

June 30, 2016

MOUNT HOLYOKE

Mount Holyoke College

Fiscal Year 2016 Investment Report





Heather Pon-Barry, assistant professor of computer science, works with students in Computer Science 201: Advanced Problem Solving and Object-Oriented Programming.

Mount Holyoke is pleased to provide you with this report on the endowment investments for the fiscal year ended June 30, 2016.

The Investment Committee oversees the College's investment portfolio, striving for long-term growth while reducing volatility and providing vital support for the operating budget. Over the last 10 years, the endowment grew from \$523.2 million to \$667.6 million, representing a 5.9 percent return per year. This result places it well ahead of the institutional fund average and in the top 20 percent when compared to hundreds of peer institutions.

For the fiscal year ended June 30, 2016, the Mount Holyoke College Endowment was valued at \$667.6 million. This included \$665.1 million externally managed by Cambridge Associates — a leading global investment firm that delivers innovative portfolio management services to institutional and private investors — and \$2.5 million of other internally managed net investments.

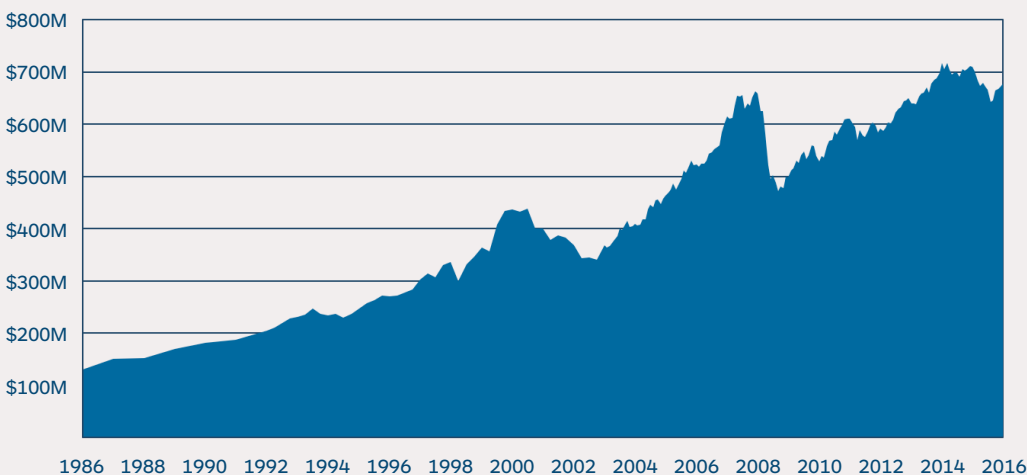
Cover Photo:

Ng Tian Hui, director of orchestral activities and assistant professor of music-conducting, rehearses a concert with students in Music 191: Orchestra.

Growth of the Mount Holyoke College 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 upside while protecting on the downside, the endowment has grown to its current level of \$667.6 million. Over the last five years, the endowment market value has grown at a compound annual rate of 2.1 percent after spending, which was mainly driven by investment returns of 5.3 percent net of fees.

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.

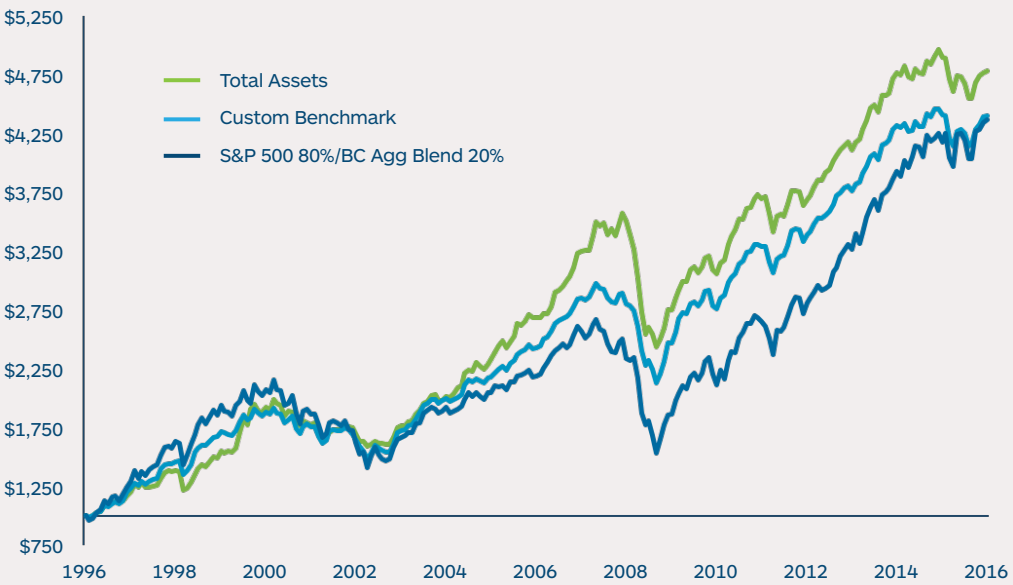


Annual External Investment Pool Returns: Fiscal Year 2006 – Fiscal Year 2016

| 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|-------|-------|------|--------|-------|-------|-------|-------|-------|------|-------|
| 15.1% | 21.1% | 8.0% | -21.5% | 11.2% | 20.6% | -0.1% | 11.5% | 16.0% | 2.7% | -2.4% |

Ending June 30, 2016

Growth of \$1,000 Invested in the Mount Holyoke College Endowment



Al Werner, professor of geology, works with Dana Reuter '15 to clean a sediment core recovered from a Norwegian Arctic lake as part of research into climate change.



Fiscal Year 2016: Performance

During FY16, the externally managed endowment investment pool returned -2.4 percent; over the last 10 years, it has achieved a +5.9 percent annual compounded return per year.

The table below shows annualized returns for Mount Holyoke's externally managed 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.

| Period | Mount Holyoke (%) | C A Endowment Median (%) | 80% Stock / 20% Bond Portfolio ¹ (%) | Inflation ² (%) |
|-------------------------|-------------------|--------------------------|---|----------------------------|
| 1 year | -2.4 | -2.7 | -1.7 | 1.0 |
| 3 year | 5.1 | 4.8 | 5.8 | 1.1 |
| 5 year | 5.3 | 4.8 | 5.2 | 1.3 |
| 10 year | 5.9 | 5.0 | 4.7 | 1.7 |
| 20 year | 8.1 | 7.3 | 5.9 | 2.2 |
| Since Inception* | 10.7 | 10.5 | 9.0 | 2.7 |

¹ 80/20 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 ~33 years.

Investment Performance

The fiscal year that ended June 30 was a challenging time for global diversified portfolios. The markets tested the endowment's long-term investment philosophy of a diversified portfolio with reliance on specialized, active managers to beat the average market participant and benefit from inefficiencies. However, the endowment is invested with a true long-term orientation that allows it to compound strong 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.

Stocks outside the U.S. were the largest detractor from performance for the fiscal year, although managers in the portfolio performed better than the overall asset class. Marketable alternative and U.S. equity investments were the largest detractors relative to their benchmarks. Private investments in venture capital, buyouts, real estate and natural resources failed to keep up with returns on public markets. Natural resource equities and commodities continued to fall during the first half of the fiscal year, but rebounded in the second half. The portfolio further benefited from active management in this area.

Nathan Margalit, visiting associate professor of art, teaches Drawing 1: Visual Exploration, a foundational introduction to the basic elements of visual thinking.



| Asset Class | Allocation (%) 6/30/2015 | Allocation (%) 6/30/2016 | FY16 Portfolio Return (%) |
|---|-----------------------------|-----------------------------|------------------------------|
| U.S. Equity | 9.5 | 9.5 | 1.0 |
| <p>U.S. equities managed to outpace equities around the world despite elevated valuations. The managers in Mount Holyoke's U.S. Equity portfolio returned 1.0% for the fiscal year, behind the S&P 500 index return of 3.0%. Managers faced headwinds from significant flows into passive investment vehicles.</p> | | | |
| International Developed Markets Equity | 7.3 | 7.0 | -9.0 |
| <p>Mount Holyoke's International Developed managers returned -9.0%, outperforming the MSCI EAFE Index by 1.1%. Developed equities significantly lagged U.S. equities as the pound and euro fell significantly relative to the USD. Post-Brexit European equities declined despite improving economic data and continued quantitative easing.</p> | | | |
| Emerging Markets Equity | 7.4 | 7.2 | -12.7 |
| <p>Emerging markets suffered from a combination of weak earnings and currency depreciation in commodity-sensitive markets such as Latin America. A sharp reversal that began in the second half of the year was not enough to overcome severe losses in the first half of the year. The endowment's emerging markets equity portfolio underperformed the MSCI Emerging Markets Index by 0.9%.</p> | | | |
| Global Mandate Managers | 10.5 | 12.4 | 2.8 |
| <p>The global equity managers returned 2.8%, beating the MSCI World Index return of -2.8% due to strong stock selection.</p> | | | |
| Marketable Alternatives | 25.6 | 24.9 | -8.0 |
| <p>Mount Holyoke's Marketable Alternatives portfolio returned -8.0% for the fiscal year, underperforming the HFRI Fund of Funds Diversified Index by 3.1%. Despite being a detractor for the year, this portfolio has been one of the biggest contributors to performance over the medium and long term.</p> | | | |
| Public Real Assets | 4.4 | 2.3 | 9.6 |
| <p>Commodity-related assets began to rebound in the second half of 2016 as the price of oil stabilized. The managers outperformed the MSCI World Natural Resources Index by an impressive 16.0%.</p> | | | |
| Private Investments | 24.3 | 23.8 | 0.9 |
| <p>Includes private equity, venture capital, private real assets and other opportunistic private investments in private partnerships. The Real Estate portfolio was a significant contributor to returns while the Natural Resources portfolio was a significant detractor.</p> | | | |
| Fixed Income and Cash | 11.0 | 12.9 | 3.8 |

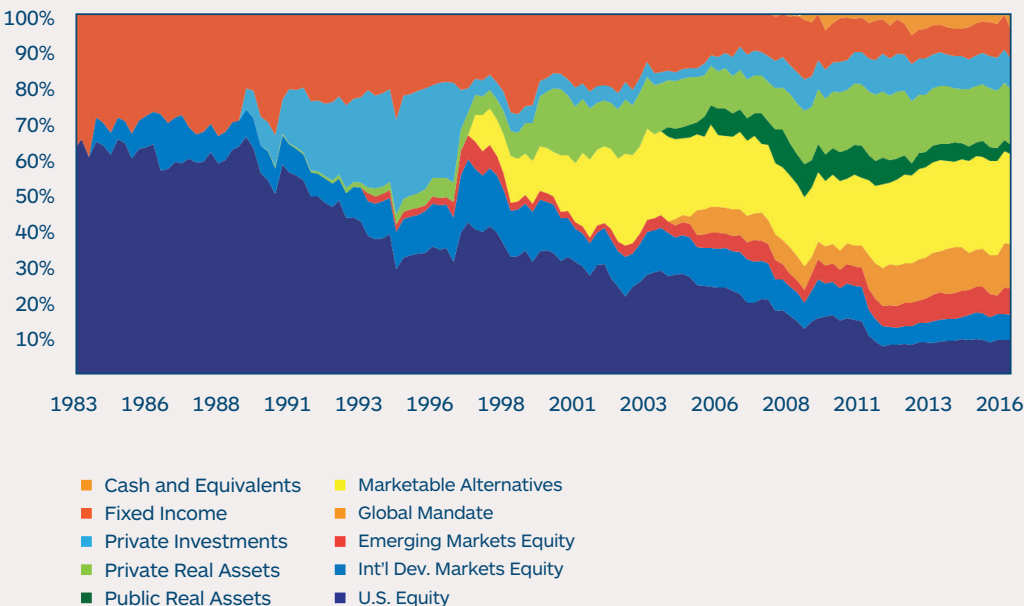
The bond portfolio underperformed the Barclays Aggregate Bond Index return of 6.0%.

Asset Allocation

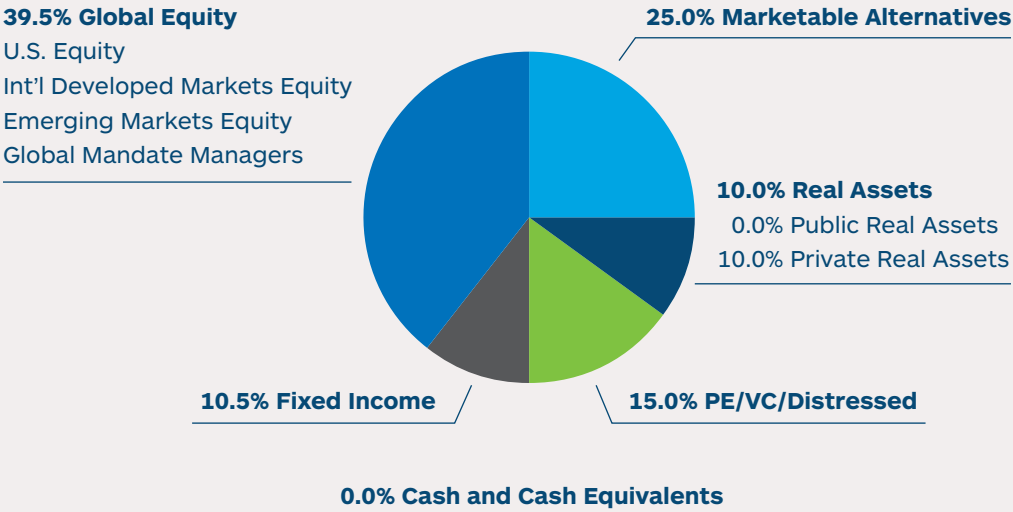
The Investment Committee works in partnership with Cambridge Associates to position the endowment to weather near-term market volatility and still generate strong long-term returns through prudent asset allocation and astute manager selection. The current portfolio is broadly diversified with a strong orientation toward investments that seek to deliver equity-like returns over the long term. The overall equity bias in the portfolio allows the College to meet operational needs while preserving the endowment’s purchasing power for future generations and protecting against inflation. The majority of assets in the portfolio, including domestic and international stocks, private equity, and public and private real assets, are expected to produce equity-like returns over time. Over the last 15 years, the College’s asset allocation has moved away from domestic stocks and emphasized nontraditional asset classes such as marketable alternatives and private investments.

More recently, the endowment made fund commitments that support sustainable companies and projects in sectors including energy efficiency, renewable power generation and systems, agriculture, land, water, transportation and solar financing. The Investment Committee actively evaluates emerging opportunities in this area.

Asset Allocation Over Time



Portfolio Policy Allocation



How the Endowment Supports the College

For FY16, income distributions from the endowment provided 26 percent of the College's \$128 million of 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 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 endowment is able to grow through performance and with new gifts. 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 provided \$148.7 million to the endowment, investing in College priorities such as scholarship aid, internship experiences and faculty support.



Michelle Markley, associate professor of geology, discusses items from the Clapp 301 teaching collection with MHC geology majors.

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 geographic 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 by selecting talented investment managers who have successfully navigated challenging environments and are expected 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 works closely with its advisor, Cambridge Associates, to allocate the College's investment assets and select and monitor investment managers. The committee is comprised of members of the Finance Committee and other alumnae or friends of the College 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.

2017 Investment Committee

Elizabeth Palmer '76, *Chair*
Louise Wasso '75, *Vice Chair*
Barbara Baumann '77, *ex officio*
Katherine Collins '74, *ex officio*
Ellen Ellison '80
Phoebe McBee '71
Robin Chemers Neustein '75
Ellen Petrino '68
Carla Skodinski '72
Sonya Stephens, *ex officio*
Elizabeth Weatherman '82

2017 Finance Committee

Katherine Collins '74, *Chair*
Heather Harde '91, *Vice Chair*
Catherine Burke '78
Ellen Flannery '73
David Mahoney
Elizabeth Palmer '76
Jen Rochlis
Kaitlyn Szydlowski '09
Michelle Toh '85
Louise Wasso '75
Elizabeth Weatherman '82

*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, 2016)

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



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