

VII. STANDING COMMITTEES**B. Finance, Audit and Facilities Committee**Guideline for Interfund LoansBACKGROUND

Proposed language changes to the Statement of Investment Objectives and Policy for the Invested Funds identify the potential for an interfund loan between the Invested Funds and the Consolidated Endowment Fund.

In the event of adverse market conditions similar to 2008-09, the University desires to avoid selling securities at a loss or liquidating funds at a wide discount to market value in order to meet obligations. Under such circumstances, funds could be borrowed internally to meet quarterly distributions to endowed programs. The maximum loan amount is not expected to exceed one year's worth of distributions (Fiscal year 2012 CEF distributions totaled \$106 million). The maximum loan period is two years with CEF cash flows providing the source of repayment.

Identification of the need for an interfund loan will be made by the Chief Investment Officer in consultation with the Associate Vice President - Treasury and the Senior Vice President. The Chief Investment Officer will further seek the advice of UWINCO and the University's investment consultant. Approval by the Board of Regents is required for all interfund loan activity.

REVIEW PROCESS

The Guideline for Interfund Loans was developed by the Chief Investment Officer and Associate Vice President – Treasury in consultation with the University of Washington Investment Committee (UWINCO), the Treasurer of the Board of Regents, and the University's investment consultant, Cambridge Associates.

Attachment
Guideline for Interfund Loans

Guideline for Interfund Loans

From the Invested Funds (IF) to the Consolidated Endowment Fund (CEF)

This guideline defines the conditions and terms under which the Invested Funds may be used as a loan source by the Consolidated Endowment Fund.

Investment Authority: The Board of Regents of the University of Washington is vested by statute with responsibility for the management of the properties of the University. The Board has delegated to its Finance, Audit and Facilities Committee (FAF) the responsibility for overseeing the investment programs of the University. Board approved Statements of Investment Objectives and Policy are in place for both the Invested Funds and the Consolidated Endowment Fund. The process identified in this guideline is consistent with the investment objectives and the delegations established under policy by the Board of Regents.

Prudence: Under extreme market conditions, it may be deemed prudent to borrow funds internally to meet quarterly endowed program distributions rather than sell assets at depressed prices. Activity under this guideline is not intended for the sole purpose of creating leverage in the CEF.

Extreme Market Conditions: A loan may be triggered by a decline of 10% or more in the per unit market value of the CEF over a period of one year or less. Other situations such as highly illiquid markets may also prompt the consideration of internal financing to meet CEF distribution requirements.

Process for Interfund Loan Approval: Identification of need will be made by the Chief Investment Officer in consultation with the Associate Vice President/Treasury Office and the Senior Vice President. The Chief Investment Officer will further seek the advice of UWINCO and the University's investment consultant. Approval by the Board of Regents is required for all interfund loan activity.

Terms: The following defines the terms for loans granted under this guideline:

- **Maximum Quarterly Loan:** CEF quarterly distribution net of new gifts. Loans may occur in successive quarters up to an amount equivalent

to one year's worth of distributions. (\$106 million was distributed from the CEF over four quarters in FY12).

- **Loan Period:** Two years.
- **Interest Rate:** Two-year Treasury rate plus 100 basis points. Resets quarterly.
- **Amortization:** Two years. Interest only payable quarterly. Principal in full due at end of term.
- **Loan Administration.** Loan agreement serviced by the Treasury Office.

Repayment Source: Consolidated Endowment Fund by way of new gift funds, realized gains, dividends, cash balances and/or asset sales.
