UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 155 OF THE BUSINESS BOARD

February 26, 2007

To the Governing Council,
University of Toronto.

Your Board reports that it met on Monday, February 26, 2007 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Ms Jacqueline C. Orange (In the Chair)
Mr. Richard Nunn, Vice-Chair
Ms Catherine J. Riggall, Vice-President, Business Affairs
Professor Angela Hildyard, Vice-President, Human Resources and Equity
Mr. Donald A. Burwash
Mr. P. C. Choo
Dr. Alice Dong
Ms Susan Eng
Mr. Robin Goodfellow
Ms Kate Hilton
Ms Paulette L. Kennedy
Mr. Geoffrey Matus
Mr. David Oxtoby
Ms Marvi H. Ricker
Professor Arthur S. Ripstein
Mr. Stephen C. Smith
Ms Estefania Toledo
Ms B. Elizabeth Vosburgh

Professor John R. G. Challis, Vice-President- Research and Associate Provost
Ms Rivi Frankle, Interim Vice-President, and Chief Advancement Officer
Professor Vivek Goel, Vice-President and Provost
Professor Cheryl Misak, Acting Vice-President and Principal, University of Toronto at Mississauga
Professor Jonathan Freedman, Interim Vice-President and Principal, University of Toronto at Scarborough
Ms Judith Wolfson, Vice-President, University Relations
Ms Sheila Brown, Chief Financial Officer
Mr. Louis R. Charpentier, Secretary of the Governing Council
Ms Christina Sass-Kortsak, Assistant Vice-President, Human Resources
Ms Elizabeth Sisam, Assistant Vice-President, Campus and Facilities Planning
Mr. Ron Swail, Assistant Vice-President, Facilities and Services
Professor Safwat Zaky, Vice-Provost, Planning and Budget
Mr. Nick Zouravlioff, Acting Chief Capital Projects Officer

Secretariat:

Mr. Neil Dobbs
Mr. Henry Mulhall

Regrets:

Ms Mary Anne Elliott
Dr. Gerald Halbert
Professor Glen A. Jones
Mr. Gerald A. Lokash
Mr. George E. Myhal
Mr. Robert S. Weiss
Mr. W. David Wilson

REPORT NUMBER 155 OF THE BUSINESS BOARD – February 26, 2007

In Attendance:

Mr. John Hsu, Managing Director, Risk Management and Operations, University of Toronto Asset Management Corporation
Dr. Jeanne Li, Special Assistant to the Vice-President, Business Affairs

ALL ITEMS ARE REPORTED TO THE GOVERNING COUNCIL FOR INFORMATION.

THE BOARD BEGAN ITS MEETING IN CAMERA.

1. Striking Committee, 2007: Appointment

On motion duly made and seconded,

YOUR BOARD RESOLVED

THAT the following be appointed to the Business Board Striking Committee to recommend appointments for 2007-08:

Ms Jacqueline C. Orange (Chair)
Mr. Richard Nunn (Lieutenant-Governor-in-Council appointee; Vice-Chair)
Mr. P. C. Choo (administrative staff)
Professor Glen Jones (teaching staff)
Ms Estefania Toledo (student)
Ms B. Elizabeth Vosburgh (alumna)

2. Business Board Appointment

The Chair reported that a vacancy had arisen as a result of the resignation of Mr. Raj Kothari, whose term was to have continued to June 30, 2007.

On motion duly made and seconded,

YOUR BOARD RESOLVED

THAT Dr. Gary P. Mooney be appointed to the Business Board for the remainder of a term continuing to June 30, 2007.

3. Real Estate Transactions

The Board considered a proposal for a number of inter-related real estate transactions, and resolved the matter *in camera*. Ms Riggall stressed the importance of strict confidentiality until the matter was concluded.

THE BOARD MOVED INTO OPEN SESSION

4. Report of the Previous Meeting

Report Number 154 (January 15, 2007) was approved.

5. Vice-President, Human Resources and Equity: Annual Report, 2005-06

Professor Hildyard presented her annual report for 2005-06. In her presentation, Professor Hildyard stressed the ways in which the Human Resources and Equity portfolio supported the University's strategic mission; the steps that were, and had to be, taken for the University to become and remain an employer of choice; and the accountability measures that could be applied to the portfolio. Among the highlights of her report were the following initiatives.

- **Supporting the Academic Mission: Recruitment**

  (a) A new on-line recruitment process not only allowed applicants to submit their applications on line; it also allowed staff members to register a profile with the University and to be informed when positions became available that matched their areas of interest and their qualifications. The system tracked demographic factors, facilitating efforts to promote diversity.

  (b) Orientation programs for new employees had been initiated and were held every three months. They brought new faculty and staff members together for well-received sessions that began with a meeting with the President, the Provost, or the Vice-President, Human Resources and Equity.

  (c) Human Resources staff members were initiating innovations to enhance their support of the academic hiring process. This process was furthest advanced at University of Toronto at Scarborough and in the Faculty of Arts and Science. In the Faculty of Medicine, Human Resources staff had been assisting in streamlining the process of appointments for the very large number of clinical faculty.

- **Employment Relations and Retention**

  (a) The University was seeking ways to implement an interest-based model for collective bargaining to replace the adversarial model.

  (b) The University was also implementing compensation approaches that were responsive to the circumstances of particular groups of staff. For example, the policies for professional/ managerial staff stressed one-time-only and other incentive payments to reward exceptional performance.

5. Vice-President, Human Resources and Equity: Annual Report, 2005-6 (Cont'd)

(c) Communications with employees had been improved. Among the more substantial achievements was the launching of the new Human Resources and Equity website, which provided a wide range of up-to-date information. The expanded InfoSource portal at the Rotman School of Management now provided an outstanding vehicle for employee communication about the activities of all parts of the School.

- **Contributions to Enhancing the Student Experience**

(a) The University had established a new program to recognize members of the administrative staff who had made special contributions to the achievement of the University's Stepping UP academic plan and in particular to its key objective of enhancing the student experience. The program had been very successful and it would be continued. Awards were made both to individuals and to teams. The receipt of this award had most often represented the first recognition outside of their own division of the staff members' exceptional contributions.

(b) The University had participated in the Sounds of Change event held on the United Nations' International Day for the Elimination of Racial Discrimination. The objective of the programs held on that day was to demonstrate that music and other forms of creative sound performance could play an important role in challenging racism and achieving social change. Staff members interacted with students in events held in several student-activity spaces.

- **Employer of Choice**

(a) The establishment of the University's phased retirement program for members of the faculty and for professional and managerial staff had created a great deal of interest. Such programs were still quite rare among employers and the University's program had been very well received. It had been quite popular among faculty members who were reaching the previously mandatory retirement age.

(b) The University had revamped all of its leadership programs. The Organizational Development and Learning Centre (O.D.L.C.) had worked with the Higher Education Group in the Ontario Institute for Studies in Education (OISE/UT) to establish a Certificate Program on Leadership in Higher Education. Qualified employees who wished to do so could continue their studies and apply courses completed in the certificate program towards the Master of Education degree program at OISE/UT. The O.D.L.C. was also working with the School of Continuing Studies to establish other programs. Those programs would make a major contribution to the University's efforts to ensure succession planning and to encourage career planning and development.

5. Vice-President, Human Resources and Equity: Annual Report, 2005-6 (Cont'd)

(c) A good range of career development material was being made available on-line, as were a number of courses and bundles of courses, particularly in computer and web skills, enabling staff members to enhance their career planning and their skills at times that suited their schedules.

(d) The University was making real efforts to foster a good workplace climate. Innovative efforts to improve the workplace climate in the Faculty of Dentistry merited special mention.

(e) The University continued to enhance its proactive approach to accommodating employees with disabilities and promoting the return to work by employees who had suffered serious accident or illness.

(f) The "Take our Daughters to Work" day had been expanded to become the more inclusive "Take our Sons and Daughters to Work" day. It was a very successful program, with hundreds of young people on campus and with employees able to express their pride in working at the University.

- **Accountability Measures**

(a) The University, based on its policies, had once again been ranked in the Mediacorp survey as one of the top 100 employers in Canada and as one of the top ten family-friendly employees.

(b) The University had completed its first faculty and staff survey. The results from a completion of the survey by 52% of employees would provide valuable base-line data. That data, as well as data from other sources, would provide benchmarks to measure the University's improvement in various areas of its employee-relations.

(c) The new equity census had been completed, and the high response rates would provide more robust data.

(d) The establishment of the on-line recruitment process would also provide good data on the demographic aspects of the University's applicants and would enable efforts to encourage greater diversity in that pool.

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

(a) Interest-based model for collective bargaining. In response to a question, Professor Hildyard said that in interest-based collective bargaining, neither party entered the negotiations with entrenched views about particular outcomes. Rather, they worked to identify the real problems, to explore them and to seek the very best solutions to them. In the process, the parties avoided becoming attached to particular approaches. The process could be a challenging one to achieve.

5. Vice-President, Human Resources and Equity: Annual Report, 2005-6 (Cont'd)

(b) Faculty of Dentistry. A member referred to Professor Hildyard's reference to innovative efforts to improve the workplace climate at the Faculty of Dentistry. The member had understood that there were real workplace problems in that Faculty. Professor Hildyard replied that the Faculty had engaged external consultants specifically to assist faculty and staff to address those problems and to establish a workplace climate with which all were comfortable.

(c) Employee complement. A member observed that section 10.2.2 of the report showed that from 2000 to 2006, full-time academic staff had increased by only 3% whereas full-time unionized administrative staff had grown by 24% and non-unionized staff by 30%. That outcome appeared to be unusual given the University's concern about class size and given the availability of technology that would enable the completion of certain administrative functions with fewer staff. Professor Hildyard and Professor Goel explained the reasons for the changes. The increase in administrative staff was the outcome of two factors. By far the largest growth was in the number of employees of the ancillary enterprises. That represented the staffing of newly constructed student residences on the three campuses and the acquisition of the former hotel that was now the Chestnut Street Residence. The second largest area of growth was in grant-supported staff. That was the outcome of the increase in the amount of research-grant support being won by the University's faculty, enabling faculty members to hire staff for their laboratories. The growth in administrative staff supported by the operating budget was much more modest. That growth was the outcome of the fact that in 2000 the University ended a period of dramatic reductions in administrative staff caused by funding reductions, when it had allowed its staff levels to decline to so low a level that many essential functions could not be completed satisfactorily. The apparent low level of growth in the academic staff arose from the significant reduction in the number of clinical faculty on the University's payroll. That, however, was simply the outcome of an administrative change whereby more members of the clinical faculty were being paid through hospital and other payrolls rather than the University payroll. There had been 8% growth in regular tenure / tenure-stream faculty and 18% growth in the number of full-time teaching-stream faculty (Senior Lecturers, Lecturers, and Instructors). Professor Goel noted that the University's ratio of faculty to administrative staff was not out of line with peer institutions. He agreed that it was important to ensure that there was an appropriate devotion of funding for academic activities compared to other activities, and he could, if the Board wished it, provide additional data.

(d) Long-term disability costs. A member asked if the University had seen any reduction in the cost of its long-term disability program as the result of its initiatives to provide accommodation for employees who had suffered serious illness or injury. Professor Hildyard replied that the overall cost of the program would depend on the level of sick time by employees in any particular year. It was the case, however, that the University was reducing the cost by its efforts to enable people to return to work earlier. The University was also working very actively to promote a reduction in workplace accidents and therefore claims to the Workplace Safety and Insurance Board. The member suggested that it would be useful to include in future reports a basket of indicators in the area including such things as the amount of long-term and short-term leave taken by employees for reason of accident or illness. Professor Hildyard agreed that such data would be useful and she took the member's suggestion under advisement.

5. Vice-President, Research and Associate Provost: Annual Report, 2005-6

Professor Challis presented the highlights of the Annual Report of the Vice-President, Research and Associate Provost for 2005-06. The inputs into the research enterprise - the great minds at the University and the funding for their research work - combined to produce important outputs: research publications and their citation in the research publications of other scientists and scholars, honours won by University of Toronto researchers, commercial applications of the research, the training of the highly qualified researchers of the next generation, and a positive social impact.

- **Funding: Direct costs of research**. Total funding for the direct costs of research for 2004-05 had amounted to nearly $700-million, with half of that funding for on-campus researchers and the other half for researchers in the affiliated teaching hospitals. Taking into account faculty salaries and the indirect costs of research, about $1-billion per year was devoted to research at the University of Toronto. Nearly one third of that funding came from the three Government of Canada's research granting agencies (the "tri-Councils"). That included $127.2-million from the Canadian Institutes for Health Research (CIHR), $59.0-million from the Natural Sciences and Engineering Research Council (NSERC) and $20.4-million from the Social Sciences and Humanities Research Council (SSHRC). Only about 3% of research funding came from international sources, giving the University a real area of opportunity to expand its research funding. Similarly, corporations provided only 9% of research funding, representing another area of opportunity for growth.

  The demographics of the University's research support from the tri-Councils provided some cause for concern. While the age distribution of grant recipients and the amount of grant funding was a normal bell-shaped one for grants from the CIHR, there was a drop-off in the grants and the funds awarded by NSERC to faculty members in the 50 – 59-year old age cohort, reflecting the lower number of faculty members in that age range. Very significantly, there was also a disproportionately high amount of funding from the SSHRC to faculty members in the 60 – 65-year old age range, who would soon be retiring, which would place in jeopardy the current high level of SSHRC funding to the University of Toronto. Professor Challis stressed that funding by the tri-Councils was important not only in and for itself but also because it determined the allocation of government grants to support the indirect or overhead costs of research and it also determined each institution's number of Canada Research Chairs.

- **Funding: Indirect costs of research**. The University received funding from the Government of Canada for the indirect costs (overhead costs) of research. That funding amounted to about 21% of the eligible direct funding from the tri-Councils and the federally funded Networks of Centres of Excellence. That funding was meant to contribute to such costs as space, utilities, libraries and central and divisional services (including services to deal with the requirements of external regulatory agencies and to protect intellectual property). That funding amounted to $17.5-million to the University

5. Vice-President, Research and Associate Provost: Annual Report, 2005-6 (Cont'd)

in 2005-06, with 75% of the proceeds being allocated by the University to meet University-wide costs and 25% to meet divisional costs. This support for indirect costs was crucial to the success of the research enterprise at the University, and its enhancement was a central element of the University's advocacy. The University advocated that the Government provide indirect cost support amounting to 40% of the amount of direct research funding to deal appropriately with the actual indirect cost of research. While the rate for 2004-05 had been 20.9% according to the distribution formula, it had declined to 19.9% in 2005-06.

- **Canada Research Chairs**. There were 267 Canada Research Chairs at the University, by far the largest number of any university. The number of Chairs awarded was proportional to research funding from the tri-Councils, another reason for stressing the importance of that funding source. Of the Chairs, 36% had been recruited from outside of Canada. Just under half of those were Canadians returning to this country – one of the key original intentions of the program.

- **Publications and citations**. For the period 2001-05, the University of Toronto ranked second only to Harvard in the number of publications among the members of the Association of American Universities (the AAU) and the group of thirteen leading Canadian research-intensive universities (the G13). It ranked first among public universities and the Canadian G13 universities. (It was appropriate to consider the public universities as a separate category because the ratio of undergraduate students to faculty members was much higher in those institutions.) The University of Toronto, including its affiliates, ranked sixth in the number of citations among the AAU and G13 universities and third among the public universities. The rankings reflected the University's formidable faculty.

  Professor Challis referred to the use of a new performance measure. The Thomson ISI survey of citations had identified the 250 most highly cited researchers worldwide in each of 21 disciplines. Of those, 33 were University of Toronto researchers - the highest in Canada by a large margin. That was a remarkable outcome and an important measure that the University would continue to monitor.

- **Innovation and commercialization**. Revenue from research grants from industrial sources and from research contracts in 2004-05 had represented 9.3% of the University's total revenue, amounting to $65.7-million. The previous Technology-Transfer Office and the Innovations Foundation had been merged and were now operating very effectively under the leadership of Dr. Tim McTiernan.

The Chair, on behalf of the Board, thanked Professor Challis for his report and for his outstanding work as Vice-President, Research and Associate Provost. From its perspective, the Business Board was particularly grateful for his leadership in restructuring of the innovations /

5. Vice-President, Research and Associate Provost: Annual Report, 2005-6 (Cont'd)

technology-transfer function. The Board anticipated a very good outcome from that effort. Professor Challis would be standing down as Vice-President at the end of the current year. He was an outstanding medical scientist, who had published over 500 scientific papers and articles in his area of fetal and neonatal health. For the past four years, he had also maintained his very active research program while at the same time working, as Vice-President, to make things better for his fellow researchers. Professor Challis had decided to devote his full efforts again to his scientific work. The Chair stated that the University owed Professor Challis a great debt of gratitude, and the Business Board, through its applause, expressed its thanks and best wishes.

6. Investments: Performance Benchmarks

Ms Brown said that the investment performance of the University of Toronto Asset Management Corporation (UTAM) was measured by two types of benchmarks. The first was the achievement of the long-term return targets prescribed by the University within its stated risk tolerance. For the pension fund and the Long-Term Capital Appreciation Pool (the L.T.CAP – the investment vehicle for the endowment funds and for the funds set aside for the Supplemental Retirement Arrangement), that target was an average return of inflation plus 4% over any ten-year period within an average volatility not to exceed 10%, also over any ten-year period. A more specific target had been set for the short-term investment pool – the Expendable Funds Investment Pool (EFIP).* The second type of benchmark consisted of market-based measures to determine how UTAM's returns compared to those of the markets UTAM invested in. Those benchmarks consisted, first, of market indices such as the Standard and Poor's / Toronto Stock Exchange (S&P/TSX) Capped Composite Index for investments in Canadian equities. They consisted, second, of an appropriate peer universe for each fund and for each major category of investments, for example, the RBC Global Services balanced-fund universe of a large number of Canadian funds (primarily pension funds) or (as proposed) the Mellon Analytical Manager Performance Universe (Canadian equities) for a large number of portfolio managers of Canadian equities. The objective of the second type of benchmark was to facilitate judgement of how UTAM was doing in managing the University's funds in comparison to the markets in general and in comparison to other funds. The second group of benchmarks was currently specified in Schedule "C" to the Service Agreement between the University and UTAM. The Schedule "C" currently in effect had been approved by both the UTAM Board and the Business Board in 2005. The changes proposed at this time were fine-tuning of the benchmarks. They had been approved by the UTAM Board for its use in evaluating the performance of UTAM's management. Ms Brown proposed their approval by the Business Board. With Board approval, the revised benchmarks would be used in UTAM's reports to the Board for 2007 and thereafter. Ms Brown noted that the University was in the process of reviewing UTAM's governance and the relationship between the University and UTAM. While that review was on-going, it was appropriate that there be consistent measures of performance used by both the UTAM Board and the University.

---

* The target for the total Expendable Funds Investment Pool is an annual return of the Scotia Capital 365-Day (Canadian) Treasury Bill Index + 50 basis points.

6. Investments: Performance Benchmarks (Cont'd)

In response to a question, Ms Brown outlined the substantive changes to the benchmarks. The first change was for the absolute-return asset class. The current benchmark was the three-month LIBOR rate (the London Interbank Offering Rate - a standard short-term interest rate) plus 450 basis points (4.5%). The new benchmark would be the HFRI Fund of Funds Conservative Index. (HFRI was the Chicago-based Hedge Funds Research Inc.) Second, the peer universe used to compare UTAM performance to that of other managers in the four main asset categories (Canadian equities, U.S. equities, international equities and Canadian fixed income) would be changed from the RBC Global Services universes to the Mellon Analytical Solutions universes. The RBC Global Services universe would continue to be used for full-fund performance comparisons. Third, currency hedge ratios would be changed to 100% and all returns would be compared to the benchmark returns hedged into Canadian dollars. That reflected UTAM's decision to fully hedge all foreign currency exposure, effective January 1, 2007, so that the University would neither benefit nor incur loss from changes in the value of the Canadian dollar relative to foreign currencies.

It was duly moved and seconded

> THAT the proposed revised Schedule "C" to the Amended and Restated Service and UTAM Personnel Agreement between the Governing Council of the University of Toronto and the University of Toronto Asset Management Corporation (a copy of which Schedule is attached to Ms Riggall's memorandum of February 12, 2007 as Attachment 1) be approved, replacing the Schedule "C" approved by the Business Board on April 4, 2005.

Upon being invited to respond to questions, Mr. Hsu communicated to the Board the regrets of Mr. Felix Chee, the President and C.E.O. of UTAM, who was out of town and unable to attend this meeting. Among the matters that arose in the course of discussion were the following.

(a) Foreign currency hedging. In response to a question, Mr. Hsu said that before January 1, 2007, UTAM's foreign assets had target currency hedge ratios between 50% and 100%. Actual hedge ratios, however, would depend on the view of an external foreign-exchange manager, who had an active mandate to take currency exposures, subject to prescribed risk tolerance. UTAM had very recently decided that it would be preferable to hedge foreign currency exposure fully to insulate the portfolios from the volatility of currency fluctuations. The increased volatility (hence potential fluctuation in currency gain/loss) from foreign currency exposure was deemed not to be justified over the long run by the potential reward for taking active currency exposures. The decision would improve the risk/return characteristic of the portfolio. That was all the more the case because the assets were to fund liabilities in Canadian dollars.

(b) Absolute-return category benchmark. In response to questions, Mr. Hsu said that the current benchmark for the absolute-return category – LIBOR plus 4.5% - was an anomaly. The performance benchmarks for all other marketable assets were their respective market-based index for their asset classes. For example, performance of the U.S. equity portfolio was compared to the

6. Investments: Performance Benchmarks (Cont'd)

Russell 3000 Index of 3,000 U.S. stocks. Until fairly recently, there had been no reliable index for gauging hedge-fund performance. Therefore, UTAM and the University had since 2003 used LIBOR plus 4.5%, which was a long-term return assumption employed by the University's actuarial consultant, based on historical experience and asset modeling, as part of an asset-liability actuarial study. However, a LIBOR-based benchmark had no relation to the hedge-fund assets being managed. A widely accepted industry index had since become available and would allow a fair comparison of the performance of the UTAM-managed hedge-fund portfolio to the broader market – an "apples to apples" comparison. Ms Brown concurred that such a comparison was much more appropriate.

(c) Investment performance. A member stated that he was reluctant to support the proposal unless the Board received assurances that investment performance would improve. The member recalled that he had expressed his concern at the time of UTAM's semi-annual report, and his concern had not abated since that time. He referred to information provided by the Faculty Association, which was highly critical of UTAM's investment performance and of the costs incurred in the management of the pension plan.

Ms Brown stressed that the establishment of benchmarks did not affect investment performance; benchmarks only provided criteria for judging that performance. She stressed that the key criterion from the point of view of the University was the achievement of the 4% real rate of return (after inflation) with a low level of risk (expressed as a maximum 10% average annual standard deviation), both averaged over ten years. That was the basis for all of the University's financial modeling to achieve the needed payout from the endowment while protecting the value of its capital against erosion by inflation and to make the promised payments to current and future pensioners. It was very important that the funds be invested in a manner that would avoid large losses in any year. To avoid such losses, it was necessary to restrict the risk taken, which would in turn prevent the achievement of higher rates of return. Ms Brown had responded at the Business Board to the matters raised by the Faculty Association. The matter of investment performance would be addressed again when UTAM's annual report was presented to the Board at its next meeting. She stressed that it was important to consider investment performance over the long term. Performance over shorter periods did not provide a solid basis for judgements.

(d) Effect of the changes to the benchmarks. A member observed that it was difficult to make a judgement of the proposal to change the benchmarks without having quantitative information about the likely effects of the changes. If the new benchmarks had been in effect in recent years, would they have made UTAM's performance appear better than in comparison with the current benchmarks? Would the new benchmarks have resulted in a higher level of incentive compensation for UTAM management? The member said that the Business Board did receive reports from UTAM on investment performance, and it should know the basis of the benchmarks upon which judgements were to be made. She was also concerned that the Board was being asked to approve the benchmarks somewhat after the beginning of the year in which performance was to be judged. She would be more comfortable approving the proposal in the light of better information. Another member concurred that if the Board was approve the revised benchmarks, it should do so only if it

6. Investments: Performance Benchmarks (Cont'd)

had better information. Whatever the delegation of responsibility to UTAM, the Business Board had a legal obligation, acting on behalf of the Governing Council as administrator of the pension plan, and it had an inescapable role as fiduciary for the donors and beneficiaries of the endowment funds. It therefore had to make judgements about investment performance, and it had to have solid information about the benchmarks to be used to judge that performance.

Ms Riggall, Ms Brown and two members responded. The UTAM Board had been provided with information about the effect of the change of the benchmarks, and it had discussed the matter thoroughly at two meetings. The responsibility of the Business Board, on behalf of the University, was to specify the overall return target (an average real return of at least 4% after inflation over ten years) and the risk tolerance (maximum 10% average standard deviation over ten years). Therefore, the key performance benchmark from the point of view of the Business Board was the achievement of that overall return within the specified risk tolerance. The UTAM Board was responsible for: oversight of the strategy chosen to obtain that target; for monitoring the implementation of that strategy; for monitoring the achievement of the more detailed performance benchmarks; and for incentive compensation decisions based on that achievement. The matter of the detailed benchmarks came to the Business Board simply as an artifact of the older relationship in which the benchmarks were expressed as part of the Service Agreement. A member stressed that the members of the UTAM Board had a high level of expertise, and their judgement should be trusted in determining the market-related benchmarks. The Chair said that the matter of the relationship between the University and UTAM, and the division of responsibilities between the Business Board and the UTAM Board, would come before the Business Board at a later date when Ms Riggall forwarded a proposal for approval of a revised Service Agreement. The current proposal represented a residual from the current Service Agreement.

A member said that if the Board was to be asked to approve the proposed changes, it should know the effect of so doing. How would prior years' performance have compared to the new benchmarks had they been applied in those years? How had the same years' performance compared to the current benchmarks? Was the bar being lowered? The Board was held responsible for performance by members of the University. That had been demonstrated vividly in 2000 and 2001, when the Board had been held accountable by many for the funds' losses in those years.

Professor Goel replied that the events from earlier in the decade were precisely the reason for the plan to achieve a clear delegation of authority to the UTAM Board. The Business Board would monitor the key performance metric – the need to achieve a real (after-inflation) 4% return over time with only a moderate level of risk. The expert UTAM Board would be clearly responsible for monitoring performance against detailed benchmarks and for making decisions concerning compensation of UTAM management. The role of the Business Board and the Governing Council would be to ensure that very good experts were in place on the UTAM Board.

The Chair urged that the appropriate structure be put into place at the earliest opportunity so that the Business Board was not left in the situation of dealing with residual aspects of the current arrangement.

6. Investments: Performance Benchmarks (Cont'd)

In response to a member's question about the timing of the proposal to revise the Service Agreement, Ms Brown said that the review of the matter was currently underway, and she hoped that it would be possible to bring forward a proposal in the current governance year. She recalled that the process of clarifying the roles and responsibilities of the Business Board and the UTAM Board had begun in 2003, with approval of the current Service Agreement, which made it clear that the key role of the Business Board was to specify the return target and the risk tolerance.

Ms Riggall said that the approval of the proposed performance benchmarks was a technical matter which would be resolved when the new relationship between the University and UTAM was established through a revised Service Agreement. Therefore, and in the light of the discomfort of some members, she would withdraw the proposal. In the meanwhile, UTAM would report future investment performance in terms of the current benchmarks in the Service Agreement and, for added information, in terms of the new benchmarks as approved by the UTAM Board.

The motion was WITHDRAWN.

7. Deferred Maintenance: Annual Report

Mr. Swail presented the annual report on deferred maintenance. He said that the assessment of the condition of the University's buildings, like that of the buildings at other Ontario universities, was based on a common assessment methodology called the Vanderweill Facilities Assessment (V.F.A.) The information collected, using this methodology, to quantify the deferred maintenance liability did not include the buildings used by the ancillary operations (in particular student residences and parking garages) or the federated universities. It also did not include the utilities infrastructure (the subject of a separate report made recently to the Board) or environmental liabilities caused by such matters as asbestos or mould. Finally, it did not include the cost of "adaptive renewal" - alterations required to bring a building up to current building-code requirements or the addition of such things as an elevator or a ramp to make a building accessible.

Mr. Swail said that the University's Facilities Condition Index was a key performance indicator. It was derived for any building or campus or institution by dividing the cost of deferred maintenance by the replacement cost of the building(s). An F.C.I. above 10% indicated a building or a campus in poor condition. At the University of Toronto, the F.C.I. had come down slightly over the past year to 10.3%. That was good news, and the F.C.I. was comparable to that of other universities in Ontario. The improvement was the outcome of both (a) the assignment of funding to deal with deferred maintenance, and (b) the improvements in the average condition of buildings arising from the addition of a number of new buildings with no deferred maintenance needs. The problem was centred on the St. George Campus, where the F.C.I. was a high 12.0%. The condition of the Scarborough Campus (F.C.I. of 5%) and that of the U.T.M. Campus (F.C.I. of 2.9%) were both excellent. The actual cost of completing all deferred maintenance work had increased slightly from $286-million to $289-million. Annual funding to deal with the problem, from the University and from the Province of Ontario's Facilities Renewal Program, would have to increase from $12.8-million to about $14-million to keep the F.C.I. at its current level.

7. Deferred Maintenance: Annual Report (Cont'd)

Mr. Swail observed that there were many competing priorities for facilities-renewal work. The criteria used to select projects included: health and safety requirements, other legislated requirements, risk of failure in a major building component, need of the project to support academic priorities such as improvement of the student experience, and work that could be done in coordination with major renovation projects.

Mr. Swail showed photographs of the outcome of a number of deferred maintenance projects.

- **Robarts Library exterior staircases**. Crumbling concrete staircases, which represented a safety hazard, had been replaced.

- **Sir Daniel Wilson Residence walkways**. Deteriorated blacktop walkways, which represented trip hazards, had been replaced by new brick and stone walkways.

- **Roof repairs**. Roofs in a number of buildings had urgently required replacement, with situations where earlier patches themselves had to be patched. New roofs met all sustainability standards; their durability and operating characteristics would contribute to the reduction of overall costs through their twenty-five years of service. All had a high "R" value and were solar-reflective. When a new roof became necessary in twenty-five years, it could be glued on to the existing roof. In addition, the roofs could support the addition of green-roof features.

- **Convocation Hall soffits** had deteriorated badly and had been replaced.

- **Chillers**. Mr. Swail showed a picture of a thirty-five-year-old chiller, which had been in use long past its normal useful service and which broke down regularly. It had used chlorofluorocarbon (CFC) coolant. Its replacement did not use CFCs and was 35% more efficient.

- **OISE/UT elevators**. The University had completed a major modernization of the elevators at the Ontario Institute for Studies in Education, with the new elevators incorporating appropriate accessibility features including a lower location for buttons to assist people in wheelchairs and audible floor calls to assist people with impaired vision. The performance of the new elevators was much improved over the originals.

- **Robarts Library carpets** had been badly torn and patched with tape. The replacement carpet had been carefully selected with a view to sustainability; it was made of 100% recyclable materials.

- **New standard exterior building signs** were fully compliant with the requirements of the Ontarians with Disabilities Act, and their improved styling projected a much better image of the University.

7. Deferred Maintenance: Annual Report (Cont'd)

- **Washrooms in the Medical Sciences Building** had required replacement. The new fixtures were much more attractive than the originals and much more efficient in their water use.

Mr. Swail said that his colleagues in the Facilities and Services Department worked closely with the Capital Projects group to use deferred maintenance funding in a manner that would provide the best value to the University. Where major renovation or rebuilding projects were to be undertaken, the opportunity would be used to deal with deferred maintenance needs and to reduce the overall liability for deferred maintenance work as much as possible. Recent examples included the following projects: the new Economics Building, the Health Sciences Building at 155 College Street, the Koffler Multi-Faith Centre, the Canadiana Building, the Norman Hughes Building, and the new Examination Centre.

Mr. Swail concluded that the University had defined the deferred maintenance problem in detail through comprehensive assessments. It was addressing priorities based on several, sometimes competing, criteria. It was, through the assignment of significant and sustained funding, succeeding in keeping the Facilities Condition Index from growing. Finally, the University was managing its deferred-maintenance liability by keeping the VFA database accurate and up to date.

Discussion and questions dealt with two matters.

(a) Repair or demolition of older buildings. A member observed that the table describing deferred maintenance included a number of very old buildings that might better be demolished. Mr. Swail said that in cases where buildings were likely to be replaced, the University did as little work as possible to keep the buildings in use. Professor Goel noted that some older buildings were protected as heritage buildings.

(b) Dealing with the problem. A member noted that, notwithstanding the improvement in the F.C.I., the estimate of the cost of deferred maintenance continued to climb. The report stated that $71.6-million of work should be completed on the St. George Campus within the next year. Mr. Swail replied that while the total amount of work required was increasing, that increase had been very slow. The University was budgeting $10-million per year in addition to the Provincial grant of $4.5-million. That enabled the University to complete over 100 projects per year, and it would be difficult for it to proceed much more quickly, even if more funding could be allocated. Professor Goel added that in many cases, older buildings were being vacated as new ones were erected, providing an excellent opportunity to deal with maintenance needs. For example, on today's agenda, the Hughes Building had been vacated by the Leslie Dan Faculty of Pharmacy, and it was proposed that the building be repaired and outfitted for a new occupant, the Department of Anthropology. Of the $9.763-million proposed for the project, $2-million would deal with deferred maintenance needs, removing them from the overall list. In general, the University had been doing a much better job in aligning projects to serve both its academic priorities and its deferred maintenance needs.

8. Capital Projects Report as at January 31, 2007

The Board received for information the Report on Capital Projects at January 31, 2007. That report, prepared by the Capital Projects Department, had taken a new form, providing information on projects over $2-million that (a) were under construction, and (b) occupied but not yet officially closed.

9. Capital Project Closure Report

The Board received for information the report on the official closure of five projects: the most recent New College Residence building, the Earth Science Centre Greenhouse, the Centre for Communication, Culture and Information Technology at the University of Toronto at Mississauga, the Food Services facility update project at the University of Toronto at Scarborough, and the Cooling Tower replacement project at UTSC.

10. Borrowing Status Report to January 31, 2007

The Board received for information the Borrowing Status Report to January 31, 2007. The Chair thanked Ms Riggall and Ms Brown for their initiation of this new report, to appear on the agenda of any meeting at which the Board considered a proposal for a capital project.

11. Department of Anthropology: Hughes Building

Mr. Zouravlioff said that the Department of Anthropology was currently dispersed over ten locations. The Faculty of Pharmacy had now completed its move to the new Leslie Dan Building, leaving the Hughes Building at 19 Russell Street available for other occupants. The vacancy of the building also provided a good opportunity to deal with its substantial deferred maintenance needs at the same time as the renovation for the new users. While the University was not able to identify sufficient funding to complete all of the necessary work, it would proceed in a phased fashion, and the proposed project would make the building fully useful to its new occupants for twenty years. Some work had already been completed, with smaller projects authorized and funded by the Accommodation and Facilities Directorate. That work included the removal of hazardous material and demolition, which had enabled a more solid estimate of the deferred maintenance needs for the project.

11. Department of Anthropology: Hughes Building (Cont'd)

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

YOUR BOARD APPROVED

Subject to Governing Council approval of the project,

THAT the Vice-President, Business Affairs be authorized to execute the renovation of the Norman Hughes Building for the Department of Anthropology at a cost not to exceed $9.763-million, using the following sources of funds:

Faculty of Arts and Science	$7,590,000
Facilities and Services Facilities Renewal Program Funds	2,000,000
Office of Space Management	173,000

12. Lash Miller Chemical Laboratories - Undergraduate Laboratories, Phase II

Mr. Zouravlioff said that Phase I of the renovation of the undergraduate laboratories in the Lash Miller Chemistry Building had been completed very successfully. The current proposal was to renovate the remaining undergraduate teaching laboratories, which were old and very well used, to bring them up to the same exceptional level as the Phase I laboratories. Phase I had included a number of infrastructure improvements to benefit both phases. As a result, the cost per square metre for this phase would be substantially lower than that for Phase I. The University would achieve some synergies from the use of the laboratory complex for teaching Chemistry not only to students in the Faculty of Arts and Science but also those in the Faculty of Applied Science and Engineering and the Leslie Dan Faculty of Pharmacy.

In response to questions, Mr. Zouravlioff said that the proposals to fund the project in part from the Academic Initiatives Fund and the Student Experience Fund would be considered by the Planning and Budget Committee and the Vice-President and Provost respectively before the recommendation for approval of the Project Planning Reports for the two projects came to the Governing Council. In response to a question, Professor Goel said that the proposed $2-million of funding from the Student Experience Fund would represent 20% of the allocations from the Fund to the Faculty of Arts and Science and the Colleges. The Faculty of Arts and Science had decided about one year ago that it would like to use about one third of its allocations from the Student Experience Fund for infrastructure improvements to student facilities, especially to teaching laboratories and especially those that would benefit the large cohort of first-year students pursuing the Life Sciences. This project would be a valuable one that would improve the learning experience of a large number of undergraduate students.

12. Lash Miller Chemical Laboratories - Undergraduate Laboratories, Phase II (Cont'd)

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

YOUR BOARD APPROVED

Subject to (i) Governing Council approval of the project, and (ii) funding being made available through Student Experience Fund (SEF) and Academic Initiatives fund (AIF);

THAT the Vice-President, Business Affairs be authorized to execute the Lash Miller Chemical Laboratories - Undergraduate Laboratory, Phase II project at a total project cost not to exceed $5.0-million with sources of funding as follows:

Student Experience Fund (pending)	$2,000,000
Academic Initiatives Fund (pending)	$1,500,000
Faculty of Arts and Science	$ 540,000
Department of Chemistry	$ 540,000
Faculty of Applied Science and Engineering	$ 350,000
Leslie Dan Faculty of Pharmacy	$ 70,000

13. Date of Next Meeting

The Chair reminded members that the next regular meeting was scheduled for Wednesday, April 11, 2007 at 5:00 p.m. She also reminded members of the "off line" session on February 27, 2007 at 4:10 p.m. on the operation of the new budget model.

THE BOARD MOVED INTO CLOSED SESSION

14. Closed Session Reports

Professor Hildyard reported on (a) the settlement with the University's stipendiary instructors, and on (b) salary and benefit negotiations with the Faculty Association. Because negotiations with the Faculty Association were on-going, she stressed that her report and its discussion were completely confidential.

THE BOARD RETURNED TO OPEN SESSION.

The meeting adjourned at 7:00 p.m.

________________________ ________________________

Secretary Chair

March 16, 2007

38641