

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Comparative Asset Allocation, Performance, and Endowment Trends

This item is for information only.

*Attachment*

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May 9, 2013

# Comparative Asset Allocation, Performance, and Endowment Trends

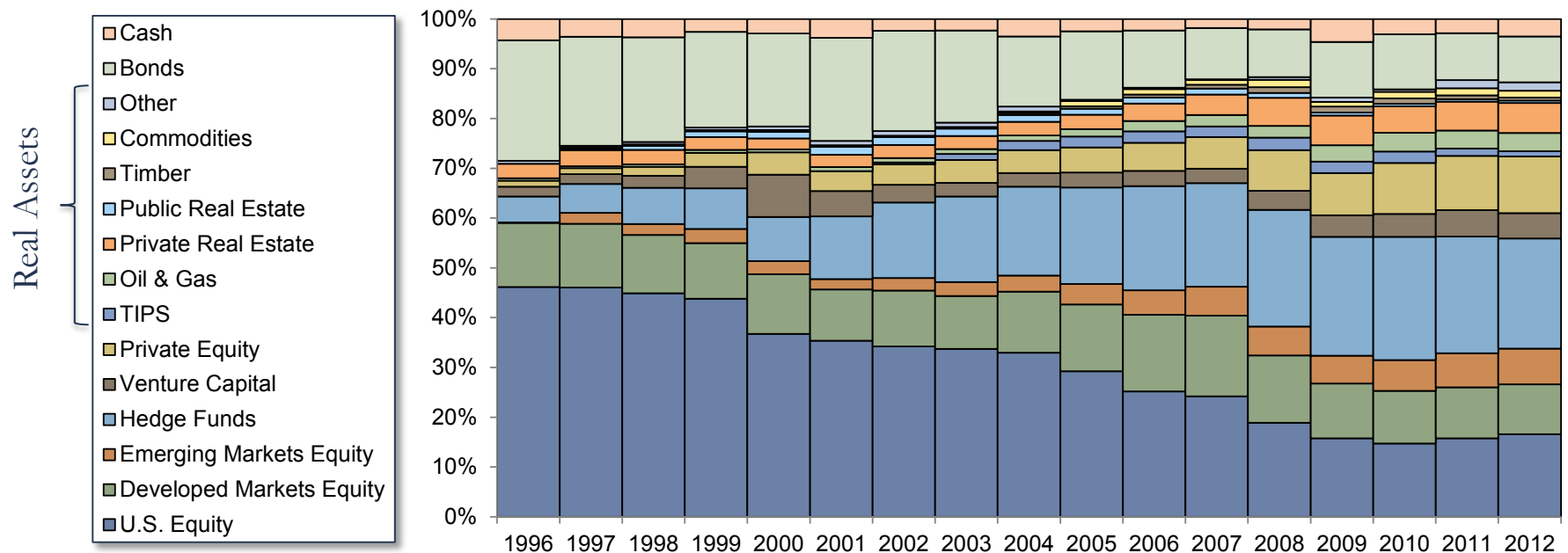
University of Washington - Board of Regents



CAMBRIDGE ASSOCIATES LLC

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## Asset Allocation (%) Trends



- ❖ The long-term trend is that equity and bonds carry lighter allocations, while hedge funds and private investing carry higher allocations.
- ❖ Institutions are slowly increasing their dedicated exposure to Emerging Markets.
- ❖ Institutions have significant and diverse exposures to Real Assets, which often generate good performance in periods of unanticipated inflation.

**Note:** Allocations are as of June 30, except for 2012, which is as of December 31. **Bonds** includes U.S. Bonds, Non-U.S. Bonds, and High-Yield Bonds. **Hedge Funds** include Long/Short Hedge Funds, Event Arbitrage, Arbitrage, Distressed Securities, and macro and market-neutral hedge funds. **Other** includes managed futures, macro and market-neutral hedge funds, coal, royalties, cash value life insurance, and synthetic exposure (derivatives).

## Asset Allocation (%) Trends Summary

**Endowments Greater than \$1B**  
**Asset Allocation (%) Trends 1996-2012**

	<u>Minimum (year)</u>	<u>Maximum (year)</u>	<u>2012</u>	<u>5-year Allocation Trend</u>
US Equity	14.8 (2010)	46.2 (1996)	16.6	flat
DM Equity	9.2 (2011)	16.2 (2007)	10.0	down
EM Equity	0.1 (1996)	7.2 (2012)	7.2	up
Hedge Funds	5.2 (1996)	24.8 (2010)	22.1	flat
VC	2.0 (1996)	8.5 (2000)	5.1	up
PE	1.2 (1996)	11.4 (2012)	11.4	up
TIPS	0.0 (1996)	2.5 (2008)	1.0	flat
Oil & Gas	0.4 (1997)	4.1 (2011)	3.7	flat
Private Real Estate	2.2 (2000)	6.0 (2012)	6.0	up
Public Real Estate	0.0 (1996)	1.6 (2002)	0.5	flat
Timber	0.0 (1996)	1.2 (2009)	0.6	flat
Commodities	0.0 (1996)	1.8 (2011)	1.4	flat
Other	0.2 (2007)	1.7 (2012)	1.7	flat
Bonds	9.4 (2011)	24.2 (1996)	9.2	flat
Cash	1.8 (2007)	4.6 (2009)	3.5	flat

- ◆ Both U.S. Equity and Fixed Income have been in a steady allocation decline over the full period, though have leveled off near all time lows.
- ◆ Conversely four strategies, including Emerging Markets and Private Equity, are at historic maximum allocations today.

**Note:** Boxed figures represent the highest allocation for each asset class. Allocations are as of June 30, except for 2012, which is as of December 31.

**Bonds** includes U.S. Bonds, Non-U.S. Bonds, and High-Yield Bonds.

**Hedge Funds** include Long/Short Hedge Funds, Event Arbitrage, Arbitrage, Distressed Securities, and macro and market-neutral hedge funds.

**Other** includes managed futures, macro and market-neutral hedge funds, coal, royalties, cash value life insurance, and synthetic exposure (derivatives).

### Asset Allocation relative to other Endowments

	<u>UW*</u>	<u>Endowments Greater than \$1 Billion</u>	<u>CA Top 50</u>
Emerging Equity (Public)	18.0	7.2	7.5
Private Equity	16.7	16.5	18.3
Developed Equity (Public)	30.9	26.6	24.3
Real Assets	7.4	14.4	16.0
Opportunistic			
Absolute Return	17.5	23.4	23.5
Fixed Income	9.5	11.9	10.5
		92	41

- *UW Opportunistic investments categorized with Private Eq. following CA convention. Asset Allocation data as of December 31.*

- ◇ **UW asset allocation suggests a few key differences in positioning relative to peer institutions (compared to Top 50):**
  - ◆ **10% more in Emerging Markets**
  - ◆ **8% less in Real Assets**
  - ◆ **6% less Absolute Return**

## UW Performance versus Peer Institutions

### Consolidated Endowment Fund Performance

Consolidated Endowment Fund (CEF) Annual Performance  
For the Calendar Years Ending December 31st

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	10 Years (Annualized)
CEF Total Return	20.7%	13.3%	15.1%	16.8%	18.8%	-27.5%	14.0%	11.8%	-1.5%	12.2%	8.4%
CEF Policy Benchmark	17.7%	12.0%	13.3%	16.6%	13.9%	-20.9%	14.1%	11.0%	1.2%	11.8%	8.4%
Over / Under Policy Benchmark	2.9%	1.4%	1.8%	0.1%	5.0%	-6.6%	0.0%	0.8%	-2.8%	0.4%	-0.1%

Outperform
  Underperform
  Neutral

Peer Comparisons from Cambridge Associates  
For the Calendar Years Ending December 31st

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	10 Years (Annualized)
Top 50 College & University Median	21.8%	14.1%	12.2%	15.7%	13.9%	-24.0%	14.4%	12.9%	1.7%	11.6%	8.6%
UW Quartile	3rd	3rd	1st	2nd	1st	4th	3rd	4th	4th	2nd	3rd

\$1-\$5 Billion Public School Median	24.4%	13.5%	10.1%	15.6%	12.2%	-26.9%	19.3%	12.8%	-1.0%	11.5%	8.3%
UW Quartile	4th	3rd	1st	1st	1st	3rd	4th	4th	4th	1st	2nd

- ◇ UW over- and under-performance versus peers over the last several years reflects differences in asset allocation.

## Consolidated Endowment Fund Performance

UNIVERSITY OF WASHINGTON  
CA TOP 50 COLLEGES & UNIVERSITIES UNIVERSE  
COMPARATIVE PERFORMANCE (%)  
As of December 31, 2012

	8-Yr AACR 1/1/2005 12/31/2012
<b>High</b>	<b>9.58</b>
<b>25th Percentile</b>	<b>7.40</b>
<b>50th Percentile</b>	<b>6.29</b>
<b>75th Percentile</b>	<b>5.64</b>
<b>Low</b>	<b>3.38</b>
<b>n</b>	<b>41</b>
<b>UW</b>	<b>6.30</b>
<b>UW Rank</b>	<b>48%</b>

- ◆ Over the last several years relative performance is approximately median.

- ◆ **Spending**
  - ◆ **Modest change in spending rules among peers**
  
- ◆ **Private Investment allocations continue to rise**
  - ◆ **Institutions like the return characteristics**
  - ◆ **Some have created ways to draw liquidity from other sources in the event of weak equity market.**
  
- ◆ **Notwithstanding some recent underperformance, institutions remain committed to Emerging Markets**