DATE: April 15, 2004
FROM: Gary C. Schultz
TO: Members of the Board of Trustees
Re: Penn State Endowment

Below is the preliminary first quarter report on Penn State’s Endowment investments. These reviews are prepared for the Board of Trustees approximately two weeks following the end of each quarter, and are subject to possible revision.

The preliminary market value of Penn State’s Endowment, including similar funds, was approximately $1.08 billion as of March 31, 2004.

During 2004’s first quarter, Penn State’s Endowment earned 4.4% – due to investment value changes (excluding the impact of new gifts and spending). The Endowment benefited from exceptional performance in non-marketable investments (venture capital, private equity, energy, and real estate) and its first quarter return compared favorably to both the Standard & Poor 500 and the Lehman Aggregate Bond indexes as shown below:

<table>
<thead>
<tr>
<th></th>
<th>1Q04</th>
<th>1-Year</th>
<th>5-Years</th>
<th>10-Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500 Index</td>
<td>1.7%</td>
<td>35.1%</td>
<td>-1.2%</td>
<td>11.7%</td>
</tr>
<tr>
<td>Lehman Agg. Bonds</td>
<td>2.7</td>
<td>5.4</td>
<td>7.3</td>
<td>7.5</td>
</tr>
<tr>
<td>Endowment (prelim.)</td>
<td>4.4</td>
<td>24.3</td>
<td>5.1</td>
<td>9.3</td>
</tr>
</tbody>
</table>

Last year’s equity upsurge slowed as the S&P 500 rose 1.7% in 2004’s first quarter, while the Nasdaq Price Index declined 0.5%. Meanwhile, the Lehman Aggregate Bond Index gained 2.7%, as the Federal Reserve held interest rates steady.

For the 12 months ending March 31, 2004, the S&P gained 35.1% and the Aggregate Bond Index rose 5.4%. We estimate the Penn State Endowment Pool grew 24.3%. Emphasizing our long-term focus, the Endowment’s 5- and 10-year annualized returns are compared above to the S&P 500 and Lehman Aggregate Bonds.

As of March 31, approximately 50% of the endowment portfolio was invested in both domestic and foreign public equities, 23% in non-marketable equities (private capital, real estate, energy), and 27% in bonds, primarily in short- to intermediate-term maturities.

The Penn State Investment Council (PSIC) met on March 26, 2004 and approved:

- A $10 million investment in Hampshire Partners Fund VI, a real estate investment management partnership located in Morristown, NJ
- A $10 million investment in Aetos Capital, a non-directional (absolute return) hedge fund manager located in New York, NY, and Menlo Park, CA