Executive Summary

The Williams College Investment Pool produced a 17.5% return for the fiscal year ended June 30, 2014. This represents the fifth consecutive year of positive performance with four of the five years producing double-digit returns. The Williams portfolio outperformed our internal Policy Portfolio benchmark, as well as our long-term 5% real return objective, and we expect it will outperform peer school averages when those results are reported in the coming months. Notably, the Investment Pool was valued at $2.3 billion at year-end, a new high-water mark, and a more than $250 million increase from last year.

A question we hear often is “are we in a bubble?” and, if so, should we consider tactical shifts in how the Investment Pool is invested in order to reduce risk? In short, we cannot answer the first question, and we believe the answer to the second question is “no.” While we implement asset allocation changes over time, these shifts are generally modest and are always done with a long-term perspective. For example, the U.S. public equity market was viewed by many to be meaningfully overvalued a year ago; in actuality, U.S. equities (represented by the S&P 500) returned a remarkable 25% over the past year, well in excess of Williams’ overall portfolio return. Williams having maintained meaningful exposure to the U.S. equity market contributed materially to a successful year. At the same time, and as we have indicated in each of our previous reports, we also maintain a diversified Policy Portfolio, which serves to protect the Investment Pool from excessive volatility in any one particular asset class. Long-term investment performance is the critical objective: the Williams Investment Pool has returned 9.0% annually over the past 10 years, exceeding the Investment Pool’s 7.3% return objective for that period (5% real return adjusted for inflation) as well as the 6.9% return on a passive 60/40 stock/bond portfolio.

Notable Events during Fiscal Year 2014

- For the first time at a fiscal year end, the Investment Pool exceeded the $2 billion mark.
- Adjusted for inflation, the value of the Investment Pool has fully recovered from the global economic downturn of 2008-2009.
- The Investment Pool now exceeds $1 million per student, a new record.
- Distributions from private partnerships were significant, particularly from the buyout portfolio, which had a record year of distributions benefiting from strong debt and public equity markets.
- The venture capital portfolio returned nearly 50% for the year.
- Annie Jeong ’14 joined Caitlyn Clark ’13 in the Investment Office as our fourth analyst hired directly from Williams. Annie is our first summer analyst to rejoin us in a full-time position.

The Market during Fiscal Year 2014

Despite some interim volatility during the mid-summer of 2013 and winter of 2014, the market during Fiscal Year 2014 was in essence a continuation of last year’s strong market. The year started with fears of an accelerated slowdown of U.S. quantitative easing, which caused a brief dampening of performance. This downturn quickly reversed following the announcement of a delay of the Fed’s tapering and a temporary resolution of the U.S. budget impasse following a 16-day shutdown of the federal government. Developed market indices rallied through the remainder of calendar year 2013, with the S&P 500 producing a remarkable 32.4% annual return and the MSCI ACWI returning 22.8%. Emerging markets, on the other hand, suffered from disappointing growth and instability in certain key markets (e.g. China, Brazil, India) and posted negative returns for the one-year period (MSCI Emerging Markets Index). While geopolitical risk continues to increase, the global public markets’ reaction has been relatively muted. The fiscal year ended with a rebound in emerging markets (up 14.3% for the year) and both the U.S. and global markets outperforming fiscal year 2013 with returns of 24.6% (S&P 500) and 23.0% (MSCI ACWI), respectively.

Liquidity was strong in the private investment markets, largely resulting from the momentum of debt and equity markets, including a resurgence of IPOs. The low interest rate environment continues to buoy debt issuance and refinancings, while investors seek higher-return alternatives to traditional fixed income.
Investment Performance

The Investment Pool returned 17.5% for the fiscal year ended June 30, 2014, exceeding the Policy Portfolio Benchmark for the year and the long-term return objective. The three-year, five-year, and 10-year returns also exceeded the 5.0% real return objective, which is the return assumed in the college’s long-term financial plan. The 13.4% five-year return, which stood at only 5.4% as of June 30, 2013, benefited from the roll-off of losses experienced during the financial crisis.

<table>
<thead>
<tr>
<th></th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
<th>20 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Williams Portfolio¹</td>
<td>17.5%</td>
<td>11.6%</td>
<td>13.4%</td>
<td>9.0%</td>
<td>11.8%</td>
</tr>
<tr>
<td>Policy Portfolio Benchmark²</td>
<td>15.7%</td>
<td>8.6%</td>
<td>10.9%</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>60/40 Stock/Bond Portfolio³</td>
<td>16.3%</td>
<td>11.5%</td>
<td>13.4%</td>
<td>6.9%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Return Objective⁴</td>
<td>7.0%</td>
<td>6.9%</td>
<td>7.1%</td>
<td>7.3%</td>
<td>7.4%</td>
</tr>
</tbody>
</table>

¹Williams Portfolio returns are net of fees and annualized for periods over one year.
²Policy Portfolio return data is not available for 10- and 20-year periods.
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 ten years.

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</tr>
</thead>
<tbody>
<tr>
<td>17.5%</td>
<td>14.8%</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></td>
</tr>
</tbody>
</table>

Over the last 40 years, the Investment Pool has grown from $50 million to $2.3 billion, and Williams has enjoyed an annualized return of approximately 12.1%.
### Allocation & Asset Class Performance

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>FY14 Actual Return</th>
<th>FY14 Policy Allocation</th>
<th>FY15 Policy Allocation¹</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>GLOBAL LONG EQUITY</td>
<td>19.9%</td>
<td>27%</td>
<td>25%</td>
<td>The global long equity portfolio posted another solid year with a 19.9% return, though trailing the return of the MSCI ACWI IMI of 23.4%. Global equities moved steadily higher during FY 2014, while stock market volatility also increased.</td>
</tr>
<tr>
<td>GLOBAL LONG/SHORT EQUITY</td>
<td>11.6%</td>
<td>15%</td>
<td>17%</td>
<td>The global long/short equity asset class posted another year of double digit returns, albeit well behind the return of the rallying equity market.</td>
</tr>
<tr>
<td>ABSOLUTE RETURN</td>
<td>11.0%</td>
<td>17%</td>
<td>19%</td>
<td>The absolute return asset class contributed to positive returns for the Investment Pool. A diverse set of exposures across equity and fixed income securities provided an attractive absolute rate of return at a lower level of volatility than other equity-oriented asset classes.</td>
</tr>
<tr>
<td>VENTURE CAPITAL</td>
<td>49.5%</td>
<td>6%</td>
<td>6%</td>
<td>Venture capital had another outstanding year driven by a favorable exit and fundraising environment. The venture portfolio has returned 24.4% annually over the last three years.</td>
</tr>
<tr>
<td>BUYOUTS</td>
<td>26.6%</td>
<td>9%</td>
<td>9%</td>
<td>The buyout portfolio continued to benefit from strong equity and debt financing markets resulting in an attractive return and another record year of distributions.</td>
</tr>
<tr>
<td>REAL ASSETS</td>
<td>19.6%</td>
<td>5%</td>
<td>5%</td>
<td>Our natural resource partnerships had a strong year while commodities continued to lag.</td>
</tr>
<tr>
<td>REAL ESTATE</td>
<td>11.2%</td>
<td>6%</td>
<td>6%</td>
<td>As investors continued their search for yield, the exit environment for stabilized real estate remained strong across most property types and has led to near record valuations in many core markets. As a result, the real estate portfolio experienced another year of strong distributions and improving performance.</td>
</tr>
<tr>
<td>INVESTMENT GRADE FIXED INCOME</td>
<td>4.9%</td>
<td>4%</td>
<td>2%</td>
<td>FY14 was a muted return environment for investment grade fixed income as the low interest rate environment prevailed. The Barclays Aggregate Bond Index was up 4.4% for the fiscal year and our portfolio added an additional 51 basis points of outperformance. This asset class did provide protection to the Investment Pool during rockier equity months as investors sought “quality” in turbulent markets. We maintain a modest allocation to this asset class for diversification and liquidity benefits.</td>
</tr>
<tr>
<td>NON-INVESTMENT GRADE FIXED INCOME</td>
<td>11.2%</td>
<td>10%</td>
<td>10%</td>
<td>This fiscal year marks the five-year anniversary of the inception of this asset class within the Investment Pool, which has generated an annualized return of 13.6% and met our objective of equity-like returns. Non-investment grade fixed income continued to generate strong performance as managers identified undervalued bonds and loans in the U.S., Europe, and Asia.</td>
</tr>
<tr>
<td>CASH</td>
<td>0.0%</td>
<td>1%</td>
<td>1%</td>
<td>Our allocation to cash earned 0.0% during the year, reflective of the low-yield environment.</td>
</tr>
</tbody>
</table>

¹Italicized numbers denote changes from the prior fiscal year asset allocation plan.
How the Policy Portfolio Is Determined

The Policy Portfolio is the target asset allocation of the Williams College 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, cash). 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 assets are the single largest driver of investment performance.

We address asset allocation at two of the four Investment Committee meetings each year. At the March meeting, we present key portfolio characteristics and comparative peer school investment and financial information. This information is provided to put asset allocation in the context of the college’s overall financial picture and to help inform the committee’s assessment of how much risk we should take when setting the new Policy Portfolio. We also use the March meeting to review historical asset allocation, the capital market assumptions we use for modeling (including long-term expected returns and risk by asset class), and investment themes for the Policy Portfolio.

We solicit the Investment Committee’s input and advice at the March meeting to inform and guide the more detailed asset allocation plan we present for approval at the May meeting. The Investment Committee approves a policy portfolio, allowable asset allocation ranges, and benchmarks for each asset class. Throughout the process, we consult with Provost Will Dudley ’89 and Vice President for Finance and Treasurer Fred Puddester to ensure that the prospective Policy Portfolio ultimately aligns with the college’s financial plan.

As in previous years, we did not make material changes to the Policy Portfolio for Fiscal Year 2015. As shown above, we modestly reduced global long equity and investment grade fixed income in favor of global long/short and absolute return strategies.

How the Investment Pool Supports the Williams Budget

We continue to manage the Investment Pool with the primary objective of supporting the mission of the college. The Investment Office staff works closely with the college’s finance team to ensure the investment and asset allocation plan aligns with Williams’ financial plan. As we have reported in previous years, the cost of a Williams education is well in excess of the revenue the college receives in tuition, even for students who receive no financial aid. Williams relies on the Investment Pool and gifts to provide approximately 60% of every dollar the college spends. A $2.3 billion Investment Pool (over $1 million per student) allows Williams to sustain its educational offerings while continuing to grow the financial aid budget to meet the full financial need of every admitted student.

Looking Ahead

As we reflect on the year, we must remember in times like these to pause and check our seatbelts, for what goes up inevitably comes down. We continue to carefully review asset allocation to ensure proper diversification and a balance of risk and return. The same is true “on the ground,” where we continue to re-evaluate current investment managers and selectively consider new investment opportunities. We remain attentive in our management of liquidity with approximately 39% of the portfolio that can be liquidated quarterly and a meaningful percentage of which can be liquidated in less than 30 days.

Governance is also critical to the success of the Investment Pool. Fiscal Year 2014 comes to a close with several notable transitions within our Investment Committee. Having chaired the Investment Committee since 2007, I am delighted to be passing the baton to Jonathan Kraft ’86. Jonathan has been a member of the Investment Committee since 2008, and we all look forward to working with him more closely in his new position. Greg Avis ’80, who is transitioning from Chair of the Board of Trustees, and Laurie Thomsen ’79, who is also transitioning off the Board of Trustees, have each completed their terms on the Investment Committee; Greg and Laurie have each agreed to serve as Emeritus members of the Investment Committee for the next three years. We want to thank all of our committee members for their many contributions to the investment program and trust that they will remain important contributors to the investment program going forward.

In the face of these changes and market dynamics, the Investment Office, Advisory Committees, Investment Committee, and Board of Trustees remain focused on the long-term growth of the Investment Pool and its goal to support the mission of the college. While the catalyst for a market slowdown in the future is unknown, the portfolio is well-positioned, and we will continue our vigilant monitoring efforts.

Sincerely,

Michael R. Eisenson ’77
Chair, Board of Trustees
Chair, Investment Committee, 2007-2014

Collette D. Chilton
Chief Investment Officer
Appendix  The Williams College Investment Pool: Governance and Management

Investment Committee as of June 30, 2014

Investment Committee

Michael R. Eisenson ’77, Chair* Robert G. Scott ’68*
Gregory M. Avis ’80* Laurie J. Thomsen ’79*
Timothy A. Barrows ’79
O. Andreas Halvorsen ’86*
Jonathan A. Kraft ’86*
Elizabeth B. Robinson ’90*

Emeritus Members of the Committee
E. David Coolidge, III ’65 (Trustee Emeritus)
Robert I. Lipp ’60 (Trustee Emeritus)
William E. Simon, Jr. ’73 (Trustee Emeritus)
John S. Wadsworth, Jr. ’61 (Trustee Emeritus)

Advisory Committees as of June 30, 2014

Marketable Assets

Advisory Committee

O. Andreas Halvorsen ’86, Co-Chair* Jonathan A. Kraft ’86, Co-Chair*
Noriko Honda Chen ’89
Charles P. Coleman, III ’97
Jennifer L. Heller ’00
Elizabeth B. Robinson ’90*
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
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 Member of the Committee
John S. Wadsworth, Jr. ’61 (Trustee Emeritus)

Real Assets Advisory Committee

John S. Foster ’80, Co-Chair Mary Lou Boutwell ’74 William J. Maher ’77 Glenn A. Shannon ’78
Robert M. Pinkard ’75, Co-Chair Richard E. Georgi ’87 Robert G. Scott ’68*

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
Kristin A. Corrigan Executive Assistant/Office Manager
Louis E. Sousa Managing Director
Caitlyn D. Clark ’13 Anniversary Investment Analyst
Bradford B. Wakeman Managing Director and Chief Operating Officer
Julia T. Crosby Managing Director
Annie E. Jeong ’14 Investment Analyst
Abigail G. Wattley ’05 Director

*Williams Trustee