Message from Sean Hanlon ’80, Chair of the Investment Committee

On behalf of Stevens Institute of Technology, I am pleased to present the Fiscal Year 2013-2014 Annual Endowment Report. I am gratified to share that our endowment continues to grow and create positive returns, which benefits today’s university activities and student scholarships and advances Stevens towards a very bright future.

One of the goals in Stevens’ 10-year Strategic Plan is to increase the value of the endowment significantly. One important way to achieve this is through generous gifts. From donors like you, we received $8.6 million this year. Please keep up the support. There are two other ways management of the endowment can grow the value. One is for the endowment to earn a high risk-adjusted net annual return and the other is to control endowment expenses. We have realized both with the successful transition to a prudently priced Outsourced Chief Investment Officer (OCIO) model with Goldman Sachs, which has provided excellent investment management, reporting and overall service since May 2013. During Fiscal Year 2013-2014, endowment fees were reduced by 44%, over $700,000 in savings to the bottom line. This was accomplished through intense analysis and scrutiny by the Investment Committee and Stevens’ Division of Finance when we switched to the OCIO model. All of these measures will help the endowment grow over the long term and provide support to many other aspects of Stevens’ Strategic Plan. The OCIO model has allowed the Investment Committee to focus on oversight and strategic decision-making to guide the endowment to a model of prudent investing and governance with strong performance results.

Please be assured that we will continue to steward endowment gifts with great care and we target the Stevens’ endowment to be “best in class” in all respects. We greatly appreciate your commitments to the university. On behalf of the entire Board of Trustees and all the members of the Investment Committee, we thank our donors for their generosity and extraordinary support of Stevens.

Sean Hanlon ’80
Chair of the Investment Committee
Introduction

A gift to the Stevens’ endowment is an investment in Stevens’ future. It is a permanent gift that provides a secure source of future revenue to support students, faculty or 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 in a purposeful and accountable manner to generate income that will honor the donors’ intended purposes. The individual endowment accounts are invested as one portfolio.

Endowment Activity

The market value of the Stevens endowment was $173 million as of June 30, 2014. This was a $17 million, or an 11%, increase over the endowment’s June 30, 2013 value. Endowment gifts from donors increased during fiscal year 2014 and totaled $9 million. Net investment gain was $14 million, which was partially offset by $6 million in spending distribution to support students, faculty and programs. Our net investment rate of return for the year ending June 30, 2014 was 9.36% and our 5-year annualized return was 7.82%. All asset classes generated gains in fiscal year 2014, led by U.S. equity and non-U.S. equity funds and the tactical asset allocation portfolio.
Spending
The Board of Trustees current authorized spending rate is 4.8% 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 comprises 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 amount gave the Board of Trustees the opportunity to consider and approve a gradual reduction in the annual spending rate from 5% of endowment’s value in FY2013, to 4.8% in FY2014, and to 4.7% in FY2015. This path down in spending rate, albeit on an anticipated higher endowment value, should result in continued increases in annual distribution and yet apply a prudent approach for the endowment to continue in perpetuity.

Structure
The endowment is composed of 348 individual funds, each established by a dedicated and generous donor or group of donors for a specific purpose. The money is invested as a single pool but the funds are tracked and allocated separately. At Stevens, endowed funds support instruction, financial aid, professorial chairs, library, laboratories and various educational programs. These funds have appreciated in value over time while annually providing income for the designated purpose of the gifts.

Endowment Management
Stevens’ endowment investments are overseen with prudence and care by the Board of Trustees, whose ten-member Investment Committee is composed of alumni 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 and fee review. Our OCIO took over the portfolio’s asset management in May 2013, and as of June 30, 2014 managed 77% of the portfolio assets. Of the remaining assets, 14% is legacy alternative investments, primarily private equity, and 9% is managed by Stevens. Fees were reduced in FY2013-2014 from $1.6 million to $0.9 million, a $0.7 million or 44% reduction year-over-year. Our OCIO has focused on consolidating assets; putting those assets to work according to our Board-approved asset allocation and risk tolerance; improving governance; and creating customized reporting on 100% of the portfolio to assist the Investment Committee in performing their 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

173 Stevens’ endowment has grown by $44 million during the past five years from $129 million on 6/30/2009 to $173 million on 6/30/2014.

44 Endowment fees were reduced in FY2014 by 44% and we continue to monitor management fees and associated costs and concentrate on managing toward prudent risk-adjusted net returns in the endowment.

25 The endowment has distributed $25 million over the last five years to support students, faculty and programs.

5 It is our goal to increase the value of the endowment significantly over the next five years. One important way to achieve this is through the generous support of donors. This will help the endowment grow over the long term and provide key support to Stevens’ Strategic Plan, “The Future. Ours to Create.”

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 couple strategic asset allocation with tactical asset allocation strategies (7% of the 6/30/14 portfolio), which seek to take advantage of market dislocations and pockets of attractive valuations that may arise in the shorter term. Quarterly the Investment Committee reviews the asset allocation of the portfolio and the individual managers’ performance. 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 programs will not be eroded and that the endowment funds grow in perpetuity. This objective is accomplished by a well-diversified portfolio and a conservative spending policy.