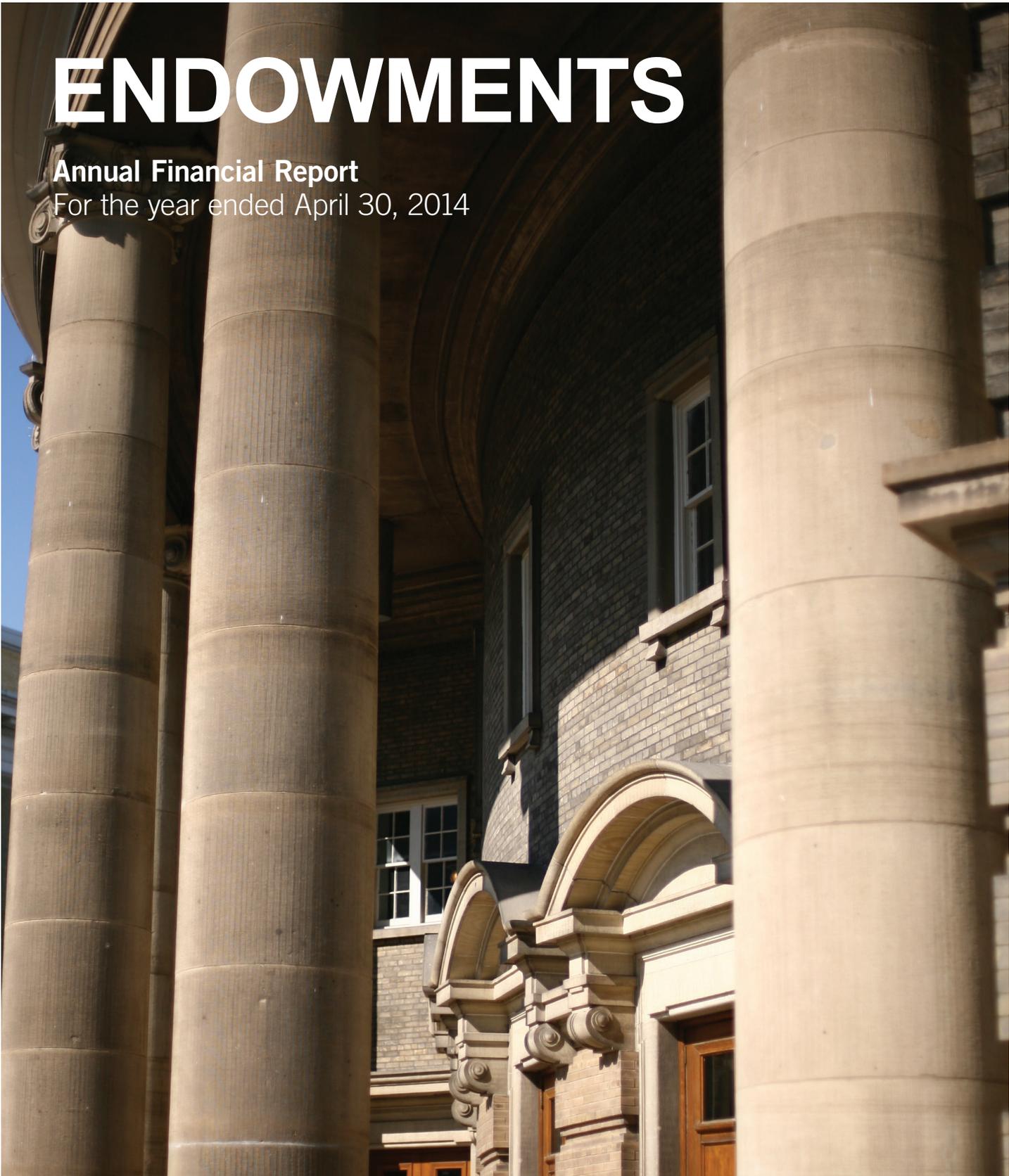


ENDOWMENTS

Annual Financial Report
For the year ended April 30, 2014



UNIVERSITY OF
TORONTO

BOUNDLESSIMPACT

HIGHLIGHTS

	April 30, 2014	April 30, 2013
<hr/>		
<u>Total Endowments:</u>	(Millions of dollars)	
Fair value	\$ 1,880.8	\$ 1,663.7
Change from previous year:		
Endowed donations	\$ 37.1	\$ 34.6
Transfers from University's unrestricted funds	\$ 12.1	\$ 9.8
Investment income	\$ 256.9	\$ 185.4
Fees and expenses	\$ (16.4)	\$ (13.7)
Allocation for spending	\$ (72.6)	\$ (70.5)
Total change for the year	\$ 217.1	\$ 145.6

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

Proportion invested in LTCAP	96.36%	96.51%
Number of units in LTCAP	9,535,423	9,304,549
Fair value in millions	\$ 1,812.4	\$ 1,605.7
Fair value per unit in dollars	\$ 190.07	\$ 172.58
Allocation for spending per unit in dollars	\$ 7.56	\$ 7.56
LTCAP time-weighted net returns*	14.6%	11.4%

*Returns net of investment fees and expenses.

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EXECUTIVE SUMMARY

The University of Toronto (“U of T”) was established in 1827 and is Canada’s largest and most comprehensive university. It is one of the world’s foremost research-intensive universities and it has educated hundreds of thousands of students and enjoys a global reputation in multiple fields of scholarship. The Times Higher Education ranking groups the University of Toronto with Stanford, Oxford, Cambridge, UC Berkeley, and UCLA as the only institutions in the top 26 in all six broad disciplinary areas. Students have a chance to study with some of the world’s top professors and alongside inspiring classmates.

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

Endowed gifts from alumni and friends enable U of T to offer financial support to exceptional students, attract outstanding professors and researchers, and create unique and innovative programs. Since the start of Boundless: The Campaign for the University of Toronto, which was launched in November 2011, donors have contributed more than \$1.5 billion towards a goal of \$2 billion, establishing a new benchmark in Canadian philanthropy. The Boundless campaign will help expand U of T’s global leadership across critical areas of knowledge and develop the talent, ideas and insight needed to address the defining challenges of our time. Endowed giving provides permanent, self-sustaining support to the University and is critical to meeting these important objectives.

This report summarizes the performance, management and impact of our endowments over the past fiscal year. At April 30, 2014, University of Toronto endowments totaled \$1.9 billion and included over 5,700 individual endowment funds. In establishing these funds, donors have chosen to support the institution’s highest, continuing academic priorities.

In summary:

- investment return net of investment fees and expenses for 2013-14 was 14.6%;
- endowment spending allocation (“payout”) was 4.4% of the opening balance market value; and
- fees and expenses were 1.0% of the opening balance market value.

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

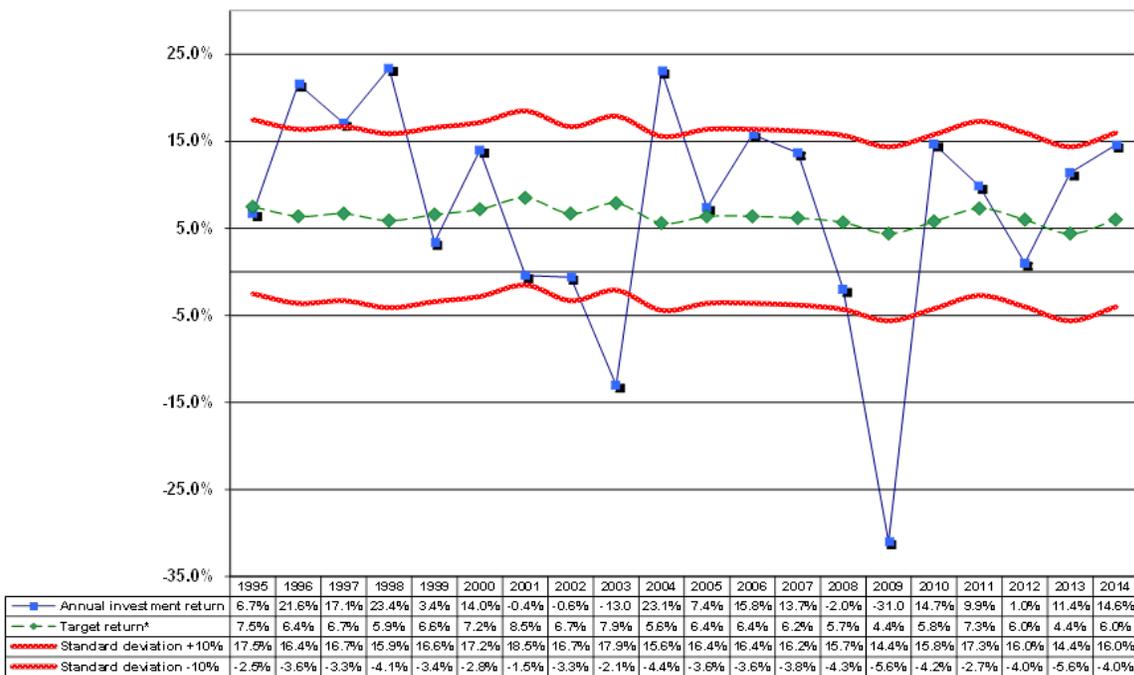
Endowments are managed in a unitized pool. Almost all of the University's endowments hold units in this unitized investment pool, entitled the Long-Term Capital Appreciation Pool (LTCAP). Each endowment account holds units in LTCAP that reflect the number of dollars contributed and the unit value on the dates of contribution. The target spending allocation is 3% to 5% of opening balance market value and the actual endowment spending allocation for 2013-14 was 4.4%. The market value of each unit has increased from \$172.58 at April 30, 2013 to \$190.07 at April 30, 2014.

Unit market value at April 30, 2013	\$172.58
Investment income per unit	26.77
Fees and expenses	(1.72)
Endowment spending allocation	<u>(7.56)</u>
Unit market value at April 30, 2014	\$190.07

The amounts pertaining to a particular endowment account are obtained by multiplying the value per unit by the number of units in the endowment account. For example, if an endowment account holds 750 units, the market value of the endowment at April 30, 2014 was 750 times \$190.07 or \$142,553.

To fund the spending allocation and to preserve capital against inflation over time, the University has established an investment return target of a 4% real investment return after inflation and net of investment fees and expenses with a risk tolerance of 10% over 10 years. To meet those targets, the investment is managed by the University of Toronto Asset Management Corporation (UTAM) under the direction of the University.

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



* The target return from 1995 to 2002 was 5% plus CPI and after 2002, it was set at 4% plus CPI with a 10% standard deviation.

Over a 20-year period, the one-year annual returns exceeded the target returns 12 times. Compared to the 10% risk corridor, returns over the same period were within the corridor 14 times, above it 4 times and below it twice.

MAKING THE GRADE

Science prodigy is one of the latest recipients of the BMO National Scholarship

From a young age, Jessie MacAlpine dreamed of being a scientist. In high school, she was conducting her own research and contacting universities for help. They recognized her talent early and gave her equipment and space to proceed. By the time she graduated, MacAlpine had participated in prestigious science fairs across Canada.

So it may not come as a surprise that MacAlpine, who just finished her first year as a life sciences student at the University of Toronto, earned the prestigious Bank of Montreal National Scholarship. Awarded to students entering their first year of university who demonstrate superior academic performance, creative thought and exceptional achievement, the scholarship will pay for four years of tuition, her first year in residence and other incidental expenses.

“I’m so pleased to receive this scholarship; it will go far in helping me to pursue my education in microbiology and computer science, and hopefully, start my own biotechnology company someday,” says the Woodstock, Ontario native. If this seems like a lofty goal for the first year student, consider that while she was in high school, she developed a potential malaria treatment using herbicides that caught the attention of the university research community. In fact, MacAlpine has patents pending for the treatment and a bioherbicide she developed using molecular compounds found in garlic mustard plants and coffee grounds. She is about to start mouse trials on the drug, and then plans to look into distribution channels. “It’s a long process, but I’m willing to stick it out,” she says.

MacAlpine has also had a busy life outside the lab and classroom: earlier this year, she won Best in Category for Medicine and Health Sciences at the Intel International Science and Engineering Fair. She has represented Canada at the National Youth Science Forum in Australia, the European Union Contest for Young Scientists and the Feria Científico del Ingenio in Panama City. While she pursued her studies this year, she also found time to be a Varsity rower and Nordic skier as well as co-president of the Australian Students’ Union.



MacAlpine is precisely the type of student envisioned by the BMO National Scholars program when it was created in 1998. Established with an endowed gift from the Bank of Montreal, the program has, in its 15 years, provided more than \$5.3 million in support of 140 BMO National Scholars.

“The extraordinary collaboration between BMO Financial Group and the University has enabled a significant number of Canada’s most promising students—our country’s future leaders—to attend U of T, with impressive results,” says U of T President Meric Gertler. “The U of T community—not least the students who have benefitted from BMO’s vision and generosity—is tremendously grateful for BMO’s support. It is helping to prepare engaged citizens whose energy and creativity will enhance our communities at home and abroad for many years to come.”

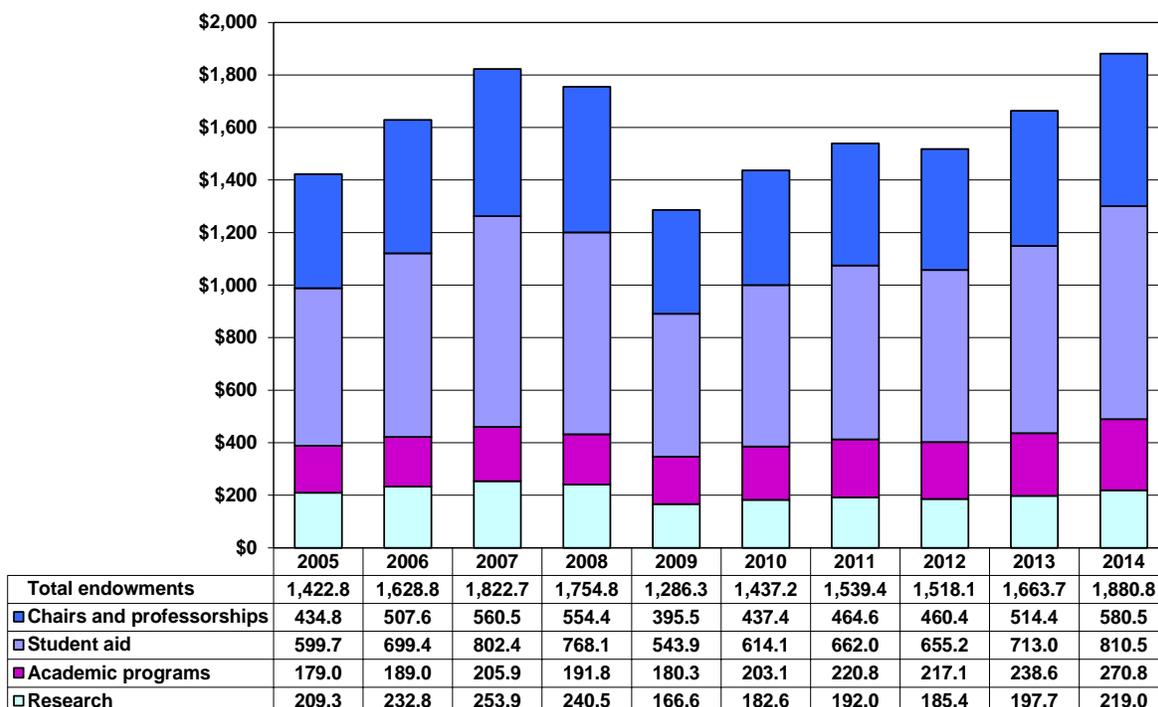
INTRODUCTION

Over the University of Toronto's history, endowed gifts have provided critical funding to support our core academic missions of teaching and research. These gifts sustain us over the long term – funds from endowed donations are invested so that earnings from the gift provide ongoing support in perpetuity, forming a lasting legacy. For the past 188 years, support from U of T alumni and friends has been lifting our University by creating a strong foundation of generosity built on individual gifts. Endowments enable students and academics from around the world to benefit from our distinguished faculty, groundbreaking research and wealth of innovative academic opportunities. In establishing these funds, donors have chosen to support the institution's highest, continuing academic priorities.

Endowments are restricted funds which must be used in accordance with purposes specified by donors or by Governing Council. Endowments are not available for use in support of general operating activities. They are subject to restrictions relating both to capital and to investment income. Endowment funds held by the University of Toronto are subject to the University's preservation of capital policy, the purpose of which is to ensure that the rate of growth in the capital value of the endowments matches or exceeds the rate of inflation over time. Endowments include externally restricted endowment funds (85.3%) and internally restricted endowment funds designated as endowments by Governing Council in the exercise of its discretion (14.7%). The Governing Council may have the right to subsequently remove the endowment designation on internally restricted funds; however, the use of such funds may continue to be restricted.

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

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



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

Almost all endowments, approx. 96.4% of fair value and 5,674 funds, are invested in the University's long-term capital appreciation pool (LTCAP).

At April 30, 2014, there were over 5,700 individual endowment funds, usually supported by a donor agreement, or reflecting a collection of small donations with common restrictions.

Endowments totaled \$1.9 billion fair value at April 30, 2014. This was an increase of \$217.1 million over the previous year. This increase was comprised of:

Additions of:

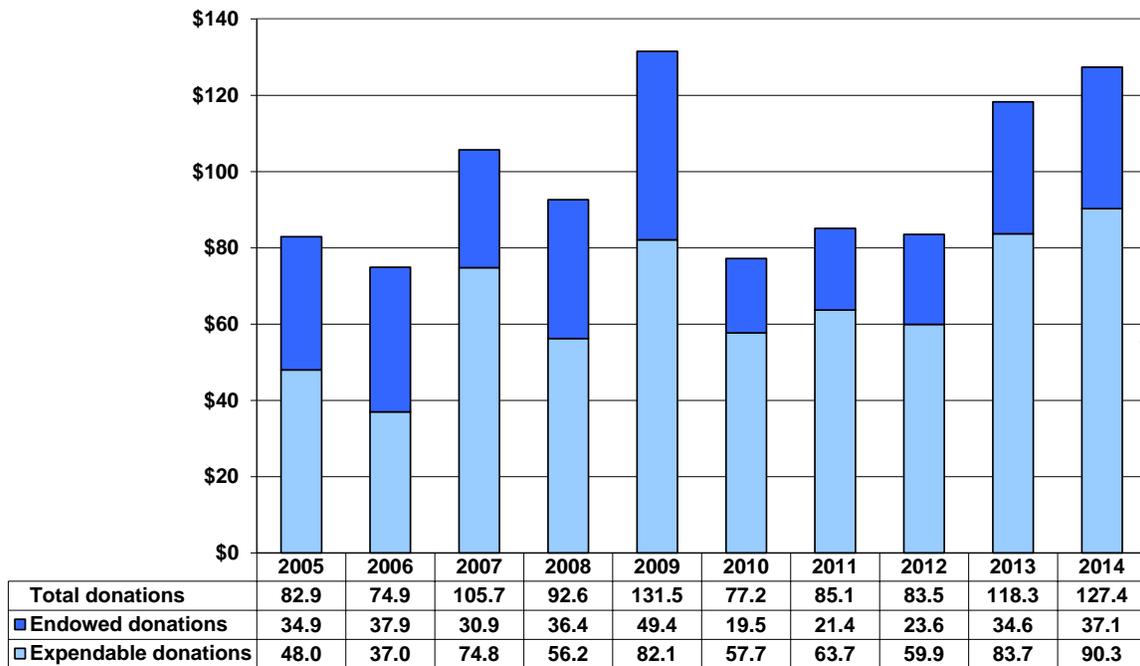
- \$256.9 million of investment income,
- \$ 37.1 million of endowed donations, and
- \$ 12.1 million of transfers from the University's unrestricted funds to endowments.

Minus:

- \$72.6 million of allocation for spending and
- \$16.4 million of fees and expenses.

The following graph shows endowed donations and expendable donations received since 2005. It tracks only cash and gifts-in-kind donations received in the relevant year. There is usually a lag between the growth in pledges and related commitments, and the actual receipt of funds.

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



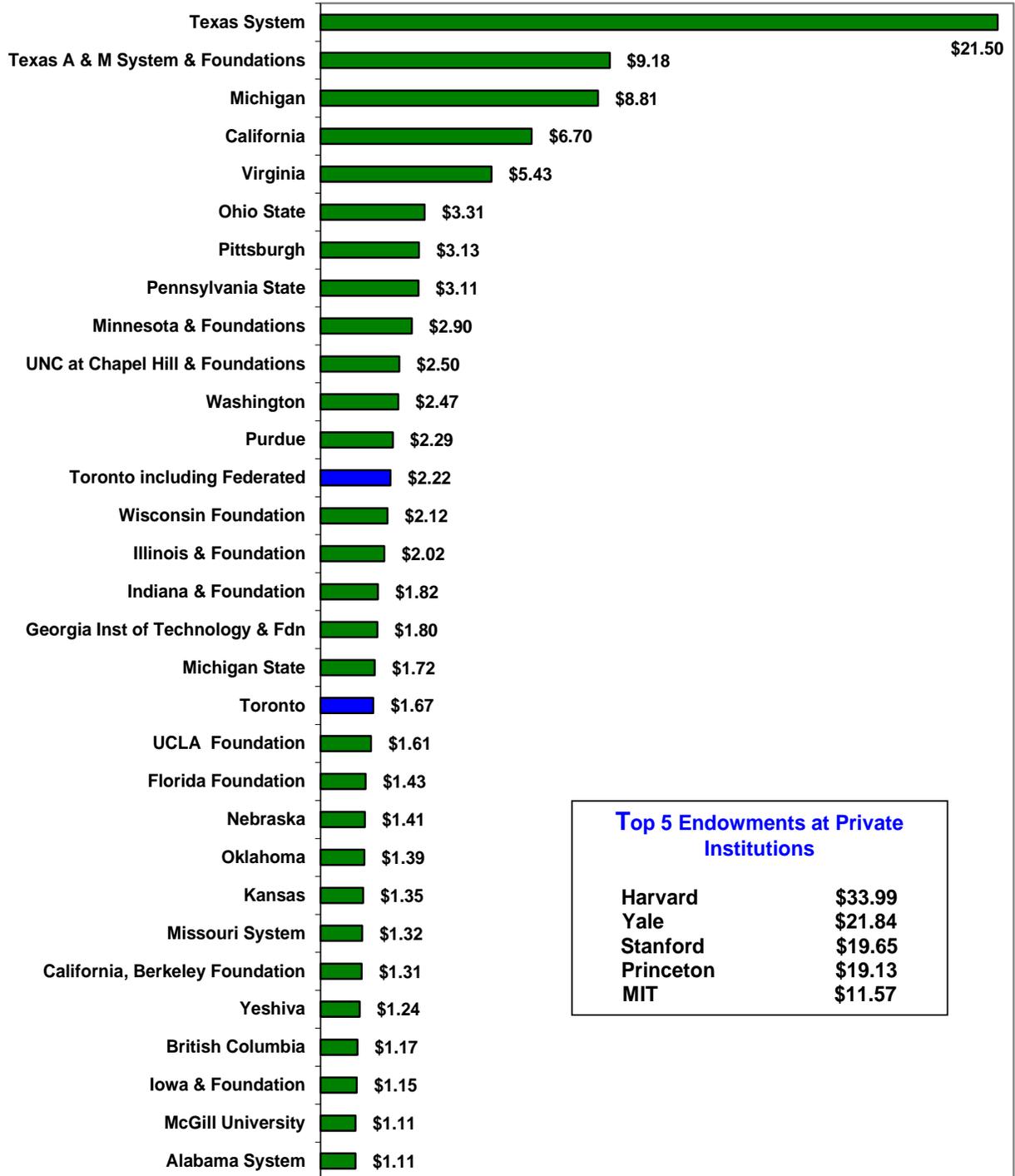
The graph illustrates that endowed donations represented 29.1% of total donations (\$127.4 million) received by the University in 2014. Expendable gifts build essential infrastructure and support immediate academic priorities with rapid-cycle impact on the institution.

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

It is important to note the University's endowments are not large in comparison to our U.S. public university peers. When we consider the top 30 endowments at Canadian and U.S. public institutions in 2013, Toronto ranked 18th in terms of size. Including the endowments of the federated universities, Toronto ranked 13th in terms of size. If we were to compare the endowment per FTE student with the same institutions, the University would rank lower since most of these institutions have a smaller number of FTE students.

TOP 30 ENDOWMENTS AT PUBLIC INSTITUTIONS

As at June 30, 2013
(in billions)



Top 5 Endowments at Private Institutions	
Harvard	\$33.99
Yale	\$21.84
Stanford	\$19.65
Princeton	\$19.13
MIT	\$11.57

Source: 2013 NACUBO Endowment Study converted to Canadian dollars at an exchange rate of 1.0512

ENRICHING STUDENTS IN INNER-CITY SCHOOLS

William Waters' passion for helping the most marginalized of our society extends to inner city schools

Amanda Parris was making her final decision on where to pursue a Master's degree in education when she found out she had been selected to receive a coveted William Waters Scholarship. The endowed scholarships are awarded annually to support exemplary teachers who wish to pursue a Master's of education degree at OISE and have taught for at least five years in local schools where students are from poor and culturally diverse backgrounds.

"Receiving the William Waters Scholarship was a humbling experience and a big part of my decision to select OISE. It not only supported me financially but also opened the door to a community of scholars and change-makers," says Parris, who is pursuing a Master's in the sociology of education. "OISE is made up of an incredible body of people who mobilize their energies to engage urgent issues and create vital spaces for learning, dialogue and research to occur. I look forward to continuing my journey as a William Waters Scholar."

Parris is co-founder and managing director of Lost Lyrics, a mobile/interactive learning incubator that creates educational bridges between the streets and the classroom in Toronto. Born in London, England, she came to Canada 19 years ago when her mother realized this country had the kind of diverse and cutting-edge education that she wanted her daughter exposed to.

Parris doesn't believe in having just one career "and so the amazing freedom of academia allows me to be able to follow the artistic aspects of my life." She plans to use her talents and education to work in schools that specifically target underprivileged and marginalized youth.

William Waters (WDW 1960, MBA 1962, Hon. LLD 2004), Professor Emeritus of Economics and Finance at the Rotman School of Management, created the scholarships as part of a \$1 million pledge to support urban education at OISE. The gift aims to improve teaching in urban schools by increasing knowledge of urban issues in teacher education, and supporting continuing education for teachers in inner city schools in Toronto. The gift also funds the annual William Waters Symposium on Urban Education that brings together an international expert with local teachers and faculty to understand how teachers work effectively with students in inner city schools.



WILLIAM WATERS SCHOLARSHIP RECIPIENTS DANIELLE BLAIRE, NATASHA BURFORD, AMANDA PARRIS AND SARAH PAPOFF WITH WILLIAM WATERS (CENTRE).

A portion of the pledge is designated to the William Waters Teacher-in-Residence in Urban Schooling program. The residency supports the secondment of one teacher from a local board to OISE to engage in activities that enhance the urban education component of OISE's teacher education program, and is particularly advantageous towards teacher candidates working in high poverty, high needs schools.

Vanessa Russell is the current William Waters Teacher-in-Residence in Urban Education and has just completed her third and final year in this position. Before this secondment to OISE/UT, Vanessa was the Curriculum Leader at an alternative school and taught a social justice course through the arts for some of the most underserved youth across the Toronto District School Board. Vanessa received her PhD from OISE in 2009 and has written extensively in the area of anti-oppression education, embodiment and ethics.

Waters has long been a supporter of innovative programs directed at disadvantaged youth in our communities. He understands first-hand what it means to be a non-traditional student who is struggling financially. He received his first degree in his late 20s because economic circumstances only allowed for part-time studies.

"My life experience has taught me that fate and chance play roles in shaping everyone's life but for some incredibly more than for others," Dr. Waters said. "It was my good fortune to have a mother who encouraged and supported me quietly with little thanks every step of the way to high school graduation and beyond. Now I reflect on those who don't have such a mother, or have had no real opportunity because of their familial circumstances or have just lost their way. OISE's focus on urban education is an important part of that idea because it provides support to those teachers who are dealing directly with these students from poor and culturally diverse backgrounds in an urban environment and provides them with tools, learning and research opportunities to develop the knowledge to tackle urban issues head-on."

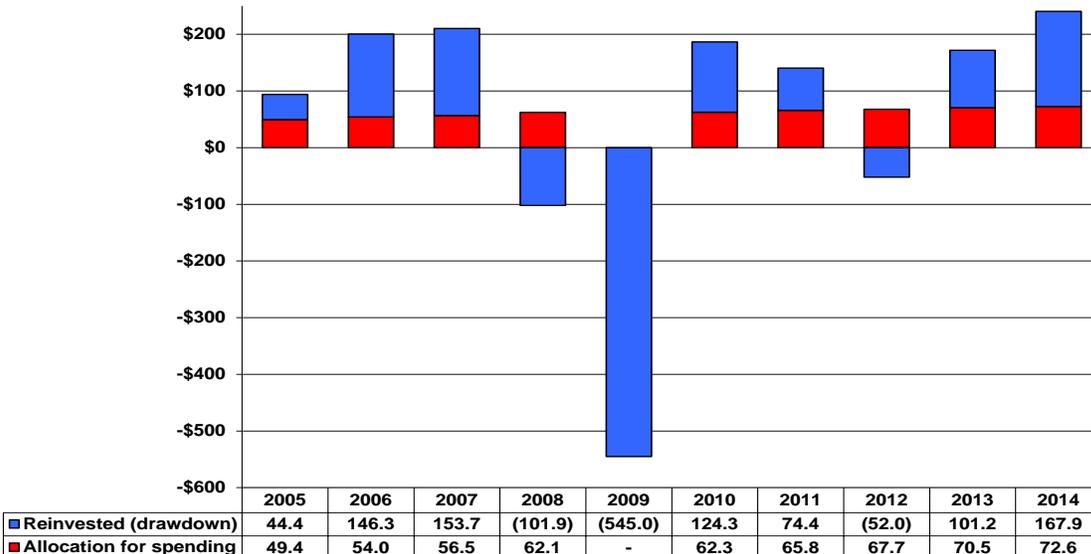
ALLOCATION FOR SPENDING AND PRESERVATION OF PURCHASING POWER

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

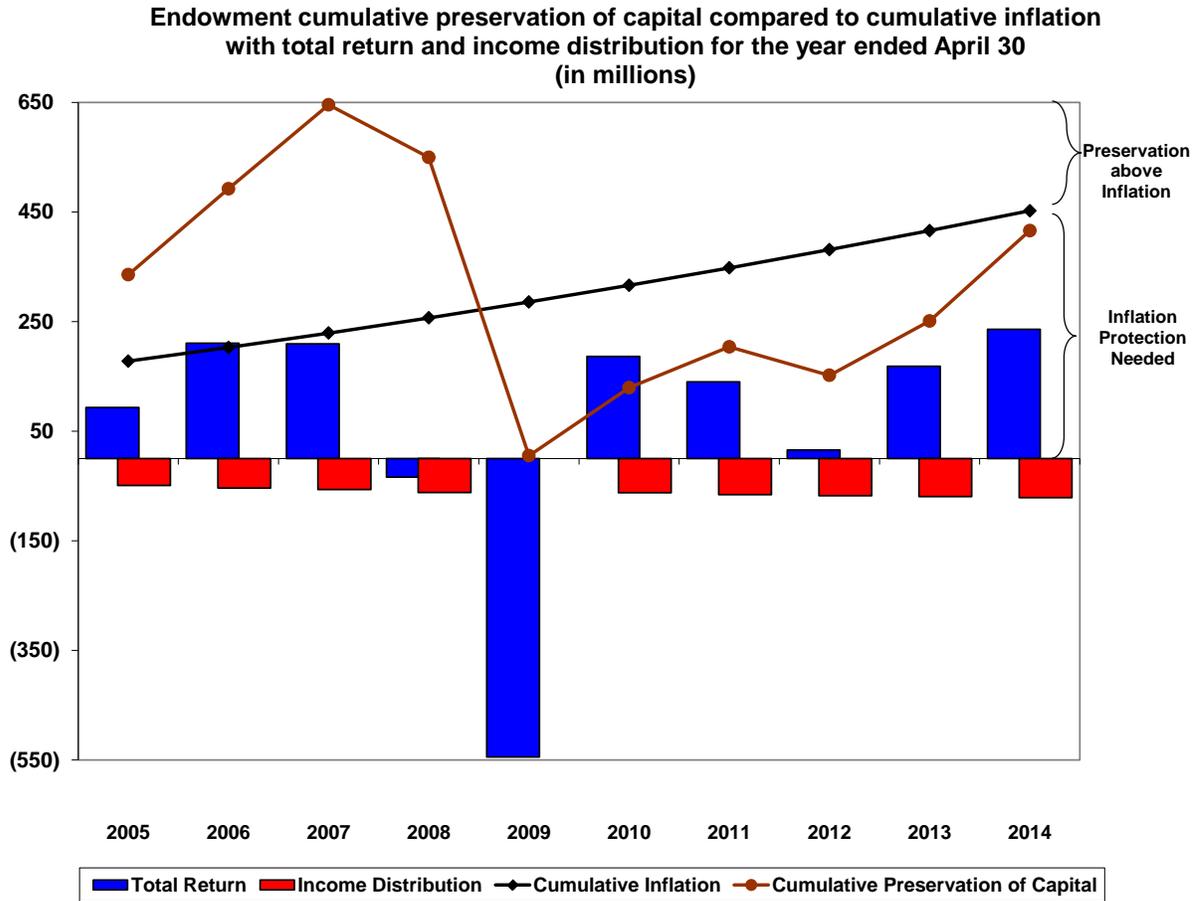
To ensure that endowments will provide the same level of economic support to future generations as they do today, with growth in the capital value of the endowment and with spending increasing over time as a percentage of the original donation, the University does not spend everything earned through the investment of funds in years when investment markets are good. In those years, the University sets aside and reinvests any amounts earned in excess of the spending allocation. This provides protection against inflation and builds up a reserve, which is expected to be used to fund spending in years when investment markets are poor. When investment income is less than the amount allocated for spending, or negative, the shortfall is expected to be funded from the accumulated investment income which has previously been added to the pool. The target spending allocation is 3% to 5% of opening balance market value and the actual endowment spending allocation for 2013-14 was 4.4%.

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

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



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



LONG-TERM CAPITAL APPRECIATION POOL (LTCAP) INVESTMENT POLICY

Almost all of the University's endowments (96.4% of fair value) are invested in LTCAP, a unitized pool. The fair value of an LTCAP unit is set each month, representing the market value of investments of the LTCAP divided by the total number of units held. Each endowment account has an assigned book value (nominal amount of dollars contributed to the endowment) and an allocation of LTCAP units based on the number of dollars contributed and the unit value on the dates of contribution.

In addition to endowments, LTCAP also includes \$229.6 million expendable funds that are invested for the long-term, including the University's sinking fund for debenture repayment, and \$7.3 million of external funds of affiliated organizations and funds where the University is a beneficiary, representing historical arrangements.

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

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

INVESTMENT MANAGEMENT AND OVERSIGHT

LTCAP investments are managed by the University of Toronto Asset Management Corporation (UTAM) as agent for the University. The University establishes the return and risk parameters for LTCAP and approves the investment strategy. UTAM recommends and executes appropriate investment strategies based on the risk and return objectives and the investment strategy established by the University. An Investment Advisory Committee provides investment advice to the President of the University.

A detailed review of the investment performance, which is managed and measured on a calendar year basis by UTAM is available on the UTAM website at www.utam.utoronto.ca.

UTAM, which was formed in April 2000, is a professional investment management organization that is wholly owned by the University and governed by a Board of Directors. The UTAM Board is responsible for the oversight and direction of UTAM. UTAM reports on the investments under management to the University Administration and to the Business Board of the University of Toronto.

LONG-TERM CAPITAL APPRECIATION POOL (LTCAP) INVESTMENT STRATEGY AND PERFORMANCE

The fair value of LTCAP was \$2,049.3 million at April 30, 2014, of which \$1,812.4 million was endowments, representing 96.4% of all endowments.

Asset Mix

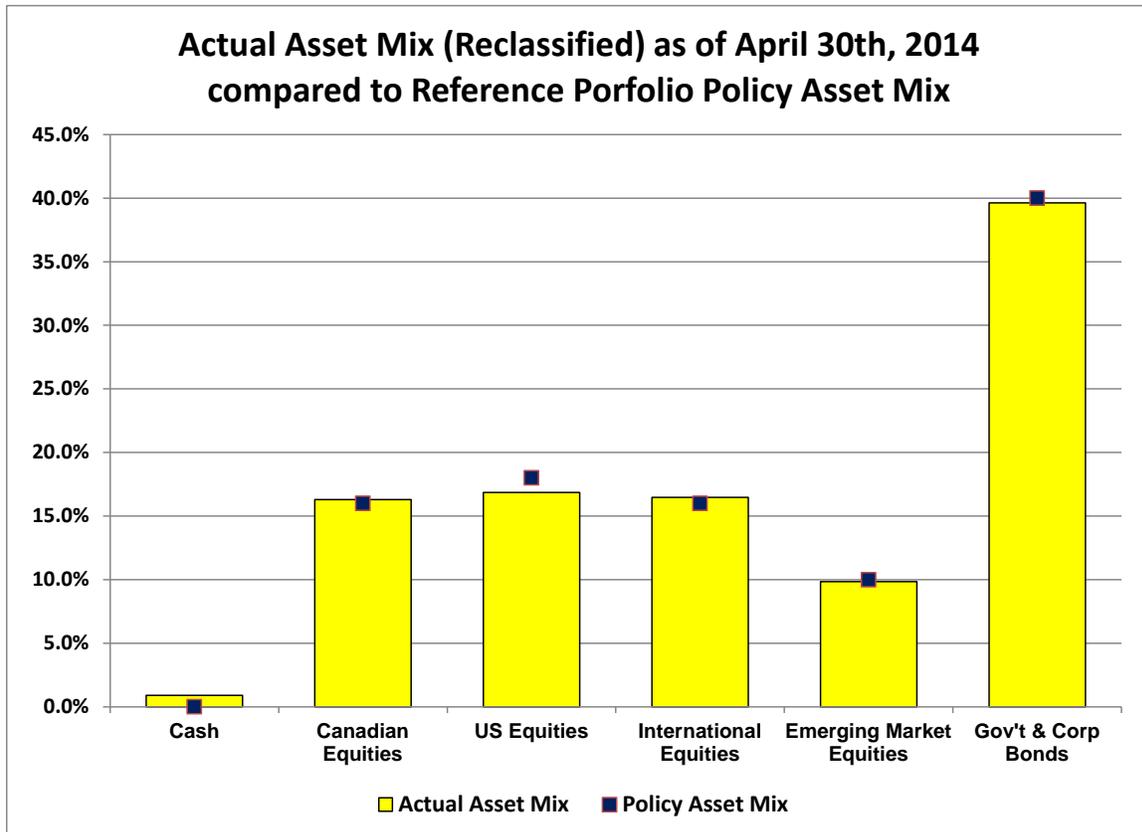
LTCAP's total portfolio return target is a 4% real return (net of fees and expenses), and its investment risk tolerance is specified as a 10% standard deviation of the portfolio's annual returns over a 10-year period with the purpose of funding the target spending allocation and the preservation of capital over time. These parameters were established in 2003.

To achieve the target return, the portfolio must be exposed to risk. UTAM's investment philosophy is the framework which guides this task. It is built upon six core principles: appropriate asset allocation; a longer term focus; analysis and understanding of the risks being assumed; efficient diversification by geography, strategy and liquidity; an equity orientation with a value bias; and, a belief that active management can add value in certain areas.

The policy asset mix is periodically reviewed by UTAM for approval by the University based on advice from the President's Investment Advisory Committee. A complete and thorough review was undertaken during 2011-12 and the revised policy asset mix (hereafter being referred to as the "Reference Portfolio") was implemented on March 1st, 2012. As part of this review, to provide a clear picture of the risk entailed in various investment vehicles, non-traditional assets and strategies (often referred to as alternative assets) were re-classified as equities or debt-related based on their underlying risk characteristics. This demonstrates, more clearly than before, that the policy asset mix is a 60% equity and 40% fixed income asset mix.

Notwithstanding this change, the underlying investment philosophy remains unchanged, which is to control the overall risk of the portfolio; to remain aware of inflation risk over the longer term; and to recognize that markets are likely to be quite choppy for a period of time.

The chart below compares the actual asset mix (reclassified based on risk characteristics as discussed above) to the Reference Portfolio policy asset mix as at April 30th, 2014:



Hedge funds, private equities and real assets have been reclassified into the respective asset class components

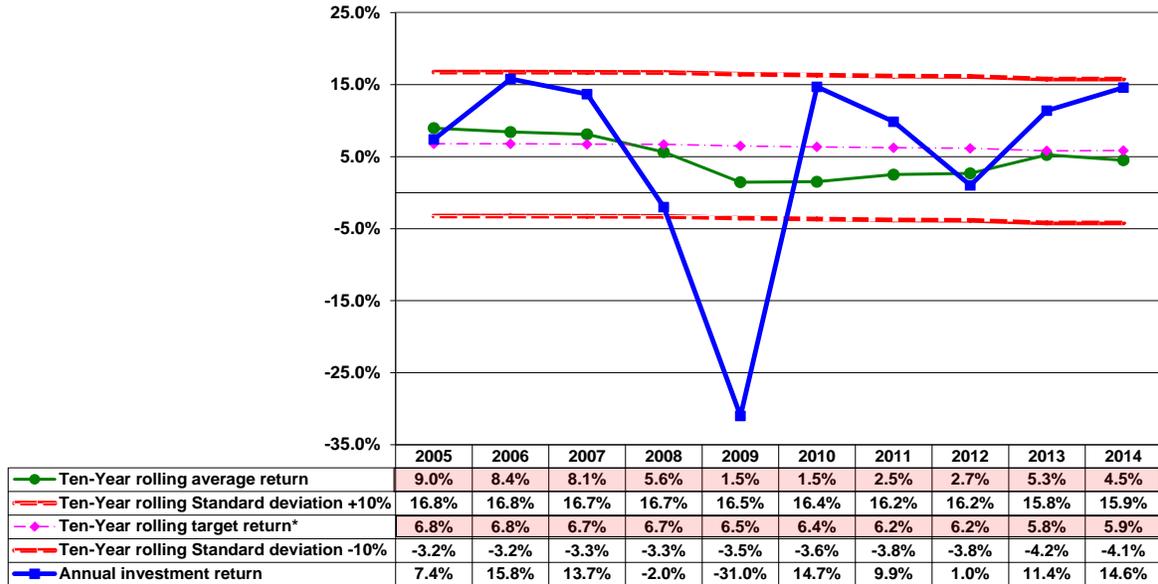
Foreign Currency Exposure

The underlying philosophy at UTAM is to exploit global investment opportunities. This approach results in foreign currency exposure. To manage foreign currency risk, the hedging policy at April 30, 2014, is to hedge 65% (2013-75%) of non-emerging markets' currency exposures.

Investment Performance

Based on 10-year rolling averages, the actual average returns exceeded the target returns every year until 2007. Beginning in 2008, the average actual returns fell below the average target returns due to losses from 2001 to 2003 and the financial crisis of 2009. Since then, the average return began to trend back towards the average target return as the actual annual return exceeded the target return in all years except for 2012.

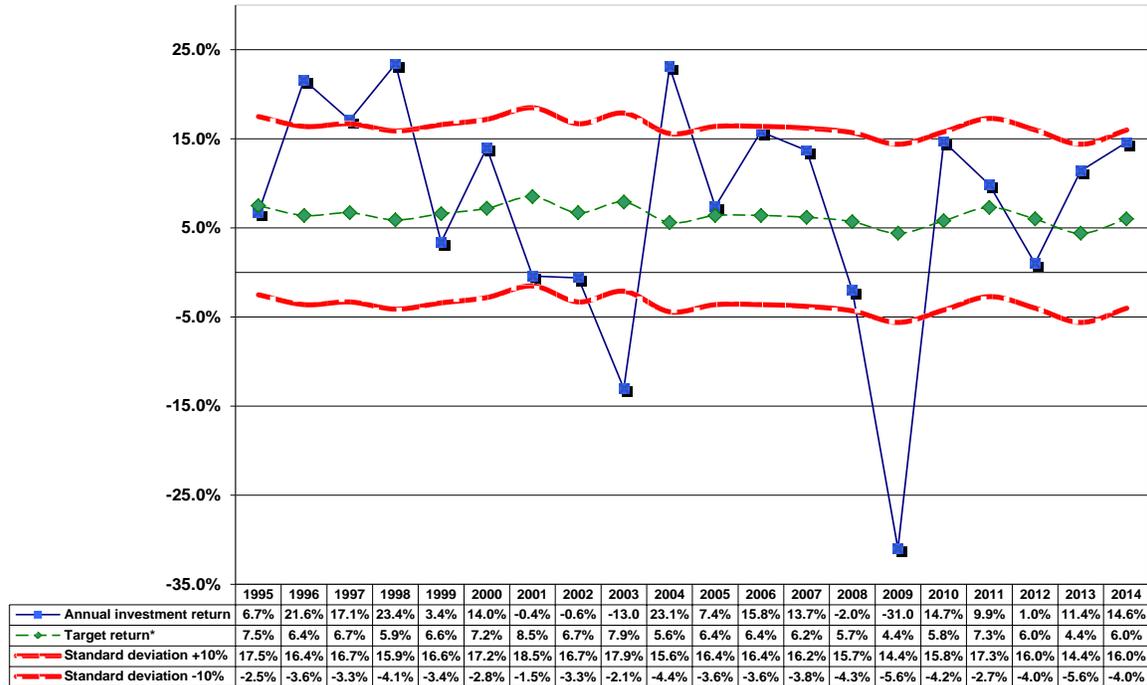
**Long-Term Capital Appreciation Pool (LTCAP)
Ten-Year Rolling Average Returns with Annual Returns**



* The target return is set at 4% plus CPI with a 10% standard deviation. The ten-year rolling returns are geometric average returns.

Over a 20-year period, the one-year annual returns exceeded the target returns 12 times. Compared to the 10% risk corridor, returns over the same period were within the corridor 14 times, above it 4 times and below it twice.

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



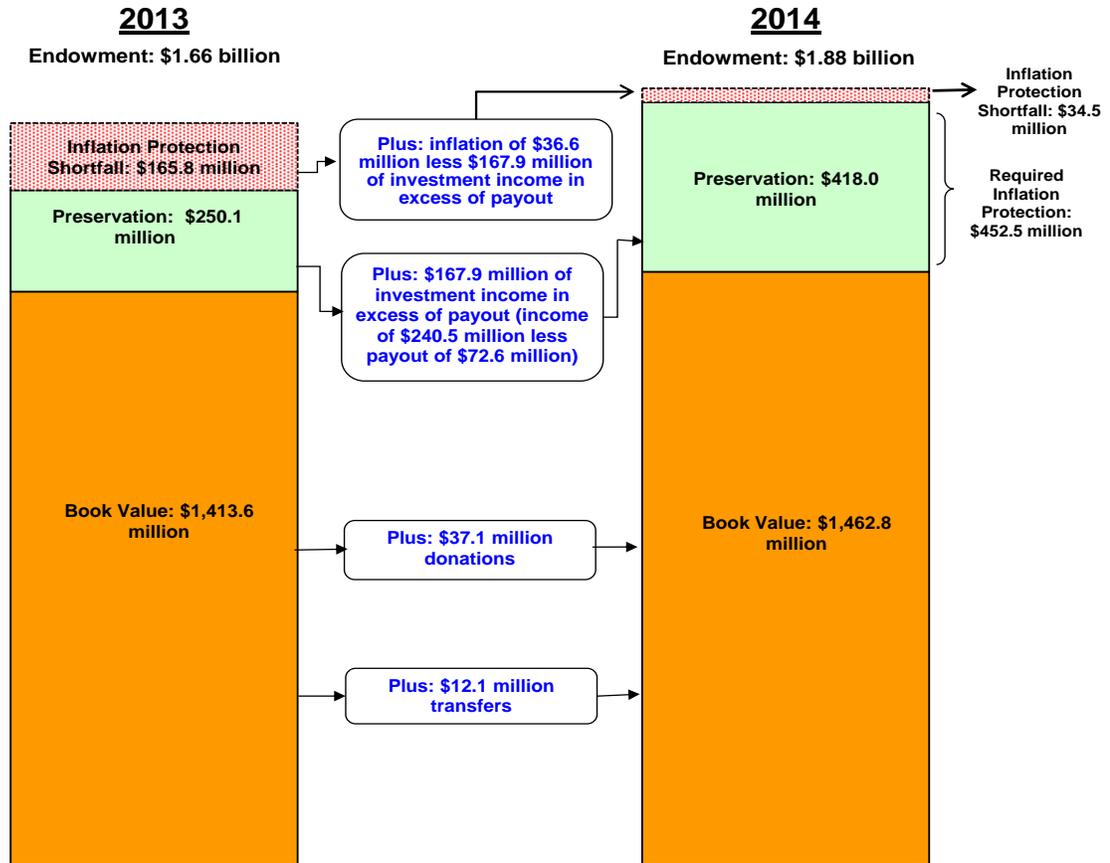
* The target return from 1995 to 2002 was 5% plus CPI and after 2002, it was set at 4% plus CPI with a 10% standard deviation.

While a longer term perspective is important, it is useful to regularly assess LTCAP short term returns compared to the objective set by the University. In this regard, performance is assessed versus the 4% real return objective (net of fees and expenses).

During the year ending April 30th 2014, the LTCAP portfolio achieved an overall Canadian dollar return of 14.6% net of all investment fees and expenses, or 15.5% gross of fees. All major global equity markets posted strong gains in local currency terms. Canadian (TSX) equities, U.S. (S&P 500) equities, and International (EAFE, net) equities advanced 21.3%, 20.4%, and 11.4%, respectively. Emerging Markets equities, introduced last year along with the adoption of the Reference Portfolio, lost 1.8% however. Fixed income as represented by the FTSE TMX Universe (formerly known as the DEX Universe) was essentially flat, advancing marginally by 0.2% on the year. LTCAP also benefited from the Canadian dollar's depreciation against the major currencies including USD and Euro since our foreign currency assets were only partially unhedged back to the Canadian dollar.

Compared to the University's 4% long-term real return objective (which translates to a 6.0% nominal return during the past year), LTCAP outperformed the long-term target by 8.6%. Compared to the Reference Portfolio's 10.8% return, LTCAP outperformed the market benchmark by 3.8% (net of fees).

The change of the endowment is illustrated in the following chart.



A detailed review of investment performance, which is managed and measured on a calendar year basis by UTAM, is available on UTAM's website at www.utam.utoronto.ca and in UTAM's 2013 Annual Report.

ATHLETICS & ACADEMICS IN THE SWIM

Awards support students who excel in academics, sport and leadership

In the summer of 1970 Michael Guinness was a physical education student at the University of Toronto and a competitive swimmer on the Varsity Blues swim team. Preparing to compete at the World University Games in Turin, Italy that August, Guinness' coach, Robin Campbell (who today heads up advancement at the Faculty of Kinesiology and Physical Education), coaxed him to attend a training camp at Indiana University. After the daylong drive to Bloomington, Guinness and Campbell took a walk around campus. "As we walked around, we were struck by how so many of the buildings and facilities had a link back to alumni. The spirit of giving was really established there," says Guinness. "This was very different than U of T at the time. We agreed that it would be very satisfying to give back to our school one day." Guinness went on to graduate from U of T's Physical Education Faculty in 1972, competing at the highest levels of university swimming.

"It wasn't always easy to keep the swimming in harmony with academic pursuits," he says. After a year of graduate school and more training in Indiana, Guinness returned to U of T and completed a medical degree in 1977. After finishing a residency in emergency medicine in the U.S., he briefly returned to Toronto before moving to the Ohio area, where he now resides. "I had no idea how long I was going to be away from Canada and I think that was part of my motivation to give back," he says. "I felt that U of T gave me such a good education, along with top-notch swim coaching and mentorship, that I owed it to give back."

Twenty-eight years after that walk at Indiana University, he made good on his promise by creating three endowed scholarships at the Faculty: the Guinness Award of Excellence, the Guinness Scholarship, and the Guinness Fellowship in High Performance Sport. The awards are based on the philosophy that the pursuit of academic excellence alone at a world-class university is not sufficient for a full student life. The award of excellence and scholarship were created on the basis of excellence in academics, leadership and athletics, preferably swimming. The fellowship supports a graduate student doing research in high performance sport. Along with the initial endowed gift, Guinness continues to enhance these funds with regular donations. Ninety scholarships and 40 Awards of Excellence have been awarded to date.



"At first, I thought these three criteria—academic, athletic and leadership—were perhaps too high a bar for any individual student, but I was wrong. There is no shortage of outstanding young scholars who are also fine athletes and show great leadership," he says.

Frank Despond was the recipient of the Guinness Scholarship for 2013-2014. The fourth-year mechanical engineering student was also captain of the Varsity Swim Team. This past year, he placed first at the Canadian Intercollegiate (CIS) Championships in the 400-metre freestyle and represented Canada and U of T at the FISU World University Games in Kazan, Russia last summer. "It was a truly amazing experience and one I will never forget," says Despond. "I have set very high goals for myself both athletically and academically. Student scholarships like this make an enormous difference in a student athlete's life and are much appreciated."

Edward Liu, a second-year chemical engineering student says that the Guinness Scholarship has helped take some of the financial pressure off him and his family. "While some of my classmates who are not on sports teams can find time to earn some income during the year to help pay for tuition, I cannot," he says. "This scholarship helps me take my mind off financial issues and focus more on my academics and my swimming." Despond and Liu are two of the dozens of scholar-athletes who have benefited from the Guinness Awards to date.

"Dr. Guinness's sustained history of generosity reflects his important recognition that a great academic experience at the University of Toronto is amplified for those who are able to include high performance athletics as a key part of that experience," says Ira Jacobs, Dean of the Faculty of Kinesiology and Physical Education. "The students who receive these scholarships are, like Guinness, creating a legacy for themselves and U of T. We continue to take pride in the accomplishments of these students and in alumni like Dr. Guinness."

FEES AND EXPENSES

Fees and expenses set out below represent the endowments' proportionate share of the expenses allocated to LTCAP. Fees and expenses amounting to 1% of the 2014 opening unit market value consist of the following:

	<u>2014</u>	<u>2013</u>
	<u>in millions</u>	<u>in millions</u>
Investment related management fees		
External managers	\$ 14.3	\$11.9
UTAM	1.5	1.4
Trustee and custodial fees	0.3	0.3
Foreign taxes	0.1	
Professional and other fees	<u>0.2</u>	<u>0.1</u>
Total	<u>\$ 16.4</u>	<u>\$13.7</u>

UTAM has direct oversight of all investment fees and expenses related to managing the LTCAP assets. Third party fees allocated to LTCAP include fees paid to external investment managers contracted by UTAM, trustee and custodial fees, and professional fees. UTAM strives to negotiate discounted investment management fee rates (versus the standard schedule) based on the total assets that UTAM assigns to an external manager, which would include LTCAP assets. The benefit of these lower rates is experienced by LTCAP in the form of lower total costs than would otherwise be the case. Third party fee rates can vary widely, depending on the nature of the asset being managed. For example, fee rates for domestic fixed income mandates are typically much lower than fee rates for private equity investments (domestic or foreign). Therefore, the mix of assets, and changes in asset mix over time, can have a significant impact on total costs year by year. In 2014, investment-related fees incurred for LTCAP increased from the prior year as a result of the continued growth of endowment's net investments (\$1,881 million at April 30, 2014 vs. \$1,664 million at April 30, 2013).

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

SUMMARY OF CHANGES IN FAIR VALUE

The total return on LTCAP for 2013-14 was 14.6% (net of fees and expenses).

	Total Value (in millions)	Unit Value (in dollars)	Number of Units
1) Endowments pooled in LTCAP:			
Opening balance at April 30, 2013	\$1,605.7	\$172.58	9,304,549
Contributions plus transfers	41.9	-	230,874
Investment income	252.1	26.77	-
Fees and expenses	(16.2)	(1.72)	-
Allocation for spending	<u>(71.1)</u>	<u>(7.56)</u>	<u>-</u>
Closing balance at April 30, 2014	\$1,812.4	\$190.07	9,535,423
2) Specifically invested endowments:			
Opening balance at April 30, 2013	\$ 54.6	n/a	n/a
Contributions less transfers to LTCAP	3.0	n/a	n/a
Investment income	4.8	n/a	n/a
Fees and expenses	(0.2)	n/a	n/a
Amount available for spending	<u>(1.5)</u>	n/a	n/a
Closing balance at April 30, 2014	\$ 60.7	n/a	n/a
3) Donations received to be invested in LTCAP:			
At April 30, 2014	\$ 7.7	n/a	n/a
Total endowments at April 30, 2014	<u>\$1,880.8</u>	n/a	n/a

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

The fair value of each endowment account in LTCAP is determined by multiplying the current fair value of the unit (\$190.07 at April 30, 2014) by the number of units held by that endowment account.

Appendix

**University of Toronto
Endowments**

Financial Information

April 30, 2014

Independent Auditors' Report

To the Members of Governing Council of University of Toronto:

We have audited the accompanying statement of net investments for **University of Toronto Endowments** as at April 30, 2014 and the statement of changes in net investments for the year then ended, and a summary of significant accounting policies and other explanatory information (together "the financial information"). The financial information has been prepared by management of the University of Toronto using the basis of accounting described in Note 2.

Management's responsibility for the financial information

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial information for the year ended April 30, 2014 is prepared, in all material respects, in accordance with the basis of accounting described in Note 2.

Basis of accounting

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

The image shows the handwritten signature of Ernst & Young LLP in black ink. The signature is written in a cursive, flowing style.

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
June 25, 2014.

University of Toronto Endowments
STATEMENT OF NET INVESTMENTS
AS AT APRIL 30, 2014

(with comparative figures as at April 30, 2013)
(millions of dollars)

	2014	2013
ASSETS		
Investments, at fair value <i>[note 3]</i>	1,843.9	1,651.3
Cash and cash equivalents <i>[note 4]</i>	7.8	6.6
Unrealized gains on derivative instruments <i>[note 3]</i>	17.4	11.4
Investment income and other receivables	14.0	1.2
	1,883.1	1,670.5
 LIABILITIES		
Unrealized losses on derivative instruments <i>[note 3]</i>	0.6	2.5
Other payables and accruals	1.7	4.3
	2.3	6.8
 NET INVESTMENTS HELD FOR ENDOWMENTS	1,880.8	1,663.7

(see notes to financial information)

University of Toronto Endowments
STATEMENT OF CHANGES IN NET INVESTMENTS
FOR THE YEAR ENDED APRIL 30, 2014
(with comparative figures for the year ended April 30, 2013)
(millions of dollars)

	2014	2013
INCREASE IN NET INVESTMENTS		
Endowed donations	37.1	34.6
Investment income <i>[note 5]</i>	256.9	185.4
Transfers from University's unrestricted funds	12.1	9.8
Total increase in net investments	306.1	229.8
DECREASE IN NET INVESTMENTS		
Allocation for spending <i>[note 6]</i>	72.6	70.5
Fees and expenses <i>[note 7]</i>	16.4	13.7
Total decrease in net investments	89.0	84.2
Net increase in net investments for the year	217.1	145.6
Net investments held for endowments, beginning of year	1,663.7	1,518.1
Net investments held for endowments, end of year	1,880.8	1,663.7

(see notes to financial information)

University of Toronto Endowments

NOTES TO FINANCIAL INFORMATION

APRIL 30, 2014

1. Description

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

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

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

2. Summary of significant accounting policies and reporting practices

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

a) Investments -

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

The value of investments recorded in the financial statements is determined as follows:

1. Short-term notes and treasury bills are valued at fair value.

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

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

b) Derivative financial instruments –

Derivative financial instruments are used to manage particular market and currency exposures for risk management purposes primarily with respect to the University's investments and as a substitute for more traditional investments. Derivative financial instruments and synthetic products that may be employed include debt, equity and currency futures, options, swaps and forward contracts. These contracts are generally supported by liquid assets with a fair value approximately equal to the fair value of the instruments underlying the derivative contract. Investment dealer quotes or quotes from a bank are available for substantially all of the University's derivative financial instruments.

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

c) Revenue recognition –

Interest income is recorded on an accrual basis and dividend income earned is recorded on the ex-dividend date.

d) Foreign currency translation –

Monetary assets and liabilities are translated at the exchange rates in effect at the financial information date. Purchases and sales of investments and revenues and expenses are translated at the rates of exchange prevailing on the respective dates of such transactions.

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

e) Other financial instruments –

Other financial instruments, including investments receivable and payable, are initially recorded at their fair value and are not subsequently revalued and continue to be carried at this value.

3. Investments

Most of the funds associated with the University's endowments are invested in LTCAP. These funds represent 88.4% (2013 – 84.0%) of the total LTCAP investments. Other investments represent investments held outside LTCAP mainly due to donors' specific instructions.

Direct investments are reclassified by asset-mix category based on the intent of the investment strategies of the underlying portfolio.

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

(millions of dollars)

	2014		2013	
	LTCAP	Other	LTCAP	Other
Government and corporate bonds	533.2	20.8	475.6	18.5
Canadian equities	295.4	6.6	249.6	5.3
United States equities	305.1	7.1	289.6	5.8
International equities	286.3	6.0	263.8	5.3
Emerging market equities	178.4	3.7	162.3	3.0
Other	185.0	16.3	156.2	16.3
	<u>1,783.4</u>	<u>60.5</u>	<u>1,597.1</u>	<u>54.2</u>
Total investments	<u>1,843.9</u>		<u>1,651.3</u>	

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

2014
(millions of dollars)

	Government and corporate bonds	Canadian equities	United States equities	International equities	Emerging market equities	Other	Total
	\$	\$	\$	\$	\$	\$	\$
Cash and short-term investments	12.4	92.7	27.2	(17.1)	11.1		126.3
Hedge funds	49.0				21.8	185.0	255.8
Private equities	65.6	21.7	113.8	37.2	20.1		258.4
Real assets	17.3	20.8	20.5	43.7		16.3	118.6
	<u>144.3</u>	<u>135.2</u>	<u>161.5</u>	<u>63.8</u>	<u>53.0</u>	<u>201.3</u>	<u>759.1</u>

2013
(millions of dollars)

	Government and corporate bonds	Canadian equities	United States equities	International equities	Emerging market equities	Other	Total
	\$	\$	\$	\$	\$	\$	\$
Cash and short-term investments	9.2	57.3	48.8	(19.5)	(4.0)		91.8
Hedge funds	45.6				18.0	156.2	219.8
Private equities	41.4	15.0	107.9	34.3	19.3		217.9
Real assets	16.1	26.7	23.6	31.1		16.3	113.8
	<u>112.3</u>	<u>99.0</u>	<u>180.3</u>	<u>45.9</u>	<u>33.3</u>	<u>172.5</u>	<u>643.3</u>

Some of the University's publicly traded investments held for endowments are held in unitized investment pooled funds, which are managed by the University of Toronto Asset Management Corporation, a wholly owned subsidiary of the University. As at April 30, 2014, these funds include two fixed income funds and a Canadian equity fund. As at April 30, 2013, these funds included two fixed income funds, a Canadian equity fund, a United States equity fund and an international equity fund. As at April 30, 2014, the total fair value of the endowments' investments held in these pooled funds is \$512.6 million (2013 - \$698.1 million).

During the year, \$25.0 million (2013 - \$10.8 million) of LTCAP's proportionate share of investment income related to endowments was recognized as a change in fair value that was estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. Management believes there are no other reasonable assumptions for these investments which would generate any material changes in investment income.

Risk management

Risk management relates to the understanding and active management of the risks associated with all areas of the University's investments. Investments are primarily exposed to a variety of financial risks, such as foreign currency risk, interest rate risk, price risk, and credit risk. Significant volatility in interest rates, equity values and the value of the Canadian dollar against the currencies in which the University's investments are held can significantly impact the value of these investments. To manage these risks within reasonable risk tolerances, the University, through UTAM, has formal policies and procedures in place governing asset mix among equity, fixed income and alternative assets, requiring diversification within categories, and setting limits on the size of exposure to individual investments and counterparties. In addition, derivative instruments are used in the management of these risks (see below). To manage foreign currency risk, the hedging policy at April 30, 2014 is to hedge 65% (2013 - 75%) of non-emerging markets' currency exposures. Credit risk of financial instruments is the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation. At April 30, 2014, \$145.4 million (2013 - \$162.2 million) of directly held fixed income securities and the underlying fixed income securities directly held by the UTAM Canadian Fixed Income Fund and the UTAM Canadian Credit Fund have AAA or AA credit ratings.

Derivative financial instruments

Description

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

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

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

Risks

The University is exposed to credit-related losses in the event of non-performance by counterparties to these financial instruments, but it does not expect any counterparties to fail to meet their obligations given their high credit ratings.

Terms and conditions

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

	(millions of dollars)			
	2014		2013	
	Notional Value	Fair Value	Notional Value	Fair Value
Foreign currency forward contracts				
- U.S. dollars	531.7	10.6	382.9	7.5
- Other international	247.6	3.3	195.6	1.9
		<u>13.9</u>		<u>9.4</u>
Equity and commodity index futures contracts				
- United States	127.1	3.0	101.1	(0.1)
- Other international	1.4	(0.1)	2.5	(0.4)
		<u>2.9</u>		<u>(0.5)</u>
Total		<u>16.8</u>		<u>8.9</u>
Reported on the statement of net investments as:				
Unrealized gains on derivative instruments		17.4		11.4
Unrealized losses on derivative instruments		(0.6)		(2.5)
		<u>16.8</u>		<u>8.9</u>

Uncalled commitments

As at April 30, 2014, approximately 19.3% (2013 – 19.4%) of the LTCAP's investment portfolio is invested in private funds managed by third party managers. These private funds typically take the form of limited partnerships managed by a General Partner. The legal terms and conditions of these private investment funds, which cover various areas of private equity investments and real asset investments (e.g. real estate and infrastructure), require that investors initially make an unfunded commitment and then remit funds over time (cumulatively up to a maximum of the total committed amount) in response to a series of capital calls issued to the investors by the manager. As at April 30, 2014, the endowments had uncalled commitments of approximately \$102.4 million (2013 - \$90.5 million). The capital committed is called by the manager over a pre-defined investment period, which varies by fund but is generally about three to five years from the date the fund closes. In practice, for a variety of reasons, the total amount committed to a fund is very rarely all called.

4. Cash and cash equivalents

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

5. Investment income

Investment income is comprised of interest, dividend income, realized gains (losses) on sale of investments and unrealized appreciation (depreciation) on investments held.

6. Allocation for spending

The allocation for spending is governed by the University's preservation of capital policy, the purpose of which is to ensure that the rate of growth in the capital value of endowments matches or exceeds the rate of inflation over time. This policy limits the amount of income made available for spending and requires the reinvestment of excess income. The target allocation for spending is 3% to 5% of the opening market value. The actual endowment allocation for 2013-14 was 4.4% (2012-13 - 4.7%) of the opening market value of endowments.

7. Fees and expenses

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

	(millions of dollars)	
	<u>2014</u>	<u>2013</u>
Investment management fees		
- External managers	14.3	11.9
- UTAM	1.5	1.4
Foreign taxes	0.1	
Trustee and custodial fees	0.3	0.3
Professional and other fees	<u>0.2</u>	<u>0.1</u>
Total	<u>16.4</u>	<u>13.7</u>



UNIVERSITY OF
TORONTO