STANDING COMMITTEES

Finance and Asset Management Committee

Discussion of Proposed Divestment Guideline

INFORMATION

This is an item for information only.

BACKGROUND

In June 2016, the University of Washington Board of Regents (“Board”) heard an information item titled *Socially Responsible Investing at the University of Washington and Peer Institutions*. As a result of the discussion, the Board recommended the University develop a divestment guideline and formal process for addressing divestment requests to the Board.

Attached for the Board’s consideration is a document titled *Divestment Guideline* that includes criteria and process for divestment. The information is being presented to the Board as draft for discussion and input.

*Attachments*

1. Divestment Guideline (Draft)
2. History of Social Investing at the University of Washington
4. Correctional Industries (CI) Purchasing Brief
5. Private Prisons Divestment Brief
Divestment* Guideline

The Board of Regents (the “Regents”) is vested by statute to manage the investment portfolios of the University of Washington. Decisions regarding the investment portfolios are geared towards maximizing the resources of the University in support of its primary teaching and research mission.

Ethical considerations have led the Regents, from time to time, to engage the University in shareholder activism and/or divestment. Such occurrences are rare. The fiduciary duty of the Regents ensures a strong presumption against divestment. Divestment is considered only after all options to address the ethical concern have been reviewed and found unsatisfactory.

In making any determination, the Regents recognize the need for a clear process that allows for University community input, evaluation and articulated criteria to inform the Regents in their decision making. No process or set of criteria, however, can be expected to address all situations that might arise. The Regents reserve the right to interpret this Guideline as broadly or narrowly as they see fit, consistent with the policies of the University and applicable external laws and regulations.

Criteria for Divestment

The Board of Regents will consider proposals to divest its endowment of direct holdings in publically held companies only when the following criteria have been met:

1. The activities of the company or companies are deemed “morally reprehensible” constituting apartheid, genocide, human trafficking, slavery or systematic cruelty to children.

2. Divestment is seen to be more viable and appropriate than ongoing shareholder engagement.

3. The merits of the issue are clearly on one side. If there is more than one side to an issue resulting in a dispute among members of the University community, the proposal will not move forward.

4. There is a broad and continuing base of support within the University community** including students, faculty and staff ** who believe that action is warranted.

5. A specific company or companies are targeted rather than broad industries. If implemented, the University will appoint a third party provider to conduct ongoing monitoring and research on targeted companies.

For activities believed to cause social harm but not on the level of moral reprehensibility, the Board may consider avenues other than divestiture such as shareholder engagement. In such instances, criteria #3 through #5 stated above must be met. Educational initiatives, sustainability initiatives or targeted research may also be pursued but those activities are outside the scope of this guideline.

* Divestment: The sale of specific companies and/or market sectors from the investment portfolio for financial, ethical or political reasons. The process involves ongoing portfolio screening and monitoring to ensure compliance.

** Evidence of University community support may include the following:

a. Endorsements from student government i.e., the Associated Students of the University of Washington (ASUW) and the Graduate and Professional Student Senate (GPSS)

b. Endorsements from Registered Student Organizations (RSOs)

c. Endorsement from the Faculty Senate

d. General petitions signed by students, faculty and staff of the University of Washington
Process for Divestment

1. Members of the University community (students, faculty and staff) with specific ethical concerns regarding the University’s investments may contact the Treasury Office for an informational discussion on social investing at the UW and the Divestment Guideline.

2. Typically, discussions with the Treasury Office continue over an extended period. Social activism is explored as an alternative to divestment.

3. If the issue proponents believe divestment of specific corporate securities is warranted, they must first present their proposal to the Treasury Office. Proposals must include the following:
   - A one-page summary with recommended action and key points
   - Identification of the criteria from the Divestment Guideline used to make the case for divestment
   - Inclusion of all critical data with footnotes for any arguments in the proposal
   - Presentation of opposing arguments and counters to those arguments
   - Research on each company impacted by the proposal including rationale for inclusion

4. The Treasury Office will evaluate the economic impact of any divestment proposal prior to any involvement by the Regents.

5. The Treasury Office, in consultation with the Chair of the Board of Regents, the Chair of the Finance and Asset Management Committee and the President of the University, will make a determination as to whether there is a sufficient basis for further consideration of the proposal by the Board. This consideration will be based upon the criteria specified in the Divestment Guideline. If it is concluded that evidence supporting the proposal is insufficient, then the proponents will be notified and no further action taken.

6. If there is a reasonable basis to proceed, the proposal will be scheduled for review by the Board of Regents as an “Information Item”. At the meeting, the Regents have the opportunity to ask questions and discuss the issue and options with the presenters and the Treasury Office.

7. If the Board of Regents has enough information to make a decision, they will request the presenters to prepare an Action Item for an upcoming meeting of the Board. If action is approved by the Board then the Statement of Investment Policy and Objectives for the Consolidated Endowment Fund will be amended. The Treasury Office will prepare an implementation timeline.

8. Summary of Roles and Responsibilities

<table>
<thead>
<tr>
<th>Divestment Proponents from University Community</th>
<th>Treasury Office</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present rationale for divestment backed by solid research and analysis to Treasury Office staff</td>
<td>Provide point of contact and ongoing communication with members of the University community with ethical concerns impacting the endowment</td>
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<tr>
<td>Demonstrate alignment with the Divestment Guideline criteria</td>
<td>Provide information on shareholder engagement as an alternative to divestment</td>
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<tr>
<td>Provide evidence of broad support for the proposal within the University community</td>
<td>Involve students in related research as appropriate (shareholder activism)</td>
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<tr>
<td>Develop an understanding of shareholder activism versus divestment</td>
<td>Evaluate the economic impact of any proposal to be presented to the Board of Regents</td>
</tr>
<tr>
<td>Provide convincing arguments for divestment over shareholder activism</td>
<td>Maintain on-going communication with the Chair of the Board of Regents and the President of the University on the status of the proposal</td>
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<tr>
<td>Develop formal divestment proposal and present it to the Treasury Office</td>
<td>Facilitate communication with the Office of the Board of Regents regarding schedule and process</td>
</tr>
<tr>
<td>Be prepared to present proposal to Board of Regents first as information and discussion item and in subsequent meeting, as action item</td>
<td>Present economic impact statement to the Board alongside any proposal for divestment</td>
</tr>
<tr>
<td>ISSUE</td>
<td>DATE APPROVED BY BOARD OF REGENTS</td>
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<tr>
<td>--------------</td>
<td>-----------------------------------</td>
</tr>
<tr>
<td>Thermal Coal</td>
<td>May 2015</td>
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</table>
| Climate Change | November 2013                     | Investment Policy amended to allow action as appropriate in support of shareholder resolutions and initiating letters of engagement related to climate change. | With Board Approval for shareholder engagement, the Treasury begins implementation of the Global Climate Change Initiatives:  
1. Create new research assistant position to focus on alternative energy and “ESG” (environment, social and governance) investment opportunities.  
2. Increase alternative energy investments by committing up to an additional $25 million.  
3. Incorporate ESG factors into the investment analysis and decision making process.  
4. Explore opportunities for shareholder advocacy on climate change (e.g. voting shareholder proxies, co-sponsoring shareholder resolutions, letter writing and joining national organizations). |
| Sudan        | June 2006                          | Resolution to divest direct holdings in companies doing business in Sudan and prohibit future direct investment. | UW provides investment managers with quarterly lists of prohibited companies from MSCI’s Sudan Targeted List.* The list is targeted on companies whose business activities support the Sudanese government in its continuing sponsorship of genocidal actions and human rights violations in Darfur. |
| Sudan        | June 2005                          | Investment policy amended to allow action as appropriate in support of shareholder resolutions and initiating letters of engagement related to human rights in Sudan. | UW hires student from campus divestment campaign for assistance with research and letters of engagement.                                                                                       |
| Tobacco      | January 2000                       | Resolution to divest direct tobacco holdings and prohibit future direct investments in tobacco companies. | UW restriction applies to companies which manufacture consumer tobacco products and/or involved in the leaf tobacco industry. Definition and tobacco company research initially provided by the IRRC and is today provided by another third party provider, MSCI. Restriction limited to companies whose tobacco revenues represent a simple majority of total firm revenues. The University provides investment managers with quarterly lists of prohibited tobacco stocks. |
| Burma        | March 1995                         | Investment policy amended to allow action as appropriate in support of shareholder resolutions related to human rights in Burma. | UW notifies investment managers to vote proxies in favor of shareholder resolutions supporting attention to human rights violations in Burma. The University co-sponsors shareholder resolutions, where appropriate related to human rights violations in Burma. No UW activity in this area since the late 1990s. |
| South Africa | Approved 1986, Restriction lifted October 1993 | Resolution to divest and prohibit future investment in companies operating in South Africa. | UW provided investment managers with lists of prohibited companies researched by the Investor Responsibility Resource Center (IRRC), a third party provider of information on corporate governance and social responsibility issues. |
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; and 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. 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**
### Investment Strategy

**Public and Private**

<table>
<thead>
<tr>
<th>Investment Area</th>
<th>Long-term Target</th>
<th>Policy Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emerging Markets Equity</td>
<td>17%</td>
<td></td>
</tr>
<tr>
<td>Developed Markets Equity</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>Private Equity</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Real Assets</td>
<td>5%</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>
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:

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.
Correctional Industries (CI) Purchasing Brief

Overview

- Correctional Industries (CI) is a unit within the Department of Corrections that sells furniture and other items such as food, optical and janitorial supplies. CI is primarily marketed as a job training and skill-building organization, in addition to being a "tax reduction" enterprise.

- State institutions of higher education are not required to meet a specific minimum purchase threshold from CI, but current statutes require institutions of higher education to set “...a target to purchase two percent of their total goods and services from [CI]”\(^1\).

- As a state agency, UW procurement practices are subject to state laws, policies and regulations. The conditions under which a specific supplier may be disbarred from UW or state procurement are outlined in state law and the process to disbar a supplier rests with the state Department of Enterprise Services.\(^2\)

- UW’s Supplier Corporate Social Responsibility Policy is the current institutional policy that guides ethical expectations for UW suppliers. This policy is referenced in all UW procurement contracts.

What is UW’s current spend with Correctional Industries?

Since FY2011, the UW has spent approximately $7 million on purchases with Correctional Industries. This spend was primarily furniture and related services (e.g., upholstery, etc.) totaling approximately $6.4 million. The total spend of $7 million represents approximately 0.11% of total UW spend on all goods and services over the same period ($6.4 billion).

<table>
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<tr>
<th>Year</th>
<th>Purchases with CI</th>
<th>Total Goods and Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$41,000</td>
<td>$941,173,000</td>
</tr>
<tr>
<td>2012</td>
<td>1,104,000</td>
<td>968,434,000</td>
</tr>
<tr>
<td>2013</td>
<td>1,872,000</td>
<td>1,025,499,000</td>
</tr>
<tr>
<td>2014</td>
<td>1,269,000</td>
<td>1,094,736,000</td>
</tr>
<tr>
<td>2015</td>
<td>2,366,000</td>
<td>1,171,002,000</td>
</tr>
<tr>
<td>2016</td>
<td>324,000</td>
<td>1,205,385,000 (est.)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$6,976,000</td>
<td>$6,406,229,000</td>
</tr>
</tbody>
</table>

\(^1\) RCW 28B.10.029
\(^2\) RCW 39.26.200
Are there any active UW-CI contracts?

No, not at this time.

Is CI required to competitively bid on UW projects?

State law allows state agencies to contract directly with CI without a formal bid process. However, in almost all cases since 2011, UW purchases with CI were based on a competitive bidding process.

Is the UW required to contract with CI if they are the lowest bidder?

Not necessarily. The UW is required to contract with the lowest responsible bidder, which allows criteria in addition to price to be factored into the decision making. However, criteria must be transparent and defensible. All suppliers who participated in the bidding process have the ability to protest an award if they believe the final decision was unfair or arbitrary.

Have CI bids been competitive with bids from other suppliers?

It varies. In the case of our last major furniture purchase (2009), CI was not the lowest responsible bidder. The UW only contracted with CI after the lowest responsible bidder, who was awarded the work, filed for bankruptcy and could not perform the work.

Is CI in violation of the UW’s Supplier Corporate Social Responsibility Policy?

If a member of the UW community believes a supplier has violated this policy, they may file a complaint and the administration will determine if further investigation is warranted. To date, no complaints have been filed against CI.
Private Prisons Divestment Brief

Overview

• There are five companies operating/managing private prisons in the U.S.:

1. Corrections Corporation of America (CCA)
   • Largest U.S. private prison operator with 64 owned or managed facilities
   • 37% share of private prison market
   • Earns revenue on an inmate per-day rate
2. GEO Group
   • Second largest U.S. private prison operator with operations in Australia, South Africa and Canada
   • 28% share of private prison market
   • Owns or operates 71 facilities in the U.S.
3. G4S PLC
   • Security solutions firm operating in more than 100 countries with over 600,000 employees.
   • Some of the company’s offerings include: security guards, alarms, monitoring, management and transportation of cash and valuables, prison management, and electronic monitoring of offenders.
4. Serco Group PLC
   • United Kingdom-based provider of public services with operations in the Americas including professional, technology and management services focused on defense, transport and citizen services.
   • Provides custodial services to governments serving prisons in UK, Australia and New Zealand.
5. Broadspectrum Ltd.
   • Australia based provider of asset management services across a range of industries within the resources, energy, industrial, infrastructure, property and defense sectors.

• In addition to these five companies, several financial institutions and investment groups invest in or financially support private prison companies. The UW has investment holdings in two of these companies, including:
1. BlackRock, Inc., which invests in private prisons.¹
2. Wells Fargo & Company, which has provided investment loans to private prisons.

The Facts

- **The University of Washington has no direct holdings in private prisons.**
- **UW’s relationship with BlackRock Financial Management, Inc., a subsidiary of BlackRock, Inc.:**
  - BlackRock, Inc. is a global investment management corporation.
  - One of the UW’s investment managers, Wellington Management, has purchased a small amount of shares of BlackRock, Inc. Common Stock - 5,149 shares totaling MV $1,786,703. These BlackRock, Inc. shares are in the UW’s Wellington Dividend Growth Account managed by Wellington. This account does not have any direct exposure to private prisons.
  - BlackRock Alternatives, a subsidiary of BlackRock, Inc. manages $79.7 million of the Consolidated Endowment Fund (CEF). The BlackRock Alternatives funds in which the UW CEF is invested do not have any direct holdings in private prisons.
- **UW’s relationship with Wells Fargo & Company:**
  - Wells Fargo & Company is a financial services company offering investment and brokerage services in addition to banking and insurance products.
  - UW owns 41,676 shares of Wells Fargo Common Stock totaling MV $2,010,033 in the Wellington Dividend Growth Account. Again, this account does not have any direct exposure to private prisons.
  - UW investment managers occasionally will use Wells Fargo Brokerage as a trading partner to buy and sell bonds.
  - Wells Fargo provides banking services for UW’s payroll account.

¹ Note that a public records request from UW students asked for holdings in BlackRock Fund Advisors, a company owned by BlackRock, Inc. The UW does not have holdings in BlackRock Fund Advisors. The information included in the public records request reflects holding in BlackRock, Inc.