

Dear Friends of Wesleyan,

The current incarnation of the Wesleyan Investments Office celebrated its tenth year on August 2, 2020. We couldn't have imagined a tougher year to mark the occasion. Much has been written about the human suffering caused by COVID-19 and the various policy responses around the world, so we will not rehash those subjects in this letter. This year also witnessed the horrific death of George Floyd. The resulting focus on the Black Lives Matter movement and racial inequality compelled us to recommit ourselves to a more racially fair world.

One of the few silver linings of this heartbreaking year is that we are reminded daily of how precious our communities are, whether families, friends, classmates, colleagues, or partners. As the Wesleyan community has wrestled through the challenges brought on by the pandemic and the issues of social injustice, the Investments Office has been reminded daily of the importance of our work. We could not be prouder of Wesleyan's creative and thoughtful leadership through the turbulence of fiscal 2020, and of its long-term mission to "build a diverse, energetic community of students, faculty, and staff who think critically and creatively and who value independence of mind and generosity of spirit."

This past year marked the return of volatility that was so remarkably absent in the previous years. The Wesleyan Managed Pool (capital managed by the Wesleyan Investments Office) fared well through the ups and downs, finishing the fiscal year with a positive 8.8% return. The Total Investment Pool (which includes an additional \$23 million of externally managed endowment capital) ended the year at \$1.13 billion, a new high water mark. Active management worked well, with almost all marketable managers beating their passive benchmarks. Venture capital returns were strong, as COVID-19 accelerated technology adoption across broad swaths of the economy. Biotechnology investments also fared well as innovations in disease diagnosis and treatment continue apace. With the exception of developed international marketable equities and our remaining oil and gas assets, all asset classes contributed positive returns over the year.

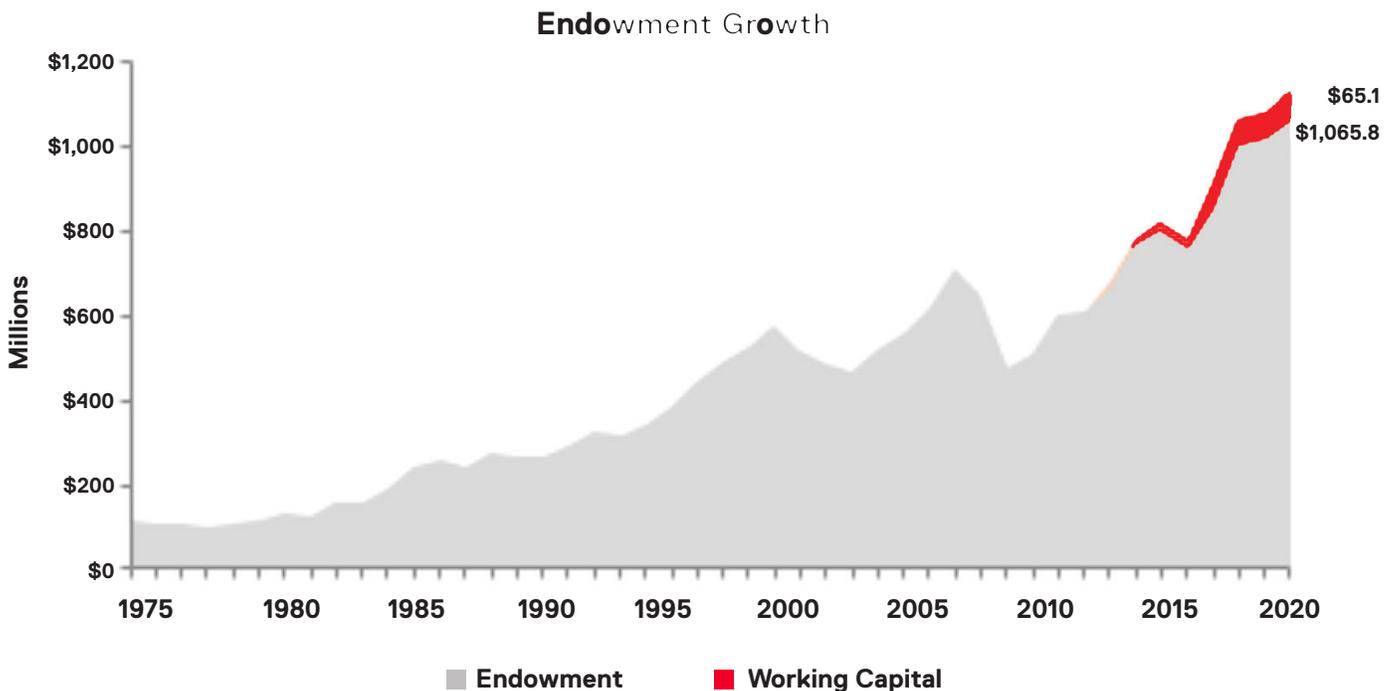
ONE-YEAR PERFORMANCE ENDING JUNE 30, 2020				
ASSET CLASS	ENDOWMENT RETURN (%)	BENCHMARK RETURN (%)	VALUE ADDED (%)	BENCHMARK
Domestic Equity	11.2	6.8	4.4	Wilshire 5000
Developed Int'l Equity	(1.1)	(5.1)	4.0	MSCI EAFE
Emerging Mkts Equity	4.6	(3.4)	8.0	MSCI EM
Absolute Return	5.7	(0.7)	6.4	CSFB/Tremont Hedge Fund
Real Estate	2.5	(1.4)	3.9	CA U.S. Real Estate
Natural Resources	(22.9)	(24.1)	1.2	CA U.S. Upstream and Royalties
Private Equity	18.9	9.0	9.9	Cambridge Associates Composite
Fixed Income	9.5	7.1	2.4	Barclays Inter. U.S. Treasury
Cash	0.5	1.2	(0.7)	90 Day Treasury Bill
Wes. Managed Pool	8.8	4.6	4.2	Passive Benchmark
Wes. Managed Pool	8.8	2.4	6.4	Policy Benchmark
Wes. Managed Pool	8.8	6.7	2.1	HEPI + 4.5%

Our returns show Wesleyan to be in the top quartile of our peers over the one-, three-, five-, and ten-year periods. Most importantly, over the ten-year period, the Managed Pool has outperformed its absolute return hurdle of inflation plus our 4.5% target payout.

<b>WESLEYAN UNIVERSITY ANNUALIZED PERFORMANCE (%)</b>					
<b>ENDING JUNE 30, 2020</b>					
	<b>1-Year</b>	<b>3-Year</b>	<b>5-Year</b>	<b>10-Year</b>	<b>20-Year</b>
Wesleyan Investment Pool Portfolio	8.6%	8.7%	7.3%	9.4%	6.3%
Wesleyan Managed Pool	8.8%	8.8%	7.4%	9.6%	6.4%
Wesleyan Composite Benchmark	2.4%	6.2%	5.3%	7.7%	n/a
70% Stocks (ACWI)/30% Bonds (Barclay's Agg)	4.6%	6.2%	6.1%	8.4%	4.9%
HEPI + 4.5% (Absolute Return Hurdle)	6.7%	7.0%	7.0%	6.8%	7.5%
Median: College & University*	1.1%	4.8%	4.9%	7.3%	5.5%
Top Quartile: College & University*	2.8%	6.1%	5.9%	7.9%	6.1%

\*Results reported as of 9/29/2020 by Cambridge Associates

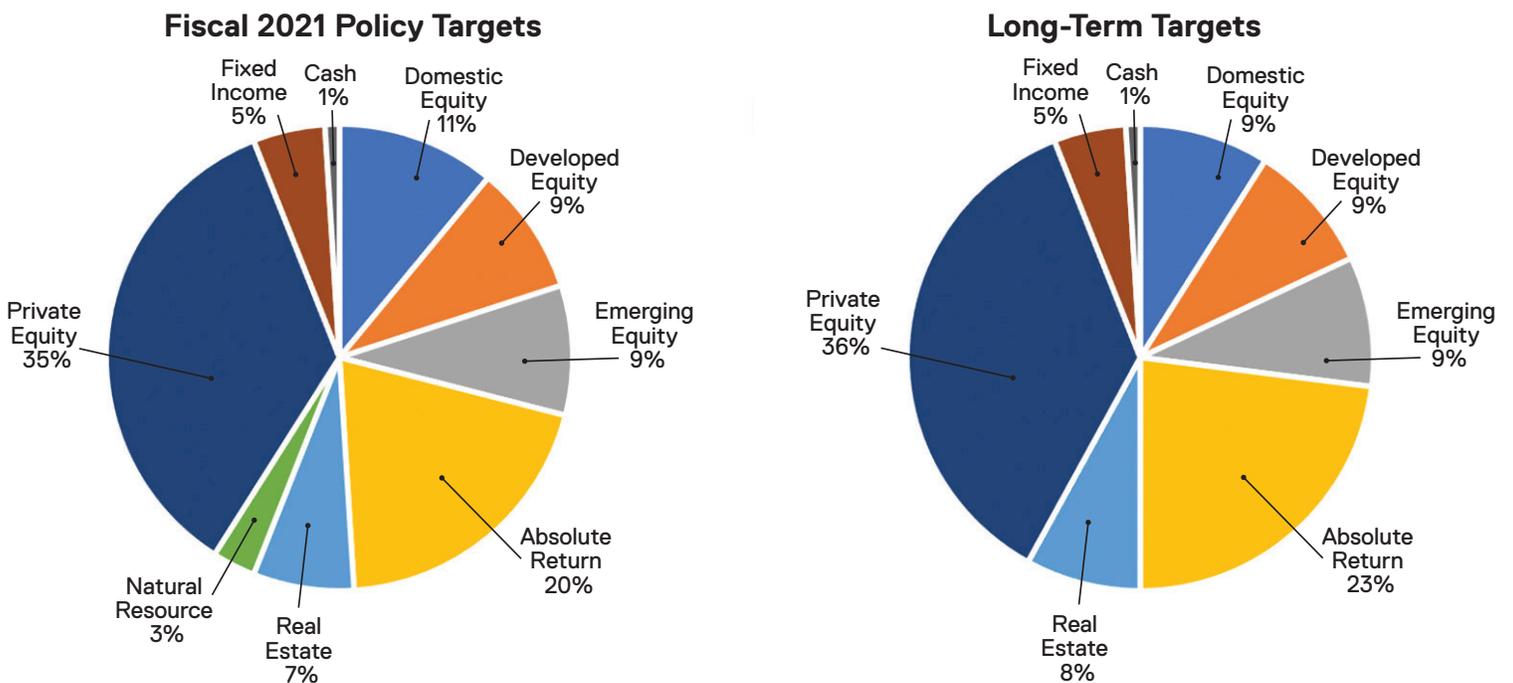
The time series below shows the Total Investment Pool since 1975. Over this period, the Total Investment Pool has grown from \$113.2 million to end June 30, 2020 at \$1.13 billion. The majority of the Total Investment Pool is the endowment, with the balance comprised of working capital the University chooses to invest as long-term funds. Endowment capital supports financial aid and academic programs; during fiscal 2021, the University will receive \$44.8 million from the endowment.



**ASSET ALLOCATION:**

The past fiscal year brought an important change to our policy portfolio, as the University adopted a long-term goal of winding down its oil and gas portfolio. The announcement can be found here: <https://newsletter.blogs.wesleyan.edu/2020/03/09/wesleyan-vows-to-divest-from-fossil-fuel-investments-by-the-end-of-the-decade/>. This decision was made by the Board of Trustees and reflects Wesleyan’s acknowledgement of the climate crisis facing our planet and our desire to align our investments with the values of the school. Along with winding down the portfolio, the University is making substantial investments in energy reduction, and working with the full community to reduce its dependence on fossil fuels (<https://www.wesleyan.edu/sustainability/files/plan.pdf>).

The following charts show our asset allocation targets for fiscal 2021, as well as our long-term targets, reflecting the wind down of our legacy fossil fuels portfolio:



We recognize that definitions between asset classes have blurred over time. Many of our public managers invest in private investments or credit securities. Our private funds can hold and even buy public market positions. In spite of these trends, maintaining a policy portfolio continues to provide guardrails in choosing which risks to embrace in the portfolio. In addition, the rebalancing that is required to maintain a target asset allocation helps us to buy low and sell high, even when it is psychologically difficult. However, we maintain a range around our targets, enabling us the flexibility to concentrate capital with our highest conviction managers.

**TEN-YEAR REFLECTIONS:**

Our current team took over the management of Wesleyan's Investment Pool a little over ten years ago. Over the course of the decade, we have accomplished much: recruiting a talented team, professionalizing our back office, and building relationships with some of the most talented managers in the world.

Our team has grown from two to seven people and constitutes a collegial and seasoned group dedicated not only to serving the University's mission, but also to creating opportunities for current Wesleyan students. Our internship program has become one of the most fulfilling ways for our office to stay connected to the Wesleyan community, while providing opportunities for current students to gain meaningful work experience in finance. We've grown our summer internship program from one intern in 2011 to three Wesleyan students each year. We know this talented group of students will go on to do great things, and we are particularly lucky that one of them joined us full-time in 2018.

Over the past decade, the University has been able to grow its endowment from \$500 million to \$1.1 billion through a combination of strong returns, generous gifts, and disciplined spending. Our ten-year return of 9.6% compares well to the median college or university return of 7.3%. Our excess return versus our peer group over this period translates to roughly \$180 million.

In 2012, we worked with the Board of Trustees to review and rewrite the University's spending rule. The Tobin rule we adopted (70% of spending based on the prior year's spending, 30% based on the prior year's endowment value) has helped the University better fulfill its goal of parity for future generations of students. The rule helps balance spending today against preserving purchasing power of the endowment for future generations of students.

Over the past ten years, the endowment has received \$211 million in gifts. Those gifts, helped by the past ten years of strong returns, have been a significant contributor to the growth of the endowment and our goal of meeting the financial aid needs of our students.

As a result of these efforts, the endowment's payout to the University has increased from \$33.1 million in fiscal 2011 to \$43.5 million in fiscal 2020. Over ten years, the endowment has contributed \$347 million to the budget, a critical factor in supporting Wesleyan's operations.

Portfolio construction has been a ten-year journey. One of the primary objectives of our strategic plan ten years ago was to build out a top-tier roster of private equity and venture managers that would generate the high returns needed to meet the financial needs of the University. With our annual 4.5% target payout and a long-term higher education inflation rate of 3.0%, Wesleyan must earn at least a 7.5% return over the long term to maintain the purchasing power of the endowment. Constructing a portfolio of private funds that can deliver mid-teens returns is an important step in meeting our goals. Our private equity and venture managers now constitute 33% of our portfolio and have delivered a 17.2% return over the last ten years.

As the endowment has grown, we have been able to diversify the risks and sources of return in the portfolio. In 2011, our focus was on building the portfolio with well-known, mature firms. As our portfolio has grown in size, we have sought out smaller, emerging managers who may be less "institutional," but whose strategy, skillset, and alignment offer an attractive investment opportunity for Wesleyan. These relationships are still in their early days, but have performed well. The size of our

endowment pool is well-matched with the size of these emerging firms, and, assuming we are an early investor, we can build meaningful positions with talented managers who are determined to keep fund size small. Further, when we back managers at the beginning of their fund lives, we have found that the level of transparency, partnership, and communication is very high. Ultimately, this dynamic helps make us great long-term partners by facilitating our understanding of how our partners think, analyze risk, and tolerate volatility.

We have also made our fair share of mistakes over the last ten years. One of the lessons that has been drilled into us is the value of maintaining our long-term horizon. We have learned that the most compelling investments for a capital base such as Wesleyan’s, with an infinite horizon, is to minimize reinvestment risk. Staying invested with managers whose strategies can compound our capital for years, if not decades, is the best way to leverage our unique time horizon.

Finally, no investment organization can be successful without good governance. Our Investment Committee helps protect and advance the goals of the Investments Office by asking thoughtful questions, helping us explore long-term trends, vetting and approving policy, and, most importantly, maintaining the stalwart posture needed to adhere to our strategy through up and down markets. There are many ways to make money, but we believe a sure way to lose money is to abandon the long-term strategy we have worked so hard to define for Wesleyan. We are especially grateful for the support and input of our Investment Committee during a very difficult 2020 fiscal year.

Our ten-year returns by asset class compared to respective benchmarks are shown below.

TEN-YEAR PERFORMANCE ENDING JUNE 30, 2020				
ASSET CLASS	ENDOWMENT RETURN (%)	BENCHMARK RETURN (%)	VALUE ADDED (%)	BENCHMARK
Domestic Equity	14.6	13.7	0.9	Wilshire 5000
Developed Int'l Equity	9.6	5.7	3.9	MSCI EAFE
Emerging Mkts Equity	6.1	3.3	2.8	MSCI EM
Absolute Return	6.2	3.8	2.4	CSFB/Tremont Hedge Fund
Real Estate	14.2	11.4	2.8	CA U.S. Real Estate
Natural Resources	(4.4)	(3.5)	(0.9)	CA U.S. Upstream and Royalties
Private Equity	17.2	14.7	2.5	Cambridge Associates Composite
Fixed Income	4.3	2.6	1.7	Barclays Inter. U.S. Treasury
Cash	0.4	0.6	(0.2)	90 Day Treasury Bill
Wes. Managed Pool	9.6	8.4	1.2	Passive Benchmark
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Wes. Managed Pool	9.6	6.8	2.8	HEPI + 4.5%

## MOVING FORWARD:

As we begin our second decade in the Wesleyan Investments Office, we know there will be challenges ahead. We have experienced a decade of strong returns, which usually portends tougher capital markets in the near term. With interest rates approaching zero, we are relying more than ever on our managers to find pockets of inefficiency in public markets or bring operating skills and strategic influence to bear on our private investments.

The events of the past year caused us to revisit and prioritize matters of diversity, equity, and inclusion. In keeping with Wesleyan's values, we take these topics extremely seriously, both in our own office and in shaping our portfolio for the next decade. We recognize that there is much work to be done, but we are heartened to see our investment partners focusing on these issues in myriad ways, including ensuring fairer and broader hiring practices, increasing diversity tracking, goal-setting, and accountability for both internal teams and portfolio companies, and investing in education and awareness. We intend to monitor the progress of our managers and ourselves on this important topic.

While we worry about inflation, rising interest rates, de-globalization, COVID-19, and politics, we recognize that we can do little to predict the onset or consequences of any of these issues. What we can do is maintain diversification across the portfolio, balance the risks we are taking, and partner with thoughtful investors who are aligned with our mission to create long-term, sustainable value.

As we write, the world wrestles with a devastating resurgence of the COVID-19 epidemic. We maintain faith that human ingenuity and time will see us to the other side of this global health disaster, and we will return to some semblance of a new normal. While it is difficult to avoid being consumed with daily challenges, we must also maintain our longer-term perspective. If the epidemic has taught us anything, it is that Wesleyan is a unique and precious institution that has an important place in the world for decades to come. We are honored to be part of its mission.

Anne Martin  
Chief Investment Officer

Susannah Gray '82  
Investment Committee Chair

## WESLEYAN INVESTMENT COMMITTEE 2019–2020

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Wesleyan Trustee | Chair, Investment Committee  
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Senior Partner, McKinsey & Company  
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*California*

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Wesleyan Trustee  
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*New York*

### **KIM Y. LEW P'22**

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### **ANDREW TANAKA '00 (ex-officio)**

Senior Vice President and Chief Administrative Officer and Treasurer, Wesleyan University  
*Connecticut*

### **ADAM USDAN '83**

Wesleyan Trustee  
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