In a year in which global equities were down 6.5%, and hedge funds, in aggregate, provided a drag on returns, we were pleased that the endowment provided a positive return and improved the financial support to Wesleyan's academic mission. The externally managed portion of the endowment (the "investment pool"), generated a 3.9% return, finishing fiscal year 2012 with a balance of $592.1 million, a $16.2 million increase from the $576.0 million ending value on June 30, 2011. The Wesleyan managed assets (consisting primarily of Charitable Remainder Trusts and University owned real estate) returned -2.8%, net of fees and expenses. On a combined basis, the total endowment returned 3.6%, ending with a balance of $616.2 million.

The $14.7 million increase from the $601.5 million fiscal 2011 ending value reflects the following changes:

Fiscal 2011 Ending Balance	$601.5
Gifts and Transfers	$21.6
Net Investment Gains	$22.6
Spending	($29.5)
Fiscal 2012 Ending Balance	$616.2

Fiscal 2012 was characterized by market turbulence and persistent worries regarding the global economy. Wesleyan managed risk by adhering to our long-term asset allocation and continuing to allocate capital to managers that rely on fundamental analysis, perceive risk as the permanent impairment of capital, and are willing to maintain long-term time horizons in a world where most investors are more concerned than ever about short-term volatility. As part of our approach to risk management, we continued to rebalance back to our policy portfolio throughout the year. Our policy portfolio represents a mix of assets that we believe will provide Wesleyan with an appropriate return at acceptable risk over the long term.

The investment pool returns exceeded both its policy benchmark (a benchmark mirroring our asset allocation decisions) and passive benchmark of 70% equities/30% fixed income. Across all marketable equity portfolios, the Wesleyan endowment beat its passive indexes. In absolute return, our portfolio was flat for the year, beating the broad-based index, but adding little in overall gains. Our fixed income portfolio outperformed its index. Our illiquid assets contributed significantly to this year's returns.

Fiscal 2012 was the second year of significant change to the Wesleyan portfolio. Changes made to our manager roster in the marketable and absolute return sectors over the past two years contributed significantly to returns. In the marketable areas, the Wesleyan portfolio now comprises managers that are bottom up stock pickers and that are willing to hold positions for years as intrinsic value is realized. Our absolute return portfolio went through a full analysis and overhaul this past year, and we ultimately repositioned it as a low beta, diversifying asset class with a number of new managers.

ASSET ALLOCATION

The Investments Office manages the portfolio to reflect risk and return characteristics that fit the University's long-term financial goals. Our long-term return objective is to maintain the purchasing power of each gift to the endowment, a task that means we must achieve returns that exceed the annual payout to the University and inflation. While our performance will diverge from this objective over the short term, we believe the Policy Portfolio choices made by the Investments Office and Investment Committee will allow us to achieve goals over the long term. In order to maintain the risk and return characteristics of the Policy Portfolio, the Investments Office actively rebalances the portfolio.

In June 2012, the Investment Committee examined and approved a policy portfolio for the upcoming 2013 fiscal year. No changes were made to the asset allocation from the prior year. More information about the University's policy portfolio choices over the past 19 years is shown below:

Asset Class	1995	2000	2005	2010	Asset Class	2013
Domestic Equity	50%	45%	25%	16%	Domestic Equity	13%
International Equity	10%	13%	15%	20%	Developed Equity	10%
					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%

DISCUSSION OF FISCAL YEAR 2012 PERFORMANCE

The performance of the investment pool assets versus our benchmarks for the year ended June 30, 2012 is shown in the following table:

ONE-YEAR PERFORMANCE
JUNE 30, 2012

Asset Class	Endowment Return	Benchmark Return	Value Added	Benchmark
Domestic Equity	4.3%	3.7%	0.6%	Wilshire 5000 Total Market Index
International Equity	(8.0%)	(14.6%)	6.6%	MSCI AC World Index ex USA
Absolute Return	0.0%	(2.0%)	2.0%	CSFB/Tremont Hedge Fund Index
Real Assets	13.9%	10.6%	3.3%	Cambridge Associates Composite[1]
Private Equity	11.3%	6.1%	5.2%	Cambridge Associates Composite[2]
Fixed Income	12.4%	5.4%	7.0%	Barclays Intermediate U.S. Treasury Index
Externally Managed	3.9%	0.7%	3.2%	Policy Benchmark[3]
Externally Managed	3.9%	(1.6%)	5.5%	Passive Benchmark[4]
Total Endowment	3.6%	6.7%	(3.1%)	HEPI[5]+ 5.0%

The investment pool beat both its policy and passive benchmarks in fiscal 2012. With the exception of international equities, all asset classes generated investment gains. The repositioning of the domestic and international marketable portfolios over the past two years resulted in solid performance. The largest drags on performance came from Wesleyan's large allocation to the emerging market index during the year and our decision to hold cash in lieu of high-quality but expensive treasuries in our fixed income portfolio.

For the fiscal year, real assets were the top performer with a 13.9% return. Oil and gas returned 23.0% for the year, while real estate turned in a 15.4% return. Private equity returned 11.3%, boosted by venture capital returns of 28.8%. In contrast, leveraged buyout returns were mediocre, turning in a mere 0.9% return.

ONE-YEAR PERFORMANCE

JUNE 30, 2012

Asset Class	Endowment Return	Benchmark Return	Value Added	Benchmark
Private Real Estate	15.4%	5.1%	10.3%	Cambridge Associates Real Estate Index
Oil and Gas	23.0%	15.7%	7.4%	Cambridge Associates Upstream and Royalties Index
Venture Capital	28.8%	6.0%	22.8%	Cambridge Associates Venture Capital Index
Leveraged Buyouts	0.9%	6.2%	(5.3%)	Cambridge Associates Private Equity Index

Our marketable securities portfolios beat their benchmarks across the board. Domestic equity outperformed the Wilshire 5000 benchmark by 0.7%. International developed equities returned -8.0%, beating the -14.6% MSCI All Country World Index ex-USA (ACWI ex-US) benchmark return.

Our international developed equity managers accounted for the vast majority of excess return in our international portfolio. In particular, widespread worries about Europe enabled our managers to establish portfolios of quality names at good prices. While still turning in a negative return for the year, the international developed equity portfolio outperformed the EAFE index by 10.4%.

In emerging markets, where we remain mostly indexed, the portfolio barely outperformed the negative 16.0% benchmark return. The emerging markets portfolio is the top area of focus for fiscal 2013; we continue to believe that active management and thoughtful positioning can add significant value in this still inefficient market.

ONE-YEAR PERFORMANCE

JUNE 30, 2012

Asset Class	Endowment Return	Benchmark Return	Value Added	Benchmark
Developed Equity	(3.4%)	(13.8%)	10.4%	MSCI EAFE Index
Emerging Markets Equity	(15.1%)	(16.0%)	0.9%	MSCI EM Index

The absolute return portfolio produced a return of 0.0%. Relative performance was better than the broad hedge fund index benchmark return of -2.0%. Our fixed income portfolio outperformed its index by a wide margin, due to a small investment made in long-term Treasury bonds in the summer of 2011. However, when combined with our cash holdings, the fixed income/cash portfolio slightly underperformed our Barclay's Intermediate Treasury Index of 5.4%.

DISCUSSION OF TEN-YEAR PERFORMANCE

For the ten years ending June 30, 2012, the endowment returned an annualized 7.0%, growing from $484.3 million on July 1, 2002 to $616.2 million on June 30, 2012, an increase of $131.9 million over ten years. The growth reflects approximately $361.7 million of investment gains, $347.8 million in spending, and $118.1 million in gifts.

Fiscal 2002 Ending Balance	$484.3
Gifts and Transfers	$118.1
Net Investment Gains	$361.7
Spending	($347.8)
Fiscal 2012 Ending Balance	$616.2

Our performance by asset class over the last decade is shown in the following table:

TEN-YEAR PERFORMANCE
JUNE 30, 2012

Asset Class	Endowment Return	Benchmark Return	Value Added	Benchmark
Domestic Equity	8.1%	6.2%	1.9%	Wilshire 5000 Total Market Index
International Equity	9.2%	6.7%	2.5%	MSCI AC World Index ex USA
Absolute Return	5.3%	6.5%	(1.2%)	CSFB/Tremont Index
Real Assets	10.7%	15.0%	(4.3%)	Cambridge Associates Composite Index[1]
Private Equity	6.1%	9.0%	(2.9%)	Cambridge Associates Composite Index[2]
Fixed Income	8.4%	4.6%	3.8%	Barclays Intermediate U.S. Treasury Index
Externally Managed	7.2%	6.5%	0.7%	Passive Benchmark[4]
Total Endowment	7.0%	8.3%	(1.3%)	HEPI[5] + 5.0%

Over the past decade, Wesleyan has added value from active management in marketable securities and fixed income. Wesleyan has lagged across absolute return, real assets and private equity. However, Wesleyan's real assets portfolio was constructed post-2005, making the comparison to a ten-year benchmark somewhat irrelevant. Fixed income returns over ten years include allocations to non-Treasury securities at various points in time. 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.

DISCUSSION OF LONG-TERM PERFORMANCE

Over 20 years, the endowment has returned 8.3% on an annualized basis, on par with the inflation plus estimated spending. Over the same period, the externally managed investment pool returned an 8.5% annualized return. The endowment grew from $289.6 million on July 1, 1992 to $616.2 million on June 30, 2012, an increase of $326.6 million over 20 years. The growth reflects approximately $702.8 million of investment gains, $556.0 million in spending and $179.7 million in gifts.

Fiscal 1992 Ending Balance	$289.6
Gifts and Transfers	$179.7
Net Investment Gains	$702.8
Spending	($556.0)
Fiscal 2012 Ending Balance	$616.20

The endowment performance over the past two decades is shown in the following table:

TWENTY-YEAR PERFORMANCE
JUNE 30, 2012

Asset Class	Endowment Return	Benchmark Return	Value Added	Benchmark
Externally Managed	8.5%	7.2%	1.3%	Passive Benchmark[4]
Total Endowment	8.3%	8.3%	0.0%	HEPI[5] + 5.0%

SPENDING

In fiscal 2012, the endowment's $29.5 million spending payout accounted for approximately 15.7% of the University's net revenue. In fiscal 2013, the University will receive $28.4 million from the endowment, representing approximately 15.4% of Wesleyan's net revenue.

In fiscal 2012, the University concluded a two-year study of its spending policy. Beginning in fiscal 2014, the University will calculate payout based on a formula that weights prior year's spending plus inflation at 70% and the endowment balance at 30%. This new payout calculation provides more stability to the school's budget while increasing the probability of maintaining the purchasing power of the endowment.

LIQUIDITY

The Investments Committee and staff monitor portfolio liquidity on a quarterly basis. As of June 30, 2012, 32% of the endowment was liquid within 30 days. Illiquid private equity funds, including natural resources and real estate, made up 38% of the portfolio and uncalled commitments to those funds equaled approximately 14% of endowment value. Even in a prolonged downturn, Wesleyan has ample liquidity to meet its obligations to the University and its managers over the next several years.

HOW WE SELECT OUR MANAGERS

Within the marketable asset classes, we interview and select managers that we believe will add returns in excess of an indexed approach. In cases where we cannot identify managers that we believe can add value over the benchmark, we maintain exposures through low-cost index funds. We are currently indexed in our fixed income portfolio and much of our emerging market portfolio.

Some asset classes are active by nature — absolute return, private equity, and parts of the real assets sector. In these areas, we look for managers that we believe will exceed an absolute return hurdle through identifiable skills, knowledge or operating excellence. To the extent such managers are not identifiable or accessible, we will choose to underweight these sectors rather than "settle" for a second tier group.

Our process for evaluating existing and new managers differs by strategy and asset class, but, in all cases, we bring a number of core principles to bear on our decisions.

- **INTEGRITY AND ALIGNMENT** are foremost in our decision making process. Our partners must view themselves as stewards of our capital and our trust. We expect our managers to put clients first, ahead of their own interests. Their mission should be to protect and grow our capital while providing us with transparency. We look for independent managers with a principal orientation that are willing to invest their capital in their own funds alongside us, promoting alignment.

- **DIFFERENTIATION.** Information and capital flows have accelerated over the past two decades. In this context, there are two points of differentiation Wesleyan seeks in its managers: long term-time horizons and specialized skills. Our managers typically bring one or both approaches to their business. We especially look for managers that can demonstrate an "edge" by focusing on difficult to understand niches, complex situations, or assets that require specialized skills or knowledge.

- **VALUE ORIENTATION.** We prefer managers who focus on fundamental analysis and buy assets at a significant discount to intrinsic value. A sufficient margin of safety between the price paid and a fundamentally derived, conservative projection of future value is a key criteria for inclusion in the portfolio. Fundamental analysis enables our managers and ourselves to avoid being swayed by emotions, market sentiment, or short-term news, instead focusing on whether investments are priced below or above long-term value and buying or selling appropriately.

These characteristics require us to maintain a very high bar as we examine investment strategies for the endowment. We believe, however, that the characteristics described above will help the endowment avoid permanent losses, while increasing our probability of earning the equity-like returns necessary for the University to reach its financial objectives.

LOOKING AHEAD

We are investing in an era of considerable turbulence. Significant economic issues face several regions around the world. In this environment, it is more crucial than ever to stick to our investing principles. An equity orientation, diversification and regular rebalancing continue to guide our work. To these core tenets, we add careful manager selection and a sharp focus on microeconomic opportunities rather than trying to predict and time macroeconomic trends and corrections. We believe this approach is well-suited to the skill set we've developed in our investment team and will serve Wesleyan best over the long term.

Sincerely,

Anne Martin
Chief Investment Officer
Wesleyan University
Middletown, CT

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

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FOOTNOTES

1 50% Real Estate/50% Energy

2 50% Leveraged Buyout/50% Venture Capital

3 13% Wilshire 5000/ 20% MSCI ACWI ex U.S./ 23% CSFB Tremont/ 10% Barclays Intermediate/ 8.5% CA Energy/ 8.5% CA Real Estate/ 8.5% CA LBO/ 8.5% CA VC

4 70% MSCI ACWI Index/ 30% Barclays Aggregate Index

5 Higher Education Price Index