

To the Wesleyan Community:

Despite significant headwinds we ended fiscal 2019 at a new high-water mark for the investment pool. Including non-managed assets, the Total Investment Pool reached \$1.08 billion at the close of fiscal 2019, up from \$1.07 billion 12 months prior.

Significant outperformance by our private equity, venture, and real estate partnerships helped offset losses in foreign marketable equity and energy and drove the managed pool to a 4.3 percent return for the year.

Our payout will fund 19 percent of the University’s operating budget in fiscal 2020. As we approach the 10th anniversary of the office at the end of 2020, we are pleased with our progress and are mindful that in order to help the University achieve its long-term financial goals we must continue to allocate our capital thoughtfully and partner with truly outstanding investment managers.

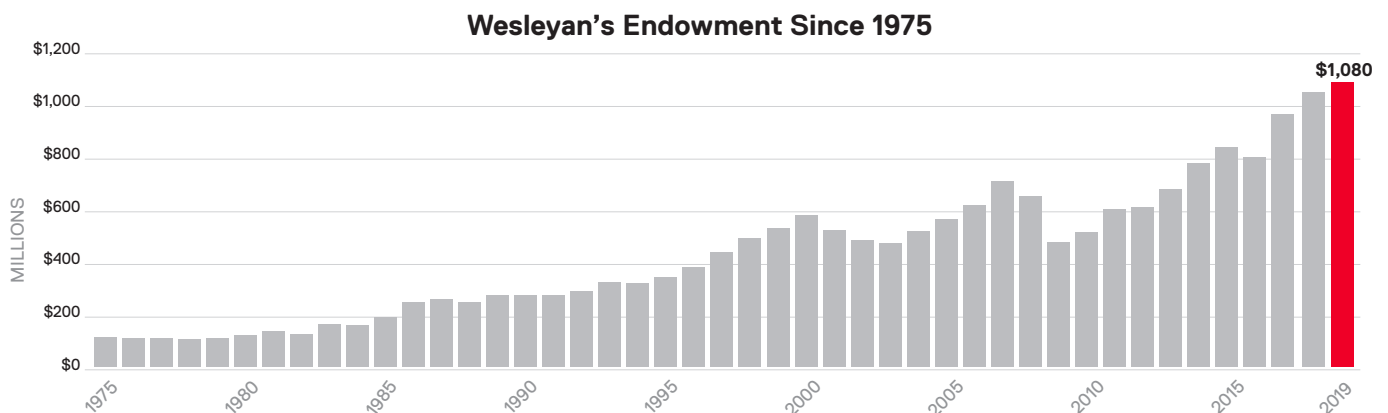
Over the last 10 years, the investment pool has grown from \$476.5 million to \$1.08 billion. While our one-year return of 4.3 percent lagged our one-year benchmarks, over the longer three-, five-, and ten-year periods, we are pleased with the performance of the portfolio:

	1-Year	3-Year	5-Year	10-Year	20-Year
Managed Pool	4.3%	10.8%	7.0%	10.0%	6.6%
70/30 Stock/Bond Portfolio	6.7%	8.9%	5.4%	9.3%	5.2%
Absolute Return Objective <sup>1</sup>	7.2%	7.4%	7.0%	6.7%	7.6%
Policy Portfolio Objective <sup>2</sup>	6.0%	9.3%	5.1%	8.7%	n/a

<sup>1</sup> The Commonfund Higher Education Price Index (HEPI) + a 4.5% effective spending rate.

<sup>2</sup> A benchmark constructed of indices designed to replicate our target allocations.

The longer time series chart below shows the endowment growth since 1975. Periods of market downturns are an expected part of any long-term investment strategy.

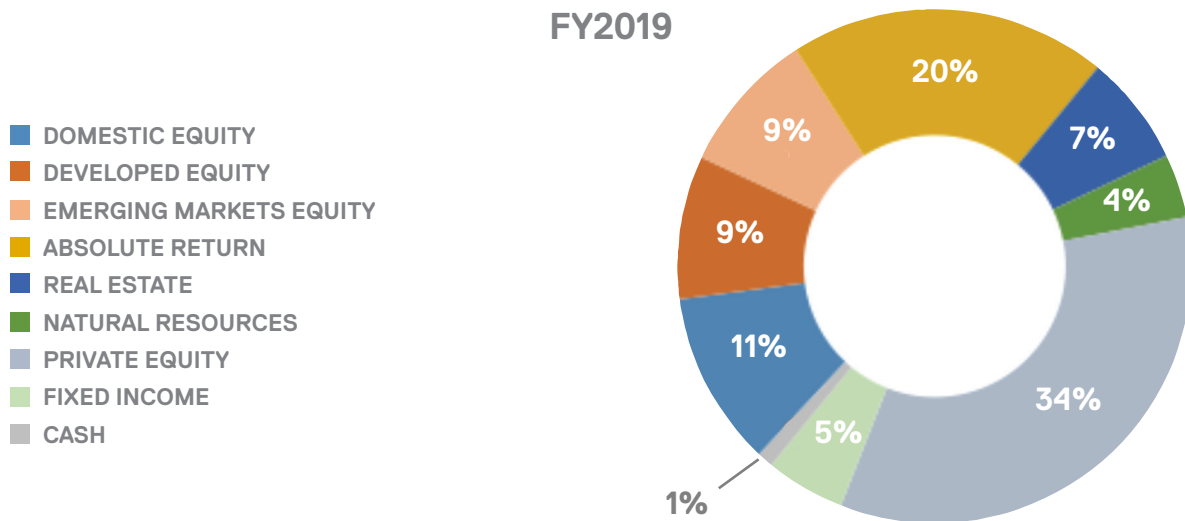


## COMPOSITION OF THE INVESTMENT POOL

At year-end, the Total Investment Pool was primarily comprised of the Managed Pool. The Managed Pool—capital controlled by the Investments staff—includes \$994.3 million of endowment assets and \$62.2 million of University working capital. The Total Investment Pool also includes non-managed endowment assets (“Non-Managed Pool”) totaling \$23.5 million at fiscal 2019 year-end, consisting of charitable trust assets, mortgages, and other University assets that are not managed by Investments staff.

## POLICY PORTFOLIO

Given Wesleyan’s mission to provide a world-class liberal arts education to qualified students regardless of economic means, we continue to seek the long-term, high returns available from equity-oriented strategies. With a target payout of 4.5 percent and expected long-term inflation for higher education institutions of 3.0 percent, we aim to build a portfolio that achieves a long-term 8.0 percent return or better. In order to accomplish this, we accept that we will need to lock up capital for returns in excess of those available in the public markets. Our portfolio today reflects this approach, with illiquid assets reaching roughly 40 percent of the overall Managed Pool. Portfolio allocations as of the end of fiscal 2019 are shown below:



Fiscal 2019 saw an important change to Wesleyan’s asset allocation policy. As climate change continues to generate risks across the portfolio, and as natural resource investments have proven to be a less effective inflation hedge than anticipated, the Investment Committee opted to discontinue a set policy target to oil and gas investments.

## FISCAL 2019 REVIEW

While most of our asset classes fell short of benchmarks, disappointing returns in energy were the largest detractor from our returns in fiscal 2019. In particular, write-downs in legacy positions (investments made prior to 2010) contributed heavy losses. On a brighter note, our private equity and venture investments performed well, offsetting losses elsewhere in the portfolio.

ONE-YEAR PERFORMANCE OF THE MANAGED POOL ENDING JUNE 30, 2019			
ASSET CLASS	ENDOWMENT RETURN (%)	BENCHMARK RETURN (%)	VALUE ADDED (%)
Domestic Equity	8.5	9.1	(0.6)
Developed International Equity	(4.9)	1.1	(6.0)
Emerging Markets Equity	(1.5)	1.2	(2.7)
Absolute Return	(0.1)	2.5	(2.6)
Real Estate	12.4	7.7	4.7
Natural Resources	(26.8)	(10.5)	(16.3)
Private Equity	18.1	14.6	3.5
Fixed Income	7.9	6.2	1.7
Cash	1.2	2.3	(1.1)
Managed Pool vs. 70/30 Benchmark	4.3	6.7	(2.4)
Managed Pool vs. Policy Benchmark	4.3	6.0	(1.7)
Managed Pool vs. HEPI + 4.5%	4.3	7.2	(2.9)

During the five-year period ending June 30, 2019, the Managed Pool returned 7.0 percent, outpacing our benchmarks and target return. The Total Investment Pool grew from \$793.3 million to \$1.08 billion. Over this period, the pool paid out \$182.7 million to support University operations. Despite this large outflow, the pool still succeeded in growing its value by \$286.7 million through a combination of gifts and investment performance.

FIVE-YEAR PERFORMANCE OF THE MANAGED POOL ENDING JUNE 30, 2019			
ASSET CLASS	ENDOWMENT RETURN (%)	BENCHMARK RETURN (%)	VALUE ADDED (%)
Domestic Equity	8.4	10.3	(1.9)
Developed International Equity	8.4	2.2	6.2
Emerging Markets Equity	4.5	2.5	2.0
Absolute Return	4.2	2.4	1.8
Real Estate	15.2	11.4	3.8
Natural Resources	(13.8)	(13.1)	(0.7)
Private Equity	16.4	14.0	2.4
Fixed Income	2.4	2.0	0.4
Cash	0.5	0.9	(0.4)
Managed Pool vs. Passive Benchmark	7.0	5.4	1.6
Managed Pool vs. Policy Benchmark	7.0	5.1	1.9
Managed Pool vs. HEPI + 4.5%	7.0	7.0	-

For the 10-year period ending June 30, 2019, the Managed Pool returned an annualized 10.0 percent, outpacing our benchmarks and target return. The Total Investment Pool grew from \$476.5 million to \$1.08 billion. During this period, \$334.5 million of endowment payout supported University operations. Offsetting spending were \$214.2 million of gifts and \$671.6 million of net investment gains. Over the 10-year period, the Managed Pool returns exceeded all benchmark returns except within the natural resources asset class.

10-YEAR PERFORMANCE OF THE MANAGED POOL6 ENDING JUNE 30, 2019			
ASSET CLASS	ENDOWMENT RETURN (%)	BENCHMARK RETURN (%)	VALUE ADDED (%)
Domestic Equity	15.0	14.7	0.3
Developed International Equity	10.8	6.9	3.9
Emerging Markets Equity	9.7	5.8	3.9
Absolute Return	6.8	5.0	1.8
Real Estate	13.2	12.1	1.1
Natural Resources	0.4	0.8	(0.4)
Private Equity	16.2	15.5	0.7
Fixed Income	5.2	2.4	2.8
Cash	0.5	0.5	-
Managed Pool vs. Passive Benchmark	10.0	9.3	0.7
Managed Pool vs. Policy Benchmark	10.0	8.7	1.3
Managed Pool vs. HEPI + 4.5%	10.0	6.7	3.3

For the 20-year period ending June 30, 2019, the Managed Pool returned an annualized 6.6 percent. Over this time period, the Total Investment Pool grew from \$530.3 million to \$1.08 billion. Despite \$669.4 million of spending during this period, the Total Endowment Pool grew by \$549.7 million through a combination of \$325.9 million in gifts and \$841.0 million of net investment performance. While the Managed Pool beat a simple portfolio of 70 percent stocks and 30 percent bonds over the period, it fell short of our absolute return benchmark that incorporates spending plus higher education inflation. A policy benchmark does not exist for this period of time.

20-YEAR PERFORMANCE ENDING JUNE 30, 2019			
ASSET CLASS	ENDOWMENT RETURN (%)	BENCHMARK RETURN (%)	VALUE ADDED (%)
Managed Pool vs. Passive Benchmark	6.6	5.2	1.4
Managed Pool vs. HEPI + 4.5%	6.6	7.6	(1.0)

## DOING OUR HOMEWORK

The Investments staff spends months and sometimes years building relationships with potential investment partners in order to understand exactly what makes these managers special. Both quantitative and qualitative analyses contribute to our process. In particular, in-person meetings and reference calls provide an important step in understanding the people we are investing behind.

Manager relationships should start with as much conviction in our partners' integrity, investment judgment, and strategic differentiation as possible. Referencing is a serious endeavor enabling us to seek candid feedback from friends, former employees and colleagues, competitors, service providers, portfolio companies, and others who offer insightful perspectives. Our work helps not only to validate our investment thesis and confidence in the people we are investing with, but also gives our managers assurance in us as a long-term, supportive capital partner. Partnerships are inevitably tested by periods of underperformance, mistakes, or both, and our initial deep work gives us staying power and the ability to support our investment partners through difficult times.

Our work does not stop when a manager is added to the portfolio. Consistent monitoring is critical, and our team spends significant time traveling to visit with our partners, engaging in regular calls, executing analyses of portfolios and doing primary research. We want to understand the leadership qualities of our partners, the depth of their organizations, their adherence to stated strategy and whether their performance is in line with expectations over a long period of time. With the very long feedback loop in investing, qualitative factors play an important role in our evaluation, requiring ongoing engagement with managers on a consistent and regular basis.

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## **MISSION-DRIVEN**

From our offices on campus, we observe and participate in the activities of the University every day—a strong reminder of the mission-driven nature of our work. As we travel around the world speaking to our managers, we are often gratified to hear how many of them know and love Wesleyan. The University's focus on academic excellence, social justice, and engagement are inspiring to us and to many of our managers.

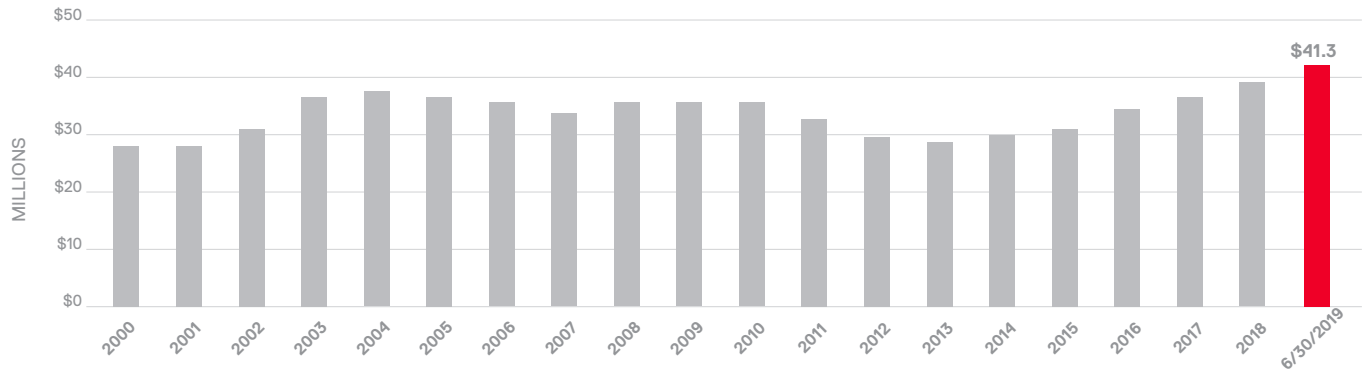
Our greatest competitive advantage remains our people and network. Besides the close-knit group in our office, we are surrounded by a knowledgeable and dedicated investment committee, trustees, alumni, and friends of Wesleyan. This strong coalition of stakeholders who are willing to prioritize Wesleyan's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

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## **BUDGET SUPPORT**

To contribute to the stability of the operating budget, the endowment disburses 70 percent of the prior year's payout on an inflation-adjusted basis. The remaining 30 percent of the payout is calculated as 4.5 percent 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 losses. The chart next page depicts the annual endowment spending draw for each of the last 20 years. In total, the University spent roughly \$669.4 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 six years.

**Annual Spending Draw**



**LIQUIDITY**

The Investment Committee reviews portfolio liquidity on a quarterly basis. As of June 30, 2019, nearly 26 percent of the endowment’s investments were in funds providing quarterly or shorter liquidity, while 51 percent of the portfolio was invested in funds with annual or shorter liquidity. Even in a prolonged downturn, the endowment has ample liquidity to meet its obligations to the University and its investment partners.

**LOOKING AHEAD**

Like many in the investing world, we worry about global and political risks and how they will affect the portfolio. However, we also feel extremely lucky to invest with a long-term horizon, something we view as a competitive advantage, particularly as markets become more volatile. Dislocated markets offer interesting buying and selling opportunities for investors who maintain a long-term time horizon and patience. Our strategy remains to build strong partnerships with managers who embrace deep, bottom up, fundamental research that can lead to differentiated insights and conviction. While our partners vary in their strategies, experience, and focus areas, they share certain characteristics: passion, integrity, an ownership mentality, and astute investment judgment.

As we launch into our tenth year in the Wesleyan Investment Office, we know there will be difficult investment periods ahead. We cannot know when they will arrive, but we can remain focused on a disciplined, long-term strategy and attentively manage risk and liquidity. We continue to work hard on our goal of delivering the financial returns needed for the work that makes Wesleyan such a special institution.

Sincerely,  
 John B. Frank  
 Chair, Investment Committee

Anne Martin  
 Chief Investment Officer

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FISCAL 2019 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
Real Estate	Cambridge Associates U.S. Private Real Estate Index
Natural Resources	Cambridge Associates U.S. Upstream and Royalties Index
Private Equity	Cambridge Associates U.S. Private Equity Composite Benchmark
Fixed Income	Barclays Intermediate U.S. Treasury Index
Cash	90-day U.S. Treasury Bill

FISCAL 2019 COMPOSITE BENCHMARKS

PRIVATE EQUITY COMPOSITE BENCHMARK	WEIGHT
Cambridge Associates U.S. Buyout Index	70%
Cambridge Associates U.S. Venture Capital Index	30%
PASSIVE BENCHMARK	WEIGHT
MSI All Country World Index	70%
Bloomberg Barclays Aggregate U.S. Bond Index	30%
POLICY BENCHMARK	WEIGHT
Wilshire 5000 Index	11.5%
MSCI EAFE Index	10%
MSCI Emerging Markets Index	10%
CSFB/Tremont Hedge Fund Index	21%
Cambridge Associates U.S. Private Real Estate Index	7%
Cambridge Associates U.S. Upstream and Royalties Index	7.5%
Cambridge Associates U.S. Buyout Index	18.9%
Cambridge Associates U.S. Venture Capital Index	8.1%
Bloomberg Barclays Intermediate U.S. Treasury Index	5%
90-day U.S. Treasury Bill	1%