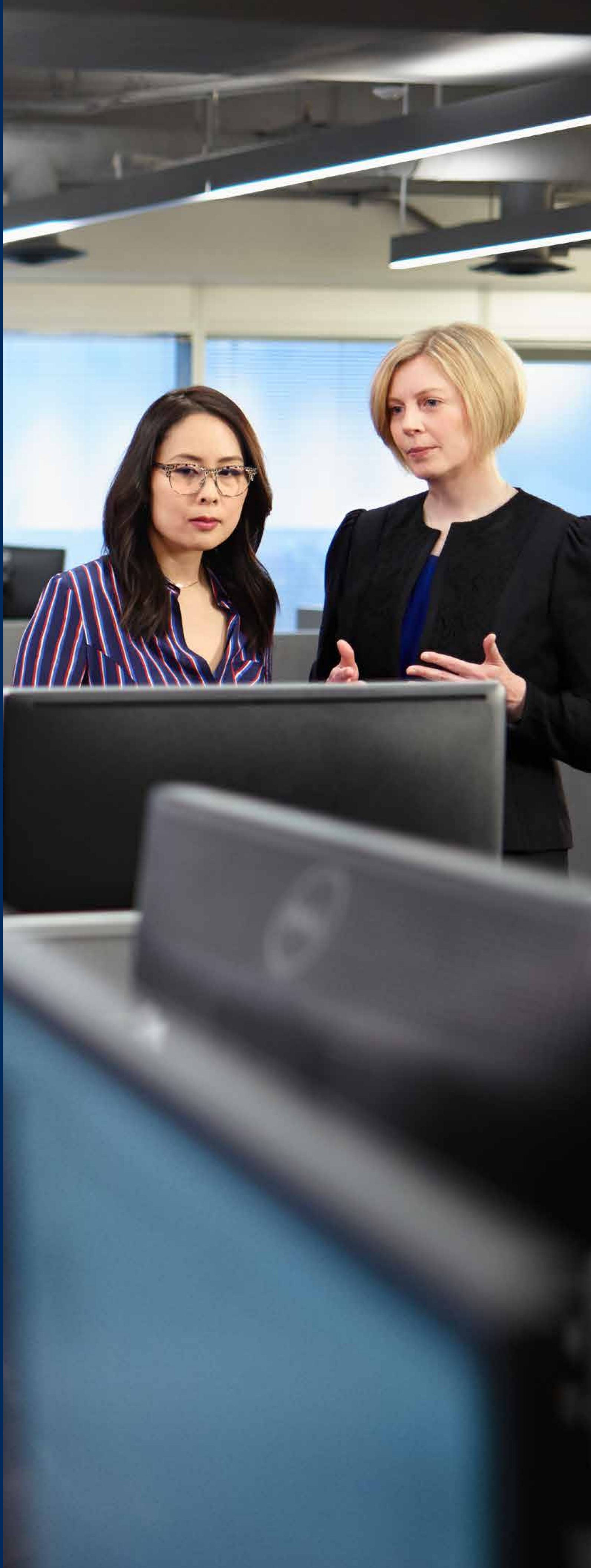
Behind the Numbers

University of Toronto
Asset Management Corporation
Annual Report



2017

As we manage the financial assets of one of the world's leading universities, our role is not simply to make investments and monitor returns. We're constantly refining our processes and systems – and developing the expertise of our team – to deliver sustainable value to the University of Toronto and its stakeholders.

In this year's annual report, we highlight the rigour, discipline, professionalism and personal commitment that lie behind the numbers.

BEHIND THE NUMBERS

Message from the Chair

The Longer View

In 2017, UTAM continued to deliver solid performance in managing the pension, endowment and short-term working capital funds of the University of Toronto. Working closely with the university's Investment Committee, UTAM managed the portfolios with discipline and focus, consistent with the goals of our client.

YEAR-OVER-YEAR GAINS are an important measure of progress, and the Board of Directors is pleased to see UTAM maintaining a pattern of consistent outperformance. But the full value of sound asset management is realized over a trajectory of five to 10 years or longer. From this perspective, too, we're working to sustain the strong returns that will help ensure the future financial health of one of the world's great universities.

Management has also taken significant steps over the past year in affirming UTAM's commitment to the United Nations-supported Principles for Responsible Investment (PRI). In collaborating with like-minded organizations around the world on responsible investing initiatives, we reinforce the priorities and values of the University of Toronto while adding concrete support to a critical shift within the global investment community.

The mandate of UTAM is to invest the capital entrusted to us in a prudent manner, and in accordance with our client's directions. We do this by applying investing skill grounded in judicious risk management. Over the past year, the strength of our partnership with the Investment Committee has only deepened as we've worked together to implement a sound investment strategy. I particularly want to acknowledge the Committee co-chairs, David Denison and Geoff Matus, for their leadership in guiding U of T's investment philosophy and strategy. Along with their fellow Committee members, they provide vital guidance and oversight to the UTAM management team in its investment decision-making. We're privileged that these outstanding professionals volunteer their time and expertise on behalf of the university.

In assuming the role of Board Chair, I'm indebted to my predecessor, John Switzer, who guided UTAM through a period of important leadership change – at one point serving as interim President to help ensure a smooth transition. I've had the privilege to work alongside John in other areas of university governance and have seen first-hand how his acumen, experience and wisdom can help set an organization on the right path. On behalf of my fellow Board members and the management team, I want to pay tribute to John for his significant contribution to UTAM's past, present and future success.

The past year also saw the retirement of another valued Board member, Prof. Ettore Damiano of the university's Department of Economics, who had served as a director since 2014. We thank him for the dedication and valuable insights he brought to the role. We're also pleased to welcome a new Board member, Prof. Alan D. White of the Rotman School of Management. A truly eminent scholar and a leader in his field, Alan holds the Peter L. Mitchelson/SIT Investment Associates Foundation Chair in Investment Strategy.

Lastly, let me underline the Board's appreciation for the exemplary performance of the UTAM management team under Daren Smith's leadership. Since officially taking on the role of President and Chief Investment Officer in September 2016, Daren has directed the firm's investment and risk management activities with steady hands while bringing a new level of collaboration and transparency to UTAM's engagement with the University of Toronto and its diverse stakeholders.

Whatever challenges may lie ahead in a rapidly changing global economy, the Board is confident that UTAM will be able to build on its sound record of success and continue to outperform – guided by the longer view.

Richard Nunn

Richard B. Nunn
Chair, UTAM Board of Directors

BEHIND THE NUMBERS

Message from the President and CIO

Behind the Numbers

UTAM achieved another year of strong absolute and relative performance in 2017, with both the Pension and the Endowment portfolios returning 12.4% (net of all fees and expenses). This exceeded the University of Toronto's target return by 6.6% and outperformed the Reference Portfolio – which establishes a benchmark return – by 1.0% in Pension and 0.9% in Endowment.

WHILE UTAM'S MANAGEMENT TEAM was pleased with the strong performance in 2017, our focus remains – as Board Chair Richard Nunn stresses in his message – on the creation of long-term value for the university and its stakeholders. To that end, we are especially pleased with the longer-term results. Over the past five years, the Pension and Endowment portfolios have returned approximately 11.0% annualized (net of all fees and expenses). This is significantly ahead of the Reference Portfolio's return of 8.7% annualized and represents added value of over $600 million for the two portfolios combined.

As this annual report is being prepared for publication, there is significant volatility in global equity markets. Investors are naturally concerned about short-term impacts, as well as the potential future effects of rising interest rates, the disruption of international trade agreements and other economic factors. But one of the defining beliefs of UTAM, as we emphasized in the outlook included in last year's annual report, is that we are positioned to manage the portfolios through short-term ups and downs by maintaining our disciplined investment processes and applying sound risk management practices. Like the great university whose assets we're entrusted to manage, we're here for the long term.

We're supported in this endeavour by the university's Investment Committee, which is actively involved in creating the Reference Portfolio and in approving various elements of UTAM's investment strategy, including investment programs and limits with respect to risk, allocation ranges and liquidity. We work closely with the Investment Committee in our implementation of the strategy. It's a privilege to work with such an experienced and highly regarded group of investment industry veterans led by two exceptional co-chairs, David Denison and Geoff Matus.

INVESTMENT HIGHLIGHTS

2017 return for Pension and Endowment:

12.4%

2017 target return for Pension and Endowment exceeded by:

6.6%

UTAM Value Added

Five-year annualized UTAM value added of 2.2% in Pension and 2.3% in Endowment equating to an additional:

$376 million — **Pension**

$249 million — **Endowment**

Five-Year Annualized Return

10.9%

in Pension exceeding the target return by 5.4% per annum

11.0%

in Endowment exceeding the target return by 5.5% per annum

INVESTMENT HIGHLIGHTS

Total assets under management
at December 31, 2017

$9.9 billion

$8.8 billion
at December 31, 2016

12.2%
year-over-year increase

"The Investment Committee, with participation from UTAM management, has created an investment framework and strategic direction that reflects the extensive experience of our members. Management executes, and the Committee monitors the portfolio and approves investment programs. Our roles are clearly delineated, but in practice we work seamlessly in pursuit of the same ultimate goal: building a solid foundation for U of T's future."

David Denison and **Geoff Matus,** Co-Chairs
University of Toronto Investment Committee

Equally crucial is our collaboration with the University of Toronto leadership, particularly through my regular meetings with U of T President Meric Gertler and Chief Financial Officer Sheila Brown. We share a common vision, clearly defined goals and a set of core beliefs. These are essential building blocks as we work together to preserve and grow the investment assets managed by UTAM. From UTAM's perspective, every solution we propose and every action we take reflects our deep understanding of the needs and aspirations of a complex, globally connected academic institution. The alignment between our organizations doesn't simply exist on paper; UTAM puts the university's vision and goals into action every day.

A strong collaborative spirit also drives the UTAM team, as we combine complementary skills and expertise to achieve our client's investment goals. We know that results matter; they're the ultimate measure of our success. But to explain how we build value, we need to get behind the numbers – as this year's annual report theme suggests – and reveal the rigorous, systematic approach we take in every aspect of what we do. Over the past decade, we've put in place advanced systems and processes and developed sophisticated analytics in order to select, monitor and evaluate the performance of investment managers. Even more importantly, we've built a team of talented people who are prepared to dig deeper, ask tougher questions and pursue their commitment to excellence through to the best possible investment decisions.

In closing, let me join the Chair in expressing the gratitude felt by everyone at UTAM toward his predecessor, John Switzer. John's wise counsel and steadfast leadership elevated our game and left an indelible mark on this organization. I'd also like to take this opportunity, on behalf of the entire UTAM team, to formally welcome Richard as Chair of our Board.

Guided by the Board's collective experience, along with the strategic insights of the Investment Committee and the broader vision of the University of Toronto, we're confident that UTAM will continue to meet the high expectations of our stakeholders – not only in the results we generate each year, but in the longer-term value creation that's taking shape behind the numbers.

Daren M Smith

Daren M. Smith, CFA
President and Chief Investment Officer

BEHIND THE NUMBERS

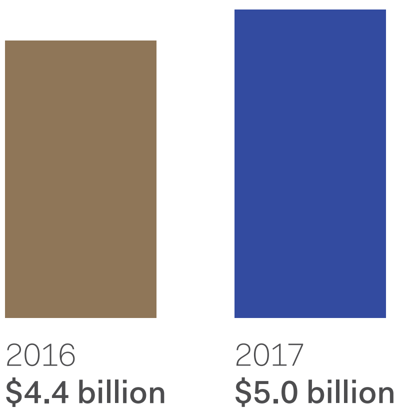
What does UTAM do?

The mandate of UTAM is to prudently invest the capital entrusted to us by the University of Toronto. As Canada's largest university extends its global leadership in teaching and research, we work to strengthen some of the key financial pillars on which that vision is built – and to help provide a secure retirement for thousands of employees who've helped build it.

ESTABLISHED AS A STANDALONE CORPORATION by the University of Toronto in 2000, UTAM invests funds according to objectives and guidelines set out by the university administration and Business Board, as well as U of T's Pension Committee. In fulfilling this mandate, we typically don't make direct investments in traded securities. Rather, UTAM follows what is known in the investment industry as a manager of managers approach. We select investment managers that we believe are best in class and then evaluate their performance against our risk and return expectations – given the market environment – in an assessment process framed by our commitment to responsible investing.

UTAM focuses exclusively on investing university-owned assets. Our purpose is clear: to serve as a strategic and disciplined manager, realizing the highest possible returns while respecting our client's risk tolerance, policy constraints and guiding values. Working in close collaboration with the U of T administration and the university's Investment Committee, we manage three distinct portfolios, as detailed on the opposite page.

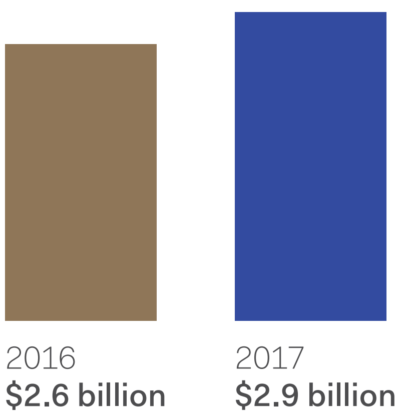
Assets Under Management



01

Pension

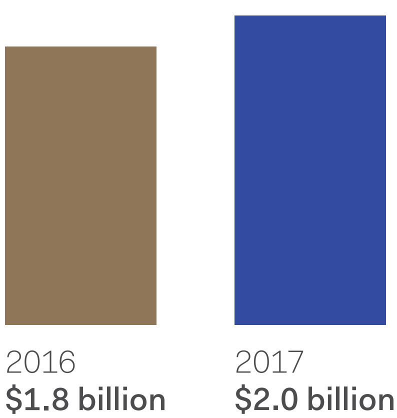
The assets of the university's employee pension plan comprise what is officially called the University of Toronto Master Trust. Changes in the value of this portfolio reflect employer and employee contributions, pension payments to retirees, and investment gains/losses. At the end of 2017, pension assets totalled **$5.0 billion**, up from **$4.4 billion** at the end of 2016.



02

Endowment

Known formally as the Long-Term Capital Appreciation Pool, the Endowment portfolio (as we refer to it throughout this annual report) consists primarily of certain Endowment assets but also includes other funds invested for the long term. The size of this portfolio changes in value with contributions, investment gains/losses and withdrawals to fund Endowment projects. At the end of 2017, the assets in this pool had a value of **$2.9 billion**, up from **$2.6 billion** at the end of 2016.



03

Short-Term Working Capital

Expendable university funds that can be invested over the short to medium term make up the Expendable Funds Investment Pool (EFIP). Principally comprising the university's working capital, EFIP assets can fluctuate significantly in the course of a year. Factors that affect these fluctuations include student tuition fees, staff and faculty salaries, facilities maintenance costs, government grants and investment gains/losses. At the end of 2017, EFIP was valued at **$2.0 billion**, compared to **$1.8 billion** at the end of 2016.

OUR RESPONSIBLE INVESTING PRINCIPLES

In December 2016, UTAM became a signatory, on behalf of the University of Toronto, to the United Nations-supported Principles for Responsible Investment (PRI), which have been adopted by investors around the globe. Guided by the PRI framework, and upholding our fiduciary duty, we've embraced the initiative's six core Principles:

1. We will incorporate ESG issues into investment analysis and decision-making processes.

2. We will be active owners and incorporate ESG issues into our ownership policies and practices.

3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4. We will promote acceptance and implementation of the Principles within the investment industry.

5. We will work together to enhance our effectiveness in implementing the Principles.

6. We will each report on our activities and progress towards implementing the Principles.

BEHIND THE NUMBERS

How do we invest responsibly?

Over the past two years, UTAM has worked with the University of Toronto leadership to strengthen and formalize our commitment to responsible investing. As detailed in our annual Responsible Investing Report, we consider material environmental, social and governance (ESG) factors in our investment analysis and decision-making processes.

UTAM'S COMMITMENT TO INVESTING RESPONSIBLY on behalf of the university is consistent with our fiduciary duty. Equally important, it enables us to make better-informed decisions that we believe will yield superior long-term outcomes for the Pension and Endowment portfolios. Taking ESG into account alongside all other material factors is fundamental to our investment strategy.

In 2017, we issued our first Responsible Investing Report. We also published a Responsible Investing Policy, which is designed to guide all of our decision-making in this area, from the management of our internal processes and systems to our conduct of proxy voting and ESG-related engagements. This comprehensive policy statement is anchored by the United Nations-supported Principles for Responsible Investment (PRI).

We've always incorporated a degree of ESG analysis into our investment approach. But as that commitment becomes more formalized, we've put the building blocks in place for a sophisticated and holistic approach to ESG integration. To that end, in 2017 we made three important additional commitments:

Corporate Engagement

To support UTAM's investment decision-making and represent our ESG concerns to issuers, we've complemented our other corporate engagement activities with an engagement service offered by BMO Global Asset Management. This service identifies ESG risks in select companies worldwide, then engages directly with company management to help ensure those risks are effectively managed.

Montréal Carbon Pledge

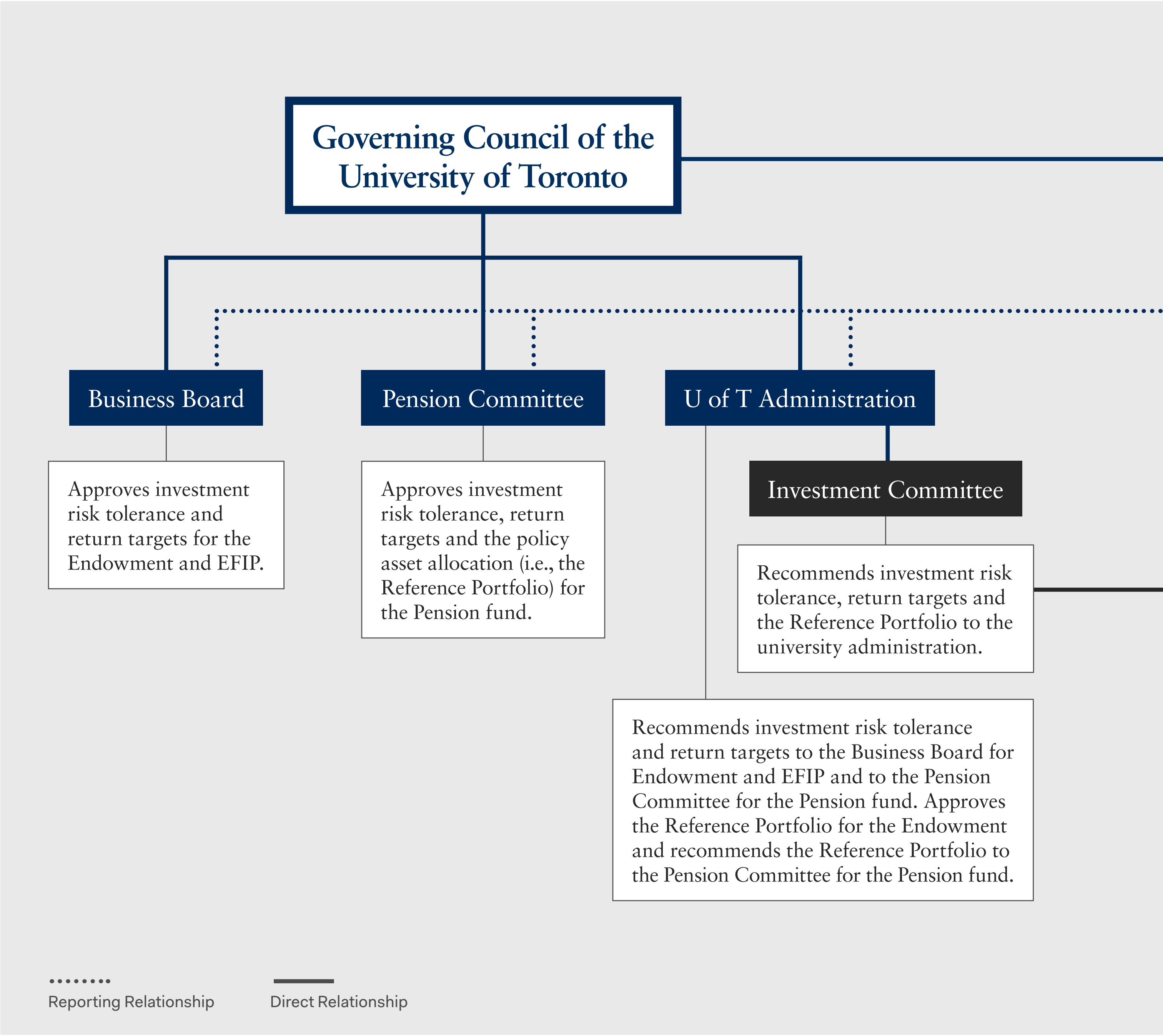
UTAM has joined more than 120 global investors (with over US$10 trillion in assets under management) in signing this pledge aligned with the 2015 Paris Agreement on climate change. It formalizes our commitment to measure and disclose the carbon footprints of the Pension and Endowment investment portfolios.

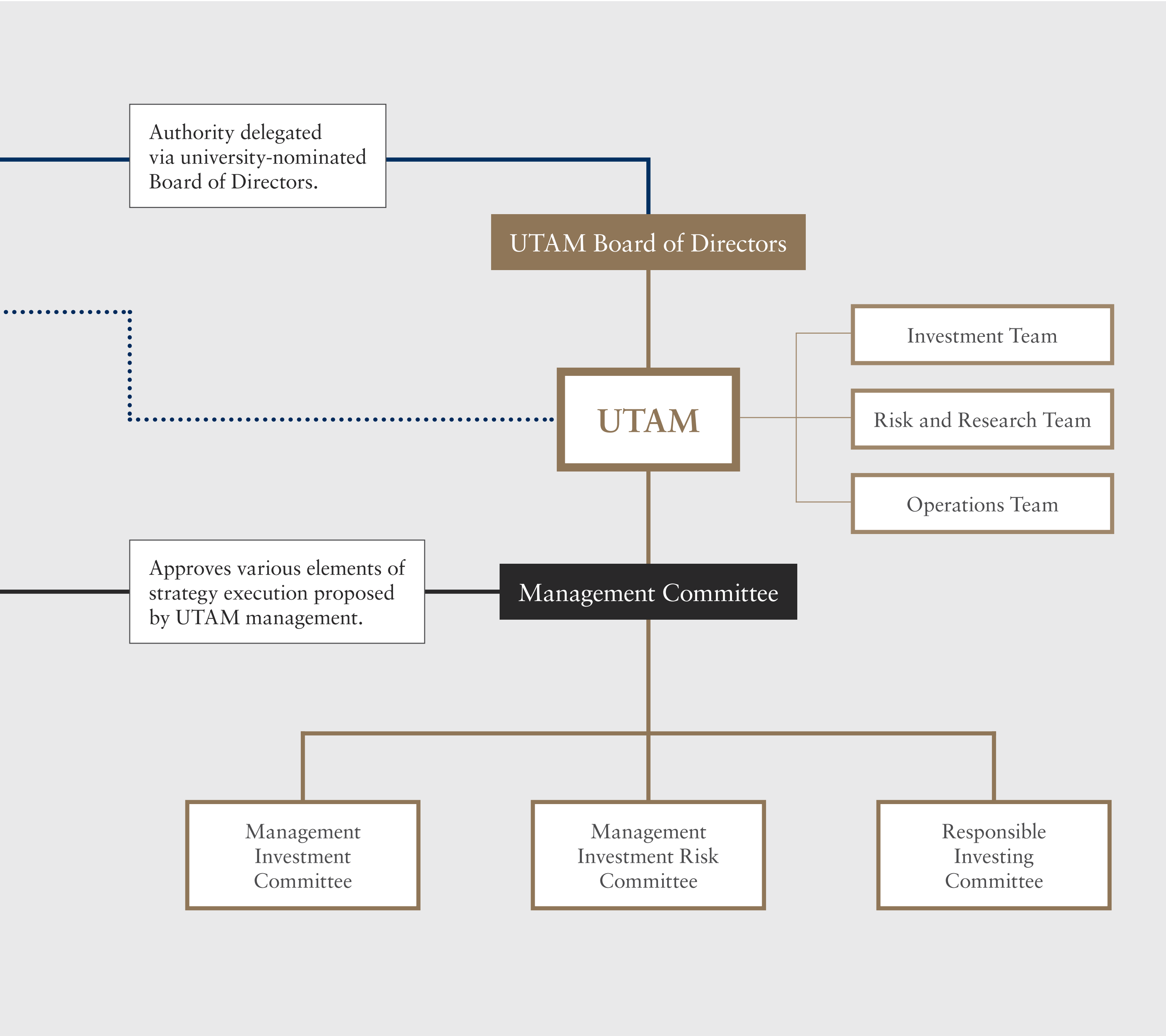
Climate Action 100+

UTAM will be an active participant in this investor-led initiative to engage with more than 100 of the world's largest corporate greenhouse gas emitters. As our collective efforts gain traction in the year ahead, we'll be looking for commitments from boards and senior management at these companies to reduce emissions, strengthen disclosure and improve governance on climate change issues.

BEHIND THE NUMBERS

Governance Structure




Authority delegated via university-nominated Board of Directors.
UTAM Board of Directors
Investment Team
UTAM
Risk and Research Team
Operations Team
Approves various elements of strategy execution proposed by UTAM management.
Management Committee
Management Investment Committee
Management Investment Risk Committee
Responsible Investing Committee

BEHIND THE NUMBERS

How is UTAM governed and managed?

UTAM Board of Directors

A CORPORATION WITHOUT SHARE CAPITAL, UTAM is governed by a Board of Directors whose members are nominated by the University of Toronto. The Board approves our annual corporate budget and oversees matters such as regulatory compliance, enterprise risk and executive compensation. While it does not guide investment strategy (that is the mandate of the university's Investment Committee), the Board is focused on ensuring that UTAM has developed an effective investment management infrastructure and organization in order to fulfill the responsibilities delegated to it by the University of Toronto.

Members

Richard B. Nunn (Chair)
Independent Director
Senior Client Service Partner,
Deloitte

Sheila Brown
Chief Financial Officer,
University of Toronto

Meric S. Gertler
President,
University of Toronto

Daren M. Smith
President and Chief Investment Officer,
UTAM

Alan D. White
UTFA Appointee
Professor,
Rotman School of Management

UTAM Committees

Management Committee

The Management Committee, chaired by the President and Chief Investment Officer (CIO), considers issues related to enterprise risk, compliance, finance, human resources and information technology, and it is responsible for approving all UTAM policies.

Management Investment Committee

The Management Investment Committee, chaired by the President and CIO, oversees all aspects of UTAM's investment activities and is responsible for approving all investment mandates.

Management Investment Risk Committee

The Management Investment Risk Committee, chaired by the Chief Risk Officer, provides risk oversight for all portfolios – developing and executing policies, reviewing risk exposures and providing recommendations on all investment risk-related issues.

Responsible Investing Committee

The Responsible Investing Committee, chaired by the President and CIO, oversees the development and implementation of UTAM's responsible investing policy and practices.

U of T Investment Committee

THE FIVE MEMBERS of the Investment Committee (IC) are all appointed by the President of the University of Toronto. They bring a wealth of senior-level investment industry experience to their oversight of UTAM's efforts to grow the university's Pension, Endowment and EFIP assets. The IC's responsibilities include:

- recommending investment strategy, including explicit risk and return objectives, to the university administration
- approving various elements of strategy execution proposed by UTAM management
- overseeing all of our investment activities and monitoring performance
- providing input on the hiring, compensation and evaluation of UTAM's senior leadership.

The IC reports directly to U of T's President and collaborates extensively with the university administration, as well as the UTAM Board. The IC is empowered to provide direct input to UTAM's management team, conveying the President's objectives and instructions, and acting on his behalf with regard to all relevant investment-related activities.

UTAM meets formally with the IC every other month and has ad hoc interactions as needed to discuss emerging issues and seek expert advice. We're extremely fortunate to have such a distinguished and highly qualified group of volunteer advisors actively engaged in overseeing our investment management activities. The university and its stakeholders benefit immeasurably from the IC members' insights, experience and wise counsel.

Members

David Denison (Co-Chair)
A corporate director with extensive experience in the financial services industry, Mr. Denison served as President and CEO of the Canada Pension Plan Investment Board from 2005 to 2012. He was previously President of Fidelity Investments Canada. He also sits on the boards of Hydro One (as Chair), Royal Bank of Canada and BCE.

Geoff Matus (Co-Chair)
A co-founder (in 1988) of Tricon Capital Group, Mr. Matus remains on the company's board, serving as Chair of the Executive Committee and as a member of the Investment Committee. He is also Chair and co-founder (in 1998) of Cidel, a global financial services group, and Chair of The TEAM Companies, an international payroll provider serving the entertainment industry. In addition, he is on the board of the MaRS Discovery District, chairing the Real Estate Committee.

Brent Belzberg
Mr. Belzberg is the founder and Senior Managing Partner of TorQuest, a private equity firm based in Toronto. He is also the Chair of the Board of the Sinai Health System.

Heather A. T. Hunter
Retired after nearly 40 years in the investment industry, Ms. Hunter most recently served as VP and Head of Canadian Equities at Invesco, a global investment manager.

Craig Rimer
The Chief Executive Officer of Cidel Bank Canada, Mr. Rimer is also Chairman of Cidel Asset Management.

The University of Toronto's President and its Chief Financial Officer, as well as the Chair of UTAM's Board of Directors, are ex officio observers of the IC.

Brian Lawson, a founding IC member, stepped down in 2017. We're grateful for the investment expertise he generously shared with UTAM over many years.

BEHIND THE NUMBERS

How is UTAM governed and managed?

Other U of T Oversight

UTAM'S RELATIONSHIP with the University of Toronto is governed by a formal delegation of authority, which empowers us to act as the university's agent, and by an investment management agreement specifying the services to be provided by UTAM. Within that framework, we collaborate formally and informally with many areas of the university administration. We value this mutually supportive relationship and continue to reinforce our commitment to the university and its stakeholders.

University Administration

We typically meet with U of T's Chief Financial Officer every two weeks, and with the President quarterly. We work closely with the university's Financial Services Department, collaborating on cash and expense management, stakeholder reporting, various audits of the university's investment assets, and other aspects of UTAM's operations.

Business Board

Established by the university's Governing Council, the Business Board approves investment risk tolerance and return targets for the Endowment and EFIP portfolios, delegating approval of asset allocation to U of T's President, who in turn relies on the advice of the Investment Committee. UTAM reports to the Business Board on the management and performance of all portfolios every six months.

Pension Committee

We report regularly to the Pension Committee, which is responsible for approving investment risk tolerance, return targets and the policy asset allocation (i.e., the Reference Portfolio) for the Pension portfolio, guided by the recommendations of the university administration.

UTAM Compliance

Investment Compliance

Consistent with our fiduciary duty, as well as our obligations as a Portfolio Manager registered with the Ontario Securities Commission, UTAM has developed a comprehensive program to ensure compliance with applicable regulations, client investment restrictions and internal guidelines. Our Chief Compliance Officer works closely with UTAM's President and CIO, and she reports regularly to our Board of Directors.

Code of Ethics

UTAM's Code of Ethics, administered by our Chief Compliance Officer, sets out clear standards of professional behaviour and guides how we manage actual and potential conflicts of interest. All employees have an obligation to:

- place the interests of UTAM's client first
- protect confidential information
- avoid taking inappropriate advantage of their positions (adhering, for example, to stringent policies on personal trading, as well as on the acceptance of gifts and entertainment).

“

It’s satisfying to work as a team to solve difficult challenges, but the real satisfaction comes from what we enable others to do. I am keenly aware that the financial foundation UTAM is entrusted to build ultimately helps to advance scientific research, or produce medical breakthroughs, or reveal new insights in the humanities. At the same time, we help to protect the retirement of university employees so they can reap the benefits they deserve after years of dedication and hard work. We feel the weight of this responsibility in our daily decision-making.”

Lisa Becker
Chief Operating Officer
and Chief Compliance Officer

Lisa Becker

As Chief Operating Officer and Chief Compliance Officer, Lisa is responsible for UTAM's investment operations, operational due diligence and all aspects of legal review and compliance. She also oversees our day-to-day business operations, including corporate services such as finance, human resources and information technology. As well, she serves as our Chief Privacy Officer, among other designated regulatory roles. Previously, Lisa provided compliance consulting and project management services to institutional investment advisory and portfolio management firms. A Fellow of the Institute of Chartered Accountants in England & Wales, she holds an Honours BA in Accounting from the University of Kent.

UTAM Operations

In addition to overseeing matters of compliance, taxation, legal reviews and operational due diligence, UTAM's Operations team – led by the Chief Operating Officer – manages all investment operations, including the execution of transactions and the payment of portfolio fees and expenses. The team is also responsible for ensuring that official investment books and records for the Pension, Endowment and EFIP portfolios are accurately maintained by the university's appointed custodian. Operations staff work closely with their investment and risk colleagues within UTAM, as well as with the university's Financial Services Department and key external service providers.

BEHIND THE NUMBERS

How is performance evaluated?

UTAM's performance in managing the Pension and Endowment portfolios is evaluated in relation to an agreed-upon benchmark: the Reference Portfolio, which reflects the risk and return objectives of the Pension and Endowment portfolios. The Reference Portfolio provides an objective yardstick to measure the value gained or lost by UTAM's active management activities.

THE REFERENCE PORTFOLIO is developed jointly by UTAM management and the Investment Committee. It is then recommended to the university administration, which must approve its use for the Endowment portfolio and recommend its adoption for the U of T pension plan – subject to approval by the Pension Committee.

Design Features of the Reference Portfolio

The benchmark Reference Portfolio must have the following characteristics:

1. Should reflect the risk and return objectives of the Pension and Endowment portfolios.
2. Simple asset mix – public market asset classes only.
3. Passive investing approach – no active strategies.
4. Easy to implement – no need for a large investment team.
5. Low cost – can be deployed without significant expense.

The current Reference Portfolio consists of 60% equity exposure and 40% fixed income exposure. The equity exposure is further divided into allocations to five categories: Canadian, US, International Developed Markets, Emerging Markets and Global. The fixed income exposure is split between Canadian Corporate Bonds and Canadian Government Bonds. Please see Table 1 below.

Asset Mix

Table 1 shows the asset class weights for the Pension, Endowment and Reference portfolios as of December 31, 2017. We calculate the weights on an exposures basis, meaning they reflect the economic exposure of any derivative instruments that may be used to maintain an asset class exposure at the desired weight. We believe that this reporting method most accurately represents the asset class exposures and risks of the investment portfolios.

It should also be noted that the asset class weights in Table 1 reflect the impact of mapping investments not in the Reference Portfolio – for instance, private equity and hedge funds – to the most appropriate asset class within the Reference Portfolio.

Table 1 – Pension and Endowment Asset Mix Compared to the Reference Portfolio

Reference Portfolio Asset Class	Benchmark	Reference Portfolio Weight	Pension Weight	Endowment Weight
Equity		**60.0%**	**59.8%**	**59.8%**
Canadian Equity	S&P TSX Composite Total Return Index	10.0%	10.0%	10.0%
US Equity	S&P 500 Total Return Index (50% hedged to Canadian dollars)	20.0%	20.0%	20.0%
International Developed Markets Equity	MSCI EAFE Net Total Return Index (50% hedged to Canadian dollars)	15.0%	14.9%	14.9%
Emerging Markets Equity	MSCI Emerging Markets Net Total Return Index	10.0%	9.9%	9.9%
Global Equity	MSCI ACWI Net Total Return Index	5.0%	5.0%	5.0%
Fixed Income		**40.0%**	**40.2%**	**40.2%**
Canadian Corporate Bonds	FTSE TMX Canada All Corporate Bond Total Return Index	20.0%	20.1%	20.1%
Canadian Government Bonds	FTSE TMX Canada All Government Bond Total Return Index	20.0%	20.1%	20.1%

Please note that due to rounding in the table above and other tables in this report, some totals may not add up precisely, and some values may differ from the results of simple subtraction.

BEHIND THE NUMBERS

How much flexibility do we have?

Although the Reference Portfolio includes only public market asset classes, UTAM has the flexibility to invest in other asset classes and strategies. However, this freedom is tightly controlled, monitored and reported on; any deviations from the Reference Portfolio asset classes are subject to the relevant plan documents and require explicit permission from the Investment Committee.

OUR DECISIONS WITH REGARD TO THE Endowment and EFIP portfolios are governed by our investment management agreement with the university and the University Funds Investment Policy. Pension investments are managed in accordance with the Pension Statement of Investment Policies and Procedures.

We have the flexibility to deviate from the target Reference Portfolio asset class weights for Pension and Endowment, but the actual weights must be within the allowable bands – that is, within 5% for each equity asset class; within 10% for all equity asset classes combined; and within 10% for each fixed income asset class.

In addition to the above, we must adhere to various liquidity, concentration and rebalancing constraints.

Last but by no means least, UTAM's investment decisions are framed by a rigorous risk management process and a formal risk budget – as detailed in the next section of this report.

“The strong performance UTAM has generated reflects the strength of the team we’ve put in place. Our focus has been on building a world-class investment team that executes rigorous – and repeatable – processes. Equally important is our open and collaborative approach; we welcome good ideas from anyone in the firm as we tackle challenges and pursue opportunities together. As with all successful organizations, everything begins and ends with people.”

Daren M. Smith
President and
Chief Investment Officer

Daren M. Smith

UTAM's President and Chief Investment Officer since 2016, Daren is responsible for all aspects of the business. Previously he led the Investment team, which oversees manager selection and monitoring, as well as portfolio construction. Prior to joining UTAM in 2008, Daren was a partner and senior member of the investment team at Keel Capital, which managed the assets for a Nova Scotia-based pension plan. Earlier in his career, he held actuarial positions at Sun Life Financial and Maritime Life. Daren has a BSc in Actuarial Science from Western University, an MSc in Statistics from the University of British Columbia and an MA in Economics from McMaster University. A fellow of both the Society of Actuaries (FSA) and the Canadian Institute of Actuaries (FCIA), he also holds the Chartered Financial Analyst (CFA), Chartered Alternative Investment Analyst (CAIA) and Financial Risk Manager (FRM) designations.

BEHIND THE NUMBERS

How do we assess and manage risk?

The Reference Portfolio is designed to reflect the university's long-term return objective and risk appetite for the Pension and Endowment assets. Taking into account all other formal constraints, as well as our focus on responsible investing, we make investment decisions with the goal of achieving returns (after fees and expenses) that exceed those of the Reference Portfolio.

RISK IN THE PENSION AND ENDOWMENT portfolios is determined by the asset class mix specified by the Reference Portfolio, along with any incremental risk arising from decisions made by UTAM or the investment managers that we oversee. Our investment risk management framework is anchored by three components focusing on market, concentration (including credit and counterparty) and liquidity risks. Each outlines the specific risk levels that UTAM operates within. The actual risk limits, such as the active risk budget, are set by various groups, including the university administration, the Investment Committee and the Pension Committee; they are subsequently incorporated into our processes to ensure that any risk we assume to earn returns in excess of the Reference Portfolio is managed in a thoughtful and efficient manner. To that end, we manage the risk of the Pension and Endowment portfolios against the university's specified active risk budget and incorporate several limits on exposure, concentration and liquidity.

A Comprehensive Risk Management Process

Market Risk

UTAM identifies, measures and monitors a variety of risks using a third-party holdings-based risk system. We begin by loading all available investment holdings from our managers into the system. Where positions are not available, we use a variety of techniques to incorporate relevant risk exposures. For private investments, we develop a public market proxy that reflects the key risk drivers of the private positions.

Once we populate the system with actual holdings and proxies, we measure active and total portfolio risk, and we identify specific risk contributions by asset class, investment strategy and investment manager. We monitor the exposures of the Pension and Endowment portfolios to different sectors, geographical regions and credit-rating categories. (For the EFIP portfolio, we apply other risk monitoring and measurement techniques appropriate to those holdings.) We also assess the highest risk concentrations among individual issuers across a variety of categories. We estimate sensitivity to potential changes in particular markets, along with the impacts of shifts in interest rates, credit spreads and foreign exchange rates. And lastly, drawing on all of these interrelated layers of data, we run simulations to calculate the possible effects of severe global market downturns. Our analysis provides insights into overall risk exposures and identifies specific markets and factors to which the portfolios are most vulnerable. This in turn informs our decision-making on how these risks should be managed going forward.

Risk is not static. It's on a continuum that takes in how things were, what they're like now and where they may go next. You can measure risk, and we use sophisticated analysis to do that. But equally critical is how we then use that information in managing our risk exposures. We look at markets and decide how we can make a portfolio more robust to avoid as many pitfalls as possible – while recognizing that you always have to assume some degree of risk to earn a mea ningful return."

Doug Chau
Chief Risk Officer
and Head of Research

Doug Chau

As Chief Risk Officer and Head of Research, Doug chairs the Management Investment Risk Committee and is responsible for asset allocation modelling, risk management and measurement, investment-related research and performance analysis. Prior to joining UTAM, he held a series of roles in risk management and research at OPTrust, which manages one of Canada's largest pension funds. Doug earned a PhD in Finance from the EDHEC Business School, an MSc in Finance from the University of Reading, and an MSc in Statistics and a BSc in Mathematics from the University of Toronto. He also holds the Chartered Financial Analyst (CFA), Professional Risk Manager (PRM) and Certificate in Quantitative Finance (CQF) designations.

BEHIND THE NUMBERS

How do we assess and manage risk?

We compare the various risk measures developed for the Pension and Endowment portfolios against our benchmark Reference Portfolio, which we model alongside them at the individual security level. We conduct this process monthly with updated holdings, gaining a detailed picture of active risk across the portfolios over time. Through constant measurement and monitoring, we're able to better manage risk associated with specific investment decisions on both a relative and an absolute basis, which enables us to make well-informed investment decisions.

Liquidity and Counterparty Risk

We've developed a system that models the potential liquidity needs of the Pension and Endowment portfolios under stressed market conditions. This helps ensure that adequate cash and other sources of liquidity are available to meet all liquidity needs over an extended period. The same modelling analysis ensures that we can, if necessary, rebalance the Pension and Endowment portfolios to align with the target asset class weights of the Reference Portfolio.

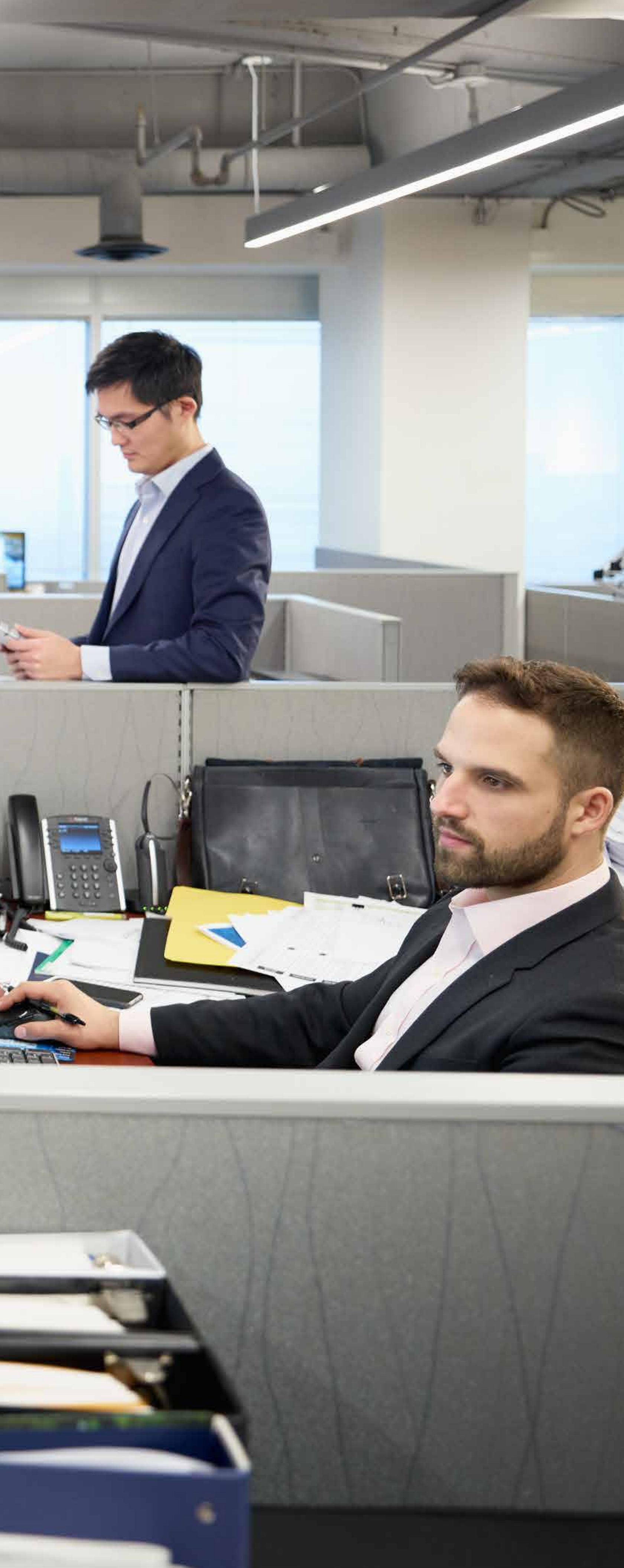
The Pension and Endowment portfolios have credit exposures to individual counterparties through security holdings in the equity and bond markets. We also generate credit exposure through our use of derivatives, which are mainly used to hedge foreign exchange exposures and to rebalance our portfolios back to the target asset class weights of the Reference Portfolio. We establish fixed limits for individual counterparties that we monitor regularly. These limits ensure that the portfolios are not overexposed to negative shocks from any single counterparty.

Deeper Analytical Insights

The Investment Committee and the university administration view these active risk, liquidity and counterparty limits as sufficient to give UTAM the flexibility to achieve our value-added objectives – but not so large that they could put the portfolios at undue risk of significant underperformance relative to the Reference Portfolio.

From our perspective, highly disciplined risk management is critical. But it's just one facet of a mandate that's defined by a range of commitments and constraints, from the balance of equities and fixed income in the Reference Portfolio to UTAM's adoption of responsible investing principles. Indeed, as detailed in our 2016 Responsible Investing Report, we now consider ESG risks more systematically in our evaluation of investment managers. Through a mix of analytics, research and consultation, we're able to gain a better understanding of ESG risks across our portfolios.

In every area of risk assessment, as we analyze data on underlying positions and historical returns, we gain deeper insights into our investment managers. It's a constant learning process that starts right from the initial due diligence component of our manager selection process – as we discuss in the next section.



One of UTAM's core competencies is manager evaluation and selection. Our Investment team follows – and constantly seeks to improve – a disciplined and rigorous process to identifying, vetting and monitoring investment managers.

BEHIND THE NUMBERS

How do we select and monitor our managers?

Active vs. Passive

An important part of our manager selection process is determining whether to invest with an active manager or to invest passively. Our default position is to invest passively at the lowest possible cost. In other words, we only pursue active management when we have a high level of conviction that a specific investment manager's approach will outperform passive investment alternatives (net of all fees and costs) over time. As a consequence, a significant proportion of the Pension and Endowment portfolios is invested in passive strategies aimed at replicating various well-established market indices.

Sourcing and Assessing Managers

UTAM evaluates hundreds of investment managers every year. Key sourcing methods include searching industry databases, attending conferences, responding to inbound inquiries from managers, tapping into our professional networks and drawing on the knowledge and experience of the UTAM team. The initial screening process consists of reviewing the manager's marketing materials, and in some cases running a quantitative analysis of returns, to quickly determine if there is a potential fit. If there's still interest after the first pass, we request a call or meeting with the manager to better understand the organization and investment team, their investment philosophy and strategy, the level of transparency they are willing to provide and the firm's fee structure. When a manager seems potentially well matched to our investment beliefs and objectives, we conduct more in-depth research and analysis.

Investment Due Diligence

For managers who make it to this stage of the process, we focus on the five P's: people, philosophy, process, performance and portfolio fit. We also look at the alignment of interests between the investment manager and our client, and the manager's responsible investing capabilities. This analysis includes both a qualitative assessment of the manager's organization and its people, and a quantitative review of historical portfolio holdings and/or returns.

As an institutional investor, we expect a great deal of transparency from potential and current managers – far more than a typical individual investor would receive. This level of transparency is necessary for UTAM's team to effectively evaluate active managers. For example, in reviewing their public equity strategies, managers typically provide historical month-end holdings. Using sophisticated analytical tools, we produce reports detailing performance attribution; factor exposures (e.g., value, growth, momentum) and their contribution to return; risk exposures; ESG scores, including carbon footprints; sector and country exposures; the trading history of each position; and more. This information helps us better understand the manager's investment process and allows us to ask more targeted questions when interviewing the manager's investment team about their strategies.

At UTAM, we believe that leveraging quantitative tools, while essential for a best-in-class manager selection process, is not sufficient on its own. We therefore complement our rigorous quantitative insights with qualitative judgment and experience, working as a team to make optimal manager choices that we expect will benefit our client over the long term.

BEHIND THE NUMBERS

How do we select and monitor our managers?

Operational Due Diligence

Once there is a reasonable probability that the Investment team will recommend investing with a particular manager, we conduct a similarly rigorous review of the firm's business operations. Factors we examine include ownership and management structure; the experience and competence of key operational personnel; the soundness of operational processes; the manager's compliance and control environment, including conflicts of interest; other formal policies and procedures; and relationships with external service providers. We also look at the firm's cash management practices, compliance track record, information systems, cybersecurity measures and business continuity planning, among other operational dimensions.

In short, we must be confident that a manager not only offers a promising investment opportunity but also operates a sound, well-run business. This is crucial for us: should a prospective manager's operations not meet our standards, UTAM's Operational Due Diligence team has a right of veto over the investment.

Risk Analysis

Before any funds are allocated to a manager, our Risk and Research team calculates the expected risk contribution of the potential new investment. Armed with this comprehensive analysis, we can make more informed decisions about prospective managers and strategies, focusing on those that offer the highest expected return for the amount of risk involved.

Manager Recommendation

All allocations must be approved by UTAM's Management Investment Committee. To help the Committee evaluate potential allocations, formal Investment Due Diligence (IDD) and Operational Due Diligence (ODD) reports are prepared by the Investment team and the Operational Due Diligence team, respectively. The IDD report, a detailed account of the IDD process and findings, including a section on responsible investing, can range from 50 to more than 150 pages. The ODD report describes the review undertaken and its findings, and also includes a detailed account of key operational risks and mitigations (if any). It concludes with a recommendation to the Management Investment Committee and a list of any operational improvements identified as necessary conditions for investment. After reviewing and discussing both reports, the voting members of the Committee decide whether to approve the allocation.

Ongoing Monitoring

After an investment has been made, the Investment team typically has touchpoints at least quarterly with each manager. The focus of the monitoring process remains on the five P's and responsible investing considerations. The process includes an assessment of realized performance, taking into account the market environment and how we expected the manager to perform in that environment. We also conduct regular reassessments of operational risk to consider any relevant changes.

For UTAM, choosing to work with an investment manager is not a one-time decision – it's a continuous process of analysis, evaluation, dialogue and renewal.

“

The high-calibre investment managers we select as partners realize that the point of our due diligence process isn’t just to create work and make their lives difficult. They know that if we understand their investment strategy and process inside out, we’ll be better positioned to stick with them even during challenging periods – and to deliver the best possible value to our client over the long term.”

Chuck O’Reilly
Senior Portfolio Manager,
Investments

Chuck O'Reilly

Chuck plays a key role in manager selection and monitoring for our public equity portfolios covering Canada, EAFE (Europe, Australasia and the Far East), as well as our emerging markets and global equity portfolios. He is also responsible for portfolio construction and investment strategy within these portfolios. Prior to joining UTAM, Chuck spent more than a decade at Ontario Power Generation as part of the team overseeing pension and nuclear fund investments. He holds a BComm from Queen's University, as well as the Chartered Financial Analyst (CFA) and Chartered Alternative Investment Analyst (CAIA) designations.

BEHIND THE NUMBERS

How did the portfolios perform in 2017?

Pension and Endowment Performance

The investments we manage on behalf of the University of Toronto realized strong returns in 2017. The Pension and Endowment portfolios both generated a return of 12.4% (net of all fees and expenses). This was significantly above the university's target return of 5.8% and exceeded the Reference Portfolio return of 11.4%.

FOR THE FIVE-YEAR PERIOD ending December 31, 2017, the Pension portfolio returned 10.9% annualized, while the Endowment portfolio returned 11.0%. Both results are well above the university's target return of 5.5%. Over the same five-year period, the Pension portfolio outperformed the Reference Portfolio by 2.2% annualized, and the Endowment portfolio outperformed the Reference Portfolio by 2.3%, resulting in more than $600 million in value added for the two portfolios combined.

Over the 10 years ending in 2017 – a period that includes the global financial crisis – the Pension and Endowment portfolios underperformed the university's target return by 1.4% and 1.3% respectively on an annualized basis. However, in this same period, the Pension and Endowment portfolios outperformed the Reference Portfolio by 0.4% and 0.5% respectively, resulting in more than $400 million in value added for the two portfolios combined.

Table 2 – Pension and Endowment Performance

	2017		5-Year Annualized 2013–2017		10-Year Annualized 2008–2017	
	Pension	Endowment	Pension	Endowment	Pension	Endowment
University Target Return	5.8%	5.8%	5.5%	5.5%	5.6%	5.6%
Reference Portfolio Return	11.4%	11.4%	8.7%	8.7%	3.8%*	3.8%*
Actual Net Return	12.4%	12.4%	10.9%	11.0%	4.2%	4.3%
UTAM Value Added (%)	1.0%	0.9%	2.2%	2.3%	0.4%	0.5%
UTAM Value Added ($Millions)**	**44**	**24**	**376**	**249**	**252**	**164**

* The Reference Portfolio was adopted by the Endowment portfolio in March 2012 and by the Pension portfolio in May 2012. The Benchmark/Policy Portfolio was used for prior periods.

** All dollar-value-added calculations in this table and throughout the report are based on the percentage value added in each year multiplied by the asset level as of the beginning of the year. Multi-year values are the simple sum of single-year values.

Reference Portfolio Performance

Capital markets experienced a very good year in 2017. Equity investments generated outsized returns, with US equities rising by over 20% and Emerging Market equities rising by an even more impressive 37%. Canadian equities lagged most global equity markets but still posted a respectable 9% return. Fixed income markets also generated positive returns, albeit with far more muted returns than equity markets. Canadian investment-grade corporate credit (Canadian Corporate Bonds) returned 3.4% in 2017, while Canadian Government Bonds returned 2.2%. The Reference Portfolio, which consists of a combination of public equity and fixed income allocations, returned 11.4% in the year.

Pension and Endowment Performance by Asset Class

As shown in Tables 3 and 4, it was a challenging year for active management in equities, with three of five equity portfolios underperforming the benchmark. This underperformance was primarily due to private equity allocations. With public equities generating outsized returns, it was difficult for private managers to keep pace.

The global equity portfolio performed in line with its benchmark. The one standout was the International Developed Markets Equity portfolio, which outperformed its benchmark (MSCI EAFE) by 5.9% in Pension and 5.7% in Endowment. There is very little private exposure in this portfolio, and the public managers are split between those with broad-based EAFE mandates and those that pursue country/regional mandates. This portfolio has been a consistent source of added value over the past five years.

The fixed income portfolios had a very strong year in 2017. The Canadian Corporate Bonds portfolio outperformed by 3.6% in Pension and by 3.9% in Endowment, while the Canadian Government Bonds portfolio outperformed by 2.2% in Pension and 2.4% in Endowment.

Looking in more detail at the Canadian Corporate Bonds portfolio, it's important to note that the Pension and Endowment investments in this category include more than just Canadian Corporate Bonds; the portfolio also comprises credit long/short hedge funds, commercial real estate debt, direct lending strategies, non-performing loans and other non-traditional credit-related strategies. For traditional, long-only active credit managers focused on the Canadian investment-grade corporate space, it is difficult to outperform (after fees) a benchmark consisting of 100% corporate credit. For that reason, we only invest with one traditional active manager in this area; the rest of the portfolio is managed passively to match the benchmark, or is invested in non-traditional credit strategies such as those previously mentioned.

Table 3 – 2017 Pension Performance by Asset Class

Reference Portfolio Asset Class	Assets ($Millions) Dec. 31, 2017	Pension Return	Benchmark Return	Value Added
Equity				
Canadian Equity	498	7.1%	9.1%	-2.0%
US Equity	995	19.9%	21.8%	-1.9%
International Developed Markets Equity	745	21.2%	15.2%	5.9%
Emerging Markets Equity	495	34.6%	37.3%	-2.7%
Global Equity	248	24.0%	24.0%	0.0%
Fixed Income				
Canadian Corporate Bonds	1,001	7.0%	3.4%	3.6%
Canadian Government Bonds	1,004	4.4%	2.2%	2.2%
Total Plan	**4,987**	**12.4%**	**11.4%**	**1.0%**

Please refer to the footnote at the bottom of Table 4 on the next page.

BEHIND THE NUMBERS

How did the portfolios perform in 2017?

Table 4 – 2017 Endowment Performance by Asset Class

Reference Portfolio Asset Class	Assets ($Millions) Dec. 31, 2017	Endowment Return	Benchmark Return	Value Added
Equity				
Canadian Equity	292	6.4%	9.1%	-2.7%
US Equity	584	19.8%	21.8%	-2.0%
International Developed Markets Equity	437	20.9%	15.2%	5.7%
Emerging Markets Equity	291	34.2%	37.3%	-3.1%
Global Equity	145	24.9%	24.0%	1.0%
Fixed Income				
Canadian Corporate Bonds	588	7.3%	3.4%	3.9%
Canadian Government Bonds	589	4.5%	2.2%	2.4%
Total Plan	**2,927**	**12.4%**	**11.4%**	**0.9%**

All returns are in local currency except for Emerging Markets and Global Equities, which are in US dollars. Values and returns within the Reference Portfolio reflect the impact of mapping asset classes and strategies not in the Reference Portfolio to the most appropriate asset classes. For example, Canadian Government Bonds includes $367 million of absolute-return hedge fund strategies in the Pension portfolio and $226 million in the Endowment; their impact is reflected in the reported returns for this asset class.

As with the Canadian investment-grade corporate space, we believe it is difficult for active managers investing solely in Canadian Government Bonds to outperform the benchmark net of fees. We therefore do not use any active traditional managers with Canadian Government Bond mandates. Instead, we invest passively for a significant portion of this portfolio; for the remainder, we invest in a highly customized portfolio of absolute-return hedge fund managers – which, by their nature, are not expected to have material market sensitivity (i.e., beta) to equity markets over time. Over the seven years that we've been running this strategy, the realized beta to all five Reference Portfolio equity asset classes has been close to zero.
In 2017, the absolute-return portfolio generated a return of 6.5% in Pension and 6.7% in Endowment; this drove most of the outperformance in the Canadian Government Bonds category.

As mentioned earlier in this report, our default position is to invest passively in a given space unless we have a strong conviction that an active management approach will add value after all fees and expenses. Therefore, while outperformance in 2017 was driven by three portfolios, we would expect to add value in all seven of the Reference Portfolio asset classes over time. We look forward to demonstrating this in the years ahead.

EFIP Performance

The objectives of the Expendable Funds Investment Pool (EFIP), as established by the University of Toronto, are to generate a stable and consistently positive return, with minimal risk to capital. While there is no Reference Portfolio for EFIP, the university has set a target return equal to the return of one-year Canadian treasury bills plus an additional 0.5% per annum. Unlike the Pension and Endowment portfolios, EFIP does not have an active risk limit, as the portfolio's strategy of investing in liquid, highly rated securities is the primary means of controlling risk.

In a capital markets environment that continues to be characterized by low interest rates and a relatively flat yield curve, the university's target return for EFIP represents a challenging objective. Despite this environment, the portfolio returned 1.5% (net of all fees and expenses) in 2017, outperforming the target return by 0.8%. Over the past five years, the portfolio returned 1.6% annualized, outperforming the target return by 0.3%. It generated 1.8% annualized over the past 10 years, underperforming the target return by 0.1%.

Table 5 – EFIP Performance

	2017	5-Year Annualized 2013–2017	10-Year Annualized 2008–2017
University Target Return	0.8%	1.3%	2.0%
Actual Net Return	1.5%	1.6%	1.8%
UTAM Value Added (%)	**0.8%**	**0.3%**	**-0.1%**

Table 6 shows EFIP investment exposures at year-end, as well as 2017 returns by investment category and for the overall portfolio. As the table indicates, 77.7% of EFIP was invested in cash and cash equivalents, which mainly consists of deposits with Canadian financial institutions. The remaining 22.3% of EFIP exposure was allocated to investment-grade short-term bonds and floating-rate notes. During the year, all three investment categories outperformed the portfolio's target return.

Table 6 – EFIP Performance by Investment Category

Investment Category	Weight Dec. 31, 2017	2017 Return
Cash and Cash Equivalents	77.7%	1.5%
Short-Term Bonds	11.4%	1.2%
Floating-Rate Notes	10.9%	1.9%
Total	**100%**	**1.5%**

BEHIND THE NUMBERS

How do we see the year ahead?

The role of an asset manager is to take the long view. For UTAM, that means adhering to our proven processes and our disciplined approach to manager selection within a comprehensive risk framework – while securing a solid foundation for one of the world's leading universities and its current and future retirees. As we foresaw in our last annual report, there will likely be more economic challenges ahead than we've faced in recent years.

IN THE YEAR AHEAD, we'll continue to enhance our investment and risk management systems, processes and analytical expertise, reinforcing the rigour that has become a UTAM hallmark. At the same time, our sharpened focus on responsible investing has yielded new sources of ESG insights and led to fruitful collaborations with like-minded investors globally. That momentum is evident in our second Responsible Investing Report, which will be published shortly after this annual report.

UTAM's active management approach continues to produce added value for the University of Toronto's investment portfolios and their diverse beneficiaries. We believe that we have the right systems, processes, governance and – most importantly – talented people in place to continue delivering results that outperform the Reference Portfolio.

This annual report and the Responsible Investing Report are part of a broader suite of print and web-based materials that reflect our commitment to clear, timely and transparent communications. Maintaining an open dialogue with the University of Toronto and the wider community of UTAM stakeholders is vital to our collective success. If you have any questions for our team or comments you'd like to share, please contact us at feedback@utam.utoronto.ca.

FINANCIAL STATEMENTS

December 31, 2017

University of Toronto Asset Management Corporation

FINANCIAL STATEMENTS

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, 2017 and 2016, 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 audits 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.

Independent Auditors' Report CONT'D

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, 2017 and 2016, 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 9, 2018

Chartered Professional Accountants
Licensed Public Accountants

FINANCIAL STATEMENTS

Statements of financial position

As at December 31

	2017	2016
Assets	**$**	**$**
Current		
Cash	**52,263**	218,377
Due from University of Toronto *[notes 6[a] and [e]]*	**481,416**	—
Accounts receivable	**23,440**	34,842
Realty taxes recoverable	**44,104**	—
Prepaid expenses	**94,594**	131,358
Total current assets	**695,817**	384,577
Capital assets, net *[note 4]*	**1,031,079**	1,146,960
Total assets	**1,726,896**	1,531,537
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities	**319,447**	263,423
Due to University of Toronto *[notes 6[a] and [e]]*	**—**	80,188
Total current liabilities	**319,447**	343,611
Deferred capital contributions *[note 5]*	**1,031,079**	1,146,960
Deferred incentive bonuses *[note 6[f]]*	**290,954**	—
Deferred lease costs	**85,416**	40,966
Total liabilities	**1,726,896**	1,531,537
Net assets	**—**	—

See accompanying notes

On behalf of the Board:

Director

Director

FINANCIAL STATEMENTS

Statements of net income, comprehensive income and changes in net assets

Years ended December 31

	2017	2016
Expenses *[note 6]*	$	$
Staffing	**5,879,906**	6,480,323
Consulting fees	**416,460**	155,714
Communications and information technology support	**361,986**	414,959
Occupancy	**273,996**	243,680
Travel	**183,533**	113,872
Professional fees	**180,888**	143,479
Amortization of capital assets	**159,032**	59,595
Office supplies and services	**78,844**	112,998
Moving costs	**3,774**	39,259
Total expenses	**7,538,419**	7,763,879
Recoveries and other income		
Recoveries from University of Toronto *[note 6]*	**7,379,387**	7,704,284
Amortization of deferred capital contributions *[note 5]*	**159,032**	59,595
Total recoveries and other income	**7,538,419**	7,763,879
Net income and comprehensive income for the year	**—**	—
Net assets, beginning of year	**—**	—
Net assets, end of year	**—**	—

See accompanying notes

FINANCIAL STATEMENTS

Statements of cash flows

Years ended December 31

	2017	2016
Operating activities	**$**	**$**
Net income and comprehensive income for the year	—	—
Add (deduct) items not involving cash		
Amortization of capital assets	**159,032**	59,595
Amortization of deferred capital contributions	**(159,032)**	(59,595)
Deferred incentive bonuses	**290,954**	—
Deferred lease costs	**44,450**	40,966
Net change in non-cash working capital balances related to operations		
Due to/from University of Toronto	**(561,604)**	226,032
Accounts receivable	**11,402**	(34,842)
Realty taxes recoverable	**(44,104)**	—
Prepaid expenses	**36,764**	(32,036)
Accounts payable and accrued liabilities	**56,024**	(306,037)
Cash used in operating activities	**(166,114)**	(105,917)
Investing activities		
Purchase of capital assets	**(43,151)**	(1,181,513)
Cash used in investing activities	**(43,151)**	(1,181,513)
Financing activities		
Deferred capital contributions to fund purchase of capital assets	**43,151**	1,181,513
Cash provided by financing activities	**43,151**	1,181,513
Net decrease in cash during the year	**(166,114)**	(105,917)
Cash, beginning of year	**218,377**	324,294
Cash, end of year	**52,263**	218,377

See accompanying notes

FINANCIAL STATEMENTS

Notes to financial statements

December 31, 2017 and 2016

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 in Ontario. UTAM is domiciled in the Province of Ontario, Canada and its registered office address is at 777 Bay Street, Suite 2502, Toronto, Ontario, Canada.

UTAM was formed by the University of Toronto ["U of T"] to engage in professional investment management activities in order to manage the investment assets of U of T, which currently comprise its Endowment Fund, Expendable Fund and Pension Plan, 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 9, 2018.

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 Fund, Expendable Fund and Pension Plan, through a formal delegation of authority and investment management agreement between UTAM and U of T.

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.

Notes to financial statements

December 31, 2017 and 2016

3. Summary of significant accounting policies

Future accounting changes

[a] In July 2014, the International Accounting Standards Board ["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 changes with respect to an entity's own credit risk can be early applied in isolation without otherwise changing the accounting for financial instruments. UTAM has assessed the effect of adopting IFRS 9 and concluded there will be no impact.

[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 is currently reviewing the new standard to determine the effect on the financial statements.

[c] In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which replaces IAS 18, *Revenue*, and IAS 11, *Construction Contracts*, and the related interpretations on revenue recognition. IFRS 15 sets out the requirements for recognizing revenue that applies to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. It establishes a single, comprehensive framework for revenue recognition. This new standard is effective for UTAM's financial statements commencing January 1, 2018. UTAM has assessed the effect of adopting IFRS 15 and concluded there will be no impact.

UTAM will adopt these standards when they become effective.

Notes to financial statements

December 31, 2017 and 2016

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 endeavours 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.

FINANCIAL STATEMENTS

Notes to financial statements

December 31, 2017 and 2016

[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 exchange 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, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016.

[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, 2017 and 2016.

Notes to financial statements

December 31, 2017 and 2016

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
Audio-visual and communications equipment	5 years
Furniture	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.

FINANCIAL STATEMENTS

Notes to financial statements

December 31, 2017 and 2016

4. Capital assets

Capital assets consist of the following:

	Leasehold improvements	IT infrastructure equipment	Audio-visual and communications equipment	Furniture	Desktops and software	Total
	$	$	$	$	$	$
Cost						
Balance, January 1, 2016	474,318	88,706	—	—	86,291	649,315
Additions	841,735	206,741	56,805	64,403	11,829	1,181,513
Write-off of fully amortized capital assets	(474,918)	—	—	—	—	(474,918)
Balance, December 31, 2016	841,135	295,447	56,805	64,403	98,120	1,355,910
Additions	34,288	—	—	—	8,863	43,151
Balance, December 31, 2017	**875,423**	**295,447**	**56,805**	**64,403**	**106,983**	**1,399,061**
Accumulated amortization						
Balance, January 1, 2016	459,210	87,762	—	—	77,301	624,273
Amortization	29,032	20,003	1,893	2,147	6,520	59,595
Write-off of fully amortized capital assets	(474,918)	—	—	—	—	(474,918)
Balance, December 31, 2016	13,324	107,765	1,893	2,147	83,821	208,950
Amortization	84,797	41,597	11,361	12,881	8,396	159,032
Balance, December 31, 2017	**98,121**	**149,362**	**13,254**	**15,028**	**92,217**	**367,982**
Net book value						
Balance, December 31, 2016	827,811	187,682	54,912	62,256	14,299	1,146,960
Balance, December 31, 2017	**777,302**	**146,085**	**43,551**	**49,375**	**14,766**	**1,031,079**

FINANCIAL STATEMENTS

Notes to financial statements

December 31, 2017 and 2016

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:

	2017	2016
	$	$
Balance, beginning of year	**1,146,960**	25,042
Recoveries received during the year related to capital asset purchases	**43,151**	1,181,513
Amortization of deferred capital contributions	**(159,032)**	(59,595)
Balance, end of year	**1,031,079**	1,146,960

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, 2017, $481,416 is due from U of T as a result of the actual cost of operations exceeding reimbursements [2016 – $80,188 due to 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 2017, contributions of $255,860 [2016 – $229,805] 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 2017, these services totalled $49,051 [2016 – $39,371].

FINANCIAL STATEMENTS

Notes to financial statements

December 31, 2017 and 2016

[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. The lease agreement was extended commencing April 1, 2016 and ending December 31, 2016. An early termination option notice was filed ending the lease on October 31, 2016 as a result of the Governing Council entering into another lease with a term of ten years commencing December 1, 2016 for new premises occupied by UTAM. Under this lease, UTAM will incur annual expenses of approximately $169,000 over the term of the lease, which represents the minimum rent component of the lease obligations.

In addition to the above minimum rent payments, there are additional payments in respect of operating costs that are subject to change annually based on market rates and actual usage. These costs totalled $91,841 [2016 – $104,906] in 2017. 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 an incentive bonus plan whereby the majority of the incentive bonus payments were directly related to and, varied with, the actual performance of U of T's investment portfolios compared to a passive benchmark portfolio over two measurement periods. In addition, a portion of the bonus was deferred over a service period and paid at the end of that service period. The expense for deferred bonus awards was 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. This incentive bonus plan was terminated as at December 31, 2016 and replaced with a new incentive bonus plan commencing 2017. A portion of the 2016 deferred bonus awards was expensed in 2016 with the remaining amount, plus an adjustment for the performance of U of T's investment portfolios, recorded as an expense in 2017.

Commencing 2017, UTAM implemented a new incentive bonus plan, replacing the previous plan, whereby the majority of the incentive bonus payments continue to be directly related to and, vary with, the actual performance of U of T's endowment and pension investment portfolios compared to a passive benchmark portfolio over two measurement periods and, starting in 2018, over one measurement period. In addition, a portion of the incentive bonus is subject to mandatory deferral over a service period and paid at defined dates during that service period. The expense for deferred incentive bonus awards is recognized when paid out to employees that remain entitled to receive them and are remeasured at each applicable date as defined in the incentive bonus plan with remeasurement gains or losses recognized in net income. As a result, under the new incentive bonus plan, a portion of the 2017 incentive bonus awards is expensed in 2017, with the remaining deferred amounts, which could be as much as $238,504 and $477,008, plus an adjustment for the performance of U of T's endowment and pension investment portfolios, to be recorded as an expense in 2019 and 2020, respectively.

FINANCIAL STATEMENTS

Notes to financial statements

December 31, 2017 and 2016

Additionally, participants in the new incentive bonus plan have the irrevocable option to voluntarily defer receipt of all or part of their immediate awards in order to receive them at the same defined dates as applied to mandatory deferred awards. These voluntary deferrals are remeasured at each applicable date as defined in the incentive bonus plan with remeasurement gains or losses recognized in net income. As these voluntarily deferred awards vest immediately, they are expensed in the year in which they are earned and reflected as liabilities, adjusted by applicable remeasurement gains or losses during the deferral period, until paid. As at December 31, 2017, $290,954 in incentive bonuses have been voluntarily deferred under the new incentive plan.

[g] Transactions with key management personnel

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

	2017	2016
	$	$
Short-term employee benefits	**3,585,687**	4,737,004
Post-employment benefits	**223,763**	208,693
Other long-term benefits	**14,084**	332,760
	3,823,534	5,278,457

Short-term employee benefits include amounts related to the variable incentive bonus awards *[note 6[f]]* including in 2017 amounts that personnel have elected to voluntarily defer.

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, 2017, UTAM has met its objective of having sufficient liquid resources to meet its current obligations.

UTAM Staff

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UNIVERSITY OF TORONTO
ASSET MANAGEMENT CORPORATION

About UTAM

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 under the *Corporations Act* (Ontario) in Canada. UTAM is a non-profit organization under the *Income Tax Act* (Canada). At December 31, 2017, UTAM was registered with the Ontario Securities Commission as a Portfolio Manager.

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