

December 21, 2017

The Honorable James C. Justice, II
Governor of West Virginia
State Capitol 1900 Kanawha Blvd., East
Charleston, WV 25305

Dear Governor Justice,

In accordance with the requirements of WV State Code 12-1-12d(f), I respectfully submit the enclosed report on behalf of the West Virginia University Board of Governors. This report provides information about the University's unrestricted investment fund and the operating investments for the period October 1, 2016 – September 30, 2017.

The September 30, 2017 values of the WVU unrestricted investment and operating investment portfolios managed by the WVU Foundation were \$67,346,208 and \$52,629,256, respectively. The asset allocation ranges for these funds as well as the actual allocations as of September 30, 2017 may be found in the attached report from the WVU Foundation on pages 3 and 5.

The 12-month return for the unrestricted investments can be found on page 4. The WVU unrestricted portfolio achieved a 12-month return during the investment reporting period of 11.8%. As a point of comparison, during the same period of time the S&P 500 returned 18.6% and the Barclay's Aggregate bond index returned .1%. WVU uses a blended benchmark to assess performance of the unrestricted investment portfolio. The benchmark blended rate for the period was 12.0%. This portfolio underperformed its blended benchmark by only 20 basis points and has outperformed the blended benchmark for the 3-year period and since inception.

As mentioned on page 3 of the WVU Foundation report, WVU reviews its asset allocation of these portfolios at least annually. Over the past few years, upon recommendation of the WVU Foundation based on WVU's expressed risk tolerance, WVU has modestly increased its equity allocation of the unrestricted investment portfolio to more closely reflect the long term nature of the assets being managed.

WVU and the WVU Foundation are proud that the unrestricted investment portfolio has performed well in volatile equity and challenging fixed income market conditions. The graph on page 1 of the WVU Foundation report demonstrates solid growth of the S&P during the past year after a somewhat down period in the previous reporting year. We continue to view the comparative performance of our portfolio detailed on page 4 as evidence that this investment program and the prudent investment strategies allowed within the program can generate positive results.

During the 2015 legislative session, the limit on the amount of money that WVU can invest with its Foundation was removed. WVU elected to place its available operating dollars with the WVU Foundation for investment in short term, federally guaranteed investments. WVU made its first investment of such money on August 25, 2015. The returns on these investments as well as additional detail about how the money has been shifted between the various investment vehicles can be found on page 5. Funds are removed from these investments as they are needed to meet the current obligations of the University throughout the year.

Should you desire additional information regarding WVU's investment managed by the WVU Foundation, please contact me directly at 304-293-0463.

Sincerely,



David R. Kosslow
Assistant Vice President for Finance

Enclosure

cc: Aaron Allred, Legislative Services
William D. Wilmoth, WVU Board of Governors Chair
J. Thomas Jones, WVU Board of Governors Finance Chair
E. Gordon Gee, President
Rob Alsop, Vice President for Strategic Initiatives

December 14, 2017

Rob Alsop
Vice President for Strategic Initiatives
West Virginia University
Stewart Hall
Post Office Box 6205
Morgantown, WV 26506

Paula Congelio
Vice President and CFO
WVU – Robert C. Byrd Health Sciences Center
Post Office Box 9000 Suite 1000
Morgantown, WV 26506

Re: Annual Report to West Virginia University
Regarding the Unrestricted Investment Funds and the Operating Investments

The West Virginia University Foundation, Incorporated, in its capacity as Investment Agent, has prepared the enclosed annual report on the Unrestricted Investment Funds (the "Investment Funds") and the WVU Operating Investments (the "Operating Investments") for the 12-month period ending September 30, 2017.

Included herein is a Market Overview and a Portfolio Review for the 12-month period, detailing the investment assets under management, asset allocation, and annual performance.

We are honored to serve as Investment Agent on behalf of West Virginia University and look forward to serving your needs as they relate to the Investment and Operating Funds. If you have any questions or would like any additional information, please do not hesitate to contact us.

Sincerely,



Richard S. Kraich, CFA
Vice President & Chief Investment Officer

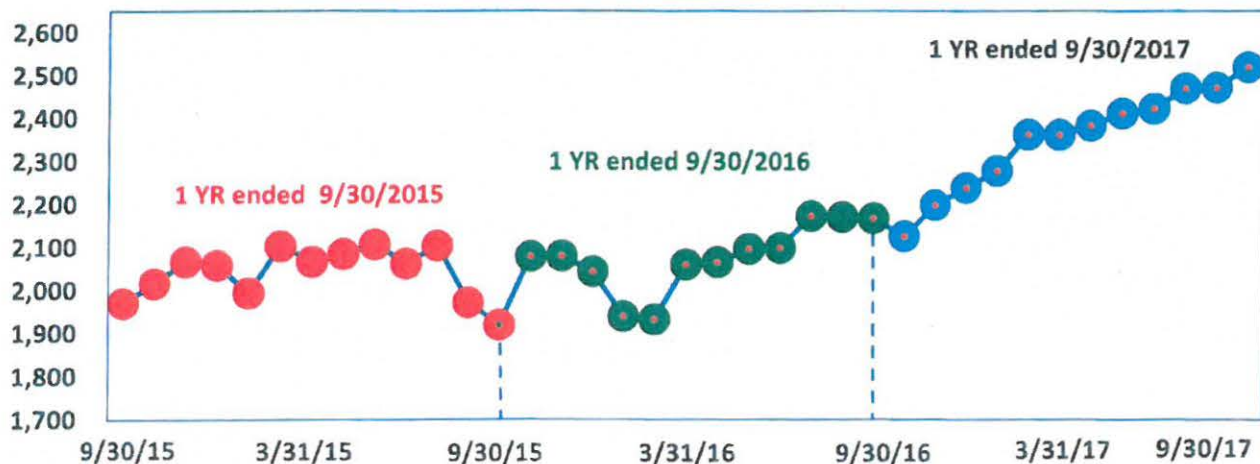
Market Overview

The U.S. equity markets recorded solid gains during the year, with the S&P 500 gaining 18.6% and the Russell 3000 climbing 18.7%. The uptrend in the market was first dominated by the victory of Republican candidate Donald Trump in the presidential election and then continued amid generally supportive macroeconomic data, the Fed raising interest rates three times, and the optimism over Trump's pro-growth plans to cut taxes and boost infrastructure spending. Small cap stocks fared as well over the past 12 months, returning 20.7% for the Russell 2000. International developed equity and emerging markets both registered strong returns, benefiting from upbeat economic releases, improved corporate earnings and receding worries over uncertainty on US trade and foreign policy. The Morgan Stanley Capital International EAFE Index returned 19.1% while the Morgan Stanley Capital International Emerging Markets index rose 22.5% for the 12-month period.

In contrast, the Barclays U.S. Aggregate Bond Index returned 0.1% during the one year period ended September 30, 2017 as the U.S. Federal Reserve hiked rates three times, offsetting the compression in corporate spreads. The Citigroup World Government Bond Index had a negative return of -2.7% for the year on tightening sovereign rate conditions partially offset by tightening corporate spreads. The JP Morgan Emerging Markets Bond Index returned 4.6% on appreciating emerging market currencies and income. Higher energy and metals prices contributed to the 1.8% return for the S&P Goldman Sachs Commodity Index.

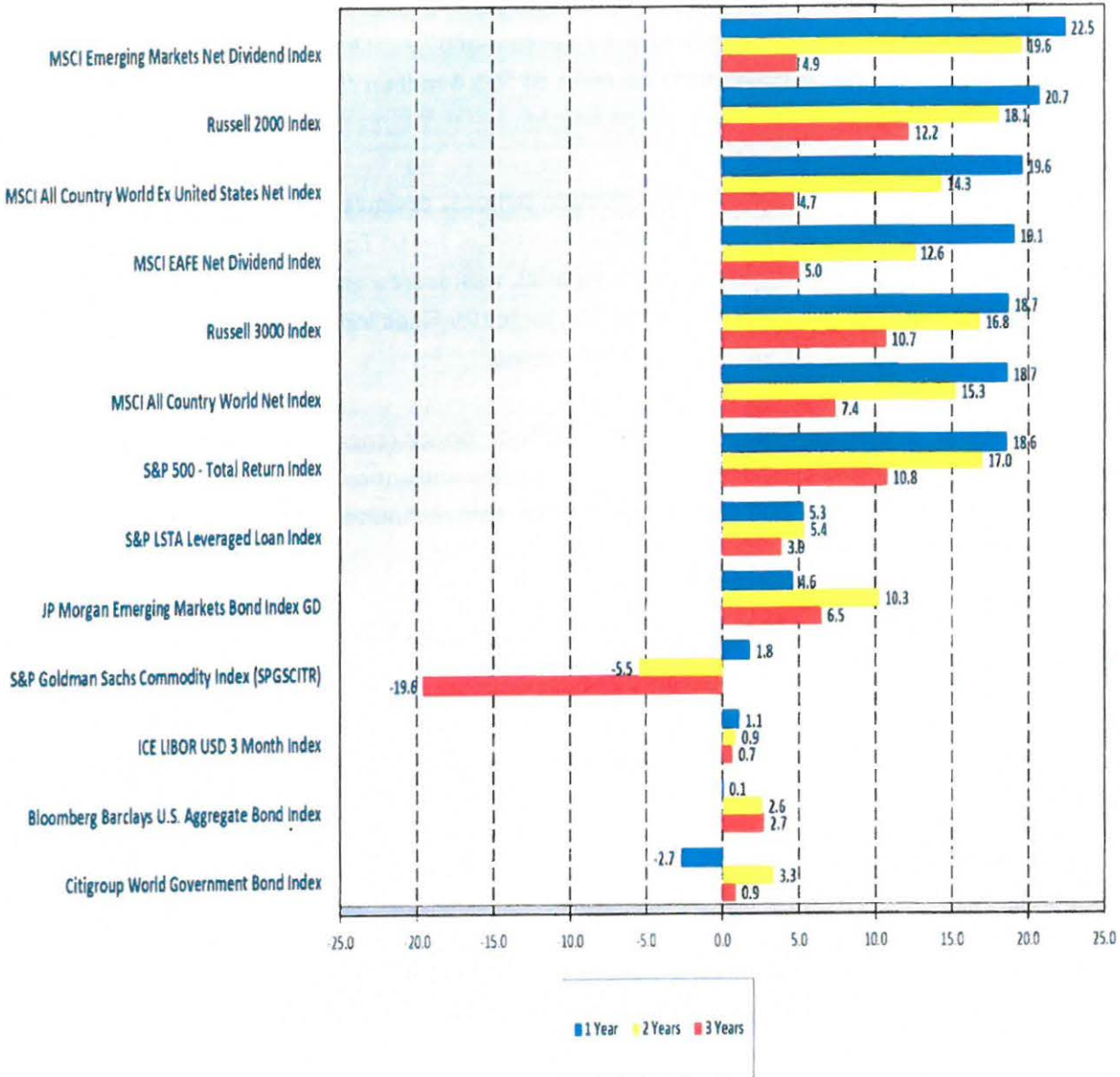
The following charts display (i) the change in value of the S&P 500 over the most recent 3-year period, and (ii) the performance of key market indices for the 1-, 2-, and 3-year periods ended September 30, 2017. The first chart illustrates the S&P 500 monthly values over the last 3 years. The Market Performance chart illustrates the strong performance of U.S. equities over most time periods.

S&P 500 Values



*S&P 500 values shown do not include dividends.

Market Performance Periods Ended September 30, 2017



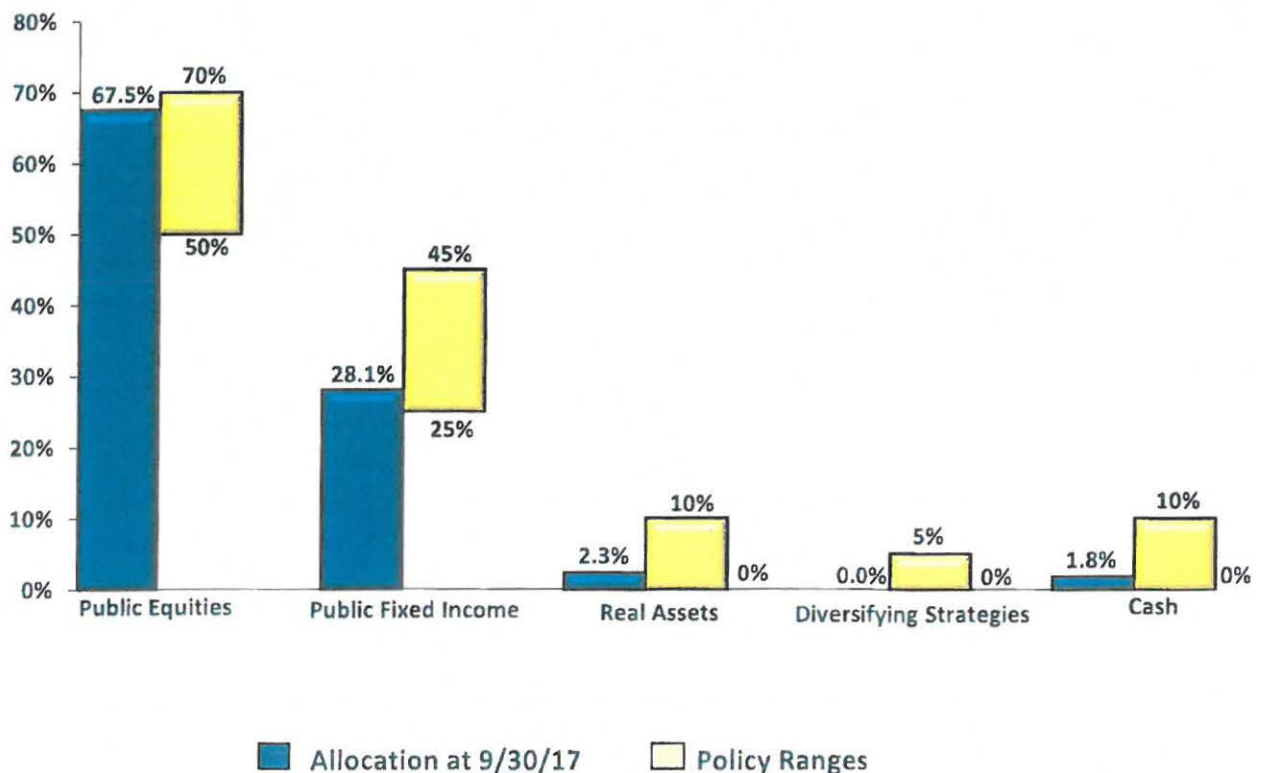
WVU Investment Funds Portfolio Review

Investment Assets under Management: At September 30, 2017 the value of the Investment Funds' portfolio was \$67.3 million. The portfolio had a net gain of \$7.2 million during the twelve month period. The portfolio has produced net earnings of \$11.4 million for the 3-year period ending September 30, 2017.

Asset Allocation: The Investment Funds' asset allocation policy is reviewed annually with the Investment Committee. In March 2017, the asset allocation target for US Equities was increased from 33% to 38% while the target for International Equities was decreased from 22% to 19%, bringing the overall Equities target from 60% to 62%. The target for Fixed Income was decreased from 33% to 31%. No changes were made to any of the ranges.

At September 30, 2017, all asset classes were in line with their policy ranges. This portfolio is rebalanced quarterly to policy ranges subject to Committee review and approval. The Investment Policy allows for flexibility to maintain allocations outside the recommended range at the Committee's discretion.

Asset Allocation as of September 30, 2017



Performance Summary as of September 30, 2017

For the 12 months ended September 30, 2017, the Investment Funds returned 11.8% for the year, resulting in a gain of \$7.2 million. Public Equities returns were strong for the year, returning 19.6% for domestic and 15.3% for international. One of our U.S. Equity funds, Dodge & Cox Stock fund, performed particularly well returning 23.9% and outperforming the S&P 500 index by 527 basis points. Dodge & Cox's International Stock fund also had a strong year, returning 24.5% vs. 19.6% for the MSCI All Country World EX-US benchmark and partially offsetting underperformance of other international equity managers. The Fixed Income portion of the portfolio returned 1.0%, outperforming the Barclays Aggregate Bond Index return of 0.1%. The Real Assets space had a negative return of -6.2% for the period. For the year, the Investment Funds slightly underperformed the Custom Benchmark due largely to international equity manager performance below their respective benchmarks. Since inception of the Investment Funds' program in November 2006, the program has generated an annualized return of 5.5%, as compared to its Custom Benchmark return of 5.2%.

Performance Returns as of September 30, 2017

	<u>1 YR</u>	<u>3 YR</u>	<u>ITD*</u>
WVU Unrestricted Investment Funds	11.8	6.2	5.5
<i>Custom Benchmark**</i>	<i>12.0</i>	<i>5.9</i>	<i>5.2</i>
<i>S&P 500</i>	<i>18.6</i>	<i>10.8</i>	<i>7.9</i>
<i>MSCI EAFE</i>	<i>19.1</i>	<i>5.0</i>	<i>6.6</i>
<i>Barclays Aggregate Bond Index</i>	<i>0.1</i>	<i>2.7</i>	<i>1.5</i>

**The inception date of the portfolio for performance tracking purposes is 12/1/2006.*

***Custom Benchmark calculated by BNY Mellon. Benchmark is a dynamic blend based upon the average monthly balances of all WVU Unrestricted investment accounts and the returns of their corresponding benchmark indexes.*

WVU Operating Investments Portfolio Review

The objective of managing the WVU Operating Investments is to generate interest with very limited, if any, risk to capital using short duration investment strategies. For the 12 month period ending September 30, 2017, the Operating Investments utilized an ICS savings account and a CDARS program using 4-week and 13 week maturities through United Bank. This program was initiated after receiving the State Treasurer's Office approval on August 25, 2015.

Activity as of September 30, 2017

	10/1/16 Balance	Deposits	Interest	Withdrawals	9/30/17 Balance
ICS Savings	25,846,912	271,876,245	206,062	(280,317,764)	17,611,455
4 Week CDARS	30,016,113	98,007,943	79,550	(105,585,805)	22,517,801
13 Week CDARS	-	43,500,000	77,383	(31,077,383)	12,500,000
Total	55,863,025	413,384,187	362,994	(416,980,951)	52,629,256

Interest Rates as of 9/30/17
ICS Savings: 1.26%
4 Week CDARS: 1.33-1.36%
13 Week CDARS: 1.43%