



# Mount Holyoke College

**Investment Report** | June 30, 2014



Mount Holyoke is pleased to provide you with this report on endowment investments for the fiscal year ended June 30, 2014. The Investment Committee oversees the College’s investment portfolio in conjunction with its consultant, Cambridge Associates, striving for long-term growth while dampening volatility and providing vital support for the operating budget.

**Fiscal Year 2014: Performance**

Fiscal Year 2014 was a strong year in which the externally managed endowment investment pool rose 16%, and the total investment pool grew in value to \$717 million. Over the last ten years, the externally managed endowment pool has achieved a 9% compounded return per year, placing it in the top ninth percentile of more than 385 endowments in the Cambridge Associates universe. Over ten years, it has also outpaced its own custom benchmark by 110 basis points per year, delivering stronger performance with lower risk as measured by standard deviation.

The table below shows annualized returns for Mount Holyoke’s externally managed endowment over the past one, three, five, ten, and 20 years as of June 30, 2014.

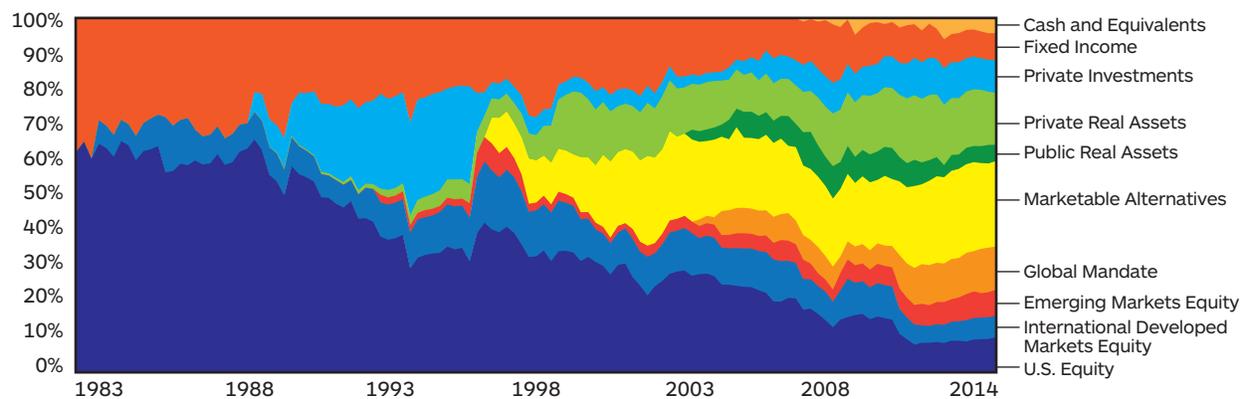
| Period  | Mount Holyoke | Cambridge Associates Endowment Median | 80/20 Stock/Bond Portfolio <sup>1</sup> | Inflation <sup>2</sup> |
|---------|---------------|---------------------------------------|---|------------------------|
| 1 year  | 16.0%         | 16.0%                                 | 19.6%                                   | 2.1%                   |
| 3 year  | 8.9%          | 8.6%                                  | 9.6%                                    | 1.8%                   |
| 5 year  | 11.6%         | 11.6%                                 | 13.0%                                   | 2.0%                   |
| 10 year | 9.0%          | 7.4%                                  | 7.6%                                    | 2.3%                   |
| 20 year | 9.8%          | 9.2%                                  | 7.5%                                    | 2.4%                   |

<sup>1</sup> 80/20 Stock/Bond Portfolio represents 80% MSCI All Country World Index and 20% Barclays Aggregate Bond Index

<sup>2</sup> Inflation represents Consumer Price Index—All Urban Consumers

## Asset Allocation

The Investment Committee has worked with Cambridge Associates to position the endowment to weather near-term market volatility and still generate strong long-term returns through prudent asset allocation and astute manager selection. The current portfolio is broadly diversified with a strong orientation toward investments that seek to deliver equity-like returns over the long term. The asset allocation has an equity bias to achieve the dual goals of meeting current operational needs while preserving the endowment's purchasing power for future generations. The majority of assets are expected to produce equity-like returns and include domestic and international stocks, marketable alternatives including absolute return and hedged strategies, private equity, and public and private real assets. Over the last 15 years, the College's asset allocation moved away from domestic stocks and emphasized nontraditional asset classes such as marketable alternatives and private investments.



## How the Endowment Supports the Mount Holyoke Budget

For Fiscal Year 2014, income distributions from the endowment provided 24% of the \$124 million in operating budget revenue. Prudent spending of the endowment affects the fund's growth just as directly as does its management. Mount Holyoke's endowment spending rule calls for distributing between 4.5% and 5.5% of the endowment's 12-quarter average market value. The 12-quarter average balances the endowment distribution so that the operating budget is less vulnerable to large swings in endowment valuation. Mount Holyoke's spending and investment policies provide substantial levels of cash flow to the operating budget to support current needs while preserving the purchasing power for future generations.

## Gifts to the Endowment

The endowment is able to grow through two means: performance and gifts. Alumnae gifts to the endowment can cause dramatic increases in the total value of the fund. Over the last ten years, alumnae, parents, and friends have committed \$152.3 million in gifts and pledges to the endowment, investing in College priorities such as scholarship aid, internship experiences, and faculty support.

## Investment Performance

| Asset Class                            | Allocation (%)<br>6/30/2013 | Allocation (%)<br>6/30/2014 | FY13 Portfolio<br>Return (%) | Fiscal 2014 Asset Class Commentary   |
|--|-----------------------------|-----------------------------|------------------------------|--|
| U.S. Equity                            | 8.7                         | 9.3                         | 23.4                         | U.S. equities returned 24.6%, delivering a nearly 20% annual compound return for five years. The health care, information technology, and materials sectors all returned more than 30% over the 12-month period. The active managers in Mount Holyoke's U.S. Equity portfolio returned 23.4% for the fiscal year, underperforming the S&P 500 Index by 1.2%. |
| International Developed Markets Equity | 5.5                         | 6.2                         | 25.1                         | In a reversal from the previous year, developed equities had a strong year as worries about the Euro abated. Mount Holyoke's International Developed portfolio returned 25.1%, outperforming the MSCI EAFE Index by 1.5%.  |
| Emerging Markets Equity                | 6.8                         | 7.1                         | 14.1                         | Emerging markets surged in the last three months of the fiscal year, but still failed to keep up with the rally in developed markets. Most emerging markets have posted a positive five-year average annual compound return. The endowment's Emerging Markets Equity portfolio lagged behind the MSCI Emerging Markets Index by 0.6% for the fiscal year.    |
| Global Mandate Managers                | 11.2                        | 12.6                        | 17.7                         | The global equity managers in the portfolio posted a strong return of 17.7% but underperformed the MSCI World Index by 5.9%, giving up some of the previous year's outperformance.   |
| Marketable Alternatives                | 25.2                        | 23.8                        | 12.8                         | Mount Holyoke's Marketable Alternatives portfolio returned 12.8% for the fiscal year, outperforming the HFRI Fund of Funds Diversified Index by 5.2%.  |
| Public Real Assets                     | 4.1                         | 5.2                         | 25.1                         | The MSCI World Natural Resources Equity Index returned 29.8% for the fiscal year, with the endowment capturing some of the upside and generating a 25.1% return. Among real assets, natural resources equities had a banner fiscal year, returning over 25%, while returns for commodities were 8.2%.  |
| Private Investments                    | 26.1                        | 24.1                        | 19.4                         | Includes private equity, venture capital, private real assets, and other opportunistic private investments. The returns were helped by U.S. venture capital investments, private real estate, and international private equity investments. Private equity has been a strong source of returns for the College.  |
| Fixed Income and Cash                  | 12.4                        | 11.7                        | 2.5                          | The Barclays Aggregate Bond Index returned 4.4% while U.S. high-yield bonds returned 11.7%. High-yield issuance has risen in the past two fiscal years, and for calendar year 2014 is expected to reach a new record. Ten-year Treasury yields finished the fiscal year almost exactly where they began it, at 2.53%.  |

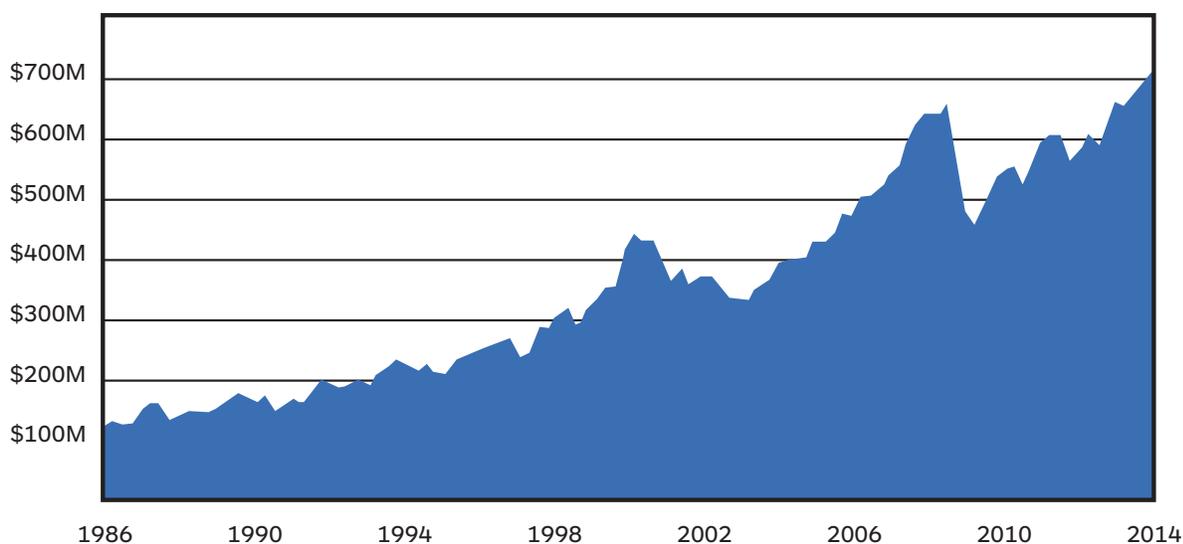
Fiscal Year 2014 was very strong for almost all stocks as well as for long-duration Treasury bonds. U.S. and non-U.S. developed equity portfolios posted strong absolute returns. The U.S. stock market continued its rally due to improving consumer confidence, low interest rates, stronger employment levels, and a rebounding housing market. Non-U.S. developed markets were boosted by European stocks rerating and operating margin improvements. Emerging markets equities staged a recovery from the previous year but failed to keep up with strong developed market returns.

### Growth of the Mount Holyoke Endowment

The growth of the Mount Holyoke College endowment can be attributed to strong returns from the portfolio coupled with gifts to the endowment. By capturing a significant portion of the market’s upside while protecting on the downside, the endowment has grown to its current level of \$717 million.

### Longer-Term Performance

The portfolio’s commitment to diversification across asset classes has contributed significantly to the endowment’s growth while dampening overall volatility. The portfolio has also benefitted from active management and from investing in market inefficiencies across geographies and asset classes.



### Annual Investment Returns: Fiscal Year 2005–Fiscal Year 2014

| 2014  | 2013  | 2012  | 2011  | 2010  | 2009   | 2008 | 2007  | 2006  | 2005  |
|-------|-------|-------|-------|-------|--------|------|-------|-------|-------|
| 16.0% | 11.5% | -0.1% | 20.6% | 11.2% | -21.5% | 8.0% | 21.1% | 15.1% | 15.6% |

Ending June 30, 2014

## Looking Ahead

Slower global economic growth and high valuations may result in lower returns over the next five to ten years compared to the experience of the last decade. Volatility is expected to persist with an uncertain global, economic, and political environment. It is therefore even more important than ever to be well positioned to take advantage of unique investment opportunities in a world with few obvious bargains. Mount Holyoke has benefited significantly in the past from diversifying the portfolio and by selecting talented money managers who have successfully navigated in challenging environments, and we expect them to continue to do so in the future.

## Mount Holyoke College Investment Committee: Governance and Management

Fiduciary responsibility for the endowment's performance is entrusted to the Investment Committee of the Board of Trustees. The Investment Committee is charged with allocating the College's investment assets and selecting and monitoring investment managers. The committee, comprising members of the Finance Committee and other alumnae and associates of the College with particular investment expertise, works closely with its investment consultant, Cambridge Associates.

## Advisory Committees Fiscal Year 2014

### Investment Committee

Elizabeth Palmer '76, *Chair*  
Barbara M. Baumann '77, *Vice Chair*  
Barbara Byrne '76, *ex officio*  
Devon George-Eghdami '81  
Mary Graham Davis '65, *ex officio*  
Phoebe McBee '71  
Robin Chemers Neustein '75  
Lynn Pasquerella '80, *ex officio*  
Andrzej Rojek P'12  
Carla Skodinski '72  
Louise Wasso-Jonikas '75

### Finance Committee

Barbara Byrne '76, *Chair*  
Catherine Burke '78  
Katherine Collins '74  
Sarah Miller Coulson '75  
Mary Graham Davis '65  
Ellen Flannery '73  
Heather Harde '91  
Mindy McWilliams Lewis '75, P'05  
Guy Martin P'05  
Elizabeth Palmer '76  
Lynn Pasquerella '80, *ex officio*  
Kaitlyn Szydowski '09  
Margaret Wolff '76

### Financial Officers of the College (as of June 30, 2014)

Shannon Gurek, *Vice President for Finance and Administration, and Treasurer*  
Janice Albano, *Associate Treasurer*  
Ellen Rutan, *Comptroller*



Office of Advancement

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