Williams

INVESTMENT REPORT 2013

Williams College Investment Report 2013

Introduction

The Williams College Investment Pool ended a strong year with a return of 14.8% after having returned 3.1% in Fiscal Year 2012. As of June 30, 2013, the Investment Pool stood at just under $2.0 billion, and our actively managed portfolio outperformed our policy portfolio benchmark and peer averages.

Our fiscal year return of 14.8% will be very strong relative to peers. That may raise the question of whether we are taking more risk than our peers, or than is prudent. Our strong return was a function of several factors:

1. We had a nice tail wind. The markets by themselves delivered very attractive returns, with U.S. equity markets up over 20%.
2. We did what we always do. We remained fully exposed to the markets as defined in our Statement of Investment Policy; we do not tactically manage our asset allocation by over-or under-weighting particular asset classes based on our views of potential short-term returns and risks. One long-term strategic shift we made last year did contribute positively to our returns: our commitment to non-investment grade fixed income returned over 15%.
3. We benefitted from manager selection. Our managers added significant value in each of our major asset classes and, in the aggregate, beat their benchmarks by wide margins. We are pleased with our current roster of managers.

While our return for Fiscal Year 2013 was very gratifying, we know better than to "confuse brilliance with a bull market." We remain focused on the long-term performance of the endowment.

Over the past 10 years, the Williams Investment Pool has posted a 9% annualized return during a period when U.S. stocks earned a return of 7%, and with significantly lower volatility.

Notable Events during Fiscal Year 2013

- The most notable event for Fiscal Year 2013 is, of course, an investment return of over 14%. Our 10-year return of 9% exceeds our long-term investment objective of a 5% real return (that is, after inflation).
- We made significant additions to our team. This year, we welcomed Lou Sousa, investment officer for marketable securities, and Julia Crosby, investment officer for non-marketable securities. Lou was a founding member of the Wellesley College Investment Office and served there for over 10 years. Julia brings a wealth of experience from banking, direct investing, and managing a multibillion dollar private equity portfolio for a defined-benefit pension plan.
- Our team continued to travel globally to identify managers in less efficient markets that can provide a differentiated source of investment return. During our trips, we met with Williams alumni and friends to learn more about investment opportunities in various regions. Our active manager sourcing regime has paid real dividends.
- We continued to diversify the portfolio. We build long-term relationships with high-quality investment managers, as evidenced by the long tenure of managers in our portfolio. We also initiated relationships with newer, smaller firms.
- Our liquidity position remains consistent and strong. At year's end, approximately a quarter of the portfolio could have been made available to the college in 30 days or less.
- We continued our work on college-wide affairs, such as working with the Retirement Plan Governance Committee, Gift Planning, the President's Administrative Group, College Relations, and the Williams Career Center; and participating in Inside Williams events.

The Market during Fiscal Year 2013

The fiscal year started with continued concerns over European sovereign debt and emerging-market equities. However, fresh opportunities presented themselves, with equity indices (as measured by the MSCI All Country World IMI Index) up nearly 17% for the fiscal year. Concerns over the "fiscal cliff" caused volatility in the market towards the end of calendar year 2012 as political gridlock clouded market expectations. The conclusion of tax negotiations in January renewed stability and increased investor confidence, causing equity markets to surge. In the private investment markets, liquidity was strong, resulting from the momentum of equity and refinancing markets. With interest rates at continued lows, corporations issued record levels of high-yield bonds. The low-yield environment pushed many investors to seek higher-return alternatives.

The Fed's announcement of reduced quantitative easing sent tremors through the market at the end of June, dampening performance at the end of the fiscal year. Modest inflation did not erode market gains, and, in Fiscal Year 2013, we set a new high-water mark for the Investment Pool of $2 billion.

Overall Investment Performance

The Investment Pool returned 14.8% for the fiscal year ending June 30, 2013. The following table presents Williams' annualized investment return over the past 20 years.

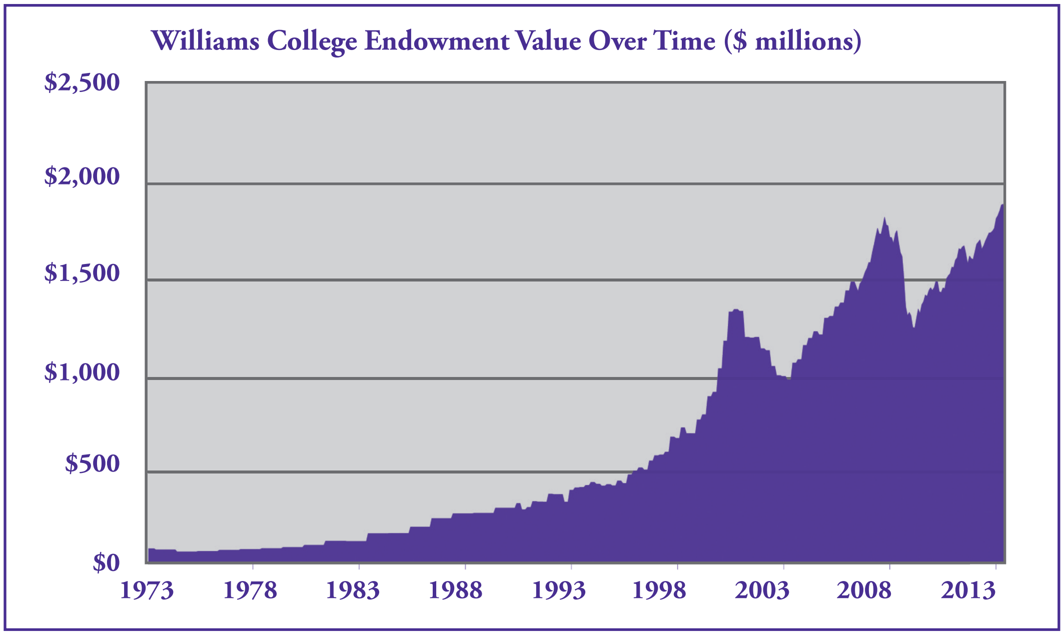
	WILLIAMS[1]	POLICY PORTFOLIO[2]	INFLATION[3]	5% REAL RETURN
1 YEAR	14.8%	10.8%	1.9%	6.9%
3 YEARS	12.5%	9.5%	2.4%	7.4%
5 YEARS	5.4%	3.2%	1.4%	6.4%
10 YEARS	9.1%	n/a	2.4%	7.4%
20 YEARS	11.2%	n/a	2.4%	7.4%

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

[2] Policy portfolio data are not available for 10 and 20 year periods

[3] Consumer Price Index

Longer-Term Investment Performance



Over the last 40 years, the endowment has grown from $50 million to approximately $2.0 billion, and Williams has enjoyed an annualized return of approximately 11%. Our three-year and 10-year returns exceed the 5% real return objective (in the table above) as well as the return assumed in the college's long-term financial plan, although our five-year return falls short of our objective.

2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
14.8%	3.1%	20.2%	11.9%	-18.4%	-1.1%	24.0%	12.8%	12.4%	17.8%

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 (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 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. 27% 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.

The Investment Committee and the Investment Office review asset allocation annually to establish a policy portfolio, including rebalancing ranges within which the Investment Office manages the Investment Pool. We did not make any changes to the Policy Portfolio for Fiscal Year 2014. The Policy Portfolio, as in previous years, is designed to achieve our investment objective over the long term with moderate volatility and ample liquidity.

Asset Class	FY13 Return	FY14 Allocation	Commentary
GLOBAL LONG EQUITY	19.9%	27%	Global equities rallied during the fiscal year, led by solid returns in the U.S. stock market. The global long-equity portfolio posted a strong return of 20 %; the MSCI ACWI IMI benchmark returned 17% for the year. After protecting assets on the downside in Fiscal Year 2012, Williams' managers were able to capture more upside than the overall market in Fiscal Year 2013.
GLOBAL LONG/ SHORT EQUITY	17.4%	15%	The global long/short equity asset class also kept pace in the market rally, with a solid double-digit return and meaningfully lower volatility than the overall market.
ABSOLUTE RETURN	14.4%	17%	A diverse set of exposures within the absolute-return asset class contributed to the strong results with an attractive level of return per unit of risk.
VENTURE CAPITAL	14.9%	6%	Venture capital continues to be one of the portfolio's strongest performing asset classes, producing a 25% return over the last three years. Managers continued to capitalize on social media.
BUYOUTS	19.8%	9%	The buyout portfolio benefitted from strong equity and debt financing markets resulting in record distributions this year.
REAL ASSETS	1.7%	5%	Current year performance was dampened by exposure to commodities, which had a challenging year; new investment opportunities were attractive.
REAL ESTATE	8.1%	6%	The real estate portfolio, recovering from recent losses, produced a solid return for the year and benefitted from a strong exit environment for stabilized assets.
INVESTMENT GRADE FIXED INCOME	0.9%	4%	This year proved to be a challenging environment for investment-grade fixed income given continued record low interest rates; the Barclays Aggregate Bond Index was down 0.7% for the fiscal year. We continued to employ prudent active management in this asset class and believe that while return expectations will be muted going forward, this asset class will continue to provide liquidity assurance and diversification benefits.
NON-INVESTMENT GRADE FIXED INCOME	15.3%	10%	While we are four years past the financial crisis, our distressed credit managers continue to find opportunities for differentiated investments in both the U.S. and Europe. This asset class was further buoyed by strong bond and loan markets as capital continued to seek higher yielding investments.
CASH	0.0%	1%	Our defensive allocation to cash earned 0.04% 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.

Adding Value through Manager Selection

We can out-perform the Policy Portfolio Benchmark either by allocating our assets differently (e.g. overweighting a particular asset class) or by engaging managers that out-perform their benchmark (i.e. manager selection). As we tend not to make short-term tactical shifts in the portfolio, manager selection is the key driver of relative performance. We therefore spend significant time and resources identifying high quality investment managers. This year, team members traveled to Asia, Canada, and Europe to find managers who can identify attractive investment opportunities that have the potential to generate a differentiated and additive return stream. In this effort, we conducted more than 400 individual meetings with 255 current and prospective managers during Fiscal Year 2013. Meeting with such a large number of managers enables us to engage the best managers for Williams after a rigorous due-diligence process. While we conducted over 400 meetings, we added only four new names to our roster of managers.

We continue our work cultivating relationships with newer, smaller investment management firms, looking to grow with the next generation of high quality investment managers. Investing with newer, smaller firms offers certain advantages. Markets are constantly changing and new managers emerge to capture new investment opportunities. Across the globe, we work to be knowledgeable about those market opportunities and on-the-ground meeting talented managers that can best capture those new opportunities. Over the past three years, we have invested with several first-time funds. Some of our best performing investments during Fiscal Year 2013 were with first-time funds.

In the non-marketable asset classes, investing with managers early in their careers helps ensure access to the manager's subsequent investment vehicles. Oftentimes, the most highly sought-after managers restrict access to only those institutions that have invested with them previously. The attractive performance of our venture capital and buyout portfolios is, in large part, driven by investment managers with whom we invested early and have continued with for many years. While we continually look for new opportunities and to refresh the portfolio, long-term relationships are important.

Around the globe, we get support and advice from Investment and Advisory Committee members, alumni, and others in the Williams network.

How the Endowment Supports the Williams Budget

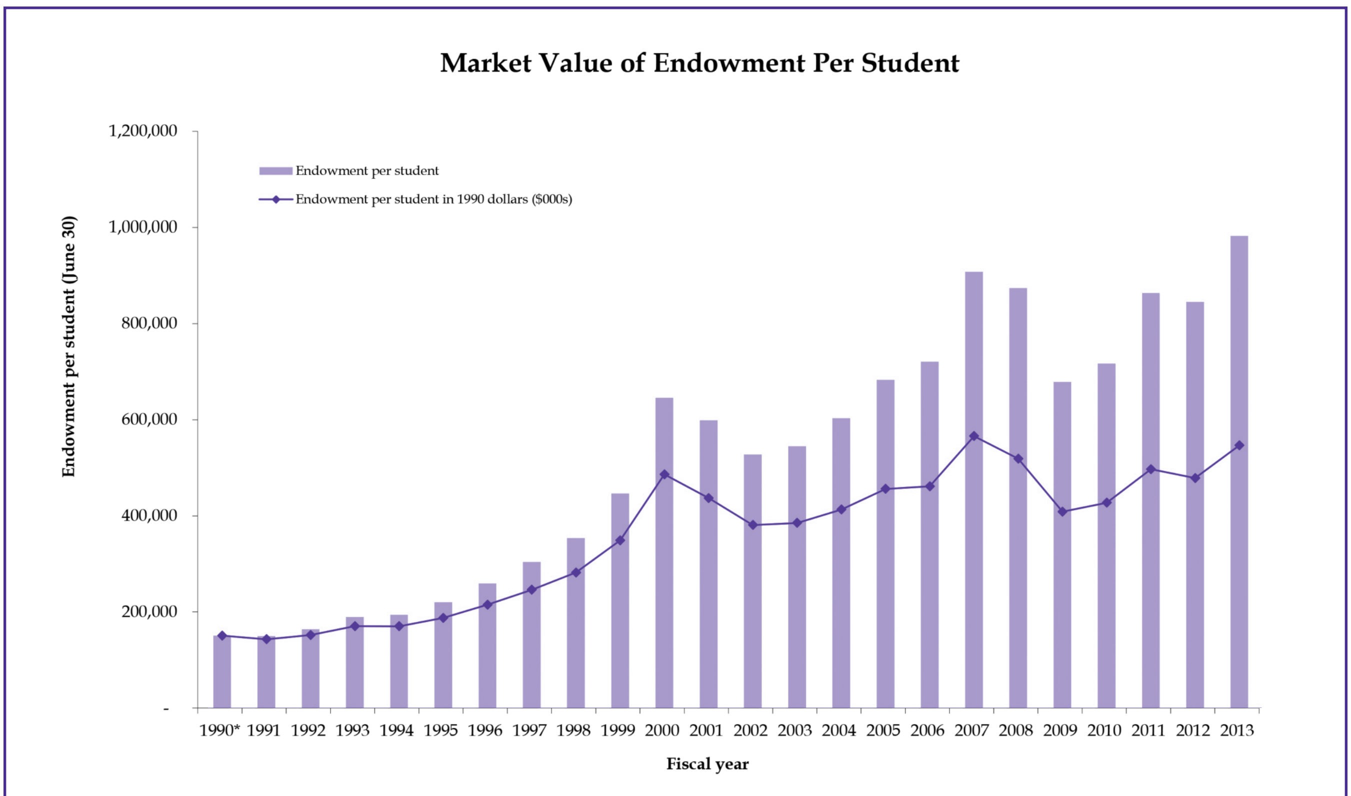
Supporting the mission of the college is the core mission of the Investment Office. The Investment Office staff works closely with the college's finance team to ensure our investment and asset-allocation plan aligns with Williams' financial plan. During Fiscal Year 2013, the college spent approximately $90,000 per student. The Investment Pool was a significant part of that spending, as follows:

Projected Sources of Per Student Revenue

Endowment	$ 43,000	48%
Current Gifts	9,000	10%
Net Student Revenue	33,000	37%
Other Income (e.g. conferences and grants)	5,000	5%
TOTAL	**$ 90,000**	**100%**

As shown above, Williams relies on the endowment and gifts to provide nearly 60% of every dollar the college spends. Having a $2 billion endowment (nearly $1 million per student) allows Williams to sustain our educational offerings while continuing to grow our financial aid budget and to meet the full financial need of every admitted student.

While we established a new high-water mark for the nominal market value of the endowment, we have not yet returned to the same real asset levels, i.e. after accounting for inflation, that we had before the economic crisis of 2007-08. The chart below presents the market value of the endowment per student since 1990 in nominal and real (i.e. inflation-adjusted) terms.



Student Programs

We remain involved with Williams students in many ways, including sponsoring Winter Study classes, summer analyst internships, and a full-time analyst program. Through the Winter Study analyst program, the Boston office hosts two to three students each January to participate in an abbreviated training program and assist with short-term projects for the Investment Office. Through our summer analyst program, we hire two Williams students for a 10-week internship. These students work with the Investment Office team and also meet with other industry professionals in Boston and gain exposure to other possible career options. By graduation, seven members of the Class of 2014 will have worked at the Investment Office.

This year, the Investment Office continued its full-time, two-year analyst program and hired the third full-time Investment Analyst recruited directly from Williams. We were pleased to welcome **Caitlyn Clark '13** who succeeds **Anna Soybel '11** and joins **Shara Singh '12**. Our alumni analysts support the Investment Office by working with the investment team on monthly performance reporting, manager due diligence, ongoing portfolio analysis, and operational projects.

Looking Ahead

The oversight of the Williams endowment is a complex and continuing task, and is critical to the future of the college. We are fortunate to have a dedicated group of trustees, Investment and Advisory Committee members, and alumni who provide us with investment ideas and advice. The investment portfolio is in excellent shape and the dedicated team of professionals who work in the Investment Office are proud to be contributing to the success of Williams 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*
Elizabeth B. Robinson ’90*
Robert G. Scott ’68*
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)
William E. Simon, Jr. ’73 (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
Jennifer A. Heller ’00
Jonathan A. Kraft ’86*
James E. Moltz ’54
John R. Oppenheimer ’68
Elizabeth B. Robinson ’90*
Scott C. Schweighauser ’83
Paul E. Singer P’96 ’00

Emeritus Members of the Committee

John S. Wadsworth, Jr. ’61 (Trustee Emeritus)
E. David Coolidge III ’65 (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
Elizabeth B. Robinson ’90*
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
Robert G. Scott ’68*
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

Caitlyn D. Clark ’13
Investment Analyst

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

Bradford B. Wakeman
Director of Investment Operations and Risk Management

Abigail G. Wattley ’05
Investment Associate

Williams

Williams College Investment Office
31 Saint James Avenue, Suite 730
Boston, MA 02116
Phone: 617.502.2400
Fax: 617.426.5784
Email: investmentoffice@williams.edu
www.williams.edu