UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 176 OF THE BUSINESS BOARD

September 29, 2009

To the Governing Council,
University of Toronto.

Your Board reports that it met on Tuesday, September 29, 2009 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Mr. Richard Nunn, (In the Chair)
Mr. Geoffrey Matus, Vice-Chair
Ms Catherine J. Riggall, Vice-President, Business Affairs
Professor Angela Hildyard, Vice-President, Human Resources and Equity
Mr. Andrew Agnew-Iler
Mr. William Crothers
Mr. J. Mark Gardhouse
Mr. Steve (Suresh) Gupta
Ms Paulette L. Kennedy
Dr. Stefan Mathias Larson
Ms Florence Minz
Ms Deborah Ovsenny
Mr. Tim Reid
Ms Jennifer Riel
Professor Arthur S. Ripstein
Mr. Stephen C. Smith
Mr. Olivier Sorin
Professor Janice Gross Stein
Mr. W. John Switzer
Mr. John Varghese
Mr. W. David Wilson
Mr. David Palmer, Vice-President, Advancement
Ms Sheila Brown, Chief Financial Officer
Mr. Louis R. Charpentier, Secretary of the Governing Council
Mr. Paul Donoghue, Chief Administrative Officer, University of Toronto at Mississauga
Professor Scott Mabury, Vice-Provost, Academic Operations
Ms Kim McLean, Assistant Principal (Business and Administration) and Chief Administrative Officer, University of Toronto at Scarborough
Ms Christina Sass-Kortsak, Assistant Vice-President, Human Resources
Mr. Nadeem Shabbar, Chief Real Estate Officer
Ms Elizabeth Sisam, Assistant Vice-President, Campus and Facilities Planning
Mr. Ron Swail, Assistant Vice-President, Facilities and Services

Mr. Neil Dobbs, Secretary

Regrets:

Ms Mary Anne Elliott
Mr. Gary P. Mooney
Mr. George E. Myhal
Ms Melinda Rogers

In Attendance:

Dr. Thomas H. Simpson, past Chair of the Governing Council and past Chair of the Business Board; member, Board of Directors of the University of Toronto Asset Management Corporation (UTAM)

Ms Joeita Gupta, member, the Governing Council
Ms Karen Coll, Managing Director, Public Markets, University of Toronto Asset Management Corporation
Ms Sheree Drummond, Assistant Provost
Dr. Anthony Gray, Special Advisor to the President
Mr. John Hsu, Managing Director, Risk Management and Operations, University of Toronto Asset Management Corporation
Professor George Luste, President, University of Toronto Faculty Association
Mr. William W. Moriarty, President and Chief Executive Officer, University of Toronto Asset Management Corporation
Mr. Robert Morrison, Vice-Chair of the Board, University of Toronto Asset Management Corporation
Mr. Henry T. Mulhall, Assistant Secretary, Office of the Governing Council

ALL ITEMS ARE REOIRTED TO THE GOVERNING COUNCIL FOR INFORMATION.

1. Report of the Previous Meeting

Report Number 175 (June 18, 2009) was approved.

2. Introductions and Chair's Remarks

In the course of his introductory remarks, the Chair said

- that the Board would continue to focus its attention each meeting on a main theme, handling other proposals and reports more quickly – in some cases as consent items;
- that, at the end of the academic year, the Board would again take a survey to solicit members' views on the conduct of the Board's meetings; (In the meanwhile the Chair invited members' suggestions about the conduct of the Board's business, which could be conveyed to him directly or through the Secretary.)
- that the Secretary would make sound recordings of meetings, solely to assist him in preparing the Reports of the meetings; the recordings would then be discarded.

3. Calendar of Business, 2009 – 10

The Board received for information its Calendar of Business for 2009-10. The Chair stressed that the Calendar was subject to change. Among other changes, items might be added as the result of the emergence of new priorities. The Chair invited members to advise of any items they thought the Board should be considering that were not on the Calendar of Business. No suggestions were made.

4. Approvals under Summer Executive Authority: Annual Report

Human Resources: Collective Agreements for English-as-a-Second Language Instructors

The Chair reported that one matter within the Business Board's terms of reference had been approved under summer executive authority by the President of the University with the concurrence of the Chair of the Governing Council: collective agreements with staff-appointed and casual instructors in English as a Second Language. The agreements, with the United Steelworkers of America, Local 1998, brought those groups of instructors within the terms of the collective agreements for most members of the administrative staff, with certain exceptions appropriate to the nature of the instructors' work.

5. Investments: Semi-Annual Update on Investment Performance

Ms Riggall and Mr. Moriarty introduced members of the UTAM Board and UTAM staff who were in attendance. Ms Riggall recalled that Mr. Moriarty had taken over as President and Chief Executive Officer of UTAM in the spring of 2008, at the beginning of very difficult market circumstances. Mr. Moriarty presented UTAM's semi-annual update on investment performance for the period ending June 30, 2009. A copy of his presentation slides are attached hereto as Appendix "A". Among the highlights of his presentation were the following.

- **Investment management focus during the first half of 2009**. UTAM had worked to reduce the complexity of its portfolios. For example, its foreign-exchange hedging and beta-overlay programs (the latter a program to use index futures to maintain the desired asset mix) had been in the hands of two managers in each area. That had been reduced to one manager in each area. UTAM had also worked to reduce the level of risk in the portfolios. For example the alpha-transport / enhanced indexing program had been discontinued, apart from a small amount associated with U.S. equities. (Alpha transport involved using futures contracts usually based on various securities indices and investing the assets backing those contracts in hedge funds or other assets.) In addition, UTAM had built up a cash position to deal with calls for capital by private equity funds and by the managers of the foreign-currency-hedging program. The fixed-income portfolio had been positioned to take advantage of unique opportunities in the credit markets. While a low level of cash had delayed that move in the fixed-income portfolio until the second quarter, it had added value. UTAM had reduced the portfolios' exposure to hedge funds, redeeming $360-million in the first half of the year. For the remaining hedge-fund investments, it was intended to replace a good portion of the funds of hedge funds with a diversified program of investments in individual hedge funds. To date, about 20% of UTAM's investments in hedge funds had been moved into individual funds. The outcome of the changes to the hedge-fund portfolio had been a substantial reduction in costs amounting to nearly $3-million. UTAM had also completed a great deal of hedge-fund mapping, enabling it to look through the fund-of-fund investments to understand more specifically the exposures in its portfolios. UTAM had been working to improve its

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

risk-analysis tools. In part, it had developed a liquidity policy to ensure that sufficient funds were available to prevent forced sales of assets at inopportune times in the market. It had developed tools to better assess public-market investments (publicly traded stocks and bonds). It was working with outside service providers to improve its risk-management tools. UTAM had just completed a review of its strategic asset allocation, adding more focus on risk control. It had worked with its auditors to review and improve that process. Finally, UTAM was revising its performance analysis framework to improve its understanding of the benefits and costs of the parts of its portfolio.

- **Constraints during the first half of 2009**. Especially with the departure of its managing Director, Investment Strategy and Co-Chief Investment Officer, UTAM had been operating at a low level of staffing.

  Constraints caused by the need for liquid assets had limited the steps that could be taken with the portfolios. Liquidity had been constrained in some part by the time required to effect redemptions from various hedge funds. (Most money from redemptions had been received by May.) UTAM had a substantial level of legacy illiquid assets in the form of investments in private-equity and real-asset funds. Such investments formed, for example, 23% of the pension plan. By investing in private-equity funds, investors made a commitment and retained it for a substantial period of about ten years. The investors undertook to provide money for the funds' investments as they took place over time, often over the first four years of the fund. As at March 2009, UTAM had commitments that had not yet been called amounting to a further 15% - 19% of the portfolios, meaning that money had to be available when required by the fund managers. Again, this constrained what could be done in the portfolios.

  As noted, there was need to work on risk-management analytics. A great deal of work had been completed, including work with external service-providers to establish the best system to provide a more detailed view of the level of risk in each asset class and in the portfolios as a whole. When completed, it would be possible to estimate the risk involved with positions taken by UTAM's external fund managers as a whole. That would enable UTAM either to determine that it was comfortable with the level of risk in any asset class overall and possibly to take steps to put into place some form of insurance.

- **Investment performance: Context - General**. The first two quarters of 2009 were very dissimilar. In the first quarter, investors had appeared to fear that the financial world was coming to an end. In the second quarter, a bull-market psychology had reappeared, with investors making purchases both of equities and credit instruments – a sentiment that was surprising considering the continuation of global economic issues. During the second quarter, the Canadian dollar had gained in value substantially compared to the U.S. dollar and other international currencies, which had damped returns on foreign assets. Even in the first quarter, when the U.S. dollar had shown substantial strength, U.S. and other foreign assets had performed more poorly than Canadian assets.

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

- **Investment performance: Context – Hedge funds**. Mr. Moriarty commented on the performance of UTAM's portfolio of hedge funds. In 2008, UTAM's portfolio of hedge funds had lost nearly 20% in U.S. dollar terms. That decline, while large, was much less than that in the equity markets. In the first quarter of 2009, the hedge-fund portfolio had gained 0.76% at a time when equity investments had declined in value, and in the second quarter the hedge-fund portfolio had gained 4.5% - well below the gain of the equity indices but greater than that of the bond indices. That represented roughly the kind of return that would normally be expected for hedge funds relative to other investments.

- **Investment performance: Context – Volatility**. Mr. Moriarty referred to the University's objective for its pension funds and for the Long-Term Capital Appreciation Pool.[1] That objective was to earn a real (after-inflation) return of 4% per year, within a volatility (measured in terms of the standard deviation of annual returns) of 10% per year, with both returns and volatility averaged over 10 years. He displayed graphs to demonstrate actual volatility for rolling four-year periods for several asset classes beginning with the fourth quarter of 2004. Volatility of returns for Canadian equities had increased to between 18% and 20% for the second quarter of 2009. (On a single-year basis, the volatility would be even higher.) The volatility of returns for fixed-income investments had increased to about 7% and the volatility of hedge funds to just under 7% - roughly in line with the volatility of fixed-income markets but well under the volatility of equity returns.

- **Investment performance: Context - Volatility of the returns of the UTAM portfolios**. The volatility of returns on the UTAM portfolios had increased substantially from their abnormally low levels earlier in the decade. Since the second quarter of 2008, volatility had increased to approximately 10½%. That high level of volatility was one of the reasons UTAM maintained a relatively high level of cash in the pension and endowment funds.

  Mr. Moriarty recalled that the University had in 2008 introduced the idea of a reference portfolio for purposes of comparison with UTAM returns. The reference portfolio was a typical portfolio of 60% equities and 40% fixed-income investments, with 50% of the returns on investments in foreign securities hedged to the Canadian dollar. Even in the reference portfolio, the volatility of returns (again over rolling four-year periods) had increased to 10% per year.

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[1] The Long-Term Capital Appreciation Pool is the investment vehicle for: (a) almost all of the endowment funds, (b) the Long-Term Borrowing Pool, containing repayments made by divisions for loans on capital projects to be accumulated and invested for the University's repayment of the principal amounts of its debenture issues when they became due, and (c) the funds set aside by the University to meet its obligations under the Supplemental Retirement Arrangement.

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

- **Investment performance: Context – Another perspective on risk**. Mr. Moriarty noted that risk was often described in terms of the standard deviation of returns over time. That, however, was a beguilingly simple measure of a complex phenomenon. He therefore showed, on the basis of 10,000 simulations, the possible outcomes of portfolios seeking to achieve an annual return of 6.5% (a real return of 4% plus assumed inflation of 2.5%), within a standard deviation of returns of 10%. The most likely outcomes shown in his slide were normal ones, with the curve of returns containing no "fat tails" – representing extreme outcomes arising from highly unusual conditions. In the real world, as investors had learned in 2008-09, such unusual conditions and outcomes did occur. The simulations demonstrated that even with the assumption of normalcy, it was reasonable to expect returns in any year ranging from -35% to +44%. For 90% of the time, however, the outcomes would range between -10% and +23%. There was a likelihood of a negative return 25% of the time. For 5% of the time, there was a probability of a negative return of -10% or worse. That return could be as low as, as noted, -35%, but the normal expectation in that worst 5% of cases would be a return of -14%. Mr. Moriarty suggested that that perspective provided a better understanding of the implications of operating with a target real return (after inflation) of 4% and within a standard deviation limited to 10% over 10 years. In fact, with the possibility of "fat tails," the outcome could be better or, as seen in the previous year, worse.

- **Portfolio composition**. Mr. Moriarty compared the composition of the pension fund portfolio as at June 30, 2009 to the composition of the reference portfolio. The UTAM portfolio included a substantial exposure to alternative asset classes which were not included in the reference portfolio: hedge funds (18.2%), private equity (14.5%) and real assets (real estate and commodities, 5.6%). The 20% of the portfolio invested in private-equity funds and real-asset funds was illiquid until the maturity of the funds. The difference in the asset mix between the reference portfolio and the pension portfolio was the primary factor in the difference between their returns.

  Mr. Moriatry commented on the changes in the composition of the pension fund and endowment portfolios between the end of December 2007 and the end of July 2009. Investments in the public-market asset classes (stocks and bonds) had declined from 72.6% of the portfolios at the end of 2007 to 54.7% at the end of 2008. In substantial part, that change was the result of the "denominator effect." The value of the portfolios had declined, with the alternative asset classes holding their value better than the public-market asset classes, particularly stocks. Therefore, the public-market asset classes came to represent a lower proportion of the portfolios. Mr. Moriarty noted that the holding of 6% cash in the portfolios had also contributed to the lower proportion of public-market assets relative to the whole portfolio.

  Since the end of 2008, however, the proportion of alternative assets had declined. As at the end of 2008, the portfolios had included just under 23% in private equity and real

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

assets and 22% in hedge funds (excluding alpha transport). The proportion invested in private equity and real assets had declined to 19% since that time, for two reasons. First, the general valuation of those assets had declined. Moreover, their valuation in Canadian dollars had declined further because of the decline in the value of the U.S. and other foreign currencies relative to the Canadian dollar. (A large proportion of the private-equity and real-asset funds were outside of Canada.) There had been no new commitments made to private-equity and real-asset funds since the summer of 2008.

The total exposure to hedge funds included more than the proportion in the alternative-asset class. Hedge funds were also present in the public-markets investment category as part of the alpha-transport programs, in which UTAM would enter into futures contracts in public-market securities indices and hold a corresponding amount in hedge funds to back that position. Total exposure to hedge funds through both avenues had been as high as 32% of the portfolios at the end of 2008. It had been reduced to 20% as at the end of July 2009 and was still lower at the present time. That had been the result of substantial redemptions, amounting to $360-million in the first two quarters of 2009. Mr. Moriarty anticipated further redemptions amounting to $100-million in the third and fourth quarters. The result would be a more reasonable allocation to that asset class.

- **Portfolio performance**. In the first quarter of 2009, the portfolio returns had been -5.76% for the Long-Term Capital Appreciation Pool and -5.83% for the pension fund. Those returns, as well as the returns for the benchmark portfolio and the reference portfolio, all had been below the University target return of 1.29% - one quarter of 4% per year plus inflation. The performance of the two portfolios had exceeded their benchmarks but had trailed the reference portfolio. In the second quarter of 2009, the actual return of 4.22% for the L.T.CAP and 3.87% for the pension fund, as well as the benchmark return and the reference portfolio return, had all exceeded the University target return which was 0.56% for the quarter. However, the portfolio return had trailed both the benchmark and the reference-portfolio returns.

  For the 2009 year to June 30, the L.T.CAP had a return of -1.8%, which was 146 basis points (bps or 1/100 of 1%) under the benchmark, which was in turn 750 bps under the reference portfolio. For the pension plan, the year-to-June 30 return was -2.2% which was 140 bps under the benchmark, which was in turn 790 bps under the reference portfolio. For the Expendable Funds Investment Pool (the Pool for short term investment of day-to-day funds) the return was 1.25% for the first six months of 2009, which was 16 bps above the University's target return for that Pool.

  Referring to the table of returns since 2003, Mr. Moriarty noted that while performance in 2008 had been problematic, performance in earlier years had been better.

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

- **Performance relative to the University target return**. For the 2009 year, returns in the pension fund and the L.T.CAP had not provided the University's target return in the first quarter. The capital markets simply had not provided the necessary returns for most asset classes. For the second quarter, the capital markets had provided returns sufficient to meet the University's targets, and the pension and L.T.CAP portfolios had met and exceeded those targets by a wide margin.

- **Performance relative to the reference portfolio**. Mr. Moriarty commented on portfolio returns for the pension fund and the L.T.CAP relative to the reference portfolio. The two funds' returns had fallen short of the reference portfolio by a wide margin for two key reasons. First, the outcome of private-equity and real-asset investments depended on estimated valuations, and those valuations were provided, and taken into account in the portfolio, only one quarter or even two quarters after the quarter had ended. The current fund performance reports therefore reflected the valuations of private-market investments as at the fourth quarter of 2008 or the first quarter of 2009, both of which were difficult quarters in the securities markets. The valuations therefore reflected those difficult quarters and did not reflect the more recent market recovery. The private-equity portfolio, with its currency values 50% hedged back to the Canadian dollar, had declined by 14% and the real-asset portfolio (a smaller component) had declined by 18%. Mr. Moriarty anticipated that there would be some improvements in the valuations for the third quarter of 2009, although the recovery would not match that of publicly traded securities. In part, a significant proportion of the private-equity portfolio was invested in buyout-related funds, which were facing significant issues at this point in the cycle (although less difficult than six months previously). There were also significant investments in funds that purchased the equity and the debt of distressed companies, and those investments should do better over the next nine months to one year. Mr. Moriarty said that the effect on the funds of the lagged valuation of private-investment funds was likely about 3.5% of negative relative performance.

  Second, because the two portfolios included a significant allocation to private-equity and real-asset investments, they were necessarily underweight in some other asset class(es), in these cases publicly traded Canadian equities. The portfolios were both 20% underweight in Canadian equities compared to the reference portfolio, and Canadian equities had proven to be the best-performing asset class for the 2009 year to June 30. The outcome of the underweighting in Canadian equities had been about 3.5% of negative relative performance.

  Mr. Moriarty anticipated that the funds would close at least some of the gap with the reference portfolio as more current private-investment valuations became available and as the returns of the Canadian and international equity markets converged, as they had begun to do.

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

- **Performance relative to the benchmark**. The pension fund and the L.T.CAP had underperformed relative to their benchmarks by about 1.4%. (The benchmarks were the returns of the securities indices in proportions that matched UTAM's asset mix.) That had been the result of two main factors. The first and most important was the decision to hold a significant cash position in reserve in each of the funds to reduce the level of risk in the event of further market deterioration. That factor alone had accounted for between 1.2% and 1.3% of the underperformance. UTAM was continuing to hold a significant proportion of its portfolios in the form of cash, although doing so was the topic of on-going discussion. Second, there was a tilt towards value stocks in the portfolios, and those stocks had been outperformed by growth stocks in the recent past. In the longer term, however, value stocks should once again outperform as they had done historically over the long term. A third factor, which had exerted a marginal negative effect, had been the impact of the restructuring of the portfolios (as described previously).

- **Performance**: **General**. Mr. Moriarty concluded that he had not been able to report the strong performance he would have wished, but there were signs that the restructured portfolios were performing better. In July, the portfolios had gained about 1% and in August a further 2+%. While final figures for September were not yet available, performance for the month to date had been positive.

- **Economic and investment forecast**. Mr. Moriarty said that massive government spending in an effort to stabilize the economies of the developed world had been of enormous help in averting problems in the short term The longer term outlook was, however, a matter for debate. Normally, an economic recovery went through three phases. The first was the stimulus phase, when monetary and fiscal stimulus contributed to economic stability. The second phase was an inventory recovery, which contributed to an initial bounce in economic growth. The final phase was sustained recovery, with increases in consumer spending, home construction and investment, and with the economy experiencing a renewal of the demand that had been deferred during the economic slowdown. There were at this time, however, a number of impediments to the third stage of recovery. They were: high levels of debt, the decline of investors' net worth, high levels of unemployment, low rates of capacity utilization, and (in the United States of America) continued high rates of mortgage foreclosures. At some stage, it would be necessary to end the stimulus programs and to increase taxation to deal with the deficits that had been built up as the result of stimulus spending. Moreover, many financial institutions remained in a weakened state, with insufficient capital and a legacy of impaired assets. There would be a need for the ongoing restructuring of the world economy, which would no longer be able to ride on the coat-tails of U.S. imports. While the world economy had enjoyed an initial bounce, it was likely that the recovery would take the form of a "square root" sign, with an initial bounce followed by period of below-normal growth before a return to a longer-term situation of normal growth. In those

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

circumstances, Mr. Moriarty did not expect that inflation would become a major problem, although prices would likely trend higher in the U.S.A. if only because of the decline in the worth of the U.S. dollar.

In terms of investments, there had been a considerable bounce in the equity markets, and equities were no longer under-valued. They were, however, not as overvalued as they had been during the 10 years before the 2008-09 decline. Mr. Moriarty therefore anticipated that equity prices might well remain range-bound, as they had been in the late 1970s. Fixed-income securities would also likely trade within a fairly narrow range. Government bonds were providing very low rates of interest. Corporate bonds and debentures still provided a spread above the rates on government bonds, and they still remained attractive, although they did not offer the same exceptional value they had offered earlier in 2009. While the worst was likely past for the capital markets, it was also probable that the environment for investments would remain difficult, with continued volatility in security prices and range-bound trading.

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

(a) Endowment payout. A member recalled that there had been no payout from the endowment funds for the current year because of the erosion in their capital value, including the elimination of the cushion that had been built up. Given the need to arrive at a balance between (i) supporting the endowed Chairs, student awards and other purposes funded by the endowment, and (ii) the need to rebuild capital, was it likely that payouts from the endowment would resume for the following year? Ms Riggall replied that she and her colleagues had just completed an analysis of the endowment situation. She anticipated that it would be possible to make a payout from the endowment to provide support for the coming year; the amount of that payout would be determined as the year-end payout date drew closer.

(b) Returns for the year to date for various asset classes. In response to a member's question, Mr. Moriarty said that for the 2009 year to date, returns on Canadian equities, after expenses, had been 17.8%. That included the Canadian portion of the alpha-transport investments until that portion had been wound down. The return had exceeded the gain of the Toronto Stock Exchange Total Return Index for the same period, which had been 17.6%. The active managers had generally underperformed their individual asset class benchmarks, but the T.S.X. index had been a very difficult benchmark for the period, ranking in about the 30th percentile of funds. Overall, however, including the alpha-transport portion, the result had been outperformance.

With respect to U.S. equities, the active managers had for the 2009 year to June 30 posted an average return of 2.3% in U.S. dollar terms, which was disappointing. That compared to the 4.2% return of the Russell 3000 Index. About one third of the U.S. equity exposure was indexed, and a portion of the category had benefited from the alpha-transport program, but the return was still below the index return.

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

International equities, in Canadian dollar terms, had a return of 5.2%, compared to the 1.5% return of the Australasia / Europe / Far East (EAFE) Index. That substantial outperformance had added a great deal to the relative performance of the portfolio. Five of the seven international-equity managers had outperformed for the period.

(c) One-year returns. A member asked Mr. Moriarty to comment on the largest issue(s) that had accounted for the one-year losses of almost 30% incurred by the pension fund and the L.T.CAP. Mr. Moriarty replied that those losses, incurred in 2008, were discussed in UTAM's Annual Report for the year. A major part of the problem had arisen from the fact that 100% of foreign currency exposure had been hedged to the Canadian dollar. Therefore, UTAM's foreign investments, unlike those of some other funds, had declined by the full amount of the losses in those markets and had not been mitigated by the growing strength of the Canadian dollar. There had been losses of 37% in the U.S. equity market and 43% in global markets outside of Canada and the U.S. In response to another question, Mr. Moriarty reported that the loss incurred for the twelve months ended June 30, 2009 had been about 27% for that period.

(d) University of Toronto funds compared to major U.S. endowments. The decline in the value of the University's pension fund and L.T.CAP was similar to that of many of the larger endowment funds in the U.S.A., which had similar asset mixes. In response to a question, Mr. Moriarty said that the University of Toronto portfolios probably had less exposure to real estate than did those of the major U.S. institutions, and it probably had some investments in areas not included in the U.S. endowments. Ms Riggall added that it was important to remember that the University of Toronto relied on payouts from its endowment funds to provide less than 5% of its operating funding, whereas the major U.S. institutions relied on their endowments for amounts as much as 35% - 40% of their operating funds. In response to a member's question, Mr. Moriarty said that the L.T.CAP, in which the endowment was the major component, had grown from $1.493-billion as at June 30, 2009 to about $1.6-billion at the present time.

A member asked whether the major U.S. endowments provided good benchmarks for the University's funds, or if some other benchmarks were more appropriate. Mr. Moriarty replied that it was not entirely clear what would be the most appropriate benchmark. While it was useful to look at the major U.S. endowment funds, it was also very important to look at the reference portfolio, which was similar to most Canadian funds.

(e) Diversification: Public-market investments. A member recalled that Mr. Moriarty had expressed concern that UTAM's portfolios might be too diversified. Had he taken steps to deal with that concern? Mr. Moriarty replied that there were about 115 managers managing investments in the pension fund, the L.T.CAP and the Expendable Funds Investment Pool. Fifteen or sixteen of the hedge-fund managers were funds of hedge funds. Taking into account all of the managers within those funds of hedge funds, the total number of managers amounted to over 400 individual firms. UTAM had since redeemed investments, or sent notices of full redemption, to ten of the managers of funds of hedge funds. Mr. Moriarty aimed to reduce the

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

overall number of hedge fund managers to between 30 and 40, retaining investments in perhaps two funds of hedge funds. With respect to regular public-market investments, UTAM used four managers for Canadian equities, four for U.S. equities, seven for international equities, and two for fixed-income investments. Six to nine months ago, UTAM had also had a substantial commitment to an alpha-transport program, but that program had been terminated apart from its use in connection with some U.S. equity investments. Mr. Moriarty said that he would propose to the Board some further reduction in the number of hedge-fund and public-market managers.

Mr. Moriarty stressed, however, that diversification among asset classes remained very important from a long-term perspective. UTAM's portfolios had declined more than those of many other Canadian funds because of its diversification into a high proportion of U.S. and international investments at a time when the Canadian equity market had turned in superior results. While the Canadian market had outperformed over the past nine years and in the first six months of 2009, that market was highly concentrated in three sectors: financial services, energy, and basic materials, and - given that market performance tended to revert to the mean - it was reasonable to expect that other sectors such as health care, technology and consumer staples would turn in superior performance over the next several years. Canadian equities, which had been undervalued for many years compared to U.S. and international equities, were now more normally valued, and they were less likely to continue to post superior returns.

(f) Diversification: private-market investments. In response to a member's question, Mr. Moriarty said that UTAM had placed investments in about 43 private-market funds and about 25 real-asset funds. Within the private-market investments, there was substantial diversification, with about 10% of invested capital in venture-capital funds, 60% in buyout funds and 30% in distressed equity and debt funds. The investments in buyout funds were very well diversified, with telecommunications and media being the largest sectors. In view of the long-term nature of the commitment to those funds, there was little that UTAM could do to reduce that level of diversification at the present time. UTAM management was in the process of re-examining its private-markets strategy.

6. Endowments: Annual Report for the Year ended April 30, 2009

The Board received for information the annual report on the endowment funds for 2009. The Chair said that the annual report contained information previously considered by the Board as part of the audited financial statements. Therefore, he had not asked Ms Brown to prepare a presentation on the report, which was intended primarily for donors to the endowment.

7. Health and Safety Requirements: Report on Compliance, 2009 Second Quarter

The Chair reminded Board members that they could be held personally liable for any failure to carry out due diligence to ensure conformity to health and safety requirements. Therefore, the quarterly report on compliance with those requirements was a particular focus for the Board.

7. Health and Safety Requirements: Report on Compliance, 2009 Second Quarter (Cont'd)

Professor Hildyard said that the report was mostly the standard quarterly report. There was, however, one matter that was not standard, addressed in item 2 of the report. The University had been charged with non-compliance with the asbestos regulation under the Ontario Health and Safety Act. The charge had arisen from an asbestos exposure incident involving one of the University's construction contractors. The Ministry of Labour had earlier gathered information and had appeared to be satisfied with the University's actions. However, the outcome with respect to the charge was now uncertain. The University was currently gathering all necessary information and it was working with external legal counsel to respond to the charge.

8. Reports on Capital Projects and Borrowing at August 31, 2009

The Board received for information the Report on Capital Projects Under Construction as at August 31, 2009, the Report on Occupied Capital Projects that were completed but not formally closed as at August 31, 2009, as well as the Borrowing Status Report as at August 31, 2009.

The Chair noted that the reports were shown on the agenda as "consent" items, and he commented on how such items were handled by the Board. He stressed that consent items were important. Even though they would not be discussed by the Board unless specially requested by a member, dealing with those items constituted an essential part of the Board's responsibility. Members were therefore urged to give their full attention to those items before each Board meeting.

9. Report Number 91 of the Audit Committee – June 17, 2009

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 had also dealt with other items on June 17, and its report on those items was received by the Board for information.

Item 6, Internal Audit: Annual Report, 2008-09

A member noted that the Director of the Internal Audit Department had reported on his investigation of certain alleged or actual cases of fraud and had reported steps that were being taken to mitigate the risk of fraudulent actions. At the same time, it appeared that the staffing of the Internal Audit Department was very constrained. The member encouraged support for this area, especially to protect the University against reputational risk. He also encouraged reports to the Board on progress in the area.

The Chair replied that one of the responsibilities of the Audit Committee was to monitor to ensure that that sufficient resources were available in this area. The need to balance resources and risk was a matter of concern. Members of the Board with an interest in Internal Audit activities were welcome to sit in on meetings of the Audit Committee.

10. Reports of the Administrative Assessors

HlNl Influenza: Preparations for a Possible Pandemic

Professor Hildyard reported that the University, like most other institutions, had taken steps to plan and prepare for the risk of an H1N1 influenza pandemic. Information about the matter was available on the University's website, with a link from its main page. Plans had been developed to enable the continuation of teaching activities in the event of a pandemic. Members of the faculty had been requested to deal with the possibility of their own illnesses by posting materials on-line or preparing activities their students could undertake. Similarly, special arrangements had been made to assist students to continue with their course work in the event of their illness. The University continued to develop and update business-continuity plans using an on-line tool so as to enable it to continue its business activities in the event of an outbreak that left, for example, 20% - 30% of the staff in a unit away ill. While it was impossible to know the outcome in advance, Professor Hildyard was satisfied that a good communication plan and other contingency plans were in place.

11. Date of Next Meeting

The Chair reminded members that the Board's next regular meeting was scheduled for Monday, November 9, 2009 at 5:00 p.m. The main theme would be Advancement, Alumni Relations, and University Relations. The Board would receive the annual reports of the Vice-President, Advancement and the Vice-President, University Relations. Among other items of business, the Board would also receive a briefing on the topic of accountability for expenses in the University. The second part of the Board orientation was scheduled for the same day at 4:00 p.m.

THE BOARD MOVED INTO CLOSED SESSION

12. Quarterly Report on Donations over $250,000, May 1 –July 31, 2009

The Board received for information the Quarterly Report on Donations over $250,000 for the period May 1 – July 31, 2009.

THE BOARD MOVED *IN CAMERA.*

13. Pension Committee

Professor Hildyard reported on the outcome of an arbitration between the University and the Faculty Association on the establishment of a mechanism to provide the Association with a voice in the governance of the pension plan and related issues. The outcome had been an award directing the University to establish a Pension Committee. That Committee would consist of sixteen members including nine members of the Governing Council, four members appointed on the recommendation of the Faculty Association, and three members representing other employee groups. She proposed that the Board delegate to the Chair authority to develop a plan to implement the arbitrator's award and to bring a proposal to the next meeting of the Board.

13. Pension Committee

On the recommendation of the Vice-President, Human Resources and Equity,

YOUR BOARD APPROVED

THAT the Chair of the Business Board be delegated the responsibility to develop a plan to implement Mr. Teplitsky's Award, dated August 17, 2009, and that he report to the Board on his intended approach at its November 2009 meeting.

It is understood that in executing this task, the Chair will consult and work with members of the Governing Council Secretariat and the administration as he deems necessary.

14. Closed Session / In Camera Reports

(a) Human Resources: Report on Negotiations with the Canadian Union of Public Employees (CUPE) Local 3902, Unit 3

Professor Hildyard reported on the negotiations with the Canadian Union of Public Employees (CUPE) local 3902, unit 3, which represented the University's sessional lecturers.

(b) Investments: President's Committee on Investment Policies, Structures, Strategy and Execution

Ms Riggall reported on the President's establishment of an advisory committee to review the University's investment policies, structures, strategy and execution. The Co-Chairs of the Committee were the Honourable Henry N. R. Jackman, Chancellor Emeritus of the University, and Mr. Larry Wasser, past-member of the Business Board.

THE BOARD RETURNED TO OPEN SESSION

The meeting adjourned at 6:50 p.m.

Secretary	Chair

October 26, 2009

53573