UNIVERSITY OF WASHINGTON

STATEMENT OF INVESTMENT OBJECTIVES AND POLICY
FOR THE CONSOLIDATED ENDOWMENT FUND

Approved by Board of Regents April 15, 1988


INTRODUCTION

The Board of Regents of the University of Washington is vested by statute with responsibility for the management of the properties of the University, including the Consolidated Endowment Fund and other University Funds. This statement of investment objectives and policies governs the investment management of the Consolidated Endowment Fund (CEF). This statement is effective until modified by the Board.

The Board has delegated to its Finance, Audit and Facilities Committee (FAF) the responsibility for overseeing the investment program within the general principles enumerated herein. In May 2001, the Board approved the establishment of an advisory committee (UWINCO) consisting of both Board members and external investment professionals. In 2004, the Board approved the appointment of the University’s first Chief Investment Officer (CIO) to manage the day to day activities of the investment portfolios.

A. INVESTMENT OBJECTIVES

1. The overall financial objective of the CEF is to provide a level of support for programs (as determined by the CEF’s spending policy summarized below) consistent with the CEF’s purchasing power being maintained over time.

2. The primary investment objective of the CEF is to provide a maximum level of return consistent with prudent risk levels. The specific investment objective of the CEF is to attain an average annual real total return (net of investment fees) of at least 6% over the long term (running five-year periods). The 6% target provides for a 5% distribution to endowed programs and a 1% administrative fee. Real total return is the sum of capital appreciation (or loss) and current income (dividends and interest) adjusted for inflation by the Consumer Price Index. It is recognized that the real return objective may be difficult to attain during every five-year period, but should be attainable over a series of five-year periods.

3. Per unit distributions to endowed programs will be decreased by 25% annually in FY09 and FY10 after which per unit distributions will be held constant at the FY10 level. This policy goes into effect in March 2009 and will be revisited by the Board of Regents no later than 6/30/2013 to determine the appropriate next steps.

4. Over the long term (rolling five year periods), 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. The investment performance of the CEF will also be evaluated, on a risk-adjusted basis, against a representative blend of market indices which reflect the strategic asset allocation of the CEF. Over the long term (rolling five-year periods), the CEF’s diversification is expected to generate risk-adjusted returns that meet or exceed those of blended market indices.
B. 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.

C. 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. Rely 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. Tilt towards value strategies
   d. 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

D. INVESTMENT MANAGEMENT STRUCTURE
1. The CEF will be invested primarily by external investment managers. 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; fees; the firm’s ethical and financial viability and its structural fit within the CEF.
2. 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.
E. PORTFOLIO COMPOSITION AND ASSET ALLOCATION

1. To achieve its investment objective, the CEF will be divided into four parts: an “Equity Fund”, a “Real Assets Fund”, an “Absolute Return Fund” and a “Fixed Income Fund.” Sub-categories of these four major asset classes, each with its own target and range, may also be specified. The purpose of dividing the funds in this manner is to ensure that the overall asset allocation among the four Funds remains under the regular scrutiny of the Finance, Audit and Facilities Committee and UWINCO. Over the long run, the allocation among and within the Equity, Real Assets, Absolute Return and Fixed Income Funds may be the single most important determinant of the CEF’s investment performance.

2. 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.

<table>
<thead>
<tr>
<th>Investment Strategy</th>
<th>Long-term Target</th>
<th>Policy Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Marketable Alternatives *</td>
<td>12%</td>
<td>5 – 25%</td>
</tr>
<tr>
<td>International Equity – Emerging Markets</td>
<td>13%</td>
<td>5 – 35%</td>
</tr>
<tr>
<td>International Equity – Developed Markets</td>
<td>16%</td>
<td>5 – 35%</td>
</tr>
<tr>
<td>Domestic Equity</td>
<td>15%</td>
<td>5 – 35%</td>
</tr>
<tr>
<td>Other</td>
<td>0%</td>
<td>0 – 10%</td>
</tr>
<tr>
<td><strong>EQUITY FUND</strong></td>
<td><strong>56%</strong></td>
<td><strong>45 – 75%</strong></td>
</tr>
<tr>
<td><strong>REAL ASSETS FUND</strong></td>
<td><strong>15%</strong></td>
<td><strong>5 – 25%</strong></td>
</tr>
<tr>
<td><strong>ABSOLUTE RETURN FUND</strong></td>
<td><strong>18%</strong></td>
<td><strong>5 – 25%</strong></td>
</tr>
<tr>
<td><strong>FIXED INCOME FUND</strong></td>
<td><strong>11%</strong></td>
<td><strong>5 – 35%</strong></td>
</tr>
</tbody>
</table>
3. The purpose of the Equity Fund is to provide a total return that will simultaneously provide for growth in principal and current income in support of spending requirements, while at the same time preserving the purchasing power of the CEF’s assets. It is recognized that the Equity Fund entails the assumption of greater market variability and risk.

4. The purpose of the Real Assets Fund (real estate, commodities and timber) is to provide attractive risk adjusted returns and portfolio protection during inflationary periods.

5. The purpose of the Absolute Return Fund is to provide positive real returns and portfolio protection with limited downside risk.

6. The purpose of the Fixed Income Fund (bonds and cash equivalents) is to provide a deflation hedge, to reduce the overall volatility of the CEF, and to produce current income in support of spending needs.

7. Direct investments in tobacco companies are prohibited.

8. Risk is managed primarily through diversification. The CEF will be diversified both by asset class (e.g., equities, bonds, cash equivalents, non-U.S. securities, non-marketable alternatives, absolute return, real assets) and within asset classes (e.g., within equities by country, economic sector, industry, quality, and size). Derivatives may be used to adjust exposures within or across asset classes in order to improve the risk / return profile of the CEF. The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the total fund.

9. Aggregate portfolio risk is managed to minimize uncompensated, unanticipated and inappropriate risks. Both quantitative measure and qualitative judgment will be used in assessing and managing risk.

F. GUIDELINES FOR THE EQUITY FUND

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

2. The Equity 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 Equity 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.

3. With the exception of passive strategies, assets under management by individual active equity managers – including quasi-index managers – will not exceed 20% of the CEF. A manager with an allocation close to 20% will be characterized by a diversified, highly liquid portfolio; a stable management team; a varied client base; and significant assets under management.

4. 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.

5. If allowed under their individual investment guidelines, equity managers may at their discretion hold investment reserves of either cash equivalents or bonds, but with the understanding that performance will nonetheless be measured against a representative stock index. Derivatives (currency forwards, options, futures, etc.) may be used to manage certain exposures (such as currency or market risk) if so specified under individual investment manager guidelines.

6. The objective of the Non-marketable Alternatives (venture capital, buyout and opportunistic funds) strategy is to enhance the long-term return of the CEF.

7. The “other” category allows investment in opportunistic areas of the market, such as high yield or
emerging markets bonds, which do not fit within the existing strategy definitions. The objective of the “other” category is to enhance the return of the CEF.

G. GUIDELINES FOR THE REAL ASSETS FUND
1. The objective for the Real Assets Fund is to outperform, net of commissions and fees, a weighted average benchmark of relevant indices for public and private real estate and commodities on a risk-adjusted basis. Performance will be monitored on a regular basis and evaluated over running three- to five-year periods.
2. The real estate portion of the Real Assets 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.
3. An allocation to TIPS, commodities, and other real assets may be included within the Real Assets Fund. Implementation through public mutual funds, private partnerships, derivatives and direct investments is allowed. Both domestic and international investment vehicles may be used. These assets provide diversification, portfolio protection during inflationary periods, and support spending during prolonged economic contractions.
4. Decisions as to individual security, property, or asset selection 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.
5. If allowed under their individual investment guidelines, Real Asset Fund managers may at their discretion hold investment reserves of either cash equivalents or bonds, but with the understanding that performance will nonetheless be measured against a representative index.

H. GUIDELINES FOR THE ABSOLUTE RETURN FUND
1. The objective of the Absolute Return 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 Absolute Return Fund. In addition, performance will be monitored against the average return of a representative universe of fund-of-funds. Performance will be monitored on a regular basis and evaluated over running three- to five-year periods.
2. The Absolute Return Fund will be diversified by strategy type (long short equity, event driven arbitrage, relative value) and geography. Implementation will be made through direct investments, funds or fund-of-funds’ vehicles. Emphasis will be placed on investments with a low or negative correlation to the market.

I. GUIDELINES FOR THE FIXED INCOME FUND
1. The objective of the Fixed Income Fund is to outperform, net of commissions and fees, the Barclay’s Capital U.S. Government Bond Index on a risk-adjusted basis. In addition, performance will be monitored against the average return of a representative universe of active fixed income managers. Performance will be monitored on a regular basis and evaluated over running three- to five-year periods.
2. The Fixed Income Fund may contain money market instruments, domestic and foreign bonds and other investment vehicles with risk / return characteristics consistent with the investment goal(s) of the Fund. Equities and convertibles (if the latter are bought at prices above their investment value) are generally excluded. Derivatives (currency forwards and options, futures, swaps and mortgage-related structured
notes) may be used to manage certain exposures (such as currency or prepayment risk) if so specified under individual investment manager guidelines.

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

4. Absolute return strategies may be used as fixed income substitutes to provide an uncorrelated source of return with low volatility.

J. 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.

K. MONITORING OF OBJECTIVES AND RESULTS

1. All objectives and policies are in effect until modified. The Finance, Audit and Facilities Committee with advice from the Chief Investment Officer (CIO) and UWINCO will review these periodically for their continued appropriateness. It is anticipated that changes to the asset allocation targets and ranges will be made infrequently.

2. The CEF portfolios will be monitored on a continual basis for consistency in investment philosophy; return relative to objectives; and investment risk as measured by asset concentrations; exposure to extreme economic conditions; and market volatility. Performance will be reviewed at least annually by the Finance, Audit and Facilities Committee and with UWINCO on a quarterly basis. Results will be evaluated over longer time frames including the inception period, running three- to five-year periods, and complete market cycles.

3. The CIO will review 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 Finance, Audit and Facilities Committee and UWINCO.

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.

L. DELEGATIONS

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

1. Board of Regents:
   a. Approve investment policies which guide the management of the University’s investment portfolios. This includes but is not limited to the strategic asset allocation, performance goals, spending and delegations.
   b. Approve appointment and reappointment of Regent and non-Regent UWINCO members.
   c. Approve the UWINCO “Statement of Principles” which addresses the administrative functioning of the Investment Committee.
   d. Approve appointment of the Chief Investment Officer.
   e. 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, Audit and Facilities Committee of the Board of Regents. Endowments governed by an agreement that allows withdrawals under specific terms and conditions are exempt from this requirement.

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

3. Finance, Audit and Facilities Committee:
   a. Oversee the University’s investment programs within the broad guidelines established by the investment policies.
   b. Appoint the University’s investment consultant(s).
   c. Recommend endowment spending policy changes to the Board for approval. It is anticipated that such changes will be infrequent.
   d. Review the asset allocation and strategy recommendations of the CIO and UWINCO. Recommend policy changes as appropriate to the Board of Regents.

4. Investment Committee (UWINCO):
   a. Advise the Finance, Audit and Facilities Committee, the Senior Vice President and the Chief Investment Officer on matters relating to the management of the University’s investment portfolios. This includes, but is not limited to, advice on overall asset allocation, performance goals, portfolio risk, new investment strategies, strategy implementation, manager identification and due diligence.
   b. Adhere to the UWINCO “Statement of Principles”.

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

6. Chief Investment Officer:
   a. Manage the day-to-day activities of the University’s investment portfolios within the broad
guidelines established by the investment policies.

b. Approve tactical moves relative to long-term policy targets when warranted by market conditions or risk considerations. The deliberate decision to overweight or underweight a strategy relative to its policy target is made in consultation with UWINCO, the University’s investment consultant(s) and the Senior Vice President.

c. Seek the advice of the University’s investment consultant(s) and members of the UWINCO on issues related to the management of the investment portfolios. Incorporate such advice in the implementation of the investment program.

d. Appoint new investment managers, follow-on investments with existing managers and direct investments. Approved investments shall fall within the policy guidelines adopted by the Board of Regents.

e. Approve the dollar value of assets allocated to new and existing investment managers and reallocate assets among managers in accordance with long-term strategic targets.

f. Approve individual investment manager guidelines.

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

h. Monitor aggregate portfolio risk regularly to ensure 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. The Chair of the Finance, Audit and Facilities Committee and the Chair of UWINCO will be notified. 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.