UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 182 OF THE BUSINESS BOARD

June 17, 2010

To the Governing Council,
University of Toronto.

Your Board reports that it met on Thursday, June 17, 2010 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Mr. Richard Nunn, (In the Chair)
Ms Catherine J. Riggall, Vice-President, Business Affairs
Professor Angela Hildyard, Vice-President, Human Resources and Equity
Mr. Andrew Agnew-Iler
Mr. William Crothers
Ms Mary Anne Elliott
Mr. J. Mark Gardhouse
Mr. George E. Myhal
Ms Deborah Ovsenny
Mr. Tim Reid
Ms Jennifer Riel
Professor Arthur S. Ripstein
Mr. Olivier Sorin
Professor Janice Gross Stein
Mr. W. John Switzer

Mr. David Palmer, Vice-President, Advancement
Ms Sheila Brown, Chief Financial Officer
Ms Sally Garner, Executive Director, Planning and Budget
Ms Christina Sass-Kortsak, Assistant Vice-President, Human Resources

Mr. Neil Dobbs, Secretary

Regrets:

Mr. Steve (Suresh) Gupta
Ms Paulette L. Kennedy
Dr. Stefan Mathias Larson
Mr. Geoffrey Matus
Ms Florence Minz
Mr. Gary P. Mooney
Ms Melinda Rogers
Mr. Stephen C. Smith
Mr. John Varghese
Mr. W. David Wilson

In Attendance:

Mr. Julian Binks, Director of Planning and Estimating, Capital Projects, Real Estate Operations Department
Ms Elizabeth DiDonato, Executive Director, Research Oversight and Compliance Office
Dr. Anthony Gray, Special Advisor to the President
Mr. Anwar Kazimi, Committee Secretary, Office of the Governing Council
Professor George Luste, President, University of Toronto Faculty Association
Mr. Steven L. Moate, Senior Legal Counsel
Ms Gillian Morrison, Assistant Vice-President, Divisional Relations and Campaigns
Mr. Henry T. Mulhall, Assistant Secretary, Office of the Governing Council
Mr. Pierre G. Piché, Controller and Director, Financial Services

REPORT NUMBER 182 OF THE BUSINESS BOARD – June 17, 2010

ITEMS 2, 3, AND 8 CONTAIN RECOMMENDATIONS TO THE GOVERNING COUNCIL FOR APPROVAL.

1. Report of the Previous Meeting

Report Number 181 (April 26, 2010) was approved.

2. Audited Financial Statements, April 30, 2010

The Chair stated that the audited financial statements were before the Board for consideration and recommendation to the Governing Council for approval. The remainder of the Financial Report – the Financial Highlights and the Supplementary Report – was presented for information.

Mr. Myhal reported that the Audit Committee had met the previous day to carry out various business including a review of the annual report on risk management and insurance and the annual report on borrowing (both appearing later on the Board agenda). The main focus of the Committee's attention was, however, the University's audited financial statements for the fiscal year ended April 30, 2010. At its meeting in May, the Committee had reviewed the notes to the statements. At its meeting the previous day, the Committee had reviewed the final draft of the statements in considerable detail. Management had done an outstanding job on the statements and had produced them very rapidly after the year end. The statements had been examined by the external auditors, whose clean opinion on them was included in the Financial Report.

Ms Brown thanked Mr. Piché and his team, as well as the external and internal auditors, for their remarkable achievement in producing April 30 financial statements for a very large and very complex organization in time for the Board's meeting in mid-June. They had achieved that feat regularly over the past many years, making it look almost routine. However, it required many long hours of very hard work, including many late nights' work. Ms Brown reviewed the year's financial results.

- **Effect of recent developments on the financial statements**. The University had increased its enrolment by almost 45% in the past decade. That had been reflected by growth in revenue from additional government grants and tuition fees. It had, however, also necessarily incurred increased expenditures for additional faculty and staff to serve the greater number of students. In addition, it had required the addition of space to provide the facilities needed to teach those students. Because the University did not receive sufficient public funding and donations to add the additional space, it had been necessary to borrow money. The cost of the additional space had been reflected in the University's total assets and the additional debt had been included in its total liabilities on the balance sheet. The other key factors in increasing revenue and net assets were fundraising returns and investment returns. The effect of positive or negative investment returns usually made the difference between the University's having a positive net income for the year or a negative net income.

2. Audited Financial Statements, April 30, 2010 (Cont'd)

- **Revenues and expenses**. Revenues for the year amounted to about $2.2-billion, which was fairly closely matched by expenses. The outcome for the year was a net income of $45.4-million, representing a slightly better than break-even position. That outcome was a clear improvement over the previous year's loss of $169.2-million, in a year with a negative investment return. For 2009-10, the positive outcome was the result of a positive investment return, albeit offset by the expense required to account for a portion of unfunded employee future benefits.

  Revenue had grown over the past ten years from $1.042-billion to last year's $2.211-billion. The most substantial elements in that growth were the increased revenue from student fees and government grants, reflecting the large growth in enrolment over the decade.

  There had been comparable growth in expenses, with a 34% increase in the size of the employee – faculty and staff – complement. The increase in salary and benefits cost also reflected the increase in salary levels that had arisen from various collective agreements. There had also been a significant increase in the cost of employee future benefits, particularly in 2009-10. (The cost of employee future benefits was accrued in the year they were earned. However, the liability for such benefits earned before the 2001 requirement to accrue that cost was being brought into the total accrual over a fourteen-year period.)

- **Financial position of the University as at April 30, 2010**. The net assets of the University as at the year-end amounted to $1.80-billion. Total assets were $4.29-billion. Liabilities, excluding deferred contributions, were $1.25-billion. The largest element of the liabilities was the University's long-term borrowing for its capital program – construction and renovation of buildings to accommodate its increased enrolment. In addition, on the liability side of the balance sheet was $1.24-billion of deferred contributions. That represented (a) expendable money provided to the University for stated purposes but not yet spent, and (b) capital funds provided for buildings, where the spending had not yet been amortized (depreciated). The large amount of deferred capital contributions reflected the large amount of capital funding that had been provided to the University to support the construction of facilities to enable its enrolment growth.

  Almost 80% of the University's $1.80-billion of net assets was represented by its endowment funds. The $1.44-billion of endowed funds had grown substantially since the previous year.

  The second component of net assets was the internally restricted net assets of $136.4-million. The internally restricted net assets included three major elements. The first was the cash reserves maintained by the University's divisions and departments,

2. Audited Financial Statements, April 30, 2010 (Cont'd)

enabling them to plan for future expenditures and providing them with the flexibility to deal with fluctuations in their revenues and expenses arising from changes in enrolments, salaries and other factors. The second element consisted of the cash reserves maintained by the University for various specific purposes. Together those reserves amounted to $438-million. Third was the offsetting liability for obligations for unfunded employee future benefits, amounting to $302-million, leading to the $136.4-million of internally restricted net assets.

The third component of the University's net assets was the $413.2-million of investment in capital assets. That represented the University's own money which it had spent on capital assets and which it had not yet amortized (depreciated). The investment in capital assets would be amortized over time.

The fourth and final element of the University's net assets was the unrestricted deficit of $186.8-million. That was largely a reflection of the University's internal borrowing program. To fund capital projects, the University had an external borrowing program, consisting largely of funds raised by issuing capital debentures. In addition, however, there was provision for borrowing of up to $200-million from internal funds to finance capital projects. That had taken place, and it was reflected at this point in the financial statements. The divisions or projects that had been given loans were making principal and interest payments over time.

Net assets had grown over the year by $182.9-million. The largest factor in that growth was the $106.7-million investment gain on externally restricted endowments (which was recorded on the balance sheet but not reflected on the income statement). Added to that was the $45.4-million net income for the year, $19.5-million of externally restricted donations to the endowments, $4.2-million of Government of Ontario grants to the endowments, and a $7.1-million gain on swap contracts (which had been entered into in order to convert variable-rate borrowing to a fixed rate).

- **Endowment funds**. Ms Brown displayed a histogram, showing the value of the endowment at the end of each year over the past decade. That value had either grown (for example in each year from 2003 – 2007) or receded (for example 2008 and 2009), depending on the investment returns in those years. The just completed 2009-10 year had provided positive returns of almost 15%, and the year had resulted in the endowment's making a good start on recovering its value. At the 2008-09 year-end, with that year's highly negative investment return, the value of the endowment overall had declined to approximately its book value – the value of the original contributions. At the end of the year before that - 2007-08 - the endowment had included a substantial amount of reserves to provide inflation protection and to allow for fluctuations in the value of the endowment units. They had done their job and had absorbed the bulk of the losses incurred during 2008-09.

2. Audited Financial Statements, April 30, 2010 (Cont'd)

For the 2009-10 year, the endowment had grown from $1.29-billion to $1.44-billion. That had been the outcome of donations and grants to the endowment of $23.7-million, transfers into the endowment of $1.4-million, and investment returns of $125.8-million, after the $62.4-million payout to the various purposes supported by the endowed funds. The book value of the endowment had grown to $1.3-billion, and its reserve for preservation of capital (against the effects of inflation and market fluctuations) had been re-established at a value of $124.5-million.

Ms Brown stressed that the situation she was describing applied to the endowed pool as a whole. There were, however, some 5,000 individual endowed funds in that pool, and some individual funds, originating with contributions made when market values were high, remained under water, i.e. at a market value less than their contributed amounts. Some period of time and good investment returns would be required to rebuild some of the individual endowment funds.

In addition, some time and good investment returns would be required (a) to restore the full inflation protection required by the endowed funds as a whole and (b) to build up the reserve, above the inflation-adjusted value of the endowment, for coping with future market fluctuations. Displaying a graph of the inflation-adjusted book value of the endowed funds as a whole and their actual market value, Ms Brown showed that the actual value had comfortably exceeded the inflation-adjusted value of the pool from 2004-08, but in 2008-09 the actual value had declined to an amount well under the inflation-adjusted value. The positive returns in 2009-10 had represented a good beginning to restore the value of the endowed pool as a whole towards its inflation-adjusted value, but there was some way to go before achieving that inflation-adjusted value and then building up a desirable additional reserve.

- **Borrowing**. External borrowing, as at April 30, 2010, amounted to $525.9-million. That consisted of (a) $510-million of long-term debentures plus (b) other loans – almost entirely bank loans taken out for the construction of student residences and parking garages – before the initiation of the current debenture program.

  The University's maximum external borrowing capacity, as defined in the Borrowing Strategy, was 40% of capital or net assets smoothed over the previous five years. (The Strategy also permitted up to $200-million of internal borrowing, from the University's Expendable Funds Investment Pool, in effect its cash float.) The maximum external borrowing (including the net assets recorded in the current financial statements) was $771.5-million. The Governing Council had approved a further tranche of borrowing amounting to $200-million, which, when the new debenture is issued, would bring total external borrowing to $726-million. Current external borrowing amounted to 27% of net assets smoothed over five years or 29% of the 2010 year-end net assets. Adding the $200-million tranche would lead to borrowing amounting to 38% of net assets smoothed over five years - still within the 40% limit set out in the Borrowing Strategy.

2. Audited Financial Statements, April 30, 2010 (Cont'd)

- **Financial results compared to forecast**. Ms Brown compared the year's financial results with those projected in the Financial Forecast presented to the Board in January. Actual expenses were $2.166-billion, precisely as forecast. Revenues included funding provided by the Government of Ontario late in the fiscal year, with the result that actual revenue of $2.211-billon exceeded forecast revenue by 3.3%. As a further result, net assets of $1.8-billion exceeded the forecast amount by 4.2%.

  Looking solely at the operating fund, which tied back to the operating budget, the forecast deficit had been $42.6-million. Mainly as a result of the year-end grant, the actual operating-fund deficit had been only $2.1-million. The variance between the actual and the budgeted deficit would be brought into the 2010-11 budget, and the deficit reduction program would continue at a rate of $11-million per year.

A member asked about the level of public disclosure provided by the audited financial statements. Had the level of disclosure been greater than appropriate? The member also asked about the value of certain assets that were not included in the statements, in particular the value of the University's land and buildings. Ms Riggall and Ms Brown replied that the University believed that its financial statements were completely and appropriately transparent. About two years ago, in connection with the development of the Real Estate Strategy, a calculation had been completed leading to an estimate that the value of the University's land and buildings amounted to about $4-billion. Most of that value was not included in the University's assets on its balance sheet. The understatement of that value on the balance sheet was the result of the required reporting of the value of land and buildings at cost and the amortization (or depreciation) of the value of buildings over time. The member said that it might be well worthwhile noting the fair value in the Financial Report, especially in view of the University's efforts to seek an exemption from the Province's requirement for funding of the solvency deficit in the pension plan over five years. Ms Riggall said that the idea was certainly worth consideration. The Chair observed that including a statement of the market value of land and buildings in the financial statements would require a formal appraisal of their value, which would be very costly.

Ms Brown noted that while readers of the financial statements would not see the value of the University's land and buildings, they would also not see the full negative valuation of other factors, most particularly: (a) the full pension plan deficit and the full unfunded liability for other employee future benefits and (b) the $380-million cost of deferred maintenance.

On the recommendation of the Audit Committee,

YOUR BOARD RECOMMENDS

THAT the University of Toronto audited financial statements for the fiscal year ended April 30, 2010 be approved.

2. Audited Financial Statements, April 30, 2010 (Cont'd)

A member observed, as he had at the Audit Committee, that the annual financial report was a very complete and comprehensive document – one that served the University very well. He said that full credit was due to the University team responsible for preparing the report. The Chair, on behalf of the Board, added his congratulations and thanks to those responsible for the production of the financial statements. He also thanked members of the Audit Committee for their careful review of the financial statements, which made the Business Board's work very much more efficient. He noted that the Financial Report had been regarded as a confidential document up until its review and endorsement by the Audit Committee. With the endorsement of the financial statements by the Audit Committee the previous afternoon, that classification had been removed.

3. External Auditors: Appointment for 2010-11

Mr. Myhal reported that the Audit Committee recommended the re-appointment of Ernst & Young as the University's external auditors. Along with its review of the audited financial statements, the Audit Committee had reviewed the external auditors' report on the audit results. The Committee had met *in camera* with the external auditors with no members of the University administration present, and they had also met *in camera* with management without the auditors present. The outcome of both meetings was favourable, with no concerns emerging. The University was fortunate to have had the same audit firm for some considerable time. The auditors were very knowledgeable about the University, which helped them to complete their audit review. The Audit Committee was satisfied with respect to the independence of the external auditors and their freedom from conflict of interest.

A member, while appreciating the benefit of the auditors' knowledge of the University, asked about the most recent change in the partner responsible for the University's audit. Ms Brown said that the most recent change had taken place five years ago. The audit firm did periodically change the partner in charge of the audit to encourage appropriate independence. A reappointment within five years was well within the range deemed reasonable for the University sector. The Chair noted that in Canadian public companies, it was required that the partner of an accounting firm responsible for the company's audit, if not the firm itself, had to be changed after five years. However, that requirement was in place for public companies only in Canada and the United States, and there was every possibility that the limit would be changed to seven years for Canadian companies – a limit that was more common in the rest of the world. In the particular case of the University of Toronto, the Chair observed that the partner in charge of the University of Toronto audit was highly knowledgeable about the not-for-profit sector and was a particularly capable individual, and the University was well served by having her in charge of its audit. Mr. Myhal added that the Audit Committee had engaged in a substantial discussion about the possibility of change, but it had agreed that on balance there was more merit in recommending the reappointment.

3. External Auditors: Appointment for 2010-11 (Cont'd)

On the recommendation of the Audit Committee,

YOUR BOARD RECOMMENDS

(i) THAT Ernst & Young LLP be re-appointed as external auditors of the University of Toronto for the fiscal year ending April 30, 2011; and

(ii) THAT Ernst & Young LLP be re-appointed as external auditors of the University of Toronto pension plans for the fiscal year ending June 30, 2011.

4. Borrowing Capacity and Status of the Long-Term Borrowing Pool to April 30, 2010

Ms Brown recalled that she had presented the annual review of the Borrowing Strategy earlier in the year. In addition, at each meeting, the Board received an update on activity since the previous report. The current report before the Board had two purposes. First, it reported the University's revised maximum external borrowing capacity, incorporating the net assets reported in the 2009-10 financial statements. That new capacity – a maximum of 40% of the University's net assets smoothed over the previous five years plus $200-million from internal funds – was $971.5-million. Second, the current document reported on the status of the Long-Term Borrowing Pool. The University's borrowing in recent years had taken place by means of a series of four debentures with maturities between 2031 and 2046. The series "A" debenture had been issued in the amount of $160-million and was due on July 18, 2031. The series "B" debenture had been issued in the amount of $200-million for repayment in December 15, 2043. The series "C" debenture, in the amount of $75-million was repayable in November 2045. The series "D" debenture, in the amount of $75-million, was repayable in December 2046. All of the debentures were "bullet" debentures. The University was required to make interest payments twice annually, but it was not required to repay any portion of the principal until the debenture's maturity. None of the debentures contained a covenant requiring the University to build up a sinking fund to accumulate monies for repayment, but the University had decided to set aside funds for that purpose. The source of those funds was blended principal and interest payments by divisions or departments for projects that used borrowed money. The monies were put into the Long-Term Borrowing Pool. That Pool was used first to pay interest on the debentures and the costs associated with them, for example credit-rating costs. The balance was accumulated over time and invested in order to repay the debentures when they became due. As at April 30, 2010, the Pool contained a balance of $67.5-million.

5. Investments: Arrangements for Governance Oversight of Investment Management

The Chair said that the next three items contained a series of recommendations concerning the organization of governance and oversight for investment management. The proposals involved the reordering of the responsibilities of the Business Board, the administration and University of Toronto Asset Management Corporation (UTAM). Ms Riggall

5. Investments: Arrangements for Governance Oversight of Investment Management (Cont'd)

would make a presentation outlining the overall thrust of the proposals to follow. The Chair congratulated Ms Riggall and her colleagues on their having acted so quickly to recommend the changes. The Chair and other members of the Board who served on the Interim UTAM Board had received at the recent UTAM Board meeting a description of the proposed changes and had provided the necessary approvals at that level. The Board would be asked to approve other aspects of the changes, subject to the Governing Council's action to approve the basic framework by approving the proposed amendments to the Business Board's terms of reference.

Ms Riggall presented the overall proposal concerning changes to the governance and oversight of investment management. She sought in particular to provide context for the changes that would require the approval of the Business Board.

- **Drivers of change**. The primary driver of the changes being recommended at this time was the report of the President's Committee on Investment Policies, Structures, Strategies and Execution - the Committee chaired by Chancellor-Emeritus the Honourable H. N. R. Jackman. The second driver was the award in the arbitration between the University and the Faculty Association, which required the establishment of a Pension Committee. The changes arising from the arbitration award would come forward in the fall, when the Pension Committee would be established. However, one of the recommendations of the arbitration award would affect the UTAM By-Law and was being recommended at this time: a place on the Board of UTAM for a representative of the Faculty Association.

- **Proposed changes to the UTAM By-Law**. Pursuant to the recommendations of the President's Committee on Investment Policies, Structures, etc., the size of the UTAM Board would be reduced from thirteen members to five, and the membership would cease to be predominantly external, expert members. The members would instead be internal appointees: the President of the University; its Vice-President, Business Affairs; its Chief Financial Officer; the President and Chief Executive Officer of UTAM; and a director nominated by the Faculty Association. The focus of the new Board would be on the governance of the UTAM corporation rather than on investment strategy or oversight. The new, smaller Board would no longer have committees; it would assume directly all of the responsibilities of the previous committees: Audit and Compliance, Compensation, and Executive, as well at the Private Markets Committee, which had consisted of all directors and concerned itself with the review and approval of recommendations for investments in private markets. The UTAM By-Law required the approval of the Business Board for amendments only to certain key sections, but all of the proposed changes were included in the draft of the revised By-Law before the Board.

- **Amendments to the Business Board terms of reference**. To implement the proposed changes to the governance and oversight of investments, it would be necessary to revise the terms of reference of the Business Board as they concerned investments. Approval of

5. Investments: Arrangements for Governance Oversight of Investment Management (Cont'd)

the Business Board would be required for return targets and risk tolerances. That involved establishing the fundamental tradeoff between seeking (a) the maximum possible return, and (b) the greatest possible safety of the capital. The Board would review the asset mix for the University funds and the pension fund, but it would not be asked to approve them. The President of the University, with the advice from the Investment Advisory Committee, would approve the asset mix for the University funds. The proposed revisions to the Business Board terms of reference would make clear the authority of the President to approve asset mix for the University funds. It was intended that the proposed Pension Committee, with the advice of the Investment Advisory Committee, would approve the asset mix for the pension fund.

- **Changes to the delegation of authority to UTAM**. The University, in its current delegation of authority to UTAM, had empowered the UTAM Board to approve the asset mix for all of the funds. The proposed, revised delegation of authority would return that responsibility to the University (where, as noted, it would be carried out by the President for University funds and by the proposed Pension Committee for pension funds.)

- **Further approvals required to implement the proposals**. Ms Riggall reported that the UTAM Board, at its recent meeting, had approved the amendments to the UTAM By-Law, and a meeting of members of UTAM had confirmed that approval, subject in both cases to the approval of the Business Board for the amendments to certain key sections. Amendments to the Business Board terms of reference were being proposed to the Business Board at this time, and they would require the approval of the Governing Council. The proposed, revised Delegation of Authority to UTAM was being proposed to the Business Board at this time. The Business Board's approval would in all cases be subject to the Governing Council's approval of the revisions to the Board's terms of reference.

  Ms Riggall anticipated that she would propose further changes early in the new academic year. As noted, the outcome of the arbitration with the Faculty Association had made provision for the establishment of a Pension Committee of the Governing Council. The establishment of that Committee would require the approval of the Governing Council. Its responsibilities would be broader than investment policy for the pension fund. They would include: review and approval of the audited financial statements of the pension plans, approval of the asset mix for the pension fund, approval of the investment strategy for the pension fund, approval of the delegation of authority to UTAM of investment of the pension fund, and approval of the appointment of the plan actuary.

  Those changes would in turn require further change to the terms of reference of the Business Board as they concerned pension matters: deletion of the responsibility for the annual review and approval of the pension fund financial statements, deletion of reference

5. Investments: Arrangements for Governance Oversight of Investment Management (Cont'd)

to the delegation of authority for pension matters, and specification that approval of the Pension Fund Master Trust Investment Policy would be carried out by the Pension Committee.

Other changes would include: amendment of the Audit Committee's terms of reference to state that the Committee would recommend approval of the pension fund financial statements to the Pension Committee rather than the Business Board; the establishment of an Investment Advisory Committee by the President to advise him and the senior administration; and revisions to the Investment Management Agreement on arrangements between the University and UTAM for day to day operations, to be approved by the University administration, to reflect all of the changes in governance. Ms Riggall noted that the President was in the process of recruiting expert members to the Investment Advisory Committee, and to date six or seven potential members had agreed to serve. She anticipated an announcement within a few weeks' time.

To conclude, Ms Riggall outlined how investments would be managed under the proposed new arrangements. The University's Chief Financial Officer would propose return objectives and risk tolerances. Work was being completed at this time on a proposal on the subject. The outcome would be proposed to the Business Board for approval. The President and Chief Executive Officer of UTAM would then propose investment strategy and asset allocation to obtain the desired return within the stated risk tolerance. The University, with the advice of the Investment Advisory Committee, would approve the strategy and the asset allocation: the President of the University in the case of University funds and the planned Pension Committee in the case of the Pension Fund Master Trust. The Board of UTAM would ensure that UTAM had the necessary resources and would oversee the operations of the corporation. Looked at another way, the goals for investments – what the University would seek to achieve – would include the return target and the risk tolerance, which would be approved by the University's Governing Council through its Business Board (for University funds) or the planned Pension Committee (for the pension fund). The strategy for achieving those goals would include asset allocation and particular investment strategies, which would be recommended by UTAM and would be based in some part on advice provided by the Investment Advisory Committee. The asset allocation and investment strategies would be approved by the President of the University or the Pension Committee. The provision of necessary resources to UTAM and its corporate oversight would be provided by the UTAM Board.

Among the matters that arose in questions and discussion were the following.

(a) Consistency with legislation. In response to a member's question, Ms Riggall said that the University had obtained legal opinions on a number of occasions concerning its ability to delegate to UTAM the authority for investment management. Such an opinion had been provided in connection with the establishment of UTAM in 2000 and again in 2008 when the terms of reference of the Business Board had been changed. Such an opinion had also been

5. Investments: Arrangements for Governance Oversight of Investment Management (Cont'd)

provided in connection with the proposal now before the Board. Section 2(14)(nd) of the *University of Toronto Act* empowered the Governing Council to invest "in such manner as it considers proper." While section 2(14)(e) permitted delegation of authority to act on behalf of the Governing Council in non-academic matters only to committees with a majority of members of the Governing Council, that section did not deal with the delegation of operational responsibility to entities other than committees of the Council. The requirements of the *Trustee Act* and the *Pension Benefits Act* imposed a fiduciary standard in managing investments, which was interpreted to mean a standard of "prudence" informed by relevant expertise. In a situation where billions of dollars were being managed in a complex investment environment, most experts would agree that delegation to people with relevant expertise must occur. Indeed, the *Trustee Act* contained specific provisions for delegation to agents for that reason. The Governing Council, through the Business Board, in fact retained very significant control over key areas that informed the scope of UTAM's work. UTAM in essence executed policy directives from the Business Board; the delegation was not one of authority to act on behalf of the Council but rather to carry out the policy approved by the Council. Indeed, the amendment being proposed strengthened the oversight of the Governing Council through the Business Board and limited the operational delegation to some degree. Finally, the current *University of Toronto Act*, in section 2(14) preserved for the Governing Council the powers bestowed upon the Board of Governors and Senate in the 1947 *Act* it replaced. Those provisions included section 33, which empowered the University to create new bodies it deemed necessary for carrying out the objects and powers of the *Act* and to confer on those bodies the necessary powers.

(b) General support for the proposal. A member observed that he welcomed the proposed changes, which represented a change from the delegation of a high level of responsibility to a relatively independent body that was not controlled by the University. The proposed arrangements would clearly provide for a direct responsibility for investment decision-making within the University.

(c) Pension Committee. A member observed that key decisions with respect to University funds (asset mix, strategy) would be approved by the University's President, but the same decisions with respect to the pension fund would be taken by the proposed Pension Committee. Would the President be a member of the Pension Committee? Ms Riggall replied that, as with all standing committees of the Governing Council, the President would be an *ex officio* member.

6. University of Toronto Asset Management Corporation: By-Law Revisions

Ms Riggall put forward the motion to approve certain revisions to the UTAM By-Law. She noted that the motion differed slightly from that shown on the agenda, in that the motion made reference only to certain sections of the By-Law. The UTAM By-Law required Business Board approval for amendment of only those key sections.

6. University of Toronto Asset Management Corporation: By-Law Revisions

On the recommendation of the Vice-President, Business Affairs,

YOUR BOARD APPROVED

Subject to Governing Council approval of the proposed amendments to section 5.1 of the Business Board terms of reference,

THAT the proposed amendments to sections 4, 6, 7 and 8 the University of Toronto Asset Management Corporation By-Law Number 1, as contained in Appendix A" hereto, be approved with effect from June 25, 2010.

7. Delegation of Authority from the Governing Council of the University of Toronto to the University of Toronto Asset Management Corporation: Revised Delegation

On the recommendation of the Vice-President, Business Affairs,

YOUR BOARD APPROVED

Subject to Governing Council approval of the proposed amendments to section 5.1. of the Business Board terms of reference,

THAT the proposed revised Delegation of Authority from the Governing Council of the University of Toronto to the University of Toronto Asset Management Corporation, which is Appendix "B" hereto, be approved, effective June 25, 2010.

8. Business Board Terms of Reference With Respect to Investments

On the recommendation of the Vice-President, Business Affairs,

YOUR BOARD RECOMMENDS

THAT the proposed amendments to section 5.1 of the Business Board Terms of Reference (Financial Policy and Transactions), shown in Appendix "C" hereto, be approved.

9. Capital Projects: Capital Projects Report as at May 31, 2010

The Board received for information the Report on Capital Projects Under Construction as at May 31, 2010. That report dealt with projects costing $2-million or more at a total budgeted cost of $412.26-million.

10. Borrowing: Status Report to May 31, 2010

The Board received for information the Borrowing Status Report to May 31, 2010. That Report showed maximum borrowing capacity of $971.5-million pursuant to the University's policy; borrowing allocated (net of repayments that could be reallocated) of $880.6-million; actual external borrowing of $525.9-million; and internal borrowing outstanding of $214.9-million.

11. Capital Project: Relocation of the Department of Family and Community Medicine

Mr. Binks recalled that the University had acquired in 1999 a ten-storey office building on the West side of University Avenue one building north of Dundas Street West. That building, constructed in the 1950s, had been largely renovated in 2001 for its current occupants – various departments of the Faculty of Medicine, in particular those in the Rehabilitation Sciences. At that time, two stories had remained occupied by the third-party tenants at the time of the acquisition, and those stories had not been renovated. Those tenants had now moved, leaving the two floors vacant to house a University department – the Department of Family and Community Medicine. It was proposed to renovate those floors at this time to the same standards as the rest of the building. The renovations would include the construction of two classrooms, the installation of lighting and the addition of fire-protection features. The total project cost was an estimated $3.5-million and the construction cost an estimated $135 per square foot.

On the recommendation of the Vice-President, Business Affairs,

YOUR BOARD APPROVED

Subject to Governing Council approval of the project, and subject to the receipt of provincial government funding,

THAT the Vice-President, Business Affairs be authorized to execute the relocation of the Department of Family and Community Medicine to 500 University Avenue at a total project cost not to exceed $3,500,000.

12. Human Resources: Policy, Procedures and Terms and Conditions of Appointment for Research Associates (Limited Term) and Senior Research Associates - Revision of the Procedure for Problem Resolution

Professor Hildyard said that the University had been working with its Research Associates for about one year to update their out-of-date human-resources policies. Amongst other things, the University had hoped to update their employment benefits, but the Province's compensation-restraint legislation had prevented action. The proposal now before the Board had no financial implications, and it was therefore not impeded by the legislation. The proposed problem-resolution procedures followed the same approach as those for professional, managerial and confidential staff. In response to a member's question, Professor Hildyard said that the

12. Human Resources: Policy, Procedures and Terms and Conditions of Appointment for Research Associates (Limited Term) and Senior Research Associates - Revision of the Procedure for Problem Resolution (Cont'd)

current problem-resolution procedures did not present a major problem, but the process was not an effective one and there was no reason not to have the same procedure for Research Associates as for other non-union staff.

On the recommendation of the Vice-President, Human Resources and Equity,

YOUR BOARD APPROVED

The proposed Problem Resolution Policy for Research Associates (Limited Term) and Senior Research Associates, a copy of which is attached hereto as Appendix "D", replacing the current section C(IV) (Problem Resolution) of the Policy, Procedures and Terms and conditions for Appointment for Research Associates (Limited Term) and Senior Research Associates, approved by the Business Board on March 3, 2003.

13. Risk Management and Insurance: Annual Report

The Chair said that the Risk Management and Insurance Annual Report had been reviewed in detail at the previous day's meeting of the Audit Committee. Ms Brown recalled that all of the University's insurance policies had since 2008 been purchased in the commercial marketplace. The University continued to be very satisfied with the result. It had, by making the change from membership of the Canadian Universities Reciprocal Insurance Exchange not only paid lower premiums but had also avoided recent premium increases. The University's claims experience over the past year remained about average, and the annual report contained no unusual items.

14. Policy with Respect to Workplace Violence: Program

The Chair reminded members that the Board had at its previous meeting considered the Policy with Respect to Workplace Violence, and had recommended the Policy for approval by the Governing Council. That approval had been granted. The Board had not at the time seen the detailed program to implement the Policy, and it was now before the Board for information.

Professor Hildyard stressed that the Program was a work in progress that would be modified as required in the light of experience. The Program had been developed with the aid of comments from the unions representing University staff.

15. Report Number 93 of the Audit Committee - May 12, 2010

The Board received for information Report Number 93 of the Audit Committee (May 12, 2010).

16. Reports of the Administrative Assessors

Health and Safety Requirements: Quarterly Report on Compliance

The Board received for information the Quarterly Report on Compliance with Health and Safety Requirements. Professor Hildyard drew members' special attention to item 4 of the Report, dealing with the Asbestos Regulation. She recalled that she had in April 2009 reported that the University had been charged with non-compliance with the Asbestos Regulation. Following an extensive review, the University had determined that it had indeed violated the Regulation, it had entered a plea of guilty, and it had been fined approximately $6,000. That fine was significantly less than it might have been because the Court acknowledged that the University had a robust asbestos program. The University had since taken steps to ensure more consistent compliance with that program, including steps to improve interactions with contractors.

17. Interim Dates of Next Meetings

The Chair advised members that the Board's first regular meeting for 2010-11 had been scheduled for **Monday, September 27, 2010 at 5:00 p.m**. The complete list of meeting dates would be distributed over the summer. It was anticipated that, as in 2009, there would be **two orientation sessions, in the hours before the first two meetings**, i.e. at 4:00 p.m. on September 27, 2010 and on Monday, November 1, 2010.

18. Other Business

(a) Feedback Forms

The Chair reminded members that they had received feedback forms with their agenda packages, which were to be completed anonymously**.** Members' views were used to shape the Board's agenda and to allocate time to items. For example, member's views had been very useful in the structuring of agendas to focus on main themes. Members were urged to make their views known by means of the forms.

(b) Chair's Remarks

The Chair thanked all members for their service over the past year, and he gave special thanks to members who were concluding their terms on the Board.

- **Mr. Andrew Agnew-Iler** was completing his term of service as a student member of the Governing Council and the Business Board.

18. Other Business (Cont'd)

(b) Chair's Remarks (Cont'd)

- **Dr. Stefan Larson** was completing his three-year term as an alumni member of the Governing Council. He had served on the Business Board for all of those years.

- **Ms Jennifer Riel** was completing two years of service as a staff member of the Board.

- **Mr. Stephen Smith** was completing his second three-year term as an alumni member of the Governing Council. He had served on the Business Board for four of those six years. He had also served on the Senior Appointments and Compensation Committee and on the interim Board of the University of Toronto Asset Management Corporation (UTAM).

- **Mr. John Varghese** was completing his three-year term as a co-opted lay member of the Board. He had also served on the Board of UTAM, contributing not only his general expertise, but also his special expertise as a venture-capital investor.

- **Mr. Geoffrey Matus** had served as Vice-Chair of the Board throughout Mr. Nunn's term as Chair. Because his wife, Professor Jill Matus, had assumed a senior role in the University's administration, Mr. Matus had decided not to continue on the Governing Council or on the Business Board. He had been serving as the Chair of the interim UTAM Board, and it was anticipated that he would continue to serve the University as a member and Chair of the expert Investment Advisory Committee. Among his many contributions to the work of this Board was his suggestion to make the Board's deliberations more effective by grouping related items together around a theme for each meeting – something that had enabled the Board to immerse itself in particular topics at each meeting.

The Chair noted that this would be his final meeting as Chair of the Business Board. In 2010-11, he would serve as Vice-Chair of the Governing Council. The Council had appointed Mr. David Wilson to Chair the Business Board and Ms Shirley Hoy to serve as Vice-Chair for 2010-11.

(c) Mr. Richard Nunn

On behalf of the members of the Board, Ms Riggall thanked Mr. Nunn for his hard work as Chair of the Board. It had been a pleasure to work with him. A member observed that Mr. Nunn had done an outstanding job as Chair. The development of the Board orientations and the focus in each meeting had been very valuable. He would be missed.

Mr. Nunn thanked members of the administration and particularly the Board's senior assessors for their outstanding contributions to the Board's work.

THE BOARD MOVED INTO CLOSED SESSION.

On motion duly made, seconded and carried, it was RESOLVED

> THAT pursuant to section 33(i) of By-Law Number 2, the Board consider items 19 -21 in closed session and item 22 (Report of the Striking Committee) *in camera*.

19. Compensation: Merit Increases for Professional, Managerial and Confidential Staff, Advancement Staff and Research Associates

The Chair reported that the proposal for merit increases for professional, managerial and confidential staff, advancement staff and research associates had been distributed to members of the Senior Appointments and Compensation Committee, and members of that Committee had endorsed the proposal for consideration by the Business Board.

Professor Hildyard said that merit-pay programs were in place for professional, managerial and confidential staff, advancement staff and research associates. Those employees were not represented by a union or any unit that bargained collectively on their behalf. The Province's compensation restraint legislation did permit merit increases for non-union employees where programs were already in place at the date of the legislation. The University was proceeding with its program of merit assessments for such staff, and Professor Hildyard proposed that the University award merit increases to those staff members on the same basis as in the past. They would, because of the legislation, not be eligible for across-the-board increases.

The Chair reminded the Board that Section 27(d) of By-Law Number 2 prohibited moving, seconding, or voting on motions related to compensation by any employee of the University, or any immediate family member of an employee, except for the President and the Vice-Presidents (who were excluded from this prohibition). The provision did not exclude participation in questions and discussion. A member declared a conflict arising from a family member's position in the University.

On the recommendation of the Vice-President, Human Resources and Equity,

> YOUR BOARD APPROVED
>
> The allocation of 2010 Merit increases to Confidential, Professional and Managerial, and Advancement staff and to Research Associates, as described in Professor Hildyard's memorandum to the Business Board on the subject.

20. Quarterly Report on Donations of $250,000 or More, February 1 – April 30, 2010

The Board received for information the Quarterly Report on Donations of $250,000 or More, February 1 – April 30, 2010.

21. Closed Session Reports

(a) Collective Agreement: Unite Here, Local 75

Professor Hildyard reported on a collective agreement signed with local 75 of Unite Here, which represented employees located at the Chestnut Street Residence – a student residence that had previously been a commercial hotel. Professor Hildyard responded to questions.

(b) G20 Meeting – St. George Campus Security Arrangements

Ms Riggall reported on steps that would be taken to ensure the safety of the University's faculty, staff and students during the meeting of the leaders of the G20 nations and the anticipated demonstrations associated with that meeting. Those steps would include the closure of the St. George Campus beginning at 6:00 p.m. on Wednesday, June 23 and continuing until the night of Sunday, June 27. She expressed the hope that the precautions would prove to be unnecessary.

THE BOARD MOVED IN CAMERA

22. Report of the Striking Committee: Co-opted Membership of the Business Board and the Audit Committee for 2010-11

On motion duly made, seconded and carried,

YOUR BOARD APPROVED

(a) THAT Ms Deborah Ovsenny be appointed to the Business Board for a one-year term from July 1, 2010 to June 30, 2011;

(b) THAT Mr. Suresh (Steve) Gupta, Mr. Jeff Collins, and Ms Penelope F. Somerville be appointed to the Business Board for three-year terms from July 1, 2010 to June 30, 2013.

(c) THAT the following be appointed as co-opted members of the Audit Committee for one-year terms from July 1, 2010 to June 30, 2011:

Professor Ramy Elitzur
Mr. J. Mark Gardhouse
Ms Paulette L. Kennedy
Ms Penelope Somerville
Mr. Chris Thatcher

(d) THAT Mr. George Myhal be re-appointed Chair of the Audit Committee and Ms Paulette Kennedy Vice-Chair of the Audit Committee for one-year terms from July 1, 2010 to June 30, 2011.

REPORT NUMBER 182 OF THE BUSINESS BOARD – June 17, 2010

THE BOARD RETURNED TO OPEN SESSION.

The meeting adjourned at 6:15 p.m.

Secretary Chair

July 26, 2010

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