Williams

INVESTMENT REPORT 2011

Williams College Investment Report 2011

Introduction

The Williams College Investment Pool ended a turbulent year on a high note with a return of 20.2%. As of June 30, 2011, the Investment Pool stood at $1.8 billion, and our actively managed portfolio outperformed our policy portfolio benchmark (described below) and peer averages.

Over the past five years, the Williams Investment Pool posted a 6.1% annualized return during a period when U.S. stocks earned a return of 2.9% and a traditional 60/40 stock/bond portfolio earned 4.8%. It is worth noting that we generated this return with significantly lower volatility than the markets in general or a 60/40 portfolio.

These recent gains, however, do not diminish the work that lies ahead. Market volatility has continued, and indeed increased in recent months, and the need for constant, active management of the college's resources has never been more apparent.

Notable Events during Fiscal Year 2011

- The most notable event for fiscal year 2011 is, of course, an investment return of over 20%. As a result, we recovered a significant portion of our previous losses and moved our 10-year return closer to our long-term return objective.
- We continued to diversify the portfolio. During fiscal year 2011, Chief Investment Officer Collette Chilton and Trustee Emeritus Jack Wadsworth '61 traveled to Asia to visit some of the region's more interesting investment managers. During the visit, Chilton and Wadsworth met with other Williams alumni and friends to learn more about investment opportunities in the region. New investment themes and specific opportunities sourced during that visit have already been incorporated into the Williams portfolio.
- Within our private equity portfolio (venture capital and buyouts), years of careful and disciplined capital deployment — and patience — paid dividends. Not only was there an extraordinary investment return – our venture capital portfolio returned over 50% — but distributions from the private equity portfolio outpaced the funding requirements (capital calls) on those investments for the first time in several years.
- We kept a careful eye on liquidity and continued to maintain a conservative liquidity position. As of June 30, 2011, approximately 30% of the portfolio could be liquidated with 30 days notice or less.
- We made several important additions to our team. Abigail Wattley '05 rejoined the Williams Investment Office after graduating from the Harvard Business School in 2010. Abigail previously worked in the Investment Office from 2007 to 2008. We also initiated our two-year analyst program by hiring Anna Soybel '11.

The Market during Fiscal Year 2011

The Federal Reserve's Quantitative Easing Program ("QE2") steered capital towards the equity markets over the course of the fiscal year, helping to spark an equity rally in late 2010 and early 2011 that strengthened our portfolio returns. Commodity prices also surged during the year, with gold reaching an all-time high. As the fiscal year progressed, however, global events, such as a series of natural disasters, concerns over a U.S. debt default and potential downgrade, and the European debt crisis, began to negatively affect the markets and our portfolio. During the months of May and June 2011, global stock prices fell considerably. Despite a late June equity rally, stock prices have continued to come down since our fiscal year end, and as of this writing fiscal year 2012 is off to a rocky start.

Overall Investment Performance

The Investment Pool returned 20.2% for the fiscal year ended June 30, 2011. The following table presents Williams' investment return for various periods, over the past 20 years.

	WILLIAMS[1]	POLICY PORTFOLIO[2]	60/40 STOCK BOND PORTFOLIO[3]	INFLATION[4]
1 YEAR	20.2%	18.4%	19.6%	3.6%
3 YEARS	3.1%	1.9%	5.1%	1.0%
5 YEARS	6.1%	4.6%	4.8%	2.2%
10 YEARS	6.7%	n/a	4.3%	2.4%
20 YEARS	11.6%	n/a	8.3%	2.6%

[1] *Total return is net of all fees and annualized for periods over one year.*

[2] *Policy portfolio data is not available for periods greater than five years*

[3] *S&P 500/Barclays Aggregate*

[4] *Consumer Price Index*

The Policy Portfolio

The Policy Portfolio is the target asset allocation of the portfolio; it represents the Investment Committee's view on what percentage of the Investment Pool should be invested in each asset class (e.g. equities, fixed income, and cash). As such, the Policy Portfolio embodies the Investment Committee's long-term view of the markets, including long-term expectations for investment returns and risks for each asset class. Ultimately, how we allocate the assets is the single largest driver of investment performance.

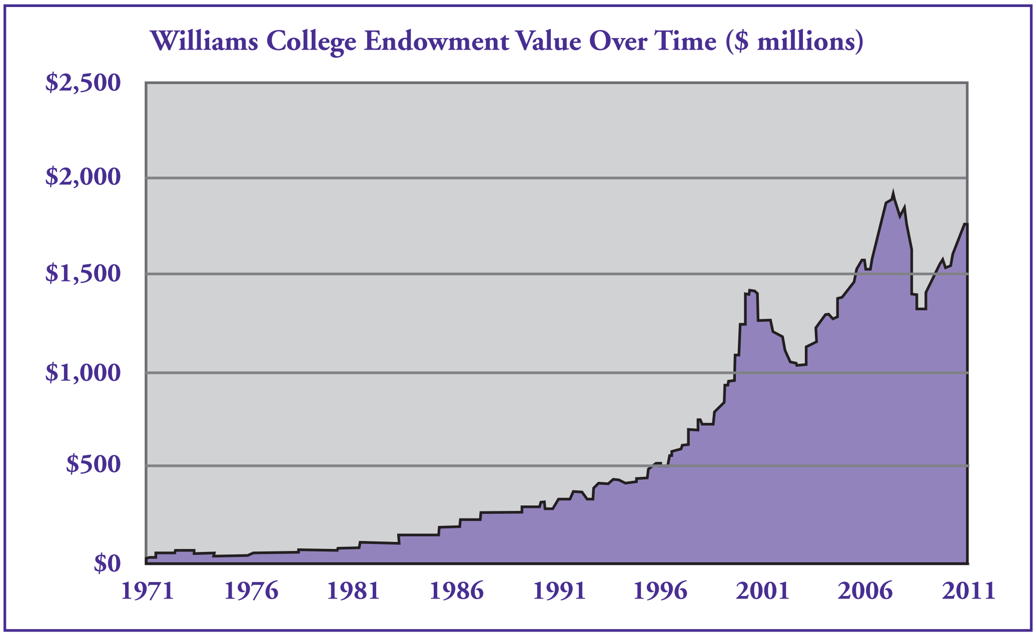
We compare our actual investment results (for each manager, each asset class, and the total Investment Pool) to benchmarks. The benchmarks are typically market indices, such as the S&P 500, and they serve as "yard sticks" to measure performance. We compare the investment performance of the total Investment Pool to the Policy Portfolio Benchmark. The Policy Portfolio Benchmark is calculated by applying the investment performance of each asset class benchmark to the policy weight for that asset class (e.g. 26% to Global Long Equities). The Policy Portfolio Benchmark permits the Investment Committee to compare the actual performance of the Investment Pool to a passively managed alternative, and to help assess the contribution of active investment management and the effectiveness of policy implementation.

Annually, the Investment Committee and the Investment Office review asset allocation to establish the Policy Portfolio, including rebalancing ranges and benchmarks. The following table details our target allocation to each asset class in fiscal year 2011 and fiscal year 2012, and the returns for each asset class in fiscal year 2011.

Asset Class	Policy Weight in FY11	Policy Weight for FY12	FY 2011 Return	Commentary
GLOBAL LONG EQUITIES	26%	26%	28.6%	Equities had the third highest return of all asset classes and again constituted the largest dollar contribution to overall return. Due to our managers' defensive positions, our global long equity portfolio performed better when the markets were down – indeed, they outperformed in each of the four months the market was down.
GLOBAL LONG/SHORT EQUITY	14%	14%	13.4%	Long/short equity had a strong year with negative returns in only two months. Our managers were able to rally in the up markets and continued to protect capital in the down markets.
ABSOLUTE RETURN	14%	15%	10.3%	Although our absolute return portfolio lagged in returns relative to the other asset classes, these hedge fund managers fulfilled their objective in the portfolio by achieving consistently solid returns.
VENTURE CAPITAL	6%	6%	51.2%	Venture capital had the highest return of all asset classes in the endowment with an outstanding return of over 50% and an annualized five-year return of over 15%. Venture capital is an extremely volatile asset class; performance in fiscal year 2011 was driven largely by Internet companies, including social media companies.
BUYOUTS	9%	9%	30.0%	Our buyout portfolio produced the second highest return of all asset classes. Performance was buoyed by the equity market rally, and the asset class was a strong contributor to both absolute and relative performance.
REAL ASSETS	9%	9%	19.2%	The real assets portfolio is comprised of several sub-strategies (i.e. commodities, private natural resources partnerships, TIPS, and energy equities) and is intended to protect the endowment against unanticipated inflation. This portfolio had strong performance, driven largely by the private natural resources partnerships.
REAL ESTATE	6%	6%	10.6%	While real estate has been a relatively low performing asset class in recent years, our portfolio produced a strong absolute return in fiscal year 2011. The asset class is beginning to see signs of recovery.
INVESTMENT GRADE FIXED INCOME	10%	10%	5.1%	The investment grade fixed income portfolio is our anchor to windward and continues to serve that purpose. After producing outsized returns in fiscal year 2010, performance in 2011 is more in line with the expectations for the asset class.
NON-INVESTMENT GRADE FIXED INCOME	5%	4%	15.5%	Non-investment grade fixed income has been in the portfolio for two years and continues to be a strong contributor to both absolute and relative returns. High-yield and distressed credit investments benefited from the post-crisis market rebound in 2011.
CASH	1%	1%	<1%	Our allocation to cash is maintained for defensive purposes and earned less than 1% during the year.

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 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.

Longer-Term Investment Performance



Over the last 40 years, the endowment has grown from $50 million to approximately $1.8 billion, and Williams has enjoyed an annualized return of approximately 10.5%. Our 10-year return number improved from 3.9% last year to 6.7% this year. This is a tremendous improvement, but our 10-year return still falls short of both our long-term return objective (5% real) and the return assumed in the college's long-term financial plan (also 5% real). While our much longer-term investment results (e.g. our 20-year return) remain sufficient to meet the college's long-term spending objectives, the return of negative 18.4% posted in fiscal year 2009 is still taking a toll — we are not out of the woods yet.

2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
20.2%	11.9%	-18.4%	-1.1%	24.0%	12.8%	12.4%	17.8%	5.2%	-9.1%

How the Endowment Supports the Williams Budget

As we've reported in previous years, the cost of a Williams education is well in excess of what the college collects 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 1990s, the college relied on the endowment for approximately 25% of its operating budget; today, it's closer to 40%, in large part as a result of significant increases in financial aid.

Careful Stewardship of Williams Assets

Williams maintains a policy of careful stewardship and broad oversight of the college's assets, especially in light of the college's reliance on the endowment. The highest level of oversight is our Investment Committee, which consists of eight members who assume the fiduciary responsibility of investing the college's assets. The Investment Committee is responsible for setting asset allocation, investment policy, and the strategic direction of the Investment Pool. Further, it approves the operating budget and annual goals for the Investment Office and monitors the Investment Office and its results to help ensure that policy objectives are being met. The Investment Committee regularly meets with some of our long-standing outside managers to gain additional market insight into their respective asset classes.

In addition to the Investment Committee, the three Advisory Committees provide guidance and industry expertise to the investment process. The committees specialize in either the marketable, non-marketable, or real assets asset classes. Advisory Committee members consist of Williams alumni (or parents of alumni) who have been successful in their respective fields. The Advisory Committees allow the Investment Office to capitalize on Williams' strong alumni network as well as to gain a secondary, expert perspective on manager selection.

The Investment Office is a seven-person team that oversees the Williams portfolio. The chief investment officer leads the team in the annual asset allocation study, portfolio structure and positioning, as well as sourcing, selecting, and monitoring each investment. Our robust sourcing and monitoring efforts have paid real dividends, enabling us to add hard-to-access managers who are new to Williams, and to increase our exposure to particularly attractive current managers, as well as to withdraw from certain managers before exit demand overwhelms them.

Student Programs

The Investment Office strives to remain involved with the college's students through Winter Study, summer internships, and full-time analyst programs. As mentioned above, this year we initiated a full-time, two-year analyst program; going forward, we intend to hire one Williams graduate every year. Our young alumni analysts will support the Investment Office by working with the investment team on monthly performance reporting, manager due diligence, ongoing portfolio analysis, and operational projects. Through the Winter Study Analyst Program, the office hosts three students each January that participate in an abbreviated training program and assist with short-term projects for the Investment Office team. Through our Summer Analyst Program, we hire three to four Williams students for a 10-week internship. These students are trained in the Boston office and work with the Investment Office team; they also have the opportunity to meet with other industry professionals in Boston and gain exposure to other possible career options. When the Class of 2012 graduates, nine of its members will have worked in the Investment Office.

Looking Ahead

Since our fiscal year-end, it is clear that the economic, political, and investment climate in the near term is quite volatile. There is enormous economic uncertainty, particularly in Europe, and, as of this writing, global equity markets have suffered double digit losses. Achieving our long-term investment objective will not come easily.

Williams has avoided, and will continue to avoid, attempting to time the market and changing our course abruptly when the going gets tough. We have rebalanced the portfolio when necessary and have kept our eyes keenly on our long-term investment objective. Importantly, we have also remained vigilant to maintain adequate liquidity at all times, even at the expense of some reduction in expected return on the portfolio. Our investment objective is designed to fulfill the mission of the endowment: to provide financial support to Williams for the very long term.

As we look ahead, we know we need to work harder than ever to aggressively seek great investment opportunities, vigilantly monitor our investments and investment managers, and prudently maintain a disciplined investment approach that has served Williams well.

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

Williams College Investment Committee

Investment Committee

Michael R. Eisenson '77, Chair*
Gregory M. Avis '80*
Timothy A. Barrows '79
O. Andreas Halvorsen '86*
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

Marketable Assets Advisory Committee

O. Andreas Halvorsen '86, co-Chair*
Sarah K. Williamson '84, co-Chair*
Charles P. Coleman III '97
Jonathan A. Kraft '86*
James E. Moltz '54
John Oppenheimer '68
Scott C. Schweighauser '83
Paul E. Singer P'96 '00

Emeritus Member of the Committee

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

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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

Bradford B. Wakeman
Director of Investment Operations and Risk Management

Timothy H. Joeng
Investment Officer – Non-Marketable Securities

Walter C. Schaeffler**
Investment Officer – Marketable Securities

Abigail G. Wattley '05
Investment Associate

Anna H. Soybel '11
Investment Analyst

Kristin A. Corrigan
Executive Assistant/Office Manager

***Started October 24, 2011*

Williams

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