

UNIVERSITY OF  
DELAWARE

Investments Office  
Annual Report 2021





Representing their school, their state and their country, the rhythm masters of the UD Marching Band (UDMB) escorted 46th president and fellow alumnus Joe Biden, AS65, O4H, to the White House, following his Jan. 20 inauguration. UD's 35-member drumline was one of only two civilian groups invited to perform in person.

Photo by Kathy F. Atkinson



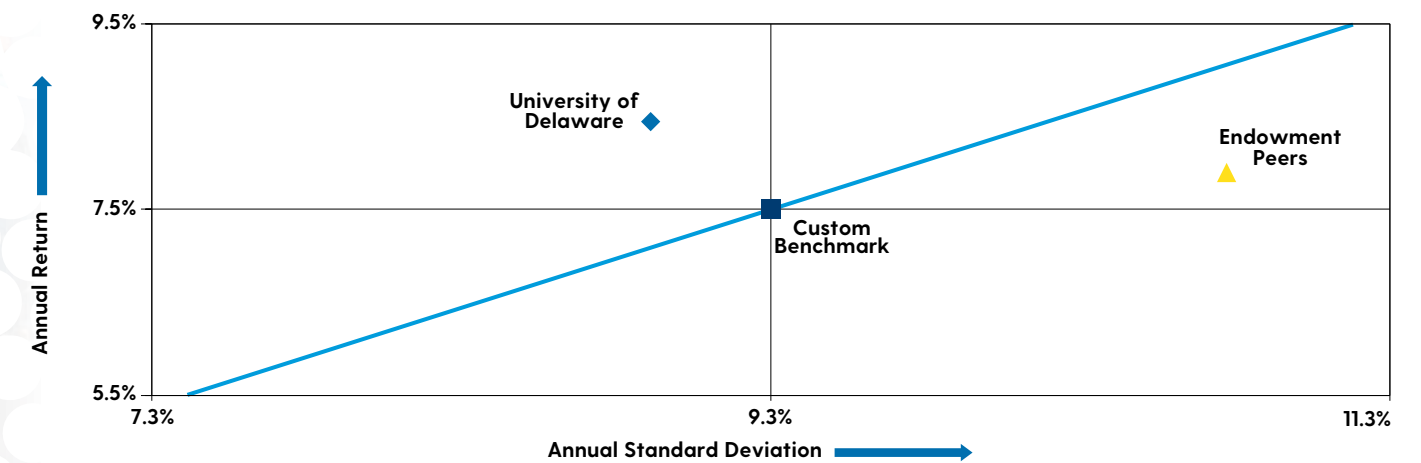
## The University of Delaware Endowment Milestone Twenty-Five Years – (1996-2021)

Kobe Bryant started playing in the NBA at just eighteen years old, the Ramones played for the last time, the United States won forty-four gold medals at the Atlanta Olympics, the Spice Girls launched their first single “Wannabe”, and the Blue Hen Investment Club started its investment journey with \$500,000. All of these events happened in 1996. This was also the year that the University of Delaware’s endowment moved away from an internally managed public markets portfolio and started following the endowment model. We started investing with best-in-class external managers and in a broad variety of asset classes including hedge funds and private equity. We still have that first investment with an external manager, a separately managed U.S. Fixed Income account with Dodge & Cox. That account has had a meaningful positive impact on the endowment, achieving a +6.2% net

annual return over the last twenty-five years compared to a return of +5.2% for the Bloomberg Barclays U.S. Aggregate Bond Index. We now have more than fifty active external relationships in the endowment ranging from U.S. fixed income to venture capital funds, and we are always looking for new investments that can help us achieve our performance goals.

The last twenty-five years have brought plenty of market volatility, but the University of Delaware endowment has emerged through it all in a very strong position. Over this period, the endowment has achieved a +8.5% annual return compared to the benchmark return of +7.5% and the average college and university endowment return of +7.8%. We are very proud of the fact that we have achieved these market beating results while taking less risk than our benchmark and our peers, as seen in the chart below.

25-year performance for the UD endowment, benchmark, and endowment peers as of 6/30/21



Fiscal year 2021 was perhaps the strangest year along this journey. We started the year in lockdown mode due to the covid-19 pandemic with a focus on supporting the University’s liquidity needs and we ended the year with the strongest fiscal year return in the history of the University of Delaware. Last year’s +38.3% return was far ahead of the +31.6% return for our benchmark and the +31.8% return for the average endowment with assets greater than \$1 billion as reported by our custodian. Last year’s return also boosted the pooled endowment portfolio to a record market value of \$2.1 billion. This represents an increase of more than \$500 million over the prior year. While we are thrilled with these results and positive impact that they will have on the University in the years to come, we realize that this return will be difficult to duplicate. We are turning our focus to changes to the portfolio that will help us to capitalize on these outsized gains and continue to provide ongoing support for the University.



The UDance marathon is the largest student-run philanthropy at the University and supports the Andrew McDonough B+ Foundation which provides financial support to families with children fighting cancer, promotes pediatric cancer research, and advocates for awareness and funding to fight cancer.

Photo by Evan Krape



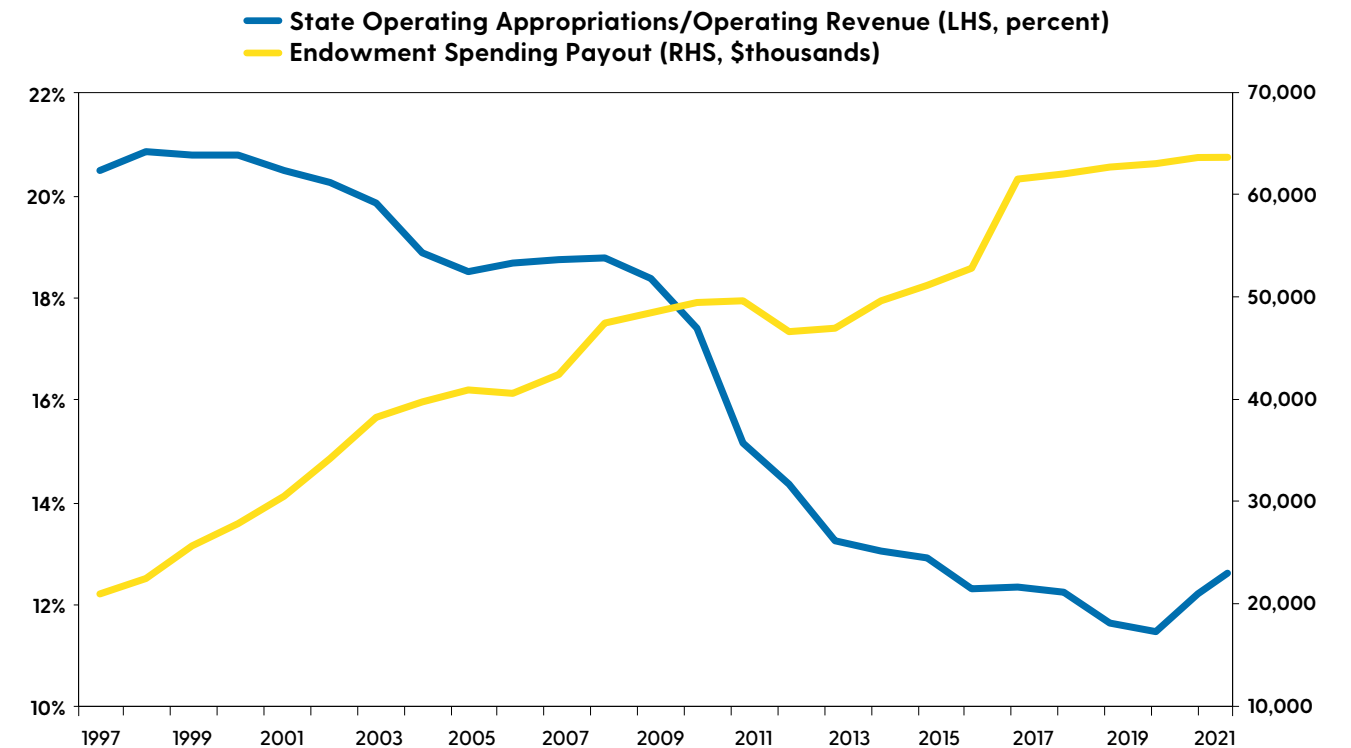
## The Endowment Mission

The endowment provides perpetual funding to support the University's educational goals while preserving real value for future generations. To that end, the University's Board of Trustees, Investment Visiting Committee, and Administration have a shared mission to maximize the endowment's total return consistent with the University's prudent investment risk constraints. This mission requires an expected long-term return that exceeds the inflation-adjusted annual spending rate. In order to pursue that goal, the University maintains an equity-biased portfolio and seeks to partner with best-in-class management firms across diverse asset categories while also managing some endowment assets in-house. The Investments Office manages the endowment under the guidance of and within the policies authorized by the Investment Visiting Committee of the University.

The target spending rate for the endowment is 4% to 5% of the three-year average market value as determined annually

by the University's trustees. In Fiscal 2021, the spending distribution from the pooled investment portfolio to the University was \$63.0 million, providing financial support and flexibility to the University's operating budget. In recent years, our role in supporting the University has become more meaningful as funding from the State of Delaware has declined. This support is likely to become even more important in the coming years given the challenges facing higher education today. The blue line in the chart below shows the decline in operating appropriations from the State of Delaware as a percentage of total operating revenue at the University, while the yellow line shows the increase in distributions to the University over time. The ongoing generosity of our alumni and friends has helped to ensure the long-term financial health of the University through the establishment of endowed gifts. A strong endowment allows the University to fund initiatives that will have a lasting impact on the student experience and the overall institution.

## Historical State Operating Appropriations as a Percentage of Operating Revenue





Researchers in Chemical and Biomolecular Engineering assistant professor Kevin Solomon (right) and associate professor Mark Blenner (left) and their research groups are studying the digestive tracts of worms known to degrade plastics in hopes of isolating microbes and enzymes that can be reassembled into efficient biological platforms to upcycle plastics.

Photo by Evan Krape



## The Endowment Purpose

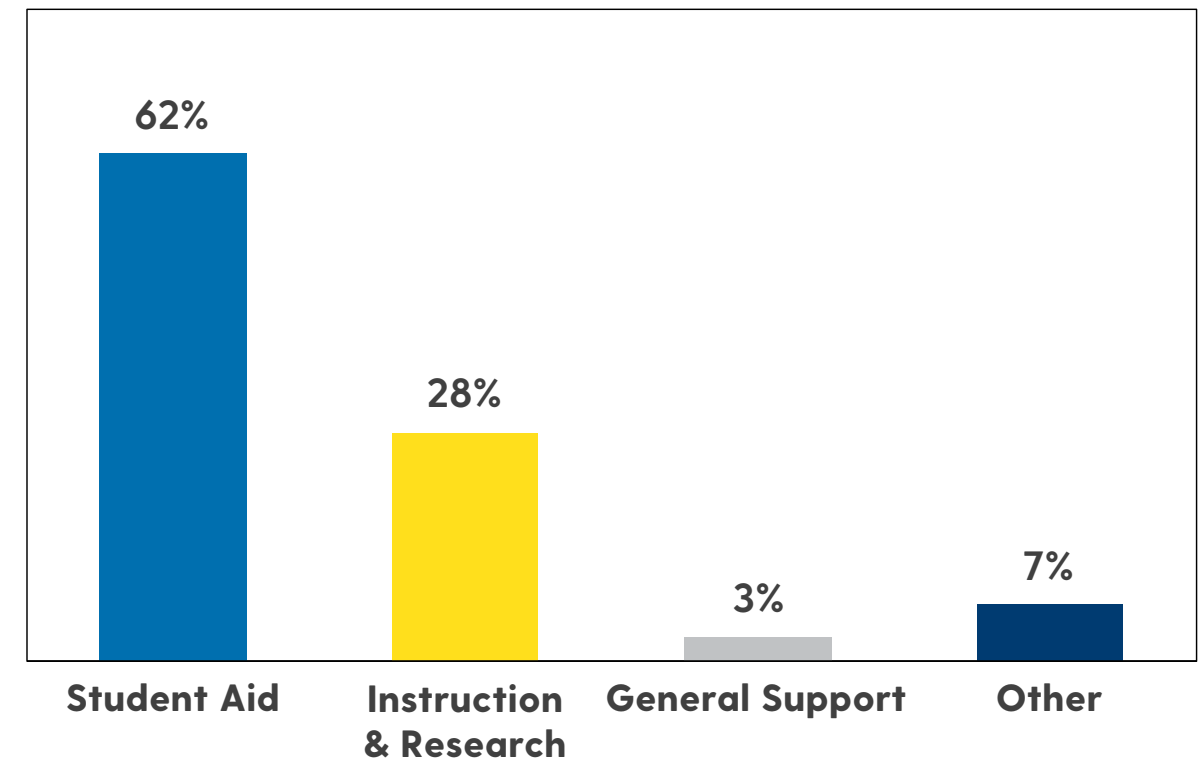
The endowment supports a variety of aspects of university life. There are more than 1,361 endowment accounts that make up the overall University endowment. The largest number of these accounts were established to support the College of Arts & Sciences. Other schools that enjoy a substantial benefit from having annual support from endowed accounts include the College of Engineering, the College of Health Sciences, the Alfred Lerner College of Business and Economics, the College of Agriculture and Natural Resources, the College of Earth, Ocean, and Environment and the College of Education and Human Development. Other endowments have been established to support our strong athletics programs and other critical institutions on campus such as the library.

As the chart below illustrates, most of these endowment accounts were established for the support of our students through student aid so that young people of every

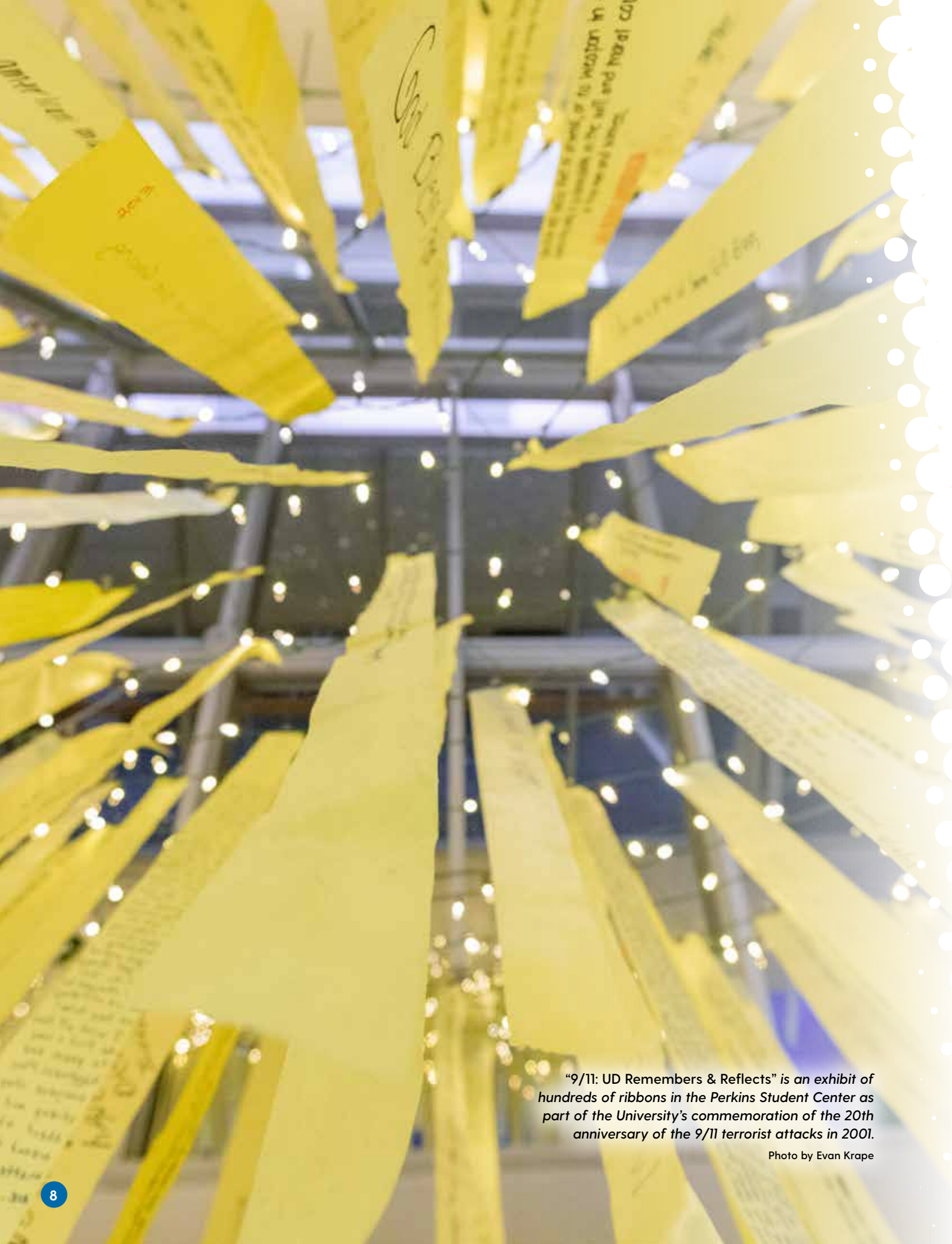
background can attend the University of Delaware. Diversity is a core educational value and a guiding principle of the 2015 Delaware Will Shine Strategic Plan. Research shows that campus communities with meaningful diversity practices significantly increase the quality and value of education for all students. These transformative learning experiences enhance critical thinking, promote civic responsibility, enrich formal and informal exchanges amongst students from various backgrounds, and prepare our students to navigate in an increasingly diverse and global world.

Other endowments have been created for instruction and departmental research as well as the general ongoing operational needs of the University. Since the endowment is a permanent pool of capital, it is designed to provide a reliable source of income in perpetuity for the various causes that each account was established to support.

Number of Endowment Accounts by Purpose as of 6/30/21







*“9/11: UD Remembers & Reflects” is an exhibit of hundreds of ribbons in the Perkins Student Center as part of the University’s commemoration of the 20th anniversary of the 9/11 terrorist attacks in 2001.*

Photo by Evan Krape

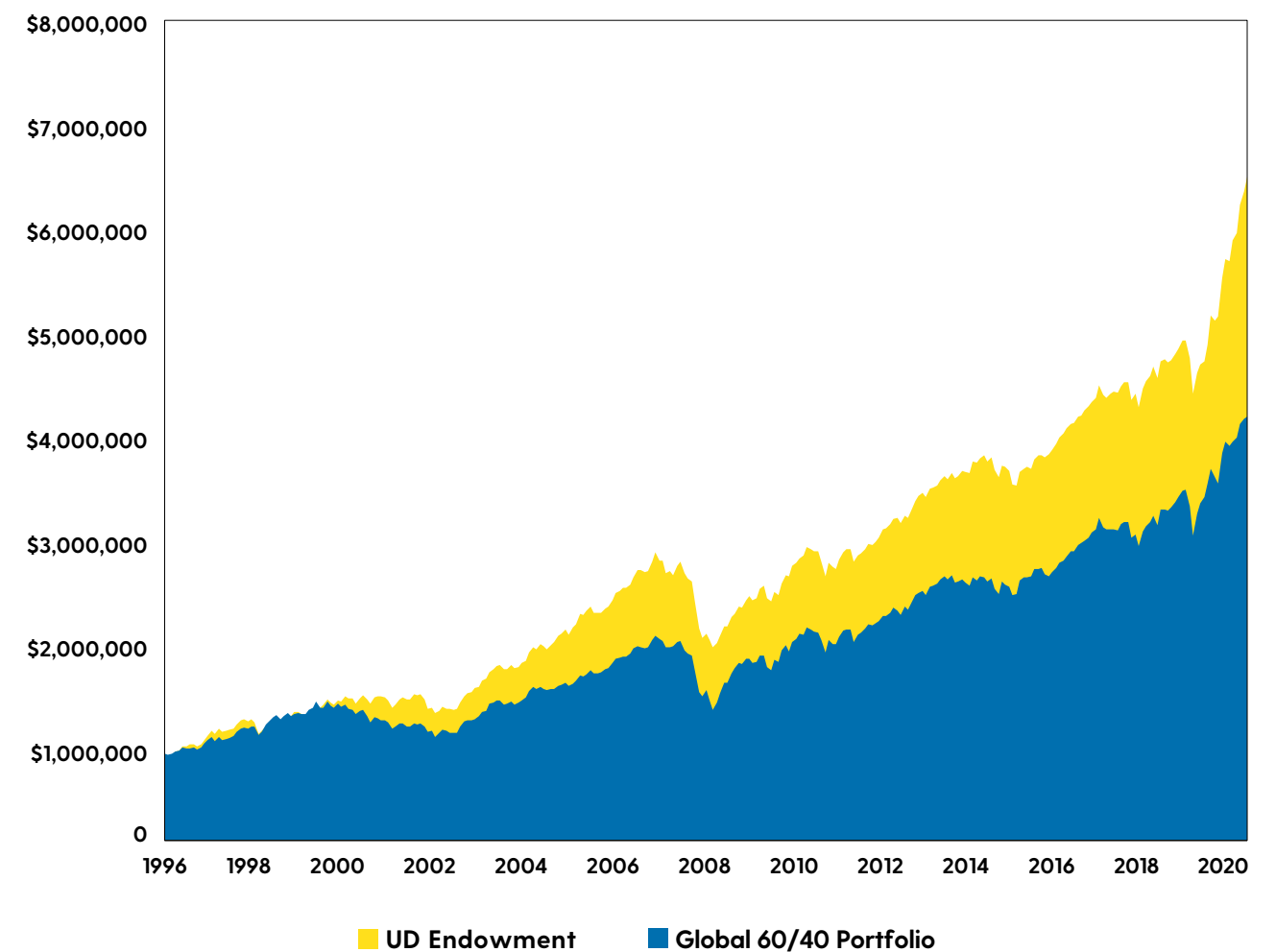
## Compounding Growth over the Long Term

Due to the perpetual nature of the investment program, the long-term performance results are a true reflection of the endowment’s investment horizon. Long-term performance has been strong on both an absolute and relative basis despite challenging market conditions. The endowment recorded an annual return of +8.5% in the twenty-five years ended June 30, 2021, exceeding the +6.5% annual return for a passive portfolio of 60% global stocks and 40% global bonds. This annual outperformance confirms that the endowment model’s long-term investment approach has worked well for the University of Delaware.

The chart below illustrates that the compounding of excess returns can have a significant impact on the University over time. An endowment of \$1 million established twenty-five years ago would have grown to a compounded value of \$7.6 million compared to a value of

only \$4.9 million invested in a global portfolio of 60% stocks and 40% bonds. At first glance, the difference between the +8.5% annual return for the endowment and the +6.5% annual return for the passive portfolio may seem trivial, but due to the power of compounding that excess return has created \$2.8 million in additional assets over the twenty-five-year period. This difference is represented by the yellow area in the chart below. For this reason, the Investments Office actively manages endowment assets to achieve incremental positive returns. Large endowments are better able to achieve incremental positive returns from active management than smaller investors due to their access to top-performing funds and lower management fees. Continued excess returns on the endowment will allow the University to make life-changing investments in the education and development of a greater number of University of Delaware students.

**Growth of \$1 million invested alongside the UD Endowment as of 6/30/21**





The Ammon Pinizzotto Biopharmaceutical Innovation Center – on the University's growing Science, Technology and Advanced Research (STAR) Campus – houses the headquarters of the UD-led National Institute for Innovation in Manufacturing Biopharmaceuticals (NIIMBL).

Photo by Kathy F. Atkinson



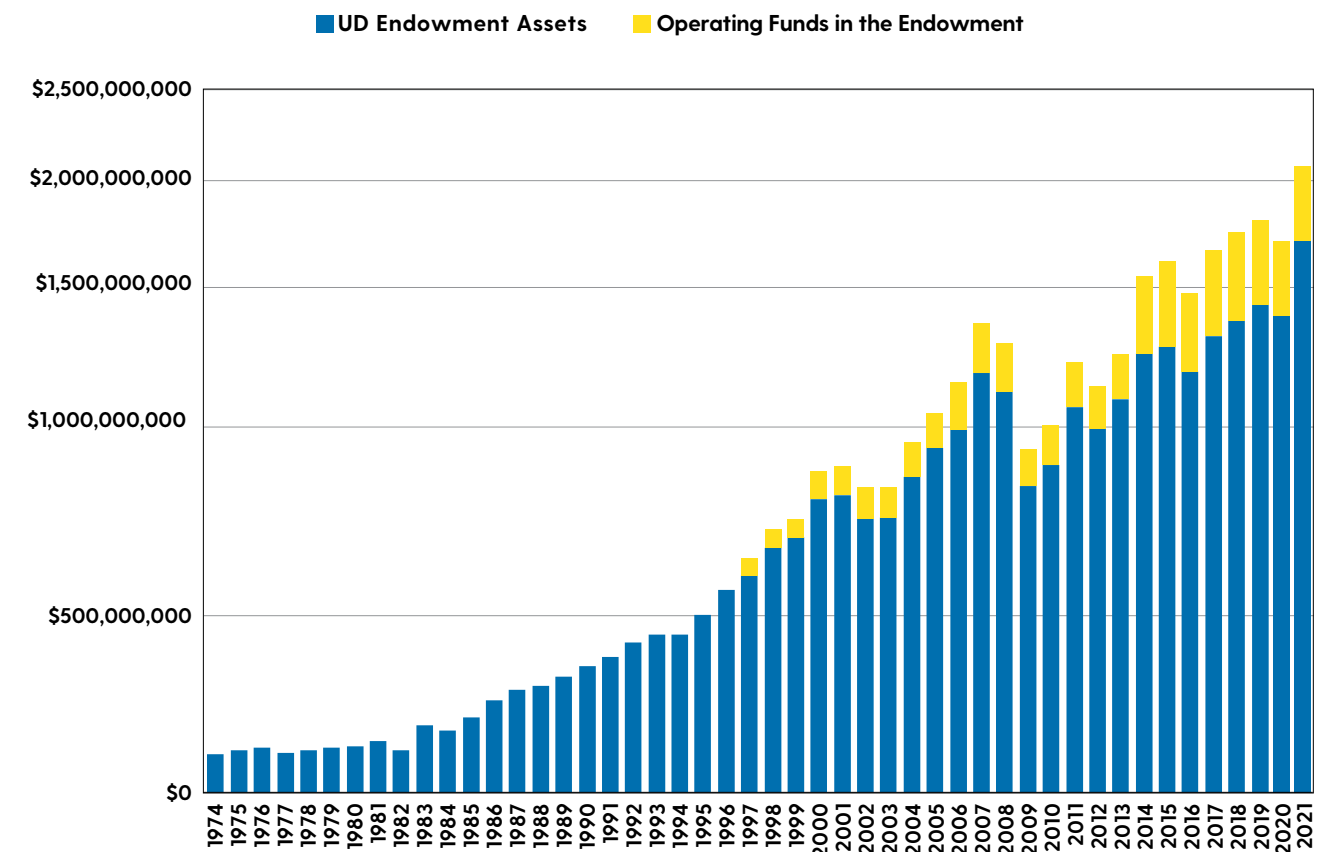
## Growth of Endowment Assets

The endowment has seen tremendous growth over the years. While there are references to an endowment at the University of Delaware prior to the 1850s, our current records date back to 1974 when the University of Delaware had the 17th largest endowment in the country according to the 1974 NACUBO Survey. The \$106 million market value on the endowment that year has ballooned to a current market value of \$2.1 billion on the pooled investment portfolio thanks to strong performance, a constant focus on expense reductions, generous contributions from alumni and friends and a prudent distribution policy. The endowment continues to grow in importance each year to the strength of the University's balance sheet while the annual distributions make up a larger slice of the University's operating budget.

The pooled investment portfolio is made up of permanent endowment funds as well as operating funds invested for

the long-term. The yellow bars in the chart below show the operating funds in the pooled endowment portfolio. The decision to invest operating funds into the long-term portfolio was first made in 1997 to achieve a return on the University's excess liquidity that was above what could be achieved in short-term fixed income investments. Occasionally, additional funds have been added to the long-term portfolio over the years as excess liquidity was identified. We are pleased to report that returns on the pooled endowment portfolio have significantly exceeded returns on short-term fixed income investments over this period which has further strengthened the balance sheet of the University. Recently, we have begun to redeem a portion of these operating funds on an annual basis to support important strategic initiatives at the University of Delaware. These funds are also being used to offset the impact of the covid-19 pandemic on the University's operating budget.

Annual Market Value of the Pooled Investment Portfolio as of 6/30/21





The College of Health Sciences hosts its annual summer camp virtually. Faculty and students from the department of Medical & Molecular Sciences and School of Nursing held demonstrations for the students over Zoom.

Photo by Ashley Barnas



## Asset Allocation

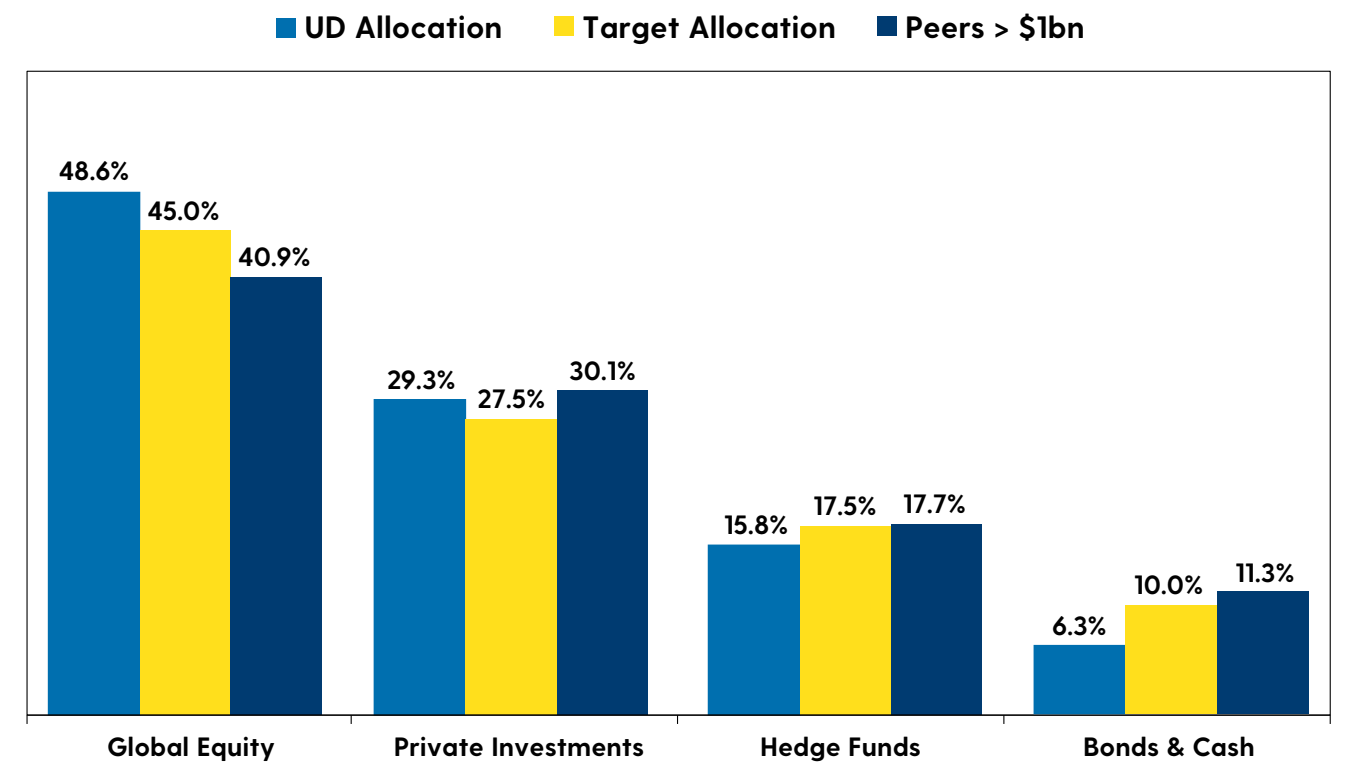
The University has developed asset allocation guidelines based on its total return objectives, income requirements, and capital market expectations. These guidelines are long-term oriented and are consistent with the endowment's risk posture and investment objectives. We have seen dramatic changes to our asset allocation over the last twenty-five years with the allocation to domestic stocks and bonds falling from more than 80% of endowment assets to less than 35% today. These funds have been redeployed into the international equity markets and alternative assets such as hedge funds and private equity funds which should not only provide higher returns in a greater variety of investment environments but also help to control overall risk.

We made our first foray into private investment funds in 2000. Now, twenty-one years later we have achieved a 29% allocation to this important asset class. Our hard

work building up this allocation paid off last year as the strongest returns in the endowment came from our private investment portfolio. Venture Capital funds led the way with a +75.7% return in what the Wall Street Journal dubbed "the Golden Era of Venture Capital." Venture-capital funds invest in startup companies, often in early stages when the companies need funding to grow their businesses.

Last year's record results were thanks to strong returns across all asset classes. Even our hedge fund portfolio, which we typically think of as a diversifier and a portfolio stabilizer, was up more than +30% as our stock pickers feasted on the growth theme. Our global equity portfolio also outperformed the MSCI AC World Index posting a return above 40% for the year. It was truly one for the record books.

Endowment Asset Allocation vs. Target Allocation as of 6/30/21







The new UDairy Creamery Café opened Monday, June 21, in the Barnes and Noble University of Delaware Bookstore on Main Street in Newark.

Photo by Evan Krape

## Capital Market Expectations

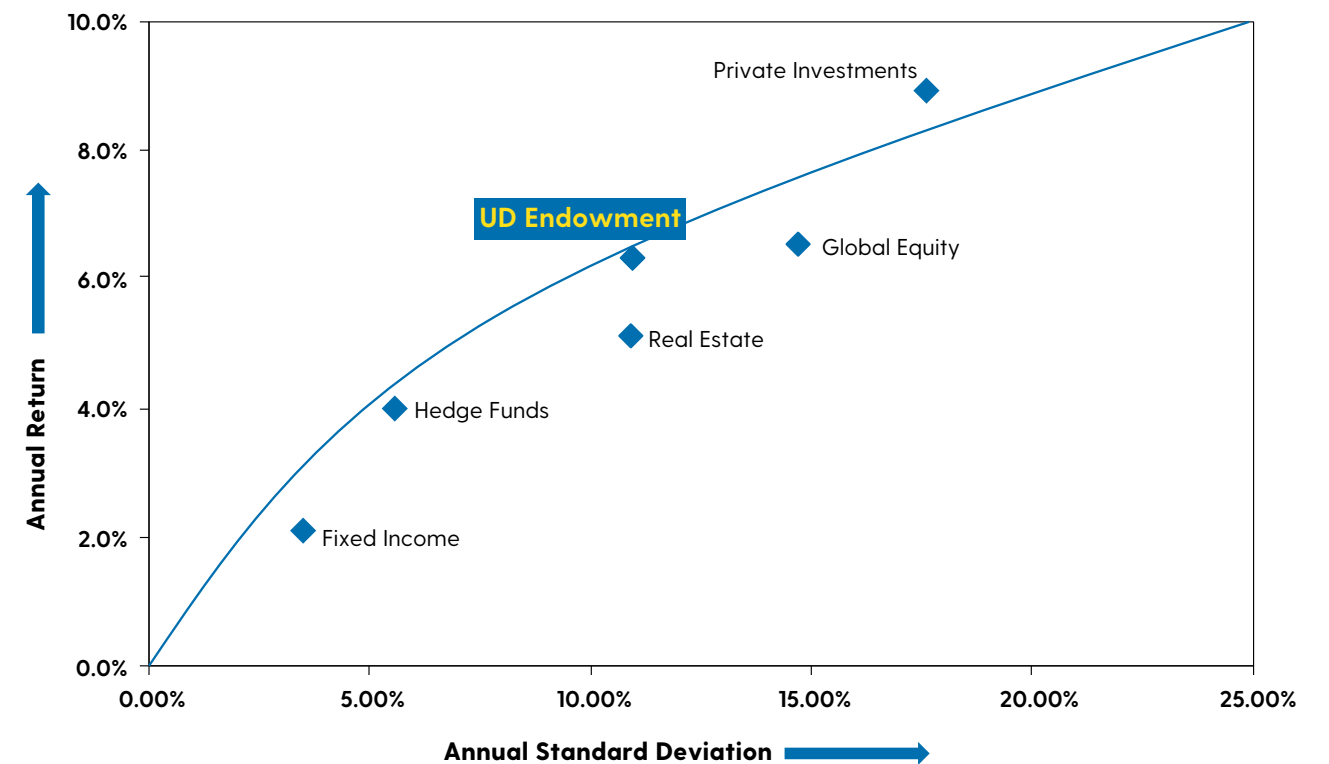
Developing risk and return assumptions for the various asset classes offers a guide to the range of possible investment performance over a given period. These assumptions help the Investment Visiting Committee to guide the asset allocation and risk levels that are chosen to meet the University's investment performance goals over the long-term. In prior annual letters we have noted that we expect capital market returns to become more subdued over the next decade due to lower interest rates, lower economic growth, heavy debt loads, the unwinding of accommodative monetary policy and inflated market valuations. These same challenging conditions are still with us today as we look at the investment landscape for opportunities. We believe that setting realistic capital market expectations leads to good asset allocation decisions and a better performance outcome for the endowment.

The chart below can provide some guidance as to where the University of Delaware's endowment will be looking in the future to achieve strong risk-adjusted returns. The outlook

for private investments still suggests that this is the area with the most performance potential for the endowment which is why we are actively making commitments to increase our overall exposure to this asset class. Global equities also have strong return expectations, but increased volatility in this asset class suggests that we will maintain a more neutral position going forward. Hedge funds continue to provide diversification benefits to the endowment but return expectations have diminished compared to historical averages.

Despite generally lower return forecasts across most asset classes, we maintain our positive view on the capital markets. Our analysis suggests that the endowment will produce a +6.4% annual return over the next ten years. This suggests that our payout rate will have to stay at the low end of the 4-5% range. We will continue to invest for the long-term and make strategic adjustments to the asset allocation based on changes to our capital market expectations.

Ten-year Capital Market Expectations for Major Asset Classes as of 6/30/21







The Geltzeiler Trading Center is a 2,200-square-foot facility designed to replicate the trading floors in investment banks, brokerage houses and hedge funds on Wall Street.

Photo by Kathy F. Atkinson

## Blue Hen Investment Club (“BHIC”)

One of the benefits of working in the Investments Office at the University of Delaware is that we are the administrative advisor for the BHIC which gives us the opportunity to work with our talented students. The BHIC is a student-run investment fund that invests University money in the stock market and provides a valuable experience to its members by allowing them to manage a real-world investment portfolio. The BHIC also celebrated its 25th anniversary in 2021. The club was founded in 1996 when the University’s Board of Trustees entrusted the club with \$500,000 to learn how to manage a real investment portfolio, making it one of the oldest and largest student-run investment clubs in the country. Twenty-five years later, I am pleased to report that the club is stronger than ever with a record fund balance of \$3.54 million as of the end of June 2021. BHIC members learn about the most important aspects of finance and investing while developing strong teamwork, public speaking skills, and analytical skills. The Executive Committee of the BHIC presents its results annually to the Investment Visiting Committee of the University of

Delaware. I am always amazed at the professionalism with which the club is run and the sophisticated investment tools that the students use to manage the portfolio. These students are getting a leg-up on the competition as they leave the University to interview for sought-after positions in the investment management industry because they are already developing the skills that they will need to be successful in the future. The Investments Office offers a paid internship opportunity to juniors looking to learn more about the investment management industry and further develop their investing skills. Last year was a successful one for the BHIC on many fronts. The investment portfolio returned 343 basis points above the S&P 500 Index benchmark due to strong stock selection in Technology, Financials and Health Care by the student analysts. This was the third straight year of outperformance for the club thanks to many years of refining their company analysis and portfolio management discipline. Last year was another great example of how the BHIC has made meaningful long-term impacts on the lives of our Lerner College students.

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## BHIC Students visit the NASDAQ MarketSite







*Mentors' Circle, dedicated to the faculty and advisors who have served UD students throughout our long history. "Wings of Thought" sits at the center of the circle, created by Richard Deutsch.*

Photo by Evan Krape

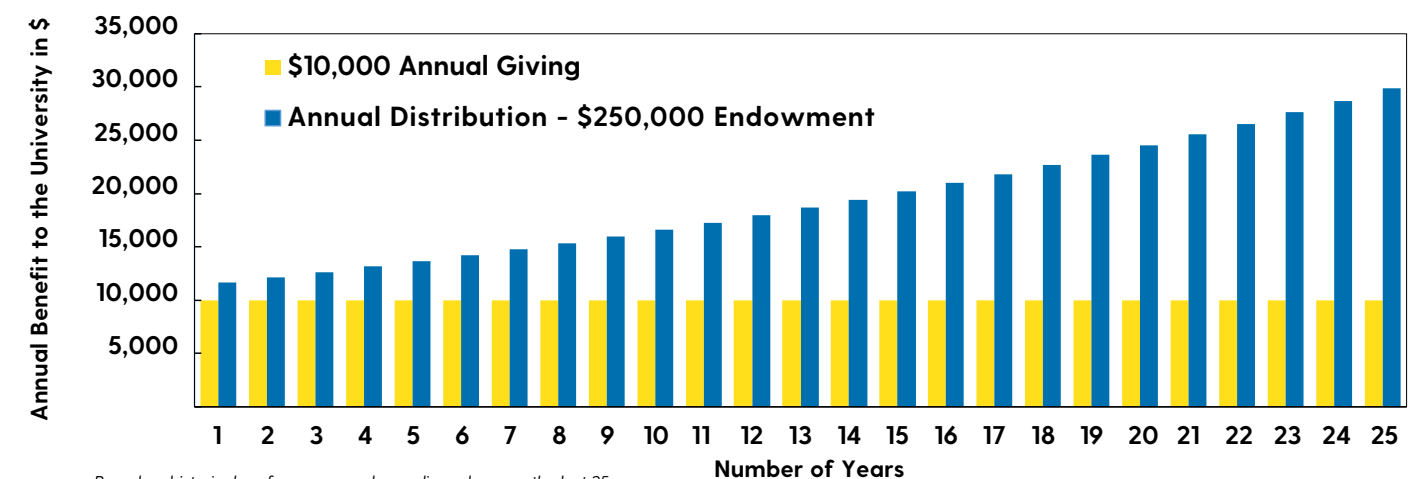
## Why Establish an Endowment at the University of Delaware?

The endowment is important to the University of Delaware to make sure that we can continue to deliver value to our students and attain higher levels of quality than would otherwise be possible. This reliable long-term support allows us to increase student aid, make commitments to senior faculty, initiate pioneering research and invest in new technologies and other physical assets. The endowment's long-term investment horizon and smooth distribution policy provide this essential support even in difficult financial times.

For the donor, establishing an endowment at the University of Delaware will create a legacy today that will live on in perpetuity. An endowment gift can provide assurance that programs that are important to the donor will always survive. Establishing an endowment also gives

donors the ability to perpetuate their annual gifts. For example, a generous donor that has consistently contributed \$10,000 per year to the University as part of the annual appeal over the last twenty-five years would have provided \$250,000 to the University's operating fund over that period. Sadly, that \$10,000 donation today wouldn't even be enough to cover tuition for an in-state University of Delaware student. If that same donor had established an endowment for \$250,000 twenty-five years ago, the endowment value would have almost tripled to \$748,000 today and would be generating enough in annual distributions to pay for two in-state University of Delaware students with enough left over for their meal plans. The endowment will continue to grow and have a greater impact on our school in perpetuity.

### Annual Giving vs. Establishing an Endowment



A healthy endowment is a benchmark for a strong and stable institution. The University's assets, anchored by our large endowment, are important contributors toward the Aa1 and AA+ overall ratings from Moody's and Standard & Poor's. By supporting the endowment through gifts of scholarships, fellowships, and more, you help UD fulfill its mission of providing a world-class education and create opportunities for generations of Blue Hens to come.

The minimum to endow a fund at the University of Delaware is \$50,000. If you are interested in learning more, please contact the Office of Development and Alumni Relations at 302-831-2104.



The Whitney Athletic Center was opened in the winter of 2020. Designed to enhance classroom and game performance, the new center provides physical training, well-being and academic support to all University of Delaware student-athletes.

Photo by Evan Krape



## Looking Ahead

The endowment is designed to provide the University with greater independence, increased financial stability and the means to become a center for academic excellence. Understanding this fundamental purpose is important to understanding the long-term nature of the endowment's investment process. This global multi-asset class investment framework has proven to be able to exceed public benchmarks over the long term, despite the occasional short-term underperformance. We expect that the markets will rise at a mid-single digit pace over the next ten years as interest rates continue to rise globally and economic growth rates stabilize at a lower rate.

Fiscal year 2021 was filled with superlatives. The best performance in endowment history, a record market value on endowment assets, record support for the University and strong performance across every asset class. However, we remain committed to our focus on long-term goals. The +8.5% annual return on the endowment over the last twenty-five years has been a consistent source of support for the University in good years and bad years. We will try to improve these long-term performance results to put us in a stronger position to meet future challenges as they arise and to continue to deliver on our commitment to support the University of Delaware. Given the challenges facing higher education today, we will pursue long-term investment returns that enable the University to achieve its goals and maintain its excellence far into the future.



Keith Walter  
*Chief Investment Officer*

Anthony Bartocci – UD class of 2002  
*Investment Officer*

Dr. Dennis Assanis  
*University President*

John Long  
*EVP and University Treasurer*





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*The University of Delaware strictly follows all current health protocols, including the wearing of masks and appropriate physical distancing. Some images in this newsletter may have been taken before these rules were implemented.*

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