Minutes of the Stated Meeting
of the
Executive Committee of the Trustees of the University of Pennsylvania

17 December 1981

A stated meeting of the Executive Committee was held on Thursday, 17 December 1981. Trustees attending included: Walter G. Arader; Samuel H. Ballam, Jr.; Henry M. Chance II; John W. Eckman; Sheldon Hackney; Margaret R. Mainwaring; Paul F. Miller, Jr.; John B. Neff; and Sara Senior. Others present were: John Ballard; Peter Canasos; Richard Cieland; Robin Davis; Thomas Ehrlich; Matthew Hall; Alan Heeger; Arthur Hirsch; Edward Jordan; Thomas Langfitt; Marshall Ledger; Edward Lodge; Robert Lorndale; Andrew Kirtzman; Steven Ludwig; Lynn Manko; Anthony Marx; Edward McFall; Denise McGregor; Mary Ann Meyers; Marguerite Miller; John Pyne; Joyce Randolph; Gerald Robinson; Frances Rozinski; and Donald Sheehan.

I. Call to Order

Mr. Miller called the meeting to order. The minutes of the 18 November 1981 meeting were approved as written by the secretary.

II. Report of the Chairman

A. Mr. Miller reported that new gifts, subscriptions, and bequests raised so far during FY'82 totaled $17 million, down from $25.4 million raised during the same period last year. Cash and securities received on both new commitments and subscriptions made in prior years amounted to $8.9 million, compared to $17 million in hand by mid-December of 1980. New commitments from individuals represent 23 percent of this year's total support, up from 19 percent last month but still not quite half of the normal 50 percent level. Foundations account for 49 percent of new support, with corporations making up 19 percent and associations 9 percent. Corporate support is running even with last year's record pace, and proposals for grants totaling $1.5 million are outstanding. Foundation support is close to last year's all-time high and proposals currently under consideration amount to $8 million. Early Annual Giving results are very positive. Through 2 December there was a 15-percent increase in dollars and a 29-percent increase in donors.

B. Action A Resolution on Reappointments to the Trustee Board of the Hospital of the University of Pennsylvania was approved as follows:

RESOLVED, that Samuel H. Ballam, Jr. be reappointed as chairman of the Trustee Board of the Hospital of the University of Pennsylvania and that the following persons be reappointed as members for one-year terms effective 1 December 1981: Julian S. Bers, G. Morris Dorrance, Jr., Margaret R. Mainwaring, Anthony S. Minisi, F. Stanton Moyer, and William D. Patterson.
III. Report of the President

A. Dr. Hackney noted that he had been traveling extensively on behalf of the University. He said the alumni groups he had met with had received him warmly, and he felt his visits, as well as those of the provost and other faculty, to a variety of far-flung associations had helped keep alive a great deal of interest in University affairs. The president went on to describe his "quick trip" in November to the University of Ibadan as "very profitable." The Nigerian university, with which Pennsylvania formally established ties earlier in the year, will welcome three University students in January and, in the spring, will send faculty and staff to Philadelphia.

Turning to other matters, Dr. Hackney observed that:
- Campus discussion of investments in companies doing business in South Africa had been full and civil;
- The University was continuing an investigation of incidents of racial harassment which had occurred in October; and
- An internal planning effort was proceeding well, and draft documents will be available for campus-wide discussion in January. In response to a question from Mr. Miller, the president said that the Trustees would have a chance to hear these initiatives described at the next meeting of the Academic Policy Committee.

B. Academic Report

1. Mr. Ehrlich reported that a consultative committee has been appointed in connection with the search for a new dean of the Dental School. He noted that the FY'83 budget was under discussion by the deans and heads of resource centers. "They are being asked to estimate income on the basis of assumptions about tuition, gifts, sales, and services," the provost said, and subsequently estimate direct expenses which, along with indirect costs, must be covered by expected income. "This procedure," he continued, "has the virtue of avoiding the creation of an artificial budget gap. We also hope it will minimize the divisiveness inherent in the budget-making process." Mr. Eckman then noted that at a meeting on 16 December, the Budget and Finance Committee had been brought up to date on progress to date in the drafting of the new budget.

2. Turning to the tenure appointments before the Executive Committee, Provost Ehrlich noted that the English department's Deirdre Bair had written a widely acclaimed biography of Samuel Beckett and was at work on an authorized biography of Simone de Beauvoir. He described John P. Sabini as a leading social psychologist and the first person in his field to receive tenure in the psychology department. John Kimberly, Mr. Ehrlich said, was lured from Yale to become an associate professor of management and the University was very pleased to have him at Wharton.

Action: A Resolution on Appointments, Promotions, and Leaves, for the period 29 October to 19 November was approved as found on pages 1 through 14 of the Meeting Book.
3. The provost then observed that University policy on faculty leaves of absence had been widely and thoroughly discussed for a long period preceding both the president's and his arrival. The most significant clarification in the amendment before the Trustees, he said, was the declaration that the single exception to the policy limiting leaves for employment elsewhere to two years was Presidential appointment to a high government post. In such a case, a faculty member can be granted up to four years leave of absence.

Action: A Resolution Amending the Resolution of 22 January 1965 on Faculty Leaves of Absence was approved as follows:

Intention:

The Trustees on 22 January 1965 adopted a Statement on Academic Leaves, setting forth guidelines for the granting of scholarly leaves and faculty leaves for employment elsewhere. A new statement, embodied in the resolution set forth below, was prepared by a committee appointed by Provost Gregorian, reviewed by the Senate Committee on the Faculty, and accepted by Provost Ehrlich. Some of the important points covered in the new statement are as follows:

1. Child care scholarly leave and leave for employment elsewhere comprise the types of leaves available to the faculty. Combinations of these types of leave are possible, but no faculty member is to be on leave for more than four semesters during any six years that include the period of a requested leave without the explicit approval of the provost, president, and Trustees except where child care leave is involved.

2. Eligibility for scholarly leave is in conformance with the current structure of the academic staff, limited to assistant professors, associate professors, and professors in the standing faculty or in the full-time clinician-educator or full-time research faculty. Scholarly leave is normally not granted to faculty members holding term appointments.

3. Total salary during a scholarly leave cannot exceed the normal academic salary for that period; if outside support is such that the total would exceed the normal academic salary, the University contribution shall be appropriately reduced. A faculty member may not accept paid employment during a scholarly leave with salary except as provided within the University's policy governing extramural activity for compensation.

4. There are time limits for leaves for employment elsewhere: the normal limit is one year; with sufficient justification a second year may be approved; such leaves will never be extended beyond two years with the single exception of leave to accept a Presidential appointment to a high-level position in the federal government, in which case leave may be extended to four years. The appointment of a faculty member who does not return to his or her duties at the end of a leave for employment elsewhere will be terminated at the end of the leave period.

5. For faculty members in tenure probationary status serving on a half-time basis in approved child care leave, the probationary period shall be extended by one year for each two years spent in such half-time service, except that the total tenure probationary period shall not exceed 10 years.

6. Deans may release faculty members from academic duties for periods of time shorter than a single semester; such inactive status is not termed a leave.

7. A faculty member who resigns from the University while on leave to accept an appointment to another institution will be expected to cooperate in seeking for the University reimbursement from the new institution for sums paid to the faculty member from University funds during the period of leave.

RESOLVED, That the Statement on Academic Leaves adopted by the Trustees on 22 January 1965 be rescinded and the following policy be adopted in its place:
There are three general types of leaves of absence available to the Faculty of the University of Pennsylvania: scholarly leave, leave for employment elsewhere, and child care leave. All require the approval of the relevant department chairman and dean and of the provost. Combinations of these types of leave are possible, but such arrangements are governed by the principle that no faculty member will be on leave for more than four semesters during any six years that include the period of a requested leave without the explicit approval of the provost, president and Trustees, except where child care leave is involved.

Scholarly Leaves

It is appropriate that members of the standing faculty, full-time clinician-educators, and full-time research faculty periodically be granted scholarly leaves for study and research. A scholarly leave is a means of recognizing a faculty member's high academic performance while at the University, future potential for growth, and opportunity to make a major contribution to knowledge. It is intended to extend and to accelerate intellectual growth and to enable a faculty member to pursue without distraction a project designed to this end including the advancement of personal knowledge or competence in the faculty member's current or potential areas of specialty. A scholarly leave is also intended to benefit the general academic community and the University. Therefore, a scholarly leave normally will be granted only to a faculty member who will have a continuing appointment with the University after the end of the leave and who, at the time of notification of approval for the leave, has not made a commitment inconsistent with return to the University.

A scholarly leave is granted only to a faculty member who has presented an appropriate program of study or research. It is recognized, however, that scholarly leaves for faculty members in the arts and professions can be based upon programs designed to increase professional competence even though these may not normally be interpreted as research programs.

Approval of an application for scholarly leave is contingent upon adequate fiscal and personnel resources being available to meet instructional assignments and other departmental responsibilities. If exigencies require, it may become necessary to postpone leaves.

Scholarly leave is normally not granted to University faculty members holding a term appointment. In special cases where faculty on term appointment are granted scholarly leave, the leave will be counted as part of the time accumulated toward tenure, unless the formal action approving the leave expressly provides otherwise.

Scholarly leaves may be with or without salary from the University.

Scholarly Leaves without Salary

Scholarly leaves without salary are occasionally granted. In these cases, the faculty member does not receive remuneration in the form of salary from the University of Pennsylvania or from any other organization. To the extent that personnel benefits are not financed under this arrangement, the faculty member may request that the University make contributions toward the cost of these personnel benefits as permitted by law and University benefits policies, provided that the faculty member continues individual contributions to the employee benefits plans.

Scholarly Leaves with Salary

Normally, an initial scholarly leave is granted to a University faculty member holding the rank of assistant professor, associate professor, or professor after a period of six or more consecutive years of full-time service in the standing faculty or in the full-time clinician-educator or research faculties at the University.

For a faculty member whose leave proposal is approved, the University will provide up to full academic base salary for one semester, or one-half academic base salary for two semesters. (For faculty members on 12
month appointments, the corresponding figures will be full academic base salary for six months or half academic base salary for twelve months.)

Faculty members are encouraged to seek outside support wherever possible to permit them to take advantage of the full year leave option without loss of income. Total salary during the leave cannot exceed the normal academic salary for that period; if the outside support is such that the total would exceed the normal academic salary, the University contribution shall be appropriately reduced. Payments specifically designated by the supporting agency for travel or living expenses are exempt from this limitation; the University may also consider higher-than-usual travel or living costs in determining its contributions, up to one half academic base.

It is the responsibility of an applicant for a scholarly leave to inform the University fully concerning the financial circumstances surrounding the leave, including any grant, fellowship, stipend or other compensation that is received during the leave period so that the University may make arrangements for appropriate financial support. Such information shall be presented as soon as it is available.

A faculty member may not accept paid employment during a scholarly leave with salary except as provided within the University's policy governing extramural activity for compensation. Personnel benefits are continued to the extent permitted by law and University benefits policy during a paid leave provided the faculty member continues normal benefits contributions.

Additional paid scholarly leaves may be periodically granted and will normally be considered after the sixth year following the completion of the previous paid leave. In rare instances, however, the University may consider granting a paid leave sooner than the normal six year period if an exceptional opportunity arises, one such as a prestigious fellowship which reflects great credit on the faculty member and the University. Leaves are treated as scholarly leaves without salary in cases where the sponsor provides 75% or more of the base salary, and the University's contribution is less than 25%. However, if between 25% and 50% of salary is requested, the leave is considered to be a paid leave.

Leaves for Employment Elsewhere

A leave of absence may be granted to a faculty member who wishes to accept a temporary post at another university, in governmental service, or in a private institution, agency, industry or firm. Such leaves are granted only when clear benefits in terms of scholarly opportunity or professional development derive from the leave and support the activities of the University. They are granted only when the personnel resources of the University are adequate to maintain the programs with which the faculty member is concerned in his or her absence.

Normally a leave of absence for employment elsewhere will be for a period of one year. If there is sufficient justification, a second year of leave may be approved. A leave of absence for employment elsewhere will never be extended beyond two years with the single exception of leave to accept a Presidential appointment to a high-level position in the federal government. In this one case, leave may be extended for a period as long as four years. The appointment of a faculty member who does not return to his or her duties at the University at the end of a leave for employment elsewhere will be terminated as of the end of the leave period.

Normally the University does not contribute toward the salary or benefits of a faculty member on leave for employment elsewhere. Frequently employers will provide their own benefits plan to the faculty member or will reimburse the University in order to maintain University benefits coverage for the individual in question. However, the University urges the faculty member to retain appropriate benefits coverage while on leave to make any necessary arrangements with the Personnel Office prior to the leave period.

Child Care Leave

For faculty members in tenure probationary status serving on a half-time basis in approved child care leave, the probationary period shall be
extended by one year for each two years spent in such half-time service, except that the total tenure probationary period shall not exceed 10 years.

Other Leaves

The University recognizes that occasions may arise when faculty members may wish, or be forced, to request leaves of absence for purposes other than child care, scholarly study or employment elsewhere. It will endeavor to be as generous as possible in granting these requests when they are compatible with the best interests of the faculty members, the students, and the University. If such a leave is granted to a member of the standing faculty on a term appointment, this leave will be counted as part of the time accumulated toward tenure unless expressly provided otherwise in the formal action approving the leave. Additional information on leaves is included in the University of Pennsylvania's Personnel Policy Manual.

Inactive Status

Special arrangements whereby faculty members are released from academic duties for periods of time shorter than a single semester are not called leaves. Such arrangements require the approval of the Dean and are handled within the several schools; they do not involve the University benefits pool.

Resignation While on Leave

If a faculty member while on leave accepts an appointment to another institution, it is the custom among institutions of higher learning for the new institution to reimburse the former institution for sums paid to the faculty member, or on his or her behalf, from University funds during the period of the leave. The University of Pennsylvania generally observes this practice in its own appointment procedures, and it expects that faculty members who resign from the University of Pennsylvania while on leave will cooperate in seeking such reimbursement for the University from their new institutions.

C. Financial Report

Mr. Jordan reported that while the University's budget for FY'82 was in balance, the figures before him indicated that choices about spending or investing money were becoming increasingly circumscribed as costs continued to exceed estimates of expenses. In response to a question from Mr. Ballam about whether the University needed to "build in more monitoring," the executive vice president said he had a very "warm feeling about the present system of budgeting. What I think we do need," he noted, "is a perception of what is happening in schools and centers independent of what schools and centers think is happening."

D. Action: A Resolution on Commencement and Authorization for Conferring Honorary Degrees was approved as follows:

RESOLVED, that a mandamus be issued by the Corporation to the president, provost, and professors for the conferring of degrees on 17 May 1982, and at any special convocations called during the year 1982.

RESOLVED, that the Executive Committee be authorized to select candidates for receipt of honorary degrees at the May Commencement and other convocations which may be scheduled during the year 1982.

IV. Reports of Trustee Committees

A. Budget and Finance

Mr. Eckman recalled that at the November meeting of the Executive Committee he had voiced some concerns about what he perceived as shortages in cash flow as a result of the renovation of Dietrich Hall. "Our
discussion prompted the University's financial staff to look into the matter in considerable detail," he continued, "and I now feel more confirmed than before about our ability to fund the project." Mr. Eckman pointed out that architect's alterations in the original plan had increased the estimated cost by 10 percent (including $500,000 subsequently authorized by the Trustees), but that a major gift earmarked for the renovation had made a great difference, convincing him of the soundness of the Dietrich funding arrangements.

**Action:** A Resolution Amending the 24 October 1980 Resolution on the Renovation of Dietrich Hall was approved as follows:

**Intention:**

On 24 October 1980 the Trustees approved a resolution authorizing the renovation of Dietrich Hall to proceed at a target cost of $14.7 million. A companion resolution on the PGH Nurses Residence was also approved at a target cost of $3.43 million. The projected cash flow for the Dietrich Hall project was estimated to be sufficient to pay the full projected costs of the project, including interest on negative balances, by July of 1986.

The estimated costs of the PGH Nurses Residence were comprised of a one-year lease of $195,000, leasehold improvements of $1,275,000, and an estimated purchase price of $1,950,000. The leasehold improvements were to be amortized over six years, with interest, to the occupant(s) of the building (Wharton for the first two years). The purchase price was to be amortized over twenty years, with interest, to the occupants of the building.

Subsequent to the approval of these resolutions several events have occurred.

The City of Philadelphia and the University have been unable to consummate the purchase of the PGH Nurses Residence. The lease has been extended at the same annual rental, $195,000, while negotiations continue.

Costs associated with the Dietrich Hall project have escalated $1,832,000 over the original target of $14,700,000. The original target budget included an expectation of gifts in kind of glass, carpet and acoustical ceiling, the savings from which were to be applied to furniture. In addition, the original budget assumed extensive recycling of existing furniture. Only one gift in kind has been received; carpet is being offered at manufacturer's cost. An inventory of existing furniture resulted in only a small quantity worthy of refinishing. The resultant furniture costs comprise $1,045,000 of the escalated estimate. The additional components of the increase include an added lounge which was requested by a donor to the project, electrical work necessitated by changes to computing facilities, landscaping overruns resulting from requests by the Campus Design Review Committee, and various planning costs and architects and engineering fees.

Anticipated resources for both projects also have been reevaluated. Gifts for the project, originally projected at approximately $6.5 million, are now estimated to be $8.8 million. However, sales and services and unrestricted operations of the Wharton School are now conservatively estimated to be approximately $3 million less than originally forecast.

Total committed costs for the Dietrich Hall project, including additional costs discussed in this resolution, are $16,532 million. Total out-of-pocket costs for PGH Nurses Residence will be $1,665 million by June 30, 1982 (two years rent totaling $390,000 and leasehold improvements of $1,275,000). All of these costs are allocable to the Wharton School except the final four-year payback of leasehold improvements which is allocable to future tenants of PGH Nurses Residence. Financing costs are estimated to be approximately $2.3 million through 30 June 1986. Total resources available from the Wharton School are now conservatively estimated to be $18,370 million through 30 June 1986. Accordingly, there is a shortfall of $2.13 million which is now projected to be repaid by the Wharton School and future tenants of the PGH Nurses Residence through 1989. In addition, the sources of funding for the eventual purchase of the PGH Nurses Residence are not included in this analysis because the price

SECRETARY
and the future occupant(s) have not yet been determined.

RESOLVED, that the treasurer or any vice president of the University be authorized to award the necessary construction contracts, to execute, acknowledge and deliver on behalf of the University any and all agreements and other documents, and to take such other actions as are necessary or convenient in connection with the project, with a total construction cost not to exceed $16,532 million.

RESOLVED, the negative cash flow resulting from the renovation of Dietrich Hall and the Wharton School's obligations for costs associated with the PGH Nurses Residence are to be financed through the most favorable means available to the University.

B. Facilities and Campus Planning

Mr. Arader reported for the Facilities and Campus Planning Committee that it recommended acceptance of Chestnut Hall, an apartment building at 39th and Chestnut Streets, which had been made available to the University as a gift. "It is located within the University's boundaries," he said, "and its acquisition fits into our overall plan for real estate development." Furthermore, Mr. Arader told the Trustees, his committee did not foresee any significant tax exposure resulting from acceptance of the gift. Finally, he said, if the University chooses to operate the building for maximum profit, it will generate future income. Mr. Eckman added that the Budget and Finance Committee considered the downside risks associated with acquisition as "minimal and very acceptable."

In response to a question from Mr. Neff, it was established that present mortgages on the property total $4.5 million, renovations would cost an estimated $650,000, and the University has a third party offer for the building for a price in excess of the expected University investment.

Mr. Miller then observed that as a donor of Chestnut Hall, he would step aside as chairman and ask Mr. Eckman to call for a vote. The chairman of the Budget and Finance Committee obliged.

Action: A Resolution on Chestnut Hall was approved as follows:

Intention:

Officers of the University have been negotiating with a donor concerning a proposed gift to the University of Chestnut Hall, an apartment building located at 3900-08 Chestnut Street, and the parking lot at 3912-14 Chestnut Street. Prior to the negotiations, Paul Miller, chairman of the Trustees, had disclosed that he is a member (limited partner) in the ownership of these properties, and that another member of the syndicate which owned the building was related to Thomas Gates, an emeritus trustee. University counsel has advised that upon the disclosure of these interests, the Finance Committee or other Trustee groups might properly act upon the proposed gift provided such action was taken by trustees having no conflicting interest.

The properties are owned by "Group 39," a general partnership, and Chestnut Hall is subject to a mortgage indebtedness of $1,200,000 owed to First Federal Savings and Loan Association and also to a substantial additional mortgage indebtedness (on which no payments of principal or interest are currently being made) owed to H.E.M. Investments, Inc., a corporation whose shareholders include some of the partners of Group 39. It is proposed that a portion of the partnership interest in Group 39 will be donated to the University in 1981, with the remainder being donated in January of 1982, and that the shareholders of H.E.M. will agree to give all the stock of that company to the University in January of 1985 and put the stock in escrow to assure, to the extent possible, the consummation of that proposed gift. The University will have the right to purchase this stock prior to 1985 at fair market value if it wishes to sell the building.

SECRETARY
Officers of the University, after investigation and upon the advice of University counsel, are reasonably satisfied:

(i) that the building could be sold at a price in excess of the cash investment the University will have in it which will include an estimated $650,000 for necessary repairs to the building, repayment of the First Federal mortgage, and replenishment of the cash reserves.

(ii) that claims, including possible tax claims, against the present partners of Group 39 could not be successfully asserted against the University; and

(iii) that the cash receipts from the operation of the building by the University will probably exceed expenses.

RESOLVED, that the Executive Vice President of the University be and he hereby is authorized to receive and accept on behalf of the University a gift or gifts aggregating 100 percent of the partnership interests in the partnership owning Chestnut Hall and to secure and accept as an essential part of such gift irrevocable commitments from the owners of all outstanding shares of R.E.M. Investments, Inc., to donate such shares to the University in 1985 and to grant the University an option to purchase such shares prior to that time under certain conditions; and

FURTHER RESOLVED, that following the consummation of the gift of the partnership interests in the partnership owning Chestnut Hall, the appropriate officers of the University are authorized to (i) contract for and make such repairs to Chestnut Hall as may be necessary or advisable to restore the building to a satisfactory condition at a cost not, without further authorization, to exceed $750,000, (ii) to expend additional sums not to exceed $200,000 for title insurance, real estate transfer taxes, and similar closing costs which may be incurred in connection with the proposed gift or the subsequent conveyance of the title of Chestnut Hall to the University or its nominee, and (iii) take such other action and execute such other instruments and agreements as may be necessary or advisable to carry into effect the intent of the foregoing resolution; and

FURTHER RESOLVED, that the appropriate officers of the University be and they hereby are authorized to explore ways and means of financing the University's expenditures in connection with Chestnut Hall, including refinancing, if appropriate, that portion of the outstanding mortgage indebtedness owed to First Federal Savings and Loan Association.

C. Trustee Board of the Hospital of the University of Pennsylvania

Mr. Ballam reported that the Trustee Board of HUP was required by the Joint Committee on Accreditation of the State of Pennsylvania to adopt a statement on conflict of interest. It did so, but subsequently the Trustees of the University revised their conflict of interest policy. "The HUP policy before you," he said, "applies only to trustee members of the HUP Board and brings the hospital's statement into conformity with the University's conflict of interest policy." In response to a query made by Mr. Eckman on the role of the chairman of the HUP Board in making a final determination about conflict of interest in his own case, a final sentence was added to the resolution designating the Executive Committee as the arbitrator in such a situation.

Action: A Resolution on a Conflict of Interest Policy for the Trustee Board of the Hospital of the University of Pennsylvania was approved as follows:

Intention:

The Trustee Board of the Hospital of the University of Pennsylvania was formed pursuant to the resolution adopted by the Trustees of the University of Pennsylvania at its Stated Meeting on 27 October 1978. The Trustees of the University of Pennsylvania approved the Bylaws of the
Trustee Board of the Hospital on 19 January 1979.

A provision relating to conflict of interest must be contained in the Bylaws of the Trustee Board of the Hospital. This is required by the Joint Commission on Accreditation of Hospitals and Commonwealth regulations governing hospitals.

The Trustee Board has approved such an amendment to its Bylaws and recommends passage by the Trustees of the University of Pennsylvania.

RESOLVED, that the Bylaws of the Trustee Board of the Hospital be amended by adding thereto, as a new and separate Section 9, the provision entitled Conflict of Interest, a full copy of which is attached hereto and made a part of this resolution.

Section 9. Conflict of Interest

All Trustees of the Hospital shall be subject to the following policy on Conflict of Interest:

Any trustee who has any power or influence to approve or disapprove a transaction proposed to be entered into between the Hospital and any entity or individual with which that trustee has a significant relationship must refrain from any discussion or participation in that transaction if there is any possibility of a conflict of interest due to the trustee's significant relationship. The trustee's disqualification shall be recorded in the minutes of the Trustee Board.

A significant relationship exists as to an entity if a trustee is a director, trustee, officer, employee, partner or member of, or has a financial interest in the entity in question. An entity is a corporation, partnership, unincorporated association, or any similar group. Determination of a material financial interest is a matter of personal judgment but, at a minimum, would be required for an aggregate interest for the person and for all entities or individuals having material relationships with the person of more than 1 percent of any class of the outstanding securities of a firm or corporation; or 10 percent interest in a partnership or association; or 5 percent of the total direct and beneficial assets or income of the person.

A significant relationship exists as to an individual if that individual is in the immediate family of the trustee. Immediate family includes parents, siblings, spouse and children.

All Trustees of the Hospital shall indicate their continued knowledge of and compliance with the above conflicts of interest policy by annually signing a copy thereof.

The Chairman of the Trustee Board of the Hospital shall make any final determination needed in the interpretation and application of this policy. In the event that a final determination is needed in the interpretation and application of this policy with respect to the Chairman of the Trustee Board of the Hospital, the determination shall be made by the Executive Committee of the Trustees.

D. Investment Board

Mr. Neff reported that on a total-return basis the equities portion of the Associated Investments Fund had appreciated 12.7 percent so far this year over its value on 31 December 1980. He contrasted the AIF increase with a 5 percent decline in the Standard and Poor 500 Stock Average, pointing to a 17.7 percent differential between them. Bonds appreciated 5.5 percent, he continued, versus a 0.1 percent advance in the Solomon Brothers Composite Index.

"The unit value of the AIF," Mr. Neff said, "is positive but not glittering. From year end '79, it is up nearly 30 percent." He went on to report that

SECRETARY
during the same period AIF common stocks had increased 44.4 percent. Current yield on the equity side is 6.9 percent, Mr. Neff said, and on the bond side it is 9 percent.

The chairman of the Investment Board then noted that common stocks represent 68 percent of the Fund's investments and fixed income securities 31 percent. "Since our last meeting, we've had a reasonably good move in the long-term bond market which is gratifying," he added. "My opinion is that 1982 will turn out to be a better year than the economists predict. If that is so, we'll get a little better wind to our back."

Mr. Eckman asked Mr. Neff if the University should begin to consider a real estate component to its endowment fund. The Investment Board chairman replied that real estate was certainly an area which didn't suffer from over-attention. Mr. Miller noted that the administration now has a Real Estate Council which looks systematically at real estate investments as well as an outside consultant on real estate matters. "The question I'm really raising," Mr. Eckman said, "is whether our real estate portfolio is part of our endowment. If it is, should it be managed as an investment?" Mr. Arader replied that "in the last few years, the University has acquired income-producing property which is being managed by University City Associates. It's produced a profit," he said, "but I agree that there is more that can be done in this area. So far we have not looked at real estate as an investment. If we do, I think it has to be looked at quite differently than the way we look at stocks and bonds because of the enormous difference in liquidity."

At the suggestion of Mr. Miller and Mr. Ballam, it was agreed that the question of real estate investment as a use of endowment would be referred to the Real Estate Council and the Investment Board for further consideration.

Adjourned.

Respectfully submitted,

Mary Ann Meyers
Secretary of the University