

**BUCKNELL UNIVERSITY**

*Fall 2017*

**ENDOWMENT REPORT**

VAUGHAN LITERATURE BUILDING





**OFFICE OF THE PRESIDENT**

One Dent Drive  
Lewisburg, PA 17837  
bucknell.edu



Dear Bucknellians,

It has been an extraordinary year for Bucknell, during which we reaffirmed our commitment to the humanities, established a College of Management, and successfully concluded the historic WE DO Campaign, which surpassed its \$500-million-dollar goal, reaching \$513 million. This laudable outcome was made possible by the generosity of nearly 45,000 donors. We are deeply grateful for their commitment to Bucknell and, particularly, their support for endowed funds, which forever benefit the University.

In fact, 2017 was a banner year for gift transfers into the endowment — nearly \$20 million. Just as many generations of Bucknellians laid the groundwork that allows us to deliver a superior educational experience to current students, today's donors will change the lives of students not yet born. Again, please accept our sincerest thanks for this tremendous investment and vote of confidence in the enduring value of the University and its mission.

These campaign-related funds, coupled with current market conditions, bolstered Bucknell's endowment to a record \$801 million at the end of the fiscal year. Guided by our investment office and advised by the Board of Trustees, the endowment earned a rate of return well above our benchmarks. With a prudent yet bold approach, these Bucknellians are doing an outstanding job of stewarding University resources.

I look forward to continued success in our shared goal of providing an extraordinary educational experience for our students. Through our efforts and dedication, Bucknell will continue to evolve into an even stronger institution of higher learning.

Sincerely,

John Bravman  
President



## Endowment Activity

Bucknell University's total endowment market value as of June 30, 2017, was \$801 million, a \$78 million increase in market value from a year ago. The increase consisted of a \$101 million investment gain as well as \$19 million in gifts and other additions into the endowment, which were offset by \$42 million in disbursements to support the University. Over the past 20 years, the endowment value has grown from a beginning amount of \$267 million through \$396 million in gifts and other additions as well as \$655 million in investment gains while distributing \$517 million back to the University.

### TWENTY YEARS OF ACTIVITY

as of June 30, 2017

\$, IN MILLIONS	1 YEAR	5 YEARS	10 YEARS	20 YEARS
Beginning Market Value	\$722.4	\$599.2	\$599.4	\$267.0
Gifts and Other Additions	\$19.4	\$144.7	\$252.3	\$395.5
Disbursements to University	\$(42.2)	\$(187.4)	\$(330.7)	\$(516.7)
Investment Return	\$101.1	\$244.3	\$279.8	\$655.0
<b>Ending Market Value</b>	<b>\$800.8</b>	<b>\$800.8</b>	<b>\$800.8</b>	<b>\$800.8</b>
Net Change in Market Value	\$78.3	\$201.5	\$201.4	\$533.8

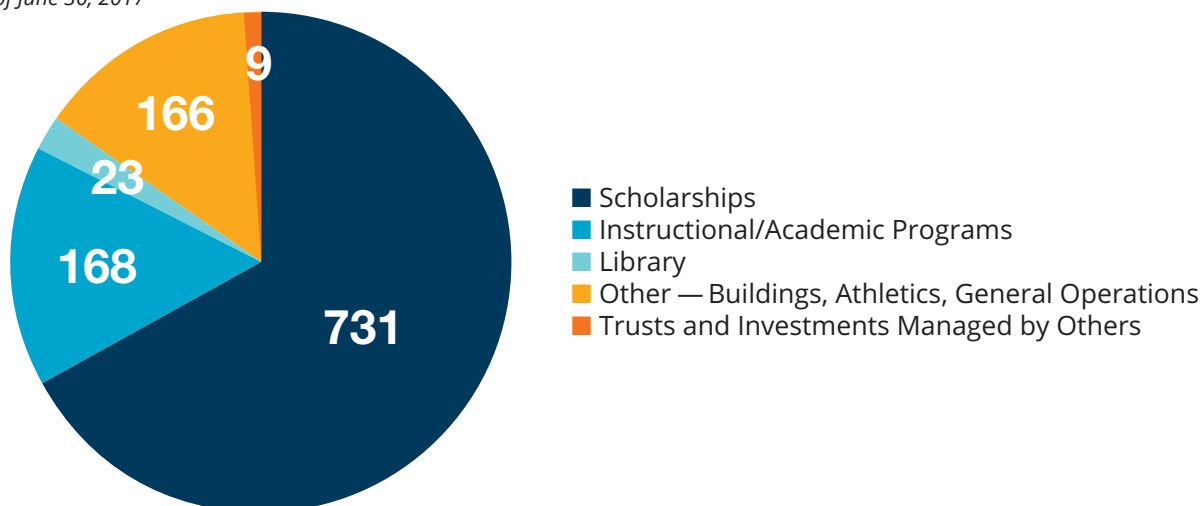
Note: Columns may not sum due to rounding

## 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, 2017, there were approximately 1,100 separate donor-endowed funds in place at the University. This represents growth of approximately 90 new endowments over the past year. The largest number of these endowments are represented by undergraduate scholarships, but individual endowments support and drive all aspects of the University's mission, from facilitating faculty and student research to supporting men's and women's athletic programs. The experience of a Bucknell education would not be possible without the generous gifts from donors through time who have supported the many diverse programs and scholarships across campus.

### CHART 1: CATEGORIZATION OF ENDOWMENTS

as of June 30, 2017

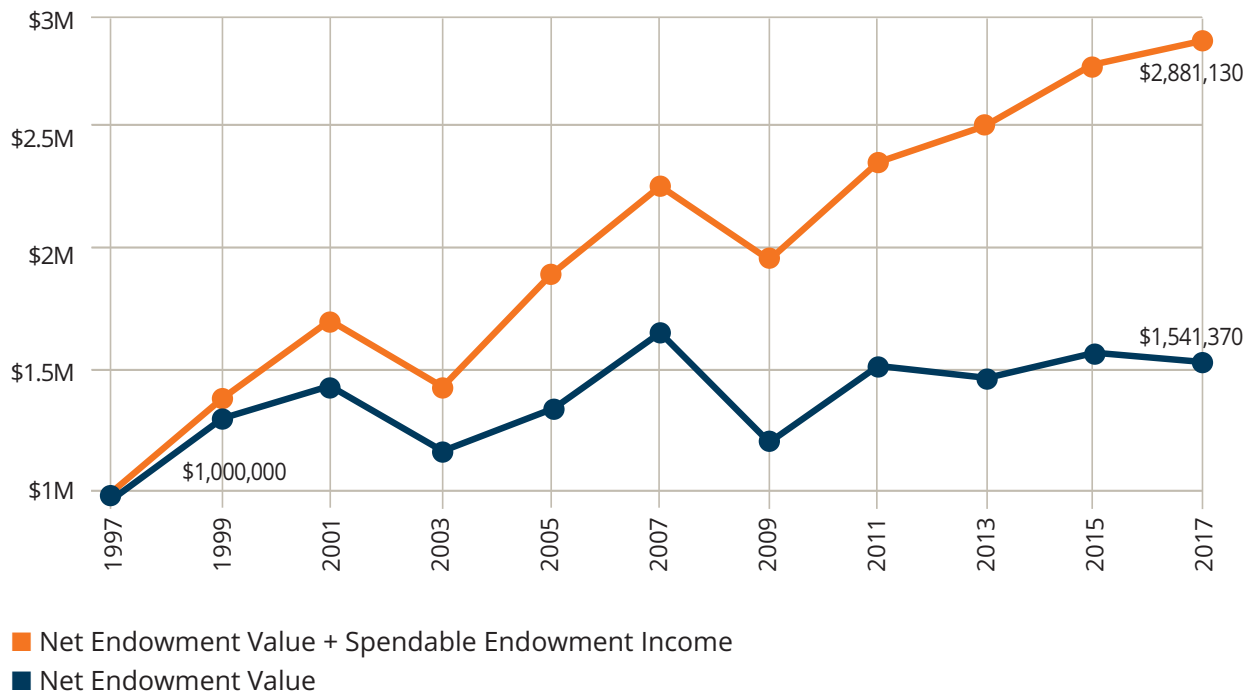


The power of these endowments to continue to shape the University is also evident through time, as these funds have appreciated in value while annually providing support to their designated program, department or scholarship. As a hypothetical example:

- ➔ An endowment gift of \$1,000,000 established on July 1, 1997, and invested in the pooled endowment fund would have generated more than \$1,880,000 of investment gains over the past 20 years.
- ➔ Over the same 20 years, the gift would have distributed approximately \$1,340,000 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, 2017, would have grown to approximately \$1,540,000.
- ➔ Importantly, the annual support to the University from the gift would have grown as well, from approximately \$35,000 in 1997 to \$83,000 today.

### ENDOWMENT VALUE VS. SPENDABLE INCOME (IN MILLIONS)

as of June 30, 2017



### 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 effects of inflation.

Thus, the asset allocation of the endowment is the product of balancing our long-term return objective with the immediate requirement to provide 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.

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 produce strong long-term returns but will likely 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 have a high current income component as well. Hybrid investments consist of hedged/opportunistic strategies, higher-yielding public credit investments and private debt origination strategies.
- ➔ **Real Estate Assets** are 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 the real estate portfolio will primarily be invested in private investments that are diversified by geography and property type.
- ➔ **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 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 advisor, establishes the strategic asset allocation of the endowment. While the broad asset allocation of the endowment focuses on a long-term time horizon and remains relatively stable year over year, under the surface there exists significant annual activity as we continuously pursue new investment opportunities and rebalance the portfolio in response to shifts in the valuation and fundamental characteristics of various global markets.

**TABLE 1: ASSET ALLOCATION**

*as of June 30, 2017*

	<b>Current Portfolio (June 2017)</b>	<b>Asset Allocation (June 2016)</b>	<b>Asset Allocation (June 2012)</b>	<b>Asset Allocation (June 2007)</b>
<b>GROWTH ASSETS</b>	<b>65%</b>	<b>64%</b>	<b>64%</b>	<b>70%</b>
<i>US Equities</i>	<i>24%</i>	<i>23%</i>	<i>23%</i>	<i>40%</i>
<i>Non-US Equities</i>	<i>17%</i>	<i>15%</i>	<i>14%</i>	<i>16%</i>
<i>Private Capital</i>	<i>24%</i>	<i>26%</i>	<i>26%</i>	<i>14%</i>
<b>HYBRID ASSETS</b>	<b>18%</b>	<b>17%</b>	<b>20%</b>	<b>17%</b>
<b>REAL ESTATE</b>	<b>4%</b>	<b>4%</b>	<b>4%</b>	<b>1%</b>
<b>LOW-VOLATILITY ASSETS</b>	<b>13%</b>	<b>15%</b>	<b>12%</b>	<b>12%</b>
	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## Investment Activity

Activity for the past fiscal year is summarized below:

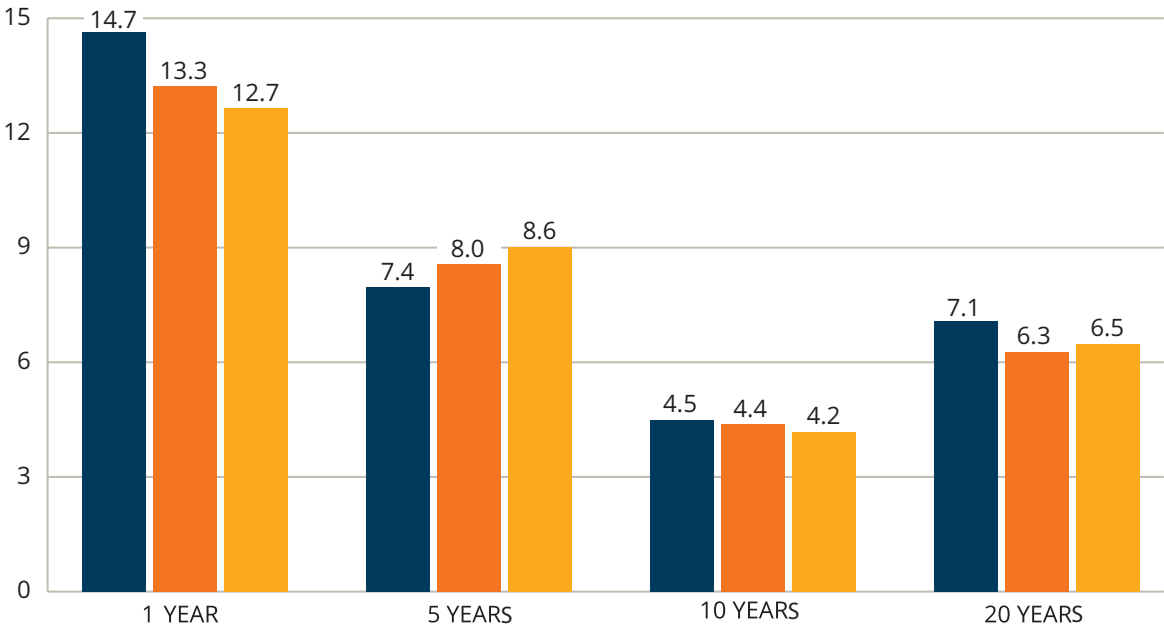
- ➔ The University's Investment Committee of the Board of Trustees meets regularly with the Bucknell Investment Office and other senior administrators of the University. At these meetings, the endowment portfolio is reviewed within the context of the University's return objectives and risk constraints, the global macroeconomic landscape is appraised for relevant trends, and specific investment opportunities are discussed. Below is a summary of current key themes within the endowment portfolio:
  - Within **Growth Assets**, the portfolio's allocations to sectors and geographies are similar to that of its global public equity benchmark, which includes US stocks, developed market (Ex-US) stocks and emerging market equities. During the last fiscal year, we've made efforts to reduce our overweight to US equities (following robust multiyear outperformance) in favor of non-US companies that offer lower valuations in potentially economically expanding regions such as Europe and emerging markets. We continue to allocate to opportunities in private equity and venture capital selectively in order to be respectful of the risks that these long-term commitments present.
  - We view our **Hybrid** portfolio as one with the potential to play a key role in the portfolio as the bull markets in traditional equities and fixed income age. We seek to construct a portfolio with flexibility and unique return streams. For example, over the last year, we've added a multi-asset opportunistic public credit manager, and we have negotiated a revenue-sharing agreement with one of our new private credit managers. We continue to review opportunities to allocate to managers offering idiosyncratic return sources and definable competitive advantages.
  - The **Real Estate** portfolio is diversified across geographies and property types, and currently comprises entirely private commitments. During the year, we invested in a new strategy that opportunistically invests in the debt and equity of multifamily properties across the US.
  - 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. Much of the Low-Volatility portfolio comprises high-quality short-term government and corporate debt, as well as diversified pools of commercial and residential mortgages. These assets are designed to act as "portfolio shock absorbers" — providing liquidity and a buffer should the equity markets suffer a prolonged period of declining equity values.



### Overall Performance

Over the one-, five-, 10- and 20- year periods ended June 30, 2017, Bucknell’s pooled endowment fund generated annualized returns of 14.7, 7.4, 4.5 and 7.1 percent, respectively.

- The investment gain within the endowment over the past year was primarily driven by the global equity portfolio that rallied on the back of improving corporate earnings momentum, advancing global growth, and the prospect for US tax cuts and infrastructure spending. Positioning and investment selection within the global equity portfolio relative to broad market benchmarks provided significant additional value over this period.
- 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 five years, annual performance was approximately in line with meeting this objective. Over the preceding 10 years, which began near the beginning of the global financial crisis, the endowment fund return of 4.5 percent did not meet our objective. However, public stock and bond markets returned just 3.7 percent and 4.5 percent<sup>2</sup> per year, respectively, indicating the challenge of meeting this objective over the preceding full 10-year period.
- Bucknell’s endowment return over the past 10 years is slightly above the estimated median return of other college and university endowments of 4.4 percent<sup>1</sup> and above 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. Over a longer 20-year period, the endowment fund has generated a 7.1 percent return, which is also above both the blended benchmark index and the estimated college and university endowment median.



- Bucknell Pooled Endowment
- Estimated Endowment/Foundation Median<sup>1</sup>
- Blended Benchmark<sup>2</sup>

<sup>1</sup> Fiscal year 2017 estimated return based on preliminary results collected from multiple consulting firm universes. Previous fiscal year returns based on the Nacubo-Commonfund Study of Endowments  
<sup>2</sup> These referenced returns are for the MSCI ACWI and the Bloomberg Barclays US Aggregate Bond Index  
<sup>3</sup> Blended benchmark consists of 64% MSCI ACWI, 8% Bloomberg Barclays US Aggregate Bond Index, 18% 90 Day T-Bills +4%, and 10% FTSE EPRA NAREIT Developed. Prior to 2003 benchmark is 70% S&P 500 & 30% Bloomberg Barclays US Aggregate Bond Index



## PERFORMANCE BY ASSET CLASS

Risk assets were broadly positive during fiscal year 2017, offset by traditional fixed income, which was flat or negative.

	1 YEAR	5 YEARS	10 YEARS
<b>TOTAL GROWTH ASSETS</b>	<b>19.0%</b>	<b>8.6%</b>	<b>4.6%</b>
MSCI All Country World Index	18.8%	10.5%	3.7%
<b>Global Public Equity</b>	<b>22.6%</b>	<b>9.2%</b>	<b>4.0%</b>
<b>Global Private Equity</b>	<b>13.6%</b>	<b>7.6%</b>	<b>6.4%</b>
<b>TOTAL HYBRID ASSETS</b>	<b>9.5%</b>	<b>7.0%</b>	<b>4.8%</b>
90 Day US T-Bills +4%	4.8%	4.3%	4.9%
<b>Hedged Strategies</b>	<b>8.1%</b>	<b>6.5%</b>	<b>4.5%</b>
HFRI Fund of Funds Composite	6.4%	3.9%	0.9%
<b>Liquid Credit</b>	<b>9.0%</b>	<b>6.5%</b>	<b>4.6%</b>
S&P LSTA Leveraged Loans	7.4%	4.6%	4.5%
<b>Private Credit</b>	<b>15.3%</b>	<b>10.0%</b>	
S&P LSTA Leveraged Loans	7.4%	4.6%	
<b>TOTAL REAL ESTATE ASSETS</b>	<b>26.0%</b>	<b>14.3%</b>	<b>4.7%</b>
FTSE NAREIT-Developed REIT	1.1%	8.4%	2.8%
<b>TOTAL LOW VOLATILITY ASSETS</b>	<b>1.5%</b>	<b>1.2%</b>	<b>5.1%</b>
Bloomberg Barclays Capital Aggregate Bond	-0.3%	2.2%	4.5%

The **Growth** portfolio, which represents approximately two-thirds of the total endowment, provided strong returns over the past fiscal year. Public equities generated a return of 22.6 percent, which outpaced the global equity benchmark by 3.8 percent as a result of strong underlying regional allocation and investment selection. The global private equity portfolio consists of private equity, venture capital and private natural resource investments. These private portfolios did not keep up with the bull market rally in public equities over the past one and five years but have exceeded returns to public equity indexes over the prior 10 years.

**Hybrid Assets** generated a 9.5 percent return as a group. The performance can be attributed to selective risk-taking in emerging market debt, idiosyncratic opportunities in private lending and our concentrated portfolio of hedge fund strategies. This portfolio is designed to be a unique source of returns relative to traditional equity and fixed-income investments, so we are encouraged by the diversified drivers of returns that these managers and strategies were able to generate.

The **Real Estate** portfolio earned 26 percent during the past year and was the strongest-performing asset group in the portfolio. These gains were led by targeted investments in industrial properties that are benefitting from demand and rental growth as a result of secular themes related to e-commerce and changes to global supply chains as well as European real estate investments benefitting from both improving property fundamentals and currency gains.

The **Low-Volatility** portfolio earned 1.5 percent during the year, which provided a marginal contribution to portfolio performance and outpaced the portfolio's benchmark index. Our purposeful underweight to fixed-income duration and overweight to investment-grade credit sectors led to the relative outperformance.

## Outlook

Following a strong year of returns across most asset classes in the portfolio, the majority of global security benchmarks remain fully valued. Market forecasters and financial pundits in the media continue to focus on the potential for significantly adverse scenarios such as geopolitical tension and runaway inflation. But offsetting these risks, we are also witnessing continued strong global economic growth, low global interest rates, corporate earnings momentum and innovation across our portfolio from new and expanding business models to new technological discoveries. We continue to focus our efforts on finding growth opportunities at a reasonable price, and avoiding assets whose prices no longer reflect value.

With this environment as a backdrop, a key discussion topic for us this fall will be a thorough review of our risk tolerance, including analyzing the impact on the endowment and University finances through a number of economic scenarios. Bucknell's endowment has helped the University weather a century and a half of past crises, from the Great Depression of the 1930s through the global financial crisis a decade ago. We do not know when the next crisis will be, nor what shape it will take, but we have confidence that we are prepared to meet the challenge.

The endowment assets at the University have been generously built over decades of giving, and we remain focused on the stewardship of these assets to ensure they are available to support Bucknellians for decades to come. Thank you for your continued interest and support.





## Endowed Support Helps WE DO Campaign Reach Historic Goal

As the WE DO Campaign for Bucknell University came to a historic close on July 1, it surpassed its half-billion dollar goal, funding new opportunities that will strengthen the Bucknell experience for generations to come.

Of the \$513 million raised, nearly \$280 million was the result of generous donor support to the University endowment, including more than \$180 million designated to financial aid endowment, and \$108 million for endowed academic programs and faculty and staff support.

For Bucknell faculty and staff, the success of the WE DO Campaign has meant new and exciting opportunities for growth, innovation and advancement. By the fiscal year's close, \$53 million had been raised in endowed support of faculty and staff, establishing 23 new endowed funds. These included 16 new named professorships, which help the University recruit highly sought-after professors in a competitive market and reward current faculty members for outstanding teaching and scholarship. (The remaining \$55 million of the \$108 million raised will support endowed academic programs, student life and athletics.)

Many of the new faculty positions created through WE DO support stem from Bucknell's personal impact on parents and alumni.

- David West '85 and his wife, Deborah, created the **David J. & Deborah West Professorship of Management**, which will support the interdisciplinary approach to business education valued by David, an executive who has led companies such as the Hershey Co. and Del Monte Corp.
- Bucknell Board of Trustees Chairman Kenneth Freeman '72 and his wife, Janice, created the **Kenneth W. Freeman Professor & Dean of Management** position to provide critical leadership as the management program transitioned from a school to a college. Last December, the University announced the hiring of Professor Raquel Alexander as the college's inaugural dean.
- Josephine "Dodie" Detmer '52 and her daughter, Zareen Taj Mirza '79, made campaign gifts that reflect their love for education, languages and culture. They funded the renovation of **Hildreth-Mirza Hall** as a home for Bucknell's new Humanities Center and endowed the **Josephine Hildreth Detmer & Zareen Taj Mirza Professorship in Islamic Studies**, Bucknell's first faculty position dedicated to the religion.
- In the College of Engineering, the **Heinemann Family Professorship in Engineering** was funded by a gift from trustee Kirsten Heinemann '81 and her husband, Steven, parents of Andrew '12 and Erik '15. The professorship was awarded to Professor Wendelin Wright, mechanical engineering and chemical engineering.

Beyond the impact on the academic experience, the success of the campaign will continue to benefit Bucknell students, faculty and staff, and the campus today and in the future.

"I am humbled to be part of such a devoted community of students, alumni, parents, faculty and staff, and friends," said President John Bravman. "It's difficult to express my deep gratitude for their belief in Bucknell. We pride ourselves on a tradition of great education and great outcomes, and the success of the WE DO Campaign positions Bucknell to evolve into an even stronger University for many decades to come — long after our time as stewards of this institution has passed."

For more on the success and impact of WE DO, The Campaign for Bucknell, visit [bucknell.edu/giving](http://bucknell.edu/giving).

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