A Message from the Chief Investment Officer

John Maynard Keynes has been getting a lot of press lately. He was not only an economist, but also a successful institutional investor. To paraphrase from a 1938 memorandum Keynes wrote to the Estates Committee of King’s College, Cambridge, he believed investment success derived from three basic tenets:

- The selection of investments based on intrinsic value
- Steadfast holding over long periods
- Taking a balanced approach to the incurrence of risk.

Those tenets have a familiar ring to the Committee on Investments, as they are codified in the Investment Policies of the Board of Trustees.

With these investing principles in mind, we have taken a series of actions over the past 18 months that have helped to lessen the impact to the endowment fund of the significant declines that have been experienced in the global financial markets. We meaningfully reduced our allocation to U.S. equities during fiscal 2008, and held the largest cash balance in recent history on June 30, 2008. More recently, we have enhanced the yield in the portfolio through investments in a senior bank loan fund, an investment-grade corporate debt fund, and an energy infrastructure fund.

While we are naturally inclined toward long-term holding periods for our investments, that does not preclude us from pursuing shorter-term opportunities with portions of the overall portfolio. The recent extreme volatility in the markets has compelled us to make greater use of more liquid investment vehicles, like exchange-traded funds (ETFs), to express our shorter-term viewpoints and enhance our liquidity.

Since the early 2000s, the Committee has been on a deliberate path of greater diversification within the endowment fund. As the accompanying chart shows, we are invested in a variety of asset classes around the globe, in an effort both to enhance our long-term returns, and to mitigate risk. Even though our recent returns have been impacted by the high correlation of most asset returns, we have benefited from the diversification, as our hybrid and low-volatility assets have held up better than our growth assets.

Keynes’ investment beliefs ring as true today as they did over 70 years ago, and they inform our investment decisions both during periods of economic growth and recession. The Committee on Investments remains committed to meeting our spending commitments on financial aid, scholarships, grants and operations. To do that, we will continuously monitor the external environment, and carefully steward the assets of Bucknell with prudence and vigilance.

Christopher D. Brown ’81, CFA
Chief Investment Officer
Commentary for the six months ended December 31, 2008

The first six months of the 2009 fiscal year turned out to be one of the most difficult investment environments in recent memory, with almost all asset classes outside of U.S. treasuries declining significantly. Equities performed very poorly over the past six-month period, with the U.S. equity market losing 28.5 percent as measured by the S&P 500 index. Most non-U.S. equity markets fared even worse, with the broad market as measured by the Morgan Stanley international equity index (ACWI ex-U.S.) dropping 36.5 percent. Emerging markets were hit the hardest, dropping 47.2 percent. Amidst the equity sell-off and massive deleveraging of capital markets, the endowment fund declined approximately 21.6 percent.

Many areas of the credit and fixed-income markets were in the eye of the storm over this time period, with prices collapsing as credit spreads widened to historic levels. Over the six-month period the Barclays (formerly Lehman) Aggregate Bond Index returned +4.1 percent due to a high percentage allocation of the index to U.S. government securities. In the hybrid asset class, many hedge fund managers aided investment returns, but not to the extent that the term “hedge” might indicate. The Hedge Fund Research index declined 19.3 percent over the six-month period, but this broad index return hides significant dispersion of returns among individual managers and strategies.

Bucknell’s endowment value at December 31, 2008 was $425.3 million. Total distributions over the six-month period exceeded $14.5 million, funding scholarships, grants and University operations. The fund received gifts and transfers of $3.9 million and had investment losses of approximately $118.7 million. Investment activity included a reduction in our allocation during the six-month period to growth assets and low-volatility assets, and an increase in our allocation to hybrid assets and inflation protection assets. The low-volatility assets were used as the primary source of funding for the cash transfers out of the endowment, as the buildup of cash reserves at June 30, 2008 and prudent use of liquidity allowed us to avoid any forced selling of other assets at depressed prices. Later in the period, the endowment fund pursued allocations to high-quality credit and energy infrastructure to take advantage of compelling cash yields on these investments.

Asset allocation December 31, 2008

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Total endowment activity – six months ended December 31, 2008 (in millions)

1 Source: HFR Fund of Funds index, Hedge Fund Research Inc., @HFR, Inc. [12-31-2008], www.hedgefundresearch.com