Mount Holyoke is pleased to provide you with this report on endowment investments for the fiscal year ended June 30, 2012. The Investment Committee oversees the College’s investment portfolio, striving for long-term growth while dampening volatility and providing vital support of the operating budget.
**Fiscal Year 2012**

Fiscal Year 2012 was a very challenging period for the world markets with global equity market indexes down -6.0%. Mount Holyoke’s endowment held up well despite its significant equity orientation, declining -0.3% for the year. The market value of the endowment investment pool ended the year at $591 million as of June 30, 2012.

**Performance**

The table below shows annualized returns for Mount Holyoke’s externally managed endowment over the past 1, 3, 5, 10, and 20 years as of June 30, 2012. The portfolio has performed well relative to a universe of over 400 endowments of similar institutions, a simple portfolio of 80% stocks and 20% bonds, and the rate of inflation.

<table>
<thead>
<tr>
<th>PERIOD</th>
<th>MOUNT HOLYOKE</th>
<th>CAMBRIDGE ASSOCIATES ENDOWMENT MEDIAN</th>
<th>80/20 STOCK/BOND PORTFOLIO</th>
<th>INFLATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Year</td>
<td>-0.3%</td>
<td>-1.4%</td>
<td>-3.0%</td>
<td>1.7%</td>
</tr>
<tr>
<td>3 Year</td>
<td>10.2%</td>
<td>10.0%</td>
<td>10.8%</td>
<td>2.1%</td>
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<tr>
<td>5 Year</td>
<td>2.6%</td>
<td>1.2%</td>
<td>-0.1%</td>
<td>2.0%</td>
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<tr>
<td>10 Year</td>
<td>8.1%</td>
<td>6.6%</td>
<td>6.4%</td>
<td>2.5%</td>
</tr>
<tr>
<td>20 Year</td>
<td>9.7%</td>
<td>8.7%</td>
<td>7.2%</td>
<td>2.5%</td>
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1. 80/20 Stock/Bond Portfolio represents 80% MSCI All Country World Index and 20% Barclays Aggregate Bond Index.
2. Inflation represents Consumer Price Index-U.

Over the fiscal year, U.S. stocks and bonds produced solid positive returns, while international stocks suffered losses. However, the endowment stays committed to international stocks and, more generally, to broad diversification across asset classes as it has been able to reap significant gains from this approach historically. Over the long term, diversification across asset classes has benefited performance; over the past ten years, the average annual compound return for the College’s endowment is 8.1% compared to a return of 6.4% for the 80/20 Global Stock/Bond Portfolio, representing a value added of 1.7% per year. Manager selection has also helped performance. Both the equity and the bond portfolios outpaced their respective benchmarks for the fiscal year.
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<tr>
<th>ASSET CLASS</th>
<th>ALLOCATION 6/30/2011</th>
<th>ALLOCATION 6/30/2012</th>
<th>FY12 PORTFOLIO RETURN</th>
<th>FISCAL 2012 ASSET CLASS COMMENTARY</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equities</td>
<td>10.7%</td>
<td>8.2%</td>
<td>8.0%</td>
<td>The active managers in the U.S. portfolio outperformed the S&amp;P 500 Index return of 5.4% by a significant margin. Focusing on high-quality companies with global franchises helped performance. The U.S. market was viewed as an island of stability in a world fraught with risks.</td>
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<tr>
<td>Non-U.S. Developed Equities</td>
<td>7.0%</td>
<td>4.8%</td>
<td>-13.0%</td>
<td>The sovereign debt crisis in Europe and the future of the European Union drove down the developed markets outside of the U.S. Non-U.S. returns also suffered from the strengthening U.S. dollar that the market participants viewed as a “safe haven” currency. For the year, the MSCI EAFE index returned -13.8%.</td>
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<tr>
<td>Emerging Market Equities</td>
<td>5.9%</td>
<td>5.9%</td>
<td>-10.6%</td>
<td>It was a bumpy ride for all kinds of risky assets and emerging markets equities were down -15.7%. However, the managers as a group provided strong downside protection. This marks the second consecutive fiscal year in which emerging markets have trailed developed markets, although they have still outperformed over longer timeframes.</td>
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<tr>
<td>Global Mandate Managers</td>
<td>9.4%</td>
<td>11.4%</td>
<td>2.3%</td>
<td>The three managers in the portfolio with unconstrained global mandates did an outstanding job of finding value around the world, managing to beat their global equity benchmark by 8.2%. Broadly speaking, equities underperformed relative to historic average returns. It is worth noting that global large capitalization equities topped small capitalization equities by more than 4 percentage points—their first fiscal year of outperformance since 2008.</td>
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<td>Marketable Alternatives</td>
<td>20.9%</td>
<td>23.6%</td>
<td>-1.6%</td>
<td>Many hedge funds failed to keep pace with the markets over the fiscal year. Conservative hedge fund managers generally protected capital during the first and last quarters of the fiscal year when the equity markets sold off. However, this profile also caused those funds to lag during the second and third quarters as the equity markets staged a strong rally. The endowment remains committed to investment in this asset class since, over the long term, hedge funds have both dampened volatility and improved overall returns for the portfolio.</td>
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<td>Liquid Inflation Hedges</td>
<td>6.9%</td>
<td>5.8%</td>
<td>-17.6%</td>
<td>The MSCI Natural Resources Equity Index returned a dismal -17.3% for the fiscal year. Energy equities returned -11.5%, while mining-related firms plummeted -32.6%. Natural resources equities appear more attractive than commodities; however, even at current valuations, like commodities, they remain vulnerable to any further deterioration in Chinese growth.</td>
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<tr>
<td>Private Investments</td>
<td>26.8%</td>
<td>29.2%</td>
<td>4.6%</td>
<td>Private equity, venture capital, and other illiquid investments report performance on a quarterly lag; the return of 4.6% is as of March 31, 2012.</td>
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<td>Cash and Fixed Income</td>
<td>12.6%</td>
<td>11.1%</td>
<td>8.5%</td>
<td>The Barclays Aggregate Bond Index returned 75%, with strong contributions from the index’s corporate and government sectors (9.7% and 8.3%, respectively), while the mortgage sector lagged, returning -5.0% due in part to concerns about an increase in refinancing activity.</td>
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**Longer Term Performance**

Over the past 26 years, the value of Mount Holyoke’s endowment has grown from $130 million to $591 million. This growth can be attributed to strong returns for the portfolio coupled with gifts to the endowment.

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</thead>
<tbody>
<tr>
<td>Return</td>
<td>-0.3%</td>
<td>20.6%</td>
<td>11.2%</td>
<td>-21.5%</td>
<td>8.1%</td>
<td>21.2%</td>
<td>15.2%</td>
<td>15.9%</td>
<td>14.0%</td>
<td>3.7%</td>
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*Ending June 30*

**Asset Allocation**

The Investment Committee regularly reviews asset allocation, paying special attention to diversifying sources of risk and return across the portfolio. Since 1995, the endowment has added significant exposure to alternative asset classes, including hedge funds, private equity, and inflation hedges, which have both dampened volatility and enhanced returns. The committee closely monitors investment liquidity so that the College can rely on the endowment for funding for the operating budget during even the worst market downturns.
How the Endowment Supports the Mount Holyoke Budget

For fiscal year 2012, income distributions from the endowment provided 20% of the $112 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% of a twelve-quarter, debt-adjusted average market value of the endowment. The twelve-quarter average smooths the endowment distribution so that the operating budget is less subject to large swings in endowment valuation. For fiscal year 2012, the College elected to distribute for operations 5.2% of the average of the prior twelve-quarter-end market values, as of December 31, 2010.

Gifts to the Endowment

The endowment is able to grow through two means: performance and gifts. Alumnae gifts to the endowment can cause dramatic increases in the total value of the fund. Since January 2004, alumnae, parents, and friends have committed $128 million in gifts and pledges to the endowment under the current Campaign for Mount Holyoke.

Looking Ahead

The prognosis for the global financial markets is uncertain. The potential “fiscal cliff,” the situation in the Eurozone, and a potential slowdown in China are just a few of the factors that will likely drive volatility in Fiscal Year 2013. The Investment Committee has worked hard to position the endowment to weather any near-term volatility and still generate strong long-term returns.

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 is charged with allocating the College’s investment assets and selecting and monitoring investment managers. The committee, comprising members of the Finance Committee and other alumnae and friends with particular investment expertise, works closely with its investment consultant, Cambridge Associates.
Advisory Committees FY 2012

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Barbara Byrne ’76, ex officio
Maria Cirino ’85
Devon George-Eghdami ’81
Mary Graham Davis ’65, ex officio
Ben Hammond, staff, ex officio (non voting)
Phoebe McBee ’71
Audrey McNiff ’80
Robin Chemers Neustein ’75
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Carla Skodinski ’72
Louise Wasso-Jonikas ’75
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Heather Harde ’91
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Guy Martin P’07
Betsy Palmer ’76
Lynn Pasquerella ’80, ex officio
Peggy Wolff ’76

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Janice Albano, Associate Treasurer
Ellen Rutan, Comptroller