HAVERFORD
COLLEGE

Haverford College
Investment Office
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November 20, 2015

The Haverford endowment returned +1.4%, net of fees, for the fiscal year ended June 30, 2015. In addition to this investment result, the endowment received approximately $10 million in gifts during the year and paid out almost $23 million in support of the College's operations, ending the year at approximately $486 million.

While there was a wide dispersion of performance results from institutions this past year, Haverford's performance was above the median of the Cambridge Associates Endowment Universe of approximately 440 institutions. We noted in letters from the prior two years, in which the endowment had investment returns of over 15%, that we should not expect returns of that magnitude every year. However, our +10.6% annualized performance over the last three years is well within our range of expectations, and is also in the first quartile of this Cambridge Universe. We believe that these results of recent years provide strong evidence that the improvements in our processes implemented after the 2008-2009 Global Financial Crisis have created an improved and effective approach to managing the endowment and stewarding the institution's capital.

While we are writing with regard to the 2014-15 fiscal year, it is hard to ignore market conditions since the end of June, given the timing of this letter. Markets around the world have experienced significant volatility over the past several months. In response, we have focused on our long-term strategic asset allocation exposures and sought to maintain those exposures through disciplined portfolio rebalancing. Haverford is a perpetual institution, and our long-term investment approach is reflective of the institution's timeline. We generally assume significant equity and equity-like exposure in the endowment in order to capture long-term market performance to support endowment spending over time. Periods of volatility can provide opportunities to improve the portfolio by keeping exposures at desired levels by taking advantage of market declines. Recently, the market declines contributed to our ability to access a previously-closed manager, while we also added exposure to relatively undervalued areas of the market to keep allocations aligned with long-term targets.

During periods of market volatility it is worth highlighting the importance of understanding all of the components of endowment growth. The three-legged stool of endowment growth is comprised of: investment performance, consistent philanthropy, and reasonable endowment spending. Donors expect that their gifts to the College will benefit current and future generations equally, and our spending approach seeks to provide that balance. In the long term, strong investment performance based on clear investment policies, consistently strong philanthropy, and reasonable spending from the endowment will contribute to endowment growth, and thus, continue to build financial and academic strength of the institution.

Investment Philosophy

Given that this is our third annual letter, we'll discuss our investment philosophy only briefly and refer you to our past letters (2013 and 2014) for more details. In general, our philosophy centers on a long-term investment horizon, partnerships with high quality investment managers, and the view that market exposure (or "beta") can be accessed inexpensively through passive index funds. We venture beyond this beta exposure when a type of investment can't be accessed passively, provides a different type of market exposure compared to the broad market, or is expected to generate significant risk-adjusted returns in excess of active management fees. With that bit of context, we'll provide details on the 2014-15 fiscal year.

The three-legged stool of endowment growth is investment performance, consistent philanthropy, and reasonable endowment spending.

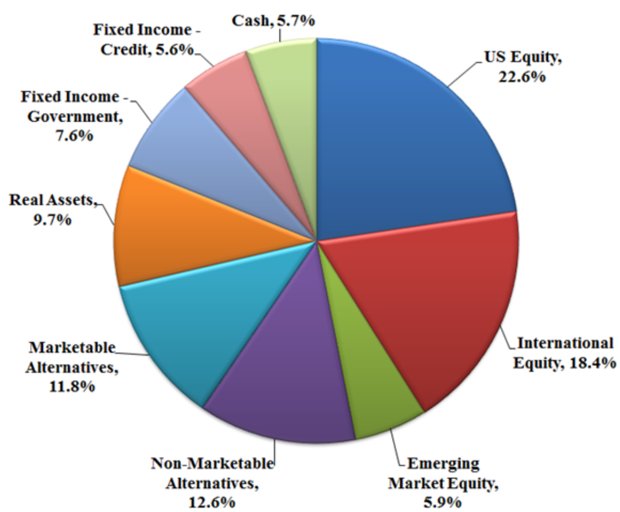
Asset Allocation

The endowment's asset allocation is only incrementally different from last year. While the allocation evolves over time, the most significant changes were declines in illiquid asset classes (non-marketable alternatives and real assets), and increases in international equities and fixed income. The declining allocations in non-marketable alternative and real assets were primarily due to large cash distributions in these asset classes, while the increased allocations in international equities and fixed income are a result of deploying this cash through our rebalancing process during the year.

The asset allocation as of June 30, 2015, is shown below, and is categorized based on our policy allocations across global public equities, fixed income and alternative investments. However, we also consider the function of each investment in the portfolio, such as capital growth, capital preservation, inflation-sensitivity and diversification benefits, and the overall level of equity market exposure in the portfolio.

Haverford College Asset Allocation as of June 30, 2015

Asset Class	Allocation	Policy Target	Policy Range
US Equity	22.6%	22%	18% - 26%
International Equity	18.4%	18%	15% - 21%
Emerging Market Equity	5.9%	6%	4% - 8%
Non-Marketable Alternatives	12.6%	12%	6% - 18%
Marketable Alternatives	11.8%	14%	8% - 17%
Real Assets	9.7%	12%	5% - 18%
Fixed Income - Government	7.6%	8%	6% - 10%
Fixed Income - Credit	5.6%	6%	4% - 8%
Cash	5.7%	2%	1% - 10%



The allocation is currently very close to our policy targets. After years of being overweight private equity (non-marketable alternatives), this asset class is now in line with the policy target. Real assets (real estate and energy-related investments) have declined below target for the first time since the creation of the current asset allocation policy after the Global Financial Crisis. The declining percentage of these asset classes has been expected, due to our legacy illiquid funds distributing significant amounts of capital in recent years. We are actively making new commitments in private equity and real assets when we find compelling opportunities based on our improved approach to due diligence. However, given the size of the legacy illiquid portfolio relative to more recent new commitments, we expect these allocations to decline further before leveling out and eventually being maintained near their policy targets.

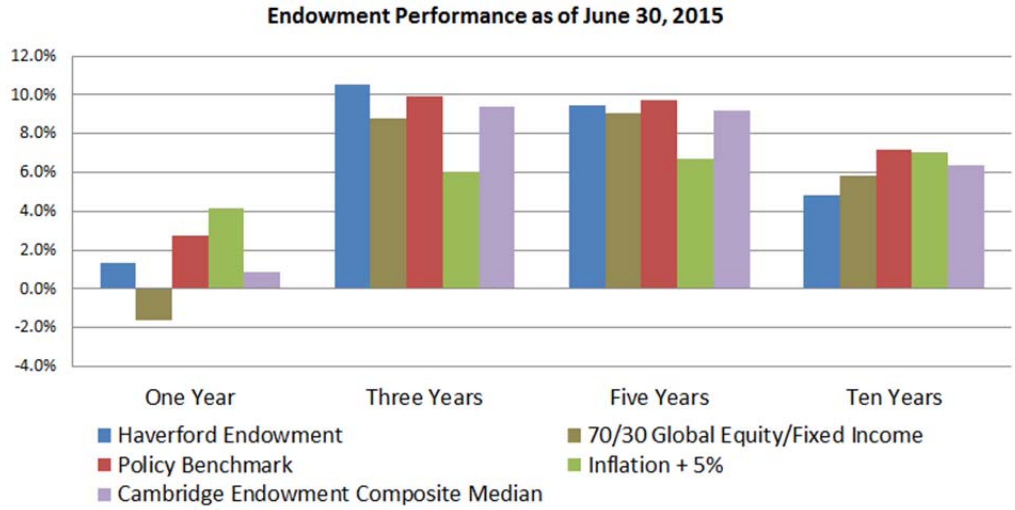
We maintain specific quantitative guidelines for portfolio exposures that add an additional layer of discipline to maintaining our desired portfolio positioning. As cash built up during the year due to these large private fund distributions, our rebalancing process was triggered, and cash was deployed back into various asset classes. With our overall intention of keeping asset class weights close to policy targets, and absent any major dislocations in the market, we redeployed cash into the relatively better-valued international equity markets and also to high-quality fixed income, both of which were underweight policy targets. While high-quality fixed income offers very low relative returns as interest rates remain very depressed, we seek not to predict market performance and therefore allocated a small amount of capital to maintain the asset class near strategic policy targets. Even so, we remain positioned slightly underweight fixed income, with a low-duration posture in an attempt to defray the effect of rising rates. Many have expected interest rates to rise for some time, but in fact the 10-year Treasury actually declined in yield during the 2014-15 fiscal year.

Again speaking to the market volatility after the end of the 2015 fiscal year, the market declines resulted in additional portfolio rebalancing into international and emerging market equities. In this case, the market decline enabled us to invest with a compelling, but previously closed, fund manager with whom we had been speaking for almost two years. We appreciate managers who are thoughtful about their asset capacity and who limit their size to avoid diluting performance. As the fund’s assets under management declined as markets fell, we were able to get access based on the fund’s increased capacity. This process demonstrates the benefit of patience in the short-term in order to access strategies that we believe will compound capital strongly over the long-term.

To return to the discussion of FY15, given that we were very close to our asset allocation policy targets during the year, the slight allocation differences from policy had only a minor positive effect on the overall return in 2015. Our combined overweight to U.S. equity and underweight to developed international and emerging markets equity was positive, as U.S. markets significantly outperformed international markets during the year. Our overweight to private equity contributed to returns, given the performance of the asset class, but our underweight to hedge funds was negative given the positive return of the broad hedge fund universe. Cash remained somewhat elevated during the course of the year, but ended the year approximately one percentage point lower than last year, and additional cash was reinvested after the end of the fiscal year.

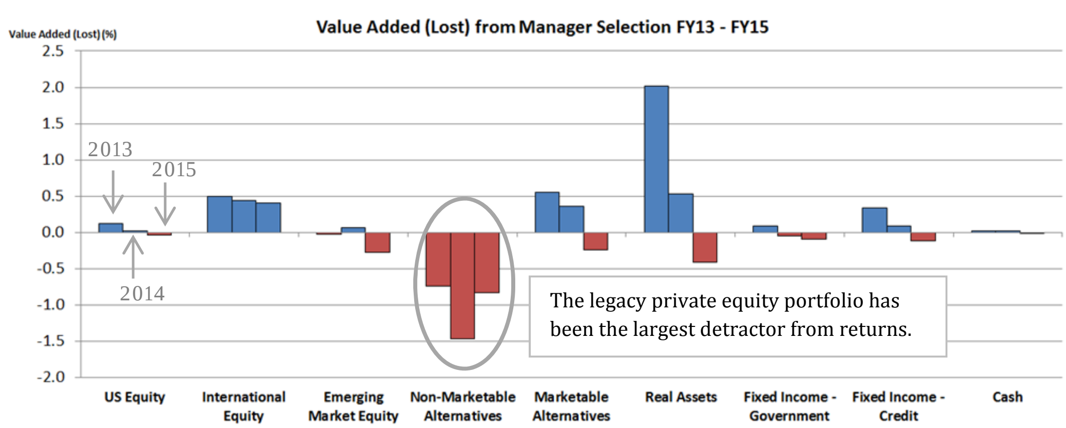
Investment Performance

Historical endowment performance is shown in the figure below. A primary goal in managing the endowment is to preserve its purchasing power for future generations, which requires us to generate a net return equal to or in excess of our spending rate from the endowment plus inflation. We approximate this “Spending Benchmark” to be Inflation + 5%, given that spending over time has tended to be in the range of 5% or less. We also compare performance to a simple global benchmark of 70% equity / 30% fixed income, which is reflective of a traditional, balanced allocation, and to a benchmark that is representative of our strategic policy targets across asset classes. For comparison to a broad universe of institutions, we provide the Cambridge Associates Endowment Universe median as well.



Performance over the last three years ranges between 70 and 450 basis points above these benchmarks, and this time frame is most representative of our post-financial-crisis approach to managing the portfolio and reflective of the current policies that are in place. The three-year average annual return of 10.6% places us in the first quartile of the Cambridge Associates Endowment Universe. The five-year return of 9.5% also compares favorably to the benchmarks and universe, placing us in the second quartile of this universe, while the ten-year figure remains impacted by the poor performance of 2008-09, which was discussed in our first letter here.

One method by which we examine our selection of investment managers is by looking at performance versus their respective asset class benchmarks. The results of this analysis over the past three consecutive years are shown below. Note that for U.S. equity and government fixed income, allocations are generally reflective of the broad market, and so deviations around the benchmark will generally be minimal. For other asset classes, 2013 and 2014 showed value added by fund selection across most asset categories, while fund selection in 2015 was less beneficial, except in international equity. We focus on long-term relationships with fund managers and there will typically only be a small amount of turnover in the portfolio, so most of the holdings are consistent across all three years. In effect, after two years of strong performance for many of our funds, 2015 was a more difficult year. However, the clear message is that more recent years' fund selection has been positive overall, while fund selection in private equity (non-marketable alternatives), most of which dates back to pre-2009, has been the largest drag on returns the last three years.



We noted last year that the improvement in valuation of our older private equity funds has trailed the overall market, and that we were pursuing new private investments, based on our revised diligence process. We have added several new private funds over the past year, investing with managers we believe are well-positioned to generate strong results over time. However, these more recent additions are still very early in their fund lives, and will take several years to generate value from their portfolio companies. That being said, we are patiently developing long-term relationships with leading investment managers, and building a diversified private portfolio that we expect to contribute meaningfully to performance in the future. Finally, results are best understood over the course of an investment cycle; year-to-year variations have little longer-term impact on results. Further detail on asset classes is provided in the following table.

Fiscal Year 2014-15 Performance and Allocation by Asset Category

Asset Category	June 30, 2015 Allocation	FY15 Return	Comments
U.S. Equity	22.6%	7.1%	The majority of our U.S. equity allocation is passive exposure to the broad equity markets, and should perform generally in line with broad market indexes.
Developed International Equity	18.4%	-2.9%	The developed international equity portfolio consists of both passive and active management. Our value-biased active managers provided strong returns during the year relative to their benchmarks.
Emerging Market Equity	5.9%	-10.3%	Our emerging markets equity portfolio has a value-bias across both active and passive exposures, which was a drag on returns for emerging markets for the year. The value vs. growth performance spread of emerging markets has reached historically high levels. We remain patient as we expect valuations to converge to more normalized levels at some point.
Non-Marketable Alternatives	12.6%	3.1%	The non-marketable private equity portfolio is about 85% legacy funds from pre-2009. These aged funds are no longer experiencing as many markups as the overall market, leading to underperformance in recent years. Our newer non-marketable funds are too young to materially contribute to performance.
Marketable Alternatives	11.8%	1.8%	After two years of very strong relative performance in 2013 and 2014, our hedge fund portfolio overall had a more difficult time in 2015. The portfolio did outperform the broad global equity markets, but generally underperformed a diversified basket of hedge funds during the year.
Real Assets	9.7%	0.6%	Our real asset portfolio consists primarily of real estate and, to a lesser degree, energy-related funds. While real estate funds continue to perform well, our energy-related funds dragged down the portfolio. These energy funds are legacy commitments from prior to 2009, and include both traditional and alternative energy investments.
Government Fixed Income	7.6%	0.9%	The return environment for government fixed income securities remains subdued, given the low interest rate and high valuation environment. For these reasons, we remain positioned below policy target, with a low-duration profile. However, this positioning proved costly during the year as interest rates declined slightly and the broad bond market index outperformed short duration bonds.
Credit Fixed Income	5.6%	-1.5%	The credit fixed income asset class includes both investment-grade and non-investment grade credit. The investment grade credit, along with the government fixed income allocation serve to provide liquidity and diversification to the overall endowment. The non-investment grade allocation was impacted by declines in both the high yield and emerging market debt markets.
Cash	5.7%	0.0%	Cash built up during the year as a result of private distributions. We rebalanced during the year to deploy cash to other asset classes and there was a significant additional rebalancing in early FY16 after equity market declines in August and September.

Sustainability and Fossil Fuel Divestment

We are patiently developing long-term relationships with leading investment managers, and building a diversified private portfolio that we expect to contribute meaningfully to performance in the future.

Many of you may be aware of the movement that is soliciting endowments, foundations, pension plans and other institutional investors to divest their asset pools from public companies with the largest reserves of fossil fuels, in an effort to combat and raise awareness of global warming. Global warming is one of the greatest challenges in the world today and there are many strong opinions on both sides of the argument about the effectiveness and costs of a divestment strategy.

This letter is not a forum for reviewing these arguments, but we do want to note that the movement has been active on the Haverford campus for several years, spearheaded by a committed group of students. The discussion around this issue at Haverford has been, in a word, "Haverfordian" in that there have been a multitude of open discussions about divestment over the past several years involving members of our community. Students have been invited into Board, Board Committee, and Corporation discussions for open dialogues that have featured different perspectives on the issue, and these discussions have all demonstrated the mutual respect, shared learning and shared governance that is characteristic of the Quaker heritage of the College.

Without going into too much detail here about the various factors involved in the decision, the Board of Managers, acting on the recommendation of its Committee on Investments and Social Responsibility, decided in October 2013 not to divest the endowment of fossil fuel companies (see announcement here). However, that was not the end of the conversation and, over time, the discussion has expanded to one about sustainability, and how our campus operations, our educational program, and our policies--including our investment policies--fit into Haverford's comprehensive approach to sustainability. With regard to investment policies, the Investment Committee has held multiple discussions on how investment policy could be further integrated into the College's broader sustainability work. Recently, the Council on Sustainability and Social Responsibility (CSSR) was formed on campus to shepherd a wide-ranging community conversation with the goal of developing a comprehensive sustainability plan for the College. As CSSR states in its charge, "as a core principle, [sustainability] should animate our broader mission of stewarding Haverford's financial, ethical, and curricular endowments in the interests of educating principled global citizens while safeguarding intergenerational equity as a perpetual institution." As the CSSR performs its work this year, additional information will be forthcoming on the broad topic of sustainability at Haverford.

A Final Word of Thanks

Finally, we want to thank the Investment Committee of the Board of Managers for their continued deep engagement in managing the College's endowment. These individuals donate their knowledge, expertise and significant amounts of time and financial support to ensuring that the endowment reaches its dual goals of providing substantial current income to the College in support of the current generation, while preserving and growing endowment capital for future generations. This year we want to thank Elon Spar '83 for his many years of service to the Committee, as Elon completed his Board and Committee term in June. We also want to welcome Bruce Gorchow '80 to the Investment Committee. Bruce brings a wealth of knowledge and we look forward to his Committee membership for many years.

While the current elevated price levels of many investment markets may lead to returns below historical averages in coming years, we maintain our long-term focus and seek continuous evaluation and improvement of our processes. Our work is done in support of shared goals that are endorsed by the entire community of students, faculty, alumni and staff who are devoted to the College and its mission. Although this is only the third annual letter we've written, readers may find some repetition as we consistently highlight our investment approach. But when it comes to thanking the entire Haverford community, it is well worth repeating ourselves given that the community defines and preserves the College's values now and in perpetuity.

Thank you for your continued support,

Michael H. Casel, CFA, CAIA
Chief Investment Officer
Haverford College

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Chair of the Investment Committee of the Board of Managers
Global Head, GWM Solutions & Strategy
JP Morgan Chase Bank

Investment Committee of the Board of Managers

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