



UNIVERSITY
of VIRGINIA

**Strategic Investment Fund
Executive Summary
FY2007 through FY2016**

August 2016

Introduction

The following information provides the historical context to the prudent financial management of cash and investment balances by the University of Virginia (UVA), which enabled the Board of Visitors (BOV) to take action in 2016 to establish the Strategic Investment Fund (SIF)¹.

This summary is provided to inform constituencies in a clear, understandable, and accessible format.

All financial information is supported by the UVA's accounting records and audited financial statements. Any spending allocations have been included in approved operating and capital budgets.

¹ State general funds and tuition revenues are fully expended for academic purposes each year. All activity reflected on these pages is exclusive of state general funds and tuition and is related to health system revenues, investment returns, philanthropy, auxiliary revenues, and other.

Strategic Investment Fund¹

Executive Summary



Background and Objectives	Page 4
Chronology of Key Events	Page 6
Rollforward from FY 2007 to 2016	Page 9
June 30, 2016 Summary Report	Page 10
Reconciliation to Audited Financial Statements	Page 11
Appendices	
A. Cornerstone Plan Description	Page 12
B. Affordable Excellence Description	Page 13
C. Strategic Investment Fund Guidelines	Page 14
D. Aramark Contract Summary	Page 15
E. UVIMCO Performance	Page 16

Strategic Investment Fund¹

Background and Objectives

- Will enable significant and ongoing investments that further the highest levels of excellence in the University's academic, research and healthcare missions, while advancing the University commitment to make world-class education opportunities more accessible and affordable without passing on the investment costs in the form of higher tuition. Such investments would include expanding scientific research capabilities, attracting top faculty, initiatives that enhance the student experience, and much more (see Cornerstone Plan, Attachment A).
- Sound long-term financial management allowed UVA to pool these resources, managed at the University of Virginia Investment Management Company (UVIMCO), as reviewed and agreed upon with input from credit rating agencies in October 2015. No state general funds or tuition have been allocated to the SIF¹.

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Strategic Investment Fund¹

Background and Objectives

- The SIF is an important element of UVA's liquidity and helps to ensure the AAA bond rating.
- Monies in the SIF are included in UVA's financial statements, audited annually by the Auditor of Public Accounts.
- A distribution of earnings from the SIF, equivalent to the BOV-approved endowment distribution, will be available annually, projected to be as much as \$100 million annually. Annual fund investments will depend upon actual investment performance and recommendations of the evaluation and advisory committees.

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Strategic Investment Fund¹

Chronology - UVA Investment Authority

April 2002: The General Assembly approved an amendment to the Code of Virginia permitting UVA to invest endowment funds, endowment income, and gifts in derivatives, options, and securities (also known as UVIMCO's long-term pool).

April 2006: The General Assembly approved the Management Agreement between Commonwealth of Virginia and UVA and an amendment to the Code of Virginia permitting UVA to invest nongeneral fund reserves and balances in derivatives, options, and securities.

Code of Virginia §23.1-2210:

E. In addition to the investment practices authorized by the Uniform Prudent Management of Institutional Funds Act (§64.2-1100 et seq.), the board may invest or reinvest the endowment funds, endowment income, gifts, all other nongeneral fund reserves and balances, and local funds of or held by the University in derivatives, options, and financial securities.

F. The authority provided in this section to invest and reinvest nongeneral fund reserves and balances of or held by the University is predicated upon an approved management agreement between the University and the Commonwealth.

Management Agreement:

XI. INVESTMENT POLICY.

It is the policy of the University to invest its operating and reserve funds solely in the interest of the University and in a manner that will provide the highest investment return with the maximum security while meeting daily cash flow demands and conforming to the Investment of Public Funds Act (§2.2-4500 et seq.) of the Code of Virginia. Investments shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

Endowment investments shall be invested and managed in accordance with the Uniform Management of Institutional Funds Act, §§55-268.1 through 55-268.10, and §23-76.1 of the Code of Virginia.

The Board of Visitors shall periodically review and approve the investment guidelines governing the University's operating and reserve funds.

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Strategic Investment Fund¹

Chronology – BOV Deliberations

June 2014: Rector creates BOV Finance Subcommittee to improve affordability and predictability for Virginia families.

Sept 2014: Subcommittee discussed leveraging our strong operating position to create sustainable funding for strategic needs.

Nov 2014: Subcommittee and entire BOV discussed leveraging our strong operating position to create sustainable funding for strategic needs.

March 2015: BOV adopts Affordable Excellence program. (See Appendix B)

October 2015: UVA met with major credit rating agencies to review proposed liquidity policy and fund for strategic needs.

November 2015: BOV approved liquidity policy and authorized the Executive Vice President and Chief Operating Officer (EVP/COO) to enter into operating lines of credit.

[BOV Meeting Minutes, page 9914](#)

[Liquidity Policy](#): Authorizes the EVP/COO to manage UVA's liquidity to provide for sufficient cash flow to support operations, satisfy the remarketing risk, and support its AAA credit ratings. This policy works in tandem with the Working Capital Policy.

[Working Capital Investment Policy](#): Authorizes the EVP/COO to manage investments under the Working Capital Investment Policy and further delegate or revoke such responsibility under the program.

January 2016: Lines of credit established.

Strategic Investment Fund¹

Chronology – SIF Established

February 2016: BOV established the SIF.

[BOV meeting minutes, page 9948](#)

April 2016: SIF guidelines finalized; evaluation and advisory committees established. (See Appendix C)

May 2016: Standard & Poor's LLC affirmed UVA's AAA bond rating.

Rollforward of Cash and Investment Balances Used in 2016 to Create Strategic Investment Fund¹ (in millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Beginning Balance at July 1	\$ 120	\$ 234	\$ 725	\$ 619	\$ 709	\$ 860	\$ 880	\$ 1,097	\$ 1,316	\$ 1,628	\$ 120
Activity:											
Investment Income	69	23	(143)	89	167	41	119	202	108	(22)	653
Net Activity from Operations	45	468	37	1	(16)	(21)	98	17	204	99	932
New Liquidity Policy Transfer	-	-	-	-	-	-	-	-	-	480	480
Total Activity	114	491	(106)	90	151	20	217	219	312	557	2,065
Ending Balance at June 30	\$ 234	\$ 725	\$ 619	\$ 709	\$ 860	\$ 880	\$ 1,097	\$ 1,316	\$ 1,628	\$ 2,185	\$ 2,185

Footnotes:

- (a) Prior to its establishment in 2016, resources that now comprise the Strategic Investment Fund existed in separate projects within the University's accounting system.
- (b) The July 1, 2007 balance was transferred from the University's Current Funds Investment account
- (c) Investment income for 2007 includes \$59 million accumulated prior to 2007, and transferred into one of the projects that now comprise the Strategic Investment Fund.
- (d) Slide 10 shows a summary of the historical sources of funds comprising the SIF.
- (e) In November 2015 the Board of Visitors approved a new liquidity policy permitting the establishment of bank operating lines of credit that enabled UVA to transfer approximately \$480 million of operating cash for investment with UVIMCO in early 2016.
- (f) Amounts for 2016 are unaudited.

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Strategic Investment Fund¹

June 30, 2016 Summary Report

(in millions)

June 30, 2016 Investments²

UVIMCO Short Term Investment Pool	\$ 231
UVIMCO Long Term Investment Pool	1,954
	<u>\$ 2,185</u>

Historical Sources of Funds

Cumulative Investment Earnings	\$ 653
UVA Medical Center Operations	510
UVA Academic Division:	
Philanthropy	423
Funded Depreciation	178
Reserves for Capital Expansion	88
ARAMARK Dining Contract (Appendix D)	70
Medical Insurance Reserve	59
Auxiliary Operations	57
School of Medicine Investment from the Medical Center	47
Indirect Cost Recoveries from external grants	45
Other	55
	<u>\$ 2,185</u>

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² The SIF is invested through UVIMCO, the same investment management company that invests the University's endowment.

Cash and Investment Balances Reconciled to Audited Financial Statements¹ (in millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
University Financial Statements¹									
Cash and Cash Equivalents	\$ 641	\$ 244	\$ 241	\$ 365	\$ 324	\$ 405	\$ 502	\$ 612	\$ 580
Short Term Investments	276	210	273	1	127	129	188	180	181
Other Long-Term Investments	286	719	516	754	903	956	1,086	1,317	1,580
Total	\$ 1,203	\$ 1,173	\$ 1,030	\$ 1,120	\$ 1,354	\$ 1,490	\$ 1,776	\$ 2,109	\$ 2,341
Select Cash and Investments, Re-allocated in 2016 to Create SIF ^{2,3}	\$ 234	\$ 725	\$ 619	\$ 709	\$ 860	\$ 880	\$ 1,097	\$ 1,316	\$ 1,628
Other Cash and Investments ⁴	969	448	411	411	494	610	679	793	713
Total Cash and Investments	\$ 1,203	\$ 1,173	\$ 1,030	\$ 1,120	\$ 1,354	\$ 1,490	\$ 1,776	\$ 2,109	\$ 2,341

¹ Financial statements are audited annually by the Commonwealth's Auditor of Public Accounts and are available [online](#).

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³ These amounts correspond to the values in the "Ending Balance at June 30" line from slide 9.

⁴ Other Cash and Investments include long-term investments in Hope Cancer Center, the U-21 Educational Consortium, other Medical Center investments, life insurance policies, and other short-term investments.

Appendix A: UVA's Cornerstone Plan



PILLAR
1

Enrich and strengthen U.Va.'s distinctive residential culture

STRATEGIES

Student Leadership Development

Development of ethical leaders will be a central theme of University curriculum and programs. With its Jeffersonian mission, tradition of self-governance and residential culture, U.Va. is ideally positioned to develop ethical citizen leaders.



Total Advising

The University will develop an integrated approach to advising—identified as a top priority by students. Faculty, staff, alumni and other students will provide focused academic, career and personal counseling.



Lifelong Alumni Engagement

A "lifelong university" will provide alumni with opportunities to expand their knowledge and skills to meet pivotal challenges in their professional, public and personal lives, and to renew intellectual interests begun while they were students.



PILLAR
2

Advance knowledge and serve the public through research, scholarship, arts and innovation

STRATEGIES

Pan-University Research

To foster the intellectual curiosity, ambition and energy of its faculty, the University will facilitate cross-disciplinary work by creating evolving research institutes that address key issues and provide valuable educational opportunities.



Infrastructure and Services

The University will enhance institution-wide infrastructure and services to encourage and support research, scholarship, creative arts and innovation by faculty and students. These enhancements include everything from administration and support for research grants and library collections and services to computational resources and core laboratory capacity.



PILLAR
3

Provide educational experiences that deliver new levels of student engagement

STRATEGIES

High-Impact Experiences

The University will deliver an education for undergraduate, graduate and professional students that includes meaningful research with faculty members, community engagement, entrepreneurial experiences and internships.



Global Presence

More than 35 percent of U.Va. students have experience overseas, but more must be done to prepare students for global leadership. U.Va. will strengthen its global presence and develop international knowledge and cross-cultural understanding among all its students.



Evidence-Based Education

The University will capitalize on existing on-Grounds expertise to assess the relationship between educational experiences and student learning outcomes.



PILLAR
4

Assemble and support a distinguishing faculty

STRATEGIES

Faculty Leadership Development

The University will develop a program to support the leadership skills of faculty, enabling them to become effective and highly regarded leaders on Grounds and nationally among their colleagues.



Continuous Faculty Recruiting

Continuous active recruiting—based on long-term cultivation of relationships with potential applicants—will enable the University to broaden the pool of diverse, high-potential faculty prospects.



Interdisciplinary Hiring

By recruiting faculty with interdisciplinary expertise who are engaged in collaborative research and teaching, U.Va. will build the expertise needed to solve challenging issues and offer innovative courses.



PILLAR
5

Steward resources to promote excellence and affordable access

STRATEGIES

Affordable Excellence

The University will develop a financial model that sustains AccessUVA, maintaining an academically accomplished and diverse student body, regardless of ability to pay.



Leadership in Staff Excellence

To build staff leadership at all levels, the University will offer more opportunities for experiential learning assignments, coaching, career advising and training for leaders across Grounds.



Organizational Excellence

The University will pursue the optimal allocation of resources to align with institutional priorities—excellence in education, research and scholarship, and affordable access.



Strategically Aligned Philanthropy

The University will more closely align fundraising with strategic priorities and will restructure University advancement to achieve greater effectiveness and efficiency.

Appendix B: Affordable Excellence

On March 25, 2015, the UVA BOV adopted “Affordable Excellence,” an innovative program that affirms UVA’s position as one of the nation’s premiere institutions of higher education while ensuring that it remains affordable to all citizens of the Commonwealth of Virginia. With its roots in the Cornerstone Plan (Appendix A) and serving as a firm commitment to our students and faculty to bolster our unrivaled educational experience, Affordable Excellence provides a road map to sustained excellence and fiscal innovation. The Affordable Excellence model:

- » Reduces the net cost of a UVA education for 70% of Virginia households.
- » Makes tuition and fee increases more predictable and offers a guaranteed tuition option.
- » Puts the student financial aid program on sustainable financial footing.
- » Identifies funding for strategic investment necessary to preserve and enhance academic excellence
- » Generates new sources of revenues through efficiencies and savings providing an additional \$25 million per year.

Strategic Investment Fund¹

Appendix C: Guidelines

- The BOV determines the amount of available funds; awards in any given year depend on strength of investment proposals.
- Awards may be for 1-3 years, unless exceptional circumstances exist.
- Any member of the University community is invited to develop ideas for SIF proposals, in concert with their dean/VP.
- Proposals should support strategic imperatives as defined in the Cornerstone Plan or Health System Strategic Plan. Investments are intended to provide seed money for new strategic initiatives expected to be self-funding within 3-5 years. Investments as replacement for ongoing operating budget needs will not be considered.
- Evaluation Committee - Comprised of 5 faculty members or advisors (not senior management). Committee has primary responsibility for evaluating proposals and providing analysis and rankings of the proposals to the Advisory Committee; committee may include amendments to enhance success.
- Advisory Committee - Comprised of Rector, Vice Rector, the President, EVP/COO, EVP/Provost, EVP/HA, and 2 at-large members. Committee will determine: (1) a process and schedule for soliciting proposals, (2) criteria for evaluating selection and success, (3) reporting requirements, (4) Evaluation Committee membership, and (5) recommendations to the BOV. The committee will ensure execution of BOV's intended purposes.
- The BOV awards grants after considering the Advisory Committee recommendations and the Evaluation Committee analysis. In each case, fund investments will be carefully monitored and measured to ensure they accomplish their objectives.

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Appendix D: Aramark Contract

In August 2014, UVA renewed its dining services contract with Aramark to manage UVA's residential and retail dining centers, catering and vending services, and athletics-related concessions for a 20-year period.

As part of the agreement, Aramark provided \$70 million to UVA. Consistent with restrictions specified in the contract, UVA placed the \$70 million in escrow and is using the income generated from the escrowed funds for BOV-approved strategic initiatives.

The press release at the time the contract was signed specifies:

- “U.Va. will place the \$70 million in escrow, and will use income generated from the escrowed funds for strategic initiatives approved by the Board of Visitors.”
- “The timing complements work under way by a new subcommittee of the Board of Visitors Finance Committee formed in June by Rector George Keith Martin. The subcommittee has been charged with developing recommendations on a multi-year approach to affordable excellence, including a focus on tuition, financial aid and the predictability of tuition and fee costs.”
- “The work of this subcommittee will result in positive enhancements to the University's financial model, with a focus on ensuring affordable excellence for students and their families. Income generated from the escrowed funds will provide more flexibility to that model and, hopefully, more opportunities to make investments that have lasting benefit for U.Va. and its students.”

Appendix E: UVIMCO Performance

Fiscal Year	UVIMCO Annual Long-Term Pool Returns	Cambridge Colleges & Universities \$2+ Billion Median
FY07	25.2%	22.1%
FY08	5.9%	2.3%
FY09	-21.0%	-21.2%
FY10	15.1%	12.3%
FY11	24.3%	20.5%
FY12	5.1%	1.5%
FY13	13.4%	11.7%
FY14	19.0%	17.5%
FY15	7.7%	4.4%