STANDING COMMITTEES

Finance and Asset Management Committee

Approve Amendment to the Statement of Investment Objectives and Policy for the Consolidated Endowment Fund

RECOMMENDED ACTION

It is the recommendation of the administration and the Finance and Asset Management Committee that the Board of Regents adopt the amended “Statement of Investment Objectives and Policy for the Consolidated Endowment Fund.”

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. While no changes are proposed for the Invested Funds and Deferred and Other Gift Assets policies, the recommended action to amend the Consolidated Endowment Fund (CEF) policy reflects market conditions.

HIGHLIGHTS OF PROPOSED CHANGES

The proposed asset allocation offers a modest improvement to the risk/return and liquidity profile of the CEF. The proposed asset class targets differ from the current policy as follows:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>2013 Policy Target</th>
<th>2016 Proposed Policy Target</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emerging Markets Equity</td>
<td>17%</td>
<td>17%</td>
<td>0%</td>
</tr>
<tr>
<td>Developed Markets Public Equity</td>
<td>28%</td>
<td>30%</td>
<td>+2%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>15%</td>
<td>15%</td>
<td>0%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>7%</td>
<td>5%</td>
<td>-2%</td>
</tr>
<tr>
<td>Opportunistic</td>
<td>3%</td>
<td>3%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Capital Appreciation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Range: 55% - 85%</td>
<td>70%</td>
<td>70%</td>
<td>0%</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>19%</td>
<td>19%</td>
<td>0%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>11%</td>
<td>11%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Capital Preservation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Range: 15% - 45%</td>
<td>30%</td>
<td>30%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total Consolidated Endowment Fund</strong></td>
<td>100%</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>
STANDING COMMITTEES

Finance and Asset Management Committee

Approve Amendment to the Statement of Investment Objectives and Policy for the Consolidated Endowment Fund (continued p. 2)

An administrative or “housekeeping” change is also proposed to remove the peer benchmark comparison from the CEF policy, consistent with practices by peer institutions. Peer comparisons will continue to be presented in regular governance reporting. The investment policy changes are further highlighted in the attached annotated CEF investment policy.

PROCESS AND REVIEW

The CEF policy recommendation was developed by the Chief Investment Officer, in consultation with the University of Washington Investment Management Company Board (UWINCO Board) and Cambridge Associates, the University’s investment consultant.

Revisions to policy, including the overall asset allocation, require the full endorsement of the Board of Regents. Proposed changes will be effective July 1, 2016.

Attachments

1) Summary Consolidated Endowment Fund Investment Policy
2) Statement of Investment Objectives and Policy for the Consolidated Endowment Fund (ANNOTATED)
3) Cambridge Associates Memorandum: “Proposals to Revise Equity and Fixed Income Benchmarks”
Financial Objective: To provide permanent funding for endowed programs.

Spending Policy
- **Program Distributions:** Distributions to endowed programs will be 4% of the market value of the CEF for the previous five years.
- **Administrative Fee:** Spending includes an additional 1% administrative fee.

Investment Objectives
- **Spending Requirement:** To attain an average annual real total return of at least 5% over the long term. The 5% target provides for a 4% distribution to endowed programs and a 1% administrative fee. The nominal (inflation-adjusted) return requirement is 8.0% assuming the historical average inflation rate of 3.0%.
- **Policy Benchmark:** To outperform an investable blend of market indices.

Prohibited Investments: Direct investments in tobacco companies (since 2000); direct investments in companies doing business in Sudan (since 2006); and direct investment in thermal coal companies (since 2015).

Investment Philosophy: Long-term focus; diversification; active management; global perspective.

<table>
<thead>
<tr>
<th>2013 Strategic Asset Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment Strategy</strong></td>
</tr>
<tr>
<td>Emerging Markets Equity</td>
</tr>
<tr>
<td>Developed Markets Equity</td>
</tr>
<tr>
<td>Private Equity</td>
</tr>
<tr>
<td>Real Assets</td>
</tr>
<tr>
<td>Opportunistic</td>
</tr>
<tr>
<td>CAPITAL APPRECIATION FUND</td>
</tr>
<tr>
<td>Absolute Return</td>
</tr>
<tr>
<td>Fixed Income</td>
</tr>
<tr>
<td>CAPITAL PRESERVATION FUND</td>
</tr>
</tbody>
</table>
Summary (continued)
Consolidated Endowment Fund (CEF) Investment Policy

Risk Guidelines:
- **Review:** Monitored quarterly. Exception reporting provided in Board quarterly investment performance report.
- **Concentration:** Maximum portfolio weights. 15% in single manager (except fixed income); 25% in individual countries outside the U.S.; 30% in one market sector.
- **Liquidity:** One quarter (25%) of the CEF convertible to cash in one month or less; Unfunded capital commitments plus current exposure to private investments limited to one half (50%) of the CEF.

Capital Appreciation Fund:
- **Description:** An integrated blend of global developed and emerging markets equity, real assets and opportunistic investments such as credit. Includes both public and private investments.
- **Role:** 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.

Capital Preservation Fund:
- **Description:** Absolute return investments and high quality fixed income.
- **Role:** To provide liquidity in support of spending and capital commitments, a deflation hedge and to reduce the overall volatility of the CEF.

Delegations:
- **Board of Regents:**
  1. **Sets investment policy:** Spending rate; Strategic asset allocation; Delegations
  2. **Appoints investment officers/advisors:** Chief Investment Officer; UWINCO Board members; Investment consultants (FAM)
  3. **Reviews results:** Investment program oversight / accountability

  - **University of Washington Investment Management Company Board (UWINCO Board):**
    1. **Advises the CIO:** Investment planning; Asset allocation; Manager identification; Market trends
    2. **Advises the Board of Regents and President:** Investment program and administrative oversight

  - **Chief Investment Officer:**
    1. **Implements the investment program:** Day to day investment program management; Tactical asset allocation; Manager appointments / terminations; Rebalancing; Risk management; Research
    2. **Monitors results:** Performance measurement, Attribution, Evaluation
UNIVERSITY OF WASHINGTON

STATEMENT OF INVESTMENT OBJECTIVES AND POLICY
FOR THE CONSOLIDATED ENDOWMENT FUND

Approved by Board of Regents April 15, 1988

Amended December 15, 1989; February 16, 1990; September 17, 1993; October 22, 1993;
September 20, 1996; September 19, 1997; September 18, 1998; November 19, 1999; January 21,
2000; November 17, 2000; May 18, 2001; June 14, 2002; November 21, 2003; January 16, 2004;
June 11, 2004; July 16, 2004; May 19, 2005; June 9, 2005; June 8, 2006; May 15, 2008; March 19,
2009; September 17, 2009; May 13, 2010; October 21, 2010; May 9, 2013; November 14, 2013;
May 14, 2015; September 10, 2015; and May 12, 2016

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 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:
   - Experience of key personnel and succession plan where appropriate
   - Consistency in investment approach
   - Effectiveness of decision making process
   - Assets under management and plans for managing future capacity
   - Organizational structure including administration, back office support, risk management and reporting
   - Performance record
   - Fees
   - 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></td>
<td>Current</td>
<td>Proposed</td>
</tr>
<tr>
<td>Emerging Markets Equity</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>Developed Markets Equity</td>
<td>28%</td>
<td>30%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>Opportunistic</td>
<td>3%</td>
<td>3%</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>19%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td><strong>CAPITAL PRESERVATION FUND</strong></td>
<td>30%</td>
<td>15% - 45%</td>
</tr>
</tbody>
</table>

Shifts in target asset allocation reflect market realities and opportunities.

### 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.

No changes
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

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Statement of Investment Objectives and Policy for the Consolidated Endowment Fund
Page 8 of 14

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5/12/16
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.
I. GUIDELINES FOR TRANSACTIONS

As a general guideline that should apply to all assets managed, transactions should be entered into on the basis of best execution, which is interpreted normally to mean best realized price. Commissions may be designated for payment of services rendered to the University in connection with investment management.

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:

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 board members.
   c. Approve the Board of Regents Governance, Standing Orders, Chapter 10 which addresses the advisory and administrative functioning of the UWINCO Board.
   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 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 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. University of Washington Investment Management Company (UWINCO) Board, an internal advisory board:

a. Advise the Finance and Asset Management Committee 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. President of the University:

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:

   i. Approve the compensation of senior professional investment staff.

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

   iii. Approve use of professional staff bonus pool.

b. 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. Approve investment custodian appointment(s).

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

c. 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 the UWINCO Board and the University’s investment consultant(s).

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.

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.

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 expectation 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.
February 24, 2016

To: UWINCO Board, UWINCO Investment Staff
From: Max Senter
Subject: Proposals to Revise Equity and Fixed Income Benchmarks

Investment Staff and Cambridge recommend two modest revisions to the Public Equity benchmark and the Fixed Income benchmark.

Public Equity

The current benchmark for the Developed, Emerging Market, and Opportunistic Equity segments of Capital Appreciation is the MSCI All Country World Index (ACWI). The MSCI methodology reinvests dividends paid without consideration of taxes withheld. For U.S. non-profits, this methodology overstates actual return as taxes on dividends are indeed withheld but without offsetting U.S. tax credits (as is the case for U.S. taxpayers).

MSCI also calculates its Indexes net of withholding taxes on dividends, and typically these are designated as ‘Net’ after the Index name, such as ‘MSCI ACWI (Net).’ The Net methodology more accurately reflects the total return that a U.S. non-profit would receive from investing passively in the international benchmarks. (Confusingly, MSCI’s older Developed Market Indexes such as EAFE are reported net of dividend withholding without the ‘Net’ designation, while others such as World, ACWI, and EM are not.) Netting dividend withholding does have the effect of lowering the benchmark return as shown in this table of annual returns for each of the past ten years.

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</tr>
</thead>
<tbody>
<tr>
<td>ACWI (Net)</td>
<td>20.95</td>
<td>11.66</td>
<td>-42.20</td>
<td>34.63</td>
<td>12.67</td>
<td>-7.35</td>
<td>16.13</td>
<td>22.80</td>
<td>4.16</td>
<td>-2.36</td>
</tr>
<tr>
<td>ACWI</td>
<td>21.53</td>
<td>12.18</td>
<td>-41.85</td>
<td>35.41</td>
<td>13.21</td>
<td>-6.86</td>
<td>16.80</td>
<td>23.44</td>
<td>4.71</td>
<td>-1.84</td>
</tr>
<tr>
<td>Difference</td>
<td>-0.57</td>
<td>-0.52</td>
<td>-0.35</td>
<td>-0.78</td>
<td>-0.54</td>
<td>-0.48</td>
<td>-0.67</td>
<td>-0.64</td>
<td>-0.54</td>
<td>-0.52</td>
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</tbody>
</table>

We observe that the norm in the industry for institutions is to use ‘Net’ Indexes, and we recommend a transition to MSCI ACWI (Net).

Fixed Income

The current benchmark for fixed income is the Barclays Capital Government Bond Index (Government). This index includes U.S. Treasury and Agency debt with maturities from 1 to 30 years. The target allocation to Fixed Income is currently 11% of the total CEF. The Government is liquid, non-callable, and risk-free. While it...
changes with interest rates and issuance, the modified duration of Index is about 6 years.

The recommendation is to transition the Fixed Income benchmark to the BC Intermediate Government Index (Intermediate). This Index is the same as the Government except that it contains only maturities out to 10 years. Because issuance is dominated by short and intermediate maturities (which is subject to change with U.S. Treasury debt policy), the Intermediate makes up more than 80% of the $7+ trillion Government as measured by market value. The Intermediate’s modified duration is about 3.9 years, which is different from the Government’s duration. The annual return of the two benchmarks for each of the past ten years is shown in the following table.

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>BC Government</td>
<td>3.46</td>
<td>8.67</td>
<td>12.38</td>
<td>-2.19</td>
<td>5.53</td>
<td>9.01</td>
<td>2.01</td>
<td>-2.61</td>
<td>4.93</td>
<td>0.84</td>
</tr>
<tr>
<td>BC Intermediate Government</td>
<td>3.84</td>
<td>8.47</td>
<td>10.43</td>
<td>-0.32</td>
<td>4.98</td>
<td>6.08</td>
<td>1.73</td>
<td>-1.25</td>
<td>2.52</td>
<td>1.18</td>
</tr>
</tbody>
</table>

Given the a primary use of fixed income today as a liquidity buffer and risk reducer and the staff’s implementation that reflects a short duration position (much less than 6 years), we recommend a transition to the Intermediate Index.

The attached Exhibit shows the current CEF Policy Benchmark and the proposed Policy Benchmark reflecting the MSCI ACWI (Net) and the BC Intermediate Government Bond Index.
<table>
<thead>
<tr>
<th>Investment Strategy</th>
<th>Proposed Long-Term Target</th>
<th>Current Policy Benchmark</th>
<th>Proposed Policy Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emerging Markets Equity</td>
<td>17%</td>
<td>MSCI ACWI Index</td>
<td>MSCI ACWI Index (Net)</td>
</tr>
<tr>
<td>Developed Markets Equity</td>
<td>30%</td>
<td>MSCI ACWI Index</td>
<td>MSCI ACWI Index (Net)</td>
</tr>
<tr>
<td>Private Equity</td>
<td>15%</td>
<td>70% CA Private Equity 30% CA Venture Capital</td>
<td>70% CA Private Equity 30% CA Venture Capital</td>
</tr>
<tr>
<td>Real Assets</td>
<td>5%</td>
<td>50% NCREIF 50% CA Natural Resources</td>
<td>50% NCREIF 50% CA Natural Resources</td>
</tr>
<tr>
<td>Opportunistic</td>
<td>3%</td>
<td>MSCI ACWI Index</td>
<td>MSCI ACWI Index (Net)</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>19%</td>
<td>HFRI Conservative Fund of Funds Index</td>
<td>HFRI Conservative Fund of Funds Index</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>11%</td>
<td>Barclays Government Bond Index</td>
<td>Barclays Intermediate Government Bond Index</td>
</tr>
</tbody>
</table>