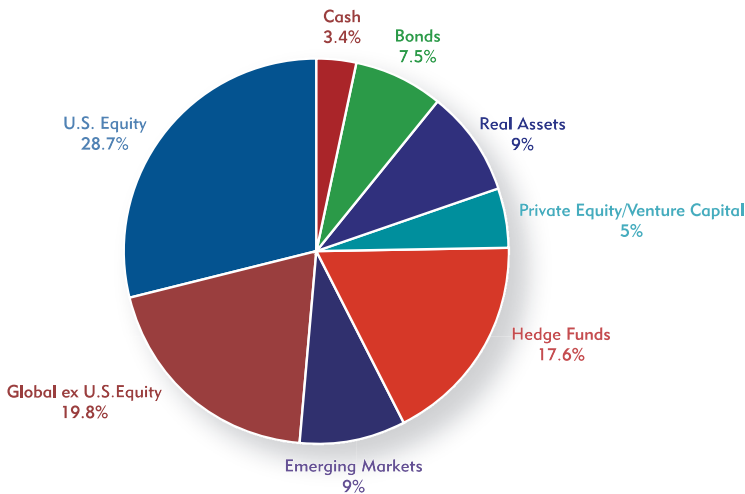


# 2011 INVESTMENT REPORT

## POOLED ENDOWMENT FUNDS

Fiscal Year 2011: July 1, 2010 - June 30, 2011

### DREXEL UNIVERSITY AND DREXEL UNIVERSITY COLLEGE OF MEDICINE POOLED ASSET ALLOCATION\* (AS OF 6.30.2011)



\*Pooled Assets do not include direct Real Estate holdings of University property, primarily One Drexel Plaza.

Comprising the generous donations of our benefactors, Drexel University's Pooled Endowment enables the University to provide increased financial aid to our students, support faculty professorships and chairs, elevate academic programming, and enhance the caliber of living and learning environment for our students. Drexel University diligently stewards your contributions to provide the greatest impact for future generations. Endowment assets are invested, and each year a percentage of the value of each fund is dispersed to advance the fund's purpose. Earnings in excess of this distribution are used to build the fund's market value, enabling an endowed fund to grow and support its designation in perpetuity. In order to meet the investment needs of current income and long-term growth, Drexel's spending rule calls for a payout of 4.75 percent of the endowed fund's market value based on a seven-year average.

Fiscal Year 2011 began with encouraging signs of a sustainable global recovery, supported by the Federal Reserve's bond-buying program. Three quarters of almost uninterrupted growth saw the S&P jump nearly 300 points to 1325 on March 31, 2011. However the spring was marred by fears of global inflation, insolvency in Europe and the expiration of the Federal Reserve's bond-buying program. During the 4th quarter of the fiscal year, the S&P was relatively flat.

An important framework for the year was the risk on/risk off environment. Throughout the year, there were several economic shocks which sent global markets reeling and unilaterally down. Shocks included inflation scares, Arab Spring, the earthquake in Japan, liquidity events in Europe, and policy-making in the U.S. These periods have been common since the economy has come out of the recession and have been difficult for many active managers to navigate. Despite these erratic swings, the Drexel University Pooled Endowment ended the fiscal year with a market value of \$536.47 million, realizing a 20.8 percent return.

During the 2011 Fiscal Year, it was the primary goal of the Investment Team to insulate the Drexel portfolio from these erratic market movements. To do this, the Investment Team focused on three key areas: the elimination of underperforming managers, an increased allocation to alternative investments and further diversification within asset classes. During this period approximately 20 percent of the portfolio was realigned. This work directly translated into increased returns as the Endowment's one year performance ranking increased from the 72nd percentile, as of 6/30/2010, to the 30th percentile on 6/30/2011. The current allocation of the portfolio is represented in the pie chart at top left.

Also during Fiscal Year 2011, the University deployed 5 percent of the Endowment's current three-year average returns to benefit university initiatives. This translated into having the Endowment contribute \$22 million to University

*continued*



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operations to help fund donor-designated purposes, such as student financial aid, campus improvements, and funding a talented faculty and their research.

Effective for Fiscal Year 2012, the Board of Trustees approved changing the annual spending rule from 5 percent of the endowed fund's market value based on a three-year average to a 4.75 percent spend rate based on a seven-year market value average. Given the market volatility over the past four years, the annual spending amounts have varied greatly. By moving to a seven-year trailing average, there will be much greater stability in the annual spend amounts, thus facilitating a smoother budgeting process for the University. The Board of Trustees' decision to move to a 4.75 percent spend rate has increased the Endowment's contribution to the University's operations from \$22.15 million to \$23.33 million in Fiscal Year 2012.

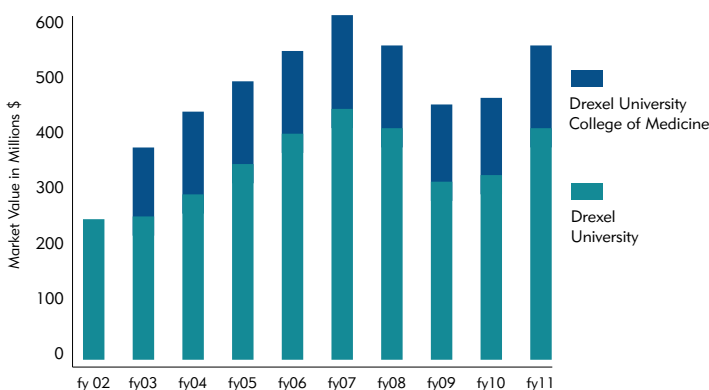
Over the next few years, we project little difference in the total spend amounts between the two spending policies. Longer term, the lower spend rate will lead to lower annual spending amounts. However, we believe that the Endowment will be in a better position and will be able to benefit the University for generations in a more meaningful, sustainable way.

The goal of the Drexel Endowment has always been to protect capital rather than to stretch for returns. As was the case in Fiscal Year 2011, we expect to underperform broader equity markets in upswings, but outperform during downturns. This process is implemented through risk management, prudent due diligence, and careful asset allocation. The Investment Team has maintained a history of selecting experienced managers with track records that demonstrate their ability to effectively and consistently protect capital and achieve returns. Nowhere is this more evident than in the annualized total return. Since inception, the Investment Team has grown the total portfolio by approximately 8.1 percent a year on average, 1.1 percent higher than our custom benchmark. Over the last 10 fiscal years, the University has experienced sizable growth in the

market value of the Endowment, despite the economic downturn in 2008 and 2009, as shown in the graph below.

The risks and uncertainties of endowment investing in the current environment present challenges. The most recent recession and subsequent recovery have shown that if not well positioned, an endowment could face serious negative consequences in the face of market volatility. By maintaining the portfolio's diversification through the asset allocation policy established by the Investment Committee of the Board of Trustees, the Investment Team will continue to monitor and restructure the portfolio while protecting endowment funds critical to the operations of Drexel University and Drexel University College of Medicine.

### DREXEL UNIVERSITY ENDOWMENT MARKET VALUE (AS OF 6.30.2011)



During Fiscal Year 2003, the University merged with the remnants of the former MCP Hahnemann University which has since become the Drexel College of Medicine. The assets contributed by this merger are represented by the blue bars in the graph.

Helen Y. Bowman  
Senior Vice President, Finance,  
Treasurer and Chief Financial  
Officer

