Reed College Endowment Report

FY 2022

TO THE

Reed College community:

We are pleased to share this update on the Reed College Endowment for the fiscal year ending June 30, 2022. Our endowment continues to grow due to the generosity and commitment of the Reed community, both past and present, to the college's educational mission. Every year, the endowment's distributions provide operating support and stability in funding that allow the college to make meaningful commitments to areas such as financial aid, faculty hiring and retention, support for students, facilities, and long-term strategic planning. We remain 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.

Our high-level results for the year are as follows:

- **The endowment** ended the fiscal year 2022 at $726 million with a trailing 1-year return of -4.4%.
- **Our performance** compares favorably to two common benchmarks: a -13.4% return for a traditional 60% equity/40% bond portfolio as well as a -6.6% median return for the Cambridge Associates (CA) college & university universe.
- **Distributions** accounted for 31% of the College's overall operating budget and went to support all aspects of the college's operations including financial aid & scholarships, faculty positions, student and faculty research, and general operating expenses.

INVESTMENT OVERSIGHT

The Reed College Board of Trustees exercises ultimate responsibility for overseeing the management, operation, and maintenance of the endowment. The board has delegated ongoing oversight and fiduciary governance of the endowment to the investment committee, which is responsible for formulating investment policies, approving investment managers, setting asset allocation targets, and monitoring performance. The Reed College Investment Office along with the Vice President of Finance & Treasurer are responsible for the day-to-day management and administration of the investment portfolio.

INVESTMENT OBJECTIVES AND SPENDING

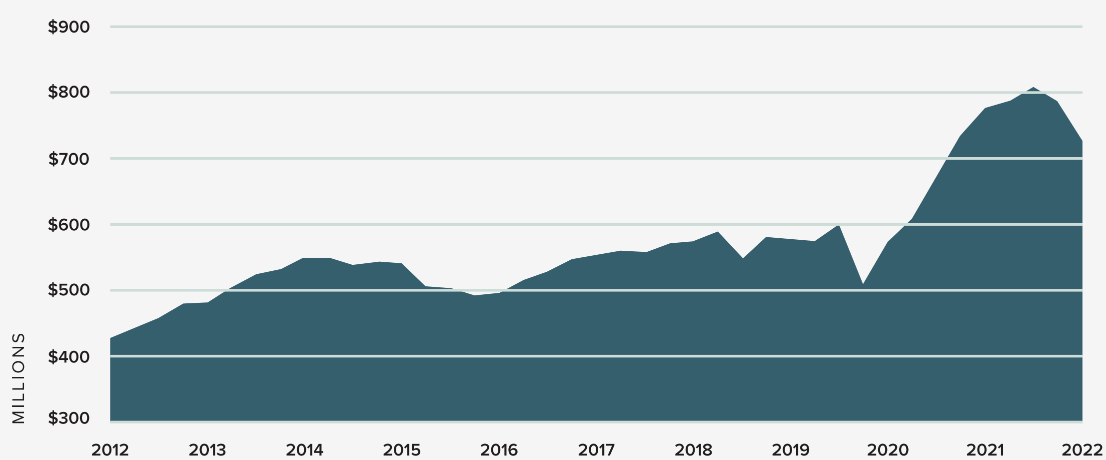
The investment objective of the endowment is to preserve and enhance the endowment's total value so that distributions can provide a reliable and growing revenue stream to support the college's operations. The board of trustees and investment committee recognize that a reasonable and appropriate level 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.

The college's spending policy for the fiscal year 2022 was 5.0% of a trailing 13-quarter market value average. 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.

STEWARDSHIP

Over the last decade, the Reed College Endowment has grown from $430 million to $726 million. During this period, a total of $239 million in net payouts have been distributed in furtherance of the college's mission.

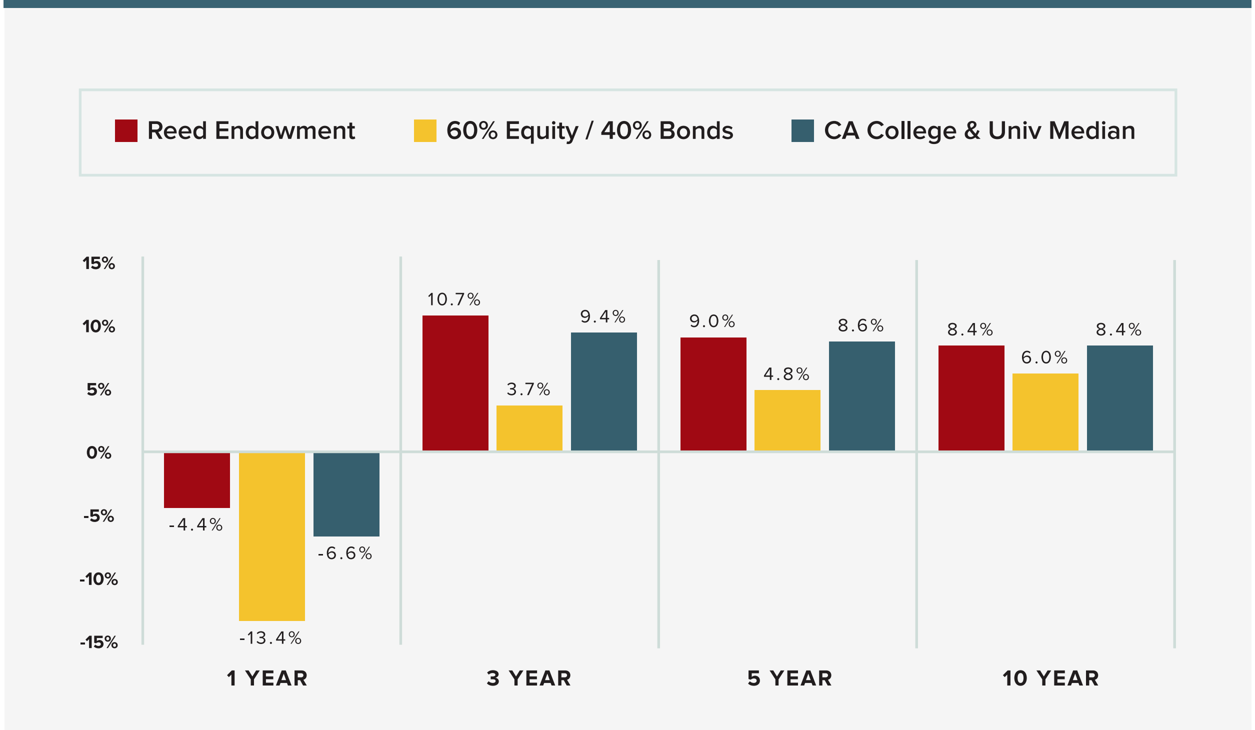
ENDOWMENT VALUE OVER TIME | AS OF JUNE 30, 2022



PERFORMANCE

For the period ending June 30, 2022, the endowment returned -4.4%, a meaningfully different outcome from the previous fiscal year return of 39.6%. Over the trailing 1-, 3-, 5- and 10-year periods, the endowment has outperformed or matched a traditional 60/40 passive benchmark[1] as well as the median college & university endowment as reported by Cambridge Associates (CA)[2].

ENDOWMENT ANNUALIZED PERFORMANCE | AS OF JUNE 30, 2022



PERFORMANCE COMMENTARY

The first half of the fiscal year extended the seemingly inexorable momentum of the global equity markets despite signs that inflation was accelerating. The S&P 500 surged ahead by more than 12% and investments within private equity, most notably venture capital, continued to command attention from global investors seeking to back high growth, innovative companies. As inflation headed for its highest level in more than 40 years, the Federal Reserve was forced to act and raise interest rates quickly and aggressively. Interest rate sensitive assets were subsequently decimated, erasing years of gains in a matter of months. Global equity markets fell over 20% with technology and consumer-oriented stocks

[1] 60% MSCI ACWI Equity Index & 40% Bloomberg U.S. Aggregate Bond Index
[2] Reported as of December 2, 2022

PERFORMANCE COMMENTARY CONT.

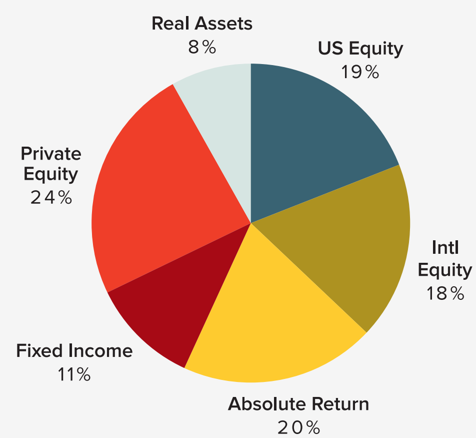
bearing the brunt of the pullback. US Treasuries, normally a ballast in times of market volatility, suffered one of their worst periods in history (the 10-year was down 11%) as yields surged across the board. This is the first year since 1928 that both equity markets and the 10-year were both down more than 10% over the same time period.

With more than two-thirds of the endowment committed to equity-oriented investment funds, heightened periods of volatility and uncertainty such as this one will undoubtedly put pressure on the portfolio. Unsurprisingly, the equity component detracted significantly from overall performance, especially those managers that have a focus on high-growth technology companies operating with little margin for error. The remaining one-third of the capital is dedicated to diversifying or inflation-hedging strategies, namely absolute return, fixed income, and real assets. This component of the portfolio proved to be highly effective during this volatile period. Managers within the absolute return bucket positioned their portfolios defensively while also taking advantage of opportunities presented by the market volatility. The real assets portfolio, designed to protect during inflationary periods, also performed well and rose more than 35% for the fiscal year.

ASSET ALLOCATION

The endowment is a globally diversified portfolio invested across both public and private markets. Because asset allocation is a meaningful contributor to the overall risk and return characteristics of the portfolio, the asset class targets reflect a blend of long-term expected performance along with our ability to partner with best-in-class investment managers in those areas. Market fluctuations, manager availability and opportunities, cash flows, and liquidity issues may cause the actual asset allocation to diverge from the policy asset allocation from time to time. The policy asset allocation as of June 30, 2022 is shown right.

ASSET ALLOCATION TARGETS



UPDATE ON FOSSIL FUEL INVESTMENTS

In October 2021, the board of trustees, following extensive community discussions over a number of years, directed the investment committee to take the following actions related to the endowment's investments in fossil fuels:

- **Prohibit any new investments** in public funds or private partnerships that are focused on the oil, gas, and coal industries, including infrastructure and field services. This includes 1) acquiring, developing, producing, or exploring for oil, gas, and coal; and 2) providing equipment, services, and infrastructure related to these industries.

- **Phase out all such existing investments** in private partnerships in accordance with the funds' typical life cycles, or sooner if both prudent and practicable.

Before updating the community on our progress in this area, a brief history of the role energy has played in the portfolio is warranted. Global institutional investors have long worried about the impact of inflation on their portfolios and thus sought to hedge this risk, primarily with exposure to "real assets" – traditionally energy, real estate, and infrastructure. These asset classes and strategies tend to perform well during inflationary periods. Reed has almost always accessed investments within the energy arena via private partnerships; that is, funds run by professional investment managers that invest in private assets, not of those that are listed on public exchanges (i.e. energy stocks or bonds).

We plan on providing annual updates with regard to this directive by the board. Our update for this year is as follows:

- **Prohibit any new investments:** We can confirm that no new investments have been made in any public or private fund that is focused on the fossil fuel industry or any related sector.

- **Phase out existing investments:** As noted above, any existing investment within the endowment is in the form of a private partnership. These are long-duration investment vehicles, often more than a decade, where the disposition of the assets is at the sole discretion of the manager. Consequently, the pace and the scale of the investment "phase out" should be considered a long-term process.

As of June 30, no partnership has fully wound-down and returned capital to the endowment since the board directive in October. Current market conditions have effectively closed the capital markets and thus heavily influenced the ability of private fund managers to exit their positions. While there is some secondary market for these assets, the discount for them is currently very steep and, from a fiduciary standpoint, not a prudent and viable option at this time.

REED COLLEGE INVESTMENT COMMITTEE 2021/2022