Haverford College
Investment Office
370 Lancaster Avenue
Haverford, PA 19041

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Dear Haverford College Community,

We are pleased to present our annual letter on Haverford's endowment to the College community. The Haverford endowment returned 5.4%, net of fees, for the fiscal year ended June 30, 2019. The College's endowment ended the fiscal year at approximately $527 million, which is an increase of $8 million from the prior year and is the aggregation of investment returns of approximately $27.7 million, new gifts and inflows of $5.7 million, and a withdrawal in support of the College's academic mission, scholarship and operations of $25.4 million. Haverford's performance of 5.4% for the fiscal year compares favorably to the 4.4% median performance for the Cambridge Associates universe of endowments and foundations with assets between $500 million and $1 billion and compared to the 4.6% average performance for the broader Cambridge Associates Endowments and Foundations Universe.

Since we began writing these annual letters to the community in 2013, we've tried to include a mix of information and commentary on our endowment management approach and results. Hopefully these communications have provided a balanced commentary, as we speak to a wide-ranging audience. In last year's letter, we discussed the endowment strategic planning and transition to the revised asset allocation structure that occurred during the year. We continue to pursue the various goals identified in that planning process and have transitioned our portfolio approach to the revised structure. This year, we provide an update on one particular area of the portfolio, the private equity allocation. We also provide some discussion on risk management, including some perspective on how the College's overall financial condition intersects with the endowment portfolio.

Private Equity and Portfolio Asset Allocation

If you've read our prior annual letters, you might remember that we began rebuilding the private equity portion of our allocation in 2014. With meaningful progress on the allocation over the past four to five years, we feel it is an appropriate time to provide an update. Two years ago, in the fiscal 2016-17 letter, we noted that, with regard to the private equity portfolio:

> *The commitments that we have made over the past several years are well diversified across strategy, sector, and capitalization, with leading firms that we feel will generate attractive returns. The strategy that we developed with the Investment Committee years ago is being implemented according to plan, at a measured pace, and on schedule, befitting of our long-term investment perspective.*

Bringing this discussion forward two years to the present, we can confidently say that this process has continued according to plan and we are beginning to see the positive results of our steady, methodical, long-term approach. At the same time, increasing a private equity portfolio to a larger portion of the portfolio and to a steady-state, self-funding status takes years to accomplish. The private equity portion of the endowment has been bifurcated in recent years. A portion of the portfolio has been invested in funds raised prior to the Global Financial Crisis, which we generally refer to as legacy funds, given their age, our discontinuation of investments with these funds, and the fact that the current investment approach was not followed pre-crisis. Another portion of the portfolio is invested in funds to which we've committed capital since 2014 and with which we expect ongoing long-term relationships, following our current investment approach.

The legacy funds continue to distribute capital and decline as a portion of the total portfolio each year, while the newer funds continue to call capital and become a larger portion of the portfolio. The private equity allocation has progressed from 100% legacy funds five years ago to approximately 20% legacy funds currently, with the majority of the private allocation now represented by the more recent, active relationships. This divided private equity portfolio has been a structural challenge we've had to manage. Among the legacy funds, while certain individual funds performed well over the course of their fund terms, on average these funds underperformed the private equity market medians over time. Furthermore, these legacy funds are older funds that generally have already sold their most attractive assets, leaving them with assets that are not expected to generate meaningful performance at the end of their fund terms. Meanwhile, many of the newer funds are still generally too young to be experiencing meaningful mark-ups on the assets, and remain in the "J-curve", the term used to describe the tendency of private equity funds to post negative returns in early years and increasing returns in later years as the investments mature. This combination of legacy funds and younger funds has resulted in underperformance of the private equity portfolio versus the universe in recent years, and has been the biggest detractor from endowment relative performance for some time.

However, we are starting to see positive underlying results behind this transition. While the newer funds are still young, as of June 2019, they have generated a three-year return of almost 19%, versus a three-year return of just over 17% for the Cambridge Associates U.S. Private Equity Index. By comparison, the legacy funds returned approximately 8% over this time period. With the legacy funds now representing only 2% of the total endowment portfolio, we expect the impact of these funds to be minimal going forward. However, we are still several years away from reaching the steady-state private portfolio described earlier, as our younger funds become more seasoned over time. That said, we are very much encouraged by the early performance results from our expanding, but young portfolio.

Taking a broader look at the endowment asset allocation, the portfolio remains in line with policy and we continue with our systematic rebalancing approach to ensure alignment with long term policy. The figure below shows the allocation as of June 30, 2019, versus policy guidelines. The allocation is simply a snapshot in time, and we note that rebalancing activity within the real estate allocation occurred after June 30th to ensure continued alignment with policy. We also note that the Investment Office and Investment Committee have considered some incremental adjustments to policy targets, and we can provide an update next year, once that discussion and decision have come to conclusion.

Category	As of June 30, 2019	Policy Target	Minimum	Maximum
Growth Assets	66.8%	64%	60%	68%
Diversifying and Hybrid Assets	11.7%	15%	10%	20%
Real Estate	8.1%	6%	4%	8%
Low Volatility and Liquidity	13.4%	15%	12%	18%
Total	100%	100%		

Market and Performance Review

Market performance for the 2018-19 fiscal year was primarily a continuation of performance trends in recent years. U.S. equity was a strong performer, with the S&P 500 index returning in excess of 10%, significantly outperforming developed international markets and emerging markets. Growth continued to outperform value and large cap significantly outperformed small cap. Real estate investment trusts (REITs) were one of the stronger performing asset classes, outperforming the S&P 500. Private equity also continued to be a dominant asset class, with the Cambridge Associates U.S. Private Equity Index returning almost 14% for the fiscal year. One of the most interesting areas during the year was the performance of fixed income, as already low interest rates generally declined further, causing bond prices to rise and the Barclays U.S. Aggregate Bond Index to return almost 8%, with long-duration bonds returning double digits.

While a single year is a short period in the context of a perpetual institution like Haverford, we annually review performance on both an asset allocation and investment selection basis. Our asset allocation does not tend to stray far from our long-term policy targets, so relative value-added or detracted due to allocation differences versus policy tend to be minimal. In the case of fiscal year 2018-19, the asset allocation added a small amount of return, due to minor overweights in equity and real estate during the year. Digging a little beneath the surface, our lower-than-desired allocation to private equity (due to the dynamics of building the portfolio as described earlier), was the largest detractor due to the strong performance of the asset class, but overweights in public equity and real estate more than compensated for the private equity underweight. We would continue to expect our private equity portfolio to remain below our long-term target for several more years as the allocation builds toward a more seasoned allocation.

Our active public equity managers generally produced strong results relative to their benchmarks. While the U.S. equity allocation is primarily passive, we maintain a stable of active managers in non-U.S. developed and emerging markets. While the stable of managers remains relatively constant from year-to-year, with some turnover of funds over time, almost all of our active non-U.S. equity funds outperformed their respective benchmarks for the year.

The Low Volatility/Liquidity portion of the portfolio consists of high quality fixed income that acts as liquidity for the portfolio, given that the endowment provides approximately 25% of the College's operating budget revenue every year. While this portion of the portfolio is not expected to provide meaningful returns to the portfolio, especially in the current low yield fixed income environment, our low-duration positioning was a detractor versus a broad fixed income index resulting from declining interest rates during the year. We continue to evaluate the allocation to this portion of the portfolio in the context of long-term expected risk and return along with overall enterprise risk for the institution.

Some Perspective on Risk Management

Continuing on this thread of enterprise risk, we'd like to provide a few comments about our broad perspective on risk. We view risk from many different perspectives, from risks inherent in an individual investment fund to risks related to the total endowment portfolio exposures, to Haverford's total financial picture and how the endowment fits into that picture. Many people are familiar with common quantitative measures of risk for an investment fund or portfolio, including volatility, equity beta, liquidity, and concentration vs. diversification, among others. While we evaluate these common measures of risk, we also think holistically about the College's total enterprise risk, and the interaction of the College's overall financial condition with the investment portfolio. The College is a large enterprise and various aspects of risk across the enterprise, such as debt, operational efficiency, student demand and financial aid, trends in philanthropy, among others, are also considered in the context of risk-taking in the investment portfolio. The College is fortunate to be in a strong financial position, and has further improved on these strengths in recent years with debt restructuring, operational improvements, strengthening of the balance sheet and income statement, and implementation of new technology systems. With greater certainty and strength across the College, we can consider the level of risk that can be assumed in the endowment portfolio in order to pursue attractive long-term returns. This type of analysis is being performed as part of our evaluation of the long term allocation policy that was mentioned previously.

Year-End Updates and Thanks

Our thanks always go out to the Investment Committee of the Board of Managers for their engagement in the investment management process at Haverford. This past year, in particular, we thank Rick White for his many years of service on the Haverford Investment Committee and for his dedication to the College as Chair of the Board of Managers in recent years. Rick completed his Board term in 2018-19, and is likely enjoying a well-deserved break from the demands of serving as Chair of the Board and on the Investment Committee.

We also had some changes in the Investment Office this past year. Drew Dinger, after being at Haverford for almost a decade, had the opportunity to pursue a new position in the investment management industry. We thank Drew for his many years of dedication to Haverford, and wish him the best of luck in his next endeavor. At the same time, we welcomed Chad Sheaffer to the Investment Office at the College. Chad joins from an outsourced CIO firm, where he worked with institutions and portfolios similar to Haverford. Chad is both a Chartered Financial Analyst (CFA) charterholder and Chartered Alternative Investment Analyst (CAIA) charterholder. Chad was an immediate contributor to the office upon joining and has already demonstrated that he is a great addition to the Investment Office. We are also in process of filling an open Investment Office position with a junior professional, and look forward to having a third member join the team soon.

Beyond the Investment Office personnel, most of you are likely already aware that Kim Benston completed his term as president of the College on June 30th and we welcomed Wendy Raymond as Haverford's 16th president, beginning her term on July 1, 2019. Our thanks go out to Kim for his thoughtful leadership over the past four years and we look forward to working with Wendy to continue to build endowment in support of the College's academic mission.

And lastly, thanks also always go out to all the members of the Haverford community. Without your continued support, we would not be able to deliver Haverford's world-class education to current and future students.

With appreciation for your continued support,

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

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Haverford College Investment Office

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