Mount Holyoke College Investment Report

2017

MOUNT HOLYOKE



Mount Holyoke is pleased to provide you with this report on the endowment investments for the fiscal year ended June 30, 2017.

The Investment Committee oversees the College's investment portfolio, striving for long-term growth while dampening volatility and providing vital support for the operating budget. Over the last 10 years, the endowment grew from \$608.7 million to \$729.4 million, representing a 5.3 percent total investment return per year. This is net of investment expenses and excludes new gifts. This result places it well ahead of the institutional fund average and in the top 25 percent when compared to hundreds of peer institutions.

The Investment Committee works in partnership with Cambridge Associates, a leading global investment firm that delivers innovative portfolio management services to institutional and private investors, 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.



By capturing a significant portion of the upside while protecting on the downside, the endowment has grown to its current level of \$729.4 million.



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Annual external investment pool returns:

June 30, 2007 – June 30, 2017

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
21.1%	8.0%	-21.5%	11.2%	20.6%	-0.1%	11.5%	16.0%	2.7%	-2.4%	13.4%

Growth of \$1,000 invested in the Mount Holyoke College endowment



S&P 500 80%/BC Agg Blend 20%

Fiscal year 2017: performance

Fiscal year 2017 was strong with significant positive rebounds after 2016. The externally managed endowment investment pool returned 13.4 percent; over the last 10 years, it has achieved a +5.3 percent annual compounded return. The portfolio benefitted significantly from its equity orientation, as equities drove much of the performance during the year.

The table below shows returns for Mount Holyoke's endowment. The endowment has performed ahead of the Cambridge Associates Endowment Median over all time periods, while lagging the stock/bond portfolio over shorter time periods. The endowment is invested with a true long-term orientation that allows it to compound returns over time in any type of investment environment. This approach has allowed it to compound 10.7 percent per year over the last three decades.

Period	Mount Holyoke (%)	C A Endowment Median (%)	80% Stock / 20% Bond Portfolio ¹ (%)	Inflation ² (%)
1 year	13.4	13.2	15.2	1.6
3 year	4.4	3.8	4.9	0.9
5 year	8.0	7.8	9.4	1.3
10 year	5.3	4.5	4.6	1.6
20 year	7.8	7.0	6.0	2.1
Since Inception*	10.7	10.5	9.2	2.7

¹80/20 Stock/Bond Portfolio represents 80% MSCI All Country World Index (Net) and 20% Barclays Aggregate Bond Index. The MSCI ACWI was backfilled with the MSCI World Index prior to 1988.

² Inflation represents Consumer Price Index - All Urban Consumers.

* Since first full quarter, 9/30/1983, or ~ 34 years.

Long-only equities were the largest contributor to overall performance for the fiscal year, with a particularly large contribution from International Developed and Emerging Markets. Managers generally outperformed their respective benchmarks. Hedge fund manager selection also contributed to the strong performance of the total portfolio. Although private equity and venture capital funds have failed to keep up with the public market indices, they have driven much of the recent returns in the private investments portfolio. Private natural resources rebounded slightly in fiscal year 2017 after a disappointing fiscal year 2016.

The portfolio's commitment to diversification across asset classes has contributed significantly to the endowment's growth over time. It has also benefited from active management across asset classes.

Asset Class	Allocation (%) 6/30/2016	Allocation (%) 6/30/2017	FY 2017 Portfolio Return (%
U.S. Equity	9.5	10.3	19.6
The active managers in the U.S. Equ return of 17.9%. Valuations increase other asset classes.			
International Developed Markets Equity	7.0	10.5	25.2
Mount Holyoke's International Deve Japan, returning a strong 25.2%, wh			rope and
Emerging Markets Equity	7.2	7.8	25.8
Mount Holyoke's emerging markets p first half of 2017 when emerging Asia emerging markets portfolio in outper	a charged ahead. An overwei	ight to China aided Mou	ınt Holyoke's
Global Mandate Managers	12.4	12.3	16.1
The global equity managers returne 18.8%. The global manager's value t stocks (specifically IT) dominated.			
Marketable Alternatives	24.9	23.1	9.0
Mount Holyoke's Marketable Altern the HFRI Fund of Funds Diversified over the medium and long term.	atives portfolio returned 9. Index by 3.9%. This continu	0% for the fiscal year, c ed its record of outper	outperforming formance
Private Investments	23.8	22.4	14.0
Includes private equity, venture cap investments in private partnerships compelling long-term performance public markets in recent years.	. U.S. Private Equity and Ve	enture Capital have del	ivered

The bond portfolio was flat but outperformed the Barclays Aggregate Bond Index return of -0.3%. Most bond markets underperformed in fiscal year 2017 relative to fiscal year 2016 due primarily to the sharp sell-off in government bonds that followed the 2016 U.S. election.



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Asset allocation over time

The portfolio is broadly diversified with a strong orientation toward investments that seek to deliver equity-like returns over the long term. The overall equity bias in the portfolio allows the College to meet operational needs while preserving the endowment's purchasing power for future generations by protecting against inflation. The majority of assets in the portfolio, including domestic and international stocks, private equity and private real assets, are expected to produce equity-like returns over time.



Over the years, the College's asset allocation has moved away from domestic stocks and emphasized nontraditional asset classes such as marketable alternatives and private investments.



Portfolio policy allocation

How the endowment supports the College

The endowment is critical to the College's mission of educating women. Income distributions from the endowment provided 25 percent of the College's operating revenue in fiscal year 2017. Significant portions of the distributions support College priorities such as student scholarship aid, internship experiences, faculty salaries, the academic centers and the Art Museum.

Both prudent spending and management of the endowment directly affect its growth. Mount Holyoke's endowment spending rule calls for distributing between 4.5 and 5.5 percent of a 12-quarter average market value of the endowment. 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 long-term growth of the Mount Holyoke College endowment can be attributed to strong returns from the portfolio coupled with gifts to the endowment. Philanthropic gifts to the endowment can cause dramatic increases in the total value of the fund. Over the last 10 years, alumnae, parents and friends have donated \$146.7 million to the endowment in support of critical College priorities.

Looking ahead

Slower global economic growth and high valuations are likely to result in lower returns over the next five to 10 years compared to the experience of the last two decades. Stock price volatility may continue with elevated valuations and political uncertainty around the world. Bonds seem poised to deliver subpar returns as interest rates ratchet up. It is therefore more important than ever to be well diversified across asset classes and geographical regions and to work with managers who are well positioned to take advantage of unique investment opportunities in a world of few obvious bargains. Uncovering those opportunities requires talent, expertise and resources. Mount Holyoke has benefited significantly in the past from diversifying the portfolio and selecting talented investment managers who who are able to successfully navigate challenging environments.

Divestment and socially responsible investing

In spring 2017, after several years of careful consideration and lengthy deliberations, the Board of Trustees voted unanimously against divesting publicly traded fossil fuel holdings from the Mount Holyoke endowment. More information on the discussion and decision can be found at: mtholyoke.edu/go/bot-divestment.

Cambridge Associates provided information about the portfolio's underlying holdings to inform these discussions and we will continue to report on them through our annual investment report. At June 30, 2017, the College had a total of approximately 1 percent of the total endowment invested in publicly traded fossil fuel companies, and less than 5 percent was invested in private fossil fuel companies.

At the Investment Committee's behest, Cambridge Associates has aggressively increased its efforts to identify investments that meet ESG — environmental, social and governance — principles. As of June 30, 2017, the Committee had committed \$19.5 million to ESG and impact-oriented funds. Cambridge Associates is also actively engaging with investment managers to evaluate how climate change impacts our investments, and how the support of carbon efficiency and other ESG factors affect our portfolio.



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 primary objective is to provide real, after-inflation growth of the endowment in a prudently aggressive manner to support current distributions and ensure that future generations of students and faculty can enjoy outstanding levels of support. In keeping with this objective, the Investment Committee works closely with Cambridge Associates to allocate the College's investment assets and to select and monitor investment managers.

The committee is comprised of members of the Finance Committee and other alumnae with particular investment expertise. Members of the Mount Holyoke College Office of Finance and Administration also play an important role in administration of the endowment.

2018 Investment Committee

Louise Wasso '75, *Chair* Elizabeth Weatherman '82, *Vice Chair* Barbara Baumann '77, *ex officio* Katherine Collins '74, *ex officio* Ellen Ellison '80 Robin Chemers Neustein '75 Ellen Petrino '68 Carla Skodinski '72 Sonya Stephens, *ex officio*

2018 Finance Committee

Katherine Collins '74, *Chair* Heather Harde '91, *Vice Chair* Catherine Burke '78 Ellen Flannery '73 David Mahoney Elizabeth Palmer '76 Jennifer Rochlis '94 Gareth Ross Raj Seshadri '87 Karena Strella '90 Michelle Toh '85

Note: The full list of members of the Board of Trustees can be found at: **president.mtholyoke.edu/board-of-trustees.**

Financial Officers of the College (as of June 30, 2017)

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

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