

BUCKNELL UNIVERSITY

*Fall 2018*

ENDOWMENT REPORT





**OFFICE OF THE PRESIDENT**

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Lewisburg, PA 17837  
bucknell.edu



Dear Bucknellians,

The 2018 fiscal year was in many ways a historic one for Bucknell University. We announced our first named college, the Freeman College of Management. We reaffirmed our commitment to the humanities through the unveiling of the beautifully renovated Hildreth-Mirza Hall, home to our Humanities Center. And we broke ground on Academic East, a facility focused on our interdisciplinary excellence that will significantly expand laboratory and classroom space for our College of Engineering and provide a new home for our Department of Education.

These are but exemplars of our notable achievements, all of which are made possible by the incredible support of our donor community, and through our good stewardship of that support, the strength of our endowment. I am pleased to report that, during the past fiscal year, Bucknell received \$23 million in gifts and other additions to the endowment — a record amount. Overall, the University's strategic positioning within the market raised the endowment to \$851 million on June 30, 2018. On behalf of the University, please accept my thanks for your investment in the success of Bucknell, and in turn, our students. With your support, current and future Bucknellians will thrive in their personal and professional lives, carving out paths of leadership in their communities, their careers and the world at large.

Bucknell's long tradition of excellence stems from the commitment and care of those entrusted with the institution for generations before us. Our responsibility is not only to preserve this legacy, but also to strengthen it, further distinguishing the University from its peers by offering students an unparalleled educational experience. Accordingly, we are in the midst of developing a new strategic plan to guide our growth and ensure our position at the forefront of higher education for decades to come. Stakeholders from across Bucknell are engaged in this exciting process, and I look forward to sharing more on the fruits of our collaboration in spring 2019.

As always, our investment team, advised by the Board of Trustees, will continue to focus on sound stewardship of our resources, allowing us to meet financial challenges and seize opportunities with confidence. I am grateful for their dedication to the University and our students, which informs their investing decisions and ensures our ability to carry out our strategic plans for the future.

Thank you again for your continued loyalty to Bucknell.

Sincerely,

John C. Bravman  
President

## Endowment Activity

Bucknell University's total endowment market value as of June 30, 2018, was \$851 million, a \$50 million increase in market value from a year ago. The increase consisted of a \$71 million net investment gain, as well as \$23 million in gifts and other additions into the endowment, which were offset by \$43 million in disbursements to support the University. Over the past 20 years, the endowment value has grown from a beginning amount of \$339 million on July 1, 1998, through \$660 million in investment gains plus \$403 million in gifts and other additions, less \$552 million in disbursements back to the University.

### TWENTY YEARS OF ACTIVITY

as of June 30, 2018

\$, IN MILLIONS	1 YEAR	5 YEARS	10 YEARS	20 YEARS
Beginning Market Value	\$801	\$667	\$555	\$339
Gifts and Other Additions	\$23	\$136	\$268	\$403
Disbursements to University	\$(43)	\$(198)	\$(343)	\$(552)
Investment Return	\$71	\$247	\$372	\$660
<b>Ending Market Value</b>	<b>\$851</b>	<b>\$851</b>	<b>\$851</b>	<b>\$851</b>
<b>Net Change in Market Value</b>	<b>\$50</b>	<b>\$186</b>	<b>\$296</b>	<b>\$512</b>

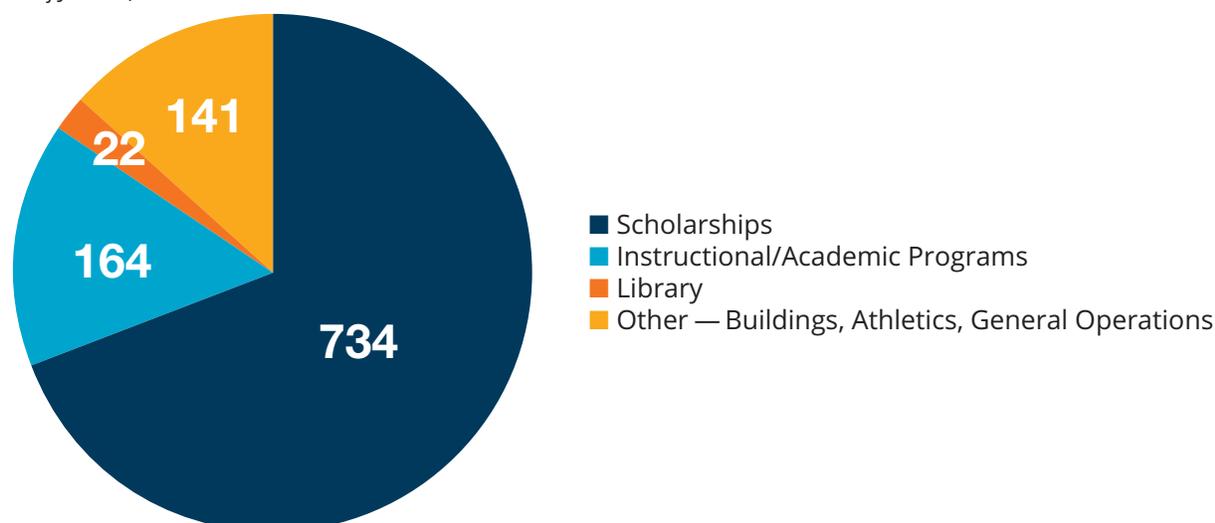
Note: Columns may not sum due to rounding

## Endowment

The endowment fund employs a unitized structure similar to a mutual fund, where new endowment contributions purchase units in a pool. As of June 30, 2018, there were more than 1,000 separate donor-endowed funds in place at the University. The largest number of these donor-endowed funds are represented by undergraduate scholarships, but many other donor-endowed funds support all aspects of the University's mission, from funding faculty and student research to supporting men's and women's athletics programs. These generous gifts are a critical component in providing students with the best possible Bucknell experience.

### CHART 1: CATEGORIZATION OF ENDOWMENTS

as of June 30, 2018



## Asset Allocation

The asset allocation of the endowment is structured to achieve a maximum rate of return given a level of expected investment risk that is deemed prudent within the context of the University's mission. The endowment's asset allocation is structured to balance three main objectives:

- ➔ to maintain sufficient near-term liquidity in order to provide quarterly disbursements to support the University;
- ➔ to minimize the likelihood of a potential decline of the endowment that may permanently impair the University's mission; and
- ➔ to generate a return that will allow the endowment to grow in excess of the disbursements made to support the University and the eroding impact of inflation.

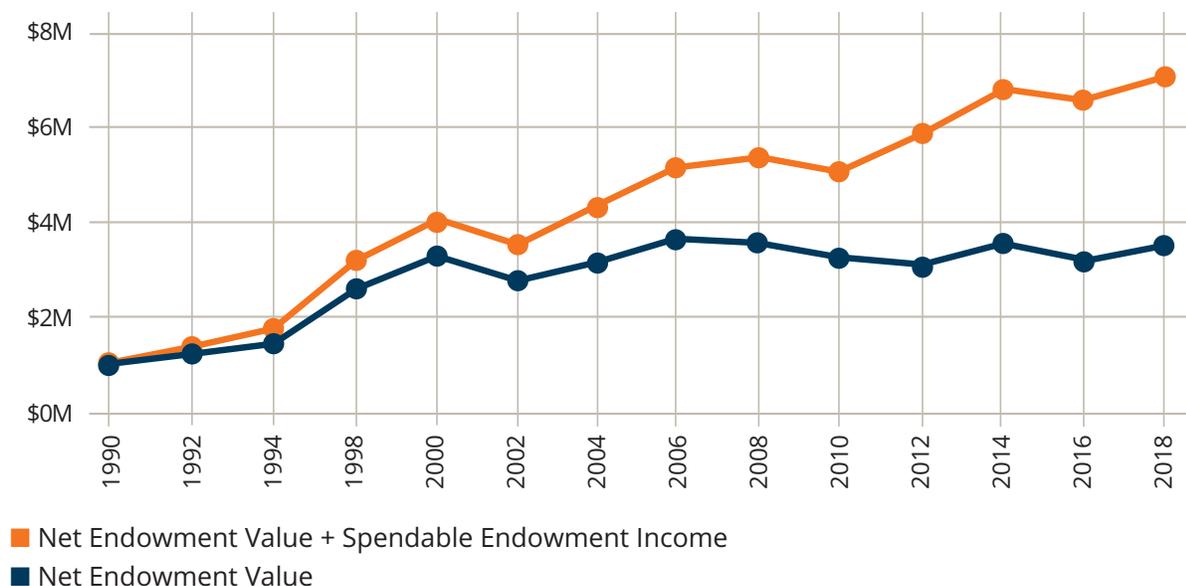
Thus, the asset allocation of the endowment is the product of balancing our long-term return objective with the immediate requirement of providing ongoing support to the University. These contrasting time horizons are components of a single key concept in endowment management known as *intergenerational equity*: the objective of providing the same level of support to current and future generations of Bucknell constituents into perpetuity when adjusting for inflation.

As a hypothetical example:

- ➔ An endowment gift of \$1,000,000 established on July 1, 1990, and invested in the pooled endowment fund would have generated approximately \$6,100,000 of total investment gains over the past 28 years.
- ➔ Over the same 28 years, the gift would have distributed more than \$3,500,000 in spendable income to the University to support the scholarship, department or program to which it was designated.
- ➔ Thus, the net market value of the gift at June 30, 2018, would have grown to approximately \$3,600,000.
- ➔ It is important to note that the annual support to the University from the gift would have grown as well, from approximately \$41,000 in academic year 1991 to \$184,000 today.

### HYPOTHETICAL GROWTH & CUMULATIVE SUPPORT OF \$1,000,000 GIFT (IN MILLIONS)

as of June 30, 2018



Investments held within the endowment are classified into four broad asset types based on their anticipated contribution to the portfolio when considering their expected risk, return and correlation:

- ➔ **Growth Assets** are intended to be the primary engine of long-term capital appreciation, but these investments may exhibit significant short- and intermediate-term volatility. This group consists mainly of US and non-US public equities as well as private equity investments.
- ➔ **Hybrid Assets** should produce returns with limited correlation to Growth Assets and lower expected volatility. These investments are expected to protect capital in declining markets relative to Growth Assets, and in some cases they may also have a high current income component. Hybrid investments consist of hedged/opportunistic strategies, higher-yielding public credit investments and private debt origination strategies.
- ➔ **Real Estate** is expected to produce current income and capital appreciation. The total investable universe of real estate tends to be underrepresented by traditional equity market benchmarks, and thus real estate receives a separate allocation away from the Growth portfolio. However, we remain cognizant of the potential economic sensitivity of real estate and manage overall endowment risk accordingly.
- ➔ **Low-Volatility Assets** should produce modest returns in most environments and provide stability for the endowment. These investments consist mainly of cash and high-quality fixed income. This component of the portfolio represents a source of liquidity and current income to fund the disbursements that provide ongoing support to the University.

The University's Investment Committee of the Board of Trustees, in close consultation with the Investment Office and external advisors, establishes the long-term strategic asset allocation of the endowment. This broad mix of asset types is meant to achieve the University's long-term return objective while simultaneously adhering to our tolerance for investment risk and volatility. Given that our long-term return goals, risk constraints and expected market returns change infrequently year to year, broad portfolio changes are infrequent as well. However, within each of these asset classes, we are evaluating and pursuing new investment opportunities in the constantly shifting global investment markets.

**TABLE 1: ASSET ALLOCATION**

as of June 30, 2018

	<b>Current Portfolio (June 2018)</b>	<b>Asset Allocation (June 2017)</b>	<b>Asset Allocation (June 2013)</b>	<b>Asset Allocation (June 2008)</b>
<b>GROWTH ASSETS</b>	<b>65%</b>	<b>65%</b>	<b>66%</b>	<b>69%</b>
<i>US Equities</i>	25%	24%	25%	30%
<i>Non-US Equities</i>	18%	17%	16%	20%
<i>Private Capital</i>	22%	24%	25%	19%
<b>HYBRID ASSETS</b>	<b>19%</b>	<b>18%</b>	<b>22%</b>	<b>20%</b>
<b>REAL ESTATE</b>	<b>3%</b>	<b>4%</b>	<b>3%</b>	<b>2%</b>
<b>LOW-VOLATILITY ASSETS</b>	<b>13%</b>	<b>13%</b>	<b>9%</b>	<b>9%</b>
	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## Investment Activity

Activity for the past fiscal year is summarized below:

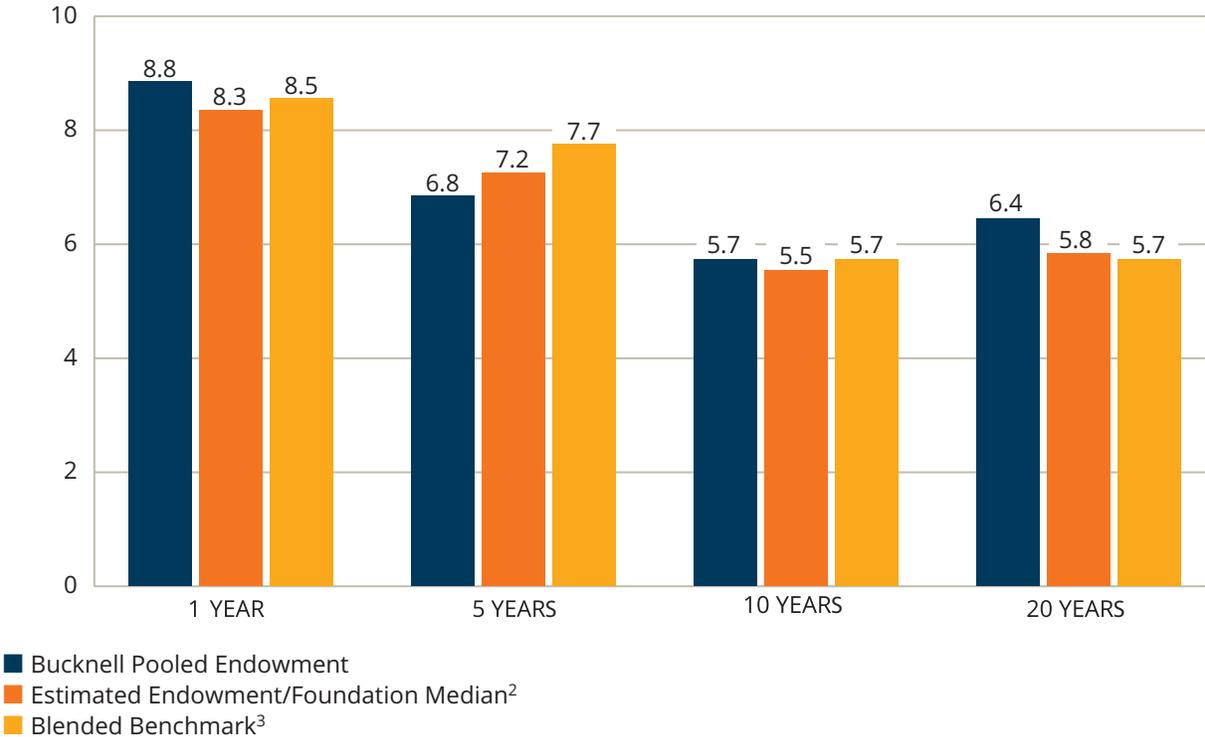
- ➔ Within **Growth Assets**, the portfolio's allocations are broadly in-line with targets. This neutral allocation is a function of our healthy respect for equity valuations today and the potential to be in the later stages of an economic expansion counterbalanced against little actual evidence of an impending slowdown. In other words, fundamental conditions appear supportive of equity markets, but that support feels appropriately reflected in current prices. Any incremental activity undertaken during the year has been primarily focused on more idiosyncratic private market opportunities that we anticipate will produce long-term value above market benchmarks through value-focused purchases, operational turnarounds and/or product innovation.
- ➔ Our **Hybrid** portfolio is comprised of a public and private credit portfolio as well as a concentrated portfolio of relatively flexible investment strategies with the ability to be opportunistic as well as hedge against security and market risks. The public credit portfolio is positioned relatively defensively given the low level of compensation ("spread" over Treasuries) that investors are being afforded today for credit risk in public markets. However, the private credit portfolio continues to be an area where we are finding some of our most interesting opportunities. We continue to focus on identifying unique investment strategies that are able to generate attractive yields by lending to borrowers/situations that are unable to access capital from banks or other traditional lending channels.
- ➔ The **Real Estate** portfolio is primarily invested in private partnerships that contain underlying real estate investments diversified by geography and property type. Over the past year, our real estate managers have been net sellers of their portfolios ("a seller's market"), and we have remained patient/judicious with respect to allocating additional capital. New investments during the past year were more thematic in nature, focusing on US data centers and European logistics we believe will continue to benefit from strong secular growth fundamentals.
- ➔ The allocation to **Low-Volatility Assets** is above our long-term strategic target as we patiently seek opportunities to deploy capital into other parts of the portfolio. While we appraise our long-term performance of the Low-Volatility portfolio to an index representative of the bond market, we manage this component of the endowment with an absolute-return orientation. Therefore, it is currently comprised of cash and higher-quality corporate and government debt with limited interest rate sensitivity.



### Overall Performance

Over the one-, five-, 10- and 20-year periods ended June 30, 2018, Bucknell's pooled endowment fund generated annualized returns of 8.7, 6.8, 5.7 and 6.4 percent, respectively.

- The endowment return of 8.7 percent over the past fiscal year exceeded a blended benchmark of public indexes as well as our preliminary estimate of the median return of other University endowments. The primary contributors to investment returns over the past year were our equity, real estate and private credit portfolios, which benefitted from the continued bull market in risk assets.
- The long-term investment objective of the endowment fund is to generate a real return that will allow for growth in excess of the disbursements transferred to the University that support financial aid and other key programs. Over the preceding 10 years, which began near the beginning of the global financial crisis, the endowment fund return of 5.7 percent did not meet our objective. Over the same time period, public stock and bond markets returned just 5.8 percent and 3.7 percent per year respectively, indicating the challenge of meeting this objective<sup>1</sup>.
- Bucknell's endowment return over the past 10 years is slightly above the estimated median return of other college and university endowments of 5.5 percent<sup>2</sup> and in line with a blended benchmark<sup>3</sup>. This blended benchmark is meant to assess the returns of the endowment relative to market returns of a similar risk based on the strategic target asset allocation of the endowment. Performance relative to this benchmark may be indicative of value added as part of the investment selection process. Over a longer 20-year period, the endowment fund has generated a 6.4 percent return, which exceeds both the blended benchmark index and the estimated college and university endowment median.



<sup>1</sup> Public stock and bond markets are represented by the MSCI All Country World Index and the Bloomberg Barclays Aggregate Bond Index.  
<sup>2</sup> FY2018 estimated return based on preliminary results collected from multiple consulting firms. Previous fiscal year returns based on the Nacubo-Commonfund Study of Endowments.  
<sup>3</sup> The blended benchmark is a mix of public market indices meant to be representative of the long-term allocation and risk level of the endowment.

## PERFORMANCE BY ASSET CLASS

Risk assets were broadly positive during fiscal year 2018, offset by traditional fixed income, which provided only modest positive returns. The returns in bold below represent results of various components of the endowment compared to relevant benchmarks.

	<b>1 YEAR</b>	<b>5 YEARS</b>	<b>10 YEARS</b>
<b>TOTAL GROWTH ASSETS</b>	<b>10.8%</b>	<b>8.0%</b>	<b>6.3%</b>
<i>MSCI All Country World Index</i>	<i>10.7%</i>	<i>9.4%</i>	<i>5.8%</i>
<b>Global Public Equity</b>	<b>11.1%</b>	<b>8.2%</b>	<b>6.1%</b>
<b>Global Private Equity</b>	<b>10.4%</b>	<b>7.9%</b>	<b>7.0%</b>
<b>TOTAL HYBRID ASSETS</b>	<b>5.4%</b>	<b>5.9%</b>	<b>5.1%</b>
<i>90 Day US T-Bills +4%</i>	<i>5.7%</i>	<i>4.6%</i>	<i>4.6%</i>
<b>Hedged Strategies</b>	<b>6.1%</b>	<b>5.5%</b>	<b>4.6%</b>
<i>HFRI Fund of Funds Composite</i>	<i>5.1%</i>	<i>3.5%</i>	<i>1.4%</i>
<b>Liquid Credit</b>	<b>0.9%</b>	<b>5.0%</b>	<b>6.0%</b>
<i>S&amp;P LSTA Leveraged Loans</i>	<i>4.3%</i>	<i>4.0%</i>	<i>5.2%</i>
<b>Private Credit</b>	<b>10.4%</b>	<b>10.3%</b>	
<i>S&amp;P LSTA Leveraged Loans</i>	<i>4.3%</i>	<i>4.0%</i>	
<b>TOTAL REAL ESTATE ASSETS</b>	<b>25.6%</b>	<b>15.9%</b>	<b>7.5%</b>
<i>FTSE NAREIT-Developed REIT</i>	<i>6.7%</i>	<i>6.9%</i>	<i>5.7%</i>
<b>TOTAL LOW-VOLATILITY ASSETS</b>	<b>1.4%</b>	<b>0.7%</b>	<b>4.4%</b>
<i>Bloomberg Barclays Capital Aggregate Bond</i>	<i>-0.4%</i>	<i>2.3%</i>	<i>3.7%</i>

The **Growth** portfolio, which represents approximately two-thirds of the total endowment, provided positive gains over the past fiscal year. Public equities generated a return of 11.1 percent, which slightly outpaced the global equity benchmark return of 10.7 percent. The global private equity portfolio consists of private equity, venture capital and private natural resource investments. These private portfolios slightly trailed public equities in the past fiscal year and provided only a modest excess return relative to public equity indexes over the prior 10 years.

**Hybrid Assets** generated a 5.4 percent return led by strong gains from our portfolio of private credit strategies that generated a 10.4 percent return in the past fiscal year. Looking over a longer five-year time frame, these private credit investments have produced a 6 percent excess return over a liquid loan index. The liquid credit portfolio trailed its respective benchmark as a long-held position in emerging market dollar-denominated debt faced headwinds in the first half of 2018.

The **Real Estate** portfolio earned 25.6 percent during the past year (after a similar gain of approximately 26 percent in the prior fiscal year) and was again the strongest-performing asset group in the portfolio. These gains were led by investments in industrial properties that are benefitting from strong property fundamentals and investor demand that allowed for a large sale of underlying assets during the second quarter. More recent investments in European hospitality assets and multi-family apartments also added to investment gains over the previous year.

The **Low-Volatility** portfolio earned 1.4 percent during the year, which provided only a marginal contribution to portfolio performance but outpaced the portfolio's benchmark index, which lost -0.4 percent. Our continued purposeful underweight to fixed-income duration led to the relative outperformance.

## Outlook

As the University embarks on its long-term strategic planning process, we draw many parallels to our work to manage the endowment assets across global markets and economies that we expect to experience significant disruptions over the coming decades. These disruptions will provide new fundamental challenges as well as investment opportunities. Over the past few months, we have initiated a number of strategic reviews of various areas of our portfolio in an attempt to ask and address some difficult questions related to their underlying construction, return drivers and risks. Another important project for us has been to identify and assess the longer-term secular themes — for instance, the dynamically changing market structures underlying the trading of bonds and credit instruments, which could have a significant impact on return opportunities and risks of current and prospective investments.

In addition to these strategic projects, we continue to focus on identifying investment strategies that can generate attractive risk-adjusted returns in an increasingly complex and uncertain macro environment. While the exact future is uncertain, we do know that Bucknell University will continue to evolve in support of our mission. The endowment assets of the University will be important to successfully navigating this future, and we greatly appreciate your continued interest and support.



## THE FREEMAN COLLEGE OF MANAGEMENT



When speaking to a room full of students about the challenges associated with balancing one's professional and personal commitments, Ken Freeman '72 didn't use spreadsheets and charts to convey his message. Instead, the Bucknell alumnus with a degree in business administration relied on what might have been an unexpected source for most CEO-turned-business-school-deans — poetry. William Yeats' "The Choice," to be specific.

The moment exemplified the distinctive nature of management education at Bucknell, built on the foundation of the liberal arts. It's an educational experience that will grow significantly stronger thanks to the generosity of Ken and his wife, Janice, who made a historic gift in January 2018 to the endowment in support of the College of Management.

"I was a first-generation college student with broad interests, and Bucknell provided me with an excellent education and a solid foundation for pursuing a rewarding career and personal life with a focus on making a difference," Freeman said. "Management education at Bucknell is at an exciting inflection point. By giving in support of the recently established College of Management, we believe we can help accelerate progress and hope to make a meaningful and lasting impact on the lives of students for generations to come."

Bucknell established the College of Management last July after many years of study and preparation. In anticipation of that moment, the couple provided endowment funding to establish the Kenneth W. Freeman Professorship & Dean of Management position, which is held by Raquel Alexander. Their additional endowment gift will support the hiring of new senior management faculty and the expansion of interdisciplinary educational opportunities. In recognition of their commitment of more than \$25 million in support, the college was named the Kenneth W. Freeman College of Management, the first named college in the University's history.

"We are beyond grateful for this exceptional gift, not only for the many ways it will enhance what we do for our students, but also because it forever links management education at Bucknell with this extraordinary family," Alexander said.

Freeman, who concluded his third and final term as chair of Bucknell's Board of Trustees in June 2018, began his career at Corning. He served in a number of financial positions and then led numerous organizations, including the medical testing business that was spun off by Corning in 1996 as Quest Diagnostics, where he served as chairman, president and CEO. Under his leadership, Quest Diagnostics was transformed from a deeply troubled business into the leader in diagnostic testing services. In recognition of his leadership he

was named a top 100 performing CEO by *Harvard Business Review* in 2010 and 2013. Freeman joined the private equity firm KKR in 2005, where he served as a managing director and partner. In 2010, he turned to higher education, accepting the opportunity to become dean of Boston University's School of Management, now the Questrom School of Business.

"This historic gift will have a tremendous impact, and it deserves our deepest gratitude," said Bucknell President John Bravman. "Ken and Janice's vision and leadership will greatly strengthen our ability to recruit the best faculty and students and deliver an unparalleled undergraduate management education at the Freeman College of Management."

"We have been very fortunate in life," Freeman added. "Janice and I believe strongly that giving back is a responsibility and a privilege, and what better cause than investing in the education of future leaders."

The Freemans' gift added momentum to the University's goal of raising \$100 million for management education within the next 10 years. The support will enable the college to expand its academic programs, both for majors and non-majors alike; add faculty to support those programs; and build a new facility to house the college, with spaces conducive to innovation and collaboration.

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