AMENDED

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 184 OF THE BUSINESS BOARD

November 1, 2010

To the Governing Council,
University of Toronto.

Your Board reports that it met on Monday, November 1, 2010 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Mr. W. David Wilson (In the Chair)
Ms Shirley Hoy, Vice-Chair
Ms Catherine J. Riggall, Vice-President, Business Affairs
Professor Angela Hildyard, Vice-President, Human Resources and Equity
Mr. P. C. Choo
Mr. Jeff Collins
Mr. William Crothers
Mr. Kent Kuran
Mr. Gary P. Mooney
Mr. George E. Myhal
Ms Deborah Ovsenny
Mr. Tim Reid
Ms Penny Somerville
Mr. Olivier Sorin
Mr. W. John Switzer
Ms B. Elizabeth Vosburgh

Mr. David Palmer, Vice-President, Advancement
Ms Sheila Brown, Chief Financial Officer
Ms Sally Garner, Executive Director, Planning and Budget
Professor Edith M. Hillan, Vice-Provost, Faculty and Academic Life
Professor Scott Mabury, Vice-Provost, Academic Operations
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, Secretariat
Mr. Anwar Kazimi, Secretariat

Regrets:

Ms Mary Anne Elliott
Mr. J. Mark Gardhouse
Mr. Steve (Suresh) Gupta
Ms Paulette L. Kennedy
Professor Arthur S. Ripstein
Ms Melinda Rogers
Professor Janice Gross Stein

In Attendance:

Professor Peter Lewis, Associate Vice-President, Research
Professor George Luste, President, University of Toronto Faculty Association
Ms Gillian Morrison, Assistant Vice-President, Divisional Relations and Campaigns
Ms Meredith Strong, Director, Office of the Vice-President, University Relations
Mr. Henry T. Mulhall, Assistant Secretary, Office of the Governing Council

ALL ITEMS ARE REPORTED TO THE GOVERNING COUNCIL FOR INFORMATION.

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1. Report of the Previous Meeting

Report Number 183 (September 27, 2010) was approved.

2. Advancement and Alumni Relations: Annual Report of the Vice-President, Advancement, 2009-10

Mr. Palmer presented the annual report of the Division of University Advancement for 2009-10, entitled *Engagement and Transformation*. Among the highlights of his presentation were the following.

- **Alumni engagement**. 2009-10 had been a very good year for the University's alumni relations. For example, the Spring Reunion event had been the most successful ever, with a record 5,066 alumni and friends attending. More than 100 events had been offered in the academic divisions. There had been very substantial participation in bus tours, the Alumni Association's Annual General Meeting, and in "Stress-Free Degree" lectures.

  The University had more than 460,000 alumni living in 173 countries on five continents. The engagement of alumni was very important to the University, who would benefit from their participation in supporting the advancement of the University, in the recruitment of outstanding students from across the world, and in the building of the University's brand. Mr. Palmer cited examples of the University's work to maintain and increase alumni engagement around the world and examples of alumni participation in various University endeavours such as student recruitment.

  Mr. Palmer stressed the very important role of young alumni in the life of the community and the University. He cited, as an example, the work of a group of young alumni who assisted with a Habitat for Humanity project for low-income families in Toronto's Weston neighbourhood.

- **Transformation**. Peter and Melanie Munk had made a landmark gift of $35-million to establish the Munk School of Global Affairs – a gift coming just ten years after another gift that had established the predecessor Munk Centre for International Studies and bringing the Munks' total financial support of the University to a remarkable $50.9-million. The recent gift was the largest single gift in the history of the University and came in support of a very special academic unit, which would help to advance the University of Toronto's voice on a world stage. The concept of advancing the University's global leadership would be at the heart of the forthcoming advancement campaign.

  Another recent transformative gift was the $15-million gift from Russell and Katherine Morrison towards the construction of a five-story pavilion on the Huron Street side of the Robarts Library. This gift came after the Morrisons' earlier gifts for the Morrison Pavilion in the Gerstein Library and for the first phase of renovations of the Robarts Library. Their extraordinary generosity would lead to the addition of over 4,500 study

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spaces in the St. George Campus libraries, and would provide the leverage for improvements to the libraries having a total construction cost of more than $100-million. The outcome would clearly transform student life on the Campus.

Mr. Palmer said that the year had begun in the midst of a very serious recession, and its effects were still showing in the outcome of the University's advancement activities. The University, nonetheless, still had a very fine year, having received a number of very strong gifts and having seen very encouraging alumni activity.

The outlook for 2010-11 was greatly influenced by the current economic recovery, which led Mr. Palmer to expect some growth in giving to higher education. While he was encouraged by recent major gifts and by discussions with potential supporters, there was still some skittishness about the recovery among potential donors. The importance of donor stewardship was increasing, and donors wanted to see a measurable impact from their gifts.

- **Advancement mandate**. Mr. Palmer said that the mandate of the Advancement division had four parts. The first was to awaken the power and pride of an engaged alumni base. The second was to double the bottom line of donations received in support of the University. The forthcoming campaign would form an essential vehicle in achievement of that element of the mandate. The third part was to build the advancement (both development and alumni relations) capacity within and across all of the divisions. The fourth part was to contribute to the establishment of an external relations strategy that would have a measurable impact on the University's image and reputation. Again, the campaign was expected to be an important part of that effort.

- **The forthcoming advancement campaign: changing philanthropic motivations.** Mr. Palmer observed that the motivation of many major donors was changing, and that made it important that the University change how it was telling its story. As an example, he spoke of the major $10-million donation of Mr. Carlo Fidani to the establishment of the Medical Academy at the University of Toronto Mississauga. While Mr. Fidani had attended the University briefly, he was not a graduate. He was, however, very excited by the University's plan to establish a new Medical Academy at UTM, which would enable the enrolment of an additional 54 new medical students each year, addressing the anticipated critical shortage of physicians in Ontario and in Canada. Like Mr. Fidani, other potential donors were seeking to support special issues that affected them deeply, and they would support institutions with powerful plans to address those issues.
Mr. Palmer agreed with a member's urging that the University diversify the base of its advancement activities in an effort to take the University's story to such donors. That would represent a real shift in its approach. Mr. Palmer noted that the gift from Paul and

2. Advancement and Alumni Relations: Annual Report of the Vice-President, Advancement, 2009-10 (Cont'd)

Alessandra Dalla Lana to establish the Dalla Lana School of Public Health was a similar act of philanthropy driven by a deep personal interest in the promotion of public health – in that case by individuals with no previous association with the University.

- **The forthcoming advancement campaign: planning the University's case.** Mr. Palmer reported that leaders of the Advancement division had been working with the leaders of the University's academic divisions to plan the forthcoming campaign. That planning was not a simple task, given that the campaign would likely aim to raise between $1.5-billion and $2-billion for 23 major academic units and a similar number of smaller units such as centres and institutes. Each was led by a Principal, Dean, or other academic leader who was highly motivated to accomplish substantial goals for the unit. To assist the academic leaders in achieving their goals, the Advancement group was working on the development of a narrative framework that the University could use to tell its story: to provide a basis for potential supporters to care about the University and to support it. That narrative framework was intended to enable the University to identify issues of real importance to society that academic colleagues wished to address. The framework would seek to demonstrate that those socially important issues could be addressed most effectively at the University of Toronto, given its extraordinary breadth, depth and academic excellence. The case to be made would be an authentic one that would appeal to philanthropists who were driven by a wish to contribute to dealing with major issues that were also academic priorities in the University. The placing of the University's academic priorities in a framework was different from the University's approach in the past and different from that of other institutions in that it would go beyond a simple catalogue of areas for which support was being sought.

- **The forthcoming advancement campaign: overall planning**. The University hoped to raise at least $1.5-billion in the three phases of the Campaign. The planning phase was continuing, with the University and the individual divisions refining their cases for support. The quiet phase of the campaign had begun, with the University working on enlisting volunteer leadership and soliciting gifts from key donors to secure 40% to 50% of its goal. It was anticipated that the public launch of the campaign would take place sometime in 2011. The University was moving to finalize its case for support within its academic framework, and it would launch the campaign with a marketing effort that would be aimed at producing a high level of visibility.

- **The forthcoming advancement campaign: vision**. The University hoped that the campaign would have a truly transformational effect on the University's role in society and that it would firmly establish the University as a destination for philanthropy, volunteer leadership and professional leadership. The University hoped to generate over 150,000 individual gifts leading to its target of at least $1.5-billion and leading to its achievement of annual giving of more than $200-million. Mr. Palmer hoped that the

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campaign would also have a very positive influence on the University's brand and its reputation. He hoped that it would help to connect the lives of students with those of alumni and donors, something that was done very well in the U.S.A. and less well in Canada and at the University of Toronto. Achieving that goal would make students truly aware and appreciative of the role of alumni and other donors.

Among the matters that arose in discussion were the following.

(a) Advancement in 2009-10. In response to a member's question, Mr. Palmer said that while the 2009-10 year had begun very badly because of the recession, the University had eventually succeeded in raising $120-million in gifts, including the largest benefaction in its history. Mr. Palmer believed that there was currently an upward trend in the general perception of the University by alumni and generally, arising from an increase in the University's communications agenda.

(b) Advancement activity and the Toronto impact of the University. A member observed that while the University's international reputation was a very important source of its strength, the local impact of its work and of the activities of its faculty, students and alumni also represented a very important source of its strength and potential attractiveness to benefactors. He asked how the two factors could be balanced. Mr. Palmer agreed that the impact of the University and its members on the Toronto area was a very important source of its strength. The cover of the annual report currently on the agenda, for example, showed members of the University working as volunteers on a Toronto area project. The new alumni website and the marketing for the campaign would give full attention to the impact of the University on the Toronto area. Mr. Palmer cited a number of areas where the University would have a real impact on the City, including a forthcoming initiative from the Ontario Institute for Studies in Education with respect to aboriginal education in urban areas.

(c) Alumni participation in support of the University. A member, observing that efforts to enhance the level of alumni engagement were still at an early stage, asked what target the University had for alumni participation in support of the University. Mr. Palmer replied that the participation rates of alumni as donors had been declining somewhat across North America simply because of the growing number of graduates becoming alumni each year, given the fact that new alumni were usually not yet in a financial position to make substantial donations. However, the total dollar amount of alumni donations had been growing. At the University of Toronto, the number of donors had remained relatively flat at about 30,000 per year, the vast majority of whom were alumni. That represented less than 10% of alumni for whom the University had current addresses – a proportion that was about equal to the North American average. Mr. Palmer hoped, however, to be able to increase the participation rate substantially through the forthcoming campaign. He planned to focus on encouraging the involvement of new donors, perhaps double-matching the donations of new graduates and matching the donations of others who had graduated in the past ten years. Donations from alumni supporting student financial aid could be very

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important; students receiving financial aid from the donations of young alumni would be far more likely to make donations themselves after their graduation. Increasing the participation rate of recent graduates would be very important. Alumni who made donations soon after graduating were very much more likely to continue to support the University.

(d) Advancement efforts compared to those in the United States. In response to a member's observation, Mr. Palmer agreed that it was very important to improve the visibility of the University of Toronto brand, not only in Canada but internationally. The budget planned for marketing the forthcoming campaign would enable the University to make its message clear, especially to alumni and others in the Toronto area. It was less clear how to improve the visibility of the University's brand internationally, especially in the United States and Asia. Doing so was very important not only for advancement but also for the recruitment of excellent students. One key step would be to encourage alumni to manifest their pride in their being alumni of the University – something that alumni of leading American universities did almost reflexively. There was much work to be done in this area.

Members observed that alumni of major U.S. universities often thought of themselves as members of an exclusive university community. Identification was sometimes focused by loyalty to high-level university teams in inter-university leagues. Loyalty was also enhanced by continued interest in other areas of participation. Advancement activities based on that sense of community membership and based on alumni interests appeared to be very successful in the U.S. Mr. Palmer agreed that it was very important to build a sense of University community among alumni and that focusing on individual interests was a superior way of encouraging participation in University support. While the University was usually aware of the student interests of individuals who had participated in Varsity sports, it often did not know of the special interests of other alumni. Mr. Palmer said that he would be very grateful to receive ideas from members of the Board on steps the University could take to build a sense of alumni pride and community and to target advancement efforts to individual interests.

(e) Campaign duration. In response to a member's question, Mr. Palmer said that the University had not yet determined the duration of the forthcoming campaign. The campaign was, in fact, now underway, in its quiet phase, and the recent major donations had been made in the context of that campaign. The previous campaign had lasted just over nine years. The length of the new campaign had not yet been determined. Much would depend on developments in the economy, in particular the extent and timing of the recovery from the recent recession.

By their applause, members congratulated Mr. Palmer on his annual report.

3. Endowments: Spending Formula and Investment Policy

Ms Riggall observed that a significant proportion of the funding raised through advancement efforts was directed to endowments in support of student aid, chairs and professorships, academic programs and research programs. The matter now before the Board dealt with the policy governing the payout from endowment funds and the basis of the investment policy for those funds: the return to be targeted and the consequent level of risk to be deemed tolerable. The proposal was the outcome of an excellent study completed by Ms Brown and her colleagues, assisted by analysis from the consultants, AON Hewitt Associates. Ms Riggall congratulated Ms Brown on this work, set out in the paper distributed to the Board dated November 1, 2010. Among the highlights of Ms Riggall's presentation were the following.

- **Endowment characteristics**. Endowments were, as a matter of law, perpetual funds, intended to remain in existence forever and to pay out forever some or all of the income earned on the endowment capital. For the University of Toronto endowments, pursuant to the Policy for Protection of the Capital of Endowment Funds, there was also a requirement to protect the real value of endowments forever against erosion arising from inflation. Unlike the case of foundations, there was no mandated minimum payout from the University's endowment funds, and indeed for 2009 (following a year of severe investment loss) there had been no payout whatever. Almost all endowment funds were invested in a unitized pool, called the Long-Term Capital Appreciation Pool (L.T.CAP). When benefactors established or made additional donations to endowments, units of the pool were purchased at their market value. The usual annual payout was the same for all units of the pool, including both older endowments (in which L.T.CAP units usually had a market value above their original value adjusted for inflation) and also newer endowments (in which L.T.CAP units often had a current value below their original value adjusted for inflation). The value of the endowment was currently about $1.4-billion, and it consisted of more than 5,000 underlying trust funds. While many of those funds were long-lived and were valued at an amount greater than their cost adjusted for inflation, the vast majority were newer funds, arising from donations to the previous Campaign.

- **Drivers of target returns**. The University departments that were beneficiaries of endowments tended to wish as high a payout as possible to support their student-award programs, their chairs and professorships, and their academic and research programs. Donors faced a dilemma. They wished the value of the endowments they had funded to retain their value against inflation, and they wished the payouts from those endowments to retain their value against inflation. On the other hand, they also wished to have as high a payout as possible. For example, it was often difficult for benefactors who had established an endowment at a value of $1-million to accept that its payout (at 4%) would be only $40,000 per year. Donors therefore often urged a higher payout. However, the University's policy required that the investment earnings of the L.T.CAP cover the real cost of inflation and also cover the expenses of the management of the funds. In addition, it was more important to be able to provide a stable payout year after year than it was to obtain the very highest possible return, which would require assuming risks that could endanger the stability of the payout.

3. Endowments: Spending Formula and Investment Policy (Cont'd)

- **Current payout policy**. The current payout policy, adopted in 2003, established a target payout of 4% of the value of each endowment as at the beginning of the financial year, with a permissible range of between 3% and 5%. The purpose of the range was to provide the flexibility required to smooth out the dollar value of the payout as much as possible from year to year. (While the payout was based on the value of the endowment at the beginning of the year, the actual payment was made at the end of the year for expenditure the following year.)

- **Current return target and risk/volatility tolerance**. The current return target for the L.T.CAP was a "real return" of 4%, i.e. a return of 4% net of inflation and net of expenses, averaged over a ten-year time horizon. While that target matched the payout, it was not determined by the payout. Rather, it was based on an extensive analysis of the real return that was reasonably to be expected from a portfolio within the limits of the University's risk tolerance. The payout target was determined by the return target rather than vice versa.

  The current tolerance for risk or volatility of returns was ±10%, with one standard deviation over a ten-year time horizon. While that tolerance was easy to state, there had been real difficulty in communicating its meaning. In effect, it meant that the University could expect returns of between 10% above and below the target, i.e. between -6% and +14%, two thirds of the time, usually seven years out of ten. That implied, however, that for the other one third of the time, the return could be greater than 14% or the loss greater than 6%. The risk of loss greater than 6% for as many as one third of years was one that people tended to forget, but it was very much within the realm of predictable possibility, and it had taken place in 2008-09.

  The current return target and risk/volatility tolerance had been established in 2003 on the basis of an analysis by Hewitt Associates of a range of possible portfolios along an efficient frontier. Hewitt had established the portfolio options on the basis of the historical returns for each asset class in those portfolios and on the basis of the degree of their correlation. The analysis arrived at six or seven options, with real returns ranging from 2½% to 6%, with the associated historical volatility for each. From those options, the University had selected the target of a real return of 4%, which was associated historically with a volatility of ±10%. The University had selected that combination for a specific reason. Regardless of the investment return on the endowment, the professors appointed to endowed Chairs had to be paid, the programs supported by the endowment had to be continued, and the University was committed to providing need-based financial aid to students who require it. With a 4% target real return and volatility of ±10%, there was a low probability of requiring a subsidy from the operating budget of more than $10-million to meet the purposes of the endowed funds. However, as was seen in 2008-09, while the probability had been low, there had been need for subsidy in at least one case.

3. Endowments: Spending Formula and Investment Policy (Cont'd)

- **Historical experience**. During the years of very strong investment returns ending in 2007, the L.T.CAP had earned a return well above the 4% real-return target and payout. The endowments as a whole had by the end of 2007 built up a very significant cushion, with their then being about $280-million above the inflation-adjusted capital value of their units. That compared to the approximately $60-million paid out annually by the endowments for spending. As a consequence, there had been considerable pressure at the time to increase the payout. With the very poor investment market conditions in 2008 and early 2009, however, the full amount of that cushion had disappeared, as had the amount accumulated for inflation protection, with the capital base of some endowments being eroded. To protect the capital of the endowments, there had been no payout made in 2009, and divisions had been forced to use various funds, which many had fortunately kept in reserve, to meet the purposes of the endowments. The endowment payout had been resumed in 2010, and the investment returns had enabled the University to restore some of the inflation protection that had been accumulated, but not all. There was at present no cushion to protect the endowments against any poor return in the future.

  Ms Riggall displayed a graph showing annual returns for the L.T.CAP for the nineteen years since its establishment in 1992. Investment returns had remained within the risk tolerance in all but five years, with returns exceeding the range in three years and falling below it in two years. The problem, of course, was the very poor return in 2008-09. Ms Riggall then displayed a graph showing ten-year rolling average returns for periods ending in 2001 and thereafter. (Ten-year returns were those specified in the investment policy.) In all cases, the ten-year average returns had remained within the risk tolerance range. The average return had exceeded the 4% real-return target in all ten-year periods except for that ending in 2003 (where it had been 0.1% below the target) and in the past three years, reflecting the very poor returns in 2008 and in 2009.

  While the return on the endowment fund as a whole had remained within the specified risk tolerance, the problem that had been encountered was the communication of the meaning of the risk tolerance. The quantitative expression of the risk tolerance did not communicate to beneficiaries of the endowment that there was a significant possibility of the annual returns falling outside of the +14% to -6% corridor, and in particular that they would fall below that corridor in some years. In addition, the focus of discussion of investment returns had been the annual return rather than the ten-year rolling average return specified in the policy. The statement of the return objective also did not communicate an understanding of the connection between the 4% real-return target and the 4% annual payout target. Ms Riggall assured the Board that every effort would be made in the future to communicate clearly the implications of the return target and the risk tolerance.

- **The current endowment study**. The University had again engaged Hewitt Associates to update their risk/return scenarios and to perform Monte Carlo simulations to demonstrate

3. Endowments: Spending Formula and Investment Policy (Cont'd)

the effect of unusual outcomes. In performing their analyses, the consultants took into account their view of possible long-term economic developments. The University of Toronto Asset Management Corporation (UTAM) had simultaneously developed similar analyses taking into account its view of possible economic futures. In both cases, the assumptions were conservative, reflecting cautious views about future economic developments over the next decade.

The University had also engaged Cambridge Associates to act as facilitators for consultations with a variety of stakeholders in the University, including (among others) members of the Business Board. About 40 people had attended four separate focus-group sessions. The outcome was a good consensus. That consensus recognized that the University was able to withstand variability of investment returns – was able to accept some degree of risk. However, that ability varied across units, and it was clear that the University would not be able to withstand significant losses that were at all frequent. There was a general preference for the preservation of capital rather than an increased payout. Finally, there was a clear preference for achieving stability of earnings rather than accepting the higher level of risk required for the highest possible returns (for "bragging rights").

- **Proposed course of action**. On the basis of the University's experience and of the recent endowment studies, the University had considered a number of options. One option was to increase the return target, perhaps to 5%, but doing so would necessarily require the acceptance of increased risk. Accepting increased risk did not appear to be a reasonable course of action in the current uncertain economic circumstances. A second option was to reduce the target return, perhaps to 3%. But, doing that would require a reduction in the payout from the endowment funds, something that would not be acceptable to the academic units that depended on the payouts and that would be unattractive to potential benefactors at the beginning of a new fundraising campaign. The administration had therefore concluded that the current target return and risk tolerance were the correct ones. Although their implications had not been communicated well enough, they had served the University relatively well. The proposal to leave the target return and the risk tolerance unchanged had been reviewed with the Investment Advisory Committee, and members of that Committee had concurred that there was no good reason to change them.

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

(a) Options available to benefactors. A member asked whether donors were able to opt for a higher rate of payout from their donations for a finite period of time, on the understanding that the capital would be depleted over time to make a part of the payout. Mr. Palmer replied that the University did receive from time to time gifts of life income funds and charitable remainder trusts. It was also giving consideration of new opportunities to offer to donors such as gifts they could make to the University that would be paid out over a stated period of time, for example twenty

3. Endowments: Spending Formula and Investment Policy (Cont'd)

years, where there would be no expectation of permanent preservation of capital. Mr. Palmer anticipated that there would be real interest in such opportunities among donors who wished to see a very substantial result from their donations over the course of their own lifetimes.

(b) Concerns of donors about the absence of a payout. A member asked whether individuals who had donated endowments in previous years had expressed concerns about the absence of a payout in 2009. Mr. Palmer replied that there had been some expressions of concern, but most of the feedback he had received expressed relief that the University was doing what it could to preserve the capital of the endowments that had been donated. Indeed, a substantial number of donors of endowment funds had made additional donations to fund some or all of the payout that had been missed. Most concern about the absence of the payout had arisen in the academic divisions, which were forced to cover many of the costs otherwise funded by the endowment payout. Professor Mabury said that $45-million of the anticipated $62-million payout in 2009 would normally have been devoted to paying salaries and to funding need-based student awards. The divisions had been forced to fund that amount of spending over the year. Divisions had borrowed $17-million to do so, but they had been able to find the remaining amount in funds that they had in reserve.

(c) Changes at UTAM. A member observed that in considering a recommendation to retain the same return target and risk tolerance, the Board should acknowledge the changes made during the summer of 2010 to the reporting relationship of UTAM to the President of the University, to the establishment of the Investment Committee to advise the President on matters related to the portfolios managed by UTAM, and to the new Governance structure with a Board of Directors of UTAM comprising a majority made up of senior administrative staff of the University. These matters must be understood as important and substantive considering the fact that the Board was being asked to approve a set of return targets that are stand-pat from the current targets. Another member concurred and also pointed to the increased vigilance of UTAM with respect to risk management.

(d) Proposal to rely on safe, inflation-adjusted investments. A member observed that the ten-year average return of the overall endowment fund had been under 2% per year for the previous two ten-year periods. He cited studies to show that the average real return on equity investments had been similarly low between the year of the great crash in 1929 and 2007, and the real return on equity investments had been well under 4% between the 1987 crash and 2007. Because severe market declines did take place periodically, the member urged that the endowment be invested in wholly safe vehicles such as government issued real-return bonds. The U.S. issued Treasury Inflation-Protected Bonds that currently provided a real return of 2.8%. Accepting such a return would be preferable to accepting the poor long-term returns and the short-term volatility of the current investment program. Ms Riggall disagreed with the member's conclusion. No one investment would be able to provide the University with the return it required from its endowment funds. Averaging returns over a ten-year period, the current investment program had provided the needed return until the major market reversal in 2008-09, and the average return was trending up again.

(e) Return targets and risk tolerance at other universities. In response to a member's question, Ms Riggall said that the target real return on the endowments of other universities

3. Endowments: Spending Formula and Investment Policy (Cont'd)

varied widely. In most cases, especially in the United States, the target was a real return somewhat higher than 4%. On the other hand, some institutions had, in response to the 2008-09 market reversal, opted to reduce their real-return target to 3.5%.

(f) Relationship between the return target and risk tolerance. In response to a member's question, Ms Brown said that the modeling, based on historical returns and volatility, showed that portfolios that would generate a real return of 4% would have a volatility of something less than 10%. However, the level of volatility would vary depending on the time period under study and presumably the time period in the future. The objective was to choose a return that could be achieved within the 10% volatility over a ten-year period, allowing for some margin of error for variations over time. The objective was to be conservative and to ensure that volatility did not exceed 10% over any ten year period. Ms Riggall stressed that the study and the recommendation were based only on statistical probability. There was no guarantee that markets would behave in the future as they had in the past.

On the recommendation of the Vice-President, Business Affairs,

YOUR BOARD RESOLVED

THAT for the Long-Term Capital Appreciation Pool (a) the current investment return objective of a 4.0% real, inflation-adjusted return over a ten year period, and (b) the current risk tolerance of a standard deviation of 10.0% or less in nominal terms over ten year periods be confirmed.

The Chair stressed that risk management did not extinguish risk but rather sought to manage risk and to provide the best possible balance between risk and return. It would be important to make it clear that it would not be the case that the target return would be achieved each and every year.

4. Report on Capital Projects

The Board received for information the Report on Capital Projects Under Construction as at September 30, 2010, providing information on projects with a total budgeted cost of $373.43-million.

5. Report on Borrowing

The Board received for information the Borrowing Status Report as at October 31, 2010. That Report showed maximum borrowing capacity of $971.5-million pursuant to the University's policy; borrowing allocated (net of repayments that could be reallocated) of $894.1-million; actual external borrowing of $525.9-million; and internal borrowing outstanding of $209.9-million.

6. Reports of the Administrative Assessors

University Credit Rating

Ms Riggall said that a credit report from Moody's Investors' Services, published the previous business day, had re-affirmed the University's rating at Aa1 with a stable outlook. The report was a highly positive one. Ms Riggall thanked Ms Brown for her work in providing the agency with the information required for its rating report.[*]

7. Date of Next Meeting

The Chair reminded members that the Board's next regular meeting was scheduled for Monday, December 13, 2010 at 5:00 p.m.

THE BOARD MOVED INTO CLOSED SESSION

8. Closed Session Reports

(a) University of Toronto Faculty Association: Salary and Benefits for 2009-10 and 2010-11

Professor Hildyard briefed the Board on the arbitrators' award concerning salary and benefits for the University's faculty and librarians for 2009-10 and 2010-11. She commented on the implications of the award in the light of the Province of Ontario's public-sector compensation restraint program.

(b) Salary and Benefits for Administrative Staff

Professor Hildyard briefed the Board on the state of on-going negotiations with three union locals representing the University's plumbers, police, and facilities staff.

She then briefed the Board on concerns related to professional, managerial and confidential administrative staff, who were not included in union or other bargaining arrangements and who were therefore subject to mandatory compensation restraint.

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[*] The Dominion Bond Rating Service issued its Rating Report on the University on November 2, 2010, confirming its rating at AA, with a stable trend.

9. Ancillary Operations: University of Toronto Press - Annual Report and Audited Financial Statements for the Year ended April 30, 2010

The Board received for information the audited financial statements of the University of Toronto Press for the year ended April 30, 2010.

THE BOARD RETURNED TO OPEN SESSION

The meeting adjourned at 6:40 p.m.

Secretary　　　　　　Chair

November 29, 2010

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