

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Investment Performance Report, First Quarter Fiscal Year 2011

For information only.

Attachment

University of Washington Investment Performance Report to the Board of Regents, First Quarter Fiscal Year 2011

UNIVERSITY OF WASHINGTON
INVESTMENT PERFORMANCE REPORT TO BOARD OF REGENTS
FIRST QUARTER FISCAL YEAR 2011

As of September 30, 2010



TREASURER BOARD OF REGENTS
TREASURY OFFICE

Published November 2010

UNIVERSITY OF WASHINGTON
CONSOLIDATED ENDOWMENT FUND (CEF)
INVESTMENT PERFORMANCE REPORT TO BOARD OF REGENTS
FIRST QUARTER FISCAL YEAR 2011

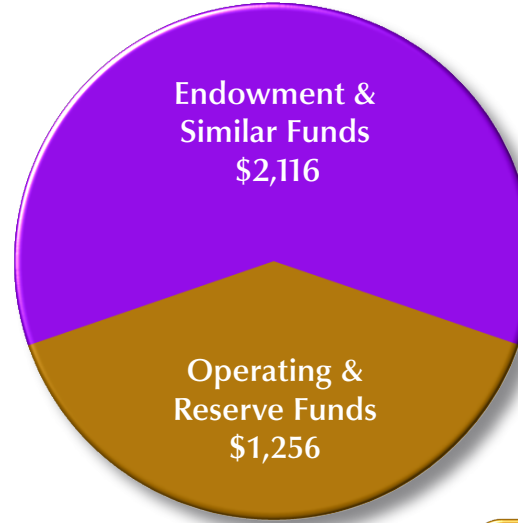
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TREASURY ASSETS¹

As of September 30, 2010—\$3.4b

(\$m)



Endowment & Similar Funds

Endowment Funds	\$1,581
Operating Funds	<u>376</u>
Consolidated Endowment Fund	1,957
Life Income Trusts	68
Outside Trusts	48
Non-CEF Endowments	11
Permanent Fund ⁵	<u>32</u>
	<u>\$2,116</u>

Operating & Reserve Funds

Invested Funds ²	\$1,154
Funds on Deposit with State of Washington ³	37
Bond Proceeds and Reserves ⁴	65
	<u>\$1,256</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 \$376. To avoid double counting, the dollars are included only in the CEF totals.

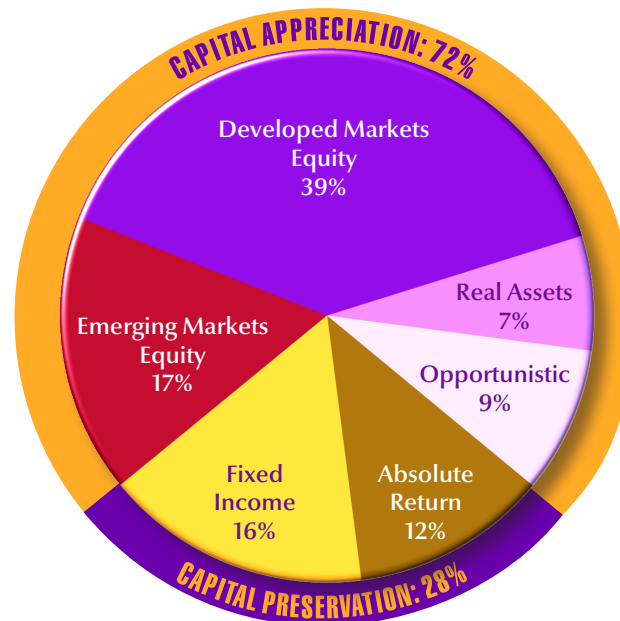
³ Bond Retirement Fund and Building Fund.

⁴ Debt service reserve funds and construction project funds which have not yet been disbursed.

⁵ Proceeds from sale of land grants and subsequent investment returns on deposit with the state of Washington.

CEF ASSET ALLOCATION ¹

As of September 30, 2010



	Current Allocation (\$m)		Target	Policy Range
Emerging Markets Equity	\$334	17%	17%	
Developed Markets Equity	\$759	39%	36%	
Real Assets	\$136	7%	11%	
Opportunistic	\$173	9%	6%	
Capital Appreciation ²	\$1,403	72%	70%	55%–85%
Absolute Return	\$232	12%	15%	
Fixed Income ³	\$322	16%	15%	
Capital Preservation	\$554	28%	30%	15%–45%
Total CEF	\$1,957	100%		

¹ At 9/30/10 International exposure: 35%, foreign currency exposure: 34%.

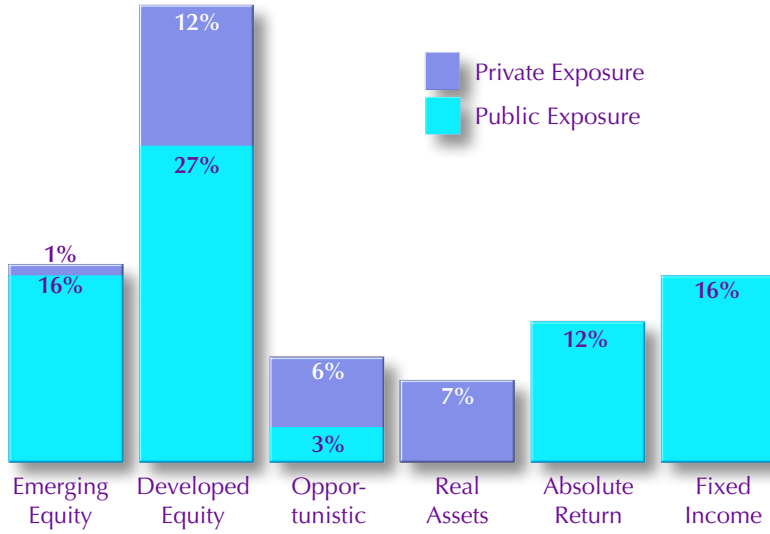
² Unfunded capital commitments of 13% plus current exposure of 26% to private investments total 39%—within the policy limit of 50% of the CEF.

³ Includes allocation to cash.

CEF EXPOSURES

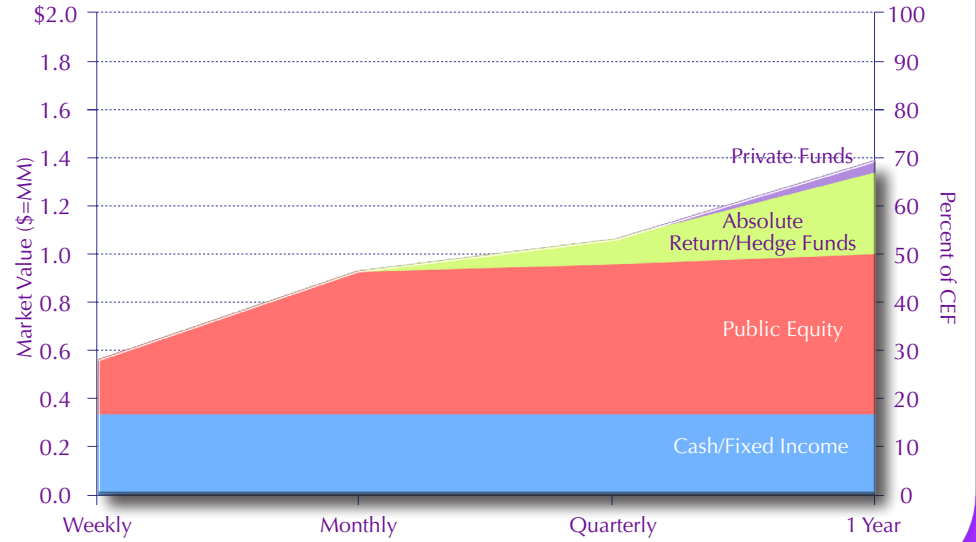
For the Quarter ending September 30, 2010—\$1,957m

Public/Private Exposure by Strategy*



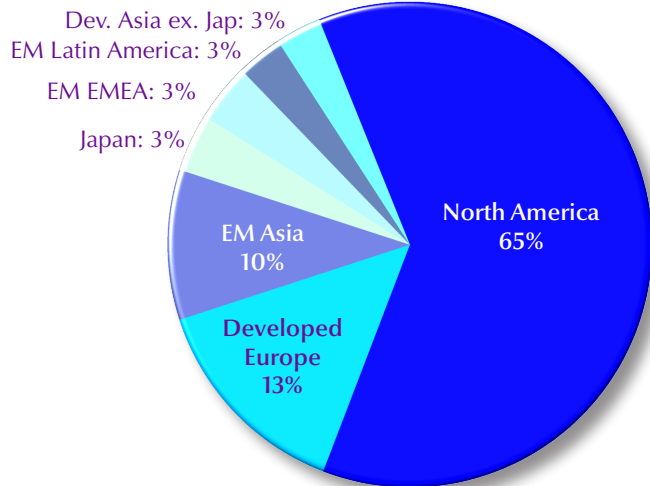
*Unfunded capital commitments of 13% plus current exposure of 26% to private investments total 39%—within the policy limit of 50% of the CEF.

Liquidity Estimates
Short-Term Liquidity*



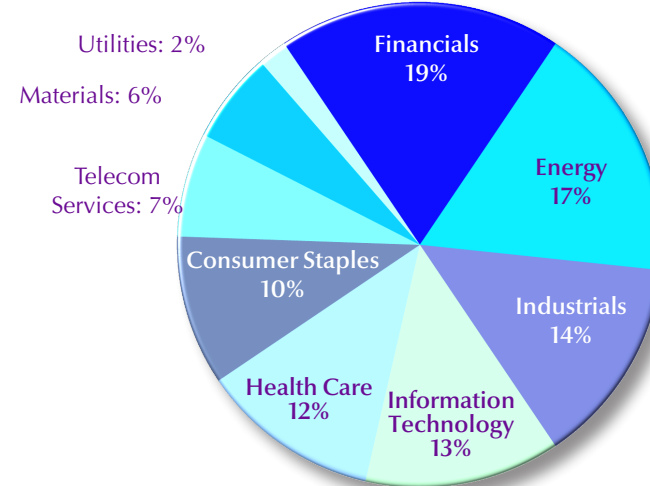
*69% of the CEF liquid within one year.

Geographic Exposure*



* Foreign currency exposure as of September 30, 2010: 34%

Equity Sector Exposure*



* Emerging Markets Equity, Developed Markets Equity, Real Assets and select Absolute Return equity

CEF PERFORMANCE SUMMARY

For the Quarter ending September 30, 2010— \$1,957m

Total Returns ¹ (%) Rolling Years

	1 st Qtr FY 2011	1-Year	5-Year	10-Year
Total CEF Return	6.6	11.0	5.0	5.0
Strategy Weighted Policy Benchmark	7.8	8.4	5.4	4.8
Capital Appreciation	8.9	12.2	4.7	4.0
MSCI ACWI	14.5	8.9	2.9	2.1
Capital Preservation	1.4	7.3	5.1	6.0
BC Government Bond	2.5	7.0	6.1	6.2

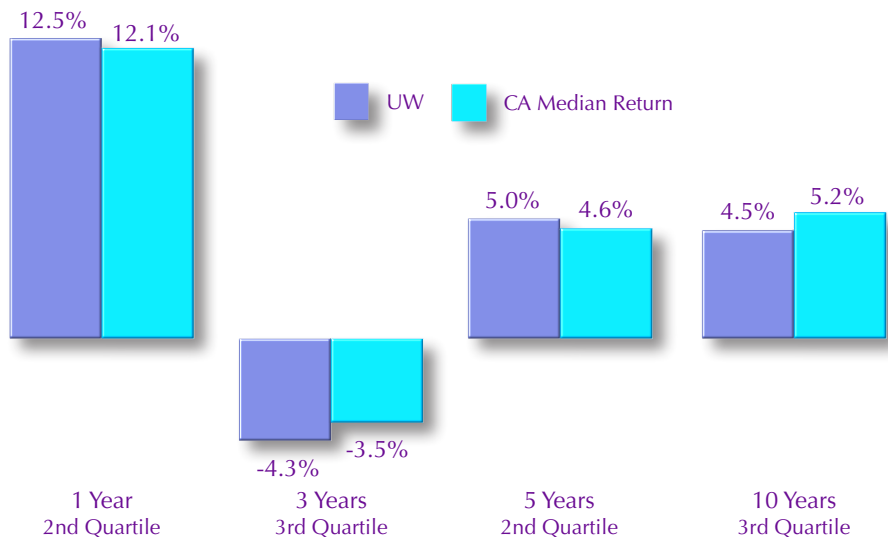
¹ Average Annual Compound Return.

Total Returns ¹ (%) Fiscal Years

	FYTD 2011	Fiscal Years 2010	2009	2008
Total CEF Return	6.6	12.5	-23.5	2.0
Strategy Weighted Policy Benchmark	7.8	9.8	-16.5	1.1
Capital Appreciation	8.9	13.7	-29.2	1.0
MSCI ACWI	14.5	12.3	-28.9	-8.8
Capital Preservation	1.4	10.8	-9.6	4.0
BC Government Bond	2.5	6.5	6.6	9.7

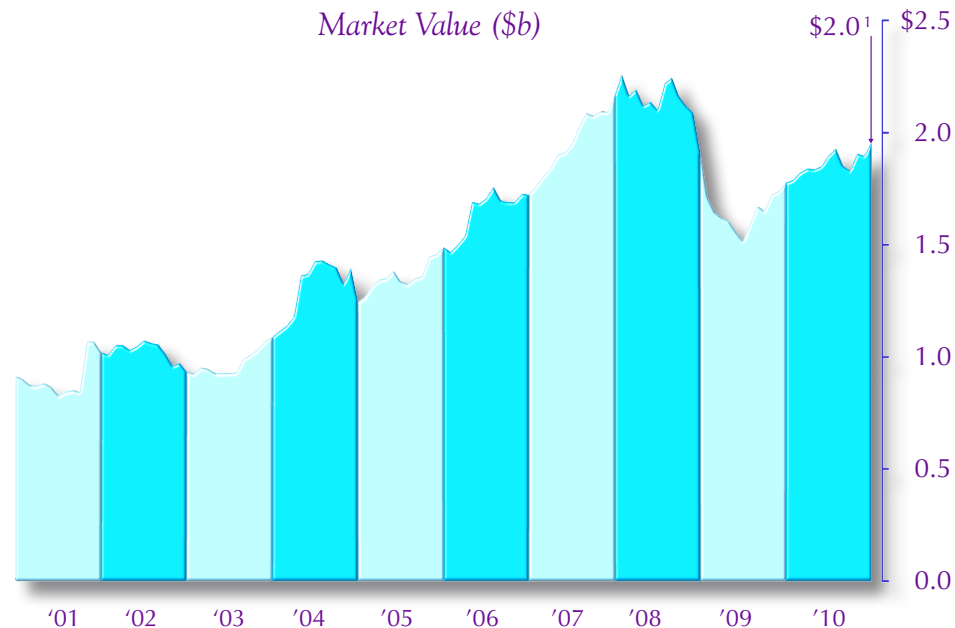
¹ Average Annual Compound Return.

UW & Cambridge Associates ¹ Returns for periods ending 6/30/10



¹ Cambridge Associates College and University Investment Pool Top 50 (by Investment Pool Market Value)

Market Value (\$b)



¹ Reflects inclusion of IF units in CEF starting 7/01—value without would be \$1.6

CEF ACTIVITY

For the Quarter ending September 30, 2010— \$1,957m

	(\$m)				
	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>5 Years</u>	<u>10 Years</u>
Beginning Balance	<u>\$1,830</u>	<u>\$1,649</u>	<u>\$2,161</u>	<u>\$1,488</u>	<u>\$1,187</u>
Gifts	18	43	84	406	616
Transfers	2	5	10	49	85
"Invested Funds" Purchases	0	8	3	70	157
Investment Return Net of Investment Management Fees	126	201	(515)	414	715
Total Sources of Funds	<u>\$146</u>	<u>\$257</u>	<u>(\$418)</u>	<u>\$939</u>	<u>\$1,573</u>
Distributions to Endowed Programs	(15)	(59)	(75)	(378)	(663)
Administrative Fees (Investment Office)	(1)	(4)	(4)	(18)	(29)
Administrative Fees (Advancement Support)	(4)	(14)	(14)	(73)	(111)
Total Uses of Funds	<u>(\$20)</u>	<u>(\$77)</u>	<u>(\$93)</u>	<u>(\$469)</u>	<u>(\$803)</u>
Ending Balance	<u>\$1,957</u>	<u>\$1,830</u>	<u>\$1,649</u>	<u>\$1,957</u>	<u>\$1,957</u>
Net Change in Endowment Value	\$127	\$181	(\$512)	\$469	\$770

CEF PERFORMANCE BY STRATEGY

Total Return¹ as of September 30, 2010

	1 st Qtr FY '11	1 Year	3 Years	5 Years	10 Years	
Consolidated Endowment Fund	6.6	11.0	-3.6	5.0	5.0	
Capital Appreciation	Capital Appreciation	8.9	12.2	-5.6	4.7	4.0
	MSCI ACWI	14.5	8.9	-7.0	2.9	2.1
	Emerging Markets Equity	17.8	29.7	1.6	17.2	17.3
	MSCI EMF	18.2	20.5	-1.2	13.1	13.5
	Developed Markets Equity	8.2	10.5	-6.0	3.2	2.8
	MSCI World	13.9	7.3	-7.7	1.9	1.3
	Real Assets²	0.6	-3.7	-9.3	3.7	—
	NCREIF Property Index	12.8	30.3	-6.1	1.9	—
	CA Natural Resources	-1.0	8.2	3.4	15.1	—
	Opportunistic³	3.8	—	—	—	—
MSCI ACWI	14.5	—	—	—	—	
Capital Preservation	Capital Preservation	1.4	7.3	1.0	5.1	6.0
	BC Government Bond	2.5	7.0	7.2	6.1	6.2
	Absolute Return	2.5	12.0	1.4	0.8	0.4
	HFRI Conservative	2.3	3.7	-3.0	-1.8	-0.9
Fixed Income	0.7	3.0	1.5	3.4	4.5	
BC Government Bond	2.5	7.0	7.2	6.1	6.2	
<i>Public Market Indices</i>						
S&P	11.3	10.2	-7.2	0.6	-0.4	
NASDAQ	12.3	11.6	-5.7	1.0	-4.7	
NAREIT	12.8	30.3	-6.1	1.9	10.4	
MSCI EAFE	16.5	3.7	-9.1	2.4	3.0	
CG World Bond Index (unhedged to USD)	8.2	5.0	8.2	7.0	7.6	

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 7/1/2010.

INVESTED FUNDS (IF)

For the Quarter ending September 30, 2010— \$1,957m

Total Return¹ (%)

	1 st Qtr FY 2011	1-Year	5-Year	10-Year
IF including CEF units	2.8	6.2	4.7	5.1
Weighted Benchmark	3.0	5.2	5.3	4.9
IF excluding CEF units	1.5	4.5	4.7	5.0
Weighted Benchmark	1.4	4.0	5.1	5.1
Cash	0.0	0.4	3.9	4.1
Cash Benchmark ²	0.0	0.1	3.5	3.9
Liquidity	2.2	7.1	5.1	5.4
LB Intermediate Govt Bond	2.1	6.2	5.9	5.7

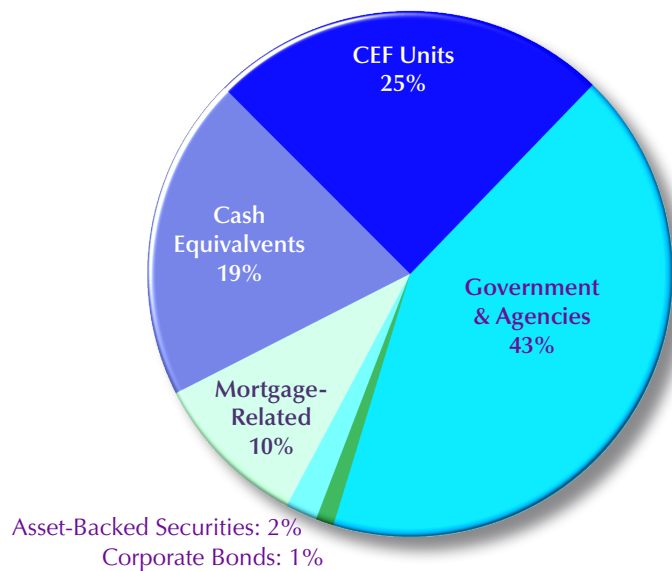
¹ Average Annual Compound Return

² Citi 2-year Treasury prior to 10/1/2008; 3 month T-Bill thereafter.

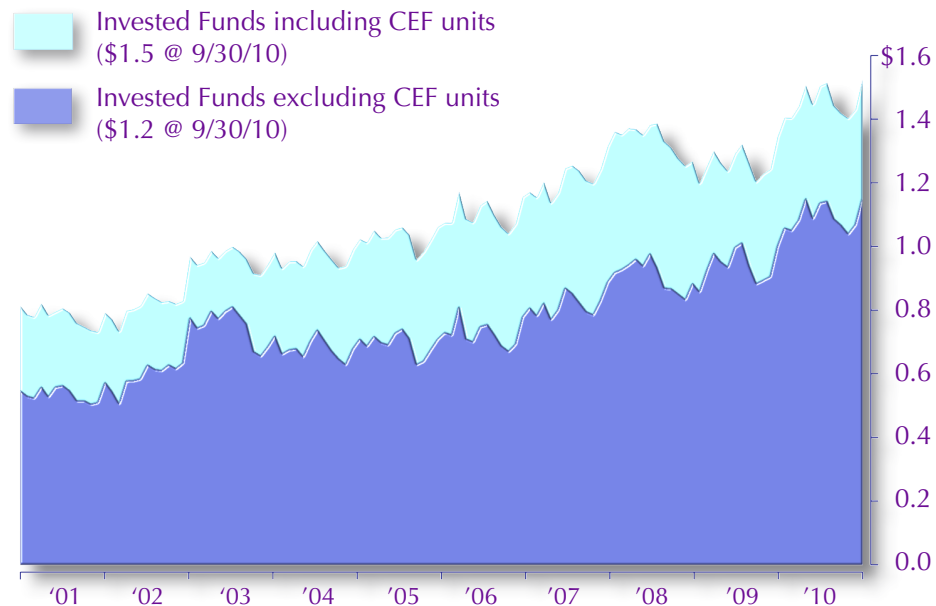
Fund Allocation by Pool (\$m)

	Fund Allocation		Range	Duration	
				Actual	Maximum
Cash Pool	\$448	29%	10%–40%	0.4 yrs	3.0 yrs
Liquidity Pool	<u>\$705</u>	<u>46%</u>	30%–60%	3.5 yrs	4.2 yrs
Total Cash & Liq. Pool	<u>\$1,154</u>	75%			
CEF Units held by IF	<u>\$376</u>	<u>25%</u>	15%–40%		
Total Invested Funds	<u>\$1,530</u>	100%			

Mix of Investments



Market Value (\$b)



CEF SPENDING UPDATE

For the Quarter ending September 30, 2010— \$1,957m

New Policy, Approved October 21, 2010

Effective with the December 2010 payouts, distributions to programs will be equal to 4% of a five-year rolling average. The five-year averaging period will be implemented incrementally. The administrative fee of 1%, which supports Investments (.2%) and Advancement (.8%), will now be based on the same average value as program distributions.

Historical and Projected Results of Spending Policy Decisions (\$k)

	<i>Interim</i>			
	FY 2008	FY 2009	FY 2010	FY 2011
Beginning Market Value	\$2,073,519	\$2,161,438	\$1,649,159	\$1,829,868
Distributions ¹	\$94,314	\$75,478	\$59,015	\$72,000
Effective Spending Rate	4.5%	3.5%	3.6%	3.9%
Administrative Fees ²	\$21,331	\$18,004	\$17,908	\$18,000
Effective Spending Rate Including Fees	5.6%	4.3%	4.7%	4.9%
Total Return	2.0%	-23.3%	12.5%	

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%.

² Administrative fees supporting Advancement (80 bps) and Treasury (20 bps) operations paid quarterly prior to the adoption of the new spending policy, distributions were based on prior quarters' market value.

Quarterly Market Values and Additions (\$k)

	Value	Additions	Additions as %
06/30/2008	\$2,161,438	\$34,311	1.6%
09/30/2008	\$1,901,352	\$26,187	1.4%
12/31/2008	\$1,617,610	\$20,809	1.3%
03/31/2009	\$1,515,209	\$12,194	0.8%
06/30/2009	\$1,649,159	\$11,829	0.7%
09/30/2009	\$1,776,688	\$7,786	0.4%
12/31/2009	\$1,840,054	\$17,101	0.9%
03/31/2010	\$1,897,286	\$11,615	0.6%
06/30/2010	\$1,829,868	\$20,314	1.1%
09/30/2010	\$1,956,910	\$10,534	0.5%

Per Unit Distributions FY '08–FY '11

	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 (est.)	\$2.720	+16%

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

SUMMARY OF ACTIONS TAKEN UNDER BOARD DELEGATED AUTHORITIES

JANUARY 1, 2010 THROUGH SEPTEMBER 30, 2010 (\$m)

By the Chief Investment Officer

Public Markets

Approved	Action	Manager / Fund	Strategy	Investment (\$m)
01/22/10	Reduction	State Street S&P 500 Futures	Developed Markets Equity	-\$14.5
01/22/10	Addition	Wellington Dividend Growth	Developed Markets Equity	\$30.0
01/22/10	Addition	Arrowstreet International Equity	Developed Markets Equity	\$25.0
01/22/10	Reallocation	Arrowstreet International Equity	Developed Markets Equity (change from international to global)	\$25.0
06/24/10	Consolidate	Income Research	Fixed Income (combine two accounts)	\$40.0
07/07/10	Closed Position	Goldman Sachs—MSCI All World Swap	Developed Markets Equity	-\$30.0
07/26/10	Closed Position	UBS - MSCI All World Swap	Developed Markets Equity	-\$30.0
08/04/10	Closed Position	Goldman Sachs—EAFE Swap	Developed Markets Equity	-\$20.0
08/04/10	Closed Position	Goldman Sachs—MSCI All World Swap	Developed Markets Equity	-\$20.0
08/13/10	Reduction	City of London—Managed Account	Emerging Markets Equity	-\$10.0
08/13/10	Addition	City of London Special Situations Fund	Developed Markets Equity	\$20.0
09/24/10	Redemption	HIG Brightpoint	Developed Markets Equity	-\$9.0

Private Markets

01/15/10	Reup	Battery Ventures IX	Developed Markets Equity	\$8.0
01/22/10	New	Deerfield International	Absolute Return	\$20.0
03/08/10	New	Convexity Capital Management	Absolute Return	\$25.0
03/11/10	New	Regiment Capital Advisors	Absolute Return	\$25.0
04/30/10	Reup	Riverside Europe IV	Developed Markets Equity	\$8.0
06/24/10	New	RimRock High Quality Opportunity III	Opportunistic	\$20.0
07/16/10	New	Rockland Power Partners	Real Assets	\$9.0
09/24/10	Addition	SIR Capital Management	Absolute Return	\$15.0