UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 108 OF THE BUSINESS BOARD

November 20, 2000

To the Governing Council,
University of Toronto.

Your Board reports that it met on Monday, November 20, 2000 at 4:00 p.m. in the Croft Chapter House, University College, with the following members present:

Mr. Amir Shalaby (In the Chair)
Ms Rose M. Patten, Vice-Chair
Ms Wendy M. Cecil-Cockwell, Chairman of the Governing Council
Professor Robert J. Birgeneau, President
Professor Michael G. Finlayson, Vice-President - Administration and Human Resources
Mr. Robert G. White, Chief Financial Officer
Dr. Robert Bennett
Ms Susan Eng
Mr. Josh Koziebrocki
Professor Brian A. Langille
Ms Karen Lewis
Mr. Gerald A. Lokash
Mr. Frank MacGrath
Professor Heather Munroe-Blum
Dr. John P. Nestor
Mr. Martin Offman
Ms Jacqueline C. Orange
Mr. Roger P. Parkinson
The Hon. David R. Peterson
Mr. Robert S. Weiss

Dr. Jon S. Dellandrea, Vice-President and Chief Development Officer
Mr. Louis R. Charpentier, Secretary of the Governing Council
Professor Derek McCammond, Vice-Provost, Planning and Budget
Miss Janice Oliver, Assistant Vice-President, Operations and Services

Secretariat:

Mr. Neil Dobbs
Ms Susan Girard

Regrets:

Mr. Brian Davis
Mr. H. Garfield Emerson
Mr. Paul V. Godfrey
Dr. Anne Golden
Mr. James S. Kinnear
Professor Ronald D. Venter
Ms Nancy L. Watson

In Attendance:

Ms Carole Stephenson, member of the Governing Council
Mr. John H. Tory, member of the Governing Council
Mr. Robert W. Korthals, Senior Advisor to the President; Chair of the Board, University of Toronto Asset Management Corporation
Ms Susan Bloch-Nevitte, Director, Public Affairs
Ms Sheila Brown, Controller and Director of Financial Services
Mr. Michael Doran, Managing Director, North American Equities, University of Toronto Asset Management Corporation
Ms Rivi Frankle, Director of Alumni and Development
Mr. Flemming Galberg, Director, Design and Construction
Dr. David Gorman, Director, Office of Environmental Health and Safety
Ms Laurie M. Lawson, Managing Director, Asset Allocation and Special Asset Classes, University of Toronto Asset Management Corporation

In Attendance (Cont'd)

Mr. Donald W. Lindsey, President and Chief Executive Officer, University of Toronto Asset Management Corporation
Mr. Brian Marshall, Director of Human Resources
Mr. Kasi Rao, Director of the Office of the President and Director of Government Relations
Mr. Justin Saunders, University Affairs Commissioner, Students' Administrative Council
Ms Deborah Simon-Edwards, Executive Assistant to the Chief Financial Officer
Professor Emeritus James W. Smith, Department of Chemical Engineering and Applied Chemistry; Chair of the Committee to Review the Office of Environmental Health and Safety
Ms Julianna Varpalotai-Xavier, Director of Finance and Administration, University of Toronto Asset Management Corporation

ITEM 3 IS RECOMMENDED TO THE GOVERNING COUNCIL FOR APPROVAL.

1. <u>Terrence R. Stephen</u>

The Chair informed the Board, with great regret, of the recent death of Business Board member and former Vice-Chair, Mr. Terrence R. Stephen. Professor Finlayson said that Mr. Stephen was an alumnus of the University of Toronto, graduating from Victoria College in 1972 with a degree in History and Political Science. He had joined the accounting firm, Price Waterhouse, working eventually in the firm's management consulting and corporate financial services practices. There, Mr. Stephen had played a key role in a number of major corporate mergers, acquisitions and restructurings. Among his accomplishments was the restructuring of the corporations in the Atlantic fishery, putting that side of the fishery on a strong financial footing. Early in the Government of Premier David Peterson, the Provincial Treasurer, Mr. Robert Nixon, approached the accounting profession to request its recommendation of an individual who could provide a strong source of financial advice to supplement that provided through the civil service channels. Their recommendation was Mr. Stephen, who was seconded as Special Advisor to the Provincial Treasurer. His impact on public policy in Ontario was a very substantial one. One of his enduring legacies was the establishment of a new framework for public-sector pensions in Ontario.

Professor Finlayson continued that Mr. Stephen's impact on the University of Toronto was also a very substantial, and very valuable, one. He had served on the Victoria University Board of Regents for four years. Then, in 1990, he had been appointed as a co-opted member of the Business Board and subsequently as a member of the Governing Council. He had served as Vice-Chair of the Business Board for four years. Some of Mr. Stephen's most important contributions to the University were made behind the scenes. He provided a frequent, valued and trusted source of advice to Mr. Robert White, the University's Chief Financial Officer. For example, when the University saw that, to attract and retain top-ranking faculty, it would have to establish a Supplemental Retirement Arrangement, Mr. White had turned to Mr. Stephen as a key player in a small Business Board advisory group designed to be ensure that the funding for the arrangement was financially sound and responsible. Mr. Stephen was the founding Chair of the Board of the University of Toronto Press Inc., a position he held until his death. His work was instrumental in the establishment of the Press as a separate corporation, and in turning around its operations. The Business Board would, later in the meeting, receive the annual report and financial statements of the Press. Members would observe that, on Mr. Stephen's watch, the Press enjoyed profitability, paying dividends to the University, contributing to its Scholarly Publishing Trust Fund, and subsidizing a scholarly publication program that had published every book deemed worthy by the Press's Manuscript Review Committee, never once having to say

1. Terrence R. Stephen (Cont'd)

"no" to any scholarly book for financial reasons. Professor Finlayson concluded that the Business Board, and the University of Toronto as a whole, owed a profound debt of gratitude to Mr. Stephen. He would be greatly missed.

The Board observed a minute's silence in memory of Mr. Stephen.

2. Report of the Previous Meeting: Report Number 107 - October 2, 2000

Report Number 107 was amended on page 10, item 11, Other Business: Productivity Measures. A sentence in the first paragraph of that item read as follows: "The member noted that while the Provincial Task Force was dealing with administrative efficiencies, he was primarily concerned about the University's efficiency in delivering academic programs." The following words were added to that sentence, "as measured by appropriate standards created by the faculty and administration and applied by the University's academic leadership."

Report Number 107, as amended, was approved.

3. Business Board Terms of Reference with Respect to Investments

Mr. Charpentier proposed three minor changes to the wording of the Business Board's terms of reference. (A copy of that proposal is attached hereto as Appendix "A".) Two of the changes would reflect the establishment of the University of Toronto Asset Management Corporation and its assumption of responsibility for the University's investments. A third change would reflect the replacement of the Pension Commission of Ontario with the Financial Services Commission of Ontario.

On the recommendation of the Secretary of the Governing Council,

YOUR BOARD RECOMMENDS

THAT the proposed revised section 4.1(b) of the Business Board terms of reference, concerning investments, a copy of which is attached hereto as Attachment 2 to Appendix "A", be approved.

4. Chair's Remarks

(a) Welcome to New Member

The Chair welcomed Ms Carol Stephenson, a new member of the Governing Council who, with the approval of the Executive Committee, would be formally appointed to the Business Board.

(b) Variance of the Order of the Agenda

It was proposed by the Chair and AGREED that the Board's consideration of the various investment items be moved forward on the agenda to precede consideration of the Pension Plan Stewardship Report. Both items would be considered before the minutes and the business arising from the minutes.

5. Vice-President, Development and University Relations, Annual Report, 1999-2000

Dr. Dellandrea presented the annual report of the Division of Development and University Relations for 1999-2000. The highlights of his presentation included the following.

- **Campaign Status at July 31, 2000**. The total of gifts and pledges, realized planned gifts, and gifts in kind amounted to $711-million, which greatly exceeded the May 1999 revised Campaign goal of $575-million. The amount of cash received to date was $527-million, representing an unusually high ratio of gifts to pledges for this stage of the Campaign.

- **Sources of gifts**. Corporations had donated 18% of the total. Foundations and similar organizations had donated a further 11%. Individual donations from alumni had amounted to 35% of gifts and pledges, while individual donations from people who were not alumni was the largest funding source, constituting 36% of the total. That fact represented recognition of the importance of the University to Canada and to the world.

- **New Campaign goal**. On September 6, 2000, the Campaign Executive, on the recommendation of the President, had decided to increase the Campaign Goal and to extend its duration. At his installation on October 12, President Birgeneau had announced the new Campaign goal of $1-billion and the extension of the Campaign to December 31, 2004.

  This decision had been taken in order to find funding for the goals being developed in the current academic planning exercise. Priorities would include: approximately $100-million in endowment funds to support graduate student financial assistance, $100-million to $200-million to help fund capital projects, and up to $200-million for further endowed chairs. Dr. Dellandrea noted that while the University had used its allocation of money to match donations of $1-million or more to establish endowed chairs, it would seek to make use of the Government of Canada's new Canada Research Chairs program to the same end. Monies saved through the funding of certain Canada Research Chairs would be set aside for a period of years and used for matching purposes so that the Research Chair could be endowed and made permanent.

  Dr. Dellandrea was pleased to report that Mr. Tony Comper, the Campaign Chair, and all of the members of the Campaign Executive had agreed to remain on during the extended period of the Campaign.

  Dr. Dellandrea displayed a projection of annual revenue for the next five years. If the Campaign was successful in meeting the projection, the $1-billion Campaign goal would be exceeded in 2004.

- **Cost-effectiveness of the Campaign**. Dr. Dellandrea had made and reiterated a commitment that the cost of the Campaign would remain within the industry standard of 11% to 13% of the monies raised. He currently projected that by the end of the Campaign, the total cost would be less than estimated and less than 11%.

- **Evaluation of the Campaign: service to the academic mission**. At the initiation of the Campaign in 1995, the objectives had included not only raising "a minimum of $300-million towards the University's academic priorities," but also certain other achievements. The first of those was that the goals of the Campaign serve the academic

5. **Vice-President, Development and University Relations, Annual Report, 1999-2000** (Cont'd)

mission of the University. In fact, funds raised had broadly conformed to the University's academic priorities. To date, 23% of the total Campaign proceeds had been for student support, 24% for chairs and professorships, 32% for program support, 13% for capital projects, and 8% for the libraries.

- **Evaluation of the Campaign: effective participation by stakeholders**. The second additional goal was the participation of stakeholders as integral parts of the Campaign. The Campaign would not be left to the professional fundraisers. In fact, the President, Vice-Presidents, Principals, Deans, Department Chairs as well as other members of the faculty, students and staff had participated and had done so very effectively. For example, the role of the Chair of the Department of Chemistry had been a central factor with respect to the Davenport gift in support of the expansion of the Davenport Building within the Lash Miller Chemical Laboratories.

- **Evaluation of the Campaign: effective planning and adjustment.** The third additional goal was to plan the Campaign well, follow the plan, review it, adjust it and "get it right." The achievement of that goal was clear in a review of the Campaign's progress. The pre-launch goal had been at least $300-million. By September 1997, about $250-million of the "at least $300-million" had already been raised, and a new goal of $400-million was announced. By March of 1999, the total receipts had amounted to about $450-million, and in May 1999 the new goal of $575-million had been announced. By July 1, 2000, at the end of President Prichard's term, the Campaign total had exceeded $700-million. President Birgeneau had, in October 2000, announced the new goal of $1-billion.

- **Evaluation of the Campaign: making a significant difference to advancing the mission of the University**. The Campaign had brought about the establishment of 144 endowed chairs and had contributed significantly to an endowment of over $500-million for student support.

- **Evaluation of the Campaign: international scope**. Donations over the past five years had included $15-million from Asia. The University had established an active alumni and development office in Hong Kong, which was achieving considerable success in strengthening ties with alumni and others in China, Australia, Korea, Singapore, Taiwan, Japan and Malaysia. Campaign donations had also included more than $65-million from the U.S.A., and alumni were active in key centres across the country. The University had an active alumni presence in Israel and the United Kingdom, and it was building a stronger presence in France, Greece and Italy.

- **Evaluation of the Campaign: Comprehensiveness**. The sixth additional goal was a comprehensive effort, developing the annual giving and planned giving programs at the same time as seeking special Campaign support. In fact, annual fund donations had more than doubled since 1994-95 to $9.3-million in 1999-2000. Annual giving had accounted for more than $80-million since 1994-95. The donor pool had increased dramatically since 1994-95, now amounting to 85,000 donors, including 46,000 first-time supporters. As at April 30, 2000, benefactors had confirmed $126-million in planned giving intentions, representing good progress towards the $200-million goal.

5. Vice-President, Development and University Relations, Annual Report, 1999-2000 (Cont'd)

- **Evaluation of the Campaign: basis for on-going development programs**. Dr. Dellandrea said that the time of episodic campaigns, with only limited activity between them, had ended. Intensive fundraising activities would have to continue permanently. That would require on-going research work to identify prospects, continuing work to cultivate them and solicit gifts, and permanent stewardship and communications. The University's development activities would live or die by the success in stewarding benefactors who had contributed to the Campaign, keeping them informed of the impact of their gifts and of the progress of the University, thus building their continuing interest in supporting the University.

- **Requirements for continued success**. Dr. Dellandrea stressed the importance of: identifying more high-level prospects (including alumni and others); working on stewardship (given that significant support would be required from previous benefactors); continuing outreach to the University's 350,000 living alumni; continuing the emphasis on gift planning (in the light of the large, forthcoming intergenerational transfer of wealth); and the University's continuing to produce first-class, curiosity-driven research that would make a difference.

Dr. Dellandrea responded to questions on the following topics.

(a) Incremental effect of the Campaign. A member asked how much of the Campaign proceeds would have been achieved in the course of normal development activities and how much had been incremental. Dr. Dellandrea replied that before the initiation of the Campaign, annual giving had amounted to less than $30-million. In 1999-2000, the University had received $113-million. A usual benchmark for a campaign was annual receipts doubling or tripling the average level of annual gifts in the five years preceding the campaign. For the University of Toronto, the level of giving had been four times that preceding the Campaign and, with the new $1-billion goal, might well reach five times the previous level.

(b) Importance of large gifts. A member asked whether the Campaign had conformed to the 80:20 rule, with 80% of the total value of gifts coming from only 20% of donors. Dr. Dellandrea replied that the influence of very large gifts had been even greater. Twenty-two donors had made gifts of $5-million or more. Another 129 supporters had donated $1-million or more.

(c) Gifts in kind. Referring to the $82-million of gifts in kind, a member asked about their impact on the University. Were they useful mainly in avoiding costs? Did they have the same value as cash gifts? Dr. Dellandrea replied that the largest gift in this category was the extraordinary gift of Dr. Murray Koffler and Dr. Marvelle Koffler of their Joker's Hill estate. The other major element consisted of gifts of about $40-million of books to the University libraries, among them very valuable, rare book collections for the Thomas Fisher Rare Book Library. Those gifts represented things the University could not otherwise afford and would not otherwise acquire.

6. University of Toronto Asset Management Corporation: Status Report

The Chair said that the status report on the University of Toronto Asset Management Corporation (UTAM) was intended to provide important background information to assist the Board in its consideration of the proposed, major revisions to the investment policies. He noted that biographical information on the Corporation's Directors had been placed on the table.

6. <u>University of Toronto Asset Management Corporation: Status Report</u> (Cont'd)

Mr. White recalled that the Governing Council, on the recommendation of the Business Board, had, in November 1999, approved the establishment of UTAM. The corporation had been established as of May 1, 2000 and Mr. Donald W. Lindsey had become UTAM's President and Chief Executive Officer. Mr. White had worked closely with Mr. Lindsey during the first six months of UTAM's operation, and Mr. White was very confident that UTAM and the University's investments were in highly capable hands.

Mr. Lindsey recognized that the establishment of UTAM represented a significant change from the previous situation, when the University's investments were managed by the Treasury Department with oversight from the President's Investment Committee, which met monthly. A great deal of work had been required, and remained to be done in a short period of time, to complete that change successfully. Mr. Lindsey reported on the status of that work.

- **Staffing**. All but three members of the University's Treasury Department had been offered positions in UTAM. Those three individuals had been engaged in activities other than investment management, and they had remained in positions within the University.

  Mr. Lindsey introduced the senior staff of UTAM. Ms Julianna Varpalotai-Xavier was the Director of Finance and Administration. She was responsible for risk management activities as well as administration of UTAM operations. Ms Laurie Lawson, previously the University's Assistant Treasurer, had been appointed UTAM's Managing Director - Asset Allocation and Special Asset Classes. Mr. Michael Doran, who had previously worked at Y.M.G. Capital Management Inc. had recently joined UTAM as the Managing Director - North American Markets. Mr. Lindsey reported that another individual, currently employed by the British Columbia Pension Plan, had recently been appointed as Managing Director - Private Equity, and the search for a Managing Director - International and Emerging Markets was proceeding on schedule. Mr. Lindsey hoped to have all senior staff in place by the end of January, allowing UTAM to focus its full attention on the search for the best portfolio managers internationally.

- **Mission statement**. Mr. Lindsay referred to the first part of the UTAM Mission Statement: "The University of Toronto Asset Management Corporation strives to create added value by providing both current and future financial resources for the University and its pension funds that will contribute to globally recognized education and research." He assured the Board that even though UTAM was a separate corporation, it remained very much a full part of the University and a servant of its needs. He referred to the second part of that mission statement: "We will strive to provide state of the art investment management with diligence, competence and the highest of professional conduct and continually seek out and formulate the best investment ideas into prudently managed portfolios that optimally balance risk and return." He emphasized UTAM's dedication to the highest standard of professional conduct. That standard was expressed in the Code of Professional Ethics of the Association for Investment Management and Research and in UTAM's Conflict of Interest Policy, which all employees were required to sign and observe.

- **Initial business plan**. UTAM was reviewing the existing structure of all University and pension-fund assets and reviewing the relationship with each external investment manager. It had worked on the optimal asset-allocation policies for all funds. Appropriate asset allocations were based on studies of the liabilities of each fund, seeking

6. **University of Toronto Asset Management Corporation: Status Report** (Cont'd)

to match the liabilities with the appropriate asset classes. Those asset/liability studies had in fact begun before the establishment of UTAM, and would culminate with the approval of the proposed policies on the Business Board's current agenda.

UTAM was a manager of managers, selecting the best external managers available anywhere in the world. It did not currently manage any substantial funds in-house. It was likely, however, that in about eighteen months' time, it would begin to manage fixed-income portfolios internally.

UTAM would recommend and make changes to the existing fund structure, where necessary. To some degree, this had already taken place, with investments having been further diversified to provide protection for the University and pension funds in the event of negative market developments.

Finally, UTAM was seeking to build a very strong team, capable of implementing the best investment strategies around the world. This was proving to be a real challenge in a highly competitive environment for investment professionals, exacerbated by the recent establishment of major new pension funds.

UTAM had moved to new quarters at 480 University Avenue, at the corner of Dundas Street West, within easy walking distance of the University. It had established an open floor plan to facilitate team interaction. It was working on the development of a comprehensive reporting process to provide timely and accurate dissemination of performance results. Finally, UTAM was developing a comprehensive risk-management process.

- **Investment performance to date**. The pension fund's return of 20.6% for the year (twelve months) ended September 30, 2000 had exceeded the benchmark return by 1.5 percentage points. The Consolidated Investment Pool / Long-Term Capital Appreciation Pool (LTCAP) return of 22.57% for the year ended September 30th had also exceeded its benchmark by 1.8 percentage points. The Expendable Funds Investment Pool's performance of 8.5% for the same year had exceeded its benchmark by 1.4 percentage points. Mr. Lindsey anticipated that the funds would remain ahead of their benchmarks after the market declines in October as a result of their diversification, in particular the reduction of their exposure to the stocks of very large companies.

Among the matters that arose in discussion were the following.

(a) Reporting to the Business Board. A member suggested that, given the size and importance of the assets under its management, UTAM report on investment performance to each meeting of the Business Board or that it report at least quarterly. This would not necessarily require an oral report and Board discussion, but the distribution of a single-page performance report would enable the Business Board to stay current and accumulate history and perspective with respect to the investment returns. Mr. White noted that the Business Board had received semi-annual performance reports until about four years ago when, at the suggestion of the then-Chair, the Board had moved to a more extensive annual report. The current service agreement between the University and UTAM called for annual reports, or more frequent reports if requested. UTAM could produce quarterly reports if that was the Business Board's wish. Dr. Dellandrea reminded members that UTAM had its own Board. That Board consisted of outstanding individuals

6. University of Toronto Asset Management Corporation: Status Report (Cont'd)

appointed by the Executive Committee of the Governing Council, and included the President of the University, the Chief Financial Officer, one member of the Business Board and one member of the Governing Council. That Board carried out the function of monitoring UTAM's investment performance, and it would be important not to usurp the role of that Board. The President agreed that the UTAM Board was a superb one, and it would be important not to seek to micromanage the work of Mr. Lindsey and his professional colleagues. The Chair noted that the Business Board had approved the establishment of UTAM and approved the investment policies that set UTAM's parameters. He agreed that it would be inappropriate for the Board to involve itself in the details of investment management and took under advisement the suggestion that the Board receive more frequent reports from UTAM. A member said that UTAM had been hired by the University under the service agreement to provide investment management services. The Business Board was responsible to the Governing Council to ensure that those services were provided satisfactorily. If UTAM failed to perform adequately, the responsibility would ultimately be that of the Business Board.

(b) Other UTAM clients. In response to a member's question, Mr. White and Mr. Lindsey said that, while the University and pension plan assets formed almost all of the assets under UTAM's management, there were other clients: the Canadian Institute for Advanced Research, the J. Edgar McAllister estate (of which the University of Toronto was the 75% beneficiary but not the only beneficiary), and a U.S. group of alumni called the Associates of the University of Toronto Inc. UTAM did not at this time plan to seek other clients; to do so would require major legal procedures to qualify UTAM as an investment management firm.

(c) Internal management of assets. In response to questions, Mr. Lindsey said that he planned eventually to implement internal management of fixed-income investments for two reasons. First, it would be more cost-effective than using external management. Second, having a fixed-income manager on staff would provide important synergies. Such an individual would be in close touch with all world markets on an on-going basis and could therefore provide valuable advice to assist other aspects of UTAM's operations. It would not be worthwhile to consider internal investments in equities until such time as UTAM had something like $10-billion of equities under management. Equity investments required a significant number of specialists in various sectors and markets, and a smaller operation could not provide for highly specialized staff at a reasonable cost. It might be that certain specific equity investment strategies, involving a small proportion of the total assets, could be managed internally with a smaller asset base.

7. University Funds Investment Policy

The President noted that he was by no means an expert in investment matters. The UTAM Board was, however, a superb one and it had examined the policies in considerable detail. He was entirely comfortable to recommend the policies to the Business Board.

Mr. White commented on the development of the proposed University Funds Investment Policy. The UTAM staff had begun with the existing policy and recommended changes. The revised draft, following discussion with appropriate University officers, had been taken to the UTAM Board for its approval and then to the President / Vice-Presidents group for endorsement. With the approval of the Business Board, the policy would become the Business Board's mandate to UTAM for the management of the University funds. It would be the responsibility of the UTAM Board to ensure that Mr. Lindsey and the UTAM staff were carrying out the mandate appropriately. Mr. White noted that the membership of that Board included the President of the University, Governing Council member Dr. Joseph L. Rotman, Business Board member

7. University Funds Investment Policy (Cont'd)

Mr. H. Garfield Emerson and himself. The other directors were individuals with a high level of expertise. Apart from Professor Eric Kirzner of the Rotman School of Management, the remaining eight directors had no other connection with the University.

Mr. Lindsey presented the highlights of the proposed revised policy. The policy dealt primarily with two large funds: (a) the Long-Term Capital Appreciation Pool (known previously as the Consolidated Investment Pool), which was the investment vehicle for most of the University's endowment funds and for the money being set aside to match the University's liability under the Supplemental Retirement Arrangement; and (b) the Expendable Funds Investment Pool, which was the vehicle for investing the University's operating capital. The policy also dealt with the investment of a number of specific trust funds that had terms preventing their pooling for investment purposes. Mr. Lindsey assured the Board that the proposed policies had been subjected to a thorough and tough review by the UTAM Board. The most significant change contained in the revised policy was the asset mix for the two funds.

Mr. Lindsey said that the Long-Term Capital Appreciation Pool (LTCAP) would include 80% equities (up from the previous 70%) and 20% fixed-income securities (down from the previous 30%). The policy provided for a normal asset mix, but it also provided, for each asset category, a range above and below the normal allocation to allow over- or under-weighting the particular asset class, either as a reflection of market developments prior to a rebalancing or (less likely) as an investment strategy. The policy also moved from separate Canadian and U.S. equity benchmarks to a North American benchmark, consisting of approximately 20% Canadian stocks in the Toronto Stock Exchange 300 Index and approximately 80% U.S. stocks in the Russell 3000 Index. Overall, the LTCAP would normally include 10% Canadian stocks, 35% U.S. stocks and 35% stocks from elsewhere including Europe, Asia, and Latin America. Up to 25% of the LTCAP could be invested in private equity (in contrast to securities trading on securities exchanges), including such investments as venture capital, leveraged buyouts, and real estate. There was no element in the normal asset allocation or in the benchmark for private equity; rather investments would be made based on opportunities that might arise from time to time when such investments gave promise of returns better than those from the public markets. In response to a question, Mr. Lindsey said that the benchmark for U.S. equities, the Russell 3000 Index, consisted of 3,000 publicly traded companies in the U.S. and provided a broader representation of the U.S. market than the current benchmark index, the Standard and Poor's 500 Index, which consisted exclusively of very large companies. The benchmark for non-North-American equities was the Morgan Stanley Capital Inc. Europe / Australasia / Far East (EAFE) Index, which included more than 900 stocks from 22 developed countries other than Canada and the U.S.

Mr. Lindsey explained the reason for the move from 70% to 80% equity content in the LTCAP. The University's payout from the LTCAP was 5% of the 48-month moving average of the unit value of the pool. In addition, the value of the pool would be reduced by the rate of inflation, assumed to be about 3% per year. Therefore, to maintain the purchasing power of the endowments in the Pool, it would be necessary to earn an average investment return of at least 8% per year before fees and expenses.[*] To achieve an increase in the value of the endowments, it would be necessary to earn even more. The historical evidence demonstrated that the only way to achieve the necessary long-term return was to invest in a higher proportion of equities. It was, however, also important to maintain a significant component of fixed-income securities among

[*] That would amount to 9% including fees and expenses.

7. University Funds Investment Policy (Cont'd)

the Pool's investments. Bonds served as a deflation hedge. They provided insurance for times when the economy would slow, profits would decline and the value of stocks would therefore decline. Normally, at such times, interest rates would be reduced and the value of previously issued bonds (with higher interest rates) would increase. That would help offset the losses in the equity markets. The interest income and capital gains would also help to maintain the payout without requiring the sale of equities at a low point in the stock markets. Mr. Lindsey added that to serve those purposes better, the average life of the bonds in the portfolio would be lengthened, from a duration of about 5 years to approximately 7.5 years. In the event of a catastrophic decline in the equity markets, the longer term bonds would provide greater downside protection.

Mr. Lindsey reported that if the proposed LTCAP benchmark had been in place over the past thirty years, and if the pool had achieved the benchmark return, the average annual return would have been 14.6% compared to a 12.8% for the old benchmark. Of course, there was no way of knowing whether history would repeat itself, but it was anticipated that the new asset allocation would provide a better rate of return.

Mr. Lindsey summarized the changes proposed for the Expendable Funds Investment Pool (EFIP), the investment vehicle for the University's operating cash. The proposal had been based on a significant study of the University's cash flows over several years. That history showed a highly predictable pattern of cash flows, with the University's operating cash reaching its low point late in the summer and its high point in September with the payment of tuition fees. That history also showed a significant trend-line growth in the size of the pool at all times of the year. The conclusion of the study was that there would a very large opportunity cost to investing the Expendable Pool conventionally - solely in money-market instruments and short-term bonds. Rather, the core of the Expendable Pool - the amount in the Pool throughout the year, including the low point in August, should be invested in equities and equity-like strategies in order to increase the value of that core. As a result, it was proposed to invest 15% of EFIP in overnight cash (money market instruments such as treasury bills), with a further 25% being invested in short-term bonds with terms between one year and three and one-half years. The short-term bonds would provide extra interest yield along with some extra volatility because of the possibility of a decline in their value (if interest rates on newly issued bonds increased). However, the additional volatility would be small for short-term bonds. The short-term bond portfolio would provide some cushion between the cash component and the long-term investments proposed.

Mr. Lindsey said that the long-term investments would include two elements. The first would be an investment of 30% of the EFIP in units of the LTCAP. About two years ago, the President's Investment Committee had begun investing a smaller proportion of the Expendable Pool in the long-term pool. It was proposed at this time to formalize and extend that practice in the new policy. Approval of the proposed policy would recognize (a) that the LTCAP was an appropriate vehicle for investment of 30% of the Expendable Pool in order to earn an increased rate of return, and (b) that the Expendable Pool's investment in LTCAP was a long-term one because a sudden large withdrawal of funds from LTCAP, particularly during a market decline, would have serious negative consequences for both pools. Markets did decline severely from time to time, and it would be important that the University not panic and sell at a low point, locking in losses.

Mr. Lindsey continued that the final element would be the investment of approximately 30% of the Expendable Pool in a separate fund consisting of equity investments similar to those in the LTCAP. That fund would enable the sale of securities, when appropriate for rebalancing,

7. University Funds Investment Policy (Cont'd)

without resort to the LTCAP. Mr. Lindsey anticipated that rebalancing would take place annually on September 30, when the expendable pool was at its maximum. UTAM would review with the University its cash-flow needs and examine the market value of each element in the expendable pool. If the base line growth of EFIP had continued, UTAM would consider adding to the investment in the LTCAP. If the equity component of the expendable pool had grown too large, UTAM would consider reducing the EFIP equity exposure by selling securities in the special, external equity fund. Decisions would be made on a long-term basis, with no sudden moves.

Mr. Lindsey reported that over the past twenty years, 91-day treasury bills had provided an average annual return of 6% and short-term bonds had provided an annual average return of 6.5%. The proposed benchmark for the expendable pool would historically have earned a return of 11.5%. The additional return would have entailed slightly higher volatility of as measured by standard deviation of returns. However, the additional investment return, if history was a guide to the future, would provide the University with substantial additional resources.

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

(a) Long-Term Capital Appreciation Pool and Pension Master Trust: Rate-of-return objectives. A member observed that both the Long-Term Capital Appreciation Pool and the pension fund had three rate-of-return objectives: (i) to achieve a return of four percent (pension funds) or five percent (LTCAP) above the rate of inflation; (ii) to achieve a return that exceeded a composite benchmark consisting of a number of securities indices; and (iii) to achieve "an above median return in comparison to an appropriate investment fund universe comprised of funds with similar asset mix and return objectives." With respect to the final objective, the member asked why UTAM was satisfied with so modest a goal? Why would it not seek to be in the top quartile of funds or even in the top 10%? Mr. Lindsey noted that UTAM was currently seeking an appropriate comparative universe of funds with similar objectives and risk tolerances. He also cautioned that comparisons to any universe were more useful over the long term. In any shorter period of time, when particular regions or investment styles found favour with the markets, comparisons were much less useful. A problem with aiming for the top quartile was that achieving that position would require assuming more risk than comparable funds. While a more risky investment strategy might well produce a top quartile return in one period, it could also yield a bottom-quarter return the next. The member suggested aiming for the top quartile of funds with a comparable risk tolerance. For example, because there were no restrictions on foreign investments on the LTCAP, UTAM might compare its performance to the top U.S. endowment funds such as Harvard, Yale or Minnesota. Having such an objective would be comparable to the University's objective in its academic planning exercise, entitled "Raising our Sights." Mr. Lindsey said that it would be very difficult at this time to seek returns comparable to the leading U.S. endowments. Yale, for example, had achieved outstanding returns in recent years, but it had been able to do so because over 25% of its endowment was invested in mature private equity portfolios. Just six months into operation, it would be very difficult for UTAM to assemble anything comparable.

Mr. Korthals said that it was helpful to make comparisons with other funds. The principal goal of the LTCAP, however, had to be achievement of a real (after-inflation) return of 5.9% to cover the University's 5% payout plus the 0.9% in fees levied on the endowment funds. The secondary goal was to compare performance to the benchmark consisting of appropriate weightings of various securities indices. The third goal was to check performance against other funds to ensure

7. <u>University Funds Investment Policy</u> (Cont'd)

that the University's fund remained in the game. Mr. Korthals said that UTAM took its instructions from the University, and, if the University so instructed, UTAM would certainly adopt a strategy aimed at "shooting the lights out" and outperforming most other institutions rather than a strategy aimed at earning a steady return sufficient to meet the University's needs. Mr. Korthals would not, however, recommend a strategy of seeking to outperform the best U.S. funds. UTAM operated on an entirely different scale than, for example, the Harvard Management Corporation, which in the previous year had dollar returns that were some six times the total size of the University of Toronto endowment. Operations such as Harvard's benefited a great deal from well connected alumni who were officers of the major U.S. investment dealers. Many U.S. endowments had built up private equity portfolios accounting for a large proportion of their assets - a situation that UTAM would be unable to replicate for some ten to twelve years. Given those facts, and given the level of risk that would be required, Mr. Korthals thought that the University of Toronto would be better advised to adopt a strategy of seeking strong, regular returns that would meet the University's needs. Mr. Lindsey added that if UTAM was able to exceed the LTCAP benchmark annually, it would in all likelihood rank above the median. Achieving an above-median return was not an easy task. He noted that Cambridge Associates collected data annually on the investment performance of participant U.S. endowments in its Universities Conference. For the year ended June 30, 2000, the median return of those endowments was approximately 13%. The return of the University of Toronto endowment was 17.5%.

(b) Long-Term Capital Appreciation Pool: Active and passive investing. In response to a member's question, Mr. Lindsey said that the LTCAP included both actively managed equities and index funds. The basic approach was to begin with index-fund investments and then to move into additional active strategies as portfolio managers were found who UTAM thought would add to return or reduce volatility of return.

(c) Long-Term Capital Appreciation Pool: Conservatism relative to other funds. A member asked how the proposed asset allocation for the LTCAP would compare with other endowment funds in terms of its conservatism or aggressiveness. Mr. Lindsey replied that he was most familiar with the endowment funds of major U.S. institutions, and the LTCAP asset mix was conservative relative to those institutions. Those endowments included a substantial proportion of private equity vehicles and real estate. At the University of Toronto, UTAM was now making its first ventures into private equity, and the UTAM Board wished to monitor how they fared before making a commitment of more than 10% of investments in that category. The UTAM Board might well in the future recommend a heavier weighting of such vehicles. With respect to the basic asset mix of 80% equities and 20% bonds, the University's asset mix would be almost identical to the average of large U.S. endowments. Some invested as much as 85% or even 88% in equities. But, that heavy a weighting was often the reflection of growth in the equity category owing to strong investment returns and prior to rebalancing to the normal equity weight. Mr. Lindsey assured the Board that UTAM would monitor closely the equity weight of the LTCAP, and rebalance the pool if the equity weight grew to 85%, or at least call upon the Board to consider whether so heavy an equity weight should be maintained.

(d) Long-Term Capital Appreciation Pool: Active portfolio managers. In response to a member's question, Mr. Lindsey said that, at the present time, the assets of the long-term pool were invested by twelve external portfolio management firms. However, only about 35% of the long-term pool was now under active management, and the number of external portfolio

7. <u>University Funds Investment Policy</u> (Cont'd)

managers would increase as firms were identified that were deemed likely to add to returns or reduce volatility. He anticipated that the number of managers would increase by 50% or even double over the next year. Some firms, in particular the passive or index-fund managers, had multiple mandates. The active specialist managers had portfolios amounting usually to between 1% and 3% of the total assets of the LTCAP. Mr. Lindsey did not anticipate that any individual specialist active manager would ever be responsible for more than 5% of the pool. For passive managers with portfolios that provided returns very close to the index, there was no need for multiple managers. For riskier asset classes, it would be prudent to have more than one manager, i.e. to have competing mandates, responsible for investments. In particular, for private equity investments, a number of different managers would be engaged to achieve diversification and reduce risk.

(e) Long-Term Capital Appreciation Pool: Exposure to the technology sector. In response to a member's question about exposure to the technology sector, Mr. Lindsey said that as part of its risk-management process, UTAM monitored exposure to various market sectors, e.g. capital goods, financials, resources. The weighting of sectors in UTAM portfolios did not depart any great distance from that in the market in general.

(f) Long-Term Capital Appreciation Pool: Private equity. A member observed that the LTCAP could include private equity and real estate investments amounting to as much as 25% of the market value of the pool. That appeared to represent a real change from the current situation. What proportion of the pool was currently invested in such investments? Was the University prepared for the risk involved in such investments and their potential downside? Mr. Lindsey replied that UTAM had established a target of 10% of the LTCAP in private equity, and it would take a number of years for that position to be reached. After a private equity manager was engaged, the firm would likely take four or five years to invest the money that had been committed. Such managers made investments only when good opportunities appeared, and when they made investments they often flowed funds into the investment over a period of time. It was highly unlikely that UTAM would, in the foreseeable future, commit more than 10% of the LTCAP to private equity. The maximum of 25% was intended to allow for the ideal circumstance of those investments succeeding in achieving a return well above the returns provided by public market investments. With a 25% cap, successes could be accommodated within the policy limit. That was important because private equity investments could not be sold on the open market, at least for some years until an initial public offering, in order to rebalance the asset mix in the pool.

(g) Expendable Funds Investment Pool: Investing operating money in long-term investments. A member asked whether the University had any formal policy to match investments with cash-flow needs. All of the monies in EFIP were operating funds, and they would at some point have to be spent. Was there, for example, a monthly projection of spending that would lead to appropriate changes in the expendable pool's investments?

Mr. Lindsey explained that the Financial Services Department prepared cash budgets, and UTAM remained in touch with that Department on a month-by-month basis with respect to cash needs. Having said that, the proposal was to invest in long-term instruments only a core amount of the expendable pool that would not be required for spending except in the long term. Apart from small amounts, UTAM would expect a minimum of five years' notice of need to liquidate any of the long-term investments made for the EFIP core in the University's LTCAP.

Mr. White added that, because the spending pattern fell behind the revenue pattern, there had for many years been a large balance or float in the University's operating cash. Because of that fact,

7. University Funds Investment Policy (Cont'd)

and because of the predictability of the University's cash flows, a substantial portion of that cash balance could be regarded as a core and invested in long-term vehicles. The definition of the core was a conservative one, and the University would, of course, continue to monitor its cash-flow patterns very carefully and adjust its investments if necessary. Because of the fact that only half of the core would be in the LTCAP, five-year notice was a reasonable expectation. A cushion was available. Mr. White recognized that there was some risk involved in investing operating cash in long-term investments, but the University's administration recommended taking that risk in order to increase return. In response to a member's question, Mr. White said that the University currently had about $65-million of the expendable pool invested in the LTCAP - about two-thirds of the proposed amount of $100-million.

(h) Ethical investing. Invited by the Chair to address the Board, Mr. Saunders noted that there had been no reference to political or social constraints on investments either in the proposed revised Business Board terms of reference or in the proposed investment policies. He referred to the Board's discussion on October 25, 1999, when it had recommended approval of the establishment of UTAM. At the time, according to Report Number 101 of the Board, Mr. White had stated that he had amended paragraph 4 of the Service Agreement between the University and UTAM to specify that UTAM would be subject to the University's Policy on Social and Political Issues with Respect to University Investment. He asked how social and political constraints on investments would be implemented and what kinds of decisions might be made under this policy.

Mr. White replied that the Policy on Social and Political Issues with Respect to University Investment had been approved by the Governing Council in 1978. It established a process for dealing with particular issues; it did not stipulate what companies the University could invest in.

On the recommendation of the Chief Financial Officer,

YOUR BOARD APPROVED

(i) THAT the Consolidated Investment Pool Policy and any other policy containing reference to that Pool be revised to rename the Consolidated Investment Pool the Long-Term Capital Appreciation Pool;

(ii) The revised University Funds Investment Policy, a copy of which is attached hereto as Appendix "B", replacing the Policy approved on May 3, 1999; and

(iii) THAT the Expendable Funds Investment Pool (EFIP) Background Paper, a copy of which is attached hereto as Appendix "C", be approved as an addendum to the Service Agreement of May 1, 2000 between the Governing Council of the University of Toronto and the University of Toronto Asset Management Corporation.

8. Investment Policy: Pension Fund Master Trust Statement of Investment Policy and Goals

Mr. White noted that the Statement of Investment Policy and Goals for the Pension Fund Master Trust would, with the Business Board's approval, be filed with the Financial Services Commission of Ontario. Mr. Lindsey reported that the process used to determine the appropriate asset mix for the pension fund, matching the assets to the liabilities of the fund, was identical to that used to determine the mix for the LTCAP. In the case of the pension fund, the changes were relatively minor. There was no proposal to change the underlying risk profile of the fund. The proportion of equities (60%) and fixed-income securities (40%) would remain unchanged from the existing policy. The only change was in the individual equity categories, with the normal asset mix and the benchmark again containing a greater weighting of U.S. and non-North-American stocks. Within the equity component, up to 25% of the market value of the fund could be invested in private equity and real estate. It was unlikely that more than 5% of the fund would be committed to investments in this category. The maximum of 25% was intended, as in the LTCAP, to allow for major increases in the market value of the private equity component without forcing a rebalancing involving those illiquid investments.

A member asked whether the University might invest its pension assets in mortgage loans to finance its own capital program? Mr. White replied that, while there was no prohibition of such loans in the policy, he did not think it to be a good practice. The expendable pool was used to provide bridge financing to projects such as student residences and underground parking structures until they were opened and generating revenue. A soon as they were opened, however, the University would put in place financing from an external source. Particularly because the University was a not-for-profit institution not subject to income taxes, it was able to earn a better return on its investments than the rate of interest it would have to pay on mortgage loans. Mr. Korthals added that mortgage loans would also be large relative to the size of the pension assets to be invested in fixed-income vehicles. UTAM would prefer to diversify the risks involved in such loans. The member agreed entirely that it would be inappropriate to use the pension fund as a source of financing University projects. It would be undisciplined to turn to the pension fund as a source. His concern was that there was no prohibition of the practice in the policy. Mr. White agreed to take the matter under advisement and to respond at the next meeting.

On the recommendation of the Chief Financial Officer,

YOUR BOARD APPROVED

The proposed Pension Fund Master Trust Statement of Investment Policies and Goals, a copy of which is attached hereto as Appendix "D", replacing the Pension Fund Investment Policy and the OISE (Ontario Institute for Studies in Education) Pension Fund Investment Policy, both approved on May 3, 1999.

9. Pension Plans: Annual Stewardship Report

Mr. Weiss reported that the Audit Committee had, at its meeting the previous week, reviewed the annual stewardship report on the University's three retirement plans: the main pension plan, the University's pension plan for long-standing employees of OISE/UT (the Ontario Institute for Studies in Education), and the Supplemental Retirement Arrangement. The stewardship report included, for the two registered plans, the audited financial statements and a summary of the actuarial reports. The Chief Financial Officer, the Controller, the actuary, the external auditors, and

9. Pension Plans: Annual Stewardship Report (Cont'd)

the President of the U. of T. Asset Management Corporation had all been present for the Audit Committee's discussion. The Committee's primary duty in reviewing the report was to satisfy itself, and the Business Board, that the pension arrangements were in sound financial shape.

With respect to the main pension plan and the OISE plan, Mr. Weiss reported that, in spite of the contribution holiday taken by both the University and its employees, the actuarial surplus had grown. In the main University plan, the actuarial surplus (before the surplus reserve) had increased from $334-million to $392-million. In the OISE/U.T. Plan, the actuarial surplus had grown from $66.8-million to $69.4-million. Mr. Weiss noted that all new University staff, including those who worked at OISE/U.T., now joined the main plan. The OISE/U.T. plan would serve only employees who had begun work with OISE before the merger. The surplus had grown because of the excellent investment returns. The return for the main plan for 1999-2000 year had been 17.2%, which was well above the long-term actuarial assumption of 7% per year.

Mr. Weiss added that the actuarial surplus was determined using an averaging mechanism that reduced the effect of the short-term ups and downs of the securities markets. As a result of that smoothing, the actual market value of the main pension plan's assets on July 1st - the valuation date - was $187-million more than the actuarial value. Of course, the securities markets had not been faring well in recent months, and the Chief Financial Officer had estimated that about one half of the market-value cushion had been eliminated as a result of market developments since July 1st. The plan was, nonetheless, in very sound financial shape.

Mr. Weiss recalled that in 1997, the University had initiated a Supplemental Retirement Arrangement for faculty members and others whose salaries were above the pensionable maximum. The University had decided at that time, as a matter of prudence, to set aside money to match its obligation under the S.R.A. Because of the surplus in the two registered plans, the University was able to devote a part of its pension budget to the S.R.A., investing that money in the Long-Term Capital Appreciation Pool - the investment vehicle used for the University's endowments. It was anticipated that the University would accumulate sufficient money to match the S.R.A. liability by June 30th, 2004. As at June 30th, 2000, the accrued liability for the S.R.A. was $108-million, with $80-million having been set aside to match it

Mr. Weiss said that the financial statements for the two registered plans required the Board's approval prior to their submission to the Financial Services Commission of Ontario.

On the recommendation of the Audit Committee,

YOUR BOARD APPROVED

(a) The audited financial statements of the University of Toronto Pension Plan, June 30th, 2000; and

(b) The audited financial statements of the University of Toronto Pension Plan for Ontario Institute for Studies in Education/University of Toronto Employees, June 30th, 2000.

copies of which are included in Appendix "B" to Report Number 58 of the Audit Committee.

10. Business Arising from the Report of the Previous Meeting

(a) Report on Capital Projects: Campus and Facilities Planning Projects

The Chair recalled that at the previous meeting, a member had requested an overview of the University's capital plans over the next several years, to provide context for the Board's consideration of individual projects. Professor Finlayson said that the report was divided into two parts. The first part dealt with projects for which Users' Committees had completed their reports, which reports were currently going forward to the Governing Council for approval. The second part listed projects for which users' committees had been established and were in progress.

Three members suggested the addition of certain features to future reports on capital projects. It would be very useful to have such reports in chart form, arranged in categories. The report should include the cost of the projects, the amount spent to date on each project and category, and the amount available for each project and each category. It would be very useful for the report to include information on deferred maintenance needs. Another member stressed that in the light of the major construction program to be undertaken, it would be important to consider a capital budget as well as an operating budget. A third member said that it would clearly be important to have a capital plan and to keep track of cash flows involved in executing it. In general, a more strategic approach was required rather than one-off consideration of individual projects seen in isolation from the full capital program.

Professor McCammond said that capital planning was the responsibility of the Planning and Budget Committee of the Academic Board. That Board weighed the University's capital needs, considered possible sources of funding, and made recommendations concerning the use of various sites on the three campuses. Unlike operating funding, the University did not receive undesignated capital funding that it could allocate to various priorities. Rather, funds were provided by governments and benefactors to support particular buildings. The University was able to add only limited amounts at its own discretion. Therefore, the Planning and Budget Committee had to make its recommendations on capital projects on the basis not only of academic need but also the availability of funding to support particular projects. The University did have a capital plan, recommended by the Planning and Budget Committee and the Academic Board and approved by the Governing Council. That plan was based on judgements of academic needs, and the University used that plan as the basis of its requests for government funding and its fundraising activities. The capital plan took the form of a chart, showed costs and sources of funding, and showed the status of the funding provided and outstanding for each project on the plan. The plan was a forward-looking, strategic one that was updated annually. Recommended updates would be presented to the Planning and Budget Committee in December 2000 or January 2001.

In the course of discussion, a member asked about the progress of the plan to construct an additional residence for University College on a part of the back campus. Professor Finlayson replied that the proposal was still in the discussion stage. It was of considerable importance to University College.

(b) McClelland & Stewart Gift: Internship Opportunities for Students

The Chair recalled that at the previous meeting, a member had asked whether there might be opportunities for student internships at McClelland & Stewart. Professor Finlayson reported that the firm had responded very positively to the idea and had agreed to provide at least two internship opportunities. Steps were underway to establish the program for the summer of 2001.

10. Business Arising from the Report of the Previous Meeting (Cont'd)

(c) Item 6 - Calendar of Business: Policy on Steps in the Execution of Capital Projects

The Chair recalled that at the previous meeting, a member had observed that the Board's Calendar of Business included the "Policy on Steps in the Execution of Capital Projects" as being an item of business that was "planned but not yet scheduled." Given difficulties that had occurred in the execution of some recent projects, the member urged that there be a specific target date for consideration of the revised policy. Professor Finlayson reported that the Secretary Emeritus of the Governing Council was working on a draft of a revised policy. Professor Finlayson hoped to be able to bring a proposal to the Board sometime in the next three meetings.

11. Research and International Relations: Annual Report of the Vice-President for 1999-2000

Professor Munroe-Blum expressed her pleasure in presenting her annual report for 1999-2000 and plans for 2000-01.

- **Mandate**. The mandate of the Research and International Relations division was "to support the strategic development and efficient, accountable, administration of research and international resources, activities and partnerships, to serve the University of Toronto's mission to be among the leading public research universities of the world."

- **Performance indicators: Research revenue**. The University had, at the beginning of Professor Munroe-Blum's service as Vice-President six years ago, received just over $200-million in external research support annually. In the past year, the University's total external research support amounted to $334-million. The Government of Canada still provided the lion's share of that revenue, amounting to some 36% of the total, consisting of 16% from the Canadian Institutes of Health Research, 11% from the Natural Sciences and Engineering Research Council, 2% from the Social Sciences and Humanities Research Council and 7% from other federal programs. The Government of Ontario provided a further 11% of total research funding. U.S. and other foreign governments and not-for-profit bodies provided 6% of total funding; the U.S. National Institutes of Health and the Mellon Foundation were prominent supporters. Research contracts and grants from industry provided 18% of research funding. A further 23% came from Canadian societies, foundations, associations and other not-for-profit organizations. Finally, other institutions provided 6% of funding.

- **Performance indicators: Research support compared to other institutions**. For the seventh year in a row, the University of Toronto including its affiliated teaching hospitals, was the leading recipient of research funding from all three of the federal research granting councils (with the Canadian Institutes for Health Research replacing the former Medical Research Council). Because the University of Toronto's faculty was the largest in the country, it was to be expected that it would win the most research support. However, even when controlling for that factor, the University's faculty had outperformed. Professor Munroe-Blum noted that the support provided to all universities for research in the physical and life sciences exceeded by a wide margin the unfortunately low level of support for research in the humanities and social sciences.

11. **Research and International Relations: Annual Report of the Vice-President for 1999-2000** (Cont'd)

- **Performance indicators: support for research infrastructure**. The University had also enjoyed success in winning new sources of research support, other than the traditional support from the federal research granting councils. During the past year, the University had received $205-million of multi-year support from special government programs, leveraging $70.8-million in private-sector support. The Canada Foundation for Innovation (C.F.I.) had been established by the federal government to invest, through a competitive process, in research infrastructure projects that met key national research needs. During the past year, the University of Toronto had won $34.9-million of support from the C.F.I.. The Ontario Innovation Trust (O.I.T.) had been established by the Government of Ontario to support important research infrastructure projects in the Province, initially by providing the matching funding required for support from the Canada Foundation for Innovation. More recently, the O.I.T. had demonstrated an interest in considering requests for infrastructure support independent of the Canada Foundation for Innovation process. The University of Toronto had requested funding to match the extraordinary $50-million gift from the R. Samuel McLaughlin Foundation in support of the R. Samuel McLaughlin Centre for research in biomedical science and genetics. Over the past year total support from the Ontario Innovation Trust had amounted to $84.9-million. The Ontario Research and Development Challenge Fund (O.R.D.C.F.) had been established by the Province to promote research excellence through partnerships between universities and other public-sector research bodies and the private sector. During the past year, the O.R.D.C.F. had provided funding of $78.8-million.

  Professor Munroe-Blum said that the University would ask the federal government to match the support for medical research at the University of Toronto and its affiliated teaching hospitals provided by the McLaughlin Foundation and the Government of Ontario. Proceeding in such a way was a reflection of the current environment, when it was necessary and possible for the University, in its proposals for research funding as in its fundraising Campaign, to be very ambitious and to seek to leverage one source of support on another.

  Over the past three years, the University had won a total of $602.8-million of support from those new sources. In competitions for research support, the University of Toronto had fared very well. It represented 8% of Canada's university system and had won 15% of competitive research support. It represented 15% of the Ontario university system and had won 45% of competitive research support. Notwithstanding this outstanding performance, Professor Munroe-Blum stated that there was still room for improvement.

- **Technology transfer**. The University and its affiliated teaching hospitals had earned a total of $53.8-million in 1998-99 from all sources for research contracts and grants from the private sector. It had leveraged that private-sector revenue to earn a further $20.1-million in government funding from the federal Networks of Centres of Excellence ($6.8-million), the Ontario Centres of Excellence ($7.6-million), and three federal research granting councils ($5.7-million). The University had also enjoyed success in the commercialization of University technology. For 1999-2000, the University had earned $2.75-million in licensing revenue. University of Toronto research was responsible for 100 active spin-off companies with a reported 3,700 employees and total revenue of $421-million in the previous year. From January 1998 to September 30, 2000, a

11. **Research and International Relations: Annual Report of the Vice-President for 1999-2000** (Cont'd)

cumulative amount of $17-million in venture or seed capital had been invested in those spin-off companies, including a $12-million investment in a company that was spun off jointly by the University and the University Health Network.

- **Research Support Outlook: Government of Canada**. The federal budget of February 2000 had contained a great deal of welcome support for research. The Canada Research Chairs program would supply $900-million to create, over five years, 2,000 research chairs. That should translate into more than 250 chairs at the University of Toronto and its affiliated teaching hospitals. One half would be junior chairs funded at a rate of $100,000 per year and another half senior chairs funded at $200,000 per year. A Strategic Research Plan had been formulated to ensure that this opportunity would be used to the best advantage and integrated with the overall research efforts of the University and its teaching hospitals. The Government of Canada had also committed an additional $900-million to the Canada Foundation for Innovation, bringing its total investment in research infrastructure projects through the C.F.I. to $1.9-billion. Finally, the Government had established Genome Canada, with a $160-million investment to fund the activities of five regional genome science centres to provide laboratory services to university and other researchers and to accelerate genomics research in Canada. That was an area of research in which the University of Toronto had a great deal of interest and strength.

- **Research Support Outlook: Government of Ontario**. The Provincial Government's budget of May 2000 had also contained a number of wonderful new developments, including very positive responses to the Provincial Research Report that had been authored by Professor Munroe-Blum on the strategic role of university research in Ontario. Funding for the Ontario Research and Development Challenge Fund, to fund public/private sector research partnerships, had been doubled to $100-million per year. A Research Performance Fund had been established and funded at a rate of $30-million per year to cover the indirect costs of research funded by the Province. The fund would pay to institutions 40% of the amount of research funding in order to cover overhead costs. The previous absence of overhead funding had been one of the major gaps in Canadian research funding compared to that in the U.S. The Provincial Minister of Finance, the Honourable Ernie Eves, had challenged the Government of Canada to match this initiative for federal research funding. Funding for the Premier's Research Excellence Awards (to assist world-class scholars to attract talented people to their research teams) had been increased from $50-million to $85-million over the next ten years. The budget of the Ontario Innovation Trust (to support research infrastructure) had been tripled to $750-million. Finally, the number of Ontario Graduate Scholarships had been increased by more than 50% and the value of each increased from less than $12,000 per year to $15,000 per year.

- **Research Support Outlook: Technology Transfer**. The University participated in all fifteen Networks of Centres of Excellence operating in 1998-99. Those centres, sponsored by the Government of Canada, supported unique partnerships among industry, the universities and government to foster technology transfer. The University would participate as well in two of the three new networks awarded funding in July 2000.

- **Accomplishments of the Research and International Relations portfolio**. The University of Toronto had played a key role in the success of lobbying efforts for new and increased federal and provincial support for research initiatives. While the University had

11. Research and International Relations: Annual Report of the Vice-President for 1999-2000 (Cont'd)

made substantial progress, it still had a long way to go to win research support comparable to that provided to its closest competitors in the U.S. Most importantly, support provided to research in the Humanities and Social Sciences was still wholly inadequate. The University had generated significant new partners and investment in research and in the commercialization of research and internationalization. It had strengthened the services provided to the University's researchers. That was very important in view of the fact that the research environment was a key factor in the University's success in the competition for the best new faculty. It had established UTech Services, a single source of technology-transfer assistance for faculty. That new group consisted of the combined staff of the Innovations Foundation and the Vice-President - Research and International Relations' Business Development Office. The Research and International Relations portfolio had also established the International Programs Development Office to support the academic divisions' work in international programs and projects, to enhance strategic international relations, and to develop and manage international agreements. Of particular importance was the effort to secure new support for work in cooperation with academic institutions in developing countries. Finally, the portfolio had taken a number of steps to enhance the University's research and international profile.

- **Research and International Relations objectives for 2000-01: Advocacy**. Professor Munroe-Blum and her colleagues would continue to make strenuous efforts to advocate federal support for the full cost of research, including indirect costs. They would also make strenuous efforts to advocate increased funding for the three federal research granting councils, and especially the Social Sciences and Humanities Research Council. They would work to advance the implementation and success of the Canada Research Chairs program. They would seek increased provincial support for health research, especially support for young investigators. Such support from the federal and provincial governments would be essential if Ontario was to succeed in that area. They would continue to advance international development programs. They would seek increased funding from key foundations, especially seeking increased support for research in the humanities and social sciences.

- **Research and International Relations objectives for 2000-01: Strengthened services**. Professor Munroe-Blum and her colleagues would seek to strengthen services in such areas as communications, education and information, and support activities. In terms of technology transfer, they would seek to establish UTech as *the* centre of expertise in commercialization, increasing invention disclosures, industrial grants and contracts, and spin-off investments.

- **Research and International Relations objectives for 2000-01: Strengthened profile for research**. Professor Munroe-Blum and her colleagues would seek to strengthen the profile and impact of University of Toronto research in the eyes of government, industry, the media, and the broader community.

- **Research and International Relations objectives for 2000-01: Strengthened international activities**. A key goal would be to facilitate the participation of the University's scientists and scholars in international research collaborations. Canadian universities did not participate sufficiently in international networks, which were essential not only to further their scientific and scholarly work but also to gain recognition at the

11. **Research and International Relations: Annual Report of the Vice-President for 1999-2000** (Cont'd)

highest level. The paucity of Nobel prizes amongst Canadian scientists was not a reflection of their work but rather of the lack of international knowledge of Canadian scientists and their work.

Professor Munroe-Blum concluded that the University of Toronto had enjoyed a great deal of success in the research area over the past year. The University had competed very successfully for research support. She noted that ten of Canada's approximately 100 universities could be described as research-intensive. They earned approximately 70% of research funding nationally. While the University of Toronto had earned more than its share, the environment was becoming more competitive. With the Province adding funding to cover the indirect costs of research, and the Government of Canada contemplating doing so, the value of research awards was increasing, and the competition to secure them would increase as well. It was therefore very important for the University of Toronto to keep its sights high. It had a domestic and international strategy to do so.

Among the items that arose in discussion were the following.

(a) Continuity of special government programs. A member noted that a great deal of funding had been derived from such special programs as the Canada Foundation for Innovation (C.F.I.) and the Ontario Research and Development Challenge Fund (O.R.D.C.F.). Were those programs ones that would continue on into the future? Professor Munroe-Blum replied that these programs were for the most part one-time-only, multi-year programs. The University of Toronto was therefore investing a great deal of energy in communicating their impact. It was important that governments come to view research support not as a social program but as an investment. It was also important that governments recognize that investments in fundamental research took a long time to yield economic benefits but eventually yielded very considerable economic benefits. Renewal of those programs would be possible if they were viewed to be successful.

(b) Appropriate level of research support. A member recalled that he had, at the time of Professor Munroe-Blum's previous annual report, asked what level of research support would be appropriate for the University of Toronto. He had been advised that the amount would be about $1-billion per year. Given that support the previous year had amounted to $334-million, the University would presumably need a further $650-million per year. Professor Munroe-Blum replied that her report had included only funding through competitions for research grants or infrastructure support or through research contracts. It did not include benefactions in support of research. Taking gifts into account, the University would like to have something over $500-million more in total research support.

(c) International competitiveness. In response to a member's question, Professor Munroe-Blum said that Canadians received relatively few top international awards simply because the Canadian population was a small one spread over a large area, making it difficult to achieve critical mass. It was, in addition, very difficult to compete against highly funded mega-projects in the U.S. In some areas, only the combination of the University of Toronto along with its affiliated teaching hospitals could aspire to international competitiveness. There were about ten scientific fields in which the University of Toronto ranked in the top ten internationally and perhaps two fields in which it ranked in the top two. That being said, there were many highly talented scientists and scholars conducting research at the University of Toronto and in Canada generally. Their winning recognition would require their participation in more international

11. Research and International Relations: Annual Report of the Vice-President for 1999-2000 (Cont'd)

collaborations, particularly in Europe and Asia. This would require support for them to undertake part of their research in other countries. At the present time, there were few sources of such funding, one being the Canadian Institute for Advanced Research.

The Chair expressed his enthusiasm with respect to the opportunities presented by the Genome Canada project, the subject of a recent stimulating address by Dr. Henry Friesen, the former head of the Medical Research Council and now Chairman of Genome Canada.

12. University of Toronto Innovations Foundation: Annual Report and Financial Statements, 1999-2000

Mr. Weiss reported that the Audit Committee, at its meeting the previous week, had reviewed the annual report and financial statements of the University of Toronto Innovations Foundation. The Foundation was an incorporated ancillary operation with its own Board and Audit Committee. The Foundation, under its new leadership, was ahead of target in achieving its new business plan. Its revenues had increased from $986,000 to over $1.4-million - well ahead of the projection. While expenses had also increased, costs had been controlled. It was, moreover, important to understand the nature of those costs. Mr. Weiss referred the Board to note 7 to the financial statements, which showed payments of $123,000 in royalties to the University, $315,000 in royalties to inventors (largely the University's faculty) and $193,000 in royalties to others. The year's result was a loss of $242,000, down from $656,000 the previous year and well under the projected $468,000. In the Foundation's line-of-credit agreement with the University, it had been anticipated that the maximum balance would be $1,024,000 on April 30, 2000. The actual balance had been $575,000.

Mr. Weiss said that recent developments at the Foundation had been very encouraging: its doubling of the invention disclosures from the University's faculty, the increase and diversification of its portfolio (no longer relying so much on the "pig project" and other biomedical inventions), the Foundation's move from pure licensing to fostering start-up companies, and the new working relationship with the University's technology-transfer office. All of those developments had put the Foundation on a trajectory to achieve its projection of profitable operation by 2003-04 and quite possibly sooner. Most importantly, however, the Foundation had been doing a good job of facilitating the transfer of the inventions of University of Toronto faculty to the Canadian and world economies, and ensuring that the University and its faculty received royalty payments and equity positions as a fair reward for their technologies. Since 1992, the University's royalty receipts and overhead revenue had significantly exceeded its investment in the Foundation. Mr. Weiss congratulated the Foundation's President, Dr. George Adams, and his colleagues and the Foundation's Board, along with Professor Munroe-Blum and Assistant Vice-President, Technology Transfer Peter Munsche, on their achievement over the 1999-2000 year.

In response to a member's question about the change in the Foundation's focus, Professor Munroe-Blum said that historically, the Foundation had directed most of its efforts towards commercializing developments in the life sciences and biotechnology. One of the Foundation's more recent goals had been to broaden its area of operations. Now, about one half of its portfolio consisted of inventions in such areas as information technology and advanced materials. The outcome was a more diversified portfolio.

12. University of Toronto Innovations Foundation: Annual Report and Financial Statements, 1999-2000

On the recommendation of the Audit Committee,

YOUR BOARD ACCEPTED

The annual report and financial statements of the University of Toronto Innovations Foundation for the year ended April 30, 2000, copies of which are attached to Report Number 59 of the Audit Committee as Appendix "A".

13. University of Toronto Press Inc. - Annual Report and Financial Statements, 1999-2000

Mr. Weiss noted that the University of Toronto Press was also an incorporated ancillary operation with its own Board and its own Audit Committee. The University's Audit Committee, on behalf of the Business Board, had, at its meeting of October 17, 2000, reviewed the Press's annual report and financial statements. While the Press's revenues had declined slightly, so too had its expenses, and its effective bottom line had improved by $30,000. The Press had earned an income of $450,000 before paying $150,000 of participating interest to the University and making a $150,000 contribution to the University's Scholarly Publishing Endowment Trust Fund. The Press had faced a couple of challenging years prior to 1999-2000, but the results reported at this time demonstrated that the challenges had been met. Most importantly again, like the Innovations Foundation, the key factor in the report was that the Press had being doing its job well - earning money from its printing and order-fulfillment divisions to subsidize the publication of scholarly books. As Professor Finlayson had said in his tribute to the late Chair of the Press's Board, the Press had never, since its incorporation, had to tell its Manuscript Review Committee that it would not publish a worthy book because of financial considerations. In the light of the challenges facing the publishing industry at the present time, that was an impressive accomplishment.

On the recommendation of the Audit Committee,

YOUR BOARD ACCEPTED

The annual report and financial statements of the University of Toronto Press for the year ended April 30th, 2000, copies of which are attached to Report Number 58 of the Audit Committee as Appendix "A".

The Chair thanked Mr. Parkinson for his agreement to become Chair of the Board of the Press. The Chair was confident that the Press would continue to achieve first class results under Mr. Parkinson's chairmanship.

14. Capital Projects: Business Board Responsibility

Prior to the discussion of the capital projects on the agenda, a member requested clarification of how the Board was to carry out its role in reviewing such projects. He cited the Chair's remarks at the beginning of the previous meeting. The Business Board was responsible to ensure that capital projects "were being carried out in a cost-effective manner and that they were soundly designed and financed." How was the Board to do that? It received individual proposals

14. Capital Projects: Business Board Responsibility (Cont'd)

and was asked to vote on them. The Board was also from time to time called on to authorize additional appropriations, well after a commitment had been made to the projects and when it was not really possible to turn down the request. With respect to design, the member could not recall having reviewed the design of any project, and he did not think that building design had been one of the University's leading achievements in recent times. The Board appeared to be called upon to approve decisions only after the fact. How was the Board to "get ahead of the curve"? While Miss Oliver and her colleagues were working very hard at their jobs and doing them well, the member was concerned that he, as a Business Board member, was not doing all he should do.

The Chair said that the member had raised an important point. Professor Finlayson agreed that the matter merited consideration, but he thought that such consideration should await the February meeting when he would bring forward a proposed, revised Policy on the Execution of Capital Projects. The very questions raised by the member - the question of design and the question of how the University executed capital projects, would be at the very heart of the proposed policy.

Another member echoed the first member's concern. She reiterated her support for a strategic approach to the capital program. This was particularly important in the light of the fact that the University was entering a period of extraordinary growth. One important feature of the policy should be planning to take advantage of economies of scale, for example planning the group of residences possibly in a similar style and certainly in a manner that would enable quantity purchasing to achieve the most favourable price possible. The policy should also address the problems encountered in the Graduate House project concerning arrangements with sub-contactors. When Professor Finlayson brought to the Board the proposal for the revised Policy on the Execution of Capital Projects, the member hoped that it would include a template which the Board could use in making its decisions. Such a template would assist the Board in knowing what standards it should apply in judging proposals. While it was true that individual projects could vary a great deal, it would still be worthwhile to have a template to compare such factors as, for example, cost per bed of a residence. The proposal could state the normal cost or other normal criterion, and then explain the special circumstances causing variances. The member commented that she would like to have the opportunity to make input into the policy.

Miss Oliver said that she planned to take advantage of quantity purchasing arrangements for furnishings for the four residence projects. Three of the projects were to consist of suites for groups of students. That followed upon the experience at the Mississauga and Scarborough campuses in which townhouse style residences had proven successful in fostering interaction among students. In the fourth case, New College had decided that, given the success of its current approach to integrating residence, academic and student-life facilities, it would prefer a traditional dormitory-style residence. The matter was one for the Colleges to determine. With respect to the problems encountered with the contractor for Graduate House, a thorough review had been conducted. The outcome had been a strengthened process for qualifying contractors to bid on projects which would include a careful examination of their financial soundness and the quality of the work they would be able to achieve on a specific type of project. It was not clear that economies could be achieved by tendering more than one project on campus at a time.
Miss Oliver undertook to look into the matter.

A member noted that she served on the Physical Planning and Design Advisory Committee. That Committee had struggled with its role and mandate. The proposal for a revised Policy on the Execution of Capital Projects, to come to the Board in February, would provide an opportunity for members to deal with issues concerning design. Later, during the discussion of

14. Capital Projects: Business Board Responsibility (Cont'd)

the proposed New College residence expansion, a member asked how the Business Board would evaluate the design of a project. The new opportunities to erect new buildings provided an opportunity to make significant contributions to the City's appearance. The buildings erected during the previous major period of building activity in the 1960s had not been inspiring. The member hoped that the University's current program would add to the architectural distinctiveness of this part of the City. Professor Finlayson replied that extraordinary energy had been put into the question of design over the past couple of years. Dr. Alex Waugh, a recently retired member of the Business Board, had been a key leader in the effort to elevate the importance of design considerations. While it was true that design considerations and economic needs to some extent competed with one another, the review of all projects by the Physical Planning and Design Advisory Committee had given design considerations a great deal of prominence. Miss Oliver added that the new student centre at the University of Toronto at Mississauga and the Graduate House residence had both recently won prestigious awards for their architectural design.

The Chair summarized that members had requested: (a) reports on capital projects that took the form of spreadsheets and provided the information needed to place individual projects in context, information including time-lines for completion of projects, projected costs, and projected funding; and (b) a more satisfactory process for approving projects. Professor Finlayson noted that the work currently underway represented the second revision to the current Policy on the Execution of Capital Projects. The planned revisions were relatively modest ones. It was not clear that they would address fully all of the questions raised at this meeting. Professor Finlayson would, however, comment on those questions in his presentation.

A member cautioned that many concerns about residence projects were properly within the jurisdiction of the University Affairs Board. Professor Finlayson agreed and noted that questions concerning priorities for all capital projects were within the jurisdiction of the Planning and Budget Committee and the Academic Board. Another member commented that the diffusion of responsibility among three Boards made it all the more important that the policy include a consolidated framework for decision-making.

A member recognized that the construction market was a very hard one at this time, but the University was beginning a number of large projects from which, once begun, there would be no return. This made it important that the Board have three things: (a) a strategic overview to enable the Board to satisfy itself that there would be sufficient funding to complete the projects being undertaken; (b) an updated policy on the execution of projects; and (c) a definition of the Business Board's role with respect to the process, including criteria for the Board to apply in making judgements. It would help the Board a great deal to receive information in a manner that would assist it in making the decisions for which it was responsible.

14. Capital Project: Graduate House

Miss Oliver recalled that the Board had in March 2000 approved additional funding for the Graduate House residence project, bringing the total cost of the project to $23.5-million. Because of unanticipated problems, it had been necessary to request that the project cost be increased by a further $1.555-million. It had then been necessary for the University to dismiss the original contractor and to complete the project itself with the assistance of a construction-management firm. The total overrun from the original approved cost was $4.155-million. $900,000 of that amount was the cost of interest payments arising from the delay in the opening of the residence and the consequent delay in the income stream from students. A further $900,000 was the cost of

14. Capital Project: Graduate House (Cont'd)

overtime pay as the University did everything possible to have the residence open on time. $400,000 was the cost of owner changes and a provision for the cost of legal services used in the dismissal of the contractor and in the efforts to recover the losses from the contractor's performance bond insurers. The remaining $1.955-million (or 9.6% of the total cost) represented additional construction costs. Among those costs were additional payments to particular trades whose sub-contracts with the original contractor had not, contrary to the University's expectation, included all of the work necessary to complete the project. Normally, that amount would have been absorbed by the general contractor from the budgeted profit on the project. Given the need to dismiss the contractor, the University had to absorb those additional costs. It was however, making every effort to recover the full amount through legal action. The additional $1.555-million requested at this time was necessary to pay the remaining bills for construction and legal work.

Miss Oliver and, invited by the Chair, Mr. Galberg replied to members' questions. The cost of accommodating the students in a hotel, which had arisen from the delay in the opening of Graduate House, had not been included in the revised total cost. The University was reasonably optimistic about recovering at least the amount of the construction-cost overrun as the result of its legal action. The action would, however, be contested, with the contractor claiming that the University had impeded progress on the project.

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

YOUR BOARD APPROVED

(i) THAT the Vice-President - Administration and Human Resources be authorized to expend up to an additional $1,555,000 on the Graduate House project; and

(ii) THAT the Chief Financial Officer be authorized to arrange such bridge and term financing as required, either internally or externally.

15. Capital Project: New College Residence Expansion

The Chair said that for this project and the Mississauga residence project, the Board was being asked to concur with the recommendation of the Academic Board that the Users' Committee Report be approved. There was a division of labour among the Governing Council Boards with respect to approval in principle of student residence projects. The Academic Board considered users' committee reports, considering the appropriateness of each project, its priority, its funding, its space plan and the use of its proposed site. The University Affairs Board also considered the users' committee reports. Its focus was on the quality of the facilities to be provided to the students who would be occupying the residences. The focus of the Business Board's responsibility with respect to users' committee reports was the business plan. The Board, by its concurrence, would advise the Governing Council that the proposed revenue for the project would be sufficient to balance the expense. Miss Oliver said that the Board was also being asked to approve appropriations for design and site-development work. When the design work was complete, the three new residence projects on the current agenda would return to the Board for review and approval to proceed with construction.

15. <u>Capital Project: New College Residence Expansion</u> (Cont'd)

With respect to the New College residence expansion, Miss Oliver recommended that the Board approve funding for site development work and for architectural drawings to the completion of working drawings. She noted that the project had been studied by the Planning and Budget Committee, the Academic Board and the University Affairs Board, and it would come before the Governing Council for approval on December 14, 2000. She commented on the process that would follow the requested Business Board approval at this meeting and that would precede the Business Board's being asked to give final approval, likely in June 2001. The University engaged cost consultants to complete four cost checks through the design process, completing the last cost check upon finalization of the working drawings and just before the project was put to tender. Also prior to the completion of working drawings, the project would be taken to the Physical Planning and Design Advisory Committee for its final review. Miss Oliver would then bring the project, at its tendered price, to the Business Board to seek its approval to proceed to construction. The project would not then require further attention from the Board, unless it incurred a cost overrun of more than $2-million, which was the maximum by which the Vice-President - Administration and Human Resources could increase the appropriation for the project under administrative authority. In addition, if any cost increase involved substantial change to the scope of, or the space plan for, the project, that change would also require the approval of the Governing Council on the recommendation of the Planning and Budget Committee and the Academic Board.

Miss Oliver said that the Board was also asked to concur with the Academic Board's recommendation for approval of the Users' Committee report on the project. That would indicate that the Board was satisfied with the business plan for the project - that it was satisfied that the revenue sources identified would be sufficient to cover the cost of the project. Miss Oliver assured the Board that the Financial Services Office, headed by the University Controller, had reviewed the business plan carefully and was satisfied that the project was viable.

Questions and discussion focused on the following items.

(a) Secondary effects of the project. In response to a member's question, Miss Oliver said that three buildings, originally houses, would have to be demolished to make way for the project, and a surface parking lot would also be lost. The offices of the Police Services, Ancillary Services, and the Race Relations and Anti-Racism Initiatives Officer would be relocated to 21 Sussex Avenue. The University of Toronto Press would relocate certain operations to other office space they currently occupied. Mr. Parkinson noted that the Press had been encountering some problems in accommodating the need to vacate its space on Willcocks Street and it might well require assistance in finding additional accommodation.

With respect to the lost surface parking lot, Miss Oliver said that the loss had been anticipated, and the lost spaces would be replaced by those in the parking garage being constructed beneath the Bahen Centre for Information Technology.

Miss Oliver reported that the proposed residence building would affect adjacent buildings. She assured the Board that the Faculty Club, the Graduate Students' Union and the Department of Botany, which had concerns about light for its greenhouse, had all been fully consulted and their needs accommodated.

(b) Residence style. A member noted that the New College residence was proposed to be a traditional dormitory, in contrast to the suite style of most other new residences. He thought it entirely appropriate to have a diversity of residence styles on the St. George Campus. Invited to

15. Capital Project: New College Residence Expansion (Cont'd)

respond to a member's question, Mr. Galberg said that the cost per bed of dormitory style residences was not substantially different from the cost for the suite style. The anticipated cost for the New College dormitory residence was $75,000 per bed compared to the $72,000 cost per bed for suite style residences on the St. George Campus.

(c) Cost per bed. A member commented that the costs cited by Mr. Galberg for the new residence projects were significantly higher than the cost of $56,000 per bed for the Graduate House residence. Miss Oliver replied, that because of the high rate of inflation in construction costs in the Toronto area, even with all of its problems, the cost per bed of the Graduate House residence could not be matched at the present time. The costs for the new projects now before the Board were based on the advice of a cost consultant and they included a factor to take into account continued inflation to the time the projects were scheduled to go to tender.

A member commented that the total cost of the proposed New College project was $22,400,880, and the project would contain 288 beds. That came to nearly $78,000 per bed rather than the $75,000 cited by Mr. Galberg. Miss Oliver replied that the total cost cited by the member included the non-residential aspects of the project, such as faculty offices and other College facilities, and it also included the secondary costs of the project - the moving of the occupants of the buildings currently on the site to new space and the preparation of the space for the new occupants.

(d) Possible efficiencies arising from the simultaneous construction of several residences. A member asked whether the costing for the project exploited the efficiencies arising from the simultaneous construction of other residence buildings. Miss Oliver replied that the University would seek to use quantity purchasing to achieve the best possible prices for equipment and furnishings. Given the different needs of the projects, she was uncertain that savings would accrue from tendering the various projects together. She would certainly look into the possibility.

(e) Benchmarks for residence projects. A member asked whether there were accepted benchmarks against which the Board could measure proposals for residence projects, for example cost per bed or cost per square metre of assignable space. Or was each users' committee entitled to specify the criteria it would propose for its own project? Another member cautioned that there would necessarily be differences among projects on the three campuses. Professor McCammond said that the cost per bed for residence projects at the present time would be in the low to middle $70,000 range. On that base, it would be necessary to make provision for the current inflation in construction costs in the Toronto area amounting to at least one half of one percent per month and as high as three quarters of one percent per month. Each Users' Committee included an expert staff member from the University's Planning and Budget Office. That representative would ensure that facilities were broadly similar according to such criteria as square metres per room or square metres per bed. While the style of projects would differ, their parameters would be similar; there would be no Cadillac residences at one college compared to Volkswagen residences at another. Professor McCammond and Miss Oliver stressed that circumstances differed in each case, causing different costs of construction. For example, contractors found it difficult and costly to have construction materials delivered to downtown Toronto, and that fact was reflected in their tendered price. The location of the proposed Mississauga project nearby an environmentally sensitive area would require extensive landscaping to separate the residence site. The location of the New College project required the demolition of existing buildings and the relocation of their occupants. The less expensive project at Scarborough faced none of those special problems.

15. Capital Project: New College Residence Expansion (Cont'd)

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

YOUR BOARD CONCURS

with the recommendation of the Academic Board

THAT the Users' Committee Report of the New College Student Residence Expansion, proposing a 11,355 gross square meter building on site 5 of the St. George Campus, be approved in principle;

And, subject to Governing Council approval of the Users' Committee report,

YOUR BOARD APPROVED

(i) THAT the Vice-President - Administration and Human Resources be authorized to expend up to $2,500,000 for the design and site development work related to the New College Residence; and

(ii) THAT the Chief Financial Officer be authorized to arrange such bridge and term financing as required, either internally or externally.

16. University of Toronto at Mississauga Residences, Phase 7

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

YOUR BOARD CONCURS

with the recommendation of the Academic Board

That the Users' Committee Report of the University of Toronto at Mississauga (UTM) Student Residence, proposing a 7278 gross square meter building on the UTM Campus, be approved in principle;

and subject to Governing Council approval of the Users' Committee report,

YOUR BOARD APPROVED

(i) THAT the Vice-President - Administration and Human Resources be authorized to expend up to $1,200,000 for the design and site development work related to the Mississauga Residences; and

(ii) THAT the Chief Financial Officer be authorized to arrange such bridge and term financing as required, either externally or internally.

17. University of Toronto at Scarborough Residences, Phase 4

The Chair noted that in the case of the Scarborough Residence project, the Users' Committee Report had already been approved, under summer executive authority. Members had received a copy of the Report for comment in August. At this time, Miss Oliver was requesting only authorization of the design and sight development work.

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

YOUR BOARD APPROVED

(i) THAT the Vice-President - Administration and Human Resources be authorized to expend to $1.2-million for the design and site development work related to the Scarborough Residences, Phase 4; and

(ii) THAT the Chief Financial Officer be authorized to arrange such bridge and term financing as required, either externally or internally.

18. Department of Chemistry: Lash Miller Chemical Laboratories: Tower Renovation

Miss Oliver reported that the tendered cost for outfitting four laboratories in the tower of the Lash Miller Chemical Laboratories, which had previously been shelled in, had exceeded the original estimates by a wide margin. Fortunately, the Department of Chemistry had the money required to fund the increased cost, and the Department wished to proceed with the project.

A member noted that the total funding for the project exceeded the total cost of the project, which was proposed to be approved at $20.85-million. The funding included a $10-million gift from the Davenport family, after whom the new wing of the building was being named; a $7.27-million grant from the Canada Foundation for Innovation, and a matching $7.27-million grant from the Ontario Research and Development Challenge Fund. Miss Oliver explained that the funding was intended to provide for more than the cost of this project; it was also intended to cover other renovations to the Lash Miller building and research equipment.

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

YOUR BOARD APPROVED

THAT the Vice-President - Administration and Human Resources be authorized to expend up to $2,630,000 for the outfitting of the four laboratories in the tower of the Lash Miller Chemical Laboratories that had been shelled in as part of Phase 1 of the project.

19. Environmental Health and Safety: Administrative Response to the Review of the Office

Professor Finlayson stated that the work of the Office of Environmental Health and Safety was very important, and it was essential that the Board be satisfied that the work was being done well. The committee to review the Office had been chaired by Professor Emeritus James W. Smith, who was well known for his insistence on the highest standards in the

19. Environmental Health and Safety: Administrative Response to the Review of the Office (Cont'd)

performance of the health and safety function. The review committee's report had been distributed in March, 2000, and the administrative response was now before the Board.

Invited to comment on the response, Professor Smith said that he was very satisfied with the administrative response, especially after the most recent set of revisions.

A member asked whether the University carried liability insurance to deal with workplace accidents. Professor Finlayson and Mr. White replied that the primary and compulsory insurance for faculty and staff was that provided by the Workplace Safety and Insurance Board (previously called the Workers' Compensation Board). Students and visitors were covered by the University's liability insurance policies provided through a combination of contracts, including one with the Canadian Universities Reciprocal Insurance Exchange, which contract was specifically designed to cover university risks such as athletic activities and student practicums. While the University was covered financially, it was still the case that there might well one day be an accidental death or serious injury, and it would be very important for the University and the Business Board to be able to demonstrate unequivocally that the University had been duly diligent in doing everything reasonably possible to avoid such an occurrence. The University was fortunate to have its health and safety activities directed by someone as well qualified and diligent as Dr. Gorman and, to date, it had enjoyed an excellent record.

20. Report Number 58 of the Audit Committee - October 17, 2000

The Board received the items for information contained in Report Number 58 of the Audit Committee.

21. Reports of the Administrative Assessors

The Board received for information Professor Finlayson's written report on recent developments. That report included the following items.

(a) Relations with non-unionized administrative staff. Professor Finlayson had commissioned Hewitt Associates to conduct focus group sessions among members of the exempt administrative staff to consider policies for those staff. Shortly after doing so, he had received a letter from Ms Ursula Cattelan, recently elected President of the Association of Professionals, Managers and Confidentials. In her letter, Ms Cattelan had formally requested that the University recognize her association as representing the interests of all administrative staff excluded from the United Steelworkers of America. The letter raised a number of interesting questions that the administration, in consultation with Principals and Deans and the Human Resources Management Board, was considering. Professor Finlayson invited members of the Board to provide any advice on the issue. He would in due course bring a formal response to the Board.

(b) Capital projects. Professor Finlayson was pleased to report that Graduate House had now been officially opened and was fully operational. The Davenport Building, a wing of the Lash Miller Chemical Laboratories, would be formally opened on Monday, November 27, 2000. Work on the Bahen Centre for Information Technology was proceeding with a scheduled completion date of March 2002.

21. Reports of the Administrative Assessors (Cont'd)

(c) University of Toronto Faculty Association. As reported at the previous meeting, negotiations were taking place between the University and the Faculty Association concerning a salaries and benefits agreement for the period beginning July 1, 2002, with particular reference to pension issues. The two parties had agreed to employ the services of Mr. Kevin Burkett as mediator in the negotiations with an end date of April 30, 2001.

22. Date of Next Meeting

The Chair reminded members that the next regular meeting was scheduled for Monday, January 15, 2001 at 5:00 p.m.

The meeting adjourned at 7:30 p.m.

Secretary   Chair

December 7, 2000