

# Williams

Investment Report 2019





## To the Williams Community,

Thank you for spending time with this review of the Investment Office's work in the last fiscal year in support of the college's mission.

Starting with some facts, as of June 30, 2019, the Investment Pool was valued at \$2.9 billion, a high water mark. The portfolio returned 9.6% for the fiscal year. While this is a strong return in both absolute and relative terms, most importantly it exceeded the 5% real return necessary to maintain the value of the endowment while supporting college operations. Equity markets were volatile and modestly positive in Fiscal Year 19, and the portfolio particularly benefitted from investments in venture capital (up 28.5%), buyouts (14.3%), and global long/short equity hedge funds (13.1%).

These results are timely for two reasons.

- 1) They provide a cushion for the inevitable market downturn. No one can say with confidence when that'll occur, but history indicates that it surely will.
- 2) They also enable the college to think more broadly and boldly in the strategic planning process that President Maud Mandel is galvanizing the Williams community around. Few colleges have the wherewithal to think as creatively as she's encouraging us to.

As heartened as we are by these recent returns, it's worth noting that they result from our disciplined process of investing for the long term, managing risk, and monitoring liquidity.

In addition to supporting the college's educational mission, the Investment Office has the satisfaction of contributing directly to the education of Williams' exceptional students as we regularly host summer interns and offer a Winter Study course on institutional investing. Managing Director Abigail Wattleby '05 reviews last January's experience on page 4.

Finally we point you to the graph on page 6 of trends over time in the college's revenue sources. It shows that the endowment provides roughly half of every dollar spent on students—from making their Williams education financially viable to the sum of their experiences in the classroom and beyond. All of us involved in the college's investment operation (office and committees) draw inspiration from the great things that students will go on to do with their, endowment-supported, Williams education.

Tim Barrows '79  
*Investment Committee Chair*

Collette Chilton  
*Chief Investment Officer*



## Summary Investment Performance

Over the last 40 years the Investment Pool has grown to \$2.9 billion, and Williams has enjoyed an annualized return of more than 12%. During this period, those returns have reached as high as 50.9% in 2000 and as low as -18.4% in 2009.

The last 10 years, since the financial crisis, have been favorable for investors. World equity markets, as measured by the MSCI AWCI IMI index, have produced an annualized 10-year return of 10.3%. The 10-year annualized return for our Investment Pool was 11.2%. This is the highest it's been in 10 years, due in part to being more than 10 years away from the financial crisis, and thus dropping off the Fiscal Year 09 return. We've posted positive investment returns in nine of the last 10 years, including double digit returns in six.

While we're satisfied with our Fiscal Year 19 and longer term returns, we know this buoyant market will not last forever. We continue to maintain a very long-term perspective.

Annualized Returns for the Fiscal Year Ended June 30, 2019					
	1 Year	3 Years	5 Years	10 Years	20 Years
Williams Portfolio <sup>1</sup>	9.6%	12.6%	9.1%	11.2%	9.1%
Policy Portfolio Benchmark <sup>2</sup>	4.7%	8.8%	5.5%	8.2%	n/a
60/40 Stock/Bond Portfolio <sup>3</sup>	9.7%	9.5%	7.8%	10.6%	5.8%
Return Objective <sup>4</sup>	6.7%	7.0%	6.4%	6.7%	7.2%

1. Williams Portfolio returns are net of fees and annualized for periods over one year.

2. Policy Portfolio return data is not available for the 20-year period.

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.

Annual Fiscal Year Returns									
2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
9.6%	13.5%	14.6%	-1.5%	9.9%	17.5%	14.8%	3.1%	20.2%	11.9%

## Allocation and Asset Class Performance

Asset Class	Fiscal Year 19 Actual Return	Fiscal Year 19 Target Allocation	Commentary
Global Long Equity	4.2%	23%	The global long equity portfolio produced a positive absolute return and generally kept pace with the market, despite the return of equity market volatility during the year.
Global Long/Short Equity	13.1%	19%	The global long/short portfolio had a strong year. Long positions were the key driver of performance, although positive contribution also came from shorts and private investments.
Absolute Return	5.4%	19%	The absolute return portfolio produced a solid return. While equity and credit valuations appeared expensive, managers found opportunities in equity markets and distressed companies.
Venture Capital	28.5%	6%	The venture capital portfolio had a very strong year. Managers took advantage of a strong exit environment and accommodative public markets, which resulted in a record level of distributions to the college.
Buyouts	14.3%	9%	Buyouts continue to generate strong absolute returns. After benefitting from significant realizations in prior fiscal years, the buyout managers increased their pace of deployment in Fiscal Year 19.
Real Assets	-5.6%	6%	Valuations came down during the fiscal year due to softness in the public markets, a lack of M&A activity, and weak commodity pricing.
Real Estate	4.7%	6%	Real estate performance was somewhat muted compared to previous years. Capital calls outpaced distributions for the first time since Fiscal Year 11, though this was to be expected as we've increased commitments to maintain the target allocation.
Non-Investment Grade Fixed Income	3.4%	10%	Non-investment grade fixed income posted a modest return. Cash holdings, conservatively positioned portfolios and hedging reduced the returns of the asset class. Broader macroeconomic factors, including interest rate uncertainty, contributed to muted performance.
Cash	1.6%	2%	The interest rate environment helped to provide small returns from cash holdings, with rates increasing year-to-year.
Total	9.6%	100%	



## A look inside our Winter Study Class by Managing Director Abigail Wattley '05

Teaching Winter Study “Econ 23: Investing,” is a highlight of the year for our team.

While the format has changed, from an internship in Boston to an on-campus class, engaging with students about what we do, and why we do it, remains core. The small class size enables discussion designed to open students’ eyes to the world of investing. Whether or not they pursue careers in finance, the goal is to instill in them an appreciation for the Williams endowment, the integral role it plays in supporting the college, and the importance of its thoughtful stewardship.

We begin by focusing on principles of portfolio construction—diversification and the tradeoffs among risk, return, and liquidity. Students learn about the importance of a long time horizon to realizing the benefits of compounding, and about the false allure of market timing. We emphasize that the “magic” of what we do is in the disciplined and consistent application of these principles, and that it’s easier said than done.

Our greatest tool for inspiring students is leveraging the expertise of the team. Students enjoy engaging with senior members of our office and discussing the role of each asset class, while exploring the attributes of great investment managers. We discuss how our work is like that of a baseball team’s general manager. We don’t play the game ourselves; we analyze, recruit, and oversee investment managers—constructing a talented, diversified team to compete on behalf of Williams.

Cornerstones of the course are conversations with notable guest speakers, including CIO Collette Chilton and other seasoned investors. These dialogues often touch on the varied nature of career paths and how they are long, often winding, and rarely fully planned. Other highlights are team case study presentations focused on other college endowments, which provide chances to apply principles learned in class.

Two book discussions help round out the month. There's nothing quite like brainstorming a list of "lessons learned" after reading Roger Lowenstein's *When Genius Failed* about the spectacular collapse of the Nobel-prize-winner-led hedge fund Long Term Capital to drive home the point that investing is, at its core, a very human business.

Here's how one of our most recent students described the experience:

"This class not only satiated my curiosity on how the investment office supports Williams' operating budget, it provided me with a deeper understanding of several asset classes. I went from barely knowing what equity was to presenting on how start-ups could be invaluable investment vehicles. I gained transformative advice to help me thrive in the Purple Valley and beyond."

—Papa Anderson '22, Winter Study Class 2019

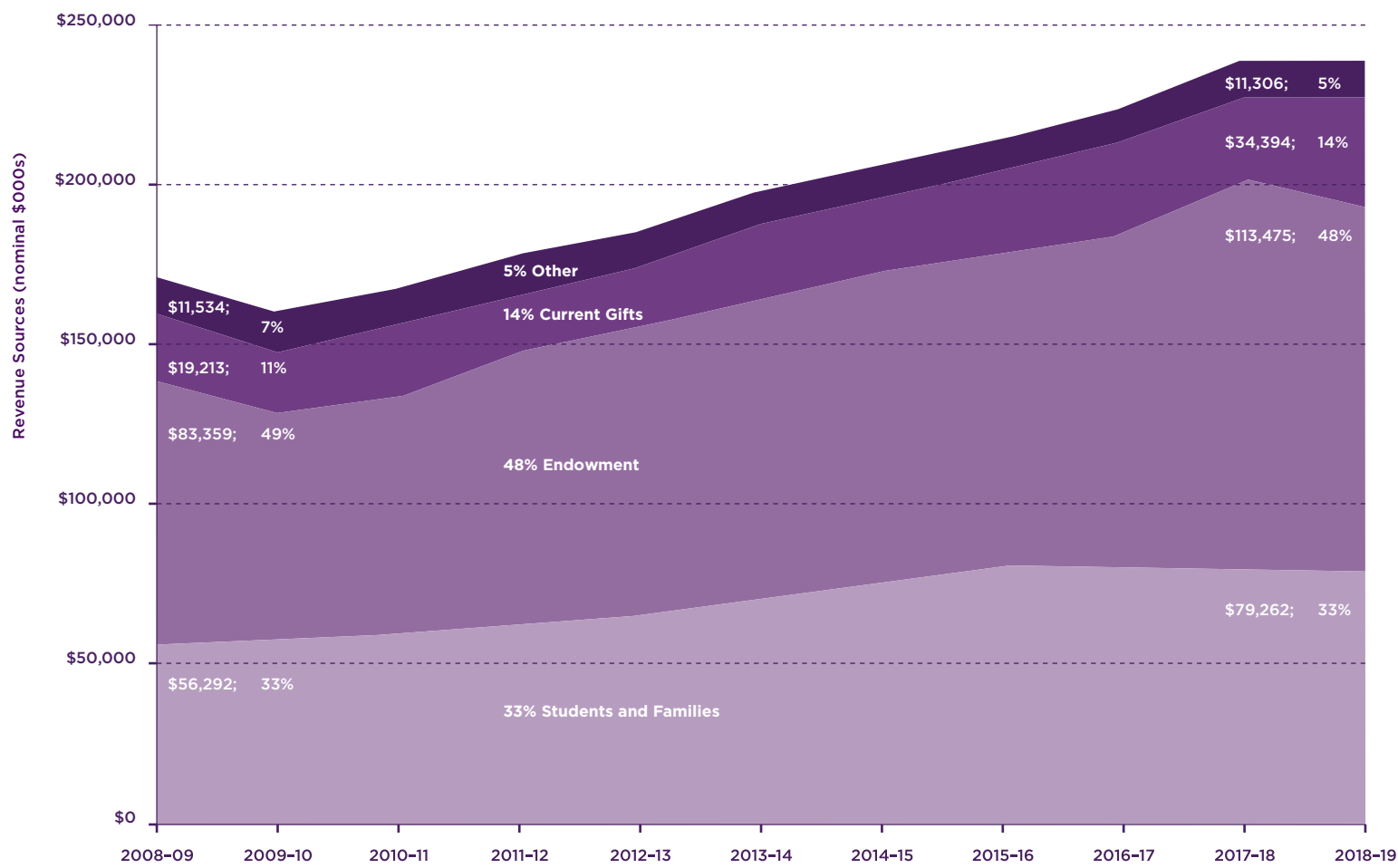
Comments like Papa's convince us that while the workload of this course is higher than many (ok, probably most) Winter Studies, it's all worth it!

Our summer and Winter Study programs, since their founding in 2008, have produced more than 70 alumni. This network has fanned throughout the world—some into finance, and others not. Our hope is that we've left on them an indelible mark, so that no matter what they do, they'll have a greater understanding of, and appreciation for, the importance of fiscally sound stewardship of endowment resources. If this course has served to make them more informed citizens of the world, then we've served our purpose.

# How the Endowment Supports the Williams Operating Budget

Williams relies on philanthropy (endowment spending and current gifts) for more than 60% of every dollar it spends.

## Trend in Revenue Sources



This large endowment (more than \$1 million per student) allows Williams to sustain our educational offerings while meeting the full financial need of every admitted student. Strong, long-term investment performance is especially important for funding access and programmatic innovation while enabling the college to limit price increases.



## Impact Investing

We continue our work on sourcing impact investments with expertise in companies, projects, or technologies focused on the reduction of global greenhouse gas emissions. During Fiscal Year 2019, we conducted more than 50 calls and meetings with 37 prospective impact investment firms. We pursue these investments in a manner that is consistent with our fiduciary duty to pursue the highest risk-adjusted returns for Williams. We made our first impact investment in Fiscal Year 2017 in a fund that provides debt financing to small- and mid-sized alternative energy projects in North America. We made our second impact investment during Fiscal Year 2019 in a fund which will focus on utility-scale renewable energy projects (e.g. wind, solar, and energy storage) in the United States.

## Alumni Leadership

The men and women who help to oversee the investment program have always been part of Williams' investment edge. We had several transitions during Fiscal Year 19.

On the Investment Committee, Michael Eisenson '77 transitioned to an emeritus member at the end of his term as Chair of the Williams College Board of Trustees, and we said goodbye to Bob Scott '68 as he concluded his term as an emeritus member. We welcomed Nate Sleeper '95 as a new member of the Investment Committee.

We saw several transitions on our Advisory Committees. Four members of our Real Assets Advisory Committee completed their terms at the end of Fiscal Year 19: Mary Lou Boutwell '74, John Foster '80, Bill Maher '77, and Bob Pinkard '75. We are pleased to have David Morrison '90 and Charlie Thompson '83 join the Real Assets Advisory Committee.

Paul Singer P '96, '00 concluded his term on the Marketable Assets Advisory Committee at the end of Fiscal Year 19 after serving for 20 years. We were pleased to welcome May Ng '92 to the Marketable Assets Advisory Committee and Matt Harris '94 to the Non-Marketable Assets Advisory Committee.

The Investment Office could not do what it does without the amazing support of these men and women who provide steadfast advice and guidance. We are grateful for their service on behalf of Williams.

## Governance and Management

as of July 1, 2019

### Investment Committee

Timothy A. Barrows '79, *Chair\**  
Noriko Honda Chen '89\*  
O. Andreas Halvorsen '86\*  
Elizabeth B. Robinson '90\*  
Nathan K. Sleeper '95\*  
Jonathan D. Sokoloff '79\*  
Michael R. Eisenson '77, *Emeritus*  
Jonathan A. Kraft '86, *Emeritus*

### Advisory Committees

#### Marketable Assets

O. Andreas Halvorsen '86, *Co-Chair\**  
Elizabeth B. Robinson '90, *Co-Chair\**  
Noriko Honda Chen '89\*  
Charles P. Coleman III '97  
Jennifer A. Heller '00  
May Y. Ng '92  
Jonathan A. Kraft '86, *Emeritus*

#### Non-Marketable Assets

Timothy A. Barrows '79, *Co-Chair\**  
Jonathan D. Sokoloff '79, *Co-Chair\**  
Matthew C. Harris '94  
Gretchen E. Howard '95\*  
Elizabeth B. Robinson '90\*  
Collin E. Roche '93  
Nathan K. Sleeper '95\*  
Michael R. Eisenson '77, *Emeritus*

#### Real Assets

Michelle Y. Pak '91, *Co-Chair*  
Glenn A. Shannon '78, *Co-Chair*  
David Morrison '90  
Charles K. Thompson '83

### Investment Office

Reporting to the college president, the chief investment officer oversees and manages the college's investments, including the selection of investment managers and subject to the approval of the Investment Committee.

Collette D. Chilton  
*Chief Investment Officer*

Julia T. Crosby  
*Managing Director*

Abigail G. Wattley '05  
*Managing Director*

Bradford B. Wakeman  
*Managing Director and  
Chief Operating Officer*

Derek R. Andren, CFA  
*Senior Associate*

Sean C. Burbank  
*Senior Associate*

Christopher J. Cronin, CPA  
*Investment Operations Associate*

Caroline M. Hogan '18  
*Investment Analyst*

Angus M. O'Rourke '19  
*Investment Analyst*

Kristin A. Corrigan  
*Executive Assistant/Office Manager*

Kristina M. Johansson  
*Administrative Assistant*

\*Williams College Trustee





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