BUCKNELL UNIVERSITY

Fall 2020

ENDOWMENT REPORT

UNIVERSITAS BUCNELLENSIS

Bucknell
UNIVERSITY

OFFICE OF THE PRESIDENT
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Dear Bucknellians,

It is difficult to summarize the events of fiscal year 2020, a time that will stand apart in Bucknell history. We began this period with a series of accomplishments that included awarding students an additional $5 million in financial aid; welcoming our largest-ever class; opening Academic East, a new facility for the College of Engineering and the Department of Education; and continuing construction of a new home for the Kenneth W. Freeman College of Management and the Department of Art & Art History. Faculty and students across all three colleges continued to excel in research and scholarship, with several professors awarded significant grants to advance their work.

But by March, business as usual ended as the deadly COVID-19 pandemic swept the globe. The University acted swiftly, sending students home to finish spring semester via remote instruction. After great deliberation and intensive planning, we welcomed our students back to campus in August. As we near the end of this challenging fall semester, I am grateful for the commitment and support of our students, faculty, staff, alumni and parents. Bucknell's values and strength as a community are reflected in our resilience and ability to adapt to changing demands, and to emerge stronger for it.

The University endowment, too, showed resilience over the past year, standing at $845 million as of June 30, 2020, thanks to prudent risk management and strong donor support. Deliberate equity rebalancing and liquidity management throughout the second half of 2019 allowed the Investment Office to take advantage of the opportunity to reposition in late March, setting the foundation for future returns. Advised by the Board of Trustees and an Investment Committee that brings an exceptional level of subject matter expertise in service to Bucknell, our investment team will maintain its focus on sound stewardship of University resources, allowing us to weather the unexpected as the pandemic continues.

Thank you again for your loyal support of Bucknell.

Sincerely,

John

John C. Bravman
President

Endowment Activity

Bucknell University's total endowment market value as of June 30, 2020, was $845 million, a $22 million decrease in market value from a year ago. The change consisted of a $3 million net investment gain as well as $21 million in gifts and other additions to the endowment, which were offset by $46 million in disbursements to support the University. Over the past 10 years, the endowment value has grown from a beginning amount of $492 million on July 1, 2010, through $444 million in investment gains and $162 million in gifts and other additions, less $253 million in disbursements to the University.

ENDOWMENT ACTIVITY

as of June 30, 2020

$, IN MILLIONS	1-YEAR	3-YEAR	5-YEAR	10-YEAR	20-YEAR
Beginning Market Value	**$867**	**$801**	**$790**	**$492**	**$465**
Gifts and Other Additions	$21	$62	$92	$162	$235
Disbursements to University	-$46	-$133	-$216	-$253	-$426
Investment Return	$3	$115	$179	$444	$571
Ending Market Value	**$845**	**$845**	**$845**	**$845**	**$845**
Net Change in Market Value	-$22	$44	$55	$353	$380

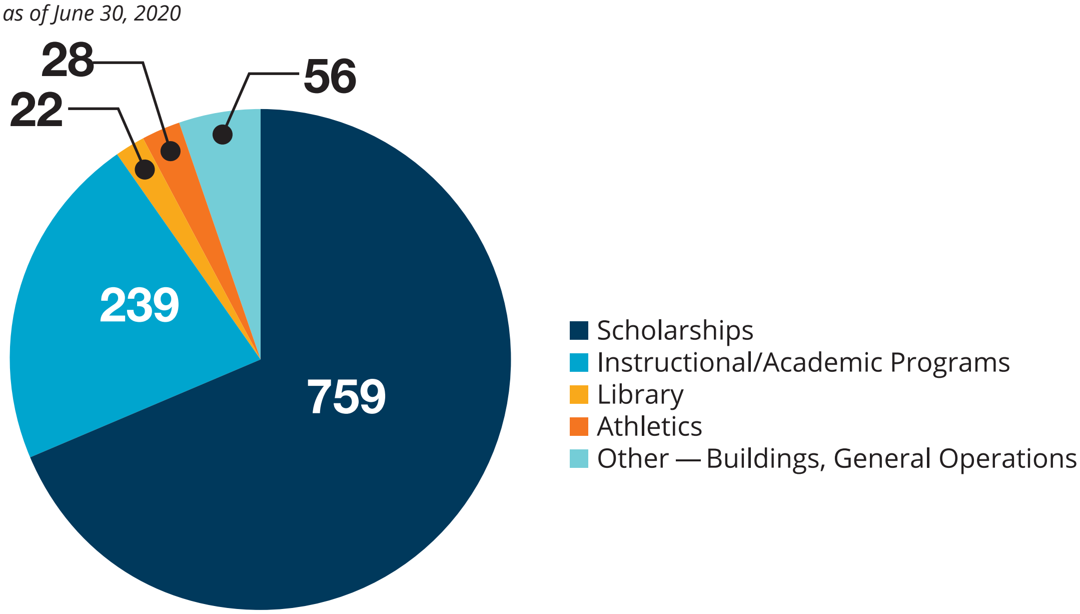
Note: Columns may not sum due to rounding.

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, 2020, there were 1,104 separate donor-endowed funds in place at the University. Student scholarships make up the largest number of these underlying endowments, but individual endowments support all aspects of the University's mission. We are honored to report that 39 new endowments were established during fiscal year 2020. These gifts are a critical component in providing students with the best Bucknell experience possible, and we continue to be humbled by the overwhelming generosity of the Bucknell community.

CATEGORIZATION OF ENDOWMENTS

as of June 30, 2020



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.
- To generate a return that allows the endowment to grow in excess of disbursements made to support the University and the eroding impact of inflation.

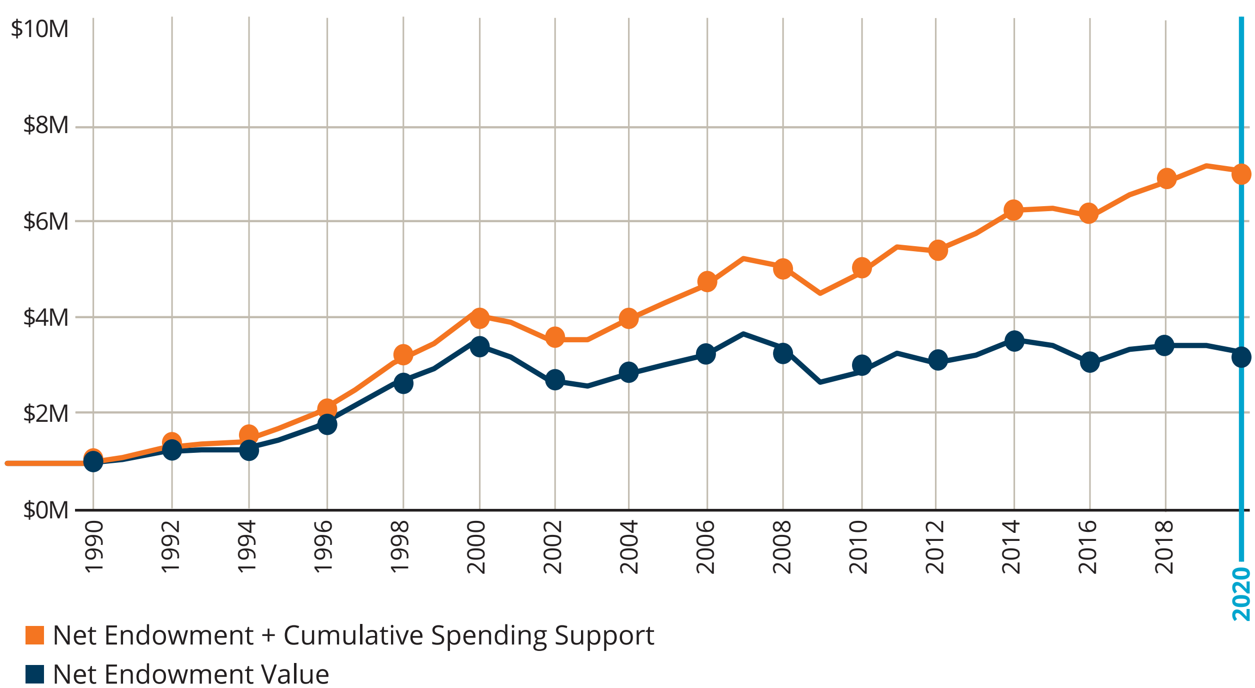
Thus, in developing our asset allocation, we must balance our long-term return objective with the immediate requirement to provide ongoing support to the University. These contrasting time horizons together comprise a key concept in endowment management known as intergenerational equity: the objective of providing the same level of support to current and future generations of Bucknell constituents into perpetuity when adjusted for inflation.

As a hypothetical example:

- An endowment gift of $1 million established on July 1, 1990, and invested in the pooled endowment fund would have generated approximately $6.33 million in total investment gains over the past 30 years.[1]
- Over the same 30 years, the gift would have distributed more than $3.73 million 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 on June 30, 2020, would have grown to approximately $3.6 million.
- Importantly, the annual support to the University from the gift would have grown as well, from approximately $42,000 in academic year 1990-91 to $187,000 today.

HYPOTHETICAL GROWTH & CUMULATIVE SUPPORT OF $1 MILLION GIFT (IN MILLIONS)

as of June 30, 2020



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, as their name implies, 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 U.S. and non-U.S. public equities as well as private equity investments.

- **Hybrid Assets** should produce returns that are differentiated relative to our growth assets, which increases overall portfolio diversification and lowers expected endowment volatility. These investments are expected to protect capital in declining markets relative to growth assets, and in some cases they may also pay significant periodic interest payments to the endowment that improve our overall portfolio liquidity, which is especially important during periods of market or economic stress. 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 real estate portfolio may be invested in both public real estate investment trusts (REITs) as well as private real estate strategies 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 current income to fund the disbursements that provide ongoing support to the University.

The Investment Committee of the University's Board of Trustees, in close consultation with the Investment Office and external advisers, 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 its tolerance for investment risk and volatility. Given that our very long-term return goals, risk constraints and expected market returns change infrequently year to year, broad portfolio changes are infrequent. However, within each of these asset classes, we are constantly evaluating and pursuing new investment opportunities that we believe will provide the best risk-adjusted returns to the University.

ASSET ALLOCATION

as of June 30, 2020

	Current Portfolio (June 2020)	Asset Allocation (June 2019)
GROWTH ASSETS	**66%**	**64%**
U.S. Equities	*23%*	*25%*
Non-U.S. Equities	*19%*	*17%*
Private Capital	*23%*	*21%*
HYBRID ASSETS	**19%**	**19%**
REAL ESTATE	**7%**	**3%**
LOW-VOLATILITY ASSETS	**7%**	**14%**
	100%	**100%**

Note: Percentages may not sum due to rounding.

Overall Performance

Over the one-, three-, five- and 10-year periods that ended June 30, 2020, Bucknell's pooled endowment fund generated annualized returns of 0.8, 4.7, 4.6 and 6.8%, respectively. When appraising our investment success, we review the portfolio's results across three primary dimensions:

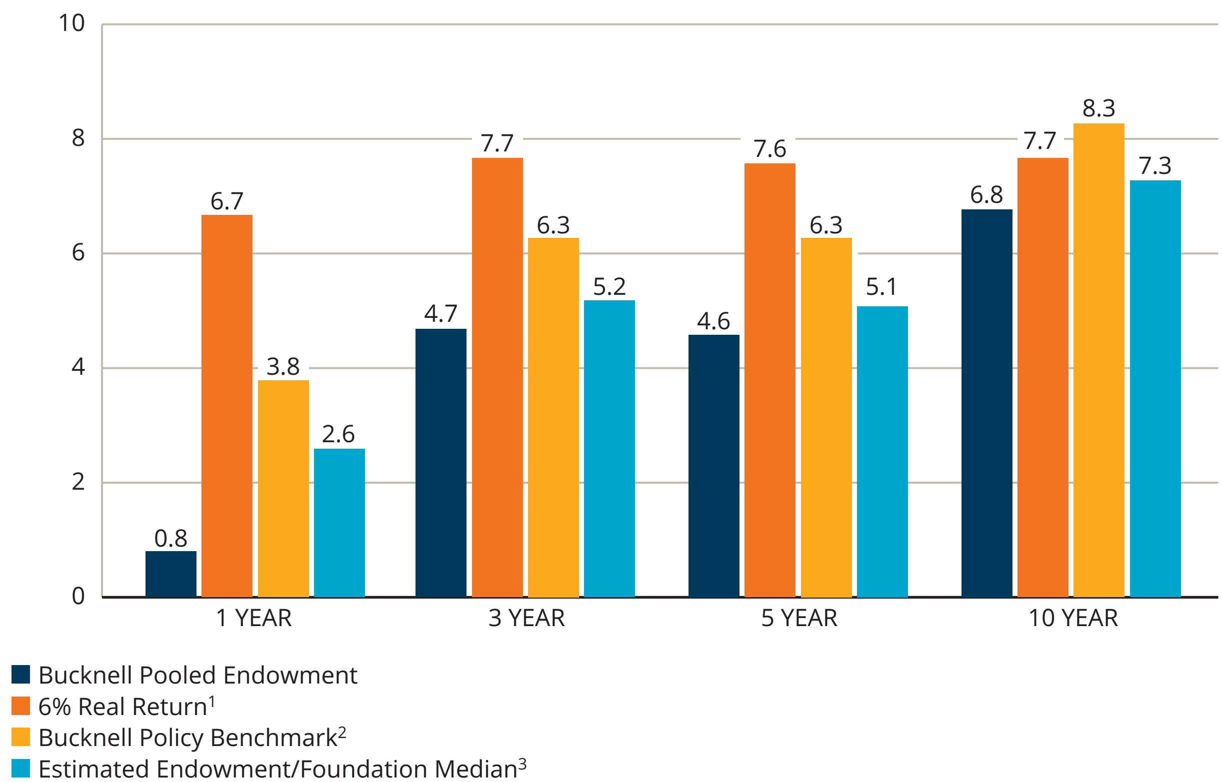
Absolute return: Are we achieving our long-term objectives?
Our goal is to preserve intergenerational equity (maintaining purchasing power relative to inflation and ongoing spending support to the University). This is our primary objective, and it is typically measured over rolling 10-year periods in order to approximate a full market cycle. We seek a 6% annualized real return net of the Consumer Price Index.

Policy benchmark: Are we adding value through our investment process?
The policy benchmark represents the approximate target asset mix of our portfolio across equities, fixed income and other assets such as real estate and credit. This benchmark primarily comprises public securities and may be viewed as a baseline to assess value added from various elements of the investment process, such as investment manager selection, rebalancing and layering on additional risks (such as the illiquidity of private investments) in pursuit of greater returns.

Peer institutions: Are we advancing the University's financial competitiveness?
Comparing Bucknell to a list of institutions with similar goals and constraints can provide insight into the relative competitive position of the University with respect to our ability to provide financial aid and other forms of budgetary support.

The endowment fund nominal return of 0.8% over the trailing year was below our target absolute real return of 6% (real returns are those measured after the purchasing-power-eroding impact of inflation). Returns for all four asset groups were relatively similar for the year, with growth assets returning 0.6%, hybrid assets returning 0.7%, real estate returning -0.6% and low-volatility assets returning 3.4%.

The long-term investment objective of the endowment fund is to generate a real return that will allow for growth in excess of disbursements transferred to the University to support financial aid and other key programs. Over the preceding 10 years, a period that began just after the late-2000s global financial crisis, the endowment fund return of 6.8% per year was lower than our target return of 7.7% (6% annually plus the growth in the Consumer Price Index). Bucknell's endowment return over the past 10 years is slightly behind the estimated median return of other college and university endowments of 7.3% as well as our policy benchmark return of 7.7%.



[1] The 6% Real Return benchmark is calculated as 6% plus the gain in the Consumer Price Index.
[2] Blended benchmark based on the strategic asset allocation of the endowment. Consists of 64% MSCI ACWI, 18% US T-Bills +4%, 10% FTSE EPRA/NAREIT Developed, 8% Barclay's Aggregate Bond Index.
[3] 2019 return based on preliminary results collected from multiple consulting firms. Previous fiscal year returns based on the annual median return as published by NACUBO in their annual Study of Endowments.

Note: Peer results are preliminary at the time of this writing and are expected to change as more schools report fiscal year results.

PERFORMANCE BY ASSET CLASS

Publicly-traded risk assets broadly produced mid-single-digit returns during fiscal year 2020, with U.S. bonds outperforming global equities.

	ALLOCATION June 30, 2020	1 YEAR	3 YEARS	5 YEARS	10 YEARS
Growth Assets	**66%**	**0.6%**	**5.4%**	**5.2%**	**8.0%**
MSCI All-Country World Index		*2.1%*	*6.1%*	*6.5%*	*9.2%*
U.S. Equity	23%	2.6%	8.3%	7.3%	11.4%
Developed Foreign Equity	16%	-0.8%	2.8%	3.6%	7.3%
Emerging Market Equity	4%	-6.0%	-1.4%	0.9%	2.9%
Private Equity	12%	3.8%	9.3%	8.4%	8.4%
Private Natural Resources	4%	-26.4%	-13.3%	-5.9%	0.6%
Venture Capital	8%	20.5%	17.5%	12.0%	12.3%
Hybrid Assets	**19%**	**0.7%**	**3.5%**	**4.1%**	**5.4%**
3-Month T-Bills + 4%		*6.0%*	*6.1%*	*5.5%*	*4.9%*
Hedged/Opportunistic	11%	-1.0%	2.2%	2.6%	4.4%
Public Credit	5%	1.4%	3.3%	5.1%	6.8%
Private Credit	4%	4.5%	4.5%	9.8%	
Real Estate	**7%**	**-0.6%**	**11.1%**	**12.8%**	**13.0%**
FTSE EPRA/NAREIT Global Index		*1.2%*	*4.7%*	*6.4%*	*9.9%*
Low-volatility Assets	**7%**	**3.4%**	**2.8%**	**1.8%**	**3.0%**
Bloomberg Barclays U.S. Aggregate Bond Index		*8.7%*	*5.3%*	*4.3%*	*3.8%*
Total Portfolio	**100%**	**0.8%**	**4.7%**	**4.6%**	**6.8%**
Bucknell Policy Benchmark		*3.8%*	*6.3%*	*6.3%*	*8.3%*

The **growth portfolio**, which represents approximately two-thirds of the total endowment, provided modestly positive returns over the past fiscal year. Our public equity portfolio was flat compared to the global equity benchmark of 2.1%. Our investments in emerging-market equities were the primary detractor of overall performance in the past fiscal year. The public equity portfolio is positioned relatively similarly to that of the MSCI All-Country World Index with respect to regional and sector allocations, and comprises approximately a dozen managed strategies with specific mandates, such as U.S. small-cap equity. When constructing this portfolio, we seek managed strategies with unique and definable competitive advantages in order to produce excess returns with limited correlation across strategies.

The **private capital portfolio** consists of private equity, venture capital and private natural resource investments. These private portfolios have returned 1.5% over the last fiscal year and 7.3% per year over the last 10 years. Our investments in private capital are diversified across geographies and industry sectors, and include investments ranging from renewable energy development to strategies focused on novel healthcare innovations. Over the 10-year period the venture capital portfolio has been a particular source of growth to the overall portfolio, providing an annualized return of 12.3%, while the private natural resources portfolio has lagged with an overall annualized return of just 0.6%.

The **hybrid portfolio**, which represents approximately 19% of the endowment fund, returned 0.7% during the fiscal year and 5.4% over the past 10 years. Comparatively, the hybrid portfolio's benchmark of U.S. Treasury bills plus 4% returned 6.0% and 4.9% over the past one and 10 years (annualized), respectively. The hybrid portfolio comprises hedged/opportunistic strategies and public and private credit strategies. Hedged/opportunistic strategies returned -1.0% during the fiscal year (underperforming the HFRI Hedge Fund-of-Funds Composite Index modestly) and 4.4% annually over the past 10 years (while the hedge fund benchmark returned 2.8%). While hedged/opportunistic strategies fell short of the Treasury bills plus 4% benchmark during the past year, we remain confident in the diversifying and risk-mitigating role that they play in the endowment portfolio.

Public and private credit returned 1.4% and 4.5% over the past fiscal year, respectively. We continue to identify unique strategies in private credit that have definable competitive advantages and offer compelling risk-adjusted return prospects when compared with other asset classes in our portfolio. As such, we have been increasing our exposure to private credit over the past several years, and we've been encouraged by the results thus far. In addition to the Treasury bills plus 4% benchmark for the hybrid portfolio, our credit portfolios are also benchmarked against the S&P/LSTA Leveraged Loan Index, which lost 2.0% over the past year. Our public credit portfolio is concentrated in a flexible bond strategy and an emerging-market debt strategy, which returned 1.2% and 4.6% during the last fiscal year.

Real estate represents approximately 7% of the endowment fund and returned -0.6% over the past fiscal year and 13.0% annually over the last 10 years. Comparatively, the global public real estate benchmark returned 1.2% and 9.9%, respectively. Our goal is to increase real estate to 10% of the endowment fund, and we have been working diligently to uncover opportunities. We believe much of our past success in real estate investing lies in our ability and willingness to be targeted, thematic and less benchmark-constrained in this asset class. For example, over the past five years we have made successful investments in logistics/e-commerce and data centers.

The **low-volatility portfolio**, which represents approximately 7% of the endowment fund, returned 3.4% over the past fiscal year and 3.0% annually over the last 10 years. The portfolio's benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index, earned 8.4% over the past year. Our portfolio underperformed the benchmark over the past year primarily due to our defensive positioning relative to the potential risk of higher future interest rates and inflation, which tend to erode the purchasing power of longer-maturity bonds. Over the longer 10-year period, the low-volatility portfolio has modestly underperformed the return of the Bloomberg Barclays Aggregate Bond index.

Outlook

As of this writing, we are as a University and as a nation still dealing with the COVID-19 pandemic. We spent considerable effort last spring updating our portfolio stress-testing and liquidity analysis for the current environment. When we first performed this analysis a few years ago, the U.S. economy was showing signs of being later cycle, and we were simultaneously increasing our exposure to private investments as part of a long-term effort to increase endowment returns. We found then that the endowment was positioned to withstand nearly any bear market environment without being forced to sell risk assets at inopportune times. We updated this work this spring and summer, as the University faced significant stress and uncertainty regarding the future impacts on revenue and expenses from the COVID-19 pandemic. As of this writing, we believe that the endowment is still appropriately positioned for the risks that we face as an institution.

While valuations for many public technology companies may reflect excessive near-term optimism, the relevance of longer-term secular themes, broadly categorized as tech-enabled disruption and sustainability growth, have only been amplified by the COVID-19 pandemic. We believe that consumer and business behavior has been permanently altered as a result of the pandemic, and the trends we expected to play out over the next decade, including e-commerce penetration, digital infrastructure, energy transition and resource efficiencies, have been significantly accelerated. These trends will continue to cause a significant dispersion of winners and losers across sectors, geographies and companies. Positioning the endowment to seek managers and strategies that benefit from these secular growth trends, while avoiding permanent capital destruction, will be critical to successfully meeting our return objectives over the next decade. We maintain a healthy pipeline of ideas across these trends and have begun implementing them in the portfolio over the last few years.

As of this writing, we are only weeks away from the 2020 presidential election, and U.S. equity markets are once again trading near all-time highs following the sharp decline and recovery in the early months of the pandemic's impact on the U.S. Central banks and governments around the world have pledged unprecedented support to help their economies weather the impacts of the COVID-19 pandemic. The combination of near-zero interest rates in most of the developed world, low energy prices and trillions of dollars of fiscal and monetary stimulus should provide an eventual boost for economic growth, though potentially at a cost to future generations of savers and taxpayers who will have to repay a corresponding wall of debt. So, while we are encouraged by signs of progress in creating a vaccine for the coronavirus and efforts to reopen economies, we believe that markets today are reflecting nearly the best possible outcome and not appropriately discounting for the potential risk that the economic and human toll of COVID-19 drags on longer than expected.

When we consider equity market valuation, economic conditions, uncertainty related to the COVID-19 pandemic and geopolitical risks, as well as the significant efforts by governments globally to insulate and stimulate their economies, we believe that a moderately cautious, defensive and targeted approach toward risk-taking is appropriate today. A growing dispersion of winners and losers and significant disruption of traditional business models will continue to influence earnings growth and returns across sectors and geographies.

FOR MORE INFORMATION

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