



UNIVERSITY OF
TORONTO

Endowment Report

2020–2021



HIGHLIGHTS

Year Ended April 30, 2021
(with comparative figures at April 30, 2020)
(millions of dollars)

	2021	2020
<u>Total Endowments:</u>		
Fair value	\$ 3,150	\$ 2,510
Change from previous year:		
Endowed donations	\$ 124	\$ 34
Transfers from University's unrestricted funds	\$ 2	\$ 18
Investment (loss) income	\$ 641	\$ (20)
Fees and expenses	\$ (30)	\$ (23)
Allocation for spending	\$ (97)	\$ (92)
Total change for the year	\$ 640	\$ (83)

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

Proportion invested in LTCAP	99.54%	99.04%
Number of units in LTCAP	11,642,470	11,108,333
Fair value in millions	\$ 3,135	\$ 2,486
Fair value per unit in dollars	\$ 269.27	\$ 223.78
Allocation for spending per unit in dollars	\$ 8.51	\$ 8.34
LTCAP time-weighted net returns*	24.2%	-1.5%

*Returns net of investment fees and expenses.

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“Endowment gifts from donors like you sustain our excellence now and over the long-term, paving the way for students to pursue life-changing opportunities and for researchers to meet the challenges of a changing world. In the midst of such turbulent times, your continued commitment to support the University’s vitally important mission means more to us than ever.”

David Palmer

Vice-President, Advancement

Building Community

Frank Otabor, MBA, Rotman School of Management

More than a decade ago, Frank Otabor, a 2021 MBA candidate at the Rotman School of Management, relocated from Nigeria to the U.S. to pursue graduate studies in engineering. “I had to learn things the hard way, often facing barriers and discrimination because of the colour of my skin,” he says. “After arriving at Rotman, I made it my mission to make sure that students who might be facing the same struggles would know they weren’t alone and could get help.”

That commitment led Otabor to co-found Students Against Anti-Black Racism at Rotman. He also serves as the Vice-President for the Rotman African and Caribbean Business Club.

“My work with these groups has allowed me to lead transformational projects, including helping to redesign the curriculum to incorporate racially and gender diverse content,” he says. “These efforts empower the BIPOC community at Rotman by providing access to role models, and instill the belief that everyone, regardless of gender or race, has a chance at rising to an executive position in the future.”

Otabor received a bursary from the **St. George Society of Toronto Endowment Fund** to assist him with his MBA and was also named a Junior Fellow at Massey College. “The award has helped me stay focused and I’ve tried to pay it forward



through my volunteer work.” After graduation, Otabor plans to continue his transformational work within organizations interested in investing in innovation, diversity, and employee empowerment.

Executive summary

The University of Toronto (“U of T” or the “University”) is Canada’s largest and most comprehensive university. It is one of the world’s foremost research-intensive universities. It has educated hundreds of thousands of students and enjoys a global reputation in multiple fields of scholarship. U of T was ranked 18th globally in Times Higher Education World University Ranking for 2020-21. U of T is ranked 8th among global public universities and 3rd among North American public universities. U of T is one of only nine universities to rank in the top 50 of all 11 subjects, demonstrating the university’s depth and breadth of excellence. The other universities are Stanford University, Harvard University, UC Berkeley, Columbia, Michigan, Pennsylvania, and University of California Los Angeles (UCLA). Students have a chance to study with some of the world’s top professors and alongside inspiring classmates.

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

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.

Immediately following the successful closure of the Boundless campaign on December 31, 2018 with \$2.641 billion raised, the University entered into the quiet phase of a new campaign with a provisional goal of \$3.5 billion to \$4.0 billion. Beginning January 1, 2019, the new campaign has seen significant growth in fundraising momentum and alumni engagement, reaching record levels in 2021.

For the period May 1, 2020 to April 30, 2021, the University raised a total of \$445 million. This amount includes \$406 million in pledges and gifts (donations) and \$39 million in philanthropic research grants from non-government sources.

This year, the University received a \$250 million gift (\$79 million endowed and \$171 million expendable) from the Temerty Foundation, established by James and Louise Temerty, making it the single largest gift in Canadian history. The gift will support discovery, collaboration, innovation, equity and student well-being across the University’s Faculty of Medicine and its affiliated hospital network, advancing its leadership as a global center of excellence in human health and health care. This transformative gift will support advances in machine learning in medicine; biomedical research and collaboration; and the creation of a new state-of-the-art Faculty of Medicine building for education and research. This gift also included a \$10 million allocation to the Dean’s COVID-19 Priority Fund, which was received last fiscal year. This component of the gift is in support of front-line clinical faculty members and trainees, as well as researchers at the University and partner hospitals seeking to improve testing, accelerate vaccine research and create better treatments and prevention strategies. In gratitude for this extraordinary benefaction, the University’s Faculty of Medicine has been named the Temerty Faculty of Medicine.

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 scholarships, chairs and other vital priorities.

This report summarizes the performance, management and impact of our endowments over the past fiscal year. At April 30, 2021, there were more than 6,700 individual endowment funds, usually supported by an agreement between the University and a donor, or reflecting a collection of small donations with common restrictions. The University's endowment value was \$3.2 billion (book value of \$2.7 billion) with full inflation protection of \$761 million and preservation above inflation (provision for investment return fluctuations) of \$503 million against a possible future market downturn. The majority of endowments are in support of student aid (\$1.3 billion) and chairs and professorships (\$925 million).

COVID-19 impacted global commercial and financial activities. This led to significant volatility and declines in the global public equity markets towards the end of fiscal 2020. These markets subsequently recovered their losses and continued to generate strong returns through the remainder of fiscal 2021, resulting in strong returns for the University's investments. It is uncertain whether market volatility relating to COVID-19 will occur again in the near future.

In summary:

- investment return net of investment fees and expenses for the year ended April 30, 2021 was 24.2% (the average annual return for the five-year period May 1, 2016 to April 30, 2021 was 10.0%);
- endowment spending allocation ("payout") was 3.8% of the opening balance market value; and
- fees and expenses were 1.2% 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.

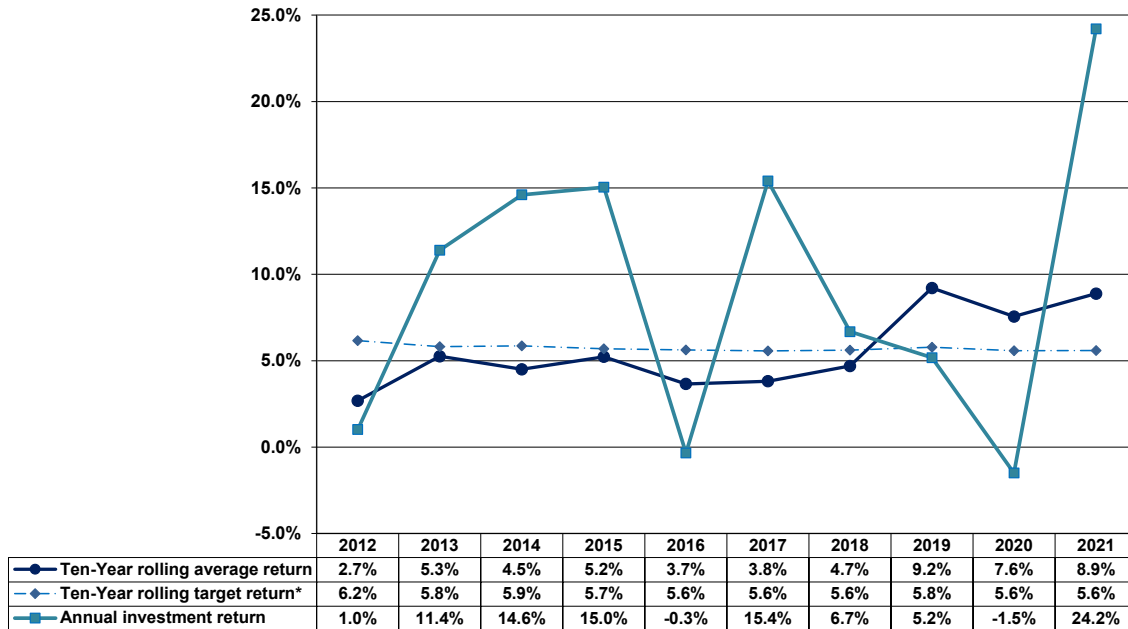
Endowments are managed in a unitized pool. Almost all of the University's endowments hold units in this unitized investment pool, entitled the Long-Term Capital Appreciation Pool (LTCAP). Each endowment account holds units in LTCAP that reflect the number of dollars contributed and the unit value on 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, 2021 was 3.8%. The market value of each unit has increased from \$223.78 at April 30, 2020 to \$269.27 at April 30, 2021.

Unit market value at April 30, 2020	\$223.78
Investment income per unit	56.62
Fees and expenses	(2.62)
Endowment spending allocation	<u>(8.51)</u>
Unit market value at April 30, 2021	\$269.27

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, 2021 was 750 times \$269.27 or \$201,953.

To fund the spending allocation and to preserve capital against inflation over time, the University, as at April 30, 2021, has set the real rate return objective of at least 4% over 10-year periods, net of all investment fees and expenses, while taking an appropriate amount of risk to achieve this target, but without undue risk of loss. Prior to June 2017, the investment return and risk targets for LTCAP were a 4% investment return plus inflation, net of investment fees, and a 10% return volatility risk target (representing one standard deviation), over a ten-year period. The investments are managed by the University of Toronto Asset Management Corporation (UTAM) under the direction of the University.

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



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

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

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 (86.0%) and internally restricted endowment funds designated as endowments by the University's Governing Council in the exercise of its discretion (14.0%).

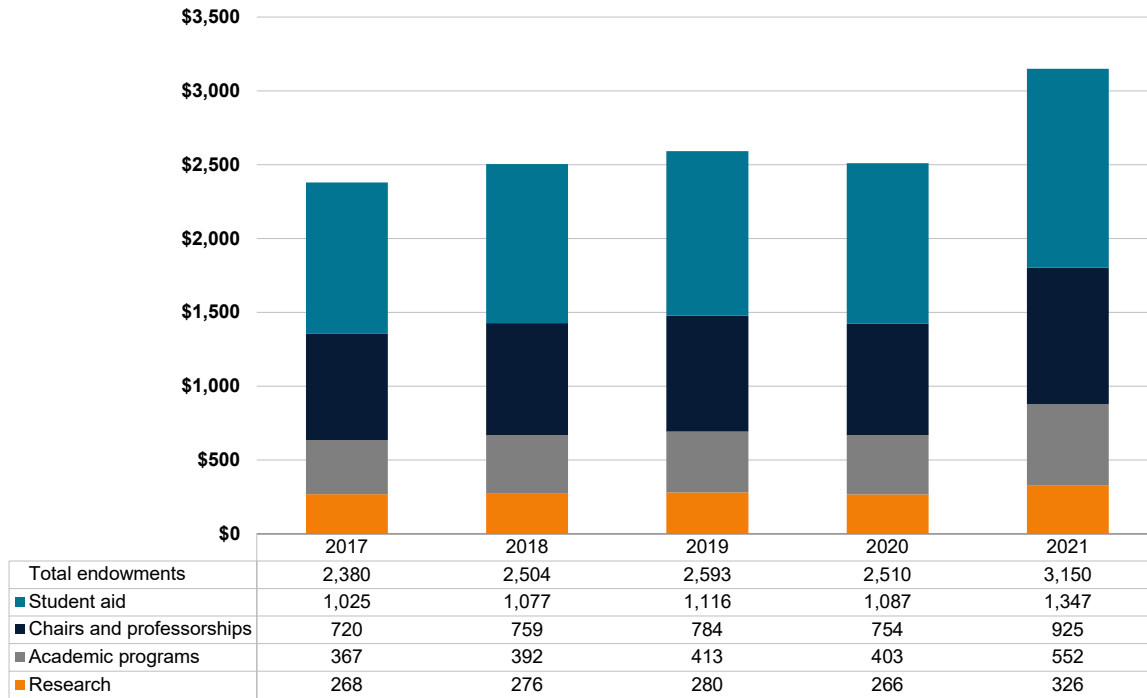
This report deals with endowments reported in the University of Toronto's financial statements, and does not include the endowments of Victoria University, The University of Trinity College, University of St. Michael's College, Sunnybrook Health Sciences Centre, and the affiliated colleges under the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

Almost all endowments, approximately 99.5% of fair value are invested in the University's Long-term Capital Appreciation Pool (LTCAP). At April 30, 2021, there were over 6,700 individual endowment funds, usually supported by a donor agreement, or reflecting a collection of small donations with common restrictions.

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

Endowments at Fair Value

at April 30
(millions of dollars)



Endowments totaled \$3.2 billion fair value at April 30, 2021. This was an increase of \$640 million over the previous year. This increase was comprised of:

Additions of:

- \$641 million of investment income
- \$124 million of endowed donations, and
- \$ 2 million of transfers from the University's unrestricted funds to endowments.

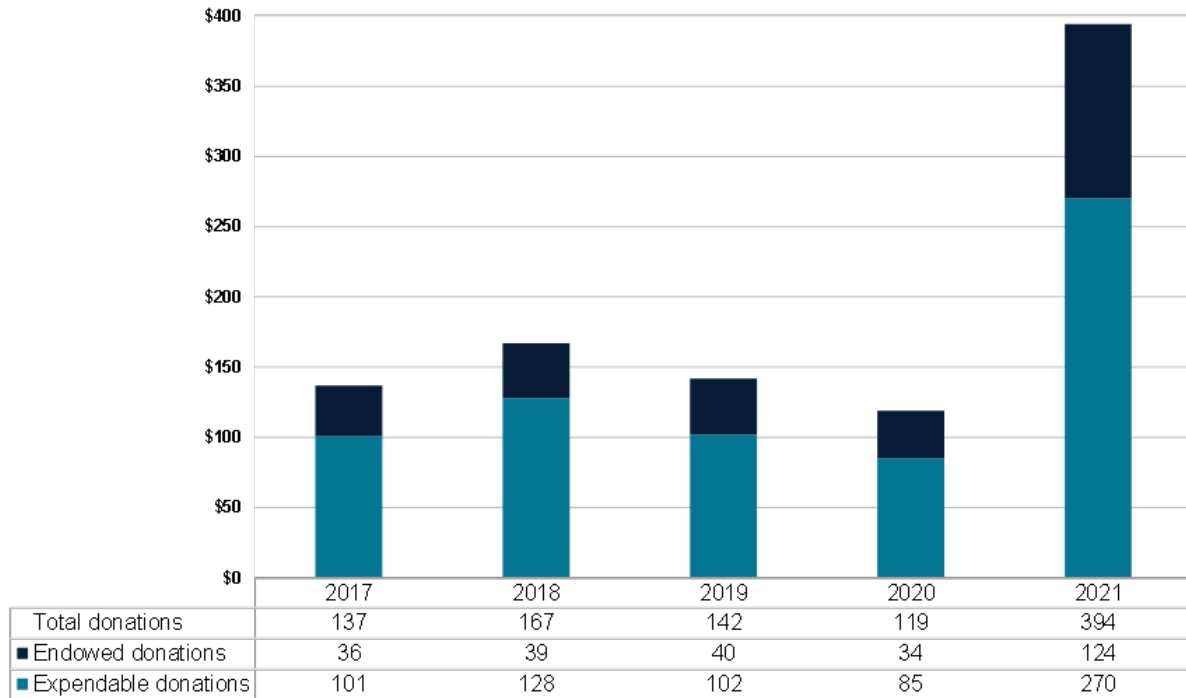
Minus:

- \$ 97 million of allocation for spending and
- \$ 30 million of fees and expenses.

The following graph shows endowed donations and expendable donations received since 2017. 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)



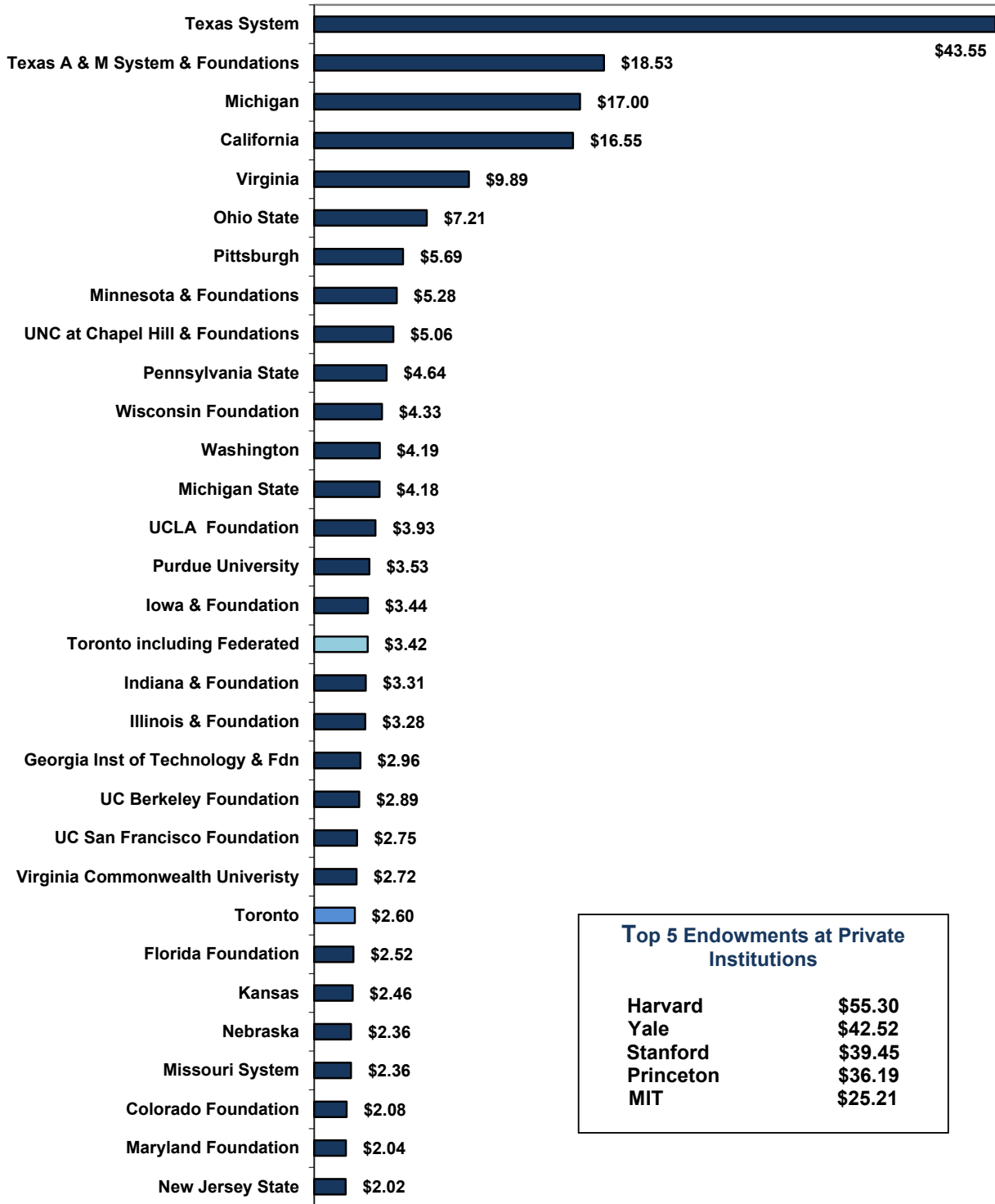
The graph illustrates that endowed donations represented 31.5% of total donations (\$394 million) received by the University in 2021. Expendable gifts build essential infrastructure and support immediate academic priorities with rapid-cycle impact on the institution.

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 2020, U of T ranked 23rd in terms of size. Including the endowments of the federated universities, U of T ranked 17th in terms of size. If we were to compare the endowment per FTE student with the same institutions, the University would rank lower since most of these institutions have a smaller number of FTE students.

Top 30 Endowments at Public Institutions

As at June 30, 2020
(in billions)



Source: 2020 NACUBO Endowment Study converted to Canadian dollars at an exchange rate of 1.3628

Learning to Lead

Daniel Shi, Chemical Engineering, Faculty of Applied Science & Engineering



For chemical engineering student Daniel Shi, education not only provided him with technical training, but with a chance to develop leadership skills and confidence. Over his three years of study, Shi has had the opportunity to work with industry leaders and participate in projects with other universities. Last year, for example, he worked on a project with ETH Zürich to develop an artificial heart. “It’s very exciting to be part of something on a global scale,” he says.

To pursue his studies, Shi benefited from the **Sydney George Harris Bursary**. “My family consists of myself and a single mother,” says Shi. “We were aware of the financial consequences of enrolling me in chemical engineering at U of T,

but were determined to overcome this barrier.” Their financial situation became especially difficult this past year, he says, when his mother lost her job during the pandemic. “We considered part-time studies for my third year, which would disqualify me for co-op, but the bursary allowed me to continue full time,” he says.

The bursary, he says, also strengthened his confidence. “In my first year, I wrestled with my self-esteem and courage to step forward in a sea of very talented classmates.” The support, he says, helped him focus, rather than worry about how he was going to make ends meet. After graduating, Shi hopes to continue to explore innovation at the intersection of engineering and medicine.

Building the Tools to Carry on Traditions

Robin Margaret King Stonefish, Adult Education and Community Development, OISE

Through her academic work, Robin Margaret King Stonefish, an Anishinaabe with roots in the Henvey Inlet First Nation, is carrying on the tradition set by her auntie and mother. A doctoral student at OISE, she is the first-ever recipient of the **Bonnie Burstow Scholarship for Research into Violence Against Indigenous Women: In Memory of Helen Betty Osborne**.

King Stonefish’s research focuses on ways to help learners overcome obstacles they experience in studying their Indigenous language and culture. Her goal is to help eliminate systemic barriers within higher education for Indigenous women. “Bias, racism, and patriarchy have prevented Indigenous women from publishing and influencing

education, curriculum, and history,” says King Stonefish. “The writings of my elder, teacher, and aunt, Nellie Ashawasegai, were not published. They are the cornerstone of my studies—to share this work. She often told me that one day others will ask about our history, who we are as Anishinaabe, and what self-determination looks like in the contemporary context.”

King Stonefish’s research connects to customary practices of Indigenous families who carry knowledge—mostly in the oral tradition—for their communities. King Stonefish says she is deeply grateful for the award, not only for the welcome financial assistance, but because she admired Professor Burstow and her approach to research.



“Much of Dr. Burstow’s work ties in with further advocating for work that my aunt and my mom did—to be able to have it heard and have it be part of the greater discourse.”

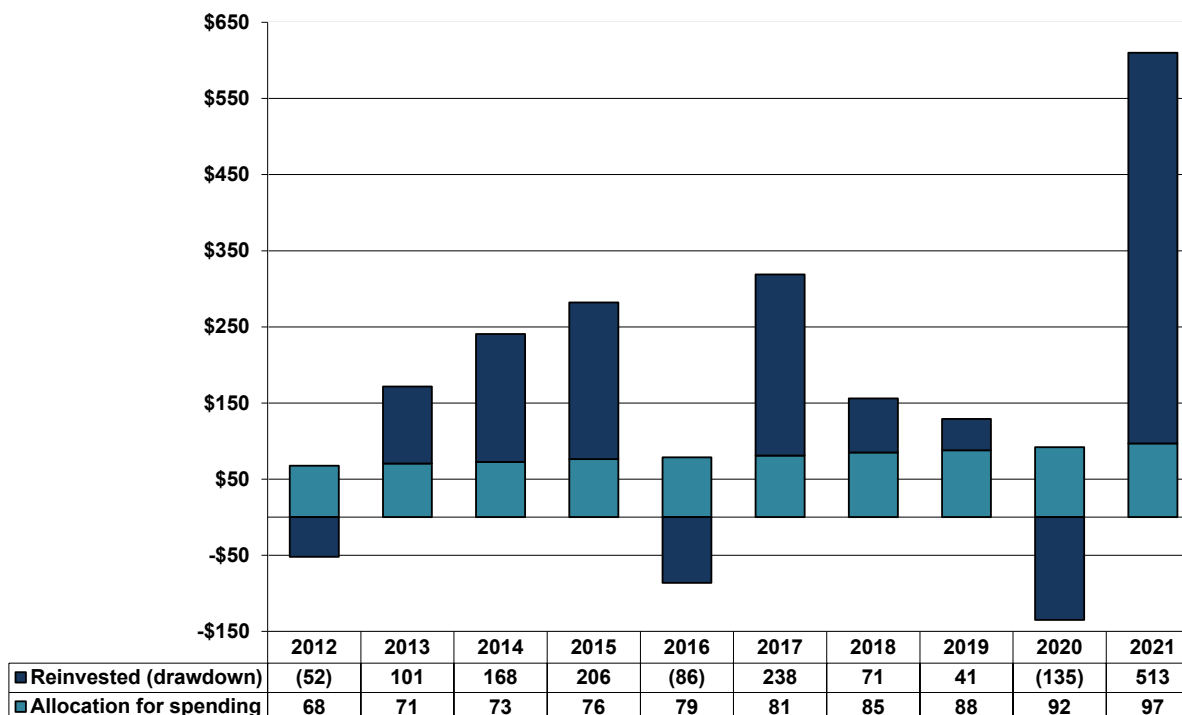
Allocation for Spending and Preservation of Purchasing Power

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, 2021 was 3.8%.

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

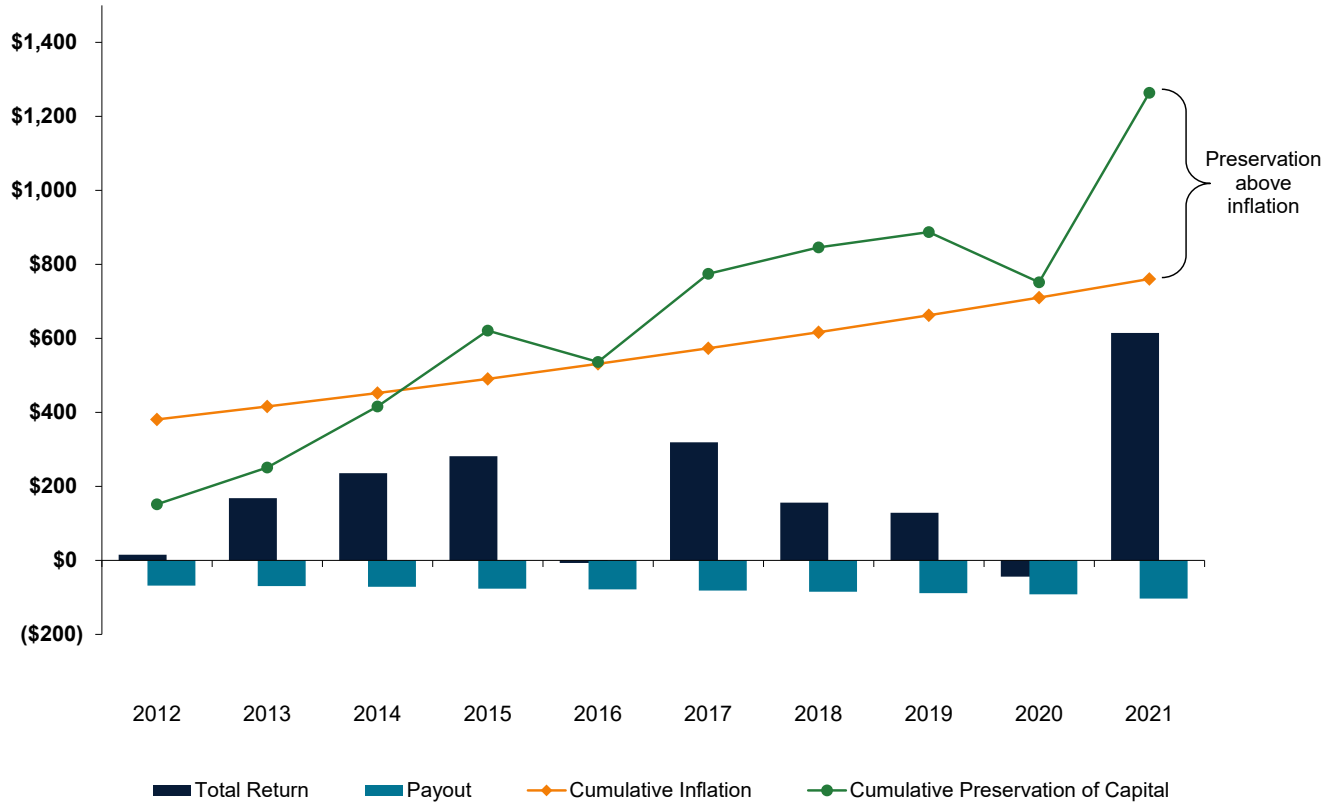
**Investment Income on Endowments (net of fees)
for the year ended April 30
(millions of dollars)**



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

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 3.8% for the year ended April 30, 2021 translated into a spending rate of \$8.51 per investment unit. The spending dollars pertaining to a particular endowment account are obtained by multiplying the spending rate of \$8.51 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, 2021 was 750 times \$8.51 or \$6,383.

Long-Term Capital Appreciation Pool (LTCAP) Investment Policy

Almost all of the University's endowments (99.5% 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 \$631 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 the 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, 2021 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.

Investment Management and Oversight

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

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

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

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

Long-Term Capital Appreciation Pool (LTCAP) Performance

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

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

LTCAP Performance - Comparing Actual Results, Target and Benchmark Returns				
	1-year Return - April 30, 2021	2-year Average Return - April 30, 2021	3-year Average Return - April 30, 2021	5-year Average Return - April 30, 2021
LTCAP actual investment returns	24.2%	11.4%	9.3%	10.0%
LTCAP target investment return (4% +CPI)	7.4%	5.6%	5.7%	5.8%
Reference Portfolio return	19.4%	10.0%	9.2%	9.4%
Difference between LTCAP actual and target	16.8%	5.8%	3.6%	4.2%
of which:				
the % attributable to investment markets	12.0%	4.4%	3.5%	3.6%
the % attributable to active management decision	4.8%	1.4%	0.1%	0.6%
	<u>16.8%</u>	<u>5.8%</u>	<u>3.6%</u>	<u>4.2%</u>

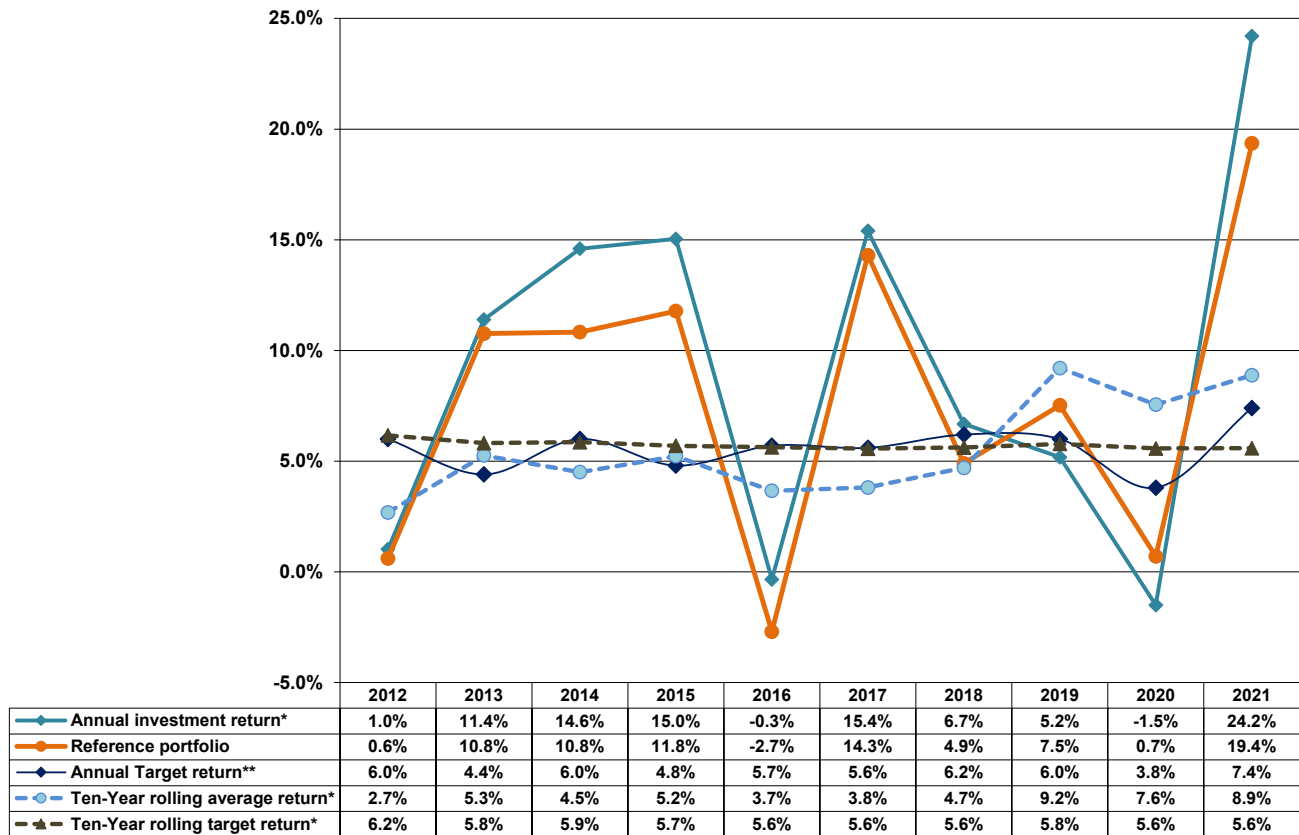
Note: all investment return percentages are net of investment fees and expenses.

As the table above shows, for the one-year period from May 1, 2020 to April 30, 2021, the target nominal investment return for the LTCAP was 7.4%, representing 4.0% real investment return and inflation of 3.4%, net of investment fees and expenses. The actual return for the year was 24.2%, which was above target by 16.8%. The actual return for the year was higher than the Reference Portfolio return (which is the benchmark return to indicate how markets performed) by 4.8% (24.2% minus 19.4%). This was mainly due to the outperformance of the public equity managers, the absolute return hedge fund managers and the alternative credit portfolio. 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, 2016 to April 30, 2021, the actual average return for the LTCAP was 10.0%. This actual average return was above the target average return of 5.8% by 4.2% (10.0% minus 5.8%), and it also exceeded the average Reference Portfolio benchmark return of 9.4% by 0.6% (10.0% minus 9.4%).

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

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



* 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, 2021, the University’s endowment value was \$3.2 billion with full inflation protection of \$761 million and a preservation of capital above inflation (provision for investment return fluctuation) of \$503 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.

Studying and Service Go Hand in Hand

Avery Lam-Hong, Health Sciences, UTM



Avery Lam-Hong has a lifelong dream to pursue a career in medicine. Currently in his third year studying health sciences at U of T Mississauga, Lam-Hong has combined his academic passion with a deep commitment to volunteering.

One of his proudest accomplishments, is serving as a team leader at UTM's International Education Centre. "Working with incoming international students, I help to ensure that their student experience is fulfilling and that they are exposed to the many opportunities to get involved, build their confidence, and foster connections on campus and within the community."

In recognition of his volunteer service, Lam-Hong received the **Rotary Club of Mississauga West "Service Above Self" Bursary**. The award recognizes those who have participated in volunteer activities that contribute to civic betterment, answer needs, or improve the quality

of life. "These are values that define me," he says. "The financial support has been critical to helping me continue my dreams of pursuing a medical career."

Lam-Hong says the bursary also gave him the freedom to pursue even more volunteer opportunities in the community. "Volunteering has always been close to my heart, and although I could use that time to work and be paid, community service and giving back is what I want to do. The bursary gives me room to pursue such opportunities."

Confidence in Uncertain Times

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

When the COVID-19 pandemic hit, Katherine Dolan was finishing high school and weighing her options for post-secondary education. Like many young people in her position, the decision was a confusing and stressful one. What would university look like? Was now the right time to begin a degree, or would it be better to wait until an on-campus experience would be possible?

Having received the **Scarborough Frank Faubert Scholarship**, she decided to go for it, and enrolled in the physical and environmental sciences co-op program at U of T Scarborough. "I was impressed by how I could take multiple programs from different disciplines," she says. Dolan plans to pursue the co-op program further with a focus on biochemistry and anthropology.

The Faubert Scholarship is awarded to students from Scarborough on the basis of academic merit. "Receiving this award provided me with great motivation and encouragement," says Dolan. "The scholarship alleviated the stress of affording the schooling necessary for pursuing a career in the increasingly competitive market and has made a difference in my journey." She says that having lost two jobs to the pandemic, "I was able to enter this year confidently with my focus on studying rather than wondering if starting up post-secondary was the economically right decision at this moment."

With a passion for the human past, she hopes to attend graduate school and have the opportunity to do fieldwork, curatorial studies, or other activities in history and anthropology.



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 2021 opening unit market value consist of the following:

	<u>2021</u> <u>in millions</u>	<u>2020</u> <u>in millions</u>
Investment related management fees		
External managers	\$ 27	\$ 21
UTAM	<u>3</u>	<u>2</u>
Total	<u>\$ 30</u>	<u>\$23</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, 2021 was 24.2% (net of fees and expenses).

	Total Value (in millions)	Unit Value (in dollars)	Number of Units
1) Endowments pooled in LTCAP:			
Opening balance at April 30, 2020	\$2,486	\$223.78	11,108,333
Contributions plus transfers	131		534,137
Investment income	645	56.62	
Fees and expenses	(30)	(2.62)	
Allocation for spending	<u>(97)</u>	<u>(8.51)</u>	
Closing balance at April 30, 2021	\$3,135	\$269.27	11,642,470
2) Specifically invested endowments:			
Opening balance at April 30, 2020	\$ 24	n/a	n/a
Investment income	1		
Withdrawals and transfers	<u>(10)</u>	n/a	n/a
Closing balance at April 30, 2021	\$ 15	n/a	n/a
Total endowments at April 30, 2021	<u>\$3,150</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 (\$269.27 at April 30, 2021) by the number of units held by that endowment account.

**University of Toronto
Endowments**

Audited Financial Information

April 30, 2021

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, 2021 and the statement of changes in net investments for the year then ended (together the "financial information"), and notes to the financial information, including a summary of significant accounting policies.

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

Basis for opinion

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

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

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

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

Auditor's responsibilities for the audit of the financial information

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

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

- Identify and assess the risks of material misstatement of the financial information, whether due to fraud or error, design and perform audit procedures responsive to

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

Toronto, Canada
June 24, 2021

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

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

	2021	2020
ASSETS		
Investments, at fair value <i>[note 3]</i>	3,449	2,658
Cash and cash equivalents <i>[note 4]</i>	(357)	(224)
Unrealized gains on derivative instruments <i>[note 3]</i>	57	78
Investment income and other receivables	3	3
	3,152	2,515
 LIABILITIES		
Unrealized losses on derivative instruments <i>[note 3]</i>	1	5
Other payables and accruals	1	
	2	5
 NET INVESTMENTS HELD FOR ENDOWMENTS	3,150	2,510
 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, 2021
(millions of dollars)

	<u>2021</u>	<u>2020</u>
INCREASE IN NET INVESTMENTS		
Endowed donations	124	34
Investment income	641	
Transfers from the University's unrestricted funds	2	18
Total increase in net investments	<u>767</u>	<u>52</u>
DECREASE IN NET INVESTMENTS		
Investment loss		20
Allocation for spending <i>[note 5]</i>	97	92
Fees and expenses <i>[note 6]</i>	30	23
Total decrease in net investments	<u>127</u>	<u>135</u>
Increase (decrease) in net investments during the year	640	(83)
Net investments held for endowments, beginning of year	<u>2,510</u>	<u>2,593</u>
Net investments held for endowments, end of year	<u>3,150</u>	<u>2,510</u>

(see notes to financial information)

University of Toronto Endowments

NOTES TO FINANCIAL INFORMATION

APRIL 30, 2021

1. Description

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

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

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

2. Summary of significant accounting policies and reporting practices

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

a) Investments

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

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

- i. Short-term notes and treasury bills are valued based on cost plus accrued interest, which approximates fair value. Money market funds are valued based on closing quoted market prices.
- ii. Bonds and publicly traded equities are valued based on quoted market prices. If quoted market prices are not available for bonds, estimated values are calculated

using discounted cash flows based on current market yields and comparable securities as appropriate.

- iii. Investments in pooled funds (other than private investment interests and hedge funds) are valued at their reported net asset value per unit.
- iv. Hedge funds are valued based on the most recently available reported net asset value per unit, adjusted for the expected rate of return through April 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value.
- v. Private investment interests consisting of private investments and real assets are comprised of private externally managed pooled funds with underlying investments in equities, debt, real estate assets, infrastructure assets and commodities. The investment managers of these interests perform valuations of the underlying investments on a periodic basis and provide valuations. Annual financial statements of the private investment interests are audited and are also provided by the investment managers. The value of the investments in these interests is based on the latest valuations provided (typically December 31), adjusted for subsequent cash receipts and distributions from the fund, and cash disbursements to the fund through April 30. The University believes that the carrying amount of these financial instruments is a reasonable estimate of fair value. Because private investments are not readily traded, their estimated values are subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.
- vi. Real estate directly held by the University for investment purposes is originally valued at cost and, when donated, at the value determined through an appraisal process at the date of donation. Subsequently, real estate is valued at cost less any provision for impairment.

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

b) Derivative financial instruments

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

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

c) Investment income

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

d) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the financial information date. Purchases and sales of investments and revenue and expenses are translated at exchange rates in effect on the dates of such transactions.

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

e) Other financial instruments

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

3. Investments

Most of the funds associated with the University's endowments are invested in LTCAP. These funds represent 83.3% (2020 – 83.3%) of the total LTCAP investments. Other investments represent investments held outside LTCAP mainly due to donors' specific instructions.

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

The table below shows the University's investments at fair value, mapped into the Reference Portfolio asset classes. The fair values of investments set out below include the proportionate share of the investments in these categories held in LTCAP and securities held outside LTCAP for the University's endowments.

(millions of dollars)

	April 30, 2021			April 30, 2020		
	LTCAP	Other	TOTAL	LTCAP	Other	TOTAL
Short-term investments	(351)	(6)	(357)	(225)	1	(224)
Government and corporate bonds	1,209	1	1,210	952	5	957
Canadian equities	53	1	54	84	1	85
United States equities	681	1	682	409	1	410
International equities	306		306	247		247
Emerging markets equities	156		156	147		147
Global equities	697		697	591		591
Other	327	17	344	204	17	221
Total	3,078	14	3,092	2,409	25	2,434
Less amounts reported as cash and cash equivalents	351	6	357	225	(1)	224
Investments	3,429	20	3,449	2,634	24	2,658

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.

(millions of dollars)

	April 30, 2021			April 30, 2020		
	LTCAP	Other	TOTAL	LTCAP	Other	TOTAL
Short-term investments	981	(6)	975	770	1	771
Government and corporate bonds	161	1	162	148	5	153
Canadian equities		1	1		1	1
United States equities		1	1		1	1
International equities	168		168	113		113
Emerging markets equities	92		92	88		88
Global equities	622		622	418		418
Hedge funds	473		473	324		324
Private investments	522		522	494		494
Real assets	59	17	76	54	17	71
Total	3,078	14	3,092	2,409	25	2,434

During the year, \$11 million of LTCAP's proportionate share of investment gain (2020 - \$4 million) related to endowments was recognized as a result of the change in fair value of its investments that were estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates for certain of its investments. Management believes there are no other reasonable assumptions for these investments that would generate any material changes in investment income.

Uncalled commitments

As at April 30, 2021, approximately 16.9% (2020 – 20.8%) 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, 2021, the endowments had uncalled commitments of approximately \$434 million (2020 - \$418 million). The capital committed is called by the manager over a pre-defined investment period, which varies by fund but is generally about three to five years from the date the fund closes. In practice, for a variety of reasons, the total amount committed to a fund is very rarely all called.

Derivative financial instruments

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

fluctuations on investments denominated in foreign currencies in accordance with its hedging policy (see financial risk and risk management).

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

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

Contracts	(millions of dollars)					
	April 30, 2021			April 30, 2020		
	Notional value	Fair values		Notional value	Fair values	
	Unrealized gains	Unrealized losses		Unrealized gains	Unrealized losses	
Foreign currency forward						
United States dollars	721	16		412	8	
Other	311	13		213	1	
Equity and bond futures	99			68	4	(5)
Equity and bond swap	1,297	28	(1)	985	65	
	2,428	57	(1)	1,678	78	(5)

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, 2021 range from May to September 2021. The maturity dates of the equity and bond swap contracts as at April 30, 2021 range from May to April 2022. Required collateral of \$3 million (2020 - \$7 million) has been provided to the relevant exchanges against the futures contracts as of April 30, 2021 in the form of short-term investments. Before fiscal 2020, the University typically held liquid assets to fully support the derivative financial instrument contracts (other than foreign currency forward contracts) with a fair value approximately equal to the net notional value of the derivative contracts resulting in little to no leverage due to these investments. As at April 30, 2021, the University had

\$981 million (2020 - \$770 million) in short-term investments compared to the \$1.4 billion (2020 - \$1.1 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 2021, the benchmark policy for the LTCAP is to hedge 50% (2020 – 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, 2021, the fair value of endowments invested in the LTCAP that are denominated in foreign currency was \$1.9 billion (2020 - \$1.5 billion), of which \$822 million (2020 - \$604 million) was hedged.

Credit risk

Endowments are exposed to credit risk in connection with its fixed income investments and derivative contracts because of the risk of a financial loss caused by a counterparty's potential inability or unwillingness to fulfill its contractual obligations. To manage the credit risk exposed from direct bond holdings or from the use of derivatives, fixed limits are established for individual counterparties and these are monitored regularly. The University invests the majority of its fixed income in high-grade securities. As at April 30, 2021, 27% (2020 - 23%) of the endowments' bond exposure from derivative instruments and direct fixed income investments had credit ratings of A or lower.

Interest rate risk

Endowments are exposed to interest rate risk with respect to its investments in bonds. At April 30, 2021, the fair value of total investments in bonds was \$1,210 million (2020 - \$957 million), composed of \$8 million (2020 - \$13 million) of bonds directly held by the University, \$425 million (2020 - \$397 million) of bonds indirectly held through pooled funds and \$777million (2020 - \$547 million) of notional bond exposure arising from derivative financial instruments. This risk is managed by having a benchmark Reference Portfolio, which reflects the University's risk appetite, and by monitoring actual risk against the risk of the Reference Portfolio.

Liquidity risk

Endowments are exposed to liquidity risk if it does not maintain sufficient liquidity to manage its obligations associated with its derivative financial instruments, the funding of calls from private market funds and the annual LTCAP distribution for spending. The University has developed a system that models the potential liquidity needs of the LTCAP under stressed market conditions. This helps ensure that adequate cash and other sources of liquidity are available to meet all liquidity needs over an extended period. The

same modelling analysis ensures that the University can, if necessary, rebalance LTCAP's asset mix to match the target asset class weights of the Reference Portfolio.

Other price risk

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

4. Cash and cash equivalents

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

5. Allocation for spending

The allocation for spending is governed by the University's preservation of capital policy, the purpose of which is to ensure that the rate of growth in the capital value of endowments matches or exceeds the rate of inflation over time. This policy limits the amount of income made available for spending and requires the reinvestment of excess income. The target allocation for spending is 3% to 5% of the opening market value. The actual endowment allocation for the year ended April 30, 2021 was 3.8% (2020 - 3.5%) of the opening market value of endowments.

6. Fees and expenses

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

	(millions of dollars)	
	<u>2021</u>	<u>2020</u>
Investment management fees		
External managers	27	21
University of Toronto Asset Management Corporation	<u>3</u>	<u>2</u>
Total	<u>30</u>	<u>23</u>

7. COVID-19

In March 2020, the World Health Organization declared the spread of coronavirus ("COVID-19") to constitute a global pandemic. This has resulted in governments worldwide enacting emergency measures to combat the spread of the virus including travel restrictions in and out of and within Canada, barring gathering of people and requirements to stay at home. These restrictions impacted global commercial and financial activities. This led to significant volatility and declines in the global public equity markets towards the end of fiscal 2020. These markets subsequently recovered their losses and continued to generate strong returns through the remainder of fiscal 2021,

resulting in strong returns for the University's investments. It is uncertain whether market volatility relating to COVID-19 will occur again in the near future.

As at April 30, 2021, no significant adjustments were made to the endowments' investments to reflect the possible future impact of COVID-19. Investments are recorded at fair value which included the impact on financial markets as at year-end and extra emphasis was put on the collectability of receivables and other estimates within the financial statements as at April 30, 2021.

