

STANDING COMMITTEES

Finance and Asset Management Committee

Comparative Performance, Asset Allocation, and Spending Rates

INFORMATION

This item is being presented for information only.

Attachment

Comparative Performance, Asset Allocation, and Spending Rates



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University of Washington—Board of Regents

May 11, 2017

CAMBRIDGE



ASSOCIATES

ATTACHMENT

F-8.1/205-17
5/11/17

CEF Relative Performance

Performance has been strong vs. Policy, Passive portfolios, and Peers

As of December 31, 2016

CEF Total Return

CEF Policy Benchmark¹

Passive Benchmark²

1 Year	3 Year	5 Year	10 Year
7.0%	5.4%	8.6%	5.0%
6.0%	4.6%	8.0%	5.4%
5.9%	2.8%	7.0%	3.9%

Peer Comparisons from Cambridge Associates

Top 50 College & University Median³

UW Quartile

6.1%	4.9%	8.1%	5.2%
2nd	2nd	2nd	3rd

\$1 - \$5 Billion Public School Median⁴

UW Quartile

5.8%	3.7%	7.4%	4.6%
1st	1st	1st	1st

¹ CEF Policy Benchmark subject to change until HFRI and Cambridge indices are finalized

² 70% MSCI ACWI & 30% Bloomberg Barclays (BB/BC) Intermediate Government Bond Index

³ Final reporting: 40 of Top 50 institutions by endowment size

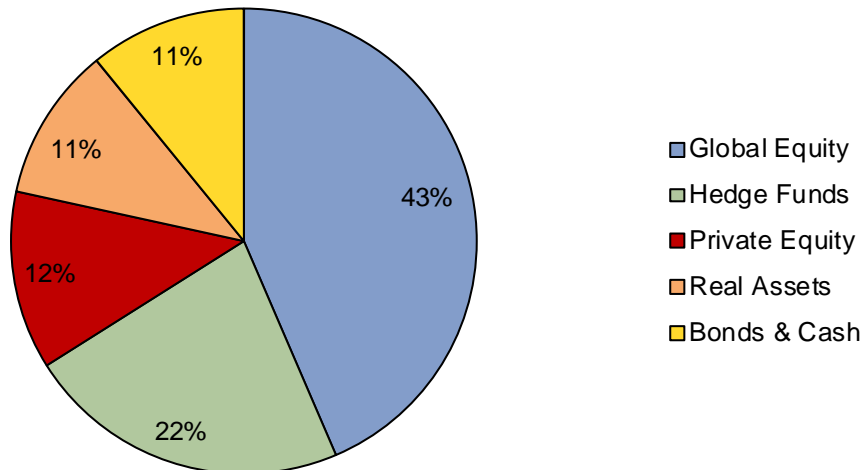
⁴ Final reporting: all 18 of the public schools with endowment market values of \$1-5 billion

Endowment Asset Allocation Comparison

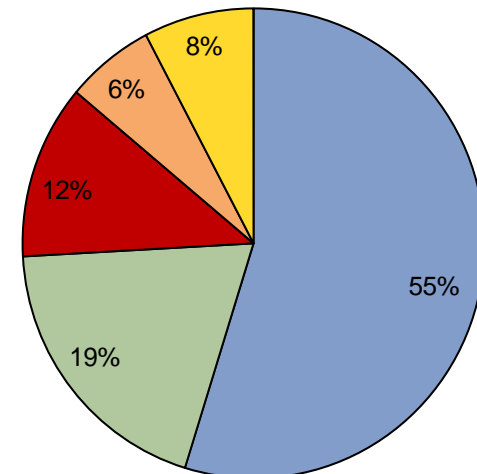
Public Colleges & Universities Between \$1 - \$5 Billion Endowment. As of December 31, 2016.

- Hedge funds, private investments, and real assets make up approximately 45% of a typical endowment portfolio.
- Traditional investments of public equity, bonds, and cash make up almost 55% of a typical endowment portfolio.
- In comparison, the University's endowment holds more in traditional investments and less in alternative assets.

Public \$1 to \$5 Billion



University of Washington



Note: May not sum to 100% due to rounding.

Hedge Funds include Long-Short Hedge Funds, Absolute Return, and Distressed Securities.

Private Investments include Venture Capital, Non-Venture Private Equity, and Other Private Investments.

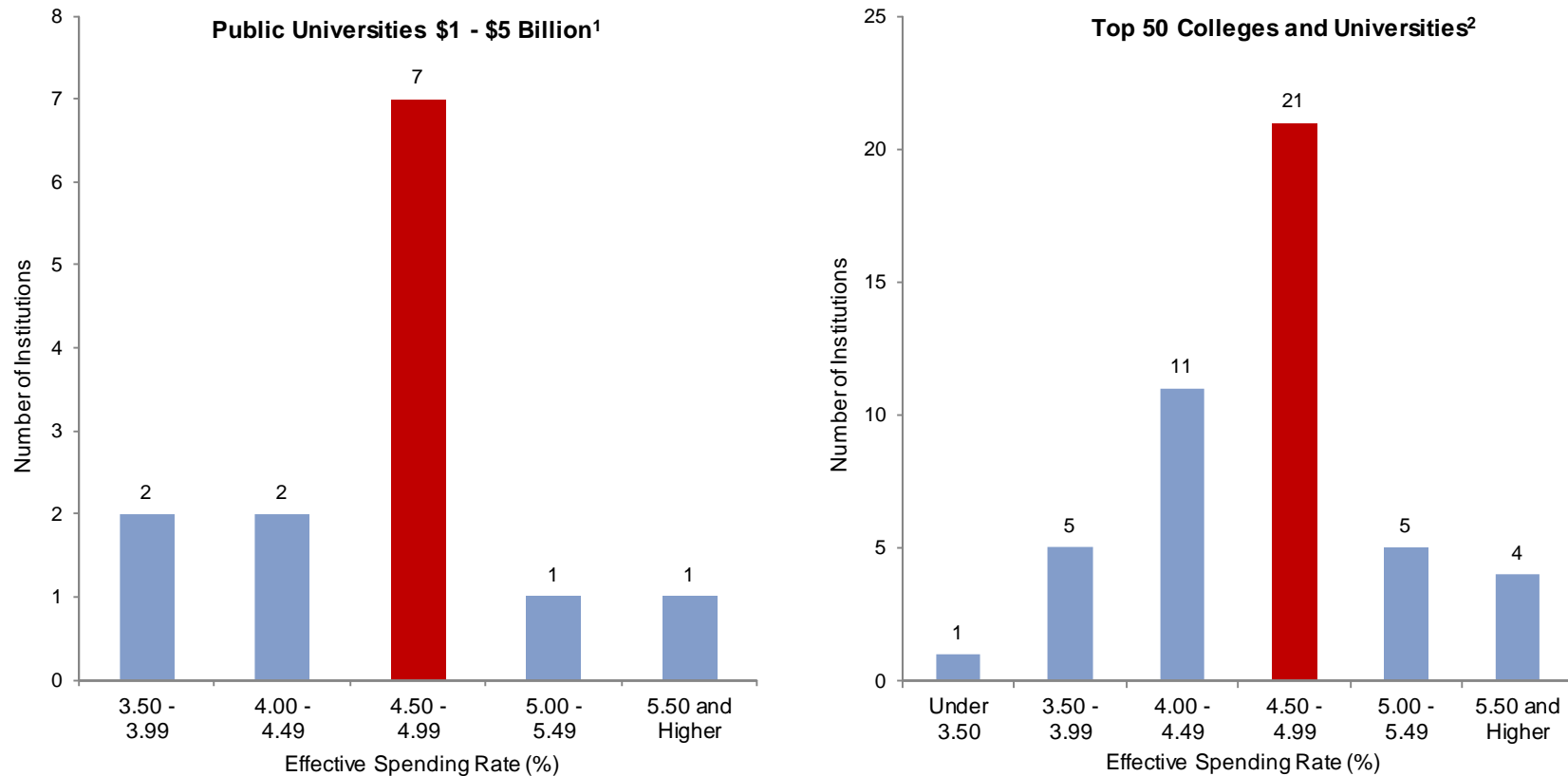
Real Assets include Public Real Estate, Private Real Estate, Commodities, Inflation-Linked Bonds (TIPS), Private Oil & Gas/Natural Resources, Timber, and Public Energy/Natural Resources.

Bonds include U.S. Bonds, Global ex U.S. Bonds, and High-Yield Bonds.

The University's distribution rate is consistent with the norms of both of its peer groups

Effective Spending Rate

For the Fiscal Year Ending June 30, 2016



Source: College and university data as reported to Cambridge Associates LLC.

¹Reporting: 13 out of the 14 public universities with assets between \$1 Billion to \$5 Billion. ²Reporting: 47 out of the top 50 public and private colleges & universities based on asset market values. F-8.1/205-17

Notes: Effective spending rate is the dollar amount of spending from the long-term investment portfolio for a fiscal year as a percentage of the beginning market value of the long-term investment portfolio. Effective spending rates are not the same as spending policy target rates in that the effective spending rate should reflect the amount actually spent during the fiscal year. 5/11/17

The column colored red is where the University of Washington's effective spending rate falls.

Cambridge Associates has recently completed a survey of spending policy trends among 153 endowed institutions including 95 Colleges and Universities

- Investment return expectations is the dominant driver of contemplated changes to spending rates (Exhibit 1)
- About 25% (38 institutions) of surveyed institutions recently have lowered or are considering lowering spending rates (Exhibit 2)
- While the scale of rate cut varies, a cut of 50 basis points is the most common magnitude of spending rate reduction (Exhibit 3)
- To mitigate disruptions to beneficiaries, cuts are most often phased in over multi-year periods (Exhibit 4)

Exhibit 1: Factors That Influence Changes To Spending Policy

The prospect of lower future returns tends to be the most important factor that respondents consider when contemplating changes to the spending policy.

How important are the following factors when considering changes to your spending policy?

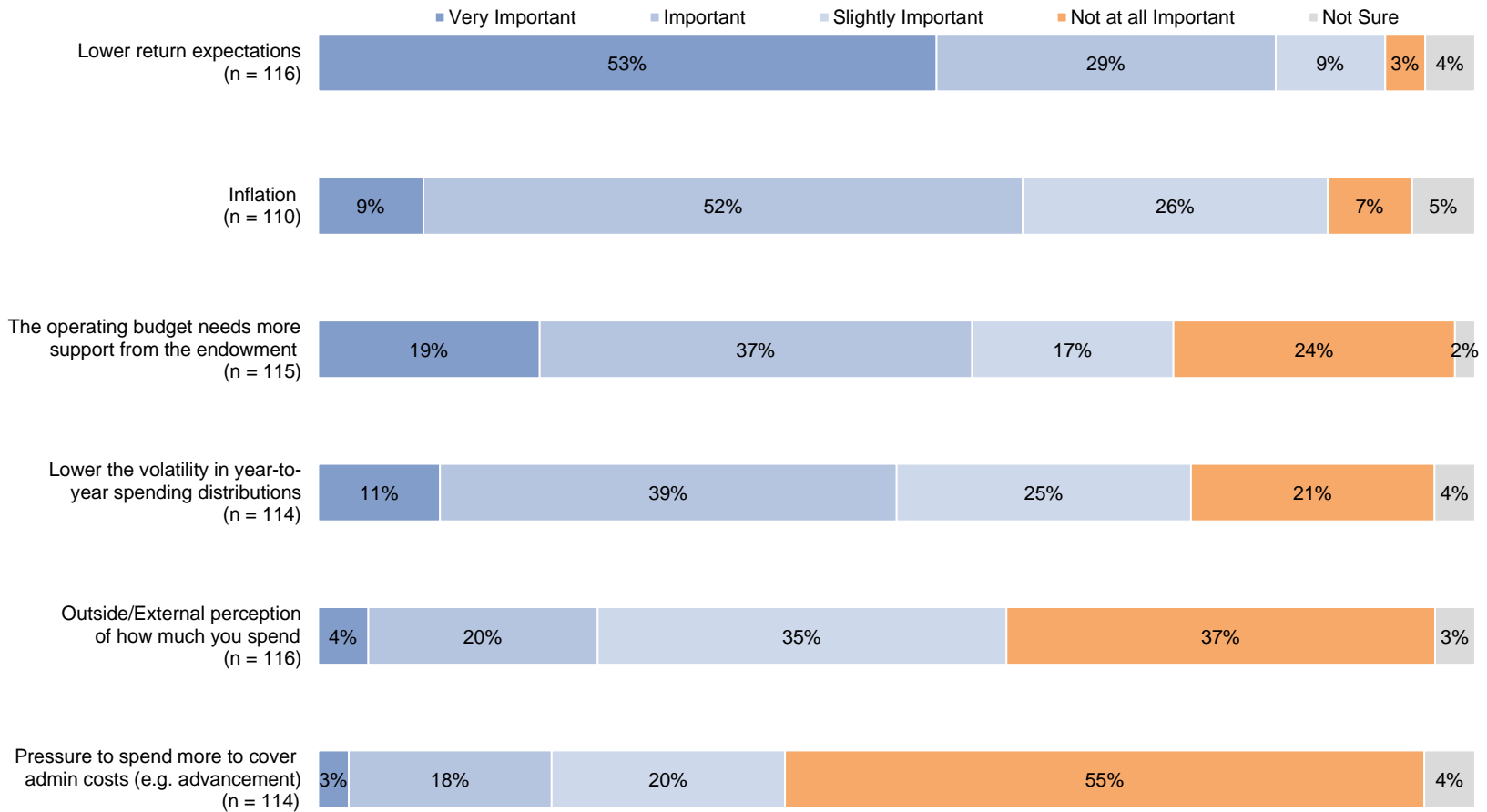
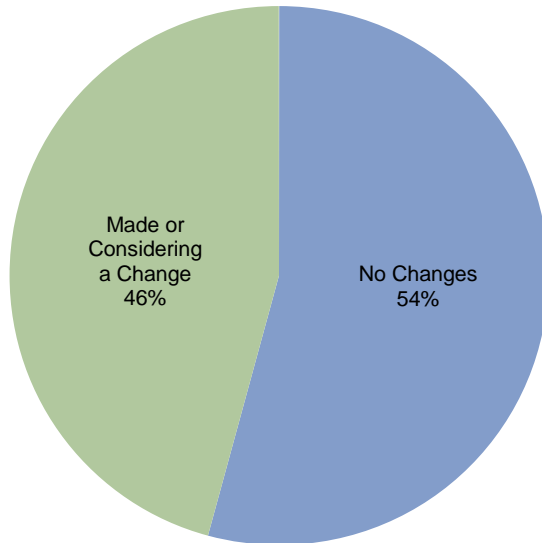


Exhibit 2: Changes To Spending Policy

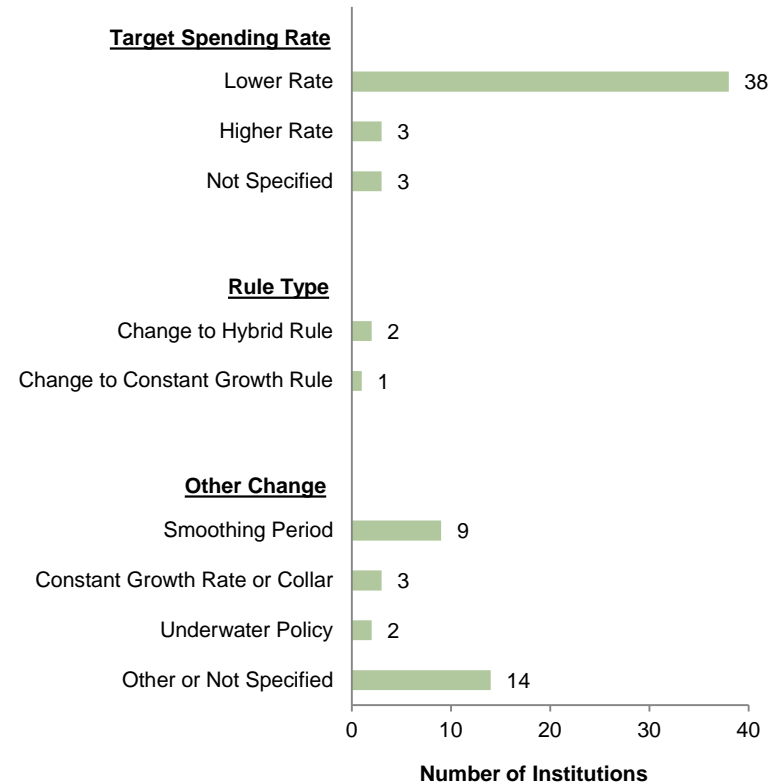
Almost half of respondents have recently made a change to their spending policy or are considering a change in the near future. A reduction in the target spending rate was by far the most common change implemented or under consideration.

Have you recently made a change or are you considering a change to your spending policy?
(n = 153)



Note: Analysis includes spending policy changes reported in FY16, FY17, and those to be implemented or under consideration in future years.

Types of changes made or under consideration
(n = 70)

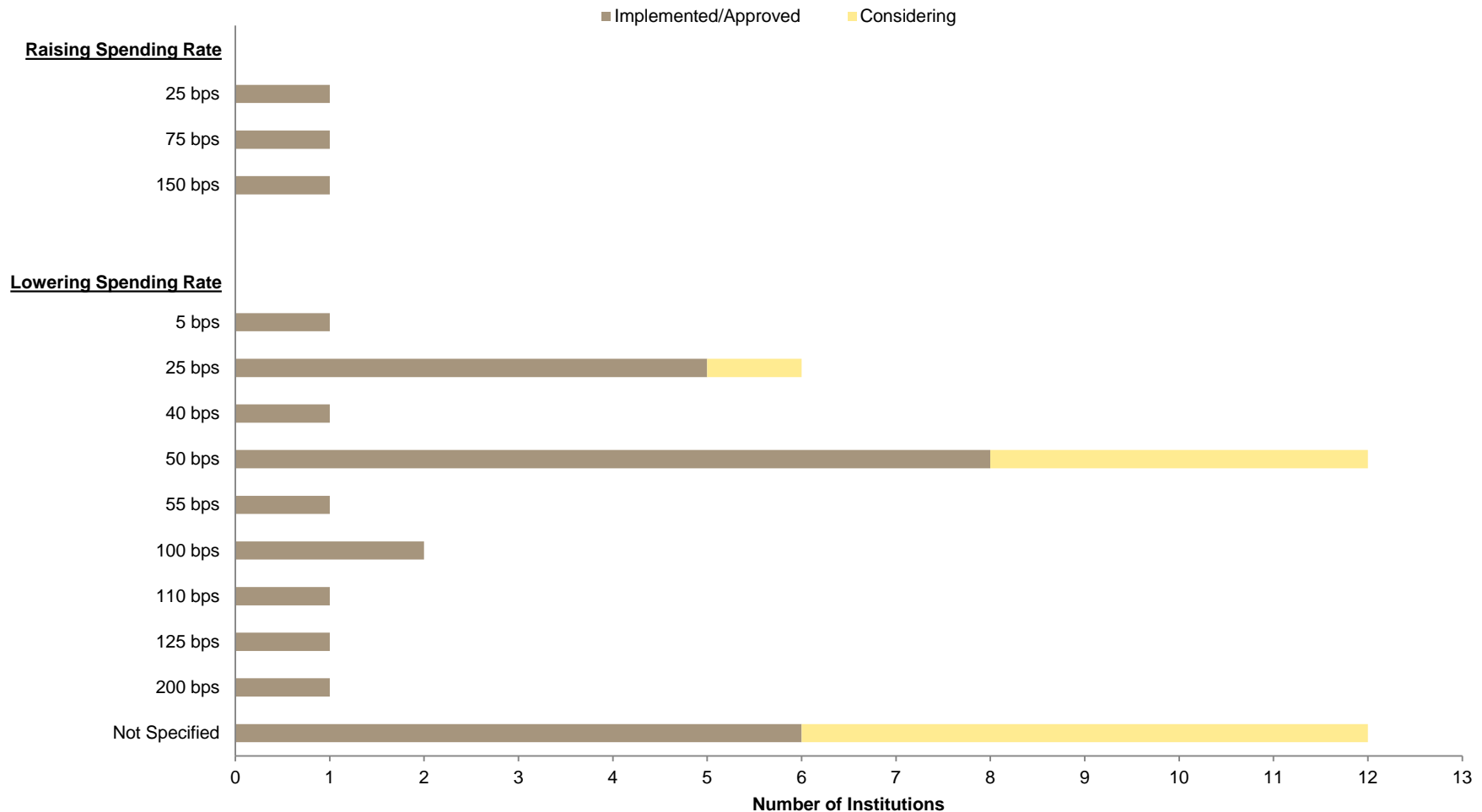


Note: There were a total of 75 changes reported across 70 institutions.

Exhibit 3: Changes To Target Spending Rates

Lowering the target spending rate by 50 basis points was the most common spending rate change implemented or under consideration.

Changes to Target Spending Rates in Basis Points (bps)
(n = 41)

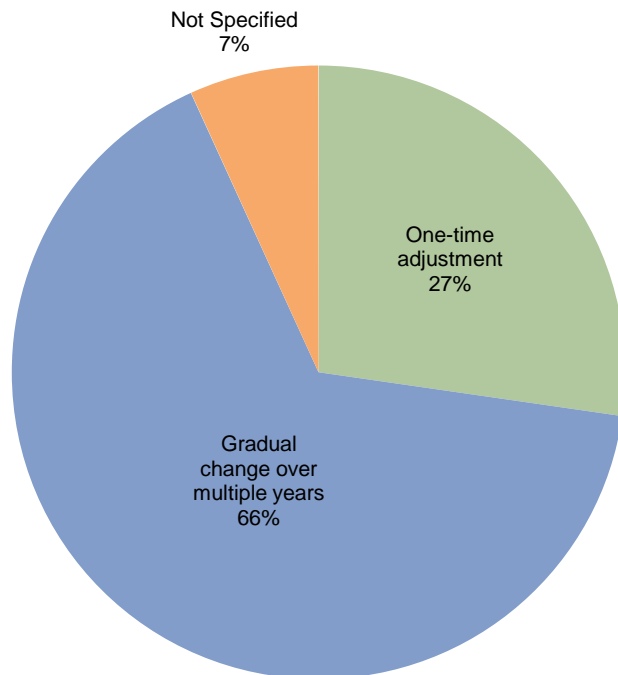


Note: Three institutions did not specify whether they were considering lowering or raising the target spending rate and are not included in the graph. F-8.1/205-17
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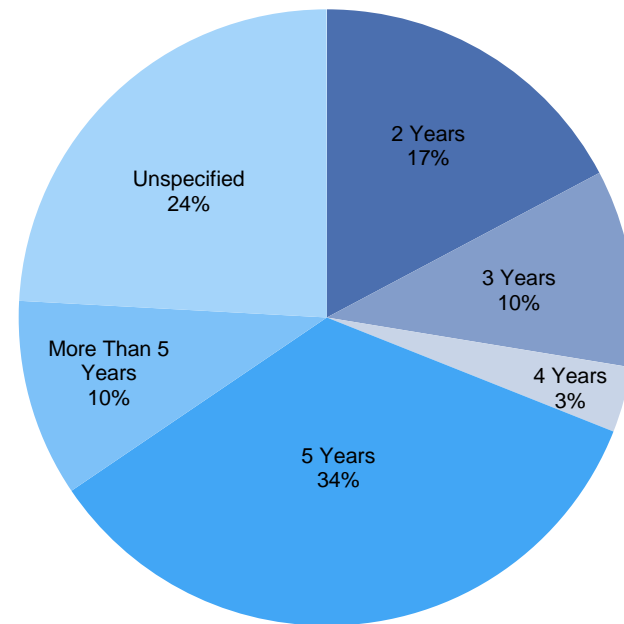
Exhibit 4: Timing For Instituting Changes To Target Spending Rates

Approximately two-thirds of respondents that have made (or are considering) a change to the target spending rate institute the new rate gradually over a period that spans multiple years.

If you have recently changed or are considering a change to your target spending rate, how did you (will you) implement the change?
(n = 44)



If changes are implemented gradually over multiple years, what time period is used?
(n = 29)



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