



# Reed College Endowment 2016 Report

## Introduction

We are pleased to share this update on the Reed College Endowment (“the Endowment”) for the fiscal year ending June 30, 2016. A strong Endowment is critical to the financial health of Reed College (“Reed” or “the College”). The original bequest from Amanda Reed created the Endowment and many thousands of gifts since have sustained its growth. Without the Endowment, the College could not continue to offer one of the finest and most distinctive educational programs in the country. Its earnings provide necessary operating support and stability in funding that allow the College to make long-term commitments, such as financial aid over a student’s entire term of study at Reed, offer tenure to the best professors, and to engage in long-term planning. Having a robust Endowment makes Reed less dependent on tuition revenue, allowing it to provide need-based financial aid to approximately one-half of the student body.

## Management and Oversight

The Reed College Board of Trustees exercise ultimate responsibility for overseeing the management, operation, and maintenance of the Endowment. The Board of Trustees has delegated on-going, active oversight of the Endowment to the Investment Committee. The Investment Committee formulates investment policies, objectives and procedures, approves investments, investment managers and consultants, and monitors the investment portfolio. The Investment Committee regularly reports on these matters to the Board of Trustees.

The College’s Vice President and Treasurer and Senior Investment Officer support the work of the Investment Committee and have responsibilities for management and administration of the investment portfolio that are delegated by the Investment Committee. In addition, the College retains an investment consultant to assist the Investment Committee and Reed staff in their duties and responsibilities.

## Investment Policies

Reed follows investment policies approved by the Board of Trustees. These investment policies include objectives and procedures for the overall management, investment strategies, and governance of the Endowment. These policies also include asset allocation, manager search and investment monitoring guidelines, and standards to evaluate the performance and operations of the Endowment.

In 1978, Reed adopted an Investment Responsibility Policy that articulates the College’s position with respect to academic freedom and political neutrality and how non-economic issues are to be considered along with other stated investment objectives.

## Investment Objectives

The investment objective of the Endowment is to preserve and enhance the Endowment’s total value so that distributions from the Endowment can provide a reliable and growing revenue stream to support the College’s operations. The Board of Trustees and Investment Committee

recognize that a reasonable and appropriate level of investment risk is necessary to achieve this objective. The Endowment has a long-term time horizon, and the funds are invested across a well-diversified portfolio of assets. A fundamental long-term investment objective of the Endowment is to achieve a rate of return equal to five percent in excess of inflation as measured by the Higher Education Price Index.

The Investment Committee has identified the following long-term goals that guide its regular decision-making process:

- Continue to preserve and grow the real value of the Endowment
- Provide a reliable and growing revenue stream to support the College's operating budget
- Maintain disciplined and thoughtful stewardship of the College's Endowment assets

### **Spending Policy**

The Endowment provides critical support to the operating budget of the College, contributing approximately 25% of the annual operating budget. The College's current spending policy, which allocates endowment earnings to operations, is to contribute 5.20% of a trailing 13-quarter market value average to the support of the operating budget. This moving average methodology is used to lessen the impact of short-term volatility in investment returns and provide more predictable financial support for the operating budget.

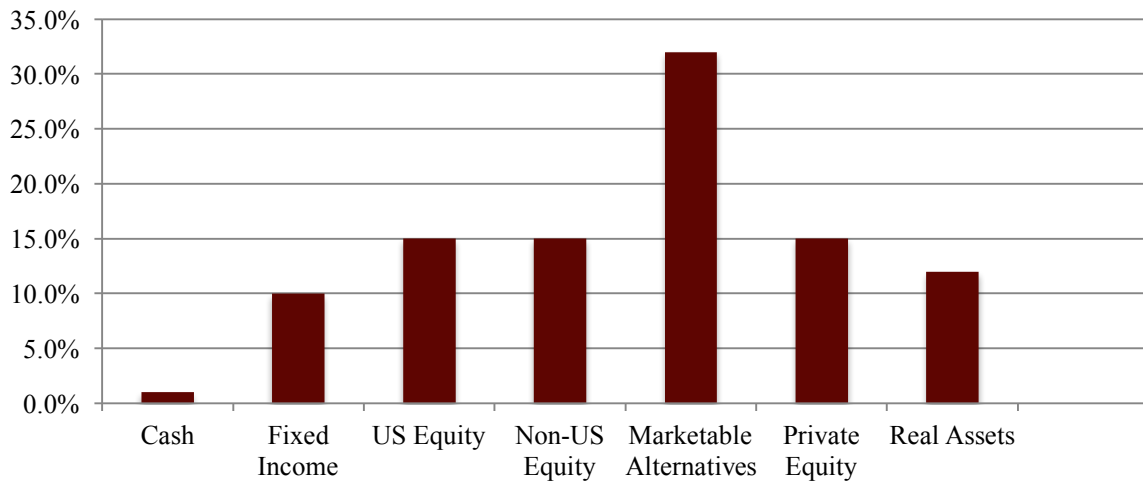
### **Asset Allocation**

Asset allocation is a substantial contributor to overall Endowment return performance and risk characteristics. The Board of Trustees and Investment Committee recognize that reasonable levels of investment risk are necessary to achieve long-term investment objectives. The investment horizon is long-term and interim fluctuations should be viewed within this perspective. Similarly, the underlying capital market assumptions of the Endowment's asset allocation plan are based on this long-term perspective. The Investment Committee periodically evaluates asset class strategies and opportunities, and updates the long-term asset allocation plan, via a policy portfolio asset allocation, which is approved by the Board of Trustees.

The Endowment is diversified both across and within asset classes to provide reasonable assurance that no manager or asset class will have a disproportionate impact on the overall portfolio. In order to meet budgetary and near-term financial needs, the Endowment maintains sufficient amounts of capital in highly liquid investments and cash. The College rarely holds direct investments in specific companies or assets, such as real estate, but instead invests through holdings in professionally managed funds.

Market fluctuations, manager availability and opportunities, cash flows, and liquidity issues may cause the actual asset allocation to diverge from the policy portfolio asset allocation from time-to-time. The Investment Committee reviews departures from the policy portfolio asset allocation targets and makes rebalancing decisions on a regular basis.

### Policy Portfolio Asset Allocation (as of June 30, 2016)

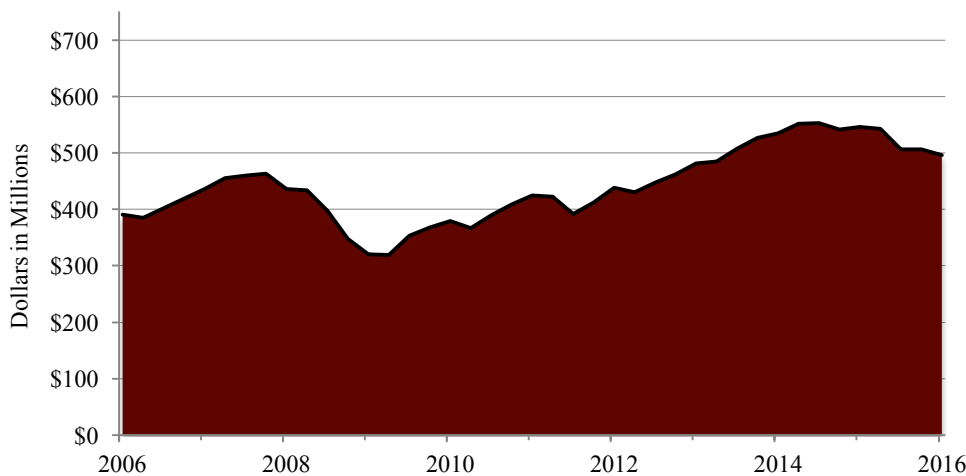


### Performance and Growth

The value of the Endowment as of June 30, 2016 was \$498 million. The Endowment generated a -5.4% return in fiscal year 2016 (July 2015 – June 2016). Following several years of strong performance coming out of the global financial crisis, the Endowment has faced a challenging investment environment for the past couple of years. For fiscal years 2015 and 2014, the Endowment returned 2.5% and 16.9%, respectively. As of June 30, 2016, the Endowment has a three-year annualized return of 4.3% and a five-year annualized return of 5.7%.

Over the past ten years, the market value of Reed's endowment has increased from \$385 million to \$498 million through a combination of new gifts to the endowment and investment performance.

### Endowment Market Value (as of June 30, 2016)



The College remains mindful of the significant role that the Endowment plays in the continuing strength and success of Reed College. As such, the disciplined and thoughtful stewardship of this vital asset is at the forefront of all of those involved in the process.

### **Investment Responsibility Policy and Academic Freedom**

Reed's Investment Responsibility Policy is clear that the Board's primary investment objective is fiduciary - to preserve and enhance the value of the endowment, so that it can support the academic mission of the College. In addition, the Board has a responsibility to sustain Reed's intense commitment to academic freedom and political neutrality. This requires limiting the political role of the College or the enlistment of the College's name in political causes. Reed's Operating Principles state: "Because the College fosters and defends academic freedom, it avoids taking positions on political issues that do not directly affect the fulfillment of its educational mission."

### **Investment Committee Members - Fiscal Year 2015/2016**

Stephen E. Babson  
Jane Buchan  
George M. James '77, Chair  
Que Nguyen  
James A. Urry  
Richard H. Wollenberg '75