Williams

INVESTMENT REPORT 2015

Williams College Investment Report 2015

Executive Summary

The Williams College Investment Pool returned 9.9 percent for the fiscal year ended June 30, 2015. This represents the sixth consecutive year of positive performance. The Williams portfolio outperformed our internal policy portfolio benchmark, as well as our long-term 5 percent real return objective. We expect it will outperform peer school averages when those results are reported in the coming months. We ended the year at $2.4 billion, or about $1.1 million per student.

We are satisfied with our investment return this year. More importantly, we are particularly satisfied with the very long-term results of the carefully run investment program that has served Williams well.

Notable Events During Fiscal Year 2015

- Investment Return: Given our equity bias, our return of 9.9 percent during a period when the world equity markets returned less than 1 percent is notable. Selecting good managers is what added value to our portfolio.
- Many Asset Classes Contributed: Seven of our 10 asset classes posted positive returns this year. The return of our venture capital portfolio is particularly notable. For the third time in the past five years, our venture capital portfolio returned over 40 percent with a fiscal year 2015 return of 59.4 percent.
- Cash Distributions: Similar to last year, distributions from private partnerships were significant—the highest amount in over 10 years. Distributions from our buyout managers were particularly notable. This in part caused our allocation to buyouts to dip below our target allocation of 9 percent for the first time in over 10 years.
- Analyst Programs: Hillary Cook '15 joined the Investment Office as our fifth full-time analyst hired directly from Williams. Hillary was a summer analyst in 2014. Between our full-time analysts, summer analysts, and winter study programs, 43 Williams students have worked in the Investment Office since we started our student programs in 2007.

The Market During Fiscal Year 2015

The U.S. equity market outperformed both developed and emerging international markets with the S&P 500 Index delivering a total return of 7.4 percent compared to 0.8 percent for the MSCI ACWI ex-US Index. At the same time, the U.S. dollar strengthened against most major currencies. Meanwhile, although European markets were strongly affected by the fiscal crisis in Greece and the increased uncertainty concerning a possible 'Grexit', major euro-denominated indices were up over the period.

The emerging markets ended fiscal year 2015 down, with the MSCI Emerging Markets Index returning -5.1 percent, largely as a result of poor performance in Latin America. While China's equity markets took a stumble in the second quarter of calendar year 2015, the FTSE China Index managed to post a return of 27.9 percent with significant intervention by the Chinese government.

Finally, commodities took a big hit, led by the energy sector, with the Dow Jones UBS Commodity Index returning -23.7 percent for the fiscal year. Crude oil prices dropped from $105.30 at the start of the fiscal year to $59.80 at the end. Additionally, weak demand in emerging market countries, particularly China, contributed to falling prices for copper and iron ore.

Preliminary index returns show that hedge funds mostly achieved single-digit returns, regardless of strategy. Buyouts and venture capital continued their strong run, with Cambridge Associates' U.S. indices posting 8.8 percent and 24.8 percent returns, respectively.

Despite some weakness overseas, fiscal year 2015 generally demonstrated a continuation of the bull market for U.S. equities. Greater uncertainty persists surrounding equity markets as Europe grapples with Greece, the Chinese government decides how to respond to market uncertainty, and the U.S. Federal Reserve considers raising interest rates.

Investment Performance

The following are our summary investment results for the year ended June 30, 2015.

Annualized Returns for the Fiscal Year Ended June 30, 2015					
	1 Year	3 Years	5 Years	10 Years	20 Years
Williams Portfolio[1]	9.9%	14.1%	12.9%	8.8%	11.6%
Policy Portfolio Benchmark[2]	3.8	10.0	9.5	n/a	n/a
60/40 Stock/Bond Portfolio[3]	5.4	11.1	11.8	6.8	7.9
Return Objective[4]	5.0	6.3	6.8	7.1	7.3

[1]*Williams Portfolio returns are net of fees and annualized for periods over one year.*
[2]*Policy Portfolio return data is not available for 10- and 20-year periods.*
[3]*A passive benchmark of 60% S&P 500 Index/40% Barclays Aggregate Bond Index.*
[4]*The 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.

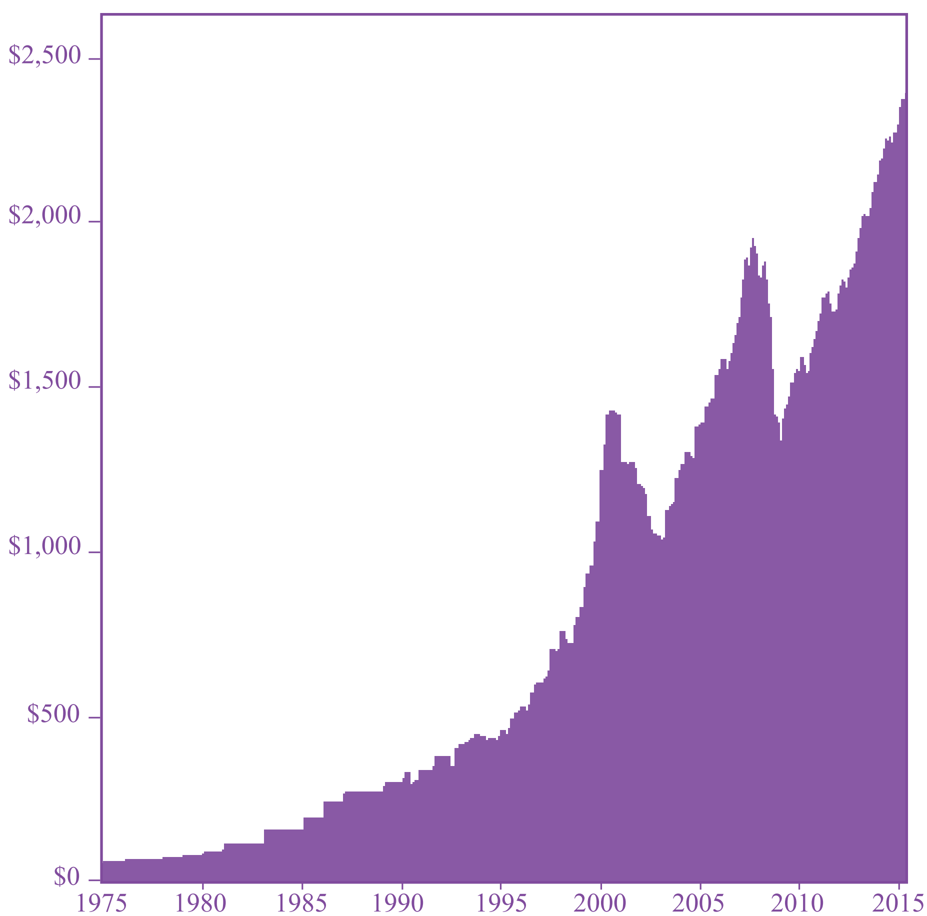
2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
9.9%	17.5%	14.8%	3.1%	20.2%	11.9%	-18.4%	-1.1%	24.0%	12.8%

Here is some additional historical perspective looking over the 40 years ended June 30, 2015.

- The average June 30 one-year return is 12.7 percent;
- The highest one-year return was 50.9 percent, earned in 2000;
- The lowest one-year return was -18.4 percent, posted in 2009;
- The Investment Pool posted a negative return five times ('84, '01, '02, '08, and '09);
- The longest period of negative annual returns was two years (see above);
- The longest period of positive annual returns was 16 years (1985 to 2000);
- The highest 10-year return we have on record is 18.5 percent in 2000;
- The lowest 10-year return we have on record is 3.8 percent in 1982; and
- Rolling 25-, 30-, and 40-year returns are all above 10 percent.

Over the last 40 years, the Investment Pool has grown from $50 million to $2.4 billion, and Williams has enjoyed an annualized return of approximately 11.9 percent. This growth is attributable to both investment performance and generous gifts to the endowment.

Williams College Investment Pool Value Over Time ($ millions)



Allocation & Asset Class Performance

Asset Class	FY15 Actual Return	FY15 and FY16 Target Allocation	Commentary
GLOBAL LONG EQUITY	6.4%	25%	The global long equity portfolio performed well in an environment of more normalized returns for U.S. equities and heightened volatility in overseas markets. Holdings in the healthcare sector were particularly profitable, contributing to the outperformance in the asset class.
GLOBAL LONG/ SHORT EQUITY	11.7%	17%	The global long/short portfolio posted very strong returns during the fiscal year. Managers in this asset class capitalized on increased dispersion between winning and losing stocks, profiting through both long and short stock selection.
ABSOLUTE RETURN	(0.8%)	19%	The absolute return portfolio generated a modestly negative return for the fiscal year. While select hedges partially mitigated losses within the energy sector, energy-related investments diminished returns in this asset class.
VENTURE CAPITAL	59.4%	6%	The venture capital portfolio produced an exceptional return driven, in part, by high private company valuations as non-traditional venture investors enter the market and companies choose to stay private longer.
BUYOUTS	18.1%	9%	The buyout portfolio performed well in fiscal year 2015 with continued strong exit activity from a mix of strategic acquisitions and the sale of public company shares in our more mature partnerships.
REAL ASSETS	(12.6%)	5%	Real assets encountered significant headwinds this fiscal year in the face of sliding commodity prices, which were driven by high levels of supply and weaker global demand.
REAL ESTATE	15.9%	6%	The real estate portfolio continues to benefit from investor demand for yield with strong exit activity across the multi-family, hotel, and office property types.
INVESTMENT GRADE FIXED INCOME	1.3%	2%	Fiscal year 2015 was a muted return environment for investment grade fixed income as interest rates continued to persist at record lows. We maintain a modest allocation to this asset class for its diversification and liquidity benefits.
NON-INVESTMENT GRADE FIXED INCOME	2.1%	10%	After a strong five-year run, returns normalized in both the high yield bond and high yield loan asset classes, leading to a modest return for this asset class. Managers are positioning themselves to take advantage of a potential distress cycle.
CASH	0.0%	1%	Our allocation to cash returned 0.0 percent for the fiscal year, reflective of the low-yield environment.

Adding Value

The college relies on the endowment to support 49 percent of the operating budget. Our investment objective is to provide that support and our policy portfolio is designed to achieve that investment objective. We work to add value beyond the return of our policy portfolio by selecting great investment managers.

When looking to make an investment, we evaluate the potential for attractive investment returns and the portfolio diversification benefits the investment may offer. This past year highlighted the importance of successful manager selection (driving excess investment returns) and prudent portfolio diversification (reducing risk).

Successful Manager Selection: It is clear why successful manager selection matters—it provides excess investment returns, which provide critical support to the college. We construct a policy portfolio designed to provide a long-term expected return at a level of risk that is acceptable to and appropriate for Williams College. We then work to select great investment managers that can deliver attractive, long term, risk-adjusted returns. That work—sourcing, selecting and gaining access to the best investment managers and carefully monitoring those managers—is at the center of what we do. Our investment professionals travel the globe to source great managers. Over the last five years, we have conducted over 2,300 meetings with nearly 1,300 investment managers. In that same time, we added 35 new relationships to our roster of investment managers. During fiscal year 2015, as in previous years, our manager selection work drove our excess return, as compared to our policy portfolio benchmark.

Diversification: The benefits of portfolio diversification may not be obvious in any given year, but it matters over the long run. As endowment managers, we are the ultimate long-term investors. In fiscal year 2015, we had asset classes that posted very positive returns (e.g. venture capital was up 59.4 percent), some that posted mediocre returns (e.g. core fixed income was up 1.3 percent), and some that posted negative returns (real assets was down 12.6 percent). Clearly, being "all in" some asset classes and totally out of others would have produced a better return. But that is not how we invest. We do not attempt to predict when some asset classes will do better than others. We maintain a long-term focus and a diversified portfolio made up of 10 asset classes not only designed to produce an attractive return, but also to provide protection from excessive volatility that could damage an endowment-reliant institution, such as Williams.

In dollar terms, our added value for fiscal year 2015 was over $100 million. While this is satisfying, we know there will likely be years when we under-perform. Our goal and our focus are to outperform over long periods of time not by chasing returns, but by finding best-in-class investment managers. The Williams network continues to be advantageous. Our Investment Committee, Advisory Committees, and others in the Williams network provide us with advice, interesting ideas, introductions, and help with access.

Liquidity Matters

While we invest for the long term, we are careful to manage the portfolio's near-term liquidity. It is mission critical to support the day-to-day operations of the college and fund capital calls from private equity, real estate, and other investments. We have always been prepared to generate cash quickly without disrupting our policy portfolio. As of June 30, 2015, we estimate approximately $978.7 million, or 40.9 percent of the investment pool, could be liquidated on a quarterly basis with varying notice periods.

We balance having sufficient liquidity with being fully invested. Our strategic allocation to cash is 1 percent of the policy portfolio. Keeping cash at this level requires active management, particularly when private equity managers are distributing cash at record levels. Looking back over five years, our average month-end cash balance has been 1.4 percent, a little over our policy target. We have been over 2 percent just once (2.4 percent) and the lowest level was 0.6 percent.

How the Investment Pool Supports the Williams Budget

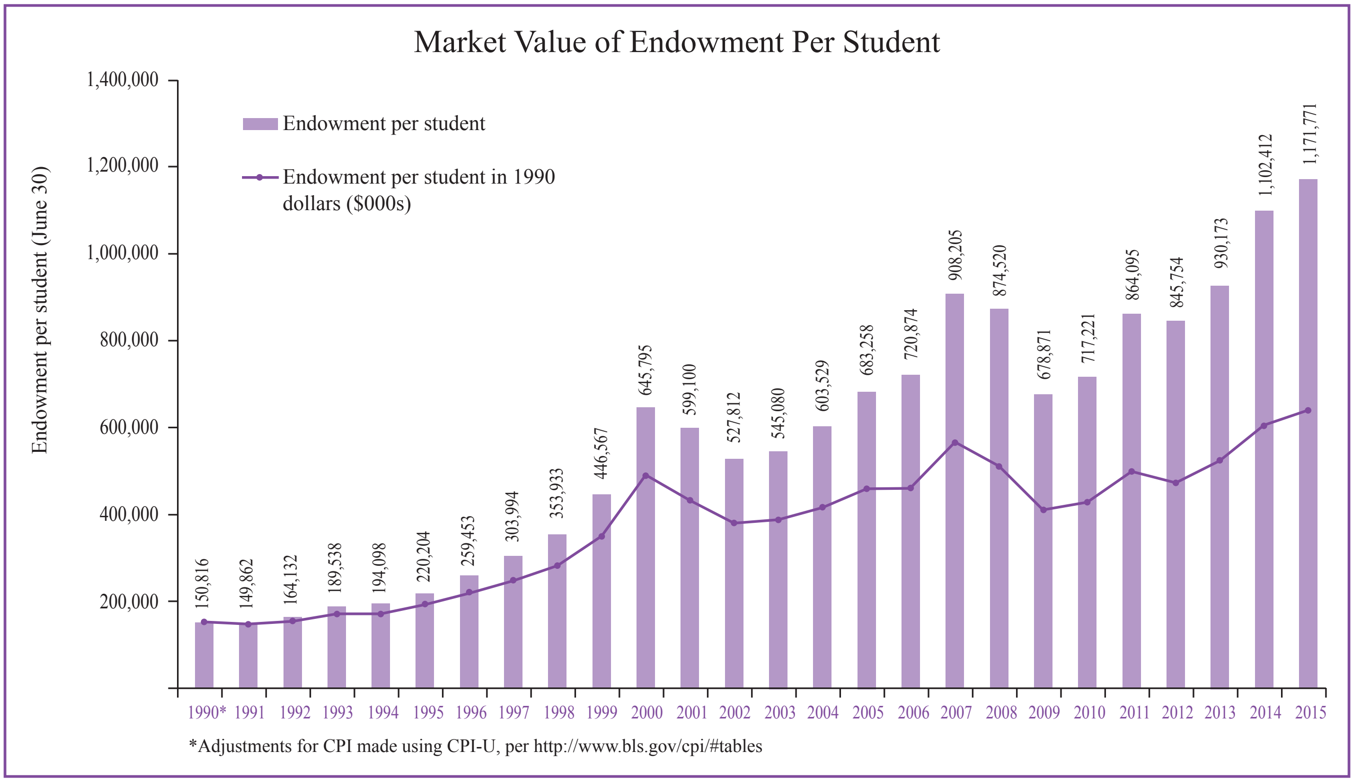
Supporting the mission of the college is the core mission of the Investment Office. The Investment Office staff works closely with the college's finance team to ensure our investment and asset allocation plan aligns with Williams' financial plan. During fiscal year 2015, the college spent approximately $102,000 per student.

The following table presents the projected sources of per-student revenue.

Endowment	$50,000	49%
Current Gifts	10,000	10%
Net Student Revenue	37,000	36%
Other Income (e.g. conferences)	5,000	5%
TOTAL	$102,000	100%

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

The chart below presents the market value of the endowment per student since 1990 in nominal and real (i.e. inflation-adjusted) terms.



In Memoriam: James B. Lee, Jr. ’75 (1952-2015)

All of us in the Investment Office were shocked and saddened to learn of Jimmy Lee’s passing at the close of this fiscal year. Jimmy was vice chairman of JPMorgan Chase, a legend and pioneer on Wall Street, a trusted advisor to numerous companies, and a true friend to his alma mater, Williams College. While Jimmy had served as a Trustee since 2012, his contributions to Williams’ investment program date to 2001, when he joined the Committee on Private Equity Investments, now the Non-Marketable Assets Advisory Committee. We were lucky to have him involved. He will be missed.

Looking Ahead

It was a tough year in many ways. For the first half of the year, we were not meeting our investment objective. As during other difficult periods, we continued to focus on our long-term policy portfolio, carefully looking for best-in-class investment managers, monitoring those managers carefully, and keeping a close eye on liquidity. We are in the third longest bull market run in over 80 years. We continue to be aware that what goes up inevitably comes down. But we know a thoughtful, long-term investment strategy is best for Williams.

We started fiscal year 2016, as we start each fiscal year, keenly focused on maintaining:

- good governance;
- a thoughtful, diversified, long-term strategic policy portfolio;
- our sourcing, researching, selecting, and gaining of access to great investment managers;
- a disciplined investment program actively managed by a team of dedicated investment professionals; and
- a prudent level of liquidity.

We in the Investment Office come to work each day ready to work hard and energized about our role in supporting Williams.

Sincerely,

Jonathan A. Kraft ’86	Collette D. Chilton
Chair, Investment Committee	Chief Investment Officer

Investment Committee as of June 30, 2015

Investment Committee

Jonathan A. Kraft ’86, Chair*
Timothy A. Barrows ’79
Michael R. Eisenson ’77*
O. Andreas Halvorsen ’86*
Elizabeth B. Robinson ’90*
Robert G. Scott ’68*

Emeritus Members of the Committee
Gregory M. Avis ’80*
Laurie J. Thomsen ’79*

Advisory Committees as of June 30, 2015

Marketable Assets Advisory Committee

O. Andreas Halvorsen ’86, Co-Chair*
Elizabeth B. 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
James B. Lee, Jr. ’75*
Elizabeth B. Robinson ’90*

Emeritus Members of the Committee
Gregory M. Avis ’80*
Laurie J. Thomsen ’79*

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
Michelle Pak ’91
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 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
Managing Director

Louis E. Sousa
Managing Director

Bradford B. Wakeman
Managing Director and Chief Operating Officer

Abigail G. Wattley ’05
Director

Annie E. Jeong ’14
Investment Analyst

Hillary S. Cook ’15
Investment Analyst

Kristin A. Corrigan
Executive Assistant/Office Manager

Jessica L. Gonsowski
Administrative Assistant

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