VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Approve Amended Statements of Investment Objectives and Policy for the Consolidated Endowment Fund, Invested Funds, Deferred and Other Gift Assets, and Portage Bay Insurance

RECOMMENDED ACTION

It is the recommendation of the administration and the Finance, Audit and Facilities Committee that the Board of Regents approve changes in the Statements of Investment Objectives and Policy for the Consolidated Endowment Fund, Invested Funds, Deferred and Other Gift Assets, and Portage Bay Insurance.

BACKGROUND

In 1988, the Board of Regents adopted investment policies for the Consolidated Endowment Fund and the Invested Funds of the University of Washington. These were followed in 1992 with the investment policy for Deferred and Other Gift Assets and in 1997 with the investment policy for the Insurance Fund. Investment policies are reviewed on a continuing basis with periodic revisions reflecting the changing nature of the investment programs of the University. Key modifications to each investment policy are described below:

Statement of Investment Objectives and Policy for the Consolidated Endowment Fund (CEF)

Changes are proposed to the policy asset allocation. The CEF policy asset allocation is reviewed annually with UWINCO with infrequent (every 2 to 5 years) modifications presented to the Board of Regents for approval. Such changes are reflective of the continuing evolution of the investment program and the capital markets. The proposed asset allocation offers a modest improvement to the risk / return profile of the CEF. The proposed asset class targets differ from the current policy as follows:

<table>
<tr><th rowspan="2">Strategic Asset Allocation</th><th colspan="3">Long Term Target</th></tr>
<tr><th>Current</th><th>Proposed</th><th>Change</th></tr>
<tr><td>Emerging Markets Equity</td><td>17%</td><td>17%</td><td>0%</td></tr>
<tr><td>Developed Markets Equity</td><td rowspan="2">36%</td><td>28%</td><td rowspan="2">7%</td></tr>
<tr><td>Private Equity</td><td>15%</td></tr>
<tr><td>Real Assets</td><td>11%</td><td>7%</td><td>-4%</td></tr>
<tr><td>Opportunistic</td><td>6%</td><td>3%</td><td>-3%</td></tr>
<tr><td>TOTAL CAPITAL APPRECIATION FUND</td><td>70%</td><td>70%</td><td>0%</td></tr>
<tr><td>Absolute Return</td><td>15%</td><td>19%</td><td>4%</td></tr>
<tr><td>Fixed Income</td><td>15%</td><td>11%</td><td>-4%</td></tr>
<tr><td>TOTAL CAPITAL PRESERVATION FUND</td><td>30%</td><td>30%</td><td>0%</td></tr>
</table>

B. Finance, Audit and Facilities Committee

Approve Amended Statements of Investment Objectives and Policy for the Consolidated Endowment Fund, Invested Funds, Deferred and Other Gift Assets, and Portage Bay Insurance (continued p. 2)

In addition a number of "housekeeping" changes are proposed to the delegations to clarify authorities.

Statement of Investment Objectives and Policy for Invested Funds (IF)

Proposed modifications to the Invested Funds policy are described below:
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- Specific reference benchmarks for the Cash and Liquidity Pools are removed from policy. A separate benchmark statement will be maintained by the Investments Office and reviewed annually by UWINCO and Cambridge Associates.

- Occasional targeted investments that fall outside the CEF may be added to improve the risk profile and/or enhance the performance of the Invested Funds. The "CEF Pool" is renamed the "Diversified Investment Pool" to reflect this added flexibility.

- The potential for interfund loans to cover CEF distributions during periods of adverse market conditions is identified in policy and requires the approval of the Board of Regents.

- Current authority to lend up to 5% of the IF to campus departments is held by the Senior Vice President. Historically, use of this authority has been infrequent. This authority is independent of interfund loan activity exercised under the authority of the Board of Regents.

- As in the CEF policy, other changes to delegations are proposed to clarify authorities or remove language no longer relevant.

Statement of Investment Objectives and Policy for Deferred and Other Gift Assets

There are no material changes in substance or delegations. Proposed changes in delegations are consistent with those for the CEF and IF described above.

Statement of Investment Objectives and Policy for Portage Bay Insurance (PBI)

There are no material changes in substance or delegations. Proposed changes in delegations are consistent with those for the CEF and IF described above.

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Approve Amended Statements of Investment Objectives and Policy for the Consolidated Endowment Fund, Invested Funds, Deferred and Other Gift Assets, and Portage Bay Insurance (continued p. 3)

REVIEW PROCESS

The policy recommendations were developed by the Chief Investment Officer in consultation (as appropriate) with the University of Washington Investment Committee (UWINCO), the Treasurer of the Board of Regents and the University's investment consultant, Cambridge Associates.

Revisions to policy, including overall asset allocation and spending policies, will continue to require the full endorsement of the Board of Regents. Annotated copies of the investment policies are attached.

Attachments

1. DRAFT Summary – Consolidated Endowment Fund (CEF) Investment Policy
2. Statement of Investment Objectives and Policy for the Consolidated Endowment Fund *(annotated)*
3. Cambridge Associates Memorandum: "Thoughts on Retaining the ACWI Component of the CEF Benchmark"
4. Statement of Investment Objectives and Policy for Invested Funds *(annotated)*
5. Cambridge Associates Memorandum: "Invested Funds Benchmark Revision and Comment on Interest Rate Exposure"
6. Statement of Investment Objectives and Policy for Deferred and Other Gift Assets *(annotated)*
7. Statement of Investment Objectives and Policy for Portage Bay Insurance *(annotated)*

DRAFT Summary
Consolidated Endowment Fund (CEF) Investment Policy
Last amended May 2013

Financial Objective: To provide permanent funding for endowed programs.

Spending Policy:

- **Program Distributions:** Distributions to endowed programs will be 4% of the market value of the CEF for the previous five years.
- **Administrative Fee:** Spending includes an additional 1% administrative fee.

Investment Objectives:

- **Spending Requirement (Long-Term):** To attain an average annual real total return of at least 5% over the long term. The 5% target provides for a 4% distribution to endowed programs and a 1% administrative fee. The nominal (inflation-adjusted) return requirement is 8.0% assuming the historical average inflation rate of 3.0%.
- **Policy Benchmark:** To outperform an investable blend of market indices.
- **Peer Comparison:** To meet or exceed the median return of the largest 50 colleges and universities in the Cambridge Associates Universe.

Prohibited Investments: Direct investments in tobacco companies (since 2000); and direct investments in companies doing business in Sudan (since 2006).

Investment Philosophy: Long term focus; diversification; active management; global perspective.

Strategic Asset Allocation		
Investment Strategy	**Long-term Target**	**Policy Range**
Emerging Markets Equity	17%	*55% - 85%*
Developed Markets Equity	28%	
Private Equity	15%	
Real Assets	7%	
Opportunistic	3%	
CAPITAL APPRECIATION FUND	**70%**	
Absolute Return	19%	*15% - 45%*
Fixed Income	11%	
CAPITAL PRESERVATION FUND	**30%**	

Risk Guidelines:

- **Review:** Monitored quarterly. Exception reporting provided in Board quarterly investment performance report.

- **Concentration:** Maximum portfolio weights. 15% in single manager (except fixed income); 25% in individual countries outside the U.S.; 30% in one market sector.

- **Liquidity:** One quarter (25%) of the CEF convertible to cash in one month or less; Unfunded capital commitments plus current exposure to private investments limited to one half (50%) of the CEF.

Capital Appreciation Fund:

- **Description:** An integrated blend of global developed and emerging markets equity, real assets and opportunistic investments such as credit. Includes both public and private investments.

- **Role:** To provide the capital growth that will enable the CEF to meet its spending requirements, while at the same time preserving the purchasing power of the CEF for future generations.

Capital Preservation Fund:

- **Description:** Absolute return investments and high quality fixed income.

- **Role:** To provide liquidity in support of spending and capital commitments, a deflation hedge and to reduce the overall volatility of the CEF.

Delegations:

- **Board of Regents :**
  1. **Sets investment policy:** Spending rate; Strategic asset allocation; Delegations
  2. **Appoints investment officers/advisors:** Chief Investment Officer; UWINCO members; Treasurer of the Board of Regents; Investment consultants (FAF)
  3. **Reviews results:** Investment program oversight / accountability

- **University of Washington Investment Committee (UWINCO) :**
  1. **Advises the CIO:** Investment planning; Asset allocation; Manager identification; Market trends
  2. **Advises the Board of Regents:** Investment program oversight

- **Treasurer of the Board of Regents :**
  1. **Appoints:** Investment custodian
  2. **Executes:** Securities transactions; Investment management agreements, limited partnership agreements and other investment related documents

- **Chief Investment Officer :**
  1. **Implements the investment program:** Day to day investment program management; Tactical asset allocation; Manager appointments / terminations; Rebalancing; Risk management; Research
  2. **Monitors results:** Performance measurement, attribution, evaluation

UNIVERSITY OF WASHINGTON

STATEMENT OF INVESTMENT OBJECTIVES AND POLICY FOR THE CONSOLIDATED ENDOWMENT FUND

Approved by Board of Regents April 15, 1988

Amended December 15, 1989; February 16, 1990; September 17, 1993; October 22, 1993; September 20, 1996; September 19, 1997; September 18, 1998; November 19, 1999; January 21, 2000; November 17, 2000; May 18, 2001; June 14, 2002; November 21, 2003; January 16, 2004; June 11, 2004; July 16, 2004; May 19, 2005; June 9, 2005; June 8, 2006; May 15, 2008; March 19, 2009; September 17, 2009; May 13, 2010; October 21, 2010; and May 9, 2013.

INTRODUCTION

The Board of Regents of the University of Washington is vested by statute with responsibility for the management of the properties of the University, including the Consolidated Endowment Fund and other University funds. This statement of investment objectives and policies governs the investment management of the Consolidated Endowment Fund (CEF). This statement is effective until modified by the Board.

The Board has delegated to its Finance, Audit and Facilities Committee (FAF) the responsibility for overseeing the investment program within the general principles enumerated herein. In May 2001, the Board approved the establishment of an advisory committee, the University of Washington Investment Committee (UWINCO), consisting of both Board members and external investment professionals. In 2004, the Board approved the appointment of the University's first Chief Investment Officer (CIO) to manage the day to day activities of the investment portfolios.

A. FINANCIAL OBJECTIVES 1. To provide permanent funding for endowed programs. This objective addresses the need to ensure intergenerational equity by providing the same level of program support in the future as it provides today. 2. To maintain the purchasing power of the CEF after spending and inflation. The objective of preserving purchasing power emphasizes the need to take a long-term perspective in formulating spending and investment policies. 3. To provide a predictable and stable source of income for endowed programs. This objective is achieved through the spending policy. 4. To provide a maximum level of return consistent with prudent risk levels. This objective assumes the construction of a global, equity-oriented, diversified portfolio coupled with active risk management.	*No changes*

B. SPENDING POLICY 1. **<u>Program Distributions:</u>** Distributions to endowed programs will be 4% of the average market value of the CEF for the previous five years. In this way, the CEF's distributed income is expected to keep up with inflation and its capital value will be preserved over time. 2. **<u>Administrative Fee:</u>** Spending includes an additional 1% administrative fee bringing the long term spending requirement to 5% per annum.	*No changes*
C. INVESTMENT OBJECTIVES 1. **<u>Spending Requirement</u>**: Based upon the long-term spending policy, the CEF must attain an average annual real total return of 5.0% over the long term. The 5.0% target provides for a 4.0% distribution to endowed programs and a 1.0% administrative fee. Real total return is adjusted for inflation by the Consumer Price Index. Using the historical average inflation rate of 3.0% implies a nominal total return hurdle of 8.0% in order to meet the spending requirement. 2. **<u>Policy Benchmark:</u>** The investment performance of the CEF will also be evaluated, on a risk-adjusted basis, against an investable blend of market indices. Over the long term the CEF's diversification is expected to generate risk-adjusted returns that meet or exceed those of blended market indices. This comparison is useful in evaluating how successfully the underlying strategies have been implemented and the effectiveness of tactical departures from the strategic asset allocation. 3. The investment performance of the CEF will also be evaluated against a secondary policy benchmark consisting of a 70% equity and 30% bond blend of market indices. This comparison is useful in evaluating the effectiveness of an active management program versus a passive management approach. 4. **<u>Peer Comparison:</u>** Over the long term the CEF is expected to achieve returns which are at least comparable to the median return of the largest 50 colleges and universities in the Cambridge Associates Universe. 5. It is recognized that the investment objectives stated above may be difficult to attain over every five-year period, but should be attainable over a series of five and ten year periods.	*No changes*
D. ETHICAL CONSIDERATIONS 1. While fiscal goals are of central importance, due consideration shall be given to the degree of corporate responsibility exercised by the companies in which investments are made. 2. Direct investment in companies doing business in Sudan whose business activities support the Sudanese government in its continuing sponsorship of genocidal actions and human rights violations in Darfur is prohibited.	*No changes*

3. Direct investment in tobacco companies is prohibited.	
E. INVESTMENT PHILOSOPHY The investment of the CEF is based on a set of beliefs and practices: 1. Invest for the long term a. Preserve capital for use by future generations b. Focus on asset allocation as the primary determinant of return c. Avoid short-term speculative activity d. Accept illiquidity if justified by higher alpha 2. Build a well-diversified portfolio a. Limit risk by combining uncorrelated strategies b. Maintain meaningful exposure to major capital markets c. Build concentrated positions where conviction is high d. Tilt towards value strategies e. Employ fundamental research-driven and bottom-up strategies 3. Take advantage of global market inefficiencies a. Invest primarily with active managers b. Use indexed and enhanced indexed strategies where appropriate c. Incorporate investment ideas sourced through internal proprietary research d. Focus resources on inefficient markets (e.g., venture capital, hedge funds, emerging markets) e. Manage portfolio exposures actively in response to changing market conditions	*No changes*
F. INVESTMENT MANAGEMENT STRUCTURE 1. The CEF is invested primarily by external investment managers. External investment management firms are selected on the basis of factors including, but not limited to the following: a. Experience of key personnel and succession plan where appropriate b. Consistency in investment approach c. Effectiveness of decision making process d. Assets under management and plans for managing future capacity e. Organizational structure including administration, back office support,	*No changes*

risk management and reporting f. Performance record g. Fees h. Firm's ethical and financial viability i. Structural fit within the CEF 2. The CEF may also be invested internally in public equities and bonds through cash market securities or derivative instruments. 3. Equities, (including public and private global equity) real assets, absolute return and bonds will primarily be managed separately. In the interest of diversification, the equity portion of the portfolio will be placed with managers who have distinct and different investment philosophies. The investment managers have the discretion to manage the assets in their individual portfolios to best achieve the investment objectives and requirements set forth in this policy statement and in their individual investment guidelines.	
G. PORTFOLIO COMPOSITION AND ASSET ALLOCATION 1. To achieve its investment objective, the CEF will be divided into two distinct Funds: a "Capital Appreciation Fund" and a "Capital Preservation Fund." Sub-categories of these Funds each with its own target are also specified. The purpose of dividing the Portfolio in this manner is to ensure that the overall asset allocation among and within the two Funds remains under the regular scrutiny of the Finance, Audit and Facilities Committee and UWINCO. Over the long run, the allocation between and within the Funds may be the single most important determinant of the CEF's investment performance. 2. **<u>Role - Capital Appreciation Fund:</u>** The purpose of the Capital Appreciation Fund is to provide the capital growth that will enable the CEF to meet its spending requirements, while at the same time preserving the purchasing power of the CEF for future generations. The Fund itself is an integrated blend of global developed and emerging markets equity, real assets and opportunistic investments such as credit. It is recognized that the Capital Appreciation Fund entails the assumption of greater market variability and risk. 3. **<u>Role - Capital Preservation Fund:</u>** The purpose of the Capital Preservation Fund is to provide liquidity in support of spending and capital commitments; a deflation hedge; and to reduce the overall volatility of the CEF. Two broad strategies are employed in the Capital Preservation Fund – absolute return and fixed income investments. 4. The policy portfolio is structured using long-term targets and ranges. The target asset allocation reflects the long-term risk and return objective of the CEF and establishes a normative allocation against which shorter-term asset allocation decisions can be gauged. Ranges allow for tactical shifts among asset classes in response to the changing dynamics in capital markets. Wider ranges facilitate rebalancing and the active management of risk at the total portfolio level.	*No changes*

STRATEGIC ASSET ALLOCATION

Investment Strategy *Public and Private*	**Long-term Target** *Current*	 *Proposed*	**Policy Range**
Emerging Markets Equity	17%	**17%**	
Developed Markets Equity	36%	**28%**	
Private Equity		**15%**	
Real Assets	11%	**7%**	
Opportunistic	6%	**3%**	
CAPITAL APPRECIATION FUND	**70%**		**55% - 85%**
Absolute Return	15%	**19%**	
Fixed Income	15%	**11%**	
CAPITAL PRESERVATION FUND	**30%**		**15% - 45%**

Shifts in target asset allocation reflect market realities and opportunities.

H. RISK MANAGEMENT

1. Risk is managed primarily through diversification. The CEF will be diversified both by asset class (e.g., developed and emerging markets equities, real assets, opportunistic investments, absolute return, bonds and cash equivalents) and within asset classes (e.g., within equities by country, economic sector, industry, quality, and size). The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the CEF.
2. Derivatives may be used to adjust exposures within or across the portfolio in order to improve the risk / return profile of the CEF.
3. Aggregate portfolio risk is managed to minimize uncompensated, unanticipated and inappropriate risks. Both quantitative measures and qualitative judgment will be used in assessing and managing risk.

No changes

I. RISK GUIDELINES 1. The CEF will be monitored quarterly for adherence to the following risk guidelines. A breach in a guideline triggers a written notification from the CIO to the Chair of UWINCO. It is recognized that market conditions and / or illiquidity of the underlying securities may preclude an immediate rebalancing of the portfolio. Risk control exception reporting will be provided to the Board of Regents as part of its quarterly investment performance report which specifies the actions, if any, needed to bring the CEF into compliance. 2. **<u>Concentration:</u>** Maximum portfolio weights: a. 15% in single manager (excluding fixed income) b. 25% in individual countries outside the U.S. c. 30% in one market sector 3. **<u>Liquidity</u>**: a. One quarter (25%) of the CEF convertible to cash in one month or less b. Unfunded capital commitments plus current exposure to private investments limited to one half (50%) of the CEF	*No changes*
J. GUIDELINES FOR THE CAPITAL APPRECIATION FUND 1. The Capital Appreciation Fund includes the growth-oriented strategies within the portfolio which are managed in an integrated manner in order to meet the long-term spending objectives of the CEF and sustain the portfolio in perpetuity. 2. The objective for the Capital Appreciation Fund is to outperform, net of commissions and fees, a representative risk-adjusted blend of market indices which reflect the strategic asset allocation of the Capital Appreciation Fund. In addition, performance on each sub-category of the Capital Appreciation Fund will be monitored against the average return of a universe of active managers and/or fund of funds. Performance will be monitored on a regular basis and evaluated over running five and ten year periods. 3. In recognition of the increasing correlation among asset classes, the Capital Appreciation Fund represents a market oriented mix of global developed and emerging markets equity, real estate, commodities, venture capital, private equity and opportunistic investments such as credit securities. 4. The Capital Appreciation Fund will be broadly diversified by country, economic sector, industry, number of holdings, number of managers, and other investment characteristics. To achieve its investment objective, the Capital Appreciation Fund may contain a mix of actively and passively managed strategies. Direct and derivative investments, commingled funds, private limited partnerships and fund of funds may be used. 5. The real estate portion of the Capital Appreciation Fund will be diversified by property type and geography. The University will invest in public and private real estate vehicles both domestically and internationally. Emphasis will be placed on	*No changes*

investments in private real estate partnerships employing value-added and opportunistic strategies. Implementation may also include direct investment in real estate. Investments in publicly traded Real Estate Investment Trusts (REITS) will be made primarily to achieve exposure to core real estate. 6. Decisions as to individual country and security selection, security size and quality, number of industries and holdings, current income levels, turnover and the other tools employed by active managers are left to broad manager discretion. The usual standards of fiduciary prudence set forth in this policy statement and in individual investment management agreements and guidelines apply. 7. If allowed under their individual investment guidelines, managers may at their discretion hold investment reserves of either cash equivalents or bonds. Derivatives may be used to manage certain exposures such as currency or market risk if so specified under individual investment manager guidelines.	
K. GUIDELINES FOR THE CAPITAL PRESERVATION FUND 1. The Capital Preservation Fund includes portfolio strategies which provide liquidity to meet current spending needs and stability to protect capital in down markets. 2. The objective for the Capital Preservation Fund is to outperform, net of commissions and fees, a blend of market indices which reflect the strategic asset allocation of the Fund. Performance will be monitored on a regular basis and evaluated over running five and ten-year periods. 3. The absolute return strategy will favor investments with a low correlation to broad equity markets. Implementation will be made through direct investments, limited partnerships, or fund-of-funds. 4. The fixed income strategy may contain money market instruments, domestic and foreign government bonds and other high quality investment vehicles with risk / return characteristics consistent with the investment objectives of the Capital Preservation Fund. Derivatives may be used to manage certain exposures if so specified under individual investment manager guidelines. 5. Fixed income managers are expected to employ active management techniques, including maturity, sector and quality considerations. Implementation may also be achieved through passive indices, commingled funds, limited partnerships and fund-of-funds.	*No changes*
L. GUIDELINES FOR TRANSACTIONS As a general guideline that should apply to all assets managed, transactions should be entered into on the basis of best execution, which is interpreted normally to mean best realized price. Commissions may be designated for payment of services rendered to the University in connection with investment management.	*No changes*

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M. MONITORING OF OBJECTIVES AND RESULTS

1. All objectives and policies are in effect until modified. The Finance, Audit and Facilities Committee with advice from the Treasurer of the Board of Regents, Chief Investment Officer (CIO) and UWINCO will review these periodically for their continued appropriateness. It is anticipated that changes to the asset allocation targets and ranges will be made infrequently.

2. The CEF portfolios will be monitored on a continual basis for consistency in investment philosophy; return relative to objectives; and investment risk as measured by asset concentrations; exposure to extreme economic conditions; and market volatility. Performance will be reviewed at least annually by the Finance, Audit and Facilities Committee and with UWINCO on a quarterly basis. Results will be evaluated over longer time frames including the inception period, running five and ten year periods, and complete market cycles.

3. The CIO will review individual managers as needed in order to confirm that performance expectations remain in place. In addition, portfolio activity will be reported on a regular basis to UWINCO and the Chair of the Finance, Audit and Facilities Committee.

4. A statement of investment objectives and guidelines will be maintained for each public investment manager where the University's assets are managed in a separate account.

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Treasurer added back to policy statement. See delegations N.6

Reporting clarification.

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N. DELEGATIONS

Delegations related to the management of the University's investment portfolios are as follows:

1. Board of Regents:

   a. Approve investment policies which guide the management of the University's investment portfolios. This includes but is not limited to the strategic asset allocation, performance goals, spending and delegations.

   b. Approve appointment and reappointment of Regent and non-Regent UWINCO members.

   c. Approve the UWINCO "Statement of Principles" which addresses the administrative functioning of the Investment Committee.

   d. Approve appointment of the Chief Investment Officer.

   e. Approve appointment of the Treasurer of the Board of Regents.

   f. Liquidate quasi-endowments. These funds represent assets donated to the University which have been accepted by the Board of Regents or its administrative designee as "quasi-endowments." The decision to place the assets in a quasi-endowment is based on administrative recommendation and can therefore be reversed. Full or partial liquidation of quasi-endowments valued at $1 million or higher requires action by the full Board of Regents. Full or partial liquidation of quasi-

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Restoration of former delegation and language clarification.

The delegations formerly in place with the Treasurer of the Board of Regents were merged with those of the SVP several years ago. The separation is restored in the proposed changes along with the role of the Board in the appointment of its Treasurer.

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endowments valued at less than $1 million is delegated to the Finance, Audit and Facilities Committee of the Board of Regents. Endowments governed by an agreement that allows withdrawals under specific terms and conditions are exempt from this requirement.

2. Chair of the Board of Regents:

   a. Recommend members of the UWINCO for formal approval by the Board of Regents. Recommendations will be made in consultation with the Chair of UWINCO and the President of the University (and/or his designee).

   b. Designate the Chair of UWINCO.

   c. Approve investment manager appointments and direct investments in situations where the CIO and the UWINCO Chair are unavailable or unable to do so.

3. Finance, Audit and Facilities Committee:

   a. Oversee the University's investment programs within the broad guidelines established by the investment policies.

   b. Appoint the University's investment consultant(s).

   c. Recommend endowment spending policy changes to the Board for approval. It is anticipated that such changes will be infrequent.

   d. Review the asset allocation and strategy recommendations of the CIO and UWINCO. Recommend policy changes as appropriate to the Board of Regents.

4. Investment Committee (UWINCO):

   a. Advise the Finance, Audit and Facilities Committee, the Senior Vice President and the Chief Investment Officer on matters relating to the management of the University's investment portfolios. This includes, but is not limited to, advice on overall asset allocation, performance goals, portfolio risk, new investment strategies, strategy implementation, manager identification and due diligence.

   b. Adhere to the UWINCO "Statement of Principles".

5. Senior Vice President:

   a. Administer internal fees for management and administrative activities related to the endowment.

   b. Approve use of professional staff bonus pool.

   c. Assume supervisory responsibility for the CIO position.

   ~~d. Approve investment custodian appointment(s).~~

   ~~e. Assume the responsibilities of the CIO when the position is vacant. The exceptions to this delegation are the appointment of investment managers and the approval of direct investments which are extended to the Chair of the Board of Regents.~~

Certain delegations removed from the SVP and restored to the Treasurer of the Board of Regents.

f. ~~Execute investment management agreements, limited partnership agreements, custody agreements and other investment related documents upon satisfactory completion of reviews as appropriate by the State Attorney General, outside legal counsel and the University's investment consultant.~~ 6. Treasurer of the Board of Regents: a. Approve investment custodian appointment(s). b. Assume the responsibilities of the CIO when the position is vacant. The exceptions to this delegation are the appointment of investment managers and the approval of direct investments which are extended to the Chair of the Board of Regents. c. Execute securities transactions in conjunction with the day-to-day management of the investment program. d. Execute investment management agreements, limited partnership agreements, custody agreements and other investment related documents upon satisfactory completion of reviews as appropriate by the State Attorney General, outside legal counsel and the University's investment consultant. 7. Chief Investment Officer: a. Manage the day-to-day activities of the University's investment portfolios within the broad guidelines established by the investment policies. b. Approve tactical moves relative to long-term policy targets when warranted by market conditions or risk considerations. The deliberate decision to overweight or underweight a strategy relative to its policy target is made in consultation with UWINCO, the University's investment consultant(s) and the Senior Vice President. c. Seek the advice of the University's investment consultant(s) and members of the UWINCO on issues related to the management of the investment portfolios. Incorporate such advice in the implementation of the investment program. d. Appoint new investment managers, follow-on investments with existing managers and direct investments. Approved investments shall fall within the policy guidelines adopted by the Board of Regents. e. Approve the dollar value of assets allocated to new and existing investment managers and reallocate assets among managers in accordance with long-term strategic targets. f. Approve individual investment manager guidelines. g. Monitor individual investment managers on a regular basis to ensure that performance and compliance expectations are met. h. Monitor aggregate portfolio risk regularly to insure that the long-term purchasing power of the CEF is preserved.	*Re. N.6.c.* *The Board-delegated authority to execute securities transactions in the day-to-day management of the investment program has historically been handled through a Board resolution. The addition of Paragraph N.6.c adds this delegation in policy. Note that this addition does not eliminate the Board resolution but rather insures consistency across the Board documents.* .

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5/9/13

i. Approve use of derivatives to manage the aggregate portfolio risk/return profile. This includes the use of swaps, options, futures and other derivative products to adjust exposures, to equitize cash, or to rebalance across asset classes. j. Approve appropriate usage and timing of leveraged strategies within the CEF. k. Terminate investment managers, including the authority to liquidate limited partnership interests or to reduce strategy exposures through other means. ~~The Chair of the Finance, Audit and Facilities Committee and the Chair of UWINCO will be notified.~~ This authority is typically exercised due to performance concerns, organizational changes, or structural considerations within the UW investment portfolio. l. Take action as appropriate in support of shareholder resolutions related to human rights violations in Burma.	*Portfolio activity – additions and terminations reported regularly to UWINCO and the Chair of the F&AC, See Paragraph M.3*

C|A

CAMBRIDGE ASSOCIATES LLC

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Memorandum

To: V'Ella Warren
University of Washington Investment Staff

From: Max Senter

Date: March 20, 2013

Re: Thoughts on Retaining the ACWI Component of the CEF Benchmark

The University has been using the MSCI All-Country World Index (ACWI) to benchmark the public market component of the CEF for several years. The last time that UWINCO revisited this benchmark decision was around June 2010, at which time they reconfirmed ACWI as the benchmark and at the same time approved a strategic target to Emerging Markets equity of 17%. This strategic difference between ACWI and the component weights has contributed to the tracking variability of the CEF to the total benchmark ever since.

Staff has recently had conversations with Cambridge Associates as well as with most, if not all, UWINCO members. Feedback has been supportive of retaining the ACWI component because of its *simplicity* and its accurate *depiction of the opportunity set* for public markets. Feedback has also been that the benchmarks themselves should be *modified only occasionally* and generally because of shifts in investment policy or because of an obvious deficiency in the benchmark itself (the Real Asset benchmark being an example).

I acknowledge the difficulty that arises in messaging to non-Regent constituents regarding tracking variability, particularly negative variability. *Ease of discussion with the constituents* is a reason to consider re-benchmarking. I defer to you and others at the University in determining the importance of messaging in setting the benchmark. UWINCO understands the investment strategies that give rise to the variability, yet they may not fully appreciate the importance of discussing performance with others.

Another issue to consider in modifying the benchmark is whether doing so will affect the investment strategy. My impression is that in this case it will not, as the allocation to Emerging Markets is viewed in a secular context. Still, changing the benchmark may affect the incentive compensation, though the direction will be determined by the markets.

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ATTACHMENT 3

UNIVERSITY OF WASHINGTON

STATEMENT OF INVESTMENT OBJECTIVES AND POLICY FOR INVESTED FUNDS

Approved by Board of Regents May 20, 1988

Amended November 18, 1988; January 18, 1991; July 17, 1992; September 17, 1993; September 20, 1996; September 19, 1997; November 19, 1999; January 21, 2000; May 18, 2001; June 14, 2002; November 21, 2003; January 16, 2004; July 16, 2004; May 19, 2005; September 17, 2009; and May 9, 2013

INTRODUCTION

The Board of Regents of the University of Washington is vested by statute with responsibility for the management of the properties of the University. This statement of investment objectives and policies governs the investment management of the Invested Funds (IF). This statement is effective until modified by the Board.

The Board has delegated to its Finance, Audit and Facilities Committee (FAF) the responsibility for overseeing the investment program within the general principles enumerated herein. In May 2001, the Board approved the establishment of an advisory committee (UWINCO) consisting of both Board members and external investment professionals. In 2004, the Board approved the appointment of the University's first Chief Investment Officer (CIO) to manage the day to day activities of the investment portfolios.

A. INVESTMENT OBJECTIVES 1. The overall financial objective of the IF is to enable the University to meet its financial obligations as they come due. A secondary objective is to achieve investment returns above those of money market instruments. 2. The investment performance of the IF will be evaluated, on a risk-adjusted basis, relative to a blend of market indices that reflect the overall asset allocation of the fund.	*No changes*
B. INVESTMENT MANAGEMENT STRUCTURE 1. The IF will be invested primarily by external investment management firms. External investment management firms will be selected on the basis of factors including but not limited to the following: the experience of key personnel; investment philosophy; assets under management; organizational structure; performance record; investment management fees; and the firm's ethical and financial viability. 2. Funds may also be invested in bank short-term investment funds and in approved instruments managed internally by University financial personnel.	*No changes*

C. PORTFOLIO COMPOSITION AND POOL ALLOCATION

1. The IF shall be divided into three pools:

Pool Allocation

	Target	*Policy Range*	*Global Range Within Each Pool*
Cash Pool (2,4,5,6)	20%	10-40%	0-40%
Liquidity Pool (3,4,5,6)	50%	30-60%	0-25%
~~*CEF Pool*~~ (6,7) *Diversified Investment Pool (DIP)*	30%	15-40%	---------

CEF Pool renamed to better describe its role in the IF.

2. The Cash Pool will be invested in a portfolio of high quality short to intermediate-term fixed-income securities. The maximum average duration of the portfolio will be three years. The Cash Pool will have an average quality rating of "AA".

3. The Liquidity Pool will be invested in a portfolio of high quality intermediate-term fixed-income securities. The maximum average duration of the Portfolio will be five years. ~~may vary from the benchmark.~~ The Liquidity Pool will have at least twenty-five percent of its funds invested in obligations of the U.S. Government and its agencies. The Liquidity Pool will have an average quality rating of at least "A".

4. Global strategies may be employed in the Cash Pool and the Liquidity Pool if so specified under individual investment manager guidelines. Non-U.S. fixed-income securities will be subject to the equivalent quality and duration guidelines as domestic fixed-income securities. ~~Pool performance will be evaluated against the domestic benchmarks specified in Paragraph D.~~

References to specific benchmarks are removed from policy – consistent with other Board approved policy statements. Separate benchmark statements are maintained by the Investments Office. These are reviewed by Cambridge Associates and UWINCO annually.

5. Direct and derivative investments in fixed income substitutes may be used in the Cash Pool and the Liquidity Pool to improve the aggregate risk / return profile of the IF. ~~Pool performance will be evaluated the domestic benchmarks specified in Paragraph D.~~

6. Direct investments in tobacco companies are prohibited.

7. The ~~CEF~~ Diversified Investment Pool (DIP) will invest directly in the Consolidated Endowment Fund (CEF) through the periodic purchase and sale of CEF units. The DIP may also contain direct or indirect investments in targeted strategies designed to improve the risk profile and/or enhance the performance of the IF. Provisions applicable to the investment in CEF units are ~~This Pool is subject to the provisions~~ contained in the "Statement of Investment Objectives and Policy for the Consolidated Endowment Fund.

Investment options under paragraph C7expand beyond the CEF. This provides the flexibility to target risk reducing or performance enhancing investments appropriate to the IF.

D. GUIDELINES FOR THE INVESTMENT POOLS 1. The objective of the Cash Pool will be to meet the day-to-day obligations of the University. ~~The Cash Pool performance objective is to outperform, net of commissions and fees, the Citigroup Two-Year Treasury Index on a risk-adjusted basis. Performance will be monitored on a regular basis and evaluated over rolling three-to-five year periods.~~ 2. The objective of the Liquidity Pool will be to provide a liquid source of funds in the event the Cash Pool is insufficient to meet the University's cash needs. ~~The Liquidity Pool performance objective is to outperform, net of commissions and fees, the Barclays Capital US Government Intermediate Bond Index on a risk-adjusted basis. Performance will be monitored on a regular basis and evaluated over rolling three-to-five year periods.~~ 3. The objective of the ~~CEF~~ Diversified Investment Pool will be to provide a flow of financial support to University programs that will grow at least as fast as the rate of inflation (as measured by the Consumer Price Index). In addition, the ~~CEF Pool~~ DIP shall provide a source of funds in the very unlikely event the Cash Pool and Liquidity Pool are insufficient to meet the University's day-to-day obligations. 4. The IF may include state funds for which there are investment limitations established by law or regulation. The University will ensure that there are sufficient legally allowable securities in the pool to collateralize the state funds position by 102 percent. State funds are defined as funds appropriated by the legislature and local funds used to offset such appropriations. This definition includes both the state general fund and the general/local fund but does not include the dedicated local fund (indirect cost recoveries) or the restricted local fund (gifts, grants and contracts). It also excludes cash balances of the University's business enterprises, annuity and life income funds, endowments, and trust funds.	*References to specific benchmarks are removed from policy – consistent with other Board approved policy statements. A separate IF benchmark statement is maintained by the Investments Office. These are reviewed by Cambridge Associates and UWINCO annually.*
E. GUIDELINES FOR TRANSACTIONS As a general guideline that should apply to all assets managed, transactions should be entered into on the basis of best execution, which is interpreted normally to mean best-realized price. Commissions may be designated for payment of services rendered to the University in connection with investment management.	*No changes*

F. MONITORING OF OBJECTIVES AND RESULTS 1. All objectives and policies are in effect until modified. The Finance, Audit and Facilities Committee with advice from the Treasurer of the Board of Regents, the Senior Vice President, the Chief Investment Officer and UWINCO will review these periodically for their continued appropriateness. 2. The IF ~~portfolios~~ will be monitored on a continual basis for consistency in investment philosophy; return relative to objectives; investment risk as measured by asset concentrations; exposure to extreme economic conditions; and market volatility. Performance will be reviewed at least annually by the Finance, Audit and Facilities Committee. Results will be evaluated over longer time frames including the inception period, running three- to five-year periods, and complete market cycles. 3. The CIO will review the individual managers as needed in order to confirm that performance expectations remain in place. In addition, portfolio activity will be reported on a regular basis to UWINCO and the Chair of the Finance, Audit and Facilities Committee. 4. A statement of investment objectives and guidelines will be maintained for each public investment manager where the University's assets are managed in a separate account.	*Treasurer added back to policy statement. See delegations Paragraph G.6.* *Reporting clarification.*
G. DELEGATIONS Delegations related to the management of the University's investment portfolios are as follows: 1. Board of Regents: a. Approve investment policies which guide the management of the University's investment portfolios. This includes but is not limited to the portfolio composition and pool allocation, investment objectives, pool guidelines, performance goals and delegations. ~~strategic asset allocation, performance goals, spending and delegations.~~ b. Approve campus loans when total internal lending activity exceeds five percent of the IF. c. Approve all interfund loans to the CEF. d. Approve appointment and reappointment of Regent and non-Regent UWINCO members. e. Approve the UWINCO "Statement of Principles" which addresses the administrative functioning of the Investment Committee. f. Approve appointment of the Chief Investment Officer. g. Approve appointment of the Treasurer of the Board of Regents.	*Language changes to better reflect oversight role of the Board.* *Authority to lend up to 5% of the IF rests with the SVP. Paragraph G.1.b establishes the approval process for higher lending levels.* *The Board reserves the authority to lend IF funds to the CEF. Such loans may occur under extreme market conditions.* *The delegations formerly in place with the Treasurer of the Board of Regents were*

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5/9/13

merged with those of the SVP several years ago. The separation is restored in the proposed change along with the role of the Board in the appointment of its Treasurer.

2. Chair of the Board of Regents:

   a. Recommend members of the UWINCO for formal approval by the Board of Regents. Recommendations will be made in consultation with the Chair of UWINCO and the President of the University (and/or his designee).

   b. Designate the Chair of UWINCO.

   c. Approve investment manager appointments and direct investments when the CIO is unavailable or unable to do so.

3. Finance, Audit and Facilities Committee:

   a. Oversee the University's investment programs within the broad guidelines established by the investment policies.

   b. Appoint the University's investment consultant(s).

   c. Review the asset allocation and strategy recommendations of the CIO and UWINCO. Recommend policy changes as appropriate to the Board of Regents.

4. Investment Committee (UWINCO):

   a. Advise the Finance, Audit and Facilities Committee, the Senior Vice President and the Chief Investment Officer on matters relating to the management of the University's investment portfolios. This includes, but is not limited to, advice on overall asset allocation, performance goals, portfolio risk, new investment strategies, strategy implementation, manager identification and due diligence.

   b. Adhere to the UWINCO "Statement of Principles."

Authority to internally lend up to 5% of the IF has historically been held by the SVP. Such activity is infrequent. The language now clearly distinguishes between interfund loan activity and internal loans to campus departments.

5. Senior Vice President:

   a. Loan funds from the IF for periods up to five years to campus departments as long as such loans do not materially reduce the investment return to the Fund. This authority is limited to five percent of the IF and is independent of interfund loan activity that may be exercised under the authority of the Board. (See Paragraph G.1.c) ~~No more than five percent of the IF will be loaned under without consultation with the Finance, Audit and Facilities Committee.~~

   ~~b. Approve the use of the CEF Pool as an alternative investment vehicle for qualifying campus units. Generally, a minimum of \$10 million in IF balances and an investment time horizon of at least three years will be required for consideration.~~

Authority under G.5.b no longer relevant.

   c. Administer internal fees for management and administrative activities

related to the IF. d. Approve use of professional staff bonus pool. e. Assume supervisory responsibility for the CIO position. ~~f. Approve investment custodian appointment(s).~~ ~~g. Assume the responsibilities of the CIO when the position is vacant. The exceptions to this delegation are the appointment of investment managers and the approval of direct investments which are extended to the Chair of Board of Regents.~~ ~~h. Execute investment management agreements, limited partnership agreements, custody agreements and other investment related documents upon satisfactory completion of reviews as appropriate by the State Attorney General, outside legal counsel and the University's investment consultant.~~	*Certain delegations are removed from the SVP and restored to the Treasurer of the Board of Regents.*
6. Treasurer of the Board of Regents: a. Approve investment custodian appointment(s). b. Assume the responsibilities of the CIO when the position is vacant. The exceptions to this delegation are the appointment of investment managers and the approval of direct investments which are extended to the Chair of the Board of Regents. c. Execute securities transactions in conjunction with the day-to-day management of the investment program. d. Execute investment management agreements, limited partnership agreements, custody agreements and other investment related documents upon satisfactory completion of reviews as appropriate by the State Attorney General, outside legal counsel and the University's investment consultant. 7. Chief Investment Officer: a. Manage the day-to-day activities of the University's investment portfolios within the broad guidelines established by the investment policies. b. Seek the advice of the University's investment consultant(s) and members of the UWINCO on issues related to the management of the investment portfolios. Incorporate such advice in the implementation of the investment program. c. Appoint new investment managers and follow-on limited partnership investments and approve direct investments. Approved investments shall fall within the policy guidelines adopted by the Board of Regents. d. Approve the dollar value of assets allocated to new and existing	*The Board delegated authority to execute securities transactions in the day-to-day management of the investment program has historically been handled through a Board resolution. The addition of Paragraph G.6.c. adds this delegation in policy. Note that this addition does not eliminate the Board resolution but rather insures consistency across the two documents.*

investment managers and reallocate assets among managers in accordance with long-term strategic targets. e. Approve individual investment manager guidelines. f. Monitor individual investment managers on a regular basis to ensure that performance and compliance expectations are met. g. Monitor aggregate portfolio risk. h. Approve use of derivatives to manage the aggregate portfolio risk/return profile. This includes the use of swaps, options, futures and other derivative products to adjust exposures, to equitize cash, or to rebalance across asset classes. i. Approve appropriate usage and timing of leveraged strategies within the IF. j. Terminate investment managers, liquidate limited partnership interests and/or reduce strategy exposures through other means. ~~The Chair of the Finance, Audit and Facilities Committee and the Chair of UWINCO will be notified.~~ This authority is typically exercised due to performance concerns, organizational changes, or structural considerations within the UW investment portfolio. k. Take action as appropriate in support of shareholder resolutions related to human rights in Burma.	*Portfolio activity – additions and terminations reported regularly to UWINCO and the Chair of the F&AC. See Paragraph F.3*

C|A

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Memorandum

To: UWINCO
V'Ella Warren
University of Washington Investment Staff

From: Max Senter

Date: March 25, 2013

Re: Invested Funds Benchmark Revision and Comment on Interest Rate Exposure

Overview

Cambridge Associates has reviewed the composite Invested Funds benchmark and the revisions that are being proposed by staff. The proposed revisions are reasonable given the planned use of non-CEF assets within the newly named Diversified Investment Pool (DIP). The current composite benchmark for the Invested Funds is:

Cash Pool	20%	Citigroup 2 year Treasury Index
Liquidity Pool	50%	Barclays Capital US Government Intermediate Bond Index
CEF Pool	30%	CEF Benchmark

The proposed benchmark is:

Cash Pool	Citigroup 2 year Treasury Index
Liquidity Pools	Barclays Capital US Government Intermediate Bond Index
Diversified Investment Pool	70% MSCI All-Country World Index, 30% BC Government Bond Index

The weight of the DIP in the composite benchmark is targeted at 30% but would actually vary with the percent invested in the DIP, subject to a cap of 40% and a floor of 15% of the total Invested Funds. Likewise, the benchmarks for the Cash and Liquidity Pools will be weighted according to the actual allocations to them.

Separately staff is considering reducing the interest rate exposure of the combined Cash and Liquidity Pools by working directly with the managers within those pools. We support this consideration given the historic low level of interest rates and Cambridge's view that fixed income is 'over-valued.'

F–12.5/205-13
5/9/13

ATTACHMENT 5

Consolidated Endowment Funds/Diversified Investment Pool Benchmark

Staff is proposing renaming the CEF Pool of the IF to the Diversified Investment Pool (DIP). Staff may explore the use of non-CEF investments in the DIP, but currently suggests that the CEF investment will remain the predominant portion of the DIP going forward. The discussion of how the DIP is implemented, however, is outside of the scope of this memorandum.

The Invested Funds have had an allocation to the CEF for decades. Our understanding is that the amount allocated to the CEF is limited to non-endowed gift funds. Further, the non-endowed gift portion of the IF has been variable and, of late, shrinking and now constitutes about 25% of the Fund.

The staff is suggesting a simple stock/bond benchmark for the DIP to reflect that the Pool may not exclusively be invested in the CEF going forward. Many institutions have adopted simple benchmarks for investment funds (not limited to invested or operating funds) in recognition of the complexity of using composite benchmarks. The use of simple benchmarks will likely create higher tracking variability due to the composition of the CEF, but that may be mitigated based on non-CEF equity investments within the DIP. As we have discussed with the CEF, the Investment Staff will need to effectively communicate the drivers of tracking variability.

Comment on Interest Rate Exposure of Cash and Liquidity Pools

The current interest rate risk of the Cash and Liquidity Pools' benchmarks, as measured by 'modified duration,' are approximately -1.99 and -3.62 years, respectively. The market value of these pools will vary inversely with interest rate movements. As interest rates fall, the value of the funds should rise, and as rates rise the values should fall. Modified duration is a fairly accurate measure of the sensitivity of these pools' values to changes in interest rates. As interest rates rise by 1%, the value of the Cash Pool should fall by approximately 1.99% (1% x -1.99), and the value of the Liquidity Pool should fall by about 3.62% (1% x -3.62). The two benchmarks weighted average modified duration is currently -3.15.

The long-term returns of the weighted benchmarks have been 3.78% (AACR) over the past 10 years and 5.05% over the past 20 years. Consequently, the interest rate exposure has served the University relatively well. The current yield-to-maturity of the weighted benchmark is .55%. Absolute yields are historically low and Cambridge Associates' Investment Strategy Research considers high quality US fixed income to be 'Very Over-Valued.' The Cambridge view is that interest rate risk is now asymmetric toward higher interest rates (and lower Pool values). Anecdotally we are seeing other colleges and universities managing to shorter durations across both endowment and operating pools.

Notwithstanding our view on interest rates, the actual implementation of interest rate exposure is outside of the scope of this memorandum. Should the University decide to reduce duration in order to mitigate absolute risk doing so will also result in higher tracking variability relative to the composite benchmark.

UNIVERSITY OF WASHINGTON

STATEMENT OF INVESTMENT OBJECTIVES AND POLICY FOR DEFERRED AND OTHER GIFT ASSETS

Approved by Board of Regents January 17, 1992

Amended September 19, 1997; May 18, 2001; November 21, 2003; May 19, 2005; and May 9, 2013.

INTRODUCTION

The Board of Regents of the University of Washington is vested by statute with responsibility for the management of the properties of the University. The Board also acts as trustee for deferred gifts, including annuities and trusts. This statement of objectives and policies governs the investment management of deferred gift assets (including trusts and annuities) and other non-consolidated gift assets (including real estate, debt instruments secured by real estate, closely held stock, and partnership interests). This statement is effective until modified by the Board.

The Board has delegated to its Finance, Audit and Facilities Committee (FAF) the responsibility for overseeing its deferred gift investment program within the general principals enumerated herein. The Committee has the authority to further delegate responsibility for management/monitoring of these investments.

A. TYPES OF GIFTS Deferred gift assets are available for investment when a donor transfers cash or assets to the University of Washington and obtains, in exchange, a life income based on the value of donated assets. The forms in which gifts may currently be established include: charitable gift annuity (no trust), charitable remainder unitrust, charitable remainder annuity trust, pooled income fund (pooled trust), and charitable lead trust. Each deferred gift plan has a signed standard agreement which specifies the type of plan, amount of the income payments, purpose and use of the deferred gift.	*No changes*
B. INVESTMENT OBJECTIVES 1. Deferred Gift Assets: a. The primary financial objective for the investment management of deferred gift assets is to meet the payout requirements of the gift instrument. Secondarily, the objective is to maximize the expected real value of the residual trust to the University of Washington with an appropriate level of risk given the first (and primary) objective.	*No changes*

2. Real Estate and Real Estate Contracts: a. Generally, the University of Washington will not agree to hold individual real estate gifts for investment purposes. The objective in accepting, retaining, and liquidating gift real estate is to obtain a fair return from the property in a timely manner relative to the expenses and effort required to hold, maintain and manage the property until disposition. The University of Washington may choose to finance the sale of real estate gifts if it is judged to provide the best return at an appropriate risk. 3. Other Non-Consolidated Gift Assets: a. Generally, the University of Washington will not agree to hold gifts of tangible personal property (such as art or coin collections) for investment purposes. The University of Washington may hold securities in start-up, closely held companies or limited partnership interests for investment purposes, if the assets cannot be sold. Such positions will only be taken if there is an acceptable degree of risk relative to expected return to the University of Washington from holding such an asset.	
C. INVESTMENT MANAGEMENT STRUCTURE Deferred gift assets will be invested primarily by an external investment manager. External investment management firms will be selected on the basis of factors including but not limited to the following: the experience of key personnel; investment philosophy; assets under management; organizational structure; ability to provide or work closely with external deferred gift administrative services provider; performance record; investment management fees; and the firm's ethical and financial viability.	*No changes*
D. PORTFOLIO COMPOSITION AND ASSET ALLOCATION 1. Deferred gift assets will be broadly diversified using various commingled funds including stocks, bonds, and alternative assets such as venture capital or equity real estate. In certain cases, individual investment securities may be purchased and sold by the trusts, depending upon circumstances. These commingled funds (and, when applicable, securities) will be held in various deferred gifts in different ratios, depending on the income/total return characteristics that are desired for any individual gift. 2. When selecting a stock/bond mix, it is not necessary in all cases to make a selection that will produce an income level equal to the payout requirement. This will vary by gift vehicle and the express desires of the donor with respect to income production. Because higher stock/bond rations are expected to produce higher rates of total return (but lower levels of income), higher ratios will be generally preferred when they are consistent with the guidelines and objectives of the individual gift plans.	*No changes*

3. Typically, stock/bond ratios will be selected with particular attention to the risk of asset erosion due to a severe decline in the stock market and the need to make an ongoing payout. The risk of the investment strategy selected will not exceed that of a 70/30 stock/bond portfolio except as approved by the Treasurer of the Board of Regents on a trust by trust basis. 4. In individual cases, as appropriate, the University of Washington may retain assets transferred by the donor (such as real estate, marketable securities or closely held stock), without diversification, provided the gift instrument permits such discretion and relieves the University of Washington of a duty to diversify the gift portfolio.	
E. GUIDELINES FOR TRANSACTIONS As a general guideline that should apply to all assets managed, transactions should be entered into on the basis of best execution, which is interpreted normally to mean best realized price.	*No changes*
F. MONITORING OF OBJECTIVES AND RESULTS Performance measurement reports for deferred gift assets will be prepared by the Office of the Treasurer. Benchmarks/universes will be consistent with the approach used for the Consolidated Endowment Fund and the Invested Funds of the University of. Washington. Summary reports will be shared with the Finance, Audit and Facilities Committee or its delegate.	*Changes to clarify language and to update titles on delegates*
G. DELEGATIONS Delegations related to the management and administration of the University's deferred gift investment portfolios are as follows: 1. Board of Regents: a. Approve investment policies which guide the management of the University's investment portfolios. This includes but is not limited to the strategic asset allocation, performance goals and delegations. 2. Finance, Audit and Facilities Committee: a. Oversee the University's investment programs within the broad guidelines established by the investment policies. b. Appoint the University's investment consultant(s). c. Review the asset allocation and strategy recommendations of the Treasurer of the Board of Regents. Recommend policy changes as appropriate to the Board of Regents. ~~3. Executive Vice President:~~ ~~a. Approve investment management agreements, custody agreements and other investment related documents upon satisfactory completion of reviews as appropriate by the State Attorney General, outside legal counsel and the University's investment consultant. Approval authority is~~	

~~delegated to the Treasurer of the Board of Regents when the Executive Vice President is otherwise unavailable.~~

4. Treasurer of the Board of Regents

    a. Execute securities transactions in conjunction with the day-to-day management of the investment program.

    b. Execute investment management agreements, limited partnership agreements, custody agreements and other investment related documents upon satisfactory completion of reviews as appropriate by the State Attorney General, outside legal counsel and the University's investment consultant.

    c. Appoint deferred gifts investment manager and custodian.

    d. Appoint deferred gifts external administrator.

    e. Seek the advice of the University's investment consultant(s), Chief Investment Officer and members of the University of Washington Investment Committee (UWINCO) as appropriate on issues related to the management of the deferred giving investment program.

    f. Approve deferred gift investment manager guidelines.

    g. Communicate key decisions, made in consultation with the Senior ~~Executive~~ Vice President to the Finance, Audit and Facilities Committee.

    h. Where appropriate, consult with the Vice President for University Advancement ~~Development and Alumni Relations~~ and/or the Chief Real Estate Officer ~~Director of Real Estate~~ and their related personnel regarding deferred gift policy/guideline issues.

    i. Monitor the deferred gifts' investment manager in order to confirm that the performance expectations remain in place.

5. Chief Real Estate Officer ~~Director of Real Estate~~

    a. Make decisions regarding the liquidation of gift real estate in consultation with the Treasurer, the Vice President for University Advancement ~~Development and Alumni Relations~~ and related personnel from both offices as appropriate.

6. Vice President for University Advancement ~~Director of Gift Planning~~

    a. With the concurrence of the Treasurer of the Board of Regents, or designee, recommend acceptance of:

        (1) Current gifts of non-traditional investment assets, charitable lead trusts where the University is to act as trustee, bargain sale gifts of property, and partial interest gifts.

        (2) Deferred gifts, if the University is to act as trustee or custodian of the deferred gift.

[See also *Board of Regents Governance*, Standing Orders, Chapter 1, Section 8, Gift Evaluation and Acceptance]

UNIVERSITY OF WASHINGTON

STATEMENT OF INVESTMENT OBJECTIVES AND POLICY
FOR PORTAGE BAY INSURANCE

Approved by Board of Regents November 21, 1997 (SIRF)

Amended January 21, 2000; May 18, 2001; June 14, 2002; November 21, 2003; May 19, 2005; and May 9, 2013.

INTRODUCTION

The Board of Regents of the University of Washington is vested by statute with responsibility for the management of the properties of the University. This statement of investment objectives and policy governs the investment management of Portage Bay Insurance (PBI)[1]. This statement is effective until modified by the Board.

The Board delegated to its Finance, Audit and Facilities Committee the responsibility for overseeing its investment programs within the general principles enumerated herein.

A. INVESTMENT OBJECTIVES 1. The overall financial objective of the PBI is to provide for the payment of judgments and claims against the University, its schools, colleges, departments, hospitals and personnel. The secondary financial objective is to stabilize the University's risk financing costs. 2. The primary investment objective of the PBI is to provide the University a maximum level of return subject to a low probability of negative returns over rolling three year periods. The secondary investment objective is to maximize long-term capital growth within acceptable risk levels. 3. The investment performance of the PBI will also be evaluated, on a risk-adjusted basis, relative to a blend of market indices that reflect the overall asset allocation of the funds.	*No changes*

[1] In June of 2002, the University established Portage Bay Insurance, a separate corporation, to pay liabilities arising on and after July 1, 2002. This company will be operated concurrently with the Self-Insurance Revolving Fund (SIRF) until the liabilities of SIRF have been satisfied. PBI will then be the sole entity responsible for paying University tort claims. PBI was initially capitalized with assets from the SIRF and is funded on an ongoing basis with University premiums.

B. INVESTMENT MANAGEMENT STRUCTURE

No changes

1. The PBI assets will be invested primarily by external investment managers. External investment management firms will be selected on the basis of factors including but not limited to the following: the experience of key personnel; insurance industry expertise; assets under management; asset/liability modeling capability; investment philosophy; ability to work effectively with the University's existing actuarial and excess carrier relationships; organizational structure; performance record; investment management fees; and the firm's ethical and financial viability.

2. The University may invest the PBI assets in one or more of its institutional fund vehicles such as the operating fund (a.k.a. "Invested Funds") or the Consolidated Endowment Fund if this alternative provides superior risk/return characteristics.

C. PORTFOLIO COMPOSITION AND ASSET ALLOCATION

C.1. no longer applicable.

~~1. The assets of the PBI will be held and monitored separately for investment purposes. The asset allocation of the two insurance portfolios (PBI and SIRF) may vary based upon liquidity and other considerations.~~

2. To achieve its investment objective, the PBI investments will be divided into two parts: a "Fixed Income Portfolio" and an "Equity Portfolio". The purpose of dividing the funds in this manner is to ensure that the overall asset allocation between these two major asset classes remains under the regular scrutiny of the Finance, Audit and Facilities Committee or its delegate.

Asset Class	**Long-term Target**	**Policy Range**
Fixed Income Portfolio	**75%**	**65% - 100%**
Equity Portfolio	**25%**	**0 - 35%**

3. The purpose of the Fixed Income Portfolio is to produce current income to supplement discounted insurance premiums. The Fixed Income Portfolio performance objective is to outperform, net of commissions and fees, the Barclay's Capital U.S. Government Corporate Bond Index on a risk-adjusted basis. Performance will be monitored on a regular basis and evaluated over rolling three-to five year periods.

4. The Fixed Income Portfolio will be invested in a portfolio of fixed income securities with an average duration that may vary modestly from the benchmark. The Fixed Income Portfolio will have an average quality rating of at least "A". 5. The purpose of the Equity Portfolio is to provide a total return that will provide for growth in principal. It is recognized that the Equity Portfolio entails the assumption of greater market variability and risk. The Equity Portfolio performance objective is to outperform, net of commissions and fees, the S&P 500 index on a risk-adjusted basis. Performance will be monitored on a regular basis and evaluated over rolling three-to five year periods. 6. International securities may be employed in the Fixed Income Portfolio and the Equity Portfolio if so specified under individual investment manager guidelines. Manager performance will be evaluated against a domestic benchmark. 7. Direct and derivative investments, commingled funds and fund of funds may be used in implementing the asset allocation. 8. Direct investments in tobacco companies are prohibited. 9. Direct investment in companies doing business in Sudan whose business activities support the Sudanese government in its continuing sponsorship of genocidal actions and human rights violations in Darfur is prohibited. 10. Funds invested directly in a commingled fund portfolio managed by the University will be subject to the policy provisions contained therein.	
D. GUIDELINES FOR TRANSACTIONS As a general guideline that should apply to all assets managed, transactions should be entered into on the basis of best execution, which is interpreted normally to mean best realized price. Commissions may be designated for payment of services rendered to the University in connection with investment management.	*No changes*
E. MONITORING OF OBJECTIVES AND RESULTS 1. All objectives and policies are in effect until modified. The Finance, Audit and Facilities Committee will review these periodically for their continued appropriateness. 2. The PBI portfolio will be monitored on a continual basis for consistency in investment philosophy; return relative to objectives; and investment risk	*No changes*

as measured by asset concentrations; exposure to extreme economic conditions; and market volatility. Portfolios will be reviewed at least annually by the Finance, Audit and Facilities Committee but results will be evaluated over longer time frames including the inception period, running three- to five-year periods, and complete market cycles. 3. The Chief Investment Officer (CIO) will review individual managers as needed in order to confirm that performance expectations remain in place. 4. A statement of investment objectives and guidelines shall be maintained for each public investment manager where the University's assets are managed in a separate account.	
F. DELEGATIONS Delegations related to the management of the University's investment portfolios are as follows: 1. Board of Regents: a. Approve investment policies which guide the management of the University's investment portfolios. This includes but is not limited to the strategic asset allocation, performance goals and delegations. b. Approve appointment of the Chief Investment Officer. c. Approve appointment of the Treasurer of the Board of Regents. 2. Finance, Audit and Facilities Committee: a. Oversee the University's investment programs within the broad guidelines established by the investment policies. b. Appoint the University's investment consultant(s). c. Review the asset allocation and strategy recommendations of the CIO. Recommend policy changes as appropriate to the Board of Regents. 3. Senior Vice President: ~~a. Approve investment management agreements, investment limited partnership agreements, custody agreements and other investment related documents upon satisfactory completion of reviews as appropriate by the State Attorney General, outside legal counsel and the University's investment consultant.~~ a. Assume supervisory responsibility for the CIO position.	*The delegation language is modified as appropriate to conform to other Board approved investment policies.*

4. Treasurer of the Board of Regents: a. Execute securities transactions in conjunction with the day-to-day management of the investment program. b. Execute investment management agreements, limited partnership agreements, custodial agreements and other investment related documents upon satisfactory completion of reviews as appropriate by the State Attorney General, outside legal counsel and the University's investment consultant.	*The delegations formerly in place with the Treasurer of the Board of Regents were merged with those of the SVP several years ago. The separation is restored in the proposed change.*
5. Chief Investment Officer a. Manage the day-to-day activities of the University's PBI investment portfolios within the broad guidelines established under this policy. b. Seek the advice of the University's investment consultant(s), Senior Vice President and members of the University of Washington Investment Committee (UWINCO) on issues related to the management of the investment portfolios. c. Appoint new investment firms to manage the University's self-insurance assets and investment custodians. Approved firms will pursue investment strategies that fall within the guidelines established in policy by the Board of Regents. d. Terminate existing investment relationships with firms responsible for the management of the University's self-insurance assets. This authority is typically exercised due to performance concerns, organizational changes, or structural considerations within the self- insurance portfolios. e. Approve the overall asset allocation of the PBI portfolios within the long-term ranges established under this policy. f. Approve the dollar value of assets allocated to new and existing investment firms responsible for the management of the University's self-insurance assets and reallocate assets among such managers in accordance with long-term strategic targets. g. Monitor individual investment firms on a regular basis to ensure that performance and compliance expectations are met. h. Approve individual investment manager guidelines. ~~i. With input and direction from the Executive Director of Risk Management, direct asset/liability modeling of the PBI portfolios.~~	*F.5.i. no longer applicable*

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