



**FOR INFORMATION**

**PUBLIC**

**OPEN SESSION**

**TO:** Business Board

**SPONSOR:** Sheila Brown, Chief Financial Officer  
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**PRESENTER:** Sheila Brown, Chief Financial Officer  
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**DATE:** September 15, 2017 for October 10, 2017

**AGENDA ITEM:** 5

**ITEM IDENTIFICATION:**

Endowment Annual Financial Report for the year ended April 30, 2017

**JURISDICTIONAL INFORMATION:**

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

**GOVERNANCE PATH:**

**1. Business Board [For Information] (October 10, 2017)**

**PREVIOUS ACTION TAKEN:**

The 2016 annual financial report on endowments was presented to the Business Board on September 26, 2016.

**HIGHLIGHTS:**

Endowments provide a strong base of funding for student aid, for endowed chairs, for research and for academic programs in support of the academic vision. Endowments are restricted funds which must be used in accordance with purposes specified by donors or by Governing Council. Endowments are not available for use in support of general operating activities. At April 30, 2017, there were over 6,000 individual endowment funds totalling \$2.4 billion market value, an increase of \$282 million from April 30, 2016, made up of:

\$ 36 million	endowed donations
\$ 8 million	transfers from the University's unrestricted funds
\$341 million	investment income
(\$ 22 million)	fees and expenses
<u>(\$ 81 million)</u>	allocation for spending
<u>\$ 282 million</u>	

The increase in the total value of endowments resulted from an investment return of 15.4% for the 2016-17 year, net of investment fees and expenses, as compared to an investment return of -0.3% for 2015-16, also net of investment fees and expenses. In accordance with the University's Preservation of Capital Policy, the strategy is to not spend everything earned through the investment of funds in years when investment markets are good. In favourable years, such as 2016-17, funds in excess of the spending allocation are set aside and re-invested to provide a reserve to fund the spending allocation in years, such as 2015-16, when investment markets are poor. Please consult the full report for a comprehensive discussion of the endowments.

**FINANCIAL IMPLICATIONS:**

-

**RECOMMENDATION:**

For information.

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**DOCUMENTATION PROVIDED:**

- *Endowments Annual Financial Report for the year ended April 30, 2017*



UNIVERSITY OF  
TORONTO

# ENDURING SUPPORT

## ENDOWMENT REPORT 2016-2017

BOUNDLESS



# GIFTS TO LAST

For more than a century, our alumni and donors have helped make the University of Toronto one of the world's leading universities

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Thanks to the collective generosity of our alumni and donors, the University of Toronto is able to shape the course of knowledge in fields as diverse as artificial intelligence, cyberespionage and medieval studies. At the same time, this generosity provides thousands of bright students, many of whom are the first in their family to attend university, with opportunities to thrive and realize their potential. This ecosystem of support, which includes many thousands of donors and gifts of every size, sustains our great institution.

In this report, you will read about some of the University's endowed gifts and their impact. You will read about Chancellor Emeritus, the Honourable Henry "Hal" Jackman, one of U of T's most distinguished alumni, and his incredible legacy of giving to the University, including landmark contributions to the Faculty of Arts & Science, Faculty of Law and Victoria University.

This report also profiles young donors such as Angela Jerath and Jason Wong, who recently married and used the money they received as wedding gifts to establish an endowed scholarship program in honour of special family members. June Scott, one of the University of Toronto Mississauga's first female mathematics lecturers, created endowments to fund scholarships for future trailblazers like her. Her story appears in this report. You will also read about Alex Pathy's generous gifts to the Thomas Fisher Rare Book Library, where an endowed lecture series in his name attracts world experts to U of T to speak on topics such as bindings, book illustration and book design.

The report also outlines the performance of U of T's endowment over the past year. Positive investment returns have lifted the value of the endowment to unprecedented levels in Canada, including more than \$1 billion earmarked for student aid. Building the endowment's value over time is crucial for U of T to compete with top-tier universities worldwide, most of which have significantly larger resource bases. In fact, compared to the top 30 endowments at Canadian and U.S. public institutions, U of T ranked 19<sup>th</sup> in 2017. This number falls to 54 when considering both public and private institutions. And when we consider our endowment per student, we lag further behind our peers.

At a time when tuition and government funding are constrained, visionary philanthropy and endowed giving are increasingly indispensable to the University's pursuit of excellence, innovation and impact. By making endowed gifts, our donors are securing U of T's future and ensuring we always have the resources and freedom to support groundbreaking research and teaching that tangibly benefits society.

*Thank you again for your support of the University of Toronto.*



A handwritten signature in blue ink that reads "David Palmer". The signature is fluid and cursive.

**David Palmer**  
Vice-President, Advancement

## HIGHLIGHTS

	April 30, 2017	April 30, 2016
<hr/>		
<b><u>Total Endowments:</u></b>	(Millions of dollars)	
Fair value	\$ 2,380	\$ 2,098
Change from previous year:		
Endowed donations	\$ 36	\$ 29
Transfers from University's unrestricted funds	\$ 8	\$ 13
Investment income	\$ 341	\$ 15
Fees and expenses	\$ (22)	\$ (22)
Allocation for spending	\$ (81)	\$ (79)
Total change for the year	\$ 282	\$ (44)

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

Proportion invested in LTCAP	98.83%	98.83%
Number of units in LTCAP	10,435,322	10,243,643
Fair value in millions	\$ 2,352	\$ 2,073
Fair value per unit in dollars	\$ 225.42	\$ 202.39
Allocation for spending per unit in dollars	\$ 7.86	\$ 7.71
LTCAP time-weighted net returns*	15.4%	-0.3%

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\*Returns net of investment fees and expenses.

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## EXECUTIVE SUMMARY

The University of Toronto (“U of T”) was established in 1827 and is Canada’s largest and most comprehensive university. It is one of the world’s foremost research-intensive universities. It has educated hundreds of thousands of students and enjoys a global reputation in multiple fields of scholarship. The 2016 Times Higher Education ranking groups the University of Toronto with Oxford, Columbia, and Cornell as the only institutions in the top 31 in all 8 broad disciplinary areas. Students have a chance to study with some of the world’s top professors and alongside inspiring classmates.

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

Endowed gifts from alumni and friends enable U of T to offer financial support to exceptional students, attract outstanding professors and researchers, and create unique and innovative programs. Thanks to the commitment and generosity of its donors, the Boundless campaign has raised a remarkable \$2.24 billion to date, surpassing its original \$2.0 billion goal six months ahead of schedule. Thousands of alumni and friends from around the world contributed to this milestone, which is unprecedented in Canadian philanthropic history and places the University among just 31 universities worldwide that have raised \$2.0 billion or more in a fundraising campaign. Building on this impressive success and momentum, the University announced that it is expanding the Boundless campaign goal to \$2.4 billion. The Boundless campaign will help expand U of T’s global leadership across critical areas of knowledge and develop the talent, ideas and insight needed to address the defining challenges of our time. Endowed giving provides permanent, self-sustaining support to the University and is critical to meeting these important objectives.

This report summarizes the performance, management and impact of our endowments over the past fiscal year. At April 30, 2017, University of Toronto endowments totaled \$2.4 billion and included over 6,000 individual endowment funds. In establishing these funds, donors have chosen to support the institution’s highest, continuing academic priorities.

In summary:

- investment return net of investment fees and expenses for the year ended April 30, 2017 was 15.4% (the average annual return for the five-year period May 1, 2012 to April 30, 2017 was 11.2%);
- endowment spending allocation (“payout”) was 3.9% of the opening balance market value; and
- fees and expenses were 1.0% of the opening balance market value.

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

Endowments are managed in a unitized pool. Almost all of the University’s endowments hold units in this unitized investment pool, entitled the Long-Term Capital Appreciation Pool (LTCAP). Each endowment account holds units in LTCAP that reflect the number of dollars contributed and the unit value on the dates of contribution. The target spending allocation is 3% to 5% of opening balance market value and the actual endowment spending allocation for the year ended April 30, 2017 was 3.9%. The market value of each unit has increased from \$202.39 at April 30, 2016 to \$225.42 at April 30, 2017.

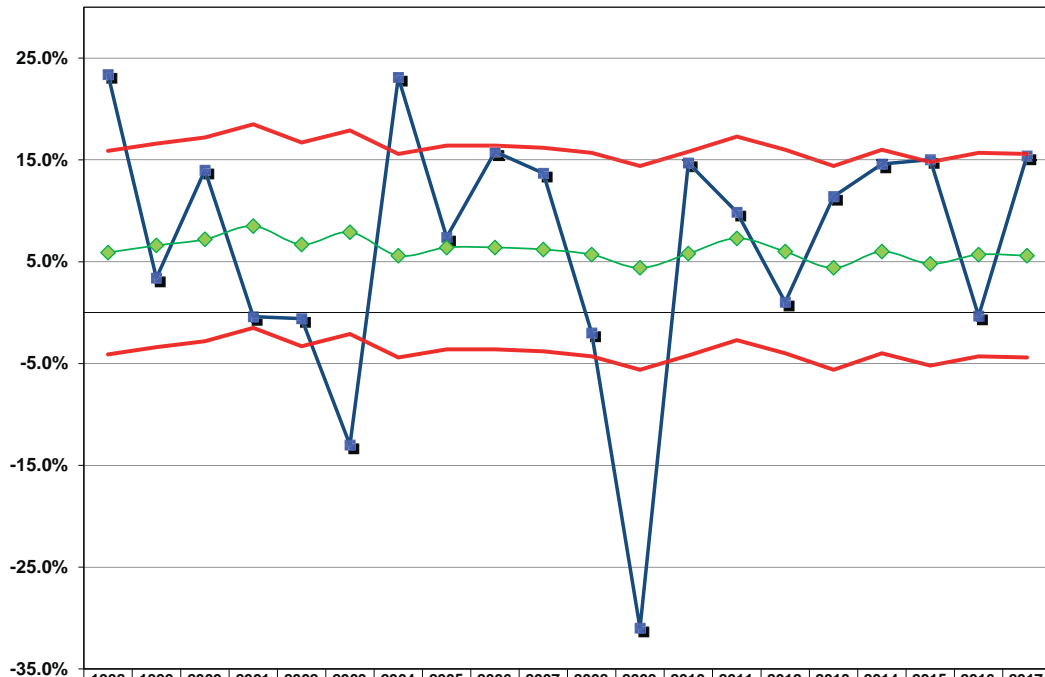
Unit market value at April 30, 2016	\$202.39
Investment income per unit	32.99
Fees and expenses	(2.10)
Endowment spending allocation	<u>(7.86)</u>
Unit market value at April 30, 2017	\$225.42

The amounts pertaining to a particular endowment account are obtained by multiplying the value per unit by the number of units in the endowment account. For example, if an endowment account holds 750 units, the market value of the endowment at April 30, 2017 was 750 times \$225.42 or \$169,065.



To fund the spending allocation and to preserve capital against inflation over time, the University, as at April 30, 2017, established an investment return target of a 4% real investment return after inflation and net of investment fees and expenses with a risk tolerance of 10% over 10 years. The investments are managed by the University of Toronto Asset Management Corporation (UTAM) under the direction of the University.

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



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Annual investment return*	23.4%	3.4%	14.0%	-0.4%	-0.6%	-13.0%	23.1%	7.4%	15.8%	13.7%	-2.0%	-31.0%	14.7%	9.9%	1.0%	11.4%	14.6%	15.0%	-0.3%	15.4%
Target return**	5.9%	6.6%	7.2%	8.5%	6.7%	7.9%	5.6%	6.4%	6.4%	6.2%	5.7%	4.4%	5.8%	7.3%	6.0%	4.4%	6.0%	4.8%	5.7%	5.6%
Standard deviation +10%	15.9%	16.6%	17.2%	18.5%	16.7%	17.9%	15.6%	16.4%	16.4%	16.2%	15.7%	14.4%	15.8%	17.3%	16.0%	14.4%	16.0%	14.8%	15.7%	15.6%
Standard deviation -10%	-4.1%	-3.4%	-2.8%	-1.5%	-3.3%	-2.1%	-4.4%	-3.6%	-3.6%	-3.8%	-4.3%	-5.6%	-4.2%	-2.7%	-4.0%	-5.6%	-4.0%	-5.2%	-4.3%	-4.4%

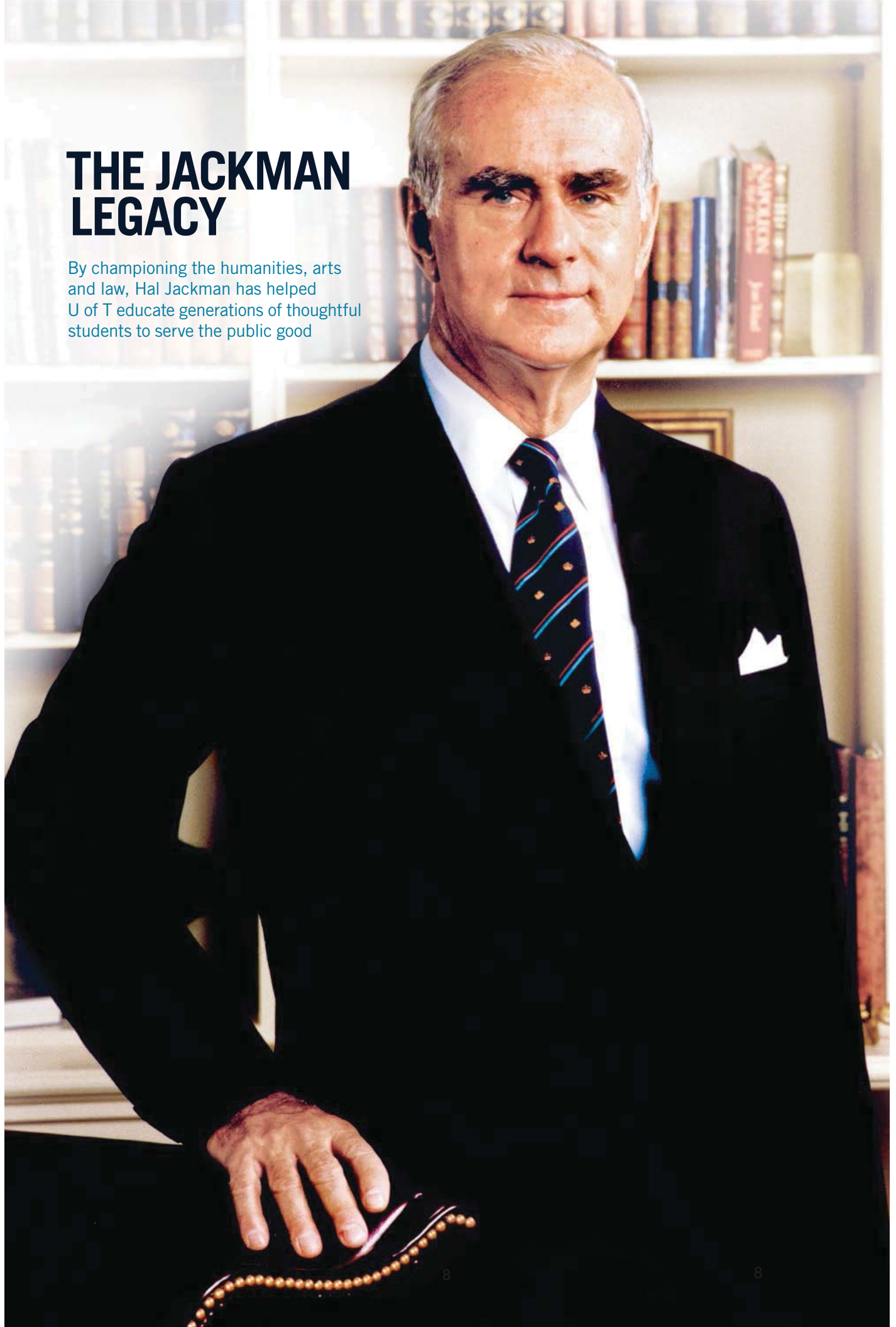
\* Returns are time-weighted, calculated in accordance with industry standards, are net of investment fees and expenses, and exclude returns on private investment interests prior to 2008.

\*\* Target return from 1998 to 2002 was 5% plus CPI. After 2002, it is 4.0% plus CPI.

Over a 20-year period, the one-year annual returns exceeded the target returns 12 times. Compared to the 10% risk corridor, returns over the same period were within the corridor 15 times, above it 3 times and below it twice.

# THE JACKMAN LEGACY

By championing the humanities, arts and law, Hal Jackman has helped U of T educate generations of thoughtful students to serve the public good



“I can’t imagine a university without the humanities. They are the heart, root and historical basis of any great university.”

Hal Jackman

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When the Jackman Law Building opened its doors in September of 2016, the Hon. Henry “Hal” N.R. Jackman was as inspired as the students in the audience. “I am very proud and somewhat humble,” he said, “that this is the place where the young people who will lead the practice of law and justice in our country will come.”

Jackman was the building’s chief benefactor, having given \$10 million for the facility in 2012. His generosity and leadership catalyzed more than 600 alumni and numerous friends to join him in supporting the project, which raised \$34.5 million for the building. This outstanding generosity is typical of Jackman’s philanthropy to the U of T: commitments rooted in a passion for the humanities and for supporting the public good.

“For nearly 65 years, Hal Jackman has been an incredible source of strength and inspiration for the University of Toronto, as our advocate, counsellor, benefactor, Chancellor and loyal alumnus,” says U of T President Meric Gertler. “By making a host of philanthropic investments across the University, he and the Jackman Family have had a massive impact on the advancement of our academic and teaching missions.”

Hal Jackman, the University of Toronto’s 30<sup>th</sup> Chancellor, and former Lieutenant-Governor of Ontario, joined the U of T community as a student at the University of Toronto Schools, then became an undergrad (BA 1953 VIC), and finally a law student, graduating in 1956. Along with his wife Maruja Jackman, he has supported U of T causes that are dear to his heart, including substantial gifts to the Faculty of Arts & Science, Victoria University and the Faculty of Law.

In 2002, Jackman made a landmark gift of \$15 million to support the humanities, enabling the University to recruit stellar scholars in philosophy and English, foster the next generation through graduate fellowships, and benefit the public through an innovative program for the arts. “I can’t imagine a university without the humanities,” said Jackman at the time. “They are the heart, root and historical basis of any great university.”

In 2007, he doubled his commitment with another \$15-million gift, increasing his support to \$30 million: our nation’s largest philanthropic investment in the humanities. The gift was double-matched by the University to generate \$90 million in support overall. The funds created a new home for the humanities department in the Jackman Humanities Building and endowed the Jackman Humanities Institute. Today, the Institute is regarded internationally as one of the world’s leading and most innovative research centres for the humanities.

“The generosity of the Jackman family has transformed humanities education and research at U of T,” says Gertler, who served in the dean’s office of the Faculty of Arts & Science at the time of the gift. “The Jackman Humanities Institute provides a unique learning opportunity for our students, and has helped prepare the next generation of leading scholars in these vital disciplines. In a time when our world is becoming increasingly complex and difficult to navigate, its work is even more relevant today than it was 10 years ago.”

David Cameron, the current dean of the Faculty, adds that “The Jackman Humanities Institute has welcomed top post-doctoral fellows from around the



## “The generosity of the Jackman family has transformed humanities education and research at U of T.”

U of T President Meric Gertler



world; incubated research projects for faculty members as well as numerous cross-campus and international research collaborations—and of course continued to seed and present inspiring arts events and activities. The endowment created by Mr. Jackman’s generosity will ensure that the University of Toronto has a permanent source of funding to support and elevate its globally recognized humanities programs.”

Professor Toni Healey is the editor of U of T’s Dictionary of Old English—a groundbreaking international project which is mapping the beginning of the English language using 21<sup>st</sup>-century technology. “The commitment of the Jackmans to the DOE has encouraged a chain of generosity which the project would not have been able to elicit on its own,” she says.

Jackman has also had a profound impact on U of T’s Faculty of Law, establishing multiple student awards in addition to championing the Jackman Law Building. “Hal Jackman exemplifies the very best qualities of the Faculty: a deep intellectual engagement with the law, a passion for excellence and an unwavering commitment to the public good,” says Ed Iacobucci, Dean. “His extraordinary generosity is already transforming our law school, ensuring that we offer the best legal education in the world, right here in Canada.”

Jackman endowed the Newton Rowell Fellowship in Public International Law, which provides support to outstanding graduate students. Catherine Dunmore, who is studying international human rights and women’s gender issues, is the inaugural recipient. “It’s a very generous and welcomed donation,” she says. “The University of Toronto was the best fit for what I wanted to

study. But I don’t think it would have been possible for me to attend without the support.”

Jackman also established the Newton Rowell Bursary in 2015 for first-year law students in need of financial aid, as well as The Newton Rowell Scholarship for first-year law students displaying academic excellence and a commitment to public service. The awards were named for Jackman’s grandfather, the Hon. Newton Wesley Rowell, who served as Chief Justice of Ontario from 1936 to 1938.

Jackman’s legacy also extends to his college, Victoria University, which has been the beneficiary of many significant gifts over the years. He gave \$1 million towards Vic’s Renewing the Heritage Fund in 1987, and later, a \$2-million donation that created two endowed professorships in the flagship first-year program, Vic One. Earlier this year, Jackman generously supported an endowed professorship at Vic in honour of Wendy Cecil’s tenure as Chancellor.

Through his vision, leadership and outstanding philanthropy, Hal Jackman has changed the lives of countless U of T students, and sent them well on their way to lead Canadian society into a better tomorrow.

Hal Jackman's legacy includes The Jackman Law Building. As the lead benefactor, Mr. Jackman inspired more than \$34.5 million in donations for the building

## CELEBRATING A LEGACY OF GIVING

2017 MARKS IMPORTANT MILESTONE  
ANNIVERSARIES FOR HAL JACKMAN  
AND HIS PHILANTHROPY

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# 20

years since his initial gift to support humanities at the Faculty of Arts & Science, including the Chancellor Henry N.R. Jackman Distinguished Professors Program endowment and Chancellor Jackman Program for the Arts endowments

# 10

years since his 2007 gift which doubled his support of humanities and arts initiatives at the Faculty of Arts & Science, including the Jackman Humanities Institute Fund, the Chancellor Henry N.R. Jackman Junior Fellows at the University of Toronto awards, and the expendable gift for the Jackman Humanities Building

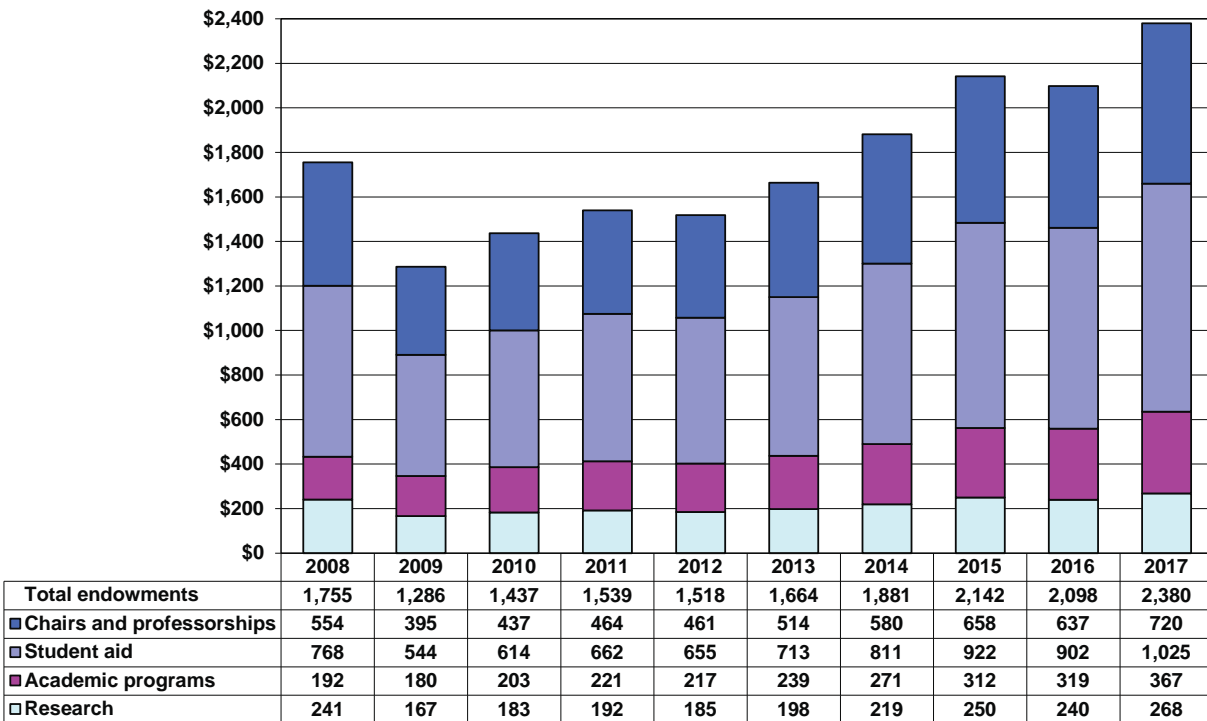
## INTRODUCTION

Over the University of Toronto's history, endowed gifts have provided critical funding to support our core academic missions of teaching and research. These gifts sustain us over the long term – funds from endowed donations are invested so that earnings from the gift provide ongoing support in perpetuity, forming a lasting legacy. For the past 189 years, support from U of T alumni and friends has been lifting our University by creating a strong foundation of generosity built on individual gifts. Endowments enable students and academics from around the world to benefit from our distinguished faculty, groundbreaking research and wealth of innovative academic opportunities. In establishing these funds, donors have chosen to support the institution's highest, continuing academic priorities.

Endowments are restricted funds which must be used in accordance with purposes specified by donors or by Governing Council. Endowments are not available for use in support of general operating activities. They are subject to restrictions relating both to capital and to investment income. Endowment funds held by the University of Toronto are subject to the University's preservation of capital policy, the purpose of which is to ensure that the rate of growth in the capital value of the endowments matches or exceeds the rate of inflation over time. Endowments include externally restricted endowment funds (84.9%) and internally restricted endowment funds designated as endowments by Governing Council in the exercise of its discretion (15.1%). The Governing Council may have the right to subsequently remove the endowment designation on internally restricted funds; however, the use of such funds may continue to be restricted.

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

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



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

Almost all endowments, approximately 98.8% of fair value and over 6,000 funds, are invested in the University's long-term capital appreciation pool (LTCAP).

At April 30, 2017, there were over 6,000 individual endowment funds, usually supported by a donor agreement, or reflecting a collection of small donations with common restrictions.

Endowments totaled \$2.4 billion fair value at April 30, 2017. This was an increase of \$282 million over the previous year. This increase was comprised of:



Additions of:

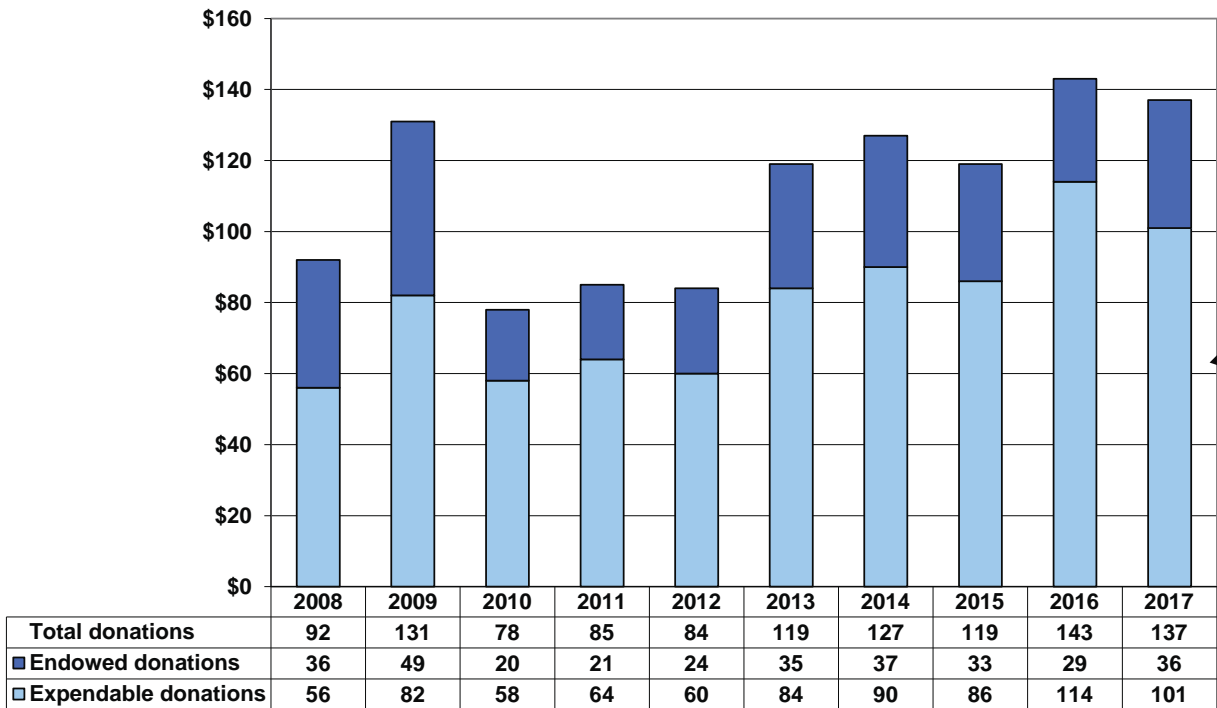
- \$ 341 million of investment income,
- \$ 36 million of endowed donations, and
- \$ 8 million of transfers from the University's unrestricted funds to endowments.

Minus:

- \$81 million of allocation for spending and
- \$22 million of fees and expenses.

The following graph shows endowed donations and expendable donations received since 2008. It tracks only cash and gifts-in-kind donations received in the relevant year. There is usually a lag between the growth in pledges and related commitments, and the actual receipt of funds.

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



The graph illustrates that endowed donations represented 26.3% of total donations (\$137 million) received by the University in 2017. Expendable gifts build essential infrastructure and support immediate academic priorities with rapid-cycle impact on the institution.

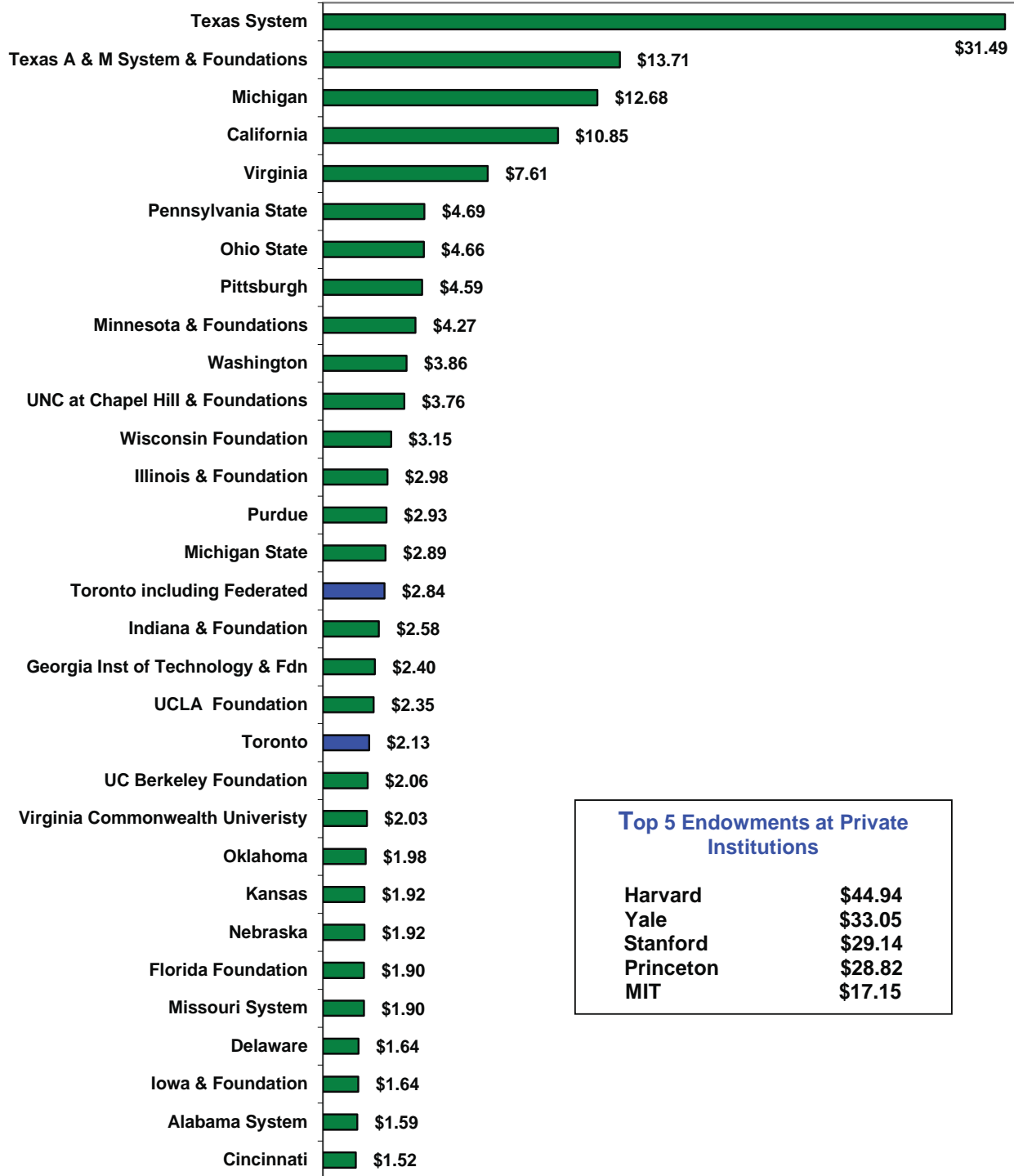


The University has been careful to ensure that fundraising is tied to academic priorities defined by academic leaders through formal and informal planning processes. The clear link with institutional planning enables the University to assure donors that the priorities they are being asked to support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

It is important to note the University's endowments are not large in comparison to our U.S. public university peers. When we consider the top 30 endowments at Canadian and U.S. public institutions in 2016, U of T ranked 19<sup>th</sup> in terms of size. Including the endowments of the federated universities, U of T ranked 16<sup>th</sup> in terms of size. If we were to compare the endowment per FTE student with the same institutions, the University would rank lower since most of these institutions have a smaller number of FTE students.

# TOP 30 ENDOWMENTS AT PUBLIC INSTITUTIONS

As at June 30, 2016  
(in billions)



Top 5 Endowments at Private Institutions	
Harvard	\$44.94
Yale	\$33.05
Stanford	\$29.14
Princeton	\$28.82
MIT	\$17.15

Source: 2016 NACUBO Endowment Study converted to Canadian dollars at an exchange rate of 1.3009

# WEDDING GIFTS TURN TO OPPORTUNITIES FOR U OF T STUDENTS

Couple forgoes wedding gifts for donations to scholarship to honour family role models

When Dr. Angela Jerath and her husband Jason Wong decided to marry, they opted out of a traditional wedding registry. Instead, the couple asked guests to contribute to building a legacy to honour two important women in Jerath's life: her grandmother and mother.

Jerath, an assistant professor in the Faculty of Medicine's Department of Anesthesia, wanted to set up a scholarship that would pay homage to the influence her late grandmother, Zohra Khanum (Imam) and her mother, Santosh Kumari Jerath (who is still living), had on her life and career.

"Each of these women were incredible role models for me," says Jerath. "They passed on knowledge and values such as following your dreams and working hard." In fact, Jerath credits her grandmother as her inspiration to pursue a medical career. "She instilled in me the belief that I could do anything," says Jerath. "She believed that no one or no one circumstance should stand in the way of a person receiving an education, no matter the odds."

Jerath recalls how her grandmother regularly counselled young people in her native Pakistan. She also supported her community during times of crisis, providing not only her counsel, but also financial assistance to people experiencing difficulties. "Whether it was a flood or family crisis, my grandmother dedicated herself to the needs of others," says Jerath. Much of her support was driven by her role in the All Pakistan Women's Association (APWA) which promoted social, educational and cultural programs. "She was a spiritual, progressive, modern and charismatic woman... ahead of her time."

Jerath's mother, Santosh Kumari Jerath, also held education in high regard. A graduate of Punjab University in India, she was part of an era in which there were few female university graduates. After graduation she built a career in teacher training in Pakistan. So when it came time to plan Jerath's wedding to Wong—who had previously established an award in his parents' names at University College—the couple decided to forgo traditional gifts. "You could say we traded blenders for boundless opportunities to create something meaningful to commemorate our wedding," says Jerath. As a medical student, Jerath received scholarships to help her complete her degree. "I wouldn't be where I am today without the generosity of donors," she says. The couple were thrilled that more than 50 wedding guests contributed to The Zohra Khanum (Imam) and Santosh Kumari Jerath Award as their gift to the couple. Its inaugural recipient is Alison Brandon.

Through the Boundless Promise program, U of T matches in perpetuity the annual income generated by new endowed donations of \$25,000 and up to undergraduate needs-based financial awards. The Boundless Promise program is an exciting opportunity for donors like Jerath and Wong to double their impact in support of the next generation of global citizens.

"We feel fortunate to have had such wonderful mentors in our lives and to honour them with this award," says Jerath.

“I wouldn’t be where I am today without the generosity of donors.”

Dr. Angela Jerath

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Left to right: Dr. Angela Jerath, scholarship recipient Alison Brandon, and Jason Wong



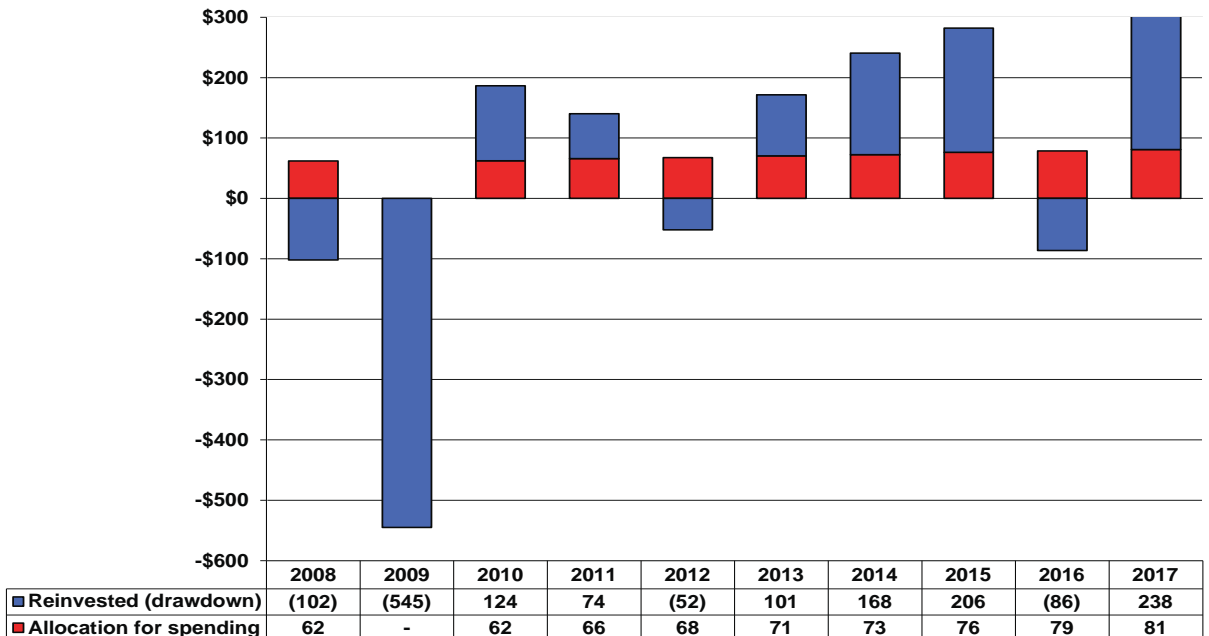
## ALLOCATION FOR SPENDING AND PRESERVATION OF PURCHASING POWER

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

To ensure that endowments will provide the same level of economic support to future generations as they do today, with growth in the capital value of the endowment and with spending increasing over time as a percentage of the original donation, the University does not spend everything earned through the investment of funds in years when investment markets are good. In those years, the University sets aside and reinvests any amounts earned in excess of the spending allocation. This provides protection against inflation and builds up a reserve, which is expected to be used to fund spending in years when investment markets are poor. When investment income is less than the amount allocated for spending, or negative, the shortfall is expected to be funded from the accumulated investment income which has previously been added to the pool. The target spending allocation is 3% to 5% of opening balance market value and the actual endowment spending allocation for the year ended April 30, 2017 was 3.9%.

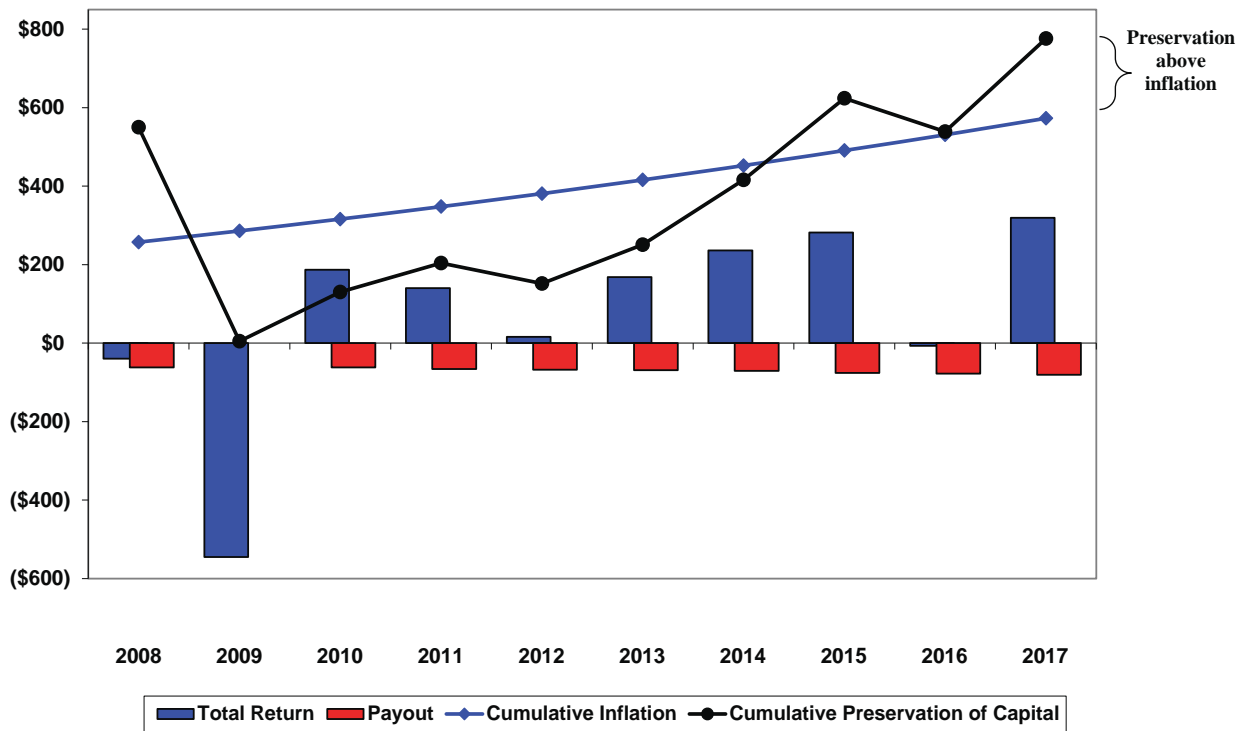
The following graph shows the spending allocation and the amounts reinvested and drawn down over the past ten years.

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



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

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



As stated in the executive summary, endowments are managed in a unitized investment pool and each endowment account holds units in the investment pool. The spending allocation of 3.9% for the year ended April 30, 2017 translated into a spending rate of \$7.86 per investment unit. The spending dollars pertaining to a particular endowment account are obtained by multiplying the spending rate of \$7.86 per unit by the number of units in the endowment account. For example, if an endowment account holds 750 units, the spending dollars of the endowment at April 30, 2017 was 750 times \$7.86 or \$5,895.



# A STORIED LEGACY

Among his many contributions, Alex Pathy established a lecture series that has become a much-anticipated annual event for the Thomas Fisher Rare Book Library



“We are delighted to be able to express our gratitude for all that Professor Pathy does—his ongoing commitment to the Thomas Fisher Rare Book Library, his involvement as a member of the Board of Advisors for the Friends of the Libraries, and of course the endowed annual lectures on the book arts, which his generosity has made possible.”

Larry Alford, Chief Librarian

Many people describe themselves as book lovers. In Alex Pathy’s case, the love extends beyond words on the page to the pages themselves—specifically the design, covers and bindings of rare books. It’s a passion the former U of T vice-president has nurtured since the early 1970s.

Pathy, who served U of T as a vice-president and professor of management and industrial relations, found an interest in rare books through a good friend in Montreal. The friend was a book collector, who would receive rare book catalogues and hand them over to Pathy when he was done with them. Pathy was hooked. “All of a sudden you realize what a beautiful mine there is in first editions,” he says. “You start looking at books that are 100, 200 years old. A whole world opens up.”

His interest grew after he made the acquaintance of Jacques Blanchet, a legendary book designer and binder. “Watching a bookbinder at work was really quite thrilling,” says Pathy. “The exquisite work of the design. The use of leather and how it’s carved. Paper may deteriorate but the bindings seem to stand up. And are so intricately made.” Pathy went on to become a significant collector of rare books—a collection that now fills an entire room of his home.

As a scholar, professor emeritus and published author, Pathy also has a healthy appreciation for what comes between the covers. “Of course I was interested in the subject matter,” he says, professing a particular

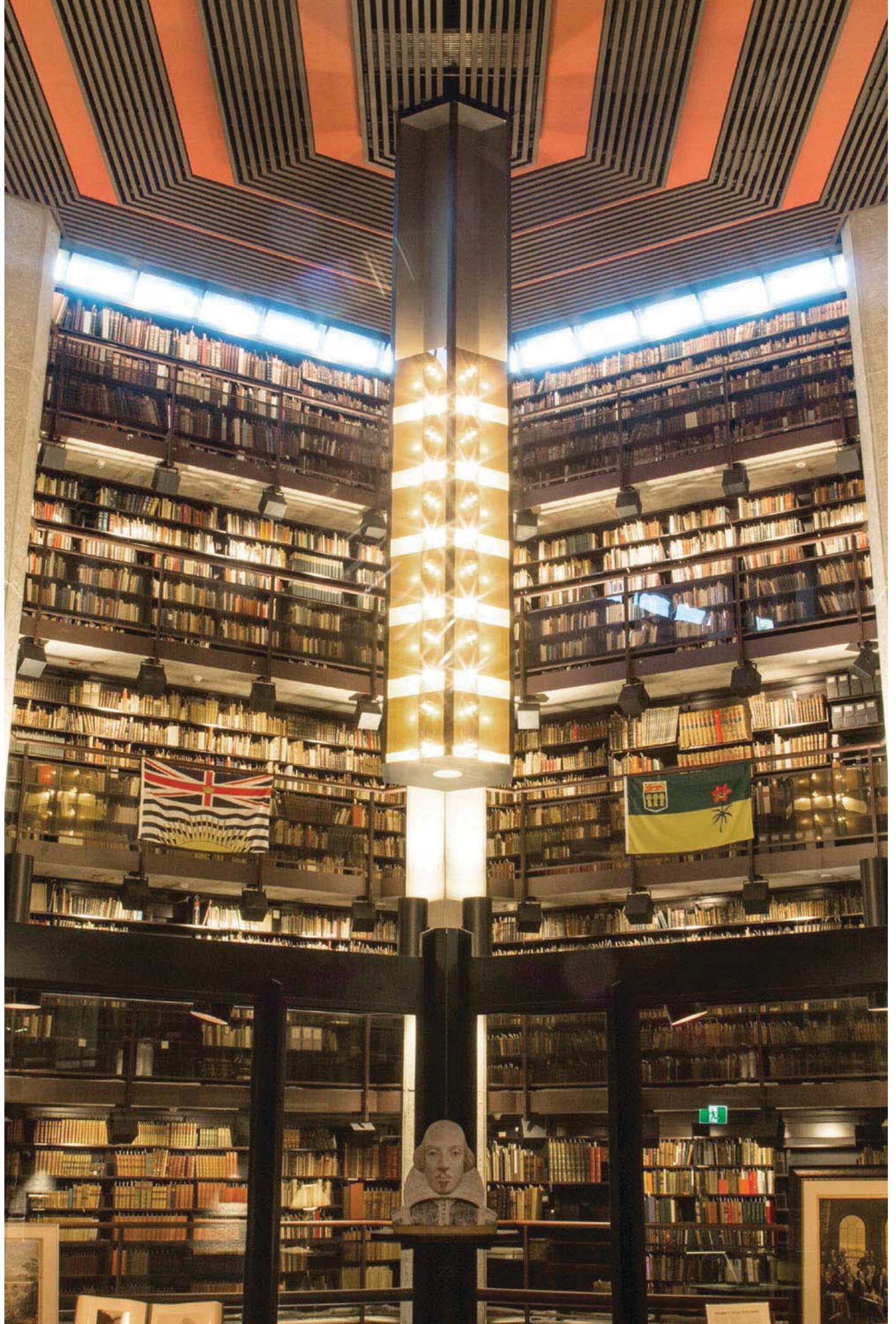
weakness for travel volumes. “But sometimes when you’re looking for rare books and their bindings, content isn’t as important as it seems, as the book itself.”

Through philanthropy, Pathy has found a way to share his knowledge and appreciation for this niche art form. In 1998, his generous endowed gift made possible The Alexander C. Pathy Lecture on the Book Arts, attracting world experts to U of T’s Thomas Fisher Rare Book Library to speak on topics such as bindings, book illustration and book design. Over the years, Pathy has generously added to his original gift, ensuring the longevity of the lecture which is now in its 18<sup>th</sup> year.

The inaugural lecture, delivered to a packed house in 2000, was given by Claire Van Vliet, the renowned fine artist, illustrator and typographer who founded Janus Press. The most recent lecture last October continued this successful legacy with a presentation by University of Toronto professor Alan Galey. He discussed how Shakespeare’s works have inspired creativity and innovation in the book arts, from the earliest editions to the present.

“We are delighted to be able to express our gratitude for all that Professor Pathy does—his ongoing commitment to the Thomas Fisher Rare Book Library, his involvement as a member of the Board of Advisors for the Friends of the Libraries, and of course the endowed annual lectures on the book arts, which his generosity has made possible,” says Larry Alford, U of T’s chief librarian,









The Thomas Fisher Rare Book Library (left) is the largest repository of publicly accessible rare books, bindings and manuscripts in Canada

Above: rare books and bindings are on display. Below: U of T professor Alan Galey spoke at the Alexander C. Pathy Lecture on the Book Arts last fall, discussing how Shakespeare's works have inspired creativity and innovation in the book arts, from the earliest editions to the present

indicating the breadth of Pathy's contributions that go far beyond the lecture series. "We are grateful for his encouragement, advice and leadership."

Indeed, Pathy's generosity and commitment extend across the entire University. With his late wife Marnie Pathy, he has contributed more than \$210,000 over the years for everything from scholarships at University of Toronto Mississauga to a teaching award at the Faculty of Medicine. This rich variety of beneficiaries mirrors Pathy's eclectic interests, his extensive connections in the community and his career in academia. "U of T is full of hidden gems. The rare book collection is spectacular, one of the greatest in the country, and it needs support," said Pathy in 1999 when his gift to launch the lecture was announced. "One can get enormous satisfaction from reading and feeling old books, especially in this day of technology."



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

Almost all of the University's endowments (98.8% of fair value) are invested in LTCAP, a unitized pool. The fair value of an LTCAP unit is set each month, representing the market value of investments of the LTCAP divided by the total number of units held. Each endowment account has an assigned book value (nominal amount of dollars contributed to the endowment) and an allocation of LTCAP units based on the number of dollars contributed and the unit value on the dates of contribution.

In addition to endowments, LTCAP also includes \$358 million expendable funds that are invested for the long-term, including the University's sinking fund for debenture repayment.

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

The University's investment policy for LTCAP in place at April 30, 2017 reflects the spending allocation target and the preservation of capital policy. It has a real investment return objective of 4% (after inflation and net of investment fees and expenses) and the risk tolerance of an annual standard deviation of 10% over 10 years. This means that the real return is expected to be between -6% and 14%, two thirds of the time over a ten-year period.

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

## **INVESTMENT MANAGEMENT AND OVERSIGHT**

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

The University establishes the investment risk and return objectives for LTCAP investments via a University Funds Investment Policy which is approved by the Business Board. These objectives reflect the liability requirements, and aim to produce steady, predictable returns for the University. It is important to note that, while the aim of the risk and return objectives is to produce steady, predictable investment returns for the University, there is nonetheless variability in investment returns on an annual basis.

The investment risk and return targets are operationalized by the President of the University with input from the Investment Committee. The Investment Committee reports to the President of the University and provides expert advice to the University Administration, collaborating extensively with the University Administration and with the management at UTAM on investment objectives and investment activities. The President of the University and the UTAM Board have agreed that, consistent with the foregoing, the Investment Committee approves various elements of strategy execution proposed by UTAM management, and provides monitoring and oversight of investment performance.

Governance oversight of investments is provided by the Business Board, and by the UTAM Board which provides oversight of the operations of UTAM.

## LONG-TERM CAPITAL APPRECIATION POOL (LTCAP) PERFORMANCE

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

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

<b>LTCAP Performance - Comparing Actual Results, Target and Benchmark Returns</b>				
	<b>1-year Return - April 30, 2017</b>	<b>2-year Average Return - April 30, 2017</b>	<b>3-year Average Return - April 30, 2017</b>	<b>5-year Average Return - April 30, 2017</b>
LTCAP actual investment returns	15.4%	7.6%	10.0%	11.2%
LTCAP target investment return (4% +CPI)	5.6%	5.7%	5.4%	5.3%
Reference Portfolio return	14.3%	5.8%	7.8%	9.0%
Difference between LTCAP actual and target of which:	9.8%	1.9%	4.6%	5.9%
the % attributable to investment markets	8.7%	0.1%	2.4%	3.7%
the % attributable to active management decision	1.1%	1.8%	2.2%	2.2%
	<u>9.8%</u>	<u>1.9%</u>	<u>4.6%</u>	<u>5.9%</u>

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

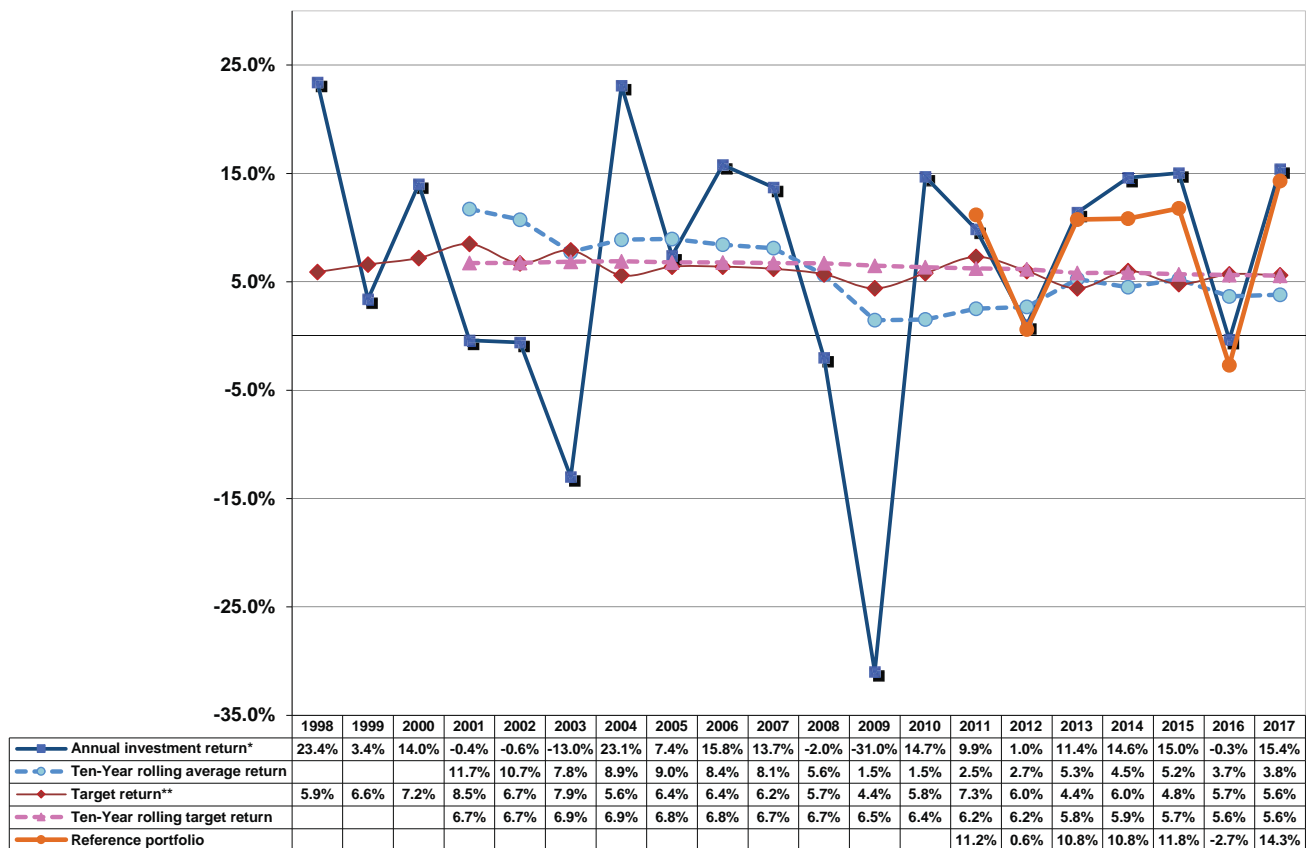
As the table above shows, for the one-year period from May 1, 2016 to April 30, 2017, the target nominal investment return for the LTCAP was 5.6%, representing 4.0% real investment return plus inflation of 1.6%, net of investment fees and expenses. The actual return for the year was 15.4%, which was above target, a difference of 9.8%. The actual return for the year was also better than the Reference Portfolio return (which is the benchmark return to indicate how markets performed) by 1.1% (15.4% minus 14.3%) meaning that active management added value. It is important to emphasize that all of the return percentages are net of investment fees and expenses.

The same analytical framework applies to the other periods shown in the table above. For the five-year period from May 1, 2012 to April 30, 2017, the actual average return for the LTCAP was 11.2%. This actual average return exceeded the target average return of 5.3%

by 5.9% (11.2% minus 5.3%). This actual average return exceeded the average Reference/benchmark return of 9.0% by 2.2% (11.2% minus 9.0%).

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

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



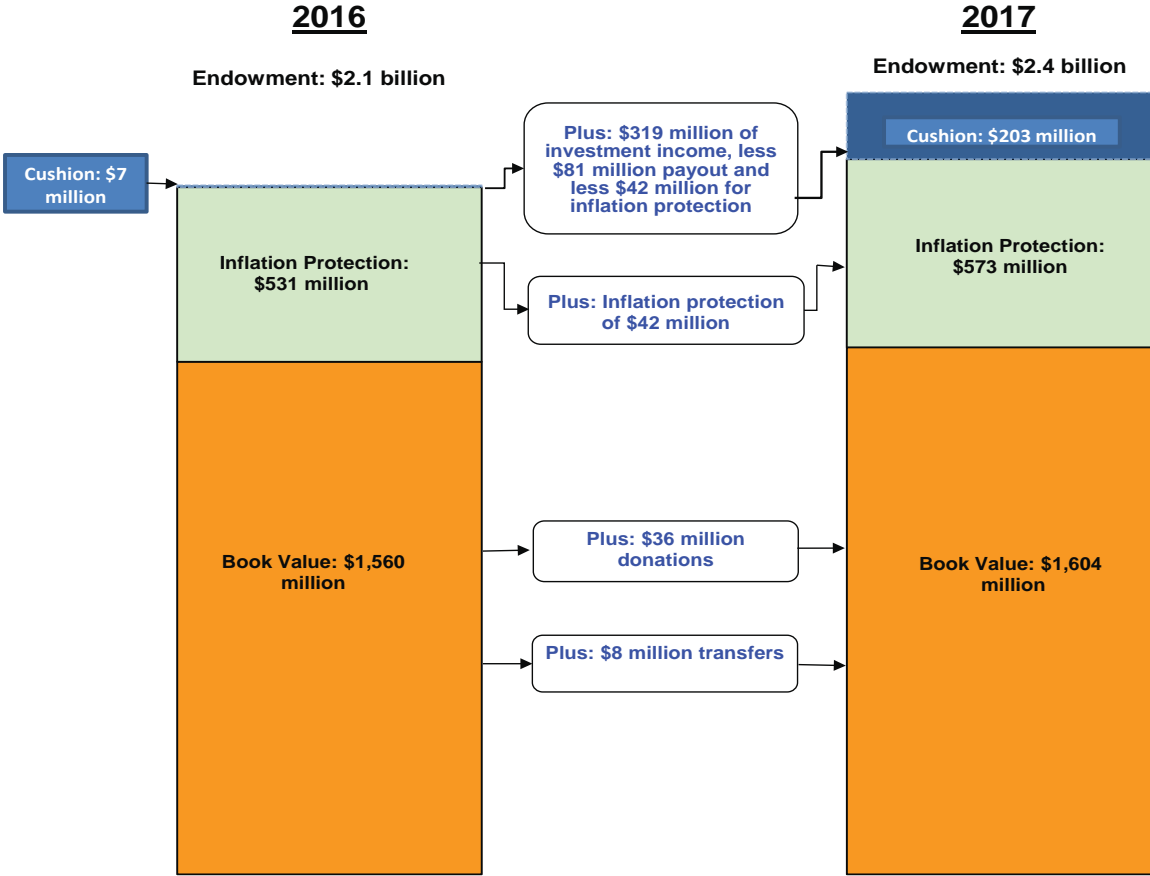
\* Returns are time-weighted, calculated in accordance with industry standards, are net of investment fees and expenses, and exclude returns on private investment interests prior to 2008.

\*\* Target return from 1998 to 2002 was 5% plus CPI. After 2002, it is 4.0% plus CPI.

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

rolling average target return of 6.4% by 4.9%. By 2015, this ten-year rolling average actual return rebounded to 5.2%, almost back to the ten-year rolling average target investment return of 5.7%. More recently, the annual 0.3% negative return of 2016 lowered the ten-year rolling average return to 3.7%, further widening the gap between actual and target returns. Although the annual return for 2017 was 15.4%, the ten-year rolling average return only increased slightly to 3.8%, since the 15.4% return for 2017 replaced a comparable return of 13.7% for 2007 that was dropped from the ten-year rolling calculation.

At April 30, 2017, the University’s endowment value was \$2.4 billion with full inflation protection of \$573 million and a preservation of capital above inflation (cushion) of \$203 million against any possible future market downturn. The change of the endowment is illustrated in the following chart.



A detailed review of UTAM’s investment philosophy, asset mix allocation and investment performance for the endowments, which is managed and measured on a calendar year basis, is available on the UTAM website at [www.utam.utoronto.ca](http://www.utam.utoronto.ca).

## FEES AND EXPENSES

Fees and expenses set out below represent the endowments' proportionate share of the expenses allocated to LTCAP. Fees and expenses amounting to 1.0% of the 2017 opening unit market value consist of the following:

	<u>2017</u> <u>in millions</u>	<u>2016</u> <u>in millions</u>
Investment related management fees		
External managers	\$ 20	\$ 20
UTAM	<u>2</u>	<u>2</u>
Total	<u>\$ 22</u>	<u>\$22</u>

UTAM has direct oversight of all investment fees and expenses related to managing the LTCAP assets. Third party fees allocated to LTCAP include fees paid to external investment managers contracted by UTAM, trustee and custodial fees, and professional fees. UTAM strives to negotiate discounted investment management fee rates (versus the standard schedule) based on the total assets that UTAM assigns to an external manager, which would include LTCAP assets. The benefit of these lower rates is experienced by LTCAP in the form of lower total costs than would otherwise be the case. Third party fee rates can vary widely, depending on the nature of the asset being managed. For example, fee rates for domestic fixed income mandates are typically much lower than fee rates for private equity investments (domestic or foreign). Therefore, the mix of assets, and changes in asset mix over time, can have a significant impact on total costs year by year.

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



# GROWING IN TANDEM WITH U OF T MISSISSAUGA

June Scott, one of the first mathematics lecturers at U of T Mississauga, has endowed two scholarships to help students become trailblazers like her

---

As a mathematician from the 1940s through to the 1980s, June Scott was ahead of the curve for women in her field. She'd studied during the Second World War in her native England after a call was put out for people who were good at numbers. "There were only two women in my course," she remembers. "By Christmas, there was just me!"

She hoped to join the Wrens (Women's Royal Naval Service) because she liked the uniform. "I was a pretty young girl in those days," she laughs. Instead, she was sent to a research facility—but there she met her husband, engineer David Scott. In 1949, the couple immigrated to Canada. After her three children were a little older, Scott landed a tutoring position at U of T Mississauga (then known as Erindale College) in 1968. She was to be one of the core staff lecturers there for another 26 years.

Back then, U of T Mississauga was brand new. Opened in 1967 with just 155 students, the campus, now home to more than 13,500, has seen enormous growth over its 50 years. Scott was an eyewitness to many of the changes.

"When I started out teaching," says Scott, "the math and statistics courses were predominantly male. But by the time I finished, it was at least 50-50, if not more women than men. I think I had an influence that way, as well as in helping students overcome a negative attitude about math. I'm very proud of both these achievements because I believe in education, especially for women."

As U of T Mississauga celebrates its 50<sup>th</sup> anniversary, Scott joins the campus in looking forward to great things

for the future. With a generous gift of \$500,000, she has endowed two scholarships to support students.

The David Scott Bursary, named in honour of her late husband, supports U of T Mississauga undergraduates in financial need. And through the Boundless Promise program, the University has committed to matching the annual income generated each year by the endowment—in perpetuity.

Scott made the gift when she heard that there are students in financial distress every year. "It is very important to give the support where it is really needed," she explains. Business Administration student Maha Kamil, a David Scott Bursary recipient, is appreciative. "It feels so wonderful when somebody recognizes a student's sheer hard work and efforts," she says.

Scott also endowed a graduate award, the June and David Scott Fellowship, to support research in the field of child development. Her interest came, she says, from her long-time volunteer efforts in her community. "I helped set up the first co-op nursery school in our area," she says, "and I was involved in the nursery school in the Unitarian church where I've been a member for many years. I'm very interested in young children."

Sebastian Dys, a fellowship recipient, is a PhD student in UTM's Department of Psychology where he is studying early childhood development. "This fellowship allowed me to spend more time on my research," he says. "It brings great joy to know that benefactors like Mrs. Scott recognize the importance of research that will help improve Canadians' lives."

“When I started out teaching, the math and statistics courses were predominantly male. But by the time I finished, it was at least 50-50, if not more women than men. I think I had an influence that way, as well as in helping students overcome a negative attitude about math. I’m very proud of both these achievements because I believe in education, especially for women.”

June Scott



David Scott Bursary recipient  
Sebastian Dys is a PhD student at  
UTM studying child development



Maha Kamil was able to complete  
a Business Administration degree  
thanks to the David Scott Bursary



## SUMMARY OF CHANGES IN FAIR VALUE

The total return on LTCAP for the year ended April 30, 2017 was 15.4% (net of fees and expenses).

	Total Value (in millions)	Unit Value (in dollars)	Number of Units
<hr/>			
1) Endowments pooled in LTCAP:			
Opening balance at April 30, 2016	\$2,073	\$202.39	10,243,643
Contributions plus transfers	41		191,679
Investment income	341	32.99	
Fees and expenses	(22)	(2.10)	
Allocation for spending	<u>(81)</u>	<u>(7.86)</u>	
Closing balance at April 30, 2017	\$2,352	\$225.42	<u>10,435,322</u>
<hr/>			
2) Specifically invested endowments:			
Opening balance at April 30, 2016	\$ 24	n/a	n/a
Contributions plus transfers	<u>3</u>	n/a	n/a
Closing balance at April 30, 2017	\$ 27	n/a	n/a
<hr/>			
3) Donations received to be invested in LTCAP:			
At April 30, 2017	\$ 1	n/a	n/a
<hr/>			
Total endowments at April 30, 2017	<u>\$2,380</u>	n/a	n/a

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

The fair value of each endowment account in LTCAP is determined by multiplying the current fair value of the unit (\$225.42 at April 30, 2017) by the number of units held by that endowment account.

**Appendix**

**University of Toronto  
Endowments**

**Financial Information**

**April 30, 2017**

## Independent Auditors' Report

To the Members of Governing Council of University of Toronto:

We have audited the accompanying statement of net investments for **University of Toronto Endowments** as at April 30, 2017 and the statement of changes in net investments for the year then ended, and a summary of significant accounting policies and other explanatory information (together "the financial information"). The financial information has been prepared by management of the University of Toronto using the basis of accounting described in Note 2.

### Management's responsibility for the financial information

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

### Auditors' responsibility

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

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

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

### Opinion

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

### **Basis of accounting**

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

Toronto, Canada  
June 27, 2017

The logo for Ernst & Young LLP is written in a black, cursive script font.

Chartered Professional Accountants  
Licensed Public Accountants

**University of Toronto Endowments**  
**STATEMENT OF NET INVESTMENTS**  
**AS AT APRIL 30, 2017**  
(with comparative figures as at April 30, 2016)  
(millions of dollars)

	2017	2016
<b>ASSETS</b>		
Investments, at fair value <i>[note 3]</i>	2,359	2,048
Cash and cash equivalents <i>[note 4]</i>	249	208
Unrealized gains on derivative instruments <i>[note 3]</i>	7	39
Investment income and other receivables	15	5
	2,630	2,300
<b>LIABILITIES</b>		
Unrealized losses on derivative instruments <i>[note 3]</i>	21	2
Other payables and accruals <i>[note 5]</i>	229	200
	250	202
<b>NET INVESTMENTS HELD FOR ENDOWMENTS</b>	<b>2,380</b>	<b>2,098</b>
Commitments <i>[note 3]</i>		

*(see notes to financial information)*

**University of Toronto Endowments**  
**STATEMENT OF CHANGES IN NET INVESTMENTS**  
**FOR THE YEAR ENDED APRIL 30, 2017**  
(with comparative figures for the year ended April 30, 2016)  
(millions of dollars)

	<b>2017</b>	<b>2016</b>
<b>INCREASE IN NET INVESTMENTS</b>		
Endowed donations	36	29
Investment income <i>[note 2]</i>	341	15
Transfers from University's unrestricted funds	8	13
Total increase in net investments	<b>385</b>	57
<b>DECREASE IN NET INVESTMENTS</b>		
Allocation for spending <i>[note 6]</i>	81	79
Fees and expenses <i>[note 7]</i>	22	22
Total decrease in net investments	<b>103</b>	101
<b>Net (decrease) increase in net investments for the year</b>	<b>282</b>	(44)
<b>Net investments held for endowments, beginning of year</b>	<b>2,098</b>	2,142
<b>Net investments held for endowments, end of year</b>	<b>2,380</b>	2,098

*(see notes to financial information)*



# **University of Toronto Endowments**

## **NOTES TO FINANCIAL INFORMATION**

### **APRIL 30, 2017**

#### **1. Description**

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

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

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

#### **2. Summary of significant accounting policies and reporting practices**

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

##### **a) Investments -**

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

The value of investments recorded in the statement of net investments is determined as follows:

1. Short-term notes and treasury bills are valued at fair value.
2. Publicly traded equities are valued based on the latest closing prices. Bonds are recorded at fair value, which is determined based on valuation techniques.

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

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

**b) Derivative financial instruments –**

Derivative financial instruments are used to manage particular market and currency exposures for risk management purposes primarily with respect to the University's investments and as a substitute for more traditional investments. Derivative financial instruments and synthetic products that may be employed include debt, equity and currency futures, options, swaps, forward contracts and repurchase agreements. These contracts are generally supported by liquid assets with a fair value approximately equal to the fair value of the instruments underlying the derivative contract. The fair value of derivative financial instruments reflects the daily quoted market amount of those instruments, thereby taking into account the current unrealized gains or losses on open contracts. Investment dealer quotes or quotes from a bank are available for substantially all of the University's derivative financial instruments.

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

**c) Investment income –**

Investment income is comprised of interest, dividends, income distribution from pooled funds, realized gains (losses) on sale of investments and unrealized appreciation (depreciation) on investments held. Interest income is recorded on an accrual basis and dividend income earned is recorded on the ex-dividend date.

**d) Foreign currency translation –**

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the financial information date. Purchases and

sales of investments and revenue and expenses are translated at exchange rates in effect on the dates of such transactions.

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

**e) Other financial instruments –**

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

**3. Investments**

Most of the funds associated with the University's endowments are invested in LTCAP. These funds represent 86.8% (2016 – 87.7%) of the total LTCAP investments. Other investments represent investments held outside LTCAP mainly due to donors' specific instructions.

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

International equities include developed equity markets in Europe, Australasia and the Far East (EAFE) and exclude the United States and Canada. Global equities include all developed equity markets as well as various emerging equity markets. Investments in the "other" category consist mainly of absolute return hedge funds.

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

(millions of dollars)

	2017		2016	
	LTCAP	Other	LTCAP	Other
Government and corporate bonds	693	5	648	6
Canadian equities	229	1	314	1
United States equities	472	1	346	1
International equities	360		314	
Emerging market equities	241		193	
Global equities	119			
Other	221	17	209	16
	2,335	24	2,024	24
Total investments	2,359		2,048	

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

<b>2017</b> (millions of dollars)							
	Government and corporate bonds	Canadian equities	United States equities	International equities	Emerging market equities	Global equities and other	<b>Total</b>
Hedge funds	<b>38</b>		<b>23</b>		<b>3</b>	<b>221</b>	<b>285</b>
Private equities	<b>175</b>	<b>37</b>	<b>80</b>	<b>15</b>	<b>27</b>		<b>334</b>
Real assets	<b>21</b>	<b>27</b>	<b>17</b>	<b>20</b>		<b>28</b>	<b>113</b>
	<b>234</b>	<b>64</b>	<b>120</b>	<b>35</b>	<b>30</b>	<b>249</b>	<b>732</b>

<b>2016</b> (millions of dollars)							
	Government and corporate bonds	Canadian equities	United States equities	International equities	Emerging market equities	Other	Total
Hedge funds	35		24		36	209	304
Private equities	139	32	81	21	26		299
Real assets	20	29	32	28		16	125
	194	61	137	49	62	225	728

In fiscal 2016, \$151 million of the University's publicly traded investments held in LTCAP for endowments were invested in a unitized Canadian equity pooled fund, which was managed by the University of Toronto Asset Management Corporation ("UTAM"), a separate non-share capital corporation whose members are appointed by the University. As at April 30, 2017, UTAM's managed pooled fund was dissolved.

During the year, \$14 million of LTCAP's proportionate share of investment gain (2016 - \$16 million loss) related to endowments was recognized as a result of the change in fair value that was estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates for certain of its investments. Management believes there are no other reasonable assumptions for these investments that would generate any material changes in investment income.

#### **Uncalled commitments**

As at April 30, 2017, approximately 18.5% (2016 – 20.1%) of LTCAP's investment portfolio is invested in private funds managed by third party managers. These private funds typically take the form of limited partnerships managed by a General Partner. The legal terms and conditions of these private investment funds, which cover various areas of private equity investments and real asset investments (e.g. real estate

and infrastructure), require that investors initially make an unfunded commitment and then remit funds over time (cumulatively up to a maximum of the total committed amount) in response to a series of capital calls issued to the investors by the manager. As at April 30, 2017, the endowments had uncalled commitments of approximately \$351 million (2016 - \$200 million). The capital committed is called by the manager over a pre-defined investment period, which varies by fund but is generally about three to five years from the date the fund closes. In practice, for a variety of reasons, the total amount committed to a fund is very rarely all called.

### **Risk management**

Risk management relates to the understanding and active management of the risks associated with all areas of the University's investments. Investments are primarily exposed to a variety of financial risks, such as foreign currency risk, interest rate risk, price risk, and credit risk. Significant volatility in interest rates, equity values and the value of the Canadian dollar against the currencies in which the University's investments are held can significantly impact the value of these investments. To manage these risks within reasonable risk tolerances, the University, through UTAM, has formal policies and procedures in place governing asset mix among equity, fixed income and alternative assets, requiring diversification within categories, and setting limits on the size of exposure to individual investments and counterparties. In addition, derivative instruments are used in the management of these risks (see below). To manage foreign currency risk, the hedging policy as at April 30, 2017 is to hedge 50% (2016 - 65%) of the currency exposure within the United States equity and EAFE equity benchmark asset classes, and to hedge 0% (2016 - 0%) of the currency exposure in all other benchmark asset classes. Credit risk of financial instruments is the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation. At April 30, 2017, \$193 million (2016 - \$171 million) of directly held fixed income securities have AAA or AA credit ratings.

### **Derivative financial instruments**

#### **Description**

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

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

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

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

	(millions of dollars)			
	2017		2016	
	Notional Value	Fair Value	Notional Value	Fair Value
Unrealized gains on derivative instruments				
Foreign currency forward contracts				
- United States dollars	127	3	556	25
- Other	2		136	4
		<u>3</u>		<u>29</u>
Equity and bond futures contracts				
- United States dollars	91	1	17	
- Other	1		76	2
		<u>1</u>		<u>2</u>
Total return equity and bond swap contracts	387	3	331	8
<b>Total unrealized gains on derivative instruments</b>		<u><u>7</u></u>		<u><u>39</u></u>
Unrealized losses on derivative instruments				
Foreign currency forward contracts				
- United States dollars	723	(15)	20	(1)
- Other	155	(6)	87	
		<u>(21)</u>		<u>(1)</u>
Equity and bond futures contracts				
- United States dollars	2		15	
- Other	37		43	(1)
				<u>(1)</u>
<b>Total unrealized losses on derivative instruments</b>		<u><u>(21)</u></u>		<u><u>(2)</u></u>
<b>Net unrealized gains (losses) on derivative instruments</b>		<u><u>(14)</u></u>		<u><u>37</u></u>

The maturity dates of the currency forward and futures contracts as at April 30, 2017 range from May 2017 to September 2017. The maturity dates of the total return equity swap contracts as at April 30, 2017 range from May 2017 to March 2019. Collateral has been provided against these contracts as of April 30, 2017 in the form of short-term investments with a fair value of \$5 million (2016 - \$7 million).

The University may enter into repurchase (or reverse repurchase) agreements that involve the sale (or purchase) of bonds to (from) a financial institution and the simultaneous agreement to repurchase (resell) that same security for a fixed price, reflecting a rate of interest, on a specific date. The affected securities sold (or purchased) under these agreements are not derecognized (or recognized) as investments as the University (or the seller) retains substantially all the risks and rewards of ownership. The difference between the sale and repurchase price (or purchase and resell price) is treated as interest expense (income) and is recognized over the life of the agreement using the effective interest rate method. These

transactions involve risks that the value of the securities being relinquished (acquired) may be different than the price to be paid (received) on the expiry date or that the other party to the agreement will be unable or unwilling to complete the transaction as scheduled, which may result in losses to the University. As at April 30, 2017, the University had entered into a number of these agreements with expiry dates in May 2017.

#### 4. Cash and cash equivalents

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

#### 5. Other payables and accruals

Other payables and accruals include \$226 million (2016 - \$198 million) payable for repurchase agreements of various bonds, as described above in Note 3, traded before year-end that will be settled after April 30, 2017.

#### 6. Allocation for spending

The allocation for spending is governed by the University's preservation of capital policy, the purpose of which is to ensure that the rate of growth in the capital value of endowments matches or exceeds the rate of inflation over time. This policy limits the amount of income made available for spending and requires the reinvestment of excess income. The target allocation for spending is 3% to 5% of the opening market value. The actual endowment allocation for the year ended April 30, 2017 was 3.9% (2016 - 3.7%) of the opening market value of endowments.

#### 7. Fees and expenses

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

	(millions of dollars)	
	<u>2017</u>	<u>2016</u>
Investment management fees		
- External managers	20	20
- UTAM	<u>2</u>	<u>2</u>
Total	<u>22</u>	<u>22</u>

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