

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Investment Performance Report, Second Quarter Fiscal Year 2011

For information only.

Attachment

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

UNIVERSITY OF WASHINGTON INVESTMENT PERFORMANCE REPORT SECOND QUARTER FISCAL YEAR 2011

As of December 31, 2010



TREASURER, BOARD OF REGENTS
TREASURY OFFICE

Published February 2011

UNIVERSITY OF WASHINGTON
CONSOLIDATED ENDOWMENT FUND (CEF)
INVESTMENT PERFORMANCE REPORT
SECOND QUARTER FISCAL YEAR 2011

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TREASURY ASSETS¹

As of December 31, 2010—\$3.6b



Endowment & Similar Funds

Endowment Funds	\$1,647
Operating Funds	<u>441</u>
Consolidated Endowment Fund	2,088
Life Income Trusts	70
Outside Trusts	51
Non-CEF Endowments	11
Permanent Fund ⁵	<u>32</u>
	<u>\$2,252</u>

Operating & Reserve Funds

Invested Funds ²	\$1,177
Funds on Deposit with State of Washington ³	22
Bond Proceeds and Reserves ⁴	129
	<u>\$1,328</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 \$441. To avoid double counting, the dollars are included only in the CEF totals.

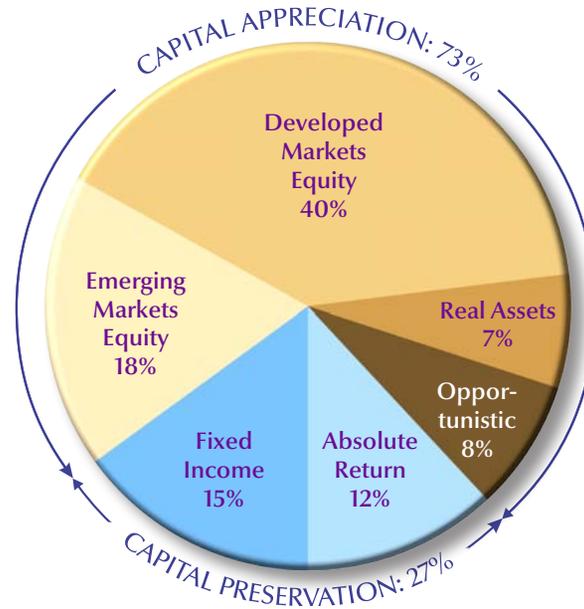
3. Bond Retirement Fund and Building Fund.

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 December 31, 2010— \$2,088m



	Current Allocation (\$m)		Target	Policy Range
Emerging Markets Equity	\$369	18%	17%	
Developed Markets Equity	\$840	40%	36%	
Real Assets	\$143	7%	11%	
Opportunistic	\$166	8%	6%	
Capital Appreciation ²	\$1,518	73%	70%	55%–85%
Absolute Return	\$247	12%	15%	
Fixed Income ³	\$323	15%	15%	
Capital Preservation	\$570	27%	30%	15%–45%
Total CEF	\$2,088	100%		

¹ At 12/31/10 Int'l exposure: 38%, foreign currency exposure: 35%.

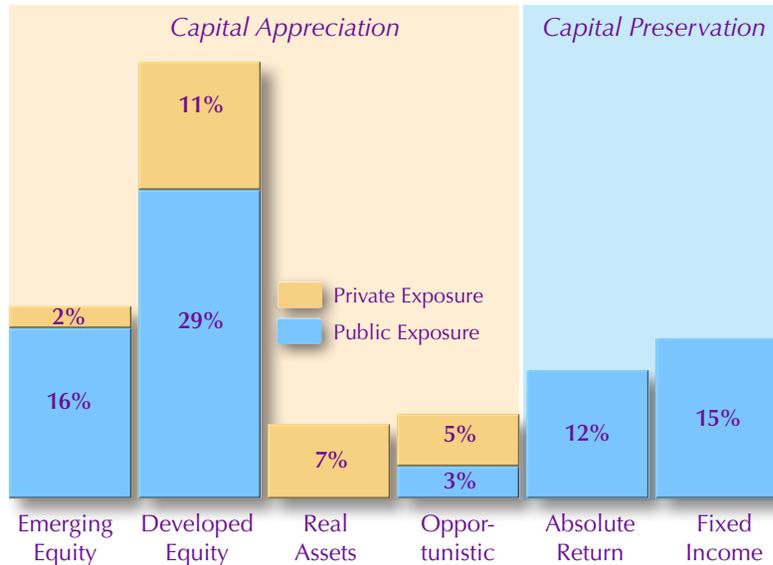
² Includes 26% current exposure to private investment and 10% uncalled capital commitment.

³ Includes allocation to cash.

CEF EXPOSURES

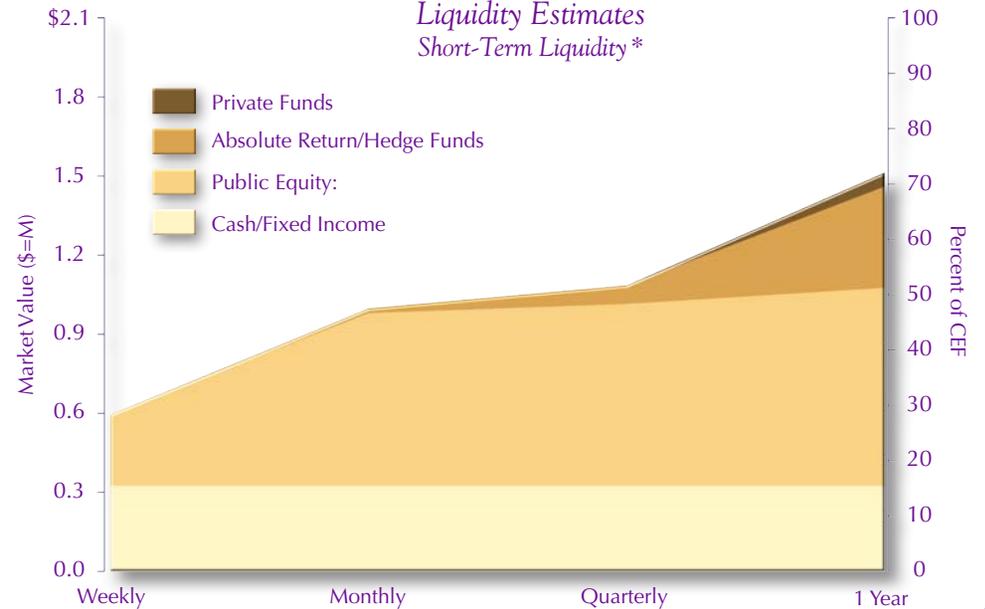
For the Quarter ending December 31, 2010— \$2,088m

Public/Private Exposure by Strategy*



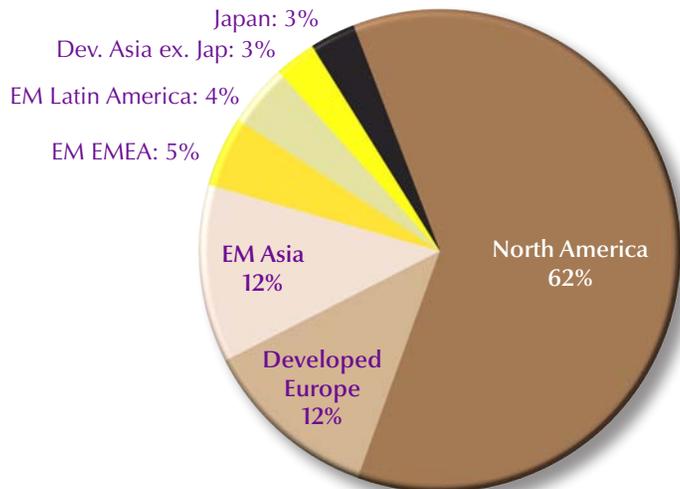
*Includes 26% current exposure to private investment and 10% uncalled capital commitment

Liquidity Estimates
Short-Term Liquidity*



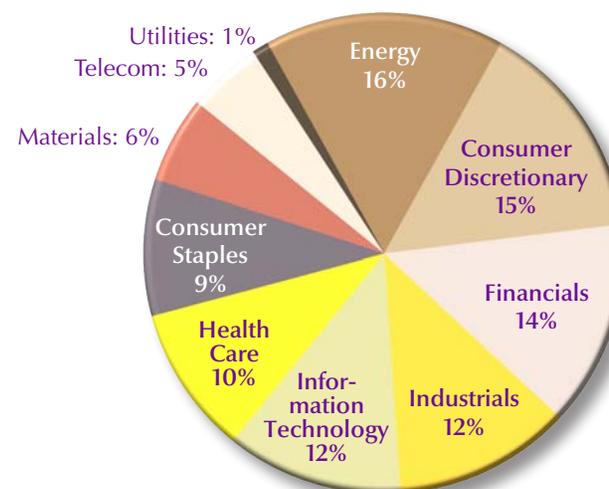
*72% of the CEF liquid within one year.

Geographic Exposure*



* Foreign currency exposure as of December 31, 2010: 35%

Equity Sector Exposure*



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

CEF PERFORMANCE SUMMARY

For the Quarter ending December 31, 2010— \$2,088m

Total Returns ¹ (%)

	2 nd Qtr FY 2011	Rolling Years		
		1-Year	5-Year	10-Year
Total CEF Return	4.7	11.6	5.1	6.0
Strategy Weighted Policy Benchmark	5.3	10.9	5.9	5.6
Capital Appreciation	6.2	13.2	4.9	5.5
MSCI ACWI	8.8	13.2	4.0	3.7
Capital Preservation	1.0	6.0	5.0	5.9
BC Government Bond	-2.3	5.5	5.5	5.4

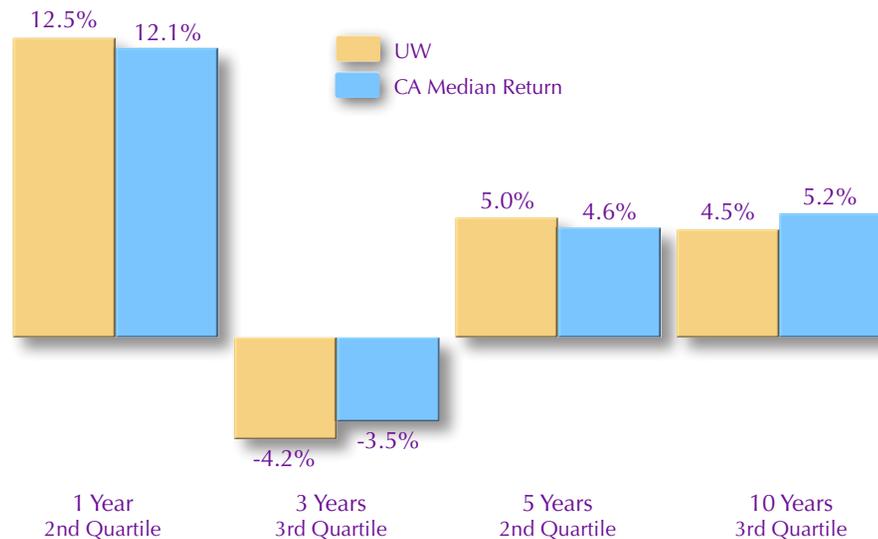
¹ Average Annual Compound Return.

Total Returns ¹ (%)

	FYTD 2011	Fiscal Years		
		2010	2009	2008
Total CEF Return	11.6	12.5	-23.5	2.0
Strategy Weighted Policy Benchmark	13.6	9.8	-16.5	1.1
Capital Appreciation	15.6	13.7	-29.2	1.0
MSCI ACWI	24.6	12.3	-28.9	-8.8
Capital Preservation	2.4	10.8	-9.6	4.0
BC Government Bond	0.1	6.5	6.6	9.7

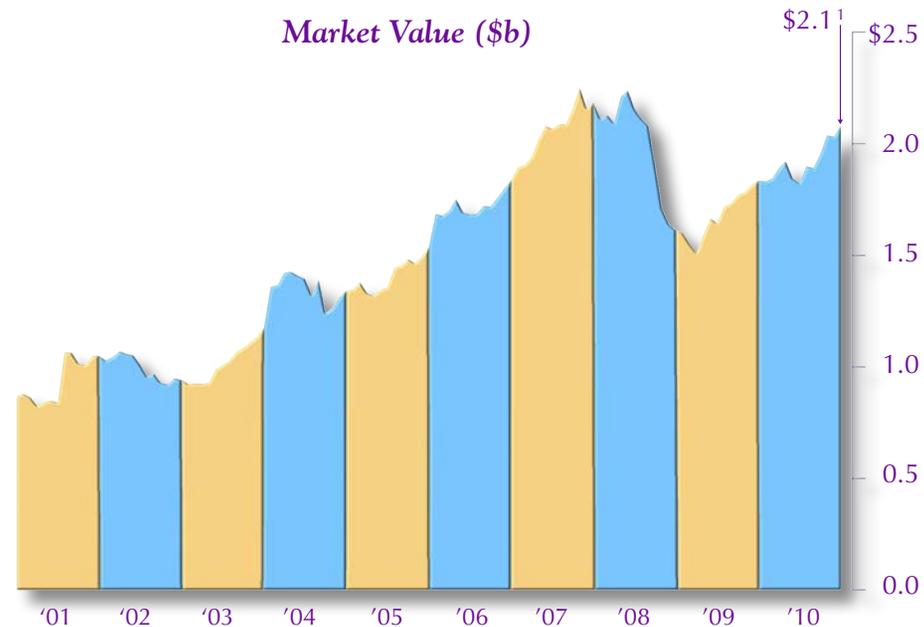
¹ Average Annual Compound Return.

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 December 31, 2010— \$2,088m

	(\$m)				
	<u>FYTD 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>\$1,538</u>	<u>\$1,129</u>
Gifts	28	43	84	406	618
Transfers	<u>3</u>	<u>5</u>	<u>10</u>	<u>46</u>	<u>85</u>
Total Additions	<u>\$31</u>	<u>\$48</u>	<u>\$94</u>	<u>\$452</u>	<u>\$703</u>
Operating Funds Purchases	50	8	3	121	207
Net Investment Return	221	201	(515)	450	868
Distributions	(35)	(59)	(75)	(381)	(675)
Administrative Fees	(2)	(4)	(4)	(19)	(30)
Advancement Support	<u>(8)</u>	<u>(14)</u>	<u>(14)</u>	<u>(74)</u>	<u>(114)</u>
Ending Balance	<u>\$2,088</u>	<u>\$1,830</u>	<u>\$1,649</u>	<u>\$2,088</u>	<u>\$2,088</u>
Net Change	\$258	\$181	(\$512)	\$550	\$959

CEF PERFORMANCE BY STRATEGY

Total Return¹ as of December 31, 2010

	2 nd Qtr FY '11	1 Year	3 Years	5 Years	10 Years	
Consolidated Endowment Fund	4.7	11.6	-2.6	5.1	6.0	
Capital Appreciation	Capital Appreciation	6.2	13.2	-4.0	4.9	5.5
	MSCI ACWI	8.8	13.2	-3.8	4.0	3.7
	Emerging Markets Equity	6.9	25.6	1.3	17.3	19.1
	MSCI EMF	7.4	19.2	0.0	13.1	15.9
	Developed Markets Equity	7.2	13.1	-3.5	3.5	4.4
	MSCI World	9.1	12.3	-4.3	3.0	2.8
	Real Assets²	3.4	1.7	-8.9	1.3	–
	NCREIF Property Index	3.9	5.8	-4.6	3.7	–
	CA Natural Resources	7.3	13.6	5.4	14.8	–
	Opportunistic³	2.2	–	–	–	–
MSCI ACWI	8.8	–	–	–	–	
Capital Preservation	Capital Preservation	1.0	6.0	0.4	5.0	5.9
	BC Government Bond	-2.3	5.5	5.1	5.5	5.4
	Absolute Return (including historic MAS returns)	2.8	10.7	1.9	7.1	8.1
	HFRI Conservative plus historic MAS benchmark)	2.5	4.6	2.4	5.1	5.1
Fixed Income	-0.2	2.5	0.6	3.2	4.0	
BC Government Bond	-2.3	5.5	5.1	5.5	5.4	
<i>Public Market Indices</i>						
S&P	10.8	15.1	-2.9	2.3	1.4	
NASDAQ	12.0	16.9	-1.5	2.8	0.3	
NAREIT	3.9	5.8	-4.6	3.7	7.3	
MSCI EAFE	6.7	8.2	-6.5	2.9	3.9	
CG World Bond Index (unhedged to USD)	-1.8	5.2	6.1	7.1	7.0	

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 December 31, 2010

Total Return¹ (%)

	2 nd Qtr FY 2011	1-Year	5-Year	10-Year
IF including CEF units	0.7	5.8	4.5	5.0
Weighted Benchmark	0.8	5.4	5.2	4.8
IF excluding CEF units	-0.8	3.7	4.4	4.6
Weighted Benchmark	-0.9	3.2	4.7	4.6
Cash Pool	0.0	0.3	3.7	3.8
Cash Benchmark ²	0.0	0.1	3.4	3.6
Liquidity Pool	-1.3	5.7	4.7	4.9
Barclays Intermediate Govt Bond	-1.6	5.0	5.4	5.1

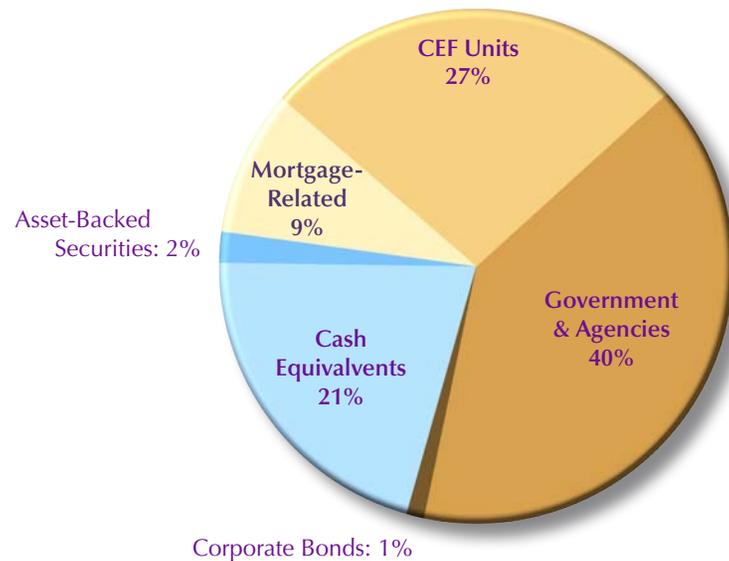
¹ Average Annual Compound Return

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

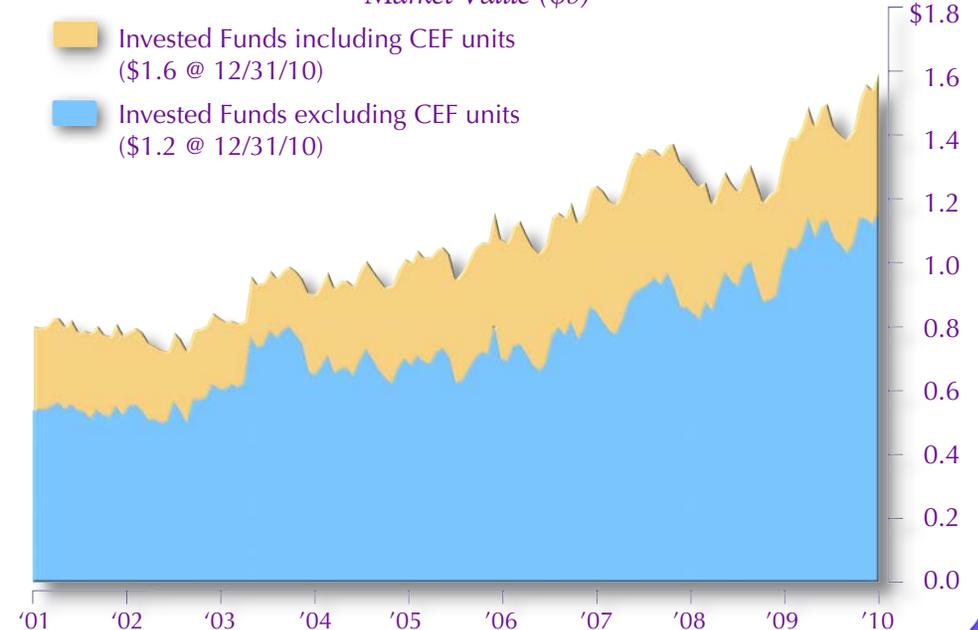
Fund Allocation by Pool (\$m)

	Fund Allocation		Range	Duration in Years	
				Actual	Maximum
Cash Pool	\$481	30%	10%–40%	0.4	3.0
Liquidity Pool	\$697	43%	30%–60%	3.5	4.2
Total Cash & Liquidity Pool	\$1,177	73%			
CEF Units held by IF	\$441	27%	15%–40%		
Total Invested Funds	\$1,618	100%			

Mix of Investments



Market Value (\$b)



CEF SPENDING UPDATE

For the Quarter ending December 31, 2010

New Policy, Approved October 21, 2010

Effective with the December 2010 payouts, distributions to programs are 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%), are based on the same average value as program distributions.

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

	FY 2008	<i>Interim</i>		FY 2011 (est.)
		FY 2009	FY 2010	
Beginning Market Value	\$2,073,519	\$2,161,438	\$1,649,159	\$1,829,868
Distributions ¹	\$94,314	\$75,478	\$59,015	\$74,600
Effective Spending Rate	4.5%	3.5%	3.6%	4.1%
Administrative Fees ²	\$21,331	\$18,004	\$17,908	\$19,400
Effective Spending Rate Including Fees	5.6%	4.3%	4.7%	5.1%
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.

² Administrative fees supporting Advancement (80 bps) and Treasury (20 bps) were based on prior quarters' market value prior to the new spending policy.

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	\$20,240	1.1%
09/30/2010	\$1,956,910	\$10,398	0.5%
12/31/2010	\$2,088,000	\$24,260	1.2%

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.)	\$2.821	+20%

- FY '09 per unit payouts were 25% less than FY '08 payouts.
- FY '10 per unit payouts were 25% less than FY '09 payouts.

SUMMARY OF ACTIONS TAKEN UNDER BOARD DELEGATED AUTHORITIES

JANUARY 1, 2010 THROUGH DECEMBER 31, 2010 (\$m)

By the Chief Investment Officer

Public Markets

Approved	Action	Manager / Fund	Strategy	Investment (\$m)
01/22/10	Addition	Arrowstreet International Equity	Developed Markets Equity	\$25.0
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
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	Addition	City of London Special Situations Fund	Developed Markets Equity	\$20.0
09/24/10	Redemption	HIG Brightpoint	Developed Markets Equity	-\$9.0
10/15/10	Addition	Wellington Dividend Growth	Developed Markets Equity	\$30.0
11/04/10	Addition	Arisaig Africa	Developed Markets Equity	\$15.0
08/13/10	Reduction	City of London - Managed Account	Emerging Markets	-\$10.0
06/24/10	Consolidate	Income Research	Fixed Income (combine two accounts)	\$40.0
01/22/10	Reallocation	Arrowstreet International Equity	International Developed (change from international to global)	\$25.0

Private Markets

01/22/10	New	Deerfield International	Absolute Return	\$20.0
03/08/10	New	Convexity Capital Management	Absolute Return	\$25.0
09/24/10	Addition	SIR Capital Management	Absolute Return	\$15.0
11/04/10	Addition	Convexity Capital Management	Absolute Return	\$15.0
11/04/10	Terminate	Tiger Asia	Absolute Return	-\$14.0
12/06/10	Addition	Valinor Capital Partners	Absolute Return	\$15.0
01/15/10	Reup	Battery Ventures IX	Developed Markets Equity	\$8.0
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