FOR INFORMATION **PUBLIC** **OPEN SESSION**

TO:	Business Board
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PRESENTER:	Sheila Brown, Chief Financial Officer
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DATE:	September 14, 2020 for October 6, 2020
AGENDA ITEM:	7

ITEM IDENTIFICATION:

Endowment Annual Financial Report for the year ended April 30, 2020.

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 6, 2020)**

PREVIOUS ACTION TAKEN:

The 2019 annual financial report on endowments was presented to the Business Board on October 7, 2019.

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, 2020, there were over 6,500 individual endowment funds totalling $2.5 billion market value, a decrease of $83 million from April 30, 2019, made up of:

$ 34 million	endowed donations
$ 18 million	transfers from the University's unrestricted funds
($ 20 million)	investment loss
($ 23 million)	fees and expenses
($ 92 million)	allocation for spending
($ 83 million)	

The decrease in the total value of endowments resulted from an investment return of -1.5% for the 2019-20 year, net of investment fees and expenses, as compared to an investment return of 5.2% for 2018-19, 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 2018-19, 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 2019-20, when investment markets are poor. Please consult the full report for a comprehensive discussion of the endowments.

FINANCIAL IMPLICATIONS:

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RECOMMENDATION:

For information.

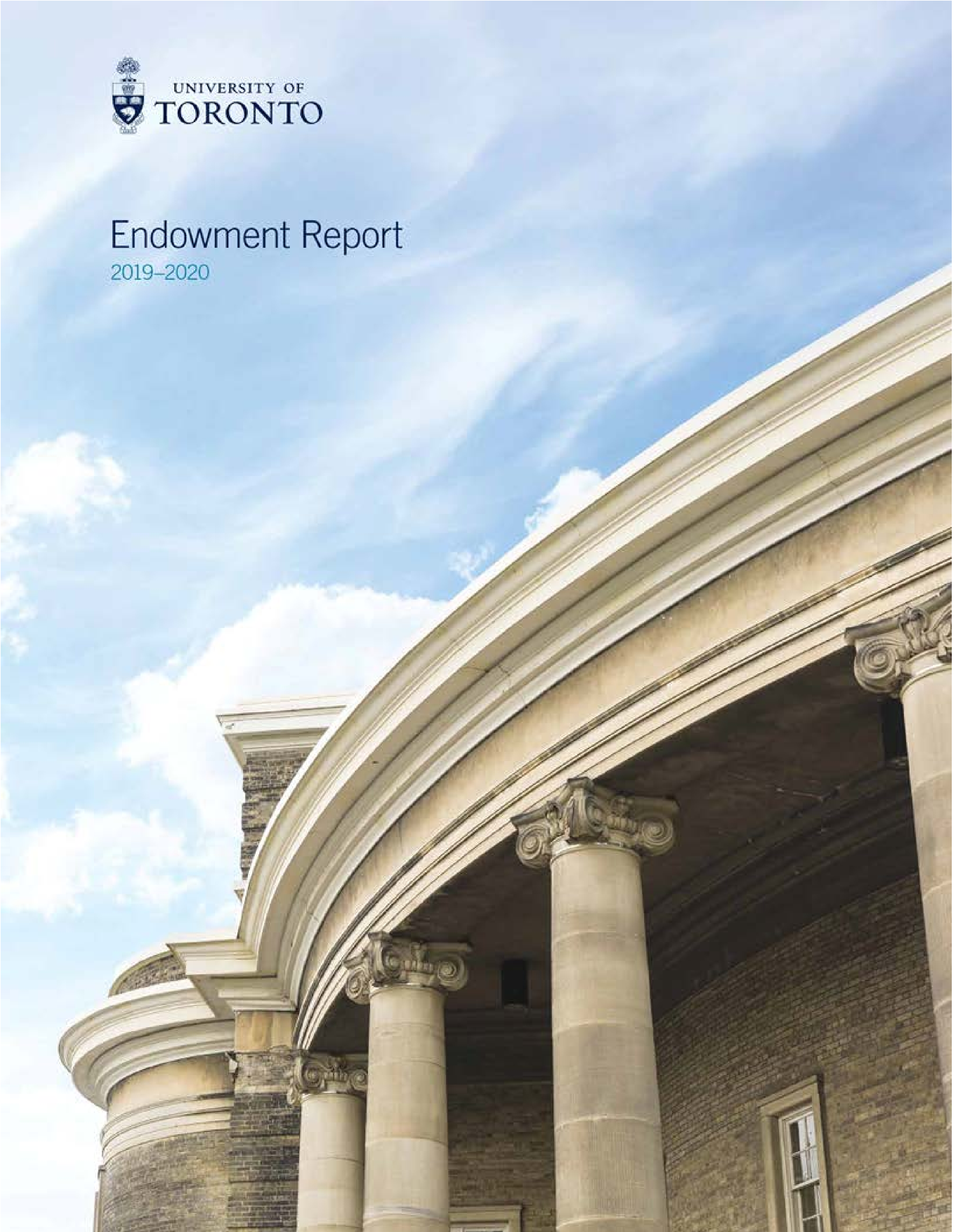
DOCUMENTATION PROVIDED:

- *Endowments Annual Financial Report for the year ended April 30, 2020*

UNIVERSITY OF TORONTO

Endowment Report

2019–2020



HIGHLIGHTS

Year Ended April 30, 2020
(with comparative figures at April 30, 2019)
(millions of dollars)

	2020	2019
Total Endowments:		
Fair value	$ 2,510	$ 2,593
Change from previous year:		
Endowed donations	$ 34	$ 40
Transfers from University's unrestricted funds	$ 18	$ 8
Investment (loss) income	$ (20)	$ 154
Fees and expenses	$ (23)	$ (25)
Allocation for spending	$ (92)	$ (88)
Total change for the year	$ (83)	$ 89

	2020	2019
Endowments in Long-Term Capital Appreciation Pool (LTCAP):		
Proportion invested in LTCAP	99.04%	99.06%
Number of units in LTCAP	11,108,333	10,886,313
Fair value in millions	$ 2,486	$ 2,569
Fair value per unit in dollars	$ 223.78	$ 235.96
Allocation for spending per unit in dollars	$ 8.34	$ 8.18
LTCAP time-weighted net returns*	-1.5%	5.2%

*Returns net of investment fees and expenses.

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Executive summary

The University of Toronto ("U of T" or the "University") 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. U of T was ranked 18th globally In Times Higher Education World University Ranking for 2019-20. In the subject rankings, U of T is one of the only five universities to rank in the top 30 of all 11 subjects. The other universities are Stanford University, Harvard University, University of Michigan, and University of California Los Angeles (UCLA). 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.

Boundless: the Campaign for the University of Toronto closed on December 31, 2018, and raised over $2.6 billion surpassing our expanded goal and setting a new record for philanthropy in Canada. The extraordinary success of the Boundless campaign expresses the collective belief of 104,059 donors from around the world, in the University's ability to push beyond the frontiers of research, transform lives through excellence in education, and address the critical issues facing humanity today. Examples of the teaching and research objectives supported by our donors in the Boundless campaign include:

- $406 million raised for student scholarships and programs
- $856 million raised for innovative programs and leading-edge research
- $264 million raised in faculty support including 82 chairs and professorships supported or established
- $600 million raised for capital projects, which supported 41 critical infrastructure initiatives

Fundraising continues with increasingly ambitious goals, playing a critical role in the success of the University.

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. Endowed gifts are indispensable to our pursuit of excellence, equity and global impact as they provide a permanent and stable source of funding for scholarship, chairs and other vital priorities.

This report summarizes the performance, management and impact of our endowments over the past fiscal year. At April 30, 2020, there were more than 6,500 individual endowment funds, usually supported by an agreement between the University and a donor, or reflecting a collection of small donations with common restrictions. The University's endowment value was $2.5 billion (book value of $1.8 billion) with full inflation protection of $711 million and preservation above inflation (provision for investment return fluctuations) of $42 million against a possible future market downturn. The majority of endowments are in support of student aid ($1.1 billion) and chairs and professorships ($754 million). The COVID-19 pandemic has adversely impacted global commercial activity and contributed to the significant volatility in certain equity and debt markets. This has led to significant volatility and declines in the global public equity markets and it is uncertain how long this volatility will continue.

In summary:

- investment return net of investment fees and expenses for the year ended April 30, 2020 was -1.5% (the average annual return for the five-year period May 1, 2015 to April 30, 2020 was 5.1%);
- endowment spending allocation ("payout") was 3.53% of the opening balance market value; and
- fees and expenses were 0.87% 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.

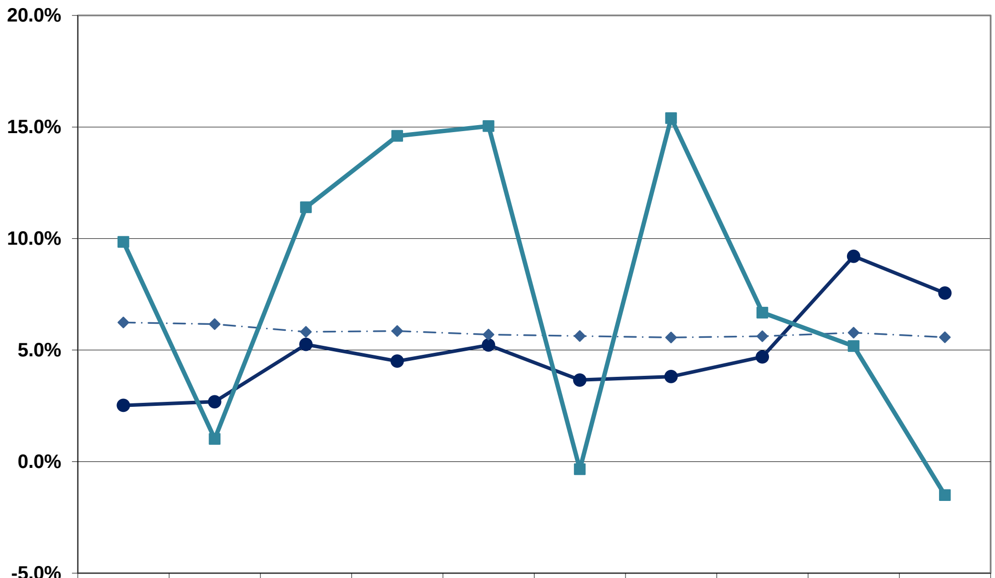
Endowments are managed in a unitized pool. Almost all of the University's endowments hold units in this unitized investment pool, entitled the Long-Term Capital Appreciation Pool (LTCAP). Each endowment account holds units in LTCAP that reflect the number of dollars contributed and the unit value on 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, 2020 was 3.53%. The market value of each unit has decreased from $235.96 at April 30, 2019 to $223.78 at April 30, 2020.

Unit market value at April 30, 2019	$235.96
Investment loss per unit	(1.79)
Fees and expenses	(2.05)
Endowment spending allocation	(8.34)
Unit market value at April 30, 2020	$223.78

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, 2020 was 750 times $223.78 or $167,835.

To fund the spending allocation and to preserve capital against inflation over time, the University, as at April 30, 2020, has set the real rate return objective of at least 4% over 10-year periods, net of all investment fees and expenses, while taking an appropriate amount of risk to achieve this target, but without undue risk of loss. Prior to June 2017, the investment return and risk targets for LTCAP were a 4% investment return plus inflation, net of investment fees, and a 10% return volatility risk target (representing one standard deviation), over a ten-year period. 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)
Ten-Year Rolling Average Returns with Annual Returns



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Ten-Year rolling average return*	2.5%	2.7%	5.3%	4.5%	5.2%	3.7%	3.8%	4.7%	9.2%	7.6%
Ten-Year rolling target return*	6.2%	6.2%	5.8%	5.9%	5.7%	5.6%	5.6%	5.6%	5.8%	5.6%
Annual investment return*	9.9%	1.0%	11.4%	14.6%	15.0%	-0.3%	15.4%	6.7%	5.2%	-1.5%

***The ten-year rolling returns are geometric average returns.**

*Returns are time weighted, calculated in accordance with industry standards, are net of investment fees and expenses.

** Target return is 4.0% plus CPI.

Introduction

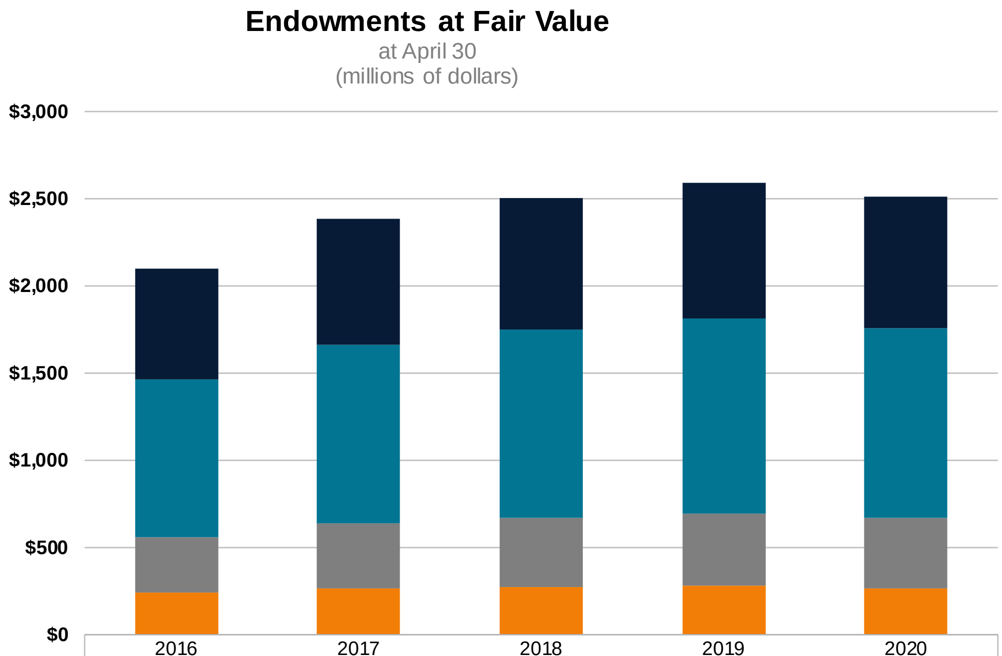
Over the University of Toronto's history, endowed gifts have provided critical funding to support our core academic missions of teaching and research. These gifts sustain us over the long term – funds from endowed donations are invested so that earnings from the gift provide ongoing support in perpetuity, forming a lasting legacy. For close to two centuries, endowed gifts from our alumni and friends have provided essential support to the University of Toronto, funding a vast array of scholarships and bursaries, chairs and professorships, as well as research and teaching programs. U of T is deeply grateful for these investments, which allow us to educate future leaders and spark ideas and solutions for improving our city and the greater world. In establishing these funds, donors have chosen to support the institution's highest, continuing academic priorities.

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

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 99.0% of fair value are invested in the University's Long-term Capital Appreciation Pool (LTCAP). At April 30, 2020, there were over 6,500 individual endowment funds, usually supported by a donor agreement, or reflecting a collection of small donations with common restrictions.

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.



	2016	2017	2018	2019	2020
Total endowments	2,098	2,380	2,504	2,593	2,510
Chairs and professorships	637	720	759	784	754
Student aid	902	1,025	1,077	1,116	1,087
Academic programs	319	367	392	413	403
Research	240	268	276	280	266

Endowments totaled $2.5 billion fair value at April 30, 2020. This was a decrease of $83 million over the previous year. This decrease was comprised of:

Additions of:

- $ 34 million of endowed donations, and
- $ 18 million of transfers from the University's unrestricted funds to endowments.

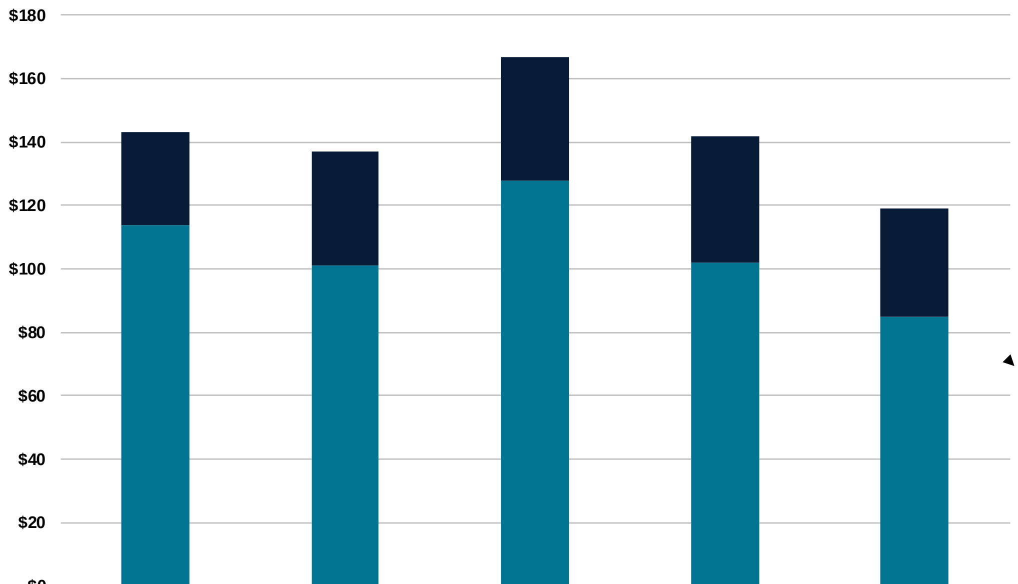
Minus:

- $20 million of investment loss
- $92 million of allocation for spending and
- $23 million of fees and expenses.

The following graph shows endowed donations and expendable donations received since 2016. 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)



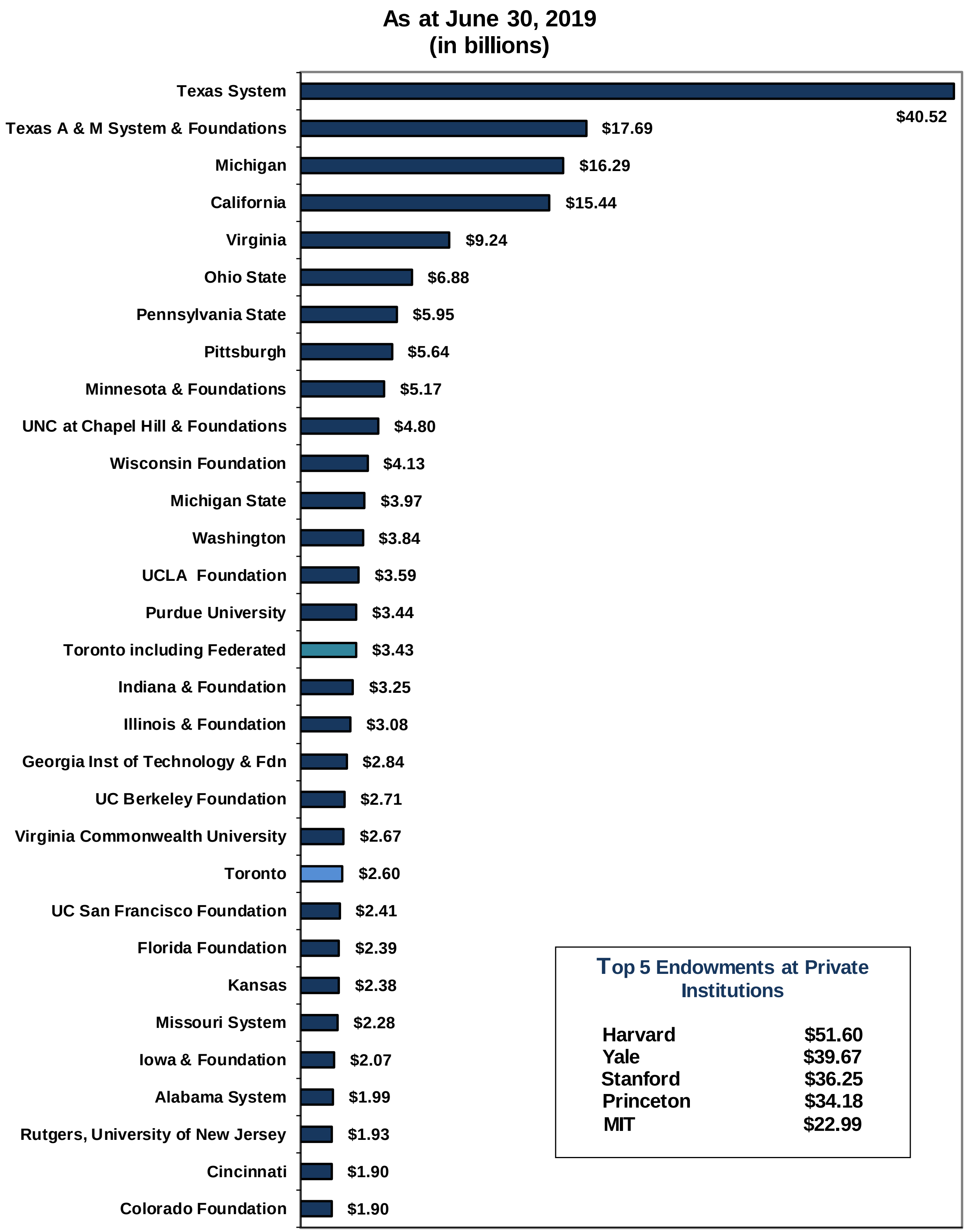
	2016	2017	2018	2019	2020
Total donations	143	137	167	142	119
Endowed donations	29	36	39	40	34
Expendable donations	114	101	128	102	85

The graph illustrates that endowed donations represented 28.6% of total donations ($119 million) received by the University in 2020. 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 2019, U of T ranked 21st in terms of size. Including the endowments of the federated universities, U of T ranked 16th 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



Source: 2019 NACUBO Endowment Study converted to Canadian dollars at an exchange rate of 1.3087

It Takes a Community

Robinson Truong, Faculty of Medicine

Growing up as the son of refugees from Vietnam, Robinson Truong, a first-year master's student in the medical sciences program, knows how it feels to be marginalized. "Our family faced financial struggles but were fortunate to receive support from the Vietnamese community and other local institutions," he says. "I think that's what sparked my interest in helping others facing adversities." Truong is committed to working toward equal access to healthcare. Truong has volunteered for the Hassle Free Clinic, the Asian Community AIDS Services and St. Michael's Hospital Positive Care Team.

While at U of T, he received a **Hosinec Family Scholarship** and the **Dan Leckie City of Toronto Award**, which both support talented students demonstrating financial need. James Hosinec established the Hosinec Scholarship in 2005 through a $1-million gift and a bequest from his estate. The Leckie Award honours the former Toronto city councillor.

"With these awards, I can continue to devote my time to helping others, and I can alleviate some financial strain," says Truong. He hopes to enter medical school and work as a community family physician.

"I am so grateful for this award because it provides a volunteer learning environment to enhance my academic work."

Helping Others to Confront Barriers

Kaltun Osman, Factor Inwentash Faculty of Social Work

Kaltun Osman came to Canada in 1996 as a refugee from the civil war in Somalia. "I faced multiple challenges due to language and cultural barriers, as well as experiences with racism and social isolation," says Osman, who grew up as a Crown Ward. "But I always had a deep love for education, and I was able to attend the University of Toronto and graduate with High Distinction." Osman attended U of T through the Transitional Year Programme (TYP), an access-to-University program intended for adults who do not have the formal qualifications for university admission. Osman received the **William Waters Graduate Achievement Award**, one of many scholarships established by William (Bill) and Phyllis J. Waters, to help U of T students realize their dreams.

Osman says that when she found out about the scholarship, she was struggling with how to continue in her program. "I teared up with relief because I wanted desperately to complete my studies." Today, Osman is pursuing a master's degree at the Factor Inwentash Faculty of Social Work and is a recipient of the **Eleanor Frances Day Award** for graduate students. She aspires to help people in her own community—and beyond—to overcome challenges. "I want to dedicate my career to helping people overcome the barriers they may face due to social injustice and personal circumstances."

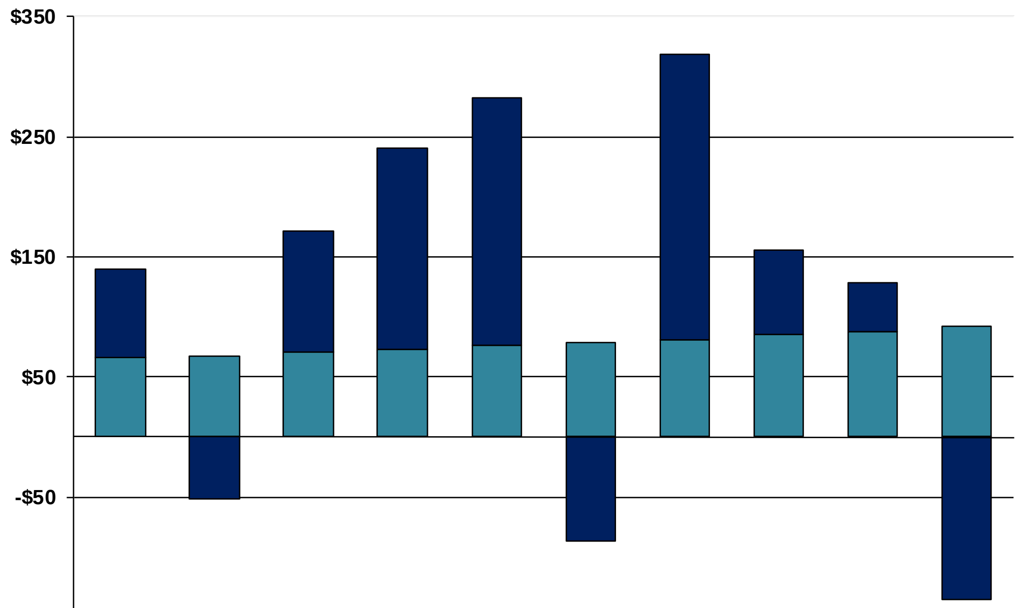
Allocation for Spending and Preservation of Purchasing Power

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, 2020 was 3.53%.

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

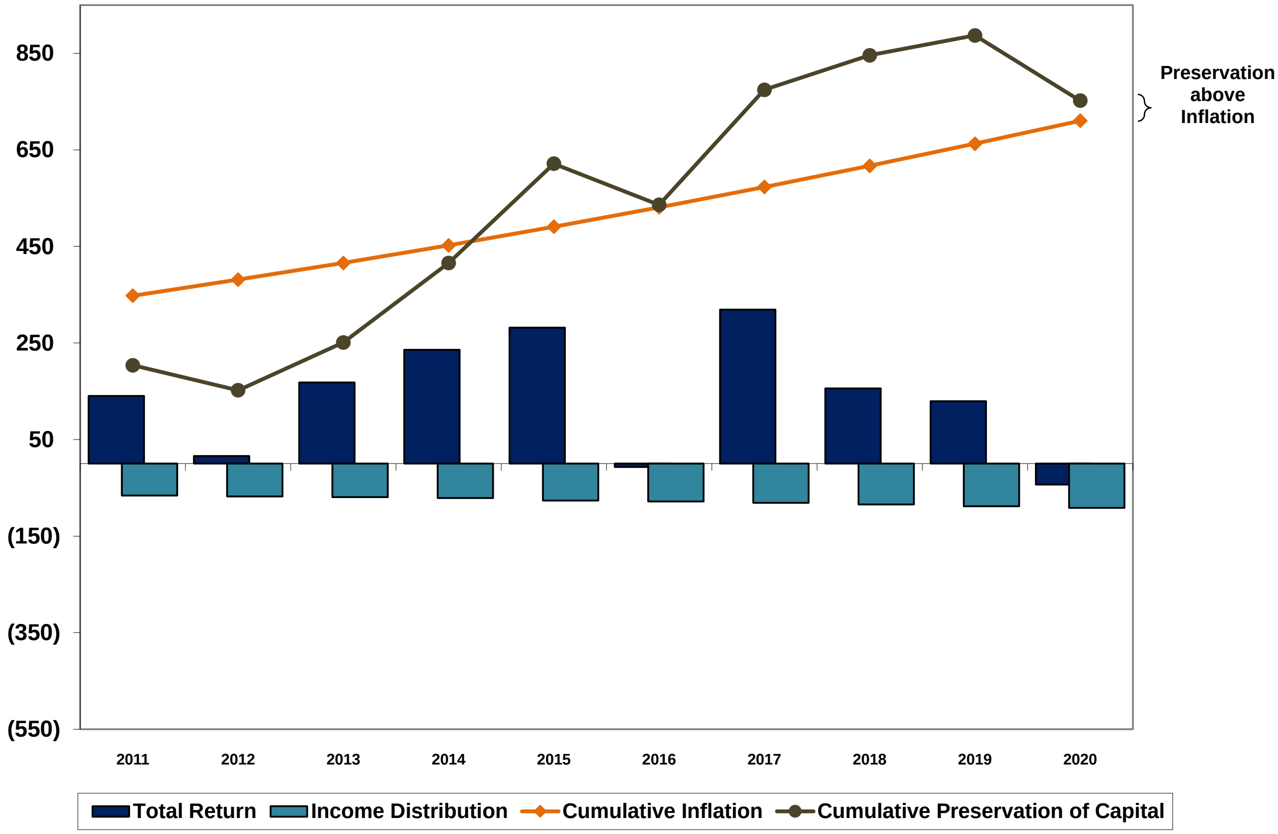
Investment Income on Endowments (net of fees)
for the year ended April 30
(millions of dollars)



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Reinvested (drawdown)	74	(52)	101	168	206	(86)	238	71	41	(135)
Allocation for spending	66	68	71	73	76	79	81	85	88	92

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 income distribution 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 3.53% for the year ended April 30, 2020 translated into a spending rate of $8.34 per investment unit. The spending dollars pertaining to a particular endowment account are obtained by multiplying the spending rate of $8.34 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, 2020 was 750 times $8.34 or $6,255.

Keeping the Focus

Leah Velijonka, Faculty of Arts and Science, New College

Leah Velikonja was thrilled to receive the **The University of Toronto Women's Association's Marjorie Ivey Scholarship**, which is helping her pursue her goal of becoming a plastic surgeon specializing in transgender surgery. "I realize it's a very big goal, with many years of study ahead," says Velikonja. "This scholarship gives me the opportunity to seek guidance on the MCAT, medical school applications and school courses."

The Ivey Scholarship supports New College students with academic merit and financial need. The award enabled Velijonka, who is also deeply involved with the undergraduate Physiology Students' Association, to give her undivided attention to school. "I want to be able to have as much time as possible to do my course work and extra-curricular activities and volunteering. I am so grateful for the opportunities this scholarship gives me."

She looks forward to attending medical school and making a difference in the world by providing life-changing surgeries to transgender people. "If I can have the opportunity to use my knowledge, skill and passion for science to transform someone's life for the better… well, I can't imagine a more fulfilling career."

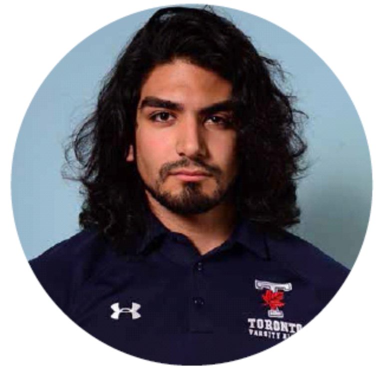
Chasing the Next Great Invention

Lors Kushtov, Computer Science, U of T Scarborough

For Lors Kushtov, a fourth-year computer science student at U of T Scarborough, life is a balance between coursework and finding the next great invention. "I love what I do — learning the ins and outs of computer programming while dabbling on my own time." Kushtov is a co-founder of HiRide, a carpooling startup for students, which has captured widespread attention and was even featured on CBC's Dragon's Den.

Kushtov received a **Bennett Family Scholarship**, established by the late Avie Bennett, whose generous contributions have helped attract thousands of talented students to U of T. "Without the award, I would have had to get an extra job to cover costs," says Kushtov. "The award allows me to focus on school and my startup."

The award also lets him complete internships to supplement his experience. Kushtov has worked as an application developer for the Ontario government and as a data scientist with a major bank. As for the future, Kushtov plans to continue with HiRide and evolve it beyond a student carpooling service. "My goal is to get funding and join an accelerator that can help me take these ideas further. There's no limit to what we can do."



Perfecting the Balancing Act

Kousha Afshar, Commerce, U of T Mississauga

When Kousha Afshar learned he had received the prestigious **Ernst & Young Scholarship in Commerce**, he was thrilled. "I couldn't stop smiling," says the commerce student at U of T Mississauga, who is also a linebacker for U of T's Varsity Blues football team. The award is given to a student in their final year of a specialist program in commerce who has taken accounting courses. "This award was a blessing and took a lot of stress away," he says. "With the heavy course load and training, there isn't time for a part-time job during the year." During the summer, Afshar works three jobs to pay for his tuition.

As demanding as it is to be a student-athlete, Afshar wouldn't have it any other way. "My proudest accomplishment is playing football for U of T and representing such an amazing school," he says. "Not everyone gets the privilege to do this, and many people struggle, so I take pride in balancing it all."

Afshar expects that his commerce degree will provide many opportunities to help people in need — and he'd love to give back someday. "I know my degree will open lots of doors, and I'm so grateful for this support."

Long-Term Capital Appreciation Pool (LTCAP) Investment Policy

Almost all of the University's endowments (99.0% 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 $499 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, 2020 reflects the spending allocation target and the preservation of capital policy. It has set the real rate return objective of at least 4% over 10-year periods, net of all investment fees and expenses, while taking an appropriate amount of risk to achieve this target, but without undue risk of loss.

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

Investment Management and Oversight

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

The University establishes the 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 to the target investment return and the Reference Portfolio return.

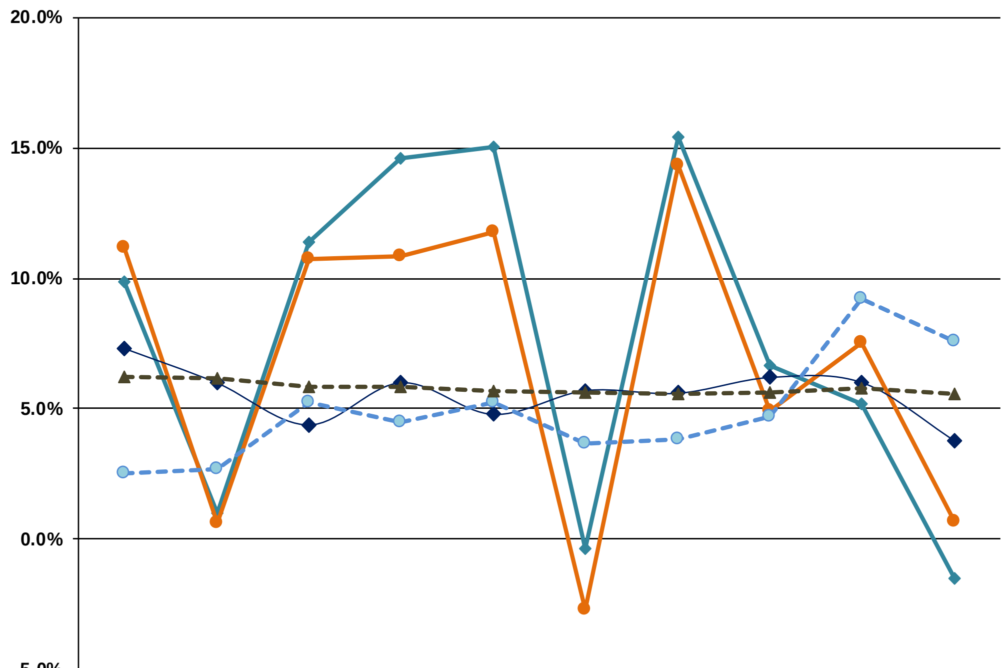
LTCAP Performance - Comparing Actual Results, Target and Benchmark Returns				
	1-year Return - April 30, 2020	**2-year Average Return - April 30, 2020**	**3-year Average Return - April 30, 2020**	**5-year Average Return - April 30, 2020**
LTCAP actual investment returns	-1.5%	1.9%	3.5%	5.1%
LTCAP target investment return (4% +CPI)	3.8%	4.9%	5.3%	5.5%
Reference Portfolio return	0.7%	4.1%	4.4%	4.9%
Difference between LTCAP actual and target	-5.3%	-3.0%	-1.8%	-0.4%
of which:				
the % attributable to investment markets	-3.1%	-0.8%	-0.9%	-0.6%
the % attributable to active management decision	-2.2%	-2.2%	-0.9%	0.2%
	-5.3%	-3.0%	-1.8%	-0.4%
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, 2019 to April 30, 2020, the target nominal investment return for the LTCAP was 3.8%, representing 4.0% real investment return and inflation of -0.2%, net of investment fees and expenses. The actual return for the year was -1.5%, which was below target by 5.3%. The actual return for the year was lower than the Reference Portfolio return (which is the benchmark return to indicate how markets performed) by 2.2% (-1.5% minus 0.7%). This was mainly due to the underperformance of US and Global public equity managers and absolute return hedge funds compared to their benchmarks. 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, 2015 to April 30, 2020, the actual average return for the LTCAP was 5.1%. This actual average return was below the target average return of 5.5% by 0.4% (5.1% minus 5.5%) but exceeded the average Reference/benchmark return of 4.9% by 0.2% (5.1% minus 4.9%).

Please note that although we have presented above the analysis for 1-year, 3-year and 5-year returns, the investment return objectives for the LTCAP are set over 10-year periods. The following graph show the results of the investment returns over 10-year periods.

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



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Annual investment return*	9.9%	1.0%	11.4%	14.6%	15.0%	-0.3%	15.4%	6.7%	5.2%	-1.5%
Reference portfolio	11.2%	0.6%	10.8%	10.8%	11.8%	-2.7%	14.3%	4.9%	7.5%	0.7%
Annual Target return**	7.3%	6.0%	4.4%	6.0%	4.8%	5.7%	5.6%	6.2%	6.0%	3.8%
Ten-Year rolling average return*	2.5%	2.7%	5.3%	4.5%	5.2%	3.7%	3.8%	4.7%	9.2%	7.6%
Ten-Year rolling target return**	6.2%	6.2%	5.8%	5.9%	5.7%	5.6%	5.6%	5.6%	5.8%	5.6%

* 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. The ten-year rolling returns are geometric average returns.

** Target return is 4.0% plus CPI.

Following the financial crisis of 2009, the ten-year rolling average actual return in 2011 was 2.5%, which was lower than the ten-year rolling average target return of 6.2% by 3.7%. 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%. In 2019, ten years after the financial crisis, the actual ten-year rolling average return of 9.2% exceeded the ten-year rolling target return of 5.8% by 3.4%. Due to the global pandemic, the ten-year actual return in 2020 decreased to 7.6%, but it remains higher than the ten-year rolling target return which was 5.6%.

At April 30, 2020, the University’s endowment value was $2.5 billion with full inflation protection of $711 million and a preservation of capital above inflation (provision for investment return fluctuation) of $42 million against any possible future market downturn.

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.

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 0.9% of the 2020 opening unit market value consist of the following:

	2020 in millions	2019 in millions
Investment related management fees		
External managers	$ 21	$ 23
UTAM	2	2
Total	$ 23	$25

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.

Summary of Changes in Fair value

The total return on LTCAP for the year ended April 30, 2020 was -1.5% (net of fees and expenses).

	Total Value (in millions)	Unit Value (in dollars)	Number of Units
1) Endowments pooled in LTCAP:			
Opening balance at April 30, 2019	$2,569	$235.96	10,868,313
Contributions plus transfers	52		240,020
Investment loss	(20)	(1.79)	
Fees and expenses	(23)	(2.05)	
Allocation for spending	(92)	(8.34)	
Closing balance at April 30, 2020	$2,486	$223.78	11,108,333
2) Specifically invested endowments:			
Opening balance at April 30, 2019	$ 24	n/a	n/a
Investment loss			
Contributions plus transfers		n/a	n/a
Closing balance at April 30, 2020	$ 24	n/a	n/a
Total endowments at April 30, 2020	$2,510	n/a	n/a

The fair value of each endowment account in LTCAP is determined by multiplying the current fair value of the unit ($223.78 at April 30, 2020) by the number of units held by that endowment account.

University of Toronto Endowments

Audited Financial Information

April 30, 2020

Independent Auditor's Report

To the Members of Governing Council of the **University of Toronto**:

Opinion

We have audited the statement of net investments for **University of Toronto Endowments** as at April 30, 2020 and the statement of changes in net investments for the year then ended (together the "financial information"), and notes to the financial information, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial information* section of our report. We are independent of the University in accordance with the ethical requirements that are relevant to our audit of the financial information in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial information

Management 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 in the circumstances, 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.

Those charged with governance are responsible for overseeing the University's financial reporting process.

Auditor's responsibilities for the audit of the financial information

Our objectives are to obtain reasonable assurance about whether the financial information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial information.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 University's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP
Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
June 25, 2020

University of Toronto Endowments
STATEMENT OF NET INVESTMENTS
AS AT APRIL 30
(millions of dollars)

	2020	2019
ASSETS		
Investments, at fair value *[note 3]*	**2,658**	2,562
Cash and cash equivalents *[note 4]*	**(224)**	251
Unrealized gains on derivative instruments *[note 3]*	**78**	11
Investment income and other receivables	**3**	69
	2,515	2,893
LIABILITIES		
Unrealized losses on derivative instruments *[note 3]*	**5**	8
Other payables and accruals		292
	5	300
NET INVESTMENTS HELD FOR ENDOWMENTS	**2,510**	2,593

Commitments *[note 3]*

(see notes to financial information)

University of Toronto Endowments
STATEMENT OF CHANGES IN NET INVESTMENTS
FOR THE YEAR ENDED APRIL 30, 2020
(millions of dollars)

	2020	2019
INCREASE IN NET INVESTMENTS		
Endowed donations	**34**	40
Investment income		154
Transfers from the University's unrestricted funds	**18**	8
Total increase in net investments	**52**	202
DECREASE IN NET INVESTMENTS		
Investment loss	**20**	
Allocation for spending *[note 5]*	**92**	88
Fees and expenses *[note 6]*	**23**	25
Total decrease in net investments	**135**	113
Increase (decrease) in net investments during the year	**(83)**	89
Net investments held for endowments, beginning of year	**2,593**	2,504
Net investments held for endowments, end of year	**2,510**	2,593

(see notes to financial information)

University of Toronto Endowments
NOTES TO FINANCIAL INFORMATION

APRIL 30, 2020

1. Description

This financial information presents the net investments held for endowments of the University of Toronto (the "University") and the changes in these net 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:

i. Short-term notes and treasury bills are valued based on cost plus accrued interest, which approximates fair value. Money market funds are valued based on closing quoted market prices.

ii. Bonds and publicly traded equities are valued based on quoted market prices. If quoted market prices are not available for bonds, estimated values are calculated using discounted cash flows based on current market yields and comparable securities as appropriate.

iii. Investments in pooled funds (other than private investment interests and hedge funds) are valued at their reported net asset value per unit.

iv. Hedge funds are valued based on the most recently available reported net asset value per unit, adjusted for the expected rate of return through April 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value.

v. Private investment interests consisting of private investments and real assets are comprised of private externally managed pooled funds with underlying investments in equities, debt, real estate assets, infrastructure assets and commodities. The investment managers of these interests perform valuations of the underlying investments on a periodic basis and provide valuations. Annual financial statements of the private investment interests are audited and are also provided by the investment managers. The value of the investments in these interests is based on the latest valuations provided (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 that 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.

vi. 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.

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 bonds, equity and currency futures, options, swaps and forward contracts. The majority of the notional exposure of the derivative financial instruments (except for currency derivatives) is backed by liquid assets (short-term investments), reducing the use of leverage. 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 fair value during the year recorded in the statement of changes in net investments.

c) Investment income

Investment income is comprised of interest, dividends, income distributions 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 83.3% (2019 – 84.6%) of the total LTCAP investments. Other investments represent investments held outside LTCAP mainly due to donors' specific instructions.

The University has adopted an investment benchmark called the Reference Portfolio for the LTCAP that includes an asset mix that reflects the long-term return objectives and risk appetite for this pool. The Reference Portfolio is designed to be a simple portfolio that can be easily implemented and it only includes public market asset classes. However, the actual LTCAP includes additional asset classes and strategies such as hedge funds and private investments that are not in the Reference Portfolio. These other investments have been reclassified and mapped to the most appropriate Reference Portfolio asset classes in the table below. In some cases, derivative financial instruments are used to obtain market exposures to various asset classes. The majority of the notional exposure of derivative financial instruments (except for currency derivatives) is backed by liquid assets (short-term investments), reducing the use of leverage. Leverage is used to add government bond exposure to the portfolio to enhance downside risk protection. The table below includes the notional exposure of derivative financial instruments other than currency derivatives in the Reference Portfolio asset classes.

The table below shows the University's investments at fair value, mapped into the Reference Portfolio asset classes. 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)					
	April 30, 2020			April 30, 2019		
	LTCAP	**Other**	**TOTAL**	LTCAP	Other	TOTAL
Short-term investments	**(225)**	**1**	**(224)**	250	1	251
Government and corporate bonds	**952**	**5**	**957**	790	5	795
Canadian equities	**84**	**1**	**85**	253	1	254
United States equities	**409**	**1**	**410**	514	1	515
International equities	**247**		**247**	389		389
Emerging markets equities	**147**		**147**	257		257
Global equities	**591**		**591**	134		134
Other	**204**	**17**	**221**	201	17	218
Total	**2,409**	**25**	**2,434**	2,788	25	2,813
Less amounts reported as cash and cash equivalents	**225**	**(1)**	**224**	(250)	(1)	(251)
Investments	**2,634**	**24**	**2,658**	2,538	24	2,562

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 table below shows the fair value of the same investments without the reallocation of short-term investments (related to derivative instruments), hedge funds, private investment and real assets to the relevant Reference Portfolio asset class or classes.

	(millions of dollars)					
	April 30, 2020			April 30, 2019		
	LTCAP	**Other**	**TOTAL**	LTCAP	Other	TOTAL
Short-term investments	**770**	**1**	**771**	684	1	685
Government and corporate bonds	**148**	**5**	**153**	443	5	448
Canadian equities		**1**	**1**	83	1	84
United States equities		**1**	**1**	65	1	66
International equities	**113**		**113**	326		326
Emerging markets equities	**88**		**88**	129		129
Global equities	**418**		**418**	94		94
Hedge funds	**324**		**324**	468		468
Private investments	**494**		**494**	412		412
Real assets	**54**	**17**	**71**	84	17	101
Total	**2,409**	**25**	**2,434**	2,788	25	2,813

During the year, $4 million of LTCAP's proportionate share of investment gain (2019 - $12 million) related to endowments was recognized as a result of the change in fair value of its investments that were 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, 2020, approximately 20.8% (2019 – 19.5%) 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, 2020, the endowments had uncalled commitments of approximately $418 million (2019 - $409 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.

Derivative financial instruments

Derivatives are financial contracts, the value of which is derived from changes in an underlying asset, index of prices or rates, interest rate, foreign exchange rate, etc. The University uses derivative financial instruments as a substitute for traditional investments, to manage financial risks and to manage currency exposures. The University has entered into foreign currency forward contracts to manage its exposure to exchange rate fluctuations on investments denominated in foreign currencies in accordance with its hedging policy (see financial risk and risk management).

The University has entered into equity and bond futures contracts, and equity and bond swap contracts to obtain exposure to those asset classes. These derivatives are used as a substitute for traditional investments to obtain market exposures to various asset classes. Equity and bond futures contracts oblige the University to pay or receive the difference between a predetermined amount (the notional amount) and the market value at contract expiry. Equity and bond swap contracts are agreements for the exchange of cash flows based on the notional amount of the contract whereby one party commits to making payments based on the return of an underlying instrument in exchange for fixed or floating interest rate payments. To the extent the total return of the instrument or index underlying the transaction exceeds or falls short of the offsetting interest rate obligation, the University will receive a payment from, or make a payment to, the counterparty.

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

(millions of dollars)

	April 30, 2020			April 30, 2019		
		Fair values			Fair values	
Contracts	**Notional value**	**Unrealized gains**	**Unrealized losses**	Notional value	Unrealized gains	Unrealized losses
Foreign currency forward						
United States dollars	**412**	**8**		620		(8)
Other	**213**	**1**		259	1	
Equity and bond futures	**68**	**4**	**(5)**	37	1	
Equity and bond swap	**985**	**65**		423	9	
	1,678	**78**	**(5)**	1,339	11	(8)

The notional amounts above do not represent amounts exchanged between parties. Instead, they represent the contractual amount to which a rate or price is applied for computing the cash flows to be exchanged and are therefore not recorded as investments in the financial information. The University may have contracts to buy and sell similar underlying assets; in these cases, the notional amounts are presented above on a gross basis.

Contracts with a positive mark-to-market (fair value) are recorded as unrealized gains on derivative instruments while contracts with a negative mark-to-market are recorded as unrealized losses on derivative instruments in the statement of net investments. The maturity dates of the currency forwards and futures contracts as at April 30, 2020 range from May to September 2020. The maturity dates of the equity and bond swap contracts as at April 30, 2020 range from May to April 2021. Required collateral of $7 million (2019 - $2 million) has been provided to the relevant exchanges against the futures contracts as of April 30, 2020 in the form of short-term investments. Before fiscal 2020, the University typically held liquid assets to fully support the derivative financial instrument contracts (other than foreign currency forward contracts) with a fair value approximately equal to the net notional value of the derivative contracts resulting in little to no leverage due to these investments. As at April 30, 2020, the University had

$770 million (2019 - $684 million) in short-term investments compared to the $1.1 billion (2019 - $460 million) of notional value of equity and bond futures and equity and bond swap contracts. Leverage is used to add government bond exposure to the portfolio to enhance downside risk protection.

Financial risks and risk management

Endowments are exposed to various financial risks through transactions in financial instruments. To manage the risks of LTCAP investments, the University has set a benchmark Reference Portfolio with an asset mix that reflects the University's long-term return objectives and risk appetite and to monitor and limit active risk, defined as the risk in the actual portfolio minus the risk in the Reference Portfolio. The University uses risk systems and data management tools to evaluate risk exposures across multiple asset classes, as well as the total portfolio. If the measured risk of the portfolio exceeds the limit, actions will be taken to reduce the portfolio's risks.

Foreign currency risk

Endowments are exposed to foreign currency risk from direct and indirect (e.g., pooled funds) investments that are denominated in currencies other than the Canadian dollar. Fluctuations caused by changes in the currency rates applied to these investments can result in a positive or negative effect on the fair value of the investments and on the cash flows from these investments. To manage foreign currency risk, the University has established a benchmark currency hedging policy for the LTCAP. In 2020, the benchmark policy for the LTCAP is to hedge 50% of the currency exposure of all the asset classes of the Reference Portfolio, with the exception of emerging markets which is unhedged. In 2019, the benchmark policy was to hedge 50% of the currency exposure within the United States equity and EAFE equity Reference Portfolio asset classes, with no hedging in all other Reference Portfolio asset classes. As at April 30, 2020, the fair value of endowments invested in the LTCAP that are denominated in foreign currency was $1.5 billion (2019 - $1.5 billion), of which $604 million (2019 - $705 million) was hedged.

Credit risk

Endowments are exposed to credit risk in connection with its fixed income investments and derivative contracts because of the risk of a financial loss caused by a counterparty's potential inability or unwillingness to fulfill its contractual obligations. To manage the credit risk exposed from direct bond holdings or from the use of derivatives, fixed limits are established for individual counterparties and these are monitored regularly. The University invests the majority of its fixed income in high-grade securities. As at April 30, 2020, only 23% (2019 - 8%) of the endowments' bond exposure from derivative instruments and direct fixed income investments had credit ratings of A or lower.

Interest rate risk

Endowments are exposed to interest rate risk with respect to its investments in bonds. At April 30, 2020, the fair value of total investments in bonds was $957 million (2019 - $795 million), composed of $13 million (2019 - $314 million) of bonds directly held by the University, $397 million (2019 - $374 million) of bonds indirectly held through pooled funds and $547million (2019 - $107 million) of notional bond exposure arising from derivative financial instruments. This risk is managed by having a benchmark Reference Portfolio, which reflects the University's risk appetite, and by monitoring actual risk against the risk of the Reference Portfolio.

Liquidity risk

Endowments are exposed to liquidity risk if it does not maintain sufficient liquidity to manage its obligations associated with its derivative financial instruments, the funding of calls from private market funds and the annual LTCAP distribution for spending. The University has developed a system that models the potential liquidity needs of the LTCAP under stressed market conditions. This helps ensure that adequate cash and other sources of liquidity are available to meet all liquidity needs over an extended period. The same modelling analysis ensures that the University can, if necessary, rebalance LTCAP's asset mix to match the target asset class weights of the Reference Portfolio.

Other price risk

Endowments are exposed to other price risk through changes in market prices (other than changes arising from interest rates or foreign currencies) with respect to its investments in public equity, private equity, real estate, infrastructure and hedge funds. The factors that cause the changes in market prices may affect a specific individual investment, its issuer, or they may affect similar securities traded in the market. This risk is managed by having a benchmark Reference Portfolio, which reflects the University's risk appetite, and by monitoring actual risk against the risk of the Reference Portfolio.

4. Cash and cash equivalents

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. Cash and cash equivalents consist of cash on deposit and units in a money market fund. The negative amount in cash and cash equivalents represents the notional exposure of the derivative financial instruments that are not backed by liquid assets as a result of the use of leverage.

5. 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, 2020 was 3.5% (2019 - 3.5%) of the opening market value of endowments.

6. 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)	
	2020	2019
Investment management fees		
External managers	**21**	23
UTAM	**2**	2
Total	**23**	25

7. COVID-19

In March 2020, the World Health Organization declared the spread of coronavirus ("COVID-19") to constitute a global pandemic. This has resulted in governments worldwide enacting emergency measures to combat the spread of the virus including travel restrictions in and out of and within Canada, barring gathering of people and requirements to stay at home. These restrictions adversely impacted global commercial activity and contributed to the significant volatility in certain equity and debt markets. This led to significant volatility and declines in the global public equity markets and it is uncertain how long this volatility will continue.

The extent of such adverse effects on the endowments' investments are uncertain and difficult to assess. The financial impacts will depend on future developments, including the duration, spread and severity of the outbreak, physical distancing requirements, the duration and geographic scope of related travel advisories and restrictions, and the extent of disruptions to businesses globally and its related impact on the economy.

As at April 30, 2020, no significant adjustments were made to the endowments' investments to reflect the possible future impact of COVID-19. Investments are recorded at fair value which included the impact on financial markets as at year-end and extra emphasis was put on the collectability of receivables and other estimates within the financial statements as at April 30, 2020.

8. Comparative financial information

The comparative financial information has been reclassified from statements previously presented to conform to the presentation of the 2020 financial information.

UNIVERSITY OF
TORONTO