

Haverford College

Haverford College
Investment Office
370 Lancaster Avenue
Haverford, PA 19041

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Dear Haverford College Community,

I'm pleased to provide the annual update on the investment activity and performance of the Haverford endowment for the fiscal year ended on June 30, 2022. Investment market performance for the 2021-22 fiscal year was characterized by a reversal of the extraordinary returns experienced in the prior year. Whereas assuming high risk in portfolios was rewarded with high returns last fiscal year, high valuation assets such as technology and biotechnology stocks declined significantly in the second half of the 2021-22 fiscal year.

For Haverford, it was a year of strong relative performance for the endowment during the market downturn, as the endowment protected capital well and produced investment performance of -2.6%, net of all expenses. A blended index based on the portfolio asset allocation policy targets returned -12.0%, and the Cambridge Associates universe of similarly-sized endowments and foundations (assets between \$500 million and \$1 billion) reported preliminary results ranging from -14.1% to +0.2% (95th percentile to 5th percentile) with a median performance of -7.2%. These preliminary figures place Haverford in the first quartile of this universe for the year.

The endowment ended the fiscal year at approximately \$619 million, a net total decrease of \$22.5 million (or -3.5%) from the beginning of the fiscal year. The components of this decrease included an investment return of approximately -\$13.0 million, new gifts and other inflows of +\$16.9 million (including a \$5 million contribution from College operating funds), and a withdrawal in support of the College's academic mission, scholarship, and operations of -\$26.4 million. This withdrawal, which is derived from the College's spending policy and formula, represented 23% of the College's operating revenues for the year, and a one-year endowment spending rate of 4.1%, based on the beginning of year endowment market value. These metrics fall within our customary and expected projections.

Even with this most recent market downturn, the endowment is in a very strong position. After the record 32%+ return in FY21 and the small contraction this past fiscal year, the endowment remains near its highest value ever recorded as of the end of FY22. From a portfolio governance standpoint, the portfolio is in line with all policy and asset allocation guidelines, and liquidity remains very strong even with a growing private equity portfolio and the recent decline in the public markets.

Asset Allocation

There were no changes to our asset allocation policy targets and ranges during fiscal year 2021-22, and the portfolio was consistently maintained within policy guidelines. In last year's letter I described how our rebalancing policy was frequently triggered during FY21 and into early FY22, to incrementally trim equities and maintain our desired risk profile during the strong equity market. I also noted that rebalancing can have a short-term negative impact on performance during continuous up-markets, but FY22 quickly demonstrated the importance of our process. When equity markets suddenly reversed course, the portfolio was in line with policy and desired risk levels, and liquidity remained strong.

The asset allocation policy targets and actual allocation as of June 30, 2022, are shown below. Equity assets ended the year marginally underweight versus policy, as did Diversifying and Hybrid assets and Low Volatility assets. Given strong relative performance and the illiquid nature of the holdings, Real Estate ended the year overweight the policy target. While the June 30th data is a snapshot at a point in time, Equity and Low Volatility assets were incrementally smaller portions of the portfolio, while Diversifying and Real Estate assets were incrementally larger portions of the portfolio, compared to the end of the prior fiscal year. Nevertheless, allocations were maintained close to policy targets and well within policy guidelines.

Category	As of June 30, 2022	Policy Target	Minimum	Maximum
Equity	65.8%	66%	62%	70%
Diversifying and Hybrid	16.9%	18%	13%	23%
Real Estate	7.8%	6%	4%	8%
Low Volatility and Liquidity	9.4%	10%	7%	13%
Total	100%	100%		

Investment Performance Review

While the endowment experienced a negative return during the year, the decline was much more muted than the declines in the public equity and fixed income markets. The -2.6% endowment return was in excess of the global 70% equity/30% bond index (-15.5%) and also in excess of a blended index based on the portfolio asset allocation policy targets (-12.0%). Real Estate was the strongest performing broad asset category (+31.5%), followed by the Diversifying & Hybrid asset category (+10%), which includes investments such as absolute return, long/short equity, and credit. Private equity generated positive performance of over 19%, while public equity holdings declined between -15% and -20% across U.S. equity, developed international equity, and emerging markets equity. It is important to note that the performance figures for private equity are based on updated June 30th valuations, but nevertheless, the illiquid nature and lagged pricing and fund valuation approaches for such investments likely contributed at least some to the performance dispersion between private and public equity. Future quarterly private equity valuations may adjust over time

to better reflect the recent declines in public equities. The Low Volatility and Liquidity asset category declined -2.3% during a year in which bonds suffered from rising interest rates, but the low duration positioning of the portfolio and mix of TIPS and nominal bonds was a positive during this period versus broad fixed income indexes.

Changes to Haverford's Endowment Management Structure

Haverford has decided to move to an outsourced chief investment officer (OCIO) structure. The College undertook a process to determine the endowment oversight structure that would make the most sense moving forward, considering such factors as market complexity, the make-up and governance structure of the Investment Committee, and the ability to maintain an experienced, well-resourced internal team at Haverford's asset level, among other factors. The Investment Committee recommended this change in structure and the full Board of Managers came to consensus to move forward with this plan. We are currently in the transition period to move endowment management to the new strategy and oversight under the OCIO structure, after which I'll be departing Haverford.

A Final Thank You

My 15+ years at Haverford have been an extraordinary experience and I am very proud to have partnered with the Investment Committee in leading the transformation of the College's investment program, from the re-writing of the investment policy statement, to instituting governance best-practices, to building the private equity portfolio from scratch, to most recently helping the College think through the best structure for Haverford's endowment management going forward (and everything in between!). I am grateful for my time at this exceptional institution, thankful for the friendships and relationships that I take with me, and am excited for a new challenge.

I am truly humbled by the many notes of thanks and support that I've received from across the College community. Haverford is a special place with so many people for me to thank that I could not possibly list them all. But I would like to acknowledge College presidents, members of senior staff, faculty and staff across the institution, investment committee and board members, the many alumni and students I have met over the years, and our investment manager partners and other friends in the investment community. I have made many friendships that will continue past my time at Haverford, and the community will always have a special place in my heart. To the community - the endowment is in a very strong position and I am confident that it will continue to be adeptly managed and overseen under the new structure, all in support of Haverford's mission. Best of luck to all, and thank you!

With appreciation for the many years of support,



Michael Casel, CFA, CAIA
Chief Investment Officer

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