

Williams

Investment Report 2017

To the Williams community,

We are pleased to report that the Williams College Investment Pool had strong performance during the fiscal year ended June 30, 2017, closing the year in excess of \$2.5 billion in value. This figure represents a new high-water mark for our endowment.

The portfolio returned 14.6 percent, outperforming both our internal benchmark and long-term real return objective. Further, we anticipate the Williams FY 2017 return will exceed those of peer school averages, results that we expect to be reported in the coming months.

Our returns were driven by the powerful combination of high-quality managers across all of our asset classes and the strong run in global equity markets. Our managers have been chosen through the diligent efforts of our staff, in conjunction with wise counsel from our knowledgeable and dedicated Advisory Committees and Investment Committee. These engaged committees, made up of some of the savviest investors in the country, have been a true competitive advantage for our office. We are grateful for their service.

As was announced at the end of the past academic year, President Adam Falk will conclude his term as Williams' 17th president later this year, to become president of the Alfred P. Sloan Foundation. During his tenure President Falk was a valued member of the Investment Committee. He attended every committee meeting, bringing a unique perspective, superior intellect and insightful questions. During his tenure the value of the endowment increased by more than \$1 billion.

With FY 2017 now closed, we have fully turned our attention to FY 2018 and beyond, as we remain sensitive to the concept of reversion to the mean. Our sole, singular goal is to provide the resources to ensure intergenerational equity for Williams students in perpetuity. To achieve this outcome, we know that we must continue to allocate the college's capital prudently and select great investment managers to grow our resources.

Driving us in our work each day is an intense focus on supporting the mission of Williams College—to provide the finest possible liberal arts education and welcome the most academically committed students, regardless of their financial resources. We will continue to bring everything we have to that mission: hard work, our collective experience, a passion for investing and our love for Williams.

Sincerely,



Jonathan A. Kraft '86
Chair, Investment Committee



Collette D. Chilton
Chief Investment Officer

Summary Investment Performance

Looking back over the last 40 years, the Investment Pool has grown from \$50 million to \$2.5 billion, and Williams has enjoyed an annualized return of approximately 11.9 percent. During this period, our returns have been as high as 50.9 percent (2000) and as low as -18.4 percent (2009). While our FY 2017 return of 14.6 percent is satisfying, we work to maintain a very long-term perspective. Today, our 20-, 30-, and 40-year annualized returns are all above 10 percent. Our 10-year return of 6.5 percent is still being impacted by the -18.4 percent return during the global financial crisis.

Annualized Returns for the Fiscal Year Ended June 30, 2017					
	1 Year	3 Years	5 Years	10 Years	20 Years
Williams Portfolio ¹	14.6%	7.5%	10.9%	6.5%	10.2%
Policy Portfolio Benchmark ²	12.4%	4.6%	8.0%	4.5%	n/a
60/40 Stock/Bond Portfolio ³	10.4	7.0	9.7	6.4	6.7
Return Objective ⁴	6.6	5.8	6.3	6.6	7.1

¹ Williams Portfolio returns are net fees and annualized for periods over one year.

² Policy Portfolio return data is not available for 20-year periods.

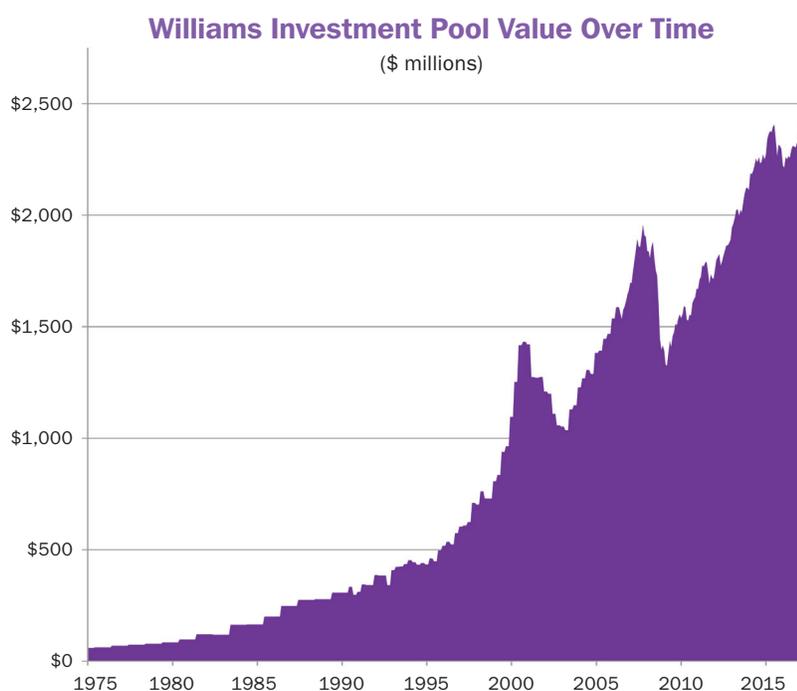
³ A passive benchmark of 60% S&P 500 Index/40% Barclays Aggregate Bond Index.

⁴ The Williams Return Objective is a 5% real return plus inflation, defined by the Consumer Price Index.

The following table presents annual returns for the last 10 years.

Annual Fiscal Year Returns									
2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
14.6%	-1.5%	9.9%	17.5%	14.8%	3.1%	20.2%	11.9%	-18.4%	-1.1%

The following table depicts growth in the Investment Pool since 1975.



Allocation and Asset Class Performance

The following table presents the investment return for each of our 10 asset classes, our target allocation for each asset class and some brief commentary.

Asset Class	FY17 Return	FY17 Target Allocation	Commentary
GLOBAL LONG EQUITY	23.9%	23%	The global long equity portfolio generated the highest return of all 10 asset classes as markets continued to rally across both developed and emerging markets.
GLOBAL LONG/SHORT EQUITY	13.9%	19%	The global long/short equity portfolio had strong performance, as managers participated in the equity market rally across global markets.
ABSOLUTE RETURN	9.2%	19%	The absolute return portfolio also performed well. Both distressed and performing debt generated strong returns, in addition to specific equity positions.
VENTURE CAPITAL	10.9%	6%	The venture capital portfolio performed well, although the market continues to experience limited realizations as the exit environment remains relatively muted.
BUYOUTS	19.1%	9%	Valuations remain high, which contributed to a robust exit environment (and record-high level of distributions) and a slower pace of investment.
REAL ASSETS	18.4%	5%	Valuations increased during the fiscal year, driven largely by stabilizing commodity prices. This led to a strong year of performance.
REAL ESTATE	9.3%	6%	The real estate portfolio had another strong year as investors continued to seek stabilized, yield-generating assets.
INVESTMENT GRADE FIXED INCOME	3.2%	2%	A continued underweight to duration and exposure to strong investment grade corporate credits drove outperformance on a benchmark relative basis.
NON-INVESTMENT GRADE FIXED INCOME	13.2%	10%	Non-investment grade fixed income posted strong gains. Short-duration and high-quality assets outperformed, as managers were positioned to benefit from rising interest rates. Distressed credits also saw strong recoveries during the year.
CASH	0.0%	1%	Cash returns were near zero during the year.
TOTAL	14.6%	100%	

Notable Events During Fiscal Year 2017

Investment Results – It was a successful and satisfying year. Each asset class performed well. Distributions from private partnerships were significant—the highest in more than 10 years. Distributions from buyout managers were particularly notable, as more mature investments continued to return cash to Williams.

Investment Relationships – We conducted more than 400 meetings in FY 2017 (our typical pace) in a concerted effort to know our managers and prospective managers better and to ensure they know us better, too. Nurturing these relationships is key to successful manager selection and strong performance.

Governance – The men and women who help to oversee the investment program have always been part of Williams’ investment edge. This year, we were pleased to welcome Noriko Honda Chen ’89 and Jonathan Sokoloff ’79 to the Investment Committee. Also, we thanked Greg Avis ’80 and Laurie Thomsen ’79, who concluded their terms as trustees emeriti on the Investment Committee.

Impact Investing – We continue to seek investment opportunities with managers whose areas of expertise include companies, projects or technologies focused on the reduction of global greenhouse gas emissions (also known as “impact investments”). We made our first impact investment in FY 2017 and continued to engage with our managers on the topic.

Student Programs – This year, we held our ninth Winter Study on campus program, with eight students participating. We also hosted our 10th annual summer analyst program, with two students participating for the 10-week program. Since 2008, we have worked with more than 55 students through our various student programs.

How we Invest – Asset Allocation

At the Williams College Investment Office, our job is to allocate the college’s capital to earn a sufficient return to contribute to the college’s annual operating budget (and financial aid priorities) and to maintain the intergenerational equity of the endowment. As an endowment, we are the ultimate long-term investor. Our investment time horizon is perpetuity. The decision of how to allocate the college’s capital (called our Policy Portfolio) is our long-term strategic view. The Policy Portfolio represents the Investment Committee’s view of what percentage of the Investment Pool should be invested in each asset class (e.g., equities, fixed income, cash). It is a strategic framework and a useful way to organize the portfolio. We typically do not make material changes to our Policy Portfolio from year to year, and FY 2017 was no exception. We made a 2 percent shift by increasing our allocation to the global long/short asset class with a corresponding decrease to global long equity.

How we Invest – Manager Selection and Investment Relationships

Selecting successful investment managers is at the center of what we do. It is often a slow process. It may take years to build a relationship with (and gain access to) a particular investment manager. We have sourced the vast majority of our managers through our relationships, including with managers already in our portfolio and other investors. We have been actively sourcing managers since the start of the Investment Office more than 10 years ago. While we typically have more than 400 meetings with current and prospective managers each year, we add only a few new names as a result. It is a slow process, but today, after 10 years, approximately 80 percent of the active relationships in the Investment Pool were sourced by the investment office staff.

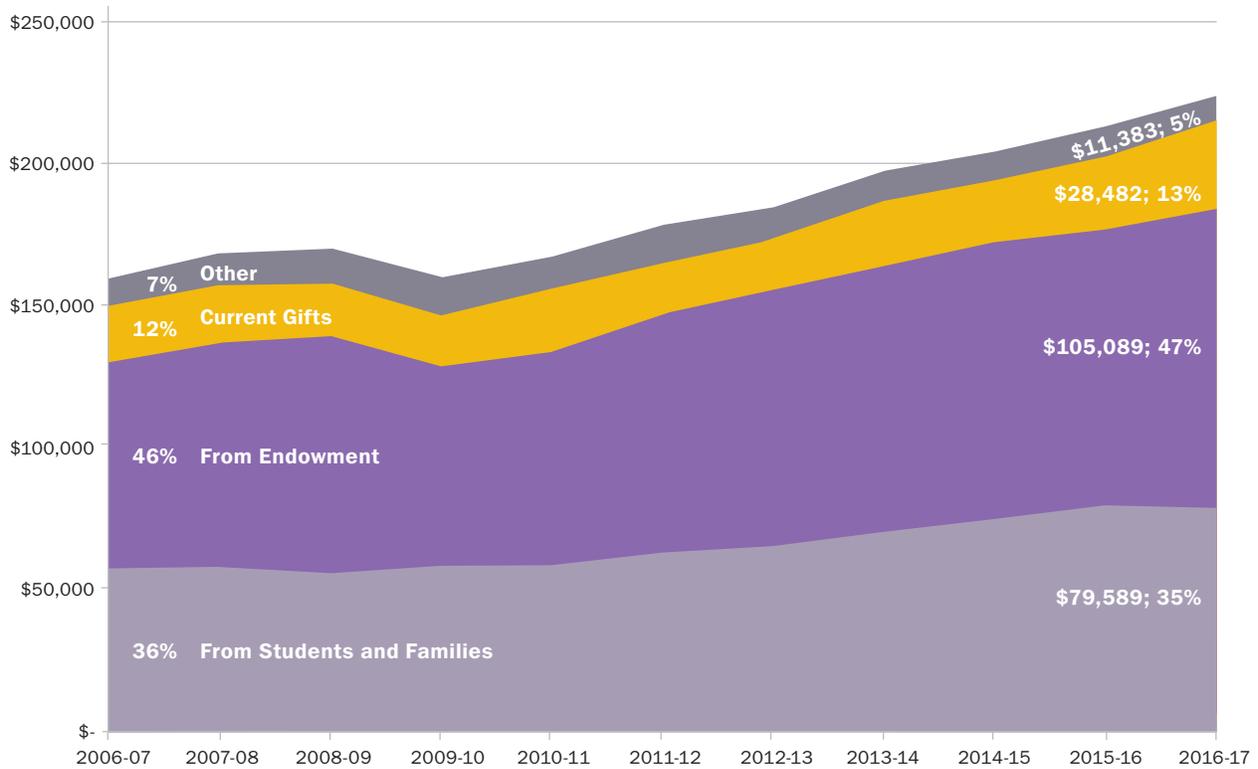
Once we have identified a manager, the real work begins. We have written in previous annual reports about our due diligence process—the quantitative and qualitative analysis that results in an investment decision. In short, we are looking for great investors, solid returns, an understandable and repeatable investment process, alignment of interests and a suitable operational infrastructure.

Often, the managers we identify are both in high demand and capacity constrained. They have their choice of partners. Investing with great managers is a two-way street, and often they consider us with the same care as how we examine them. We want them to be careful, because a firm with a weak investor base can be problematic if the manager goes through a rough patch and investors with a shorter-term focus redeem. We work to show that Williams is a good long-term partner and that we have a lot to offer: a stable capital base, experienced and sophisticated governance, and a team that has been investing for decades across multiple market cycles. Our portfolio moves slowly. Once we find a great investment manager, we stick with them—some for more than 25 years, one for more than 30.

How the Investment Pool Supports the Williams Operating Budget

As shown in the following graph, Williams relies on the endowment to provide approximately 50 percent of every dollar the college spends. Having a \$2.5 billion endowment (more than \$1 million per student) allows Williams to sustain our educational offerings while we continue to grow our financial aid budget and meet the full financial need of every admitted student.

Trend in Revenue Sources



A Word on Impact Investing

In an effort to integrate impact investments into the endowment, the Investment Office established an impact investment strategy mandate, which entails a rigorous screening process focused on two key attributes for potential investments: It must generate a market rate of return while simultaneously having a measurable impact on the reduction of global greenhouse gases.

During FY 2017, we made our first impact investment in a firm that invests in the debt securities of small- to mid-sized clean energy or infrastructure projects such as solar, wind, geothermal, biofuel, efficiency, natural gas and water projects in North America. This investment aligns with our new impact mandate, as 1) We expect it to deliver attractive returns; and 2) Each of the fund's investments is expected to have a positive carbon dioxide offset, which is calculated and reported to investors once each year. Impact investments are integrated into our overall Policy Portfolio.

Last year we wrote to our investment managers and asked them to lead in this area by considering carefully the impact of potential investments or investment strategies on greenhouse gas emissions. We received overwhelmingly appreciative responses. It is clear that many of our existing managers are aligned with us on this matter and consider the environmental impact of their investing activity.

Governance and Management

as of June 30, 2017

Investment Committee

Jonathan A. Kraft '86, Chair
Timothy A. Barrows '79*
Noriko Honda Chen '89*
Michael R. Eisenson '77*
O. Andreas Halvorsen '86*
Elizabeth B. Robinson '90*
Jonathan D. Sokoloff '79*
Emeritus Member of the Committee
Robert G. Scott '68

Advisory Committees

Marketable Assets

O. Andreas Halvorsen '86, Co-Chair*
Elizabeth B. Robinson '90, Co-Chair*
Noriko Honda Chen '89*
Charles P. Coleman III '97
Jennifer A. Heller '00
Jonathan A. Kraft '86
Paul E. Singer P'96, '00

Non-Marketable Assets

Timothy A. Barrows '79, Co-Chair*
Jonathan D. Sokoloff '79, Co-Chair*
Steven C. Graham '82
Elizabeth B. Robinson '90*
Collin E. Roche '93
Nathan K. Sleeper '95

Real Assets

John S. Foster '80, Co-Chair
Robert M. Pinkard '75, Co-Chair
Mary Lou Boutwell '74
William J. Maher '77
Michelle Y. Pak '91
Glenn A. Shannon '78
Emeritus Member of the Committee
Robert G. Scott '68

*Williams College Trustee

Chief Investment Officer and the Williams College Investment Office Staff

Reporting to the college president, the chief investment officer oversees and manages the college's investments, including the selection of investments, investment managers and consultants, subject to the approval of the Investment Committee and according to the committee's policies and procedures.

Collette D. Chilton
Chief Investment Officer

Julia T. Crosby
Managing Director

Abigail G. Wattley '05
Managing Director

Bradford B. Wakeman
Managing Director and Chief Operating Officer

Derek R. Andren
Senior Associate

Sean C. Burbank
Senior Associate

Hillary S. Cook '15
Investment Analyst

Jack C. Bissell '16
Investment Analyst

Christopher J. Cronin
Investment Operations Associate

Kristin A. Corrigan
Executive Assistant/Office Manager

Jessica L. Barresi
Administrative Assistant