

**VII. STANDING COMMITTEES****B. Finance, Audit and Facilities Committee****Interim Adjustment to the Consolidated Endowment Fund (CEF) Investment Policy****RECOMMENDED ACTION:**

It is the recommendation of the University of Washington Investment Committee (UWINCO) and the Finance, Audit and Facilities Committee (FAF) that the Board of Regents approve an interim adjustment to the CEF policy asset allocation range for the emerging markets strategy. The interim adjustment extends the upper limit of the range from 15% to 25%. This exception to policy expires June 30, 2008.

**BACKGROUND:**

In 1988, the Board of Regents adopted the investment policy for the University of Washington's Consolidated Endowment Fund (CEF). The Board of Regents reviews the policy asset allocation and investment strategies of the CEF annually, adopting periodic amendments to policy which reflect the changing nature of the portfolio.

The last major revision to the policy asset allocation occurred in 2005. In 2008, the Board of Regents will consider a CEF policy asset allocation change that will further extend international exposure. A full portfolio review and analysis will accompany the recommendation.

**INTERIM ADJUSTMENT:**

The CEF is currently positioned with a 5% overweight to emerging markets relative to its policy target with funding coming from domestic equity (-2%) and fixed income (-3%). While the investments team continues to research and invest in emerging markets opportunities – particularly in Asia – much of the growth is organic. The CEF emerging markets portfolio returned 75% over the past year and an annualized 44% over the past three years. While such strong performance generally signals caution, valuations remain attractive and economic growth continues at a healthy pace.

The recommended exception to policy will broaden the policy range on emerging markets from 5 – 15% to 5 – 25%. This flexibility positions the investment team to manage the portfolio to best advantage in both rising and falling capital markets. This adjustment to the policy range on the emerging markets strategy will expire at the end of the fiscal year 2008.

**ENCLOSURES:**

1. Consolidated Endowment Fund Asset Allocation at September 30, 2007
2. Portfolio Risk and Return

# ASSET ALLOCATION

AS OF SEPTEMBER 30, 2007

Consolidated Endowment Fund —\$2,166 MM

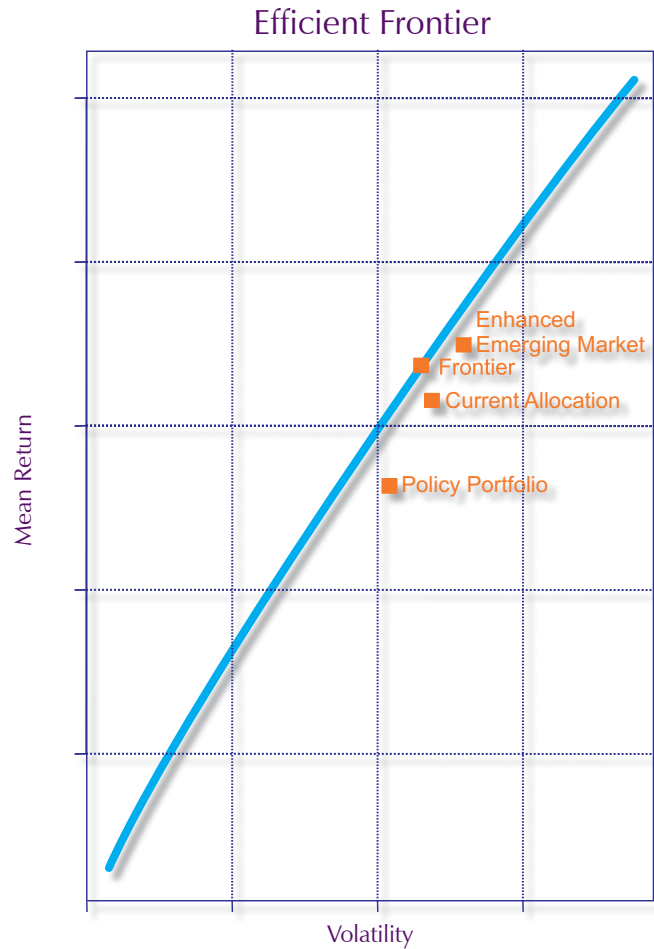


Dollars in Millions

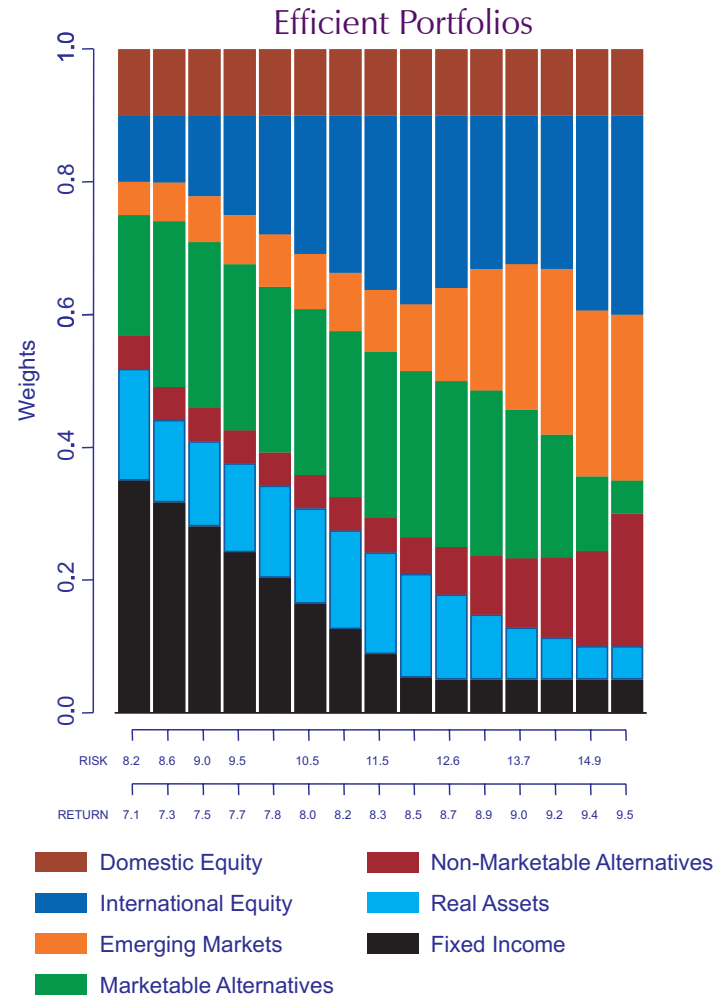
	Current Allocation	Policy Target	Policy Range
Domestic Equity	\$326 15%	18%	10%–40%
International Developed Markets	\$457 21%	20%	10%–35%
International Emerging Markets	\$325 15%	10%	5%–15%
Marketable Alternatives	\$356 16%	16%	5%–25%
Non-Marketable Alternatives	\$250 11%	12%	5%–20%
Equity Fund	\$1,714 79%	76%	60%–90%
Real Assets Fund	\$261 12%	12%	5%–20%
Fixed Income Fund <sup>1</sup>	\$191 9%	12%	5%–35%
<b>Total Consolidated Endowment Fund</b>	<b>\$2,166 100%</b>		

<sup>1</sup> Includes allocation to cash

# Portfolio Risk and Return



Note: Risk in Efficient Portfolios graph is volatility or returns.



- Efficient frontier portfolio favors international equity.