UNIVERSITY OF TORONTO

University of Toronto Asset Management Corporation

ANNUAL REPORT 13

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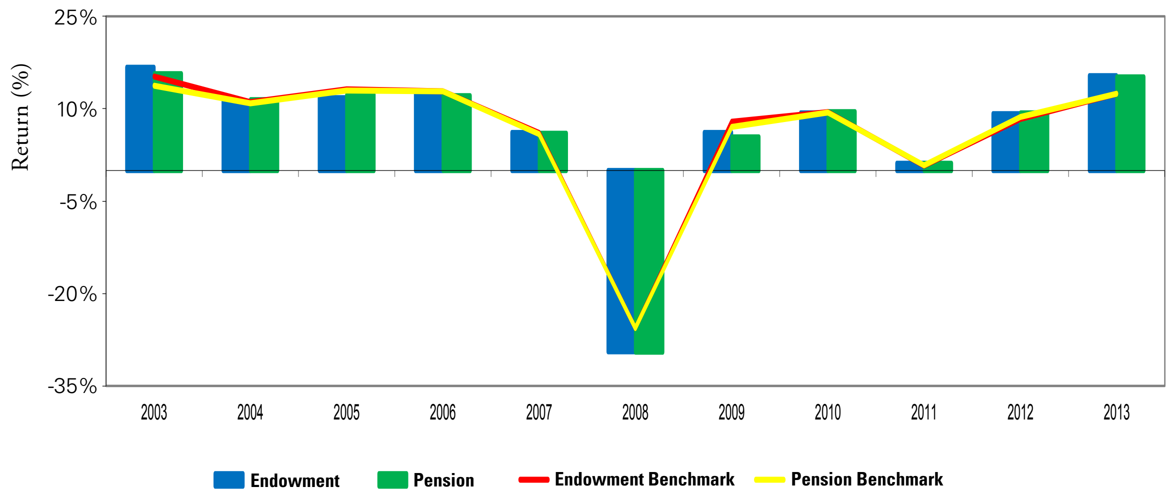
All figures in this Annual Report are in Canadian dollar terms, unless otherwise stated.

The Report In Brief

Investment performance for 2013 and prior periods ending December 31st is summarized below:

Annual Returns



	2013			2 - YEAR			4-YEAR		
	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP
University Target Return[1]	**5.2%**	**5.2%**	**1.7%**	**5.1%**	**5.1%**	**1.6%**	**5.7%**	**5.7%**	**1.8%**
Benchmark Portfolio Return[2]	12.4%	12.4%	n.a.	10.4%	10.5%	n.a.	7.6%	7.7%	n.a.
Actual Net Return[3]	**15.3%**	**15.1%**	**1.6%**	**12.2%**	**12.2%**	**1.6%**	**8.6%**	**8.7%**	**2.0%**
Assets (December 31; millions)									
2013	$2,135	$3,246	$1,253						
2012	$1,896	$2,751	$1,158						

n.a. = not applicable. 1) For the Endowment and Pension portfolios, the target return is 4% plus inflation (CPI). For EFIP, the target return is the 365-day Canadian T-bill Index return plus 50 basis points (0.5%). 2) Benchmark Portfolio is identical to the Reference Portfolio post 2012. 3) Gross return less all fees and costs including manager fees, UTAM costs, custody costs, etc.

- Assets under management increased 14.3% in 2013 to $6.6 billion; long term assets by 15.8%.
- Capital markets environment generally favorable in 2013 but also characterized by considerable dispersion of returns.
- Changes enacted over the last five years paid a significant dividend in 2013.
- Return on University's main portfolios exceeded Target Return by approx. 10%.
- Significant portion of return (approx. 3%) contributed by 'active' management decisions.
- Steady improvement in performance compared to Benchmark Portfolio over past five years.
- Period ahead looks to be considerably more challenging for investors.

President’s Message

Portfolio managers faced a generally favorable environment in 2013 but were also challenged by a considerable dispersion of returns across asset classes and markets. Despite much uncertainty regarding the path of U.S. public policy at the start of 2013, it turned out to be a relatively poor year for those that diversified away from developed markets equities and especially those portfolios that did not have some tilt toward U.S. and Japanese public equities. At the other end of the spectrum were commodities and particularly gold, which posted negative returns. Moreover, bond investments which had provided equity-like returns to Canadian investors for several years, fared poorly as the tailwind of a 30-year bull market disappeared.

Against this backdrop we were very pleased with the performance of the University’s two main portfolios (Pension and Endowment) in 2013. As the following pages detail, the significant restructuring of the approach to ‘active’ management undertaken in 2012 paid a substantial dividend in 2013. The two main University portfolios were able to generate returns that considerably exceeded the long-term objectives needed to underwrite the undertakings made to donors and pensioners. On a dollar basis, the outperformance amounted to an estimated $460 million (based on beginning of year asset levels); $330 million of this outperformance reflected the favorable capital markets environment and the benefit of having an equity tilt in the University’s benchmark portfolio (i.e., the 60/40 equity/bond asset mix). But 2013 was also an exceptional year for UTAM value added with the remaining $130 million being contributed by the ‘active’ managers selected by the UTAM team and from a number of strategic and tactical positions that UTAM specifically introduced into the portfolios. Also satisfying was the fact that 2013 represented the fifth straight year of improved performance of the Pension and Endowment portfolios compared to their respective ‘policy’ or Benchmark Portfolios.

The year just ended continued to be a busy period for UTAM as an organization. We welcomed two new members to the team, restructured the EFIP portfolio, continued to build out our analytical processes surrounding strategy and manager selection and further evolved our risk analysis capabilities and operational infrastructure. This effort is exceedingly important as we are very aware that generating good investment results is not easy; it requires hard work, quality talent and solid processes. Moreover, we fully recognize that investment success is defined over decades, not just a few years. Achieving that outcome is easier if one can build a repeatable process employed by team members who embody a philosophy of constant enquiry and improvement. 2013 was a year of further progress in this regard.

As these comments imply, I am quite pleased with what UTAM has accomplished over the past five years. Our expanded team of experienced staff working with considerably improved analytics and investment infrastructure (yet very mindful of overall costs) has continued to broaden its network of strategic relationships and contacts across the university and pension communities. This is furthering the creation of a core competency in manager selection and the identification of attractive strategies that is fundamental to UTAM's approach to portfolio management and thus to achieving our longer term mission.

In closing, I would like to thank our Board of Directors, the Investment Advisory Committee and the Pension Committee for their commitment to the University and their ongoing input to UTAM. Their perspectives are diverse but also extremely useful to those of us who share their fiduciary duty. I am also very fortunate to work with a talented team of individuals within UTAM and I would like to take this opportunity to recognize their substantial contribution to the results of the last few years.

William Moriarty, CFA
President & Chief Executive Officer

Management's Discussion And Analysis

MANDATE

UTAM manages $6.6 billion of assets in three main portfolios: (i) the University's $2.1 billion Endowment fund; (ii) the University's $3.2 billion Pension Master Trust fund; and (iii) the University's $1.3 billion working capital 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 made 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 employer and employee 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 working capital, means that the total assets in EFIP can fluctuate significantly especially during any single year. 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, etc.

The University, with the counsel of the President's Investment Advisory Committee, establishes a return objective and risk tolerance for each of the portfolios that UTAM manages. At present, the Endowment and Pension portfolios have the same return target 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 over the long-term while managing the assets within the applicable risk tolerance.

For 2013, the target return for the Endowment and Pension portfolios was stated as a 4% real return. Because traditional risk free investments currently offer a return that is considerably lower than this target, achieving the objective requires the assumption of risk. Accordingly, an appropriate policy portfolio (later referred to as the Reference Portfolio) has been established and risk constraints are set in relation to this portfolio. 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.

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 a 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. At the same time, the nature and structure of the investor's liabilities needs to be considered and the implications of any duration mismatch understood. The University's Reference Portfolio provides a useful starting point in this regard.

2. An **equity orientation** combined with a **"value" style** bias will generally 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. It is also worth noting that we view the term 'value' as encompassing more than simply current price.

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, 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 and/or valuations of risky assets are more expensive.

4. The principle of **diversification** has a long and distinguished history and represents one of the key risk mitigants that should characterize most portfolios. There are many

dimensions to diversification. These include making investments that span a range of asset classes, geographies, investment strategies, investment managers and individual securities. Our approach to diversification also increasingly focuses on the risk factors and return drivers underlying the various assets and strategies within the portfolios. Diversification cannot protect against loss during a broad-based systemic event but it will protect against the worst outcome.

5. A **longer-term focus** expands the investment opportunity set, allowing a portfolio to benefit from the periodic irrationality in markets and to exploit the lower level of efficiency often evident in the pricing of 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 that 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 much more limited.

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 **passive approach**. More specifically, we believe that active investment strategies have a greater probability of producing market outperformance in less-developed, more illiquid 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 on 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 and risk exposures selected is designed to produce returns that will outperform the Reference Portfolio benchmark over the medium term while adhering to the allowable risk budget. As implied above, the mix of strategies used is not static, but gradually evolves over time in response to our view on the potential for each strategy as valuations and the macroeconomic and market environment changes.

ASSET MIX

2013 Reference Portfolio and Benchmark Portfolio Asset Mix

A Benchmark Portfolio represents a "shadow" portfolio that has been designed to incorporate the University's return objectives and risk tolerance as well as the long-term investment horizon of the portfolios. As such, it serves as a guide for the actual allocations implemented in the University's investment portfolios and as an important benchmark against which to judge the success of 'active' investment management activities.

In prior years, the Benchmark Portfolio adopted by the University was defined in terms of a mixture of public markets assets and so-called 'alternative' assets. As such, it represented a mixture of active and passive strategies. This changed in 2012 with the University's adoption of a Reference Portfolio as the official Benchmark for both of the LTCAP and Pension portfolios.

The principle underlying the Reference Portfolio's composition requires exposures which are passive, low-cost, easily implementable and generally representative of the investable universe. This means that alternative assets and strategies are not included in the Reference Portfolio. It also means that this type of Benchmark Portfolio can be used to evaluate the advantages and disadvantages of utilizing alternative assets and strategies in the University's investment portfolios. Consequently, The Reference Portfolio / Benchmark Portfolio is now used as the key standard for evaluating short- and medium-term performance of the two main University portfolios (i.e., LTCAP and Pension).

Table 1	
Canadian Equity (S&P/TSX Composite Total Return Index)	**16%**
US Equity (S&P 500 Total Return Index)	**18%**[1]
International Developed Markets Equity (MSCI EAFE Net Return Index)	**16%**[1]
Emerging Markets Equity (MSCI EM Net Return Index)	**10%**[2]
Credit (FTSE TMX Corporate Bond Total Return Index)	**20%**
Rates (FTSE TMX Government Bond Total Return Index)	**20%**
Total	**100%**

1) 65% hedged to the Canadian dollar. 2) Unhedged

Given that the University has determined that the return objective and risk tolerance are the same for LTCAP and Pension, the Reference Portfolio / Benchmark Portfolio asset mix is identical for both portfolios (see Table 1 above which also shows the individual asset class benchmarks). As was pointed out last year, the University will periodically review the composition of this portfolio as part of a general review of the long-term macroeconomic environment, its return objectives and its risk tolerance. Such a review was conducted in early 2013 and no asset class changes were made. However, the foreign currency (FX) hedging policy was changed to a 65% target hedge ratio for all developed market currencies (previously 75%).

Actual Portfolio Asset Mix

The actual make-up of the Endowment fund and the Pension fund at the end of 2013 and the end of 2012 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 derivatives used to maintain an asset class at the desired weight. The cash collateral underlying the index derivative 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). UTAM believes that exposure based reporting provides a more accurate representation of the actual composition of the portfolios.

Table 2

	Endowment		Pension		Reference Portfolio
(as at December 31)	2012	2013	2012	2013	
Canadian Equity[1]	15.9%	**15.8%**	15.8%	**15.8%**	16.0%
US Equity[1]	17.9%	**18.0%**	17.8%	**18.1%**	18.0%
International Developed Markets Equity[1]	16.4%	**16.3%**	16.3%	**16.3%**	16.0%
Emerging Markets Equity[1]	10.2%	**10.1%**	10.2%	**10.1%**	10.0%
Credit	19.8%	**18.8%**	20.2%	**18.8%**	20.0%
Rates[1]	10.9%	**10.8%**	10.9%	**11.1%**	20.0%
Other/Cash (including notional offsets)[2]	8.9%	**10.2%**	8.8%	**9.9%**	0.0%
Total	100%	**100%**	100%	**100%**	100%
Cash (actual)[3]	5.6%	**5.9%**	5.0%	**6.0%**	
Portfolio Value (millions)	$1,896	**$2,135**	$2,751	**$3,246**	

1. Includes the notional dollar value of index futures and swap 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 mark-to-market gain or loss of foreign currency hedging contracts and is net of the notional dollar amount of index futures and swap exposures (see footnote 1); also includes Absolute Return assets.
3. Includes the cash backing the notional dollar value of index futures and swaps (see footnotes 1 and 2).

As noted in last year's report, the table above represents a significant change from the presentation shown prior to 2012. This reflects the fact that as part of the overall review of investment strategy, UTAM, with the support of the University, decided to move away from the historical method that was used in classifying investments into seven broad groupings.

Part of this change was a natural result of the University's decision to adopt the passive Reference Portfolio concept as the Benchmark Portfolio for LTCAP and Pension. But more importantly, the change also reflected an evolution in UTAM's thinking about portfolio construction.

At the portfolio level, the concept of diversifying away from a sole concentration on 'equity' risk is well understood. However, during the global financial crisis many investors discovered that while their portfolios might have appeared well diversified for normal times, the same was not true with respect to periods of substantial stress (i.e., the portfolios contained significantly more equity risk than was readily apparent).

One key factor in understanding this outcome is an appreciation of the fact that each investment asset can be broken down into building blocks of 'risk factors' or 'return drivers' that explain the majority of the asset's return and risk characteristics over time (i.e., equity markets, interest rates, inflation, credit, etc.). Indeed most asset and asset class returns can be described as varying mixtures of these factors. Consequently, a more robust approach to portfolio analysis and construction is to attempt to isolate the exposures to the underlying return drivers and then diversify the overall portfolio across these return drivers as opposed to the more traditional asset class approach.

As implied above, this framework is particularly helpful in terms of understanding the role that 'alternative assets / strategies' may play in any given portfolio. Put simply, hedge funds and private investments are not viewed as separate asset classes; some of these investments are focused on equities; some are focused exclusively on credit; others are focused on commodities; some use leverage; some focus on illiquidity; etc. Consequently, the underlying drivers of each investment's return can be quite different and thus most of these assets do not readily fit being classified as a separate asset class.

Another benefit of this approach is that while many of these alternative investments / strategies do not have long-term performance records, that is not generally the case for the underlying risk factors or return drivers.

In order to keep the initial model simple, UTAM divided the portfolio into six high level factors or return drivers (equity, interest rates, credit, inflation, currency and a 'cash / other' category). This basic framework served as the core starting point in terms of mapping investments back to the components of the Reference Portfolio.

Using Private Investments as an example, those investments that are equity-like in nature are included with other equity investments and those that are more debt-like in nature are included with other credit related investments. In other words, the decision to invest in 'privates', as opposed to 'publics', is now part of the portfolio implementation process instead of the policy allocation process. The same is true for other 'alternative' investments. Table 2 above incorporates this evolution in approach and includes private markets investments at approximately 18% of LTCAP and Pension's value.

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 another good one for investors. Table 3 details the performance of various public markets assets and two major currency pairs for 2013 (and over the previous five years). It highlights the fact that investors were generally rewarded for holding higher-risk public markets equities in 2013 and especially U.S. and other developed-market equities.

Table 3

Public Markets Index Returns (Local)
(Before Fees)
Periods Ending December 31st

	2008	2009	2010	2011	2012	2013	Cum. 2008-13
Canadian Equity	-33.0%	35.1%	17.6%	-8.7%	7.2%	**13.0%**	17.7%
U.S. Equity	-37.0%	26.5%	15.1%	2.1%	16.0%	**32.4%**	43.7%
International Developed Markets Equity	-40.3%	24.7%	4.8%	-12.2%	17.3%	**26.9%**	2.1%
Emerging Markets Equity	-45.9%	62.3%	14.1%	-12.7%	17.0%	**3.4%**	5.7%
Canadian Corporate Bonds	0.2%	16.3%	7.3%	8.2%	6.2%	**0.8%**	45.0%
Canadian Government Bonds	9.0%	1.6%	6.5%	10.2%	2.6%	**-2.0%**	30.7%
USDCAD	25.1%	-15.1%	-5.2%	2.5%	-2.2%	**6.7%**	7.7%
EURCAD	18.9%	-12.3%	-11.4%	-0.8%	-0.7%	**11.5%**	1.5%

Respectable results were also available to those investors that had adopted a broader definition of asset classes and then pursued greater diversification among different types of strategies within the main categories of equity and debt (i.e., made use of so-called 'alternative assets'). While there are many indices that are designed to track 'alternative asset' performance, most of them are not investable and thus less than ideal measures of performance. In our opinion, the returns (net of fees) actually earned by the University on investments in these assets and strategies (see Table 4 below) provide a better measure.

Table 4

Actual Private Markets Asset Returns (Local)[1]

(After Fees)

Periods Ending December 31st

	2008	2009	2010	2011	2012	2013	Cum. 2008-13
Private Investments	**1.5%**	**-1.2%**	**20.2%**	**14.8%**	**12.8%**	**13.8%**	**77.6%**
Buyout	-0.2%	-9.7%	25.5%	14.9%	15.0%	**14.2%**	70.7%
Distressed	-7.3%	15.8%	17.6%	8.1%	16.6%	**15.0%**	83.0%
Venture	19.9%	-6.9%	2.4%	27.4%	-12.6%	**4.0%**	32.5%
Real Assets	**-2.9%**	**-18.0%**	**13.1%**	**9.0%**	**7.1%**	**11.6%**	**17.3%**
Real Estate & Infrastructure	-1.4%	-26.2%	15.3%	12.5%	9.5%	**14.7%**	18.4%
Commodities	-8.9%	-0.8%	8.8%	1.8%	2.1%	**5.3%**	7.6%

1. Endowment Returns; Pension results are substantially similar.

As a comparison of these results with Table 3 makes clear, the University's Private Markets Investments have performed quite favorably over time. While they did trail the returns generated in U.S. and international developed market equities in 2013, these investments matched the return from Canadian public markets equities and substantially outperformed Emerging Markets equities and fixed income investments. More importantly, over the last six years, these Private Investments have strongly outperformed public markets equities with considerably less volatility.

Table 5 below summarizes the University's Target Return and the performance of the Reference Portfolio, the Benchmark Portfolio, the Endowment fund, the Pension fund and EFIP for 2013 and two longer periods ending in 2013 (the 10-year period includes the significant build-up of alternative asset investments by the University as well as a number of significant changes in investment strategy).

Although the Reference Portfolio was not adopted as the official benchmark for the University's investments until part way through 2012, we have shown the historical performance of a linked measure of the Reference Portfolio for illustrative purposes. For the most recent period, Reference Portfolio performance and Benchmark Portfolio performance are identical and provide the key metric for comparison with actual portfolio results.

As the table indicates, the Endowment and Pension portfolios substantially outperformed the University's long-term Target Return in 2013 and over the most recent four-year period. The fixed income focused EFIP portfolio marginally underperformed its Target in 2013 but outperformed over the last four years.

Table 5

Periods Ending December 31st

	2013			4-Year (2010-2013)			10-Year (2004-2013)		
	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP
University Target Return[1]	**5.2%**	**5.2%**	**1.7%**	**5.7%**	**5.7%**	**1.8%**	**5.8%**	**5.8%**	**3.3%**
Reference Portfolio Return[2]	12.4%	12.4%	n.a.	7.9%	7.8%	n.a.	6.5%	6.5%	n.a.
Benchmark Portfolio Return[3]	12.4%	12.4%	n.a.	7.7%	7.7%	n.a.	4.9%	4.8%	n.a.
Actual Net Return[4]	**15.3%**	**15.1%**	**1.6%**	**8.6%**	**8.7%**	**2.0%**	**4.5%**	**4.4%**	**2.8%**

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. For illustration only. Reference Portfolio concept not considered pre-2009 and not introduced as the benchmark until 2012. Gross returns less an assumed 15 bps implementation costs.
3. Linked Policy Portfolio returns.
4. Net return after all fees and costs including manager fees, UTAM costs, custody costs, etc.

The Table also indicates that over the ten-year period, both LTCAP and Pension underperformed versus their Benchmark Portfolios and were unable to meet the University Target. This failure to meet the University Target was mainly due to issues associated with an over-allocation to equity and equity-like strategies in the Benchmark Portfolio in 2008 – a situation that was made even worse by the prior decision to fully hedge foreign currency exposure.

A key takeaway from these comparisons should be the steady improvement recorded in the actual performance of LTCAP and Pension over the last several years compared to the Benchmark Portfolio (i.e., the University approved guide for actual allocations in the portfolios) as well as, in comparison to the linked Reference Portfolio (a purely passive standard). This, in turn, importantly relates to the restructuring of UTAM initiated by the

University and, more specifically, the addition of several experienced personnel and the build-out of a professional infrastructure.

Examining calendar year 2013 more closely, the performance of the Reference / Benchmark Portfolio provides a useful starting point with respect to understanding the investment environment presented to 'active' investment managers such as UTAM. More specifically, the total return generated by this passively invested Benchmark Portfolio was in excess of 12% in 2013 and thus more than 7% above the University's 2013 target return of 5.2%. In dollar terms and based on beginning of year assets, this equates to an extra $330 million relative to the return that the University needs in order to underwrite the promises made to donors and pensioners.

Moreover, the University benefited not only from the favorable market environment, but also from UTAM's active management decisions which added considerable value in 2013. Table 6 shows that the LTCAP and Pension portfolios (after all costs) earned returns that were 2.92% and 2.71% greater than the Benchmark Portfolio. In dollar terms and based on starting assets, this translates into an additional $130 million that was earned for the University relative to having employed a passive approach. Totaling these amounts indicates that it was a very good year for the University's investments.

Table 6

2013 Performance Attribution (%)

(12 Months Ending December 31st)

	Endowment		Pension	
Reference Portfolio Return (C$)		**12.42%**		**12.42%**
Value Added Versus Benchmark Portfolio:				
Asset Mix Differences	-0.06%		-0.07%	
Style Tilts and Manager Selection	2.06%		1.93%	
FX Exposure Differences	0.97%		0.91%	
Other	-0.04%	**2.92%**	-0.06%	**2.71%**
Actual Portfolio Performance (C$)		**15.34%**		**15.14%**

Table 6 also sets out the factors underlying the performance differences from the Benchmark Portfolio for the two larger University portfolios. As the table illustrates, the most significant contribution to the outperformance of both portfolios in 2013 was the value added by the strategies and managers selected by the new UTAM team. An additional meaningful contributor was the fact that UTAM intentionally maintained a different exposure to foreign currencies in 2013 than that contained in the Reference Portfolio.

Table 7 shows the returns of the various components of the University Portfolios relative to their asset segment benchmarks. As the Table clearly indicates, all areas, with the exception of U.S. equity, outperformed their benchmarks and thus added considerable value to the portfolios in 2013. The underperformance in U.S. equity is not surprising. It reflects the fact that this segment of the portfolios has the largest element of private investments and that these 'privates', while producing a respectable return of 13.5%, were unable to keep pace with the 32.4% earned by U.S. 'public markets' investments in 2013. At the other end of the spectrum is the performance of the Absolute Return segment of the portfolios. Comprised of relatively liquid but non-traditional strategies (with very low market exposure) and constructed by UTAM as an alternative to holding a simple government bond (Rates) portfolio, the decision resulted in more than 9% of outperformance compared to the Rates benchmark in 2013.

Table 7

(12 Months Ending December)	Endowment		Pension	
	Portfolio	Benchmark[1]	Portfolio	Benchmark[1]
Canadian Equity	**18.5%**	13.0%	**19.0%**	13.0%
US Equity (USD)	**24.3%**	32.4%	**23.3%**	32.4%
EAFE Equity (local)	**30.7%**	26.9%	**30.6%**	26.9%
Emerging Markets Equity (USD)	**2.4%**	-2.6%	**2.5%**	-2.6%
Credit	**2.7%**	0.8%	**2.7%**	0.8%
Rates	**-2.0%**	-2.0%	**-1.9%**	-2.0%
Absolute Return[2] (local)	**7.6%**	-2.0%	**7.6%**	-2.0%

1. For Benchmarks, see Table 1
2. Absolute Return is presently used as an alternative to Rates investments.

As previously noted, the University set 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; the target is essentially a relatively stable, always positive, return with minimal risk to capital and liquidity being the overriding requirements. In today's low interest rate environment, this presents a challenging task.

The average asset mix and 2013 investment performance for EFIP are summarized in Table 8 below. At the end of 2013, the EFIP portfolio had a market value of $1,253 million (2012: $1,158 million).

Table 8

	Asset Mix (2013 Average)[1]	Actual Return
Cash	66.4%	1.6%
Short-Term Bonds	21.2%	1.9%
Medium-Term Bonds	0.5%	n.a.
Floating Rate Notes	11.8%	1.7%
Total	100%	1.6%

1. Weights are based on the average of monthly weights

EFIP's composition was modified early in 2013 with the mid-term bond mandate changed to a floating rate note mandate in order to reduce risk in the portfolio associated with a possible increase in interest rates. Also the short-term bond mandate was shifted to have a greater focus on corporate bonds. Net of transition costs, EFIP generated a return of 1.6% in 2013, or 16 basis points below the University's Target Return of 1.7%. The primary reason for the underperformance was the allocation to mid-term bonds earlier in the year.

RISK MANAGEMENT

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 different scenarios and the risk associated with individual manager positions.

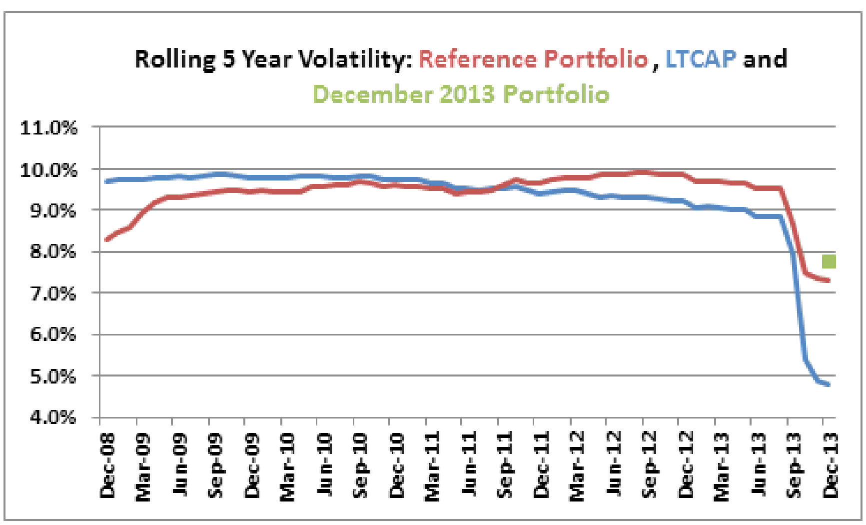
Manager selection is also an important source of risk control. In our sourcing and review process for considering new managers for the portfolios, we not only assess a manager's investment process and decompose past performance, but also conduct thorough operational due diligence on their organization and operational processes. This operational analysis is performed by UTAM staff, generally with the assistance of external advisors. In addition, we pay attention to understanding what impact an allocation to a manager will have on the overall risk of the portfolio.

During 2012, we began implementation of a position-based risk analysis system. While this process entails considerable effort by UTAM staff, it is our belief that the addition of this analytical tool facilitates more informed discussion regarding the actual risk exposures in the portfolios and allows for better planning in dealing with the inevitable future periods of market stress.

Given the decision by the University to adopt an active management approach for the portfolios, it is necessary to establish a risk limit for each portfolio. Once established, UTAM is then given discretion to make, and implement, investment decisions with the objective of earning returns (after costs) that exceed those of the Reference Portfolio, as long as the risk of the portfolio remains within the established limit. For the LTCAP and Pension portfolios, this risk limit is linked to the expected risk of the Reference Portfolio.

In addition, minimum and maximum weights have been established for each of the major asset class groupings within the Reference Portfolio and a portfolio level liquidity constraint has been adopted. Taken together, these limits are viewed by the University as being large enough to permit UTAM the flexibility to achieve its value-added objective but not so large as to put the portfolios at undue risk of significant underperformance relative to the Reference Portfolio.

The chart below provides some perspective on portfolio risk using one commonly used measure of risk (volatility, defined as the standard deviation of returns) applied to the University's LTCAP portfolio. The chart compares the rolling 5-year volatility of LTCAP's performance with that of the current Reference Portfolio. This comparison highlights the fact that despite the inclusion of 'private' investments which generally have the effect of reducing risk measured in this fashion, the University's LTCAP portfolio was still more risky than the Reference Portfolio in the run-up to the 2008-9 troubles. It also shows the progress made over the last few years by UTAM in reducing risk measured on this basis (i.e., LTCAP risk is now below that of Reference Portfolio).



The December 2013 reading on the chart indicates the risk of LTCAP based on current positions and after using our risk system to remove the dampening effect of 'private' investments referred to above (note the considerable difference). This 'adjusted' reading of risk is slightly above that of the Reference Portfolio but well within the 'active' risk budget now given to UTAM by the University and needed to earn returns in excess of those of the Reference Portfolio. Implicit in this type of analysis is also a much improved capability to understand and proactively adjust risk levels in the portfolio going forward.

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 mixture of bank accounts, high quality 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.

MARKET OUTLOOK

It is quite difficult to generalize the outlook for global capital markets today. The core U.S. business cycle recovery is now among the longest in the post-war period; the developed world deleveraging process is now in its sixth year; and, developed market economies are still experiencing unprecedented monetary policy support. With few exceptions, the economic backdrop is expected to be characterized by low interest rates, low inflation (perhaps even some element of deflation in certain areas) and moderate economic growth. At normal valuations and in the absence of any significant macro and/or event risk, moderate economic growth combined with low inflation and monetary policy support is generally a favorable environment for equities and a benign one for bonds. However there is no (easily apparent) free lunch today as valuations, macro conditions and investor flows vary greatly on a regional basis and, within regions, on a country by country basis. Moreover, many asset valuations appear inflated due to the adoption of Quantitative Easing (QE) programs by several central banks and the resulting focus by market participants on 'relative' as opposed to 'absolute' valuations. As long as this persists, then high priced risk assets are not necessarily mispriced. Rather, the more likely scenario for investors is one of low future returns for assets in general and for cash in particular.

In assessing the risks to our outlook, we believe that there is likely more upside in the economy (i.e., a low probability of near-term recession) than in expected portfolio returns. Investment spending has been generally weak in this cycle (with the exception of the early catch-up phase) and an improvement could lead to faster growth. However, this would also likely lead to greater moderation in central bank QE programs. The reality is that there is really no precedent for a government successfully exiting a QE program. This also suggests the potential for higher volatility and an increased inflation risk over time.

In this environment, the prospects for global economic growth and stock market performance in 2014 are likely to be importantly shaped by a few key factors – the success of U.S. Federal Reserve tapering operations; the ability of the Eurozone economies to lift their growth rates and thus reduce the risk of Eurozone deflation; and the ability of China's leadership to manage their economic reform agenda.

Viewed against this macro backdrop and appreciative of the lack of a valuation tailwind (especially with respect to bonds and U.S. equities) it will be important to maintain a long-term investment horizon. Although valuation levels are a concern there is some evidence to suggest that valuation signals alone are more effective at market bottoms than at market tops. Since we see only moderate evidence of the typical triggers that end bull markets, we continue to keep the aggregate equity weighting in the portfolios quite close but not in excess of the policy weight. We also expect more short-term volatility and that forward returns from a traditional 60% equity / 40% fixed income portfolio will be much more moderate.

Thus, while passive strategies have generated reasonable returns over the past few years, the period ahead is likely to be considerably more challenging for such investors. In this environment, the potential additional return offered by an 'active' approach to portfolio management that thoughtfully includes alternative strategies will represent a significant contributor to overall performance. As we noted in last year's report, we believe that UTAM now has the governance structure, the investment team, the infrastructure and the risk management framework to pursue this approach and thus maximize the chances of achieving the University's objectives.

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, 2013 and 2012, and the statements of net income, comprehensive income and changes in net assets and cash flows for the years then ended, 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 paragraph 3.2(3)(a) 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 paragraph 3.2(3)(a) 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 audits. We conducted our audits 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 in our audits 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, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with the financial reporting framework specified in paragraph 3.2(3)(a) 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 **University of Toronto Asset Management Corporation** and the Ontario Securities Commission, and should not be used by parties other than **University of Toronto Asset Management Corporation** or the Ontario Securities Commission.

Ernst & Young LLP

Toronto, Canada,
March 19, 2014.

Chartered Accountants
Licensed Public Accountants

Statements Of Financial Position

As at December 31

	2013 $	2012 $
ASSETS		
Current		
Cash	**347,134**	93,598
Due from University of Toronto *[notes 6[a] and [e]]*	**—**	73,329
Prepaid expenses	**45,916**	38,125
Total current assets	**393,050**	205,052
Capital assets, net [note 4]	**157,350**	226,377
Total assets	**550,400**	431,429
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	**345,141**	205,052
Due to University of Toronto *[notes 6[a] and [e]]*	**47,909**	—
Total current liabilities	**393,050**	205,052
Deferred capital contributions [note 5]	**157,350**	226,377
Total liabilities	**550,400**	431,429
Net assets	**—**	—
	550,400	431,429

See accompanying notes

On behalf of the Board:

[Signed]
Director, William W. Moriarty, CFA

[Signed]
Director, John F. (Jack) Petch QC, LL.D

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

Years ended December 31

	2013 $	2012 $
EXPENSES *[note 6]*		
Staffing	**4,957,717**	3,888,348
Communications and information technology support	**291,817**	299,764
Occupancy	**221,313**	217,877
Professional fees	**107,998**	139,635
Consulting fees	**125,371**	110,758
Travel	**83,451**	102,627
Office supplies and services	**67,560**	81,404
Amortization of capital assets	**88,219**	78,598
	5,943,446	4,919,011
RECOVERIES AND OTHER INCOME		
Recoveries from University of Toronto *[note 6]*	**5,855,227**	4,840,413
Amortization of deferred capital contributions *[note 5]*	**88,219**	78,598
	5,943,446	4,919,011
Net income and comprehensive income for the year	**—**	—
Net assets, beginning of year	**—**	—
Net assets, end of year	**—**	—

See accompanying notes

Statements Of Cash Flows

Years ended December 31

	2013 $	2012 $
OPERATING ACTIVITIES		
Net income and comprehensive income for the year	—	—
Add (deduct) items not involving cash		
Amortization of capital assets	88,219	78,598
Amortization of deferred capital contributions	(88,219)	(78,598)
Forgiveness of loan	—	80,000
Changes in non-cash working capital balances related to operations		
Due to/from University of Toronto	121,238	75,620
Prepaid expenses	(7,791)	(9,165)
Accounts payable and accrued liabilities	140,089	(104,969)
Cash provided by operating activities	253,536	41,486
INVESTING ACTIVITIES		
Purchase of capital assets	(19,192)	(28,596)
Cash used in investing activities	(19,192)	(28,596)
FINANCING ACTIVITIES		
Deferred capital contributions to fund purchase of capital assets	19,192	28,596
Cash provided by financing activities	19,192	28,596
Net increase in cash during the year	253,536	41,486
Cash, beginning of year	93,598	52,112
Cash, end of year	347,134	93,598

See accompanying notes

Notes to Financial Statements

December 31, 2013 and 2012

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 Funds, Expendable Fund and Pension Plans, 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 17, 2014.

2. BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with the financial reporting framework specified in paragraph 3.2(3)(a) 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 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.* 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 its functional currency.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Future accounting changes

IFRS 9 *Financial Instruments* ["IFRS 9"] will replace IAS 39, *Financial Instruments: Recognition and Measurement* ["IAS 39"]. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the 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. The effective date for IFRS 9 has been postponed and has not yet been determined.

UTAM will adopt this standard when it becomes effective. UTAM is currently reviewing the standard to determine the effect on the financial statements.

Adoption of new accounting policies

Effective January 1, 2013, UTAM has adopted the following new standards. Several other new standards and amendments apply for the first time in 2013. However, they do not impact the financial statements of UTAM.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 integrated and made consistent the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities and presents those requirements in a single standard. IFRS 12 requires that an entity disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, comprehensive income and cash flows. The adoption of IFRS 12 had no significant effect on the financial statements of UTAM. UTAM manages the UTAM Pooled Funds and U of T's Endowment Funds, Expendable Fund, and Pension Plans, through a formal delegation of authority and investment management agreement between UTAM and U of T. These funds meet the definition of structured entities under IFRS 12. However, UTAM does not earn any fees from these funds for its management services and is therefore not exposed to significant risks from interests in these unconsolidated structured entities. U of T reimburses UTAM for its services to allow it to recover the appropriate costs to support its operations *[note 6[a]]*. UTAM provides no guarantees against the risk of financial loss to the investors of these funds.

IFRS 13 *Fair Value Measurement*

IFRS 13 was issued in May 2011 and adopted by UTAM effective January 1, 2013. IFRS 13 defines fair value, provides guidance on how to determine fair value but does not change the requirements regarding which items should be measured or disclosed at fair value. The standard also requires many new disclosures for both financial and non-financial assets and liabilities measured at, or based on, fair value and for items not measured at fair value but for which fair value is disclosed. In addition, the standard requires more disclosures around inputs and sensitivities for Level 3 fair values for those items measured at fair value on a recurring basis, along with expanded disclosures around transfers between levels in the fair value hierarchy. The adoption of IFRS 13 had no significant 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 of its financial assets as loans and receivables, and all of its financial liabilities as other financial liabilities. All of UTAM's financial instruments are carried at either cost or amortized cost and are short-term in nature. 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, 2013 and 2012, 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, 2013 and 2012, UTAM has no significant assets or liabilities denominated in a foreign currency and has no significant exposure to currency risk.

[iii] Other price risk
Other price 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 other price risk as at December 31, 2013 and 2012.

[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 operations of UTAM are 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, 2013 and 2012.

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 net 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, 2012	**445,686**	**86,206**	**37,534**	**569,426**
Additions	3,259	2,500	22,837	28,596
Balance, December 31, 2012	**448,945**	**88,706**	**60,371**	**598,022**
Additions	2,809	—	16,383	19,192
Balance, December 31, 2013	**451,754**	**88,706**	**76,754**	**617,214**
Accumulated amortization				
Balance, January 1, 2012	**255,348**	**31,137**	**6,562**	**293,047**
Amortization	45,443	17,491	15,664	78,598
Balance, December 31, 2012	**300,791**	**48,628**	**22,226**	**371,645**
Amortization	46,343	17,741	24,135	88,219
Balance, December 31, 2013	**347,134**	**66,369**	**46,361**	**459,864**
Net book value				
Balance, December 31, 2012	**148,154**	**40,078**	**38,145**	**226,377**
Balance, December 31, 2013	**104,620**	**22,337**	**30,393**	**157,350**

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:

	2013	2012
	$	$
Balance, beginning of year	**226,377**	276,379
Recoveries received during the year related to capital asset purchases	**19,192**	28,596
Amortization of deferred capital contributions	**(88,219)**	(78,598)
Balance, end of year	**157,350**	226,377

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, 2013, $47,909 is due to U of T as a result of reimbursements exceeding the actual cost of operations [2012 - $73,329 due from U of T].

[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 2013, contributions of $200,776 [2012 - $176,956] 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 2013, these services totaled $35,305 [2012 - $54,247].

[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:

	$
2014	106,724
2015	106,724
2016	26,680
	240,128

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 $108,725 [2012 - $105,289] in 2013. 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] During 2013, UTAM implemented a new incentive bonus plan whereby a portion of the bonus is deferred over a service period, which is payable at the end of the service period. The expense for deferred bonus awards is recognized on a straight-line basis over the service period, and remeasured at each reporting date with remeasurement gains or losses recognized in net income. As a result, a portion of the deferred bonus awards is expensed as at December 31, 2013, with the remaining amount, which is expected to be approximately $290,000 plus an adjustment for the performance of the University's investment portfolios, to be recorded as expense in 2014.

[g] Transactions with key management personnel

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

	2013 $	2012 $
Short-term employee benefits	**2,597,669**	1,917,975
Post-employment benefits	**77,496**	73,044
Other long-term benefits	**268,477**	12,829
	2,943,642	2,003,848

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, 2013, UTAM has met its objective of having sufficient liquid resources to meet its current obligations.

UTAM Board Of Directors

(As at December 31, 2013)

JOHN F. (JACK) PETCH QC, LL.D *Chair of the Board*
Independent Director

SHEILA BROWN
University of Toronto,
Chief Financial Officer

MERIC GERTLER
University of Toronto,
President

GEORGE LUSTE
University of Toronto Faculty Association,
Past President

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

DAVID WALDERS
University of Toronto,
Acting Assistant Secretary to the Governing Council
University of Toronto Asset Management Corporation,
Secretary to the Board

University Of Toronto Asset Management Corporation Staff

(As At March 31, 2013)

WILLIAM W. MORIARTY, CFA
President and Chief Executive Officer

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

ADRIAN HUSSEY, CFA
Managing Director, Portfolio and Risk Analysis

CAMERON RICHARDS, CFA
Managing Director, Investment Strategy and Co-Chief Investment Officer

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

LISA BECKER, FCA (ICAEW)
Director, Operational Due Diligence and Chief Compliance Officer

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

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

FAISAL HAMID
Analyst, Manager Selection and Portfolio Construction

JULIANA ING, CFA, FRM
Analyst, Portfolio Performance

PAYTON LIU
Analyst, Portfolio Performance

LEON LU, CFA
Analyst, Manager Selection and Portfolio Construction

IVAN SIEW, CFA, FRM
Analyst, Portfolio and Risk Analysis

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

STAN CHIEN
Analyst, Compliance

ANNE LEE
Analyst, Investment Operations

TOAN DUONG, CMA
Associate, Investment Operations

DIANE NGUYEN
Office Manager

JILLIAN MIRANDA
Administrative Assistant

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UNIVERSITY OF TORONTO

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