

---

## EXECUTIVE SUMMARY

The Wesleyan endowment generated a 6.1% return during fiscal 2015, ending the year at a new high of \$838.8 million. The portion of the endowment managed by the Investments Office (the “investment pool” or “externally managed”) returned 6.2% over the same period. These results outperformed our passive benchmark of 1.1% and policy benchmark of 0.8% by a large margin. Over the trailing three- and five-year periods, the investment pool has exceeded the policy and passive benchmarks, as well as the inflation-plus-spending benchmark.

Over the past several years, the University has benefitted from a combination of solid returns, donor generosity and fiscal discipline. These factors helped the endowment grow from \$512.9 million five years ago to its current \$838.8 million. Over the trailing five years, the endowment produced an annualized return of 11.2% and outperformed all relevant benchmarks. Much of the performance is due to the addition of talented managers. We are very proud of the progress we have made in finding and partnering with talented teams, and remain grateful for their work in stewarding Wesleyan’s precious capital.

Over 10 years, a period that includes the global financial crisis, Wesleyan’s investment pool produced a 6.9% annualized return. This performance exceeded our passive benchmark, but missed our primary goal of 5% annualized returns plus inflation. A 5% real return serves as an important benchmark, representing the returns needed for Wesleyan’s endowment to support future academic programs at the same level as today. Given the volatility of capital markets, we do not expect to earn a 5% real return each year. Our asset allocation and manager selection are informed by our objective to earn such returns over the long run. Over the past five years, we have far surpassed this benchmark.

---

## THIS IS WHY

Within the Investments Office, we are constantly inspired by Wesleyan alumni who are making influential contributions to our society. This fall we were particularly moved by the genius of Lin-Manuel Miranda (Class of ’02) expressed in his Broadway production of *Hamilton*. We were also stirred by the achievements of Kennedy and Jessica Odede (Class of ’12 and ’09, respectively), in radically changing the lives of the residents in Kibera, Kenya, as chronicled in their new book, *Find me Unafraid*.

Through the work of our alumni, the Investment Committee and staff are reminded that our efforts enable passionate students to discover what they love to do and share it in ways the world finds meaningful. We are dedicated to achieving long-term results that enable Wesleyan to continue offering one of the finest liberal arts educations in the country.

We are very pleased that the current 2016 fiscal year marks the third year in a row that investment performance and gifts have allowed the endowment's contribution to the University to increase as a percentage of Wesleyan's budget, net of financial aid. In the current fiscal year, the endowment's spending payout of \$34.1 million will account for approximately 16.6% of the University's net budget, compared to 14.5% in fiscal 2013. The growth in support for the operating budget is an important component in maintaining a superior educational environment.

Gifts to Wesleyan in the recent past have been a fundamental engine of the endowment's growth. Without gifts over the past 10 years, the 2005 endowment value of \$565 million would have grown to about \$648 million by fiscal 2015, rather than \$839 million. The \$191 million difference comes from gifts and the compounding returns on those gifts. The endowment's ability to support our campus, programs and students would be greatly diminished without these generous financial contributions. Looking forward, Wesleyan's endowment will need the continued generosity of our alumni and other stakeholders to maintain and grow its level of support to the University.

---

## **OUR INVESTMENT APPROACH**

To ensure that the long-term goals of the University are achieved and to increase the resources available to the school, we manage the endowment with an equity bias and a long-term horizon. The perpetual nature of our capital enables us to foster long-term partnerships with investors willing to look through short-term volatility to maximize long-term gains. We mitigate volatility at the endowment level by investing in diversified asset classes, distinct asset types, and a range of geographies. The value of diversification was evident in fiscal 2015 as outstanding performance in private equity and real estate counterbalanced severe declines in the energy sector and foreign currencies.

Each year, the Investment Committee reviews the University's asset allocation to ensure that the risks in the portfolio are consistent with the long-term goals of the University. Over time, this asset allocation has shifted towards alternative assets, which we believe can generate excess returns over traditional public markets over longer periods of time. We carefully monitor allocations to these asset classes (private equity, real estate, natural resources and venture capital) to ensure adequate liquidity in the investment pool.

Another asset class we have emphasized is emerging markets, which currently constitutes roughly 10% of the investment pool. The index returns of emerging markets have performed well below their U.S. counterparts over the past several years. We believe, however, that these markets remain relatively inefficient and provide interesting opportunities for investors with a long-term time horizon. Our results from emerging markets over the past several years support this thesis. Our active managers have produced returns well above market indices, through a combination of country and stock selection. In fiscal 2015, our emerging markets portfolio produced a 7.8% return, versus -5.1% for the MSCI Emerging Markets

Index. While we do not expect to outperform the benchmark each year, we believe our active approach should generate attractive absolute returns over the long term.

In June 2015, the Investment Committee of the Board of Trustees re-examined and approved our asset allocation for the upcoming 2016 fiscal year. The major changes include an increased allocation to private equity and a decrease to real assets. Shown below are changes to the policy portfolio since 2000:

ASSET CLASS	2000	2005	2010	2011	2012	2013	2014	2015	2016
Domestic Equity	45%	25%	16%	15%	15%	13%	13%	13%	13%
International Equity	13%	15%	20%	20%	20%	-	-	-	-
Developed Equity	-	-	-	-	-	10%	10%	10%	10%
Emerging Equity	-	-	-	-	-	10%	10%	10%	10%
Absolute Return	7%	25%	19%	23%	23%	23%	25%	25%	23.5%
Private Equity	15%	15%	17%	15%	15%	17%	17%	19%	22%
Real Assets	-	5%	10%	17%	17%	17%	17%	17%	15.5%
Fixed Income	20%	15%	18%	10%	10%	10%	8%	6%	5%
Cash	-	-	-	-	-	-	-	-	1%

Wesleyan continues to manage risk by adhering to a long-term asset allocation and selecting managers that view risk as permanent loss or impairment of capital, rather than short-term volatility. We do not believe we bring any competitive advantages that enable us to time the market or predict macro trends. We continue to believe that investing in diverse asset classes and rebalancing regularly will promote superior long-term returns with less volatility.

---

## MARKET TRENDS DURING FISCAL YEAR 2015

Global markets ended their impressive and relentless upward march during the 2015 fiscal year. U.S. markets produced a 7.1% return; however, most of those gains occurred in the first half of the fiscal year. The second half of the year saw a return of strong volatility accompanied by flat returns. With the Federal Reserve signaling an imminent interest rate increase, and valuations at historical highs, the market gyrations continue into fiscal 2016.

International markets showed a very different picture. U.S. dollar investors received a -5.1% return from emerging markets and -4.2% from developed foreign markets over the year. However, much of the return was due to the strengthening of the dollar against most world currencies. In local currency, emerging markets produced a 6.2% return and developed foreign markets produced an 11.8% gain. Across domestic and foreign markets, energy and basic materials stocks provided the biggest blow to markets due to plunging oil prices.

In stark contrast to last year's results, natural resource equities had a tough year, declining 42.6%, versus last year's 42% gain. Since year-end, energy and commodity markets have continued to struggle, as a balance between supply and demand continues to be worked out on the global stage. The U.S. REIT (Real Estate Investment Trust) index slowed to a 3.9% return over the fiscal year, ending several years of strong returns. Wesleyan invests through private funds in real estate and natural resources, both of which outperformed their publicly traded counterparts. In energy, the long duration nature of the underlying holdings and our managers' hedging helped prevent a decline similar to publicly traded energy investments. In real estate, our managers sold assets into a market hungry for yield.

Fixed income had a volatile year, particularly in the long end of the curve. Our benchmark, the Barclays Intermediate Term Treasury Index, rose 1.8%.

## FISCAL 2015 INVESTMENT PERFORMANCE

ONE YEAR PERFORMANCE JUNE 30, 2015				
ASSET CLASS	ENDOWMENT RETURN	BENCHMARK RETURN	VALUE ADDED	BENCHMARK
Domestic Equity	10.9%	7.1%	3.8%	Wilshire 5000 Total Market Index
International Equity	10.5%	(4.6%)	15.1%	Foreign Composite Index <sup>1</sup>
Absolute Return	(0.0%)	3.3%	(3.3%)	CSFB/Tremont Hedge Fund Index
Real Assets	(11.5%)	(14.0%)	2.5%	Cambridge Associates Composite <sup>2</sup>
Private Equity	26.1%	16.8%	9.3%	Cambridge Associates Composite <sup>3</sup>
Fixed Income	1.2%	1.8%	(0.6%)	Barclays Intermediate U.S. Treasury Index
Externally Managed	6.2%	1.1%	5.1%	Passive Benchmark <sup>4</sup>
Externally Managed	6.2%	1.5%	4.7%	Policy Benchmark <sup>5</sup>
Total Endowment	6.1%	7.1%	(1.0%)	HEPI + 5.0%

Wesleyan's marketable equity portfolios generated excellent performance this year. Our domestic equity portfolio exceeded the benchmark by 380 basis points. Foreign equity, which combines developed and emerging markets, exceeded its composite benchmark by a stunning 1510 basis points. Our developed market portfolio outperformed its EAFE index benchmark by 900 basis points, while our emerging market portfolio beat its index by 1290 basis points. Investments in consumer franchises across developed and emerging markets helped our portfolio outperform the broader indices.

Our absolute return portfolio produced 0.0% net of fees, underperforming the CSFB/Tremont Hedge Fund Index by 330 basis points, in contrast to the portfolio's 15.7% gain last year and strong out-performance vis-à-vis its benchmark. Though all of the managers in this segment of the portfolio take

an absolute return orientation to their investments, performance amongst them varied widely. Managers with exposure to energy and smaller cap value stocks dragged down returns in the portfolio. Credit strategies and long short funds with exposure to growth stocks performed well.

Private equity returned 26.1%, benefiting from venture capital and buyout returns that exceeded public markets. A large allocation to biotech within our private equity portfolio contributed meaningfully to our returns. These results are encouraging and reinforce our efforts to deploy capital steadily and carefully in this space.

Real assets declined 11.5% during the year. Energy dragged down asset class performance with a -29% return for the year. Private real estate performed well, returning 19%.

## LONG-TERM PERFORMANCE

The endowment returned 11.4% in the externally managed investment pool during the five-year period ending June 30, 2015. Incorporating Wesleyan managed assets, the total endowment returned 11.2%. The endowment increased from a value of \$512.9 million on July 1, 2010 to \$838.8 million on June 30, 2015, a net increase of \$325.9 million over five years. All asset classes outperformed their respective benchmarks. Endowment performance exceeded our spending benchmark of inflation (HEPI) plus 5.0%, the passive benchmark and the policy benchmark.

<b>FIVE YEAR PERFORMANCE JUNE 30, 2015</b>				
<b>ASSET CLASS</b>	<b>ENDOWMENT RETURN</b>	<b>BENCHMARK RETURN</b>	<b>VALUE ADDED</b>	<b>BENCHMARK</b>
Domestic Equity	21.2%	17.3%	3.9%	Wilshire 5000 Total Market Index
International Equity	10.9%	6.7%	4.2%	Foreign Composite Index <sup>1</sup>
Absolute Return	7.3%	6.2%	1.1%	CSFB/Tremont Hedge Fund Index
Real Assets	8.5%	8.4%	0.1%	Cambridge Associates Composite <sup>2</sup>
Private Equity	19.4%	17.5%	1.9%	Cambridge Associates Composite <sup>3</sup>
Fixed Income	2.2%	2.1%	0.1%	Barclays Intermediate U.S. Treasury Index
Externally Managed	11.4%	9.5%	1.9%	Passive Benchmark <sup>4</sup>
Externally Managed	11.4%	10.3%	1.1%	Policy Benchmark <sup>5</sup>
Total Endowment	11.2%	7.1%	4.1%	HEPI + 5.0%

For the ten years ending June 30, 2015, the endowment returned an annualized 7.9%, growing from \$564.9 million on July 1, 2005 to \$838.8 million on June 30, 2015, an increase of \$273.9 million. The growth reflects approximately \$330.2 million in spending, \$174.3 million in gifts, \$13.2 million of working capital invested alongside the endowment, and \$416.6 million of investment gains.

**TEN YEAR PERFORMANCE**  
**JUNE 30, 2015**

<b>ASSET CLASS</b>	<b>ENDOWMENT RETURN</b>	<b>BENCHMARK RETURN</b>	<b>VALUE ADDED</b>	<b>BENCHMARK</b>
Externally Managed	7.1%	6.1%	1.0%	Passive Benchmark <sup>4</sup>
Total Endowment	6.9%	7.7%	(0.8%)	HEPI + 5.0%

Over twenty years, the endowment has returned 8.3% on an annualized basis, exceeding the HEPI + 5.0% benchmark. The externally managed investment pool has returned an annualized 8.5%, outperforming the passive benchmark.

**TWENTY YEAR PERFORMANCE**  
**JUNE 30, 2015**

<b>ASSET CLASS</b>	<b>ENDOWMENT RETURN</b>	<b>BENCHMARK RETURN</b>	<b>VALUE ADDED</b>	<b>BENCHMARK</b>
Externally Managed	8.5%	6.7%	1.8%	Passive Benchmark <sup>4</sup>
Total Endowment	8.3%	8.2%	0.1%	HEPI + 5.0%

## LIQUIDITY

The Investment Committee reviews portfolio liquidity on a quarterly basis. As of June 30, 2015, nearly 28% of the endowment was invested with managers having monthly or shorter liquidity terms. Uncalled commitments to private partnerships equaled approximately 15.0% of endowment value. Even in a prolonged downturn, the endowment has ample liquidity to meet its obligations to the University and its managers over the next several years.

## LOOKING AHEAD

We have been fortunate to have had strong market tailwinds for most of the past five years. Inevitably, markets enter into more difficult periods that test investor patience and discipline. Our portfolio has been built with long-term returns in mind. While we are sure to experience ups and downs in the next several years as governments around the world work through policy inflections, we will continue to focus on managers that think “bottom up” and view risk as loss of principal rather than volatility. Our managers’ deep analysis of their investments and their ability to communicate with conviction their research and investment process, enable us to remain steadfast during periods of market turmoil. For most of our managers, increased volatility represents an opportunity to buy attractive assets at below intrinsic

value. As value oriented and contrarian investors, we expect that many new investments will come out of periods of stress and turmoil.

However the markets behave, we continue to seek talented groups for our endowment and adhere to our basic guidelines regarding diversification and rebalancing. We are proud of what we have built over the past five years, but are mindful that the work of investing has no end. Our team and the Investment Committee are tenacious in our efforts to improve our own investment processes and behave in a contrarian and value oriented manner for the benefit of Wesleyan's academic mission.

Sincerely,

David Resnick

Chair, Investment Committee

Anne Martin

Chief Investment Officer

---

<sup>1</sup> 50% MSCI EAFE/50% MSCI EM

<sup>2</sup> 40% Real Estate/60% Upstream and Royalties. Reflects final performance ending June 30, 2015.

<sup>3</sup> 70% Leveraged Buyout/30% Venture Capital. Reflects final performance ending June 30, 2015.

<sup>4</sup> 70% MSCI ACWI Index/30% Barclays Aggregate Index

<sup>5</sup> 13% Wilshire 5000/10% MSCI EAFE/10% MSCI EM/25% CSFB Tremont/6% Barclays Intermediate/10.2% CA Upstream and Royalties/6.8% CA Real Estate/13.3% CA LBO/5.7% CA VC. Cambridge Associates benchmarks final performance ending June 30, 2015.

---

## WESLEYAN INVESTMENT COMMITTEE 2016–2018

David L. Resnick, '81, P'13, Chair  
Wesleyan Trustee  
President, Third Avenue Management LLC  
New York

Robert A. Pruzan '85, Vice Chair  
Wesleyan Trustee  
Founding Partner, Centerview Partners  
New York

K. Tucker Andersen '63  
Owner, Above All Advisors, LLC  
New York

Dr. Joshua S. Boger '73, P'06, P'09  
Chair of the Wesleyan Board of Trustees  
Founder and CEO (Retired), Vertex Pharmaceuticals Incorporated  
Massachusetts

John Frank, '78, P'12  
Wesleyan Trustee  
Principal Executive Officer, Oaktree Capital Management L.P.  
California

Jason M. Klein '90  
Vice President and Chief Investment Officer, Memorial Sloan Kettering Cancer Center  
New York

Donna S. Morea '76, P'06  
Wesleyan Trustee  
President, U.S., Europe and Asia (Retired), CGI  
Virginia

Marc O. Nachmann '91  
Wesleyan Trustee  
Managing Director, Goldman, Sachs & Company  
New York

Michael S. Roth '78  
Wesleyan Trustee  
President, Wesleyan University  
Connecticut

Adam Usdan '83,  
Founder, President and General Partner, Trellus Management Co., LLC  
New York