

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Investment Performance Report, Fourth Quarter Fiscal Year 2010

There will be an oral report for information only.

Attachment

University of Washington Investment Performance Report to the Board of Regents, Fourth Quarter Fiscal Year 2010

UNIVERSITY OF WASHINGTON
INVESTMENT PERFORMANCE REPORT TO BOARD OF REGENTS
FOURTH QUARTER FISCAL YEAR 2010

As of June 30, 2010



TREASURER BOARD OF REGENTS
TREASURY OFFICE

Published August 2010

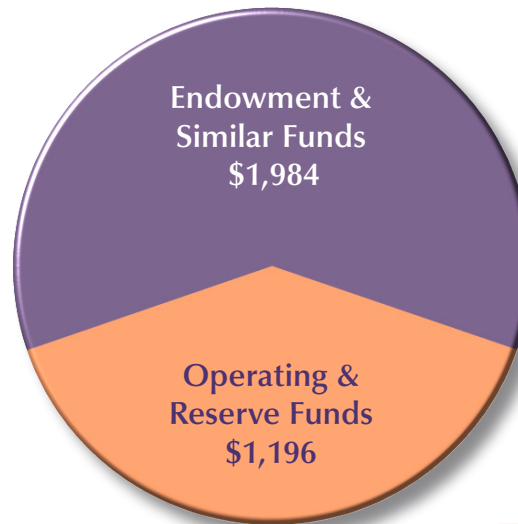
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TREASURY ASSETS ¹

As of June 30, 2010—\$3.2 Billion

Dollars in Millions



Endowment & Similar Funds

Endowment Funds	\$1,475
Operating Funds	<u>355</u>
Consolidated Endowment Fund	1,830
Life Income Trusts	66
Outside Trusts	46
Non-CEF Endowments	12
Permanent Fund ⁶	<u>30</u>
	<u>\$1,984</u>

Operating & Reserve Funds

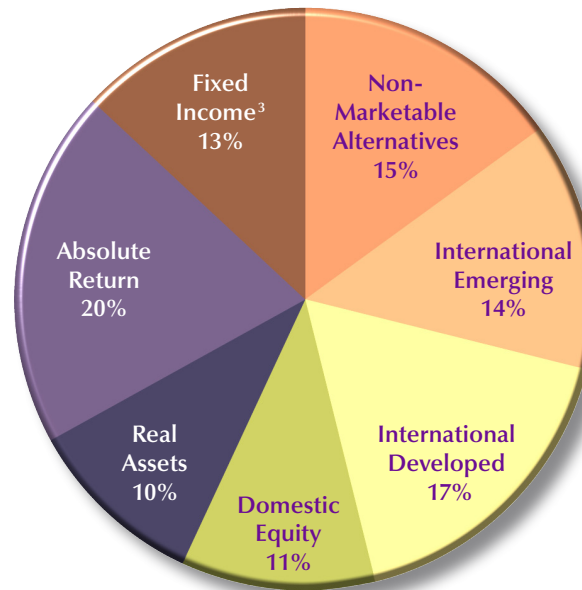
Invested Funds ^{2, 3}	\$1,069
Bond Retirement Fund ⁴	22
Building Fund ⁴	20
Debt Service Reserve Funds ⁵	12
Bond Proceeds ⁷	<u>73</u>
	<u>\$1,196</u>

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 \$355. 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 \$72.6 & 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, 2010

Consolidated Endowment Fund ¹—\$1,830 MM



Dollars in Millions				Policy Target	Policy Range
Current Allocation ²					
Global Equity	Non-Marketable Alternatives	\$273	15%	12%	5%–25%
	International Emerging Markets	\$261	14%	13%	5%–35%
	International Developed Markets	\$298	17%	16%	5%–35%
	Domestic Equity	\$204	11%	15%	5%–35%
	Equity Fund	<u>\$1,036</u>	<u>57%</u>	<u>56%</u>	<u>45%–75%</u>
	Real Assets Fund	\$175	10%	15%	5%–25%
	Absolute Return	\$378	20%	18%	5%–25%
	Fixed Income Fund ³	\$241	13%	11%	5%–35%
Total Consolidated Endowment Fund		<u>\$1,830</u>	<u>100%</u>		

¹ International exposure: 38%; net foreign currency exposure: 34%.

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, 2010

Total Returns ¹ (%)

	4 th Qtr FY 2010	1-Year	5-Year	10-Year
Total CEF Return	-3.0	12.4	5.0	4.5
Strategy Weighted Policy Benchmark	-4.7	9.8	5.1	4.0
Equity Fund	-5.8	17.4	5.1	4.1
Weighted Policy Benchmark	-8.9	13.3	3.7	1.3
Real Assets Fund	-2.1	-3.6	-0.7	—
Policy Benchmark	0.7	2.8	5.1	—
Absolute Return Fund	0.4	17.4	—	—
Policy Benchmark	-1.6	6.0	—	—
Fixed Income Fund	1.0	3.9	3.4	4.7
Policy Benchmark (BC Govt Bond)	4.2	6.5	5.4	6.2

¹ Average Annual Compound Return

Activity (in Millions)

	FY 2010	FY 2009	FY 2008	5 Years	10 Years	15 Years
Beginning Balance ¹	\$1,649	\$2,161	\$2,074	\$1,359	\$1,147	\$440
Gifts	43	84	99	407	624	781
Transfers	5	10	8	54	84	127
Total Additions	48	94	107	461	709	908
Operating Funds Purchases	8	3	44	70	157	157
Net Investment Return	201	(515)	53	409	609	1,226
Distributions	(59)	(75)	(94)	(379)	(655)	(755)
Administrative Fees	(4)	(4)	(4)	(18)	(29)	(35)
Advancement Support	(14)	(14)	(17)	(72)	(108)	(110)
Ending Balance	\$1,830	\$1,649	\$2,161	\$1,830	\$1,830	\$1,830
Net Change	\$181	(\$512)	\$88	\$471	\$683	\$1,390

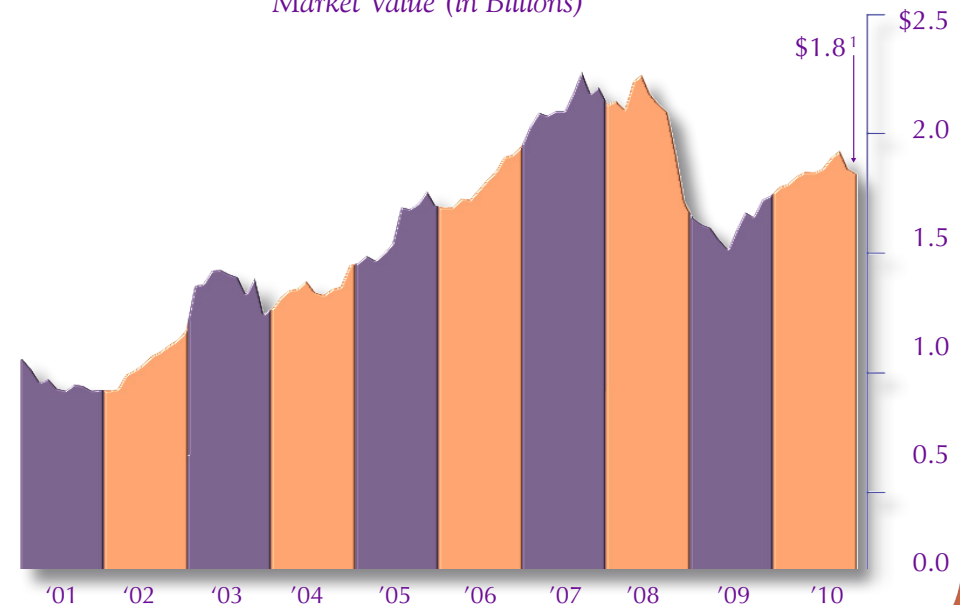
¹ Restated

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

Data not available
at press time

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

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 6/30/10

	4 th Qtr FY '10	1 Year	3 Years	5 Years	10 Years
Consolidated Endowment Fund	-3.0	12.4	-4.3	5.0	4.5
Equity Fund	-5.8	17.4	-5.3	5.1	4.1
Non-Marketable Alternatives²	2.8	18.0	1.7	9.8	2.5
Global Equity ³	-9.0	17.3	—	—	—
International Emerging Markets	-4.9	32.2	0.7	—	—
International Developed Markets	-12.1	8.0	-11.2	1.8	1.9
Domestic Equity	-10.5	11.3	-10.4	-0.9	1.3
Real Assets Fund	-2.1	-3.6	-12.2	-0.7	—
Absolute Returns Fund³	0.4	17.4	—	—	—
Fixed Income Fund	1.0	3.9	2.3	3.4	4.7
Public Market Indices					
<i>Equity Indices</i>					
S&P	-11.4	14.4	-9.8	-0.8	-1.6
MSCI ACWI	-12.3	10.9	-10.3	3.8	2.3
Russell 3000	-11.3	15.7	-9.5	-0.5	-0.9
NASDAQ	-12.0	14.9	-8.2	-0.4	-6.5
NAREIT	-4.1	53.9	-9.0	0.2	9.9
Dow Jones Industrial Average	-9.4	18.4	-7.6	1.5	1.6
MSCI EAFE	-13.7	6.4	-12.9	1.4	0.6
MSCI EMF	-8.3	23.5	-2.2	13.1	10.0
<i>Fixed Income Indices</i>					
BC Government Bond	4.2	6.5	7.6	5.4	6.2
CG World Bond Index(unhedged to USD)	0.3	3.0	7.8	5.1	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, 2010

Total Return¹ (%)

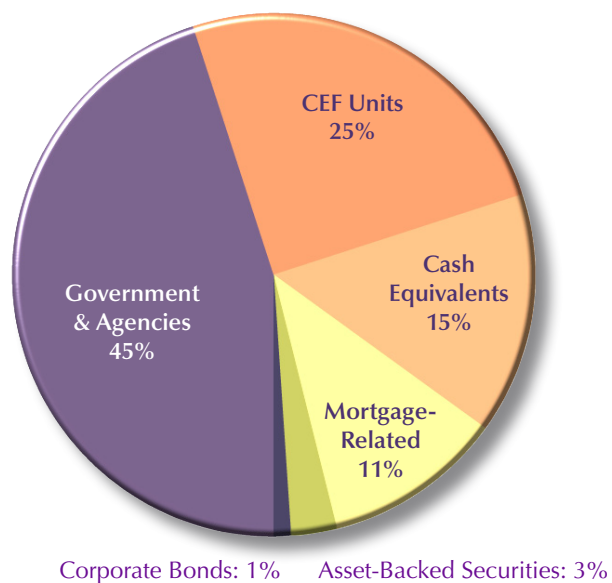
	4 th Qtr FY 2010	1-Year	5-Year	10-Year
Cash	0.1	0.6	3.8	4.3
Citi 2 Yr Treasury	1.1	2.8	4.5	4.6
Liquidity	3.2	6.0	4.6	5.5
LB Intermediate Government Bond	3.3	5.7	5.3	5.7
IF excluding CEF units	2.0	4.0	4.3	5.2
Weighted Benchmark	2.5	4.7	5.0	5.4
IF including CEF units	0.8	6.3	4.6	5.0
Weighted Benchmark	0.7	6.2	5.3	4.9

¹ Average Annual Compound Return

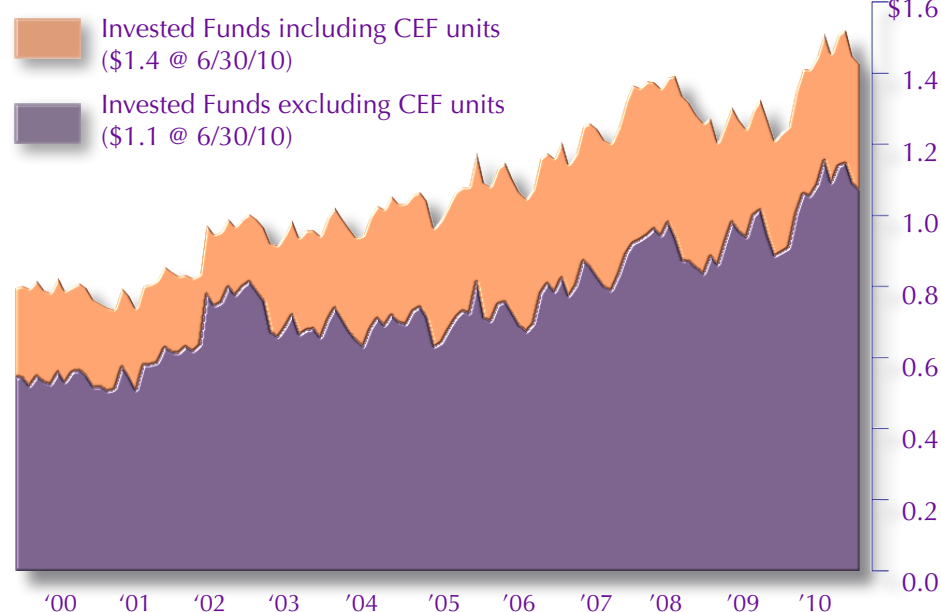
Fund Allocation by Pool (\$ in Millions)

	Fund Allocation		Range	Duration	
				Actual	Maximum
Cash Pool	\$378	27%	10%–40%	0.3 yrs	3.0 yrs
Liquidity Pool	\$690	48%	30%–60%	3.3 yrs	4.2 yrs
Total Cash & Liq. Pool	\$1,069	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 June 30, 2010

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
Distributions ¹	\$94,314	\$75,478	\$59,015
Effective Spending Rate	4.5%	3.5%	3.6%
Administrative Fees ²	\$21,331	\$18,004	\$17,908
Effective Spending Rate Including Fees	5.6%	4.3%	4.7%
Total Return	2.0%	-23.7%	12.4%

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 quarterl based on prior quarters' market value.

Quarterly Market Values and Additions

\$ = 000's

	Value	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	\$17,101	0.9%
04/1/2010	\$1,897,286	\$11,615	0.6%
07/1/2010	\$1,850,187	\$20,314	1.1%

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	\$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, 2010 THROUGH AUGUST 31, 2010 (\$ IN MILLIONS)

By the Chief Investment Officer

Public Markets

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

Private Markets

01/15/10	Reup	Battery Ventures IX	Non-Marketable Alternatives	\$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	Non-Marketable Alternatives	\$8.0
06/24/10	New	RimRock High Quality Opportunity III	Absolute Return	\$20.0
07/16/10	New	Rockland Power Partners	Real Assets	\$9.0