UNIVERSITY OF TORONTO

FINANCIAL SERVICES

TO: Business Board

SPONSOR: Sheila Brown, Chief Financial Officer
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DATE: May 1, 2013 for May 6, 2013

AGENDA ITEM: 4

ITEM IDENTIFICATION:

University of Toronto Asset Management Corporation Annual Report 2012

JURISDICTIONAL INFORMATION:

The Business Board accepts annual reports and financial statements for incorporated ancillaries.

PREVIOUS ACTION TAKEN:

The annual report and financial statements were approved by the UTAM Board at its meetings of April 30, 2013, and March 19, 2013 respectively.

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, they 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.

Expenses for the year ended December 31, 2012 were $4.9 million (2011 - $4.9 million).

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, 2012, the target nominal investment return (including CPI) net of fees and expenses was 4.9% (2011- 6.3%). Actual nominal investment return for the PMT was 9.3% (2011- 1.2%) for the year and for LTCAP it was 9.2% (2011- 1.2%) for the year. Actual nominal investment return for the Reference Portfolio was 8.5% (2011- 0.2%) for the PMT and 8.8% (2011 – 0.2%) for LTCAP for the year. (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.)

For the PMT, the actual UTAM return exceeded the Reference Portfolio return by 0.8% and the target return by 4.4%. For LTCAP, the actual UTAM return exceeded the Reference Portfolio return by 0.4% and target return by 4.3%.

The University has established a return target for the Expendable Funds Investment Pool (EFIP) as the 1 year-Treasury Bill rate plus 50 basis points. For 2012 that target return was 1.5%. The actual return for the year was 1.6%.

FINANCIAL AND/OR PLANNING 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.

UNIVERSITY OF TORONTO ASSET MANAGEMENT CORPORATION

2012 Annual Report

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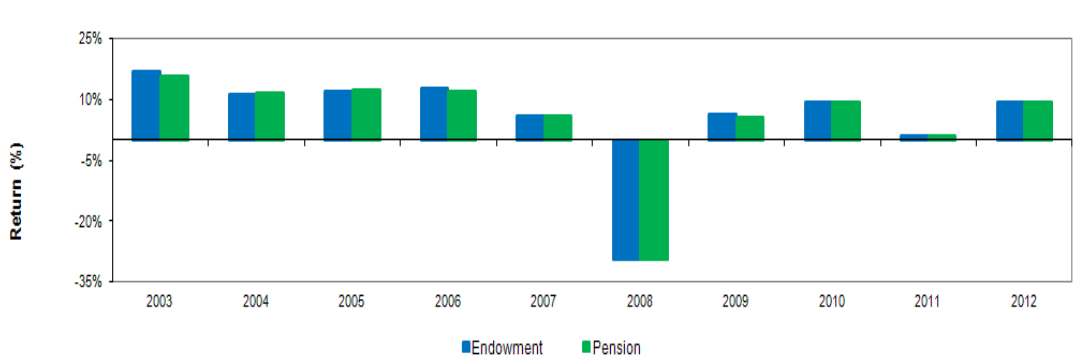
All figures in this Annual Report are in Canadian dollar terms, unless stated otherwise.

ANNUAL RESULTS

Investment performance for 2012 and prior periods ending 2012 is summarized below.



	2012			2 - Year (2011-2012)			4 - Year (2009-2012)		
	ENDOWMENT	**PENSION**	**EFIP**	**ENDOWMENT**	**PENSION**	**EFIP**	**ENDOWMENT**	**PENSION**	**EFIP**
University Target Return[1]	4.9%	4.9%	1.5%	5.6%	5.6%	2.0%	5.7%	5.7%	1.8%
Reference Portfolio Return[2]	8.8%	8.5%	n.a.	4.4%	4.3%	n.a.	9.2%	9.1%	n.a.
Benchmark Portfolio Return[3]	8.3%	8.7%	n.a.	4.5%	4.7%	n.a.	6.5%	6.4%	n.a.
Actual Net Return[4]	**9.2%**	**9.3%**	**1.6%**	**5.1%**	**5.1%**	**2.1%**	**6.4%**	**6.3%**	**2.2%**
Value-Added	**0.9%**	**0.6%**	**0.1%**	**0.6%**	**0.5%**	**0.1%**	**-0.1%**	**-0.1%**	**0.4%**
Assets (December 31; millions)									
2012	$1,896	$2,751	$1,158						
2011	$1,754	$2,504	$1,006						

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 Reference Portfolio returns. Gross return less assumed 15 bps implementation costs.

3 Linked Policy Portfolio returns. Combination of Gross Returns for Public Markets investments and Net Reurns for Alternatives.

4 Net return after all fees and costs including UTAM costs, custody costs, etc.

PRESIDENT'S MESSAGE

Investors generally became less risk averse in 2012 as aggressive monetary policy initiatives offset the fact that there was very little progress in remedying the underlying structural issues that continue to burden the global economy. This shift was no doubt reinforced by the fact that investors faced the dilemma of accepting zero, or negative, real rates of return on 'safe' assets or moving further out the risk spectrum to garner higher returns. The result was that global capital markets delivered surprisingly good returns in 2012, especially for those portfolios that were leveraged or tilted toward non-Canadian public markets' equities.

Against this backdrop we were very pleased with the performance of the University's portfolios in 2012. As the following pages detail, despite undertaking a significant restructuring of the approach to 'active' management in 2012, all three of the main University portfolios were able to record returns which exceeded the University's long-term objective. Moreover, the two largest portfolios (Pension and Endowment) meaningfully outperformed their official policy portfolios (the Benchmark Portfolio) as well as their passive benchmarks (the Reference Portfolio). Also satisfying was the fact that 2012 represented the third straight year of improved performance of the Pension and Endowment portfolios compared to their respective 'policy' or Benchmark Portfolios.

The year just ended was again a busy period for UTAM as an organization. In addition to further adding to our full time staff complement and refining a number of operational processes, we substantially completed the major task of implementing a position-based risk analysis system, revamped our reporting and performance attribution system and undertook a significant restructuring of the University's portfolios (both in terms of the 'policy' portfolios and within the sub-components of each of the University's actual portfolios). These changes are already adding value and, we believe, position the portfolios to continue to do so in the future.

As these comments imply, I believe that we have accomplished a great deal relative to UTAM's position in 2008 – 2009. Today we have an expanded team of experienced staff, considerably improved analytics and investment infrastructure, strategic relationships in areas like Private Equity, substantially reduced overall investment management costs and a great network of contacts across the University and pension communities in North America and abroad. In other words, the University now possesses a unique asset and one which is much more aligned with the original vision for UTAM. Given this perspective, the period ahead should be primarily focused on continuing to improve actual investment performance as opposed to operational and restructuring issues. This will be a welcome change.

In closing, I would like to thank our Board of Directors, the Investment Advisory Committee and the Pension Committee for their commitment to the University and their ongoing input to UTAM. In addition, I would like to recognize Neil Dobbs, our corporate secretary, who retired in 2012 as well as two Board members who are retiring in 2013: Catherine Riggall and David Naylor. Without the support of these individuals, we could not have undertaken the transformation referred to above. As such, their contributions were significant and very much appreciated. I am also very appreciative of the committed UTAM team that I have the pleasure of working with as a partner.

William W. Moriarty, CFA

President & Chief Executive Officer

MANDATE

UTAM manages $5.8 billion of assets in three main portfolios: (i) the University's $1.9 billion Endowment fund; (ii) the University's $2.8 billion Pension Master Trust fund; and (iii) the University's working capital pool (Expendable Funds Investment Pool; "EFIP") of $1.2 billion.

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 LTCAP assets.

The Pension Master Trust fund ("Pension") consists of the assets of 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 the Pension 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 generally represent the University's working capital, means that the total assets in EFIP can fluctuate significantly. 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, etc.

The University establishes a return objective and risk tolerance for each of the portfolios that UTAM manages. 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 while managing the assets within the applicable risk tolerance.

For 2012, the target return for the Endowment and Pension portfolios was stated as a 4% real return. In the current environment, achieving this objective requires the assumption of greater risk compared to the last several decades. Accordingly, an appropriate policy portfolio (later referred to as the Reference Portfolio) was established and risk constraints were set based on this portfolio. The target return and risk tolerance for EFIP were stated as the 365-day Canadian T-bill Index return plus 50 basis points (i.e. 0.50%), with minimal risk.

UTAM's INVESTMENT BELIEFS

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

1. Asset allocation is one of the most important decisions any investor makes. More specifically, asset allocation decisions anchor the portfolio's risk and return objectives and are the backbone of any investment program. This, in turn, reflects the fact that more than 90% of the variability of investment returns (and a large component of differences in the risk of a portfolio) 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 new Reference Portfolio provides a useful starting point in this regard.

2. An **equity orientation** combined with a **"value" style** bias will 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.

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 necessarily will 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 accompany any portfolio. There are many dimensions to diversification. These include making investments which span a range of asset classes, geographies, investment strategies, investment managers and individual securities. 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 more 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 which 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 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 more **passive approach**. More specifically, we believe that active investment strategies have a greater probability of producing market outperformance in less-developed, 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 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 new Reference Portfolio benchmark, the mix of strategies and risk exposures selected is designed to produce returns that will outperform the Reference Portfolio benchmark. 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 environment changes.

ASSET MIX

2012 Reference Portfolio and Benchmark Portfolio Asset Mix

A Policy Portfolio represents a "shadow" portfolio which is designed to be appropriate to the University's return objectives and risk tolerance as well as the long-term horizon of the Pension and LTCAP 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 Policy Portfolio adopted by the University (generally referred to as the Benchmark Portfolio) 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.

Some time ago, the University Administration and UTAM began to explore the Reference Portfolio concept as a replacement for the then existing Policy or Benchmark Portfolio. The principle underlying the Reference Portfolio's composition requires exposures which are passive, low-cost, easily implementable and generally representative of the investable universe. This meant that alternative assets and strategies are not included in the Reference Portfolio and that this type of Benchmark Portfolio could also be used to evaluate the advantages and disadvantages of utilizing alternative assets and strategies in the University's investment portfolios.

During 2012, the University and UTAM reviewed the composition of the initial Reference Portfolio and adopted a revised version of it as the official Benchmark Portfolio for LTCAP and Pension on a go forward basis. This Reference Portfolio / Benchmark Portfolio will now to be used as the key standard for evaluating shorter term performance of the University's portfolios. The foreign currency hedging policy was also changed in 2012 to limit net FX exposure to between 5 and 25% of each portfolio's total value.

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 below). This asset mix was adopted in March for LTCAP and in May for the Pension portfolio. As was pointed out last year, the University will periodically review this composition as part of a general review of the long-term macroeconomic environment, its return objectives and its risk tolerance.

Table 1	
Canadian Equity	16%
US Equity	18%[1]
Int'l Deveolped Markets Equity	16%[1]
Emerging Markets Equity	10%
Credit	20%
Rates	20%
Total	**100%**
Net FX Exposure	18.5%

[1] 75% hedged to the Canadian dollar.

Actual Portfolio Asset Mix

The actual asset mix for the Endowment fund and the Pension fund at the end of 2012 and the end of 2011 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 class 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). UTAM believes that exposure based reporting provides a more accurate representation of the actual portfolio composition.

Table 2				
	Endowment		Pension	
(AS AT DECEMBER 31)	2011	2012	2011	2012
Canadian Equity[1]	18.1%	15.9%	17.9%	15.8%
US Equity[1,2]	23.6%	17.9%	24.2%	17.8%
Int'l Developed Markets Equity[1]	21.3%	16.4%	21.0%	16.3%
Emerging Markets Equity	2.1%	10.2%	2.1%	10.2%
Credit	17.6%	19.8%	18.1%	20.2%
Rates[1]	7.3%	10.9%	6.7%	10.9%
Absolute Return	10.7%	8.9%	10.1%	8.9%
Cash (including notional offsets)[3]	-0.6%	0.0%	-0.1%	-0.1%
Total	100.0%	100.0%	100.0%	100.0%
Cash (actual)[4]	13.9%	5.6%	13.8%	5.0%
Portfolio Value (millions)	$1,754	$1,896	$2,504	$2,751

1 Includes the notional dollar value of index derivative 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 Enhanced Index platform holdings until June 30, 2011, when the program was suspended.

3 Net of the notional dollar amount of index derivative exposures (see footnote 1).

4 Includes the cash backing the notional dollar value of index derivative positions (see footnotes 1 and 3).

The table above represents a significant change from the presentation shown in previous year's reports. This reflects the fact that as part of the overall review of investment strategy, UTAM, with the support of the University, decided to move away from the historical method that was used in classifying investments into seven broad groupings.

Part of this change was a natural result of the University's decision to adopt the passive Reference Portfolio concept as the Benchmark Portfolio for LTCAP and Pension. But more importantly, the change reflects an evolution in UTAM's thinking about portfolio construction.

At the portfolio level, the concept of diversifying away from a concentration on 'equity' risk is well understood. However, during the global financial crisis many investors discovered that while their portfolios might have been well diversified for normal times, the same was not true with respect to periods of substantial stress.

One key factor in understanding this outcome is an appreciation of the fact that each asset can be broken down into building blocks of ' risk factors' / 'return drivers' that explain the majority of the asset's return and risk characteristics (i.e., equity markets, interest rates, cash, etc.). Indeed most asset and asset class returns can be described as varying mixtures of these factors. Consequently, a more robust approach to portfolio analysis and construction is to attempt to isolate the exposures to the underlying return drivers and then diversify the overall portfolio across these return drivers as opposed to the more traditional asset class approach.

As implied above, this framework is particularly helpful in terms of understanding the role 'alternative assets / strategies' may play in any given portfolio. Put simply, hedge funds, private investments and real assets 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. Consequently, the underlying drivers of each investment's return can be quite different and thus most of these assets do not readily fit being classified as a separate asset class.

Another benefit of this approach is that while many of these alternative investments /strategies do not have long-term performance records, that is not generally the case for the underlying risk factors or return drivers.

In order to keep the initial model simple, UTAM divided the portfolio into six high level factors or return drivers (equity, interest rates, credit, inflation, currency and a 'cash / other' category). This basic framework served as a very useful starting point in terms of mapping investments back to the components of the Reference Portfolio.

Using Private Investments as an example, those investments that are equity-like in nature are included with other equity investments and those that are more debt-like in nature are included with other credit related investments. In other words, the decision to invest in 'privates', as opposed to 'publics', will now be part of the portfolio implementation process instead of the policy allocation process. And the same will be true for other 'alternative' investments.

The table above incorporates this evolution in approach. That said, the changes in actual asset weights from the prior year report reflect primarily the restructuring of the LTCAP and Pension portfolios to more closely parallel the new Reference Portfolio / Benchmark Portfolio and the mapping of what used to be referred to as 'alternative assets' into Reference Portfolio groupings based on the key underlying return drivers.

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 a surprisingly good one for investors. Table 3 details the performance of various public markets assets and two major currencies for 2012 (and over the last five years). It highlights the fact that investors were generally rewarded for holding higher-risk public markets equities in 2012 and especially U.S. and other foreign equities.

Table 3

Public Markets Index Returns
(Before Fees)

	2008	2009	2010	2011	2012	Cum. 2008-12
Canadian Equity (TSX Composite, C$)	-33.0%	35.1%	17.6%	-8.7%	7.2%	4.1%
U. S. Equity (S&P 500, US$)	-37.3%	28.3%	16.9%	1.0%	16.0%	10.2%
Int'l Developed Markets Equity (MSCI EAFE, Local)	-40.3%	24.7%	4.8%	-12.2%	17.3%	-19.5%
Emerging Markets Equity (MSCI EM, Local)	-45.9%	62.3%	14.1%	-12.7%	17.0%	2.2%
DEX Corporate	0.2%	16.3%	7.3%	8.2%	6.2%	43.8%
DEX Government	9.0%	1.6%	6.5%	10.2%	2.6%	33.4%
USDCAD	25.1%	-15.1%	-5.2%	2.5%	-2.2%	0.9%
EURCAD	18.9%	-12.3%	-11.4%	-0.8%	-0.7%	-9.0%

Comparable results were available to those investors that had adopted a broader definition of asset classes and then pursued greater diversification among different types of strategies within the main categories of equity and debt (i.e., made use of so-called 'alternative assets'). While there are many indexes that are designed to track 'alternative asset' performance, most of them are not investable and thus less than ideal measures of performance. In our opinion, the returns (net of fees) earned on the University's actual investments in these assets and strategies (shown in Table 4 below) provide a better measure.

Table 4

Actual Private Markets Asset Returns[1.] (Local)
(After Fees)

	2008	2009	2010	2011	2012	Cum. 2008-12
Private Investments	**1.5%**	**-1.2%**	**20.2%**	**14.8%**	**12.8%**	**56.0%**
Buyout	-0.2%	-9.7%	25.5%	14.9%	15.0%	49.5%
Distressed	-7.3%	15.8%	17.6%	8.1%	16.6%	59.2%
Venture	19.9%	-6.9%	2.4%	27.4%	-12.6%	27.4%
Real Assets	**-2.9%**	**-18.0%**	**13.1%**	**9.0%**	**7.1%**	**5.1%**
Real Estate & Infrastructure	-0.3%	-26.2%	15.3%	12.5%	9.5%	4.5%
Commodities	-8.9%	-0.8%	8.8%	1.8%	2.1%	2.2%

1. LTCAP Returns

As a comparison of these results with Table 3 makes clear, the University's Private Markets Investments generally performed quite favorably versus passive public markets investments in 2012. More importantly, over the last five years, these investments have strongly outperformed public markets equities.

Table 5 below summarizes the University's Target Return and the performance of the Reference Portfolio, the Benchmark Portfolio, the Endowment fund, the Pension fund and EFIP for 2012 and two longer periods ending in 2012 (the 10-year period includes the significant build-up of alternative asset investments by the University as well as a number of significant changes in investment strategy).

Although, the Reference Portfolio was not adopted as the key guidepost for the University's investments until part way through 2012, we have shown the historical performance of a linked measure of the Reference Portfolio for illustrative purposes. (For future periods, Reference Portfolio performance and Benchmark Portfolio performance will be identical and provide the key metric for comparison with actual portfolio results.)

As the table indicates, the Endowment and Pension portfolios outperformed the University's long-term Target Return in 2012 and over the most recent three year period. Similarly, the fixed income focused EFIP portfolio outperformed its Targets as well. Over the ten-year period the LTCAP and Pension portfolios slightly underperformed versus their Benchmark Portfolios and were unable to meet the University Target, mainly due to issues associated with the over-allocation within the University's portfolios to equity and equity-like strategies in 2008.

Table 5

	2012			3 - Year (2010-2012)			10 - Year (2003-2012)		
	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP
University Target Return[1]	4.9%	4.9%	1.5%	5.9%	5.9%	1.8%	5.9%	5.9%	3.3%
Reference Portfolio Return[2]	8.8%	8.5%	n.a.	6.4%	6.3%	n.a	6.8%	6.8%	n.a.
Benchmark Portfolio Return[3]	8.3%	8.7%	n.a.	6.1%	6.2%	n.a.	5.2%	5.0%	n.a.
Actual Net Return[4]	**9.2%**	**9.3%**	**1.6%**	**6.5%**	**6.6%**	**2.1%**	**4.6%**	**4.5%**	**2.9%**
Value-Added	**0.9%**	**0.6%**	**0.1%**	**0.4%**	**0.4%**	**0.3%**	**-0.6%**	**-0.5%**	**-0.4%**

n.a. = not applicable

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

2 Linked Reference Portfolio returns. Gross return less an assumed 15 bps implementation costs.

3 Linked Policy Portfolio returns. Combination of Gross Returns for Public Markets investments and Net Returns for Alternatives.

4 Net return after all fees and costs including UTAM costs, custody costs, etc.

A key takeaway from these comparisons should be the steady improvement recorded in the actual performance of LTCAP and Pension over the last three years compared to the Benchmark Portfolio (i.e., the University approved guide for actual allocations in the portfolios) as well as in comparison to the linked Reference Portfolio (the purely passive standard). This, in turn, reflects the restructuring of UTAM and, more specifically, the addition of several experienced personnel and the build-out of a professional infrastructure.

Examining calendar year 2012 more closely, the performance of the Reference Portfolio provides a useful starting point with respect to the passive investable opportunities presented to investment managers; total return was in excess of 8% and thus well above the University's longer-term objective. More importantly, Table 6 shows that the University Pension and LTCAP portfolios (after all costs) outperformed the Reference Portfolio in 2012 by 0.81% and 0.46% respectively. Although these might seem like small amounts, in dollar terms, they collectively represent an extra $28 million that was earned for the University relative to having utilized a passive approach.

Table 6

2012 Performance Attribution (%)

	LTCAP		Pension	
Reference Portfolio Return (C$)		**8.75%**		**8.48%**
Value Added Versus Reference Portfolio				
Asset Mix Differences	-0.15%		0.40%	
Manager Selection	0.87%		0.65%	
Incremental FX Exposure	-0.14%		-0.16%	
Fees , Expenses and Other	-0.12%	**0.46%**	-0.08%	**0.81%**
Actual Portfolio Performance (C$)		**9.21%**		**9.29%**

Table 6 also sets out the factors underlying the performance differences from the Reference Portfolio for these two larger University portfolios. The two different return numbers for the new Reference Portfolio reflect the fact that implementation of the new structure occurred in March for LTCAP but not until May for Pension.

As the table illustrates, differences in asset mix had a mixed impact on returns in 2012. This was primarily the result of differing implementation dates and more particularly a positive contribution from 'alternative assets' early in the year. The most significant contribution to the outperformance of both portfolios in 2012, however, was the value added by the managers selected by the new UTAM team (mainly Canadian and Emerging Markets equity managers).

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 and there is also no multi-year performance assessment. The target is essentially a relatively stable, always positive, return with minimal risk and liquidity being the overriding requirements. In today's interest rate environment, this is a challenging task.

The average asset mix and 2012 investment performance for EFIP are summarized in Table 7 below. At the end of 2012, the EFIP portfolio had a market value of $1,158 million (2011: $1,006 million).

Table 7

	Asset Mix (2012 AVERAGE)[1]	Actual Return
Cash and Equivalents	68.1%	1.2%
Short-Term Bonds	24.6%	1.9%
Medium-Term Bonds	6.9%	5.1%
Hedge Funds (USD)	0.4%	3.2%
Currency Hedge Overlay[2]	n.a	n.a
Total	100%	1.6%

1 Weights are based on the average of monthly weights.

2 Foreign currency exposures are 100% hedged to the Canadian dollar.

EFIP generated a net return of 1.6% in 2012, or 9 basis points above the University's Target Return of 1.5%. The primary reason for the outperformance was the allocation to better performing longer duration assets.

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 modeling to assist us in better understanding the portfolio results of various asset mix alternatives in many different scenarios.

Manager selection is an important source of risk control. In our sourcing and review process for considering all new managers for the portfolios, we not only assess a manager's investment methods and past performance, but also conduct thorough operational due diligence on their organization and operational processes. This analysis is performed by UTAM staff, generally with the assistance of external advisors. In addition, we attempt to understand what impact an allocation to a manager will have on the overall risk of the portfolio. Needless to say, our work in this area will continue to evolve as we pursue improvements to processes and practices.

During 2012, we implemented a position-based risk analysis system. While this process entails considerable effort, it is UTAM's belief that the addition of this analytical tool will facilitate more informed discussion regarding the actual risk exposures in the portfolios and better plans for dealing with future periods of market stress.

Given the decision by the University to adopt an active management approach for the portfolios, 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 the Reference Portfolio, as long as the risk of the portfolio remains within the limit. For the LTCAP and Pension portfolios, this risk tolerance was determined, based on the expected risk of the Reference Portfolio. In addition, minimum and maximum weights have been established for each of the major groupings within the Reference Portfolio. Taken together, these limits are viewed by the University as being large enough to permit UTAM the flexibility to achieve the value-added objective but not so large as to put the portfolios at undue risk of significant underperformance relative to the Reference Portfolio.

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 set of bonds and high quality corporate paper, mostly with shorter terms to maturity. These are the primary means of controlling risk for such a short-term oriented portfolio.

MARKET OUTLOOK

Despite very little improvement over the last year in terms of the economic background or political progress in dealing with underlying structural issues, bond yields are lower and price to earnings ratios of equity markets are generally higher. The major contributor to this divergence was unusually accommodative monetary policies that caused market participants to become much less risk averse. Fear is considerably lower and the prevailing mood seems to be that if growth strengthens then risky assets will outperform and if growth falters then central banks will intervene and risky assets will outperform. In our view, however, the world remains a risky place with demographic trends, ongoing negotiations on US fiscal policy, the eventual withdrawal of monetary policy accommodation and unresolved imbalances in Europe continuing to constrain the growth trajectory for the developed world. Consequently, we do not view the current environment as one in which it pays to become more aggressive.

As we suggested last year, the longer-term outlook should prove challenging for those expecting that portfolios comprised of traditional assets and strategies will deliver returns matching their current expectations or needs. The key difference today is the low level of yields on government bonds. Real interest rates (i.e., excluding the expected impact of inflation) are negative in most developed markets and the 10-year US treasury rate reached a 200-year low in July 2012. While this suggests risk and considerable room for rates to rise, our expectation is that the most probable scenario is for medium-term returns on Canadian and US government bonds roughly equivalent to the current yield. It is also worth reflecting on the fact that at current interest rate levels, the coupon on government bonds provides considerably less portfolio protection in declining equity markets.

Turning to equity markets, it is generally true that future performance is very dependent on starting valuations. As we survey the landscape today, 2012 performance was better than originally expected and seems to have already priced in reasonably good economic performance in the period ahead. As such, we find that while valuation levels are still better than at the start of the last decade, they remain far from compelling. Although sustained by the current low level of interest rates, they are neither historically cheap nor supported by the growth case that existed in the early 1950s. This suggests to us that investors should expect something close to a 'normal' rate of return but one which is less than the historical average and accompanied by somewhat more volatility than recently has been the case.

In summary, we believe that in the current environment, prospective returns from a 60/40 portfolio comprised of traditional equity and fixed income assets are likely to be quite muted compared to the last several decades. Thus, in order to achieve the University's return objectives while adhering to the stated risk budget, the portfolio will need to have the flexibility to invest in alternative strategies and make use of specialized expertise focused on unique and inefficient pockets within markets. We believe that UTAM now has the governance structure, the investment team, the infrastructure and the risk management framework in place to pursue this approach and maximize the chances of achieving the University's objectives.

AUDITORS' REPORT

[insert to come]

FINANCIAL STATEMENTS

Balance Sheet [insert to come]

Statement of Operations and Change in Net Assets [insert to come]

Notes to Financial Statements [insert to come]

UNIVERSITY OF TORONTO ASSET MANAGEMENT CORPORATION

BOARD OF DIRECTORS

(as at December 31, 2012)

CATHERINE J. RIGGALL, *Chair of the Board*

University of Toronto, *Vice President, Business Affairs (retired)*

SHEILA BROWN

University of Toronto, *Chief Financial Officer*

GEORGE LUSTE

University of Toronto Faculty Association,

Past President

WILLIAM W. MORIARTY

University of Toronto Asset Management Corporation,

President and Chief Executive Officer

DAVID NAYLOR

University of Toronto,

President

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*

UNIVERSITY OF TORONTO ASSET MANAGEMENT CORPORATION

STAFF

(as at March 31, 2013)

WILLIAM W. MORIARTY, CFA
President and Chief Executive Officer

JOHN T. HSU, 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, ACA(UK)
Director, Operational Due Diligence and Chief Compliance Officer

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

FAISAL HAMID
Analyst, Manager Selection and Portfolio Construction

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

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

PAYTON LIU
Analyst, Portfolio Performance and Risk

LEON LU, CFA
Analyst, Manager Selection and Portfolio Construction

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

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

STAN CHIEN
Analyst, Compliance

ANNE LEE
Analyst, Investment Operations

TOAN DUONG, CMA
Associate, Investment Operations

DIANE NGUYEN
Office Manager

JILLIAN MIRANDA
Administrative Assistant

Corporate Address

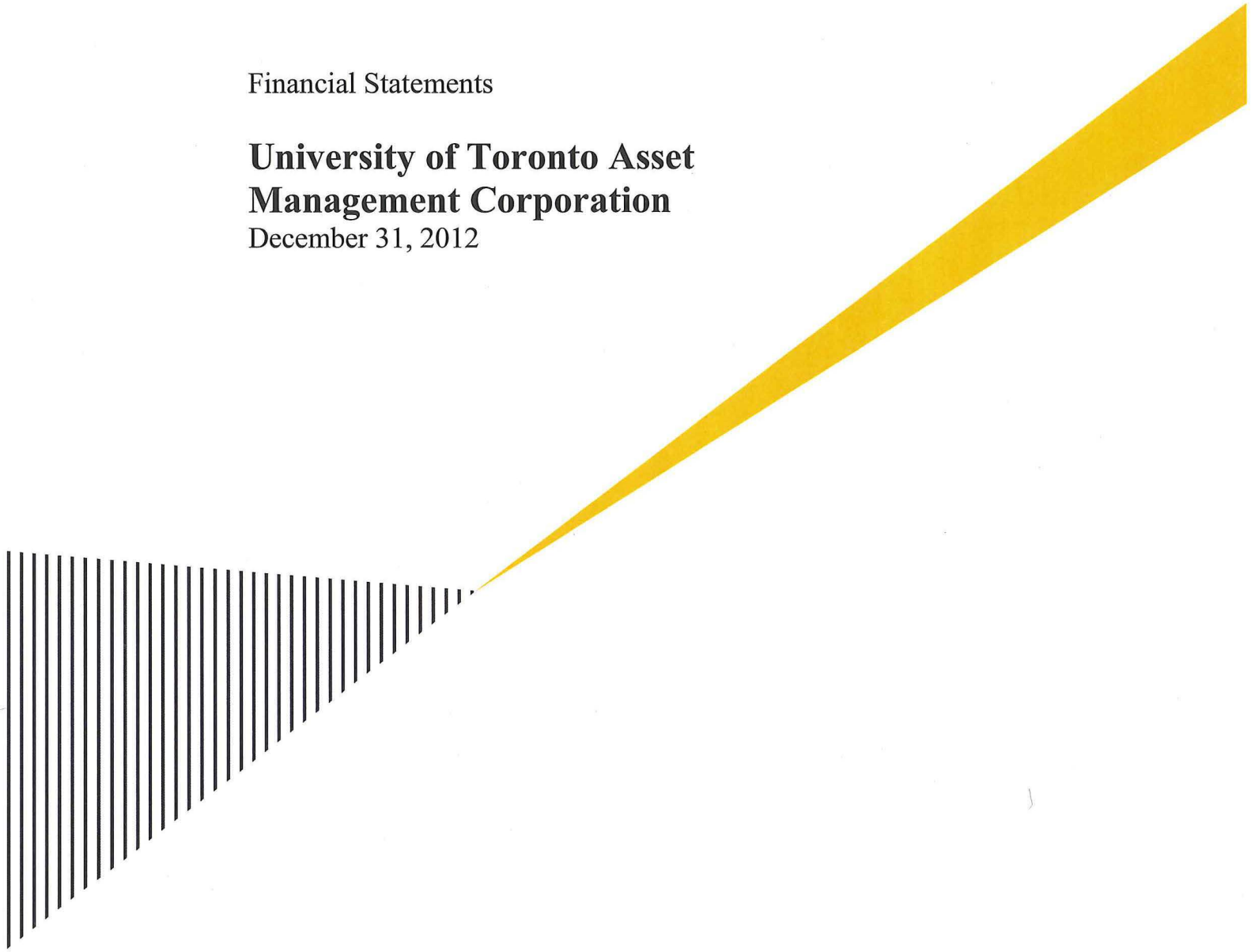
101 College Street, Suite 350
MaRS Centre, Heritage Building
Toronto, Ontario M5G 1L7

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

Financial Statements

University of Toronto Asset Management Corporation

December 31, 2012



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Quality In Everything We Do

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, 2012 and 2011, 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 subsection 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 subsection 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, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with 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.

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 the Directors of **University of Toronto Asset Management Corporation** and the Ontario Securities Commission, and should not be used by parties other than the Directors of **University of Toronto Asset Management Corporation** or the Ontario Securities Commission.

Ernst & Young LLP

Toronto, Canada,
March 21, 2013.

Chartered Accountants
Licensed Public Accountants

University of Toronto Asset Management Corporation

STATEMENTS OF FINANCIAL POSITION

As at December 31

	2012 $	2011 $
ASSETS		
Current		
Cash	**93,598**	52,112
Due from University of Toronto *[notes 6[a] and [e]]*	**73,329**	148,949
Accounts receivable *[note 6[f]]*	**—**	80,000
Prepaid expenses	**38,125**	28,960
Total current assets	**205,052**	310,021
Capital assets, net *[note 4]*	**226,377**	276,379
Total assets	**431,429**	586,400
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	**205,052**	310,021
Total current liabilities	**205,052**	310,021
Deferred capital contributions *[note 5]*	**226,377**	276,379
Total liabilities	**431,429**	586,400
Net assets	**—**	—
	431,429	586,400

See accompanying notes

On behalf of the Board:

Director

Sheila Brown
Director

University of Toronto Asset Management Corporation

STATEMENTS OF NET INCOME, COMPREHENSIVE INCOME AND CHANGES IN NET ASSETS

Years ended December 31

	2012 $	2011 $
EXPENSES *[note 6]*		
Staffing	**3,888,348**	3,700,325
Communications and information technology support	**299,764**	321,532
Occupancy	**217,877**	203,981
Professional fees	**139,635**	282,142
Consulting fees	**110,758**	177,284
Travel	**102,627**	122,381
Office supplies and services	**81,404**	68,845
Amortization of capital assets	**78,598**	68,294
	4,919,011	4,944,784
RECOVERIES AND OTHER INCOME		
Recoveries from University of Toronto *[note 6]*	**4,840,413**	4,876,490
Amortization of deferred capital contributions *[note 5]*	**78,598**	68,294
	4,919,011	4,944,784
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

	2012 $	2011 $
OPERATING ACTIVITIES		
Net income and comprehensive income for the year	—	—
Add (deduct) items not involving cash		
Amortization of capital assets	**78,598**	68,294
Amortization of deferred capital contributions	**(78,598)**	(68,294)
Forgiveness of loan	**80,000**	—
Changes in non-cash working capital balances related to operations		
Due from University of Toronto	**75,620**	347,210
Accounts receivable	—	(36,824)
Prepaid expenses	**(9,165)**	26,884
Accounts payable and accrued liabilities	**(104,969)**	(332,440)
Cash provided by operating activities	**41,486**	4,830
INVESTING ACTIVITIES		
Purchase of capital assets	**(28,596)**	(42,926)
Cash used in investing activities	**(28,596)**	(42,926)
FINANCING ACTIVITIES		
Deferred capital contributions to fund purchase of capital assets	**28,596**	42,926
Cash provided by financing activities	**28,596**	42,926
Net increase in cash during the year	**41,486**	4,830
Cash, beginning of year	**52,112**	47,282
Cash, end of year	**93,598**	52,112

See accompanying notes

University of Toronto Asset Management Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

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 Fund, Expendable Fund and Pension Fund, 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 19, 2013.

2. BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with 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 [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.

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

IFRS 9 *Financial Instruments* ["IFRS 9"] was issued by the IASB on November 12, 2009 and will replace IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

IFRS 13 *Fair Value Measurement* establishes the definition of fair value and sets out a single IFRS framework for measuring fair value and the required disclosures. This standard is effective for annual periods beginning on or after January 1, 2013.

UTAM will adopt these standards when they become effective. UTAM is currently reviewing these standards 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 which approximates fair value largely due to the short-term nature of these instruments. 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, 2012 and 2011, 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, 2012 and 2011, 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 indexes. UTAM is not exposed to other price risk as at December 31, 2012 and 2011.

[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, 2012 and 2011.

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, 2011	**444,723**	**81,777**	**-**	**526,500**
Additions	963	4,429	**37,534**	42,926
Balance, December 31, 2011	**445,686**	**86,206**	37,534	**569,426**
Additions	3,259	2,500	22,837	28,596
Balance, December 31, 2012	**448,945**	**88,706**	**60,371**	**598,022**
Accumulated amortization				
Balance, January 1, 2011	**210,664**	**14,089**	**-**	**224,753**
Amortization	44,684	17,048	6,562	68,294
Balance, December 31, 2011	**255,348**	**31,137**	**6,562**	**293,047**
Amortization	45,443	17,491	15,664	78,598
Balance, December 31, 2012	**300,791**	**48,628**	**22,226**	**371,645**
Net book value				
Balance, December 31, 2011	**190,338**	**5,069**	**30,972**	**276,379**
Balance, December 31, 2012	**148,154**	**40,078**	**38,145**	**226,377**

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:

	2012 $	2011 $
Balance, January 1	**276,379**	301,747
Recoveries received during the year related to capital asset purchases	**28,596**	42,926
Amortization of deferred capital contributions	**(78,598)**	(68,294)
Balance, December 31	**226,377**	276,379

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, 2012, $73,329 [2011 - $148,949] is due from U of T as a result of actual cost of operations exceeding reimbursements.

[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 2012, contributions of $176,956 [2011 - $146,577] 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 2012, these services totaled $54,247 [2011 - $51,477].

[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:

	$
2013	106,724
2014	106,724
2015	106,724
2016	26,680
	346,852

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 $105,289 [2011 - $91,143] in 2012. 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] Transactions with key management personnel

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

	2012 $	**2011** $
Short-term employee benefits	**1,917,975**	2,103,589
Post-employment benefits	**73,044**	74,118
Other long-term benefits	**12,829**	93,516
	2,003,848	2,271,223

Forgivable loans

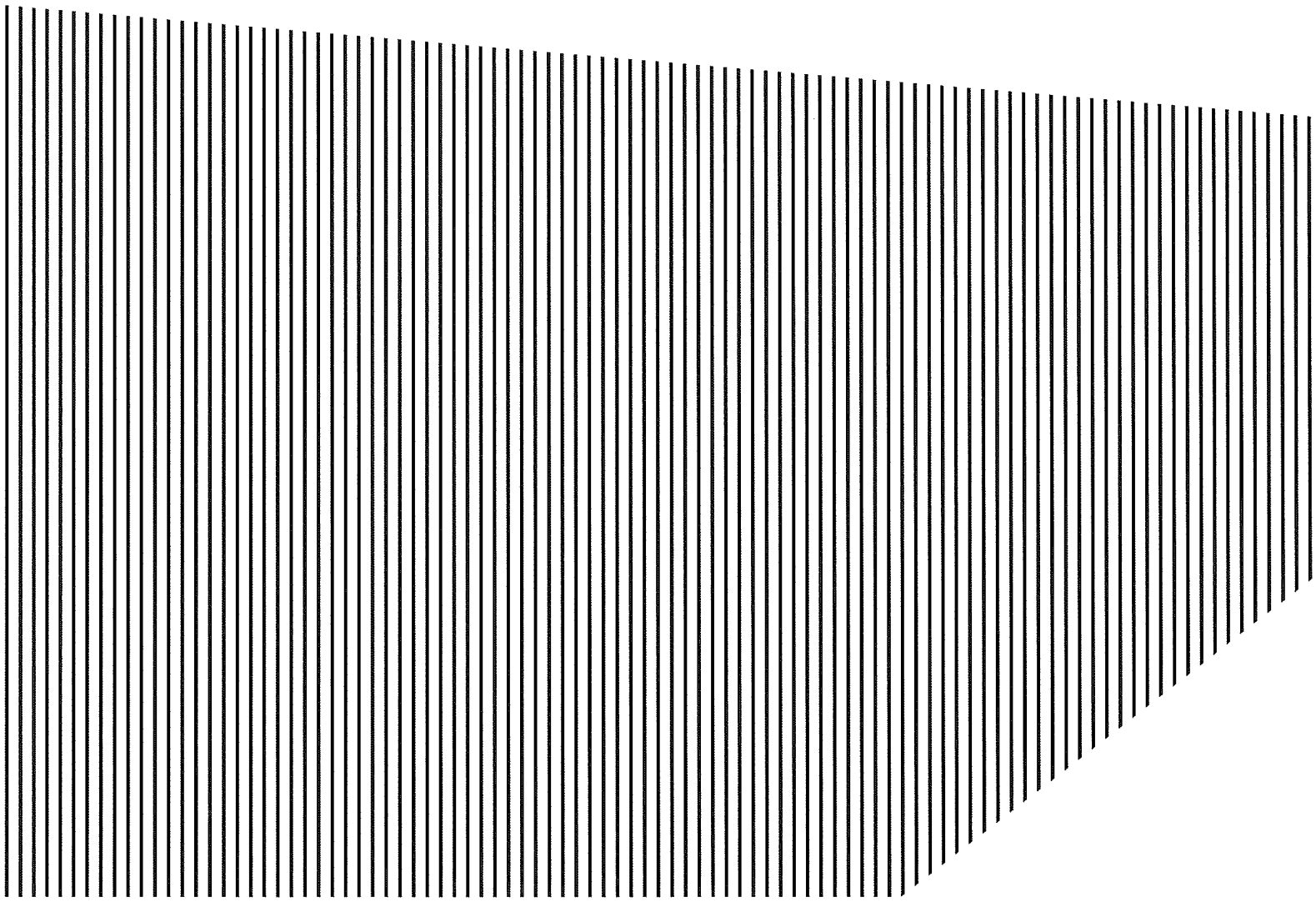
In 2012, forgivable loans of $80,000 granted to key management personnel were forgiven. The total amount outstanding at December 31, 2012 is nil [2011 - $80,000].

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

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, 2012, UTAM has met its objective of having sufficient liquid resources to meet its current obligations.



Portfolio Performance Review

University of Toronto Business Board Meeting

Monday, May 6, 2013

William W. Moriarty, CFA
President and CEO, UTAM

Annual Returns vs. University Targets

	2012			2 - Year (2011-2012)			4 - Year (2009-2012)		
	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP	ENDOWMENT	PENSION	EFIP
University Target Return[1]	4.9%	4.9%	1.5%	5.6%	5.6%	2.0%	5.7%	5.7%	1.8%
Reference Portfolio Return[2]	8.8%	8.5%	n.a.	4.4%	4.3%	n.a.	9.2%	9.1%	n.a.
Benchmark Portfolio Return[3]	8.3%	8.7%	n.a.	4.5%	4.7%	n.a.	6.5%	6.4%	n.a.
Actual Net Return[4]	**9.2%**	**9.3%**	**1.6%**	**5.1%**	**5.1%**	**2.1%**	**6.4%**	**6.3%**	**2.2%**
Value-Added	**0.9%**	**0.6%**	**0.1%**	**0.6%**	**0.5%**	**0.1%**	**-0.1%**	**-0.1%**	**0.4%**
Assets (December 31; millions)									
2012	$1,896	$2,751	$1,158						
2011	$1,754	$2,504	$1,006						

n.a. = not applicable

- Despite a major restructuring of LTCAP and Pension in 2012, all three portfolios outperformed their benchmarks.

2012 Value-Added Versus New Benchmark

2012 Performance Attribution (%)

	LTCAP		Pension	
Reference Portfolio Return (C$)		**8.75%**		**8.48%**
Value Added Versus Reference Portfolio				
Asset Mix Differences	-0.15%		0.40%	
Manager Selection	0.87%		0.65%	
Incremental FX Exposure	-0.14%		-0.16%	
Fees , Expenses and Other	-0.12%	**0.46%**	-0.08%	**0.81%**
Actual Portfolio Performance (C$)		**9.21%**		**9.29%**

- During 2012 a new Reference Portfolio was adopted as the key benchmark for evaluating the success of active management activities.
- The Reference Portfolio meaningfully outperformed the University Target of 4.9%.
- Active management decisions (net of costs) further added to performance in 2012, especially UTAM's manager selection activities.

A Steady Improvement in Value-Added

Value-Add vs. Benchmark Portfolio - 2010-2012		
	LTCAP	Pension
2010	0.14%	-0.09%
2011	0.40%	0.35%
2012	0.89%	0.62%

- Value-added has steadily improved each year since 2008.
- Mainly reflects the addition of experienced personnel and the development of enhanced infrastructure at UTAM.

Portfolio Asset Mix

	Endowment		Pension	
(AS AT DECEMBER 31)	2011	2012	2011	2012
Canadian Equity[1]	18.1%	15.9%	17.9%	15.8%
US Equity[1,2]	23.6%	17.9%	24.2%	17.8%
Int'l Developed Markets Equity[1]	21.3%	16.4%	21.0%	16.3%
Emerging Markets Equity	2.1%	10.2%	2.1%	10.2%
Credit	17.6%	19.8%	18.1%	20.2%
Rates[1]	7.3%	10.9%	6.7%	10.9%
Absolute Return	10.7%	8.9%	10.1%	8.9%
Cash (including notional offsets)[3]	-0.6%	0.0%	-0.1%	-0.1%
Total	100.0%	100.0%	100.0%	100.0%
Cash (actual)[4]	13.9%	5.6%	13.8%	5.0%
Portfolio Value (millions)	$1,754	$1,896	$2,504	$2,751

- Changes in asset mix for LTCAP and Pension primarily reflect the adoption of the new Reference Portfolio as the key Benchmark and an evolution in the approach to portfolio construction.

Public Markets' Returns

Public Markets Index Returns
(Before Fees)

	2008	2009	2010	2011	2012	Cum. 2008-12
Canadian Equity (TSX Composite, C$)	-33.0%	35.1%	17.6%	-8.7%	7.2%	4.1%
U. S. Equity (S&P 500, US$)	-37.3%	28.3%	16.9%	1.0%	16.0%	10.2%
Int'l Developed Markets Equity (MSCI EAFE, Local)	-40.3%	24.7%	4.8%	-12.2%	17.3%	-19.5%
Emerging Markets Equity (MSCI EM, Local)	-45.9%	62.3%	14.1%	-12.7%	17.0%	2.2%
DEX Corporate	0.2%	16.3%	7.3%	8.2%	6.2%	43.8%
DEX Government	9.0%	1.6%	6.5%	10.2%	2.6%	33.4%
USDCAD	25.1%	-15.1%	-5.2%	2.5%	-2.2%	0.9%
EURCAD	18.9%	-12.3%	-11.4%	-0.8%	-0.7%	-9.0%

- Capital markets delivered surprisingly good returns in 2012, especially for portfolios that were tilted toward non-Canadian equities.

Private Investment Returns

Actual Private Markets Asset Returns (Local)
(After Fees)

	2008	2009	2010	2011	2012	Cum. 2008-12
Private Investments	**1.5%**	**-1.2%**	**20.2%**	**14.8%**	**12.8%**	**56.0%**
Buyout	-0.2%	-9.7%	25.5%	14.9%	15.0%	49.5%
Distressed	-7.3%	15.8%	17.6%	8.1%	16.6%	59.2%
Venture	19.9%	-6.9%	2.4%	27.4%	-12.6%	27.4%
Real Assets	**-2.9%**	**-18.0%**	**13.1%**	**9.0%**	**7.1%**	**5.1%**
Real Estate & Infrastructure	-0.3%	-26.2%	15.3%	12.5%	9.5%	4.5%
Commodities	-8.9%	-0.8%	8.8%	1.8%	2.1%	2.2%

- Alternative assets (net of fees) continued to post solid returns.

Portfolio Risk vs. Reference Portfolio

Total Risk Attribution

Pension	Volatility %	VaR % (1 Month)	CVaR% (1 Month)
Reference Portfolio	9.68	(4.02)	(6.71)
Actual Portfolio	10.66	(4.75)	(7.59)

Impact On NPV due to the Scenario changes

	Reference Portfolio %	Actual Portfolio %
Rates Up +1 %	(2.55)	(1.87)
S&P 500 Down 10%	(4.01)	(4.42)
Credit Spread Rise 1%	(1.40)	(1.09)
CAD Down 5%	1.09	1.14

- During 2012 UTAM implemented a forward looking ,position-based risk analysis system that facilitates a more informed discussion regarding the actual risk exposure in the portfolios.

A Challenging Investment Environment

- Traditional Fixed Income Investments Likely To Provide Disappointing Returns -

- The level of current yields is a very good estimator of likely future bond market returns.
- At current levels, bonds provide not only meager return prospects but also much more limited protection against market and economic turbulence.

Current Investment Environment

- No real change in outlook.
- Economic growth expected to remain tepid – constrained by need to deal with debt levels and fiscal and monetary overhang.
- Euro-zone issues are far from resolved and will flare up periodically.
- Emerging markets economies still provide opportunity.
- Rates may stay low for considerable period; but today's risk / return profile is one of heightened rate sensitivity and significantly less coupon to offset principal losses in the event of higher rates.
- Credit still appears quite attractive but a selective approach needed.
- Equities not expensive but also not cheap in a long term context, except in relation to bonds.
- While few investors are thinking bullish; many are increasingly acting bullish.
- Remaining generally neutral to policy weights with the exception of Rates exposure.
- Focus will need to be on finding unique and inefficient pockets within markets.