Reed College Endowment Report

FY 2023

TO THE

Reed College community:

We are pleased to share this update on the Reed College Endowment for the fiscal year ending June 30, 2023. 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 2023 at $764 million with a trailing 1-year return of 7.5%.
- **Our performance** for the period trailed the traditional 60% equity/40% bond portfolio (+9.4%) but outperformed the median return for the Cambridge Associates (CA) college & university universe (+6.7%).
- **Distributions** accounted for 33% 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 on-going 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 and Treasurer are responsible for the day-to-day management and administration of the investment portfolio.

INVESTMENT OBJECTIVES AND SPENDING

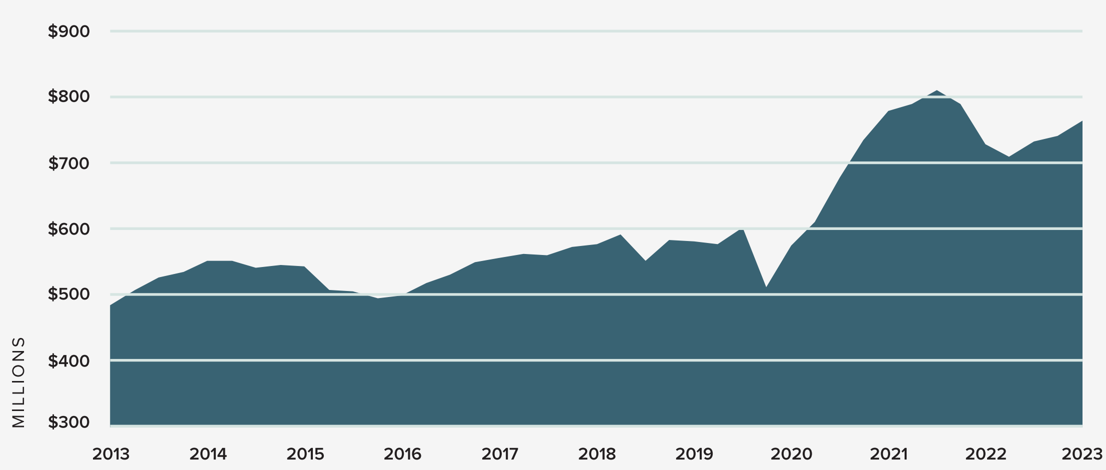
The investment objective of the endowment is to preserve and enhance the endowment's total value so that distributions can provide a reliable and growing revenue stream to support the college's operations. The board of trustees and investment committee recognize that a reasonable and appropriate level 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 2023 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 $485 million to $764 million. During this period, a total of $248 million in net payouts have been distributed in furtherance of the college's mission.

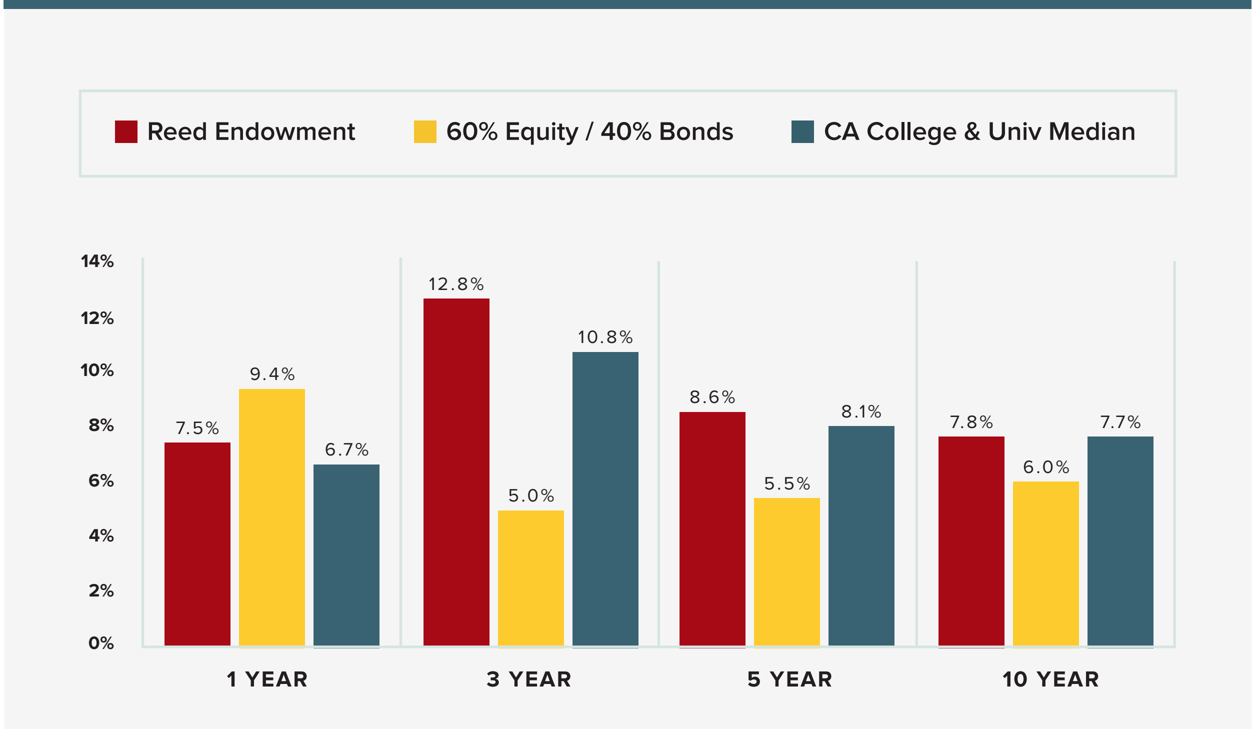
ENDOWMENT VALUE OVER TIME | AS OF JUNE 30, 2023



PERFORMANCE

For the period ending June 30, 2023, the endowment returned 7.5% as capital markets rebounded from a difficult 2022. Over the trailing 3-, 5- and 10-year periods, the endowment has outperformed 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, 2023



PERFORMANCE COMMENTARY

Inflation remained stubbornly high throughout the first quarter of the fiscal year despite the Federal Reserve raising interest rates faster than any period in history. Global markets languished in a state of heightened volatility with the S&P 500 rising and falling 15% in a short four-month span. Interest-rate sensitive instruments—namely longer-term bonds—continued to sell off and extend their losses as investors braced for sustained higher rates. The capital markets finally received the positive news it was looking for in October as inflation showed signs of abating, propelling risk assets higher. Global equity markets surged 23% from their low, led primarily by the technology-sector which shook off a disastrous prior 12 months. One of the most discussed topics on this front was

[1] 60% MSCI ACWI Equity Index & 40% Bloomberg US Aggregate Bond Index
[2] Reported as of December 1, 2023

PERFORMANCE COMMENTARY CONT.

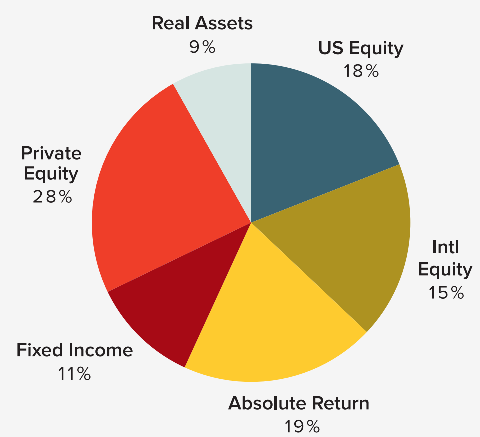
the strength of the "Magnificent 7"—a nickname given to the small number of large-cap tech companies that drove the vast majority of the gains due to exuberant expectations within the Artificial Intelligence arena. Unsurprisingly, value-oriented and small-cap companies lagged significantly in this kind of environment.

The endowment bounced back from the previous fiscal year, returning 7.5% for the period. Managers within our US equity portfolio contributed the most to overall performance as they re-allocated capital to beaten down technology names. Outside of the US, our managers had success in Japan but struggled to navigate a lackluster environment within emerging markets. Managers within the venture capital space continued to face a challenging investment arena—higher interest rates, falling valuations, and limited investor appetite for additional funding. The diversifying components of the portfolio were helpful in reducing overall volatility. Within our absolute return bucket, our credit- and equity-oriented funds drove returns while those who were positioned more conservatively produced muted performance. Finally, the real assets portfolio, designed to perform well in periods of heightened inflation, was positive but dragged down by certain sectors of the real estate market.

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, 2023, is shown to the 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"—physical assets such as real estate, infrastructure, or commodities like oil, gas, or metals. These asset classes/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, 2023, no partnership has fully wound-down since the board directive in October 2021. Despite record-setting performance and profitability over the past few years, large-scale acquisitions and transactions have remained elusive in the energy sector. This is noteworthy because sales to strategic or financial buyers are the conventional avenue of exit for private energy investments. Late in the fiscal year, we did witness a few small deals within our energy portfolio, signaling perhaps a change in the cycle. In the meantime, with distribution yields of 20–30%, the investments within this space have become an outsized source of liquidity and return for the endowment. While there is some secondary market for these assets, the discount for them is excessive and, from a fiduciary standpoint, not a prudent and viable option at this time.

REED COLLEGE INVESTMENT COMMITTEE 2022/2023

JANE BUCHAN (CHAIR)
Trustee
CEO, Martlet Asset Management

GEORGE JAMES ’77
Trustee
Investment Consultant

QUE NGUYEN
Partner, Research Affiliates

RONTI PAL ’91
Trustee
CFO, Molekule

GARY RIESCHEL ’79
Trustee
Founder/Managing Partner, Qiming Venture Partners

RITI SAMANTA ’99
Portfolio Manager, GMO

PETER STOCKMAN ’77
Trustee
Retired Partner, Deep River Group

JAMES URRY
Partner, Family Office

RICHARD WOLLENBERG ’75
Trustee
Former President, CEO, and Chairman of the Board, Longview Fibre Company