



FOR INFORMATION

PUBLIC

OPEN SESSION

TO: Business Board

SPONSOR: Sheila Brown, Chief Financial Officer
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PRESENTER: Daren M. Smith, President and Chief Investment Officer, UTAM
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DATE: March 15, 2017 for April 6, 2017

AGENDA ITEM: 6

ITEM IDENTIFICATION:

University of Toronto Asset Management Corporation Annual Report 2016, for the calendar year ended December 31, 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. The Business Board accepts annual reports and financial statements for incorporated ancillaries.

GOVERNANCE PATH:

1. Business Board [For Information] (April 6, 2017)

PREVIOUS ACTION TAKEN:

The 2016 financial statements were approved by the UTAM Board at its meeting of March 14, 2017.

HIGHLIGHTS:

The University of Toronto is responsible for investment of university funds and for investment of the assets of the registered pension plan. University funds are invested primarily through two unitized investment pools: the long-term capital appreciation pool (“LTCAP”) and the expendable funds investment pool (“EFIP”). The assets of the registered pension plan are invested in the unitized pension master trust (“PMT”).

LTCAP, EFIP and PMT, together with a small number of specifically invested funds, are invested on behalf of the University by the University of Toronto Asset Management Corporation (“UTAM”).

UTAM, which was formed in April 2000, is a separate non-share capital corporation controlled (effectively owned) by its only member, the University of Toronto. UTAM is registered with the Ontario Securities Commission in the categories of Portfolio Manager and Investment Fund Manager. Its primary mandate is to manage, or see to the management of, the investment funds that are delegated to it by the University of Toronto. Its annual report and audited financial statements reflect its January 1st to December 31st fiscal year, which is typical in the investment industry.

Investment Performance

The University has established investment targets for UTAM for the PMT and for LTCAP (which includes endowments) at an investment return of 4.0% plus the increase in CPI, net of fees and expenses, over ten year periods. For the one-year ended December 31, 2016, the target nominal investment return (including CPI) net of fees and expenses was 5.5% (2015 – 5.6%). Actual nominal investment return for the PMT was 7.1% (2015 – 7.4%) for the year and for LTCAP it was 7.1% (2015 – 7.7%). Actual nominal investment return for the Reference Portfolio was 7.2% (2015 – 3.2%). (Note that the Reference Portfolio is a theoretical portfolio that assumes a traditional 60%/40% equity/fixed income asset allocation and does not include any allocation to alternative assets or strategies).

For the PMT the actual return earned by UTAM fell short of the Reference Portfolio return by 0.1% (7.1% - 7.2%) and exceeded the target return by 1.6% (7.1% - 5.5%). For LTCAP, the actual return earned by UTAM fell short of the Reference Portfolio return by 0.1% (7.1% - 7.2%) and exceeded the target return by 1.6% (7.1% - 5.5%).

The University has established the return target for the Expendable Funds Investment Pool (EFIP) as the 1 year Treasury bill rate plus 0.5%. For 2016, the target return was 0.93% and the actual return was 1.6%.

Financial Statements

The financial statements of UTAM reflect its status as noted above and have been prepared to assist UTAM to meet the requirements of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* based on the financial reporting framework specified in subsection 3.2(3)(a) of national Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants. Beginning with the year ended December 31, 2011, they have been prepared in accordance with International Financial Reporting Standards (IFRS) as required by the regulators. As a result, they may not be suitable for other purposes.

FINANCIAL IMPLICATIONS:

-

RECOMMENDATION:

For information.

DOCUMENTATION PROVIDED:

- UTAM 2016 Annual Report – Purpose and Process
- UTAM Annual Performance Review, 2016

2016 ANNUAL REPORT

PURPOSE AND PROCESS



UNIVERSITY OF TORONTO
ASSET MANAGEMENT CORPORATION



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MESSAGE FROM THE CHAIR

On behalf of the UTAM board of directors I am pleased to update our stakeholders on the highlights of 2016, a year of significant, positive change at University of Toronto Asset Management Corporation (UTAM).

In March, Bill Moriarty announced his intent to retire as President and CEO of UTAM, effective April 15, 2016. Bill had served the University community with distinction since he joined UTAM in 2008.

During his eight-year term as President, Bill oversaw successful completion of two priority tasks: the build-out of an advanced risk management system and a set of disciplined manager selection and portfolio construction processes. These capabilities matured under the guidance of a team of motivated investment professionals hired by Bill and it is a testament to the team and the tools now in place that the five-years leading up to Bill's retirement saw consistent annual value added returns achieved by the assets of the Pension Master Trust and the University endowment.

I say with gratitude, that Bill has left UTAM in a much better place than when he joined.

Bill's legacy included a succession plan which we implemented when Daren Smith was appointed President and Chief Investment Officer on September 1, 2016. Daren joined UTAM in 2008 and he steadily assumed greater responsibility and became the head of manager selection and portfolio construction in 2011. Over the years Daren contributed across many areas of UTAM's investment management and operations and is a worthy successor to Bill.

I served as interim President during the transition following Bill's departure and for five months I worked closely with Daren and the UTAM Leadership Team to ensure continuity while we worked with the University administration to implement a new model for oversight of investment operations and to achieve full stakeholder support for the management succession plan.

The interim role was an unparalleled opportunity for me to work with all the members of the UTAM Team and to understand the workings of the systems and processes applied by this highly-qualified group. I report that these people have a deep understanding of the critical importance of their duty to the wide group of University stakeholders affected by UTAM: pensioners, staff, faculty, donors, and beneficiaries as well as those involved in governance and University administrative leadership roles.

Of equal value for me was the opportunity to work with a newly-chartered Investment Committee as it undertook its oversight role. The design of the new oversight model sought transparency and close collaboration between the committee and the UTAM leadership. All of us involved in the process are pleased with the progress that has been achieved over the past 10 months since the new committee was established. The University is exceptionally well-served by the group of committed investment

industry leaders who work on the Investment Committee. Special recognition must be given to the co-chairs of the Committee, David Denison and Geoff Matus, who have deftly steered us. They are both wise, generous with the time they devote, and persistent in their focus on the long-term performance of the portfolios managed by UTAM.

I must recognize the people of UTAM. Organizational change can be a challenge for the people affected by transition and it is common for uncertainty to distract, often in a negative way.

Following Bill's retirement, I was impressed by the response of every member of the UTAM Team: they demonstrated confidence and focus on their duty to the University, despite the fact that we did not announce Daren's appointment as Bill's successor until August. I wish to commend Daren Smith for his steadfast performance during the transition and for his leadership and willing and engaged participation in the changes we implemented over the past year.

UTAM has an important responsibility for implementation of many commitments made by President Gertler in his response to the President's Advisory Committee on Divestment from Fossil Fuels which was released in March 2016. This is a priority. The UTAM Leadership Team is committed to making meaningful progress in anticipation of release of its annual report to the President on these matters in the coming weeks.

Administrative systems, expense management, budgeting, compliance and operational due diligence have been areas of focus since we appointed Lisa Becker as Chief Operating Officer in February 2016. Lisa and her colleagues have been effective in enhancing systems, processes, and reporting in these areas and their support of more effective oversight by the board of directors is highly valued.

One last item I will highlight is a comprehensive review of the UTAM compensation system commissioned by the UTAM board in the fall of 2016. A compensation review committee made up of the co-chairs of the Investment Committee, along with another member the Investment Committee and a member of the UTAM board, was chaired by me. The goal of this review was to ensure the compensation system rewarded behaviours and outcomes aligned with the needs and interests of the University stakeholders. We have made changes to assure stronger alignment and the new features have taken effect from January 1, 2017. We were assisted by a leading consultant in compensation and governance, Hugessen Consulting, a firm that has many clients in the public pension asset management industry.

It is my privilege to serve the University as the chair of UTAM's board. I wish to thank all the members of the UTAM Team, the volunteers who serve on the Investment Committee, and the members of the UTAM board for their engagement and commitment. This group accomplished a great deal in 2016 and it has been a distinct pleasure to work together on a shared cause: preserving and prudently growing the capital we are entrusted to manage.



John Switzer

Chair, UTAM Board of Directors

MESSAGE FROM THE PRESIDENT AND CIO



It gives me great pleasure to share this annual report with you, the first since I was promoted to President and Chief Investment Officer on September 1, 2016. I am honoured that the University has chosen me to lead UTAM.

I am fortunate to be assuming the leadership of UTAM after Bill Moriarty, whose eight-year term ended in April 2016 with his retirement. Bill was a highly capable leader and under his watch UTAM significantly increased its capabilities in all areas of its business, particularly with respect to processes involving manager selection and risk management. I am confident that what Bill built at UTAM will continue to thrive. Investing is a challenging endeavour, but we believe that UTAM has the people, processes, and governance that are likely to lead to continued success in the future.

2016 was a year of many significant changes at UTAM. One of the most important was the creation of the Investment Committee, co-chaired by David Denison and Geoff Matus. This committee reports directly to the President of the University of Toronto, provides expert advice to the University administration, and collaborates extensively with UTAM management on investment objectives and activities. We are fortunate to benefit from the insights and experience of this highly qualified group of investment experts.

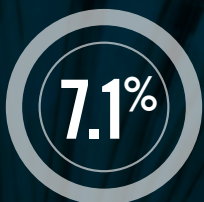
Another significant change during 2016 was with respect to our responsible investing efforts. I am pleased to report that in December 2016 we became a signatory to the UN-supported Principles for Responsible Investment. In addition, during the year we became a signatory to the CDP (formerly known as the Carbon Disclosure Project) and enhanced our investment decision making process so that it more fully incorporates Environmental, Social and Governance (ESG) factors. We are also planning to release a dedicated responsible investing report later in 2017. We are committed to being a responsible investor and will continue to look for ways to improve what we do in this regard in the years ahead.

“UTAM IS A HIGH QUALITY ORGANIZATION, WITH A WELL-DEFINED MANDATE AND INVESTMENT PHILOSOPHY, A HIGHLY QUALIFIED STAFF, STRONG GOVERNANCE, THOROUGH INVESTMENT AND OPERATIONAL DILIGENCE, AND ROBUST PORTFOLIO RISK AND PERFORMANCE MONITORING PRACTICES.”

Third party review of UTAM's Investment Office by a leading global advisory firm, 2014

INVESTMENT HIGHLIGHTS

2016 RETURN FOR PENSION AND ENDOWMENT OF



2016 TARGET RETURN FOR PENSION AND ENDOWMENT EXCEEDED BY



4 YEAR ANNUALIZED RETURN OF



IN PENSION EXCEEDING THE TARGET RETURN BY 5.1% PER ANNUM



IN ENDOWMENT EXCEEDING THE TARGET RETURN BY 5.3% PER ANNUM

4 YEAR ANNUALIZED UTAM VALUE ADDED OF 2.5% IN PENSION AND 2.7% IN ENDOWMENT EQUATING TO AN ADDITIONAL



FOR PENSION



FOR ENDOWMENT

TOTAL ASSETS UNDER MANAGEMENT AT DECEMBER 31, 2016



We have always worked closely with the University and its governance bodies, but in 2016 we strengthened these relationships. In addition to regular meetings with the Investment Committee, I also meet quarterly with the University's President, Meric Gertler, and bi-weekly with the University's CFO, Sheila Brown. These regular meetings, together with ongoing dialogue and communication between meetings, help ensure that we continue to manage the assets that we have been entrusted with according to our client's directions.

I would like to acknowledge and thank the entire team at UTAM who work tirelessly to achieve the University's objectives. I would also like to personally thank our Board of Directors, the Investment Committee, the Pension Committee, and the Business Board for their support and ongoing input to the Management Team at UTAM. With the benefit of the collective wisdom of all of these groups the possibilities are boundless.

Daren M. Smith, CFA

President and Chief Investment Officer

UTAM'S RESPONSIBLE INVESTING PRINCIPLES

As the asset manager for the University of Toronto's Pension, Endowment, and short-term working capital fund (EFIP) we are committed to being a responsible investor on behalf of the University while fulfilling our investment mandate and fiduciary duty.

Consistent with the United Nations-supported Principles for Responsible Investment (PRI), UTAM defines Responsible Investing as an approach to investing that aims to incorporate environmental, social, and governance (ESG) factors into investment decisions to better manage risk and generate sustainable, long-term returns.

We are pleased to report that we made great strides during 2016 in enhancing our investment approach so that it now more fully incorporates ESG factors into our decision making process. We believe

that this is not only consistent with our fiduciary duty but that it also allows us to make better-informed decisions and ultimately makes us better investors. Although incorporating ESG analysis into our investment approach is not new, we are now much more rigorous and systematic in our approach. In addition to the information provided in this annual report, we will be releasing a separate dedicated report on responsible investing later in the year. Below we are pleased to share with you our Responsible Investing Principles.

In December 2016, UTAM became a signatory in support of the PRI, which are a set of six aspirational principles designed to encourage and assist investors in integrating ESG into their investment processes. In becoming a signatory, we have committed to the following statement from the PRI and their six Principles for Responsible Investment, which we have adopted as our own.

"As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).

We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

Signatory of:



1. *We will incorporate ESG issues into investment analysis and decision-making processes.*
2. *We will be active owners and incorporate ESG issues into our ownership policies and practices.*
3. *We will seek appropriate disclosure on ESG issues by the entities in which we invest.*
4. *We will promote acceptance and implementation of the principles within the investment industry.*
5. *We will work together to enhance our effectiveness in implementing the principles.*
6. *We will each report on our activities and progress towards implementing the principles."*

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Instructional Centre
Shuttle Bus

Environmental, Social and Governance factors are defined as follows:



Factors that relate to a company's interaction with the physical environment (e.g. climate change, greenhouse gas emissions, air and water pollution, water scarcity, deforestation)



Factors that relate to a company's practices that have a social impact on a community or society (e.g. working conditions including slavery and child labour, labour relations, health and safety, human rights, impact on indigenous communities)



Factors that relate to how a company is governed (e.g. executive compensation, board independence and composition, shareholder rights, transparency)

UTAM'S PURPOSE

UTAM's sole purpose is to manage certain assets of, or under the administration of, the University of Toronto (U of T or the University). We do not have any other clients, and our entire focus is on managing these assets prudently, and in accordance with our client's directions. We work in close collaboration with the University to ensure that we fully understand its investment objectives along with all other considerations, and we reflect these in the management of its assets.


UTAM works closely with the University and takes direction from the University administration and its governance bodies. UTAM staff meet regularly with the UTAM Board, the University administration, the Investment Committee (which reports directly to the President of the University), and various University governance bodies. We typically meet with the University's Chief Financial Officer every two weeks, with the President of the University quarterly, with the Investment Committee every two months, with the Pension Committee every quarter, and with the University's Business Board every six months. And in addition to these formal meetings, frequent informal discussions take place. UTAM is committed to continuing to seek ways to strengthen our relationship with the University and its stakeholders in the years to come.

UTAM's relationship with the U of T is formally governed by a delegation of authority and an investment management agreement. These documents set out UTAM's responsibilities for managing the following three portfolios:

- The University of Toronto Master Trust (Pension Fund or Pension),
- The Long Term Capital Appreciation Pool (LTCAP or Endowment), and
- The short-term working capital fund called the Expendable Funds Investment Pool (EFIP)

The University of Toronto Master Trust consists of the assets of the University of Toronto Pension Plan. The change in assets of the Pension Fund is primarily the net result of employer and employee pension contributions, pension payments to retirees and investment income earned on invested assets. At December 31, 2016 the assets in this trust were \$4.4 billion (2015: \$4.1 billion).

The Endowment primarily represents certain of the University's endowment funds. The change in assets of this pool is largely the net result of endowment contributions, withdrawals made to fund endowment projects, and investment income earned on invested assets. At December 31, 2016 the assets in this pool were \$2.6 billion (2015: \$2.4 billion).



“UTAM’S SOLE PURPOSE IS TO MANAGE CERTAIN ASSETS OF, OR UNDER THE ADMINISTRATION OF, THE UNIVERSITY OF TORONTO. WE DO NOT HAVE ANY OTHER CLIENTS, AND OUR ENTIRE FOCUS IS ON MANAGING THESE ASSETS PRUDENTLY, AND IN ACCORDANCE WITH OUR CLIENT’S DIRECTIONS”

Daren M. Smith
President and Chief Investment Officer, UTAM

EFIP consists of the University’s expendable funds that are pooled for investment purposes over the short and medium term. The nature of these assets, which primarily represent the University’s working capital, means that the total assets in EFIP can fluctuate significantly over time and during any single year. The change in assets of EFIP reflects the combined effect of

many factors, such as student tuition fees, University expenses for salaries, expenses for maintaining facilities, government grants, and investment income earned on invested assets. At December 31, 2016 the assets in this pool were \$1.8 billion (2015: \$1.5 billion).

GOVERNANCE

UTAM works collaboratively with all of its stakeholders, including its directors, as well as with various University departments and bodies of business and governance. We regularly engage with many areas of the University administration, including the President's Office, Financial Services, Communications, and Human Resources and Equity.

In particular, we benefit from a close working relationship with the staff of the Financial Services Department, with whom we interact on a day-to-day basis with respect to cash and expense management, reporting to stakeholders, and in support of our corporate operations. We are open and transparent with these groups about all aspects of our activities and we appreciate their support.

UTAM is subject to multiple levels of oversight, including by our Board, the Investment Committee, the Governing Council through its Business Board, the Pension Committee, and our own internal committees. Further information on each of these groups is provided below and on the following page.

UTAM BOARD OF DIRECTORS

UTAM, as a corporation, is effectively controlled by the University of Toronto and governed by the UTAM Board of Directors, whose members, under our by-laws, are nominated by the University. The Board is not an Investment Board, but rather its mandate is to approve UTAM's annual corporate budget and to oversee the development and implementation of an effective investment management infrastructure and organization. This includes confirming that a system is in place to identify and manage risks that may materially impact UTAM's ability to fulfill its investment management responsibilities. UTAM reports to the Board quarterly. We are fortunate that senior representatives from

the University are members of the Board, and we benefit greatly from their guidance and direction.

BOARD OF DIRECTORS

John Switzer (Chair)
Independent Director

Sheila Brown
Chief Financial Officer, University of Toronto

Meric S. Gertler
President, University of Toronto

Ettore Damiano
Professor, Department of Economics

Daren M. Smith
President and Chief Investment Officer, UTAM

BUSINESS BOARD

UTAM reports to the University's Business Board regarding the investment management and performance of all portfolios (i.e. Pension, Endowment and EFIP). Under its terms of reference, the Business Board approves investment risk tolerance and return targets for the University's funds (i.e. Endowment and EFIP) and delegates approval of investment strategy and execution to the President of the University.

PENSION COMMITTEE

UTAM reports to the Pension Committee regarding the investment management and performance of the University of Toronto Pension Plan. Under its terms of reference, the Pension Committee is responsible for approving investment risk tolerance, return targets, and policy asset allocation for the Pension Fund as recommended to it by the University administration.

UTAM'S COMMITTEES

Internally, various committees meet regularly to consider issues related to UTAM's activities. These committees include:

- Management Committee (MC): This committee, chaired by the President and Chief Investment Officer, is composed of senior staff and considers issues related to enterprise risk, finance, human resources, and compliance and is responsible for approving all policies.
- Management Investment Committee (MIC): This committee, chaired by the President and Chief Investment Officer, is composed of the entire Investment Team along with representation by investment risk, operations, and compliance. This committee considers all aspects of UTAM's investment activities and is responsible for approving all investment mandates.
- Management Investment Risk Committee (MIRC): This committee, chaired by the Chief Risk Officer and composed of risk and investment staff, is responsible for developing risk policies, procedures and guidelines and for monitoring and reporting investment risk for Pension and Endowment.
- Responsible Investing Committee (RIC): This committee, chaired by the President and Chief Investment Officer, is composed of the most senior staff at UTAM, including the Chief Operating Officer, Chief Risk Officer, and the Senior Portfolio Manager, Investments. This committee considers all matters relating to the development and implementation of UTAM's practices with respect to responsible investing.

UTAM COMPLIANCE

Consistent with its obligation as a firm registered with the Ontario Securities Commission in the categories of Portfolio Manager and Investment Fund Manager and with its obligations as a fiduciary, UTAM has developed a robust compliance program under the oversight of the Chief Compliance Officer. The Chief Compliance Officer works closely with the Ultimate Designated Person (UTAM's President and Chief Investment Officer) and has a direct reporting line to the UTAM Board.

UTAM CODE OF ETHICS

All employees are subject to UTAM's Code of Ethics, which sets the standard for employee behaviour and the management of actual or perceived personal conflicts of interest. As such, employees must:

- Place the interests of UTAM's client first
- Not take inappropriate advantage of their position (for example, employees are subject to a stringent policy concerning the acceptance of gifts and entertainment)
- Protect confidential information

INVESTMENT COMMITTEE

In April 2016, the Investment Committee (IC) was created to replace the Investment Advisory Committee (IAC), which was established in 2010. The IC currently consists of six members, each appointed by the President of the University and with significant investment experience. The mandate of the IC is substantially different from that of the IAC and is designed to foster much greater direct interaction and collaboration with UTAM. The IC and UTAM have regular formal meetings (initially monthly and, since November 2016, every other month), as well as ongoing dialogue and communication between meetings. The University and UTAM are extremely fortunate to have such a high quality group of volunteers actively engaged in the oversight of the investment management of the Pension and Endowment assets. UTAM benefits greatly from the insights and experience of the IC. The purpose and activities of the IC are summarized below and on the following page.

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.

The IC is responsible for interacting with the UTAM Board and, as required, with the management staff of UTAM to convey the President's views and instructions, and to act on the President's behalf regarding relevant investment-related activities that are within the authority of the President. It is constituted so as to have significant expertise and the President and the UTAM Board have agreed that it can provide direct input to UTAM staff as they carry out their duties.

Among other activities, the IC is responsible for the following:

- Recommending investment risk and return objectives to the University administration
- Recommending investment strategy to the University administration for the Pension and Endowment
- Approving various elements of strategy execution proposed by UTAM management
- Providing on-going oversight of strategy execution by UTAM management
- Monitoring investment performance
- Providing input into the hiring, compensation, and performance assessment of UTAM's Senior Management Team

INVESTMENT COMMITTEE MEMBERS

David Denison (Co-Chair)

Mr. Denison is a corporate director with extensive experience in the financial services industry. He served as President and CEO of the Canada Pension Plan Investment Board from 2005 to 2012.

Geoff Matus (Co-Chair)

Mr. Matus co-founded Tricon in 1988 where he remains a director, chairs the Company's Executive Committee and is a member of its Investment Committee. He is also the Chair and co-founder of Cidel, an international financial services group.

Brent Belzberg

Mr. Belzberg is the founder and Senior Managing Partner of TorQuest, a private equity firm based in Toronto.

Heather A. T. Hunter

Ms. Hunter recently retired after almost 40 years of experience in the investment industry, most recently as Vice-President and Head of Canadian Equities at Invesco, a global investment manager.

Brian Lawson

Mr. Lawson is a Senior Managing Partner and Chief Financial Officer of Brookfield Asset Management.

Craig Rimer

Mr. Rimer is Chief Executive Officer of Cidel Bank Canada and Chairman of Cidel Asset Management.

The President of the University, the Chief Financial Officer of the University, and the Chair of the UTAM Board are ex officio observers to the IC.

ORGANIZATIONAL STRUCTURE

UTAM is organized into three distinct teams that work closely together. All of UTAM's internal committees include representation from more than one team, and often include representation from all three teams. For example, the Management Investment Committee is led by the Investment Team but includes members of the Risk and Research Team and the Operations Team, while the Management Investment Risk Committee is led by the Risk and Research Team but includes members from the Investment Team.

INVESTMENT TEAM

The Investment Team is led by the President and Chief Investment Officer. This team of eight is responsible for sourcing, evaluating, selecting, and monitoring all external investment managers. See the Manager Selection and Monitoring section for more information on this team's work.

RISK AND RESEARCH TEAM

The Risk and Research Team is led by the Chief Risk Officer. This team of five is responsible for investment risk and research, as well as performance measurement and attribution. See the Investment Risk Management section for more information on how UTAM measures and monitors investment risk.

OPERATIONS TEAM

The Operations Team is led by the Chief Operating Officer. This team of seven is responsible for Operational Due Diligence, Investment Operations, Compliance and Corporate Services.

The following page provides more information on this team's work.



“INTERNAL COMPLIANCE IS THOROUGH AND WELL-DOCUMENTED. UTAM’S COMPLIANCE MANUAL IS WELL THOUGHT OUT AND COMPREHENSIVE, AND REPRESENTS BEST PRACTICES FOR AN ORGANIZATION OF ITS SIZE.”

Third party review of UTAM's Investment Office by a leading global advisory firm, 2014

- Operational Due Diligence is the process by which operational risks of external investment managers and key service providers are assessed and managed both prior to engagement and on an ongoing basis. The scope of these reviews includes, but is not limited to: the manager’s ownership structure, sufficiency of key operational processes, regulatory and control environment, policies and procedures, service providers, and commitment to compliance. The Operational Due Diligence Team works closely with the Investment Team to reasonably ensure that investments are only made with external managers who have sufficiently sound operational processes and controls.
- Investment Operations includes managing the execution of investment transactions, paying authorized portfolio fees and expenses, as well as ensuring that the official books and records for Pension, Endowment, and EFIP are accurately maintained by the University-appointed custodian. This team works closely with all investment and risk functions as well as staff of the custodian and the University’s Financial Services Department.
- Compliance provides oversight with respect to investment guidelines imposed on the various portfolios, whether arising from regulatory constraints, the University, or certain internally set limits. Additionally, compliance oversees other regulations which UTAM and the University are subject to with respect to its investment activities. Compliance works closely with the Investment Team in the execution of new investments to ensure that legal documentation is correctly completed. Compliance oversees the adherence of staff to the requirements of UTAM’s Code of Ethics which seeks to identify, manage, and mitigate actual or potential conflicts of interest that could impact UTAM staff and its client.
- Corporate Services includes the management and operations of UTAM as a business, encompassing the areas of Finance, Human Resources, Information Technology, etc. Corporate Services works with all groups within UTAM, various departments of the University, and with key external service providers.

MANAGER SELECTION AND MONITORING PROCESS

UTAM's Investment Team follows a disciplined and rigorous process to source, analyze, and monitor investment managers. Our default position is to always use a passive approach at the lowest possible cost, unless we can identify an active manager that we believe with high conviction will outperform an appropriate benchmark net of all fees and expenses.

As an institutional investor we receive a great deal of transparency from potential and existing managers (much more than a typical individual investor would receive), and we feel this level of transparency is necessary in order to effectively evaluate active managers. For example, for most prospective public equity managers, we typically receive their entire list of positions and the size of each position in the portfolio on a monthly basis going back many years. We then employ a variety of quantitative tools that use this data to produce reports with detailed performance attribution, factor exposures (e.g. value, growth, momentum), contribution to return from factor exposures, risk exposures, sector and country exposures, trading history of each position, and other useful information. UTAM is a firm believer that efficiently using quantitative analysis is a necessary but not sufficient component of a best in class manager selection process. The other component that is required is good judgment and qualitative analysis by an experienced team of investment professionals.

Across the eight person Investment Team there is extensive experience in manager selection and monitoring and, at the senior levels, a well-developed skill set in identifying and selecting suitable managers. The team currently has six CFA charterholders and five with advanced degrees. Everyone on the Investment Team is encouraged to become a CFA charterholder.

In addition to the Investment Team, UTAM also has a separate Operational Due Diligence (ODD) Team that is responsible for evaluating managers from an operational perspective. The ODD Team reports to the Management Investment Committee and has a right of veto over any investment in respect of operational issues. Below we summarise our typical manager selection process from sourcing through to investment and monitoring.

1 SOURCING MANAGERS

UTAM evaluates hundreds of managers every year. Key sourcing methods include manager databases, unsolicited calls and emails from managers, conferences, networking with peers, networking with existing managers, and the experience of the UTAM Team.

"MANAGERS RESPECT THE UNIVERSITY OF TORONTO TEAM IN TERMS OF THEIR LEVEL OF ENGAGEMENT AND THOROUGHNESS."

Third party review of UTAM's Investment Office by a leading global advisory firm, 2014

MANAGERS BELIEVE THAT:

“UTAM’S DILIGENCE AND MONITORING ARE AMONG THE TOP 5-10 IN TERMS OF THOROUGHNESS”

“UTAM’S PROCESS IS RIGOROUS AND DETAILED WITHOUT BEING WEDDED TO A CHECKLIST; THEY FOCUS ON THE RIGHT QUESTIONS”

MANAGERS ALSO COMMENTED ON THE QUALITY OF UTAM’S OPERATIONAL DUE DILIGENCE.

Third party review of UTAM’s Investment Office by a leading global advisory firm, 2014

2 INITIAL SCREENING AND REVIEW

The initial screening consists of reviewing marketing material and often includes running a quantitative analysis of returns to quickly determine if there might be a potential fit. If there’s still interest after the first pass, we request a call or meeting with the manager to better understand their organization, investment team, investment philosophy, investment strategy, level of transparency they are willing to provide, and fees.

3 INVESTMENT DUE DILIGENCE (IDD)

For managers who make it to this stage of the process, we focus on the “5 P’s” – People, Philosophy, Process, Performance, and Portfolio fit. We also compare the manager’s characteristics against a list of desirable characteristics that we think lead to an above-average probability of a manager outperforming a UTAM determined benchmark in the future. We spend considerable time at this stage analysing position level information and conducting calls and meetings with the manager’s key investment and risk decision makers.

4 OPERATIONAL DUE DILIGENCE (ODD)

Once the Investment Team determines that it is reasonably likely to recommend an investment, an ODD review is initiated. This review focusses on the identification, evaluation, and assessment of a manager’s operational risk and the particular investment vehicle under consideration. This includes, but is not limited to: management structure, sufficiency of key operational processes, regulatory and control environment and policies and procedures. Specific factors such as portfolio valuation, business continuity planning, compliance controls and cash controls are also assessed.

5 RISK ANALYSIS

The Risk and Research Team is responsible for incorporating all investments into our third-party risk system. Prior to an allocation, the Risk Team calculates the expected risk contribution of the potential new investment. Using this information, we can make a more informed decision on how much risk to allocate to each manager and focus our efforts on those managers and strategies that offer the highest expected return for the amount of risk used.

6 MANAGER RECOMMENDATION

All allocations must be approved by UTAM’s Management Investment Committee (MIC). In order to evaluate potential allocations, formal IDD and ODD reports are prepared by the Investment and ODD Teams respectively. The IDD report provides a detailed account of the IDD process and findings, and can range from 50 to more than 150 pages. The ODD report describes the review undertaken, and its findings, and includes a detailed account of key operational risks and mitigations (if any). It concludes with both a recommendation to the MIC and a list of any operational improvements identified as necessary conditions for investment. After reviewing and discussing both reports, the voting members of the MIC decide whether to approve the allocation. It is important to note that the ODD Team has a right of veto over any investment in respect of operational issues.

7 MONITORING

After an allocation, the Investment Team typically has at least quarterly touch points with each manager. The focus of the monitoring process remains on the “5 P’s” and includes an assessment of realized performance taking into account the market environment and how we expected the manager to perform in that environment. The ODD Team also undertakes periodic reviews based on its original assessment of operational risk and to consider operational changes.

INVESTMENT RISK MANAGEMENT

To help meet the Pension and Endowment's risk and return objectives, the University and the Pension Committee have adopted a Reference Portfolio which, as discussed later in this report, provides a passive and easy to implement benchmark to evaluate both the risk that UTAM is taking in the Pension and Endowment portfolios as well as the performance of UTAM's active management approach.

The risk in the Pension and Endowment investment portfolios reflects the combined effect of the Reference Portfolio's asset class mix as well as any incremental risk that arises from the investment managers selected by UTAM. The Reference Portfolio is designed to provide an indication of the University and Pension's long-term risk appetite, and a specific active risk limit is given to UTAM to control how far UTAM can deviate from the risk in the Reference Portfolio. Once the Reference Portfolio and active risk limits are established, UTAM has discretion to make and implement investment decisions with the objective of achieving returns (after all fees and expenses) that exceed those of the Reference Portfolio, as long as the risk of each of the portfolios remains within the established risk limit and all other investment constraints are satisfied.

UTAM identifies, measures and monitors a variety of risks in the Pension and Endowment portfolios and the Reference Portfolio using a third party, holdings-based risk system. For all direct investments (e.g. bonds and stocks held directly by the Pension or Endowment), and to the extent possible for indirect investments (e.g. a pooled fund held by Pension or Endowment that itself holds bonds and stocks) security-level holdings (e.g. the specific bonds and stocks) of Pension and Endowment's managers are loaded into this risk system. Where public holdings are not available (e.g. for private investments) a public market proxy is developed that reflects the market risk exposures. The risk system, once populated with actual holdings and proxies, is able to measure total portfolio risk, active risk and contributions to risk from asset classes, strategies, and managers. Using the information from this risk system, UTAM is able to, among other things, monitor exposure to sectors, countries, and credit rating categories as well as monitor the highest concentrations to individual issuers in any security category. Sensitivities to changes in individual equity markets, interest rates, credit spreads, and foreign exchange rates can be estimated within this system. Moreover, we calculate the impact of severe market downturns on



“VERY FEW, IF ANY, INVESTMENT OFFICES OF UTAM’S SIZE WOULD HAVE THE DEGREE OF RISK MANAGEMENT ANALYSIS THAT UTAM HAS DEVELOPED.”

Third party review of UTAM’s Risk Measurement and Active Risk Budgeting Processes by a leading professional services firm, 2016

the Pension and Endowment portfolios using simulations. Because the Reference Portfolio is modelled at the security level together with the Pension and Endowment portfolios, the University’s portfolios can be compared to the Reference Portfolio for all of the risk measures described above. This allows a detailed understanding of the active risk in each portfolio at a point in time, as well as over time, as this process is run monthly with updated holdings.

Risk measurement and monitoring helps us to manage risks arising from both our investment choices and from the market environment. Importantly, this detailed understanding of risk allows UTAM to thoughtfully allocate more risk to those managers that have the highest expected return for the amount of risk used. We believe this allows us to make better informed manager and portfolio allocation decisions.

UTAM also models the liquidity demands that might be faced by the Pension and Endowment under stressed market conditions. We use this analysis to ensure that adequate cash and other sources of liquidity are available to meet all settlement requirements through an extended period of market stress. The same modelling allows

UTAM to establish confidence in its ability to rebalance the Pension and Endowment portfolios back to Reference Portfolio target weights as required.

The Pension and Endowment portfolios have credit exposures to individual counterparties through security holdings in the equity and bond markets, and through the derivative contracts used mainly to hedge foreign exchange exposures and to rebalance the Pension and Endowment portfolios back to the target asset class weights in the Reference Portfolio. UTAM establishes limits for individual counterparties that are monitored on an ongoing basis.

Taken together, the active risk, liquidity and counterparty limits are viewed by the University as being sufficiently large to permit UTAM the flexibility to achieve its value added objective, but not so large as to put the portfolios at undue risk of significant underperformance relative to the Reference Portfolio. Based on year-end holdings, and after removing the dampening effect of private investments, the Pension and Endowment portfolios were comfortably within the allowable range of active risk.

REFERENCE PORTFOLIO

The Reference Portfolio represents the benchmark asset allocation for the Pension and Endowment. Given that the University and the Pension Committee have set the same risk and return objectives for the Endowment and the Pension, the Reference Portfolio is the same for both portfolios.

CHARACTERISTICS OF THE REFERENCE PORTFOLIO

By design it has the following characteristics:

1. Reflects the risk and return objectives of the Pension Plan and Endowment
2. Simple (i.e. public market asset classes only)
3. Passive (i.e. no active strategies)
4. Easy to implement (i.e. no need for a large investment team to implement)
5. Low cost to implement

The Reference Portfolio is an objective measure of risk and return against which UTAM's active management approach should be assessed. It is meant to represent a portfolio that reflects the risk and return objectives of the Pension Plan and Endowment and that the University could implement on its own. The Reference Portfolio is jointly developed by UTAM Management and the Investment Committee and proposed by the Investment Committee to the University administration for approval. Once approved by the University administration it is brought forward to the Pension Committee for its approval. Both the University administration and the Pension Committee must approve the Reference Portfolio before it is adopted by the Pension Plan.

Table 1 below shows the composition of the Reference Portfolio along with the actual weights of Pension and Endowment as of December 31, 2016. The table illustrates that the Reference Portfolio consists of a mix of 60% equities and 40% fixed income.

TABLE 1		Reference Portfolio Weight	Actual Pension Weight*	Actual Endowment Weight*
Reference Portfolio Asset Class	Benchmark			
Equity		60.0%	60.0%	60.0%
Canadian Equity	S&P TSX Composite Total Return Index	10.0%	10.1%	10.1%
US Equity	S&P 500 Total Return Index (50% hedged to Canadian dollars)	20.0%	19.9%	19.9%
International Developed Markets Equity	MSCI EAFE Net Total Return Index (50% hedged to Canadian dollars)	15.0%	15.0%	15.0%
Emerging Markets Equity	MSCI Emerging Markets Net Total Return Index	10.0%	10.0%	10.0%
Global Equity	MSCI ACWI Net Total Return Index	5.0%	5.0%	5.0%
Fixed Income		40.0%	40.0%	40.0%
Canadian Corporate Bonds	FTSE TMX Canada All Corporate Bond Total Return Index	20.0%	20.5%	20.1%
Canadian Government Bonds	FTSE TMX Canada All Government Bond Total Return Index	20.0%	19.5%	19.9%

*Pension and Endowment weights incorporate the impact of mapping asset classes and strategies not in the Reference Portfolio to the most appropriate asset class within the Reference Portfolio. For example, the Canadian Government Bonds asset class includes 9.0% in Absolute Return hedge fund strategies for Pension and 9.4% for Endowment.

ASSET MIX

The actual asset class weights for the Pension and Endowment are shown in Table 1 on the previous page. The weights are shown on an exposures basis, which means that the weights reflect the notional dollar value (cash equivalent value) of any derivatives used to maintain an asset class at the desired weight. UTAM believes that exposure-based reporting provides the best representation of the actual composition and risks of the portfolios.

Although the Reference Portfolio contains only public market asset classes, UTAM has been given the flexibility to invest in asset classes and strategies not contained in the Reference Portfolio. However, UTAM's flexibility to deviate from the Reference Portfolio is tightly controlled and any deviations must be permitted by the relevant plan documents and the Investment Committee.

The Pension and Endowment asset class weights in Table 1 incorporate the impact of mapping asset classes and strategies not in the Reference Portfolio to the most appropriate asset class within the Reference Portfolio. For example, UTAM does not view private equity or hedge funds as separate asset classes and therefore Table 1 shows these investments mapped into the most appropriate Reference Portfolio asset class.

HOW MUCH FLEXIBILITY DOES UTAM HAVE TO DEVIATE FROM THE REFERENCE PORTFOLIO?

- All constraints in the Pension Statement of Investment Policies and Procedures (SIPP) and the University Funds Investment Policy, which applies to the Endowment, must be followed.
- Actual asset class exposures must be within the allowable allocation "bands" (i.e. within 5% for each equity asset class, within 10% for all equity asset classes combined, and within 10% for each fixed income asset class).
- Various liquidity constraints must be met.
- UTAM may invest in asset classes and investment strategies not in the Reference Portfolio (e.g. private equity, hedge funds) but they must be approved by the Investment Committee and permitted by the SIPP (for Pension).
- The amount of risk that UTAM is permitted to use in the actual Pension and Endowment portfolios is constrained by the "traffic light" risk framework shown below. For Example, the "green zone" extends from taking 0.5% less risk than the Reference Portfolio to 1% more risk than the Reference Portfolio.

Active Risk Zone	Active Risk
Green Zone (Normal)	$-0.50\% \leq \text{Active Risk} \leq 1.00\%$
Orange Zone (Watch)	$1.00\% < \text{Active Risk} \leq 1.25\%$
Red Zone (Reduce)	$\text{Active Risk} > 1.25\%$

INVESTMENT PERFORMANCE

The Pension and Endowment both generated a return of 7.1% net of all fees and expenses in 2016. This was above the University's target return of 5.5% but in-line with the Reference Portfolio return of 7.2%. For the 4 year period covering calendar years 2013 to 2016, the Pension returned 10.5% annualized and the Endowment returned 10.7% annualized. Both results are well above the University's target return of 5.5%. Over this 4 year period, UTAM outperformed the Reference Portfolio return by 2.5% annualized in Pension and 2.7% annualized in Endowment, which equates to over \$550 million in value added for the Pension and Endowment combined. Over the 10 year period ending in 2016, the Pension and Endowment underperformed the University's target return, but UTAM outperformed the Reference Portfolio by 0.3% annualized in Pension and 0.4% annualized in Endowment.

TABLE 2	2016		4 - Year Annualized (2013-2016)		10 - Year Annualized (2007-2016)	
	PENSION	ENDOWMENT	PENSION	ENDOWMENT	PENSION	ENDOWMENT
University Target Return	5.5%	5.5%	5.5%	5.5%	5.6%	5.6%
Reference Portfolio Return	7.2%	7.2%	8.1%	8.1%	3.3%	3.3%
Actual Net Return	7.1%	7.1%	10.5%	10.7%	3.6%	3.7%
UTAM Value Added (%)	-0.1%	-0.1%	2.5%	2.7%	0.3%	0.4%
UTAM Value Added (Millions)*	\$-2	\$-1	\$332	\$225	\$211	\$140

* All dollar value added calculations in this table and throughout the report are based on the percentage value added in each year multiplied by the beginning of year asset level. Multi-year values are the simple sum of single year values.

As shown in Tables 3 and 4 on the next page, 2016 was a strong year for equity returns within the Reference Portfolio, with Canadian equity posting the highest return at 21.1%. Fixed Income returns in the Reference Portfolio were positive but less than equities with Canadian Government Bonds returning 0.9% and Canadian Corporate Bonds returning 3.7%. The combination of equity and fixed income returns in the Reference Portfolio produced a return of 7.2%.

2016 was a disappointing year for UTAM active management. After 5 successive years of strong outperformance versus the Reference Portfolio, we slightly underperformed in 2016. Despite the short term underperformance, we remain confident that the portfolios will continue to outperform over the longer term.

The biggest detractors to value added in 2016 were Canadian and US equity where our private equity managers were unable to keep up with the strong returns in the public markets. Our credit portfolio, which maps into the Reference Portfolio's Canadian Corporate Bonds asset class, had a very strong year and outperformed by 3.9%

in Pension and 4.2% in Endowment. This portfolio consists of managers investing in Canadian corporate bonds but also managers pursuing "alternative credit" strategies such as lending directly to corporations, taking long and short positions in credit instruments, and investing in non-performing loans.

TABLE 3 (PENSION)*

Reference Portfolio Asset Class	Assets (\$Millions) Dec. 31, 2016	Pension Return	Benchmark Return	Value Added
Equity				
Canadian Equity	\$ 444	18.7%	21.1%	-2.4%
US Equity	\$ 879	10.2%	12.0%	-1.7%
International Developed Markets Equity	\$ 664	6.2%	5.3%	0.9%
Emerging Markets Equity	\$ 442	10.5%	11.2%	-0.7%
Global Equity	\$ 221	7.0%	6.6%	0.5%
Fixed Income				
Canadian Corporate Bonds	\$ 905	7.6%	3.7%	3.9%
Canadian Government Bonds	\$ 861	0.4%	0.9%	-0.4%
Total Portfolio	\$ 4,414	7.1%	7.2%	-0.1%

TABLE 4 (ENDOWMENT)*

Reference Portfolio Asset Class	Assets (\$Millions) Dec. 31, 2016	Endowment Return	Benchmark Return	Value Added
Equity				
Canadian Equity	\$ 261	19.0%	21.1%	-2.1%
US Equity	\$ 517	10.1%	12.0%	-1.8%
International Developed Markets Equity	\$ 390	6.2%	5.3%	0.9%
Emerging Markets Equity	\$ 260	10.2%	11.2%	-1.0%
Global Equity	\$ 129	7.2%	6.6%	0.6%
Fixed Income				
Canadian Corporate Bonds	\$ 521	7.9%	3.7%	4.2%
Canadian Government Bonds	\$ 517	0.6%	0.9%	-0.3%
Total Portfolio	\$ 2,594	7.1%	7.2%	-0.1%

*All returns are in local currency terms except for Emerging Markets and Global Equities which are in US dollars. The Global Equity asset class was added to the Reference Portfolio on June 30, 2016 and the returns in this table for Global Equity cover the period from June 30 to December 31, 2016. Asset values and returns by Reference Portfolio asset class incorporate the impact of mapping asset classes and strategies not in the Reference Portfolio to the most appropriate asset class within the Reference Portfolio. For example, Canadian Government bonds includes \$396 million of Absolute Return hedge fund strategies in Pension and \$244 million in Endowment, and the reported returns for this asset class include the impact from Absolute Return hedge fund strategies. Totals may not add due to rounding.

EXPENDABLE FUNDS INVESTMENT POOL (EFIP)

The risk and return objectives for EFIP, as determined by the University, are to generate a stable and always positive return with minimal risk to capital while investing in a very liquid portfolio. There is no Reference Portfolio for EFIP but the University has set a target return of 1-year Canadian T-bills plus 0.50% per annum.

In today's low interest rate and relatively flat yield curve environment, the University's target return presents a challenging objective. Unlike the Pension and Endowment portfolios, EFIP does not have a quantitative active risk limit. However, investing in liquid and highly rated securities is the primary means of controlling risk in this portfolio.

Table 5 below shows EFIP's investment exposures at year-end and the returns for 2016 by Investment category and for the overall portfolio. As the table indicates, 76% of EFIP was invested in the Cash and Structured Notes category which includes deposits and structured notes issued by Canadian banks and financial institutions. The remaining 24% of EFIP exposure was allocated to investment grade short-term bonds and floating rate notes.

The EFIP benchmark return in 2016 was 0.93% and the EFIP portfolio returned 1.62% net of fees. While all three investment categories in EFIP contributed to the 0.69% of outperformance versus the benchmark in 2016, the outperformance was driven by the short-term bond and floating rate note portfolios which benefited from their investment grade credit exposures.

TABLE 5

Investment Category	Weight December 31, 2016	2016 Return
Cash And Structured Notes ¹	76.0%	1.3%
Short-Term Bonds	12.3%	2.2%
Floating Rate Notes	11.7%	2.4%
Total	100%	1.6%

¹Within this category there is a 2.3% holding in a non-redeemable security with a remaining term to maturity of more than one year.

THE YEAR AHEAD

2016 witnessed another strong year of performance for the Pension and Endowment. Although it may be tempting to increase risk after a long period of strong market performance, we do not think now is the time to do so. In the coming years we foresee a more challenging market environment, and higher levels of volatility. In this time of heightened uncertainty we intend to continue managing the portfolios in a risk-controlled and prudent manner.

Much has been written about the apparent demise of active management (i.e. the inability of active managers to outperform a passive benchmark). UTAM is also skeptical about many aspects of the active management world. However, we do believe that with the right people, tools, and processes, it is possible to identify skilled active managers. Our default position is to always invest passively unless we can identify an active manager who we believe with a high level of conviction will outperform the relevant passive benchmark after all fees and expenses. This approach results in an investment portfolio for Pension and Endowment that contains a mix of passive and active mandates, with the majority at this time comprised of active mandates.

How has UTAM's active management approach fared? As described in this report, the results are very encouraging. Over the past four years the Pension has outperformed the Reference Portfolio by 2.5% per year and the Endowment has outperformed by 2.7% per year. This equates to over \$550 million in additional assets in the Pension and Endowment combined. While we do not expect to replicate this level of outperformance over the next four years, we do believe that we have the people, processes, and governance in place to continue to outperform the Reference Portfolio.

2016 represented a watershed moment for UTAM in terms of embracing responsible investing. Although we made significant progress in 2016 there is still more work to be done. We believe this is a long-term journey, and we are committed to enhancing our processes as new information, metrics, data, and best practices emerge. We are excited to be releasing our first ever responsible investing report later in 2017, and we look forward to sharing our progress with you in the years ahead.

A top priority for UTAM in 2017 is to increase the level of transparency provided to the University community. To that end, we have provided much more information in this annual report about who we are, what we do, and how we do it, than in previous annual reports. In addition, we are developing a new website where we will provide periodic updates throughout the year, and share additional information about UTAM.

We hope you like these changes, and we welcome your comments, which can be sent to feedback@utam.utoronto.ca.

FINANCIAL STATEMENTS

**UNIVERSITY OF TORONTO
ASSET MANAGEMENT
CORPORATION**

DECEMBER 31, 2016

INDEPENDENT AUDITORS' REPORT

To the Directors of

University of Toronto Asset Management Corporation

We have audited the accompanying financial statements of University of Toronto Asset Management Corporation, which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of net income, comprehensive income and changes in net assets and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management to meet the requirements of National Instrument 31-103, *Registration Requirements, Exemptions and Ongoing Registrant Obligations*, based on the financial reporting framework specified in paragraph 3.2(3)(a) of National Instrument 52-107, *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

INDEPENDENT AUDITORS' REPORT

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

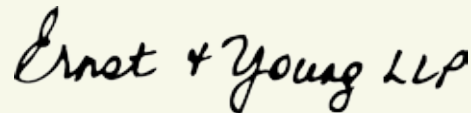
Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of University of Toronto Asset Management Corporation as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the financial reporting framework specified in paragraph 3.2(3)(a) of National Instrument 52-107, *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants.

Basis of accounting and restriction on use

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

Toronto, Canada
March 14, 2017

The signature of Ernst & Young LLP is written in a black, cursive script.

Chartered Professional Accountants
Licensed Public Accountants

STATEMENTS OF FINANCIAL POSITION

As at December 31

	2016 \$	2015 \$
ASSETS		
Current		
Cash	218,377	324,294
Due from University of Toronto <i>[notes 6[a] and [e]]</i>	—	145,844
Accounts receivable	34,842	—
Prepaid expenses	131,358	99,322
Total Current Assets	384,577	569,460
Capital assets, net <i>[note 4]</i>	1,146,960	25,042
Total Assets	1,531,537	594,502
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	263,423	569,460
Due to University of Toronto <i>[notes 6[a] and [e]]</i>	80,188	—
Total Current Liabilities	343,611	569,460
Deferred capital contributions <i>[note 5]</i>	1,146,960	25,042
Deferred lease costs	40,966	—
Total Liabilities	1,531,537	594,502
Net Assets	—	—
	1,531,537	594,502

See accompanying notes

On behalf of the Board:

[Signed]

Director

[Signed]

Director

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

Years ended December 31

	2016 \$	2015 \$
EXPENSES <i>[note 6]</i>		
Staffing	6,480,323	6,592,262
Communications and information technology support	414,959	372,951
Occupancy	243,680	221,915
Consulting fees	155,714	149,669
Professional fees	143,479	179,060
Travel	113,872	74,530
Office supplies and services	112,998	110,295
Moving costs	39,259	—
Amortization of capital assets	59,595	74,619
	7,763,879	7,775,301
RECOVERIES AND OTHER INCOME		
Recoveries from University of Toronto <i>[note 6]</i>	7,704,284	7,700,682
Amortization of deferred capital contributions <i>[note 5]</i>	59,595	74,619
	7,763,879	7,775,301
Net income and comprehensive income for the year	—	—
Net assets, beginning of year	—	—
Net assets, end of year	—	—

See accompanying notes

STATEMENTS OF CASH FLOWS

Years ended December 31

	2016 \$	2015 \$
OPERATING ACTIVITIES		
Net income and comprehensive income for the year	—	—
Add (deduct) items not involving cash		
Amortization of capital assets	59,595	74,619
Amortization of deferred capital contributions	(59,595)	(74,619)
Deferred lease costs	40,966	—
Changes in non-cash working capital balances related to operations		
Due to/from University of Toronto	226,032	28,547
Accounts receivable	(34,842)	—
Prepaid expenses	(32,036)	1,854
Accounts payable and accrued liabilities	(306,037)	209,732
Cash provided by (used in) operating activities	(105,917)	240,133
INVESTING ACTIVITIES		
Purchase of capital assets	(1,181,513)	(7,047)
Cash used in investing activities	(1,181,513)	(7,047)
FINANCING ACTIVITIES		
Deferred capital contributions to fund purchase of capital assets	1,181,513	7,047
Cash provided by financing activities	1,181,513	7,047
Net increase (decrease) in cash during the year	(105,917)	240,133
Cash, beginning of year	324,294	84,161
Cash, end of year	218,377	324,294

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

1. RELATIONSHIP WITH THE UNIVERSITY OF TORONTO

University of Toronto Asset Management Corporation ["UTAM"] is a corporation without share capital incorporated on April 25, 2000 by the Governing Council of the University of Toronto [the "Governing Council"] under the *Corporations Act* (Ontario) in Canada. UTAM is a non-profit organization under the *Income Tax Act* (Canada) and, as such, is exempt from income taxes. UTAM is registered as a portfolio manager and an investment fund manager in Ontario. UTAM is domiciled in the Province of Ontario, Canada and its registered office address is at 777 Bay Street, Suite 2502, Toronto, Ontario, Canada.

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

The financial statements of UTAM were authorized for issue by the Board of Directors on March 14, 2017.

2. BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with the financial reporting framework specified in paragraph 3.2(3)(a) of National Instrument 52-107, *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants [the "framework"]. This framework requires the financial statements be prepared in accordance with International Financial Reporting Standards ["IFRS"], except that any investments in subsidiaries, jointly controlled entities and associates must be accounted for as specified for separate financial statements in IAS 27, *Consolidated and Separate Financial Statements*. The financial statements have been prepared by management to meet the requirements of National Instrument 31-103, *Registration Requirements, Exemptions and Ongoing Registrant Obligations*, and as a result, the financial statements may not be suitable for another purpose.

These financial statements present the financial position, financial performance and cash flows of UTAM as a separate legal entity. The securities representing the investments of the funds of U of T are held on behalf of U of T in the names of such trustees or nominees as may be directed by UTAM, but not in the name of UTAM.

UTAM manages U of T's Endowment Fund, Expendable Fund and Pension Plan, through a formal delegation of authority and investment management agreement between UTAM and U of T; UTAM was also appointed manager of the UTAM Funds established under a Master Trust agreement [collectively, the "funds"]. The last of the UTAM Funds was wound up in 2016. These funds met the definition of structured entities under IFRS 12, *Disclosure of Interests in Other Entities*. However, UTAM does not earn any fees from these funds for its management

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

services and, therefore, is not exposed to significant risks from interests in these unconsolidated structured entities. U of T reimburses UTAM for its services to allow it to recover the appropriate costs to support its operations [note 6[a]]. UTAM provides no guarantees against the risk of financial loss to the investors of these funds.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Future accounting changes

- [a] In July 2014, the International Accounting Standards Board ["IASB"] issued the final version of IFRS 9, *Financial Instruments*, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 introduces a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value, such that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. In addition, the changes with respect to an entity's own credit risk can be early applied in isolation without otherwise changing the accounting for financial instruments.
- [b] IFRS 16, *Leases*, was issued in January 2016 and will replace the previous lease standard, IAS 17, *Leases*, and related interpretations. The new standard requires lessees to recognize assets and liabilities for most leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

NOTES TO FINANCIAL STATEMENTS

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[c] In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which replaces IAS 18, *Revenue*, and IAS 11, *Construction Contracts*, and the related interpretations on revenue recognition. IFRS 15 sets out the requirements for recognizing revenue that applies to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. It establishes a single, comprehensive framework for revenue recognition. This new standard is effective for UTAM's financial statements commencing January 1, 2018.

UTAM will adopt these standards when they become effective. UTAM is currently reviewing the standards to determine the effect on the financial statements.

Significant accounting policies

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

Critical accounting estimates and judgments

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

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

Financial instruments

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

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

[a] Market risk

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

[i] Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the future cash flows or fair values of financial instruments. As at December 31, 2016 and 2015, UTAM has no significant assets or liabilities subject to interest rate risk.

[ii] Currency risk

Currency risk is the risk that fluctuations in exchange rates will result in losses to the Company on monetary assets and liabilities denominated in foreign currencies. While certain expenses are paid in foreign currencies, these amounts are not significant. As at December 31, 2016 and 2015, UTAM has no significant assets or liabilities denominated in a foreign currency and has no significant exposure to currency risk.

[iii] Other price risk

Other price risk is the risk of gain or loss due to the changes in the price and the volatility of individual equity instruments and equity indices. UTAM is not exposed to other price risk as at December 31, 2016 and 2015.

[b] Liquidity risk

Liquidity risk is the risk that UTAM will encounter difficulties in meeting obligations associated with financial liabilities. UTAM monitors its current and expected cash flow requirements to ensure it has sufficient cash to meet its liquidity requirements. The operations of UTAM are funded by U of T.

[c] Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. UTAM does not have a significant exposure to any individual counterparty, except for U of T, which funds its operations. Therefore, credit risk is not a significant risk to UTAM as at December 31, 2016 and 2015.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

Capital assets

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

Leasehold improvements	term of lease
IT infrastructure equipment	5 years
Audio-visual and communications equipment	5 years
Furniture	5 years
Desktops and software	3 years

Revenue recognition

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

Employee future benefits

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

Foreign currency translation

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

4. CAPITAL ASSETS

Capital assets consist of the following:

	Leasehold improve- ments \$	IT infra- structure equipment \$	Audio- visual and communi- cations equipment \$	Furniture \$	Desktops and software \$	Total
COST						
Balance, January 1, 2015	473,153	88,706	—	—	80,409	642,268
Additions	1,165	—	—	—	5,882	7,047
Balance, December 31, 2015	474,318	88,706	—	—	86,291	649,315
Additions	841,735	206,741	56,805	64,403	11,829	1,181,513
Write-off of fully amortized capital assets	(474,918)	—	—	—	—	(474,918)
Balance, December 31, 2016	841,135	295,447	56,805	64,403	98,120	1,335,910
ACCUMULATED AMORTIZATION						
Balance, January 1, 2015	399,551	84,110	—	—	65,993	549,654
Amortization	59,659	3,652	—	—	11,308	74,619
Balance, December 31, 2015	459,210	87,762	—	—	77,301	624,273
Amortization	29,032	20,003	1,893	2,147	6,520	59,595
Write-off of fully amortized capital assets	(474,918)	—	—	—	—	(474,918)
Balance, December 31, 2016	13,324	107,765	1,893	2,147	83,821	208,950
NET BOOK VALUE						
Balance, December 31, 2015	15,108	944	—	—	8,990	25,042
Balance, December 31, 2016	827,811	187,682	54,912	62,256	14,299	1,146,960

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

5. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of recoveries from U of T received in connection with the purchase of capital assets. The amortization of deferred capital contributions is recorded as income in the statements of net income, comprehensive income and changes in net assets.

The continuity of deferred capital contributions is as follows:

	2016 \$	2015 \$
Balance, beginning of year	25,042	92,614
Recoveries received during the year related to capital asset purchases	1,181,513	7,047
Amortization of deferred capital contributions	(59,595)	(74,619)
Balance, end of year	1,146,960	25,042

6. RELATED PARTY TRANSACTIONS

UTAM is affiliated with and controlled by U of T.

- [a] In accordance with an Investment Management Agreement dated November 26, 2008 between the Governing Council and UTAM [the "Agreement"], U of T will reimburse UTAM for its services an amount which will enable it to recover the appropriate costs to support its operations. U of T reimburses UTAM on a quarterly basis based on the approved budget. As at December 31, 2016, \$80,188 is due to U of T as a result of the reimbursement exceeding the actual cost of operations [2015 – \$145,844 due from U of T].
- [b] Eligible employees of UTAM are members of U of T's pension plan and participate in other employee future benefit plans offered by U of T. U of T's employee future benefit plans are defined benefit plans. In accordance with the Agreement, U of T pays for UTAM's employee benefits. In 2016, contributions of \$229,805 [2015 – \$209,459] related to these plans have been expensed.
- [c] UTAM obtains certain services from U of T, such as payroll and IT support. There is a charge for some of these services, which is reimbursed by U of T in accordance with the Agreement. In 2016, these services totaled \$39,371 [2015 – \$37,945].

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

[d] The Governing Council entered into a lease with a term of ten years and six months commencing October 1, 2005 for the premises occupied by UTAM. The lease agreement was extended commencing April 1, 2016 and ending December 31, 2016. An early termination option notice was filed ending the lease on October 31, 2016 as a result of the Governing Council entering into another lease with a term of ten years commencing December 1, 2016 for new premises occupied by UTAM. Under this lease, UTAM will incur annual expenses of approximately \$169,000 over the term of the lease, which represents the minimum rent component of the lease obligations.

In addition to the above minimum rent payments, there are additional payments in respect of operating costs that are subject to change annually based on market rates and actual usage. These costs totaled \$104,906 [2015 - \$108,455] in 2016. These expenses are reimbursed by U of T in accordance with the Agreement.

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

[f] Commencing 2013, UTAM implemented a new incentive bonus plan whereby the majority of the incentive bonus payments are directly related to and, vary with, the actual performance of U of T's investment portfolios compared to passive benchmark portfolios over two measurement periods. In addition, a portion of the bonus is deferred over a service period and paid at the end of that service period. The expense for deferred bonus awards is recognized on a straight-line basis over the service period, and remeasured at each reporting date with remeasurement gains or losses recognized in net income. As a result, a portion of the 2016 deferred bonus awards is expensed in 2016, with the remaining amount, which is expected to be approximately \$318,000 plus an adjustment for the performance of U of T's investment portfolios, to be recorded as expense in 2017.

[g] Transactions with key management personnel

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

	2016 \$	2015 \$
Short-term employee benefits	4,737,004	\$ 4,556,630
Post-employment benefits	208,693	125,050
Other long-term benefits	332,760	429,840
	5,278,457	5,111,520

Short-term employee benefits include amounts related to the variable incentive bonus awards [note 6[f)].

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

7. CAPITAL MANAGEMENT

In managing capital, UTAM focuses on liquid resources available for operations. U of T provides funds as required to allow UTAM to meet its current obligations. As at December 31, 2016, UTAM has met its objective of having sufficient liquid resources to meet its current obligations.

8. COMPARATIVE FINANCIAL STATEMENTS

Certain financial information in the comparative notes to the financial statements has been reclassified from information previously presented to conform to the presentation of the 2016 notes to the financial statements.

UTAM STAFF

As of March 31, 2017

Daren M. Smith, CFA, CAIA, FRM, FCIA, FSA, MA, MSc
President and Chief Investment Officer

INVESTMENT TEAM

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Yasir Mallick, CFA, CAIA, CPA, CA, MFin
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Dieter Fishbein, MMath
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Analyst, Investments

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Lisa Becker, FCA (ICAEW)
Chief Operating Officer and
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Anne Lee
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Stanley Chien
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Juliana Ing, CFA, FRM
Analyst, Risk and Research

Payton Liu, MA
Analyst, Risk and Research

Robin Warner
Analyst, Risk and Research

ABOUT UTAM

University of Toronto Asset Management Corporation (UTAM) is a corporation without share capital incorporated on April 25, 2000 by the Governing Council of the University of Toronto under the Corporations Act (Ontario) in Canada. UTAM is a non-profit organization under the Income Tax Act (Canada). At December 31, 2016 UTAM was registered with the Ontario Securities Commission as a Portfolio Manager and an Investment Fund Manager.

UTAM was established by the University of Toronto to engage in professional investment management activities in order to manage the investment assets of the University of Toronto, which currently comprise its Pension Plan, Endowment Fund, and Expendable Fund (EFIP), through a formal delegation of authority and investment management agreement between UTAM and the University of Toronto.



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UNIVERSITY OF TORONTO
ASSET MANAGEMENT CORPORATION

ANNUAL PERFORMANCE REVIEW 2016

Daren M. Smith, CFA
President and Chief Investment Officer

Presentation to Business Board

April 6, 2017

UTAM Assets Under Management

(in millions)

	Q4/2015	Q1/2016	Q2/2016	Q3/2016	Q4/2016
LTCAP	2,453	2,355	2,408	2,517	2,594
Pension	4,089	4,039	4,115	4,302	4,414
EFIP	1,522	1,458	1,396	1,863	1,808
Total	8,065	7,853	7,919	8,682	8,816

- Total assets increased by 9.3% from the end of 2015 to the end of 2016.

2016 Performance: LTCAP, Pension, and EFIP

Actual Portfolio Returns	2016 Return
LTCAP	7.14%
Pension	7.14%
EFIP	1.62%

- The Pension and Endowment portfolios returned 7.14% in 2016.
- EFIP (the short-term working capital pool) returned 1.62% in 2016.

Performance: Evaluating Returns

The previous slide showed the Actual returns of all portfolios. But how do those returns relate to what was available in the capital markets, and how much did UTAM add or detract with its active management approach? The following definitions are required to answer these questions:

- **Reference Portfolio:** Passive, easy to implement, low-cost, simple and appropriate for the Pension and Endowment long-term risk and return objectives. The Reference Portfolio represents the returns available in the capital markets for a broadly diversified portfolio. UTAM strives to outperform the Reference Portfolio while adhering to all constraints. There is no Reference Portfolio for EFIP.
- **Target Return:** The long-term return objective for each portfolio. For Pension and LTCAP the target return is CPI + 4%. For EFIP it is 1 year T-bills + 0.5%. All targets are net of all investment fees and expenses.

Actual performance vs Target can be separated into Reference minus Target, which shows whether the capital markets alone delivered the Target return and Actual minus Reference, which shows whether UTAM's active management approach added any value over and above what was available in the capital markets (as represented by the Reference Portfolio).

Performance: Reference vs. Target

Rolling periods ending December 31, 2016

	1 Year	5 Years	10 Years
Reference Portfolio Returns			
LTCAP ¹	7.20%	8.11%	3.32%
Pension ¹	7.20%	8.18%	3.26%
University Target Return			
LTCAP & Pension: CPI + 4%	5.49%	5.35%	5.64%
Reference minus Target			
LTCAP	1.71%	2.76%	-2.32%
Pension	1.71%	2.83%	-2.38%

(1) Reference Portfolio was adopted in March 2012 for LTCAP and May 2012 for Pension. Benchmark/Policy Portfolio used for prior periods.

- The Reference Portfolio outperformed the Target Return by 1.7% in 2016, which reflects a favorable capital markets environment.
- The Reference Portfolio outperformed the Target Return over the last 5 years by about 2.8% but lagged the Target Return over the last 10 years by about 2.4%.

Performance: Actual vs. Reference

Rolling periods ending December 31, 2016

	1 Year	5 Years	10 Years
Actual Portfolio Returns			
LTCAP	7.14%	10.41%	3.73%
Pension	7.14%	10.29%	3.60%
Reference Portfolio Returns			
LTCAP ¹	7.20%	8.11%	3.32%
Pension ¹	7.20%	8.18%	3.26%
UTAM Value Added (Actual minus Reference)			
LTCAP	-0.06%	2.30%	0.42%
Pension	-0.06%	2.12%	0.35%

(1) Reference Portfolio was adopted in March 2012 for LTCAP and May 2012 for Pension. Benchmark/Policy Portfolio used for prior periods.

- UTAM underperformed the Reference portfolio in 2016 by 0.06% but outperformed over the last 5 and 10 years.

Performance: Actual vs. Target

Rolling periods ending December 31, 2016

	1 Year	5 Years	10 Years
Actual Portfolio Returns			
LTCAP	7.14%	10.41%	3.73%
Pension	7.14%	10.29%	3.60%
EFIP	1.62%	1.65%	2.09%
University Target Returns			
LTCAP & Pension: CPI + 4%	5.49%	5.35%	5.64%
EFIP: 365 day T-bill + 0.50%	0.93%	1.44%	2.42%
Actual minus Target			
LTCAP	1.65%	5.06%	-1.90%
Pension	1.65%	4.94%	-2.04%
EFIP	0.69%	0.21%	-0.32%

- Actual Pension and LTCAP returns exceeded Target returns in 2016 by 1.65% with +1.71% due to Reference Portfolio outperformance vs the Target (favorable capital markets) and -0.06% due to UTAM underperformance vs. the Reference Portfolio.
- EFIP outperformed its Target return in 2016 by 0.69%.



Current Asset Allocation and Limits: Pension

As of December 31, 2016

Pension						
	Reference Portfolio		Actual Portfolio ⁽¹⁾	Outside Band	----- Bands -----	
					Min.	Max.
Equity						
Canadian	10		10.1	N	5	15
US	20		19.9	N	15	25
EAFE	15		15.0	N	10	20
Emerging Markets	10		10.0	N	5	15
Global	5		5.0	N	0	10
Total Equity	60		60.0	N	50	70
Credit (Corporate Credit)⁽²⁾	20		20.5	N	10	30
Rates (Government Bonds)	20		10.6	N	10	30
Other						
Absolute Return ⁽³⁾			9.0			
Cash			-0.1			
Total Other			8.9	N	0	15
Total	100		100.0			
Currency Exposure	32.3		32.2	N	24.8	39.8

(1) Numbers may not add due to rounding.

(2) Actual credit portfolio is not all corporate credit.

(3) Absolute Return hedge funds

- All exposures were within the allowable bands at year-end.

Current Asset Allocation and Limits: LTCAP

As of December 31, 2016

LTCAP						
	Reference Portfolio	Actual Portfolio ⁽¹⁾	Outside Band	----- Bands -----		
				Min.	Max.	
Equity						
Canadian	10	10.1	N	5	15	
US	20	19.9	N	15	25	
EAFE	15	15.0	N	10	20	
Emerging Markets	10	10.0	N	5	15	
Global	5	5.0	N	0	10	
Total Equity	60	60.0	N	50	70	
Credit (Corporate Credit)⁽²⁾	20	20.1	N	10	30	
Rates (Government Bonds)	20	10.6	N	10	30	
Other						
Absolute Return ⁽³⁾		9.4				
Cash		-0.1				
Total Other		9.3	N	0	15	
Total	100	100.0				
Currency Exposure	32.3	32.2	N	24.8	39.8	

(1) Numbers may not add due to rounding.

(2) Actual credit portfolio is not all corporate credit.

(3) Absolute Return hedge funds

- All exposures were within the allowable bands at year-end.

Actual Risk vs. Reference Portfolio Risk

December 31, 2016

	Risk (Volatility %)
Reference Portfolio	5.50
Pension	5.73
Active Risk (Pension)	0.23

	Risk (Volatility %)
Reference Portfolio	5.50
LTCAP	5.75
Active Risk (LTCAP)	0.25

- Active Risk for Pension (0.23%) and LTCAP (0.25%) remains well within the Active Risk “Green Zone” (-50 bps to 100 bps).