

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 201 OF THE BUSINESS BOARD

December 17, 2012

To the Governing Council,
University of Toronto.

Your Board reports that it met on Monday, December 17, 2012 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Ms. Shirley Hoy (Vice-Chair) (In the Chair)
Professor Scott Mabury, Vice-President, University Operations
Professor Angela Hildyard, Vice-President, Human Resources & Equity
Ms. Alexis Archbold
Mr. Jeff Collins
Mr. Arthur Heinmaa
Ms Zabeen Hirji
Ms Catherine Riddell
Mr. Peter Robinson
Ms Penny F. Somerville
Mr. Chris Thatcher
Ms B. Elizabeth Vosburgh
Mr. W. Keith Thomas
Professor Steven J. Thorpe
Ms Rita Tsang

Mr. David Palmer, Vice-President, Advancement
Ms Judith Wolfson, Vice-President, University Relations
Ms Sheila Brown, Chief Financial Officer
Ms Sally Garner, Executive Director, Planning & Budget Office
Ms Gail Milgrom, Acting Assistant Vice-President, Campus and Facilities Planning
Ms Christina Sass-Kortsak, Assistant Vice-President, Human Resources

Ms Sheree Drummond, Secretary

Regrets:

Mr. W. John Switzer
The Honourable Michael H. Wilson
Professor C. David Naylor
Mr. Andrew Arifuzzaman
Ms Celina Rayonne Caesar-Chavannes
Mr. Paul Donoghue
Mr. Ian Freedman
Ms Judy Goldring
Professor Edith Hillan
Ms Anne MacDonald

Ms Paulette Kennedy
Professor Michael R. Marrus
Professor Cheryl Misak
Mr. Gary P. Mooney
Mr. Richard B. Nunn
Professor Andrea Sass-Kortsak
Mr. Howard Shearer
Mr. Ron Swail
Ms Nana Zhou

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In Attendance:

Mr. Tad Brown, Senior Legal Counsel, Office of the Vice-President, Advancement and Office of the Vice-President, University Operations
Ms Anne Coban, Director, Alumni Engagement & Partnership
Ms Barbara Dick, Assistant Vice-President, Alumni Relations
Ms Diane Horvath, Chief Administrative Officer, Office of the Vice-President, Advancement
Ms Ania Lindenbergs, Senior Executive Director, Advancement Communications and Marketing
Mr. William Moriarty, President and CEO, University of Toronto Asset Management Corporation
Ms Gillian Morrison, Assistant Vice-President, Divisional Relations and Campaigns
Mr Allan Shapira, Pension Plan Actuary, AON Hewitt

1. Annual Report of the Vice-President, Advancement, 2011-12

The Chair noted that the main theme of the meeting was University Advancement and indicated that the Vice-President, University Advancement would be presenting his annual report which was for information.

The Chair invited Mr. Palmer to make his presentation. Mr. Palmer noted that in past years the annual report had been given in late November-early December and that the focus had been on the previous fiscal year. This meant that there was a six month gap in information. With advice from the Chair, Mr. Palmer indicated that he had decided to take a different approach with the fiscal year accountability report being provided as insert within a larger report that deals with the Boundless Campaign, and includes information on both alumni and development activities through the year. The purpose was to give a clear sense of where things stand within the portfolio at that point in time. Mr. Palmer also noted that he was joined at the meeting by Tad Brown, Barbara Dick, Diane Horvath, Ania Lindenbergs and Gillian Morrison. He thanked them for their work on behalf of the portfolio.

Mr. Palmer gave a detailed presentation¹, highlights are as follows:

- Alumni Relations: 182 countries represented in alumni base; upswing in alumni participation and satisfaction; 5000 alumni volunteers involved across the university.
- Fundraising Performance: \$128 million raised in past year (typical spread across donor constituencies but dramatic shift to more focus on expendable rather than endowment); annual giving, an important part of building a base of future donors, has reached \$16.7 million.
- Campaign: every division had participated in the Campaign; the launch in November 2011 was a watershed moment for the University; singular statement about our role and aspirations; as of the launch anniversary had reached \$1.185

¹ <http://www.governingcouncil.utoronto.ca/AssetFactory.aspx?did=9296>

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billion, \$215 million was raised over the one year, most successful twelve month period the institution has had; as of the anniversary campaign cabinet had grown to 250 volunteers, essential to broadening the base of support as these individuals help set examples of exemplar philanthropy; individual giving accounted for the largest number of donors – 42% from alumni, 16% friends, 12% each from corporations and foundations, 3% from organizations; programs and research drove the majority of philanthropy (specific causes); all fundraising done in service of academic priorities and all proper academic processes have been followed.

In the discussion that followed members expressed their support for the Campaign and congratulated Mr. Palmer and his team on its success to date. A member asked about the geographical diversity of the donor base. Mr. Palmer replied that the focus was on Canada, with Asia being the second greatest area of concentration, but that there have been efforts to attract new donors from other parts of the world.

A member commented on the approach with new alumni. Mr. Palmer explained that the strategy with young alumni is not to focus on the size of the gift but rather to encourage giving regardless of amount. Evidence shows that if they make a donation within five years of graduating they will be five times more likely to become a donor later in life.

A member asked about the cost of the Campaign. Mr. Palmer estimated that the costs typically were between fifteen and twenty-three cents on the dollar noting that this number depends heavily on what is factored in [following the meeting Mr. Palmer advised that the range was between eight and twenty-three cents]. He noted that the aim was for twenty cents on the dollar and that he anticipated that for the remainder of the Campaign the costs would be closer to fifteen cents on the dollar.

The Chair thanked Mr. Palmer for his presentation and congratulated him and his team on their work.

2. Status Report on Debt to November 30, 2012

The Chair reminded members that the Board approved a revised debt strategy at our last meeting. She noted that the status report would be a regular report for information to the Board and that it provided the Board with an update of the debt policy limit, borrowing allocated and actual external and internal debt borrowing.

The Chair invited Ms. Brown to walk members through the report². Ms. Brown began by noting that the status report would come forward to each meeting but that normally she would not be making a presentation. She advised members that, with advice from the Debt Strategy Working Group, changes had been made to the report to reflect the revised strategy. She thanked the members of the Working Group for their input. She noted that the report breaks out internal and external debt. It shows first the financial ratios that drive the debt policy limit, then the debt

² <http://www.governingcouncil.utoronto.ca/AssetFactory.aspx?did=9295>

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policy limit that was determined from the ratios, followed by the allocations, and finally the actual debt outstanding (the long term debt). She noted that the changes that would be seen from one month to the next were categories of actual debt and allocations while the other figures were updated annually to reflect audited April 30th numbers. Finally, she indicated that while the calculation sheets were included this time they would not be included on a go forward basis.

A member noted that looking at the third row in the report it appeared that the university was over its debt policy limit. Ms Brown explained that the debt policy limit is 5% and the actual debt burden ratio, reflecting interest plus principal repayments divided by total expenditures, was 3.8%. The figure of 5.5% that the member was referencing in the third row in the report did not represent a debt burden ratio, but rather represented the debt burden ratio plus pension special payments. Although the pension special payments are not debt they represent an obligation and, based on feedback from the Working Group, it was decided that the sum of the debt burden plus the pension special payments should be monitored on an ongoing basis, hence this additional figure. Ms. Brown noted that she would further revise the report to make this clearer.

3. Pension Plans Annual Financial Report for the Year Ended June 30, 2012

The Chair indicated that the Audit Committee has responsibility for reviewing the audited financial statements of the pension plans and the auditors' reports thereon, and recommending the financial statements to the Pension Committee for approval. The Audit Committee had carried out this responsibility at its December 4, 2012 meeting. The Pension Committee subsequently approved the audited financial statements at its December 12, 2012 meeting. She reminded members that it was the responsibility of the Board to receive the Pension Plans Annual Financial Report - as an item for information.

The Chair invited Ms Brown to present the highlights of the report.³ Ms Brown first introduced Mr. Allan Shapira, the Pension Plan actuary. She then made the following points:

- The report brings together information on the defined benefit plans, including assets, liabilities and deficit, in a historical context. It is of interest to the Business Board because pensions are an important factor in the overall health of the University.
- Going Concern Results for the Year: Across all three plans there had been a slight increase in the going concern deficit from \$1016.8 million at July 1, 2011 to \$1,178.3 million at July 1, 2012 mainly due to an investment return of 0.9%, which was lower than the nominal target return of 5.5%.
- Going Concern Pension Liabilities: Continuing to go up.
- Market Value of Pension Assets and Going Concern Market Surplus (Deficit): Assets move around - reflects the ebb and flow of the investment cycle. This mapped on to the surplus and deficit (e.g., surplus until 2002, deficit in 2003).
- Solvency Results for the Year: This assumes that the plan would be wound up on a non-indexed basis. The solvency deficit increased from \$1,057.6 million at July 1, 2011 to \$1,811.0 million at July 1, 2012 mainly because interest rates fell by more than a

³ <http://www.governingcouncil.utoronto.ca/AssetFactory.aspx?did=9294>

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percentage point. If interest rates had remained unchanged the solvency deficiency would have been \$1,192.5 million at July 1, 2012, a change of \$134.9 million from July 1, 2011. This gives a good sense of the impact of interest rates on solvency liabilities.

- Implications: In terms of the going concern funding, expectation is that there will be an increase of \$9 million per annum in special payments (beyond the projections contained in the pension contribution strategy that was approved by the Business Board in May 2012) effective July 1, 2013, with actual payment of the higher amount beginning July 1, 2015, everything else remaining the same. With regard to solvency, the current Ontario government 2-stage programme for temporary solvency relief may not be sufficient if interest rates remain so low. Discussions are underway with the government through the Council of Ontario Universities.

A member asked what the sensitivity was of the interest rates for the solvency liabilities. Mr. Shapira responded that every percentage point up or down is about 12 to 15 percent. Another member asked about the impact of the Morneau Report. Ms Brown replied that the report suggests combining assets of public sector plans on a mandatory basis and that endowments could be considered on a voluntary basis. If adopted the timeline is ambitious with a start date of 2014. She informed members that the report is available on the Ministry website.⁴

4. Responsible Investing Committee: Annual Reports, 2010-11 and 2011-12

The Chair advised members that the Responsible Investing Committee (RIC) was not a governance committee but rather was advisory to the Chief Financial Officer. In accordance with the Committee's terms of reference, its annual report was provided to the Business Board for information. She noted that the Chair of the committee, Ms. Emily Tan, was in attendance and invited Ms Brown to make any comments.

Ms Brown began by thanking Mr. Bill Moriarty for his involvement and Ms Tan for her work as Chair. She noted that Ms Tan, now an alumna of the Faculty of Law, had been involved with the committee since its inception initially as a student. She advised members that the committee was established three years ago arising from the work of the University Affairs Board and that it had recently been reviewed by three members of the Business Board, Ms Vosburgh, Mr Thatcher and Ms Hoy, whom Ms Brown thanked for their involvement.

Ms Brown indicated that the two reports before the Board were approved a few weeks earlier and that they outlined the activities of the committee. The key recommendation was that the University adopt the United Nations' backed principles for responsible investing. At this point there was no commitment from the University to implement the recommendation, however, it was being taken seriously and, based on feedback from Ms Brown and Mr. Moriarty, the RIC was exploring in more detail what would be involved (e.g., scope, cost, whether other universities had moved in this direction).

⁴ <http://www.fin.gov.on.ca/en/consultations/pension/recommendations-report.html>

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The Chair commented that she had been deeply impressed by the presentations of the committee and that she felt that this was a very important initiative that should continue. Other members expressed their strong support for the ongoing work of the committee.

5. Reports of the Administrative Assessors

Professor Scott Mabury reminded the Board that there had been a commitment on the part of the administration to do a review of category 5 and 6 ancillary fees. The intention had been to bring a report forward to this meeting, however, it would be brought forward in the next cycle in order to allow time to meet with the student groups prior to the finalization of the report.

OPEN SESSION CONSENT AGENDA

On a motion duly moved, seconded, and carried

YOUR BOARD APPROVED

THAT the consent agenda be adopted.

6. Report of the Previous Meeting - Report Number 200 (November 5, 2012)

7. Business Arising from the Report of the Previous Meeting

CLOSING ADMINISTRATIVE ITEMS

8. Date of Next Meeting

The Chair reminded members that the Board's next regular meeting was scheduled for Monday, January 28, 2013 at 5:00 p.m.

9. Other Business

No other business was raised.

The meeting adjourned at 6:34 p.m.

Secretary

Chair

January 16, 2013