Endowment Report
2022–2023

UNIVERSITY OF TORONTO

DEFY GRAVITY
“We are pleased to provide you with this report on endowed giving at the University of Toronto. Endowed gifts from our alumni and friends give our students life-changing opportunities to pursue their dreams and transform the world around them. These generous gifts also fuel U of T’s vision for inclusive excellence and empower us to address global issues at scale—from health to climate change to mass technological change.”

David Palmer
Vice-President, Advancement
# HIGHLIGHTS

**Year Ended April 30, 2023**
(with comparative figures at April 30, 2022)
(millions of dollars)

<table>
<thead>
<tr>
<th></th>
<th>2023</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Endowments:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value</td>
<td>$3,267</td>
<td>$3,167</td>
</tr>
<tr>
<td><strong>Change from previous year:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowed donations and grants</td>
<td>$55</td>
<td>$57</td>
</tr>
<tr>
<td>Transfers from University's unrestricted funds</td>
<td>$22</td>
<td>$23</td>
</tr>
<tr>
<td>Investment income</td>
<td>$175</td>
<td>$85</td>
</tr>
<tr>
<td>Fees and expenses</td>
<td>$(37)</td>
<td>$(38)</td>
</tr>
<tr>
<td>Allocation for spending</td>
<td>$(115)</td>
<td>$(110)</td>
</tr>
<tr>
<td>Total change for the year</td>
<td>$100</td>
<td>$17</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2023</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion invested in LTCAP</td>
<td>99.38%</td>
<td>99.35%</td>
</tr>
<tr>
<td>Number of units in LTCAP</td>
<td>12,210,475</td>
<td>11,911,777</td>
</tr>
<tr>
<td>Fair value in millions</td>
<td>$3,247</td>
<td>$3,146</td>
</tr>
<tr>
<td>Fair value per unit in dollars</td>
<td>$265.92</td>
<td>$264.12</td>
</tr>
<tr>
<td>Allocation for spending per unit in dollars</td>
<td>$9.55</td>
<td>$9.36</td>
</tr>
<tr>
<td>LTCAP time-weighted net returns*</td>
<td>4.3%</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

*Returns net of investment fees and expenses.*
# Table of Contents

EXECUTIVE SUMMARY ......................................................................................................................... 5  
INTRODUCTION ................................................................................................................................... 8  
ALLOCATION FOR SPENDING AND PRESERVATION OF PURCHASING POWER ......................... 14  
INVESTMENT MANAGEMENT AND OVERSIGHT .................................................................................. 16  
ENDOWMENT PORTFOLIO SUSTAINABILITY COMMITMENTS ......................................................... 17  
LONG-TERM CAPITAL APPRECIATION POOL (LTCAP) PERFORMANCE ............................................ 17  
FEES AND EXPENSES........................................................................................................................... 20  
SUMMARY OF CHANGES IN FAIR VALUE ............................................................................................. 21  
APPENDIX .......................................................................................................................................... 22

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUDITED FINANCIAL INFORMATION</td>
<td>22</td>
</tr>
<tr>
<td>INDEPENDENT AUDITOR'S REPORT</td>
<td>23</td>
</tr>
<tr>
<td>STATEMENT OF NET INVESTMENTS</td>
<td>25</td>
</tr>
<tr>
<td>STATEMENT OF CHANGES IN NET INVESTMENTS</td>
<td>26</td>
</tr>
<tr>
<td>NOTES TO FINANCIAL INFORMATION</td>
<td>27</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

The University of Toronto (“U of T” or the “University”) is one of the world’s foremost research-intensive universities, and the largest and most comprehensive university in Canada. It has educated hundreds of thousands of students and enjoys a global reputation for research excellence in multiple fields of scholarship. U of T is ranked 18th globally in the Times Higher Education World University Rankings for 20231, placing it Canada’s highest ranking university and amongst the top global public universities.

Since the University of Toronto’s founding in 1827, alumni and friends have played a fundamental role in establishing it as one of the world’s top educational institutions. Many of these alumni and friends have not only provided ongoing annual financial support 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, helping to shape the university’s future and its impact on our country and the world.

All fundraising conducted on behalf of the University’s faculties, colleges, schools, and divisions is done in service to academic plans and priorities approved by the Provost with the involvement of principals, deans and faculty. Endowed gifts from alumni and friends enable U of T to offer financial support to exceptional students, attract outstanding professors and researchers, and create unique and innovative programs. Endowed gifts are indispensable to our pursuit of excellence, equity and global impact as they provide a permanent and stable source of funding for scholarship, chairs and other vital priorities.

As of April 30, 2023, the size of the university’s endowment was $3.3 billion, the majority of which was in support of student aid ($1.4 billion), chairs and professorships ($952 million), and research and teaching programs ($913 million).

Immediately following the successful closure of the Boundless campaign on December 31, 2018, with $2.641 billion raised, the University entered the quiet phase of the new Defy Gravity campaign that will further elevate the University’s position as one of the world’s leading public universities and advance the University community’s outsized impact in solving complex social, economic, and health problems. The campaign will seek to engage 225,000 alumni to get involved as volunteers, mentors, donors, participants, and leaders and encourage them to contribute their time and talent to the University one million times collectively. The campaign will also seek to raise $4 billion for the University’s highest priorities—a target that reflects the ambition and scale of the University’s community and its potential for global impact.

Since January 1, 2019, the Defy Gravity campaign has seen significant growth in fundraising momentum and alumni engagement, reaching record levels in 2021. For the period May 1, 2022 to April 30, 2023, the University raised a total of $308 million.2 This amount includes $256 million in pledges and gifts (donations) and $52 million in philanthropic research grants from non-government sources.

This report summarizes the performance, management and impact of the university’s endowments over the past fiscal year. At April 30, 2023, there were more than 7,100 individual endowment funds,

---

1 https://www.timeshighereducation.com/world-university-rankings/2023
2 This number includes federated universities and other affiliated institutions, but excludes donations to partner hospitals.
supported by an agreement between the University and a donor, or reflecting a collection of small donations with common objectives.

To ensure that these endowments will provide the same level of economic support and impact for future generations as they do today, the University aims to grow the capital value of the endowment while allowing spending to increase over time. To this end, our strategy is not to spend everything earned in years when investment markets are good. In favorable years, funds earned in excess of the spending allocation are reinvested. This enables a protection against inflation and builds up a reserve so we can continue to allocate funds for spending in years when investment markets are poor.

As of April 30, 2023, the university’s $3.3 billion endowment included an inflation-adjusted book value of $2.91 billion, plus a reserve of $354 million to protect the value of the endowment against a possible future market downturn.

To fund spending allocations and to preserve capital against inflation over time, the University has set an investment objective of a 4% real return over 10-year periods, net of all investment fees and expenses, while taking an appropriate amount of risk to achieve this target without undue risk of loss. The actual return in 2023 was a gain of 4.3%. Fiscal 2023 was a challenging period for capital markets, driven primarily by geopolitical concerns and rising inflation. However, the ten-year average annual return remains strong at 8.2%, allowing for an endowment spending allocation (“payout”) of 4.1% (2022 – 4.2%) of the ten-year average market value of the endowment pool.

*Returns are time weighted, calculated in accordance with industry standards, are net of investment fees and expenses.*
Endowments are managed in a unitized pool. Almost all of the University’s individual endowment funds 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 as of the date of contribution. For the year ended April 30, 2023, the net impact of investment returns, fees and expenses, and allocation for spending resulted in an increase in the market value of each unit from $264.12 at April 30, 2022 to $265.92 at April 30, 2023.

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit market value at April 30, 2022</td>
<td>$264.12</td>
</tr>
<tr>
<td>Investment income per unit</td>
<td>14.40</td>
</tr>
<tr>
<td>Fees and expenses</td>
<td>(3.05)</td>
</tr>
<tr>
<td>Endowment spending allocation</td>
<td>(9.55)</td>
</tr>
<tr>
<td>Unit market value at April 30, 2023</td>
<td>$265.92</td>
</tr>
</tbody>
</table>

The market value of a particular endowment account is obtained by multiplying the value per unit by the number of units in the endowment account. For example, if an endowment account holds 100 units, the market value of the endowment at April 30, 2023 was 100 times $265.92 or $265,920.
INTRODUCTION

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

Endowments are restricted funds which must be used in accordance with purposes specified by donors or by Governing Council. Endowments are not available for use in support of general operating activities. They are subject to restrictions relating both to capital and to investment income. Endowment funds held by the University of Toronto are subject to the University’s preservation of capital policy, the purpose of which is to ensure that the rate of growth in the capital value of the endowments matches or exceeds the rate of inflation over time. Endowments include externally restricted endowment funds (85.9%) and internally restricted endowment funds designated as endowments by the University’s Governing Council in the exercise of its discretion (14.1%).

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, or the affiliated colleges under the memorandum of agreement with the Toronto School of Theology, each of which is a separate non-controlled corporate body, the endowments of which are reported in the financial statements of that body.

Almost all endowments, approximately 99.3% of fair value, are invested in the University’s Long-term Capital Appreciation Pool (LTCAP). At April 30, 2023, there were over 7,100 individual endowment funds, usually supported by a donor agreement, or reflecting a collection of small donations with common restrictions.

The investment income earned on endowments must be used in accordance with the various purposes established by the donor or Governing Council. As part of its fiduciary responsibilities, the University of Toronto ensures that all funds received with a restricted purpose or subsequently endowed for a particular purpose (and the investment income earned on such funds) are used only for that purpose. There are several broad categories of restrictions – chairs and professorships, student aid, academic programs and research. Within these broad categories, each endowment has its own specific terms and conditions that govern the spending of investment income.
Endowments totaled $3.3 billion fair value at April 30, 2023. This was an increase of $100 million over the previous year. This increase was comprised of:

Additions of:

- $175 million of investment income
- $55 million of endowed donations and grants, and
- $22 million of transfers from the University’s unrestricted funds to endowments.

Minus:

- $115 million of allocation for spending and
- $37 million of fees and expenses.

The following graph shows endowed donations and expendable donations received since 2019. 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.
Endowed donations represented 33.1% of total donations ($154 million) received by the University in 2023. 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 2022, U of T ranked 22nd in terms of size. Including the endowments of the federated universities, U of T ranked 16th in terms of size. If we were to compare the endowment per FTE student with the same institutions, the University would rank lower since most of these institutions have a smaller number of FTE students.
Student Biographies

Equity and opportunity

Damilola Iduye, PhD student, Dalla Lana School of Public Health

Damilola Iduye moved to Truro, Nova Scotia, from her native Nigeria to study nursing. A decade later, she arrived at U of T to start a PhD in public health at the Dalla Lana School of Public Health. “I saw this as a unique opportunity to work with faculty from various disciplines in a supportive, interdisciplinary, research-oriented learning environment,” says Damilola, a recipient of a C. David Naylor Fellowship, donated through the Irving Family. “This award has made it possible to pursue my education without worrying about how to pay for rent, childcare and other needs,” she notes. Beyond the financial support, Damilola says she is honored to be recognized by this prestigious fellowship. “It gave me the confidence and motivation to continue advocating for equitable healthcare for people of African descent in Nova Scotia and across Canada. I am excited about the future possibilities as a public health scientist, policy expert, leader and advocate.” She aims to become an expert in equity-informed health services research and policies nationally and globally, focusing on how social and structural determinants of health shape the experiences of Black people in Canada with type 2 diabetes.

Global ambition

Foti Vito, Faculty of Law

For law student Foti Vito, studying at U of T is a global affair. He graduated from Trinity College with an international relations and political science degree. He was recognized as a Global Scholar for his studies in peacebuilding in Pristina, Kosovo and for his fieldwork in Tbilisi, Georgia. Now, at the Faculty of Law, he is focused on advancing access to justice. A first-generation immigrant from Albania and the first in his family to attend university, he is deeply grateful for the support from the Ronald S. Yu Memorial Bursary and the Hosnieh Family Scholarships. “I am so grateful for this support; it has made a world of difference during a very uncertain time for myself and my loved ones.” Last summer, Foti had the opportunity to work at the United Nations International Residual Mechanism for Criminal Tribunals in The Hague, Netherlands. “I supported a team of international attorneys in preparing a large investigative dossier on international crimes committed in the former Yugoslavia to help bring justice for victims and survivors,” he says.

As Foti continues his legal education, he says he’s most excited to help advance access to justice and human rights. Passionate about mentorship and community engagement, Foti also wants to continue his extracurricular work as a Justice Education Fellow with the Ontario Justice Education Network and as an executive for the First Generation Network at the faculty. “Receiving this financial support has allowed me to focus on my studies while contributing to my communities.”
An artful journey

Iakoiehvätha (Iako) Patton, Art History

Iako Patton is in the final year of her undergraduate degree, studying art history, anthropology and Renaissance studies. A Kanien'kehà:ka First Nations community member, Iako approaches her scholarship on the Northern Renaissance at the intersection of gender, colonialism and their artistic representations. She is a recipient of the Olga and Guido Pugliese Award for Study in Italy, the Rosalind Murray Bradford Scholarship and the Hoxie Family Scholarships. “I’m passionate about my studies, and this award has allowed me to focus on my scholarship, research and leadership by alleviating financial stress.”

Among her many accomplishments, Iako is particularly proud of her work for the History of Art Students’ Association (HASA). “It has been my goal to increase undergraduate student engagement in the art history department through events, workshops and lectures,” she says. Iako was also awarded a Rhodes Scholarship—she is the first Canadian Indigenous woman to receive the prestigious award. “I am also incredibly honoured to have been awarded a Rhodes Scholarship, an accomplishment that I believe wouldn’t have been possible without my work on HASA,” Iako hopes that her path inspires other Indigenous youth to prioritize their education. “I know I have been the first in the many positions I hold, but that means I won’t be the last.”

Studying biodiversity without barriers

Meti Dawit, Environmental Science, U of T Scarborough

Ever since seventh grade, Meti Dawit has dreamed of pursuing a career that would help make a positive impact on the environment. She says U of T Scarborough is the way to achieve that goal. “I’m extremely passionate about climate change and global warming,” she says. “I’m taking every opportunity to learn more, including embarking on a research expedition to study biodiversity in Mexico next summer as a research assistant.” A first generation student from Ethiopia, Meti says financially, it was difficult to even consider going on the expedition. “I had hoped to participate in the research this summer, but with a lack of financial stability it wasn’t possible,” she says. “With the Bennett Scholars Award, I will be able to do it next year and pursue the thing I love most, studying our planet Earth.”

After graduating, she hopes to work in a field that will help fight the climate change crisis, with a focus on reducing single-use plastic consumption and saving marine wildlife.

“I’m able to do what I love most—studying our planet Earth.”
Life-changing opportunities

Erkhes Bayan-Altai, Management, U of T Mississauga

Erkhes Bayan-Altai is in his fourth year of study in the management specialist program at U of T Mississauga. Originally from Mongolia, Erkhes came to Canada at age 10 without knowing a word of English. “I have a large family, including two younger brothers, one of whom is also in university,” he says. “This support eases the financial burden for my family greatly, giving me and my siblings the opportunity to pursue higher education. It has changed our lives forever.”

A recipient of the David Scott Bursary, Erkhes has achieved the Dean’s List honours for two years. His extracurricular interests include basketball, volleyball and debating, along with mentoring other Mongolian students who wish to pursue higher education. In the future, he hopes to start his own company. “I would like to train and teach professionals the right and correct way to conduct business that leads to social and economic gains for everyone involved, not just the company.”

“This bursary has changed our lives forever.”
Top 30 Endowments at Public Institutions

As at June 30, 2022
(in billions)

<table>
<thead>
<tr>
<th>Institution</th>
<th>Endowment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas System</td>
<td>$54.98</td>
</tr>
<tr>
<td>Texas A &amp; M System &amp; Foundations</td>
<td>$23.51</td>
</tr>
<tr>
<td>Michigan</td>
<td>$22.35</td>
</tr>
<tr>
<td>California</td>
<td>$19.87</td>
</tr>
<tr>
<td>Virginia</td>
<td>$12.70</td>
</tr>
<tr>
<td>Ohio State</td>
<td>$8.97</td>
</tr>
<tr>
<td>Pittsburgh</td>
<td>$7.12</td>
</tr>
<tr>
<td>Minnesota &amp; Foundation</td>
<td>$6.91</td>
</tr>
<tr>
<td>UNC at Chapel Hill &amp; Foundations</td>
<td>$6.85</td>
</tr>
<tr>
<td>Washington</td>
<td>$6.03</td>
</tr>
<tr>
<td>Pennsylvania State</td>
<td>$5.94</td>
</tr>
<tr>
<td>Michigan State</td>
<td>$5.00</td>
</tr>
<tr>
<td>Purdue University</td>
<td>$4.74</td>
</tr>
<tr>
<td>UCLA Foundation</td>
<td>$4.59</td>
</tr>
<tr>
<td>Indiana &amp; Foundation</td>
<td>$4.53</td>
</tr>
<tr>
<td>Wisconsin Foundation</td>
<td>$4.51</td>
</tr>
<tr>
<td>Toronto Including Federated</td>
<td>$4.23</td>
</tr>
<tr>
<td>Illinois &amp; Foundation</td>
<td>$4.01</td>
</tr>
<tr>
<td>Iowa &amp; Foundation</td>
<td>$3.94</td>
</tr>
<tr>
<td>Georgia Inst of Technology &amp; Fdn</td>
<td>$3.77</td>
</tr>
<tr>
<td>UC Berkeley Foundation</td>
<td>$3.41</td>
</tr>
<tr>
<td>UC San Francisco Foundation</td>
<td>$3.38</td>
</tr>
<tr>
<td>Virginia Commonwealth University</td>
<td>$3.10</td>
</tr>
<tr>
<td>Toronto</td>
<td>$3.06</td>
</tr>
<tr>
<td>Kansas</td>
<td>$2.94</td>
</tr>
<tr>
<td>Florida Foundation</td>
<td>$2.93</td>
</tr>
<tr>
<td>Missouri System</td>
<td>$2.76</td>
</tr>
<tr>
<td>Nebraska</td>
<td>$2.65</td>
</tr>
<tr>
<td>North Carolina State &amp; Foundation</td>
<td>$2.60</td>
</tr>
<tr>
<td>Colorado Foundation</td>
<td>$2.55</td>
</tr>
<tr>
<td>Maryland Foundation</td>
<td>$2.53</td>
</tr>
</tbody>
</table>

Source: 2022 NACUBO Endowment Study converted to Canadian dollars at an exchange rate of 1.2886

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 and impact for 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 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 market value and the actual endowment spending allocation for the year ended April 30, 2023 was 4.1% of the ten-year average fair value per unit of the endowment pool.

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

Almost all of the University’s endowments (99.38% of fair value) are invested in LTCAP, a unitized pool. Each endowment account holds units in the investment 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.

The spending allocation of 4.1% for the year ended April 30, 2023 translated into a spending rate of $9.55 per investment unit. The spending dollars pertaining to a particular endowment account are obtained by multiplying the spending rate of $9.55 per unit by the number of units in the endowment.
account. For example, if an endowment account holds 100 units, the spending dollars of the endowment at April 30, 2023 was 100 times $9.55 or $955.

**INVESTMENT MANAGEMENT AND OVERSIGHT**

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

The University, 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. It is important to note that, while the aim of the risk and return objectives is to produce steady, predictable investment returns for the University, there is nonetheless variability in investment returns on an annual basis.

The University’s investment policy for LTCAP in place at April 30, 2023 reflects the spending allocation target and the preservation of capital policy. It has set the real rate return objective of at least 4% over 10-year periods, net of all investment fees and expenses, while taking an appropriate amount of risk to achieve this target without undue risk of loss.

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

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

The University of Toronto Asset Management Corporation ("UTAM") focuses exclusively on investing University-owned assets. UTAM incorporates environmental, social and governance (ESG) factors into its investment decision-making, stewardship activities (engagement, proxy voting and advocacy), and reporting and disclosure. The University believes that ESG factors can have a material impact on the long-term risk and return of a given investment and incorporating relevant and material ESG issues into the decision-making processes is consistent with the University’s fiduciary duty.

A key component of the University of Toronto’s 2021 climate announcement is the commitment to net zero emissions in the LTCAP portfolio by 2050. This commitment coincided with UTAM joining the Net-Zero Asset Owner Alliance. The Alliance has established a framework for setting interim targets on various decarbonization initiatives to guide members in achieving net zero emissions in their portfolios by 2050. In accordance with the Alliance’s Target Setting Protocol, in 2022 UTAM established interim targets with respect to emissions, engagement and transition financing.

In October 2022, UTAM announced a new carbon footprint target for the LTCAP portfolio – a 50% reduction by 2030, using 2019 baseline levels. This target, measured in tonnes of CO₂ equivalent per million dollars invested (tCO₂e/$M), includes the impact of carbon contributions from equities (including equity-like assets) and corporate bonds. Going forward, UTAM will report its progress only against this new target. UTAM’s new carbon footprint target builds on the successful achievement of UTAM’s previous carbon footprint goal. In 2019, UTAM committed to reducing the carbon footprint of the equity and equity like sub-portfolio of the LTCAP by 40% compared to 2017 levels by 2030. UTAM has met this target – almost a decade ahead of schedule.

Further disclosure on this methodology and the associated carbon footprint of the Endowment is included in UTAM’s Integrated Annual Report³.

LONG-TERM CAPITAL APPRECIATION POOL (LTCAP) PERFORMANCE

The University evaluates investment performance for the LTCAP against the target investment return and risk limits, as well as against the returns of a benchmark Reference Portfolio. The primary objective is the achievement of the LTCAP target investment return while controlling risk within the specified risk limits. The Reference Portfolio serves as an objective yardstick for measuring the value gained or lost through UTAM’s investment management activities compared to the returns that would be available in the market using a low-cost, passive investment approach.

³ https://www.utam.utoronto.ca/reports/
The table below summarizes the actual LTCAP performance compared to both the target investment return and the Reference Portfolio return.

<table>
<thead>
<tr>
<th>LTCAP Performance - Comparing Actual Results, Target and Benchmark Returns</th>
<th>1-year Return - April 30, 2023</th>
<th>2-year Average Return - April 30, 2023</th>
<th>3-year Average Return - April 30, 2023</th>
<th>5-year Average Return - April 30, 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTCAP actual investment returns</td>
<td>4.3%</td>
<td>2.9%</td>
<td>9.6%</td>
<td>6.1%</td>
</tr>
<tr>
<td>LTCAP target investment return (4% + CPI)</td>
<td>8.4%</td>
<td>9.6%</td>
<td>8.9%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Reference Portfolio return</td>
<td>4.5%</td>
<td>0.0%</td>
<td>6.1%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Difference between LTCAP actual and target of which:</td>
<td>-4.1%</td>
<td>-6.7%</td>
<td>0.7%</td>
<td>-0.9%</td>
</tr>
<tr>
<td>the % attributable to investment markets</td>
<td>-3.9%</td>
<td>-9.6%</td>
<td>-2.8%</td>
<td>-2.0%</td>
</tr>
<tr>
<td>the % attributable to active management decision</td>
<td>-0.2%</td>
<td>2.9%</td>
<td>3.5%</td>
<td>1.1%</td>
</tr>
<tr>
<td></td>
<td>-4.1%</td>
<td>-6.7%</td>
<td>0.7%</td>
<td>-0.9%</td>
</tr>
</tbody>
</table>

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

For the one-year period from May 1, 2022 to April 30, 2023, the target nominal investment return for the LTCAP was 8.4%, representing 4.0% real investment return and inflation of 4.4%, net of investment fees and expenses. The actual return for the year was 4.3%, which was below target by 4.1%. In addition, the actual return for the year was lower than the Reference Portfolio return by 0.2% (a reference portfolio benchmark gain of 4.5% less the actual gain of 4.3%). It is important to emphasize that all of the return percentages are net of investment fees and expenses. UTAM continues to add significant value to investment performance over the long term.
The following graph shows the results of the investment returns over 10-year periods.

* Returns are time-weighted, calculated in accordance with industry standards, are net of investment fees and expenses. The ten-year rolling returns are geometric average returns.

** Target return is 4.0% plus CPI.

At April 30, 2023, the University’s endowment value was $3.3 billion (book value of $2.91 billion with full inflation protection of $870 million) and a preservation of capital above inflation (provision for investment return fluctuation) of $354 million against any possible future market downturn.

A detailed review of UTAM’s investment philosophy, asset mix allocation and investment performance for the endowments, which is managed and measured on a calendar year basis, is available on the UTAM website at www.utam.utoronto.ca.
FEES AND EXPENSES

Fees and expenses set out below represent the endowments’ proportionate share of the expenses allocated to LTCAP. Fees and expenses amounting to 1.2% of the 2022 opening unit market value consist of the following:

<table>
<thead>
<tr>
<th>Investment related management fees</th>
<th>2023 in millions</th>
<th>2022 in millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>External managers</td>
<td>$ 31</td>
<td>$ 35</td>
</tr>
<tr>
<td>UTAM</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>$ 37</td>
<td>$ 38</td>
</tr>
</tbody>
</table>

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

In addition to third party fees, a portion of UTAM’s total operating costs is allocated to LTCAP. This allocation is typically pro-rated based on the total assets that UTAM manages, which include the endowment, other long-term investments, and the university’s expendable working capital funds that can be invested over the short to medium term.
**SUMMARY OF CHANGES IN FAIR VALUE**

The total return on LTCAP for the year ended April 30, 2023 was 4.3% (net of fees and expenses).

<table>
<thead>
<tr>
<th></th>
<th>Total Value (in millions)</th>
<th>Unit Value (in dollars)</th>
<th>Number of Units</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1) Endowments pooled in LTCAP:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening balance at April 30, 2022</td>
<td>$3,146</td>
<td>$264.12</td>
<td>11,911,777</td>
</tr>
<tr>
<td>Contributions plus transfers</td>
<td>78</td>
<td></td>
<td>298,698</td>
</tr>
<tr>
<td>Investment income</td>
<td>175</td>
<td>14.40</td>
<td></td>
</tr>
<tr>
<td>Fees and expenses</td>
<td>(37)</td>
<td>(3.05)</td>
<td></td>
</tr>
<tr>
<td>Allocation for spending</td>
<td>(115)</td>
<td>(9.55)</td>
<td></td>
</tr>
<tr>
<td><strong>Closing balance at April 30, 2023</strong></td>
<td><strong>$3,247</strong></td>
<td><strong>$265.92</strong></td>
<td><strong>12,210,475</strong></td>
</tr>
</tbody>
</table>

| **2) Specifically invested endowments:** |    |                         |                 |
| Opening balance at April 30, 2022 | $ 21 |                          |                 |
| Investment income                |     |                          |                 |
| Contributions and transfers      | (1)  |                          |                 |
| **Closing balance at April 30, 2023** | **$ 20** | **$ 265.92**           | **12,210,475**  |

**Total endowments at April 30, 2023** $3,267

The fair value of each endowment account in LTCAP is determined by multiplying the current fair value of the unit ($265.92 at April 30, 2023) by the number of units held by that endowment account.
Independent Auditor’s Report

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

Opinion

We have audited the statement of net investments for University of Toronto Endowments as at April 30, 2023 and the statement of changes in net investments for the year then ended (together the “financial information”), and notes to the financial information, including a summary of significant accounting policies.

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

Basis for opinion

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

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

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

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

Auditor’s responsibilities for the audit of the financial information

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

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

- Identify and assess the risks of material misstatement of the financial information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University’s internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

Toronto, Canada
June 27, 2023
University of Toronto Endowments

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

<table>
<thead>
<tr>
<th></th>
<th>2023</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments, at fair value [note 3]</td>
<td>3,679</td>
<td>3,556</td>
</tr>
<tr>
<td>Cash and cash equivalents [note 4]</td>
<td>(433)</td>
<td>(373)</td>
</tr>
<tr>
<td>Unrealized gains on derivative instruments [note 3]</td>
<td>14</td>
<td>8</td>
</tr>
<tr>
<td>Investment income and other receivables</td>
<td>9</td>
<td>70</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>3,269</td>
<td>3,261</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2023</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized losses on derivative instruments [note 3]</td>
<td>1</td>
<td>93</td>
</tr>
<tr>
<td>Other payables and accruals</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>2</td>
<td>94</td>
</tr>
</tbody>
</table>

**NET INVESTMENTS HELD FOR ENDOWMENTS**

<table>
<thead>
<tr>
<th></th>
<th>2023</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3,267</td>
<td>3,167</td>
</tr>
</tbody>
</table>

Commitments [note 3]
University of Toronto Endowments  
STATEMENT OF CHANGES IN NET INVESTMENTS  
FOR THE YEAR ENDED APRIL 30, 2023  
(millions of dollars)

<table>
<thead>
<tr>
<th></th>
<th>2023</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INCREASE IN NET INVESTMENTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowed donations</td>
<td>51</td>
<td>56</td>
</tr>
<tr>
<td>Endowed grants</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Investment income</td>
<td>175</td>
<td>85</td>
</tr>
<tr>
<td>Transfers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers from the</td>
<td>22</td>
<td>23</td>
</tr>
<tr>
<td>University's unrestricted funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total increase in net investments</td>
<td>252</td>
<td>165</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>DECREASE IN NET INVESTMENTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allocation for spending [note 5]</td>
<td>115</td>
<td>110</td>
</tr>
<tr>
<td>Fees and expenses [note 6]</td>
<td>37</td>
<td>38</td>
</tr>
<tr>
<td>Total decrease in net investments</td>
<td>152</td>
<td>148</td>
</tr>
</tbody>
</table>

Increase in net investments during the year 100 17

Net investments held for endowments, beginning of year 3,167 3,150

Net investments held for endowments, end of year 3,267 3,167
University of Toronto Endowments
NOTES TO FINANCIAL INFORMATION

APRIL 30, 2023

1. Description

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

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

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

2. Summary of significant accounting policies and reporting practices

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

a) Investments

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

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

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

ii. Bonds and publicly traded equities are valued based on quoted market prices. If quoted market prices are not available for bonds, estimated values are calculated using discounted cash flows based on current market yields and comparable securities as appropriate.
iii. Investments in pooled funds (other than private investment interests and hedge funds) are valued at their reported net asset value per unit.

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

v. Private investment interests consisting of private investments and real assets comprise private externally managed pooled funds with underlying investments in equities, debt, real estate assets, infrastructure assets and commodities. The investment managers of these interests perform valuations of the underlying investments on a periodic basis and provide valuations. Annual financial statements of the private investment interests are audited and are also provided by the investment managers. The value of the investments in these interests is based on the latest valuations provided (typically December 31), adjusted for subsequent cash receipts and distributions from the fund, and cash disbursements to the fund through April 30. The University believes that the carrying amount of these financial instruments is a reasonable estimate of fair value. Because private investments are not readily traded, their estimated values are subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

vi. Real estate directly held by the University for investment purposes is originally valued at cost and, when donated, at the value determined through an appraisal process at the date of donation. Subsequently, real estate is valued at cost less any provision for impairment.

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

b) Derivative financial instruments

Derivative financial instruments are used to manage particular market and currency exposures for risk management purposes primarily with respect to the University’s investments and as a substitute for more traditional investments. Derivative financial instruments and synthetic products that may be employed include bonds, equity and currency futures, options, swaps and forward contracts. The majority of the notional exposure of the derivative financial instruments (except for currency derivatives) is backed by liquid assets (short-term investments), reducing the use of leverage. The fair value of derivative financial instruments reflects the daily quoted market amount of those instruments, thereby taking into account the current unrealized gains or losses on open contracts. Investment dealer quotes or quotes from a bank are available for substantially all of the University’s derivative financial instruments.

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

c) Investment income

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

d) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the financial information date. Purchases and sales of investments and revenue and expenses are translated at exchange rates in effect on the dates of such transactions.
Realized and unrealized gains (losses) arising from foreign currency transactions and securities are included in investment income.

e) Other financial instruments

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

3. Investments

Most of the funds associated with the University’s endowments are invested in the LTCAP. These funds represent 82.5% (2022 – 82.8%) of the total LTCAP investments. Other investments represent investments held outside the LTCAP mainly due to donors’ specific instructions.

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

<table>
<thead>
<tr>
<th></th>
<th>April 30, 2023</th>
<th>April 30, 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LTCAP</td>
<td>Other</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>(434)</td>
<td>1</td>
</tr>
<tr>
<td>Government, corporate bonds and fixed income instruments</td>
<td>1,309</td>
<td>1,309</td>
</tr>
<tr>
<td>Canadian equities</td>
<td>34</td>
<td>1</td>
</tr>
<tr>
<td>United States equities</td>
<td>756</td>
<td>1</td>
</tr>
<tr>
<td>International equities</td>
<td>317</td>
<td>317</td>
</tr>
<tr>
<td>Emerging markets equities</td>
<td>132</td>
<td>132</td>
</tr>
<tr>
<td>Global equities</td>
<td>726</td>
<td>726</td>
</tr>
<tr>
<td>Other</td>
<td>386</td>
<td>17</td>
</tr>
<tr>
<td>Total</td>
<td>3,226</td>
<td>20</td>
</tr>
<tr>
<td>Less amounts reported as cash and cash equivalents</td>
<td>434</td>
<td>(1)</td>
</tr>
<tr>
<td>Investments</td>
<td>3,660</td>
<td>19</td>
</tr>
</tbody>
</table>

International equities include developed equity markets in Europe, Australasia and the Far East, and exclude the United States and Canada. Global equities include all developed equity markets, as well as various emerging equity markets. Investments in the “other” category consist mainly of absolute return hedge funds.
The table below shows the fair value of the same investments without the reallocation of short-term investments (related to derivative instruments), hedge funds, private investment and real assets to the relevant Reference Portfolio asset class or classes.

<table>
<thead>
<tr>
<th></th>
<th>April 30, 2023</th>
<th></th>
<th></th>
<th>April 30, 2022</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LTCAP</td>
<td>Other</td>
<td>TOTAL</td>
<td>LTCAP</td>
<td>Other</td>
<td>TOTAL</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>916</td>
<td>1</td>
<td>917</td>
<td>955</td>
<td>2</td>
<td>957</td>
</tr>
<tr>
<td>Government, corporate bonds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>and fixed income instruments</td>
<td>146</td>
<td>146</td>
<td>147</td>
<td>147</td>
<td></td>
<td>147</td>
</tr>
<tr>
<td>Canadian equities</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>United States equities</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>International equities</td>
<td>173</td>
<td>173</td>
<td>147</td>
<td>147</td>
<td></td>
<td>147</td>
</tr>
<tr>
<td>Emerging markets equities</td>
<td>68</td>
<td>68</td>
<td>69</td>
<td>69</td>
<td></td>
<td>69</td>
</tr>
<tr>
<td>Global equities</td>
<td>690</td>
<td>690</td>
<td>646</td>
<td>646</td>
<td></td>
<td>646</td>
</tr>
<tr>
<td>Hedge funds</td>
<td>541</td>
<td>541</td>
<td>541</td>
<td>541</td>
<td></td>
<td>541</td>
</tr>
<tr>
<td>Private investments</td>
<td>641</td>
<td>641</td>
<td>609</td>
<td>609</td>
<td></td>
<td>609</td>
</tr>
<tr>
<td>Real assets</td>
<td>51</td>
<td>17</td>
<td>68</td>
<td>48</td>
<td>17</td>
<td>65</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,226</strong></td>
<td><strong>20</strong></td>
<td><strong>3,246</strong></td>
<td><strong>3,162</strong></td>
<td><strong>21</strong></td>
<td><strong>3,183</strong></td>
</tr>
</tbody>
</table>

During the year, $15 million of the LTCAP’s proportionate share of investment loss (2022 – $46 million gain) related to endowments was recognized as a result of the change in fair value of its investments that were estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates for certain of its investments. Management believes there are no other reasonable assumptions for these investments that would generate any material changes in investment income.

**Uncalled commitments**

As at April 30, 2023, approximately 21.5% (2022 – 20.8%) 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, 2023, the endowments had uncalled commitments of approximately $672 million (2022 – $575 million). The capital committed is called by the manager over a predefined investment period, which varies by fund but is generally about three to five years from the date the fund closes. In practice, for a variety of reasons, the total amount committed to a fund is very rarely all called.

**Derivative financial instruments**

Derivatives are financial contracts, the value of which is derived from changes in an underlying asset, index of prices or rates, interest rate, foreign exchange rate, etc. The University uses derivative financial instruments as a substitute for traditional investments, to manage financial risks and to manage currency exposures. The University
University of Toronto Financial Services

has entered into foreign currency forward contracts to manage its exposure to exchange rate fluctuations on investments denominated in foreign currencies in accordance with its hedging policy (see financial risk and risk management).

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

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

<table>
<thead>
<tr>
<th>Contracts</th>
<th>April 30, 2023</th>
<th>April 30, 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Notional value</td>
<td>Fair values</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Unrealized gains</td>
</tr>
<tr>
<td>Foreign currency forward</td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States dollars</td>
<td>717</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>336</td>
<td>2</td>
</tr>
<tr>
<td>Equity and bond futures</td>
<td>92</td>
<td>1</td>
</tr>
<tr>
<td>Equity and bond swap</td>
<td>1,321</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>2,466</td>
<td>14</td>
</tr>
</tbody>
</table>

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

Contracts with a positive mark-to-market (fair value) are recorded as unrealized gains on derivative instruments while contracts with a negative mark-to-market are recorded as unrealized losses on derivative instruments in the statement of net investments. The maturity dates of the currency forwards and futures contracts as at April 30, 2023 range from May to September 2023. The maturity dates of the equity and bond swap contracts as at April 30, 2023 range from June 2023 to April 2024. Required collateral of $3 million (2022 – $3 million) has been provided to the relevant exchanges against the futures contracts as of April 30, 2023 in the form of short-term investments. As at April 30, 2023, the University had $916 million (2022 – $955 million) in short-term investments compared to the $1.4 billion (2022 – $1.4 billion) of notional value of equity and bond futures and equity and bond swap contracts. Leverage is used to add government bond exposure to the portfolio to enhance downside risk protection.
Financial risks and risk management

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

Foreign currency risk

Endowments are exposed to foreign currency risk from direct and indirect (e.g., pooled funds) investments that are denominated in currencies other than the Canadian dollar. Fluctuations caused by changes in the currency rates applied to these investments can result in a positive or negative effect on the fair value of the investments and on the cash flows from these investments. To manage foreign currency risk, the University has established a benchmark currency hedging policy for the LTCAP. In 2023, the benchmark policy for the LTCAP is to hedge 50% (2022 – 50%) of the currency exposure of all the asset classes of the Reference Portfolio, with the exception of emerging markets, which is unhedged. As at April 30, 2023, the fair value of endowments invested in the LTCAP that are denominated in foreign currency was $2.0 billion (2022 – $2.0 billion), of which $1.0 billion (2022 – $1.0 billion) was hedged.

Credit risk

Endowments are exposed to credit risk in connection with the fixed income investments and derivative contracts because of the risk of a financial loss caused by a counterparty’s potential inability or unwillingness to fulfill its contractual obligations. To manage the credit risk exposed from direct bond holdings or from the use of derivatives, fixed limits are established for individual counterparties and these are monitored regularly. The University invests the majority of its fixed income in high-grade securities. As at April 30, 2023, 20% (2022 – 26%) of the endowments’ bond exposure from derivative instruments and indirect bond exposure had credit ratings of A or lower.

Interest rate risk

Endowments are exposed to interest rate risk with respect to its investments in bonds. As at April 30, 2023, the fair value of total investments in bonds was $1,309 million (2022 – $1,289 million), composed of $498 million (2022 – $435 million) of bonds indirectly held through pooled funds and $811 million (2022 – $847 million) of notional bond exposure arising from derivative financial instruments. As at April 30, 2023, the University did not hold bonds directly (2022 – $7 million) in its portfolios. This risk is managed by having a benchmark Reference Portfolio, which reflects the University’s risk appetite, and by monitoring actual risk against the risk of the Reference Portfolio.

Liquidity risk

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

Other price risk

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

4. **Cash and cash equivalents**

The balance of cash and cash equivalents includes the proportionate share of the investments in these categories held for the endowments in the University’s investment pools. Cash and cash equivalents consist of cash on deposit and units in a money market fund. The negative amount in cash and cash equivalents represents the notional exposure of the derivative financial instruments that are not backed by liquid assets because of the use of leverage.

5. **Allocation for spending**

The allocation for spending is governed by the University’s preservation of capital policy, the purpose of which is to ensure that the rate of growth in the capital value of endowments matches or exceeds the rate of inflation over time. This policy limits the amount of income made available for spending and requires the reinvestment of excess income. The target allocation for spending is 3% to 5% of the market value. The actual endowment allocation for the year ended April 30, 2023 was 4.1% (2022 – 4.2%) of the 10-year average market value of the endowment.

6. **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:

<table>
<thead>
<tr>
<th>(millions of dollars)</th>
<th>2023</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment management fees</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External managers</td>
<td>31</td>
<td>35</td>
</tr>
<tr>
<td>University of Toronto Asset Management Corporation</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>37</td>
<td>38</td>
</tr>
</tbody>
</table>