

VII. STANDING COMMITTEES

B. Finance Audit and Facilities Committee

Investment Performance Report, Fourth Quarter Fiscal Year 2009

For information only.

Attachment

UNIVERSITY OF WASHINGTON

INVESTMENT PERFORMANCE REPORT TO THE BOARD OF REGENTS

FOURTH QUARTER FISCAL YEAR 2009

As of June 30, 2009



TREASURER BOARD OF REGENTS
TREASURY OFFICE

Published August 2009

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TREASURY ASSETS¹

As of 6/30/09—2.9 Billion

Dollars in Millions



Endowment & Similar Funds

Endowment Funds	\$1,327
Operating Funds	<u>322</u>
Consolidated Endowment Fund	1,649
Life Income Trusts	64
Outside Trusts	43
Non-CEF Endowments	18
Permanent Fund ⁶	<u>29</u>
	<u>\$1,803</u>

Operating & Reserve Funds

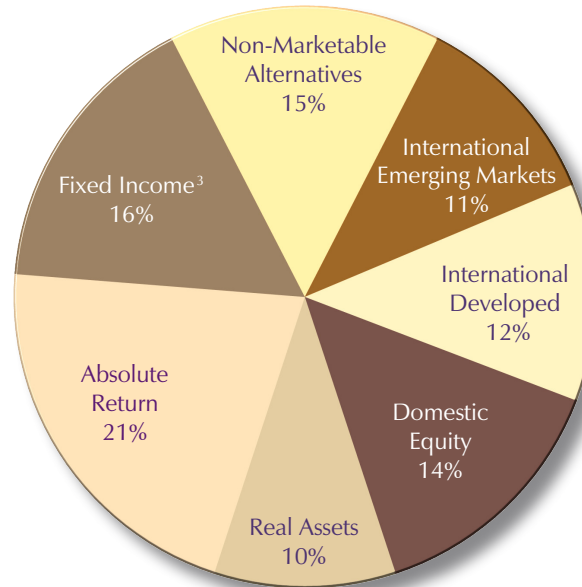
Invested Funds ^{2,3}	\$885
Bond Retirement Fund ⁴	18
Building Fund ⁴	25
Debt Service Reserve Funds ⁵	12
Bond Proceeds ⁷	<u>110</u>
	<u>\$1,050</u>

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 \$322. 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 \$70.3 & 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 June 30, 2009

Consolidated Endowment Fund ¹—\$1,649 MM



Dollars in Millions

	Current Allocation ²		Policy Target	Policy Range
	Non-Marketable Alternatives	\$241 15%	12%	5%–25%
Global Equity	International Emerging Markets	188 11%	13%	5%–35%
	International Developed Markets	201 12%	16%	5%–35%
	Domestic Equity	235 14%	15%	5%–35%
	Equity Fund	<u>\$865 52%</u>	<u>56%</u>	<u>45%–75%</u>
	Real Assets Fund	\$171 10%	15%	5%–25%
	Absolute Return	341 21%	18%	5%–25%
	Fixed Income Fund ³	272 16%	11%	5%–35%
	Total Consolidated Endowment Fund	<u>\$1,649 100%</u>		

¹ International exposure: 36%; net foreign currency exposure: 35%.

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 June 30, 2009

Total Returns As of 6/30/09 ¹ (%)

	4 th Qtr FY 2009	1-Year	5-Year	10-Year
Total CEF Return	9.2	-23.3	5.0	5.4
Strategy Weighted Policy Benchmark	10.4	-16.9	5.3	4.5
Equity Fund	13.0	-27.3	4.3	4.7
Weighted Policy Benchmark	16.8	-26.2	3.3	2.9
Real Assets Fund	0.6	-36.3	5.0	—
Policy Benchmark	2.6	-14.8	8.0	—
Absolute Return Fund	12.8	-13.6	—	—
Policy Benchmark	5.2	-2.1	—	—
Fixed Income Fund	1.2	-2.1	3.7	4.8
Policy Benchmark (LB Govt Bond)	-2.2	6.6	5.4	6.1

¹ Average Annual Compound Return

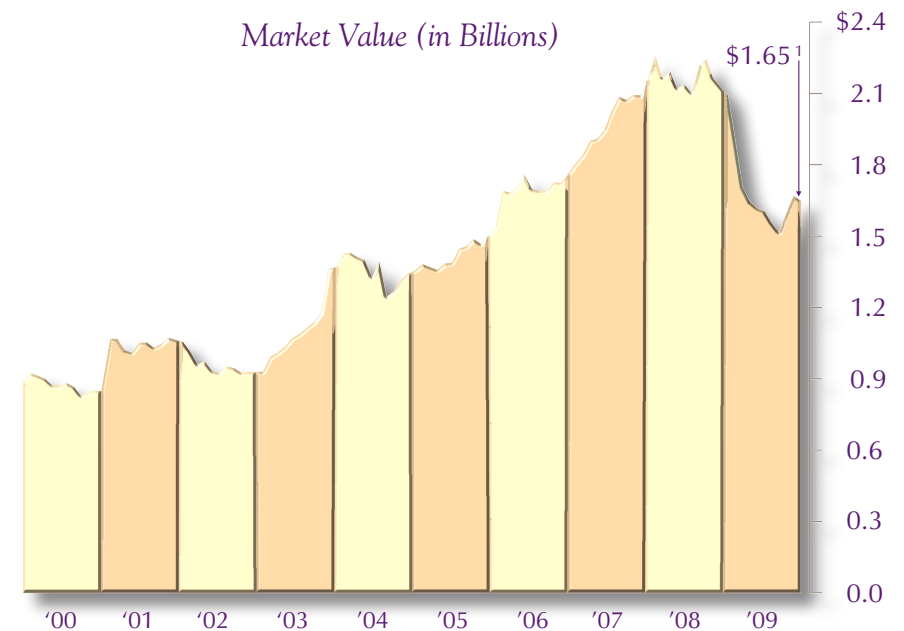
Activity (in Millions)

	FY 2009	FY 2008	FY 2007	5 Years	10 Years
Beginning Balance	2,161	2,074	1,690	1,398	686
Gifts	84	99	66	423	632
Transfers	8	8	9	58	90
Total Additions	92	107	75	482	723
Operating Funds Purchases	3	44	15	92	363
Net Investment Return	(514)	53	392	159	620
Distributions	(75)	(94)	(81)	(396)	(621)
Administrative Fees	(4)	(4)	(4)	(17)	(27)
Advancement Support	(14)	(17)	(14)	(68)	(95)
Ending Balance	1,649	2,161	2,074	1,649	1,649
Net Change	(512)	88	384	251	963

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

Data not available at press time.

Market Value (in Billions)



¹ Reflects inclusion of IF units in CEF starting 7/01—value without would be \$1.3

PERFORMANCE UPDATE

Total Return¹ As of 6/30/09

	4 th Qtr FY '09	1 Year	3 Years	5 Years	10 Years
Consolidated Endowment Fund	9.2	-23.3	-1.2	5.0	5.4
Equity Fund	13.0	-27.3	-2.9	4.3	4.7
Non-Marketable Alternatives ²	-3.2	-22.6	2.9	9.5	9.0
Global Equity ³	21.2	-27.8	—	—	—
International Emerging Markets	32.6	-28.7	7.0	—	—
International Developed Markets	23.5	-26.9	-6.8	3.4	1.6
Domestic Equity	9.9	-27.5	-8.3	-1.6	1.2
Real Assets Fund	0.6	-36.3	-5.2	5.0	—
Absolute Return Fund ³	12.8	-13.6	—	—	—
Fixed Income Fund	1.2	-2.1	3.4	3.7	4.8
Public Market Indices					
<i>Equity Indices</i>					
MSCI ACWI	27.9	-30.5	-5.4	5.0	2.9
Russell 3000	16.8	-26.6	-8.3	-1.8	-1.5
NASDAQ	20.0	-23.5	-6.9	-3.0	-4.2
NAREIT	28.9	-43.3	-18.0	-2.7	5.5
Dow Jones Industrial Average	12.0	-23.2	-6.4	-1.7	-0.4
MSCI EAFE	25.8	-31.0	-7.5	2.8	1.6
MSCI EMF	34.8	-27.8	3.3	15.1	8.5
<i>Fixed Income Indices</i>					
LB Government Bond	-2.2	6.6	7.3	5.4	6.1
CG World Bond Index(unhedged to USD)	3.5	4.0	7.8	6.1	6.5

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 June 30, 2009

Total Return¹ (%)

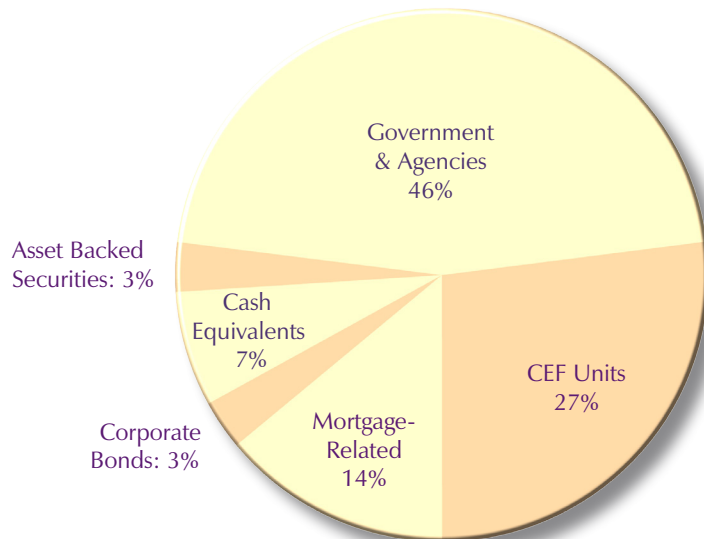
	4 th Qtr FY 2009	1-Year	5-Year	10-Year
Cash	0.6	3.9	4.2	4.8
Citi 2 Yr Treasury	-0.1	5.7	4.3	4.7
Liquidity	-0.8	4.6	4.2	5.3
LB Intermediate Govt Bond	-1.4	6.4	5.0	5.6
IF excluding CEF units	-0.3	4.5	4.3	5.2
Weighted Benchmark	-1.0	6.1	4.8	5.4
IF including CEF units	1.8	-5.0	4.7	5.3
Weighted Benchmark	1.7	-1.0	5.3	5.4

¹ Average Annual Compound Return

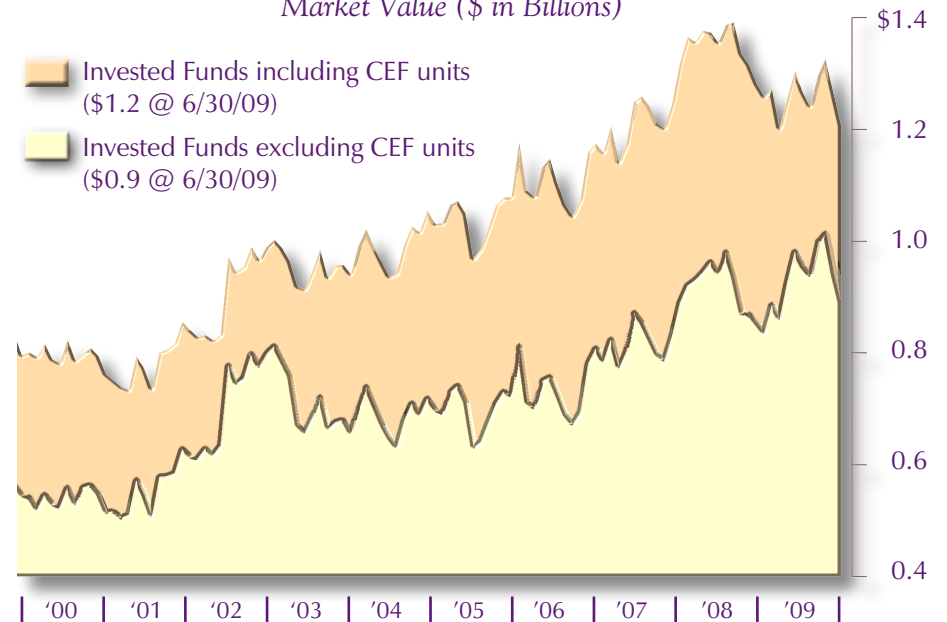
Fund Allocation by Pool (\$ in Millions)

	Fund Allocation		Range	Duration	
				Actual	Maximum
Cash Pool	\$225	19%	10%–40%	0.5	3.0 yrs
Liquidity Pool	660	55%	30%–60%	3.5	4.3 yrs
Total Cash & Liq. Pool	\$885	73%			
CEF Units held by IF		27%	15%–40%		
Total Invested Funds		100%			

Mix of Investments



Market Value (\$ in Billions)



CONSOLIDATED ENDOWMENT FUND SPENDING UPDATE

For the Quarter ending June 30, 2009

Interim Policy:

Reduce CEF distributions 25% in FY09 and another 25% in FY10. Thereafter, hold constant until reviewed by Board of Regents (no later than June 30, 2013).

Interim Policy Approved March 19, 2009

Assumptions underlying decision

	\$ = 000's	
	FY 2009	FY 2010 (Est.)
Beginning Market Value	\$2,161,438	\$1,593,246
Distributions	\$75,425	\$58,486

Current and Projected Results

Variance from assumption

	\$ = 000's		
	FY 2008	FY 2009	FY 2010
Beginning Market Value	\$2,073,519	\$2,161,438	\$1,649,159
Distributions	\$94,314	\$75,478	\$58,628
Year-Over-Year Decline ¹	NA	-20%	-22%
Effective Spending Rate	4.5%	3.5%	3.6%
Total Return	2.0%	-23.0%	NA

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%.

History

Quarterly Market Values and Additions

	Value Before Additions	\$ = 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%
01/1/2009	\$1,617,610	\$20,809	1.3%
04/1/2009	\$1,515,209	\$12,194	0.8%
07/1/2009	\$1,649,159	\$14,250	0.9%

History

Per Unit Distributions FY08–FY11

	\$ = 000's	
	Payout Per Unit	Year-Over-Year 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 AUGUST 17, 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 notional)	\$10.0 collateral
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 notional)	-\$0.2 collateral
01/29/09	Termination	Brandywine	Fixed Income	-\$40.0
01/29/09	New	Wellington Management	Fixed Income	\$15.9
08/17/09	Liquidation	Wellington TIPs	Fixed Income	-\$10.0
01/16/09	New	State Street - Currency Hedge	International Developed	\$20.0
01/16/09	New	State Street - Currency Hedge	International Developed	\$20.0
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	State Street - Currency Hedge	International Developed	-\$20.0
07/31/09	Addition	Arrowstreet	International Developed	\$10.0
07/31/09	New	Goldman Sachs - All World Swap	International Developed	\$30.0
01/09/09	Termination	Atlantis China	International Emerging Markets	-\$3.3
02/20/09	Redemption	Ward Ferry	International Emerging Markets	-\$2.4
06/04/09	Transition	City of London- from comingled to separate account	International Emerging Markets	\$96.0
07/17/09	Addition	Dynamo	International Emerging Markets	\$10.0
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 AUGUST 17, 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	New	Regiment	Absolute Return	\$10.0
02/12/09	Reup	TA Associates Fund XI	Non-Marketable Alternatives	\$8.0
05/15/09	New	Rimrock ABS	Invested Funds - Liquidity	\$30.0