

**UNIVERSITY OF WASHINGTON**  
**STATEMENT OF INVESTMENT OBJECTIVES AND POLICY**  
**FOR INVESTED FUNDS**

**Approved by Board of Regents May 20, 1988**

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**INTRODUCTION**

The Board of Regents of the University of Washington is vested by statute with responsibility for the management of the properties of the University. This statement of investment objectives and policies governs the investment management of the Invested Funds (IF). This statement is effective until modified by the Board of Regents.

The Board has delegated to its Finance and Asset Management Committee (FAM) the responsibility for overseeing the investment program within the general principles enumerated herein. In 2001, the Board approved the establishment of an advisory committee, the University of Washington Investment Committee (UWINCO), consisting of both Board of Regents' 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. In 2015, the Board of Regents approved the establishment of the University of Washington Investment Management Company ("UWINCO"), an internal investment management company. The former investment management advisory committee was replaced with an investment management advisory board, known as the University of Washington Investment Management Company Board ("UWINCO Board").

**A. FINANCIAL AND INVESTMENT OBJECTIVES**

1. The overall financial objective of the IF is to enable the University to meet its financial obligations as they come due. A secondary objective is to achieve investment returns above those of money market instruments.
2. The investment performance of the IF will be evaluated, on a risk-adjusted basis, relative to a blend of market indices that reflect the overall asset allocation of the fund.

**B. INVESTMENT MANAGEMENT STRUCTURE**

1. The IF will be invested primarily by external investment management firms. External investment management firms will be selected on the basis of factors including but not limited to the following: the experience of key personnel; investment philosophy; assets under management; organizational structure; performance record; investment management fees; and the firm's ethical and financial viability.

2. Funds may also be invested in bank short-term investment funds and in approved instruments managed internally by University financial personnel.
3. Funds may be invested in capital projects through the University’s Internal Lending Program, a program managed by University financial personnel.

**C. PORTFOLIO COMPOSITION AND POOL ALLOCATION**

1. The IF shall be divided into four pools:

Pool Allocation	Policy		
	Target	Range	Global Range
Short-term Pool <sup>(2,4,5)</sup>	15%	10-50%	0-40 %
Intermediate-term Pool <sup>(3,4,5)</sup>	40%	15-60%	0-25%
Long-term Pool <sup>(6)</sup>	35%	15-45%	
Capital Assets Pool (CAP) <sup>(7)</sup>	10%	0-15%	

2. The Short-term Pool will be invested in a portfolio of high quality short- to intermediate-term fixed-income securities. The maximum average duration of the portfolio will be three years. The Short-term Pool will have an average quality rating of “AA.”
3. The Intermediate-term Pool will be invested in a portfolio of high quality intermediate-term fixed-income securities. The maximum average duration of the Portfolio will be five years. The Intermediate-term Pool will have at least twenty-five percent of its funds invested in obligations of the U.S. Government and its agencies. The Intermediate-term Pool will have an average quality rating of at least “A.”
4. Global strategies may be employed in the Short-term Pool and the Intermediate-term Pool if so specified under individual investment manager guidelines. Non-U.S. fixed-income securities will be subject to the equivalent quality and duration guidelines as domestic fixed-income securities.
5. Direct and derivative investments in fixed-income substitutes may be used in the Short-term Pool and the Intermediate-term Pool to improve the aggregate risk / return profile of the IF.
6. The Long-term Pool will invest directly in the Consolidated Endowment Fund (CEF) through the periodic purchase and sale of CEF units. The Long-term Pool may also contain direct or indirect investments in targeted strategies designed to improve the risk profile and / or enhance the performance of the IF. Provisions applicable to the investment in CEF units are contained in the “Statement of Investment Objectives and Policy for the Consolidated Endowment Fund.”
7. The Capital Assets Pool may be invested in University capital projects with maturities of up to thirty years. The Capital Assets Pool is capped at 10% of the IF while the range of 0 – 15% allows for market fluctuations.

**D. ETHICAL CONSIDERATIONS**

1. While fiscal goals are of central importance, due consideration shall be given to the degree of

corporate responsibility exercised by the companies in which investments are made.

2. Direct investment in companies doing business in Sudan whose business activities support the Sudanese government in its continuing sponsorship of genocidal actions and human rights violations in Darfur is prohibited.
3. Direct investment in tobacco companies is prohibited.
4. Direct investment in coal companies whose principal business is the mining of coal for energy is prohibited.

#### **E. GUIDELINES FOR THE INVESTMENT POOLS**

1. The objective of the Short-term Pool is to meet the day-to-day obligations of the University.
2. The objective of the Intermediate-term Pool is to provide a liquid source of funds in the event the Short-term Pool is insufficient to meet the University's cash needs.
3. The objective of the Long-term Pool is to provide a flow of financial support to University programs that will grow at least as fast as the rate of inflation (as measured by the Consumer Price Index). In addition, the Long-term Pool shall provide a source of funds in the very unlikely event the Short-term Pool and Intermediate-term Pool are insufficient to meet the University's day-to-day obligations.
4. The objective of the Capital Assets Pool is to provide a source of funds for University capital projects.

#### **F. GUIDELINES FOR TRANSACTIONS**

As a general guideline that should apply to all assets managed, transactions should be entered into on the basis of best execution, which is interpreted normally to mean best-realized price. Commissions may be designated for payment of services rendered to the University in connection with investment management.

#### **G. MONITORING OF OBJECTIVES AND RESULTS**

1. All objectives and policies are in effect until modified. The Finance and Asset Management Committee with advice from the President (or his/her designee), the Chief Investment Officer and the UWINCO Board will review these periodically for their continued appropriateness.
2. The IF will be monitored on a continual basis for consistency in investment philosophy; return relative to objectives; investment risk as measured by asset concentrations; exposure to extreme economic conditions; and market volatility. Performance will be reviewed at least annually by the Finance and Asset Management Committee. Results will be evaluated over longer time frames including the inception period, running three- to five-year periods, and complete market cycles.
3. The Chief Investment Officer will review the individual managers as needed in order to confirm that performance expectations remain in place. In addition, portfolio activity will be reported on a regular basis to the UWINCO Board and the Chair of the Finance and Asset Management Committee.

4. A statement of investment objectives and guidelines will be maintained for each public investment manager where the University's assets are managed in a separate account.

## **H. DELEGATIONS**

Delegations related to the management of the University's investment portfolios are as follows:

1. Board of Regents:
  - a. Approve investment policies which guide the management of the University's investment portfolios. This includes but is not limited to the portfolio composition and pool allocation, investment objectives, pool guidelines, performance goals and delegations.
  - b. Approve all interfund loans to the CEF.
  - c. Approve appointment and reappointment of UWINCO Board members on the recommendation of the Governance Committee, in consultation with the President (or his/her designee) and the Chair of the UWINCO Board.
  - d. Approve the *Board of Regents Governance*, Standing Orders, Chapter 4 which addresses the advisory and administrative functioning of the UWINCO Board.
  - e. Approve appointment of the Chief Investment Officer.
2. Chair of the Board of Regents:
  - a. Approve investment manager appointments and direct investments in situations when the Chief Investment Officer is unavailable or unable to do so.
3. Finance and Asset Management Committee of the Board of Regents:
  - a. Oversee the University's investment programs within the broad guidelines established by the investment policies.
  - b. Appoint the University's investment consultant(s).
  - c. Review the asset allocation and strategy recommendations of the Chief Investment Officer and the UWINCO Board. Recommend policy changes as appropriate to the Board of Regents.
4. University of Washington Investment Management Company (UWINCO) Board, an internal advisory board:
  - a. Advise the Finance and Asset Management Committee and the Chief Investment Officer on matters relating to the management of the University's investment portfolios. This includes, but is not limited to, advice on overall asset allocation, performance goals, portfolio risk, new investment strategies, strategy implementation, manager identification, and due diligence.

- b. Advise the President of the University on the compensation of senior professional investment staff and other administrative matters.
  - c. Adhere to the *Board of Regents Governance*, Standing Orders, Chapter 4 pertaining to the UWINCO Board.
5. President of the University (or his/her designee):
- a. Provide broad administrative oversight of the investment program with advice provided by the UWINCO Board and the University's investment consultant. This includes but is not limited to:
    - i. Approve the compensation of senior professional investment staff.
    - ii. Approve use of professional staff bonus pool.
    - iii. Administer internal fees for management and administrative activities related to the Invested Funds.
  - b. Assume supervisory responsibility for the Chief Investment Officer position. Appoint interim Chief Investment Officer when the position is vacant.
  - c. Oversee Capital Assets Pool usage within the broad parameters established under this policy statement.
  - d. Approve investment custodian appointment(s).
  - e. Execute securities transactions in conjunction with the day-to-day management of the investment program.
  - f. Approve the compensation of senior professional treasury staff.
  - g. Execute investment management agreements, limited partnership agreements, custody agreements and other investment related documents upon satisfactory completion of reviews as appropriate by the state Attorney General, outside legal counsel and the University's investment consultant.
6. Chief Investment Officer:
- a. Manage the day-to-day activities of the University's investment portfolios within the broad guidelines established by the investment policies.
  - b. Seek the advice of the University's investment consultant(s) and members of the UWINCO Board on issues related to the management of the investment portfolios. Incorporate such advice in the implementation of the investment program.
  - c. Appoint new investment managers, follow-on investments with existing managers, and approve direct investments. Approved investments shall fall within the policy guidelines adopted by the Board of Regents.

- d. Approve the dollar value of assets allocated to new and existing investment managers and reallocate assets among managers in accordance with long-term strategic targets.
- e. Approve individual investment manager guidelines.
- f. Monitor individual investment managers on a regular basis to ensure that performance and compliance expectation are met.
- g. Monitor aggregate portfolio risk.
- h. Approve use of derivatives to manage the aggregate portfolio risk/return profile. This includes the use of swaps, options, futures and other derivative products to adjust exposures, to equitize cash, or to rebalance across asset classes.
- i. Approve appropriate usage and timing of leveraged strategies within the IF.
- j. Terminate investment managers, including the authority to liquidate limited partnership interests or to reduce strategy exposures through other means. This authority is typically exercised due to performance concerns, organizational changes, or structural considerations within the UW investment portfolio.
- k. Take action as appropriate in support of shareholder resolutions related to human rights violations in Burma.
- l. Engage in shareholder activism as appropriate on issues related to global climate change.