

University of Toronto Asset Management Corporation

Financial statements
December 31, 2022



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, 2022 and 2021, and the statements of net income, comprehensive income and changes in net assets and statements of 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, 2022 and 2021, 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 skepticism 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

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 27, 2023



University of Toronto Asset Management Corporation

Statements of financial position

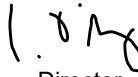
As at December 31

	2022	2021
	\$	\$
Assets		
Current		
Cash	1,187,675	1,457,074
Due from University of Toronto <i>[notes 6[a] and [e]]</i>	—	328,472
Accounts receivable	38,344	7,126
Prepaid expenses	580,139	496,695
Total current assets	1,806,158	2,289,367
Capital assets, net <i>[note 4]</i>	606,327	564,273
	2,412,485	2,853,640
Liabilities and net assets		
Current		
Due to University of Toronto <i>[notes 6[a] and [e]]</i>	12,029	—
Accounts payable and accrued liabilities <i>[notes 6[g]]</i>	1,456,425	1,884,746
Total current liabilities	1,468,454	1,884,746
Deferred capital contributions <i>[note 5]</i>	606,327	564,273
Deferred incentive bonuses <i>[note 6[f]]</i>	261,040	308,383
Deferred lease costs	76,664	96,238
Total liabilities	2,412,485	2,853,640
Net assets	—	—

See accompanying notes

On behalf of the Board:

Richard Nunn
Director


Director

University of Toronto Asset Management Corporation

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

Years ended December 31

	2022	2021
	\$	\$
Expenses <i>[note 6]</i>		
Staffing	9,391,834	8,959,509
Communications and information technology support	1,201,917	1,496,105
Occupancy	279,014	277,403
Professional fees	232,848	252,770
Consulting fees	159,299	252,222
Amortization of capital assets	141,762	186,912
Office supplies and services	65,450	88,861
Travel	55,606	1,783
	11,527,730	11,515,565
Recoveries and other income		
Recoveries from University of Toronto <i>[note 6[a]]</i>	11,385,968	11,328,653
Amortization of deferred capital contributions <i>[note 5]</i>	141,762	186,912
	11,527,730	11,515,565
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

	2022	2021
	\$	\$
Operating activities		
Net income and comprehensive income for the year	—	—
Add (deduct) items not involving cash		
Amortization of capital assets	141,762	186,912
Amortization of deferred capital contributions	(141,762)	(186,912)
Deferred incentive bonuses	(47,343)	14,648
Deferred lease costs	(19,574)	2,976
Changes in non-cash working capital balances related to operations		
Due to/from University of Toronto	340,501	(84,615)
Accounts receivable	(31,218)	(7,032)
Prepaid expenses	(83,443)	80,155
Accounts payable and accrued liabilities	(428,322)	1,365,986
Cash provided by (used in) operating activities	(269,399)	1,372,118
Investing activities		
Purchase of capital assets	(183,816)	(38,524)
Cash used in investing activities	(183,816)	(38,524)
Financing activities		
Deferred capital contributions to fund purchase of capital assets	183,816	38,524
Cash provided by financing activities	183,816	38,524
Net increase (decrease) in cash during the year	(269,399)	1,372,118
Cash, beginning of year	1,457,074	84,956
Cash, end of year	1,187,675	1,457,074

See accompanying notes

University of Toronto Asset Management Corporation

Notes to financial statements

December 31, 2022 and 2021

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. The *Not-for-profit Corporations Act* (Ontario) was proclaimed into force on October 19, 2021, and replaces the *Corporations Act* (Ontario). UTAM is updating its incorporating documents to bring itself into compliance with the *Not-for-profit Corporations Act* before the end of the statutory transition period on October 19, 2024.

UTAM is a non-profit organization under the *Income Tax Act* (Canada) and, as such, is exempt from income taxes. UTAM is registered under the *Securities Act* (Ontario) as a portfolio manager in Ontario.

UTAM is domiciled in the Province of Ontario, Canada, and its registered office address is 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 to manage the investment assets of U of T, which currently comprise its Long-Term Capital Appreciation Pool [i.e., the Endowment portfolio and other long-term investment assets of U of T], its Expendable Funds Investment Pool, and, prior to July 1, 2021, U of T's Registered Pension Plan ["RPP"], through a formal delegation of authority and investment management agreement between UTAM and U of T. On July 1, 2021, the assets and liabilities of the RPP were transferred to the University Pension Plan Ontario ["UPP"], and an agreement was executed between the Governing Council and UPP to appoint the Governing Council as an agent of UPP and, accordingly, to retain the services of UTAM to manage the transferred assets of the RPP until the end of the agency appointment. The agency appointment ended on March 31, 2022, as anticipated, and UTAM no longer manages pension-related assets.

The financial statements of UTAM were authorized for issue by the Board of Directors on March 20, 2023.

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.

University of Toronto Asset Management Corporation

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December 31, 2022 and 2021

UTAM manages U of T's Endowment Fund and Expendable Fund, 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.

3. Summary of 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.

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December 31, 2022 and 2021

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, 2022 and 2021, 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. Certain expenses are paid in foreign currencies. As at December 31, 2022 and 2021, 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, 2022 and 2021.

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, 2022 and 2021.

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
Personal computers and software	3 years

University of Toronto Asset Management Corporation

Notes to financial statements

December 31, 2022 and 2021

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 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.

University of Toronto Asset Management Corporation

Notes to financial statements

December 31, 2022 and 2021

4. Capital assets

Capital assets consist of the following:

	Leasehold improvements \$	IT infrastructure equipment \$	Audio- visual and communica- tions equipment \$	Furniture \$	Personal computers and software \$	Total \$
Cost						
Balance, December 31, 2020	924,706	306,939	56,805	113,505	244,974	1,646,929
Additions	—	14,811	—	—	23,713	38,524
Write-off of fully amortized capital assets no longer in service	—	(177,110)	—	—	(139,660)	(316,770)
Balance, December 31, 2021	924,706	144,640	56,805	113,505	129,027	1,368,683
Additions	—	130,116	30,759	—	22,941	183,816
Write-off of fully amortized capital assets no longer in service	—	(118,336)	(56,805)	(64,403)	(60,192)	(299,736)
Balance, December 31, 2022	924,706	156,420	30,759	49,102	91,776	1,252,763
Accumulated amortization						
Balance, December 31, 2020	362,693	274,020	47,337	59,518	190,700	934,268
Amortization	94,363	27,300	9,468	20,554	35,227	186,912
Write-off of fully amortized capital assets no longer in service	—	(177,110)	—	—	(139,660)	(316,770)
Balance, December 31, 2021	457,056	124,210	56,805	80,072	86,267	804,410
Amortization	94,364	9,715	—	9,820	27,863	141,762
Write-off of fully amortized capital assets no longer in service	—	(118,336)	(56,805)	(64,403)	(60,192)	(299,736)
Balance, December 31, 2022	551,420	15,589	—	25,489	53,938	646,436
Net book value						
Balance, December 31, 2021	467,650	20,430	—	33,433	42,760	564,273
Balance, December 31, 2022	373,286	140,831	30,759	23,613	37,838	606,327

University of Toronto Asset Management Corporation

Notes to financial statements

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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:

	2022	2021
	\$	\$
Balance, beginning of year	564,273	712,661
Recoveries received during the year related to capital asset purchases	183,816	38,524
Amortization of deferred capital contributions	(141,762)	(186,912)
Balance, end of year	606,327	564,273

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 and subsequently amended and restated July 1, 2021 and July 26, 2022, 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, 2022, \$12,029 is due to U of T as a result of reimbursement exceeding the actual cost of operations. As at December 31, 2021, \$328,472 is due from U of T as a result of the actual cost of operations exceeding reimbursements.
- [b] Certain eligible employees of UTAM were members of the UPP, and prior to July 1, 2021, of the U of T RPP. The UPP is a defined benefit plan. In 2022, contributions of \$372,711 [2021 – \$257,013] related to this plan have been expensed in UTAM's financial statements. Comparative 2021 expense related to both the U of T RPP and the UPP, as applicable during that fiscal year.
- [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 2022, these services totalled \$63,723 [2021 – \$67,418].
- [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. In 2022, these costs totalled \$104,759 [2021 – \$103,240]. These expenses are reimbursed by U of T in accordance with the Agreement.

University of Toronto Asset Management Corporation

Notes to financial statements

December 31, 2022 and 2021

[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] UTAM provides an incentive bonus plan for the senior management team whereby the majority of the incentive bonus awards are directly related to, and, vary with, the actual performance of U of T's investment portfolios compared to passive benchmark portfolios, over a four-year measurement horizon. As at January 1, 2022, this calculation no longer includes the actual performance of any pension plan assets managed by UTAM as these are no longer U of T assets. A portion of the incentive bonus is 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, 2022, as much as approximately \$261,140, \$764,141 and \$752,089 plus an adjustment for the performance of U of T's investment portfolios could be recorded as an expense in 2023, 2024 and 2025, 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, 2022, \$261,040 [2021 – \$308,383] in incentive bonuses adjusted for remeasurement gains or losses has been deferred under the incentive plan.

[g] In 2021, UTAM implemented retention arrangements for employees payable on various future dates. Awards under these arrangements have associated terms and conditions variously applicable to employees and to UTAM. UTAM's financial obligations for the first arrangements are recognized evenly over the period in which they were first established to the period in which the obligations crystallize, adjusted for any obligations that lapse under the terms and conditions. Arrangements that apply to subsequent periods will begin to be recognized when earlier arrangements crystallize. As at December 31, 2022, the maximum obligation to be recognized in future periods is \$1,953,400 [2021 – \$2,544,981]. The expense under the retention arrangements was \$575,844 [2021 – \$1,108,269] for the year.

University of Toronto Asset Management Corporation

Notes to financial statements

December 31, 2022 and 2021

[h] Transactions with key management personnel

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

	2022	2021
	\$	\$
Short-term employee benefits	3,765,230	3,573,052
Post-employment benefits	120,091	178,535
Other long-term benefits	6,831	7,755
	<u>3,892,152</u>	<u>3,759,342</u>

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

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, 2022, UTAM has sufficient liquid resources to meet its current obligations.