VII. STANDING COMMITTEES

B. Finance and Asset Management Committee

Amendment to the Statements of Investment Objectives and Policy for the Consolidated Endowment Fund, the Invested Funds, and Deferred and Other Gift Assets

RECOMMENDED ACTION

It is the recommendation of the administration and the Finance and Asset Management Committee that the Board of Regents adopt changes in the Statements of Investment Objectives and Policy for the Consolidated Endowment Fund, the Invested Funds, and the Deferred and Other Gift Assets.

The recommended changes reflect the following:

1) Establishment of an internal investment management company, known as the University of Washington Investment Management Company (UWINCO);

2) Creation of an internal investment management company advisory board, known as the University of Washington Investment Management Company Board (UWINCO Board);

3) Management of the Chief Investment Officer position by the President of the University (position formerly managed by the Treasurer of the Board of Regents); and

4) Clarification of language as needed in all three policy documents.

The recommended changes to the investment program policies are consistent with changes to the Board of Regents Governance, Standing Orders, Chapters 4 and 10. Those changes are summarized in a separate recommended action. Changes will be effective immediately upon Board of Regents’ approval.

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. Investment policies are reviewed on a continuing basis with periodic revisions reflecting the changing nature of the investment programs of the University.
VII. STANDING COMMITTEES

B. Finance and Asset Management Committee

Amendment to the Statements of Investment Objectives and Policy for the Consolidated Endowment Fund, the Invested Funds, and Deferred and Other Gift Assets (continued p. 2)

The recommended action results in amended language in the University’s investment policies to reflect a change in the governance structure of the University’s investment program.

HIGHLIGHTS OF PROPOSED CHANGES

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

There are material changes in Section N, “Delegations,” which reflect the change in the governance structure of the investment program. With the establishment of an internal investment management company (UWINCO), the former UWINCO advisory committee is replaced by an advisory UWINCO Board whose primary focus remains the rendering of advice on the University’s investment portfolios. In addition, the UWINCO Board will now advise the President of the University on the compensation of senior professional investment staff. The Chief Investment Officer is accountable to the UWINCO Board and to the Board of Regents for the success of the investment program and reports to the President of the University.

The role of the Board of Regents in setting investment policy, appointing key investment officers and advisors and providing broad fiduciary oversight of the University’s investment programs remains unchanged. The Board of Regents will approve the appointment of both Regent and non-Regent members to the UWINCO Board.

2. Statement of Investment Objectives and Policy for the Invested Funds (IF)

Proposed changes to IF investment policy, Section H, “Delegations,” are consistent with those for the CEF investment policy described above. In addition, some delegations previously held by the Senior Vice President for Finance and Facilities are moved to the Treasurer of the Board of Regents. A new Section D, “Ethical Considerations,” is added in alignment with the CEF investment policy.

3. Statement of Investment Objectives and Policy for Deferred and Other Gift Assets

As UWINCO does not play a role in the management of the Deferred and Other Gift Assets program, the governance changes to the overall investment program
B. Finance and Asset Management Committee

Amendment to the Statements of Investment Objectives and Policy for the Consolidated Endowment Fund, the Invested Funds, and Deferred and Other Gift Assets (continued p. 3)

are not reflected in the Deferred and Other Gift Assets policy statement. A number of “housekeeping” changes are proposed which clarify language and better reflect current process and procedures.

PROCESS AND REVIEW

This recommendation has been reviewed by the Attorney General’s Office, and the administration including the President’s Office and the Chief Investment Officer, in consultation with Cambridge Associates, the University’s investment consultant, and the University of Washington Investment Committee.

The proposed changes to the governance structure of the University’s investment program were reviewed by the Board of Regents Finance and Asset Management Committee and Governance Committee in July 2015.

Attachments
1) Statement of Investment Objectives and Policy for Consolidated Endowment Fund (ANNOTATED)
2) Statement of Investment Objectives and Policy for Invested Funds (ANNOTATED)
3) Statement of Investment Objectives and Policy for Deferred Gifts and Other Assets (ANNOTATED)
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 of Regents.

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 of Regents’ 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. In 2015, the Board of Regents approved the establishment of the University of Washington Investment Management Company (“UWINCO”), an internal investment management company. The former investment management advisory committee was replaced with an investment management advisory board, known as the University of Washington Investment Management Company Board (“UWINCO Board”).

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 the UWINCO Board. 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 Chief Investment Officer to the Chair of the UWINCO Board. 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 and the UWINCO Board 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 the UWINCO Board 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 Chief Investment Officer 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 UWINCO Board 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:

<table>
<thead>
<tr>
<th>1. Board of Regents:</th>
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<tbody>
<tr>
<td>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.</td>
</tr>
<tr>
<td>b. Approve appointment and reappointment of Regent and non-Regent UWINCO members.</td>
</tr>
<tr>
<td>c. Approve the Board of Regents Governance, Standing Orders, Chapter 10 which addresses the advisory and administrative functioning of the UWINCO Committee Board.</td>
</tr>
<tr>
<td>d. Approve appointment of the Chief Investment Officer.</td>
</tr>
<tr>
<td>e. Approve appointment of the Treasurer of the Board of Regents.</td>
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<tr>
<td>f. Liquidate quasi-endowments. These funds represent assets donated to the University which have been accepted by the</td>
</tr>
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</table>

There are no material changes to the authority exercised by the Board of Regents as regards the University’s investment portfolios.

The advisory and administrative aspects of the UWINCO Board are detailed in the Board of Regents Governance, Standing Orders, Chapter 10.
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 Board for formal approval by the Board of Regents. Recommendations will be made in consultation with the Chair of the UWINCO Board and the President of the University (and/or his designee).
   b. Designate the Chair of the UWINCO Board.
   c. Approve investment manager appointments and direct investments in situations when the Chief Investment Officer and the UWINCO Chair is unavailable or unable to do so.

3. Finance and Asset Management Committee of the Board of Regents:
   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 of Regents for approval. It is anticipated that such changes will be infrequent.
   d. Review the asset allocation and strategy recommendations of the Chief Investment Officer and the UWINCO Board. Recommend policy changes as appropriate to the Board of Regents.

4. Investment Committee

| Responsibilities of the Board of Regents Chair altered to reflect the role of the new UWINCO Board. |
| UWINCO now defined as an |
Management Company (UWINCO) Board, an internal advisory board:

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, due diligence.

b. Advise the President of the University on the compensation of senior professional investment staff and other administrative matters.

c. Adhere to the *Board of Regents Governance, Standing Orders, Chapter 10* pertaining to the UWINCO Board.

The UWINCO Board’s range of oversight responsibility extends to the administrative functioning of the investment program itself.

Under the new governance structure, the CIO reports to the President of the University. The President in turn is advised by the UWINCO Board and the University’s investment consultant.

<table>
<thead>
<tr>
<th>5. Senior Vice President for Finance and Facilities</th>
<th>President of the University:</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Provide broad administrative oversight of the investment program with advice provided by the UWINCO Board and the University’s investment consultant. This includes but is not limited to the following:</td>
<td></td>
</tr>
<tr>
<td>i. Approve the compensation of senior professional investment staff.</td>
<td></td>
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<tr>
<td>ii. Administer internal fees for management and administrative activities related to the endowment.</td>
<td></td>
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<tr>
<td>iii. Approve use of professional staff bonus pool.</td>
<td></td>
</tr>
<tr>
<td>b. Assume supervisory responsibility for the Chief Investment Officer position. <strong>Appoint interim Chief Investment Officer when the position is vacant.</strong></td>
<td></td>
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</tbody>
</table>

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 internal investment management company. The advisory UWINCO Board replaces the former advisory investment committee.

Supervision of the CIO and the authority to designate the interim CIO moved to President.
<table>
<thead>
<tr>
<th>Board of Regents.</th>
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<tbody>
<tr>
<td>c. Execute securities transactions in conjunction with the day-to-day management of the investment program.</td>
</tr>
<tr>
<td>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.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>7. Chief Investment Officer:</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Manage the day-to-day activities of the University’s investment portfolios within the broad guidelines established by the investment policies.</td>
</tr>
<tr>
<td>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 the UWINCO Board and the University’s investment consultant(s), and the Senior Vice President for Finance and Facilities.</td>
</tr>
<tr>
<td>c. Seek the advice of the University’s investment consultant(s) and members of the UWINCO Board on issues related to the management of the investment portfolios. Incorporate such advice in the implementation of the investment program.</td>
</tr>
<tr>
<td>d. Appoint new investment managers, follow-on investments with existing managers and approve direct investments. Approved investments shall fall within the policy guidelines adopted by the Board of Regents.</td>
</tr>
<tr>
<td>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.</td>
</tr>
<tr>
<td>f. Approve individual investment manager guidelines.</td>
</tr>
<tr>
<td>g. Monitor individual investment managers on a regular basis to ensure that performance and compliance expectation are met.</td>
</tr>
<tr>
<td>h. Monitor aggregate portfolio risk regularly to insure that the</td>
</tr>
</tbody>
</table>
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 of Regents.

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 of Regents’ 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. In 2015, the Board of Regents approved the establishment of the University of Washington Investment Management Company (“UWINCO”), an internal investment management company. The former investment management advisory committee was replaced with an investment management advisory board, known as the University of Washington Investment Management Company Board (“UWINCO Board”).

A. FINANCIAL AND 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>Policy</th>
<th>Target</th>
<th>Range</th>
<th>Global Range</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Pool</strong></td>
<td>15%</td>
<td>10-40%</td>
<td>0-40%</td>
</tr>
<tr>
<td><strong>Liquidity Pool</strong></td>
<td>40%</td>
<td>25-60%</td>
<td>0-25%</td>
</tr>
<tr>
<td><strong>Diversified Investment Pool (DIP)</strong></td>
<td>35%</td>
<td>15-45%</td>
<td></td>
</tr>
<tr>
<td><strong>Capital Assets Pool (CAP)</strong></td>
<td>10%</td>
<td>0-15%</td>
<td></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. Ethical prohibitions moved to new Section D below in alignment with the CEF investment policy.

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
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. 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.

F. 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.

G. 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 the UWINCO Board 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 Chief Investment Officer 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 the UWINCO Board 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.

H. DELEGATIONS

Delegations related to the management of the University’s investment portfolios are as follows:

<table>
<thead>
<tr>
<th>1. Board of Regents:</th>
<th>There are no material changes to the authority exercised by the Board of Regents as regards the University’s investment portfolios.</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>The advisory and administrative aspects of the UWINCO Board are detailed in the Board of Regents Governance, Standing Orders, Chapter 10.</td>
</tr>
<tr>
<td>b. Approve all interfund loans to the CEF.</td>
<td></td>
</tr>
<tr>
<td>c. Approve appointment and reappointment of Regent and non-Regent UWINCO members.</td>
<td></td>
</tr>
<tr>
<td>d. Approve the Board of Regents Governance, Standing Orders, Chapter 10 which addresses the advisory and administrative functioning of the UWINCO Committee Board.</td>
<td></td>
</tr>
<tr>
<td>e. Approve appointment of the Chief Investment Officer.</td>
<td></td>
</tr>
<tr>
<td>f. Approve appointment of the Treasurer of the Board of Regents.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. Chair of the Board of Regents:</th>
<th>Responsibilities of the Board of Regents Chair altered to reflect the role of the new UWINCO Board.</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Recommend members of the UWINCO Board for formal approval by the Board of Regents. Recommendations will</td>
<td></td>
</tr>
</tbody>
</table>

There are no material changes to the authority exercised by the Board of Regents as regards the University’s investment portfolios.
be made in consultation with the Chair of the UWINCO Board and the President of the University (and/or his designee).

b. Designate the Chair of the UWINCO Board.

c. Approve investment manager appointments and direct investments in situations when the Chief Investment Officer and the UWINCO Chair is unavailable or unable to do so.

3. Finance and Asset Management Committee of the Board of Regents:

| 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 and the UWINCO Board. Recommend policy changes as appropriate to the Board of Regents. |

4. Investment Committee University of Washington Investment Management Company Board (UWINCO), an internal advisory board:

| 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, due diligence. |
| b. | Advise the President of the University on the compensation of senior professional investment staff and other administrative matters. |
| c. | Adhere to the Board of Regents Governance, Standing Orders, Chapter 10 pertaining to the UWINCO Board. |

5. Senior Vice President for Finance and Facilities President of the University:

| a. | Oversee Capital Assets Pool usage within the broad |

UWINCO now defined as an internal investment management company. The advisory UWINCO Board replaces the former advisory investment committee. The UWINCO Board’s range of oversight responsibility extends to the administrative functioning of the investment program itself.

Under the new governance structure, the CIO reports to the President of the
parameters established under this policy statement.

b. Provide broad administrative oversight of the investment program with advice provided by the UWINCO Board and the University’s investment consultant. This includes but is not limited to:

i. Approve the compensation of senior professional investment staff.

ii. Administer internal fees for management and administrative activities related to the Invested Funds.

iii. Approve use of professional staff bonus pool.

c. Assume supervisory responsibility for the Chief Investment Officer position. Appoint interim Chief Investment Officer when the position is vacant.

6. Treasurer of the Board of Regents:

a. Oversee Capital Assets Pool usage within the broad parameters established under this policy statement.

b. Approve investment custodian appointment(s).

e. 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.

d. Execute securities transactions in conjunction with the day-to-day management of the investment program.

e. Approve the compensation of senior professional treasury staff.

f. Administer internal fees for management and administrative activities related to the Invested Funds.

g. 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 Board 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, follow-on investments with existing managers, 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 expectation 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, 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.

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

   l. Engage in shareholder activism as appropriate on issues related to global climate change.
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; May 19, 2005; and May 9, 2013
and September 10, 2015.

Comment on Revised Policy Document:

UWINCO does not play a role in the management of deferred gift assets. Hence the governance changes that impact the endowment and operating funds’ investment policies do not appear in this policy statement. Some housekeeping changes were needed to ensure that the deferred gift policy reflect current practice or to clarify language. These changes are highlighted below.

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 of Regents.

The Board has delegated to its Finance and Asset Management Committee (FAM) 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 FINANCIAL OBJECTIVES

1. **Deferred Gift Assets**: 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**: 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**: 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. 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 and Asset Management 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 and Asset Management Committee:
   b. Oversee the University’s investment programs within the broad guidelines established by the investment policies.
   c. Appoint the University’s investment consultant(s).
   d. 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. Treasurer of the Board of Regents:
   a. Execute securities transactions in conjunction with the day-to-day management of the investment program.
   b. Execute legal documents related to the deferred gift assets program including but not limited to 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.

c. Appoint deferred gifts investment manager and custodian.

d. Appoint deferred gifts external administrator.

e. Seek the advice of the University’s investment consultant(s) and / or the 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.

f. Approve deferred gift investment manager guidelines.

g. Communicate key decisions made in consultation with the Senior Vice President for Finance and Facilities to the Finance and Asset Management Committee.

h. Consult where appropriate consult with the Vice President for University Advancement and/or the Chief Real Estate Officer and their related personnel regarding deferred gift policy/guideline issues.

i. Monitor the deferred gifts' investment manager in order to confirm that the long term performance meets expectations. remain in place.

4. Chief Real Estate Officer:

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

5. Vice President for University Advancement:

   a. With the concurrence of the Treasurer of the Board of Regents, or designee, recommend acceptance of:

      (1) 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.

      (2) Deferred gifts, if the University is to act as trustee or custodian of the deferred gift.

[See also Board of Regents Governance, Standing Orders, Chapter 1, Section 8, Gift Evaluation and Acceptance]