UNIVERSITY OF TORONTO

OFFICE OF THE GOVERNING COUNCIL

FOR INFORMATION **PUBLIC** **OPEN SESSION**

TO: Business Board

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DATE: March 30, 2015 for April 7, 2015

AGENDA ITEM: 5

ITEM IDENTIFICATION:

University of Toronto Asset Management Corporation Annual Report 2014

JURISDICTIONAL INFORMATION:

Pursuant to Section 5 (1.) (b.) of the Business Board Terms of Reference, the Business Board has responsibility for reviewing regular reports on matters affecting the finances of the University and on financial programs and transactions. The Business Board accepts annual reports and financial statements for incorporated ancillaries.

GOVERNANCE PATH:

1. Business Board (April 7, 2015)

PREVIOUS ACTION TAKEN:

The 2014 annual report and financial statements were approved by the UTAM Board at its meeting of March 26, 2015.

HIGHLIGHTS:

Financial Statements:

The financial statements of UTAM reflect its status as a corporation without share capital and a non-profit corporation wholly owned by the University of Toronto. UTAM is registered as a portfolio manager and investment fund manager in Ontario.

These financial statements have been prepared to assist UTAM to meet the requirements of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant*

Obligations based on the financial reporting framework specified in subsection 3.2(3)(a) of national Instrument 52-107 Acceptable Accounting Principles and Auditing Standards for financial statements delivered by registrants. Beginning with the year ended December 31, 2011, then have been prepared in accordance with International Financial Reporting Standards (IFRS) as required by the regulators. As a result, they may not be suitable for other purposes.

Investment Performance:

The University has established investment targets for UTAM for the Pension Master Trust (PMT) and for the Long-Term Capital Appreciation Pool (LTCAP) which includes endowments at a real investment return of 4.0%, net of fees and expenses, over ten year periods. These targets reflect the nature of the liabilities for payments from the endowments and the pension plans.

For the year ended December 31, 2014, the target nominal investment return (including CPI) net of fees and expenses was 5.62% (2013 – 5.2%). Actual nominal investment return for the PMT was 12.67% (2013 – 15.1%) for the year and for LTCAP it was 12.89% (2013 – 15.3%). Actual nominal investment return for the Reference Portfolio was 9.67% (2013 - 12.4%). (Note that the Reference Portfolio is a theoretical portfolio that assumes a traditional 60%/40% equity/fixed income asset allocation and does not include any allocation to alternative assets or strategies).

For the PMT the actual return earned by UTAM exceeded the Reference Portfolio return by 3.0% and the target return by 7.05%. For LTCAP, the actual return earned by UTAM exceeded the Reference Portfolio return by 3.22% and the target return by 7.27%.

The University has established the return target for the Expendable Funds Investment Pool (EFIP) as the 1 year Treasury bill rate plus 0.5%. For 2014, the target return was 1.49% and the actual return was 2.00%.

FINANCIAL IMPLICATIONS:

The pension plans collectively have a large deficit and plans have been developed to address it by means of special payments into the pension plans.

RECOMMENDATION:

For information.

DOCUMENTATION PROVIDED:

University of Toronto Asset Management Corporation Annual Report, 2014, which includes the Auditor's Report and Audited Financial Statements and Note.

Portfolio performance review.

UNIVERSITY OF
TORONTO

University of Toronto Asset Management Corporation

ANNUAL REPORT 14

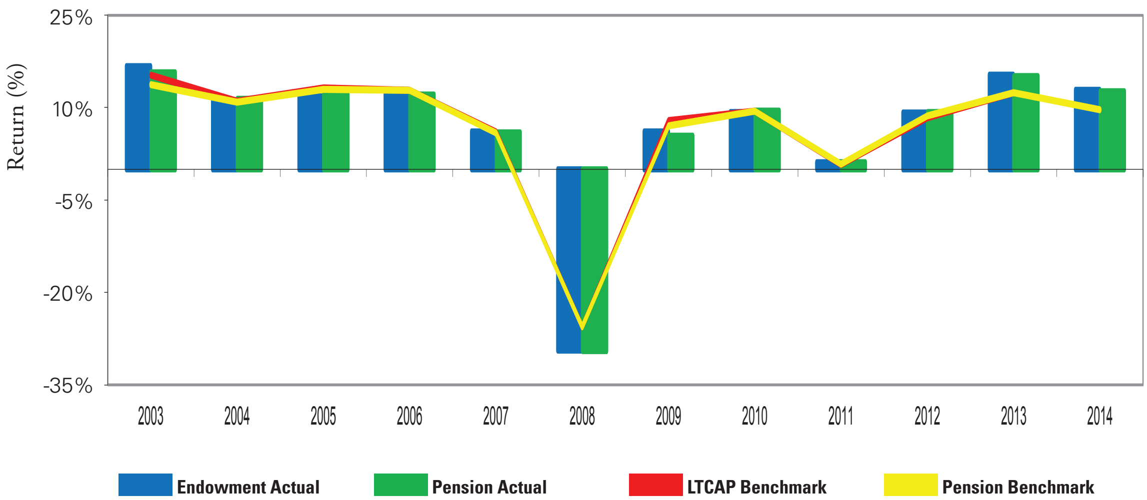
CONTENTS

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

The Report In Brief

Investment performance for 2014 and prior periods ending December 31st is summarized below:

Annual Returns



	2014			2 - YEAR (2013-2014)			4-YEAR (2011-2014)		
	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP
University Target Return[1]	**5.6%**	**5.6%**	**1.5%**	**5.5%**	**5.5%**	**1.6%**	**5.5%**	**5.5%**	**1.8%**
Benchmark Portfolio Return	9.7%	9.7%	n.a.	11.0%	11.0%	n.a.	7.7%	7.8%	n.a.
Actual Net Return[2]	**12.9%**	**12.7%**	**2.0%**	**14.1%**	**13.9%**	**1.8%**	**9.5%**	**9.4%**	**1.9%**
Assets (December 31; millions)									
2014	$2,293	$3,784	$1,353						
2013	$2,135	$3,246	$1,253						

n.a. = not applicable.

1 For the Endowment and Pension portfolios, the target return is 4% plus inflation (CPI). For EFIP, the target return is the 365-day Canadian T-bill Index return plus 50 basis points.

2 Gross return less all fees and costs including UTAM costs, custody costs, etc.

- Total assets under management increased 12.0% in 2014 to $7.4 billion; long-term assets by 12.9%.
- Capital markets environment remained favorable in 2014 but was also characterized by significant dispersion of returns.
- Changes enacted over the last six years continued to generate value-add in 2014.
- Actual return on long-term portfolios exceeded University's Target Return by over 7% in 2014.
- 'Active' management decisions contributed approximately half of this amount.
- Steady improvement in performance compared to Benchmark Portfolio over recent years.
- The period ahead is expected to be more challenging for investors.

President's Message

The recovery in financial markets from the lows of the financial crisis has been considerable and, as we implied in last year's report, appears to be ahead of the underlying economic fundamentals. This also describes the environment of 2014 although for Canadian based investors, the year was a tale of two halves as several markets reversed course in the second half and foreign currency exposure became a much more important consideration. Generally global growth and inflation came in somewhat weaker than was initially priced into markets. This caused assets that perform well when growth and inflation are softer (such as fixed income) to outperform and those assets more sensitive to these factors (such as commodities) to weaken. Nevertheless, a continued supply of liquidity from global central banks produced a further compression of risk premia and thus support for equity markets' performance (measured in local currency terms). The result was that a balanced 60/40 (equity / debt mix) portfolio produced better than expected returns in 2014.

As the following pages outline, it was also another very good year for the University portfolios. Total returns were somewhat better than we initially expected and all three portfolios outperformed their respective benchmarks. More importantly, the two main portfolios (Endowment and Pension) continued to produce returns that exceeded the long-term returns needed to underwrite the undertakings made to donors and pensioners (this has been the case in five of the last six years). In terms of incremental dollars for the University, the outperformance in 2014 equates to $384 million based on beginning of year asset levels: $218 million of this outperformance reflected the favourable capital markets environment and the benefit of having an equity tilt in the University's benchmark portfolio and $166 million reflected the 'active' management decisions made by the UTAM team of investment professionals. Viewed over the period since the new Reference Portfolio was adopted and the portfolios restructured accordingly (i.e., since 2011), the extra dollars earned by the Endowment and Pension portfolios exceed $1.0 billion with approximately two thirds attributable to 'good' markets and one third accounted for by UTAM's decisions.

The year just ended was again a busy one for UTAM as an organization. We continued to augment our analytical processes surrounding strategy and manager selection as well as our operational infrastructure with considerable effort directed at replacing the current portfolio administration system. A further important initiative was our decision to undertake an independent benchmarking of UTAM's operations against the best practices of a number of leading U.S. university investment offices with a view to identifying strengths, as well as relative weaknesses that UTAM should address. We were pleased with the key finding that 'UTAM is a high quality organization with a well-defined mandate and investment philosophy, a highly qualified staff, strong governance, thorough investment and operational due diligence, and robust portfolio risk and performance monitoring practices (Cambridge Associates LLC, May 30, 2014).' The report made a number of useful recommendations for further improvement which we are incorporating into our plans for the years ahead. As we noted last year, continuous improvement is an important element of the ability to generate good investment results.

One additional highlight of the year just ended was that UTAM was chosen as a finalist by Chief Investment Officer magazine for an industry innovation award for endowment management. We are appreciative of the recognition but are also very aware that our real success will only come from exceeding the return objectives of our core client.

Finally, I would again thank our Board of Directors, the Investment Advisory Committee and the Pension Committee for their support and ongoing input to the management team at UTAM. I would also like to take this opportunity to recognize the efforts of the talented team of professionals at UTAM and the key contribution that they have made to the results of the last several years.

William Moriarty, CFA
President & Chief Executive Officer

Management's Discussion And Analysis

MANDATE

UTAM managed $7.4 billion of assets in three main portfolios at the end of 2014: (i) the University's $2.3 billion Endowment fund; (ii) the University's $3.8 billion Pension Master Trust fund; and (iii) the University's $1.4 billion working capital pool ("EFIP").

The main Endowment fund, which is formally called the Long Term Capital Appreciation Pool ("LTCAP"), primarily represents the collective endowment funds of the University. The growth in assets of LTCAP is largely the net result of endowment contributions, withdrawals made to fund endowment projects, net transactions in the other asset pools and investment income earned on invested assets.

The Pension Master Trust fund ("Pension") consists of the assets of the University of Toronto Pension Plans. The change in assets of the Pension fund is primarily the net result of employer and employee pension contributions, pension payments to retirees and investment income earned on invested assets.

EFIP consists of the University's expendable funds that are pooled for investment for the short and medium term. The nature of these assets, which mainly represent the University's working capital, means that the total assets in EFIP can fluctuate significantly over time and during any single year. The change in assets of EFIP reflects the combined effect of many factors, such as student tuition fees, University expenses for salaries, expenses for maintaining facilities, government grants and investment income earned on invested assets, etc.

The University, with the counsel of the President's Investment Advisory Committee, establishes a long-term return objective and risk tolerance for each of the portfolios that UTAM manages. At present, the Endowment and Pension portfolios have the same return target and risk tolerance. EFIP's return target and risk tolerance are unique to that portfolio. UTAM's primary objective is to exceed the target return for each portfolio over the long- term while managing the assets within the applicable risk tolerance.

For 2014, the long-term target return for the Endowment and Pension portfolios was stated as a 4% real return. Because traditional risk-free investments currently offer a return that is considerably lower than this target, achieving the objective requires the assumption of risk. Accordingly, an appropriate policy or benchmark portfolio (also referred to as the Reference

Portfolio) was established and risk constraints were set in relation to this portfolio. The target return and risk tolerance objectives established for EFIP were the 365-day Canadian T-bill Index return plus 50 basis points (i.e. 0.50%) and minimal risk.

UTAM's INVESTMENT BELIEFS

A number of fundamental guiding principles, or investment beliefs, provide a foundation for the approach that UTAM employs to construct portfolios.

1. **Asset allocation** is one of the most important decisions any investor makes. More specifically, asset allocation decisions anchor a portfolio's risk and return objectives and are the backbone of any investment program. This, in turn, reflects the fact that a majority of the risk and more than 90% of the variability of investment returns are attributable to such decisions. At the same time, the nature and structure of the investor's liabilities need to be considered and the implications of any duration mismatch understood. The University's Reference Portfolio provides a useful starting point in this regard.

2. An **equity orientation** combined with a **"value" style** bias will generally create portfolios with higher levels of expected return. Over long periods, equity investments have exhibited strong performance compared to less risky assets such as bonds and cash. Equity investments are often classified as "value" or "growth". We believe that "value" oriented investments have a built–in margin of safety and thus provide superior returns over longer periods of time. It is also worth noting that we view the term 'value' as encompassing more than simply current price.

3. Designing and implementing an investment program to achieve a desired level of return must incorporate a thorough **analysis of the risks** assumed, utilizing both judgment and quantitative methods. This focus must encompass not only market risk but also other dimensions of risk such as liquidity risk, counterparty credit risk, inflation risk, etc. Moreover, the risk environment is not static; it changes over time and a given asset allocation will necessarily have higher risk in times when macroeconomic risk is higher and/or valuations of risky assets are more expensive.

4. The principle of **diversification** has a long and distinguished history and represents one of the key risk mitigants that should characterize most portfolios. There are many dimensions to diversification. These include making investments that span a range of

asset classes, geographies, investment strategies, investment managers and individual securities. Our approach to diversification also increasingly focuses on the risk factors and return drivers underlying the various assets and strategies within the portfolios. Diversification cannot protect against loss during a broad-based systemic event but it will protect against the worst outcome.

5. A **longer-term focus** expands the investment opportunity set, allowing a portfolio to benefit from the periodic irrationality in markets and to exploit the lower level of efficiency often evident in the pricing of illiquid assets. The ability of investment strategies to create value varies over time. Some strategies are better suited to short periods of time, or certain parts of a typical business cycle. Other strategies require a long period of time and more patience to allow the value to emerge. The time perspective of the Endowment and Pension funds is relatively long term, so the investment strategies for these portfolios can encompass strategies that take time to show the value they can add. The time perspective of the EFIP portfolio is quite short, so the suitable investment strategies are much more limited.

6 An **active management approach** can add value (after fees) although, at times, some markets will be relatively efficient and can be better accessed through a **passive approach**. More specifically, we believe that active investment strategies have a greater probability of producing market outperformance in less-developed, more illiquid or severely dislocated markets. Objective consideration of **alternative investment strategies and structures** is also an important component of an active approach since these can provide access to unique strategies, talented investment managers and often the potential to reduce downside risk.

All of these principles, or investment beliefs, are reflected in the investment strategies that we research internally and implement primarily through external money managers. Some of our managers oversee a passive portfolio while some focus on niches. Some use leverage and sell securities short. Some invest in private markets. Although many of these investment strategies differ from the traditional approach embedded in the University's Reference Portfolio benchmark, the mix of strategies and risk exposures selected is designed to produce returns that will outperform the Reference Portfolio benchmark over the medium term while adhering to the allowable risk budget established by the University. As implied above, the mix of strategies used is not static, but gradually evolves over time in response to our view on the potential for each strategy as valuations and the macroeconomic and market environments change.

ASSET MIX

2014 Reference Portfolio and Benchmark Portfolio Asset Mix

A Benchmark Portfolio represents a "shadow" portfolio that has been designed to incorporate the University's return objectives and risk tolerance as well as the long-term investment horizon of the portfolios. As such, it serves as a guide for the actual allocations implemented in the University's investment portfolios and as an important benchmark against which to judge the success of 'active' investment management activities.

In prior years, the Benchmark Portfolio adopted by the University was defined in terms of a mixture of public markets assets and so-called 'alternative' assets. As such, it represented a mixture of active and passive strategies. This changed in 2012 with the University's adoption of a public markets focused Reference Portfolio as the official Benchmark for both of the LTCAP and Pension portfolios.

The principle underlying the Reference Portfolio's composition requires exposures that are passive, low-cost, easily implementable and generally representative of the investable universe. This means that alternative assets and strategies are not included in the Reference Portfolio. It also means that this type of Benchmark Portfolio can be used to evaluate the advantages and disadvantages of utilizing alternative assets and strategies in the University's actual investment portfolios. Consequently, the Reference Portfolio / Benchmark Portfolio is now used as the key standard for evaluating short- and medium-term performance of the two main University portfolios (i.e., LTCAP and Pension).

Table 1	
Canadian Equity (S&P/TSX Composite Total Return Index)	**16%**
US Equity (S&P 500 Total Return Index)	**18%**[1]
International Developed Markets Equity (MSCI EAFE Net Total Return Index)	**16%**[1]
Emerging Markets Equity (MSCI EM Net Total Return Index)	**10%**[2]
Credit (FTSE TMX Corporate Bond Total Return Index)	**20%**
Rates (FTSE TMX Government Bond Total Return Index)	**20%**
Total	**100%**

1. 65% hedged to the Canadian dollar. 2. Unhedged

Given that the University has determined that the return objective and risk tolerance are the same for LTCAP and Pension, the Reference Portfolio / Benchmark Portfolio asset mix is identical for both portfolios (see Table 1 above which also shows the individual asset class benchmarks). As was reported last year, the University will periodically review the composition of this portfolio as part of a general review of the long-term macroeconomic environment, its return objectives and its risk tolerance. Such a review will be conducted again in 2015.

Actual Portfolio Asset Mix

The actual make-up of the Endowment fund and the Pension fund at the end of 2014 and 2013 is shown in Table 2 below. The weights are shown on an exposure basis, which means that the asset weight includes the notional dollar value of any index derivatives used to maintain an asset segment at the desired weight. The cash collateral underlying the index derivative amounts is deducted in the Cash section (note: this offset is required in order to balance back to the actual portfolio values as recorded by the custodian). This exposure-based report provides a more accurate representation of the actual composition of the portfolios.

Table 2

	Endowment		Pension		Reference Portfolio
(as at December 31)	2013	2014	2013	2014	
Canadian Equity[1]	15.8%	**16.1%**	15.8%	**16.1%**	16.0%
US Equity[1]	18.0%	**17.8%**	18.1%	**17.8%**	18.0%
International Developed Markets Equity[1]	16.3%	**15.7%**	16.3%	**15.7%**	16.0%
Emerging Markets Equity[1]	10.1%	**9.9%**	10.1%	**10.0%**	16.0%
Credit	18.8%	**20.0%**	18.8%	**20.0%**	20.0%
Rates[1]	10.8%	**10.2%**	11.1%	**10.6%**	20.0%
Other (including cash & notional offsets)[2]	10.2%	**10.2%**	9.9%	**9.7%**	0.0%
Total	100%	**100%**	100%	**100%**	100%
Cash (actual)[3]	5.9%	**17.6%**	6.0%	**17.0%**	
Portfolio Value (millions)	$2,135	**$2,293**	$3,246	**$3,784**	

1. Includes the notional dollar value of repos, index futures and swap positions which are used to maintain the asset class at approximately the desired weight. The offset to balance to the total portfolio value is included in Cash.
2. Includes Absolute Return investments, mark-to-market gain or loss on foreign currency hedging contracts and is net of the notional dollar amount of index futures and swap exposures (see footnote 1).
3. Includes cash backing the notional dollar value of index futures and swaps (see footnotes 1 and 2).

As explained more fully in the 2013 Annual Report, most of the categories shown in the above table can include a mix of strategies as well as both public and private assets. This approach is particularly helpful in terms of understanding the role 'alternative assets and strategies' may play in any given portfolio. Put simply, long-short strategies and private investments are not viewed as separate asset classes; some of these investments are focused on equities; some are focused exclusively on credit; others are focused on commodities; some use leverage; some focus on illiquidity; etc. In other words, the underlying drivers of each investment's return can be quite different and thus most of these assets do not readily fit classification as separate asset classes. As such, the decision to invest in 'alternatives' is now part of the portfolio implementation process in each asset segment as opposed to the policy asset mix allocation process.

INVESTMENT PERFORMANCE

Investment performance, at its most basic level, is the result of asset mix and asset class returns. Looking at broad asset class returns first, the year just ended was another good one for investors. Table 3 details the performance of various public markets assets and two major currency pairs for 2014 (and over the previous six years). As well as showing the divergence in regional equity returns, it highlights the surprisingly strong returns delivered by government bonds (Rates asset class) in 2014. It also hints at the importance of currency hedging considerations in the past year.

Table 3

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

	2008	2009	2010	2011	2012	2013	2014	Cum. 2008-14
Canadian Equity	-33.0%	35.1%	17.6%	-8.7%	7.2%	13.0%	**10.6%**	30.1%
U.S. Equity	-37.0%	26.5%	15.1%	2.1%	16.0%	32.4%	**13.7%**	63.4%
International Developed Markets Equity	-40.3%	24.7%	4.8%	-12.2%	17.3%	26.9%	**5.9%**	8.2%
Emerging Markets Equity	-45.9%	62.3%	14.1%	-12.7%	17.0%	3.4%	**5.2%**	11.2%
Canadian Corporate Bonds	0.2%	16.3%	7.3%	8.2%	6.2%	0.8%	**7.6%**	56.0%
Canadian Government Bonds	9.0%	1.6%	6.5%	10.2%	2.6%	-2.0%	**9.3%**	42.9%
USDCAD	25.1%	-15.1%	-5.2%	2.5%	-2.2%	6.7%	**9.0%**	17.4%
EURCAD	18.9%	-12.3%	-11.4%	-0.8%	-0.7%	11.5%	**-4.3%**	-2.9%

Although public markets delivered attractive returns, even stronger results were available to those investors that had adopted a broader definition of asset classes and pursued greater diversification among different types of strategies within the main categories of equity and debt (i.e., including the use of 'alternatives'). While there are many indices that are designed to track 'alternative asset' performance, most of them are not readily investable and thus less than ideal measures of performance. In our opinion, the returns (net of fees) actually earned by the University on investments in these assets and strategies (see Table 4 below) provide a better measure.

It is evident from a comparison of these results with Table 3 that the University's private markets investments have performed quite favorably over time. These investments generally outperformed public markets investments both in 2014 as well as cumulatively over the last seven years.

Table 4

Actual Alternative Asset Returns (Local)[1]

(After Fees)

Periods Ending December 31st

	2008	2009	2010	2011	2012	2013	2014	Cum. 2008-14
Private Investments	**1.5%**	**-1.2%**	**20.2%**	**14.8%**	**12.8%**	**13.8%**	**15.4%**	**105.0%**
Buyout	-0.2%	-9.7%	25.5%	14.9%	15.0%	14.2%	**16.4%**	98.7%
Distressed	-7.3%	15.8%	17.6%	8.1%	16.6%	15.0%	**14.6%**	109.8%
Venture	19.9%	-6.9%	2.4%	27.4%	-12.6%	4.0%	**11.3%**	47.4%
Real Assets	**-2.9%**	**-18.0%**	**13.1%**	**9.0%**	**7.1%**	**11.6%**	**19.2%**	**39.8%**
Real Estate & Infrastructure	-1.4%	-26.2%	15.3%	12.5%	9.5%	14.7%	**24.3%**	47.2%
Commodities	-8.9%	-0.8%	8.8%	1.8%	2.1%	5.3%	**10.2%**	18.6%

1. Endowment Returns. Pension Returns substantially similar.

Table 5 below compares the University's Target Returns with the performance of the Benchmark Portfolio, the Endowment fund, the Pension fund and EFIP for 2014 and for two longer periods ending in 2014 (the 10-year period includes a number of significant changes in investment strategy).

As the Table indicates, the Endowment and Pension portfolios substantially outperformed the University's long-term Target Return in 2014 and over the most recent four-year period. The fixed income focused EFIP portfolio also outperformed its Target Return both in 2014 and over the last four years.

Table 5

Periods Ending December 31st									
	2014			4-Year (2011-2014)			10-Year (2005-2014)		
	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP
University Target Return[1]	**5.6%**	**5.6%**	**1.5%**	**5.5%**	**5.5%**	**1.8%**	**5.7%**	**5.7%**	**2.9%**
Benchmark Portfolio Return[2]	9.7%	9.7%	n.a.	7.7%	7.8%	n.a.	4.8%	4.7%	n.a.
Actual Net Return[3]	**12.9%**	**12.7%**	**2.0%**	**9.5%**	**9.4%**	**1.9%**	**4.7%**	**4.5%**	**2.7%**

n.a. = not applicable

1. For the Endowment and Pension portfolios, the target return is 4% plus inflation (CPI). For EFIP, the target return is the 365-day Canadian T-bill Index return plus 50 basis points.
2. Linked Benchmark Portfolio returns.
3. Net return after all fees and costs including UTAM costs, external manager fees, custody costs, etc.

The Table also indicates that over the ten-year period, both LTCAP and Pension marginally underperformed their Benchmark Portfolios and were unable to meet the University Target. This failure to meet the University Target was mainly due to issues associated with an over-allocation to equity and equity-like strategies compared to the Benchmark Portfolio in 2008 – a situation that was made worse by the decision to fully hedge foreign currency exposure in that year.

A key takeaway from these comparisons is the steady improvement recorded in the actual performance of LTCAP and Pension over the last several years compared to the Benchmark Portfolio (i.e., the University approved guide for actual allocations in the portfolios). This, in turn, importantly relates to the restructuring of UTAM initiated by the University and, more specifically, the addition of several experienced personnel and the build-out of a more robust investment and risk management infrastructure.

Examining calendar year 2014 more closely, the performance of the Reference / Benchmark Portfolio provides a useful starting point with respect to understanding the investment environment presented to 'active' investment managers such as UTAM. More specifically, the total return generated by this passively invested Benchmark Portfolio was 9.7% in 2014, better than expected at the start of the year and more than 4% above the University's 2014 target return of 5.6%. In dollar terms, and using beginning of year assets, this amounts to an extra $218 million relative to the University's return objective which is used to underwrite promises made to donors and pensioners.

In addition, the University benefited not only from the favorable market environment, but also from UTAM's active management decisions in 2014. Table 6 shows that the LTCAP and Pension portfolios (after all costs) earned returns that were 3.22% and 3.01% greater than the Benchmark Portfolio. In dollar terms and again using the start of year assets, this translates into an additional $166 million that was earned for the University relative to employing a passive approach. Totaling these amounts indicates that it was again a very good year for the University's investment portfolios.

Table 6

2014 Performance Attribution (%)

(12 Months Ending December 31st)

	Endowment		Pension	
Reference Portfolio Return (C$)		**9.67%**		**9.67%**
Value Added Versus Benchmark Portfolio:				
Asset Mix Differences	-0.91%		-0.87%	
Style Tilts and Manager Selection	3.36%		3.15%	
Different FX Exposure	0.83%		0.80%	
Other	-0.06%	**3.22%**	-0.07%	**3.01%**
Actual Portfolio Performance (C$)		**12.89%**		**12.67%**

Table 6 also sets out the factors underlying the performance differences from the Reference / Benchmark Portfolio for the two larger University portfolios. As this Table illustrates, the most significant contribution to the outperformance of both portfolios in 2014 was again the value added by the strategies and managers selected by the UTAM team (primarily EAFE, Emerging Markets and Absolute Return managers). An additional meaningful contributor was the fact that UTAM intentionally maintained a different exposure to foreign currencies in 2014 than that contained in the Reference Portfolio.

Table 7 below shows the returns of the various components of the University Portfolios relative to their asset segment benchmarks. As the Table clearly indicates, all areas, with the exception of Credit (and Canadian equity in the case of Pension), outperformed their benchmarks and thus added value to the portfolios in 2014. Of note is the continued outperformance of the Absolute Return segment of the portfolios. Comprised of liquid but non-traditional strategies (chosen to have little to no market sensitivity) and constructed by UTAM as an alternative to holding a simple government bond (Rates) portfolio, the decision resulted in approximately 2.5% of outperformance compared to the Rates benchmark in 2014 (after 9.6% outperformance in 2013). Non-North American equity managers (both EAFE and Emerging Markets) also contributed significantly to overall portfolio performance.

Table 7

(12 Months Ending December)	Endowment		Pension	
	Portfolio	**Benchmark**	**Portfolio**	**Benchmark**
Canadian Equity	**10.8%**	10.6%	**10.2%**	10.6%
US Equity (USD)	**14.7%**	13.7%	**14.8%**	13.7%
EAFE Equity (local)	**14.4%**	5.9%	**14.4%**	5.9%
Emerging Markets Equity (USD)	**4.9%**	-2.2%	**4.4%**	-2.2%
Credit	**7.1%**	7.6%	**7.1%**	7.6%
Rates	**9.8%**	9.3%	**9.8%**	9.3%
Absolute Return (local)[1]	**11.8%**	9.3%	**11.6%**	9.3%

1. Benchmark Index for Absolute Return is FTSE TMX Government Bond Total Return Index

As previously noted, the University set the target return for EFIP as the 365-day Canadian T-bill Index return plus 50 basis points. There is no Reference Portfolio for EFIP; the target is essentially a relatively stable, always positive, return with minimal risk to capital and liquidity being the overriding requirements. In today's ultra low interest rate environment, this presents a challenging task.

The average asset mix and 2014 investment performance for EFIP are summarized in Table 8 below. At the end of 2014, the EFIP portfolio had a market value of $1,353 million (2013: $1,253 million).

Table 8

	Asset Mix (2014 Average)[1]	Actual Return
Cash	67.1%	1.6%
Short-Term Bonds	20.5%	3.4%
Floating Rate Notes	12.3%	1.8%
Total	100%	2.0%

1. Weights are based on the average of monthly weights

EFIP generated a return of 2.0% in 2014, or 51 basis points above the University's Target Return of 1.5%. The primary reason for the outperformance was the allocation to fixed rate short-term corporate bonds which outperformed the EFIP benchmark by 1.9%.

RISK MANAGEMENT

UTAM attempts to evaluate and control key sources of risk through a number of actions. At the total portfolio level, we have implemented extensive modelling to assist us in better understanding the portfolio results of various asset mix alternatives in different scenarios and the risk associated with individual manager positions.

Manager selection is also an important aspect of risk control. In our sourcing and review process for considering new managers for the portfolios, we not only assess a manager's investment process and decompose past performance, but also conduct thorough operational due diligence on their organization and operational processes. This operational analysis is performed by UTAM with the assistance of external advisors. In addition, we pay attention to understanding what impact an allocation to a manager will have on the overall risk of the portfolio.

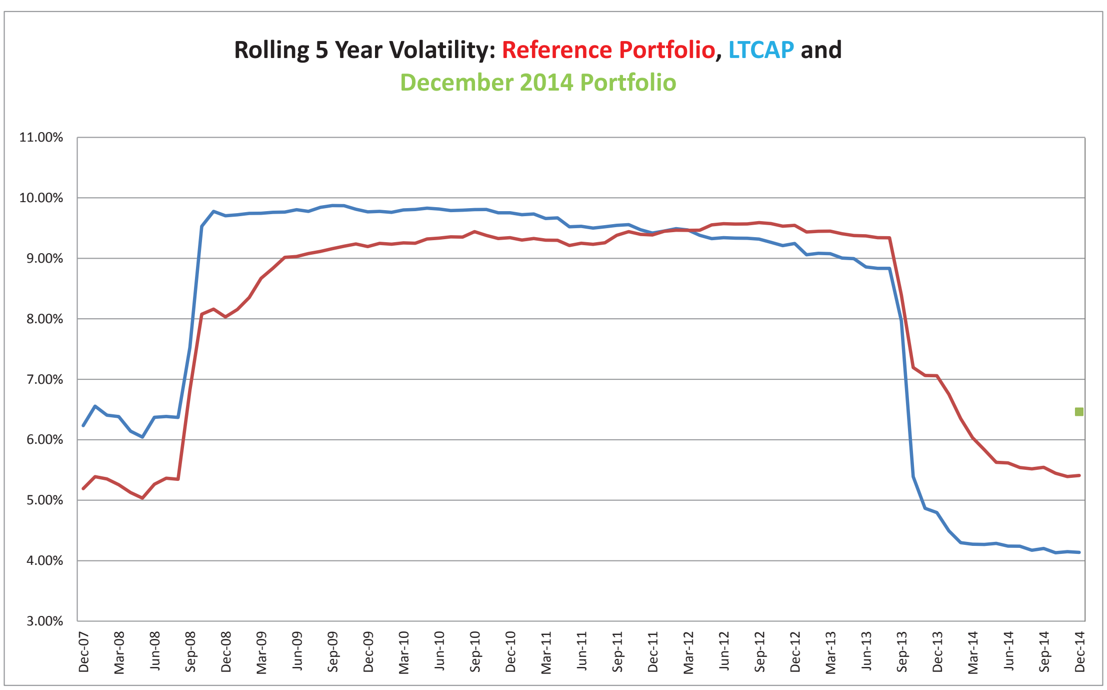
During 2012, we began implementation of a position-based risk analysis system. While this process entailed considerable effort by UTAM staff, it is our belief that the addition of this analytical tool facilitates more informed discussion regarding the actual risk exposures in the portfolios and allows for better planning in dealing with the inevitable future periods of market stress.

Because markes can be quite volatile, it is necessary to establish a risk limit for each portfolio. Once established, UTAM is then given discretion to make, and implement, investment decisions with the objective of earning returns (after costs) that exceed those of the Reference Portfolio, as long as the risk of the portfolio remains within the established limit.

For the LTCAP and Pension portfolios, this risk limit is linked to the expected risk of the Reference Portfolio.

In addition, minimum and maximum weights have been established for each of the major asset class groupings within the Reference Portfolio and a portfolio level liquidity constraint has been adopted. Taken together, these limits are viewed by the University as being sufficiently large to permit UTAM the flexibility to achieve its value-added objective but not so large as to put the portfolios at undue risk of significant underperformance relative to the Reference Portfolio.

The chart below provides some perspective on portfolio risk using one commonly used measure of risk (volatility, defined as the standard deviation of returns) applied to the University's LTCAP portfolio. The chart compares the rolling 5-year volatility of LTCAP's performance with that of the current Reference Portfolio. This comparison highlights the fact that despite the inclusion of 'private' investments that generally have the effect of reducing risk measured in this fashion, the University's LTCAP portfolio was still more risky than the Reference Portfolio in the run-up to the 2008-9 global financial crisis. It also shows the progress made over the last few years by UTAM in reducing risk measured on this basis (i.e., LTCAP realized risk is now below that of Reference Portfolio).



The December 2014 reading on the chart indicates the risk of LTCAP based on current holdings and after using our risk system to remove the dampening effect of 'private' investments referred to above (note the considerable difference). This 'adjusted' reading of risk is above that of the Reference Portfolio but in line with the 'active' risk budget given to UTAM by the University. Implicit in this type of analysis is also an improved capability to understand and proactively adjust risk levels in the portfolios going forward.

Unlike the Endowment and Pension portfolios, EFIP has a low tolerance for risk and no quantitative risk target. The EFIP investments are predominantly a well-diversified mixture of bank deposit accounts, and high quality bonds, mostly with shorter terms to maturity. These are the primary means of controlling risk for such a short-term oriented portfolio.

MARKET OUTLOOK

Generalization about the outlook for global capital markets is even more difficult today than was the case at the start of 2014. To a large degree this reflects a uniformity of opinion with respect to continuing benign conditions across the economic landscape (moderate growth with low inflation) and relatively complacent expectations for world equity and bond markets. In essence, the Quantitative Easing (QE) policies pursued by several central banks, have encouraged a belief that financial markets are generally friendly to investors. But such uniformity tends to imply that there is very little cushion for the unexpected shocks that invariably arise. As one of our managers recently pointed out, the degree of consensus around the consensus is unusual and it is both logical and historically the case that when almost everyone agrees on the outlook, any surprises relative to the consensus outlook could have sizeable implications (e.g., recall the consensus regarding rising interest rates at the start of 2014).

In this regard, we are beginning 2015 with a more pronounced divergence in global monetary policies (especially between the U.S. and the rest of the world), an elevated level of geopolitical risk and even richer valuation levels for many asset segments. These are not the typical conditions for favourable market performance; rather, these factors seem likely to contribute to a year of higher volatility and substantial dispersion in investment returns. Navigating through this type of environment will be difficult and require maintaining a long-term focus, rebalancing and a more selective and risk aware approach within equity and debt exposures.

That said, we continue to see only moderate evidence of the typical triggers that initiate major bear markets. As such, we continue to maintain the aggregate equity weighting in the portfolios quite close to, but not in excess of, the policy weight. What does seem clear, however, is that the outsized returns of the last few years are unlikely to repeat in 2015.

In this environment, passive strategies are likely to produce disappointing returns and an 'active' approach to portfolio management that thoughtfully includes alternative strategies will continue to represent a better option for meeting the required return and risk objectives.

UTAM Board Of Directors

(As at December 31, 2014)

JOHN F. (JACK) PETCH QC, LL.D *Chair of the Board*
Independent Director

SHEILA BROWN
University of Toronto,
Chief Financial Officer

MERIC GERTLER
University of Toronto,
President

ETTORE DAMIANO
University of Toronto Faculty Association,

WILLIAM W. MORIARTY
University of Toronto Asset Management Corporation,
President and Chief Executive Officer

DAVID WALDERS
University of Toronto,
Acting Assistant Secretary to the Governing Council
University of Toronto Asset Management Corporation,
Secretary to the Board

University Of Toronto Asset Management Corporation Staff

(As At February 28, 2015)

WILLIAM W. MORIARTY, CFA
President and Chief Executive Officer

JOHN T. HSU, FCPA, FCMA, C. Dir
Chief Operating Officer

ADRIAN HUSSEY, CFA
Managing Director, Portfolio and Risk Analysis

CAMERON RICHARDS, CFA
Managing Director, Investment Strategy and Co-Chief Investment Officer

DAREN SMITH, CFA, CAIA, FRM, FCIA
Managing Director,
Manager Selection and Portfolio Construction

LISA BECKER, FCA (ICAEW)
Director, Operational Due Diligence and Chief Compliance Officer

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

KELVIN HU, CFA, FRM
Senior Analyst, Portfolio and Risk Analysis

DIETER FISBEIN
Analyst, Manager Selection and Portfolio Construction

JULIANA ING, CFA, FRM
Analyst, Portfolio Performance

PAYTON LIU
Analyst, Portfolio Performance

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

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

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

STAN CHIEN
Analyst, Compliance

ANNE LEE
Analyst, Investment Operations

TOAN DUONG, CPA, CMA
Associate, Investment Operations

DIANE NGUYEN
Office Manager

JILLIAN MIRANDA
Administrative Assistant

Corporate Address

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MaRS Centre, Heritage Building
Toronto, Ontario M5G 1L7

Telephone: 416.673.8400
Fax: 416.971.2356
Website: http://www.utam.utoronto.ca

UNIVERSITY OF TORONTO

www.utam.utoronto.ca

Financial Statements

University of Toronto Asset Management Corporation

December 31, 2014

INDEPENDENT AUDITORS' REPORT

To the Directors of
University of Toronto Asset Management Corporation

We have audited the accompanying financial statements of **University of Toronto Asset Management Corporation**, which comprise the statements of financial position as at December 31, 2014 and 2013, and the statements of net income, comprehensive income and changes in net assets and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management to meet the requirements of National Instrument 31-103, *Registration Requirements, Exemptions and Ongoing Registrant Obligations*, based on the financial reporting framework specified in paragraph 3.2(3)(a) of National Instrument 52-107, *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting framework specified in paragraph 3.2(3)(a) of National Instrument 52-107, *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of University of Toronto Asset Management Corporation as at December 31, 2014 and 2013 and its financial performance and its cash flows for the years then ended in accordance with the financial reporting framework specified in paragraph 3.2(3)(a) of National Instrument 52-107, *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants.

Basis of accounting and restriction on use

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist University of Toronto Asset Management Corporation to meet the requirements of National Instrument 31-103, *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for University of Toronto Asset Management Corporation and the Ontario Securities Commission, and should not be used by parties other than University of Toronto Asset Management Corporation or the Ontario Securities Commission.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 30, 2015

University of Toronto Asset Management Corporation

STATEMENTS OF FINANCIAL POSITION

As at December 31

	2014 $	**2013** $
ASSETS		
Current		
Cash	**84,161**	347,134
Due from University of Toronto *[notes 6[a] and [e]]*	**174,391**	—
Prepaid expenses	**101,176**	45,916
Total current assets	**359,728**	393,050
Capital assets, net *[note 4]*	**92,614**	157,350
Total assets	**452,342**	550,400
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	**359,728**	345,141
Due to University of Toronto *[notes 6[a] and [e]]*	—	47,909
Total current liabilities	**359,728**	393,050
Deferred capital contributions *[note 5]*	**92,614**	157,350
Total liabilities	**452,342**	550,400
Net assets	**—**	—
	452,342	550,400

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

	2014	**2013**
	$	$
EXPENSES *[note 6]*		
Staffing	**5,661,337**	4,957,717
Communications and information technology support	**311,290**	291,817
Occupancy	**219,840**	221,313
Consulting fees	**134,707**	125,371
Office supplies and services	**111,287**	67,560
Amortization of capital assets	**89,790**	88,219
Professional fees	**85,139**	107,998
Travel	**53,806**	83,451
	6,667,196	5,943,446
RECOVERIES AND OTHER INCOME		
Recoveries from University of Toronto *[note 6]*	**6,577,406**	5,855,227
Amortization of deferred capital contributions *[note 5]*	**89,790**	88,219
	6,667,196	5,943,446
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

	2014 $	2013 $
OPERATING ACTIVITIES		
Net income and comprehensive income for the year	—	—
Add (deduct) items not involving cash		
Amortization of capital assets	**89,790**	88,219
Amortization of deferred capital contributions	**(89,790)**	(88,219)
Changes in non-cash working capital balances related to operations		
Due to/from University of Toronto	**(222,300)**	121,238
Prepaid expenses	**(55,260)**	(7,791)
Accounts payable and accrued liabilities	**14,587**	140,089
Cash provided by (used in) operating activities	**(262,973)**	253,536
INVESTING ACTIVITIES		
Purchase of capital assets	**(25,054)**	(19,192)
Cash used in investing activities	**(25,054)**	(19,192)
FINANCING ACTIVITIES		
Deferred capital contributions to fund purchase of capital assets	**25,054**	19,192
Cash provided by financing activities	**25,054**	19,192
Net increase (decrease) in cash during the year	**(262,973)**	253,536
Cash, beginning of year	**347,134**	93,598
Cash, end of year	**84,161**	347,134

See accompanying notes

University of Toronto Asset Management Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

1. RELATIONSHIP WITH THE UNIVERSITY OF TORONTO

University of Toronto Asset Management Corporation ["UTAM"] is a corporation without share capital incorporated on April 25, 2000 by the Governing Council of the University of Toronto [the "Governing Council"] under the Corporations Act (Ontario) in Canada. UTAM is a non-profit organization under the Income Tax Act (Canada) and, as such, is exempt from income taxes. UTAM is registered as a portfolio manager and an investment fund manager in Ontario. UTAM is domiciled in the Province of Ontario, Canada and its registered office address is at 101 College Street, Suite 350, Toronto, Ontario, Canada.

UTAM was formed by the University of Toronto ["U of T"] to engage in professional investment management activities in order to manage the investment assets of U of T, which currently comprise its Endowment Funds, Expendable Fund and Pension Plans, through a formal delegation of authority and investment management agreement between UTAM and U of T.

The financial statements of UTAM were authorized for issue by the Board of Directors on March 26, 2015.

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 the UTAM Pooled Fund and U of T's Endowment Funds, Expendable Fund and Pension Plans, through a formal delegation of authority and investment management agreement between UTAM and U of T. These funds meet the definition of structured entities under IFRS 12. However, UTAM does not earn any fees from these funds for its management services and is therefore not exposed to significant risks from interests in these unconsolidated structured entities. U of T reimburses UTAM for its services to allow it to recover the appropriate costs to support its operations *[note 6[a]]*. UTAM provides no guarantees against the risk of financial loss to the investors of these funds.

The financial statements of UTAM have been prepared on a going concern basis and on the historical cost basis. UTAM's presentation currency is the Canadian dollar, which is also its functional currency.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Future accounting changes

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 introduces a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value, such that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments.

UTAM will adopt this standard when it becomes effective. UTAM is currently reviewing the standard to determine the effect on the financial statements.

Significant accounting policies

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

Critical accounting estimates and judgments

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

UTAM based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of UTAM. Such changes are reflected in the assumptions when they occur.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics or UTAM's designation of such instruments. UTAM has classified all of its financial assets as loans and receivables, and all of its financial liabilities as other financial liabilities. All of UTAM's financial instruments are carried at either cost or amortized cost and are short- term in nature. Unless otherwise noted, it is management's opinion that UTAM is not exposed to significant risks arising from these financial instruments.

UTAM's management has established a control environment that endeavors to ensure significant operating risks are reviewed regularly and that controls are operating as intended, including assessing and mitigating the various financial risks that could impact UTAM's financial position and financial performance.

[a] Market risk

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

[i] Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the future cash flows or fair values of financial instruments. As at December 31, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013.

[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, 2014 and 2013.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Leasehold improvements	term of lease
IT infrastructure equipment	5 years
Desktops and software	3 years

Revenue recognition

Recoveries from U of T are recorded when expenses are incurred. Recoveries related to the purchase of capital assets are deferred and amortized over the life of the related capital asset.

Employee future benefits

UTAM's contributions to U of T's employee future benefit plans are expensed when due *[note 6[b]]*.

Foreign currency translation

Transactions in foreign currencies are initially recorded at the functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into the functional currency at rates prevailing at the year end. Gains and losses resulting from foreign currency transactions are included in the statement of net income, comprehensive income and changes in net assets.

4. CAPITAL ASSETS

Capital assets consist of the following:

	Leasehold improvements $	IT infrastructure equipment $	Desktops and software $	Total $
Cost				
Balance, January 1, 2013	448,945	88,706	60,371	598,022
Additions	2,809	—	16,383	19,192
Balance, December 31, 2013	451,754	88,706	76,754	617,214
Additions	21,399	—	3,655	25,054
Balance, December 31, 2014	**473,153**	**88,706**	**80,409**	**642,268**
Accumulated amortization				
Balance, January 1, 2013	300,791	48,628	22,226	371,645
Amortization	46,343	17,741	24,135	88,219
Balance, December 31, 2013	347,134	66,369	46,361	459,864
Amortization	52,417	17,741	19,632	89,790
Balance, December 31, 2014	**399,551**	**84,110**	**65,993**	**549,654**
Net book value				
Balance, December 31, 2013	104,620	22,337	30,393	157,350
Balance, December 31, 2014	**73,602**	**4,596**	**14,416**	**92,614**

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

The continuity of deferred capital contributions is as follows:

	2014	**2013**
	$	$
Balance, beginning of year	**157,350**	226,377
Recoveries received during the year related to capital asset purchases	**25,054**	19,192
Amortization of deferred capital contributions	**(89,790)**	(88,219)
Balance, end of year	**92,614**	157,350

6. RELATED PARTY TRANSACTIONS

UTAM is a wholly-owned subsidiary of U of T.

[a] In accordance with the amended and restated Service and UTAM Personnel Agreement dated May 14, 2003 and subsequently replaced by the Investment Management Agreement dated November 26, 2008 between the Governing Council and UTAM [the “Agreement”], U of T will reimburse UTAM for its services an amount which will enable it to recover the appropriate costs to support its operations. U of T reimburses UTAM on a quarterly basis based on the approved budget. As at December 31, 2014, $144,083 is due from U of T as a result of the actual cost of operations exceeding reimbursements [2013 – $47,909 due to U of T].

[b] Eligible employees of UTAM are members of U of T’s pension plan and participate in other employee future benefit plans offered by U of T. U of T’s employee future benefit plans are defined benefit plans. In accordance with the Agreement, U of T pays for UTAM’s employee benefits. In 2014, contributions of $201,296 [2013 - $200,776] related to these plans have been expensed.

[c] UTAM obtains certain services from U of T, such as payroll and IT support. There is a charge for some of these services, which is reimbursed by U of T in accordance with the Agreement. In 2014, these services totaled $39,932 [2013 - $35,305].

[d] The Governing Council entered into a lease with a term of ten years and six months commencing October 1, 2005 for the premises occupied by UTAM. UTAM will pay the following amounts to the landlord directly, which represent the minimum rent component of the lease obligations:

	$
2015	106,724
2016	26,681
	133,405

In addition to the above minimum rent payments, there are additional payments in respect of operating and tenant in-suite hydro costs that are subject to change annually based on market rates and actual usage. These components totaled $107,036 [2013 - $108,725] in 2014. These expenses are reimbursed by U of T in accordance with the Agreement.

[e] Transactions with U of T are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the parties. Amounts due to/from U of T are non-interest bearing and due on demand.

[f] Commencing 2013, UTAM implemented a new incentive bonus plan whereby a portion of the bonus is deferred over a service period, which is payable at the end of the service period. The expense for deferred bonus awards is recognized on a straight-line basis over the service period, and remeasured at each reporting date with remeasurement gains or losses recognized in net income. As a result, a portion of the 2014 deferred bonus awards is expensed in 2014, with the remaining amount, which is expected to be approximately $394,200 plus an adjustment for the performance of the U of T's investment portfolios, to be recorded as expense in 2015.

[g] Transactions with key management personnel

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

	2014 $	2013 $
Short-term employee benefits	**3,021,287**	2,597,669
Post-employment benefits	**78,278**	77,496
Other long-term benefits	**353,436**	268,477
	3,453,001	2,943,642

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, 2014, UTAM has met its objective of having sufficient liquid resources to meet its current obligations.

Portfolio Performance Review

University of Toronto Business Board Meeting

April 7th, 2015

William W. Moriarty, CFA
President and CEO, UTAM

In Brief

- Total assets under management increased 12.0% in 2014 to $7.4 billion; long-term assets increased by 12.9% to $6.1 billion.
- Capital markets environment remained favorable in 2014 but was again characterized by significant dispersion of returns.
- Changes enacted over the last six years continued to generate value-add for portfolios in 2014.
- Actual return on long-term portfolios exceeded University's Target Return by over 7% in 2014.
- 'Active' management decisions contributed approximately half of this amount.
- Steady improvement in performance compared to Benchmark Portfolio over recent years.
- Continue to expect that a more challenging environment for investors lies ahead.

Annual Returns vs. University Targets

	2014			2 - Year (2013-2014)			4 - Year (2011-2014)		
	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP
University Target Return[1]	**5.6%**	**5.6%**	**1.5%**	**5.5%**	**5.5%**	**1.6%**	**5.5%**	**5.5%**	**1.8%**
Benchmark Portfolio Return	9.7%	9.7%	n.a.	11.0%	11.0%	n.a.	7.7%	7.8%	n.a.
Actual Net Return[2]	**12.9%**	**12.7%**	**2.0%**	**14.1%**	**13.9%**	**1.8%**	**9.5%**	**9.4%**	**1.9%**
Assets (December 31; millions)									
2014	$2,293	$3,784	$1,353						
2013	$2,135	$3,246	$1,253						

n.a. = not applicable

1 For the Endowment and Pension portfolios, the target return is 4% plus inflation (CPI). For EFIP, the target return is the 365-day Canadian T-bill Index return plus 50 basis points.

2 Gross return less all fees and costs including UTAM costs, external manager fees, custody costs, etc.

- **Very good year for the University as the two main portfolios earned an extra 7% over the Target Return.**

- **Based on beginning of year asset levels, this equates to an extra $384mm for the University.**

2014 Value-Added Versus Benchmark Portfolio

2014 Performance Attribution (%)				
	Endowment		Pension	
Reference Portfolio Return (C$)		**9.67%**		**9.67%**
Value Added Versus Reference Portfolio				
Asset Mix Differences	-0.91%		-0.87%	
Style Tilts and Manager Selection	3.36%		3.15%	
Different FX Exposure	0.83%		0.80%	
Other	-0.06%	**3.22%**	-0.07%	**3.01%**
Actual Portfolio Performance (C$)		**12.89%**		**12.67%**

- **The Benchmark Portfolio (i.e., the Reference Portfolio) continued to outperform the University Target -- by more than 4% in 2014.**

- **Active management decisions (net of costs) added an additional 3% to performance, especially UTAM's manager and strategy selection activities. Currency also added**.

A Steady Improvement in Value-Added

Value-Add vs. Benchmark Portfolio		
	LTCAP	Pension
2009	-1.72%	-1.57%
2010	-0.14%	0.11%
2011	0.40%	0.35%
2012	0.90%	0.62%
2013	2.92%	2.71%
2014	3.22%	3.10%

- Value-added has steadily improved each year since 2008. Last two years have been extremely strong.
- Reflects restructuring of portfolios in early 2012, the addition of experienced personnel and the development of enhanced infrastructure at UTAM.

Portfolio Asset Mix

	Endowment		Pension		Reference
(AS AT DECEMBER 31)	2013	2014	2013	2014	Portfolio
Canadian Equity[1]	15.8%	**16.1%**	15.8%	**16.1%**	16.0%
US Equity[1]	18.0%	**17.8%**	18.1%	**17.8%**	18.0%
Int'l Developed Markets Equity[1]	16.3%	**15.7%**	16.3%	**15.7%**	16.0%
Emerging Markets Equity[1]	10.1%	**9.9%**	10.1%	**10.0%**	16.0%
Credit[1]	18.8%	**20.0%**	18.8%	**20.0%**	20.0%
Rates[1]	10.8%	**10.2%**	11.1%	**10.6%**	20.0%
Other (including cash and notional offsets)[2]	10.2%	**10.2%**	9.9%	**9.7%**	0.0%
Total	100.0%	**100.0%**	100.0%	**100.0%**	100.0%
Cash (actual)[3]	5.9%	**17.6%**	6.0%	**17.0%**	
Portfolio Value (millions)	$2,135	**$2,293**	$3,246	**$3,784**	

- **No major changes in asset mix in 2014; generally in line with Reference Portfolio.**
- **Continued to underweight government bonds in 2014.**

Public Markets Returns

Public Markets Index Returns (Local)
(Before Fees)

	(Periods Ending December 31) 2008	2009	2010	2011	2012	2013	2014	Cum. 2008-14
Canadian Equity	-33.0%	35.1%	17.6%	-8.7%	7.2%	13.0%	10.6%	30.1%
U. S. Equity	-37.0%	26.5%	15.1%	2.1%	16.0%	32.4%	13.7%	63.4%
Int'l Developed Markets Equity	-40.3%	24.7%	4.8%	-12.2%	17.3%	26.9%	5.9%	8.2%
Emerging Markets	-45.9%	62.3%	14.1%	-12.7%	17.0%	3.4%	5.2%	11.2%
Canadian Corporate Bonds	0.2%	16.3%	7.3%	8.2%	6.2%	0.8%	7.6%	56.0%
Canadian Government Bonds	9.0%	1.6%	6.5%	10.2%	2.6%	-2.0%	9.3%	42.9%
USDCAD	25.1%	-15.1%	-5.2%	2.5%	-2.2%	6.7%	9.0%	17.4%
EURCAD	18.9%	-12.3%	-11.4%	-0.8%	-0.7%	11.5%	-4.3%	-2.9%

- **Equity markets performance more varied in 2014; fixed income performance better than most, including UTAM, initially expected.**
- **Currency hedging policy a more important factor in 2014 (e.g., less USD hedging increased returns).**

Private Investment Returns

Actual Alternative Asset Returns (Local)[1]
(After Fees)

	(Periods Ending December 31)							Cum.
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2008-14**
Private Investments	**1.5%**	**-1.2%**	**20.2%**	**14.8%**	**12.8%**	**13.8%**	**15.4%**	**105.0%**
Buyout	-0.2%	-9.7%	25.5%	14.9%	15.0%	14.2%	16.4%	98.7%
Distressed	-7.3%	15.8%	17.6%	8.1%	16.6%	15.0%	14.6%	109.8%
Venture	19.9%	-6.9%	2.4%	27.4%	-12.6%	4.0%	11.3%	47.4%
Real Assets	**2.9%**	**-18.0%**	**13.1%**	**9.0%**	**7.1%**	**11.6%**	**19.2%**	**39.8%**
Real Estate & Infrastructure	-1.4%	-26.2%	15.3%	12.5%	9.5%	14.7%	24.3%	47.2%
Commodities	-8.9%	-0.8%	8.8%	1.8%	2.1%	5.3%	10.2%	18.6%

1 . Endowment Returns. Pension Returns substantially similar.

- **Private markets results were again quite strong in 2014.**
- **Longer term performance has also been quite attractive versus Public Market equities.**

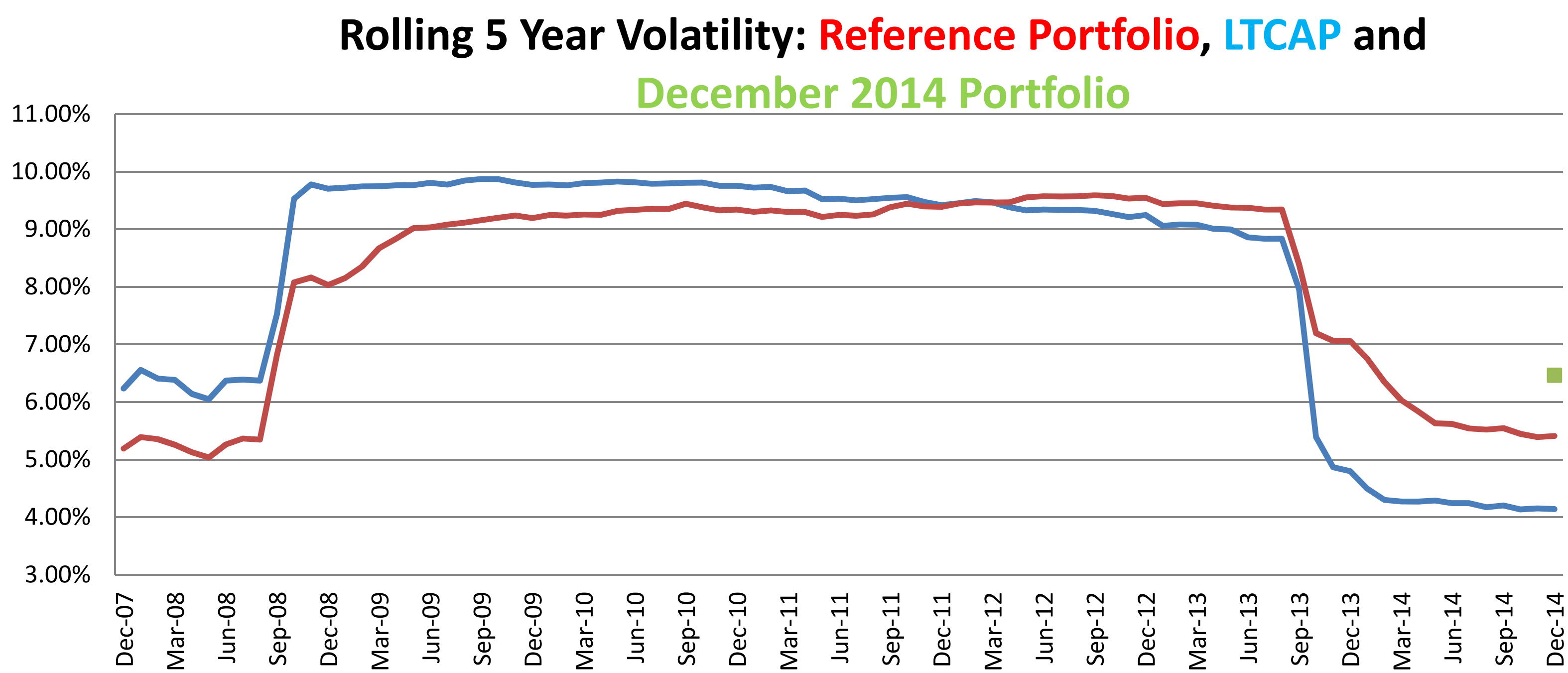
Asset Segment Returns

(12 months ending December)	Endowment			Pension	
	Portfolio	Benchmark		Portfolio	Benchmark
Canadian Equity	10.8%	10.6%		10.2%	10.6%
US Equity (USD)	14.7%	13.7%		14.8%	13.7%
EAFE Equity (local)	14.4%	5.9%		14.4%	5.9%
Emerging Markets Equity (USD)	4.9%	-2.2%		4.4%	-2.2%
Credit	7.1%	7.6%		7.1%	7.6%
Rates	9.8%	9.3%		9.8%	9.3%
Absolute Return(local)[1]	11.8%	9.3%		11.6%	9.3%

1. Benchmark Index for Absolute Return is FTSE TMX Government Bond Total Return Index

- **Most areas outperformed the public markets benchmark; some quite strongly.**
- **Canadian public markets' equity and credit managers posted slight underperformance versus their benchmarks.**

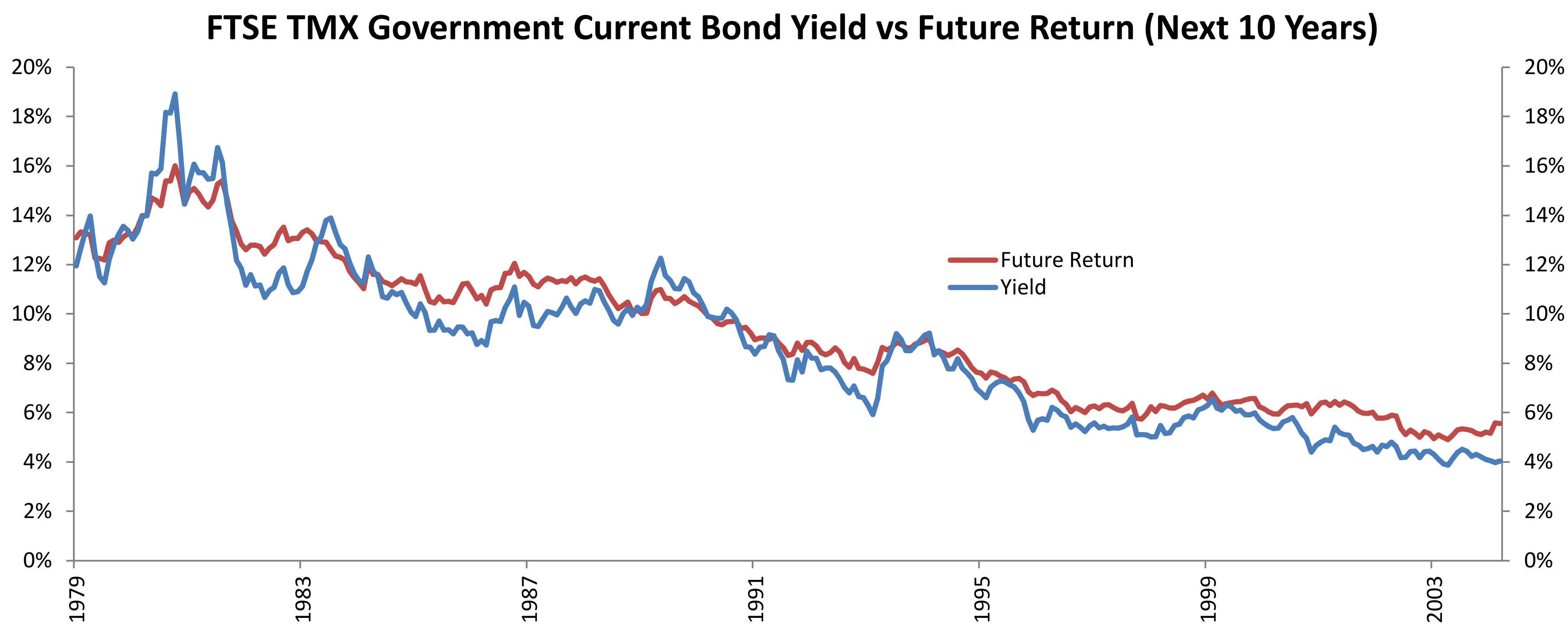
Portfolio Risk vs. Reference Portfolio



- Chart examines one measure of risk – volatility.
- Comparison indicates progress made over last few years in reducing risk measured on this basis.
- December 2014 level highlights gap between risk measured with and without the dampening effect of private investments. Current portfolio position fully utilizes 'active' risk budget.

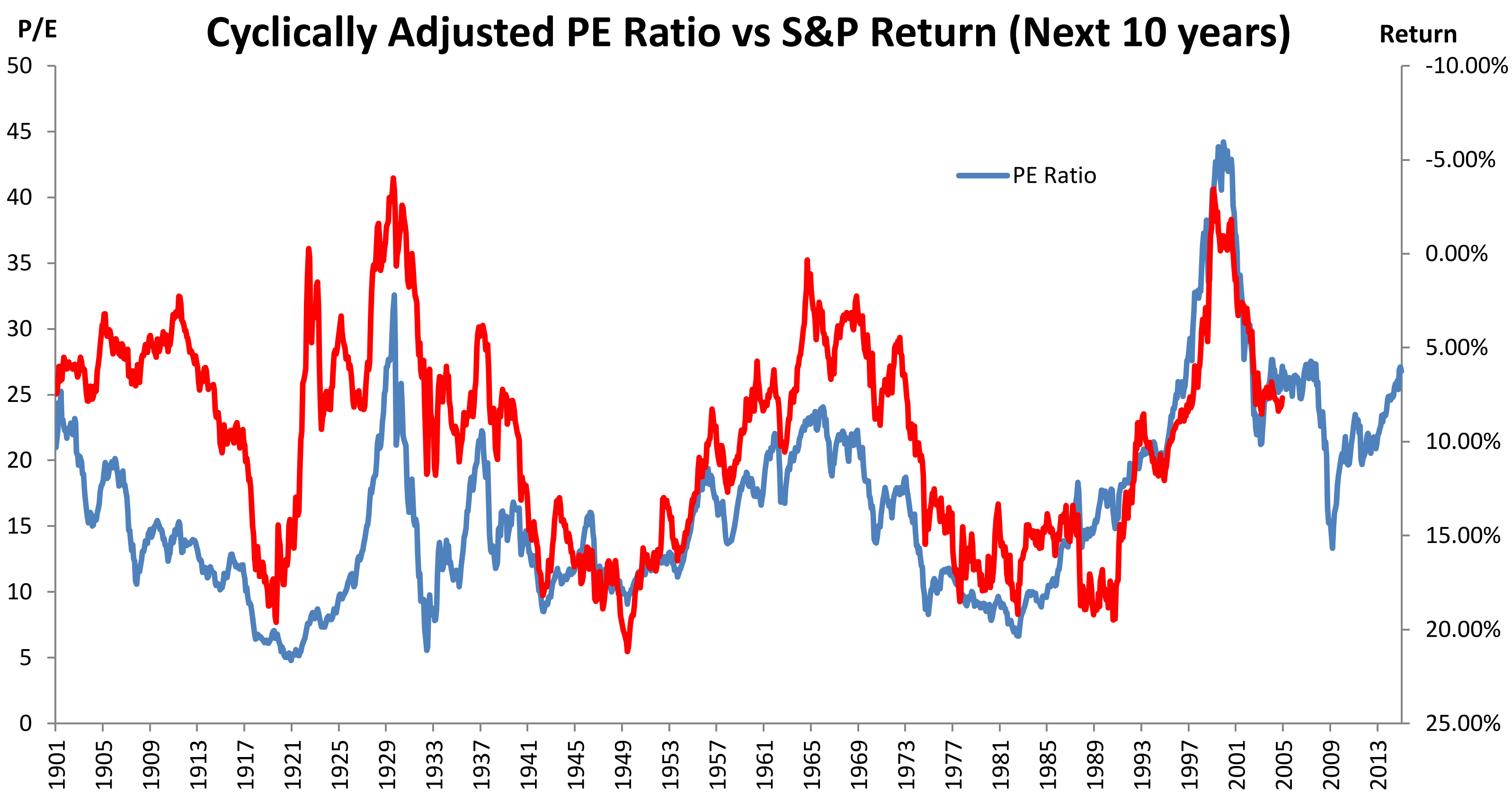
A Challenging Investment Environment

- Traditional Fixed Income Investments Likely To Provide Disappointing Returns -



- **As the chart illustrates, yield levels provide a reasonable estimate of returns to be earned over the next 10 years.**
- **At the current level (1.5%), government bonds provide not only meager return prospects but also quite limited protection against inflation and/or market and economic turbulence.**

Understanding the Challenges Ahead



- Cyclically adjusted price / earnings ratio of US market a useful indicator of likely future returns; level now higher than 90% of history.
- Current US equity market valuations suggest both higher risk and considerably more moderate returns ahead (a simple model suggests 4.5% to 7% nominal return) .

Current Investment Environment

- Little change in UTAM's outlook.
- Near term, developed markets' environment remains characterized by continuing low interest rates, low inflation and moderate economic growth.
- Emerging markets backdrop should remain stronger but with meaningful performance dispersion among these countries.
- At normal valuation levels, would generally suggest a favorable environment for equity markets and a benign one for bonds.
- But valuations for many financial assets are not compelling, except in relation to a cash alternative.
- Valuations also imply little cushion against unexpected shocks.
- Although considerable potential for short-term volatility, viewed with a longer-term perspective, the most likely scenario for investors is a period of generally low asset returns.
- In this environment, additional return earned through 'active' portfolio management will be even more valuable.