

**Annual Report on the Long-Term Investment Program (For the Endowment Funds)
for the Fiscal Year Ending September 30, 2014**

Attached is the annual report (the Report) of the University Foundation's endowment fund (the Fund) for the fiscal year ending September 30, 2014. It was prepared by the Wayne State University Foundation's independent investment consultants, New England Pension Consultants (NEPC). The Report was reviewed, discussed and accepted by the Foundation's Investment Committee (the Committee) on December 3, 2014, and was reviewed by the Foundation Board at its meeting on November 18, 2014.

As shown in the Report, the market value of investments in the Fund was approximately \$305 million (including approximately \$1.3 million of University gift annuity funds) as of September 30. The Report summarizes the overall performance of the portfolio, the most significant asset allocation and manager changes which took place during the year, NEPC's investment outlook for FY 2015 and the detailed performance of the Fund's investment managers.

The Fund earned a total investment gain after manager fees of 7.5% for the fiscal year 2014 principally because of strong returns in domestic equity markets. This performance was below the median fund within the Independent Consultants Cooperative (ICC) peer universe of endowments and foundations, which for the same period experienced a gain of 8.1%. The Fund's performance ranked at the 63rd percentile of this peer universe for the year. Compared to the ICC peer universe for longer time periods (five, seven and ten years), the Fund's performance ranked in the 74th, 33rd and 29th percentiles, respectively.

In addition to the Report prepared by NEPC, attached is a list of the current members of the Committee and a ten year historical graph of the fiscal year end values of the combined endowment fund assets (approximately \$308 million at September 30, 2014) of the Foundation and the University.

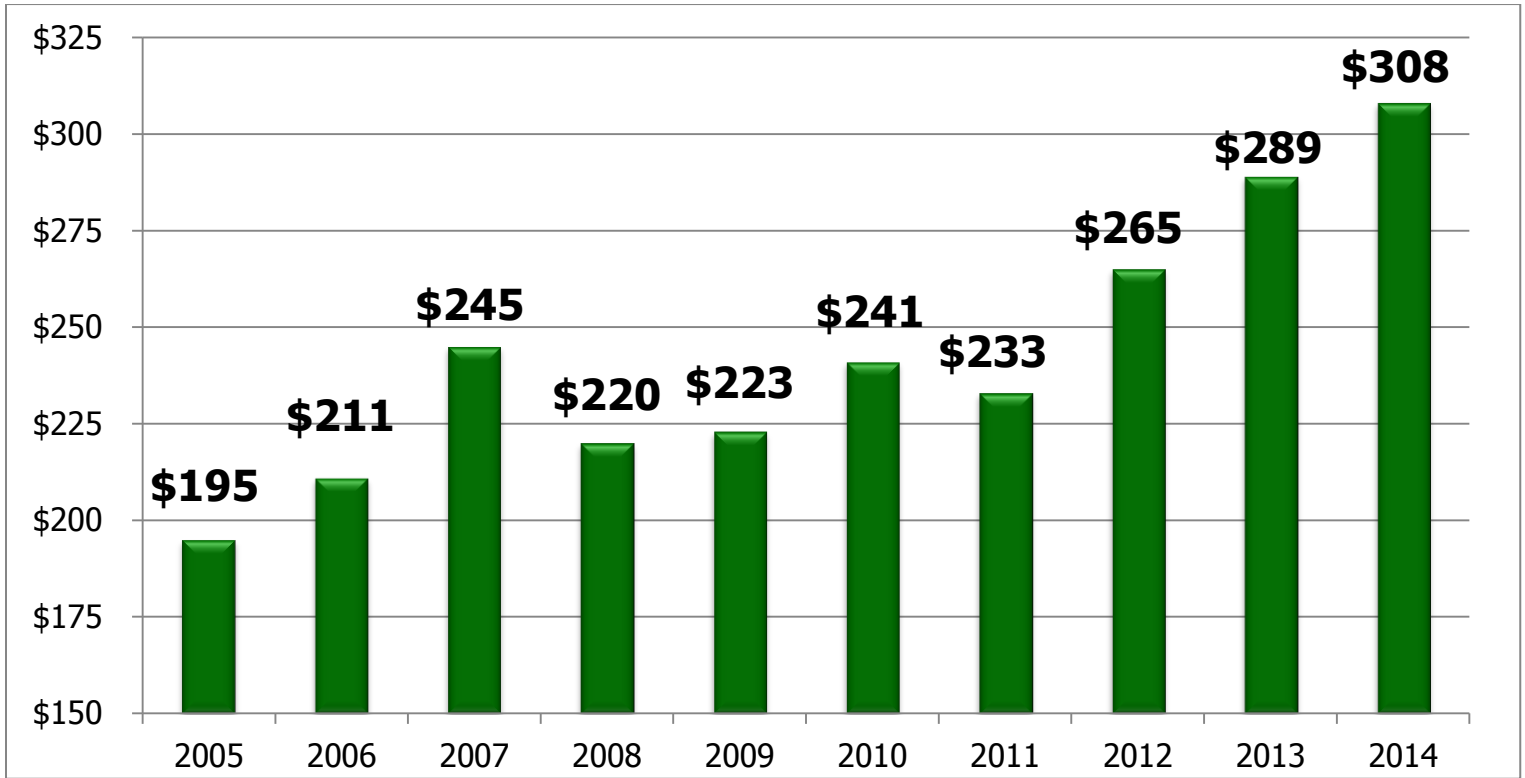
If you have questions regarding the content of this report, or the endowment fund in general, please direct them to either me or Roger Kempa, Assistant Vice President for Investment, Debt, and Risk Management at (313) 577-6632 or roger.kempa@wayne.edu.

WSU FOUNDATION INVESTMENT COMMITTEE MEMBERS

As of September 30, 2014

- Paul A. Glantz, President, Proctor Financial, Inc., Chairperson, WSU Foundation Investment Committee
- Richard J. Nork, V.P., Finance and Business Operations, Treasurer and Chief Financial Officer, WSU and Treasurer, WSU Foundation
- Paul Cavazos, Chief Investment Officer, DTE Energy
- Joseph G. Horonzy, Horonzy and Associates, LLC
- Howard M. Perlman, Senior V.P., Friedman Integrated Real Estate Solutions
- Chacona Johnson, V.P. Development and Alumni Affairs, WSU and President, WSU Foundation
- Alan E. Schwartz, Partner, Honigman, Miller, Schwartz and 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

TOTAL ENDOWMENT FUND ASSETS
FISCAL YEARS ENDING SEPTEMBER 30, 2005 THROUGH 2014
As Reported in the Annual Audited Financial Statement
(\$ - in millions)



Note: Foundation and University endowment fund assets combined.



NEPC, LLC

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Wayne State University Foundation

2014 Annual Foundation Investment Performance Report

Fiscal Year Ending September 30, 2014

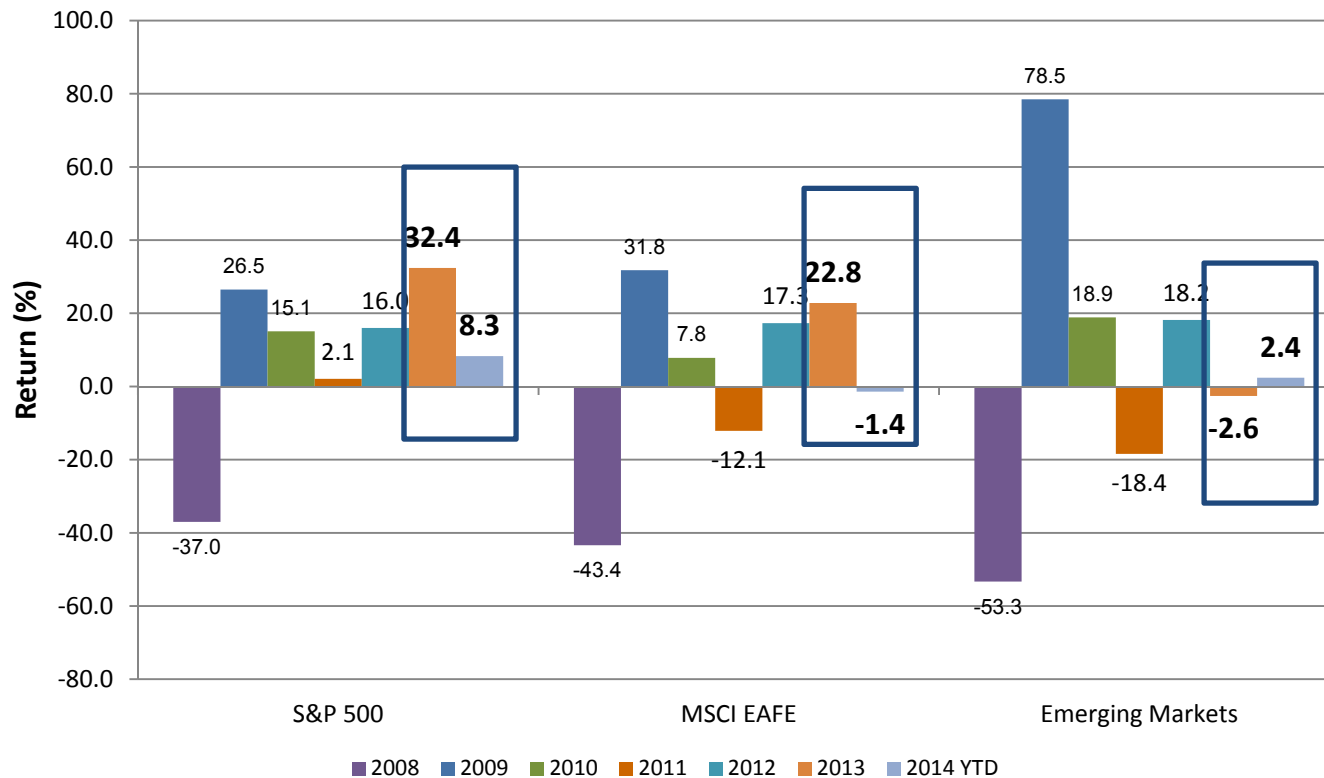
Paul R. Kenney, Jr., CFA, Partner
Oleksandra Goysan, Analyst

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

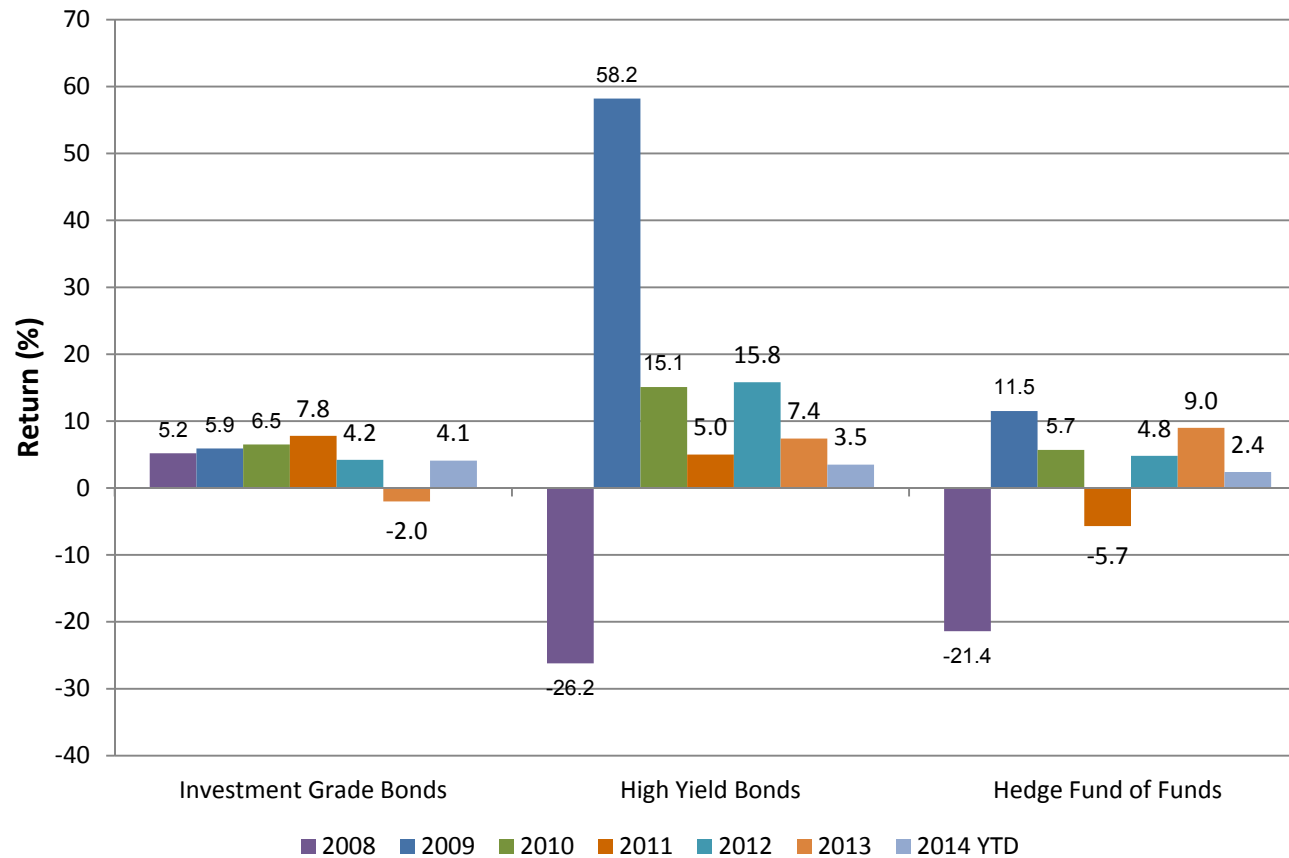
- **Federal Reserve and European Central Banks diverging**
 - Fed is slowing stimulus while ECB adding stimulus
- **US dollar strengthening amid currency volatility**
 - Deviation in central bank policy impacting currency markets has reverberated to other asset classes
- **US growth rebounded while global markets wavered**
 - U.S. growth outlook most favorable amongst developed markets; concerns exist regarding weakness in European growth
- **Oil prices fell significantly**
 - US production boom as well as strong supply from the Middle East combined with concerns of reduced demand in Europe and emerging markets
- **Emerging markets experience continued return dispersion**
 - Macroeconomic conditions and potential risks vary greatly by country
- **Many geopolitical worries**
 - ISIS, Ukraine, ebola...

- **We are six years removed from the Global Financial Crisis**
 - S&P 500 far and away strongest performer over the past two years
 - Developed International (MSCI EAFE) trailed off in 2014
 - Emerging markets have underperformed the past several years as growth estimates have slowed



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

Fixed Income and Hedge Fund Market Overview



- **Investment grade bonds have produced steady returns historically**
- **High yield bonds and hedge funds have been volatile, though less so more recently**

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



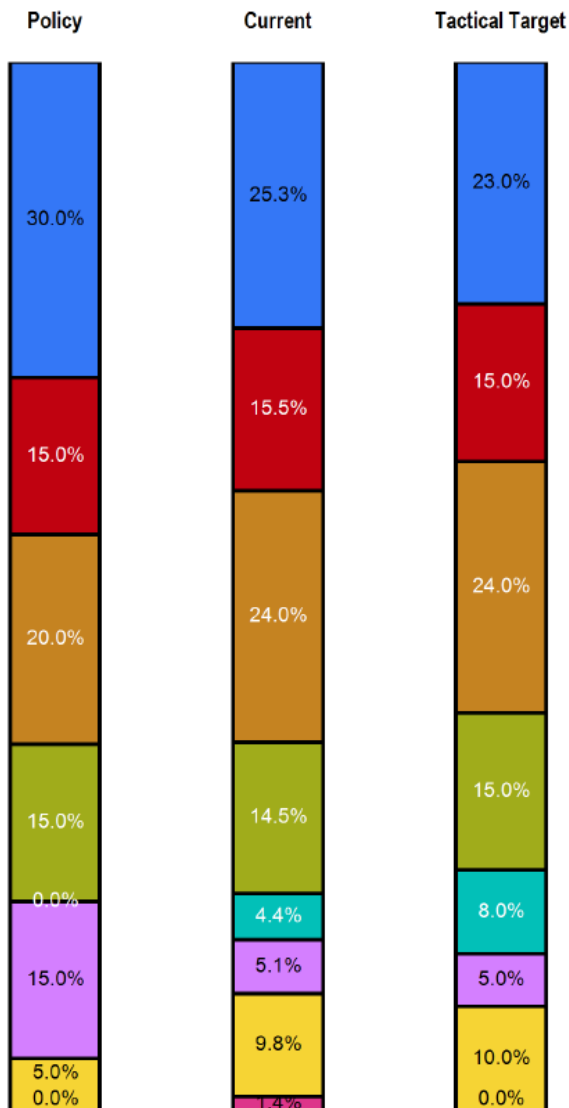
2014 Performance Summary

- **Total assets at fiscal year end were \$305.1 million, up \$17.6 million compared to \$287.5 million from the prior year**
- **The total return for the 2014 fiscal year was 7.5% net of fees**
- **The one year results ranked in the 3rd quartile with a 65th percentile ranking (a rank of 1 is highest, 100 is lowest)**
 - Active management added approximately 0.2% (as shown by the difference between the Composite and Allocation Index in the table below)
- **Performance ranked in the 3rd quartile (67th percentile) for the past three years**
- **Performance ranked in the 3rd quartile (74th percentile) for the five-year period and 2nd quartile (33rd percentile) for the seven-year period**
- **Active management has contributed to performance over longer time periods**

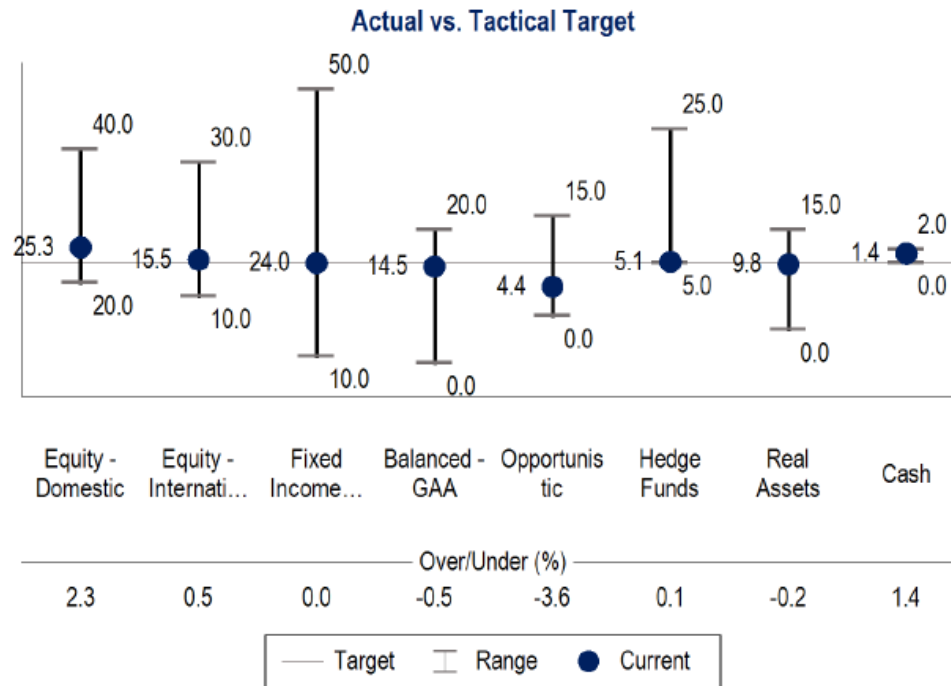
	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	7 Yrs	Rank	10 Yrs	Rank
Composite	7.5%	63	10.8%	67	8.0%	74	4.4%	33	6.8%	29
Allocation Index	7.3%	68	10.2%	78	7.5%	85	3.4%	69	6.2%	61
Policy Index	10.2%	15	12.2%	38	8.9%	44	4.3%	34	6.7%	30
Peer Median	8.1%		11.5%		8.7%		4.0%		6.3%	



Total Fund Asset Allocation



- Equity - Domestic
- Equity - International
- Fixed Income - Domestic
- Balanced - GAA
- Opportunistic
- Hedge Funds
- Real Assets
- Cash



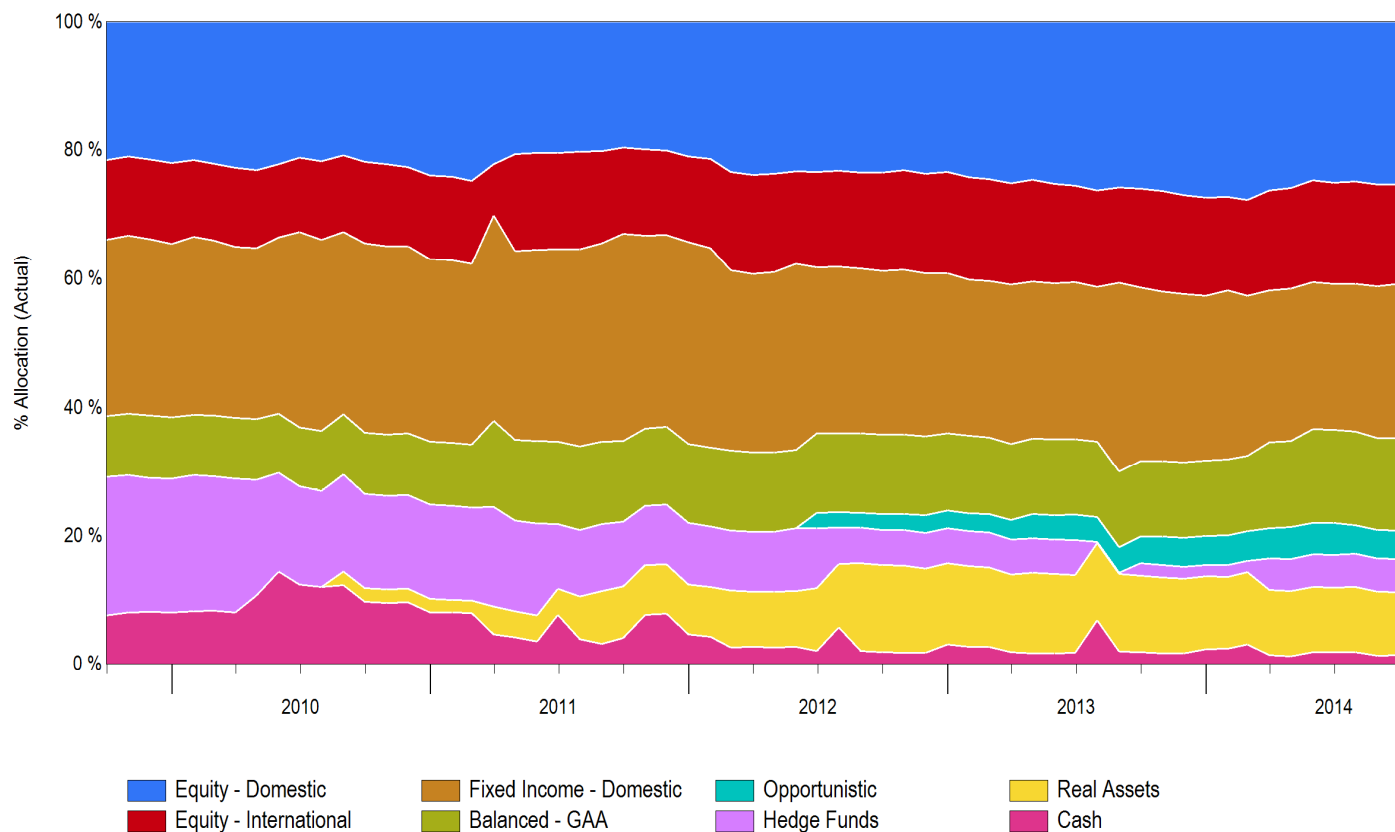
*"Target" is the Tactical Target. "Range" is the Policy Ranges.

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.

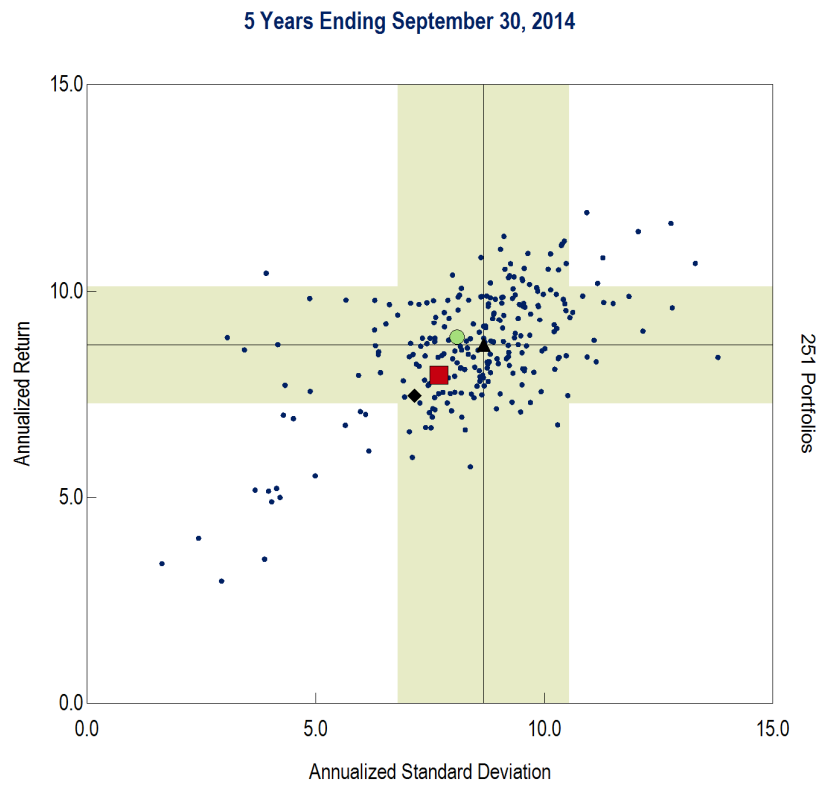
Asset Allocation Over Time

Asset Allocation History
5 Years Ending September 30, 2014



- Over the time period show the allocations to cash and hedge funds have decreased
- The allocation to real assets and opportunistic investments has increased

Five Year Risk vs. Return – Endowments and Foundations



- Composite
- ◆ Allocation Index
- Policy Index
- ▲ Universe Median
- 68% Confidence Interval
- InvestorForce All E&F Net

- **The chart shows that the Foundation had lower returns and risk than most of its peers for the past five years**
 - The intersection of the lines represents the median peer return and risk

- **The return of 8.0% per year over the past five years was in the 74th percentile (3rd quartile)**
 - The return earned was consistent with the risk taken

- **Risk (the annualized standard deviation of returns) has been running at 8% over this time period**
 - Expected risk is closer to 12% highlighting the below historic levels of volatility

5 Years Ending September 30, 2014

	Anlzd Ret	Rank	Anlzd Std Dev	Rank	Sharpe Ratio	Rank
Composite	8.0%	74	8.0%	33	1.0	55
Allocation Index	7.5%	85	7.4%	20	1.0	53

Note: Performance is net of manager fees. Peer universe is InvestorForce All E&F Net.



Individual Manager Performance Summary

	1 Yr (%)		1 Yr (%)
Composite	7.5	Fixed Income - Domestic	4.4
Allocation Index	7.3	Loomis Sayles Fixed Income	8.5
Over/Under	0.2	Barclays Aggregate	4.0
Policy Index	10.2	Over/Under	4.5
Equity - Domestic	15.4	Post Limited Term High Yield	4.0
75% S&P 500 / 25% Russell 2000	15.7	Post Custom Index	4.0
Over/Under	-0.3	Over/Under	0.0
Rhumbline	19.6	PIMCO Low Duration Fund	1.5
S&P 500	19.7	Barclays 1-3 Yr. Govt/Credit	0.8
Over/Under	-0.1	Over/Under	0.7
IronBridge Small Cap	8.6	PIMCO Unconstrained Bond Fund	1.9
Russell 2000	3.9	Barclays Aggregate	4.0
Over/Under	4.7	Over/Under	-2.1
SSgA S&P 500 Equal Weighted Index	13.5	Monroe Capital Senior Secured Direct Loan Fund	--
S&P 500 Equal Weighted	18.5	S&P LSTA Leveraged Loan Index	3.8
Over/Under	0.0	Over/Under	
Equity - International	3.8	Balanced - GAA	6.3
MSCI ACWI ex USA	4.8	65% MSCI ACWI (Net) / 35% BC Agg	8.8
Over/Under	-1.0	Over/Under	-2.5
Aberdeen EM	2.3	Wellington Opportunistic	6.9
MSCI Emerging Markets	4.3	65% MSCI ACWI (Net) / 35% BC Agg	8.8
Over/Under	-2.0	Over/Under	-1.9
SSgA EAFE Index	4.0	GMO Benchmark Free	5.6
MSCI EAFE	4.3	65% MSCI ACWI (Net) / 35% BC Global Agg	7.7
Over/Under	-0.3	Over/Under	-2.1
Aberdeen EM Small Cap	4.3	Opportunistic	9.7
MSCI Emerging Markets Small Cap	8.8	8% Flat Rate Index	8.0
Over/Under	-4.5	Renaissance Venture Capital Fund II	-11.8
Real Assets	2.6	Perella Weinberg	11.9
PIMCO All Asset	5.2	Marathon European Credit	7.8
PIMCO All Asset Index	5.2	Credit Suisse Event Driven Distressed	10.3
Over/Under	0.0	Over/Under	-2.5
Gresham ETAP Fund LLC	-5.7	Hedge Funds	11.0
Bloomberg Commodity Index	-6.6	FrontPoint Multi-Strategy Fund	-0.8
Over/Under	0.9	AQR Gibraltar Fund	11.6
Cash	1.0	HFRI Fund of Funds Composite Index	6.2
Money Market	0.0	Over/Under	5.4
PIMCO Short-Term Fund	1.7		
Ford Interest Rate Advantage Demand Note	1.1		

- Domestic equity and opportunistic managers, as well as hedge funds posted strong returns in 2014
- International equity and GAA managers have relative underperformance
- Specific manager highlights are noted below

– **Emerging Markets:** Aberdeen EM Small Cap trailed the benchmark by 4.5%

– **Fixed Income:** Loomis Sayles outperformed the BC aggregate by 4.5%

– **Hedge Funds:** AQR Gibraltar beat the benchmark by 5.4%

– **Domestic Small Cap:** IronBridge beat the Russell 2000 by 4.7%

– **Global Asset Allocation (GAA):** Wellington Opportunistic and GMO Benchmark Free lagged their benchmarks by 1.9% and 2.1%, respectively

Note:

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

Review Of Prior Actions

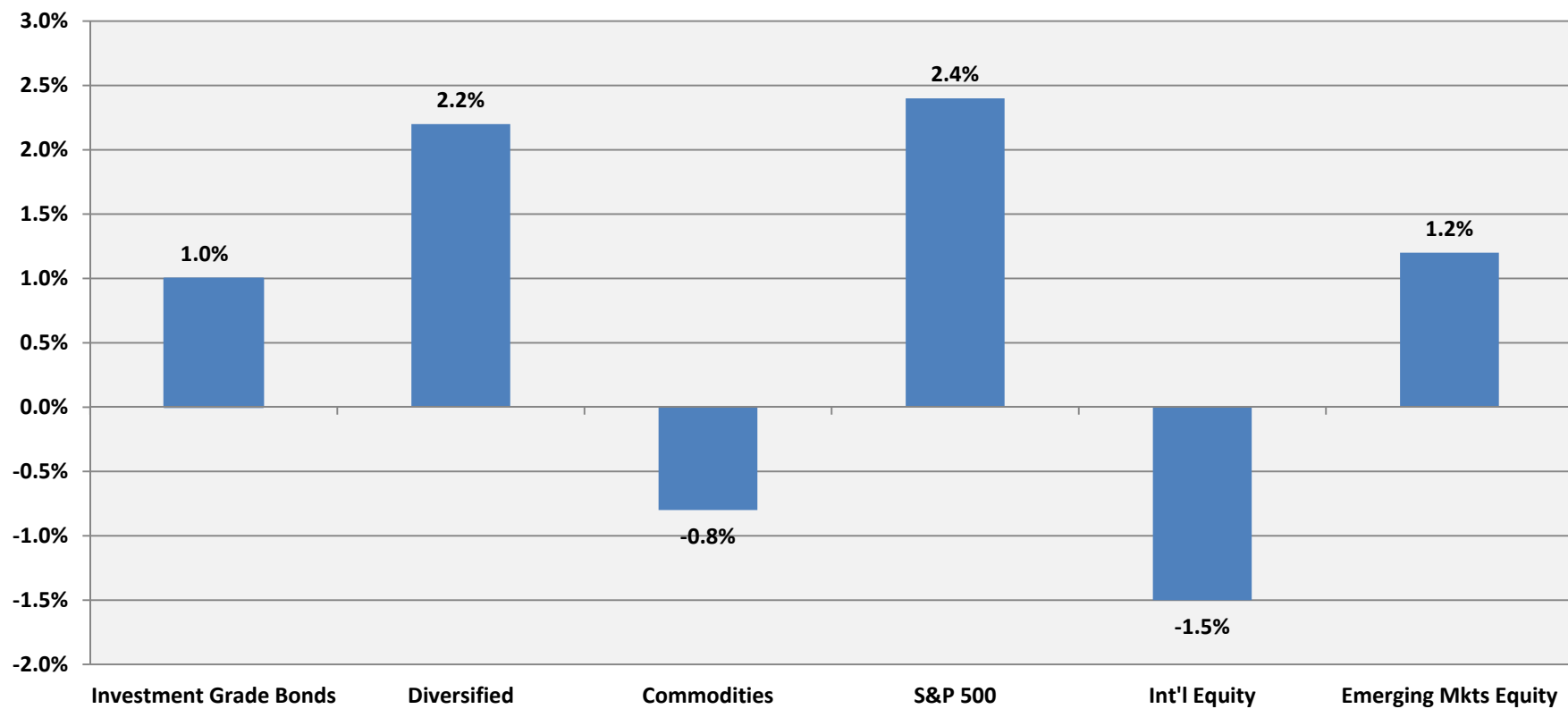
- **Coming out of the financial crisis, the portfolio had been positioned more conservatively than the policy target**
 - The strong performance / growth in assets has allowed for more risk to be taken
 - In 2013 the risk level was moved closer to policy to support the long term return objectives
- **The Committee approved a revised asset allocation in February 2013; key actions implemented included:**
 - **Broaden equity market exposure**
 - An SSgA Equal Weighted S&P 500 Index fund was added to complement the existing S&P 500 Capital Weighted Index Fund
 - **Further diversify fixed income portfolio**
 - Replaced PIMCO Total Return with PIMCO Unconstrained to better manage interest rate exposure
 - Approved commitment in direct lending manager Monroe Capital for yield enhancement – investment substantially made in FY 2014
 - **Replace hedge fund of funds exposure**
 - Replaced JP Morgan Hedge Fund of Funds with AQR Gibraltar fund to gain similar market exposure more inexpensively and efficiently – completed funding of investment in FY 2014
 - **Move to a more flexible GMO product**
 - Replaced GMO Global Balanced asset allocation product with the GMO Benchmark Free fund to provide better opportunity to benefit from ongoing market volatility
- **Actions in 2014 have been focused on manager specific issues**
 - Turnover at PIMCO led to a review of PIMCO products in the Foundation – BlackRock hired to replace the PIMCO Unconstrained Fund after a review of competitor products
 - The Committee met with Aberdeen (the Foundation’s emerging market manager) to assess comfort level with the firm and emerging markets – a decision was made to stay the course
 - Review of underperforming small cap manager IronBridge – performance has improved and no change is recommended at this time
 - Post Advisors terminated due to organizational turnover

- **Currency volatility is likely to continue**
 - Effect of divergent central bank policies is ongoing and subject to change themselves
 - Good opportunity to evaluate currency risk and consider a partially hedged approach
- **Equity market sell-off in early October was quite normal relative to history**
 - US has experienced moderate growth rebound and cheaper energy and stronger dollar can provide buffer to the economy
 - US valuations are above average, but not unreasonably so, while profit margins appear somewhat stretched
 - European equities have less positive macroeconomic outlook but ECB actions could provide short-term support
- **Emerging market dispersion to remain an ongoing theme**
 - Geopolitical risks continue to simmer in many countries while others appear to be well positioned for strong growth
 - Employ active management with well-developed macro views to help navigate tricky environment and avoid pitfalls of benchmark biases
- **Stay positioned to take advantage of volatility as central bank policy expectations flow through to markets**
 - Uncertainty remains about the effectiveness of ECB stimulus and the timing of the Fed raising rates
 - Higher volatility should benefit active management and yield more attractive opportunities for dynamic strategies

Appendix

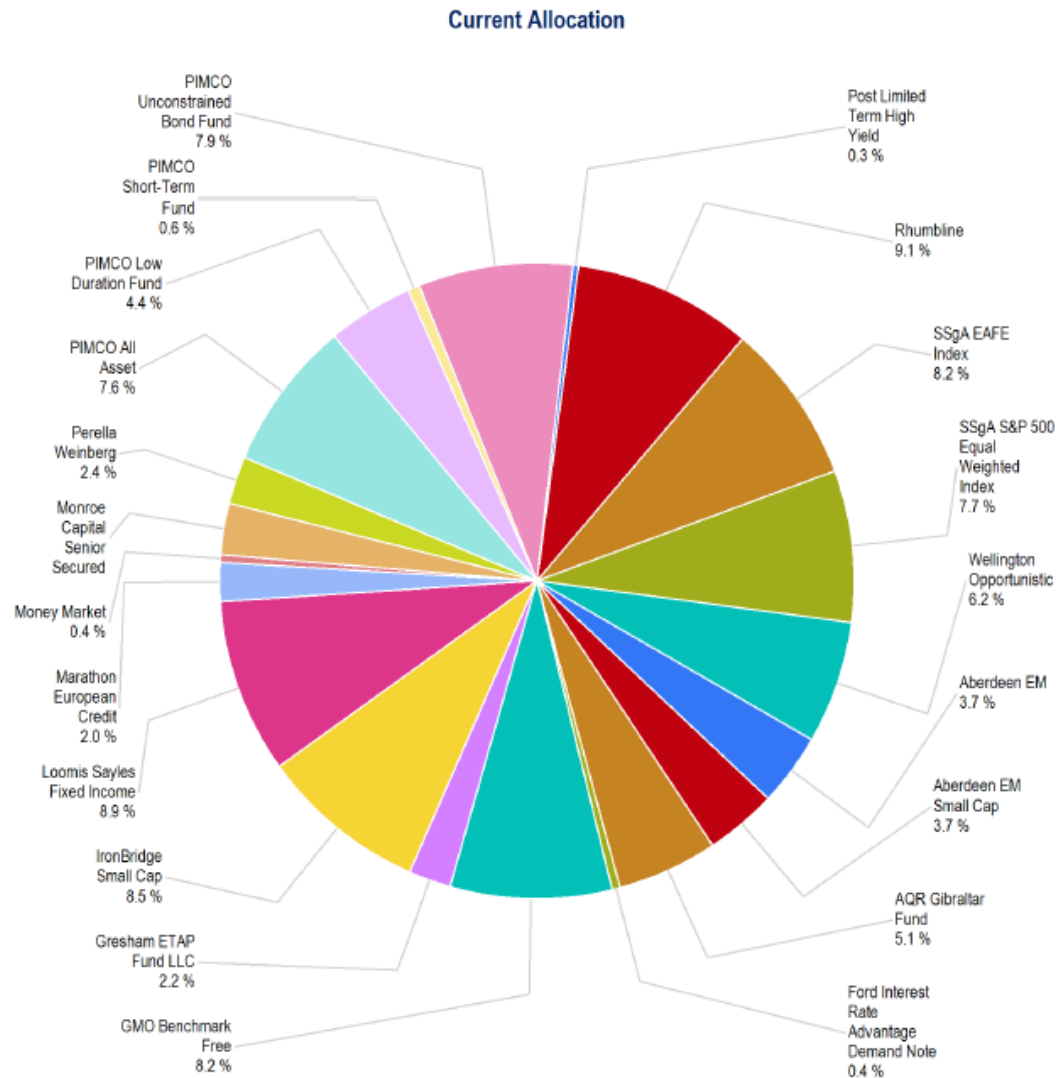


October 2014 Investment Returns



Investment Manager Allocations

	Market Value (\$)	% of Portfolio
Composite	305,070,564	100.0
Equity - Domestic	77,266,021	25.3
Rhumbline	27,826,722	9.1
IronBridge Small Cap	25,940,521	8.5
SSgA S&P 500 Equal Weighted Index	23,498,778	7.7
Equity - International	47,233,225	15.5
Aberdeen EM	11,195,872	3.7
SSgA EAFE Index	24,892,707	8.2
Aberdeen EM Small Cap	11,144,646	3.7
Fixed Income - Domestic	73,146,622	24.0
Loomis Sayles Fixed Income	27,050,116	8.9
Post Limited Term High Yield	858,662	0.3
PIMCO Low Duration Fund	13,303,370	4.4
PIMCO Unconstrained Bond Fund	23,976,565	7.9
Monroe Capital Senior Secured Direct Loan Fund	7,957,911	2.6
Balanced - GAA	44,097,839	14.5
Wellington Opportunistic	19,007,717	6.2
GMO Benchmark Free	25,090,122	8.2
Opportunistic	13,479,664	4.4
Renaissance Venture Capital Fund II	102,047	0.0
Perella Weinberg	7,367,808	2.4
Marathon European Credit	6,009,809	2.0
Hedge Funds	15,703,268	5.1
FrontPoint Multi-Strategy Fund	89,233	0.0
AQR Gibraltar Fund	15,614,035	5.1
Real Assets	29,865,005	9.8
PIMCO All Asset	23,294,051	7.6
Gresham ETAP Fund LLC	6,570,954	2.2
Cash	4,278,919	1.4
Money Market	1,188,202	0.4
PIMCO Short-Term Fund	1,861,878	0.6
Ford Interest Rate Advantage Demand Note	1,228,839	0.4



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

	1 Yr (%)	3 Yrs (%)	5 Yrs (%)		1 Yr (%)	3 Yrs (%)	5 Yrs (%)
Composite	7.5	10.8	8.0	PIMCO Unconstrained Bond Fund	1.9	--	--
Allocation Index	7.3	10.2	7.5	Barclays Aggregate	4.0	2.4	4.1
Policy Index	10.2	12.2	8.9	eA US Core Fixed Inc Net Rank	96	--	--
InvestorForce All E&F Net Rank	63	67	74	Monroe Capital Senior Secured Direct Loan Fund	--	--	--
Equity - Domestic	15.4	21.3	14.6	S&P LSTA Leveraged Loan Index	3.8	6.7	6.5
75% S&P 500 / 25% Russell 2000	15.7	22.6	15.4	Balanced - GAA	6.3	9.1	6.7
eA All US Equity Net Rank	41	57	66	65% MSCI ACWI (Net) / 35% BC Agg	8.8	11.6	8.2
Rhumbleline	19.6	22.9	15.4	eA Global Balanced Net Rank	99	99	97
S&P 500	19.7	23.0	15.7	Wellington Opportunistic	6.9	9.2	6.3
eA US Large Cap Core Equity Net Rank	27	29	36	65% MSCI ACWI (Net) / 35% BC Agg	8.8	11.6	8.2
IronBridge Small Cap	8.6	18.5	12.8	eA Global TAA Net Rank	39	32	39
Russell 2000	3.9	21.3	14.3	GMO Benchmark Free	5.6	--	--
eA US Small Cap Core Equity Net Rank	25	78	88	65% MSCI ACWI (Net) / 35% BC Global Agg	7.7	11.1	7.6
SSgA S&P 500 Equal Weighted Index	18.5	--	--	eA Global TAA Net Rank	53	--	--
S&P 500 Equal Weighted	18.5	24.8	17.5	Opportunistic	9.7	--	--
eA US Large Cap Equity Net Rank	39	--	--	8% Flat Rate Index	8.0	8.0	8.0
Equity - International	3.8	12.1	7.4	Renaissance Venture Capital Fund II	-11.8	--	--
MSCI ACWI ex USA	4.8	11.8	6.0	Perella Weinberg	11.9	--	--
eA All ACWI ex-US Equity Net Rank	61	76	58	Marathon European Credit	7.8	--	--
Aberdeen EM	2.3	8.3	7.9	Credit Suisse Event Driven Distressed	10.3	11.1	8.7
MSCI Emerging Markets	4.3	7.2	4.4	Hedge Funds	11.0	7.4	5.2
eA Emg Mkts Equity Net Rank	83	55	18	FrontPoint Multi-Strategy Fund	-0.8	12.0	5.2
SSgA EAFE Index	4.0	13.5	--	eA HFN FOF - Multi-Strategy Net Rank	97	9	50
MSCI EAFE	4.3	13.6	6.6	AQR Gibraltar Fund	11.6	--	--
eA All EAFE Equity Net Rank	64	72	--	HFRI Fund of Funds Composite Index	6.2	5.2	3.4
Aberdeen EM Small Cap	4.3	13.6	--	eA HFN Multi-Strategy Net Rank	19	--	--
MSCI Emerging Markets Small Cap	8.8	9.7	6.7	Real Assets	2.6	5.5	--
eA Emg Mkts Small Cap Equity Net Rank	97	38	--	PIMCO All Asset	5.2	8.0	--
Fixed Income - Domestic	4.4	6.7	6.5	PIMCO All Asset Index	5.2	5.2	6.1
eA All US Fixed Inc Net Rank	43	21	31	eA Global TAA Net Rank	61	50	--
Loomis Sayles Fixed Income	8.5	10.3	9.7	Gresham ETAP Fund LLC	-5.7	-4.0	--
Barclays Aggregate	4.0	2.4	4.1	Bloomberg Commodity Index	-6.6	-5.3	-1.4
eA US Core Plus Fixed Inc Net Rank	3	1	1	Cash	1.0	0.8	0.5
Post Limited Term High Yield	4.0	7.8	--	Money Market	0.0	0.0	0.0
Post Custom Index	4.0	7.8	--	eA US Cash Management Net Rank	99	99	97
eA US High Yield Fixed Inc Net Rank	92	93	--	PIMCO Short-Term Fund	1.7	--	--
PIMCO Low Duration Fund	1.5	2.7	--	eA US Cash Management Net Rank	1	--	--
Barclays 1-3 Yr. Govt/Credit	0.8	0.9	1.5	Ford Interest Rate Advantage Demand Note	1.1	--	--
eA US Short Duration Fixed Inc Net Rank	33	9	--	eA US Cash Management Net Rank	1	--	--

* Returns are net of fees

