UNIVERSITY OF WASHINGTON

STATEMENT OF INVESTMENT OBJECTIVES AND POLICY FOR DEFERRED AND OTHER GIFT ASSETS

Approved by Board of Regents January 17, 1992

Amended September 19, 1997; May 18, 2001; November 21, 2003; May 19, 2005; May 9, 2013; September 10, 2015 and May 9, 2019.

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. The Board also acts as trustee for deferred gifts, including annuities and trusts. This statement of objectives and policies governs the investment management of deferred gift assets (including trusts and annuities) and other non-consolidated gift assets (including real estate, debt instruments secured by real estate, closely held stock, and partnership interests). 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 its deferred gift investment program within the general principals enumerated herein. The Committee has the authority to further delegate responsibility for management/monitoring of these.

A. TYPES OF GIFTS

Deferred gift assets are available for investment when a donor transfers cash or assets to the University of Washington and obtains, in exchange, a life income based on the value of donated assets. The forms in which gifts may currently be established include: charitable gift annuity (no trust), charitable remainder unitrust, charitable remainder annuity trust, pooled income fund (pooled trust), and charitable lead trust. Each deferred gift plan has a signed standard agreement which specifies the type of plan, amount of the income payments, purpose and use of the deferred gift.

B. FINANCIAL OBJECTIVES

1. **Deferred Gift Assets:** The primary financial objective for the investment management of deferred gift assets is to meet the payout requirements of the gift instrument. Secondarily, the objective is to maximize the expected real value of the residual assets to the University of Washington with an appropriate level of risk given the first (and primary) objective.

2. **Real Estate and Real Estate Contracts:** Generally, the University of Washington will not agree to hold individual real estate gifts for investment purposes. The objective in accepting, retaining, and

liquidating gift real estate is to obtain a fair return from the property in a timely manner relative to the expenses and effort required to hold, maintain and manage the property until disposition. The University of Washington may choose to finance the sale of real estate gifts if it is judged to provide the best return at an appropriate risk.

3. **<u>Other Non-Consolidated Gift Assets</u>:** Generally, the University of Washington will not agree to hold gifts of tangible personal property (such as art or coin collections) for investment purposes. The University of Washington may hold securities in start-up, closely held companies or limited partnership interests for investment purposes, if the assets cannot be sold. Such positions will only be taken if there is an acceptable degree of risk relative to expected return to the University of Washington from holding such an asset.

C. INVESTMENT MANAGEMENT STRUCTURE

Deferred gift assets will be invested primarily by an external investment manager. 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; ability to provide or work closely with external deferred gift administrative services provider; performance record; investment management fees; and the firm's ethical and financial viability.

D. PORTFOLIO COMPOSITION AND ASSET ALLOCATION

1. Deferred gift assets will be broadly diversified using various commingled funds including stocks, bonds, and alternative assets such as venture capital or equity real estate. In certain cases, individual investment securities may be purchased and sold by the trusts, depending upon circumstances. These commingled funds (and, when applicable, securities) will be held in various deferred gifts in different ratios, depending on the income/total return characteristics that are desired for any individual gift.

2. When selecting a stock/bond mix, it is not necessary in all cases to make a selection that will produce an income level equal to the payout requirement. This will vary by gift vehicle and the express desires of the donor with respect to income production. Because higher stock/bond rations are expected to produce higher rates of total return (but lower levels of income), higher ratios will be generally preferred when they are consistent with the guidelines and objectives of the individual gift plans.

3. Typically, stock/bond ratios will be selected with particular attention to the risk of asset erosion due to a severe decline in the stock market and the need to make an ongoing payout. The risk of the investment strategy selected will not exceed that of a 70/30 stock/bond portfolio except as approved by the President (or his/her designee) on a trust by trust basis.

4. In individual cases, as appropriate, the University of Washington may retain assets transferred by the donor (such as real estate, marketable securities or closely held stock), without diversification, provided the gift instrument permits such discretion and relieves the University of Washington of a duty to diversify the gift portfolio.

E. 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.

F. MONITORING OF OBJECTIVES AND RESULTS

Performance measurement reports for deferred gift assets will be prepared by the President (or his/her designee). Benchmarks/universes will be consistent with the approach used for the Consolidated Endowment Fund and the Invested Funds of the University of Washington. Summary reports will be shared with the Finance and Asset Management Committee or its delegate.

G. DELEGATIONS

Delegations related to the management and administration of the University's deferred gift 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 strategic asset allocation, performance goals and delegations.

2. Finance and Asset Management Committee:

   a. Oversee the University’s investment programs within the broad guidelines established by the investment policies.

   b. Appoint the University’s investment consultant(s).

2. President of the University (or his/her designee):

   a. Execute securities transactions in conjunction with the day-to-day management of the deferred and other gift asset program.

b. Execute legal documents related to the deferred gift assets program including but not limited to investment management 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.
c. Appoint deferred gifts investment manager and custodian.
d. Appoint deferred gifts external administrator.
e. Seek the advice of the University's investment consultant(s) and / or the Chief Investment Officer as appropriate on issues related to the management of the deferred giving investment program.
f. Approve deferred gift investment manager guidelines.
g. Communicate key decisions to the Finance and Asset Management Committee.
h. Consult where appropriate with the Vice President for University Advancement on deferred gift policy/guideline issues.
i. Monitor the deferred gifts' investment manager to confirm that long term performance meets expectations.

3. Chief Real Estate Officer:

a. Make decisions regarding the liquidation of gift real estate in consultation with the Vice President (or his/her designee), the Vice President for University Advancement and related personnel from both offices as appropriate.