UNIVERSITY OF
TORONTO

University of Toronto Asset Management Corporation

ANNUAL REPORT 15

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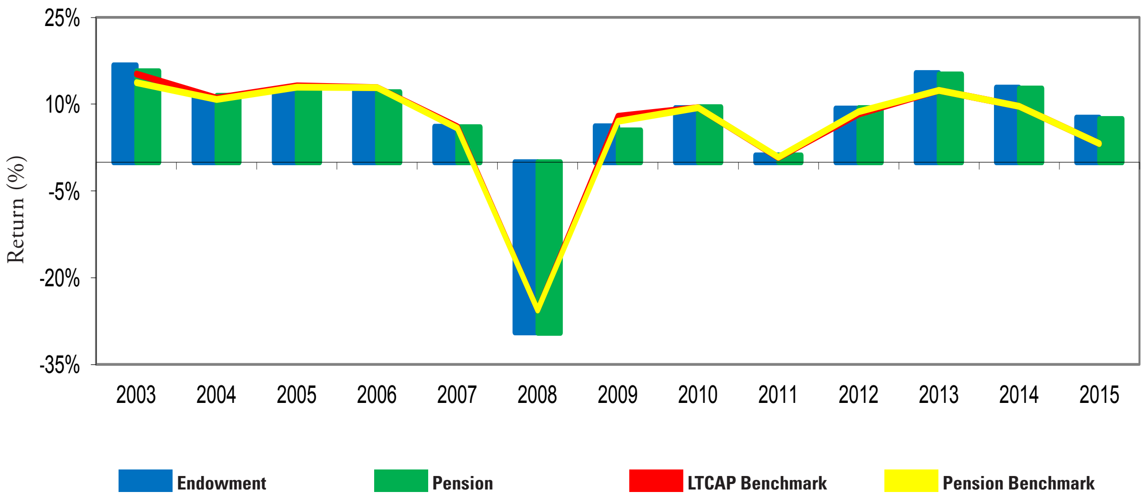
All figures in this Annual Report are in Canadian dollar terms, unless otherwise stated.

The Report In Brief

Investment performance for 2015 and prior periods ending December 31st is summarized below:

Annual Returns



	2015			2 - YEAR (2014-2015)			4-YEAR (2012-2015)		
	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP
University Target Return[1]	**5.6%**	**5.6%**	**1.5%**	**5.5%**	**5.5%**	**1.5%**	**5.3%**	**5.3%**	**1.6%**
Benchmark Portfolio Return[2]	3.2%	3.2%	n.a.	6.4%	6.4%	n.a.	8.3%	8.4%	n.a.
Actual Net Return[3]	**7.7%**	**7.4%**	**1.5%**	**10.3%**	**10.0%**	**1.7%**	**11.2%**	**11.1%**	**1.7%**
Assets (December 31; millions)									
2015	$2,453	$4,089	$1,522						

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.
2 Gross return less an assumed 10 bps implementation costs.
3 Gross return less all fees and costs including UTAM costs, custody costs, etc.

- Total assets under management increased 8.6% in 2015 to $8.1 billion; long-term assets increased 7.7%.
- Capital markets environment was more challenging in 2015 as the return on the University's passive Benchmark portfolio did not meet the University's target return for its long-term portfolios (Pension and Endowment).
- The actual return on long-term portfolios exceeded the University's Target Return by 2% in 2015 as a result of 'active management' decisions.
- Very strong performance compared to Benchmark portfolio over last four years.
- The period ahead is expected to remain quite challenging for investors.

President's Message

As the year 2015 began, there appeared to be a relative complacency amongst investors and a general belief by many that central bank policies would sustain a favorable backdrop for investing. But, as we pointed out in last year's report, the degree of consensus was quite unusual and seemed likely to contribute to a year of higher volatility and substantial dispersion in investment returns. In contrast, investor sentiment at the start of 2016 appears quite different with fears of deflation and the potential for recession a common concern.

In the current environment we believe that it is important to not become overly negative. Rather it is useful to reflect on two simple truths. First, there is an inherent instability to markets where the underpinnings are partially dependent on central bank actions. Second, strong capital markets performance (like 2012 to 2014) that is ahead of economic performance is often nothing more than stealing from the future. Stated differently, the markets of the last few years benefitted from a strong tailwind but we are now in an environment where good returns are achievable but the effort needed to accomplish this will be more substantial. To use a nautical analogy, think 'rowing' rather than 'sailing'.

As the following pages outline, 2015 was another positive year for the University portfolios. Despite a market environment that resulted in the passive Benchmark portfolio underperforming the University's Target return, the actual performance of the main Endowment and Pension portfolios exceeded both the Benchmark and the long-term Target return needed by the University to underwrite the promise made to donors and pensioners (this has now been the case in six of the last seven years). In terms of incremental dollars for the University, the outperformance versus Target in 2015 equates to a total of approximately $120 million based on beginning of year assets. This entire incremental amount was the result of active management decisions made by UTAM's investment professionals (over the last four years the cumulative 'active' amount is approximately $600 million).

It is common to attempt to compare portfolio returns between both similar institutions and investment management organizations and while this is never an easy exercise, such comparisons will be especially difficult this year unless one understands each organization's foreign currency hedging policy. As an example, the University's policy requires hedging approximately 65% of the portfolio's exposure to developed markets currencies. Had the policy instead been not to hedge this exposure, the return on the University portfolios would have been considerably higher; the passive Benchmark portfolio would have returned approximately 6.8% compared to the 3.2% actually recorded by that portfolio.

As I have noted previously, UTAM's culture embodies a philosophy of striving for continuous improvement and there were several projects undertaken over the last year to advance UTAM's capabilities. One notable project was to independently review the risk system which we have put in place and the active risk budget that UTAM implemented in 2012. That review was completed at year-end and I am pleased that the review provided useful input on evolving our 'active risk' limits and written policies but was also quite complimentary regarding our risk management analytics. In particular, the review noted that 'very few, if any, investment offices of UTAM's size would have the degree of risk management analysis that UTAM has developed'. Another notable project undertaken in 2015 was the expansion of our internal analytic capabilities in the private markets area. This should serve the organization well in the period ahead.

Finally, I would again like to thank our Board of Directors, the Investment Advisory Committee and the Pension Committee for their support and ongoing input to the management team at UTAM. Good governance is a core characteristic of a strong and successful organization. Good governance also fosters the development and retention of a talented team of professionals. The results of the last several years would not have been possible without this support for the build-out of a dedicated team of professionals and the key contributions that this team has been able to make to support the University's mission. I am fortunate to have had the opportunity to work with them.

William Moriarty, CFA
President & Chief Executive Officer

Management's Discussion And Analysis

MANDATE

UTAM managed $8.1 billion of assets in three main portfolios at the end of 2015: (i) the University's $2.5 billion Endowment fund; (ii) the University's $4.1 billion Pension Master Trust fund; and (iii) the University's $1.5 billion shorter-term investment pool ("EFIP").

The main Endowment fund, which is formally called the Long Term Capital Appreciation Pool ("LTCAP"), represents primarily 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 and investment income earned on invested 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 invested 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 mainly represent the University's working capital, means that the total assets in EFIP can fluctuate significantly over time and 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 invested assets, etc.

The University, with the counsel of the President's Investment Advisory Committee, establishes the long-term 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 2015, the long-term target return for the Endowment and Pension portfolios was stated as a 4% real return. Because traditional risk-free investments (i.e., government bonds) currently offer a return that is considerably lower than this target, achieving the objective requires the assumption of risk. Accordingly, an appropriate policy portfolio (hereafter referred to as the Benchmark portfolio) was established and risk constraints were set in relation to this portfolio.

The target return and the risk tolerance objective established for EFIP were the 365-day Canadian T-bill Index return plus 50 basis points (i.e. 0.50%) and minimal risk; a high hurdle in todays world.

UTAM's INVESTMENT BELIEFS

A number of fundamental guiding principles, or investment beliefs, provide a foundation for the approach that UTAM employs 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 a majority of the risk and more than 90% of the variability of investment returns are attributable to such decisions. At the same time, the nature and structure of the investor's liabilities need to be considered and the implications of any duration mismatch understood. The University's Benchmark 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 important to note 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. Consideration of environmental, social and governance issues is also an important component of prudent risk management and fiduciary duty, especially where the underlying investment strategy involves holding assets for longer periods of time. It is also important to recognize that the risk environment is not static; it changes over time and a given asset

allocation will necessarily 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 mitigates that should characterize most portfolios. There are many dimensions to diversification. These include making investments that span a range of assets, 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 periodic irrationality in markets and to exploit the lower level of efficiency often evident in the pricing of more complex and/or illiquid assets. The ability of investment strategies to create value varies over time. Some strategies are shorter term in nature. 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 inefficient, less-developed, more illiquid or 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 opportunities, strategies, talented investment managers and often the potential to reduce downside risk. Implementation, however, requires the availability of an experienced professional team that can identify, understand and oversee a more complex portfolio.

All of these principles, or investment beliefs, are reflected in the investment strategies that we research internally and implement primarily through external money managers. Some of our managers oversee a passive portfolio while others focus on niches. Some use leverage and sell securities 'short'. Some invest in private markets. Although many of these investment strategies differ from the simple equity and bond exposures that comprise the University's Benchmark portfolio, the mix of strategies and risk exposures selected is designed to produce returns that will outperform the Benchmark portfolio over the medium term while adhering to the allowable risk budget established by the University. 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 environments change.

ASSET MIX

2015 Benchmark Portfolio Asset Mix

The Benchmark portfolio represents a "shadow" portfolio that has been designed to incorporate both the University's return objective and its risk tolerance as well as the investment time-horizon of the portfolio. As such, it serves as a guide for the actual allocations UTAM implements in the University's investment portfolios and as an important benchmark against which to judge the success of 'active' investment management activities.

The principle underlying the Benchmark portfolio's composition requires exposures that are passive, low-cost, easily implementable and generally representative of the investable universe. This means that alternative assets and strategies are no longer included in the Benchmark portfolio (i.e., since 2011). 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 actual investment portfolios. Consequently, the Benchmark portfolio is used as the key standard for evaluating short- and medium-term performance of the two main University portfolios (i.e., LTCAP and Pension).

Given that the University has determined that the return objective and risk tolerance are the same for LTCAP and Pension, the Benchmark portfolio asset mix is identical for both portfolios (see Table 1 below which also shows the individual asset class benchmarks). The University periodically reviews 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 is currently underway.

Table 1

Benchmark Portfolio Asset Mix	
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 Total Return Index)	**16%**[1]
Emerging Markets Equity (MSCI EM Net Total 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. Foreign currency exposure is 65% hedged to the Canadian dollar.
2. Unhedged foreign currency exposure

Actual Portfolio Asset Mix

The actual make-up of the Endowment fund and the Pension fund at the end of 2015 and 2014 are 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 derivatives used to maintain an asset segment at the desired weight. The cash collateral underlying the derivative exposures 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 exposure-based report provides the most accurate representation of the actual composition of the portfolios.

Table 2

	Endowment		Pension	
(as at December 31)	**2014**	**2015**	**2014**	**2015**
Canadian Equity[1]	16.1%	**14.8%**	16.1%	**14.9%**
US Equity[1]	17.8%	**17.0%**	17.8%	**17.0%**
International Developed Markets Equity[1]	15.7%	**14.9%**	15.7%	**15.0%**
Emerging Markets Equity[1]	9.9%	**10.0%**	10.0%	**10.0%**
Credit[1]	20.0%	**21.4%**	20.0%	**21.3%**
Rates[1]	10.2%	**10.1%**	10.6%	**10.1%**
Other (including cash & notional offsets)[2]	10.2%	**11.8%**	9.7%	**11.8%**
Cash (including notional offsets)[2]	0.6%	**1.1%**	0.5%	**1.1%**
Cash (actual)[3]	17.6%	**22.6%**	17.0%	**23.2%**
Portfolio Value (millions)	$2,293	**$2,453**	$3,784	**$4,089**

1. Includes the notional dollar value of derivative 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 derivative exposures (see footnote 1).
3. Includes the cash backing the notional dollar value of derivatives (see footnotes 1 and 2).

As noted earlier (and explained more fully in the 2013 Annual Report), most of the categories shown in the above table can include a mix of strategies as well as both public and private assets. This approach means that the decision to invest in 'alternatives' is part of the portfolio implementation process in each asset segment as opposed to the policy asset mix allocation process.

INVESTMENT PERFORMANCE

The investment performance of the Benchmark portfolio 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 investors. Table 3 details the performance of individual asset class benchmarks and two major currency pairs for 2015 (as well as over the previous five calendar years and the period since the beginning of the Global Financial Crisis). In addition to showing the modest return environment that investors faced in 2015 and the substantial divergence in regional equity returns, it also illustrates the importance of currency hedging considerations to global investors.

Table 3

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

	2010	2011	2012	2013	2014	2015	Cum. 2008-15
Canadian Equity (C$)	17.6%	-8.7%	7.2%	13.0%	10.6%	**-8.3%**	19.3%
U.S. Equity (U$)	15.1%	2.1%	16.0%	32.4%	13.7%	**1.4%**	65.7%
International Developed Markets Equity (Local)	4.8%	-12.2%	17.3%	26.9%	5.9%	**5.3%**	14.0%
Emerging Markets (Local)	14.1%	-12.7%	17.0%	3.4%	5.2%	**-5.8%**	4.8%
Corporate Bonds	7.3%	8.2%	6.2%	0.8%	7.6%	**2.7%**	60.2%
Government Bonds	6.5%	10.2%	2.6%	-2.0%	9.3%	**3.8%**	48.4%
USDCAD	-5.2%	2.5%	-2.2%	6.7%	9.0%	**19.9%**	40.8%
EURCAD	-11.4%	-0.8%	-0.7%	11.5%	-4.3%	**7.7%**	4.6%

Although public markets delivered quite mixed returns, private markets performance remained solid. Despite the fact that there are many indices that are designed to track private markets performance, most of them are not readily 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 for determining whether the decision to allocate was rewarded.

It should be evident from a comparison of these results with Table 3 that the University's private markets investments have performed quite favourably over time. These investments generally outperformed public markets investments in 2015 and especially on a cumulative basis over the last eight years.

Table 4

Actual *Private Markets* Asset Returns (Local)[1]

(After Fees)

Periods Ending December 31st

	2010	2011	2012	2013	2014	2015	Cum. 2008-15
Private Investments	**20.2%**	**14.8%**	**12.8%**	**13.8%**	**15.4%**	**9.8%**	**125.2%**
Buyout	25.5%	14.9%	15.0%	14.2%	16.4%	**13.4%**	125.4%
Debt	17.6%	8.1%	16.6%	15.0%	14.6%	**6.6%**	123.7%
Venture	2.4%	27.4%	-12.6%	4.0%	11.3%	**9.8%**	61.8%
Real Assets	**13.1%**	**9.0%**	**7.1%**	**11.6%**	**19.2%**	**7.2%**	**49.8%**
Real Estate & Infrastructure	15.3%	12.5%	9.5%	14.7%	24.3%	**13.9%**	67.8%
Commodities	8.8%	1.8%	2.1%	5.3%	10.2%	**-9.9%**	6.8%

1. Endowment Returns; Pension similar

Table 5 below compares the University's Target Returns with the performance of the Benchmark portfolio and with the actual returns of the Endowment fund, the Pension fund and EFIP for 2015 and for two longer periods ending in 2015. Note that the 10-year period includes a number of significant changes in investment strategy adopted by the University.

Table 5

Periods Ending December 31st

	2015			4-Year (2012-2015)			10-Year (2006-2015)		
	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP
University Target Return[1]	**5.6%**	**5.6%**	**1.5%**	**5.3%**	**5.3%**	**1.6%**	**5.7%**	**5.7%**	**2.8%**
Benchmark Portfolio Return[2]	3.2%	3.2%	n.a.	8.3%	8.4%	n.a.	3.8%	3.8%	n.a.
Actual Net Return[3]	**7.7%**	**7.4%**	**1.5%**	**11.2%**	**11.1%**	**1.7%**	**4.3%**	**4.1%**	**2.4%**

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.
2. Linked Benchmark portfolio returns.
3. Gross return less all fees and costs including UTAM costs, custody costs, etc.

As the Table indicates, the Endowment and Pension portfolios substantially outperformed the University's Benchmark portfolio and long-term Target Return in 2015 and over the most recent four-year period. The fixed income focused EFIP portfolio performed in line with its Target Return in 2015 and over the last four years.

The Table also indicates that over the ten-year period, both LTCAP and Pension modestly outperformed their Benchmark portfolios (i.e., active management added value) but were unable to meet the University Target. This failure to meet the University Target was largely due to decisions made regarding the composition of the Benchmark portfolio in the mid-2000's.

A key takeaway from these comparisons is the steady improvement recorded in the actual performance of LTCAP and Pension over the last several years compared to the Benchmark portfolio. Although encouraging, we fully appreciate that investment success is defined over decades and not just a few years.

Examining calendar year 2015 more closely, the performance of the Benchmark portfolio provides a useful starting point with respect to understanding the challenging investment environment faced by 'active' investment managers such as UTAM. More specifically, the total return generated by the passively invested Benchmark portfolio was 3.2% in 2015, moderately less than expected at the start of the year and much less than the University's 2015 target return of 5.6%. In dollar terms, and using beginning of year assets, this represented a total shortfall of $148 million relative to the University's Target Return objective for LTCAP and Pension.

Fortunately, UTAM's active management decisions were able to provide a more than full offset in 2015. Table 6 shows that the LTCAP and Pension portfolios (after all costs) earned returns that were 4.55% and 4.29% greater than the Benchmark portfolio. In dollar terms and again using the start of year asset levels, this translates into an additional $266 million that was earned for the University relative to employing a passive approach. Totalling these amounts indicates that it was still a good year for the University's investment portfolios.

Table 6

2015 Performance Attribution (%)

	Endowment		Pension	
Benchmark Portfolio Return (C$)		**3.16%**		**3.16%**
Value Added Versus Benchmark Portfolio:				
Asset Mix Differences	-0.43%		-0.38%	
Style Tilts and Manager Selection	3.71%		3.56%	
Different FX Exposure	1.24%		1.14%	
Other	0.04%	**4.55%**	-0.03%	**4.29%**
Actual Portfolio Performance (C$)		**7.70%**		**7.45%**

Table 6 also sets out the factors underlying the performance differences from the Benchmark portfolio for the two larger University portfolios. As this Table illustrates, the most significant contribution to the outperformance of both portfolios in 2015 was again the value added by the strategies and managers selected by the UTAM team (primarily in EAFE, Emerging Markets and Absolute Return). An additional meaningful contributor was the fact that UTAM once again maintained a different exposure to foreign currencies in 2015 than that contained in the Benchmark portfolio.

Table 7

	Endowment		Pension	
	Portfolio	**Benchmark**	**Portfolio**	**Benchmark**
Canadian Equity	**-6.4%**	-8.3%	**-5.6%**	-8.3%
US Equity (USD)	**3.0%**	1.4%	**2.9%**	1.4%
EAFE Equity (local)	**12.4%**	5.3%	**12.6%**	5.3%
Emerging Markets (USD)	**-8.6%**	-14.9%	**-9.5%**	-14.9%
Credit	**4.0%**	2.7%	**3.9%**	2.7%
Rates	**4.4%**	3.8%	**4.5%**	3.8%
Absolute Return (local)	**9.0%**	3.8%	**7.9%**	3.8%

Table 7 above shows the returns of the various components of the University portfolios relative to their strategy benchmarks. As the Table clearly indicates, all areas outperformed their benchmarks and thus added value to the portfolios in 2015. Of note is the continued outperformance of the Absolute Return segment of the portfolios. Comprised of liquid but non-traditional strategies (chosen to have little market sensitivity) and constructed by UTAM as an alternative to holding a simple government bond (Rates) portfolio, the decision resulted in approximately 5.1% of outperformance compared to the Rates benchmark in 2015 (LTCAP). Non-North American equity managers (both EAFE and Emerging Markets) also contributed by significantly outperforming their asset segment benchmarks (7.1% and 6.3% respectively, using LTCAP).

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 Benchmark 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 and relatively flat yield curve environment, this presents a challenging task.

The average asset mix and 2015 investment performance for EFIP are summarized in Table 8 below. At the end of 2015, the EFIP portfolio had a market value of $1,522 million (2014: $1,353 million).

Table 8

	Asset Mix (2015 Average)[1]	Actual Return
Cash & Money Market	69.2%	1.4%
Short-Term Bonds	16.8%	2.5%
Floating Rate Notes	14.0%	0.4%
Total	100%	1.5%

1. Weights are based on the average of monthly weights

EFIP generated a return of 1.46% in 2015, or 8 basis points below the University's Target Return of 1.54%. The primary reason for the slight underperformance was the allocation to floating rate notes and a widening of credit spreads in 2015.

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 a position based risk system that helps us better understand the likely portfolio outcomes of various asset mix alternatives in different scenarios and the risk associated with individual manager positions.

Manager selection is also an important aspect 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 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.

Because investment performance can be quite volatile, 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 Benchmark 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 Benchmark portfolio.

In addition, minimum and maximum weights for foreign currency exposure and for each of the major asset groupings within the Benchmark portfolio have been established and a portfolio level liquidity constraint has been adopted. Taken together, these limits are viewed by the University as being sufficiently large 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 Benchmark portfolio.

Based on current holdings and after removing the dampening effect of 'private' investments, the volatility readings of both LTCAP and Pension were slightly above that of the Benchmark portfolio at year-end. However, levels were well within the 'active' risk budget given to UTAM by the University and well below the University's longer-term risk appetite.

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 deposit accounts, and bonds, mostly with shorter terms to maturity. These are the primary means of controlling risk for such a short-term oriented portfolio.

MARKET OUTLOOK

The New Year began with significant weakness in global equity markets, muted global growth expectations, another drop in oil prices, renewed concerns regarding China and fears over the European banking system. This combination raised anxiety regarding deflation and the possibility that the US and the global economy might be close to the start of another recession. Less explicit, but no doubt also contributing, is the reality that the heavy indebtedness of the world economy that was a contributor to the last recession has not been remediated; in fact, global debt-to-GDP ratios are higher now than before the 2008 financial crisis. Given the age of the current expansion and the lack of meaningful growth in global nominal GDP, concerns about the ability to service this debt reappeared and credit spreads have increased to levels normally associated with recession. This sentiment has been further reinforced by the recent commentary regarding negative interest rates and the fact that central banks now seem to have limited tools left to deal with any unexpected shocks that could arise.

While these risks need to be continuously monitored, we would note that the US economy has been the key driver of past global recessionary periods and significant equity market declines. At present, we see little evidence in the data to support either the imminent start of a US recession or a major market decline. Rather we expect moderate economic growth to continue. This trajectory coupled with the fact that the overall valuation level of the US market continues to present a cyclical headwind, implies that investors are most likely to face an extended period of low returns. Risk, however, is unlikely to be lower and the recent spikes in volatility should be taken to represent a memo from the market that the era of low volatility may be nearing an end.

Outside of the US, we are seeing more pockets of opportunity. For example, the fact that emerging market weakness is widely known should provide opportunities for long-term, value-oriented investors. However, emerging markets are not homogeneous and one should also expect substantial dispersion in investment returns between regions and countries.

As we warned last year, navigating through this type of environment will require maintaining a long-term focus (with the aggregate equity weighting likely not in excess of the policy weight), adequate liquidity and a selective and risk aware approach within equity and debt exposures. We continue to expect that the benefits of active management will remain a significant contributor to overall performance.

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, 2015 and 2014, 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, 2015 and 2014, 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

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 18, 2016

Statements Of Financial Position

As at December 31

	2015 $	2014 $
ASSETS		
Current		
Cash	324,294	84,161
Due from University of Toronto *[notes 6[a] and [e]]*	145,844	174,391
Prepaid expenses	99,322	101,176
Total current assets	569,460	359,728
Capital assets, net *[note 4]*	25,042	92,614
Total assets	594,502	452,342
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	569,460	359,728
Total current liabilities	569,460	359,728
Deferred capital contributions *[note 5]*	25,042	92,614
Total liabilities	594,502	452,342
Net assets	—	—
	594,502	452,342

See accompanying notes

On behalf of the Board:

[Signed] ______________________________ Director

[Signed] ______________________________ Director

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

Years ended December 31

	2015 $	2014 $
EXPENSES *[note 6]*		
Staffing	6,592,262	5,661,337
Communications and information technology support	372,951	311,290
Occupancy	221,915	219,840
Professional fees	179,060	85,139
Consulting fees	149,669	134,707
Office supplies and services	110,295	111,287
Amortization of capital assets	74,619	89,790
Travel	74,530	53,806
	7,775,301	6,667,196
RECOVERIES AND OTHER INCOME		
Recoveries from University of Toronto *[note 6]*	7,700,682	6,577,406
Amortization of deferred capital contributions *[note 5]*	74,619	89,790
	7,775,301	6,667,196
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

	2015 $	2014 $
OPERATING ACTIVITIES		
Net income and comprehensive income for the year	—	—
Add (deduct) items not involving cash		
Amortization of capital assets	74,619	89,790
Amortization of deferred capital contributions	(74,619)	(89,790)
Changes in non-cash working capital balances related to operations		
Due to/from University of Toronto	28,547	(222,300)
Prepaid expenses	1,854	(55,260)
Accounts payable and accrued liabilities	209,732	14,587
Cash provided by (used in) operating activities	240,133	(262,973)
INVESTING ACTIVITIES		
Purchase of capital assets	(7,047)	(25,054)
Cash used in investing activities	(7,047)	(25,054)
FINANCING ACTIVITIES		
Deferred capital contributions to fund purchase of capital assets	7,047	25,054
Cash provided by financing activities	7,047	25,054
Net increase (decrease) in cash during the year	240,133	(262,973)
Cash, beginning of year	84,161	347,134
Cash, end of year	324,294	84,161

See accompanying notes

Notes to Financial Statements

December 31, 2015 and 2014

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 18, 2016.

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.

UTAM manages 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; UTAM is also appointed manager of the UTAM Funds established under a Master Trust agreement [collectively, "funds"]. 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.

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

[a] In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 introduces a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value, such that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on

or after January 1, 2018, with early adoption permitted. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments.

[b] IFRS 16 *Leases* was issued in January 2016 and will replace the previous lease standard, IAS 17 *Leases*, and related Interpretations. The new standard requires lessees to recognize assets and liabilities for most leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

UTAM will adopt these standards when they become effective. UTAM is currently reviewing the 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 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, 2015 and 2014, 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, 2015 and 2014, 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 indices. UTAM is not exposed to other price risk as at December 31, 2015 and 2014.

[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, 2015 and 2014.

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 statements 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, 2014	451,754	88,706	76,754	617,214
Additions	21,399	—	3,655	25,054
Balance, December 31, 2014	473,153	88,706	80,409	642,268
Additions	**1,165**	—	**5,882**	**7,047**
Balance, December 31, 2015	**474,318**	**88,706**	**86,291**	**649,315**
Accumulated amortization				
Balance, January 1, 2014	347,134	66,369	46,361	459,864
Amortization	52,417	17,741	19,632	89,790
Balance, December 31, 2014	399,551	84,110	65,993	549,654
Amortization	**59,659**	**3,652**	**11,308**	**74,619**
Balance, December 31, 2015	**459,210**	**87,762**	**77,301**	**624,273**
Net book value				
Balance, December 31, 2014	73,602	4,596	14,416	92,614
Balance, December 31, 2015	**15,108**	**944**	**8,990**	**25,042**

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 statements of net income, comprehensive income and changes in net assets.

The continuity of deferred capital contributions is as follows:

	2015	2014
	$	$
Balance, beginning of year	**92,614**	157,350
Recoveries received during the year related to capital asset purchases	**7,047**	25,054
Amortization of deferred capital contributions	**(74,619)**	(89,790)
Balance, end of year	**25,042**	92,614

6. RELATED PARTY TRANSACTIONS

UTAM is affiliated with and controlled by U of T.

[a] In accordance with an 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, 2015, $145,844 is due from U of T as a result of the actual cost of operations exceeding reimbursements [2014 - $174,391 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 2015, contributions of $209,459 [2014 - $201,296] 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 2015, these services totaled $37,945 [2014 - $39,932].

[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. In 2016, UTAM will pay $26,681 to the landlord directly, which represents the minimum rent component of the lease obligations. In addition, the lease agreement was extended commencing April 1, 2016 and ending December 31, 2016 for an additional total minimum rent component of $98,514 unless the agreement is terminated earlier at the option of the Governing Council.

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 $108,455 [2014 - $107,036] in 2015. 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] Commencing 2013, UTAM implemented a new incentive bonus plan whereby the majority of the incentive bonus payments are directly related to and, vary with, the actual performance of the U of T's investment portfolios compared to passive benchmark portfolios over two measurement periods. In addition, a portion of the bonus is deferred over a service period and paid at the end of that 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 2015 deferred bonus awards is expensed in 2015, with the remaining amount, which is expected to be approximately $412,805 plus an adjustment for the performance of the U of T's investment portfolios, to be recorded as expense in 2016.

[g] Transactions with key management personnel

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

	2015 **$**	2014 $
Short-term employee benefits	**3,830,331**	3,021,287
Post-employment benefits	**82,840**	78,278
Other long-term benefits	**366,544**	353,436
	4,279,715	3,453,001

Short-term employee benefits include amounts related to the variable incentive bonus awards *[note 6[f]]*.

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, 2015, UTAM has met its objective of having sufficient liquid resources to meet its current obligations.

UTAM Board Of Directors

(As at December 31, 2015)

W. JOHN SWITZER *Chair of the Board*
Independent Director

SHEILA BROWN
University of Toronto,
Chief Financial Officer

MERIC GERTLER
University of Toronto,
President

ETTORE DAMIANO
University of Toronto Faculty Association,

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 February 29, 2016)

WILLIAM W. MORIARTY, CFA
President and Chief Executive Officer

LISA BECKER, FCA (ICAEW)
Chief Operating Officer and Chief Compliance 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

YASIR MALLICK, CFA, CAIA, CPA, CA
Director, Manager Selection and Portfolio Construction

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

DIETER FISHBEIN
Analyst, Manager Selection and Portfolio Construction

JULIANA ING, CFA, FRM
Analyst, Portfolio Performance

PAYTON LIU
Analyst, Portfolio Performance

LEON LU, CFA, CAIA
Senior Analyst,
Manager Selection and Portfolio Construction

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

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

STAN CHIEN
Analyst, Compliance

ANNE LEE
Manager, Investment Operations

TOAN DUONG, CPA, CMA
Analyst, Investment Operations

DIANE JIMENEZ
Office Manager

JILLIAN MIRANDA
Administrative Assistant

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