

UNIVERSITY OF TORONTO
THE GOVERNING COUNCIL
REPORT NUMBER 118 OF THE BUSINESS BOARD

May 6, 2002

To the Governing Council,
University of Toronto.

Your Board reports that it met on Monday, May 6, 2002 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Ms Rose M. Patten (In the Chair)
Ms Wendy M. Cecil, Chairman
of the Governing Council
Dr. Thomas H. Simpson, Vice-Chair
of the Governing Council
Professor Robert J. Birgeneau, President
Mr. Felix P. Chee, Vice-President -
Business Affairs
Professor Angela Hildyard,
Vice-President - Human Resources
Ms Mary Anne V. Chambers
Mr. Brian Davis
Ms Susan Eng
Mr. Paul V. Godfrey
Mr. David Keeling
Ms Françoise Ko
Professor Brian A. Langille
Mr. Gerald A. Lokash
Mr. Andrew Morgan
Professor Heather Munroe-Blum
Mr. Richard Nunn
Mr. Martin Offman

The Hon. David R. Peterson
Ms Carol Stephenson
Dr. Jon S. Dellandrea, Vice-President
and Chief Advancement Officer
Dr. Sheldon Levy, Vice-President -
Government and Institutional
Relations
Mr. John Bisanti, Chief Capital Projects
Officer
Mr. Louis R. Charpentier, Secretary of the
Governing Council
Professor Derek McCammond,
Vice-Provost, Planning and Budget
Professor Ronald D. Venter, Vice-Provost,
Space and Facilities Planning

Secretariat:

Mr. Neil Dobbs
Ms Beverley Stefureak

Regrets:

Professor W. Raymond Cummins
Dr. Claude S. Davis
Mr. H. Garfield Emerson
Mr. Frank MacGrath
Mr. George E. Myhal

Ms Jacqueline C. Orange
Mr. Roger P. Parkinson
Mr. Amir Shalaby
Mr. John H. Tory
Mr. Robert S. Weiss

In Attendance:

Dr. George Adams, President and Chief Executive Officer, University of Toronto
Innovations Foundation.
Ms Susan Bloch-Nevitte, Director, Public Affairs
Ms Sheila Brown, Controller and Director of Financial Services
Ms Rivi Frankle, Assistant Vice-President, Alumni and Development
Mr. Gary Goldberg, Chair of the Board, University of Toronto Innovations Foundation
Mr. Hal Koblin, Special Adviser to the Vice-President and Chief Advancement Officer
Mr. Robert W. Korthals, Chair of the Board, University of Toronto Asset
Management Corporation
Mr. Donald W. Lindsey, President and Chief Executive Officer, University of Toronto
Asset Management Corporation

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In Attendance (Cont'd)

Professor George Luste, Vice-President, Salaries, Benefits and Pensions, University of Toronto Faculty Association
Dr. Peter B. Munsche, Assistant Vice-President, Technology Transfer
Professor Edward Relph, Associate Principal, Campus Development, University of Toronto at Scarborough
Ms Dana Yates, Assistant Communications Officer, Research and International Relations

ALL ITEMS ARE REPORTED TO THE GOVERNING COUNCIL FOR INFORMATION.

1. Remarks

(a) Heather Munroe-Blum. The Chair and members congratulated Professor Heather Munroe-Blum on her appointment as Principal and Vice-Chancellor of McGill University.

(b) Revised Agenda. The Chair drew members' attention to the revised agenda, which had been distributed by electronic-mail and placed on the table for the meeting. The revised agenda moved forward the proposal for an additional line of credit for the Innovations Foundation and added an item that had been inadvertently omitted – the Campaign Progress Report.

(c) Rose M. Patten. Dr. Simpson and members congratulated Ms Patten on her election as Vice-Chair of the Governing Council for 2002-03. Ms Patten said that she was delighted to assume the responsibility, which she considered a great privilege.

2. Report of the Previous Meeting

Report Number 117 (April 8, 2002) was approved.

3. Investments: University of Toronto Asset Management Corporation: Annual Report, 2001, Including Update of Investment Returns to March 31, 2002

The Chair noted that matters concerning University of Toronto Asset Management Corporation (UTAM) would come before the Board again twice in the next short while. First and most importantly, members of the Board and other members of the Governing Council had been invited to an "off line" session on investment policy, sponsored by the alumni members of the Governing Council. That session was scheduled for Thursday, May 16 at 12:15 p.m. It would provide for an intensive, private discussion of investment policies going forward. Second, the Audit Committee would be looking at UTAM's financial statements at its May meeting. If the Committee is satisfied, it would recommend that the Business Board "accept" them. The Audit Committee's schedule was such that it had not met since UTAM's December 31 year end, and therefore there was no recommendation from the Committee on the agenda at this time. The Chair said that the report was submitted for information. On the basis of the report, the Board should satisfy itself that it was adequately carrying out its fiduciary responsibility for the University and the pension plan investments by means of its delegation of responsibility to UTAM.

Mr. Chee also encouraged members to attend the May 16 off-line session on investment policy. While UTAM would at this meeting report on investment activities during 2001, the off-line session would give members a good opportunity to discuss investment policies from the point of view of the University as shareholder.

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REPORT NUMBER 118 OF THE BUSINESS BOARD – May 6, 2002**3. Investments: University of Toronto Asset Management Corporation: Annual Report, 2001, Including Update of Investment Returns to March 31, 2002 (Cont'd)**

Mr. Lindsey observed that UTAM's annual report, a copy of which is attached hereto as Appendix "A", was highly detailed. The inclusion of so much detail was important in light of the fact that UTAM was a new organization. The annual report dealt with investment performance for the year ending December 31, 2001, and therefore the information distributed to members had included an update of investment performance to March 31, 2002. The investment environment in 2001 and currently was very different from that of the previous two decades. It had become very difficult to earn the 4% real (after inflation) return needed to keep the pension plan fully funded and the 5% real return needed to provide the payout from the University's endowed funds while maintaining their value against erosion by inflation. In the previous two decades, it had been possible for investors to earn those returns and better simply by investing in baskets of securities matching various securities indices. It was now much more important to diversify investments rather than merely to emulate the indices. It had taken UTAM some time to diversify the University's investments globally. It was highly labour-intensive to identify portfolio managers who would be able consistently to select companies whose stocks would provide a better return than the overall market return. That global diversification was now in place, and it would shield the University from risks associated with large investments in individual companies, countries or regions. While there would continue to be events, like those of September 11, 2001, that would have a negative impact on all securities markets, diversification would reduce risk in most circumstances. For example, in 2002 to date, North American and European markets had been struggling and had lost value, but the largest Asian markets had been providing strong, positive returns. The diversification of investments had contributed to UTAM's earning strong investment returns in the first quarter of 2002. Those returns were well above UTAM's benchmarks (consisting of a weighted group of securities indices for each major fund) and were above those of most comparable funds. For example, the return of the median performing fund in the RBC Global Services universe of balanced investment funds (i.e. funds investing in both stocks and bonds) provided a return of 1.1% for the first quarter of 2002. The University's pension fund had a return of 1.2%, just above the median. The University's Long-Term Capital Appreciation Pool (or L.T.CAP, consisting mostly of endowed funds) had provided a return of 2.24%, in the top quartile of fund performance. The L.T.CAP had provided a better return because 80% of the fund was normally invested in equities (stocks and other securities like stocks), with only 20% invested in bonds. The pension fund consisted of 60% equities and 40% bonds, with the higher bond content required to provide the fixed returns for pension payouts.

Mr. Korthals noted that the draft annual report had been revised substantially on the advice of members of the University's administration and the UTAM Board. Those revisions had been included to address concerns about the investment performance provided by UTAM since its establishment in May 2000. Since UTAM's founding, there had been a turnover in the University's senior leadership concerned with investment matters. Mr. Korthals recalled that when he had joined the President's Investment Committee some six years ago, the University had selected active portfolio managers - primarily Canadian balanced-fund managers - and the funds had a record of providing returns below their benchmarks. That had led to a decision to invest most of the University's assets passively (emulating the relevant stock and bond indices), at least for the short-term, in order at least to achieve the benchmark return. The move to primarily passive management had been implemented about half way through the market bubble of the late 1990s. The University had then concluded that it could achieve better returns by establishing a structure like UTAM, which would attract highly qualified staff and operate independently, although within the framework of University investment policies and ultimately

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under the University's control. UTAM would seek to achieve better performance in three ways. First, it

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would endeavour to identify portfolio managers who were able to provide returns better than the market return while assuming risk that was, overall, less than the market's risk. (Risk was defined in terms of volatility or variability of returns.) Second, UTAM would also focus on identifying some investment managers using techniques that might underperform the market but would achieve the real return necessary to help meet the obligations of the investment funds. That is, UTAM might, in some of its investments, sacrifice some upside in order to generate a consistent return. Finally, UTAM was expected to seek out opportunities for investments, placed by qualified external portfolio managers, in private equity – that is, in companies that had not yet issued shares that traded on the stock exchanges. UTAM had made very good progress in private equity investments. It was not easy to locate good private-equity managers. Because of the limited range of good opportunities, the best managers did not usually seek out new investors. Mr. Korthals thought that UTAM had made good progress in all three of its basic strategies. For the first time in many years, all of the University's investment funds had provided returns that had exceeded their benchmarks. Because of the poor returns provided over the past two years by the securities markets in general, UTAM's returns had been negative. But the returns would have been poorer had the University continued to invest passively. In addition, the volatility of the returns had been reduced. Mr. Korthals hoped that UTAM would, over time, produce the results that it and the University were seeking. He urged the University to take a longer term view and to give UTAM the opportunity to perform well and to determine whether UTAM's basic strategies and assumptions would help the University to reach its investment goals.

Among the matters that arose in response to questions were the following. **(a) Asset allocation: Expendable Funds Investment Pool.** While the asset allocation in the pension fund and the L.T.CAP were very close to their benchmarks, that in the Expendable Funds Investment Pool departed substantially, with 28% of the pool being invested in absolute-return strategies compared with the benchmark of 15%. Mr. Lindsey said that there were large flows of cash into and out of the expendable pool, with the pool holding its highest balance in early September after tuition fee payments and its lowest balance late in the academic year. It was therefore generally very difficult to maintain the benchmark weight in the pool. With respect to the absolute-return strategies, Mr. Lindsey said that UTAM and the University administration had reached the conclusion that far too much of the pool had traditionally been invested in short-term investments such as treasury bills, which provided a low return. The University had therefore identified a core amount of the pool's assets that would not be required for day-to-day cash flows and that could therefore be invested in longer term investments in an effort to earn a better return. The absolute-return strategies were an effort to provide better returns than treasury bills without incurring a level of risk that would be unacceptable for expendable funds. **(b) Russell 3000 Index.** On UTAM's recommendation, the benchmark index for U.S. equities contained in the University's investment policies, as approved by the Business Board, had changed beginning in November 2000. The previous index, the Standard and Poor's 500 Index of U.S. stocks included the stocks of only very large companies. The new U.S. index, the Russell 3000, included the S&P 500 companies but also 2,500 mid-sized and smaller companies, providing a better representation of the U.S. market. The change had brought about positive results because mid-sized and smaller companies had provided better returns than the large S&P 500 companies over the past two years. In addition, UTAM had in recent months ceased merely to emulate the Russell 3000 index but had given greater weight to middle-sized and smaller company portions of the index, which had contributed to UTAM's outperforming the Russell 3000 index in its U.S. investments. **(c) Value added by UTAM.** UTAM's added value was the positive difference between the fund returns and benchmark returns – the returns that would have been provided by

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3. Investments: University of Toronto Asset Management Corporation: Annual Report, 2001, Including Update of Investment Returns to March 31, 2002 (Cont'd)

investments that simply replicated the benchmark indices. UTAM sought to add value in two ways. First, it sought to select external portfolio managers whose active management (stock selection and trading) would provide returns above the relevant index. Second, it sought in its management of passive investments to make variances that would add value, for example its decision to vary its recent U.S. passive investments to give greater weight to middle-sized and small companies. UTAM did not at this time seek to add value by making asset allocation decisions that deviated far from the benchmarks. This would be particularly inappropriate for a new organization like UTAM. Clearly, had UTAM invested more than the benchmark weight in bonds or more than the benchmark weight in Asian stocks, its results would have been substantially better. But, it was very difficult or impossible to predict future market outcomes consistently over time. If, therefore, UTAM were to recommend to the Business Board new asset allocations in revised investment policies, it would do so in response to the changed long-term needs of the pension, endowment and expendable funds.

4. University of Toronto Innovations Foundation: Proposed Additional Line of Credit

To avoid any perception of conflict of interest, Ms Patten vacated the Chair for the Board's consideration of item 4 and, she declared that she would not participate in the discussion of the item or vote on it. Dr. Simpson assumed the Chair for the consideration of the item.

Professor Munroe-Blum presented the proposal for an increase of \$8.5-million in the line of credit for the University of Toronto Innovations Foundation. She recalled that the Business Board had in 1999 approved the establishment of the original \$2.5-million line of credit for the Foundation.

- **Objectives of the original line of credit.** The original line of credit had been intended to enable the achievement of several objectives, and all had been achieved two and one-half years ahead of schedule. Those objectives had included the Foundation's moving from being primarily a licensing company to one promoting the creation of new businesses – businesses that would commercialize inventions developed at the University of Toronto and other institutions. The Foundation had trained its staff in business creation and had assisted in the establishment of four new companies during the past two and one-half years, bringing the total of University of Toronto spin-off companies to approximately 100. A second objective had been to attract more invention disclosures, and that number had increased by a factor of three. A third objective had been to diversify the Foundation's portfolio from a preponderance of life-sciences inventions to a broader base. At the present time, about 50% of disclosures were in the life sciences, 30% in the physical sciences, 15% in information technology, and 5% in the humanities and social sciences. A fourth objective had been to integrate the work of the Foundation with that of the University's Research Services operation, and an integrated operation was now functioning at 243 College Street. A final objective had been to build alliances with other universities, with agencies such as the National Research Council, and with other partners. There had been considerable success in achieving that objective too. For example, the National Research Council's Industrial Research Assistance Program had sponsored a new position at 243 College Street.
- **Highlights of the Foundation's achievements.** The Foundation had succeeded in engaging hundreds of researchers in working to patent and commercialize their

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4. **University of Toronto Innovations Foundation: Proposed Additional Line of Credit**
(Cont'd)

inventions. It had fostered the establishment of four Community Small Business Investment Funds linked to the University, amounting to some \$20-million. (Those funds were established with the aid of tax credits for the Ontario residents who invested in them.) It had helped to secure investments for fourteen active, healthy companies in amounts ranging from \$250,000 to \$5-million, which investments had attracted a further \$8-million of venture-capital investments. It had established an information technology and telecommunications incubator (called *exceler@tor*) which provided services to fifteen start-up companies located in-house. The Foundation had conducted two highly successful business-plan competitions. It had assisted in the establishment of a course at the Rotman School of Management in the evaluation of early-stage businesses. Its gross revenues had grown each year, meeting financial targets while growing operations. It had attracted a grant of \$1.3-million from the Natural Sciences and Engineering Research Council for the Intellectual Property Management Group, operated by the Foundation in conjunction with Brock, McMaster, Ryerson, Windsor and York universities, intended to encourage cooperation among universities in technology transfer.

- **Revenues and distributions.** Over the three years 1998-99 to 2000-01, the Foundation's revenues had grown from \$986,000 to \$3.5-million, an increase of over 240%. Its income from royalties and capital gains had grown by almost 280% to over \$3-million. The amounts distributed to the University and inventors had grown by 337% to \$2.1-million. While the Foundation had not yet achieved the level of revenues and distributions it ultimately sought, it was clearly making excellent progress towards doing so.
- **Future challenges.** The Foundation sought to achieve the critical mass and optimal scale that would enable it to realize its full potential and to compete not only in Canada but across North America. That would require something like a ten-fold increase in the scale of the Foundation's activities. Increased scale was needed to keep up with the increasing number of invention disclosures arising from the enormous scale of research at the University. Increasing scale would require finding and retaining expert staff and growing opportunities to maximize the Foundation's impact. Dr. Adams had creative plans to achieve that optimal scale.
- **New strategic plan.** The Foundation planned to grow its operations to deal with the rate of invention disclosures and to enhance its reputation among inventors and investors. That growth would involve the engagement of the Medical and Related Science Discovery District (MARS) project, the affiliated teaching hospitals, and other institutional partners. It would also involve the further development of the *exceler@tor* information-technology incubator, which had been very productive even in the downturn in the information-technology sector. It would likely involve the development of offices at the Mississauga and Scarborough campuses as they grew. The benefits would include demonstrating to the public and to government the tangible financial and commercial paybacks arising from the public funding of fundamental research. The availability of first-class technology-transfer services would be of great benefit to the University in its efforts to recruit the best new faculty - a factor of great importance given the plans to hire two hundred new faculty each year for the next several years. The larger Innovations Foundation would, by encouraging more spin-off companies from University research, enhance educational and employment opportunities for students. Finally, the larger and stronger Foundation would enhance the University's profile as a center of innovation and commercialization, achieving a top-tier ranking by 2010.

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4. University of Toronto Innovations Foundation: Proposed Additional Line of Credit (Cont'd)

- Recommended investment, financial projections and return on investment.** The Business Board had in 1999 approved a \$2.5-million line of credit to enable the Foundation to achieve its 1999-2004 plan. The Foundation had already surpassed the objectives in that plan and had proceeded to develop a new plan, which had been ratified by the Foundation's Board. Professor Munroe-Blum therefore recommended approval of the extension of a further \$8.5-million of credit over five years. An amount of \$4-million might be provided by the Bank of Montreal, with the University's guarantee. The remaining \$4.5-million would be provided directly by the University. The proceeds would be used by the Foundation to scale up its staffing and to enhance its service to the University community. It would continue to commercialize projects and to build up a diversified portfolio of inventions. While doing so, the Foundation would be able to continue paying royalties to investors and to the University, which received a 25% share of the royalties. It would make the operation competitive with those at peer institutions, and the Foundation would become profitable. Professor Munroe-Blum said that the assumptions on which the business plan was based were realistic and indeed conservative. The plan anticipated that the new line of credit would be repaid by 2008. During this time, the Foundation would distribute an additional \$16-million to the University as its 25% participation in each invention. By 2010, the Foundation would earn \$20-million annually in retained revenue, and the accumulated return to the University would have grown to \$37-million. The outcome would be an excellent return on investment for the University.

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

(a) Relationship to the MARS Discovery District. The University was an investor in the MARS project, an independent technology-transfer and convergence centre which the University anticipated would be of great benefit to many University researchers. The Innovations Foundation was, on the other hand, a corporation that was wholly controlled by the University. The benefits of the Foundation were direct whereas those of MARS would be indirect, with the two operations being very synergistic.

(b) Amount and repayment of the line of credit. The proposed \$8.5-million line of credit would be added to the current \$2.5-million, establishing a total line of credit amounting to \$11-million. The Foundation had not currently drawn down the full amount of the original \$2.5-million. In the original plan, the Foundation had anticipated commencing repayment of the \$2.5-million in 2004, with the amount fully paid back by the 2006-07 fiscal year. The current plan projected repayment of the larger line of credit by 2008.

(c) Level of risk. The Foundation's record gave reason for confidence in its ability to repay the line of credit. It had exceeded its targets well ahead of time in its original plan, and it had trebled the number of invention disclosures it was receiving, with that number still increasing. The University's faculty were becoming engaged with technology transfer, following the Foundation's advice to "patent, publish and prosper." In fact, it was the sharp increase in disclosures that drove the Foundation to request the increased line of credit to enable it to expand its operations. The result of the increased disclosures would be increased royalties and earnings from the sale of equity in spin-off companies. That increased revenue would provide the means to repay the credit line. The President added that a central component of the Government of Canada's innovation initiative was the expansion of technology transfer from the universities.

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4. University of Toronto Innovations Foundation: Proposed Additional Line of Credit (Cont'd)

It was critical that the University of Toronto enhance its commercialization activities to demonstrate the success of this strategy, which was the basis for the Government's decision to pay a part of the universities' indirect costs of federally funded research. The University had received a \$14-million payment for this purpose in the current fiscal year, anticipated the same amount in 2002-03, and anticipated double that amount, i.e. \$28-million per year, thereafter. Those payments would likely disappear in the absence of successful technology-transfer achievements. Any risk of loss of a part of the Innovation Foundation's \$11-million line of credit paled beside the risk of the loss of the anticipated annual revenue to cover the indirect costs of research.

(d) Reporting of the Foundation's future financial results in comparison to its plan. A member urged that, as a matter of good governance, the Foundation, in reporting its annual financial results, provide a comparison of those results with the projections in its financial plan, as shown on page 18 of the plan. While it was true that the plan might have to change in response to circumstances, it would provide good discipline to provide a comparison with the original plan. This was especially true in the light of the turnover in the membership of the Business Board over time. Professor Munroe-Blum and Dr. Adams replied that the Foundation presented its annual report and audited financial statements each year to the Business Board's Audit Committee, which it then forwarded those documents to the Board. Dr. Adams had included in the annual report comparisons to the original business plan and he would be pleased to continue to do so. Professor Munroe-Blum also noted that the Foundation presented regular reports to the President and Vice-Presidents, and more frequent reports could be provided to the Business Board if the Board thought them to be necessary in addition to the annual report and financial statements. She noted that while the Foundation had encountered difficulties in meeting its plans in its earliest years, under Dr. Adams it had exceeded those plans.

The President cautioned that there was considerable uncertainty in the revenue stream generated from technology transfer. While the Foundation's plan was a realistic one, the extraordinary returns earned by some universities from their technology transfer operations tended to come from single, "home run" inventions. Columbia University, for example, derived income of U.S.\$75-million per year from a single invention by one of its faculty members. A greater number of inventions being managed by the Innovations Foundation would provide a higher probability of one of them becoming a "home run" invention. Mr. Chee added that the Foundation's having a larger, more diversified portfolio of inventions would provide the same benefit as that provided by a larger, more diversified portfolio of financial investments; it would increase the probability of smoother, less volatile returns. He noted that the Foundation would likely draw the full amount of the line of credit for only a limited period of time, probably less than one year. Mr. Chee would undertake an annual review of the Foundation's financial performance against its plan, and noted that the involvement of a bank in providing a part of the line of credit would ensure a high level of due diligence.

(e) Effect of the line of credit on decisions to sell equity stakes in start-up companies. An assessor asked if the need to deal with the line of credit might cause the Foundation to move to sell its equity stakes in start-up companies too soon. Dr. Adams replied that the Foundation as a matter of course sought to sell its equity stakes early, before, or at the time of, a company's initial public offering of stock. The Foundation often took a significant amount of founders' equity in start-up companies, working with their management to assist them to become established and to move forward to become public companies. That being the case, it was difficult for the

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4. University of Toronto Innovations Foundation: Proposed Additional Line of Credit (Cont'd)

University to divest its interest after the shares had begun trading. The University would be perceived to be abandoning the company rather than simply taking its reward, and the value of the company's shares would decline. Therefore, Dr. Adams did not think that the pressure to pay down the Foundation's debt would force premature sales of its equity interests.

On the recommendation of the Vice-President – Research and International Relations,

YOUR BOARD APPROVED

The Innovations Foundation's request for a line of credit of \$8.5 million, with terms similar to those outlined in the 1999 Line of Credit Agreement between the University of Toronto Innovations Foundation and the University of Toronto, provided that in the event that the draw on the line of credit in any year exceeds the estimate contained in the Line of Credit Agreement, the matter will be referred back to the Business Board for its consideration.

Professor Munroe-Blum, on behalf of the University, expressed her deep appreciation to Mr. Goldberg, Dr. Adams and Dr. Munsche for the extraordinary achievement of transforming the Innovations Foundation's operations with such great success.

The Chair reminded members that a part of the documentation for the item, the Innovations Foundation's Business Plan, entitled "Maximizing the Impact," was a confidential document and, for business reasons, had to remain strictly confidential.

5. Capital Projects: Quarterly Report

Mr. Chee recalled that the Board had in January received the quarterly report on capital projects in a new format. The report dealt with major projects costing in excess of \$2-million. It was divided into two sections. The first section included academic buildings and property acquisitions. The second section dealt with non-academic projects, mostly student residences. Projects were divided into levels of priority. Those assigned priority "A1" were in construction or in advanced planning and design and would proceed expeditiously to construction. Projects with priority "A2" were those in the second phase of expansion of the Mississauga and Scarborough campuses. The University would be able to move forward with those projects only if the Province of Ontario agreed to provide a substantial contribution towards their completion. The report also listed three real estate acquisitions: the Toronto District School Board properties, the Medical Arts Building, and one other property where negotiations were proceeding. The remaining projects had a "B" priority. Some were in the planning stage, with funds being actively sought. Others were at an earlier planning or conceptual stage. At the suggestion of members, the report had been elaborated since its previous presentation, with the addition of columns dealing with funds committed and spent to date and the actual or planned date for the commencement of construction. The total cost of the priority "A1" projects, academic and non-academic, was \$522-million. Of that amount, \$473-million of funding had been secured, leaving \$48-million of outstanding funding required. That led Mr. Chee to conclude that the "A1" projects could be financed. The University had a sizeable amount of invested assets that it could call upon to use for financing those projects, if and where such financing was necessary. For the

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“A1” projects, spending of \$277-million, or 53% of the total cost, had been approved by the Business Board, indicating that it made sense to proceed with 53% of the approved projects. A further 47% of the projects would require examination to determine if they were economically viable. There was, therefore, no assurance that all “A1” projects would be able to proceed.

6. Long-Term Borrowing Pool: Status Report

Mr. Chee said that the purpose of the report was to bring the Board up to date on the \$160-million that had been borrowed for capital projects through a debenture issued in July 2001. The amount had been placed into a Long-Term Borrowing Pool. The amount in that pool was being invested by the University of Toronto Asset Management Corporation (UTAM) until it was required for particular projects. To date \$57.3-million had been allocated, with the expectation that a further \$62.5-million would be allocated by the end of the summer. That left approximately \$40-million for financing future projects. That amount was close to the additional \$48-million required for the remaining priority “A1” projects. For each project, the full cost of borrowing was charged to the project, including the debenture interest rate, the costs associated with issuing the debenture and the cost of carrying the funds in the Pool until required. The latter cost arose because of the difference between lower interest rates that were being earned from the short-term investments of the Borrowing Pool until the funds were needed and the higher long-term interest rates being paid on the debenture.

A member noted that some projects were being financed by academic divisions, which would repay the borrowing from increases in future operating income deriving from their enrolment expansion. Mr. Chee replied that an internal borrowing program had been put into place to finance capital projects. That program had three sources of funds. The first was the \$160-million debenture issue. The second was the University’s cash float, managed in the Expendable Funds Investment Pool. The third was other external loans, negotiated prior to the debenture issue, primarily to finance student residence projects, amounting to about \$50-million. The University was trying, wherever possible, to consolidate those external loans and to use the other sources for the internal borrowing program.

7. University of Toronto at Scarborough: Management Building, Phase I - Revised Project

The Chair welcomed Professor Ted Relph for this item. Mr. Bisanti reviewed the revised proposal for the Management Building at the University of Toronto at Scarborough (UTSC). He recalled that this item had first appeared before the Business Board in June 2001, together with the Classroom/Arts Building, both of which had been proposed to address the expected enrolment growth at the UTSC. At that time, the administration had hoped to secure government funding to support the capital construction needed to accommodate the enrolment expansion at both Scarborough and Mississauga. That funding had not materialized, and the UTSC had decided to proceed with its infrastructure expansion in two phases. The Management Building had been reconfigured to include classroom space from the Classroom/Arts Building, and the revised project would proceed in Phase I. The Classroom/Arts Building would be undertaken in Phase II, which would proceed only if and when government funding became available to support it. The currently proposed reconfigured building would address Management’s needs and provide additional general classroom space at an estimated cost of \$15.53-million, with sources of funding as follows: \$14.37-million from Phase I enrolment growth income on the UTSC campus, and external contributions and other support through UTSC in the amount of \$1.16-million.

REPORT NUMBER 118 OF THE BUSINESS BOARD – May 6, 2002**7. University of Toronto at Scarborough: Management Building, Phase I - Revised Project (Cont'd)**

A member enquired about the meaning of “Phase I enrolment growth income” and the opportunity cost to academic budgets of using this revenue to support capital requirements. Professor McCammond responded that Scarborough Phase I construction (the Academic Resource Centre and this project) would be able to proceed based on in-hand SuperBuild funds and revenue that would be realized from 20% of the increased operating grants and tuition fees that would be derived from enrolment expansion, net of the percentage for student aid. The remainder of that revenue would be directed toward resources to support the academic mission. In response to a further question about the propriety of using this operating revenue for capital expenditure, Dr. Levy confirmed that not only did the government allow use of operating revenue for capital purposes, but, in fact, it was now expected. He thought that the member’s concern derived from a government policy that was no longer in place.

In responding to a member who sought to clarify the status of this “A1” project, Mr. Chee explained that funding for the Management Building was fully secured in that the University had identified the sources of all funding and the plan should not be at risk. That said, the President added that the completion even of the Phase I Management Building was dependent on the payment of additional operating funding for increased undergraduate enrolment at full average cost, as had been promised by the Government of Ontario in May 2001. That revenue would need to be assured before the University could proceed with this project.

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

YOUR BOARD APPROVED

THAT the Vice-President - Business Affairs be authorized:

- (i) to execute the revised University of Toronto at Scarborough Management Building Project at a cost not to exceed \$15.53-million (2003 dollars) excluding campus improvements; and
- (ii) to arrange such bridge and term financing as required, either internally or externally.

8. University of Toronto at Scarborough: Academic Resource Centre - Revised Project

Mr. Bisanti reviewed the highlights and funding sources of the Academic Resource Centre – Revised Project, as outlined in his memorandum on the project. The project, as originally planned, had envisioned a renovation and expansion of the existing Bladen Library building. It had, however, become clear that the original building had been poorly constructed and the extension, relying on the original building, would be unable to carry increased snow loads. Rather than incurring the expense of reinforcing the original building, it would be preferable to demolish it and to increase the amount of new construction. The largest source of funding for the \$22.56-million project would be the proceeds of the lease of land at the Scarborough campus to Centennial College of Applied Arts and Technology. The Province of Ontario had awarded a SuperBuild grant to Centennial College to construct a new campus near the University’s Scarborough campus, with the explicit understanding that a given amount of the grant would be used for the land lease, which would in turn be used for the Academic Resource

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8. University of Toronto at Scarborough: Academic Resource Centre - Revised Project (Cont'd)

Centre. The amount was currently in an escrow account held by the University's solicitors awaiting the conclusion of the lease. The documentation was being finalized, and Mr. Bisanti anticipated that the lease would be brought to the Business Board for approval at its June meeting, leading to the release of \$10.3-million for this project. Other funding sources included financing of \$11.99-million to be repaid by UTSC from the proceeds of its Phase I enrolment expansion. UTSC would supply a further \$1.2-million. Of the total, \$930,000 had been encumbered to meet certain costs including soil remediation for the land being leased to Centennial, due diligence costs and the cost of traffic improvements.

A member enquired whether the University might have any recourse with respect to the construction deficiencies of the original Bladen Library building. Mr. Bisanti replied that there was no recourse because the building had been designed appropriately for its original purpose. It simply did not lend itself well to the redesigned purpose and the University would be better served with a demolition than an attempt to bring it up to the standard required for the new purpose.

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

YOUR BOARD APPROVED

Subject to the finalization and approval by the Business Board of the lease agreement between Centennial College and the Governing Council of the University of Toronto for the lease of University lands at the Scarborough Campus to Centennial College,

THAT the Vice-President - Business Affairs be authorized:

- (i) to execute the revised University of Toronto at Scarborough Academic Resource Centre Project at a cost not to exceed \$22.56-million; and
- (ii) to arrange such bridge and term financing as required, either internally or externally.

9. Open Space Plan: King's College Circle Precinct

Mr. Bisanti introduced this item, reviewing the highlights of his memorandum. He noted that because of substantially increased estimates for the project, it had been divided into phases. Simcoe Walk, the Plaza at Convocation Hall and King's College Circle had been eliminated from Phase I and would be addressed as part of later phases.

A member asked how it was possible for an original estimate of \$12.7-million to have ballooned into a current estimate of \$25-million – were the architects involved originally and now the same? Mr. Bisanti replied that the architects were the same but that at the time of the original estimate the design had not been fully developed. This was primarily a landscaping project and estimates became more firm as each iteration of the plan unfolded.

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9. Open Space Plan: King's College Circle Precinct (Cont'd)

A member questioned the wisdom of proceeding with this project before completing the new University College residence and construction of the Centre for Cellular and Biomolecular Research (CCBR) which would require heavy traffic over King's College Road. His view was that it would be wiser to proceed first with King's College Circle and move outward. That way, the work on King's College Road and the Sir Daniel Wilson Walk could be completed in a later phase and suffer no damage from the residence and CCBR construction. Mr. Bisanti responded that this proposed construction on the Sir Daniel Wilson walkway was on the southern perimeter of the current residence and would not be affected by any residence construction, proposals for which identified the eastern and northern perimeters of the quadrangle. Further, the residence project was subject to City rezoning approval, and current indications were that it would not be allowed to proceed on the proposed location. With respect to the CCBR site, construction and service access was proposed via Taddle Creek Road rather than King's College Road. In any event, road improvements to King's College Road would be designed to accommodate the heavy truck traffic needed to provide ongoing service access to the Medical Sciences Building and future service to the CCBR, when it was completed.

The President added that it was important to proceed with the proposed Phase I improvements. Donors had been patient in awaiting a concrete outcome from their support and it would be desirable to proceed so that, following the construction of the Leslie L. Dan Pharmacy Building and the CCBR, the College Street perimeter of the University precinct would be confluent and present an excellent face to the Campus from College Street.

A member asked for clarification of the two funding amounts from the University Infrastructure Investment Fund (UIIF). Professor McCammond explained that the first UIIF allocation of \$200,000 was for design. A second allocation of \$2,500,000 from the UIIF was to be used for the cost of construction.

A member expressed concern about a selection of priorities that appeared to put landscaping before facilities for education. The member appreciated the donor-driven nature of this project but wondered whether it would be wiser to await the outcome of the provincial budget before proceeding. If the promised full average cost operating funding for enrolment expansion was not forthcoming, the University would be better advised to use this money for the academic buildings at UTSC. Another member, while expressing understanding and sympathy for that view, observed that the initial presentation of this project had been accompanied by passion and excitement. The member recalled the fundraising efforts that had been undertaken to allow this project to reach this stage and believed that delaying the project at this time would send an inappropriate message to donors. Proceeding would speak to the need to maintain a positive physical environment of which the University family could feel proud. A member recalled that this Board was not the appropriate venue for discussing priorities for capital projects. In reviewing the Board's mandate relative to capital projects, the Chair confirmed that priorities were determined by the Governing Council on the recommendation of the Academic Board.

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9. Open Space Plan: King's College Circle Precinct (Cont'd)

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

YOUR BOARD APPROVED

THAT the Vice-President - Business Affairs be authorized to execute the revised Phase I of the Open Space Plan – King's College Precinct Project at a cost not to exceed \$4.6-million.

10. Campaign Update

Dr. Dellandrea presented his Campaign update report. The report presented unaudited figures to April 30, 2002, which was the end of the 2001-02 fiscal year. Given that the report followed so soon after the end of the fiscal year, there was some possibility of change in the final audited numbers.

- **Financial results.** As at April 30, the Campaign total had grown by \$82-million to \$874-million. The total included cash and pledges of \$776-million and gifts in kind of \$99-million. The Campaign had a second goal, to seek out future bequests, and the total of bequest intentions had grown by \$22-million to \$194-million.
- **Distribution of Campaign commitments.** Over 102,000 donors had contributed to the Campaign. Approximately 63% of the funds committed had been provided by 186 donors who had pledged gifts of \$1-million or more. The number of million-dollar-plus donors had grown by 18 in 2001-02. Over 90,000 donors had pledged gifts of under \$1,000. Those were important gifts in themselves, and it was also important to recognize that donors of smaller gifts were the main source of donors of large gifts in subsequent years.
- **Donations by category of donor.** Alumni had provided 39% of Campaign commitments, with foundations and organizations providing another 22%. Friends of the University who were not alumni had provided 21% and corporations 18%.
- **Donations by academic priority.** The Campaign priorities reflected the University's academic plans. For example, it had been noted earlier in the meeting that donations had supported a part of the cost of the University's open space plan. Donations had been sought for that project because it was included amongst the University's academic priorities. Of the total donations, 32% provided program support, 22% supported chairs and professorships, 21% provided student support, 16% supported capital projects, and 9% supported the libraries. The Campaign had been giving increasing emphasis to the need for support for capital projects, and the proportion of gifts for that purpose had increased from 13% of the total to 16%. Dr. Dellandrea noted that there was some possibility of securing in the near future a breakthrough gift in support of the Centre for Cellular and Biomolecular Research.

A member asked whether donors might be receptive to requests to target their gifts to student support, either in the form of need-based awards or general support that would enable the University to moderate increases in tuition fees. Dr. Dellandrea noted that over 20% of gifts to date had been for student support. A key element in the success of fundraising for student support had been the Ontario Student Opportunity Trust Fund,

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10. Campaign Update (Cont'd)

which had matched donations to university endowments for need-based aid. The University had also provided a match for such donations. The result had been the dramatic growth in the endowments supporting student aid to half a billion dollars. Dr. Levy believed that there was some reason for optimism that the Government of Ontario, under new Premier Eves, might once again sponsor a matching program for donations to university endowments for student support.

- **Campaign projections.** Dr. Dellandrea reminded members of the projections, presented to the Board in November 2000, of total gifts and pledges expected at the end of each fiscal year. Those projections had been put forward when the University was considering an increase in its Campaign objective to \$1-billion. The projection for April 30, 2002 had been a Campaign total of between \$840-million and \$884-million. The actual total was \$874-million, at the upper end of the range. Dr. Dellandrea would continue to report to the Board on total support achieved against the November 2000 projections.
- **Campaign strategy.** The Campaign team would continue to intensify its efforts to find private support for the University's key academic needs. This would involve increased efforts to identify new prospects and an increased emphasis on donors at lower levels. In addition, the Campaign would maintain its focus on intensive stewardship of previous donors of \$1-million or more. A growing number of those donors would have provided their support more than five years ago, and that presented a basis for the University reasonably to request renewed support.

Dr. Dellandrea concluded that the Campaign was on track to reach and exceed its \$1-billion objective by the end of the Campaign in 2004.

11. Reports of the Administrative Assessors

(a) Public affairs: Cormex Media Analysis Report. Ms Bloch-Nevitte referred to the media analysis report completed by Cormex Research and distributed to members of the Governing Council in April on a confidential basis. She indicated that she would be pleased to provide a copy of the most recent report to members of the Board who were not members of the Governing Council and had not received the document earlier. The University of Toronto, in cooperation with three other universities, had engaged Cormex Research to track the media coverage received by the seven leading Canadian universities. The tracking, now at the end of its second year, was important both as a means of accountability for the Public Affairs Department and as a means of tracing the local and national impact the University was making, with a view to identifying areas of strength and weakness. That information would assist the University in improving its media profile, for example helping to make faculty members aware of the important effects of media coverage. The Chair observed that media coverage was of great importance, and she urged that Ms Bloch-Nevitte continue to distribute the Cormex studies to members as they became available.

(b) Human Resources: Settlement with retired women faculty. Members would have read that the University had reached a settlement with a group of retired women faculty members with respect to a pay equity complaint. Professor Hildyard reported that the University was in the process of implementing the terms of the settlement. Letters would be sent later in the week to retired women faculty who appeared to be eligible to take part in the settlement.

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

(c) Pension forums. Professor Hildyard reported that she had, in part because of discussion in the Business Board, sponsored a number of pension plan forums for members of the faculty and staff. They had been well received and holding them had been very positive for the University.

(d) Salary and benefits negotiations. Professor Hildyard reported that the University would on May 23 begin salary and benefits negotiations with the United Steelworkers of America, which represented most of the University's administrative staff. She had consulted with the University's divisions concerning objectives for the negotiations. Negotiations with the unions representing library workers and the skilled trades would follow. Negotiations with the Faculty Association had been scheduled for several days in June.

(e) Property acquisitions. Mr. Chee observed that the University's acquisition of the Medical Arts Building at Bloor and St. George Streets, and its plan ultimately to use the building for University purposes, had been met with protests by the current tenants. He noted that the Building had been on the market for two years and it could have been purchased by the tenants. The University's acquisition of the building for \$14-million represented good value. The building would be ideal for faculty offices, which would be needed to accommodate the increase in faculty complement needed to handle enrolment expansion. The University had been aware of the concerns of the tenants and had offered a four and one-half year transition period. All current leases would be honoured and renewals would be offered to the date of University occupancy in four and one-half years. In addition, the University would give very serious consideration to the possibility of offering accommodation to the physicians and other professionals in the building in the planned mixed-use / student residence buildings to be constructed on the site of the current Varsity Stadium. The University was completing its detailed due diligence, for example examining structural soundness, with respect to the planned acquisition of several properties on, and south of, College Street from the Toronto District School Board. It was anticipated that the University would be able to assume occupancy by September 2003. Some space in the older administrative building and some parking spaces might well be leased back to the School Board. It was planned that the Faculty of Nursing would be the primary occupant of the College Street building.

(f) Infrastructure upgrading. The Board was well aware from previous discussions that there was a need to complete considerable maintenance and renewal work on existing buildings. Just as all capital projects had been assembled in the capital plan for action on a portfolio basis, so too would be deferred maintenance and infrastructure renewal projects. There was a clear need for strategic decisions.

(g) Capital program. A member referred to the large amount of construction being undertaken by the University and asked whether there was some risk that the University was in effect bidding against itself in tendering projects. Was there a need for the University to smooth its approaches to the construction market? Mr. Chee agreed that there was an extraordinary amount of institutional construction underway or about to take place, including not only the University but also such institutions as the Royal Ontario Museum, the Art Gallery of Ontario and the Royal Conservatory of Music. The result was a very high level of demand for large-size construction contractors and a scarcity of skilled trade workers. That made it all the more important for the University to proceed expeditiously with its program before further price increases. With respect to student residence accommodation, the University was considering the possibility of acquiring existing properties as an alternative to some new construction.

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12. Date of Next Meeting

The Chair reminded members that the next regular meeting was scheduled for Thursday, June 20, 2002 at 5:00 p.m.

She also reminded members of the private, “off line” session for members of the Board and the Governing Council, sponsored by the alumni members of Council, to consider investment policy. That session was scheduled for Thursday, May 16, 2002, from 12:15 – 2:00 p.m. Members who had not yet notified the Secretary of their intention to attend were asked to do so as soon as possible to facilitate room and luncheon arrangements. In response to a member’s question, Mr. Chee said that he would make every effort to distribute reading material to members in advance of the off-line session to help members prepare for it.

The meeting adjourned at 7:00 p.m.

Secretary

Chair

May 15, 2002