UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 185 OF THE BUSINESS BOARD

December 13, 2010

To the Governing Council,
University of Toronto.

Your Board reports that it met on Monday, December 13, 2010 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Mr. W. David Wilson (In the Chair)
Ms Shirley Hoy, Vice-Chair
Ms Catherine J. Riggall, Vice-President, Business Affairs
Professor Angela Hildyard, Vice-President, Human Resources and Equity
Mr. Jeff Collins
Ms Mary Anne Elliott*
Mr. Gary P. Mooney
Ms Deborah Ovsenny
Mr. Tim Reid
Professor Arthur S. Ripstein
Ms Melinda Rogers
Ms Penny Somerville
Mr. Olivier Sorin
Professor Janice Gross Stein
Mr. John David Stewart
Mr. W. John Switzer
Ms B. Elizabeth Vosburgh

Mr. David Palmer, Vice-President, Advancement
Professor Judith Wolfson, Vice-President University Relations
Ms Sheila Brown, Chief Financial Officer
Mr. Louis R. Charpentier, Secretary of the Governing Council
Ms Sally Garner, Executive Director, Planning and Budget
Professor Scott Mabury, Vice-Provost, Academic Operations
Ms Kim McLean, Assistant Principal (Business and Administration) and Chief Administrative Officer, University of Toronto at Scarborough
Ms Christina Sass-Kortsak, Assistant Vice-President, Human Resources
Mr. Nadeem Shabbar, Chief Real Estate Officer

Mr. Neil Dobbs, Secretariat
Mr. Anwar Kazimi, Secretariat

Regrets:

Mr. P. C. Choo
Mr. William Crothers
Mr. J. Mark Gardhouse
Mr. Steve (Suresh) Gupta
Ms Paulette L. Kennedy
Mr. Kent Kuran
Mr. George E. Myhal

In Attendance:

Professor Emeritus Ronald Venter, past-member, the Governing Council; Faculty of Applied Science and Engineering

* By telephone.

58508

REPORT NUMBER 185 OF THE BUSINESS BOARD – December 13, 2010

In Attendance (Cont'd)

Professor Tim McTiernan, Assistant Vice-President, Government, Institutional and Community Relations
Ms Gillian Morrison, Assistant Vice-President, Divisional Relations and Campaigns
Mr. Bill Simmons, Assistant Vice-President, University Development
Mr. John Calvin, Manager, Data Centers, Information and Technology Services
Mr. Robert D. Cooke, Chief Information Officer
Dr. Anthony Gray, Special Advisor to the President
Mr. Patrick Hopewell, Director, Enterprise Infrastructure Solutions, Information and Technology Services
Professor George Luste, President, University of Toronto Faculty Association
Mr. Stephen Moate, Senior Legal Counsel
Mr. Alan Shapira, Hewitt Associates
Ms Meredith Strong, Director, Office of the Vice-President, University Relations
Mr. Henry T. Mulhall, Assistant Secretary of the Governing Council

ALL ITEMS ARE REPORTED TO THE GOVERNING COUNCIL FOR INFORMATION.

1. Report of the Previous Meeting

Report Number 184 of the Business Board was amended on page 11, item 3, "Endowments: Spending Formula and Investment Policy." Discussion item (c) was amended to read as follows:

> **(c) Changes at UTAM**. A member observed that in considering a recommendation to retain the same return target and risk tolerance, the Board should acknowledge the changes made during the summer of 2010 to the reporting relationship of UTAM to the President of the University, to the establishment of the Investment Committee to advise the President on matters related to the portfolios managed by UTAM, and to the new Governance structure with a Board of Directors of UTAM comprising a majority made up of senior administrative staff of the University. These matters must be understood as important and substantive considering the fact that the Board was being asked to approve a set of return targets that are stand-pat from the current targets. Another member concurred and also pointed to the increased vigilance of UTAM with respect to risk management.

Report Number 184 (November 1, 2010), as amended, was approved.

2. Pension Plans: Annual Financial Report for the Year ended June 30, 2010

The Chair said that the Board would receive the annual financial report on the pension plans at the current meeting and would receive a proposal on the very important and complex matter of the funding of the large pension-plan deficit at the meeting on January 31, 2011.

2. Pension Plans: Annual Financial Report for the Year ended June 30, 2010 (Cont'd)

Ms Riggall said that this would be the last occasion on which the Business Board would be asked to approve the financial statements for the two registered pension plans. Henceforward, approval of the statements would be the responsibility of the Pension Committee, which would be in operation in the near future. The annual financial report on the pension plans would, however, continue to come before the Business Board for information in light of the Board's responsibility for the overall financial health of the University. The financial position of the pension plans was an important element in determining the University's overall financial condition.

Ms Brown presented the University of Toronto Pension Plans Annual Financial Report for the Year ended June 30, 2010. Among the highlights of her presentation were the following.

- **Valuation methods for the pension plans**. Pension plans built up liabilities for the amounts required to pay pensioners, and they built up funds of assets to meet those liabilities. The difference between the amount of the liabilities and the assets represented the pension plans' surplus or deficit.

  Audited financial statements were prepared for the University's two registered plans: the main plan and the plan for the employees of the Ontario Institute for Studies in Education before and at the time of its merger with the University. The Board would be asked to approve the financial statements for those plans, which provided an audited confirmation of the fair value of their assets as at June 30, 2010.

  There were various methods for valuing the assets and liabilities of the plans and therefore for determining their surpluses or (at this time) their deficits. The current report would focus on two valuations. The first was the going-concern actuarial valuation which assumed that the pension plan would continue to operate for the foreseeable future. The second was the solvency valuation, which assumed that the plan had been wound up as at the valuation date and where the liability reflected the cost of settling all pension obligations as at that date. According to regulation, the liability excluded the cost of indexation of benefits. The hypothetical wind-up valuation also assumed that the plan had been wound up as at the valuation date and included the cost of the 75% indexing benefit.

- **Funding status of the plans**. Ms Brown reported on the status of the combined pension plans: the two registered plans and the Supplemental Retirement Arrangement for those with salaries above the pensionable maximum as determined by the Income Tax Act. The report took into account the University's Pension Reserve. The going-concern liabilities as at July 1, 2010 were $3,373.3-million. The market value of the assets was $2,307.4-million, leaving a going-concern market deficit of $1,065.9-million, representing 32% of the liabilities. The outcome was very similar to that of the previous year. The going-concern funded status of the plans had largely reflected the economic environment. An improving trend in the value of the assets between 2003 and 2007 had been reflected by a surplus in 2007. That had, however, been followed by

2. Pension Plans: Annual Financial Report for the Year ended June 30, 2010 (Cont'd)

declines in asset values beginning in 2008, arising from the financial crisis and reflected by the current deficit.

- **Pension-plan liabilities**. By far the largest share of pension liabilities was on account of the main registered plan. The number of participants in that plan continued to increase. A key driver in the growth of the plan liability was the increase in the number of plan members, resulting from the growth of the University. The University's enrolment had grown by about 45% over the past decade, and that growth had led to the increase in faculty and staff to serve the increased enrolment and hence the growth in the membership of the pension plan. There had been no changes made in the benefits provided by the plans or in the assumptions used to estimate those benefits. The assumptions were reviewed regularly. In future, any proposals for change would be taken to the new Pension Committee for consideration. The assumption most likely in need of updating was the mortality table as plan members were tending to live longer.

- **Pension-plan assets**. Unlike the steady growth of the pension liabilities, the value of the pension-plan assets had moved up and down, predominantly reflecting investment returns, as well as plan contributions. The ten-year history of the value of the assets reflected the economic cycle and the returns of the financial markets. Total assets had declined for the years ending June 30, 2002 and 2003, had then increased for 2004 – 2007, had then declined in 2008 and 2009, and had increased again in 2010.

- **Assets – contributions**. For the 2009-10 year, $137.4-million had been contributed to the pension plans. That included both contributions by the University and by employees to meet the current service cost of the plans, and special payments made by the University (which had been either contributed to the plans or set aside in a reserve for pensions). Contributions to the plan had grown dramatically over the past decade.

- **Assets: investment earnings**. There were only two ways of funding a pension plan: contributions and investment earnings. The University had established a target for investment earnings for the pension plan, a real return of 4% per year - i.e. the return after inflation and after all fees and expenses - over a ten-year period. That return was to be achieved within a risk corridor of one standard deviation of 10% from the target, again over ten years. That meant that the University should expect that returns would be in a corridor between +10% or -10%% of the target return two thirds of the time over a ten-year period. Ms Brown displayed a graph showing nominal investment returns for twenty-one years beginning in 1990. The return had been within the expected corridor for 16 of those twenty-one years, or 76% of the time. They had been outside of the corridor for 5 years or 24% of the time.

  Looking at ten-year rolling returns since 1990 (appropriate because the targets were ten-year targets), the average actual nominal return had been 6.1% per year which matched exactly the

2. **Pension Plans: Annual Financial Report for the Year ended June 30, 2010** (Cont'd)

University's average target nominal return of 6.1%, both after fees. The ten-year average return had remained within the risk corridor in all years except for those ending June 30, 2009 and 2010. For the 2009-10 year, the investment return had been 8.2%, net of all fees and expenses.

It was important to examine regularly whether the return target and risk tolerance remained appropriate. Examination of the investment performance since 1990 would lead to the conclusion that the target was appropriate, with the actual return matching the target and the volatility remaining within the desired corridor most of the time. If the University were to reduce its target real return by one quarter of one percent to 3.75%, then current service contributions would have to increase by $6-million per year. If it were to reduce its real-return target to a minimum-risk target real return of 2% per year, then current service contributions would have to increase by $60-million per year. With the reduced target return, the market deficit in the plans would also increase significantly.

- **Pension payments**. Pension payments had been growing steadily over the past decade as more members of the faculty and staff retired and as, with the passage of time, their highest-36-month average salaries (upon which pension payments were partly based) had increased.

  Assets were reduced by payments to pensioners, which had amounted to $148.8-million in 2009-10 – an amount that was not substantially greater than the amount contributed to the plan.

- **Fees and expenses** had grown over the decade until 2009-10. The significant increases from 2007 to 2009 had reflected the growth in external investment-management fees because of the greater use of more costly alternative investment strategies. Similarly, the decline in fees and expenses in 2010 reflected the reduced external investment-management fees as the use of alternative strategies had declined. The reduction in the percentage cost of fees and expenses in 2010 had also reflected the growth in the denominator of the fraction – the total pension assets under management in 2010. Assets had also been reduced by the amount of fees and expenses, which in 2009-10 had amounted to 1.17% of the value of the assets.

- **History of market surpluses and deficits**. The registered pension plan had enjoyed a market surplus of $579-million for the year ended June 30, 2000. That surplus had declined over the next two years and had become a deficit of $203-million for the year ended June 30, 2003. The size of the deficit had then diminished for the three following years, and the plan had then enjoyed a surplus of $184-million in 2007. With the financial crisis beginning in 2008, the plan had once again fallen into a deficit and it remained in deficit as at the 2010 valuation.

  The solvency ratio of a plan was the value of its assets compared to the hypothetical cost of winding up the plan as at the valuation date. That hypothetical cost discounted the liability at current market rates. It excluded the cost of the partial indexing of pensions. Where the solvency ratio was 1.0 or greater, the plan met the solvency test. Where the solvency ratio was

2. Pension Plans: Annual Financial Report for the Year ended June 30, 2010 (Cont'd)

less than 1.0, there was a solvency deficit. The main registered plan had met the solvency test up to and including 2007, but beginning in 2008 the solvency ratio had declined to a level below 1.0. The ratio was 0.98 in 2008 and had declined to 0.64 by 2010.

- **Investment return update**. The pension fund's investment return for the year ended June 30, 2010 had been 8.2%, net of all fees and expenses. Although returns had been very poor in the last two months of that period, they had rebounded significantly since then, with the pension fund earning a return of 6.7% in the four months from July 1 to October 31, 2010.

- **Dealing with the pension-plan deficit**. The Board would, at its next meeting, be asked to consider a strategy to deal with the large solvency deficit, which was $1.17-billion for the main registered plan as at July 1, 2010. The Government of Ontario had proposed regulations to provide temporary solvency funding relief to institutions in the broader public sector. In the absence of such relief, the University would be required to pay down its solvency deficit with special payments, in addition to current service payments, over a period of five years. That would require extremely large annual payments. The pending legislation would make available a two-stage process. The objective of the Government of Ontario in proposing the program was to ensure that pension plans in the broader public sector would be made sustainable.

  To ensure sustainability, the Government wished to see an appropriate level of employee contributions to their pension plans. In the case of the University's plan, for each dollar contributed by employees, the University contributed about two dollars. The Government believed that the taxpayers, as funders of the University, should not be called upon to pay so high a proportion of public-sector pension costs. It believed that the sharing of current service costs should be closer to equal as between the employees and the employer. The Government of Ontario had also expressed an interest in seeing, perhaps as an alternative to employer-sponsored plans, joint plans, where there would be a greater degree of sharing of risks and governance between the employees and the public-sector institutions.

  To enter the first stage of the proposed relief program, institutions were required to develop and present a plan to make their pension plans sustainable. The University of Toronto would be required to present its plan along with its next required actuarial valuation as at July 1, 2011. The Government would review the plan. If the University's plan was accepted, the University would enter stage 1, which would last for three years. In those three years, it would be required to make, in addition to current-service payments, going-concern special payments that would at least cover the interest on the solvency deficit.

  If then the University was permitted to enter stage 2, it would be required to pay, in addition to current service costs, special payments to eliminate its solvency deficit over the next ten years, i.e. until 2024.

2. Pension Plans: Annual Financial Report for the Year ended June 30, 2010 (Cont'd)

During all stages of the solvency relief program, contribution holidays would be restricted and any benefit improvements would require accelerated funding.

The University was considering various options that would be proposed to the Board as part of a new pension funding strategy. The first option would be to transfer the balance of the Pension Reserve into the two registered plans. That reserve, established in 2009, was expected to be $37.3-million on June 30, 2011.

The second option was to transfer the assets set aside to meet the University's obligations under the Supplemental Retirement Arrangement (S.R.A.) into the registered plans. Those assets totaled $115.8-million as at June 30, 2010. The S.R.A. was an unregistered pension plan established in 1997 to provide for pensions relating to salaries above the Income Tax Act pensionable maximum, which was at the time approximately $100,000 per year, to a maximum salary of $150,000 per year. The University had decided to build up assets to meet its obligations under the S.R.A. and had been doing so since 1997. In recent years, the maximum pensionable salary under the Income Tax Act had been increased, and it was anticipated that the maximum would in about three year's time reach the $150,000 limit of the S.R.A. At that time, all pension entitlements previously covered under the S.R.A. would be covered under the regular registered plan, and the S.R.A. would be closed. There would then be no need to continue to set aside assets to deal with the University's obligation under the S.R.A. As noted in the actuarial valuation, the assets set aside to date did not constitute trust property, were available to satisfy the University's creditors, could be applied to any other purpose that the University might determine from time to time, were commingled with other University assets, and were not subject to the direct claim of any members.

A third option was an increase in the level of member contributions to the pension plan. While such contributions could be directed only to meeting the current-service cost of the plan and would not be in respect of special payments, increased member contributions were very likely to be required for the University to be permitted to avail itself of the planned temporary solvency-funding relief program.

A fourth option was an increase to the University's budget for special contributions to the pension plan, currently about $27-million per year.

A fifth option was borrowing, either internally from the Expendable Funds Investment Pool, or externally for a special contribution(s) to the registered plans. Such borrowing would, of course, have to be repaid over time with interest, but it could be repaid on a schedule extending longer than that for solvency payments.

A sixth option, the terms of which were not yet clearly specified, would be the University's issue of irrevocable letters of credit to a maximum of 15 % of the solvency liabilities.

2. Pension Plans: Annual Financial Report for the Year ended June 30, 2010 (Cont'd)

Finally, the University could sell assets, contributing the proceeds to the registered pension plans.

Ms Brown stated that all of the options were being examined as components of a viable pension funding strategy. It was recognized that all would be difficult and painful.

- **Current uncertainties**. There were a number of uncertainties concerning the financial planning for funding the pension plan. First, the Ministry of Finance had not yet issued regulations for the temporary solvency relief program. Second, the investment return target and volatility tolerance limits for the pension fund were under review. Third, the actuarial assumptions for the plan remained under review. Fourth, there was no certainty that the University's plan would be accepted for the stage 1, and if so for stage 2 of the temporary solvency funding relief program. Fifth, there was always uncertainty concerning the overall economic climate, the performance of the securities markets, and interest rates. Those factors would have an enormous impact on the financial status of the pension plans.

- **Timing**. The pension plan funding strategy would be put into place formally based on the July 1, 2011 actuarial valuation. By that time, the University would know the details of the regulations of the temporary solvency funding relief program, and it would have completed the review of the investment target and volatility tolerance for the pension fund. The actuarial assumptions would be included in the valuation. The University did, however, have sufficient information at this time to work on the general outlines of a pension funding strategy. Invited to respond to a question, Mr. Shapira said that the University's pension funding plan would be filed with the Ontario Ministry of Finance (rather than the Financial Services Commission) in January or February 2012.

Ms Riggall said that pension funding would clearly be a challenge. It would not be easy to find sources for $1-billion to eliminate the combined-pension-plan deficit.

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

(a) Source of pension-plan contributions. A member asked whether the Province might legislate in order to narrow the gap between employer and employee contributions to pension plans rather than leaving the outcome up to an arbitrator. Ms Riggall and Mr. Shapira said that while the Province had made known its clear views on the matter, it had also stated that it had no wish to legislate. The parties were expected to come together in determining benefit levels, contribution levels and funding levels as part of the general funding plan. Funding relief would be provided only if agreement was reached on a plan. In response to a further question, Ms Riggall said that it would be difficult to determine the funding proposal to be brought forward for governance approval in January. There were many moving parts within any plan, and it would have to include a certain degree of speculation concerning the shape those parts would assume.

2. Pension Plans: Annual Financial Report for the Year ended June 30, 2010 (Cont'd)

(b) Possible changes to actuarial assumptions. In response to a question, Ms Brown said that three actuarial assumptions were being most actively considered for change. The hypothetical effect of changing those assumptions for the current year was shown in the actuarial report. The first was a 0.25% reduction in the assumed rate of increase in the Consumer Price Index, which would affect the assumptions concerning salary increases, the maximum pensionable income under the Canada Pension Plan, and the maximum pensionable salary under the Income Tax Act. It would also affect the nominal investment return assumption. The second possible change was a reduction of 0.25% in the assumed real investment return; along with the possible assumption change concerning the C.P.I., the outcome would be a 0.5% reduction in the assumption for nominal investment return. The third possible change was a revised mortality table reflecting a longer lifespan. The Chair urged that there be full information concerning any change in actuarial assumptions when the pension funding strategy was brought forward on January 31.

(c) Fiduciary responsibility. A member observed that while the situation with respect to the University's pension plans was not a bad one compared to many others, it was a serious one. In his view, the investment returns of the pension fund had not been good. While the basic problem had been addressed by the re-organization of investment management at the University of Toronto Asset Management Corporation, it was very important that all questions be addressed carefully.

The Chair invited Professor Luste to speak. Professor Luste said that he could not state his views within the five-minute time limit. He had therefore prepared the memorandum that had been distributed to members, and he urged them to read it carefully and also to review other statements on the pension plan that could be found on the Faculty Association's web site. Professor Luste's comments dealt with three questions.

- **Seriousness of the pension plan deficit**. The annual Financial Report on the Pension Plans spoke of a $1-billion deficit. In Professor Luste's view, $2-billion would be a more realistic number. There was no means of knowing with certainty the size of the shortfall that would emerge because the answer depended upon assumptions about the future. Using his assumptions, Professor Luste had reached the conclusion that one half the money that was owed to members of the pension plan was not there.

- **How the pension plan had fallen into so great a deficit position**. Professor Luste stated his view that the current problem had begun in 1987, which had been the first year of 18 years of partial or full omission of pension-plan contributions. The problem was not only the absence of additions to the appropriate capital of the pension fund but also the absence of investment earnings on that capital. The outcome, in Professor Luste's calculation, was the absence of $1,493-million in the pension fund by 2007. The problem had been exacerbated by the major losses on the investments of the pension fund in 2008 and 2009. Professor Luste concluded that the outcome represented a failure of appropriate oversight of the pension plan.

2. Pension Plans: Annual Financial Report for the Year ended June 30, 2010 (Cont'd)

- **The viability of the pension plan**. While he was sorry to state his conclusion, Professor Luste had reached the view that problems of the pension plan had gone beyond the tipping point and that the plan would not be viable in the long run. While, at the present time, the outflow of payments from the plans, amounting to between $150-million and $160-million, were almost met by current contributions from the University and from active members of the plan, that would not continue to be the case indefinitely. After a decade or after a somewhat longer period, the plan would cease to be viable. Professor Luste regretted that he knew of no conventional solution for the problem.

  Among the matters that arose following Professor Luste's comments were the following.

(a) Oversight of the pension plans. A member referred to Professor Luste's view that there had been a failure of appropriate oversight of the pension plans. What did Professor Luste see those lapses to have been and what corrective actions might have been taken? Professor Luste replied that he viewed the key lapse as the failure to make full contributions for eighteen years. He thought that the oversight problem had arisen for two reasons. First, the Board had received only year-by-year reports and not a composite overview that would show the cumulative outcome of the omitted contributions. It was simply not possible to operate a defined-benefit pension plan without making regular contributions. Second, the University's faculty were not sufficiently involved to have adequate information and understanding of what was happening, and they therefore did not question or criticize the decision to miss contributions.

A member commented that it might well be true that oversight could have been better, but the member thought that some of Professor Luste's assertions were wrong. Professor Luste cited the wind-up valuation as being the most important one. However, if the University and the plan for some reason had to be wound up, the very large value of the University's assets would more than meet the wind-up pension plan deficit. It was, in addition, incorrect to assert that there was an absence of appropriate oversight of the investment of the plan assets. When UTAM had been established, its establishment had followed very good and successful precedents such as the investment management corporations established by Yale and Harvard universities. In some part because of timing, the action had not to this point worked out as planned.

(b) Omitted pension-plan contributions. A member asked the reason for the years of omitting or reducing current-service contributions. Had the actuaries not questioned the action through their annual reports? Had they provided only annual assessments rather than cumulative assessments of the effect of omission of contributions?

Ms Riggall replied that the pension plans had at the time been in a very substantial surplus position, and employer contributions had been prohibited by the *Income Tax Act* in situations where pension plan assets were 10% or more greater than liabilities. It was true that the University could have set aside the annual amount of current-service contributions in a special fund such as the pension reserve. It had not done so, but it had set aside and invested amounts for special purposes. First the University had, arising from negotiations with the Faculty Association, established the Supplemental Retirement Arrangement and had set aside and invested funds to provide supplemental benefits for employees, primarily faculty members, with salaries in excess of the maximum pensionable salary. Second, monies had been used to match donations to the endowment to establish endowed chairs and professorships. The outcome of providing that matching funding during the Campaign had been the establishment of something in excess of 100 endowed chairs. Those steps had been taken with the full knowledge and approval of the Faculty Association. Ms Riggall, in addition, stated her view that the amount cited by Professor Luste as a true estimate of the pension deficit was far higher than any reasonable assessment.

Professor Luste stated his view that the prohibition of contributions at the time had arisen from an artificially inflated surplus, which was the result of an increase in the interest-rate assumption to the current rate, which he believed to be unrealistic.

The Chair noted that Professor Luste had provided a written statement of his views, and he urged the administration to do the same. That would be more useful than an oral debate at this time. A member agreed that it would be helpful to have those statements. But it would be important to have the information not for purposes of debate about the past but to learn from the past for purposes of future management of the plans.

The Chair reminded members that the Board was scheduled to consider a proposal for a revised pension-plan funding strategy at its next meeting on January 31. He urged all members to make every effort to be present for that meeting.

3. University Relations: Annual Report of the Vice-President, 2009-10

Ms Wolfson noted that her report included two documents: the annual report on activities during 2009-10 and a new *Community Impact Report*. She would in her comments focus on University Relations objectives and plans for 2010-11 and on the *Community Impact Report*.

- **The University Relations portfolio** consisted of three main areas: (i) Government, Institutional and Community Relations; (ii) Strategic Communications and Marketing; and (iii) International Relations. The objective of the portfolio was to foster good relationships with and strengthen support from external stakeholders and partners: governments, international partners, peer institutions and the public. The portfolio's activities were in two broad areas: sustaining and strengthening the University of Toronto brand and advocacy on behalf of the University. The work of the portfolio included internal and external communications and international activities and opportunities. The aim was to help to sustain the University's excellence in education and research.

- **The University of Toronto brand**. The portfolio's work was aimed at sustaining and strengthening the brand of the University as Canada's foremost research university. An example of that work was the marketing campaign to support the University's efforts to recruit excellent Canadian and international students. The "Can You . . . ." marketing campaign had been

3. University Relations: Annual Report of the Vice-President, 2009-10 (Cont'd)

successful in 2009, with recognition of the University's advertisements well above the industry norm. However, that success had increased substantially with the "University of . . ." campaign in 2010. That latter campaign had played a significant role in the very substantial 8% year-over-year increase in applicants to the University who had indicated the University of Toronto as their first choice. For 2010-11, the University's marketing efforts would build on the success of the previous year's work. A refined "University of . . ." campaign had been launched on November 15, and preliminary results had proven to be very positive. The marketing effort would seek to support not only student recruitment efforts but also the work of the Advancement division with respect to the forthcoming major fundraising campaign. Given the limited funding available for marketing, it was essential that the marketing efforts be cooperative and support effectively all of the University's external-relations efforts. Advertisements, directed at people of student age, appeared as "pop ups" on various sites including Google, Yahoo, Much Music and Facebook. The advertisements contained direct links to the University's videos. That aspect of the marketing campaign was clearly working: since the launch of the campaign in November, the University's advertisements had enjoyed over one million page views. Marketing efforts were also directed at key individuals with influence. Ms Wolfson displayed, as an example, an advertisement directed to industry leaders that would appear in a special section of the *Globe and Mail Report on Business* on the subject of collaboration with Brazil.

In response to a member's question, Ms Wolfson said that recognition of the University's marketing campaign was measured by a market-research firm using survey techniques and focus groups.

- **Communications**. Extensive work had been completed in 2009-10 on web-site enhancements. The web-site for the media – the "Media Room" – had become much more responsive to the needs of members of the communications media and had drawn a very large response. The site contained information to facilitate contacts and interviews with University of Toronto experts (generally and specifically for areas of current news interest), media releases, links to news stories about the University, and photos for use by the media. For example, one recently developed page directed the media to University experts about holidays. During the G20 meetings in Toronto, the site (developed in co-operation with Professor Stein) had provided contact information for University of Toronto experts on the G20 and the topics of its discussions. The objective was to promote the citation of the University's faculty and students in media coverage. The number of visits to the "Media Room" site had increased by almost 50% from the previous year. Rich resources for media, including video information, had resulted in excellent coverage for the University, providing excellent public exposure for the University without the cost of advertising.

  One very important communications effort concerned University rankings. The University had achieved excellent standing in various rankings for 2010, including placing 17th in the world in the *Times Higher Education* ranking of world universities. The University had acknowledged

3. University Relations: Annual Report of the Vice-President, 2009-10 (Cont'd)

expertise in the area of accountability measures and had worked with the news organizations on the ranking process. Ms Wolfson referred to a one-sheet document demonstrating the University's strong position in various university and research rankings.

- **International activities**. Innovation, globalization and the migration of talent had become major factors impacting universities. There had been a rapidly growing interest in international initiatives among the University's faculty and students. There was in addition a growing interest on the part of governments in international partnerships in higher education and research. Universities abroad were increasingly looking to the University of Toronto as a potential partner in education and research initiatives. The University had received numerous visits from international dignitaries. The University was looking to establish relationships and opportunities for faculty, students and researchers, especially in countries where governments had made major new commitments to post-secondary education. Those countries included India, China (as well as Hong Kong and Taiwan). The University was also developing a new concentration on the Americas, especially Brazil. It was aiming to strengthen cooperation with leading industries to advance opportunities for student mobility and research partnerships.

- **Advocacy** activity received constant attention. The University had received very significant support from the federal and provincial governments during 2009-10 including special funding for the Munk School of Global Affairs and the Institute for Municipal Finance and Governance as well as assistance for restoration projects at University College. A number of policy issues had been resolved favourably including: (a) flexibility on the use of graduate funding for masters-level or doctoral-level students, and (b) indexation of tuition fee figures for purposes of assessing student applications under the Ontario Student Assistance Program.

  For 2011, the University would continue its efforts to maintain strong relationships with the federal and provincial governments, seeking increased support for research and for students. It would be particularly important to make the case for the universities during any federal election that might be called during 2011. An election in the Province of Ontario was scheduled for October 6, 2011, and again the University would use the opportunity to make its advocacy case. Because the Province was the University's main funder, a very high priority had to be assigned by the University of Toronto and others to maintaining strong relationships at Queen's Park. The University was fortunate to enjoy many strong relationships with Provincial authorities. Relationships with the City of Toronto, the City of Mississauga, and the local communities were also very important. The University would have to enjoy the cooperation of the City of Toronto with respect to its participation in the Pan-Am Games. It was generally important that authorities in the City of Toronto and the City of Mississauga understand the mandate of the University because City approvals were required for various University purposes.

- **Community Impact Report**. Members of the Business Board had requested a report that would illustrate the impact of the University on the community. The *Community Impact Report* provided an important snapshot of key aspects of that impact. A much expanded description of

3. University Relations: Annual Report of the Vice-President, 2009-10 (Cont'd)

the University's impact could be found on the web at www.impact.utoronto.ca. That website, which had just been activated, would be updated on a regular basis. The *Report* and the website made it clear that the University had a very large impact locally, nationally and internationally. Ms Wolfson outlined the content of the *Report*, which dealt with the university's contributions to: health in Canada and abroad; building the community; environmental sustainability; artistic and design creativity and athletic excellence; job creation and the economy; and ideas and discoveries that were making the world better. The impact website included links to numerous University organizations that were having an impact on the community. Ms. Wolfson thanked Mr. McTiernan and Ms Strong, as well as numerous others, for their exceptional work in producing the *Community Impact Report*.

Members of the Board, by their applause, congratulated Ms Wolfson on her annual report and on the *Community Impact Report*. Various members: urged that the *Community Impact Report* be distributed to and presented at the Governing Council; thanked Ms Wolfson for hearing and taking up the suggestion to prepare a community impact report; and congratulated Ms Wolfson and her colleagues on the *Report* which would be of great value to the University both internally and externally and which would foster pride on the part of members of the University.

4. Capital Projects Report as at October 31, 2010

The Board received for information the Report on Capital Projects Under Construction as at October 31, 2010, providing information on projects with a total budgeted cost of $373.43-million.

5. Borrowing - Status Report to November 30, 2010

The Board received for information the Borrowing Status Report as at November 30, 2010. That Report showed a maximum borrowing capacity of $971.5-million pursuant to the University's borrowing strategy. $894.1-million of borrowing had been allocated, net of repayments that could be reallocated. The allocated amounts were required only as projects proceeded; therefore not all of the allocated borrowing had been executed. Actual external borrowing amounted to $525.9-million. Internal borrowing outstanding was $216.9-million.

6. Capital Project: St. George Campus Data Centre Renewal, Phase 1

Mr. Shabbar said that the St. George Campus Data Centre had been located in the McLennan Physics Laboratory Building since 1977 and served the needs of the campus's faculty, staff and students. Computing technology had evolved dramatically since that time, and the facility had not kept pace. It was, therefore, essential to renew the facility to serve its purpose and to minimize the risk to the continuing operating of the various University systems it served including the Blackboard system for courses, the student records system, the administrative management systems and others. The updated facility would include improved electrical power, cooling and fire protection, and emergency power, and it would provide for increased capacity for the University's shared systems and applications, for other needs on the St. George Campus, and also various needs of the UTSC and UTM campuses. Because of technological developments, the

6. Capital Project: St. George Campus Data Centre Renewal, Phase 1 (Cont'd)

new Centre would require less space than the existing facility, freeing up over 3,000 square feet for other University uses. Funding of $2.835-million would be provided by the Information and Technology Services division, with a further $2.325-million to be supplied from central funding.

In response to a question, Professor Mabury said that the new Centre would be able to accommodate further expansion of information services. The University would be outsourcing certain data-storage functions, which should prevent the need to accommodate further equipment on-site in the renovated Data Centre. If it did, contrary to the current expectation, become necessary to expand the space for the Centre, some of the freed-up space could presumably be made available for that purpose.

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

YOUR BOARD APPROVED

THAT the Vice-President, Business Affairs, be authorized to execute the St. George Campus Data Centre renewal project in the McLennan Physical Laboratories Building at a total project cost not to exceed $5,160,100, with funding as follows:

Department of Information and Technology Services	$2,835,000
Central funding	2,325,100

7. Health and Safety Requirements: Report on Compliance with Legal Requirements

Professor Hildyard reported that to the best of her knowledge, the University was in compliance with all of its health and safety obligations. She noted that her report had made reference to an incident that had occurred on the site of construction of additional facilities for the Rotman School of Management: an object falling from a tower crane. Fortunately, the incident had caused no injury. The contractor had been fined by the Ministry of Labour as a result of the incident.

8. Report of the Administrative Assessors

Risk Management

A member asked whether the Business Board had a role in the oversight of risk management. He noted that enterprise risk management was a major area for the boards of many other organizations. Ms Riggall replied that the administration was required to prepare and present to the Audit Committee an annual report on risk management. While that report did not deal with all aspects of enterprise risk management, it did deal with twelve major categories of risk. The report commented on the nature of the risk, developments that might increase the risk,

8. Report of the Administrative Assessors (Cont'd)

Risk Management (Cont'd)

and steps that had been taken to mitigate the risk - both to reduce the likelihood of risky events taking place and to reduce the impact if such events did occur. One of the University's senior executives was designated as being accountable for each particular category of risk, and provided commentary on the risk report with respect to that area. Ms Riggall reported that the University had recently established a Risk Forum, which brought together University staff with responsibility for risk in particular areas: information-technology, fire, police, health and safety and so on. The objective of the Forum was to facilitate the sharing of information related to areas of risk, to promote staff learning from each other about risk management, and to encourage professional development in the area.

A member commented that it might be very worthwhile to discuss the risk-assessment report and the broader area of risk management at the Business Board. There were often elements of risk of real importance that should be considered. Another member concurred. The entire area of enterprise risk management was becoming more important as the world changed. Enterprise risk management went far beyond financial reporting and general financial risk. A wider discussion should be invited in a broader forum than the Audit Committee.

Mr. Switzer said that the matter of risk assessment had been discussed at the two fall meetings of the Audit Committee, and Ms Riggall had been asked to work with the Secretariat on revisions to the Committee's terms of reference to define more specifically the Committee's responsibility in the area of risk management. The terms of reference would presumably prescribe the steps to be taken by the Audit Committee if it saw need for action to deal with a particular area of risk. Proposals concerning revision of the Audit Committee's terms of reference would be brought forward to the Business Board and, if satisfactory to the Board, forwarded to the Governing Council for approval. Ms Riggall and Mr. Switzer clarified that the current risk assessment was much broader in its scope than the assessment of financial reporting and financial risk. The Chair said that, even under the current terms of reference, the Audit Committee would presumably report any unresolved concerns about risk up to the Business Board.

9. Date of Next Meeting

The Chair reminded members that the Board's next regular meeting was scheduled for Monday, January 31, 2011 at 5:00 p.m. While the planned theme of the meeting was to be the capital program, a major matter of consideration would be the pension-plan funding strategy.

10. Other Business

Governing Council Elections

The Chair said that there would be places available for three alumni members of the Governing Council for three-year terms beginning on July 1, 2011. Nomination / application

10. Other Business (Cont'd)

Governing Council Elections (Cont'd)

forms were now available and nominations were open until January 28. There would also be places available on the Governing Council for eight students and three members of the teaching staff. Nominations would open on January 7 and close on Friday, January 21. All members were urged to encourage good potential members to become involved in the University's governance. Members of the appropriate constituencies were asked to nominate good potential members and to vote in the elections.

THE BOARD MOVED INTO CLOSED SESSION

11. Quarterly Report on Donations over $250,000, August 1 – October 31, 2010

The Board received for information the Quarterly Report on Donations over $250,000 for the period August 1 – October 31, 2010.

12. Closed Session Reports

Human Resources: Collective Agreement with the Ontario Public Service Employees Union, Local 519

Professor Hildyard reported on the recent collective agreement between the University and the Ontario Public Service Employees Union, local 519, representing Police Special Constables and Communications Operators.

THE BOARD MOVED *IN CAMERA*

13. Real Estate Transaction

The Board considered a proposal for a real estate transaction.

THE BOARD RETURNED TO OPEN SESSION

The meeting adjourned at 7:10 p.m.

Secretary		Chair

January 20, 2011

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