

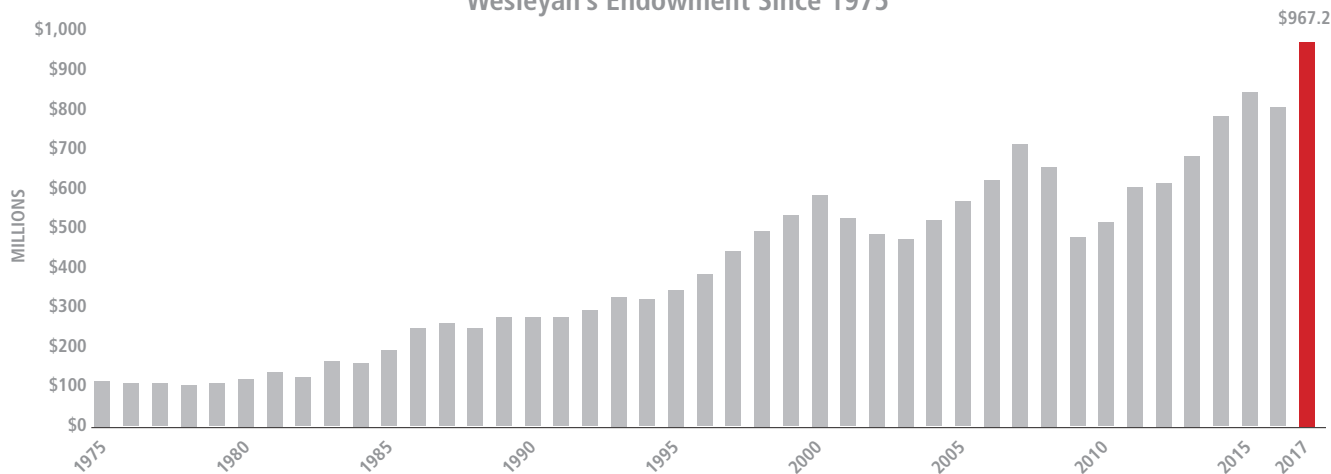
Dear Alumni, Parents, and Friends:

For the fiscal year ended June 30, 2017, the Wesleyan endowment delivered an investment return of 14.6%. The endowment pool value increased to a balance of \$967.2 million at the close of fiscal 2017 from \$802.2 million just 12 months prior. The growth in the total investment pool consisted of over \$120 million of investment gains, substantial gifts, and a large transfer of working capital to be invested alongside the endowment. With the exception of fixed income, all asset classes provided positive rates of return. In particular, public equities performed extraordinarily well, and many global indices produced double-digit returns.

In addition to disciplined spending and solid returns, growth of the endowment requires the support of alumni, parents, and friends. This year, the endowment benefited from a record \$43.6 million of gifts. Over the past seven years, gifts have added nearly \$190.1 million to the endowment from principal and \$62.9 million in gains, helping to offset the \$224.3 million of support to the University’s operating budget over the same time frame. Donor generosity during this period of rising capital markets has helped accelerate the University’s progress towards a foundation of long-term financial strength.

With the endowment just shy of \$1.0 billion, we are now contributing 18% of the operating budget through the annual payout, while continuing to preserve the purchasing power of the endowment.

Wesleyan’s Endowment Since 1975



## FISCAL 2017 PERFORMANCE

Endowment returns outperformed both passive and policy benchmarks over the trailing one-year period. More important, the endowment outperformed a benchmark of HEPI<sup>1</sup> + 4.5%. This benchmark represents the returns needed to preserve the purchasing power by generating returns greater than inflation and our 4.5% target spending rate.

**TRAILING ONE-YEAR PERFORMANCE**  
ENDING JUNE 30, 2017

ASSET CLASS	WESLEYAN	BENCHMARK	VALUE ADD	BENCHMARK
Domestic Equity	16.1%	18.5%	(2.5%)	Wilshire 5000
Developed Equity	29.4	20.3	9.1	MSCI EAFE
Emerging Market Equity	15.1	23.7	(8.6)	MSCI EM
Absolute Return	15.7	5.8	9.8	CSFB/Tremont
Real Assets	9.6	5.0	4.6	CA Real Assets Composite
Private Equity	14.6	14.4	0.2	CA Private Equity Composite
Fixed Income	(2.1)	(1.3)	(0.8)	BBgBarc Intermediate U.S. Treasury
Cash	0.2	0.6	(0.3)	90-day U.S. Treasury Bill
Endowment	14.6	12.7	1.9	Passive Benchmark <sup>2</sup>
Endowment	14.6	12.0	2.6	Policy Benchmark <sup>3</sup>
Endowment	14.6	13.0	1.6	Cambridge Median <sup>4</sup>
Endowment	14.6%	8.2%	6.4%	HEPI + 4.5%

<sup>1</sup> The Commonfund Higher Education Price Index

<sup>2</sup> A benchmark of 70% MSCI AC World Index/30% Barclays Aggregate Bond Index.

<sup>3</sup> A benchmark that replicates a portfolio using policy allocation targets and relative benchmarks.

<sup>4</sup> Universities with endowments between \$500 million and \$1.0 billion. We generally disregard the performance of peers as every institution has different risk tolerances and financial objectives.

Strong returns accounted for much of the investment pool's growth this year, however, several other factors contributed as well. During the year, the endowment received the transfer of approximately \$45 million in operating reserves to be invested alongside the endowment; the source of the reserves was the issuance of a \$250 million 100-year bond ("Century Bond"). The University also benefitted from over \$40 million in gifts over the fiscal year.

## LONG-TERM PERFORMANCE

The endowment returned 8.8% during the five-year period ending June 30, 2017. After \$161.7 million of spending during this period, the endowment grew by \$351.0 million.

**TRAILING FIVE-YEAR PERFORMANCE**  
ENDING JUNE 30, 2017

ASSET CLASS	WESLEYAN	BENCHMARK	VALUE ADD	BENCHMARK
Domestic Equity	14.3%	14.6%	(0.3%)	Wilshire 5000
Developed Equity	14.5	8.7	5.8	MSCI EAFE
Emerging Market Equity	7.0	4.0	3.0	MSCI EM
Absolute Return	7.4	4.5	2.9	CSFB/Tremont
Real Assets	1.4	0.8	0.6	CA Real Assets Composite
Private Equity	15.0	14.7	0.3	CA Private Equity Composite
Fixed Income	1.7	1.1	0.6	BBgBarc Intermediate U.S. Treasury
Cash	0.1	0.2	(0.1)	90-day U.S. Treasury Bill
Endowment	8.8	8.1	0.7	Passive Benchmark
Endowment	8.8	7.3	1.5	Policy Benchmark
Endowment	8.8	8.0	0.8	Cambridge Median
Endowment	8.8%	6.9%	1.9%	HEPI + 4.5%

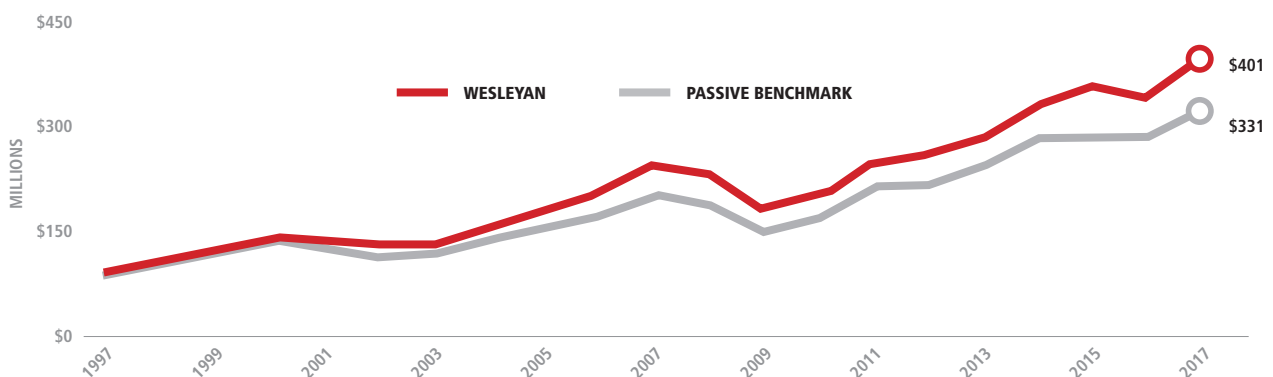
For the 10 years ending June 30, 2017, the endowment returned an annualized 4.9%. After \$331.3 million of spending during this period, the endowment grew by \$256.4 million.

TRAILING 10-YEAR PERFORMANCE ENDING JUNE 30, 2017				
ASSET CLASS	WESLEYAN	BENCHMARK	VALUE ADD	BENCHMARK
Domestic Equity	8.1%	7.3%	0.8%	Wilshire 5000
Developed Equity	6.5	1.0	5.5	MSCI EAFE
Emerging Market Equity	3.9	1.9	2.0	MSCI EM
Absolute Return	3.4	3.2	0.2	CSFB/Tremont
Real Assets	3.1	1.8	1.3	CA Real Assets Composite
Private Equity	7.6	9.6	(1.9)	CA Private Equity Composite
Fixed Income	6.3	3.5	2.9	BBgBarc Intermediate U.S. Treasury
Cash	0.4	0.5	(0.1)	90-day U.S. Treasury Bill
Endowment	4.9	4.7	0.2	Passive Benchmark
Endowment	4.9	4.8	0.1	Policy Benchmark
Endowment	4.9	4.6	0.3	Cambridge Median
Endowment	4.9%	6.9%	(2.0%)	HEPI + 4.5%

For the 20-year period ending June 30, 2017, the endowment returned an annualized 7.2%. After \$556.2 million of spending during this period, the endowment grew by \$527.5 million. A policy benchmark does not exist for this period of time.

TRAILING 20-YEAR PERFORMANCE ENDING JUNE 30, 2017				
ASSET CLASS	WESLEYAN	BENCHMARK	VALUE ADD	BENCHMARK
Endowment	7.2%	6.2%	1.0%	Passive Benchmark
Endowment	7.2	7.0	0.2	Cambridge Median
Endowment	7.2%	7.6%	(0.4%)	HEPI + 4.5%

The chart below illustrates the growth of \$100 over the trailing 20-year period. Endowment returns exceeded a passive investment strategy by a 21% margin.



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## **WESLEYAN'S INVESTMENT APPROACH**

Our approach to stewarding endowment capital begins with a long-term perspective and a bias towards equity investments. The permanent nature of our capital enables us to forge enduring partnerships with investors who genuinely appreciate Wesleyan's ambitions. We partner with managers who think about value creation in terms of years or decades. At a holistic level, we seek to mitigate endowment volatility by investing in diversified asset classes, distinct asset types, and a range of geographies.

Each year, the Investment Committee reviews the endowment's asset allocation. This board-level oversight ensures that the risks and objectives of the investment portfolio are consistent with the long-term goals of the University. Over time, Wesleyan's asset allocation has shifted towards private and illiquid investments that provide the opportunity to generate returns in excess of traditional public markets. Wesleyan pursues these opportunities in asset classes such as private equity, real estate, natural resources, and venture capital. Accordingly, we carefully monitor allocations to these investments to ensure adequate liquidity.

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## **COMPETITIVE ADVANTAGES**

An important competitive advantage available to Wesleyan is the perpetual nature of its capital and its ability to maintain a long-term orientation. This extended horizon enables us to withstand short-term periods of underperformance in exchange for positive long-term results. Additionally, we can take advantage of short-term mispricings by adding capital during periods of underperformance that are unrelated to business fundamentals. Together with our investment partners, we are able to make decisions based on a three- to five-year viewpoint or longer.

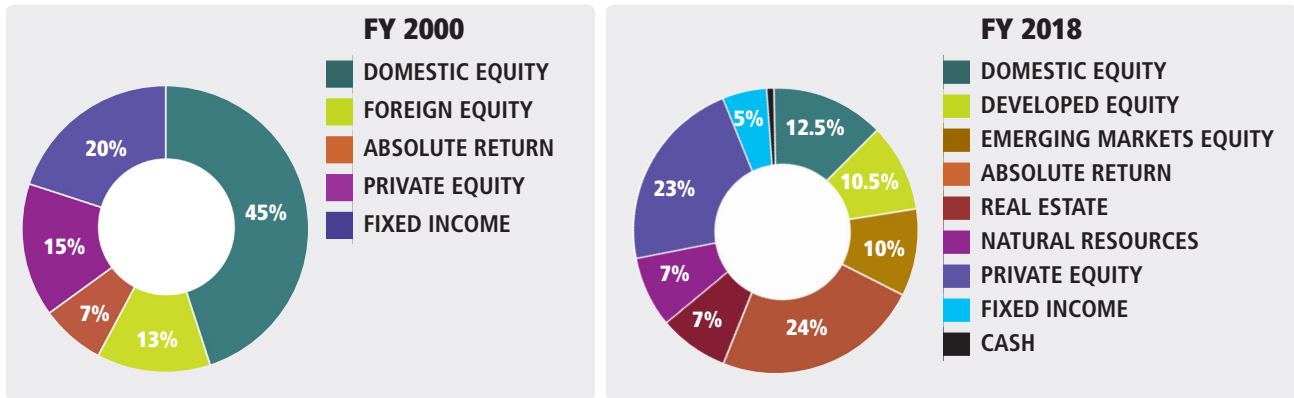
Another important competitive advantage is Wesleyan itself. Many managers comment to us that they know the school and recognize its unique brand, culture, and excellence. We are tremendously appreciative of managers who are aligned with us in wanting to steward the University's assets and who are motivated and find a sense of accomplishment, as we do, in contributing to the long-term health of the University.

We believe that our size allows for the management of a concentrated portfolio—making fewer decisions at a slower pace than others—and enabling those decisions to be of high quality. In addition, our size enables partnership with funds of all sizes, including very small funds where managers are focused on inefficiently priced, under-researched ideas.

Our greatest competitive advantage remains our people and network. Besides the close-knit group in our office, we are surrounded by a knowledgeable and dedicated investment committee, trustees, alumni, and friends of Wesleyan. This strong coalition of stakeholders who are willing to put Wesleyan's long-term interests first and facilitate introductions, aid in due diligence, contribute ideas, and offer input is invaluable.

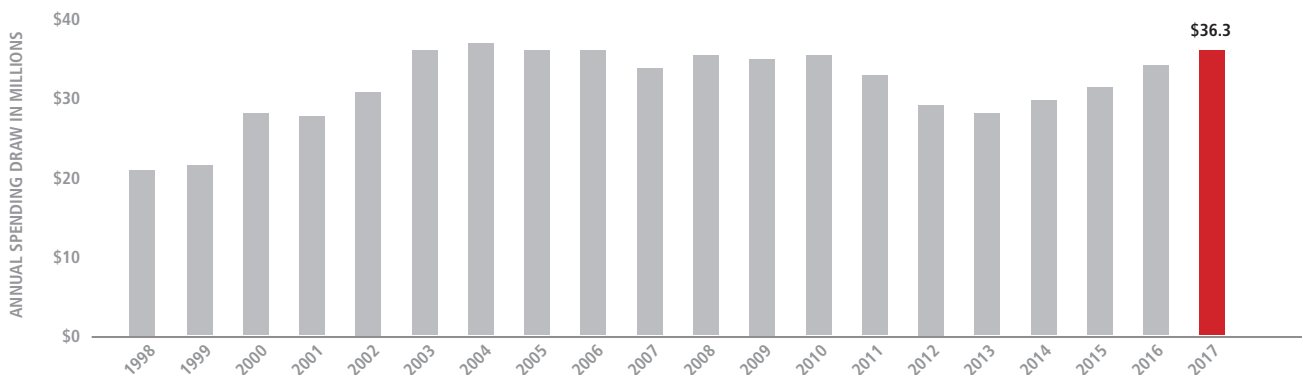
## POLICY PORTFOLIO AND INVESTMENT STRATEGY

Today's asset allocation is markedly different from that of 2000 when U.S. fixed income and equities made up 80% of the portfolio. Since then, the universe of compelling alternative and diversifying investment opportunities has expanded. Wesleyan's attention to portfolio construction, diversification, underwriting, and monitoring has also increased. The result has been a gradual shift over the past 17 years to alternative assets from traditional stocks and bonds. We believe this approach provides benefits of diversification and the opportunity for superior risk-adjusted returns. Shown below are changes to the policy portfolio since fiscal 2000.



## SPENDING

Wesleyan revised its endowment spending rule in 2012 with the objective of creating better balance between payouts to the University and maintaining purchasing power in the portfolio. To contribute to the stability of the operating budget, the endowment disburses 70% of the prior year's payout on an inflation-adjusted basis. The remaining 30% of the payout is calculated as 4.5% of the endowment balance. This spending equation preserves value in the endowment during periods of very high returns, and pays out a steady amount of support in periods of diminished returns. The chart below depicts the annual endowment spending draw for each of the last 20 years. In total, the University spent roughly \$642.0 million from the endowment during this period to support financial aid and academic programs. Moreover, the level of payout to the University has steadily increased over the past five years.



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## LIQUIDITY

The Investment Committee reviews portfolio liquidity on a quarterly basis. As of June 30, 2017, nearly 21% of the endowment's investments was in funds providing monthly or shorter liquidity, while 64% of the portfolio was invested in funds with annual liquidity. Uncalled commitments to private partnerships equaled approximately 20% of endowment value. Even in a prolonged downturn, the endowment has ample liquidity to meet its obligations to the University and its investment partners.

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## SOCIALLY RESPONSIBLE INVESTING

Wesleyan has always believed that companies following sound ESG (environmental, social, and governance) principles stand a better chance of outperforming over long periods of times versus those that do not. In fiscal 2016, the Board of Trustees formally adopted a policy regarding socially responsible investing, which became a component of Wesleyan's Investment Policy Statement. In order to help the Investment Committee stay informed of ESG risks, the investment staff now includes a written review of ESG policies and risks for every new investment proposal. We believe this practice is important in light of the following excerpt from Wesleyan's policy:

The Committee believes that thoughtful engagement on environmental, social, and governance matters is consistent with enhancing long-term returns and with prudently managing the endowment for the long-term benefit of the University. In carrying out its responsibilities, the Investment Committee's foremost duty is that of a fiduciary: to ensure that the endowment is invested for a long-term maximum return objective with appropriate consideration to controlling risk. At the same time, as an educational institution whose essential mandate is teaching and scholarship with a strong history of and commitment to social responsibility, the University recognizes its obligation to consider environmental, social, and governance issues as part of its investment process.

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## LOOKING AHEAD

Between June 30, 2017, and the date of this letter, domestic and international equity markets continued to rally and the endowment has continued to grow. Whether strong performance of the capital markets will continue is unknowable, and we remain vigilant to the risks of leverage, hubris, and overpaying. We continue to assess opportunities from the bottom up, increasing our concentration with our best investment partners and continuing to rebalance into unloved and relatively less expensive assets. We continue to seek out partners who care deeply about stewarding Wesleyan's precious financial assets, and who are passionate about finding real long-term value in overlooked or misunderstood situations. Above all, we believe our partners possess a temperament that enables sound investment decision-making through market turbulence and uncertainty.

Thank you for your ongoing support for Wesleyan.

Sincerely,

David Resnick

Chair, Investment Committee

Anne Martin

Chief Investment Officer

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## WESLEYAN INVESTMENT COMMITTEE 2017–2018

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Wesleyan Trustee | Chair, Investment Committee  
Senior Advisor, Third Avenue Management LLC  
*New York*

**ADAM USDAN '83**

Wesleyan Trustee | Vice Chair, Investment Committee  
Founder, President, and General Partner, Trellus Management Co., LLC  
*New York*

**K. TUCKER ANDERSEN '63, P'95**

Owner, Above All Advisors, LLC  
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**JOHN FRANK '78, P'12**

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**MICHAEL S. ROTH '78** *ex-officio*

Wesleyan Trustee  
President, Wesleyan University  
*Connecticut*

### FISCAL 2017 BENCHMARKS

ASSET CLASS	BENCHMARK
Domestic Equity	Wilshire 5000 Index
Foreign Developed Equity	MSCI EAFE Index
Emerging Markets Equity	MSCI Emerging Markets Index
Absolute Return	CSFB/Tremont Hedge Fund Index
Fixed Income	Barclays Intermediate U.S. Treasury Index
Cash	90-day U.S. Treasury Bill

### FISCAL 2017 COMPOSITE BENCHMARKS

FOREIGN EQUITY COMPOSITE BENCHMARK	WEIGHT
MSCI EAFE Index	50%
MSCI Emerging Markets Index	50%
REAL ASSETS COMPOSITE BENCHMARK	WEIGHT
Cambridge Associates Private Real Estate Index	40%
Cambridge Associates Upstream and Royalties Index	60%
PRIVATE EQUITY COMPOSITE BENCHMARK	WEIGHT
Cambridge Associates U.S. Buyout Index	70%
Cambridge Associates U.S. Venture Capital Index	30%
PASSIVE BENCHMARK	WEIGHT
MSCI All Country World Index	70%
Bloomberg Barclays Aggregate U.S. Bond Index	30%
POLICY BENCHMARK	WEIGHT
Wilshire 5000 Index	13%
MSCI EAFE Index	10%
MSCI Emerging Markets Index	10%
CSFB/Tremont Hedge Fund Index	23.5%
Cambridge Associates Private Real Estate Index	6.2%
Cambridge Associates Upstream and Royalties Index	9.3%
Cambridge Associates U.S. Buyout Index	15.4%
Cambridge Associates U.S. Venture Capital Index	6.6%
Bloomberg Barclays Intermediate U.S. Treasury Index	5%
90-day U.S. Treasury Bill	1%