

**CONSOLIDATED
ENDOWMENT FUND
REPORT 2017**



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ENDOWMENT FOCAL POINTS

Fiscal Year 2017 (FY17)

- Added 179 new endowments
- Distributed \$113 million in program support

Fiscal Years 2008–2017

- Added 2,185 new endowments
- Distributed \$902 million in program support

CONSOLIDATED ENDOWMENT FUND HIGHLIGHTS

	FISCAL YEAR				
	2013	2014	2015	2016	2017
Market Value (in millions)	\$2,347	\$2,833	\$3,076	\$2,968	\$3,144
Return	13.5%	15.8%	6.8%	-1.6%	13.6%
Number of endowments	3,982	4,211	4,363	4,506	4,685
Distributions to programs (in millions)	\$87	\$94	\$105	\$113	\$113



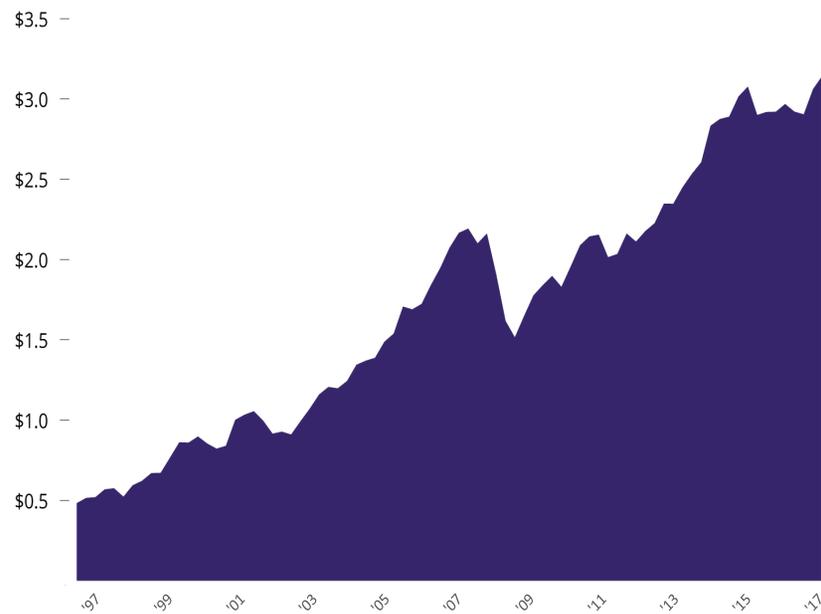
THE UNIVERSITY OF WASHINGTON ENDOWMENT

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 \$3.1 billion as of June 30, 2017.

VALUE OF THE CEF
FY 1997-2017 (\$ in billions)

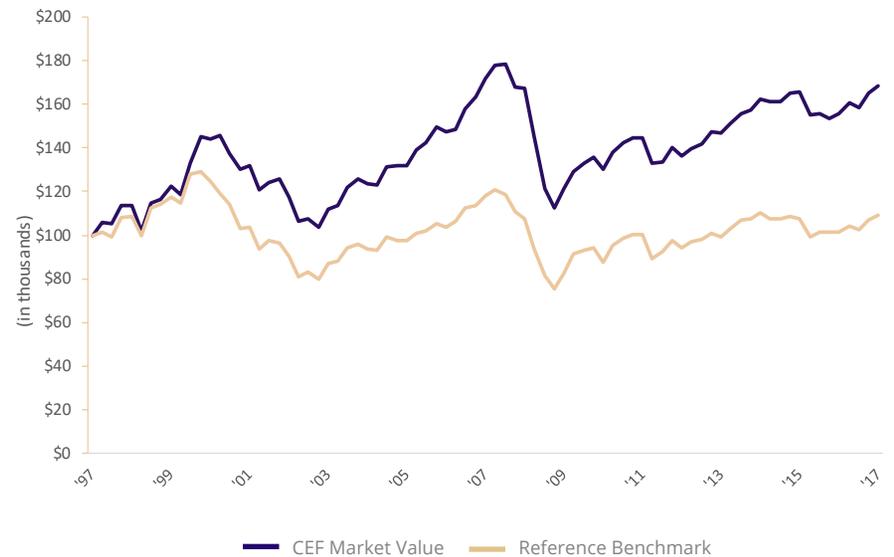


As the University of Washington's schools and units expand, and as our faculty and students continue to excel in scholarship and research, the University must meet the cost of innovation. Distributions from endowments make that possible. Endowments provide the University with a competitive edge and help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

A representative \$100,000 gift invested in the CEF 20 years ago would have outperformed a passive blend of stock and bond indices. The gift invested in the CEF would have resulted in a higher ending market value, while providing approximately \$67,000 more in additional campus support (the same payout rate is assumed).

GROWTH OF A HYPOTHETICAL \$100,000 ENDOWMENT GIFT OVER 20 FISCAL YEARS ENDING JUNE 30, 2017

FY 1997-2017





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 \$902 million distributed over the past 10 years touching every part of campus.

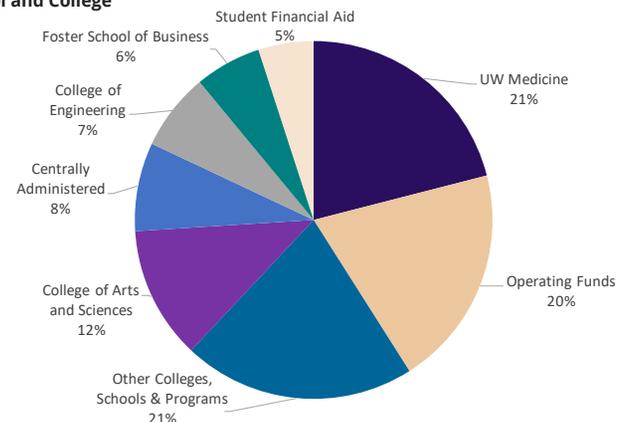
The majority of endowments benefit specific departments and programs. 98% of nonoperating University endowment funds are restricted to donor designated purposes.

The CEF supports many unique purposes and provides opportunities for students and faculty in their quest for excellence and innovation.

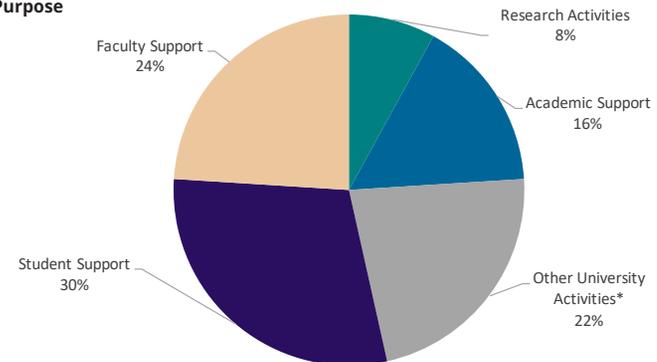
ENDOWMENT SUPPORT

FY 2017

By School and College



By Purpose



*Includes endowments designated for institutional support, affiliates, and University operating funds.

SCHOOLS, COLLEGES AND PROGRAMS

Schools, Colleges and Programs with Endowments	Endowment Value at 6/30/17	Number of Individual Endowments
UW Medicine	\$677,769,250	957
College of Arts & Sciences	381,229,217	956
College of Engineering	233,672,495	417
Foster School of Business	178,127,363	235
Student Financial Aid	151,335,710	243
Office of the President and Provost	115,755,986	86
Law School	98,169,138	107
College of the Environment	98,896,979	283
Intercollegiate Athletics	73,961,813	205
University Libraries	47,464,427	93
Graduate School	46,963,488	91
School of Nursing	46,842,109	140
UW Tacoma	42,365,007	76
Undergraduate Academic Affairs	51,102,842	34
College of Built Environments	38,766,287	118
School of Dentistry	30,361,158	93
College of Education	23,469,199	77
Evans School of Public Policy and Governance	21,457,238	36
School of Pharmacy	21,031,509	66
Health Sciences	17,176,485	4
School of Public Health	20,233,755	94
School of Social Work	25,204,021	47
Office of Research	8,085,805	4
University of Washington Press	6,819,969	17
Information School	6,975,063	48
UW Bothell	4,259,817	20
Office of Minority Affairs and Diversity	4,198,976	37
CoMotion	5,342,454	2
Finance and Facilities	2,562,340	5
Office of the Vice President of Student Life	2,819,315	22
Continuum College	1,194,913	3
University Advancement	985,175	6
	<u>2,484,599,303</u>	<u>4,622</u>
Operating Funds	617,059,805	3
Non-UW Endowment	42,131,009	60
	<u>\$3,143,790,117</u>	<u>4,685</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 and Asset Management Committee (FAM), a sub-committee of the Board of Regents.

In September of 2015, the Board of Regents approved the establishment of an internal investment management company, known as the University of Washington Investment Management Company (UWINCO). The UWINCO advisory committee was transitioned to an investment company advisory board (UWINCO Board).

The University's Chief Investment Officer (CIO) directs 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.

We mourn the loss of Jeff Brotman, founder and Chair of the UWINCO Board, who passed in August 2017. Jeff served on the UWINCO Board (formerly the UW Investment Committee) since its inception in 2001. Jeff's presence as UWINCO Board Chair will be greatly missed but his impact will last for generations.

BOARD OF REGENTS AS OF JUNE 30, 2017

Patrick M. (Pat) Shanahan (Chair)
Jeremy Jaech (Vice-Chair)*
William S. Ayer*
Joel Benoliel*
Kristianne Blake*
Joanne R. Harrell*
Constance Rice
Rogelio Riojas
Herb Simon
Austin Wright-Pettibone

*Members of the Finance and Asset Management Committee

UWINCO BOARD AS OF JUNE 30, 2017

William S. Ayer
Jeffrey H. Brotman
David Bonderman
Michael Larson
Mary Pugh
Bryan White

ROLES AND RESPONSIBILITIES

Board of Regents

Sets investment policy

- Spending rate
- Strategic asset allocation
- Delegations

Appoints investment officers/advisors

- Chief Investment Officer
- UWINCO Board members
- Investment consultants

Reviews results

- Program oversight/accountability

UWINCO Board

Advises the CIO

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

Advises Board of Regents/President

- Investment program oversight
- CIO 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 and 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.

These policy benefits are illustrated through the example of the William P. and Ruth Gerberding ARCS® Endowed Fellowship. Invested in 1996 with \$100,000 in gifts made in honor of William and Ruth Gerberding, the endowment has provided a powerful impact — distributing approximately \$140,000 in fellowship support to date, while growing to a market value nearly double its original value.

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

GROWTH AND IMPACT OF THE WILLIAM P. & RUTH GERBERDING ARCS® ENDOWED FELLOWSHIP



Gerberding Beneficiary Highlights:

Currently supports two students in the medical field:

2nd year medical student



PhD candidate in Oral Health Sciences

Eight graduate scholars earned PhDs and launched promising STEM-related careers:

Research Science Education Medical Field



1 Research Director



4 Professors



2 Professors
1 Resident

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

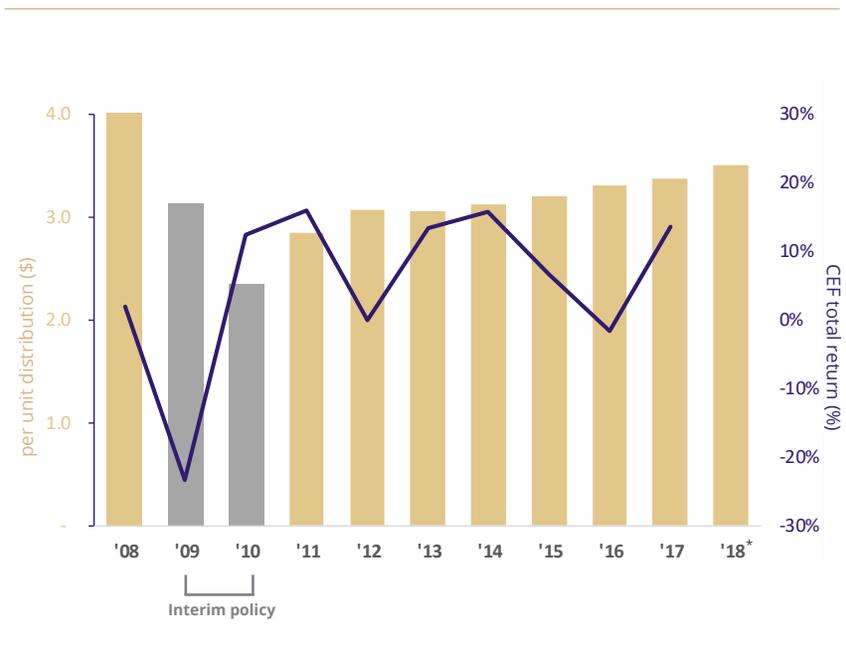
The policy replaced the interim spending policy which was approved March 2009. At that time, the intent was to prevent further erosion of the endowment following the severe meltdown in global financial markets in the last half of FY 2008. Under the interim policy, program distributions were lowered and then frozen at approximately half that of FY 2008 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. RETURNS

FY 2008-2017



*The estimated payout for fiscal year 2018 is \$3.50 per unit.



CONSOLIDATED ENDOWMENT FUND INVESTMENT STRATEGY AND PERFORMANCE

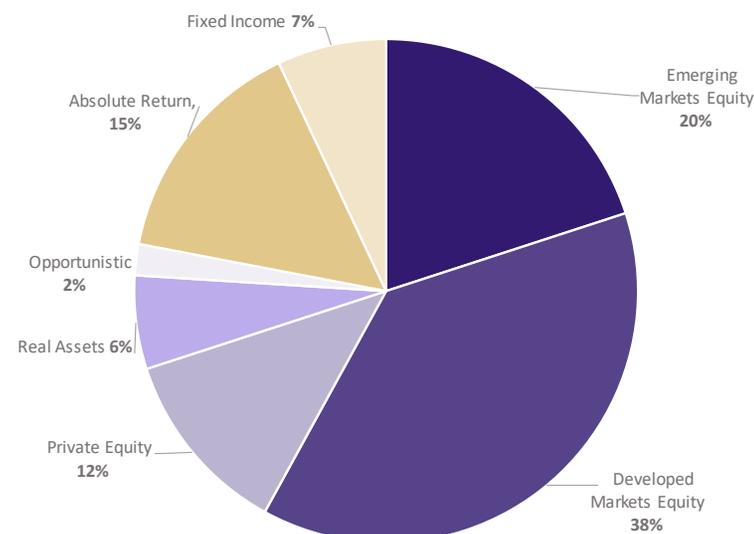
Endowment portfolios are commonly managed around a core set of objectives focused on the need to provide support for endowed programs in perpetuity. The Board of Regents in conjunction with the UWINCO Board establishes the policy asset allocation judged to be most appropriate for the University of Washington 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, 2017, 78% of the CEF was invested in Capital Appreciation and 22% in Capital Preservation. We anticipate that market returns for equities will exceed bonds over the next decade. We therefore maintain a medium-term objective of generally overweighting equity-oriented strategies with a focus on quality companies and downside protection. The University maintains ample liquidity within Capital Preservation to meet its funding requirements, as well as to take advantage of market dislocations if opportunities arise.

CEF ASSET ALLOCATION

As of June 30, 2017

22% CAPITAL PRESERVATION



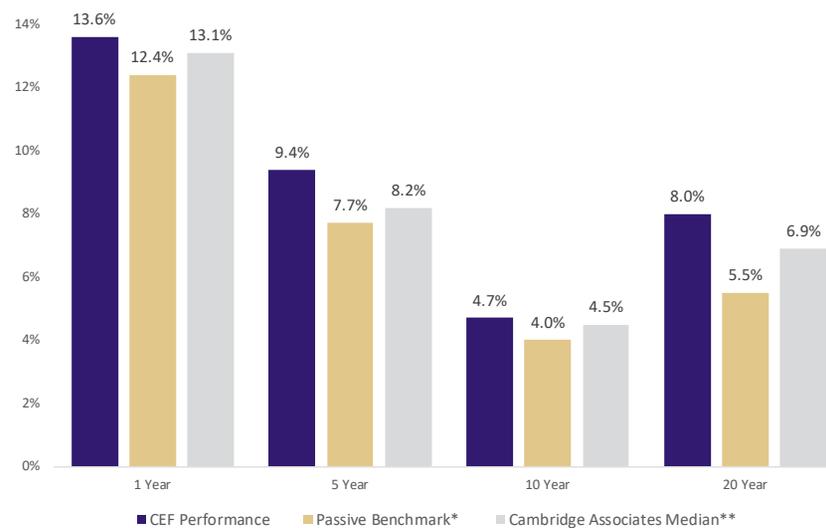
78% CAPITAL APPRECIATION

For the fiscal year ending June 30, 2017 (FY17) the University of Washington’s Consolidated Endowment Fund returned +13.6% versus +12.4% for the passive benchmark. This reflects a significant rebound from FY16; however, CEF returns have fluctuated over the past decade with negative years detracting from intermediate and long-term performance. Currently, the rolling 10-year CEF return stands at +4.7%.

Absolute performance was positive across all CEF strategies in FY17. Despite a tough FY16, staying the course in emerging markets paid off, with the CEF’s Emerging Markets strategy leading absolute returns this year. Unlike last year, the CEF’s short maturity fixed income added value and the overall Capital Preservation portfolio substantially outperformed.

Our focus remains on long-term results, where the CEF has consistently maintained solid relative performance. The chart shows that the CEF has returned +9.4%, +4.7% and +8.0% for the 5, 10 and 20-year periods, respectively, beating both the passive benchmark and the median returns for public peers.

PERFORMANCE COMPARISONS 1, 5, 10, AND 20 YEAR ANNUALIZED RETURNS FOR PERIODS ENDING JUNE 30, 2017



*70% MSCI ACWI (net) + 30% Bloomberg/Barclays Intermediate Government Bond Index

**Public Universities with Endowments \$1-5 Billion



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 reduces 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 nonconvertible 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

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, 2017*

32 Degrees Capital	CLSA	J.C. Flowers & Company, LLC	Select Equity Group
Accel-KKR	Commonfund Capital, Inc.	LaSalle Investment Management, Inc.	Siguler Guff & Company, LLC
Adamas Partners, LLC	Convexity Capital Management, LP	Lombard International	Silchester International Investors, LLP
AKO Capital LLP	CrossHarbor Capital Partners	Lone Pine Capital, LLC	Silicon Valley Bank
ArcLight Capital Partners, LLC	Crow Holdings Realty Management, LP	Madrona Venture Group, LLC	Snyder Capital Management
Arisaig Partners, Ltd	Deer Management Company, LLC	Matlin Patterson Global Advisers, LLC	Southwest Value Partners
Arrowstreet Capital, LP	Deerfield Capital Management, LLC	Natural Gas Partners	Square Mile Capital Management, LLC
Atlantic Trust Investment Advisors, Inc.	Denham Capital Management, LP	New Enterprise Associates	Standard Investment Research
Atlas Holdings LLC	Domain Associates, LLC	Newfoundland Capital	TA Associates, LLC
Bain Capital	Dynamo Administracao de Recursos LTDA	Oak Investment Partners	Tenex Capital Management
Battery Ventures	Endeavour Capital, LLC	Orbis Real Estate Advisors	Thackeray Partners
Baupost Group, LLC	Equus Capital Partners, Ltd.	Parthenon Capital, LLC	TPG Partners, LP
BlackRock Alternative Advisors	Fidelity Real Estate Partners, LLC	Payden & Rygel	Trust Company of the West
Bridger Capital, LLC	Frazier Healthcare Partners	Phoenix Property Investors Ltd	Valinor Capital Partners, LP
Brightstar Capital Partners	General Catalyst Partners, LP	Polaris Venture Management Company, LLC	Varde Partners, Inc.
Burford Capital Investment Management, LLC	Green Court	Pomona Associates, LP	Vestar Capital Partners
Burgundy Asset Management, Ltd.	Greenbriar Equity Group, LLC	Proa Partners	Ward Ferry Management, Ltd
Cabot Properties, Inc	Grove International Partners, LLC	Pugh Capital Management, Inc.	Wellington Management Company
Cadent Energy Partners, LLC	Hamilton Lane	Quadrangle Group, LLC	Westbridge Capital
Castlelake, LP	HIG Capital, LLC	Resource Management Services, LLC	Weston Presidio Service Company, LLC
Centerbridge Capital Partners	Ignition Partners, LLC	Rimrock Capital Management, LLC	Westwood Global Investments
City of London Investment Management Company, Ltd	Income Research & Management	Riva Ridge Capital Management	
	InterWest Partners, LLC	Riverside Company	
		Rockland Capital	

* 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 4,685 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:

Keith Ferguson

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

Lisa Edlin

Associate Treasurer
(206) 685-8030
lmedlin@uw.edu

For further information on the University's investment program please visit: finance.uw.edu/treasury/CEF/

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



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SEATTLE



TACOMA