EXECUTIVE SUMMARY

The Wesleyan endowment generated a 10.8% return for fiscal 2013, ending the year with a market value of $688.6 million. The $72.4 million increase from the $616.2 million ending value in fiscal 2012 reflects $68.9 million of investment gains, $29.9 million of spending and expenses, $30.3 million of gifts and permanent transfers and $3.1 million of operating reserve investments.

The portion of the endowment managed by the Investments Office (the "investment pool") returned a solid 11.0% in fiscal 2013, ending the year with a balance of $665.5 million, a net $73.4 million increase from the $592.1 million ending value on June 30, 2012. The investment pool exceeded its policy and inflation plus spending benchmarks, while slightly underperforming its passive benchmark. We were pleased that the endowment exceeded its policy portfolio benchmark (a benchmark mirroring our asset allocation targets) for the third year in a row, a difficult achievement and one we do not expect every year.

Over the past 10 years, Wesleyan's investment pool produced an 8.0% annualized return, narrowly beating its goal of annualized 5% real returns plus inflation, which stood at 7.9%. A 5% real return is important as it ensures that the endowment can support Wesleyan's academic programs at the same level in the future as it provides today. Given the volatility of market returns, we do not expect to earn a 5% real return each year; however, our asset allocation and manager selection are determined based on our expectation of earning such returns over the long run.

The cost of a Wesleyan education exceeds what the University collects in tuition and fees. The annual draw on the endowment makes up the majority of that difference. In fiscal 2013, the endowment's $28.4 million spending payout accounted for approximately 14.5% of the University's revenue less financial aid. In fiscal 2014, the University will receive $29.3 million from the endowment, representing approximately 15.0% of Wesleyan's budgeted revenue less financial aid. The 2014 fiscal year marks the first time the contribution to the University has increased since fiscal 2010.

Fiscal 2013 represented a third year of significant change to the Wesleyan portfolio. Over the course of the year, we funded a number of new relationships. In particular, our absolute return portfolio went through a continued overhaul, with the goal of repositioning it to be a low beta, diversifying asset class. Within the marketable asset classes, emerging markets equities was a focus area as we searched for new managers. Following similar trips in fiscal 2012, the investment team travelled to Asia, Latin America, and other regions to explore investment opportunities. A highlight was a trip to India to meet with managers and visit with local companies. Broader themes from these trips have been incorporated into our investment strategy.

The endowment provides a critical financial foundation as Wesleyan seeks to achieve its goals and maintain its academic excellence in the future. The Investment Committee and staff are dedicated to achieving the long-term returns required to enable Wesleyan to continue offering one of the finest liberal arts educations in the country. To achieve these goals, we manage the endowment with an equity bias and a long-term horizon, consistent with the perpetual nature of our capital. The endowment is invested in diversified asset classes to dampen volatility as different asset types and geographies experience significant return variation year to year. We rebalance the portfolio regularly and remain diligent about maintaining adequate liquidity to meet our draw to the school and our unfunded commitments to managers.

ORGANIZATION

The Investments Office is now a six-person team located on the Wesleyan campus. Our location enables us to work closely with the University on important topics such as indebtedness, endowment payout policy, retirement plan governance, and liquidity. Our presence on campus has allows us to remain involved with Wesleyan students through our summer and school-year internships. Over the past two years, we have had three Wesleyan interns work with us, each gaining valuable hands-on work experience and exposure to investment analysis. The presence of students in our office also serves to remind us of the important purpose of our work and the academic mission of the University.

The core work of our staff continues to be selecting and monitoring investment managers rather than picking individual stocks and bonds. Our most important functions are carefully monitoring the risks our managers are taking on our behalf as well as the overall risks in the portfolio.

MARKET TRENDS DURING FISCAL YEAR 2013

Strong U.S. and European market rallies provided a significant tailwind for investors over the year. On the other hand, fear of a slowdown in China's growth created a difficult environment for emerging markets, particularly the BRICs. Fixed income also suffered, particularly in the latter part of the year, as the Fed began to talk about the end of its quantitative easing program. Wesleyan continued to manage risk by adhering to our long-term asset allocation and selecting managers that view risk as permanent loss or impairment of capital rather than short-term volatility. We continue to believe that investing in multiple asset classes and rebalancing regularly will help produce better long-term returns with less risk.

ASSET ALLOCATION

In June 2013, the Investment Committee of the Board of Trustees re-examined and approved a policy portfolio for the upcoming 2014 fiscal year. Long term, we expect asset allocation to be the single largest driver of performance. After careful examination of the University's liquidity, the committee approved a decrease to fixed income and an increase to absolute return by two percentage points. Shown below are changes to the policy portfolio over the past 19 years:

ASSET CLASS	1995	2000	2005	2010	2011	2012	ASSET CLASS	2013	2014
Domestic Equity	50%	45%	25%	16%	15%	13%	Domestic Equity	13%	13%
International Equity	10%	13%	15%	20%	20%	10%	Developed Equity	10%	10%
						10%	Emerging Equity	10%	10%
Absolute Return	0%	7%	25%	19%	23%	23%	Absolute Return	23%	25%
Private Equity	10%	15%	15%	17%	15%	17%	Private Equity	17%	17%
Real Assets	0%	0%	5%	10%	17%	17%	Real Assets	17%	17%
Fixed Income	30%	20%	15%	18%	10%	10%	Fixed Income	10%	8%

FISCAL 2013 INVESTMENT PERFORMANCE

ONE YEAR PERFORMANCE
JUNE 30, 2013

ASSET CLASS	ENDOWMENT RETURN[1]	BENCHMARK RETURN	VALUE ADDED	BENCHMARK
Domestic Equity	21.2%	21.1%	0.1%	Wilshire 5000 Total Market Index
International Equity	14.6%	10.6%	4.0%	Foreign Composite Index[1]
Absolute Return	13.7%	9.2%	4.5%	CSFB/Tremont Hedge Fund Index
Real Assets	7.4%	10.3%	(2.9%)	Cambridge Associates Composite[2]
Private Equity	10.4%	12.2%	(1.8%)	Cambridge Associates Composite[3]
Fixed Income	(0.7%)	(0.7%)	(0.1%)	Barclays Intermediate U.S. Treasury Index
Externally Managed	11.0%	11.2%	(0.2%)	Passive Benchmark[4]
Externally Managed	11.0%	10.7%	0.3%	Policy Benchmark[5]
Total Endowment	10.8%	6.6%	4.2%	HEPI + 5.0

1) 50% MSCI EAFE/ 50% MSCI EM

2) 50% Real Estate/50% Upstream and Royalties.

3) 50% Leveraged Buyout/50% Venture Capital.

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

5) 13% Wilshire 5000/ 10% MSCI EAFE/ 10% MSCI EM/ 23% CSFB Tremont/ 10% Barclays Intermediate/ 8.5% CA Upstream and Royalties/ 8.5% CA Real Estate/ 8.5% CA LBO/ 8.5% CA VC.

Across all marketable equity portfolios, the Wesleyan endowment beat its benchmarks.

Wesleyan's domestic equity portfolio narrowly exceeded its benchmark, a fine outcome in a year in which the stock market's value ballooned.

Foreign equity, which combines developed and emerging markets, outperformed its foreign composite benchmark by 400 basis points. However, the performance of our developed and emerging sub-asset classes diverged substantially over the year. Our developed market portfolio beat its EAFE index by 4.0%, returning 22.6% for the year, while emerging equities returned just 6.0%. Our emerging market portfolio managed, however, to beat its benchmark return of 2.9% by 320 basis points.

In absolute return, where we made material changes over the course of the fiscal year, our portfolio performed extremely well, beating the broad-based CSFB/Tremont index by 450 basis points. Our fixed income portfolio performed in line with its benchmark.

Our illiquid assets contributed positively to this year's returns, but underperformed the public markets. Our private equity portfolio allocation fell from 19.2% of the investment pool in June 2012 to 14.2% in June 2013 as we experienced significant distributions from our managers. Much of our portfolio was invested in funds with vintage years over a decade old, so this pattern of capital distributions was not surprising. From a return standpoint, private equity contributed to gains with a 10.4% return. Our leveraged buyout funds turned in a 13.5% return for the year versus 0.9% in 2012, while our venture portfolio gave us returns of just 6.5%, after a stellar return of 28.8% in 2012. Our private equity portfolio remains a work in progress and we expect that we will need several years of careful and disciplined manager selection and consistent capital deployment before we reap significant benefits.

Real assets posted a 7.4% return for the year. After producing a 23.0% return last year, oil and gas produced a 7.7% return for the year. Real estate returned 9.0%, versus 15.4% in fiscal 2012.

Our fixed income portfolio performed in-line with the Barclay's Intermediate Treasury Index. Our average fixed income/cash allocation remained stubbornly high during the year as we received large distributions from our private funds relative to capital calls.

LONG-TERM PERFORMANCE

For the ten years ending June 30, 2013, the endowment returned an annualized 8.0%, growing from \$472.3 million on July 1, 2003 to \$688.6 million on June 30, 2013, an increase of \$216.3 million. The growth reflects approximately \$400.2 million of investment gains, \$320.2 million in spending and \$136.4 million in gifts.

TEN YEAR PERFORMANCE
JUNE 30, 2013

ASSET CLASS	ENDOWMENT RETURN[1]	BENCHMARK RETURN	VALUE ADDED	BENCHMARK
Domestic Equity	9.7%	8.0%	1.7%	Wilshire 5000 Total Market Index
International Equity	10.5%	8.3%	2.2%	Foreign Composite Index[1]
Absolute Return	6.8%	6.5%	0.3%	CSFB/Tremont Index
Real Assets	11.3%	14.8%	(3.5%)	Cambridge Associates Composite Index[2]
Private Equity	8.7%	11.5%	(2.8%)	Cambridge Associates Composite Index[3]
Fixed Income	4.8%	3.7%	1.1%	Barclays Intermediate U.S. Treasury Index
Externally Managed	8.0%	7.0%	1.0%	Passive Benchmark[4]
Total Endowment	7.7%	7.9%	(0.2%)	HEPI + 5.0%

1) Fiscal 2011 to Present, 50% MSCI EAFE/ 50% MSCI EM; Prior to Fiscal 2011, MSCI ACWI ex-USA

2) 50% Real Estate/50% Upstream and Royalties.

3) 50% Leveraged Buyout/50% Venture Capital.

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

Over the past decade, Wesleyan added value from active management in marketable securities, absolute return and fixed income. However, Wesleyan lagged its benchmarks in real assets and private equity. Private equity returns actually outperformed the Wilshire 5000 by 70 basis points over this period, but lagged the Cambridge pooled mean. Real assets was the highest performing asset class; however, it also lagged the Cambridge Associates benchmark. Notably, Wesleyan's real assets portfolio was constructed post-2005 and is less than 10 years old, 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.

Over 20 years, the endowment has returned 8.0% on an annualized basis, exceeding HEPI + 5.0% benchmark. The externally managed investment pool has returned an 8.3% annualized return. Underlying benchmark data is not available to calculate a 20-year policy benchmark return.

TWENTY YEAR PERFORMANCE
JUNE 30, 2011

ASSET CLASS	ENDOWMENT RETURN[1]	BENCHMARK RETURN	VALUE ADDED	BENCHMARK
Externally Managed	8.3%	7.0%	1.3%	Passive Benchmark[1]
Total Endowment	8.0%	8.2%	(0.2%)	HEPI + 5.0%

1) 70% MSCI ACWI Index/ 30% Barclays Aggregate Index.

LIQUIDITY

The Investment Committee reviews portfolio liquidity on a quarterly basis. As of June 30, 2013, 25.6% of the endowment could be liquidated and made available to Wesleyan within 30 days. Uncalled commitments to private partnerships equaled approximately 16.4% 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.

LOOKING AHEAD

Since the fiscal year end, markets have continued to roar ahead. Much of the investment community's worries center on risks associated with the inevitable end of monetary easing by the Fed. While we try to understand how macro events such as these might affect our portfolio, we avoid trying to predict these types of events or attempting to time the market. No doubt, uncertainties about fiscal and monetary policy not only in the U.S., but also in many of the world's economies, will persist for some time. In the face of these uncertainties, it is critical that we maintain our investment discipline, asset allocation and long-term view.

Sincerely,

Ellen Jewett	Anne Martin
Chair, Investment Committee	Chief Investment Officer

WESLEYAN INVESTMENT COMMITTEE 2012–2013

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