

## Fiscal 2019 Endowment Report

### Introduction

For the 2019 fiscal year, domestic equity markets had a solid year with the Russell 3000 Index returning 9.0 percent. International equities experienced a weak year and trailed the domestic equity markets with the MSCI All-country World ex U.S. Index returning 1.3 percent, and the MSCI Emerging Markets Index returning 1.2 percent. Colby's endowment returned 8.5 percent and finished the year with a market value of \$870 million (net of annuities).

### Endowment Growth

During fiscal 2019, the endowment market value increased by \$42 million to \$870 million, a 5 percent increase. The total portfolio, including gift annuities, increased to \$886 million.

Figure 1 shows the endowment growth over the past 10 years. Since the beginning of fiscal 2010 the endowment has grown at a compound annual rate of increase of 6.8 percent which exceeds the annualized inflation rate for the past 10 years of 1.7 percent. The endowment's annualized investment performance for the 10 year period was 9.8 percent.

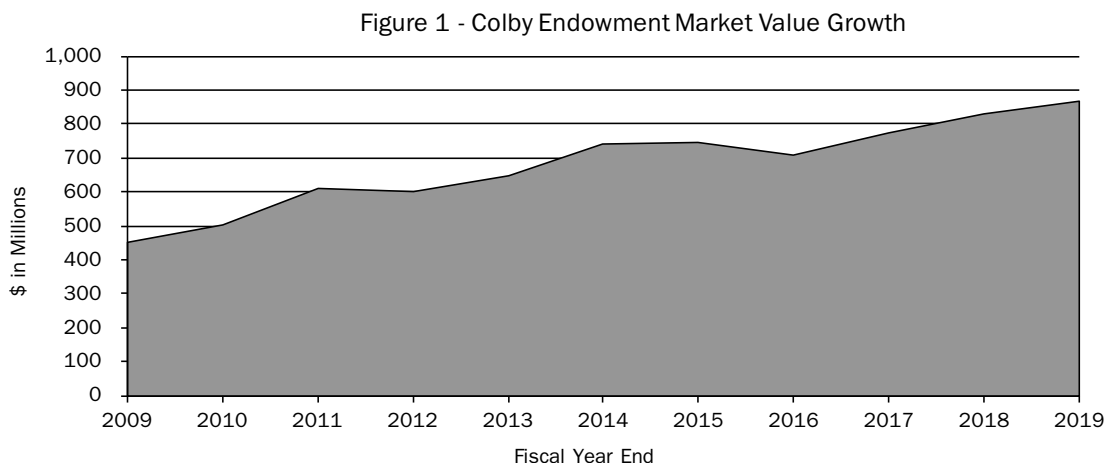


Figure 2 summarizes the sources of change in market value for the endowment for fiscal 2019 and for the last 10 years. Over the past 10 years, performance has more than offset spending and has contributed more than gifts and other additions to the increase in value. Nonetheless, new additions to the 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 2019 (\$000)	Cumulative 10-Yr Totals (\$000)
Beginning Market Value	828,013	452,990
Gifts and Matured Annuities	19,873	134,990
Other Additions	1,874	25,114
Investment Performance Net of Fees	67,310	598,850
Spending	(46,122)	(324,137)
Other Deductions	(1,021)	(17,880)
Ending Market Value	<u>869,927</u>	<u>869,927</u>

**Asset Allocation**

Figure 3 shows a comparison of the asset allocation of the portfolio at the beginning and end of fiscal 2019.

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

	Actual June 30, 2018 <u>Allocation</u>	Actual June 30, 2019 <u>Allocation</u>	<u>Change</u>
Equities			
Marketable			
Domestic	11.9%	12.4%	0.5%
International Developed	10.6%	10.2%	(0.4%)
Emerging Markets	8.1%	7.4%	(0.7%)
Marketable Real Estate	2.5%	2.7%	0.2%
Marketable Natural Resources	3.4%	3.0%	(0.4%)
Total Marketable Equities	<u>36.5%</u>	<u>35.7%</u>	<u>(0.8%)</u>
Non-Marketable			
Venture Capital	14.7%	16.6%	1.9%
Private Equity	7.3%	9.2%	1.9%
Real Estate	2.4%	2.1%	(0.3%)
Natural Resources	2.7%	2.6%	(0.1%)
Total Non-Marketable Equities	<u>27.1%</u>	<u>30.5%</u>	<u>3.4%</u>
Total Equities	<u>63.6%</u>	<u>66.2%</u>	<u>2.6%</u>
Hedge Funds	25.9%	22.7%	(3.2%)
Cash and Bonds			
Cash and Receivables	7.0%	7.6%	0.6%
Intermediate Treasuries	3.5%	3.5%	0.0%
Intermediate TIPS	0.0%	0.0%	0.0%
Total Cash and Bonds	<u>10.5%</u>	<u>11.1%</u>	<u>0.6%</u>
Total Investments	<u>100.0%</u>	<u>100.0%</u>	<u>0.0%</u>



The investment office continues to monitor liquidity and new non-marketable commitments. As of June 30, 2019, the outstanding commitments to non-marketable partnerships stood at 10 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 <u>6/30/2019</u>	Short-term Target Allocation	Long-term Target Allocation
Equities			
Marketable			
Domestic	12.4%	12.0%	
International Developed	10.2%	10.5%	
Emerging Markets	7.4%	8.0%	
Marketable Real Estate	2.7%	3.0%	
Marketable Real Assets	3.0%	3.0%	
Total Marketable Equities	<u>35.7%</u>	<u>36.5%</u>	<u>30-35%</u>
Non-Marketable			
Venture Capital	16.6%	15.5%	
Private Equity	9.2%	8.0%	
Real Estate	2.1%	3.0%	
Real Assets	2.6%	3.0%	
Total Non-Marketable Equities	<u>30.5%</u>	<u>29.5%</u>	<u>35.0%</u>
Total Equities	<u>66.2%</u>	<u>66.0%</u>	<u>65-70%</u>
Hedge Funds	22.7%	24.0%	20-25%
Cash and Bonds			
Cash and Receivables	7.6%	6.0%	
Intermediate Treasuries	3.5%	4.0%	
Intermediate TIPS			
Total Cash and Bonds	<u>11.1%</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.

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

	Fiscal Year		
	2009	2014	2019
Equities			
Marketable			
Domestic	9.8%	9.5%	12.4%
International Developed	12.9%	7.9%	10.2%
Emerging Markets	5.0%	10.3%	7.4%
Marketable Real Estate	0.0%	0.0%	2.7%
Marketable Natural Resources	0.0%	3.7%	3.0%
Total Marketable Equities	<u>27.7%</u>	<u>31.4%</u>	<u>35.7%</u>
Non-Marketable			
Venture Capital	10.5%	12.3%	16.6%
Private Equity	10.6%	8.9%	9.2%
Real Estate	5.7%	7.1%	2.1%
Natural Resources	2.3%	2.4%	2.6%
Total Non-Marketable Equities	<u>29.1%</u>	<u>30.7%</u>	<u>30.5%</u>
Total Equities	<u>56.8%</u>	<u>62.1%</u>	<u>66.2%</u>
Hedge Funds	25.9%	24.9%	22.7%
Cash and Bonds			
Cash and Receivables	10.4%	9.6%	7.6%
Intermediate Treasuries	4.2%	3.4%	3.5%
Intermediate TIPS	2.7%		
Total Cash and Bonds	<u>17.3%</u>	<u>13.0%</u>	<u>11.1%</u>
Total Investments	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

At June 30, 2019 the portfolio contained commitments to 190 different investment vehicles, representing 102 investment products and 71 investment managers.

### Annual Performance

The endowment outperformed at its preliminary composite benchmark by 3.3 percent for fiscal 2019. The following is a summary of major drivers of performance for fiscal 2019.

Passive Returns - the returns of the policy portfolio benchmarks:

- Marketable equities benchmarks (not including real estate and natural resources) combined to generate a return of 4.3 percent for the fiscal year.
- Non-Marketable equities benchmarks (not including real estate and natural resources) combined to generate a higher relative return of 14.3 percent when compared to marketable equities.
- Real estate and natural resource equities benchmarks combined to contribute a return of 1.2 percent.
- Hedge fund and credit benchmarks combined to generate a return of 0.4 percent.



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

- The marketable equities portfolio trailed its policy benchmark by 1.9 percent for the fiscal year. For the one-year period only four of nine managers exceeded their policy benchmarks.
- The non-marketable equities generated a return of 31.5 percent which was well in excess of its policy benchmarks of 14.3 percent for the year. All of the non-marketable sub-asset classes outperformed their benchmarks.
- Real estate and natural resource equities underperformed their benchmark with a -6.1 percent return which was 7.2 percent below the benchmark. Poor performance in the marketable natural resource equity portfolio for the year was to blame.
- The hedge fund portfolio generated a return of 4.5 percent which outperformed its policy benchmark by 4.1 percent. For the one-year period, seven of ten managers outperformed their policy benchmarks.

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 all 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	8.5%	5.3%	6.0%
Five-Year Compound Annual Return	6.6%	5.3%	4.7%
Ten-Year Compound Annual Return	9.8%	7.4%	7.9%

\* 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, endowment spending has grown at a compound annual rate of 7 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 financial aid, faculty growth, facilities and other key initiatives. The growth rate for spending has exceeded the rates for budgeted total operating revenue (4.8 percent) and student charges (3.6 percent). Over the past 10 years, the budgeted endowment income as a percentage of total budgeted operating revenue has increased from 16.4 percent to 21.5 percent.



### Figure 7 - Comparative Compound Annual Growth Rates

	<u>Ten-Year CAGR</u>
Endowment Spending	7.0%
Budgeted Total Operating Revenue	4.8%
Student Charges	3.6%

The spending rate for fiscal 2019 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 2019.

#### 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, 2019  
 Appendix A

Security Name	Market Value
BIOMARIN PHARMACEUTICAL INC	292,020
BOOKING HOLDINGS INC	577,721
REGENERON PHARMACEUTICALS	319,116
ALEXION PHARMACEUTICALS INC	297,960
COSTAR GROUP INC	448,529
EDWARDS LIFESCIENCES CORP	436,710
SCHWAB (CHARLES) CORP	429,240
ADOBE INC	828,954
STARBUCKS CORP	195,400
ILLUMINA INC	516,687
ALIGN TECHNOLOGY INC	523,474
NETFLIX INC	1,158,633
SALESFORCE.COM INC	954,800
VISA INC CLASS A SHARES	1,205,295
ACTIVISION BLIZZARD INC	318,636
SPLUNK INC	396,440
FACEBOOK INC CLASS A	786,996
SERVICENOW INC	914,091
PALO ALTO NETWORKS INC	539,359
WORKDAY INC CLASS A	218,016
LOXO ONCOLOGY INC	256,577
ALIBABA GROUP HOLDING SP ADR	1,150,286
MONSTER BEVERAGE CORP	508,079
ALPHABET INC CL C	128,300
ALPHABET INC CL A	841,247
FLOOR + DECOR HOLDINGS INC A	177,588
AMAZON.COM INC	1,495,824
PPDAI GROUP	66,490
SLACK TECHNOLOGIES INC	1,357,950
SUNRUN INC	62,846
MONGODB INC	465,700
DROPBOX INC	237,524
TREASURY SECURITIES	93,491,556
CASH AND CASH EQUIVALENTS	8,840,934
TOTAL DIRECT HOLDINGS	120,438,976