UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 178 OF THE BUSINESS BOARD

December 14, 2009

To the Governing Council,
University of Toronto.

Your Board reports that it met on Monday, December 14, 2009 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Mr. Geoffrey Matus, (In the Chair)
Ms Catherine J. Riggall, Vice-President, Business Affairs
Ms Christina Sass-Kortsak, Acting Vice-President, Human Resources and Equity
Mr. William Crothers
Ms Mary Anne Elliott
Mr. J. Mark Gardhouse
Mr. Steve (Suresh) Gupta
Ms Paulette L. Kennedy
Dr. Stefan Mathias Larson
Mr. George E. Myhal
Ms Deborah Ovsenny
Mr. Tim Reid
Ms Jennifer Riel
Ms Melinda Rogers
Mr. Olivier Sorin
Mr. W. John Switzer
Mr. John Varghese
Mr. W. David Wilson

Ms Sheila Brown, Chief Financial Officer
Ms Rivi Frankle, Assistant Vice-President, Alumni and Stakeholder Relations
Ms Sally Garner, Executive Director, Planning and Budget
Professor Scott Mabury, Vice-Provost, Academic Operations
Ms Elizabeth Sisam, Assistant Vice-President, Campus and Facilities Planning

Mr. Neil Dobbs, Secretary

Regrets:

Mr. Andrew Agnew-Iler
Professor Angela Hildyard
Ms Florence Minz
Mr. Gary P. Mooney
Mr. Richard Nunn
Professor Arthur S. Ripstein
Mr. Stephen C. Smith
Professor Janice Gross Stein

In Attendance:

Mr. P. C. Choo, Member, The Governing Council
Dr. Anthony Gray, Special Advisor to the President
Professor George Luste, President, University of Toronto Faculty Association
Ms Gillian Morrison, Assistant Vice-President, Divisional Relations and Campaigns
Mr. Henry T. Mulhall, Assistant Secretary, Office of the Governing Council
Mr. Pierre G. Piché, Controller and Director of Financial Services
Mr. Allan Shapira, Hewitt Associates

ALL ITEMS ARE REPORTED TO THE GOVERNING COUNCIL FOR INFORMATION.

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1. Report of the Previous Meeting

Report Number 177 (November 9, 2009) was approved.

2. Business Arising from the Report of the Previous Meeting

Item 6 – Vice-President, University Relations: Annual Report, 2008-09

The Chair recalled that at the previous meeting, a member had suggested that in the future the report to the Board on the University's public and community relations activities be a broader one, not limited to dealing with those activities carried out under the aegis of the Vice-President, University Relations. In order to strengthen the University's reputation, the report should include the various activities undertaken by faculty and students that had a major impact on the public. The question arose whether the Business Board was the appropriate venue for reports on faculty and student activities - even those that had an impact on public and community relations. The Chair said that, as a part of the University's overall strategic review, a detailed examination of Board and Committee terms of reference was currently being undertaken by the Task Force on Governance, chaired by the past-Chair of the Governing Council, Dr. Rose Patten. This specific suggestion had been referred to that Task Force so that any ambiguity in the terms of reference could be dealt with.

The member said that the proposed manner of dealing with his point was appropriate. He did wish, however, to clarify his remarks. His objective had not been to urge an increase in the activities of faculty and students with a bearing on public and community relations but rather to advocate that the University clearly document the excellent work that was already taking place. The President had been doing a great deal to make those activities known through his invitation to students to make presentations on their outstanding activities as a part of the President's report to the Governing Council. A comprehensive annual report on such activities would be very useful, and the administration had an obligation under the terms of reference to prepare such a report. Those activities made an important contribution to the University's community and public relations and demonstrated the University's strength in those areas. The member was concerned that the administrative division of labour not cause this important matter to "fall through the cracks."

3. Pension Plans: Annual Financial Report for the Year ended June 30, 2009

The Chair observed that the review of the pension plans represented the main theme of the meeting. The Annual Financial Report included the audited financial statements for the two registered plans, which required the Business Board's approval prior to their submission to the Financial Services Commission of Ontario. The remainder of the report was for information, but the Board should make known any concerns about the steps being taken to ensure the financial health of the pension plans.

Mr. Myhal reported that the Audit Committee had met six days previously to review the report, including the audited financial statements. The external auditor as well as the actuary had

3. Pension Plans: Annual Financial Report for the Year ended June 30, 2009 (Cont'd)

been present. Ms Brown had presented a very detailed report on the plans, and she would provide a similar presentation to the Board at this time.

Ms Brown presented the annual report on the University's three pension plans: the registered pension plan for most employees; the registered plan for employees of the Ontario Institute for Studies in Education up until the time of its merger with the University, and the University's Supplemental Retirement Arrangement for employees with salaries above the maximum salary eligible for pensions under a registered plan. A copy of Ms Brown's presentation slides are attached hereto as Appendix "A". She said that the Financial Services Commission of Ontario required the preparation and submission of an actuarial valuation every three years. The University's previous regulatory filing had been the valuation of the plans as at July 1, 2008. The next required filing was therefore due on the plans as at July 1, 2011. In practice, the University had an actuarial valuation conducted annually and the administration presented that valuation as part of its annual report to the Board on the pension plans. However, this report and that for the next year would not be filed with the regulators absent any changes to the registered pension plans.

Among the highlights of Ms Brown's report were the following.

- **Financial status of the pension plans as at July 1, 2009**. Comparing the market value of the plans' assets to their liabilities (determined by the actuaries on a going-concern basis), the liabilities were 33% greater than the assets, an increase from a 4% deficit the previous year. The deficit in the combined plans amounted to $1.071-billion. The growth in the deficit had been primarily the outcome of an investment loss of 27.6% of the pension assets, reflecting the very difficult financial markets of the past year. The registered pension plan assets were not fungible. The monies in the main registered plan and in the OISE plan were reserved for those plans. The monies set aside by the University to deal with its liabilities under the Supplemental Retirement Arrangement as well as for the pension reserve could be moved into the registered plans, but monies in the registered plans could not be moved. It was, nonetheless, useful to look at the overall situation of the plans together.

- **Plan liabilities**. Referring to a ten-year graph, Ms Brown said that the combined pension liabilities had been growing steadily to $3.23-billion. That was in part a function of the plans' growth, with new members added each year. The OISE plan was, however, a very small closed plan with just over 100 members, and the number of participants in the plan was declining each year. Members joining the staff of OISE following its merger with the University joined the main University plan. Apart from the increased number of participants, there had been no changes in the past year to the factors determining the amount of the liabilities: no benefit improvements and no changes in the plans' actuarial assumptions.

3. Pension Plans: Annual Financial Report for the Year ended June 30, 2009 (Cont'd)

- **Assets: Change**. Referring to a ten-year graph, Ms Brown said that assets had grown to $2.45-billion by June 30, 2000; 1999-2000 had been a good year on the securities markets. They had then declined to $2.05-billion over the next three years, which had been poor years for investments. The assets had then grown steadily over the next four years to $3.23-billion. They had then declined in the years ending June 30, 2008 and especially 2009 to $2.16-billion. The value of the assets in 2008-09 had been the outcome not only of (a) the 27.6% investment loss over the year but also of: (b) $104.7-million of current-service contributions by the University and by employees (c) $30.2-million of University special payments and payments under the Voluntary Early Academic Retirement Program; (d) $141.3-million of payments to pensioners, and (e) fees and expenses amounting to 1.47% of assets.

  The outcome of the changes in the amount of the assets had been reflected in the financial status of the plans, which, combined, had been: a surplus in the years ended June 30, 2000 (when the surplus was at its high point of almost $600-million) to 2002; a deficit in the years ending June 30, 2003 – 2006, a renewed surplus in 2007, and then a deficit in 2008 and the very large deficit in 2009.

- **Assets: Contributions**. Contributions to the plans had increased dramatically over the past ten years. In latter part of the 1990s and in the early part of the 2000s, there had been no employer contribution to the registered pension plans or only a very small employer contribution. That had been the outcome of a provision in the federal income tax act that prohibited employer contributions to registered pension plans when the surpluses in those plans exceeded 10% of their accrued liabilities. In some of those years, the employee groups had also negotiated a contribution holiday for employees. Beginning in 2002, employee contributions had resumed. Those contributions were formulaic, amounting to 4.5% or 5% of salary up to the Canada Pension Plan earnings ceiling (depending on the employee group) and 6% of salary above that ceiling. The employer contributions to the plan had increased substantially in 2003-04. Pursuant to the pension funding strategy approved by the Business Board in 2004, the funding for the plans included three elements: full current-service contributions by the employees, full current-service contributions by the employer, and an amount of $27.2-million embedded in the University's base budget set aside for pension purposes. If that money was required for the registered plans, it would be contributed. If it was not required for the registered plans or even permitted to be contributed by the Income Tax Act, the money was still to be set aside by the University outside of the registered plans and used for pension purposes to deal with deficits that might arise in the future and to provide a reserve. That funding strategy remained in place at this time.

- **Assets: Investment returns**. Referring to a ten-year graph, Ms Brown said that the Pension Master Trust Investment Policy anticipated an average return of 4% per year after inflation and after all fees and expenses. It also anticipated that the return would be

3. Pension Plans: Annual Financial Report for the Year ended June 30, 2009 (Cont'd)

achieved within a risk tolerance of 10% or an average standard deviation of ±10% over ten years. That is, the pension fund was to be managed with the objective of keeping the variation of returns within 10% of the target return two thirds of the time over ten years. In fact, returns had remained within the risk tolerance in six of the past ten years, had fallen slightly outside of the risk tolerance for three years (one above the target and twice below) and then had fallen far below the risk corridor in 2008-09 with the 27.6% decline.

Updating the investment results since June 30, 2009, Ms Brown reported that the return from June 30 to September 30, 2009 had been about 5½%. The preliminary estimate of return from June 30 to November 30, 2009 was 6.2%, representing investment earnings of about $125-million. The return to November 30 was an estimate only because the returns on the Pension Fund Master Trust's private-market investments were not determined until their valuations after the end of each quarter. The outcome was subsequently included into the return figures for the quarter.

- **Assets: investment-return assumption**. Ms Brown stressed that there were only two ways of funding a pension plan: contributions and investment return. Therefore, assuming no change to the benefits, making any change to the assumed long-term investment return for the pension assets would have a substantial effect on the level of required contributions. Employee contributions to the plan were determined by a formula based on salary. The University was, therefore, required to make the full amount of any additional contributions required to meet the annual current-service cost of the plans. With the assumption of a 4% real return (after the effect of inflation and after all fees and expenses), the University would be required to contribute $73.1-million to the pension plans to cover current-service costs for 2009-10. If that assumption were reduced by one-quarter of one percent to 3.75%, the employer contribution would increase to $78.6-million. If the assumption were reduced to the level required for a minimal risk portfolio or 2% per year, the required employer contribution would increase to $135.8-million per year, absent any change in member contributions.

- **Fees and expenses**. Referring to a ten-year graph, Ms Brown said that the fees and expenses for managing the pension fund master trust had increased both in terms of dollar cost and as a percent of total assets. Beginning in 2000, the University had moved from a more passive style of managing the pension investments to a more active program - a move that involved higher costs. In addition, the investments began to include new asset classes with higher fees. In some cases, the returns on those asset classes were delayed after the expenses for the investments began. In particular, private investment interests required the commencement of fees paid to the investment managers immediately upon making a commitment to their funds. Those funds invested their committed monies over time, with investments being made and returns being provided over a cycle that lasted at least ten years. While fees were payable at once, returns usually did not begin for some time, with the returns often described as following a "J" curve. The University did not defer any investment fees in the pension plan accounts. Therefore, for some investments,

3. Pension Plans: Annual Financial Report for the Year ended June 30, 2009 (Cont'd)

fees were incurred for a period of time before any return was anticipated or provided. The percent increase in the cost of fees and expenses had been particularly steep in 2008-09 owing to the sharp decline over the year in the denominator - that is, the total value of the assets being invested. Ms Brown reported that the University of Toronto Asset Management Corporation (UTAM) was making changes to its investment strategy, which would have the effect of reducing fees and expenses somewhat. In particular, it was changing the way in which hedge-fund investments were handled.

- **Solvency ratio**. The going-concern valuation of the plan assumed that the University and the plan would be in operation indefinitely. The solvency valuation was a regulatory requirement which was based on the assumption that the plan would be wound up immediately and that it would be required to purchase annuities for plan members to provide the benefits they had earned, albeit without the partial indexing of the benefits (as provided in the University's plan) to compensate for the effect of inflation. If the solvency ratio of the plan was less than 1.0 – that is, if the assets were less than the amount required to buy annuities for all plan members – then the plan sponsor was expected to act more quickly and accelerate payments to remedy the solvency problem. For the University's plan as at June 30, 2009, the solvency ratio was 0.69. To remedy a going-concern deficit, it was expected that additional contributions (beyond the current service contribution) would be made over fifteen years to eliminate the deficit. In the case of a solvency deficit, it was expected that the additional contributions would be made over five years. That time could be extended to ten years with the consent of plan members. The calculation of the going-concern and the solvency deficits differed: the liability according to the solvency valuation was $880-million compared to the going-concern liability of $1.029-billion. The requirements to deal with either deficit would differ and that difference would have a major impact on the rate of required additional contributions to the plans.

- **Uncertainties affecting the choice of funding and investment strategies**. There were substantial uncertainties with respect to legal and regulatory requirements going forward. Pension plans were regulated primarily by the provinces, and the Province of Ontario had received recommendations on pension reform from the "Arthurs Commission" - an expert Commission that had considered the matter of pension regulation. Certain changes had been made that had arisen from the Commission's report, but the more difficult decisions remained to be made. The Ontario Ministry of Finance had put forward the idea of an amalgamation of university pension plans. While the differences amongst those plans might well impede that objective, the Ministry had advocated at least merging the management of their assets. The Ministry had taken the view that the plans might well achieve significant savings if their investments were managed by a larger entity such as the Ontario Municipal Employees Retirement System (OMERS) or the Ontario Teachers' Pension Plan, or a new multi-institution management company. The Council of Ontario Universities had made a submission to ask that the Ontario universities be exempted from the funding requirements arising from the solvency valuation and that the universities be

3. Pension Plans: Annual Financial Report for the Year ended June 30, 2009 (Cont'd)

given more than five years to achieve an acceptable solvency ratio. The solvency valuation assumed the immediate wind-up of the universities and their plans, but the universities were long-term institutions. Indeed, the University of Toronto had been in existence longer than the Government of Ontario. Some other provinces had granted universities such an exemption from the usual solvency funding requirement.

There were also uncertainties concerning the Government of Canada's Income Tax Act. As noted, employers were not permitted to make contributions to pension plans if they had surpluses that exceeded 10% of their liabilities. (The concern was that taxable plan sponsors could use their pension plans to shield their incomes from appropriate taxation.) The Government of Canada had proposed increasing the limit to surpluses of 25% of the liabilities of the plan. The universities would prefer complete removal of the limit to enable them to make use of good investment market conditions to build up a cushion for times of severe market declines – something comparable to the steps taken by the University of Toronto with respect to its endowment fund. However, an increase to 25% would clearly be a step in the right direction.

There were also uncertainties with respect to decisions to be taken within the University. Arising from an arbitration decision, the University was in the process of establishing a pension committee that would give a much stronger voice to members of the pension plan. The decisions that would arise from that Committee were uncertain. The University was also about to begin a debate on the subject of appropriate return targets and risk tolerance for the Pension Fund Master Trust investments. In addition, a committee, advisory to the President, was currently considering its recommendations with respect to investment management within the University.

Finally, there were a number of major uncertainties concerning future developments in the financial securities markets. Would the current uptick continue? Would it remain realistic to aim for a 4% investment return after inflation and fees and expenses? Ms Brown cited very long-term data concerning investment returns from 1926 to 2008. Investments of 60% equities and 40% fixed-income securities had over that period earned an average return of 7.7% with average inflation being 3.0%, for a real return well over 4%, showing that a 4% real-return target had been achievable over the very long term.

- **Considerations concerning funding and investment strategies**. In formulating its funding strategy going forward, the University hoped to be able to factor in positive investment returns that would reduce the plan deficits. In addition, it would consider a combination of various possible strategies. First the University had in 2004 built into its base budget a $27-million amount for special pension funding over and above current-service costs. That fixed amount had been declining over the years as a percent of the total salary base, and it might well be appropriate in the future to set that amount as a proportion of the total salary base. Second, the University could consider the use of funds, currently devoted to other purposes, which it could put into the pension funds.

3. Pension Plans: Annual Financial Report for the Year ended June 30, 2009 (Cont'd)

Third, the University could consider borrowing to put money into the pension funds to deal with regulatory requirements. Some combination of some or all of those strategies were being explored to deal with the pension deficit. The University was fortunate to have some time to explore those alternatives before the next required filing of its actuarial valuation of its registered plans with the Financial Services Commission of Ontario.

A member asked what rate of investment return would be required over the next several years to eliminate the deficit. Ms Brown replied that the modeling required to answer that question was currently being completed. It would be important to have an understanding of some of the regulatory uncertainties before determining the pension funding strategy.

In the discussion that followed the presentation, several members asked questions about actions that could be taken in response to the large deficit. They advocated that action be taken urgently and not await the next required filing of the pension-plan valuations in 2011. One member suggested that action be initiated to ensure the fiscal integrity of the plans before the establishment of the proposed Pension Committee, which might well limit the University's flexibility. A member noted that the Ontario Teachers' Pension Plan had faced a similar question with respect to its plan deficit. It had drawn the conclusion, likely appropriate in the case of the University's plans, that the anticipated investment return target was a reasonable one, and that therefore the only appropriate action to be taken was to increase contributions, to reduce benefits, or both. While the University had focused its attention on investment return, it had not focused on contribution rates or on the level of benefits. On the contrary, rather than considering reductions of benefits, it had moved from time to time to increase the inflation indexing for retired members of the faculty and librarians. Another member observed that it was not possible to require employees to increase their contributions to deal with the existing deficit; therefore the University would have to increase its contributions. Facing a very large deficit, it was inappropriate to await the next required filing of the actuarial valuation to begin the process of finding funding. Another member reiterated that it was inappropriate to wait to take action and simply to complete more analysis. He urged that, as a first step, the University move immediately to increase, perhaps by a factor of three, the current $27-million amount it set aside to deal with pension funding problems. Another member agreed that the problem would not disappear, and it should be regarded as one to be dealt with by the University beginning with its next operating budget. Another member agreed. While it might well be the case that the University could not readily identify immediate sources in its budget for funding to reduce the deficit, it was no more likely that such sources would appear in the future. Another member urged that the University consider action necessary to fund the pension plan to provide defined benefits for current plan members, but that it recognize that it could not afford to offer a defined-benefit plan to new employees. The member knew of no other large organization facing a very large pension deficit that had decided to continue to offer a defined-benefit plan to new employees. Continuing to offer a plan the University could not afford would simply perpetuate a severe long-term problem.

Ms Riggall and Ms Brown replied. Given the uncertainties in the environment, they could not at this time finalize the appropriate steps to be taken to deal with the deficit. They had

3. Pension Plans: Annual Financial Report for the Year ended June 30, 2009 (Cont'd)

set a possible plan before the highest levels of the University administration, but making a decision on a plan would depend on the outcome of decisions made outside of the University, particularly on the rate of payment required on the deficit. In the University's relations with its employee groups and unions, both pension benefits and employee contributions were subject to negotiation with those groups. Only about 800 members of the University staff (managers, professionals and staff with access to confidential employee-relations information) were not represented by either the Faculty Association or a union. That was not to say that there could be no changes in the plan benefits or in the rates of employee contributions, but any such changes for the vast majority of employees would have to be the outcome of negotiations. The University currently set aside in its operating budget the amount of $27-million per year in excess of current-service costs for pension funding. It had done so since 2004, with the outcome that well over $100-million had been provided. No other University had taken such a step. The administration was indeed considering an increase in that amount, but it would be imprudent to make a decision on the funding strategy before the Government of Ontario makes its decision on the request by the Council of Ontario Universities that the universities be exempted from the solvency-funding requirement. The University was more likely to obtain a favourable outcome with respect to this matter by working in concert with other Ontario universities. While it might appear appropriate to make an immediate increase in the amount reserved to deal with the deficit, the fact was that the operating budget did not provide the opportunity to do so without a devastating impact on the University. The University did not have the freedom to increase its prices (per-student grants or tuition fees) or its sales (funded enrolments); those factors were controlled by the Ontario Government. That Government had urged that the University accommodate a given number of students and that it provide them with a high-quality student experience. In view of those facts, it was clear that the Government should permit the universities to deal with their pension deficits on a going-concern basis. While there might be some argument for action based on the solvency valuation, the fact was that in the highly unlikely event that the University and its pension plan did have to be wound up, the University had billions of dollars of assets in land and buildings that would more than cover the pension-plan liabilities. The administration would be dealing with the issue and providing frequent updates to the Board in Budget Reports and in other reports. It was not being proposed to ignore the problem but rather to deal with it in a considered and effective way.

In the course of discussion, Mr. Shapira assured members that modeling was continuing. It was anticipated that future investment returns after June 30, 2009 would provide a part of the answer to the problem, but by no means all of the answer. The outcome of various other approaches and strategies was also being modeled. He observed that the $27-million annual amount that had been set aside for pension purposes had been initiated as a budget item in 2004 and had been continued since that time, including in 2007 when the plans combined were in a surplus position. The question under consideration was the continuation of that special contribution and perhaps its increase to an amount representing a fixed percent of the salary base. Taking such a step would, in terms of its present value, represent between $400-million and $500-million of assets over 20 or 25 years. While it was not possible to recognize a reserve outside of the registered plans in the actuarial reports on those plans, such an amount would go a long way towards dealing with the deficit problem.

3. Pension Plans: Annual Financial Report for the Year ended June 30, 2009 (Cont'd)

With the agreement of the Board, the Chair invited Professor Luste to speak. Professor Luste first addressed the matter of a defined-contribution plan rather than the existing defined-benefit plan for newly hired members of the faculty. He reported that he had held brief discussions with the President of the University about making a defined-contribution plan available as an option to new faculty members. Consideration of that possibility had not, however, proceeded, although the Faculty Association was and remained open to the idea of providing that option. He speculated that the reason for the reluctance of the administration to proceed in that direction was its concern about the current defined-benefit plan, which was in his view operating like a Ponzi scheme. The Ponzi scheme operated by Mr. Bernard Madoff had failed because, as the market declined, his investors had begun a run on the Madoff fund to redeem their money. In the case of the University's defined-benefit pension plan, there was no option for a run. The Plan was required only to produce a relatively small amount each year for payments to pensioners, much of which was provided by current-service contributions, and the majority of the plan's liability would not come due for many years. It would, however, be a grave mistake to view the need for pension payments in excess of pension contributions as a distant problem for reason of the plan being a young one. The plan currently had 1.8 active members making contributions for each pensioner. In 1987, there had been 3.6 active members for each retired member. That meant that the plan was fast becoming much more mature and the flexibility available was becoming much more limited.

Professor Luste stated his view that the pension plans' financial problems had originated in 1987. Prior to 1987, the Faculty Association and the University had agreed to share the risk in the plan according to a negotiated ratio. In 1987, the administration had wished to assume full responsibility for the plan and to limit the Faculty Association's input. The Faculty Association had agreed, foolishly in Professor Luste's opinion, giving the administration control of the plan and enabling it to change the plan assumptions, in particular the interest-rate assumption. With the increase in the interest-rate assumption, the plan liability had declined and an apparent surplus had appeared in the plan, giving rise to the Income Tax Act limit on contributions. Professor Luste described the situation as a "self-serving catch 22." He directed members' attention to a table on page 3 of the handout he had distributed[1], showing the many years in which the full current-service contributions were not made to the plan. The table provided the cumulative value of the money that would have been contributed to the plan had the interest-rate assumption not been increased. The table, which continued to June 30, 2007, showed that value to be one half a billion dollars. Ms Brown had referred to the very large increase in the cost of current-service contributions with a reduction in the interest-rate assumption from the current 4.0% after inflation and costs. However, the root of the problem was precisely what he considered to be an unrealistic interest-rate assumption. The problem in his view was that the Income Tax Act regulated contributions to plans in a surplus position, but it did not regulate the assumptions upon which that surplus was calculated.

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1 See http://utfa.org/images/file/UofT%20Bus-Board%20-%20%20Dec-2009-final-26p.pdf.

3. Pension Plans: Annual Financial Report for the Year ended June 30, 2009 (Cont'd)

Professor Luste said that the University sought to be an internationally competitive research university, and it managed its financial affairs in order to achieve that status. The University did not, however, have the revenue to achieve that aspiration. He thought that the University was seeking to achieve its aspiration by underfunding its pension plan. The outcome of that underfunding, using what he believed to be appropriate assumptions, was a two billion dollar pension deficit. In trying to deal with the pension deficit by seeking an exemption from the solvency rules for funding the plans, the University was in effect seeking to put off the problem to the next generation. Professor Luste did not think that to be a proper or responsible course of action.

On motion duly made, seconded and carried,[1]

YOUR BOARD APPROVED

(a) The audited financial statements of the University of Toronto Pension Plan, June 30th, 2009; and

(b) The audited financial statements of the University of Toronto (OISE) Pension Plan, June 30th, 2009.

4. Pension Fund Master Trust Investment Policy

Ms Riggall said that pension-plan sponsors were required to complete an annual review of their statements of investment policies and goals, either amending or reaffirming them. The policy proposed for approval by the Board formed one part of the Statement of Investment Policies and Goals for the University's registered pension plans[2]. The sole revisions in the proposed Business Board policy were the updates to the statistical information.

On motion duly made, seconded and carried,

YOUR BOARD APPROVED

> The proposed University of Toronto Pension Fund Master Trust Investment Policy, a copy of which is attached hereto as Appendix "B".

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[1] A member stated that a relative was a member of the pension plan. He therefore declared a conflict of interest and abstained from voting.

[2] The Statement of Investment Policy and Goals for the registered plans included the delegation of authority to the University of Toronto Asset Management Corporation (UTAM) and UTAM's more detailed statement of investment policy for the Pension Fund Master Trust.

5. Pension Committee: Proposed Establishment – Progress Report

Ms Riggall recalled her report to the previous meeting that work was proceeding on a draft of proposed terms of reference for the Governing Council pension committee mandated in the report of Mr. Martin Teplitsky, the arbitrator in the salary and benefits negotiations between the University and the Faculty Association. Important elements in the drafting were: the need to ensure that the terms of the Teplitsky award were synchronized with the requirements for Governing Council committees, and the need to ensure that the functions of the proposed committee were synchronized with those of the Business Board and the Audit Committee. The terms of reference of the latter committees would also require amendment.

Questions arose on the following subjects.

(a) Position of administrative staff members with respect to the proposed committee. Invited to speak, a member of the Governing Council noted that the proposed committee arose from a decision in an arbitration between the University and the Faculty Association. What authority did the arbitrator have to impose an arrangement on members of the pension plan who were not members of the faculty or librarians? It was mandated that of the sixteen members of the proposed committee, nine would be appointed by the Governing Council, four would be nominated by the Faculty Association, and there would be three other members. Those three other members would presumably concern themselves with the interests of staff members currently represented by the United Steelworkers of America, the Canadian Union of Public Employees, and twenty-one other unions. What would prevent those unions from challenging the outcome of the arbitration, perhaps in a court of law? Ms Riggall replied that the arbitrator's award was binding only on the University and the Faculty Association. The unions and the non-unionized staff employees were not party to the negotiations or the arbitration award. Their representatives would presumably need to have discussions with the University with respect to the proposed committee.

(b) Appointment of administrative staff members to the proposed committee. A member of the Governing Council asked how the three members of the proposed committee would be apportioned, given the large number of unions representing most administrative staff and given that a significant number of administrative staff members were not represented by a union. Members of the latter group had made known to the member their concern about the matter. Ms Riggall replied that, again, there would be a need for discussions with the University on the matter. It would clearly be challenging to find a means for nominating three members who would represented the needs of all staff.

(c) Need for administrative staff to participate on the committee. A member of the Governing Council asked whether the administrative staff would be bound to participate on the committee. Ms Riggall replied in the affirmative. Because there were not separate plans for academic and administrative staff, governance oversight could not be divided. Ms Riggall said that the arrangement did not imply that individual unions would lose their right to negotiate their members' benefits and contribution rates.

5. Pension Committee: Proposed Establishment – Progress Report (Cont'd)

(d) Governing Council appointees. In response to a question, Ms Riggall said that all of the Governing Council appointees would have to be members of the Council; none could be co-opted members. That would be the case because the proposed committee would be empowered to make decisions on behalf of the Council, and the University of Toronto Act required that any committee with such authority had to consist of a majority of members of the Council.

6. Capital Projects Report as at November 30, 2008

The Board received for information the regular Report on Capital Projects as at November 30, 2009. That report provided information on the status of (a) projects under construction with costs amounting to $451.54-million and on (b) projects that were completed and occupied but not formally closed with costs amounting to $18.31-million.

7. Capital Projects Closure Report as at November 30, 2008

The Board received for information the Report on Capital Project Closures, which recorded the formal closing of two projects: the Centre for Criminology on the St. George Campus and the Medical Academy at the University of Toronto at Mississauga.

Centre for Criminology Project

Questions arose concerning the accessibility of the Centre for Criminology, constructed in the Canadiana Building on Queen's Park Crescent West. A member observed that while the project had been completed at a cost below its budget, no elevator had been installed in the building, making its upper-storey rooms inaccessible. This had resulted in problems for a particular student who could not attend classes originally scheduled for the upper storey. While there had been an offer to move the class to a lower storey to accommodate the student, the student was concerned about inconvenience to classmates and about her ability to participate in the informal discussion with the faculty and fellow students that was so valuable a part of the educational experience. The member was concerned that the failure to install an elevator in this renovated facility, which had apparently been completely gutted as part of the renovation, would create risks of non-compliance with Provincial law and would prevent accessibility to others, including potential students and guests. The member asked whether there were plans to add an elevator to the facility, even though doing so would presumably incur a higher cost as a separate project. He also asked whether cost reductions for future projects could similarly endanger the quality of the student experience. Three other members expressed similar concerns in the light of Provincial legislation and in the light of embarrassment that would be caused to a student who was required to ask that a course be scheduled in a different classroom.

Ms Riggall replied that she anticipated that funding would become available at some time in the future to add an elevator to the Canadiana Building. Ms Sisam added that the building had not been fully gutted and reconstructed as a part of the project included in the report. Because of the very limited funding available for the renovation, it had not been possible to include an

7. Capital Projects Closure Report as at November 30, 2008 (Cont'd)

Centre for Criminology Project (Cont'd)

elevator, but provision had been made to add an elevator at a later date. Space had been left vacant for an elevator shaft. Ms Sisam noted that the matter had received considerable attention by the Project Planning Committee members in the preparation of the Project Planning Report and when considered by the Planning and Budget Committee. At that time, it was made clear that provision was being made for the addition of an elevator when funding became available and that the Centre for Criminology would schedule classes or provide office accommodation on the ground floor (which was accessible) when doing so was necessary to accommodate any student, faculty or staff member.

Ms Riggall noted that elevators were included in two current projects to renovate older buildings: the School of Global Studies at 315 Bloor Street West and the Mining Building on College Street at King's College Road. The University certainly had no policy to eliminate the construction of elevators in renovation projects where insufficient funding was available. Where it was necessary to reduce the scope of a project, all available options were examined and decisions were made for each individual project. The University updated its Accessibility Plan under the Ontarians with Disabilities Act annually and submitted that plan to the Planning and Budget Committee. It was the University's policy to provide accommodation to meet students' needs. Ms Sisam added that a number of University offices assisted students in meeting their accommodation needs, including the Office of Space Management, which scheduled lectures and seminars in accessible locations. Those means including having particular classes scheduled in accessible locations. The Exam Centre, recently opened at 215 McCaul Street, was the largest facility of its kind and it included facilities for the accommodation of students with special needs.

Ms Sass-Kortsak noted that the University's Accessibility Plan for 2010-11 was scheduled to be presented to the Planning and Budget Committee on January 18, 2010. The annual report of the accessibility offices on the three campuses was scheduled for presentation to the University Affairs Board on April 20, 2010. In addition, information on the matter would be included in the Report of the Vice-President, Human Resources and Equity, scheduled to be presented to the Business Board on April 26, 2010.

8. Borrowing - Status Report to November 30, 2008

The Board received for information the status report on borrowing to November 30, 2009. That Report showed maximum borrowing capacity of $958.4-million pursuant to the University's policy; borrowing allocated (net of repayments that could be reallocated) of $886.4-million; actual external borrowing of $532.8-million; and internal borrowing outstanding of $210.8-million.

9. Health and Safety Requirements: Report on Compliance with Legal Requirements

The Chair reminded members that they could be held personally liable for any Board failure to carry out due diligence to ensure conformity with health and safety requirements. Therefore, this regular report was of considerable importance.

Ms Sass-Kortsak reported that since the previous report to the Board, the Ministry of Labour had issued no new orders. There had been one visit by Ministry Officials in response to a critical injury – a broken leg – suffered by a contractor who was collecting recycled material on campus. Because of that incident and a previous one, the University had strengthened its loading-dock safety program and had acted to strengthen its contractor safety program: holding contractors to higher standards, monitoring their compliance and taking action in the event of non-compliance. The Canadian Nuclear Safety Commission had carried out a regulatory audit, focusing on the security of irradiators. The outcome had been relatively satisfactory, and the University would act to implement a number of minor recommendations. The University was anticipating new regulations requiring it to report on specific activities involving human pathogens and toxins. In addition, Environment Canada would in 2010 require information on the use of biological materials.

In response to a member's question, Ms Sass-Kortsak said that there had been no new developments with respect to the issue of asbestos in older buildings, as discussed in the previous quarterly report. The matter continued to be an important one in connection with renovations to older buildings that contained asbestos insulation. Ms Riggall said that the University was well aware of the location of remaining asbestos and of the cost of its removal as necessary in connection with renovation projects.

10. Reports of the Administrative Assessors

University Credit Rating

Ms Riggall drew the Board's attention to the Moody's Credit Analysis Report dated December 2009, a copy of which had been placed on the table. The agency continued to rate the University's credit as Aa1, with a stable outlook.

11. Date of Next Meeting

The Chair reminded members that the Board's next regular meeting was scheduled for Monday, February 8, 2010 at 5:00 p.m.

12. Other Business

Governing Council Elections.

The Chair reminded members of the Board who were alumni, students or members of the faculty and staff that the nomination period for Governing Council and Academic Board elections would open on Friday, January 8, 2010. He urged members to encourage appropriate

12. Other Business (Cont'd)

Governing Council Elections (Cont'd)

individuals to become involved in governance by nominating them and voting in elections for their constituencies.

THE BOARD MOVED INTO CLOSED SESSION.

13. Quarterly Report on Gifts and Pledges over $250,000, August 1 –October 31, 2009

The Board received, for information, the Report on Gifts and Pledges over $250,000 for the period August 1 to October 31, 2009. The Chair stressed that the report was a confidential one, made in closed session to protect the privacy of donors. Where they had agreed to their gifts' being made public, they would be announced publicly in an appropriate manner.

14. Other Closed Session Reports

Ms Sass-Kortsak reported on the major terms of the recent Collective Agreement with stipendiary instructors represented by the Canadian Union of Public Employees, Local 3902, Unit 3. That agreement had been ratified by the Local's membership. The President of the University or his designate had authority to approve "changes to collective agreements under the Labour Relations Act that fell within existing policies and salary determination procedures." Therefore the report was made for information only.

The Chair congratulated Professor Hildyard and her team and the Union on their reaching agreement. The outcome was particularly welcome in the light of the long strike of comparable employees that had taken place recently at another Ontario University.

THE BOARD RETURNED TO OPEN SESSION.

The meeting adjourned at 6:35 p.m.

Secretary	Chair

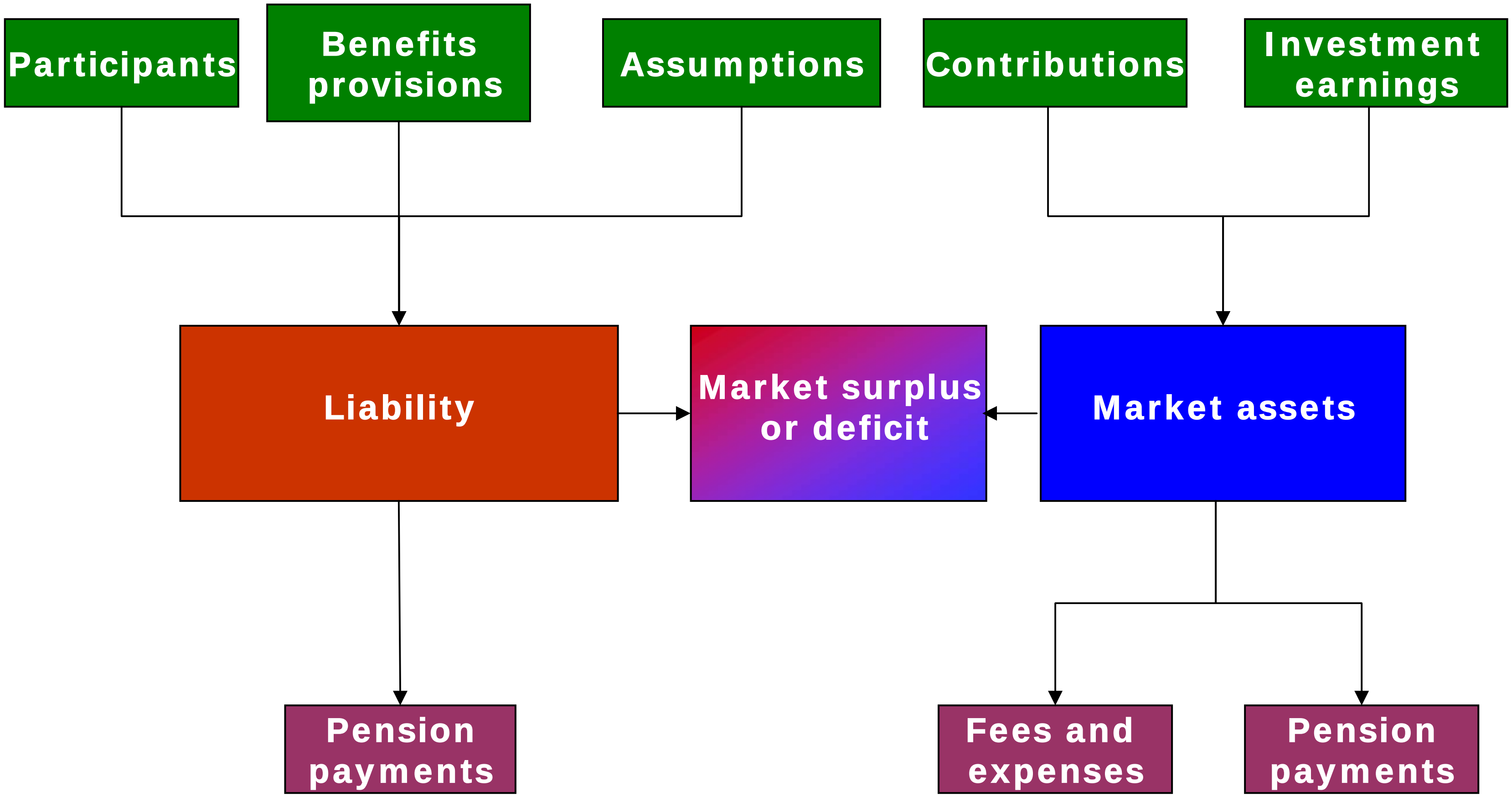
January 8, 2010

54513

University of Toronto Pension Annual Financial Report

Presentation to Business Board
2009

How a Defined Benefit Plan Works



Tools for Assessment of Pensions

- **Pension financial statements – audited confirmation of fair value of assets.**

- **Pension funding valuations:**
  - **Going concern actuarial valuation.**
  - **Solvency actuarial valuation.**
  - **Hypothetical wind-up valuation.**
  - **Statutory going concern valuation**

- **Accounting valuation – for University financial statements.**

Pension Status at July 1, 2009

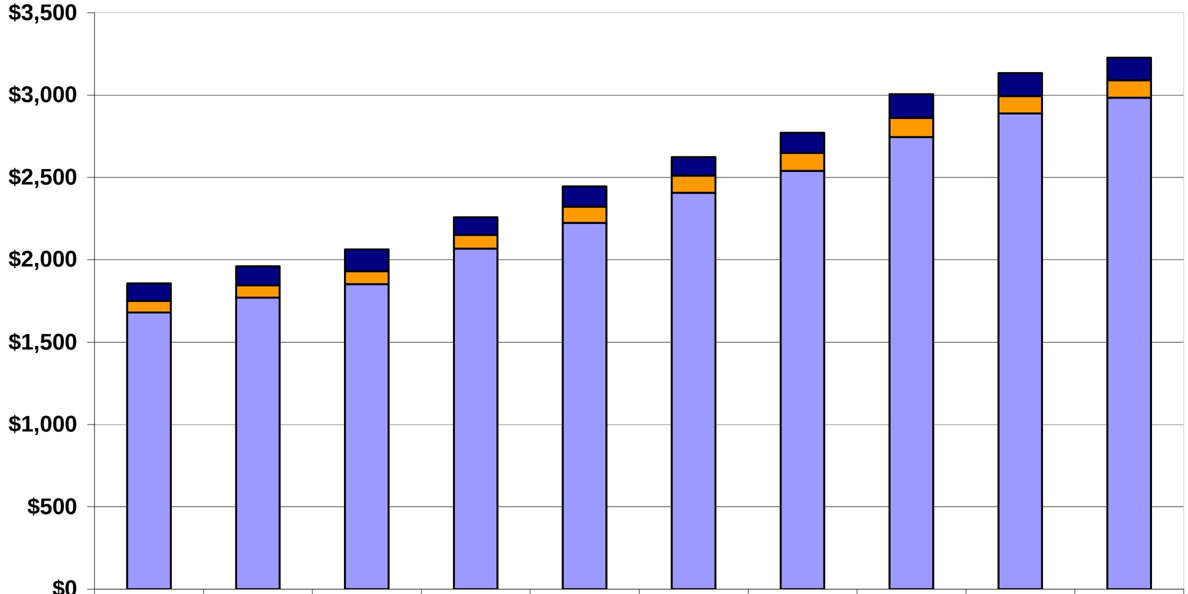
July 1, 2009	Going Concern Liabilities[1]	Market Value of Assets	Market Surplus (Deficit)	Market Surplus (Deficit) as % of Liabilities
RPP	2,983.8	1,954.8	(1,029.0)	(34%)
RPP(OISE)	106.6	71.5	(35.1)	(33%)
SRA	136.1	117.0	(19.1)	(14%)
Pension Reserve		12.4	12.4	
Total	3,226.5	2,155.7	(1,070.8)	(33%)

July 1, 2008	Going Concern Liabilities	Market Value of Assets	Market Surplus	Market Surplus as % of Liabilities
RPP	2,889.6	2,724.2	(165.4)	(6%)
RPP(OISE)	104.2	105.9	1.7	2%
SRA	139.8	174.2	34.4	25%
Pension Reserve				
Total	3,133.6	3,004.3	(129.3)	(4%)

The financial position of the pension plans has worsened from a deficit of 4% of liabilities to a deficit of 33% of liabilities.

Going Concern Liabilities

Going Concern Pension Liabilities [1]
at July 1
(millions of dollars)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
SRA liabilities	107.9	116.8	131.8	108.6	122.7	112.9	122.1	145.4	139.8	136.1
RPP(OISE) liabilities	69.4	73.8	77.9	83.4	97.6	103.7	108.6	115.3	104.2	106.6
RPP liabilities	1,680.2	1,770.5	1,852.9	2,066.7	2,225.0	2,407.0	2,540.6	2,745.8	2,889.6	2,983.8

[1] Including partial wind-up members in RPP(OISE) liabilities in years up to 2007

Changes to Liabilities

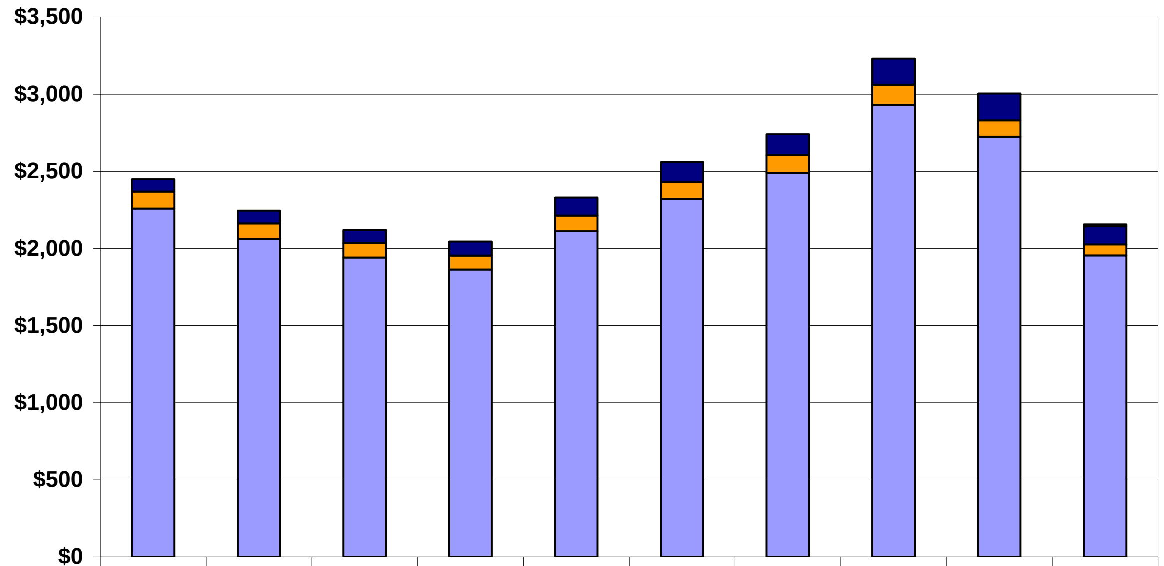
- **Participants:**
  - RPP up 342 participants
  - RPP (OISE) down 4 participants.

- **Benefits:**
  - No new benefit improvements during year ended June 30, 2009.

- **Assumptions:**
  - No change in assumptions.

RPP, RPP(OISE), SRA and Pension Reserve Market Assets

Market Value of Pension Assets [1]
at July 1
(millions of dollars)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Pension reserve assets	-	-	-	-	-	-	-	-	-	12.4
SRA assets	80.2	82.2	85.5	91.2	115.8	130.6	136.2	170.0	174.2	117.0
RPP(OISE) assets	109.0	100.2	94.7	90.5	101.8	109.0	113.8	131.6	105.9	71.5
RPP assets	2,259.4	2,062.9	1,940.0	1,863.2	2,111.8	2,320.6	2,489.9	2,929.7	2,724.2	1,954.8

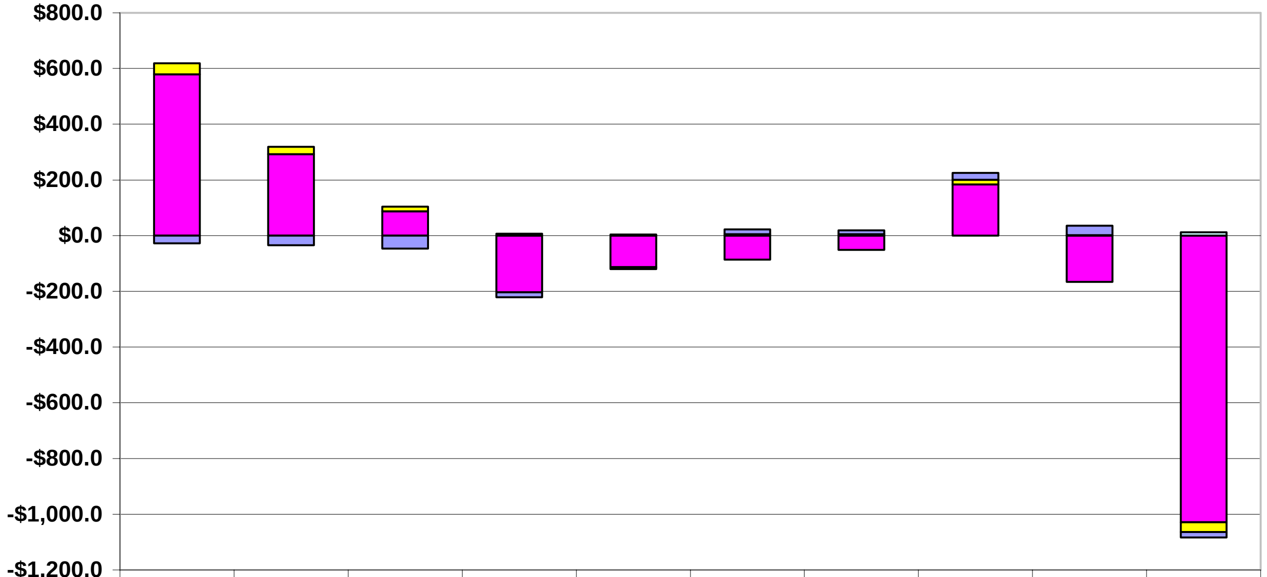
[1] Including partial wind-up members in RPP(OISE) assets in years up to 2007

Changes to Assets

- **Contributions:**
  - $104.7 M current service contributions for new benefits being earned.
  - $30.2 special payments and VEARP payments.
- **Investment earnings:**
  - -27.6% actual investment return (compared to -5.9% in 2008), net of investment fees and expenses.
- **Pension payments:**
  - $141.3 million in payments (compared to $136.4 million in 2008).
- **Fees and expenses:**
  - 1.47% of assets compared to 1.04% in 2008.

Market Surpluses and Deficits

Going Concern Market Surplus (Deficit)
as at July 1
(millions of dollars)

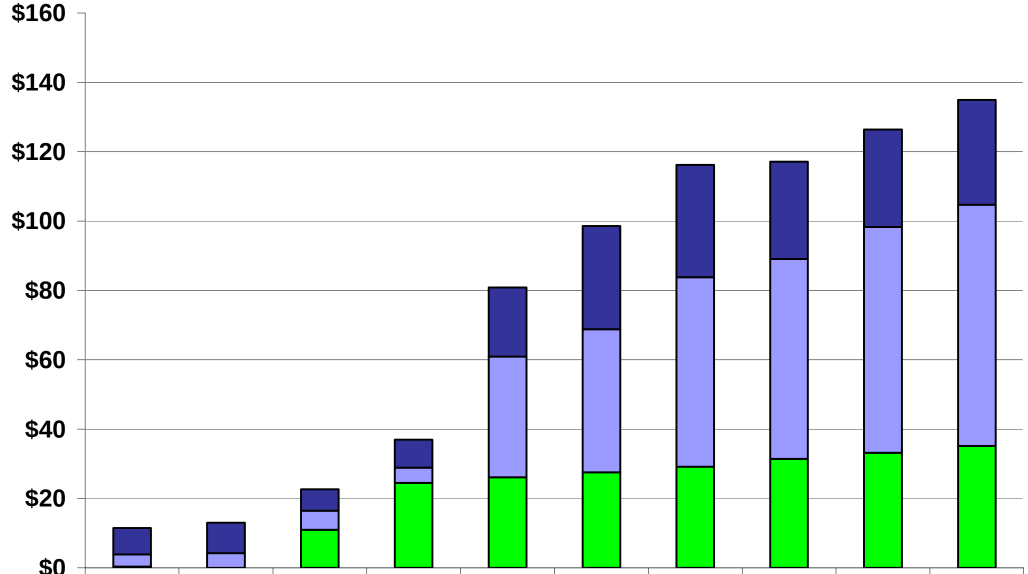


	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Pension reserve	-	-	-	-	-	-	-	-	-	12.4
SRA	(27.7)	(34.6)	(46.3)	(17.4)	(6.9)	17.7	14.1	24.6	34.4	(19.1)
RPP(OISE)	39.6	26.4	16.8	7.1	4.2	5.3	5.2	16.3	1.7	(35.1)
RPP	579.2	292.4	87.1	(203.5)	(113.2)	(86.4)	(50.7)	183.9	(165.4)	(1,029.0)

Financial position is a large deficit in 2009.

Contributions

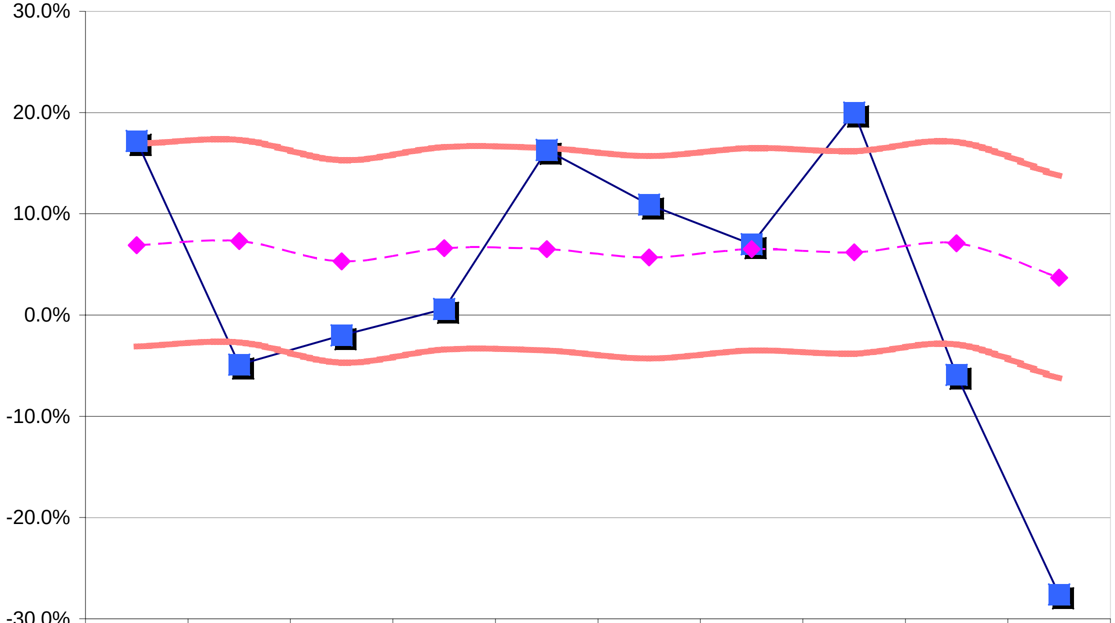
Contributions by Source (Employee and Employer) Across All Plans [1]
for the year ended June 30
(millions of dollars)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
ER special payments	7.6	8.8	6.2	8.1	19.9	29.8	32.4	28.1	28.1	30.2
ER current service contribution	3.5	4.2	5.5	4.4	34.7	41.3	54.6	57.6	65.1	69.6
EE current service contribution	0.4	0.0	11.0	24.5	26.2	27.5	29.2	31.4	33.2	35.1

Investment Earnings

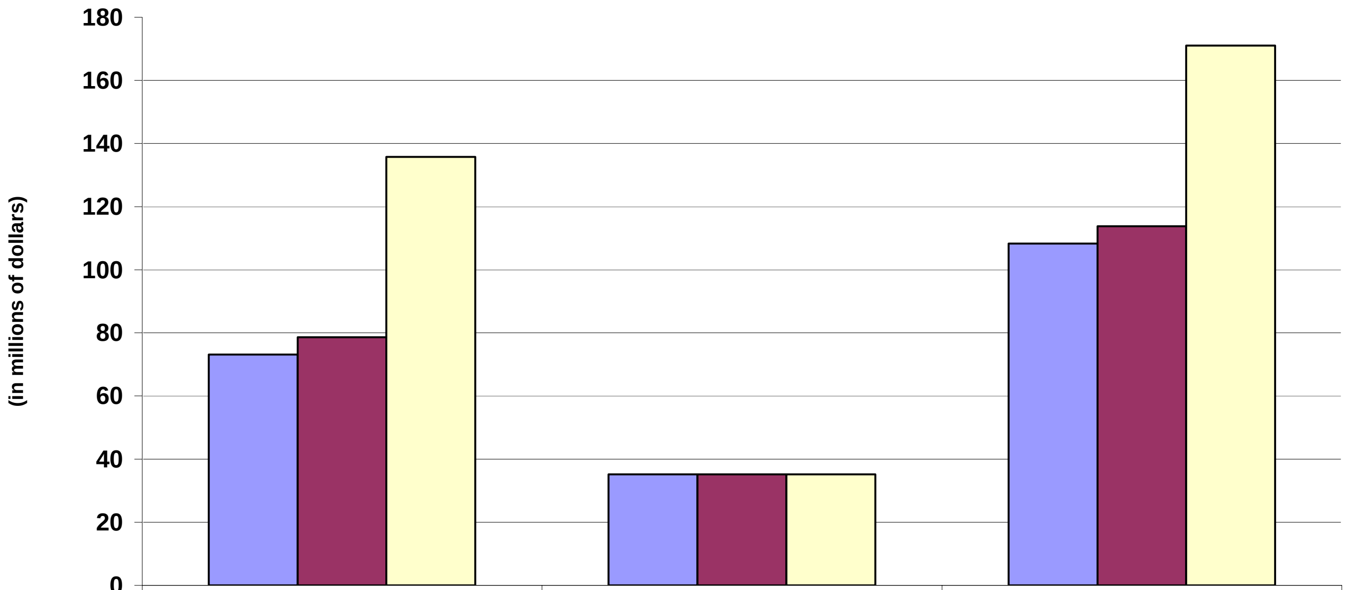
Pension Master Trust
1-Year Annual Rates of Return



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Actual investment return *	17.2%	-4.9%	-2.0%	0.6%	16.3%	10.9%	7.0%	20.0%	-5.9%	-27.6%
4.0% plus CPI	6.9%	7.3%	5.3%	6.6%	6.5%	5.7%	6.5%	6.2%	7.1%	3.7%
Standard deviation +10%	16.9%	17.3%	15.3%	16.6%	16.5%	15.7%	16.5%	16.2%	17.1%	13.7%
Standard deviation -10%	-3.1%	-2.7%	-4.7%	-3.4%	-3.5%	-4.3%	-3.5%	-3.8%	-2.9%	-6.3%

Impact on contributions* of changing the assumed investment return

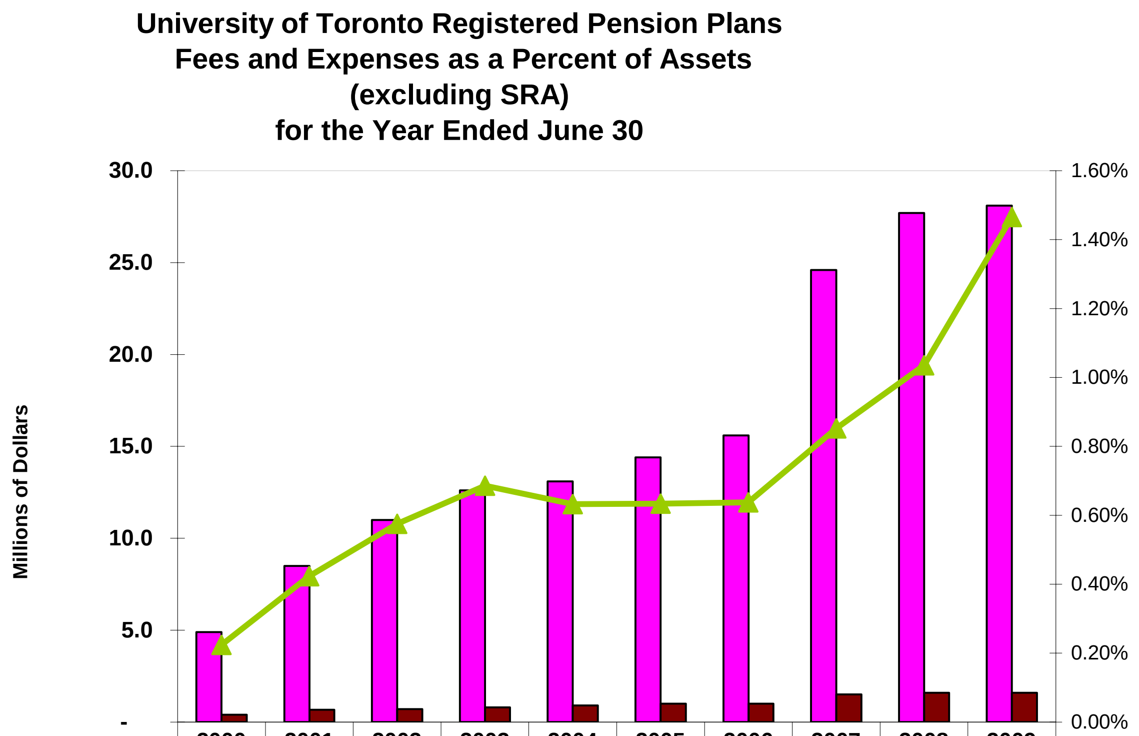
University of Toronto Pension Plan (RPP)
Current Service Cost for 2009-10
Under Varying Real Investment Return Assumptions



	Employer	Employee	Total
4.00%	73.1	35.2	108.3
3.75%	78.6	35.2	113.8
2.00%	135.8	35.2	171.0

* Assumes the additional current service costs were completely borne by the employer

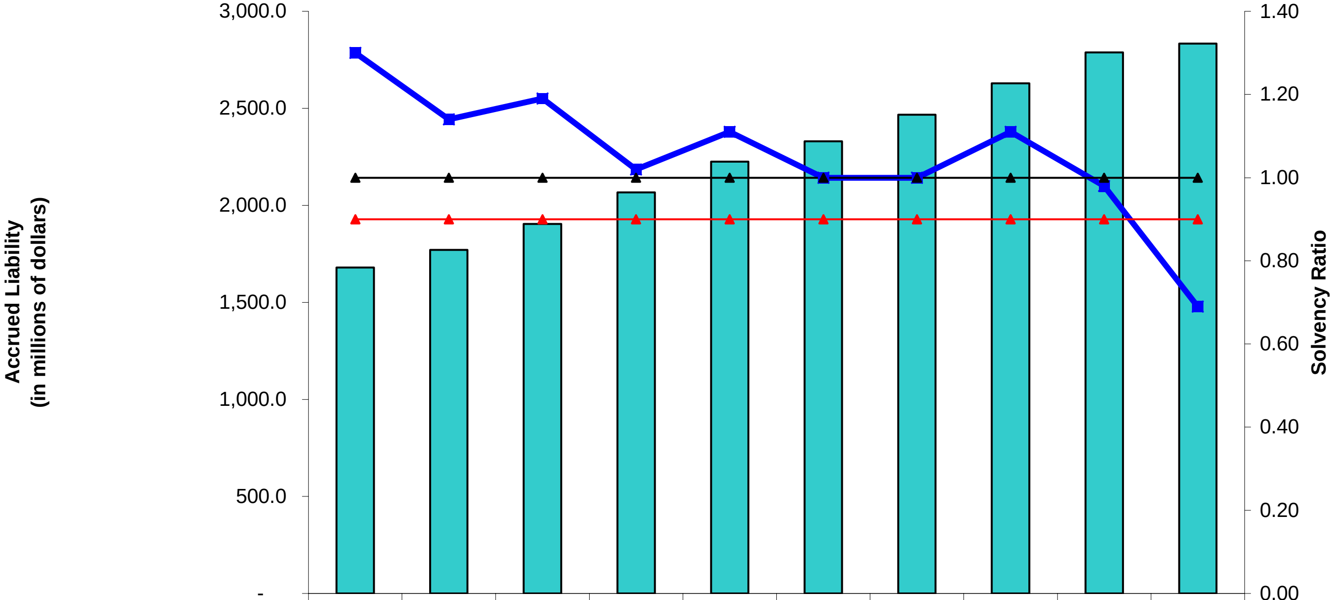
Fees and Expenses



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
RPP fees and expenses	4.9	8.5	11.0	12.6	13.1	14.4	15.6	24.6	27.7	28.1
RPP(OISE) fees and expenses	0.4	0.7	0.7	0.8	0.9	1.0	1.0	1.5	1.6	1.6
As percent of assets	0.22%	0.42%	0.58%	0.69%	0.63%	0.63%	0.64%	0.85%	1.04%	1.47%

Solvency Ratio

RPP
Solvency Ratio and Accrued Liability
as at July 1



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Accrued Liabilities	1,680.2	1,770.5	1,904.9	2,066.7	2,225.0	2,330.2	2,467.6	2,628.4	2,788.7	2,833.8
Solvency Ratio	1.30	1.14	1.19	1.02	1.11	1.00	1.00	1.11	0.98	0.69
Solvency Ratio of 1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Solvency Ratio of 0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9

Current Uncertainties

Legal and regulatory requirements:

- Ontario Ministry of Finance objectives.
- Arthurs Commission recommendations.
- Council of Ontario Universities advocacy re solvency exemption.
- Federal government income tax act proposal.

+ University of Toronto parameters:

- Pension committee establishment.
- Decisions about appropriate risk and return targets.
- Advisory committee recommendations on investment management.

+ Financial markets:

- What will they do and how will it impact pension returns?

U of T pension funding and investment strategies July 2011.

UNIVERSITY OF TORONTO

PENSION FUND MASTER TRUST INVESTMENT POLICY

54275

UNIVERSITY OF TORONTO

PENSION FUND MASTER TRUST INVESTMENT POLICY

(STATEMENT OF INVESTMENT POLICIES & PROCEDURES)

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PENSION FUND MASTER TRUST INVESTMENT POLICY

(STATEMENT OF INVESTMENT POLICIES & PROCEDURES)

PREAMBLE

The Governing Council of the University of Toronto is the legal administrator of the University of Toronto Pension Plan and the University of Toronto (OISE) Pension Plan to provide pension benefits to its employees. These plans are contributory defined benefit pension plans registered under and subject to the Ontario Pension Benefits Act.

For investment purposes, the University of Toronto pension plan and the plan for its OISE employees are pooled into a pension master trust. This pooling enables both funds to enjoy economies of scale and eliminates discrepancies in investment performance.

The University determines the return expectation and risk tolerance via this *University of Toronto Pension Fund Master Trust Investment Policy*, which is approved annually by its Business Board.

The University owns the University of Toronto Asset Management Corporation (UTAM). The University has formally delegated to UTAM the authority for management of pension master trust investments by resolution of the Business Board of Governing Council and establishes the terms and conditions under which UTAM provides investment management services. The investment decisions of UTAM and its Board of Directors are subject to the overall policy direction of the University.

1. PLAN DESCRIPTION AND GOVERNANCE

1.1 TYPE OF PENSION PLAN

The pension plans are contributory defined benefit plans registered under and subject to the Ontario Pension Benefits Act. The Governing Council of the University of Toronto is the registered plan administrator. The current plans provide defined pension benefits for eligible employees, currently members of the academic, librarian, administrative and unionized staff of the University, the OISE division of the University, and its related affiliated organizations.

As of August 1, 2000, the University of Toronto pension fund for its OISE division was pooled into a master trust for investment purposes with the University's main pension fund. While they are two separate and distinct plans (University of Toronto Pension Plan registration number 0312827 and OISE Pension Plan registration number 0353854), the pooling for investment purposes enables both funds to enjoy economies of scale and eliminates discrepancies in investment performance. The plan provisions for the OISE Plan are identical to the University of Toronto Pension Plan. Required member contributions under the plan each year are 4.5% or 5% of salary (depending on the staff group) up to the year's maximum pensionable earnings (YMPE), plus 6% of salary in excess of the YMPE.

1.2 Nature of Plan Liabilities

The purpose of the plans is to provide retirement income for members of its plans. The plans provide an annual pension benefit to members based on a prescribed formula applied to years of participation.

Pension benefits are adjusted each year by an amount equal to the greater of:

(a) 75% increase in the Consumer Price Index (CPI) for the previous year; or
(b) the increase in the CPI for the previous year minus four percentage points.

As of July 1, 2009, there were 8,326 active members in the University of Toronto Pension Plan, 4,569 retired participants, 2,326 terminated vested members and 374 exempt or pending status. The average age of active members was 47.4 years, average service 12.3 years, and average pay was $85,810. As of July 1, 2009 the market value of assets of the plan was $1,954.8 million versus going concern accrued liabilities of $2,983.8 million.

As of July 1, 2009 the OISE Pension Plan had 103 active members, 146 retired members, and 21 terminated vested members. The average age of active members was 58.0 years, average service was 25.4 years and average pay was $106.401. As of July 1, 2009 the market value of assets of the plan was $71.5 million versus going concern accrued liabilities of $106.6 million (including partial wind-up).

The going-concern liabilities are influenced by real interest rates, salary increases, CPI increases, turnover, mortality and retirement age patterns. Appropriate allowance is made for these factors in the assumptions used for actuarial valuation purposes and it is not expected that actual experience will vary significantly from the valuation amounts over the long term.

The duration (a weighted-average sensitivity measure) of plan liabilities is 13.2 years and 11.3 years respectively for the University of Toronto and OISE pension plans. Duration is lengthened due to the plans' automatic inflation protection, which increases benefit payments over time. The long duration of liabilities is indicative of a long-term investment horizon for the assets.

Going-concern liabilities are determined using long-term assumptions and are not affected by short-term changes in interest rates. Solvency liabilities do fluctuate from year to year with market interest rates, but because the plans provide guaranteed indexing of 75% of the increase in the CPI, the market interest rate used to determine solvency liabilities depends more on the yield of real return bonds than on nominal bond yields. Real yields on real return bonds have been less volatile than nominal interest rates. Fluctuations in solvency liabilities caused by real interest rate changes can have an impact on cash contributions or pension expenses.

2. Investment Policies and Goals

2.1 Introduction

The University of Toronto has engaged the University of Toronto Asset Management Corporation (UTAM) to manage the pension master trust assets. As a client of UTAM, it is important that the University delivers to its fund manager a concise statement of return objectives as well as risk tolerance, and that these two components are congruous. The purpose of this policy is to establish both of these objectives with regard to the pension master trust.

2.2 Risk and Return Objectives

To keep risk at a reasonable level, the risk objective is an annual standard deviation of 10.0% or less in nominal terms over 10 year periods. The University has less appetite for downside risk than for upside risk and prefers that risk be managed to minimize the downside, and particularly to avoid returns less than 0% where ever possible.

In order to meet the planned payments of pensions to pensioners, the return objective is at least a 4.0% real, inflation-adjusted return over a 10 year period, net of all investment fees and expenses, plus CPI, but with the target real return to be no greater than that which is achievable within the 10% allowable risk objective.

Actual investment performance will be evaluated against these objectives over time.

2.3 Asset Mix

The University has formally delegated to UTAM the authority for investment strategy and execution including. without limitation, establishment of the asset mix investment mandates, selection of investment managers to be responsible for the management of the portfolios in accordance with those mandates, determination of portfolio diversification, categories and subcategories of investments, use of derivatives, and investment restrictions.

Each investment manager shall adhere to this policy and shall follow the investment policies and goals with the care, diligence, and skill that a person skilled as a professional investment manager would use in dealing with pension plan assets and shall use all relevant knowledge and skill that the investment manager possesses or ought to possess. Investment managers are expected to be in compliance with the standards of professional conduct and code of ethics administered by the Association for Investment Management and Research (AIMR).

2.4 Restrictions

In addition to the restrictions developed by the University and UTAM, the policy will adhere to the restrictions specified within the Pensions Benefits Act, Regulation 909 of the Revised Regulations of Ontario 1990, and the Federal Income Tax Act, all as amended from time to time.

3. GENERAL

3.1 Conflict of Interest Guidelines

Anyone involved directly or indirectly with the University's fund investments shall immediately disclose to the Business Board, at the time of its discussion of the policy or of matters related to the investment of University funds, any actual or perceived conflict of interest that could be reasonably expected to impair, or could be reasonably interpreted as impairing, his/her ability to render unbiased and objective advice to fulfill his/her fiduciary responsibility to act in the best interests of the funds.

This standard applies to the University and to its employees, to the members of the Governing Council, its boards and committees and to employees and members of the board of UTAM, as well as to all agents employed by them in the execution of their responsibilities under the Pension Benefits Act (Ontario) (the "Affected Persons").

An "agent" is defined to mean a company, organization, association or individual, as well as its employees who are retained by the University to provide specific services with respect to the investment, administration and management of the assets of the Plan.
Disclosure:

In the execution of their duties, the Affected Persons shall disclose any conflict of interest relating to them, or any material ownership of securities, which could impair their ability to render unbiased advice, or to make unbiased decisions, affecting the administration of the Plan assets.

Further, it is expected that no Affected Person shall make any personal financial gain (direct or indirect) because of his or her fiduciary position. However, normal and reasonable fees and expenses incurred in the discharge of their responsibilities are permitted upon notification to the University.

No affected Person shall accept a gift or gratuity or other personal favour, other than one of nominal value, from a person with whom the employee deals in the course of performance of his or her duties and responsibilities for the Plan.

It is incumbent on any Affected Person who believes that he or she may have a conflict of interest, or who is aware of any conflict of interest, to disclose full details of the situation to the attention of the Business Board immediately. The Business Board in turn, will decide what action is appropriate under the circumstances but, at a minimum, will table the matter at the next regular meeting of the Business Board.

No Affected Person who has or is required to make a disclosure as contemplated in this Policy shall participate in any discussion, decision or vote relating to any proposed investment or transaction in respect of which he or she has made or is required to make disclosure, unless otherwise determined permissible by unanimous decision of the Business Board.

3.2 Custody

The University has overall responsibility for custody of pension assets, operational oversight of which it delegates to UTAM.

3.3 Related Party Transactions

The University, on behalf of the plan, may not enter into a transaction with a related party unless

a) the transaction is both required for operation and or administration of the Plan and the terms and conditions of the transaction are no less favourable than market terms and conditions;
b) securities of the related party are acquired at a public exchange; or
c) the combined value of all transactions with the same related party is nominal or the transaction(s) is immaterial to the fund.

For the purposes of this section, only the market value of the combined assets of the Plan shall be used as the criteria to determine whether a transaction is nominal or immaterial to the Plan.

A 'related party' is defined to mean the administrator of the Plan, including any officer, director or employee of the administrator, or any person who is a member of the University. It also includes UTAM and their employees, investment managers and their employees, a union representing employees of the employer, a member of the plan, a spouse or child of the persons named previously, or a corporation that is directly or indirectly controlled by the persons named previously, among others. Related party does not include government or a government agency, or a bank, trust company or other financial institution that holds the assets of the Plan, where that person is not the administrator of the Plan.

3.4 Responsibilities of Fund Managers and Professionals

The University has overall responsibility for the plans. The University has delegated certain responsibilities to UTAM and to third party agents.

a) Investment managers
The University as delegated responsibility for investment managers to UTAM. The Investment managers will:

(i) invest the assets of the Plans in accordance with this Policy,
(ii) notify UTAM in writing of any significant changes in the investment manager's philosophies and policies, personnel or organization and procedures,
(iii) reconcile their own records with those of the custodian, at least monthly,
(iv) meet with UTAM as required and provide written reports regarding their past performance, their future strategies and other issues requested by UTAM,
(v) file compliance reports as frequently as required by UTAM.

b) Custodian/trustee:
The University has delegated responsibility to UTAM for the custodian/trustee. The custodian/trustee will:
(i) maintain safe custody over the assets of the Plans,
(ii) execute the instructions of the University, of UTAM and of the investment managers,
(iii) record income and provide monthly financial statements to the University and to UTAM as required,
(iv) meet with UTAM as required.

c) Actuary:
The University appoints the actuary. The actuary will:
(i) perform actuarial valuations of the Plans as required,
(ii) advise the University on any matters relating to the Plans design, membership and contributions, and
(iii) assist the University in any other way required,
(iv) meet with the University as required.

d) Accountant:
The University appoints the accountant. The accountant will provide annual audited financial statements of the Plans and meet with the University as required.

The University has the authority to retain other consultants/suppliers, as it deems necessary from time to time.

3.5 Policy Review

This statement shall be reviewed at least once a year and either confirmed or amended as necessary.

Catherine Riggall
Vice-President, Business Affairs
December 14, 2009