

Fiscal 2020 Endowment Report

Introduction

For the 2020 fiscal year Colby's endowment returned 3.8 percent and finished the year with a market value of \$878 million (net of annuities). Domestic equity markets had a solid year with the Russell 3000 Index returning 6.5 percent. International equities experienced a moderately weaker year and trailed the domestic equity markets with the MSCI All-country World ex U.S. Index returning (4.8) percent, and the MSCI Emerging Markets Index returning (3.4) percent.

Endowment Growth

During fiscal year 2020, the endowment market value increased by \$8 million to \$878 million, a one percent increase. The total portfolio, including gift annuities, increased to \$895 million.

Figure 1 shows the endowment growth over the past 10 years. Since the beginning of fiscal year 2011 the endowment has grown at a compound annual rate of increase of 5.8 percent reflecting return, gifts and spending. The endowment's annualized investment performance for the 10 year period was 8.8 percent or 7.1 percent real.

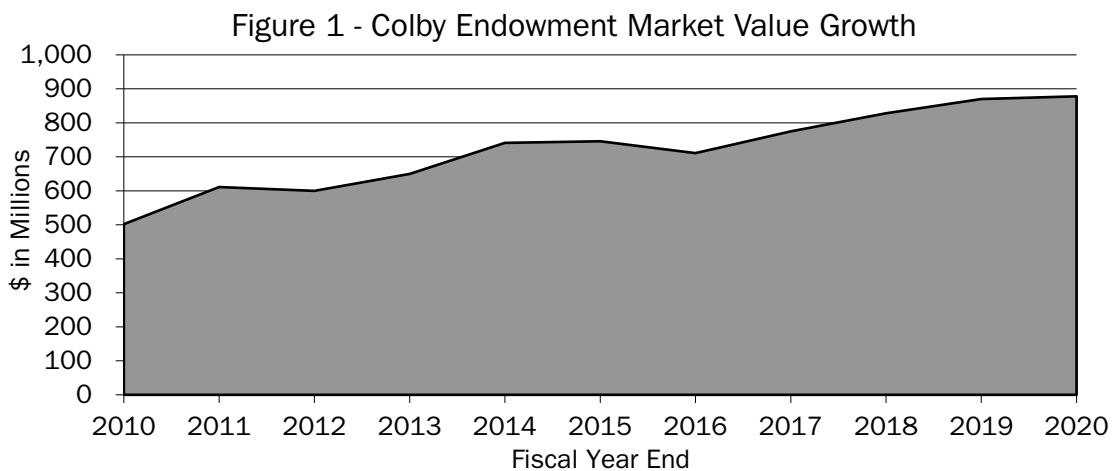


Figure 2 summarizes the sources of change in market value for the endowment for fiscal year 2020 and for the last 10 years. Over the past 10 years, performance has more than offset spending and has contributed more than gifts and other additions to the increase in value. Nonetheless, new additions to the endowment from gifts continue to be an important source of endowment growth, as well as providing short-term liquidity to help fund new investments.

Figure 2 - Colby Sources of Endowment Growth

| | Fiscal 2020 (\$000) | Cumulative 10-Yr Totals (\$000) |
|------------------------------------|---------------------------|---------------------------------------|
| Beginning Market Value | 869,927 | 502,076 |
| Gifts and Matured Annuities | 24,080 | 150,491 |
| Other Additions | 1,716 | 22,988 |
| Investment Performance Net of Fees | 29,777 | 567,376 |
| Spending | (46,292) | (346,498) |
| Other Deductions | (885) | (18,110) |
| Ending Market Value | <u>878,323</u> | <u>878,323</u> |

Market Conditions

While the endowment produced a moderate return for the fiscal year, the market's path during the period was rather tumultuous. The first half of the fiscal year delivered a strong return through December 31. Then in the first quarter of 2020, as market participants recognized the severity of COVID-19's impact on the global economy, equity and credit markets experienced a significant drawdown beginning on February 20 with U.S. equities declining by 33.9 percent from their all-time highs to a bottom on March 23rd. Aided by monetary and fiscal support in the U.S. and abroad, this decline was followed by one of the market's quickest recoveries with U.S. equities recovering losses in just over a month. The market continued its strong recovery through the end of the fiscal year with a gain of 38.8 percent from the bottom. Colby's endowment value fell 22 percent from its peak to bottom, but also benefited from the sharp recovery in equity and credit markets regaining all of these losses and finishing the fiscal year with a positive return.

Asset Allocation

Figure 3 shows a comparison of the asset allocation of the portfolio at the beginning and end of fiscal year 2020.

Figure 3 - Colby Comparative Endowment Asset Allocation

| | Actual June 30, 2019 <u>Allocation</u> | Actual June 30, 2020 <u>Allocation</u> | <u>Change</u> |
|-------------------------------|--|--|---------------|
| Equities | | | |
| Marketable | | | |
| Domestic | 12.4% | 13.2% | 0.8% |
| International Developed | 10.2% | 9.9% | (0.3%) |
| Emerging Markets | 7.4% | 6.7% | (0.7%) |
| Marketable Real Estate | 2.7% | 1.8% | (0.9%) |
| Marketable Natural Resources | 3.0% | 2.9% | (0.1%) |
| Total Marketable Equities | <u>35.7%</u> | <u>34.5%</u> | <u>(1.2%)</u> |
| Non-Marketable | | | |
| Venture Capital | 16.6% | 18.1% | 1.5% |
| Private Equity | 9.2% | 9.6% | 0.4% |
| Real Estate | 2.1% | 2.5% | 0.4% |
| Natural Resources | 2.6% | 1.9% | (0.7%) |
| Total Non-Marketable Equities | <u>30.5%</u> | <u>32.1%</u> | <u>1.6%</u> |
| Total Equities | <u>66.2%</u> | <u>66.6%</u> | <u>0.4%</u> |
| Hedge Funds | 22.7% | 22.5% | (0.2%) |
| Cash and Bonds | | | |
| Cash and Receivables | 7.6% | 6.7% | (0.9%) |
| Intermediate Treasuries | 3.5% | 4.2% | 0.7% |
| Intermediate TIPS | 0.0% | 0.0% | 0.0% |
| Total Cash and Bonds | <u>11.1%</u> | <u>10.9%</u> | <u>(0.2%)</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, 2020, the outstanding commitments to non-marketable partnerships stood at nine 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>6/30/2020</u> | Short-term Target <u>Allocation</u> | Long-term Target <u>Allocation</u> |
|-------------------------------|--|---|--|
| Equities | | | |
| Marketable | | | |
| Domestic | 13.2% | 13.0% | |
| International Developed | 9.9% | 10.0% | |
| Emerging Markets | 6.7% | 7.0% | |
| Marketable Real Estate | 1.8% | 2.0% | |
| Marketable Natural Resources | 2.9% | 3.0% | |
| Total Marketable Equities | <u>34.5%</u> | <u>35.0%</u> | <u>30-35%</u> |
| Non-Marketable | | | |
| Venture Capital | 18.1% | 17.0% | |
| Private Equity | 9.6% | 10.0% | |
| Real Estate | 2.5% | 3.0% | |
| Natural Resources | 1.9% | 3.0% | |
| Total Non-Marketable Equities | <u>32.1%</u> | <u>33.0%</u> | <u>35.0%</u> |
| Total Equities | <u>66.6%</u> | <u>68.0%</u> | <u>65-70%</u> |
| Hedge Funds | 22.5% | 22.0% | 20-25% |
| Cash and Bonds | | | |
| Cash and Receivables | 6.7% | 6.0% | |
| Intermediate Treasuries | 4.2% | 4.0% | |
| Intermediate TIPS | | | |
| Total Cash and Bonds | <u>10.9%</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.

Figure 5 - Ten-Year Comparative Asset Allocation

| | Fiscal Year | | |
|-------------------------------|---------------|---------------|---------------|
| | 2010 | 2015 | 2020 |
| Equities | | | |
| Marketable | | | |
| Domestic | 9.3% | 11.4% | 13.2% |
| International Developed | 8.7% | 6.8% | 9.9% |
| Emerging Markets | 9.5% | 8.9% | 6.7% |
| Marketable Real Estate | 0.0% | 0.0% | 1.8% |
| Marketable Natural Resources | 1.8% | 3.3% | 2.9% |
| Total Marketable Equities | <u>29.3%</u> | <u>30.4%</u> | <u>34.5%</u> |
| Non-Marketable | | | |
| Venture Capital | 12.4% | 14.9% | 18.1% |
| Private Equity | 10.9% | 8.5% | 9.6% |
| Real Estate | 5.4% | 6.2% | 2.5% |
| Natural Resources | 2.6% | 2.1% | 1.9% |
| Total Non-Marketable Equities | <u>31.3%</u> | <u>31.7%</u> | <u>32.1%</u> |
| Total Equities | <u>60.6%</u> | <u>62.1%</u> | <u>66.6%</u> |
| Hedge Funds | 29.5% | 27.3% | 22.5% |
| Cash and Bonds | | | |
| Cash and Receivables | 3.5% | 6.6% | 6.7% |
| Intermediate Treasuries | 3.9% | 4.0% | 4.2% |
| Intermediate TIPS | 2.5% | | |
| Total Cash and Bonds | <u>9.9%</u> | <u>10.6%</u> | <u>10.9%</u> |
| Total Investments | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |

At June 30, 2020 the portfolio contained commitments to 195 different investment vehicles, representing 109 investment products and 74 investment managers.

Annual Performance

The endowment outperformed its preliminary composite benchmark by 1.7 percent for fiscal year 2020. The following is a summary of major drivers of performance for fiscal year 2020.

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 0.3 percent for the fiscal year.
- Non-Marketable equities benchmarks (not including real estate and natural resources) combined to generate a higher relative return of 12.9 percent when compared to marketable equities.
- Real estate and natural resources equities benchmarks combined to generate a loss of (13.0) percent.
- Hedge fund and credit benchmarks combined to generate a loss of (2.1) percent.

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

- The marketable equities portfolio performed at its benchmark for the fiscal year. For the one-year period five of nine managers exceeded their policy benchmarks.
- The non-marketable equities generated a return of 20.3 percent which was well in excess of its policy benchmarks of 12.9 percent for the year. All of the non-marketable sub-asset classes outperformed their benchmarks.
- Real estate and natural resources equities underperformed their benchmark with a (17.3) percent return which was 4.3 percent below the benchmark. Poor performance in the marketable natural resources equity portfolio was the principal reason for the underperformance.
- The hedge fund portfolio generated a return of 1.0 percent which outperformed its policy benchmark by 3.1 percent. For the one-year period, five of 11 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 | 3.8% | 2.1% | 3.1% |
| Five-Year Compound Annual Return | 6.5% | 5.2% | 5.8% |
| Ten-Year Compound Annual Return | 8.8% | 6.6% | 7.3% |

* 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 over time.

As shown in Figure 7, endowment spending has grown at a compound annual rate of 6.8 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, Colby adjusted the spending rate 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 (5.2 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 16.5 percent to 20.4 percent.

Figure 7 - Comparative Compound Annual Growth Rates

| | <u>Ten-Year CAGR</u> |
|----------------------------------|----------------------|
| Endowment Spending | 6.8% |
| Budgeted Total Operating Revenue | 5.2% |
| Student Charges | 3.6% |

The spending rate for fiscal year 2020 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 2020.

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 it provides 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).