeable positive contributor to the performance of both portfolios (mainly hedge fund and Canadian small cap equity managers).

In contrast to 2010, the higher level of non-Canadian assets in the LTCAP and Pension portfolios and the policy of hedging less than 100% of the currency exposure contributed positively to performance.

As previously noted, the University sets the target return for EFIP as the 365-day Canadian T-bill Index return plus 50 basis points. There is no Reference Portfolio for EFIP and there is also no multi-year performance assessment. The target is essentially a relatively stable, always positive, return with minimal risk and liquidity being the overriding requirements.

The average asset mix and 2011 investment performance for EFIP are summarized in Table 7 below. At the end of 2011, the EFIP portfolio had a market value of $1,006 million (2010: $909 million).

Table 7

	Asset Mix (2011 Average)[1]	**Actual Return**
Cash	60.8%	1.1%
Short-Term Bonds	29.3%	3.7%
Medium-Term Bonds	7.7%	10.6%
Hedge Funds (USD)	2.2%	-2.1%
Currency Hedge Overlay[2]	n.a.	0.0%
Total	100%	2.5%

1. Weights are based on the average of monthly weights.
2. Foreign currency exposures are 100% hedged to the Canadian dollar.

EFIP generated a net return of 2.5% in 2011, or 12 basis points above the 2.4% University target return. The primary reason for the out-performance was the allocation to better performing longer duration assets. Hedge fund positions have been in the process of being liquidated and at year-end amounted to 0.5% of the portfolio.

RISK MANAGEMENT

The University establishes the risk target for each portfolio. For the LTCAP and Pension portfolios, the risk tolerance was specified as a 10% annual standard deviation of nominal returns over a rolling ten-year period. The standard deviation of returns is a commonly used risk statistic in the investment industry (albeit an incomplete one). For EFIP, the risk target is stated as minimal risk tolerance and high liquidity but there is no quantitative specification.

UTAM attempts to evaluate and control key sources of risk through a number of actions. At the total portfolio level, we have implemented extensive modeling to assist us in better understanding the portfolio results of various asset mix alternatives in many different scenarios.

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

During 2011, we began the process of implementing a position-based risk analysis system. While this process entails considerable effort, it is UTAM's belief that the addition of this analytical tool will facilitate more informed discussion regarding the actual risk exposures in the portfolios and better plans for dealing with future periods of market stress.

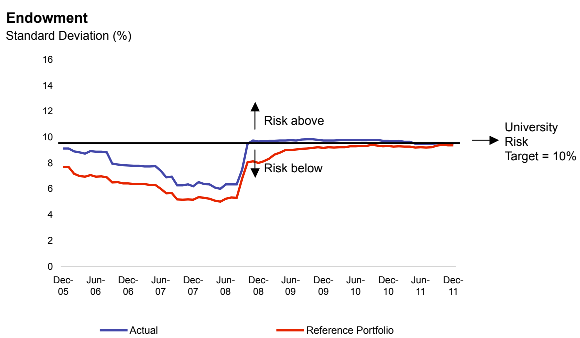
Portfolio Volatility Levels Versus the University Risk Tolerance

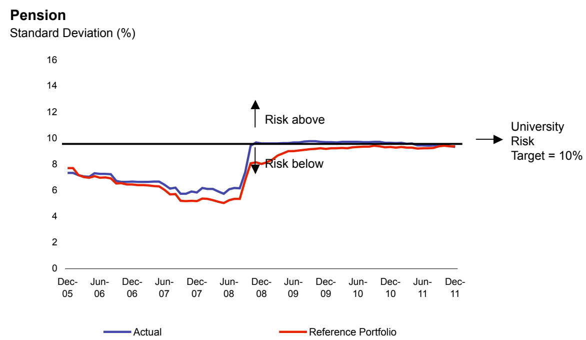
Exhibit 1 (below) shows one risk measure for the portfolios, based on the rolling 60-month volatility of returns (i.e. standard deviation) in relation to the University's 10% risk target (as noted previously, this target has been revised for 2012). The exhibit also shows the Reference Portfolio risk on a comparable measurement basis. The calculation of actual risk excluded Private Investments and Real Assets until performance measurement started in January 2007 (they are included in actual risk results since then). These investments were at modest invested levels prior to 2007. As such, there would be little impact on risk for prior years.

Measured on this basis, risk within the portfolios was equal to that of the Reference Portfolio and moderately below the University's ten-year rolling risk target at the end of 2011. Nevertheless this measure of risk is backward looking. As previous comments should make evident, we are very mindful of the many dimensions of risk and attempt to consider the risk profile of the portfolios versus the University target from a broader perspective. A number of changes that we have made to the portfolios over the past two years have been designed to contain volatility and other risk measures.

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

PORTFOLIO VOLATILITY LEVELS OVER TIME[1] **Exhibit 1**





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

MARKET OUTLOOK

On the surface, the world would appear to be a much safer place. Stock markets are buoyant, economic indicators appear healthier and the European debt problem seems to have eased. However, it is hard to ignore the fact that the global economy continues to grapple with several major challenges: overly indebted developed economies, a flawed Euro-zone framework, distortions caused by negative real interest rates, uncertainties regarding slowing China growth and the continued potential for systemic risk in the financial system, to mention a few. These issues are unlikely to be resolved quickly and, as a result, we continue to believe that the recovery will remain bumpy and generally less vigorous than usual. Moreover, there is an increasing likelihood that the global economy will experience shorter business cycles than has been the case over the last 30-years.

Despite more positive short term indicators, it is hard to believe that developed economies' growth will not remain challenged by the need to unwind the massive fiscal and monetary stimulus previously injected, by demographic shifts and by the need for private sector deleveraging. While developing economies remain better positioned for continued growth, the road ahead is unlikely to be smooth due to the need to transition these economies to a greater reliance on internal demand and the impact of many developed markets commercial banks retreating to their home markets as a result of constrained capital ratios.

This economic backdrop combined with valuation levels that are clearly not compelling suggests that investors should retain flexibility and be prepared for another year of macro-driven volatility. In other words, expect more of the same.

We were clearly offside with respect to our view on interest rates last year. However, we see no reason to change our longer term outlook. North American government bonds continue to embody quite low 'real' interest rate levels and low risk premiums with respect to future inflation potential. Over the next several years, government bonds are likely to generate returns that are about one third of those experienced over the last decade and perhaps something less on a shorter term basis.

As we have pointed out several times, equity markets declined sharply during the recent financial crisis, but never became undervalued to the degree experienced in prior periods of crisis. Dividend yields are still low relative to history and earnings growth is likely to be constrained by both the economic profile described above and profit margins that are likely to soften somewhat. Clearly valuations are being helped by the low level of interest rates and recent central bank liquidity injections. However, the most probable scenario remains a range bound equity market with prices today likely closer to the upper end of the range.

As we suggested last year, the environment is likely to prove challenging for those expecting that portfolios comprised of traditional assets and strategies will deliver returns matching their current expectations. We hope our concerns are misplaced but the process of global rebalancing is not a simple, or a short lived one, and we can't dismiss easily the potential that 2012, like 2011, will again provide a rocky ride.

Independent Auditors' Report

To the Directors of
University of Toronto Asset Management Corporation

We have audited the accompanying financial statements of **University of Toronto Asset Management Corporation**, which comprise the statements of financial position as at December 31, 2011 and January 1, 2011, and the statements of net income, comprehensive income and changes in net assets and cash flows for the year ended December 31, 2011, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management to meet the requirements of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations,* based on the financial reporting framework specified in subsection 3.2(4) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting framework specified in subsection 3.2(4) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **University of Toronto Asset Management Corporation** as at December 31, 2011 and January 1, 2011, and its financial performance and its cash flows for the year ended December 31, 2011 in accordance with the financial reporting framework specified in subsection 3.2(4) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants.

Basis of accounting and restriction on use

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist **University of Toronto Asset Management Corporation** to meet the requirements of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Directors of **University of Toronto Asset Management Corporation** and the Ontario Securities Commission, and should not be used by parties other than the Directors of **University of Toronto Asset Management Corporation** or the Ontario Securities Commission.

Ernst & Young LLP

Toronto, Canada,
March 23, 2012.

Chartered Accountants
Licensed Public Accountants

Statements Of Financial Position

As at

	December 31, 2011 $	January 1, 2011 $
ASSETS		
Current		
Cash	**52,112**	47,282
Due from University of Toronto *[notes 6[a] and [e]]*	**148,949**	496,159
Accounts receivable [note 6[f]]	**80,000**	43,176
Prepaid expenses	**28,960**	55,844
Total current assets	**310,021**	642,461
Capital assets, net [note 4]	**276,379**	301,747
Total assets	**586,400**	944,208
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	**310,021**	642,461
Total current liabilities	**310,021**	642,461
Deferred capital contributions [note 5]	**276,379**	301,747
Total liabilities	**586,400**	944,208
Net assets	**—**	—
	586,400	944,208

See accompanying notes

On behalf of the Board:

[Signed]

____

Director, William W. Moriarty

Statement Of Net Income, Comprehensive Income And Changes In Net Assets

Year ended December 31

	2011 $
EXPENSES *[note 6]*	
Staffing	3,700,325
Communications and information technology support	321,532
Professional fees	282,142
Occupancy	203,981
Consulting fees	177,284
Travel	122,381
Office supplies and services	68,845
Amortization of capital assets	68,294
	4,944,784
RECOVERIES AND OTHER INCOME	
Recoveries from University of Toronto *[note 6]*	4,876,490
Amortization of deferred capital contributions *[note 5]*	68,294
	4,944,784
Net income and comprehensive 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

	2011 $
OPERATING ACTIVITIES	
Net income and comprehensive income for the year	—
Add (deduct) items not involving cash	
Amortization of capital assets	68,294
Amortization of deferred capital contributions	(68,294)
	—
Changes in non-cash working capital balances related to operations	
Due from University of Toronto	347,210
Accounts receivable	(36,824)
Prepaid expenses	26,884
Accounts payable and accrued liabilities	(332,440)
Cash provided by operating activities	4,830
INVESTING ACTIVITIES	
Purchase of capital assets	(42,926)
Cash used in investing activities	(42,926)
FINANCING ACTIVITIES	
Deferred capital contributions to fund purchase of capital assets	42,926
Cash provided by financing activities	42,926
Net increase in cash during the year	4,830
Cash, beginning of year	47,282
Cash, end of year	52,112

See accompanying notes

Notes to Financial Statements

December 31, 2011

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) in Canada. UTAM is a non-profit organization under the Income Tax Act (Canada) and, as such, is exempt from income taxes. UTAM is registered as a portfolio manager and an investment fund manager in Ontario. UTAM is domiciled in the Province of Ontario, Canada and its registered office address is at 101 College Street, Suite 350, Toronto, Ontario, Canada.

UTAM was formed by the University of Toronto ["U of T"] to engage in professional investment management activities in order to manage the investment assets of U of T, which currently comprise its Endowment Fund, Expendable Fund and Pension Fund, through a formal delegation of authority and investment management agreement between UTAM and U of T.

The financial statements of UTAM were authorized for issue by the Board of Directors on March 21, 2012.

2. BASIS OF ACCOUNTING

These financial statements are prepared in accordance with the financial reporting framework specified in subsection 3.2(4) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants [the "framework"]. This framework requires the financial statements relating to a financial year beginning in 2011 be prepared in accordance with International Financial Reporting Standards ["IFRS"], except that any investments in subsidiaries, jointly controlled entities and associates must be accounted for as specified for separate financial statements in IAS 27 *Consolidated and Separate Financial Statements*, comparative information relating to the preceding year must be excluded, and the first day of the financial year to which the financial statements relates must be used as the date of transition to the framework. The financial statements have been prepared by management to meet the requirements of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*, and as a result the financial statements may not be suitable for another purpose.

These financial statements present the financial position, financial performance 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.

The financial statements of UTAM have been prepared on a going concern basis and on the historical cost basis. UTAM's presentation currency is the Canadian dollar, which is also UTAM's functional currency.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of accounting standards

The financial statements of UTAM have been prepared in accordance with the basis of accounting outlined in Note 2. For all periods up to and including the year ended December 31, 2010, UTAM prepared its financial statements in accordance with Part V of the CICA Handbook – *Pre-changeover accounting standards* ["Previous GAAP"]. The framework that UTAM used in the preparation of its opening statement of financial position as at January 1, 2011 has resulted in no significant adjustments to balances which were presented in the statement of financial position prepared in accordance with Previous GAAP.

There were no significant differences as at January 1, 2011 under Previous GAAP with that computed under the framework for net assets.

Future accounting changes

Financial instruments

IFRS 9 *Financial Instruments* was issued by the IASB on November 12, 2009 and will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

Fair value measurement

IFRS 13 *Fair Value Measurement* establishes the definition of fair value and sets out a single IFRS framework for measuring fair value and the required disclosures. This standard is effective for annual periods beginning on or after January 1, 2013.

UTAM will adopt these standards when they become effective. UTAM is currently reviewing these standards to determine the effect on the financial statements.

Significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are summarized as follows:

Critical accounting estimates and judgments

The preparation of financial statements in conformity with the framework 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.

UTAM based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments, may change due to market changes or circumstances arising beyond the control of UTAM. Such changes are reflected in the assumptions when they occur.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics or UTAM's designation of such instruments. UTAM has classified all its financial assets as loans and receivables, and all its financial liabilities as other financial liabilities. All of UTAM's financial instruments are carried at either cost or amortized cost which approximates fair value largely due to the short-term nature of these instruments. Unless otherwise noted, it is management's opinion that UTAM is not exposed to significant risks arising from these financial instruments.

UTAM's management has established a control environment that endeavors to ensure significant operating risks are reviewed regularly and that controls are operating as intended including assessing and mitigating the various financial risks that could impact UTAM's financial position and financial performance.

[a] Market risk

Market risk is the risk of a financial loss resulting from adverse changes in underlying market factors, such as interest rates, foreign exchanges rates, and equity prices. A description of each component of market risk is described below:

[i] Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the future cash flows or fair values of financial instruments. As at December 31, 2011, UTAM has no significant assets or liabilities subject to interest rate risk.

[ii] Currency risk

Currency risk is the risk that fluctuations in exchange rates will result in losses to the Company on monetary assets and liabilities denominated in foreign currencies. While certain expenses are paid in foreign currencies, these amounts are not significant. As at December 31, 2011, UTAM has no significant assets or liabilities denominated in a foreign currency, and has no significant exposure to currency risk.

[iii] Equity risk

Equity risk is the risk of gain or loss due to the changes in the price and the volatility of individual equity instruments and equity indexes. UTAM is not exposed to equity risk as at December 31, 2011.

[b] Liquidity risk

Liquidity risk is the risk that UTAM will encounter difficulties in meeting obligations associated with financial liabilities. UTAM monitors its current and expected cash flow requirements to ensure it has sufficient cash to meet its liquidity requirements. The operation of UTAM is funded by U of T.

[c] Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. UTAM does not have a significant exposure to any individual counterparty, except for U of T, which funds its operations. Therefore, credit risk is not a significant risk to UTAM as at December 31, 2011.

Capital assets

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

Leasehold improvements	term of lease
IT infrastructure equipment	5 years
Desktops and software	3 years

Revenue recognition

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

Employee future benefits

UTAM's contributions to U of T's employee future benefit plans are expensed when due *[note 6[b]]*.

Foreign currency translation

Transactions in foreign currencies are initially recorded at the functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into the functional currency at rates prevailing at the year end. Gains and losses resulting from foreign currency transactions are included in the statement of income, comprehensive income and changes in net assets.

4. CAPITAL ASSETS

Capital assets consist of the following:

	Leasehold improvements	IT infrastructure equipment	Desktops and software	Total
	$	$	$	$
Cost				
Balance, January 1, 2011	**444,723**	**81,777**	**—**	**526,500**
Additions	963	4,429	37,534	42,926
Balance, December 31, 2011	**445,686**	**86,206**	**37,534**	**569,426**
Accumulated amortization				
Balance, January 1, 2011	**210,664**	**14,089**	**—**	**224,753**
Amortization	44,684	17,048	6,562	68,294
Balance, December 31, 2011	**255,348**	**31,137**	**6,562**	**293,047**
Net book value				
January 1, 2011	**234,059**	**67,688**	**—**	**301,747**
December 31, 2011	**190,338**	**55,069**	**30,972**	**276,379**

5. 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 net income, comprehensive income and changes in net assets. The continuity of deferred capital contributions is as follows:

	2011 $
Balance, January 1, 2011	**301,747**
Recoveries received during the year related to capital asset purchases	**42,926**
Amortization of deferred capital contributions	**(68,294)**
Balance, December 31, 2011	**276,379**

6. RELATED PARTY TRANSACTIONS

UTAM is a wholly-owned subsidiary of U of T.

[a] In accordance with the amended and restated Service and UTAM Personnel Agreement dated May 14, 2003 and subsequently replaced by the Investment Management Agreement dated November 26, 2008 between the Governing Council and UTAM [the "Agreement"], U of T will reimburse UTAM for its services an amount which will enable it to recover the appropriate costs to support its operations. U of T reimburses UTAM on a quarterly basis based on the approved budget. As at December 31, 2011, $148,949 [January 1, 2011 - 496,159] is due from U of T as a result of actual cost of operations exceeding reimbursements.

[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. U of T's employee future benefit plans are defined benefit plans. In accordance with the Agreement, U of T pays for UTAM's employee benefits. In 2011, contributions of $146,577 related to these plans have been expensed.

[c] UTAM obtains certain services from U of T, such as payroll and IT support. There is a charge for some of these services, which is reimbursed by U of T in accordance with the Agreement. In 2011, these services totaled $51,477.

[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:

	$
2012	106,724
2013	106,724
2014	106,724
2015	106,724
Thereafter	26,680
	453,576

In addition to the above minimum rent payments, there are additional payments in respect of operating and tenant in-suite hydro costs that are subject to change annually based on market rates and actual usage. These components totaled $91,143 in 2011. These expenses are reimbursed by U of T in accordance with the Agreement.

[e] Transactions with U of T are in the normal course of operations and 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.

[f] Transactions with key management personnel

Compensation of UTAM's key management personnel during the year ended December 31, 2011 is as follows:

	$
Short-term employee benefits	2,103,589
Post-employment benefits	74,118
Other long-term benefits	93,516
	2,271,223

Forgivable loans

In 2011, forgivable loans granted to key management personnel totaled $40,000. The total amount outstanding at December 31, 2011 is $80,000. The terms of the loans stipulate that the loans will be forgiven when certain criteria are met.

7. CAPITAL MANAGEMENT

In managing capital, UTAM focuses on liquid resources available for operations. U of T provides funds as required to allow UTAM to meet its current obligations. As at December 31, 2011, UTAM has met its objective of having sufficient liquid resources to meet its current obligations.

UTAM Board Of Directors

(As at December 31, 2011)

CATHERINE J. RIGGALL, *Chair of the Board*
University of Toronto, *Vice President, Business Affairs*

SHEILA BROWN
University of Toronto, *Chief Financial Officer*

GEORGE LUSTE
University of Toronto Faculty Association,
President

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

DAVID NAYLOR
University of Toronto,
President

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

University Of Toronto Asset Management Corporation Staff

(As At March 31, 2012)

WILLIAM W. MORIARTY, CFA
President and Chief Executive Officer

MICHEL MALO, CFA
Managing Director, Asset Allocation & Portfolio Strategy

JOHN T. HSU, FCMA, C. Dir
Chief Operating Officer

DAREN SMITH, CFA, CAIA, FRM, FCIA
Managing Director, Manager Selection and Portfolio Construction

ADRIAN HUSSEY, CFA
Managing Director, Portfolio and Risk Analysis

LISA BECKER, ACA(UK)
Director, Operational Due Diligence and Chief Compliance Officer

CHUCK O'REILLY, CFA, CAIA
Director, Manager Selection and Portfolio Construction

BENJAMIN ABRAMOV
Vice President, Manager Selection and Portfolio Construction

KELVIN HU, CFA, FRM
Analyst, Portfolio and Risk Analysis

JULIANA ING, CFA, FRM
Analyst, Portfolio Performance

PAYTON LIU
Analyst, Portfolio Performance

REBECCA MUDGE, CFA, CAIA
Analyst, Manager Selection and Portfolio Construction

SONG WU, CFA, CAIA, FRM
Analyst, Manager Selection and Portfolio Construction

STANLEY CHIEN
Compliance Analyst

ANNE LEE
Investment Operations Analyst

JOSIE PERINO, CMA
Office Manager

JILLIAN MIRANDA
Administrative Assistant

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