

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

[REVISED] REPORT NUMBER 213 OF THE BUSINESS BOARD

Monday, September 22, 2014

To the Governing Council,
University of Toronto.

Your Board reports that it met on Monday, September 22, 2014 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Mr. W. John Switzer (Chair)
Professor Scott Mabury,
Vice-President, University Operations
Professor Angela Hildyard,
Vice-President, Human Resources & Equity
Mr. David Norris Bowden
Ms Caitlin Campisi
Mr. Ben Coleman
Mr. Jeff Collins
Ms Sara Gelgor
Mr. Gary D. Goldberg
Professor Avrum Gotlieb
Mr. Paul Handley
Mr. Arthur Heinmaa
Mr. William Hewitt
Professor Edward Iacobucci
Ms Paulette Kennedy
Mr. Mark Krembil
Ms. Nancy Carolyn Lee
Mr. John Paul Morgan
Ms Catherine Riddell
Mr. Christopher Thatcher
Mr. Keith Thomas

Presidential Assessors

Ms Sheila Brown, Voting Assessor
Mr. Andrew Arifuzzaman, Non-Voting Assessor
Ms Christine E. Burke, Non-Voting Assessor
Mr. Paul Donoghue, Non-Voting Assessor
Ms Sally Garner, Non-Voting Assessor
Mr. Malcolm Lawrie, Non-Voting Assessor
Ms Anne E. MacDonald, Non-Voting Assessor
Professor Sioban Nelson, Non-Voting Assessor
Mr. David Palmer, Non-Voting Assessor
Mr. Ron Swail, Non-Voting Assessor

Secretariat:

Ms. Sheree Drummond
Mr. Patrick McNeill

Regrets:

Mr. Ian Freedman
Ms Zabeen Hirji
Ms Jane Pepino

In Attendance:

Ms Gillian Morrison, AVP, Divisional Relations and Campaigns, University Advancement
Professor Emeritus Ronald Venter, Faculty of Applied Science and Engineering
Mr. Tad Brown, Senior Legal Counsel, Office of the Vice-President, Advancement and Office of the Vice-President, University Operations
Mr. Mark Drouin, Director, Environmental Health & Safety, Human Resources and Equity
Professor Catherine Whiteside, Dean, Faculty of Medicine and Vice-Provost, Relations with Healthcare Institutions
Professor Trevor Young, Chair, Department of Psychiatry and Dean Designate, Faculty of Medicine

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Professor Christopher Yip, Director, Institute of Biomaterials and Biomedical Engineering (IBBME)

Ms. Lisa Becker, Director, Operational Due Diligence and Chief Compliance Officer, University of Toronto Asset Management Corporation (UTAM)

Mr. Bob Boeckner, Member, Audit Committee

Mr. John Hsu, Chief Operating Officer, UTAM

Mr. Adrian Hussey, Managing Director, Portfolio and Risk Analysis

Ms Julie Mathien, President, Huron-Sussex Residents Organization

Mr. William Moriarty, President and CEO, UTAM

Mr. Chuck O'Reilly, Director, Manager Selection, UTAM

Ms Ceta Ramkhalawansingh, Ward 20 Councillor, Toronto City Council

Mr. Cam Richards, Managing Director, Asset Allocation, UTAM

Mr. Daren Smith, Managing Director, Manager Selection, UTAM

ALL ITEMS ARE REPORTED TO THE GOVERNING COUNCIL FOR INFORMATION.

MAIN THEME – INVESTMENTS AND THE ENDOWMENT

OPENING ITEMS

1. Introductions and Chair's Remarks

The Chair welcomed members and guests to the meeting and invited members to introduce themselves.

2. Approvals Under Summer Executive Authority

The Chair informed the Board that, under Summer Executive Authority, the Voluntary Retirement Incentive Program for OISE Administrative Staff was approved on July 11, 2014. Professor Angela Hildyard noted that the deadline for employees to take advantage of the program was September 30, 2014.

3. Calendar of Business, 2014-15

The Chair noted that the Calendar of Business, which was organized thematically so that related items of business could be brought to the same meeting, would be updated on-line every Friday.

4. Investments: Semi-Annual Update on Investment Performance

Ms Sheila Brown, Chief Financial Officer, reported that there were three pools of funds: the expendable funds investment pool (EFIP) which included operating, ancillary, expendable donations, capital and research funds; a long-term capital appreciation pool (LTCAP), which included funds invested for the long-term, including, predominantly endowments, and; the Pension Master Trust (PMT) that included assets for the two registered pension plans. Each

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investment pool had its own risk profile, target return and investment strategy. All funds were under the management of the University of Toronto Asset Management Corporation (UTAM).

Mr. Bill Moriarty, President and Chief Executive Officer of UTAM introduced himself and the members of his senior management team who were in attendance. He proceeded to offer a presentation¹ highlighting the following four key points related to investment performance for LTCAP and PMT:

- The returns for the six month period from January 30, 2014-June 30, 2014 were very good, almost 8% and almost 18% over a 12 month period.
- This period had been a strong one for equity markets and the reference portfolio reported a return of 6.51% for the six-month period ended June 30, 2014. This return compares with the 3.7% target return for PMT and LTCAP for the same period.
- Active management decisions during the first half of 2014 added an extra 1.35% for LTCAP and 1.29% for PMT as compared to the reference portfolio.
- There was projected to be a more challenging environment ahead, and future returns were projected to be lower as a result. Returns from a simple 60/40 portfolio were projected to be around 3.84% nominal return (below the University's target of 4% plus CPI). As such, earning incremental returns from active management by UTAM would be critical.

Members asked questions regarding costs of portfolio management, active management by UTAM managers, and the impact of revised mortality metrics with respect to pensions. Mr. Moriarty noted that the all-in cost for portfolio management without calculating profit sharing for managers was approximately 80bps. Ms. Brown emphasized that the returns presented were net of investment fees and expenses. With respect to active management, Mr. Moriarty noted that, especially in difficult economic environments, the expertise of managers employing active management strategies was key to achieving target returns. Where possible, UTAM had implemented a strategy whereby managers received compensation based on their investment approach outperforming the benchmark. Finally, with respect to new mortality tables, Ms Brown said that the Pension Committee would be reviewing the actuarial assumptions, including the mortality tables, at its upcoming meeting, and that the Business Board would be reviewing the pension contribution strategy later in the year. In addition, the University would be applying to the Ontario Ministry of Finance for acceptance to Stage 2 of the Government's Temporary Solvency Funding Relief Program.

The Chair thanked Mr. Moriarty and his team, and noted that the President's Investment Advisory Committee, which provided oversight to UTAM's investment strategy, was pleased with current investment performance.

5. Endowments: Annual Report for the year ended April 30, 2014

Ms Brown reported that the University had more than fifty-seven hundred individual endowment funds, almost all of which were pooled together in the Long Term Capital Appreciation Pool, which was a unitized pool that was managed like a mutual fund for investment and payout

¹ To access Mr. Moriarty's presentation, please see: <http://uoft.me/BBitem4-2014sep22>

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purposes. This annual report, prepared primarily for major donors, summarized the health of endowments collectively. Endowments had experienced good returns of 14.6% for the year (May 2013 to April 30, 2014) and collectively had significantly improved endowment health since last year, with most of the inflation protection reserve now having been rebuilt. Only about 11% of individual endowments still had book value higher than their market value.

There were no questions from members.

6. Health and Safety: Quarterly Report on Compliance

Further to the Report that was included in the meeting package, Professor Angela Hildyard indicated that the University had reviewed its procedures related to the way in which floors were stripped. A member remarked on the small number of incidents for such a large institution and congratulated Professor Hildyard and her team on their work.

7. Huron-Sussex Neighbourhood Planning Study

Professor Scott Mabury provided an introduction, noting that the planning study was an initiative that began in 2010 and that the development plan was a three-way agreement between the Huron-Sussex Residents Organization, the University and the Ward 20 Councillor's Office, with the goal of ensuring a diverse and economically sustainable community. After introducing, Ms Julie Mathien, President, Huron-Sussex Resident's Organization, a joint presentation was given which detailed the priorities for economic sustainability as well as the components of the development plan.²

Ms Mathien acknowledged Ms Ceta Ramkhalawansingh, Interim Councillor for Ward 20, and thanked her for her support throughout the planning process. Councillor Ramkhalawansingh offered comments on the positive relationship between the University and the community and noted recent productive conversations with respect to the Planetarium site development. She noted the importance of balancing the University's objectives with the objectives of the community.

The Chair thanked Professor Mabury and Ms Mathien for their presentation and Councillor Ramkhalawansingh for her participation. He remarked on the significance of University and community representatives working collaboratively on community planning and development.

8. Report on Capital Projects as of September 30, 2014: Under Construction and Occupied

Professor Mabury summarized the Report. In response to a comment from a member, Professor Mabury highlighted the success of the Toronto Pan Am Sports Centre (TPASC) at the University of Toronto Scarborough and noted that the project had finished on time and under budget.

² To access Professor Mabury's presentation, please see <http://uoft.me/BBitem7-2014sep22>

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9. Moody's Report: Tight Provincial Relationships Strengthen Credit Quality of Universities in Ontario, British Columbia and Quebec and Special Comment Regarding Ontario, British Columbia and Quebec

Ms Brown indicated that this Report had been provided to members for information. There were no questions from members.

10. Status Report on Debt to September 30, 2014

Ms Brown reported that the University had a debt strategy focused on affordability of debt, whereby the debt policy limit was the maximum debt that can be taken based on a debt burden ratio of 5% (interest plus principal divided by total expenditures). The debt was a combination of external and internal debt. External debt was supported by three credit ratings (Moody's Investors Service, Standard & Poors, Dominion Bond Rating Service), all of which were at AA mid-level (stable). An example of a research report by these agencies could be found in the material for item 9 in the agenda for this meeting.

In response to a question from a member about the viability ratio (expendable resources divided by debt), Ms Brown explained that it was used by the University as a secondary criterion when setting the annually-established debt policy limit. She noted that that the affordability criterion was widely used by universities across North America.

11. Reports of the Administrative Assessors

There were no reports of the Administrative Assessors.

OPEN SESSION CONSENT AGENDA

On a motion duly moved, seconded, and carried

YOUR BOARD APPROVED

THAT the consent agenda be adopted.

12. Report of the Previous Meeting

Report Number 212 from the meeting of June 12, 2014 was approved

13. Business Arising from the report of the Previous meeting

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There was no business arising from the report of the previous meeting.

CLOSING ADMINISTRATIVE MATTERS

14. Other Business

No other business was raised.

15. Date of Next Meeting: Monday November 3, 2014

The Chair advised members that the date of the next meeting would be Monday, November 3, 2014 at 5:00 p.m.

On a motion duly made, seconded and carried,

It was Resolved

THAT pursuant to section 33(i) of By-Law Number 2, the Board meet *in camera* to consider agenda items 16-22 , with other members of the Governing Council, the Board's assessors, Secretariat, and any staff members invited by the assessors invited to remain in attendance.

THE BOARD MOVED *IN CAMERA*

16. Reports of the Administrative Assessors

There were no reports of the Administrative Assessors.

17. Capital Project: Faculty of Applied Science and Engineering, and Faculty of Medicine Translational Biology and Engineering Laboratories in the MaRS Centre Phase 2 Tower

a. Execution of Project (for approval)

On motion duly moved, seconded and carried

YOUR BOARD APPROVED

THAT Professor Scott Mabury, Vice-President University Operations, be authorized to implement the Translational Biology and Engineering Laboratories project, in the MaRS Centre, as outlined in the memo dated September 9, 2014 for September 22, 2014.

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18. Real Estate Transaction

Professor Mabury agreed to provide members with additional information regarding the terms of the transaction.

On motion duly moved, seconded and carried

YOUR BOARD APPROVED

The recommendation regarding a real estate transaction as outlined in the memorandum from Professor Scott Mabury, Vice-President, University Operations, dated September 22, 2014.

19. Collective Agreement Between University of Toronto and United Steelworkers, Local 1998

Professor Angela Hildyard, Vice-President, Human Resources and Equity advised the Board of the details of the Agreement.

20. Employee Compensation

On motion duly made, seconded and carried

YOUR BOARD APPROVED

The recommendation regarding compensation for Professional , Managerial, & Confidential staff, Advancement Professionals, Senior Research Associates, and Research Associates, as contained in the memorandum from Professor Angela Hildyard, Vice-President, Human Resources and Equity, dated September 19, 2014.

21. Quarterly Report on Gifts and Pledges over \$250, 000, May 1 – July 31, 2014

The Quarterly Report was received by the Board for information.

The Board returned to open session.

The meeting adjourned at 7:57 p.m.

Secretary

Chair

September 24, 2014