VII. STANDING COMMITTEES

B. Finance and Asset Management Committee

Approve Amendments to Statements of Investment Objectives and Policy for the Consolidated Endowment Fund and Invested Funds

RECOMMENDED ACTION

It is the recommendation of the administration and the Finance and Asset Management Committee that the Board of Regents prohibit direct investment of endowment funds in publically traded companies whose principal business is the mining of coal for use in energy generation.

Approval of the recommended action will result in the amendment of the “Statement of Investment Objectives and Policy for the Consolidated Endowment Fund” and “Statement of Investment Objectives and Policy for the Invested Funds.” Implementation will involve divestment of direct company holdings and ongoing portfolio monitoring to prevent future investment.

BACKGROUND

In December 2012, Divest UW, a student campaign representing over 20 Registered Student Organizations, sent a petition to President Young requesting fossil fuel divestment. Students worked with the Treasury Office to develop a plan to address climate change and jointly presented the “Treasury Office Global Climate Change Initiatives” to the Board of Regents in October 2013. The Board approved the recommend five point initiatives in November 2013. Progress to date on the initiatives is shown in Attachment 3.

In March 2015, Divest UW presented an information item to the Board of Regents in support of coal divestment in the Consolidated Endowment Fund.

Shareholder Activism: Shareholder activism typically involves one or more of the following: (1) voting on shareholder resolutions, (2) engaging the company in a dialogue on its corporate practices, (3) sponsoring or co-sponsoring issue-specific shareholder resolutions, or (4) divestment. Due to its potential to negatively impact portfolio performance, divestment is viewed as a course of last resort. In addition, the loss of shareholder status effectively ends the dialogue with banned corporations.

UW Historical Response to Ethical Concerns: With the exception of tobacco in January 2000, Sudan in 2006, and South Africa in the late 1980’s, ethical concerns have not led to divestment. Over the years, the UW pursued varying degrees of shareholder activism around human rights violations in Burma and
VII. STANDING COMMITTEES

B. Finance and Asset Management Committee

Approve Amendments to Statements of Investment Objectives and Policy for the Consolidated Endowment Fund and Invested Funds (continued p. 2)

global warming. In all cases there was strong involvement from multiple constituencies including the Board of Regents, faculty, students and staff.

Implementation and Timing: The definition of a coal company will be restricted to parent companies whose principal business is the mining of coal for energy generation. The University will contract with an independent research provider to compile company lists and impartially analyze information on business activities.

Investment managers will have until December 31, 2015, to manage the orderly elimination of direct coal holdings.

Portfolio Impact: The long term performance impact of divestment from coal used for energy generation from the CEF is estimated at a loss of 1 basis point per annum or a cumulative $13 million over the next twenty years.

The projected performance impacts are derived from the historical contribution of coal used for energy generation in long term global equity index returns.

Attachments
1. University of Washington Statement of Investment Objectives and Policy for the Consolidated Endowment Fund
2. University of Washington Statement of Investment Objectives and Policy for Invested Funds
3. Treasury Office Global Climate Change Initiatives
4. UW Fossil Fuel and Climate Change Timeline December 2012 to April 24, 2015
5. Portfolio Impact Analysis from Divestment of Coal and All Fossil Fuels
6. Endorsement for Divestment at UW as of April 8, 2015
7. Response to Divestment by Other College and University Endowments as of April 16, 2015
UNIVERSITY OF WASHINGTON

STATEMENT OF INVESTMENT OBJECTIVES AND POLICY
FOR THE CONSOLIDATED ENDOWMENT FUND

Approved by Board of Regents April 15, 1988


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 and Asset Management Committee (FAM) 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, the University of Washington Investment 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. FINANCIAL OBJECTIVES

1. To provide permanent funding for endowed programs. This objective addresses the need to ensure intergenerational equity by providing the same level of program support in the future as it provides today.

2. To maintain the purchasing power of the CEF after spending and inflation. The objective of preserving purchasing power emphasizes the need to take a long-term perspective in formulating spending and investment policies.

3. To provide a predictable and stable source of income for endowed programs. This objective is achieved through the spending policy.

4. To provide a maximum level of return consistent with prudent risk levels. This objective assumes the construction of a global, equity-oriented, diversified portfolio coupled with active risk management.
B. SPENDING POLICY

1. **Program Distributions:** Distributions to endowed programs will be 4% of the average market value of the CEF for the previous five 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.

2. **Administrative Fee:** Spending includes an additional 1% administrative fee bringing the long term spending requirement to 5% per annum.

C. INVESTMENT OBJECTIVES

1. **Spending Requirement:** Based upon the long-term spending policy, the CEF must attain an average annual real total return of 5.0% over the long term. The 5.0% target provides for a 4.0% distribution to endowed programs and a 1.0% administrative fee. Real total return is adjusted for inflation by the Consumer Price Index. Using the historical average inflation rate of 3.0% implies a nominal total return hurdle of 8.0% in order to meet the spending requirement.

2. **Policy Benchmark:** The investment performance of the CEF will also be evaluated, on a risk-adjusted basis, against an investable blend of market indices. Over the long term the CEF’s diversification is expected to generate risk-adjusted returns that meet or exceed those of blended market indices. This comparison is useful in evaluating how successfully the underlying strategies have been implemented and the effectiveness of tactical departures from the strategic asset allocation.

3. The investment performance of the CEF will also be evaluated against a secondary policy benchmark consisting of a 70% equity and 30% bond blend of market indices. This comparison is useful in evaluating the effectiveness of an active management program versus a passive management approach.

4. **Peer Comparison:** Over the long term 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. It is recognized that the investment objectives stated above may be difficult to attain over every five-year period, but should be attainable over a series of five and ten year periods.

D. ETHICAL CONSIDERATIONS

1. 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.

2. Direct investment in companies doing business in Sudan whose business activities support the Sudanese government in its continuing sponsorship of genocidal actions and human rights violations in Darfur is prohibited.

3. Direct investment in tobacco companies is prohibited.
4. Direct investment in coal companies whose principal business is the mining of coal for energy is prohibited.

E. 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. Focus on asset allocation as the primary determinant of return
   c. Avoid short-term speculative activity
   d. Accept illiquidity if justified by higher alpha

2. Build a well-diversified portfolio
   a. Limit risk by combining uncorrelated strategies
   b. Maintain meaningful exposure to major capital markets
   c. Build concentrated positions where conviction is high
   d. Tilt towards value strategies
   e. Employ fundamental research-driven and bottom-up strategies

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

F. INVESTMENT MANAGEMENT STRUCTURE

1. The CEF is invested primarily by external investment managers. External investment management firms are selected on the basis of factors including, but not limited to the following:
   a. Experience of key personnel and succession plan where appropriate
   b. Consistency in investment approach
   c. Effectiveness of decision making process
   d. Assets under management and plans for managing future capacity
   e. Organizational structure including administration, back office support, risk management and reporting
f. Performance record

g. Fees

h. Firm’s ethical and financial viability

i. Structural fit within the CEF

2. The CEF may also be invested internally in public equities and bonds through cash market securities or derivative instruments.

3. Equities, (including public and private global equity) real assets, absolute return 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.

G. PORTFOLIO COMPOSITION AND ASSET ALLOCATION

1. To achieve its investment objective, the CEF will be divided into two distinct Funds: a “Capital Appreciation Fund” and a “Capital Preservation Fund.” Sub-categories of these Funds each with its own target are also specified. The purpose of dividing the Portfolio in this manner is to ensure that the overall asset allocation among and within the two Funds remains under the regular scrutiny of the Finance and Asset Management Committee and UWINCO. Over the long run, the allocation between and within the Funds may be the single most important determinant of the CEF’s investment performance.

2. **Role - Capital Appreciation Fund:** The purpose of the Capital Appreciation Fund is to provide the capital growth that will enable the CEF to meet its spending requirements, while at the same time preserving the purchasing power of the CEF for future generations. The Fund itself is an integrated blend of global developed and emerging markets equity, real assets and opportunistic investments such as credit. It is recognized that the Capital Appreciation Fund entails the assumption of greater market variability and risk.

3. **Role - Capital Preservation Fund:** The purpose of the Capital Preservation Fund is to provide liquidity in support of spending and capital commitments; a deflation hedge; and to reduce the overall volatility of the CEF. Two broad strategies are employed in the Capital Preservation Fund – absolute return and fixed income investments.

4. 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.
STRATEGIC ASSET ALLOCATION

<table>
<thead>
<tr>
<th>Investment Strategy</th>
<th>Long-term Target</th>
<th>Policy Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public and Private</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emerging Markets Equity</td>
<td>17%</td>
<td></td>
</tr>
<tr>
<td>Developed Markets Equity</td>
<td>28%</td>
<td></td>
</tr>
<tr>
<td>Private Equity</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Real Assets</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>Opportunistic</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td><strong>CAPITAL APPRECIATION FUND</strong></td>
<td>70%</td>
<td>55% - 85%</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>19%</td>
<td></td>
</tr>
<tr>
<td>Fixed Income</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td><strong>CAPITAL PRESERVATION FUND</strong></td>
<td>30%</td>
<td>15% - 45%</td>
</tr>
</tbody>
</table>

H. RISK MANAGEMENT

1. Risk is managed primarily through diversification. The CEF will be diversified both by asset class (e.g., developed and emerging markets equities, real assets, opportunistic investments, absolute return, bonds and cash equivalents) and within asset classes (e.g., within equities by country, economic sector, industry, quality, and size). The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the CEF.

2. Derivatives may be used to adjust exposures within or across the portfolio in order to improve the risk / return profile of the CEF.

3. 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.
I. **RISK GUIDELINES**

1. The CEF will be monitored quarterly for adherence to the following risk guidelines. A breach in a guideline triggers a written notification from the CIO to the Chair of UWINCO. It is recognized that market conditions and/or illiquidity of the underlying securities may preclude an immediate rebalancing of the portfolio. Risk control exception reporting will be provided to the Board of Regents as part of its quarterly investment performance report which specifies the actions, if any, needed to bring the CEF into compliance.

2. **Concentration:** Maximum portfolio weights:
   - a. 15% in single manager (excluding fixed income)
   - b. 25% in individual countries outside the U.S.
   - c. 30% in one market sector

3. **Liquidity:**
   - a. One quarter (25%) of the CEF convertible to cash in one month or less
   - b. Unfunded capital commitments plus current exposure to private investments limited to one half (50%) of the CEF

J. **GUIDELINES FOR THE CAPITAL APPRECIATION FUND**

1. The Capital Appreciation Fund includes the growth-oriented strategies within the portfolio which are managed in an integrated manner in order to meet the long-term spending objectives of the CEF and sustain the portfolio in perpetuity.

2. The objective for the Capital Appreciation 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 Capital Appreciation Fund. In addition, performance on each sub-category of the Capital Appreciation Fund will be monitored against the average return of a universe of active managers and/or fund of funds. Performance will be monitored on a regular basis and evaluated over running five and ten year periods.

3. In recognition of the increasing correlation among asset classes, the Capital Appreciation Fund represents a market oriented mix of global developed and emerging markets equity, real estate, commodities, venture capital, private equity and opportunistic investments such as credit securities.

4. The Capital Appreciation 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 Capital Appreciation 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.

5. The real estate portion of the Capital Appreciation 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.

6. 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.

7. If allowed under their individual investment guidelines, managers may at their discretion hold investment reserves of either cash equivalents or bonds. Derivatives may be used to manage certain exposures such as currency or market risk if so specified under individual investment manager guidelines.

K. GUIDELINES FOR THE CAPITAL PRESERVATION FUND

1. The Capital Preservation Fund includes portfolio strategies which provide liquidity to meet current spending needs and stability to protect capital in down markets.

2. The objective for the Capital Preservation Fund is to outperform, net of commissions and fees, a blend of market indices which reflect the strategic asset allocation of the Fund. Performance will be monitored on a regular basis and evaluated over running five and ten-year periods.

3. The absolute return strategy will favor investments with a low correlation to broad equity markets. Implementation will be made through direct investments, limited partnerships, or fund-of-funds.

4. The fixed income strategy may contain money market instruments, domestic and foreign government bonds and other high quality investment vehicles with risk / return characteristics consistent with the investment objectives of the Capital Preservation Fund. Derivatives may be used to manage certain exposures if so specified under individual investment manager guidelines.

5. Fixed income managers are expected to employ active management techniques, including maturity, sector and quality considerations. Implementation may also be achieved through passive indices, commingled funds, limited partnerships and fund-of-funds.

L. 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.

M. MONITORING OF OBJECTIVES AND RESULTS

1. All objectives and policies are in effect until modified. The Finance and Asset Management Committee with advice from the Treasurer of the Board of Regents, 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 and Asset Management Committee and with UWINCO on a quarterly basis. Results will be evaluated over longer time frames including the inception period, running five- and ten-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 UWINCO and the Chair of the Finance and Asset Management 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.

N. 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. Approve appointment and reappointment of Regent and non-Regent UWINCO members.
   c. Approve the UWINCO “Statement of Principles” which addresses the administrative functioning of the Investment Committee.
   d. Approve appointment of the Chief Investment Officer.
   e. Approve appointment of the Treasurer of the Board of Regents.
   f. 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 and Asset Management Committee of the Board of Regents. Endowments governed by an agreement that allows withdrawals under specific terms and conditions are exempt from this requirement.

2. Chair of the Board of Regents:
   a. Recommend members of the UWINCO for formal approval by the Board of Regents. Recommendations will be made in consultation with the Chair of UWINCO and the President of the University (and/or his designee).
   b. Designate the Chair of UWINCO.
   c. Approve investment manager appointments and direct investments in situations where the CIO and the UWINCO Chair are unavailable or unable to do so.
3. Finance and Asset Management 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.

4. Investment Committee (UWINCO):
   a. Advise the Finance and Asset Management Committee, the Senior Vice President for Finance and Facilities 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. Adhere to the UWINCO “Statement of Principles”.

5. Senior Vice President for Finance and Facilities:
   a. Administer internal fees for management and administrative activities related to the endowment.
   b. Approve use of professional staff bonus pool.
   c. Assume supervisory responsibility for the CIO position.

6. Treasurer of the Board of Regents:
   a. Approve investment custodian appointment(s).
   b. 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 which are extended to the Chair of the Board of Regents.
   c. Execute securities transactions in conjunction with the day-to-day management of the investment program.
   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.

7. 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 Senior Vice President for Finance and Facilities.
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, follow-on investments with existing managers and direct investments. Approved investments shall fall within the policy guidelines adopted by the Board of Regents.

e. 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.

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. Monitor aggregate portfolio risk regularly to insure that the long-term purchasing power of the CEF is preserved.

i. 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.

j. Approve appropriate usage and timing of leveraged strategies within the CEF.

k. Terminate investment managers, including the authority to liquidate limited partnership interests or to reduce strategy exposures through other means. This authority is typically exercised due to performance concerns, organizational changes, or structural considerations within the UW investment portfolio.

l. Take action as appropriate in support of shareholder resolutions related to human rights violations in Burma.

m. Engage in shareholder activism as appropriate on issues related to global climate change.
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 and Asset Management Committee (FAM) 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.

B. INVESTMENT MANAGEMENT STRUCTURE

1. The IF will be invested primarily by external investment management firms. 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; 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.

3. Funds may be invested in capital projects through the University’s Internal Lending Program, a program managed by University financial personnel.
C. PORTFOLIO COMPOSITION AND POOL ALLOCATION

1. The IF shall be divided into four pools:

Pool Allocation

<table>
<thead>
<tr>
<th>Pool Allocation</th>
<th>Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Target</td>
</tr>
<tr>
<td>Cash Pool (2,4,5,6)</td>
<td>15%</td>
</tr>
<tr>
<td>Liquidity Pool (3,4,5,6)</td>
<td>40%</td>
</tr>
<tr>
<td>Diversified Investment Pool (DIP) (47,8)</td>
<td>35%</td>
</tr>
<tr>
<td>Capital Assets Pool (CAP) (8,9)</td>
<td>10%</td>
</tr>
</tbody>
</table>

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. The maximum average duration of the portfolio will be five years. The Liquidity Pool will have at least twenty-five percent 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.

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.

6. Direct investments in tobacco companies are prohibited.

7. Direct investment in coal companies whose principal business is the mining of coal for energy generation is prohibited.

8. The Diversified Investment Pool (DIP) will invest directly in the Consolidated Endowment Fund (CEF) through the periodic purchase and sale of CEF units. The DIP may also contain direct or indirect investments in targeted strategies designed to improve the risk profile and / or enhance the performance of the IF. Provisions applicable to the investment in CEF units are contained in the “Statement of Investment Objectives and Policy for the Consolidated Endowment Fund.”

9. The Capital Assets Pool may be invested in University capital projects with maturities of up to thirty years. The Capital Assets Pool is capped at 10% of the IF while the range of 0 – 15% allows for market fluctuations.

D. GUIDELINES FOR THE INVESTMENT POOLS

1. The objective of the Cash Pool is to meet the day-to-day obligations of the University.

2. The objective of the Liquidity Pool is to provide a liquid source of funds in the event the Cash Pool is insufficient to meet the University’s cash needs.
3. The objective of the Diversified Investment Pool is 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 DIP 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 objective of the Capital Assets Pool is to provide a source of funds for University capital projects.

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.

F. MONITORING OF OBJECTIVES AND RESULTS

1. All objectives and policies are in effect until modified. The Finance and Asset Management Committee with advice from the Treasurer of the Board of Regents, the Senior Vice President for Finance and Facilities, the Chief Investment Officer and UWINCO will review these periodically for their continued appropriateness.

2. The IF 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 and Asset Management 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 reported on a regular basis to UWINCO and the Chair of the Finance and Asset Management 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.

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 portfolio composition and pool allocation, investment objectives, pool guidelines, performance goals and delegations.
   b. Approve all interfund loans to the CEF.
   c. Approve appointment and reappointment of Regent and non-Regent UWINCO members.
   d. Approve the UWINCO “Statement of Principles” which addresses the administrative functioning of the Investment Committee.
   e. Approve appointment of the Chief Investment Officer.
   f. Approve appointment of the Treasurer of the Board of Regents.
2. Chair of the Board of Regents:
   a. Recommend members of the UWINCO for formal approval by the Board of Regents. Recommendations will be made in consultation with the Chair of UWINCO and the President of the University (and/or his designee).
   b. Designate the Chair of UWINCO.
   c. Approve investment manager appointments and direct investments when the CIO is unavailable or unable to do so.

3. Finance and Asset Management 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 CIO and UWINCO. Recommend policy changes as appropriate to the Board of Regents.

4. Investment Committee (UWINCO):
   a. Advise the Finance and Asset Management Committee, the Senior Vice President for Finance and Facilities 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. Adhere to the UWINCO “Statement of Principles.”

5. Senior Vice President for Finance and Facilities:
   a. Oversee Capital Assets Pool usage within the broad parameters established under this policy statement.
   b. Administer internal fees for management and administrative activities related to the IF.
   c. Approve use of professional staff bonus pool.
   d. Assume supervisory responsibility for the CIO position.

6. Treasurer of the Board of Regents:
   a. Approve investment custodian appointment(s).
   b. 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 which are extended to the Chair of the Board of Regents.
   c. Execute securities transactions in conjunction with the day-to-day management of the investment program.
   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.

7. 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 follow-on limited partnership investments and approve direct investments. Approved investments shall fall within the policy guidelines adopted by the Board of Regents.

d. 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.

e. Approve individual investment manager guidelines.

f. Monitor individual investment managers on a regular basis to ensure that performance and compliance expectations are met.

g. Monitor aggregate portfolio risk.

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, liquidate limited partnership interests and/or reduce strategy exposures through other means. 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 in Burma.

l. Engage in shareholder activism as appropriate on issues related to global climate change.
<table>
<thead>
<tr>
<th>Initiative</th>
<th>Status as of May 14, 2015</th>
</tr>
</thead>
</table>
| **1** | Create a research assistant position focusing on alternative energy and “ESG” (environmental, social, and governmental) investment opportunities. | **Completed:**
| | ✓ Hired January 2014 |
| **2** | Increase alternative energy investments. At 6/30/2013, approximately $12 million of the CEF was invested in alternative energy related investments. The UW will commit up to an additional $25 million in alternative energy related investments. | **In Process:**
| | • 230 funds screened
| | • Given the limited opportunity of profitable investable alternative fuel investments, the investment team expands their search to include ESG related investments
| | • 10 Introductory meetings with ESG-related managers
| | • Conversations with Cambridge Associates
| | • Calls and meetings with data providers and peer institutions
| | • January 2015, UW invests $10 million in a global environmental opportunities fund. |
| **3** | Incorporate ESG factors into the investment analysis and decision making process. | **In Process:**
| | • Investment Manager Questionnaire includes questions regarding incorporation of ESG in the investment process
| | • Approximately one third of the managers responding incorporate ESG factors into their investment process
| | • Investment Office increasing internal discussions and meetings on various ESG topics. |
| **4** | Explore opportunities for shareholder advocacy on climate change (e.g. voting shareholder proxies, co-sponsoring shareholder resolutions, letter writing and joining national organizations). | **Completed:**
| | ✓ Voting Shareholder Proxies
| | ✓ Staff attending CERES and US SIF Sustainable Investment Forum conferences
| | ✓ Joined US Sustainable Investment Forum
| | **In Process:**
| | • Planning to join CERES and Carbon Disclosure Project
| | • Preparing to co-file shareholder proposal asking Exxon to adopt goals for reducing total established greenhouse gas emissions
| | • Students and Treasury Office drafting a letter to Exxon regarding carbon asset risk |
| **5** | Establish a framework for future engagement with students. | **Completed:**
| | ✓ Two Divest UW Students hired to help with communications between the Treasury Office and the student group, and assist with shareholder engagement
| | ✓ Monthly meetings student group and Treasury staff |
December 2012: Students send petition to President Young requesting divestment from fossil fuels.

February 2013: Treasury Office begins a series of meetings with Divest UW students.

June / July 2013: Students ask the Regents to divest from fossil fuels and request an open dialogue on the issue during the Public Comment Period at the June and July Board of Regents’ meetings.

October 2013: Investments Office, in conjunction with students from Divest UW, present the Global Climate Change Initiatives as an information item to the Board of Regents.

November 2013: Board of Regents adopts proposed climate change initiatives and approves an amendment to the investment policies to permit shareholder advocacy on climate change issues by the CIO.

May 2014: Energized by Stanford’s announcement to divest from coal companies, Divest UW students request opportunity to present divestment recommendation targeted at oil sands and coal assets to the Board of Regents.

June 2014: The students amend their proposal to be the same as Stanford University: “The University will not make direct investments of endowment funds in publicly traded companies whose principal business is the mining of coal for use in energy generation.”

November 13, 2014: Students present during public comment period at the November 13 Board of Regents’ meeting and stage a rally before the meeting.

January 8, 2015: Students present during public comment period at the January Board of Regents’ meeting.

January 13, 2015: ASUW voted 59-9 in favor of divestment from coal companies – resolution uses Stanford’s coal company definition. “…cease all new investments and remove any remaining investments of endowment funds in publicly traded companies whose principal business is the mining of coal for use in energy generation.”

January 26, 2015: Regent Harrell, Regent Smith and Regent Brown meet with students.

March 12, 2015: Students present Information Item on coal divestment at the Board of Regents’ Finance and Asset Management Meeting.

April 24, 2015: Regent Harrell, Regent Smith and Regent Brown meet with students.
Portfolio Impact Analysis from Divestment of Coal and All Fossil Fuels

**SUMMARY:** This memo summarizes the potential impact to the University CEF of divestment from direct investments in all fossil fuels and in coal exposure alone.

We estimate fossil fuel divestment would cost the CEF approximately $250 million over 20 years. Fossil fuels play a critical diversification role that protects the CEF during periods of inflation.

Coal’s projected impact to CEF portfolio performance would be $39 million. A more narrow definition based on thermal coal would result in an impact of $13 million, as detailed below.

<table>
<thead>
<tr>
<th>Estimated impact to CEF from divestment based on prior performance*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected impairment due to fossil fuel divestment</td>
</tr>
<tr>
<td>Annual Cost Impact on Rolling CEF returns from divestment</td>
</tr>
<tr>
<td>Cumulative Cost Impact on CEF Market Value over 20 years</td>
</tr>
<tr>
<td>Cumulative Cost Impact on CEF Distributions over 20 years</td>
</tr>
</tbody>
</table>

*Estimates based on analysis of historical monthly returns of market indices and applied to UW CEF policy portfolio. Source data provided by MSCI, a global provider of stock market indices.
ENDORSEMENT FOR DIVESTMENT AT UW
As of April 8, 2015

Associated Students of the University of Washington (ASUW) Senate

May 28, 2013: ASUW Senate votes 52-20 to support the Global Climate Change Initiatives and encourage the UW to freeze any new direct investment in fossil fuel companies and urges the President and the Board to “find options for investing the endowment in a way that further maximizes the positive impact of the fund by seeking out investments in opportunities to limit the effects of burning fossil fuels or help to mitigate its effects including, but not limited to, clean technology, renewable energy, sustainable companies or projects and sustainable communities.”

January 13, 2015: ASUW Senate votes 59-9 in support of Resolution 4 calling for “the Board of Regents of the University of Washington immediately instruct the UW Treasury to cease all new investments and remove any remaining investments of endowment funds in publicly traded companies whose principal business is the mining of coal for use in energy generation.”

Graduate and Professional Student Senate (GPSS)

June 4, 2014: GPSS votes unanimously in favor of a resolution that “requests that the Board of Regents of the University of Washington immediately instruct the UW Treasury to divest the endowment from direct holdings in oil sands, tar sands, and coal assets.”

The following groups have signed an on-line petition in favor of fossil fuel divestment at the University of Washington:

350 Seattle
African Student Association
Associated Students of the University of Washington
Student Senate (ASUW)
Black Student Union
Climate Solutions
Climbing Team at University of Washington
EcoReps
Evans Student Organization, Evans School of Public Affairs
HIV Awareness and Research Exposed
International Socialist Organization
Polynesian Student Alliance
Residence Hall Student Association (RHSA)
SEED
Socialist Alternative
Society for Ecological Restoration
Somali Student Association
Student Association for Green Environments
Student Food Cooperative
Sustainability Organization
UAW 4121
United Students Against Sweatshops
UW Black Lives Matter
UW Forest Club
UW Real Food Challenge
UW Student Farm
Washington Public Interest Research Group (WashPIRG)
The Wildlife Society
Yogis at UW
Young Democrats

Approximately 700 Students have signed onto a petition in favor of fossil fuel divestment at the University of Washington
### Decline to Divest from Fossil Fuel:

<table>
<thead>
<tr>
<th>Institution</th>
<th>Private/Public</th>
<th>State Province</th>
<th>2014 Endowment (S000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harvard University</td>
<td>Private</td>
<td>MA</td>
<td>35,883,691</td>
</tr>
<tr>
<td>Yale University</td>
<td>Private</td>
<td>CT</td>
<td>23,900,000</td>
</tr>
<tr>
<td>Duke University</td>
<td>Private</td>
<td>NC</td>
<td>7,036,776</td>
</tr>
<tr>
<td>Cornell University</td>
<td>Private</td>
<td>NY</td>
<td>5,889,948</td>
</tr>
<tr>
<td>University of Colorado</td>
<td>Public</td>
<td>CO</td>
<td>2,700,000</td>
</tr>
<tr>
<td>Pomona College</td>
<td>Private</td>
<td>CA</td>
<td>2,101,461</td>
</tr>
<tr>
<td>Swarthmore College</td>
<td>Private</td>
<td>PA</td>
<td>1,876,669</td>
</tr>
<tr>
<td>Georgetown University</td>
<td>Private</td>
<td>DC</td>
<td>1,461,276</td>
</tr>
<tr>
<td>Middlebury College</td>
<td>Private</td>
<td>VT</td>
<td>1,081,894</td>
</tr>
<tr>
<td>Vassar College</td>
<td>Private</td>
<td>NY</td>
<td>974,180</td>
</tr>
<tr>
<td>American University</td>
<td>Private</td>
<td>DC</td>
<td>535,390</td>
</tr>
<tr>
<td>Haverford College</td>
<td>Private</td>
<td>PA</td>
<td>494,570</td>
</tr>
<tr>
<td>University of Oregon Foundation</td>
<td>Public</td>
<td>OR</td>
<td>627,004</td>
</tr>
<tr>
<td>Dalhousie University</td>
<td>Private</td>
<td>NS</td>
<td>459,475</td>
</tr>
<tr>
<td>Seattle University</td>
<td>Private</td>
<td>WA</td>
<td>210,600</td>
</tr>
<tr>
<td>Bryant University</td>
<td>Private</td>
<td>RI</td>
<td>172,809</td>
</tr>
<tr>
<td>University of Rhode Island</td>
<td>Public</td>
<td>RI</td>
<td>110,000</td>
</tr>
<tr>
<td>Western Washington University Foundation</td>
<td>Public</td>
<td>WA</td>
<td>47,233</td>
</tr>
</tbody>
</table>

### Decline to Divest from Coal

<table>
<thead>
<tr>
<th>Institution</th>
<th>Private/Public</th>
<th>State Province</th>
<th>Amount (S000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brown University</td>
<td>Private</td>
<td>RI</td>
<td>2,999,749</td>
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</table>

### Divest from Coal

<table>
<thead>
<tr>
<th>Institution</th>
<th>Private/Public</th>
<th>State Province</th>
<th>Amount (S000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stanford University</td>
<td>Private</td>
<td>CA</td>
<td>21,446,006</td>
</tr>
<tr>
<td>University of Maine Foundation</td>
<td>Public</td>
<td>ME</td>
<td>189,151</td>
</tr>
</tbody>
</table>

### Divest 25% of Fossil Fuels

<table>
<thead>
<tr>
<th>Institution</th>
<th>Private/Public</th>
<th>State Province</th>
<th>Amount (S000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>California Institute of the Arts</td>
<td>Private</td>
<td>CA</td>
<td>137,535</td>
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</tbody>
</table>

### Divest from Fossil Fuels

<table>
<thead>
<tr>
<th>Institution</th>
<th>Private/Public</th>
<th>State Province</th>
<th>Amount (S000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Syracuse University</td>
<td>Private</td>
<td>NY</td>
<td>1,200,000</td>
</tr>
<tr>
<td>University of Dayton</td>
<td>Private</td>
<td>OH</td>
<td>510,107</td>
</tr>
<tr>
<td>Peralta Community College</td>
<td>Private</td>
<td>CA</td>
<td>186,758</td>
</tr>
<tr>
<td>Pitzer College</td>
<td>Private</td>
<td>CA</td>
<td>134,289</td>
</tr>
<tr>
<td>San Francisco State University Foundation</td>
<td>Public</td>
<td>CA</td>
<td>65,385</td>
</tr>
<tr>
<td>The University Foundation, Cal. State U., Chico</td>
<td>Public</td>
<td>CA</td>
<td>52,563</td>
</tr>
<tr>
<td>College of the Atlantic</td>
<td>Private</td>
<td>ME</td>
<td>46,500</td>
</tr>
<tr>
<td>Hampshire College</td>
<td>Private</td>
<td>MA</td>
<td>37,567</td>
</tr>
<tr>
<td>Foothill-De Anza Community College</td>
<td>Public</td>
<td>CA</td>
<td>33,000</td>
</tr>
<tr>
<td>Humboldt State University Advancement Foundation</td>
<td>Public</td>
<td>CA</td>
<td>27,724</td>
</tr>
<tr>
<td>Unity College</td>
<td>Private</td>
<td>ME</td>
<td>15,000</td>
</tr>
<tr>
<td>Sterling College</td>
<td>Private</td>
<td>KS</td>
<td>5,600</td>
</tr>
<tr>
<td>Naropa University</td>
<td>Private</td>
<td>CO</td>
<td>5,000</td>
</tr>
<tr>
<td>Prescott College</td>
<td>Private</td>
<td>AZ</td>
<td>4,600</td>
</tr>
<tr>
<td>Green Mountain College</td>
<td>Private</td>
<td>VT</td>
<td>2,926</td>
</tr>
</tbody>
</table>

Note: **Public Colleges and Universities are in Italic**
SUSTAINABILITY: IT’S IN OUR NATURE

THERE’S MORE THAN PURPLE AND GOLD PULSING THROUGH THE VEINS OF UNIVERSITY OF WASHINGTON STUDENTS, FACULTY, STAFF, ALUMNI AND COMMUNITY MEMBERS. THERE’S GREEN, TOO.

SUSTAINABILITY IS BOTH A WAY OF BEING AND THINKING AT THE UW, AND THAT’S WHY WE’RE AT THE FOREFRONT OF ENVIRONMENTAL RESEARCH AND LEADERSHIP. IT’S PART OF OUR LARGER COMMITMENT TO CREATING A WORLD OF GOOD FOR TODAY AND FOR GENERATIONS TO COME.

From the football field to the UW Farm, Huskies are determined to make a difference for the global environment by leading change, big and small.

> Husky Stadium diverted nearly 70 percent of its waste from landfills during the 2013 football season.
> 100 percent of campus electricity sources are carbon neutral.
> More than 50 percent of students living on campus in Seattle reside in LEED-certified housing, which includes four LEED-certified residence halls.
> There are more than 40 sustainability-focused student groups active on campus.
> In 2014, the student-led organization UW Solar led efforts to install 128 solar panels on the roof of Mercer Court’s A Building.

GOING GREEN FOR THE GREATER GOOD

DEVELOPING FUTURE ENVIRONMENTAL LEADERS

Huskies know that change starts here. And it starts now. That’s why students, faculty and staff across campus actively seek solutions to the most pressing environmental issues facing our communities today.

> Encouraging students to develop, create and implement ideas, the Campus Sustainability Fund (CSF) has awarded more than $1.1 million to sustainability projects since 2010.
> Promoting sustainable research, the Green Seed Fund has provided more than $500,000 to sustainability projects since 2013.
INVESTING IN THE PLANET’S FUTURE THROUGH WORLD-CLASS RESEARCH

Across campus, researchers are working toward a sustainable future. How? Here are just a few examples:

> The UW Clean Energy Institute is accelerating the creation of a clean energy future by advancing next-generation solar energy and electrical energy storage materials, devices and systems as well as researching energy storage and grid integration.

> The Future of Ice Initiative is facilitating cross-disciplinary partnerships across the University to expand and strengthen polar research, develop educational resources to build future leaders in science and policy, and implement outreach activities.

> The UW Applied Physics Laboratory is tackling a range of challenges involving ocean research and engineering, environmental and information systems, and more.

A GREENER FUTURE

The UW is a signatory of the Washington Business Climate Declaration (sponsored by Ceres) and a charter signatory of the American College & University Presidents’ Climate Commitment. Both agreements underscore the UW’s dedication to making a difference.

STANDING UP FOR SUSTAINABILITY: AWARDS AND RECOGNITION HIGHLIGHTS

> Named to the Princeton Review’s 2014 Green Honor Roll for the fourth straight year

> Winner of the 2014 International Sustainability Campus Network (ISCN) Excellence in Integration Award for embedding sustainability management in campus operations, research and teaching

> Ranked Gold on sustainability performance according to the Sustainability Tracking, Assessment & Rating System (STARS)

> Earned ENERGY STAR Certification from the U.S. Environmental Protection Agency for the UW Tower Data Center — one of only 22 U.S. data centers to qualify

> Recipient of a Top 25 Environmental Excellence Award from Practice GreenHealth for UW and Harborview Medical Centers

PURPLE, GOLD AND GREEN

Learn more at green.uw.edu
Spread the word #sustainableUW