

The endowment generated a 20.9% return for fiscal 2011, ending the year with a market value of \$601.5 million. The \$88.6 million increase from the \$512.9 million ending value in fiscal 2010 reflects \$104.0 million of investment gains, \$33.1 million of spending and \$17.7 million of gifts. The portfolio's strong performance was 3.4% ahead of the 17.6% return on our policy portfolio benchmark (a benchmark that combines our asset allocation targets and benchmark returns). While we were pleased with these results, the Wesleyan endowment is undergoing a full review and evaluation through which we hope to create a portfolio that can perform in both robust markets, such as 2011, and the tougher markets we expect ahead.

The objective of the Wesleyan endowment is to provide a stable and sustainable source of support for Wesleyan's academic mission. In fiscal 2011, the endowment's \$33.1 million of spending payout supported 18% of the University's budget. In fiscal 2012, the University will spend \$29.5 million from the endowment, contributing 13% of Wesleyan's budget. Payouts to the operating budget are based on a formula that takes into account three years of endowment values. Because the three-year average adds in the most recent year and drops the oldest, the formula no longer includes the higher endowment values that preceded the global financial crisis of 2008.

All asset classes turned in positive returns in fiscal 2011. Strong equity markets worldwide created a tailwind for the portfolio. Wesleyan's private equity holdings benefitted from a number of IPOs and acquisitions, as well as mark-ups based on improved publicly traded comparable companies. Wesleyan's real assets portfolio exhibited strong returns, reflecting commodity price increases over the year and improved real estate valuations.

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## FISCAL 2011 ACTIVITIES

Beginning in August 2010, the investment committee and investments staff undertook a reevaluation of the Wesleyan endowment, placing priority on reviewing asset allocation, benchmarks, investment policy, and governance matters. New targets were set for asset allocation and new benchmarks set for some asset classes. On governance matters, the Board of Trustees voted to form a new standing committee—the Investment Committee—and to terminate the legacy Portfolio Subcommittee, a subcommittee of the Finance Committee. By-Law changes reflecting these decisions were voted on by the Board of Trustees in June 2011.

## ■ ASSET ALLOCATION

In the spring of fiscal 2011, the investment committee approved the 2012 policy portfolio for the Wesleyan investment pool. Changes to the policy portfolio over the past 17 years are shown below:

ASSET CLASS	1995	2000	2005	2010	ASSET CLASS	2012
Domestic Equity	50%	45%	25%	16%	Domestic Equity	13%
International Equity	10%	13%	15%	20%	International Developed Equity	10%
					International Emerging Equity	10%
Absolute Return	0%	7%	25%	19%	Absolute Return	23%
Private Equity	10%	15%	15%	17%	Private Equity	17%
Real Assets	0%	0%	5%	10%	Real Assets	17%
Fixed Income & Cash	30%	20%	15%	18%	Fixed Income & Cash	10%

The policy portfolio is the targeted mix of asset classes that the investment committee and staff determine is appropriate to meet the goals of the endowment over the long term. These asset class targets provide guidelines to the investment staff as we allocate capital to existing managers and consider new managers for the portfolio. By investing in different asset classes, we achieve diversification for the portfolio and exposures that will behave differently in different economic conditions. The policy portfolio is expected to change slowly, as the underpinning assumptions reflect very long-term return and risk expectations.

## ■ INVESTMENT POLICY

During fiscal 2011, new investment policies were introduced at the Board of Trustees and Investment Committee. Highlights included clarification of asset classes, investment objectives, and the manager selection process. The policy documents reconfirmed Wesleyan's approach to the indirect model of endowment management; that is, investing through a group of external managers, rather than engaging directly in security selection.

## ■ PORTFOLIO REVIEW

With new investment staff in place, reviewing the roster of existing managers was a priority in 2011 and an important starting point for developing a plan to strengthen the portfolio and position it for stability and growth in the future. Through multiple manager visits and due diligence, our team developed a viewpoint on the existing portfolio and made changes as it deemed appropriate.

## ■ ORGANIZATION

A major goal for the past year was to build the capabilities and capacity of the Wesleyan investment staff. Maintaining close contact with existing managers and identifying new strategies for the portfolio requires talented and experienced staff. At the end of the fiscal year, we were able to make two strong additions to our team who bring experience in Asian markets, private equity, hedge funds, marketable securities and real estate.

We developed a number of systems to help us track the endowment on a week to week basis, a critical tool for regular rebalancing. We also began developing performance tracking systems for each asset class to help us better match our qualitative judgments with quantitative analysis. We are confident that our performance tracking systems will be robust by the end of fiscal 2012.

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## FISCAL YEAR 2011 PERFORMANCE

Benefitting from excellent performance from nearly every asset class, the investment pool, the portion of the endowment managed externally, returned 21.0%, net of all fees and expenses, in fiscal 2011. Wesleyan managed assets, which include life-income gifts, University-owned real estate, and faculty and staff mortgages, returned 19.5%, net of fees and expenses, for a combined endowment return of 20.9%.

The domestic equity portfolio returned 40.0%, the best of any asset class and 800 basis points above its benchmark (the Wilshire 5000). International equity returned 29.4%, an outstanding absolute return, and just barely underperformed its benchmark return of the All Country World ex-USA Index. During the year, we lowered our exposure to developed international markets, in line with new asset allocation targets, and began a slow process of increasing exposure to emerging markets. In areas of the portfolio where we could not identify top tier managers, Wesleyan used low cost index funds and exchange traded funds to maintain exposure to markets.

The real assets portfolio had an outstanding fiscal 2011, returning 26.0% and surpassing its inflation plus 5% objective by 18.4%. Real assets comprise hard assets that offer protection against unanticipated inflation, including natural resources, real estate, and Treasury Inflation-Protected Securities. Most of Wesleyan's exposure to real assets comes from private partnerships that own and operate real estate or energy assets, rather than public securities of REITs or natural resource companies. Wesleyan's energy portfolio returned 24.7%, propelled by the rally in oil prices and value added reinvestment activities that produced new reserves. The real estate portfolio generated a return of 21.6%, benefitting from the continued recovery in property values, particularly for stabilized assets in major cities. Our broader holdings of TIPs, precious metals and securities of natural resource companies produced a 30% return.

After a number of tough years, the private equity portfolio returned 24.7% in 2011. Wesleyan's leveraged buyout managers produced a 22.1% return, as stronger exit markets and improved corporate profits led to some sizable gains. With the return of the IPO market, venture capital managers returned 34.6%.

The absolute return portfolio returned 7.5%. Our goal for the absolute return portfolio is to create a portfolio that can produce equity-like returns even when public markets produce lackluster or poor returns. Our portfolio of external hedge fund managers is an area of focus for the investment committee and staff over the next year.

The fixed income portfolio returned 7.1%, outperforming the Barclays Intermediate Treasury Index benchmark return of 2.7%. With Treasury bond yields at new lows, the Investments Office adopted a cautious approach to Treasuries. As a result, the endowment maintained a sizeable cash balance over the year.

<b>ONE YEAR PERFORMANCE JUNE 30, 2011</b>				
<b>ASSET CLASS</b>	<b>ENDOWMENT RETURN<sup>1</sup></b>	<b>BENCHMARK RETURN</b>	<b>VALUE ADDED</b>	<b>BENCHMARK</b>
Domestic Equity	40.0%	32.1%	8.0%	Wilshire 5000 Index
International Equity	29.4%	29.7%	(0.4%)	MSCI ACWI ex U.S. Index
Absolute Return	7.5%	12.1%	(4.6%)	CSFB/Tremont Hedge Fund Index
Real Assets	26.0%	7.6%	18.4%	HEPI + 5% <sup>2</sup>
Private Equity	24.7%	25.5%	(0.8%)	Cambridge Associates Index <sup>3</sup>
Fixed Income	7.1%	2.7%	4.4%	Barclays Intermediate Treasury Index
Externally Managed	21.0%	20.5%	0.4%	Policy Benchmark <sup>4</sup>
Externally Managed	21.0%	24.4%	(3.4%)	Passive Benchmark <sup>5</sup>
Total Endowment	20.9%	8.1%	12.8%	HEPI + 5.5% <sup>2</sup>

## **LONGER TERM PERFORMANCE**

For the ten years ending June 30, 2011, the endowment returned an annualized 5.8%, growing from \$520.7 million on July 1, 2001 to \$601.5 million on June 30, 2011, an increase of \$80.8 million over ten years. The growth reflects approximately \$297 million of investment gains, \$330 million in spending and \$114 million in gifts.

**TEN YEAR PERFORMANCE**  
**JUNE 30, 2011**

<b>ASSET CLASS</b>	<b>ENDOWMENT RETURN<sup>1</sup></b>	<b>BENCHMARK RETURN</b>	<b>VALUE ADDED</b>	<b>BENCHMARK</b>
Domestic Equity	6.5%	3.9%	2.6%	Wilshire 5000 Index
International Equity	10.4%	7.5%	2.9	MSCI ACWI ex U.S. Index
Absolute Return	6.1%	7.1%	(1.0%)	CSFB/Tremont Hedge Fund Index
Real Assets	9.4%	8.6%	0.8%	HEPI + 5% <sup>2</sup>
Private Equity	2.5%	5.3%	(2.8%)	Cambridge Associates Index <sup>3</sup>
Fixed Income	7.8%	4.9%	2.9%	Barclays Intermediate Treasury Index
Externally Managed	6.1%	7.4%	(1.3%)	Policy Benchmark <sup>4</sup>
Externally Managed	6.1%	5.2%	0.9%	Passive Benchmark <sup>5</sup>
Total Endowment	5.8%	9.1%	(3.2%)	HEPI + 5.5% <sup>2</sup>

Over the past decade, Wesleyan added value from active management in marketable securities and fixed income. However, Wesleyan lagged its benchmark returns in absolute return and private equity. While short-term relative underperformance should be expected in each asset class, we strive to create a portfolio in which all asset classes outperform across the long term.

Wesleyan's 20-year endowment and benchmark returns are shown below:

**TWENTY YEAR PERFORMANCE**  
**JUNE 30, 2011**

<b>ASSET CLASS</b>	<b>ENDOWMENT RETURN<sup>1</sup></b>	<b>BENCHMARK RETURN</b>	<b>VALUE ADDED</b>	<b>BENCHMARK</b>
Externally Managed	9.0%	8.4%	0.6%	Passive Benchmark <sup>5</sup>
Total Endowment	8.7%	9.2%	(0.5%)	HEPI + 5.5% <sup>2</sup>

## LIQUIDITY

The investment committee and staff closely monitor portfolio liquidity. As of June 30, 2011, 31% of the endowment was subject to daily liquidity. Illiquid private equity funds (including natural resources and real estate) made up 32.8% of the portfolio and uncalled commitments to those funds equaled approximately 17% of endowment value. Even under the most draconian scenario, Wesleyan has ample liquidity to meet its obligations to the University and its managers over the next several years.

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## LOOKING AHEAD

As the year came to a close, global markets refocused on a number of tough issues that are far from resolved. The future of the Eurozone, the high debt levels in developed countries and the threat of inflation in emerging markets came to the forefront of investors' minds in the third quarter. The ensuing volatility has been extreme. In this difficult environment, the investment committee and staff continue to follow a disciplined approach to managing the endowment. Regular rebalancing, an equity orientation and diversification continue to inform our decisions. Stewarding the University's assets through a potentially prolonged period of uncertainty requires us to maintain a long-term viewpoint, while seeking talented managers who can take advantage of market dislocations that may arise.

Sincerely,

Anne Martin  
Chief Investment Officer  
Wesleyan University  
Middletown, CT

Adam Usdan '83  
Chair, Wesleyan University Investment Committee  
Founder, President and General Partner, Trellus Management Co., LLC  
New York, NY

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## WESLEYAN INVESTMENT COMMITTEE 2011—2012

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

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

Dr. Joshua S. Boger '73  
Chair of the Wesleyan Board of Trustees  
Founder, Vertex Pharmaceuticals Incorporated  
Cambridge, MA

Ellen Jewett '81  
Vice Chair of the Wesleyan Board of Trustees  
Managing Director, BMO Capital Markets  
New York, NY

Robert A. Pruzan '85  
Founding Partner, Centerview Partners  
New York, NY

Jeffrey L. Shames '77  
Wesleyan Trustee  
Executive in Residence, MIT Sloan School of Management  
Former CEO and Chairman, MFS Investment Management  
Boston, MA

Warren (“Renny”) C. Smith, Jr.'78  
Wesleyan Trustee  
Managing Partner, Staley Capital Management  
Waltham, MA

### ■ FOOTNOTES

- 1 Returns are time weighted.
- 2 HEPI is the Higher Education Price Index, which tracks inflation relative to U.S. colleges and universities.
- 3 Cambridge Associates Index: 50% Private Equity Index / 50% Venture Capital Index
- 4 Policy benchmark: 15% Wilshire 5000 Index/ 10% Barclays Intermediate Treasury Index / 20% MSCI ACWI ex US / 23% CSFB/Tremont Hedge fund Index /15% Wilshire 5000 + 5% / 17% HEPI + 5%
- 5 Passive benchmark: 60% Wilshire 5000 Index / 15% MSCI ACWI ex US / 25% Barclays Aggregate