



Princeton, Harvard Lead Bond Sales as Endowments Fall (Update1)



Jan. 14 (Bloomberg) -- Princeton and Harvard are leading U.S. colleges and universities in a new wave of bond sales after market losses cut the value of endowments by a quarter in the past six months, according to Moody's Investors Service.

Princeton University sold \$1 billion of debt yesterday, its first taxable issue since 1994, while University of Notre Dame in South Bend, Indiana, raised \$150 million. A sale last month by Harvard University, whose \$28.8 billion endowment makes it the richest U.S. school, brought in \$1.5 billion. Cornell University is considering borrowing after the endowment lost 27 percent in the second half of last year.

The global financial crisis erased \$29 trillion from world stock markets in 2008, forcing schools to raise cash as endowment income declines. Bond proceeds can be used to fund operations and may allow the institutions to hold onto investments such as private equity and real estate that they expect to recover in value over time. Yale University in New Haven, Connecticut, has doubled the size of its taxable commercial paper program to \$2 billion and may use the funds for working capital.

"They're looking at ways to build liquidity and flexibility for their organizations in a much more uncertain environment than we were in a year ago," said **Roger Goodman**, an analyst who covers higher education and nonprofits at Moody's, the New York-based credit-ratings firm. "It's a significant shift."

More colleges may sell bonds because it's cheaper than borrowing from banks and there is demand from investors, said **Laurence Allen**, the Greenwich, Connecticut-based managing member of NYPPEX Holdings LLC, a firm that trades stakes in private- equity funds and often works with endowments.

Safe Credit

"Ask yourself what are the chances that Harvard or Princeton would default," said Allen. "They have numerous repayment sources, starting from tuition to donor giving, to asset sales to income from the portfolio."

The average college endowment has lost 25 percent to 30 percent since June 30, the end of most schools' fiscal year, according to **John Walda**, chief executive officer of the National Association of College and University Business Officers in Washington. The **Standard & Poor's 500 Index** has tumbled 31 percent, including dividends.

Harvard's sale of taxable bonds on Dec. 5 was used to repay commercial paper, according to Standard & Poor's, which rates the university's debt AAA, the highest. It was split equally among 5 percent notes due in 2014, 6 percent debt due in 2019 and 6.5 percent bonds due in 2039.

Harvard, in Cambridge, Massachusetts, said on Dec. 2 that its endowment had fallen 22 percent to \$28.8 billion in the first four months of fiscal 2009.

Princeton's bond sale was split evenly between 10-year 4.95 percent notes and 30-year 5.7 percent bonds, according to data compiled by Bloomberg. The school's debt is AAA rated.

'Reduce Uncertainty'

Princeton's endowment fell 11 percent from June 30 to Oct. 31 and "may be down as much as 25 percent" by the end

of the fiscal year, President **Shirley Tilghman** said in a Jan. 8 letter to students, faculty and alumni.

The university, in Princeton, New Jersey, went to the bond market now to take advantage of lower yields because of investor demand and to “reduce our uncertainty” in case the endowment continues to decline, Treasurer **Carolyn Ainslie** said in an interview yesterday.

“We wanted to make sure that if it does reach that minus 25 that we’re completely prepared and can continue to sustain our strategic priorities,” she said. “We want to make sure we don’t have to take draconian actions in terms of our operations.”

Cornell’s Options

Cornell, in Ithaca, New York, probably will cut its spending 5 percent next year, President **David Skorton** said yesterday in an interview in New York.

“We’re talking about borrowing,” Cornell’s Skorton said. “Everything is on the table,” including raising revenue by adding more students and increasing tuition.

The university’s endowment had \$5.9 billion in assets at June 30. The investment loss since then excludes returns on hard-to-sell assets like private equity and real estate, which account for a third of assets and have yet to be revalued, Skorton said.

“It’s really tough,” said **Kristin Gilbertson**, chief investment officer of the University of Pennsylvania, whose endowment fell 3.9 percent to \$6.2 billion in the year ended June 30. “It’s challenging times for all investors.”

The University of Pennsylvania, in Philadelphia, doesn’t plan to issue bonds, Gilbertson said. The endowment allocated 15 percent of its portfolio to fixed income, more than its long-term target of 10 percent, to provide itself with a liquidity buffer, Gilbertson said. The school hasn’t said how the fund has fared since the end of June.

“The whole purpose of keeping a decent-sized allocation to high-quality fixed income is for times like this to provide yourself with liquidity buffer so you don’t have to sell assets to buy new things,” she said.

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