



ENDOWMENT PERFORMANCE

Bucknell University 2008 Endowment Report



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Chief Investment Officer
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Timing is everything.

When I returned to Bucknell in May 2007, the financial markets were finishing five years of solid performance, with a rising tide of global growth lifting all financial-instrument boats. The dark clouds of the sub-prime mortgage mess had gathered, but not many envisioned the kind of credit crisis that would engulf the economy. What ensued were collapsing real estate values, massive loan write-offs, bank failures, rising unemployment, extraordinary government intervention, bear markets and talk of reliving the Depression.

Like they say, timing is everything.

Yet from an investment perspective, timing is most certainly not everything. Over multiple market cycles, it has proven extremely difficult to successfully time the financial markets. That is why, for many years, the Committee on Investments of the Board of Trustees has taken a valuation-based approach to managing the endowment fund. Last fall, we updated our Investment Policies and Guidelines to codify our interim and long-term asset allocation targets, based on the premises of prudent diversification and realistic return expectations. It is also the principle of intergenerational equity, taking into account the students of today and tomorrow, that guides our decision-making.

For fiscal 2008, the performance for the endowment fund was down 3.6%. While we are not satisfied with a negative return for the year, our diversification of the portfolio into emerging markets equities, hedge funds, and real assets helped to mitigate the poor returns from the stock market. We anticipate that our return will rank us in the second quartile relative to our peers. As one of our trustees remarked, "value held is a not a loss of value - it is preservation of value." We are fortunate to have strong liquidity and a long term investment horizon, and have not been forced to sell assets we believe are fundamentally undervalued.

Even with negative returns, the endowment maintained its long-term spending policy and paid out more than \$31 million during the year, representing over 5 percent of the assets. The money was used to fund many critical aspects of the life of the University, including scholarships, financial aid, operations and security upgrades. This spending is the foundational purpose for the endowment, and highlights the importance of the strategy to secure our financial future in *The Plan for Bucknell*.

Market participants' newfound appreciation for risk will not abate anytime soon. The Committee on Investments will keep its sights on the long-term prospects for the fund and the financial markets. Investing, rather than timing, is our watchword. We will continue to take only prudent levels of risk, and weather the near-term volatility, to achieve our long-term return objectives for Bucknell.

Many thanks to the members of the Committee on Investments for their tireless and selfless efforts, and to the thousands of generous supporters of the endowment fund.

Best regards,

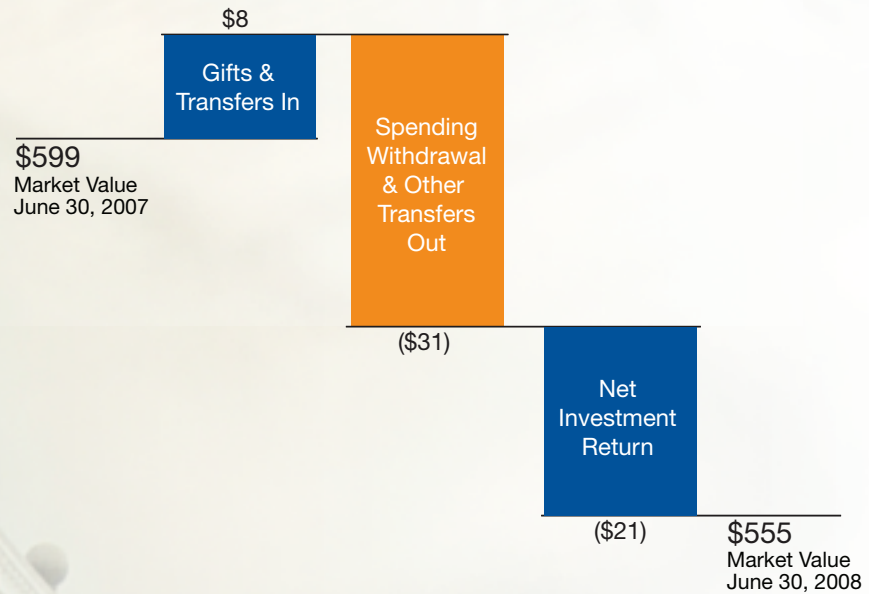
Christopher D. Brown
Chief Investment Officer



Endowment Activity

Bucknell University's total endowment market value at June 30, 2008 was \$555 million. The net decrease in market value of \$44 million since June 30, 2007 consists of an \$8 million increase from gifts and transfers into the endowment, \$31 million in distributions to support financial aid, academics, campus security projects and University operations, and \$21 million in net investment losses.

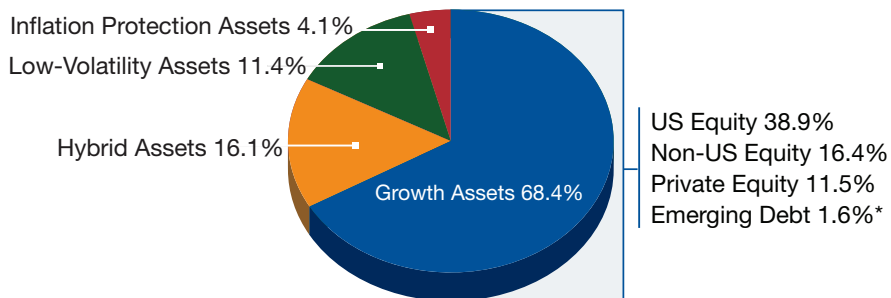
Total Endowment Activity (in millions)



Asset Allocation

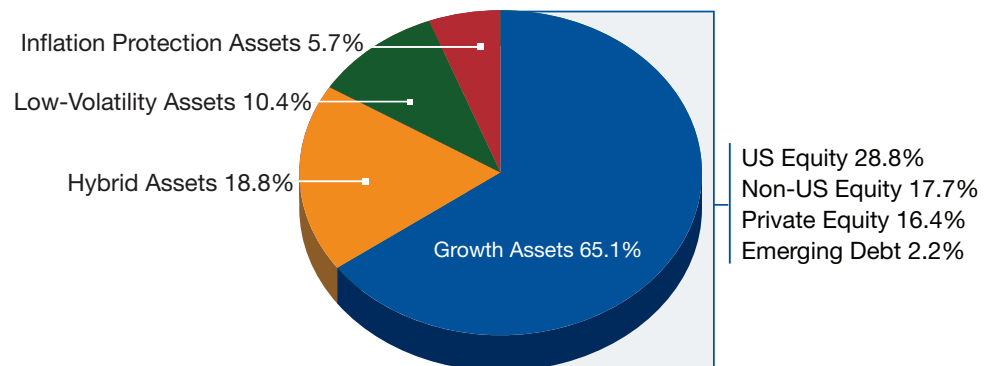
Over the past five years, the Committee on Investments of the Board of Trustees has followed a steady path of reducing the endowment fund's exposure to public US equity markets and diversifying the endowment portfolio across a variety of markets and asset classes. This objective continued in fiscal year 2008, when over \$55 million was allocated out of US equities and into hedge funds, non-US private equities and distressed assets. Lastly, the endowment fund significantly increased its liquid cash balances, ending the fiscal year with the largest cash balance in recent history.

Asset Allocation 2007



* Emerging Country Debt was reclassified from Low Volatility to Growth Assets in fiscal year 2008.

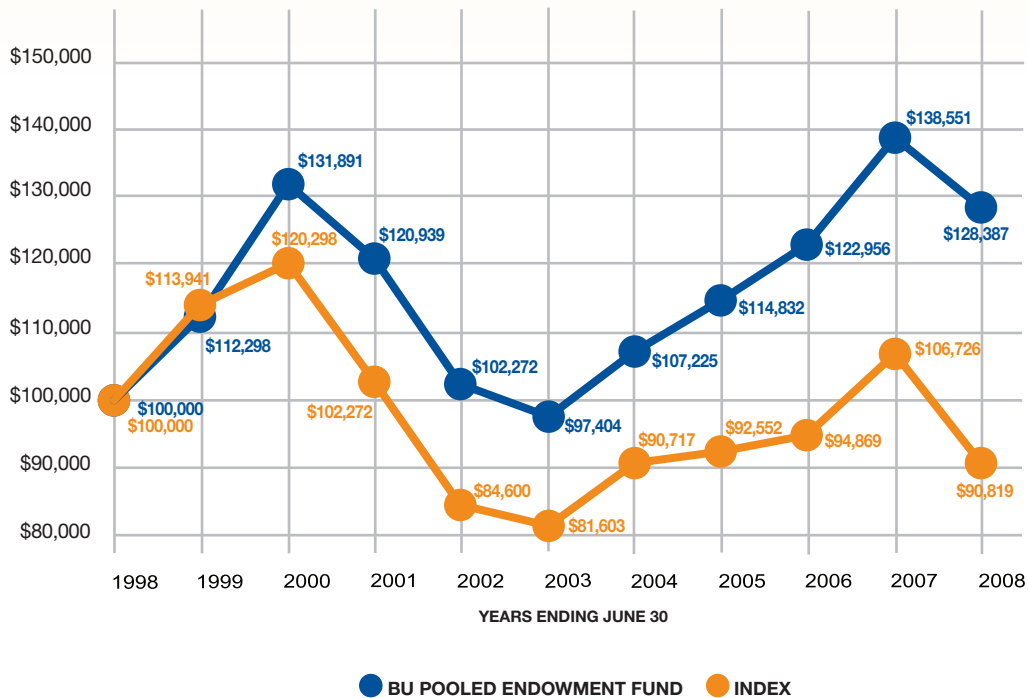
Asset Allocation 2008



Performance

Endowments have a dual purpose: to support the current endeavors of today's students and faculty while also growing to ensure distributions to benefit future generations. The successful performance of Bucknell's pooled endowment fund toward meeting these goals is illustrated in the following chart. A hypothetical endowment gift of \$100,000 established on July 1, 1998 and invested in the pooled endowment fund would have grown to a market value of over \$128,000 on June 30, 2008. In addition, this gift would have distributed more than \$49,000 in spendable income over the past 10 years. In comparison, a similar-sized gift invested in a blended benchmark of stocks and bonds, while providing the same level of current spendable income, would have lost market value over the same time period.

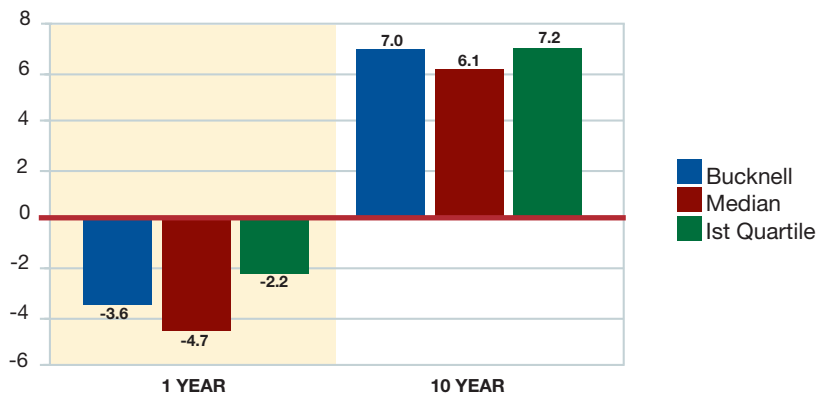
Hypothetical Growth of a \$100,000 Donation on July 1, 1998 through June 30, 2008



The index is a blended benchmark of 85% Wilshire 5000 and 15% Lehman Aggregate Bond.

Over the 10-year period ended June 30, 2008, Bucknell's pooled endowment fund earned an annualized return of 7.0%. On a relative basis, this 7.0% return places Bucknell's endowment well above the estimated median return for other college and university endowments of 6.1%, and just below the estimated top quartile of 7.2%.

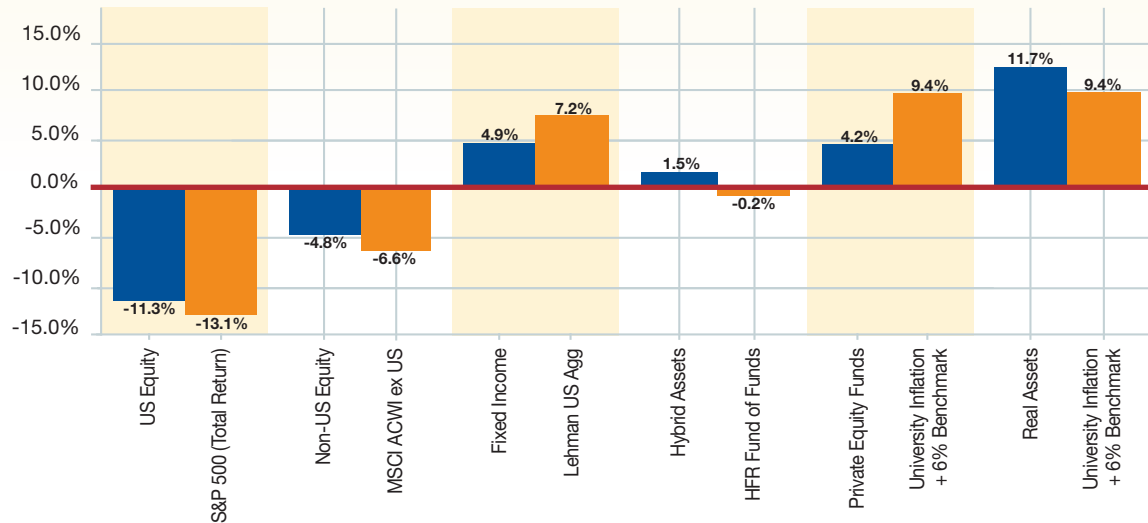
Returns



One-Year Performance by Asset Class

The endowment fund's performance over the past fiscal year was -3.6%, and it is anticipated that this return will rank in the second quartile of peer institutions. This overall fund performance was made up of a wide range of returns across asset classes, with a high of 11.7% for the endowment's investments in real assets such as oil and gas partnerships, real estate and timberland, to a low of -11.3% for the fund's US public equity portfolio. While equity and credit markets struggled over the past fiscal year, weighing negatively on overall portfolio returns, the overwhelming majority of Bucknell's asset class portfolios and managers outperformed their markets on a comparative basis.

FY2008 Returns by Asset Class versus Benchmarks



US equity markets lost money over the past fiscal year, and Bucknell's portfolio was not immune to these market conditions, posting a loss of 11.3% – the lowest performance of all asset class portfolios. The portfolio's outperformance to the broad US equity market was helped by an overweight to growth managers, which had hurt portfolio returns in prior years. Faced with slowing export growth, commodity inflation concerns and the ripple effects from the US credit markets, European and Asian equity markets also struggled over the past year. The non-US portfolio lost 4.8%, compared to a loss of 6.6% for the broad market. The over-allocation to emerging markets relative to the benchmark has helped the non-US portfolio outperform over the past few years. Late in 2007, the decision was made to significantly scale back the exposure to emerging markets to realize some of this outperformance as valuations became less attractive.

The majority of managers in Bucknell's hybrid asset portfolio performed well over the past fiscal year, although the overall portfolio return was tempered somewhat by an allocation to distressed assets. A few of our managers capitalized on the excesses in the credit markets by being early on the short side of these trades. We expect the low leverage and contrarian mindset that we look for when selecting managers will help these funds outperform through challenging credit and equity markets.

We continue on the path of building out our private equity and real asset portfolios, mindful of market conditions and the long-term nature of these investments. The diversification of our private equity portfolio across strategies, markets and vintage years has resulted in a range of returns within the portfolio. The return of the real assets portfolio was led by the allocation to oil and gas partnerships and moderated somewhat by our private real estate investments, which were approximately flat for the year. Also, we expect the endowment fund's lower allocation to commodities compared to some of our peer institutions may have weighed negatively on the relative performance of the total fund.

Faced with a multitude of market challenges entering fiscal year 2009, Bucknell's Endowment Investment Office and Committee on Investments of the Board of Trustees will continue to monitor the markets and prudently evaluate new opportunities with a vigilant eye toward downside protection and preserving intergenerational equity for all Bucknellians, present and future.

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