

# ENDOWMENT PERFORMANCE

## Bucknell University Endowment Report: Spring 2011

### Investment Spotlight: ReEnergy Holdings LLC

At its core, an endowment fund is based on the concept of sustainability. A successful endowment must match a prudent spending rate with an investment policy that balances risk and return to achieve a real growth rate that will sustain the endowment into perpetuity. The sustainability principles of an endowment are similar to those facing our planet today, as global economies grapple with the long-term challenge of reducing carbon emissions while continuing to access reliable and cost-efficient sources of energy. This paradigm shift away from fossil fuels will be a multi-generational process and should give rise to many attractive investment opportunities. For this reason, Bucknell's endowment has invested in companies that span the spectrum of the renewable energy industry. One of these investments, ReEnergy Holdings LLC of Albany, N.Y., is quite literally transforming trash into cash.

Founded in 2008, ReEnergy Holdings acquires, develops, owns and operates facilities that collect, process and transform construction and demolition wood, municipal solid waste and other waste streams into renewable forms of energy. With a management team comprised of seasoned industry professionals, ReEnergy is building a significant integrated biomass renewable energy company by focusing its efforts in regional markets with renewable energy mandates, high tip fees and significant waste volumes. The young firm has targeted markets across the eastern seaboard and identified potential West Coast and Midwest markets as well. It plans to expand operations through acquisitions as well as advanced technologies to convert recovered biomass into energy.

The company continues to post double-digit revenue and earnings growth, and for good reason. According to the Environmental Protection Agency, 34 percent of total municipal solid waste in the United States is recovered and recycled or composted, 12 percent is burned at combustion facilities, and the remaining 54 percent is sent to landfills. These conditions provide significant room for growth of ReEnergy's market share in target markets and positive potential returns to the portfolio. Although it is still early in the company's lifecycle, ReEnergy has thus far proven to be a successful, sustainable investment for Bucknell's endowment as well as for the planet.

### A Message from the Chief Investment Officer

**“As long as the music is playing, you’ve got to get up and dance.  
We’re still dancing.”**

— Charles “Chuck” Prince, former CEO, Citigroup, July 2007

This oft-cited quote is a shorthand reference to the outset of the credit crisis that would envelop the global financial markets for more than two years. Mr. Prince was referring to the state of competition in the lending markets at that time, when his firm was forced to compete against pools of capital that ignored traditional underwriting standards. Money flowed to just about anyone who asked for it, regardless of their ability to repay, under the faulty assumption that asset prices would continue to rise. In order to retain business, Citigroup and others needed to take on more risk, and keep on dancing.

As global equity and bond prices have rallied dramatically since their lows around March 2009, we find ourselves wondering if we should stop dancing. Or more plainly, should we further reduce risk in the endowment fund?

When we talk about risk, we don't mean day-to-day fluctuation in prices, but rather the risk of permanent loss of capital. As such, when it comes time to make the endowment's quarterly payment of nearly \$7 million to the University for scholarships, financial aid and operations, we focus on funding these payments by reducing exposure to asset categories with the greatest price risk. That isn't always going to be equities – we recently reduced our fixed-income exposure on concerns about rising rates.

Most asset prices have risen meaningfully as the economy has backed away from the precipice, in large part due to the enormous fiscal and monetary stimulus provided by governments around the world. Interest rates remain low, corporate profits have approached prior peak levels, and it appears that revenues are starting to grow again. This rosy picture is offset by a backdrop of high unemployment and the longer-term issues of excessive debt levels, large deficits and massive unfunded liabilities for pensions and entitlement programs. Meanwhile, developing economies, like emerging markets, are experiencing such rapid growth that their central banks are forced to raise interest rates in an attempt to keep inflation at bay.

The Committee on Investments of the Board of Trustees and the Endowment Office of the University concur with David Rosenberg of Gluskin Sheff when he notes that “. . . preserving capital and growing it slowly and prudently is a totally appropriate strategy . . .” in today's global marketplace. We will continue to monitor asset prices and make reasoned changes to our allocations to maintain the appropriate amount of risk and expected return in the fund.

Thank you for your continued support of Bucknell.



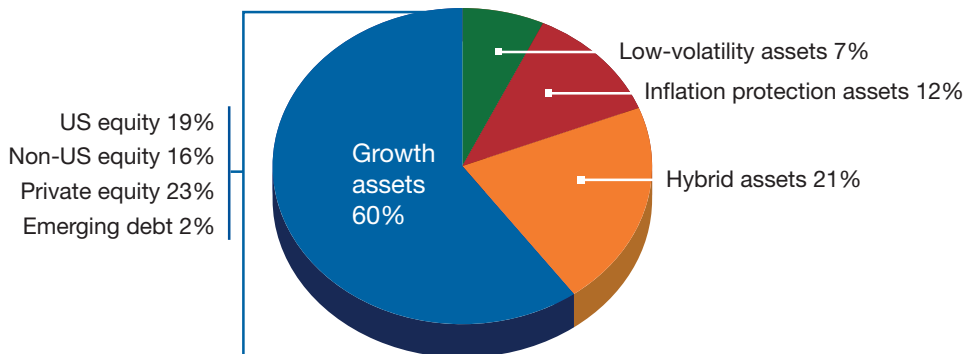
Christopher D. Brown '81, CFA  
Chief Investment Officer

## Commentary for the six months ended December 31, 2010

The past six months were defined by a number of US monetary and fiscal policy initiatives that, along with continuing improvement in economic statistics, helped to support a global rally in asset prices. US equity markets began a sustained rally following the Fed's August 27th announcement of its latest easing of monetary policy, dubbed QE2, and then flew past the midterm elections and into the New Year behind the December legislative "compromise" to extend Bush-era tax cuts for all. Continuing concerns over European sovereign debt and emerging-market inflation pressures failed to put a dent in this bullish enthusiasm as asset classes across the globe realized double-digit returns over the period.

- For the six months ended Dec. 31, 2010, US equities as measured by the S&P500 index returned 23 percent. Non-US equities as measured by the Morgan Stanley international equity index (MSCI ACWI ex US) returned 25 percent. Since hitting a closing low of 676 on March 9, 2008, the S&P500 index has now gained approximately 86 percent to close at 1257 on Dec. 31, 2010.
- The US policy initiatives previously discussed destabilized the fixed-income market as some commentators speculated over the imminent end of a multi-decade bull market in fixed income. After falling to below 2.5 percent in early October, yields on the 10-year treasury rose nearly 100 basis points to end the year at 3.3 percent (note: yields and prices move inversely with each other). Six-month total returns on US investment-grade corporate and high-yield fixed-income securities were 2 percent and 10 percent, respectively.
- Real estate investment trusts continued to benefit from the improving US economy, investor focus on yield and access to the capital markets, posting a 22 percent total return as measured by the Wilshire REIT index. Master Limited Partnerships (MLPs) had a similar return of 23 percent.
- Finally, hedge funds as measured by the HFRI Fund of Funds index were up approximately 7 percent over the six-month period, although this index return masks some wide disparity across strategies and managers over the time period.

### Asset allocation December 31, 2010



At December 31, 2010, Bucknell's endowment fund was valued at \$548.6 million, up from \$491.5 million at June 30, 2010. Total distributions of \$14.4 million over the six-month period were transferred out of the endowment to help support scholarships, grants, athletics and other University operations. The fund received gifts and transfers of \$5.5 million and had investment gains of approximately \$66 million.

### Total endowment activity

6 months ended December 31, 2010 (in millions)

