HAVERFORD
COLLEGE

Haverford College
Investment Office
370 Lancaster Avenue
Haverford, PA 19041

November 15, 2021

Dear Haverford College Community,

We are pleased to provide our annual update on the investment activity and performance of the Haverford endowment for the fiscal year ended on June 30, 2021. We are delighted to report a year of strong absolute and relative performance, as the endowment produced investment performance of 32.1%, net of expenses. The endowment ended the fiscal year at approximately $641.5 million, a net increase of $138.1 million (or +27.4%) from the beginning of the year. The components of this increase included record investment returns of approximately $157.9 million, new gifts and inflows of $6.5 million, and a withdrawal in support of the College's academic mission, scholarship, and operations of $26.3 million. This withdrawal, which is derived from the College's spending policy and formula, represented 24% of the College's operating revenues for the year, and a one-year endowment spending rate of 5.2%, based on the beginning of year endowment market value.

Investment market performance for the 2020-21 fiscal year was characterized by extraordinary returns across the spectrum of risk assets. In general, assuming high risk in portfolios was rewarded with high returns during the year, with assets such as venture capital and private equity producing the highest returns, while the global public equity markets returned approximately 39%, as measured by the MSCI All Country World Index (ACWI). As a point of comparison to the 32.1% endowment investment return, the Cambridge Associates universe of similarly-sized endowments and foundations (assets between $500 million and $1 billion) reported results ranging from 24.1% to 39.3% (95th percentile to 5th percentile) with a median performance of 30.9%. [1]

While the strong performance for the year should be celebrated, we caution that this level of performance should not be expected to continue. Most importantly, increasing endowment values, from both investment returns and philanthropy, contribute to increased resources over time for the academic program, scholarships, and the entire Haverford enterprise. Our endowment spending formula is designed to create a smooth increase in payout to the operating budget over time as the endowment value increases, so that available resources and resource allocation are based on long-term growth in resources rather than on a single year's extraordinary investment returns. This approach also works to avoid the need to significantly cut programs and budgets during periods of poor market and endowment returns.

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[1] Cambridge Associates, Endowment Quarterly, 2nd Quarter 2021

Asset Allocation

There were no changes to our asset allocation policy targets and ranges during fiscal year 2020-21, and the portfolio is consistently maintained within policy guidelines. Given the steadily increasing equity markets during the year and an increasing allocation to private equity, our rebalancing policy was triggered several times during the year to incrementally reduce equity exposure at times, in order to maintain policy compliance and targeted risk levels in the portfolio. While maintaining a policy limit on equity assets and rebalancing during strong markets may be viewed as a detractor from returns during these up-market periods, when markets turn negative, we know that the portfolio has been maintained in line with long-term policy guidelines rather than allowing market movements to significantly increase risk in the portfolio.

The asset allocation policy targets and actual allocation as of June 30, 2021, are shown below. Equity assets ended the year overweight versus policy, while diversifying & hybrid assets were underweight the target allocation, and real estate and low volatility assets were generally in line with policy targets. While the June 30th data is a snapshot at a point in time, these relative weightings were generally consistent throughout the year. Furthermore, given the continued increase in equity markets since July 1, 2021, the allocation has since been rebalanced again to maintain policy compliance.

Category	As of June 30, 2021	Policy Target	Minimum	Maximum
Growth Assets (Equity)	69.1%	66%	62%	70%
Diversifying and Hybrid Assets	15.0%	18%	13%	23%
Real Estate	5.9%	6%	4%	8%
Low Volatility and Liquidity	10.1%	10%	7%	13%
Total	100%	100%		

Performance Review

Endowment performance reflected the market environment described above, with the majority of return generated by public and private equity exposure. The 32.1% endowment return was in excess of the global 70% equity/30% bond benchmark (27.4%) and also in excess of a blended index based on the portfolio asset allocation targets (31.0%). With a significant portion of large-cap U.S. equity allocated to passive index exposure, a meaningful portion of the portfolio tracked the return of the large-cap U.S. equity market. The total equity portion of the portfolio returned approximately 43% during the year, with the strongest performing investments generally being venture capital and private equity funds. Our venture capital allocation remains small, but is growing over time, and the total private portfolio still remains young, with an average fund age of under three years. As a reminder the current private program began slowly in 2014, with more meaningful acceleration in private investments and initial allocations to venture capital in 2017. Nevertheless, funds generated very strong returns, particularly our investments in venture capital funds, mirroring the experience across the industry. While maintaining a keen eye on the liquidity of the portfolio, we continue to methodically commit capital to private investments to increase our allocation to the targeted level in the portfolio over time.

Real Estate was the second-best performing category, returning over 21% during the year, while the Diversifying & Hybrid category, which includes investments such as absolute return and credit, returned over 15%. The Low Volatility and Liquidity category, which consists of high-quality fixed income and cash, returned over 2%. The low duration positioning of the fixed income portfolio was a positive during the year, as low duration bonds outperformed intermediate and long duration bonds, and the Bloomberg U.S. Aggregate Bond Index produced a negative return during the year due to rising interest rates.

Update on Fossil Fuel Exposures and Divestment

We also wanted to use this opportunity to reiterate how Haverford's policy and positioning with regard to fossil fuel companies compares with institutions that have released statements on fossil fuel divestment. We addressed this exposure to a certain extent in our ESG and DEI Survey Report that was released and discussed last year. While approaches to divestment are unique to each institution, most institutions who have made public statements have committed to some form of the following:

- No direct ownership of fossil fuel companies and no public energy/fossil fuel sector funds
- No new private energy/fossil fuel investments, and allowing any existing private investments to naturally wind down over their normal life, with projections of up to ten years in some cases to fully exit these positions given the illiquidity of the holdings
- Acknowledgement of possible exposure to fossil fuel companies within diversified funds due to the commingled nature of such funds and institutions' inability to fully control the underlying holdings

We are very much aligned with these practices, and believe our positioning is equal to, or in certain cases, more favorable, with regard to limiting fossil fuel exposures. We specifically identified sustainability in the Investment Policy Statement as a factor for consideration in the selection of investment managers in 2016, stating that "sustainability factors can introduce long-term risks to the portfolio, such as those posed by climate change." In practice, Haverford has no direct ownership of fossil fuel companies, no publicly-traded energy/fossil fuel sector funds, and no expectation to make such investments. Historically, Haverford has had minimal exposure to traditional private energy/fossil fuel funds, has not made a commitment to such a fund since 2006, and has less than 0.1% of the endowment remaining in these legacy illiquid positions. We expect these positions to liquidate within 12 – 24 months, will continue to seek an earlier exit, if possible, and have no expectation to make any of these types of investments in the future. We also acknowledge that some minimal exposure to fossil fuel companies occurs via investments in broadly diversified index and actively-managed funds, in which we do not fully control the underlying holdings. While we seek to avoid even diversified funds that have demonstrated meaningful allocations to fossil fuel companies, some exposure can occur. In our 2020 analysis, we estimated underlying exposure to traditional energy companies via commingled funds of 2.1% of the endowment, versus 3.2% for the MSCI ACWI.

However, we also recognize the importance of tangible policy to support this actual positioning with regards to fossil fuels. The College's Senior Staff, Board of Managers, Investment Committee, and other engaged constituents continue to discuss and evaluate next steps in minimizing fossil fuel exposures and aligning our practice with our policies and values.

Year-End Updates

As of June 30, 2021, Roger Kafker ’84 completed his Board and Investment Committee term and moved from his role as chair of the Investment Committee to adjunct committee membership. We thank Roger for his many years of committee membership and leadership, and look forward to his continued engagement as an adjunct member. Also beginning with the 2021-22 fiscal year, Bruce Gorchow ’80 has moved into the chair of the Investment Committee role, with Sara Recktenwald ’87 assuming the assistant chair role.

As always, we send our thanks to the entire Haverford community for your ongoing support, dedication, and generosity to the College. We are dedicated to the stewardship of your philanthropic giving and strong financial management of the entire organization. Even with the difficulties and uncertainties of recent years, this support and management has enabled Haverford to increase its financial strength significantly and to deliver its world-class education to current and future students.

With appreciation for your continued support,

Michael Casel, CFA, CAIA
Chief Investment Officer

Investment Committee of the Board of Managers

Steve Begleiter ‘84
Managing Director
Flexpoint Ford

Seth Bernstein ’84
Chief Executive Officer
AllianceBernstein LP

Jackie Brady ’89
Executive Director
PGIM Real Estate

Bruce Gorchow ’80 (Chair)
Senior Advisor
PPM America Capital Partners

Roger Kafker ’84
Senior Advisor
TA Associates

Josh Miller ‘96
Director, Absolute Return
Georgetown University Investment Office

Narv Narvekar ‘84
Chief Executive Officer
Harvard Investment Management Company

Sara Recktenwald ’87 (Assistant Chair)
Retired Partner
Goldman Sachs