



FOR INFORMATION

PUBLIC

OPEN SESSION

TO: Business Board

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DATE: April 19, 2022 for April 26, 2022

AGENDA ITEM: 6

ITEM IDENTIFICATION:

University of Toronto Asset Management Corporation Annual Report 2021, for the calendar year ended December 31, 2021

JURISDICTIONAL INFORMATION:

Pursuant to Section 5.1 (b) of the Business Board *Terms of Reference*, the Business Board has responsibility for reviewing regular reports on matters affecting the finances of the University and on financial programs and transactions. The Business Board accepts annual reports and financial statements for incorporated ancillaries.

GOVERNANCE PATH:

1. Business Board [For Information] (April 26, 2022)

PREVIOUS ACTION TAKEN:

The 2021 financial statements were approved by the UTAM Board at its meeting of March 18, 2022.

HIGHLIGHTS:

In 2021, UTAM managed three distinct portfolios of assets under investment management agreements between the University and UTAM:

- Long-Term Capital Appreciation Pool (“LTCAP”), which consists of certain endowment assets of the University of Toronto as well as other long-term assets;
- Expendable Funds Investment Pool (“EFIP”), which consists of short-term working capital assets of the University; and,

- University of Toronto Master Trust (“PMT”), which, up until June 30, 2021, consisted of the assets of the registered pension plan for University of Toronto employees. On July 1, 2021, the University of Toronto’s pension assets became part of the combined holdings governed by the University Pension Plan Ontario (UPP), a new entity jointly sponsored by the University of Toronto and two other Ontario universities. Decisions with respect to the investments of these pension assets became the responsibility of UPP’s Board of Trustees as of that date. Effective July 1, 2021, the University was appointed agent of the UPP Board of Trustees to provide investment services with respect to the pension assets in the PMT (and member services with respect to pension administration), and the University entered into an investment management agreement with UTAM to provide those investment services on its behalf. The agency agreement with respect to investment services and accordingly, the investment management agreement with respect to pension assets, terminated on March 31, 2022.

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

Investment Performance

The University has established investment targets for PMT and LTCAP at an annual investment return of 4.0% plus the increase in CPI, net of fees and expenses, over ten year periods. For the year ending December 31, 2021, the target investment return (including CPI) net of fees and expenses was 8.8% (2020: 4.7%). The actual investment return for the year was 15.0% (2020: 11.7%) for PMT and 14.9% (2020: 11.6%) for LTCAP. The actual investment return for the Reference Portfolio was 10.2% (2020: 11.8%). (Note that the Reference Portfolio is a theoretical passive portfolio that assumes a traditional 60%/40% equity/fixed income asset allocation and does not include any allocation to alternative assets or strategies).

In 2021, the actual PMT return earned by UTAM was higher than the Reference Portfolio return by 4.8% (15.0% - 10.2%) and higher than the target return by 6.2% (15.0% minus 8.8%). For LTCAP, the actual return earned by UTAM was higher than the Reference Portfolio return by 4.7% (14.9% minus 10.2%) and exceeded the target return by 6.1% (14.9% minus 8.8%).

Over the last 10 years, the Pension and Endowment portfolios both outperformed their target returns by 4.3% per annum. They also outperformed the Reference Portfolio by 1.4% and 1.5% per annum, respectively, adding more than \$964 million in additional value (on a combined basis) compared to a passive investment approach of the Reference Portfolio.

The actual return for the Expendable Funds Investment Pool (EFIP) in 2021 was 0.0%, which exceeded the target return of -0.4% by 0.4%. Over the last 10 years, the actual return in EFIP has exceeded the target return by 0.3% per annum.

Responsible Investing

UTAM continued to progress its responsible investing approach in 2021. The initial carbon footprint reduction target of 40% by 2030 (using the 2017 baseline) has been achieved. As of December 31, 2021, LTCAP's carbon footprint per million dollars invested was 51.6% lower than in 2017, and its absolute level of emissions were 27.6% lower. Having achieved this objective ahead of target, a number of new initiatives aimed at further combatting climate change were announced in October 2021. These included, among others, a commitment to divest LTCAP from investments in fossil fuel companies as well as a commitment to cut the net greenhouse gas emissions associated with investments in LTCAP to zero by 2050. As part of the commitment to net-zero, UTAM, on behalf of the University of Toronto, joined the United Nations-Convened Net-Zero Asset Owner Alliance (Alliance), making the University of Toronto the first university in the world to join the Alliance. Over the relatively short period since joining the Alliance, UTAM has become an active member, joining three of the Alliance's "work tracks". We are also currently working to establish a new carbon reduction target, consistent with the Alliance's target setting protocol. It should be noted that the UPP Board of Trustees assumed responsibility of responsible investing for PMT as at July 1, 2021.

Financial Statements

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

FINANCIAL IMPLICATIONS:

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RECOMMENDATION:

For information.

DOCUMENTATION PROVIDED:

- *University of Toronto Asset Management Corporation Annual Report, 2021, which includes the Auditor's Report and Audited Financial Statements and Notes.*



Investing in Tomorrow

How we help a great university
rise to the challenge of driving
positive change

UTAM has managed the assets of the University of Toronto since 2000, investing for the long term with a disciplined approach that reflects U of T's guiding purpose and foundational values. Every investment decision we make has a clear overarching goal: to support the efforts of students, faculty and staff at one of the world's leading centres of learning and research.

This commitment to amplifying impact is the focus of our 2021 Annual Report. In the following pages, our yearly performance update for UTAM stakeholders is complemented by stories of recent achievements in teaching, research and scholarship that reinforce U of T's global reputation for excellence.

We're constantly evolving UTAM's capabilities, from our leadership in responsible investing to our rigorous investment and risk management processes and our commitment to operational excellence. What anchors these efforts is our dedication to support the diverse stakeholders of Canada's largest university in their efforts to create positive, lasting change. Leveraging our deep experience in university asset management, we're investing in tomorrow.



Message from the Chair



Looking forward to the future

In 2021, the pandemic continued to disrupt the global economy, strain social infrastructure and take a dramatic toll on people's health, livelihoods and peace of mind. It was once again a challenging year, and I want to begin this annual message to stakeholders by expressing, on behalf of the Board of Directors, our deep appreciation to the entire UTAM team for showing such tenacity, flexibility and resolve in a difficult and constantly changing environment. Despite working remotely, often juggling personal responsibilities alongside work duties, you tackled the complex investment needs of the University of Toronto and once again delivered strong returns – for the year and, even more importantly, over the long term.

Adding to the challenges of an already full agenda, the past year also saw a significant change in UTAM's mandate. On July 1, 2021, the University of Toronto's pension assets became part of the combined holdings governed by the University Pension Plan

Ontario (UPP), a new entity jointly sponsored by U of T and two other Ontario universities.

To ensure a smooth transition, UTAM worked with UPP management for an initial nine-month period, facilitating their understanding of the portfolio and assisting with the establishment of the new organization. This required a concerted initiative at all levels, as a joint steering committee formed by the University and UPP oversaw the coordination of efforts between UTAM staff and their counterparts in the new organization. That the pension assets continued to be effectively managed right up to the official handover on April 1, 2022, is further testament to the skill, dedication and professionalism of the UTAM team.

Advancing the University's goals

This evolution of UTAM's role provided an opportunity to step back and assess how the capabilities and expertise we've developed over more than two decades could best be deployed going forward. U of T President Meric Gertler commissioned a panel of investment industry leaders to conduct a thorough review of UTAM's approach, processes, systems and people. The panel's report, presented in February 2022 to the Business Board of the University's Governing Council, concluded that UTAM has the appropriate structure and scale, as well as the proven skills and experience – notably in areas such as portfolio construction and rigorous risk management – to continue meeting U of T's investment needs into the future.

Moving forward, we expect to see the traditional close collaboration between UTAM and the University leadership grow even stronger as we work to ensure that our investment strategies align with, and help to advance, U of T's goals. This is especially evident in the area of responsible investing, where UTAM is a recognized leader among university asset managers. The University of Toronto has formally committed to divesting from fossil fuel companies in the Endowment portfolio, and to achieving net zero carbon emissions and other ambitious sustainability targets related to its investments. UTAM clearly has a crucial role to play in ensuring those commitments become realities.

Leadership in a pivotal year

The summer of 2021 also brought an important transition within UTAM. Daren Smith, who had served as President and Chief Investment Officer since 2016, left the organization to assume an executive position overseas. Daren was an exceptional leader

who advanced all dimensions of UTAM's investment processes and practices, including our role as an exemplar and advocate of responsible investing. He also fostered the leadership abilities of those around him – which enabled the Board to quickly implement our succession plan and appoint Chuck O'Reilly as President and CIO. After a decade with UTAM, most recently as Head of Public Equities, Chuck brings a wealth of experience in investment strategy, manager selection and portfolio construction to this role – along with an enthusiasm and personal drive that we know inspires the entire team as they tackle the challenges ahead.

As always, the Board is deeply grateful to the members of the University's external Investment Committee, superbly led by Co-Chairs David Denison and Geoff Matus, for their invaluable expertise and prudent oversight of UTAM's investment strategy and risk management framework. I am personally indebted to David and Geoff for their steadfast support and thoughtful guidance – and, of course, for ensuring that we look past short-term volatility and remain focused on the longer-term horizon. I'd also like to take this opportunity to acknowledge Sheila Brown, who retired this past year after serving as the University's Chief Financial Officer since 2005. Sheila was a key member of our Board of Directors and an engaged, supportive partner of UTAM as we've evolved to keep pace with U of T's changing investment priorities. And now we're pleased to welcome the University's new CFO, Trevor Rodgers, who brings a valued blend of financial expertise and deep institutional knowledge to the Board.

Lastly, let me underline my gratitude to everyone on the UTAM team, as well as my fellow Board members, for coming together during this pivotal year in a spirit of collaboration and mutual respect. While the pandemic is still with us as this report goes to press, most indicators suggest that the world is on a trajectory to recovery. Even though we may see continued economic uncertainty and further disruptions from the unfolding conflict in Ukraine, we remain confident in UTAM's solid record of managing assets for the long term. Building on our past success, we're looking forward to the future.

Richard B. Nunn FCA, ICD.D
Chair, UTAM Board of Directors

Message from the President and CIO



Investing with purpose

UTAM is responsible for managing the assets of the University of Toronto to generate, within established risk parameters, strong investment results over the long term. But as we've pursued this mission for more than two decades, we've also been guided by a higher purpose: to help a global centre of learning and research achieve its goals. Of course, our metrics of progress are primarily the quantifiable returns generated in the portfolios we manage. But we never lose sight of what effective investment strategies ultimately enable: sustaining the academic excellence and globally significant scholarship of Canada's largest university.

This year's annual report showcases that larger strategic purpose. Alongside our updates on UTAM's investment activities and performance, we profile some of the outstanding students, respected teacher-researchers and innovative academic programs that our work helps to support. We're grateful to the University of Toronto's Advancement team for sharing these stories of people and initiatives that exemplify our report theme, *Investing in Tomorrow*. And we're very pleased to feature a Q&A with David Palmer, U of T's

Vice-President, Advancement, who offers his perspective on UTAM's role in managing the Endowment as he oversees the launch of Defy Gravity – the largest university fundraising and alumni engagement campaign in Canadian history.

The metrics of confidence

The University's ambitious vision has a solid financial foundation, reinforced by consistent long-term returns. In 2021, we saw continued strong performance across all assets under UTAM's management. The Endowment* and Pension portfolios respectively delivered returns of 14.9% and 15.0% (net of all fees and expenses), outperforming the 10.2% return of the Reference Portfolio by 4.7% in Endowment and by 4.8% in Pension.

These positive results add up to one of the most successful years in UTAM's history, whether measured by absolute returns or by relative performance against the Reference Portfolio. Our ability to realize these returns despite the continued disruption of the pandemic is a testament to the dedication, knowledge, skill and experience of the team that we've worked hard to assemble, and that I'm proud to lead.

UTAM's long-term track record is similarly strong. The Endowment and Pension portfolios have generated annualized net returns of 9.9% and 10.0%, respectively, over the five-year period ending December 31, 2021. Over the 10-year period beginning in 2012, Endowment and Pension have realized annualized returns of 10.2% and 10.1%, respectively, net of all fees and expenses. These results exceeded the University's target returns for the same periods. And over the past 10 years, the Endowment and Pension portfolios have outperformed the Reference Portfolio by 1.5% and 1.4% per annum – a cumulative gain for the combined portfolios of more than \$964 million.

The past year saw similarly strong performance in the Expendable Funds Investment Pool (EFIP), principally comprising the University's working capital, which is invested over the short to medium term. EFIP assets can fluctuate significantly with changes in student tuition fees, staff and faculty salaries, facilities maintenance costs, government grants and investment gains or losses. At the end of 2021, EFIP was valued at \$3.0 billion, compared to \$3.1 billion at the end of 2020.

We're confident that we have the team and processes in place to build on this 22-year trajectory of growth across all our portfolios and sustain it into the future.

A transformative year

The past year also marked an important milestone in UTAM's evolution as the University of Toronto's asset manager. Effective July 1, 2021, the University of Toronto's pension assets became part of the combined holdings of the University Pension Plan Ontario (UPP), a new entity jointly sponsored by U of T and two other Ontario universities. Over the nine months following July 1, 2021, as UTAM Chair Richard Nunn explains in his message to stakeholders (see page 03), our team worked with their UPP counterparts to ensure a smooth transition, which was completed as planned on March 31, 2022.

This change in UTAM's mandate prompted Meric Gertler, U of T's President, to establish a panel of respected industry experts (many with long-standing connections to the University) to examine our structure, governance and capabilities. As an advisor to the working group, I provided relevant data and insights on all aspects of our operation. This collective effort yielded a consensus outlook on UTAM's future: we have the right blend of talent and expertise – appropriately scaled, and supported by effective systems and processes – to continue meeting the University's evolving investment needs as manager of the Endowment and short-term working capital assets. Moving forward, we will maintain our close collaboration with U of T's leadership.

A case in point is the University's decision, formally announced in October 2021, to divest from holdings in fossil fuel companies in the Endowment portfolio. This was accompanied by a pledge to achieve net zero carbon emissions associated with the Endowment by 2050, and to allocate 10% of Endowment assets to sustainable and low-carbon investments by 2025. For the University, these are the next steps in a multi-year effort to foster and advance sustainability, particularly through action on climate change. And for UTAM, it means building on and amplifying our commitment to responsible investing.

Our leadership in this area is well established. A fundamental trait of our organization over many years has been our incorporation of environmental, social and governance (ESG) factors in all investment decision-making, from asset allocation and manager

selection to the management of risk – as detailed in this annual report and covered more extensively in our yearly responsible investing reports. As part of this comprehensive approach, we also share ideas and promote best practices with other institutional investors through our participation in major responsible investing organizations and initiatives, in Canada and globally.


Our shared commitment

The important changes to UTAM's strategic agenda over the past year coincided with my appointment, in mid-July, as President and Chief Investment Officer. It's a role I'm proud to assume after more than a decade with this great organization. Our dedication to the values that define UTAM – excellence, integrity, collaboration, equity and sustainability – has only grown stronger during the pandemic, as we've not just persevered through adversity but surpassed the goals we set for ourselves. The UPP transition would have been a challenge in any year; that we were able to complete this critical work while balancing our other investment and operational responsibilities is a tribute to my colleagues' skill, tenacity and adaptability. My heartfelt thanks to everyone on the team.

I'd also like to express my gratitude to U of T President Meric Gertler for his strong support and wise counsel as I took on my new role, and throughout this transformational year for UTAM. I'm grateful as well to Trevor Rodgers, the University's Chief Financial Officer – and also to Pierre Piché, who served as interim CFO prior to Trevor's appointment – for their expertise and welcome guidance. UTAM's close collaboration with the University leadership remains foundational to our success.

As always, we're indebted to the University's external Investment Committee, and in particular Co-Chairs David Denison and Geoff Matus. Their strategic oversight, grounded in deep knowledge and experience, is invaluable as we balance risk and return while staying focused on long-term objectives. Lastly, I want to thank UTAM's Board of Directors, led by Chair Richard Nunn, for their astute insights and counsel, and for their confidence in our management team and the entire organization.

There will be further challenges in the year ahead, as the slow pivot to post-pandemic recovery is accompanied by concerns over inflation, rising interest rates, continuing supply chain disruptions and other economic drivers – within a broader context of geopolitical conflict and the clear impacts of climate change. But through such periods of uncertainty, we remain focused on the long term. And we have confidence in an investment approach that is built for resilience and looks past short-term fluctuations to reinforce, like the great university we serve, the value of investing in tomorrow.



Chuck O'Reilly, CFA, CAIA
President and Chief Investment Officer

Vision

To be one of the world's leading university investment managers.

Mission

To produce strong investment results over the long term, advancing the University of Toronto's goals for its portfolios through skilled investment management, leadership in responsible investing and prudent risk management.

Values

Excellence

- Strive to be the best, continuously learning and improving.
- Set high expectations and achieve ambitious goals.
- Exemplify and advance best practices in investment management.

Integrity

- Always do the right thing.
- Report transparently on our activities and results.
- Meet our commitments and be accountable for our actions.

Collaboration

- Operate as a cohesive team in an open, creative, high-performance culture.
- Work closely with the University, serving as a trusted partner.
- Partner with investment managers, service providers and others to our mutual benefit.

Equity

- Treat people of all identities, talents and perspectives equitably.
- Promote and actively foster diversity and inclusion.
- Respect, value and embrace the power of difference.

Sustainability

- Invest responsibly, applying an ESG lens and guided by a clear set of principles.
- Pursue and promote sustainability in how we invest and how we operate.
- Consider the long-term impact of every decision.

2021 highlights

Investment returns

Endowment 2021

14.9%

Pension 2021

15.0%*

Endowment 10-year

10.2%

Pension 10-year

10.1%

UTAM value added

Endowment 10-year

\$366 million

1.5% annualized outperformance

Pension 10-year

\$598 million

1.4% annualized outperformance

Endowment + Pension 10-year

\$964 million

Total assets under management

Endowment	Pension	EFIP
\$4.2	\$7.3	\$3.0
billion	billion	billion

at December 31, 2021

\$14.5 billion

at December 31, 2020

\$13.0 billion

Year-over-year increase

11.4%

2021 highlights

cont'd

Divestment and net zero commitments

In October 2021, University of Toronto President Meric Gertler announced three new sustainability commitments for the Endowment portfolio, intended to further the University's fight against climate change:

- **Divestment:** UTAM will divest the Endowment portfolio from all direct investments in fossil fuel companies within 12 months of the announcement. For investments in fossil fuel companies made indirectly, typically through pooled and commingled vehicles managed by third-party fund managers, UTAM will divest by no later than 2030, and sooner if possible.
- **Net zero:** UTAM will commit to achieving net zero carbon emissions associated with the Endowment portfolio by no later than 2050. As part of this commitment, UTAM joined the [UN-convened Net-Zero Asset Owner Alliance](#). UTAM's membership in the Alliance on behalf of the Endowment made U of T the first university in the world to join this group of institutional investors, which together represent in excess of US\$10 trillion in assets under management. Membership in the Alliance requires signatories to set and report their progress towards achieving targets every five years en route to net zero by 2050, ensuring achievement of this ambitious objective in a transparent and accountable way.
- **Low-carbon investments:** UTAM will allocate at least 10% of the Endowment portfolio to sustainable and low-carbon investments by 2025.

40% carbon footprint reduction

By the end of 2020, UTAM had achieved its stated carbon footprint reduction target of 40% for the equity component of the Pension portfolio. Given its similar investment mandate, the Endowment portfolio saw a similar reduction in its carbon footprint. This significant reduction from 2017 levels was achieved well ahead of the 2030 target, with further reductions in 2021. Compared to the 2017 baseline, the carbon footprints of the equity components of the Endowment and Pension portfolios realized cumulative reductions of 51.6% and 50.1% to the end of 2021, respectively. Importantly, at the end of 2021, the absolute carbon emissions in both portfolios were lower by more than 24% relative to 2017 levels.

Carbon footprint methodologies continue to evolve as asset owners seek to include additional asset classes in the calculation of carbon footprints. While the carbon footprints that UTAM has reported for the long-term portfolios have historically comprised equity and equity-like securities, we are now able to include corporate bonds in these calculations. Therefore, along with the University's commitment to achieve net zero carbon emissions associated with investments in the Endowment portfolio by 2050, UTAM will be expanding its carbon footprint calculation to include both corporate bond holdings and equity holdings.

To align with best practices and with methodologies recommended by the Net-Zero Asset Owner Alliance, UTAM will be recalculating a new baseline carbon footprint that includes both equities and corporate bonds, starting with holdings as at December 31, 2019. This new process will serve as the anchor in measuring future footprint reductions. Further disclosure on this methodology and the associated carbon footprint of the Endowment at December 31, 2019, will be included in UTAM's 2021 Responsible Investing Report.

PRI

UTAM became a signatory to the United Nations–supported Principles for Responsible Investment in 2016. We apply the PRI's six principles in our investment activities and participate in an annual evaluation of our responsible investing practices. In 2020, we received the highest mark possible (A+) across all six PRI categories, consistently scoring above the median. Although the PRI suspended its scorecard process in 2021 as a result of data collection issues, we expect preliminary results to be available at utam.utoronto.ca/responsible-investing in June 2022. The PRI expects its regular scorecard process and timelines to resume next year.

Recognition



For the second year in a row, UTAM was shortlisted for an International Corporate Governance Network (ICGN) Global Stewardship Disclosure Award. This award recognizes investors whose public disclosures provide genuine insight into their stewardship policies and how they have been implemented, and whose approach to transparency and reporting provides a model that others might follow.



Chief Investment Officer named Chuck O'Reilly, UTAM's President and CIO, to its [Class of 2021 NextGens](#). The highly competitive selection process for the annual NextGen list looks for talented, innovative and inspiring asset allocators from a global pool of nominees.

“Donors want to know that their contributions will make a difference.”

As U of T launches Defy Gravity, the largest fundraising campaign in Canadian history, David Palmer, Vice-President, Advancement, shares his perspective on the importance of donor support and the role of sound investment management in amplifying its impact.

Q: What part does charitable giving play in helping the University of Toronto fulfill its mission?

David Palmer: Donations are critical to the life of the University, as they not only create immediate impact but help ensure our long-term economic health. Every year, we receive several hundred million dollars in gifts and pledges from donors for urgent and impactful priorities. Most of this is in two forms: expendable donations – money that we spend throughout the year in maintaining U of T’s commitment to teaching and research excellence; and endowed donations, which we invest for the long term, and then use a portion of earnings to fund a wide variety of programs and initiatives.

Q: What added value does an endowed donation deliver?

A: The University’s motto is *velut arbor aevo*, which translates from Latin as “may it grow as a tree through the ages.” This captures the spirit of endowed giving at U of T. Our teaching and research mission is evergreen, spanning generations – and endowments support that mission by multiplying in value and impact over time. It’s also important to note that we’re not speaking here only about major donations, as vital as those are for funding new programs,

buildings and other large-scale initiatives. The University’s total endowment was \$3.2 billion at the end of our last fiscal year [April 30, 2021]* and comprised more than 6,700 individual endowment funds representing contributions from nearly 75,000 generous donors.

Q: Where do we see the day-to-day impact of these endowed donations?

A: The positive benefits that endowments create are visible across the U of T’s three campuses. But as with all our investments, impact is ultimately measured by the opportunities we create for our students. In our 2021 fiscal year, 43% of the University’s total endowment, or about \$1.35 billion, was dedicated to scholarships, bursaries and other types of essential student support. Other endowment funding goes to chairs and professorships, to academic programs, and to specific areas of research – all of which contribute to the supportive environment for young people developing as learners, investigators, innovators and future leaders.

*The “Endowment portfolio” managed by UTAM – also called the Long-Term Capital Appreciation Pool – is comprised of the University’s endowment funds plus other investment assets. As of April 30, 2021, U of T’s fiscal year-end, the total value of the Endowment portfolio was \$3.8 billion, including \$3.2 billion of endowment funds plus \$0.6 billion of other long-term assets. (At UTAM’s year-end – December 31, 2021 – the Endowment portfolio was valued at \$4.2 billion.)

Image of David
Palmer FPO

Image
Placeholder
FPO

Q: A priority of the Defy Gravity campaign is to strengthen and enhance inclusive excellence. How will that be reflected in the allocation of endowment funds?

A: The University of Toronto is committed to making a truly excellent education accessible within a welcoming and caring community. None of our peers among the top 20 universities worldwide is able to make this kind of commitment on the scale that we can, given our size and our context – as a school rooted in and reflecting one of the world’s most diverse city regions. Notably, close to 50% of first year undergraduate students come from families with incomes less than \$50,000. And close to 50% of all first-entry undergrads receive some form of non-repayable financial aid directly from U of T, including admission or in-course scholarships, or bursaries. The support that our donors provide to students through endowed donations has a life-changing impact on tens of thousands of young people each year.

We strive for that same impact in everything U of T does – locally, nationally and globally – as an engine of opportunity and social mobility. We believe that talent can come from any postal code, and a cornerstone of Defy Gravity is our pledge to remove barriers to inclusion and social equity wherever they appear, so our entire community can thrive in an environment of belonging. At the same time, we’re encouraging students, faculty, staff and alumni to push the boundaries of knowledge and opportunity, and to roll up their sleeves to help strengthen communities – in our backyard and around the planet.

Q: What about donors – how do they see themselves contributing to this vision?

A: In my experience, most donors have a common goal: to create positive change in the world. They want to advance new ways of addressing issues and challenges that they care about deeply. And most recognize that not all problems can be solved with a quick fix. Endowed donations, by definition, are focused on the long term. They extend learning, inquiry and innovation toward horizons that are measured not in months or quarters, but in years and generations.

Q: Do donors apply the same time frames in looking at how their endowments are invested?

A: Absolutely. Donors want to know that their contributions will make a difference today and will continue to advance learning and scholarship in the future. This is where we point to UTAM, our university asset manager, which has been investing the University’s endowed and expendable assets for more than 20 years. UTAM has generated substantial returns, especially over the past decade, and has earned the confidence of the U of T community through its efforts to provide accessible information and transparent reporting. Many donors are especially pleased to see UTAM’s leadership in responsible investing. They recognize that weighing environmental, social and governance factors in all investment decisions not only aligns with the University’s commitment to foster sustainability and climate action, but is in fact crucial to maintaining the level of returns that will sustain the power of endowment giving over time.

Q: Lastly, how will the bold vision of this new Defy Gravity campaign translate into specific actions going forward?

A: Defy Gravity showcases the fundamental strengths that define this University – academic excellence, equity and compassion – as we tackle the most urgent social, environmental, economic and health-related challenges of our time. The campaign will help shape a post-pandemic recovery that not only delivers economic growth but also addresses entrenched problems such as inequality, systemic racism and the erosion of trust in democratic institutions. In the face of catastrophic climate change, it will help power a clean-tech revolution. The support this campaign attracts will leverage breakthroughs in AI, data science and biology to treat chronic disease and improve mental health – and to prevent future pandemics. And the efforts it inspires will strengthen the cultural communities that sustain us while educating the next generation of engaged, empathic citizens who will drive social progress.

Defy Gravity does indeed have a bold vision. We have set ourselves a fundraising goal of more than \$4 billion and an alumni engagement goal whereby, over the course of this new campaign, we will engage with 225,000 alumni as volunteers, mentors, donors and leaders, encouraging them to contribute their time and talent to U of T one million times. These are both unprecedented goals in Canadian history. We’re inviting donors to join us in advancing the frontiers of knowledge, igniting innovation and creating life-changing opportunities for students of diverse backgrounds with a shared hope for the future. Because investing in them is, as the theme of UTAM’s annual report suggests, *investing in tomorrow*.

A uniquely experienced asset manager

Over the past 22 years, UTAM has evolved into a sophisticated investment management firm focused on meeting the high expectations of our sole client.

Since our founding as an independent corporation in 2000, we've been exclusively responsible for managing investment portfolios on behalf of the University of Toronto. In that time, we've steadily evolved UTAM's investment, risk management and operational processes, incorporating new knowledge and lessons learned as we strive for excellence. We apply the insights gained through experience – and through judiciously testing, learning and innovating – to continuously refine how we manage complex portfolios while balancing our client's long-term objectives.

As we often point out, UTAM was created *by a university for a university*. We embrace U of T's guiding values and understand the challenges and opportunities that shape its outlook. And after more than two decades of working on behalf of Canada's largest university, we appreciate the nuances of its strategic priorities and governance structures. We also know the importance of explaining our investment approach and providing detailed financial information through reporting that is accessible to a diverse range of stakeholders.

UTAM, like the institution we serve, never stops moving forward. We're constantly enhancing and extending our capabilities while maintaining a prudent and disciplined approach to asset management. We're committed to ensuring transparency and accountability through robust governance processes that reflect industry best practices. And as we work to sustain strong risk-adjusted returns while adhering to U of T's policy guidelines and commitments, we stay focused on realizing our vision: *To be one of the world's leading university investment managers.*

University of Toronto
Asset Management Corporation



“Innovation is hope in the human ability to bring change.”

Prof. Dan Breznitz, the Munk Chair of Innovation Studies, has earned global recognition for showing how innovation transforms rapid-growth industries and entire communities.



“Innovation is not just the invention of new shiny things. If it was, it would have a feeble effect on economic growth and welfare. We should care about innovation, because it is the only way to ensure sustained long-term economic and human-welfare growth, not because it is new or cool.”

Observations like these reflect the kinds of insights that have established the University of Toronto’s Prof. Dan Breznitz as a leading expert on the power of innovation to shape industries, communities and entire societies for the better. The Munk Chair of Innovation Studies at the Munk School of Global Affairs & Public Policy, Prof. Breznitz has built a worldwide reputation as an expert in rapidly innovating industries and their global growth. His latest book, *Innovation in Real Places: Strategies for Prosperity in an Unforgiving World* received the inaugural Balsillie Prize for Public Policy, a prestigious \$60,000 annual award for nonfiction works that advance policy debates on social, political, economic or cultural topics relevant to Canadians. It was also ranked among the top books of 2021 by the *Financial Times* and the management consultancy McKinsey and Company, among others.

In addition to his teaching and research at the Munk School (and via a cross-appointment in the Political Science department),

Prof. Breznitz is Co-Director of the Innovation Policy Lab, a collaboration hub whose mission is “to study, teach and apply novel methods and disciplines to the study of innovation and its impact on growth and society.” He is also a Fellow of the Canadian Institute for Advanced Research (CIFAR), where he co-founded and co-directs the program on Innovation, Equity and the Future of Prosperity.

During the past year, Prof. Breznitz added to his distinguished CV: he was named University Professor, the designation extended to just a handful of U of T faculty members in recognition of their scholarly achievement and international pre-eminence. “It’s a great honour,” Prof. Breznitz says, “to become a part of a group of scholars I’ve viewed as mentors all my life. I’m especially delighted that my work – on the distributional outcomes of innovation, and the public policy choices that affect this distribution – has been recognized as an exciting area of research U of T is pioneering.”

The rigorous scholarship and creative thinking that define Prof. Breznitz’s work are driven by the urgent demands of a fast-changing world, but also by a deep sense of purpose. As he sums it up: “Innovation is hope – hope in the human ability to bring change, and hope that, more often than not, human-brought change will lead us all toward a better world.”

*The Munk Chairs and other endowed professorships at the University of Toronto are among the most significant academic appointments in Canada. They enable the University to attract respected educators and thinkers from around the world, who in turn attract top talent – including graduate students, postdoctoral fellows and early/mid-career faculty – as U of T continues to enhance its degree and research programs. Chairs and professorships accounted for about 29%, or \$925 million, of the total \$3.2 billion in endowment funds held by the University as of April 30, 2021.**



Prof. Dan Breznitz
Munk Chair of Innovation Studies

*The “Endowment portfolio” managed by UTAM – also called the Long-Term Capital Appreciation Pool – is comprised of the University’s endowment funds plus other investment assets. As of April 30, 2021, U of T’s fiscal year-end, the total value of the Endowment portfolio was \$3.8 billion, including \$3.2 billion of endowment funds plus \$0.6 billion of other long-term assets. (At UTAM’s year-end – December 31, 2021 – the Endowment portfolio was valued at \$4.2 billion.)

Expertly managing the assets entrusted to us

In working to deliver sustainable value to the University of Toronto and its stakeholders, UTAM does not simply make investments and monitor the returns. We constantly broaden and deepen our capabilities while enhancing our investment processes and systems. We invest with discipline and transparency, measuring our performance against objective benchmarks and targets. As we build and protect the assets entrusted to us, we look beyond short-lived market fluctuations to focus on the long term.

Our efforts reinforce the financial foundation that allows Canada’s largest university to achieve its goals. Together, we help ensure that U of T’s endowment funds maintain purchasing power over time, reliably supporting thousands of beneficiaries each year. Equally important, UTAM’s management of the Pension portfolio – securing long-term growth that has outperformed its targets – has provided a secure retirement for thousands of employees who contributed to teaching, research and operations at one of the world’s leading universities.

Established as a separate corporation by the University of Toronto in 2000, UTAM invests funds according to objectives and guidelines set by the University’s administration and the Investment Committee, as well as U of T’s Business Board and Pension Committee. In fulfilling this mandate, we don’t typically make direct investments in traded securities. Rather, UTAM follows what is known in the investment industry as a manager of managers approach. We select investment managers that we believe are best in class using an assessment process framed by our commitment to responsible investing. We then evaluate their performance against our risk and return expectations, taking into account the market environment.

UTAM focuses exclusively on investing University-owned assets. In 2021, we managed three distinct portfolios: Endowment, Pension and short-term working capital.

Assets under management

Endowment

Known formally as the Long-Term Capital Appreciation Pool, the Endowment portfolio (as we refer to it in this annual report) consists primarily of certain endowment assets of the University of Toronto but also includes other funds invested for the long term. The size of this portfolio changes in value with contributions, investment gains/losses and withdrawals (e.g., to fund Endowment initiatives). At the end of 2021, the assets in this pool had a value of **\$4.2 billion**, up from **\$3.7 billion** at the end of 2020.

Pension

The assets of the pension plan for University employees* comprise what is officially called the University of Toronto Master Trust. Changes in the value of this portfolio reflect employer and employee contributions, pension payments to retirees and investment gains/losses. At the end of 2021, pension assets totalled **\$7.3 billion**, up from **\$6.3 billion** at the end of 2020.

Short-term working capital

Expendable University funds that can be invested over the short to medium term make up the Expendable Funds Investment Pool (EFIP). Principally comprising the University’s working capital, EFIP assets can fluctuate significantly in the course of a year. Factors that affect these fluctuations include student tuition fees, staff and faculty salaries, facilities maintenance costs, government grants and investment gains/losses. At the end of 2021, EFIP was valued at **\$3.0 billion**, down from **\$3.1 billion** at the end of 2020. This reduction in the value of EFIP was driven by net outflows to support University operations during the year.

Endowment

2021: **\$4.2 billion**



2020: **\$3.7 billion**



Pension

2021: **\$7.3 billion**



2020: **\$6.3 billion**



Short-term working capital

2021: **\$3.0 billion**



2020: **\$3.1 billion**



*On July 1, 2021, the University of Toronto’s pension assets became part of the combined holdings governed by the University Pension Plan Ontario, or UPP, a new entity jointly sponsored by the University of Toronto and two other Ontario universities. Decisions with respect to investment of these pension assets are now the responsibility of UPP’s Board of Trustees.

UTAM's timeline

The following timeline reflects significant events and milestones in UTAM's history; those relating to responsible investing are in [green type](#).

2000

- University of Toronto Asset Management Corporation was formally established by the Governing Council of the University of Toronto

2005

- Registered with the Ontario Securities Commission

2008

- [UTAM joined the Canadian Coalition for Good Governance \(CCGG\)](#)

2010

- The Investment Advisory Committee was formed to provide advice and guidance to UTAM management

2011

- Chuck O'Reilly joined UTAM in May 2011
- UTAM appoints its first Chief Risk Officer

2012

- Implemented a comprehensive risk system
- UTAM adopted the Reference Portfolio for performance and risk benchmarking, as recommended by the Investment Advisory Committee

2013

- Introduced a performance attribution system framework to help analyze performance along a variety of dimensions

2016

- The expert external Investment Committee replaced the Investment Advisory Committee
- Relunched our website and annual report to enhance transparency and communications with stakeholders
- U of T's President, Meric Gertler, published [Beyond Divestment: Taking Decisive Action on Climate Change](#)
- Institutional Shareholder Services' Sustainability Policy implemented where possible for proxy voting
- Became a signatory to the Principles for Responsible Investment (PRI) on behalf of U of T's Endowment and Pension Plan
- Became a signatory to CDP (formerly known as the Carbon Disclosure Project)
- Joined the Responsible Investment Association (RIA)

2017

- Doug Chau, UTAM's CRO, joined the PRI's Asset Owner Technical Advisory Committee
- Representation on the Investor Stewardship Committee of the Pension Investment Association of Canada (PIAC)
- Signed the Montréal Carbon Pledge
- Published our [Responsible Investing Policy](#)
- Published first annual [responsible investing report](#), covering 2016
- Joined Climate Action 100+

UTAM's timeline

Continued from page 13

2018

- Assets under management exceeded \$10 billion for the first time
- Lisa Becker, COO, joined the board of the Responsible Investment Association (RIA)
- UTAM received four A+ scores and one A in our first PRI assessment
- Published the first [carbon footprint report](#) for the Endowment and Pension portfolios
- Joined the 30% Club Canada and its Investor Group
- Joined the Intentional Endowments Network (IEN)
- Became a member of the Standards Board for Alternative Investments (SBAI)
- Achieved carbon neutrality in our operating activities

2019

- Endowment assets exceeded \$3 billion for the first time
- Received five A+ scores and one A in our second PRI assessment
- Became a signatory of the Global Investor Statement to Governments on Climate Change

2020

- UTAM celebrates its 20th year of operations
- Joined the International Corporate Governance Network (ICGN) and endorsed the organization's Global Stewardship principles
- Published our second carbon footprint report for the Endowment and Pension portfolios and announced our goal to reduce their carbon footprint by 40% compared to 2017 levels by 2030
- Endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) on behalf of U of T – the first Canadian university to do so with respect to its Endowment or Pension funds
- Published our [2019–2020 Responsible Investing Report](#), including our inaugural disclosures in line with the TCFD recommendations
- Received the highest possible scores (A+) in our third PRI assessment, above median in all six categories

2021

- Chuck O'Reilly appointed President and Chief Investment Officer
- U of T President Meric Gertler commissioned a [review of UTAM's scope and governance](#), which concluded that UTAM continues to serve the University effectively
- *Chief Investment Officer* named Chuck O'Reilly to its Class of 2021 NextGens, a global list of 25 leading asset allocators in institutional investing
- Joined the UN-convened Net-Zero Asset Owner Alliance; UTAM's membership makes U of T the first university in the world to join
- Committed to divesting from fossil fuel companies
- Committed to achieving net zero greenhouse gas emissions in Endowment portfolio by 2050
- Committed to allocating 10% of the Endowment portfolio to sustainable and low-carbon investments by 2025
- Joined a coalition of Canadian university endowments and pension plans to launch the University Network for Investor Engagement (UNIE), leveraging participants' collective power to address climate change portfolio risks

- Shortlisted for an International Corporate Governance Network (ICGN) 2021 Global Stewardship Award
- Became a founding participant of Climate Engagement Canada (CEC), a collaborative engagement initiative promoting a just transition to a net zero economy

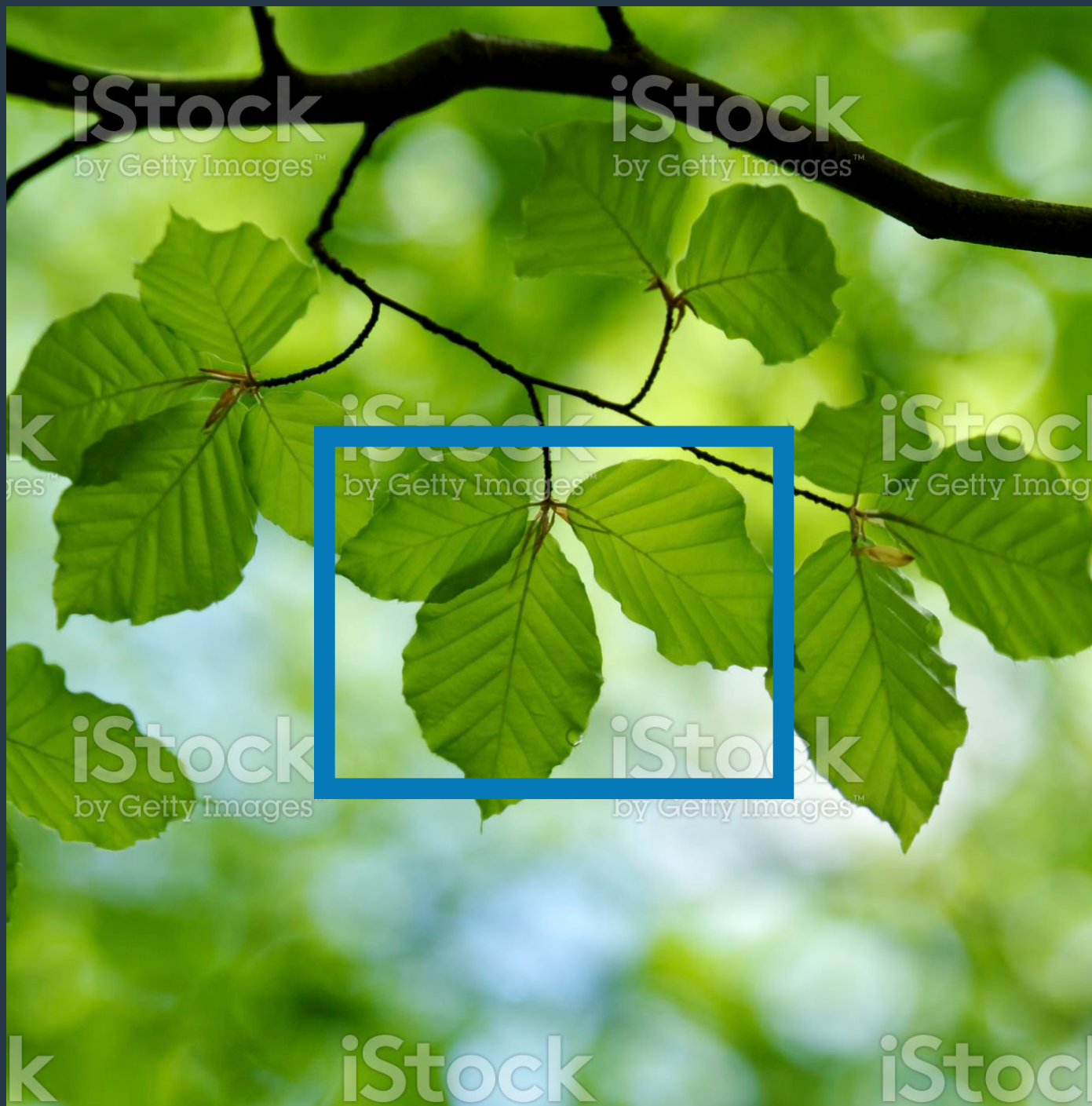
A leader in responsible investing

UTAM is recognized among asset managers for our comprehensive approach to weighing ESG investment factors in light of U of T's commitment to sustainability.

In 2016, the University released *Beyond Divestment: Taking Decisive Action on Climate Change*. With the publication of this white paper, we began managing the Endowment and Pension assets using an approach that more explicitly and rigorously applied an environmental, social and governance (ESG) framework. In the same year, we became a signatory to the Principles for Responsible Investment (PRI) and began incorporating the six PRI principles into our ESG integration strategy.

In pursuing this strategy, we evaluate how UTAM's external managers integrate ESG factors into *their* investment processes. We consider ESG in our research and analysis, in our investment decision-making, in our reporting and disclosure practices, and in stewardship activities such as engagement, proxy voting and advocacy. And as active owners, we play a leadership role in various responsible investing organizations and initiatives – collaborating with other institutional investors, and helping establish best practices in Canada and worldwide.

In a major milestone of progress, the University committed to a 40% reduction in the carbon footprint of its long-term assets (relative to 2017 levels) by 2030. UTAM achieved this target by year-end 2020 – nearly a decade ahead of the original deadline. On the heels of this success, in October 2021, University of Toronto President Meric Gertler announced a new set of ambitious carbon-reduction goals for the Endowment portfolio: to divest from investments in fossil fuel companies (within 12 month of the announcement for direct exposure and by 2030 for indirect exposure); to achieve net zero carbon emissions associated with the portfolio by 2050; and to invest 10% of the portfolio in sustainable and low-carbon investments by 2025.



“This award gave me great encouragement.”

Scholarship winner Katherine Dolan, a co-op student in physical and environmental sciences at U of T Scarborough, can focus her energy on pursuing her academic goals.

In March 2020, Katherine Dolan had just started her final term of high school in the Toronto suburb of Scarborough and was weighing her options for post-secondary studies. Then the global pandemic hit, and for Katherine, as for countless other university-bound students, the future was suddenly far from clear. Overnight, complicated decisions around what school or program to choose became even more difficult – and very stressful.

With the traditional university experience disrupted by health protection measures, Katherine wondered if she should even enroll anywhere. She was eager to earn a degree, but maybe she should wait until on-campus studies were fully restored. Plus, there was the cost to consider: a university education was a significant investment for the teenager and her family, and she wanted to be certain she could bring her best to the challenge.

Fortunately, as she was wrestling with these uncertainties, a door of opportunity opened: Katherine was awarded the Scarborough Frank Faubert Scholarship for students entering their first year at University of Toronto Scarborough (UTSC). Named for the community’s late mayor – remembered as a champion of the Rouge National Urban Park – the scholarship recognizes students from the region who demonstrate academic merit.

For Katherine, the good news was not only validating but resolved her dilemma: she quickly enrolled in the physical and environmental sciences co-op program at UTSC. “The scholarship alleviated my stress over whether I could afford the schooling necessary to pursue

a career,” she says. “I know how competitive the employment market is, so this has made a real difference in my journey. Despite having lost two jobs because of the pandemic, I was able to enter first year confidently, focused on studying rather than wondering if going to university right now was the economically right decision.”

What attracted Katherine to UTSC? “I was impressed by how I could combine courses

from different disciplines,” she says. Going forward, she plans to blend biochemistry and anthropology in her undergraduate studies while seeking work-term opportunities related to her deep interest in humanity’s past. Looking further down the road, she has her sights set on graduate school and hopes to combine practical fieldwork with curatorial studies or other activities grounded in history and anthropology.

For Katherine, a future that once felt so uncertain is now filled with promise. And the support that has made it possible was also a crucial vote of confidence: “Receiving this award provided me with great motivation and encouragement.”

Katherine’s scholarship is one of several awarded by UTSC in honour of long-time municipal and provincial politician Frank Faubert (1931–1999). The endowed gifts that support them are among more than 6,700 individual funds contained within the Endowment portfolio managed by UTAM.



Image Placeholder FPO

Katherine Dolan
Co-op Student, Physical and Environmental Sciences, UTSC

Our commitment to responsible investing

At UTAM, we integrate environmental, social and governance (ESG) factors into our investment decision-making, stewardship activities (engagement, proxy voting and advocacy), and reporting and disclosure. Our Responsible Investing Committee and all investment, operational due diligence and risk management staff routinely consider ESG risks and opportunities.

UTAM's formalized approach to responsible investing is consistent with our fiduciary duty and complements our overall investment strategy for the assets that the University has entrusted to us. We pursue a responsible investing approach because we believe that material ESG factors can have a significant impact on investment returns. By integrating ESG considerations into our investment activities, we believe we can make better-informed decisions and ultimately achieve better outcomes for the portfolios we manage on behalf of the University.

Our annual responsible investing reports detail how we weigh material ESG factors in our investment decision-making processes. They are available on our website, along with our carbon footprint reports (incorporated into our responsible investing reports, starting in 2020), Principles for Responsible Investment (PRI) reports, Responsible Investing Policy and updates on our responsible investing activities.

As our approach to responsible investing has evolved, we've assumed leadership roles in various responsible investment organizations, and we're helping to identify, shape and promote best practices. For example, our President and CIO, Chuck O'Reilly, is on the steering committee of the Intentional Endowments Network (IEN). Our Chief Risk Officer, Doug Chau, is a member of the Principles for Responsible Investment (PRI) Asset Owner Technical Advisory Committee, which provides advice, tools and support to asset owners implementing the principles. And our Chief Operating Officer, Lisa Becker, is a board member and executive committee member of the Responsible Investment Association. She is also a member and former chair of its Governance Policy Committee and now, as Treasurer, chairs its Finance & Audit Committee.

UTAM is a leader among institutional asset owners in responsible investing. With UTAM's membership in the UN-convened Net-Zero Asset Owner Alliance (NZAOA), for example, the University of Toronto became the first university in the world to join this group of 66 institutional investors. Joining NZAOA reaffirms our commitment to achieve net zero carbon emissions associated with the Endowment portfolio by no later than 2050. Other notable responsible investing and ESG-related activities in 2021 are included in our timeline on page 13 and 14.

PRI scorecards

UTAM is a signatory to the Principles for Responsible Investment (PRI), the world's leading proponent of responsible investment. The organization publishes PRI scorecards for its signatories, an assessment of progress in implementing responsible investing practices over time, across asset classes and in comparison to peers at the national and global levels.

We have completed three [PRI scorecard assessments](#). In 2020, we received the highest mark possible (A+) across all six categories for our responsible investing activities, and once again we scored higher than the median PRI signatory in all applicable categories.

We aim to maintain this high standard in future assessments. As previously mentioned, PRI scorecard reporting has been delayed but we expect to post preliminary results for the 2021 scorecard (for the period ending calendar year 2020) at utam.utoronto.ca/responsible-investing in June 2022.

Portfolio carbon footprint

In September 2017, UTAM joined more than 120 global investors – collectively responsible for over US\$10 trillion in assets under management – in signing the Montréal Carbon Pledge. Aligned with the Paris Agreement on climate change, the pledge reinforces our commitment to measure and disclose the carbon footprints of the University’s long-term investment portfolios.

In our [2019 Carbon Footprint Report](#), we announced an ambitious goal of reducing the carbon footprint of the Endowment and Pension portfolios by 40% compared to 2017 levels by 2030, measured by tonnes of CO₂ equivalent per million dollars invested (tCO₂e/\$M). Our analysis for the Pension portfolio’s carbon footprint includes public equities, private equity, private real estate and private infrastructure investments.

At the end of 2020, UTAM had achieved its stated carbon footprint reduction target of 40% for the equity component of the Pension portfolio (given its similar investment mandate, the Endowment portfolio saw a similar reduction in its carbon footprint). This significant reduction from 2017 levels was achieved well ahead of the 2030 target. The carbon footprints of the equity components of the long-term portfolios were further reduced in 2021. Compared to the 2017 baseline, the carbon footprints of the equity components of the Endowment and Pension portfolios realized cumulative reductions of 51.6% and 50.1% to the end of 2021, respectively. Importantly, at the end of 2021, the absolute carbon emissions in both portfolios were lower by more than 24% relative to 2017 levels.

We are pleased with these results and are committed to continue lowering the carbon footprint and absolute emissions in the years to come. To this end, as required of members of the Net-Zero Asset Owner Alliance, we will be setting a new carbon reduction target for the Endowment for the period ending December 31, 2024, using December 31, 2019 as the new baseline year, as recommended by the Alliance. (Beginning April 1, 2022, UPP is responsible for the management of Pension portfolio, including any associated carbon reduction initiatives.) Also, as previously discussed, we will be expanding the assets covered by the carbon footprint measure to include corporate bonds (i.e., in addition to equities). Further disclosure on this methodology and the associated carbon footprints of the Endowment will be included in the 2021 Responsible Investing Report.

Climate Action 100+

In 2017, UTAM, on behalf of the University of Toronto, became a founding participant in Climate Action 100+, the largest-ever investor engagement initiative on climate change. In January 2022, the initiative reported more than 615 investor signatories representing approximately US\$65 trillion in assets under management. The initiative focuses on engagement with 167 companies that have significant greenhouse gas emissions and/or are critical to the net zero emissions transition and to meeting the objectives of the Paris Agreement. We have seen great progress since the initiative was launched, with a number of focus companies making public and private commitments that align with the initiative’s objectives.

UTAM has joined other investors in engagement activities with a number of the focus companies. The following are a few examples of companies that made climate-related commitments in 2021:

- **Ford Motor Company, General Motors, and PACCAR**, three major North American automobile and truck manufacturers, each set medium-term Science Based Targets initiative (SBTi) verified targets. Both Ford’s and General Motors’ Scope 1 and 2 emissions targets are aligned with limiting warming to 1.5°C.
- **LyondellBasell**, one of the world’s largest plastics, chemicals and refining companies, announced its ambition to achieve net zero emissions from its global operations by 2050, and to achieve an absolute reduction of 30% in Scope 1 and 2 emissions by 2030.
- **Rolls-Royce**, a leading FTSE100 aerospace and defence company, mapped out detailed decarbonization plans. The company committed to making its civil aero-engines compatible with 100% Sustainable Aviation Fuel by 2023 and embedded this target into its executive remuneration policy.

Our operations are carbon neutral

UTAM as a corporation continues to be substantially carbon neutral. In 2021, we continued our program of purchasing carbon offsets to mitigate the carbon footprint of our business travel, our electricity and gas consumption, and our use of paper. We recognize that purchasing carbon offsets is not a perfect or complete solution to mitigating the climate impact of our activities. However, we feel it is an important step in the right direction. To cover our activities in 2021, we purchased carbon offsets representing 40 tonnes of CO₂ equivalent. In 2021, as in 2020, our carbon offset purchase was significantly lower than in years past, reflecting reduced travel due to the pandemic.

A skilled, focused professional team

Everyone at UTAM brings their expertise and experience to our shared purpose: delivering the best possible long-term investment outcomes, within established risk parameters, for U of T and its stakeholders.

UTAM fosters a professional, high-performance and highly collaborative culture in which we all strive for the goal of maximizing long-term returns within a prudent risk management framework. The investment team and their colleagues across the organization bring complementary skills and experience to assessing investment strategies and managers, constantly seeking ways to enhance our approaches and processes as we build on lessons learned. While many of us have specific domains of expertise, we believe the exchange of ideas among team members with differing perspectives – in an open forum that promotes intellectual debate – ultimately leads to better decision making.



Governance: collaboration and oversight

From our founding, UTAM has been a separate corporation accountable to the University of Toronto. Our entire focus is on managing assets for the University, which oversees our business activities and selects the independent Investment Committee to provide expert advice on our investment objectives and activities. As UTAM has evolved, our commitment to sound governance has only deepened, shaping our unique collaborative culture and underpinning all dimensions of our mission.

UTAM Board of Directors

A corporation without share capital, UTAM is governed by a Board of Directors whose members are nominated by the University of Toronto. The Board approves our annual corporate budget and certain key policies (e.g., our Responsible Investing Policy) and oversees matters such as regulatory compliance, enterprise risk and executive compensation. While it does not guide investment strategy (that is the mandate of the University's Investment Committee), the Board is focused on ensuring that UTAM has developed an effective investment management infrastructure and organization in order to fulfill the responsibilities delegated to it by the University of Toronto.

Members

Richard B. Nunn (Chair)

Independent Director

Meric S. Gertler

President, University of Toronto

Trevor Rodgers

Chief Financial Officer, University of Toronto

Alan D. White

University of Toronto Faculty Association (UTFA) Appointee
Professor, Rotman School of Management (emeritus)

Chuck O'Reilly

President and Chief Investment Officer, UTAM

In July of 2021, Sheila Brown retired from her role as the University's Chief Financial Officer, a position she held since 2005. In that role, she served for many years on UTAM's Board of Directors and was instrumental in the transition to the newly created University Pension Plan (UPP). On her retirement, Meric Gertler described her as a giant of the University community and a consummate professional who has made an indelible, positive impact. Her wise counsel and dedicated service have greatly benefitted UTAM and its Board. "Sheila was an unparalleled source of University institutional knowledge and so generous in her support of UTAM," says Lisa Becker, UTAM's Chief Operating Officer. The Board and all at UTAM recognize and thanks Sheila, and we wish her well in her retirement.

U of T Investment Committee

The five members of the Investment Committee (IC) are all appointed by the President of the University of Toronto. They bring a wealth of senior-level investment industry experience to their oversight of UTAM's efforts to grow the University's investment assets managed by UTAM.

The IC's responsibilities include:

- recommending investment strategy, including explicit risk and return objectives, to the University administration
- approving various elements of strategy execution proposed by UTAM's management
- overseeing our investment activities and monitoring performance
- providing input on the hiring, compensation and evaluation of UTAM's senior leadership team

The IC reports directly to U of T's President and collaborates extensively with the University administration and UTAM's Board. The IC is empowered to provide direct input to UTAM's management team, conveying the President's objectives and instructions, and acting on his behalf with regard to all relevant investment-related activities.

UTAM meets formally with the IC every quarter and has ad hoc interactions as needed to discuss emerging issues and seek expert advice. We're extremely fortunate to have such a distinguished and highly qualified group of volunteer advisors actively engaged in overseeing our investment management activities. The University and its stakeholders benefit immeasurably from the IC members' insights, experience and wise counsel.

Members

David Denison (Co-Chair)

A corporate director with extensive experience in the financial services industry, Mr. Denison served as President and CEO of the Canada Pension Plan Investment Board from 2005 to 2012. He was previously President of Fidelity Investments Canada. He also sits on the boards of Royal Bank of Canada and BCE and is Chair of the Board of Element Fleet Management Corporation.

Geoff Matus (Co-Chair)

A co-founder (in 1988) of Tricon Capital Group, Mr. Matus remains on the company's board, serving as Chair of the Executive Committee and as a member of the Investment Committee. He is also Chair and co-founder (in 1998) of Cidel, a global financial services group. In addition, he is on the board of the MaRS Discovery District, chairing the Real Estate Committee, and is Co-Chair of U of T's Real Estate Advisory Committee.

Brent Belzberg

Mr. Belzberg is the founder and Senior Managing Partner of TorQuest, a private equity firm based in Toronto. From 2000 to 2021, he was a director on the board of CIBC and is the immediate past Chair of the Board of the Sinai Health System.

Heather A. T. Hunter

Retired after nearly 40 years in the investment industry, Ms. Hunter most recently served as VP and Head of Canadian Equities at Invesco, a global investment manager. She was previously Vice President, Equities at the Ontario Teachers' Pension Plan Board from 1990 to 1999.

Craig Rimer

The Chief Executive Officer of Cidel Bank Canada, Mr. Rimer is also Chairman of Cidel Asset Management.

The University of Toronto's President and its Chief Financial Officer, as well as the Chair of UTAM's Board of Directors, are ex officio observers of the IC.

Other U of T oversight

UTAM's relationship with the University of Toronto is governed by a formal delegation of authority, which empowers us to act as the University's agent, and by an investment management agreement specifying the services to be provided by UTAM. Within that framework, we collaborate formally and informally with many areas of the University administration. We value this mutually supportive relationship, and we're committed to serving the University and its stakeholders with the utmost diligence and care.

University Administration

UTAM's President and CIO typically meets with U of T's Chief Financial Officer every two weeks, and with the President quarterly. UTAM works closely with the University's Financial Services Department, collaborating on cash and expense management, stakeholder reporting, various audits of the University's investment portfolios, and other aspects of UTAM's operations.

Business Board

Established by the University's Governing Council, the Business Board approves investment risk tolerance and return targets for the Endowment and EFIP portfolios, delegating approval of asset allocation to U of T's President, who in turn relies on the advice of the Investment Committee. UTAM reports to the Business Board on the management and performance of all portfolios every six months.

Pension Committee

We reported regularly to the Pension Committee, which was responsible for approving investment risk tolerance, return targets and the policy asset allocation (i.e., the Reference Portfolio) for the Pension portfolio, guided by the recommendations of the University administration. In early 2022, the committee was dissolved, following the completion of its final duties with respect to the University of Toronto Pension Plan, the assets and liabilities of which were transferred to University Pension Plan (UPP) as of July 1, 2021.

UTAM compliance**Investment Compliance**

UTAM is registered as a Portfolio Manager under securities legislation and is regulated by the Ontario Securities Commission. Consistent with our fiduciary duty, stewardship obligations and applicable regulatory requirements, we have implemented a comprehensive program of policies, procedures, processes, controls and monitoring designed to achieve compliance with applicable regulations, client investment guidelines and internal policies. Our Chief Compliance Officer works closely with UTAM's President and CIO, and reports regularly to our Board of Directors.

Code of Ethics

UTAM's Code of Ethics, administered by our Chief Compliance Officer, sets out clear standards of professional behaviour and guides how we manage actual and potential conflicts of interest. For example, all employees are required to:

- place the interests of UTAM's client first
- protect confidential information
- avoid taking inappropriate advantage of their positions (adhering, for example, to stringent policies on personal trading, as well as on the acceptance of gifts and entertainment)

“Academic institutions have always been at the forefront.”

The Mark S. Bonham Centre for Sexual Diversity Studies connects students, faculty, and community members in exploring the social, political, historical and institutional structures affecting 2SLGBTQ+ and BIPOC lives and communities.

In September 2021, the University of Toronto officially opened the Queer and Trans Research Lab (QTRL), the first initiative of its kind in the world. This unique collaborative brings together scholars in diverse disciplines, as well as students, activists, artists and members of the broader public, in a collective effort to break down barriers, rethink academic approaches and empower community action.

The QTRL is one dimension of a larger, similarly groundbreaking initiative at U of T: the Mark S. Bonham Centre for Sexual Diversity Studies. Based at University College, the Bonham Centre offers an undergraduate program, as well as an interdisciplinary graduate program (MA and PhD) for students who share common research interests in queer, trans and sexuality studies. Through direct support for research projects, and by hosting a wide variety of academic and community events, the Centre forges connections among students, faculty and community members who are committed to exploring how sexuality intersects with race, class, gender, disability and citizenship status, among other factors, to shape social and political life – in Canada and around the globe.

The Bonham Centre was established with the support of Mark S. Bonham, a Canadian financial executive who founded two successful mutual fund companies and now generously gives back to a wide range of causes that reflect his values and interests, including the endowment of several chairs and an MBA scholarship program in U of T’s Rotman School of Management. Named Outstanding Philanthropist of the Year by the Association

of Fundraising Professionals in 2018, he has received many other awards and honours for his charitable and professional achievements and was among the OUTstanding LGBT Global Business Leaders recognised by the Financial Times.

For Mark Bonham, the founding of the QTRL affirms the tangible progress – and embodies the guiding purpose – of the pioneering effort that bears his name. “This is an exciting time for the Bonham Centre as it builds an impactful research lab on LGBTQ+ issues,” he says. “Academic institutions have always been at the forefront of research on leading issues of the day. The new Queer and Trans Research Lab will help fortify and expand the Centre’s strength in addressing pressing challenges and concerns across the community.”

*Ongoing financial support for the Bonham Centre and its activities is generated by two investment funds: the Endowment for the Mark S. Bonham Centre for Sexual Diversity Studies and the Mark S. Bonham Teaching Endowment in Sexual Diversity. They are among more than 6,700 individual funds contained within the Endowment portfolio managed by UTAM. A total of \$552 million was allocated to academic programs in the year ending April 30, 2021 – about 18% of the total \$3.2 billion in endowment funds held by the University during that period.**

*The “Endowment portfolio” managed by UTAM – also called the Long-Term Capital Appreciation Pool – is comprised of the University’s endowment funds plus other investment assets. As of April 30, 2021, U of T’s fiscal year-end, the total value of the Endowment portfolio was \$3.8 billion, including \$3.2 billion of endowment funds plus \$0.6 billion of other long-term assets. (At UTAM’s year-end – December 31, 2021 – the Endowment portfolio was valued at \$4.2 billion.)

Management: committees and teams

UTAM committees

Management Committee

The Management Committee considers wide-ranging operational and investment matters under the following broad categories:

- Enterprise risk
- Human resources
- Policy approval
- Information technology, business continuity planning
- Broad investment strategy and investment risk issues
- Internal audit

The Committee is composed of the President and CIO (Chair), the Chief Operating Officer, the Chief Risk Officer, the Head of Fixed Income and the Head of Private Markets.

Management Investment Committee

The Management Investment Committee reviews investment activities and makes recommendations, decisions and approvals where required, including but not limited to:

- Investment strategy
- Asset mix and rebalancing
- Investment performance
- Investment manager hire/termination recommendations
- Investment manager and investment service provider watchlist

The Committee is composed of the President and CIO (Chair) and all other investment staff, as well as senior members of the Risk and Research and Operations teams.

Management Investment Risk Committee

The Management Investment Risk Committee oversees the development and implementation of UTAM's investment risk framework, including review of client portfolio investment risk positions, and the evaluation of issues related to investment risk.

The Committee is composed of the Chief Risk Officer (Chair), the President and CIO, members of the Risk and Research team, the Head of Fixed Income and the Head of Private Markets. From time to time, other staff may be invited to join the Committee.

Responsible Investing Committee

The Responsible Investing Committee oversees all matters relating to the development and implementation of our responsible investing practices, including the following activities:

- Develops and approves our Responsible Investing Policy for Management Committee and Board approval
- Sets annual responsible investing objectives, including those specifically related to climate issues
- Identifies and evaluates evolving best practices with respect to responsible investing
- Approves and oversees the implementation of responsible investing practices
- Provides appropriate training for staff
- Develops responsible investing reporting to stakeholders
- Oversees annual PRI reporting
- Considers any other relevant matters

The Committee is composed of the President and CIO (Chair), the Head of Fixed Income, the Head of Private Markets, the Chief Risk Officer, and the Chief Operating Officer. From time to time, other staff may be invited to join the Committee.

Valuation Committee

The Valuation Committee oversees valuation practices and primarily undertakes the following activities:

- Reviews the Valuation Policy annually
- Reviews pricing sources annually to ensure that they remain appropriate; recommends changes as necessary
- Receives annual confirmation that appropriate valuation procedures are in place to meet the requirements of the Valuation Policy
- Addresses valuation issues as they arise, giving due consideration to conflict-of-interest issues

The Committee is composed of the Chief Operating Officer (Chair), the President and CIO, the Chief Risk Officer and the Director, Operations

UTAM teams

Investments

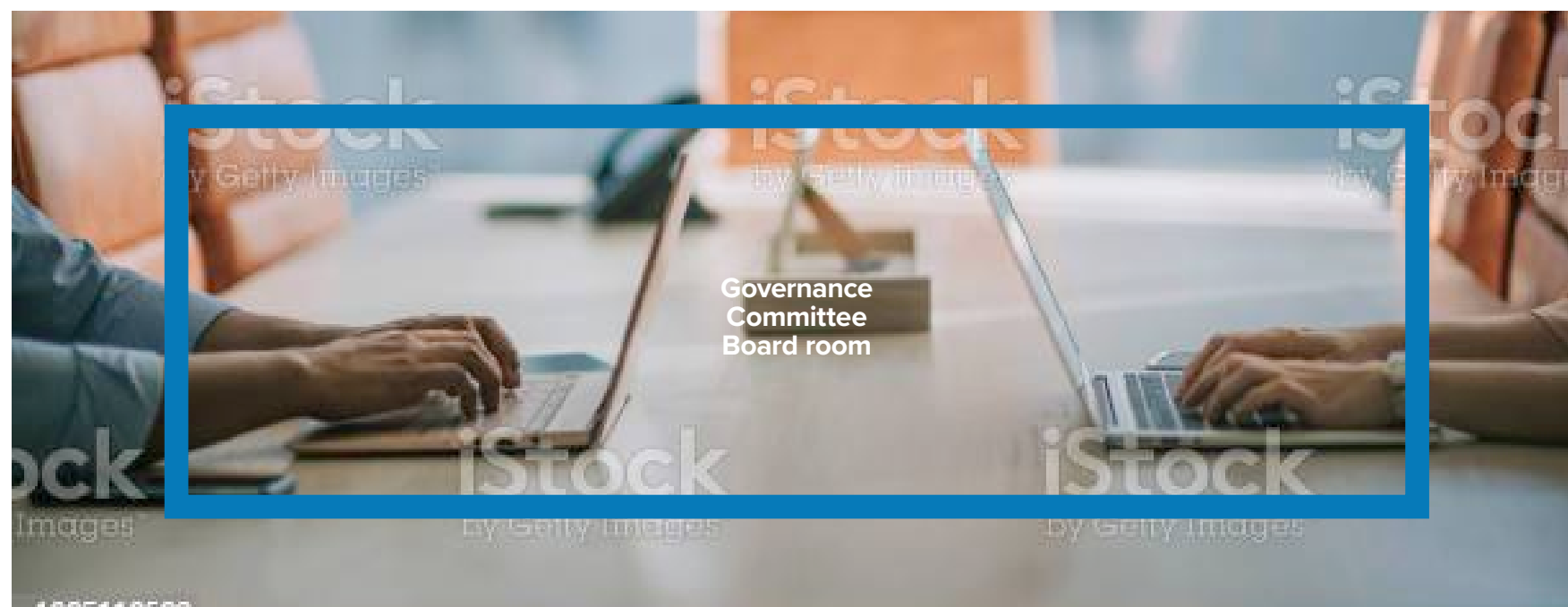
The Investment team, led by the President and CIO, is divided into three groups: public equity, fixed income (including private credit) and private markets. Each group typically includes at least three investment professionals. The Investment team is responsible for portfolio construction within each portfolio and identifying, evaluating and recommending investment managers to the Management Investment Committee, as well as ongoing monitoring of appointed managers.

Risk and Research

The Risk and Research team, led by the Chief Risk Officer, is responsible for the measurement of investment risk and portfolio performance. The team undertakes internal research on a variety of investment-related topics. It also manages the implementation, development and use of a third-party holdings-based risk system that assists UTAM in identifying, measuring and monitoring a wide variety of investment risks. Risk and Research also ensures the completeness and accuracy of the data on which the system's validity relies.

Operations

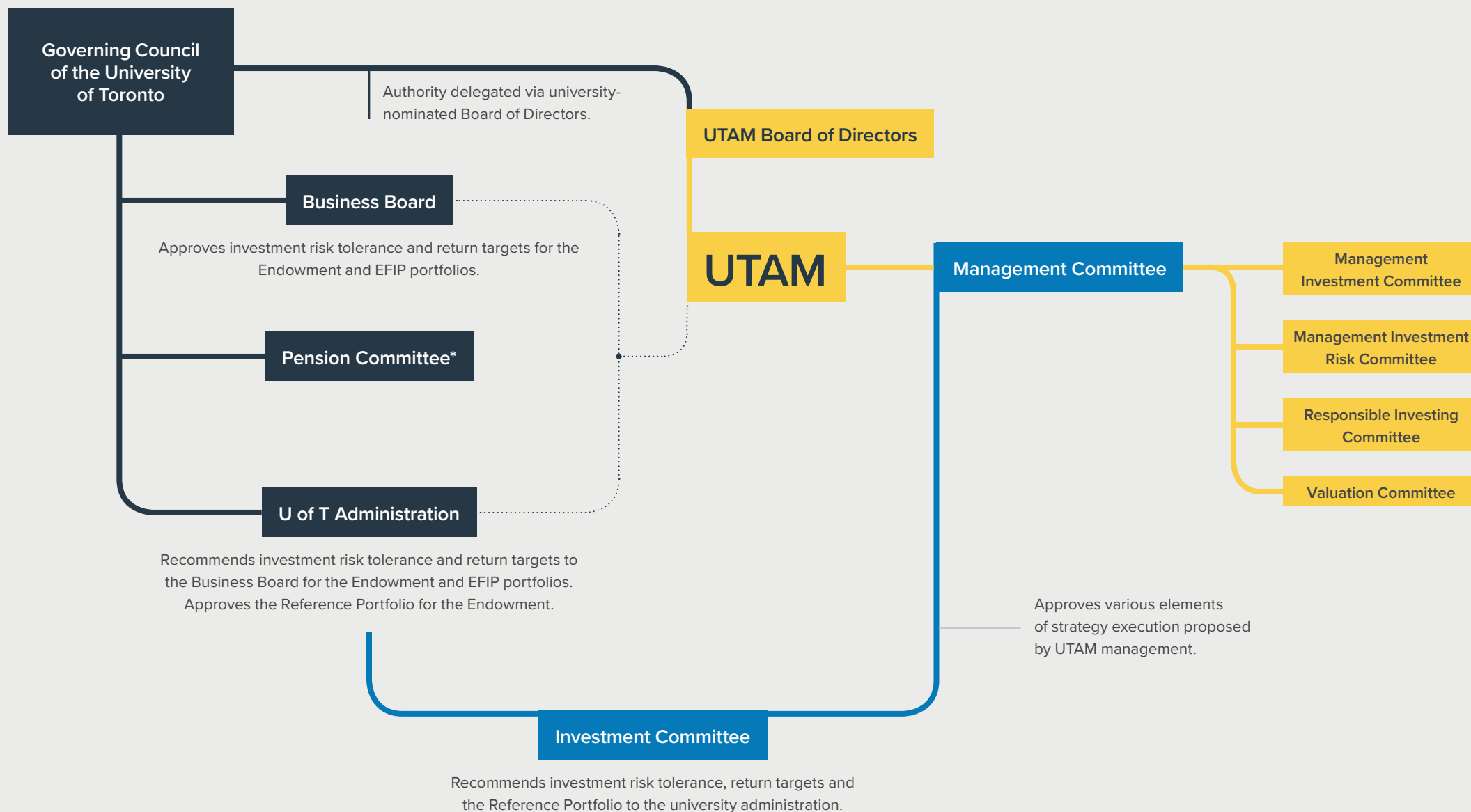
Operations, led by the Chief Operating Officer, encompasses the oversight and execution of all matters related to investment operations, operational due diligence, compliance, corporate financial accounting, human resources, technology, enterprise risk and legal. The Investment Operations function facilitates the accurate and timely execution of investment transactions and the payment of portfolio fees and expenses. It also ensures that official investment books and records for the portfolios are accurately maintained by the University's appointed independent custodian. Operations staff work closely with their Investment and Risk and Research colleagues within UTAM, as well as with the University's Financial Services Department and key external service providers.



UTAM's governance structure

The following chart shows the roles and responsibilities of the various groups involved in the governance of UTAM.

Legend
 — Direct relationship
 Reporting relationship



*On July 1, 2021, the University of Toronto's pension assets became part of the combined holdings governed by the University Pension Plan Ontario, or UPP, a new entity jointly sponsored by the University of Toronto and two other Ontario universities. Decisions with respect to investment of our pension assets are now the responsibility of UPP's Board of Trustees.

A rigorous investment process

From our advanced analytical tools to our systematic evaluation of investment managers, we're constantly refining today's approach to ensure it meets the challenges of tomorrow.

UTAM's investment process applies sophisticated quantitative analysis, as well as fundamental qualitative insights, to the assessment of external investment managers. We leverage quantitative tools and analysis to gain deeper investment insights – and to handle routine tasks more efficiently, so we can focus on work that yields the most value for our client. We then build on that quantitative foundation, applying judgment shaped through experience to constantly refine how we structure and manage our efforts. The result is an investment process that has delivered strong long-term returns against our client's goals – and a process that, importantly, is repeatable, so we expect it will continue to deliver investment solid returns over the long term.



“These are the values that define me”

Bursary recipient Avery Lam-Hong, a health sciences student at U of T Mississauga, is committed to advancing social good – through his studies and as a community volunteer.

“I have high hopes of being able to attend medical school,” says Avery Lam-Hong. “At the same time, volunteering has always been close to my heart.” Balancing those worthy ambitions can be extremely demanding as Avery pursues his fourth-year studies in health sciences at the University of Toronto Mississauga (UTM) while donating his time and energy to a wide range of philanthropic activities – from supporting Vietnamese community organizations, to serving as a youth team leader at Mississauga Hospital, to organizing a public panel on anti-Asian racism during the COVID-19 pandemic.

Avery is also the Group Advising Team Leader at UTM’s International Education Centre. “I work with incoming international students,” he explains, “helping ensure they have a fulfilling university experience and are exposed to all the opportunities to get involved, build confidence and foster connections on campus and in the community.”

During the past year, Avery’s balancing act became a bit easier when he received the Service Above Self bursary, endowed by the Rotary Club of Mississauga West. The annual award recognizes UTM students who participate in volunteer activities that contribute to civic betterment, answer community needs or improve the quality of life.

“These are the values that define me,” Avery says. “And the support has been critical to helping me continue my dream of a medical career.” Facing less financial pressure has also freed the aspiring doctor and mental health advocate to pursue even more volunteer opportunities: “Although I could use that time to work and be paid, community service and giving back is what I want to do. The bursary makes that possible.”

Scholarships, bursaries and other forms of financial assistance to students account for the largest share of the total paid out annually from the University of Toronto’s endowment funds. For the U of T fiscal year ending April 30, 2021, about \$1.35 billion – representing 43% of the University’s total \$3.2 billion in endowments – was directed to student support.*

Avery Lam-Hong is one of 40 students who’ve benefited so far from the Service Above Self bursary. Sustained by the Rotary Club’s generous original donation, the fund had provided more than \$125,000 in support through the end of the 2021 fiscal year.



Avery Lam-Hong
Health Sciences Student, UTM

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The Reference Portfolio: benchmarking performance

UTAM's investment decisions are anchored by the Reference Portfolio, which establishes a benchmark for the risk and return objectives of the Endowment and Pension portfolios. As we put our investment strategy into action, the Reference Portfolio serves as an objective yardstick for measuring active risk and the value gained or lost through our investment management activities.

The Reference Portfolio is developed jointly by UTAM and the Investment Committee. It is then recommended to the University administration, which must approve its use for the Endowment portfolio. Before July 1, 2021, the University administration was also responsible for recommending the Reference Portfolio's adoption for the U of T Pension Plan – subject to approval by the Pension Committee.

Design features of the Reference Portfolio

The Reference Portfolio must have the following characteristics:

- Risk and return attributes consistent with the objectives of the long-term portfolios
- Simple asset mix – public market asset classes only
- Passive investing approach – no active strategies
- Easy to implement – no need for a large investment team
- Low cost – can be deployed without significant expense

The current Reference Portfolio consists of 60% equity exposure and 40% fixed income exposure.

Table 1
Endowment and Pension Asset Mix Compared to the Reference Portfolio

Reference Portfolio Asset Class	Benchmark	Reference Portfolio Weight	Actual Endowment Weight	Actual Pension Weight
Equity		60.0	60.1	60.0
Global Equity	MSCI ACWI Net Total Return Index	60.0	60.1	60.0
Fixed Income		40.0	39.9	40.0
Canadian Corporate Bonds	FTSE TMX Canada All Corporate Bond Total Return Index	20.0	20.2	20.1
Canadian Government Bonds	FTSE TMX Canada All Government Bond Total Return Index	20.0	19.7	19.9

The Global Equity benchmark is 50% hedged to Canadian dollars for the developed markets component and unhedged for the emerging markets component.

Asset mix

Table 1 shows the asset class weights for the Endowment, Pension and Reference portfolios as of December 31, 2021. We calculate the weights on an exposures basis, meaning they reflect the economic exposure of any derivative instruments that may be used to maintain an asset class exposure at the desired weight. We believe that this reporting method best represents the asset class exposures and risks of the investment portfolios. It should also be noted that the asset class weights in Table 1 reflect the impact of mapping investments not in the Reference Portfolio – for instance, private equity and hedge funds – to the most appropriate asset class within the Reference Portfolio.

Investment flexibility

Although the Reference Portfolio includes only public market asset classes, UTAM has the flexibility to invest in other asset classes and strategies. However, this freedom is tightly controlled with agreed-upon risk guidelines that are monitored and reported on regularly. Investments in any asset class or strategy not in the Reference Portfolio are subject to the relevant plan documents and require explicit permission from the Investment Committee. UTAM retains discretion to select investments within these approved asset classes and strategies.

Our decisions with regard to the portfolios are governed by investment management agreements between UTAM and the University, and additionally by the University Funds Investment Policy with respect to the Endowment and with EFIP. Up until the transition of the pension investments, they have been managed in accordance with the University of Toronto Pension Statement of Investment Policies and Procedures (SIPP), which practice continued until UPP developed its own SIPP.

We have the flexibility to deviate from the target Reference Portfolio asset class weights for Endowment and Pension, but the actual weights must be within the allowable bands – that is, within 10% for global equities; within 10% for each fixed income asset class; and up to 10% above or 15% below the Reference Portfolio's total fixed income weight.

In addition to the limits above, we must adhere to various liquidity, concentration and rebalancing constraints.

Last but by no means least, our investment decisions are framed by a rigorous risk management process and a formal risk budget, which are detailed later in this report.

How we choose investment managers

Among the core capabilities that we believe set UTAM apart is our highly analytical approach to assessing and selecting our external investment managers. We've defined a series of clear steps for identifying strong candidates, vetting their investment practices and monitoring long-term performance.

Active vs. passive

An important part of our manager selection process is determining whether to invest with an active manager or to invest passively. Our default position is to invest passively at the lowest possible cost. In other words, we only pursue active management when we have a high level of conviction that a specific investment manager's approach will outperform passive investment alternatives (net of all fees and expenses) over time.

Sourcing and assessing managers

We review hundreds of investment managers every year. Primary sourcing methods include drawing on the knowledge and experience of the UTAM team, proactively reaching out to managers and networking with other investors. Secondary methods include attending conferences, responding to inbound inquiries from managers and searching industry databases.

The initial screening process consists of reviewing the manager's marketing materials, and in some cases running a quantitative analysis of returns, to quickly determine if there is a potential fit. If we remain interested after the first pass, we request a call or meeting with the manager to better understand the organization and investment team, their investment philosophy and process, their investment performance, the level of transparency they are willing to provide and the terms of the investment (including the fee structure). When a manager seems potentially well matched to our investment beliefs and objectives, we conduct extensive in-depth research and analysis.

Investment due diligence (IDD)

For managers who make it to this stage of the process, we focus on the four P's: people, philosophy, process, performance. We also add a fifth P, portfolio fit, which takes into account how the manager's strategy fits with the other managers and strategies across the rest of the relevant portfolio. We also look at the alignment of interests between the investment manager and the investors in their strategies. When we evaluate a manager's process, we take into account ESG considerations by rating managers along this dimension and having in-depth conversations with them to better understand their capabilities in this area. Our IDD process includes both a qualitative assessment of the manager's organization and its people, and a quantitative review of historical portfolio holdings (where available) and returns.

As an institutional investor, we expect a great deal of transparency from potential and current managers – far more than a typical individual investor would receive. This level of transparency is necessary for UTAM's team to effectively evaluate active managers. For example, in reviewing public equity strategies, managers typically provide historical month-end holdings, which UTAM runs through sophisticated analytical tools to produce reports that include performance and risk attribution; factor exposures (e.g., value, growth and momentum); risk exposures; ESG scores, including carbon footprints; sector and country exposures; the trading history of each position; and more. This information helps us better understand the manager's investment process and allows us to ask more targeted questions when interviewing the manager's investment team about their strategies.

We believe that leveraging quantitative tools, while essential for a best-in-class manager selection process, is not sufficient on its own. We therefore complement our rigorous quantitative insights with qualitative judgment and experience, working as a team to make optimal manager choices that we expect will benefit our client over the long term.

Operational due diligence (ODD)

Once there is a reasonable probability that the Investment team will recommend investing with a particular manager, we conduct a similarly rigorous review of the firm's business operations, focusing on people and processes. We must be confident that a manager not only offers a promising investment opportunity but also operates a sound, well-run business.

Risk analysis

In addition to our investment and operational due diligence processes, our Risk and Research team runs a risk analysis that includes calculating the expected risk contribution of the potential new investment to the overall portfolio risk. Armed with this comprehensive and independent analysis, we can make more informed decisions about prospective managers and strategies, focusing on those that offer the highest expected return for the amount of risk being taken.

Manager recommendation

All material allocations must be approved by UTAM's Management Investment Committee. To help the Committee evaluate investment recommendations, formal IDD and ODD reports are prepared by the Investment team and the Operational Due Diligence team, respectively.

The Committee also reviews an internally prepared risk report, legal review and tax review. The IDD report, a detailed account of the IDD process and findings, including a section on ESG considerations. The ODD report describes the review undertaken and its findings, and also includes a detailed account of key operational risks and mitigations (if any). It provides a conclusion on whether the manager's operations are sufficiently sound and indicates any operational improvements identified as necessary conditions for investment. After reviewing and discussing each of the reports, the voting members of the Committee decide whether to approve the allocation.

Ongoing monitoring

After an investment has been made, the Investment and Operational Due Diligence teams follow rigorous monitoring and reporting processes. The Investment team typically has touchpoints at least quarterly with each manager. The focus of the monitoring process remains on the five P's as outlined previously. The process includes an assessment of performance, taking into account the market environment and how we expected the manager to perform in that environment. We also conduct regular reassessment of operational risk to consider any relevant changes. For UTAM, choosing to work with an investment manager is not a one-time decision – it's a continuous process of analysis, evaluation, dialogue and renewal.

A total risk management framework

UTAM's disciplined, methodical approach to assessing and managing investment risk provides an added measure of confidence as the University of Toronto maps out bold ambitions for the future.

Our Risk and Research team spearheads an approach to investment risk that is both wide-ranging and precisely targeted, gauging the potential investment impacts from active risk, counterparty concentration and liquidity needs, as well as from specific ESG-related factors and the long-term effects of climate change.

UTAM is one of a handful of similarly scaled investment firms in Canada – and the only university asset manager – with a Chief Risk Officer (CRO): a designated expert whose specialized qualifications and deep experience bring added direction and focus to our risk management processes. Over the past decade, our CRO has guided the evolution of our investment risk measurement, asset allocation modelling and broader investment research beyond specific manager-related investigations. We view this increasingly nuanced risk management as critical to UTAM's ability to generate continued strong investment performance in the years to come.



Tightrope
Mountain climber

“My mandate is to support the well-being of children.”

As the Margaret and Wallace McCain Family Chair in Child and Family, Prof. Ramona Alaggia of the Factor-Inwentash Faculty of Social Work is able to amplify the impact of her research on trauma and resilience among children and families exposed to violence.



“The focus of my work,” explains Prof. Ramona Alaggia, “is mitigating the long-term effects of trauma, violence and abuse on vulnerable children, youth and families. The insights I gain through in-depth research enable me to educate students of social work, while collaborating with mental health practitioners to foster research-based practice. I work with service providers to support the well-being of children, caregivers and families – because I’ve always believed that safe, nurturing families and communities are the bedrock of healthy child development from the early years onward.”

A University of Toronto faculty member since 2001, Prof. Alaggia is part of the Factor-Inwentash Faculty of Social Work and an affiliate professor at the Women and Gender Studies Institute. But the impact of her work extends far beyond the academy. Applying the findings from her investigations of trauma and resilience, she works in the local community, supporting programs to enhance children’s mental health and to develop innovative models of trauma-informed services. Internationally, she provides training to service providers in the UK and Ireland, again leveraging leading-edge research to help families, communities and systems better support the optimal growth of children.

In 2020, in recognition of her efforts to turn research insights into concrete action, Prof. Alaggia was named the Margaret and Wallace McCain Family Chair in Child and Family, with a mandate to provide

academic leadership and rigorously examine prevention and intervention efforts aimed at vulnerable and marginalized children and families. “My mission as the McCain Family Chair,” she says, “is to promote excellence in teaching, research, advocacy and practice.”

In one high-profile advocacy initiative, Prof. Alaggia is working with social work organizations and schools across Canada to gain government support for a universal and affordable early childhood education and childcare system. “Much of the inspiration for our work,” she explains, “is Margaret McCain’s groundbreaking *Early Years Study* on child development and her vision of providing affordable, high-quality and enriching childcare for every Canadian family.”

Women across Canada have been disproportionately affected by the negative impacts of the COVID-19 pandemic. During lockdowns, women were often the first to leave their jobs and usually the last to return, mainly because of the lack of reliable childcare. The universal early childhood education plan proposed by Prof. Alaggia and her collaborators will empower women to return to the workforce while their children are cared for in stimulating environments. “This is probably the most progressive piece of feminist policy in Canada to date,” she says. “It will help to ensure the well-being of all families – and it’s the brainchild of Margaret McCain.”

The McCain Family Chair was established in 1998 with a generous donation from the Margaret and Wallace McCain Family Foundation, which is dedicated to ensuring the best possible early childhood for Canadian children. The appointment is particularly meaningful to Margaret McCain, a graduate of the University’s school of social work and a lifelong advocate for children’s welfare and healthy development – which she made a priority while serving as the first woman Lieutenant Governor of New Brunswick.

*Thanks to support from the McCain family and thousands of other generous donors, U of T was able to invest \$925 million in chairs and professorships during the year ending April 30, 2021 – about 29% of the total \$3.2 billion in endowment funds under UTAM’s management in that period.**



Prof. Ramona Alaggia
Margaret and Wallace McCain Family Chair in Child and Family

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Assessing and managing investment risk

As the second year of the pandemic unfolded, financial markets witnessed a rebound with strong stock market performance and more stability compared to 2020. Disruption from the pandemic continued with the emergence of the Delta and then Omicron variants, which led to varying public health restrictions. Nonetheless, adapting to this changing environment became more commonplace, and in most sectors work could continue unimpeded despite the uncertainty.

A well-structured, multi-lens risk management approach is important in normal times but even more so in periods of market stress. Our investment risk management framework is anchored by three risk categories: market, concentration (including credit and counterparty) and liquidity. The main portfolio risk limits, such as the active risk limit, are approved by various groups, including the University administration, the Investment Committee and, up to July 1, 2021, the Pension Committee. We incorporate these limits into our processes to ensure that any risk we take in the attempt to earn returns in excess of the Reference Portfolio is managed in a thoughtful and efficient manner. To that end, we manage the risk of the Endowment and Pension portfolios against active risk budgets and incorporate several limits on exposure, concentration and liquidity. The risk limits and associated policies are crucial in ensuring the portfolios' risk profiles remain within acceptable ranges.

We evaluate many dimensions of investment risk

Market risk

UTAM identifies, measures and monitors a variety of risks at a point-in-time (e.g., as of December 31) and on a trend basis (i.e., over time) using a third-party holdings-based risk system. The process begins by loading all available investment holdings from our managers into the system. Where positions are not available, we use a variety of statistical techniques to model and thus to incorporate the most relevant risk exposures of those managers. For private investments, such as private equity and real estate, we use multi-factor proxies that reflect the key risk drivers of the investments. For certain credit strategies where we have position-level cash flow data, we employ a discounted cash flow model that accounts for illiquidity and credit risk.

Once the risk system is populated with holdings and proxies, we measure active risk (i.e., portfolio risk versus Reference Portfolio risk) and total portfolio risk. In both cases, we identify specific risk contributors by asset class, investment strategy, investment

manager and position. We also monitor the exposures of the investment portfolios to different sectors, geographical regions, credit-ratings and ESG score categories.

In addition to the risks noted above, we also assess the highest risk concentrations among individual issuers across a variety of categories. We estimate the sensitivity of the investment portfolios to potential changes in market risk factors such as equity market shocks, shifts in interest rates and credit spreads, and adverse movements in foreign exchange rates. We also run the portfolios through historical stress periods, such as the 2008 global financial crisis, and the 2020 COVID-19 pandemic. Our risk management process also involves sounding out implications of future stress scenarios and current market events. For example, we are investigating the implications of the current geopolitical conflict in Ukraine and the potential impact on the portfolios over different time horizons. The analytics are all integrated through simulation analysis to assess, quantitatively, the possible portfolio impacts and sensitivities to different capital market regimes and scenarios. Finally, we also have the capability to run our own asset liability modelling using a dynamic scenario generator. This allows us to analyze the behaviour of the assets and liabilities of the investment portfolios across different plausible forward-looking scenarios and over multiple business cycles.

Our analysis provides insights into overall risk exposures and identifies specific markets, factors and regimes to which the portfolios are most vulnerable. The output of this analysis is discussed at regular meetings of our Management Investment Risk Committee and informs our decision-making on how these risks should be managed going forward.

We compare the various risk measures developed for the investment portfolios on a stand-alone basis and relative to the Reference Portfolio. We conduct this process monthly with updated holdings, gaining a detailed picture of the various risk exposures. Through ongoing measurement and monitoring, we're able to better identify and manage risk associated with specific investment decisions on both a relative and absolute basis, which enables us to make well-informed investment decisions.

ESG and climate risks

ESG and climate risk analysis is integrated within our market risk analysis. We take a two-fold risk measurement approach, looking first at country and sector exposures and then supplementing that analysis with specific scenario-based tests. In monitoring sector (or country) exposures to E, S and G risks, we employ several data sources (e.g., MSCI ESG industry risk intensity scores). These allow us to view the risk profile of the portfolios using different lenses. For climate risk in particular, we use risk indices and scores that capture a country/sector's current state and its readiness to adapt to a low-carbon economy. These metrics, which can be connected back to individual asset classes, provide information on which areas of the investment portfolios could be most susceptible to ESG and climate-based risk shocks on both a stand-alone and relative basis (i.e., relative to the Reference Portfolio).

Our scenario analysis work started a number of years ago with the objective of using historical scenarios as an initial guide for studying E, S and G events (e.g., natural disasters, an Ebola outbreak, cyber-attacks). We have continued to refine our approach by studying how these events could influence different market factors beyond simple equity or interest-rate changes. For climate risks in particular, we have integrated transition and physical risks outlined in the academic and practitioner literature. Here we have used both external platform tools (e.g., PACTA*) and scenarios developed in-house. Guided by published climate scenarios (e.g., IEA* transition scenarios and NGFS* scenarios), we take the projected changes in macroeconomic variables via the different pathways (and horizons) and apply them to determine potential asset price shocks at the country and sector levels. This continues to be an area of ongoing work.

Liquidity and counterparty risk

Our liquidity analysis tool continues to be a critical component in our liquidity risk management process. The tool enables us to model the potential liquidity needs of the investment portfolios under stressed market conditions. This helps ensure that adequate cash and other sources of liquidity are available to meet all cash needs over an extended stress period. The analysis includes a point-in-time evaluation of the portfolio’s liquidity profile and provides information on how it could change over different scenarios. This approach to liquidity modelling ensures that we will be able to rebalance the Endowment and Pension portfolios back to the Reference Portfolio target asset class weights even in a stressed market environment without being forced to sell assets at potentially significant discounts. With these liquidity tools and policies in place, the investment portfolios have not faced any liquidity challenges, including during the COVID-19 drawdown in March 2020.

The Endowment and Pension portfolios have credit exposures to individual counterparties through security holdings in the equity and bond markets. We also generate credit exposure through the use of derivatives, which are mainly used to hedge foreign exchange exposures, to obtain passive exposure in markets where active management is challenging, and to rebalance the portfolios back to the target asset class weights of the Reference Portfolio. We establish fixed limits for individual counterparties that we monitor regularly. These limits ensure that the investment portfolios are not overexposed to negative shocks from any single counterparty. We have the ability to run exposure reports on a daily basis, which provides up-to-date information on the portfolios’ credit exposures.




Bringing it all together

We believe that a sophisticated and disciplined risk management framework is critical to the long-term success of an active investment program. In every area of risk assessment, as we analyze data on underlying positions and historical returns, we gain deeper insights into the risks in our investment portfolios and those of our investment managers. It’s a continuous process that starts right from the initial due diligence phase of our manager selection process and continues as part of our manager and portfolio-level monitoring activities.

The Investment Committee and the University administration view the active risk, liquidity, counterparty and other limits as sufficient to give UTAM the flexibility to achieve our value-added objectives – but not so large that they put the investment portfolios at undue risk of significant underperformance relative to the Reference Portfolio.

UTAM’s Active Risk Budget

The amount of risk that UTAM is permitted to use in the actual Endowment and Pension portfolios is constrained by the “traffic light” risk framework shown below. Active risk is the risk, as defined by volatility, in the actual portfolio minus the risk in the Reference Portfolio (i.e., volatility difference). For example, the “green zone” extends from taking 0.50% less risk than the Reference Portfolio to 1.50% more risk than the Reference Portfolio.

	Active Risk Zone	Active Risk
	Green ("Normal")	$-0.50\% \leq \text{Active Risk} \leq 1.50\%$
	Orange ("Watch")	$1.50\% < \text{Active Risk} \leq 1.75\%$
	Red ("Reduce")	Active Risk > 1.75%

*External tools: Paris Agreement Capital Transition Assessment (PACTA), International Energy Agency (IEA), Network for Greening the Financial System (NGFS)

A focus on long-term performance

We measure success not by year-over-year results, but by evaluating our long-term performance – which in turn enables the University of Toronto to advance positive change.

In UTAM's regular reporting to U of T and its diverse stakeholders, we detail performance metrics relative to clearly defined investment goals – which in turn reflect the University's broader strategic priorities and long-term outlook.

As of December 31, 2021, the Endowment and Pension portfolios under our management delivered annualized net returns of 10.2% and 10.1%, respectively, over the previous 10 years, exceeding U of T's target return of 5.8%. Our active management approach outperformed the passive Reference Portfolio benchmark for the same period by 1.5% annually for the Endowment portfolio and 1.4% for the Pension portfolio, net of all fees and expenses.

Over a multi-year trajectory ending December 31, 2021, UTAM has outperformed in all investment programs. We systematically analyze our performance results to understand not only where and why we've executed well but, importantly, to understand which parts of the portfolio may have underperformed. These cumulative insights enable us to refine and enhance our processes and ultimately improve risk-adjusted returns.



The year in review: putting 2021 in perspective

The Endowment and Pension portfolios generated returns of 14.9% and 15.0% (net of all fees and expenses), respectively, in 2021. These exceeded the University's target return of 8.8% and the Reference Portfolio benchmark return of 10.2%. As previously indicated, returns over longer periods of time have also been strong, with actual net returns (annualized) for Endowment and Pension of 10.2% and 10.1%, respectively, over the past 10 years. These results exceeded the University's target returns and the Reference Portfolio benchmark returns.

Reference Portfolio performance

Global equity markets realized strong returns in 2021, driving a strong year of performance for the public market-focused Reference Portfolio – despite slightly negative returns, as a result of rising interest rates, from fixed income indexes. The equity component of the Reference Portfolio, represented by the MSCI All Country World Index, returned 13.4% in Canadian dollar terms after accounting for currency hedges during the year. Given the rise in interest rates in 2021, the two fixed income benchmarks in the Reference Portfolio realized negative returns. The Government of Canada benchmark index and the Canadian investment-grade corporate bond index returned -3.0% and -1.3%, respectively during the calendar year. The Reference Portfolio, which consists of public equity and fixed income allocations, returned 10.2% for the year. Table 2, below, shows the actual net returns, the Reference Portfolio returns and the University's target returns for the Endowment and Pension investment portfolios in 2021 and over the most recent 10-year period.

Table 2
Endowment and Pension Performance

	2021		10-Year Annualized (2012–2021)	
	Endowment	Pension	Endowment	Pension
Actual net return	14.9%	15.0%	10.2%	10.1%
Reference Portfolio return	10.2%	10.2%	8.7%	8.7%
University target return	8.8%	8.8%	5.8%	5.8%
UTAM value added vs. Reference Portfolio (%)	4.7%	4.8%	1.5%	1.4%
UTAM value added (millions)	\$162.1 [†]	\$286.9 [†]	\$365.5 [‡]	\$598.5 [‡]

[†]UTAM value added in millions is calculated on a monthly basis, and the total for 2021 is the sum of the monthly values.

[‡]Cumulative value added over 10-year period.

Endowment and Pension performance by asset class

As shown in Tables 3 and 4, the strong performance of the Endowment and Pension portfolios compared to the Reference Portfolio in 2021 was driven by strong active performance from all asset classes. The Global Equity portfolio, which consists of both public and private equity, outperformed its benchmark by 2.6% in Endowment and by 2.6% in Pension. During the year, both public equity and private equity managers outperformed.

The fixed income portfolios also had a strong year compared to the Reference Portfolio benchmarks in 2021. The Canadian Corporate Bond portfolio outperformed by 7.1% in Endowment and by 7.1% in Pension, while the Canadian Government Bond portfolio (which includes the Absolute Return hedge fund portfolio) outperformed by 8.9% in Endowment and 8.6% in Pension.

Looking in more detail at the Canadian Corporate Bond portfolio, it's important to note that the Endowment and Pension investments in this category are not solely invested in Canadian Corporate Bonds; the portfolio also comprises alternative credit strategies such as private credit opportunities and credit long/short hedge funds. The rest of the portfolio is invested in investment-grade corporate bonds, a market where we believe it is difficult for traditional, long-only active credit managers to outperform the benchmark after fees. For that reason, we invest with only one traditional active manager in this part of the portfolio; the remainder is invested passively to track the benchmark.

Table 3
2021 Endowment Performance by Asset Class

Reference Portfolio Asset Class	Assets (millions) Dec. 31, 2021	Endowment Return	Benchmark Return	Value Added
Equity				
Global Equity	\$2,500.6	21.1%	18.5%	2.6%
Fixed Income				
Canadian Corporate Bonds	834.5	5.7%	-1.3%	7.1%
Canadian Government Bonds	843.7	5.9%	-3.0%	8.9%
Total plan	\$4,178.8	14.9%	10.2%	4.7%

All returns are in local currency except for total plan returns, which take into account currency effects and are in Canadian dollars. Values and returns within the Reference Portfolio reflect the impact of mapping asset classes and strategies not in the Reference Portfolio to the most appropriate asset classes. The only exception is cash, which is included in Canadian Government Bonds but not included in the returns for Canadian Government Bonds. Total plan value added includes effects such as currency and asset class mismatches versus the Reference Portfolio not captured elsewhere in the table.

Table 4
2021 Pension Performance by Asset Class

Reference Portfolio Asset Class	Assets (millions) Dec. 31, 2021	Pension Return	Benchmark Return	Value Added
Equity				
Global Equity	\$4,329.2	21.1%	18.5%	2.6%
Fixed Income				
Canadian Corporate Bonds	\$1,444.2	5.7%	-1.3%	7.1%
Canadian Government Bonds	\$1,481.8	5.6%	-3.0%	8.6%
Total plan	\$7,255.2	15.0%	10.2%	4.8%

Please refer to the note below Table 3.

As with the Canadian investment-grade corporate space, we believe it is difficult for active managers investing solely in Canadian Government Bonds to outperform the benchmark net of fees. We therefore do not use any active traditional managers with Canadian Government Bond mandates. Instead, we obtain all of the Reference Portfolio Government Bond exposure passively using derivatives, while also investing a portion of the assets in a highly customized portfolio of absolute-return hedge fund strategies – which, by their nature, are not expected to have material market sensitivity (i.e., beta) to equity or fixed income markets over time. We refer to the combination of passive government bond exposure and absolute-return hedge fund strategies as “portable alpha.” During 2021, the portable alpha strategy drove the outperformance of the Government Bond portfolio.

EFIP performance

The Expendable Funds Investment Pool (EFIP), which represents short-term working capital of the University, is constructed with two portfolios that each have investable and objective benchmarks. The dollar allocation to each portfolio is determined annually based on the total EFIP net asset balance at April 30.

- The Short-Term Portfolio consists of short-term Canadian government and corporate bonds as well as cash and cash equivalent investments. As at December 31, 2021, the Short-Term Portfolio comprised 79.0% of EFIP. The benchmark for the Short-Term Portfolio is a combination of the returns of the FTSE Canada Short-Term Bond Index and 1-month Canadian Bankers' Acceptance.
- The Medium-Term Portfolio was established in 2020 with a longer-term time horizon and a higher risk tolerance than the Short-Term Portfolio. As at December 31, 2021, the Medium-Term Portfolio comprised 21.0% of EFIP. The benchmark for the Medium-Term Portfolio is the FTSE Canada Corporate BBB Bond Index.

In 2021, the Short-Term Portfolio returned 0.2% and outperformed its benchmark by 0.5%, while the Medium-Term Portfolio returned -0.7% and outperformed its benchmark by 0.1%. The underperformance of the Medium-Term Portfolio relative to the Short-Term Portfolio was largely driven by the higher interest rate duration in the Medium-Term Portfolio, as interest rates rose during the calendar year. The returns of these portfolios resulted in an overall EFIP return of 0.0% (net of all fees and expenses) in 2021, outperforming its benchmark return of -0.4% by 0.4%. Over the past 10 years, EFIP has generated an annualized return of 1.9%, outperforming its benchmark return by 0.3% per annum and adding \$54 million in cumulative value, net of all fees and expenses.

Table 5
EFIP Total Portfolio Performance

	2021	10-Year Annualized (2012–2021)
Actual net return	0.0%	1.9%
EFIP Benchmark return	-0.4%	1.6%
UTAM value added (%)	0.4%	0.3%
UTAM value added (millions)	\$12	\$54*

*Cumulative value added over 10-year period.

All returns are in Canadian dollars and include the impacts of currency hedges.

Table 6 shows EFIP investment exposures at year-end, as well as 2021 returns by investment category and for the overall EFIP portfolio. As the table indicates, 39.8% of EFIP was invested in cash and cash equivalents, which mainly consisted of deposits with Canadian financial institutions. 39.2% was invested in short-term investment-grade government and corporate bonds. The remainder was invested in a portfolio of medium-term fixed income investments. During the year, the short-term portfolio returned 0.2% and outperformed its benchmark by 0.5%, while the medium-term portfolio returned -0.7% and outperformed its benchmark by 0.1%. The underperformance of the medium-term portfolio relative to the short-term portfolio was driven largely by the higher interest rate duration in the medium-term portfolio, as interest rates rose during the calendar year.

Table 6
EFIP Performance by Investment Category

Investment Category	Weight Dec. 31, 2021	2021 Return
Short-term	79%	0.2%
Medium-term	21.0%	-0.7%
Total	100%	0.0%

All returns are in local currency except for the total return, which takes into account currency effects and is in Canadian dollars.

Looking ahead

For two years, COVID-19 has disrupted the lives of billions of people. The crisis also dramatically affected the flow of commerce, employment patterns and the entire global economy. As we prepare this annual report for publication, there are hopeful signs that the worst is behind us. But a great deal of uncertainty remains. New variants are testing public health responses. The pandemic's continuing economic impact is evident in backlogged supply chains and rising inflation. And the pace of recovery is further hampered by geopolitical tensions – notably the conflict in Ukraine, whose repercussions are being felt around the globe.

In these challenging times, UTAM remains laser-focused on the purpose that defines us: as trusted stewards of the University of Toronto's investment assets, we look beyond immediate events to stay focused on the long term. Whatever challenges may lie ahead, we know our team has the knowledge, experience, skills and discipline to meet them, leveraging the proven strengths of our people, systems and processes.

Going forward, we will strengthen and extend our comprehensive approach to responsible investing. UTAM's leadership in this area will help advance the University's pledge to divest from holdings in fossil fuel companies and to reduce carbon emissions associated with the Endowment portfolio. More broadly, we support the commitment of the University and its stakeholders to address the increasing impacts of climate change.

For UTAM, as for U of T and the diverse organizations we engage with, the experience of the past two years has been an opportunity to rethink how we operate, connect and collaborate. Building on a two-decade legacy of continuous improvement, we look for ways to further strengthen and enhance our processes – thereby protecting and growing the Endowment and EFIP portfolios. Our team is guided by UTAM's vision: to be one of the world's leading university investment managers. And we're inspired and energized by the commitment of our client, one of the world's great universities, to drive positive change by investing in tomorrow.

This annual report and its companion publication, the Responsible Investing Report, are part of a broader suite of timely, transparent communications aimed at illuminating all dimensions of the work UTAM does. Please visit our website, utam.utoronto.ca, for current reporting, news updates and other information of interest to the University of Toronto community and our wider circle of stakeholders.



Financial statements

Independent auditor's report

To the Directors of
University of Toronto Asset Management Corporation

Opinion

We have audited the financial statements of University of Toronto Asset Management Corporation ["UTAM"], which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of net income, comprehensive income and changes in net assets and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of UTAM as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with the financial reporting framework specified in paragraph 3.2(3)(a) of National Instrument 52-107, *Acceptable Accounting Principles and Auditing Standards*, for financial statements delivered by registrants.

Basis 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 statements* section of our report. We are independent of UTAM in accordance with the ethical requirements that are relevant to our audit of the financial statements 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.

Emphasis of matter – basis of accounting and restriction on use

We draw attention to note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist UTAM in complying with the requirements of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for UTAM and the Ontario Securities Commission, and should not be used by parties other than UTAM or the Ontario Securities Commission. Our opinion is not modified in respect of this matter.

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

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

In preparing the financial statements, management is responsible for assessing UTAM's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate UTAM or to cease operations, or has no realistic alternative but to do so.

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

→ Continued on page 42

Independent auditor's report

Continued from page 41

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are 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 these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, 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 UTAM's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on UTAM's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause UTAM to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Toronto, Canada
March 25, 2022

Chartered Professional Accountants
Licensed Public Accountants

Statements of financial position

As at December 31

	2021 \$	2020 \$
Assets		
Current		
Cash	1,457,074	84,956
Due from University of Toronto [notes 6[a] and [e]]	328,472	243,857
Accounts receivable	7,126	94
Prepaid expenses	496,965	576,850
Total current assets	2,289,367	905,757
Capital assets, net [note 4]	564,273	712,661
	2,853,640	1,618,418
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities [notes 6[a] and [e]]	1,884,746	518,760
Total current liabilities	1,884,746	518,760
Deferred capital contributions [note 5]	564,273	712,661
Deferred incentive bonuses [note 6[f]]	308,383	293,735
Deferred lease costs	96,238	93,262
Total liabilities	2,853,640	1,618,418
Net assets	—	—

See accompanying notes

On behalf of the Board:


Director


Director

Statements of net income, comprehensive income and changes in net assets

Years ended December 31

	2021 \$	2020 \$
Expenses [note 6]		
Staffing	8,959,509	6,121,300
Communications and information technology support	1,496,105	641,634
Occupancy	277,403	291,689
Professional fees	252,770	218,903
Consulting fees	252,222	303,521
Amortization of capital assets	186,912	200,216
Office supplies and services	88,861	107,545
Travel	1,783	22,336
	11,515,565	7,907,144
Recoveries and other income		
Recoveries from University of Toronto [note 6[a]]	11,328,653	7,706,928
Amortization of deferred capital contributions [note 5]	186,912	200,216
	11,515,565	7,907,144
Net income and comprehensive income for the year	—	—
Net assets, beginning of year	—	—
Net assets, end of year	—	—
See accompanying notes		

Statements of cash flows

Years ended December 31

	2021 \$	2020 \$
Operating activities		
Net income and comprehensive income for the year	—	—
Add (deduct) items not involving cash		
Amortization of capital assets	186,912	200,216
Amortization of deferred capital contributions	(186,912)	(200,216)
Deferred incentive bonuses	14,648	474,284
Deferred lease costs	2,976	3,771
Net change in non-cash working capital balances related to operations		
Due from University of Toronto	(84,615)	(75,016)
Accounts receivable	(7,032)	4,580
Realty taxes recoverable	—	54,766
Prepaid expenses	80,155	(469,000)
Accounts payable and accrued liabilities	1,365,986	17,820
Cash provided by operating activities	1,372,118	11,205
Investing activities		
Purchase of capital assets	(38,524)	(133,512)
Cash used in investing activities	(38,524)	(133,512)
Financing activities		
Deferred capital contributions to fund purchase of capital assets	38,524	133,512
Cash provided by financing activities	38,524	133,512
Net increase in cash during the year	1,372,118	11,205
Cash, beginning of year	84,956	73,751
Cash, end of year	1,457,074	84,956
<i>See accompanying notes</i>		

Notes to Financial Statements

December 31, 2021 and 2020

1. Relationship with the University of Toronto

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

UTAM was formed by the University of Toronto [“U of T”] to engage in professional investment management activities in order to manage the investment assets of U of T, which currently comprise its Endowment Fund and Expendable Fund and, prior to July 1, 2021, U of T’s Registered Pension Plan [“RPP”], through a formal delegation of authority and investment management agreement between UTAM and U of T. On July 1, 2021, the assets and liabilities of the RPP were transferred to the University Pension Plan Ontario [“UPP”], and an agreement was executed between the Governing Council and UPP to appoint the Governing Council as an agent of UPP and, accordingly, to retain the services of UTAM to manage the transferred assets of the RPP until the agency appointment is ended. Currently, it is anticipated that the agency appointment will end on March 31, 2022, at which time UTAM will no longer manage the pension-related assets.

The financial statements of UTAM were authorized for issue by the Board of Directors on March 18, 2022.

2. Basis of accounting

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

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

UTAM manages U of T’s Endowment Fund, Expendable Fund and Pension Plan investments, through a formal delegation of authority and investment management agreement between UTAM and U of T.

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

Notes to Financial Statements

December 31, 2021 and 2020

3. Summary of significant accounting policies

Significant accounting policies

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

Critical accounting estimates and judgments

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

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

Financial instruments

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

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

Market risk

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

[i] Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the future cash flows or fair values of financial instruments. As at December 31, 2021 and 2020, UTAM has no significant assets or liabilities subject to interest rate risk.

[ii] Currency risk

Currency risk is the risk that fluctuations in exchange rates will result in losses to the Company on monetary assets and liabilities denominated in foreign currencies. While certain expenses are paid in foreign currencies, these amounts are not significant. As at December 31, 2021 and 2020, UTAM has no significant assets or liabilities denominated in a foreign currency and has no significant exposure to currency risk.

[iii] Other price risk

Other price risk is the risk of gain or loss due to the changes in the price and the volatility of individual equity instruments and equity indices. UTAM is not exposed to other price risk as at December 31, 2021 and 2020.

Notes to Financial Statements

December 31, 2021 and 2020

Liquidity risk

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

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. UTAM does not have a significant exposure to any individual counterparty, except for U of T, which funds its operations. Therefore, credit risk is not a significant risk to UTAM as at December 31, 2021 and 2020.

Capital assets

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

Leasehold improvements	Term of lease
IT infrastructure equipment	5 years
Audio-visual and communications equipment	5 years
Furniture	5 years
Personal computers and software	3 years

Revenue recognition

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

Employee future benefits

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

Foreign currency translation

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

Notes to Financial Statements

December 31, 2021 and 2020

4. Capital assets

Capital assets consist of the following:

	Leasehold improvements \$	IT infrastructure equipment \$	Audio- visual and communications equipment \$	Furniture \$	Personal computers and software \$	Total \$
Cost						
Balance, January 1, 2020	886,659	295,447	56,805	76,045	198,461	1,513,417
Additions	38,047	11,492	—	37,460	46,513	133,512
Balance, December 31, 2020	924,706	306,939	56,805	113,505	244,974	1,646,929
Additions	—	14,811	—	—	23,713	38,524
Write-off of fully amortized capital assets no longer in service	—	(177,110)	—	—	(139,660)	(316,770)
Balance, December 31, 2021	924,706	144,640	56,805	113,505	129,027	1,368,683
Accumulated amortization						
Balance, January 1, 2020	273,152	232,059	35,976	42,436	149,829	733,452
Amortization	89,541	41,961	11,361	17,082	40,871	200,816
Balance, December 31, 2020	362,693	274,020	47,337	59,518	190,700	934,268
Amortization	94,363	27,300	9,468	20,554	35,227	186,912
Write-off of fully amortized capital assets no longer in service	—	(177,110)	—	—	(139,660)	(316,770)
Balance, December 31, 2021	457,056	124,210	56,805	80,072	86,267	804,410
Net book value						
Balance, December 31, 2020	562,013	32,919	9,468	53,987	54,274	712,661
Balance, December 31, 2021	467,650	20,430	—	33,433	42,760	564,273

Notes to Financial Statements

December 31, 2021 and 2020

5. Deferred capital contributions

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

The continuity of deferred capital contributions is as follows:

	2021 \$	2020 \$
Balance, beginning of year	712,661	779,965
Recoveries received during the year related to capital asset purchases	38,524	133,512
Amortization of deferred capital contributions	(186,912)	(200,816)
Balance, end of year	564,273	712,661

6. Related party transactions

UTAM is affiliated with and controlled by U of T.

- [a] In accordance with an Investment Management Agreement dated November 26, 2008 and subsequently amended and restated July 1, 2021 between the Governing Council and UTAM [the "Agreement"], U of T will reimburse UTAM for its services an amount which will enable it to recover the appropriate costs to support its operations. As at December 31, 2021, \$328,472 [2020 - \$243,857] is due from U of T as a result of the actual cost of operations exceeding reimbursements.
- [b] Certain eligible employees of UTAM were members of the U of T RPP, prior to the transfer of the U of T RPP's assets and pension obligations to the UPP, and are now members of the UPP. Eligible employees also participate in other employee future benefit plans offered by U of T. U of T's employee future benefit plans and the UPP are defined benefit plans. In 2021, contributions of \$257,013 [2020 - \$387,671] related to these plans have been expensed in UTAM's financial statements.
- [c] UTAM obtains certain services from U of T, such as payroll services and some IT services. There is a charge for some of these services, which is reimbursed by U of T in accordance with the Agreement. In 2021, these services totalled \$67,418 [2020 - \$69,480].
- [d] The Governing Council entered into a lease with a term of ten years commencing December 1, 2016 for premises occupied by UTAM. Under this lease, UTAM will incur annual expenses of approximately \$169,000 over the term of the lease, which represents the minimum rent component of the lease obligations.
- In addition to the above minimum rent payments, there are additional payments in respect of operating costs that are subject to change annually based on market rates and actual usage. These costs totalled \$103,240 [2020 - \$107,620] in 2021. These expenses are reimbursed by U of T in accordance with the Agreement.
- [e] Transactions with U of T are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the parties. Amounts due to/from U of T are non-interest bearing and due on demand.

Notes to Financial Statements

December 31, 2021 and 2020

[f] UTAM provides an incentive bonus plan for the senior management team whereby the majority of the incentive bonus awards are directly related to and, vary with, the actual performance of U of T's investment portfolios compared to passive benchmark portfolios, over a four-year measurement horizon. A portion of the incentive bonus is subject to mandatory deferral over a service period and paid at specified dates during that service period. The expense for deferred incentive bonus awards is recognized when paid out to employees that remain entitled to receive them and are remeasured at each applicable date as specified under the incentive bonus plan with remeasurement gains or losses recognized in net income. Under this incentive bonus plan, a portion of each year's incentive bonus awards is expensed in that year, with the remaining deferred amounts recorded as an expense in future years. As at December 31, 2021, as much as approximately \$82,331, \$261,140 and \$388,097 plus an adjustment for the performance of U of T's investment portfolios, could be recorded as an expense in 2022, 2023 and 2024, respectively, under this deferred arrangement on a cumulative basis.

Additionally, participants in the incentive bonus plan have the irrevocable option to voluntarily defer receipt of all or part of their immediate awards in order to receive them at the same defined dates as applied to mandatory deferred awards. These voluntary deferrals are remeasured at each applicable date as defined in the incentive bonus plan with remeasurement gains or losses recognized in net income. As these voluntarily deferred awards vest immediately, they are expensed in the year in which they are earned and reflected as liabilities, adjusted by applicable remeasurement gains or losses during the deferral period, until paid. As at December 31, 2021, \$308,383 [2020 - \$293,735] in incentive bonuses adjusted for remeasurement gains or losses have been deferred under the incentive plan.

[g] In 2021, UTAM implemented retention arrangements for employees payable on various future dates. Awards under these arrangements have associated terms and conditions variously applicable to employees and to UTAM. UTAM's financial obligations for the first arrangements are recognized evenly over the period in which they were first established to the period in which the obligations crystallize, adjusted for any obligations that lapse under the terms and conditions. Arrangements that apply to subsequent periods will begin to be recognized when earlier arrangements crystallize. As at December 31, 2021, the maximum obligation to be recognized in future periods is \$2,544,981. The expense under the retention arrangements was \$1,108,269 for the year, which has been accrued as at December 31, 2021.

[h] Transactions with key management personnel

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

	2021	2020
	\$	\$
Short-term employee benefits	3,573,052	2,495,373
Post-employment benefits	178,535	180,768
Other long-term benefits	7,755	8,762
	3,759,342	2,684,903

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

7. Capital management

In managing capital, UTAM focuses on liquid resources available for operations. U of T provides funds as required to allow UTAM to meet its current obligations. As at December 31, 2021, UTAM has sufficient liquid resources to meet its current obligations.

UTAM Team

As of March 31, 2021

Our team of professionals works closely with the Board, the expert Investment Committee, the University administration and various governance bodies in our management of the University's assets.

Investments

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CFA, CAIA
President and Chief Investment Officer

Stephanie Zed
Executive Assistant

Leon Lu CFA, CAIA, MSc
Head of Fixed Income

Jean Potter
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Chief Compliance Officer

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Manager, Investment Operations

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