

## Fiscal 2017 Endowment Report

### Introduction

For the 2017 fiscal year, equity markets had an outstanding year. The Russell 3000 Index returned 18.5 percent and the MSCI All-country World ex U.S. Index returned 20.4 percent, while the MSCI Emerging Markets Index returned 23.7 percent. Colby's endowment returned 12.2 percent and finished the year with a market value of \$775 million (net of annuities).

### Endowment Growth

During fiscal 2017, the endowment market value increased by \$64 million to \$775 million, a 9 percent increase. The total portfolio, including gift annuities, increased to \$790 million.

Figure 1 shows the endowment growth over the past 10 years. Since the beginning of fiscal 2008, the endowment has grown at a compound annual rate of increase of 2.6 percent during the past 10 years, which exceeds of the annualized inflation rate for the past 10 years of 1.6 percent.

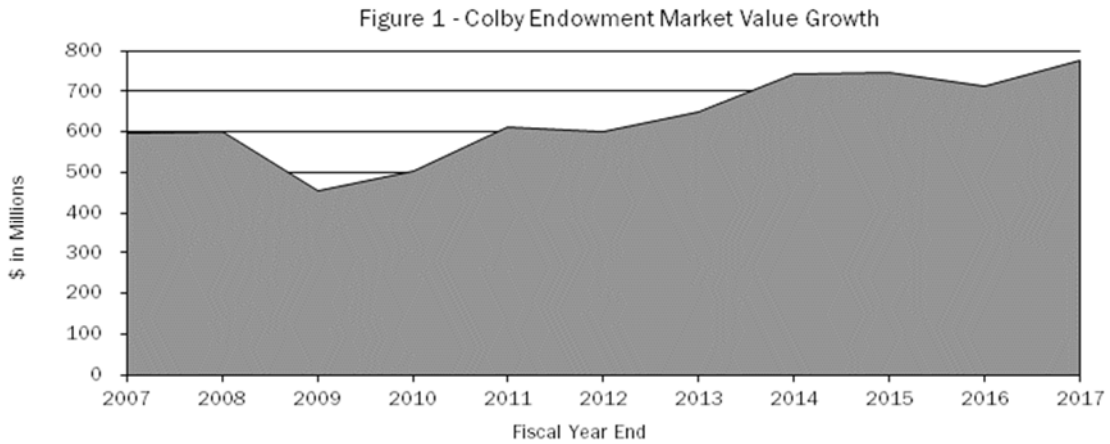


Figure 2 summarizes the sources of change in market value for the endowment for fiscal 2017 and for the last 10 years. Over the past 10 years, performance has more than offset spending and has contributed more than gifts and other additions to the increase in value. Nonetheless, new additions to the endowment from gifts and other additions continue to be an important source of endowment growth, as well as providing short-term liquidity to help fund spending.

**Figure 2 - Colby Sources of Endowment Growth**

	Fiscal 2017 (\$000)	Cumulative 10-Yr Totals (\$000)
Beginning Market Value	710,659	598,729
Gifts and Matured Annuities	18,504	114,350
Other Additions	3,323	30,181
Investment Performance Net of Fees	83,596	327,638
Spending	(39,684)	(278,767)
Other Deductions	(1,269)	(17,002)
Ending Market Value	<u>775,129</u>	<u>775,129</u>

## Asset Allocation

Figure 3 shows a comparison of the asset allocation of the portfolio at the beginning and end of fiscal 2017.

**Figure 3 - Colby Comparative Endowment Asset Allocation**

	Actual June 30, 2016 <u>Allocation</u>	Actual June 30, 2017 <u>Allocation</u>	<u>Change</u>
Equities			
Marketable			
Domestic	15.6%	15.9%	0.3%
International Developed	7.3%	9.4%	2.1%
Emerging Markets	7.2%	7.7%	0.5%
Marketable Real Assets	3.8%	3.0%	(0.8%)
Total Marketable Equities	<u>33.9%</u>	<u>36.0%</u>	<u>2.1%</u>
Non-Marketable			
Venture Capital	14.3%	13.4%	(0.9%)
Private Equity	7.8%	7.5%	(0.3%)
Real Estate	5.5%	3.3%	(2.2%)
Real Assets	2.3%	2.4%	0.1%
Total Non-Marketable Equities	<u>29.9%</u>	<u>26.6%</u>	<u>(3.3%)</u>
Total Equities	<u>63.8%</u>	<u>62.6%</u>	<u>(1.2%)</u>
Hedge Funds	22.9%	23.5%	0.6%
Cash and Bonds			
Cash and Receivables	9.0%	10.0%	1.0%
Intermediate Treasuries	4.3%	3.9%	(0.4%)
Intermediate TIPS			0.0%
Total Cash and Bonds	<u>13.3%</u>	<u>13.9%</u>	<u>0.6%</u>
Total Investments	<u>100.0%</u>	<u>100.0%</u>	<u>0.0%</u>

The portfolio featured a slight overweight to equities and cash and an underweight to hedge funds at fiscal year-end 2017 when compared to the policy allocation. The investment office has continued to remain patient and be highly selective in funding investment managers, particularly in the long/short equity hedge fund strategy. As a result the endowment is still underweight in the hedge fund category by roughly \$30 million. In order to maintain the proper level of portfolio exposure, the investment office will offset the underweight in long/short equity hedge funds with a corresponding overweight of 50 percent equities and 50 percent cash and bonds.

The investment office continues to monitor liquidity and new non-marketable commitments. As of June 30, 2017, the outstanding commitments to non-marketable partnerships stood at 7 percent of the portfolio.

As shown in Figure 4, the total of the illiquid non-marketable equity investments is lower than the total of their long-term targets. The investment office is aware of the near-term fluctuations in exposures and anticipates making annual adjustments to the short-term targets as the portfolio slowly moves toward its long-term targets.

**Figure 4 - Asset Allocation Targets**

	Actual Allocation 6/30/2017	Short-term Target Allocation	Long-term Target Allocation
Equities			
Marketable			
Domestic	15.9%	12.0%	13.0%
International Developed	9.4%	11.0%	11.0%
Emerging Markets	7.7%	7.0%	6.0%
Marketable Real Estate			2.5%
Marketable Real Assets	3.0%	3.0%	2.5%
Total Marketable Equities	<u>36.0%</u>	<u>33.0%</u>	<u>35.0%</u>
Non-Marketable			
Venture Capital	13.4%	14.0%	9.0%
Private Equity	7.5%	7.0%	12.0%
Real Estate	3.3%	5.0%	4.5%
Real Assets	2.4%	3.0%	4.5%
Total Non-Marketable Equities	<u>26.6%</u>	<u>29.0%</u>	<u>30.0%</u>
Total Equities	<u>62.6%</u>	<u>62.0%</u>	<u>65.0%</u>
Hedge Funds	23.5%	28.0%	25.0%
Cash and Bonds			
Cash and Receivables	10.0%	6.0%	2.0%
Intermediate Treasuries	3.9%	4.0%	5.0%
Intermediate TIPS			3.0%
Total Cash and Bonds	<u>13.9%</u>	<u>10.0%</u>	<u>10.0%</u>
Total Investments	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Figure 5 shows the changes in June 30 asset allocation over the past 10 years. During the 10 year period, the College has decreased its equity and bond allocations, while adding slightly to the hedge fund allocation.

**Figure 5 - Ten-Year Comparative Asset Allocation**

	Fiscal Year		
	2007	2012	2017
Equities			
Marketable			
Domestic	14.8%	8.0%	15.9%
International Developed	17.1%	5.6%	9.4%
Emerging Markets	5.6%	9.3%	7.7%
Marketable Real Assets	2.6%	2.6%	3.0%
Total Marketable Equities	<u>40.1%</u>	<u>25.5%</u>	<u>36.0%</u>
Non-Marketable			
Venture Capital	8.0%	14.7%	13.4%
Private Equity	10.5%	9.3%	7.5%
Real Estate	6.3%	8.1%	3.3%
Real Assets	0.5%	2.6%	2.4%
Total Non-Marketable Equities	<u>25.3%</u>	<u>34.7%</u>	<u>26.6%</u>
Total Equities	<u>65.4%</u>	<u>60.2%</u>	<u>62.6%</u>
Hedge Funds	19.6%	27.0%	23.5%
Cash and Bonds			
Cash and Receivables	8.5%	9.5%	10.0%
Intermediate Treasuries	4.6%	3.3%	3.9%
Intermediate TIPS	1.9%		
Total Cash and Bonds	<u>15.0%</u>	<u>12.8%</u>	<u>13.9%</u>
Total Investments	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

At June 30, 2017 the portfolio contained commitments to 163 different investment vehicles, representing 83 investment products and 65 investment managers.

### **Annual Performance**

The endowment slightly underperformed its preliminary composite benchmark for fiscal 2017 by .2 percent (12.2 percent vs. 12.4 percent). The following is a summary of major drivers of performance for fiscal 2017.

Passive Returns - the returns of the policy portfolio benchmarks:

- Marketable equities benchmarks combined to generate an excellent return of 17.9 percent for the fiscal year.
- Non-Marketable equities benchmarks combined to generate a lower relative return of 9.8 percent when compared to marketable equities.
- Hedge Fund benchmarks combined to generate an absolute return of 13.5 percent.

Active Returns - the returns of our portfolios against their portfolio benchmarks:

- The marketable equities portfolio exceeded its policy benchmark by 1.1 percent for the fiscal year. For the one-year period eight of 12 managers exceeded their policy benchmarks.
- The non-marketable equities portfolio performed at its policy benchmark. The portfolio's performance was generated by outperformance for the venture capital and real estate portfolios and offsetting underperformance in the private equity and natural resources portfolios.
- The hedge fund portfolio generated a return of 12.0 percent which underperformed its policy benchmark by 1.5 percent. For the one-year period, three of nine managers underperformed their policy benchmarks which accounted for the underperformance. On a medium to long term, our hedge fund portfolio has added value above the policy benchmark.

Figure 6 shows the endowment performance for one, five and 10 year periods compared to the composite benchmark and a global 70/30 portfolio. Colby has outperformed the policy benchmark for the five and 10 year periods primarily through excellent manager selection. Colby's equity allocation features exposures that are more diverse in geography and industry than the global 70/30 portfolio.

**Figure 6 - Endowment Performance**

	<u>Colby</u>	<u>Colby Composite Benchmark</u>	<u>Global 70%/30% Portfolio*</u>
One-Year Return	12.2%	12.4%	11.2%
Five-Year Compound Annual Return	8.3%	6.9%	7.3%
Ten-Year Compound Annual Return	5.3%	3.4%	3.9%

\* 70% MSCI ACWI Index and 30% Bloomberg Barclays Global Treasury Bond Index

### **Spending**

The goal of a spending formula is to produce a stable flow of revenue for operations, while maintaining at a minimum the purchasing power of the principal of endowment. Colby's spending formula defines spending as a percentage of a five-year moving average of June 30 market values with adjustment for additions received in subsequent years. The use of a five-year moving average in the formula has produced a stable flow of revenue for operations.

As shown in Figure 7, the endowment spending has grown at a compound annual rate of 7.8 percent over the past 10 years, assisted by an increase in the formula spending rate from 4.5 percent to 5.5 percent over the period. During this period, the spending rate was adjusted to provide additional support for key initiatives, including new facilities, financial aid, and faculty growth. The growth rate for spending has exceeded the rates for budgeted total operating revenue (4.5 percent) and student charges (3.8 percent). Over the past 10 years, the budgeted endowment income as a percentage of total budgeted operating revenue has increased from 15.7 percent to 19.9 percent.

**Figure 7 - Comparative Compound Annual Growth Rates**

	<u>Ten-Year CAGR</u>
Endowment Spending	7.8%
Budgeted Total Operating Revenue	4.5%
Student Charges	3.8%
Budgeted Endowment Income as a % of Total Operating Revenue	3.0%

The spending rate for fiscal 2017 was 5.5 percent of the adjusted five-year moving average market value of the endowment.

### **Organization**

The Investment Office includes three authorized full-time positions. The non-investment manager operating costs assigned to the endowment (salaries, travel, office expenses, legal review of partnerships, consulting, custody, UBTI taxes on partnerships, and audit) amounted to approximately 16.8 basis points on average market value for fiscal year 2017.

### **Socially Responsible Investing**

Beginning in October 2006, the Board of Trustees instituted investment policies related to direct investments in companies doing business in Sudan. The College maintains a no-purchase list that is provided to the College's managers.

As an expansion of its socially responsible investing policy, the College has begun providing a list of its direct-owned holdings (Appendix A).

Colby College  
Endowment Annual Report  
Direct Security Holdings as of June 30, 2017  
Appendix A

Security Name	Market Value	Security Name	Market Value
ADOBE SYSTEMS INC	1,357,824	HILLTOP HOLDINGS INC	345,238
ALEXION PHARMACEUTICALS INC	1,143,698	HOUGHTON MIFFLIN HARCOURT CO	115,817
ALIBABA GROUP HOLDING	1,881,015	HOULIHAN LOKEY INC	372,069
ALPHABET INC	2,150,861	ILLUMINA INC	806,868
AMAZON.COM INC	1,839,200	INCYTE CORP	893,961
AMERICAN HOMES 4 RENT	708,043	LENDINGCLUB CORP	198,911
ARMSTRONG FLOORING INC	132,403	LEUCADIA NATIONAL CORP	515,901
ARTHUR J GALLAGHER + CO	619,960	MAIN STREET CAPITAL CORP	541,940
ARTISAN PARTNERS ASSET MANAGEME	393,912	MARKETAXESS HOLDINGS INC	662,826
ASBURY AUTOMOTIVE GROUP	406,651	MONSTER BEVERAGE CORP	832,140
ATHENAHEALTH INC	474,356	NETFLIX INC	1,225,162
BAIDU INC	925,601	PALO ALTO NETWORKS INC	642,288
BIOGEN INC	515,584	PENNANTPARK INVESTMENT CORP	143,144
BIOMARIN PHARMACEUTICAL INC	699,314	PENSKE AUTOMOTIVE GROUP INC	635,466
BLACKPEARL RESOURCES INC	226,842	PRICELINE GROUP INC/THE	1,683,468
BOOZ ALLEN HAMILTON HOLDINGS	508,014	PRIMERICA INC	878,776
BROOKFIELD INFRASTRUCTURE PA	490,662	RE/MAX HOLDINGS INC	565,769
BROWN + BROWN INC	466,534	REGENERON PHARMACEUTICALS	1,141,901
CBIZ INC	558,555	SALESFORCE.COM INC	1,792,620
CHIPOTLE MEXICAN GRILL INC	488,918	SALLY BEAUTY HOLDINGS INC	384,203
COMPUTER MODELLING GROUP LTD	198,505	SCHWAB (CHARLES) CORP	906,456
COMPUTER PROGRAMS + SYSTEMS	299,825	SERVICENOW INC	964,600
COSTAR GROUP INC	322,910	SNAP INC	395,880
DECKERS OUTDOOR CORP	430,448	SPLUNK INC	716,814
DINEEQUITY INC	236,020	SS+C TECHNOLOGIES HOLDINGS	683,621
EDWARDS LIFESCIENCES CORP	733,088	STARBUCKS CORP	583,100
EQUIFAX INC	589,257	STARWOOD WAYPOINT HOMES	156,419
EXPEDIA INC	349,735	STRAYER EDUCATION INC	256,541
EXTENDED STAY AMERICA INC	208,197	TCP CAPITAL CORP	439,670
FACEBOOK INC	2,113,720	TEMPUR SEALY INTERNATIONAL	410,622
FEDERATED INVESTORS INC	321,796	UNDER ARMOUR INC	449,412
GARTNER INC	295,930	VISA INC CLASS A SHARES	2,372,634
GENERAC HOLDINGS INC	444,146	WADDELL + REED FINANCIAL A	116,074
GENTEX CORP	908,322	TREASURY SECURITIES	98,703,151
GRACO INC	420,291	CASH AND CASH EQUIVALENTS	12,587,849
HAMILTON LANE INC	2,199		
SUBTOTAL	<u>23,862,335</u>	SUBTOTAL	<u>134,121,312</u>
		TOTAL ALL DIRECT HOLDINGS	<u>157,983,647</u>