FISCAL 2023-24 ENDOWMENT REPORT

Introduction

For the 2024 fiscal year, Colby's endowment returned 8.1 percent, in-line with our custom policy benchmark, ending the year with a market value of $1.16 billion (net of annuities). Global equity markets had a strong year with the MSCI All-Country World Index up 19.4 percent, driven by strong performance from a small number of large cap growth technology stocks. U.S. equities (S&P 500: +24.6 percent) outpaced both developed international equities (MSCI World Ex US: +11.2 percent) and emerging market equities (MSCI EM: +12.6 percent). In private markets, the Cambridge Associates venture capital benchmark was down slightly as many companies that raised capital at elevated valuations in 2020-2022 were marked down. Most diversified portfolios that invest across market capitalizations, geographies, and public/private equities underperformed the broad public equity markets in fiscal 2024 given the strong absolute and relative performance of the large cap U.S. public equity market.

Endowment Growth

During fiscal year 2024, the endowment market value increased by $44 million to $1.16 billion, a 3.9 percent increase. Figure 1 shows the endowment growth over the past 10 years. Over the last ten years, the endowment has grown at a compound annual rate of 4.6 percent reflecting investment returns, gifts, and spending. The endowment's annualized investment performance for the 10-year period was 7.8 percent or 4.9 percent real.

Figure 1 - Colby Endowment Market Value Growth

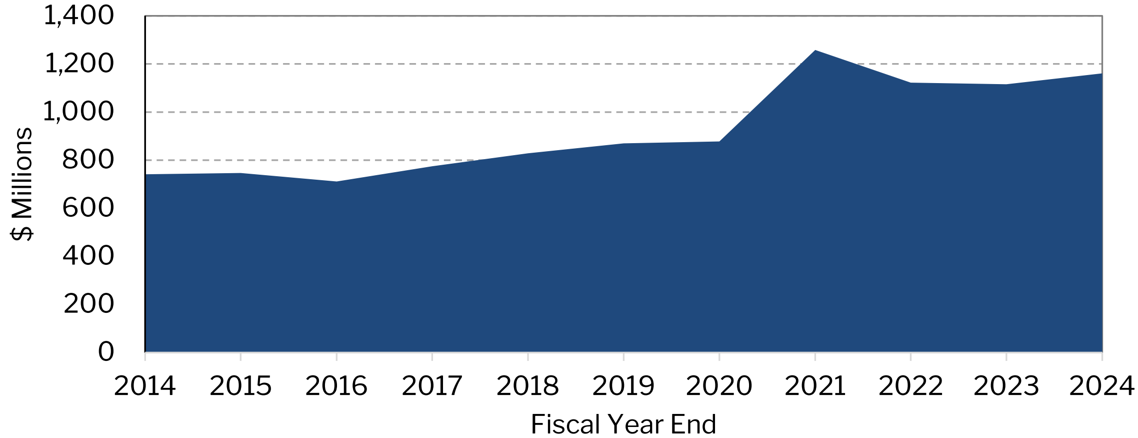

Figure 2 summarizes the sources of change in market value for the endowment for fiscal year 2024 and the last 10 years. Over the past 10 years, performance has more than offset spending and has contributed more than gifts and other additions to the increase in value. Nonetheless, new additions to the 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 2024 ($000)	Cumulative 10-Yr Totals ($000)
Beginning Market Value	1,116,123	740,631
Gifts and Matured Annuities	23,321	201,831
Other Additions	5,748	28,954
Investment Performance Net of Fees	85,633	677,991
Spending	(69,775)	(476,505)
Other Deductions	(890)	(12,742)
Ending Market Value	1,160,160	1,160,160

Market Conditions

Fiscal year 2024 marked the continuation of a bull market in equities with the S&P500, MSCI ACWI, and NASDAQ indices each posting all-time highs. However, these broad index returns mask the underlying bifurcation of performance at the company level as outsized returns were largely driven by a small number of the largest technology companies. The "Magnificent Six" – Nvidia, Microsoft, Amazon, Meta, Google, and Apple – now represent a growing share of the total market capitalization of major equity indices, accounting for approximately 30% of the S&P 500. In fiscal 2024, the median performance of these six stocks was slightly more than 58%, while the remaining 494 stocks in the S&P500 index had median performance of 8.8%. The Magnificent Six accounted for more than 52% of all the returns of the S&P500 during the fiscal year.

U.S. large cap public equity also continued to be the standout performer in global markets as the S&P 500 was up 24.6% while the MSCI Emerging Markets was up 12.6%, the MSCI EAFE was up 11.5%, and the U.S. Small Cap Russell 2000 was up 9.6%. The only other major equity market with strong performance in USD was India (+34%) though it only accounts for a small fraction of global equity market capitalization.

Artificial Intelligence (AI) was the dominant theme in markets this year. While the large, early winners were AI infrastructure providers such as Nvidia and the cloud hyperscalers (Microsoft, Amazon, Google), AI excitement also drove increased investment into datacenters, the broader semiconductor supply chain, nuclear power, and AI native startups. Unlike recent technology cycles that were focused on asset-light software businesses, AI requires massive capital investments, and the market continues to debate when companies will earn an acceptable return on investment from those expenditures.

In venture capital, new AI-native companies are able to raise capital at high valuations, while many of the venture-funded companies that raised money at peak valuations in 2021/2022 are still trying to grow into those valuations. Many of these companies have also drastically changed their business plans to achieve a better balance of growth and cash burn, so they can extend the runway until their next round of financing. IPOs have been scarce with a long pipeline of private companies that have yet to go public, though this may begin to change over the next 12 months with equity markets at all-time highs.

U.S. Treasury yields peaked during fiscal year 2024 and have started to come down with the Federal Reserve cutting interest rates in September 2024. Despite the downward trend, borrowing rates remain elevated relative to the last five years resulting in early signs of stress in pockets of the real estate and private equity markets.

We continue to expect more market volatility ahead with the upcoming U.S. election, violence in the Middle East and Russia/Ukraine, the potential for labor union strikes, and a looming trade war between the U.S. and China. With this backdrop, we continue to seek idiosyncratic investment opportunities that are not dependent on any single macroeconomic or geopolitical environment. The endowment has significant liquidity and is well-positioned to take advantage of opportunities that may arise from distress and/or market dislocations.

Asset Allocation

Figure 3 shows a comparison of the asset allocation of the portfolio at the beginning and end of fiscal year 2024.

Figure 3 - Colby Comparative Endowment Asset Allocation

	Actual June 30, 2023 Allocation	Actual June 30, 2024 Allocation	Change
Equities			
Marketable			
Developed Equities	18.9%	18.9%	0.0%
Emerging Markets	5.8%	4.1%	(1.6%)
Marketable Real Estate	0.0%	0.0%	0.0%
Marketable Natural Resources	2.6%	2.5%	(0.1%)
Total Marketable Equities	27.3%	25.5%	(1.8%)
Non-Marketable			
Venture Capital	24.7%	25.1%	0.4%
Private Equity	7.7%	7.9%	0.3%
Real Estate	4.7%	6.0%	1.3%
Natural Resources	2.7%	2.5%	(0.2%)
Total Non-Marketable Equities	39.7%	41.5%	1.8%
Total Equities	67.0%	67.0%	0.0%
Hedge Funds	18.3%	22.0%	3.7%
Cash and Equivalents	14.7%	11.0%	(3.7%)
Total Investments	100.0%	100.0%	0.0%

The investment office continues to monitor liquidity and new non-marketable commitments. As of June 30, 2024, the outstanding commitments to non-marketable partnerships stood at 23 percent of the portfolio, in-line with the long-term target.

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 6/30/2024	FY 2024 Short-term Target Allocation	Long-term Target Allocation
Equities			
Marketable			
Developed Equities	18.9%	19.0%	
Emerging Markets	4.1%	5.5%	
Marketable Real Estate	0.0%	0.0%	
Marketable Natural Resources	2.5%	2.0%	
Total Marketable Equities	25.5%	26.5%	25-35%
Non-Marketable			
Venture Capital	25.1%	25.0%	
Private Equity	7.9%	8.0%	
Real Estate	6.0%	5.5%	
Natural Resources	2.5%	2.5%	
Total Non-Marketable Equities	41.5%	41.0%	35-45%
Total Equities	67.0%	67.5%	65-75%
Hedge Funds	22.0%	21.0%	15-25%
Cash and Equivalents			
Cash and Receivables	8.4%	8.5%	
US Government Bonds	2.5%	3.0%	
Total Cash and Equivalents	11.0%	11.5%	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		
	2014	2019	2024
Equities			
Marketable			
Developed Equities	17.4%	23.1%	18.9%
Emerging Markets	10.4%	7.5%	4.1%
Marketable Real Estate	0.0%	3.0%	0.0%
Marketable Natural Resources	3.6%	2.7%	2.5%
Total Marketable Equities	31.4%	36.3%	25.5%
Non-Marketable			
Venture Capital	14.7%	21.5%	25.1%
Private Equity	6.5%	4.1%	7.9%
Real Estate	6.9%	2.2%	6.0%
Natural Resources	2.5%	2.7%	2.5%
Total Non-Marketable Equities	30.6%	30.5%	41.5%
Total Equities	62.0%	66.7%	67.0%
Hedge Funds	25.1%	21.7%	22.0%
Cash and Equivalents			
Cash and Receivables	9.6%	8.1%	8.4%
US Government Bonds	3.4%	3.5%	2.5%
Total Cash and Equivalents	13.0%	11.6%	11.0%
Total Investments	100.0%	100.0%	100.0%

As of June 30, 2024, the portfolio contained commitments to 229 different investment vehicles across 68 active investment managers and 3 passive index funds.

Annual Performance

The endowment generated a positive return of 8.1 percent for the fiscal year ended June 30, 2024, outperforming its preliminary composite benchmark by 0.03 percent. The following is a summary of major drivers of performance for fiscal year 2024.

- Public equity markets increased across the board with US equities leading the way
- Private investments experienced mixed performance as venture capital marks were up slightly, real estate was challenged, and private equity experienced positive performance but did not keep up with public markets
- Performance was in-line with the policy benchmark but deviated at the asset class level as hedge funds and illiquid assets outperformed while public equities lagged the benchmark
- The public equity portfolio performed well on an absolute basis but lagged the exceptional performance in the global equity market
    - The actively managed developed equity portfolio was hampered on a relative basis as Colby has minimal exposure to the handful of US large cap technology stocks that dominated the market
    - The emerging market portfolio lagged broader emerging markets given overweight exposure to Chinese equities
    - Long/short hedge funds delivered equity like returns and outperformed their peer group by +6.3 percent
- The venture capital and private equity portfolios outperformed their respective peer universes while the real estate portfolio lagged in a difficult real estate market
    - The venture capital portfolio outperformed a flat universe, but only modestly contributed to the total return of the portfolio
    - The private equity portfolio's biotech exposure contributed significantly to the private equity portfolio's +6.8 percent outperformance

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	8.13%	8.10%	14.92%
Five-Year Annualized Return	9.06%	8.81%	8.08%
Ten-Year Annualized Return	7.76%	7.06%	6.43%

* 70% MSCI ACWI Index and 30% Barclays 1-3 Year US Treasury Index

Spending

The goal of a spending formula is to ensure a stable source of revenue for operations, while maintaining and growing 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 10.0 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 growth rate of operating expenses (6.5 percent). Over the past 10 years, endowment spending as a percentage of Colby's operating expenses has increased from 23.2 percent to 31.9 percent.

The budgeted spending rate for fiscal year 2024 was 5.5 percent of the adjusted five-year moving average market value of the endowment.

Figure 7 - Comparative Compound Annual Growth Rates

	Ten-Year CAGR
Endowment Spending	10.0%
Actual Operating Expenses	6.5%

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 22.7 basis points on average market value for fiscal year 2024.

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 2024, the endowment made an estimated tax payment that amounted to approximately 4.3 basis points of the average market value.

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 for direct holdings.

For transparency, the College also provides a list of all direct-owned holdings (Appendix A). The Colby endowment primarily invests through commingled vehicles managed by third-party managers, and nearly all direct-owned holdings represent treasury securities. The two direct equity holdings listed below represent (1) an in-kind distribution from a legacy relationship, which was subsequently liquidated in July 2024, and (2) a direct co-investment with an existing biotech manager.

Appendix A

Colby College

Endowment Annual Report

Direct Security Holdings as of June 30, 2024

Security Name	Market Value
Golub Capital BDC Inc	7,661,390
Synthekine	666,666
SS Inst Treas Plus MM Fund TPL	791
TREASURY SECURITIES	90,497,660
CASH AND EQUIVALENTS	8,280,622
TOTAL DIRECT HOLDINGS	$ 107,107,129