VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Draft Amendment to Investment Policies

RECOMMENDED ACTION:

It is the recommendation of the University of Washington Investment Committee and the Finance, Audit and Facilities Committee that the Board of Regents adopt the following amended policies:

1. "Statement of Investment Objectives and Policy for the Consolidated Endowment Fund"
2. "Statement of Investment Objectives and Policy for Invested Funds"
3. "Statement of Investment Objectives and Policy for Portage Bay Insurance"
4. "Statement of Investment Objectives and Policy for Deferred and Other Gift Assets"

BACKGROUND:

In 1988, the Board of Regents adopted investment policies for the Consolidated Endowment Fund and the Invested Funds of the University of Washington. These were followed in 1992 with the investment policy for Deferred and Other Gift Assets and in 1997 with the investment policy for the Insurance Fund. Investment policies are reviewed on a continuing basis with periodic revisions reflecting the changing nature of the investment programs of the University. Key modifications to each investment policy are described below:

Statement of Investment Objectives and Policy for the Consolidated Endowment Fund (CEF)

Material changes are recommended to the asset allocation of the CEF *(Paragraph E).* The new target exposure to equities at 76% is little changed from the current mix – but the focus is more global in nature. Emerging market exposure is identified separately from developed international market exposure and assigned its own target and range. The increased risk from the higher allocation to emerging markets is offset by a reduction in non-marketable alternatives, primarily venture capital. Real assets will ramp up over the next two years, as both private and direct investment ideas are explored.

An "other" category is added to the strategy mix with no set target. The intention is to use this category to access market opportunities that fall outside the current strategy definitions, e.g. high yield debt. Usage is typically confined to irregular

<u>Draft Amendment to Investment Policies</u> (continued p. 2)

market opportunities, typically of limited duration, that offer the potential for enhanced returns.

Policy ranges across the board are widened to facilitate active management of portfolio exposure. Performance is measured against a policy benchmark defined by the long-term target asset class weightings.

<u>Statement of Investment Objectives and Policy for Invested Funds (IF)</u>

Minor changes are recommended to the pool allocation of the IF *(Paragraph C)* which lowers the target allocation to the Cash Pool and increases the allocation to the CEF Pool. These changes reflect current practice. Other wording changes throughout the policy align it with the policy statement for the CEF.

<u>Statement of Investment Objectives and Policy for Portage Bay Insurance (PBI)</u>

The PBI policy now excludes the Self-Insurance Revolving Fund (SIRF) from the policy document. *(See page 1).* This change recognizes Portage Bay Insurance, a captive insurance company of the University established in 2002, as the ongoing business concern for the insurance programs of the University. The SIRF is in liquidation mode and expected to close out in 2008.

The policy is further amended to allow implementation of the investment strategy through separate investment management accounts and/or through one or more of the commingled funds (the IF and the CEF) of the University. The latter option would be pursued if justified by higher risk-adjusted returns, lower costs or improved operational efficiency.

Finally, delegations are streamlined to better reflect the management of the fund.

<u>Statement of Investment Objectives and Policy for Deferred and Other Gift Assets</u>

There are no material changes in substance or delegations.

<u>REVIEW PROCESS</u>:

The CEF policy recommendation was developed by the Chief Investment Officer in consultation with the University of Washington Investment Committee

Draft Amendment to Investment Policies (continued p. 3)

(UWINCO), the Treasurer of the Board of Regents and the University's investment consultant, Cambridge Associates. It was further reviewed and revised following briefings with individual members of the Board of Regents and the University administration.

Revisions to policy, including overall asset allocation and spending policies, will continue to require the full endorsement of the Board of Regents. Annotated copies of the investment policies are attached.

ENCLOSURES:

Annotated *"Statement of Investment Objectives and Policy for the Consolidated Endowment Fund"*
Annotated *"Statement of Investment Objectives and Policy for the Invested Funds"*
Annotated *"Statement of Investment Objectives and Policy for Portage Bay Insurance"*
Annotated *"Statement of Investment Objectives and Policy for the Deferred and Other Gift Assets"*

UNIVERSITY OF WASHINGTON

STATEMENT OF INVESTMENT OBJECTIVES AND POLICY FOR THE CONSOLIDATED ENDOWMENT FUND

Approved by Board of Regents April 15, 1988

Amended December 15, 1989; February 16, 1990; September 17, 1993; October 22, 1993; September 20, 1996; September 19, 1997; September 18, 1998; November 19, 1999; January 21, 2000; November 17, 2000; May 18, 2001; June 14, 2002; November 21, 2003; January 16, 2004; June 11, 2004; July 16, 2004; and May 20, 2005

INTRODUCTION

The Board of Regents of the University of Washington is vested by statute with responsibility for the management of the properties of the University, including the Consolidated Endowment Fund and other University Funds. This statement of investment objectives and policies governs the investment management of the Consolidated Endowment Fund (CEF). This statement is effective until modified by the Board.

The Board has delegated to its Finance, Audit and Facilities Committee (FAF) the responsibility for overseeing the investment program within the general principles enumerated herein. In May 2001, the Board approved the establishment of an advisory committee (UWINCO) consisting of both Board members and external investment professionals. In 2004, the Board approved the appointment of the University's first Chief Investment Officer (CIO) to manage the day to day activities of the investment portfolios.

A. INVESTMENT OBJECTIVES 1. The overall financial objective of the CEF is to provide a level of support for programs (as determined by the CEF's spending policy summarized below) consistent with the CEF's purchasing power being maintained over time. 2. The primary investment objective of the CEF is to provide a maximum level of return consistent with prudent risk levels. The specific investment objective of the CEF is to attain an average annual real total return (net of investment fees) of at least 6% over the long term (running five-year periods). The 6% target provides for a 5% distribution to endowed programs and a 1% administrative fee. Real total return is the sum of capital appreciation (or loss) and current income (dividends and interest) adjusted for inflation by the Consumer Price Index. It is recognized that the real return objective may be difficult to attain during every five-year period, but should be attainable over a series of five-year periods. 3. Distributions to endowed programs over the long term will be 5% of the average market value of the CEF for the previous three years. In this way, the CEF's distributed income is expected to keep up with inflation and its capital value will be preserved over time. 4. Over the long term (rolling five year periods), the CEF is expected to achieve returns which are at least comparable to the median return of the largest 50 colleges and universities in the Cambridge Associates Universe. 5. The investment performance of the CEF will also be evaluated, on a risk-adjusted basis, against a representative blend of market indices which reflect the strategic asset allocation of the CEF. Over the long term (rolling five-year periods), the CEF's diversification is expected to generate risk-adjusted returns that meet or exceed those of blended market indices.	*No changes.*
B. ETHICAL CONSIDERATIONS While fiscal goals are of central importance, due consideration shall be given to the degree of corporate responsibility exercised by the companies in which investments are made.	*No changes.*

C. INVESTMENT PHILOSOPHY The investment of the CEF is based on a set of beliefs and practices: 1. Invest for the long term a. Preserve capital for use by future generations b. Rely on asset allocation as the primary determinant of return c. Avoid ~~market timing~~ short-term speculative activity d. Accept illiquidity if justified by higher alpha e. 2. Build a well-diversified portfolio a. Limit risk by combining uncorrelated strategies b. Maintain meaningful exposure to major capital markets c. Tilt towards value strategies d. Employ fundamental research-driven and bottom-up strategies e. 3. Take advantage of global market inefficiencies a. Invest primarily with active managers b. Use indexed and enhanced indexed strategies where appropriate c. Incorporate investment ideas sourced through internal proprietary research d. Focus resources on inefficient markets (e.g., venture capital, hedge funds, emerging markets) e. Manage portfolio exposures actively in response to changing market conditions	*Avoidance of short-term speculative activity specifically indicated.* *Emphasis on global markets.* *Recognize increasing importance of proprietary research.* *Actively manage portfolio exposures.*
D. INVESTMENT MANAGEMENT STRUCTURE 1. The CEF will be invested primarily by external investment managers. External investment management firms will be selected on the basis of factors including, but not limited to, the following: the experience of key personnel; investment philosophy; assets under management; organizational structure; performance record; fees; the firm's ethical and financial viability and its structural fit within the CEF. 2. Equities (including domestic equity, international equity and alternative equity), real assets, and bonds will primarily be managed separately. In the interest of diversification, the equity portion of the portfolio will be placed with managers who have distinct and different investment philosophies. The investment managers have the discretion to manage the assets in their individual portfolios to best achieve the investment objectives and requirements set forth in this policy statement and in their individual investment guidelines.	*No changes.*
E. PORTFOLIO COMPOSITION AND ASSET ALLOCATION 1. To achieve its investment objective, the CEF will be divided into three parts: an "Equity Fund", a "Real Assets Fund" and a "Fixed Income Fund." Sub-categories of these three major asset classes, each with its own target and range, may also be specified. The purpose of dividing the funds in this manner is to ensure that the overall asset allocation among the three Funds remains under the regular scrutiny of the Finance, Audit and Facilities Committee and UWINCO. Over the long run, the allocation among and within the Equity, Real Assets and Fixed Income Funds may be the single most important determinant of the CEF's investment performance. The policy portfolio is structured using long-term targets and ranges. The target asset allocation reflects the long-term risk and return objective of the CEF and establishes a normative allocation against which shorter-term asset allocation decisions can be gauged. Ranges allow for tactical shifts among asset classes in response to the changing dynamics in capital markets. Wider ranges facilitate rebalancing and the active management of risk at the total portfolio level.	*There are material changes in the structure of the "Equity Fund" (a shift of assets from domestic to international securities; an increase in the "Real Assets Fund"; and a decrease in the "Fixed Income Fund")* *Strategic bands around the target asset allocations have been widened.*

E. PORTFOLIO COMPOSITION AND ASSET ALLOCATION (con't)

Strategic Asset Allocation CURRENT POLICY	Long-term Target	Policy Range
Domestic Equity	30%	25–35%
International Equity – Developed and Emerging Markets	15%	10–20%
Marketable Alternatives	15%	10–20%
Non-Marketable Alternatives	15%	10–20%(1)
TOTAL EQUITY	**75%**	**70–80% (2)**
Real Assets	5%	3–8%
TIPS	3%	0–3%
TOTAL REAL ASSETS	**8%**	**5–10%**
TOTAL FIXED INCOME	**17%**	**12–22%**

(1) Unfunded commitments for the Non Marketable Alternatives strategy will range from 125% to 150% of the policy target.

(2) Rebalancing will be automatically implemented if the Equity Fund ration exceeds 85% or falls below 65%

Strategic Asset Allocation RECOMMENDED POLICY	Long-term Target	Policy Range
Domestic Equity	18%	10-40%
International Equity – Developed Markets	20%	10-35%
International Equity – Emerging Markets	10%	5-15%
Marketable Alternatives	16%	5-25%
Non-Marketable Alternatives	12%	5-20% (1)
Other	0%	0 – 10%
TOTAL EQUITY	**76%**	**60-90%**
TOTAL REAL ASSETS	**12%**	**5–20%**
TOTAL FIXED INCOME	**12%**	**5-35%**

(1) Unfunded commitments for the Non Marketable Alternatives and Private Real Assets strategies will typically range from 100% to 150% of the policy target.

2. The purpose of the Equity Fund is to provide a total return that will simultaneously provide for growth in principal and current income in support of spending requirements, while at the same time preserving the purchasing power of the CEF's assets. It is recognized that the Equity Fund entails the assumption of greater market variability and risk.

3. The purpose of the Real Assets Fund (real assets and TIPS-Treasury Inflation Protected Securities) is to provide attractive risk adjusted returns and portfolio protection during inflationary periods.

4. The purpose of the Fixed Income Fund (bonds and cash equivalents) is to provide a deflation hedge, to reduce the overall volatility of the CEF, and to produce current income in support of spending needs.

5. Direct investments in tobacco companies are prohibited.

6. Risk is managed primarily through diversification. The CEF will be diversified both by asset class (e.g., equities, bonds, cash equivalents, non-U.S. securities, marketable and non-marketable alternatives, real assets) and within asset classes (e.g., within equities by country, economic sector, industry, quality, and size). Derivatives may be used to adjust exposures within or across asset classes in order to improve the risk / return profile of the CEF. The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the total fund.

7. Aggregate portfolio risk is managed to minimize uncompensated, unanticipated and inappropriate risks. Both quantitative measures and qualitative judgment will be used in assessing and managing risk.

Diversification is identified as the primary portfolio risk management technique.

Derivatives are specifically identified as available tools to adjust portfolio exposures.

Emphasis placed on aggregate portfolio risk management.

F. GUIDELINES FOR THE EQUITY FUND

1. The objective for the Equity Fund is to outperform, net of commissions and fees, a representative risk-adjusted blend of market indices which reflect the strategic asset allocation of the Equity Fund. In addition, performance on each sub-category of the Equity Fund will be monitored against the average return of a representative universe of active managers and/or fund of funds. Performance will be monitored on a regular basis and evaluated over running three- to five-year periods.

2. The Equity Fund will be broadly diversified by country, economic sector, industry, number of holdings, number of managers, and other investment characteristics. To achieve its investment objective, the Equity Fund may contain a mix of actively and passively managed strategies. Direct and derivative investments, commingled funds, private limited partnerships and fund of funds may be used.

3. With the exception of passive strategies, assets under management by individual active equity managers – including quasi-index managers – will not exceed 20% of the CEF. A manager with an allocation close to 20% will be characterized by a diversified, highly liquid portfolio; a stable management team; a varied client base; and significant assets under management.

4. Decisions as to individual country and security selection, security size and quality, number of industries and holdings, current income levels, turnover and the other tools employed by active managers are left to broad manager discretion. The usual standards of fiduciary prudence set forth in this policy statement and in individual investment management agreements and guidelines apply.

5. If allowed under their individual investment guidelines, equity managers may at their discretion hold investment reserves of either cash equivalents or bonds, but with the understanding that performance will nonetheless be measured against a representative stock index. Derivatives (currency forwards, options, futures, etc.) may be used to manage certain exposures (such as currency or market risk) if so specified under individual investment manager guidelines.

6. The objective of the Non-marketable Alternatives (venture capital, buyout and opportunistic funds) strategy is to enhance the long-term return of the CEF.

7. The objective of the Marketable Alternatives (long-short equity, event-driven arbitrage and relative value funds) strategy is to provide consistently positive real returns and portfolio protection in down markets.

8. The "other" category allows investment in opportunistic areas of the market, such as high yield or emerging markets bonds, which do not fit within the existing strategy definitions. The objective of the "other" category is to enhance the return of the CEF.

Acknowledge use of derivatives in the implementation of the Equity Fund.

Allow opportunistic use of investments that are not easily defined within the strategy descriptions. Such opportunities would be pursued only if believed to have a positive marginal impact on the performance of the CEF. The use of a separate category provides greater transparency when such opportunities are pursued.

G. GUIDELINES FOR THE REAL ASSETS FUND 1. The objective for the Real Assets Fund is to outperform, net of commissions and fees, a weighted average benchmark of relevant indices for real estate, commodities and Treasury Inflation Protected Securities (TIPS) on a risk-adjusted basis. Performance will be monitored on a regular basis and evaluated over running three- to five-year periods. 2. The real estate portion of the Real Assets Fund will be diversified by property type and geography. The University will invest in public and private real estate vehicles both domestically and internationally. Emphasis will be placed on investments in private real estate partnerships employing value-added and opportunistic strategies. Implementation may also include direct investment in real estate. Investments in publicly traded Real Estate Investment Trusts (REITS) will be made primarily to achieve exposure to core real estate. 3. An allocation to TIPS, commodities, and other real assets may be included within the Real Assets Fund. Implementation through public mutual funds, private partnerships, derivatives and direct investments is allowed. Both domestic and international investment vehicles may be used. These assets provide diversification, portfolio protection during inflationary periods, and support spending during prolonged economic contractions. 4. Decisions as to individual security, property, or asset selection are left to broad manager discretion. The usual standards of fiduciary prudence set forth in this policy statement and in individual investment management agreements and guidelines apply. 5. If allowed under their individual investment guidelines, Real Asset Fund managers may at their discretion hold investment reserves of either cash equivalents or bonds, but with the understanding that performance will nonetheless be measured against a representative index.	*Real Assets Fund implementation vehicles further defined in policy.*
H. GUIDELINES FOR THE FIXED INCOME FUND 1. The objective of the Fixed Income Fund is to outperform, net of commissions and fees, the Lehman Brothers Government Bond Index on a risk-adjusted basis. In addition, performance will be monitored against the average return of a representative universe of active fixed income managers. Performance will be monitored on a regular basis and evaluated over running three- to five-year periods. 2. The Fixed Income Fund may contain money market instruments, domestic and foreign bonds and other investment vehicles with risk / return characteristics consistent with the investment goal(s) of the Fund. Equities and convertibles (if the latter are bought at prices above their investment value) are generally excluded. Derivatives (currency forwards and options, futures, swaps and mortgage-related structured notes) may be used to manage certain exposures (such as currency or prepayment risk) if so specified under individual investment manager guidelines. 3. Fixed Income Fund managers are expected to employ active management techniques, including maturity, sector and quality considerations. Implementation may also be achieved through commingled funds, limited partnerships and fund-of-funds. 4. Marketable alternatives may be used as fixed income substitutes to provide an uncorrelated source of return with low volatility.	*Further definition of investments used in the implementation of the Fixed Income Fund.*
I. GUIDELINES FOR TRANSACTIONS As a general guideline that should apply to all assets managed, transactions should be entered into on the basis of best execution, which is interpreted normally to mean best realized price. Commissions may be designated for payment of services rendered to the University in connection with investment management.	*No changes.*

J. MONITORING OF OBJECTIVES AND RESULTS 1. All objectives and policies are in effect until modified. The Finance, Audit and Facilities Committee with advice from the Chief Investment Officer (CIO) and UWINCO will review these periodically for their continued appropriateness. It is anticipated that changes to the asset allocation targets and ranges will be made infrequently. 2. The CEF portfolios will be monitored on a continual basis for consistency in investment philosophy; return relative to objectives; and investment risk as measured by asset concentrations; exposure to extreme economic conditions; and market volatility. Performance will be reviewed at least annually by the Finance, Audit and Facilities Committee and with UWINCO on a quarterly basis. Results will be evaluated over longer time frames including the inception period, running three- to five-year periods, and complete market cycles. 3. The CIO will review individual managers as needed in order to confirm that performance expectations remain in place. In addition, portfolio activity will be reported on a regular basis to the Finance, Audit and Facilities Committee and UWINCO. 4. A statement of investment objectives and guidelines will be maintained for each public investment manager where the University's assets are managed in a separate account.	*Emphasis on continuous monitoring and reporting to UWINCO and the FAF.* *Note that the asset allocation targets and ranges are designed for infrequent change and adjustment.*
K. DELEGATIONS Delegations related to the management of the University's investment portfolios are as follows: 1. Board of Regents: a. Approve investment policies which guide the management of the University's investment portfolios. This includes but is not limited to the strategic asset allocation, performance goals, spending and delegations. b. Establish membership criteria and operational procedures for the Investment Committee (UWINCO). Approve appointment of UWINCO members. c. Approve appointment of the Treasurer of the Board of Regents and the Chief Investment Officer. Liquidate quasi-endowments. These funds represent assets donated to the University which have been accepted by the Board of Regents or its administrative designee as "quasi-endowments." The decision to place the assets in a quasi-endowment is based on administrative recommendation and can therefore be reversed. Full or partial liquidation of quasi-endowments valued at $1 million or higher requires action by the full Board of Regents. Full or partial liquidation of quasi-endowments valued at less than $1 million is delegated to the Finance, Audit and Facilities Committee of the Board of Regents.	*Recognize authority of the Board of Regents in approving the appointments of UWINCO members, the Treasurer and the CIO.* *UWINCO members formerly appointed by the Chair of the BoR.*
2. Chair of the Board of Regents: a. ~~Appoint~~ Recommend members of the Investment Committee (UWINCO) for formal approval by the Board of Regents. Recommendations will be made in consultation with the Chair of the Finance, Audit and Facilities Committee, other members of the Board of Regents and the Chief Investment Officer (CIO). b. Approve investment manager appointments and direct investments in situations where the CIO and the UWINCO Chair are unavailable or unable to do so.	*Formal appointment of UWINCO members now by the BoR.*
3. Finance, Audit and Facilities Committee: a. Oversee the University's investment programs within the broad guidelines established by the investment policies. b. Appoint the University's investment consultant(s). c. Recommend endowment spending policy changes to the Board for approval. It is anticipated that such changes will be infrequent. d. Review the asset allocation and strategy recommendations of the CIO and UWINCO. Recommend policy changes as appropriate to the Board of Regents. e. ~~Establish~~ Recommend criteria for UWINCO membership and procedures for UWINCO meetings for approval by the Board of Regents.	*Formal approval of UWINCO membership criteria and operational procedures now by the BoR.*

4. Chair of the Finance, Audit and Facilities Committee: a. Serve as Chair of UWINCO or appoint a Regent designee.	*No changes.*
5. Regent Chair of UWINCO: a. Assume responsibility for the appointment of investment managers and approval of direct investments in situations where the CIO is unavailable or unable to do so. Recommendations will be developed in conjunction with the Treasurer of the Board of Regents and UWINCO members involved in due diligence on specific managers and strategies.	*Authority expanded to include direct investments.*
6. Investment Committee (UWINCO): a. Advise the Finance, Audit and Facilities Committee, the Treasurer of the Board of Regents and the Chief Investment Officer on matters relating to the management of the University's investment portfolios. This includes, but is not limited to, advice on overall asset allocation, performance goals, portfolio risk, new investment strategies, strategy implementation, manager identification and due diligence. b. UWINCO members shall not participate in the formulation or rendering of UWINCO advice where their participation could be influenced by financial or other considerations that would reasonably appear to conflict with their UWINCO obligations to only consider the best interest of the University. Where a member is uncertain about this rule, the member should consult the Treasurer, who will seek the advice of the Attorney General as appropriate.	*Portfolio risk added to list of UWINCO advisory areas.*
7. Executive Vice President: ~~a. Approve investment management agreements, limited partnership agreements, custody agreements and other investment related documents upon satisfactory completion of reviews as appropriate by the State Attorney General, outside legal counsel and the University's investment consultant. Approval authority is delegated to the Treasurer of the Board of Regents when the Executive Vice President is otherwise unavailable.~~ b. Administer internal fees for management and administrative activities related to the endowment. c. Approve use (if any) of professional staff bonus pool.	*Approval authority over bonus pool moved to the EVP.* *With the addition of the CIO, some administrative authorities are delegated to the Treasurer.*
8. Treasurer of the Board of Regents: a. ~~Appoint the Chief Investment Officer and approve use (if any) of professional staff bonus pool. The CIO reports to the Treasurer of the Board of Regents.~~ Assume supervisory responsibility for the CIO position. b. Approve investment custodian appointment(s). c. Assume the responsibilities of the CIO when the position is vacant. The exceptions to this delegation are the appointment of investment managers and the approval of direct investments (paragraph K9d) which are extended to the Regent Chair of UWINCO. d. Execute investment management agreements, limited partnership agreements, custody agreements and other investment related documents upon satisfactory completion of reviews as appropriate by the State Attorney General, outside legal counsel and the University's investment consultant. This authority is delegated to the Chief Investment Officer when the Treasurer is otherwise unavailable.	*CIO appointment now by the BoR. Approval to use bonus pool moved to EVP.* *The Treasurer has additional administrative authorities formerly delegated to the EVP.*

9. Chief Investment Officer: a. Manage the day-to-day activities of the University's investment portfolios within the broad guidelines established by the investment policies. b. Approve tactical moves relative to long-term policy targets when warranted by market conditions or risk considerations. The deliberate decision to overweight or underweight a strategy relative to its policy target is made in consultation with UWINCO, the University's investment consultant(s) and the Treasurer of the Board of Regents. c. Seek the advice of the University's investment consultant(s) and members of the UWINCO on issues related to the management of the investment portfolios. Incorporate such advice in the implementation of the investment program. d. Appoint new investment managers and approve direct investments. Approved investments shall fall within the policy guidelines adopted by the Board of Regents. e. Approve follow-on limited partnership investments. f. Approve the dollar value of assets allocated to new and existing investment managers and reallocate assets among managers in accordance with long-term strategic targets. g. Approve individual investment manager guidelines. h. Monitor individual investment managers on a regular basis to ensure that performance and compliance expectations are met. i. Monitor aggregate portfolio risk regularly to insure that the long-term purchasing power of the CEF is preserved. j. Approve use of derivatives to manage the aggregate portfolio risk/return profile. This includes the use of swaps, options, futures and other derivative products to adjust exposures, to equitize cash, or to rebalance across asset classes. k. Approve appropriate usage and timing of leveraged strategies within the CEF. l. Terminate investment managers, including the authority to liquidate limited partnership interests or to reduce strategy exposures through other means. The Chair of the Finance, Audit and Facilities Committee and the Chair of UWINCO will be notified immediately. This authority is typically exercised due to performance concerns, organizational changes, or structural considerations within the UW investment portfolio. m. Take action as appropriate in support of shareholder resolutions related to human rights violations in Burma. This delegation will remain in effort until December 31, 2007.	*Tactical over or underweighting of portfolio exposures by the CIO reflects an active management of the risk-return tradeoffs.* *Importance of regular risk monitoring to insure that endowment objectives are met is stressed.* *Ability to use derivatives and implement leveraged strategies as portfolio risk / return management tools specifically granted to the CIO.*

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UNIVERSITY OF WASHINGTON

STATEMENT OF INVESTMENT OBJECTIVES AND POLICY

FOR INVESTED FUNDS

Approved by Board of Regents May 20, 1988

Amended November 18, 1988; January 18, 1991; July 17, 1992; September 17, 1993; September 20, 1996; September 19, 1997; November 19, 1999; January 21, 2000; May 18, 2001; June 14, 2002; November 21, 2003; January 16, 2004; July 16, 2004; and May 20, 2005

INTRODUCTION

The Board of Regents of the University of Washington is vested by statute with responsibility for the management of the properties of the University. This statement of investment objectives and policies governs the investment management of the Invested Funds (IF). This statement is effective until modified by the Board.

The Board has delegated to its Finance, Audit and Facilities Committee (FAF) the responsibility for overseeing the investment program within the general principles enumerated herein. In May 2001, the Board approved the establishment of an advisory committee (UWINCO) consisting of both Board members and external investment professionals. In 2004, the Board approved the appointment of the University's first Chief Investment Officer (CIO) to manage the day to day activities of the investment portfolios.

A. INVESTMENT OBJECTIVES 1. The overall financial objective of the IF is to enable the University to meet its financial obligations as they come due. A secondary objective is to achieve investment returns above those of money market instruments. 2. The investment performance of the IF will be evaluated, on a risk-adjusted basis, relative to a blend of market indices that reflect the overall asset allocation of the fund.	*No changes.*
B. INVESTMENT MANAGEMENT STRUCTURE 1. The Invested Funds will be invested primarily by external investment management firms. External investment management firms will be	*No changes.*

selected on the basis of factors including but not limited to the following: the experience of key personnel; investment philosophy; assets under management; organizational structure; performance record; investment management fees; and the firm's ethical and financial viability.

2. Funds may also be invested in bank short-term investment funds and in approved instruments managed internally by University financial personnel.

C. PORTFOLIO COMPOSITION AND POOL ALLOCATION

1. The IF shall be divided into three pools:

Pool Allocation

	Target	*Policy Range*	*Global Range Within Each Pool*
Cash Pool (2,4,5,6)	~~25%~~ 20%	~~20-40%~~ 10-40%	0-40%
Liquidity Pool (3,4,5,6)	50%	30-60%	0-25%
~~*D.I.P*~~.*CEF Pool* (6,7)	~~25%~~ 30%	15-40%	15-35%

2. The Cash Pool will be invested in a portfolio of high quality short to intermediate-term fixed-income securities. The maximum average duration of the portfolio will be three years. The Cash Pool will have an average quality rating of "AA".

3. The Liquidity Pool will be invested in a portfolio of high quality intermediate-term fixed-income securities with an average duration that may vary modestly from the benchmark. The Liquidity Pool will have at least half of its funds invested in obligations of the U.S. Government and its agencies. The Liquidity Pool will have an average quality rating of at least "A".

4. Global strategies may be employed in the Cash Pool and the Liquidity Pool if so specified under individual investment manager guidelines. Non-U.S. fixed-income securities will be subject to the equivalent quality and duration guidelines as domestic fixed-income securities. Manager performance will be evaluated against the domestic benchmarks specified in Paragraph D.

5. Direct and derivative investments in fixed income substitutes may be used in the Cash Pool and the Liquidity Pool to improve the aggregate risk / return profile of the IF. Pool performance will be evaluated the domestic benchmarks specified in Paragraph D.

Changes to policy targets and ranges reflect practice of managing cash more tightly and maximizing allocation to corporate securities. The constitutional prohibition limits investment in corporate securities to total non-endowed gift dollars in the IF (historically 30 – 35%).

Fixed income substitutes may be used to improve the risk / return

6. Direct investments in tobacco companies are prohibited. 7. The ~~Diversified Investment Pool (DIP~~) CEF Pool will invest directly in the Consolidated Endowment Fund (CEF) through the periodic purchase and sale of CEF units. This Pool is subject to the provisions contained in the “Statement of Investment Objectives and Policy for the Consolidated Endowment Fund.	*profile of the IF.* *“Diversified Investment Pool” renamed “CEF Pool” to better reflect investment approach*
D. GUIDELINES FOR THE INVESTMENT POOLS 1. The objective of the Cash Pool will be to meet the day-to-day obligations of the University. The Cash Pool performance objective is to outperform, net of commissions and fees, the Salomon Brothers Two-Year Treasury Index on a risk-adjusted basis. Performance will be monitored on a regular basis and evaluated over rolling three-to-five year periods. 2. The objective of the Liquidity Pool will be to provide a liquid source of funds in the event the Cash Pool is insufficient to meet the University’s cash needs. The Liquidity Pool performance objective is to outperform, net of commissions and fees, the Intermediate Lehman Brothers Government Bond Index on a risk-adjusted basis. Performance will be monitored on a regular basis and evaluated over rolling three-to-five year periods. 3. The objective of the ~~Diversified Investment Pool~~ CEF Pool will be to provide a flow of financial support to University programs that will grow at least as fast as the rate of inflation (as measured by the Consumer Price Index). In addition, the ~~Diversified Investment Pool~~ CEF Pool shall provide a source of funds in the very unlikely event the Cash Pool and Liquidity Pool are insufficient to meet the University’s day-to-day obligations. 4. The IF may include state funds for which there are investment limitations established by law or regulation. The University will ensure that there are sufficient legally allowable securities in the pool to collateralize the state funds position by 102 percent. State funds are defined as funds appropriated by the legislature and local funds used to offset such appropriations. This definition includes both the state general fund and the general/local fund but does not include the dedicated local fund (indirect cost recoveries) or the restricted local fund (gifts, grants and contracts). It also excludes cash balances of the University’s business enterprises, annuity and life income funds, endowments, and trust funds.	*Wording clarification.*

E. GUIDELINES FOR TRANSACTIONS As a general guideline that should apply to all assets managed, transactions should be entered into on the basis of best execution, which is interpreted normally to mean best-realized price. Commissions may be designated for payment of services rendered to the University in connection with investment management.	*No changes.*
F. MONITORING OF OBJECTIVES AND RESULTS 1. All objectives and policies are in effect until modified. The Finance, Audit and Facilities Committee with advice from the Treasurer of the Board of Regents, the Chief Investment Officer and/or UWINCO will review these periodically for their continued appropriateness. 2. The Invested Funds portfolios will be monitored on a continual basis for consistency in investment philosophy; return relative to objectives; investment risk as measured by asset concentrations; exposure to extreme economic conditions; and market volatility. Performance will be reviewed at least annually by the Finance, Audit and Facilities Committee. Results will be evaluated over longer time frames including the inception period, running three- to five-year periods, and complete market cycles. 3. The CIO will review the individual managers as needed in order to confirm that performance expectations remain in place. In addition, portfolio activity will be ~~reviewed as needed~~ reported on a regular basis to the Finance, Audit and Facilities Committee 4. A statement of investment objectives and guidelines will be maintained for each public investment manager where the University's assets are managed in a separate account.	*Minor wording changes to align IF policy with the CEF policy.*
G. DELEGATIONS Delegations related to the management of the University's investment portfolios are as follows: 1. Board of Regents: a. Approve investment policies which guide the management of the University's investment portfolios. This includes but is not limited to the strategic asset allocation, performance goals and delegations. b. Establish membership criteria and operational procedures for the	*Recognize authority of the Board of Regents in approving the appointments of UWINCO members, the Treasurer and the CIO.* *UWINCO*

Investment Committee (UWINCO). Approve appointment of UWINCO members. c. Approve appointment of the Treasurer of the Board of Regents and the Chief Investment Officer.	*members formerly appointed by the Chair of the BoR.*
2. Chair of the Board of Regents: a. ~~Appoint~~ Recommend members of the Investment Committee (UWINCO) for formal appointment by the Board of Regents. Recommendations will be made in consultation with the Chair of the Finance, Audit and Facilities Committee, other members of the Board of Regents and the Chief Investment Officer (CIO). b. Approve investment manager appointments and direct investments when the CIO and the UWINCO Chair are unavailable or unable to do so.	*Formal appointment of UWINCO members now by the BoR.*
3. Finance, Audit and Facilities Committee: a. Oversee the University's investment programs within the broad guidelines established by the investment policies. b. Appoint the University's investment consultant(s). c. Review the asset allocation and strategy recommendations of the Chief Investment Officer (CIO) and UWINCO. Recommend policy changes as appropriate to the Board of Regents. d. Recommend criteria for UWINCO membership and procedures for UWINCO meetings for approval by the Board of Regents.	*Formal approval of UWINCO membership criteria and operational procedures now by the BoR.*
4. Chair of the Finance, Audit and Facilities Committee: a. Serve as Chair of UWINCO or appoint a Regent designee.	*No changes.*
5. Regent Chair of UWINCO: a. Assume responsibility for the appointment of investment managers and direct investments when the CIO position is vacant. Recommendations will be developed in conjunction with the Treasurer of the Board of Regents and UWINCO members involved in due diligence on specific managers and strategies.	*Authority expanded to include direct investments.*
6. Investment Committee (UWINCO):	

a. Advise the Finance & Audit Committee and Treasurer of the Board of Regents/Chief Investment Officer on matters relating to the management of the University's investment portfolios. This includes, but is not limited to, advice on overall asset allocation, performance goals, portfolio risk, new investment strategies, strategy implementation, manager identification and due diligence. b. UWINCO members shall not participate in the formulation or rendering of UWINCO advice where their participation could be influenced by financial or other considerations that would reasonably appear to conflict with their UWINCO obligations to only consider the best interest of the University. Where a member is uncertain about this rule, the member should consult the Treasurer, who will seek the advice of the Attorney General as appropriate.	*Portfolio risk added to list of UWINCO advisory areas.*
7. Executive Vice President: ~~a. Approve investment management agreements, limited partnership agreements, custody agreements and other investment related documents upon satisfactory completion of reviews as appropriate by the State Attorney General, outside legal counsel and the University's investment consultant. Approval authority is delegated to the Treasurer of the Board of Regents when the Executive Vice President is otherwise unavailable.~~ b. Loan funds from the Invested Funds ~~Diversified Investment Pool~~ for periods up to five years to campus departments as long as such loans do not materially reduce the investment return to the Fund ~~Pool~~. No more than five ~~15~~ percent of the IF ~~DIP~~ will be loaned without consultation with the Finance, Audit and Facilities Committee. c. Approve the use of the ~~Diversified Investment Pool~~ CEF Pool as an alternative investment vehicle for qualifying campus units. Generally, a minimum of $10 million in Invested Funds balances and an investment time horizon of at least three years will be required for consideration. d. Administer internal fees for management and administrative activities related to the Invested Funds.	*With the addition of the CIO, some administrative authorities are delegated to the Treasurer.* *Funding source for internal loans now identified as the total IF rather one of its pools.*

8. Treasurer of the Board of Regents ~~a.~~ ~~Appoint the Chief Investment Officer and approve use (if any) of professional staff bonus pool. The CIO reports to the Treasurer of the Board of Regents.~~ Assume supervisory responsibility for the CIO position. b. Allocate funds among the three Invested Funds' investment pools under policies established by and subject to review by the Investment Committee (UWINCO). c. Approve investment custodian appointment(s). d. Assume the responsibilities of the CIO when the position is vacant. The exception to this delegation is the appointment of investment managers and the approval of direct investments (paragraph G8c) which is extended to the Regent Chair of UWINCO. e. Execute investment management agreements, limited partnership agreements, custody agreement and other investment related documents upon satisfactory completion of reviews as appropriate by the State Attorney General, outside legal counsel and the University's investment consultant. This authority is delegated to the Chief Investment Officer when the Treasurer is otherwise unavailable.	*CIO appointment now by the BoR.* *The Treasurer has additional administrative authorities formerly delegated to the EVP.*
9. Chief Investment Officer a. Manage the day-to-day activities of the University's investment portfolios within the broad guidelines established by the investment policies. b. Seek the advice of the University's investment consultant(s) and members of the UWINCO on issues related to the management of the investment portfolios. Incorporate such advice in the implementation of the investment program. c. Appoint new investment managers and approve direct investments. Approved investments shall fall within the policy guidelines adopted by the Board of Regents. d. Approve follow-on limited partnership investments. e. Approve the dollar value of assets allocated to new and existing investment managers and reallocate assets among managers in	*Changes align with policy delegations in the CEF investment policy.* *Authority to approve direct investments, derivatives and leveraged strategies specifically granted to the CIO.*

accordance with long-term strategic targets. f. Approve individual investment manager guidelines. g. Monitor individual investment managers on a regular basis to ensure that performance and compliance expectations are met. h. Approve use of derivatives to manage the aggregate portfolio risk/return profile. This includes the use of swaps, options, futures and other derivative products to adjust exposures, to equitize cash, or to rebalance across asset classes. i. Approve appropriate usage and timing of leveraged strategies within the IF. j. Terminate investment managers, including the authority to liquidate limited partnership interests or to reduce strategy exposures through other means. The Chair of the Finance, Audit and Facilities Committee and the Chair of UWINCO will be notified immediately. This authority is typically exercised due to performance concerns, organizational changes, or structural considerations within the UW investment portfolio. k. Take action as appropriate in support of shareholder resolutions related to human rights violations in Burma. This delegation will remain in effort until December 31, 2007.	

UNIVERSITY OF WASHINGTON

STATEMENT OF INVESTMENT OBJECTIVES AND POLICY

FOR THE ~~SELF-INSURANCE REVOLVING FUND AND~~ PORTAGE BAY INSURANCE

Approved by Board of Regents November 21, 1997 (SIRF)

Amended January 21, 2000; May 18, 2001; June 14, 2002; November 21, 2003; and May 20, 2005

With the exception of the footnote reference on page 1 of the policy document, reference to the Self-Insurance Revolving Fund has been struck from this policy document. This change reflects the liquidating nature of the Self-Insurance Revolving Fund and focuses the policy document on Portage Bay Insurance as the ongoing business concern.

INTRODUCTION

The Board of Regents of the University of Washington is vested by statute with responsibility for the management of the properties of the University. This statement of investment objectives and policy governs the investment management of *Portage Bay Insurance (PBI)*[1]. This statement is effective until modified by the Board.

The Board delegated to its Finance, Audit and Facilities Committee the responsibility for overseeing its investment programs within the general principles enumerated herein.

A. INVESTMENT OBJECTIVES 1. The overall financial objective of the PBI is to provide for the payment of judgments and claims against the University, its schools, colleges, departments, hospitals and personnel. The secondary financial objective is to stabilize the University's risk financing costs. 2. The primary investment objective of the PBI is to provide the University a maximum level of return subject to a low probability of negative returns over rolling three year periods. The secondary investment objective is to maximize long-term capital growth within acceptable risk levels. 3. The investment performance of the PBI will also be evaluated, on a risk-adjusted basis, relative to a blend of market indices that reflect the overall asset allocation of the funds.	No changes.

[1] In June of 2002, the University established Portage Bay Insurance, a separate corporation, to pay liabilities arising after July 1, 2002. This company will be operated concurrently with the Self-Insurance Revolving Fund (SIRF) until the assets of SIRF have been depleted in approximately 2008. PBI will be then the sole entity responsible for paying University insurance claims. PBI was initially capitalized with assets from the SIRF and is funded on an ongoing basis with University premiums.

B. INVESTMENT MANAGEMENT STRUCTURE 1. The *PBI* assets will be invested primarily by external investment managers. External investment management firms will be selected on the basis of factors including but not limited to the following: the experience of key personnel; insurance industry expertise; assets under management; asset/liability modeling capability; investment philosophy; ability to work effectively with the University's existing actuarial and excess carrier relationships; organizational structure; performance record; investment management fees; and the firm's ethical and financial viability. 2. The University may invest the PBI assets in one or more of its institutional fund vehicles such as the operating fund (a.k.a. "Invested Funds") or the Consolidated Endowment Fund if this alternative provides superior risk/return characteristics.	*Implementation of the PBI investment strategy may be accomplished through the appointment of separate investment manager(s) dedicated to the investment of the insurance portfolios and/or through one of the University's commingled fund vehicles.*
C. PORTFOLIO COMPOSITION AND ASSET ALLOCATION 1. The assets of the PBI will be held and monitored separately for investment purposes. The asset allocation of the two insurance portfolios may vary based upon liquidity and other considerations. 2. To achieve its investment objective, the PBI investments will be divided into two parts: a "Fixed Income Portfolio" and an "Equity Portfolio". The purpose of dividing the funds in this manner is to ensure that the overall asset allocation between these two major asset classes remains under the regular scrutiny of the Finance, Audit and Facilities Committee or its delegate.	*To provide flexibility in managing portfolio exposure, the upper end of the equity portfolio range is widened.*

Asset Class	Long-term Target	Policy Range
Fixed Income Portfolio	**75%**	**70% - 100%** **65% - 100%**
Equity Portfolio	**25%**	**~~0 - 30%~~** **0 - 35%**

3. The purpose of the Fixed Income Portfolio is to produce current income to supplement discounted insurance premiums. The Fixed Income Portfolio performance objective is to outperform, net of commissions and fees, the Lehman Brothers Government Corporate Bond Index on a risk-adjusted basis. Performance will be monitored on a regular basis and evaluated over rolling three-to five year periods. 4. The Fixed Income Portfolio will be invested in a portfolio of fixed income securities with an average duration that may vary modestly from the benchmark. The Fixed Income Portfolio will have an average quality rating of at least "A". 5. The purpose of the Equity Portfolio is to provide a total return that will provide for growth in principal. It is recognized that the Equity Portfolio entails the assumption of greater market variability and risk. The Equity Portfolio performance objective is to outperform, net of commissions and fees, the S&P 500 index on a risk-adjusted basis. Performance will be monitored on a regular basis and evaluated over rolling three-to five year periods. 6. International securities may be employed in the Fixed Income Portfolio and the Equity Portfolio if so specified under individual investment manager guidelines. Manager performance will be evaluated against a domestic benchmark. 7. Direct and derivative investments, commingled funds and fund of funds may be used in implementing the asset allocation. 8. Direct investments in tobacco companies are prohibited. 9. Funds invested directly in a commingled fund portfolio managed by the University will be subject to the policy provisions contained therein.	*Further description of available investment vehicles used in implementation is added to policy.*

D. GUIDELINES FOR TRANSACTIONS As a general guideline that should apply to all assets managed, transactions should be entered into on the basis of best execution, which is interpreted normally to mean best realized price. Commissions may be designated for payment of services rendered to the University in connection with investment management.	*No changes.*
E. MONITORING OF OBJECTIVES AND RESULTS 1. All objectives and policies are in effect until modified. The Finance, Audit and Facilities Committee will review these periodically for their continued appropriateness. 2. The PBI portfolio will be monitored on a continual basis for consistency in investment philosophy; return relative to objectives; and investment risk as measured by asset concentrations; exposure to extreme economic conditions; and market volatility. Portfolios will be reviewed at least annually by the Finance, Audit and Facilities Committee but results will be evaluated over longer time frames including the inception period, running three- to five-year periods, and complete market cycles. 3. The Treasurer of the Board of Regents will review individual managers as needed in order to confirm that performance expectations remain in place. 4. A statement of investment objectives and guidelines shall be maintained for each public investment manager where the University's assets are managed in a separate account.	*No changes.*

F. DELEGATIONS Delegations related to the management of the University's investment portfolios are as follows: 1. Board of Regents: a. Approve investment policies which guide the management of the University's investment portfolios. This includes but is not limited to the strategic asset allocation, performance goals and delegations. 2. Finance, Audit and Facilities Committee: a. Oversee the University's insurance programs within the broad guidelines established by the investment policies. b. Appoint the University's investment consultant(s). c. Review the asset allocation and strategy recommendations of the Treasurer of the Board of Regents. Recommend policy changes as appropriate to the Board of Regents. ~~Chair of the Finance, Audit and Facilities Committee:~~ ~~d. Serve as Chair of UWINCO or appoint a Regent designee.~~ ~~Regent Chair of UWINCO:~~ ~~(intentionally blank)~~ ~~Investment Committee (UWINCO):~~ ~~e. Advise the Finance & Audit Committee and Treasurer of the Board of Regents/Chief Investment Officer on matters relating to the management of the University's investment portfolios. This includes, but is not limited to, advice on overall asset allocation, performance goals, new investment strategies, strategy implementation, manager identification and due diligence.~~ ~~f. UWINCO members shall not participate in the formulation or rendering of UWINCO advice where their participation could be influenced by financial or other considerations that would reasonably appear to conflict with their UWINCO obligations to only consider the best interest of the University. Where a member is uncertain about this rule, the member should consult the Treasurer, who will seek the advice of the Attorney General as appropriate.~~ 3. Executive Vice President / Treasurer of the Board of Regents:	*Delegations simplified to reflect primary roles of the FAF Committee and the CIO in the management of the PBI investment portfolio.*

a. Approve investment management agreements, investment limited partnership agreements, custody agreements and other investment related documents upon satisfactory completion of reviews as appropriate by the State Attorney General, outside legal counsel and the University's investment consultant. 4. Chief Investment Officer a. Manage the day-to-day activities of the University's *PBI* investment portfolios within the broad guidelines established under this policy. b. Seek the advice of the University's investment consultant(s), Treasurer and members of the University of Washington Investment Committee (UWINCO) on issues related to the management of the investment portfolios. c. Appoint new investment firms to manage the University's insurance assets and investment custodians. Approved firms will pursue investment strategies that fall within the guidelines established in policy by the Board of Regents. d. Terminate existing investment relationships with firms responsible for the management of the University's insurance assets. This authority is typically exercised due to performance concerns, organizational changes, or structural considerations within the insurance portfolios. e. Approve the overall asset allocation of the *PBI* portfolios within the long-term ranges established under this policy. f. Approve the dollar value of assets allocated to new and existing investment firms responsible for the management of the University's insurance assets and reallocate assets among such managers in accordance with long-term strategic targets. g. Monitor individual investment firms on a regular basis to ensure that performance and compliance expectations are met. h. Approve individual investment manager guidelines. i. With input and direction from the Executive Director of Risk Management, direct asset/liability modeling of the *PBI* portfolios. F–5.3/205: 5/19/05	*CIO assumes day-to-day management responsibilities formerly held by the Treasurer.* *Indicates advisory role of the UWINCO, the Treasurer and the University's consultant in the management of the University's investment portfolios.*

UNIVERSITY OF WASHINGTON

STATEMENT OF INVESTMENT OBJECTIVES AND POLICY

FOR DEFERRED AND OTHER GIFT ASSETS

Approved by Board of Regents January 17, 1992

Amended September 19, 1997; May 18, 2001; November 21, 2003; and May 20, 2005

INTRODUCTION

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 also acts as trustee for deferred gifts, including annuities and trusts. This statement of objectives and policies governs the investment management of deferred gift assets (including trusts and annuities) and other non-consolidated gift assets (including real estate, debt instruments secured by real estate, closely held stock, and partnership interests). This statement is effective until modified by the Board.

The Board has delegated to its Finance, Audit and Facilities Committee the responsibility for overseeing its deferred gift investment program within the general principals enumerated herein. The Committee has the authority to further delegate responsibility for management/monitoring of these investments.

A. TYPES OF GIFTS

Deferred gift assets are available for investment when a donor transfers cash or assets to the University of Washington and obtains, in exchange, a life income based on the value of donated assets. The forms in which gifts may currently be established include: charitable gift annuity (no trust), charitable remainder unitrust, charitable remainder annuity trust, pooled income fund (pooled trust), and charitable lead trust. Each deferred gift plan has a signed standard agreement which specifies the type of plan, amount of the income payments, purpose and use of the deferred gift.

B. INVESTMENT OBJECTIVES

1. Deferred Gift Assets:

    a. The primary financial objective for the investment management of deferred gift assets is to meet the payout requirements of the gift instrument. Secondarily, the objective is to maximize the expected real value of the residual trust to the University of Washington with an appropriate level of risk given the first (and primary) objective.

2. Real Estate and Real Estate Contracts:

a. Generally, the University of Washington will not agree to hold individual real estate gifts for investment purposes. The objective in accepting, retaining, and liquidating gift real estate is to obtain a fair return from the property in a timely manner relative to the expenses and effort required to hold, maintain and manage the property until disposition. The University of Washington may choose to finance the sale of real estate gifts if it is judged to provide the best return at an appropriate risk.

3. Other Non-Consolidated Gift Assets:

a. Generally, the University of Washington will not agree to hold gifts of tangible personal property (such as art or coin collections) for investment purposes. The University of Washington may hold securities in start-up, closely held companies or limited partnership interests for investment purposes, if the assets cannot be sold. Such positions will only be taken if there is an acceptable degree of risk relative to expected return to the University of Washington from holding such an asset.

C. INVESTMENT MANAGEMENT STRUCTURE

Deferred gift assets will be invested primarily by an external investment manager. External investment management firms will be selected on the basis of factors including but not limited to the following: the experience of key personnel; investment philosophy; assets under. management; organizational structure; ability to provide or work closely with external deferred gift administrative services provider; performance record; investment management fees; and the firm's ethical and financial viability.

D. PORTFOLIO COMPOSITION AND ASSET ALLOCATION

1. Deferred gift assets will be broadly diversified using various commingled funds including stocks, bonds, and alternative assets such as venture capital or equity real estate. In certain cases, individual investment securities may be purchased and sold by the trusts, depending upon circumstances. These commingled funds (and, when applicable, securities) will be held in various deferred gifts in different ratios, depending on the income/total return characteristics that are desired for any individual gift.

2. When selecting a stock/bond mix, it is not necessary in all cases to make a selection that will produce an income level equal to the payout requirement. This will vary by gift vehicle and the express desires of the donor with respect to income production. Because higher stock/bond rations are expected to produce higher rates of total return (but lower levels of income), higher ratios will be generally preferred when they are consistent with the guidelines and objectives of the individual gift plans.

3. Typically, stock/bond ratios will be selected with particular attention to the risk of asset erosion due to a severe decline in the stock market and the need to make an ongoing payout. The risk of the investment strategy selected will not exceed that of a 70/30

stock/bond portfolio except as approved by the Treasurer of the Board of Regents on a trust by trust basis.

4. In individual cases, as appropriate, the University of Washington may retain assets transferred by the donor (such as real estate, marketable securities or closely held stock), without diversification, provided the gift instrument permits such discretion and relieves the University of Washington of a duty to diversify the gift portfolio.

E. GUIDELINES FOR TRANSACTIONS

As a general guideline that should apply to all assets managed, transactions should be entered into on the basis of best execution, which is interpreted normally to mean best realized price.

F. F. MONITORING OF OBJECTIVES AND RESULTS

Performance measurement reports for deferred gift assets will be prepared by the Office of the Treasurer. Benchmarks/universes will be consistent with the approach used for the Consolidated Endowment Fund and the Invested Funds of the University of. Washington. Summary reports will be shared with the Finance, Audit and Facilities Committee or its delegate.

G. DELEGATIONS

Delegations related to the management and administration of the University's deferred gift investment portfolios are as follows:

1. Board of Regents:

    a. Approve investment policies which guide the management of the University's investment portfolios. This includes but is not limited to the strategic asset allocation, performance goals and delegations.

2. Finance, Audit and Facilities Committee:

    a. Oversee the University's investment programs within the broad guidelines established by the investment policies.

    b. Appoint the University's investment consultant(s).

    c. Review the asset allocation and strategy recommendations of the Treasurer of the Board of Regents. Recommend policy changes as appropriate to the Board of Regents.

3. Executive Vice President:

    a. Approve investment management agreements, custody agreements and other investment related documents upon satisfactory completion of reviews as appropriate by the State Attorney General, outside legal counsel and the University's investment consultant. Approval authority is delegated to the Treasurer of the Board of Regents when the Executive Vice President is otherwise unavailable.

4. Treasurer of the Board of Regents

   a. Appoint deferred gifts investment manager and custodian.

   b. Appoint deferred gifts external administrator.

   c. Seek the advice of the University's investment consultant(s), Chief Investment Officer and members of the University of Washington Investment Committee (UWINCO) as appropriate on issues related to the management of the deferred giving investment program.

   d. Approve investment manager guidelines.

   e. Communicate key decisions, made in consultation with the Executive Vice President to the Finance, Audit and Facilities Committee.

   f. Where appropriate, consult with the Vice President for Development and Alumni Relations and related personnel and/or the Director of Real Estate regarding deferred gift policy/guideline issues.

   g. Monitor the deferred gifts' investment manager in order to confirm that the performance expectations remain in place.

5. Director of Real Estate

   a. Make decisions regarding the liquidation of gift real estate in consultation with the Treasurer, the Vice President for Development and Alumni Relations and related personnel from both offices as appropriate.

6. Director of Gift Planning

   a. With the concurrence of the Treasurer of the Board of Regents, or designee, recommend acceptance of current gifts of non-traditional investment assets, charitable lead trusts where the University is to act as trustee, bargain sale gifts of property, and partial interest gifts.

[See also Chapter I of the Standing Orders of the Board of Regents, Section (8), Gift Evaluation and Acceptance]

F–5.4/205
5/19/05