Minutes of the Stated Meeting
of the
Executive Committee of the Trustees of the University of Pennsylvania
8 May 1987

A meeting of the Executive Committee was held on Friday, 8 May 1987. Trustees attending included: Walter G. Arader; Samuel H. Ballam, Jr.; Susan W. Catherwood; F. Eugene Dixon, Jr.; G. Morris Dorrance, Jr.; C.F. Fretz; Sheldon Hackney; Paul F. Miller, Jr.; John B. Neff; Alvin V. Shoemaker; and D. Robert Yarnall, Jr. Others present included: Jay Begun; James J. Bishop; Stuart Carroll; Richard C. Clelland; Thomas Ehrlich; Karen Gaines; Shelley Z. Green; Mary Ann Meyers; Marshall Ledger; Robert G. Lorndale; Helen B. O'Bannon; Barbara Stevens; and Marna Whittington.

I. Call to Order
The chairman called the meeting to order and the minutes of 10 April 1987 were approved as written by the secretary.

II. Report of the Chairman
The chairman had no report.

III. Report of the President
A. Dr. Hackney observed that 1986-87 has been a very good year. He said there were some loose ends to knit up before it could be brought to a close and some major decisions to be made for the next year, but those, he went on to note, will be discussed at the June meeting of the full board. "The initial return from our admissions efforts for the Class of 1991 looks very optimistic," he reported. "It would appear that our yield is higher than has been historically true for us," he said, "which may mean a few more students on campus next year than we had bargained for." But he went on to assure the Trustees that the University will find places to house all the freshman comfortably.

The president then noted that the University Museum was continuing a long series of celebrations in commemoration of its 100th anniversary. He called attention to a special convocation for the conferral of honorary degrees and "the best party that Philadelphia has seen in many a year," which had been held at the Museum the weekend before the Executive Committee meeting. "It really was a splendid success," he said, "and Susan Catherwood ought to be given a great deal of thanks." Mrs. Catherwood acknowledged the president's tribute by saying that credit belonged to the Museum's Women's Committee. In conclusion, Dr. Hackney noted that Vice Provost for University Life James Bishop has accepted a position at Ohio State University. "He will," the president said, "be missed."
D. Academic Report

Mr. Ehrlich commented that Dr. Bishop's departure would represent a great loss to the University. He observed that the academic enterprise on campus was thriving, and he went on to call the Trustees' attention to the draft Five-Year Plan of the School of Arts and Sciences, which had been published in Almanac. He described it as an exciting document that "gives a dramatic sense of momentum to all of arts and sciences." He also noted that "a very good" School of Social Work Five-Year Plan had been prepared by Dean Michael Austin, and he expressed the hope that the plans of the three schools, which had not been previously published plans, would appear within the year.

Turning to faculty appointments, he mentioned three promotions to tenure: Paul A. Hainey, an expert in condensed matter physics who joined the faculty in 1982 after receiving a Ph.D. from The Massachusetts Institute of Technology and in 1984 a Presidential Young Investigator Award, proposed as an associate professor of physics; David E. Ludden, a Penn Ph.D. who specializes in Indian history and had taught at the University of Virginia before returning to this University in 1981, proposed as an associate professor of history; and Bruce Shenker, a Georgetown Ph.D. who did postdoctoral work at Johns Hopkins before joining the Dental School in 1980 to continue his work on cellular biology, proposed as an associate professor of pathology.

Action. A Resolution on Appointments, Promotions, and Leaves was approved as found on pages 1 through 9 of the meeting book.

IV. Trustee Committee Reports

A. Budget and Finance

In the absence of Mr. Fox, Mr. Arader reported that the Budget and Finance Committee had heard a "serious and sober presentation" from the executive vice president of the Medical Center and members of the administrative staff of the Hospital of the University of Pennsylvania on financial projections for HUP for the current fiscal year as well as for FY'88. He noted that an accounting loss was projected for FY'87 and at this time an actual loss seems likely next year. "Steps are being taken so that these projections are not realized and the situation can be relieved," he said, and he further observed, that in response to a question from a student liaison to the committee, Dr. STEMmaler had said that any HUP loss would "in no way impact tuition." Mr. Arader went on to report that the Budget and Finance Committee had reviewed and endorsed three resolutions, which he then presented to the Executive Committee for action.

1. Action. A Resolution on the Renovation of the Sub-Basement Laboratory in the Anatomy/Chemistry Building was approved as follows:

Intention:

The research program of Dr. Christian Lambertsen, Emeritus Director of the Institute for Environmental Medicine, will be relocated to an area adjacent to the Institute in the basement of the John Morgan (Medical Laboratories) Building. Part of this
proposed space is currently occupied. A faculty member is being relocated to accommodate other programmatic moves in the School of Medicine to the basement of the Anatomy/Chemistry Building where the premises will be renovated to accommodate her.

The rehabilitated 800-square-foot laboratory will house laser equipment. The project is estimated to cost $341,200 and is to be funded by the Educational and Development Fund of the School of Medicine. This project is included in the Fiscal Year 1987 Capital Budget. The administration requests approval to proceed with construction as soon as bids are received, in early May 1987.

RESOLVED, that the renovation of the sub-basement laboratory in the Anatomy/Chemistry Building, estimated to cost $341,200, be and the same hereby is approved and that the Vice President for Finance or other appropriate officers of the University be and they hereby are authorized to proceed with such renovation and execute such contracts and incur such expenses and obligations - not, however, substantially in excess of the estimated cost of such renovation presented to the Budget and Finance Committee - as may in their judgment be necessary or desirable to accomplish such renovation.

2. Action. A Resolution on the Renovation of the Sixth Floor of the Richards Building was approved as follows:

Intention:

As part of its long-range plan, the School of Medicine will move Dr. Alan Latie's laboratory to the sixth floor of the Richards Building, which will be renovated to accommodate his program. In addition to medical research laboratories for the Department of Ophthalmology, this 2400-square-foot space will contain an electron microscope room, four offices and secretarial space, as well as a study area for graduate students. The project is estimated to cost $930,600 and is to be funded by the Educational and Development Fund of the School of Medicine. This project is included in the Fiscal Year 1987 Capital Budget. The administration requests approval to proceed with construction.

RESOLVED, that the renovation of the sixth floor of the Richards Building, estimated to cost $930,600, be and the same hereby is approved and that the Vice President for Finance or other appropriate officers of the University be and they hereby are authorized to proceed with such renovation and execute such contracts and incur such expenses and obligations - not, however, substantially in excess of the estimated cost of such renovation presented to the Budget and Finance Committee - as may in their judgment be necessary or desirable to accomplish such renovation.

3. Action. A Resolution on the Renovation of the Seventh Floor of the Richards Building was approved as follows:

Intention:

As part of a long-standing commitment to allocate and upgrade space on the seventh floor of the Richards Building for the Department of Physiology, the School of Medicine proposes to renovate 2400 square feet of laboratory space. This rehabilitated facility will contain two offices, five research laboratories, an equipment room, two laser rooms and an adjacent electronic shop to support the laser equipment. This project is included in the Fiscal Year 1987 Capital Budget. The administration requests approval to proceed with construction.

RESOLVED, that the renovation of the seventh floor of the Richards Building, estimated to cost $968,800, be and the same hereby is approved and that the Vice President for Finance or other appropriate officers of the University be and they hereby are authorized to proceed with such renovation and execute such
contracts and incur such expenses and obligations - not, however, substantially in excess of the estimated cost of such renovation presented to the Budget and Finance Committee - as may in their judgment be necessary or desirable to accomplish such renovation.

B. Development

Mr. Miller reported that in April the University had received $7.7 million in pledges and $4.8 million in cash receipts, bringing total pledges for the year to date to $78.7 million of Penn's $90 million goal. "It looks as if we should make that extraordinary number," he said, noting that the goal represented a 35-percent increase over last year. Gifts from alumni are up 59 percent over FY'87, according to Mr. Miller, and corporate support has increased 50 percent as of April. The chairman of the Development Committee went on to say that Vice President for Development Nahm had been visiting with him monthly and he characterized the meetings as "very productive." He said that he'd been kept up to date on actions to reorganize the senior management team within the department, to expand outreach to alumni prospects and others, and to make sure Penn's campaign strategy is well coordinated. "There is also a major effort underway," he reported, "to enhance the department's information management capabilities, so that the acknowledgement process is better expedited and the University knows more quickly what money it is getting and where it is getting it." He went on to note that a new census of all alumni is being prepared and that, in addition, the University has hired the nationally prominent firm of Marks and Lundy to conduct a feasibility study to assist in campaign planning. He further noted that a task force on institutional needs, co-chaired by Mr. Nahm and Robert Zemsky, is in place and working to put the strategic plans of all the schools and the centers together. "Their report in the form of a statement on needs will be presented to the Trustees at the June meeting. Following review by the Development Committee and then the full body of Trustees, a feasibility study will be taken to assess our full capability, in other words, to see how much money we can raise in the campaign," he said. "I guess we can all be prepared for a rather shocking number, judging from the size of campaigns elsewhere, which are approaching a billion dollars. I wouldn't be much surprised if we were somewhere up in that $750-million to $1 billion category," he concluded.

C. Medical Center Board

Mr. Ballam reported that Edward Schwartz has come on board March as executive director of the Hospital and is organizing his administrative team. The chairman went on to say that the Budget and Finance Committee of the Trustee Board of the Medical Center would meet on 11 May to examine for the first time a budget for the Clinical Practices, which will be incorporated with the budget of the Medical Center and the University budget. "We are trying to improve our competitive position, which means a lot of work to recruit the proper doctors to increase Hospital admissions," he said, "and that is a
long-term process." He concluded by noting that if the management of
the Medical Center is not able to achieve its financial objectives, it
is prepared to make some recommendations in view of "the rather grim
outlook" reported previously by Mr. Arader.

D. Investment Board

Mr. Neff reported that about half of the liquidity in the equity
side of the portfolio, which amounts to about $35 million and accounts
for 7- or 8-percent of the total portfolio, had been invested in
10-year Treasury notes paying 8.5-percent yield. He noted that the
bond market, which he described as "having driven the stock market for
maybe two years or so ending in April of last year, topped out with
long term rates as low as 7.1 percent" and subsequently rose some 150
basis points. The chairman further observed that the stock market has
continued to go up, seemingly "leading a life all of its own. The
increase in yield in the intermediates amounts to about 225 basis
points more than we're getting in the short-term cash equivalents,
obviously not without some principal risk, but we think that if the
market ever does cave in the way we keep thinking it will and it never
does, we'll be selling those at maybe 3 to 5 percent depreciation and
buy stocks, which will be down 25, maybe even 30, percent from where
they are now."

Mr. Neff went on to report changes in the character of the equity
portfolio, noting that it was only a little less than a year ago when
about 26 percent of it was in energy stocks. "Now," he said, "oil
represents about 10 percent of the AIF equities at a time when oil
stocks have increased in value, rising about 80 percent across the
board since last summer." The chairman noted that the appreciation was
"an example of Wall Street groupthink," and he said we have been
selling individual energy holdings as they rose. He further reported
that the aluminums, which at one time made up almost 4 percent of the
portfolio, are now down to about 2 percent. The area that "hasn't been
participative recently, but probably represents the only real value
still around in the marketplace," he said, "consists of so-called
financial intermediaries," and he went on to note that about 30
percent of the equity portfolio is in financial intermediaries now,
with 15 percent in banks, a little over 3 per cent in savings and
loans, and about 11 percent in insurance. He pointed out that another
part of the portfolio that has done very well is autos. He observed
that the AIF has "just started to sell a little bit of one of its
entries in this area, which makes up about 20 percent of the
portfolio, a great deal of that through recent appreciation,
particularly in Ford Motor stock. Up to 12 percent of the portfolio is
in Ford holdings, Mr. Neff said, noting that the percentage "makes you
tremble a little bit." But he went on to point out that the current
universe of stocks is valued at about 15 times earnings whereas Ford
is selling at 5.5-times earnings. "The value of our Ford investment,"
he continued, "has almost quadrupled in two years." In summary, Mr.
Neff said, "the University equity portfolio now has some bonds, some cash, 30 percent in financial intermediaries, and 20 percent in autos, the only two areas attractive to us in the marketplace."

Turning to performance, the chairman pointed out that the AIF had done "reasonably well, thanks again in large part to Ford." The Standard and Poor 500 Stock Average, he noted, was up 20.7 percent since 31 December 1986, whereas the AIF common stocks have appreciated 25.8 (total return) during the same period. "In some fairness, we paid a price for our insurance in the guise of liquidity," he continued, observing that the value of an AIF share has risen only 13.6 percent or only a little less than one point over a combination of the standard indices. Since 30 June 1986, he continued, "the S&P is up 18.6 percent, but the intermediate term bond indices are up only a little over 2 percent, and the 30-year Treasury benchmark index is down 9.8 percent. There has been great divergence in the market," he concluded, "and we’re trying to hold on to the almost $550 million we have in the AIF."

V. Overseers and Other Boards

A. Action. A Resolution on Appointment to the Board of Overseers of the School of Nursing was approved as follows:

RESOLVED, that Judith H. Borie be appointed to the Board of Overseers of the School of Nursing for a three-year term, effective 8 May 1987.

B. Action. A Resolution on Appointment to the Board of Overseers of the School of Veterinary Medicine was approved as follows:

RESOLVED, that Sarah R. Bogdanovitch be appointed to the Board of Overseers of the School of Veterinary Medicine for a three-year term, effective 8 May 1987.

Adjourned.

Respectfully submitted,

Mary Ann Meyers
Secretary of the University