Introduction

The Williams College Investment Pool ended a volatile year with a return of 3.1% after having returned 20.2% in fiscal year 2011. As of June 30, 2012, the Investment Pool stood at $1.8 billion, and our actively managed portfolio outperformed our policy portfolio benchmark and peer averages.

While performance for fiscal year 2012 outperformed global equity markets, our policy portfolio benchmark, and the majority of our peer institutions, it fell short of our objective of a 5% real return. It is this level of return that ensures the pool can support the college today and maintain value for future generations. Over time, the Investment Pool’s performance has continued to exceed its return objective: the ten-year return as of June 30, 2012 is 8.1% or 5.6% after accounting for inflation over this period.

Because market returns are far from consistent, we do not expect the Investment Pool to provide a real return of 5% in each year. We do, however, focus on building long-term positive performance to support the college today and sustain the value of its endowment for future generations.

Notable Events during Fiscal Year 2012

- We maintained a very active investment pace this year, recommitting to successful managers raising new funds, adding several promising new managers to the portfolio and carefully redeeming from investments when necessary.
- Diversified geographic investment exposure remained a theme this year. In November Chief Investment Officer Collette Chilton traveled to India to meet with some of the region’s most promising investment managers, following a similar trip to China the previous year. Broader themes and specific opportunities from these trips have already been incorporated into the Investment Pool.
- We maintained an active due diligence regime at the Investment Office and undertook a project to optimize our process to assess investment opportunities.
- We continued our work on college-wide affairs, such as working with the Retirement Plan Governance Committee, Planned Giving, the President’s Administrative Group, College Relations, and the Williams Career Center.
- We maintained an advantageous and prudent level of liquidity. As of June 30, 2012, approximately 24% of the portfolio could have been liquidated and made available to the college if needed with 30 days notice or less.
- Shara Singh ’12 joined our office as our second analyst hired directly from Williams.
- We hosted our fourth Winter Study class and fifth summer analyst program. Three Williams students joined us for the month of January, and two students worked in our office for the summer, providing support on a variety of projects across asset classes in the portfolio.

The Market during Fiscal Year 2012

The fiscal year began with persisting concerns in Europe, S&P’s downgrade of the US Government’s credit rating, and continued political unrest in the Middle East. Equity markets declined sharply as investors sought safer assets, including the downgraded US Treasury bonds. Panic soon subsided, and equity markets surged over the second and third quarters, recovering their early losses before falling off once again at the start of the fourth quarter due to market uncertainty over the European debt crisis. Markets remained volatile as investors anticipated the results of European elections and fiscal austerity measures. June provided a boost to the portfolio with a solid equity rally to round out the fiscal year. We believe the college was well rewarded for avoiding the temptation to chase each of these events.

Overall Investment Performance

The Investment Pool returned 3.1% for the fiscal year ended June 30, 2012. The following table presents Williams’ investment return over the past 20 years.

<table>
<thead>
<tr>
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<th>WILLIAMS¹</th>
<th>POLICY PORTFOLIO²</th>
<th>INFLATION³</th>
<th>RETURN OBJECTIVE⁴</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 YEAR</td>
<td>3.1%</td>
<td>0.0%</td>
<td>1.7%</td>
<td>6.7%</td>
</tr>
<tr>
<td>3 YEARS</td>
<td>11.5%</td>
<td>9.3%</td>
<td>2.1%</td>
<td>7.1%</td>
</tr>
<tr>
<td>5 YEARS</td>
<td>2.3%</td>
<td>1.2%</td>
<td>2.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>10 YEARS</td>
<td>8.1%</td>
<td>n/a</td>
<td>2.5%</td>
<td>7.5%</td>
</tr>
<tr>
<td>20 YEARS</td>
<td>11.0%</td>
<td>n/a</td>
<td>2.5%</td>
<td>7.5%</td>
</tr>
</tbody>
</table>

¹ Total Return is net of all fees and annualized for periods over one year
² Policy portfolio returns are preliminary. Policy portfolio data are not available for periods greater than five years
³ Consumer Price Index
⁴ Inflation plus 5%
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%. Our three-year and 10-year returns exceeded the 5% real return objective and the return assumed in the college’s long-term financial plan, although our five-year return fell short of our objective.

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</thead>
<tbody>
<tr>
<td>Return</td>
<td>3.1%</td>
<td>20.2%</td>
<td>11.9%</td>
<td>-18.4%</td>
<td>-1.1%</td>
<td>24.0%</td>
<td>12.8%</td>
<td>12.4%</td>
<td>17.8%</td>
<td>5.2%</td>
<td>-9.1%</td>
</tr>
</tbody>
</table>

The Policy Portfolio

The Policy Portfolio is the target asset allocation of Williams’ Investment Pool; it 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, etc.). As such, the Policy Portfolio embodies the Investment Committee’s long-term view of the markets, including expectations for investment return and risks for each asset class and correlations among the asset classes. Ultimately our decisions with respect to the allocation of our 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 relevant market indices, such as the S&P 500 for our U.S. equity investments, and they serve as yardsticks to measure performance. We compare the 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 equity). 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.

As we have observed above, asset allocation is the single largest driver of performance. The Investment Committee and the Investment Office review asset allocation annually to establish a policy portfolio, including rebalancing ranges and benchmarks, to which the Investment Office manages the Investment Pool.

Asset allocation shifted more notably for fiscal year 2013 than is typical for us. The Policy Portfolio, as in previous years, is designed to achieve our investment objective over the long term with moderate volatility and ample liquidity. The shift in the Policy Portfolio for fiscal year 2013 is driven in part by the negative real returns of U.S. Treasury Securities; the Policy Portfolio takes into account that interest rates have more room to rise than fall in coming years.
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 manager equally, all remain confidential.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>FY12 Return</th>
<th>FY12 Allocation</th>
<th>FY13 Allocation</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>GLOBAL LONG EQUITY</td>
<td>-2.8%</td>
<td>26%</td>
<td>27%</td>
<td>Though global long equity posted a poor return on an absolute basis, Williams' managers fared far better than the market; the MSCI ACWI IMI benchmark returned -6.9% for the year. Williams' global long equity managers continued to protect assets in down markets.</td>
</tr>
<tr>
<td>GLOBAL LONG/SHORT EQUITY</td>
<td>6.3%</td>
<td>14%</td>
<td>15%</td>
<td>Long/short equity had a strong year on a relative basis. Returns varied significantly by manager, depending on the firm's strategy and market outlook.</td>
</tr>
<tr>
<td>ABSOLUTE RETURN</td>
<td>1.2%</td>
<td>15%</td>
<td>17%</td>
<td>Absolute return managers continued to produce positive returns. The asset class continued to add value to the portfolio with relatively low standard deviation.</td>
</tr>
<tr>
<td>VENTURE CAPITAL</td>
<td>12.1%</td>
<td>6%</td>
<td>6%</td>
<td>Venture capital continued to be a strong-performing asset class as managers capitalized on social media companies and other technological innovations. Last year, our venture capital portfolio posted a return of over 50%.</td>
</tr>
<tr>
<td>BUYOUTS</td>
<td>7.4%</td>
<td>9%</td>
<td>9%</td>
<td>As much of Williams' buyout portfolio is U.S. focused, the asset class was helped by the relatively strong (though volatile) U.S. equity markets this year.</td>
</tr>
<tr>
<td>REAL ASSETS</td>
<td>3.1%</td>
<td>9%</td>
<td>5%</td>
<td>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.</td>
</tr>
<tr>
<td>REAL ESTATE</td>
<td>2.1%</td>
<td>6%</td>
<td>6%</td>
<td>Real estate continued to see signs of recovery as pre-financial crisis funds stabilize assets and debt structures.</td>
</tr>
<tr>
<td>INVESTMENT GRADE FIXED INCOME</td>
<td>7.4%</td>
<td>10%</td>
<td>4%</td>
<td>Investment grade fixed income continued to perform well as historically low interest rates declined even further. The asset class has benefitted from investor “flights to quality” during volatile periods in equity markets.</td>
</tr>
<tr>
<td>NON-INVESTMENT GRADE FIXED INCOME</td>
<td>3.1%</td>
<td>4%</td>
<td>10%</td>
<td>Non-investment grade fixed income managers continued to be opportunistic in sourcing distressed credit investments, particularly in Europe. The asset class has proven interesting as we look to decrease interest rate risk in the Investment Pool but maintain allocations to fixed income.</td>
</tr>
<tr>
<td>CASH</td>
<td>0.0%</td>
<td>1%</td>
<td>1%</td>
<td>Our defensive allocation to cash earned 0.04% during the year.</td>
</tr>
</tbody>
</table>

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 the revenue the college collects in tuition and fees even for students who receive no aid. Earnings on the endowment make up much of the difference. Further, the endowment has been playing a steadily larger role in supporting the mission of the college, including providing support for a steadily increasing financial aid budget.

The Work of the Williams College Investment Office

The Investment Office is an eight-person team located in Boston that oversees the Williams portfolio. Work at the Investment Office centers on selecting and monitoring investment managers for the portfolio and carefully monitoring the risks assumed on our behalf. Rather than directly investing the portfolio in specific stocks or bonds, the Investment Pool is invested with over 90 investment managers allocated across the 10 asset classes described above. This allows Williams to take advantage of sophisticated investment strategies and private markets, as well as gain exposure to a diverse basket of assets that helps to dampen the portfolio’s risk profile. Thus, the focus of the Investment Office’s work is to “manage managers.” This includes both sourcing new opportunities around the world and monitoring current investments.
The path to a new investment can take many shapes. Whether we source a manager through a dedicated search, due diligence travel, or the Williams network, certain steps are key to every due diligence process. A combination of quantitative and qualitative analysis drives the process. Through calls and in-person meetings, the Investment Office team becomes familiar with a prospective manager’s strategy and also with the people implementing it. Getting to know the investment manager’s team and conducting reference checks is critical for us to gain conviction around an investment. Careful quantitative analysis and internal discussions at the Investment Office provide context for the entire process and guide areas of research and questioning.

If the Investment Office continues to find an investment of interest, we conduct operational due diligence to further understand the manager’s key service providers, trading and brokerage operations, operations and administration, compliance environment, and technology administration.

When the Investment Office has conviction surrounding an investment opportunity, the team seeks advice from the appropriate Advisory Committee and then makes a formal recommendation to the Investment Committee. Upon approval from the Investment Committee, the Investment Office will add the manager to the portfolio.

Adding a manager to the portfolio is far from the end of the story. Monitoring current investments is equally important to sourcing new ones. The Investment Office team participates in quarterly calls and annual site visits (in-person meetings at the manager’s office) with each active manager in the portfolio. Through these interactions, we can evaluate manager performance as compared to our original thesis for making the investment. Questions we ask ourselves include: Is the manager following the strategy initially articulated? Is performance in line with what we expected? Is there an inappropriate amount of manager team turnover? How are macroeconomic factors affecting this manager’s strategy? Manager interactions and independent analysis help us track manager progress and evaluate the portfolio as a whole.

The Investment Office’s location in Boston is no accident. We’re close enough to the college to stay in constant contact through committees, recruiting, and other means, but we’re also in the heart of a vibrant investment community. Many of our managers have offices within walking distance, and peer schools’ investment offices are just around the corner as well (e.g. Dartmouth, Harvard, MIT, Tufts, and Wellesley).

What is Williams’ Edge?
Many of our managers talk about their “edge” in the field: what makes them unique and gives them a differentiated view from the rest of the pack. So what is our edge at Williams? Time and again, we come back to our long-term focus, our dedicated team of professionals, the size of our Investment Pool, and the Williams network.

- **Long-Term Focus**: Williams’ long-term focus allows the Investment Pool to profit from opportunities with a long investment horizon, such as venture capital, buyouts, real estate, and some hedge fund investments.

- **Dedicated Team of Professionals**: Our experienced team of investment and operations professionals identify completely with the mission of the college and focus solely on that one institution.

- **Investment Pool Size**: At $1.8 billion, Williams is a modestly scaled investor in the universe of institutional investors. Rather than see this as a detriment, we see it as a strength. Our smaller size allows us to make investments with small and start-up managers that are still meaningful to the Investment Pool as a whole. Since we don’t have to put very large amounts of capital to work, Williams’ investments don’t overwhelm small managers, so gaining access to capacity-constrained investments is more feasible.

- **The Williams Network**: The edge that the Williams community contributes to the Investment Pool can’t be understated. Advisory Committee members, Investment Committee members, and others in the Williams network provide us with sound advice, interesting ideas, introductions to managers that are difficult to access, and ongoing support.

We look forward to continuing to develop and implement Williams’ edge and will continue to explore new investment landscapes, source interesting ideas, and work to achieve our risk and return objectives to support the college.

*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

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 R. Oppenheimer ’68
Scott C. Schweighauser ’83
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

Julia T. Crosby**  
Investment Officer – Non-Marketable Securities

Kristin A. Corrigan  
Executive Assistant/Office Manager

Shara Singh ’12  
Investment Analyst

Louis E. Sousa**  
Investment Officer – Marketable Securities

Anna H. Soybel ’11  
Investment Analyst

Bradford B. Wakeman  
Director of Investment Operations and Risk Management

Abigail G. Wattley ’05  
Investment Associate

**Started November 1, 2012
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