University of Toronto
Asset Management Corporation

Annual Report

2019

The 20 Year Advantage

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20-year track record / Deep investment expertise / Cohesive and collaborative management team / Proven university asset manager / Leader in responsible investing

SINCE OUR FOUNDING IN 2000, UTAM HAS MANAGED the University of Toronto's Pension, Endowment and short-term financial assets with a consistent focus on creating sustainable value – not just year to year, but over the long term.

Looking back over two decades of serving the university's diverse stakeholders, we are gratified that UTAM's stewardship of the Pension and the Endowment has enabled new levels of critical support for the people and programs that continue to sustain the university's excellence, leadership and impact.

Over the same period, we are pleased to see all the ways that UTAM has grown and progressed: the deepening expertise across our organization; our systematic enhancement of processes and systems tailored to the priorities of university asset management; and our leadership in responsible investing, as we fully integrate environmental, social and governance (ESG) factors into our investment decision-making.

2019 Annual Report
Message from the Chair

Two decades of sustainability

The publication of this annual report coincides with the 20th anniversary of UTAM's founding. In April 2000, when the Governing Council of the University of Toronto made the decision to establish an independent asset management organization, it set the course for a new era. From that point forward, U of T's Pension, Endowment and short-term working capital funds would be managed by a dedicated group of investment professionals focused solely on the management of university assets.

THE LEGACY OF THE PAST TWO DECADES EXTENDS BEYOND THE performance of the university's portfolios. UTAM has emerged as a Canadian leader in university asset management, balancing technical expertise and prudent risk assessment with a firm grasp of the goals, priorities and aspirations of a global leader in higher education.

A model for our sector

One of the consistent themes running through UTAM's first 20 years – and the most relevant, as our world faces unprecedented economic, social and environmental challenges – is sustainability, which from our perspective has three distinct dimensions:

The first is financial sustainability. UTAM has always managed the university's assets with a view to the long term. We may see underperformance in a particular year, but we remain focused on the larger vision, carefully investing the assets under our stewardship to maintain U of T's financial strength and help ensure that Pension Plan members feel secure about the future.

The second dimension of sustainability directly supports the first: UTAM is a recognized leader in responsible investing. Today's investors, and indeed all stakeholders, expect enterprises to balance environmental, social and governance (ESG) factors in managing their operations and particularly to take meaningful action to address the impacts of climate change. We therefore place more weight than ever on ESG considerations in our investment analysis and decision-making. UTAM's formal support, on behalf of the University of Toronto, for the United Nations–supported Principles for Responsible Investment (PRI) dates from 2016. Our priorities are grounded in the university's longstanding commitment to responsibly managing all aspects of its operations – and to honouring the shared interests of its diverse stakeholders.

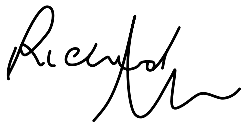
The third dimension of sustainability shifts the focus from the actions UTAM takes to the model we've built – and have strengthened through 20 years of evidence-based strategy and thoughtful execution. Drawing on a wealth of experience and specialized expertise, the leadership team is constantly revitalizing UTAM's approach to investment management, looking for ways to enhance processes, leverage new technologies and gain deeper analytical insights. The result is a time-tested approach – anchored by proven talent and a sound record of performance – that we believe can serve as a model for our sector. Higher-education institutions must think about investments not in terms of quarterly or annual results, but over a longer arc of years and even decades.

Continuity and momentum

Sustainability in its various dimensions requires strategy and planning, followed by systematic execution and measurement – all guided by disciplined oversight. In this last respect, the Board benefits immeasurably from the contributions of the university's Investment Committee, whose volunteer members, led by Co-Chairs David Denison and Geoff Matus, provide vital expertise and counsel in framing and overseeing UTAM's investment activities. I would like to personally thank David and Geoff for their leadership in this regard.

The Investment Committee's efforts complement those of the Board as we ensure that UTAM has developed the necessary investment management infrastructure and organizational resources to achieve our client's objectives. I'd like to thank my fellow Board members for their insights, practical advice and dedication to fulfilling the role entrusted to us. And on behalf of the Board, I want to express our appreciation for the continued strong performance of the entire UTAM team – and, in particular, for Daren's astute judgment and skilled leadership at the helm. All UTAM stakeholders can feel confident that the financial building blocks of our future are being carefully and capably managed.

UTAM's 20th anniversary is a noteworthy milestone. It's an opportunity to reflect on challenges tackled, goals met and lessons learned. But more importantly, it reinforces the continuity in all that we've achieved so far, and the momentum that will carry us forward. Because managing investments, by definition, is about building and securing the future. And our commitment to sustainability, in all of its dimensions, has never been more relevant – or more crucial.



Richard B. Nunn FCA, ICD.D
Chair, UTAM Board of Directors

UTAM's long-term advantage

UTAM has evolved significantly over the past 20 years – not only in the scale of our assets under management, but also in the capabilities we bring to investing the University of Toronto's Pension, Endowment and short-term working capital funds. Through two decades of experience, we've gained a wealth of knowledge and insights that we've incorporated into our investment and risk management processes.

WHEN I JOINED UTAM AT THE END OF 2008, THE GLOBAL FINANCIAL CRISIS was creating difficulties for investors everywhere. Working closely with the university's leadership, we conducted a thorough review of the portfolios under our management, along with all aspects of our investment approach. Since that time, we've progressively enhanced the rigour of our investment processes and the sophistication of our systems. We've also built a cohesive, collaborative team with highly specialized skills and deep experience. We're also mindful of the need to keep evolving. We're constantly looking for ways to improve further, so that we can continue to be one of the leaders in asset management for higher-education institutions.

Underpinning all of these activities is a deep sense of responsibility. More than 20,000 members of the University of Toronto Pension Plan – retired, active and deferred – look to UTAM to help ensure a secure and well-deserved retirement. The donors who have generously contributed to the Endowment expect us to maximize the value of their investment while following prudent risk management practices. And everyone in the U of T community, including students, faculty and staff, count on us to build and sustain the solid financial foundation required by a leading global centre of academic excellence and advanced research.

Weathering a global crisis

As we were preparing this report for publication, the COVID-19 pandemic struck, creating an unprecedented public health crisis and causing a sudden global economic downturn. The costs of this outbreak, human and socioeconomic, are being recalculated daily, and the full extent of its impact will not be clear for some time.

What we can say with confidence at this point is that UTAM has the strength, stability and adaptability to withstand the shock of a major downturn such as the one we're currently experiencing. And we can mitigate its near-term impact by adhering to an investment strategy focused on, and designed for, the long term. UTAM has three distinct advantages that we've developed to ensure resilience:

- **Our robust business continuity plan**
  The entire UTAM team transitioned quickly to working remotely, following well-planned protocols and processes – supported by flexible technologies – that ensure uninterrupted monitoring and management of the assets under our stewardship.

- **Our preparedness for unexpected events**
  We've spent many years developing and fine-tuning our risk management approach, as well as our policies on asset class exposures, concentration and liquidity. A large-scale challenge like the coronavirus pandemic underlines why it's critical to do this work in advance, building and testing the necessary infrastructure over time. While we could not have predicted the COVID-19 crisis, we were prepared, with robust processes and strategies designed with these types of events in mind.

- **Our diversified portfolios**
  We've built the Pension and Endowment portfolios for the long term, carefully balancing the mix of equity and fixed income investments, and implementing strategies to weather significant market movements – even as dramatic as what we've seen in early 2020. There is no need for a major shift in allocations at this time.

Sustaining strong performance

The same long-term perspective frames this annual report, which shows that 2019 was, in relative terms, a challenging year for UTAM. Although the Pension and Endowment portfolios delivered returns of 13.0% and 12.9% respectively (net of all fees and expenses), this performance was below the Reference Portfolio benchmark of 15.8%. The main detractor was private equity investments that didn't keep pace with the very strong performance of public equity markets during the year. Over the longer term, however, private equity investments have added significant value to the portfolios.

Despite 2019's disappointing results, UTAM's long-term performance remains strong. The Pension and Endowment portfolios have each generated annualized net returns of 7.6% during the past five years and 8.5% over 10 years – exceeding the university's target return and the Reference Portfolio benchmark for the same period. Since 2010, annual value added from the Pension and Endowment portfolios has averaged 1.0% and 1.1% respectively compared to the Reference Portfolio – a cumulative gain of more than $500 million.

This record of resilience gives us confidence that UTAM will successfully navigate the challenges of the global pandemic and maintain our 20-year trajectory of sound, sustainable growth.

Milestones of responsibility

Since the release of U of T President Meric S. Gertler's groundbreaking 2016 report, *Beyond Divestment: Taking Decisive Action on Climate Change*, UTAM has been intently focused on responsible investing. In 2019, we further extended our leadership role in this area. We continue to collaborate with like-minded investors as we integrate environmental, social and governance (ESG) factors into our investment decision-making processes. This annual report includes an overview of recent milestones in our responsible investing commitment (see page 16), and we provide a more detailed account in our 2019 Responsible Investing Report. Three points merit highlighting here:

- **PRI scorecard**
  As a signatory to the UN-supported Principles for Responsible Investment (PRI), we participated in our second annual PRI assessment in 2019, providing data that was used to evaluate UTAM's investment practices over time, across asset classes and in comparison to national and global peers. Once again, we received strong scores for our responsible investing activities – five A+ marks and one A – and we met or exceeded the median scores of all PRI signatories in all applicable categories.

- **New carbon reduction target**
  In our second Carbon Footprint Report, released as a stand-alone document in February 2020, we've expanded the universe of investments included in our analysis to cover not only public equities, but also private equity, private real estate and private infrastructure investments. Moreover, as announced in the report, we've committed to the ambitious goal of reducing the carbon footprint of the Pension and Endowment portfolios by at least 40% compared to 2017 levels by the end of 2030. This reduction target aligns with U of T's Low-Carbon Action Plan, which aims to cut greenhouse gas emissions by 37% (from 1990 levels) by 2030, putting the university firmly on the path to becoming a "net-zero" institution.

- **Supporting the TCFD recommendations**
  UTAM has endorsed the recommendations set out by the global Task Force on Climate-related Financial Disclosures (TCFD). As a result, U of T is the first Canadian university to adopt the TCFD's recommendations with respect to its Pension and Endowment portfolios, joining more than 1,027 public and private sector organizations worldwide – representing a market capitalization of over US$12 trillion – that support the initiative (as of February 2020). Our first report under the TCFD framework will be published shortly in our 2019 Responsible Investing Report.

Extending the advantage

UTAM's 20-year history is ultimately the story of the many committed people who have helped our organization evolve, improve and grow stronger. In particular, I'd like to express our gratitude to the university's Investment Committee, led by Co-Chairs David Denison and Geoff Matus, which provides expert advice to the university administration and UTAM.

UTAM's stewardship of the Pension, Endowment and short-term working capital portfolios is anchored by our close partnership with the university's senior leadership. I consult regularly with U of T President Meric Gertler and Chief Financial Officer Sheila Brown to ensure our investment activities reflect the strategic objectives and future goals of the university.

Lastly, our 20-year track record is a testament to the talent and dedication of everyone on the UTAM team, who work diligently to derive deeper insights and deliver sustainable value to the university and its stakeholders. Together, we're carrying on a legacy defined by the traditional "four P's" of investment management: philosophy, people, process and performance. These fundamental principles provide the structure for this annual report, and they guide us as we strive to extend the UTAM advantage for another two decades and beyond.

Daren M. Smith CFA
President and Chief Investment Officer

2019 Highlights

Investment returns

PENSION	ENDOWMENT	PENSION		ENDOWMENT	
2019	2019	Five-year	10-year	Five-year	10-year
13.0%	12.9%	7.6%	8.5%	7.6%	8.5%

UTAM value added

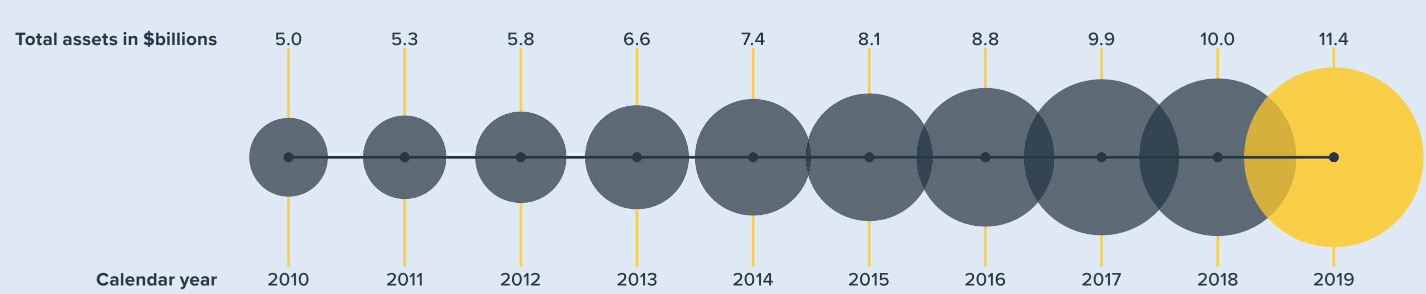
PENSION	ENDOWMENT	PENSION + ENDOWMENT
Five-year $114 million	Five-year $72 million	Five-year $186 million
10-year $307 million	10-year $204 million	10-year $511 million

Total assets under management

Pension, Endowment and short-term working capital pool (EFIP)

at December 31, 2019	at December 31, 2018	Year-over-year increase
$11.4 billion	$10.0 billion	13.5%

Pension: $5.6 billion
Endowment: $3.2 billion
EFIP: $2.5 billion



PRI

UTAM became a signatory to the United Nations–supported Principles for Responsible Investment, the world's leading proponent of responsible investment, in 2016. We have committed to following the PRI's six responsible investing principles and to participating in an annual evaluation of our implementation of responsible investing. The scores on this page are from our latest assessment in 2019.

A+
Strategy & Governance
Median Score – **A**

MANAGER SELECTION, APPOINTMENT & MONITORING

A+
Listed Equity
Median Score – **A**

A+
Fixed Income – Corporate Non-Financial
Median Score – **B**

A+
Fixed Income – Supranational, Sub-Sovereign and Agency
Median Score – **B**

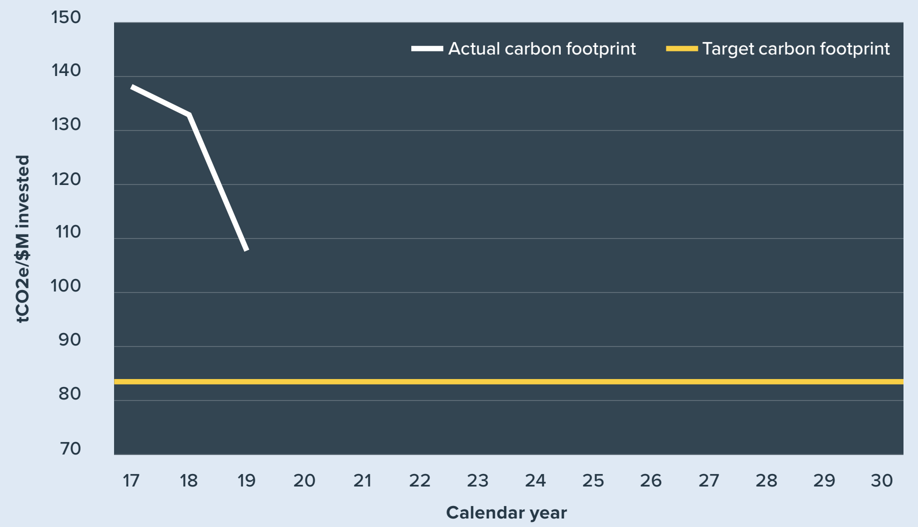
A+
Private Equity
Median Score – **A**

ACTIVE OWNERSHIP

A
Listed Equity
Median Score – **B**

40% carbon footprint reduction

In early 2020, UTAM committed to reducing the carbon footprint of the Pension and Endowment investment portfolios **by 40%** from 2017 levels by the end of 2030. The Pension portfolio's 2019 footprint of 109.3 tonnes of carbon dioxide equivalent per million dollars invested (tCO2e/$M invested) represents a 21.5% cumulative reduction since 2017 and significant progress towards the 40% reduction target. (The carbon footprint of the Endowment portfolio is substantially similar.)



CCGG

In 2019, Daren Smith became a board member of the Canadian Coalition for Good Governance, which UTAM joined in 2008.

CCGG Canadian Coalition for Good Governance

TCFD

In early 2020, UTAM publicly supported the recommendations of the Task Force on Climate-related Financial Disclosures.

TCFD Task Force on Climate-Related Financial Disclosures

Philosophy

How we think about investing and put our strategy into action

FOR 20 YEARS, UTAM HAS PRUDENTLY INVESTED THE CAPITAL ENTRUSTED to us, working to create solid, sustainable value for the University of Toronto and its stakeholders. We've helped Canada's largest university advance its global leadership in learning and research while working to ensure a secure retirement for thousands of employees who've contributed to U of T's success.

As we invest the university's assets, UTAM's purpose is clear: to serve as a strategic and disciplined manager, realizing the highest possible returns while adhering to our client's risk tolerance and policy constraints.

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00 On April 25, 2000, University of Toronto Asset Management Corporation was formally established by the Governing Council of the University of Toronto. Following the best practices of leading university asset managers worldwide, UTAM was incorporated as a separate investment management organization governed by its own Board of Directors.

05

05 In 2005, UTAM registered as a portfolio manager with the Ontario Securities Commission, embracing the rigorous policies and procedures that the regulatory body and its regulations require of registered investment firms.

08

08 "The financial crisis of 2008 highlighted vulnerabilities in investment practices globally, including in UTAM's approach to managing the University of Toronto's assets. An expert review panel subsequently advised that we streamline UTAM's governance, adding further checks and balances. A key change was the founding of a blue-ribbon Investment Committee to advise U of T's President on investment strategy. That shift in accountability, coupled with outstanding expert input, paid immediate dividends. Today, UTAM is a very steady performer that has provided excellent returns on U of T's Pension and Endowment funds. It has also stewarded those funds with a focus on responsible investing, becoming a model for other asset managers."

David Naylor
President, University of Toronto, 2005–2013

Philosophy

Managing prudently for sustainable growth

As we work to build and protect the financial assets of one of the world's leading universities, the role of UTAM is not simply to make astute investments and monitor the resulting returns. We're constantly strengthening the expertise and capabilities of our team – while also improving and refining our systems and processes – to deliver sustainable value to the University of Toronto and its stakeholders. Their high expectations mirror the exacting standards we set for ourselves as we invest with discipline and transparency, looking past inevitable market fluctuations to focus on the long term.

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 separate corporation by the University of Toronto in 2000, UTAM invests funds according to objectives and guidelines set by the university's administration and the Investment Committee, as well as U of T's Business Board and Pension Committee. In fulfilling this mandate, we don't typically 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 using an assessment process framed by our commitment to responsible investing. We then evaluate their performance against our risk and return expectations, taking into account the market environment.

UTAM focuses exclusively on investing university-owned assets. We manage three distinct portfolios, as detailed on the next page.

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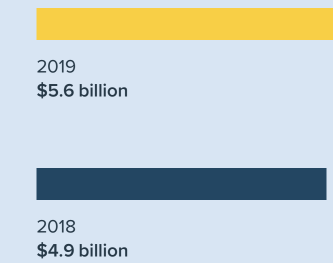
Since our founding in 2000, UTAM has stewarded the University of Toronto's Pension, Endowment and short-term working capital funds, working to deliver sustainable value over the long term.

Assets under management

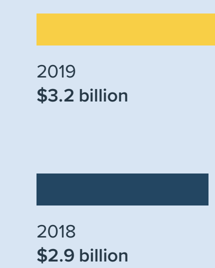
01 Pension

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 2019, pension assets totalled **$5.6 billion**, up from **$4.9 billion** at the end of 2018.



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 2019, the assets in this pool had a value of **$3.2 billion**, up from **$2.9 billion** at the end of 2018.



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 2019, EFIP was valued at **$2.5 billion**, up from **$2.2 billion** at the end of 2018.

Our commitment to responsible investing

At UTAM, we integrate environmental, social and governance (ESG) factors into our investment decision-making, stewardship activities (engagement and proxy voting), and reporting and disclosure. Our Responsible Investing Committee and all investment and risk management staff routinely consider ESG risks and opportunities.

UTAM'S FORMALIZED APPROACH TO RESPONSIBLE INVESTING IS consistent with our fiduciary duty and complements our overall investment strategy for the university's Pension, Endowment and short-term working capital assets. We pursue a responsible investing approach because we believe that material ESG factors can have a significant impact on investment returns. By integrating ESG considerations into our investment activities, we believe we can make better-informed decisions and ultimately achieve better outcomes for the portfolios we manage on behalf of the university.

Our annual responsible investing reports detail how we weigh material ESG factors in our investment decision-making processes. They are available on our website, along with our carbon footprint reports, Principles for Responsible Investing (PRI) reports, responsible investing policy and updates on our responsible investing efforts.

As our approach to responsible investing has evolved, we've assumed leadership roles in various responsible investment organizations, and we're helping to identify, shape and promote best practices. For example, our President and CIO, Daren Smith, is a board member of the Canadian Coalition for Good Governance, and he serves on its engagement and public policy committees. Our Chief Risk Officer, Doug Chau, is a member of the Principles for Responsible Investment (PRI) Asset Owner Advisory Committee, which provides advice, tools and support to asset owners implementing the principles. And our Chief Operating Officer, Lisa Becker, is a board member and executive committee member of the Responsible Investment Association. She is also a member and former chair of its Governance Policy Committee.

While we've always incorporated a degree of ESG analysis into our investment decision-making, we've taken an increasingly sophisticated and holistic approach to ESG integration over the past five years. Notable ESG-related activities in 2019 and early 2020 are shown on page 17.

Our second PRI scorecard

In 2019, we participated in our second formal assessment as a signatory of the PRI. Responding to a series of asset-specific modules in the PRI's reporting framework, we provided data on our activities related to various responsible investing indicators. The resulting Assessment Reports evaluated our progress in implementing responsible investing practices over time, across asset classes and in comparison to peers at the national and global levels. We are pleased to report that we received five A+ marks and one A for our responsible investing activities in managing U of T's Pension and Endowment assets, and once again we scored higher than the median PRI signatory in all applicable categories.

Our 2019 Carbon Footprint Report

In September 2017, UTAM joined more than 120 global investors – collectively responsible for over US$10 trillion in assets under management – in signing the Montréal Carbon Pledge. Aligned with the Paris Agreement on climate change, the pledge reinforces our commitment to measure and disclose the carbon footprints of the university's Pension and Endowment portfolios.

We recently published our second carbon footprint report, *Towards a Greener Future*, which included two announcements: an ambitious goal of reducing the carbon footprint of the Pension and Endowment portfolios by 40% compared to 2017 levels by 2030, and our endorsement of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). As for the carbon footprint itself, we've expanded the coverage of our analysis to include not only public equities, but also private equity, private real estate and private infrastructure investments, to provide a more accurate and complete picture of the carbon footprint of the assets in the Pension portfolio. (The Endowment portfolio has an identical investment mandate, and we manage it the same way, so its carbon footprint is substantially similar.)

The 2018 carbon footprint for Pension was 136.1 tonnes of CO_2 equivalent per million dollars invested, a reduction of 2.2% from 2017. The 2019 carbon footprint was 109.3, a reduction of 19.7% from 2018 and over halfway to our carbon reduction target of 40% from the 2017 level.

Climate Action 100+

In 2017, UTAM, on behalf of the University of Toronto, became a founding participant in Climate Action 100+, an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. The companies include 100 "systemically important emitters," accounting for two-thirds of annual global industrial emissions, alongside more than 60 others. UTAM has joined with other investors in engagement activities with four of the companies. In 2018 and 2019, we participated as a collaborative investor, writing letters and having calls with company management.

We have seen great progress since the initiative was launched, with a number of focus companies making both public and private commitments that align with the objectives of this initiative. For example, in February 2020, BP PLC, a multinational oil and gas company headquartered in London, England, announced its ambition to become a net-zero company by 2050 in a joint public statement with Climate Action 100+ investors.

Carbon neutrality achieved

UTAM as a corporation is now substantially carbon neutral. In 2019, we continued our program of purchasing carbon offsets to mitigate the carbon footprint of our business travel, our electricity and gas consumption, and our use of paper. We recognize that purchasing carbon offsets is not a perfect or complete solution to mitigating the climate impact of our activities. However, we feel it is an important step in the right direction. To cover our activities in 2019, we purchased carbon offsets representing 268 tonnes of CO_2 equivalent.

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U of T's President, Meric S. Gertler, published his groundbreaking report *Beyond Divestment: Taking Decisive Action on Climate Change*, which laid out his vision for the university's comprehensive approach to addressing climate change. The report spurred UTAM to significantly enhance our responsible investing practices. Later that year, UTAM became a signatory to the United Nations–supported Principles for Responsible Investment (PRI) on behalf of both the Endowment and Pension Plan.

2019 Annual Report
Philosophy

Responsible investing milestones

The following timeline shows significant events in UTAM's responsible investing journey.

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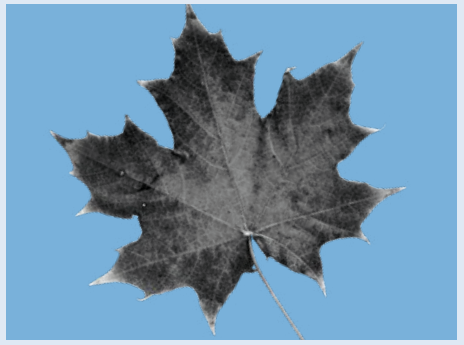

- Joined the Canadian Coalition for Good Governance (CCGG)

16

- U of T's President, Meric S. Gertler, publishes *Beyond Divestment: Taking Decisive Action on Climate Change*

- UTAM implemented proxy voting using Institutional Shareholders Services' Sustainability Policy
- Became a signatory to the Principles for Responsible Investment (PRI) on behalf of U of T's Endowment and Pension Plan
- Became a signatory to CDP (formerly known as the Carbon Disclosure Project)
- Joined the Responsible Investment Association (RIA)

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- Doug Chau, UTAM's CRO, joined the PRI's Asset Owner Advisory Committee
- Lisa Becker, UTAM's COO, joined the Investor Stewardship Committee of the Pension Investment Association of Canada (PIAC)
- Signed the Montréal Carbon Pledge
- Published Responsible Investing Policy
- Published first annual responsible investing report, covering 2016

- Joined Climate Action 100+

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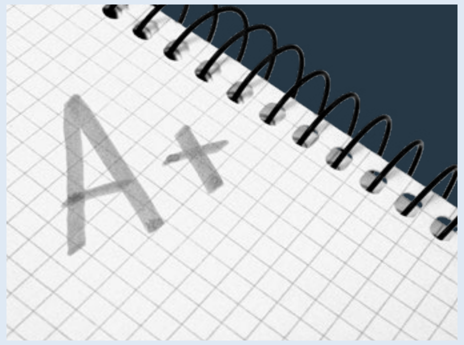
- Lisa Becker joined the board of the Responsible Investment Association (RIA)
- Published first PRI Assessment Reports, which showed strong marks



- Published the first carbon footprint of the Pension and Endowment portfolios
- Joined the 30% Club Canada and its Investor Group
- Joined Intentional Endowments Network (IEN)
- Joined Standards Board for Alternative Investments (SBAI)

19

- Daren Smith joins the board of the Canadian Coalition for Good Governance
- Released second PRI Assessment Reports, which gave strong marks
- Published the second carbon footprint of the Pension and Endowment portfolios
- Signed the Global Investor Statement to Governments on Climate Change

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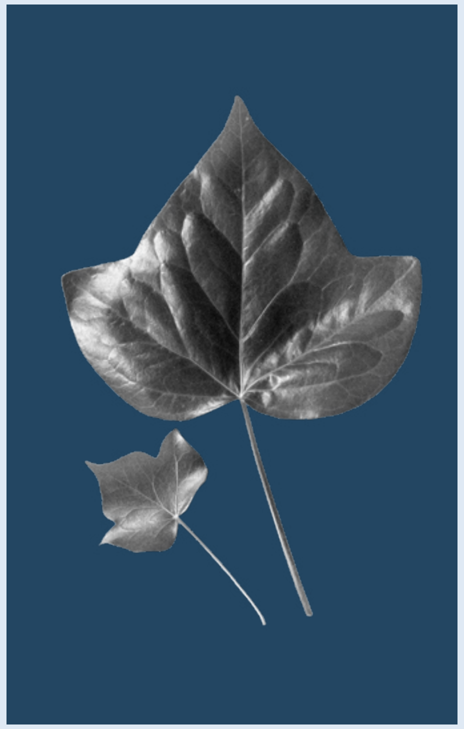
- Joined the International Corporate Governance Network (ICGN) and endorsed the organization's Global Stewardship principles
- Endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)



- Set a goal to reduce the carbon footprint of the Pension and Endowment portfolios by at least 40% compared to 2017 levels by the end of 2030

The 20-Year Advantage

2019 Annual Report

People

04

08

11

How we combine talent, expertise and experience to achieve long-term value

PUTTING A WELL-CONSIDERED INVESTMENT PHILOSOPHY INTO ACTION requires smart, experienced, dedicated people. The strong overall performance UTAM has delivered in recent years is a testament to the talented team we've put in place. We take a highly collaborative approach, inviting ideas and insights from all members of the team as we explore opportunities, continuously improve processes and execute strategies that are both effective and repeatable. And when we come up against new challenges or barriers to success, we encourage everyone to dig deeper, ask tougher questions and craft the best possible investment decisions, driven by our collective commitment to excellence.

04 Originally engaged in 2004 as a consultant, Lisa Becker has been UTAM's Chief Compliance Officer since 2011 and Chief Operating Officer since 2016. She is responsible for our investment operations, conducting operational due diligence assessments of our managers, and all aspects of legal and compliance, as well as UTAM's day-to-day operations (finance, technology and human resources). Lisa also serves as our Chief Privacy Officer, among other designated regulatory roles.

08 After joining UTAM in November 2008, Daren Smith progressed quickly through a series of leadership roles, overseeing manager selection, portfolio construction and other key aspects of investment management. Named President and Chief Investment Officer in 2016, Daren is responsible for all aspects of UTAM's business.

11 In 2011, as a reflection of UTAM's increasingly sophisticated approach to managing risk, we appointed our first Chief Risk Officer. As chair of the Management Investment Risk Committee, the Chief Risk Officer is responsible for asset allocation modelling, risk measurement and management, investment-related research and performance analysis. Since 2017, the role has been held by Doug Chau.

Learn more about our team's professional credentials and education on page 55.

The 20-Year Advantage

Governance: collaboration and oversight

From our founding, UTAM has been a separate corporation accountable to the University of Toronto. Our entire focus is on managing assets for the university, which oversees our business activities and selects the independent Investment Committee to provide expert advice on our investment objectives and activities. As UTAM has evolved, our commitment to sound governance has only deepened, shaping our unique collaborative culture and underpinning all dimensions of our purpose.

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 certain key policies (e.g., our Responsible Investing Policy) 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
University of Toronto Faculty Association (UTFA) Appointee
Professor, Rotman School of Management

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's management
- overseeing all of our investment activities and monitoring performance
- providing input on the hiring, compensation and evaluation of UTAM's senior leadership team

The IC reports directly to U of T's President and collaborates extensively with the university administration and UTAM's 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 Royal Bank of Canada and BCE and is Chair of the Board of Element Fleet Management Corporation.

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, and Co-Chair of U of T's Real Estate Advisory Committee.

Brent Belzberg
Mr. Belzberg is the founder and Senior Managing Partner of TorQuest, a private equity firm based in Toronto. He also sits on the Board of CIBC and is 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.

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The Investment Advisory Committee was created in 2010 by the University of Toronto to provide strategic direction and guidance to UTAM management. In 2016, it was replaced by the Investment Committee, which comprises five external members with senior-level investment industry experience.

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 we're committed to serving the university and its stakeholders with the utmost diligence and care.

University Administration

UTAM's President and CIO typically meets with U of T's Chief Financial Officer every two weeks, and with the President quarterly. UTAM works closely with the university's Financial Services Department, collaborating on cash and expense management, stakeholder reporting, various audits of the university's investment portfolios, 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

UTAM is registered as a Portfolio Manager under securities legislation and is regulated by the Ontario Securities Commission. Consistent with our fiduciary duty, stewardship obligations and applicable regulatory requirements, we have implemented a comprehensive program of policies, procedures, processes, controls and monitoring designed to achieve compliance with applicable regulations, client investment guidelines and internal policies. Our Chief Compliance Officer works closely with UTAM's President and CIO, and 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. For example, all employees are required 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)

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"It takes time to build a successful asset management organization. When I joined the Board in 2004, UTAM was still in the early stages of its evolution. However, by the time I left the Board in 2013, the organization had advanced significantly, with the addition of staff who have deep industry experience and specialized investment expertise, and the development of a robust risk management framework and system. Another important milestone occurred in 2012, when the University of Toronto and UTAM adopted the Reference Portfolio for performance and risk benchmarking purposes, as recommended by the Investment Advisory Committee. Using the Reference Portfolio made it easier to evaluate UTAM's active management approach – and it built the foundation for the kind of objective, transparent reporting that is now UTAM's calling card."

Cathy Riggall
Vice-President, Business Affairs, University of Toronto, 2002–2012; member, UTAM Board of Directors, 2004–2013; Board Chair, 2010–2013

Management: committees and teams

UTAM committees

Management Committee

The Management Committee, chaired by the President and Chief Investment Officer (CIO), considers issues related to enterprise risk, human resources, technology, business continuity, cybersecurity management and compliance. This Committee typically meets monthly and is responsible for approving most of UTAM's policies.

Management Investment Committee

The Management Investment Committee, chaired by the President and CIO, considers matters related to UTAM's investment activities, such as investment strategy, investment manager appointments and investment performance. The Committee comprises all investment staff and senior members of the Risk and Research team and Operations team. This Committee is responsible for approving all investment mandates and typically meets monthly.

Management Investment Risk Committee

The Management Investment Risk Committee, chaired by the Chief Risk Officer, oversees the development and implementation of UTAM's investment risk framework. The Committee is responsible for creating investment risk policies, reviewing risk reports and addressing all investment-related risk issues. The Committee comprises staff on the Risk and Research team, the CIO and other senior investment staff, and it typically meets quarterly.

Responsible Investing Committee

The Responsible Investing Committee, chaired by the President and CIO, oversees all matters relating to the development and implementation of UTAM's responsible investing practices. The Committee includes all investment heads, our Chief Risk Officer, our Chief Operating Officer and other UTAM staff. It typically meets quarterly.

UTAM teams

Investments

The Investment team, led by the President and CIO, is divided into three groups: public equity, fixed income (including private credit) and private markets. The head of each group is supported by at least one analyst. The Investment team is responsible for portfolio construction within each portfolio and identifying, evaluating and recommending investment managers to the Management Investment Committee, as well as ongoing monitoring of appointed managers.

Risk and Research

The Risk and Research team is led by the Chief Risk Officer and is responsible for the measurement of investment risk and portfolio performance. The team undertakes internal research on a variety of investment-related topics. It also manages the implementation, development and use of a third-party holdings-based risk system that assists UTAM in identifying, measuring and monitoring a wide variety of investment risks. Risk and Research also ensures the completeness and accuracy of the data on which the system's validity relies.

Operations

Operations, led by the Chief Operating Officer, encompasses the oversight and execution of all matters related to investment operations, operational due diligence, compliance, corporate financial accounting, human resources, technology, enterprise risk and legal. The Investment Operations function facilitates the accurate and timely execution of investment transactions and the payment of portfolio fees and expenses. It also ensures that official investment books and records for the portfolios are accurately maintained by the university's appointed independent custodian. Operations staff work closely with their Investment and Risk and Research colleagues within UTAM, as well as with the university's Financial Services Department and key external service providers.

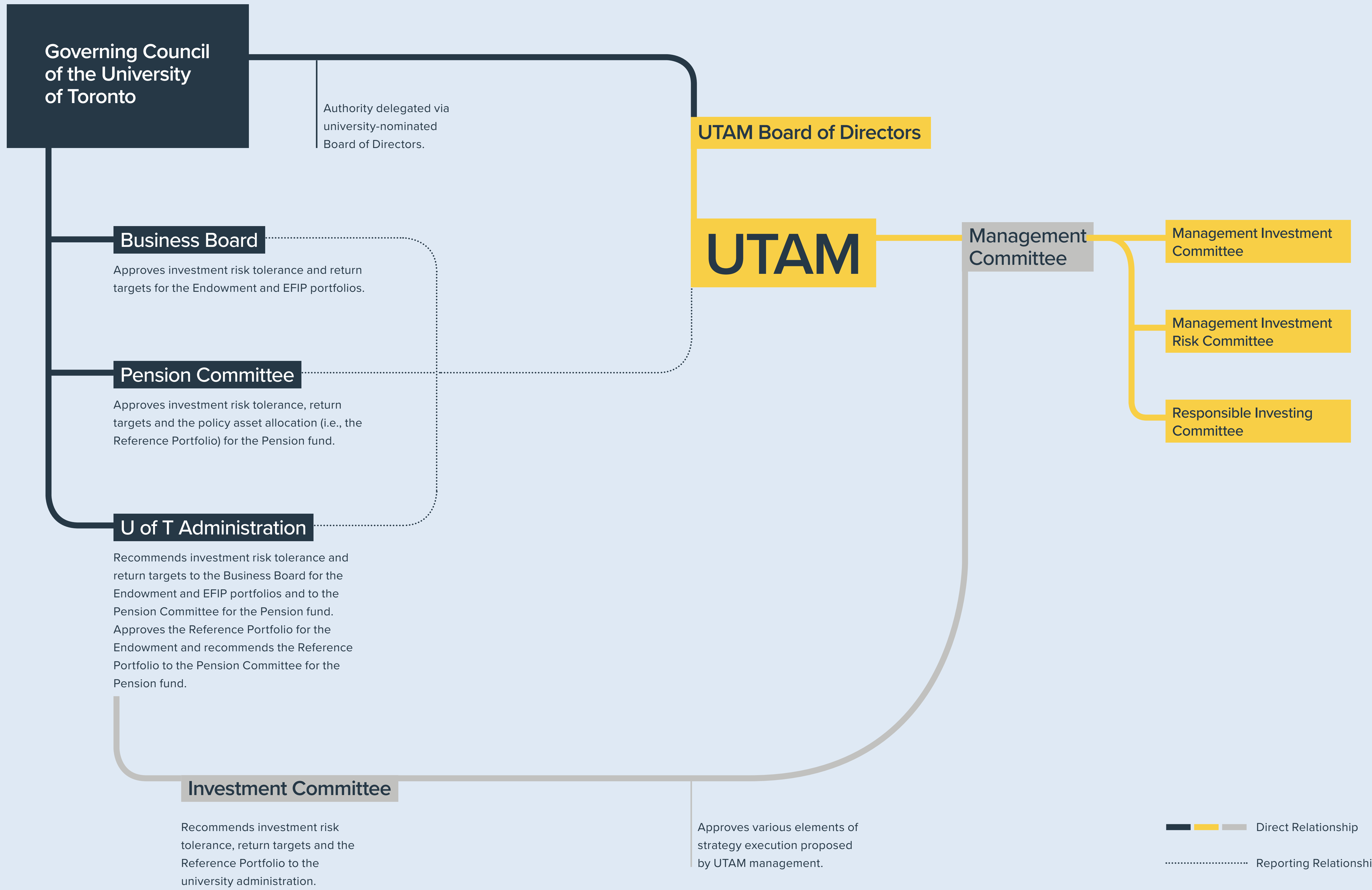
The 20-Year Advantage

2019 Annual Report

People

UTAM's governance structure

The following chart shows the roles and responsibilities of the various groups involved in the governance of UTAM.



The 20-Year Advantage

Process

How we execute a disciplined investment process within a robust risk management framework

AS WE WORK TO EXCEED THE EXPECTATIONS OF THE UNIVERSITY OF Toronto and its stakeholders, we're constantly improving all aspects of our investment process and the systems that enable it. From developing asset allocation recommendations, to selecting and monitoring our investment managers, to assessing and managing risk, the common threads running through all of our processes are rigorous discipline, in-depth analysis and a focus on qualitative and quantitative data as we systematically evaluate opportunities. For UTAM, process isn't just a supporting methodology – it's at the heart of what we do.

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08 "I became UTAM's President and CEO at the height of the financial crisis, which was a challenging time for investors worldwide. That experience reinforced the necessity of building a better investment management infrastructure at UTAM. As a result, we introduced an advanced risk management system and a more granular performance attribution framework. We also adopted more rigorous processes for manager selection and portfolio construction. Looking back, I remain extremely proud of the team we built, the culture we created and the results that we achieved for the University of Toronto community. And I've been pleased to watch as UTAM continues to deliver sound long-term performance under the leadership of Daren Smith and his excellent team."

William Moriarty
President and Chief Executive Officer, UTAM, 2008–2016

11 Chuck O'Reilly, Head of Public Equities, joined UTAM in 2011. Chuck is responsible for overseeing manager selection and monitoring, as well as portfolio construction and investment strategy, across all of our public equity portfolios.

12 Leon Lu, Head of Fixed Income, joined UTAM in 2012. He is responsible for portfolio construction, investment strategy and monitoring for all our fixed income investment portfolios, including private credit.

18 Jean Potter, Head of Private Markets, joined UTAM in 2018. Jean is responsible for overseeing manager selection and monitoring, as well as portfolio construction and investment strategy, across all of our private market portfolios except for private credit.

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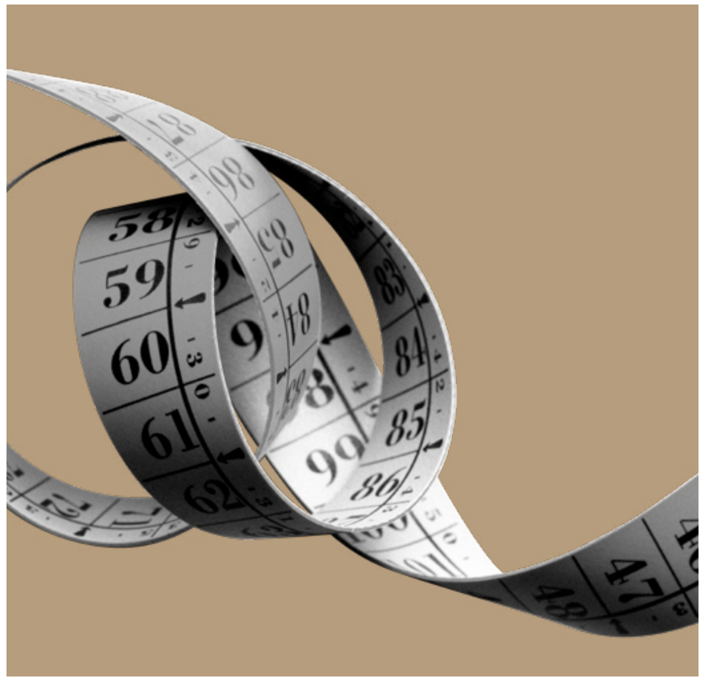

In 2012, the University of Toronto and UTAM adopted the Reference Portfolio on the recommendation of the Investment Advisory Committee, to be used as our benchmark for measuring investment performance in relation to the risk and return objectives of the Pension and Endowment portfolios.

The Reference Portfolio: benchmarking performance

UTAM's investment decisions are anchored by the Reference Portfolio, which establishes a benchmark for the risk and return objectives of the Pension and Endowment portfolios. As we put our investment strategy into action, the Reference Portfolio serves as an objective yardstick for measuring active risk in the Pension and Endowment portfolios and the value gained or lost through our investment 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 Reference Portfolio must have the following characteristics:

1. Risk and return attributes consistent with the 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 markets: Canadian, US, International Developed Markets, Emerging Markets and Global. The fixed income exposure is split between Canadian Corporate Bonds and Canadian Government Bonds.

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

Reference Portfolio Asset Class	Benchmark	Reference Portfolio Weight	Actual Pension Weight	Actual Endowment Weight
Equity		60.0%	59.4%	59.5%
Canadian Equity	S&P TSX Composite Total Return Index	7.0%	7.0%	7.0%
US Equity	S&P 500 Total Return Index	18.0%	17.9%	17.9%
International Developed Markets Equity	MSCI EAFE Net Total Return Index	10.0%	9.9%	9.9%
Emerging Markets Equity	MSCI Emerging Markets Net Total Return Index	7.0%	7.0%	7.0%
Global Equity	MSCI ACWI Net Total Return Index	18.0%	17.7%	17.7%
Fixed Income		40.0%	40.6%	40.5%
Canadian Corporate Bonds	FTSE TMX Canada All Corporate Bond Total Return Index	20.0%	20.2%	20.2%
Canadian Government Bonds	FTSE TMX Canada All Government Bond Total Return Index	20.0%	20.4%	20.3%

The equity benchmarks for the US and International Developed Markets are 50% hedged to Canadian dollars, Emerging Markets is not hedged, and Global Equity is 50% hedged to Canadian dollars for the developed markets component and unhedged for the emerging markets component.

During 2019, the Investment Committee, the university administration and the Pension Committee approved a new Reference Portfolio that consolidates all of the public equity benchmarks into one global equity benchmark. The transition was in progress at year's end and is expected to be completed by June 30, 2020.

Asset mix

Table 1 shows the asset class weights for the Pension, Endowment and Reference portfolios as of December 31, 2019. 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 best 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.

Investment flexibility

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 with agreed-upon risk guidelines that are monitored and regularly reported on. Investments in any asset class or strategy not in the Reference Portfolio are subject to the relevant plan documents and require explicit permission from the Investment Committee. UTAM retains discretion to select investments within these approved asset classes and strategies.

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; within 10% for each equity fixed income asset class; and up to 10% above or 15% below the Reference Portfolio's total fixed income weight.

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

Last but by no means least, our investment decisions are framed by a rigorous risk management process and a formal risk budget, which are detailed later in this report.

Manager selection: rigorously choosing the best

Among the core capabilities that we believe set UTAM apart is our highly analytical approach to assessing and selecting our external investment managers. We've defined a series of clear steps for identifying strong candidate firms, vetting their investment practices and monitoring long-term performance. And once a relationship has been forged, we're constantly seeking ways to further strengthen the partnership.

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 expenses) over time. As a result, we have a significant amount of passive exposure in certain asset classes.

Sourcing and assessing managers

We review hundreds of investment managers every year. Primary sourcing methods include drawing on the knowledge and experience of the UTAM team, proactively reaching out to managers and networking with other investors. Secondary methods include attending conferences, responding to inbound inquiries from managers and searching industry databases. 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, their investment performance, the level of transparency they are willing to provide and the terms of the investment (including 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.

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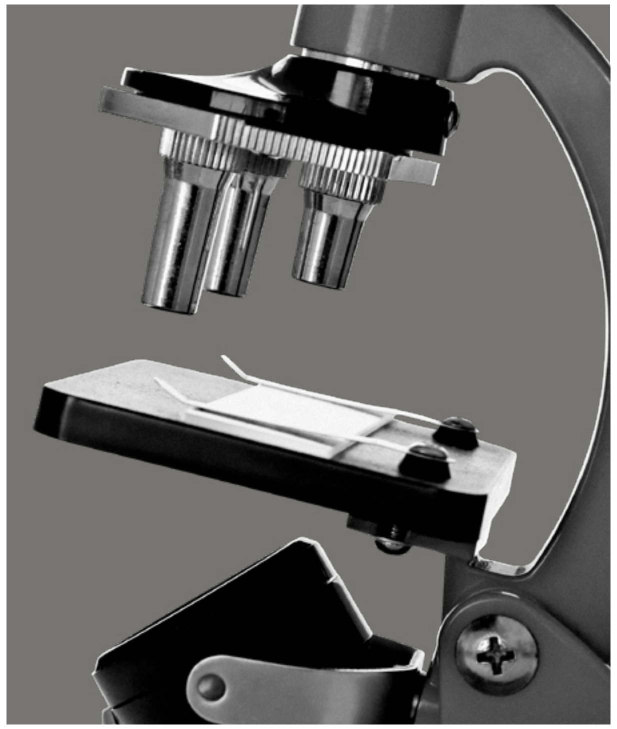

In 2013, UTAM implemented a multi-level performance attribution framework that enables us to see beneath the surface and conduct a detailed analysis of our performance relative to the performance of the benchmark Reference Portfolio.

Investment due diligence

For managers who make it to this stage of the process, we focus on the four P's discussed throughout this report: people, philosophy, process, performance. We also add a fifth P, portfolio fit, which takes into account how the manager's strategy fits with the rest of the portfolio. We also look at the alignment of interests between the investment manager and the investors in their strategies, and we take into account ESG considerations. This analysis includes both a qualitative assessment of the manager's organization and its people, and a quantitative review of historical portfolio holdings and 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 public equity strategies, managers typically provide historical month-end holdings, which UTAM runs through sophisticated analytical tools to produce reports that include performance attribution; factor exposures (e.g., value, growth, momentum) and their contributions 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.

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.

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, focusing on people and processes. We must be confident that a manager not only offers a promising investment opportunity but also operates a sound, well-run business.

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. 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 runs a risk analysis that includes calculating 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 being taken.

Manager recommendation

All material allocations must be approved by UTAM's Management Investment Committee. To help this Committee evaluate investment recommendations, formal Investment Due Diligence (IDD) and Operational Due Diligence (ODD) reports are prepared by the Investment team and the Operational Due Diligence team, respectively. In addition, a risk report, a legal review and a tax review are submitted to the Committee. The IDD report, a detailed account of the IDD process and findings, including a section on ESG considerations, 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 provides a conclusion on whether the manager's operations are sufficiently sound and indicates any operational improvements identified as necessary conditions for investment. After reviewing and discussing each of the reports, the voting members of the Committee decide whether to approve the allocation.

Ongoing monitoring

After an investment has been made, the Investment and Operational Due Diligence teams follow rigorous monitoring and reporting processes. The Investment team typically has touchpoints at least quarterly with each manager. The focus of the monitoring process remains on the five P's, including 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.

Assessing and managing risk

Comprehensive, methodical risk management is a hallmark of UTAM's investment approach. Our risk framework has grown increasingly robust in recent years as we've developed techniques that reflect the cumulative insights from our earlier approaches. Led by our Chief Risk Officer, UTAM's dedicated team examines multiple dimensions of risk – from counterparty concentration and liquidity needs to ESG issues and climate risk – to ensure that all investment decisions reflect the risk appetite and long-term expectations established for the university's Pension and Endowment portfolios.

WE MAKE INVESTMENT DECISIONS WITH THE GOAL OF ACHIEVING RETURNS (after fees and expenses) that exceed those of the Reference Portfolio, taking into account all other constraints, as well as our focus on responsible investing.

Our investment risk management framework is focused on the following three risk categories: market, concentration (including credit and counterparty) and liquidity. The main portfolio risk limits, such as the active risk limit, are approved by various groups, including the university administration, the Investment Committee and the Pension Committee. We incorporate these limits 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 framework

Market risk

UTAM identifies, measures and monitors a variety of risks on a point-in-time and trend basis (i.e., over time) 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 statistical techniques to model and thus to incorporate the most relevant risk exposures of those managers. For private investments, such as private equity and real estate, we use multi-factor proxies that reflect the key risk drivers of the investments. For certain credit strategies where we have position-level cash flow data, we employ a discounted cash flow model that accounts for illiquidity and credit risks.

Once we've populated the risk system with holdings and proxies, we measure active risk (i.e., portfolio risk versus Reference Portfolio risk) and total portfolio risk. In both cases, we identify specific risk contributors by asset class, investment strategy, investment manager and position. We also 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.)

In addition to the risks noted above, we assess the highest risk concentrations among individual issuers across a variety of categories. We estimate the sensitivity of the portfolio to potential changes in market risk factors such as equity market shocks, shifts in interest rates and credit spreads, and adverse movements in foreign exchange rates. We also run the portfolios through historical stress periods such as the 2008 global financial crisis. These analytics are all integrated through a simulation analysis to assess the possible portfolio impacts and sensitivities to different capital market regimes and scenarios, including a severe global market downturn. Finally, we also have the capability to run our own asset liability modelling using a dynamic scenario generator, which allows us to analyze the behaviour of the assets and liabilities of the Pension and Endowment portfolios across different plausible forward-looking scenarios.

Our analysis provides insights into overall risk exposures and identifies specific markets, factors and regimes to which the portfolios are most vulnerable. The output of this analysis is discussed at regular meetings of our Management Investment Risk Committee and informs our decision-making on how these risks should be managed going forward.

We compare the various risk measures developed for the Pension and Endowment portfolios on a stand-alone basis and to the Reference Portfolio. We conduct this process monthly with updated holdings, gaining a detailed picture of the various risk exposures. Through constant measurement and monitoring, we're able to better identify and manage risk associated with specific investment decisions on both a relative and absolute basis, which enables us to make well-informed investment decisions.

ESG and climate risks

As part of our assessment of market risk, we've researched and developed analytics to support total portfolio ESG and climate risk analyses. From our initial heat-map risk concentration reports, we have expanded the reporting to include both exposure-based and scenario-based analyses and integrated them into our overall market risk management process. We employ several data sources of E, S and G scores and look at each factor independently and on an aggregate basis. For climate risk in particular, we use risk indices and scores that capture a country/sector's current state and its readiness to adapt to a low-carbon economy. These metrics, which can be tied back to individual asset classes, provide information on which areas of the portfolio could be most susceptible to ESG and climate-based risk shocks onboth a stand-alone and relative basis (i.e., relative to the Reference Portfolio).

The exposure-based analysis is complemented by the scenario-based modelling, which shows how the portfolio could perform under various climate scenarios. For individual E, S and G factors, we have developed in-house stress scenarios guided by past market events (e.g., natural disasters, epidemics, cyber-attacks, impeachment). In each case, we have identified the key risk factors and use this information to propagate shocks through the broader market. For climate risks in particular, we have integrated transition and physical risks outlined in the academic and practitioner literature. Here we have used both external platform tools (e.g., PACTA) and in-house-developed scenarios. Guided by published market scenarios (e.g., IEA transition scenarios), we have translated climate shocks into changes in macroeconomic variables and subsequently into asset price shocks. This analysis allows us to propagate path-wise climate shocks across countries and sectors. While we've made good progress so far, this remains a key research area for us.

Liquidity and counterparty risk

We've developed a tool 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. This analysis includes a point-in-time evaluation of the portfolio's liquidity profile and provides information on how the liquidity profile of the portfolio could change over different scenarios. This approach to the liquidity modelling ensures that we could rebalance the Pension and Endowment portfolios back to the Reference Portfolio target asset class weights even in a stressed market environment without having to sell assets at a significant discount.

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 the use of derivatives, which are mainly used to hedge foreign exchange exposures and to rebalance the 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. We have the ability to run exposure reports on a daily basis, which provides our internal teams with up-to-date information on the portfolio's credit exposures.

Bringing it all together

We believe that a sophisticated and disciplined risk management framework is critical to the long-term success of an active management investment program. In every area of risk assessment, as we analyze data on underlying positions and historical returns, we gain deeper insights into the risks in the Pension and Endowment portfolios and in our investment managers' portfolios. It's a continuous process that starts right from the initial due diligence phase of our manager selection process.

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

UTAM's Active Risk Budget

The amount of risk that UTAM is permitted to use in the actual Pension and Endowment portfolios is constrained by the "traffic light" risk framework shown below. Active risk is defined as the risk in the actual portfolio minus the risk in the Reference Portfolio. For example, the "green zone" extends from taking 0.50% less risk than the Reference Portfolio to 1.50% more risk than the Reference Portfolio.

Active Risk Zone	Active Risk
Green ("Normal")	**-0.50%** ≤ Active Risk ≤ **1.50%**
Orange ("Watch")	**1.50%** < Active Risk ≤ **1.75%**
Red ("Reduce")	Active Risk > **1.75%**

2019 Annual Report

Performance

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18 UTAM assets under management exceeded $10 billion for the first time in 2018. Shortly after, in 2019, Endowment assets exceeded $3 billion for the first time.

19 "I've had the opportunity to watch UTAM's evolution since its earliest days, and the changes over the past 20 years have been remarkable: assets under management have almost tripled. UTAM's investment strategy has evolved to take advantage of new opportunities while adhering to the university's risk appetite. The clarity and transparency of stakeholder communications, from annual reports to the website, have improved significantly. And then, of course, there's the investment team's recognized leadership in responsible investing. UTAM's careful stewardship of the university's assets is critically important for U of T's continued progress as Canada's leading university and a global centre of research, discovery and innovative thinking."

Sheila Brown
Chief Financial Officer, University of Toronto;
member, UTAM Board of Directors, 2008–present

How we've delivered on U of T's investment goals over the long term

WHILE THE UNIVERSITY'S PENSION AND ENDOWMENT PORTFOLIOS delivered strong returns in 2019, overall performance was below the benchmark set by the Reference Portfolio. This was largely owing to private equity investments that underperformed public equity markets in 2019 but which have outperformed over longer periods of time. The Pension and Endowment portfolios both returned 8.5% over the last 10 years, exceeding the university's target return and the Reference Portfolio benchmark for the same periods. This is how we gauge our performance at UTAM: not just year over year, but on a longer trajectory defined by our strategic investment goals.

The 20-Year Advantage

The year in review: putting 2019 in perspective

The Pension and Endowment portfolios generated a return of 13.0% and 12.9% respectively (net of all fees and expenses) in 2019. This exceeded the university's target return of 6.2% but was below the Reference Portfolio benchmark of 15.8%. Returns over longer periods of time have also been strong, with actual net returns (annualized) for both Pension and Endowment of 7.6% over the past five years and 8.5% over the past 10 years. These results exceeded the university's target returns and the Reference Portfolio benchmark returns.

Reference Portfolio performance

Capital markets had an outstanding year in 2019. All country and regional equity markets in the Reference Portfolio posted strong gains for the year, with the US performing better than most (31.5% in US dollar terms) and emerging markets worse than most, although still achieving an 18.4% return in US dollar terms. Fixed income markets also had a terrific year, with Canadian investment-grade corporate credit (Canadian Corporate Bonds) returning 8.1% and Canadian Government Bonds returning 6.4%. The Reference Portfolio, which consists of public equity and fixed income allocations, returned 15.8% for the year. Table 2, below, shows the actual net returns, the Reference Portfolio returns and the university's target returns for the Pension and Endowment investment portfolios in 2019 and over the most recent five- and 10-year periods.

Table 2
Pension and Endowment Performance

	2019		5-Year Annualized 2015–2019		10-Year Annualized 2010–2019	
	Pension	Endowment	Pension	Endowment	Pension	Endowment
Actual net return	13.0%	12.9%	7.6%	7.6%	8.5%	8.5%
Reference Portfolio return	15.8%	15.8%	6.9%	6.9%	7.5%	7.5%
University target return	6.2%	6.2%	5.8%	5.8%	5.8%	5.8%
UTAM value added	-2.8%	-2.9%	0.7%	0.7%	1.0%	1.1%
UTAM value added ($millions)	-128	-77	114	72	307	204

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 four of five equity portfolios underperforming the benchmark. The biggest detractor was US Equities, which underperformed by 14.1% and contributed 2.5% to the total portfolio level underperformance of 2.8%. The main contributor to the negative performance in US Equities was private market investments. In a year when public equity markets rise by such a large amount, it is typically the case that private market managers will underperform. However, over the long term, our private markets program has outperformed public markets. It was a similar story in Canadian Equities, which underperformed by 3.6%. This was entirely due to private market managers. The public market component of Canadian Equities outperformed. Global Equities underperformed by 3.9%, and this was driven by the underperformance of two public equity managers. Private markets performance was not a significant driver of performance in the Global Equity portfolio. The International Developed Markets Equity portfolio underperformed by 0.5%, with public managers outperforming and private managers underperforming. The Emerging Markets Equity portfolio was the lone bright spot with both public and private managers outperforming.

The fixed income portfolios had a mixed year in 2019. The Canadian Corporate Bonds portfolio outperformed by 2.2% in Pension and 2.3% in Endowment, while the Canadian Government Bonds portfolio (which includes the Absolute Return hedge fund portfolio) underperformed by 0.1% in Pension and 0.2% 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 are not solely invested in 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 strategies. We believe it is difficult for traditional, long-only active credit managers focused on the Canadian investment-grade corporate space 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
2019 Pension Performance by Asset Class

Reference Portfolio Asset Class	Assets ($millions) Dec. 31, 2019	Pension Return	Benchmark Return	Value Added	Contribution to Total Value Added
Equity					
Canadian Equity	391	19.3%	22.9%	-3.6%	-0.3%
US Equity	998	17.4%	31.5%	-14.1%	-2.5%
International Developed Markets Equity	550	21.5%	22.0%	-0.5%	-0.1%
Emerging Markets Equity	392	21.5%	18.4%	3.0%	0.2%
Global Equity	987	22.7%	26.6%	-3.9%	-0.3%
Fixed Income					
Canadian Corporate Bonds	1,129	10.2%	8.1%	2.2%	0.4%
Canadian Government Bonds	1,138	6.3%	6.4%	-0.1%	0.0%
Total plan	**5,586**	**13.0%**	**15.8%**	**-2.8%**	**-2.8%**

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

The year in review: putting 2019 in perspective

cont'd

Table 4
2019 Endowment Performance by Asset Class

Reference Portfolio Asset Class	Assets ($millions) Dec. 31, 2019	Endowment Return	Benchmark Return	Value Added	Contribution to Total Value Added
Equity					
Canadian Equity	227	17.9%	22.9%	-4.9%	-0.5%
US Equity	579	17.3%	31.5%	-14.2%	-2.5%
International Developed Markets Equity	319	21.3%	22.0%	-0.7%	-0.1%
Emerging Markets Equity	227	21.2%	18.4%	2.7%	0.2%
Global Equity	573	24.5%	26.6%	-2.1%	-0.2%
Fixed Income					
Canadian Corporate Bonds	655	10.4%	8.1%	2.3%	0.4%
Canadian Government Bonds	655	6.2%	6.4%	-0.2%	-0.1%
Total plan	**3,235**	**12.9%**	**15.8%**	**-2.9%**	**-2.9%**

All returns are in local currency except for Emerging Markets Equity and Global Equity, whose returns are in US dollars, and the total plan returns, which take into account currency effects and are in Canadian 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 $476 million of absolute-return hedge fund strategies in the Pension portfolio and $282 million in the Endowment portfolio; their impact is reflected in the reported returns for this asset class.) The only exception is cash, which is included in Canadian Government Bonds but not included in the returns for Canadian Government Bonds.

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 eight years that we've been managing the absolute-return strategy, the realized beta to all five Reference Portfolio equity asset classes has been close to zero.

In 2019, the absolute-return portfolio generated a return of 5.5% in Pension and 5.3% in Endowment. We were pleased with these returns, but in a year when Canadian Government Bonds returned 6.4%, the portfolio generated negative value added.

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 short-term deposits with Canadian financial institutions and highly rated liquid fixed income securities is the primary means of controlling risk.

In 2019, the portfolio returned 2.7% (net of all fees and expenses), outperforming its target return by 0.3%. Over the past five years, EFIP returned 1.9% annualized, outperforming the target return by 0.3%. And over the past 10 years, it has generated a 1.9% annualized return, outperforming the target return by 0.3%.

Table 5
EFIP Performance

	2019	5-Year Annualized 2015–2019	10-Year Annualized 2010–2019
University target return	2.4%	1.6%	1.7%
Actual net return	2.7%	1.9%	1.9%
UTAM value added	0.3%	0.3%	0.3%
UTAM value added ($millions)	7	25	35

Table 6 shows EFIP investment exposures at year-end, as well as 2019 returns by investment category and for the overall portfolio. As the table indicates, 72.1% of EFIP was invested in cash and cash equivalents, which mainly consisted of deposits with Canadian financial institutions. The remaining 27.9% of EFIP exposure was allocated to investment-grade short-term government and corporate bonds. During the year, the Cash and Cash Equivalents category slightly underperformed the target return by 0.2%, and the Short-Term Bonds category outperformed the target return by 1.9%. The Floating-Rate Note portfolio was unwound during the year and was not a significant driver of performance.

Table 6
EFIP Performance by Investment Category

Investment Category	Weight Dec. 31, 2019	2019 Return
Cash and Cash-like Investments	72.1%	2.5%
Short-Term Bonds	27.9%	4.6%
Floating Rate Notes	0.0%	0.5%
Total	**100%**	**2.7%**

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In June 2019, UTAM President Daren Smith joined the board of the Canadian Coalition for Good Governance (CCGG), an organization of institutional investors that promotes governance best practices in Canadian public companies. Founded in 2003, CCGG also advocates for regulatory changes to better align the interests of boards and management with those of shareholders, and it works to foster the overall efficiency and effectiveness of Canada's capital markets. For UTAM, a CCGG member since 2008, supporting the coalition's efforts to engage with companies and regulators strengthens our broader approach to effective stewardship.

Looking ahead

We've built a solid foundation and are well positioned to meet future challenges

AS THE INVESTMENT LANDSCAPE CHANGES FROM YEAR TO YEAR AND from decade to decade, sound asset management requires staying alert to shifting trends and navigating them deftly to achieve optimum outcomes. But equally important is recognizing that short-term fluctuations, while they can appear dramatic, will smooth out over the long term through astute decision-making grounded in a systematic, data-driven investment approach – and this is how UTAM has consistently delivered value to the University of Toronto.

Of course, the COVID-19 pandemic – which at this writing threatens the health and well-being of people around the world – has created a level of economic disruption that is unprecedented over such a short period of time. Still, we believe that the solid foundation we've put in place positions us well to weather the consequences. UTAM's robust business continuity planning, our preparedness for unexpected events, the dedication of our team and, above all, the resilience of our diversified portfolios will enable us to respond to the immediate challenges of this extraordinary global crisis and keep our strategic focus fixed, as always, on the longer-term investment horizon.

Looking back over the past 20 years, we're proud of what we've achieved on behalf of the university and its stakeholders. Building on that successful collaboration – as well as our own proven systems and processes, and our approach to manager selection and talent development – we're confident that UTAM will continue to secure and grow the university's assets for the next 20 years and beyond.

This annual report and its companion publication, the Responsible Investing Report, are part of a broader commitment to timely, transparent communications about all dimensions of the work UTAM does. We encourage an ongoing dialogue with the U of T community and our wider circle of stakeholders, and we invite you to contact us at feedback@utam.utoronto.ca with any questions or comments.

19

19 "The Investment Committee, consulting with UTAM management, has established a framework and continues to set the strategic direction for all investment activities, drawing on the deep industry experience of our members. As the UTAM team puts that strategy into action, we evaluate each investment program and monitor overall portfolio performance – looking beyond the ups and downs of short-term results to focus on the long term. We hope our work over the last 12 years has contributed to securing the future of one of the world's great universities."

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

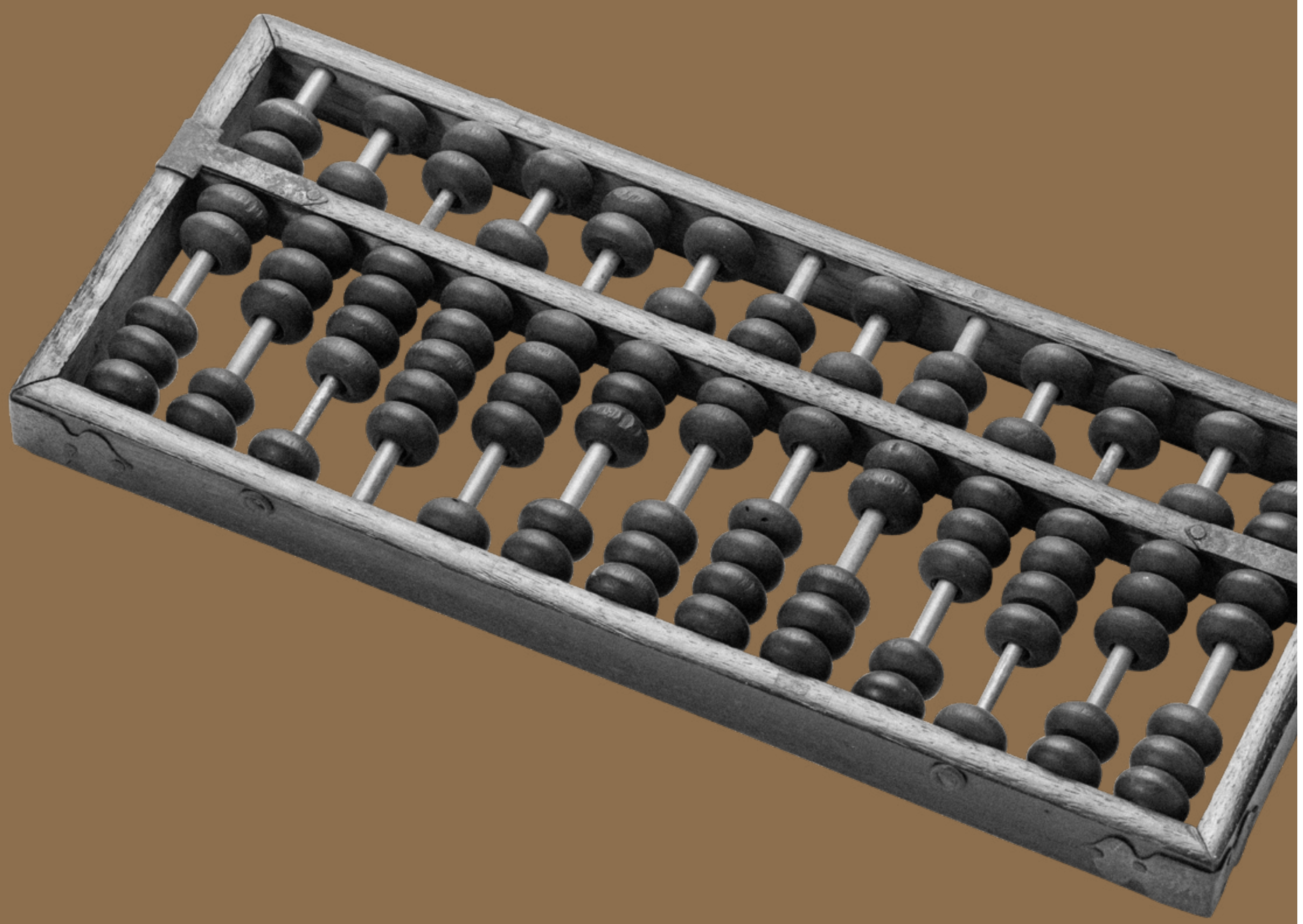
20+

20+ "UTAM enters its third decade as a respected leader in university asset management, committed to the careful stewardship of our Pension, Endowment and short-term working capital funds. At the same time, the organization has been a trailblazer in embracing the principles of responsible investing. By applying an environmental, social and governance (ESG) lens to the investment process – and constantly looking for opportunities to collaborate and share best practices with like-minded investors – UTAM provides the financial underpinnings for the University of Toronto's broader commitment to sustainability."

Meric S. Gertler
President, University of Toronto

The 20-Year Advantage

Financial statements



Independent Auditor's Report

To the Directors of
UNIVERSITY OF TORONTO ASSET MANAGEMENT CORPORATION

Opinion

We have audited the financial statements of **University of Toronto Asset Management Corporation** ["UTAM"], which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of net income, comprehensive income and changes in net assets and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of UTAM as at December 31, 2019 and 2018, 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 for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of UTAM in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – basis of accounting and restriction on use

We draw attention to note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist UTAM in complying with 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 UTAM and the Ontario Securities Commission, and should not be used by parties other than UTAM or the Ontario Securities Commission. Our opinion is not modified in respect of this matter.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing UTAM's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate UTAM or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing UTAM's financial reporting process.

Independent Auditor's Report

cont'd

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 UTAM's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on UTAM's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause UTAM to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Toronto, Canada
March 25, 2020

Chartered Professional Accountants
Licensed Public Accountants

Statements of financial position

As at December 31

	2019	2018
Assets		
Current		
Cash	$ 73,751	$ 116,531
Due from University of Toronto *[notes 6[a] and [e]]*	808,716	1,102,285
Accounts receivable	4,674	—
Realty taxes recoverable	54,766	99,041
Prepaid expenses	107,850	49,968
Total current assets	1,049,757	1,367,824
Capital assets, net *[note 4]*	779,965	944,397
	1,829,722	2,312,221
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities	500,940	813,276
Total current liabilities	500,940	813,276
Deferred capital contributions *[note 5]*	779,965	944,397
Deferred incentive bonuses *[note 6[f]]*	459,326	467,673
Deferred lease costs	89,491	86,876
Total liabilities	1,829,722	2,312,222
Net assets	—	—

See accompanying notes

On behalf of the Board:

Director

Director

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

Years ended December 31

	2019	2018
Expenses *[note 6]*		
Staffing	$ 4,648,613	$ 5,521,332
Consulting fees	499,408	383,506
Communications and information technology support	480,175	427,614
Occupancy	285,651	271,555
Professional fees	204,534	171,038
Amortization of capital assets	188,229	177,241
Travel	161,938	194,990
Office supplies and services	103,950	118,153
	6,572,498	7,265,429
Recoveries and other income		
Recoveries from University of Toronto *[note 6]*	6,384,269	7,088,188
Amortization of deferred capital contributions *[note 5]*	188,229	177,241
	6,572,498	7,265,429
Net income and comprehensive income for the year	—	—
Net assets, beginning of year	—	—
Net assets, end of year	—	—

See accompanying notes

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Statements of cash flows

Years ended December 31

	2019	2018
Operating activities		
Net income and comprehensive income for the year	—	—
Add (deduct) items not involving cash		
Amortization of capital assets	$ 188,229	$ 177,241
Amortization of deferred capital contributions	(188,229)	(177,241)
Deferred incentive bonuses	(8,347)	176,719
Deferred lease costs	2,615	1,460
Net change in non-cash working capital balances related to operations		
Due to/from University of Toronto	293,569	(620,869)
Accounts receivable	(4,674)	23,440
Realty taxes recoverable	44,275	(54,937)
Prepaid expenses	(57,882)	44,626
Accounts payable and accrued liabilities	(312,336)	493,829
Cash provided by (used in) operating activities	(42,780)	64,268
Investing activities		
Purchase of capital assets	(23,797)	(90,559)
Cash used in investing activities	(23,797)	(90,559)
Financing activities		
Deferred capital contributions to fund purchase of capital assets	23,797	90,559
Cash provided by financing activities	23,797	90,559
Net increase (decrease) in cash during the year	(42,780)	64,268
Cash, beginning of year	116,531	52,263
Cash, end of year	73,751	116,531

See accompanying notes

The 20-Year Advantage

Notes to financial statements

December 31, 2019 and 2018

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 pension plan stakeholders of U of T and two other Ontario universities have been working to develop a new jointly sponsored pension plan ["JSPP"] that would cover employees and retired employees in the existing plans at all three universities, with contributions and accrual of benefits to be effective from a future date (anticipated to be July 1, 2021). The consent process was completed in June 2019 with the required consent threshold being surpassed, enabling the conversion to the JSPP to proceed. Once the remaining necessary regulatory approvals are obtained, the assets and liabilities of the U of T Pension Plan (and those of the other participating plans) will be transferred to the new JSPP as at the effective date of accrual of benefits under the new plan (anticipated to be July 1, 2021). When the transfer of pension-related assets occurs following the creation of this new JSPP, this may impact UTAM's relationship with U of T in the management of its pension-related assets.

The financial statements of UTAM were authorized for issue by the Board of Directors on March 16, 2020.

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 investments, 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.

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Notes to financial statements

December 31, 2019 and 2018

3. Summary of significant accounting policies

Accounting changes

In January 2016, the International Accounting Standards Board ["IASB"] issued IFRS 16, *Leases*, which replaces 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 has assessed the impact of adopting IFRS 16 and concluded there is no significant impact.

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, 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.

The 20-Year Advantage

Notes to financial statements

December 31, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018.

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.

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, 2019 and 2018.

Notes to financial statements

December 31, 2019 and 2018

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.

The 20-Year Advantage

Notes to financial statements

December 31, 2019 and 2018

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, 2018	$ 875,423	$ 295,447	$ 56,805	$ 64,403	$ 106,983	$ 1,399,061
Additions	11,236	—	—	2,624	76,699	90,559
Balance, December 31, 2018	886,659	295,447	56,805	67,027	183,682	1,489,620
Additions	—	—	—	9,018	14,779	23,797
Balance, December 31, 2019	886,659	295,447	56,805	76,045	198,461	1,513,417
Accumulated amortization						
Balance, January 1, 2018	98,121	149,362	13,254	15,028	92,217	367,982
Amortization	87,097	41,349	11,361	13,169	24,265	177,241
Balance, December 31, 2018	185,218	190,711	24,615	28,197	116,482	545,223
Amortization	87,934	41,348	11,361	14,239	33,347	188,229
Balance, December 31, 2019	273,152	232,059	35,976	42,436	149,829	733,452
Net book value						
Balance, December 31, 2018	701,441	104,736	32,190	38,830	67,200	944,397
Balance, December 31, 2019	613,507	63,388	20,829	33,609	48,632	779,965

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:

	2019	2018
Balance, beginning of year	$ 944,397	$ 1,031,079
Recoveries received during the year related to capital asset purchases	23,797	90,559
Amortization of deferred capital contributions	(188,229)	(177,241)
Balance, end of year	779,965	944,397

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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. As at December 31, 2019, $808,716 is due from U of T as a result of the actual cost of operations exceeding reimbursements [2018 – $1,102,285 due to U of T].

[b] Certain 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 2019, contributions of $334,444 [2018 – $277,351] related to these plans have been expensed in UTAM's financial statements.

[c] UTAM obtains certain services from U of T, such as payroll services and some IT services. There is a charge for some of these services, which is reimbursed by U of T in accordance with the Agreement. In 2019, these services totalled $66,013 [2018 – $59,741].

[d] The Governing Council entered into a lease with a term of ten years commencing December 1, 2016 for 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 $102,586 [2018 – $89,757] in 2019. 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.

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[f] Commencing 2017, UTAM implemented a new incentive bonus plan for the senior management team, 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 investment portfolios compared to passive benchmark portfolios, but now only over a four-year measurement horizon. In addition, a portion of the incentive bonus continues to be subject to mandatory deferral over a service period and paid at specified 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 specified under the incentive bonus plan with remeasurement gains or losses recognized in net income. Under this incentive bonus plan, a portion of each year's incentive bonus awards is expensed in that year, with the remaining deferred amounts recorded as an expense in future years. As at December 31, 2019, as much as approximately $632,224, $467,713, and $78,414 plus an adjustment for the performance of U of T's investment portfolios, could be recorded as an expense in 2020, 2021 and 2022, respectively, under this deferred arrangement on a cumulative basis

Additionally, participants in the 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, 2019, $459,326 [2018 – $467,673] in incentive bonuses adjusted for remeasurement gains or losses have been 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:

	2019	2018
Short-term employee benefits	$ 1,913,615	$ 3,254,048
Post-employment benefits	176,273	221,993
Other long-term benefits	9,289	13,081
	2,099,177	3,489,122

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, 2019, UTAM has sufficient liquid resources to meet its current obligations.

UTAM staff

As of March 31, 2020

UTAM is the investment manager of the University of Toronto's Pension, Endowment and short-term working capital assets. UTAM's Board delegates day-to-day investment management activities to UTAM. Our team of more than 20 professionals works closely with the Board, the expert Investment Committee, the university administration and various governance bodies in our management of the university's assets.

Daren M. Smith CFA, CAIA, FRM, FCIA, FSA, MA, MSc
President and Chief Investment Officer

Investments

Leon Lu CFA, CAIA, MSc
Head of Fixed Income

Chuck O'Reilly CFA, CAIA
Head of Public Equities

Jean Potter
Head of Private Markets

Kelvin Hu CFA, FRM
Associate Director, Public Equities

Lu Yao CFA, CAIA, FRM
Associate Director, Public Equities

Sungbo Shim CFA, CAIA
Senior Associate, Public Equities

Jonathan Yeung CFA, FRM, MFin
Senior Associate, Fixed Income

Victor Zheng CFA, CPA
Senior Associate, Private Markets

Risk and Research

Doug Chau CFA, PRM, MSc, PhD
Chief Risk Officer and Head of Research

Ivan Siew CFA, FRM, MFin
Director

Ayako Dorotheo
Senior Analyst

Robin Warner CFA
Senior Analyst

Payton Liu MA
Analyst

Ye Long MMF, PRM
Analyst

Operations

Lisa Becker FCA (ICAEW)
Chief Operating Officer
Chief Compliance Officer

Zohair Ahmed CPA, CMA, CFA
Director, Operations

Oleander Li
Senior Manager, Compliance and Legal

Toan Duong CPA, CMA
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