

Williams

INVESTMENT REPORT 2016

Williams College Investment Report 2016

In Fiscal Year 2016, a period in which global equities were down nearly 4 percent, the Williams College Investment Pool returned -1.5 percent outperforming our internal benchmark and sustaining our five and 10-year returns above the college's long term return objective. The value of the Investment Pool as of June 30, 2016 is \$2.3 billion; this amounts to over \$1 million per student at the current enrollment.

Ten Years

October 2016 marks the 10-year anniversary of the Williams College Investment Office. Time flies! Over our first decade, the endowment has produced an annualized return of 7.3 percent outperforming our internal benchmark (our policy portfolio), our long-term return objectives, and the returns of many of our peer schools. We are pleased with the long-term investment results and we continue to work hard to produce better returns, ensure prudent levels of liquidity, and stay connected to the college in support of its mission, which is, at its core, to provide the finest possible liberal arts education.

Today, the endowment supports approximately one-half of the college's budget. Over the last 10 years, the spending from our endowment has exceeded \$800 million. That money has gone towards our highly-talented faculty – we have among the lowest student-to-faculty ratios in the nation – our dedicated staff, and our excellent facilities. Importantly, with our substantial financial resources, we have been able to sustain our policy of meeting 100 percent of every student's demonstrated financial need. This means we can recruit and select students for their academic and personal attributes, not their ability to pay. Since July 1, 2006, over 4,000 students have received more than \$400 million in financial aid from Williams. Today, we provide more than \$50 million a year in financial aid to more than half of all Williams students.

At this occasion of our 10-year anniversary, we reflect on some of the critical factors that have helped us achieve these results.

- **Alumni leadership** – Our governance structure (i.e. the men and women who help to oversee the investment program) has made an enormous contribution. Since the Investment Office started 10 years ago – and long before that – we have been fortunate to have a dedicated group of alumni engaged in the investment program. Over the past 10 years, nearly 40 Williams alumni have served on our Investment and/or one of our Advisory Committees; they are critical to our investing success. We are grateful for their leadership, contributions, and advice over the years. We are particularly grateful to the three alumni who have each served as Chair of the Investment Committee during the last 10 years: David Coolidge, Michael Eisenson, and Jonathan Kraft.
- **The Williams network** – The value that the Williams community contributes to the investment program cannot be understated. Williams is fortunate to have so many successful alumni in the investment industry; many of those alumni have helped us access some of our best performing investment managers.
- **Williams students** – Through our student programs, we have worked to maintain a strong connection with our younger alumni. We provide them with relevant and rewarding experiences in the Investment Office and we use their time with us to conduct more data-intensive (and time consuming) analysis. Between our full-time analysts, summer analysts, and winter study programs, nearly 50 Williams students have worked in the Investment Office. We work to stay connected with these Investment Office alumni; many of them are working at amazing places today.
- **A disciplined, consistent investment approach** – Our time horizon is perpetuity. Keeping a long-term focus is a key part of our investment edge. The college's investment mission (solid returns, ample liquidity), investment objective (5 percent real return over the long-term), investment approach (an equity bias and an emphasis on alternatives), and investment strategy (manager selection driving relative returns), have all been consistent from day one.

- **Managing across market cycles** – It takes time to build up knowledge of Williams’ spending requirements and finances, and it takes time to get to know our third-party investment managers. Our dedicated team of investment professionals have managed the college’s resources through a variety of bull, bear, and uncertain markets. In particular, we managed the portfolio through the worst economic environment in a generation, which reinforced many of the cornerstones of our current strategy – such as conscientiously monitoring liquidity and maintaining portfolio diversification.

But even as we have worked to maintain our consistency in mission and approach, our program has naturally evolved as we continue to strive for improvement. Committee members, while an integral part of our structure, have terms, and there has been healthy turnover over the past 10 years allowing for new ideas and an expansion of our network and resources. Team members and the organizational structure of the office also continue to evolve. We are proud of the team and strategy we have built, and we are always seeking to improve.

We are pleased with the long-term returns of the Williams portfolio and honored to have reached the 10-year milestone. We are committed to, and continue to work hard for, our college.

Notable Events during Fiscal Year 2016

- **Global Headwind** – Although U.S. equity markets were generally up, world equity markets trended down, and emerging market returns were particularly down. This provided a significant headwind for our globally-invested, diversified portfolio.
- **Cash Distributions** – For the past four years, distributions from private partnerships have been at 10-year highs. Distributions from our buyout and real estate investments are partially responsible for our allocations to those asset classes dipping below policy targets.
- **Brisk Investment Pace** – We made over \$200 million of commitments during FY16 and are on target with our long-term investment plan. As always, we have worked to preserve our liquidity position and it remains strong. We are confident about the promising commitments made during the course of this year and understand the importance of both investing through cycles and maintaining adequate liquidity.
- **Analyst Programs** – Jack Bissell ’16 joined Hillary Cook ’15 and Annie Jeong ’14 in the Investment Office as our sixth full-time analyst hired directly from Williams. Jack was a summer analyst in 2015.

The Market during Fiscal Year 2016

Fiscal Year 2016 was characterized by volatility stemming from a possible slowdown in China, volatile commodity prices, ongoing questions about Federal Reserve policy, and global-political, economic, and social unrest that culminated in Brexit during the final week of the fiscal year. The U.S. equity market outperformed international and emerging markets, with the S&P 500 Index returning 4.0 percent versus -10.2 percent for non-US developed stocks (MSCI EAFE) and -12.1 percent for emerging markets. Global growth continued to slow and high stock valuations raised the concern of possibly lower future returns.

Given unrest abroad, the U.S. dollar strengthened against most major currencies, and global bond markets experienced gains as investors sought safety (the Citigroup World Government Bond Index was up 11.3 percent and 10-year Treasuries were up 10.1 percent). Also significant this year were the record low interest rates.

Investment Performance

The following are our summary investment results for periods ended June 30, 2016. Our one-year performance, while disappointing in absolute terms, was consistent with our expectations in a market like the one we experienced. We believe it will also compare favorably with the performance of our peer schools.

While one-year returns can be interesting, whether positive or negative, we focus all of our strategy and our energy on long-term returns, and our diversified portfolio and disciplined investment approach have served Williams well. Our longer term returns, displayed in the table below, have consistently exceeded the return objective built into the college's financial model, as have our 25, 30, and 40-year returns, which are all above 10 percent per year.

Annualized Returns for the Fiscal Year Ended June 30, 2016					
	1 Year	3 Years	5 Years	10 Years	20 Years
Williams Portfolio ¹	-1.5%	8.4%	8.5%	7.3%	10.6%
Policy Portfolio Benchmark ²	-1.8	5.6	5.5	5.0	n/a
60/40 Stock/Bond Portfolio ³	5.2	8.8	9.0	6.9	7.3
Return Objective ⁴	5.9	6.0	6.3	6.7	7.2

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

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

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

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

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

Annual Fiscal Year Returns										
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Williams	-1.5%	9.9%	17.5%	14.8%	3.1%	20.2%	11.9%	-18.4%	-1.1%	24.0%
Benchmark	-1.8%	3.8%	15.7%	10.8%	0.0%	18.4%	10.4%	-19.0%	0.1%	18.1%
Difference	0.3%	6.2%	1.8%	4.0%	3.1%	1.9%	1.5%	0.6%	-1.2%	5.9%

Allocation & Asset Class Performance

The table below presents asset class returns together with our target allocation for each asset class. Williams' diversified investment portfolio helps to protect the investment pool during periods of market decline.

Asset Class	FY16 Actual Return	FY16 Target Allocation	Commentary
GLOBAL LONG EQUITY	(7.6%)	25%	The global long equity portfolio struggled amid world equity market volatility. Healthcare, consumer, financial services, and industrials were particularly hurt during the fiscal year.
GLOBAL LONG/SHORT EQUITY	(6.7%)	17%	The global long/short portfolio had weak performance on an absolute and relative basis. Managers struggled with stock selection on both the long and short side.
ABSOLUTE RETURN	2.2%	19%	It was a solid year for our absolute return managers, who took advantage of the market volatility and the rally in credit to outperform.
VENTURE CAPITAL	1.6%	6%	Venture capital performance was more muted this year as valuations moderated and investment pace slowed.
BUYOUTS	13.4%	9%	The buyout portfolio had a strong year. It was also one of the highest years for distributions as more mature funds returned capital.
REAL ASSETS	(5.7%)	5%	Real assets continued facing headwinds due to falling commodity prices. While the absolute performance of this asset class was weak, on a relative basis our real assets portfolio outperformed significantly.
REAL ESTATE	10.1%	6%	It was a strong year for our real estate portfolio. Managers benefited from exit activity across multi-family, hotel, and office property types.
INVESTMENT GRADE FIXED INCOME	4.4%	2%	Our allocation to investment grade fixed income remains modest. While the asset class performed well on an absolute basis, an underweight to duration – in anticipation of rising rates – resulted in lagging relative performance.
NON-INVESTMENT GRADE FIXED INCOME	(1.2%)	10%	The volatility experienced throughout the year proved challenging for both the high yield bond and high yield loan asset classes, resulting in underperformance.
CASH	0.0%	1%	Cash returns were near zero during the year.

Impact Investing

Last September, President Adam Falk and the Williams College Board of Trustees announced that Williams would assume a visible leadership role and take specific, substantive, and comprehensive actions to contribute to the important work of reducing greenhouse gas emissions. Williams' plan is ambitious and is more fully detailed on the college's website.

The plan in part addressed a proposal that we divest the Williams portfolio from a set of specific stocks and industries. In that regard, the President and the Board of Trustees concluded for many reasons that Williams will not respond to this imperative by the symbolic act of divestment, but rather by making significant investments in clean energy projects, practices and companies, and in our core educational mission.

At the same time, we wrote to our investment managers to help us in our effort to lead in this area by asking that they consider carefully the impact of potential investments or investment strategies on greenhouse gas emissions, and that they endeavor to understand and, where appropriate, influence the environmental responsibility practices of the companies with which they are involved.

Looking Ahead

Although fiscal year 2016 was disappointing, it was a good reminder to remain focused on the long-term; our conviction in Williams' managers and the portfolio remains strong. As we take a step back to consider the 10 years of the Investment Office in context of the 223 years of Williams College's history, we are humbled. We are also energized and enthusiastic as we head into the next year and years to come, working hard to produce the investment returns necessary to support Williams.

Sincerely,

Jonathan A. Kraft '86
Chair, Investment Committee

Collette D. Chilton
Chief Investment Officer

Investment Committee as of July 1, 2016

Investment Committee

Jonathan A. Kraft '86, Chair*
Timothy A. Barrows '79*
Noriko Honda Chen '89*
Michael R. Eisenson '77*
O. Andreas Halvorsen '86*
Elizabeth E. Robinson '90*
Jonathan D. Sokoloff '79*

Emeritus Members of the Committee

Gregory M. Avis '80*
Laurie J. Thomsen '79*
Robert G. Scott '68*

Advisory Committees as of July 1, 2016

Marketable Assets

Advisory Committee

O. Andreas Halvorsen '86, Co-Chair*
Elizabeth E. Robinson '90, Co-Chair*
Noriko Honda Chen '89*
Charles P. Coleman, III '97
Jennifer L. Heller '00
Jonathan A. Kraft '86*
Scott C. Schweighauser '83
Paul E. Singer P'96 '00

Non-Marketable Assets

Advisory Committee

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

Emeritus Members of the Committee

Gregory M. Avis '80*
Laurie J. Thomsen '79*

Real Assets Advisory Committee

John S. Foster '80, Co-Chair	Mary Lou Boutwell '74	Michelle Y. Pak '91
Robert M. Pinkard '75, Co-Chair	William J. Maher '77	Glenn A. Shannon '78

Emeritus Member of the Committee

Robert G. Scott '68*

*Williams Trustee

Chief Investment Officer and the Williams College Investment Office

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.

Investment Office Staff

Collette D. Chilton Chief Investment Officer	Abigail G. Wattlely '05 Director	John C. Bissell '16 Investment Analyst
Julia T. Crosby Managing Director	Annie E. Jeong '14 Investment Analyst	Kristin A. Corrigan Executive Assistant/Office Manager
Bradford B. Wakeman Managing Director and Chief Operating Officer	Hillary S. Cook '15 Investment Analyst	Jessica L. Gonsowski Administrative Assistant

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