



# Investments Office Annual Report 2023







UNIVERSITY OF  
**DELAWARE**  
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DELAWARE

UNIVERSITY  
of Delaware  
Office of Admissions

**LAW**



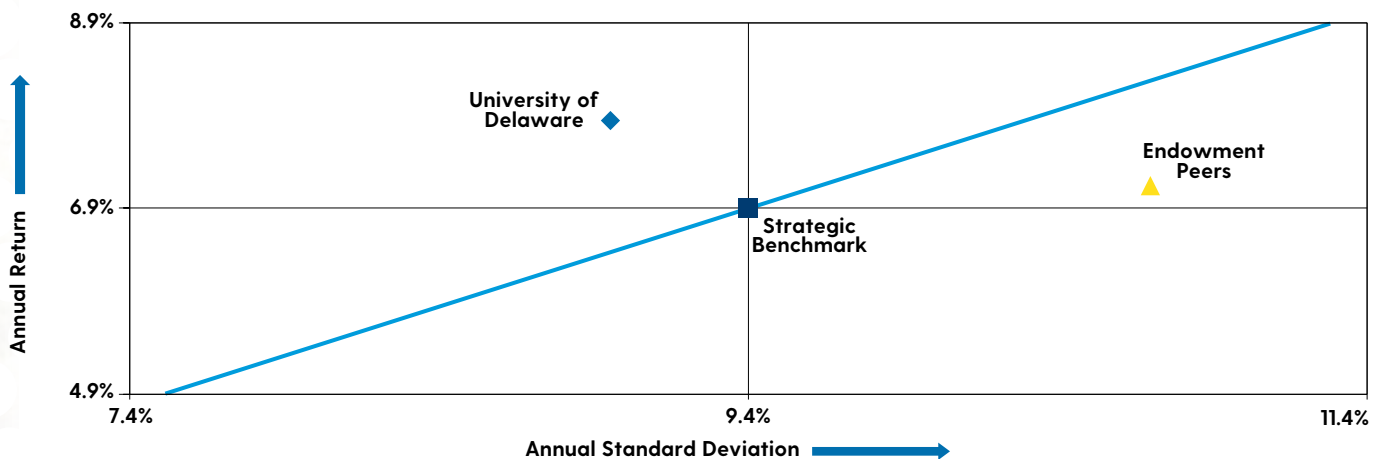
# The University of Delaware Endowment Annual Report 2023

Many of the difficult challenges facing investors in the prior fiscal year carried over to fiscal year 2023. Surging inflation, rising interest rates, trade tensions with China and the war in Ukraine all contributed to the hurdles facing investors. Against this backdrop, the University of Delaware endowment rose by +5.42% compared to a return of +3.88% for the strategic benchmark.

Meanwhile, the median return for the peer universe of foundations and endowments with assets of at least \$1 billion performed +5.69%. The dispersion of returns among the endowment community was unusually large at more than 1,000 basis points last year due to broad differences in asset allocations. Global stocks performed well with a +16.5% return as leading technology companies led the market higher. As a result, endowments with above-average allocations to global stocks enjoyed strong returns last year. Meanwhile, fixed income did poorly due to rising interest rates while private investments saw flat or declining returns as valuations were updated to reflect realistic comparisons. Endowments with above-average allocations to fixed

income and private investments suffered from weak returns last year. While the University of Delaware endowment finished in the middle of the pack last year, we are pleased that our return illustrates our balanced diversification across these asset classes. This disciplined approach can be seen in our top-quartile ranking over the last three years among the peer universe of foundations and endowments with assets of at least \$1 billion. The latest fiscal year is a strong reminder to focus on long-term results and making sure that we can continue to meet the funding needs of the university. The last twenty-seven 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 +7.9% annual return compared to the strategic benchmark return of +6.9% and the median foundation and endowment return of +7.3%. 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.

## 27-year performance for the UD endowment, benchmark, and endowment peers as of 6/30/23









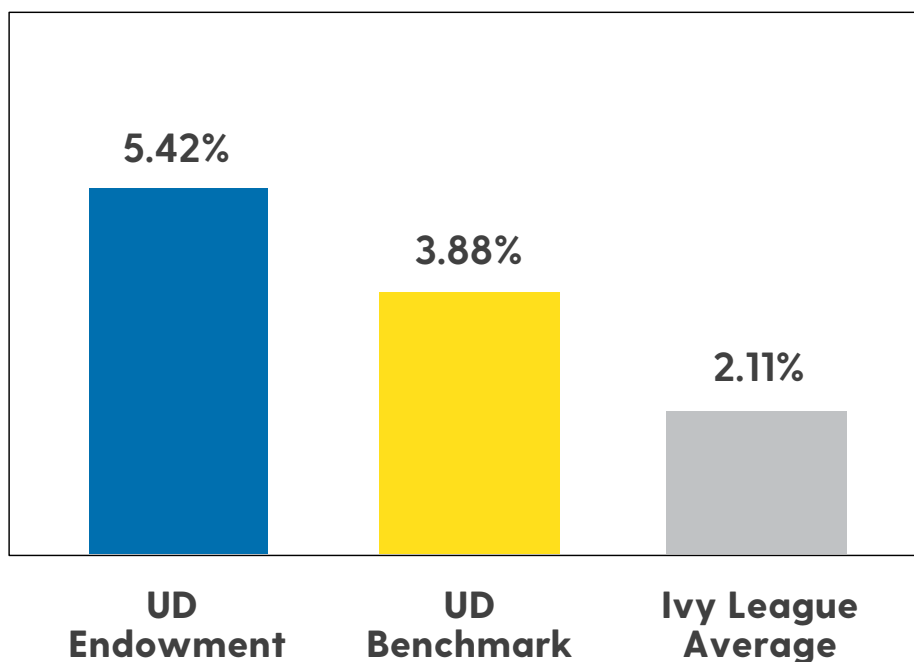
## Moving to More Competitive Division

The University of Delaware has accepted an invitation to become a full member of Conference USA starting from July 1, 2025. This move includes the Blue Hens football team transitioning to the Division I Football Bowl Subdivision (FBS), the highest level of competition in the NCAA. The university's president, Dr. Dennis Assanis, expressed excitement about elevating the reputation of the Blue Hen Athletics program and increasing visibility for academic offerings and research initiatives. The football team will undergo a two-year transition to FBS, playing a Conference USA schedule from 2025 and completing the full transition in the 2026 season. The university's academic excellence and recent facility upgrades are highlighted as contributing factors to this significant move. Conference USA Commissioner Judy MacLeod expresses confidence that the addition of the University of Delaware will enhance the league's quality of play and academic profile.

The Investments Office is inspired by the move by our friends in UD Athletics to the highest level of competition. In our effort to elevate the endowment

investment program each year, we are always researching new investment opportunities that can help us to improve our long-term performance results. While the endowment results in fiscal year 2023 landed us in the middle of the pack for the peer universe of foundations and endowments with assets of at least \$1 billion, we were pleased that our results would have placed us on the top of the leaderboard of the most elite division in the endowment universe, the Ivy League. Our +5.4% return in fiscal year 2023 would have outperformed all eight Ivy League schools last fiscal year which is not something that has happened in recent memory. The broad diversification of our program can be attributed to the difference in returns. Performance at the largest endowments suffered from an elevated allocation to venture capital funds. Venture Capital funds have had a challenging year as excessive valuations are adjusted lower. Taking a page from our friends in UD Athletics, we look forward to trying to compete at this higher level in the future.

Fiscal Year 2023 Returns as of 6/30/23







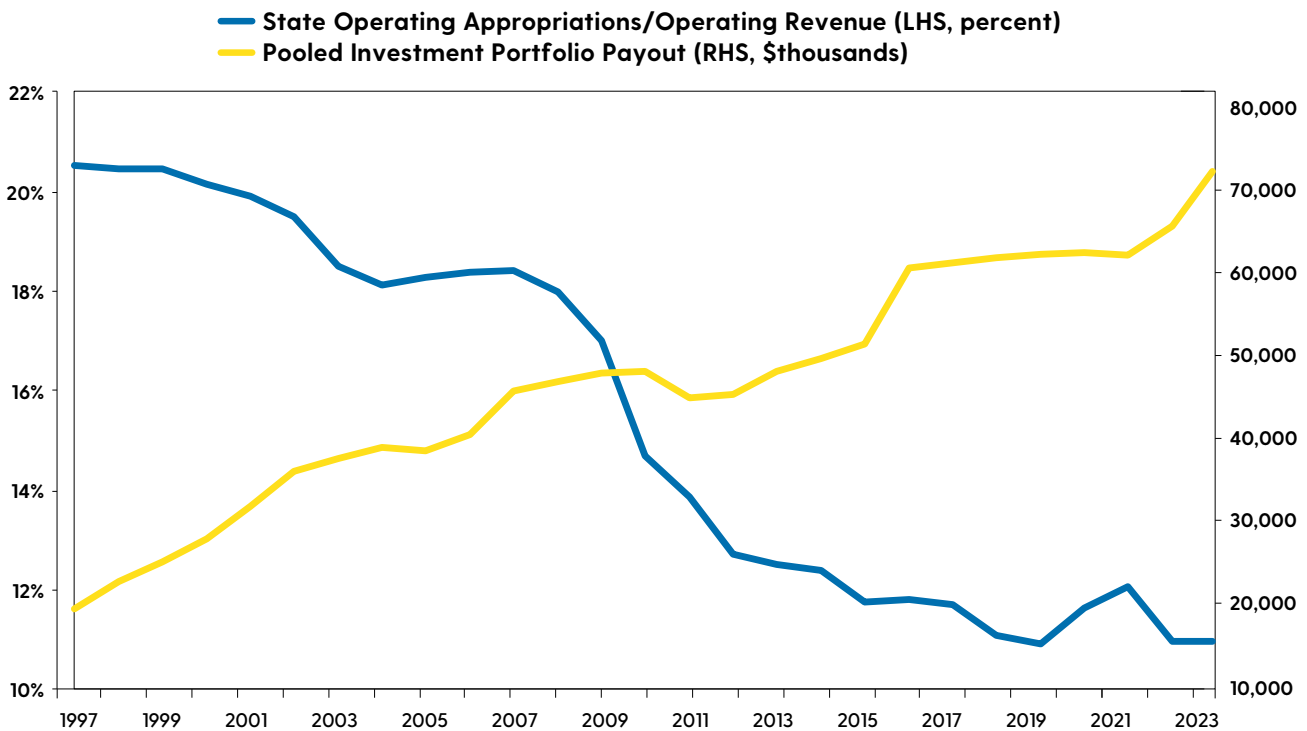
## The Endowment Mission

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 2023, the spending distribution from the pooled investment

portfolio to the University was \$72.6 million, providing financial support and flexibility to the University’s operating budget. This was an increase of more than \$6 million over the prior fiscal year, which was most welcome due to the challenge higher inflation has had on our operating budget. In recent years, our role in supporting the University has become more meaningful as funding from the State of Delaware has declined. 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 red 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







## The Endowment Purpose

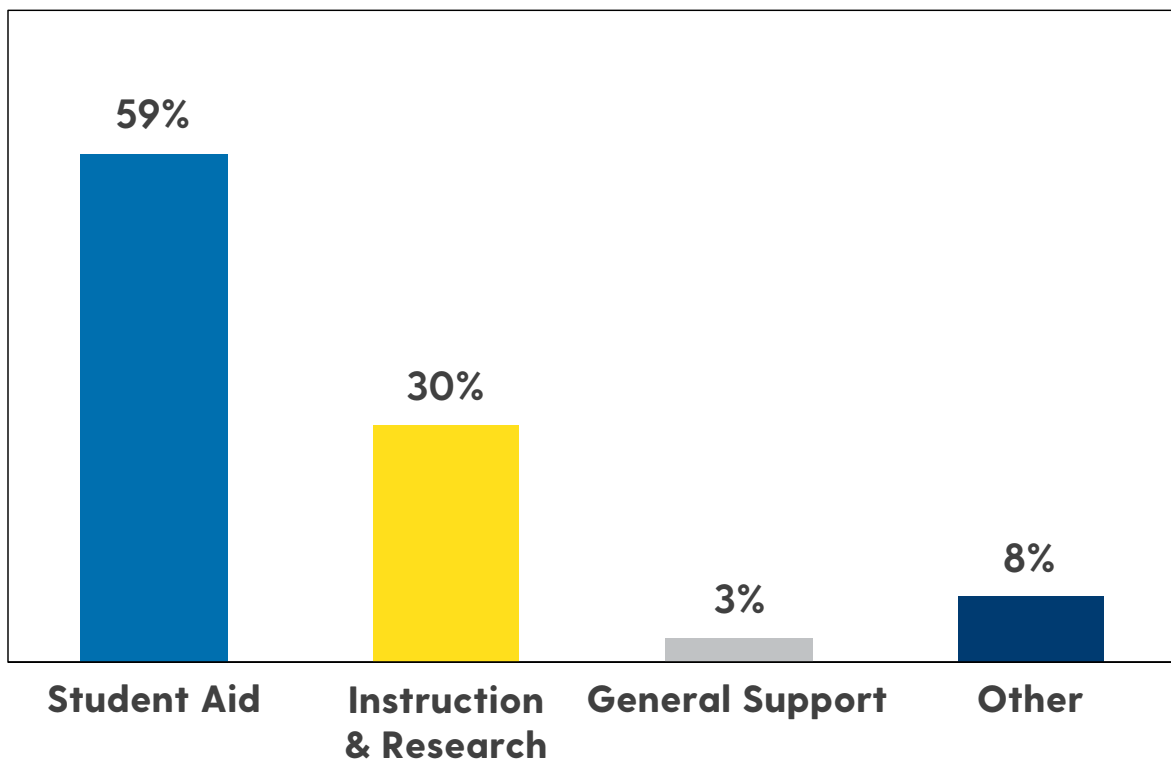
The endowment supports a variety of aspects of university life. There are more than 1,400 endowment accounts that make up the overall University endowment. The largest number of these accounts were established to support the College of Arts & Sciences. Other schools that enjoy a substantial benefit from 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 university. 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 6/30/23









## 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 +7.9% in the twenty-seven years ended June 30, 2023, exceeding the +5.8% 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-seven years ago would have grown to a compounded value of \$7.8 million compared to a value of

only \$4.6 million invested in a global portfolio of 60% stocks and 40% bonds. At first glance, the difference between the +7.9% annual return for the endowment and the +5.8% annual return for the passive portfolio may seem trivial, but due to the power of compounding that excess return has created \$3.2 million in additional assets over the twenty-seven-year period on the original \$1 million investment. 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 6/30/23







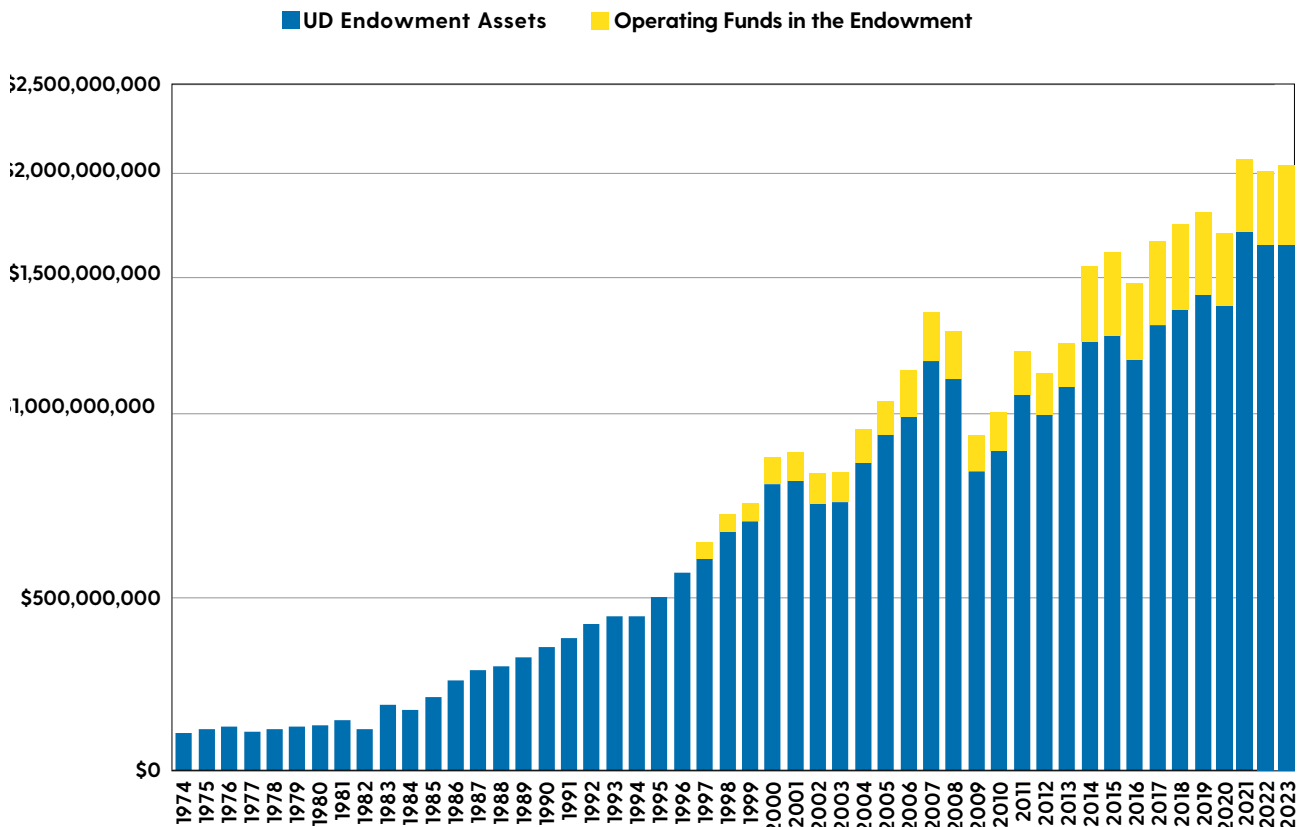
## Growth of Endowment Assets

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 \$2.0 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. Some of these operating funds were redeemed during the covid-19 pandemic to support important strategic initiatives at the University of Delaware and to help defray the impact of the pandemic on the university's operating budget, but the need for that additional liquidity ended with the close of the recent fiscal year.

Annual Market Value of the Pooled Investment Portfolio as of 6/30/23









## 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-seven years with the allocation to domestic stocks and bonds falling from more than 80% of endowment assets to less than 30% today. These funds have been redeployed into the international equity markets and alternative assets such as hedge funds and private investment funds which should not only provide higher returns in a greater variety of investment environments but also help to control overall risk.

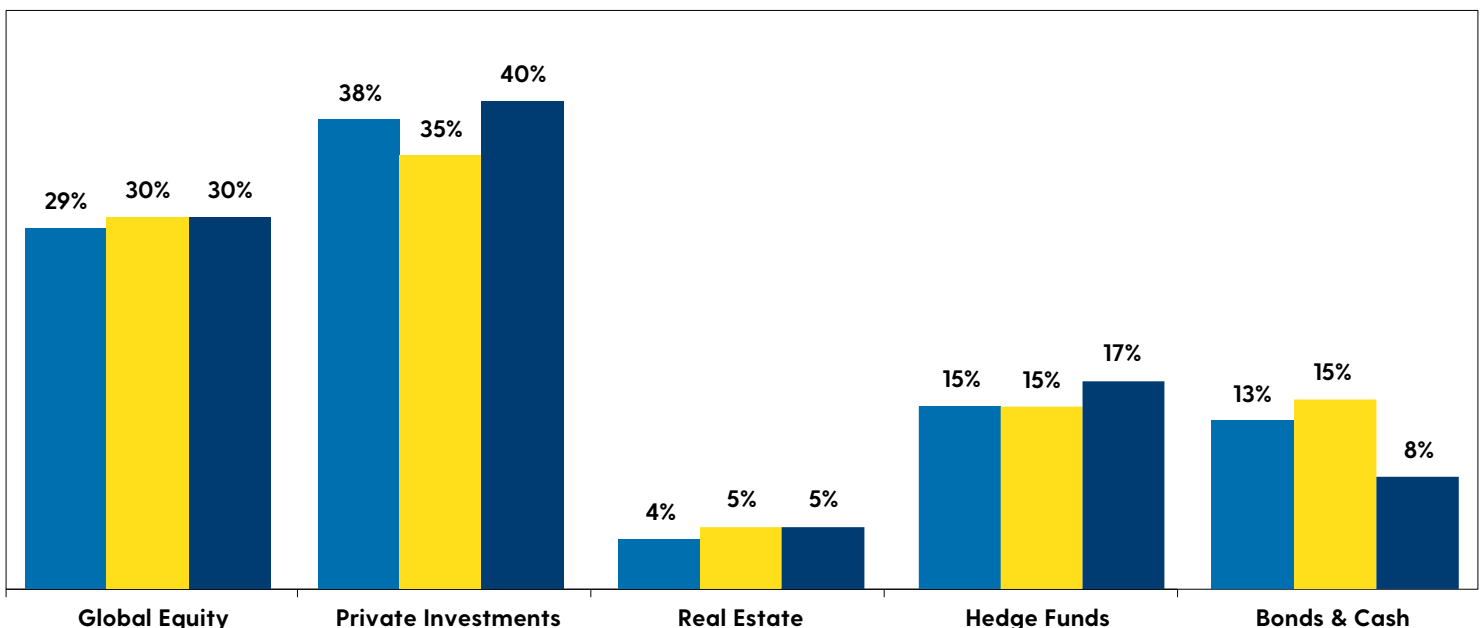
We made our first foray into private investment and real estate funds in 2000. Now, twenty-three years later we have achieved a 42% allocation to these important investments. When looking at the various assets in which the endowment invests, private investment and real estate funds have consistently had the largest positive contribution to our performance. While the returns last fiscal year were roughly flat, these funds have achieved a net

return of +24.9% annually over the last three years which is more than double the overall endowment’s return. This strong performance has caused our allocation to these funds to grow above our target allocation. As a result, we will look to pull back slightly on our annual pacing until we see our allocation return closer to the target. However, there is no doubt that our private investment and real estate funds will continue to be an important driver of endowment performance in the future.

Another area where we saw strong relative returns was in our hedge fund investments. Our managers showed us that the last year was filled with attractive relative value opportunities as our hedge funds achieved a net return of +11.7% in fiscal year 2023, which was more than triple the return on our hedge fund benchmark. Over the years this allocation has proven to be a strong alpha contributor to the endowment while reducing the overall volatility of endowment returns. Fixed income investments also enjoyed relative performance in fiscal year 2023 despite the rapid increase in interest rates as we focused on capturing the yields available in the front end of the yield curve.

### Endowment Asset Allocation vs. Target Allocation as of 6/30/23

■ UD Allocation   ■ Target Allocation   ■ Peers > \$1bn







## Capital Market Expectations

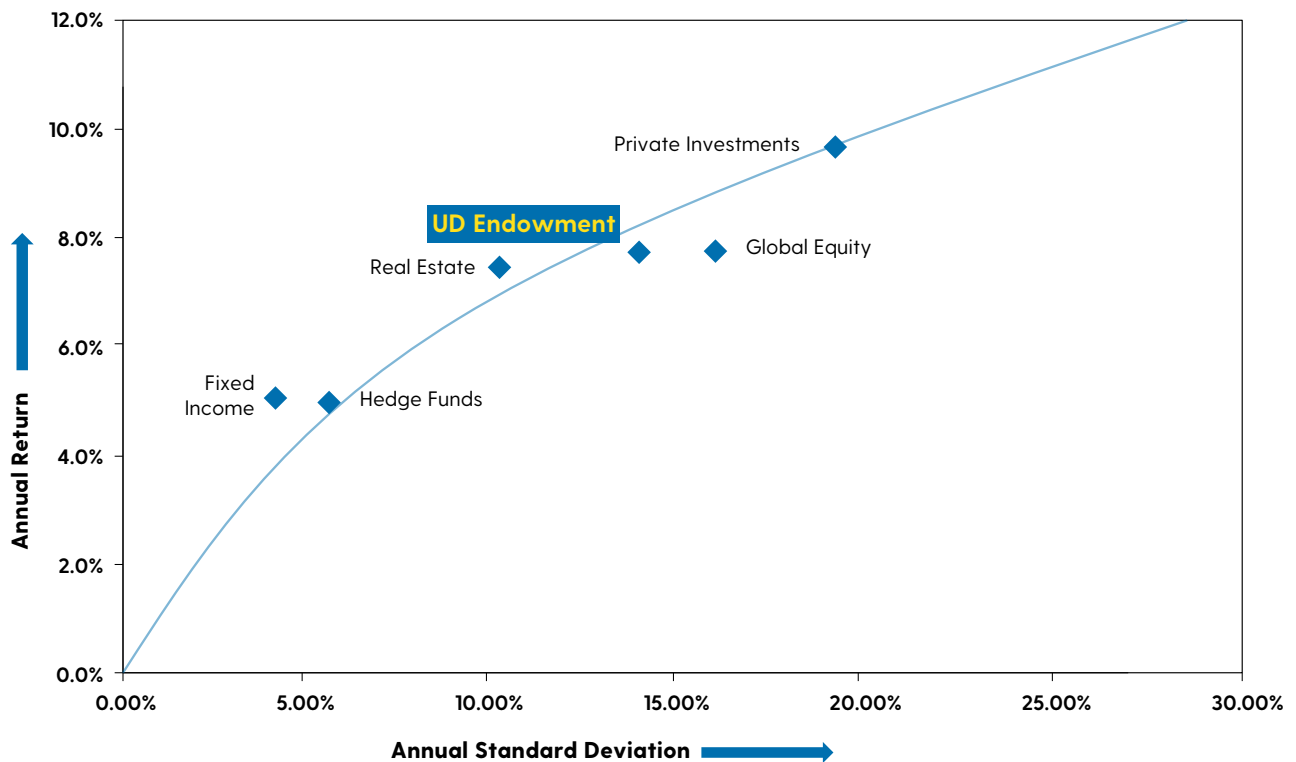
Developing risk and return assumptions for the various asset classes offers a guide to the range of possible investment performance over a given period. These assumptions help the Investment Visiting Committee to guide the asset allocation and risk levels that are chosen to meet the University’s investment 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, but things are starting to look better. 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 +7.8% 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 after inflation and expenses are considered. 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 6/30/23







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INNOVATION  
HUB

## 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 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-seven years later, I am pleased to report that the club is stronger than ever with a record fund balance of \$3.8 million as of the end of June 2023. BHIC members learn about the most important aspects of finance and investing while developing strong teamwork, public speaking skills, and analytical skills. The President 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 another successful one for the BHIC on many fronts. The investment portfolio returned sixty-two basis points above the S&P 500 Index benchmark due to strong stock selection in Consumer Discretionary, Information Technology and Communication Services by the student analysts. This was a record fifth 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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### 2023 Blue Hen Investment Club







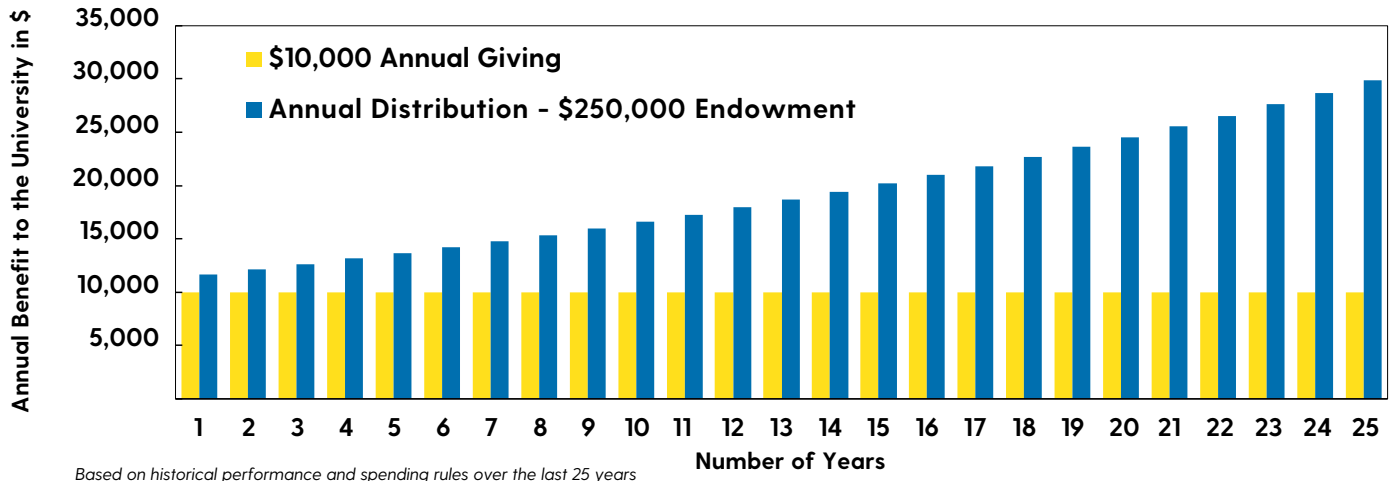
## Why Establish an Endowment at the University of Delaware?

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.



## 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 provide returns in the high single digits over the next decade and inflation will return to long-term averages in the 2-3% range. This scenario will ensure that the endowment continues to grow distributions in support of the university's operating budget while growing endowment assets above the inflation rate to support future generations of students.

We remain committed to focusing on our long-term goals. The +7.9% annual return on the endowment over the last twenty-seven 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.

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Keith Walter  
*Chief Investment Officer*

Anthony Bartocci – UD class of 2002  
*Director of Investments*

Danny Franklin  
*Junior Investment Analyst*

Dr. Dennis Assanis  
*University President*

Mary Remmler  
*SVP and CFO*



We did it! Thank you!

2024








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A photograph of a large, red brick building with a prominent white portico supported by four columns. The building has a central entrance with a white door and arched windows. A group of people is gathered on the steps in front of the building. The scene is set against a backdrop of trees with yellow autumn foliage under a blue sky with white clouds.

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