

REPORT OF THE CHIEF INVESTMENT OFFICER

October 2020

Wellesley's endowment is the keystone of the College's financial strength, providing approximately 40% percent of operating revenue in Fiscal Year 2020. On June 30, 2020, the end of the fiscal year, the Wellesley College endowment had a market value of \$2.291 billion versus \$2.173 billion on June 30, 2019, an increase of \$118 million. The long-term investment-pool portfolio earned a return of 8.8% net of investment management fees during Fiscal Year 2020.

Fiscal Year 2020 Developments

During Fiscal 2020 capital markets experienced three distinct performance phases. Results were strong in the first half of the period, but equity markets declined sharply in the January-March quarter in response to the pandemic. Aided by robust fiscal and monetary responses from governments around the world, equities rebounded in the April-June quarter. Global stocks showed modest gains led by China and the U.S., and government bonds provided double digit returns. Private equity returns were robust but returns to real assets were sharply negative. On balance, the return of the aggregate opportunity set was 3%.

In Fiscal 2020, the Long-term Investment Pool (LTIP) had an investment return of 8.8%, a result that exceeded the College's required rate of return and the Policy Portfolio benchmark and compared favorably to peers. The strong return relative to the benchmark was driven by strong manager selection in most of the asset classes. Asset allocation benefited from the overweight to cash going into March and a well-timed addition to fixed income.

Total Return by Asset Class Year Ended June 30, 2020

	Wellesley Return	Market Return	Benchmark/Comparative Index
Public Equity	4.2%	2.1%	Public Equity Blended Benchmark ⁽¹⁾
Private Equity	25.1	10.9	Cambridge Associates ⁽²⁾
Real Assets	(16.8)	(18.3)	Real Assets Benchmark ⁽³⁾
Semi-marketable⁽⁴⁾	3.1	0.5	HFRI Fund of Funds Composite Index
Fixed Income	13.6	15.0	Fixed Income Benchmark ⁽⁵⁾
Cash & Equivalents	1.5	1.6	Citigroup Three-Month T-Bill
Total Portfolio	8.8	3.0	

¹Public Equity Blended Benchmark is a weighted average of MSCI ACWI, MSCI EAFE, MSCI EM and Russell 3000.

²Private Equity results are measured against the Cambridge Associates Private Equity, Growth Equity, Venture Capital, and Distressed indices.

³Real Assets Benchmark is a weighted average of Cambridge Associates Real Estate and the Cambridge Associates Natural Resources Index excluding Timber.

⁴Semi-marketable investments include strategies focused on absolute return.

⁵Fixed Income Benchmark is a weighted average of the Barclays 5+ Year Treasury Index and the Citigroup World Government Bond Index.

Longer-Term Results

The endowment's investment returns are strong compared to a variety of common yardsticks.

- As shown in the table below, over the last 15 years, a period that includes the steep market decline during the global financial crisis, the portfolio returned 8.0% a year, slightly above the 7.7% return necessary to support College spending and to maintain the endowment's purchasing power during that period. During the 10 years since the markets bottomed, results exceed that threshold by a meaningful margin, and 5-year returns have roughly matched.
- The College's well-diversified portfolio has exceeded a hypothetical portfolio of 65 percent stocks and 35 percent bonds over the last 5, 10 and 15 years. Alternative assets—such as venture capital, growth equity, and buyouts—have contributed significantly to strong portfolio results. In addition, the College's investment return has been much less volatile than the hypothetical portfolio.
- Investment returns have also exceeded the Policy Portfolio benchmark. The Policy Portfolio benchmark is a measure of how the College's target asset allocation would perform if returns in every asset class matched the market. The difference between the portfolio and the benchmark is a measure of the value added by the Investment Office and the College's investment managers.
- Another yardstick is performance versus peers. Wellesley ranks in the top quartile in a universe of institutions with investments pools larger than \$1 billion over the 1, 3, 5 and 10 years.

Total Annualized Return on Endowment, Year Ended June 30, 2020

	5 Years	10 Years	15 Years
Wellesley Portfolio	7.6%	9.5%	8.0%
65/35 Stock/Bond Portfolio ⁽⁶⁾	5.8%	7.0%	5.6%
Policy Portfolio Benchmark	5.8%	8.3%	6.7%

⁶ A commonly used measure of portfolio performance is a comparison with a passive portfolio. We use a blend of 65 percent stocks (as measured by the MSCI ACWI) and 35 percent bonds (as measured by the Citigroup World Gov't Bond Index).

Fossil Fuel Exposure

In response to requests from students and faculty, the Investment Office has committed to annual reporting of the portfolio's exposure to fossil fuels. On June 30, 2020, the portfolio's exposure to fossil fuels was 3.7% or \$85 million, compared to 5.5% or \$118 million the prior year. The decline was the result of stock selection decisions made by public equity and semi-marketable managers with broad mandates, poor investment results by private equity energy managers and a lack of new private energy commitments in the past three years.

Policy Portfolio and Strategy Going Forward

The endowment is invested across diverse asset classes, strategies, geographies, and managers and provides strong operating support while preserving purchasing power. The Policy Portfolio, established by the Wellesley College Investment Committee, guides asset allocation. The Investment Committee and Investment Office team regularly review the expectations upon

which the Policy Portfolio is based, with the goal of refining target allocations and improving the portfolio's risk/return characteristics.

The table below compares the Policy Portfolio and the actual asset allocation on June 30, 2020. Asset allocation was in line with policy at the end of the fiscal year. The portfolio has sufficient exposure to liquid investments to maintain the endowment's financial support of the College's operations and to provide for the liquidity needs of the portfolio.

Asset Allocation as of June 30, 2020

Asset Class	Policy Portfolio	Asset Allocation
Public Equities	32%	31%
Private Equity	24	33
Real Assets	10	6
Semi-Marketable	<u>25</u>	<u>23</u>
Total Alternative Assets	59	62
Fixed Income and Cash	9	7
Total Portfolio	100%	100%

In executing the investment strategy, the Investment Office team works to add value within asset classes through long-term partnerships with strong performing, highly ethical investment managers. Across the portfolio, our managers must have an uncompromising focus on integrity, which not only ensures alignment with the College's values, but protects long-term returns as these managers put their clients' interests first. In addition, we look for managers with a sustainable investment "edge." Typical characteristics of Wellesley managers include; long investment horizons; a bias toward fundamental, bottom-up investing; a focus on valuation; relatively concentrated portfolios that often show little relationship to benchmarks; and strong organizations.

The Investment Office and the Investment Committee remain focused on long-term growth to ensure that the endowment continues to support the College's mission. I believe that the College will be well served by its strategy of broad diversification across asset classes, geographies, and strategies, and by the excellent investment managers with whom we partner.

Members of the College community with questions, suggestions, or thoughts about the management of the Wellesley College endowment are invited to contact me at any time.

Deborah F. Kuenstner
Chief Investment Officer