UNIVERSITY OF TORONTO

OFFICE OF THE GOVERNING COUNCIL

| FOR INFORMATION | PUBLIC | OPEN SESSION |
|---|---|---|

| | |
|---|---|
| **TO:** | Business Board |
| **SPONSOR:**<br>**CONTACT INFO:** | Ms Sheila Brown, Chief Financial Officer<br>416-978-2065, sheila.brown@utoronto.ca |
| **PRESENTER:**<br>**CONTACT INFO:** | Same as above |
| **DATE:** | September 7, 2016 for September 22, 2016 |
| **AGENDA ITEM:** | 5 |

## ITEM IDENTIFICATION:

Endowment Annual Financial Report for the year ended April 30, 2016

## 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 [for information] (September 22, 2016)**

## PREVIOUS ACTION TAKEN:

The 2015 annual financial report on endowments was presented to the Business Board on September 21, 2015.

## 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, 2016, there were over 5,900 individual endowment funds totalling $2.1 billion market value, a decrease of $44.4 million from April 30, 2015, made up of:

| | |
|---|---|
| $ 28.8 million | endowed donations |
| $ 13.1 million | transfers from the University's unrestricted funds |

| | |
|---|---|
| $ 13.1 million | investment income |
| ($ 22.6 million) | fees and expenses |
| <u>($ 78.7 million)</u> | allocation for spending |
| <u>($ 44.4 million)</u> | |

The slight reduction in the total value of endowments resulted from an investment return of -0.3% for the 2015-16 year, net of investment fees and expenses, as compared to an investment return of 15.0% for 2014-15, also net of investment fees and expenses. In accordance with the University's Preservation of Capital Policy, the strategy is to not spend everything earned through the investment of funds in years when investment markets are good. In favourable years, such as 2014-15, funds in excess of the spending allocation are set aside and re-invested to provide a reserve to fund the spending allocation in years, such as 2015-16, when investment markets are poor. Please consult the full report for a comprehensive discussion of the endowments.

## FINANCIAL IMPLICATIONS:

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## RECOMMENDATION:

For information.

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## DOCUMENTATION PROVIDED:

Endowments Annual Financial Report for the year ended April 30, 2016

# ENDURING SUPPORT

## ENDOWMENT REPORT 2015–16

BOUNDLESS


UNIVERSITY OF TORONTO

# THE FOUNDATIONS OF EXCELLENCE

The University of Toronto is thriving, broadly recognized among the top 20 universities in the world, second only to Harvard in research output, and 10th in the world for the employability of its graduates. Endowed gifts like yours have helped fuel this remarkable surge in the University's global reputation by creating a strong foundation of stable funding while enhancing the University's core values of excellence and accessibility.

In this report, you will read just a few of those stories that exemplify the impact of endowed gifts on the University of Toronto. One such story is that of Margaret and Wallace McCain's gift made 20 years ago to establish *The Margaret and Wallace McCain Family Chair in Child and Family* at the Factor-Inwentash Faculty of Social Work. Dean Faye Mishna, an internationally renowned expert in the field of bullying and other children's issues, holds the McCain Family Chair. She credits this support for helping her get important messages out to society, in partnership with community agencies and schools, and applying the results of evidence-based research to the training of aspiring social workers.

You will also read about Bill and Kathleen Troost's gift to the Faculty of Applied Science & Engineering. Inspired by the scholarship Bill received while a student at U of T, the Troosts' gift of $1 million has been invested to generate annual undergraduate scholarships in perpetuity. The first six students to receive the new awards have already been funded for 2015–16—bright young people studying in areas ranging from green buildings and sustainable energy to quantum computing.

Endowed funds have also made a significant impact at the Faculty of Music, where the *Richard Iorweth Thorman Jazz Scholarship* has grown from an initial gift of $50,000 in 2005 to an endowed fund now valued at $500,000. It has helped support 30 students in areas of jazz, composition, and music education, who have gone on to become composers, performers and music scholars, including Juno-nominated guitarist Alex Goodman and two of his bandmates, Dan Fortin (bass) and Maxwell Roach (drums).

The report also outlines the performance of U of T's endowment over the past year. Preserving and growing the value of the endowment over time is critical to ensuring that the steady source of income the endowment provides will continue to help U of T thrive as one of the world's great universities.

While funding from tuition and government undergirds U of T's operations and sustainability, philanthropic support makes possible visionary opportunities for students and faculty to innovate, contribute to society, and succeed in their goals. Thank you for your support of the University of Toronto and for helping to provide an accessible, world-class education.

**David Palmer**
*Vice-President, Advancement*

# HIGHLIGHTS

| | **April 30, 2016** | April 30, 2015 |
|---|---|---|
| **Total Endowments:** | (Millions of dollars) | |
| **Fair value** | **$ 2,097.7** | $ 2,142.1 |
| **Change from previous year:** | | |
| **Endowed donations** | **$ 28.8** | $ 32.7 |
| **Transfers from University's unrestricted funds** | **$ 13.1** | $ 22.7 |
| **Investment income** | **$ 15.0** | $ 304.5 |
| **Fees and expenses** | **$ (22.6)** | $ (22.3) |
| **Allocation for spending** | **$ (78.7)** | $ (76.3) |
| **Total change for the year** | **$ (44.4)** | $ 261.3 |
| **Endowments in Long-Term Capital Appreciation Pool (LTCAP):** | | |
| **Proportion invested in LTCAP** | **98.83%** | 98.50% |
| **Number of units in LTCAP** | **10,243,643** | 10,007,729 |
| **Fair value in millions** | **$ 2,073.2** | $ 2,109.9 |
| **Fair value per unit in dollars** | **$ 202.39** | $ 210.83 |
| **Allocation for spending per unit in dollars** | **$ 7.71** | $ 7.71 |
| **LTCAP time-weighted net returns*** | **-0.3%** | 15.0% |

***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. It has educated hundreds of thousands of students and enjoys a global reputation in multiple fields of scholarship. The 2015 Times Higher Education ranking groups the University of Toronto with Harvard, Stanford, Oxford, Cambridge, UC Berkeley, and Cornell 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, donations have now surpassed the $1.9 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, 2016, University of Toronto endowments totaled $2.1 billion and included over 5,900 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, 2016 was -0.3% (the average annual return for the five-year period May 1, 2011 to April 30, 2016 was 8.3%);
- endowment spending allocation ("payout") was 3.7% of the opening balance market value; and
- fees and expenses were 1.0% 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.

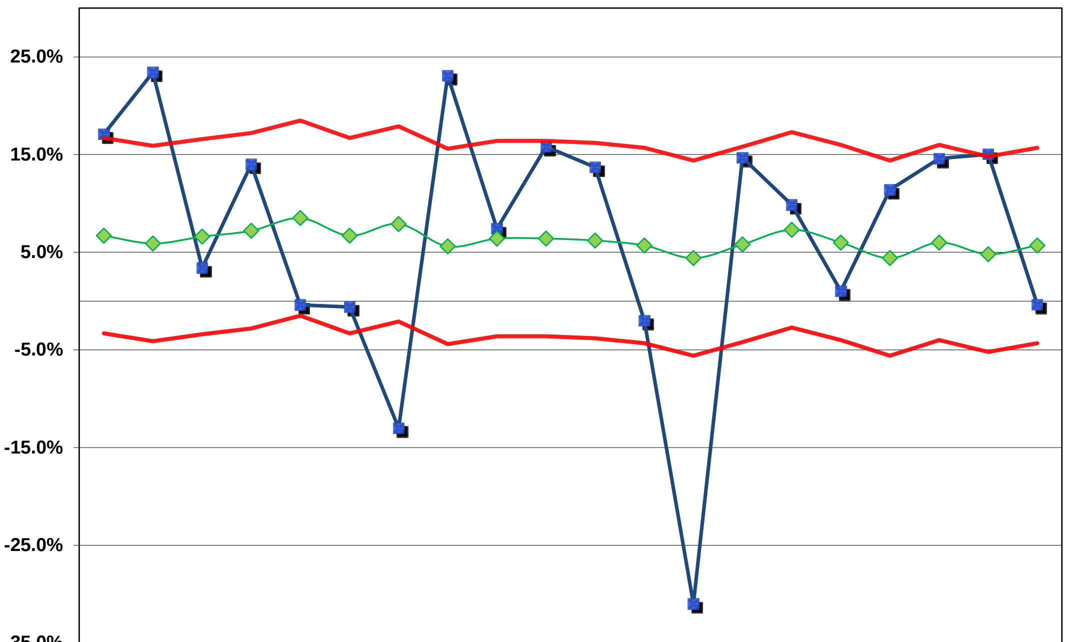
Endowments are managed in a unitized pool. Almost all of the University's endowments hold units in this unitized investment pool, entitled the Long-Term Capital Appreciation Pool (LTCAP). Each endowment account holds units in LTCAP that reflect the number of dollars contributed and the unit value on 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, 2016 was 3.7%. The market value of each unit has decreased from $210.83 at April 30, 2015 to $202.39 at April 30, 2016.

| | |
|---|---|
| Unit market value at April 30, 2015 | $210.83 |
| Investment income per unit | 1.43 |
| Fees and expenses | (2.16) |
| Endowment spending allocation | (7.71) |
| Unit market value at April 30, 2016 | $202.39 |

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, 2016 was 750 times $202.39 or $151,792.

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. The investments are 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**



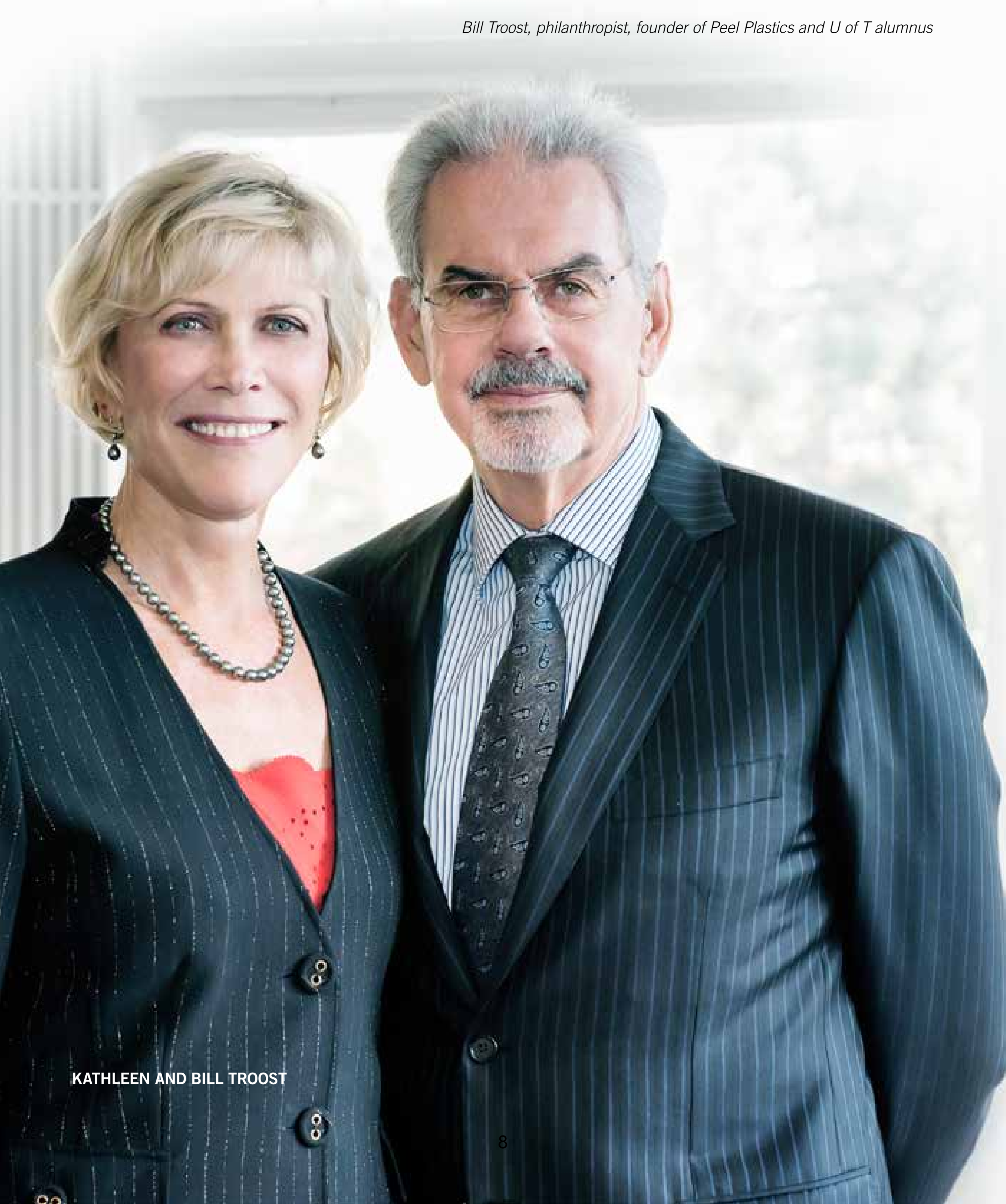

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Annual investment return | 17.1% | 23.4% | 3.4% | 14.0% | -0.4% | -0.6% | -13.0 | 23.1% | 7.4% | 15.8% | 13.7% | -2.0% | -31.0 | 14.7% | 9.9% | 1.0% | 11.4% | 14.6% | 15.0% | -0.3% |
| Target return* | 6.7% | 5.9% | 6.6% | 7.2% | 8.5% | 6.7% | 7.9% | 5.6% | 6.4% | 6.4% | 6.2% | 5.7% | 4.4% | 5.8% | 7.3% | 6.0% | 4.4% | 6.0% | 4.8% | 5.7% |
| Standard deviation +10% | 16.7% | 15.9% | 16.6% | 17.2% | 18.5% | 16.7% | 17.9% | 15.6% | 16.4% | 16.4% | 16.2% | 15.7% | 14.4% | 15.8% | 17.3% | 16.0% | 14.4% | 16.0% | 14.8% | 15.7% |
| Standard deviation -10% | -3.3% | -4.1% | -3.4% | -2.8% | -1.5% | -3.3% | -2.1% | -4.4% | -3.6% | -3.6% | -3.8% | -4.3% | -5.6% | -4.2% | -2.7% | -4.0% | -5.6% | -4.0% | -5.2% | -4.3% |

*** 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 12 times. Compared to the 10% risk corridor, returns over the same period were within the corridor 14 times, above it 4 times and below it twice.

"Whatever success I've had in business, I certainly wouldn't have gotten there without that kind of financial support."

*Bill Troost, philanthropist, founder of Peel Plastics and U of T alumnus*



**KATHLEEN AND BILL TROOST**

# PAYING IT FORWARD

Inspired by an award he received as a student, Bill and Kathleen Troost donate $1 million for engineering scholarships.

Money was tight when Bill Troost (BASc 1967) was in high school. "We immigrated to Ontario from the Netherlands in 1960," he remembers. "My dad was a farm labourer, so we didn't have a whole lot in terms of financial resources."

So it was a more-than-welcome surprise when a Grade 13 teacher, Mr. Morrison, secretly entered Troost's name for a *J. Edgar McAllister Foundation Admission Award* and the chance to attend U of T.

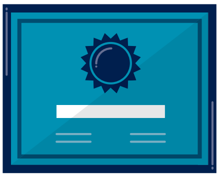
"I knew nothing about these awards!" says Troost. "Professor Breckenridge, head of the chemical engineering department, came to talk to me about it. It paid for most of my tuition, and residence at what was then Devonshire House for four years. Without that award, I probably couldn't have gone to university. So it had a tremendous impact on my life."

Half a century later, Troost, now CEO and founder of Peel Plastics, a successful Ontario packaging company, wants to give other students that same leg up that he received. "I was fortunate," he says. "And whatever success I've had in business, I certainly wouldn't have gotten there without that kind of financial support."

That's why Bill and Kathleen Troost have donated $1 million for student support in the Faculty of Applied Science & Engineering. The endowed funds have been invested to generate annual scholarships in perpetuity. And under the Boundless Promise program, which matches donations of $25,000 or more for needs-based awards, the University has pledged to match the endowment's income each year.

U of T has promised that no student admitted to the University will ever have to withdraw for lack of funds, and the Troosts' gift helps keep that pledge. The income will be matched through the University of Toronto Advance Planning for Students program, which aids Canadian students (citizens, permanent residents or recognized convention refugees). If any student's full financial needs aren't covered by government aid, these awards are there to supply the shortfall.

The new awards have been named after both the Troosts and the man who started it all by funding Bill's education—J. Edgar McAllister (BASc 1895), a U of T graduate who left the University a legacy when he passed away in 1959.



### 2015–16 RECIPIENTS

*There were six recipients of the J. Edgar McAllister Foundation—Troost Family Award in 2015–16, with interests ranging from green buildings and sustainable energy to quantum computing.*

> “Receiving support … means that there are individuals in society that care about engineering students. They care about the education of Canada’s future.”

*Yuan Ming, computer engineering student at U of T*

“We called it the *J. Edgar McAllister Foundation—Troost Family Award* because without his award, I wouldn’t have been here,” says Troost. “I didn’t know much about McAllister—in those days you couldn’t Google—but I was definitely grateful. So the name is a tribute to the man.”

The first six students received the award in 2015–16. They are studying a range of specialities offered in the faculty—civil engineering, electrical engineering, computer engineering. They dream big: of designing green buildings, of inventing quantum computers, of transitioning the world to sustainable energy sources. But, like Troost, they needed help to finish their studies.

“I am moved by acts of donors like Mr. Troost,” says Yuan Ming, a third-year computer engineering student who was one of the first recipients of the new award. “As a young adult, receiving support from strangers means that there are individuals in society that care about engineering students. They care about the education of Canada’s future.”

Troost cares deeply. He’s volunteered widely at U of T, including serving on the Board of Advisors for the Institute for Leadership Education in Engineering, where he champions not just engineering education in general, but the kind of effective training that helps graduates make a real impact. “That is tremendously important,” he says. “It’s not just making engineers technically competent, but competent in society and competent in teams, competent in being able to get things done. You can know all the equations but that doesn’t mean you can generate positive change.”

The kind of change, perhaps, that saw a young immigrant get a university degree and become an employer of hundreds in his adopted country. Troost also gives out of gratitude to Canada, he says, “I think the country needs good engineering schools and good engineers. It feels good that these young people are getting support.”

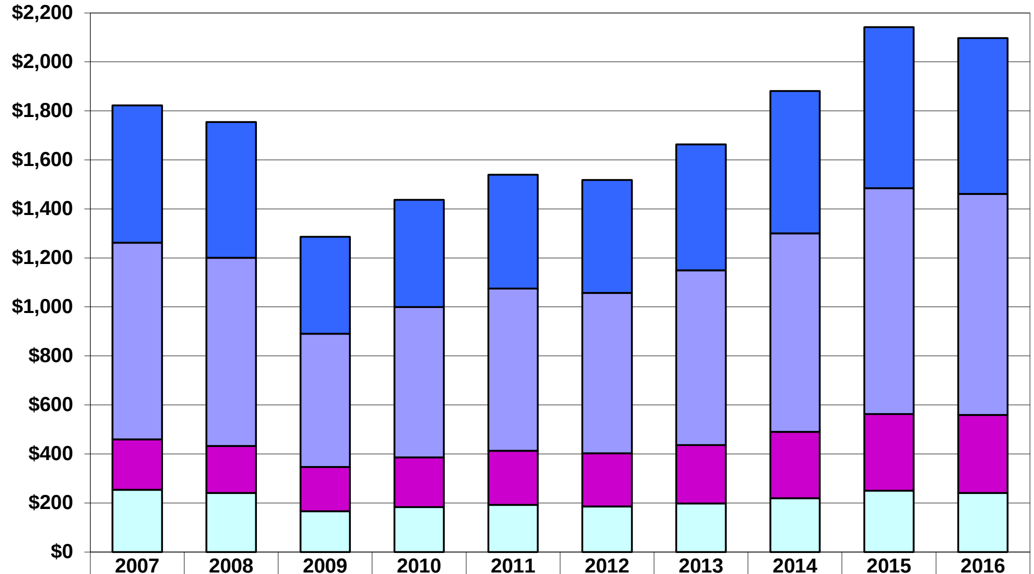
# INTRODUCTION

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 (84.8%) and internally restricted endowment funds designated as endowments by Governing Council in the exercise of its discretion (15.2%). 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)**




| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total endowments | 1,822.7 | 1,754.8 | 1,286.3 | 1,437.2 | 1,539.4 | 1,518.1 | 1,663.7 | 1,880.8 | 2,142.1 | 2,097.7 |
| Chairs and professorships | 560.5 | 554.4 | 395.5 | 437.4 | 464.6 | 460.4 | 514.4 | 580.5 | 657.6 | 636.8 |
| Student aid | 802.4 | 768.1 | 543.9 | 614.1 | 662.0 | 655.2 | 713.0 | 810.5 | 921.8 | 901.8 |
| Academic programs | 205.9 | 191.8 | 180.3 | 203.1 | 220.8 | 217.1 | 238.6 | 270.8 | 312.4 | 318.8 |
| Research | 253.9 | 240.5 | 166.6 | 182.6 | 192.0 | 185.4 | 197.7 | 219.0 | 250.3 | 240.3 |

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. 98.8% of fair value and over 5,900 funds, are invested in the University's long-term capital appreciation pool (LTCAP).

At April 30, 2016, there were over 5,900 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, 2016. This was a decrease of $44.4 million over the previous year. This decrease was comprised of:

Additions of:

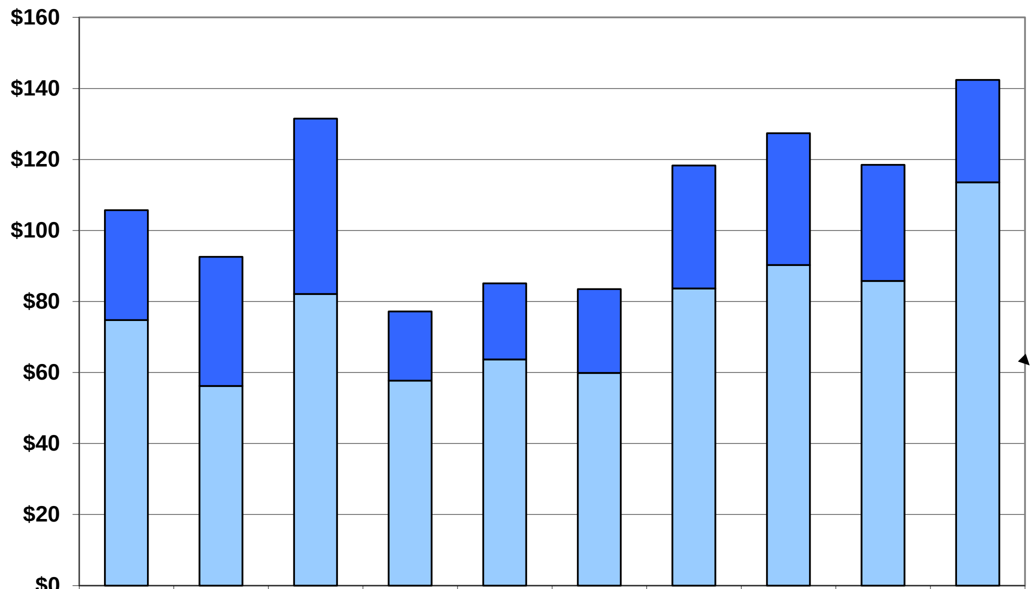
- $ 15.0 million of investment income,
- $ 28.8 million of endowed donations, and
- $ 13.1 million of transfers from the University's unrestricted funds to endowments.

Minus:

- $78.7 million of allocation for spending and
- $22.6 million of fees and expenses.

The following graph shows endowed donations and expendable donations received since 2007. 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)**




| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total donations | 105.7 | 92.6 | 131.5 | 77.2 | 85.1 | 83.5 | 118.3 | 127.4 | 118.5 | 142.4 |
| Endowed donations | 30.9 | 36.4 | 49.4 | 19.5 | 21.4 | 23.6 | 34.6 | 37.1 | 32.7 | 28.8 |
| Expendable donations | 74.8 | 56.2 | 82.1 | 57.7 | 63.7 | 59.9 | 83.7 | 90.3 | 85.8 | 113.6 |

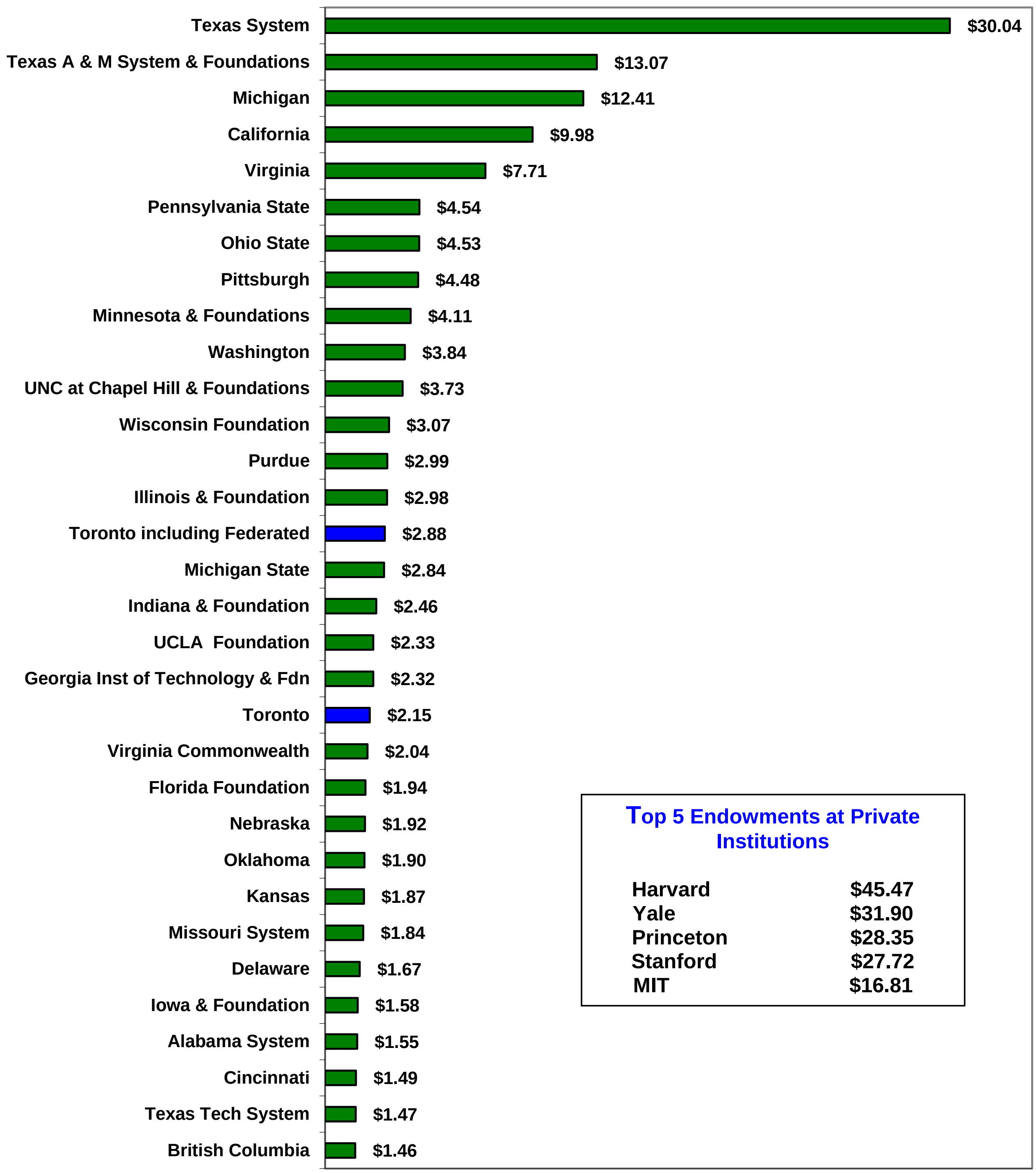
The graph illustrates that endowed donations represented 20.2% of total donations ($142.4 million) received by the University in 2016. Expendable gifts build essential infrastructure and support immediate academic priorities with rapid-cycle impact on the institution.

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 2015, Toronto ranked 19$^{th}$ in terms of size. Including the endowments of the federated universities, Toronto ranked 15$^{th}$ 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, 2015
(in billions)




Source: 2015 NACUBO Endowment Study converted to Canadian dollars at an exchange rate of 1.2474

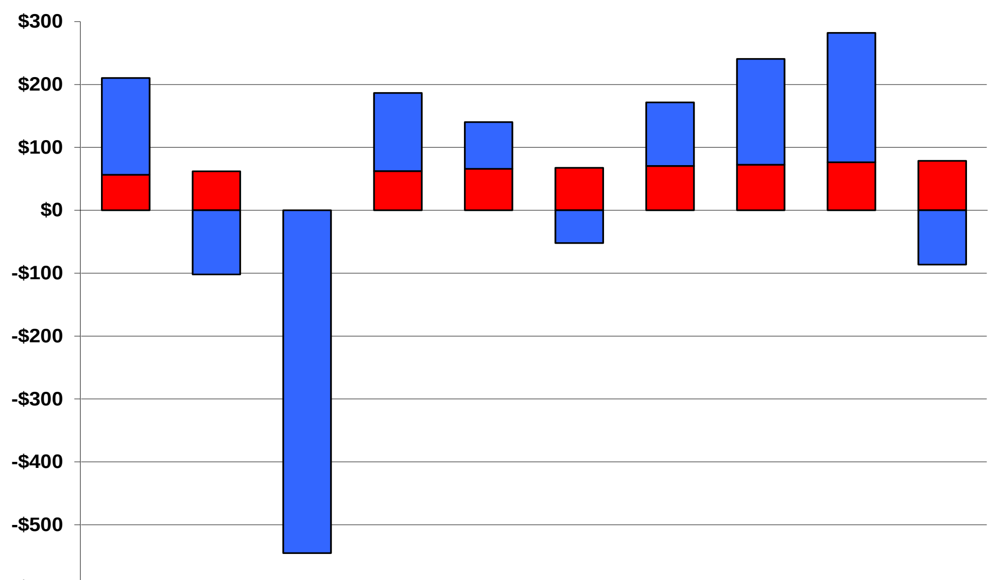
# ALLOCATION FOR SPENDING
# AND PRESERVATION OF PURCHASING POWER

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, 2016 was 3.7%.

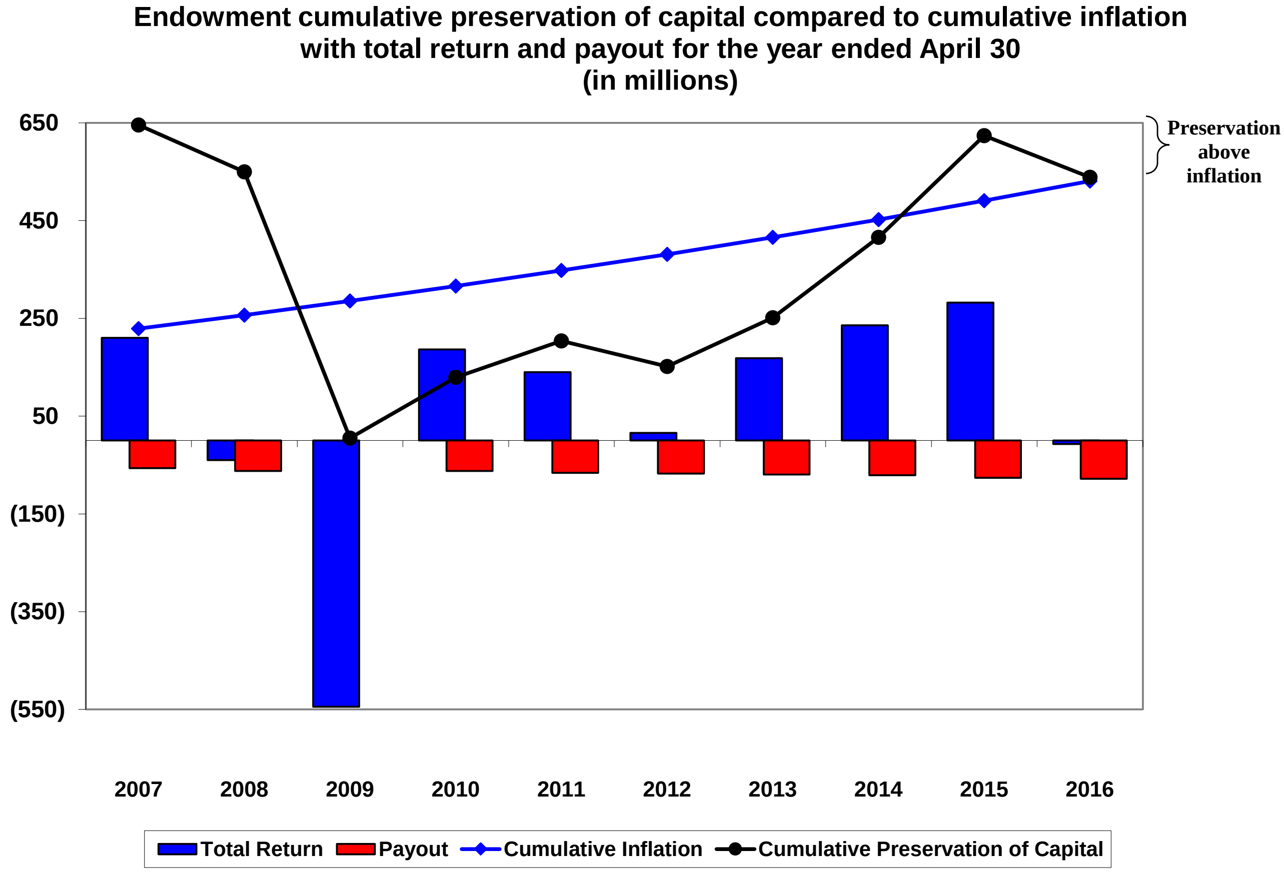
The following graph shows the spending allocation and the amounts reinvested and drawn down over the past ten years.

**Investment Income on Endowments (net of fees)**
**for the year ended April 30**
**(millions of dollars)**




| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Reinvested (drawdown) | 153.7 | (101.9) | (545.0) | 124.3 | 74.4 | (52.0) | 101.2 | 167.9 | 205.9 | (86.3) |
| Allocation for spending | 56.5 | 62.1 | - | 62.3 | 65.8 | 67.7 | 70.5 | 72.6 | 76.3 | 78.7 |

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.




As stated in the executive summary, endowments are managed in a unitized investment pool and each endowment account holds units in the investment pool. The spending allocation of 3.7% for the year ended April 30, 2016 translated into a spending rate of $7.71 per investment unit. The spending dollars pertaining to a particular endowment account are obtained by multiplying the spending rate of $7.71 per unit by the number of units in the endowment account. For example, if an endowment account holds 750 units, the spending dollars of the endowment at April 30, 2016 was 750 times $7.71 or $5,782.50.

ALEC TRENT, RECIPIENT,
RICHARD IORWETH THORMAN JAZZ SCHOLARSHIP

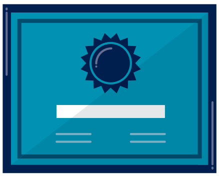
# THE SOUNDS OF MUSIC

Richard Iorweth Thorman's initial gift has grown over the past 10 years to create a lasting fund for tomorrow's jazz scholars.

As a young child, Richard Iorweth Thorman (BCom 1952 VIC) remembers discovering a player piano in the front room of a neighbour's home while she was babysitting him. He soon realized that by standing on the pedals and pumping he could make it play. His favourite piece was the lively "The Whistler and His Dog." It didn't take long watching the keys moving before he was able to play the melody himself—it was the beginning of a lifelong interest in music and performance. "Even while I took violin lessons, I longed to play jazz piano," he recalls. By age 14, he led a nine-piece band for a month-long residency at the Starlight Gardens on Wasaga Beach, Ontario. A highlight was the guest appearance of Oscar Peterson (then 17 years of age) and his trio at the nearby Strathcona Pavilion. During an intermission, Thorman and the band raced down the beach to catch a brief segment of the performance. He continued to play keyboard throughout his lifetime, performing with numerous musicians across Ontario.

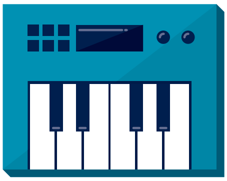
It is his passion for music that led Thorman to make a gift to the University of Toronto's Faculty of Music in 2005. He remembers vividly the evening he put ink to paper on the agreement to create the *Richard Iorweth Thorman Jazz Scholarship*, awarded annually to an undergraduate student entering second, third or fourth year who demonstrates outstanding musical and academic achievement in Jazz Performance. "I had heard that many students who wanted to come to the Faculty of Music went on to choose other schools because of their ability to offer scholarships and other financial incentives," he says. "I wanted to do something about that and so I made my initial gift."

That initial gift was for $50,000 and was matched by the Ontario government's Ontario Trust for Student Support program (OTSS). "I knew such an amount would bring a lot of relief to students struggling to make ends meet," he says. But to his delight, soon after the agreement was signed, Thorman was informed that the gift would receive a triple match courtesy of the *William Waters Challenge Fund*, a program initiated by retired management professor William Waters. "You can imagine my delight when I heard that my donation had suddenly grown from $50,000 to $200,000. I couldn't help but muse over the number of scholarships that $250,000 would generate. I wondered if it would ever reach double that amount." In 2009, Thorman increased the fund by another $50,000 and by 2013, he reached his goal. Today the *Richard Iorweth Thorman Jazz Scholarship* endowment is valued at $500,000 and has supported over 30 promising young students from all disciplines:



## 2015–16 RECIPIENTS

*There were eight recipients of the* Richard Iorweth Thorman Jazz Scholarship *in 2015–16, including three pianists, a trombone player and a flutist.*



## A LASTING LEGACY OF GIVING

*Many scholarship recipients work as music teachers themselves, educating the next generation of aspiring performers.*

> "Mr. Thorman knows what it takes to be a musician. His support has been tremendous and we are very thankful."
>
> *Terry Promane, Professor and Jazz Studies Coordinator*

from jazz to composition to music education. Many of these students have gone on to enjoy successful professional careers in music in Toronto and around the world.

Jazz guitarist and 2008 scholarship recipient Alex Goodman received a Juno Award nomination for Contemporary Jazz Album of the Year in 2013 and won both first prize and an Audience Choice Award in the 2014 Montreux Jazz Festival International Guitar Competition. Goodman's band featured fellow Thorman Jazz Scholarship recipients Dan Fortin (bass) and Maxwell Roach (drums). And 2012 Thorman scholarship recipient Britta Johnson, a composer, was named an Artist to Watch by *NOW Magazine* in 2015 and received a 2016 Dora Mavor Moore nomination for Outstanding New Musical/Opera for writing *Jacob Two-Two Meets the Hooded Fang* with Young People's Theatre in Toronto.

"Mr. Thorman knows what it takes to be a musician. His support has been tremendous and we are very thankful," says Professor and Jazz Studies Coordinator Terry Promane. "Our students play at a professional level and while they have gigs outside the classroom throughout the year, they still require financial support for their education."

Thorman remains actively involved with the Faculty of Music, attending regular events at the MacMillan Theatre. And he has great praise for Dean Don McLean's leadership and future aspirations for the Faculty. McLean says Thorman has shown extraordinary leadership in supporting the Faculty's jazz program: "Our students are very grateful for his investment in their education."

For his part, Thorman plans to stay involved with the Faculty and looks forward to meeting the new crop of scholars every year. "Who could ask for anything more than to be here in this time and space, surrounded by the sounds of music; and thoughts of all those young and old who would be lost without it."

**SAHLIA WONG, SCHOLARSHIP RECIPIENT, WITH RICHARD I. THORMAN.**

# LONG-TERM CAPITAL APPRECIATION POOL (LTCAP) INVESTMENT POLICY

Almost all of the University's endowments (98.8% 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 $283.3 million expendable funds that are invested for the long-term, including the University's sinking fund for debenture repayment, and $7.8 million of external funds of affiliated organizations.

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 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 a separate non-share capital corporation whose members are 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 (IAC)[1] 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 IAC[1] 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 portfolio[2] with respect to passive investing, is based on the investment return and risk targets. It is developed by the IAC[1] 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[1] 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] In May 2016, the Investment Committee (IC) was established as the successor to the Investment Advisory Committee. The IC reports to the President of the University and provides expert advice to the University Administration, collaborating extensively with the University Administration and with UTAM management staff on investment objectives and investment activities.
[2] The reference portfolio is used as a measure of the returns that are achievable in financial markets given the University's risk appetite.

## 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, 2016 | 2 years Average Returns - April 30, 2016 | 3 years Average Returns - April 30, 2016 | 5 years Average Return - April 30, 2016 |
|---|---|---|---|---|
| LTCAP actual investment returns | -0.3% | 7.4% | 9.8% | 8.3% |
| LTCAP target investment return (4% +CPI) | 5.7% | 5.3% | 5.5% | 5.4% |
| Reference portfolio return | -2.7% | 4.6% | 6.6% | 6.3% |
| Difference between LTCAP actual and target | -6.0% | 2.1% | 4.3% | 2.9% |
| of which: | | | | |
| the % attributable to investment markets | -8.4% | -0.7% | 1.1% | 0.9% |
| the % attributable to active management decision | 2.4% | 2.8% | 3.2% | 2.0% |
| | -6.0% | 2.1% | 4.3% | 2.9% |

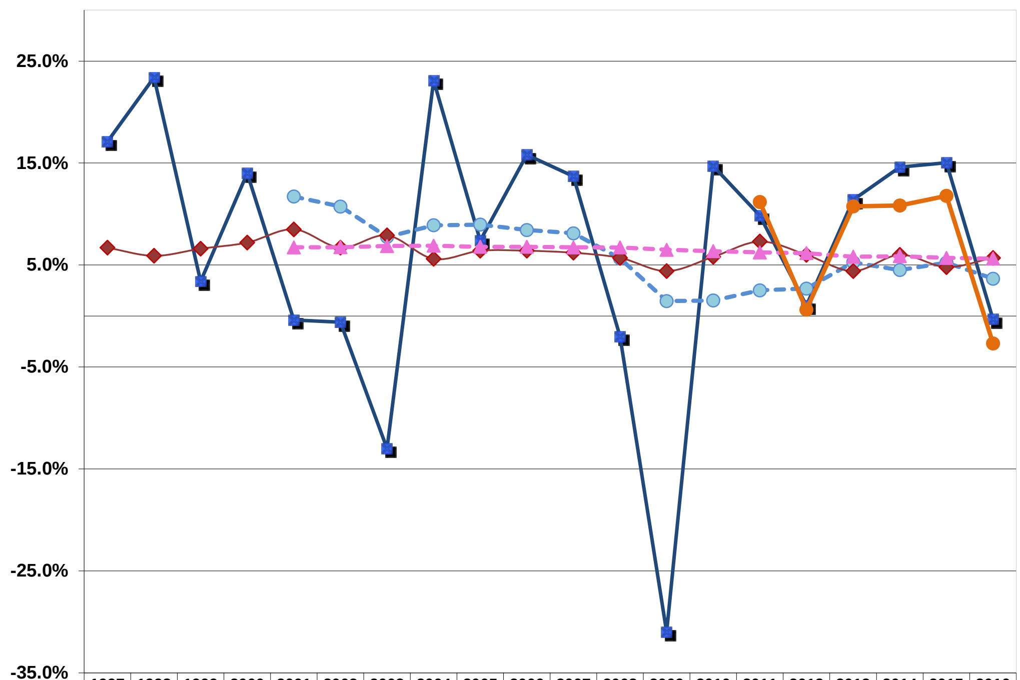
Note: all investment return percentages are net of investment fees and expenses.

As the table above shows, for the one-year period from May 1, 2015 to April 30, 2016, the target investment return for the LTCAP was 5.7%, representing 4.0% investment return plus inflation of 1.7%, net of investment fees and expenses. The actual return for the year was -0.3%, which was below target, a difference of -6.0%. However, the actual return for the year was better than the Reference Portfolio return (which is the benchmark return to indicate how markets performed) by 2.4% (-0.3% minus -2.7%) 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, 2011 to April 30, 2016, the actual average return for the LTCAP was 8.3%. This actual average return exceeded the target average return of 5.4% by 2.9% (8.3% minus 5.4%). This actual average return exceeded the average Reference/benchmark return of 6.3% by 2.0% (8.3% minus 6.3%).

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**



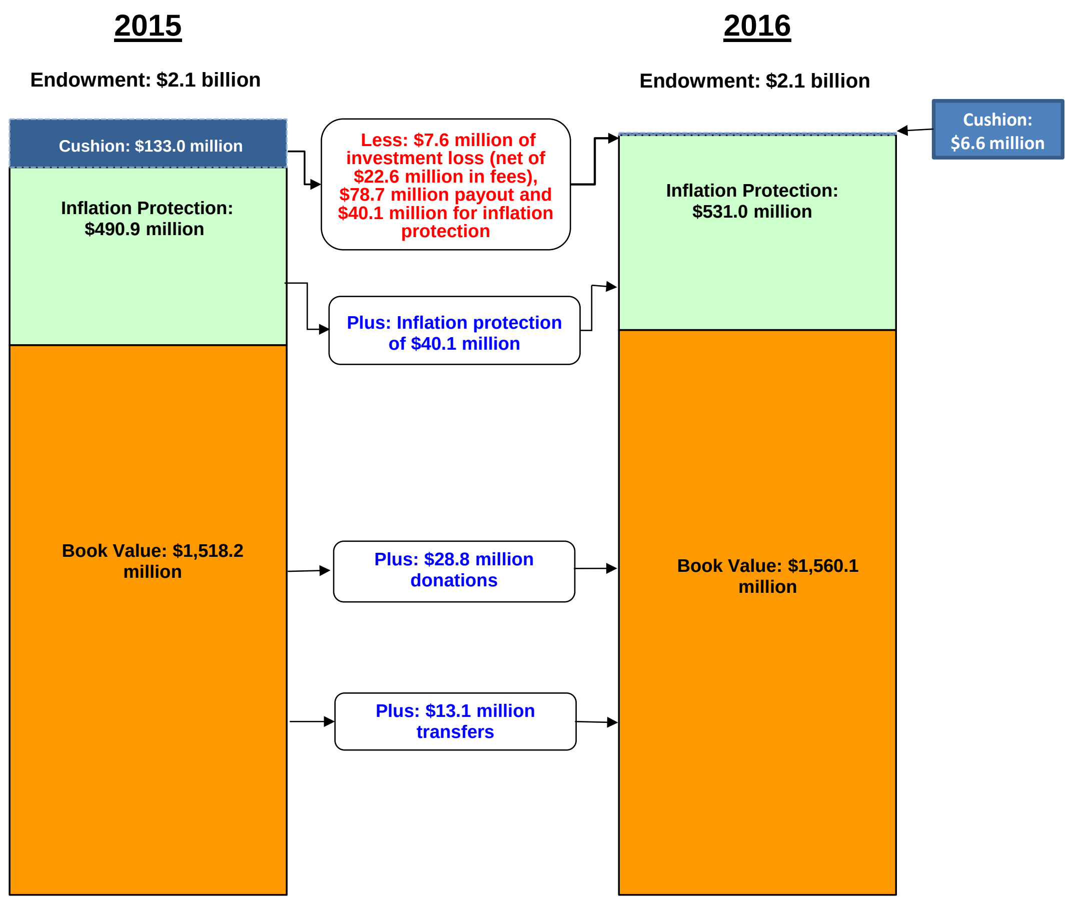

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Annual investment return* | 17.1% | 23.4% | 3.4% | 14.0% | -0.4% | -0.6% | -13.0% | 23.1% | 7.4% | 15.8% | 13.7% | -2.0% | -31.0% | 14.7% | 9.9% | 1.0% | 11.4% | 14.6% | 15.0% | -0.3% |
| Ten-Year rolling average return | | | | | 11.7% | 10.7% | 7.8% | 8.9% | 9.0% | 8.4% | 8.1% | 5.6% | 1.5% | 1.5% | 2.5% | 2.7% | 5.3% | 4.5% | 5.2% | 3.7% |
| Target return** | 6.7% | 5.9% | 6.6% | 7.2% | 8.5% | 6.7% | 7.9% | 5.6% | 6.4% | 6.4% | 6.2% | 5.7% | 4.4% | 5.8% | 7.3% | 6.0% | 4.4% | 6.0% | 4.8% | 5.7% |
| Ten-Year rolling target return | | | | | 6.7% | 6.7% | 6.9% | 6.9% | 6.8% | 6.8% | 6.7% | 6.7% | 6.5% | 6.4% | 6.2% | 6.2% | 5.8% | 5.9% | 5.7% | 5.6% |
| Reference portfolio | | | | | | | | | | | | | | | 11.2% | 0.6% | 10.8% | 10.8% | 11.8% | -2.7% |

* 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 from 1997 to 2002 was 5% plus CPI. After 2002, it 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 rebounded to 5.2%, almost back to the ten-year rolling average target investment return of 5.7%. Most recently, the annual 0.3% negative return of 2016 lowered the ten-year rolling average return to 3.7%, widening again the gap between actual and target returns.

At April 30, 2016, the University's endowment value was $2.1 billion with full inflation protection of $531.0 million and a small preservation of capital above inflation (cushion) of $6.6 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 1.0% of the 2016 opening unit market value consist of the following:

| | 2016 in millions | 2015 in millions |
|---|---|---|
| Investment related management fees | | |
| External managers | $ 19.8 | $20.0 |
| UTAM | 2.1 | 1.9 |
| Trustee and custodial fees | 0.2 | 0.2 |
| Professional and other fees | 0.5 | 0.2 |
| Total | $ 22.6 | $22.3 |

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 2016, investment-related fees incurred for LTCAP remained almost unchanged from the prior year as endowment's net investments remained almost unchanged from 2015.

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.

# GETTING THE MESSAGE OUT

With the support of an endowed chair, Faye Mishna is working to address bullying in all its forms.

**DR. FAYE MISHNA, DEAN AND PROFESSOR, FACTOR-INWENTASH FACULTY OF SOCIAL WORK**

**MARGARET MCCAIN**

"You don't have to read the newspapers to know how dangerous cyberbullying can be," says Margaret McCain (BSW 1955, Hon. LLD 1996), philanthropist and children's advocate. "It's an issue touching almost everyone today."

When McCain and her late husband Wallace established an endowed chair at U of T's Factor-Inwentash Faculty of Social Work in 1996, cyberbullying didn't even exist. But bullying in its traditional form did—only it wasn't widely recognized as a serious societal issue. Over the past 20 years, *The Margaret and Wallace McCain Family Chair in Child and Family* has played a direct role in changing that perception. Chairholder Faye Mishna, Dean of the Faculty, is an internationally renowned expert in this field, and she credits the support she receives from the chair for helping her to get the message out there. One of the Faculty's distinguishing attributes is its emphasis on evidence-based research, which is conducted in partnership with community agencies and schools, and then applied practically to the education of aspiring social workers and to ongoing research projects. Mishna uses this approach as she works closely with the Toronto District School Board and other partners to determine how best to combat bullying in all its forms.

"It's so important to have social workers involved in this issue," Mishna points out. "Bullying is not just something affecting one child, but their family and peers and school."

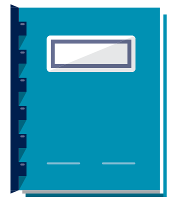
McCain believes that this approach to educating social workers and furthering social work research is very important to children's health and well-being. A graduate of the Faculty herself and co-author of *The Early Years Studies*, a groundbreaking report that provided recommendations on what children need for success in life, she is regularly in touch with Dean Mishna.

Mishna is grateful for McCain's ongoing support and trust, and appreciates the fact that the McCain family placed few parameters on the chair when they established it; this allows her to use the funds as needed to best further her research and strengthen partnerships. What's more, the stable and permanent source of funding inherent in an endowed chair allows Mishna to conduct long-term studies and pursue a research program that will be sustainable long into the future.

"The Faculty is incredibly fortunate to have Margaret McCain as a friend and donor. I feel that the chair

## AWARD-WINNING PRESENTATIONS

*Recently, members of the Faculty of Social Work presented at two refereed conferences and 11 invited talks. Mishna was named the Distinguished Lydia Rapoport Visiting Lecturer at the Smith College School for Social Work.*



## A RESPECTED VOICE

*Mishna has published a book,* Bullying in Canada, *with Melissa Van Wert, and helped write another eight refereed journal articles with other faculty members.*

> "Faye's research is more critical than ever today … I'm very happy to have her in that position because her research has such wide application."
>
> *Margaret McCain,*
> *philanthropist, children's advocate and U of T alumna*

she and her family established has really supported our work in child and family studies," says Mishna. "It's been tremendously important in the way it's allowed us to work with very vulnerable children and youth. I believe the long-term impact of the chair is that it's highlighted how important child well-being is and how we must ensure that children get all the support and resources that they need from early on, to minimize the extent of problems in their lives."

McCain and Mishna share this belief in preventive approaches: social workers working with at-risk children and families to stave off issues or else address them as soon as they arise. In the case of cyberbullying, this includes teaching teens how to use technology safely, and encouraging them to speak up when they need help. Findings from Mishna's recent cyberbullying studies have highlighted how useful it would be to develop an app that children and youth could use to access social workers and other supports—so-called "cyber-counselling." Her research indicates that often young people won't reach out for help until they are in a crisis situation, and she believes an app could encourage them to communicate earlier. It could also be used to promote cyber safety.

Twenty years later, McCain speaks enthusiastically about the chair she and Wallace endowed. "Faye's research is more critical than ever today. And she is dean of one of the top schools of social work in the world, a position the Faculty has attained because of their commitment to evidence-based teaching and practice and their transfer of knowledge to the community—which is critical. I'm very happy to have her in that position because her research has such wide application."

While news reports on cyberbullying are extremely concerning, *The Margaret and Wallace McCain Family Chair in Child and Family* is expanding our knowledge of the issue and testing approaches to address it—ultimately paving the way toward a healthier and safer society.

## SUMMARY OF CHANGES IN FAIR VALUE

The total return on LTCAP for the year ended April 30, 2016 was -0.3% (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, 2015 | $2,109.9 | $210.83 | 10,007,729 |
| Contributions plus transfers | 49.5 | | 235,914 |
| Investment income | 15.0 | 1.43 | |
| Fees and expenses | (22.6) | (2.16) | |
| Allocation for spending | (78.6) | (7.71) | |
| Closing balance at April 30, 2016 | $2,073.2 | $202.39 | 10,243,643 |
| 2) Specifically invested endowments: | | | |
| Opening balance at April 30, 2015 | $ 24.1 | n/a | n/a |
| Investment income | 0.0 | n/a | n/a |
| Fees and expenses | (0.0) | n/a | n/a |
| Amount available for spending | (0.1) | n/a | n/a |
| Closing balance at April 30, 2016 | $ 24.0 | n/a | n/a |
| 3) Donations received to be invested in LTCAP: | | | |
| At April 30, 2016 | $ 0.5 | n/a | n/a |
| Total endowments at April 30, 2016 | $2,097.7 | 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 ($202.39 at April 30, 2016) by the number of units held by that endowment account.

Appendix

# University of Toronto Endowments

# Financial Information

# April 30, 2016

# 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, 2016 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 of their annual financial report on endowments.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
June 23, 2016

# University of Toronto Endowments
# STATEMENT OF NET INVESTMENTS
# AS AT APRIL 30, 2016
**(with comparative figures as at April 30, 2015)**
**(millions of dollars)**

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| Investments, at fair value *[note 3]* | **2,047.8** | 2,112.3 |
| Cash and cash equivalents *[note 4]* | **208.0** | 183.1 |
| Unrealized gains on derivative instruments *[note 3]* | **38.9** | 22.4 |
| Investment income and other receivables | **4.9** | 26.2 |
| | **2,299.6** | 2,344.0 |
| **LIABILITIES** | | |
| Unrealized losses on derivative instruments *[note 3]* | **2.4** | 3.3 |
| Other payables and accruals *[note 5]* | **199.5** | 198.6 |
| | **201.9** | 201.9 |
| **NET INVESTMENTS HELD FOR ENDOWMENTS** | **2,097.7** | 2,142.1 |

*(see notes to financial information)*

# University of Toronto Endowments
## STATEMENT OF CHANGES IN NET INVESTMENTS
## FOR THE YEAR ENDED APRIL 30, 2016
**(with comparative figures for the year ended April 30, 2015)**
**(millions of dollars)**

| | **2016** | 2015 |
|---|---|---|
| **INCREASE IN NET INVESTMENTS** | | |
| Endowed donations | **28.8** | 32.7 |
| Investment income *[note 6]* | **15.0** | 304.5 |
| Transfers from University's unrestricted funds | **13.1** | 22.7 |
| Total increase in net investments | **56.9** | 359.9 |
| **DECREASE IN NET INVESTMENTS** | | |
| Allocation for spending *[note 7]* | **78.7** | 76.3 |
| Fees and expenses *[note 8]* | **22.6** | 22.3 |
| Total decrease in net investments | **101.3** | 98.6 |
| **Net (decrease) increase in net investments for the year** | **(44.4)** | 261.3 |
| **Net investments held for endowments, beginning of year** | **2,142.1** | 1,880.8 |
| **Net investments held for endowments, end of year** | **2,097.7** | 2,142.1 |

*(see notes to financial information)*

# University of Toronto Endowments
# NOTES TO FINANCIAL INFORMATION
# APRIL 30, 2016

## 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 valued 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. The fair value of derivative financial instruments reflects the daily quoted market amount of those instruments, thereby taking into account the current unrealized gains or losses on open contracts. 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) Investment income –**

Investment income is comprised of interest, dividend income, realized gains (losses) on sale of investments and unrealized appreciation (depreciation) on investments held. 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 87.7% (2015 – 88.5%) of the total LTCAP investments. Other investments represent investments held outside LTCAP mainly due to donors' specific instructions.

Direct investments are classified based on the intent of the investment strategies of the underlying portfolio.

The fair values of investments 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)

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **LTCAP** | **Other** | LTCAP | Other |
| Government and corporate bonds | **647.6** | **6.1** | 631.5 | 6.2 |
| Canadian equities | **314.5** | **0.5** | 320.5 | 0.5 |
| United States equities | **345.8** | **0.8** | 365.8 | 0.8 |
| International equities | **314.2** | **0.2** | 340.6 | 0.2 |
| Emerging market equities | **193.2** | | 218.9 | |
| Other | **208.6** | **16.3** | 211.0 | 16.3 |
| | **2,023.9** | **23.9** | 2,088.3 | 24.0 |
| Total investments | **2,047.8** | | 2,112.3 | |

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

**2016**
(millions of dollars)

| | Government and corporate bonds | Canadian equities | United States equities | International equities | Emerging market equities | Other | **Total** |
|---|---|---|---|---|---|---|---|
| Hedge funds | **35.4** | | **23.8** | | **36.1** | **208.6** | **303.9** |
| Private equities | **139.3** | **32.1** | **81.5** | **21.0** | **25.7** | | **299.6** |
| Real assets | **19.7** | **29.2** | **31.8** | **27.5** | | **16.3** | **124.5** |
| | **194.4** | **61.3** | **137.1** | **48.5** | **61.8** | **224.9** | **728.0** |

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 |
| | 181.5 | 68.4 | 150.9 | 67.0 | 65.6 | 227.2 | 760.6 |

Some of the University's publicly traded investments held for endowments are invested in a unitized investment pooled fund, which is managed by the University of Toronto Asset Management Corporation ("UTAM"), a separate non-share capital corporation whose members are appointed by the University. As at April 30, 2016, UTAM managed a Canadian equity pooled fund and the fair value of endowments' investments held in the pooled fund was $151.1 million (2015 - $162.4 million).

During the year, $15.6 million of LTCAP's proportionate share of investment loss (2015 - $27.3 million gain) 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 for certain of its investments. Management believes there are no other reasonable assumptions for these investments which would generate any material changes in investment income or loss.

**Uncalled commitments**

As at April 30, 2016, approximately 20.1% (2015 – 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, 2016, the endowments had uncalled commitments of approximately $200.0 million (2015 - $161.2 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.

**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, 2016 is to hedge 65% (2015 - 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, 2016, $171.1 million (2015 - $166.4 million) of directly held fixed income securities 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) | | | |
|---|---|---|---|---|
| | **2016** | | 2015 | |
| | **Notional Value** | **Fair Value** | Notional Value | Fair Value |
| Unrealized gains on derivative instruments | | | | |
| Foreign currency forward contracts | | | | |
| - United States dollars | **556.2** | **24.7** | 664.7 | 16.0 |
| - Other | **136.0** | **4.2** | 142.2 | 3.5 |
| | | **28.9** | | 19.5 |
| Equity and bond futures contracts | | | | |
| - United States dollars | **17.1** | **0.4** | 19.8 | |
| - Other | **76.3** | **1.8** | 41.9 | 0.9 |
| | | **2.2** | | 0.9 |
| Total return equity and bond swap contracts | **330.6** | **7.8** | 91.8 | 2.0 |
| **Total unrealized gains on derivative instruments** | | **38.9** | | 22.4 |
| Unrealized losses on derivative instruments | | | | |
| Foreign currency forward contracts | | | | |
| - United States dollars | **19.9** | **(0.6)** | 41.9 | (1.1) |
| - Other | **87.2** | **(0.3)** | 66.5 | (1.7) |
| | | **(0.9)** | | (2.8) |
| Equity and bond futures contracts | | | | |
| - United States dollars | **15.2** | **(0.6)** | 5.7 | (0.4) |
| - Other | **43.3** | **(0.9)** | 13.8 | (0.1) |
| | | **(1.5)** | | (0.5) |
| Total return equity swap contracts | | | 55.5 | |
| **Total unrealized losses on derivative instruments** | | **(2.4)** | | (3.3) |
| **Net unrealized gains on derivative instruments** | | **36.5** | | 19.1 |

The University may enter into repurchase (or reverse repurchase) agreements that involve the sale (or purchase) of bonds to (from) a financial institution and the simultaneous agreement to repurchase (resell) that same security for a fixed price, reflecting a rate of interest, on a specific date. The affected securities sold (or purchased) under these agreements are not derecognized (or recognized) as investments as the University (or the seller) retains substantially all the risks and rewards of ownership. The difference between the sale and repurchase price (or purchase and resell price) is treated as interest expense (income) and is recognized over the life of the agreement using the effective interest rate method. These transactions involve risks that the value of the securities being relinquished (acquired) may be different than the price to be paid (received) on the expiry date or that the other party to the agreement will be unable or unwilling to complete the transaction as scheduled which may result in losses to the University. As at April 30, 2016, the University had entered into a number of these agreements with expiry dates in May 2016.

## 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 the 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 $197.9 million (2015 - $196.0 million) payable for repurchase agreements of various bonds, as described above in note 3, traded before year-end that will be settled after April 30, 2016.

## 6. 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, 2016 was 3.7% (2015 - 4.1%) of the opening market value of endowments.

## 7. 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) | |
|---|---|---|
| | **2016** | 2015 |
| Investment management fees | | |
| - External managers | **19.8** | 20.0 |
| - UTAM | **2.1** | 1.9 |
| Trustee and custodial fees | **0.2** | 0.2 |
| Professional and other fees | **0.5** | 0.2 |
| Total | **22.6** | 22.3 |

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