

2014

CONSOLIDATED ENDOWMENT FUND REPORT



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CONTENTS

Endowment

- 3** ENDOWMENT FOCAL POINTS
- 4** THE UNIVERSITY OF WASHINGTON ENDOWMENT
- 6** CONSOLIDATED ENDOWMENT FUND PROGRAM SUPPORT
- 8** CONSOLIDATED ENDOWMENT FUND INVESTMENT MANAGEMENT AND OVERSIGHT
- 10** CONSOLIDATED ENDOWMENT FUND SPENDING POLICY AND OBJECTIVES
- 12** CONSOLIDATED ENDOWMENT FUND INVESTMENT STRATEGY AND PERFORMANCE

General

- 14** GLOSSARY
- 15** INVESTMENT MANAGERS
- 16** GENERAL INFORMATION



ENDOWMENT FOCAL POINTS

Fiscal Year 2014

- Added 229 new endowments
- Distributed \$94 million in campus support
- Market value increased by \$486 million
- Returned 15.8%

Fiscal Years 2005–2014

- Doubled the total number of endowments
- Distributed \$783 million in program support
- Increased market value by \$1,445 million
- Earned an average annual return of 8.0%

CONSOLIDATED ENDOWMENT FUND HIGHLIGHTS

	Fiscal Year				
	2010	2011	2012	2013	2014
Market Value (in millions)	\$1,830	\$2,154	\$2,111	\$2,347	\$2,833
Return	12.5%	16.0%	-0.9%	13.5%	15.8%
Number of endowments	3,334	3,545	3,782	3,982	4,211
Distributions to campus (in millions)	\$59	\$76	\$85	\$87	\$94



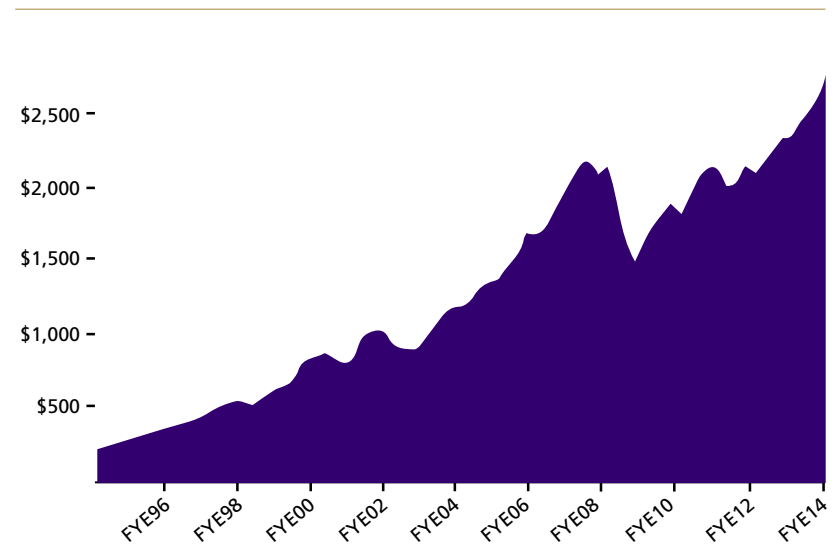
THE UNIVERSITY OF WASHINGTON ENDOWMENT

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 \$2.8 billion as of June 30, 2014.

VALUE OF THE CEF
FY 1995-2014 (\$ in millions)

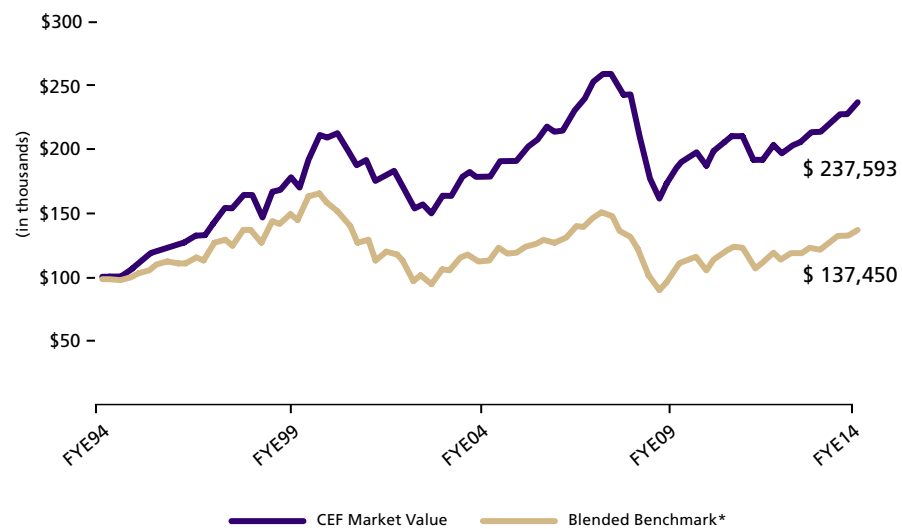


As the University of Washington's schools and units expand, and as our faculty and students continue to excel in scholarship and research, the University must meet the cost of innovation. Distributions from endowments make that possible. Endowments provide the University with a competitive edge and help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

A hypothetical gift of \$100,000 invested on July 1, 1994 would have provided \$196,680 in total campus support over the past 20 years. At the end of this same period, the endowment's ending market value, net of these distributions, would be \$237,593. Had this gift been invested in a blend of stock and bond indices, it would only have a market value of \$137,450 while providing the same percentage payout.

GROWTH OF A HYPOTHETICAL \$100,000 ENDOWMENT OVER 20 FISCAL YEARS ENDING JUNE 30, 2014

FY 1995–2014



* 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.

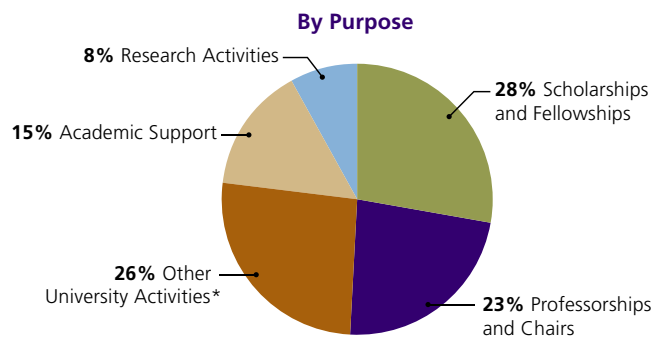
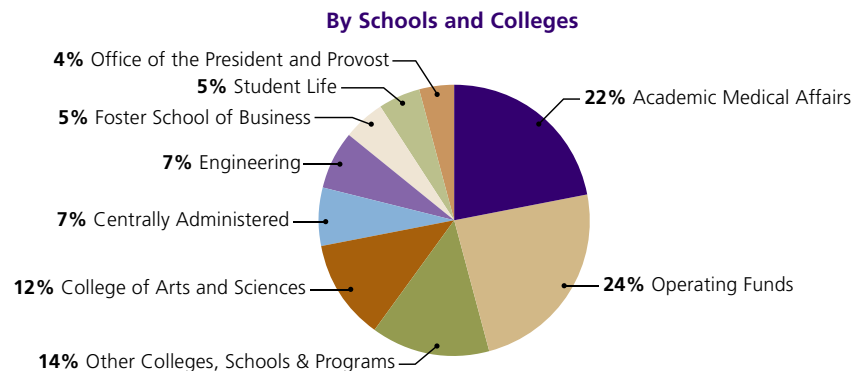
The impact on students, faculty and programs has been substantial with \$783 million distributed over the past 10 years touching every part of campus.

The majority of endowments benefit specific departments and programs. Approximately 76% are restricted to the donor's designated purpose and the remaining 24% 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 2014



* A portion of the University's operating funds are invested in the CEF. Distributions benefit campus-wide programs.

SCHOOLS, COLLEGES AND PROGRAMS THAT HAVE RECEIVED ENDOWED GIFTS

Schools, Colleges and Programs with Endowments	Endowment Value at 6/30/14	Number of Individual Endowments
UW Medicine	611,796,661	862
College of Arts and Sciences	325,600,038	877
College of Engineering	199,117,626	378
Foster School of Business	146,845,386	214
Student Financial Aid	131,537,298	218
Offices of the President and Provost	100,054,932	83
School of Law	86,458,733	100
College of the Environment	83,790,794	245
Intercollegiate Athletics	55,133,059	176
University Libraries	44,104,284	86
Graduate School	43,966,520	86
Tacoma Campus	39,334,408	63
Undergraduate Academic Affairs	36,954,223	30
School of Nursing	35,867,811	127
College of Built Environments	31,202,850	108
School of Dentistry	27,089,462	87
College of Education	20,737,975	65
Evans School of Public Affairs	19,880,288	29
Health Sciences Administration	16,467,976	4
School Pharmacy	16,268,321	57
School of Public Health	14,776,878	85
Alumni Association	14,668,463	3
School of Social Work	7,572,896	41
Office of Research	7,268,312	4
University Press	6,511,663	16
Information School	6,057,170	43
Bothell Campus	3,924,239	17
Office of Minority Affairs & Diversity	3,523,030	33
Center for Commercialization	3,075,696	1
Office of the Senior Vice President	2,453,175	4
Student Life	1,022,322	10
Educational Outreach	948,721	2
University Advancement	766,282	4
	<u>2,144,777,492</u>	<u>4,158</u>
Non-University of Washington Endowments	19,112,319	51
Operating Funds	668,862,784	2
	<u>2,832,752,595</u>	<u>4,211</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, 2014

Orin Smith (Chair)
William S. Ayer (Vice Chair)
Kristianne Blake*
Joanne R. Harrell*
Jeremy Jaech
Constance Rice
Rogelio Riojas
Kiana Scott
Patrick M. (Pat) Shanahan*
Herb Simon*

*Members of the Finance and Asset Management Committee

UNIVERSITY OF WASHINGTON INVESTMENT COMMITTEE AS OF JUNE 30, 2014

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

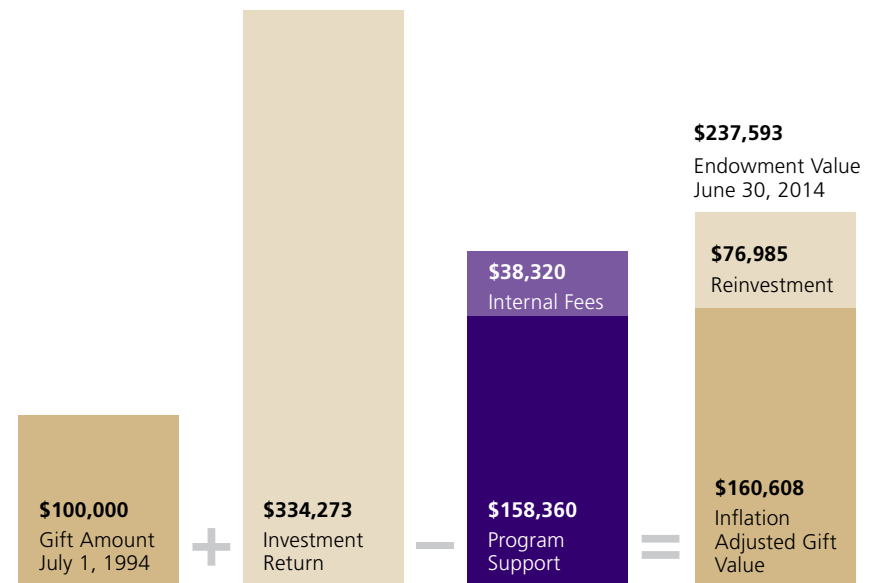
Spending policies provide a disciplined approach to moving money from the endowment to support the purpose designated by the donor on a foreseeable, consistent basis.

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 \$334,273 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, 2014 of \$237,593 exceeds the inflation adjusted value of the initial gift of \$160,608. The endowment distributed \$196,680 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, 2014



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

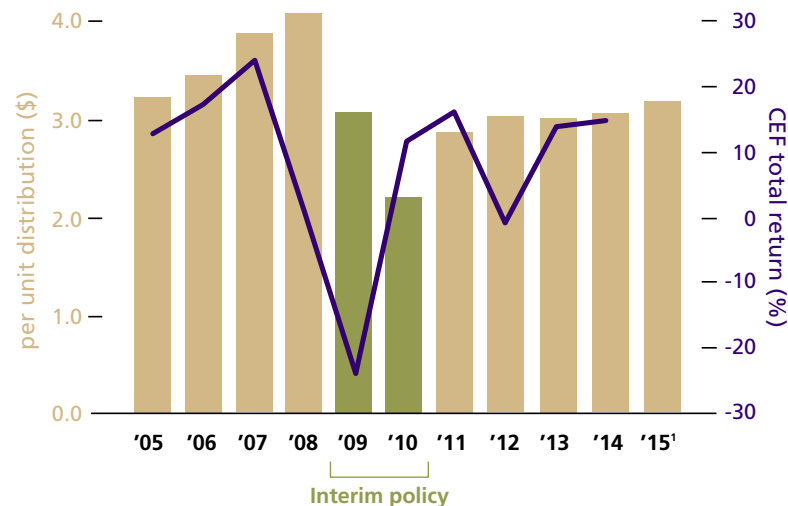
The policy replaced the interim spending policy which was approved March 2009. At that time, the intent was to prevent further erosion of the endowment following the severe meltdown in global financial markets in the last half of FY2008. Under the interim policy, program distributions were lowered and 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 2005-2014



*The estimated payout for fiscal year 2015 is \$3.21 per unit.

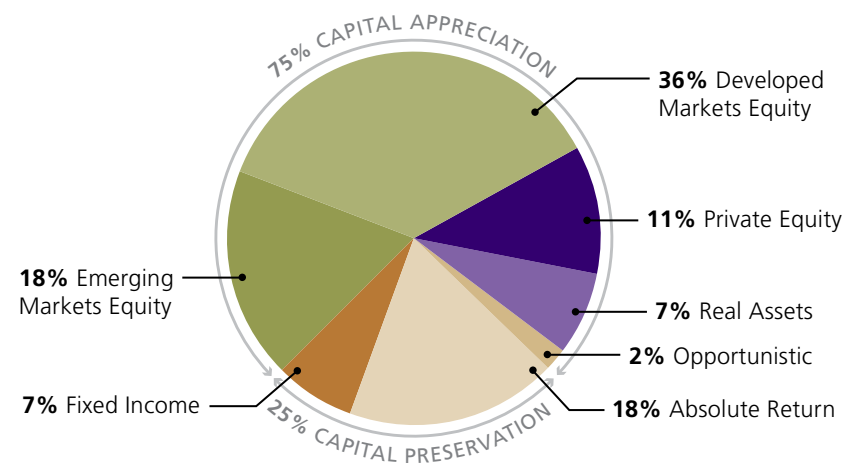
CONSOLIDATED ENDOWMENT FUND INVESTMENT STRATEGY AND PERFORMANCE

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 considered 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 with consideration of the changing dynamics of the capital markets.

The CEF asset allocation includes two clearly defined categories of investments: those which facilitate growth or appreciation (Capital Appreciation), and those which preserve endowment values (Capital Preservation). At June 30, 2014, 75% of the CEF was invested in Capital Appreciation and 25% in Capital Preservation. We anticipate that market returns for equities will exceed bonds over the next decade. We therefore maintain a medium-to-long-term objective of generally overweighting equity-oriented strategies with a focus on quality companies and downside protection.

CEF ASSET ALLOCATION*

As of June 30, 2014

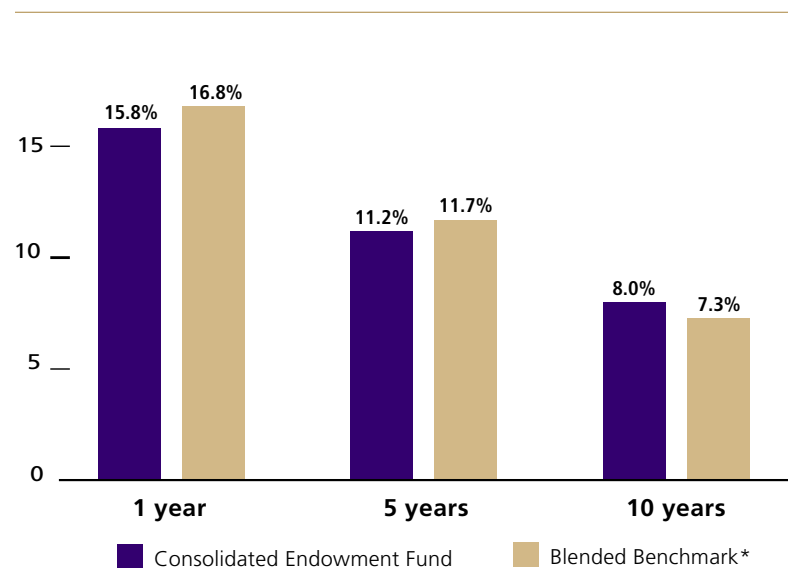


* Numbers may not sum due to rounding

For the fiscal year ending June 30, 2014 the CEF earned an investment return of +15.8%, representing strong absolute performance but underperforming the blended benchmark. Individual CEF strategy performance was mixed but relative performance was most negatively impacted by Emerging Markets, which experienced another difficult year with geopolitical instability and slowing growth in China. However, Emerging Markets began turning around during the second half of FY 2014 and we expect the positive growth trend to continue. We remain committed to a large strategic position in Emerging Markets as it continues to be the top-performing asset class over the past decade.

Intermediate-term returns for the CEF have improved substantially as the 2008-09 global financial crisis rolls off, resulting in a five-year average of +11.2%. Performance over the ten-year period remains solid, with the CEF returning an annual average of +8.0% and outperforming the blended benchmark.

PERFORMANCE COMPARISONS 1, 5 AND 10 YEAR ANNUALIZED RETURNS FOR PERIODS ENDING JUNE 30, 2014



*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, 2014*

32 Degrees Capital	Commonfund Capital, Inc.	LaSalle Investment Management, Inc.	Riva Ridge Capital Management
Accel-KKR	Convexity Capital Management, LP	Lone Pine Capital, LLC	Rockland Capital
Adamas Partners, LLC	CrossHarbor Capital Partners	Madrona Venture Group, LLC	Select Equity Group
Aetos Capital, LLC	Crow Holdings Realty Management, LP	Matlin Patterson Global Advisers, LLC	Siguler Guff & Company, LLC
AKO Capital LLP	Deer Management Company, LLC	Natural Gas Partners	Silchester International Investors, LLP
ArcLight Capital Partners, LLC	Deerfield Capital Management, LLC	New Enterprise Associates	Snyder Capital Management
Arisaig Partners, Ltd	Denham Capital Management, LP	NGP Energy Technology Partners, LLC	Square Mile Capital Management, LLC
Arrowstreet Capital, LP	Domain Associates, LLC	Oak Investment Partners	Standard Investment Research
Atlas Holdings LLC	Dynamo Administracao de Recursos LTDA	Orbis Real Estate Advisors	State Street Bank and Trust Company
Bain Capital	Endeavour Capital, LLC	Parthenon Capital, LLC	TA Associates, LLC
Bares Capital Management, Inc.	Equus Capital Partners, Ltd.	Paul Capital Partners	Tenex Capital Management
Battery Ventures	Fidelity Real Estate Partners, LLC	Payden & Rygel	Thackeray Partners
Baupost Group, LLC	Frazier Healthcare Ventures	Philadelphia Financial Life Assurance Company	The Riverside Company
BlackRock Alternative Advisors	GEM Realty Capital, Inc.	Phoenix Property Investors Ltd	TPG Partners, LP
Bridger Capital, LLC	General Catalyst Partners, LP	Polaris Venture Management Company, LLC	Trust Company of the West
Cabot Properties, Inc	Greenbriar Equity Group, LLC	Pomona Associates, LP	Valinor Capital Partners, LP
Cadent Energy Partners, LLC	Grove International Partners, LLC	Proa Partners	Varde Partners, Inc.
CarVal Investors	Hamilton Lane	Prosperity Capital Management, Ltd	Vestar Capital Partners
Castlelake, LP	HarbourVest Partners, Ltd	Pugh Capital Management, Inc.	Ward Ferry Management, Ltd
Centerbridge Capital Partners	HIG Capital, LLC	Quadrangle Group, LLC	Wellington Management Company
ChrysCapital Management Company, LLC	Ignition Partners, LLC	Regiment Capital Advisors, LP	Westbridge Capital
City of London Investment Management Company, Ltd	Income Research & Management	Resource Management Services, LLC	Weston Presidio Service Company, LLC
CLSA	InterWest Partners, LLC	Rimrock Capital Management, LLC	Westwood Global Investments
	J.C. Flowers & Company, 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 4,211 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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Chief Investment Officer
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Lisa Edlin

Associate Treasurer
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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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WASHINGTON



BOTHELL



SEATTLE



TACOMA