AMENDED

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 152 OF THE BUSINESS BOARD

October 10, 2006

To the Governing Council,
University of Toronto.

Your Board reports that it met on Tuesday, October 10, 2006 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Ms Jacqueline C. Orange (In the Chair)
Mr. John F. (Jack) Petch, Vice-Chair of the Governing Council
Dr. C. David Naylor, President
Ms Catherine J. Riggall, Vice-President, Business Affairs
Professor Angela Hildyard, Vice-President, Human Resources and Equity
Mr. Donald A. Burwash
Mr. P. C. Choo
Dr. Alice Dong
Ms Mary Anne Elliott
Ms Susan Eng
Mr. Robin Goodfellow
Ms Kate Hilton
Professor Glen A. Jones
Ms Paulette L. Kennedy
Mr. Raj Kothari
Mr. Gerald A. Lokash
Mr. David Oxtoby
Ms Marvi H. Ricker
Professor Arthur S. Ripstein
Ms Estefania Toledo
Ms B. Elizabeth Vosburgh

Ms Rivi Frankle, Interim Vice-President, and Chief Advancement Officer
Ms Judith Wolfson, Vice-President, University Relations
Mr. John Bisanti, Chief Capital Projects Officer
Ms Sheila Brown, Chief Financial Officer
Ms Christina Sass-Kortsak, Assistant Vice-President, Human Resources
Ms Elizabeth Sisam, Assistant Vice-President, Campus and Facilities Planning
Professor Safwat Zaky, Vice-Provost, Planning and Budget

Secretariat:

Mr. Neil Dobbs
Mr. Henry Mulhall

Regrets:

Mr. Richard Nunn
Dr. Gerald Halbert
Mr. Geoffrey Matus
Mr. George E. Myhal
Mr. Stephen C. Smith
Mr. Robert S. Weiss
Mr. W. David Wilson

In Attendance:

Mr. Felix P. Chee, President and Chief Executive Officer, University of Toronto Asset Management Corporation
Ms Barbara Dick, Executive Director, Alumni Affairs and Administration, Office of the Vice-President and Chief Advancement Officer

In Attendance (Cont'd)

Mr. Brian Dowling, Divisional Controller, Division of University Advancement
Mr. Ira Gluskin, Chair of the Board, University of Toronto Asset Management Corporation
Dr. Jeanne Li, Special Assistant to the Vice-President, Business Affairs
Professor George Luste, President, University of Toronto Faculty Association
Mr. John Lyon, Managing Director, Investment Strategy, University of Toronto Asset Management Corporation
Ms Anne Macdonald, Director, Ancillary Services
Ms Meredith Strong, Interim Special Assistant to the Vice-President, University Relations
Mr. Nick Zouravlioff, Director, Capital Projects

ALL ITEMS ARE REPORTED TO THE GOVERNING COUNCIL FOR INFORMATION.

1. Chair's Remarks

The Chair welcomed members to the first regular meeting of the Business Board for the 2006-07 year. Because the Board had had an orientation session, the Chair proposed to omit the usual introductions and summary of the ground rules. Members had received with the orientation packages both the Board's Terms of Reference and a "Frequently Asked Questions" document, which put down on paper most of the procedural information members would require. The Chair stressed her continued intention to focus the Board's work on the overall strategic view of the University's financial picture. While the Board would deal with many issues, its most important work would deal with "big picture" strategic matters.

2. Reports of the Previous Meetings

Report Number 150 (May 29, 2006) and Report Number 151 (June 22, 2006) were approved.

3. Vice-President, University Relations: Report

Ms Wolfson said that her goal was to advance the University's strategic priorities by coordinating and facilitating efforts in the three areas for which she was responsible: (a) the University's international relations; (b) government, institutional and community relations; and (c) strategic communications. Within each of those areas, there were two bundles of activity: the first to operate machinery to accomplish the Division's role of facilitation and co-ordination, and the second to develop strategy and policy to support the University's work in the three areas.

In the area of government, institutional and community relations, Ms Wolfson said, the University had to deal with the three levels of government (federal, provincial and municipal) as well as many communities within the University and external stakeholders. It was a time of considerable flux in the government environment, with elections likely at all three levels within the foreseeable future. It was very important in those circumstances to the University that it have a strong, considered strategy. With respect to the federal government, the University's interests focused on the scientific knowledge / innovations agenda. Special interests were: (a) the

3. Vice-President, University Relations: Report (Cont'd)

promotion of continued funding of the indirect costs of federally funded research and the increase of that funding to reflect the University's real costs, and (b) the promotion of increases to direct research funding. Ms Wolfson said that her division would work to ensure that the University delivered a strong and coherent message promoting those objectives. The Province of Ontario was the source of close to 50% of the University's operating funding, and a clear, consistent strategy was essential for the University's relations with the Province. There were currently two key issues: the appropriate funding of graduate enrolment expansion and the delivery of promised quality funding. The Province had not delivered appropriate funding for those purposes, apparently holding on to the monies to use for announcements going into the election period. With respect to relations with the municipal level of government, it was very important that the University be seen for the strength it added to the Greater Toronto and Mississauga communities – that it be known as a source of expertise and as a general asset to the community. The delivery of a consistent message was essential in all government-relations activities.

With respect to the University's international relationships, there were a number of questions on which the University should concentrate. Why was the University seeking to develop relationships? What were its objectives in doing so? Where should the University focus its efforts? For example, Asia was one current area of focus. With whom should the relationships be sought? What kind of relationships? What was the University trying to accomplish in each case? When would it be most efficacious to pursue particular initiatives? In some cases, the answers to those questions were obvious, but they were less so in other cases. In all cases, the University should capitalize on the current partnerships that had been established by various University divisions and individual faculty members and officers. It must then have the machinery to ensure an efficient and consistent development of international relationships. It was particularly important to develop the University's reputation outside of Canada, where it should be seen as Canada's preeminent post-secondary institution.

The final area of focus was strategic communications with the University's internal community. That partly involved the management of issues that would inevitably arise in so large and complex an institution. The task of Ms Wolfson and her colleagues would be to ensure that the University's messages arising from those issues were sent and received consistently. Strategic communications also involved proactively telling the University's story both internally to all stakeholders and externally to the world. Ms Wolfson concluded that the role of herself and her colleagues was to have in place the machinery and the strategies that would add value to all of the University's initiatives.

In response to questions about the role of the University's expert faculty, Ms Wolfson said that the University was very fortunate to have numerous experts on newsworthy subjects among its faculty, who were quoted frequently by the news media. That represented low-hanging fruit. It was also important that Ms Wolfson and her colleagues work to use faculty experts to position the University in certain key areas. The division was currently arranging a series of round-tables for faculty experts to establish overarching principles for such proactive efforts.

3. Vice-President, University Relations: Report (Cont'd)

The roundtables would consider various questions. In what areas does the University have expertise that it should use to develop its reputation and relationships? In what areas should the University not pursue such efforts? What sorts of partnerships should the University be working to develop? There were many areas where the University could tell its story. There was no lack of material; the need was to get the message out effectively.

The Chair said that given the Business Board's responsibility for relations with the external community and for institutional communications, she thought it appropriate to invite Ms Wolfson to take just a few minutes to let the Board get to know of her early perceptions and plans. She proposed to invite Ms Wolfson back to speak to the Board after about six months to report on her progress in telling the University's stories and managing its issues.

4. President's Remarks

Invited to address the Board, the President thanked members of the Board for their service. The Business Board was an essential part of the University's governance structure. The University was a large not-for-profit corporation – a $1.3-billion operation. The University was under extraordinary financial pressure, with the University's needs chronically exceeding its revenues. The President anticipated a number of challenges in the business operations of the University in the year ahead. First, the Government of Ontario was in the final year of its mandate, and it had redirected funds that had been promised to support quality initiatives in the universities. It had now earmarked those funds (a) to support its accessibility agenda and (b) to use for discretionary spending going into the election period. The outcome was considerable damage to the University's budget situation. The University of Toronto was not alone in that outcome, and the Ontario universities as a group were in discussions with the Ministry of Training, Colleges and Universities. Second, there were challenges with respect to the expansion of graduate enrolment. The Government had set very aggressive overall expansion targets and universities in turn had set very ambitious targets for themselves. As a result, all universities were struggling to meet their institutional targets. In many cases, the President believed that universities would not meet those short-term targets. The University of Toronto was working hard to meet its own targets, which were more realistic than some other institutions, but which still represented a stretch. The University needed to meet its targets to secure budgeted revenues, and had committed itself to some additional expenditures to catalyze its anticipated graduate expansion. More important than revenues, however, was the impact of the graduate enrolment expansion in restoring an institutional balance in the relationship between graduate and undergraduate numbers.

The President said that the University's building program was continuing, and it would necessitate additional borrowing. The Board would be called upon to consider borrowing strategy pursuant to policy, in combination with the new capital plan and a proposed new real-estate strategy. While several projects on the capital plan were about to proceed through governance, the Vice-President and Provost had also invited a final round of submissions from

4. President's Remarks (Cont'd)

divisions for additional projects that would be required to enable the divisions to achieve their academic plans.

The President observed that, more generally, it appeared that the post-secondary system was facing new funding challenges. He noted that twenty years ago, funding per student was about $2,000 greater for Canadian public universities than U.S. public universities. That situation had reversed, with a gap in favour of American public universities equal to about $5,000 per student at this time. Moreover, that gap was based on national average funding, and per-capita funding for higher education in Ontario ranked last among the Canadian provinces. Added to that chronic gap was the pressure of accommodating unanticipated undergraduate enrolment growth with inadequate funding. The President hoped that the Province would eventually make adjustments to its total funding for universities, rather than using the resources promised for quality improvements for accessibility funding and for pre-election spending. The President closed by emphasizing that while the year was likely to be a challenging one, he was confident that with the support of the University's governance and with sound management, the University would continue to serve its students and its communities for another 180 years!

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

(a) Higher Education Quality Council. In response to a question, the President said that the establishment of the Higher Education Quality Council was one manifestation of the Government's wish for greater accountability and openness. The challenge was to provide the analytical basis for policy decisions for the Ontario system. The University of Toronto had available for the Council a set of very good performance indicators. The need was to aggregate such indicators from across the Province into a coherent whole that could be used as the basis for solid policy decisions. For example, enrolment in the Province's Colleges of Applied Arts and Technology had remained relatively flat for some years while university enrolment had grown very substantially. However, that change had not been reflected in the division of funding between the colleges and the universities. While data were constantly being generated by the Council of Ontario Universities, there was still a great deal more that could be achieved. The need was to provide analytical information for the post-secondary education system comparable to that available for the health-care system. There was, of course, the risk that the establishment of the Higher Education Quality Council could lead to incursions on appropriate university autonomy. However, the Council was being chaired by the Honourable Frank Iacobucci, an individual with a deep understanding of universities, and the President was on balance cautiously optimistic about the outcome of the Council's activities.

(b) Effect of the withdrawal from the Maclean's magazine university survey. A member asked the President to comment on the effect on government funding and on advancement activities of the University's withdrawal from the Maclean's magazine survey when the University had consistently been ranked as the leading university in its class. The President replied that twenty-four universities had declined to participate in the survey. It was not appropriate for the University to expend a great deal of time and resources in generating

4. President's Remarks (Cont'd)

customized data for a business. A more appropriate course of action was to generate a very good data set that could be used by reporters from various news organizations as well as other agencies and researchers nationally and internationally. The Council of Ontario Universities would over the next several weeks continue its work on producing such a data set. While the University of Toronto might well have been helped by its consistently good ranking in the Maclean's survey, great universities did not rely on their standing in "beauty contests." The President cited examples of rankings that had changed drastically from year to year because the outcomes were based on surveys of opinions, and they depended on who responded on a particular occasion. The University must have, and be judged by, clear and objective performance measures. In addition to the publication of clear and objective performance measures, the University must make its story clear to the public.

(c) Evaluation of the state of the University. The University of Toronto had a great deal of momentum going forward. It was a very large institution with an extraordinary faculty, staff and students. It produced outstanding research, and it was making progress in addressing the concerns about the experiences of its undergraduate students. On the other hand, it was chronically and seriously under-funded. That problem had been intensified by the Province's recent delay in delivering promised funding for quality improvements. The student/faculty ratio at the University of Toronto was 36:1 and rising, whereas at the University of Calgary it was 17:1 and getting lower. That left the University of Toronto with the question of how best to move forward in the absence of adequate funding and an adequate faculty complement. One key, of course, was to continue combining very large classes with small seminar classes, on the expectation that an increase in the size of very large classes would cause no real deterioration in the student experience, while greater participation in seminar classes could personalize the learning experience. The University also was placing a strong emphasis on teaching performance in faculty recruitment. It was continuing to make selective investments in various facilities and programs to improve the student experience. It was, however, clear that there was need for an increase in the level of public funding of Ontario universities. If that funding were increased only to the national average, the effect would be transformative. It was becoming increasingly clear that it would be necessary to bring the Government of Canada to the table to ensure equity among provinces. At the present time, about one third of Canadian students were being penalized by the system of federal taxes and transfers as they affected provincial capacity to pay for higher education and other social programs.

5. Investments: Semi-annual Update on Investment Performance to June 30, 2006

Mr. Chee presented the report of the University of Toronto Asset Management Corporation (UTAM) on investment performance to June 30, 2006. Among the highlights of his report were the following.

- **Market environment and UTAM strategy**. For the 2006 year to June 30, the U.S. equity markets had provided a return of 8.5% in U.S. dollar terms and 3.6% in Canadian

5. Investments: Semi-annual Update on Investment Performance to June 30, 2006 (Cont'd)

dollar terms. Canadian equities had returned 6.2%. Canadian bonds had been in negative territory for much of the 2006 year. However, interest rates had declined and therefore the market price of already-issued bonds had increased, providing a total return of 3.3% on Canadian bonds for the year to date. The return on Canadian real-return bonds had however been –1.4%. While the markets had been choppy, the day-to-day volatility had been quite low. Market volatility in general had peaked at the end of 2002, with the standard deviation of the Standard and Poor's 500 Index of large U.S. stocks being 45%. For the past few years, however, the average standard deviation had been 20%. At the present time, it was about 11%. In such circumstances, it was much more difficult for active managers to earn returns greater than the index return. Active managers relied on volatility to position their portfolios away from the general market, which they would perceive as being too expensive or as being undervalued at particular times.

The markets had been dominated by commodity inflation (especially in energy prices and base metal prices) and by geopolitical factors. Those factors had had an especially pronounced effect on the Canadian markets, which were dominated by the shares of energy and base-metal producers and financial-services companies (those companies together represented almost 70% of the Canadian market). In addition, commodity prices had affected the value of the Canadian dollar. Although U.S. equities had provided a return of 8.5% in the first half of the year, that return had been reduced to 3.6% in Canadian dollar terms owing to the growth in the value of the Canadian dollar. Bond returns had also been affected by the fear of inflation.

Overall, investors had perceived the level of risk as being higher, and they had been unwilling to take large positions in anticipation of market developments. There was a premium in the market on security and liquidity. As a result, if the market was to turn, the most liquid securities in the G8 industrialized countries would likely be most affected.

Given that view of the market, combined with the nature of the liabilities of the pension plan and the endowment funds, UTAM had decided to maintain a very defensive posture in its investments.

- **Assets under management**. Total assets under UTAM's management had grown by 8.3% to \$4.7-billion as at June 30. The Long-Term Capital Appreciation Pool (L.T.CAP), consisting mostly of the endowment funds and the money set aside for the Supplemental Retirement Arrangement, had grown by 9.1% to \$1.7-billion. The pension fund had grown by 6.7% to \$2.6-billion. The Expendable Funds Investment Pool had grown by 15% to \$413-million. The growth represented the outcome of both investment returns and the addition of new moneys to the funds above the amount paid out to the beneficiaries of the endowment funds, to pensioners, etc.

5. Investments: Semi-annual Update on Investment Performance to June 30, 2006 (Cont'd)

- **Investment performance relative to market benchmarks**. The investment return for the L.T.CAP for one year to June 30 had been 8.08%, which lagged the fund's market benchmark (the return on a combination of securities indices reflecting the L.T.CAP's policy asset mix) by 1.23%. Similarly, the return on the pension fund had been 6.95%, lagging the benchmark by 1.48%. Beginning in the current year, UTAM had adopted the same asset mix for the two major funds. The pension fund had been restructured to match the asset mix of the L.T.CAP, and the impact of that restructuring had been the larger lag in performance behind the benchmark. Returns over two and three years had been higher and closer to their benchmarks, with the decline in the longer term figures reflecting the performance in the more recent year.

  Mr. Chee said that while he would most certainly have preferred returns to have exceeded their benchmarks, he was not overly concerned that they had not done so. Given its concerns about the market (above), UTAM had adopted a defensive position in its portfolios. It major objective was to ensure positive returns and not to risk large negative returns like those in 2000 and 2001, when the markets had corrected. It was essential to avoid another "blow up."

- **Investment performance relative to other Canadian funds**. For the year ended June 30, the L.T.CAP had placed in the top 18% of peer Canadian funds ranked by RBC Global Services. The pension fund ranked in the 36th percentile, well above the median. While fixed-income returns stood very high in the rankings, the percentile rank for the total fund exceeded the percentile ranks for most equity asset classes. That indicated that a good part of the relative success of the funds compared to peers arose from their asset mix.

- **Investment performance compared to U.S. endowment funds**. The L.T.CAP ranked in the top quartile compared to 700 U.S. endowment funds measured by Cambridge Associates. For the three- and five-year periods, the L.T.CAP ranked very near the top of the survey, in part a reflection of the fact that performance in this survey was measured in U.S. dollars over a period when the Canadian dollar had gained in relative value.

- **Cost-effectiveness measurement survey**. In another Canadian survey, UTAM's pension fund returns ranked just below the median for 2005 but in the top 16% in 2004. That survey also measured the value added by the active management of the fund by comparing total return of the weighted composite of the indices making up the fund's policy asset mix. Active management of the pension fund had added 2.4% to the pension fund's return over the five years 2001-05. The value added had ranked very high compared to peers in 2003, 2004 and 2005.

5. Investments: Semi-annual Update on Investment Performance to June 30, 2006 (Cont'd)

It was important in looking at return and value-added to compare those factors to the risk assumed to achieve the return and the value-added. The survey showed that the risk assumed by the University's pension fund to add value was 0.9%, which was below the Canadian median of 1.5%.

It was also important to consider the cost of adding value: both management fees and UTAM's costs. The conclusion was that UTAM had added value after costs, with the costs being normal ones. While they were slightly higher than that of the peer funds, they were by no means significantly higher, and UTAM was undertaking initiatives to reduce costs further.

- **Comparison of pension plan assets and liabilities**. Considering the liabilities of the pension plan, it was clear that the key to UTAM's investments had to be the achievement of consistent returns. The liabilities of the pension plan were growing because of such factors as demographics and benefit improvements at a rate in excess of 10% per year. The plan's assets were growing at a rate of 6% per year. It was clear that no investment program could close that gap. It was essential, however, than the investment of the fund not increase the gap.

Among the matters that arose in discussion were the following.

(a) Gap between the growth in pension plan liabilities and assets. The President observed that in part because of demographic reasons, the gap between the liabilities and the assets of the pension plan would continue to grow. He asked Mr. Chee to advise on how to address that gap.

Mr. Chee replied that it would be very important to watch the liability side, perhaps limiting the indexation of benefits or moving to a defined-contribution plan for the Supplemental Retirement Arrangement or for the full pension plan for new employees. The issue was not unique to the University; many plans had growing gaps. To seek investment returns in excess of 10% per year to match the growth in liabilities would require the use of leverage, which would enable improved returns but also increase risk. Mr. Chee thought it unlikely that the University could afford the level of risk required to invest for such high returns.

Ms Brown added that the Board would at its November meeting receive the annual financial report on the pension plans. That Report included a summary of the actuarial valuation and an update on the pension strategy. She recalled that the pension strategy called for the University to make full current-service-cost employer contributions as well as special additional payments in order to overcome the deficit.

A member urged that the most important of the performance measure for UTAM's investment returns be the one required to close the funding gap, which should be the most important objective in the management of the pension fund.

5. Investments: Semi-annual Update on Investment Performance to June 30, 2006 (Cont'd)

Regarding the Government of Canada's debt, there was some debate whether there would be sufficient income-grade fixed-income securities in the market to serve the needs of pension plans if many or most of them shifted a large proportion of their assets into fixed-income investments. Ms Brown recalled that the University's pension strategy assumed a return that included a premium for investing a part of the fund in equities. The pension plan deficit reported on the financial statements, on the other hand, did not include any provision for an equity premium. The liability of the pension plans was discounted at the long-term bond rate. The Chair noted that the annual financial report on the pension plans, including a report on the status of the pension strategy, would be before the Board at its next meeting on November 9, 2006.

(b) Outlook for performance for the remainder of the year. A member asked whether Mr. Chee anticipated that investment performance would improve sufficiently over the remainder of the year to meet the performance benchmark. Mr. Chee replied that while returns had been coming closer to matching the benchmark, there was a less than 50% chance of performance for 2006 reaching the benchmarks. UTAM had not positioned the funds to do so; it had instead placed the funds in a defensive posture to avoid any serious harm to them in the event the markets should suffer a serious decline.

(c) UTAM's defensive posture. A member asked Mr. Chee why UTAM had decided to adopt a defensive posture. Mr. Chee replied that the decision was the outcome of UTAM's current view of the market and more importantly the outcome of the needs of the funds. With liabilities of the pension plan increasing at a compound rate in excess of 10%, it was important that the investment side not make the problem worse.

Ms Brown added that the University's key need with respect to the pension fund was to earn over the long term the target return established for the pension funds, which was an average return of 4% per year after inflation and after fees and costs. That was one of the key assumptions underpinning the University's pension contribution strategy. There would be volatility from year to year, with the fund's being above or below its benchmark from year to year. The most important objective, however, was not to match or exceed the investment-return benchmark, but to earn the needed 4% real return after inflation and after costs.

Mr. Chee confirmed that the 4% target after inflation and after costs was UTAM's focus, notwithstanding the fact that UTAM staff compensation was based on performance relative to the benchmark and relative to other funds. Achieving that target would likely require a return of between 7½% and 8% for the current year, and the one-year return was currently reaching that level.

(d) Market environment. A member asked Mr. Chee about his view that there was a premium in the market on security and liquidity. Did that mean that there was likely to be the most volatility in the higher quality stocks? Mr. Chee replied in the affirmative. He thought that the

5. Investments: Semi-annual Update on Investment Performance to June 30, 2006 (Cont'd)

markets might well be at a major inflection point. For example, there had been a downturn in the international markets in May, especially in the markets of the emerging countries. The largest declines had taken place in the highest quality, most liquid stocks, which had provided the only exits. The less liquid stocks had declined less. Mr. Chee agreed with the member's assessment that the increased volatility would at least enable the active portfolio managers to make trading gains. On the other hand, the member noted, and Mr. Chee agreed, that unsettled markets could lead to a race for the exits, bringing about a large downdraft. There was likely to be more movement in highly liquid areas of the market.

(e) Private markets investments. Mr. Chee noted that private-market investments tended to be less volatile than traditional investments in publicly traded equities, and UTAM was growing the proportion of investments in private markets. Because it took from three to five years to realize returns from private-market investments, the returns from those investments were not reflected in the performance figures at this time. Mr. Chee anticipated that in light of (i) the returns that had historically been achieved in private equity and other private-market investments, and (ii) the proportion of such investments in UTAM's portfolios, those investments could add between 2% and 3% per year to overall fund returns.

(f) Pension plan funding. Invited to address the Board, Professor Luste expressed concern about the target of a 4% real return on the pension fund, after inflation and costs. That target was reflected in the assumption used in the funding of the pension plan, and Professor Luste questioned whether such a return could be achieved going forward. He noted that the Ontario Teachers' Pension Plan had concluded that it would not be possible to achieve such a return, and it based its funding on the assumption of a 2 ½% real return, something that had led to that plan, notwithstanding its excellent investment returns, being in a $20-billion to $30-billion deficit position. The matter was a very significant one, with a 1% change in the return assumption leading to a 20% change in the valuation of a pension plan's unfunded liability. For the University's pension plan, that would mean a further $400-million - $500-million shortfall. The unfunded liability of the pension fund was the outcome of many years of taking a contribution holiday. In those years, the usual current-service contribution should have been set aside, notwithstanding the surplus in the actuarial valuation.

Ms Brown replied that the question was an interesting one, reflecting one of a variety of possible ways of looking at the matter of pension plan funding. Indeed, there was a school of thought that pension plans should assume no risk whatever, matching their liabilities solely with fixed-income securities. Such a strategy would likely currently deliver a real return (after inflation and costs) of only about 2½%. The University of Toronto target included the higher return expected to be achieved over the longer run by assuming some volatility risk and gaining the additional long-run returns that had historically been achieved by investing a portion of the pension fund in equities. Using only fixed-income securities that matched the liabilities of the pension fund would be possible, but it would require substantially higher contributions to the plan. In addition, with the reduction in the level of the Government of Canada's debt, there was some debate whether there

5. Investments: Semi-annual Update on Investment Performance to June 30, 2006 (Cont'd)

would be sufficient investment-grade fixed-income securities in the market to serve the needs of pension plans if many or most of them shifted a large proportion of their assets into fixed-income investments. Ms Brown noted that the University's pension contribution strategy assumed a return that included a premium for investing a part of the fund in equities. The accounting valuation that determined the pension plan deficit reported on the financial statements, on the other hand, as required by Generally Accepted Accounting Principles, did not include any provision for an equity premium, and the liability of the pension plans was therefore discounted at current long-term bond rates. The Chair noted that the annual financial report on the pension plans, including a report on the status of the pension strategy, would be before the Board at its next meeting on November 9, 2006.

(g) Alternative investments / hedge funds. In response to a question, Mr. Chee said that UTAM's asset mix included a 10% allocation to alternative investments. Investments in that category currently stood at about 8% of the Long-Term Capital Appreciation Pool and the pension fund, with the aim of an increase to the full allocation. The objective of the investments in funds of hedge funds was to achieve an absolute return of between 5% and 7% per year with low volatility in both rising and declining markets. The volatility of returns in the category had been about 2% per year, compared to average annual volatility of 10% and 12% in the returns provided by the equity markets. Hedge funds therefore had one fifth to one sixth of the volatility of equity investments. UTAM considered risk tolerance to be its most important resource in achieving returns, with higher returns having historically been provided by riskier investments. UTAM, of course, worked within the risk tolerance specified by the University. Hedge funds had provided a risk-efficient means of obtaining reasonably good returns.

Invited to address the Board, Mr. Gluskin said that Mr. Chee's presentation to the Business Board was consistent with his presentations to the UTAM Board. He commented on the reason for the conservative bias in UTAM's funds. A large proportion of both funds was invested in Canada, where recent returns, driven by the resource boom, had been excellent. That boom could, however, come to a end, with a 50% possibility of a recession in the United States. That major risk justified a conservative stance, with which the emphasis on absolute-return investments was consistent. Mr. Gluskin anticipated that the investment in absolute-return funds of hedge funds would show their value in the event of a market downturn.

The Chair asked Mr. Gluskin to accept, and to convey to the other UTAM directors, the University's and the Business Board's gratitude for the contribution of their very valuable time and expertise to the management of the University's financial assets.

6. Office of the Vice-President and Chief Advancement Officer - Annual Report, 2005-06

Ms Frankle presented the annual report of the Office of the Vice-President and Chief Advancement Officer. Among the highlights of her report were the following.

- **Financial goals exceeded**. The University had raised $101.6-million in new gifts and pledges in 2005-06, representing a 19.7% increase over the previous year and the largest amount raised since the end of the Campaign in 2000-01. It had achieved and exceeded the objective of raising between $80-million and $100-million in the post-campaign period. The amount raised included $14.3-million in annual fund gifts from 29,000 donors. $1-million of the latter amount arose from the work of the call centre. That also included $15.6-million realized from planned gifts. Finally, it included $11.3-million in gifts for student financial assistance that were matched by the Government of Ontario through the Ontario Trust for Student Support.

- **Support by sector**. Alumni continued to represent the highest percent of supporters, with 83.64% of donors being alumni and 41.30% of donations coming from alumni. Other friends of the University represented 13.39% of donors and supplied 23.80% of donations. Corporations represented 1.93% of donors, providing 13.60% of funds raised. A further 1.03% of donors were foundations and other organizations, with the amount from that source being 18.3% of the total. Finally, other donors represented 0.02% of donors, supplying 3.00% of the total amount donated.

- **Other achievements**. The University's affinity programs continued to grow, with the number of client accounts having increased over the year by 5,000 to a total of 65,000. The University continued to build its administrative, technical, policy and staffing framework for the next Campaign. In academic divisions across the University, 140 staff were at work in the advancement area. They met monthly to take part in expanded professional-development and training activities sponsored by the Division of University Advancement. The top 500 gift prospects had been identified, and stewardship activities with current sponsors had been intensified.

- **Alumni relations: divisional activities**. The annual report had been enhanced for 2005-06 to include information on alumni-relations activities sponsored by the academic divisions. Indeed, a large proportion of alumni-relations activities were sponsored by the divisions rather than by the central Division of University Advancement. Close to 300 alumni events had been arranged by the divisions over the year. 77% of those events brought alumni back to the campuses, and the campus-based events had enjoyed the highest attendance. Total reported attendance at those events was 16,500, with actual attendance probably higher. The divisions had mailed more than 350,000 printed publications to alumni, and half of the divisions reported sponsoring alumni award programs. Most divisions had at least one active alumni volunteer group.

6. Office of the Vice-President and Chief Advancement Officer - Annual Report, 2005-06 (Cont'd)

- **Alumni relations: centrally sponsored activities**. The University had developed a new visual theme for its materials for alumni, stressing inclusiveness and celebrating the achievements of all alumni. The major alumni program remained the annual spring reunion. A second signature event was the University's annual arbor awards program, which had celebrated the volunteer work of 101 alumni and other friends in support of the University. The award-winning *University of Toronto Magazine* was mailed to 260,000 alumni households four times per year. Peer institutions often mailed the alumni magazine only to donors or to dues-paying members of alumni associations. The University had in recent years stepped up its programming for recent graduates, stressing web-based and e-mail communications. New graduate pages on the alumni website had been opened over 5,000 times over the year, with over 50% of those opening the top page going on to explore the site. One thousand new graduates had provided new e-mail addressees over the year. The "Shaker" series of events for young alumni had been very successful, with events in June and August fully sold out. Shaker events had been arranged in Toronto, Vancouver, Hong Kong and London. A major event for young alumni had been arranged during the Toronto International Film Festival. The Alumni Association continued to recognize outstanding students who played active leadership roles in the University through the Cressy awards. The presentation stressed the important role that alumni could play in the University's efforts to enhance the undergraduate student experience.

- **Goals for 2006-07**. Key goals for 2006-07 included continuing to meet the fundraising target of between $80-million and $100-million annually, establishing the framework for the next major campaign, and continuing to enhance alumni programming. One major element of alumni programming would be the enhanced involvement of alumni in the University's initiatives to improve the undergraduate student experience.

A member asked about the effect of the elimination of the capital-gains tax on the donation of securities. Ms Frankle replied that she looked forward to a positive benefit from the change. To date, the change had not been reflected in an increase in total gifts and pledges of securities, although many benefactors were now paying their pledges by the donation of securities. A member with expertise in the matter observed that she anticipated that the change would have a significant impact over time; it represented a real tax benefit for donors.

The Chair thanked Ms. Frankle for the annual report and looked forward to the semi-annual update report in the second half of the academic year. She observed that there had been real progress in enhancing the report to provide further information about alumni-relations activities and achievements.

7. Capital Program Report

Ms Sisam reported that since the previous Capital Program Report in May, project closures and changes to project costs had led to an increase in the total borrowing requirement. Ms Brown noted that the increase in the University's net assets reflected in the April 30, 2006 financial statements meant that maximum borrowing capacity had, according to the approved Borrowing Strategy, increased from $761.4-million as at April 30, 2004 to $821.2-million as at April 30, 2006, which would enable a proposal to authorize further borrowing.

The Chair said that the Board would, at its January meeting, receive further reports or proposals concerning the interrelated matters of the capital plan, the real estate strategy and borrowing.

8. Capital Project Closure Report

Mr. Bisanti said that the Capital Projects Department, in cooperation with the Financial Services Department, was making a concerted effort to close completed capital projects, and three additional projects were included in the current report.

- **University of Toronto at Scarborough, Science Laboratories, Phase I**. The $4.3-million project had been completed with a modest positive variance of $40,000.

- **University of Toronto at Scarborough, Academic Resource Centre**. That major library building, approved at a cost of $22.56-million, had been completed with a large surplus of $2.543-million. The tendering for the project had been very competitive, leading to the saving. The money saved had been devoted to infrastructure projects at UTSC. In response to a member's question, Mr. Bisanti said that the infrastructure projects included electrical upgrades and chiller replacements. The projects had been approved by the Board.

- **Rotman School of Management: Addition of fourth and fifth floors**. The project had originally been approved at a cost of $4-million. Following higher tender prices and some change of scope, the approved cost had been increased to $4.56-million. It had been completed with a small positive variance of $3,500.

Mr. Bisanti added that his group continued to work with the Financial Services Department to close additional projects. The University waited at least one year after the completion of a project to close it formally, one year being the usual warranty period. In some cases, however, there were longer term issues requiring resolution. In one case, for example, a contractor had become bankrupt. Mr. Bisanti hoped that a number of older projects would be ready for closure in the near future.

8. Capital Project Closure Report (Cont'd)

The following matters arose in questions and discussion.

(a) Financing capital projects. In response to a question, Ms Brown said that while projects were under construction, any needed financing was provided internally. When projects were completed, their financing was converted to a long-term arrangement. The source of financing was determined individually for each project depending on the University's cash flows at the time.

(b) Mr. Bisanti's advice concerning capital projects. A member observed that most recent projects had been completed on budget or under budget, in contrast to some earlier projects that had required large budget increases. That change might reflect good management, an improved approval process, changing dimensions of the construction market, or simply different timing. The member asked Mr. Bisanti to provide any advice for the future.

Mr. Bisanti noted that the need for increased budgets for projects often arose from changes to their scope. They could also arise in a tight construction market. The University's major construction program had taken place at the same time as a major expansion of the Pearson International Airport and more recently at the same time as a four other large institutional projects. Cost increases would from time to time arise in large, expensive projects in a $1-billion construction program including over 40 projects.

Mr. Bisanti said that the most important factor in controlling costs was to ensure that the requirements for the building program were firmly in place from the beginning so that the project could be designed to meet the program needs most efficiently. With the Bahen Centre for Information Technology, for example, the original program was expanded along the way leading to sharp cost increases. Marketplace factors also affected project cost, and the University had no control over the marketplace. For example, at the University of Toronto at Scarborough, when tenders were invited for the Academic Resource Centre, market conditions were very favourable, and the competitive situation led to a lower tender price. With more recent projects at UTSC, the situation had reversed itself. The University could try to control when it went to tender, but the timing was often largely beyond its control. For example, there was urgent need of the new Science Building at UTSC. While six firms had commenced the tender process, only three tenders were ultimately received. With an absence of capacity in the construction industry at this time, the tender prices were higher, and there would be need to request an increased budget.

Ms Sisam added that the University frequently competed against itself and other post-secondary institutions for contractors for its various projects. The problem was that the University and other institutions often had little choice about the timing of their buildings. The funding was linked to government grants with requirements that the facilities be in place by particular dates, for example to initiate research programs or to accept students. To comply with those requirements, projects were tendered at the same time as tenders for other University and institutional projects.

The Chair observed that Mr. Bisanti's success was all the more remarkable because the construction market was very heated throughout his years at the University.

9. Chair's Remarks: Mr. John Bisanti

The Chair informed the Board that Mr. John Bisanti, after providing almost five years of outstanding leadership to the very active building program at the University, would be leaving the University to take up an exciting new position as Senior Vice-President at Canada's largest construction company, Ellis Don. Mr. Bisanti had overseen the construction of a large number of buildings on all three campuses, which would stand as a continuing legacy of his excellent work at the University. He had presented his first proposals to the Business Board in April, 2002. In total, he had presented proposals for 38 major projects (costing at least $2-million each) and totaling nearly $700-million. He had also overseen about 100 projects costing less that $2-million each. The Chair concluded that the Board owed Mr. Bisanti a deep debt of gratitude. She was grateful that a person of Mr. Bisanti's expertise had been overseeing the University's vast construction program, requiring the careful expenditure of Provincial funds and the assumption of substantial debt.

Mr. Bisanti thanked the Chair and the Board. His five years at the University had been exciting ones. He thanked his colleague Mr. Zouravlioff, who had been instrumental in the execution of the over 100 projects at the University over the five years. Mr. Bisanti was proud of the buildings that had been constructed, and he would cherish fond memories of his time at the University.

10. Endowments: Annual Financial Report for the Year Ended April 30, 2006

Ms Brown recalled that the University's total assets as of April 30, 2006 amounted to $3.7-billion. The endowment funds constituted $1.6-billion of the total assets, and they represented 86% of the University's net assets. There were over 4,600 individual endowment funds, which were restricted funds. The capital of those funds was not to be spent. The earnings from the investment of those funds was to be used in accordance with the purposes specified by the donors or the Governing Council. The endowment funds were expected to provide future generations with the same level of funding as the current generation for such purposes as student financial assistance and the sponsorship of endowed chairs. Therefore, the University's preservation of capital policy limited the amount of investment earnings available for spending to ensure that the rate of growth of the endowment capital matched or exceeded inflation. Ms Brown observed that the audited financial information about the endowment funds was a subset of the University's overall audited financial statements, which had been reviewed by the Business Board and approved by the Governing Council in June.

Among the matters that arose in discussion were the following.

(a) Size of the University's endowment. In response to a question, Ms Brown said that the University of Toronto's endowment was the largest university endowment in Canada, representing great generosity of benefactors and great success in fundraising in recent years. The endowment had grown very substantially from a relatively small amount. Nonetheless, the endowment was much smaller than that of many peer institutions, especially in the United States,

10. Endowments: Annual Financial Report for the Year Ended April 30, 2006 (Cont'd)

where a strong tradition of philanthropy had been in place for many more years. Moreover, in terms of endowed funds per student, the University's endowment ranked considerably lower, and there was a clear need for a substantial expansion of the endowment funds.

(b) Sources of donated funds. In response to a member's questions, Ms Frankle undertook to determine the proportion of funds that had been contributed by alumni who had been graduate and who had been undergraduate students. Ms Frankle observed that success in the efforts to improve the student experience might well pay large dividends in terms of support from future generations of alumni.

11. *Ontarians with Disabilities Act*: University of Toronto Accessibility Plan, 2006-07

The Chair pointed out that the annual Accessibility Plan was submitted for Governing Council approval on the recommendation of the Planning and Budget Committee and the Academic Board. It came to the Business Board for information because of the Board's responsibility for human-resources matters.

Professor Hildyard said that the University committed substantial resources to accessibility. It had for the 2005-06 year received funding of $1.8-million from the Government of Ontario for accessibility purposes. That funding was dedicated to the support of the accessibility-services offices on the three campuses. On the other hand, the University spent about $2.5-million per year to support this work, some $700,000 in excess of the level of Government funding. In addition, numerous offices devoted substantial time and resources to providing services to improve accessibility: Facilities and Services, the Capital Projects Office, the Health and Well-being Programs and Services Office, the University Health Service, the Office of Teaching Advancement, the Information Commons, and virtually all of the advising services in the various divisional registrar's offices. In addition, many other front-line staff and members of the faculty spent considerable time and effort assisting students with special accessibility needs.

Professor Hildyard responded to questions on two subjects.

(a) Mental-health services for staff and students. A member referred to the plan to take an inventory of mental-health resources in the University. She observed that the listing of the current mental-health services resources, programs and training on page 41 of the Plan document dealt primarily with services for staff. She enquired about services for students. Professor Hildyard replied that the list had been provided by the Health and Well-Being Programs and Services Department, which served employees. In addition to those services, the Office of the Vice-Provost, Student Affairs oversaw numerous central mental-health services for students including the Psychiatric Service and the Counselling and Learning Skills Service. The Student Affairs Office had stressed mental-health services during its orientation training programs and had in 2005-06 sponsored an outstanding poster campaign stressing the accomplishments of students with disabilities including those with mental-health problems.

11. *Ontarians with Disabilities Act*: University of Toronto Accessibility Plan, 2006-07 (Cont'd)

(b) Data concerning the student experience and the employee experience of members of the University with disabilities. A member asked about the availability of data concerning the experience of students with disabilities, particularly in connection with their lives outside of the classroom. He also asked about data concerning the experience of staff with disabilities. Professor Hildyard replied that with respect to the students, Hart House, with support from the Students' Administrative Council's Accessibility Fund, was leading a study to obtain information about the student experience of students with disabilities outside of the classroom and to determine steps that could be taken to improve that experience. With respect to faculty and staff, because a major Employee Experience Survey of all employees was currently underway, the University had determined that a special survey concerning the experience of employees with disabilities should not be conducted at this time.

12. Health and Safety Requirements: Report on Compliance

The Chair noted, particularly for the benefit of new members, that individual Board members could be held personally liable for any failure to carry out due diligence to ensure conformity to health and safety requirements. Therefore, the Board regarded this quarterly compliance report as one of particular importance. She stressed Professor Hildyard's conclusion in the report that, "based on the reports I have received through the operation of our occupational health and safety policy, to the best of my knowledge the University is in compliance with its health and safety obligations."

Ms Sass-Kortsak recalled that the previous report to the Board had advised members of a regular audit of the radiation-protection program at the University. The issues that had been raised in that audit had all been dealt with to the satisfaction of the regulator. Ms Sass-Kortsak expected that there would, in general, be an increased emphasis on health and safety regulation in the university and hospital sectors. More health and safety inspectors were being hired. The University of Toronto was seeking to do everything necessary to be prepared. There had been no Ministry of Labour orders since the previous report. The long-serving Manager of Radiation Protection was about to retire, and the University was actively engaged in planning for a smooth succession.

13. Ancillary Operations: University of Toronto Press – Annual Report and Audited Financial Statements, 2005-06

The Chair recalled that, following the recent review of the terms of reference of the Audit Committee, the annual report and financial statements of the Press were to be submitted directly to the Board, and they were forwarded for information rather than "acceptance."

Ms Riggall reported that the University of Toronto Press had enjoyed a good year in 2005-06. Its goal was to earn sufficient net income from its business divisions to support its excellent program of scholarly publication without subsidy from the University. It had managed to achieve that goal in 2005-06. The Press had successfully put together a package to sell its

13. Ancillary Operations: University of Toronto Press – Annual Report and Audited Financial Statements, 2005-06 (Cont'd)

printing division, and Ms Riggall anticipated that the sale would be completed in December 2006 or January 2007. The Board of the Press was very pleased with the success of the President of the Press in effecting this prospective sale. There had been some concern that it might be necessary to close the operation rather than sell it. Three potential buyers had submitted bids. The prospective purchaser employed workers from the same three unions as the Press and had been very cooperative in providing assurances of appropriate arrangements for the printing division's staff. In response to a question, Ms. Riggall said that the printing division of the Press currently employed 75 staff. It appeared that 37 would be offered positions by the purchaser. The others would receive early-retirement or severance packages from the University.

14. Approvals under Summer Executive Authority: Annual Report

The Chair reported that for 2006, no matter within the terms of reference of the Business Board had been approved under summer executive authority.

15. Calendar of Business, 2006 – 07

The Board received for information its calendar of business for 2006-07.

16. Reports of the Audit Committee

The Board received for information Report Number 81 of the Audit Committee (May 17, 2006) and Report Number 82 of the Audit Committee (June 21, 2006).

17. Reports of the Administrative Assessors

(a) Canada's top 100 employers ranking. Professor Hildyard reported that the University of Toronto had for the second consecutive year been named one of the top 100 employers in Canada in the survey conducted by Mediacorp Canada Inc. That ranking was based on a review of the University's policies. Professor Hildyard was looking forward to reviewing the responses to the University's survey of employees' experience. She anticipated that the outcome might well reveal the need to complete substantial work on improving the employee experience at the University. Professor Hildyard reported that the University had also been named as one of the top 50 employers in the Greater Toronto Area, and it had maintained its ranking as one of the top ten family-friendly employers in Canada.

(b) Credit ratings. Ms Riggall noted that members had received, along with their agenda packages, copies of credit-rating reports on the University from Moody's and Standard and Poor's. A third agency also rated the University's credit, and that report had now been received. The Dominion Bond-Rating Service had maintained its AA rating, having concluded that the University continued to be well managed and a good credit risk.

18. Date of Next Meeting

The Chair reminded members that the next regular meeting of the Board was scheduled for Thursday, November 9, 2006 at 5:00 p.m.

THE BOARD MOVED INTO CLOSED SESSION TO CONSIDER ITEM 18 AND *IN CAMERA* TO CONSIDER ITEM 19.

19. Quarterly Report on Gifts and Pledges over $250,000, May 1 – July 31, 2006

The Board received, for information, the Report on Gifts and Pledges over $250,000 for the period May 1 to July 31, 2006.

20. Tentative Collective Agreement: Pension Changes for the Canadian Union of Public Employees (CUPE), Local 3261

The Board considered proposed pension-plan changes arising from the collective agreement with the Union representing the University's employees in ancillary services, athletics, caretaking, grounds services, food services and medicine. In the course of discussion, the Chair reminded members 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 that prohibition).

On motion duly made and seconded

YOUR BOARD APPROVED

(a) THAT the Special Early Retirement Window for CUPE 3261 Full-Time be implemented from July 1, 2006 to December 31, 2007;

(b) THAT, effective January 1, 2006, the lower deck accrual rate for CUPE 3261 Full-Time be increased from 1.5% to 1.6%;

(c) THAT, effective January 1, 2006, the employee contribution rate be increased from 4.5% to 5.0%; and

(d) THAT authority be delegated to the Administration to take the steps necessary to implement the pension arrangements resulting from the provisions above.

REPORT NUMBER 152 OF THE BUSINESS BOARD – October 10, 2006

THE BOARD RETURNED TO OPEN SESSION.

The meeting adjourned at 7:10 p.m.

Secretary	Chair

November 8, 2006

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