

University of Toronto Asset Management Corporation

Financial statements
December 31, 2018



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, 2018 and December 31, 2017, 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, 2018 and December 31, 2017, 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.



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.

Toronto, Canada
March 18, 2019

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants



University of Toronto Asset Management Corporation

Statements of financial position

As at December 31

	2018 \$	2017 \$
Assets		
Current		
Cash	116,531	52,264
Due from University of Toronto <i>[notes 6[a] and [e]]</i>	1,102,285	481,416
Accounts receivable	—	23,440
Realty taxes recoverable	99,041	44,104
Prepaid expenses	49,968	94,594
Total current assets	1,367,825	695,817
Capital assets, net <i>[note 4]</i>	944,397	1,031,079
	2,312,222	1,726,896
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities	813,276	319,447
Total current liabilities	813,276	319,447
Deferred capital contributions <i>[note 5]</i>	944,397	1,031,079
Deferred incentive bonuses <i>[note 6[f]]</i>	467,673	290,954
Deferred lease costs	86,876	85,416
Total liabilities	2,312,222	1,726,896
Net assets	—	—

See accompanying notes

On behalf of the Board:

Director

Director

University of Toronto Asset Management Corporation

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

Years ended December 31

	2018 \$	2017 \$
Expenses <i>[note 6]</i>		
Staffing	5,521,332	5,879,906
Communications and information technology support	427,614	361,986
Professional fees	171,038	180,888
Occupancy	271,555	273,996
Consulting fees	383,506	416,460
Travel	194,990	183,533
Office supplies and services	118,153	78,844
Moving costs	—	3,774
Amortization of capital assets	177,241	159,032
	7,265,429	7,538,419
Recoveries and other income		
Recoveries from University of Toronto <i>[note 6]</i>	7,088,188	7,379,387
Amortization of deferred capital contributions <i>[note 5]</i>	177,241	159,032
	7,265,429	7,538,419
Net income and comprehensive income for the year	—	—
Net assets, beginning of year	—	—
Net assets, end of year	—	—

See accompanying notes

University of Toronto Asset Management Corporation

Statements of cash flows

Years ended December 31

	2018 \$	2017 \$
Operating activities		
Net income and comprehensive income for the year	—	—
Add (deduct) items not involving cash		
Amortization of capital assets	177,241	159,032
Amortization of deferred capital contributions	(177,241)	(159,032)
Deferred incentive bonuses	176,719	290,954
Deferred lease costs	1,460	44,450
Net change in non-cash working capital balances related to operations		
Due to/from University of Toronto	(620,869)	(561,604)
Accounts receivable	23,440	11,402
Realty taxes recoverable	(54,937)	(44,104)
Prepaid expenses	44,626	36,764
Accounts payable and accrued liabilities	493,829	56,024
Cash provided by (used in) operating activities	64,268	(166,114)
Investing activities		
Purchase of capital assets	(90,559)	(43,151)
Cash used in investing activities	(90,559)	(43,151)
Financing activities		
Deferred capital contributions to fund purchase of capital assets	90,559	43,151
Cash provided by financing activities	90,559	43,151
Net increase (decrease) in cash during the year	64,268	(166,114)
Cash, beginning of year	52,263	218,377
Cash, end of year	116,531	52,263

See accompanying notes

University of Toronto Asset Management Corporation

Notes to financial statements

December 31, 2018 and 2017

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 jointly sponsored pension plan ["JSPP"] that would result in the assets of the U of T Pension Plan being transferred to this new plan. If and when a 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 12, 2019.

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.

University of Toronto Asset Management Corporation

Notes to financial statements

December 31, 2018 and 2017

3. Summary of significant accounting policies

Accounting changes

- [a] In July 2014, the International Accounting Standards Board ["IASB"] issued the final version of IFRS 9, *Financial Instruments*, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 introduces a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value, such that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. In addition, the changes with respect to an entity's own credit risk can be early applied in isolation without otherwise changing the accounting for financial instruments. UTAM has assessed the effect of adopting IFRS 9 and concluded there will be no impact.
- [b] In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which replaces IAS 18, *Revenue*, and IAS 11, *Construction Contracts*, and the related interpretations on revenue recognition. IFRS 15 sets out the requirements for recognizing revenue that applies to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. It establishes a single, comprehensive framework for revenue recognition. This new standard is effective for UTAM's financial statements commencing January 1, 2018. UTAM has assessed the effect of adopting IFRS 15 and concluded there will be no impact.
- [c] IFRS 16, *Leases*, was issued in January 2016 and will replace the previous lease standard, IAS 17, *Leases*, and related interpretations. The new standard requires lessees to recognize assets and liabilities for most leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. UTAM is currently reviewing the new standard to determine the effect on the financial statements and will adopt the new standard when it becomes effective.

Significant accounting policies

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

Critical accounting estimates and judgments

The preparation of financial statements in conformity with the framework requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of recoveries and expenses during the reporting period. Actual results could differ from those estimates.

University of Toronto Asset Management Corporation

Notes to financial statements

December 31, 2018 and 2017

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.

[a] Market risk

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

[i] Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the future cash flows or fair values of financial instruments. As at December 31, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017.

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[b] Liquidity risk

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

[c] Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. UTAM does not have a significant exposure to any individual counterparty, except for U of T, which funds its operations. Therefore, credit risk is not a significant risk to UTAM as at December 31, 2018 and 2017.

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.

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4. Capital assets

Capital assets consist of the following:

	Leasehold improvements	IT infrastructure equipment	Audio- visual and communica- -tions equipment	Furniture	Desktops and software	Total
Cost						
Balance, January 1, 2017	\$ 841,135	\$ 295,447	\$ 56,805	\$ 64,403	\$ 98,120	\$ 1,355,910
Additions	34,288	—	—	—	8,863	43,151
Balance, December 31, 2017	875,423	295,447	56,805	64,403	106,983	1,399,061
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
Accumulated amortization						
Balance, January 1, 2017	13,324	107,765	1,893	2,147	83,821	208,950
Amortization	84,797	41,597	11,361	12,881	8,396	159,032
Balance, December 31, 2017	98,121	149,362	13,254	15,028	92,217	367,982
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
Net book value						
Balance, December 31, 2017	777,302	146,085	43,551	49,375	14,766	1,031,079
Balance, December 31, 2018	701,441	104,736	32,190	38,830	67,200	944,397

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:

	2018	2017
Balance, beginning of year	\$ 1,031,079	\$ 1,146,960
Recoveries received during the year related to capital asset purchases	90,559	43,151
Amortization of deferred capital contributions	(177,241)	(159,032)
Balance, end of year	944,397	1,031,079

University of Toronto Asset Management Corporation

Notes to financial statements

December 31, 2018 and 2017

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, 2018, \$1,102,285 is due from U of T as a result of the actual cost of operations exceeding reimbursements [2017 – \$481,416 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 2018, contributions of \$277,351 [2017 – \$255,860] 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 2018, these services totalled \$59,741 [2017 – \$49,051].
- [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 \$89,757 [2017 – \$91,841] in 2018. These expenses are reimbursed by U of T in accordance with the Agreement.

- [e] Transactions with U of T are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the parties. Amounts due to/from U of T are non-interest bearing and due on demand.
- [f] Commencing 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, 2018, as much as approximately \$209,000, \$632,000 and \$429,000, plus an adjustment for the performance of U of T's investment portfolios, could be recorded as an expense in 2019, 2020 and 2021, respectively, under this deferred arrangement on a cumulative basis.

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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, 2018, \$467,673 [2017 – \$290,654] 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:

	2018	2017
Short-term employee benefits	\$ 3,254,048	\$ 3,585,687
Post-employment benefits	221,993	223,763
Other long-term benefits	13,081	14,084
	3,489,122	3,823,534

Short-term employee benefits include amounts related to the variable incentive bonus awards [see 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, 2018, UTAM has sufficient liquid resources to meet its current obligations.