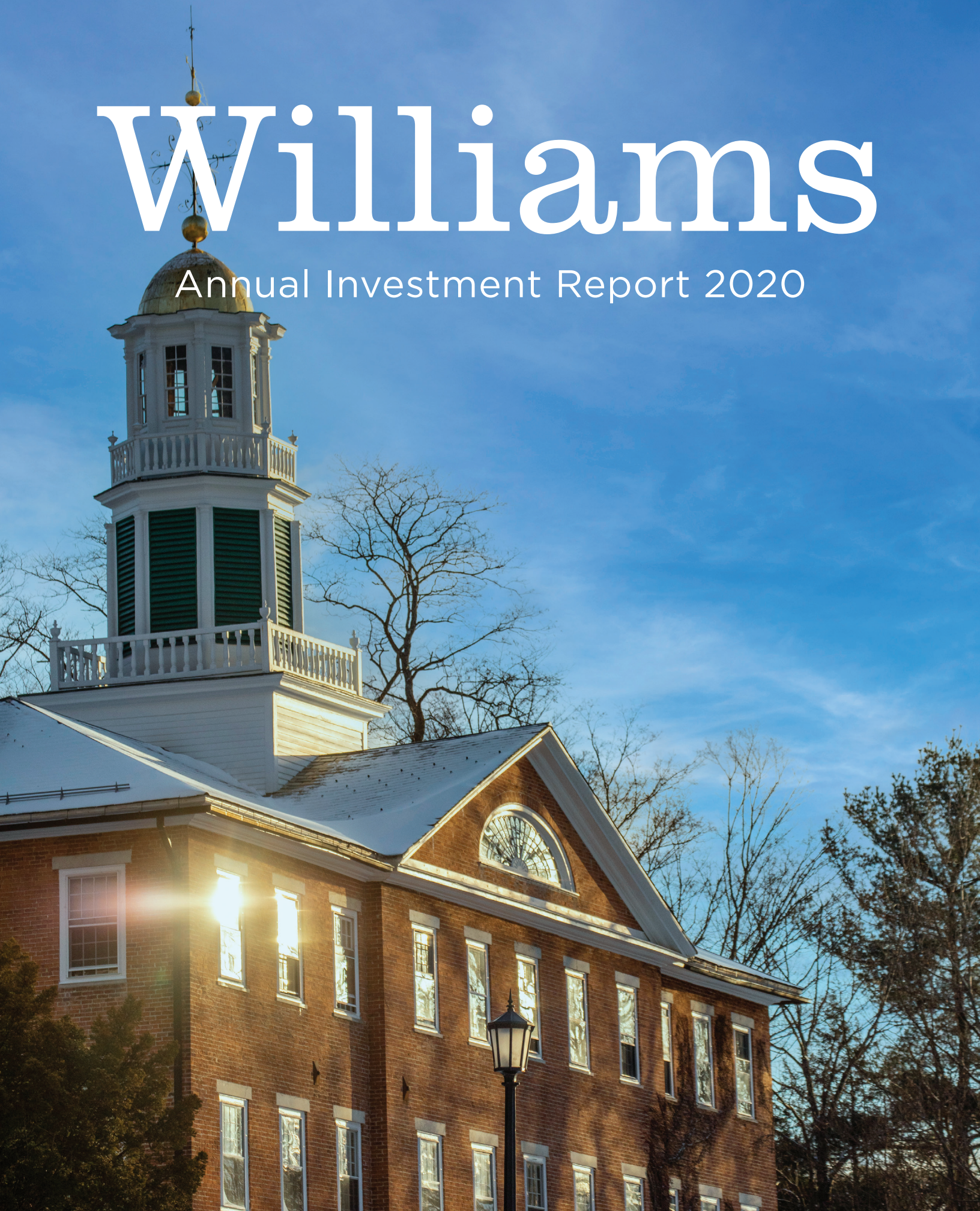


# Williams

Annual Investment Report 2020







## To the Williams Community,

The most recent fiscal year was a challenging one for the world, for Williams, and for the Investment Office. Markets were volatile, we learned to interact with investment managers (current and potential) in socially distanced ways, and the college abruptly faced significant costs related to COVID-19 that put a premium on liquidity.

Returns bottomed in late March 2020, but the portfolio recovered to achieve a return of 3.3% for the fiscal year ended June 30, 2020 and a valuation of \$2.8 billion.

Although this falls below our goal of a 5% real return, we take a long-term view, and this approach to managing the college's endowment has enabled the college to provide a high-quality, affordable liberal arts education that is second to none and to address two specific matters:

- *Pandemic Response*: The unanticipated costs of sending students home early last spring, equipping them to learn remotely, helping faculty move their instruction online, and preparing to welcome students back to campus in the fall under exceptional circumstances were considerable.
- *Strategic Planning*: The pandemic has slowed — but by no means stopped — the important process that President Maud Mandel has led the Williams community through to set the college's priorities for the next 10 to 15 years. Advancing those initiatives, to be spelled out in the strategic plan's final report, will require resources, both human and financial.

The college's investment program benefits from the work of many, including the Investment Office's dedicated and talented staff and the members of our Investment Committee and Advisory Committees, all of whom are listed in this report. All of them deserve our gratitude. One committee member, Jenny Heller '00, agreed to be interviewed for this report and to reflect on her involvement with our investment program. That all of these dedicated alumni continue to lend their time and expertise while facing, as we all have, unprecedented challenges in their professional and personal lives has served the college's students, faculty, and staff very well. We benefit from, and remain grateful for, their service.

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 \$2.84 billion, and Williams has enjoyed an annualized return of 11.8%. 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 have been favorable for investors. World equity markets, as measured by the MSCI ACWI IMI Index, have produced an annualized 10-year return of 9.1%. The 10-year annualized return for our Investment Pool was 10.3%, exceeding our 5% real return objective. We've posted positive investment returns in nine of the last 10 years, including double-digit returns in five of those years.

Although we failed to achieve our 5% real return objective in Fiscal Year 20, we were pleased that the Investment Pool outperformed the policy benchmark by 365 basis points to post a positive return in spite of the negative impacts on the economy and markets created by the COVID-19 pandemic.

Annualized Returns for the Fiscal Year Ended June 30, 2020						
	1 Year	3 Years	5 Years	10 Years	20 Years	30 Years
Williams Portfolio <sup>1</sup>	3.3%	8.7%	7.7%	10.3%	7.0%	10.7%
Policy Portfolio Benchmark <sup>2</sup>	-0.3%	4.5%	4.7%	7.1%	n/a	n/a
60/40 Stock/Bond Portfolio <sup>3</sup>	8.6%	8.9%	8.4%	10.1%	5.9%	8.5%
Return Objective <sup>4</sup>	5.7%	6.7%	6.6%	6.7%	7.0%	7.3%

Annual Fiscal Year Returns									
2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
3.3%	9.6%	13.5%	14.6%	-1.5%	9.9%	17.5%	14.8%	3.1%	20.2%

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- and 30-year periods.

3. A passive benchmark of 60% S&P 500 Index/40% the Bloomberg Barclays US Aggregate Bond Index.

4. The Williams Return Objective is a 5% real return plus inflation, defined by the Consumer Price Index.



## Allocation and Asset Class Performance

Asset Class	Policy Weight	FY20 Returns
Global Long Equity	23%	6.55%
Global Long/Short Equity Hedge Funds	19%	7.32%
Absolute Return Hedge Funds	19%	-0.05%
Venture Capital	6%	12.95%
Buyouts	9%	9.55%
Real Assets	6%	-22.06%
Real Estate	6%	-0.10%
Non-Investment Grade Fixed Income	10%	-10.47%
Cash and Short-Term Treasuries	2%	1.24%
Total	100%	3.3%

Venture capital was the best performing asset class this year, with a return of 12.95%, driven by meaningful exposure to subsectors benefiting from tailwinds associated with COVID-19 (e.g., ecommerce, social media, workforce collaboration software, cybersecurity, and education technology). Buyouts was also a key contributor, returning 9.55%, as underlying holdings were marked to market versus their publicly-traded comparables, which were largely up for the fiscal year.

Both of the equity-oriented asset classes — global long equity and global long/short equity — were also strong on an absolute basis, returning 6.55%, and 7.32%, respectively, having rebounded nicely in the fourth quarter of the fiscal year. We experienced more muted performance from our absolute return portfolio, which was down 0.05%, and our real estate portfolio, which was down 0.10%.

It was a challenging year for the non-investment grade fixed-income portfolio, as certain exposures to leisure and travel were hurt by the pandemic. The real assets portfolio also faced headwinds due to a decline in commodity prices driven by a reduction in global demand caused by the economic slowdown that accompanied the pandemic.



## Impact Investing

Williams' impact investing program was implemented in 2015 as part of the college's five-year plan to address climate change. To date, Williams has committed \$30 million to four funds, managed by two impact investment firms operating in the U.S. renewable energy industry. These investments show signs of success, having generated attractive early returns while contributing to a reduction in greenhouse gas emissions.

Looking ahead, we continue our efforts to source impact investments with exposure to companies, projects, or technologies focused on the reduction of global greenhouse gas emissions, doing so in a manner that is consistent with our fiduciary duty to pursue the highest risk-adjusted returns for Williams. In an effort to fully assess the landscape of investment opportunities, the Investment Office has met with more than 100 fund managers. We are encouraged by the maturation of this set of impact investing opportunities since this work began, and we remain optimistic that sustainable investing will become increasingly prevalent over the next five years.

## Spotlight on Hedge Funds

As readers of this report may know, the Investment Office team enjoys presenting to various audiences what we do and how we do it. During a recent conversation, we were asked, "Why do you invest in hedge funds?" It's an important question, since they comprise 38% of the Investment Pool.

Hedge funds aren't traditional assets like stocks or bonds. They're pooled vehicles that typically invest in a wide variety of instruments in order to "hedge" (or protect) against certain risks.

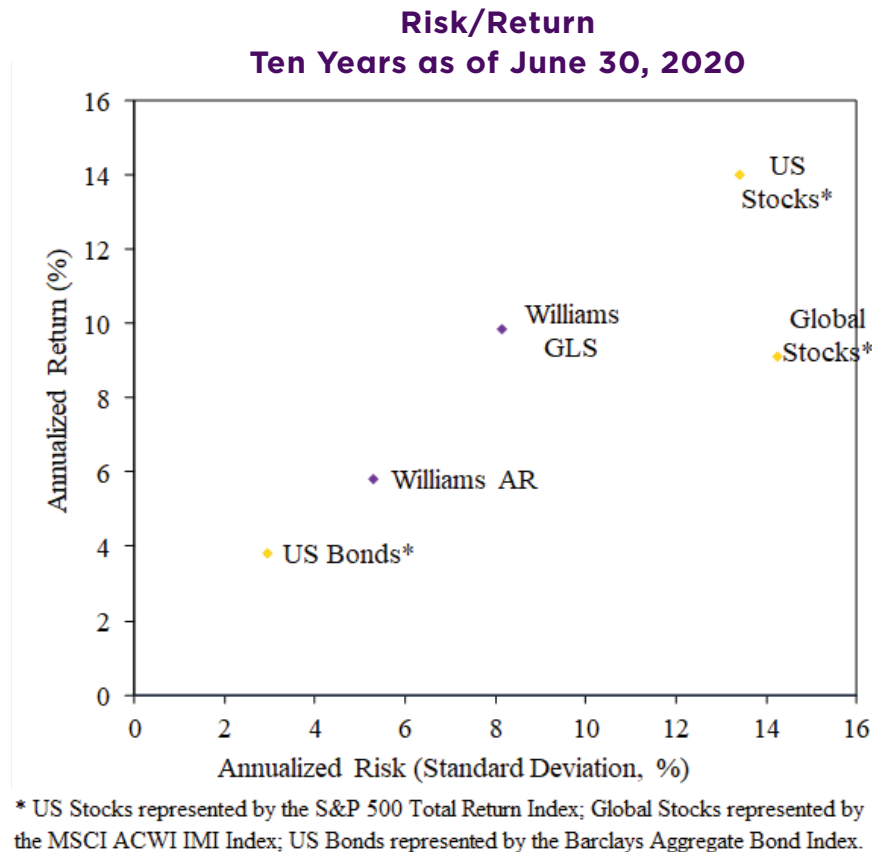
The Investment Pool includes two hedge fund classes: global long/short equity and absolute return. We consider them separately because they have different risk and return expectations.

- Global long/short equity managers make long (i.e., benefit from a stock price going up) and short (i.e., benefit from a stock price going down) investments in publicly-traded stocks. Managers may target specific sectors (e.g., healthcare) or geographies (e.g., United States) or may have broad investment mandates across sectors globally. We expect these managers to lower the extremes of the ups and downs of the equity markets – they may not fully capture the upside in a rising equity market, but they also are likely to protect the portfolio in down markets.
- Absolute return managers have diverse strategies and opportunistically invest in equities (long or short), credit (performing and distressed), private asset classes (such as private equity and real estate), and hedges (e.g., protecting against currency fluctuations or market volatility). We expect these managers to produce a consistent level of returns through a market cycle.

Hedge funds have a number of attractive attributes. Most importantly, they enable us to maintain the return of the Investment Pool with less risk (volatility). The graph below plots the return and risk of our two hedge



fund portfolios relative to stock and bond market indices. It shows that the hedge fund strategies have delivered strong returns with reduced levels of risk as compared to U.S. and global stocks.



Williams has advantages in selecting hedge fund managers due to our more than 20 years of experience in the sector and our deep network of knowledgeable alumni who help us source and evaluate opportunities. Finally, hedge funds offer more liquidity than, say, private equity and venture capital, helping to ensure that the Investment Pool can support college operations.

Hedge funds aren't without risk. Their strategies are often complex and have the reputation of using significant leverage and being opaque. Hedge funds can also be expensive; they charge both management and performance fees (i.e. take a portion of the profits earned each year). While these attributes can be true, we can take steps to manage and reduce those risks.

First, we spend significant time monitoring the hedge fund portfolio – reading quarterly letters, participating in regular calls and meetings, and analyzing portfolio metrics. Second, we keep the roster of hedge fund managers concentrated, allowing us to develop deeper relationships. This increases transparency and understanding. Some of our longest-standing hedge fund relationships extend back 20 years. This longevity gives us confidence in managers that have served Williams well through multiple market cycles.

Third, we invest in strategies that we can understand. Our managers tend to be fundamental investors. They value an investment based on their assessment of the intrinsic value and quality of the underlying business, its



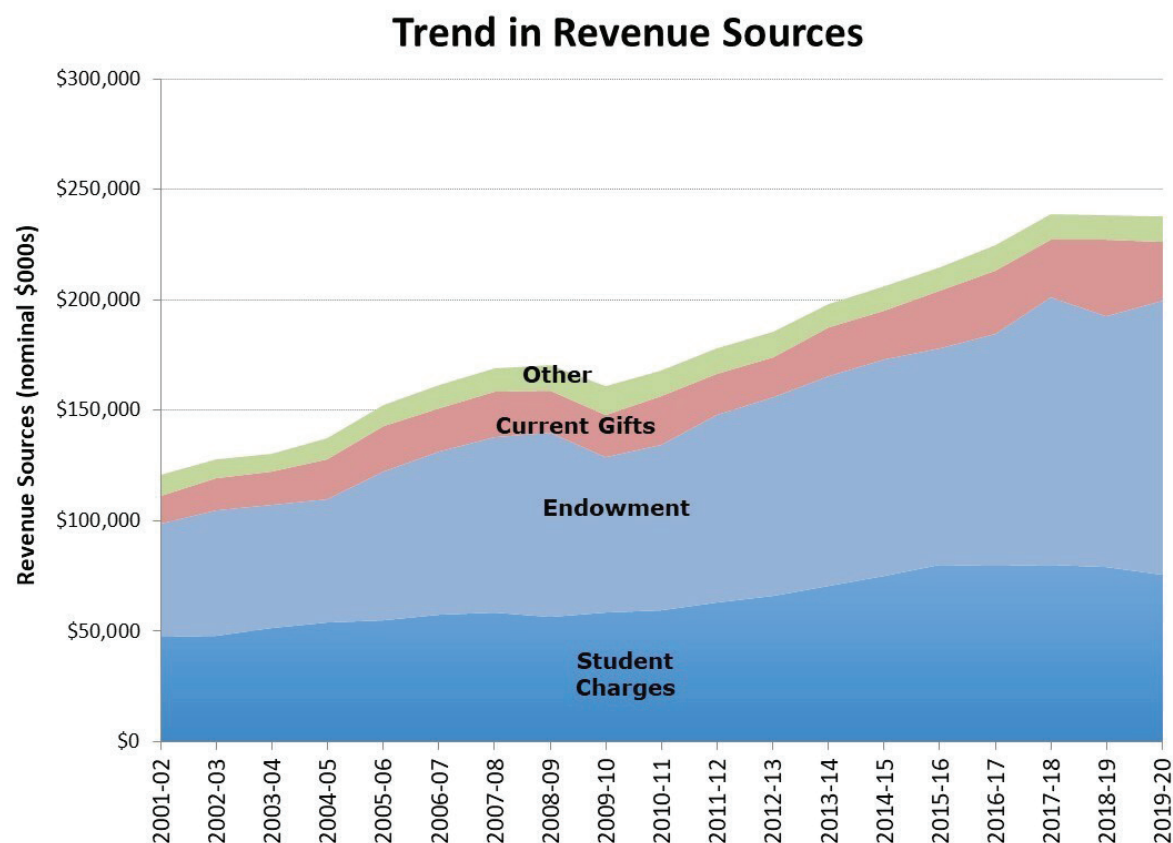
earnings, and its management team, and they compare their valuation to the current market price. We have the opportunity to talk to them about their investing “edge” and evaluate whether it’s sustainable.

Lastly, we always evaluate manager performance net of all fees, reducing the risk that we overpay for sub-par results.

While investing in hedge funds is not without risk, we see that these considerations are manageable. Most importantly, the compelling risk/return metrics of our hedge fund portfolios are critical for Williams, which relies on the endowment for 50% of its annual operating budget. The Williams endowment requires strong returns with limited volatility. This is true now more than ever, and hedge funds are key contributors to those combined goals.

## Supporting the Operating Budget

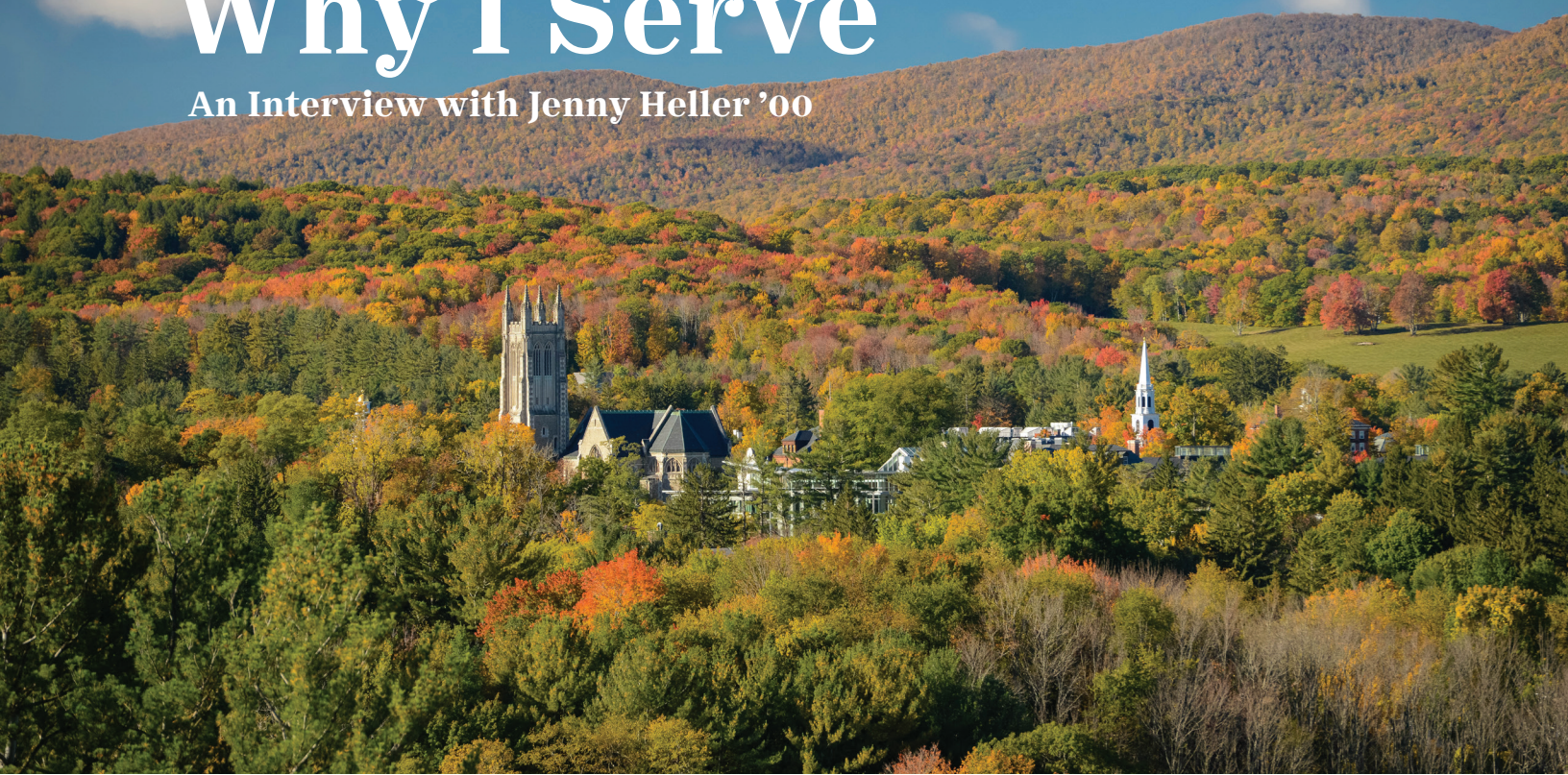
Williams relies on philanthropy (endowment spending and current gifts) for more than 60% of every dollar it spends.



The endowment (more than \$1 million per student) allows Williams to sustain our educational offerings while meeting the full financial need of every admitted student. It also has enabled us to address the extraordinary challenges of the COVID-19 pandemic and bring our students back to campus safely.

# Why I Serve

An Interview with Jenny Heller '00



KEY CONTRIBUTORS to the college's investment program are members of our Investment Committee and three Advisory Committees, listed at the end of this report. One of those members, Jenny Heller '00, of the Marketable Assets Advisory Committee, is president and chief investment officer at Brandywine Trust Group LLC. She shares here some reflections on her connections to Williams and its investment efforts.

## **What first drew you to Williams?**

I went to a huge public high school, and I was looking to return to a collaborative, intimate learning environment, one that prioritized teaching over research, and a school that wasn't encumbered by Greek life. I was very drawn to a girl I knew who had gone to Williams. She was really smart, humble, fun, and engaged. She clearly loved Williams. Also, I grew up in Colorado, and I love the mountains.

## **What at Williams helped set you on your professional path?**

I majored in political economy at Williams as I loved the intersection of the fields. My studies, as well as some travel I had done, ignited an interest in international development. I spent a semester in South Africa studying post-Apartheid reconciliation and development and further developed an interest in microfinance, but I knew I needed to get some real life finance experience upon graduation.





### **And then?**

After graduation, I took a job at an investment bank with an eye toward moving into microfinance. But then 9/11 happened, and I lost my best Williams friend, Lindsay Morehouse '00. This cemented my conviction that I needed to escape New York for a bit and that I was ready to leave banking. I explored moving to India, but the trauma of 9/11 made it a fraught time for me to leave the U.S. — needless to say my parents wanted me to stay closer to home.

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**“It’s a very satisfying opportunity that I, and my committee colleagues, have to help advance this work, which is so important to Williams.”**

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I remained really interested in the intersection of nonprofit and finance work, and I found an opening on the Williams website for an investment associate position with the Stanford endowment. My boss there was a Williams grad, and I found that I absolutely loved the work.

After a couple of years there I made my way to India to work in microfinance. Then, after Stanford Business School I went back to the endowment world in New York, and five years later I was recruited to Brandywine, where I’ve been for eight years.

### **How did you end up on the Advisory Committee?**

Collette Chilton, whom I knew and respected through the endowment grapevine, connected with me and asked if I’d be interested. I was flattered and excited to participate. I didn’t even know the Committee existed, and it naturally connects with my expertise and my daily work.

### **What do committee members do?**

Collette and her team bring to us investments that they’re exploring, at an early or later stage of diligence, to make sure they aren’t missing anything, and we share our perspectives on them.

At Brandywine we also invest with a very long time horizon. Sometimes we overlap in the managers we are underwriting, or in the sectors or sub-asset classes we are exploring. This provides a natural opportunity to trade notes and share insights. The committee doesn’t vote on investments yea or nay. It’s just a way to expand the eyes and ears of the Williams team.

Some committee members might be able to connect the investment team to a hard-to-access manager. My role, though, has derived more from the fact that we often offer overlapping expertise in areas we’re looking at.

**Why, in a busy life, have you agreed to serve?**

When Lindsay died, I think it disconnected me with Williams because there was some pain in that. But I regretted not having more involvement, because Williams had plugged me into this East Coast financial community in which I've made my life and that has helped me form many wonderful friendships. Joining the committee struck me as a way that I could reengage in a way that would be both fun and where I could add some value.

It's also allowed me to connect with a team that I'd already come to really respect. The Williams Investment Office runs lean while producing returns that are among the best across their peer group.

What helped draw me to Williams in the first place was that it was a community with both really smart people but low ego. The investment team is the same way.

**What do you wish people knew about the Williams endowment?**

It's easy to look in the rearview mirror and say, "If only they'd done X with the money, it would have grown more." But you can only manage for the future. In the case of Williams, it's the long-term future. It's not easy to manage risk and liquidity while hitting returns that over time have to average five percentage points above inflation. These funds pay for financial aid, the salaries of faculty and staff, facilities.

It's a very satisfying opportunity that I, and my committee colleagues, have to help advance this work, which is so important to Williams.



## Governance and Management

### 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, 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







# Williams

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