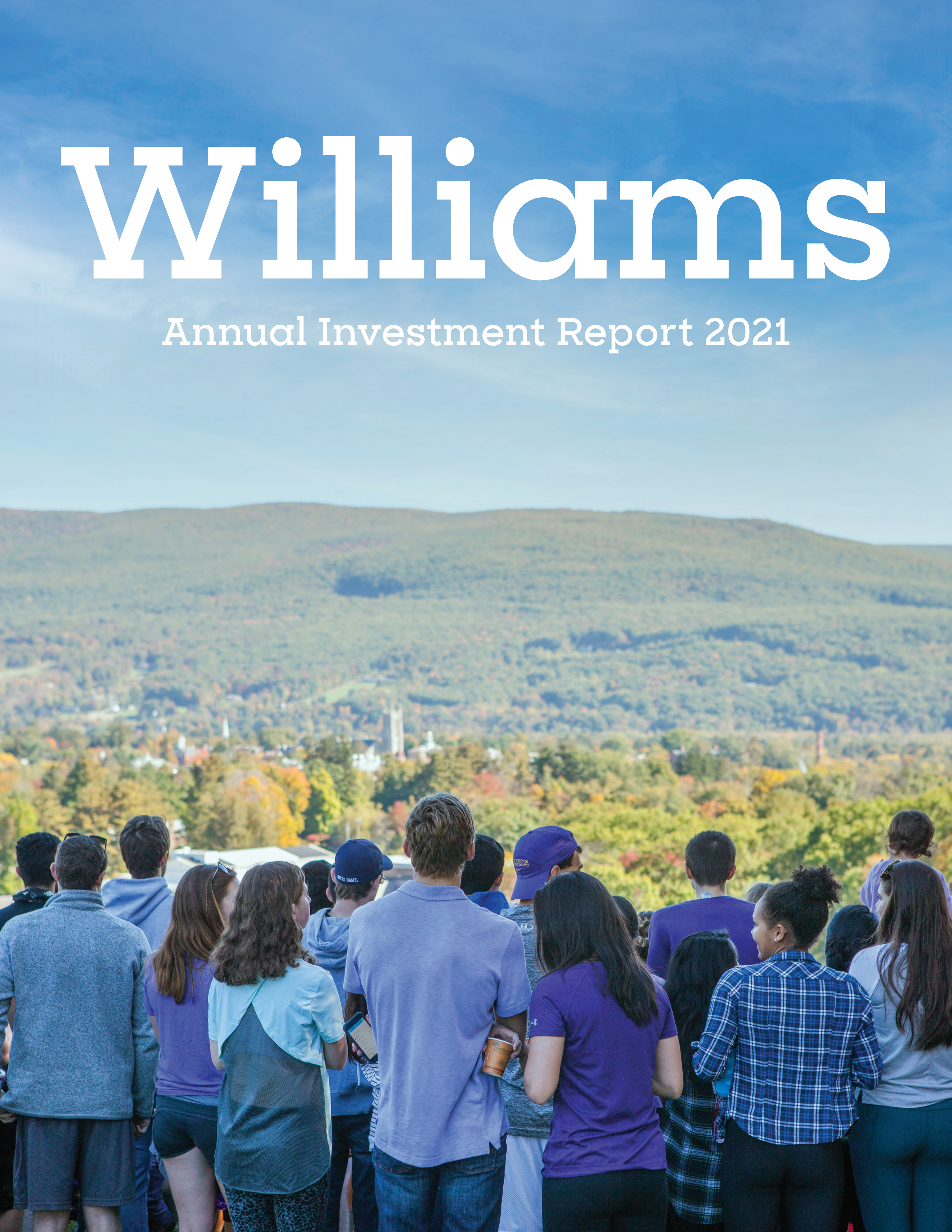
Williams

Annual Investment Report 2021



To the Williams Community,

Fiscal Year 2021—the year that ended June 30, 2021—was an extraordinary year for the Williams College endowment. The college's Investment Pool enjoyed a return of 49.9 %, the second best in a half-century, and grew from $2.8 billion to $4.2 billion. Venture capital and private equity contributed the most to the gains (although, as you will learn in this report, there were successes across the portfolio).

That strong performance reinforces the ability of the endowment to do what it is meant to do: Help students. Support faculty. Maintain and enhance the physical infrastructure of the college. Sustain the excellence in education that Williams has represented since 1793.

Moreover, the growth in the endowment will—along with the robust philanthropic support that is also a Williams tradition— help to fund the implementation of the college's new strategic plan. That plan, finalized during the fiscal year, has set college priorities in academics, student life and facilities—and thus, spending priorities—for the next decade or more. It calls for initiatives in teaching and research, access and affordability, sustainability, global engagement and many other areas.

What happens next in the markets? No one knows, of course. It remains our priority to focus on the long term and manage through whatever the short term may present.

We are deeply grateful to the alumni volunteer members of the Investment Committee and the advisory committees. A member of the Investment Committee and Marketable Assets Advisory Committee, May Y. Ng '92, has agreed to reflect in this report on the work we all do together. All the alumni volunteers and Investment Office staff members are listed at the end of the report. We are privileged to collaborate with these experts. The entire college community benefits from their dedication to Williams.

Tim Barrows '79
Investment Committee Chair

Collette Chilton
Chief Investment Officer

Summary Investment Performance

The Williams College Investment Pool ended Fiscal Year 2021 at $4.2 billion, having enjoyed an annualized return of 12.5% over the past 40 years. During this period, annual performance reached as high as 50.9% in 2000 and as low as -18.4% in 2009. In FY21, the Investment Pool produced its second-highest return in over 50 years, 49.9%, outperforming the policy benchmark by 13.2%.

Despite the Covid-19 pandemic, world equity markets, as measured by the MSCI ACWI IMI Index, managed to produce a 10-year annualized return of 9.9% (up from 9.1% for the 10 years ending in FY20). The Investment Pool returned an annualized return of 12.8% over the same period, exceeding its 5% real return objective. Williams has posted positive investment returns in nine of the past 10 years, including double-digit returns in five of those years.

While we are pleased with the Investment Pool's FY21 and longer-term performance, we are mindful that a market correction may be on the horizon. We continue to maintain our investment strategy and long-term perspective.

The fiscal year's extraordinary results were driven by performance from across the portfolio; every asset class (except cash) posted double-digit returns. Portfolio returns were led by venture capital, which was again the college's best performing asset class (+123.8%). We discuss our venture capital portfolio later in this report. The private equity (or buyout) portfolio also performed remarkably well, returning 81.9% in FY21, its best year ever for Williams. Both asset classes were also significantly cash generative for the fiscal year; in other words, the pace at which Williams received cash distributions from realized (e.g. sold) investments was well ahead of cash being invested in new opportunities.

Annualized Returns for the Fiscal Year Ended June 30, 2021

	1 Year	3 Years	5 Years	10 Years	20 Years	30 Years
Williams Portfolio[1]	49.9%	19.3%	17.2%	12.8%	9.7%	12.0%
Policy Portfolio Benchmark[2]	36.7%	12.6%	11.9%	8.6%	n/a	n/a
60/40 Stock/Bond Portfolio[3]	23.0%	13.6%	11.9%	10.4%	7.3%	9.0%
Return Objective[4]	10.3%	7.5%	7.4%	6.9%	7.1%	7.3%

Annual Fiscal Year Returns

2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
49.9%	3.3%	9.6%	13.5%	14.6%	-1.5%	9.9%	17.5%	14.8%	3.1%

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 U.S. 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	FY21 Returns
Global Long Equity	25%	44.1%
Global Long/Short Equity Hedge Funds	21%	29.2%
Absolute Return Hedge Funds	17%	24.2%
Venture Capital	6%	123.8%
Buyouts	9%	81.9%
Real Assets	4%	35.1%
Real Estate	6%	15.7%
Non-Investment Grade Fixed Income	10%	18.1%
Cash and Short-Term Treasuries	2%	0.1%
Total	100%	49.9%

Public equities rebounded sharply from pandemic-year lows and continued their rise in FY21; this benefited the equity-oriented asset classes: global long equity and global long/short equity. They returned 44.1% and 29.2%, respectively.

The absolute return asset class posted a 24.2% return, driven by strong equity and credit markets; the credit markets also drove the performance of non-investment grade fixed income asset class, which returned 18.1%.

Real assets (35.1%) and real estate (15.7%) also began to rebound in FY21. Real assets benefited from an increase in commodity prices driven by reopening economies. Our real estate managers closed a number of transactions in the midst of a challenging and turbulent market for both buyers and sellers.

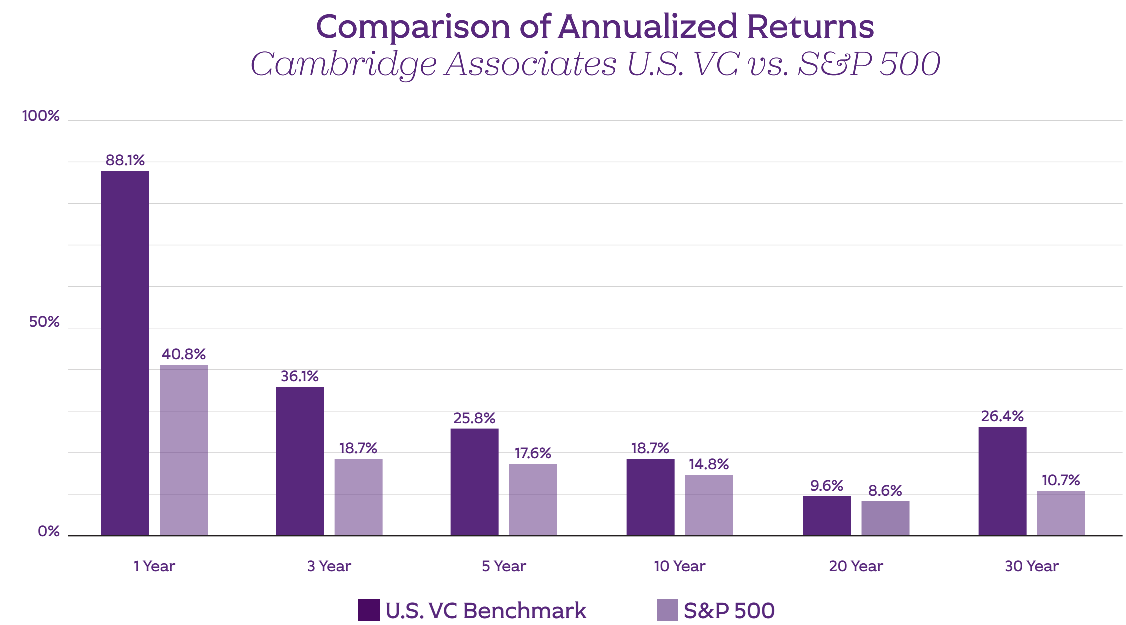
Impact Investing

Williams initiated its impact investing program in 2015 as part of the college's larger plan to address climate change; the Investment Committee and President Maud Mandel extended this initiative in 2021. In this program, we seek to invest with managers who not only generate attractive returns, but are also experts on companies, projects or technologies focused on the reduction of global greenhouse gases. Williams' more seasoned impact investments are generating both compelling returns and a reduction in greenhouse gas emissions. We continue to actively seek investment opportunities while collaborating with peer institutions to share ideas and best practices. We are pleased with the continued evolution of the opportunity set and look forward to making further investments behind this important initiative.

Spotlight on Venture Capital

The Williams College venture capital portfolio produced an extraordinary 123.8% return in FY21. A return of this magnitude is unusual but, remarkably, not unprecedented. Our returns were even higher in FY00. Venture capital, in fact, has been the Investment Pool's best-performing asset class for seven of the past 10 fiscal years, with an annualized return of 31.1% over that period.

It is important to note that Williams' many years of success in venture capital has come in the context of significant success by investors across the asset class. Mean venture capital returns (as represented by the Cambridge Associates U.S. Venture Capital benchmark) have significantly outperformed the public markets (as represented by the S&P 500) over the past 30 years.



Source: Cambridge Associates LLC Private Investments Database

Williams targets a relatively modest portion of its investments to venture capital (6% in FY21). Given the historical record of high performance, one might ask why the college does not commit a larger share of the Investment Pool to the strategy. The answer: Investing in venture capital is not without risks and challenges.

Venture capital is a form of financing provided to promising young private companies by venture capitalists (either organized firms or individual investors) in exchange for minority ownership of those companies. The companies are generally at their earliest stages of development, often before there is revenue or even a product—not yet appropriate for a traditional bank loan or other types of financing.

As these young companies achieve development milestones (or not), the venture capitalists who back them have opportunities to decide if further investment is warranted. The development of a new business often takes years. Many of these companies ultimately will not be successful, likely resulting in the partial or full loss of invested capital. Just one successful investment, however, can more than offset a number of failures. Many of the technologies and services we enjoy today received their initial funding from venture capital.

Williams invests in venture capital by putting money into venture funds rather than into individual companies. (The college takes the same approach across all asset classes in which it invests.) In venture capital, fund managers typically invest the capital over a of period time—often three to four years—rather than all at once. The fund managers may hold these private companies for upwards of 10 years while the companies execute their strategies. If all goes well, these companies are acquired or go public, and proceeds from these transactions are returned to the fund's investors (like Williams).

Given the illiquid nature of these investments, the challenge and skill required to identify exceptional entrepreneurs and companies, and the high loss rate on investments, investors expect a high return from venture capital. While there have been many disappointing venture capital funds, many others have performed exceptionally well, returning multiples of invested capital. Those highly successful funds explain the ability of the asset class to outperform the traditional public markets.

The college's Investment Pool supports more than 50% of Williams' annual operating budget, so managing liquidity and risk are important considerations of our asset allocation and investment processes. In other words, despite attractive potential returns, we are careful not to invest too much in venture capital. We are mindful that FY00—our best year on record for venture capital—was followed by the bursting of a venture capital bubble and a sharp downturn in the market.

While market corrections are inevitable, we are not market timers. We maintain an appropriate asset allocation strategy given the needs of the college, and we review this strategy each year.

We are fortunate that our capital is invested with top-performing venture capital managers. We have relationships of more than 20 years with some of them; they are devoted to their portfolio companies and to the missions of investors like Williams.

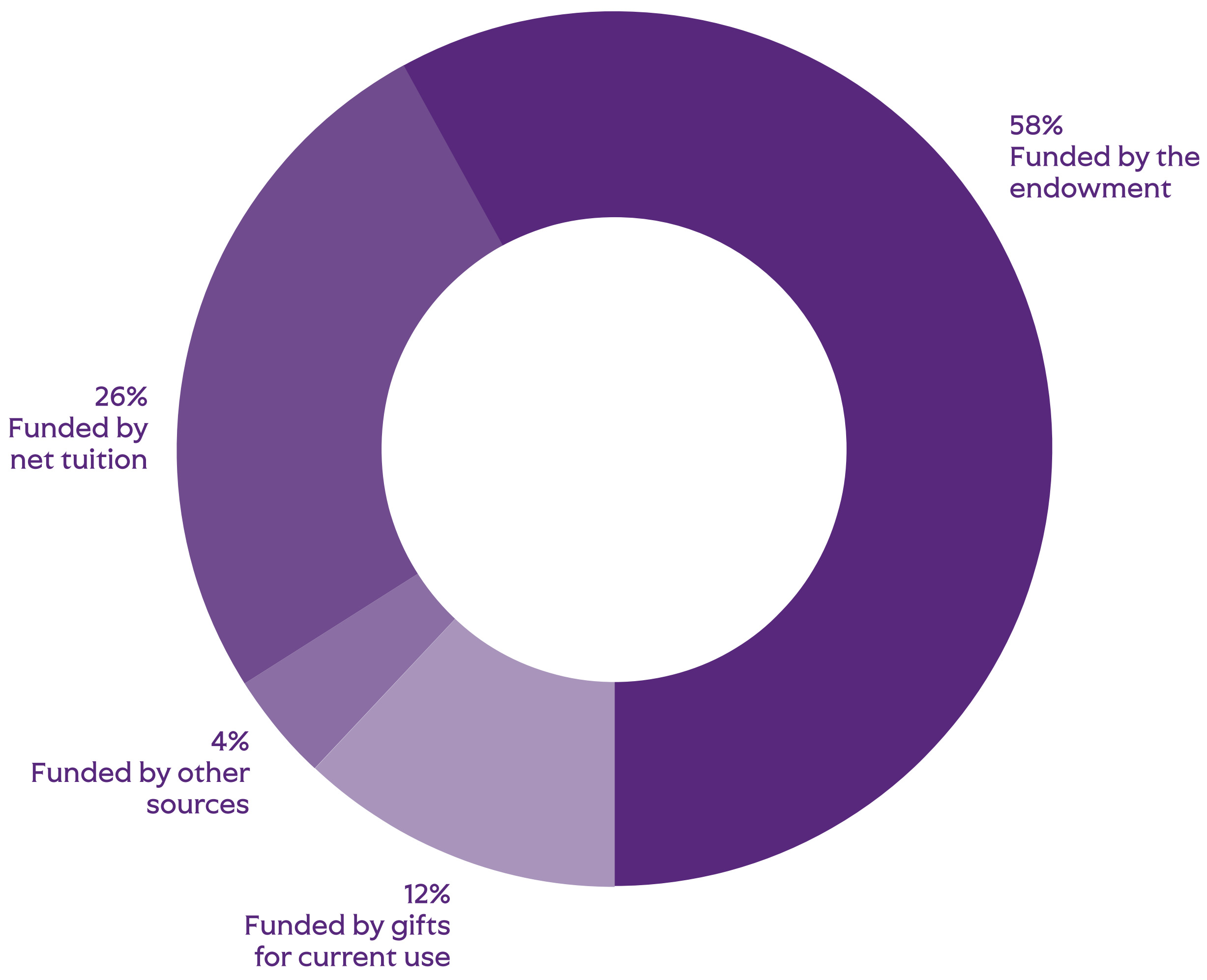
Venture capital has played an important role in our portfolio for decades; we expect it will continue to play an important role in supporting the college.

Supporting the Operating Budget

Earnings from the endowment allow Williams to maintain a need-blind financial aid program, attract and support the most promising students, and fund a dedicated, talented faculty, all while pursuing opportunities outlined in the college's just-adopted strategic plan.

A Williams education is expensive, and tuition covers about a quarter of its cost. In FY21, the college spent approximately $120,000 to educate each of its students. The chart below shows our revenue sources; more than half of the college's operating expenses come from endowment earnings.

Sources of college funds



Investing for Young People

An Interview with May Ng ’92

Alumni on the Investment Committee and three Advisory Committees are key contributors to the college’s investment program. A list of those experts ends this report. One of them, May Y. Ng ’92, who serves on the Investment Committee and the Marketable Assets Advisory Committee, is vice president and chief investment officer of The Annie E. Casey Foundation, a philanthropy focused on children and young people. She reflects here on her Williams student experience and volunteer connections, on her career, and on what motivates and inspires her work.

How did you find Williams, and what drew you there as a student?
I grew up in New York City and went to an excellent public school with engaging, inspiring teachers and close camaraderie among students. I wanted to go to a liberal arts college that I thought would offer a similar academic experience and community but was ready to try an environment that was different from the concrete jungle! When I visited Williams on a perfect fall day, it just seemed idyllic to me.

You were a political science major and have a master’s in public affairs from Princeton. That’s not necessarily a path to a career in investing.
I actually took as many economics classes at Williams as I did poli sci, and my concentration at Princeton was in economics and public policy. Investors have to understand the broader context and factors that are driving financial markets, and, though I didn’t know it at the time, my academic background was helpful for this. In addition, a liberal arts education taught me to look at issues, problems, decisions, etc., from multiple perspectives, which I think is critical to making good investment decisions.

You started in consulting and then investing in private companies, but then joined a university's new in-house investment group and finally the Casey Foundation. Why switch to the nonprofit side of the investment world?
As a student, I was the beneficiary of scholarships funded by endowments. The idea I could practice a profession that would help students who might not have the financial means to attend university was really motivating for me. Similarly, the Casey Foundation's mission to ensure that the most vulnerable young people, their families and communities have opportunities to thrive resonates strongly with me. It inspires me to want to achieve the best possible investment performance in order to grow the resources available to make this happen.

Williams and Casey are both nonprofits but they have very different missions. Are their endowments, therefore, different too?
I think our investment objectives and investment styles are actually quite similar. We are both looking to make the best long-term investments for our organizations, with the bulk of our assets invested to compound capital at high rates over long periods of time. Both endowments have a large concentration in public and private equity, but we also invest in diversifying strategies that we rely on to fund spending during periods when equities don't perform well. We both believe in building long-term partnerships with the best investors—investment managers that we want to be invested with through market cycles.

What I learned at Williams helped me find this niche, and it's a privilege to be able to volunteer for the Williams endowment.

There are some differences. Perhaps the main one is that the Casey Foundation's endowment was established with a one-time gift—Jim Casey's equity stake in the company he founded, United Parcel Service. Because we don't receive inflows of additional gifts like Williams' endowment does every year, our portfolio is a little bit more liquid.

Many people don't understand endowments; they're quite complex. Have you found a simple, effective way to explain what an endowment is?
Well, I explain it to my children as a gift that keeps on giving for generations. A generous donation or pool of donations is invested to generate income and grow in value. Every year, a small percentage is withdrawn to fund the charitable purpose that the donor or donors wanted to support.

You've recently joined the Investment Committee but have served since 2018 on the Marketable Asset Advisory Committee. What does that committee do?
The Advisory Committee serves as a sounding board for Chief Investment Officer Collette Chilton and her team on potential investment ideas. It doesn't vote or make decisions, which is the role of the Investment Committee. The Investment Office team will present potential investments that may be early stage or closer to a decision point, and advisory committee

members will offer their perspectives, information, assistance with vetting the principals of an investment firm and, in some cases, introductions to exceptional investment managers.

Has your volunteer work with the advisory committee given you insight into what Williams is? Do you feel like it's given you a better understanding of what the college is or should be, in higher education and the world?
Yes, absolutely. It has given me a window into how Williams has evolved into a more diverse and inclusive institution, in part due to the outstanding performance of the endowment that makes possible so many scholarships and professorships. Whenever I run into Williams students or young alumni—who are curious, open-minded and poised—I wish I were part of the class of 2022 instead of 1992, and not because I would be younger!

Given the chance, what would you tell your 18-year-old first-year self about Williams and your relationship to it over the years?
Do you know the saying, "Find the job that you love and you'll never have to work another day in your life?" This is how I feel about my career investing for endowments and foundations. What I learned at Williams helped me find this niche, and it's a privilege to be able to volunteer for the Williams endowment.

Governance and Management—FY22

Investment Committee

Timothy A. Barrows '79, *Chair**
Noriko Honda Chen '89*
O. Andreas Halvorsen '86*
May Y. Ng '92
Elizabeth B. Robinson '90*
Nathan K. Sleeper '95*
Jonathan D. Sokoloff '79*
Michael R. Eisenson '77, Investment Committee Chair, *Emeritus*
Jonathan A. Kraft '86, Investment Committee Chair, *Emeritus*

Advisory Committees

Marketable Assets
O. Andreas Halvorsen '86, *Co-Chair**
Noriko Honda Chen '89, *Co-Chair**
Anouk Dey '09
Charles P. Coleman III '97
Jennifer A. Heller '00
May Y. Ng '92
Elizabeth B. Robinson '90*
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*
Nathan K. Sleeper '95*
Ray Whiteman '81
Michael R. Eisenson '77, *Emeritus*

Real Assets
Michelle Y. Pak '91, *Chair*
David Morrison '90
Charles K. Thompson '83

Investment Office

Reporting to the college president and the investment committee, 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

Abigail G. Wattley '05
Deputy Chief Investment Officer

Julia T. Crosby
Managing Director

Bradford B. Wakeman
Managing Director and Chief Operating Officer

Derek R. Andren, CFA
Senior Associate

Christopher J. Cronin, CPA, CIPM
Investment Operations Associate

Caroline M. Hogan '18
Senior Investment Analyst

Angus M. O'Rourke '19
Investment Analyst

Ricardo Torres-Garzon '21
Investment Analyst

Kristin A. Corrigan
Executive Assistant/Office Manager

Jason C. Rehberg
Administrative Assistant

*Williams College Trustee

Williams

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