UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 191 OF THE BUSINESS BOARD

September 26, 2011

To the Governing Council,
University of Toronto

Your Board reports that it met on Monday, September 26, 2011 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)
Professor C. David Naylor, President
Ms Catherine J. Riggall, Vice-President, Business Affairs
Ms Christina Sass-Kortsak, Acting Vice-President, Human Resources and Equity
Professor Edward Iacobucci
Ms Paulette L. Kennedy
Professor Michael R. Marrus
Mr. Gary P. Mooney
Ms N. Jane Pepino
Mr. Jorge J. Prieto
Mr. Manveen Puri
Ms Catherine Riddell
Mr. Howard Shearer
Mr. W. John Switzer
Mr. Chris Thatcher
Ms Rita Tsang
Ms B. Elizabeth Vosburgh

Mr. David Palmer, Vice-President, Advancement
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 Gail Milgrom, Acting Assistant Vice-President, Campus and Facilities Planning
Mr. Ron Swail, Assistant Vice-President, Facilities and Services

Mr. Neil Dobbs, Secretary

Regrets:

Ms Celina Rayonne Caesar-Chavannes
Mr. P. C. Choo
Mr. Jeff Collins
Ms Mary Anne Elliott
Mr. J. Mark Gardhouse
Mr. Steve (Suresh) Gupta
Professor Angela Hildyard
Ms Penny Somerville
Mr. W. Keith Thomas
Dr. Sarita Verma

In Attendance:

Mr. Tad Brown, Counsel, Business Affairs and Advancement
Ms Sheree Drummond, Assistant Provost
Dr. Anthony Gray, Special Advisor to the President
Mr. John Hsu, Chief Operating Officer, University of Toronto Asset Management Corporation
Mr. Adrian Hussey, Director, Portfolio & Risk Analysis, University of Toronto Asset Management Corporation

In Attendance (Cont'd)

Mr. Michel Malo, Managing Director, Asset Allocation and Portfolio Strategy, University of Toronto Asset Management Corporation
Mr. William W. Moriarty, President and Chief Executive Officer, University of Toronto Asset Management Corporation
Ms Jillian Morrison, Assistant Vice-President, Divisional Relations and Campaigns
Mr. Daren Smith, Managing Director, Manager Selection and Portfolio Construction, University of Toronto Asset Management Corporation
Mr. Anwar Kazimi, Committee Secretary, Office of the Governing Council

ITEM 5 CONTAINS A RECOMMENDATION TO THE GOVERNING COUNCIL FOR APPROVAL.

ALL OTHER ITEMS ARE REPORTED TO THE GOVERNING COUNCIL FOR INFORMATION.

1. Introductory Remarks

The President thanked members for their very important service to the University through their willingness to serve as members of the Business Board. A great deal of the work of the University's governance was achieved at the Board level. The President noted that, as a function of the University's unicameral system of governance, there was a substantial amount of overlap in the items that came to the Business Board and the Academic Board – items that would in the more common bicameral university governance structure flow only through the academic Senate or the non-academic Board of Governors. This overlap had been not so much duplication as examination of the same matters from different points of view – something inherent in a unicameral system. Nonetheless, the Task Force of Governance was endeavouring to eliminate unnecessary duplication by reducing the items that would require the attention of more than one Committee or Board of the Governing Council. The President reiterated his thanks to members for their service on the Business Board.

At the invitation of the Chair, members, assessors and guests introduced themselves.

2. Report of the Previous Meeting

Report Number 190 (June 16, 2011) was approved.

3. Calendar of Business, 2011 – 12

The Board received for information its Calendar of Business for 2011-12. The Chair stressed that the Calendar was subject to change. The Board would continue to focus its attention each meeting on a main theme to ensure a good overview and time for in-depth consideration. The Chair reviewed the major themes planned for each meeting.

4. Approvals under Summer Executive Authority: Annual Report

The Chair recalled that each year, the Governing Council delegated authority to the President of the University to approve, subject to the concurrence of the Chair of the Governing Council, certain urgent matters that arose in the summer and that could not be considered by the Council and its Committees over the summer break. Any approval under summer executive authority was to be reported to the appropriate Board or Committee for information. There were no matters within the terms of reference of the Business Board that had been approved under summer executive authority in 2011.

5. Advancement: Campaign Plans and Priorities

Mr. Palmer presented the proposed plan and fundraising priorities for the next major University campaign, to be launched formally in November, 2011. A copy of the proposal is attached hereto as Appendix "A". A copy of Mr. Palmer's presentation slides are attached hereto as Appendix "B". Among the highlights of his presentation were the following.

- **The proposed fundraising priorities arose from the academic planning process in each academic division**. Those priorities were then submitted to the Vice-President and Provost for approval. Fundraising was carried out to serve the academic divisions and to assist them in achieving their academic goals. Apart from a few needs to assist with central student-life functions, there were no central fundraising priorities on the list proposed for approval.

- **Proposed priorities** were submitted for each academic division. In two cases, the priorities should be regarded as interim. Those from the Faculty of Information had been submitted recently and were yet to be reviewed by the Vice-President and Provost. Those from the Faculty of Music had been submitted by the previous Dean, and the new Dean had only recently initiated a new academic planning exercise, which might lead to some changes in that Faculty's fundraising objectives. The federated universities (St. Michaels', Trinity and Victoria) were separate corporations, but they too were participating in the campaign.

  The total amount of the various needs was a large one, about $3.2-billion. Moreover, as new initiatives emerged, that total was expected to increase. The target for the campaign was, however, $2-billion. (It was a target the Advancement group hoped to exceed.) The identification of more needs than could be accommodated within the campaign target was again usual in fundraising campaigns. It provided flexibility for divisions and fundraisers in their work with donors; a greater menu of opportunities provided a higher likelihood of finding one that would align with the interests of individual donors.

  The priorities fell into a number of categories, which were typical ones for university fundraising campaigns. An amount of about $1.2-billion was being sought to support University faculty – the drivers of the excellence of the University. The recruitment of

5. Advancement: Campaign Plans and Priorities (Cont'd)

great faculty was clearly in the interest of students, who came to the University to study with leading scholars and scientists in their fields. It was anticipated that this funding would assist the University not only to recruit the next generation of faculty but also to recruit and retain mid-career and senior faculty to enrich the quality of the teaching and research.

An amount of about $456-million was being sought for student programming and student financial support. Most of the latter was being sought for need-based student support, but the divisions were also seeking to raise funds for some merit-based awards. The category included support for student activities and other amenities that would enhance student life.

An amount of nearly $400-million represented needs for support of particular academic programs and an amount of about $130-million was being sought for research funding – both very important needs.

Finally, the needs for capital renewal identified to date amounted to more than $1-billion. The overall need for capital renewal grew continually, and the $1-billion amount included only campaign goals identified to date. The projects identified would not be funded wholly through donations. As in the past, most major projects would have multiple sources of funding, sometimes including government capital grants. The fact that a project appeared on the list of needs meant that it had been established through a division's or department's academic planning process and endorsed by the Vice-President and Provost. However, any major project would, before its initiation, still require the usual process of preparation of a project planning report and submission for approval through the usual governance process.

- **Reasons for launching a campaign**. A major campaign was a key method of driving investment in the University – something that was very necessary in a highly competitive environment, especially in the current uncertain economy. The University was competing well internationally. For example, in a survey released recently by *Newsweek* magazine, the University was ranked third in the world among universities outside of the United States, behind only Cambridge and Oxford Universities. Notwithstanding the University's excellent reputation, it operated on a fraction of the funding of its peer institutions.

  Major campaigns were not only necessary for the additional funding they generated, they were also very important as drivers of transformational growth of regular fundraising efforts. In the period from 1990-94, donations to the University amounted to an average of about $17-million per year. Following the Breakthrough Campaign, average giving had increased to about $102-million per year between 1995-2003. Following the "Great Minds" Campaign, giving had increased again to an average of about $123-million per year from 2004 to the present. It was hoped that the planned Campaign would have the effect of increasing giving to the University still further towards as much as $200-million per year. In terms of faculty support, in 1995, the University had fifteen endowed Chairs.

5. Advancement: Campaign Plans and Priorities (Cont'd)

There had been a further five Chairs in the affiliated teaching hospitals, with the incumbents cross-appointed to University departments. By the end of the Great Minds Campaign in 2004, the number of endowed Chairs had increased to 175 in the University and 85 cross-appointed Chairs in the affiliated teaching hospitals. By the end of 2010, there were 198 endowed Chairs in the University with another 165 cross-appointed Chairs in the affiliated teaching hospitals. Similarly, the amount of endowed funding dedicated to providing student support had amounted to about $69-million in 1995, $500-million in 2004 and $614-million in 2010.

A major campaign served to galvanize the interest of donors and to accelerate their gift decisions, raising awareness of the University and instilling pride.

- **Campaign plan**. The campaign would have two phases. The University was currently in the quiet phase of the Campaign and had been for some time. The objective of the quiet phase was to raise between 40% and 60% of the Campaign total of $2-billion. It would continue to Sunday, November 20, with the launch of the public phase of the Campaign, reaching out to a much broader audience of alumni and friends. The quiet phase of the Campaign was deemed to have begun in 2005-06 with the appointment of Professor Naylor as President, and many of the gifts to the University had been made in the context of the forthcoming Campaign. As at the present date, about $950-million had been raised in the quiet phase. The public phase was planned to continue to a wrap-up in 2015-16, for a total Campaign period of approximately 10 years, a similar length of time to the University's previous "Great Minds" Campaign.

- **Campaign themes**. In discussions with the University's Principals and Deans, as well as with many of its leading benefactors, it had become apparent that the new Campaign should make clear the University's aspiration to provide leadership at a global level. The "Great Minds" Campaign in the mid 1990s and early 2000s had helped to place the University on a strong international footing. The forthcoming Campaign should stress the University's plans to marshal its resources to deal with the great and complex challenges facing the world, in which the pace of change was very fast and in which problems around the world were inter-related.

- **Campaign implementation**. The conduct of the forthcoming Campaign would differ from previous campaigns in one major respect: the front lines of the Campaign efforts would be in each academic division. Principals and Deans and divisional fundraising organizations would play a major role. The President and the Division of University Advancement would work very hard with colleagues in the divisions, but their most important role would be to support the divisions in their efforts.

- **Next steps**. As noted, the Campaign would enter a public phase through an event scheduled for November 20. At that time, the Campaign goal and the Campaign

5. Advancement: Campaign Plans and Priorities (Cont'd)

leadership would be announced, as would the philanthropic achievement to date and perhaps a number of major gifts. That would be followed by events in a number of centres where the University had a strong presence such as Hong Kong. Many divisions would hold their own Campaign launches, for example the Faculty of Law during the fall. There would be special celebrations of major milestones such as the 50th anniversary of the founding of New College. There might be some building dedications and further gift announcements. The focus of the Division of University Advancement would be to ensure that all events contribute to the overall fabric of celebratory events and build momentum for a year-long launch of the Campaign.

Among the topics that arose in discussion were the following.

(a) Namings to honour exceptional achievement. A member observed that many endowed Chairs, buildings and even Faculties had been named by the University of Toronto and other universities in recognition of generous benefactions. He asked whether it might be possible, within the bounds of prudence and advisability, to encourage namings not exclusively to recognize benefactions but also to honour major leaders in the academic disciplines taught in the University. He observed that many of the great universities of the world frequently did so. Mr. Palmer replied that the University's Policy on Naming did make provision for namings to honour not only benefactions but also the "distinguished contributions of [the University's] . . . past members and others to humanity, to Canada, to Ontario, to Toronto or to the University." There would, in addition, be circumstances in which fundraisers might well feel comfortable asking benefactors to request namings in honour of distinguished academic or humanitarian contributions. For example, major benefactors might well wish to ask for recognition of very major donations by namings (e.g. of a Faculty) in their honour or in honour of family members, but they might well agree to subsidiary namings (e.g. an endowed chair within that Faculty) to recognize a public or academic leader. Opportunities might well also arise in connection with gifts where the benefactor did not wish a naming in her/his honour or in honour of a family member.

(b) Campaign period. A member said that he understood the rationale of declaring the commencement of the Campaign to be the date of the appointment of President Naylor, and he understood the strategic value of initiating the public phase of the Campaign when the University could say that it had already raised an amount in excess of $1-billion. On the other hand, it appeared somewhat disingenuous to declare that the Campaign had commenced six years ago and claim that many gifts that had not been the result of the Campaign effort were a part of the Campaign total. Mr. Palmer replied that the decision had been a strategic one that had not been made lightly. All or almost all campaigns included a reach-back period. For example, the University's "Great Minds" Campaign, with its official launch in 1997, included gifts received beginning in 1994 and some received even earlier. Similarly, all or almost all campaigns counted all gifts received during the campaign period. Every effort had been made to ensure that the reach-back was appropriate. The University had consulted widely, and the matter had been discussed with the Campaign Steering Committee, chaired by Chancellor David Peterson and

5. Advancement: Campaign Plans and Priorities (Cont'd)

including many of the University's most significant benefactors of recent years. All had said that they understood that a Campaign would be launched under the leadership of the new President and had been glad to have their gifts included in the Campaign total. In terms of the attribution of gifts to the Campaign effort, there were no acceptable criteria for including some gifts and excluding others that would not risk offending donors who would want their gifts to be recognized as contributions to the Campaign. The President assured the Board that his experience had been that donors would not be concerned about the inclusion of their gifts in the Campaign total even if they had not been originally so intended.

(c) Donations to the endowment and expendable donations. In response to a member's question, Mr. Palmer and Mr. Brown said that during the previous "Great Minds" Campaign, about two thirds of the amounts donated had been designated for endowment funds. In some part, that unusually high proportion had been the outcome of the availability of government money to match endowment donations. Since that time, about half of the money donated had been designated for endowments. Mr. Palmer anticipated that a somewhat lower amount would be designated for endowment funding going forward, although such gifts would continue to represent a very significant proportion.

In response to a member's question, Mr. Palmer said that at the present time benefactors could provide either (i) a gift to the endowment, where various needs in the University would receive a limited payout from investment earnings, but that payout, and its real (inflation-adjusted) value would continue in perpetuity, or (ii) a gift of expendable funds that would be used in full for capital projects or for immediate spending on such needs as student support or scholarships. There were no options between the two types. The University planned to offer a new option, to be called an enhanced payout fund, where donations would generate a payout somewhat higher than the 4% payout typical from the endowment funds – perhaps a payout of 7.5% - but one that would encroach on the capital of the donation and would not be expected to be perpetual. In the absence of future donations, the real (inflation-adjusted) and the nominal value of the payout and the fund would likely decline over time, and the capital amount of the fund would likely eventually be used up. (Mr. Palmer noted that top-up donations to maintain the value of the fund might well be fairly frequent where donors were pleased with the outcome of their donations.) The new arrangement would appeal to benefactors with a medium-term time horizon of perhaps fifteen years to twenty years who wished their donations to have a greater impact during their lifetimes.

(d) Participation of the federated universities. In response to a member's question, Mr. Palmer said that the federated universities had in recent years been participating in use of the University's alumni and donor database and its prospect-management system. There had been very collegial decision-making in terms of the determination of which division or federated university would approach a potential donor and when.

(e) University-wide and divisional Campaign efforts. A member asked for information on the co-ordination of the centrally spearheaded Campaign with divisional Campaign efforts, given that divisions might well be at a different state of readiness to initiate their major Campaign

5. Advancement: Campaign Plans and Priorities (Cont'd)

efforts. Mr. Palmer agreed that divisions did differ in terms of the stage of their readiness for the Campaign. For a successful Campaign, three things should be in place. First, the division should have a strong case for support – a strong vision that donors would wish to help achieve. Second, the division should have a strong group of volunteer leaders. Third, the division should have significant commitments of support prior to the launch of their Campaigns, to provide momentum for fundraising efforts going forward. The Faculty of Law, for example, was fully ready to launch its Campaign, focused on its effort to achieve its capital plan, involving a new building. The Rotman School of Management had launched its major fundraising effort two years previously, again associated with its capital plan. It could, however, coordinate its efforts with the University-wide Campaign by, for example, announcing major new gifts. On the other hand, the University of Toronto Mississauga would not be ready to launch its Campaign in the fall, needing time to build its Campaign leadership team and to secure initial major gifts. It would, however, be able to open the Donnelly Medical Sciences Building to house the Mississauga Academy of Medicine. Therefore, each division would launch its own Campaign when it was most appropriate for it to do so. The University was not seeking to force simultaneous launches. All divisions were, however, eager to obtain a boost from the University-wide Campaign efforts.

(f) Cross-divisional fundraising. In response to a member's question, Mr. Palmer said that fundraising goals across divisions were encouraged, for example, chairs shared between two Faculties. He cited two examples of cross-divisional initiatives that were being considered: an initiative of the Faculty of Law and the Ontario Institute for Studies in Education in educational and legal matters concerning aboriginals in urban areas, and an initiative of the Ontario Institute for Studies in Education, the Faculty of Medicine and the Departments of Psychology at the St. George and U.T.M. campuses concerning the study of early human development. Large-scale initiatives that crossed Faculties often proved to be both very valuable academically and a good basis for fundraising solicitations.

(g) Volunteer Campaign leadership. In response to a member's question, Mr. Palmer and the President said that a Campaign Steering Committee, chaired by Chancellor David Peterson, had been at work and would provide volunteer leadership for about one year. It members, some of the volunteer Campaign leaders from the divisions, and other volunteer leaders would be invited to serve on the successor group: the Campaign Executive. That group would form the core of a broader Campaign Cabinet, including volunteer fundraising leaders from all of the divisions. Given the planned length of the Campaign, it was anticipated that members of the Campaign Executive would assume positions of prominence in that group for only a year or two each, depending on the burden they were able to assume.

5. Advancement: Campaign Plans and Priorities (Cont'd)

On motion duly made, seconded and carried,

YOUR BOARD RECOMMENDS

Subject to the concurrence of the Academic Board with respect to Campaign priorities,

THAT (i) the "Overview of Campaign Plans" and (ii) the "Campaign Priorities Summary as of September 2, 2011," copies of which are Appendixes "A" and "B" to Professor Misak's and Mr. Palmer's memorandum to the Business Board dated September 19, 2011, be approved as the planning framework for the University's fundraising campaign.

6. Endowments: Annual Report for the Year ended April 30, 2011

Ms Riggall said that the key information in the annual report on the endowment was included in the audited financial statements for the year ended April 30, 2011, with that information reformatted to focus on the endowment. The information was prepared for, and primarily aimed at, major donors to the endowment. Because the endowment represented a key piece of the University's financial picture, it was deemed important to provide the report to members of the Business Board.

7. Investments: Semi-Annual Update on Investment Performance

Mr. Moriarty presented the semi-annual update on investment performance by the University of Toronto Asset Management Corporation (UTAM) for the period ended June 30, 2011. A copy of his presentation is attached hereto as Appendix "C". Among the highlights of his presentation were the following.

- **Asset class performance**. The environment for investments had been a challenging one in recent months, particularly in the third quarter of the 2011 calendar year. The first half of the year had been bumpy. Carrying on from the strength seen in 2010, returns in the first quarter had been generally strong, but a corrective phase had begun in the second quarter, with most of the gains from the first quarter given back. There had been gains in the fixed-income sector of the market, and the U.S. equity market had remained flat. Returns in the other classes of publicly traded securities had been negative.

  Of particular interest was the return provided by alternative investments, the subject of substantial discussion in the University. They had in general performed quite well. Hedge funds, having provided a return of 7.4% in 2010, had returned a further 1.7% in the

7. Investments: Semi-Annual Update on Investment Performance (Cont'd)

first quarter of 2011 and a further 0.5% in the second quarter. Private investments, having returned 20.2% in 2010 had returned 5.0% in the first quarter of 2011 and a further 7.1% in the second quarter. Real-asset investments, having gained 13.1% in 2010, had returns of 2.7% in the first quarter of 2011 and a further 3.1% in the second quarter.

- **Effect of currency**. Currency was a very important factor because a substantial part of the portfolio was invested outside of Canada. The returns on foreign investments reported (above) were in the local currency of the investment, and the effect of currency changes was reported separately. Recent returns on U.S. investments had been moderated by the decline in the value of the U.S. dollar relative to the Canadian dollar. The value of the Euro had varied, losing considerable ground in 2010 but then gaining some back in the first half of 2011. The value of the yen relative to the dollar had declined in the first quarter of 2011 and had regained only some of the loss in the second quarter.

- **Investment returns**. The investment returns reported were net of all costs, including UTAM's operating costs. Mr. Moriarty stressed that the returns achieved in recent months had been in a difficult investment environment. He presented initially the returns for the Long-Term Capital Appreciation Pool (L.T.CAP – the pool containing almost all of the University's endowment funds as well as certain other funds) and for the pension fund. He compared the actual returns to those of the University's hypothetical Reference Portfolio – a low-cost passively managed portfolio with a traditional asset mix for comparable funds. In the first quarter of 2011, both the L.T.CAP with a return of 2.6% and the pension fund with a return of 2.5% had held their own against the reference portfolio, marginally outperforming the Reference Portfolio in both cases. In the second quarter, both funds had a return of 0.7%, outperforming the Reference Portfolio by a substantial margin; the Reference Portfolio had posted a negative return of -0.6%. The outperformance in the first half of the year had been driven largely by the asset mix of the two funds and, to a lesser extent, by the selection of active managers. For the year to June 30, both funds had returned 3.3%, outperforming the Reference Portfolio by about 140 basis points (100 basis points = 1%).

  For the twelve months ended June 30, 2011, the return on the L.T.CAP had been 12.9% and on the pension fund 12.7%. That had exceeded the University's target return (of 4% after inflation and all costs) by about 550 basis points. The return had, however, trailed the return on the Reference Portfolio by 1.39% in the case of the L.T.CAP and 1.65% in the case of the pension fund. The underperformance had been primarily the outcome of changes in currency as the value of foreign currencies overall had declined relative to the value of the Canadian dollar.

  The most encouraging aspect of the report was the fact that the performance of the portfolios relative to the Reference Portfolio had been improving. The portfolio returns had trailed those of the Reference Portfolio over one year and longer periods, but as the

7. Investments: Semi-Annual Update on Investment Performance (Cont'd)

restructuring of the portfolios had proceeded, the portfolios had earned returns more in line with the Reference Portfolio.

For the Expendable Funds Investment Pool (the EFIP – the pool used for the short-term investment of the University's operating funds) the return for the six months to June 30 had been 1.0%, with improvement in the return earned in the second quarter compared to the first quarter. The return had, however, been 31 basis points below the University's target return (the return on the one-year Treasury Bill plus 50 basis points). The underperformance was a function of the return on the short-term bonds held in this portfolio, as short-term interest rates had increased somewhat in the first quarter and the value of existing bonds had therefore declined somewhat. The 2.0% return on the EFIP for the twelve months ended June 30 had matched the University's target return, and the Pool was outperforming through the third quarter to date.

- **Asset mix**. Mr. Moriarty showed the asset mix in the L.T.CAP portfolio (and noted that the asset mix was very similar in the pension fund). He compared it to the asset mix in the Reference Portfolio. The L.T.CAP asset mix had not changed substantially between the end of 2010 and June 30, 2011. Canadian equities formed 14.4% of the L.T.CAP, compared to 30% of the reference portfolio. U.S. equities formed 14.1%, compared to 15% in the Reference Portfolio. International equities formed 17.5% of the L.T.CAP, compared to 15% of the Reference Portfolio. Fixed-income investments formed 20.7%, compared to the 40% of the Reference Portfolio.

  The alternative asset classes in the L.T.CAP were 13.8% hedge funds, 12.7% private investments, and 6.0% real assets (real estate and commodities). There were no alternative asset classes in the Reference Portfolio. The alternative assets had proven to be a positive factor in portfolio performance in 2010 and 2011 to date, and Mr. Moriarty anticipated that they would continue to have a positive influence through the rest of 2011 and into 2012.

- **Factors influencing portfolio performance**. For the 2011 year to June 30, the Reference Portfolio had a return of 1.89% measured in Canadian dollars. The differences in the actual L.T.CAP portfolio – some intentional and some inherited from previous portfolio structure – had resulted in a better return. The overweighting of private investments and real assets had added 1.84% to return over the six months. The underweighting of fixed-income investments had cost 0.56%. The use and selection of active managers had been responsible for a gain of 0.33%, and other factors had led to a gain of 0.18%. Foreign investments had been 50% hedged relative to the Canadian dollar, but the unhedged exposure had cost 0.16% over the six months. Other factors had led to a loss of 0.20%; that effect could not be attributed to specific factors. The outcome had been a Canadian-dollar return of 3.32% in the first six months of 2011, which was 1.43% better than the Reference Portfolio. That would translate into the addition of about

7. Investments: Semi-Annual Update on Investment Performance (Cont'd)

$25-million to the L.T.CAP over what it would have earned if the monies had been invested in the Reference Portfolio.

- For the 2011 year to June 30, the asset mix, and therefore the performance numbers were similar for the pension fund, where the return of 3.28% was 1.38% better than that of the Reference Portfolio. That outperformance had added $32-million in incremental gains to the pension fund relative to the return on the Reference Portfolio.

- **Risk management**. The University had, historically, measured portfolio risk as volatility (standard deviation of returns) over a ten-year period, and it had a target of volatility of no greater than 10% averaged over any ten-year period. The risk, so measured, in both portfolios had been reasonably in line with that target and with the Reference Portfolio. Volatility alone, however, did not provide a full measure of risk, and UTAM was working on developing additional measures, which Mr. Moriarty would discuss at his next appearance before the Board.

- **The investment environment**. UTAM's view of the current investment environment remained largely unchanged from that of one year ago. There were many impediments to a return to "business as usual." Recovery in the developed world would remain below average. Inflation would likely remain moderate, but there were risks of renewed inflation in the medium term. Higher interest rates were not a risk in the short term, but rates would need to be watched. Credit investments remained attractive, but there was a need for selectivity. Equities were not expensive compared to 2000 and 2007, but, on the other hand, they were not cheap in a long-term context, except in comparison to interest rates. That suggested that equity markets would be range-bound for some time to come.

  There was, however, one new conclusion. In this challenging investment environment, portfolios that comprised solely traditional assets and traditional strategies would not fare well and would not obtain the level of returns the University needed.

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

(a) Revised reference portfolio. In response to a question, Mr. Moriarty said that he hoped that the new reference portfolio would be reviewed and endorsed by the Investment Advisory Committee in November. That would allow the new Reference Portfolio to become effective for January 1, 2012. Mr. Moriarty also anticipated that the new risk-management system would be ready for implementation at the same time. The new system would enable UTAM to see more clearly the exposures in the overall portfolios. While there would still be surprises, Mr. Moriarty hoped that they would be fewer in number and less severe.

(b) Catastrophic scenarios. A member asked whether UTAM developed scenarios for catastrophic risk situations, e.g. a default on sovereign debt in Europe, and whether it had

7. Investments: Semi-Annual Update on Investment Performance (Cont'd)

contingency plans for such scenarios. Mr. Moriarty replied that dealing with catastrophic risk was constantly on the minds of UTAM management. UTAM had removed the substantial leverage that had been in the portfolio, which had played a major role in the 2008 decline. Early in the summer, UTAM had reviewed the banks holding the cash backing for its futures contracts (used for some passive, foreign investments) to ensure that the amounts were not in European banks. UTAM had also examined the exposure to bank investments by its international equity managers to determine whether they were invested in banks and, if so, whether those banks were well capitalized. UTAM had performed some modeling, using a building blocks approach, to estimate the portfolios' risk exposure in various scenarios. UTAM had looked at such scenarios as a Japan situation, and it anticipated no problem close to the severity of those arising in the 2008 market correction. UTAM had also regularly asked whether it made sense to put in place some sort of insurance against the risk of a severe "black swan" scenario. The problem with doing so was cost. The necessary portfolio overlays would be very expensive and would be justified only if there were a high level of concern about the market. The cost would detract substantially from performance. Mr. Moriarty noted that he would be able to provide a better picture of potential risk when the new, more granular, risk-management system was in place at the end of the calendar year.

(c) Private investment portfolio. In response to a member's questions, Mr. Moriarty commented on the transparency of UTAM's private investments. UTAM did have the ability to look at each of the portfolio companies in the private funds; there were currently some 900 of them. UTAM was in the process of modeling them back to the public-market portfolio equivalents in order to determine more accurately the overall portfolio exposures and risk.

(d) Recent market volatility. In response to a member's question, Mr. Moriarty said that no untoward surprises had come to light during the recent weeks of severe market volatility. UTAM received reports from its managers after some time lag. Therefore, and especially until its new, more granular risk-management system was in place, such surprises might still emerge, but none had done so to date.

8. Health and Safety Requirements: Report on Compliance, 2011 Second Quarter

The Board received for information the quarterly Report on Compliance with health and safety requirements.

Ms Sass-Kortsak reported that there had, since the previous report to the Board, been no visits to the University by the Ministry of Labour. There had been one visit by the Canadian Nuclear Safety Commission, and its recommendations had been addressed. The report before the Board listed a number of anticipated new regulatory requirements: on the handing of genetically modified organisms, the use of biologicals, the handling of nano-materials, and safety training requirements.

9. Health and Safety Policy

Ms Sass-Kortsak said that the Ontario *Occupational Health and Safety Act* required employers to perform an annual review of their Health and Safety Policies. Professor Hildyard, as Vice-President, Human Resources and Equity - the senior officer responsible for health and safety matters - had performed such a review and had reaffirmed the current policy. However, the Policy itself bore the date of the most recent Governing Council approval, which was 2004, rather than the date of the most recent annual review. It was therefore proposed that the Business Board carry out the annual review so that the policy could be appropriately dated. In response to the Chair's question, Ms Sass-Kortsak said that, notwithstanding the fact that the policy had been in its present form for seven years, the administration had reviewed it annually and saw no need for change at this time.

A member observed that the Policy was written at a high level of generality. It would, therefore, be difficult for the Board to know, notwithstanding the quarterly compliance reports it did receive, the level of compliance with the Policy. For example, the Policy stated that "all University employees, including faculty, librarians, and non-unionized and unionized employees, have some responsibility for ensuring health and safety in the workplace." It would be very difficult to benchmark the level at which compliance with that general statement of responsibility was being achieved. The Policy stated further that "contractors, tenants and visitors at the University will comply with all relevant legislation, as well as University of Toronto policies and procedures." How would visitors even know what the relevant policies and procedures were? The member asked whether the Policy was typical of university health and safety policies.

Ms Sass-Kortsak replied the Policy, similar to those in other areas, was, of necessity, a broad, high-level policy, which was backed by specific requirements contained in a significant number of individual programs and procedures, for example the University's Health and Safety Management System or the requirements with respect to asbestos management. The contractors' safety program, as another example, included a very intensive mechanism for the monitoring of contractors' safety training and compliance. Ms Sass-Kortsak believed that the Policy was typical of university health and safety policies elsewhere.

A member commented that with so broad and high-level a policy, it was not only difficult for the Board to monitor the level of compliance, it was also a matter of concern whether there was sufficient authority to enforce the provisions of the programs and procedures referred to in the policy.

A member asked whether the Policy adequately reflected the recent changes to health and safety regulations introduced by the Government of Ontario. Ms Sass-Kortsak replied that she was satisfied that the Government's requirements were being met. The annual review of the Policy included a legal review to ensure compliance with those requirements. Another member asked whether the detailed programs and procedures were also subject to review to ensure their compliance. The member was especially concerned about practical aspects of compliance in an organization that was as highly decentralized as the University. In a situation where responsibility was distributed, there was always the risk that the central office would rely on the

9. Health and Safety Policy (Cont'd)

divisional or departmental offices to comply, when the latter would be awaiting direction from the central office. Ms Sass-Kortsak replied that the University's Office of Environmental Health and Safety was responsible for ensuring compliance with all relevant legislation and with the University's policy, programs and regulations. The Vice-President, Human Resources and Equity provided quarterly reports to the Business Board on compliance as well as a substantial annual report.

A member asked whether the reports included statistical information that would enable the Board to measure and monitor compliance over time. Ms Sass-Kortsak replied that the annual reports made to the Business Board contained statistical information on such matters as the meetings of the Joint Health and Safety Committees, inspections concerning radiation protection, biosafety and other matters. The quarterly reports dealt with any exceptions that had taken place during the quarter and provided an overall statement concerning compliance.

A member said the Policy was written at a very high level of generality. On the other hand, the Policy should not become involved with detailed matters of management. She therefore proposed that that Policy be amended (a) to state that there were detailed guidelines and procedures in place to guide members of the University on the matters covered by the Policy, and (b) to make it mandatory that there be at least an annual report on compliance with the policy and the regulations / guidelines. After discussion, it was agreed that the Policy be affirmed, but subject to the understanding that the suggested amendments would be proposed at the Board's next meeting.

On motion duly made, seconded and carried,

> Subject to the understanding that the Vice-President, Human Resources and Equity would propose amendments to the Policy as suggested,
>
> YOUR BOARD APPROVED
>
> The Health and Safety Policy, a copy of which is attached here to as Appendix "D", and its on-going application.

10. Business Board Terms of Reference: Proposed Revisions Arising from the Implementation Committee for the Task Force on Governance

Mr. Charpentier reported that, as the President had noted earlier in the meeting, changes to Board and Committee terms of reference were being taken through the governance process, all arising from the work of the Implementation Committee for the Report of the Task Force on Governance. One of the primary principles in the Task Force Report was that decision-making authority should be delegated to the lowest reasonable and responsible level of the Governing Council structure, and that the exercise of such authority should not include duplication of

10. Business Board Terms of Reference: Proposed Revisions Arising from the Implementation Committee for the Task Force on Governance (Cont'd)

consideration across the Boards and Committees. Mr. Charpentier outlined the principal changes proposed with respect to the Business Board terms of reference.

- Section 5.1, Financial policy and transactions. Responsibility for the non-financial aspects of investments would move from the University Affairs Board to the Business Board to ensure that one governance body was responsible for all aspects of investment. That was consistent with current practice.

- Section 5.3, University property and physical plant. Responsibility for certain largely administrative matters was delegated to the President or designate: approval of policies on the acquisition and disposal of equipment and on the maintenance of buildings and grounds. Those largely archaic governance provisions had not been invoked by the Board in a decade or longer.

- Section 5.5, Fundraising. Again, responsibility for certain largely administrative matters was delegated to the President or designate: approval of strategies and policies concerning the general conduct of fundraising and approval of policies on the receipt, acknowledgement and use of gifts and bequests. In addition, the minimum level requiring Board approval for the designation of the use of unrestricted gifts and bequests would be increased from $500,000 to $2-million - a figure that was more in keeping with other delegations of authority in governance.

Beyond those changes, others largely represented drafting changes to ensure consistency across Boards and Committees. The provision concerning consent agenda items had also been refined and, on the model of the Business Board practice, would be proposed for inclusion in the terms of reference of all Boards and Committees.

The Chair observed that the terms of reference of the Business Board had been subject to less change than those of other Boards and Committees as the Implementation Committee worked to implement efforts to streamline governance responsibilities.

11. Report on Capital Projects as at August 31, 2011

The Board received for information the Report on Capital Projects Under Construction as at August 31, 2011, providing information on projects with a total budgeted cost of $327.12-million. Ms Riggall said that the projects, approved between 2006 and 2011, were all progressing satisfactorily. The University was somewhat concerned about the completion on time of the Munk School of Global Affairs. The contractor had, however, assured the University that the renovations to 315 Bloor Street West would be complete in time for the occupants to move in by the break in December 2011. Ms Riggall noted that the volume of the report had decreased over recent years as the pace of construction of major projects had been slowing. However, a

11. Report on Capital Projects as at August 31, 2011 (Cont'd)

large amount of renovation and repurposing work was underway, but in smaller projects that were not included in the report on major capital projects.

A member asked whether there would be reporting on construction work required as the result of changing government regulations, e.g. new requirements to make buildings accessible to people with disabilities or changes to building-code requirements. Ms Riggall replied that there would be a status report provided to the Board as part of the annual Report on Deferred Maintenance. Annual Reports from the Vice-President, Human Resources and Equity dealt with such matters as making buildings accessible to people with disabilities. There was no regular report dealing specifically with construction projects undertaken to meet the requirements of the Ontarians with Disabilities Act. The University's general approach over the past several years had been to ensure that new construction and major renovations met the Province's accessibility standards. There had been only one exception to that practice, when the cost of inclusion of an elevator in a building would have been approximately $1-million, and the University had not had the amount available. In retrospect, it had probably been unwise not to have found the funding to complete that aspect of the project. The member said that the University would eventually be required by Provincial law to find a very large amount of funding to make all of its buildings accessible.

A member enquired about reporting on the maintenance and renewal of heritage buildings. Ms Riggall replied that there was no reporting on that subject. The University did, however, fully live up to its commitment to maintain its heritage buildings, and it had done an exceptionally good job of keeping those buildings in good condition.

12. Project Completion Reports

The Board received reports on the closure of two capital projects, both at the University of Toronto Mississauga. The Academic Learning Centre had been one of projects funded by the federal/provincial Knowledge Infrastructure Program. It had probably been the first of such projects to get underway and it had been one of the largest. The project had been completed in February, 2011 at a total project cost of $33.4-million, which was under budget. The Storm Water Management Pond project had been completed in October 2010 at a cost of just under $2.7-million, which was again under budget.

13. Report on Borrowing as at August 31, 2011

The Board received for information the Borrowing Status Report as at August 31, 2011. Ms Riggall reported that the University's maximum borrowing capacity, pursuant to the approved Borrowing Strategy, was $973.1-million (external borrowing of up to 40% of the University's net assets averaged over the past five years plus $200-million of internal borrowing from the Expendable Funds Investment Pool). That amount was net of $83.8 million of repayments that could be reallocated. There was in addition a separate borrowing capacity of $150-million for pension-plan funding.

14. Report Number 99 of the Audit Committee – June 15, 2011

The Chair recalled that the Board, at its meeting in June, had endorsed the Audit Committee's recommendations to approve the audited financial statements and to appoint the external auditors. The Audit Committee's written report was received by the Board for information.

The Chair recalled that at this Board's April meeting, members had raised two concerns about the proposal to amend the terms of reference of the Audit Committee, and the Board had deferred consideration of the proposal. One matter was the role of the Audit Committee with respect to enterprise risk management. That matter had now been addressed by the Implementation Committee for the Task Force on Governance. The Implementation Committee had reached the conclusion that the Audit Committee was well suited to carry out the first step in governance activity with respect to broadly defined risk management, and the Audit Committee would be asked to ensure that it carries out an annual comprehensive and integrated review of the subject. It would be asked to report its conclusions to the Executive Committee of Governing Council. The Implementation Committee's recommendations would come before the Executive Committee of the Governing Council at its meeting of October 19, 2011.

Mr. Charpentier added that the Audit Committee's reporting on risk management to the Executive Committee was based on the principle that the Executive Committee was a small committee that was representative of all groups on the Governing Council and one that met routinely in closed session and could readily meet *in camera*.

The Chair said that a second matter that had been raised in the spring had concerned the independence of the Audit Committee. The Committee's current terms of reference provided for the possible membership of the Audit Committee by a member of the University's teaching staff with expertise in accounting. This Business Board had declined to endorse a recommendation from its Striking Committee to re-appoint the faculty member of the Audit Committee because of concerns about the independence of any employee. It was suggested that, pending a decision on the matter of principle, the faculty member be invited to attend Audit Committee meetings and to participate fully, but not as a voting member. The Chair had discussed the matter with the faculty member, who had declined to participate in the Committee's work if he were not to be a full voting member. The matter of principle – the appropriateness and independence of a faculty expert as a member of the Audit Committee – had not yet been considered by the Implementation Committee.

15. Date of Next Meeting

The Chair reminded members that the Board's next regular meeting was scheduled for Monday, October 24, 2011 at 5:00 p.m. The main theme would be University Relations, and the Board would receive the annual report of the Vice-President, University Relations. The second part of the Board orientation was scheduled for the same day at 4:00 p.m. It would deal with human-resources matters.

THE BOARD MOVED INTO CLOSED SESSION

16. Quarterly Report on Donations over $250,000, May 1 – July 31, 2011

The Board received for information the Quarterly Report on Donations over $250,000 for the period May 1 – July 31, 2011.

17. Ancillary Operations: University of Toronto Press Annual Report and Financial Statements

The Board received for information the annual report and financial statements of the University of Toronto Press for 2010-11.

THE BOARD MOVED IN CAMERA

18. Human Resources: United Steelworkers' Collective Agreement

Ms Sass-Kortsak outlined the terms of the collective agreement between the University and the United Steelworkers, Local 1998 (Staff Appointed). She said that the Business Board's terms of reference delegated to the President or his designate authority to approve collective agreements within existing policies and salary-determination procedures, apart from amendments to provisions of the pension plan. The Business Board was responsible for the consideration and approval of matters affecting the pension plan.

The Chair drew members attention to the conflict-of-interest provisions in Section 27(c) of By-Law Number 2.

After discussion, the Board approved:

(a) Increases in United Steelworkers Employee Pension Contributions as follows:

	Year 1	Year 2	Year 3
Below YMPE	5.0% to 5.45%	6.05%	6.80%
Above YMPE	6.0% to 6.6%	7.40%	8.40%
Effective Date	January 1, 2012	July 1, 2012	July 1, 2013

(b) Effective July 1, 2012, use only the CANSIM interest rate, as currently defined under the Pension Plan (i.e. five-year fixed term deposit rate), to credit interest on required member contributions.

REPORT NUMBER 191 OF THE BUSINESS BOARD – September 26, 2011

THE BOARD RETURNED TO OPEN SESSION

The meeting adjourned at 7:05 p.m.

Secretary Chair

October 18, 2011