

THE UNIVERSITY OF TORONTO ENDOWMENT: STRENGTHENING OUR FUTURE

2017 - 2018



UNIVERSITY OF
TORONTO

BOUNDLESS

“By making endowed gifts, our donors are securing U of T’s future and ensuring we have the resources to attract the best students, conduct groundbreaking research and reach new levels of innovation, excellence and accessibility.”

—Cheryl Regehr, Vice-President and Provost



HIGHLIGHTS

	April 30, 2018	April 30, 2017
<hr/>		
<u>Total Endowments:</u>	(Millions of dollars)	
Fair value	\$ 2,504	\$ 2,380
Change from previous year:		
Endowed donations	\$ 39	\$ 36
Transfers from University's unrestricted funds	\$ 14	\$ 8
Investment income	\$ 181	\$ 341
Fees and expenses	\$ (25)	\$ (22)
Allocation for spending	\$ (85)	\$ (81)
Total change for the year	\$ 124	\$ 282

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

Proportion invested in LTCAP	99.04%	98.83%
Number of units in LTCAP	10,676,904	10,435,322
Fair value in millions	\$ 2,480	\$ 2,352
Fair value per unit in dollars	\$ 232.29	\$ 225.42
Allocation for spending per unit in dollars	\$ 8.02	\$ 7.86
LTCAP time-weighted net returns*	6.7%	15.4%

*Returns net of investment fees and expenses.

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EXECUTIVE SUMMARY

The University of Toronto (“U of T” or the “University”) is Canada’s largest and most comprehensive university. It is one of the world’s foremost research-intensive universities. It has educated hundreds of thousands of students and enjoys a global reputation in multiple fields of scholarship. In the 2016-2017 Times Higher Education World University Rankings, U of T is the only public university and only one of three universities in the world to be ranked among the top 30 in all 11 subject areas. Stanford University and Columbia University are the other two. Students have a chance to study with some of the world’s top professors and alongside inspiring classmates.

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

Endowed gifts from alumni and friends enable U of T to offer financial support to exceptional students, attract outstanding professors and researchers, and create unique and innovative programs. Thanks to the commitment and generosity of its donors, the Boundless campaign surpassed its original \$2.0 billion goal six months ahead of schedule. Thousands of alumni and friends from around the world contributed to this milestone, which is unprecedented in Canadian philanthropic history and places the University among just 31 universities worldwide that have raised \$2.0 billion or more in a fundraising campaign. Building on this impressive success and momentum, the University expanded the Boundless campaign goal to \$2.4 billion. The campaign is scheduled to conclude in December 2018. 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, 2018, University of Toronto endowments totaled \$2.5 billion and included over 6,260 individual endowment funds. In establishing these funds, donors have chosen to support the institution’s highest, continuing academic priorities.

In summary:

- investment return net of investment fees and expenses for the year ended April 30, 2018 was 6.7% (the average annual return for the five-year period May 1, 2013 to April 30, 2018 was 10.3%);
- endowment spending allocation (“payout”) was 3.56% of the opening balance market value; and
- fees and expenses were 1.05% of the opening balance market value.

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

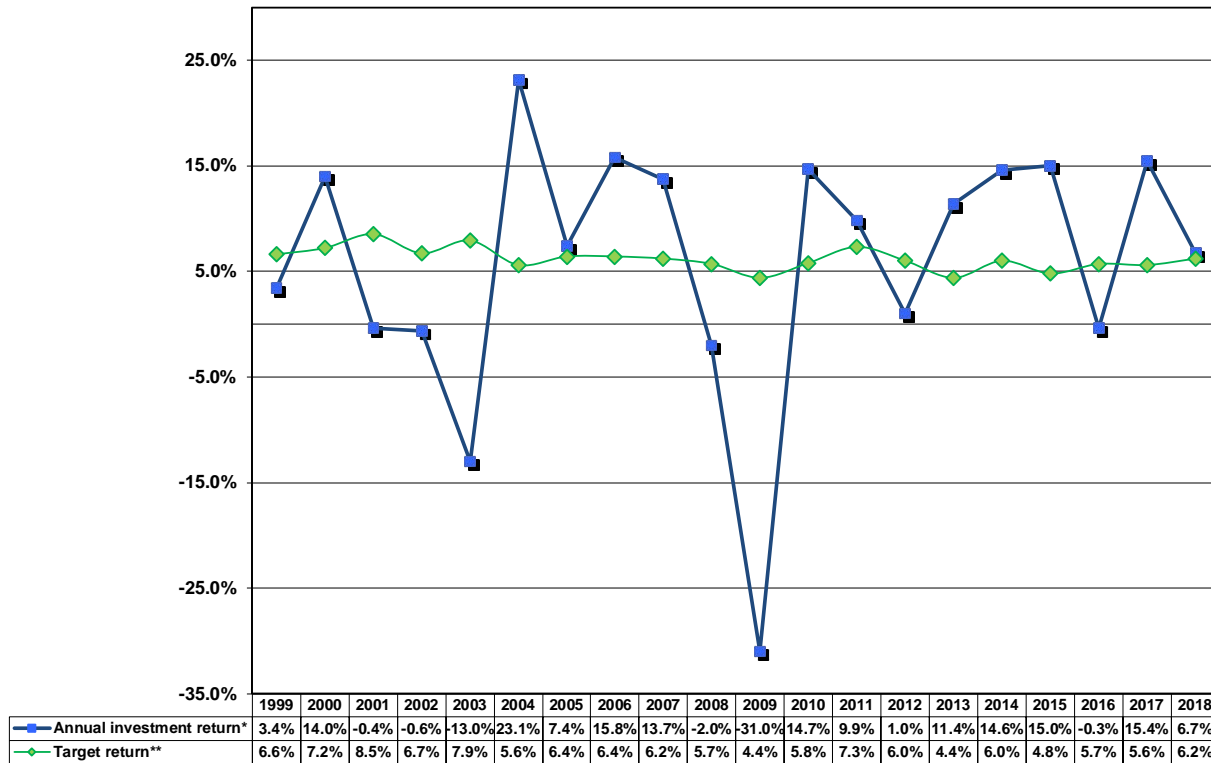
Endowments are managed in a unitized pool. Almost all of the University’s endowments hold units in this unitized investment pool, entitled the Long-Term Capital Appreciation Pool (LTCAP). Each endowment account holds units in LTCAP that reflect the number of dollars contributed and the unit value on the dates of contribution. The target spending allocation is 3% to 5% of opening balance market value and the actual endowment spending allocation for the year ended April 30, 2018 was 3.56%. The market value of each unit has increased from \$225.42 at April 30, 2017 to \$232.29 at April 30, 2018.

Unit market value at April 30, 2017	\$225.42
Investment income per unit	17.25
Fees and expenses	(2.36)
Endowment spending allocation	<u>(8.02)</u>
Unit market value at April 30, 2018	\$232.29

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, 2018 was 750 times \$232.29 or \$174,218.

To fund the spending allocation and to preserve capital against inflation over time, the University, as at April 30, 2018, has set the real rate return objective of at least 4% over 10-year periods, net of all investment fees and expenses, while taking an appropriate amount of risk to achieve this target, but without undue risk of loss. Prior to June 2017, the investment return and risk targets for LTCAP were a 4% investment return plus inflation, net of investment fees, and a 10% return volatility risk target (representing one standard deviation), over a ten-year period. The investments are managed by the University of Toronto Asset Management Corporation (UTAM) under the direction of the University.

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



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

** Target return from 1999 to 2002 was 5% plus CPI. After 2002, it is 4.0% plus CPI.

BOUNDLESS PROMISE

For six years, U of T's visionary matching program has boosted our commitment to accessibility and inspired our generous donor community.

Since 2012, the Boundless Promise program has attracted talented undergraduate students to U of T.

\$23.8 million

Total endowed funds pledged to date

\$3.6 million

Funds disbursed to students from the inception of the program

1,594

Number of students supported

As a computer science student at New College in the early 2000s, Chris Woodford experienced financial challenges. "My mom was on her own, so tuition was a struggle," he says. "Scholarships gave me a helping hand." After graduating in 2006, Woodford promised himself that if he achieved some success in life, he would give back to students who needed an extra boost like him. "I knew what a difference scholarships made to me," he says. As head of engineering at Palo Alto-based meal kit startup Gobble, Woodford came through on that promise earlier than he thought. At just age 30, he created a Boundless Promise Scholarship for New College students.

Woodford's inspiring story of generosity is just one example of the incredible impact of U of T's Boundless Promise program. Established in 2012, Boundless Promise is a matching initiative for needs-based awards aimed at nurturing the potential of our most talented students. Under the program, the University draws from operating funds to match the annual payout from endowed donations of \$25,000 or more. To date, the program has been a tremendous success, raising more than \$23 million in scholarship funding across 18 faculties and divisions.

"Twenty years ago, U of T developed a groundbreaking policy that no student admitted to the University would ever have to withdraw for lack of funds," says David Palmer, Vice-

President, Advancement. "Our donors have made it possible to honour that commitment with generous gifts through the Boundless Promise program. They are making a significant impact on the lives of U of T students."

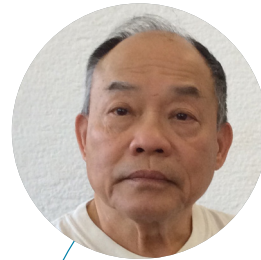
The program's impact is even more significant considering that, at the time of its creation, five-year projections for growth in demand for needs-based awards were greater than 30 per cent. "Boundless Promise has been instrumental in meeting that demand," says Palmer. "But in this highly competitive landscape for the best students, that demand continues to grow swiftly. Our generous donors recognize that need and continue to help U of T attract the very best scholars to our global university."

Nghia Truong and Kim Lien understand the financial pressure that comes with higher education. They came to U of T's Leslie Dan Faculty of Pharmacy from Vietnam in the 1970s to obtain the equivalency of a BS pharmacy degree. Truong recalls how some of his classmates struggled to pay tuition and keep up with the demanding course load. "Regrettably, some of them had to drop out of the program as a result of financial pressure," he says. "It was not only heartbreaking for them personally, but a real loss to the profession." After wrapping up a successful career owning two busy pharmacies in Ottawa, Truong and Lien created two Boundless Promise scholarships, one in their name and the other in their daughters', Kalena (BPharm 2011) and Alyssa (BPharm 2014),



“ I always promised myself that if I achieved some success, I would give back to students who needed an extra boost like I did.”

—Chris Woodford
(BA 2006 NEW)



“ We want to make it easier for pharmacy students and ensure that the profession does not lose these scholars because they can’t afford tuition.”

— Nghia Truong



“ I’m thrilled to be able to give students a chance to study at a place which has played a significant role in my life.”

— Andrew Cumming
(BA 1984 WDW)

both graduates of the Leslie Dan Faculty of Pharmacy. “We want to make it easier for pharmacy students and ensure that the profession does not lose these promising young scholars because they can’t afford tuition.”

Similarly, Andrew Cumming (BA 1984 WDW) looks back on his student days to understand the pressure today’s scholars face. He credits Woodsworth College with giving him the guidance he needed when he returned to university after surviving a near-fatal bout with cancer that forced him to drop out of his program at Queen’s University. “If it weren’t for Woodsworth, I would have been lost. The registrar really steered me onto the academic path that helped me build my career,” says Cumming. That career took him to MIT where he completed a doctorate and to the University of Florida where he taught physics, then back to Canada for a successful banking career.

Andrew established a Boundless Promise scholarship at Woodsworth to help students facing uphill challenges. “I was paying for my degree on my own and had to work while studying and recovering from cancer,” he says. “It wasn’t easy, to say the least, so I’m thrilled to be able to give students a chance to study at a place which has played a significant role in my life.”

Boundless Promise Scholarship Recipient

MAGNUS JORGENSEN

Magnus Jorgensen is pursuing a double major in biochemistry and physiology, minoring in Latin. His favourite part of his studies is his biochemistry classes and he plans to pursue graduate studies in the subject. Volunteering at SickKids Hospital in the molecular medicine department gives him valuable exposure to the field. “Without the Boundless Promise scholarship, I would have had to work more and perhaps not have had time to do this amazing volunteer work and be exposed to the biochemistry field,” he says. “The scholarship also offered some relief to my stresses, both financial and mental. It made such a difference.” Magnus is deeply thankful for the donors who have contributed to the program. “I am moved by their acts and hope to have the means to give back one day.”

“ Without the Boundless Promise scholarship, I would not have had time to do amazing volunteer work that exposed me to the biochemistry field.”

Biochemistry and physiology student Magnus Jorgensen in the Leslie L. Dan Faculty of Pharmacy Building.



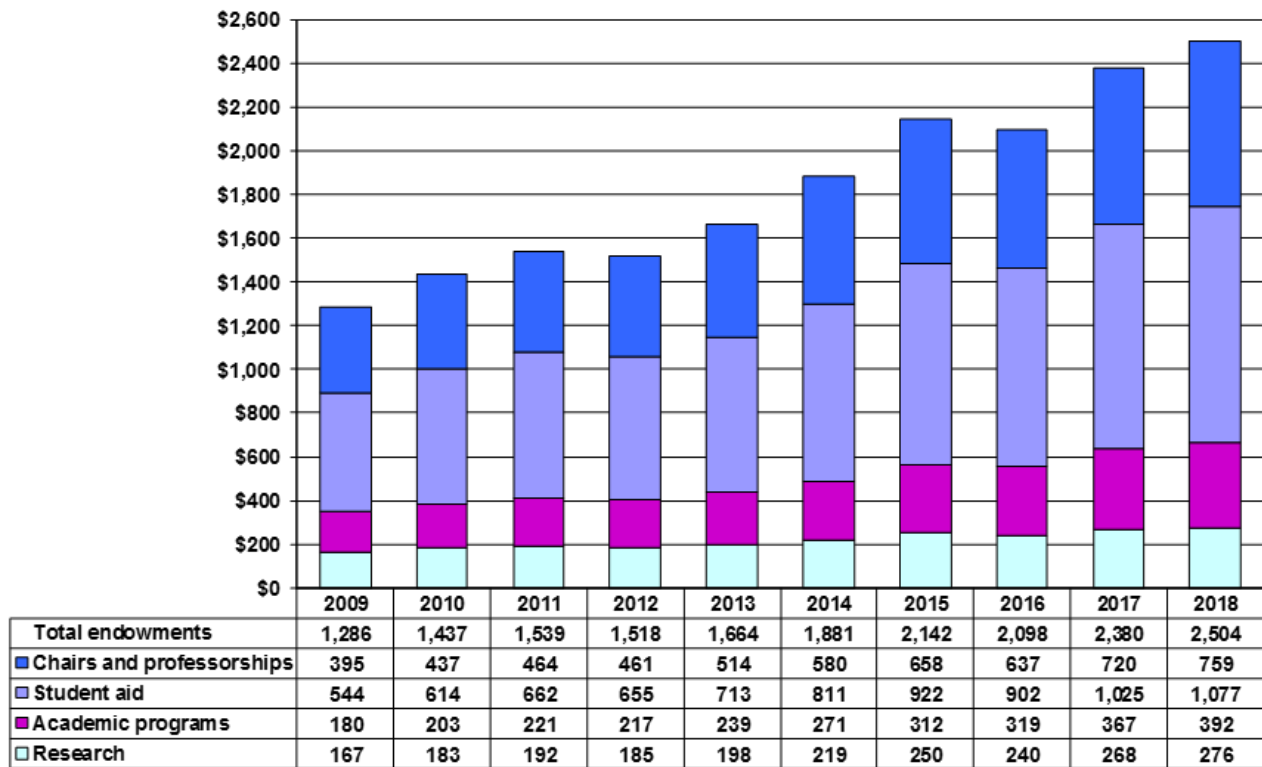
INTRODUCTION

Over the University of Toronto's history, endowed gifts have provided critical funding to support our core academic missions of teaching and research. These gifts sustain us over the long term – funds from endowed donations are invested so that earnings from the gift provide ongoing support in perpetuity, forming a lasting legacy. For the past 190 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 (85.0%) and internally restricted endowment funds designated as endowments by the University's Governing Council in the exercise of its discretion (15.0%). The Governing Council may have the right to subsequently remove the endowment designation on internally restricted funds; however, the use of such funds may continue to be restricted.

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

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



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

Almost all endowments, approximately 99.0% of fair value and over 6,250 funds, are invested in the University's Long-term Capital Appreciation Pool (LTCAP).

At April 30, 2018, there were over 6,260 individual endowment funds, usually supported by a donor agreement, or reflecting a collection of small donations with common restrictions.

Endowments totaled \$2.5 billion fair value at April 30, 2018. This was an increase of \$124 million over the previous year. This increase was comprised of:

Additions of:

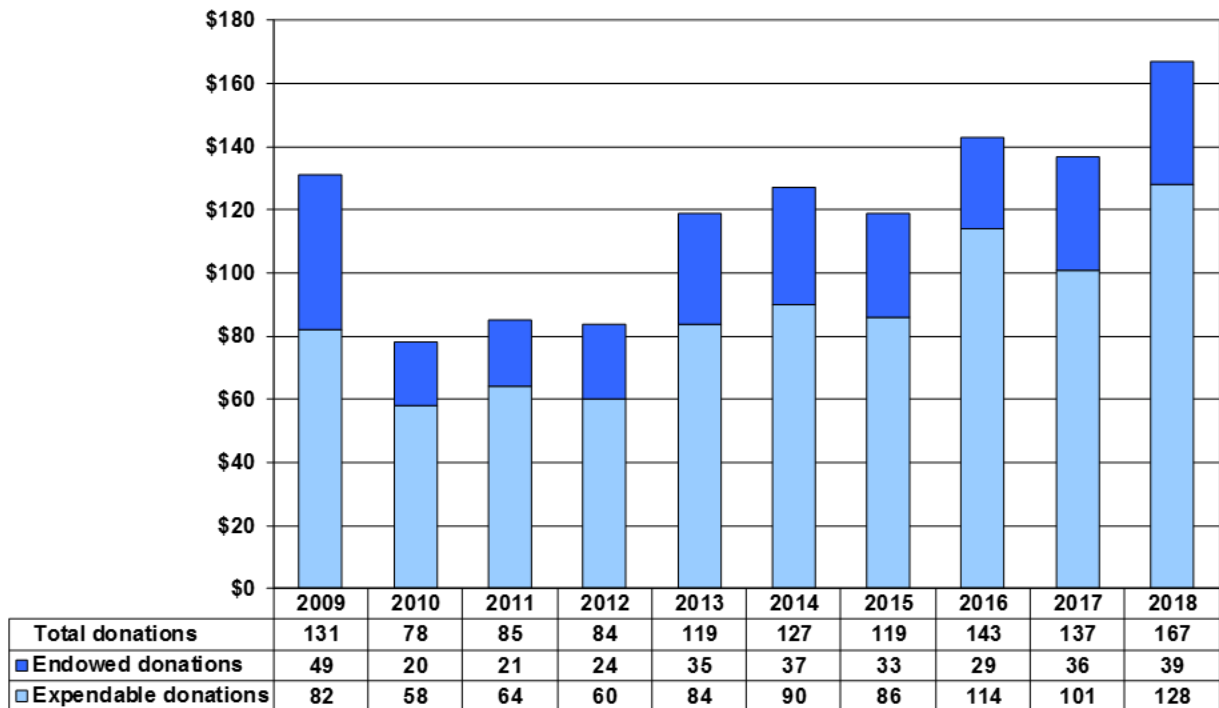
- \$ 181 million of investment income,
- \$ 39 million of endowed donations, and
- \$ 14 million of transfers from the University's unrestricted funds to endowments.

Minus:

- \$85 million of allocation for spending and
- \$25 million of fees and expenses.

The following graph shows endowed donations and expendable donations received since 2009. 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 23.4% of total donations (\$167 million) received by the University in 2018. 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 2017, U of T ranked 20th 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.

Boundless Promise Scholarship Recipient

TRISTIAN LEE-HYMAN

Tristian Lee-Hyman is studying literature and critical theory, minoring in Italian. This fall, he will begin a master's degree in comparative literature. Receiving a Boundless Promise scholarship made a major impact on his life both inside and outside the classroom. Like it has for many other recipients, it reduced his need to work part time to make ends meet. "I was able to focus more on school and I can directly attribute the vast improvement in my GPA to the scholarship," he says. "I want donors to know how this program made a positive impact on my life. It made all the difference." For Tristian, the scholarship also gave him room to pursue other interests, such as a master class on fiction writing. "I could take the time to pursue this course fully, doing things like participating in writing circles, going to readings and engaging with other writers."

"I was able to focus more on school and I can directly attribute the vast improvement in my GPA to the scholarship."

Literature and critical theory student Tristian Lee-Hyman in the stacks at Roberts Library.





Boundless Promise Scholarship Recipient

EMILY COMRIE

Emily Comrie is a fourth-year student in human biology and physiology. She hopes to pursue a career that combines her passion for science with human health in a way that helps others live full and healthy lives. Without the pressure to take on a part-time job, Emily was able to participate in an intense research project at Sunnybrook Hospital, studying the genetic determinants of sleep fragmentation. “I wouldn’t have been able to participate in the project if I had to work,” she says. The scholarship also gave her time to volunteer at Mount Sinai Hospital, working with elderly patients. “Volunteering not only enhanced my learning, it helped me build important connections within the U of T community,” she says. The award has inspired her to set a goal to give back when she is in a position to do so. “The Boundless Promise scholarship reminds me that there is a kind and generous community out there, helping dreams like mine come true. I am so very thankful.”

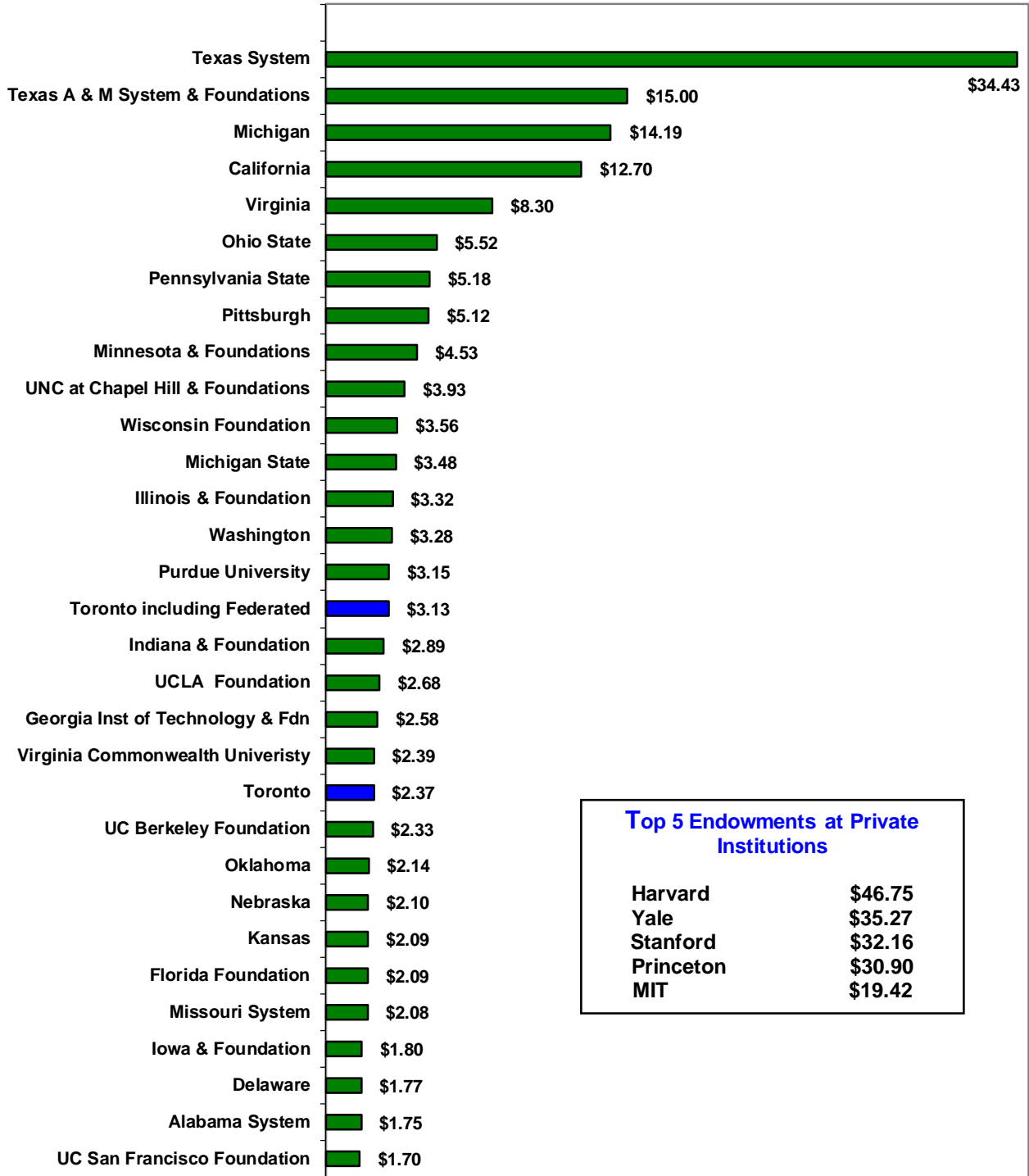
“ The scholarship reminds me that there is a kind and generous community out there, helping dreams like mine come true.”

Human biology and physiology student Emily Comrie in the Donnelly Centre for Cellular and Biomolecular Research.



TOP 30 ENDOWMENTS AT PUBLIC INSTITUTIONS

As at June 30, 2017
(in billions)



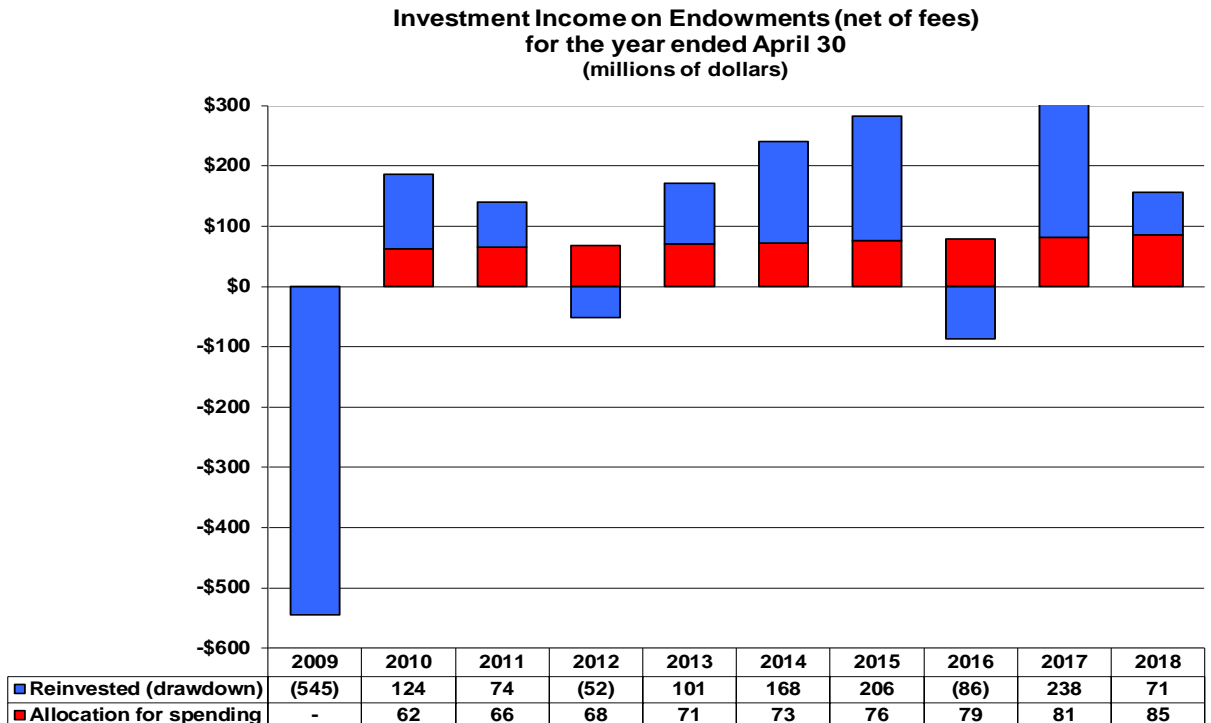
Source: 2017 NACUBO Endowment Study converted to Canadian dollars at an exchange rate of 1.2977

ALLOCATION FOR SPENDING AND PRESERVATION OF PURCHASING POWER

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

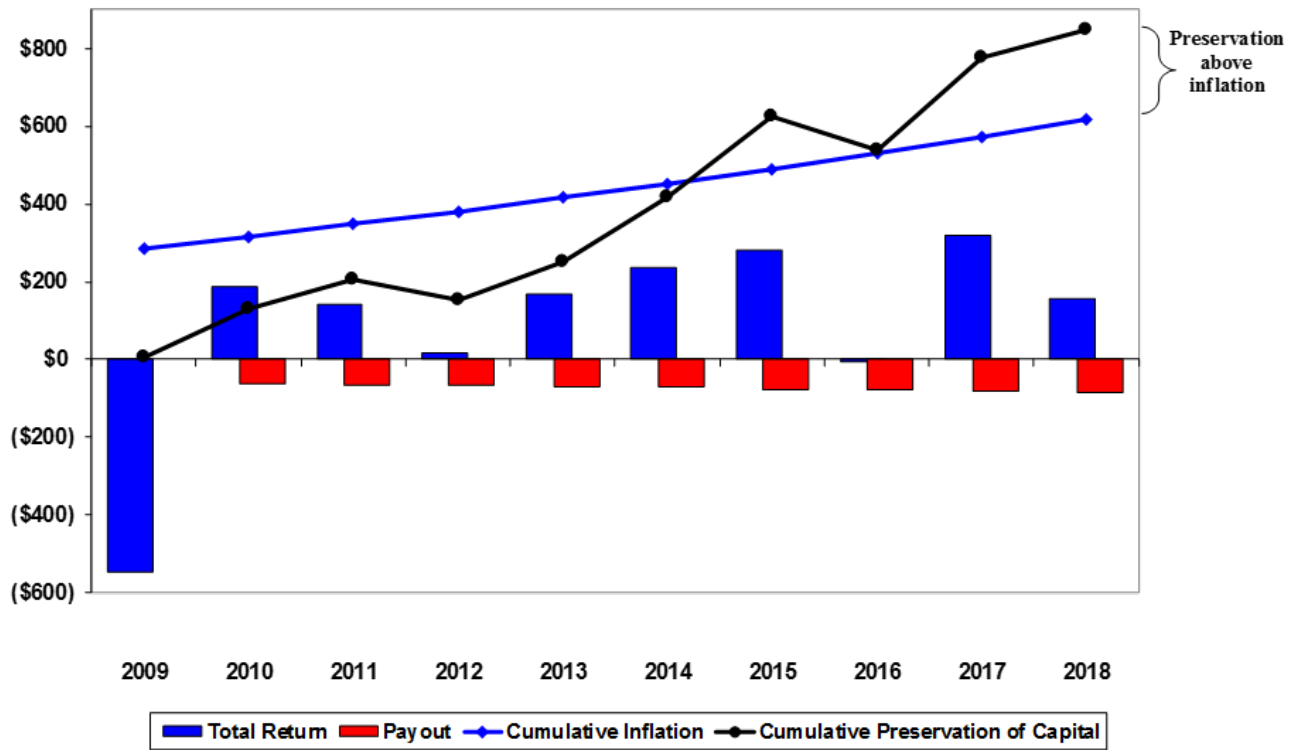
To ensure that endowments will provide the same level of economic support to future generations as they do today, with growth in the capital value of the endowment and with spending increasing over time as a percentage of the original donation, the University does not spend everything earned through the investment of funds in years when investment markets are good. In those years, the University sets aside and reinvests any amounts earned in excess of the spending allocation. This provides protection against inflation and builds up a reserve, which is expected to be used to fund spending in years when investment markets are poor. When investment income is less than the amount allocated for spending, or negative, the shortfall is expected to be funded from the accumulated investment income which has previously been added to the pool. The target spending allocation is 3% to 5% of opening balance market value and the actual endowment spending allocation for the year ended April 30, 2018 was 3.56%.

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



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

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



As stated in the executive summary, endowments are managed in a unitized investment pool and each endowment account holds units in the investment pool. The spending allocation of 3.56% for the year ended April 30, 2018 translated into a spending rate of \$8.02 per investment unit. The spending dollars pertaining to a particular endowment account are obtained by multiplying the spending rate of \$8.02 per unit by the number of units in the endowment account. For example, if an endowment account holds 750 units, the spending dollars of the endowment at April 30, 2018 was 750 times \$8.02 or \$6,015.

LONG-TERM CAPITAL APPRECIATION POOL (LTCAP) INVESTMENT POLICY

Almost all of the University's endowments (99.0% of fair value) are invested in LTCAP, a unitized pool. The fair value of an LTCAP unit is set each month, representing the market value of investments of the LTCAP divided by the total number of units held. Each endowment account has an assigned book value (nominal amount of dollars contributed to the endowment) and an allocation of LTCAP units based on the number of dollars contributed and the unit value on the dates of contribution.

In addition to endowments, LTCAP also includes \$424 million expendable funds that are invested for the long-term, including the University's sinking fund for debenture repayment.

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

The University's investment policy for LTCAP in place at April 30, 2018 reflects the spending allocation target and the preservation of capital policy. It has set the real rate return objective of at least 4% over 10-year periods, net of all investment fees and expenses, while taking an appropriate amount of risk to achieve this target, but without undue risk of loss.

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

SUPPORTING ELITE ATHLETES

The power of endowments helped Michael Guinness lead 225 students to academic and athletic success.



Above: Michael Guinness (BPHE 1972, MD 1977).

Right: Sidney Abou Sawan and Victoria Radounski in the Goldring Centre for High Performance Sport.

As Michael Guinness's endowments have grown, so have the students he's helped. The emergency physician created three scholarships between 1998 and 2010, and has so far supported 225 students in achieving academic excellence paired with athletic success.

Guinness first made a \$10 gift in 1981, and went on to set up endowments now valued at nearly \$1 million. "I didn't realize the numbers were that high," says Guinness, a U of T alumnus who earned a BPHE in 1972 and an MD in 1977. "It is most thrilling to learn that." He often receives notes from the award winners, calling them "lifelong treasures."

"Endowments are intriguing to me," he adds, "because endowments are gifts that keep on giving. I hope they will intrigue others." While earning his degrees, Guinness was a top-ranked Canadian swimmer who set Varsity Blues records and swam for Canada at the 1970 World University Games. The Guinness awards are for similar all-rounders: winners must demonstrate top scholarship, athleticism and leadership.

Sidney Abou Sawan is a current holder of the Guinness Fellowship in High Performance Sport and a PhD student in the Department

of Exercise Sciences. His research has the potential to improve both recovery after exercise and athletic performance. While athletes are routinely told to eat protein to support recovery after resistance exercise, he says, they're not told how or when. Abou Sawan's cohort study will test how much and how often athletes consume dietary protein and how this relates to muscle.

"The financial support will help me accelerate my PhD program," Sawan says, "because I can spend more time on my research. I appreciate that I was fortunate enough to get it, and I hope that I can pay for it by doing some good research for athletes."

The Guinness awards inspire students as well as offering practical help. Victoria Radounski, a provincial champ in the 200-metre freestyle who just completed her fourth year studying kinesiology, used her Guinness Award of Excellence to attend specialty swim training camps. But her wins are also due to intangible support, she says. "It helped boost my confidence to win this award. It's important to be confident in swimming, to be in the right mindset in a race."

Just as the Guinness endowment is reaching new milestones, so these students are creating new benchmarks for sport in Canada.



REMOVING BARRIERS TO CARE

For more than a decade, the Margaret and Clifford Zettle Award has given dentistry students vital skills to treat the most vulnerable dental patients.



Access to dental care poses a significant challenge for many people with special needs. Patients with intellectual challenges, such as a developmental delay or Alzheimer’s disease, for example, may be unable to follow a dentist’s instructions. Others require a clinic that can accommodate wheelchairs or a dentist who has experience dealing with aggression or other behavioural issues.

The Margaret and Clifford Zettle Award, established in 2008 by a generous donation from Dr. Katherine Zettle (DDS 1987), enables two dentistry students per year to spend a month working with people with disabilities at one of the Faculty of Dentistry’s affiliated teaching hospitals.

“In a month, students see a range of patients who have special health-care conditions and get a sense of the need for dentists who can provide this kind of care,” Zettle says. “In my practice, for example, I have patients who come from as far away as Timmins and Sault Ste. Marie just to get their dental treatment completed. If every dentist were able to welcome a few high-needs individuals into their practice, it would go a long way to removing barriers to care.”

For Zettle Award recipient Ayala Rubin (DDS 2017), the month she spent at Holland Bloorview Kids Rehabilitation Hospital was a life-changing experience. “My placement made a huge difference to me—personally and professionally,” she says. “My placement taught me creative ways to approach dental care to meet the unique needs and abilities of patients and their families.” Rubin completed her general practice residency at SickKids in 2018 and plans to treat patients of all needs in her future practice.

Lauren Lin (BSc 2013 VIC, MSc 2014, DDS 2018) says her placement taught her how to “think outside the box” when it comes to treating patients, especially those with special needs. “I spent a month at Toronto Rehab learning how to interact with a wide range of patients,” says Lin. “With the guidance of amazing mentors, I performed fillings, extractions, cleanings, denture work and bedside checkups. This experience kindled my confidence, and helped to shape a compassionate, inclusive practice philosophy that I will carry forward the rest of my career.”

“The Margaret and Clifford Zettle Award provides an invaluable opportunity for tomorrow’s dentists to treat the most vulnerable patients,” says Dr. Daniel Haas, Dean of the Faculty of Dentistry. “We are grateful for Dr. Zettle’s commitment to this area of study and its impact on our students and our community.”

Above: Dr. Katherine Zettle (DDS 1987).

Right: Lauren Lin (BSc 2013 VIC, MSc 2014) with Dr. Katherine Zettle in the Faculty of Dentistry.



INVESTMENT MANAGEMENT AND OVERSIGHT

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

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

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

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

LONG-TERM CAPITAL APPRECIATION POOL (LTCAP) PERFORMANCE

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

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

LTCAP Performance - Comparing Actual Results, Target and Benchmark Returns				
	1-year Return - April 30, 2018	2-year Average Return - April 30, 2018	3-year Average Return - April 30, 2018	5-year Average Return - April 30, 2018
LTCAP actual investment returns	6.7%	11.1%	7.3%	10.3%
LTCAP target investment return (4% +CPI)	6.2%	5.9%	5.8%	5.7%
Reference Portfolio return	4.9%	9.6%	5.5%	7.8%
Difference between LTCAP actual and target of which:	0.5%	5.2%	1.5%	4.6%
the % attributable to investment markets	-1.3%	3.7%	-0.3%	2.1%
the % attributable to active management decision	<u>1.8%</u>	<u>1.5%</u>	<u>1.8%</u>	<u>2.5%</u>
	0.5%	5.2%	1.5%	4.6%
Note: all investment return percentages are net of investment fees and expenses.				

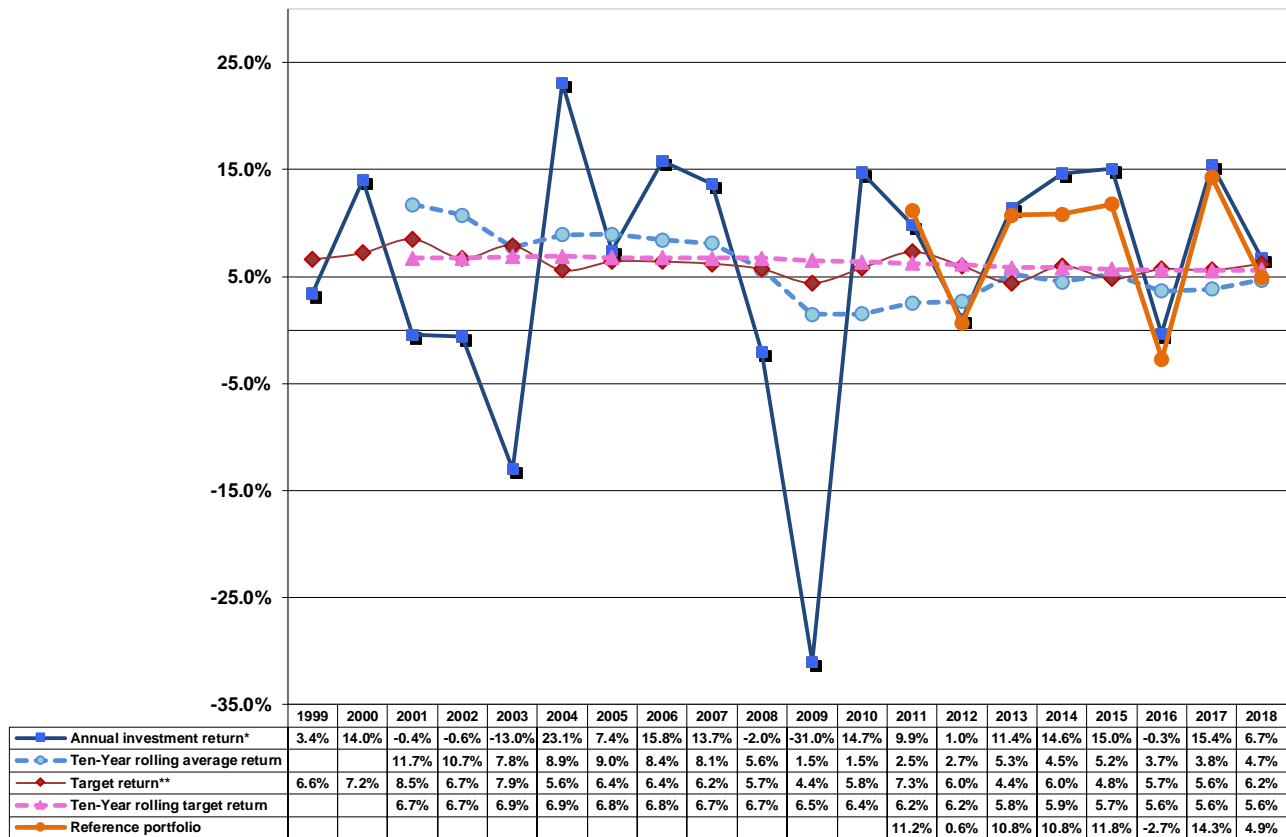
As the table above shows, for the one-year period from May 1, 2017 to April 30, 2018, the target nominal investment return for the LTCAP was 6.2%, representing 4.0% real investment return plus inflation of 2.2%, net of investment fees and expenses. The actual return for the year was 6.7%, which was above target, a difference of 0.5%. The actual return for the year was also better than the Reference Portfolio return (which is the benchmark return to indicate how markets performed) by 1.8% (6.7% minus 4.9%) meaning that active management added value. It is important to emphasize that all of the return percentages are net of investment fees and expenses.

The same analytical framework applies to the other periods shown in the table above. For the five-year period from May 1, 2013 to April 30, 2018, the actual average return for the LTCAP was 10.3%. This actual average return exceeded the target average return of 5.7%

by 4.6% (10.3% minus 5.7%). This actual average return exceeded the average Reference/benchmark return of 7.8% by 2.5% (10.3% minus 7.8%).

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

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



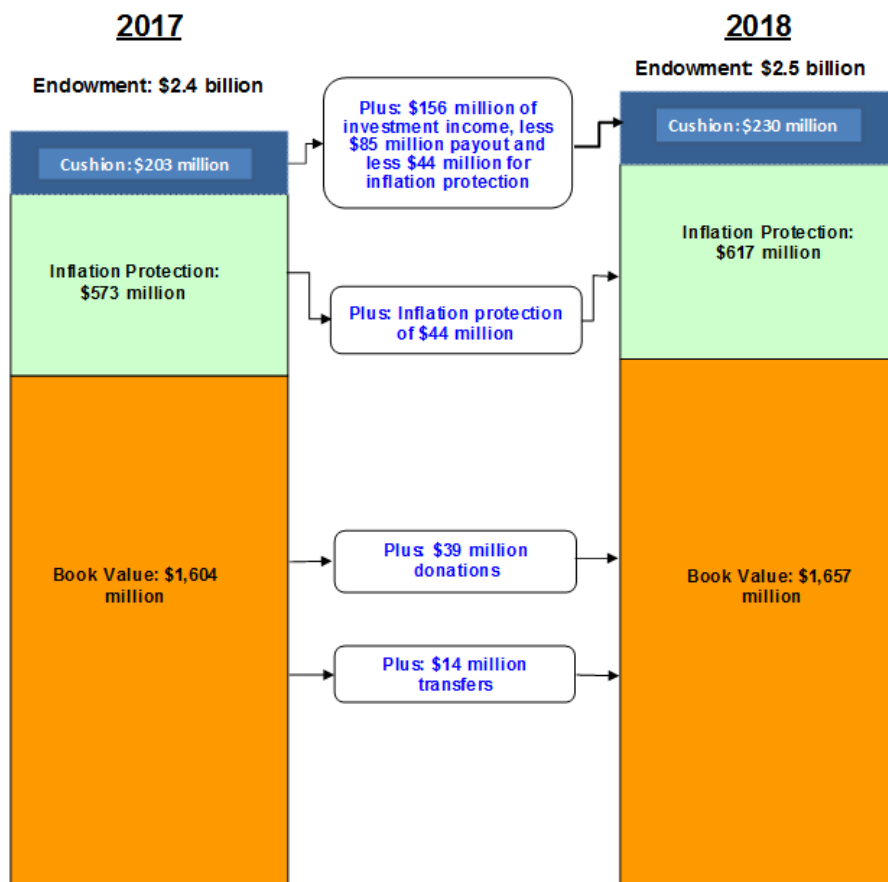
* Returns are time-weighted, calculated in accordance with industry standards, are net of investment fees and expenses, and exclude returns on private investment interests prior to 2008. The ten-year rolling returns are geometric average returns.

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

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

financial crisis, the ten-year rolling average actual return of 1.5% was less than the ten-year rolling average target return of 6.4% by 4.9%. By 2015, this ten-year rolling average actual return rebounded to 5.2%, almost back to the ten-year rolling average target investment return of 5.7%. By 2018, the ten-year actual average return dropped to 4.7% (mainly due to the negative 0.3% return of 2016), while the ten-year rolling target return was 5.6%.

At April 30, 2018, the University’s endowment value was \$2.5 billion with full inflation protection of \$617 million and a preservation of capital above inflation (cushion) of \$230 million against any possible future market downturn. The change of the endowment is illustrated in the following chart.



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

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 1.1% of the 2018 opening unit market value consist of the following:

	<u>2018</u>	<u>2017</u>
	<u>in millions</u>	<u>in millions</u>
Investment related management fees		
External managers	\$ 22	\$ 20
UTAM	2	2
Other	<u>1</u>	<u>—</u>
Total	<u>\$ 25</u>	<u>\$22</u>

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

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

SUMMARY OF CHANGES IN FAIR VALUE

The total return on LTCAP for the year ended April 30, 2018 was 6.7% (net of fees and expenses).

	Total Value (in millions)	Unit Value (in dollars)	Number of Units
<hr/>			
1) Endowments pooled in LTCAP:			
Opening balance at April 30, 2017	\$2,352	\$225.42	10,435,322
Contributions plus transfers	56		241,582
Investment income	182	17.25	
Fees and expenses	(25)	(2.36)	
Allocation for spending	<u>(85)</u>	<u>(8.02)</u>	
Closing balance at April 30, 2018	\$2,480	\$232.29	10,676,904
<hr/>			
2) Specifically invested endowments:			
Opening balance at April 30, 2017	\$ 27	n/a	n/a
Investment loss	(1)		
Contributions plus transfers	<u>(2)</u>	n/a	n/a
Closing balance at April 30, 2018	\$ 24	n/a	n/a
<hr/>			
Total endowments at April 30, 2018	<u>\$2,504</u>	n/a	n/a

The fair value of each endowment account in LTCAP is determined by multiplying the current fair value of the unit (\$232.29 at April 30, 2018) by the number of units held by that endowment account.

FOSTERING STUDENT ENGAGEMENT

The Rubina Khawaja Endowment Fund fosters diverse interfaith and intercultural dialogue among U of T students.



Above: Prof. Nouman Ashraf (BCom 2002 SMC, MBA 2006).

Right foreground: Muslim Students' Association Volunteers Somaia Youssef, Moynah Nofal and Sanja Siddqui with student participants (**background**) Run Bo Liu, Adel Halawa and Kaleb Nguyen.

“Instead of barking at the darkness you can light a candle,” says Rotman School of Management professor Nouman Ashraf (BCom 2002 SMC, MBA 2006). When Ashraf lost his wife to cancer, he decided to honour her memory by creating the Rubina Khawaja Endowment Fund at Hart House.

“It’s a modest endowment but an important gesture for our family,” says Ashraf, who met his wife Rubina (BSc 1988 UC, MSc 1991, BEd 1992) when they were both students at the University of Toronto. “When I was thinking about where to make a donation I considered Princess Margaret Hospital, because Rubina received excellent care there, but we didn’t meet at the hospital. We met at U of T. That’s where our story began.”

The Rubina Khawaja Endowment Fund is part of the Hart House Good Ideas Fund, which provides support to students and student groups that have an idea, project or event that addresses an issue, builds community or positively affects student life.

“Hart House is a place where happy encounters can happen,” says Ashraf. “It was a big part of Rubina’s community on campus. The fund encourages students to use dialogue, communication and education to tackle big issues. What brought my wife and I together

was student engagement; what better way to honour her memory than to enable a future generation of students to have that experience.”

The Muslim Students Association (MSA) was the inaugural recipient of the Rubina Khawaja Endowment Fund. This past March, the MSA organized Islam Awareness Week, a week-long series of events that encouraged conversations about faith and the Muslim-Canadian identity.

“We need to counter the rise of fascism, xenophobia and Islamophobia worldwide on the local scale,” says Moynah Nofal, a first-year OISE PhD student who served as MSA’s head of education this year. “Islam Awareness Week was an opportunity to raise awareness of the Muslim community on campus, and to facilitate meaningful discussion regarding real issues of faith in the multicultural Canadian fabric.”

For Ashraf, the ability to empathize with people from different cultures and backgrounds is one of life’s most important skills. “I hope that through Rubina’s fund, we can create spaces where relationships are born, and bridges to understanding are built,” he says. “Knowing that the endowment will help to do that in perpetuity is gratifying. I think we underestimate the impact that even a small amount of support can make in people’s lives.”



Appendix

**University of Toronto
Endowments**

Financial Information

April 30, 2018

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, 2018 and the statement of changes in net investments for the year then ended, and a summary of significant accounting policies and other explanatory information (together "the financial information"). The financial information has been prepared by management of the University of Toronto using the basis of accounting described in Note 2.

Management's responsibility for the financial information

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

Auditors' responsibility

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

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

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

Opinion

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

Basis of accounting

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

Toronto, Canada
June 27, 2018

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style font.

Chartered Professional Accountants
Licensed Public Accountants

University of Toronto Endowments
STATEMENT OF NET INVESTMENTS
AS AT APRIL 30, 2018
(with comparative figures as at April 30, 2017)
(millions of dollars)

	2018	2017
ASSETS		
Investments, at fair value <i>[note 3]</i>	2,491	2,359
Cash and cash equivalents <i>[note 4]</i>	289	249
Unrealized gains on derivative instruments <i>[note 3]</i>	4	7
Investment income and other receivables	25	15
	2,809	2,630
 LIABILITIES		
Unrealized losses on derivative instruments <i>[note 3]</i>	11	21
Other payables and accruals <i>[note 5]</i>	294	229
	305	250
 NET INVESTMENTS HELD FOR ENDOWMENTS		
	2,504	2,380
 Commitments <i>[note 3]</i>		

(see notes to financial information)

University of Toronto Endowments
STATEMENT OF CHANGES IN NET INVESTMENTS
FOR THE YEAR ENDED APRIL 30, 2018
(with comparative figures for the year ended April 30, 2017)
(millions of dollars)

	<u>2018</u>	<u>2017</u>
INCREASE IN NET INVESTMENTS		
Endowed donations	39	36
Investment income	181	341
Transfers from University's unrestricted funds	14	8
Total increase in net investments	<u>234</u>	<u>385</u>
DECREASE IN NET INVESTMENTS		
Allocation for spending <i>[note 6]</i>	85	81
Fees and expenses <i>[note 7]</i>	25	22
Total decrease in net investments	<u>110</u>	<u>103</u>
Increase in net investments for the year	124	282
Net investments held for endowments, beginning of year	<u>2,380</u>	<u>2,098</u>
Net investments held for endowments, end of year	<u>2,504</u>	<u>2,380</u>

(see notes to financial information)

University of Toronto Endowments

NOTES TO FINANCIAL INFORMATION

APRIL 30, 2018

1. Description

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

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

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

2. Summary of significant accounting policies and reporting practices

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

a) Investments -

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

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

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

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

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

b) Derivative financial instruments –

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

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

c) Investment income –

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

d) Foreign currency translation –

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

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

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

e) Other financial instruments –

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

3. Investments

Most of the funds associated with the University’s endowments are invested in LTCAP. These funds represent 85.4% (2017 – 86.8%) of the total LTCAP investments. Other investments represent investments held outside LTCAP mainly due to donors’ specific instructions.

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

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

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

(millions of dollars)

	2018		2017	
	LTCAP	Other	LTCAP	Other
Government and corporate bonds	792	5	693	5
Canadian equities	248	1	229	1
United States equities	498	1	472	1
International equities	378		360	
Emerging market equities	245		241	
Global equities	125		119	
Other	181	17	221	17
	2,467	24	2,335	24
Total investments	2,491		2,359	

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

2018 (millions of dollars)							
	Government and corporate bonds	Canadian equities	United States equities	International equities	Emerging market equities	Global equities and other	Total
Hedge funds	38		185	10	55	208	496
Private equities	139	32	98	10	43		322
Real assets	21	20	12	16		28	97
	198	52	295	36	98	236	915

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

During the year, \$17 million of LTCAP's proportionate share of investment loss (2017 - \$14 million gain) related to endowments was recognized as a result of the change in fair value that was estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates for certain of its investments. Management believes there are no other reasonable assumptions for these investments that would generate any material changes in investment income.

Uncalled commitments

As at April 30, 2018, approximately 16.3% (2017 – 18.5%) of LTCAP's investment portfolio is invested in private funds managed by third party managers. These private funds typically take the form of limited partnerships managed by a General Partner. The legal terms and conditions of these private investment funds, which cover various areas of private equity investments and real asset investments (e.g. real estate and infrastructure), require that investors initially make an unfunded commitment and then remit funds over time (cumulatively up to a maximum of the total committed amount) in response to a series of capital calls issued to the investors by the manager. As at April 30, 2018, the endowments had uncalled commitments of approximately \$397 million (2017 - \$351 million). The capital committed is called by the manager over a pre-defined investment period, which varies by fund but is

generally about three to five years from the date the fund closes. In practice, for a variety of reasons, the total amount committed to a fund is very rarely all called.

Risk management

Risk management relates to the understanding and active management of the risks associated with all areas of the University's investments. Investments are primarily exposed to a variety of financial risks, such as foreign currency risk, interest rate risk, price risk, and credit risk. Significant volatility in interest rates, equity values and the value of the Canadian dollar against the currencies in which the University's investments are held can significantly impact the value of these investments. To manage these risks within reasonable risk tolerances, the University, through UTAM, has formal policies and procedures in place governing asset mix among equity, fixed income and alternative assets, requiring diversification within categories, and setting limits on the size of exposure to individual investments and counterparties. In addition, derivative instruments are used in the management of these risks (see below). To manage foreign currency risk, the hedging policy as at April 30, 2018 is to hedge 50% (2017 - 50%) of the currency exposure within the United States equity and EAFE equity benchmark asset classes, and to hedge 0% (2017 - 0%) of the currency exposure in all other benchmark asset classes. Credit risk of financial instruments is the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation. At April 30, 2018, \$288 million (2017 - \$193 million) of directly held fixed income securities have AAA or AA credit ratings.

Derivative financial instruments

Description

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

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

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

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

	(millions of dollars)			
	2018		2017	
	Notional Value	Fair Value	Notional Value	Fair Value
Unrealized gains on derivative instruments				
Foreign currency forward contracts				
- United States dollars	31		127	3
- Other	188	2	2	3
		<u>2</u>		<u>3</u>
Equity and bond futures contracts				
- United States dollars			91	1
- Other	44		1	1
		<u>2</u>		<u>1</u>
Total return equity and bond swap contracts	232	2	387	3
Total unrealized gains on derivative instruments		<u><u>4</u></u>		<u><u>7</u></u>
Unrealized losses on derivative instruments				
Foreign currency forward contracts				
- United States dollars	486	(7)	723	(15)
- Other	13	(7)	155	(6)
		<u>(7)</u>		<u>(21)</u>
Equity and bond futures contracts				
- United States dollars	41	(1)	2	
- Other			37	
		<u>(1)</u>		
Total return equity and bond swap contracts	116	(3)		
Total unrealized losses on derivative instruments		<u><u>(11)</u></u>		<u><u>(21)</u></u>
Net unrealized losses on derivative instruments		<u><u>(7)</u></u>		<u><u>(14)</u></u>

The maturity dates of the currency forward and futures contracts as at April 30, 2018 range from May 2018 to September 2018. The maturity dates of the total return equity swap contracts as at April 30, 2018 range from May 2018 to October 2018. Collateral has been provided against these contracts as of April 30, 2018 in the form of short-term investments with a fair value of \$2 million (2017 - \$5 million).

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

purchase and resell price) is treated as interest expense (income) and is recognized over the life of the agreement using the effective interest rate method. These transactions involve risks that the value of the securities being relinquished (acquired) may be different than the price to be paid (received) on the expiry date or that the other party to the agreement will be unable or unwilling to complete the transaction as scheduled, which may result in losses to the University. As at April 30, 2018, the University had entered into a number of these agreements with expiry dates in May 2018.

4. Cash and cash equivalents

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

5. Other payables and accruals

Other payables and accruals include \$292 million (2017 - \$226 million) payable for repurchase agreements of various bonds, as described above in Note 3, traded before year-end that will be settled after April 30, 2018.

6. Allocation for spending

The allocation for spending is governed by the University's preservation of capital policy, the purpose of which is to ensure that the rate of growth in the capital value of endowments matches or exceeds the rate of inflation over time. This policy limits the amount of income made available for spending and requires the reinvestment of excess income. The target allocation for spending is 3% to 5% of the opening market value. The actual endowment allocation for the year ended April 30, 2018 was 3.6 % (2017 - 3.9%) of the opening market value of endowments.

7. Fees and expenses

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

	(millions of dollars)	
	<u>2018</u>	<u>2017</u>
Investment management fees		
- External managers	22	20
- UTAM	2	2
- Other	<u>1</u>	<u>—</u>
Total	<u>25</u>	<u>22</u>





UNIVERSITY OF
TORONTO