2007 annual report

University of Toronto
Asset Management Corporation

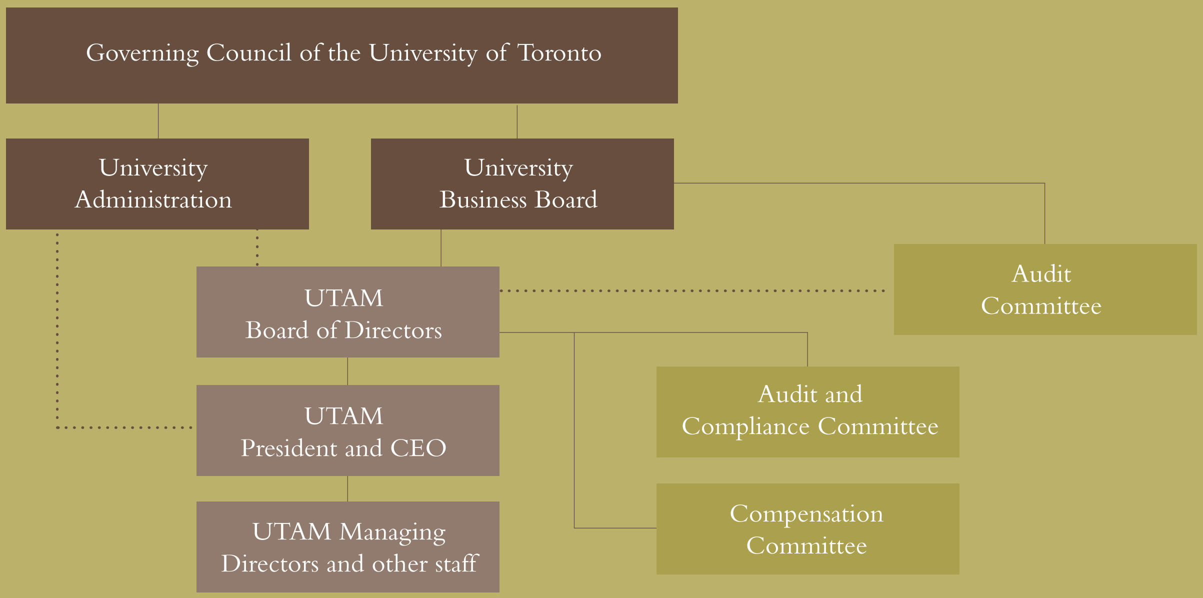
VELUT ARBOR ÆVO

our mission

The mission of UTAM is to deliver consistent superior investment returns through skilled investment management applied with the highest standards of professional conduct.

ORGANIZATION CHART

The chart below provides a schematic representation of the key organizational interrelationships of the governing bodies involved in oversight of UTAM and its investment activities.



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

highlights

University of Toronto Asset Management Corporation (UTAM) is wholly owned by the University of Toronto and manages $5.74 billion of assets for the University. UTAM's management of these investments is primarily focused on striving to meet the University's objectives in key areas, as follows.

INVESTMENT PERFORMANCE TARGETS

The University establishes a return objective for each portfolio. The Endowment and Pension portfolios have the same target return. UTAM also measures investment performance against a passive market index benchmark for each asset class and against a peer universe. The table below summarizes performance for 2007 and over a five-year period (annualized) against these performance reference points.

Investment performance highlights

	Endowment		Pension	
(Period Ending December 31, 2007)	1-Year	5-Year	1-Year	5-Year
Actual Net Return	6.11%	11.67%	5.98%	11.46%
University's Target Return	6.38%	6.07%	6.38%	6.07%
Market Benchmark Return	6.08%	11.63%	5.89%	11.21%
Percentile Rank	1	8	1	9

Actual net returns in 2007 were slightly ahead of market benchmark returns and exceeded 99% of the other funds in the peer universe (i.e. 1st percentile rank). However, returns were somewhat less than the University's target return, after four consecutive years of outperforming that target.

On a five-year basis, portfolio returns have strongly surpassed the University's target return and exceeded the market benchmark returns. Over the past five years, UTAM generated cumulative value-added of more than $950 million above the University's target return for these portfolios. This provides a cushion to help absorb the impact of more difficult market conditions, such as we have experienced since mid-2007 and into 2008. Performance ranked in the top decile of the peer universe; i.e. exceeded more than 90% of the other funds.

RISK TARGETS

The University specifies a risk tolerance for each of the three portfolios that UTAM manages. The Endowment portfolio and the Pension portfolio each have the same risk specification, which can be summarized as a 10% volatility of returns over a 10-year period. The volatility of returns is measured by standard deviation, a widely used investment industry statistic. For the third portfolio, EFIP, the risk tolerance is simply stated as low risk.

The actual risk level for each of the Endowment and the Pension portfolios is running at about 5.8% on a three-year basis and 6.4% on a 12-month basis. The somewhat higher risk on the shorter term basis is due to the increased volatility in securities markets since about mid-2007. In either case, the portfolios are running at risk levels well below the University's 10% risk target. The calculation of actual risk currently excludes private fund investments. These investments have a short history in the portfolios and modest invested levels, and would have little impact on actual risk levels at this point.

The Endowment and Pension portfolios are very well diversified across asset classes, geographies, investment styles (e.g. Value versus Growth), market capitalization (e.g. Large Cap versus Small Cap), managers and individual securities. Fixed Income holdings are predominantly Government and high quality corporate credits. EFIP is well diversified across Government and high quality corporate holdings with shorter maturities. These diversification characteristics collectively help reduce risk in the portfolios.

On a five-year basis, portfolio returns have strongly surpassed the University's target return and exceeded the market benchmark returns.

PROFESSIONAL INFRASTRUCTURE

Several years ago, UTAM decided to manage all investments on an outsourced basis, by selecting and hiring third party investment managers. Up until then, some investments were managed in-house. It had become clear that UTAM's small staff complement would be more effectively used in conjunction with a full outsourcing approach. This allowed UTAM to devote more time to the critical areas of: (i) investment strategy and portfolio construction; and (ii) finding the best third party investment managers possible across various asset classes globally.

The fully outsourced approach has been in place since the third quarter of 2005. UTAM also outsources support services as much as possible, such as custody of assets and basic investment performance measurement. As a result, UTAM has strived to develop a small group of high caliber investment professionals who can cover all major asset classes globally in-depth. This helps contain costs while allowing the use of sophisticated investment strategies.

COMPLIANCE OVERSIGHT

Compliance oversight is very important to UTAM and we have an in-house Compliance professional. A variety of compliance checks are run daily on the portfolios. We conduct regular reviews of our external investment managers and regularly obtain certificates of compliance from our Public Markets managers. We are actively involved in supporting the University's activity in reviewing Responsible Investing practices and their applicability to the assets that UTAM manages for the University.

who we are

The University of Toronto Asset Management Corporation (UTAM) was established by the University of Toronto in April 2000. The intent was to create a professional investment management organization to manage the University's Endowment fund, Pension fund and financial assets. UTAM is wholly owned by the University and is governed by its own Board of Directors. The UTAM Board is responsible for the oversight and direction of UTAM and reports on the investments under management to the Business Board of the University of Toronto.

UTAM manages $5.74 billion of assets in three portfolios: the University's $2.11 billion Endowment fund, the University's $2.99 billion Pension fund and the University's working capital pool of over $600 million.

The nature of investing means that change is continual. We nonetheless maintain a keen focus on our primary mandate to add value to the University's funds. This will help advance the broader goals of the University and its many stakeholders. Over the past five years, UTAM has generated cumulative value added of more than $950 million above the University's target return for the Endowment and Pension portfolios. This value added represents almost 19% of these portfolios at December 31, 2007.

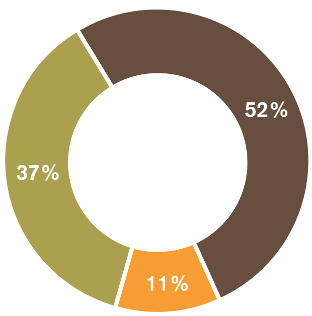
The day-to-day management of the underlying assets in each portfolio is undertaken primarily through our selection of best-of-class third party investment managers. This approach has provided several advantages to the University, including access to specialized investment expertise and enhanced diversification of assets. At the same time, it has allowed UTAM to maintain a small staff (less than 15 full-time individuals) that is able to concentrate on areas in which we can add the most value. These include investment strategy, portfolio construction and finding the best third party investment managers available. The asset classes in which we invest cover all the major asset classes and investment markets around the world.

A number of important changes have resulted from the evolution of UTAM over the past few years. Investment strategies more heavily focused on maximizing risk-adjusted returns have led to changes in the line-up of third party managers that are used for public equities and public fixed income holdings. An increased emphasis on diversification led to a complete overhaul of hedge fund investments. A ground-up examination of asset mix led to an increased allocation to Alternative Assets, such as hedge funds, private equity and real estate. The investment programs for Alternative Assets were significantly upgraded starting in 2005, with a more focused strategy and an increased pace of participation in order to reach target levels over time.

what we manage

UTAM oversees the University of Toronto's three pools of assets, shown in Exhibit 1. In total, these were valued at $5.74 billion at December 31, 2007 ($5.37 billion at December 31, 2006), an increase of 7.0%.

Exhibit 1 – Assets under management ($billions)



- **$2.99** Pension
- **$2.11** Endowment (LTCAP)[1]
- **$0.64** EFIP
- **$5.74** Total

[1] Primarily endowment funds, but includes certain other assets invested for the long-term

These assets are invested by UTAM and held by a custodian on behalf of the University of Toronto. The assets of the Endowment (LTCAP) and EFIP are reported in the University's financial statements. The applicable portion of the Pension assets are reported in each of the University of Toronto Pension Plan and the OISE Pension Plan financial statements.

The University prepares a comprehensive Annual Report each fiscal year on the status and activity of each of the three pools of funds. The fiscal year-end of the University (re: Endowment, EFIP) is April 30 and the fiscal year-end of the Pension plans is June 30.

UTAM's primary focus is on investment of the assets in the three portfolios. UTAM reports on the assets and investment performance in detail each year on a calendar year basis, which is the reporting convention used in the investment management industry.

> Despite the volatility in the securities markets, the risk level in our portfolios remains substantially below the University's risk tolerance.

ENDOWMENT FUND (LTCAP)

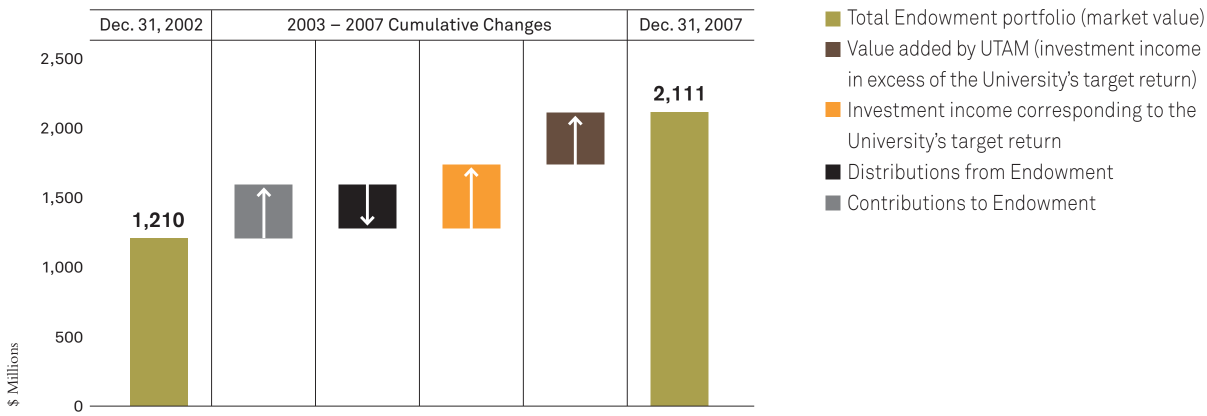
The Endowment fund, which is formally called the Long Term Capital Appreciation Pool (LTCAP), primarily represents the collective Endowment fund of the University. However, it also contains certain other assets invested for the long-term, including assets which back the University's Supplemental Retirement Arrangement. LTCAP is a pool of assets managed as a single fund that is denominated on a unit value basis (conceptually like a mutual fund) into which most of the University's underlying endowments invest by purchasing units. The market value of assets in LTCAP at December 31, 2007 was $2.11 billion, an increase of $131 million (6.6%) over the previous year-end.

The growth in assets of LTCAP is the net result of endowment contributions, withdrawals to fund endowment projects and investment income earned on LTCAP assets. The University oversees the administration of all aspects of the underlying endowments, of which there are more than 4,750 individual endowments. The University receives the endowment donations from donors and invests the funds into LTCAP by purchasing units on behalf of each underlying endowment. The University withdraws funds from LTCAP to satisfy the spending requirements of each underlying endowment. UTAM manages the investment of the pooled assets (LTCAP), in order to generate investment income in pursuit of the target return, but also to add further value by exceeding the target return, while staying within the risk tolerance set for the portfolio.

The target return set by the University is a 4% real return (net of all fees). The risk tolerance set by the University is a 10% annual standard deviation of nominal returns over a rolling 10-year period.

The main components of the growth in LTCAP assets are captured in Exhibit 2 below. Investment income, including the impact from UTAM generating portfolio returns in excess of the University's target return, has been the primary source of growth in net assets.

Exhibit 2 – Endowment: Key sources of change (2003 – 2007)



Over the past five years (2003 – 2007), UTAM has generated cumulative value added of more than $370 million above the University's target return for LTCAP. This represents almost 18% of the total value of the portfolio at December 31, 2007.

PENSION FUND

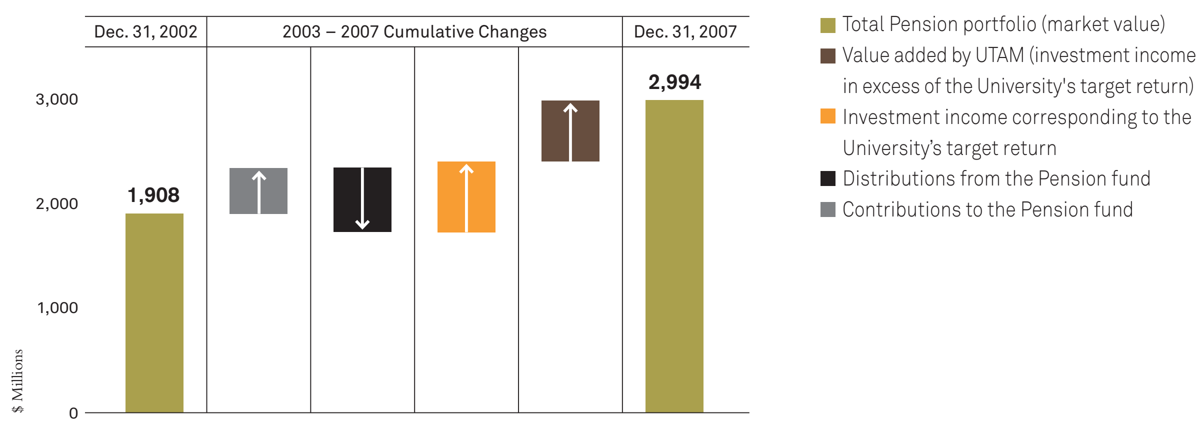
The Pension Master Trust (Pension) investment fund combines the assets of the University of Toronto Pension Plan and the OISE Pension Plan. The market value of these assets at December 31, 2007 was $2.99 billion, an increase of $124 million (4.3%) over the previous year-end.

The growth in assets of the Pension fund is the net result of pension contributions, pension payments to retirees and investment income earned on the Pension assets. The University oversees the administration of all aspects of the Pension plans, including payments to retirees. UTAM manages investment of the assets, in order to generate investment income in pursuit of the target return, but also to add further value by exceeding the University's target return, while staying within the risk tolerance set for the portfolio.

The target return set by the University is a 4% real return (net of all fees). The risk tolerance set by the University is a 10% annual standard deviation of nominal returns over a rolling 10-year period.

The main components of the growth in Pension assets are captured in Exhibit 3 below. Investment income, including the impact from UTAM generating portfolio returns in excess of the University's target return, has been the primary source of growth in net assets.

Exhibit 3 – Pension: Key sources of change (2003 – 2007)



Over the past five years (2003 – 2007), UTAM has generated cumulative value added of more than $580 million above the University's target return for the Pension fund. This represents over 19% of the total value of the portfolio at December 31, 2007.

EFIP

The Expendable Funds Investment Pool (EFIP) consists of the University's expendable funds that are pooled for investment for the medium term. The nature of these assets, which generally represent the University's daily working capital, means that the total assets in EFIP can fluctuate significantly over time. The market value of EFIP assets at December 31, 2007 was $0.64 billion, versus $0.52 billion at the previous year-end.

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 EFIP assets. UTAM's objective is to add further value to the EFIP fund by outperforming the University's target return for this portfolio, which is one-year Canadian Treasury Bills plus 50 basis points (rolling 12-month basis), with a low tolerance for risk.

chair's message

There have been many interesting events at UTAM since I wrote to you last year. We were disappointed that the former President and CEO, Mr. Felix Chee, decided to resign last summer. Felix graciously agreed to serve until year-end, which he did with his usual professionalism. Our Board of Directors has thanked Mr. Chee several times for his strong contribution to our success, but it will not hurt for me to thank him again one more time.

Naturally, we were obliged to respond, and a Search Committee was formed under the leadership of our Vice Chair, Mr. Robert Morrison. Bob's committee of Cathy Riggall, Kiki Delaney, Florence Minz, Tom Simpson and himself, along with Geoff Matus as a representative of the Business Board of the Governing Council of the University, labored very hard to identify a proper successor to Felix.

Fortunately they have succeeded, as UTAM was pleased to announce on March 17 the selection of Mr. William Moriarty as UTAM's new President and CEO. Bill has just retired from RBC Dominion Securities, where he served with great distinction as a senior member of management. Bill has spent the last 25 years with RBC Capital Markets, where he was involved in a variety of functions including running research, global equities and, most relevant for us, Alternative Assets. By the time you receive this document, Bill will have just started and we can look forward to a fresh appraisal of our approach to investing. I would personally like to thank Mr. John Lyon, Managing Director, Investment Strategy, who stepped forward as Interim President and CEO this year to keep our ship rolling along, which he did with enthusiasm and success.

We have also just completed some changes to our Board of Directors. Mr. Tony Melman has elected to retire as a Director after many years of service. Fortunately, we have added two new accomplished Board members, being Mr. John Varghese and Ms. Bonita Then. Both are enjoying successful careers in the financial industry and I am confident they will be immediate contributors to our deliberations.

> The University's assets are managed with a long-term perspective at all times, knowing stock markets are capable of declining sharply.

Indeed, it has been a very interesting year. I would like to personally thank Ms. Cathy Riggall, who serves us well while providing continuity for the University, as well as our two committee Chairs, Dr. Tom Simpson and Professor Eric Kirzner. Lastly, I would like to thank my old friend Robert Morrison, who is a very productive Vice Chair.

Our Board held its regular meeting in late March and the suggestion was made that I utilize this forum to discuss the current financial environment and its implications for our assets under management. This is a weighty topic, and John Lyon has volunteered his thoughts elsewhere. My own conclusion is, first, that the assets are managed with a long-term perspective at all times, and second, that the decision to diversify into alternative assets was always predicated upon a logical fear that stock markets were capable of declining sharply at any one moment. Investment professionals recognize that over the long-term, good results can be expected, but in any one year it is easy to visualize declines in assets.

Ira Gluskin
CHAIRMAN

president's message

2007 was a challenging year for many investors. Securities markets improved steadily over the first part of the year. However, by mid-year sub-prime mortgage problems in the US were clearly becoming serious, and taking a toll on the markets. This ultimately generated ripple effects beyond the financial markets, into the broader economy. The impact is still working its way through the financial systems and securities markets of the world.

Canada developed its own unique credit problems. By August, many investors came to know the term non-bank asset backed commercial paper (ABCP), as investor concerns about underlying asset quality removed all market liquidity for these investments. The portfolios managed by UTAM had only minor holdings in non-bank ABCP. In addition, in May we responded to the deteriorating credit market conditions by reducing corporate credit exposures in favour of increased Government bond holdings. This had a positive effect on performance for the year.

Later in the year (August), we further responded to increased market uncertainty by reducing our equity exposure in favour of cash. We increased this conservative stance in November and finished the year about 10% underweight equity exposures, where we have remained for now.

The turmoil in securities markets seems set to continue for a more extended period than many investors hoped. At UTAM, our focus remains primarily on getting the long-term policy asset mix right, controlling risk and finding the best investment managers possible for mandates consistent with our investment strategies. This kind of thinking led us to put a fully hedged foreign currency policy in place at the beginning of January 2007. We view currency as an allocation of risk no different than choosing between bonds or equities. We saw no value added long-term from taking broad currency exposure, but do see risk and decided that our risk budget was better spent elsewhere. This change in hedging strategy was very beneficial in 2007, since we have significant non-Canadian investment exposures and the Canadian dollar strengthened considerably in 2007.

In recent years, we made a strong effort to expand our investments in Alternative Assets, such as hedge funds and private equity. In 2007, our private funds investments, which cover equity, debt, real estate and commodities, were our strongest performing assets. Hedge funds, which we manage on a basis that results in risk levels less than one-half that of public equities, generated returns higher than all other asset classes except the private funds and Canadian equities.

The Endowment and Pension portfolios finished the year just ahead of market benchmarks, somewhat behind the University's target return and at the 1st percentile rank versus their peer universe. This means the portfolios outperformed 99% of the other funds in their universe. On a five-year basis, the value added above the University's target return now exceeds $950 million. This provides a cushion to help absorb the impact of more difficult market conditions, such as we have experienced since mid-2007 and into 2008.

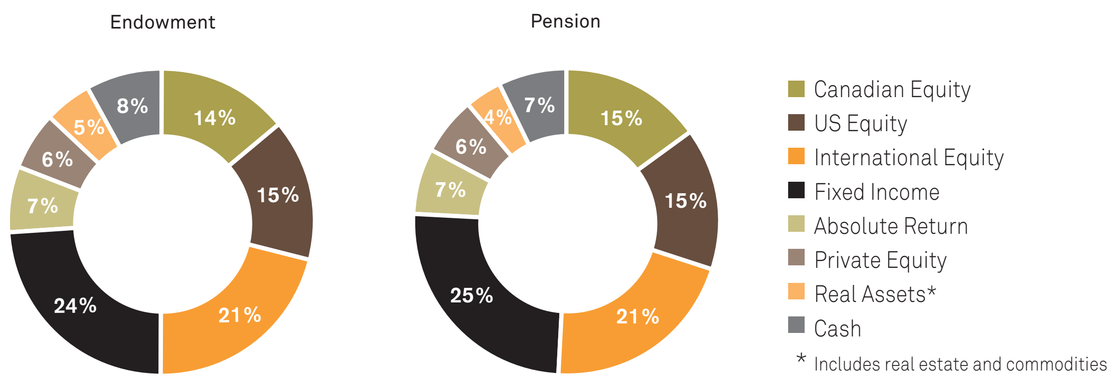
Since joining UTAM in 2004, I have had the privilege to work with Felix Chee, who retired as President and CEO at the end of 2007. Felix made a tremendous contribution to the continued evolution of UTAM. I would like to thank the Board of Directors and staff of UTAM, who provided strong support during my period as Interim President and CEO.

John L.W. Lyon
INTERIM PRESIDENT AND CEO

asset mix

The actual asset mix of the Endowment (LTCAP) and Pension portfolios at year-end is shown in Exhibit 4 below, as at December 31, 2007.

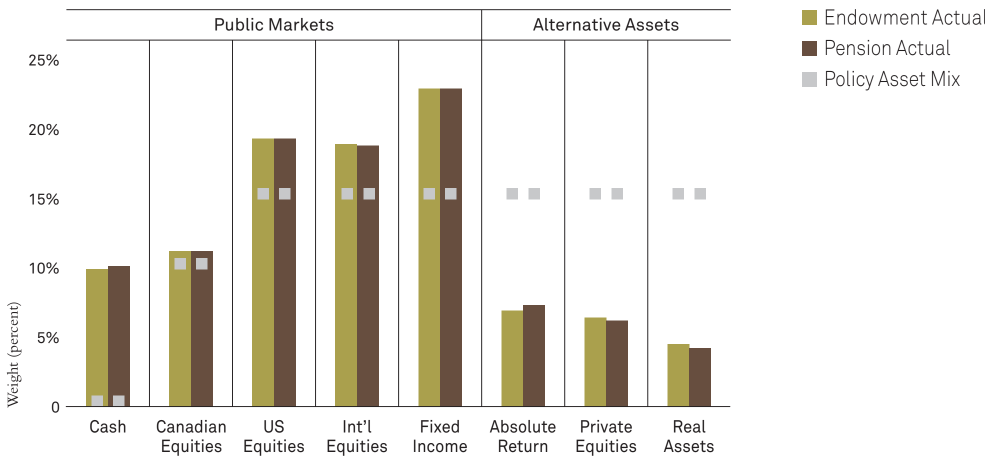
Exhibit 4 – Asset mix



The asset mix has been constructed to cover all major asset classes, and in most cases globally. This provides diversification benefits which help optimize returns and control risk. The long-term policy asset mix, discussed below, has a larger weight in Alternative Assets (hedge funds and private investments) than the actual invested amounts shown in Exhibit 4. UTAM is building up investments in Alternative Assets patiently over a multi-year period. It is important to invest steadily in private funds, in order to diversify exposures across time periods.

The long-term policy asset mix compared to the actual asset mix of LTCAP and Pension as at December 31, 2007 is shown in Exhibit 5 below. This is presented on an exposures basis, which is how the portfolios are managed day-to-day. Exposures capture the effect of index futures holdings. In contrast, Exhibit 4 above is presented on an accounting basis, which does not capture these exposures.

Exhibit 5 – Asset mix as at December 31, 2007



The policy asset mix calls for a continued increase in the allocation to Alternative Assets, in order to achieve better risk-adjusted returns.

POLICY ASSET MIX

UTAM establishes the long-term policy asset mix, and develops and executes appropriate investment strategies, based on the risk and return objectives established by the University. The policy asset mix of the portfolios is periodically subjected to a comprehensive review, in conjunction with the liability requirements of the portfolios.

The long-term policy asset mix for LTCAP and Pension are the same. This is logical, since these two portfolios have the same target return and the same risk tolerance, as established by the University.

The most recent comprehensive asset mix study by UTAM for LTCAP and Pension was undertaken in late 2006. As a result, the target weights were changed such that Public Markets (equity and fixed income) were assigned a 55% target weight (down from 70%) and Alternative Assets were assigned a 45% target weight (up from 30%). All of our analysis clearly indicated that, over the longer-term, this asset mix would provide a more favourable risk-adjusted return. The outcome is that each of the seven asset classes (four for Public Markets and three for Alternative Assets) by which UTAM categorizes assets has a 15% target weight, except Canadian Equities at 10%.

Alternative Assets are represented by a 15% target allocation to each of: (i) Absolute Return, which is comprised of hedge fund investments; (ii) private equities, which is comprised of investment in funds which cover venture capital, buyouts and distressed debt; and (iii) real assets, which is comprised of investments in real estate, the energy sector (e.g. power plants) and commodities (e.g. oil and gas). The introduction of Alternative Assets, and the increase to a 45% target weight, provides the opportunity for diversification benefits, through lower correlations to traditional asset classes in Public Markets, and for higher potential investment returns. In addition, the Absolute Return investments provide the opportunity for lower volatility, while the real estate and commodities allocations provide a hedge against inflation.

A full review of EFIP by UTAM is undertaken less frequently. It has a very different profile than LTCAP and Pension. EFIP is essentially the University's daily working capital pool, so the asset mix is dominated by shorter-term, more liquid, assets. There is allowance for some investment in medium-term bonds and hedge funds, to provide enhanced investment returns over the longer-term. The asset levels of EFIP can fluctuate widely over the year. Therefore, the asset mix composition of EFIP is more flexible in nature than the long-term policy asset mix for LTCAP and Pension.

ACTUAL ASSET MIX

The policy asset mix for LTCAP and Pension are the same. Therefore, UTAM invests the portfolios with the same investment managers and for approximately the same weights with each manager. This helps simplify the management of the portfolios.

There are two key sources of divergence between the policy asset mix and the actual asset mix.

Firstly, UTAM management has the discretion to diverge from the policy asset mix to a pre-determined modest limit, which depends on the size of the policy asset mix weight (i.e. more latitude for larger weights). This latitude is typically used by UTAM to take on a more defensive investment posture rather than to take on more risk.

Secondly, participation in hedge funds, private equity, real estate and commodities requires significant time and effort to source investment managers and to transact

The policy asset mix calls for a continued increase in the allocation to Alternative Assets, in order to achieve better risk-adjusted returns.

investments, compared to sourcing Public Markets investment managers, where funds can be invested more quickly. As a result, holdings in hedge funds, private equity and real assets accumulate slowly over time such that the actual asset mix builds gradually towards the policy asset mix. In the interim while holdings are building up, UTAM allocates the underweight from the policy asset mix weights, on a pro rata basis, to the Public Markets equities and fixed income asset classes. This reallocation process creates near-term target weights (not shown in Exhibit 5) that provide the flexibility for a disciplined build-up in the private equity and real assets holdings over time, towards the policy asset mix shown in Exhibit 5.

The impact of the interim reallocation process can be readily seen in Exhibit 5, where the three Alternative Assets categories are each below their policy asset mix weight and the four Public Markets asset classes are each above their policy asset mix weight. This situation is expected to persist for a number of years, as private equity and real assets investment managers are sourced for the investment program.

On a near-term target basis, the overweight of 10% in cash at year-end is offset by underweight positions in each of Canadian Equity, US Equity and International Equity versus near-term targets. This reflects the tactical investment decision by UTAM to have a more conservative near-term investment position, given current market conditions.

ALTERNATIVE ASSETS

Over the past several years, UTAM has been actively implementing the investment strategies that were developed for Alternative Assets. The key categories are described below.

a) Absolute Return

This category is comprised of hedge funds. A strategic decision was made mid-2004, and implemented by early 2005, that resulted in a reduction of direct hedge fund holdings and increased investment into hedge fund-of-funds. This shift provided a significant reduction in risk, partly through increased diversification, and an improvement in return versus what had been held before. However, the investment strategy did contemplate an eventual return to having some direct hedge fund holdings, at the right time, as a complement to the hedge fund-of-funds.

At year-end, there were investments with 19 hedge fund managers, of which 14 were fund-of-funds managers that represented 93% of the hedge funds investments. The underlying hedge funds pursue a wide variety of distinct investment strategies. Therefore, the investment by the LTCAP and Pension portfolios is effectively with hundreds of underlying hedge fund managers. Collectively, these managers hold thousands of individual security positions which have been invested across a wide variety of investment strategies.

The total investment in hedge funds at year-end was $1.27 billion for LTCAP and Pension combined. Of this total, $364 million was allocated to the Absolute Return category and the remainder was used for the Enhanced Index investment programs (sometimes called Alpha Transport or Portable Alpha investment strategies) that are an integral part of the Public Markets asset classes (discussed below). A list of the hedge fund managers to which investments have been made is provided at our website (www.utam.utoronto.ca).

The hedge fund managers were selected using various criteria, which included financial modeling to assess the impact on expected returns and the risk profile of the portfolios, in combination with the other hedge fund investments. This assessment is critical to properly manage the risk exposures for the portfolios. The hedge funds manager line-up has been purposefully assembled by UTAM to diversify exposures across many sources of risk (e.g. credit risk, interest rate risk, market risk, industry concentration risk, operational risk) and across numerous investment strategies. This diversification helps mitigate known sources of risk, but also unknown or unpredictable sources of risk.

The shortfall from policy asset mix at year-end in Absolute Return simply reflects a less than complete build-out of the total program, as we continue to source new Absolute Return hedge fund managers to complete the full strategy.

The Enhanced Index investment programs for Public Markets generally consist of overlaying hedge fund investments onto passive index futures holdings (e.g. Canadian Equity index futures) while investing some of the underlying assets in money market securities (rather than hedge funds) in order to maintain a cushion for liquidity. The programs are structured to generate a risk level comparable to an active manager in the corresponding Public Markets asset class, but with a superior risk-adjusted return.

Alternative Assets holdings are well diversified.

b) Private Equity

This category is comprised of investments in private funds. At year-end, there were investments in 37 funds, which have invested in over 350 underlying companies. The funds pursue investment strategies across venture capital, buyouts and debt. Most of the investments are in North America, Europe and Asia. Diversification is therefore across managers, investment strategies, industries, size of underlying companies and geography, but also by vintage year (the year the fund closed). These private funds are typically structured such that investors commit a specific amount to the fund (e.g. $20 million), and a General Partner manages the fund and calls the committed capital over a number of years as appropriate investments are identified. Therefore, diversification is also across time. Consistent with hedge funds, the manager line-up has been purposefully assembled to diversify exposures across many sources of risk.

The managers are selected using various criteria, which include the investment strategy, the fund management team and the performance track record of the team. The objective is to select proven, top performing private fund managers, since the available data indicates that such managers have a good probability of repeating their strong performance across successive funds.

In general, private equity funds are illiquid. The investment structure usually involves a closed-end fund with a +10-year time horizon. Funds are typically called for investment over three to five years, and realized gains are distributed when investments are sold in subsequent years. In the past few years, liquidity in the secondary market for a holding in a private equity fund has improved considerably. However, these investments should still be viewed as illiquid.

c) Real Assets

This category is primarily comprised of investments in private funds. At year-end, there were investments in 16 private funds, which have invested in over 200 transactions. These funds cover investment strategies across real estate (core, value-added, opportunistic strategies) and commodities (e.g. oil & gas, electricity). Most of the investments are in North America and Europe. Diversification is therefore across

managers, investment strategies, geography and vintage year.
Consistent with hedge funds and private equity, the manager line-up has been purposefully assembled to diversify exposures across many sources of risk.

These private funds are typically structured in the same way as described above for Private Equity. The comments on manager selection and liquidity for private equities also apply to real assets.

Private Equity and Real Assets holdings cannot be built up to target levels as quickly as Absolute Return hedge fund holdings. Over the past few years, the number of private investment funds to which investment commitments have been made for LTCAP and Pension has increased from 14 to 58, with corresponding investment commitments increasing from approximately $290 million to over $1.0 billion. On a global basis, these private funds cover venture capital, buyouts, distressed debt, real estate, energy and commodities. The structure of these private investment funds results in committed amounts being called by the fund manager over a number of years as underlying investments are made. Therefore, the invested amount is typically much lower than the committed amounts, particularly when an investment program is still building towards target levels, such as for LTCAP and Pension. It will take a number of years for the invested amount holdings to build up and for the investment performance to emerge. A list of the private investment fund managers to which commitments have been made is provided at our website (www.utam.utoronto.ca).

As a result of the activity in Absolute Return hedge funds, Private Equity and Real Assets described above, the total asset mix weight in Alternative Assets continued to increase in 2007, toward target levels.

FOREIGN CURRENCY EXPOSURE

The underlying philosophy at UTAM is to exploit global opportunities. This focus results in foreign currency exposure. To control the volatility from foreign currency fluctuations impacting overall returns, a hedging policy was established in 2003 and was changed effective January 1, 2007.

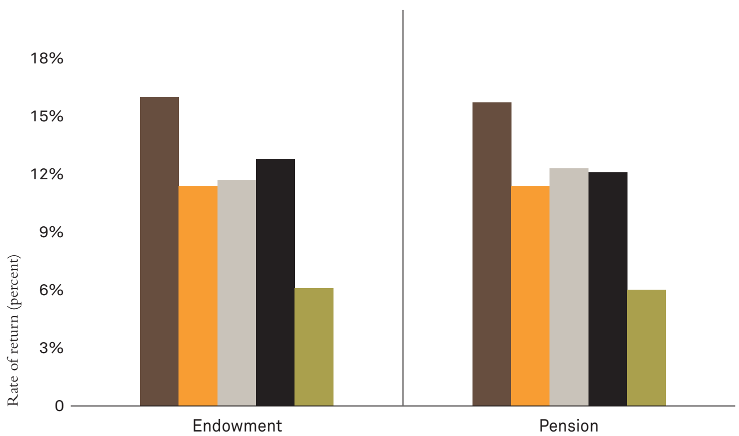
Previously, separate hedge ratios were in place for equities and real assets, for fixed income, and for hedge funds. A re-examination of the hedging policy was undertaken in late 2006. It was concluded that the long-term expectation was for no value added to be derived from having foreign currency exposure. However, foreign currency exposures do introduce an additional source of risk to the portfolios, and as such directly absorb some of the overall risk budget established for the portfolios. Given the expectation for no value added, but with risk incurred, it was decided that 100% hedging of all foreign currency exposures would be more appropriate.

The Canadian dollar strengthened notably against all major currencies in 2007. As a result, the new hedging policy made an important contribution towards maintaining portfolio returns. The impact of the currency hedging policy is shown in Exhibit 9.

investment performance

The total net return for LTCAP and Pension for 2007 and the prior four years is summarized in Exhibit 6.

Exhibit 6 – Total fund net rate of return for years ended December 31



	Endowment	Pension
2003	16.0	15.7
2004	11.4	11.4
2005	11.7	12.3
2006	12.8	12.1
2007	6.1	6.0

LTCAP generated a net return of 6.1% in 2007, while the Pension fund produced 6.0%. In both cases, this was notably lower than the returns in the prior year.

The absolute level of returns from Canadian equities and hedge funds was solid. Returns from private equity and real assets investments, which we began performance measuring at the beginning of 2007 (now that the program is building beyond nominal amounts) were very strong for the year. Returns from International equities and real return bonds were disappointing, and for the latter, continues a trend of weak performance from this asset class for several years. We made some modest investments in commodity hedge funds in 2007, and although several funds performed respectably (in line with US equities), one specialty fund with a very narrow investment thesis did not do well and dragged down the performance of the group. Asset class performance details are presented in Exhibit 9.

Investment returns have strongly exceeded the University's target return over the past five years.

In late August, our concerns about market uncertainty and volatility were such that we reduced our equity exposure by about 6% in favour of cash. We increased this conservative stance in November and finished the year about 10% underweight equity exposures, where we have remained for now. We believe that the overall effect on returns for 2007 was minor, but provided comfort in difficult market conditions.

The policy asset mix for LTCAP and Pension have been the same since January 1, 2006 so the convergence in returns between these two portfolios was expected, and is expected to continue, while their policy asset mix remains the same.

EFIP, with its much shorter investment horizon and heavy weight in shorter term, fixed income holdings, earned 4.1% in 2007. This was down from 4.9% in the prior year.

UTAM evaluates investment performance in three key ways: (i) versus the University's target return; (ii) versus passive market index returns (benchmarks) at the portfolio and asset class levels; and (iii) versus peers based on total portfolio performance. Each of these is discussed below.

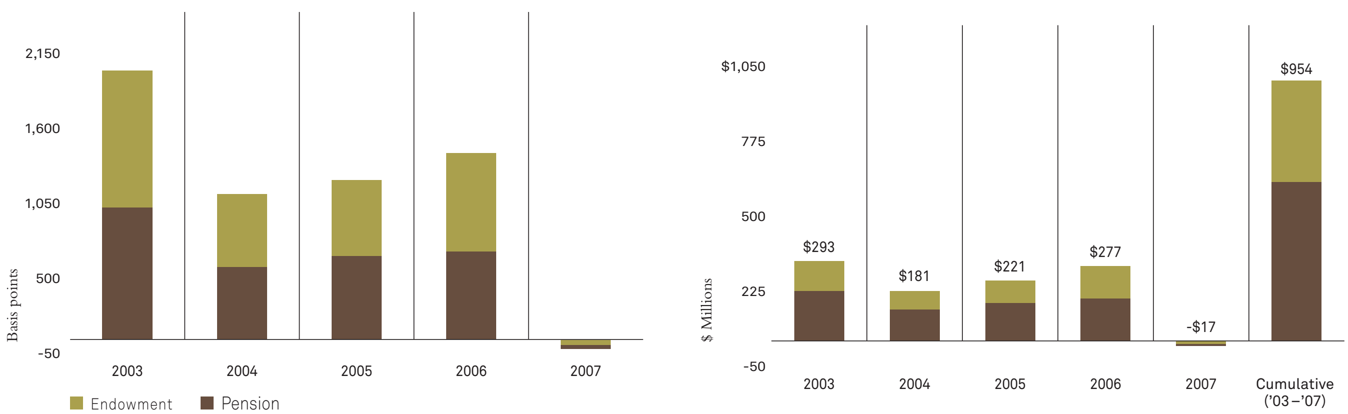
PERFORMANCE VERSUS UNIVERSITY'S TARGET RETURN

The return objective specified by the University, for LTCAP and for Pension, is a 4% real return net of all fees. For EFIP, the return objective is one-year Canadian Treasury Bills plus 50 basis points (on a rolling 12-month basis).

These are absolute value target returns (i.e. the target is always a positive value) rather than relative target returns, which move in tandem with market movements. The target return for LTCAP and Pension on a nominal returns equivalent basis, which is how actual returns are measured, only move each year to the extent of changes in inflation. Therefore, the University's target return is a relatively stable positive value over time and is difficult to outperform in any single year when the financial markets experience some level of difficulty. As a result, this return objective is best suited to a multi-year assessment period.

The difference between actual investment performance and the applicable target return can be measured on an investment return basis (e.g. 12% actual return versus 11% target return results in 1% value added) and converted to a dollar value equivalent (e.g. 1% return above the target return on a $500 million portfolio equates to $5 million of value added). The performance of LTCAP and Pension on both of these bases is summarized in Exhibit 7.

Exhibit 7 – Value added versus University target return[1] for years ended December 31



[1] Value added refers to the actual return less the University's target return

Investment performance in 2007 was below the University's target return for these portfolios, for the first time in five years. The underperformance was -27 basis points for LTCAP and -40 basis points for the Pension fund. In total, this equates to $17 million of underperformance across these two portfolios.

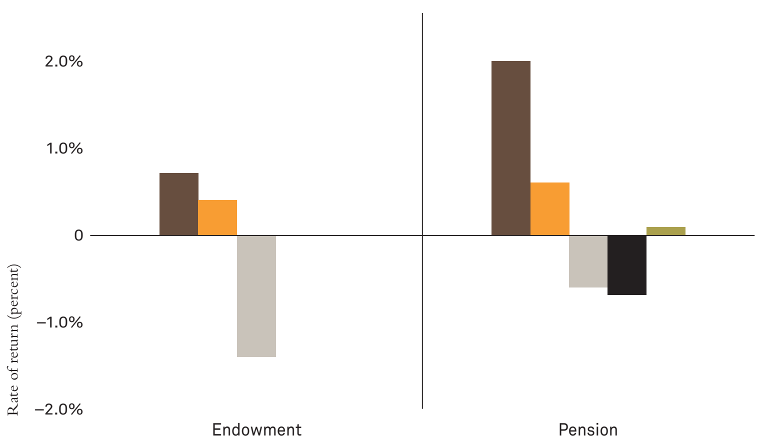
Over the past five years (2003 – 2007), UTAM has generated cumulative value added of more than $950 million above the target return, for LTCAP and Pension combined. This represents almost 19% of the total value of these portfolios at December 31, 2007.

The target return for EFIP equated to 5.2% for 2007, versus the actual return of 4.1%. Underperformance was -106 basis points, following three years of exceeding the target return. However, the severe credit market conditions which developed during 2007 led to a discussion with the University and the UTAM Board about the appropriateness of the target return for EFIP. It was decided that the target return for EFIP was not achievable within the risk tolerance (low) for the portfolio under all market conditions. Therefore, a decision was made partway through the year to maintain the low risk profile for EFIP, since this was considered more important than striving for the target return.

PERFORMANCE VERSUS MARKET BENCHMARKS (PASSIVE MARKET INDEX RETURNS)

Market benchmark returns, based on passive market indices, are in place at the total portfolio and asset class levels. Unlike the University's target return, these are relative value target returns (rather than absolute value target returns), because the benchmark return moves in tandem with movements in the securities markets. Total portfolio performance versus market benchmark returns is summarized in Exhibit 8 below.

Exhibit 8 – Value added versus market benchmarks[1] for years ended December 31



	Endowment	Pension
2003	0.7	2.0
2004	0.4	0.6
2005	-1.4	-0.6
2006	0.0	-0.7
2007	0.0	0.1

[1] Value added refers to the actual return, net of fees, less the benchmark return

For 2007, LTCAP and Pension finished the year slightly ahead of their respective market benchmarks, with LTCAP at +3 basis points and Pension at +9 basis points.

This was ultimately a disappointing result, as relative performance in the first half of the year had been very strong. However, as the second half of 2007 unfolded, market risks increased and market conditions deteriorated notably. In that environment, a number of our investment managers struggled. Nonetheless, there were some bright spots, with good overall performance from our hedge funds and the Enhanced Index programs in the four Public Markets assets classes. In addition, although we have not yet established an appropriate methodology for measuring the value added from our private equity and private real assets investments (a complex subject; at present we just measure the actual total return), and have therefore conservatively set the value added at nil, these investments performed strongly for the year. Collectively, the hedge funds, private equity and private real assets results reinforced our conviction that expansion of Alternative Assets holdings is well founded.

We continue to evolve our manager line-up for Public Markets (mainly Equities, but also Fixed Income), which is critical to the overall success of our investment management efforts. There have been some lessons learned along the way so far, some disappointments and some bright spots.

The reasons for 2007 performance results in key areas are discussed below, with more detailed figures for each asset class provided in Exhibit 9 below.

PUBLIC EQUITIES

Changes to the third party investment manager line-up for Public Equities continued in 2007. Modest further realignment in Canadian Equities was undertaken, with elimination of an Income Trust mandate (given the changes in this market segment) and some rebalancing amongst managers. US Equities was relatively stable in 2007, with elimination of some remaining passive exposures but little change in our active manager line-up. We need additional mandates in the US, which will be a high priority in 2008, but we are mindful of market conditions. International Equities were an important focus for 2007, with a number of key changes, including elimination of remaining passive exposures, hiring of several new managers and realignment amongst existing managers.

Canadian Equities in total underperformed the benchmark in 2007 by -18 basis points in each of LTCAP and Pension. All but one of the managers exceeded their benchmarks, but that manager experienced significant underperformance from an overweight position in the Financials sector, and dragged down the overall performance. The Enhanced Index program that was introduced in mid-2006 added significant value above the benchmark. The program consists of overlaying hedge fund investments on passive Canadian equity index futures holdings, while investing some of the underlying assets in money market securities (rather than hedge funds) in order to maintain a cushion for liquidity. The combined elements of the Enhanced Index program can be thought of as a single active manager. The program is structured to generate a risk level comparable to an active Canadian Equity manager, but with a superior risk-adjusted return. The Enhanced Index investment programs for other asset classes are structured with similar intent.

US Equities in total also underperformed the benchmark in 2007, by -41 basis points in LTCAP and -55 basis points in Pension. Only one of the three underlying managers exceeded their benchmarks. However, value added was also negatively impacted by the heavy Value orientation in our investment strategy. In 2007, Growth outperformed Value by 1,240 basis points, and Growth has a 50% weight in the benchmark. The

Enhanced Index program, which started with a pilot program in mid-2005, generated significant excess return above the benchmark.

International Equities in total generated slight value added in 2007, at +2 basis points in LTCAP and +4 basis points in Pension. The active manager line-up was expanded in 2007, with three new managers, following two new managers in 2006. With the changes taking place through the year, four of the seven managers outperformed their benchmarks for the year. We are optimistic for the revamped line-up going forward. The heavy Value orientation in our strategy negatively impacted performance in a similar manner to US Equities, as Growth outperformed Value by over 900 basis points. The Enhanced Index program that was introduced in mid-2006 added significant value above the benchmark.

PUBLIC FIXED INCOME

Fixed Income in total underperformed by -23 basis points in LTCAP and -16 basis points in Pension. These holdings are comprised of nominal bonds and real return bonds, with a 50/50 target weight.

Nominal bonds were essentially indexed until late May. At that time, our concerns about credit market conditions led to a decision to reduce the corporate credit exposure by one-half, in favour of Government bond holdings. This tactical position added about +49 basis points of value over the year, improved liquidity and brought some extra peace of mind as credit conditions deteriorated notably.

Real return bond holdings were largely indexed for the year, but in the first quarter we introduced an Enhanced Index program, similar to what we run for the Public Equity asset classes. That program generated significant value added above the benchmark for the year. The program will likely be expanded in 2008. In addition, we assigned a global real return bond active mandate to a new manager in the second quarter, but terminated the mandate after several months. This created the negative value added for the year.

ABSOLUTE RETURN

The hedge fund investments outperformed the benchmark in 2007 by +149 basis points in LTCAP and +138 basis points in Pension. This was achieved at very low volatility levels versus other asset classes, and with modest positive correlation to equities and low negative correlation to fixed income, which reduces overall portfolio risk. Most of the hedge fund holdings in our investment programs are US$ denominated.

During 2007, we further expanded the number of third party hedge fund managers and increased the allocation to some of the existing managers.

PRIVATE EQUITY

We continued to build our private equity investments program in 2007, with most allocations being made to distressed debt funds, but also to a few small buyout funds on a selective basis. In addition, with the program now invested to a greater extent, we began measuring returns, on a basis consistent with all our other investments, as of January 1, 2007.

Therefore, 2007 was the first full year for which returns were measured for private equity. However, the calculation of value added for these private funds investments is complex and there is no standard industry practice. We hope to establish a methodology in 2008. In the interim, to be conservative, we have set the value added at nil for all these investments.

The absolute level of returns in 2007 was strong, at almost 25% for LTCAP and 23% for Pension.

REAL ASSETS

We also continued to build our private real estate and private commodity funds investments program in 2007. Like private equity, we began measuring returns as of January 1, 2007 but are not yet measuring value added, which is set at nil. The absolute level of returns in 2007 for these investments was strong, at 33% for LTCAP and 32% for Pension.

In order to gain additional commodities exposure while we source private fund investments, we made modest allocations to three commodity hedge funds in 2007. Two of the three funds generated returns in line with US Equities (around 5%), but the other fund lost money and dragged down the group's return to -3.3%. Unlike the other real assets investments, where we set value added at nil, we measured value added for the three hedge funds because they are marketable investments, even though they were invested as part of the overall real assets program. The benchmark rose very strongly in 2007, resulting in a -33.4% underperformance figure in LTCAP and Pension for these investments.

FOREIGN CURRENCY

The change in the foreign currency hedging policy at the beginning of January 2007 had a very positive impact on performance for the year. We changed from a hedging policy that was based on 50% for equities and real assets, 75% for hedge funds and 100% for fixed income, to 100% hedged for all investments. The hedging policy added 7% to the return of LTCAP and the same to Pension.

Exhibit 9 – Rates of return and comparison to market benchmarks

	Rate of Return (%)		Value Added[1] (%)	
(for periods ended December 31, 2007)	1-Year	3-Year	1-Year	3-Year
ENDOWMENT				
Canadian Equities	9.7	17.4	(0.2)	0.4
US Equities (USD)	4.7	8.7	(0.4)	(0.2)
International Equities[2]	(3.1)	9.3	0.0	(0.4)
Fixed Income – Total[3]	2.4	4.9	(0.2)	(0.2)
Nominal Bonds	3.9	5.7	0.3	(0.2)
Real Return Bonds	0.7	4.1	(0.9)	(0.3)
Absolute Return (USD)	9.1	8.6	1.5	1.3
Commodity Hedge Funds (USD)[4]	(3.3)	n.a.	(33.4)	n.a.
Private Investments (USD)	24.8	n.a.	n.a.	n.a.
Real Assets (USD)	33.3	n.a.	n.a.	n.a.
Total Fund Unhedged	(0.9)	6.9	0.0	(0.5)
Currency Overlay	7.0	3.3	n.a.	n.a.
Total Fund Including Currency Overlay	6.1	10.2	0.0	(0.4)
PENSION				
Canadian Equities	9.7	17.4	(0.2)	0.5
US Equities (USD)	4.6	8.3	(0.6)	(0.5)
International Equities[2]	(3.2)	8.8	0.0	(0.4)
Fixed Income – Total[3]	2.4	4.7	(0.2)	(0.2)
Nominal Bonds	3.9	5.6	0.3	(0.2)
Real Return Bonds	0.8	4.1	(0.8)	(0.3)
Absolute Return (USD)	8.9	8.5	1.4	1.2
Commodity Hedge Funds (USD)[4]	(3.3)	n.a.	(33.4)	n.a.
Private Investments (USD)	23.0	n.a.	n.a.	n.a.
Real Assets (USD)	32.4	n.a.	n.a.	n.a.
Total Fund Unhedged	(1.1)	7.6	0.1	0.2
Currency Overlay	7.0	2.5	n.a.	n.a.
Total Fund Including Currency Overlay	6.0	10.1	0.1	(0.4)

Asset Class	Market Benchmark	Rate of Return (%)	
(for periods ended December 31, 2007)		1-Year	3-Year
Canadian Equities	S&P/TSX Composite Index	**9.8**	**16.9**
US Equities (USD)	Russell 3000	**5.1**	**8.9**
International Equities – Endowment[2]	MSCI EAFE[2]	**(3.2)**	**9.7**
International Equities – Pension[2]	MSCI EAFE[2]	**(3.2)**	**9.2**
Nominal Bonds	50% Dex Universe, 50% Dex Long	**3.6**	**5.9**
Real Return Bonds	Dex Real Return Bonds	**1.6**	**4.4**
Fixed Income Total – Endowment[3]	25% Dex Universe, 25% Dex Long, 50% Dex RRB[3]	**2.6**	**5.1**
Fixed Income Total – Pension[3]	25% Dex Universe, 25% Dex Long, 50% Dex RRB[3]	**2.6**	**4.9**
Absolute Return (USD)	HFRI Conservative Index	**7.6**	**7.3**
Commodity Hedge Funds (USD)	Goldman Sachs Commodity Index	**32.7**	**12.2**

[1] Refers to the actual return, net of fees, less the market benchmark return
[2] Figures are weighted composite of hedged and unhedged, where appropriate
[3] Figures are weighted composite
[4] Since inception

Investment performance has been in the top 10% versus peers over the past five years.

PERFORMANCE VERSUS PEERS

LTCAP and Pension both achieved 1st percentile performance versus peers on a one-year basis for 2007. This means that they outperformed 99% of the other funds in the peer universe. On a five-year basis, both portfolios ranked in the top decile, outperforming more than 90% of the other funds.

Detailed peer universe rank information is provided in Exhibit 10 below.

Exhibit 10 – Performance[1] versus peer universe

	Endowment				Pension			
	2007		2006		2007		2006	
(for periods ended December 31)	1-Year	5-Year	1-Year	5-Year	1-Year	5-Year	1-Year	5-Year
Total Fund[2]	1	8	27	73	1	9	43	45
Canadian Equities[3]	72	36	42	17	72	55	42	27
US Equities[3,4]	52	46	32	49	53	64	39	63
International Equities[3,4]	49	41	82	61	49	43	90	78
Fixed Income[3,4,5]	32	n.a	79	n.a	32	n.a	82	n.a

[1] Gross of fees
[2] RBC Dexia Balanced Fund
[3] Mellon Analytical Solutions – Manager Performance Universe
[4] Unhedged C$ returns
[5] Nominal bonds only. No real return bonds universe is available

Although not all the multi-year results are shown in Exhibit 10, both portfolios also ranked in the top decile on a two-year, three-year and four-year basis.

The total portfolio rank, versus the asset class ranks, was helped by a number of key factors: (i) the currency hedging policy; (ii) the strong performance from private equity and real assets investments; and (iii) the reduction in corporate credit exposures just before mid-year. These positive influences were offset to some extent by the heavier allocation to real return bonds in LTCAP and Pension. This asset class underperformed nominal bonds notably in 2007, continuing the trend of the past few years.

management of risk

UNIVERSITY RISK TARGETS

The University establishes the risk target for each portfolio. For LTCAP and Pension, the risk tolerance is specified as a 10% annual standard deviation of nominal returns over a rolling 10-year period. There are many technical nuances to this risk specification, but in general statistical terms, it means that the annual return, on average, could be outside the range -6% to +14% (i.e. 10% either side of the 4% net real return target) in three out of any 10 years. For EFIP, the risk target is simply stated as a low risk tolerance, with no quantitative specification.

UTAM'S APPROACH TO RISK MANAGEMENT

UTAM's emphasis on risk assessment is premised on the simple belief that the appetite for returns is essentially unlimited, but the pursuit of returns entails risk, the appetite for which is clearly limited by the risk tolerance. It logically follows that optimizing the asset mix, and the third party investment manager line-up, should be centred around maximizing the investment return per unit of risk, while investing for higher returns up to the acceptable total risk tolerance specified by the University.

Over the past several years, UTAM has devoted increased attention to the risk management aspects of the portfolios. This has been reflected in a number of our activities, including portfolio construction, which includes work on the long-term policy asset mix, investment strategy, manager selection and ongoing monitoring.

An example of portfolio construction risk would be the choice of weights for certain investment styles within the portfolios. Our investment strategy for public equities has a heavier weight in the Value style of management and a lower weight for Growth. Over the long-term, Value is expected to outperform Growth. However, over shorter time periods this may not be the case. Over the period from March 2000 to the end of 2007, Value strongly outperformed Growth. However, in 2007, Growth strongly outperformed Value, as discussed elsewhere in this Annual Report. Therefore, our portfolio construction decision in this particular area had a very a positive impact on value added (versus the market benchmark) over a multi-year period, but detracted value for the one-year period of 2007.

We help control key sources of risk through a number of actions. At the total portfolio level, we do extensive financial modeling on a periodic basis in order to determine the optimal long-term policy asset mix that maximizes expected return within the University's risk target.

In constructing the portfolios around the policy asset mix, we maintain strong diversification across a number of key areas, including asset classes, managers, geographies, industries, investment styles, investment strategies within asset classes and individual security positions. For example, our portfolio construction is centred around seven major asset classes on a global basis, which covers all major asset classes and securities markets.

Manager diversification is important, particularly for Alternative Assets. We have more than 90 investment managers in each of LTCAP and Pension, of which about 75 are for Alternative Assets. These asset classes typically bring particular diversification benefits (but unique risks), through lower correlation of returns with more traditional asset classes. The 14 hedge fund-of-funds managers in our line-up are invested in approximately 400 underlying hedge funds for our Absolute Return and Enhanced Index strategies. In private equity and private real assets, we are invested in almost 60 private funds, which collectively have more than 550 underlying investments. This breadth of diversification helps control many sources of known and unknown risk in these Alternative Assets classes.

Manager selection is also an important source of risk control. In our sourcing and review process for considering new managers, we not only assess a manager's performance and investment methods, but also conduct thorough operational due diligence work on their activities. This emphasis is also considered important because of the increasing amount of investment in Alternative Assets. These asset categories, and the underlying investment strategies (particularly for hedge funds), often involve a different risk profile than is associated with a traditional, long-only, active equity or fixed income investment manager. We also assess how well a potential new investment manager is expected to interact quantitatively with the other managers in our line-up. Our work in this area will continue to evolve as we pursue improvements to processes and practices.

Portfolio risk levels are running well below the University's risk target.

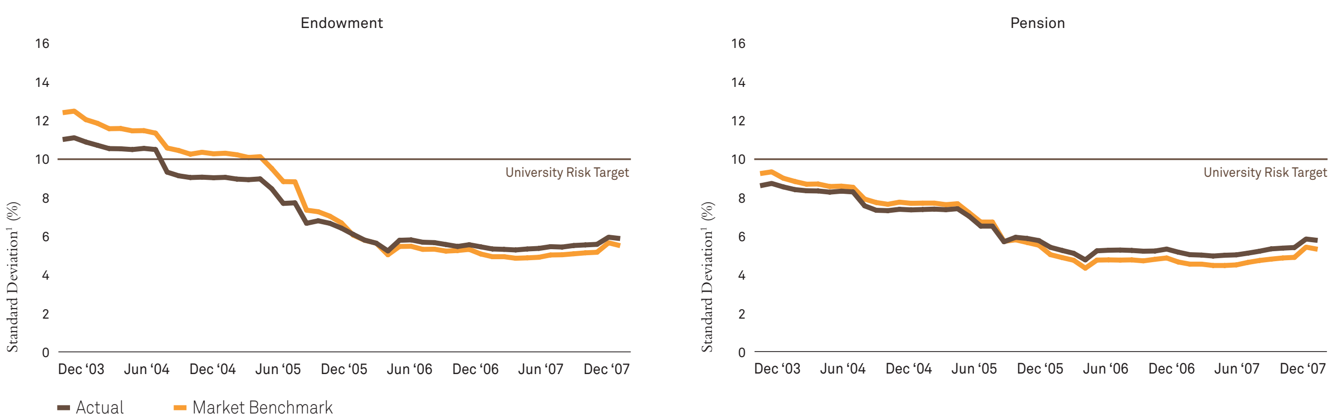
PORTFOLIO RISK LEVELS VERSUS UNIVERSITY RISK TARGETS

The net effect of our risk management activities can be seen in Exhibit 11 below. This shows the actual risk level of the portfolios, based on the rolling 36-month volatility of return (i.e. standard deviation) in relation to the University's 10% risk target. It also shows the market benchmark risk associated with our near-term target asset mix. UTAM monitors actual portfolio risk levels against the University risk target and the market benchmark risk on a regular basis.

The exhibit shows the change in risk over time, rather than the traditional single-point in time calculation that is usually presented. We believe that awareness of the movement over time is an important aspect of managing risk.

UTAM has consistently been running the portfolios well below the University's quantitative risk tolerance, and in line with market benchmark risk. The calculation of actual risk currently excludes private fund investments. These investments have a short history in the portfolios and modest invested levels, and would have little impact on actual risk levels at this point.

Exhibit 11 – Portfolio risk levels over time[1]



[1] Rolling 36-month standard deviation of returns. Excludes private investments due to lack of data and minor asset levels historically

We currently use a rolling 36-month period for this risk measure because the applicable performance history of the portfolios is limited (as the actual historical performance data set expands over time, we will move towards using a 10-year rolling period). The starting point in Exhibit 11 is December 2003, which requires a starting point of December 2000 for the data. We also monitor risk levels on a rolling 12-month basis, but this is less useful for trending and strategic portfolio decisions due to the limited time period. The investment strategies used by UTAM have changed notably over the past several years, and added significant value versus the University's target, while maintaining risk levels well within the University's target.

In the past few years, UTAM has increased the investment into Alternative Assets, such as hedge funds and private equity funds. Some of these investments (mainly private equity funds) can have risk levels higher than public securities markets. Therefore, portfolio risk levels are expected to move closer toward the University's risk target over time, as Alternative Assets investments move towards target invested levels. This will unfold gradually over a multi-year period and will continue to be monitored closely.

Unlike LTCAP and Pension, EFIP has a low tolerance for risk and no quantitative risk target. The EFIP investments are predominantly a well diversified set of Government and high quality corporate holdings, mostly with shorter terms to maturity. These are the primary means of controlling risk for such a short-term oriented portfolio.

auditors' report

TO THE DIRECTORS OF UNIVERSITY OF TORONTO ASSET MANAGEMENT CORPORATION

We have audited the balance sheet of University of Toronto Asset Management Corporation as at December 31, 2007 and the statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Corporations Act (Ontario), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
March 27, 2008.

balance sheet

As at December 31	2007 $	2006 $
ASSETS		
Current		
Cash	**112,110**	10,221
Due from University of Toronto *[note 7[a]]*	**–**	137,332
Accounts receivable *[note 4]*	**99,010**	55,006
Prepaid expenses	**34,032**	–
Total current assets	**245,152**	202,559
Capital assets, net *[note 5]*	**335,053**	371,997
Total assets	**580,205**	574,556
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	**207,959**	202,559
Due to University of Toronto *[note 7[a]]*	**37,193**	–
Total current liabilities	**245,152**	202,559
Deferred capital contributions *[note 6]*	**335,053**	371,997
Total liabilities	**580,205**	574,556
Net assets	**–**	–
Total liabilities and net assets	**580,205**	574,556

See accompanying notes

statement of operations and changes in net assets

Year ended December 31	**2007** **$**	2006 $
EXPENSES *[note 7]*		
Staffing	**2,853,306**	2,480,163
Occupancy	**217,306**	171,762
Consulting fees	**288,704**	151,150
Office supplies and services	**85,954**	120,703
Professional fees	**146,549**	142,150
Communications and information technology support	**140,431**	180,053
Travel	**193,157**	189,491
Amortization of capital assets	**39,814**	37,736
	3,965,221	3,473,208
RECOVERIES AND OTHER INCOME		
Recoveries from University of Toronto *[note 7]*	**3,925,407**	3,435,472
Amortization of deferred capital contributions	**39,814**	37,736
	3,965,221	3,473,208
Net income for the year	**–**	–
Net assets, beginning of year	**–**	–
Net assets, end of year	**–**	–

See accompanying notes

statement of cash flows

Year ended December 31	**2007** **$**	2006 $
OPERATING ACTIVITIES		
Net income for the year	**–**	–
Add (deduct) items not involving cash		
Amortization of capital assets	**39,814**	37,736
Amortization of deferred capital contributions	**(39,814)**	(37,736)
	–	–
Changes in non-cash working capital balances related to operations		
Accounts receivable	**(44,004)**	(55,006)
Prepaid expenses	**(34,032)**	17,599
Accounts payable and accrued liabilities	**5,400**	(273,446)
Cash used in operating activities	**(72,636)**	(310,853)
INVESTING AND FINANCING ACTIVITIES		
Purchase of capital assets	**(2,870)**	(35,078)
Deferred capital contributions to fund purchase of capital assets	**2,870**	35,078
Decrease in amount due from University of Toronto	**174,525**	298,793
Cash provided by investing and financing activities	**174,525**	298,793
Net increase (decrease) in cash during the year	**101,889**	(12,060)
Cash, beginning of year	**10,221**	22,281
Cash, end of year	**112,110**	10,221

See accompanying notes

notes to financial statements

December 31, 2007

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). UTAM is a non-profit organization under the Income Tax Act (Canada) and, as such, is exempt from income taxes.

The principal objectives of UTAM are to create added value by providing both current and future financial resources for the University of Toronto ["U of T"] and its pension funds that will contribute to globally recognized education and research.

2 BASIS OF PRESENTATION

These financial statements present the financial position, results of operations 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of UTAM have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized as follows:

Change in accounting policies

Effective January 1, 2007, UTAM adopted the recommendations of CICA 3855: *Financial Instruments – Recognition and Measurement* and CICA 3861: *Financial Instruments – Disclosure and Presentation*. CICA 3855 establishes standards for recognizing and measuring financial instruments, including the accounting treatment for changes in fair value. As permitted by CICA 3855, UTAM's financial assets and liabilities continue to be presented at amortized cost which approximates fair value. Therefore, the adoption of these recommendations did not have an impact on the financial statements.

Future accounting policy changes

The CICA has issued two new standards, CICA 3862: *Financial Instruments – Disclosures* and CICA 3863: *Financial Instruments – Presentation*, which enhance the abilities of users of financial statements to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks.

The CICA has also issued a new accounting standard, CICA 1506: *Capital Disclosures*, which requires the disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital.

These new standards, which will be adopted effective January 1, 2008, will only require additional disclosures in the financial statements.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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.

Capital assets

Leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the lease term of 10 years and six months [note 7[d]].

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 7[b]].

4 ACCOUNTS RECEIVABLE

The premises occupied by UTAM are leased in the name of the Governing Council, which, in accordance with the University of Toronto Act, 1971, s.o. 1971, c.56, is exempt from municipal property taxation. A request has been formally submitted to the landlord to make the necessary application for such tax exemption to the assessment authority on the Governing Council's behalf. Until such time as the tax exemption is granted and a refund is received, all payments made by UTAM in respect of property taxation are recorded as accounts receivable [$99,010; 2006 – $55,006].

5 CAPITAL ASSETS

Capital assets consist of the following:

	2007		
	Cost **$**	**Accumulated amortization** **$**	**Net book value** **$**
Leasehold improvements	**415,600**	**80,547**	**335,053**

	2006		
	Cost $	Accumulated amortization $	Net book value $
Leasehold improvements	412,730	40,733	371,997

6 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 operations and changes in net assets. The continuity of deferred capital contributions is as follows:

	2007 **$**	2006 $
Balance, beginning of year	**371,997**	374,655
Recoveries received during the year related to capital asset purchases	**2,870**	35,078
Amortization of deferred capital contributions	**(39,814)**	(37,736)
Balance, end of year	**335,053**	371,997

7 RELATED PARTY TRANSACTIONS

[a] In accordance with the amended and restated Service and UTAM Personnel Agreement dated May 14, 2003 between the Governing Council and UTAM, U of T will reimburse UTAM for its services an amount which will enable it to recover the appropriate costs of operations. U of T reimburses UTAM on a quarterly basis based on the approved budget. As at December 31, 2007, $37,193 is due to U of T [2006 – $137,332 due from U of T], reflecting the net amount yet to be reimbursed.

[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. In 2007, contributions of $93,940 [2006 – $112,722] related to these plans have been expensed.

[c] UTAM obtains certain services from U of T, such as payroll, IT support and internal audit. There is a charge for some of these services. U of T pays UTAM's salaries, benefits and certain other costs and is reimbursed by UTAM.

[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:

	$
2008	110,721
2009	110,721
2010	110,721
2011	110,721
2012	110,721
Thereafter	359,843

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 totalled $95,179 in 2007 [2006 – $72,395].

[e] Transactions with U of T 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.

8 FINANCIAL INSTRUMENTS

UTAM's financial instruments consist of cash, accounts receivable, due from U of T, and accounts payable and accrued liabilities. The carrying value of financial assets and liabilities as at December 31, 2007 approximates the fair value.

UTAM board of directors

(as at March 31, 2008)

IRA GLUSKIN, Chair of the Board

Ira Gluskin and Gerry Sheff founded Gluskin Sheff + Associates in 1984. Ira continues to be President and Chief Investment Officer. Prior to 1984, Ira worked for a prominent life insurance company, a prominent research brokerage firm and a prominent mutual fund manager. Ira is active in a variety of business, community and cultural organizations. He is chairman of the University of Toronto Asset Management Corporation. Ira is the former Chair of the Investment Advisory Committee for the Jewish Foundation of Greater Toronto and a member of the Foundation Board. He is also a member of the Mount Sinai Hospital Investment and Budget Committees, as well as being a member of its Foundation.

ROBERT W. MORRISON, Vice Chair of the Board

ERIC F. KIRZNER, Chair of the Audit and Compliance Committee
Rotman School of Management, Professor of Finance

THOMAS H. SIMPSON, Chair of the Compensation Committee

SHEILA BROWN, University of Toronto, Chief Financial Officer

CATHERINE A. DELANEY, C.A. Delaney Capital Management

WILLIAM E. HEWITT, William E. Hewitt Associates, Financial & Investment Consultants

FLORENCE R. MINZ, Governing Council of the University of Toronto, Swindon Investments Ltd., Partner

WILLIAM W. MORIARTY, University of Toronto Asset Management Corporation, President and Chief Executive Officer (as of April 15, 2008)

JAMES J. MOSSMAN, The Blackstone Group, Retired Senior Managing Director and Chief Investment Officer

CATHERINE J. RIGGALL, University of Toronto, Vice President, Business Affairs

BONITA THEN, Specialty Foods Group Inc., President and CEO

JOHN VARGHESE, VentureLink LP, Managing Partner

NEIL H. DOBBS, University of Toronto Asset Management Corporation, Secretary to the Board
Governing Council of the University of Toronto, Deputy Secretary to the Governing Council

UTAM staff

(as at March 31, 2008)

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KAREN J. COLL, CFA, Managing Director, Public Investments

JOHN T. HSU, MBA, FCMA, Managing Director, Risk Management and Operations

TIFFANY PALMER, Director, Compliance

BENJAMIN ABRAMOV, MBA, LLB, Investment Analyst

KELVIN HU, MFE, Portfolio Performance and Risk Analyst

JULIANA ING, CFA, FRM, Portfolio Performance and Risk Analyst

REBECCA MUDGE, CFA, Investment Analyst

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