

# ANNUAL ENDOWMENT REPORT

## FISCAL YEAR 2014-2015



### Message from Sean Hanlon '80, Chair of the Investment Committee

The successful implementation of Stevens' Strategic Plan, "The Future. Ours to Create.", has set a high bar for Stevens' future. The underlying theme of the Plan is "Excellence in All We Do." Everything at the university is focused on the principles of the Strategic Plan and the endowment is an essential part of that success. The endowment experienced another successful year and I am pleased to introduce the Fiscal Year 2014-2015 Annual Endowment Report and to take this opportunity to tell you about some new initiatives within the endowment program.

Two very important initiatives began this year, which I am very proud to describe here. One is the Stevens Student Managed Investment Fund (SSMIF) and the other is the Pinnacle Scholars Program.

The SSMIF is a Board-designated endowed fund established with gifts contributed for the purpose of creating a fund to be invested by students in a classroom setting. It is a two-semester undergraduate course in the newly accredited School of Business in which students establish a governing body, policies and procedures, investment decision-making and approval processes, and portfolio analyses based on a separate Investment Policy Statement

(developed with input from the students as well). The course launched in the spring of 2015 and currently manages a portfolio of \$147,000, with \$55,000 more to come in pledges. The initial goal of the fund was to reach \$250,000. We will achieve that by the end of 2015 and have set a new goal of reaching \$500,000 by December 31, 2017.

The new Pinnacle Scholars Program is being supported by more than \$5 million in endowed and current-use gifts to help fund scholarships offered to the best and brightest freshmen each year and to support their engagements in research, entrepreneurship or international

experiences during the students' undergraduate years at Stevens.

I would also like to introduce Stevens' new CFO, Vice President for Finance and Treasurer, Louis J. Mayer, Ed.D., who brings a wealth of higher education sector experience to Stevens. Lou's role at Stevens includes providing oversight to the endowment and supporting the work of the Investment Committee, in addition to his other CFO duties.

On behalf of our entire Board of Trustees and all the members of the Investment Committee, we remain deeply grateful to our donors for supporting Stevens' future by establishing or supporting an endowment fund. Thank you for your long-term investment in the university and our students. With continued philanthropic engagement, we are poised to accomplish great things in the years ahead.

**Sean Hanlon '80**  
Chair of the Investment Committee



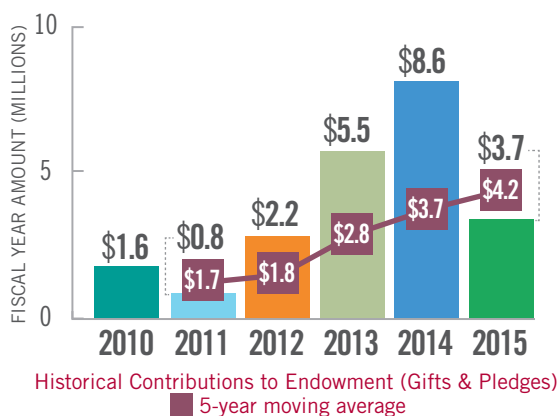
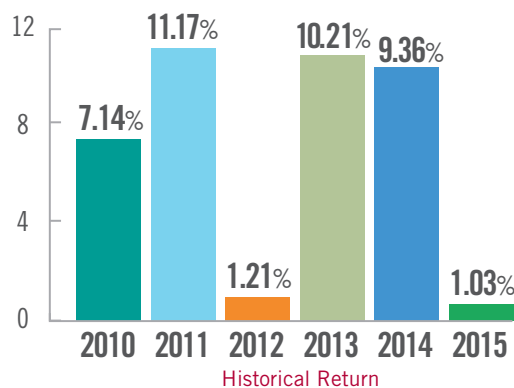
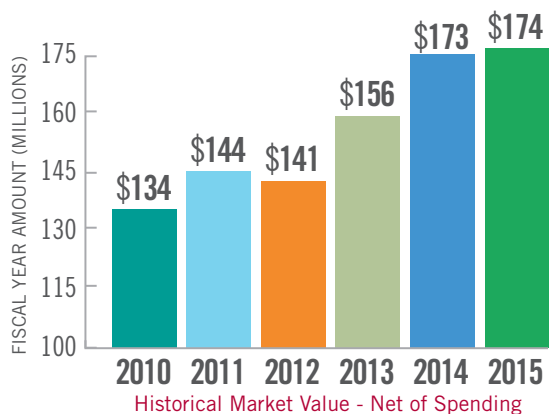
## Introduction

A gift to Stevens' endowment is an investment in Stevens' future. It is a permanent legacy that provides a secure source of future revenue to support students, faculty or academic programs as directed by each donor's wishes. An endowment forever benefits our mission and ensures excellence in perpetuity. The endowment, a set of pooled assets, is composed of individual funds and is invested as one portfolio in a purposeful and accountable manner to generate income that will honor the donors' intended purposes.

### ■ Endowment Activity

The market value of the Stevens endowment was \$174 million as of June 30, 2015. Endowment gifts from donors during Fiscal Year 2015, exclusive of bequest expectancies, were \$3.7 million (see chart below for details). Net investment gain was \$1.5 million. Spending distribution to operations to support students, faculty and academic programs was \$6.7 million, less \$2.1 million of distributions and

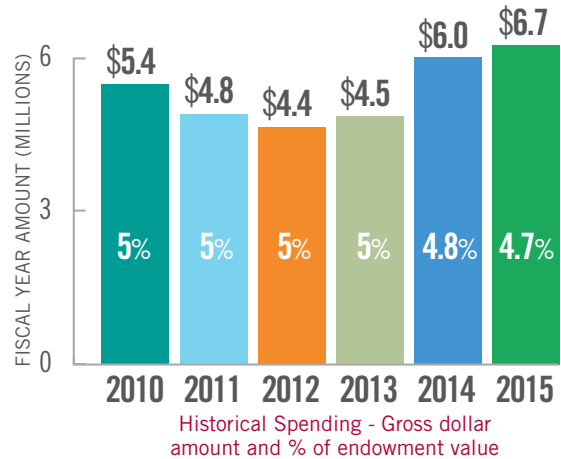
transfers returned to endowment from operating funds. The Goldman Sachs-managed portion of the investment portfolio (83% of the total portfolio), comprised primarily of public market and hedged strategies, had a net investment return of 1.55%, slightly outpacing its strategic benchmark. Overall, for the entire portfolio, our net investment return for the year ending June 30, 2015 was 1.03%.



◀ Endowment gifts are typically comprised of cash and securities, or sometimes real estate or other assets. Gifts recorded in the current year may be payments received in the current year or pledges that promise payments in future years. Gifts received during a particular year from estates, known as bequests, are also included in these figures. Bequest expectancies, where donors name Stevens in their wills to receive a gift from their estates in the future, are not included in these numbers but are another important part of the university's development initiatives. Due to the various sources of gifts, the pattern of values associated with annual giving to university endowments can be irregular year-to-year. Nevertheless, Stevens' endowment giving overall, as the five-year moving average line indicates, is very positive.

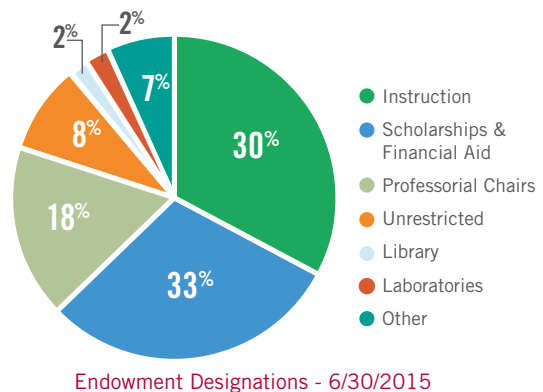
■ **Spending** .....

The Board of Trustees authorized the Fiscal Year 2015 spending rate of 4.7% of a three-year trailing average of total market values of all invested funds in the endowment. In May 2013, Stevens received approval to treat the Taylor Endowment (a portion of the endowment that comprised approximately 33% of the entire value) the same as all other endowment assets. This change increased the value of assets in the endowment available to calculate our annual endowment spending distribution. This increased endowment value available for distribution gave the Board of Trustees the opportunity to consider and approve a gradual reduction in the annual spending rate from 5% of the endowment's three-year trailing average value in Fiscal Year 2013 to the ultimate goal of 4.5% in Fiscal Year 2017. This path lower in spending rate, albeit on an anticipated higher endowment value, should result in continued increases in annual distribution and yet apply a fiscally prudent approach for the endowment to continue to grow in perpetuity.



■ **Structure** .....

The endowment is composed of 364 individual funds, most established by a dedicated and generous donor or group of donors for a specific purpose. The funds are pooled and invested as a single portfolio, but are tracked and allocated separately. At Stevens, endowed funds support instruction, scholarships and financial aid, professorial chairs, the library, laboratories and various educational programs. These funds have appreciated in value over time while annually providing income for the designated purposes of the gifts.



■ **Endowment Management** .....

Stevens' endowment investments are overseen with prudence and care by the Board of Trustees, whose eight-member Investment Committee is comprised of Trustees and faculty with knowledge in finance and investing. The goal of the Investment Committee is to manage the endowment to support the university's strategic plan and ensure that the endowment benefits both current and future generations. The Investment Committee is responsible for oversight and strategic decision-making including: asset allocation, spending policy, performance analysis, fee review and hiring of professionals. Goldman Sachs, our Outsourced Chief Investment Officer (OCIO), began managing the portfolio's assets in May 2013, and as of June 30, 2015 managed 83% of the portfolio assets. Of the remaining assets, 8% is legacy alternative investments, primarily private equity, and 9% is managed by Stevens.

This year, our OCIO has enhanced the efficient and effective management of the endowment, invested to our Board-approved asset allocation target and risk tolerance level, and refined reporting on 100% of the portfolio to assist the Investment Committee in performing its fiduciary responsibilities. We manage the portfolio with the long-term objective of producing real growth in excess of the spending policy and inflation, albeit with a specific, prudently determined targeted risk budget. The investments are well diversified across investment managers, asset classes, geographies and time horizons. The endowment is broadly diversified into equities, fixed income and alternative investments, including private equity, hedge funds and real estate. Our allocation provides the opportunity for competitive risk-adjusted net returns.

## Endowment Highlights

**174** Stevens' endowment has grown by \$45 million during the past six years from \$129 million on June 30, 2009 to \$174 million on June 30, 2015.

**44** During the past six years, Stevens has added 44 new endowment funds to support the university as directed by our generous donors.

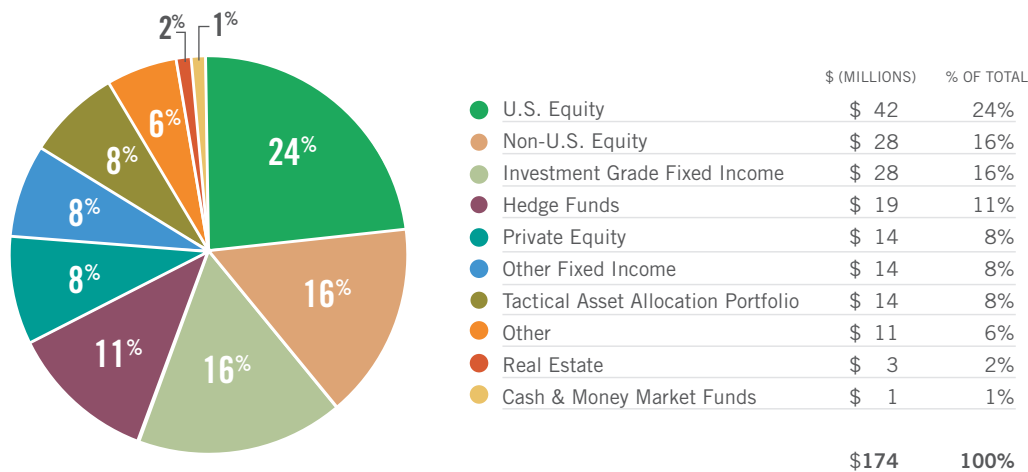
**32** The endowment has distributed \$32 million over the last six years to support students, faculty and academic programs.

**6.7** The six-year annualized endowment return is 6.7% as of June 30, 2015. The approximate annualized volatility of the endowment portfolio is 9.15%.

## Risk Management

By investing in both traditional and alternative investment classes, the endowment seeks to achieve diversification benefits. Our strategic asset allocation, over the longer term, strives to optimize return for a given level of portfolio risk. We use a strategic asset allocation approach that includes approximately 8% in tactical asset allocation strategies. At least quarterly, the Investment Committee reviews the asset allocation of the portfolio and the individual managers' performances. Our OCIO continues to model the portfolio and

engage the Investment Committee in discussion of long-term spending needs balanced against expected portfolio returns and volatility. Maintaining and growing the value of the endowment over time is critical to ensuring that the steady source of income the endowment provides to students, faculty and academic programs will not be eroded and that the endowment funds grow in support of our strategic goals into perpetuity. This objective is accomplished by a well-diversified portfolio and a prudent spending policy.



Asset Allocation - 6/30/2015