

VII. STANDING COMMITTEES

B. Finance, Audit & Facilities Committee

Investment Performance Report, First Quarter Fiscal Year 2010

For information only.

Attachment

University of Washington Investment Performance Report to the Board of
Regents, First Quarter Fiscal Year 2010, as of September 30, 2009

UNIVERSITY OF WASHINGTON
INVESTMENT PERFORMANCE REPORT TO THE BOARD OF REGENTS
FIRST QUARTER FISCAL YEAR 2010

As of September 30, 2009



TREASURER BOARD OF REGENTS
TREASURY OFFICE

Published November 2009

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TREASURY ASSETS¹

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
	<u>\$1,941</u>

Operating & Reserve Funds

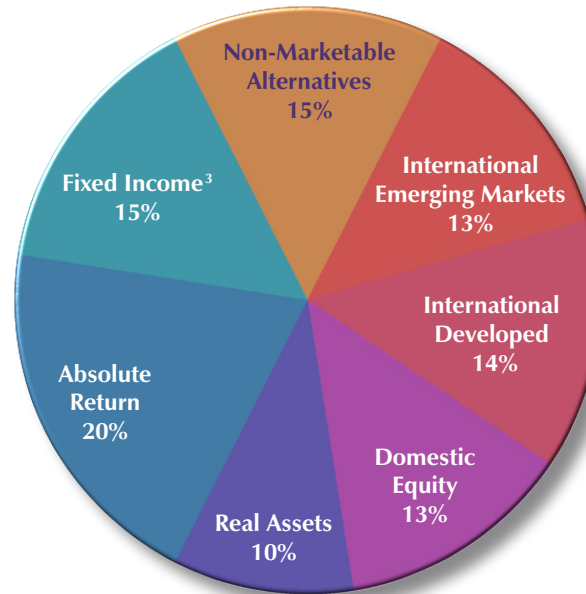
Invested Funds ^{2, 3}	\$1,001
Bond Retirement Fund ⁴	19
Building Fund ⁴	18
Debt Service Reserve Funds ⁵	12
Bond Proceeds ⁷	82
	<u>\$1,132</u>

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.

ASSET ALLOCATION

As of September 30, 2009

Consolidated Endowment Fund ¹—\$1,776 MM



Dollars in Millions

Current Allocation ²			Policy Target	Policy Range
Global Equity	Non-Marketable Alternatives	\$252 15%	12%	5%–25%
	International Emerging Markets	237 13%	13%	5%–35%
	International Developed Markets	249 14%	16%	5%–35%
	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.

CONSOLIDATED ENDOWMENT FUND (CEF)

For the Quarter ending September 30, 2009

Total Returns ¹ (%)

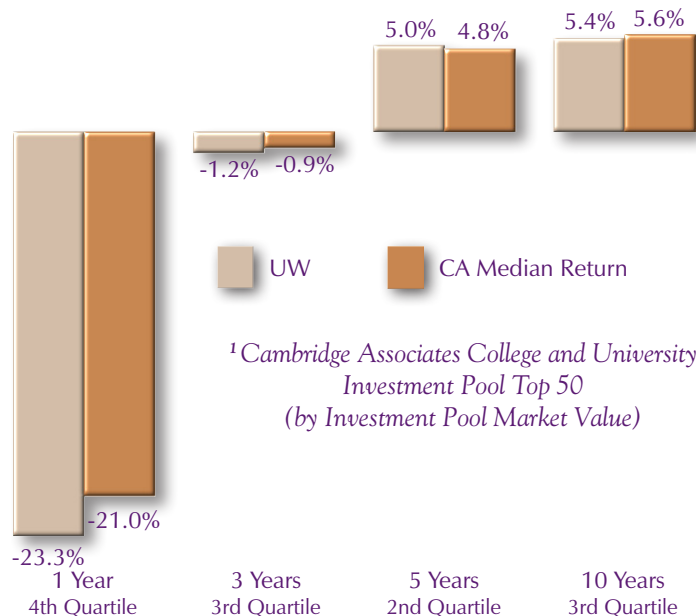
	1 st Qtr FY 2010	1-Year	5-Year	10-Year
Total CEF Return	7.7	-7.1	6.2	6.3
Strategy Weighted Policy Benchmark	9.3	-1.2	7.1	5.4
Equity Fund	11.8	-5.8	6.4	6.1
Weighted Policy Benchmark	14.6	-2.9	6.2	4.2
Real Assets Fund	-0.2	-28.9	3.0	—
Policy Benchmark	1.8	-10.1	7.4	—
Absolute Return Fund	7.5	3.3	—	—
Policy Benchmark	4.3	4.5	—	—
Fixed Income Fund	1.6	0.2	3.7	4.9
Policy Benchmark (LB Govt Bond)	2.0	6.7	5.2	6.2

¹ Average Annual Compound Return

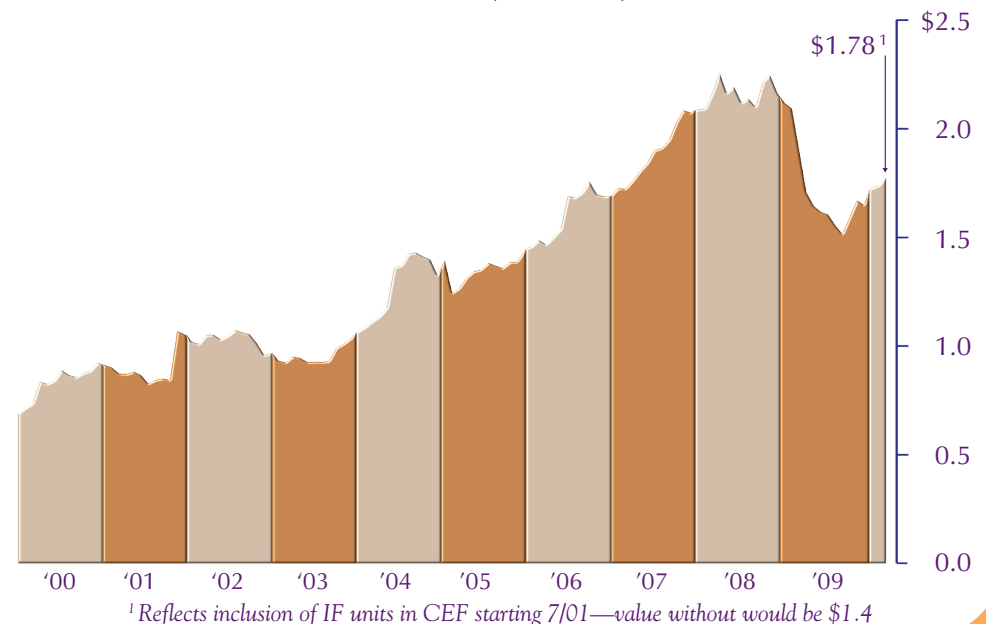
Activity (in Millions)

	1 st Qtr FY 2010	FY 2009	FY 2008	5 Years	10 Years
Beginning Balance	1,649	2,161	2,074	1,243	689
Gifts	11	84	99	417	626
Transfers	1	10	8	59	86
Total Additions	12	94	107	476	712
Operating Funds Purchases	2	3	44	64	365
Net Investment Return	131	(515)	53	460	764
Distributions	(15)	(75)	(94)	(381)	(630)
Administrative Fees	(1)	(4)	(4)	(17)	(27)
Advancement Support	(3)	(14)	(17)	(69)	(98)
Ending Balance	1,776	1,649	2,161	1,776	1,776
Net Change	127	(512)	88	533	1,087

UW & Cambridge Associates ¹ Returns for periods ending 6/30/09



Market Value (in Billions)



PERFORMANCE UPDATE

Total Return ¹ As of 9/30/09

	1 st Qtr FY '10	1 Year	3 Years	5 Years	10 Years
Consolidated Endowment Fund	7.7	-7.1	0.2	6.2	6.3
Equity Fund	11.8	-5.8	-0.5	6.4	6.1
Non-Marketable Alternatives ²	4.2	-18.6	3.2	10.2	8.0
Global Equity ³	15.0	1.0	—	—	—
International Emerging Markets	20.0	15.6	12.2	—	—
International Developed Markets	13.0	-1.5	-5.0	4.8	2.7
Domestic Equity	11.8	-8.7	-5.5	0.9	3.0
Real Assets Fund	-0.2	-28.9	-6.1	3.0	—
Absolute Return Fund ³	7.5	3.3	—	—	—
Fixed Income Fund	1.6	0.2	3.2	3.7	4.9
Public Market Indices					
<i>Equity Indices</i>					
MSCI ACWI	19.8	6.4	-0.8	8.6	4.5
Russell 3000	16.3	-6.4	-5.1	1.6	0.7
NASDAQ	15.7	-2.6	-3.5	1.4	-3.0
NAREIT	33.3	-28.4	-12.4	1.4	9.5
Dow Jones Industrial Average	15.3	-7.8	-3.6	1.7	1.6
MSCI EAFE	19.5	3.8	-3.1	6.6	3.0
MSCI EMF	21.0	19.4	8.3	17.7	11.2
<i>Fixed Income Indices</i>					
LB Government Bond	2.0	6.7	6.8	5.2	6.2
CG World Bond Index (unhedged to USD)	6.2	13.8	9.4	6.6	6.7

Sources: Cambridge Associates and State Street

¹ Total Return: average annual compound return (dividend or interest plus capital appreciation or depreciation)

² Provided by Cambridge Associates on a quarter lag.

³ New strategies reflecting data starting 7/1/2008.

INVESTED FUNDS (IF)

For the Quarter ending September 30, 2009

Total Return¹ (%)

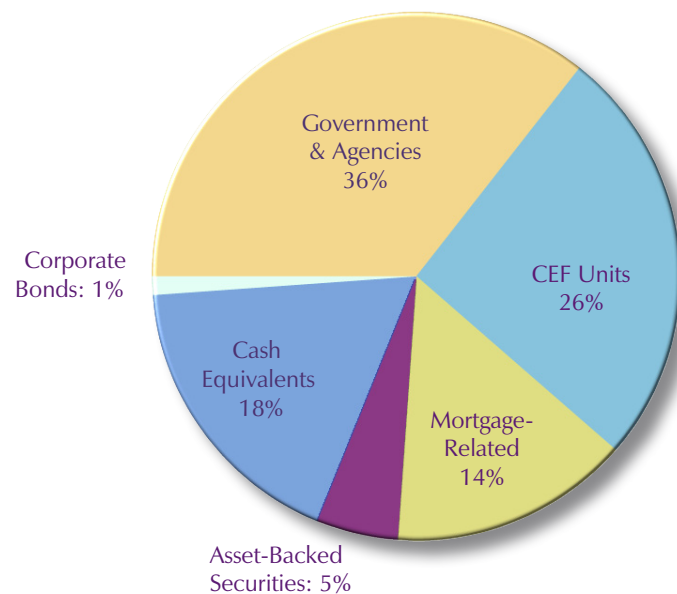
	1 st Qtr FY 2010	1-Year	5-Year	10-Year
Cash	0.3	2.6	4.0	4.7
Citi 2 Yr Treasury	0.9	4.4	4.3	4.7
Liquidity	1.2	5.1	4.1	5.4
LB Intermediate Govt Bond	1.6	6.3	4.9	5.7
IF excluding CEF units	1.0	4.5	4.1	5.2
Weighted Benchmark	1.4	5.6	4.7	5.4
IF including CEF units	2.8	0.9	4.9	5.5
Weighted Benchmark	3.6	3.8	5.7	5.6

¹ Average Annual Compound Return

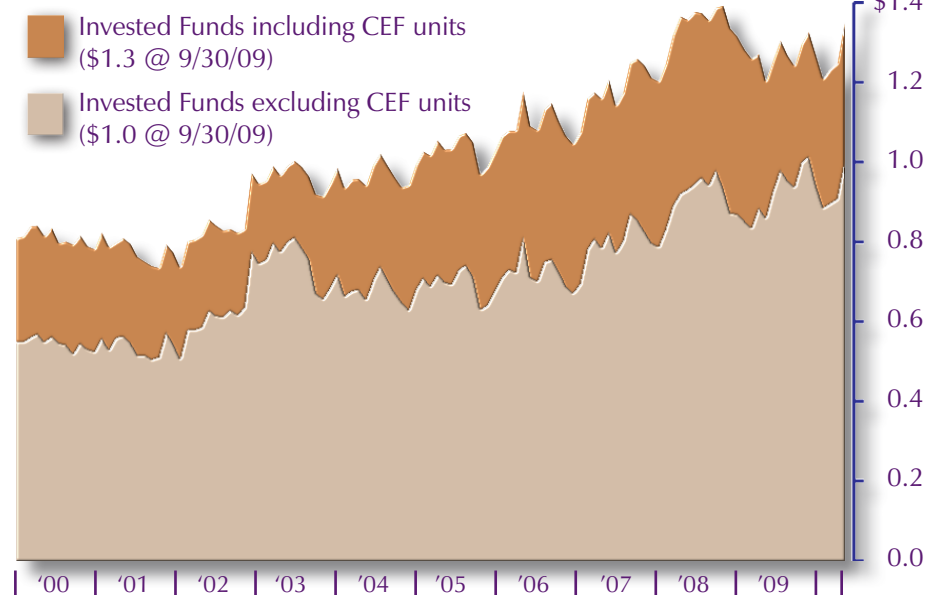
Fund Allocation by Pool (\$ in Millions)

	Fund Allocation		Range	Duration	
				Actual	Maximum
Cash Pool	\$331	24%	10%–40%	0.4	3.0 yrs
Liquidity Pool	670	50%	30%–60%	3.8	4.3 yrs
Total Cash & Liq. Pool	\$1,001	74%			
CEF Units held by IF		26%	15%–40%		
Total Invested Funds		100%			

Mix of Investments



Market Value (\$ in Billions)



CONSOLIDATED ENDOWMENT FUND SPENDING UPDATE

For the Quarter ending September 30, 2009

Interim Policy, Approved 3/19/09

Reduce CEF distributions 25% in FY09 and another 25% in FY10.
Thereafter, hold constant until reviewed by Board of Regents (no later than 6/30/13).

Current and Projected Results of Interim Policy

	\$ = 000's		
	FY 2008	FY 2009	FY 2010
Beginning Market Value	\$2,073,519	\$2,161,438	\$1,649,159 (Actual)
Distributions ¹	\$94,314	\$75,478	\$58,800 (Estimated)
Year-Over-Year Decline	NA	-20%	-22% (Estimated)
Effective Spending Rate	4.5%	3.5%	3.6% (Estimated)
Total Return	2.0%	-23.3%	7.7% (Actual FYTD)

¹ Actual distributions are administered on a quarterly and per unit basis. New gifts are added quarterly and receive payouts at the next distribution date. Therefore, year over year declines cannot equal 25%.

Quarterly Market Values and Additions

	Value	\$ = 000's Additions	Additions as %
07/1/2008	\$2,161,438	\$34,311	1.6%
10/1/2008	\$1,901,352	\$26,187	1.4%
01/1/2010	\$1,617,610	\$20,809	1.3%
04/1/2010	\$1,515,209	\$12,194	0.8%
07/1/2010	\$1,649,159	\$11,829	0.7%
10/1/2010*	\$1,776,000	\$7,798	0.4%

* Preliminary

Per Unit Distributions FY08–FY11

	Year-Over-Year Payout Per Unit	Change
FY08 Four Quarter Total	\$4.176	NA
FY09 Four Quarter Total	\$3.132	-25%
FY10 Four Quarter Total	\$2.349	-25%
FY11 Four Quarter Total	\$2.349	0%

- FY09 per unit payouts were 25% less than FY08 payouts.
- FY10 per unit payouts will be 25% less than FY09 payouts.
- FY11 per unit payouts will equal FY10 payouts.

SUMMARY OF ACTIONS TAKEN UNDER BOARD DELEGATED AUTHORITIES

JANUARY 1, 2009 THROUGH SEPTEMBER 30, 2009 (\$ IN MILLIONS)

By the Chief Investment Officer

Public Markets

Approved	Action	Manager / Fund	Strategy	Investment (\$MM)
03/13/09	Reduction	Rainier Investment Management	Domestic Equity	-\$5.0
03/13/09	New	State Street S&P 500 Futures	Domestic Equity	\$50.0 notional
03/13/09	Reduction	Tygh Capital Management	Domestic Equity	-\$4.0
05/08/09	Termination	Chesapeake Partners	Domestic Equity	-\$23.0
08/31/09	Reduction	State Street S&P 500 Futures	Domestic Equity	\$10.0 notional
01/29/09	Termination	Brandywine	Fixed Income	-\$40.0
01/29/09	New	Wellington Management	Fixed Income	\$15.9
07/31/09	Termination	Aberdeen Asset Management	Fixed Income	-\$47.0
08/17/09	Liquidation	Wellington TIPs	Fixed Income	-\$10.0
09/18/09	New	Income Research & Management— Government/Credit	Fixed Income	\$40.0
09/18/09	New	Income Research & Management— 1–3 Year	Fixed Income	\$40.0
09/18/09	Addition	Wellington Management Workout Fund	Fixed Income	\$8.7
01/16/09	New	State Street—Currency Hedge	International Developed	\$40.0 notional
03/13/09	Reduction	Arrowstreet	International Developed	-\$10.0
03/13/09	Reduction	Axiom	International Developed	-\$10.0
03/13/09	Reduction	GMO	International Developed	-\$19.0
07/17/09	Closed Transaction	State Street—Currency Hedge	International Developed	-\$20.0 notional
07/31/09	New	Goldman Sachs—All World Swap	International Developed	\$30.0 notional
09/18/09	Termination	Liberty Square Japan Fund	International Developed	-\$6.0
01/09/09	Termination	Atlantis China	International Emerging Markets	-\$3.3
02/20/09	Redemption	Ward Ferry	International Emerging Markets	-\$2.4

SUMMARY OF ACTIONS TAKEN UNDER BOARD DELEGATED AUTHORITIES

JANUARY 1, 2009 THROUGH SEPTEMBER 30, 2009 (\$ IN MILLIONS)

By the Chief Investment Officer

Public Markets (Continued)

Approved	Action	Manager / Fund	Strategy	Investment (\$MM)
06/04/09	Transition	City of London-from comingled to separate account	International Emerging Markets	\$96.0
07/17/09	Addition	Dynamo (funding of 2nd tranche of '08 approval)	International Emerging Markets	\$10.0
09/18/09	Termination	Matternhorn Breithorn Fund	International Emerging Markets	-\$11.0
02/20/09	Liquidation	Morgan Stanley Best Ideas Fund	Real Estate	-\$8.0
07/31/09	Termination	Morgan Stanley	Invested Funds—Liquidity	-\$165.0
07/31/09	Addition	Wellington Management	Invested Funds—Liquidity	\$165.0
08/17/09	Liquidation	Wellington TIPS	Invested Funds—Liquidity	-\$54.0

UWINCO SUMMARY OF ACTIONS TAKEN UNDER BOARD DELEGATED AUTHORITIES

JANUARY 1, 2009 THROUGH SEPTEMBER 30, 2009 (\$ IN MILLIONS)

By the Chief Investment Officer

Private Markets

<u>Approved</u>	<u>Action</u>	<u>Manager / Fund</u>	<u>Strategy</u>	<u>Investment (\$MM)</u>
03/13/09	Reduction	Blackrock Relative Value Fund	Absolute Return	-\$4.4
06/30/09	Reduction	Blackrock Relative Value Fund	Absolute Return	-\$2.8
07/17/09	Reduction	Adamas Partners	Absolute Return	-\$25.0
08/07/09	Termination	Morgan Stanley Premium Partners	Absolute Return	-\$13.0
08/07/09	Addition	Regiment Capital, Ltd.	Absolute Return	\$10.0
02/12/09	Reup	TA Associates Fund XI	Non-Marketable Alternatives	\$8.0
05/15/09	New	Rimrock ABS Fund	Invested Funds—Liquidity	\$30.0