F–16

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Annual Investment Program Review

Attachment

University of Washington Annual Investment Program Review, as of September 30, 2009, Report to the Board of Regents

University of Washington Annual Investment Program Review

As of September 30, 2009

Report to the Board of Regents

Treasurer Board of Regents
Treasury Office

Published November 2009

F-16/211-09
11/19/09

Investment Program

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Executive Summary

Executive Summary

Objective: Generate strong investment performance

- Outperform the CEF policy benchmark by 125 basis points per annum over rolling 3 year periods.
- Add $15 million per annum above policy benchmark or $90 million over 5 years after compounding.
- Achieve performance that consistently ranks within the second quartile relative to the 50 largest college and university endowments.

Results

Fiscal Years	2005	2006	2007	2008	2009	5 Years
CEF Return	12.5%	17.8%	23.3%	2.0%	-23.3%	5.0%
Policy Benchmark	11.6%	16.1%	19.1%	0.9%	-16.9%	5.3%
Excess Returns	**.91%**	**1.61%**	**4.2%**	**1.1%**	**(6.4%)**	**(.3%)**
Contribution (MM)	$12	$26	$79	$24	($111)	$30*
Peer Quartile Ranking	3rd	1st	2nd	2nd	4th	2nd

2010 Plan

- Expand globally competitive research process.
- Maintain focus overseas with an emphasis on Asia.
- Focus on risk management.

** Cumulative*

FY 2009 Hits and Misses

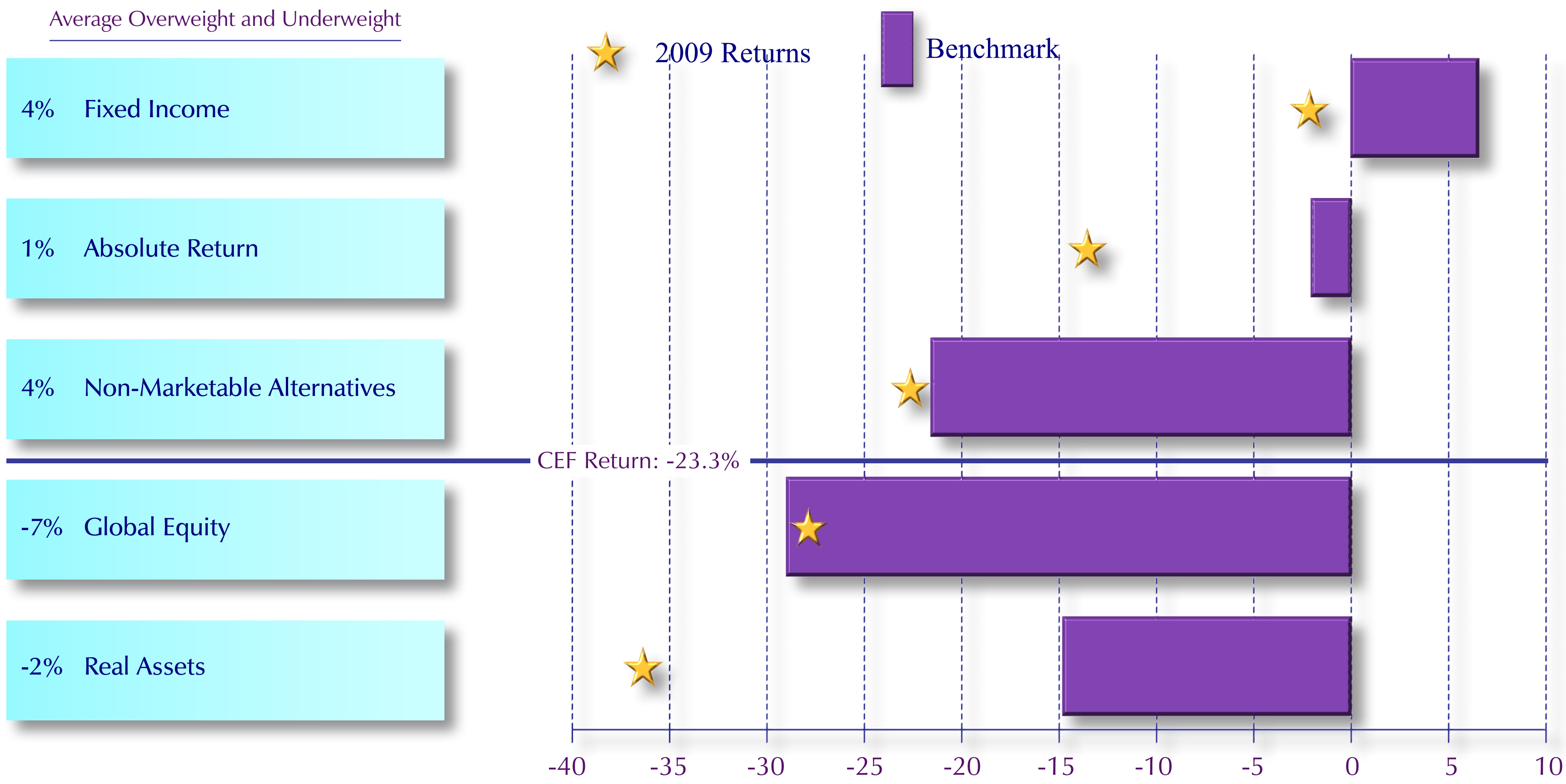
Positives

- Defensive positioning of the portfolio
- International equity manager performance
- Manager upgrades
- TIPS purchase
- Strong liquidity throughout market crisis

Negatives

- Leveraged strategies (real assets and absolute return)
- Spread product in fixed income
- Non-dollar currency exposure
- Cash drag vs policy benchmark
- Securities lending program

FY 2009 Performance by Asset Class



- Asset classes were revised as of July 1, 2008.
- Global Equity was only asset strategy exceeding its benchmark.
- New asset class of Absolute Return and significantly revised Real Assets were the largest under performers.

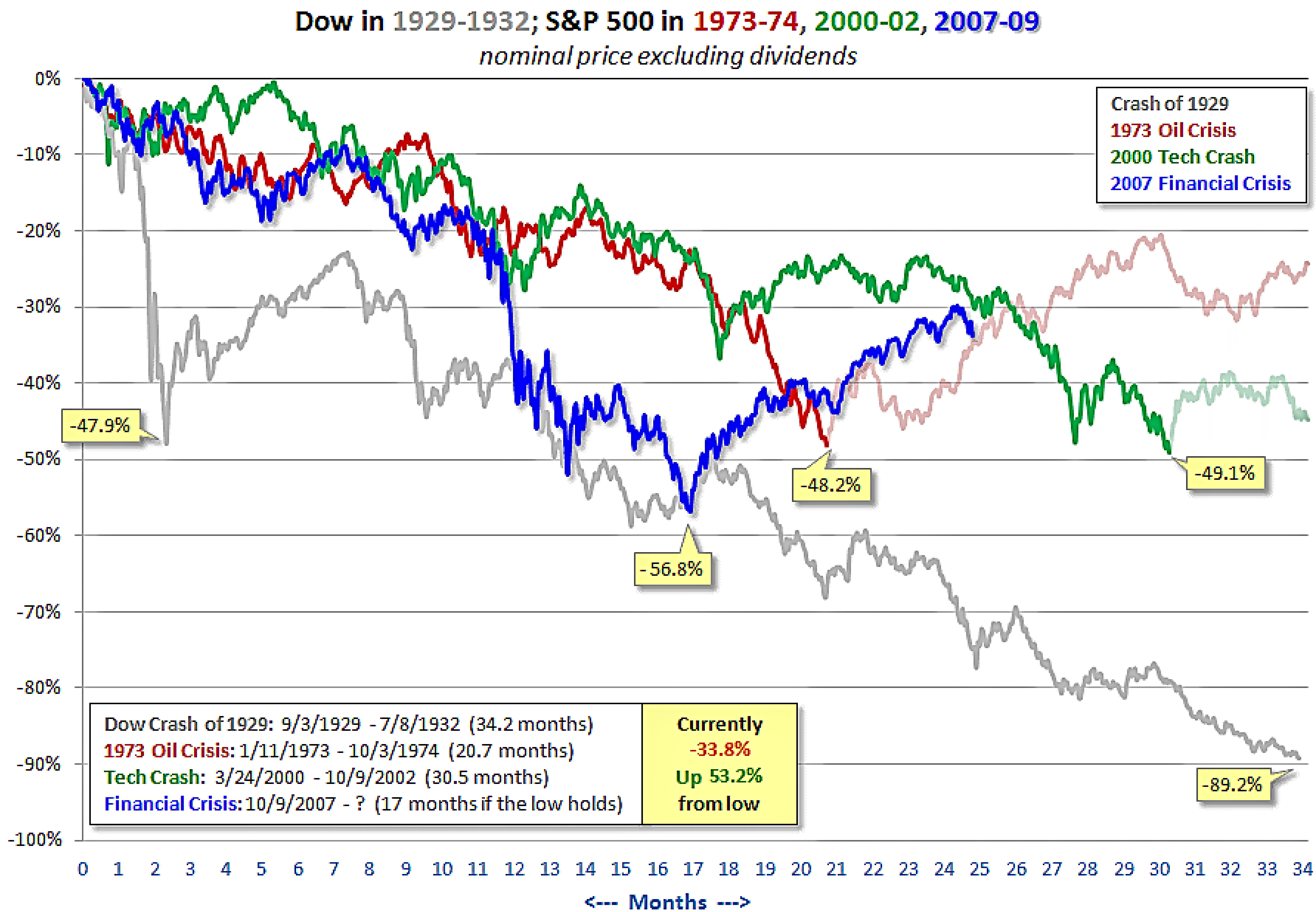
CEF Asset Class Exposures

As of 9/30/09

	Role in Portfolio	Exposure 09/30/09[1]	Policy Target	Policy Range	Over/Under Target
Non-Marketable Alternatives					
Venture Capital Private Equity	Enhanced Returns, Diversification	15%	12%	5%–25%	3%
Global Equity					
Emerging Markets	Growth, Diversification	13%	13%	5%–35%	0%
Developed International Equity	Growth, Diversification	14%	16%	5%–35%	-2%
U.S. Equity	Growth	13%	15%	5%–35%	-2%
	TOTAL EQUITY FUND	**55%**	**56%**		**-1%**
Real Assets					
Private Real Estate	Growth, Diversification				
Public Real Estate	Growth, Diversification	10%	15%	5%–25%	-5%
Natural Resources	Diversification, Inflation Hedge				
	TOTAL REAL ASSETS	**10%**	**15%**		**-5%**
Absolute Return					
Absolute Return	Downside Protection, Diversification	20%	18%	5%–25%	2%
	TOTAL ABSOLUTE RETURN	20%	**18%**		2%
Fixed Income					
Bonds	Diversification, Deflation Hedge	5%	11%	5%–35%	4%
Cash	Diversification, Deflation Hedge	10%			
	TOTAL FIXED INCOME	**15%**	**11%**		**4%**
		100%	**100%**		

Capital Markets

Four Bad Bear Markets



Source: dshort.com

History of Bear Markets

A Historical Perspective of Market Corrections & Bear Markets: Timeframes for the Recovery of Losses

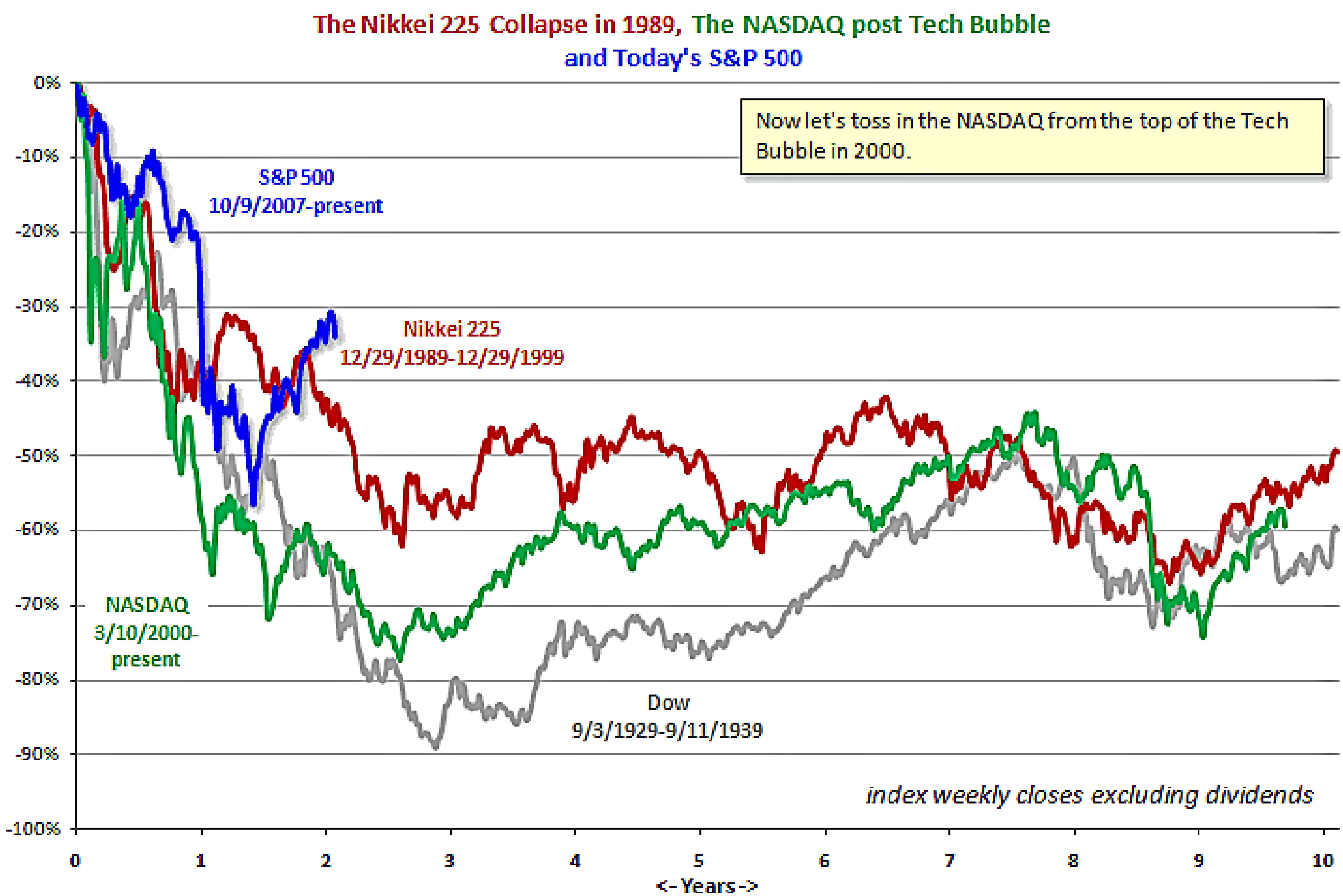
	Bear Market Total Months	Total Decline [1]	First Year After Decline	Months to Break Even [2]
Sep 1929–Jun 1932	34	-83.4%	162.9%	185
Nov 1948–May 1949	7	-10.0%	42.4%	11
Jan 1953–Aug 1953	8	-8.7%	35.0%	13
Aug 1957–Dec 1957	5	-15.0%	43.4%	11
Jan 1960–Oct 1960	10	-8.4%	32.6%	12
Jan 1962–Jun 1962	6	-22.3%	31.2%	13
Feb 1966–Sep 1966	8	-15.6%	30.6%	14
Dec 1968–Jun 1970	19	-29.3%	41.8%	26
Jan 1973–Sep 1974	21	-42.6%	38.1%	29
Jan 1977–Feb 1978	14	-14.3%	16.6%	19
Dec 1980–Jul 1982	20	-16.5%	59.3%	23
Sep 1987–Nov 1987	3	-29.6%	23.3%	17
Jun 1990–Oct 1990	5	-14.8%	33.4%	9
Jul 1998–Aug 1998	2	-15.4%	39.8%	5
Apr 2000–Sep 2002	30	-43.8%	24.4%	79
Avg w/1929–1932 Period	**13**	**-24.6%**	**43.7%**	**31**
Avg w/o 1929–1932 Period	**11**	**-20.5%**	**35.1%**	**20**
Nov 2007–Mar 2009	17	-56.7%	N/A	NA

[1] S&P 500 Index *[2] As of October 31, 2009*

Source: Ibbotson

Mega-Bear Quartet

The Dow Crash of 1929 and Great Depression



Source: dshort.com

Governance

Treasury Assets[1] as of 9/30/09–$3.1 Billion

Dollars in Millions

Endowment & Similar Funds

Endowment Funds	$1,429
Operating Funds	347
Consolidated Endowment Fund	1,776
Life Income Trusts	72
Outside Trusts	46
Non-CEF Endowments	18
Permanent Fund[6]	29
	$1,941

Operating & Reserve Funds

Invested Funds[2, 3]	$1,001
Bond Retirement Fund[4]	19
Building Fund[4]	18
Debt Service Reserve Funds[5]	12
Bond Proceeds[7]	82
	$1,132

1. *Includes assets whose management falls under the auspices of the Finance & Audit Committee of the Board of Regents. Excludes Metro Tract and Forest Trust Lands. All dollar amounts are expressed in millions and represent market values.*
2. *The Invested Funds holds Consolidated Endowment Fund units valued at $347. To avoid double counting, the dollars are included only in the CEF totals.*
3. *In June 2002, the Board of Regents authorized the establishment of a captive insurance company, Portage Bay Insurance(PBI). The previous insurance vehicle, the Self Insurance Revolving Fund (SIRF), will close after existing claims are resolved. Current balances: PBI $74.4 & SIRF $2.9.*
4. *General obligation bond reserve fund on deposit with the state of Washington.*
5. *Required reserve funds for locally issued bonds (TSB Properties $1.1, Twenty Fifth Ave Prop $2.4, 2004 Parking $1.4, 2002 Housing & Dining $1.5, 2004 Housing & Dining $0.6,Roosevelt 1 $2.3 and Roosevelt 2 $2.0 & Commodore Duchess $0.6)*
6. *Proceeds from sale of land grants and subsequent investment returns on deposit with the state of Washington.*
7. *Construction project funds which have not yet been disbursed.*

Key Investment Decisions

INVESTMENT POLICY	STRATEGY	INVESTMENT MANAGEMENT	ASSESSMENT
Spending policy	Active / passive	Manager identification	Performance measurement
Return requirements	Internal/external management	Manager due diligence	Risk management
Long-term asset allocation	Diversification	Manager appointment	Policy evaluation
Risk preference	Portfolio structure	Manager guidelines	
Constraints	Market timing	Manager monitoring	
	Rebalancing	Manager termination	
	Derivative usage		
• *Established and approved by the* ***Board of Regents****.*	• *Implemented by the* ***Chief Investment Officer.***	• *Implemented by the* ***Chief Investment Officer****.*	• *Provided by the* ***Chief Investment Officer****.* • *Overseen by the* ***Finance, Audit and Facilities Committee of the Board of Regents****.*

Advised by UWINCO

Key Investment Roles

BOARD OF REGENTS

Sets investment policy

- Spending rate
- Strategic asset allocation
- Delegations

Appoints investment officers/advisors

- Chief Investment Officer
- UWINCO Members
- Investment Consultants (FAF)

Reviews results

- Investment program oversight / accountability

UNIVERSITY OF WASHINGTON INVESTMENT COMMITTEE (UWINCO)

Advises the CIO

- Investment planning
- Asset allocation
- Manager identification
- Market trends

Advises the Board of Regents

- Investment program oversight

CHIEF INVESTMENT OFFICER (CIO)

Implements investment program

- Day to day investment program management
- Tactical asset allocation
- Manager appointments / terminations
- Risk management
- Research

Monitors results

- Performance reporting

University of Washington Investment Committee (UWINCO)[1]

Role: Advisory committee established by the Board of Regents in 2001

Purpose: To advise the Board of Regents and the President on matters relating to the management of the University's investment program. This includes but is not limited to overall asset allocation, performance goals, new investment strategies, strategy implementation, manager identification, due diligence and valuation policy.

Membership: No more than ten (10) members of which one or two shall be selected from the Board of Regents.

Appointment: Individual members appointed by the Board of Regents.

Term: Minimum three (3) consecutive years, renewable.

Criteria for Membership: Investment expertise in specialized markets (private equity, hedge funds, real assets, international markets); access to desirable managers/funds; strategic focus; commitment to the University of Washington.

UWINCO Chair: Designated by the Chair of the Board of Regents.

Meeting Frequency: Quarterly

Regent Members: Jeff Brotman (Chair), Fred Kiga

Non-Regent Members: David Bonderman, Bryan White, Michael Larson, Mary Pugh

[1] *The Board of Regents adopted the UWINCO "Statement of Principles" in September 2009 which addresses the administrative functions of the Committee.*

Endowment Management

Endowment Objectives

An endowment is a permanent fund established through private gift funds to support the program specified by the donor. The Consolidated Endowment Fund consists of over 3,000 individual endowments which are commingled for investment purposes. A portion of the return generated each year is used to support current year programs with distributions made quarterly.

Primary Objective

To preserve the purchasing power of each endowed gift over time.

This objective drives the discussion on spending policy, return requirements, long-term asset allocation and risk tolerance.

Secondary Objective

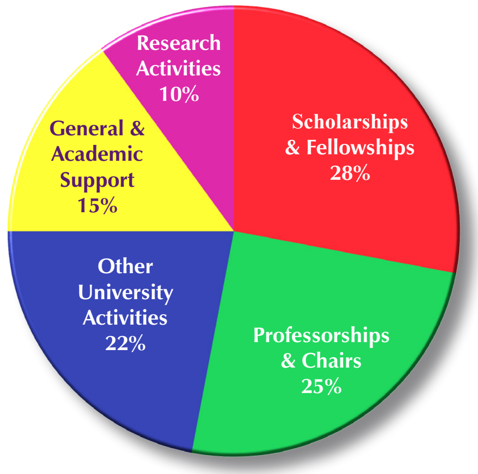
To provide a steady stream of income to support individual programs.

This objective influences the spending formula used in calculating the income distribution.

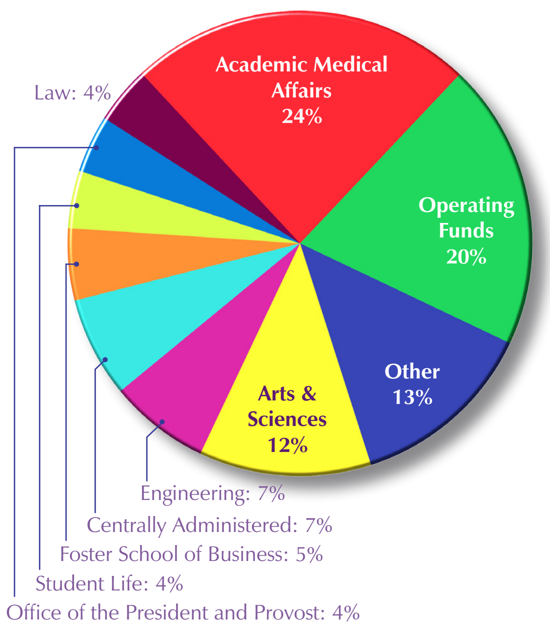
Program Support

Endowed Program Support[1]
as of 6/30/09

By Purpose

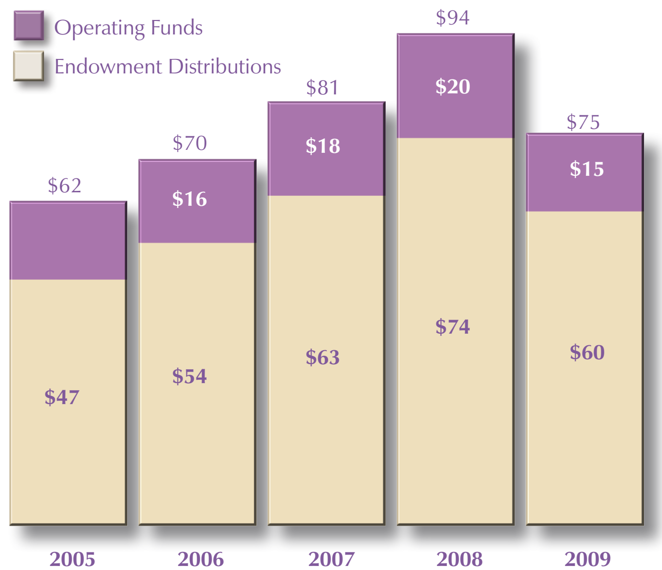


By School and College



[1] Includes operating funds invested in the CEF.

Endowed Distributions
$ = Millions



Fiscal Years	Annual UW Revenues	Endowment Distributions	%
2005	$3,025	$62	2.0%
2006	$3,455	$70	2.0%
2007	$3,666	$81	2.2%
2008	$3,447	$94	2.7%
2009	NA	$75	NA

Spending Policy

Spending Policy:	Set by the Board of Regents.
Interim Spending Rate:	**Per unit distributions to endowed programs will be decreased by 25% annually in FY '09 and FY '10 after which per unit distributions will be held constant at the FY '10 level. This interim policy went into effect in March 2009 and will be revisited by the Board of Regents no later than June 30, 2013 to determine the appropriate next steps.**
Long Term Spending Rate:	Spend 5% of the average market value of the CEF for the previous three years.
Frequency:	Distributions are administered on a quarterly basis.
Policy Changes:	Changes to the spending policy require approval of the Board of Regents.
Administrative Fees:	A 1.0% annual administrative fee is charged against the endowment: 0.8% to the Advancement Office and 0.2% to the Treasury Office.

Long Term Nominal Return Requirement

Total Nominal Return*
Required to Meet the Long Term Spending Target

Endowment Distributions	5.0%	Policy Spending Rate
Development Office	0.8%	Administrative Fees
Treasury Office	0.2%	
Expected Inflation	3.0%	Consumer Price Index
Total Nominal Return Required	**9.0%**	

* Return is assumed net of investment fees (manager, consulting, custodial and legal) of approximately 50 b.p.

Required Nominal Return Matrix

Spending Rate plus Administrative Fees

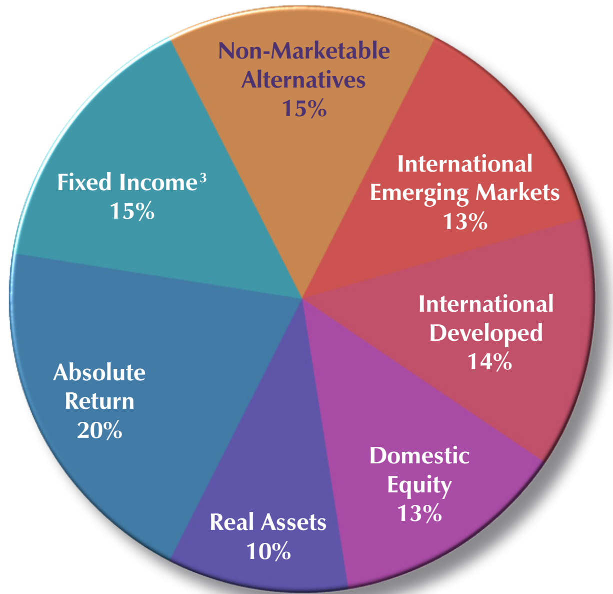
Inflation	**3.0%**	**4.0%**	**5.0%**	**6.0%**	**7.0%**
1.0%	4.0%	5.0%	6.0%	7.0%	8.0%
2.0%	5.0%	6.0%	7.0%	8.0%	9.0%
3.0%	6.0%	7.0%	8.0%	9.0%	10.0%
4.0%	7.0%	8.0%	9.0%	10.0%	11.0%
5.0%	8.0%	9.0%	10.0%	11.0%	12.0%
6.0%	9.0%	10.0%	11.0%	12.0%	13.0%
7.0%	10.0%	11.0%	12.0%	13.0%	14.0%
8.0%	11.0%	12.0%	13.0%	14.0%	15.0%

Long Term spending plus inflation rate estimate

CEF Asset Allocation

Asset Allocation as of September 30, 2009

Consolidated Endowment Fund [1]—$1,776 MM



Dollars in Millions

	Current Allocation [2]			Policy Target	PolicyRange
	Non-Marketable Alternatives	$252	15%	12%	5%–25%
Global Equity	International Emerging Markets	237	13%	13%	5%–35%
Global Equity	International Developed Markets	249	14%	16%	5%–35%
Global Equity	Domestic Equity	235	13%	15%	5%–35%
	Equity Fund	$973	55%	56%	45%–75%
	Real Assets Fund	$177	10%	15%	5%–25%
	Absolute Return	366	20%	18%	5%–25%
	Fixed Income Fund [3]	260	15%	11%	5%–35%
	Total Consolidated Endowment Fund	$1,776	100%		

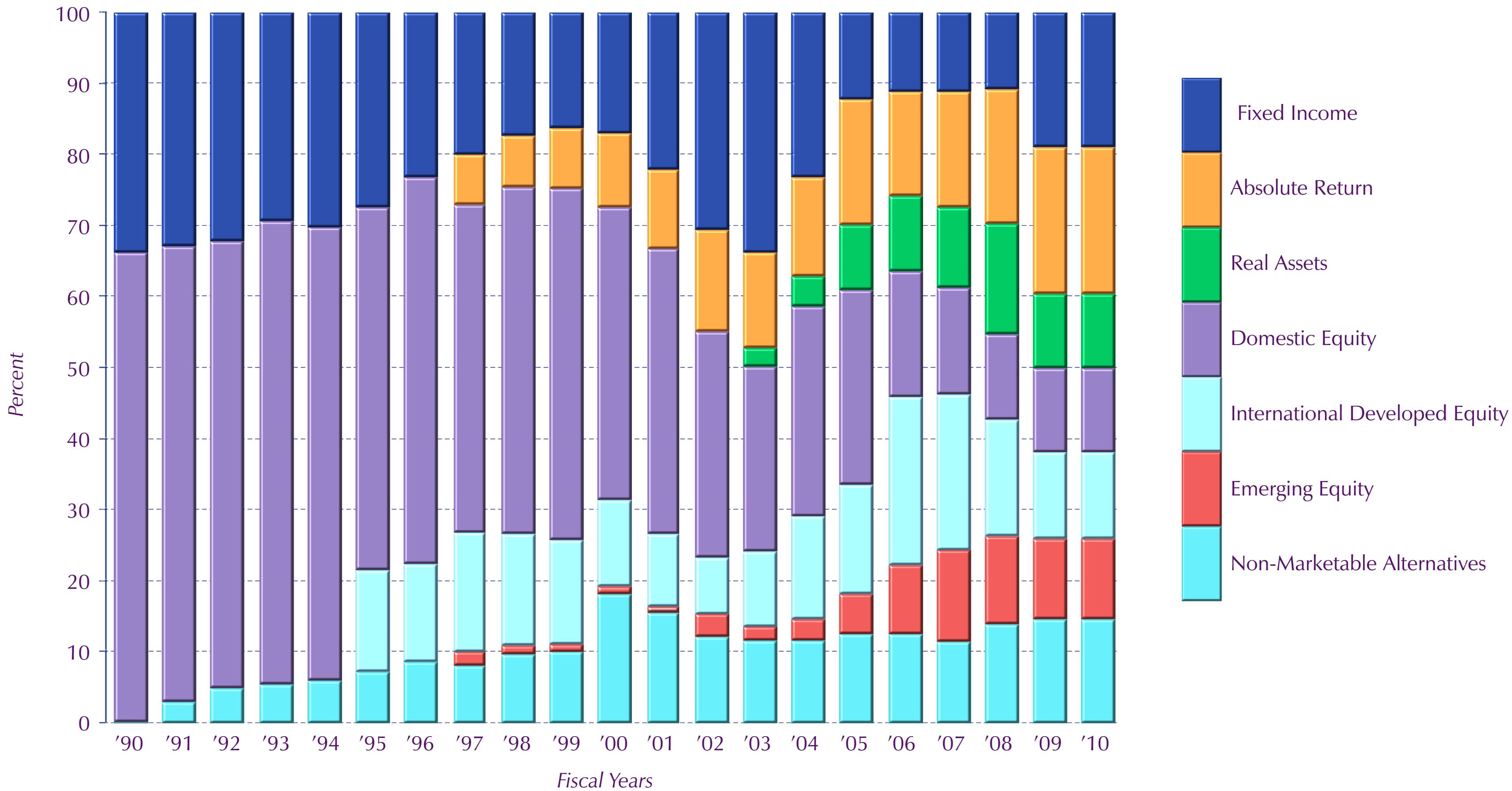
[1] *International exposure: 38%; net foreign currency exposure: 37%.*
[2] *Current exposure percentage may not add to 100% due to rounding.*
[3] *Includes allocation to cash.*

Asset Class Roles

• Non-marketable Alternatives	Enhanced Returns
• Global Equity	High Returns
• Domestic Equity	
• International Equity	
• Emerging Markets	
• Real Assets	High Returns / Inflation Hedge
• Absolute Return	Downside Protection
• Fixed Income	Deflation Protection
• Other	High Returns / Opportunistic

Diversification among and within strategies is a powerful form of risk management

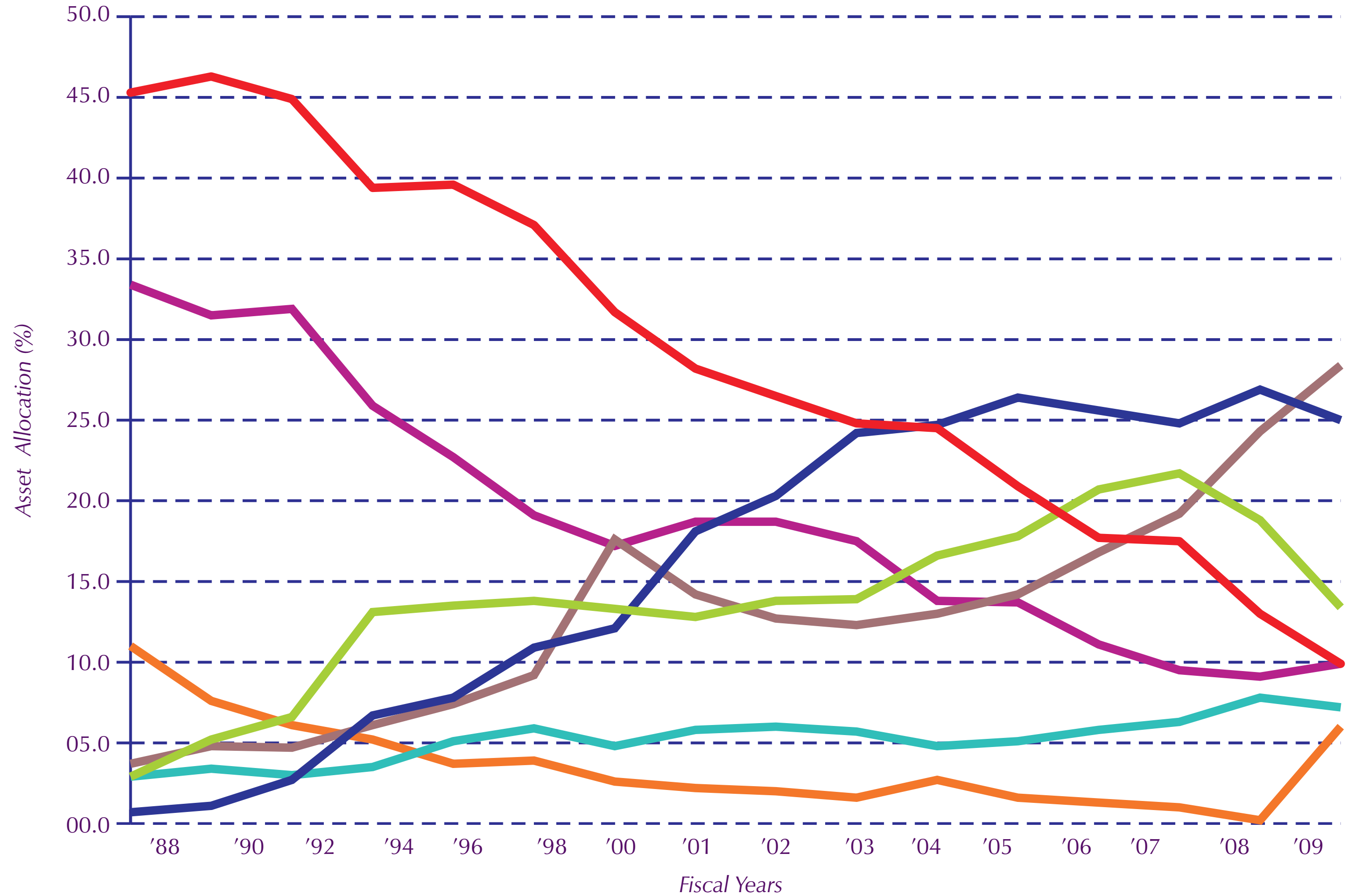
Policy Asset Allocation 1990–2010



- The trend over the past 20 years was towards greater diversification and a higher allocation to equities. Risk adjusted returns, as measured by the Sharpe ratio, improve as portfolios become more diversified.

University Round Table Asset Allocation Trends[1]

6/30/88–6/30/09



	'88	'90	'92	'94	'96	'98	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09
US Equity	45.3	46.3	44.9	39.4	39.6	37.1	31.7	28.2	26.5	24.8	24.5	20.9	17.7	17.5	13.0	9.9
Global ex US Equity	2.9	5.2	6.6	13.1	13.5	13.8	13.3	12.8	13.8	13.9	16.6	17.8	20.7	21.7	18.8	13.4
Marketable Alternatives	0.7	1.1	2.7	6.7	7.8	10.9	12.1	18.1	20.3	24.2	24.7	26.4	26 6	24.8	26.9	25.0
Non-Marketable Alternatives	3.7	4.8	4.7	6.1	7.4	9.2	17.6	14.2	12.7	12.3	13.0	14.2	16.8	19.2	24.3	28.4
Total Bonds	33.4	31.5	31.9	25.9	22.7	19.1	17.2	18.7	18.7	17.5	13.8	13.7	11.1	9.5	9.1	9.9
Equity Real Estate	2.9	3.4	3.0	3.5	5.1	5.9	4.8	5.8	6.0	5.7	4.8	5.1	5.8	6.3	7.8	7.2
Cash	11.0	7.6	6.1	5.2	3.7	3.9	2.6	2.2	2.0	1.6	2.7	1.6	1.3	1.0	0.2	6.0

[1] *Source: Cambridge Associates*

Performance

Performance to Policy Benchmark

Periods ending 09/30/09

		1 Year	5 Year	10 Year	15 Year
RETURN	**Total CEF Return**	**-7.1%**	**6.3%**	**6.3%**	**9.9%**
	Weighted Policy Benchmark [1]	-1.2%	7.0%	5.4%	10.0%
	Over/Under Policy Benchmark	-5.9%	-0.7%	0.9%	-0.1%
RISK	CEF Sharpe Ratio [2]	-0.5	0.3	0.3	0.6
	Policy Benchmark Sharpe Ratio	-0.1	0.4	0.2	0.6

The devastating impact of the 4th quarter of 2008 is reflected in the absolute loss and relative underperformance of the CEF in the one year returns. Five and ten year returns dropped to low single digits. Only the fifteen year results reflect a return level sufficient to meet the long term spending requirements of the CEF.

[1] *The weighted policy benchmark is a representative blend of market indices which reflect the strategic asset allocation of the CEF.*

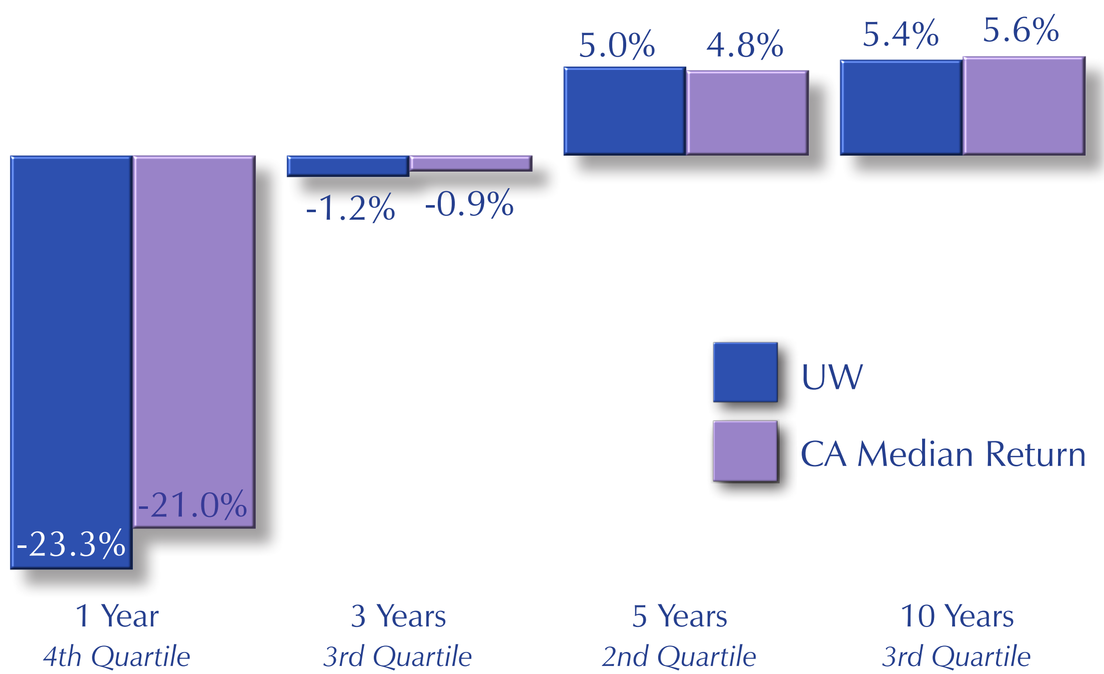
[2] *The higher the Sharpe ratio, the better the fund's historical risk-adjusted performance. The Sharpe ratio is calculated using standard deviation and excess return over the risk-free rate to determine reward per unit of risk.*

Policy Benchmark

	Investment Strategy	Strategic Policy Target	Policy Benchmark
	Non-Marketable Alternatives	12%	60% CA Private Equity & 40% CA Venture Capital
Global Equity	Emerging Market	13%	MSCI ACWI
Global Equity	International Equity	16%	MSCI ACWI
Global Equity	Domestic Equity	15%	MSCI ACWI
	Real Assets	15%	50% NCREIF + 30% CA Oil and Gas + 10% NAREIT + 10% GSCI
	Absolute Return	18%	20% MSCI ACWI + 80% (3-Month T-Bill + 4%)
	Fixed Income	11%	Barclays Capital US Government Bond

Peer University Comparison

Cambridge Associates[1] Top 50 Universe Performance For Periods Ending 6/30/09



The CEF underperformed the median University in the Cambridge Associates College and University Top 50 Investment Pool in all but the 5 year period shown above.

[1] *Cambridge Associates College and University Investment Pool Top 50 (by Investment Pool Market Value)*

Top 50 Colleges and Universities By Market Pool

Compiled by Cambridge Associates as of 6/30/09

Amherst College
Boston College
Boston University
Brown University
California Institute of Technology
Carnegie Mellon University
Case Western Reserve University
Columbia University
Cornell University
Dartmouth College
DUMAC, LLC
Emory University
Georgia Tech Foundation Inc.
Johns Hopkins University
Lehigh University
Michigan State University
MIT Investment Management Company
New York University
Northwestern University
Pennsylvania State University
Pomona College
Princeton University
Purdue University
Rice University
Southern Methodist University
Stanford University
Swarthmore College
The George Washington University
UCLA Foundation
UNC Management Company Inc.
University of Arkansas Foundation
University of California
University of Chicago
University of Delaware
University of Illinois Foundation
University of Michigan
University of Notre Dame
University of Pennsylvania
University of Pittsburgh
University of Rochester
University of Southern California
University of Texas System
University of Toronto
University of Virginia Investment Management Co.
Vanderbilt University
Washington University in St. Louis
Wellesley College
Williams College
Yale University
Yeshiva University

Portfolio Risk Modeling

Modeling Constraints

Proposed Policy Range Constraints

Non-Marketable Alternatives	5%–25%
Emerging Markets	5%–35%
International Equity	5%–35%
Domestic Equity	5%–35%
Real Assets	5%–25%
Absolute Return	5%–25%
Fixed Income	5%–35%

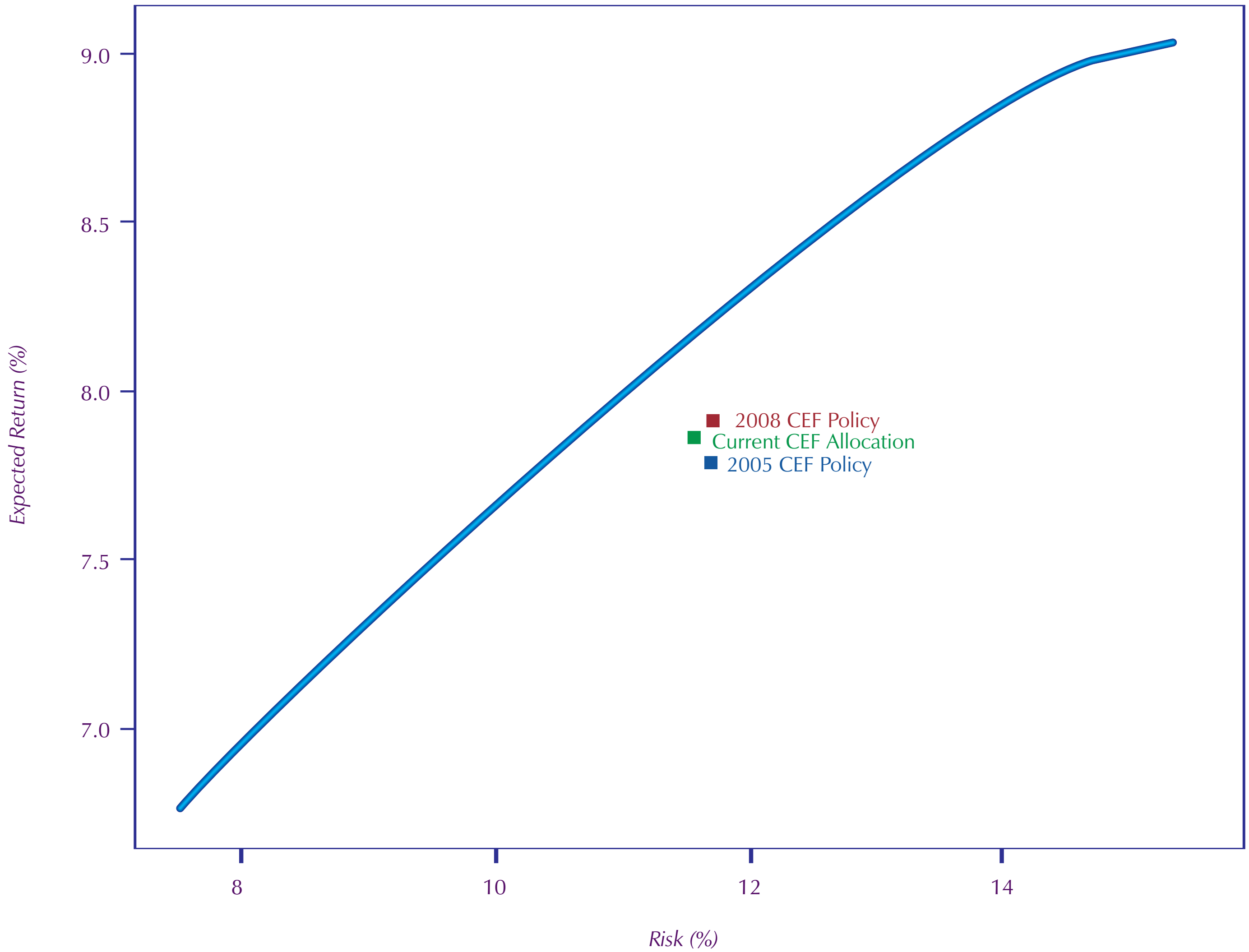
Liquidity Constraint

ABS + RAS + NAS < 60%

Rationale for Constraints

1. Ability to implement
2. Sufficient liquidity for spending
3. Forecasting error

Efficient Frontier



Between 2005 and 2008, changes to the policy portfolio improved the expected long term return at a comparable level of risk. Coming out of the market crisis, the current CEF portfolio is structured at lower risk and return levels relative to the policy benchmark.

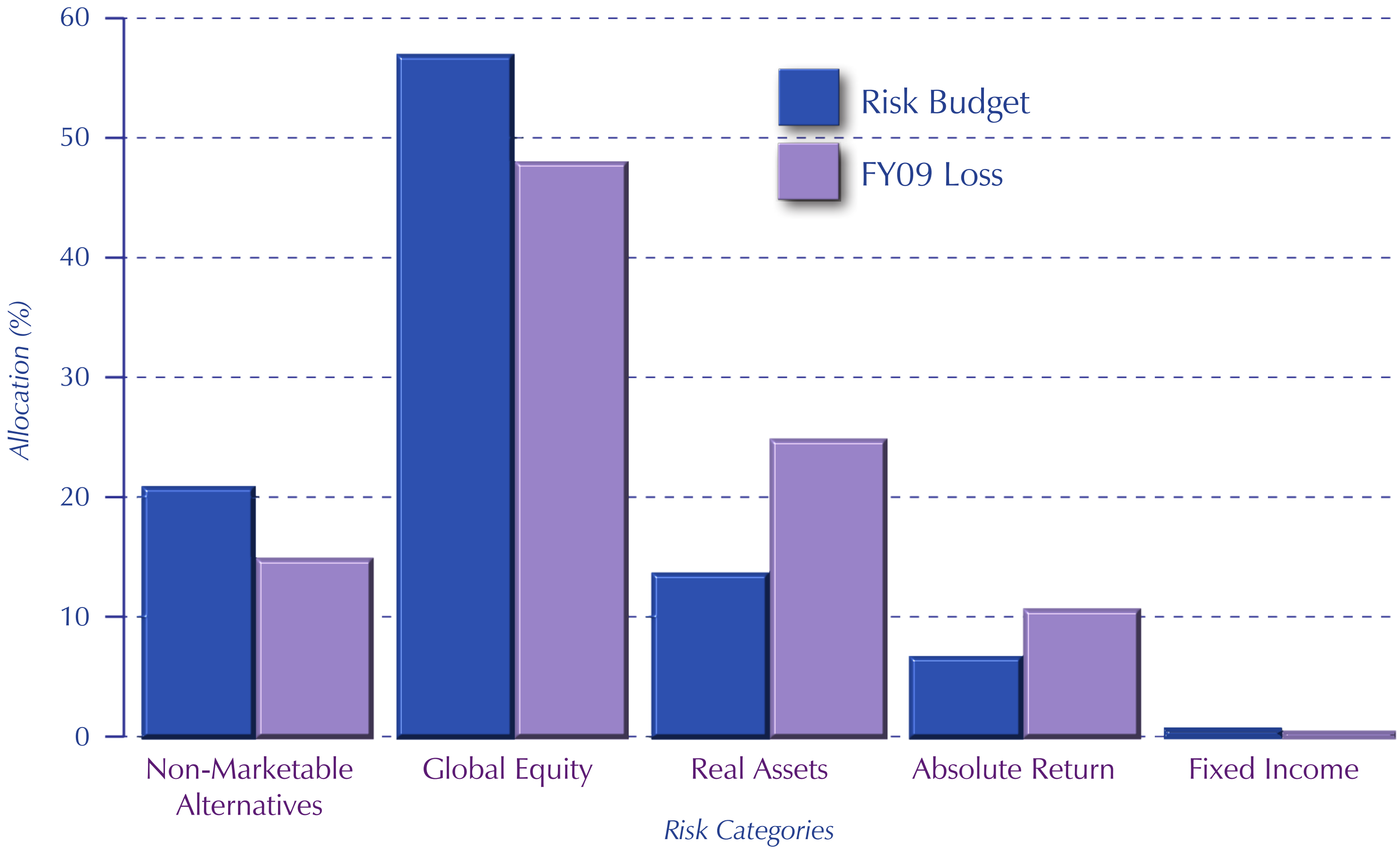
Liability-Linked Risk Indicators

	2005 CEF Policy	2008 CEF Policy	2009 CEF Actual
Portfolio Returns	7.8%	7.9%	7.9%
Volatility	12.0%	12.0%	11.7%
CVAR (quarterly)	11.1%	10.9%	10.5%
6% Spending			
Spending RIsk[1]	48%	46%	47%
Impairment Risk[2]	64%	61%	62%
5% Spending			
Spending RIsk[1]	39%	38%	38%
Impairment Risk[2]	38%	34%	35%
4% Spending			
Spending RIsk[1]	31%	30%	31%
Impairment Risk[2]	17%	14%	15%

[1] ***Spending Risk**: Spending disruption risk is the likelihood of a real spending reduction of 10% over any 5-year period.*

[2] ***Impairment Risk**: Purchasing power impairment risk is the likelihood of losing half of the purchasing power of the endowment through capital depreciation over a 50-year time horizon.*

Risk Budgeting vs. Actual Loss



The -56% plunge in the S&P500 between October 2007 and March 2009 is the worst decline in value since the 1930's. The UW's risk model suggests the CEF will experience this magnitude of loss once in 90 years. The UW's asset allocation models are conservative and take into account extreme downside market events.

Invested Funds Management

Invested Funds Profile

Description: The operating funds of the University

Size: $1.3 billion

Financial Objectives: To meet the day-to-day financial obligations of the University as they come due

To support University initiatives and programs

Investment Objectives: To achieve investment returns above those of money market instruments

Composition: Institutional funds (32%) and funds on deposit by campus departments (68%)

Depositor TIme Frame: Short to limited-term

University Guarantees: Access to funds on demand

Principal guaranteed

Invested Funds Depositors

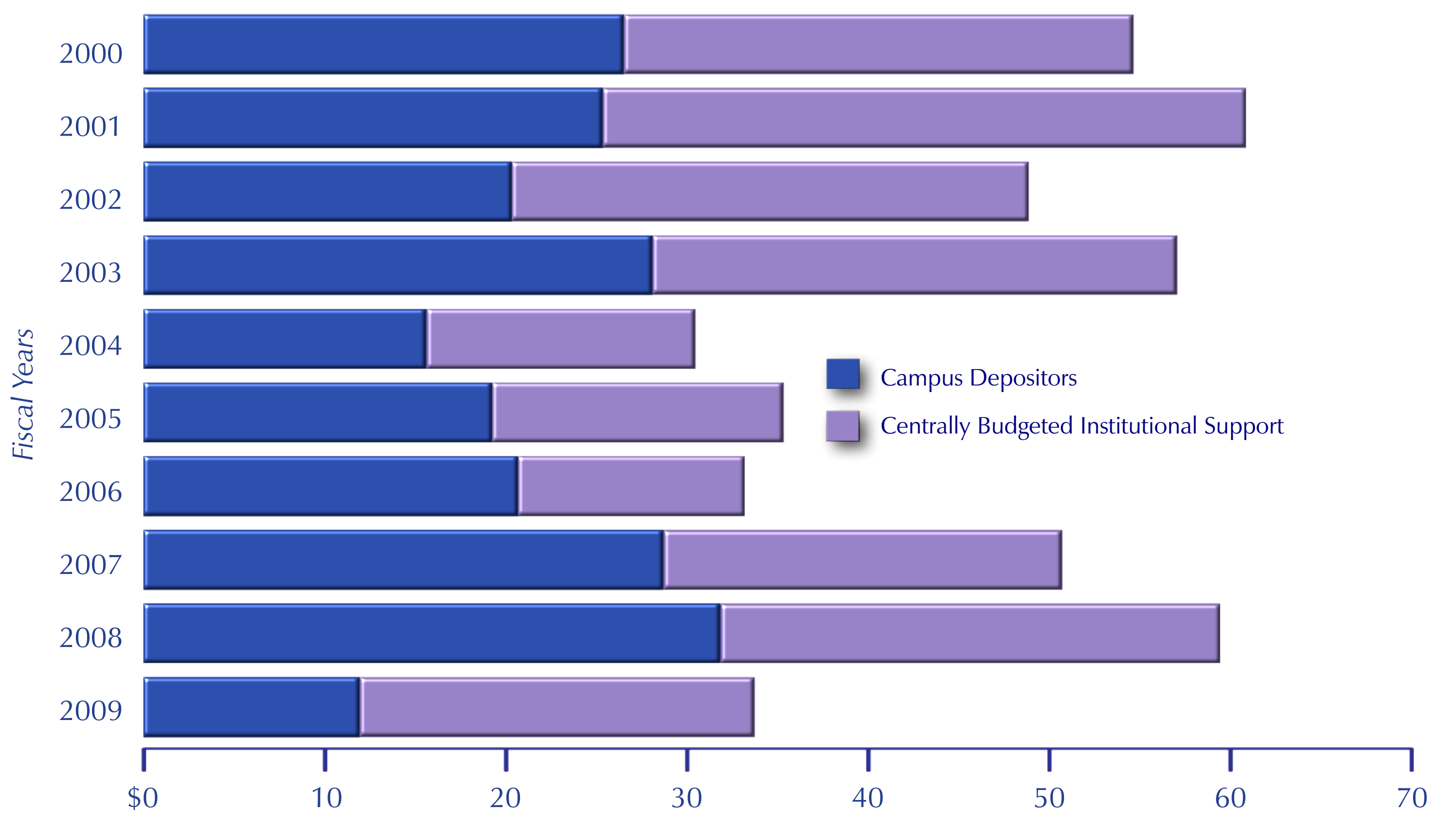
Average Balances for the Year Ended 6/30/09 (Cost Basis: $ = 000's)

Institutional Funds			Campus Depositor Funds[1]		
DOF/GOF/Other	$334,728	26.4%	UW Medicine [2]	$309,865	24.4%
Reserves	73,193	5.8%	Insurance Funds	$77,103	6.1%
			Grants and Contracts	$53,484	4.2%
			Business	$48,492	3.8%
			Office of Research	$46,387	3.7%
			Engineering	$36,335	2.9%
			Arts & Sciences	$36,138	2.8%
			Housing & Dining	$26,051	2.1%
			Parking	$11,539	0.9%
			Student Fac. & Fees	$11,830	0.9%
			Intercollegiate Athletics	$4,264	0.3%
			All Other Departments	$211,893	16.7%
	$407,921	**32.2%**		**$873,381**	**68.8%**

[1] Includes gifts, private grants, royalty funds, and auxiliary reserves.
[2] UW Medicine includes hospital reserves of $172,328.

Financial Support to Campus

2000–2009 Invested Funds Distributions



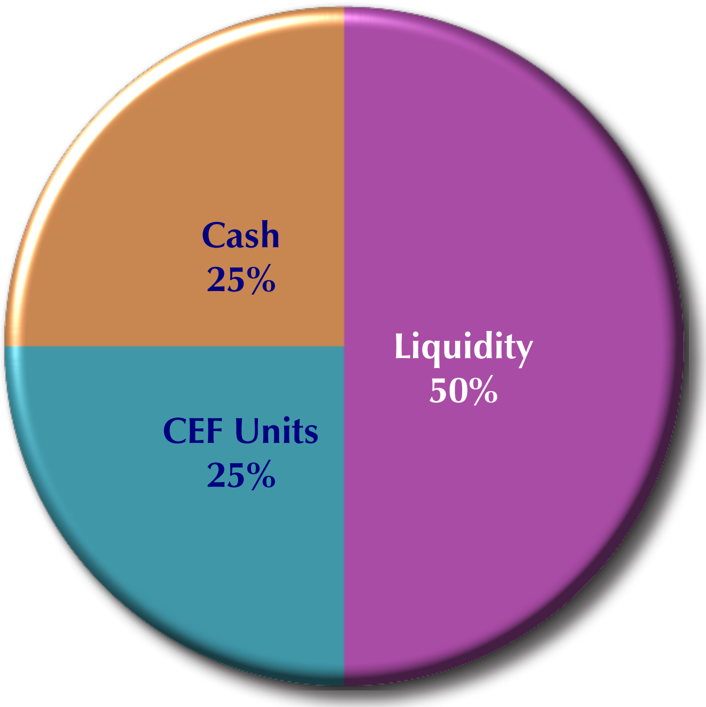
$ = MM's

Income distributions from the Invested Funds provide an important source of financial support to the campus community. Over the past ten fiscal years (FY '00–FY '09), $477 million net of fees was distributed. Approximately half of this distribution was issued directly to campus depositors and the other half allocated centrally through the budget process. Distributions are made annually at the end of each fiscal year.

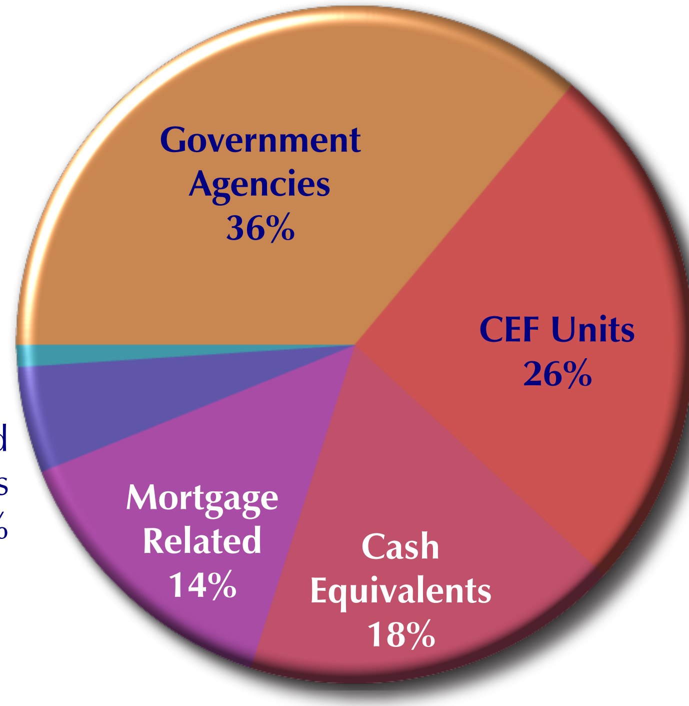
Invested Funds Asset Allocation

As of 9/30/09 ($=MM)

By Pool



By Asset



Fund Composition

	Fund Allocation		Range	Duration Actual	Duration Maximum	Guidelines
Cash Pool	**$331**	**24%**	**10%–40%**	**0.4**	**3.0 yrs**	• Average quality of "AA"
Liquidity Pool	$671	50%	30%–60%	3.8	4.3 yrs	• Average quality of "AA" (at least 25% invested in US Gov't and its agencies)
Total Cash & Liquidity Pool	**$1,001**	**74%**				
CEF Units held by IF	$347	26%	15%–40%			
Total Invested Funds	**$1,348**					

Invested Funds Performance

Total Return[1] (%) as of 09/30/09

	1 Year	5 Year	10 Year	15 Year
IF excluding CEF units	**4.5%**	**4.1%**	**5.2%**	**5.9%**
Weighted Policy Benchmark	6.1%	4.8%	5.4%	5.8%
IF including CEF units	**0.9%**	**4.9%**	**5.5%**	**7.0%**
Weighted Benchmark	3.8%	5.7%	5.6%	7.1%

[1] *Average Annual Compound Return*

The inclusion of CEF exposure in the IF portfolio hurt performance in FY09. Over the long term, however, CEF exposure improved the performance of the IF by over 1% per annum.

Investment Team

Investment Team Performance Objective

Objective: Generate Strong Investment Performance

- Outperform the CEF policy benchmark by 125 basis points per annum over rolling three year periods

"Investment performance is our top priority within the risk constraints of the University."

Investment Team Evolution

	8 Years Ago	Today
GOVERNANCE	• Decision-making committee of the Board of Regents with broad oversight of the University's finances	• Advisory committee (UWINCO) focused solely on the invested programs of the University.
STRATEGY	• Diverse range of asset classes—domestic focus	• Diverse range of asset classes—global focus
	• Active participation in alternative asset investments	• Active participation in alternative asset investments
	• Focus on asset allocation	• Focus on market opportunity
	• External investment managers	• External investment managers
	• Outsourced risk management and asset allocation modeling	• Proprietary risk and asset allocation models (Partnership with UW's Computational Finance)
	• Outsourced manager research and due diligence	• Extensive internal manager research and due diligence—domestically and abroad
STAFFING	• Treasurer with broad fiscal and administrative responsibilities	• Dedicated Chief Investment Officer with delegated decision-making authority
	• Small staff (3-4) of generalist finance professionals with responsibilities extending beyond investments	• Moderate sized staff (8–9) of investment professionals focused solely on investments
	• Compensation within the University's structure	• Competitive performance based compensation
	• Reliance on consultants as an extension of staff	• Targeted use of consultants

Investment Team Focus

Portfolio

- Focus on global opportunities
- Build self-directed securities portfolio
- Initiatve process to improve management of Invested Funds portfolio

Risk

- Expand back office due diligence capabilities
- Refine approach to liquidity risk management
- Expand usage of derivatives to control risk

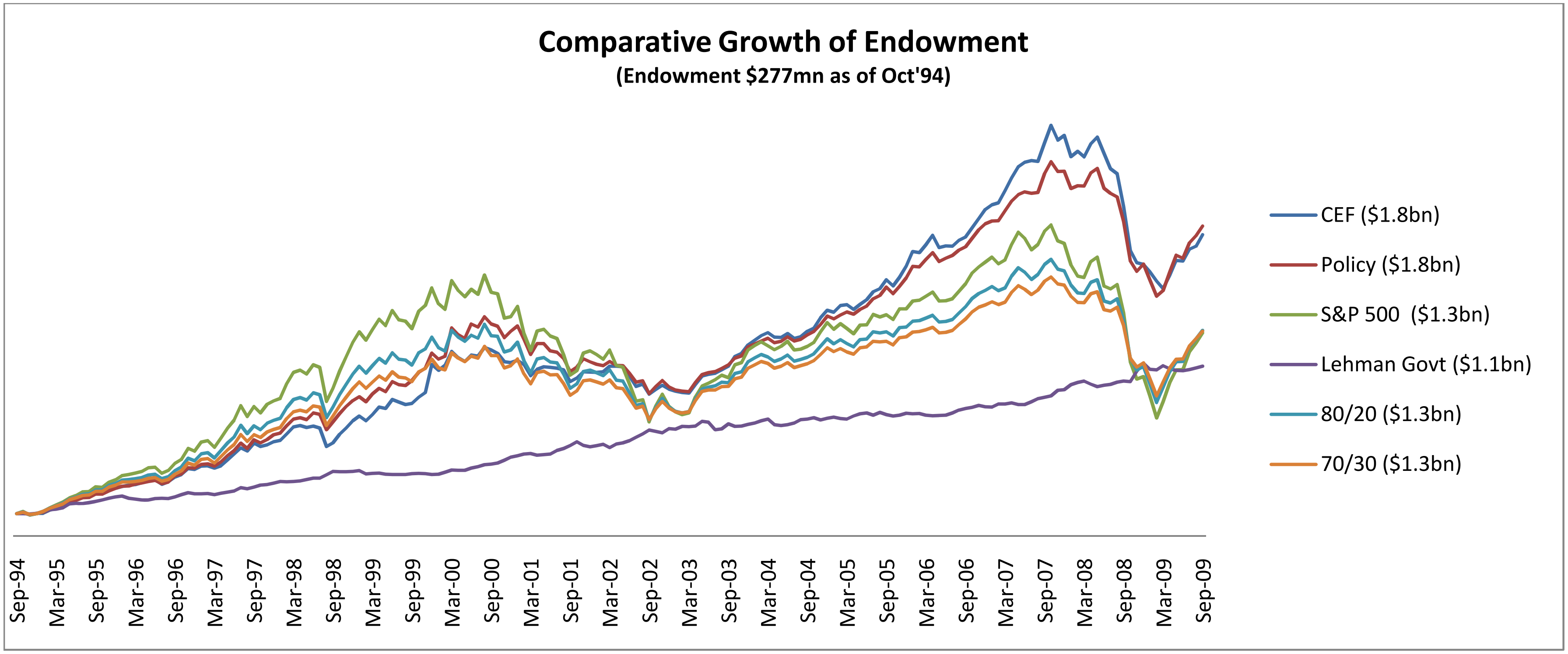
Research

- Explore analytics of custodial and other performance systems
- Deepen proprietary research function
- Expand interaction with academic community

Organization

- Develop internal execution capability
- Research best practices in endowment management
- Hire Chief Operations Officer

Implementation Plan



AACR	CEF	Policy	S&P 500	LB Govt	80/20	70/30
1-year	-7.1%	-1.2%	-6.9%	6.7%	-3.6%	-2.1%
3-year	0.2%	1.9%	-5.4%	6.8%	-2.8%	-1.5%
5-year	6.2%	7.0%	1.0%	5.2%	2.1%	2.6%
10-year	6.3%	5.4%	-0.2%	6.2%	1.4%	2.1%
15-year	9.9%	10.0%	7.6%	6.7%	7.7%	7.7%

UW active management added $500mn over the last 15 years.

Note: AACR is Average Annual Compound Return. 80/20 refers to 80% S&P 500 and 20% Lehman Govt. 70/30 refers to 70% S&P500 and 30% Lehman Govt.

Data as of 9/30/2009