

VII. STANDING COMMITTEES

B. Finance, Audit & Facilities Committee

Investment Performance Report, Second Quarter Fiscal Year 2010

For information only.

Attachment

Investment Performance Report to the Board of Regents,
Second Quarter Fiscal Year 2010, as of December 31, 2009

UNIVERSITY OF WASHINGTON

INVESTMENT PERFORMANCE REPORT

SECOND QUARTER FISCAL YEAR 2010

As of December 31, 2009



TREASURER BOARD OF REGENTS
TREASURY OFFICE

Published March 23, 2010

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TREASURY ASSETS¹

As of 12/31/09—\$3.3 Billion

Dollars in Millions



Endowment & Similar Funds

Endowment Funds	\$1,480
Operating Funds	360
Consolidated Endowment Fund	<u>1,840</u>
Life Income Trusts	72
Outside Trusts	49
Non-CEF Endowments	17
Permanent Fund ⁶	29
	<u>\$2,007</u>

Operating & Reserve Funds

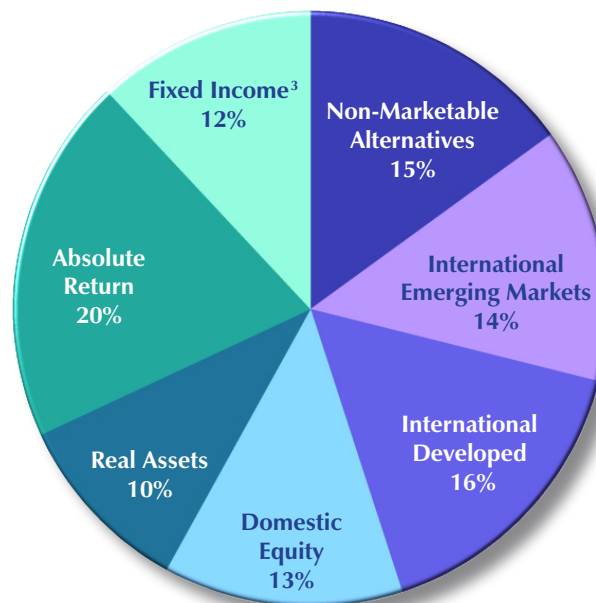
Invested Funds ^{2, 3}	\$1,085
Bond Retirement Fund ⁴	16
Building Fund ⁴	23
Debt Service Reserve Funds ⁵	12
Bond Proceeds ⁷	<u>134</u>
	<u>\$1,270</u>

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 \$360. 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 \$75.9 & 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 December 31, 2009

Consolidated Endowment Fund ¹—\$1,840 MM



Dollars in Millions

Current Allocation			Policy Target	Policy Range
Global Equity	Non-Marketable Alternatives	\$267 15%	12%	5%–25%
	International Emerging Markets	261 14%	13%	5%–35%
	International Developed Markets	303 16%	16%	5%–35%
	Domestic Equity	234 13%	15%	5%–35%
	Equity Fund	\$1,066 58%	56%	45%–75%
	Real Assets Fund	\$178 10%	15%	5%–25%
	Absolute Return	373 20%	18%	5%–25%
	Fixed Income Fund ²	222 12%	11%	5%–35%
Total Consolidated Endowment Fund		\$1,840 100%		

¹ International exposure: 38%; net foreign currency exposure: 35%.

² Includes allocation to cash.

CONSOLIDATED ENDOWMENT FUND (CEF)

For the Quarter ending December 31, 2009

Total Returns ¹ (%)

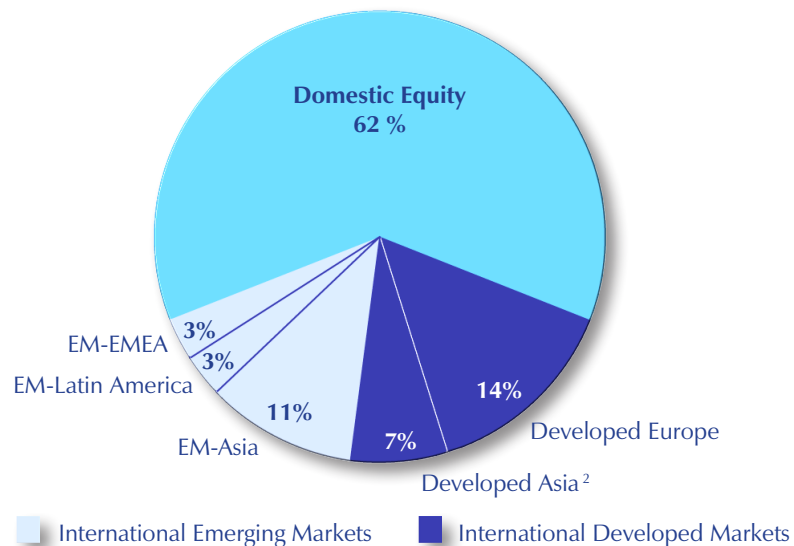
	2 nd Qtr FY 2010	1-Year	5-Year	10-Year
Total CEF Return	4.1	14.0	5.7	4.9
Strategy Weighted Policy Benchmark	3.1	14.7	6.8	4.8
Equity Fund	6.3	22.2	6.2	4.7
Weighted Policy Benchmark	4.7	24.9	5.5	3.2
Real Assets Fund	0.2	-13.2	1.7	—
Policy Benchmark	1.6	-3.8	6.6	—
Absolute Return Fund	4.1	24.2	—	—
Policy Benchmark	1.8	10.3	—	—
Fixed Income Fund	0.3	2.3	3.5	4.9
Policy Benchmark (LB Govt Bond)	-1.0	-2.2	4.9	6.2

¹ Average Annual Compound Return

Activity (in Millions)

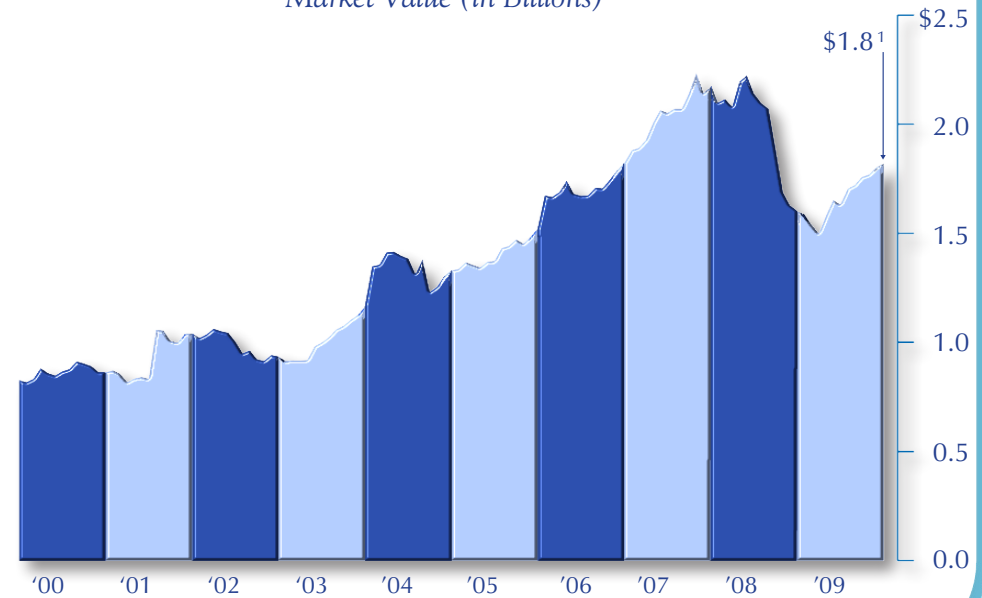
	FYTD 2010	FY 2009	FY 2008	5 Years	10 Years	15 Years
Beginning Balance	\$1,649	\$2,161	\$2,074	\$1,344	\$835	\$274
Gifts	17	84	99	409	624	772
Transfers	3	10	8	57	84	124
Total Additions	20	94	107	467	708	896
Operating Funds Purchases	5	3	44	67	368	368
Net Investment Return	204	(515)	53	431	694	1,171
Distributions	(29)	(75)	(94)	(381)	(638)	(732)
Administrative Fees	(2)	(4)	(4)	(18)	(28)	(34)
Advancement Support	(7)	(14)	(17)	(70)	(101)	(103)
Ending Balance	\$1,840	\$1,649	\$2,161	\$1,840	\$1,840	\$1,840
Net Change	\$191	(\$512)	\$88	\$496	\$1,005	\$1,566

Geographic Exposure as of 12/31/09 ¹



¹ Includes all strategies in the CEF portfolio ² Includes 3.4% exposure in Japan

Market Value (in Billions)



¹ Reflects inclusion of IF units in CEF starting 7/01—value without would be \$1.5

PERFORMANCE UPDATE

Total Return¹ As of 12/31/09

	2 nd Qtr FY '10	1 Year	3 Years	5 Years	10 Years
Consolidated Endowment Fund	4.1	14.0	-0.6	5.7	4.9
Equity Fund	6.3	22.2	-0.7	6.2	4.7
Non-Marketable Alternatives²	6.3	-7.2	4.5	11.1	3.7
Global Equity ³	6.3	38.3	—	—	—
International Emerging Markets	10.4	71.4	9.0	—	—
International Developed Markets	3.2	29.5	-4.8	4.0	2.7
Domestic Equity	4.9	23.9	-6.0	0.2	1.8
Real Assets Fund	0.2	-13.2	-8.0	1.7	—
Absolute Returns Fund³	4.1	24.2	—	—	—
Fixed Income Fund	0.3	2.3	2.6	3.5	4.9
Public Market Indices					
<i>Equity Indices</i>					
S&P 500	6.0	26.5	-5.6	0.4	-0.9
MSCI ACWI	3.8	42.1	-3.0	6.3	3.1
Russell 3000	5.9	28.3	-5.4	0.8	-0.2
NASDAQ	6.9	43.9	-3.5	-0.1	-6.1
NAREIT	9.4	28.0	-12.4	0.4	10.6
Dow Jones Industrial Average	8.1	22.2	-3.3	1.8	1.2
MSCI EAFE	2.2	32.5	-5.6	4.0	1.6
MSCI EMF	8.6	79.0	5.4	15.9	9.7
<i>Fixed Income Indices</i>					
LB Government Bond	-1.0	-2.2	6.1	4.9	6.2
CG World Bond Index (unhedged to USD)	-1.9	2.6	8.1	4.5	6.6

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 December 31, 2009

Total Return¹ (%)

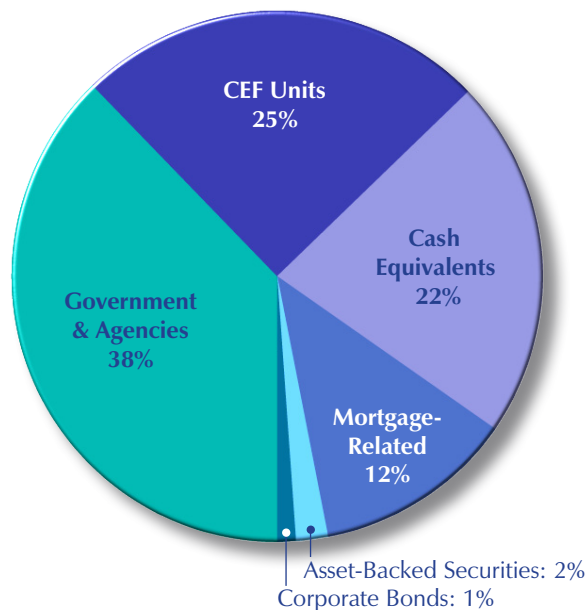
	2 nd Qtr FY 2010	1-Year	5-Year	10-Year
Cash	0.1	1.6	4.0	4.6
Citi 2 Yr Treasury	0.1	1.2	4.3	4.7
Liquidity	0.0	1.1	4.0	5.3
LB Intermediate Govt Bond	-0.4	-0.3	4.7	5.7
IF excluding CEF units	0.0	1.4	4.0	5.2
Weighted Benchmark	-0.2	0.2	4.6	5.4
IF including CEF units	1.0	4.5	4.6	5.1
Weighted Benchmark	0.6	3.9	5.3	5.3

¹ Average Annual Compound Return

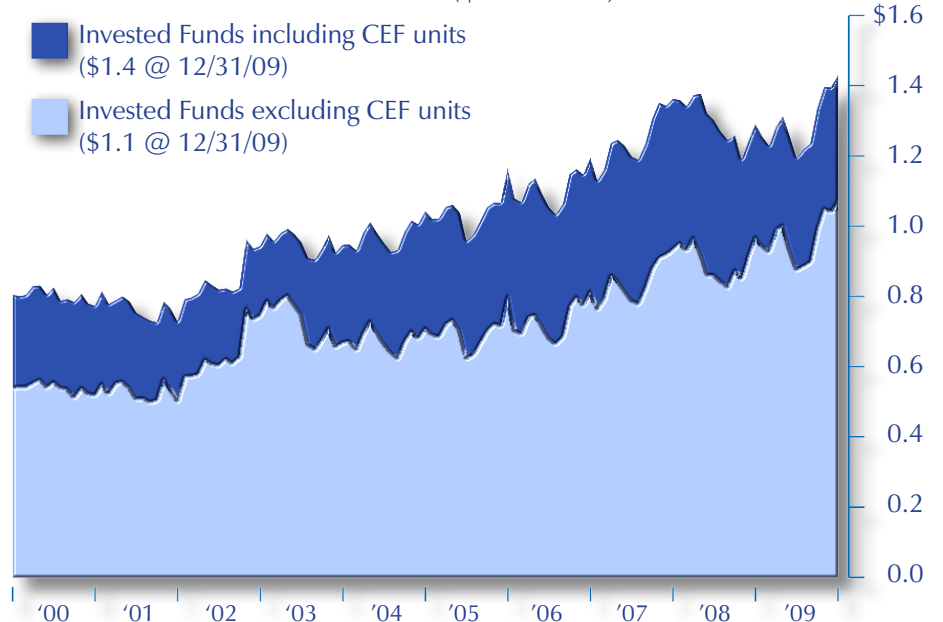
Fund Allocation by Pool (\$ in Millions)

	Fund Allocation		Range	Duration Actual Maximum	
Cash Pool	\$417	29%	10%–40%	0.4	3.0 yrs
Liquidity Pool	668	46%	30%–60%	3.4	4.2 yrs
Total Cash & Liq. Pool	\$1,085	75%			
CEF Units held by IF		25%	15%–40%		
Total Invested Funds		100%			

Mix of Investments



Market Value (\$ in Billions)



CONSOLIDATED ENDOWMENT FUND SPENDING UPDATE

For the Quarter ending December 31, 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%	-23.7%	14.0% (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%
01/1/2009	\$1,617,610	\$20,809	1.3%
04/1/2009	\$1,515,209	\$12,194	0.8%
07/1/2009	\$1,649,159	\$11,829	0.7%
10/1/2009	\$1,776,688	\$7,786	0.4%
01/1/2010	\$1,840,054	\$14,242	0.8%

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 DECEMBER 31, 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	Reduction	Tygh Capital Management	Domestic Equity	-\$4.0
03/13/09	New	State Street S&P 500 Futures	Domestic Equity	\$50.0 notional
05/08/09	Termination	Chesapeake Partners	Domestic Equity	-\$23.0
08/17/09	Reduction	State Street S&P 500 Futures	Domestic Equity	-\$10.0 notional
11/25/09	Reduction	State Street S&P 500 Futures	Domestic Equity	-\$8.0 notional
11/25/09	New	University of Washington/Public Equity	Domestic Equity	\$8.0
12/10/09	Reduction	State Street S&P 500 Futures	Domestic Equity	-\$33.0 notional
12/14/09	Addition	University of Washington/Public Equity	Domestic Equity	\$2.0
12/18/09	Termination	Rainier Investment Management	Domestic Equity	-\$14.0
12/18/09	Termination	Renaissance	Domestic Equity	-\$35.0
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	-\$48.0
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	Close	State Street—Currency Hedge	International Developed	-\$20.0 notional
07/31/09	New	Goldman Sachs—MSCI World Swap	International Developed	\$30.0 notional
09/18/09	Termination	Liberty Square Japan Fund	International Developed	-\$6.0
12/14/09	Addition	Goldman Sachs—MSCI World Swap	International Developed	\$30.0 notional

SUMMARY OF ACTIONS TAKEN UNDER BOARD DELEGATED AUTHORITIES

JANUARY 1, 2009 THROUGH DECEMBER 31, 2009 (\$ IN MILLIONS)

By the Chief Investment Officer

Public Markets (Continued)

Approved	Action	Manager / Fund	Strategy	Investment (\$MM)
12/14/09	New	Goldman Sachs—MSCI EAFE Swap	International Developed	\$20.0 notional
12/14/09	New	UBS—MSCI World Swap	International Developed	\$30.0 notional
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 (funding 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 Assets	-\$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

SUMMARY OF ACTIONS TAKEN UNDER BOARD DELEGATED AUTHORITIES

JANUARY 1, 2009 THROUGH DECEMBER 31, 2009 (\$ IN MILLIONS)

By the Chief Investment Officer

Private Markets

Approved	Action	Manager / Fund	Strategy	Investment (\$MM)
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 Capital, Ltd.	Absolute Return	\$10.0
12/18/09	Reduction	Blackrock Relative Value Fund	Absolute Return	-\$5.3
12/18/09	Addition	Bridger - Swiftcurrent	Domestic Equity	\$10.0
02/12/09	Reup	TA Associates Fund XI	Non-Marketable Alternatives	\$8.0
12/18/09	Liquidation	Morgan Stanley Special Situations	Real Assets	-\$2.0
05/15/09	New	Rimrock ABS Fund	Invested Funds - Liquidity	\$30.0