
Endowment Report

2021–2022



UNIVERSITY OF
TORONTO

DEFY
GRAVITY

“Your contributions are central to U of T’s pursuit of excellence today and into the future. These gifts provide life-changing opportunities for our students and allow our scholars to pursue research and deliver teaching in a vast range of fields that will have a lasting, positive effect on our communities—and the world. Thank you for supporting U of T’s mission to create a more equitable, sustainable, and caring world.”

David Palmer

Vice-President, Advancement



HIGHLIGHTS

Year Ended April 30, 2022
(with comparative figures at April 30, 2021)
(millions of dollars)

	2022	2021
<u>Total Endowments:</u>		
Fair value	\$ 3,167	\$ 3,150
Change from previous year:		
Endowed donations	\$ 57	\$ 124
Transfers from University's unrestricted funds	\$ 23	\$ 2
Investment income	\$ 85	\$ 641
Fees and expenses	\$ (38)	\$ (30)
Allocation for spending	\$ (110)	\$ (97)
Total change for the year	\$ 17	\$ 640

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

Proportion invested in LTCAP	99.35%	99.54%
Number of units in LTCAP	11,911,777	11,642,470
Fair value in millions	\$ 3,146	\$ 3,135
Fair value per unit in dollars	\$ 264.12	\$ 269.27
Allocation for spending per unit in dollars	\$ 9.36	\$ 8.51
LTCAP time-weighted net returns*	1.5%	24.2%

*Returns net of investment fees and expenses.

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EXECUTIVE SUMMARY

The University of Toronto (“U of T” or the “University”) is one of the world’s foremost research-intensive universities, and the largest and most comprehensive university in Canada. It has educated hundreds of thousands of students and enjoys a global reputation for research excellence in multiple fields of scholarship. U of T is ranked 18th globally in the Times Higher Education World University Rankings for 2022¹, placing it 8th among global public universities and making it the 2nd highest-ranked public university in North America. U of T is one of only seven universities to rank among the top 30 institutions in all 11 subjects in the Times Higher Education ranking, demonstrating the depth and breadth of the university’s excellence. The other six universities to achieve this standing are Stanford University, Harvard University, the University of California Berkeley, Cambridge University, the University of Michigan, and the University of California Los Angeles (UCLA).

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

All fundraising conducted on behalf of the University’s faculties, colleges, schools, and divisions is done in service to academic plans and priorities approved by the Provost with the involvement of principals, deans and faculty. Endowed gifts from alumni and friends enable U of T to offer financial support to exceptional students, attract outstanding professors and researchers, and create unique and innovative programs. Endowed gifts are indispensable to our pursuit of excellence, equity and global impact as they provide a permanent and stable source of funding for scholarships, chairs and other vital priorities. As of April 30, 2022, the size of the university’s endowment was \$3.2 billion, the majority of which was in support of student aid (\$1.4 billion), chairs and professorships (\$929 million), and research and teaching programs (\$880 million).

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

Since January 1, 2019, the Defy Gravity campaign has seen significant growth in fundraising momentum and alumni engagement, reaching record levels in 2021. For the period May 1, 2021 to April 30, 2022, the University raised a total of \$410 million, including \$365 million in pledges and gifts (donations) and \$45 million in philanthropic research grants from non-government sources. This is the second consecutive year that the University has raised over \$400 million towards its campaign goals.

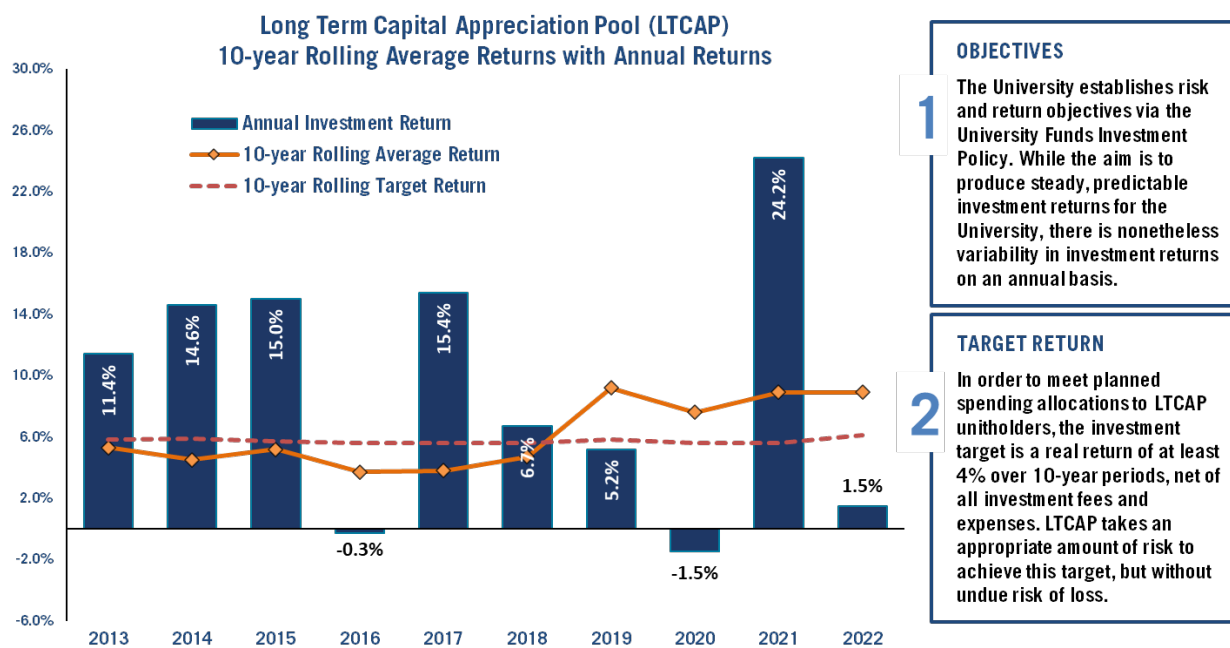
¹ <https://www.timeshighereducation.com/world-university-rankings/2022>

This report summarizes the performance, management and impact of the university’s endowments over the past fiscal year. At April 30, 2022, there were more than 6,900 individual endowment funds, supported by an agreement between the University and a donor, or reflecting a collection of small donations with common objectives.

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

As of April 30, 2022, the university’s \$3.2 billion endowment included an inflation-adjusted book value of \$2.78 billion, plus a reserve of \$386 million to protect the value of the endowment against a possible future market downturn.

To fund spending allocations and to preserve capital against inflation over time, the University has set an investment objective of a 4% real return over 10-year periods, net of all investment fees and expenses, while taking an appropriate amount of risk to achieve this target without undue risk of loss. The actual return in 2022 was a gain of 1.5%. Fiscal 2022 was a challenging period for capital markets, driven primarily by geopolitical concerns and rising inflation. However, the ten-year average annual return remains strong at 8.9%, allowing for an endowment spending allocation (“payout”) of 4.2% (2021 – 4.0%) of the ten-year average market value of the endowment pool.



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

Endowments are managed in a unitized pool. Almost all of the University’s individual endowment funds hold units in this unitized investment pool, entitled the Long-Term Capital Appreciation Pool (LTCAP). Each endowment account holds units in LTCAP that reflect the number of dollars contributed and the unit value as of the date of contribution. For the year ended April 30, 2022, the net impact of

investment returns, fees and expenses, and allocation for spending resulted in a decrease in the market value of each unit from \$269.27 at April 30, 2021 to \$264.12 at April 30, 2022.

Unit market value at April 30, 2021	\$269.27
Investment income per unit	7.73
Fees and expenses	(3.52)
Endowment spending allocation	(9.36)
Unit market value at April 30, 2022	\$264.12

The market value of a particular endowment account is obtained by multiplying the value per unit by the number of units in the endowment account. For example, if an endowment account holds 750 units, the market value of the endowment at April 30, 2022 was 750 times \$264.12 or \$198,090.

INTRODUCTION

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

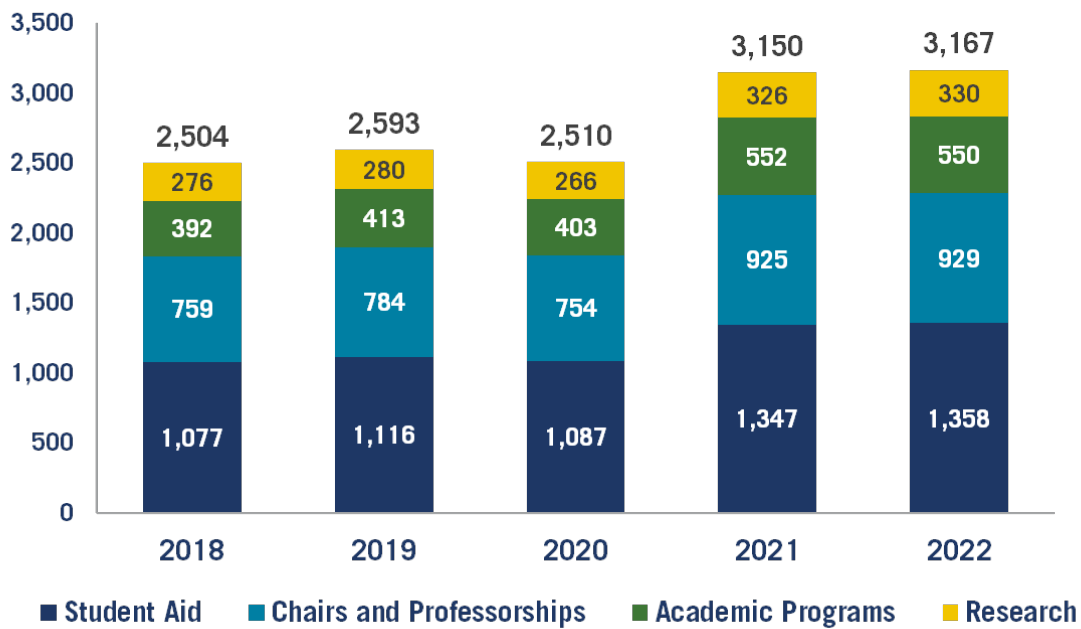
Endowments are restricted funds which must be used in accordance with purposes specified by donors or by Governing Council. Endowments are not available for use in support of general operating activities. They are subject to restrictions relating both to capital and to investment income. Endowment funds held by the University of Toronto are subject to the University's preservation of capital policy, the purpose of which is to ensure that the rate of growth in the capital value of the endowments matches or exceeds the rate of inflation over time. Endowments include externally restricted endowment funds (85.8%) and internally restricted endowment funds designated as endowments by the University's Governing Council in the exercise of its discretion (14.2%).

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

Almost all endowments, approximately 99.3% of fair value are invested in the University's Long-term Capital Appreciation Pool (LTCAP). At April 30, 2022, there were over 6,900 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, 2022. This was an increase of \$17 million over the previous year. This increase was comprised of:

Additions of:

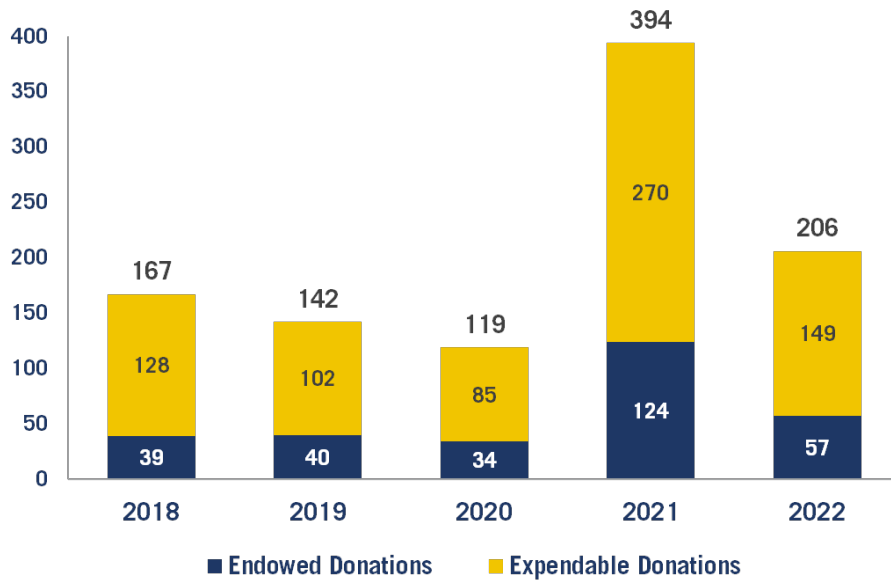
- \$85 million of investment income
- \$57 million of endowed donations and grants, and
- \$23 million of transfers from the University’s unrestricted funds to endowments.

Minus:

- \$110 million of allocation for spending and
- \$ 38 million of fees and expenses.

The following graph shows endowed donations and expendable donations received since 2018. 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)



Endowed donations represented 27.7% of total donations (\$206 million) received by the University in 2022. 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 2021, U of T ranked 22nd in terms of size. Including the endowments of the federated universities, U of T ranked 16th in terms of size. If we were to compare the endowment per FTE student with the same institutions, the University would rank lower since most of these institutions have a smaller number of FTE students.

Student Biographies



Planning Equitable Communities

Priscilla Ankomah-Hackman, MSc in Planning, Faculty of Arts & Science

Priscilla Ankomah-Hackman is in her second year of a master's in planning. She's passionate about making positive impacts in her field by working with racialized communities. Priscilla received the **Friends of Planning Graduate Scholarship for Innovation** to pursue these efforts. "Helping Black and racialized communities bridge the inequality gaps in housing, transportation, health, and social infrastructure has always been in my heart," she says. "This award has propelled me to go out of my way to volunteer and continue supporting and working towards eradicating systemic and

racial inequities in our neighbourhoods, cities, and the country at large." The award, she says, has also given her time to advocate for Black communities and to support and educate Black high school students on pursuing degrees and careers in planning. She hopes to establish an organization comprised of young Black planners focused on educating Black high school students on the prospects of planning as a profession. "I want to contribute to knowledge in the field, especially on issues related to social justice, equity, diversity, and inclusion as it relates to creating livable communities."



New Beginnings

Omer Malik Yar, BA in Political Science and Canadian Studies, Faculty of Arts & Science

Omer came to Canada—and U of T—as a refugee from Afghanistan three years ago and began his pursuit of a degree in political science and Canadian studies in the Faculty of Arts & Science. He is currently in his third year of study. "It was a dream of mine to study at U of T and I'm so grateful to be here," he says. "As a student and newly immigrated person, I faced major financial challenges. With the outbreak of COVID, these challenges became even bigger." Financial support, he says, including the **OSOTF – Joint Initiative in German and European Studies Student Fellowships and Travel Awards**

and a **William Waters Award**, enabled him to focus more on his studies and worry less about the financial difficulties. "Due to COVID, I lost my part-time job. The awards gave me great relief and a feeling like someone cared." After taking a summer course on immigration, Omer became interested in the challenges that migrants and refugees like himself face in resettlement. "It allowed me to volunteer with a group for Afghan newcomers who flee war and persecution." The work has also stirred Omer's interest in pursuing a career in immigration law.

A Passion for Music and Mental Health

Delicia Raveenthirarajan, BA in Mental Health Studies, Music and Culture, and Psychology, U of T Scarborough

Delicia's passions lie at the intersection of music education, well-being, and anti-oppressive practice. She's nurturing these interests by working toward a double major in mental health studies and music and culture, with a minor in psychology at U of T Scarborough. Pursuing her degree has been challenging financially, but Delicia has been the recipient of a number of awards to help her along the way, including the **Canadian Federation of University Women – Scarborough**, the **AI Mercury Scholarship**,

and the **Lawrence B. Leverington Mentor Award**. "These awards made it possible for me to fund the third year of my degree in full," she says. "My financial needs were substantial last year. It is amazing that there are these opportunities for those like me who are passionately pursuing their education." Delicia hopes to do graduate work to continue her research interests in music education and well-being as well as accessible community-engaged music-making.



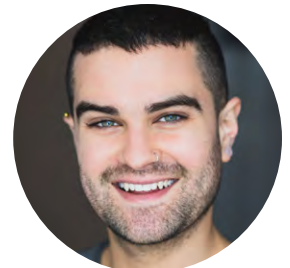
Amplifying Queer Issues, Voices, and Art

Elliott Tilleczek, PhD in Anthropology and Sexual Diversity Studies

Elliott Tilleczek is a graduate student in their fourth year of a PhD in Anthropology and Sexual Diversity Studies. Elliott began their U of T career studying visual arts, English, and anthropology. They stayed at U of T for graduate work because of its world-renowned anthropology program.

The David Rayside Graduate Student Award has been vital to Elliott's ability to fund their research. "The award has allowed me to pursue research on queer social media movements and queer online activists and extend some funding

to my personal community-based activist arts projects," says Elliott. "COVID made funding and work hard to come by; the award has helped me to continue my research and projects, specifically my podcast, *Do You Queer What I Queer?*" Elliott's podcast was voted Best Toronto Podcast by NOW Magazine. Elliott hopes to work as a professor and participate in community-based activism, educate people on LGBTQ+ experiences and issues, and create queer art and uplift queer artists.



Setting his Sights

Art K.Y. Yeo, B Comm, U of T Mississauga

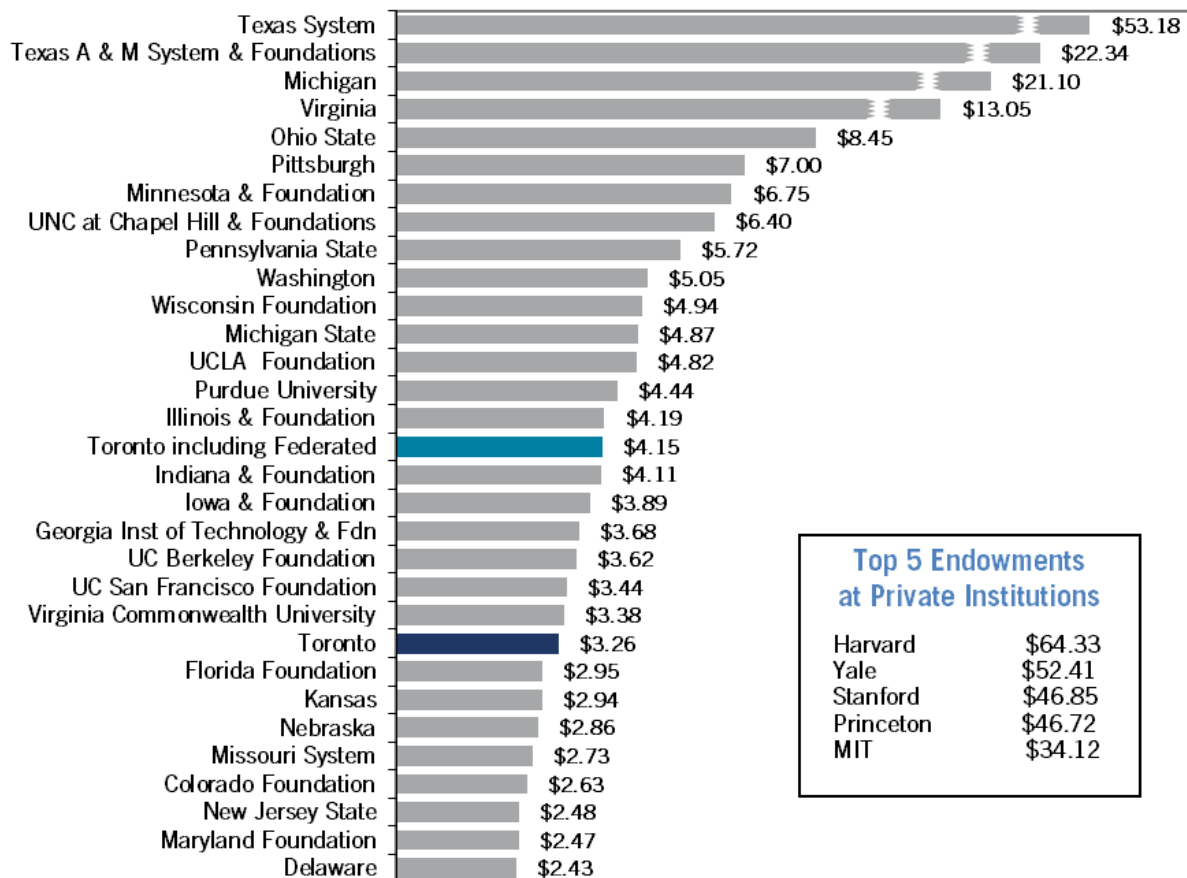
Art grew up in Malaysia and came to U of T Mississauga to pursue his dream of launching a career in finance. He has just completed his final year of UTM's Bachelor of Commerce, Finance Specialist program. Art held several volunteer roles while completing his degree, including acting as an auditor in the IMI Business Association, hosting a finance competition event, and volunteering for BizMentorship sessions for first-year students. Support from a variety of endowed awards, including the **Gary and Brenda Mooney Award** and a **Bennett Scholarship**, made a major difference for him. "These

awards gave me the space to do what I love doing — helping and volunteering," he says. "I am so proud of my volunteering and having the opportunity to help familiarize first-year students with the campus and with the commerce program." Now that he has completed his degree, Art hopes to land in the finance industry and explore opportunities at the intersection of finance and technology. "I have a particular interest in improving the customer's experience in the finance industry and making it a more human space that treats everyone equally, regardless of wealth."



Top 30 Endowments at Public Institutions

As at June 30, 2021
(in billions)



Source: 2021 NACUBO Endowment Study converted to Canadian dollars at an exchange rate of 1.2394

ALLOCATION FOR SPENDING AND PRESERVATION OF PURCHASING POWER

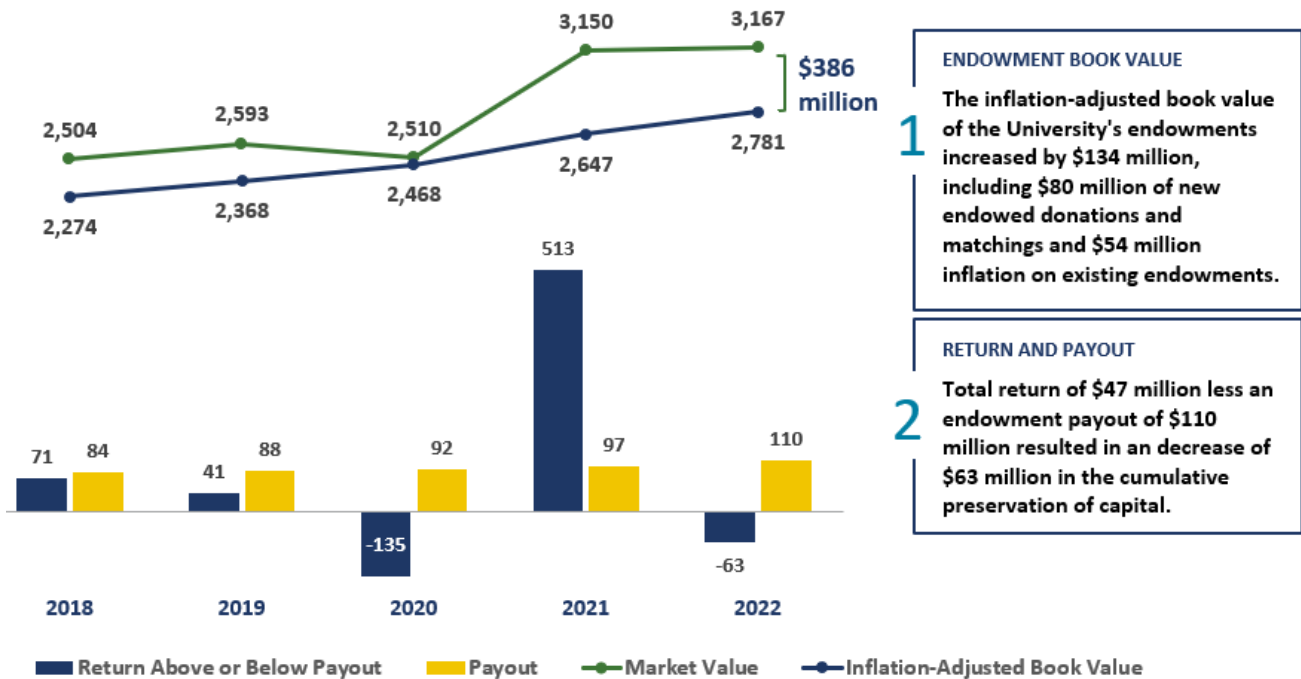
Endowments provide a strong base of funding for student aid, for endowed chairs, for research and for academic programs in support of the University's academic mission.

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

market value and the actual endowment spending allocation for the year ended April 30, 2022 was 4.2% of the ten-year average fair value per unit of the endowment pool.

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

Endowment Market Value, Preservation of Capital, Return, and Payout
for the year ended April 30 (\$ millions)



Almost all of the University's endowments (99.3% of fair value) are invested in LTCAP, a unitized pool. Each endowment account holds units in the investment pool. The fair value of an LTCAP unit is set each month, representing the market value of investments of the LTCAP divided by the total number of units held. Each endowment account has an assigned book value (nominal amount of dollars contributed to the endowment) and an allocation of LTCAP units based on the number of dollars contributed and the unit value on the dates of contribution.

The spending allocation of 4.2% for the year ended April 30, 2022 translated into a spending rate of \$9.36 per investment unit. The spending dollars pertaining to a particular endowment account are obtained by multiplying the spending rate of \$9.36 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, 2022 was 750 times \$9.36 or \$7,020.

INVESTMENT MANAGEMENT AND OVERSIGHT

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

oversight and direction of UTAM. UTAM reports on the LTCAP investments under management to the University Administration and to the Business Board of the University of Toronto.

The University, through the Business Board of Governing Council, is responsible for establishing the investment return objective and specifying the risk tolerance for LTCAP, which reflect the liability requirements and are reviewed regularly. It is important to note that, while the aim of the risk and return objectives is to produce steady, predictable investment returns for the University, there is nonetheless variability in investment returns on an annual basis.

The University's investment policy for LTCAP in place at April 30, 2022 reflects the spending allocation target and the preservation of capital policy. It has set the real rate return objective of at least 4% over 10-year periods, net of all investment fees and expenses, while taking an appropriate amount of risk to achieve this target without undue risk of loss.

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

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

ENDOWMENT PORTFOLIO SUSTAINABILITY COMMITMENTS

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

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

To align with best practices and with methodologies recommended by the Net-Zero Asset Owner Alliance, UTAM will be calculating a baseline carbon footprint that includes both equities and corporate bonds, starting with holdings as at December 31, 2019. This process will serve as the anchor in measuring future carbon footprint reductions. Further disclosure on this methodology and the associated carbon footprint of the Endowment will be included in UTAM's 2021 Responsible Investing Report².

LONG-TERM CAPITAL APPRECIATION POOL (LTCAP) PERFORMANCE

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

The table below summarizes the actual LTCAP performance compared to both the target investment return and the Reference Portfolio return.

LTCAP Performance - Comparing Actual Results, Target and Benchmark Returns

	1-year Return - April 30, 2022	2-year Average Return - April 30, 2022	3-year Average Return - April 30, 2022	5-year Average Return - April 30, 2022
LTCAP actual investment returns	1.5%	12.3%	7.5%	6.9%
LTCAP target investment return (4% +CPI)	10.8%	9.1%	7.3%	6.8%
Reference Portfolio return	-4.2%	6.9%	4.8%	5.4%
Difference between LTCAP actual and target of which:	-9.3%	3.2%	0.2%	0.1%
the % attributable to investment markets	-15.0%	-2.2%	-2.5%	-1.4%
the % attributable to active management decision	<u>5.7%</u>	<u>5.4%</u>	<u>2.7%</u>	<u>1.5%</u>
	-9.3%	3.2%	0.2%	0.1%

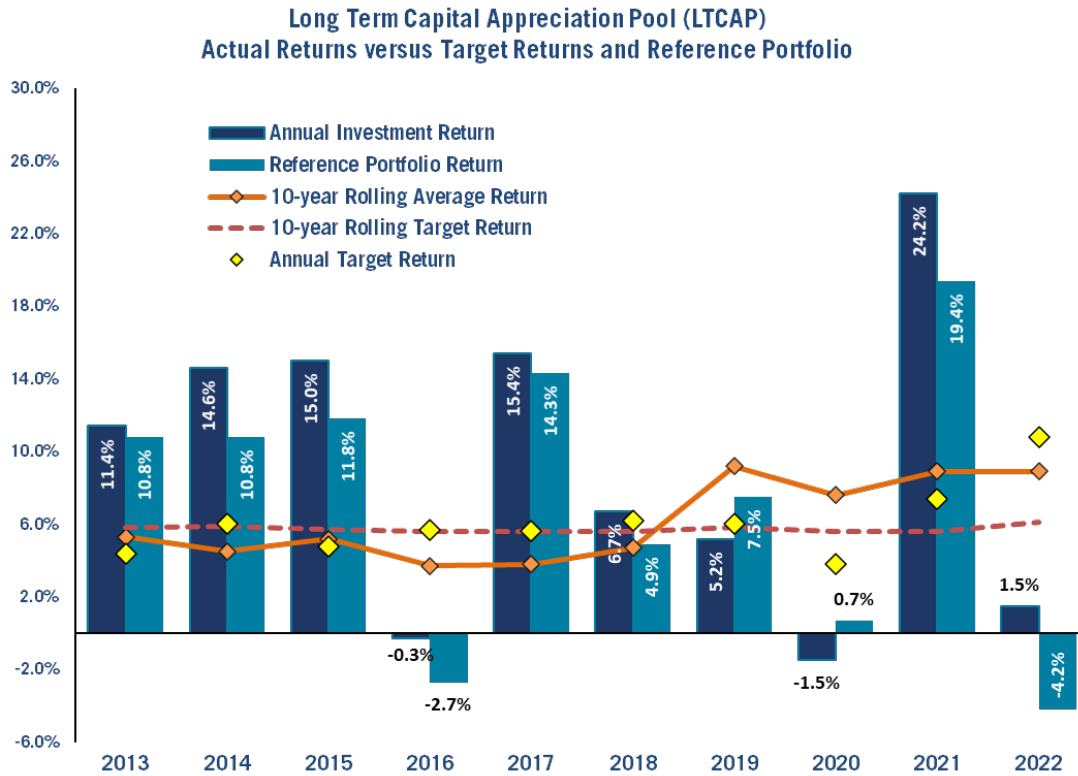
Note: all investment return percentages are net of investment fees and expenses.

For the one-year period from May 1, 2021 to April 30, 2022, the target nominal investment return for the LTCAP was 10.8%, representing 4.0% real investment return and inflation of 6.8%, net of investment fees and expenses. The actual return for the year was 1.5%, which was below target by 9.3%. However, the actual return for the year was higher than the Reference Portfolio return by 5.7% (a 1.5% gain less the benchmark loss of 4.2%). Fiscal 2022 was a challenging period for capital markets, driven primarily by geopolitical concerns and rising inflation. Despite realizing strong returns for the first eight months of the fiscal year, a significant market downturn for the last four months of the fiscal year resulted in the benchmark index returns of all three Reference Portfolio asset classes (i.e., equities, credit and

² <https://www.utam.utoronto.ca/reports/responsible-investing-reports/>

government bonds) generating negative returns over the entire period. It is important to emphasize that all of the return percentages are net of investment fees and expenses.

The following graph shows the results of the investment returns over 10-year periods.



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

** Target return is 4.0% plus CPI.

At April 30, 2022, the University’s endowment value was \$3.2 billion (book value of \$2.78 billion with full inflation protection of \$814 million) and a preservation of capital above inflation (provision for investment return fluctuation) of \$386 million against any possible future market downturn.

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

FEES AND EXPENSES

Fees and expenses set out below represent the endowments’ proportionate share of the expenses allocated to LTCAP. Fees and expenses amounting to 1.2% of the 2021 opening unit market value consist of the following:

	2022	2021
	in millions	in millions
Investment related management fees		
External managers	\$ 35	\$ 27
UTAM	3	3
Total	\$ 38	\$30

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

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

SUMMARY OF CHANGES IN FAIR VALUE

The total return on LTCAP for the year ended April 30, 2022 was 1.5% (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, 2021	\$3,135	\$269.27	11,642,470
Contributions plus transfers	74		269,307
Investment income	85	7.73	
Fees and expenses	(38)	(3.52)	
Allocation for spending	(110)	(9.36)	
Closing balance at April 30, 2022	<u>\$3,146</u>	<u>\$264.12</u>	<u>11,911,777</u>
2) Specifically invested endowments:			
Opening balance at April 30, 2021	\$ 15		
Investment income			
Contributions and transfers	<u>6</u>		
Closing balance at April 30, 2022	\$ 21		
Total endowments at April 30, 2022	<u>\$3,167</u>		

The fair value of each endowment account in LTCAP is determined by multiplying the current fair value of the unit (\$264.12 at April 30, 2022) by the number of units held by that endowment account.



University of Toronto Endowments Audited Financial Information

April 30, 2022

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, 2022 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 28, 2022

Ernst + Young LLP

Chartered Professional Accountants
Licensed Public Accountants

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

	2022	2021
ASSETS		
Investments, at fair value <i>[note 3]</i>	3,556	3,449
Cash and cash equivalents <i>[note 4]</i>	(373)	(357)
Unrealized gains on derivative instruments <i>[note 3]</i>	8	57
Investment income and other receivables	70	3
	3,261	3,152
 LIABILITIES		
Unrealized losses on derivative instruments <i>[note 3]</i>	93	1
Other payables and accruals	1	1
	94	2
 NET INVESTMENTS HELD FOR ENDOWMENTS	3,167	3,150
 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, 2022
(millions of dollars)

	2022	2021
INCREASE IN NET INVESTMENTS		
Endowed donations	56	124
Endowed grants	1	
Investment income	85	641
Transfers from the University's unrestricted funds	23	2
Total increase in net investments	165	767
DECREASE IN NET INVESTMENTS		
Allocation for spending <i>[note 5]</i>	110	97
Fees and expenses <i>[note 6]</i>	38	30
Total decrease in net investments	148	127
Increase in net investments during the year	17	640
Net investments held for endowments, beginning of year	3,150	2,510
Net investments held for endowments, end of year	3,167	3,150

(see notes to financial information)

University of Toronto Endowments

Notes to Financial Information

April 30, 2022

1. Description

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

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

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

2. Summary of significant accounting policies and reporting practices

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

a. Investments

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

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

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

- iii. Investments in pooled funds (other than private investment interests and hedge funds) are valued at their reported net asset value per unit.
- iv. Hedge funds are valued based on the most recently available reported net asset value per unit, adjusted for the expected rate of return through April 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value.
- v. Private investment interests consisting of private investments and real assets comprise 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 comprise 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 82.8% (2021 – 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, 2022			April 30, 2021		
	LTCAP	Other	TOTAL	LTCAP	Other	TOTAL
Short-term investments	(375)	2	(373)	(351)	(6)	(357)
Government, corporate bonds and fixed income instruments	1,289		1,289	1,209	1	1,210
Canadian equities	36	1	37	53	1	54
United States equities	722	1	723	681	1	682
International equities	276		276	306		306
Emerging markets equities	125		125	156		156
Global equities	676		676	697		697
Other	413	17	430	327	17	344
Total	3,162	21	3,183	3,078	14	3,092
Less amounts reported as cash and cash equivalents	375	(2)	373	351	6	357
Investments	3,537	19	3,556	3,429	20	3,449

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, 2022			April 30, 2021		
	LTCAP	Other	TOTAL	LTCAP	Other	TOTAL
Short-term investments	955	2	957	981	(6)	975
Government, corporate bonds and fixed income instruments	147		147	161	1	162
Canadian equities		1	1		1	1
United States equities		1	1		1	1
International equities	147		147	168		168
Emerging markets equities	69		69	92		92
Global equities	646		646	622		622
Hedge funds	541		541	473		473
Private investments	609		609	522		522
Real assets	48	17	65	59	17	76
Total	3,162	21	3,183	3,078	14	3,092

During the year, \$46 million of LTCAP's proportionate share of investment gain (2021 - \$11 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, 2022, approximately 20.8% (2021 – 16.9%) 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, 2022, the endowments had uncalled commitments of approximately \$575 million (2021 – \$434 million). The capital committed is called by the manager over a predefined investment period, which varies by fund but is generally about three to five years from the date the fund closes. In practice, for a variety of reasons, the total amount committed to a fund is very rarely all called.

Derivative financial instruments

Derivatives are financial contracts, the value of which is derived from changes in an underlying asset, index of prices or rates, interest rate, foreign exchange rate, etc. The University uses derivative financial

instruments as a substitute for traditional investments, to manage financial risks and to manage currency exposures. The University 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:

	(millions of dollars)					
	April 30, 2022			April 30, 2021		
	Notional value	Fair values		Notional value	Fair values	
Contracts	Unrealized gains	Unrealized losses	Unrealized gains	Unrealized losses		
Foreign currency forward						
United States dollars	1,397		(13)	721	16	
Other	305	7		311	13	
Equity and bond futures	96	1	(2)	99		
Equity and bond swap	1,324		(78)	1,297	28	(1)
	3,122	8	(93)	2,428	57	(1)

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, 2022 range from June to December 2022. The maturity dates of the equity and bond swap contracts as at April 30, 2022 range from May to October 2022. Required collateral of \$3 million (2021 – \$3 million) has been provided to the relevant exchanges against the futures contracts as of April 30, 2022 in the form of short-term investments. As at April 30, 2022, the University had \$955 million (2021 – \$981 million) in short-term investments compared to the \$1.4 billion

(2021 – \$1.4 billion) of notional value of equity and bond futures and equity and bond swap contracts. Leverage is used to add government bond exposure to the portfolio to enhance downside risk protection.

Financial risks and risk management

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

Foreign currency risk

Endowments are exposed to foreign currency risk from direct and indirect (e.g., pooled funds) investments that are denominated in currencies other than the Canadian dollar. Fluctuations caused by changes in the currency rates applied to these investments can result in a positive or negative effect on the fair value of the investments and on the cash flows from these investments. To manage foreign currency risk, the University has established a benchmark currency hedging policy for the LTCAP. In 2022, the benchmark policy for the LTCAP is to hedge 50% (2021 – 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, 2022, the fair value of endowments invested in the LTCAP that are denominated in foreign currency was \$2.0 billion (2021 – \$1.9 billion), of which \$1.0 billion (2021 – \$822 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, 2022, 26% (2021 – 22%) 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. As at April 30, 2022, the fair value of total investments in bonds was \$1,289 million (2021 – \$1,210 million), composed of \$7 million (2021 – \$8 million) of bonds directly held by the University, \$435 million (2021 – \$425 million) of bonds indirectly held through pooled funds and \$847 million (2021 – \$777 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 market value. The actual endowment allocation for the year ended April 30, 2022 was \$110 million (2021 – \$97 million), which represents 4.2% (2021 – 4.0%) of the ten-year average 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>2022</u>	<u>2021</u>
Investment management fees		
External managers	35	27
University of Toronto Asset Management Corporation	3	<u>3</u>
Total	<u>38</u>	<u>30</u>



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