

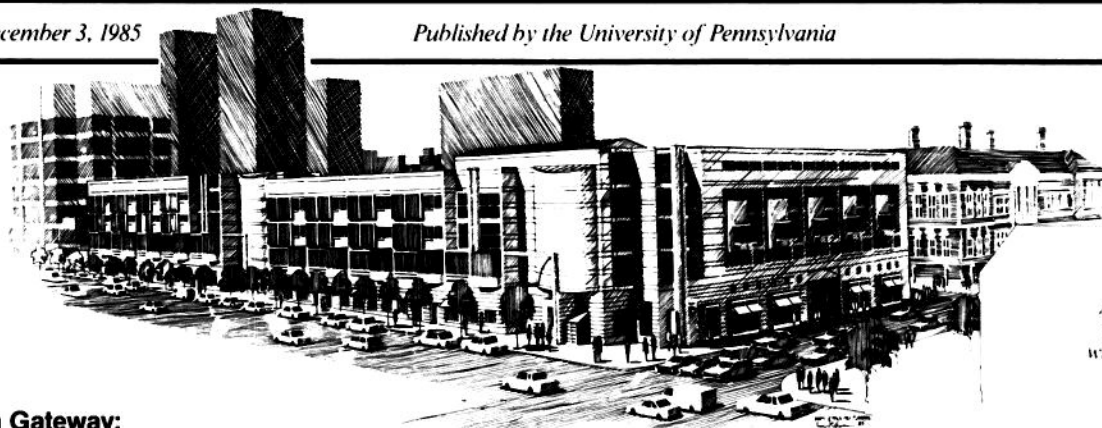
Almanac

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James R. Mann



After Summer 1987, many visitors' first view of Penn will be much like the one in rendering (as seen from Bennett Hall).

Building a Gateway:

This week the University breaks ground for the \$15 million complex at 3401 Walnut Street where offices, retail stores and a Penn Information Center will be housed. The L-shaped structure, wrapping around the northwest corner of 34th and Walnut Street and tying into preservation and development going on along Sansom and Moravian Streets, will have a food court and booths, a restaurant, outdoor terraces and ten retail stores, plus space for University offices. The ground-breaking ceremony Friday, December 6, at 3 p.m., is open to all. President Sheldon Hackney and Philadelphia's Mayor Wilson

Goode will turn the first earth. Special guests will be the neighboring business people including those who have been part of the 19-year controversy over the site's development. According to Penn Real Estate Consultant Paul Levy, the new controversy reported last week over Penn's design is "a matter of landscaping that we are sure will be resolved" and does not affect the start of construction. The Keating Company is the builder; architects are Geddes, Brecher, Qualls and Cunningham; and the Kravco Company will manage retail leasing. Occupancy is slated for the summer of 1987.

International Video-Computer Network

Penn will be the operating headquarters of a new international network for scholarly and educational exchange that uses video, audio and computer data technologies. The Foundation for the International Exchange of Scientific and Cultural Information by Telecommunications (FISCIT), headed since its formation by President Emeritus Martin Meyerson, will develop the network linking research universities and centers in the United States, Canada, and Western Europe.

Mr. Meyerson will be president of the foundation, whose board of governors is chaired by Professor Heinrich Ursprung, President of the Federal Institute of Technology in Zurich. The Johns Hopkins University's President Steven Muller is vice chair.

"The network will use both satellite and terrestrial connection, including fiber optic technology," said Mr. Meyerson. "Our demonstrations have employed full-motion video and slow-scan video (which is less detailed and slower but cheaper). We have crossed the Atlantic with video, superior audio techniques, electronic blackboards, slides and computer data including computer graphics."

The advancement of knowledge depends upon communication among clusters of scholars in different parts of the world, Mr. Meyerson pointed out, but the financial and time costs of travel have made scholarly exchanges difficult, especially for less established scholars and researchers. In addition, he said, many internationally renowned scholars are more likely to participate in a seminar that requires a few hours with a nearby telecommunications device than one that requires lengthy international travel and its rigors.

Businesses have begun to use teleconferencing systems, but educational and research institutions have been slower in exploring the uses of new

telecommunications technology. FISCIT, founded in Zurich in 1982, has organized various international telecommunications demonstrations during the past three years to test new technologies and the kinds of subjects best adapted to them.

The demonstrations have been successful enough that the foundation decided to proceed in developing a network by inviting additional institutions to join its present members in five countries. FISCIT's next board of governors meeting, in London in early 1986, will set standards for present and new member institutions for telecommunications facilities at each location.

Among the successful demonstrations produced by the foundation was a teleseminar on economic forecasting and policy analysis moderated by Penn faculty member and Nobel laureate Lawrence R. Klein. Leading economists from academia, government, and industry from seven summit countries, Switzerland, the United Nations and the World Bank participated. The cost of the teleseminar was about one-third that of assembling all the participants in one city for a face-to-face conference.

Death in Graduate Towers

Philadelphia homicide detectives are investigating the death of Meera Anthakrishnan, a 24-year-old Ph.D. candidate in physics whose body was found Monday in Nichols Hall by her roommate returning from Thanksgiving holidays. University police and residential living staff are concentrating on security questions for the 1500-student complex and on counseling for students affected by the death of the young woman from India.

In a "Visiting Statesman" demonstration, former British Prime Minister James Callaghan engaged in a conference with students of government on both sides of the Atlantic. The classes watched a videotaped lecture by Callaghan and then were able to ask him questions over a two-way audio linkage.

During the recent inauguration of the telecommunications facility at the Federal Institute of Technology in Zurich, scientists in Switzerland, Great Britain and the United States used full-motion video to compare biomedical procedures for testing new therapeutic drugs.

Now that the foundation is moving from single demonstrations to building a network, more institutions will be invited to join. Charter foundation members are Eidgenossische Technische Hochschule Zurich, Switzerland (President Heinrich Ursprung); Universite de Technologie de Compiègne, France (President Guy Denielou); Universität Hamburg, West Germany (President Peter Fischer-Appelt); the Imperial College of Science and Technology, Great Britain (Rector Lord Brian Flowers, also representing the University of London); UCLA and the University of California systems (Chancellor Charles Young); University of Indiana (President John Ryan); and The Johns Hopkins University (President Steven Muller).

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Tax-Sheltering Dependent Care: Deadline December 31

The University is installing a tax-sheltered Dependent Care Expense Account category in payroll for use by full-and regular part-time faculty and staff to tax-shelter the cost of dependent care, Senior Vice President Helen O'Bannon has announced. The new Account (*Almanac* October 1) allows participants with qualified dependent care expenses to shelter the amount they pay for that care—in a range from \$520 to \$9000 per year—so that they pay providers with salary dollars before federal taxes are deducted. Benefits Manager James Keller said that paying expenses on a before-tax basis increases spendable income through federal tax savings. However, he noted, using the Account has no effect on Pennsylvania or Philadelphia income taxes.

Mrs. O'Bannon stresses that faculty and staff interested in the new Account must sign up *before January 1, 1986*. Each person must designate the total amount he/she wishes to shelter by signing and dating a salary reduction agreement by December 31, 1985, obtainable from the Benefits Office. Mr. Keller recommends that since the Benefits Office will be closed December 25 through January 1, those wishing to participate should complete the form before the special vacation. Each pay period during 1986, a portion of the total amount will be taken from the individual's gross income and deposited in his/her Account. When at least \$50 of dependent care expenses have accumulated, the staff member

should submit paid receipts and/or cancelled checks, along with a completed Claim for Reimbursement form, to the Benefits Office. The individual will be reimbursed for the expenses submitted, assuming the Account contains sufficient funds; if not, the claim will be held until the account contains enough funds to cover the full amount of the claim. Individuals will have until March 31, 1987, to submit paid receipts for expenses incurred in 1986. A new Enrollment Form must be completed each Plan (calendar) Year.

Qualified expenses are costs incurred for the care of children under 15 claimed as dependents by the faculty or staff member for income tax purposes. Expenses incurred for any dependent, including a spouse who is physically or mentally incapable of caring for him or herself, may also be included provided such services are necessary to permit gainful employment. The services may be rendered by a licensed institution, or by any person other than someone the individual claims as a dependent, assuming the provider reports the payments as income. Kindergarten costs can be reimbursed, but grade one and above cannot be reimbursed. Transportation to the provider cannot be reimbursed.

The Account may be set up for as much as \$9,000 or as little as \$520 for the calendar year as long as the individual will incur at least that much

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Investment Cost on South Africa-Related Divestment

A Report by the University of Pennsylvania Office of Investments, November 25, 1985

Summary

This document discusses the identifiable cost of South Africa-related (SAR) divestment. These include one-time transaction costs of selling SAR securities and purchasing South Africa-free (SAF) securities. In addition, there are ongoing costs of managing a South Africa-free portfolio that are somewhat higher than current costs.

In summary, the identifiable costs of divestment are (*in millions*):

	Minimum	Maximum
One-time costs:		
Transaction (commissions/liquidity)	\$0.66	\$5.26
Ongoing cost per annum:		
Transaction (commissions/liquidity)	0.44	2.37
Administrative	0.05	0.10
	0.49	2.47
Investment Management*	0.96	1.44
Total Cost Per Annum	\$1.45	\$3.91

As discussed below, these estimates are derived from various studies of divestment costs and are not verifiable from our own experience. While we believe the minimum numbers represent reasonable estimates, the maximum numbers appear to be high.

The potential opportunity loss in terms of endowment performance must also be considered but it is virtually impossible to quantify. Our sense is, however, that due to the diversification and risk implications of a SAF portfolio total return performance could be reduced substantially.

Introduction

Investment costs of SAR divestment cover four areas, namely: total return costs, transaction costs, administrative costs and investment management costs. To the extent possible, we have quantified certain of these costs, as discussed below. However, quantifying what we consider to be the major cost of divestment, i.e., the impact of future total return from endowment, is difficult and imprecise because of the unpredictability of future returns from financial markets.

This paper is based on information derived primarily from two comprehensive studies: Investors' Responsibility Research Center's (IRRC)

*Currently, the University does not pay a fee to any outside managers. The above costs assume that the current internal management would not continue under divestment portfolio constraints and that investment management services would have to be purchased.

"The Impact of South Africa-Related Divestment on Equity Performance" updated in August 1985, a compilation of nine studies, and Cambridge Associates' "South Africa Divestment: A Discussion of the Investment Implications" dated Summer 1985.

Potential Impact on Total Return: Diversification and Risk

Divestment would significantly reduce the universe of stock available for investment, thereby inhibiting the University's ability to maximize total return. Less than one-third of the companies in the Standard & Poor's 500 have operations in South Africa. However, in terms of capitalization these firms represent nearly half of the S&P 500, the primary group of stocks available for investment by large institutional portfolios such as the University Endowment. Perhaps more important is the fact that exposure to certain industry groups would be greatly curtailed by eliminating SAR companies. For example, SAR companies comprise a significant portion of the following industry groups:

S&P 500 Industry Group	% Represented by SAR Companies
Chemicals	88.3
Automobiles	86.9
Office Equipment	86.6
Drugs	86.3
International Oils	84.9
Electrical Equipment	74.5
Aerospace	67.5
Beverages	55.4

SAR companies are primarily international concerns with interests in many markets outside the United States. By eliminating SAR stocks, an investor is limited to predominately domestic companies, i.e., those companies whose main market is within the United States.

According to available studies, a typical SAF company will have the following characteristics relative to a typical SAR company:

- smaller capitalization,
- lower yield,
- higher price-earnings ratio,
- higher variability of earnings
- more leveraged balance sheet, and
- lower debt rating.

By contrast, the University's current equity portfolio stresses established quality companies with high yields and low price-earnings ratios.

Certain performance studies have shown that hypothetical portfolios of SAF stocks have had higher total returns than portfolios of SAR

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dependent care expense. Any amount remaining will be forfeited; any unused amount can neither be recovered nor transferred to future years.

The IRS imposes strict rules on the use of accounts such as the Dependent Care Expense Account, Mr. Keller said. Once a person signs up to participate she/he may not change or stop the reductions from salary at any time during the calendar year, unless there is a "Life Event"—defined as the birth or death of a child, adoption of a child, death of a spouse, or a change of employment for the participant or spouse.

Mrs. O'Bannon's announcement this week is in response to a request made by a number of faculty and staff during the summer that the University offer a child-care tax-sheltered account (*Almanac* July 9) and a subsequent Speaking Out letter (September 17) as well as a letter from the Executive Committee of the Administrative Assembly to Gary Posner, vice president for administration. She responded in the summer issue that the topic deserved a "thorough, thoughtful and timely review," and asked Mr. Posner to head the review.

The Benefits Office will schedule information sessions to be held at various locations on campus this month to explain how and when to use a Dependent Care Expense Account. Faculty and staff will receive a dependent-care enrollment form in the mail at home by the end of the week. The completed form can be dropped off at the Benefit's Office in person or it can be returned in the mail as soon as possible. Call Ext. 7281 for more information. *Enrollment deadline: December 31.*

stocks. However, most studies cover only the current bull market (1982 to present) and therefore do not demonstrate consistently superior performance over full market cycles. Also, longer term performance studies indicate that SAF stocks have had a higher variability of return, or risk, than SAR stocks. Given the higher risk, it might be expected that SAF securities would underperform SAR securities during a bear market. However, this hypothesis has not been confirmed.

In addition, many of these performance studies cover a time period when the U.S. dollar soared in value against other currencies. This situation has been financially detrimental to those SAR companies that have significant international exposure. The recent decline in the U.S. dollar, if it should continue as current U.S. economic policy suggests, should benefit SAR stocks more than SAF stocks.

Transaction Costs: Commissions and Liquidity

On June 30, 1985, the Associated Investments Fund's (AIF) investment in SAR companies was \$83.7 million at market, or 23% of its \$359.1 million market value. Using the average commission rate actually experienced by the AIF during 1985, the one-time commission cost of selling the SAR stocks would approximate \$165,000. The commission cost of reinvestment in SAF stocks would approximate \$250,000. We estimate reinvestment costs would be higher due to the large number of issues needed as replacements for SAR stocks in order to achieve acceptable diversification. The commission cost of restructuring the \$3.9 million SAR equity holdings in the University's endowment and similar funds invested outside the AIF would be on the order of \$30,000. Thus, the total one-time commission costs would be approximately \$445,000.

The IRRC study defined transaction costs more broadly, to include both commission and liquidity costs, i.e., the impact on market prices from the buying and selling of securities. Given that SAF stocks are on average smaller capitalized companies, they generally are less liquid and trade at greater bid-ask spreads than SAR companies.

Certain percentage ranges for the costs of divestment were estimated in the IRRC study. Based on our experience, these estimates seemed somewhat high, particularly on the maximum end. However, as we have no other source of total transaction cost data, we have used the IRRC's estimates as a basis for our calculations with the exception noted below.

The transaction costs for a one-time restructuring were estimated in the IRRC study to range between 1.5% and 6.0% of the value of the stocks sold, which would equate to \$1.31 to \$5.26 million for the University. For our minimum one-time cost figures we have used our estimated commission costs as discussed above, and have assumed a liquidity cost element of approximately 0.25% of the market value of the securities to be transacted. Therefore our minimum one-time transaction cost estimate is \$0.66 million.

Sample Dependent Care Expense Account

Uses federal income tax rate for 1985 assuming taxpayer is married, files jointly, claims two exemptions, and does not itemize deductions and has no other income.

	With expenses paid on an after-tax basis	With expenses paid on a before-tax basis using the Dependent Care Expense Account
Annual pay	\$25,000	\$25,000
Expenses paid on a before-tax basis	0	-\$ 1,500
W-2 income for federal tax purposes	\$25,000	\$23,500
Approximate federal income tax in 1985	-\$ 3,245	-\$ 2,915
Approximate Social Security Tax in 1985	-\$ 1,763	-\$ 1,657
Expenses paid after federal taxes are deducted	-\$ 1,500	0
After-tax earnings	\$18,492	\$18,928
Increase in spendable income due to federal tax savings		436

IRRC estimates of the increase in ongoing transaction costs range from 0.5% to 2.7% of the value of stocks divested, or \$0.44 to \$2.37 million. We have no experience in this and have used both figures to establish the range.

Administrative Costs

Because the nature of a SAF portfolio includes a larger number of stocks with smaller capitalizations, greater internal expenditures would be incurred for research, analysis, monitoring and accounting.

A rough estimate of these additional costs is \$50,000 to \$100,000 per annum.

Investment Management Costs

A study done for Columbia University cited a survey of 55 portfolio managers which found:

- Over 85% thought that a SAF policy would reduce performance;
- 75% said that investment quality of securities held in an endowment would decline;
- 90% commented that the ability to diversify would be impaired;
- Nearly half stated that they would not accept fiduciary responsibility for a portfolio with a SAF restriction.

In addition, according to the Cambridge study, a survey of over five hundred investment management firms found that fewer than a dozen specialize in managing divested portfolios.

John Neff has managed the equity portfolio of the AIF, the University's pooled endowment fund, at no charge for nearly six years, providing exceptional investment returns. Under his guidance, the AIF ranked in the top five percent of all large endowment funds according to a preliminary National Association of College and University Business Officers (NACUBO) survey of endowment performance for the one, three, five and ten year periods ended June 30, 1985. The imposition of a SAF policy would make the implementation of his low P/E, high yield investment style onerous, due to the substantially reduced universe of stocks from which to choose.

Were the University compelled to seek outside equity management due to a divestment mandate, management fees would approximate 0.4% to 0.6% of total assets per annum. Based on the \$240 million market value of endowment equity holdings as of June 30, 1985, this could range from \$0.96 to \$1.44 million per year.

As indicated above, it may be difficult for the University to find equity managers with proven performance records who would accept fiduciary responsibility for the portfolio under a SAF policy. However, as the divestment issue becomes more prominent, additional managers may begin to offer SAF investment management services.

Scott C. Lederman, CFA
Lucy S.G. Momjian, CFA

Robert E. Helfman
Philip J. Yarmolyk

EXHIBITS

3 *Fragments: Painter Tamara Krendel and Sculptor Anne Oldach* will have work on view in the Faculty Club's Lounge Gallery. The two women are alumnae of Penn's Graduate School of Fine Arts. Gallery hours: 9 a.m.-7 p.m.; Opening Reception: 4:30-6:30 p.m. *Through December 23.*

FITNESS/LEARNING

4 *Sports Medicine Symposium*; will discuss the philosophy of sports medicine for children and adults, the components of a physical exam, training issues, and nutrition for the athlete; 9 a.m.-4 p.m. Fee is \$65 and \$20 for students; for information, contact the Center for Continuing Education, Ext. 4522 (Nursing School).

MUSIC

6 *Messiah*; a sing-in of Handel's magnificent oratorio will take place on at 8 p.m. at the Church of the Saviour, 38th and Ludlow Streets (Music Department).

ON STAGE

5 *A Raisin in the Sun*, Lorraine Hansberry's play, has added 3 matinees: *December 5*, 1:30 p.m.; *December 12*, noon; *December 17*, noon; Zellerbach Theatre, Annenberg Center. Information: Philadelphia Drama Guild, 563-PLAY.

SPECIAL EVENTS

5 *Sale-A-Bration* at the Penn Bookstore; faculty, staff and friends are invited to the opening night of the Penn Bookstore's 10th Annual Holiday sale, 5:30-9 p.m. Opening Night features wine and cheese, entertainment, and free gift wrapping. The sale features 20% off all non-text books, stationery, gifts, clothing, fine arts; 10% off sundries merchandise. The sale continues Friday, *December 6*, 8:30 a.m.-6 p.m. and Saturday, *December 7*, 10 a.m.-5 p.m. Information: Ext. 7505.

12 *Holiday Festival*; The Faculty Club's annual holiday celebration featuring A Foods of the States Buffet for adults, \$13.95 (excluding service charge); a Winter Wonderland Buffet for children, \$5.75 (excluding service charge); and a visit from Santa Claus. 5-8 p.m. Call Ext. 4618 for reservations.

Celebration and Farewell for Rev. Ralph Moore; 3 p.m. at the Christian Association.

TALKS

3 *Individual Responsiveness of Human Lymphocyte Cultures to Infection by HTLV-III*; Mark Wainberg, Lady Davis Institute for Medical Research; Auditorium, Wistar Institute, 2 p.m. (Wistar Institute).

5 *A Subunit of Cellular Pol II is Associated with the RNA Polymerase of Vaccinia Virions*; Richard



United Way/Donor Option Campaign 1985-86

Sixth Report, November 22, 1985

It is not too late to make pledges to the United Way/Donor Option campaign. Gifts pledged will not be deducted from payroll until January. As the table at right shows, the total contributions have reached \$178,379—with 26 percent of the faculty and staff contributions recorded as of November 22. This brings the University campaign to 81 percent of the \$215,000 goal. Individual units that have reached 100 percent participation include: Alumni Relations, Corporate and Foundation Relations (Development), Human Resources, LRSM, Planned Giving (Development).

School/Department	Number Solicited	Percentage Contributing	Contributions
Annenberg Center	26	11%	\$ 185
Annenberg School	55	58	2,758
Arts & Sciences	977	17	23,844
Dental Medicine	294	11	2,527
Engineering	219	30	9,349
Fine Arts	78	19	2,230
Graduate Education	70	40	1,409
Intercollegiate Athletics	102	65	1,557
Law	72	23	1,067
Libraries	263	31	6,279
Medicine	1,895	19	51,602
Morris Arboretum	29	31	964
Museum	104	55	2,304
Nursing	91	43	3,030
President	56	73	4,644
Provost	116	68	9,297
Social Work	42	58	2,624
Veterinary Medicine	546	—	802
Wharton	505	26	19,858
VP for Administration	527	37	8,541
VP for Fac. Management	569	36	2,841
VP for Dev.&Univ. Relations	180	52	6,260
VP for Finance	171	32	3,674
VP for University Life	274	20	3,996
Senior Vice President	111	32	4,784
Other			1,953
TOTALS	7,437	26%	\$ 178,379

Moyer, department of microbiology, Vanderbilt University; Auditorium, Wistar Institute, 4 p.m. (Wistar Institute).

International Conflict, Cooperation and Perception; Robert Jervis, professor, Columbia University, 4 p.m., Anspach Lounge (Room B-32 Stiteler Hall) (International Relations Graduate Program).

Social Insurance for Disabling Illnesses; Robert P. Inman, director, Public Enterprise Research Program and professor of finance and public policy and management; H. Franklin Allen, assistant professor of finance; Auditorium, Colonial Penn Center, 4:30-6 p.m. (LDI Research and Policy Seminar Series).

10 *Human Natural Killer Cells, Properties and Lytic Activity*; Eero Juhani Saksela, department of pathology, University of Helsinki, Finland; Auditorium, Wistar Institute, 4 p.m. (Friends of the Wistar Institute).

Correction: The Senate coverage in *Almanac* November 26 was, of course, coverage of the November 20 meeting, not November 27. — Ed.

Almanac

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Rules Governing Final Examinations

1) No student may be required to take more than two final examinations on any one day during the period in which final examinations are scheduled.

2) No instructor may hold a final examination except during the period in which final examinations are scheduled and, when necessary, during the period of postponed examinations. No final examinations may be scheduled during the last week of classes or on reading days.

3) Postponed examinations may be held only during the official periods; the first week of the spring and fall semesters. Students must obtain permission from their dean's office to take a postponed exam. Instructors in all courses must be ready to offer a make-up examination to all students who were excused from the final examination.

4) No instructor may change the time or date of a final exam without permission from the appropriate dean or the Vice Provost for University Life.

5) No instructor may increase the time allowed for a final exam beyond the scheduled two hours without permission from the appropriate dean or the Vice Provost for University Life.

6) No classes (covering new material) may be held during the reading period. Review sessions may be held.

7) All students must be allowed to see their final examination. Access to graded finals should be ensured for a period of one semester after the exam has been given.

In all matters relating to final exams, students with questions should first consult with their dean's offices. We encourage professors to be as flexible as possible in accommodating students with conflicting exam schedules.

—Thomas Ehrlich, Provost