



FOR INFORMATION

PUBLIC

OPEN SESSION

TO: Business Board

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DATE: August 28, 2015 for September 21, 2015

AGENDA ITEM: 2

ITEM IDENTIFICATION:

Endowment Annual Financial Report for the year ended April 30, 2015.

JURISDICTIONAL INFORMATION:

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

GOVERNANCE PATH:

1. Business Board (September 21, 2015)

PREVIOUS ACTION TAKEN:

The 2014 annual financial report on endowments was presented to the Business Board on September 22, 2014.

HIGHLIGHTS:

Endowments provide a strong base of funding for student aid, for endowed chairs, for research and for academic programs in support of the academic vision. Endowments are restricted funds which must be used in accordance with purposes specified by donors or by Governing Council. Endowments are not available for use in support of general operating activities. At April 30, 2015, there were over 5,800 individual endowment funds totalling \$2.1 billion market value, an increase of \$261.3 million from April 30, 2014, made up of:

\$ 32.7 million	endowed donations
\$ 22.7 million	transfers from the University's unrestricted funds

\$ 304.5 million	investment income
(\$ 22.3 million)	fees and expenses
<u>(\$ 76.3 million)</u>	allocation for spending

\$ 261.3 million

Please consult the full report for a comprehensive discussion of the endowments.

FINANCIAL IMPLICATIONS:

-

RECOMMENDATION:

For information.

DOCUMENTATION PROVIDED:

Endowments Annual Financial Report for the year ended April 30, 2015

BOUNDLESS

LASTING IMPACT

ENDOWMENT REPORT 2014–2015



HIGHLIGHTS

	April 30, 2015	April 30, 2014
<hr/>		
<u>Total Endowments:</u>	(Millions of dollars)	
Fair value	\$ 2,142.1	\$ 1,880.8
Change from previous year:		
Endowed donations	\$ 32.7	\$ 37.1
Transfers from University's unrestricted funds	\$ 22.7	\$ 12.1
Investment income	\$ 304.5	\$ 256.9
Fees and expenses	\$ (22.3)	\$ (16.4)
Allocation for spending	<u>\$ (76.3)</u>	<u>\$ (72.6)</u>
Total change for the year	\$ 261.3	\$ 217.1

**Endowments in Long-Term Capital
Appreciation Pool (LTCAP):**

Proportion invested in LTCAP	98.50%	96.36%
Number of units in LTCAP	10,007,729	9,535,423
Fair value in millions	\$ 2,109.9	\$ 1,812.4
Fair value per unit in dollars	\$ 210.83	\$ 190.07
Allocation for spending per unit in dollars	\$ 7.71	\$ 7.56
LTCAP time-weighted net returns*	15.0%	14.6%

*Returns net of investment fees and expenses.

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EXECUTIVE SUMMARY

The University of Toronto (“U of T”) was established in 1827 and is Canada’s largest and most comprehensive university. It is one of the world’s foremost research-intensive universities and it has educated hundreds of thousands of students and enjoys a global reputation in multiple fields of scholarship. In the 2014-15 ranking, the Times Higher Education ranking groups the University of Toronto with Stanford, Oxford, Cambridge, UC Berkeley, and UCLA as the only institutions in the top 25 in all six broad disciplinary areas. Students have a chance to study with some of the world’s top professors and alongside inspiring classmates.

Since the University of Toronto’s founding in 1827, alumni and friends have played a fundamental role in establishing it as Canada’s leading university, consistently rated as one of the world’s top educational institutions. Many of these alumni and friends have not only provided funds yearly, but have also built a permanent financial foundation for U of T by donating endowed gifts. Through their contributions, these individuals and groups have a lasting impact on U of T and help to shape our future and our impact on our country and the world.

Endowed gifts from alumni and friends enable U of T to offer financial support to exceptional students, attract outstanding professors and researchers, and create unique and innovative programs. Since the start of Boundless: The Campaign for the University of Toronto, which was launched in November 2011, has now surpassed the \$1.8 billion mark towards a goal of \$2.0 billion, establishing a new benchmark in Canadian philanthropy. The Boundless campaign will help expand U of T’s global leadership across critical areas of knowledge and develop the talent, ideas and insight needed to address the defining challenges of our time. Endowed giving provides permanent, self-sustaining support to the University and is critical to meeting these important objectives.

This report summarizes the performance, management and impact of our endowments over the past fiscal year. At April 30, 2015, University of Toronto endowments totaled \$2.1 billion and included over 5,800 individual endowment funds. In establishing these funds, donors have chosen to support the institution’s highest, continuing academic priorities.

In summary:

- investment return net of investment fees and expenses for the year ended April 30, 2015 was 15.0%;
- endowment spending allocation (“payout”) was 4.1% of the opening balance market value; and
- fees and expenses were 1.2% of the opening balance market value.

To ensure that endowments will provide the same level of economic support to future generations as they do today, the University adopted a policy that grows the capital value of the endowment while allowing spending to increase over time as a percentage of the original donation. To this end, our strategy is not to spend everything earned through the investment of funds in years when investment markets are good. In favorable years, funds in excess of the spending allocation are set aside and reinvested. This enables both a protection against inflation and builds up a reserve for years when investment markets are poor.

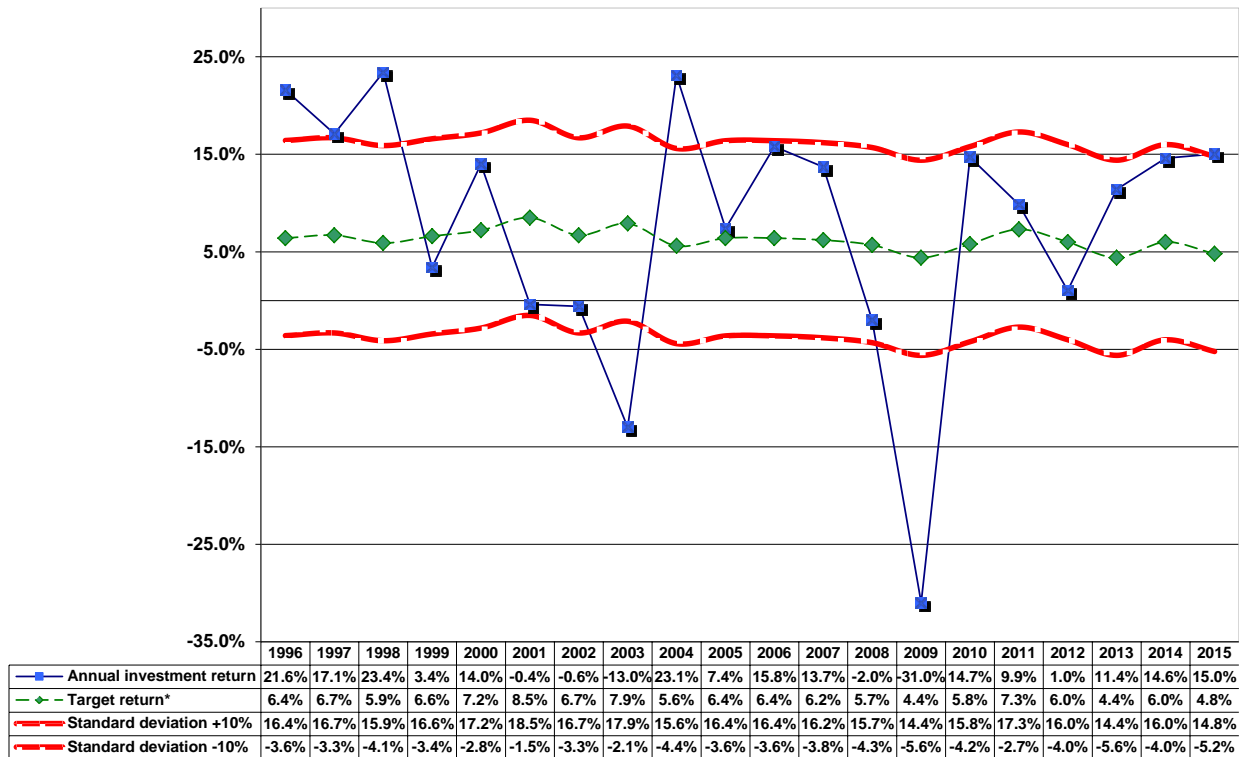
Endowments are managed in a unitized pool. Almost all of the University’s endowments hold units in this unitized investment pool, entitled the Long-Term Capital Appreciation Pool (LTCAP). Each endowment account holds units in LTCAP that reflect the number of dollars contributed and the unit value on the dates of contribution. The target spending allocation is 3% to 5% of opening balance market value and the actual endowment spending allocation for the year ended April 30, 2015 was 4.1%. The market value of each unit has increased from \$190.07 at April 30, 2014 to \$210.83 at April 30, 2015.

Unit market value at April 30, 2014	\$190.07
Investment income per unit	30.73
Fees and expenses	(2.26)
Endowment spending allocation	<u>(7.71)</u>
Unit market value at April 30, 2015	\$210.83

The amounts pertaining to a particular endowment account are obtained by multiplying the value per unit by the number of units in the endowment account. For example, if an endowment account holds 750 units, the market value of the endowment at April 30, 2015 was 750 times \$210.83 or \$158,123.

To fund the spending allocation and to preserve capital against inflation over time, the University has established an investment return target of a 4% real investment return after inflation and net of investment fees and expenses with a risk tolerance of 10% over 10 years. To meet those targets, the investment is managed by the University of Toronto Asset Management Corporation (UTAM) under the direction of the University.

Long-Term Capital Appreciation Pool (LTCAP) 1-Year Annual Rates of Return



* The target return from 1996 to 2002 was 5% plus CPI and after 2002, it was set at 4% plus CPI with a 10% standard deviation.

Over a 20-year period, the one-year annual returns exceeded the target returns 13 times. Compared to the 10% risk corridor, returns over the same period were within the corridor 13 times, above it 5 times and below it twice.

STRENGTHENING OUR VOICE ON THE WORLD STAGE.

**CELEBRATING ITS FIFTH ANNIVERSARY THIS YEAR,
THE MUNK SCHOOL OF GLOBAL AFFAIRS IS DEVELOPING
THE TALENT, IDEAS AND LEADERSHIP CANADA NEEDS
TO NAVIGATE A FAST-CHANGING WORLD.**

The remarkable success of the Munk School of Global Affairs begins with the extraordinary vision and generosity of Peter Munk (BASc 1952, Hon. LLD 1995, Hon. DSL 2004) and Melanie Munk (Hon. DSL 2004). Their benefactions to the University, which total more than \$50 million, have enabled the University to create a major academic powerhouse in global affairs and attract top students, world-renowned faculty and accomplished mentors. Together, this great constellation of talent is generating knowledge and ideas that have global reach and influence.

Peter and Melanie Munk's endowed gifts have allowed the School to attract outstanding leadership, including new Director Stephen Toope as well as Dan Breznitz, the inaugural endowed Munk Chair of Innovation Studies, while developing innovative academic programs such as the flagship Master of Global Affairs (MGA) Program. The result: one of the world's top schools of global affairs, leading a global conversation on critical issues that affect us all.

"In the few short years since it was launched, the Munk School has established an enviable reputation as a creative and innovative place where talented people from a diversity of backgrounds and expertise come together to think through and address some of the world's toughest

challenges," says Toope. "It is becoming Canada's leading non-governmental voice in global affairs, the 'go-to' place for creative thought and penetrating insight on the great issues of our time."

Over the past three years, the Munk School has experienced substantial growth in its academic programs. Student enrolments have doubled, while the number of applicants to the School has quadrupled. One hundred and sixty students are now enrolled in the two-year MGA program, which provides students with a rigorous understanding of global affairs and teaches them to address global problems within and beyond the classroom, all the while guided by world-class faculty.

"With faculty and researchers working on socially inclusive ways to create policies that foster innovation in developing economies, to developing the means to improve human-rights-respecting policing through South-South mentoring, and creating methods to protect the online activities of NGOs from attacks by repressive governments, students in the Master of Global Affairs program come to the Munk School to learn how to bring global perspectives into their future careers here and abroad," says Toope.

Exceptional faculty and experts from around the world continue to gravitate to the Munk School. There are more



The growth and success of the Munk School of Global Affairs would not have been possible without the leadership of Peter and Melanie Munk. Mr. Munk chose U of T as a focus for his philanthropy because his alma mater welcomed him with open arms when he came to Canada in the late 1940s. “The vision of Peter and Melanie Munk allowed U of T to catapult into the first rank of global and international affairs schools,” says Munk School Director Stephen Toope. “The Munk School has used its resources to attract outstanding international and Canadian faculty members, support great students and seed unique research initiatives that have the potential to improve the future of humankind. I can’t think of a gift that in the long term is more likely to change the way we approach fundamental challenges facing our globe.”



Ariana Keyman, a 2015 MGA graduate, specialized in global civil society, with a focus in environmental studies, understanding the role of environmental policy in relation to conflict/security and poverty in developing economies. In her MGA internship, Ariana managed a field research project on the Galapagos Islands of Ecuador, which looked at the public health implications of the islands’ conservation policies. She is currently a Research Associate at the Busara Center for Behavioral Economics, based in Nairobi, Kenya. The Busara Center provides consulting and research services in behavioural economics and impact evaluation to improve program, policy and product design. In this role she is responsible for project acquisition, client and budget management, study design, and data collection and analysis, for both field and lab-based studies.

than 130 affiliated scholars engaged in its teaching and research. More than 20 distinguished Senior Fellows have chosen to work at the Munk School and mentor its students. In 2013 alone, the School hosted more than 900 public seminars, conferences and lectures, which attracted 33,000 people.

Dan Breznitz is the inaugural Munk Chair of Innovation Studies and co-director of the Innovation Policy Lab at the Munk School. He is known worldwide as an expert on rapid innovation-based industries and their globalization, as well as for his pioneering research on the distributional impact of innovation policies.

“Our aim at the Munk School is to produce graduates with a deep understanding of theory and research and proven ability to apply these lessons to affect positive change in the real world,” says Breznitz. Last year, he designed and

taught a course for MGA students in tandem with Social Entrepreneurs Ireland, a charity that addresses Ireland’s social and environmental problems. Students were required to look at complex issues around increasing and enhancing policy concerning social entrepreneurship and developed three policies which were presented to local policy makers and stakeholders. One policy, on social impact bonds, was floored in the Irish House of Commons. Breznitz says the course is a perfect example of how the Munk School aims to challenge students not to offer conclusions but to steer debate. “It’s an example of how we are innovating in both education and research, and producing students who not only join the global conversation, but define it.”

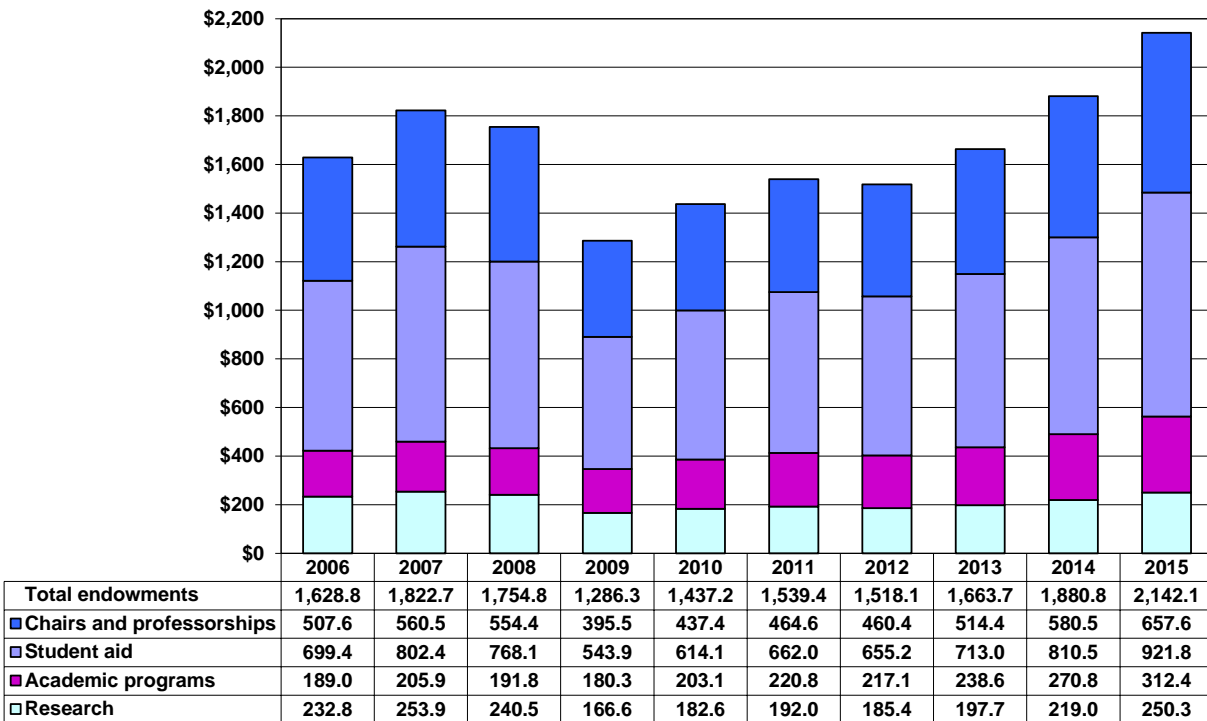
INTRODUCTION

Over the University of Toronto's history, endowed gifts have provided critical funding to support our core academic missions of teaching and research. These gifts sustain us over the long term – funds from endowed donations are invested so that earnings from the gift provide ongoing support in perpetuity, forming a lasting legacy. For the past 188 years, support from U of T alumni and friends has been lifting our University by creating a strong foundation of generosity built on individual gifts. Endowments enable students and academics from around the world to benefit from our distinguished faculty, groundbreaking research and wealth of innovative academic opportunities. In establishing these funds, donors have chosen to support the institution's highest, continuing academic priorities.

Endowments are restricted funds which must be used in accordance with purposes specified by donors or by Governing Council. Endowments are not available for use in support of general operating activities. They are subject to restrictions relating both to capital and to investment income. Endowment funds held by the University of Toronto are subject to the University's preservation of capital policy, the purpose of which is to ensure that the rate of growth in the capital value of the endowments matches or exceeds the rate of inflation over time. Endowments include externally restricted endowment funds (85.0%) and internally restricted endowment funds designated as endowments by Governing Council in the exercise of its discretion (15.0%). The Governing Council may have the right to subsequently remove the endowment designation on internally restricted funds; however, the use of such funds may continue to be restricted.

The investment income earned on endowments must be used in accordance with the various purposes established by the donor or Governing Council. As part of its fiduciary responsibilities, the University of Toronto ensures that all funds received with a restricted purpose or subsequently endowed for a particular purpose (and the investment income earned on such funds) are used only for that purpose. There are several broad categories of restrictions – chairs and professorships, student aid, academic programs and research. Within these broad categories, each endowment has its own specific terms and conditions which govern spending of investment income.

**Endowments at Fair Value
at April 30
(millions of dollars)**



This report deals with endowments reported in the University of Toronto's financial statements, and does not include the endowments of Victoria University, The University of Trinity College, University of St. Michael's College, Sunnybrook Health Sciences Centre, and the affiliated colleges under the memorandum of agreement with the Toronto School of Theology, each of which is a separate non-controlled corporate body, the endowments of which are reported in the financial statements of that body.

Almost all endowments, approx. 98.5% of fair value and 5,804 funds, are invested in the University's long-term capital appreciation pool (LTCAP).

At April 30, 2015, there were over 5,800 individual endowment funds, usually supported by a donor agreement, or reflecting a collection of small donations with common restrictions.

Endowments totaled \$2.1 billion fair value at April 30, 2015. This was an increase of \$261.3 million over the previous year. This increase was comprised of:

Additions of:

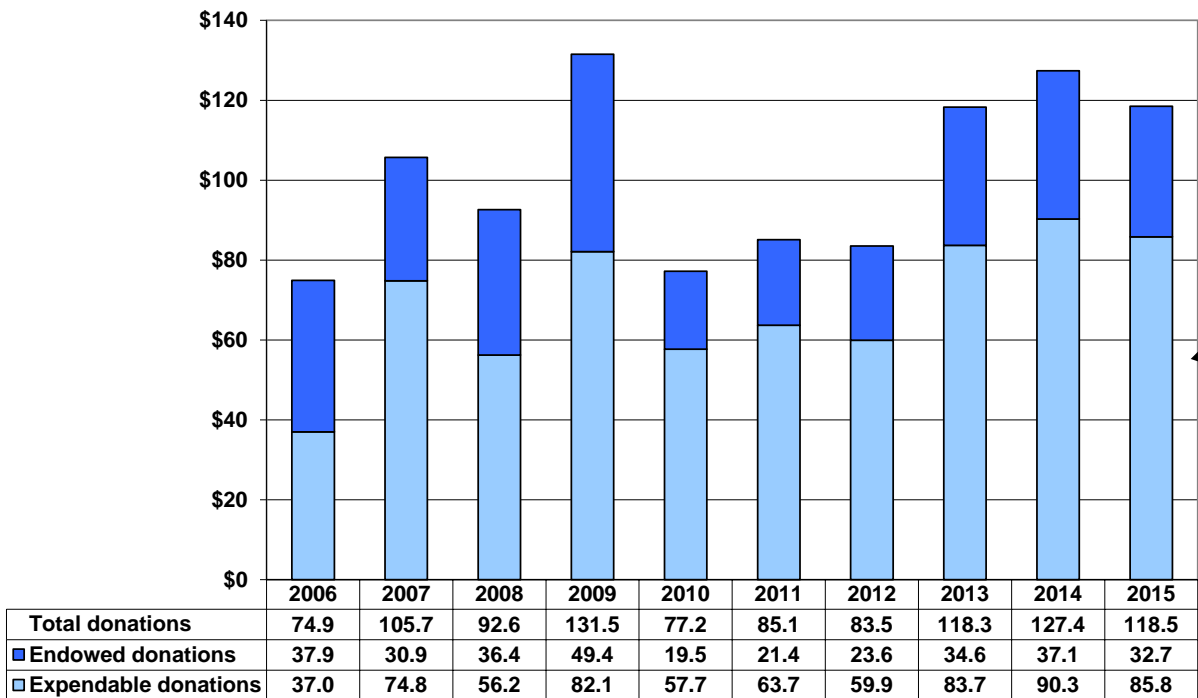
- \$304.5 million of investment income,
- \$ 32.7 million of endowed donations, and
- \$ 22.7 million of transfers from the University's unrestricted funds to endowments.

Minus:

- \$76.3 million of allocation for spending and
- \$22.3 million of fees and expenses.

The following graph shows endowed donations and expendable donations received since 2006. It tracks only cash and gifts-in-kind donations received in the relevant year. There is usually a lag between the growth in pledges and related commitments, and the actual receipt of funds.

**Total Cash and Gifts-in-Kind Donations Received
for the year ended April 30
(millions of dollars)**



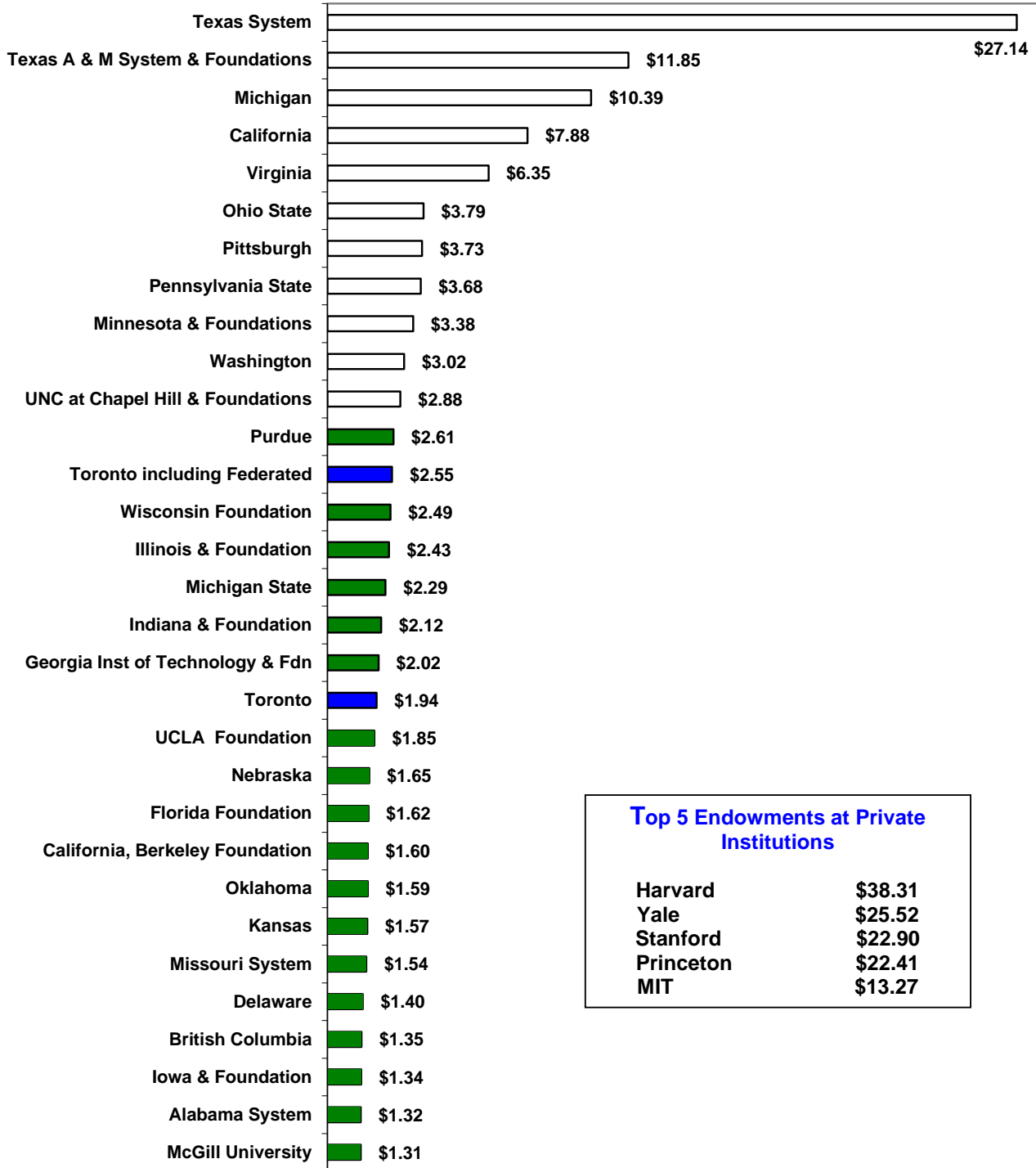
The graph illustrates that endowed donations represented 27.6% of total donations (\$118.5 million) received by the University in 2015. Expendable gifts build essential infrastructure and support immediate academic priorities with rapid-cycle impact on the institution.

The University has been careful to ensure that fundraising is tied to academic priorities defined by academic leaders through formal and informal planning processes. The clear link with institutional planning enables the University to assure donors that the priorities they are being asked to support are critical to the achievement of teaching and research objectives.

It is important to note the University's endowments are not large in comparison to our U.S. public university peers. When we consider the top 30 endowments at Canadian and U.S. public institutions in 2014, Toronto ranked 18th in terms of size. Including the endowments of the federated universities, Toronto ranked 13th in terms of size. If we were to compare the endowment per FTE student with the same institutions, the University would rank lower since most of these institutions have a smaller number of FTE students.

TOP 30 ENDOWMENTS AT PUBLIC INSTITUTIONS

As at June 30, 2014
(in billions)



Source: 2014 NACUBO Endowment Study converted to Canadian dollars at an exchange rate of 1.0676

THE U OF T HONG KONG FOUNDATION HAS BEEN PREPARING GLOBAL CITIZENS FOR 20 YEARS.

**SEVENTY PROMISING YOUNG LEADERS FROM HONG KONG ARE
USING THEIR EXPERIENCES TO CHANGE THEIR WORLD.**

Twenty years ago, in 1995, a visionary group of University of Toronto alumni and friends established the University of Toronto Hong Kong Foundation to open doors for families without the resources to send their children overseas for a U of T education. Registered as a charity in Hong Kong, the Foundation handed out its inaugural scholarship in 1996. Dame Rosanna Wong Yick-ming (MSW 1979, Hon. LLD 1999) was the first chair of the Foundation board, and worked with a sub-committee to assist the University in selecting scholarship recipients.

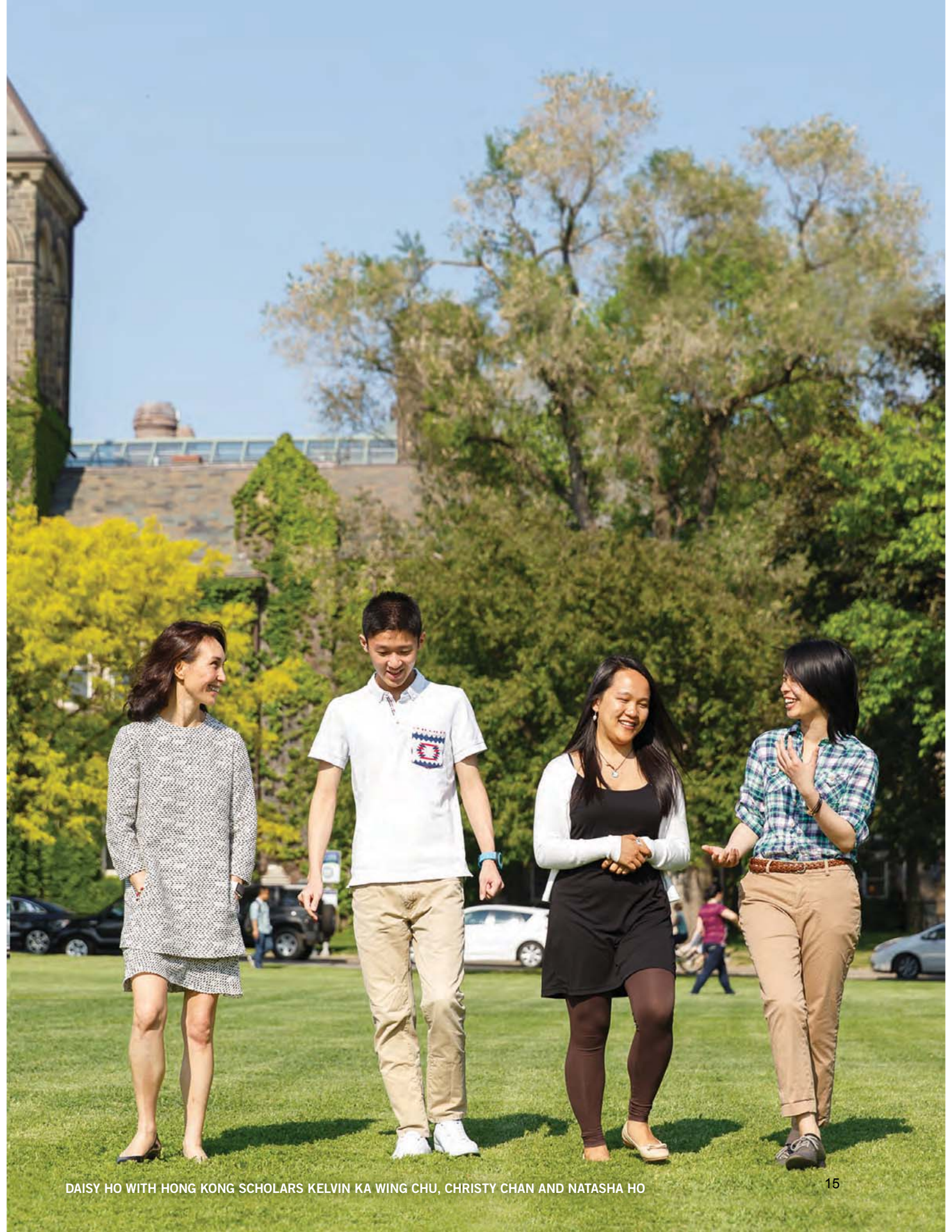
At the time, the Foundation Scholarship was the most comprehensive scholarship for Hong Kong students at any Canadian university. Thanks to the generosity of alumni, parents and friends in Hong Kong who contributed to the Foundation's endowment, the scholarship supported the total cost of each year of study, placing it on par with support offered by Harvard, MIT, Oxford, and other highly respected universities. By 1998, hundreds of students responded to the Foundation's annual promotion of the scholarships.

The establishment of the scholarship program inspired friends and alumni to create additional endowed awards. With their generous gifts, Dr. Patrick Fung (BASc 1971, MBA 1973, Hon. LLD 2005) named the

Fung Yiu King Memorial Scholarship and Dr. Yu-Tung Cheng (Hon. LLD 1987) named the Cheng Yu-Tung Scholarship, both of which contribute toward a selected student's overall scholarship. U of T alumna Daisy Ho (MBA 1990) is a key champion of the Foundation, holding the position of chair since 2007. She chairs the Scholarship Committee, and is a member of the University of Toronto's Boundless Campaign Executive. She was also a member of the Dean's Advisory Board at U of T's Rotman School of Management.

The Foundation has become an invaluable connection between the University of Toronto and Hong Kong. To date, scholarships have been awarded to 70 promising young leaders who have demonstrated ability and need, and expressed the desire to experience life abroad. Recipients have graduated from U of T and become successful professionals, with careers in finance, law, education, engineering, government, research and other fields, contributing significantly to civil society in Hong Kong, Canada and elsewhere.

After attending a high school that exposed her to various international issues, Stephanie Cheung (BA 1997), a 2003 Foundation Scholar, was ready to expand her understanding of global affairs through international development studies at U of T, where



DAISY HO WITH HONG KONG SCHOLARS KELVIN KA WING CHU, CHRISTY CHAN AND NATASHA HO

“The Hong Kong Scholarships is such a meaningful program because it helps scholars to build their confidence, become more global, and bring whatever they learn back to Hong Kong and reinvest it in society.”

– **Daisy Ho**, Chair, University of Toronto Hong Kong Foundation

she learned to analyze issues from different perspectives. “This skill is increasingly important in today’s highly complex world,” she said. “My U of T education gave me a solid background and prepared me for a career in international development.” Stephanie went on to receive a BA in anthropology and international development studies in 2007.

Now employed by the World Wildlife Fund in Hong Kong, Stephanie promotes sustainable seafood to businesses and the public, advocating for a more principled approach to consumption. She plans to continue working in community and environmental development.

In high school, Teresa Lau, a 2014 Foundation Scholar, became aware of the gap dividing the wealthy and the poor. “This experience made me realize that policy actually frames the disparities we see in society,” she explains, “and prompted me to pursue a degree in public policy.”

Teresa is thrilled to study at U of T, which she feels offers abundant opportunities for learning in a city renowned for its diversity. The co-op program she is enrolled in gives her invaluable work experience, and she is inspired by the lectures and tutorials. After graduating, she intends to repay this generosity by devoting herself to poverty eradication in Hong Kong.

“I would especially like to work on providing the chance for a good education to all children,” she says, “as I know from my own experience that knowledge can transform a life.”

Although Nicholas Yip dreamed of studying overseas, he assumed the opportunity was beyond his reach. But when members of the Foundation Scholarship Committee visited his school, he found himself inspired by their enthusiasm for U of T, and was encouraged by the possibility of the financial support the scholarship would provide.

“There was this amazing little click in my heart,” he recalls. “I would definitely say it was the scholarship that made my dream come true.” Since arriving at U of T in 2013, Nicholas, a Mechanical Engineering Foundation Scholar, has made connections with people from around the world by living in residence and taking part in University events. His interactions with his mechanical engineering professors and classmates have motivated him as he pursues his goal of becoming a professional engineer.

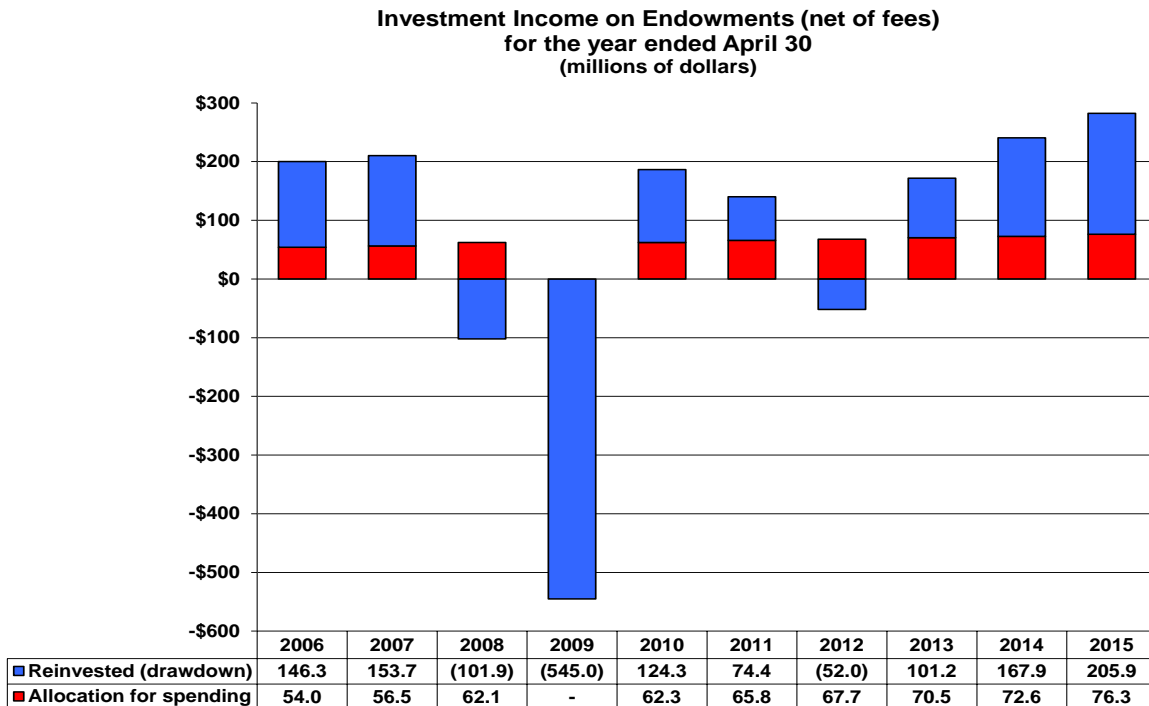
“There are so many learning opportunities at U of T,” he says. “By coming here, I feel I am on the right track for succeeding in my field of interest.”

ALLOCATION FOR SPENDING AND PRESERVATION OF PURCHASING POWER

Endowments provide a strong base of funding for student aid, for endowed chairs, for research and for academic programs in support of the University's academic mission.

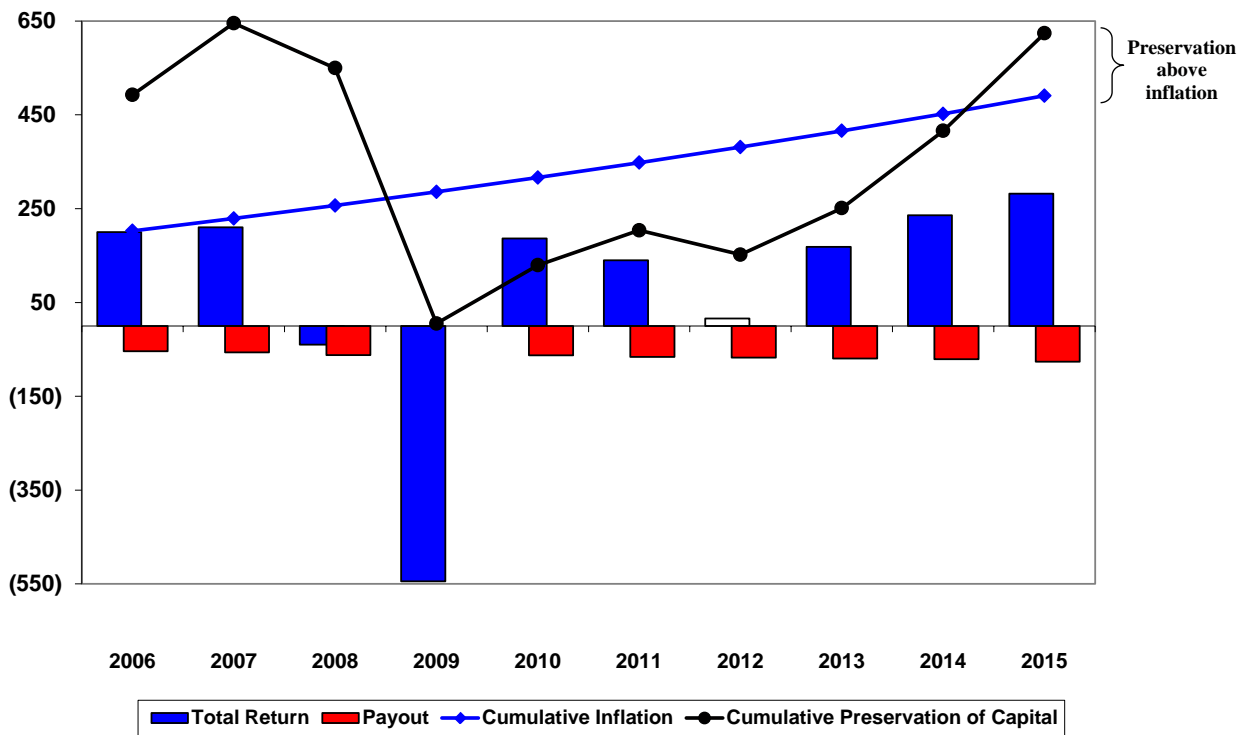
To ensure that endowments will provide the same level of economic support to future generations as they do today, with growth in the capital value of the endowment and with spending increasing over time as a percentage of the original donation, the University does not spend everything earned through the investment of funds in years when investment markets are good. In those years, the University sets aside and reinvests any amounts earned in excess of the spending allocation. This provides protection against inflation and builds up a reserve, which is expected to be used to fund spending in years when investment markets are poor. When investment income is less than the amount allocated for spending, or negative, the shortfall is expected to be funded from the accumulated investment income which has previously been added to the pool. The target spending allocation is 3% to 5% of opening balance market value and the actual endowment spending allocation for the year ended April 30, 2015 was 4.1%.

The following graph shows the spending allocation and the amounts reinvested and drawn down over the past ten years.



The next chart illustrates the annual spending allocations, investment returns, required inflation protection and funds re-invested to reserve against years of poor investment markets over the past 10 years. It also shows the changing value of the reserves in response to varying investment returns over the period.

Endowment cumulative preservation of capital compared to cumulative inflation with total return and payout for the year ended April 30 (in millions)



LONG-TERM CAPITAL APPRECIATION POOL (LTCAP) INVESTMENT POLICY

Almost all of the University's endowments (98.5% of fair value) are invested in LTCAP, a unitized pool. The fair value of an LTCAP unit is set each month, representing the market value of investments of the LTCAP divided by the total number of units held. Each endowment account has an assigned book value (nominal amount of dollars contributed to the endowment) and an allocation of LTCAP units based on the number of dollars contributed and the unit value on the dates of contribution.

In addition to endowments, LTCAP also includes \$265.7 million expendable funds that are invested for the long-term, including the University's sinking fund for debenture repayment, and \$8.2 million of external funds of affiliated organizations and funds where the University is a beneficiary, representing historical arrangements.

The University, through the Business Board of Governing Council, is responsible for establishing the investment return objective and specifying the risk tolerance for LTCAP, which reflect the liability requirements and are reviewed regularly.

The University's investment policy for LTCAP reflects the spending allocation target and the preservation of capital policy. It has a real investment return objective of 4% (after inflation and net of investment fees and expenses) and the risk tolerance of an annual standard deviation of 10% over 10 years. This means that the real return is expected to be between -6% and 14%, two thirds of the time over a ten-year period.

In setting the investment return objective and risk tolerance above, the University balances between how much risk it is willing to take and the level of investment earnings it wants to achieve, understanding that the higher the investment earnings desired, generally speaking, the higher the risk of loss will have to be tolerated and planned for.

INVESTMENT MANAGEMENT AND OVERSIGHT

LTCAP investments are managed by the University of Toronto Asset Management Corporation (UTAM) as agent for the University. UTAM, which was formed in April 2000, is governed by a Board of Directors appointed by the University. The UTAM Board is responsible for the oversight and direction of UTAM. UTAM reports on the LTCAP investments under management to the University Administration and to the Business Board of the University of Toronto.

The University establishes the return and risk parameters for LTCAP and approves the investment strategy. UTAM recommends and executes appropriate investment strategies, based on the risk and return objectives and the investment strategy established by the University. This includes asset mix allocation and determining how much to invest in domestic markets and global markets. An Investment Advisory Committee provides investment advice to the President of the University, who is also a member of the UTAM Board.

The LTCAP assets are invested as follows:

- The investment return and risk targets are developed by the University administration, reviewed by the President's Investment Advisory Committee (IAC) and embedded in University Funds Investment Policy approved by the University of Toronto Business Board.
- The Reference Portfolio, which is both the policy asset mix and the benchmark portfolio¹ with respect to passive investing, is based on the investment return and risk targets. It is developed by the IAC and UTAM, and approved by the University. The Reference Portfolio and the associated risk limits, once approved, also constrain the flexibility that UTAM can exercise in actively managing the actual portfolio.
- Investment performance is monitored by UTAM, the IAC and the University administration through regular reporting by UTAM to these various groups. That reporting includes current period and multi-year comparisons of actual performance to the LTCAP target returns and risk limits and to the Reference Portfolio's returns and risk.

¹ The reference portfolio is used as a measure of the returns that are achievable in financial markets given the University's risk appetite.

EXPLORING THE FUTURE OF CONTENT IN THE DIGITAL AGE.

THE GRAFSTEIN ANNUAL LECTURE IN COMMUNICATIONS IS FOSTERING PROVOCATIVE CONVERSATIONS ON ISSUES THAT INTERSECT TECHNOLOGY, COMMUNICATIONS AND THE LAW.



Senator Jerry Grafstein (JD 1958) is well known for an illustrious career that has spanned Canadian law, business and politics. Prior to serving in the Senate of Canada for 25 years, he helped establish CityTV, MTV-Multilingual (now Omni TV), YTV, and a series of other media companies in Canada, the United States, South America and Europe.

It's his role as a communications and media pioneer that prompted him to give back to the Faculty of Law in 1998, with a donation of \$51,000 to establish the Grafstein Annual Lecture in Communications. His contribution was also made to commemorate the 40th anniversary of his graduation from the University of Toronto's Faculty of Law and the 10th anniversary of the graduation of his son, Laurence Grafstein, and daughter-in-law, Rebecca Grafstein (née Weatherhead), both from the Class of 1988. "To create an annual lecture on communications was most appropriate as the industry is a rapidly changing one that I've been fortunate to be part of over several decades," says Grafstein. "The gift is also in return of the great education I received at the Faculty of Law."

The gift is endowed and creates a permanent source of funding for the annual lecture which brings some of the most influential leaders in communications policy and law to the Faculty. The inaugural lecture was delivered in the fall of 1999 by Charles Dalfen of Torys, a former

professor at the Faculty of Law. Since that time, intellectuals, practitioners, academics and business leaders have taken the podium to deliver provocative lectures on topics ranging from copyright and ownership as it relates to the Internet, to the future of books and libraries in a digital world. The 2015 lecture was given by Konrad von Finckenstein, federal court justice and former chair of the Canadian Radio-television and Telecommunications Commission. His discussion focused on how, despite the revolution in communications technologies over the past two decades, Canadian legislation and institutions have remained virtually unchanged, and how a rethink is clearly needed.

Matthew Schumer, assistant director of the Centre for Policy Law and Innovation, which administers the Grafstein Annual Lecture, says that each year, the lecture draws large crowds of students, faculty, and members of the legal, media and communications communities. "The Grafstein Lecture has built a reputation of bringing the brightest minds to campus on these topics that are so central to understanding the complex issues that intersect technology, communications and the law – precisely the issues that Senator Grafstein has been part of shaping for several decades," he says. Grafstein, who despite his busy schedule—he continues to travel regularly for the media startup companies he has cofounded—attends the lecture every year. It's an opportunity to not only hear from leading minds, but a way to come back to the Faculty—a place he credits with giving him the skills to build and sustain an exemplary career in public service, business and the law. "Each of my roles has required me to examine and weigh issues in a logical, precise and fact-based way. I developed these skills at U of T's Faculty of Law, and for that, I am extremely grateful."

LONG-TERM CAPITAL APPRECIATION POOL (LTCAP) PERFORMANCE

The University evaluates investment performance for the LTCAP against the target investment return, the risk limits and the Reference Portfolio returns. The primary objective is the achievement of the LTCAP target investment return while controlling risk to within the specified risk limits.

Below is the actual LTCAP performance compared against the target investment return and the Reference Portfolio returns.

LTCAP Performance - Comparing Actual Results, Target and Benchmark Returns				
	1 year Return - April 30, 2015	2 years Average Returns - April 30, 2015	3 years Average Returns - April 30, 2015	5 years Average Return - April 30, 2015
LTCAP actual investment returns	15.0%	14.8%	13.7%	10.4%
LTCAP target investment return (4% +CPI)	4.8%	5.4%	5.1%	5.7%
Reference portfolio return	11.8%	11.3%	11.1%	9.0%
Difference between LTCAP actual and target of which:	10.2%	9.4%	8.6%	4.7%
the % attributable to good investment market	7.0%	5.9%	6.0%	3.3%
the % attributable to active management decision	3.2%	3.5%	2.6%	1.4%
	10.2%	9.4%	8.6%	4.7%

Note: all investment return percentages are net of investment fees and expenses.

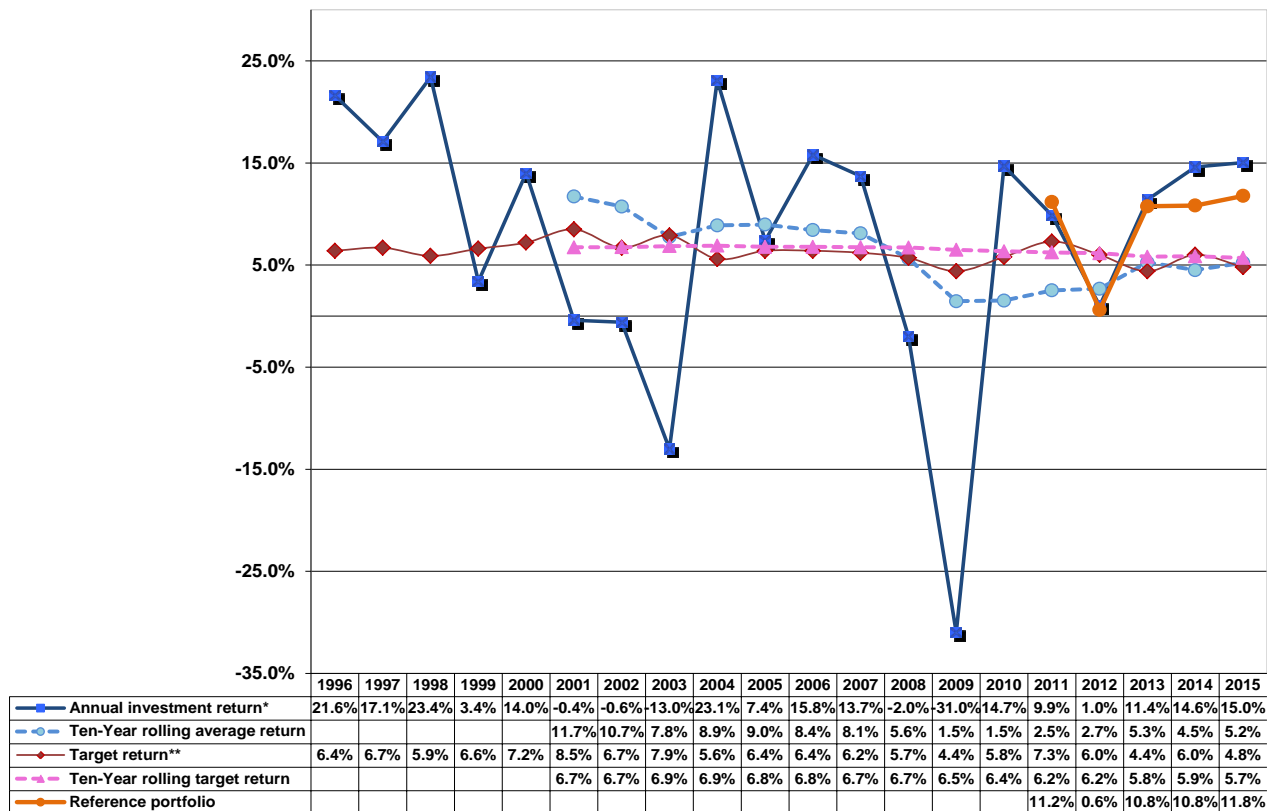
As the table above shows, for the one-year period from May 1, 2014 to April 30, 2015, the target investment return for the LTCAP was 4.8%, representing 4.0% real investment return plus inflation of 0.8%, net of investment fees and expenses. The actual return for the year was 15.0%, a difference of 10.2%. The actual return for the year also exceeded the Reference Portfolio return (which is the benchmark return to indicate how markets performed) by 3.2% (15.0% - 11.8%) meaning that active management added value. It is important to emphasize that all of the return percentages are net of investment fees and expenses.

The same analytical framework applies to the other periods shown in the table above. For the five-year period from May 1, 2010 to April 30, 2015, the actual average

return for the LTCAP was 10.4%. This actual return exceeded the target average return of 5.7% by 4.7% (10.4% - 5.7%). This actual average return exceeded the average Reference/benchmark return of 9.0% by 1.4% (10.4% - 9.0%).

If we look at the ten-year rolling-average returns, we find that for the period from 2001 to 2007, the actual ten-year rolling average returns were at or above the University's target return. However, if we concentrate on the more recent past, returns are more variable. In 2008, the LTCAP suffered a negative return of 2.0% and in 2009 a negative return of 31.0% due to the global financial crisis, although the ten-year return remained positive. During 2010 and 2011, all major financial markets rebounded from the meltdown experienced in 2008 and 2009.

**Long-Term Capital Appreciation Pool (LTCAP)
Actual Returns, Target Returns and Reference Portfolio**



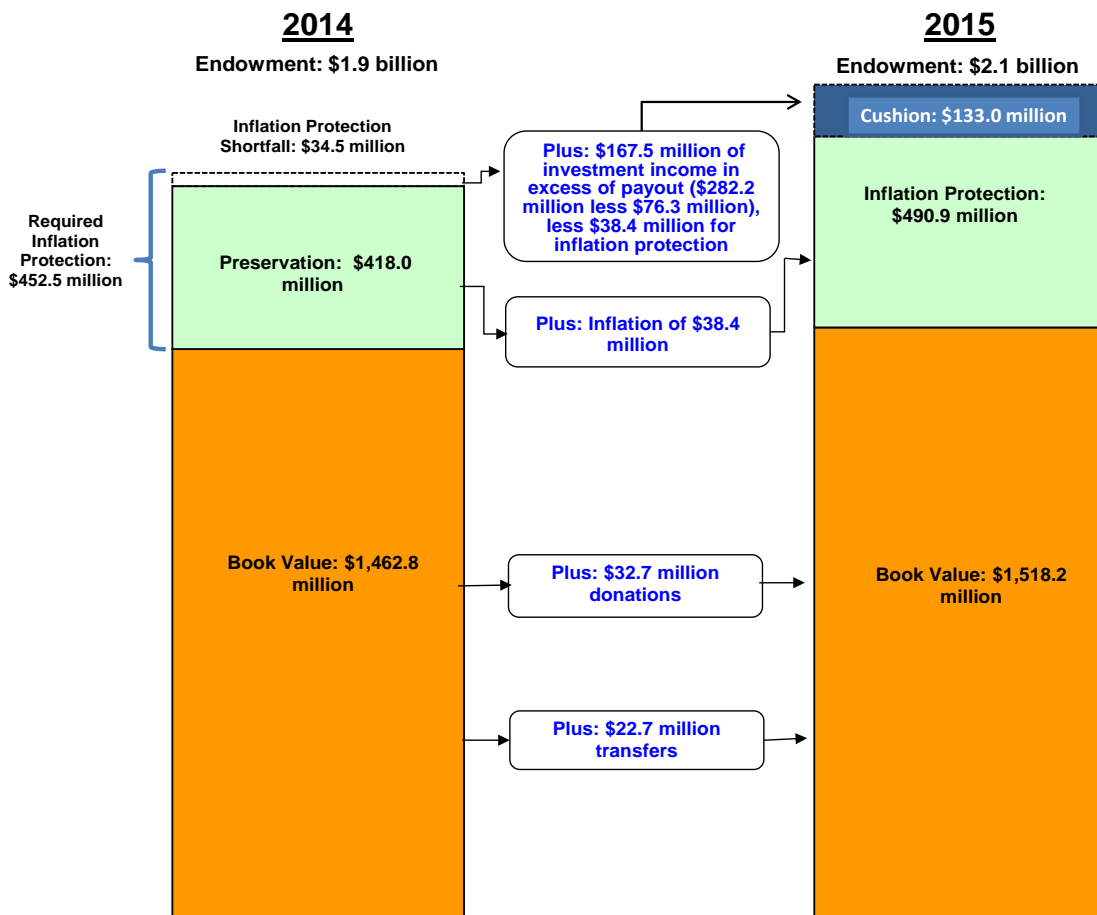
* Returns are time-weighted, calculated in accordance with industry standards, are net of investment fees and expenses, and exclude returns on private investment interests prior to 2008.

** Target return is 4.0% plus CPI.

In 2007, pre-financial crisis, the ten-year rolling average actual return of 8.1% exceeded the ten-year rolling average target return of 6.7% by 1.4%. By 2010, following the financial crisis, the ten-year rolling average actual return of 1.5% was less than the ten-

year rolling average target return of 6.4% by 4.9%. By 2015, this ten-year rolling average actual return has rebounded to 5.2%, almost back to the ten-year rolling average target investment return of 5.7%.

At April 30, 2015, the University's endowment value was \$2.1 billion with full inflation protection of \$490.9 million and preservation of capital above inflation (cushion) of \$133.0 million against any possible future market downturn. The change of the endowment is illustrated in the following chart.



A detailed review of the UTAM's investment philosophy, asset mix allocation and investment performance for the endowments, which is managed and measured on a calendar year basis, is available on the UTAM website at www.utam.utoronto.ca.

FEES AND EXPENSES

Fees and expenses set out below represent the endowments' proportionate share of the expenses allocated to LTCAP. Fees and expenses amounting to 1.2% of the 2015 opening unit market value consist of the following:

	<u>2015</u>	<u>2014</u>
	<u>in millions</u>	<u>in millions</u>
Investment related management fees		
External managers	\$ 20.0	\$14.3
UTAM	1.9	1.5
Trustee and custodial fees	0.2	0.3
Professional and other fees	0.2	0.2
Foreign taxes	—	<u>0.1</u>
Total	<u>\$ 22.3</u>	<u>\$16.4</u>

UTAM has direct oversight of all investment fees and expenses related to managing the LTCAP assets. Third party fees allocated to LTCAP include fees paid to external investment managers contracted by UTAM, trustee and custodial fees, and professional fees. UTAM strives to negotiate discounted investment management fee rates (versus the standard schedule) based on the total assets that UTAM assigns to an external manager, which would include LTCAP assets. The benefit of these lower rates is experienced by LTCAP in the form of lower total costs than would otherwise be the case. Third party fee rates can vary widely, depending on the nature of the asset being managed. For example, fee rates for domestic fixed income mandates are typically much lower than fee rates for private equity investments (domestic or foreign). Therefore, the mix of assets, and changes in asset mix over time, can have a significant impact on total costs year by year. In 2015, investment-related fees incurred for LTCAP increased from the prior year as a result of the continued growth of endowment's net investments (\$2,142 million at April 30, 2015 vs. \$1,881 million at April 30, 2014).

In addition to third party fees, a portion of UTAM's total operating costs is allocated to LTCAP. This allocation is typically pro-rated based on the total assets that UTAM manages, which include LTCAP assets, other University assets available for investment and the assets of the University of Toronto Pension Master Trust.

CREATING OPPORTUNITIES FOR MATURE STUDENTS.

WITH GIFTS FROM DONORS SUCH AS HEATHER LYNN BENSON, WHOSE ENDOWMENT PROVIDES FINANCIAL ASSISTANCE TO STUDENTS LIKE THOSE SHE ENCOUNTERED WHEN SHE RETURNED TO UNIVERSITY AFTER 25 YEARS IN THE WORKPLACE.



HEATHER LYNN BENSON, NIBAYDITA BISWAS AND HER FAMILY

“What better use is there for one’s money than investing in the future?”

– Heather Lynn Benson

When Heather Lynn Benson (BSc 1998 UTSC) returned to the University of Toronto Scarborough after 25 years in the workplace, she was not only eager to study Life Sciences but also had the time and financial security to do so. “I saw others who had also returned who were making sacrifices to continue their education,” she recalls. “Single moms with children at home or people who had to continue to work while pursuing their education. It made me realize just how lucky I was.”

This is why Heather established a scholarship for returning students. Matching funds from a Government of Ontario program created an endowment of \$40,000. One recipient of the Heather Lynn Benson Scholarship in Biological Sciences & Psychology is Nibaydita Biswas, who arrived in Canada from Bangladesh in 2010 with her husband and two school-age children.

“Another degree wasn’t easy for me, as mother of two who was oceans away from my social support structure,” Nibaydita says. “I had always been a high achiever academically, but I felt a world away from my former self.” Nibaydita persevered, enrolling at U of T Scarborough to study industrial microbiology in September 2011. “My husband was working part-time,” she recalled. “It was very hard bearing all those expenses and studying full-time.” Then, in November 2012, Nibaydita won the Heather Lynn Benson Scholarship. The \$1,700 provided support and encouragement at a crucial time. “I improved in the second semester, and by the end of the year, my GPA was very good,” Nibaydita says. “The award reaffirmed my confidence and kept me going to finish my degree.”

As a result of her studies at U of T Scarborough, Nibaydita is able to pursue her passion: preparing Bacillus Calmette-Guérin, a life-saving cancer medication, at the Sanofi Pasteur pharmaceuticals firm.

“It was my dream to achieve a degree from U of T before coming to Canada,” Nibaydita says. “I am very grateful to U of T Scarborough and to Heather Lynn Benson.”

Heather has made estate plans that will give even more students like Nibaydita support and encouragement to return to U of T and have the great experience she remembers. “What better use is there for one’s money than investing in the future?” she asks. Heather’s story demonstrates clearly how an endowed scholarship can have an impact on the future of education in a meaningful and personal way. Donors who create endowments are not only investing in a great institution, they are supporting the dedicated men and women who will be the leaders of tomorrow.

An endowment also recognizes a successful undergraduate career. “I had such a good time and thoroughly enjoyed the U of T Scarborough experience,” Heather says. The principal objective of the endowment, however, is to make a difference to people like Nibaydita. “I hope that the proceeds will encourage students to stay in school and complete their education,” Heather says. “I only wish I had been encouraged to complete my university education sooner.”

SUMMARY OF CHANGES IN FAIR VALUE

The total return on LTCAP for the year ended April 30, 2015 was 15.0% (net of fees and expenses).

	Total Value (in millions)	Unit Value (in dollars)	Number of Units
1) Endowments pooled in LTCAP:			
Opening balance at April 30, 2014	\$1,812.4	\$190.07	9,535,423
Contributions plus transfers	93.2	-	472,306
Investment income	302.8	30.73	-
Fees and expenses	(22.3)	(2.26)	-
Allocation for spending	<u>(76.2)</u>	<u>(7.71)</u>	<u>-</u>
Closing balance at April 30, 2015	\$2,109.9	\$210.83	10,007,729
2) Specifically invested endowments:			
Opening balance at April 30, 2014	\$ 60.7	n/a	n/a
Less transfers to LTCAP	(38.2)	n/a	n/a
Investment income	1.7	n/a	n/a
Fees and expenses	(0.0)	n/a	n/a
Amount available for spending	<u>(0.1)</u>	n/a	n/a
Closing balance at April 30, 2015	\$ 24.1	n/a	n/a
3) Donations received to be invested in LTCAP:			
At April 30, 2015	\$ 8.1	n/a	n/a
Total endowments at April 30, 2015	<u>\$2,142.1</u>	n/a	n/a

New donations received after the cut-off date at the end of the year had not yet been added to LTCAP.

The fair value of each endowment account in LTCAP is determined by multiplying the current fair value of the unit (\$210.83 at April 30, 2015) by the number of units held by that endowment account.

Appendix

**University of Toronto
Endowments**

Financial Information

April 30, 2015

Independent Auditors' Report

To the Members of Governing Council of University of Toronto:

We have audited the accompanying statement of net investments for **University of Toronto Endowments** as at April 30, 2015 and the statement of changes in net investments for the year then ended, and a summary of significant accounting policies and other explanatory information (together "the financial information"). The financial information has been prepared by management of the University of Toronto using the basis of accounting described in Note 2.

Management's responsibility for the financial information

Management of the University of Toronto is responsible for the preparation of the financial information in accordance with the basis of accounting described in Note 2; this includes determining that the basis of accounting is an acceptable basis for the preparation of the financial information, and for such internal control as management determines is necessary to enable the preparation of the financial information that is free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the financial information based on our audit. We conducted our audit 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 information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial information. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial information, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of the financial information 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 information.

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

Opinion

In our opinion, the financial information is prepared, in all material respects, in accordance with the basis of accounting described in Note 2.

Basis of accounting

Without modifying our opinion, we draw attention to Note 2 to the financial information, which describes the basis of accounting. The financial information is prepared to assist the University of Toronto in their reporting in their annual financial report on endowments.

Toronto, Canada
June 25, 2015.



Chartered Professional Accountants
Licensed Public Accountants

University of Toronto Endowments
STATEMENT OF NET INVESTMENTS
AS AT APRIL 30, 2015
(with comparative figures as at April 30, 2014)
(millions of dollars)

	2015	2014
ASSETS		
Investments, at fair value <i>[note 3]</i>	2,112.3	1,843.9
Cash and cash equivalents <i>[note 4]</i>	183.1	7.8
Unrealized gains on derivative instruments <i>[note 3]</i>	22.4	17.4
Investment income and other receivables	26.2	14.0
	2,344.0	1,883.1
 LIABILITIES		
Unrealized losses on derivative instruments <i>[note 3]</i>	3.3	0.6
Other payables and accruals <i>[note 5]</i>	198.6	1.7
	201.9	2.3
 NET INVESTMENTS HELD FOR ENDOWMENTS	2,142.1	1,880.8

(see notes to financial information)

University of Toronto Endowments
STATEMENT OF CHANGES IN NET INVESTMENTS
FOR THE YEAR ENDED APRIL 30, 2015
(with comparative figures for the year ended April 30, 2014)
(millions of dollars)

	2015	2014
INCREASE IN NET INVESTMENTS		
Endowed donations	32.7	37.1
Investment income <i>[note 6]</i>	304.5	256.9
Transfers from University's unrestricted funds	22.7	12.1
Total increase in net investments	359.9	306.1
DECREASE IN NET INVESTMENTS		
Allocation for spending <i>[note 7]</i>	76.3	72.6
Fees and expenses <i>[note 8]</i>	22.3	16.4
Total decrease in net investments	98.6	89.0
Net increase in net investments for the year	261.3	217.1
Net investments held for endowments, beginning of year	1,880.8	1,663.7
Net investments held for endowments, end of year	2,142.1	1,880.8

(see notes to financial information)

University of Toronto Endowments

NOTES TO FINANCIAL INFORMATION

APRIL 30, 2015

1. Description

This financial information presents the investments held for endowments of the University of Toronto (the "University") and the changes in these investments during the year. This financial information does not include other assets, liabilities, and net assets of the University. In addition, this financial information does not include the investments held for endowments of Victoria University, The University of Trinity College, University of St. Michael's College, Sunnybrook Health Sciences Centre, and the affiliated colleges under the memorandum of agreement with the Toronto School of Theology, each of which is a separate non-controlled corporate body, the investments of which are reported in their respective financial statements.

The University's endowments consist of externally restricted donations and grants received by the University and internal resources transferred by Governing Council, in the exercise of its discretion. Investment income is added to or deducted from endowments in accordance with the University's capital preservation policy. This policy limits the amount of income made available for spending and requires the reinvestment of excess income.

The majority of the endowments are invested in the University's long-term capital appreciation pool ("LTCAP"), with a small percentage invested outside the LTCAP according to donors' specific investment requirements. Donations are temporarily held in the University's expendable funds investment pool, an investment pool where all other University funds are invested, before being added to the LTCAP.

2. Summary of significant accounting policies and reporting practices

This financial information has been prepared in accordance with the significant accounting policies summarized below:

a) Investments -

Investments are carried at fair value except for real estate directly held by the University for investment purposes. Fair value amounts represent estimates of the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. The calculation of estimated fair value is based upon market conditions at a specific point in time and may not be reflective of future fair values. Changes in fair values from one year to the next are reflected in the statement of changes in net investments.

The value of investments recorded in the financial statements is determined as follows:

1. Short-term notes and treasury bills are valued at fair value.
2. Publicly traded equities are valued based on the latest closing prices. Bonds are recorded at fair value, which is determined based on valuation techniques.
3. Investments in pooled funds are valued at their reported net asset value per unit.
4. Infrequently traded securities are based on quoted market yields or prices of comparable securities, as appropriate.
5. Real estate directly held by the University for investment purposes is originally valued at cost and, when donated, at the value determined through an appraisal process at the date of donation. Subsequently, real estate is valued at cost less any provision for impairment.
6. The values of private investments, which comprise private externally managed pooled funds with underlying investments in equities, debt, real estate assets, infrastructure assets and commodities, are determined based on the latest valuations provided by the external investment managers of the fund (typically December 31), adjusted for subsequent cash receipts and distributions from the fund, and cash disbursements to the fund through April 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because private investments are not readily traded, their estimated values are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed.

Transactions are recorded on a trade date basis and transaction costs are expensed as incurred.

b) Derivative financial instruments –

Derivative financial instruments are used to manage particular market and currency exposures for risk management purposes primarily with respect to the University's investments and as a substitute for more traditional investments. Derivative financial instruments and synthetic products that may be employed include debt, equity and currency futures, options, swaps and forward contracts. These contracts are generally supported by liquid assets with a fair value approximately equal to the fair value of the instruments underlying the derivative contract. Investment dealer quotes or quotes from a bank are available for substantially all of the University's derivative financial instruments.

Derivative financial instruments are carried at fair value, with changes in value during the year recorded in the statement of changes in net investments.

c) Revenue recognition –

Interest income is recorded on an accrual basis and dividend income earned is recorded on the ex-dividend date.

d) Foreign currency translation –

Monetary assets and liabilities are translated at the exchange rates in effect at the financial information date. Purchases and sales of investments and revenues and expenses are translated at the rates of exchange prevailing on the respective dates of such transactions.

Realized and unrealized gains (losses) arising from foreign currency transactions and securities are included in investment income.

e) Other financial instruments –

Other financial instruments, including investment income and other receivables and other payables and accruals, are initially recorded at their fair value. They are not subsequently revalued and continue to be carried at this value, which represents cost, net of any provisions for impairment.

3. Investments

Most of the funds associated with the University's endowments are invested in LTCAP. These funds represent 88.5% (2014 – 88.4%) of the total LTCAP investments. Other investments represent investments held outside LTCAP mainly due to donors' specific instructions.

Direct investments are reclassified by asset-mix category based on the intent of the investment strategies of the underlying portfolio.

The fair values of investment classes set out below include securities held outside LTCAP for the University's endowments and the proportionate share of the investments in these categories held in LTCAP.

(millions of dollars)

	2015		2014	
	LTCAP	Other	LTCAP	Other
Government and corporate bonds	631.5	6.2	533.2	20.8
Canadian equities	320.5	0.5	295.4	6.6
United States equities	365.8	0.8	305.1	7.1
International equities	340.6	0.2	286.3	6.0
Emerging market equities	218.9		178.4	3.7
Other	211.0	16.3	185.0	16.3
	<u>2,088.3</u>	<u>24.0</u>	<u>1,783.4</u>	<u>60.5</u>
Total investments	<u>2,112.3</u>		<u>1,843.9</u>	

Included in the above investment classifications are cash and short-term investments, hedge funds, private equities and real assets which have been reclassified as follows:

2015
(millions of dollars)

	Government and corporate bonds	Canadian equities	United States equities	International equities	Emerging market equities	Other	Total
Hedge funds	59.2		21.7		43.2	210.9	335.0
Private equities	103.4	28.7	93.9	29.6	22.4		278.0
Real assets	18.9	39.7	35.3	37.4		16.3	147.6
	<u>181.5</u>	<u>68.4</u>	<u>150.9</u>	<u>67.0</u>	<u>65.6</u>	<u>227.2</u>	<u>760.6</u>

2014
(millions of dollars)

	Government and corporate bonds	Canadian equities	United States equities	International equities	Emerging market equities	Other	Total
Hedge funds	49.0				21.8	185.0	255.8
Private equities	65.6	21.7	113.8	37.2	20.1		258.4
Real assets	17.3	20.8	20.5	43.7		16.3	118.6
	<u>131.9</u>	<u>42.5</u>	<u>134.3</u>	<u>80.9</u>	<u>41.9</u>	<u>201.3</u>	<u>632.8</u>

Some of the University's publicly traded investments held for endowments are held in unitized investment pooled funds, which are managed by the University of Toronto Asset Management Corporation ("UTAM"), a wholly owned subsidiary of the University. As of April 30, 2015, UTAM managed one Canadian equity pooled fund and the fair value of endowments' investments held in the pooled fund was \$162.4 million. At April 30, 2014, UTAM managed two fixed income funds and a Canadian equity fund and the fair value of endowments' investments held in these pooled funds was \$512.6 million.

During the year, \$27.3 million (2014 - \$25.0 million) of LTCAP's proportionate share of investment income related to endowments was recognized as a change in fair value that was estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. Management believes there are no other reasonable assumptions for these investments which would generate any material changes in investment income.

Risk management

Risk management relates to the understanding and active management of the risks associated with all areas of the University's investments. Investments are primarily exposed to a variety of financial risks, such as foreign currency risk, interest rate risk, price risk, and credit risk. Significant volatility in interest rates, equity values and the value of the Canadian dollar against the currencies in which the University's

investments are held can significantly impact the value of these investments. To manage these risks within reasonable risk tolerances, the University, through UTAM, has formal policies and procedures in place governing asset mix among equity, fixed income and alternative assets, requiring diversification within categories, and setting limits on the size of exposure to individual investments and counterparties. In addition, derivative instruments are used in the management of these risks (see below). To manage foreign currency risk, the hedging policy at April 30, 2015 is to hedge 65% (2014 - 65%) of non-emerging markets' currency exposures. Credit risk of financial instruments is the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation. At April 30, 2015, \$166.4 million of directly held fixed income securities have AAA or AA credit ratings. At April 30 2014, \$145.4 million of directly held fixed income securities and the underlying fixed income securities directly held by the UTAM Canadian Fixed Income Fund and the UTAM Canadian Credit Fund have AAA or AA credit ratings.

Derivative financial instruments

Description

The University has entered into various derivative contracts. The University has entered into equity and bond futures contracts which oblige it to pay the difference between a predetermined amount and the market value of certain equities and bonds when the market value is less than the pre-determined amount, or receive the difference when the market value is more than the pre-determined amount.

The University has entered into foreign currency forward contracts to minimize exchange rate fluctuations and the resulting uncertainty on future financial results. All outstanding contracts have a remaining term to maturity of less than one year. The University has significant contracts outstanding held in the U.S. dollar, Euro, Japanese yen and British pound, among others.

The notional values of the derivative financial instruments do not represent amounts exchanged between parties and are not a measure of the University's exposure resulting from the use of derivative financial instrument contracts. They represent the principal or face value that is used to calculate the amounts exchanged on financial instruments. The amounts exchanged are based on the applicable rates applied to the notional values.

Risks

The University is exposed to credit-related losses in the event of non-performance by counterparties to these financial instruments, but it does not expect any counterparties to fail to meet their obligations given their high credit ratings.

Terms and conditions

The endowments' proportionate share of the notional and fair values of each derivative financial instrument of LTCAP is as follows:

	(millions of dollars)			
	2015		2014	
	<u>Notional Value</u>	<u>Fair Value</u>	Notional Value	Fair Value
Unrealized gains on derivative instruments				
Foreign currency forward contracts				
- U.S. dollars	664.7	16.0	529.4	10.7
- Other	142.2	3.5	247.6	3.3
		<u>19.5</u>		<u>14.0</u>
Equity and bond futures contracts				
- United States	19.8		18.6	1.1
- Other	41.9	0.9	0.8	0.3
		<u>0.9</u>		<u>1.4</u>
Total return equity swap contracts	91.8	2.0	89.2	2.0
Total unrealized gains on derivative instruments		<u><u>22.4</u></u>		<u><u>17.4</u></u>
Unrealized losses on derivative instruments				
Foreign currency forward contracts	41.9	(1.1)	2.3	(0.1)
- U.S. dollars	66.5	(1.7)		
- Other		<u>(2.8)</u>		<u>(0.1)</u>
Equity and bond futures contracts				
- United States	5.7	(0.4)	19.3	(0.1)
- Other	13.8	(0.1)	0.6	(0.4)
		<u>(0.5)</u>		<u>(0.5)</u>
Total return equity swap contracts	55.5			
Total unrealized losses on derivative instruments		<u><u>(3.3)</u></u>		<u><u>(0.6)</u></u>
Net unrealized gains on derivative instruments		<u><u>19.1</u></u>		<u><u>16.8</u></u>

Uncalled commitments

As at April 30, 2015, approximately 19.3% (2014 – 19.3%) of LTCAP's investment portfolio is invested in private funds managed by third party managers. These private funds typically take the form of limited partnerships managed by a General Partner. The legal terms and conditions of these private investment funds, which cover various areas of private equity investments and real asset investments (e.g. real estate and infrastructure), require that investors initially make an unfunded commitment and then remit funds over time (cumulatively up to a maximum of the total committed amount) in response to a series of capital calls issued to the investors by the manager. As at April 30, 2015, the endowments had uncalled commitments of approximately \$161.2 million (2014 - \$102.4 million). The capital committed is called by the manager over a pre-defined investment period, which varies by fund but is generally about three to five years from the date the fund

closes. In practice, for a variety of reasons, the total amount committed to a fund is very rarely all called.

4. Cash and cash equivalents

- a) The balance of cash and cash equivalents includes the proportionate share of the investments in these categories held for the endowments in University's investment pools.
- b) Cash and cash equivalents consist of cash on deposit and units in a money market fund.

5. Other payables and accruals

Other payables and accruals include \$196.0 million payable for the purchase of various government bonds, traded before year-end that will be settled after April 30, 2015.

6. Investment income

Investment income is comprised of interest, dividend income, realized gains (losses) on sale of investments and unrealized appreciation (depreciation) on investments held.

7. Allocation for spending

The allocation for spending is governed by the University's preservation of capital policy, the purpose of which is to ensure that the rate of growth in the capital value of endowments matches or exceeds the rate of inflation over time. This policy limits the amount of income made available for spending and requires the reinvestment of excess income. The target allocation for spending is 3% to 5% of the opening market value. The actual endowment allocation for the year ended April 30, 2015 was 4.1% (2013-14 - 4.4%) of the opening market value of endowments.

8. Fees and expenses

Fees and expenses set out below represent the endowments' proportionate share of the expenses incurred by LTCAP plus actual fees incurred on other investments. Fees and expenses consist of the following:

	(millions of dollars)	
	<u>2015</u>	<u>2014</u>
Investment management fees		
- External managers	20.0	14.3
- UTAM	1.9	1.5
Trustee and custodial fees	0.2	0.3
Professional and other fees	0.2	0.2
Foreign taxes		<u>0.1</u>
Total	<u>22.3</u>	<u>16.4</u>

PHILANTHROPY IS CRUCIAL TO THE CONTINUED SUCCESS OF THE UNIVERSITY OF TORONTO.

WE ARE GRATEFUL FOR THE VISIONARY SUPPORT OF OUR ALUMNI AND FRIENDS.

Philanthropy is an increasingly crucial factor in the continued success of the University of Toronto. Endowed gifts, which generate permanent funding for our people, programs and infrastructure, are at the heart of the University of Toronto's deep tradition of giving and will be essential in making it possible for us to maintain our standard of excellence among the top universities in the world, and to ensure U of T remains accessible for all qualified students, regardless of financial back-ground. We thank you for your continued support of the University and its mission. We could not have achieved our standing or created the opportunities for students that we have, without the support of so many alumni and friends who give so generously and consistently.



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