

**Annual Report on the Long-Term Investment Program
(For the Endowment Funds)
For the Fiscal Year Ending September 30, 2015**

In accordance with the Board of Governors Statutes (WSUCA) 2.73.02, the Administration presents the annual report (the Report) of our long-term investment program for the fiscal year ending September 30, 2015. This Report was prepared by the Wayne State University Foundation's independent consultants, New England Pension Consultants (NEPC). The long-term investment program includes all investment activity performed for the endowment fund by external managers and represents approximately 99 percent of all the endowment resources. At September 30, 2015, the fund was approximately \$288 million. (Included in this amount is approximately \$1.3 million in gift annuity assets which were pooled with the endowment fund investments effective October 1, 2005, in order to enhance their investment returns.) This Report was presented to the Foundation's Investment Committee (the Committee) on November 9, 2015 and accepted by the Committee. It was also presented to the Foundation Board on November 19, 2015, and was accepted by the Board.

In 2000, the University created the Wayne State University Foundation (the Foundation) as a Michigan non-profit corporation. The Foundation was established by the University to assist it with various functions with special emphasis on fundraising and oversight of the investment portfolio for endowments. The Board of Governors approved the transfer of existing and future endowments to the Foundation for holding and the investment thereof. The official date for the transfer of the endowment assets was October 1, 2002, the beginning of a new fiscal year for the University and the Foundation. The Foundation established its Investment Committee to specifically oversee and manage the endowments, especially those held in the "Common Trust" pool (the Pool) of assets. The Committee employs external investment managers to manage all of the funds held in the Pool.

The Pool of assets managed by external managers had a total investment loss of 4% for the fiscal year 2015. This performance was worse than the Independent Consultants Cooperative (ICC) peer performance benchmark investment loss of 2.1% for the same period and ranked the Foundation in the 76th percentile of this peer universe of endowments and foundations. (The ICC universe database contains over \$2 trillion in foundation, endowment and pension fund assets and represents approximately 20% of institutional assets in the country.) The portfolio's diversification had a negative impact in fiscal year 2015, particularly with regards to its allocations to international equities and real assets. Additionally, the lack of exposure to private equity was also a negative factor.

During the year, the Investment Committee focused on reevaluating the Pool's strategic asset allocation. As part of this process, it benchmarked its performance and asset allocation to its NACUBO peers. In order to enhance the Pool's investment return potential, the Investment Committee recommended a number of updates to the Investment Policy. The major recommendations were to add a provision to benchmark the Pool's investment performance to peers, include more specific target asset allocations and ranges, add a private equity asset class allocation and eliminate the Liquidity Portfolio provision. The Foundation Board approved these revisions to the Investment Policy at their November 19, 2015 meeting.

During the fiscal year, several changes were also made to the Fund's investment manager line up. Due to personnel changes in PIMCO management and at the PIMCO Unconstrained Bond fund, this fund was replaced with the Blackrock Strategic Income bond fund. Additionally, CarVal was hired as a multi-strategy credit investment manager in order to try and capture the higher expected investment returns in the private credit capital markets. At the November 9, 2015 Investment Committee meeting, the Investment Committee also approved an investment in a European activist strategy, Cevian. Overtime, the University expects to invest \$10 million with CarVal and approximately \$7.5 million with Cevian. The funding for these investments will come from a reduction in existing fixed income investments and expected distributions from the Marathon Fund as it liquidates its underlying investments.

This past fall, the Investment Committee also begun the process of evaluating and identifying the best investment advisory model to be used for the investment and administration of the Pool. The Committee is reviewing the advantages and disadvantages of these various models. These models cover the continuum from using a non-discretionary investment advisor, as the Foundation presently does, to the use of a discretionary advisor, which is commonly referred to as the outsourced chief investment officer (OCIO) model. With the OCIO model, the investment advisor is delegated a major role in investment management (including asset allocation changes within investment policy targets and investment manager selection and hiring) as well as portfolio administration. It should be noted that regardless of the model to be used, the Foundation Board would retain authority for approving the Pool's investment policy. Whichever investment advisory model is selected for use, the Investment Committee would use a request for proposal process in order to select the investment advisor to be retained. It is expected that the Investment Committee will submit to the Foundation Board a recommendation regarding the investment model and the firm to serve as the investment advisor sometime later in 2016.

In addition to the Report prepared by NEPC, attached is a list of the current members of the Committee and a historical graph of the fiscal year end values of the endowment funds.

Submitted by: William Decatur, Vice President for Finance and Business Operations

Investment Committee of the Wayne State University Foundation
Members during Fiscal Year 2015

Paul A. Glantz, Chair
President, Proctor Financial Inc.

Paul Cavazos
Chief Investment Officer, DTE Energy

William Decatur
Vice President for Financial and Business Operations
Treasurer and Chief Financial Officer

Joseph S. Horonzy,
Horonzy and Associates, LLC

Chacona W. Johnson
Vice President, Development and Alumni Affairs
President, Wayne State University Foundation

Howard M. Perlman
Senior Vice President, Friedman Integrated Real Estate Solutions

Alan E. Schwartz,
Partner, Honigman, Miller, Schwartz & Cohn

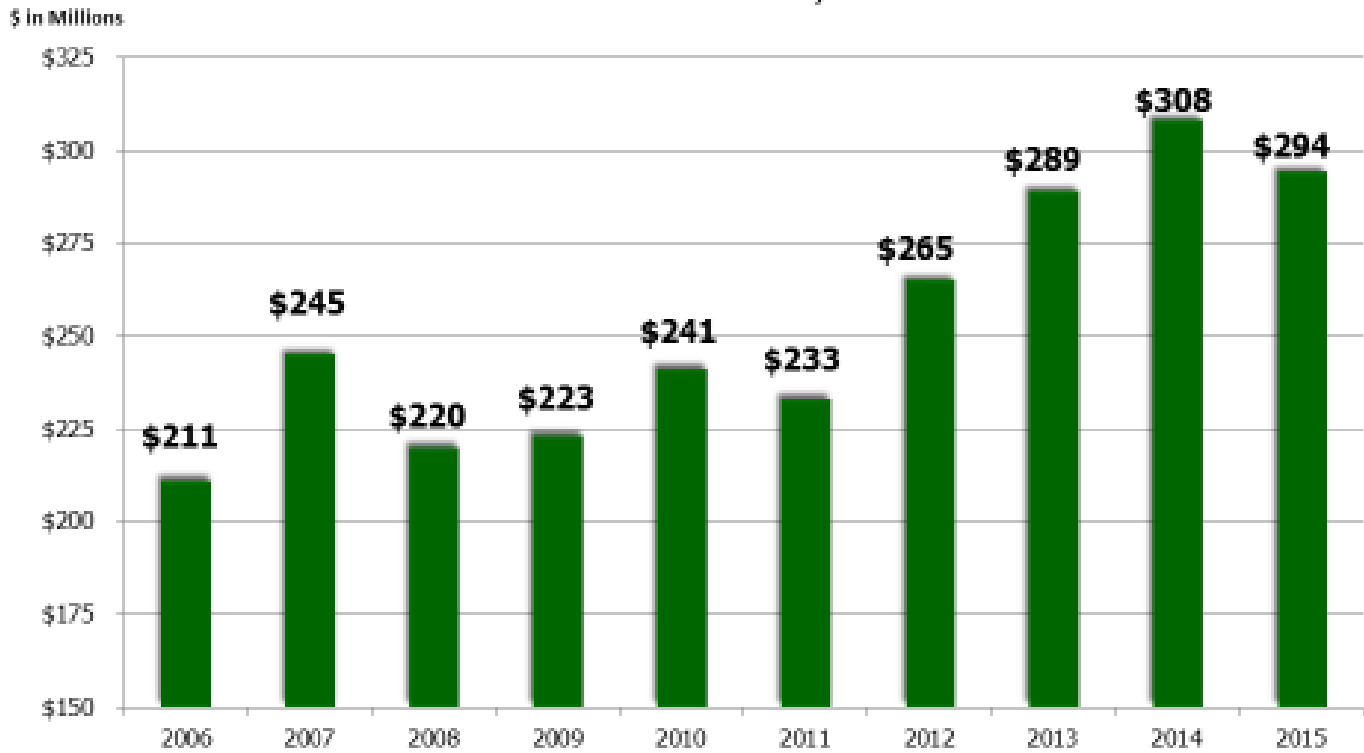
Leonard Smith, Chair of the Board of Trustees and Chief Investment Officer
Ethel and James Flinn Family Foundation

Stephen Strome
Retired Chairman and Chief Executive Officer, Handleman Company

WAYNE STATE UNIVERSITY FOUNDATION

TOTAL ASSETS OF THE CONSOLIDATED ENDOWMENT FUND

FISCAL YEARS ENDING SEPTEMBER 30, 2006 THROUGH 2015



January 29, 2016



NEPC, LLC

YOU DEMAND MORE. *So do we.*SM



Wayne State University Foundation

2015 Annual Foundation

Investment Performance Report

Fiscal Year Ending September 30, 2015

Paul R. Kenney, Jr., CFA, Partner

Oleksandra Goysan, Analyst

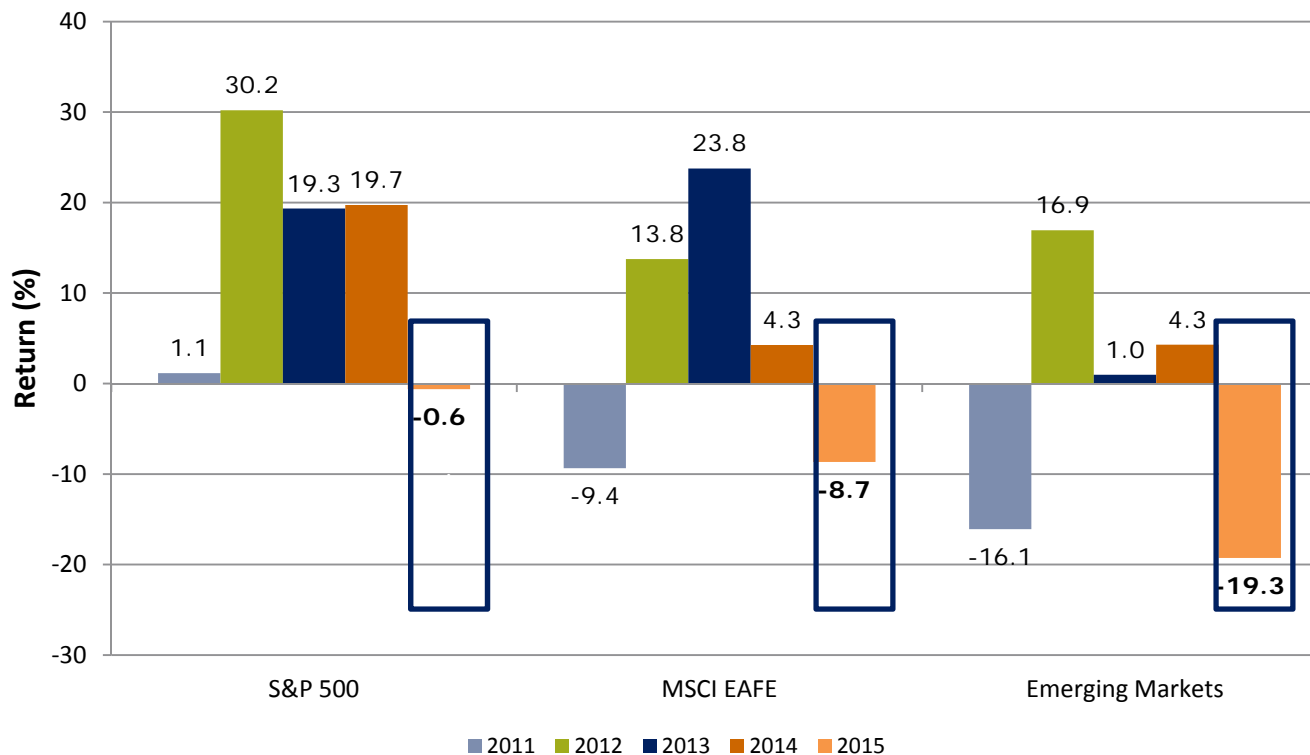
255 State Street, Boston, MA 02109 | TEL: 617.374.1300 | FAX: 617.374.1313 | www.nepc.com

BOSTON | ATLANTA | CHARLOTTE | CHICAGO | DETROIT | LAS VEGAS | SAN FRANCISCO

- **Volatility spread across global markets in calendar Q3**
 - Tied to concerns of an economic slowdown in China
 - Commodities and emerging markets suffered the most
- **US economy continues to expand albeit at a slow pace**
 - Conditions supportive for growth, strong US dollar a headwind
 - Risk of severe global growth downturn is low probability tail-risk
- **Fed Funds rate increase likely, timing not clear**
 - Global market volatility has put Fed on hold
 - Timing is less relevant, target rate level more important
- **Global monetary policies overall supportive**
 - Quantitative easing in Europe and Japan
 - China has lowered its interest rates and exchange rate
- **Emerging markets growth has slowed**
 - Adjustments (political & economic reform) taking place
 - Overall growth still higher than developed world

- **Equity market returns were negative for the fiscal year ending September**

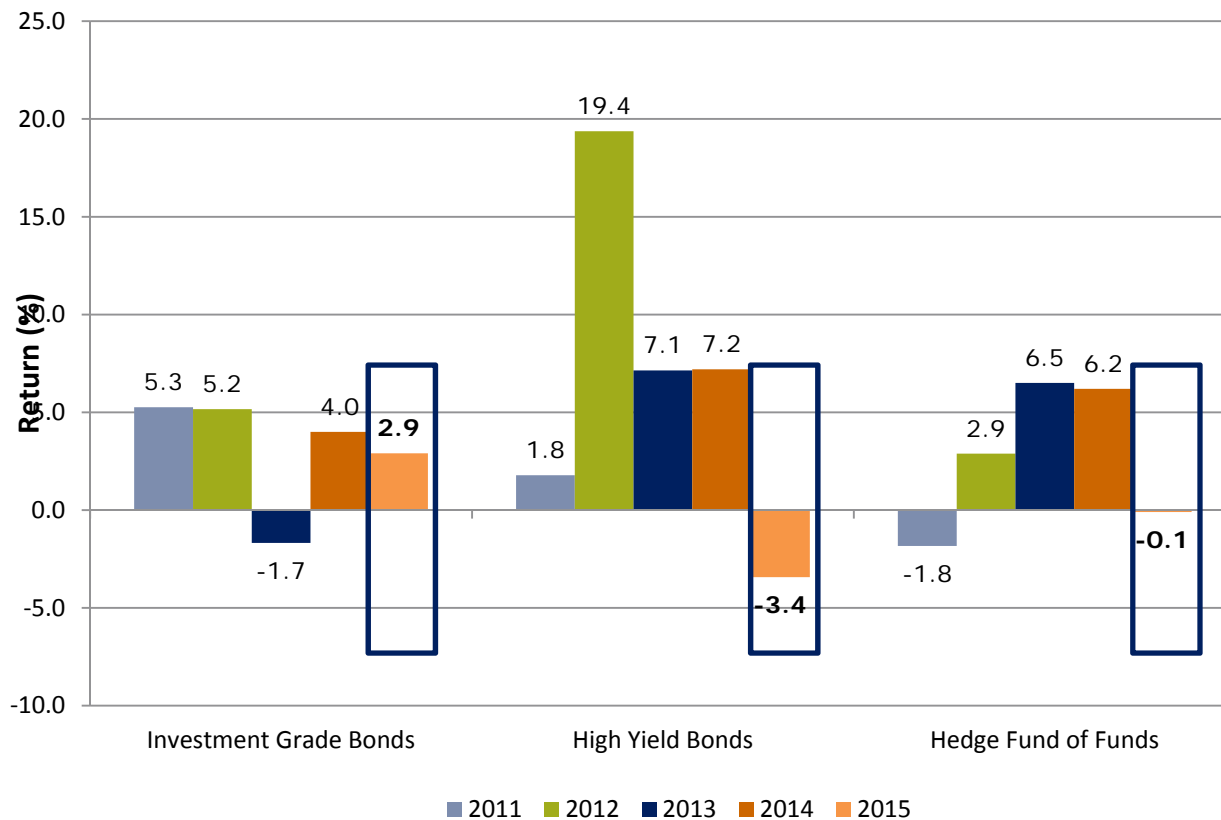
- S&P 500 was down 0.6% for the year as of September after a strong run of results from 2012 to 2014
- Developed International (MSCI EAFE) trailed off in 2014 and into 2015
- Negative returns in Emerging Markets reflect concerns of economic growth, particularly nations that are commodity price sensitive



Source: Standard & Poor's, MSCI (fiscal years shown)

Fixed Income and Hedge Fund Market Overview

- **Returns in investment grade bonds, high yield and hedge funds were modestly positive or negative during the fiscal year 2015**
 - Interest rates remain near historical lows reflecting present low expected return environment



Source: Barclays Capital, Hedge Fund Research, Inc. (fiscal years shown)



2015 Performance Summary

- **Total assets at fiscal year end were \$288.0 million, down \$17.1 million compared to \$ 305.1 million from the prior year**
- **The total return for the 2015 fiscal year was -4.0% net of fees**
- **Performance for the one, three and five years ranks in the 4th quartile with results ranging from 76th to 79th percentile (a rank of 1 is highest, 100 is lowest)**
- **Seven year results are in the 62nd percentile with 10 year results slightly above median**
- **Active management has detracted from performance over near term while contributing to performance over long term**
 - Difference between Composite and Allocation index below represents the value added or subtracted by active management

	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	7 Yrs	Rank	10 Yrs	Rank
Composite	-4.0%	76	4.2%	79	5.2%	79	5.9%	62	5.1%	48
Allocation Index	-2.9%	65	4.6%	74	5.2%	78	5.1%	91	4.5%	71
Policy Index	-1.3%	39	6.4%	44	6.9%	37	6.2%	49	5.3%	42
Peer Median	-2.1%		6.1%		6.4%		6.1%		5.1%	

Overview of Recent Performance

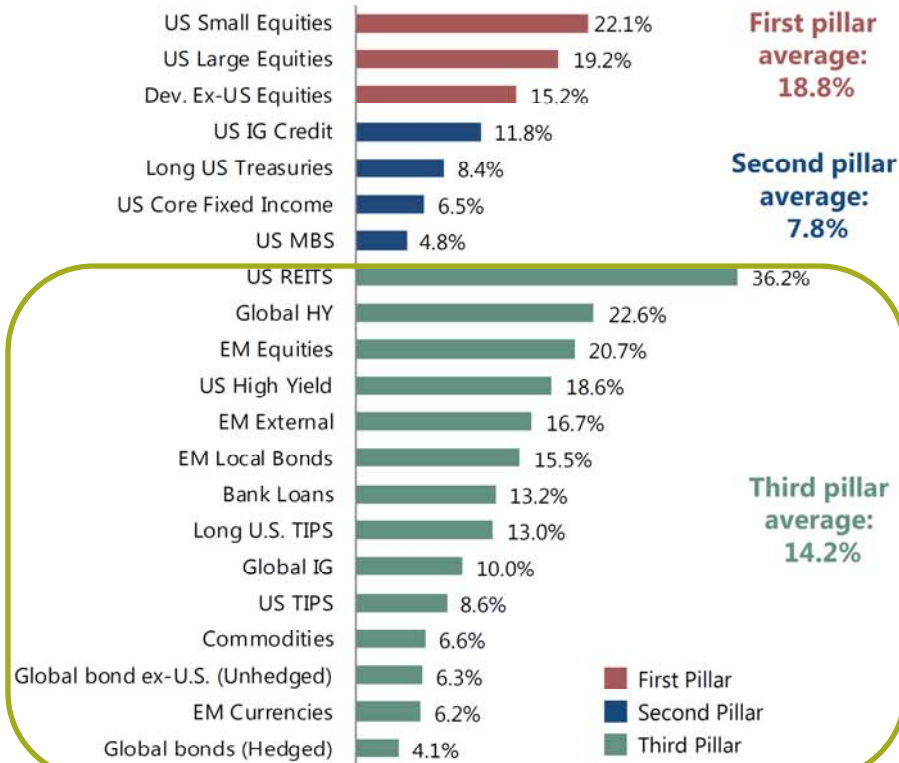
- **FYE 2013: Return of 9.5% vs. 10.4% vs. peer median**
- **FYE 2014: Return of 7.5% vs. 8.1% vs. peer median**
- **FYE 2015: Return of -4.0 vs. -2.1% vs. peers median**
- **Returns in 2013 & 2014 consistent with expectations**
 - The portfolio took less risk than peers (higher fixed income allocation) and equity markets were generally strong
- **Returns in 2015 were disappointing**
 - Roughly half of the underperformance was driven by managers and half through asset allocation
- **The portfolio's diversification was a negative in 2015**
 - Managers with tactical asset allocation had exposure to emerging markets and inflation sensitive assets which underperformed
 - The lack of exposure to private equity was a negative factor
 - The chart on the following page highlights the performance of diversifying asset classes over time

Asset Class Returns From March 2009 to September 2015

Diversification Drives Returns

Mar '09 – Dec '12: Broad bull market after crash

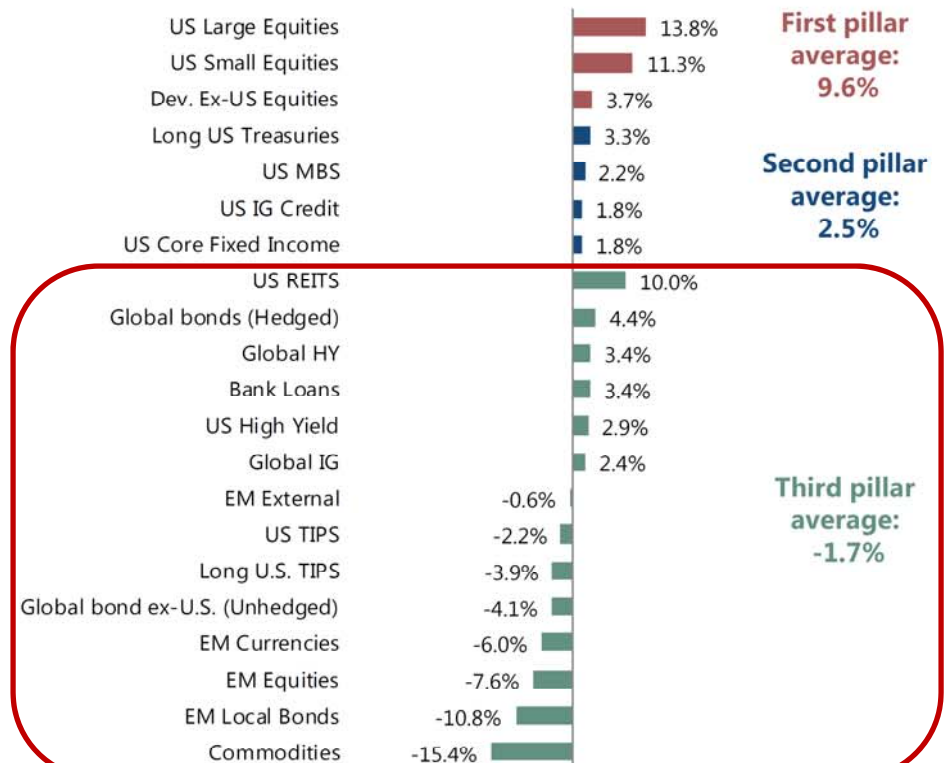
Annualized asset class returns



Diversification Hurts Returns

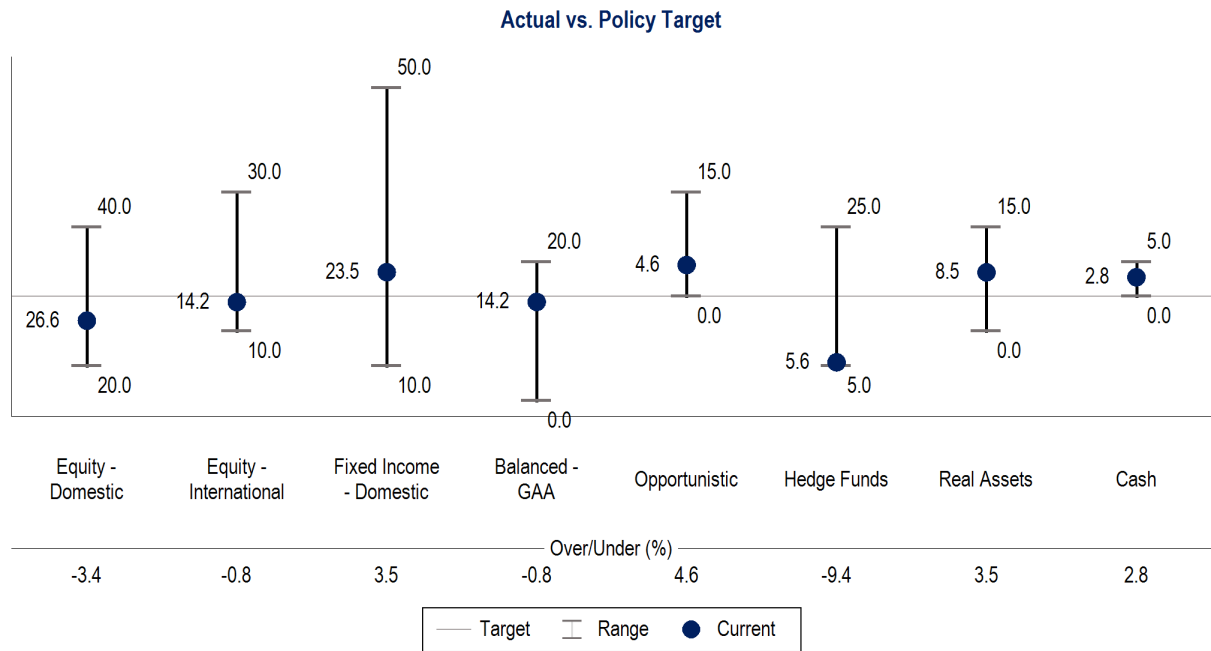
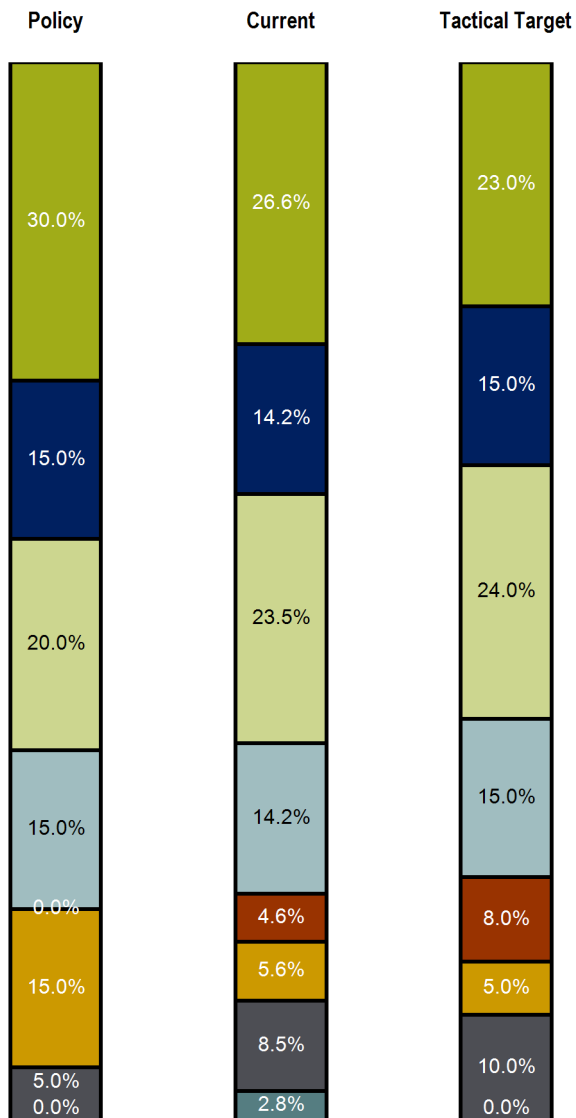
Dec '12 – Sep '15: Most markets are flat despite U.S. equity gains

Annualized asset class returns



As of 30 September 2015
 SOURCE: PIMCO
 Refer to Appendix for additional index, and risk information.

Total Fund Asset Allocation



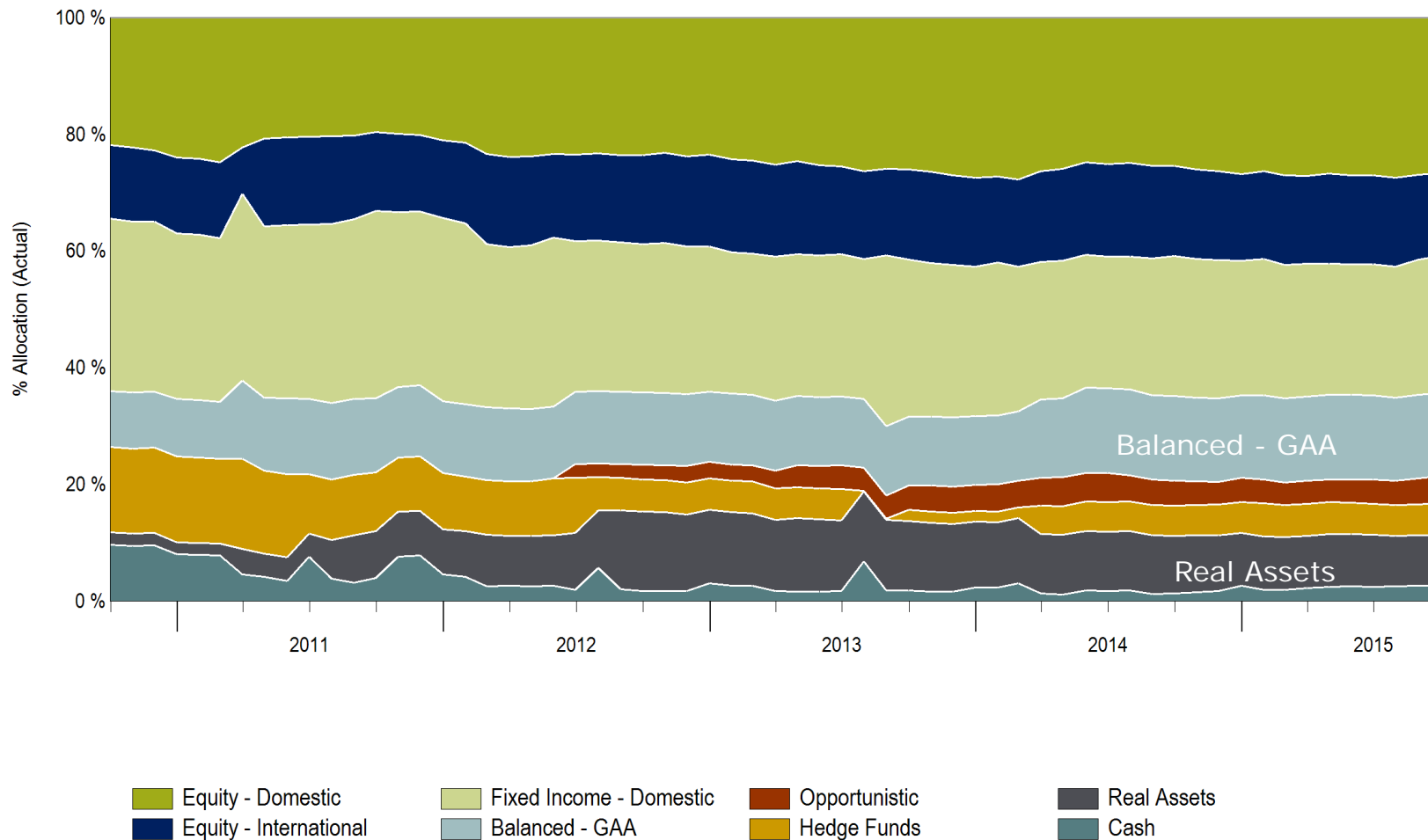
*"Target" is the Tactical Target. "Range" is the Policy Ranges.

All asset classes are within their policy ranges

*The policy target reflects the strategic target in the WSU Investment Policy. The Endowment currently also utilizes a tactical target.

Asset Allocation Over Time

Asset Allocation History
5 Years Ending September 30, 2015



- Over the time period show the allocations to Cash and Hedge Funds have decreased
- The Balanced – GAA and Real Assets segments of the portfolio have underperformed

Individual Manager Performance Summary

	1 Yr (%)		1 Yr (%)
Composite	-4.0	Balanced - GAA	-4.8
Allocation Index	-2.9	65% MSCI ACWI (Net) / 35% BC Agg	-3.2
Over/Under	-1.1	Over/Under	-1.6
Policy Index	-1.3	Wellington Opportunistic	-2.7
Equity - Domestic	-0.3	65% MSCI ACWI (Net) / 35% BC Agg	-3.2
75% S&P 500 / 25% Russell 2000	-0.1	Over/Under	0.5
Over/Under	-0.2	GMO Benchmark Free	-6.4
Rhumbline	-0.6	65% MSCI ACWI (Net) / 35% BC Global Agg	-5.3
S&P 500	-0.6	Over/Under	-1.1
Over/Under	0.0	Opportunistic	6.7
IronBridge Small Cap	1.3	Credit Suisse Event Driven Distressed	-5.8
Russell 2000	1.2	Over/Under	12.5
Over/Under	0.1	Renaissance Venture Capital Fund II	-0.8
SSgA S&P 500 Equal Weighted Index	-1.5	Perella Weinberg	7.5
S&P 500 Equal Weighted	-1.2	Marathon European Credit	5.6
Over/Under	-0.3	CarVal	--
Equity - International	-13.2	Hedge Funds	2.0
MSCI ACWI ex USA	-12.2	FrontPoint Multi-Strategy Fund	-5.0
Over/Under	-1.0	AQR Gibraltar Fund	2.0
Aberdeen EM	-18.5	HFRI Fund of Funds Composite Index	-0.1
MSCI Emerging Markets	-19.3	Over/Under	2.1
Over/Under	0.8	Real Assets	-14.8
SSgA EAFE Index	-8.8	PIMCO All Asset	-11.3
MSCI EAFE	-8.7	PIMCO All Asset Index	0.5
Over/Under	-0.1	Over/Under	-11.8
Aberdeen EM Small Cap	-17.9	Gresham ETAP Fund LLC	-27.1
MSCI Emerging Markets Small Cap	-15.2	Bloomberg Commodity Index	-26.0
Over/Under	-2.7	Over/Under	-1.1
Fixed Income - Domestic	-0.7	Cash	0.3
Loomis Sayles Fixed Income	-6.0	Money Market	0.0
Barclays Aggregate	2.9	PIMCO Short-Term Fund	0.1
Over/Under	-8.9	Ford Interest Rate Advantage Demand Note	1.1
PIMCO Low Duration Fund	0.0		
Barclays 1-3 Yr. Govt/Credit	1.2		
Over/Under	-1.2		
Monroe Capital Senior Secured Direct Loan Fund	8.2		
S&P/LSTA Leveraged Loan Index	0.9		
Over/Under	7.3		
BlackRock Strategic Income Opportunities Fund	--		
Barclays Aggregate	2.9		

Note:

- Returns are net of fees.
- Managers with no returns shown above were funded for less than 1 year.

- **A number of asset classes struggled during 2015, with emerging market securities suffering the steepest declines**
- **Specific manager highlights are noted below**
 - **Domestic Small Cap:** The manager performed in line with its respective benchmark
 - **Emerging Markets:** Aberdeen EM beat MSCI Emerging Markets by 80 bps, while Aberdeen EM Small Cap trailed the small cap benchmark by 2.7%
 - **Fixed Income:** Loomis Sayles trailed the BC aggregate by 8.9% while Monroe exceeded its benchmark by 7.3%
 - **Global Asset Allocation (GAA):** Wellington Opportunistic beat its benchmark by 0.5% while GMO Benchmark Free lagged its benchmark by 1.1%
 - **Hedge Funds:** AQR Gibraltar beat the benchmark by 2.10%
 - **Real Assets:** PIMCO All Asset and Gresham trailed their benchmarks by 11.8% and 1.1%, respectively
 - **Opportunistic:** The managers outperformed their benchmark collectively by 12.5%

- **Committee focused on strategic asset allocation**
 - Reviewed investment returns, risk level and asset allocation relative to NACUBO peers
 - Developed an updated asset allocation target
 - *To be presented to the Foundation Board for approval in November*
 - Evaluated the role and implementation of private equity and illiquid assets in the portfolio
 - Goal to migrate the Foundation's risk / return profile to be more similar to peers
 - Reviewed and updated the policy guidelines
 - *To be presented to the Foundation Board for approval in November*
- **The major proposed changes in the Investment Policy Statement are:**
 - The provision for the liquidity portfolio is removed from the document
 - The asset allocation has been expanded to include specific target allocations
 - Also added ranges for asset classes such as emerging market equity, non-core bonds and private equity that are presently not in the policy
 - Return expectations relative to peers has been added

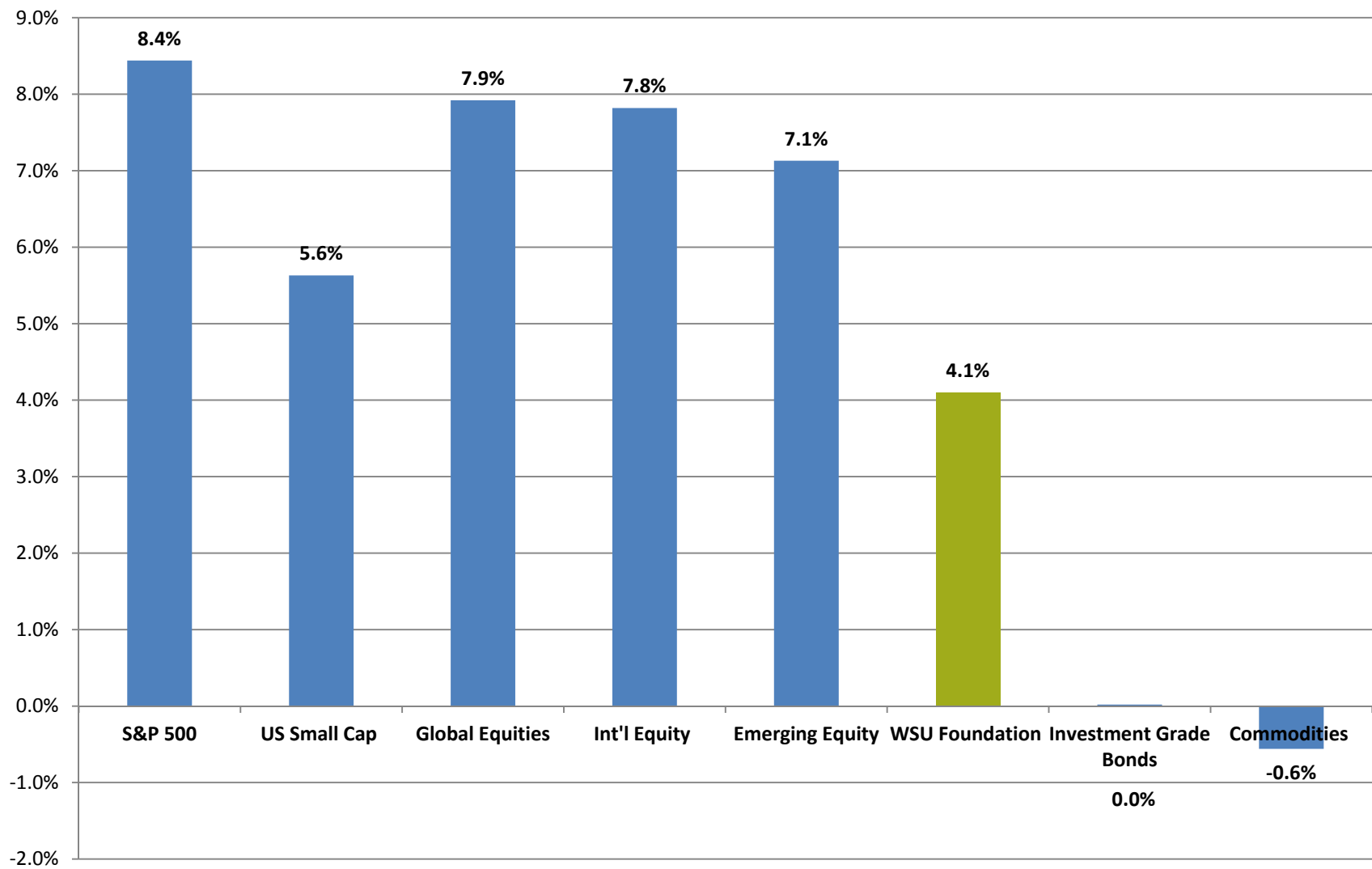
- **Existing manager related actions focused on a review of underperforming global asset allocation and real asset managers**
 - Committee is evaluating whether changes should be made to the manager line-up
- **New manager related actions have focused on increasing exposure to illiquid, higher return potential strategies**
 - CarVal was hired as a multi-strategy credit manager
 - Cevian approved as a European activist strategy to be added to the private equity section of the portfolio

- **The portfolio is transitioning from a more conservative asset allocation to one that is similar to NACUBO peer median**
 - Private equity allocation will take time to build as funds typically call capital over a three to four year time horizon
 - The portfolio will be built methodically to avoid over or under investing in any particular vintage year
- **NEPC's bias is to remain broadly diversified recognizing this has not benefited the Foundation over the past year in particular**
 - US assets have produced strong results, in part tied to the strength of the dollar, which going forward may create a headwind for corporate earnings
- **Exposure to certain diversifying asset classes may require some patience**
 - EM equity valuations, depressed currencies and long-term fundamentals represent a solid investment foundation; however
 - Volatility likely to continue tied to commodity prices and specific country risks
 - Inflation expectations at historical lows but value opportunities can be found in inflation-sensitive assets

Appendix: Manager Historical Performance and Disclosure



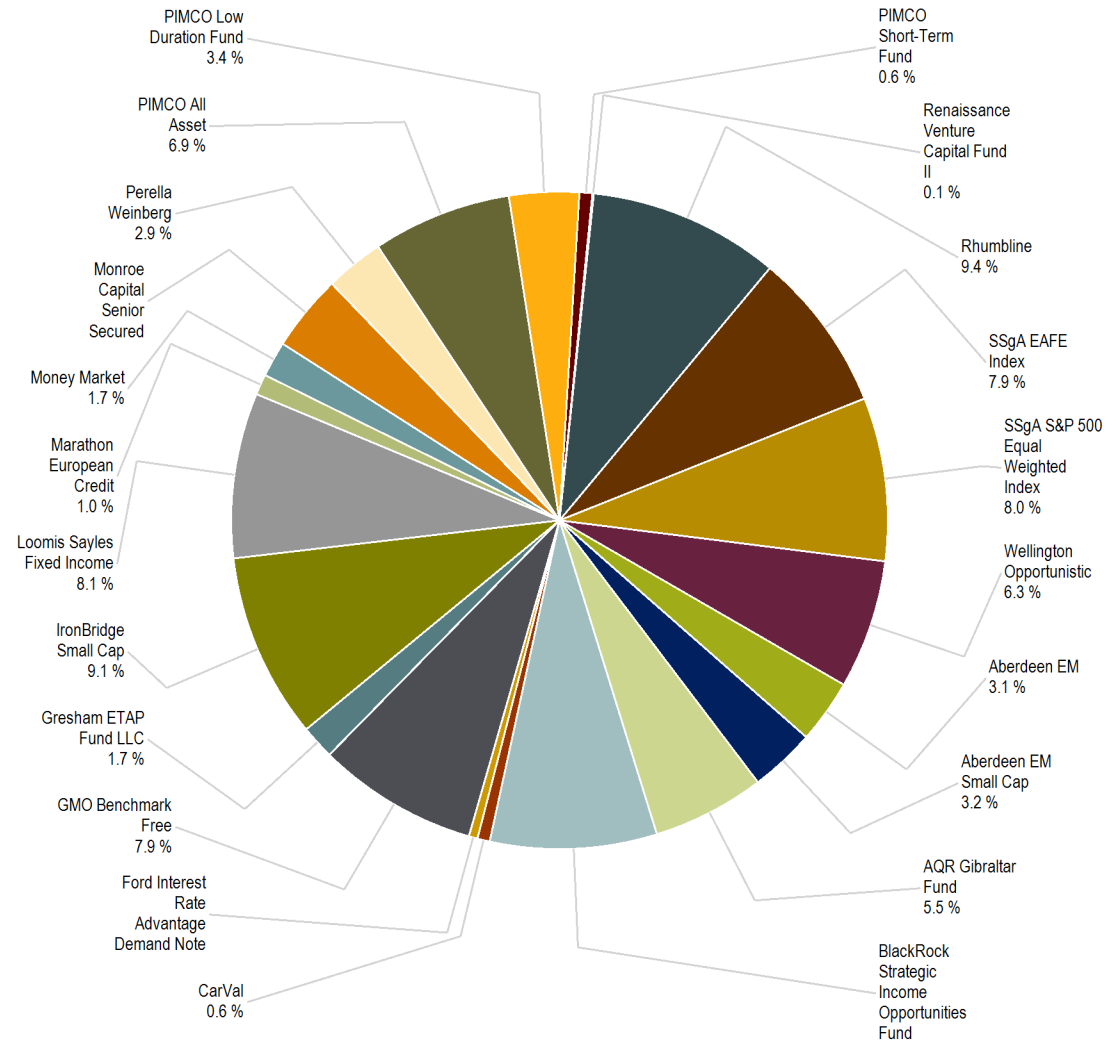
October 2015 Investment Returns



Investment Manager Allocations

	Market Value (\$)	% of Portfolio
Composite	288,008,940	100.0
Equity - Domestic	76,471,513	26.6
Rhumblin	27,075,073	9.4
IronBridge Small Cap	26,259,258	9.1
SSgA S&P 500 Equal Weighted Index	23,137,182	8.0
Equity - International	40,953,542	14.2
Aberdeen EM	8,999,474	3.1
SSgA EAFE Index	22,704,632	7.9
Aberdeen EM Small Cap	9,249,436	3.2
Fixed Income - Domestic	67,775,065	23.5
Loomis Sayles Fixed Income	23,388,930	8.1
PIMCO Low Duration Fund	9,906,910	3.4
Monroe Capital Senior Secured Direct Loan Fund	10,842,535	3.8
BlackRock Strategic Income Opportunities Fund	23,636,690	8.2
Balanced - GAA	41,037,949	14.2
Wellington Opportunistic	18,254,315	6.3
GMO Benchmark Free	22,783,634	7.9
Opportunistic	13,145,158	4.6
Renaissance Venture Capital Fund II	195,195	0.1
Perella Weinberg	8,291,899	2.9
Marathon European Credit	2,907,944	1.0
CarVal	1,750,119	0.6
Hedge Funds	16,018,318	5.6
FrontPoint Multi-Strategy Fund	84,550	0.0
AQR Gibraltar Fund	15,933,768	5.5
Real Assets	24,517,958	8.5
PIMCO All Asset	19,727,860	6.8
Gresham ETAP Fund LLC	4,790,098	1.7
Cash	8,089,436	2.8
Money Market	5,021,452	1.7
PIMCO Short-Term Fund	1,826,181	0.6
Ford Interest Rate Advantage Demand Note	1,241,804	0.4

Current Allocation



Manager Return History and Ranks (1 is highest, 100 is lowest)

	1 Yr (%)	3 Yrs (%)	5 Yrs (%)
Composite	-4.0	4.2	5.2
Allocation Index	-2.9	4.6	5.2
Policy Index	-1.3	6.4	6.9
InvestorForce All E&F Net Rank	76	79	79
Equity - Domestic	-0.3	11.5	12.3
75% S&P 500 / 25% Russell 2000	-0.1	12.1	13.0
eA All US Equity Net Rank	53	61	56
Rhumbline	-0.6	12.4	13.1
S&P 500	-0.6	12.4	13.3
eA US Large Cap Core Equity Net Rank	53	46	43
IronBridge Small Cap	1.3	10.4	10.7
Russell 2000	1.2	11.0	11.7
eA US Small Cap Core Equity Net Rank	63	62	73
SSgA S&P 500 Equal Weighted Index	-1.5	--	--
S&P 500 Equal Weighted	-1.2	14.3	13.8
eA US Large Cap Equity Net Rank	55	--	--
Equity - International	-13.2	0.6	2.5
MSCI ACWI ex USA	-12.2	2.3	1.8
eA All ACWI ex-US Equity Net Rank	88	94	81
Aberdeen EM	-18.5	-5.8	-1.5
MSCI Emerging Markets	-19.3	-5.3	-3.6
eA Emg Mkts Equity Net Rank	60	81	42
SSgA EAFE Index	-8.8	5.5	--
MSCI EAFE	-8.7	5.6	4.0
eA All EAFE Equity Net Rank	78	65	--
Aberdeen EM Small Cap	-17.9	-2.4	--
MSCI Emerging Markets Small Cap	-15.2	-1.1	-2.4
eA Emg Mkts Small Cap Equity Net Rank	88	73	--
Fixed Income - Domestic	-0.7	2.4	4.0
eA All US Fixed Inc Net Rank	86	33	42
Loomis Sayles Fixed Income	-6.0	2.9	5.4
Barclays Aggregate	2.9	1.7	3.1
eA US Core Plus Fixed Inc Net Rank	99	15	8
PIMCO Low Duration Fund	0.0	0.5	--
Barclays 1-3 Yr. Govt/Credit	1.2	0.9	1.0
eA US Short Duration Fixed Inc Net Rank	95	85	--
Monroe Capital Senior Secured Direct Loan Fund	8.2	--	--
S&P/LSTA Leveraged Loan Index	0.9	3.2	4.5

	1 Yr (%)	3 Yrs (%)	5 Yrs (%)
BlackRock Strategic Income Opportunities Fund	--	--	--
Barclays Aggregate	2.9	1.7	3.1
eA US Core Plus Fixed Inc Net Rank	--	--	--
Balanced - GAA	-4.8	3.2	3.5
65% MSCI ACWI (Net) / 35% BC Agg	-3.2	5.2	5.7
eA Global Balanced Net Rank	75	82	88
Wellington Opportunistic	-2.7	4.1	2.9
65% MSCI ACWI (Net) / 35% BC Agg	-3.2	5.2	5.7
eA Global TAA Net Rank	27	28	83
GMO Benchmark Free	-6.4	--	--
65% MSCI ACWI (Net) / 35% BC Global Agg	-5.3	4.0	4.8
CPI + 5% (Unadjusted)	5.0	6.0	6.8
eA Global TAA Net Rank	72	--	--
Opportunistic	6.7	10.3	--
Credit Suisse Event Driven Distressed	-5.8	5.8	5.1
8% Flat Rate Index	8.0	8.0	8.0
Renaissance Venture Capital Fund II	-0.8	-12.5	--
Perella Weinberg	7.5	12.4	--
Marathon European Credit	5.6	8.5	--
CarVal	--	--	--
Hedge Funds	2.0	6.8	4.7
FrontPoint Multi-Strategy Fund	-5.0	7.4	4.0
eV Alt Fund of Funds - Multi-Strategy Rank	85	15	49
AQR Gibraltar Fund	2.0	--	--
HFRI Fund of Funds Composite Index	-0.1	4.1	2.7
eV Alt All Multi-Strategy Rank	42	--	--
Real Assets	-14.8	-4.7	--
PIMCO All Asset	-11.3	-1.6	2.1
PIMCO All Asset Index	0.5	1.9	4.2
eA Global TAA Net Rank	96	95	87
Gresham ETAP Fund LLC	-27.1	-15.5	--
Bloomberg Commodity Index	-26.0	-16.0	-8.9
Cash	0.3	0.7	0.5
Money Market	0.0	0.0	0.0
eA US Cash Management Net Rank	99	99	96
PIMCO Short-Term Fund	0.1	0.9	--
eA US Cash Management Net Rank	61	1	--
Ford Interest Rate Advantage Demand Note	1.1	1.1	--
eA US Cash Management Net Rank	1	1	--

* Returns are net of fees