Reed College Endowment Report

FY 2024

TO THE

Reed College community:

We are pleased to share this update on the Reed College Endowment for the fiscal year ending June 30, 2024. 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 2024 at $830 million with a trailing 1-year return of 12.4%. Our performance for the period slightly trailed the traditional 60% equity/40% bond portfolio (+12.5%) but outperformed the median return for the Cambridge Associates (CA) college & university universe (+10.1%). Distributions accounted for 32% of the college's overall operating budget and went to support all aspects of the college's operations including financial aid and 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 & Treasurer, are responsible for the day-to-day management and administration of the investment portfolio.

INVESTMENT OBJECTIVES AND SPENDING

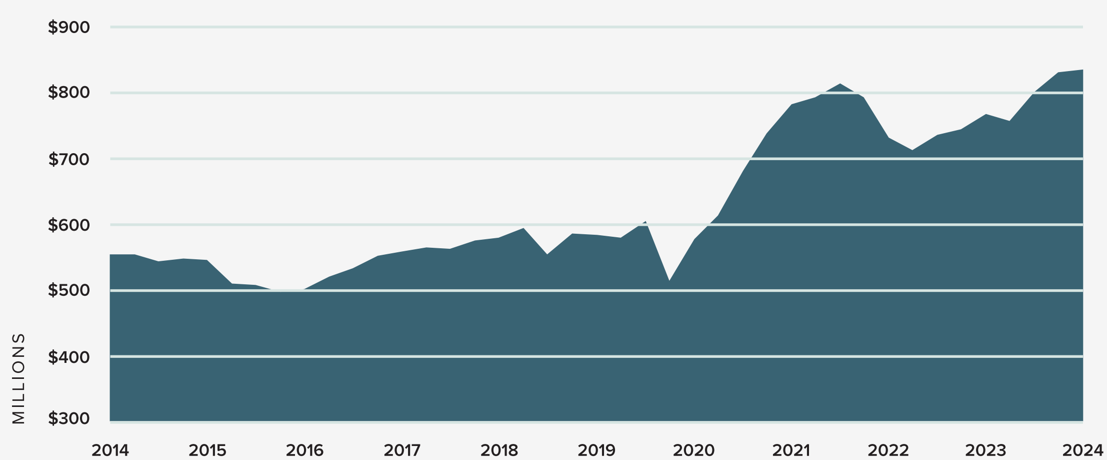
The investment objective of the endowment is to preserve and enhance the endowment's total value so that distributions can provide a reliable and growing revenue stream to support the college's operations. The board of trustees and investment committee recognize that a reasonable and appropriate level 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 2024 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 $552 million to $830 million. During this period, a total of $284 million in net payouts have been distributed in furtherance of the college's mission.

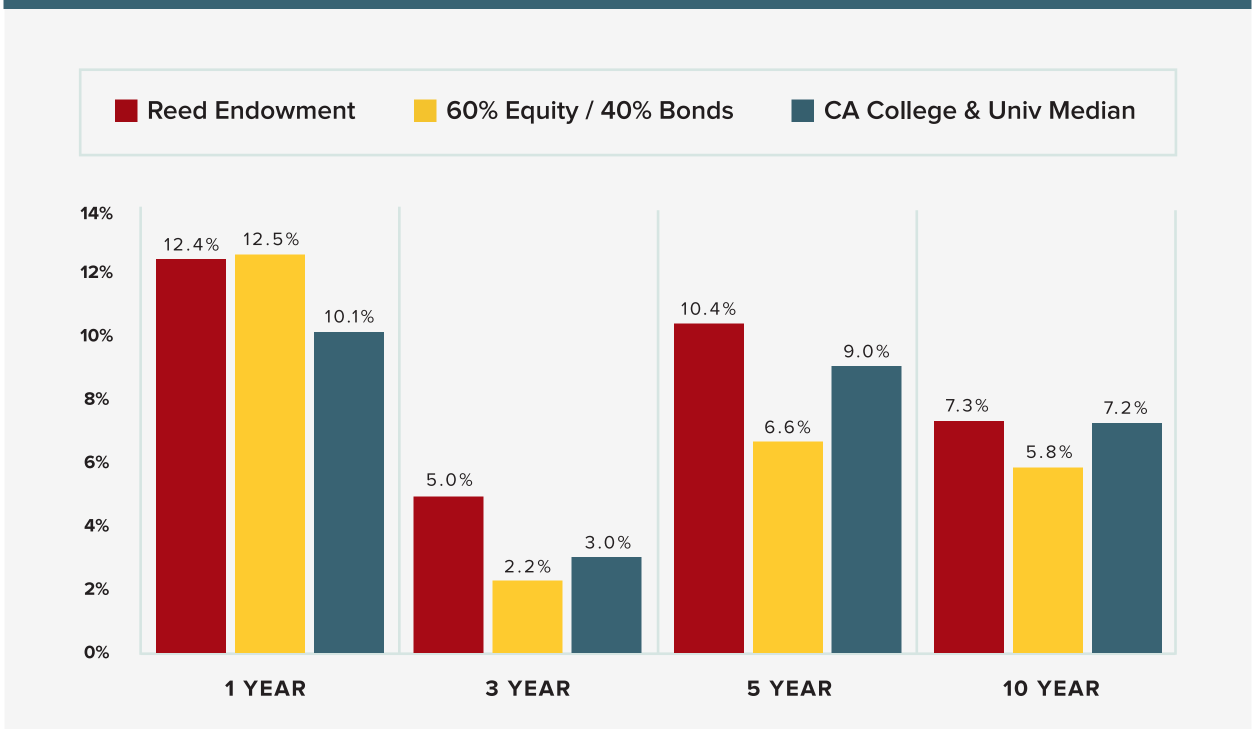
ENDOWMENT VALUE OVER TIME | AS OF JUNE 30, 2024



PERFORMANCE

For the period ending June 30, 2024, the endowment returned 12.4% as capital markets continued their positive run. 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, 2024



PERFORMANCE COMMENTARY

U.S. equity markets once again were the story for the fiscal year as the S&P 500 surged 25% on the back of the technology sector. The "Magnificent 7"—a small group of mega-cap stocks led by Nvidia—accounted for half of this return as investors continued to bet these companies will drive the evolution of Artificial Intelligence. In aggregate, these seven stocks now account for 35% of the market capitalization, a significant concentration. Outside of the U.S., equity markets were positive (+12%) with meaningful dispersion among underlying countries. One noteworthy data point has been the continued surprising weakness of the Chinese stock market—not only over the last year, but also the last decade. Over the trailing 10-year period, the benchmark has returned only

[1] 60% MSCI ACWI Equity Index & 40% Bloomberg U.S. Aggregate Bond Index
[2] Reported as of December 12, 2024

PERFORMANCE COMMENTARY CONT.

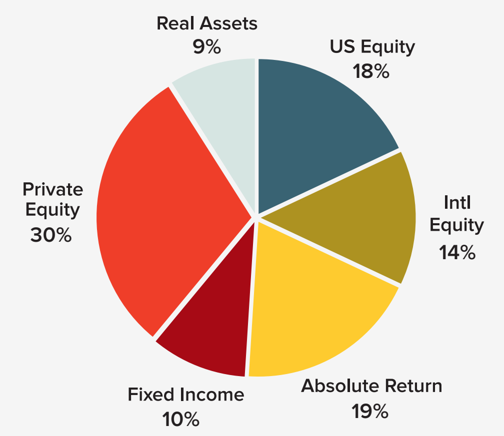
1.4% on an annualized basis. The bond market produced its first positive return (+2.6%) in four years as inflation appeared to stabilize, raising the likelihood of future interest rate cuts by the Federal Reserve.

The endowment benefitted from the robust performance in global risk assets, returning 12.4% for the fiscal year. Unsurprisingly, our U.S. equity portfolio contributed the most to overall performance as managers took advantage of the seemingly unstoppable momentum within technology stocks. Our non-U.S. managers, despite operating within a less favorable environment due to geopolitical and macroeconomic challenges, produced strong relative performance versus the benchmark. Within our absolute return portfolio, the managers successfully positioned their portfolios for the upward trending market while also mitigating risk in volatile periods. The strong performance within the public equity markets did not directly translate to the private investments of the endowment, however. In our private equity portfolio, many of the same issues we highlighted last year—higher interest rates, stagnant capital markets, and limited investor appetite for additional funding—led to another year of muted returns. One bright spot in the private portfolio came within the real assets portfolio as a large holding was sold at a significant premium. We discuss this position further on the following page.

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, 2024, 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, 2024, no partnership has fully wound-down since the board directive in October 2024, though we would like to note that two funds fully returned capital shortly after the end of the fiscal year. The portfolio weighting of real assets actually increased slightly over the past 12 months due to the strong performance of the private energy investments. Collectively, our investments returned 38.2% during this period and was the best performing asset class overall. We have noted in the past that sales to strategic or financial buyers are the typical avenue of exit for private energy investments. During fiscal year 2023, meaningful liquidity once again returned to this space with a large merger between two public energy companies, marking a dramatic end to years of torpid mergers and acquisitions activity. A short time later, the largest holding within our private energy investments was acquired at a significant premium, resulting in a meaningful increase in the endowment market value. In fact, this position proved to be the single best investment in the history of the endowment, producing a net return of over 60-times our invested capital. This holding is no longer in the portfolio. Finally, despite the strong performance the sector has produced over the past few years, the discount for private energy assets has remained stubbornly wide of fair value in the secondary market. Consequently, our opinion is that this remains an imprudent option from a fiduciary standpoint.

REED COLLEGE INVESTMENT COMMITTEE

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