VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Amendment to the Consolidated Endowment Fund Investment Policy

RECOMMENDED ACTION:

It is the recommendation of the administration and the Finance, Audit and Facilities Committee that the Board of Regents adopt the amended "Statement of Investment Objectives and Policy for the Consolidated Endowment Fund."

BACKGROUND:

In 1988, the Board of Regents adopted investment policies for the Consolidated Endowment Fund (CEF) of the University of Washington. 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 the Consolidated Endowment Fund investment policy are highlighted below:

1. The strategic asset allocation is structured around two distinctive, broadly-defined "Funds," one focused on "Capital Appreciation" and the other on "Capital Preservation."
2. Policy ranges are provided only at the broad Fund level.
3. Asset class targets are changed as follows:
   70% CAPITAL APPRECIATION
   - Emerging markets equity: +4% (to 17% of the CEF)
   - Developed markets equity: -7% (to 36% of the CEF)
   - Real assets: -4% (to 11% of the CEF)
   - Opportunistic(new) +6% (to 6% of the CEF)

   30% CAPITAL PRESERVATION
   - Absolute return: -3% (to 15% of the CEF)
   - Fixed income: +3% (to 15% of the CEF)

   Changes in the strategic asset allocation offer a similar return as the previous policy portfolio but with an improved risk profile.
4. Liquidity is more closely monitored. The maximum exposure to private investments is 50% of the CEF and includes the current market value of the private investments' portfolio plus unfunded commitments.
5. Clarifying language has been added as needed through the policy document. The policy document itself has been reorganized to improve readability.

The proposed asset allocation facilitates a more integrated approach to managing the endowment. This change is consistent with the effort since the Chief

B. Finance, Audit and Facilities Committee

<u>Amendment to the Consolidated Endowment Fund Investment Policy</u> (continued p. 2)

Investment Officer's arrival in 2005 to build a team of portfolio generalists able to approach decision-making from the perspective of total portfolio impact rather than in the confines of a single asset class.

<u>REVIEW PROCESS</u>:

The CEF policy recommendation was developed by the Chief Investment Officer in consultation with the University of Washington Investment Committee (UWINCO), the Senior Vice President and the University's investment consultant, Cambridge Associates.

Revisions to policy, including overall asset allocation and spending policies, require the full endorsement of the Board of Regents.

Attachments:
1. Draft Summary of the CEF Investment Policy
2. Annotated Draft "Statement of Investment Objectives and Policy for the Consolidated Endowment Fund"

DRAFT Summary
Consolidated Endowment Fund (CEF) Investment Policy

Last amended May 2010

Financial Objective: To provide permanent funding for endowed programs.

Spending Policy:

- **Interim Policy:** Per unit distributions to endowed programs will be decreased by 25% annually in FY09 and FY10 after which per unit distributions will be held constant at the FY10 level. This policy goes into effect in March 2009 and will be revisited by the Board of Regents no later than 6/30/2013 to determine the appropriate next steps.
- **Long-term Policy:** Distributions to endowed programs will be 5% of the market value of the CEF for the previous three 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 6% over the long term. The 6% target provides for a 5% distribution to endowed programs and a 1% administrative fee. The nominal (inflation-adjusted) return requirement is 9.0% 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	36%	
Real Assets	11%	
Opportunistic	6%	
CAPITAL APPRECIATION FUND	**70%**	
Absolute Return	15%	*15% - 45%*
Fixed Income	15%	
CAPITAL PRESERVATION FUND	**30%**	

Summary (continued)
Consolidated Endowment Fund (CEF) Investment Policy

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; 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

- **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; and May 13, 2010.

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. ~~The primary investment objective of the CEF is~~ 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.	*New section.*

B. SPENDING POLICY	
1. **Interim:** Per unit distributions to endowed programs will be decreased by 25% annually in FY09 and FY10 after which per unit distributions will be held constant at the FY10 level. This policy goes into effect in March 2009 and will be revisited by the Board of Regents no later than 6/30/2013 to determine the appropriate next steps. 2. **Long Term:** Distributions to endowed programs will be 5% of the market value of the CEF for the previous three 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. 3. **Administrative Fee:** Spending includes an additional 1% administrative fee bringing the long term spending requirement to 6% per annum.	*New section. Language formerly included under Section A "Investment Objectives".* *The long term spending policy language eliminated when the interim policy was put into place is restored in paragraph B2.*
C. INVESTMENT OBJECTIVES	
1. **Spending Requirement**: Based upon the long-term spending policy, the CEF must attain an average annual real total return ~~(net of investment fees)~~ of 6.0% over the long term ~~(running five-year periods)~~. The 6.0% target provides for a 5.0% distribution to endowed programs and a 1.0% administrative fee. Real total return is ~~the sum of capital appreciation or loss and current income (dividends and interest)~~ adjusted for inflation by the Consumer Price Index. Using the historical average inflation rate of 3.0% implies a nominal total return hurdle of 9.0% in order to meet the spending requirement. 2. **Policy Benchmark:** The investment performance of the CEF will also be evaluated, on a risk-adjusted basis, against a representative blend of market indices which reflect the strategic asset allocation of the CEF. Over the long term ~~(rolling five-year periods),~~ 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. **Peer Comparison:** Over the long term ~~(rolling five year periods),~~ 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.	*Focus on the three ways in which long term investment performance is evaluated:* • *Return sufficient to cover spending plus inflation.* • *Return higher than a blend of market indices.* • *Return in line with endowment peers.* *Long-term defined as rolling five and ten year period throughout the policy document.*

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. 3. Direct investment in tobacco companies is prohibited.	*Prohibition on direct investments in tobacco added to this section. Formerly included under "Portfolio Composition and Asset Allocation"*
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 ~~Rely~~ 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	*Additional bullet point.*
F. INVESTMENT MANAGEMENT STRUCTURE 1. The CEF is ~~will be~~ invested primarily by external investment managers. External investment management firms ~~will be~~ are selected on the basis of factors including, but not limited to the following:	*Expanded list of manager selection factors.*

a. Experience of key personnel and succession plan where appropriate b. Consistency in investment ~~philosophy~~ 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, 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.	*Implementation primarily through a diversified portfolio of external managers.*
G. PORTFOLIO COMPOSITION AND ASSET ALLOCATION 1. To achieve its investment objective, the CEF will be divided into ~~four~~ two distinct Funds: a "Capital Appreciation Fund" and a "Capital Preservation Fund". ~~an "Equity Fund" a "Real Assets Fund", an "Absolute Return Fund" and a "Fixed Income Fund."~~ Sub-categories of these Funds ~~four major asset classes~~ each with its own target ~~and range, may~~ are also ~~be~~ specified. The purpose of dividing the Portfolio ~~funds~~ in this manner is to ensure that the overall asset allocation among and within the ~~four~~ two Funds remains under the regular scrutiny of the Finance, Audit and Facilities Committee and UWINCO. Over the long run, the allocation between ~~among~~ and within the ~~Equity, Real Assets, Absolute Return and Fixed Income~~ Funds may be the single most important determinant of the CEF's investment performance.	*CEF structured as two distinctive, broadly-defined "Funds", one focused on Capital Appreciation and the second focused on Capital Preservation.*
2. **Role - Capital Appreciation Fund:** The purpose of the Capital Appreciation ~~Equity~~ Fund is to provide the capital growth that will enable the CEF to meet its ~~a total return that will simultaneously provide for growth in principal and current income in support of~~ 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 ~~Equity~~ Fund entails the assumption of greater market variability and risk. ~~3. The purpose of the Real Assets Fund (real estate, commodities and~~	*The Capital Appreciation Fund is an integrated equity portfolio which includes global developed and emerging markets equity, real assets and opportunistic investments such as credit.*

~~timber) is to provide attractive risk adjusted returns and portfolio protection during inflationary periods.~~ 4. ~~The purpose of the Absolute Return Fund is to provide positive real returns and portfolio protection with limited downside risk~~. 5. **Role - Capital Preservation Fund:** The purpose of the Capital Preservation ~~Fixed Income~~ Fund ~~(bonds and cash equivalents)~~ is to provide liquidity in support of spending and capital commitments; a deflation hedge; and to reduce the overall volatility of the CEF. ~~and to produce current income in support of spending needs.~~ Two broad strategies are employed in the Capital Preservation Fund – absolute return and fixed income investments. 6. 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.	*The Capital Preservation Fund includes absolute return funds, fixed income and cash and is intended to dampen risk and volatility in the CEF.*

STRATEGIC ASSET ALLOCATION (OLD)

Investment Strategy	Long-term Target	Policy Range
Non-Marketable Alternatives *	12%	5 – 25%
International Equity – Emerging Markets	13%	5 – 35%
International Equity – Developed Markets	16%	5 – 35%
Domestic Equity	15%	5 – 35%
Other	0%	0 – 10%
EQUITY FUND	**56%**	**45 – 75%**
REAL ASSETS FUND	**15%**	**5 – 25%**
ABSOLUTE RETURN FUND	**18%**	**5 – 25%**
FIXED INCOME FUND	**11%**	**5 – 35%**

STRATEGIC ASSET ALLOCATION (NEW)

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

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) ~~non-U.S. securities, non-marketable alternatives, absolute return, real assets)~~ 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 ~~total fund~~. 2. Derivatives may be used to adjust exposures within or across the portfolio ~~asset classes~~ 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.	*New section. Text formerly included under "Portfolio Composition and Asset Allocation".*
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. **Concentration:** 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. **Liquidity**: 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	*New section.*
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.	*New section. Replaces the former sections entitled "Guidelines for the Equity Fund" and "Guidelines for the Real Assets Fund".*

2. The objective for the Capital Appreciation Fund ~~Equity 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 Equity Fund. In addition, performance on each sub-category of the Equity 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 ~~three-year,~~ 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 ~~Equity~~ 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 ~~Equity~~ 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 ~~Real Assets~~ 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 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.	*Paragraph J5 included formerly in the "Guideline for the Real Assets Fund".*
6. ~~With the exception of passive strategies, assets under management by individual active equity managers – including quasi-index managers – will not exceed 20% of the CEF. A manager with an allocation close to 20% will be characterized by a diversified, highly liquid portfolio; a stable management team; a varied client base; and significant assets under management~~.	*Manager size constraints included under Section I entitled "Risk Control Guidelines".*
7. 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.	
8. If allowed under their individual investment guidelines, ~~equity~~ managers may at their discretion hold investment reserves of either cash equivalents or bonds. ~~but with the understanding that performance will nonetheless be measured against a representative stock index.~~ Derivatives ~~(currency forwards, options, futures, etc.)~~ may be used to manage certain exposures such as currency or market risk if so specified under individual investment manager guidelines.	
9. ~~The objective of the Non-marketable Alternatives (venture capital, buyout and opportunistic funds) strategy is to enhance the long-term return of the CEF~~.	

10. ~~The "other" category allows investment in opportunistic areas of the market, such as high yield or emerging markets bonds, which do not fit within the existing strategy definitions. The objective of the "other" category is to enhance the return of the CEF~~.	
~~K. GUIDELINES FOR THE REAL ASSETS FUND~~ ~~1. The objective for the Real Assets Fund is to outperform, net of commissions and fees, a weighted average benchmark of relevant indices for public and private real estate and commodities on a risk-adjusted basis. Performance will be monitored on a regular basis and evaluated over running three- to five-year periods.~~ ~~2. The real estate portion of the Real Assets 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 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.~~ ~~3. An allocation to TIPS, commodities, and other real assets may be included within the Real Assets Fund. Implementation through public mutual funds, private partnerships, derivatives and direct investments is allowed. Both domestic and international investment vehicles may be used. These assets provide diversification, portfolio protection during inflationary periods, and support spending during prolonged economic contractions.~~ ~~4. Decisions as to individual security, property, or asset selection 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.~~ 5. ~~If allowed under their individual investment guidelines, Real Asset Fund managers may at their discretion hold investment reserves of either cash equivalents or bonds, but with the understanding that performance will nonetheless be measured against a representative index.~~	*Section deleted. Paragraph 2 moved to Section J5.*
L. GUIDELINES FOR THE CAPITAL PRESERVATION ~~ABSOLUTE RETURN~~ 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 ~~three year,~~ five and ten-year periods. 3. ~~The objective of the Absolute Return 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 Absolute~~	*New section. Replaces the former sections entitled "Guidelines for the Absolute Return Fund" and "Guidelines for the Fixed Income Fund".*

~~Return Fund. In addition, performance will be monitored against the average return of a representative universe of fund-of-funds. Performance will be monitored on a regular basis and evaluated over running three- to five-year periods.~~ 4. The absolute return strategy ~~Fund~~ will favor investments with a low correlation to broad equity markets. ~~be diversified by strategy type (long short equity, event driven arbitrage, relative value) and geography.~~ Implementation will be made through direct investments, limited partnerships, or fund-of-funds. ~~Emphasis will be placed on investments with a low or negative correlation to the market.~~ 5. The fixed income strategy ~~Fund~~ 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 ~~goal(s)~~ of the Capital Preservation Fund. ~~Equities and convertibles (if the latter are bought at prices above their investment value) are generally excluded.~~ Derivatives ~~(currency forwards and options, futures, swaps and mortgage-related structured notes)~~ may be used to manage certain exposures ~~(such as currency or prepayment risk)~~ if so specified under individual investment manager guidelines. 6. Fixed income ~~Fund~~ 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.	
~~M. GUIDELINES FOR THE FIXED INCOME FUND~~ ~~1. The objective of the Fixed Income Fund is to outperform, net of commissions and fees, the Barclay's Capital U.S. Government Bond Index on a risk-adjusted basis. In addition, performance will be monitored against the average return of a representative universe of active fixed income managers. Performance will be monitored on a regular basis and evaluated over running three- to five-year periods.~~ ~~2. The Fixed Income Fund may contain money market instruments, domestic and foreign bonds and other investment vehicles with risk / return characteristics consistent with the investment goal(s) of the Fund. Equities and convertibles (if the latter are bought at prices above their investment value) are generally excluded. Derivatives (currency forwards and options, futures, swaps and mortgage-related structured notes) may be used to manage certain exposures (such as currency or prepayment risk) if so specified under individual investment manager guidelines.~~ ~~3. Fixed Income Fund managers are expected to employ active management techniques, including maturity, sector and quality considerations. Implementation may also be achieved through commingled funds, limited partnerships and fund-of-funds.~~ 4. ~~Absolute return strategies may be used as fixed income substitutes to provide an uncorrelated source of return with low volatility.~~	*Section deleted. Paragraphs 2 and 3 moved to Section L5 and L6.*

N. GUIDELINES FOR TRANSACTIONS 1. 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.	
O. 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 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 ~~three to~~ 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 the Finance, Audit and Facilities Committee and UWINCO. 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.	*No material change.*
P. 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. Liquidate quasi-endowments. These funds represent assets donated to the University which have been accepted by the	*No change.*

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-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.

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. 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.

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.	