

The background of the entire page is a photograph of a classical building with white columns and a pediment, illuminated by warm, golden light. In the foreground, a black street lamp with a glowing yellow light fixture is visible. The University of Delaware logo is in the top left corner.

UNIVERSITY OF
DELAWARE

Investments Office
Annual Report 2013–2014

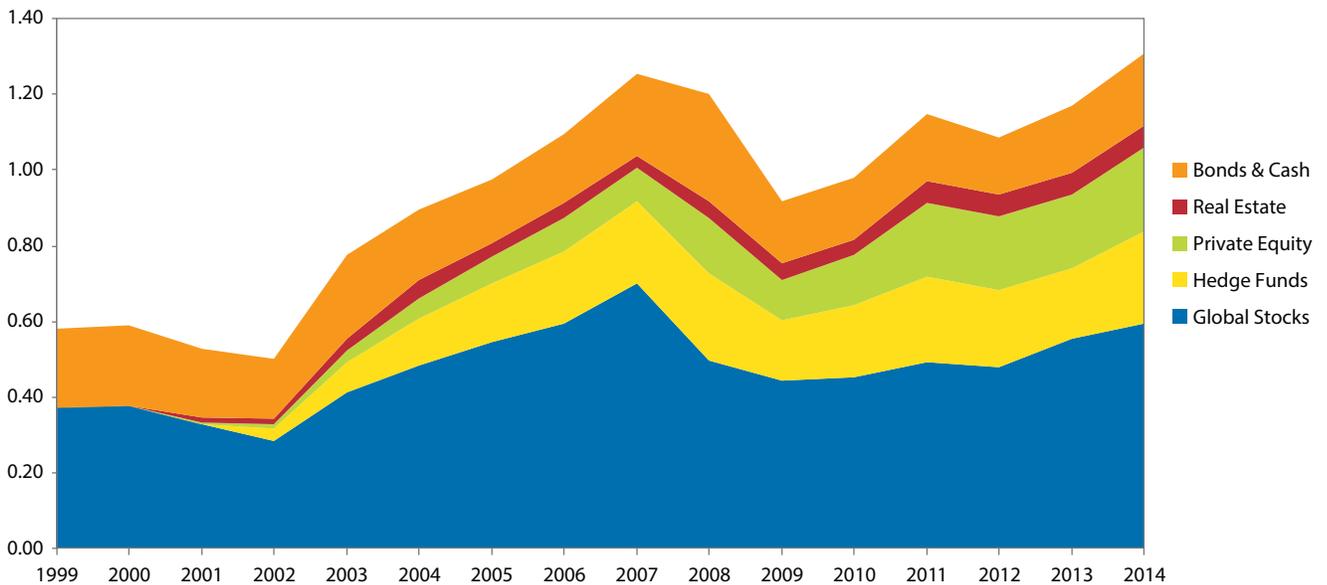
The University of Delaware Endowment

Annual Report 2013–2014

Introduction

I am pleased to report that for the fiscal year ended June 30, 2014, the return of the University of Delaware endowment was +14.7%, the third best annual return over the last ten years. Strong global equity markets in the latest fiscal year drove the results with the U.S. equity market reaching all-time highs during the course of the year. The total market value of the endowment was \$1.31 billion on June 30, 2014, an increase of roughly \$138 million from the prior year. We have made a strong recovery since the end of the global financial crisis five years ago with the endowment growing by \$393 million over that time. Over these last five years, the endowment has distributed a total of \$229 million in cash to the University, providing critical financial support to our academic and research programs. According to the 2014 NACUBO survey, the University's endowment per student is ranked as the sixth largest in the nation for public universities.

Total Value of the Endowment (after distributions) in \$ billions

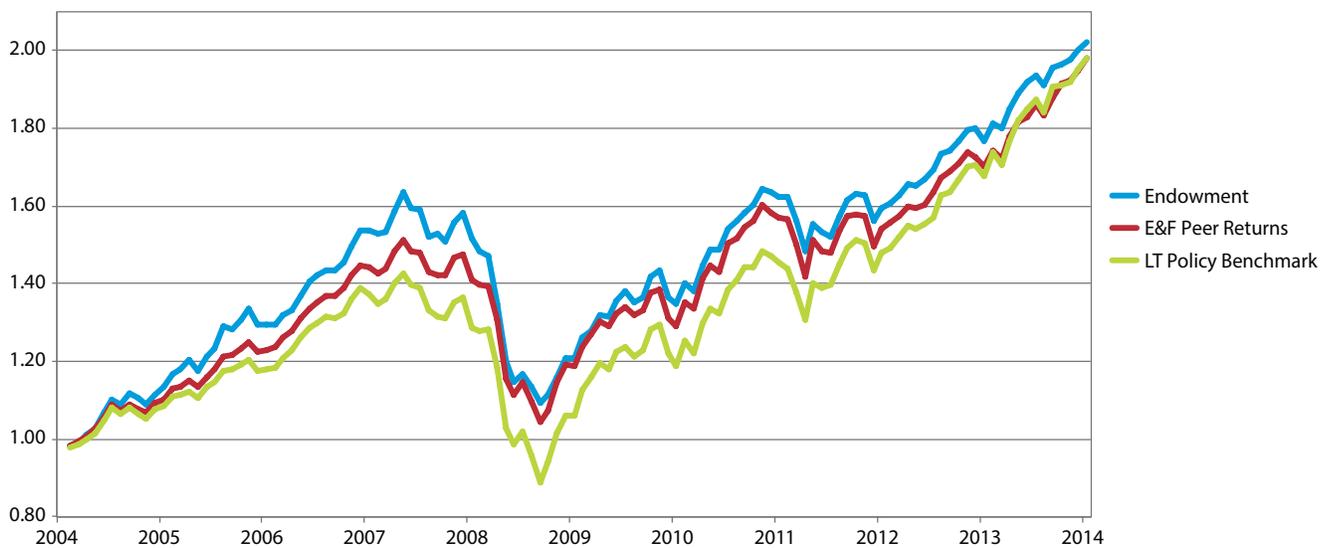




Long-term results

Due to the perpetual nature of the investment program, the long-term performance results are a true reflection of the endowment's long-term investment horizon. Performance has been strong on both an absolute and relative basis in the last decade despite challenging market conditions. The endowment recorded an annualized return of +7.6% in the ten years ended June 30, 2014, exceeding both the +7.0% return for the Long-Term Policy Benchmark and the +7.1% return for the average endowment and foundation. Despite the downturn in the markets during the global financial crisis in 2008, the value of \$1 invested in the endowment ten years ago would be worth more than \$2 today. Most importantly, the ten-year returns were comfortably ahead of the University's inflation-adjusted spending rate, allowing for a real growth in assets to provide for future generations of students at the University.

Growth of \$1: University of Delaware vs. LT Benchmark and Peers



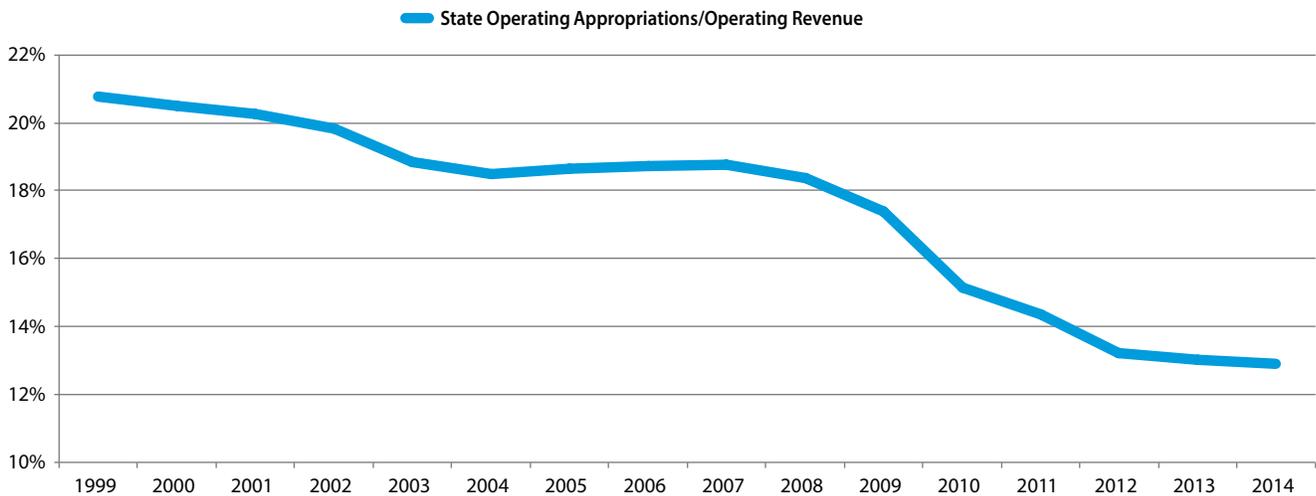


The Endowment Mission

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 Investment 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 2014, the spending distribution to the University was \$48 million, providing financial support and flexibility to the University's operating budget. In recent years, the endowment's 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.

Historical State Operating Appropriations as a Percentage of Operating Revenue





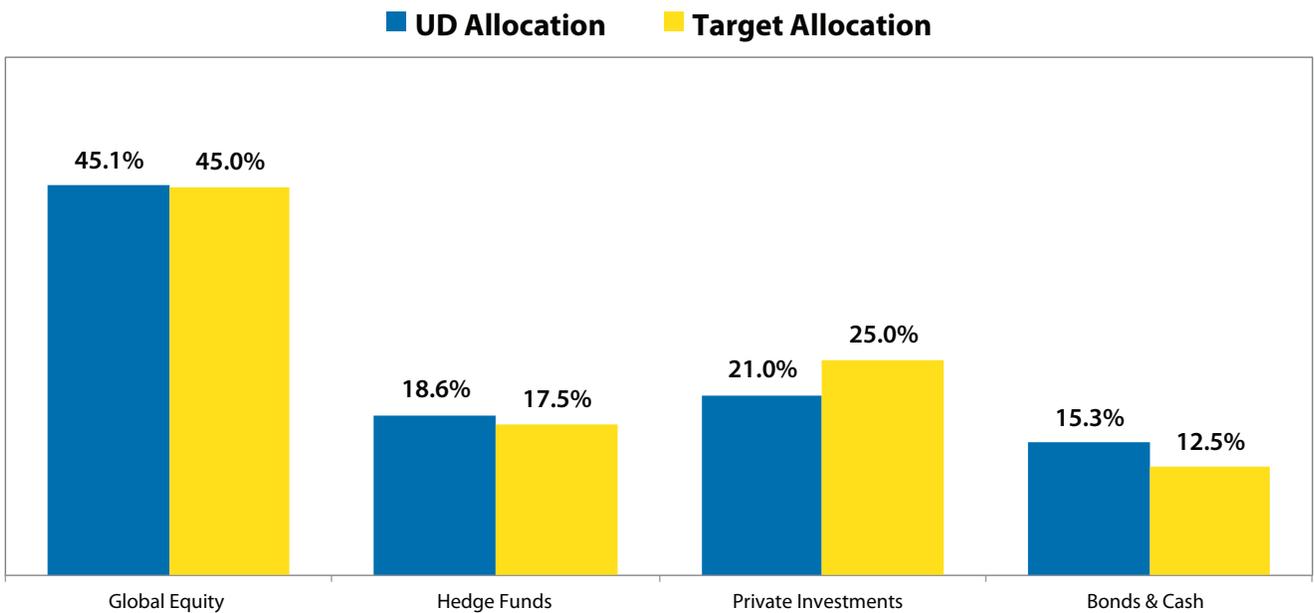
UNIVERSITY GALLERY
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OLD COLLEGE

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. Over the last twelve years, the University has dramatically reduced the endowment's investments in domestic stocks and bonds by reallocating to international and nontraditional asset classes. In 2000, more than 80% of endowment assets were invested in U.S. stocks and bonds with 20% in international assets and 0% invested in hedge funds and private investments. Today, only 39% of assets are invested in U.S. stocks and bonds while 21% are invested in international stocks, 19% in hedge funds and 21% in private investments. These changes can be seen in the chart on the first page of this report. As a result, the endowment is now more diversified across asset classes. The broader opportunity set should not only provide higher returns in a greater variety of investment environments but also help to control risk. The University has increased the Private Investments target allocation to 25% in the latest fiscal year to take advantage of the superior risk-adjusted returns generated by this asset class. It will take some time to achieve this target because of the long investment periods associated with this asset class. The source of funds for these investments is currently invested in fixed income and cash.

Endowment Asset Allocation vs. Target Allocation

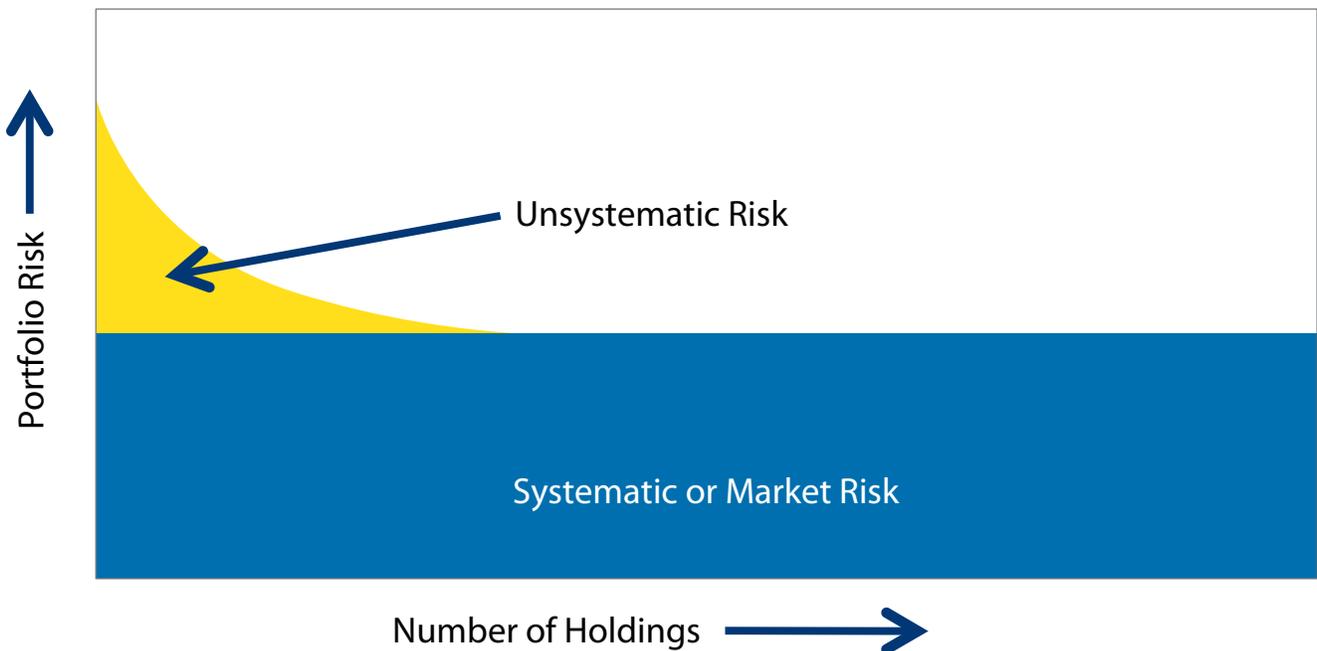




New Initiatives

The Investments Office is currently working on a number of initiatives that will seek to both improve performance and reduce costs over the next ten years. The largest cost reductions will come from eliminating fund-of-funds investments in alternative assets, the use of index funds for core equity and bringing some reporting and due diligence functions in-house. These initiatives should lead to a 52 basis point reduction in overall costs which would add \$152 million in additional endowment assets over a ten year period. To improve performance, the endowment has been repositioned to become more streamlined with a reduction in the number of mandates and a focus on high conviction portfolios. A continual rise in the number of holdings historically led to an over-diversification of our portfolio. Over-diversification occurs when the number of individual investments in a portfolio exceeds the point at which adding an investment asset does not reduce the overall risk of the portfolio. The greater concentration should help us to achieve better returns over the long-term by adding some unsystematic risk back into the program. The reduction of our portfolio holdings will also improve our monitoring capabilities making us better stewards of the endowment.

Over-diversification Eliminates Unsystematic Risk from a Portfolio



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. The capital markets have provided the endowment with strong returns over the last few years and we expect this momentum to continue, although at a slower pace. As a result, we are continuing to manage the endowment with a positive bias toward equity investments due to the gradually recovering global economy and the low interest rate environment. Given the challenges facing higher education today, we will pursue long-term investment returns that will enable the University to continue to achieve its goals and maintain its excellence far into the future.

Sincerely,



Keith Walter
Chief Investment Officer

Anthony Bartocci
Investment Analyst

Stephanie Steenkamer
Administrative Assistant

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