

FISCAL 2020-21 ENDOWMENT REPORT

Introduction

For the 2021 fiscal year, Colby's endowment returned 46.5 percent and finished the year with a market value of \$1.26 billion (net of annuities). Global equity markets were strong across the board, with the MSCI All-Country World Index returning 39.3 percent. U.S. equity markets led the way with the Russell 3000 Index returning 44.2 percent. Developed international equities were also strong but trailed the domestic equity markets with the MSCI All-country World ex U.S. Index returning 35.7 percent, while emerging markets fell in between with the MSCI Emerging Markets Index returning 40.9 percent. While public market performance was strong, the real outliers in fiscal 2021 were U.S. venture capital and private equity, with early benchmarks tracking to 80%+ and 60%+ returns due to robust fundraising and IPO markets.

Endowment Growth

During fiscal year 2021, the endowment market value increased by \$379 million to \$1.26 billion, a 43 percent increase. The total portfolio, including gift annuities, increased to \$1.28 billion.

Figure 1 shows the endowment growth over the past 10 years. Since the beginning of fiscal year 2012, the endowment has grown at a compound annual rate of 7.5 percent reflecting return, gifts and spending. The endowment's annualized investment performance for the 10 year period was 10.6 percent or 8.7 percent real.

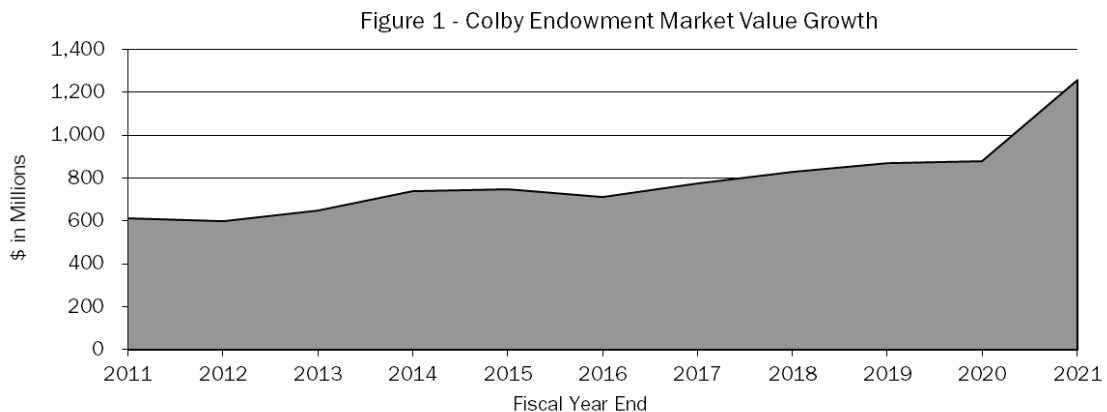


Figure 2 summarizes the sources of change in market value for the endowment for fiscal year 2021 and for the last 10 years. Over the past 10 years, performance has more than offset spending and has contributed more than gifts and other additions to the increase in value. Nonetheless, new additions to the endowment from gifts continue to be an important source of endowment growth and short-term liquidity as investment returns can be highly volatile from year to year.

Figure 2 - Colby Sources of Endowment Growth

	Fiscal 2021 (\$000)	Cumulative 10-Yr Totals (\$000)
Beginning Market Value	878,323	611,441
Gifts and Matured Annuities	26,256	161,481
Other Additions	1,169	20,718
Investment Performance Net of Fees	400,678	848,775
Spending	(47,807)	(370,654)
Other Deductions	(881)	(14,023)
Ending Market Value	<u>1,257,738</u>	<u>1,257,738</u>

Market Conditions

Global markets picked up where they left off at the end of fiscal 2020 with a strong rebound as economies began to open up again despite the arrival of new variants of COVID-19. Public markets surpassed pre-COVID levels on a steady march upward posting new market highs. Investors were rewarded for taking risk of almost any kind, as the Federal Reserve remained highly accommodative and the U.S. government pumped trillions of dollars into the economy.

While the equity markets have fully recovered and then some, the underlying economy has seen a very uneven rebound with significant disparities across sectors and geographies. Valuations are high; interest rates are low by all historical standards; and there is a glut of capital seeking new investment opportunities.

Market performance has become divorced from underlying company fundamentals. Increased retail trading and the “gamification” of the stock market resulted in the meme stock frenzy that had GameStop shares up 40x during fiscal 2021. The significant share of passive investment vehicles results in market movements driven more by fund flows into and out of the market than underlying earnings. Investors are parsing every statement from Federal Reserve officials to determine when they will begin to taper the bond buying program and raise interest rates. Debates among economists persist over whether the high level of inflation is temporary or permanent. And questions linger about the strength of the US dollar amid massive deficit spending and the need to shore up the social safety net.

We do not attempt to predict what markets might do in the short to intermediate term. Market risks are certainly elevated for the all of the aforementioned reasons which likely means that the increased volatility we have witnessed in the markets over the last five years is likely to persist and even go higher. The endowment is well-positioned to perform under a wide variety of market scenarios with investments across multiple asset classes, sectors, geographies, and market capitalizations that provide diversified sources of returns. In addition to diversifying sources of market risk and returns, our commitment to active management continues to generate excess returns that are diversifying to the total portfolio. These excess returns become a larger share of total returns during periods in which market returns are closer to long-run averages.

Asset Allocation

Figure 3 shows a comparison of the asset allocation of the portfolio at the beginning and end of fiscal year 2021.

Figure 3 - Colby Comparative Endowment Asset Allocation

	Actual June 30, 2020 <u>Allocation</u>	Actual June 30, 2021 <u>Allocation</u>	<u>Change</u>
Equities			
Marketable			
Domestic	13.2%	11.3%	(1.9%)
International Developed	9.9%	7.9%	(2.0%)
Emerging Markets	6.7%	5.2%	(1.5%)
Marketable Real Estate	1.8%	2.0%	0.2%
Marketable Natural Resources	<u>2.9%</u>	<u>2.4%</u>	<u>(0.5%)</u>
Total Marketable Equities	<u>34.5%</u>	<u>28.8%</u>	<u>(5.7%)</u>
Non-Marketable			
Venture Capital	18.1%	23.5%	5.4%
Private Equity	9.6%	13.1%	3.5%
Real Estate	2.5%	2.1%	(0.4%)
Natural Resources	<u>1.9%</u>	<u>1.9%</u>	<u>0.0%</u>
Total Non-Marketable Equities	<u>32.1%</u>	<u>40.6%</u>	<u>8.5%</u>
Total Equities	<u>66.6%</u>	<u>69.4%</u>	<u>2.8%</u>
Hedge Funds	22.5%	17.7%	(4.8%)
Cash and Equivalents			
Cash and Receivables	6.7%	10.0%	3.3%
US Government Bonds	<u>4.2%</u>	<u>2.9%</u>	<u>(1.3%)</u>
Total Cash and Equivalents	<u>10.9%</u>	<u>12.9%</u>	<u>2.0%</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, 2021, 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 now higher than the current long-term target due to significant mark-ups in the portfolio during the year. As these investments cannot be rebalanced, we have reduced equity exposure in marketable equities and hedge funds to balance the equity risk across the portfolio. Of particular note is the fact that more than one-third of the total venture capital exposure represents publicly traded stocks being held by venture capital managers. We expect to receive significant distributions from our venture capital managers over the next several years. The investment office will continue to make annual adjustments to the short-term targets as the portfolio slowly moves back toward its long-term targets.

Figure 4 - Asset Allocation Targets

	Actual Allocation <u>6/30/2021</u>	FY 2021 Short-term Target Allocation	Current Long-term Target Allocation
Equities			
Marketable			
Domestic	11.3%	14.0%	
International Developed	7.9%	10.0%	
Developed Equities			
Emerging Markets	5.2%	7.0%	
Marketable Real Estate	2.0%	2.0%	
Marketable Natural Resources	2.4%	2.5%	
Total Marketable Equities	<u>28.8%</u>	<u>35.5%</u>	<u>30-35%</u>
Non-Marketable			
Venture Capital	23.5%	17.0%	
Private Equity	13.1%	10.0%	
Real Estate	2.1%	3.0%	
Natural Resources	1.9%	2.5%	
Total Non-Marketable Equities	<u>40.6%</u>	<u>32.5%</u>	<u>35.0%</u>
Total Equities	<u>69.4%</u>	<u>68.0%</u>	<u>65-70%</u>
Hedge Funds	17.7%	22.0%	20-25%
Cash and Equivalents			
Cash and Receivables	10.0%	6.0%	
US Government Bonds	2.9%	4.0%	
Total Cash and Equivalents	<u>12.9%</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		
	2011	2016	2021
Equities			
Marketable			
Domestic	7.9%	13.3%	11.3%
International Developed	8.1%	7.3%	7.9%
Emerging Markets	9.1%	7.2%	5.2%
Marketable Real Estate		0.0%	2.0%
Marketable Natural Resources	2.9%	3.8%	2.4%
Total Marketable Equities	28.0%	31.6%	28.8%
Non-Marketable			
Venture Capital	15.5%	14.3%	23.5%
Private Equity	9.5%	7.8%	13.1%
Real Estate	6.8%	5.5%	2.1%
Natural Resources	2.5%	2.3%	1.9%
Total Non-Marketable Equities	34.3%	29.9%	40.6%
Total Equities	62.3%	61.5%	69.4%
Hedge Funds	26.8%	27.6%	17.7%
Cash and Equivalents			
Cash and Receivables	7.7%	6.6%	10.0%
US Government Bonds	3.2%	4.3%	2.9%
Total Cash and Equivalents	10.9%	10.9%	12.9%
Total Investments	100.0%	100.0%	100.0%

At June 30, 2021 the portfolio contained commitments to 203 different investment vehicles across 69 active investment managers and 6 passive index funds.

Annual Performance

The endowment outperformed its preliminary composite benchmark by 7.0 percent for fiscal year 2021. The detailed performance by asset class is attached as Appendix A. The following is a summary of major drivers of performance for fiscal year 2021.

- Public equity markets were strong across the board with developed and emerging market indices ranging from 35-45 percent

- U.S. private equity and venture capital preliminary benchmarks were even stronger at 61.3 percent and 92.1 percent, respectively
- The portfolio’s developed public equities fell modestly short of its benchmarks for the year, while emerging market managers generated a 7.1 percent higher return than the benchmark
- Strong manager selection in U.S. private equity and venture capital drove the outperformance at the total portfolio level relative to benchmarks
 - U.S. private equity managers outperformed their preliminary benchmark by 36.1 percent
 - U.S. venture capital managers outperformed their preliminary benchmark by 63.2 percent driven by a handful of unicorn companies that completed IPOs during the year or raised funding at significantly higher valuations
- Private real estate underperformed the benchmark by 13.1 percent as the value-added strategy being pursued by the majority of the managers means that the underlying properties take longer to stabilize and will lag in a rising market
- Private natural resources outperformed the benchmark by 14.9 percent as investments were more levered to the rise in global commodity prices
- Hedge funds significantly underperformed their benchmarks as the individual managers had less equity exposure than the benchmark and single name short books significantly underperformed broader index shorts during the period

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 in the private portfolio.

Figure 6 - Endowment Performance

	<u>Colby</u>	<u>Colby Composite Benchmark</u>	<u>Global 70%/30% Portfolio*</u>
One-Year Return	46.5%	39.5%	26.9%
Five-Year Compound Annual Return	15.4%	13.1%	10.8%
Ten-Year Compound Annual Return	10.6%	8.4%	7.5%

* 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 7.3 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 rate for budgeted total operating revenue (5.2 percent). Over the past 10 years, the budgeted endowment income as a percentage of total budgeted operating revenue has increased from 17.0 percent to 19.6 percent.

Figure 7 - Comparative Compound Annual Growth Rates

	<u>Ten-Year CAGR</u>
Endowment Spending	7.3%
Budgeted Total Operating Revenue	5.2%

The spending rate for fiscal year 2021 was 5.5 percent of the adjusted five-year moving average market value of the endowment.

Capital distributions from private investment managers in fiscal year 2021 exceed capital calls by \$15.8 million. The monthly cash burn rate for the endowment adjusted for net calls/distributions by private investment managers and including Investment Office expenses was \$2.77 million.

Organization

The Investment Office includes five 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 13.7 basis points on average market value for fiscal year 2021.

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 B).

Colby College
Endowment Annual Report
Preliminary Investment Performance Report for the Period Ending June 30, 2021
Appendix A

	<u>One Year</u>	<u>Three Year Compound Annual</u>	<u>Five Year Compound Annual</u>	<u>Seven Year Compound Annual</u>	<u>Ten Year Compound Annual</u>
Equities					
Marketable Equities					
Domestic	44.0%	19.3%	19.1%	14.0%	14.9%
Benchmark-Russell 3000	44.2%	18.7%	17.9%	14.0%	14.7%
International Developed	34.6%	7.2%	10.2%	6.1%	7.3%
Benchmark-MSCI All-Country World ex U.S.	35.7%	9.4%	11.1%	5.3%	5.5%
Emerging Markets	48.0%	11.1%	12.2%	6.5%	4.9%
Benchmark-MSCI Emerging Markets	40.9%	11.3%	13.0%	6.4%	4.3%
Illiquid Equities					
Venture Capital	155.3%	52.1%	34.0%	28.5%	25.9%
Benchmark-CA U.S. Venture Capital Custom ²	92.1%	34.1%	24.2%	19.6%	17.4%
Emerging Markets Private Equity	54.1%	42.0%	33.0%	26.9%	25.2%
Benchmark-CA Asia Pacific Emerging Markets ²	38.6%	23.3%	19.8%	17.4%	14.9%
Private Equity	97.4%	46.3%	34.4%	26.6%	22.9%
Benchmark-CA U.S. Private Equity ²	61.3%	26.0%	22.5%	17.6%	16.7%
Real Estate Equities					
Marketable Real Estate	33.9%	6.1%	NA	N/A	N/A
Benchmark-Dow Jones US Select REIT	40.0%	8.1%	5.2%	7.5%	8.7%
Private Real Estate	20.4%	8.9%	10.6%	10.6%	11.3%
Benchmark-CA Custom Weighted Real Estate ²	33.5%	10.9%	9.6%	9.9%	10.0%
Natural Resource Equities					
Marketable Natural Resources	60.9%	-4.2%	-1.5%	-9.1%	-6.5%
Benchmark Composite ¹	47.3%	2.0%	6.5%	-0.1%	0.7%
Private Natural Resources	35.0%	-4.2%	1.0%	-1.5%	1.3%
Benchmark-CA Custom Weighted Natural Resources ²	20.1%	-1.5%	3.3%	-0.8%	1.8%
Hedge Funds					
Long Short Equity Strategy	15.6%	10.7%	9.5%	6.0%	6.9%
Benchmark-HFRI Composite ³	36.5%	11.3%	10.8%	7.2%	6.5%
Distressed Credit Hedge Fund Strategy	20.6%	6.0%	6.9%	4.4%	5.3%
Benchmark-HFRI Composite ³	32.3%	8.0%	8.9%	4.5%	5.5%
Long Credit Strategy	15.0%	N/A	N/A	N/A	N/A
Benchmark-50% CS Levered Loan, 50% ICE BofAML US HY Master II	13.7%	N/A	N/A	N/A	N/A
Cash and Bonds					
Cash Equivalents	0.0%	1.3%	1.1%	0.9%	0.6%
Benchmark-90 Day Treasury Bill	0.1%	1.3%	1.2%	0.9%	0.6%
Intermediate Treasuries	-1.3%	3.9%	1.9%	2.1%	2.1%
Benchmark-BC Intermediate Treasury Bond	-1.2%	4.0%	1.9%	2.2%	2.2%
Total Investments					
Composite Benchmark ²	46.5%	18.2%	15.4%	11.1%	10.6%
	39.5%	14.3%	13.1%	9.1%	8.4%

¹ Bloomberg Commodity Index through October 2017, then 50% S&P NA NR and 50% S&P Global NR.

² Non-Marketable benchmarks are preliminary.

³ HFRI FOF through October 2013, then 50% HFRI Equity Hedge and 50% HFRI ED Distressed Restructuring indices.

Note: Colby returns in blue meet or exceed benchmark returns. Colby returns in red are below benchmark returns.

Appendix B
Colby College
Endowment Annual Report
Direct Security Holdings as of June 30, 2021

Security Name	Market Value
SEA LTD ADR	3,586,276.00
NETFLIX INC	2,277,641.52
VISA INC CLASS A SHARES	2,155,820.40
SQUARE INC A	2,125,448.40
SERVICENOW INC	1,797,028.50
TWILIO INC A	1,544,318.88
UBER TECHNOLOGIES INC	1,473,778.60
FACEBOOK INC CLASS A	1,420,395.35
AMAZON.COM INC	1,338,222.24
MATCH GROUP INC	1,319,347.50
INTUIT INC	1,306,303.05
ALIGN TECHNOLOGY INC	1,142,570.00
SS INST TREAS PLUS MM FUND TPL	1,112,787.15
CHARTER COMMUNICATIONS INC A	907,584.10
COSTAR GROUP INC	787,618.20
ATLASSIAN CORP PLC CLASS A	758,250.72
SHOPIFY INC CLASS A	742,177.84
ZILLOW GROUP INC C	723,542.40
ZOETIS INC	702,949.92
FLOOR + DECOR HOLDINGS INC A	674,683.10
WARNER MUSIC GROUP CORP CL A	641,584.08
EDWARDS LIFESCIENCES CORP	593,456.10
SAREPTA THERAPEUTICS INC	570,456.12
DEXCOM INC	565,348.00
FIVERR INTERNATIONAL LTD	539,297.76
SNOWFLAKE INC CLASS A	538,730.40
AIRBNB INC CLASS A	527,261.02
DOORDASH INC A	516,978.67
CARVANA CO	495,890.26
COUPA SOFTWARE INC	418,851.78
GROCERY OUTLET HOLDING CORP	374,154.70
MEITUAN CLASS B	1,322,510.99
SS INST TREAS PLUS MM FUND TPL	853,986.00
UIPATH INC CLASS A	617,891.28
PINDUODUO INC ADR	384,616.56
TREASURY SECURITIES	36,942,580.69
CASH AND EQUIVALENTS	128,273,162.50
TOTAL DIRECT HOLDINGS	202,073,500.78