

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Investment Performance Report, First Quarter Fiscal Year 2009

UNIVERSITY OF WASHINGTON

INVESTMENT PERFORMANCE REPORT TO THE BOARD OF REGENTS

FIRST QUARTER FISCAL YEAR 2009

As of September 30, 2008



TREASURER, BOARD OF REGENTS
TREASURY OFFICE

Published November 2008

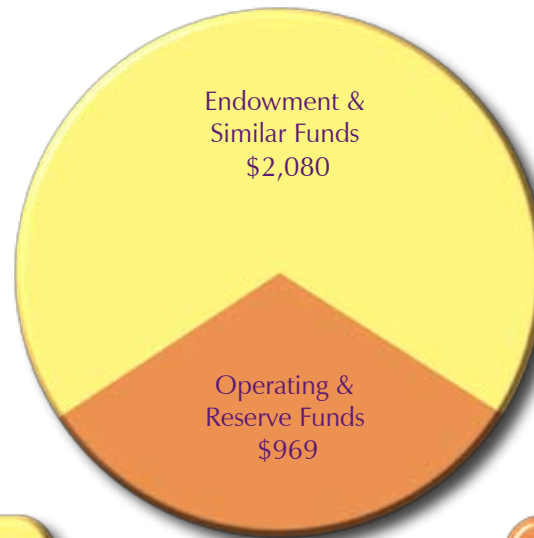
TABLE OF CONTENTS

| | |
|---|-----|
| Treasury Assets..... | 1 |
| Asset Allocation | 2 |
| Consolidated Endowment Fund | 3 |
| Performance Update | 4 |
| Invested Funds | 5 |
| Summary of Actions Taken Under Board Delegated Authorities January 1, 2008 through October 31, 2008..... | 6-7 |

TREASURY ASSETS¹

As of 9/30/08—\$3.0 Billion

Dollars in Millions



Endowment & Similar Funds

| | |
|-----------------------------|-----------------------|
| Endowment Funds | \$1,521 |
| Operating Funds | <u>387</u> |
| Consolidated Endowment Fund | 1,907 |
| Life Income Trusts | 77 |
| Outside Trusts | 49 |
| Non-CEF Endowments | 18 |
| Permanent Fund ⁶ | <u>29</u> |
| | <u>\$2,080</u> |

Operating & Reserve Funds

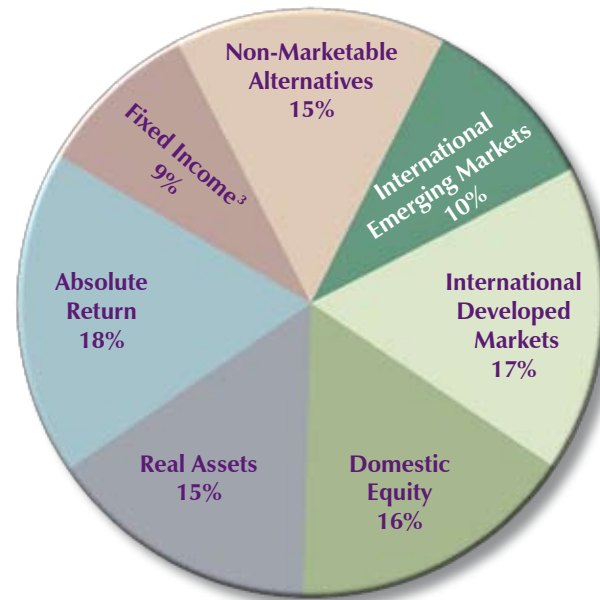
| | |
|---|---------------------|
| Invested Funds ^{2,3} | \$885 |
| Bond Retirement Fund ⁴ | 13 |
| Building Fund ⁴ | 21 |
| Debt Service Reserve Funds ⁵ | 12 |
| Bond Proceeds ⁷ | <u>38</u> |
| | <u>\$969</u> |

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 \$387. To avoid double counting, the dollars are included only in the CEF totals.
3. In June 2002, the Board of Regents authorized the establishment of a captive insurance company, Portage Bay Insurance(PBI). The previous insurance vehicle, the Self Insurance Revolving Fund(SIRF), will close after existing claims are resolved. Current balances: PBI \$77.0 SIRF \$3.0.
4. General obligation bond reserve fund on deposit with the state of Washington.
5. Required reserve funds for locally issued bonds (TSB Properties \$1.2, Twenty Fifth Ave Prop \$2.4, 2004 Parking \$1.3, 2002 Housing & Dining \$1.5, 2004 Housing & Dining \$0.6, Roosevelt 1 \$2.3 and Roosevelt 2 \$2.0, Commodore Duchess \$0.6)
6. Proceeds from sale of land grants and subsequent investment returns on deposit with the state of Washington.
7. Construction project funds which have not yet been disbursed (IMA \$7.8, 200 R&T \$12.3, 2004 Parking \$5.8, and 2007 General Revenue Bond \$12.0)

ASSET ALLOCATION

As of September 30, 2008

Consolidated Endowment Fund¹—\$1,907 MM



Dollars in Millions

| | Current Allocation ² | | Policy Target | Policy Range |
|--|---------------------------------|-------------|---------------|--------------|
| Non-Marketable Alternatives | \$296 | 15% | 12% | 5%-25% |
| International Emerging Markets | \$198 | 10% | 13% | 5%-35% |
| International Developed Markets | \$317 | 17% | 16% | 5%-35% |
| Domestic Equity | \$298 | 16% | 15% | 5%-35% |
| Equity Fund | \$1,109 | 58% | 56% | 45%-75% |
| Real Assets Fund | \$289 | 15% | 15% | 5%-25% |
| Absolute Return | \$347 | 18% | 18% | 5%-25% |
| Fixed Income Fund ³ | \$163 | 9% | 11% | 5%-35% |
| Total Consolidated Endowment Fund | \$1,907 | 100% | | |

1. International exposure: 43%, net foreign currency exposure: 41%.
2. Current exposure percentage may not add to 100% due to rounding.
3. Includes allocation to cash.

CONSOLIDATED ENDOWMENT FUND (CEF)

For the Quarter ending September 30, 2008

Total Returns As of 9/30/08¹ (%)

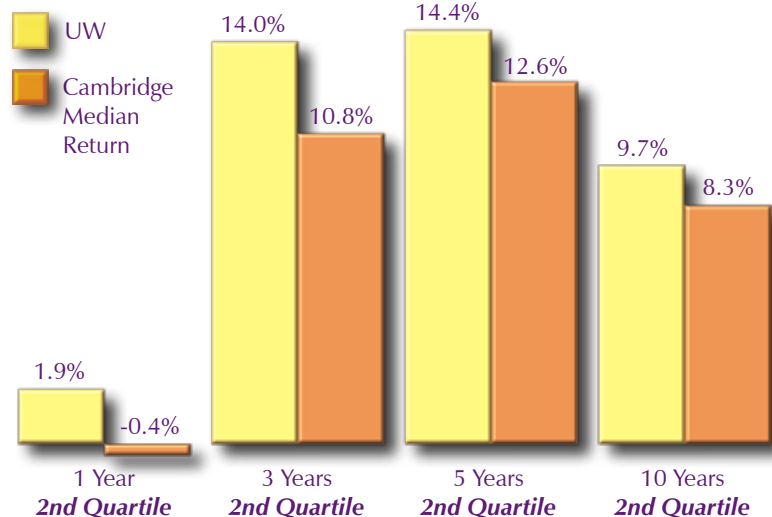
| | 1 st Qtr FY 2009 | 1-Year | 5-Year | 10-Year |
|------------------------------------|--------------------------------|--------------|-------------|------------|
| Total CEF Return | -11.9 | -14.0 | 10.8 | 9.4 |
| Strategy Weighted Policy Benchmark | -8.1 | -11.2 | 9.9 | 7.7 |
| Equity Fund | -14.6 | -18.7 | 10.3 | 9.4 |
| Weighted Policy Benchmark | -12.9 | -19.0 | 9.8 | 7.3 |
| Real Assets Fund | -12.5 | -4.9 | 13.3 | — |
| Policy Benchmark | -3.5 | 6.9 | 13.5 | — |
| Absolute Return Fund | -10.1 | — | — | — |
| Policy Benchmark | -1.6 | — | — | — |
| Fixed Income Fund | -0.7 | 1.5 | 4.3 | 5.4 |
| Policy Benchmark (LB Govt Bond) | 1.9 | 7.9 | 4.3 | 5.3 |

¹ Average Annual Compound Return

Activity (\$ in Millions)

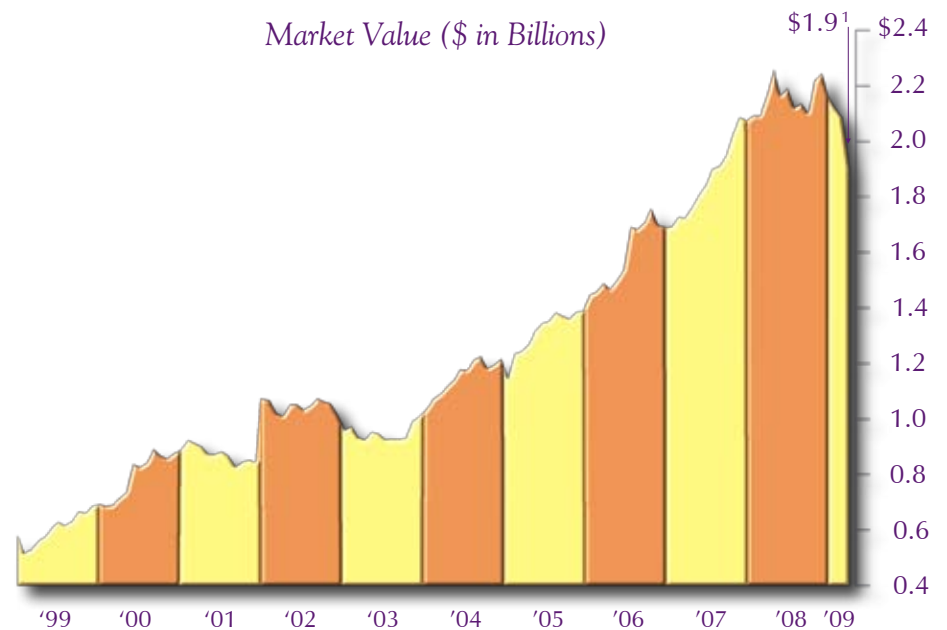
| | 1 st Qtr FY 2009 | FY 2008 | FY 2007 | 5 Years | 10 Years |
|---------------------------|--------------------------------|--------------|--------------|--------------|--------------|
| Beginning Balance | 2,161 | 2,074 | 1,690 | 1,088 | 529 |
| Gifts | 31 | 99 | 66 | 394 | 599 |
| Transfers | 4 | 8 | 9 | 59 | 103 |
| Total Additions | 34 | 107 | 75 | 453 | 702 |
| Operating Funds Purchases | 0 | 44 | 15 | 96 | 360 |
| Net Investment Return | (257) | 53 | 392 | 743 | 1,016 |
| Distributions | (26) | (94) | (81) | (391) | (588) |
| Administrative Fees | (1) | (4) | (4) | (16) | (25) |
| Development Support | (4) | (17) | (14) | (65) | (86) |
| Ending Balance | 1,907 | 2,161 | 2,074 | 1,907 | 1,907 |
| Net Change | (254) | 88 | 384 | 820 | 1,379 |

UW & Cambridge Associates¹ Returns for periods ending 6/30/08



¹ Cambridge Associates College and University Investment Pool Top 50 (by Investment Pool Market Value)

Market Value (\$ in Billions)



¹ Reflects inclusion of IF units in CEF starting 7/01—value without would be \$1.5

PERFORMANCE UPDATE

Total Return¹ As of 9/30/08

| | 1 st Qtr FY '09 | 1 Year | 3 Years | 5 Years | 10 Years |
|--|----------------------------|--------------|-------------|-------------|-------------|
| Consolidated Endowment Fund | -11.9 | -14.0 | 6.9 | 10.8 | 9.4 |
| Equity Fund | -14.6 | -18.7 | 5.2 | 10.3 | 9.4 |
| Non-Marketable Alternatives² | -1.3 | 6.5 | 18.4 | 18.1 | 14.5 |
| Global Equity | -18.8 | ~ | ~ | ~ | ~ |
| International Emerging Markets | -25.9 | -30.0 | 13.8 | 21.4 | 17.5 |
| International Developed Markets | -19.2 | -29.3 | 0.3 | 9.2 | 5.5 |
| Domestic Equity | -11.2 | -22.2 | 0.0 | 5.8 | 6.6 |
| Real Assets Fund | -12.5 | -4.9 | 8.7 | 13.3 | ~ |
| Absolute Return Fund | -10.1 | ~ | ~ | ~ | ~ |
| Fixed Income Fund | -0.7 | 1.5 | 4.7 | 4.3 | 5.4 |
| Public Market Indices | | | | | |
| <i>Equity Indices</i> | | | | | |
| MSCI ACWI | -21.8 | -30.0 | 3.1 | 11.8 | 6.8 |
| Russell 3000 | -8.7 | -21.5 | 0.3 | 5.7 | 3.8 |
| NASDAQ | -9.2 | -22.9 | -1.1 | 3.1 | 2.1 |
| NAREIT | 5.6 | -11.1 | 5.6 | 13.5 | 12.5 |
| Dow Jones | -3.9 | -20.0 | 3.2 | 5.5 | 5.4 |
| MSCI EAFE | -20.5 | -30.1 | 1.6 | 10.2 | 5.4 |
| MSCI EMF | -26.9 | -33.0 | 8.7 | 19.0 | 14.0 |
| <i>Fixed Income Indices</i> | | | | | |
| LB Government Bond | 1.9 | 7.9 | 5.6 | 4.3 | 5.3 |
| JP Morgan Global Hedged Bond Index | 2.6 | 5.5 | 4.3 | 4.3 | 5.0 |

Sources: Cambridge Associates and Northern Trust

¹ Total Return: average annual compound return (dividend or interest plus capital appreciation or depreciation)

² Provided by Cambridge Associates on a quarter lag.

INVESTED FUNDS (IF)

For the Quarter ending September 30, 2008

Total Return¹ (%)

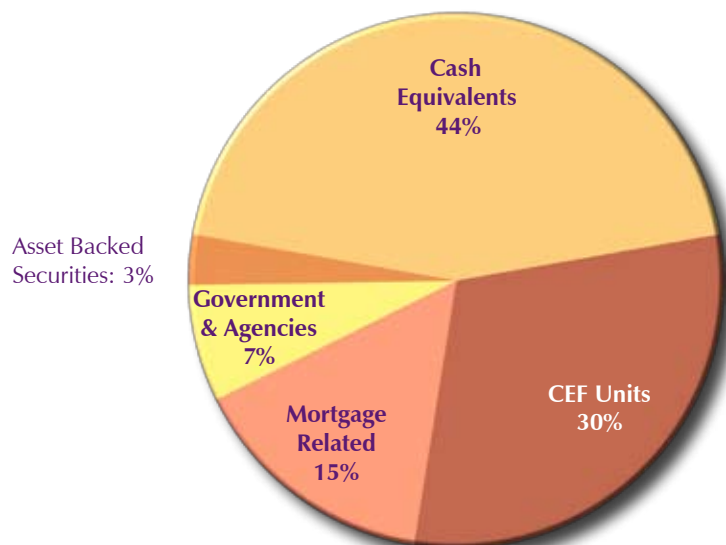
| | 1 st Qtr FY 2009 | 1-Year | 5-Year | 10-Year |
|-------------------------------|--------------------------------|-------------|------------|------------|
| Cash | 1.6 | 6.8 | 3.7 | 4.8 |
| Citi 2 Year Treasury | 2.1 | 7.1 | 3.6 | 4.4 |
| Liquidity | 0.8 | 4.5 | 3.5 | 5.0 |
| LB Intermediate Govt Bond | 1.8 | 7.5 | 4.0 | 5.1 |
| IF excluding CEF units | 0.4 | 4.6 | 3.5 | 4.9 |
| Weighted Benchmark | 1.9 | 7.3 | 3.9 | 5.0 |
| IF including CEF units | -3.4 | -1.5 | 5.8 | 6.2 |
| Weighted Benchmark | -1.3 | 1.4 | 5.9 | 5.9 |

¹ Average Annual Compound Return

Fund Allocation by Pool (\$ in Millions)

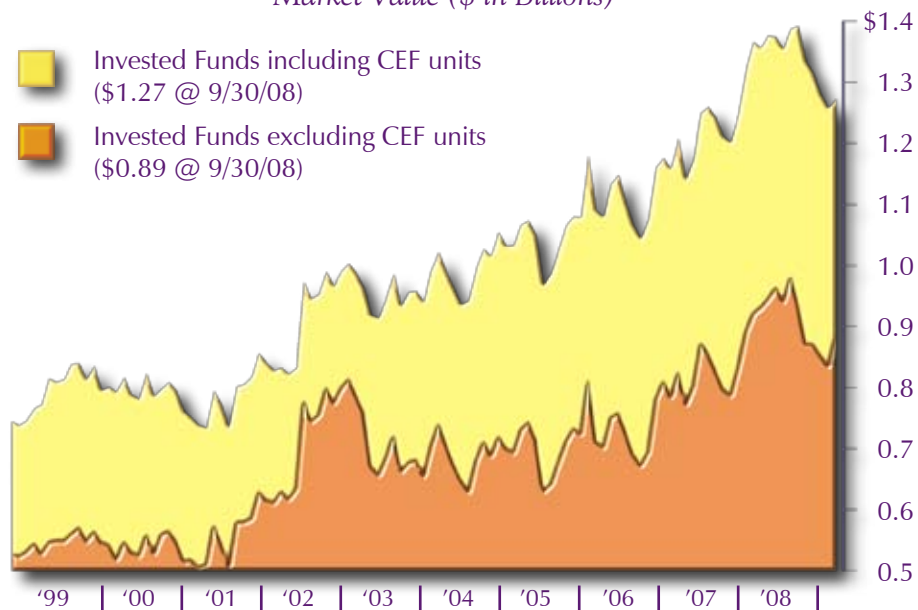
| | Fund Allocation | | Range | Duration | |
|-----------------------------------|-----------------|-------------|----------------|------------|----------------|
| | | | | Actual | Maximum |
| Cash Pool | \$292 | 23% | 10%–40% | 0.3 | 3.0 yrs |
| Liquidity Pool | 593 | 47% | 30%–60% | 2.6 | 4.2 |
| Total Cash & Liq. Pool | \$885 | 70% | | | |
| CEF Units held by IF | | 30% | 15%–40% | | |
| Total Invested Funds | | 100% | | | |

Mix of Investments¹



¹ Not shown—Corporate Bonds (0.47%)

Market Value (\$ in Billions)



UWINCO SUMMARY OF ACTIONS TAKEN UNDER BOARD DELEGATED AUTHORITIES

JANUARY 1, 2008 THROUGH OCTOBER 31, 2008 (\$ IN MILLIONS)

By the Chief Investment Officer

Private Markets

| Approved | Action | Manager / Fund | Strategy | Investment (\$MM) |
|----------|-------------|------------------------------|-----------------------------|-------------------|
| 01/25/08 | New | Rimrock Capital | Absolute Return | \$20.0 |
| 01/25/08 | Reup | Varde Partners | Absolute Return | \$20.0 |
| 03/20/08 | New | Baupost Value Partners | Absolute Return | \$50.0 |
| 04/10/08 | Termination | Och Ziff | Absolute Return | -\$29.0 |
| 04/10/08 | Termination | Sirios Capital Partners | Absolute Return | -\$15.0 |
| 07/23/08 | New | Centerbridge Credit Partners | Absolute Return | \$20.0 |
| 10/09/08 | Addition | Baupost Value Partners | Absolute Return | \$20.0 |
| 10/31/08 | Termination | Morgan Stanley | Absolute Return | -\$34.0 |
| 04/10/08 | Reup | Riverside Capital | Non-Marketable Alternatives | \$7.0 |
| 04/10/08 | Reup | TPG | Non-Marketable Alternatives | \$6.0 |
| 05/02/08 | New | HIG Bayside | Non-Marketable Alternatives | \$10.0 |
| 05/02/08 | Reup | Madrona Venture Partners | Non-Marketable Alternatives | \$5.0 |
| 05/22/08 | Reup | JC Flowers | Non-Marketable Alternatives | \$8.0 |
| 07/14/08 | New | Accel - KKR Capital Partners | Non-Marketable Alternatives | \$7.0 |
| 03/03/08 | Reup | Cabot Industrial Value Fund | Real Assets | \$12.0 |
| 03/03/08 | Reup | Square Mile Partners | Real Assets | \$10.0 |
| 04/10/08 | New | CarVal Global Value Fund | Real Assets | \$5.0 |
| 05/02/08 | New | Denham Capital Management | Real Assets | \$9.0 |
| 05/23/08 | Reup | Avanti Land Investors | Real Assets | \$12.0 |

UWINCO SUMMARY OF ACTIONS TAKEN UNDER BOARD DELEGATED AUTHORITIES

JANUARY 1, 2008 THROUGH OCTOBER 31, 2008 (\$ IN MILLIONS)

By the Chief Investment Officer

Public Markets

| Approved | Action | Manager / Fund | Strategy | Investment (\$MM) |
|----------|---------------|-------------------------------------|-----------------------------------|-------------------|
| 02/15/08 | Sale | Northern Trust—S&P 500 Futures | Domestic Equity (\$21.4 notional) | -\$5.0 collateral |
| 03/20/08 | Reup | Brookside Capital Partners | Domestic Equity | \$3.0 |
| 05/16/08 | Purchase | Northern Trust—S&P 500 Futures | Domestic Equity (\$59.9 notional) | \$8.0 collateral |
| 06/16/08 | Termination | AXA Rosenberg | Domestic Equity | -\$116.0 |
| 07/14/08 | Purchase | Northern Trust—S&P 500 Futures | Domestic Equity (\$25 notional) | \$5.0 collateral |
| 10/13/08 | Sale | Northern Trust—S&P 500 Futures | Domestic Equity (\$30 notional) | -\$5.1 collateral |
| 10/28/08 | Sale | Northern Trust—S&P 500 Futures | Domestic Equity (\$26 notional) | -\$5.0 collateral |
| 10/31/08 | Reallocation | Snyder Capital | Domestic Equity (change cap type) | na |
| 02/15/08 | Liquidation | SSGA EAFE | International Developed | -\$24.0 |
| 02/29/08 | Reduction | Arrowstreet Capital | International Developed | -\$5.0 |
| 02/29/08 | Reduction | GMO | International Developed | -\$5.0 |
| 02/29/08 | Reduction | Harris International Large Cap | International Developed | -\$5.0 |
| 02/29/08 | Reduction | Harris International Small Cap | International Developed | -\$5.0 |
| 08/05/08 | Addition | Lone Cascade | International Developed | \$10.0 |
| 10/02/08 | Redemption | Steel Partners | International Developed | -\$12.5 |
| 01/25/08 | New | Lone Dragon Pine | International Emerging Markets | \$7.5 |
| 02/29/08 | Liquidation | Goldman Sachs—Emerging Markets Swap | International Emerging Markets | -\$17.8 |
| 02/29/08 | Reduction | Martin Currie China | International Emerging Markets | -\$10.0 |
| 10/17/08 | New | Dynamo | International Emerging Markets | \$10.0 |
| 10/24/08 | Liquidation | Wellington | Real Assets | -\$46.1 |
| 10/24/08 | New | Wellington Management | Fixed Income | \$10.0 |
| 10/24/08 | New | Payden & Rygel | Fixed Income & Liquidity | \$49.0 |
| 10/24/08 | Guideline Chg | Wellington Management | Liquidity (change to allow TIPS) | na |
| 09/25/08 | Sale | Various - raised cash | Cash, Fixed Income & Liquidity | -\$549.5 |
| 10/10/08 | Termination | Northern Trust Bank | Investment Custodian | na |
| 10/10/08 | New | State Street Bank and Trust Company | Investment Custodian | na |