EXECUTIVE SUMMARY

The Wesleyan endowment generated a 15.7% return during fiscal 2014, ending the year at a new all-time high of $793.3 million. The $104.7 million increase from the $688.6 million ending value in fiscal 2013 reflects $109.9 million of investment gains, $34.2 million of spending and expenses, $26.0 million of gifts and permanent transfers and $3.0 million of operating reserve investments.

The portion of the endowment managed by the Investments Office (the "investment pool" or "externally managed pool") returned a robust 15.8% in fiscal 2014, ending the year with a balance of $767.8 million. The performance resulted in a net $102.3 million increase from the $665.6 million ending value on June 30, 2013. While the investment pool underperformed its passive benchmark, it met its policy benchmark and exceeded its inflation plus spending benchmark. Over the trailing three and five year periods, the investment pool has exceeded the policy, passive and inflation plus spending benchmarks.

Over the past 10 years, Wesleyan's investment pool produced a 7.7% annualized return, slightly missing 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 does today. Given the volatility of capital markets, we do not expect to earn a 5% real return each year; however, our asset allocation and manager selection are determined based on our objectives to earn such returns over the long run.

The 2014 fiscal year marks the first time the endowment's contribution to the University has increased as a percentage of Wesleyan's budgeted revenue net of financial aid since fiscal 2010. In fiscal 2014, the endowment's $31.5 million spending payout accounted for approximately 16.0% of the University's budgeted revenue less financial aid versus 14.5% in the previous fiscal year. Spending for fiscal 2015 is also budgeted at $31.5 million.

Compared to previous years, fiscal 2014 was a relatively stable year for the Wesleyan portfolio. Over the course of the twelve months, capital deployment mostly involved funding existing relationships instead of new managers, especially in the illiquid categories. As our portfolio of illiquid funds matures, we expect upcoming decisions to continue revolving around re-ups rather than underwriting new managers.

The Investment Committee and staff are dedicated to achieving the long-term returns that 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 the University's spending requirement and our unfunded commitments to managers.

ORGANIZATION AND FOCUS

The Investments Office is 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. In addition, having offices on campus has enabled us to create an internship program that has hosted five interns over the past four years. Our internships benefit both the Investments Office and Wesleyan students: while our team develops a better understanding of the academic mission of the University, students are offered a rich work experience that results in a broad understanding of investment principles. Our interns work on various projects including performance analysis, research on investment opportunities and manager due diligence. Our internship program continues to evolve, and we intend to expand it in the future.

The fundamental work of our organization is selecting and monitoring investment managers rather than picking individual stocks and bonds. One of our most important functions is carefully monitoring the risks our managers are taking as well as the overall risks in the portfolio. Much of our time is spent with the 42 existing managers in our portfolio to understand how their organizations and investment philosophies are evolving. Our monitoring work is particularly focused on organizational stability, assets under management and investment discipline. We expect our managers to maintain the highest level of integrity in stewarding Wesleyan's capital, to maintain a frequent and honest dialogue with us, and to emphasize risk and return considerations over asset growth.

Emerging market equities within the marketable asset class continued to be an area of keen focus for the investments staff in fiscal 2014. The team took multiple trips to Asia and Latin America over the course of the year and has continued to build a portfolio of active managers slowly and carefully as we expand our networks and knowledge base. Our objective is to identify and hire local and regional managers, who we believe are best positioned to understand industry structures and trends, management quality, competitive landscapes and the regulatory risks particular to each market. Large populations and changing demographics combined with evolving reforms continue to drive opportunities for foreign capital in emerging markets, even if growth rates slow.

Other areas of emphasis in our work over the past four years have been the illiquid parts of the portfolio: absolute return and private equity. In the private equity arena, we have built a small but high quality portfolio in the venture capital space, and continue to develop relationships with top tier growth equity and leveraged buyout firms. Despite a relatively young and evolving portfolio, our venture and private equity portfolios performed well in fiscal 2014. Our managers have been appropriately cautious over the past year in a frothy environment of private purchases encouraged by cheap and easy credit.

MARKET TRENDS DURING FISCAL YEAR 2014

Market activity mimicked what we experienced in fiscal 2013 with strong U.S. and European equity rallies providing a significant tailwind for investors. Emerging markets surged in the last three months of the fiscal year as tensions between Ukraine and Russia were largely ignored by the markets, and countries such as India saw changes in government leadership that were welcomed by financial markets. The U.S. equity market returned 24.9% for the year, while developed markets fell just short of the U.S. with a 23.6% return. Emerging markets lagged by almost 10% with 14.3% in gains for the year - a terrific absolute performance, but paling next to the supersized returns in other parts of the world.

Among real assets, natural resources equities had a stellar year, returning over 42%. Since year-end, however, energy and commodity markets have plummeted, erasing the gains of fiscal 2014. Real estate also had a strong year, with the U.S. REIT index ending the year 13.1% higher. Wesleyan invests through private funds in both real estate and natural resources. In energy, the long duration nature of the underlying holdings and our managers' hedging activities meant that our portfolio did not keep up with the publicly traded energy-related equities. In both real estate and energy, our managers sold assets into a market hungry for yield.

Hedge funds saw large inflows of capital during the year, ending June with an estimated $2.7 trillion in assets under management as estimated by Cambridge Associates. Short-biased managers had a terrible year, while long-short and event driven managers finished the year with returns in the mid-teens. The hedge fund benchmark return as reflected by the Credit Suisse Hedge Fund Index was 8.8%.

Fixed income slowly advanced, as the Fed implemented an end to its bond-buying program and provided ambiguous signals about interest rates. The U.S. 10-year ended just about where it started the year.

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 volatility.

ASSET ALLOCATION

In June 2014, the Investment Committee of the Board of Trustees re-examined and approved a policy portfolio for the upcoming 2015 fiscal year. Long-term, we expect asset allocation to be a large driver of performance. After careful examination of the University's liquidity, the committee approved a decrease to fixed income and an increase to private equity by two percentage points. Shown below are changes to the policy portfolio over the past 20 years:

ASSET CLASS	1995	2000	2005	2010	2011	2012	ASSET CLASS	2013	2014	2015
Domestic Equity	50%	45%	25%	16%	15%	13%	Domestic Equity	13%	13%	13%
International Equity	10%	13%	15%	20%	20%	10%	Developed Equity	10%	10%	10%
						10%	Emerging Equity	10%	10%	10%
Absolute Return	0%	7%	25%	19%	23%	23%	Absolute Return	23%	25%	25%
Private Equity	10%	15%	15%	17%	15%	17%	Private Equity	17%	17%	19%
Real Assets	0%	0%	5%	10%	17%	17%	Real Assets	17%	17%	17%
Fixed Income	30%	20%	15%	18%	10%	10%	Fixed Income	10%	8%	6%

FISCAL 2014 INVESTMENT PERFORMANCE

ONE YEAR PERFORMANCE
JUNE 30, 2014

ASSET CLASS	ENDOWMENT RETURN[1]	BENCHMARK RETURN	VALUE ADDED	BENCHMARK
Domestic Equity	32.8%	24.9%	7.9%	Wilshire 5000 Total Market Index
International Equity	12.4%	18.9%	(6.5%)	Foreign Composite Index[1]
Absolute Return	15.7%	8.8%	6.9%	CSFB/Tremont Hedge Fund Index
Real Assets	10.3%	12.7%	(2.4%)	Cambridge Associates Composite[2]
Private Equity	25.0%	25.6%	(0.6%)	Cambridge Associates Composite[3]
Fixed Income	1.0%	1.5%	(0.5%)	Barclays Intermediate U.S. Treasury Index
Externally Managed	15.8%	17.2%	(1.4%)	Passive Benchmark[4]
Externally Managed	15.8%	15.8%	0.0%	Policy Benchmark[5]
Total Endowment	15.7%	8.0%	7.7%	HEPI + 5.0

1) 50% MSCI EAFE/50% MSCI EM
2) 50% CA Real Estate/50% CA Upstream and Royalties. Final performance ending June 30, 2014.
3) 50% CA Leveraged Buyout/50% CA Venture Capital. Final performance ending June 30, 2014.
4) 70% MSCI ACWI Index/ 30% Barclays Aggregate Index.
5) 13% Wilshire 5000/10% MSCI EAFE/10% MSCI EM/25% CSFB Tremont/8% Barclays Intermediate/8.5% CA Upstream and Royalties/8.5% CA Real Estate/8.5% CA Leveraged Buyout /8.5% CA Venture Capital. Final Cambridge Associates performance ending June 30, 2014.

Wesleyan's marketable equity portfolios generated mixed performance. The domestic equity portfolio broadly exceeded the benchmark, a fine outcome in a year in which the stock market's value ballooned. Managers with exposure to small and mid-capitalization stocks led the gains.

Foreign equity, which combines developed and emerging markets, lagged its composite benchmark by 650 basis points. As with fiscal 2013, the performance of developed and emerging markets diverged substantially. Our developed market portfolio underperformed its EAFE index benchmark by 10.4%, returning only 13.2% for the year, while emerging market equities barely missed the index by 300 basis points, returning 11.3%. After a relatively strong fiscal 2013, consumer facing franchises in our portfolios across developed and emerging markets took a breather this year, significantly dampening returns.

In fiscal 2014, the absolute return portfolio produced 15.7% net of fees, outperforming the CSFB/Tremont Hedge Fund Index by 690 basis points. Though all of the managers in this segment of the portfolio take an absolute return orientation to their investments, performance amongst them varied widely. Managers with longer net exposures to equities led gains, and our exposures to the healthcare industry produced significant returns.

Our illiquid assets also contributed positively to this year's returns. Private equity returned 25.0%, benefiting from venture capital and buyout returns that were on par with the exuberant public markets. Our leveraged buyout funds turned in 26.1% for the year versus 13.5% in 2013, while our venture portfolio gave us a 25.0% return versus 6.5% last year. These results are encouraging considering our efforts to deploy capital steadily and carefully in this space.

Real assets posted a 10.3% return for the year. Oil and gas dragged down real assets with a 6.1% return for the year, while real estate drove performance, returning 15.8% versus 9.0% in fiscal 2013.

Fixed income, including our tactical cash holdings, trailed the benchmark. Given our small allocation to fixed income and general lack of available yield, we are less concerned with lagging the benchmark in years such as these. Our average fixed income/cash allocation remained elevated during the year as we received large distributions from our private funds relative to capital calls. We remain patient allocators of capital and conscious of the relatively low opportunity cost associated with holding cash in this environment.

LONG-TERM PERFORMANCE

For the ten years ending June 30, 2014, the endowment returned an annualized 7.7%, growing from $517.6 million on July 1, 2004 to $793.3 million on June 30, 2014, an increase of $275.7 million. The growth reflects approximately $439.6 million of investment gains, $332.5 million in spending, $146.1 million in gifts and $10.1 million of working capital invested alongside the endowment.

TEN YEAR PERFORMANCE
JUNE 30, 2014

ASSET CLASS	ENDOWMENT RETURN[1]	BENCHMARK RETURN	VALUE ADDED	BENCHMARK
Domestic Equity	10.7%	8.3%	2.4%	Wilshire 5000 Total Market Index
International Equity	9.0%	9.6%	(0.6%)	Foreign Composite Index[1]
Absolute Return	6.4%	6.4%	0.0%	CSFB/Tremont Index
Real Assets	12.0%	11.3%	0.7%	Cambridge Associates Composite Index[2]
Private Equity	10.2%	12.4%	(2.2%)	Cambridge Associates Composite Index[3]
Fixed Income	4.4%	3.9%	0.5%	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) 50% MSCI EAFE/50% MSCI EM

2) 50% CA Real Estate/50% CA Upstream and Royalties. Final performance ending June 30, 2014.

3) 50% CA Leveraged Buyout/50% CA Venture Capital. Final performance ending June 30, 2014.

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

Over the past decade, Wesleyan's investment managers added value in domestic equity, fixed income, and real assets. However, alternative assets such as private equity lagged its respective benchmark. Private equity returns in fact outperformed the Wilshire 5000 by 190 basis points over this period, but lagged the Cambridge pooled mean. Fixed income returns over ten years include allocations to non-Treasury securities at various points in time. While short-term relative underperformance can be expected in each asset class, we strive to create a portfolio in which all asset classes outperform over the long-term.

Over twenty years, the endowment has returned 8.7% on an annualized basis, exceeding the HEPI + 5.0% benchmark. The externally managed investment pool has returned an annualized 8.9%, outperforming the passive benchmark.

TWENTY YEAR PERFORMANCE
JUNE 30, 2014

ASSET CLASS	ENDOWMENT RETURN[1]	BENCHMARK RETURN	VALUE ADDED	BENCHMARK
Externally Managed	8.9%	7.2%	1.7%	Passive Benchmark[1]
Total Endowment	8.7%	8.2%	0.5%	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, 2014, 24.8% of the endowment could be liquidated and made available to Wesleyan within 30 days. Uncalled commitments to private partnerships equaled approximately 16.0% of endowment value. Even in a prolonged downturn, the endowment has ample liquidity to meet its obligations to the University and its managers over the next several years.

LOOKING AHEAD

Over the past two years, volatility in the capital markets has been unusually muted. However, since the fiscal year end, markets have seen the return of volatility as worries over slowing growth in China, political instability in Eastern Europe, the end of monetary easing by the U.S. Federal Reserve and overheated markets have caught up with investors. While we try to understand how macro events such as these might affect our portfolio, trying to predict the timing or short-term impacts of any of these events is not part of our investment approach. No doubt, these uncertainties will persist for some time.

Our approach continues to be to invest the portfolio prudently with managers we trust to be disciplined and value-oriented, protecting our capital against the risk of permanent impairment. We remain steadfast in our commitment to our core investment tenets of maintaining an equity orientation, diversification and rebalancing as we work to boost the financial position of the University for the long-term.

Sincerely,

Ellen Jewett	Anne Martin
Chair, Investment Committee	Chief Investment Officer

WESLEYAN INVESTMENT COMMITTEE 2013–2014

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