WELLESLEY COLLEGE

This fact sheet provides background and context regarding the endowment and its management.

Feburary 4, 2020

WELLESLEY'S ENDOWMENT

On July 1, 2019, the value of Wellesley's endowment was $2.2 billion. The endowment—the product of generous gifts from alumnae and friends of the College and careful stewardship of those funds—generates roughly 40 percent of Wellesley's net revenue. The endowment's purpose is to support the operating budget today and into the future. Being sustainable is important. Endowed funds allow the College to make commitments that are essentially perpetual, such as hiring tenured professors.

ENDOWMENT MANAGEMENT

Endowed funds are managed in a pooled portfolio together with a portion of the College's planned giving assets. The portfolio is invested across diverse asset classes, strategies, geographies, and managers.

Investment options available to Wellesley differ from those available to individual investors and very large institutional investors. Like other endowments and foundations, Wellesley is fortunate to invest with some of the best-performing firms. Few of these firms are household names because one aspect of investment excellence comes from limiting the amount of assets managed. The long-term investment horizons and worthy missions of endowments and foundations make them attractive clients for firms with such limited fund capacity. The relatively modest size of Wellesley's portfolio allows the College to achieve meaningful exposure to these outstanding firms. As a result, the portfolio has virtually no exposure to passive index funds.

Ownership of investment assets falls into two categories. Direct ownership arises when an investment firm manages the portfolio of each client separately. The contracts governing these separately managed accounts often allow the investor to put limits on certain exposures. The alternative is for an investment firm to pool assets, in which case the investor owns an interest in a commingled fund. The portfolio's size and the types of managers with whom it is invested largely precludes the use of customizable separately managed accounts. At year end, with the exceptions of cash holdings, the portfolio was invested exclusively in commingled funds. In other words, the College has no direct holdings of stocks or corporate bonds.

The investment funds in which the College participates hold equity and debt positions in private and public companies and sovereign nations. With few exceptions, exposures to private companies are held in limited partnership funds. These funds raise capital from limited partners, including institutions like Wellesley, deploy that capital over several years, and distribute proceeds back to limited partners as investments mature and are sold. Although it is possible for the College to sell interests in such funds, sales generally occur at deep discounts to the market value of the underlying assets. Strategies that focus on public stocks and bonds generally have terms that allow redemption over horizons that vary from a month to five years.

Most managers in Wellesley's portfolio have mandates that allow investment across all types of industries. Exceptions are made in cases in which deep industry expertise is important to investment success. Biotechnology and enterprise software are two examples. The oil and gas industry is another.

Exposure to Fossil Fuel Companies
Percent of Portfolio
June 30, 2019

	Focused Mandate	Broad Mandate	Total
Private	2.7%	0.6%	3.3%
Public	0%	2.0%	2.0%
Total	2.7%	2.6%	5.3%

The endowment's private and public exposure to fossil fuel companies arises from focused-mandate strategies—funds that invest solely or primarily in such companies—and broad-mandate strategies—funds that invest across many sectors, including energy. Based on market action and changes in the portfolio's manager lineup since June 30, 2019, it is likely that current exposure has declined in both dollar and percent terms.

POSSIBLE ENDOWMENT ACTIONS RELATED TO CLIMATE CHANGE

There are a variety of possible endowment actions related to climate change. In the press, actions are often characterized as divestment, which implies selling an existing position, even when the action does not involve a sale of assets. In the interest of clarity, the possibilities are described below.

1. **Prohibition on direct holdings**: Institutions with separately managed accounts can instruct managers not to own certain stocks or bonds. Existing positions in those names may be sold immediately or grandfathered in until the managers exit those companies in the course of pursuing its strategy.

2. **Prohibition on specialist public energy funds**: Some institutions have prohibited investments in public equity managers specializing in energy who pursue strategies that include the stocks and bonds of fossil fuel and renewable energy companies and, in some cases, energy futures.

3. **Moratorium on new commitments to private oil and gas funds**: In taking this action, institutions pledge not to invest in future private oil and gas funds. Exposure to existing funds diminishes over time as the proceeds from the sale of mature investments are distributed to limited partners, a process that may take up to 15 years.

4. **Sale of existing oil and gas fund interests**: A sale of partnership interests in oil and gas funds would eliminate exposures to existing funds. Sales of partnership interests generally occur at a discount to the current market value of the fund.

5. **Divestment of broad-mandate managers who might make fossil fuel investments**: In addition to exiting from public and private managers who focus on energy, full divestment requires exiting from managers whose broad mandates permit them to invest in energy as part of a diversified strategy.

6. **Mandated focus on investment in renewable energy**: Some institutions have chosen to set targets for investments in renewable energy as a way of speeding the transition away from fossil fuels.

ESTIMATED COST OF VARIOUS ENDOWMENT ACTIONS

There are two types of costs associated with these endowment actions:

- **Transaction costs**: Selling existing exposures often involves one-time transaction costs. Transactions costs associated with redemptions from liquid vehicles are typically low. Private equity funds, including oil and gas partnerships, can be exited through a sale of the College's partnership interest. Interests sold in such sales, referred to as secondary sales, usually require a discount to the market value. Other costs include legal fees and broker fees.

- **Opportunity costs**: Opportunity costs arise from forgoing investment opportunities. Opportunity costs vary from year to year based on the relative performance of different asset classes and the excess return generation of individual managers. We estimate those costs as an average annual impact over a market cycle.

The table below summarizes cost estimates of various alternatives. For each action, the table shows estimated one-time transaction costs (column 1) and annual opportunity costs (column 2). Those costs are translated into the impact on annual endowment spending in Columns 3 and 4. The dollar impact on spending shown in column 3 is in 2019 dollars; over time the real (purchasing power) impact remains constant, but the absolute dollar impact grows. Action options 5 and 5a are variations on the same action, but the costs of other actions are independent of one another, so their costs can be added.

Endowment Action Cost Summary

		1	2	3	4
				Annual Impact on Endowment Draw	
	Action	One-Time Transaction Cost (in millions)	Annual Opportunity Cost (return impact)	FY19 Dollars (in millions)	% of FY19 Revenues
1	Prohibition on direct holdings	N/A	0.04%	$0.7	0.4%
2	Moratorium on public energy funds	N/A	De minimis	$0	0.0%
3	Moratorium on new private commitments	N/A	0.02%	$0.4	0.2%
4	Divest existing private oil & gas funds	$20	0%	$0.85	0.4%
5	Divest managers who *might* hold positions in fossil fuel companies as redemption terms allow	$0	1.1%	$23	10%
5a	Immediately divest managers who *might* hold positions in fossil fuel companies	$4	1.3%	$23.2	10%
6	Mandated focus on investments in renewable energy	N/A	0.10%	$2.3	1%

For questions about the information in this fact sheet, please contact Debby Kuenstner, chief investment officer, at dkuenstner@wellesley.edu.