FISCAL 2021-22 ENDOWMENT REPORT

Introduction

For the 2022 fiscal year, Colby's endowment returned negative 9.2 percent and finished the year with a market value of $1.12 billion (net of annuities). Both global equity and global bond markets experience broad weakness, with the MSCI All-Country Index down 15.8 percent and the Barclays Global Treasury Index down 16.6 percent. U.S. equity markets were down less than both developed international and emerging markets, however, the largest drawdowns occurred among unprofitable, high growth, high multiple companies largely in technology and biotech with the S&P Technology Sector and S&P Biotechnology Select Indices down 26.9 percent and 45.1 percent, respectively. Private markets are traditionally slower to mark down assets relative to public markets, and the U.S. venture capital and private equity benchmarks posted positive returns of +2.1 percent and +7.3 percent, respectively. Significant differences in how private fund managers mark assets is driving massive dispersion in fiscal year returns among endowments.

Endowment Growth

During fiscal year 2022, the endowment market value decreased by $142 million to $1.12 billion, an 11 percent decrease.

Figure 1 shows the endowment growth over the past 10 years. Since the beginning of fiscal year 2013, the endowment has grown at a compound annual rate of 6.4 percent reflecting investment returns, gifts, and spending. The endowment's annualized investment performance for the 10-year period was 9.4 percent or 6.7 percent real.

Figure 1 - Colby Endowment Market Value Growth

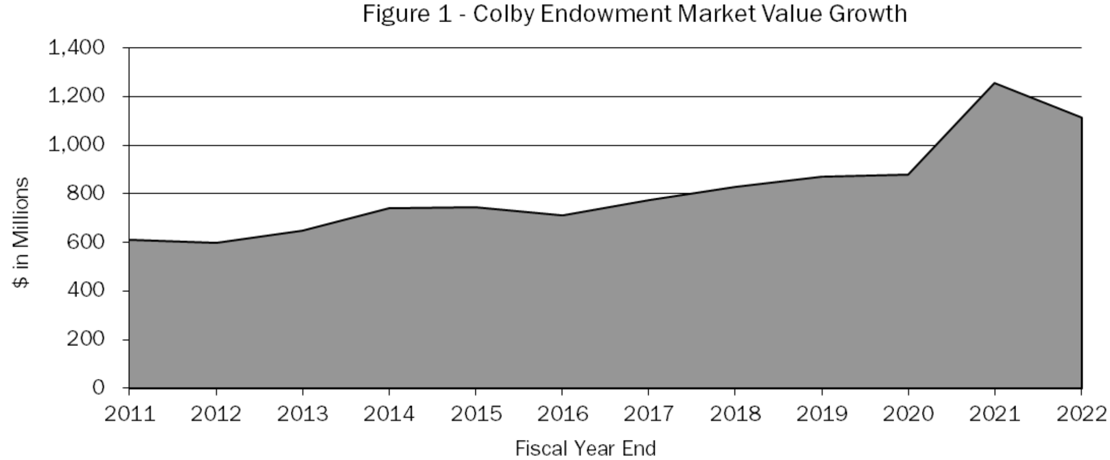

Figure 2 summarizes the sources of change in market value for the endowment for fiscal year 2022 and for the last 10 years. Over the past 10 years, performance has more than offset spending and has contributed more than gifts and other additions to the increase in value. Nonetheless, new additions to 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 2022 ($000)	Cumulative 10-Yr Totals ($000)
Beginning Market Value	1,257,738	599,557
Gifts and Matured Annuities	29,977	182,943
Other Additions	2,272	20,436
Investment Performance Net of Fees	(117,965)	726,032
Spending	(54,175)	(399,213)
Other Deductions	(2,202)	(14,110)
Ending Market Value	1,115,645	1,115,645

Market Conditions

Fiscal year 2022 was a tale of two halves. Global markets were relatively strong through December, but have declined substantially since January 2022. Inflation reached its highest level in forty years on the heels of supply chain bottlenecks from lingering COVID-19 lock-downs and the Russian invasion of the Ukraine. Highly accommodative monetary policy was replaced with quantitative tightening as the Federal Reserve raised policy interest rates three times from January to June, and expressed its intent to continue to raise rates until inflation eases. Most economists are now expecting the economy to enter a recession in 2023.

We entered fiscal 2022 with very high equity valuations and near all-time low interest rates. The rapid increase in interest rates has resulted in significant multiple deterioration in companies whose values were based substantially on far off future cash flows (i.e. currently unprofitable technology and biotechnology stocks). Volatility in public markets has resulted in a massive decline in the number of IPOs, and a significant slowdown in the number of private funding rounds. Venture capitalists are telling their portfolio companies to cut costs to slow their cash burn rates, and we are hearing weekly reports of hiring freezes and layoffs among both public and private technology companies.

Significant uncertainties still lie ahead. Oil prices remain high, with Russia and OPEC holding back supply. The war in the Ukraine rages on with no end in sight. Geopolitical tensions between the U.S. and China are escalating. Labor shortages persist in the service economy. The U.S. dollar continues to strengthen against most major currencies despite a massive amount of money printing over the last several years. Company margins are being squeezed, and valuations still do not look cheap across most of the market.

Market volatility remains high, and we expect pockets of dislocation to appear as the macroeconomic backdrop will not affect all companies and countries equally. In times like these, having liquidity and a longer time horizon than most investors serves as a tremendous advantage to the endowment. We continue to seek opportunities to play offense and be a provider of liquidity when we can generate outsized returns for doing so. In the meantime, our portfolio is diversified across asset classes, strategies, sectors, geographies, and market capitalizations, to generate returns in a wide range of market scenarios. We continue to partner with world class investment firms that are capable of generating excess returns.

Asset Allocation

Figure 3 shows a comparison of the asset allocation of the portfolio at the beginning and end of fiscal year 2022.

Figure 3 - Colby Comparative Endowment Asset Allocation

	Actual June 30, 2021 Allocation	Actual June 30, 2022 Allocation	Change
Equities			
Marketable			
Developed Equities	19.2%	17.8%	(1.4%)
Emerging Markets	5.2%	6.3%	1.1%
Marketable Real Estate	2.0%	1.8%	(0.2%)
Marketable Natural Resources	2.4%	2.6%	0.2%
Total Marketable Equities	28.8%	28.5%	(0.3%)
Non-Marketable			
Venture Capital	23.5%	21.3%	(2.2%)
Private Equity	13.1%	12.7%	(0.4%)
Real Estate	2.1%	3.6%	1.5%
Natural Resources	1.9%	2.8%	0.9%
Total Non-Marketable Equities	40.6%	40.4%	(0.2%)
Total Equities	69.4%	68.9%	(0.5%)
Hedge Funds	17.7%	17.8%	0.1%
Cash and Equivalents			
Cash and Receivables	10.0%	10.2%	0.2%
US Government Bonds	2.9%	3.1%	0.2%
Total Cash and Equivalents	12.9%	13.3%	0.4%
Total Investments	100.0%	100.0%	0.0%

The investment office continues to monitor liquidity and new non-marketable commitments. As of June 30, 2022, the outstanding commitments to non-marketable partnerships stood at sixteen percent of the portfolio.

Figure 4 shows a comparison of the actual asset allocation at the end of the year, the short-term target allocation, and the long-term target allocation.

Figure 4 - Asset Allocation Targets

	Actual Allocation 6/30/2022	FY2022 Short-term Target Allocation	Current Long-term Target Allocation
Equities			
Marketable			
Developed Equities	17.8%	21.0%	
Emerging Markets	6.3%	7.0%	
Marketable Real Estate	1.8%	2.0%	
Marketable Natural Resources	2.6%	2.5%	
Total Marketable Equities	28.5%	32.5%	25-35%
Non-Marketable			
Venture Capital	21.3%	20.5%	
Private Equity	12.7%	12.5%	
Real Estate	3.6%	3.0%	
Natural Resources	2.8%	2.0%	
Total Non-Marketable Equities	40.4%	38.0%	35-45%
Total Equities	68.9%	70.5%	65-75%
Hedge Funds	17.8%	18.5%	15-25%
Cash and Equivalents			
Cash and Receivables	10.2%	8.5%	
US Government Bonds	3.1%	2.5%	
Total Cash and Equivalents	13.3%	11.0%	5-10%
Total Investments	100.0%	100.0%	100.0%

Figure 5 shows the changes in June 30 asset allocation over the past 10 years.

Figure 5 - Ten-Year Comparative Asset Allocation

	Fiscal Year		
	2012	2017	2022
Equities			
Marketable			
Developed Equities	13.6%	23.3%	17.8%
Emerging Markets	9.3%	7.7%	6.3%
Marketable Real Estate	0.0%	0.0%	1.8%
Marketable Natural Resources	2.6%	3.0%	2.6%
Total Marketable Equities	25.5%	34.0%	28.5%
Non-Marketable			
Venture Capital	14.7%	13.4%	21.3%
Private Equity	9.3%	7.5%	12.7%
Real Estate	8.1%	3.3%	3.6%
Natural Resources	2.6%	2.4%	2.8%
Total Non-Marketable Equities	34.7%	26.6%	40.4%
Total Equities	60.2%	60.6%	68.9%
Hedge Funds	27.0%	27.5%	17.8%
Cash and Equivalents			
Cash and Receivables	9.5%	8.0%	10.2%
US Government Bonds	3.3%	3.9%	3.1%
Total Cash and Equivalents	12.8%	11.9%	13.3%
Total Investments	100.0%	100.0%	100.0%

As of June 30, 2022, the portfolio contained commitments to 218 different investment vehicles across 70 active investment managers and 4 passive index funds.

Annual Performance

The endowment underperformed its preliminary composite benchmark by -4.2 percent for fiscal year 2022. The detailed performance by asset class is attached as Appendix A. The following is a summary of major drivers of performance for fiscal year 2022.

- Public equity markets declined across the board with developed and emerging market indices ranging from negative 13-26 percent
- U.S. private equity and venture capital benchmarks performed significantly better than their public counterparts at positive 7.26 percent and 2.09 percent, respectively, benefiting from strong performance in the second half of 2021 and muted markdowns in 2022
- The portfolio's public equities underperformed the benchmark by -9.9 percent for the year due to the significant exposure to technology and biotech stocks which were down much more than the broader market, while emerging market managers outperformed the benchmark by 5.9 percent due to a value tilt and an underweight to China
- Significant markdowns by U.S. venture and private equity managers drove the underperformance at the total portfolio level relative to benchmarks
  - U.S. venture capital mangers underperformed their benchmark by -13.7 percent as a significant portion of the value was held in unprofitable publicly traded technology companies whose values declined in excess of 50%
  - U.S. private equity managers underperformed the benchmark by -19.6 percent as venture growth managers held publicly traded technology companies and late stage private companies with public company comparables that were marked down in excess of 50%
  - Private markets experienced significant dispersion as a result of variations in valuation methodologies among different fund managers as well as the proportion of public companies held in different funds
  - EM private managers outperformed their preliminary benchmark by 12.2 percent due to outsized exposure to a small number of private companies who raised capital at significantly higher valuations
- Strong manager selection in private real estate added value as managers outperformed the benchmark by 5.8 percent
- Private natural resources outperformed the benchmark by 4.1 percent as investments were more levered to the rise in global commodity prices
- Long short equity hedge funds underperformed the benchmark by -3.7 percent as long books were higher beta than the short books, while credit funds outperformed the benchmarks due to more limited exposure to fixed rates as interest rates rose

Figure 6 shows the endowment performance for one, five and 10 year periods compared to the composite benchmark and a global 70/30 portfolio. Over longer time periods, Colby has outperformed the policy benchmark primarily through excellent manager selection in the private portfolio.

Figure 6 - Endowment Performance

	Colby	Colby Composite Benchmark	Global 70%/30% Portfolio*
One-Year Return	-9.2%	-5.0%	-15.9%
Five-Year Compound Annual Return	10.6%	9.2%	4.7%
Ten-Year Compound Annual Return	9.4%	8.0%	6.0%

* 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 7.8 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 rate for budgeted total operating revenue (5.4 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

	Ten-Year CAGR
Endowment Spending	7.8%
Budgeted Total Operating Revenue	5.4%

The spending rate for fiscal year 2022 was 5.5 percent of the adjusted five-year moving average market value of the endowment.

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 15.7 basis points on average market value for fiscal year 2022.

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, 2022
Appendix A

	One Year	Three Year Compound Annual	Five Year Compound Annual	Seven Year Compound Annual	Ten Year Compound Annual
Equities					
Marketable Equities					
Developed Markets	-24.2%	2.7%	4.7%	5.8%	8.3%
Benchmark-MSCI World	*-14.3%*	*7.0%*	*7.7%*	*7.5%*	*9.5%*
Emerging Markets	-19.4%	3.8%	3.1%	4.2%	4.9%
Benchmark-MSCI Emerging Markets	*-25.3%*	*0.6%*	*2.2%*	*2.9%*	*3.1%*
Illiquid Equities					
US Venture Capital	-11.6%	34.5%	29.2%	20.6%	23.2%
Benchmark-CA U.S. Venture Capital	*2.1%*	*27.8%*	*24.3%*	*17.9%*	*18.6%*
Emerging Markets Venture Capital	3.9%	31.7%	31.0%	23.2%	26.9%
Benchmark-CA Asia Pacific Emerging Markets	*-8.3%*	*13.7%*	*13.7%*	*11.8%*	*14.1%*
GE, PE, and Distressed	-12.3%	25.9%	27.4%	21.9%	20.4%
Benchmark-CA U.S. Private Equity [1]	*7.3%*	*23.4%*	*20.1%*	*17.1%*	*16.7%*
Real Estate Equities					
Marketable Real Estate	-6.8%	0.6%	NA	NA	NA
Benchmark-Dow Jones US Select REIT	*-6.4%*	*2.5%*	*4.3%*	*5.7%*	*6.6%*
Private Real Estate	24.6%	14.4%	12.3%	11.2%	12.2%
Benchmark-CA Custom Weighted Real Estate [1]	*18.8%*	*10.9%*	*9.3%*	*8.7%*	*10.0%*
Natural Resource Equities					
Marketable Natural Resources	11.7%	11.4%	1.9%	-1.9%	-4.0%
Benchmark-50% S&P NA NR Sector, 50% S&P GNR Index	*12.0%*	*9.4%*	*6.7%*	*1.7%*	*-1.6%*
Private Natural Rescurces	23.0%	3.4%	4.3%	3.7%	3.0%
Benchmark-CA Custom Weighted Natural Resources	*18.9%*	*5.5%*	*4.8%*	*3.6%*	*3.1%*
Hedge Funds					
Long Short Equity Strategy	-13.9%	2.8%	4.2%	3.8%	5.1%
Benchmark-Spliced HFRI Equity Hedge Index [3]	*-10.2%*	*5.7%*	*4.9%*	*4.6%*	*4.7%*
Distressed Credit Hedge Fund Strategy	0.3%	5.3%	4.6%	4.8%	5.2%
Benchmark-Spliced HFRI Distressed Index [4]	*-2.2%*	*8.8%*	*6.7%*	*5.8%*	*5.6%*
Long Credit Strategy	-3.6%	2.1%	NA	NA	NA
Benchmark-50/50 CS Levered Loan/ICE BofAML US HY Master II	*-7.7%*	*1.0%*	*NA*	*NA*	*NA*
Cash and Bonds					
Cash Equivalents	0.1%	0.6%	1.0%	0.9%	0.6%
Benchmark-90 Day Treasury Bill	*0.2%*	*0.6%*	*1.1%*	*0.9%*	*0.6%*
Intermediate Treasuries	-4.7%	0.2%	1.2%	1.2%	1.1%
Benchmark-BBG Intermediate Treasury Bond	*-6.4%*	*-0.3%*	*0.9%*	*1.0%*	*1.0%*
Total Investments	-9.2%	11.4%	10.6%	8.9%	9.4%
Composite Benchmark [1]	*-5.0%*	*10.3%*	*9.2%*	*7.8%*	*8.0%*

[1] *Preliminary benchmarks*
[2] *Bloomberg Commodity Index through October 2017, then 50% S&P NA NR and 50% S&P Global NR.*
[3] *HFRI FOF through October 2013, 50/50 HFRI Equity Hedge/ED Distressed Restructuring to December 2021, then HFRI Equity Hedge Total Index*
[4] *HFRI FOF through October 2013, 50/50 HFRI Equity Hedge/HFRI ED Distressed Restructuring to December 2021, then HFRI ED Distressed Restructuring Index*

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, 2022

Security Name		Market Value
SS INST TREAS PLUS MM FUND TPL	$	166,600
AIRBNB INC CLASS A		306,702
ALIGN TECHNOLOGY INC		303,884
AMAZON.COM INC		1,187,428
CHARTER COMMUNICATIONS INC A		384,663
CLOUDFLARE INC CLASS A		353,938
COSTAR GROUP INC		692,178
DATADOG INC CLASS A		254,577
DEXCOM INC		942,059
DOORDASH INC A		287,546
EDWARDS LIFESCIENCES CORP		544,866
META PLATFORMS INC CLASS A		341,366
FLOOR + DECOR HOLDINGS INC A		354,968
INTUIT INC		675,676
LAM RESEARCH CORP		316,629
MATCH GROUP INC		655,713
NETFLIX INC		329,630
NVIDIA CORP		298,935
SAREPTA THERAPEUTICS INC		375,250
SEA LTD ADR ADR		751,306
SERVICENOW INC		1,554,950
SHOPIFY INC CLASS A		413,618
SNOWFLAKE INC CLASS A		492,690
BLOCK INC		758,970
10X GENOMICS INC CLASS A		218,920
TWILIO INC A		255,872
UBER TECHNOLOGIES INC		515,510
VISA INC CLASS A SHARES		1,621,389
WARNER MUSIC GROUP CORP CL A		384,864
ATLASSIAN CORP PLC CLASS A		788,954
FIVERR INTERNATIONAL LTD		76,483
TREASURY SECURITIES		34,992,550
CASH AND EQUIVALENTS		115,590,547
TOTAL DIRECT HOLDINGS	$	167,189,232