

UNIVERSITY OF TORONTO
THE GOVERNING COUNCIL
REPORT NUMBER 432 OF
THE EXECUTIVE COMMITTEE

Thursday, June 24, 2010

To the Governing Council,
University of Toronto.

Your Committee reports that it held a meeting on Thursday, June 24, 2010 at 3:00 p.m. in the Bayview Room, McLean House, Sunnybrook Health Sciences Centre, with the following members present:

Mr. John F. (Jack) Petch, Chair
Professor David Naylor, President
Mr. Ryan Campbell
Mr. P.C. Choo
Mr. Ken Davy
Ms Judith Goldring
Dr. Gerald Halbert
Professor Ron Kluger
Mr. Joseph Mapa
Mr. Timothy Reid
Miss Maureen J. Somerville
Professor Janice Stein

Non-Voting Member:

Mr. Louis R. Charpentier

Secretariat:

Mr. Henry Mulhall, Secretary

Regrets:

Dr. Alice Dong, Vice-Chair
Professor Arthur S. Ripstein

In Attendance:

Professor Louise Lemieux-Charles, Chair, Academic Board and Member of the Governing Council
Professor Cheryl Misak, Vice-President and Provost, and Member of the Governing Council
Mr. Richard Nunn, Chair, Business Board and Member of the Governing Council
Ms Catherine Riggall, Vice-President, Business Affairs
Ms B. Elizabeth Vosburgh, Chair, University Affairs Board and Member of the Governing Council

1. Report of the Previous Meeting

Report Number 431 (June 14, 2010) of the Executive Committee was approved.

2. Business Arising from the Report of the Previous Meeting

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

3. Report of the President

The President deferred his report to the Governing Council meeting to be held immediately following the Executive Committee meeting.

4. Items for Endorsement and Forwarding to the Governing Council

(a) Audited Financial Statements for the Fiscal Year Ended April 30, 2010
(Arising from Report Number 182 of the Business Board [June 17, 2010]- Item 2)

Mr. Nunn reported that the Audit Committee had reviewed the financial statements at two meetings, with the external auditors in attendance at both. The Committee had concluded that the statements provided a full and fair disclosure of the University's finances. The Business Board had also received a substantial presentation on the statements and had recommended them to the Governing Council for approval. The University's bottom line for 2009-10, a year of relatively good returns on the investment markets, had been a small net income of \$45.4-million. The President expressed his satisfaction that the University had concluded the fiscal year with a modest surplus while also retiring some of its debt. This achievement reflected the efforts of the University's staff and faculty, as well as the rationality and effectiveness of its budget model.

On motion duly moved, seconded, and carried,

YOUR COMMITTEE ENDORSED AND FORWARDED to the Governing Council for consideration the recommendation

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

(b) External Auditors: Appointment for 2010-11
(Arising from Report Number 182 of the Business Board [June 17, 2010]- Item 3)

Mr. Nunn reported that the Audit Committee and the Business Board had recommended the re-appointment of Ernst & Young as external auditors for both the University and its pension plans. The auditors attended all meetings of the Audit Committee, and the Committee was satisfied that they were performing well. Ernst & Young had been the University's auditors for many years, but the partner in charge of the audit had been rotated on a regular basis to ensure independence. There had been a substantial discussion of this issue at both the Audit Committee and the Business Board; both bodies had concluded that engaging auditors with a thorough knowledge of the complexity of the University represented, on balance, the best course of action.

On motion duly moved, seconded, and carried,

YOUR COMMITTEE ENDORSED AND FORWARDED to the Governing Council for consideration the recommendation

4. Items for Endorsement and Forwarding to the Governing Council (cont'd)**(b) External Auditors: Appointment for 2010-11 (cont'd)**

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

(c) Business Board Terms of Reference: Revisions

(Arising from Report Number 182 of the Business Board [June 17, 2010]- Item 8)

Mr. Nunn reported that the proposal was one part of a package to revise the governance and oversight of University and pension-fund investments. The overall objective was to transfer that responsibility from the independent expert University of Toronto Asset Management Corporation (UTAM) Board back into the University. A new and smaller UTAM Board would be responsible for matters of governance of the UTAM corporation. That Board would consist of four *ex officio* members (the President of the University; the Vice-President, Business Affairs; the Chief Financial Officer; and the President of UTAM) plus a representative of the University of Toronto Faculty Association (UTFA), the last position having been mandated by an arbitration award. A new, expert advisory committee would provide advice to the University on investment matters.

This was the first of two proposals; the second (which would come forward at a later date) would recommend the establishment of a Pension Committee for governance and oversight of the pension fund. The establishment of a Pension Committee had also been mandated by the award of the arbitrator following discussions with UTFA. Mr. Nunn noted that, as was the case with any Governing Council Committee having authority to make decisions on behalf of the Council, the majority of the Pension Committee members would be members of Council. The University was currently in discussions with UTFA and the unions about the terms of reference for the Pension Committee. The second proposal would include further amendments to the terms of reference of the Business Board to take into account the role of the Pension Committee. It would also include amendments to the terms of reference of the Audit Committee.

Under these new arrangements, the Business Board would review and consider for approval the return targets and risk tolerances for the University funds, including the endowment funds. Those targets involved the fundamental trade-off between seeking the best possible return and seeking the greatest possible safety for the funds. The Business Board would then also review from time to time the asset mix to be used for the University funds and the pension fund. Approval of that asset mix would be within the authority of the President of the University for University funds and the proposed Pension Committee for the pension fund. The President and the Pension Committee would also be responsible for oversight of investment strategy for the two funds. Mr. Nunn reiterated that the overall objective was to bring responsibility and accountability for investment matters back into the University. He added that many of the required changes had been approved by the UTAM Board and by the Business Board, subject to Governing Council approval.

The specific matter under consideration that was being recommended for Governing Council approval was the first phase of the changes to the Business Board terms of reference: These changes would: (1) make the Board responsible for the establishment of return targets and risk tolerance for the University funds; (2) make the Board responsible for the review but not approval of the asset allocation for University funds and pension funds; and (3) make the President and his administration (with the advice of the proposed expert investment advisory

4. Items for Endorsement and Forwarding to the Governing Council (cont'd)**(c) Business Board Terms of Reference: Revisions (cont'd)**

committee) responsible for the asset allocation for the University funds and for review of the asset allocation for the pension fund.

Mr. Nunn added that one of the questions that had arisen in discussion at the Business Board meeting had been the extent to which investment decision-making could legally be delegated to UTAM. The Vice-President, Business Affairs had arranged for the matter to be reviewed by the University's senior legal counsel, who had consulted expert external counsel. The Business Board had been assured that the proposal was appropriate under the *University of Toronto Act*, the *Trustee Act* and the *Pension Benefits Act*.

On motion duly moved, seconded, and carried,

YOUR COMMITTEE ENDORSED AND FORWARDED to the Governing Council for consideration the recommendation

THAT the proposed amendments to section 5.1 of the Business Board Terms of Reference (Financial Policy and Transactions), shown in Attachment 1 to Ms Riggall's memorandum of May 14, 2010, be approved.

Documentation is attached to Report Number 182 of the Business Board as Appendix "C".

5. Date of the Next Meeting

The Chair noted that the first regularly scheduled meeting of the Executive Committee for 2010-11 was scheduled for Wednesday, September 8, 2010, at a time to be confirmed.

6. Other Business

There were no items of other business.

7. Closing Remarks

The Chair thanked the members of the Committee for their service over the course of the year. Membership required a significant time commitment, but the Committee's work was invaluable in allowing the Governing Council to function effectively. In particular, the Chair thanked those members who were completing their terms of service on the Committee: Mr. Ryan Campbell, Mr. P.C. Choo, Mr. Ken Davy, and Professor Ronald Kluger. The Chair also expressed his sincere thanks to Dr. Alice Dong for the support that she had provided to him in her roles as Vice-Chair of the Committee and of the Governing Council over the previous three years. Dr. Dong was completing the maximum nine years of service on the Governing Council. Members of the Committee, in turn, thanked the Chair for his ongoing dedicated service to the governance of the University. Finally the President thanked the Secretariat for the professional support that they provided to the Executive Committee as well as to all the Boards and Committees of the Governing Council.

The meeting adjourned at 3:20 p.m.

Secretary
July 9, 2010

Chair