Williams

INVESTMENT REPORT 2010

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Williams College Investment Report 2010

Responsibly Navigating an Emerging Recovery

Fiscal year 2010 saw early, though uncertain, signs of financial and economic recovery. With discipline and patience, the Investment Committee of the College's Board of Trustees, its Investment Advisory Committees, and the Investment Office managed Williams' $1.5 billion endowment to seek long-term growth while maintaining uninterrupted availability of funding for the College.

In addition to presenting fiscal year 2010 returns in larger economic and historical contexts, this year's report pays particular attention to the increasingly close relationship between Williams' investment management and financial practices. The College's investors and fiscal managers work together to serve the needs of today's students while sustaining the value of the endowment for future generations.

Fiscal Year 2010

Publicly traded financial assets of all kinds—especially more risky assets— performed very well in FY 2010, after many apparently overshot to the downside in FY09. Global equity and credit markets, which gained 13.1% (MSCI All Country World Index IMI) and 11.4% (Barclays Capital Global Corporate Index) respectively during the year, were bolstered by strongly recovering corporate profits, depressed valuations and much improved economic activity—albeit off of a very low base. Fiscal year 2010's final quarter, which was marked by double digit losses in global equities, moderated the year's returns. During that quarter, concerns over European sovereign debt, monetary tightening in China, signs that the economic recovery was losing steam, and recognition that the developed world continued to face many of the problems it did before the crisis apparently caused investors to rethink their enthusiasm for risk.

Performance

The endowment returned 11.9% for the fiscal year ended June 30, 2010. The following table presents Williams' investment return over the past 20 years.

	WILLIAMS[1]	60/40 STOCK/BOND PORTFOLIO[2]	INFLATION[3]	POLICY PORTFOLIO[4]
1 YEAR	11.9%	12.8%	1.1%	10.4%
3 YEARS	-3.3%	-2.7%	1.5%	-3.6%
5 YEARS	4.8%	2.0%	2.3%	na
10 YEARS	3.9%	1.9%	2.4%	na
20 YEARS	10.9%	7.8%	2.6%	na

Notes: 1) Total return is net of all fees and annualized for periods over one year.
2) S&P 500 / Barclay U.S. Aggregate Bond Index.
3) Consumer Price Index.
4) Policy portfolio data is not available for periods greater than three years.

For the last two decades, the endowment has outpaced both a traditional mix of stocks and bonds, as well as inflation plus five percent.

As presented on page 2, nine of the ten asset classes produced positive returns for the fiscal year, as nearly all markets strongly rebounded from their credit-crisis lows.

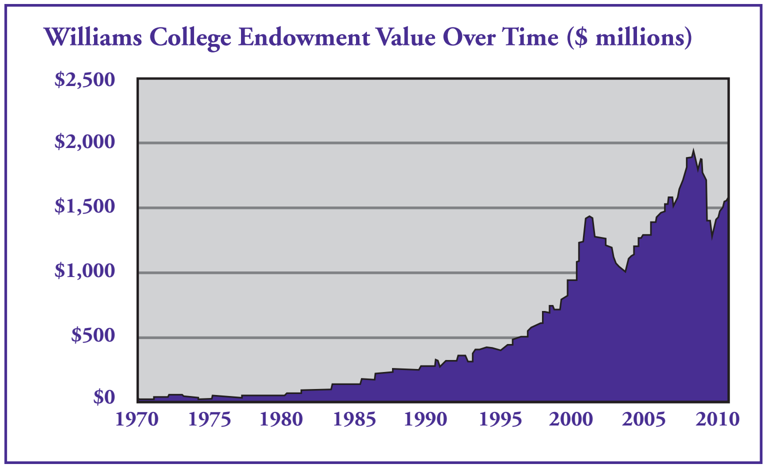
Asset Class Level Performance Commentary[1]

Asset Class	Policy Weight in FY10	Policy Weight for FY11	FY Return	Commentary
GLOBAL LONG EQUITY	26%	26%	15.3%	Equities had the third-highest return of all asset classes in the endowment and constituted the largest dollar contributor to the endowment's overall return. Our globally-diversified group of managers generally focused on larger, higher-quality companies with less economic sensitivity, which protected the endowment from losses during more volatile months.
GLOBAL LONG/SHORT EQUITY	16%	14%	3.0%	Long/short equity hedge funds produced a low positive return. Our managers reduced their exposures and struggled to profit from short positions as the market recovery most benefitted troubled companies; the more stable companies our managers held as long positions did not produce outsized returns.
ABSOLUTE RETURN	12%	14%	19.4%	Our absolute return asset class produced the second-highest returns of all asset classes in the endowment. Managers were able to generate strong returns from a variety of strategies, with credit investments providing a major boost to most managers' returns.
VENTURE CAPITAL	6%	6%	19.1%	Our venture capital portfolio benefitted from rising valuations and our managers' ability to profitably exit certain investments.
BUYOUTS	9%	9%	13.8%	Our buyouts portfolio produced solid returns for the fiscal year.
REAL ASSETS	9%	9%	12.2%	The real assets portfolio is comprised of a variety of investments intended to protect the endowment against unanticipated inflation. Commodities, TIPS, and energy equities contributed strong returns; private real assets partnerships produced single-digit returns.
REAL ESTATE	6%	6%	(17.2%)	Real estate produced the worst (and only negative) return of any asset class. Our managers continue to face risks associated with debt maturities and vacancies. Generally, our managers have either mitigated further exposure to these risks or are attempting to mitigate them by renegotiating debt and seeking to renew or sign new leases.
INVESTMENT GRADE FIXED INCOME	10%	10%	13.2%	Investment grade fixed income managers provided strong returns through active security selection, as well as from uncovering arbitrage opportunities created by the market dislocation.
NON-INVESTMENT GRADE FIXED INCOME	5%	5%	23.8%	We increased our allocation to non-investment grade fixed income last year. This portfolio produced the highest return of all asset classes. Credit investments strongly rallied amidst a broad market recovery. Our managers invested in several credit sectors, including corporate, residential, and asset-backed securities.
CASH	1%	1%	>1%	Our allocation to cash earned less than 1% during the year.

[1] As a general rule, no more than 5% of the total market value of the endowment is allocated to any one investment manager's product at the time of Williams' investment. Williams does not publish a list of its outside investment managers.

Longer Term Performance Observations

Over the last 40 years the endowment has grown from $50 million to approximately $1.5 billion, and Williams has enjoyed an average annual return of approximately 11%. Last fiscal year, our ten-year return dropped below 10% for the first time since 1983, and this fiscal year our ten-year return fell again, placing our current 10-year annualized return at 3.9%. Because every new ten-year average return is calculated by adding in the most recent data and dropping off the oldest, the current average no longer includes 2000's unprecedented 50.9% return. The table below presents annual returns for the past 10 years.



2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
11.9	-18.4	-1.1	24.0	12.8	12.4	17.8	5.2	-9.1	-8.4

Some additional historical perspective:

- The average annual return over the last 40 years is 10.8%;
- The highest annual return was 50.9% earned in 2000;
- The lowest annual return was -18.4% last year;
- Over the last 40 years, the Investment Pool has posted a negative return only seven times ('73 & '74, '84, '01 & '02, '08 & '09), four of those are in our 10-year return calculation;
- The longest series of consecutive negative returns was two years (see above);
- The longest series of consecutive positive returns was 16 years (1985 to 2000);
- The highest 10-year return, posted in 2001, was 18.5%; and
- The lowest 10-year return, posted in 1982, was 3.8%.

The Policy Portfolio Has Served Williams Well

Asset allocation is the single largest driver of performance. The Investment Committee and the Investment Office review asset allocation annually. The outcome of that review is a determination by the Investment Committee of a policy portfolio (together with ranges and benchmarks) to which the Investment Office manages the investment pool.

When we reviewed asset allocation last year, we were still in the most challenging investment year for Williams in recent history. In May 2009 the Investment Committee approved a policy portfolio for fiscal year 2010 that largely stayed the course and had the following familiar characteristics:

1. an equity bias serving our long-term return objective;
2. diversification to dampen volatility;
3. the inclusion of non-publicly traded investments; and
4. a carefully protected liquidity position.

Remaining fully invested and staying the course produced good results for the College in fiscal year 2010.

The policy portfolio approved last June for fiscal year 2011 reflects only a slight change from our current policy portfolio. It is again designed to achieve our stated investment objective (i.e. a 5% real return) and has a similar expected return/risk ratio as we have now.

How the Endowment Supports the Williams Budget

The cost of a Williams' education is well in excess of what we collect in tuition and fees. The endowment makes up much of the difference. Further, the endowment has been playing a larger role in supporting the mission of the College than it has in the past. During the 1990's the College relied on the endowment for approximately 25% of its operating budget; today, it is closer to 40%.

While strong investment returns have helped fund the historical increase in expenditures, more recently Williams has taken serious steps to reduce the rate of increase of the operating budget.

In the Investment Office, our focus has been and remains on growing the endowment while being mindful of the level to which the College relies on the endowment to support its mission. To that end, over the past three years, we have reduced the expected volatility of the portfolio, understanding that those efforts may also modestly dampen long-term expected returns.

The College's long-term endowment spending rate is 4.6%. A spending rate between 4.5% and 5% is generally considered advantageous; it provides support to the current generation of students and should preserve the principal of the endowment for the benefit of future generations

Our Liquidity Sets Us Apart

While we invest for the long term, we are careful to manage the portfolio's near-term liquidity. It is mission critical to support the day-to-day operations of the College and fund capital calls from private equity, real estate and other assets. We have always been prepared to generate cash quickly without disrupting our policy portfolio.

Over the last two years, we:

- maintained sufficient liquidity to fund the College operating account and our investment commitments on time;
- had approximately 40% of the portfolio in investments that could have been converted to cash without a loss in value within a calendar quarter;
- remained fully invested with no more than 2% of the investment pool allocated to cash;
- remained "in the market" and able to maintain a healthy and prudent pace in making commitments to drawdown-type investments (e.g. private equity and real estate);
- were not forced to sell private or illiquid investments on the secondary market (and hence at a discount);
- were able to (and did) rebalance the portfolio as necessary; and
- kept our unfunded commitments at a manageable level, balancing the need to make payments on the commitments with our goal of being fully invested in the target asset classes years from now.

At June 30, 2010, approximately $490 million or 32% of the endowment could have been liquidated with 30 days notice or less.

Looking Ahead

Tough financial times test an institution's strength and resilience. By sharply curbing spending and carefully stewarding resources, Williams has responded well to serious challenges. As we enter a period of uncertain financial recovery, the Investment Office, Advisory Committees, Investment Committee, and Board of Trustees continue to focus on long-term growth and portfolio liquidity to ensure that today's and tomorrow's students enjoy an undergraduate education second to none.

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*
Timothy A. Barrows '79
Jonathan A. Kraft '86*
William E. Simon, Jr. '73*
Laurie J. Thomsen '79*
Sarah K. Williamson '84*

Emeritus Members of the Committee

E. David Coolidge III '65 (Trustee Emeritus)
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*
Michael R. Eisenson '77*
Steven C. Graham '82
James B. Lee, Jr. '75
Laurie J. Thomsen '79*

Emeritus Members of the Committee

E. David Coolidge III '65 (Trustee Emeritus)
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.

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

Thomas J. Mucha
Investment Analyst

Bradford B. Wakeman
Director of Investment Operations and Risk Management

Abigail G. Wattley '05
Investment Associate

During FY10, the Investment Office was pleased to host two Williams students during Winter Study and three Williams student interns.

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