

UNIVERSITY *of* WASHINGTON

**CONSOLIDATED ENDOWMENT  
FUND REPORT  
2019**



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# CONSOLIDATED ENDOWMENT FUND REPORT 2019

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# ENDOWMENT FOCAL POINTS

## Fiscal Year 2019 (FY19)

- Added 172 new endowments
- Distributed \$130 million in campus support

## Fiscal Years 2010–2019

- Added 1,742 new endowments
- Distributed \$984 million in campus support

## CONSOLIDATED ENDOWMENT FUND HIGHLIGHTS

	FISCAL YEAR				
	2015	2016	2017	2018	2019
Market Value (in millions)	\$3,076	\$2,968	\$3,144	\$3,407	\$3,588
Return	6.8%	-1.6%	13.6%	9.6%	5.8%
Number of endowments	4,363	4,506	4,685	4,904	5,076
Distributions to programs (in millions)	\$105	\$113	\$113	\$121	\$130



# THE UNIVERSITY OF WASHINGTON ENDOWMENT

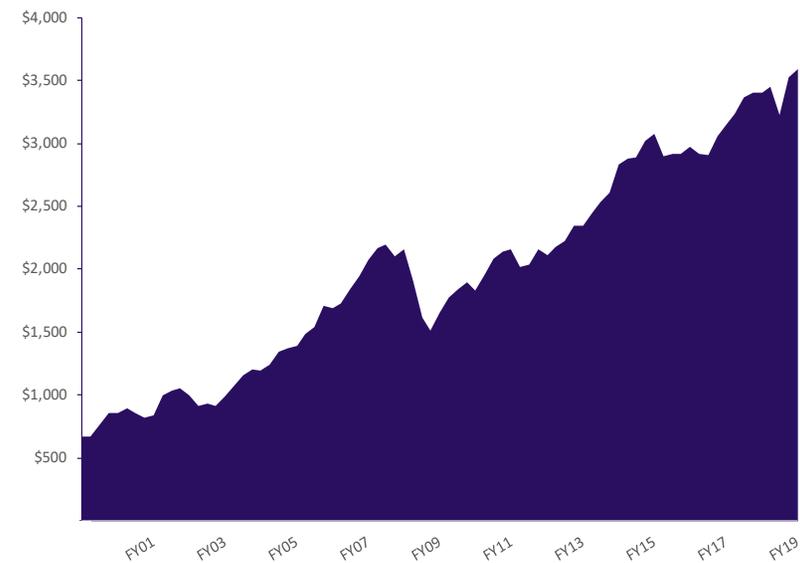
In 1905, the University of Washington (UW) received its first cash endowed gift of \$400, the Philo Sherman Bennett Endowed Prize. This endowment, as well as the bulk of the University's endowments, invests in the Consolidated Endowment Fund (CEF).

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 \$3.6 billion as of June 30, 2019.

## VALUE OF THE CEF

FY 2000-2019 (\$ in millions)

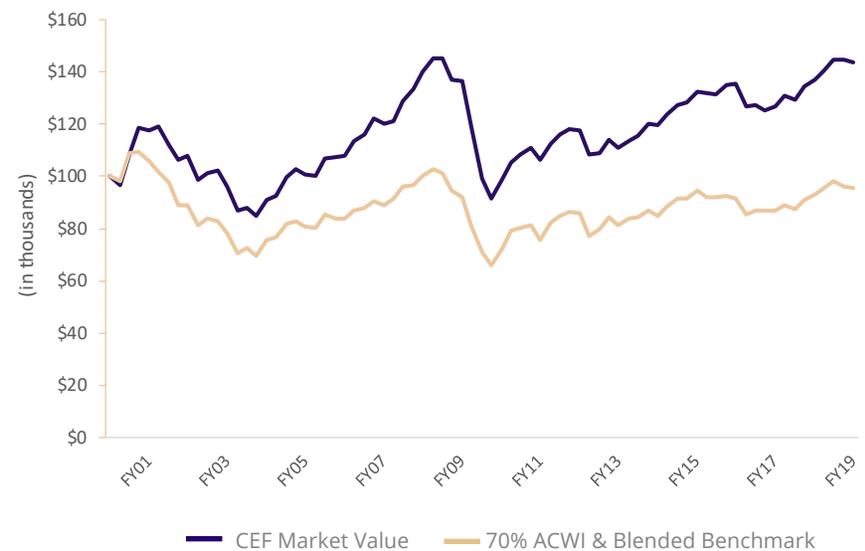


As the UW's schools and units expand, and as our faculty and students continue to excel in scholarship and research, the University must meet the cost of innovation. Distributions from endowments make that possible. Endowments provide the University with a competitive edge and help enhance the quality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

A hypothetical gift of \$100,000 invested on July 1, 1999 would have provided \$118,706 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 \$145,056.

### GROWTH OF A HYPOTHETICAL \$100,000 ENDOWMENT GIFT OVER 20 FISCAL YEARS ENDING JUNE 30, 2019

FY 2000–2019 (\$ in thousands)





# CONSOLIDATED ENDOWMENT FUND PROGRAM SUPPORT

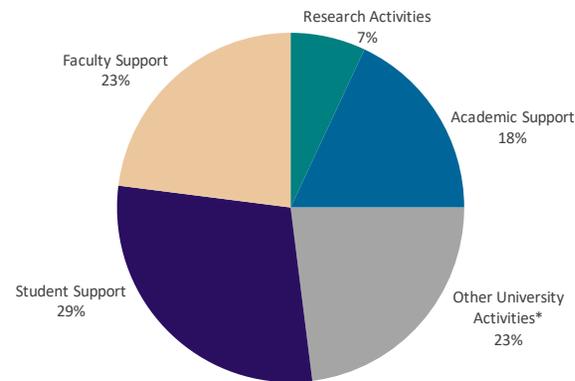
Generous donor support, coupled with investment returns, resulted in the growth of endowment distributions over the past decade.

The majority of endowments benefit specific departments and programs. Donor designated purpose make up 98% of non-operating University endowment funds.

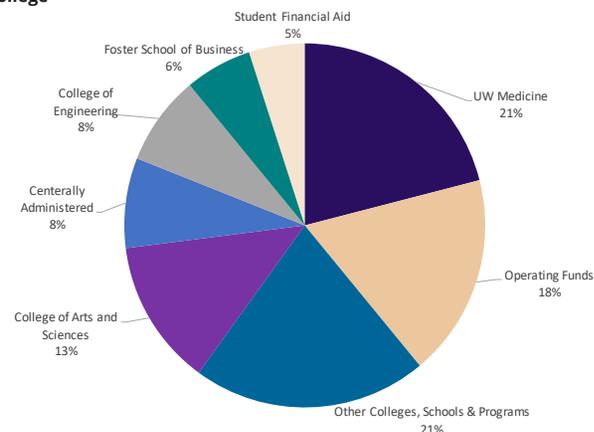
The CEF supports many unique purposes and provides opportunities for students and faculty in their quest for excellence and innovation.

## ENDOWMENT SUPPORT FY 2019

### By Purpose



### By School and College



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

## SCHOOLS, COLLEGES AND PROGRAMS

Schools, Colleges and Programs with Endowments	Endowment Value at 6/30/19	Number of Individual Endowments
UW Medicine	761,950,444	1,019
College of Arts & Sciences	464,815,524	1,030
College of Engineering	297,401,304	451
Foster School of Business	201,959,806	255
Student Financial Aid	169,168,438	252
Office of the President and Provost	131,076,954	93
College of the Environment	115,580,060	303
Law School	106,799,481	112
Intercollegiate Athletics	87,085,898	224
School of Nursing	55,768,145	157
Undergraduate Academic Affairs	55,487,657	37
University Libraries	51,712,727	104
Graduate School	51,442,612	92
Tacoma Campus	48,247,990	86
College of Built Environments	46,847,851	134
School of Dentistry	35,150,364	100
School of Social Work	29,406,360	51
College of Education	27,992,345	81
School of Pharmacy	25,537,286	74
Evans School of Public Policy and Governance	23,714,756	41
School of Public Health	23,246,486	102
Health Sciences	18,293,883	5
CoMotion	11,734,229	2
Office of Research	8,836,545	4
Information School	8,005,734	55
Finance and Facilities	7,884,152	10
University of Washington Press	7,260,212	17
Office of Minority Affairs and Diversity	6,288,979	46
Bothell Campus	5,001,772	29
Office of the Vice President of Student Life	4,162,156	28
Continuum College	2,292,118	9
University Advancement	871,032	4
	<u>\$2,891,023,300</u>	<u>5,007</u>
Operating Funds	648,965,639	2
Non-UW Endowment	<u>47,733,782</u>	<u>67</u>
	<u><u>\$3,587,722,721</u></u>	<u><u>5,076</u></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, within a risk management framework, develop the strategic and tactical direction of the portfolio and select asset managers.

### BOARD OF REGENTS AS OF JUNE 30, 2019

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Constance W. Rice (Chair)  
Joel Benoliel (Vice Chair)  
William S. Ayer  
Joanne R. Harrell  
Jeremy Jaech  
Libby G. MacPhee  
Rogelio Riojas  
Blaine Tamaki  
David Zeeck  
Kaitlyn Zhou

### UWINCO BOARD AS OF JUNE 30, 2019

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Michael Larson (Chair)  
William S. Ayer  
Kristianne Blake  
David Bonderman  
Mary Pugh  
Bryan White  
Ana Mari Cauce (UW President, ex officio)

## ROLES AND RESPONSIBILITIES

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### 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.

A \$100,000 gift invested in the CEF 20 years ago would have earned \$163,762 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 would have distributed \$118,706 while increasing its purchasing power.

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

## GROWTH OF HYPOTHETICAL \$100,000 ENDOWMENT OVER 20 FISCAL YEARS ENDING JUNE 30, 2019



The Board of Regents is vested with the responsibility to set an endowment distribution spending policy that balances the needs of current endowment beneficiaries with the requirement to protect the endowment’s corpus to meet future University needs. Under the current spending policy, distributions to programs are 4% of a five-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%).

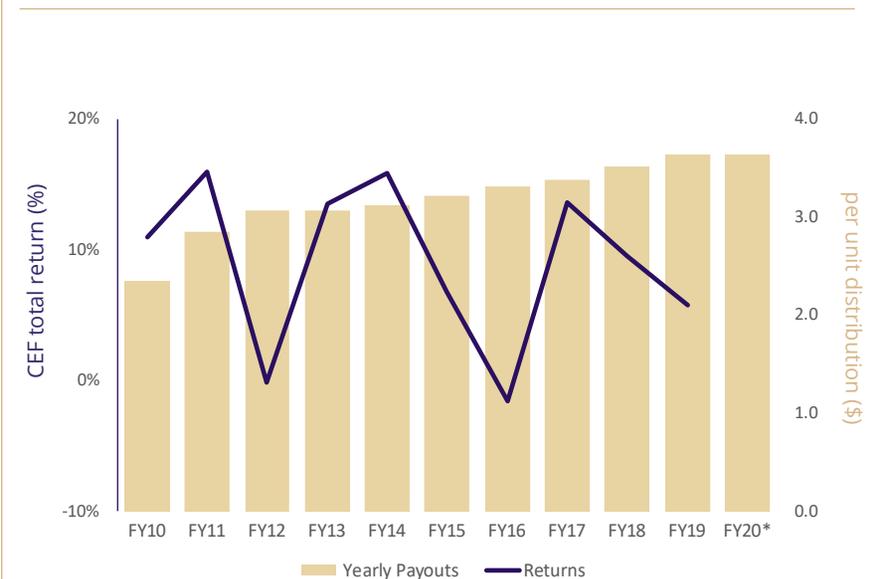
Given current financial market volatility and projected lower returns for the CEF, the UWINCO Board recommended a reduction in the endowment spending rate from a total of 5.0 percent to 4.5 percent. To cushion the impact of a reduction to units, a 3-year stepped reduction was developed. The distribution rate reduction is being phased as follows:

- FY20: 10 basis points to 4.9 percent
- FY21: 20 basis points to 4.7 percent
- FY22: 20 basis points to 4.5 percent

All endowments will utilize the same rates. Once fully implemented, the program distribution rate will be 3.6 percent and the administrative fee distributions rate will be 0.90 percent. The revised distribution rate puts endowment funds on a more sustainable trajectory that benefits students, faculty and all CEF beneficiaries now and well into the future.

### CEF DISTRIBUTIONS VS. RETURNS

FY 2010-2019



\*The estimated payout for fiscal year 2020 is \$3.63 per unit.



# CONSOLIDATED ENDOWMENT FUND INVESTMENT STRATEGY AND PERFORMANCE

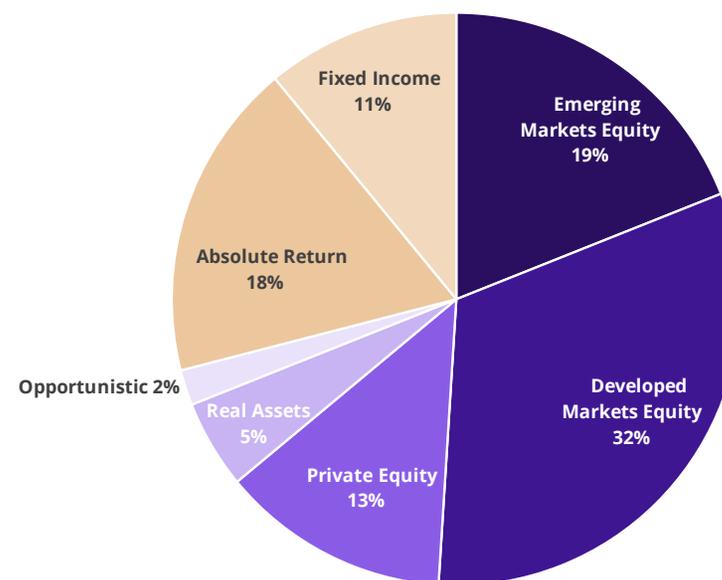
Endowment portfolios are commonly managed around a core set of objectives focused on the need to provide support for endowed programs in perpetuity. The Board of Regents in conjunction with the UWINCO Board establishes the policy asset allocation judged to be most appropriate for the UW from a long-term 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, 2019, 71% of the CEF was invested in Capital Appreciation and 29% in Capital Preservation. While our long-term strategy is to maintain an equity-oriented portfolio, we keep ample liquidity within Capital Preservation to meet the CEF's funding requirements, as well as to take advantage of market dislocations. The UW is differentiated from peers by a larger allocation to public international equities, particularly emerging markets.

## CEF ASSET ALLOCATION

As of June 30, 2019

### 29% CAPITAL PRESERVATION



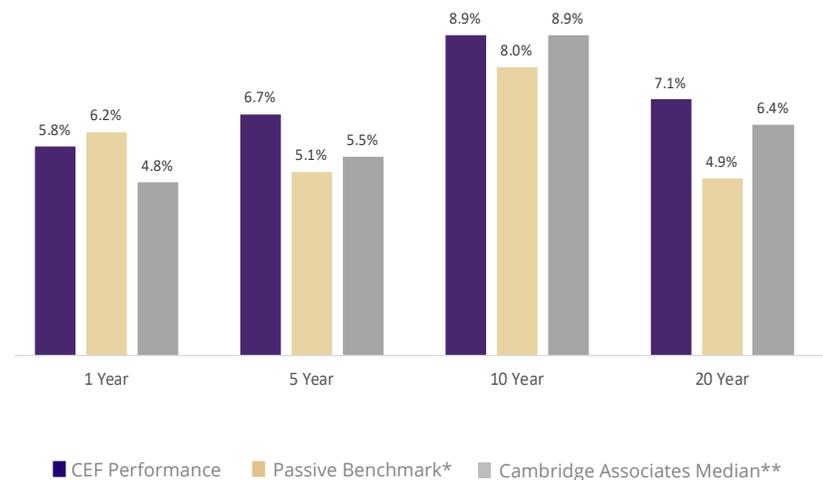
### 71% CAPITAL APPRECIATION

Note: Percentages may not sum due to rounding

For the fiscal year ending June 30, 2019 (FY19) the CEF returned +5.8% versus +6.2% for the passive benchmark and +4.8% for the public university peer median. While relative performance generally lagged, absolute performance for FY19 was positive across all CEF strategies, led by Private Equity. Market conditions were volatile during FY19, particularly for international equities given their greater exposure to global trade and China's slowing economy. Our geographic positioning greatly impacted performance this year as the US continued its decade long bull run. While US outperformance relative to international equities has been unusually prolonged, its sustainability is in question.

Our focus remains on long-term results where the CEF has consistently maintained solid relative performance. The chart to the right shows that the CEF has returned +6.7%, +8.9% and +7.1% for the 5, 10 and 20-year periods, respectively, and continues to outperform the passive benchmark. The UW is at or above median performance relative to public peers for all periods.

### PERFORMANCE COMPARISONS 1, 5, 10, AND 20 YEAR ANNUALIZED RETURNS FOR PERIODS ENDING JUNE 30, 2019



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

\*\*Cambridge Associates Quarterly Survey of public university endowments of \$1-7 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, private 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, 2019\*

32 Degrees Capital  
Accel-KKR  
Adamas Partners, LLC  
AKO Capital LLP  
Arisaig Partners, Ltd  
Arrowstreet Capital, LP  
Atlantic Trust Investment Advisors, Inc.  
Atlas Holdings LLC  
Bain Capital  
Battery Ventures  
Baupost Group, LLC  
BlackRock Alternative Advisors  
Bridger Capital, LLC  
Brightstar Capital Partners  
Burford Capital Investment Management, LLC  
Burgundy Asset Management, Ltd.  
Cadent Energy Partners, LLC  
Castlelake, LP  
CC&L  
Centerbridge Capital Partners  
City of London Investment Management Company, Ltd  
CLSA  
Clairvest Group, Inc.  
Commonfund Capital, Inc.  
CrossHarbor Capital Partners

Deer Management Company, LLC  
Deerfield Capital Management, LLC  
Denham Capital Management, LP  
Dragoneer Investment Group, LLC  
Dynamo Administracao de Recursos LTDA  
Endeavour Capital, LLC  
Equus Capital Partners, Ltd.  
Fidelity Real Estate Partners, LLC  
Frazier Healthcare Partners  
General Catalyst Partners, LP  
Glendon Capital Management  
Green Court  
Hamilton Lane  
HIG Capital, LLC  
Ignition Partners, LLC  
Incentive Active Value  
Income Research & Management  
J.C. Flowers & Company, LLC  
Lombard International  
Lone Pine Capital, LLC  
Madrona Venture Group, LLC  
Newfoundland Capital  
Payden & Rygel  
Phoenix Property Investors Ltd  
Pugh Capital Management, Inc.

Rimrock Capital Management, LLC  
Riva Ridge Capital Management  
Riverside Company  
Rockland Capital  
Select Equity Group  
Siguler Guff & Company, LLC  
Silchester International Investors, LLP  
Silicon Valley Bank  
Southwest Value Partners  
Standard Investment Research  
TA Associates, LLC  
Tenex Capital Management  
TPG Partners, LP  
Valinor Capital Partners, LP  
Varecs Partners Limited  
Ward Ferry Management, Ltd  
Wellington Management Company  
Westbridge Capital  
Westwood Global Investments  
Yiheng Capital, LLC

\*excludes idle accounts



## CONTACTS AND FURTHER INFORMATION

This report on the management of the University's endowed funds was prepared by the Treasury Office for donors and other interested parties. Reports are also available, upon request, to donors and fund administrators for each of the individual 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

#### **Robert Bradshaw**

Associate Treasurer  
(206) 221-6752  
trsyops@uw.edu

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

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

#### **Dan Peterson**

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

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