

9/9/2011

BOT 1

10:30 a.m. -

1. **Roll Call**
2. **Approval of the Minutes of Previous Meeting**

Will the Board of Trustees approve the minutes of the meeting of the Board held on July 15, 2011?

3. **President's State-of-the-University Message**
4. **Informational Report on Research Activities**

Henry C. Foley, Vice President for Research, Dean of the Graduate School, will offer a broad overview of research activity at Penn State.

1:30 p.m. -

5. **Reports from Standing Committees**

Discussion of action and/or information items by the Standing Committees for consideration by the Board of Trustees:

- A. **Committee on Campus Environment** - Michael DiBerardinis, Chair
- B. **Committee on Educational Policy** - David M. Joyner, Chair
- C. **Committee on Finance and Physical Plant** - Linda B. Strumpf, Chair

1) **Discussion of Consent Agenda Items Provided for Information or Approval of the Committee on Finance and Physical Plant:**

Information Items -

- a) East Campus Low Pressure Steam Line Extension, University Park
- b) Naming of Rooms, Portions of Buildings, and Plazas
- c) Status of Major Construction Programs and Borrowing
- d) Capital Budget Request for Fiscal Year 2012-2013
- e) Summary and Designation of Gifts Received by the University

Action Items -

- f) Proposed Sale of Former Mellon Property to Church of Jesus Christ of Latter Day Saints, State College
- g) Summary of Revisions to Existing Scholarships, Fellowships, Etc.
- h) Acknowledgments of Endowments and Other Major Commitments

(See Appendix I)

5. Reports from Standing Committees (Continued)C. **Committee on Finance and Physical Plant** - Linda B. Strumpf, Chair (Continued)2) Proposed Naming of the New Level III Biosafety Laboratory the "Eva J. Pell Laboratory for Advance Biological Research," University Park

The Facilities Naming Committee has recommended that the Board of Trustees name the new Level III Biosafety Laboratory the "Eva J. Pell Laboratory for Advanced Biological Research" in honor of the former Senior Vice President of Research and Dean of the Graduate School, Eva J. Pell, who as a scientist and administrator for over 30 years, brought Penn State to the fore in the biological sciences. National Institutes of Health (NIH) funds are being used for this construction.

Will the Committee on Finance and Physical Plant recommend to the Board of Trustees adoption of the following resolution:

RESOLVED, That the new Level III Biosafety Laboratory at University Park is named the "Eva J. Pell Laboratory for Advanced Biological Research."

(See Appendix II)

3) Appointment of Non-University Employees to the Penn State Investment Council

In September 2000, Penn State's Board of Trustees established the Penn State Investment Council to provide direct oversight of the University's endowment and long-term investment program. In accordance with the foregoing resolution, the Penn State Investment Council, appointed by the Board of Trustees, includes the: Senior Vice President for Finance and Business/Treasurer of the University (Chair); Executive Director, Office of Investment Management; and five to nine non-University members (at least one of whom is a member of the Board of Trustees). [In his capacity as Interim Senior Vice President for Finance and Business, it is noted that Gary C. Schultz will serve as chair of the Council; at such time as the Senior Vice President for Finance and Business is appointed, Mr. Schultz will resume his responsibilities as a non-University member of the Council.] The terms are staggered as follows:

2011 - **Arthur D. Miltenberger**, Vice President and Chief Financial Officer (Retired), R. K. Mellon & Sons (Ligonier, PA)

**J. David Rogers**, Chief Executive Officer, J.D. Capital Management (Greenwich, CT)

**Gary Glynn**, President and Chief Investment Officer, US Steel and Carnegie Pension Fund (New York, NY)

2012 - **Timothy J. Crowe**, Managing Director, Anchor Point Capital LLC (Coral Gables, FL)

**Edward R. Hintz, Jr.**, President, Hintz Capital Management, Inc. (Chatham, NJ)

**Gary C. Schultz**, Senior Vice President for Finance and Business/Treasurer Emeritus, The Pennsylvania State University (State College, PA)

5. Reports from Standing Committees (Continued)C. **Committee on Finance and Physical Plant** - Linda B. Strumpf, Chair (Continued)3) **Appointment of Non-University Employees to the Penn State Investment Council** (Continued)

2013 - **Carmen Gigliotti**, Managing Director, Private Equities of DuPont Capital Management (Wilmington, DE)

**Colleen Ostrowski**, Vice President and Treasurer, ITT Corporation (Scarsdale, NY)

**Linda B. Strumpf**, Chief Investment Officer (Retired), The Helmsley Charitable Trust (New York, NY)

It is proposed to appoint J. David Rogers and Gary Glynn to membership with terms expiring in 2014.

Will the Committee on Finance and Physical Plant recommend to the Board of Trustees adoption of the following resolution:

RESOLVED, That J. David Rogers and Gary Glynn, non-University employees, are appointed to the Penn State Investment Council for terms ending in 2014.

4) **Consideration of Request for 2012-2013 Appropriation for Operations**

Will the Committee on Finance and Physical Plant recommend to the Board of Trustees adoption of the following resolution:

RESOLVED, That the Officers of the University are authorized to submit to the Legislature, appropriate departments, and offices of the Commonwealth of Pennsylvania, a State Appropriation Request for fiscal year 2012-2013 in the amount of \$293,689,000.

5) **Capital Plan Update**

Mr. Albert G. Horvath, Senior Vice President for Finance and Business/Treasurer, will provide an update for capital construction projects under consideration through the end of the current capital plan, FY 2012/13.

6) **Update on the Status of Borrowing and Remaining Debt Capacity**

In May 2007, the Board of Trustees authorized an increase in the long-term borrowing for the University. Updates are provided on an annual basis with respect to the status of borrowing and the remaining debt capacity.

**5. Reports from Standing Committees (Continued)****C. Committee on Finance and Physical Plant - Linda B. Strumpf, Chair (Continued)****7) Proposed Appointment of an Architect, Greater Philadelphia Innovation Cluster Hub, Philadelphia Navy Yard Building 661 Retrofit, Philadelphia**

The Subcommittee on Architect/Engineer Selection will make a report and recommendation on the appointment of an architect for the Greater Philadelphia Innovation Cluster Hub, Philadelphia Navy Yard Building 661 Retrofit in Philadelphia.

**8) Proposed Appointment of an Architect, Old Main Renovations, University Park**

The Subcommittee on Architect/Engineer Selection will make a report and recommendation on the appointment of an architect for Old Main Renovations at University Park.

**9) Investment Review of Endowment and Similar Funds as of June 30, 2011**

Appendix III is an informational report on the University's Endowment and Similar Funds as of June 30, 2011. A brief presentation will be made at the meeting.

(See Appendix III)

**10) Photo Report on Selected Construction Projects**

A photo report on the progress of selected construction projects will be presented at the meeting.

**6. Legal Matters**

Cynthia A. Baldwin, Vice President and General Counsel, will present an informational report on University legal matters and/or policies normally considered by a Standing Committee of the Board.

**7. Recommendation for Approval to Grant Honorary Degrees**

Will the Board of Trustees approve the following resolution:

RESOLVED, that the Board of Trustees approves the granting of the Honorary Doctorate of Humane Letters to Eric Thomas, M.D. and the granting of the Honorary Doctorate of Humane Letters to Dr. Gary Orfield at upcoming commencement ceremonies.

**8. Proposed Election of Officer**

Dr. Graham B. Spanier, Secretary of the Board of Trustees, will nominate Gary C. Schultz (replacing Albert G. Horvath) as Treasurer of the Board of Trustees, effective September 12, 2011, to serve until the annual election in January 2012.

**9. Announcements by the Chairman of the Board of Trustees**

**1. East Campus Low Pressure Steam Line Extension, University Park**

The University is planning to construct approximately 1,000 feet of low pressure steam piping extending from near East Area Locker Room to Bigler Road near the Millennium Science Complex. This new service will support future low pressure steam systems in this vicinity. The project cost estimate is \$1,700,000.

(See Appendix I.1)

**2. Naming of Rooms, Portions of Buildings and Plazas**

The Facilities Naming Committee has made certain recommendations to the President on the naming of rooms, portions of buildings and plazas. In accordance with the Policy on Naming University Facilities, the Board of Trustees is hereby informed that the President has approved the following naming actions:

A. Several spaces within Moore Building as follows:

- 1) Conference Room, 250 Moore Building, for a gift from the estate of Harold H. and Harriet B Benjamin. The recognition plaque should read:

*Harold H. and Harriet B. Benjamin Conference Room*

- 2) Laboratory, 459 Moore Building, for a gift from Herschel and Eileen Leibowitz. The recognition plaque should read:

*Herschel W. and Eileen Wirtshafter Leibowitz Laboratory*

- 3) Conference Room, 467 Moore Building, for a gift from Hellene Runtagh. The recognition plaque should read:

*Hellene Runtagh Conference Room*

- 4) Advising Office. 125E Moore Building, for a gift from Margaret "Peg" West The recognition plaque should read:

*Margaret A. West, 1972, Advising Office*

- 5) Laboratory, 607 Moore Building, for a gift from Gary and Linda Kaplan. The recognition plaque should read:

*Gary and Linda Kaplan Laboratory*

B. Several spaces within the Sheetz Center for Entrepreneurial Excellence at Penn State Altoona as follows:

- 1) Trading Room for a commitment from Michael and Gail Irwin. The recognition plaque should read:

*Michael and Gail Irwin Family Trading Room*

- 2) Conference Room (first floor) for a gift from Young, Oakes, Brown and Company. The recognition plaque should read:

*Young, Oakes, Brown and Company Conference Room*

- 3) Lounge (first floor) for a gift-in-kind from the Hite Company. The recognition plaque should read:

*Hite Company Lounge*

**2. Naming of Rooms, Portions of Buildings and Plazas (Continued)**

B. Several spaces within the Sheetz Center for Entrepreneurial Excellence at Penn State Altoona as follows: (Continued)

- 4) Incubator (second Floor) for a commitment from the Students in Free Enterprise (SIFE) Business Advisory Board. The recognition plaque should read:

*Students in Free Enterprise (SIFE) Business Advisory Board Business Incubator*

- 5) Lounge/Dining Area (first floor) for a commitment from Phillip and Rosalind Sky and Neil and Marilyn Port families. The recognition plaque should read:

*Port-Sky Lounge*

- 6) Lobby (first floor), for a commitment from Don and Sherry Brett. The recognition plaque should read:

*Brett Lobby*

C. The engineering classroom, Room 322 at Penn State Lehigh Valley, for a commitment from Daniel L. Puchyr. The recognition plaque should read:

*This laboratory named in recognition of generous support from Judy and Dan Puchyr*

D. Rename the "South Annex" in the Bryce Jordan Center the "Basketball Practice Facility."

E. Several spaces in the Knowledge Commons, Pattee Library, as follows:

- 1) Quick Access Service Area for a gift from Joseph DiGiacomo. The recognition plaque should read:

*Joseph DiGiacomo Quick Access Service Area*

- 2) Atrium seating area for a gift from Cindy Joyce. The recognition plaque should read:

*Cindy Joyce Atrium Seating*

- 3) Atrium seating area for a gift from Virginia Todd Chapel. The recognition plaque should read:

*In Memory of Bob and Loretta Todd Atrium Seating*

**3. Status of Major Construction Programs and Borrowing**

(See Appendix I.2)

**4. Capital Budget Request for Fiscal Year 2012-2013**

Penn State has identified several projects as a priority and annually submits a list of those projects to the Commonwealth's Department of Education for further consideration by the Legislature. In order for the Governor to release funds for capital projects, the projects must have prior authorization and approval by the Legislature. The Capital Budget Request consists of those projects for which the University is seeking authorization for subsequent funding by the Governor.

**4. Capital Budget Request for Fiscal Year 2012-2013 (Continued)**

For fiscal year 2012-2013, the University will submit a Capital Budget Request to the Commonwealth for authorization of \$187.6 million of which \$159 million is for construction projects and the remaining \$28.6 million is for original equipment.

(See Appendix I.3)

**5. Summary and Designation of Gifts Received by the University**

Appendix I.5 is a summary and designation of gifts received by the University during the period July 1, 2010 through June 30, 2011.

(See Appendix I.4)

**6. Proposed Sale of Former Mellon Property to Church of Jesus Christ of Latter Day Saints, State College**

In July 1999, the University acquired approximately 1,100 acres of undeveloped land at various locations throughout Centre County, Pennsylvania, from the Mellon Family Trust and the Richard King Mellon Foundation. The purchase resulted in the University acquiring six (6) tracts of land, comprised of sixteen (16) separately deeded parcels, for \$3,800,000. Terms of this purchase do not obligate the University to retain these tracts, and since that time the University has sold several parcels to various municipalities for public park and recreation use.

The University has received a purchase offer for one such parcel, comprised of .254 undeveloped acres located in State College Borough, from the Corporation of the Presiding Bishop of the Church of Jesus Christ of Latter Day Saints in the amount of \$25,000.

RESOLVED, That the Board of Trustees approves the sale of .254 acres in State College, Centre County, Pennsylvania, to the Corporation of the Presiding Bishop of the Church of Jesus Christ of Latter Day Saints in the amount of \$25,000.

BE IT FURTHER RESOLVED, That the Officers of the University are authorized and directed to take such steps as are necessary to make effective this resolution.

(See Appendix I.5)

**7. Summary of Revisions to Existing Scholarships, Fellowships, Etc. (For the period June 20, 2011 through August 12, 2011)**

Will the Committee on Finance and Physical Plant recommend to the Board of Trustees adoption of the following resolution:

RESOLVED, That the conditions governing certain existing scholarships, fellowships, awards, and similar funds previously established at the University be revoked and that the Officers of the University are authorized to put into effect the revised regulations as requested by the donors.

**8. Acknowledgments of Endowments and Other Major Commitments**

The Committee on Finance and Physical Plant is advised that for the period June 20, 2011, through August 12, 2011, 28 new funds totaling approximately \$4,454,361 were accepted by the University, including scholarships, fellowships, etc. All of these items conform to established University policies and regulations.

8. **Acknowledgments of Endowments and Other Major Commitments** (Continued)

For the period May 1, 2011 through June 30, 2010, 48 major commitments were accepted by the University totaling approximately \$27,289,375.

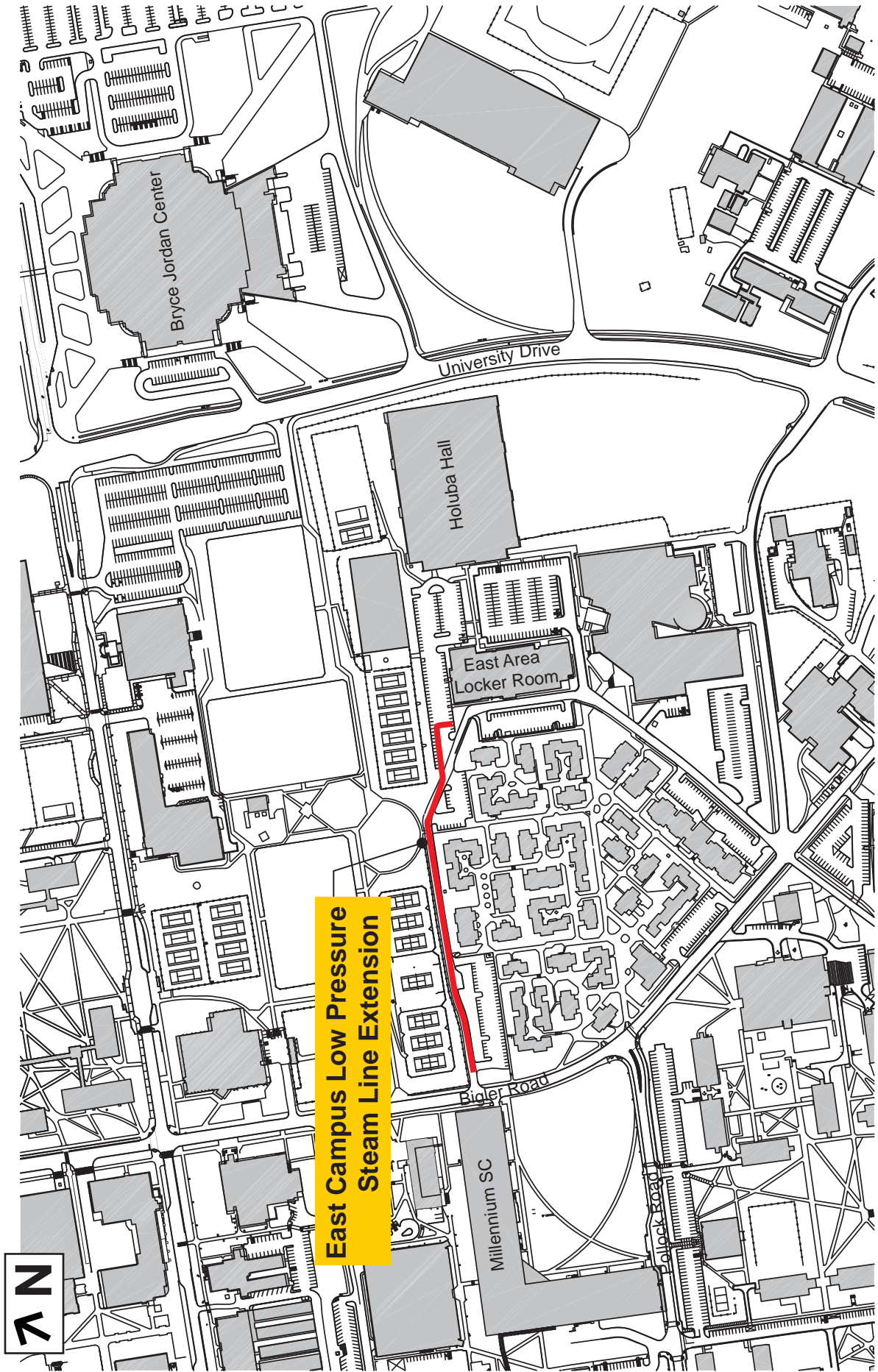
Will the Committee on Finance and Physical Plant recommend to the Board of Trustees adoption of the following resolutions:

RESOLVED, That the Board of Trustees gratefully acknowledges the generous contributions of the many friends of the University in support of endowments, funds, and other major commitments as reported to the Committee on Finance and Physical Plant at its meeting of September 9, 2011.

FURTHER BE IT RESOLVED, That the Officers of the University are authorized to convey the Board's appreciation to these generous benefactors who provide opportunities for many students to receive a quality education.



# University Park



**East Campus Low Pressure  
Steam Line Extension**

STATUS OF MAJOR CONSTRUCTION PROGRAMS AND BORROWING (> \$5 Million)  
August 31, 2011

Campus	Project Data		Budget Component Amount	Commonwealth Funding	Gift Amount	BOT Milestones		Construction		Notes
	Project Name	Project Name				Arch/Eng Selection	Final Plan Approval	Start Date	Completion Date	
Altoona	Port Sky Café		\$5,400,000	\$0	\$0	N/A	03/11	05/12	08/12	On HOLD. Postponed.
Berks	Gaige Technology and Business Innovation Building		\$25,700,000	\$0	\$3,000,000	11/07	01/10	04/10	10/11	Construction is approximately 95% complete.
Hershey	Children's Hospital		\$206,500,000	\$14,000,000	\$65,000,000	11/05	11/09	03/10	10/12	Construction is approximately 50% complete.
	Support Services Building		\$19,000,000	\$0	\$0	01/09	03/10	06/10	11/11	Construction is approximately 90% complete.
	Beaver Stadium Scoreboard Upgrades		\$6,800,000	\$0	\$0	07/11	11/11	12/11	08/12	Project in design.
	Beaver Stadium N. End Zone and ADA Renovation		\$9,898,885	\$0	\$0	N/A	09/10	12/10	08/11	Construction is approximately 95% complete.
	BioBehavioral Health Building		\$48,100,000	\$40,000,000	\$0	01/08	07/10	12/10	10/12	Construction is approximately 30% complete.
	Biological Research Laboratory		\$23,000,000	\$0	\$0	11/07	11/10	09/11	12/12	Construction expected to start in September 2011.
	Cedar Building Renovations		\$7,950,000	\$7,140,000	\$0	03/11	11/11	02/12	08/13	Project in design.
	East Campus Steam Line		\$13,500,000	\$11,000,000	\$0	N/A	03/11	06/11	08/12	Construction is approximately 5% complete.
	Environmental Improvements BFP Installations		\$8,120,000	\$7,000,000	\$0	N/A	N/A	06/08	08/14	Project program is approximately 55% complete.
	Essential Services Program		\$11,950,000	\$3,000,000	\$0	N/A	N/A	12/05	12/14	Project program is approximately 65% complete.
	Henderson South (Phase II)		\$56,500,000	TBD	\$0	01/08	TBD	TBD	TBD	On HOLD.
	HUB Addition		\$25,800,000	\$0	\$0	03/11	TBD	TBD	TBD	Project beginning design.
	Pegula Ice Arena		\$89,000,000	\$0	\$89,000,000	11/10	01/12	01/12	09/13	Project in design.
University Park	IM Building Addition		\$24,000,000	\$0	\$0	01/11	TBD	TBD	TBD	Project beginning design.
	Moore Building Addition		\$26,100,000	\$23,190,000	\$1,800,000	07/08	05/10	06/10	12/11	Construction is approximately 70% complete.
	Moore Building Renovation Stage		\$21,900,000	\$20,050,000	\$1,200,000	07/08	11/11	02/12	08/13	Project in design.
	Pollock Dining Commons Renovation		\$11,700,000	\$0	\$0	N/A	11/10	01/11	08/11	Construction is approximately 95% complete.
	South Frear Renovations		\$6,110,000	\$2,460,000	\$0	N/A	03/11	05/11	01/13	Construction is approximately 12% complete.
	South Halls Renovations (Phase I)		\$30,000,000	\$0	\$0	03/11	TBD	TBD	TBD	Project in schematic design.
	Steam Production Modifications		\$25,000,000	\$0	\$0	01/11	07/12	TBD	TBD	Project in design.
	Transformer Replacement Program		\$9,600,000	\$1,000,000	\$0	N/A	N/A	06/07	12/13	Project program is approximately 50% complete.
	Water Filtration Plant		\$30,000,000	\$25,000,000	\$0	01/11	07/12	06/12	06/13	Project in design.
	West Campus Chilled Water		\$11,900,000	\$6,500,000	\$0	N/A	03/11	05/11	03/12	Construction is approximately 10% complete.
	West Pattee Library Renovations		\$7,000,000	\$0	\$7,000,000	N/A	03/11	05/11	12/11	Construction is approximately 35% complete.

Summary of University Long-Term Debt - \$(000) (excluding PCT)

Estimated bonds, notes and capital leases as of June 30, 2011 (unaudited) \$1,041,930

Authorized Borrowing Status - \$(000) (excluding PCT)

Borrowing Authority per May 2007 Board of Trust \$600,000  
 Capital Leases, Bonds, & Notes Issued (\$312,087)  
 Future Capitalized Leases & Other Anticipated C (\$6,100)  
 Estimated Authority Remaining \$281,813

**THE PENNSYLVANIA STATE UNIVERSITY  
PROPOSED CAPITAL BUDGET REQUEST FOR 2012-13**

<u>Priority Number</u>	<u>2012-2013 Construction Projects</u>	<u>Amount Requested</u>
<b>1.</b>	<p><b>Capital Renewal, Phase V (University Park)</b></p> <p>This project is part five of an effort to make significant comprehensive upgrades to the buildings at University Park. There are over 600 buildings at the University Park Campus that were constructed from the early 1900's through the 1970's. Limited funding for maintenance has allowed only for the support of component replacement of already antiquated systems and piecemeal improvements, leaving many of the older facilities barely acceptable for their programs and occupants. This project will allow the University to replace, install or upgrade as appropriate systems in major academic, research and administrative buildings across campus that were not addressed in the other phases of renewal.</p> <p>Most of the buildings have exceeded their electrical capacity and the lighting and wiring is old and deteriorating. The age and extensive use of most of the public buildings is noticeable in that flooring is damaged, ceilings are stained, paint and other interior finishes are cracked, peeling and worn, and public restrooms are dingy. This project will allow the University to address these items and will provide an opportunity to address varying safety issues and energy efficiency and conservation. Work may include connection or upgrades to central utility systems, such as chilled water, water, electric, etc.</p>	<b>\$40,000,000</b>
<b>2.</b>	<p><b>Capital Renewal, Phase IV (Eastern Region Campuses)</b></p> <p>The Commonwealth Campuses are not exempt from changes in technology, programs, client expectations, safety and building codes, research and instructional demands on their facilities. Limited maintenance funding has only supported component replacement of already antiquated systems, allowed piecemeal improvements and barely kept most of the older facilities acceptable for the programs and occupants. This project, phase three of a series, will continue the effort at the University's Eastern Region Campuses (Worthington Scranton, Wilkes-Barre, Hazleton, Lehigh Valley, Berks, Abington, Brandywine and Great Valley) to replace, install or upgrade central heating, ventilation, mechanical and air conditioning systems in major academic, research and administrative buildings. The project will replace roof systems, upgrade or replace building structural and exterior systems, install or upgrade to current building codes, electrical and other utility services, repair major building entrances, provide new energy efficient windows and lighting systems and replace antiquated water and plumbing systems. Upgrades and modernization to interior building finishes, room configurations and rest room facilities will be completed as appropriate. Upgrades or new construction to central power or utility plants will be included as necessitated by the project.</p>	<b>\$28,000,000</b>
<b>3.</b>	<p><b>Capital Renewal, Phase IV (Central Region Campuses)</b></p> <p>The Commonwealth Campuses are not exempt from changes in technology, programs, client expectations, safety and building codes, research and instructional demands on their facilities. Limited maintenance funding has only supported component replacement of already antiquated systems, allowed piecemeal improvements and barely kept most of the older facilities acceptable for the programs and occupants. This project, phase three of a series, will continue the effort at the University's Central Region Campuses (Altoona, Mont Alto, Harrisburg, Schuylkill, York and Dickinson School of Law-Carlisle) to replace, install or upgrade central heating, ventilation, mechanical and air conditioning systems in major academic, research and administrative buildings. The project will replace roof systems, upgrade or replace building structural and exterior systems, install or upgrade to current building codes, electrical and other utility services, repair major building entrances, provide new energy efficient windows and lighting systems and replace antiquated water and plumbing systems. Upgrades and modernization to interior building finishes, room configurations and rest room facilities will be completed as appropriate. Upgrades or new construction to central power or utility plants will be included as necessitated by the project.</p>	<b>\$28,000,000</b>

**4. Capital Renewal, Phase IV (Western Region Campuses)**

**\$28,000,000**

The Commonwealth Campuses are not exempt from changes in technology, programs, client expectations, safety and building codes, research and instructional demands on their facilities. Limited maintenance funding has only supported component replacement of already antiquated systems, allowed piecemeal improvements and barely kept most of the older facilities acceptable for the programs and occupants. This project, phase three of a series, will continue the effort at the University's Western Region Campuses (Erie, Shenango, DuBois, Beaver, New Kensington, Greater Allegheny and Fayette) to replace, install or upgrade central heating, ventilation, mechanical and air conditioning systems in major academic, research and administrative buildings. The project will replace roof systems, upgrade or replace building structural and exterior systems, install or upgrade to current building codes, electrical and other utility services, repair major building entrances, provide new energy efficient windows and lighting systems and replace antiquated water and plumbing systems. Upgrades and modernization to interior building finishes, room configurations and rest room facilities will be completed as appropriate. Upgrades or new construction to central power or utility plants will be included as necessitated by the project.

**5. Disaster Recovery/Business Continuity Data Center (location to be determined)**

**\$35,000,000**

The University has been assessing its business continuity vulnerability in the event of a catastrophic loss of computer data and systems at University Park. To address this concern, consultants have recommended the development of a mirror site that can be fully operational in moments if such an event should occur. The facility needs to be within an approximate sixty-mile distance of the University Park Campus.

This project will include the acquisition of an appropriate site in the serviceable area that can be readily developed to meet the needs of this type of facility. The facility will house server racks to accommodate the current needs of the University and allow for expansion as the need arises. The site will accommodate outside support space and equipment. Other items included in the project are extension of any and all utilities to the site, clearance/demolition of any existing structures, parking and access roads, specialized security systems, and uninterrupted power systems (UPS) for backup power service in the event of utility power outage.

**2012-13 Total Construction Projects**

**\$159,000,000**

THE PENNSYLVANIA STATE UNIVERSITY  
PROPOSED CAPITAL BUDGET REQUEST FOR 2012-13

<u>Priority Number</u>	<u>2012-2013 Original Equipment</u>	<u>Amount Requested</u>
1.	Capital Renewal, Phase V (University Park)	\$ 6,000,000
2.	Capital Renewal, Phase IV (Eastern Region Campuses)	\$ 4,200,000
3.	Capital Renewal, Phase IV (Central Region Campuses)	\$ 4,200,000
4.	Capital Renewal, Phase IV (Western Region Campuses)	\$ 4,200,000
5.	Disaster Recovery/Business Continuity Data Center (location to be determined)	\$ 10,000,000
	<b>2012-13 Total Original Equipment</b>	<b>\$ 28,600,000</b>
	<b>2012-13 TOTAL REQUESTED</b>	<b>\$ 187,600,000</b>

F&PP

THE PENNSYLVANIA STATE UNIVERSITY  
 OFFICE OF UNIVERSITY DEVELOPMENT  
 YEAR TO DATE REPORT - ALL SOURCES  
 TYPE DONOR REPORT (GIFTS)

THROUGH JUNE 2011

	This Year Year-To-Date (As of 6/30/11)		Last Year Year-To-Date (As of 6/30/10)		Change Year-To-Date (From 2010 - 2011)		Last Fiscal Year Grand Totals (7/01/09 - 6/30/10)	
	Gifts	Dollars	Gifts	Dollars	Gifts	Dollars	Gifts	Dollars
<b>ALUMNI</b>	129,705	131,421,878	128,378	65,258,580	1,327	66,163,298	128,378	65,258,580
<b>FRIENDS</b>	159,053	39,115,459	153,323	36,533,747	5,730	2,581,712	153,323	36,533,747
<b>CORPORATIONS</b>	13,943	53,108,816	13,346	53,539,160	597	(430,344)	13,346	53,539,160
<b>FOUNDATIONS</b>	1,902	30,474,260	1,343	31,800,701	559	(1,326,441)	1,343	31,800,701
<b>ORGANIZATIONS</b>	3,421	20,711,628	3,220	16,518,610	201	4,193,018	3,220	16,518,610
<b>TOTALS</b>	<b>308,024</b>	<b>\$274,832,041</b>	<b>299,610</b>	<b>\$203,650,798</b>	<b>8,414</b>	<b>\$71,181,243</b>	<b>299,610</b>	<b>\$203,650,798</b>

YEAR TO DATE REPORT - ALL SOURCES  
PURPOSE OF GIFT  
THROUGH JUNE 2011

	This Year Year-To-Date (As of 6/30/11)		Last Year Year-To-Date (As of 6/30/10)		Change Year-To-Date (From 2010 - 2011)		Last Fiscal Year Grand Totals (7/01/09 - 6/30/10)	
	Gifts	Dollars	Gifts	Dollars	Gifts	Dollars	Gifts	Dollars
UNRESTRICTED	8,492	1,038,853	8,354	1,446,757	138	(407,904)	8,354	1,446,757
ACADEMIC DIVISIONS	18,324	5,206,156	19,398	5,360,180	(1,074)	(154,024)	19,398	5,360,180
FACULTY RESOURCES	545	26,666,797	654	11,827,681	(109)	14,839,116	654	11,827,681
RESEARCH	4,071	34,960,682	4,070	43,942,086	1	(8,981,404)	4,070	43,942,086
PUBLIC SVC & EXT	22,995	4,669,058	23,456	4,187,259	(461)	481,799	23,456	4,187,259
LIBRARY	1,718	290,800	1,992	386,313	(274)	(95,513)	1,992	386,313
PHYS. PLANT MAINT.	177	30,908	200	13,016	(23)	17,892	200	13,016
STUDENT AID	51,161	60,422,491	46,941	39,897,817	4,220	20,524,674	46,941	39,897,817
SCHOLARSHIPS	15,595	33,969,171	13,944	23,292,023	1,651	10,677,148	13,944	23,292,023
STUDENT LOANS	176	1,050,558	37	4,200	139	1,046,358	37	4,200
GRADUATE FELLOWSHIPS	778	4,058,765	733	1,528,081	45	2,530,684	733	1,528,081
ATHLETIC GRT-IN-AID	34,612	21,343,997	32,227	15,073,513	2,385	6,270,484	32,227	15,073,513
PROP/BLDGS/EQUIP	8,713	76,384,690	8,902	47,135,072	(189)	29,249,618	8,902	47,135,072
OTHER PURPOSES	191,828	65,161,606	185,643	49,454,617	6,185	15,706,989	185,643	49,454,617
<b>TOTALS</b>	<b>308,024</b>	<b>\$274,832,041</b>	<b>299,610</b>	<b>\$203,650,798</b>	<b>8,414</b>	<b>\$71,181,243</b>	<b>299,610</b>	<b>\$203,650,798</b>

	This Year-To-Date (As of 6/30/11)		Last Year-To-Date (As of 6/30/10)		Change in YTD Totals (From 2010 - 2011)		Last Fiscal Year Grand Totals (7/01/09 - 6/30/10)	
	Gifts	Dollars	Gifts	Dollars	Gifts	Dollars	Gifts	Dollars
ABINGTON	1,354	400,644	1,212	606,458	142	(205,814)	1,212	606,458
AGRICULTURAL SCIENCES	4,907	7,919,738	5,054	10,001,794	(147)	(2,082,056)	5,054	10,001,794
ALTOONA	2,343	1,697,803	2,045	2,264,223	298	(566,420)	2,045	2,264,223
ARTS & ARCHITECTURE	7,111	17,704,577	6,916	7,963,645	195	9,740,932	6,916	7,963,645
BEAVER	982	437,486	918	525,990	64	(88,504)	918	525,990
BEHREND	3,682	6,627,329	3,637	4,861,258	45	1,766,071	3,637	4,861,258
BERKS	1,693	391,383	861	307,295	832	84,088	861	307,295
BRANDYWINE	697	219,969	686	2,866,895	11	(2,646,926)	686	2,866,895
COMMUNICATIONS	1,624	1,841,389	1,607	1,931,400	17	(90,011)	1,607	1,931,400
DICKINSON SCHOOL OF LAW	890	808,834	989	7,372,746	(99)	(6,563,912)	989	7,372,746
DUBOIS	1,001	324,980	1,157	319,894	(156)	5,086	1,157	319,894
EARTH & MINERAL SCIENCES	3,774	13,604,867	4,058	13,961,403	(284)	(356,536)	4,058	13,961,403
THE EBERLY COLLEGE OF SCIENCE	5,506	5,836,682	5,705	4,653,661	(199)	1,183,021	5,705	4,653,661
EDUCATION	4,840	3,034,634	4,948	1,349,337	(108)	1,685,297	4,948	1,349,337
EDUCATIONAL EQUITY	604	478,990	411	642,291	193	(163,301)	411	642,291
ENGINEERING	10,659	18,820,768	11,246	22,673,202	(587)	(3,852,434)	11,246	22,673,202
FAYETTE, THE EBERLY CAMPUS	546	433,174	577	864,930	(31)	(431,756)	577	864,930
GREAT VALLEY	511	87,065	596	259,762	(85)	(172,697)	596	259,762
GREATER ALLEGHENY	1,218	407,952	792	412,996	426	(5,044)	792	412,996
HARRISBURG	3,371	890,271	3,135	1,790,035	236	(899,764)	3,135	1,790,035
HAZLETON	859	433,564	816	716,659	43	(283,095)	816	716,659
HEALTH & HUMAN DEVELOPMENT	5,898	10,540,363	6,013	6,318,732	(115)	4,221,631	6,013	6,318,732
HERSHEY	124,037	35,256,843	121,795	33,551,278	2,242	1,705,565	121,795	33,551,278
INFORMATION SCIENCES & TECHNOLOGY	507	2,254,019	471	1,237,756	36	1,016,263	471	1,237,756
INTERCOLLEGIATE ATHLETICS	40,283	83,000,518	36,848	29,875,868	3,435	53,124,650	36,848	29,875,868
LEHIGH VALLEY	620	117,654	497	119,111	123	(1,457)	497	119,111
LIBERAL ARTS	5,989	19,525,020	6,324	10,984,055	(335)	8,540,965	6,324	10,984,055
MONT ALTO	1,339	733,466	1,518	613,122	(179)	120,344	1,518	613,122
NEW KENSINGTON	748	376,493	747	661,666	1	(285,173)	747	661,666
OUTREACH	25,078	6,551,951	25,638	5,678,092	(560)	873,859	25,638	5,678,092
RESEARCH & GRADUATE SCHOOL	367	1,026,037	432	3,591,949	(65)	(2,565,912)	432	3,591,949
SCHREYER HONORS COLLEGE	1,742	4,948,194	1,520	2,421,245	222	2,526,949	1,520	2,421,245
SCHUYLKILL	985	592,515	956	312,835	29	279,680	956	312,835
SHENANGO	666	250,453	709	357,700	(43)	(107,247)	709	357,700
THE SMEAL COLLEGE OF BUSINESS	8,667	7,582,036	8,768	7,013,603	(101)	568,433	8,768	7,013,603
STUDENT AFFAIRS	9,084	1,002,790	3,396	732,474	5,688	270,316	3,396	732,474
UNDERGRADUATE EDUCATION	2,638	5,444,282	2,223	3,389,891	415	2,054,391	2,223	3,389,891
UNIVERSITY LIBRARIES	4,545	2,090,601	4,933	2,116,662	(388)	(26,061)	4,933	2,116,662
UNIVERSITY WIDE	13,396	9,083,589	16,288	5,643,919	(2,892)	3,439,670	16,288	5,643,919
WILKES-BARRE	1,102	381,783	1,119	1,289,800	(17)	(908,017)	1,119	1,289,800
WORTHINGTON SCRANTON	966	985,560	894	947,521	72	38,039	894	947,521
YORK	1,195	685,775	1,155	447,645	40	238,130	1,155	447,645
<b>TOTAL</b>	<b>308,024</b>	<b>\$274,832,041</b>	<b>299,610</b>	<b>\$203,650,798</b>	<b>8,414</b>	<b>\$71,181,243</b>	<b>299,610</b>	<b>\$203,650,798</b>

(Appendix I.4)



## Endowment & Similar Funds

Investment Review for Fiscal 2011

Submitted September 2011

*This cover page provides a summary overview of the Pennsylvania State University Endowment and Similar Funds for Fiscal Year 2011. The second page summarizes Endowment-related data that is discussed on the remaining pages, along with in depth Endowment performance analysis.*

### Executive Overview

#### Endowment Performance

Annualized *net* investment returns for the Penn State University Endowment (adjusted for the impact of gifts and spending, and after external investment management expenses) are shown below for periods ending June 30, 2011:

<u>Fiscal 11</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
23.2%	3.9%	5.9%	6.5%

#### Endowment & Similar Funds Market Value (pg 3)

Penn State University's Endowment was valued at \$1,708 million as of June 30, 2011, with an additional \$123 million in Similar Funds.

#### Review of Investment Markets (pg 4)

The graph below compares respective returns for 12-months ending June 30, 2010 and 2011 for the S&P 500, MSCI All Country World (ACW) ex-US, 91-day US Treasury Bills, Barclays Aggregate Bond, and publicly-traded Real Estate Investment Trusts (REITs) Indexes. As shown below, both US and non-US public equity returns for fiscal 2011 outpaced their 2010 performances, while domestic real estate (REITs) again outperformed other asset classes. For both years, bonds were positive while T-Bill returns were again negligible.

#### Investment Diversification and Asset Mix (pg 5)

At fiscal year-end, 59% of Endowment assets were invested in public equities (domestic and foreign), 17% in fixed income/cash, and 24% in private capital partnerships (venture capital, private buyouts, real estate, and natural resources).

#### Comparative Fund Performance (pg 6)

Penn State's Endowment returned 23.2% net for the year ending June 30, 2011 versus 22.5% for the Passive Policy Portfolio, largely due to strong public equity manager performance relative to passive benchmarks. The Endowment's 3- and 5-yr relative performance was slightly better than respective passive benchmarks.

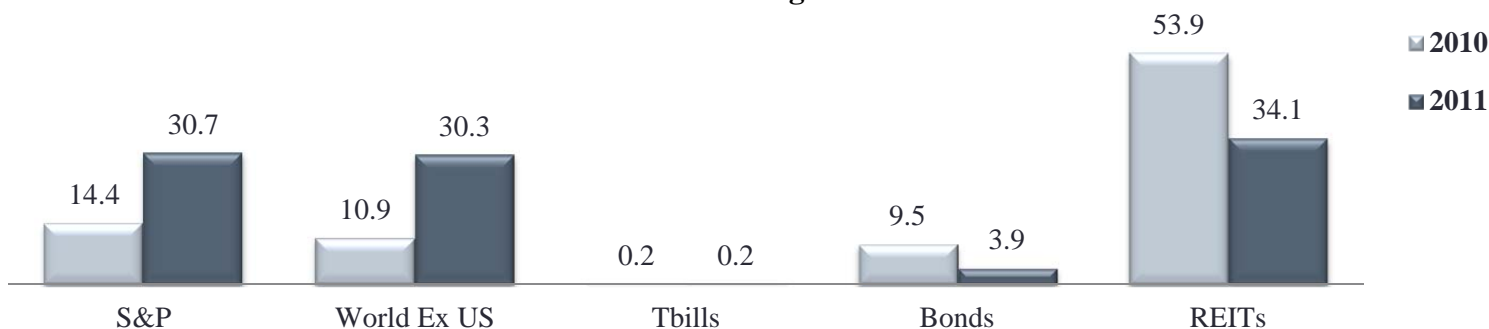
#### Endowment Liquidity (pg 7)

With approximately one-half of its assets convertible to cash in a matter of days, the Endowment maintains adequate liquidity to satisfy anticipated cash requirements.

#### Endowment Performance and Spending (pg 8)

The Penn State Endowment's average annual net returns of 6.5% and 8.8% over the last 10 and 20 years, respectively, have allowed the Endowment to maintain inflation-adjusted spending while achieving long-term intergenerational equity.

**Investment Market Returns  
Fiscal Years Ending June 30**



## 5-Year Endowment Facts and Figures

	Annual Periods Ending June 30				
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b><i>Investment Performance</i></b>					
Endowment <sup>1</sup> (annualized net returns)	23.2%	14.3%	-20.1%	-1.9%	21.2%
<b><i>Market Values</i></b> (\$ millions)					
Endowment <sup>1</sup>	1,708.4	1,341.5	1,183.9	1,487.9	1,538.7
<u>Similar Funds</u> <sup>2</sup>	<u>122.7</u>	<u>97.6</u>	<u>97.4</u>	<u>127.7</u>	<u>131.5</u>
Endowment and Similar Funds	1,831.1	1,439.1	1,281.3	1,615.6	1,670.2
Gifts & Other Additions (\$ mils)	136.3	62.5	61.2	47.8	55.2
Current Spending (\$ mils)	66.0	63.4	65.1	60.4	58.3
<p>1) Endowment assets over which Penn State's Office of Investment Management (OIM) has investment responsibility, as approved by the Penn State Investment Council (PSIC).</p> <p>2) Similar Funds — includes donor-restricted and deferred gifts, plus funds in transit to Endowment.</p>					

## Penn State Investment Council (PSIC) Meetings

August 13, 2010:

- Committing \$15 million to Wellspring Capital Partners V, L.P.

October 29, 2010:

- Maintain Penn State's Endowment spending at a 4.5% annual rate.
- Committing \$10 million to Yorktown Energy IX, L.P.
- Committing \$15 million to EnCap Energy VIII, L.P.

December 12, 2010:

- Committing \$15 million to Oaktree Real Estate Opportunities Fund V, L.P.

March 17, 2011:

- Committing \$4M to IDG Accel China Growth Fund III, L.P.
- Committing \$6M to IDG Accel China Capital Fund II, L.P.

June 24, 2011:

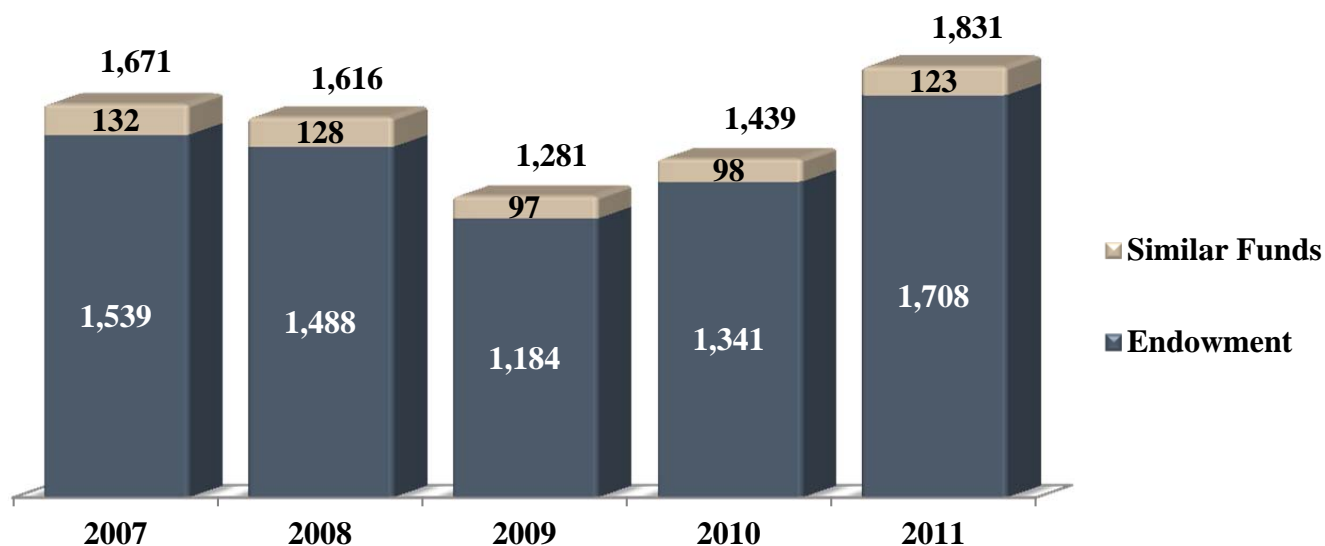
- Committing \$3M to Accel Growth Fund II, L.P.
- Committing \$2M to Accel XI, L.P.
- Committing \$10M to Emergence Capital Partners III, L.P.
- Committing \$10M to GSR Ventures IV, L.P.

Please note that commitments made to Limited Partnerships (LPs) are not immediately invested and are called (paid in) over several years until commitment is satisfied, except as noted.

## Endowment and Similar Funds Market Value

As of June 30, 2011, Penn State's Endowment was valued at \$1,708.4 million. Non-pooled assets — charitable remainder trusts, charitable gift annuities, and other life income funds in addition to some donor restricted funds, as well as cash in transit to the Endowment — accounted for an additional \$122.7 million, bringing Penn State's Endowment and Similar Funds to \$1,831.1 million. The annual market values for the University's Endowment and Similar Funds for each of the last five fiscal years ending June 30 are shown below:

**Endowment and Similar Funds Market Value**  
**Fiscal Years Ending June 30**  
 (\$ millions)



### From the graph above:

The Endowment and Similar Funds' total value increased by \$392.0 million during Fiscal 2011. As seen in the table on page 2, new gifts added to the Pool over the last 12 months totaled \$136.3 million, while Endowment program support (spending) amounted to \$66.0 million.

The total Endowment's \$160.9 million increase over the last five years reflects new gift contributions and reinvested investment earnings, *after* providing cumulative program support of \$313.2 million.

Inflows of new gifts, along with positive investment returns, have resulted in a cumulative 9.63% increase in the Endowment's value, net of spending, from June 30, 2007 to June 30, 2011.

## Review of Investment Markets in Fiscal 2011

Following a year of strong double-digit gains, equities in Fiscal 2011 again handily outperformed fixed income returns, while non-US indexes generally lagged domestic equity markets. The performance of investment markets that directly impact Penn State University's Endowment is discussed below.

### US Equities

The S&P 500 returned 30.7% for the 12 months ending June 30, 2011, compared to 14.4% for Fiscal 2010, while the large-cap biased Dow Jones Industrial Index returned 30.4% and 18.9%, respectively. Small-capitalization stocks, as measured by the Russell 2000 Index, returned 37.4% versus 21.5% last year. The Nasdaq Index's 31.5% return was comparable to the broad domestic indexes in fiscal 2011, and exceeded its 2010 return of 14.9%.

### Non-US Equities

Equities outside the United States generally matched those in the US as the Morgan Stanley All Country World (ACW) Index ex-US returned 30.3% for the 12-month period ending June 30, 2011. This was well above its Fiscal 2010 return of 10.9%. Emerging market equities in developing countries returned 28.2% over the last 12 months, somewhat above their 23.5% return in Fiscal 2010.

### Fixed Income

Barclays Capital Aggregate Bond Index (various maturities of US Government and non-government domestic bonds) returned 3.9% in Fiscal 2011 versus 9.5% in 2010. US Treasury Bonds returned -1.1% in Fiscal 2011 versus 12.0% a year earlier.

For Fiscal 2011, 91-day Treasury Bills again earned 0.2% and Treasury Inflation Protected Securities (TIPS) returned 7.7% in Fiscal 2011 compared to 9.5% in Fiscal 2010.

### Real Estate

Publicly-traded Real Estate Investment Trusts (REITs) returned 34.1% for the Fiscal year ended June 2011 compared to 53.9% in 2010. Privately-held real estate investment partnerships, as measured by the largely commercial property NCREIF Index, rebounded to earn 16.0% in Fiscal 2011 compared to -9.6% in 2010.

### Alternatives

Private Equity Buyouts and Venture Capital increased as well, averaging returns of 21.3% and 18.4%, respectively, for the 12 months ending March 31, 2011 (private capital partnerships are reported on a 3-month lag). In the previous 12-month period ending March 31, 2010, Private Equity returned 22.5%, while Venture Capital was at 6.4%. By comparison, the Russell 2000 Index of small-capitalization stocks returned 25.8% for the 12 months ending March 31, 2011 and 62.8% for the year ending March 31, 2010.

### Economic and Market Outlook

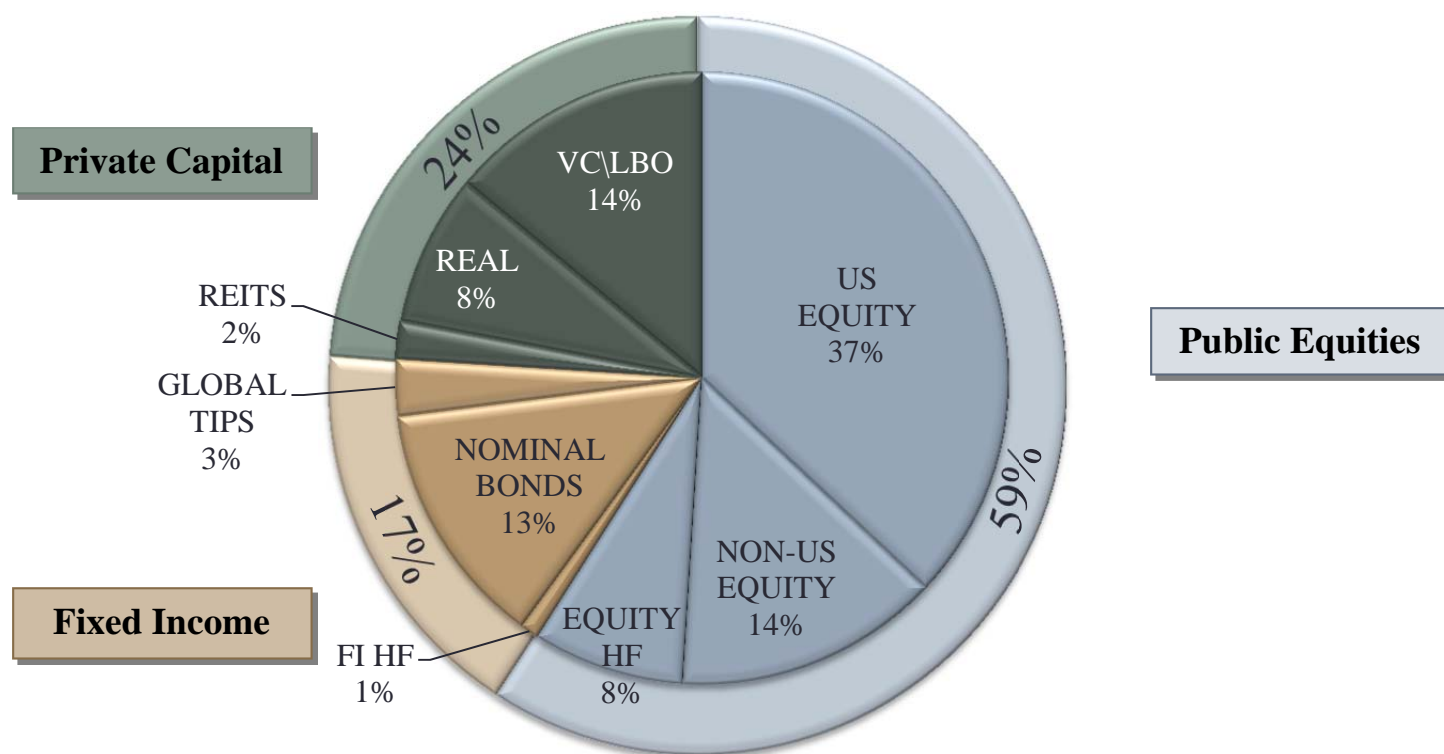
In the 12 months ending June 30, 2011, global equity markets continued the rally that began in March of 2008. However, unlike 2009, US equities lead the world indexes. Fixed income markets provided a fourth consecutive year of positive returns, as the Federal Reserve continued to hold down interest rates to alleviate credit market distress brought on by the decline in housing prices and the accompanying deleveraging. Looking ahead, expectations for domestic corporate profits have brightened in the face of improving credit concerns and a recovering economy.

Penn State's well-diversified endowment portfolio — consisting of public equities, private partnerships, bonds, and hedge funds in addition to inflation-sensitive "real assets" — continues to be the most appropriate investment approach for long-term growth and sustainable spending.

## Investment Diversification and Asset Mix

Asset allocation is a primary determinant of investment performance and risk control. The Endowment's asset mix combines three very broad asset categories - public equities, private capital, and fixed income - to maximize potential returns, while tempering volatility. Reflecting a desire to support generous spending and the need to preserve purchasing power in light of changing market and economic conditions, the Penn State Investment Council (PSIC) regularly reviews the Endowment's investment policy.

In the graph below, the three macro categories – public equities, fixed income, and private capital – are shown in the outermost ring with their June 30, 2011 allocations of 59%, 17%, and 24%, respectively.



At a more granular level, the Endowment's diversified portfolio includes a variety of asset classes that comprise the three macro categories, as shown by the slices within the inner pie (percentages are rounded):

- 59% in Public Equities includes publicly-traded US (37%) and non-US (14%) common stocks, and equity-oriented hedge funds (8%).
- 17% in Fixed Income includes 13% in nominal bonds (largely US government bonds), 3% in Global Treasury Inflation Protected Securities (Global TIPS), and 1% in an absolute-return hedge fund.
- 24% in Private Capital includes the following private partnerships: 14% private equity (venture capital, leveraged buy-outs, distressed-debt), and 10% in real assets (private and public real estate, and energy).

The individual asset classes above represent market values as of June 30, 2011; however, the percentages fluctuate over time depending on market trends and allocations approved by the Penn State Investment Council.

The approximately 83% currently allocated to public equities and private capital is intended to take advantage of capital growth and purchasing power protection offered by equity-type investments. On the other hand, the 17% invested in fixed income is intended to provide diversification and stability during times of market turbulence.

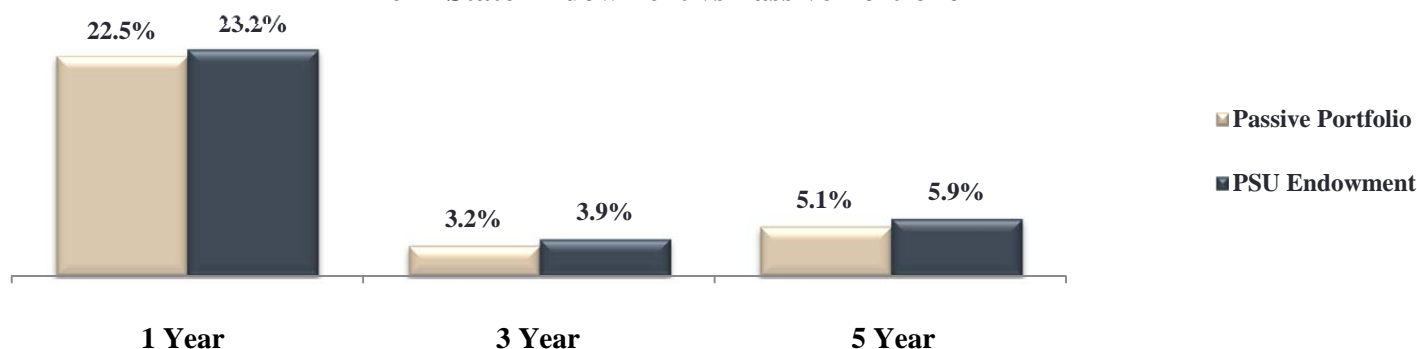
## Endowment Performance Compared to Passive Portfolio

The Endowment's investment performance is measured against a hypothetical *Passive Portfolio*, comprised of three broad asset categories: Public Equities, Private Capital, and Fixed Income. This passive portfolio serves as a blended benchmark against which the performance of the actual, actively-managed Endowment is monitored. In the table below, the respective static weightings of the three major asset categories, along with respective sub categories, are associated with corresponding market benchmarks to generate *Passive Portfolio* returns over 1-, 3-, and 5-year horizons:

<u>Asset Class</u>	<u>Benchmark</u>	<u>Weighting</u>	<b>- Annualized Benchmark Returns -</b>		
			<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
Public Equities (listed on stock exchanges)					
US Equities	S&P 500 Index	40%	30.7	3.3	2.9
Non-US Equities	All Country World ex US Index	15	30.3	0.1	4.1
Private Capital (non-marketable alternatives)					
Private Equity	CA Private Equity Composite	15%	21.3	4.3	10.4
Venture Capital	CA Venture Capital Composite	5	18.4	1.4	5.9
Private Real Estate	NCREIF Index	5	16.0	-3.6	3.7
Fixed Income/Cash					
Total US Bonds	Barclays Aggregate Bonds	<u>20%</u>	<u>3.9</u>	<u>5.9</u>	<u>5.8</u>
<b>Total Passive Portfolio (net)</b>		<b>100%</b>	<b>22.5%</b>	<b>3.2%</b>	<b>5.1%</b>

Note: the above categories / sub-categories are very broad and are assumed to be constant over the entire 5-yr period, much like a traditional balanced portfolio. As shown on the previous page, the actual endowment portfolio is comprised of several separate portfolios whose periodic weights vary as a result of fluctuating market returns.

### Penn State Endowment vs Passive Portfolio



As shown above, Penn State's Endowment returned 23.2% net for Fiscal 2011, surpassing the 22.5% return of the Passive Portfolio. For the trailing 3- and 5-years, the Passive Portfolio would have realized annualized returns of 3.2% and 5.1%, respectively.

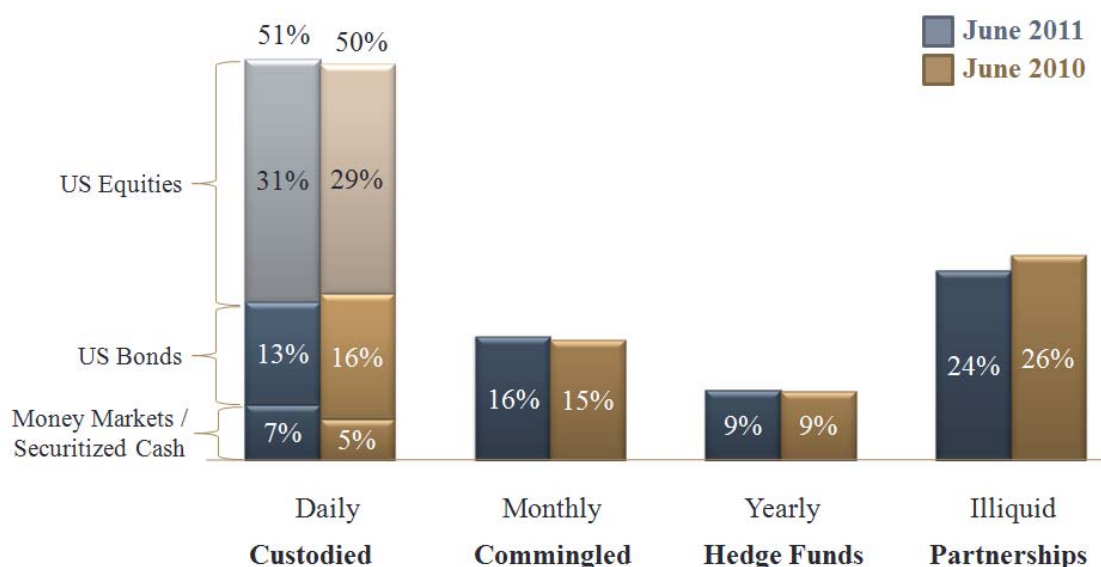
By comparison, the Endowment's actual 3- and 5-year returns outperformed in each period, netting 3.9% and 5.9%, respectively. Overall, this shows that the Endowment's investment managers augmented the performance relative to passive benchmarks.

The Passive Portfolio provides a guidepost to help achieve long-term results that are consistent with the twin objectives of purchasing-power preservation, along with stable endowment spending. The Endowment's performance varies from the *static* Passive Portfolio as a consequence of several factors, including but not limited to the following: timing of cash-flows into and out of the Endowment, tactical shifts in asset mix, and individual investment manager performance.

## Endowment Liquidity

The financial crisis that erupted in 2008 was characterized, among other considerations, by lack of liquidity. Many institutions were unable to meet current obligations due to lack of available cash. This was exacerbated by their inability to readily convert some assets to cash because of reduced trading volumes in some financial instruments.

In the graph below, Endowment assets are classified according to how quickly they can be converted to cash. Most securities listed on exchanges or traded over-the-counter, and held at our custodian bank in separately managed accounts, can be liquidated on a daily basis (typically 1- and 3-day settlement for bonds and stocks, respectively). Commingled portfolios, i.e., collectively-managed investment pools of publicly-traded securities, are eligible for purchase or sale at least once a month. Hedge fund partnerships are typically open for at least partial liquidation once a year, with some having more and/or less frequent liquidity “windows.” Non-marketable partnerships are considered illiquid primarily because of the inherent inability of limited partners to transact at will.



Observations from the blue (left) bars of each of the four pairs above for the period ending June 30, 2011:

- 51 percent of Endowment assets are invested in stocks and bonds that can be converted to cash in a matter of days. Of this, about 2% is held in money market accounts, along with approximately 5% in “securitized cash” (i.e., fully collateralized equities/treasuries futures), to minimize the possibility that other assets will need to be liquidated to satisfy day-to-day and/or unforeseen cash requirements.
- Commingled portfolios, primarily non-US public equity portfolios, comprise 16% of Endowment assets and can be converted to cash monthly or sooner.
- 9% of Endowment assets are invested in six hedge fund partnerships and can be at least partially converted to cash annually or in some cases quarterly.
- 24 percent of Endowment assets are invested in 90 different partnerships or other non-marketable assets investments which are conservatively considered illiquid because of uncertain timing of future cash flows.

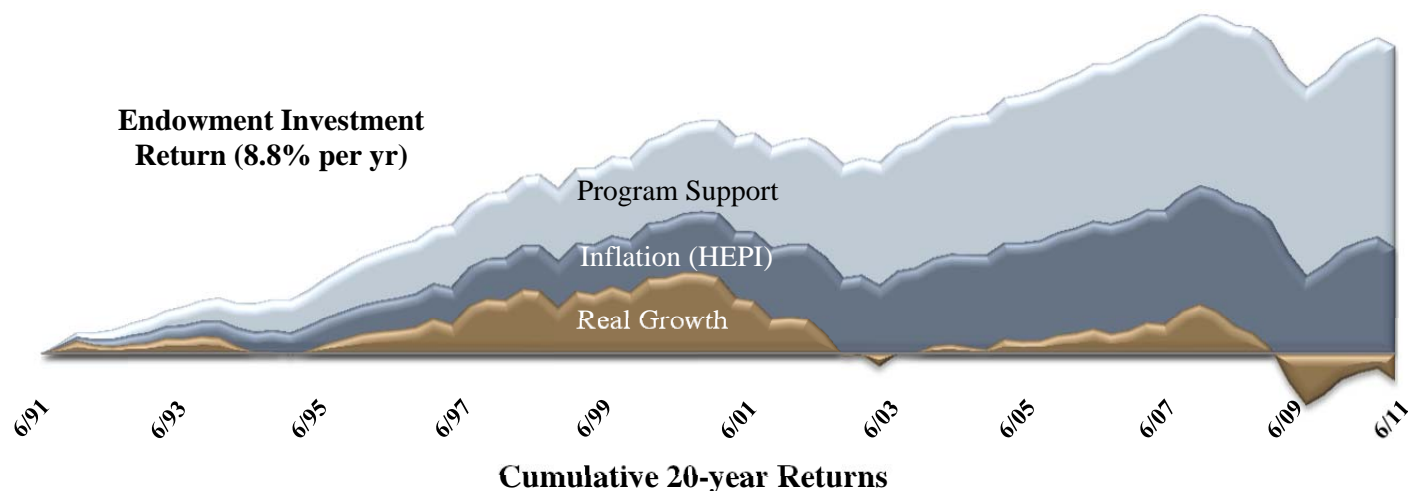
The foregoing indicates that the Endowment maintains sufficient liquidity to satisfy anticipated cash requirements.

### Increased Liquidity and Investment Performance

As shown above, the liquidity profile of Penn State’s Endowment changed slightly from the end of Fiscal 2010 (tan bars) to the end of Fiscal 2011 (blue bars). Daily liquidity *increased* from 50% to 51%. Meanwhile, monthly liquidity *increased* from 15% to 16% while yearly remained flat at 9%. Illiquid non-marketable alternative assets *decreased* from 26% to 24% of Endowment assets in Fiscal 2011. Overall, this decreased current liquidity helped the Endowment take advantage improving equity markets worldwide.

## Long-Term Endowment Growth and Spending

In the chart below, the top line represents the cumulative net investment return of the Penn State Endowment over the last 20 years. The layers illustrate investment return apportioned to program support (spending) and inflation (as measured by the Higher Education Price Index [HEPI]), with the remaining residual representing net, real (inflation-adjusted) growth.



The Endowment's primary investment goal is to earn a long-term rate of return sufficient to support *current* spending and to preserve *future* purchasing power. This two-pronged objective is illustrated by apportioning total nominal (i.e., before adjusting for inflation) investment return (top line above) into discrete layers, representing program support and inflation, along with a residual layer corresponding to net *real* growth. Because investment returns periodically fluctuate (illustrated by the jagged topography above), real growth, which nets out program support and inflation from total endowment return, oscillates across the horizontal "intergenerational equity" line. While market fluctuations have caused the growth layer to swing positive and negative, "intergenerational equity" has largely been achieved.

### Two Very Different Decades of Market Performance

The variable nature of investment returns is characterized in the below table which bifurcates the last 20 years into two successive 10-year periods, whose respective investment returns differed widely. The 10 years ending June 2001 (second row) benefitted from an extended equity bull market, while the 10 years ending June 2011 (first row) suffered two large sell-offs in equities, as shown by the S&P 500's significant return disparities (left column, last row) below:

<u>10-Year Periods</u> <u>Ending June 30</u>	<u>Annual Nominal Returns</u>			<u>HEPI</u>	<u>Annual Real Returns</u>		
	<u>S&amp;P 500</u>	<u>Bond Index</u>	<u>Endowment</u>		<u>S&amp;P</u>	<u>Bonds</u>	<u>Endowment</u>
2001 to 2011	2.7%	5.8%	6.5%	3.1%	-0.4%	2.7%	3.4%
1991 to 2001	15.1	7.9	11.3	3.3	11.8	4.6	8.0
<b>Diff (percentage points)</b>	<b>-12.4%p</b>	<b>-2.1%p</b>	<b>-4.8%p</b>	<b>-0.2%p</b>	<b>-12.2%p</b>	<b>-1.9%p</b>	<b>-4.6%p</b>

As shown by the negative differentials in the last row above, investment returns for the most recent 10 years lagged those for the previous 10 years in *every* instance. Owing to the severity of two bear markets, the S&P 500's 2.7% annualized nominal return for the 10-year period ending June 2011 trailed its 15.1% pace for the 10-year period ending June 2001 by a remarkable 12.4%p (percentage points). Over the same two periods, the respective return difference for bonds (Barclays Aggregate Bond Index) was -2.1%p and for the Endowment was -4.9%p, net of fees.

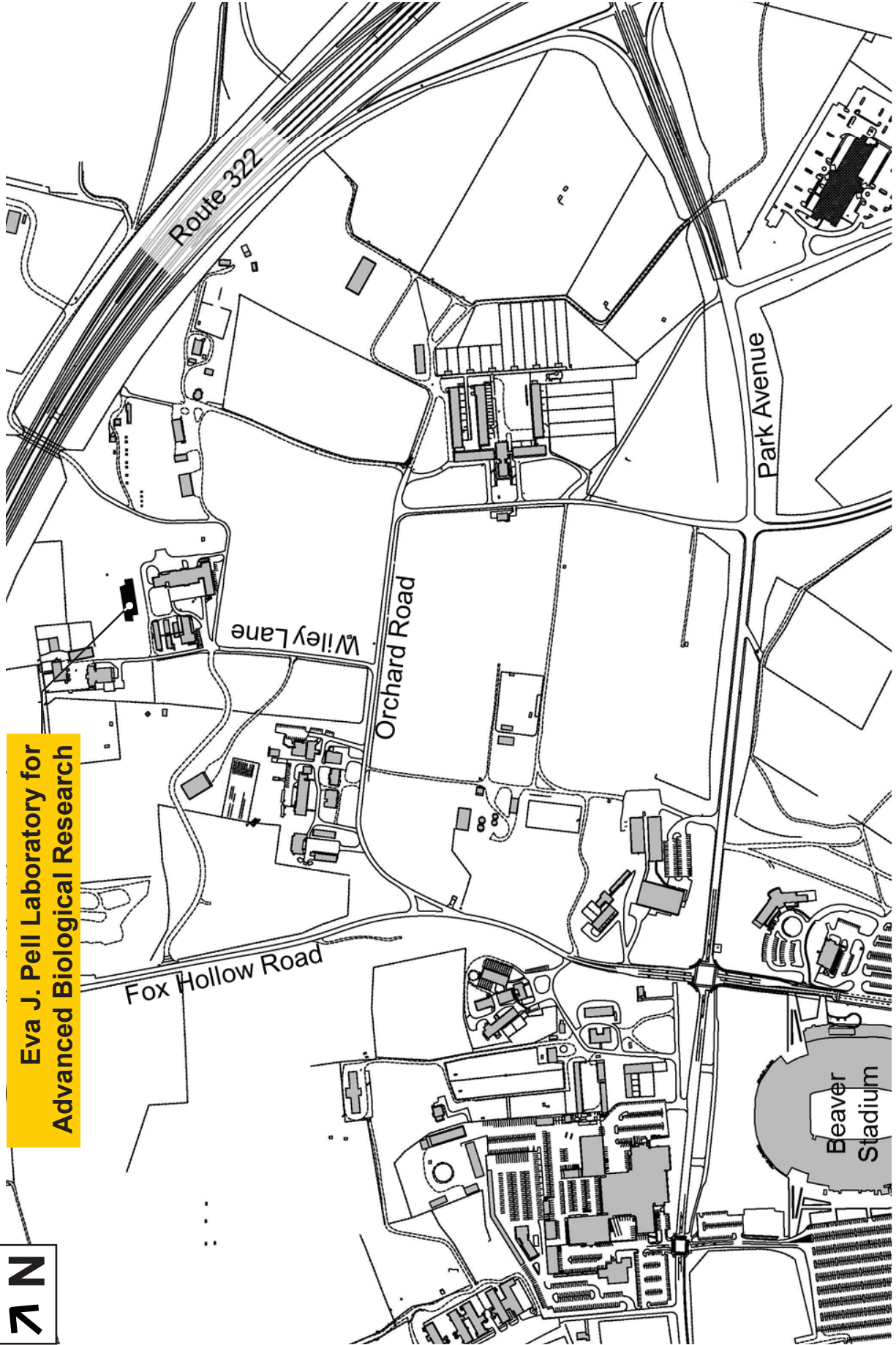
On an inflation-adjusted basis relative to HEPI (boxed column in above table), the Endowment's net *real* return difference was -4.6%p, compared to *real* differences of -12.2%p for stocks and -1.9%p for bonds (last row of the right three columns above). Over the past decade, decreased public equity exposure along with increased "alternative investments" has enabled the Endowment to outperform both stocks and bonds (nominal and real) for the 10 years ending June 2011, when overall investment returns were substantially lower than the prior 10-year period.



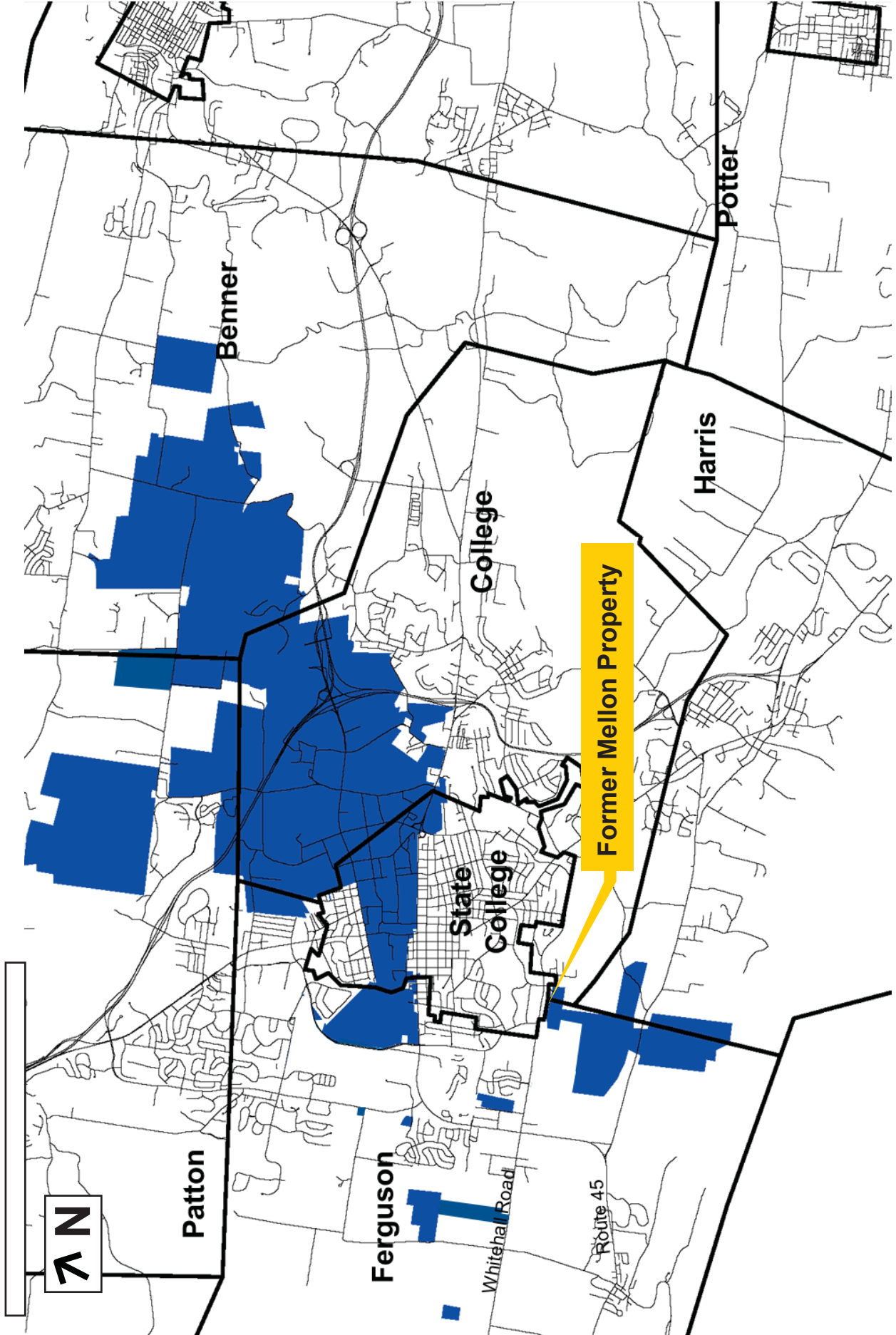
# University Park



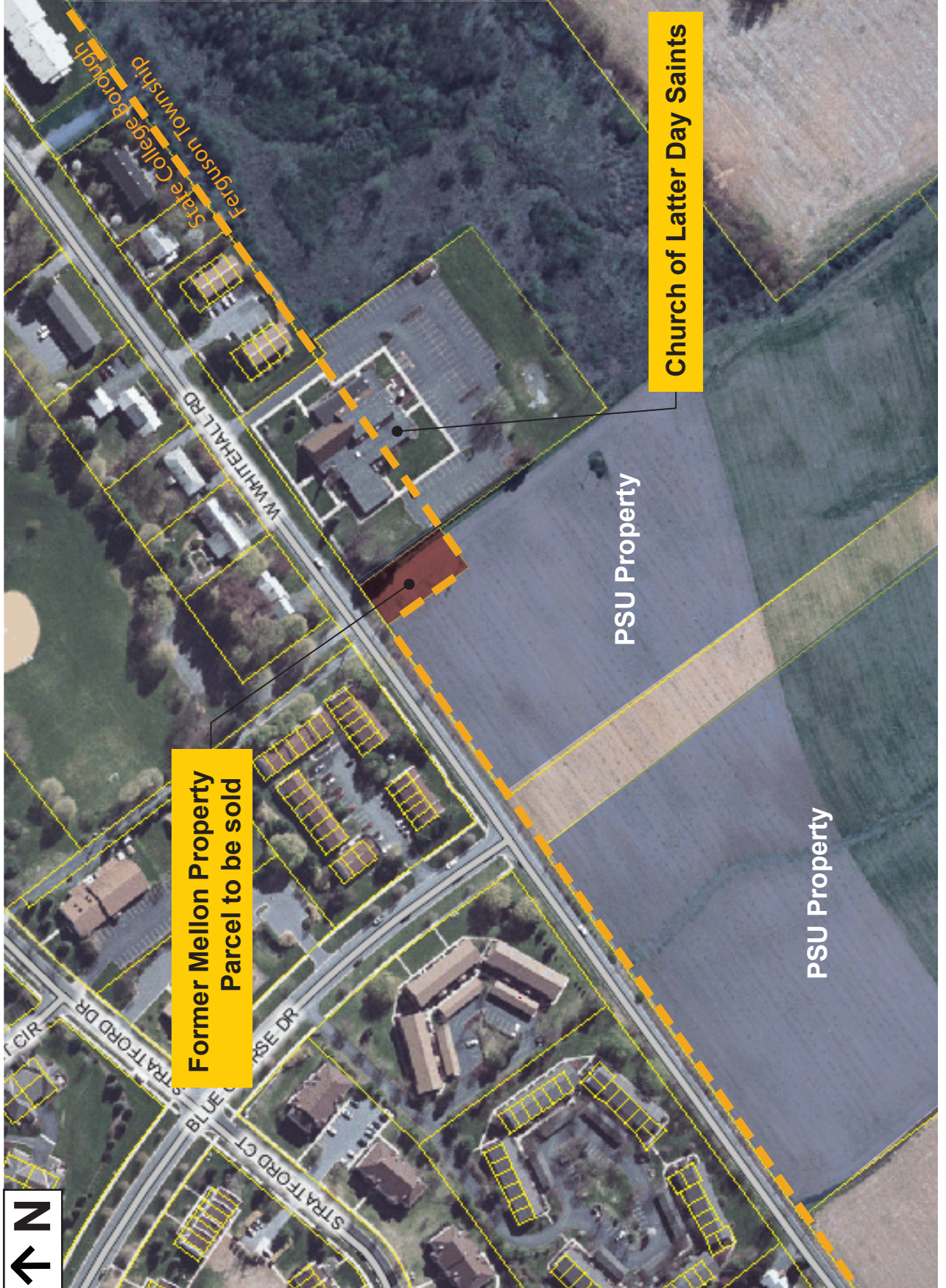
Eva J. Pell Laboratory for  
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# State College



# State College



Former Mellon Property  
Parcel to be sold

Church of Latter Day Saints

PSU Property

PSU Property

