



Bucknell University Endowment Report 2007

Bucknell





A Message from the President

Bucknell University's endowment is a crucial part of its ability to achieve its teaching, research, and service mission.

Over the past five years, income from the endowment fund has provided more than \$100 million in support of the University academic programs. This support has made possible numerous crucial investments, including in financial aid for students, new faculty positions, and enhanced learning facilities. Along with tuition, grants, and generous support from our loyal alumni, the endowment helps to sustain Bucknell's reputation for excellence in higher education.

This impact is made possible by a history of donations that link the University's past, present, and future. Donations from as far back as the 1800s have compounded over time and continue to benefit Bucknell today. To ensure that the endowment serves today's students and grows for generations to come, a dedicated group of trustees and staff serve on our Committee on Investments. The committee is crucial to enabling the fund to achieve competitive returns and weather the inevitable financial market storms, and we are grateful for their service.

Securing our financial future is one of the top five goals of *The Plan for Bucknell*. By some measures, such as the size of our donor base and endowment dollar per undergraduate, Bucknell's fund is well below those of our peer universities. Only with sufficient resources can the University attain its vision of providing the premier undergraduate experience in American higher education.

Thousands upon thousands of students have benefited from the generosity and foresight of generations past, and have in turn given generously to their alma mater. We are committed to honoring this confidence and building the endowment so that it can continue to serve present and future Bucknellians.

Thank you for your continued support of the University.

Sincerely,

A handwritten signature in black ink that reads "Brian C. Mitchell". The signature is written in a cursive, flowing style.

Brian C. Mitchell
President



A Message from the Vice President for Finance and Administration

As the year comes to a close, I am pleased to provide you with this copy of the Bucknell University Endowment Fund Report for the year ended June 30, 2007. The endowment fund achieved several milestones during this period.

- The market value of the endowment increased by \$77 million to reach \$599.4 million, its largest one-year increase ever.
- This record increase included net investment return of \$90 million and gifts of \$10 million.
- At the same time, the fund provided \$23 million in endowment income for programs and financial aid for students.

Under the guidance and leadership of the Committee on Investments of the Board of Trustees, the endowment fund has become a well-diversified, sophisticated investment fund. Since 2000, the Committee has methodically extended the investment portfolio beyond its historic and successful domestic equity concentration. Today it is a globally influenced blend of fixed income and equity securities, significant positions in non-traditional investments such as private equity, real estate, and energy, and a well-balanced portfolio of hedge funds.

As part of this near decade-long transformation, Bucknell has further strengthened resources in support of the Committee by hiring its first-ever chief investment officer, Christopher D. Brown. You can read more about Chris on page 15.

Guided by the varied expertise of members of the Committee, Bucknell's endowment fund is well positioned to meet the demands of an increasingly complex investment environment. The University will continue to follow sound due-diligence processes, including careful monitoring of our investment managers and analysis of multiple new investment opportunities. All the while, the Committee will focus on raising the long-term purchasing power of the assets, which provide a steadily increasing benefit to Bucknell's students and educational mission.

The publishing of this inaugural endowment annual report represents another milestone in the University's commitment to transparency of long-term investment objectives and results, as well as faithful stewardship to past and future donors. Bucknell is proud of its past accomplishments in each of these areas and is committed to extending its achievements in the coming years.

Sincerely,

A handwritten signature in black ink, appearing to read "David J. Surgala". The signature is fluid and cursive, written over a light blue horizontal line.

David J. Surgala
Vice President for Finance and Administration

The Bucknell University Endowment

Purpose of the endowment

One of the distinguishing characteristics of an endowment fund is its time horizon, which is perpetuity. Most contributions made to endow professorships, scholarships, and the like are typically open ended, with the expressed purpose of funding academic endeavors indefinitely.

The purpose, then, of the endowment is to further the academic mission of Bucknell University by nurturing and protecting those contributions. We nurture them so that their growth may fund ever-increasing opportunities. And we protect them from the ravages of inflation, which can ruin the spending power of the assets.



We do not seek growth for the sake of growth, but rather to fund the needs of future students. Bucknell's endowment has paid out in excess of \$100 million over the past five years, and we hope that amount continues to increase into the future.

Structure of the endowment

As of June 30, 2007, over 96 percent of Bucknell's endowment was invested in the pooled endowment fund. In the same way that the efforts of individual students, faculty, and alumni work together to strengthen Bucknell, the endowment assets are pooled and put to work together as a single entity. There are over 750 "owners" of the fund, which represents undergraduate scholarships, academic program support, faculty and student research, athletics, library materials, and annual budget support for programs across campus. The fund employs a unitized structure in which contributions to the fund purchase "units" at the prevailing market value per unit. These funds have appreciated in value over time while annually providing income to the designated program or scholarship of the original gift.

The Bucknell University Endowment



Spending policy

The endowment provides essential annual budget support to the University, and many of the programs and opportunities available to undergraduate students would not be feasible without the annual income provided by endowment assets. Investment income of the endowment fund is distributed to the operating budget of the University every quarter at an annual rate of 4.5 percent of the trailing 12-quarter moving average market value of the endowment. Furthermore, to protect the University operating budget against inflation, a safety net is built into the calculations that mandates the annual spending policy per unit will be at least 5 percent greater than that of the previous fiscal year, but subject to a 5.5 percent cap of the 12-quarter moving average market value.

Asset allocation

The primary challenge stewards of endowment funds face is the same challenge that all investors face: managing the dichotomy between risk and return. To ensure that the spending power of the assets is not eroded over time, the endowment funds must be invested in assets that grow faster than inflation. At the same time, the volatility of the assets must be stable enough to provide a consistent source of current income to the University. Thus, the goal of the endowment is to select a set of assets that maximizes the potential return given a prudent amount of risk. The University's asset allocation is reviewed at least annually and structured much like the endowments of similarly sized not-for-profit institutions.

The endowment is divided into four asset types: growth, hybrid, inflation protection, and low volatility.

Growth assets are intended to produce equity-like returns. These assets consist of public domestic equities, international equities, and emerging market equities as well as private equities such as buyout, venture capital, and distressed-for-control funds.

Hybrid assets are meant to produce returns that are less correlated with growth assets. These investments typically include, but are not limited to, absolute return strategies, high-yield debt, and short-duration illiquid investments.

Inflation-protection assets are expected to produce reasonable returns but are likely to perform better during periods of rising inflation. These assets typically include investments in real assets such as real estate, energy, commodities, and infrastructure.

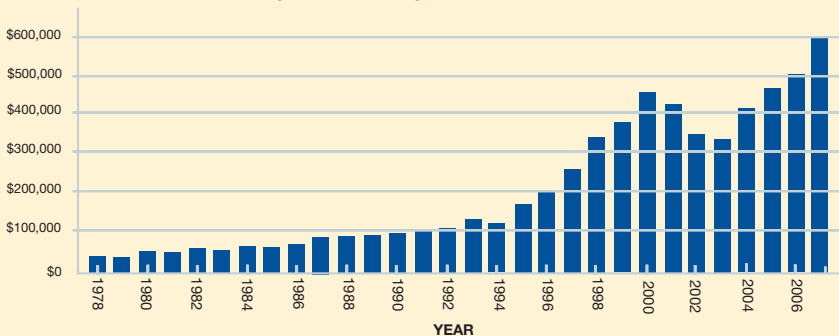
Low-volatility assets should produce modest returns in most environments and provide stability for the endowment. Most fixed-income securities fall into this category.

At June 30, 2007 and June 20, 2006, the pooled endowment fund's investments were allocated as follows:

Asset Allocation on June 30, 2007 per Investment Policy Classifications

	2007	2006
Growth Assets	66.7%	67.9%
Hybrid Assets	16.1%	15.8%
Low-Volatility Assets	13.1%	13.1%
Inflation-Protection Assets	4.1%	3.2%
	100.0%	100.0%

Endowment Market Value (in thousands)



Annualized Returns

For periods ending June 30, 2007	1 year	10 years
Bucknell Pooled Endowment	17.9%	9.9%
Estimated Median*	17.5%	8.5%
Estimated 1st Quartile*	19.5%	9.6%

* Based on a study completed by Bucknell's consultant, Hammond Associates.

Endowment Performance

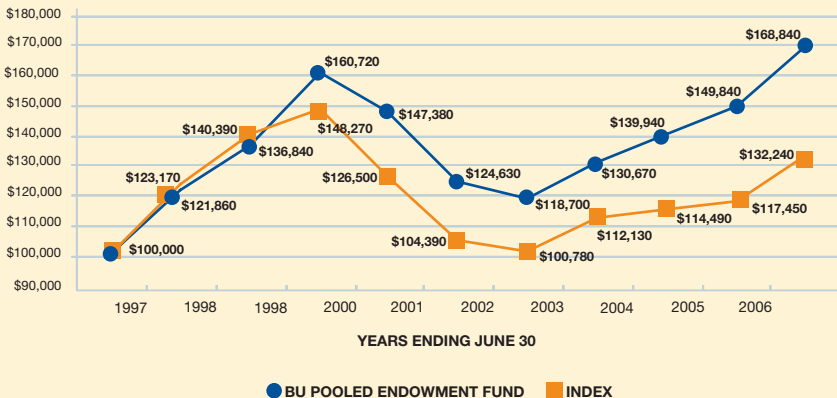
10-year pooled endowment performance

Over the 10-year period ended June 30, 2007, the endowment has earned an annualized return of approximately 9.9 percent, net of fees. In real dollar terms, over the past 10 years the return on investments in the pooled endowment has added over \$320 million to the market value of the fund. This return exceeds the stated policy benchmark (85 percent Wilshire 5000 and 15 percent Lehman Aggregate Bond index) return of 7.7 percent and places Bucknell in the top quartile of college and university endowment returns over the past 10 years.*

The following chart illustrates the growth of a hypothetical \$100,000 donor-endowed fund established on July 1, 1997, and invested in the University's pooled endowment fund. For comparison purposes, the return of the same \$100,000 invested in a blended index of 85 percent Wilshire 5000 (including dividend reinvestment) and 15 percent Lehman U.S. Aggregate Bond was used as a benchmark over the same time period. To remain consistent with the purpose and structure of an endowed fund, the market values were reduced each year by the spendable income that would have been withdrawn to provide annual support to the hypothetical endowed fund. The \$100,000 donation provided approximately \$56,455 of spendable income over the 10-year period.

* Based on a study completed by Bucknell's consultant, Hammond Associates, the top quartile return for college and university endowments is approximately 9.6 percent over the past 10-year period.

Hypothetical Growth of a \$100,000 donation on July 1, 1997 through June 30, 2007

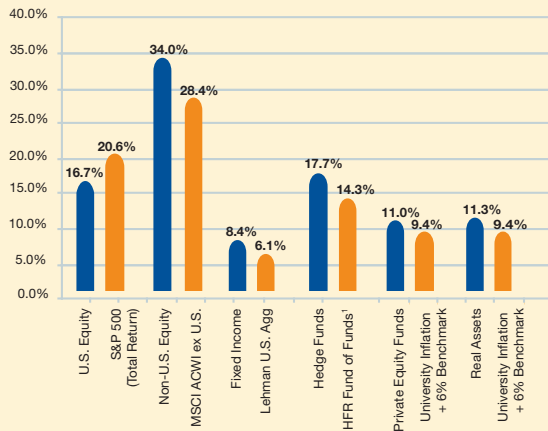


One-year performance by asset class

Bucknell's pooled endowment fund fared similarly well over the fiscal year ended June 30, 2007, returning 17.9 percent. This performance was led by strong returns for the non-U.S. equity portfolio as well as strong relative returns for Bucknell's absolute return composite. It is anticipated that this return will rank in the second quartile of peer institutions.

The U.S. equity portfolio returned approximately **16.7 percent**, which underperformed the 20.6 percent return of the S&P 500 as well as the broader Dow Jones Wilshire 5000 index return of 20.5 percent. The underperformance of the U.S. equity portfolio is partly due to a style bias of the portfolio towards large capitalization high-quality growth companies, which have remained out of favor over the past few years.

FY2007 Returns by Asset Class versus Benchmarks



¹ Source: Hedge Fund Research, Inc., © HFR, Inc. [06-30-2007], www.hedgefundresearch.com

The non-U.S. equity portfolio performed extremely well, returning **34.0 percent** as compared to a return of 28.4 percent for the MSCI All Country World index (excluding the U.S.). This return was led by very strong performance from the University's allocation to emerging market equities.

The fixed income portion of the endowment is made up of U.S. and non-U.S. debt instruments as well as cash. These assets generate stable flows of income and a lower relative return to correlate with a lower level of risk. Over the past fiscal year these investments returned **8.4 percent**. The benchmark used for this asset class is the Lehman Aggregate Bond index, which returned 6.1 percent over the same period.

Bucknell's hedge fund strategy is meant to generate favorable returns relative to equities during market downturns. In the bull market that occurred over the past fiscal year, the absolute return portfolio performed very well, returning **17.7 percent**.

Endowment Performance



Bucknell uses a collection of benchmarks to measure the performance of its hedge fund managers, both to help lessen the survivorship bias inherent in these indices and to get a broader sense of the market performance. The portfolio performed favorably in relation to these benchmarks, exceeding the HFR Fund of Funds index return of 14.3 percent over the same time period.



When analyzing the performance of the University's private equity and real asset portfolios, it is important to look at the long-term impact of these investments. While the turnaround time for some investments is quicker than others, it generally takes several years to generate meaningful returns on private investments. Even though it is still early in the investment stage for many of the University's private equity managers, this asset class has performed well, generating an **11.0 percent** return over the past year.



Real asset investments provide both an opportunity for high returns as well as a hedge against unexpected inflation. Bucknell's real asset portfolio consists of real estate, oil and gas, and timber partnerships primarily invested in the U.S. The same long-term view must be used when analyzing the performance of real asset investments, and while many of Bucknell's partnerships are still in the early stages of investment, this portfolio has generated an **11.3 percent** return over the past year.

The University's investments have performed favorably over the most recent fiscal year period relative to a passive benchmark of University inflation (Higher Education Price Index¹) plus 6 percent, with the private equity portfolio and real asset portfolio exceeding this benchmark by **1.6 percent** and **1.9 percent**, respectively.

While pleased with these strong returns, the Committee on Investments of the Board of Trustees recognizes the myriad challenges of the current investment environment. It is working to manage the portfolio in an effort to generate competitive returns with a balanced concern for risk.

¹ The Higher Education Price Index (HEPI) is an inflation index designed specifically to track the main cost drivers in higher education.

Endowment Fund: Then and Now



Ellen Clarke Bertrand Library

The generosity of previous generations shaped the structure of the Bucknell campus as well as the components of a Bucknell education. This synergy is perhaps most notable with the anchor of Bucknell's academic quad, the Ellen Clarke Bertrand Library. With over 15,000 patrons walking through its doors and utilizing its numerous resources every week, the library is both a staple of the Bucknell landscape as well as a vital resource for students, faculty, administrative staff, and the broader Susquehanna Valley community.

Completed in 1951, the library was constructed largely through the generous gifts of Ellen Clarke Bertrand, a widow and member of Bucknell's board of trustees. Born in 1893, Mrs. Bertrand attended the Gardiner School in New York City and only fell in love with Bucknell later in life.



Upon her death in 1961, Mrs. Bertrand bequeathed an endowment for the maintenance and operation of the library that continues to support the growth of Bucknell's academic program. Amounting to over \$4 million at the time, it was the single-largest bequest in the history of Bucknell and made headlines from the *Bucknellian* to the *New York Times*. John Zeller, then vice president of business and finance, noted at the time that "the library will stand as a living memorial to the gracious lady whose generosity has made possible a real renaissance in the academic life of the University."



The endowment has grown substantially over the years and is now the single-largest endowed fund at the University, with a market value of over \$59 million as of June 30, 2007. More importantly, Mrs. Bertrand's gift continues to support the academic mission of the University, generating over \$2 million of spendable income in fiscal year 2007.

Endowment Fund: Then and Now

The Student Managed Investment Fund

Do undergraduate students at Bucknell have the fiduciary responsibility of managing a portion of the institution's endowment?

If you answered yes, then you are correct.

The Student Managed Investment Fund, or SMIF, is a year-long course in which students manage a real dollar investment portfolio of endowment funds. The

course is structured to provide hands-on experience in portfolio management, including economic, industry, and company analysis, as well as decision-making. Bucknell prides itself on providing undergraduate students with these unique learning opportunities, which blend theory with practical experience. What better way to teach fiduciary responsibility than to give undergraduates the responsibility of meeting the financial needs of future Bucknellians in a controlled and managed risk environment?

The SMIF course was made possible in large part by the generous gifts from the late Lee Idleman, a trustee emeritus. With a long and distinguished career in the financial services and investment world, Mr. Idleman understood the tremendous advantage this course affords Bucknell graduates. Upon his recent death, Mr. Idleman bequeathed additional funds to the University to ensure this program will remain available to undergraduate students well into the future.

The Moriarty family has also provided generous support to SMIF students. The Moriarty Investment Center in Taylor Hall gives them electronic access to a variety of online research reports, business and financial news services, real-time stock, options, and futures market data, and various analytical and graphics tools. Using these tools, the students have done a remarkable job of managing the fund through turbulent market environments since its inception in the fall of 2000, and through their stewardship the market value of the fund stands at approximately \$750,000.



An Interview with the Chair of the Committee on Investments, Ellen Q. Bush

The endowment has nearly doubled over the past five years.

To what do you attribute that growth?

The growth in the endowment reflects a combination of generous support from Bucknell alumni and friends, coupled with strong investment results. This has enabled the University to spend over \$100 million from the endowment over the past five years in support of the academic mission.

What drove the investment results?

Following the recession of the early 2000's, financial markets became relatively inexpensive, and have responded well to the growth in corporate profits. We have been fortunate that the talented members of the Investment Committee of the Board of Trustees have been able to identify and exploit some undervalued asset classes in the last few years.

Can you give us some examples?

International equities, particularly small capitalization and emerging markets stocks, seemed relatively inexpensive a few years ago, and our investments there have provided strong returns. The stocks of smaller domestic companies have also done well. In addition, we made some investments in nontraditional assets that have paid off.

Like what?

We made a fairly significant commitment to distressed debt in the early part of the decade, when many companies were having trouble and investors were frightened. We hired several managers to look at the bonds of companies that were having difficulties. They purchased bonds that were extremely inexpensive – too cheap given the collateral behind them. That strategy has worked extremely well. And it is a strategy that may work for us again if the economy really starts to falter.

Where are you looking now?

The current landscape is very intriguing. After a long period when the world was awash in liquidity and investors had a healthy appetite for risk, the sub-prime mortgage crisis has served as a wake-up call and removed some of the complacency. In this environment, we have diversified our asset mix fairly broadly and have looked for assets that will provide some protection.

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An Interview with the Chair of the Committee on Investments, Ellen Q. Bush

Would that include bonds?

Actually, we have relatively modest exposure to fixed-income securities, outside of our distressed debt managers, as the current rate environment doesn't provide an adequate return to meet our spending and growth goals. If there were a change in the economic and investment landscapes that caused interest rates to rise, we would certainly consider altering our allocation.

So where does the committee find downside protection?

First, by diversifying broadly with many managers who have different approaches to protecting and growing our assets. As I mentioned, over the past few years we have increased our allocation to nontraditional investments, like hedge funds. We believe that a carefully constructed portfolio of hedge fund managers should help cushion a pull-back in the equities market. There have been a variety of examples of problems in the hedge fund world, which gives credence to our strategy of having multiple managers with multiple strategies.

The endowment has investment relationships with about 30 firms, some of which manage more than one product for the University. Why so many?

We're trying to find the right balance between concentrating on areas where we have high levels of conviction, and avoiding the kinds of problems that have arisen at individual managers or funds. Most endowment funds of our size have about the same number of manager relationships as we do.

Is the Committee addressing any special issues now?

Well, inflation has been dormant for a long time. But our country has a lot of debt, and a weakening currency that could lead to imported inflation. There are other possible inflationary pressures, like decelerating growth in productivity and rising commodities prices. One of our primary goals is to preserve the purchasing power of the endowment, so we have been in the process of adding to our inflation hedges in the portfolio.

Thank you, Ms. Bush.

Investment Committee

The Committee on Investments of the Board of Trustees is well stewarded by a distinguished set of individuals with complementary backgrounds, ideas, and points of view. The Committee meets at least quarterly to evaluate performance, review policies, and consider potential investments.

Committee members as of November 2007

Ellen Q. Bush, Chair

Edward Staiano, Vice-Chair

Frank Arentowicz

Charles Berger

Robert Bonelli

Peter Gerhard

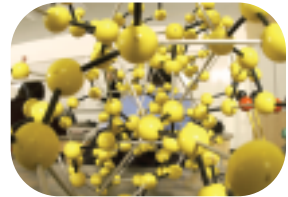
Stephen Holmes

Paul Mejean

Nancy Prial

Robert Rooke (emeritus)

Barry Tague



Christopher D. Brown '81, CFA

Chris Brown was named Chief Investment Officer for Bucknell in May 2007. He has over 22 years of investment experience with General Electric Asset Management (GEAM), where he was most recently Senior Vice President for Equity Portfolios, with over \$9 billion under management.

Chris began his career with GE upon graduation from Bucknell in 1981, entering the GE Financial Management Program. He joined GEAM in 1985 and became an equity security analyst in 1989. Chris attained his Chartered Financial Analyst designation in 1990 and began his portfolio management responsibilities for pension and institutional client assets in 1992. He is a member of the New York Society of Security Analysts and the CFA Institute.

Bucknell

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