



Haverford College
Office of Investments
370 Lancaster Avenue
Haverford, PA 19041

December 5, 2013

We are writing to update you on the investment activity and performance of the Haverford endowment for the fiscal year ended on June 30, 2013. We are delighted to report a year of strong absolute and relative performance, as the endowment ended the fiscal year at approximately \$434 million, compared to \$387 million at the start of the year. The net investment performance of the endowment for the year was 15.1%.

Setting realistic expectations for investment performance is one of our roles in overseeing the endowment, and while we'd like to report such strong returns every year, we caution that there will be future periods of declining markets or market turmoil, resulting in more modest or negative performance at times. Indeed, it is our expectation that returns to the endowment over the long-run will be appreciably lower than last year's strong results. However, Haverford has the benefit of a very long investment horizon, and we try to look past month-to-month, quarter-to-quarter and even year-to-year fluctuations in endowment value and performance, seeking to preserve and build purchasing power of the endowment over the long term. We would also like to highlight that investment performance is only one factor in building endowment, as fundraising is equally important, and we are thankful for the efforts of Institutional Advancement and, most importantly, the generosity of our donors.

This letter is the first of what we expect will become an annual endowment letter. We hope it provides insight into our governance and portfolio management practices that are designed to ensure Haverford's perpetual strength and excellence. Given that this is the inaugural letter, we'll spend a little more time on philosophy, history, allocation and level-setting than we might in future letters. If you are already familiar with the endowment investment approach in general, the various asset classes and terminology, as well as Haverford's specific approach, thanks for your patience as we provide greater details for everyone. To preserve the confidentiality of the portfolio and the managers, we will not discuss individual managers or funds by name.

First, some history. After years of strong performance in the early to mid 2000s, Haverford's endowment experienced a sharp reduction in value as a consequence of our investment positioning as we headed into the market crisis of 2008-09. While losses were not unique among endowments, our results raised governance and portfolio management issues that we have sought to address in the aftermath of the crisis, and we have spent considerable time and effort bolstering both the governance and structure of the portfolio. We have adopted many industry best practices and believe that these have contributed to better performance. We will continually revisit and refine the governance, processes and procedures that we follow.

Investment Philosophy

Our investment philosophy centers on our long-term investment horizon, which enables us to look beyond short-term investment performance, in pursuit of long-term capital growth. We seek to partner with high quality investment managers to build a diversified portfolio, with exposures to different asset classes, different drivers of performance and different risk factors. Those of you who are familiar with Haverford's investment philosophy know that we have pursued a passive, or indexed, strategy for traditional highly liquid equity markets for many years. Haverford adopted this approach based on the extensive research that shows most active management is unable to consistently outperform relevant benchmarks net of fees.

We continue to have a similar philosophy today, but it has evolved to reflect our view of our multi-asset class portfolio that includes both traditional and alternative investments. We approach overall portfolio management from a starting perspective that market exposure, or beta, is inexpensive and easily obtained through index funds. Therefore, we continue to invest a significant portion of the endowment in index funds where we consider them to be more efficient than actively managed strategies in more liquid markets. To complement our indexed exposure, we seek actively managed investments to take advantage of investment opportunities for which we believe active management is justified. These opportunities are expected to outperform relevant benchmarks and generate excess returns, provide risk reduction, or provide some other exposure that differs from indexed market exposure. These active investments are mostly in the form of alternative investments (private equity, hedge funds, etc.), credit investments in fixed income and, occasionally, the use of active equity managers whose long-term track record net of fees justifies our confidence. Of course, active management comes with significantly higher fees, and thus, a higher bar for the active manager to add value. With this approach, we can achieve cost-effective, long-term, broad market exposure to equity assets, while focusing resources on active management where it is expected to have more opportunity to add value.

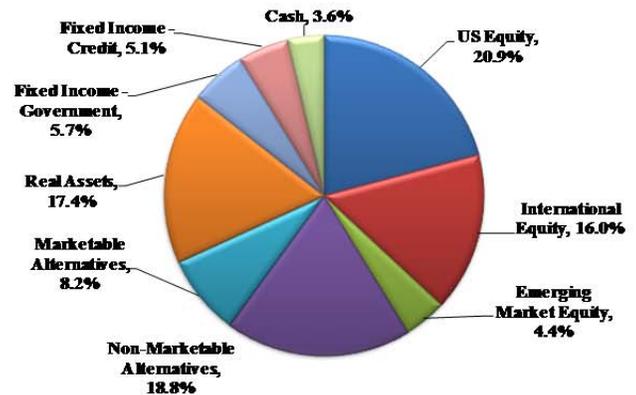
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Asset Allocation

As shown in the figures below, we maintain a diversified portfolio of global public equities, fixed income and alternative investments. The alternative investments are in the categories described as non-marketable alternatives, marketable alternatives and real assets. Non-marketable alternatives include private equity, venture capital and private debt investments, while marketable alternatives are typically hedge funds. There are many ways to characterize and "bucket" an asset allocation. While we look at the allocation in several different ways, the figures below correspond to our current policy descriptions. Thus, we put all hedge fund products in a single "bucket" for policy compliance, but separately we also look at them across different asset classes, as "hedge funds" is not really an asset class in itself, but rather represents a type of vehicle with exposure to other asset classes, such as equity and fixed income.

Haverford College Asset Allocation as of June 30, 2013

Asset Class	6/30/13 Allocation	Policy Target	Policy Range
US Equity	20.9%	22%	18% - 26%
International Equity	16.0%	18%	15% - 21%
Emerging Market Equity	4.4%	6%	4% - 8%
Non-Marketable Alternatives	18.8%	12%	6% - 18%
Marketable Alternatives	8.2%	14%	8% - 17%
Real Assets	17.4%	12%	5% - 18%
Fixed Income - Government	5.7%	8%	6% - 10%
Fixed Income - Credit	5.1%	6%	4% - 8%
Cash	3.6%	2%	1% - 10%



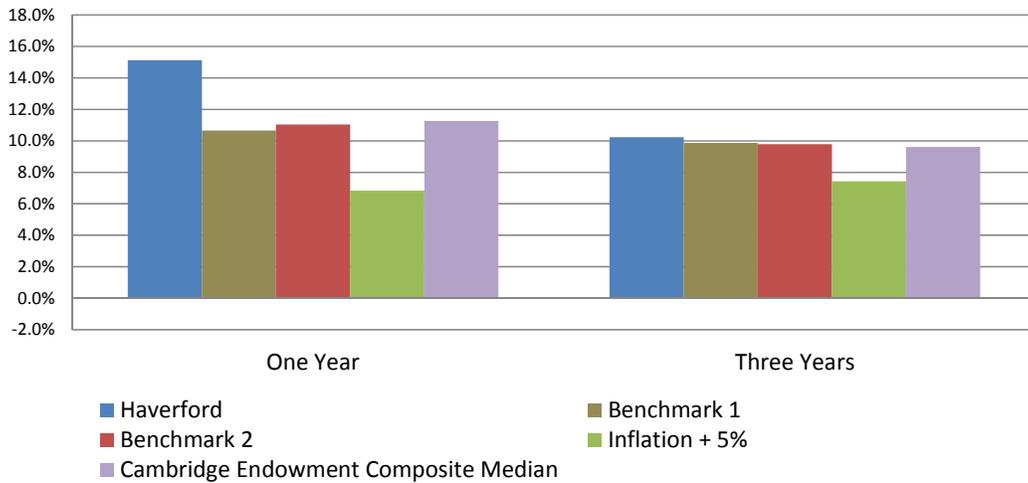
The table above also shows where our allocations have recently differed from our policy targets. As discussed in the following section, our portfolio allocations, along with strong individual manager performance, led to significant outperformance of our benchmarks for the year. This largely owes to a more equity-oriented portfolio relative to other endowments in a strong bull market, and so our relative performance should be strong. Nevertheless, the solid performance in 2013 derives from decision-making that was guided by revamped policies; it's worth noting that such policies have resulted in a more diversified and liquid portfolio, with regular rebalancing, as compared with the years prior to the 2008-09 market crisis. Not every year will reward our decision-making so broadly, but we are pleased with the results in fiscal year 2013.

Investment Performance

We evaluate performance versus several benchmarks. A primary goal in managing the endowment is to preserve the purchasing power of the endowment 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" by Inflation + 5%, given that spending over time has tended to be in the range of 5% or less. We also compare performance to a naïve global benchmark of 70% equity / 30% fixed income (Benchmark 1 in the figures below), which is reflective of a traditional, balanced allocation, and to a benchmark that is representative of our strategic policy targets across asset classes (Benchmark 2 in the figures below).

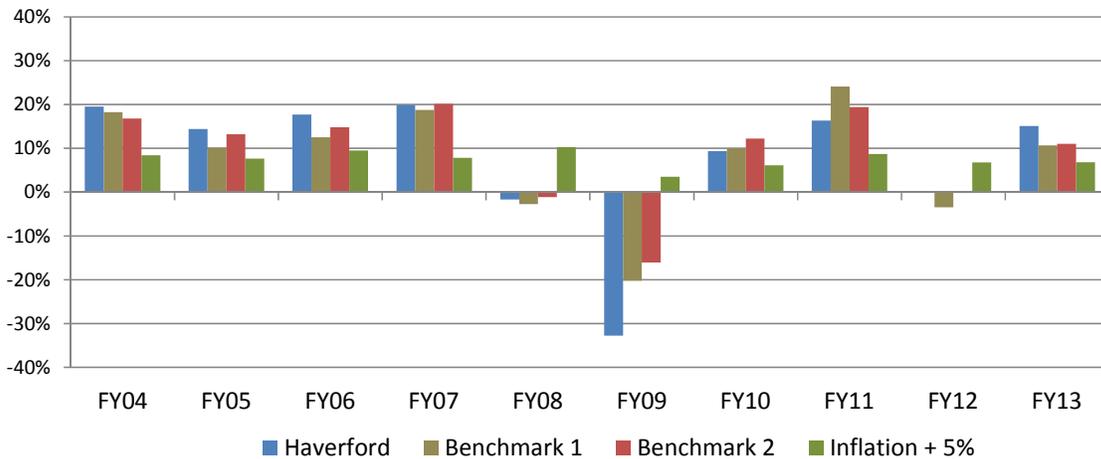
The performance of the endowment since our restructuring three years ago is shown below compared to these benchmarks and the median of a Cambridge Associates endowment universe. As you can see, we were well-positioned over the past year. The years since the market crisis have also been relatively strong, even during an extended period of transition and portfolio changes since 2010.

Endowment Performance as of June 30, 2013



Longer term annualized performance reflects the significant impact of 2008-09. The annual fiscal year performance of the endowment is shown in the figure below, reflecting strong performance leading up to 2008-09, the difficulty during the economic crisis and the consistently improving relative performance since the crisis, during a time of transition. Note that the current policy structure and allocation was defined in 2010, so the portfolio was not being structured relative to the benchmarks described prior to 2010.

Annual Performance



There were multiple drivers of performance over the past year. In our U.S. equity allocation, we hovered near our policy target throughout the year, while maintaining underweights in developed international and emerging markets equity. This positioning was positive, as U.S. equities outperformed developed international equities and emerging market equities, the latter by a significant margin. Our over-weighting of non-marketable alternatives was also positive, as rising public equity markets spurred increasing private valuations and a much improved exit environment for private equity. Marketable alternatives hovered right around our policy minimum, well below target during the year. This positioning was also positive, as it was more advantageous to be fully exposed to equity markets during the year than to be in marketable alternatives, as hedge funds, on average, significantly lagged the markets. Our overweight in real estate also proved to be a positive, as real estate markets continued their recovery and our private

holdings experienced valuation increases. At the same time, the portfolio remained well below target for both government and credit fixed income, another positive during a year in which we finally saw interest rates start to rise and negatively affect the performance of bond portfolios. In addition, our traditional fixed income allocation has a short duration and experienced minimal impact from rising rates. We also

found it better to be a bit over-allocated to cash than to be at our fixed income targets, given the prospect of rising rates, although excess cash is a drag on portfolio performance during rising markets.

The solid performance in 2013 derives from decision-making that was guided by revamped policies.

Performance was also strong at the individual investment level. The indexed portfolios performed in line with their benchmarks, as expected. In addition, almost every marketable active manager exceeded its relevant benchmark. In our slowly expanding hedge fund portfolio, all but one of our investment managers outperformed relative benchmarks over the course of the year. Our hedge fund portfolio as a whole returned approximately 14.1%, a very strong return for a hedged portfolio in a bull market with the

S&P up 20.6%, and also well in excess of the 7.2% return of the HFRI Fund of Funds Index. Although our non-marketable alternatives portfolio performed well on an absolute basis, our mostly legacy portfolio lagged the private market on average, the most apparent negative for the year. Also of note, we made an investment in an active international equity manager during the year, Haverford's first investment in a fundamentally-driven active manager in a very long time. This investment is an example of going "beyond beta" in that we were seeking different equity exposures than the index provides and expected the manager to generate alpha. This investment has been extremely successful to date, having outperformed the index by approximately six percentage points (600 basis points) in the nine months ended on June 30th since we invested. We'll continue seeking a combination of beta exposure and long-term relationships with strong investment managers who we feel can add value across investment styles and approaches.

Governance

While much of the public discussion of endowments focuses on investment performance and asset levels, governance is extremely important for successful endowment management. A strong governance structure, including well-defined policies, sufficient resources dedicated to endowment management and an engaged, knowledgeable Investment Committee and Board are of primary importance to providing outstanding long-term management of the resources of Haverford College. The Investment Committee of the Board of Managers brings a wealth of knowledge and works in partnership with our internal investment team, but we also recognize areas of the portfolio in which our internal resources need to be supplemented with external expertise. The governance structure of the endowment will continue to evolve over time as the portfolio grows and the investment markets change, though we believe strongly in the value of an Investment Committee that is comprised of experienced investment practitioners, small in number and engaged in overseeing the endowment.

Moving Forward

When one looks at the world today, there are many factors that can be cause for concern and a source of confusion -- slow economic growth in developed economies, questions about the sustainability of economic growth rates of emerging markets, the European sovereign debt crisis, rising interest rates, credit bubbles in China, political wrangling in Washington, etc. -- and yet, equity markets have continued

to rally on the back of the Fed's easy money policies. Thankfully, we are not in the business of predicting shorter-term macroeconomic factors and their effect on investment markets. Rather, we focus on the broader investment horizon, as reflected in our strategic long-term allocation, specific market opportunities, rebalancing and risk management. We'll maintain our long-term equity orientation and continue to diversify the portfolio incrementally by adding new asset classes and high quality investment managers who we think can add value and with whom we can build long-term relationships.

We very much appreciate the support and generosity of the Haverford community, and will continue to work hard to further the significant improvements in endowment governance, processes and performance that have occurred over the past several years since the economic crisis.

Thank you for your continued support,

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Chair of the Investment Committee
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