

# PURPOSE

Washington University in St. Louis  
2017-18 Annual Report

## FISCAL YEAR 2018 ENDOWMENT

Washington University's endowment supports the core university missions of teaching, research, and patient care. Generous supporters have funded endowments for student scholarships, professorships, research, libraries, academic centers, and capital projects. In addition, unrestricted endowments provide income to supplement tuition, grants, patient revenue, and gifts in the general operating budget.

Washington University's Board of Trustees has delegated oversight for endowment investment and spending policy to the Washington University Investment Management Company (WUIMC) Board of Directors. Operating as a division within the legal framework of the university, WUIMC is led by the chief investment officer, who is assisted by a professional staff and is responsible for the implementation of investment strategy, hiring and management of investment managers, and all day-to-day investment responsibilities. Endowment funds are pooled with other operating funds and collectively invested. This pool is known as the Managed Endowment Pool (MEP).

The MEP returned 10.9 percent in fiscal year 2018, driven by strong performance from nearly every asset class. Private equity and venture capital investments returned 16.7 percent for the fiscal year and private real estate and natural resources generated an 11.6 percent return. As part of a focused effort to enhance long-term outcomes, WUIMC has broadened and upgraded allocations to private equity, venture capital, and real estate. Global equities continued to deliver strong returns. Developed market and emerging market equities both generated 13.0 percent returns. Fixed income and absolute return investments were a modest drag on performance but are an important part of the long-term portfolio as both asset classes provide financial support, stability, and liquidity during more challenging market environments.



Scott Wilson, CIO



Eric Upin, AB '83, WUIMC Executive Board Chair, Trustee

“Fiscal years 2017 and 2018 were transitional years for WUIMC. Having taken the reins from interim-CIO Eric Upin in December, we have been focused on assessing the portfolio and materially changing our line-up of investment managers. Over the past 10 months, we have significantly shifted the portfolio construction, where we are now pursuing a considerably more concentrated portfolio within each asset class to focus on our managers' highest conviction opportunities. While this effort will take several more years to complete, there are early signs of improvement in our fiscal 2018 returns. With a more concentrated portfolio, built around our highest conviction investment managers and ideas, we expect modest increases in volatility and tracking error over the next few years, by design. When the portfolio transition is completed, we believe the long-term improvement in performance results will be well worth any short-term increase in volatility. Our long-term goal of building a globally diversified portfolio of attractive investments across all asset classes remains unchanged. We are committed to achieving an attractive long-term risk and return profile in line with our targeted strategic asset allocation. We will continue to adjust the portfolio to changing market conditions as needed to achieve our long-term goals.”

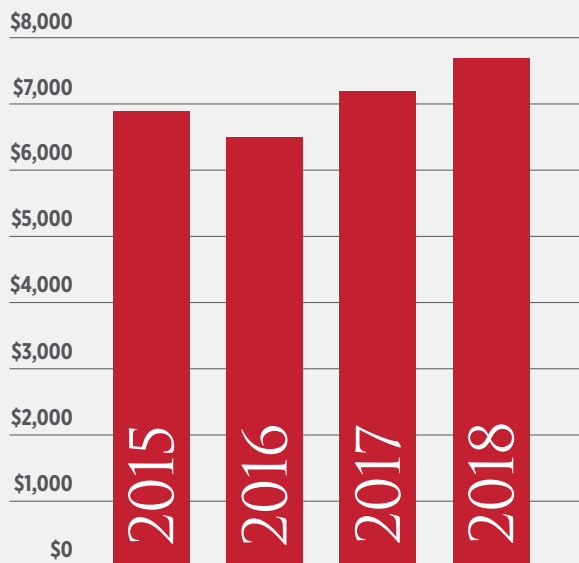
—Scott Wilson, WUIMC, CIO

“Over the past four years, working closely with Chancellor Wrighton and the Board of Trustees, the Investment Management Company Board of Directors has focused on several initiatives to reposition and enhance the endowment portfolio and broaden the capabilities of the investment team. Our goals centered on improving performance results and ensuring alignment with the university's funding requirements and long-range strategic aspirations. This multiyear effort has included the development of a new strategic asset allocation policy and portfolio strategy, increased exposure to private asset classes (private equity, venture capital, and real estate), and the keen focus on transforming the portfolio's roster of external investment managers. A key milestone in this effort was the signing of our new chief investment officer, Scott L. Wilson. Since joining in December 2017, Scott and the investment team have worked tirelessly, making significant changes and progress. While early indications are promising and encouraging, we are resolutely focused on building a portfolio and investment organization that serves the university over the long term, with strong outperformance and compounding over the next 10 to 20 years and beyond.”

—Eric Upin, WUIMC Executive Board Chair

## Endowment as of June 30, 2018

Millions of \$



The endowment was valued at \$7.7 billion as of June 30th, reflecting an increase of \$472 million from the prior year end value. The growth in the endowment was a result of investment gains of \$745 million and endowment gifts of \$107 million. These gains were partially offset by spending distributions to the university totaling \$323 million and other net transfers of \$57 million.

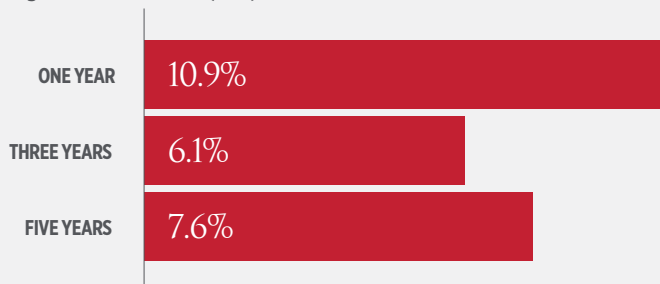
## Asset Class Allocation as of June 30, 2018

ALLOCATION	ASSET CLASS
24%	DEVELOPED MARKET EQUITY
12%	EMERGING MARKET EQUITY
29%	PRIVATE EQUITY AND VENTURE CAPITAL
9%	REAL ESTATE AND NATURAL RESOURCES
20%	ABSOLUTE RETURN
6%	FIXED INCOME AND CASH
100%	TOTAL

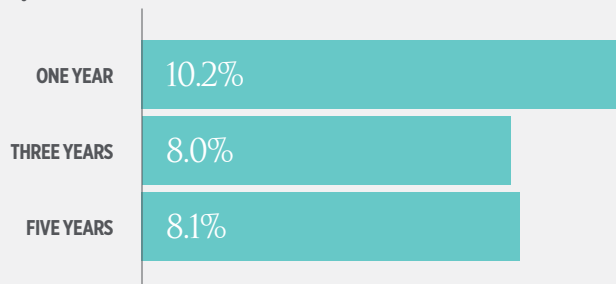
As shown in the above table, the Managed Endowment Pool is diversified among six broad asset classes. The portfolio continued to have significant exposure to equities and other equity-like assets at year-end, consistent with its long-term nature.

## Annualized Endowment Returns for periods ending June 30, 2018

## Managed Endowment Pool (MEP)



## Policy Benchmark



The table above shows the three- and five-year performance of the MEP as well as the return for the most recent fiscal year. Over the three years ending June 30, 2018, the MEP earned an annualized return of 6.1 percent, while annualized performance over the trailing five-year period was 7.6 percent. The five-year endowment performance is consistent with long-term return expectations.

