FISCAL 2022-23 ENDOWMENT REPORT

Introduction

For the 2023 fiscal year, Colby's endowment returned 3.2 percent and finished the year with a market value of $1.12 billion (net of annuities). Global equity markets had a strong year as the MSCI All-Country World Index was up 16.5 percent, with a meaningful contribution from large cap growth technology stocks. U.S. equities (+19.0 percent) outpaced developed international equities (+10.3 percent) and emerging market equities (+1.7 percent). In private markets, valuation markdowns caused negative returns in the U.S. venture capital benchmark (-10.2 percent) while the private equity benchmark held up better (+6.0 percent). Varying allocations to private investments and significant differences in how private fund managers mark assets continues to drive massive dispersion in fiscal year returns among endowments.

Endowment Growth

During fiscal year 2023, the endowment market value decreased by $6 million to $1.12 billion, a 0.6 percent decrease.

Figure 1 shows the endowment growth over the past 10 years. Since the beginning of fiscal year 2014, the endowment has grown at a compound annual rate of 5.6 percent reflecting investment returns, gifts, and spending. The endowment's annualized investment performance for the 10-year period was 8.6 percent or 5.7 percent real.

Figure 1 - Colby Endowment Market Value Growth

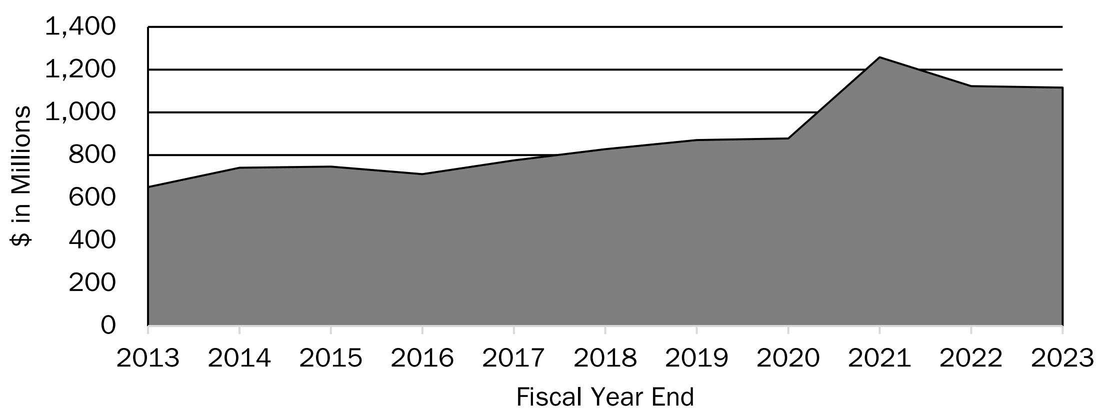

Figure 2 summarizes the sources of change in market value for the endowment for fiscal year 2023 and for the last 10 years. Over the past 10 years, performance has more than offset spending and has contributed more than gifts and other additions to the increase in value. Nonetheless, new additions to 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 2023 ($000)	Cumulative 10-Yr Totals ($000)
Beginning Market Value	1,122,451	649,992
Gifts and Matured Annuities	16,507	190,139
Other Additions	6,316	23,336
Investment Performance Net of Fees	32,584	699,670
Spending	(58,207)	(431,243)
Other Deductions	(3,528)	(15,771)
Ending Market Value	1,116,123	1,116,123

Market Conditions

Fiscal year 2023 was a volatile period for markets. In the first three months of the fiscal year, global equity markets continued their string of negative performance with the MSCI ACWI losing 6.8% before rebounding by 25.1% from September to June. Inflation also remained stubbornly high, with Core CPI (ex- food and energy) rising 4.9% year-over-year. As a result the Federal Reserve raised its policy rate seven times from July 2022 to May 2023, bringing the rate above 5% for the first time since 2007. The recession that most economists predicted last year has not materialized thus far, however, with inflation remaining above target levels, the market succumbed to the view that the Fed may need to hold rates higher for longer than originally anticipated.

While broad equity indices rebounded during fiscal year 2023, the gains were once again concentrated in a handful of the largest growth technology stocks. The top 10 companies in the S&P 500 now represent over 30% of the index. While the market-cap weighted S&P 500 was up 19.6% for the year, the median stock in the S&P 500 was up 12% in 2023. The S&P 500 technology sector was up 40.3%.

Longer term yields also rose, with the 10-year U.S. Treasury yield increasing from 3.0% to 3.8%, which led to losses in medium and longer duration fixed income. The rise in both short-term and long-term yields has also begun to affect asset classes that rely on significant leverage such as real estate and private equity where debt financing is often tied to short term rates. The cost of borrowing has increased 2-3x over the last year. As a result, deal activity in real estate and private equity has slowed, with transactions delayed until owners are faced with debt maturities. In large parts of the real estate market, the use of leverage is no longer accretive to returns, as the cost of debt exceeds the cap rates on those properties.

With access to capital remaining tight, the trend in venture capital-backed companies has been to slow growth such that companies extend cash runways by balancing growth and profitability. In many cases, venture capital firms have been forced to choose earlier than they expected whether to stop supporting unprofitable companies. Even good companies are often experiencing lower valuations for follow on rounds. Coupled with a lackluster IPO market, realizations across private markets have slowed significantly.

Looking ahead, there are no shortage of factors that could cause pockets of market dislocation. Global economies face the threat of two wars, geopolitical tension between the U.S. and China, a contentious upcoming U.S. election, and the ongoing threat of higher rates. We have not yet seen the full impact that higher rates will have on the economy and the financial markets. We continue to prioritize finding differentiated sources of return by partnering with world class investment firms that can perform well across a range of macro environments.

Asset Allocation

Figure 3 shows a comparison of the asset allocation of the portfolio at the beginning and end of fiscal year 2023.

Figure 3 - Colby Comparative Endowment Asset Allocation

	Actual June 30, 2022 Allocation	Actual June 30, 2023 Allocation	Change
Equities			
Marketable			
Developed Equities	17.8%	18.9%	1.1%
Emerging Markets	6.2%	5.8%	(0.5%)
Marketable Real Estate	1.7%	0.0%	(1.7%)
Marketable Natural Resources	2.6%	2.6%	0.0%
Total Marketable Equities	28.3%	27.3%	(1.0%)
Non-Marketable			
Venture Capital	27.9%	24.7%	(3.2%)
Private Equity	6.5%	7.7%	1.2%
Real Estate	3.4%	4.7%	1.3%
Natural Resources	3.1%	2.7%	(0.4%)
Total Non-Marketable Equities	40.9%	39.7%	(1.2%)
Total Equities	69.2%	67.0%	(2.2%)
Hedge Funds	17.0%	18.3%	1.4%
Cash and Equivalents	13.8%	14.7%	0.9%
Total Investments	100.0%	100.0%	0.0%

The investment office continues to monitor liquidity and new non-marketable commitments. As of June 30, 2023, the outstanding commitments to non-marketable partnerships stood at 23 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 Allocaiton 6/30/2023	FY2023 Short-term Target Allocation	Long-term Target Allocation
Equities			
Marketable			
Developed Equities	18.9%	20.0%	
Emerging Markets	5.8%	5.5%	
Marketable Real Estate	0.0%	0.0%	
Marketable Natural Resources	2.6%	2.0%	
Total Marketable Equities	27.3%	27.5%	25-35%
Non-Marketable			
Venture Capital	24.7%	26.5%	
Private Equity	7.7%	7.0%	
Real Estate	4.7%	5.0%	
Natural Resources	2.7%	3.0%	
Total Non-Marketable Equities	39.7%	41.5%	35-45%
Total Equities	67.0%	69.0%	65-75%
Hedge Funds	18.3%	21.0%	15-25%
Cash and Equivalents			
Cash and Receivables	14.7%	7.5%	
US Government Bonds	0.0%	2.5%	
Total Cash and Equivalents	14.7%	10.0%	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		
	2013	2018	2023
Equities			
Marketable			
Developed Equities	16.2%	24.3%	18.9%
Emerging Markets	9.7%	8.1%	5.8%
Marketable Real Estate	0.0%	2.5%	0.0%
Marketable Natural Resources	2.4%	3.5%	2.6%
Total Marketable Equities	28.3%	38.4%	27.3%
Non-Marketable			
Venture Capital	12.7%	18.0%	24.7%
Private Equity	8.0%	4.1%	7.7%
Real Estate	8.1%	2.3%	4.7%
Natural Resources	2.6%	2.6%	2.7%
Total Non-Marketable Equities	31.3%	27.0%	39.7%
Total Equities	59.7%	65.4%	67.0%
Hedge Funds	28.3%	22.5%	18.3%
Cash and Equivalents			
Cash and Receivables	8.2%	8.6%	14.7%
US Government Bonds	3.9%	3.5%	0.0%
Total Cash and Equivalents	12.1%	12.1%	14.7%
Total Investments	100.0%	100.0%	100.0%

As of June 30, 2023, the portfolio contained commitments to 223 different investment vehicles across 67 active investment managers and 3 passive index funds.

Annual Performance

The endowment generated a positive return of 3.2 percent for the fiscal year ended June 30, 2023, underperforming its preliminary composite benchmark by 0.9 percent. The detailed performance by asset class is attached as Appendix A. The following is a summary of major drivers of performance for fiscal year 2023.

- Public equity markets increased across the board with developed equities and marketable real assets leading the way
- Private investments experienced negative performance as venture capital was down ~10 percent
- The underperformance relative to the policy benchmark was driven by small outperformance in the public portfolio offset by underperformance in the private portfolio
- The portfolio's developed public equities underperformed the benchmark by 2.5 percent for the year driven by an underweight to large-cap US technology growth stocks
- Emerging markets equities and hedge funds both experienced outperformance relative to their respective benchmarks
    - Hedge funds outperformed the benchmark by +4.8 percent as both long/short equity and absolute return managers outperformed their respective benchmarks
- Colby's venture capital portfolio underperformed over the past year, stemming from 8.3 percent underperformance in the EM venture capital portfolio due to the write-down of a handful of private Chinese technology/internet companies
    - U.S. venture capital managers slightly outperformed their benchmark
    - 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
- U.S. private equity managers outperformed their benchmark by +3.1 percent as Colby's biotech/life sciences-focused managers generated strong performance
- Private energy/natural resources underperformed the benchmark significantly due to underweight exposure to rising oil prices

Figure 6 shows the endowment performance for one-, five- and ten-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	3.2%	4.1%	11.7%
Five-Year Compound Annual Return	9.1%	8.0%	6.3%
Ten-Year Compound Annual Return	8.6%	7.6%	6.5%

* 70% MSCI ACWI Index and 30% Barclays 1-3 Year US Treasury 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 the endowment. Colby's spending formula defines spending as a percentage of a five-year moving average of June 30 market values adjusted 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 8.3 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 (6.1 percent). Over the past 10 years, the budgeted endowment income as a percentage of total budgeted operating revenue has increased from 17.1 percent to 20.8 percent.

Figure 7 - Comparative Compound Annual Growth Rates

	Ten-Year CAGR
Endowment Spending	8.3%
Budgeted Total Operating Revenue	6.1%
Endowment Spend as % of Operating Budget	2.4%

The spending rate for fiscal year 2023 was 5.5 percent of the adjusted five-year moving average market value of the endowment.

Organization

The Investment Office includes six 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 21.6 basis points on average market value for fiscal year 2023.

Endowment Tax

As a college with greater than 500 students with an endowment in excess of $500,000 per student, Colby is required to pay an endowment tax. In fiscal year 2023, the endowment tax net of tax refunds from prior years is estimated at approximately $840,000.

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 that invest directly in equity securities.

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

Appendix A

Colby College
Preliminary Investment Performance Report
as of June 30, 2023

Asset Class	1YR Return	3YR Return	5YR Return	10YR Return
Marketable Investments	11.4%	7.8%	4.7%	5.4%
MSCI ACWI	*16.5%*	*11.0%*	*8.1%*	*8.7%*
Developed Equities	16.0%	7.3%	5.4%	7.7%
MSCI World	*18.5%*	*12.2%*	*9.1%*	*9.5%*
Emerging Market Equities	6.5%	8.3%	3.3%	4.2%
MSCI Emerging Markets	*1.7%*	*2.3%*	*0.9%*	*2.9%*
Hedge Funds	8.5%	5.6%	4.3%	4.4%
HFRI Fund of Funds Composite Index	*3.7%*	*5.0%*	*3.3%*	*3.4%*
Long/Short	13.8%	4.2%	5.6%	5.0%
Spliced HFRI Equity Hedge Index [3]	*7.6%*	*8.8%*	*4.8%*	*4.6%*
Absolute Return/Credit/Distressed	3.3%	6.4%	3.5%	4.0%
Spliced HFRI Event Driven Distressed/Restructuring [4]	*1.6%*	*9.5%*	*5.2%*	*4.9%*
Marketable Real Assets	2.9%	16.9%	3.3%	-2.5%
Spliced 50% S&P NA NR / 50% S&P Global NR [2]	*10.5%*	*22.4%*	*5.9%*	*4.8%*
Illiquid Investments	-5.5%	19.9%	19.9%	17.7%
Venture	-10.0%	20.1%	23.6%	21.1%
U.S. Venture	-10.1%	24.7%	24.7%	20.6%
CA Total U.S. Venture	*-10.2%*	*19.1%*	*17.9%*	*16.4%*
Emerging Venture	-9.7%	13.3%	22.0%	23.7%
CA Total EM Asia Pacific	*-1.4%*	*8.4%*	*9.2%*	*12.9%*
Private Equity	9.1%	18.1%	16.5%	17.1%
CA U.S. Private Equity	*6.0%*	*21.9%*	*17.6%*	*15.6%*
Private Real Assets	-2.6%	17.0%	5.6%	7.9%
Private Real Estate	-1.0%	14.1%	9.4%	11.4%
CA Custom Real Estate	*-0.8%*	*11.9%*	*7.5%*	*8.9%*
Private Energy	-0.3%	20.6%	2.2%	1.3%
CA Custom Natural Resources	*9.9%*	*18.1%*	*3.5%*	*2.6%*
Hard Assets/Other	-10.2%	18.5%	2.3%	1.8%
CA Custom Hard Asset	*9.9%*	*16.2%*	*4.6%*	*3.3%*
Cash and Bonds	2.8%	0.0%	1.4%	1.0%
Barclays U.S. Treasury: 1-3 Year USD	*0.1%*	*-1.1%*	*0.9%*	*0.8%*
Total Investments	3.2%	11.2%	9.1%	8.6%
Total Composite Index [1]	*4.1%*	*11.1%*	*8.0%*	*7.6%*

[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/ED Distressed Restructuring to December 2021, then HFRI ED Distressed Restructuring Index

Appendix B

Colby College
Endowment Annual Report
Direct Security Holdings as of June 30, 2023

Security Name	Market Value
SS Inst Treas Plus MM Fund TPL	10,496,733
UiPath	93,703
ZoomInfo	337,255
TREASURY SECURITIES	144,680,666
CASH AND EQUIVALENTS	5,747,216
TOTAL DIRECT HOLDINGS	$ 161,355,574