

**Annual Report on the Long-Term Investment Program
(For the Endowment Funds)
For the Fiscal Year Ending September 30, 2016**

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, 2016. 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, 2016, the fund was approximately \$311 million. (Included in this amount is approximately \$1.7 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 October 26, 2016 and accepted by the Committee. It was also presented to the Foundation Board on November 9, 2016, 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 Foundation assets managed by external managers had a total investment gain of 9.3% for the fiscal year 2016. This performance was better than the Investor Force peer performance benchmark gain of 8.5% for the same period and ranked in the top 35th percentile of this peer universe of endowments and foundations.

(The peer universe database contains over \$2 trillion in foundation, endowment and pension fund assets and represents 20% of institutional assets in the country.) The portfolio's diversification had a positive impact in fiscal year 2016, particularly with regards to its allocations to international

equities, fixed income and hedge funds. However, peer performance was less than median for the three, five and seven years, respectively (63rd, 67th and 73rd).

Last fall, the Investment Committee begun the process of evaluating and identifying the best investment advisory model to be used for the investment and administration for the pool. The Committee reviewed the advantages and disadvantages of the various models. These models covered the continuum from using a non-discretionary investment advisor, as the Foundation had been using, or to use 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. The Foundation Board would retain authority for approving the pool's investment policy. The Investment Committee decided to use the OCIO model. It used a request for proposal (RFP) process in order to select the investment advisor to be retained. As a result of the RFP process, the Committee selected Strategic Investment Group (SIG) as the OCIO.

Since that time, the Foundation, working with SIG, has focused on reevaluating the pool's strategic asset allocation. In order to enhance the Pool's investment return potential, the Investment Committee recommended a number of updates to the Investment Policy asset allocation. The major recommendations are to increase the use of active managers, hedge funds, private equity (and reduced domestic equity exposure) and introduce the use of a portable alpha overlay strategy. Liquidity levels would be reduced to enhance portfolio returns from the illiquidity premium. The Foundation Board has approved these revisions to the asset allocation portion of the Investment Policy. Over the next few months, the portfolio will begin to make the transition to the new asset allocation and investment manager lineup. The transition to the new investment managers that use liquid investment strategies will take place much sooner than will the transition to the investment managers that have illiquid investments strategies.

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.

Investment Committee of the Wayne State University Foundation
Members During Fiscal Year 2016

Paul A. Glantz, Chair
President, Proctor Financial Inc.
Chairperson, Wayne State University Foundation Investment Committee

Susan Burns
Vice President, Development and Alumni Affairs
President, Wayne State University Foundation (Starting February 2016)

Paul Cavazos
Chief Investment Officer, DTE Energy (Through May 2016)

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

Chacona W. Johnson
Vice President, Development and Alumni Affairs
President, Wayne State University Foundation (Through February 2016)

Denise Lewis
Partner, Honigman, Miller, Schwartz and Cohn, LLP (Starting February 2016)

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

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 CASH AND INVESTMENTS OF THE CONSOLIDATED ENDOWMENT FUND FISCAL YEARS ENDING SEPTEMBER 30, 2007 THROUGH 2016

