Williams College Investment Report 2009

Williams College offers an undergraduate education second to none, made possible in part by its deep financial resources. Managing the $1.4 billion endowment to serve the needs of today's students—while sustaining its value for future generations—is the mission of the Investment Committee of the College's Board of Trustees, its Investment Advisory Committees, and the Williams College Investment Office.

In addition to presenting fiscal year 2009 returns and historical data, this letter summarizes how the Williams endowment is managed day by day and over the long term. Information on staffing, portfolio oversight, and how Williams allocates assets and selects and monitors outside investment managers is also provided in this report.

Fiscal Year 2009 Context

While world markets dropped precipitously between July 2008 and June 2009, recent changes to Williams' long-term strategic asset allocation—in particular the reduced exposure to US equities and the increased exposure to fixed-income and absolute return investments—helped to mitigate the losses and decrease the volatility of the endowment's investment returns. These portfolio management decisions, combined with low debt exposure and careful attention to the liquidity of the portfolio, meant that Williams did not have to wrestle with the liquidity issues that forced some peer institutions to borrow to support operations and/or try to sell private investments at distressed prices.

Fiscal Year 2009 Results and Annual Returns for the Past Ten Years

The Williams investment pool returned -18.42% for the year ending June 30, 2009—a 12-month period when the broad US equity market was down over 26%. Clearly, FY 2009 was a challenging year. But Williams' portfolio has weathered difficult years before, and the Board's approach to managing the endowment explicitly contemplates the need to accept the risk of negative annual returns periodically as a cost of maintaining a portfolio that will provide attractive investment returns over the long term. The table below presents annual returns for the past 10 years.

2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
(18.4%)	(1.1%)	24.0%	12.8%	12.4%	17.8%	5.2%	(9.1%)	(8.4%)	50.9%

The annualized return for the 10-years ended June 30, 2009 is 7%.

How the Endowment Supports the Williams Budget

In FY2009, Williams' operating budget called for nearly $100,000 of spending for each student, an amount well in excess of full tuition and fees. Williams makes up the vast majority of the difference through earnings on endowment, which supported nearly 40% of the operations budget this past year.

Gifts to the Endowment Make a Great Difference

We have an endowment only because of historical gifts. The continuation of gifts to the endowment will make a critical difference going forward, as they have in the past. Each year, an additional 1 to 2 percent of the endowment's annual growth comes from new gifts.

A Long-Term Investment Strategy and Active Oversight

During the past two years, Williams has instituted a new investment structure, a new set of investment policies, a new seven-person investment office based in Boston, and a new asset allocation policy. We enhanced our controls over manager due diligence and selection, valuation, and performance measurement. And we sought out and added new investments to the Williams portfolio, while reducing or eliminating our exposure to others.

We believe that the single largest driver of long-term performance is the decision of how we *allocate* assets, rather than how we time particular investments. The Investment Committee's asset allocation policy determines within reasonably narrow ranges what portions of the endowment should be invested in various asset classes. These allocations (called our "Policy Portfolio") are designed to achieve an investment objective, which is driven by the College's spending needs. Each spring the Investment Office conducts a comprehensive review of asset allocation and underlying assumptions. The Investment Office then reviews the Policy Portfolio with the Investment Committee in order to benefit from the Committee's views on the investment environment and to reposition the portfolio if necessary.

The Policy Portfolio set by the Investment Committee in 2007—and achieved through careful asset reallocations in 2008—diversified the endowment across 10 asset classes and reduced the amount historically invested in long-only U.S. equities. The Committee also increased the amount invested in the real assets and fixed income asset classes. The table below presents the Policy Portfolio over time and the Policy Portfolio approved by the Investment Committee at its May 26, 2009 meeting.

Policy Portfolio	Actual 12/31/06 Portfolio	Policy Portfolio FY 2008	Policy Portfolio FY 2009	Policy Portfolio FY 2009 (new classifications)	Policy Portfolio FY 2010	Change
Public Equity						
US Equity	46%	27%	24%			
Developed Non-US Equity	15%	18%	19%			
Emerging Markets Equity	3%	5%	5%			
new Global Long/Short Equity				15%	16%	1%
new Global Equity				33%	26%	-7%
Absolute Return	8%	10%	12%	12%	12%	*none*
Venture Capital	5%	6%	6%	6%	6%	*none*
Buyouts	8%	9%	9%	9%	9%	*none*
Real Assets	0%	6%	6%	6%	9%	3%
Real Estate	5%	6%	6%	6%	6%	*none*
Fixed Income						
Investment Grade	5%	12%	12%	12%	10%	-2%
Non-Investment Grade					5%	5%
Cash	5%	1%	1%	1%	1%	*none*
	100%	100%	100%	100%	100%	

The following discusses some of the asset classes in the Policy Portfolio:

- **Equities** – While traditional equities provide the potential for long-term portfolio growth, we are continuing to de-emphasize traditional equities in favor of asset classes that may provide more attractive risk/return characteristics and protect the portfolio when equities struggle.
- **Absolute Return** – We have increased our allocation to carefully selected multi-strategy hedge funds (from 10% to 12% for FY 2009) and are maintaining a 12% allocation for FY 2010.
- **Venture Capital and Buyouts** – We believe the long-term return potential in venture capital and buyouts remains strong. While we understand some institutions are reducing their allocations to private equity, due to liquidity constraints, we are not decreasing the allocation to those asset classes in the Williams portfolio although we continue to operate with careful regard to liquidity.
- **Real Assets** – Williams had a lower allocation to real assets relative to its peers in part reflecting a concern that commodity prices had been unsustainably inflated. We believe that the long-term risk/return characteristics and the inflation protection capabilities of real assets today warrant the increase from 6% to 9% of the Policy Portfolio.

- **Real Estate** – We believe the return, risk, correlation and inflation protection benefits of real estate assets justifies maintaining a 6% allocation, and that the current environment should offer attractive opportunities for the best managers.
- **Fixed Income** – This "anchor to windward" asset class served us well during the recent period of financial crisis. We are maintaining the 10% core allocation and making a strategic allocation to non-investment grade credit.

Selecting and Evaluating Investment Managers[1]

Once the asset allocation policy has been adopted by the Investment Committee, the Investment Office hires managers to fulfill the established investment objectives. All of Williams' investments are managed by outside managers. In selecting an outside manager the Investment Office considers many factors, including:

1. demonstrated ability to meet the College's objectives;
2. sufficient organizational depth and continuity of investment professionals;
3. clear and effective decision-making and plans for managing future capacity;
4. consistent investment strategy;
5. confidence in the investment strategy's likely success; and
6. adequate reporting, administration, risk management, and back-office support.

Each potential investment is also reviewed in the context of overall portfolio risk regarding:

1. concentration;
2. liquidity; and
3. transparency.

After conducting due diligence on a specific manager, the Investment Office staff seeks input from the appropriate Advisory Committee (see page 5) and approval from the Investment Committee.

By continually monitoring outside managers, the Investment Office extends its initial due diligence into a formal regime designed to verify that each investment management firm is meeting its investment objectives, the overall objectives of the portfolio with respect to transparency, liquidity and concentration, and other requirements. For marketable assets (e.g. long-only and hedge fund managers) monitoring includes monthly reviews of investment manager performance, in-depth quarterly portfolio reviews, and annual site visits with each and every manager. For non-marketable assets (e.g. venture capital, private equity and real estate), Investment Office staff review investment performance at least quarterly, communicate directly with the investment manager at least semi-annually, and generally conduct annual site visits and/or attend annual meetings. This structured and disciplined manager due diligence and monitoring regime pays real dividends, enabling us to increase our exposure to particularly attractive managers as well as to withdraw from certain managers before exit demand overwhelms them.

A Careful Liquidity Position

Maintaining a fully invested, yet liquid portfolio is integral to the dual goals of generating the long-term expected return necessary to support the College and providing funds to the College on a timely basis. Oftentimes, high returning investments may come at the expense of liquidity. The Investment Office, working closely with the Provost's office, models future cash flows with an eye towards maintaining a fully invested portfolio while having sufficient liquidity to fund College operations and the capital calls for illiquid investments. Here are some highlights:

- Today more than one-third of the portfolio can be converted to cash without penalty in one month or less.
- We continually model several different scenarios and can fund all capital calls and College operations without materially disrupting our target asset allocation.
- Williams has total unfunded investment commitments of $243.9 million (or approximately 17% of the total endowment); this is manageable for us, and advantageous when compared to other colleges.

[1] *Williams doesn't publish a list of its outside investment managers. Because some of our most successful managers insist on confidentiality, and because the College prefers to treat managers equally, all remain confidential.*

A Word about Expenses...

Investment program expenses (e.g. management fees and investment office expenses) erode investment performance. The Investment Committee approves an annual budget for the investment program. The Investment Office reports budget versus actual expenses to the Investment Committee on a quarterly basis.

The Endowment Model: A Powerfully Durable Investment Strategy

The "endowment model" refers to an investment strategy pursued by investors that have a long-term investment horizon and the objective to produce sufficient returns to support the institution and preserve the endowment's purchasing power. Generally speaking, the endowment model includes an equity bias, diversification, and an emphasis on alternative assets such as hedge funds, venture capital, buyout funds, real estate, and real assets.

Is the endowment model broken? We believe that, while the last 12 months exposed many flaws in the ways that the endowment model has been implemented by colleges generally, the core elements of the approach remain valid and important to Williams. The investment horizon for our endowment is theoretically infinite, and the endowment model properly applied values long-term results and risk management over short-term tactical bets.

How does this apply to Williams? To protect and grow the endowment, Williams maintains a diversified portfolio of carefully selected and monitored investments across ten asset classes. Throughout the recent financial market crisis, the Investment Office remained focused on the long-term portfolio, rebalancing when necessary, and avoided any temptation to cut losses which might have resulted in selling at the bottom. The endowment's alternative asset portfolio was constructed in a measured way; Williams has avoided the well-publicized problems that resulted from unmanageably high unfunded commitments to these investments. Williams has not been pressed to issue debt to shore up its liquidity, as maintaining a large liquidity reserve and monitoring it closely have always been, and will continue to be, top priorities. To further protect the endowment and to capitalize on current market conditions, Williams has added exposure to inflation-hedging assets as well as credit-oriented investments.

Looking Ahead

In this time of unusually high market anxiety and extremely volatile returns, we are continuing to focus on our long-term Policy Portfolio, carefully seeking new investment opportunities, redoubling our monitoring efforts with our investment managers to understand valuations and risks in the portfolio, and actively managing portfolio liquidity.

The Investment Office, the Investment Committee, the Advisory Committees and the Board of Trustees are keenly aware of the essential role of the Williams endowment in support of the mission of the College, and strive constantly to ensure that the endowment fulfills that role for the long term.

Sincerely,

Michael R. Eisenson '77
Trustee and Chair, Investment Committee
CEO and Managing Director,
Charlesbank Capital Partners LLC
Boston, Massachusetts

Collette D. Chilton
Chief Investment Officer
Williams College Investment Office
Boston, Massachusetts

Appendix The Williams Endowment: Governance and Management

Williams College Investment Committee

The Investment Committee—a Williams trustee committee that may include non-trustee members—is responsible for setting asset allocation, investment policy and the strategic direction of the Williams endowment. Committee members also approve the operating budget and annual goals for the Investment Office and monitor investment results to help ensure that policy objectives are being met.

Investment Committee

Michael R. Eisenson ’77, Chair*
Gregory M. Avis ’80*
E. David Coolidge III ’65*
Jonathan A. Kraft ’86*
William E. Simon, Jr. ’73*
Laurie J. Thomsen ’79*
Sarah K. Williamson ’84*

Emeritus Members of the Investment Committee

Allan W. Fulkerson ’54 (Trustee Emeritus)
Robert I. Lipp ’60 (Trustee Emeritus)
Joseph L. Rice III ’54 (Trustee Emeritus)
John S. Wadsworth, Jr. ’61 (Trustee Emeritus)

Advisory Committees

The Advisory Committees provide strategic oversight, advice and access. Advisory Committee members advise the Investment Committee and Investment Office on strategic direction for the endowment’s asset allocation, provide insight and knowledge regarding existing and prospective investment managers and investments, and help with introductions and access to investment managers.

Marketable Assets Advisory Committee

O. Andreas Halvorsen ’86, Co-Chair
Sarah K. Williamson ’84, Co-Chair*
Jonathan A. Kraft ’86*
James E. Moltz ’54
John Oppenheimer ’68
Paul E. Singer P’96 ’00

Emeritus Member of the Committee

John S. Wadsworth, Jr. ’61 (Trustee Emeritus)

Non-Marketable Assets Advisory Committee

Timothy A. Barrows ’79, Co-Chair
Jonathan D. Sokoloff ’79, Co-Chair
Gregory M. Avis ’80*
E. David Coolidge III ’65*
Michael R. Eisenson ’77*
Steven C. Graham ’82
James B. Lee, Jr. ’75
Laurie J. Thomsen ’79*

Emeritus Members of the Committee

Joseph L. Rice III ’54 (Trustee Emeritus)
John S. Wadsworth, Jr. ’61 (Trustee Emeritus)

Real Assets Advisory Committee

John S. Foster ’80, Co-Chair
Robert M. Pinkard ’75, Co-Chair
Mary Lou Boutwell ’74
Richard E. Georgi ’87
William J. Maher ’77
Glenn A. Shannon ’78

**Williams Trustee*

Chief Investment Officer and the Williams College Investment Office

Reporting to the College President, the Chief Investment Officer (CIO) 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. In 2009, the Investment Office was pleased to host two Williams Winter Study students and four Williams summer interns.

Investment Office Staff

Collette D. Chilton
Chief Investment Officer

Kristin A. Corrigan
Executive Assistant/Office Manager

Shawn P. Donovan
Investment Officer-Marketable Securities

Timothy H. Joeng
Investment Officer-Non-Marketable Securities

Jennifer H. Lee
Investment Analyst

Thomas J. Mucha
Investment Analyst

Bradford B. Wakeman
Director of Investment Operations and Risk Management