

A photograph of a large Gothic-style brick building with many arched windows and a blue tiled roof. In the foreground, there is a large, dark, abstract sculpture consisting of a tall rectangular block on top of a triangular base. The scene is set in a paved plaza under a clear blue sky.

2012 CONSOLIDATED ENDOWMENT FUND REPORT



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ENDOWMENT FOCAL POINTS

Fiscal Year 2012

- Added 237 new endowments
- Distributed \$85 million in campus support
- Market value decreased by \$43 million

Fiscal Years 2003–2012

- Added 2,091 new endowments
- Distributed \$716 million in campus support
- Increased market value by \$1,115 million
- Earned an average annual return of 7.0%

CONSOLIDATED ENDOWMENT FUND HIGHLIGHTS

	Fiscal Year				
	2012	2011	2010	2009	2008
Market Value (in millions)	\$2,111	\$2,154	\$1,830	\$1,649	\$2,161
Return	-0.9%	16.0%	12.5%	-23.3%	1.9%
Number of endowments	3,782	3,545	3,334	3,118	2,825
Distributions to campus (in millions)	\$85	\$76	\$59	\$75	\$94



THE UNIVERSITY OF WASHINGTON ENDOWMENT

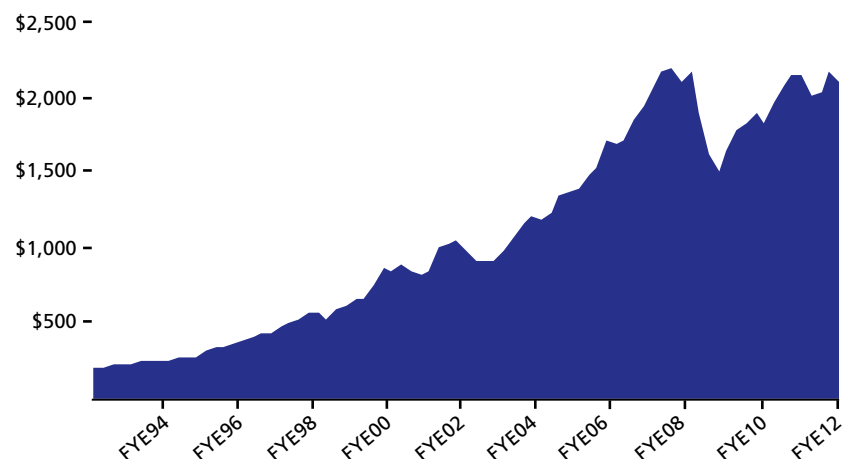
More than 150 years ago, the University of Washington's endowment began with its first permanent gift, the Metropolitan Tract, which consists of 10 acres in the center of downtown Seattle. Forty years later, in 1905, the University received its first cash endowed gift of \$400, the Philo Sherman Bennett 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 \$2.1 billion as of 6/30/2012.

VALUE OF THE CEF

FY 1993-2012 (\$ in millions)

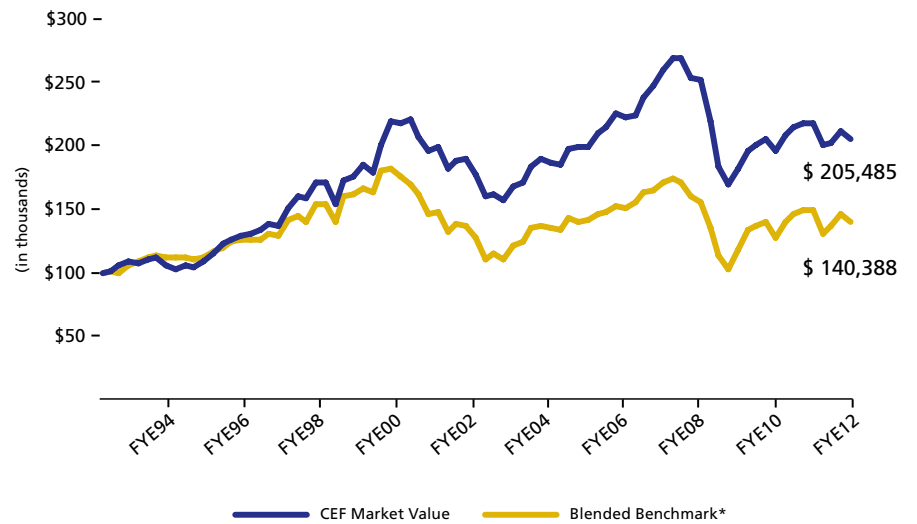


As the University of Washington’s schools and units expand, and as our faculty and students continue to excel in scholarship and research, the University must meet the cost of innovation. Distributions from endowments make that possible. Endowments provide the University with a competitive edge and help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

A hypothetical gift of \$100,000 established on July 1, 1992 would have provided \$191,084 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 \$205,485. Had this gift been invested in a blend of stock and bond indices, it would only have a market value of \$140,388 while providing the same percentage payout.

GROWTH OF A HYPOTHETICAL \$100,000 ENDOWMENT OVER 20 FISCAL YEARS ENDING JUNE 30, 2012

FY 1993–2012



* Blended Benchmark is 70% MSCI ACWI & 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.

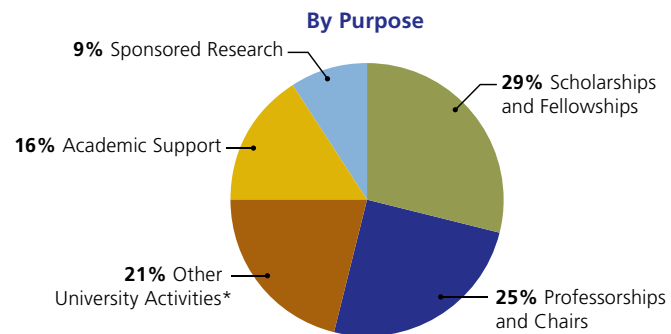
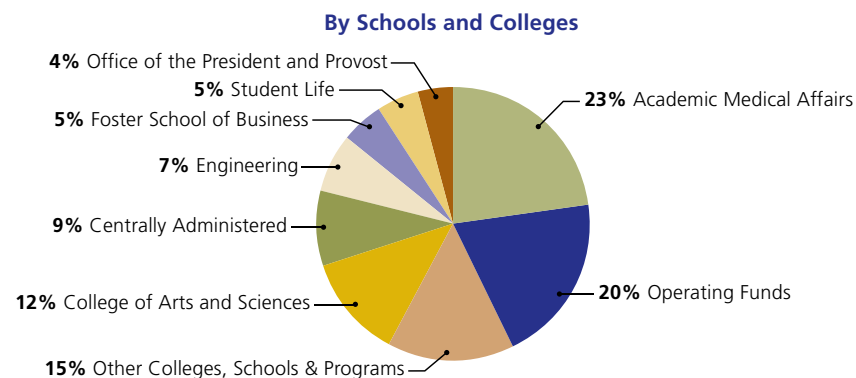
The impact on students, faculty and programs has been substantial with \$716 million distributed over the past 10 years touching every part of campus.

The majority of endowments benefit specific departments and programs. Approximately 80% are restricted to the donor's designated purpose and the remaining 20% consists 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 2012



* 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 6/30/12	Number of Individual Endowments
Academic Medical Affairs	477,565,508	733
College of Arts and Sciences	252,540,451	807
Engineering	154,229,774	342
Foster School of Business	109,639,001	193
Student Life	106,336,704	212
Offices of the President and Provost	79,472,277	74
Law School	70,262,099	90
College of the Environment	67,549,217	238
Intercollegiate Athletics	39,400,611	160
Graduate School	34,580,807	77
Tacoma Campus	31,409,170	58
University Libraries	30,909,457	78
Undergraduate Academic Affairs	30,777,996	27
Nursing	28,655,559	118
College of Built Environments	24,373,430	101
Dentistry	21,365,508	77
College of Education	16,649,489	51
Evans School of Public Affairs	16,480,973	28
Health Sciences	13,780,763	4
Pharmacy	12,238,617	47
School of Public Health	11,843,177	76
UW Alumni Association	11,658,642	2
School of Social Work	6,052,599	35
Office of Research	5,511,804	5
University Press	5,408,599	16
Information School	4,255,373	38
Office of the Senior Vice President	4,157,877	5
Office of Minority Affairs and Diversity	2,859,920	31
Bothell Campus	2,822,612	13
Center for Commercialization	2,574,040	1
Educational Outreach	791,511	2
University Advancement	648,274	5
	<u>1,676,801,839</u>	<u>3,744</u>
Non-University of Washington Endowments	11,671,859	36
Operating Funds	422,860,506	2
	<u>2,111,334,204</u>	<u>3,782</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, 2012

Kristianne Blake (Chair)
Joanne R. Harrell (Vice Chair)
William S. Ayer
Craig W. Cole
William H. Gates
Sally Jewell*
Kelsey Knowles
Patrick M. (Pat) Shanahan*
Herb Simon*
Orin Smith*

* Members of the Finance, Audit and Facilities Committee

UNIVERSITY OF WASHINGTON INVESTMENT COMMITTEE AS OF JUNE 30, 2012

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

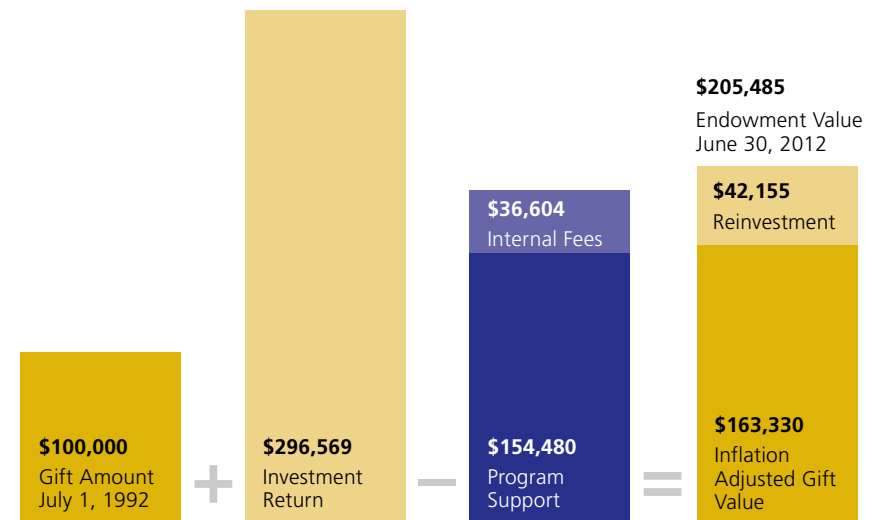
Spending policies provide a disciplined approach to moving money from the endowment to support the purpose designated by the donor on a foreseeable, consistent basis.

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 \$296,569 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, 2012 of \$205,485 exceeds the inflation adjusted value of the initial gift of \$163,330. The endowment distributed \$191,084 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, 2012



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

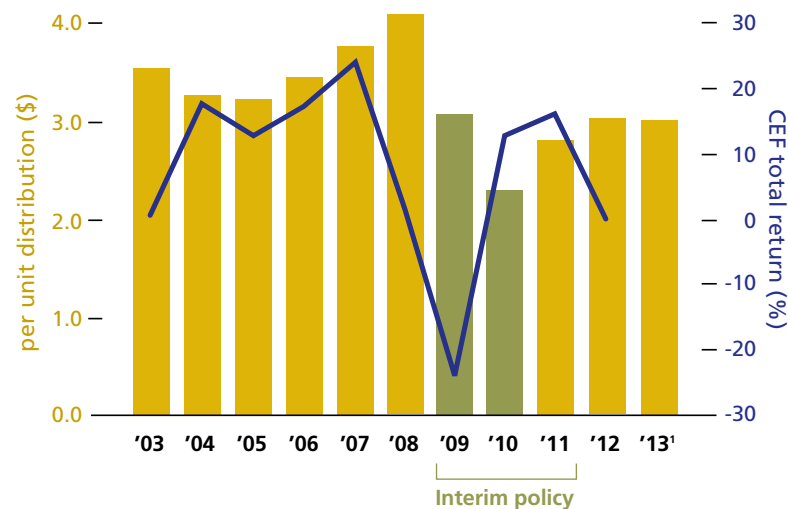
The policy replaced the interim spending policy which was approved March 2009. At that time, the intent was to prevent further erosion of the endowment following the severe meltdown in global financial markets in the last half of FY2008. Under the interim policy, program distributions were lowered and 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 supports campus wide fundraising and stewardship activities (0.80%) and offsets the internal cost of managing endowment assets (0.20%).

CEF DISTRIBUTIONS VS. TOTAL RETURN

FY 2003-2012



¹The estimated payout for fiscal year 2013 is \$3.04 per unit.

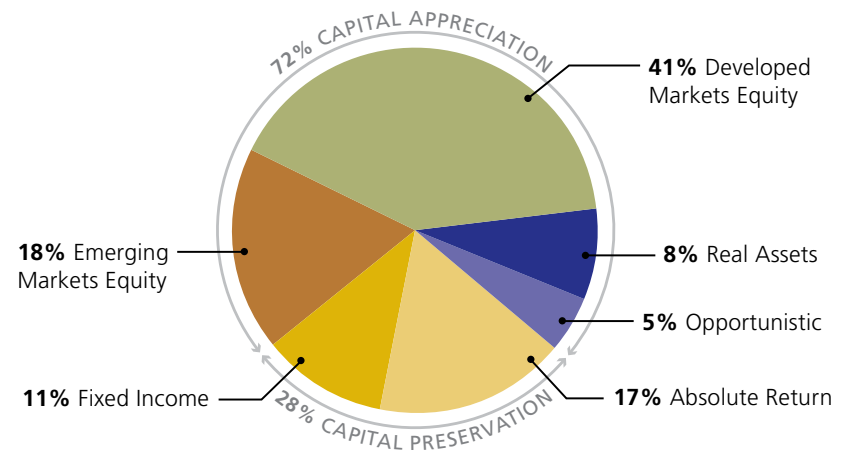
CONSOLIDATED ENDOWMENT FUND INVESTMENT STRATEGY AND PERFORMANCE

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 return and risk perspective.

The policy asset allocation is reviewed annually for its continuing fit with the University's risk profile and with consideration of 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. At June 30, 2012, 72% of the CEF was invested in Capital Appreciation and 28% in Capital Preservation. The CEF is positioned to provide ongoing program support to the University in a conservative manner, maintaining strong liquidity and downside protection.

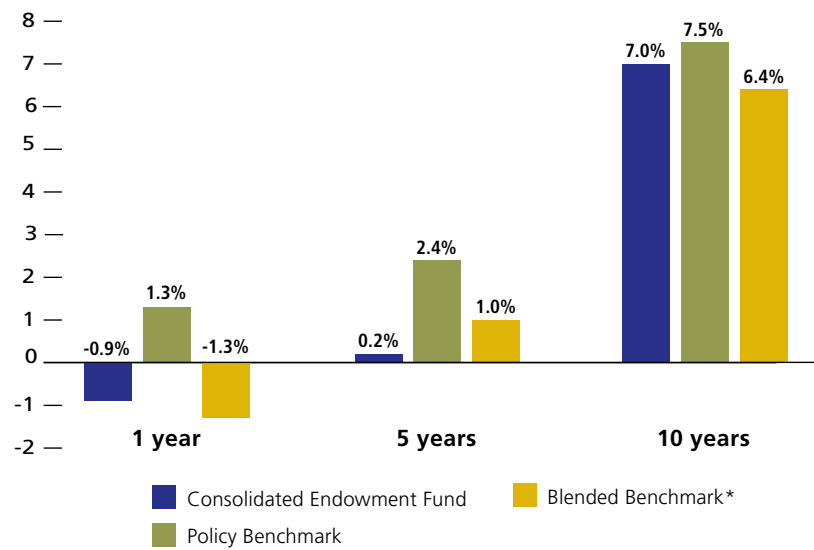
CEF ASSET ALLOCATION

As of June 30, 2012



For the fiscal year ending June 30, 2012 the CEF posted an investment return of -0.9%, underperforming the policy benchmark but outperforming the blended benchmark. The CEF has a significant allocation to emerging markets based on a positive long-term strategic view, and this approach has added significant value to CEF returns over the past decade. However, the emerging market strategy has recently underperformed due to the impact of concerns about the European Union and the slowing global economy. Longer-term returns continue to be weighed down substantially by the 2008-2009 global financial crisis. CEF returns over the past five years averaged +0.2%. Performance over the ten-year period remains solid, with the CEF returning an annual average of +7.0%.

**PERFORMANCE COMPARISONS
1, 5 AND 10 YEAR ANNUALIZED RETURNS
FOR PERIODS ENDING JUNE 30, 2012**



*70% MSCI ACWI and 30% BC 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

Capital Appreciation. Provides 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. Provides liquidity in support of spending and capital commitments; a deflation hedge; and to reduce the overall volatility of the CEF

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, 2012

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

* Excludes idle accounts



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 3,782 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:

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Treasurer of the Board of Regents
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Keith Ferguson

Chief Investment Officer
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Lisa Edlin

Associate Treasurer
(206) 685-1822
lmedlin@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:

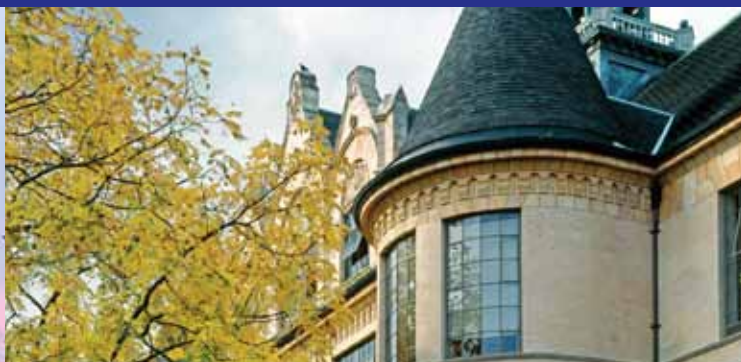
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WASHINGTON



BOTHELL



SEATTLE



TACOMA