



UNIVERSITY *of* WASHINGTON | TREASURY OFFICE

150
YEARS
1861-2011

2011 CONSOLIDATED ENDOWMENT FUND REPORT

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150
YEARS
1861-2011

2011 CONSOLIDATED ENDOWMENT FUND REPORT



ENDOWMENT FOCAL POINTS

Fiscal Year 2011

- Added 211 new endowments
- Increased market value by \$324 million
- Distributed \$76 million in campus support

Fiscal Years 2002–2011

- Added 1,941 new endowments
- Increased market value by \$1,061 million
- Distributed \$687 million in campus support
- Earned an average annual return of 6.7%

CONSOLIDATED ENDOWMENT FUND HIGHLIGHTS

	Fiscal Year				
	2011	2010	2009	2008	2007
Market Value (in millions)	\$2,154	\$1,830	\$1,649	\$2,161	\$2,074
Return	16.0%	12.5%	-23.3%	1.9%	23.3%
Number of endowments	3,545	3,334	3,118	2,825	2,500
Distributions to campus (in millions)	\$76	\$59	\$75	\$94	\$81



THE UNIVERSITY OF WASHINGTON ENDOWMENT

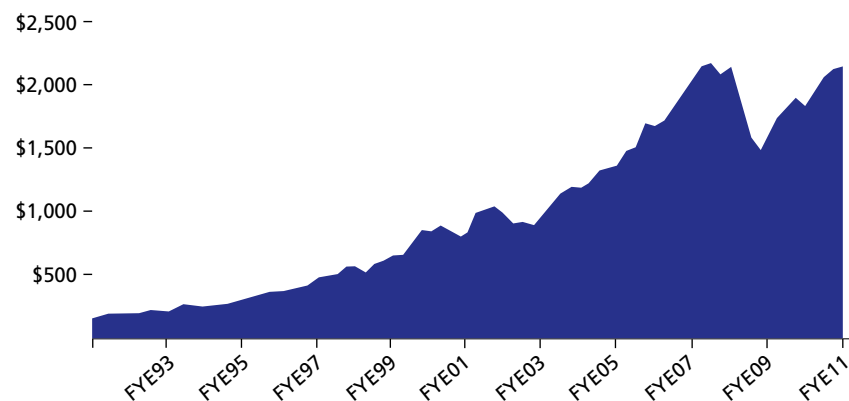
150 years ago, University of Washington's endowment began with its first permanent gift, the Metropolitan Tract, which consists of 10 acres in the center of downtown Seattle. More than 40 years later, in 1905, the University received its first cash endowed gift of \$400, the Philo Sherman Bennett Endowed Prize. This endowment, as well as the bulk of the University's endowments, invests in the Consolidated Endowment Fund (CEF).

Though distinct in purpose or restriction, endowed funds are commingled in the CEF and tracked with unit accounting much like a large mutual fund. Endowed gifts are exchanged for units that represent a claim on a portion of the entire CEF.

Since the initial cash gift, the value of the CEF has grown to \$2.2 billion as of 6/30/2011.

VALUE OF THE CEF

FY 1992-2011 (\$ in millions)

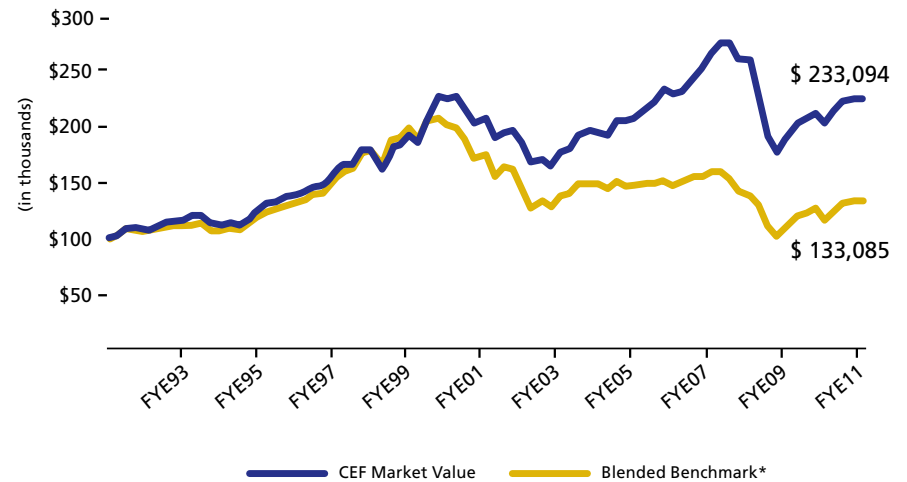


As the University of Washington’s schools and units expand, and as our faculty and students continue to excel in scholarship and research, the University must meet the cost of innovation. Distributions from endowments make that possible. Endowments provide the University with a competitive edge and help enhance the quality of the University of Washington experience.

A hypothetical gift of \$100,000 established on July 1, 1991 would have provided \$198,737 in total campus support over the past 20 years. At the end of this same period, the CEF’s ending market value, net of these distributions, would be \$233,094. Had this gift been invested in a blend of stock and bond indices, it would only have a market value of \$133,085 while providing the same percentage payout.

GROWTH OF A HYPOTHETICAL \$100,000 ENDOWMENT OVER 20 FISCAL YEARS ENDING JUNE 30, 2011

FY 1992–2011



* Blended Benchmark is 70% S&P and 30% Barclays Government Bond Index.



CONSOLIDATED ENDOWMENT FUND PROGRAM SUPPORT

Generous donor support, coupled with investment returns, resulted in the growth of endowment distributions over the past decade.

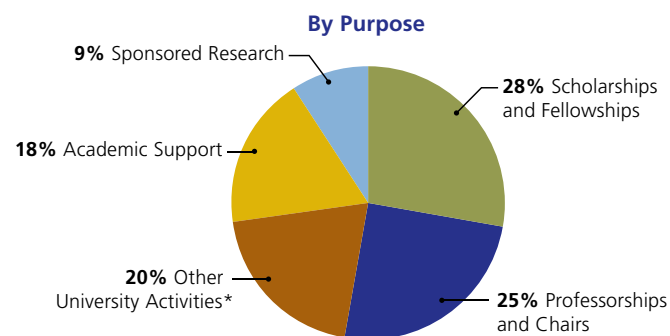
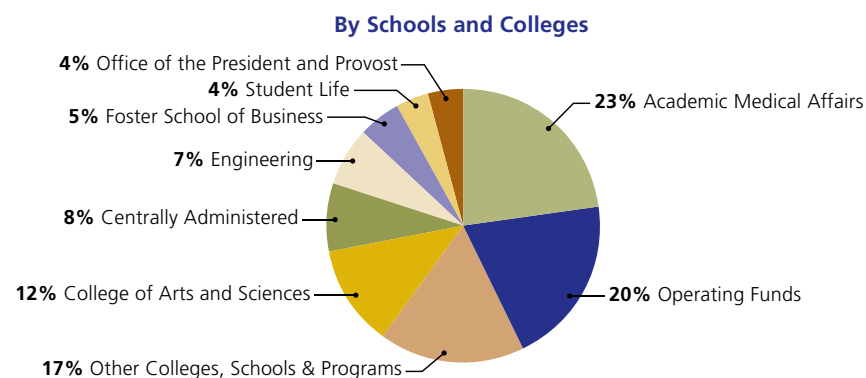
The impact on students, faculty and programs has been substantial with \$687 million distributed over the past 10 years touching every part of campus.

The majority of endowments benefit specific departments and programs. Approximately 80% are restricted to the donor's designated purpose and the remaining 20% consist primarily of long-term operating monies invested by policy in the CEF.

Many unique purposes are supported by the CEF and provide opportunities for students and faculty in their quest for excellence and innovation.

ENDOWMENT SUPPORT

FY 2011



* Includes operating funds invested in the Consolidated Endowment Fund.

SCHOOLS, COLLEGES AND PROGRAMS THAT HAVE RECEIVED ENDOWED GIFTS

Schools, Colleges and Programs with Endowments	Endowment Value at 6/30/11	Number of Individual Endowments
Academic Medical Affairs	\$ 490,419,006	695
College of Arts and Sciences	263,937,862	785
Engineering	153,505,250	323
Foster School of Business	107,259,586	182
Offices of the President & Provost	82,099,483	70
Student Financial Aid	80,212,944	202
Law School	73,580,841	88
College of the Environment	70,293,101	226
Intercollegiate Athletics	38,802,671	143
Graduate School	35,969,233	72
Undergraduate Academic Affairs	32,519,878	26
Libraries	32,443,622	76
School of Public Health	31,828,833	68
Tacoma Campus	30,897,514	54
Nursing	28,348,037	113
College of Built Environments	25,779,462	97
Dentistry	21,939,313	70
Evans School of Public Affairs	17,422,393	26
College of Education	17,161,935	46
Pharmacy	12,356,072	43
UW Alumni Association	11,674,451	2
Social Work	5,927,599	31
Office of Research	5,773,207	5
University Press	5,588,964	16
Information School	4,095,145	31
Bothell Campus	2,971,689	13
Office of Minority Affairs & Diversity	2,891,155	29
Center for Commercialization	2,732,844	1
Office of the SVP	1,195,942	3
University Advancement	676,927	4
	<u>\$ 1,690,304,959</u>	<u>3,540</u>
Evergreen State College & KUOW	4,264,935	2
Students First	12,571,446	1
Operating Funds	447,352,579	2
	<u>\$ 2,154,493,919</u>	<u>3,545</u>



CONSOLIDATED ENDOWMENT FUND INVESTMENT MANAGEMENT AND OVERSIGHT

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.

Investment program oversight resides with the Finance, Audit and Facilities Committee (FAF), a sub-committee of the Board of Regents. In May 2001, the Board approved the establishment of an advisory committee, University of Washington Investment Committee (UWINCO), consisting of both Board members and external investment professionals. In 2004, the Board approved the appointment of the University's first Chief Investment Officer (CIO) to manage the day to day activities of the investment portfolios.

The CIO manages a team of investment professionals who develop the strategic direction of the portfolio, tactically allocate to attractive opportunities, and select investment managers all within a risk management framework.

BOARD OF REGENTS AS OF JUNE 30, 2011

Herb Simon (Chair)
Kristianne Blake* (Vice Chair)
Stanley H. Barer
Jeffrey H. Brotman*
Craig W. Cole*
William H. Gates
Joanne R. Harrell
Sally Jewell*
Orin Smith*
Frances Youn

* Members of the Finance, Audit and Facilities Committee

UNIVERSITY OF WASHINGTON INVESTMENT COMMITTEE AS OF JUNE 30, 2011

Jeffrey H. Brotman
David Bonderman
Michael Larson
Mary Pugh
Orin Smith
Bryan White

KEY ROLES AND RESPONSIBILITIES

Board of Regents

Sets investment policy

- Spending rate
- Strategic asset allocation
- Delegations

Appoints investment officers/advisors

- Chief Investment Officer
- UWINCO Members
- Investment consultants

Reviews results

- Program oversight/accountability

University of Washington Investment Committee (UWINCO)

Advises the CIO

- Investment planning
- Asset allocation
- Manager identification
- Market trends

Advises the Board of Regents

- Investment program oversight

Chief Investment Officer (CIO)

Implements investment program

- Day-to-day management
- Tactical asset allocation
- Manager appointments
- Manager terminations
- Risk management
- Research

Monitors results

- Performance reporting

CONSOLIDATED ENDOWMENT FUND SPENDING POLICY AND OBJECTIVES

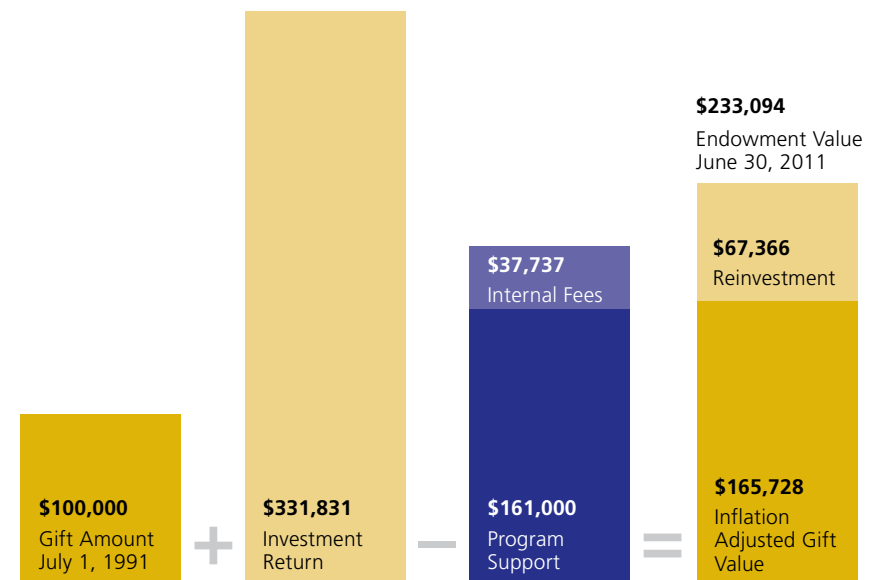
Spending policies provide a disciplined approach to moving money from the endowment to support the purpose designated by the donor on a predictable, consistent basis.

A good spending policy must strike a balance between providing a predictable and stable stream of revenue for current beneficiaries and maintaining the purchasing power of the revenue stream for future beneficiaries.

A \$100,000 gift invested in the CEF 20 years ago would have earned \$331,831 in investment returns. A portion of this return would have been distributed to campus, and the remainder reinvested in the CEF. As a result, the endowment's value at June 30, 2011 of \$233,094 exceeds the inflation adjusted value of the initial gift of \$165,728. The endowment distributed \$198,737 to campus while increasing its purchasing power.

This model provides a growing base to support current and future beneficiaries.

CHANGE IN VALUE OF A HYPOTHETICAL \$100,000 ENDOWMENT OVER 20 FISCAL YEARS ENDING JUNE 30, 2011



On October 21, 2010 the Board of Regents adopted a new spending policy for the Consolidated Endowment Fund (CEF).

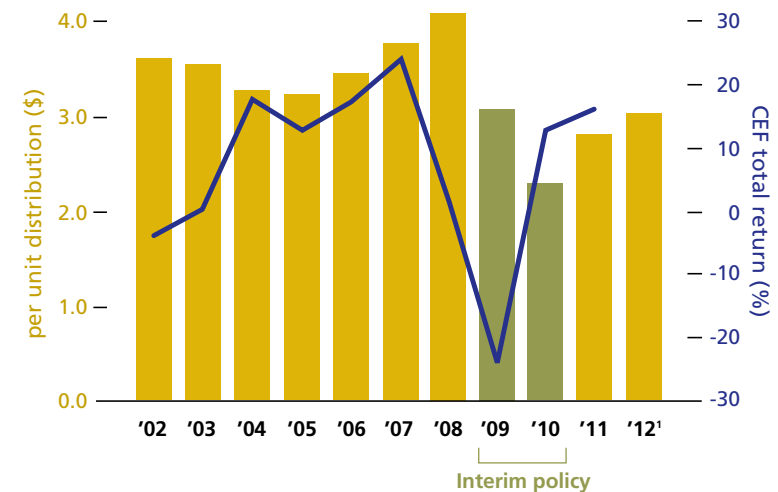
The policy replaces the interim spending policy which was approved March 2009. At that time, the intent was to prevent further erosion of the endowment following the severe meltdown in global financial markets in the last half of FY2008. Under the interim policy, program distributions were lowered and then frozen at approximately half that of FY2008 levels.

Under the current spending policy, distributions to programs are 4% of a five year rolling average. This is an increase from the interim policy effective rate of just over 3% but a decrease from the previous long term rate of 5% of a three year rolling average.

An administrative fee of 1% of a five year rolling average will support campus wide fundraising and stewardship activities (0.80%) and offset the internal cost of managing endowment assets (0.20%).

CEF DISTRIBUTIONS VS. TOTAL RETURN

FY 2002-2011



¹The estimated payout for fiscal year 2012 is \$3.12 per unit.

CONSOLIDATED ENDOWMENT FUND INVESTMENT STRATEGY AND PERFORMANCE

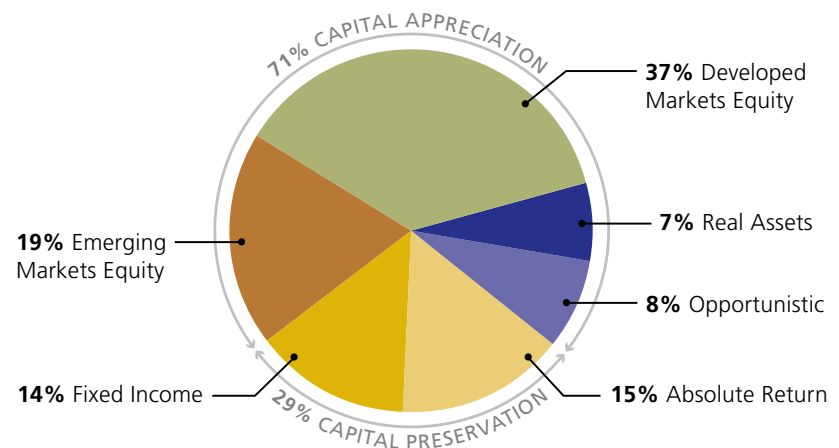
Endowment portfolios are commonly managed around a core set of objectives focused on the need to provide support for endowed programs in perpetuity. The Board of Regents in conjunction with the University of Washington Investment Committee (UWINCO) establishes the policy asset allocation judged to be most appropriate for the University from a long-term potential return and risk perspective.

The policy asset allocation is reviewed annually for its continuing fit with the University's risk profile and the changing dynamics of the capital markets. Significant changes to asset allocation were implemented as of July 1, 2010. Two clearly defined categories of investments were established: those which facilitate growth or appreciation, and those which preserve endowment values. Asset classes within these two categories were also redefined.

At June 30, 2011, 71% of the CEF was invested in Capital Appreciation and 29% in Capital Preservation. Within Capital Appreciation, 19% was allocated to Emerging Markets Equity, 37% to Developed Markets Equity, 7% to Real Assets, and 8% to Opportunistic. Within Capital Preservation, 15% was allocated to Absolute Return and 14% to Fixed Income.

CEF ASSET ALLOCATION

As of June 30, 2011

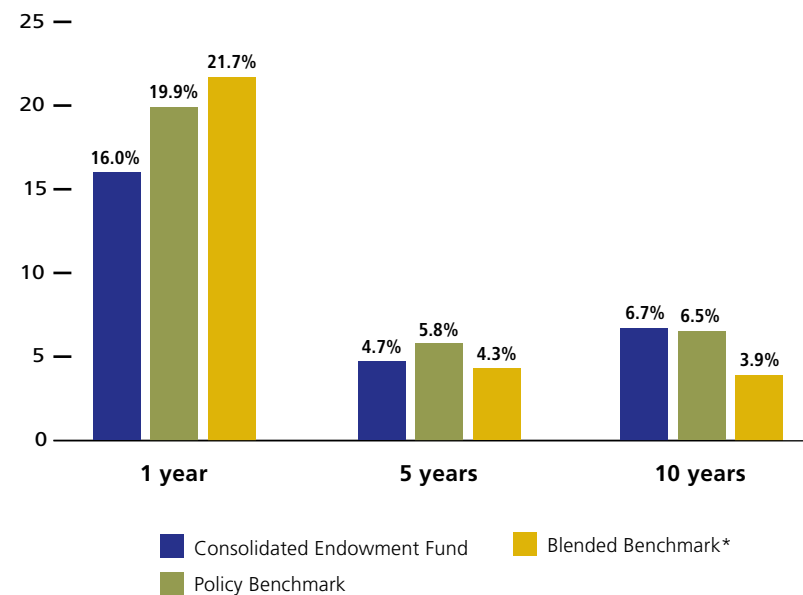


Diversification across a range of investment strategies and styles is the cornerstone of portfolio risk management. The University takes an active approach to portfolio management to achieve meaningful exposures to major capital markets. The investment approach is research-driven, bottom-up and value-oriented.

In accordance with the July 2010 policy changes to asset allocation, the CEF remains conservatively positioned with the primary focus on risk-adjusted returns. While this approach offers greater downside protection, it also means that the CEF is likely to underperform when equity markets experience short-term surges.

The CEF earned an investment return of 16.0% in fiscal year 2011, the highest return since fiscal year 2007. While this is strong absolute performance, the CEF underperformed the policy benchmark. Long-term performance is weighed down substantially by the 2008-2009 global financial crisis and full recovery from the losses incurred over that period may take many years. The CEF returned 4.7% in the five-year period ending June 30, 2011. Performance over the ten-year period remains positive with the CEF returning 6.7%, outperforming both the policy and blended benchmarks.

PERFORMANCE COMPARISONS 1, 5 AND 10 YEAR PERIODS FOR PERIODS ENDING JUNE 30, 2011



*70% S&P 500 and 30% Barclays Government Bond



GLOSSARY

Absolute Return. Low correlation and low beta equities and credit

Asset Allocation. Diversification of endowment assets among various asset classes. Asset allocation affects both risk and return and is a central concept in investment management

Asset Classes. Including, but not limited to, developed markets equity, emerging markets equity, real assets, opportunistic, absolute return and fixed income

Equity. Investments where the underlying asset is the ownership interest in a company

Fixed Income. Government, corporate or municipal bonds which pay interest until the bonds mature, including cash and short term liquid assets (e.g., Treasury bills, commercial paper and non-convertible bonds with remaining maturities of under one year)

Opportunistic. Diversify risk-return profile of the CEF, often with credit instruments

Real Assets. Investments in real estate, natural resources and inflation protection vehicles

Spending. Amount withdrawn from an endowment as authorized by the Board of Regents

Spending Policy. Guidelines used to determine the frequency and rate of distributions from the endowment

Total Return. The accepted method of measuring the performance of equity and bond funds; the combination of income (interest and dividends) and appreciation/depreciation in the fund's value for a specified period of time

INVESTMENT MANAGERS AS OF JUNE 30, 2011

Accel-KKR	Crow Holdings Realty Management, LP	Lone Pine Capital, LLC	Rimrock Capital Management, LLC
Adamas Partners, LLC	Crown Associates, LP	Madrona Venture Group, LLC	Riva Ridge
Aetos Capital, LLC	Deer Capital Management Company, LLC	Martin Currie, Inc.	Riverside Company
Angelo Gordon & Company, LP	Deerfield Capital Management, LLC	Matlin Patterson Global Advisers, LLC	Rockland Capital
ARCH Venture Partners, LLC	Denham Capital Management, LP	Matterhorn Investment Management, LLP	Satellite Asset Management, LP
ArcLight Capital Partners, LLC	Domain Associates, LLC	Mekong Capital	Sequoia Capital
Arisaig Partners, Ltd	Dynamo Administracao de Recursos LTDA	Merit Energy Company	Sevin Rosen
Arrowstreet Capital, LP	Endeavour Capital, LLC	Morgan Stanley	Shott Capital Management, LLC
Bain Capital	Fidelity Real Estate Partners, LLC	Natural Gas Partners	Siguler Guff & Company, LLC
Battery Ventures	Fir Tree Partners	New Enterprise Associates	Silchester International Investors, LLP
Baupost Group, LLC	Frazier Healthcare Ventures	NGP Energy Technology Partners, LLC	Snyder Capital Management
Beacon Capital Partners, LLC	GEM Realty Capital, Inc.	Oak Investment Partners	Square Mile Capital Management, LLC
BlackRock Financial Management, Inc.	Gemini Oil & Gas Advisors, LLP	Oaktree Capital Management, LLC	Standard Investment Research
BPG Properties, Ltd	General Catalyst Partners, LP	Och-Ziff Capital Management Group	Steel Partners
Bridger Capital, LLC	GMO (Grantham, Mayo, Van Otterloo & Company)	Orbis Real Estate Advisors	TA Associates, LLC
Brookside Capital Partners, LLC	Greenbriar Equity Group, LLC	Parthenon Capital, LLC	Tenex Capital Management
Cabot Properties, Inc.	Grove International Partners, LLC	Paul Capital Partners	Thackeray Partners
Cadent Energy Partners, LLC	HarbourVest Partners, Ltd	Payden & Rygel	Tiger Asia Management, LLC
CarVal Investors	Harris Associates, LP	Philadelphia Financial Life Assurance Company	TPG Partners, LP
Centerbridge Capital Partners	HIG Capital, LLC	Phoenix Property Investors Ltd	Tree Line Investment Management, Ltd
Chesapeake Partners Management Company, Inc.	Highfields Capital Management, LP	Polaris Venture Management Company, LLC	Tygh Capital Management, Inc.
ChrysCapital Management Company, LLC	Ignition Partners, LLC	Pomona Associates, LP	Valinor Capital Partners, LP
City of London Investment Management Company, Ltd	Income Research & Management	Prosperity Capital Management, Ltd	Varde Partners, Inc.
CLSA	InterWest Partners, LLC	Pugh Capital Management, Inc.	Vestar Capital Partners
Code Hennessy & Simmons, LLC	J.C. Flowers & Company, LLC	Quadrangle Group, LLC	Voyager Capital Management, LLC
Commonfund Capital, Inc.	LaSalle Investment Management, Inc.	Regiment Capital Advisors, LP	Ward Ferry Management, Ltd
Convexity Capital Management, LP	Liberty Square Asset Management, LLC	Resource Management Services, LLC	Wellington Management Company
			Weston Presidio Service Company, LLC



GENERAL INFORMATION

This report on the management of the University's endowed funds was prepared by the Treasurer of the Board of Regents for donors and other interested parties. Reports are also available, upon request, to donors and fund administrators for each of the 3,545 separate funds in the Consolidated Endowment Fund.

For Further Information

If you have questions or comments about this report, or would like copies of the Consolidated Endowment Fund investment policies, please contact:

V'ella Warren

Senior Vice President
Treasurer of the Board of Regents
(206) 685-1822
vwarren@uw.edu

Keith Ferguson

Chief Investment Officer
(206) 685-1822
invest@uw.edu

Charles Bennett

Senior Associate Treasurer
(206) 685-1822
charlesb@uw.edu

For further information on the University's investment program please visit:
www.washington.edu/admin/treasury.

If you would like to receive information on how you can support the University's programs, please contact:

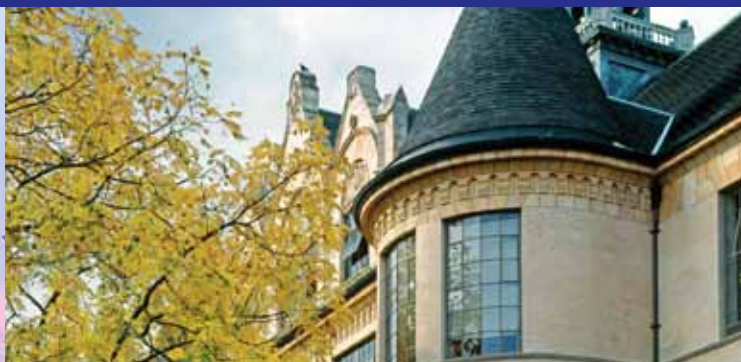
Connie Kravas

Vice President for University Advancement
(206) 685-1980
ckravas@uw.edu

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