

UNIVERSITY *of* WASHINGTON

**CONSOLIDATED ENDOWMENT
FUND REPORT**

2018



Presented to the University of Washington
by the
CLASS OF 1990
in honor of Fred and Wilma
Hess

CONSOLIDATED ENDOWMENT FUND REPORT 2018

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ENDOWMENT FOCAL POINTS

Fiscal Year 2018 (FY18)

- Added 219 new endowments
- Distributed \$121 million in campus support

Fiscal Years 2009–2018

- Added 2,079 new endowments
- Distributed \$929 million in campus support

CONSOLIDATED ENDOWMENT FUND HIGHLIGHTS

	FISCAL YEAR				
	2014	2015	2016	2017	2018
Market Value (in millions)	\$2,833	\$3,076	\$2,968	\$3,144	\$3,407
Return	15.8%	6.8%	-1.6%	13.6%	9.6%
Number of endowments	4,211	4,363	4,506	4,685	4,904
Distributions to programs (in millions)	\$94	\$105	\$113	\$113	\$121



THE UNIVERSITY OF WASHINGTON ENDOWMENT

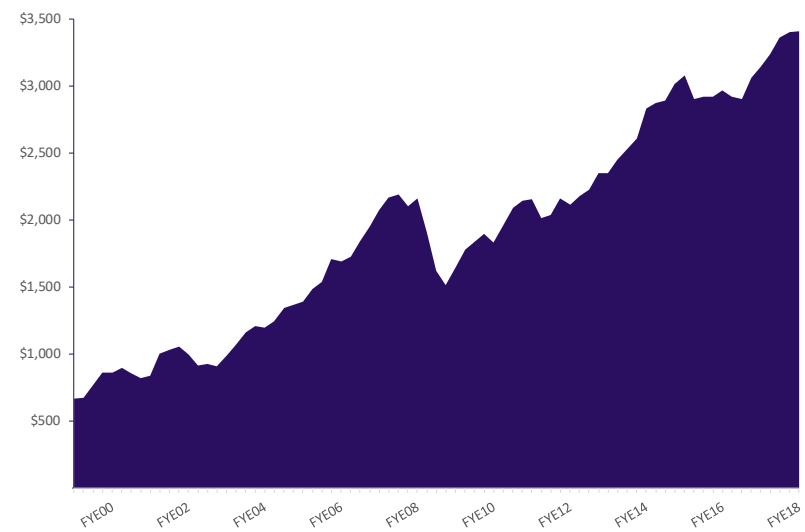
In 1905, the University received its first cash endowed gift of \$400, the Philo Sherman Bennett Endowed Prize. This endowment, as well as the bulk of the University's endowments, invests in the Consolidated Endowment Fund (CEF).

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 \$3.4 billion as of June 30, 2018.

VALUE OF THE CEF

FY 1999-2018 (\$ in millions)

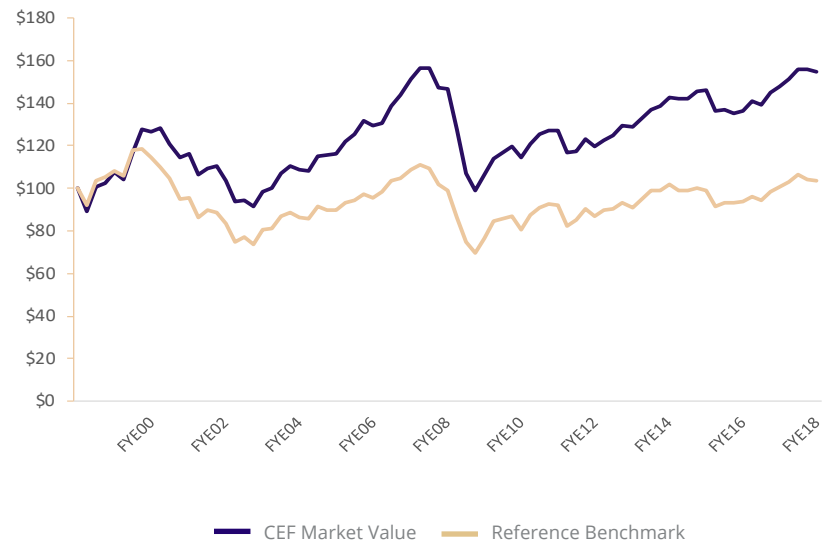


As the University of Washington's schools and units expand, and as our faculty and students continue to excel in scholarship and research, the University must meet the cost of innovation. Distributions from endowments make that possible. Endowments provide the University with a competitive edge and help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

A hypothetical gift of \$100,000 invested on July 1, 1998 would have provided \$124,942 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 \$154,894. Had this gift been invested in a blend of stock and bond indices, it would only have a market value of \$103,523 while providing the same percentage payout.

GROWTH OF A HYPOTHETICAL \$100,000 ENDOWMENT GIFT OVER 20 FISCAL YEARS ENDING JUNE 30, 2018

FY 1999–2018 (\$ 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.

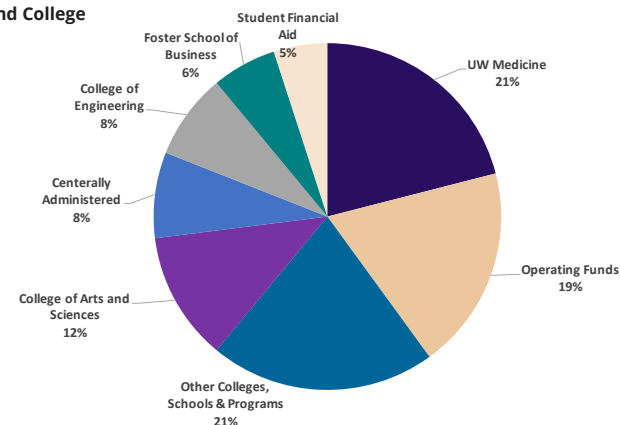
The impact on students, faculty and programs has been substantial with \$929 million distributed over the past 10 years touching every part of campus.

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

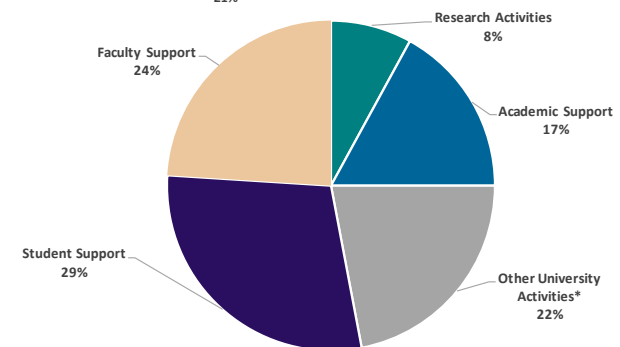
The CEF supports many unique purposes and provides opportunities for students and faculty in their quest for excellence and innovation.

ENDOWMENT SUPPORT FY 2018

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 6/30/18	Number of Individual Endowments
UW Medicine	737,742,726	993
College of Arts & Sciences	415,436,725	1,002
College of Engineering	257,614,094	436
Foster School of Business	193,590,261	243
Student Financial Aid	166,103,591	252
Office of the President and Provost	122,217,157	88
Law School	105,287,590	110
College of the Environment	110,165,922	293
Intercollegiate Athletics	82,377,885	220
University Libraries	50,751,757	98
Graduate School	50,324,202	90
School of Nursing	52,042,691	147
Tacoma Campus	46,232,733	80
Undergraduate Academic Affairs	54,089,460	35
College of Built Environments	44,914,381	127
School of Dentistry	32,490,667	98
College of Education	24,958,949	79
Evans School of Public Policy and Governance	23,215,110	40
School of Pharmacy	25,325,284	72
Health Sciences	18,128,464	5
School of Public Health	21,751,910	98
School of Social Work	27,304,919	51
Office of Research	8,741,623	4
University of Washington Press	7,151,753	17
Information School	7,744,007	52
Bothell Campus	4,087,169	27
Office of Minority Affairs and Diversity	4,608,048	39
CoMotion	9,628,013	2
Finance and Facilities	2,727,290	6
Office of the Vice President of Student Life	3,130,499	24
Continuum College	2,278,700	6
University Advancement	854,776	4
	<u>2,713,018,356</u>	<u>4,838</u>
Operating Funds	648,514,777	3
Non-UW Endowment	45,730,886	63
	<u><u>3,407,264,019</u></u>	<u><u>4,904</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 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, 2018

Jeremy Jaech (Chair)
Constance Rice (Vice-Chair)*
William S. Ayer*
Joel Benliel*
Kristianne Blake*
Joanne R. Harrell*
Rogelio Riojas
Blaine Tamaki
David Zeeck*
Jaron Reed Goddard

UWINCO BOARD AS OF JUNE 30, 2018

William S. Ayer*
David Bonderman
Michael Larson
Mary Pugh
Bryan White

*Members of the Finance and Asset Management Committee

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

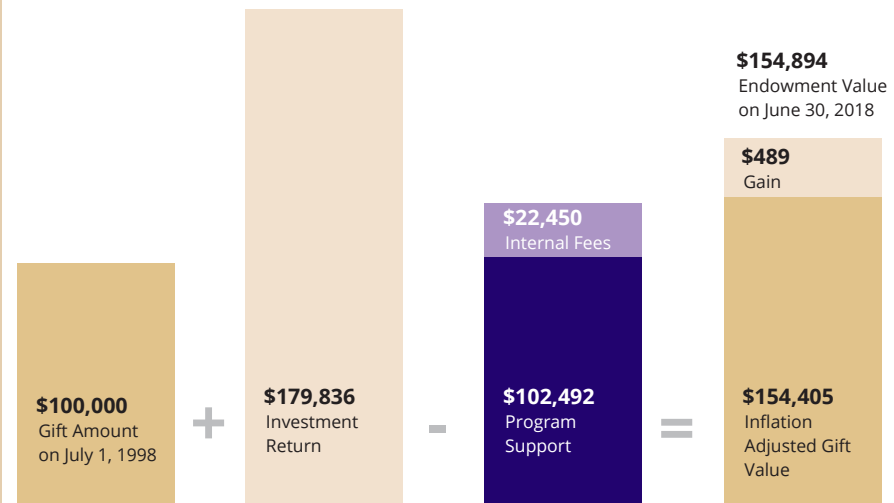
Spending policies provide a disciplined approach to moving money from the endowment to support the purpose designated by the donor on a foreseeable and consistent basis.

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.

A \$100,000 gift invested in the CEF 20 years ago would have earned \$179,836 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, 2018 of \$154,894 exceeds the inflation adjusted value of the initial gift of \$154,405. The endowment would have distributed \$124,942 to campus 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, 2018



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

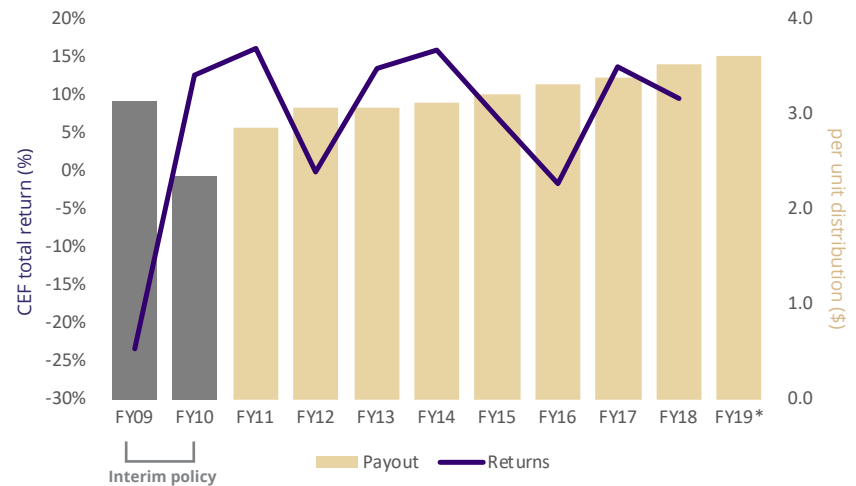
The policy replaced the interim spending policy which was approved March 2009. At that time, the intent was to prevent further erosion of the endowment following the severe meltdown in global financial markets in the last half of FY 2008. Under the interim policy, program distributions were lowered and 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 2009-2018



*The estimated payout for fiscal year 2019 is \$3.60 per unit.



CONSOLIDATED ENDOWMENT FUND INVESTMENT STRATEGY AND PERFORMANCE

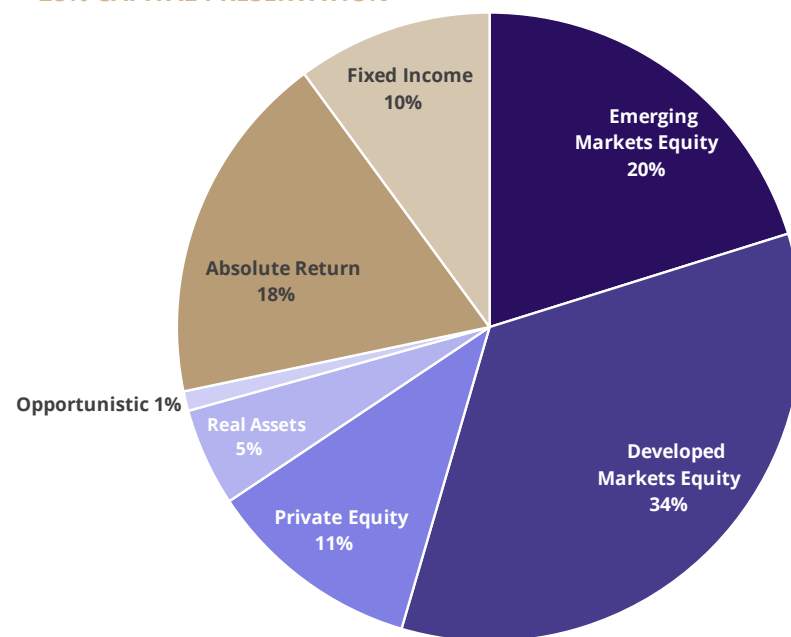
Endowment portfolios are commonly managed around a core set of objectives focused on the need to provide support for endowed programs in perpetuity. The Board of Regents in conjunction with the UWINCO Board establishes the policy asset allocation judged to be most appropriate for the University of Washington 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 and provide liquidity (Capital Preservation). At June 30, 2018, 72% of the CEF was invested in Capital Appreciation and 28% in Capital Preservation. We still anticipate that market returns for equities will exceed bonds over the longer term. We maintain a medium-term objective of generally overweighting equity-oriented strategies with a focus on quality companies and downside protection. The UW also maintains ample liquidity within Capital Preservation to meet its funding requirements, as well as to take advantage of market dislocations.

CEF ASSET ALLOCATION

As of June 30, 2018

28% CAPITAL PRESERVATION



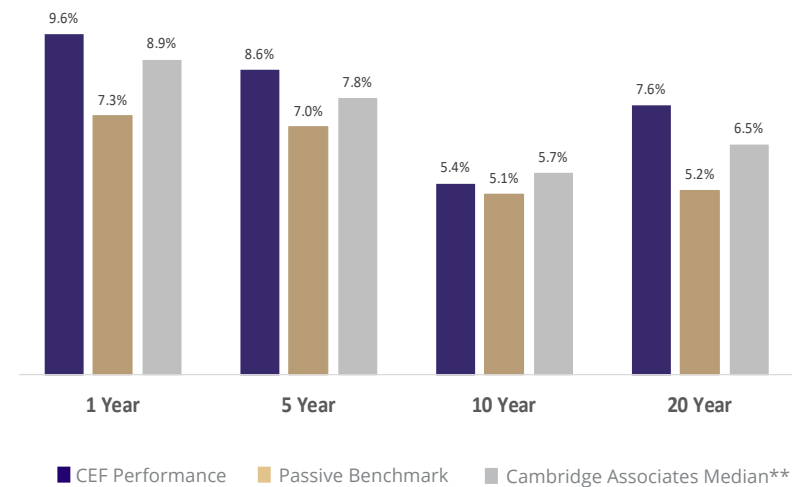
72% CAPITAL APPRECIATION

Note: Percentages may not sum due to rounding

For the fiscal year ending June 30, 2018 (FY18) the CEF returned +9.6% versus +7.3% for the passive benchmark. The UW is first quartile relative to public peers for the one-year period. Absolute performance for FY18 was positive across all CEF strategies, led by private investments. Market conditions were relatively favorable during FY18 but turned volatile the second half of the year. Our emerging market exposure faced significant headwinds in the last quarter, yet still performed well for the year on both an absolute and relative basis.

Our focus remains on long-term results where the CEF has consistently maintained solid relative performance. The chart shows that the CEF has returned +8.6%, +5.4% and +7.6% for the 5, 10 and 20-year periods, respectively, beating both the passive benchmark and the median returns for public peers over most periods.

PERFORMANCE COMPARISONS 1, 5, 10, AND 20 YEAR ANNUALIZED RETURNS FOR PERIODS ENDING JUNE 30, 2018



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

**Public Universities with Endowments \$1-5 Billion (preliminary)



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, 2018*

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
Centerbridge Capital Partners
City of London Investment Management Company, Ltd
CLSA
Commonfund Capital, Inc.
Convexity Capital Management, LP
CrossHarbor Capital Partners
Deer Management Company, LLC

Deerfield Capital Management, LLC
Denham Capital Management, LP
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
Ward Ferry Management, Ltd
Wellington Management Company
Westbridge Capital
Westwood Global Investments
Yiheng Capital, 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 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

Lisa Edlin

Associate Treasurer
(206) 685-8030
trsyops@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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