

VII. STANDING COMMITTEES**B. Finance, Audit & Facilities Committee**Amendment to Invested Funds Investment PolicyRECOMMENDED ACTION:

It is the recommendation of the Finance, Audit and Facilities Committee and the University of Washington Investment Committee (UWINCO) that the Board of Regents reduce the current requirement that fifty percent of the Liquidity Pool be invested in the obligations of the U.S. Government and its agencies to twenty-five percent. The recommended change will improve the risk/return profile of the Invested Funds.

BACKGROUND:

The investment policies of the University are reviewed on a continuing basis. Periodically the Board revises its policies to reflect the changing nature of the investment markets or of the underlying program itself. The recommended action involves a change in the current requirement that fifty percent of the Liquidity Pool be invested in the obligations of the U.S. Government and its agencies. The revised policy would reduce this minimum to twenty-five percent. The change allows managers to more flexibly invest among government securities, non government agencies, asset-backed securities and/or sovereign bonds.

The massive government stimulus effort in the U.S. and abroad coupled with inflation risks create the possibility of a major bear market in government bonds at some point. Our objective is to proactively provide our investment managers with the flexibility to lessen their exposure to government bonds when deemed prudent.

The recommended action has no adverse impact on the liquidity of the Invested Funds. The fundamental investment principles – including the risk/return characteristics – underlying the management of the Invested Funds will be reviewed during the annual investment program review with the Board of Regents later this year.

REVIEW AND APPROVALS

This recommendation has been reviewed and approved by the Senior Vice President and Treasurer, Board of Regents.

VII. STANDING COMMITTEES

B. Finance, Audit & Facilities Committee

Amendment to Invested Funds Investment Policy (continued p. 2)

Attachments

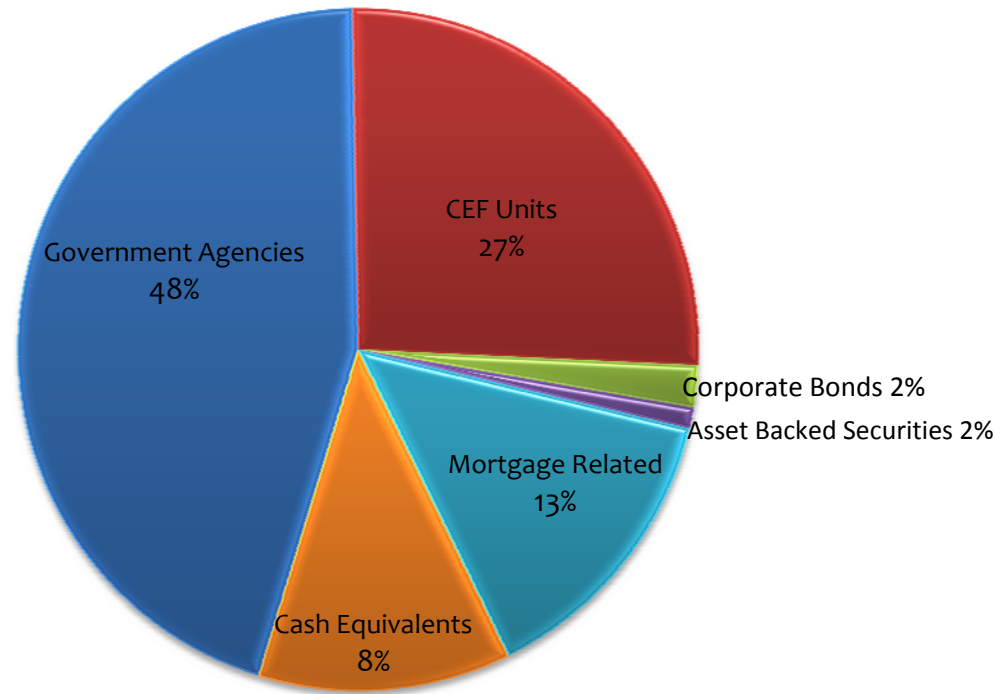
1. Invested Funds Asset Allocation
2. Invested Funds Profile
3. Invested Funds Depositors
4. Annotated Statement of Investment objectives and Policy for the Invested Funds

ATTACHMENT 1

INVESTED FUNDS (IF) ASSET ALLOCATION

As of July 31, 2009

(Dollars in Millions)



Fund Composition

Fund Composition	Fund Allocation		Range	Duration		Guidelines
	Dollars	Percentage		Actual	Maximum	
Cash Pool	\$231	19%	10% - 40%	0.8	3.0 yrs	• Avg quality of "AA"
Liquidity Pool	\$665	54%	30% - 60%	3.5	4.3 yrs	• Avg quality of "A", >50% invested in US Gov't and its agencies
Total Cash & Liquidity Pool	\$896	73%				
CEF Units held by IF	\$332	27%	15% - 40%			
Total Invested Funds	\$1,228	100%				

ATTACHMENT 2

INVESTED FUNDS PROFILE

Description:	The operating funds of the University
Size:	\$1.3 billion
Financial Objectives:	To meet the day-to-day financial obligations of the University as they come due To support University initiatives and programs
Investment Objectives:	To achieve investment returns above those of money market instruments
Composition:	Institutional funds (40%) and funds on deposit by campus departments (60%)
Depositor Time Frame:	Short to limited-term
University Guarantees:	Access to funds on demand Principal guaranteed

ATTACHMENT 3

INVESTED FUNDS DEPOSITORS

AVERAGE BALANCES FOR THE YEAR ENDED 6/30/09

(Cost Basis: Dollars in thousands)

Institutional Funds			Campus Depositor Funds ¹		
DOF/GOF/Other	\$334,728	26.4%	UW Medicine ²	\$309,865	24.4%
Reserves	73,193	5.8%	Insurance Funds	\$77,103	6.1%
			Office of Research	\$46,387	3.7%
			Student Fac. & Fees	\$11,830	0.9%
			Grants and Contracts	\$53,484	4.2%
			Arts & Sciences	\$36,138	2.8%
			Engineering	\$36,335	2.9%
			Business	\$48,492	3.8%
			Housing & Dining	\$26,051	2.1%
			Intercollegiate Athletics	\$4,264	0.3%
			Parking	\$11,539	0.9%
			All Other Depts	\$211,893	16.7%
	\$407,921	32.1%		\$873,381	68.8%

¹ Includes gifts, private grants, royalty funds, and auxiliary reserves.

² UW Medicine includes hospital reserves of \$172,328.

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; and September 17, 2009**

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.

B. INVESTMENT MANAGEMENT STRUCTURE

1. The Invested Funds 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.

C. PORTFOLIO COMPOSITION AND POOL ALLOCATION

1. The IF shall be divided into three pools:

Pool Allocation

	<u>Target</u>	<u>Policy Range</u>	<u>Global Range Within Each Pool</u>
<i>Cash Pool</i> ^(2,4,5,6)	20%	10-40%	0-40%
<i>Liquidity Pool</i> ^(3,4,5,6)	50%	30-60%	0-25%
<i>CEF Pool</i> ^(6,7)	30%	15-40%	-----

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 with an average duration that 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.
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 Pool will invest directly in the Consolidated Endowment Fund (CEF) through the periodic purchase and sale of CEF units. This Pool is subject to the provisions contained in the “Statement of Investment Objectives and Policy for the Consolidated Endowment Fund.

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 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 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.

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.

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 Senior Vice President, the Chief Investment Officer and/or UWINCO will review these periodically for their continued appropriateness.

2. The Invested Funds 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 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.

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 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.
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 his/her designee(s).
 - b. Designate the Chair of UWINCO.
 - c. Approve investment manager appointments and direct investments in situations where 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."

5. Senior Vice President:

- a. Loan funds from the Invested Funds for periods up to five years to campus departments as long as such loans do not materially reduce the investment return to the Fund. No more than five percent of the IF will be loaned 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 Invested Funds balances and an investment time horizon of at least three years will be required for consideration.
- c. Administer internal fees for management and administrative activities related to the Invested Funds.
- 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. This authority is delegated to the Chief Investment Officer when the Treasurer is otherwise unavailable.

6. 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 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, 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.
- k. Take action as appropriate in support of shareholder resolutions related to human rights in Burma.