



UNIVERSITY  
*of* VIRGINIA

**Board of Visitors Finance Committee Meeting**  
**September 13, 2019**



## **ACTION ITEMS:**

1. 2020-2026 State Six-Year Institutional Plan
2. 2020-2022 State Biennial Budget Requests
3. Major Capital Projects Financial Plans
4. Signatory Authority for Four Contracts

## **REPORTS:**

1. UVIMCO 2018-2019 Annual Report
2. Executive Vice President's Remarks
3. Finance Strategic Transformation Project



# State-Required Six-Year Plan

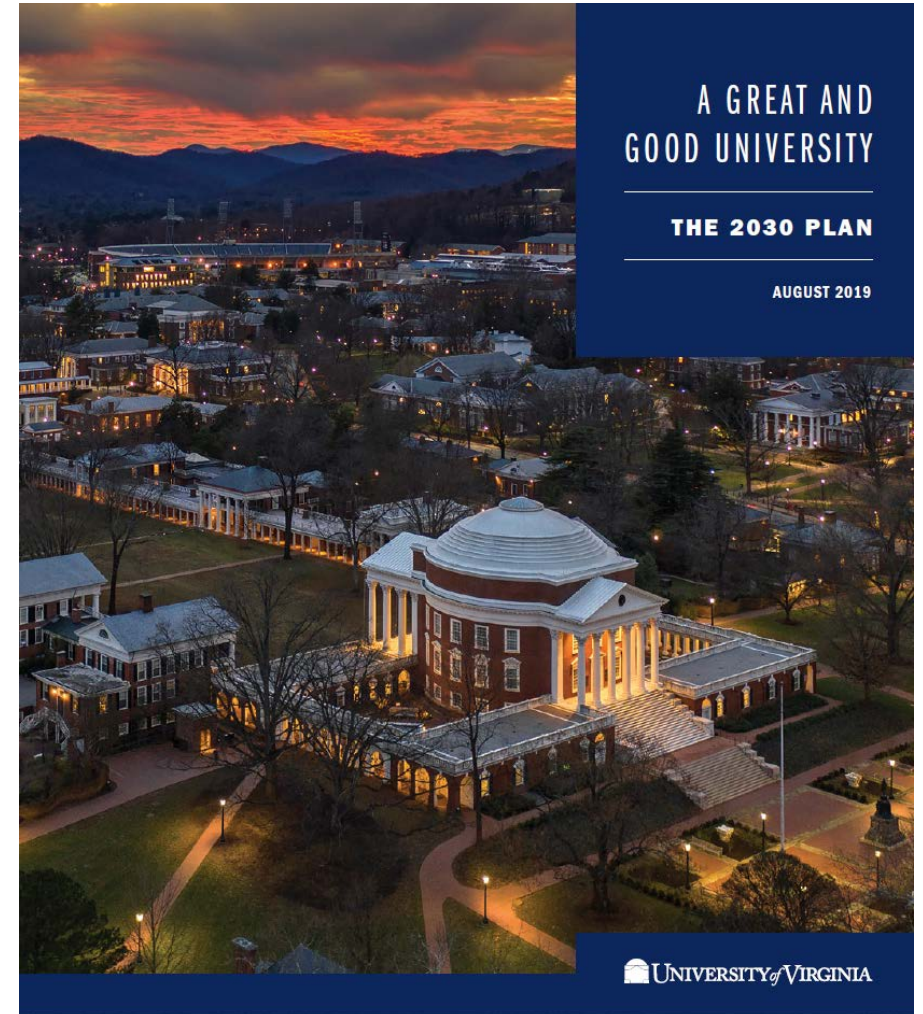
- State-required plan that addresses institutional academic, financial, and enrollment plans
- Includes strategies to advance the objectives of the *Virginia Plan for Higher Education* and the Higher Education Opportunity Act



# Academic Division Six-Year Plan

## 2030 Plan Key Initiatives in UVA's Six-Year Plan

1. SuccessUVA
2. Citizen-Leaders for the 21<sup>st</sup> Century
3. Third-Century Faculty Initiative
4. Pathways to Research Preeminence
5. Bachelor's Completion and Certificate Programs
6. School of Data Science



# Approval of Six-Year Plans for the Academic Division and the College at Wise

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- § 23.1-306 of the *Code of Virginia* requires Board of Visitors to approve biennially an institutional six-year plan
- Seek approval of the 2019 Six-Year Plans for the Academic Division and the College at Wise
- Authorize the President to transmit the six-year plans to SCHEV, the General Assembly, and the Governor by October 1



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**2020-2022 STATE BIENNIAL BUDGET REQUESTS**

# 2020-2022 State Biennial Budget Requests

<b>Academic Division Operating Budget Requests</b>	<b>FY2021 General Funds</b>	<b>FY2022 General Funds</b>
Commonwealth Research Cost Share Pool	\$10,000,000	\$10,000,000
Operations & Maintenance for New Facilities	\$96,963	\$201,274
UVA Health Plan – State Share of Employee Premiums	\$976,798	\$1,139,115
Utilities	\$610,200	\$1,170,974
Virginia Humanities	\$1,000,000	\$1,000,000



# 2020-2022 State Biennial Budget Requests

College at Wise Operating Requests	FY2021 General Funds	FY2022 General Funds
Increased Undergraduate Financial Aid	\$710,185	\$710,185
Increased Graduate Financial Aid	\$16,800	\$25,200
Base Support for the College at Wise	2,000,000	2,000,000



# MAJOR CAPITAL PROJECTS FINANCIAL PLANS

# Revised Financial Plans

## Athletics Complex Phase I



Project budget: \$20.0 million funded via debt (\$18.0M); central (\$2.0M)

## John Paul Jones Arena Performance Center



Project budget: \$8.0 million funded via debt



# DELEGATION OF SIGNATORY AUTHORITY

# Delegation of Signatory Authority

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Blood Factor for  
Hemophiliac  
Patients

Event  
Management  
Services

Computer  
Purchases with  
Dell, Inc.

Finance Strategic  
Transformation  
Consulting  
Services



# Outline

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- Overview
- Strategy
- Asset Allocation
- Risk Management
- Performance
- Current Initiatives
- Looking Ahead

# Overview

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## Staff

- 39 UVIMCO team members led by CEO/CIO Robert Durden
- 16 person investment led by CEO/CIO and 5 Managing Directors
- Experienced operations team led by COO Kristina Alimard, GC/CCO, and CFO

## Board of Directors

- 11 members led by Mitch Cohen as chair, three appointed by the Board of Visitors (John Macfarlane, Timothy O'Hara, and John Harris), and one by the President of UVA (J.J. Davis)
- Primary responsibilities include investment policy development, portfolio monitoring, and CEO/CIO management
- Meets 4 times a year



# Strategy – Investment Objectives

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**Primary objective: Maximize long-term inflation-adjusted returns commensurate with the risk tolerance of the University while providing for spending distributions**

- Evaluate Pool performance relative to that of the policy portfolio, which represents a passive and liquid expression of the University's long-term investment risk tolerance
  - Current Policy Portfolio is comprised of 65/10/25 of equities, real estate, fixed income
- Risk tolerance is informed by the tradeoff between short-term risk and long-term risk
  - Short-term risk: market volatility or drawdown risk
  - Long-term risk: Decline in the purchasing power of the endowment
- Preserve the purchasing power of long-term investment assets by earning an annualized rate of return of at least spending + inflation + fees

# Strategy – Philosophy

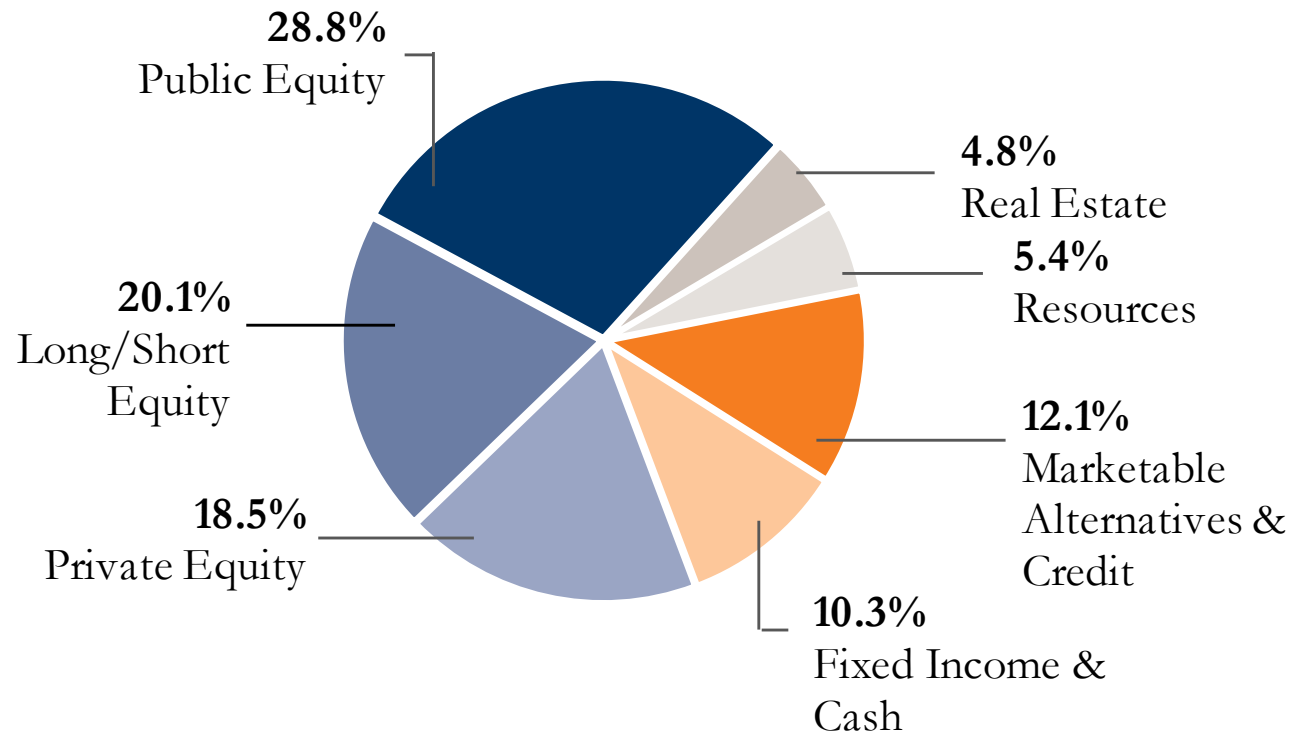
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UVIMCO believes that attractive long-term returns are best produced by employing a consistent investment philosophy and process over time

- Target attractive long-term returns through asset allocation decisions, external investment manager selection, and opportunistic portfolio tilts
- Core tenets
  - We focus on the long term
  - We believe in active management
  - We employ a global, flexible investment mandate
  - We evaluate and manage risk

# Asset Allocation

Long Term Pool Asset Allocation, as of June 30, 2019



# Risk Management

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## Market risk (as of June 30, 2019)

- Global equity beta: Long Term Pool 0.71, Policy Portfolio 0.70
- Drawdown risk (1% likelihood of worst one-year returns): Long Term Pool -20.1%, Policy Portfolio -19.7%

## Liquidity risk (as of June 30, 2019)

- Cash plus low risk bonds: 10.3%
- Percentage of the Long Term Pool that can be converted to cash within three months and one year: 33%, 53%
- Illiquid investments as a percentage of the Long Term Pool: 32%
- Unfunded private investment commitments as a percentage of the Long Term Pool: 15%

## Manager risk (as of June 30, 2019)

- 83 active relationships
- Top 20 and Top 40 relationships represents 46% and 69% of the Long Term Pool

# Performance

<i>As of June, 30, 2019</i>	Market Value		Annualized				
	\$ Millions	%	1 YR	3 YR	5 YR	10 YR	20 YR
<b>Long Term Pool</b>	<b>9,576</b>	<b>100.0</b>	<b>5.8</b>	<b>9.8</b>	<b>7.0</b>	<b>11.0</b>	<b>10.3</b>
<i>Policy Benchmark</i>		100.0	7.9	8.9	6.0	9.2	5.9
<b>Equity</b>							
Public	2,768	28.9	6.1	14.6	8.8	16.6	11.0
Long / Short	1,923	20.1	1.5	5.6	4.3	7.5	9.4
Private	1,771	18.5	21.9	16.5	13.8	17.7	16.3
<b>Total Equity</b>	<b>6,462</b>	<b>67.5</b>	<b>8.8</b>	<b>12.2</b>	<b>8.8</b>	<b>13.4</b>	<b>12.1</b>
<i>MSCI All Country World Equity</i>		60.0	6.3	12.2	6.7	10.7	5.3
<b>Real Assets</b>							
Real Estate	460	4.8	5.1	7.3	10.5	5.6	2.4
Resources	521	5.4	(10.5)	13.7	1.1	12.9	16.2
<b>Total Real Assets</b>	<b>981</b>	<b>10.2</b>	<b>(4.1)</b>	<b>10.3</b>	<b>7.3</b>	<b>11.3</b>	<b>10.0</b>
<i>MSCI Real Estate</i>		10.0	13.8	7.0	8.1	13.2	8.4
<b>Fixed Income, Cash &amp; MAC</b>							
Marketable Alternatives & Credit	1,159	12.1	1.4	5.3	3.0	7.9	6.3
Fixed Income	636	6.7	6.6	2.1	1.7	1.6	5.0
Cash & Currency	346	3.6	2.1	1.3	0.8	--	--
<b>Total Fixed Income, Cash &amp; MAC</b>	<b>2,141</b>	<b>22.4</b>	<b>2.7</b>	<b>3.6</b>	<b>2.4</b>	<b>4.7</b>	<b>4.5</b>
<i>Bloomberg Barclays Aggregate Bond</i>		30.0	7.8	2.6	3.4	4.1	4.9
<b>Long Term Pool Overlays</b>	<b>(8)</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>--</b>	<b>--</b>

# Current Initiatives

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- Portfolio review
  - Completed top-down review: strategic asset allocation, liquidity framework, modification of the policy portfolio
  - Bottom-up: re-underwriting the objectives, portfolio utility and portfolio construction for each core investment strategy
- Establishing lines of credit for the Long Term Pool
- Seeking additional sources of alpha
  - Developing a direct equity framework
  - Researching external managers with differentiated strategies

# Looking Ahead

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- Continue to cultivate a partnership mindset with the University and related constituents
- Embrace and strengthen our existing capabilities: mission-driven culture, experienced and dedicated staff and Board, and proven investment portfolio
- Be flexible and thoughtful in evolving our investment strategy
- Serve as a resource for UVA's Honor The Future capital campaign



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## EXECUTIVE VICE PRESIDENT'S REMARKS



# Bond Sale Update

## 2019A

Academic Projects  
1-100yrs (Taxable)

**\$350.0M**

### Key Projects Include

- Gilmer/Chemistry Renovation
- International Residence College
- Brandon Upper Class Housing
- McCormick Residence Hall
- Old Ivy Admin Building

## 2019B

Medical Center Projects  
30yr/10yr Call (Tax-Exempt)

**\$150.0M**

### Key Projects Include

- ER/Bed Tower

## 2019C

Academic & Medical Center Projects  
Various Maturity (Taxable Refunding)

**\$255.3M**

### Refundings Include

- Series 2011
- Series 2013A
- Series 2013B

## Total Deal Size

**\$755.3M**

- Series 2019A
- Series 2019B
- Series 2019C

**We will add a slide with specific pricing information once set.**

# Institutional Partnership Performance Agreement

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- Governor and General Assembly enacted HB2653/SB1628 in 2019 authorizing institutions to propose an innovative proposal for a performance pilot that advances the objectives of the Virginia Higher Education Opportunity Act
- UVA and UVA-Wise developing proposal for consideration by the General Assembly during the 2020 Session
- Final proposal will include strategies and investments to develop talent and enhance access and affordability for undergraduate Virginia students



# Finance Strategic Transformation

# Executive Summary | Introduction

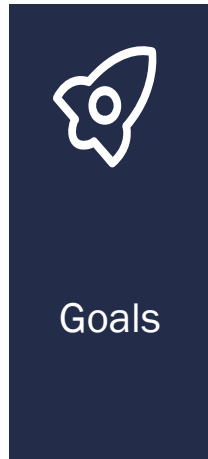
- **To realize our strategic plans and maintain the fiscal health of the University, decision makers at all levels need improved access to financial information on a timely basis**
  - Current systems and processes impede decision making and contribute to operational inefficiencies
  - Stakeholders across Grounds have aligned on vision and goals for Finance Strategic Transformation (FST)
  - Workday Financials, a modern, cloud-based ERP, has been confirmed as best technology solution
  - Projected launch of technology and upgraded business processes on July 1, 2021, with a total one-time investment of ~\$55-\$65M
  - Projected year-over-year operating cost increase of ~\$2-3M
  - Productivity gains will enable more effective work once personnel have fully adapted to new way of working

# Executive Summary | Vision, Goals and Context

- Aging financial systems contribute to operational inefficiency and impedes decision-making. Over 9 months, evaluated current state processes and systems and developed a proposed plan for finance transformation.

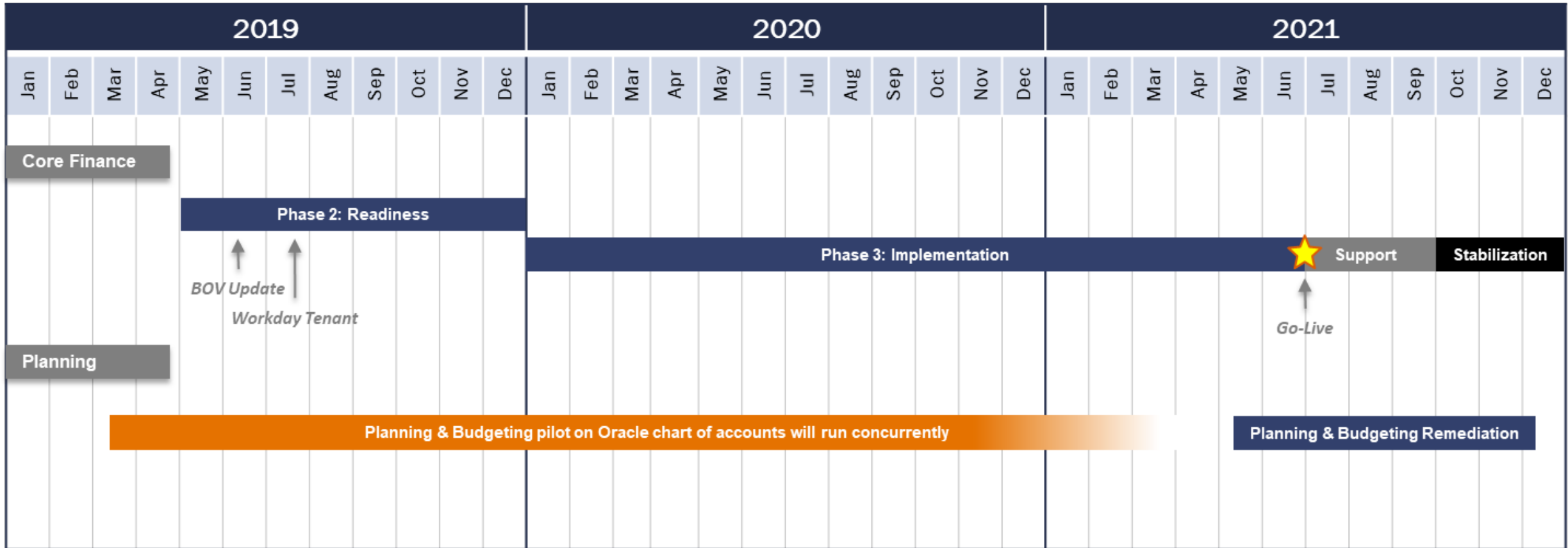


*The Finance Strategic Transformation (FST) at UVA will create a strong foundation of financial expertise, processes, and systems, dedicated to advancing the University's academic mission through its strategic plan. It will deliver exceptional services and systems to help faculty, staff, and students do their best work. Our ultimate goal is to make UVA a stronger university — more preeminent in research and teaching, more deeply engaged in service, more accessible and affordable.*



- Promote strategic thinking, transparency, entrepreneurship and continuous improvement
- Broadly strengthen our financial acumen
- Align decision-making authority with responsibilities
- Provide meaningful and easy to navigate dashboards and reporting tools
- Improve our data architecture
- Establish a governance model for defining data
- Provide a fully integrated, real-time Workday platform

# FST Overview | Proposed Timeline



# Phase 1 Summary | Assessment & Planning

## Completed Spring 2019

### Evaluation of Current State

Conducted 15 workshops with 150+ attendees focused on business process maturity, chart of accounts, IT landscape, and targeted school/unit operations  
Outcomes of current state assessment:

- Identified key pain points, which include outdated systems, lack of consistent processes, and inability to plan with accuracy
- Determined current maturity level is due to current ERP (Oracle); Workday Financials will enable improved processes, change the way we work
- Articulated expectation that reporting capability, business processes and underlying data architecture will be transformed

### Scope

#### Organizational<sup>1</sup>

- UVA Academic Division
- UVA College at Wise

#### Other

- Transform Processes
- Remediate HCM Workday
- Data Conversions
- Integrations
- Reporting
- Change Management

#### Workday Functional Areas

- Chart of Accounts
- Financial Accounting
- Banking and Settlement
- Business Assets
- Projects
- Endowment Accounting
- Grants Management
- Customer Accounts
- Customer Contracts
- Procurement
- Supplier Accounts
- Supplier Contracts
- Expenses
- Transaction Tax
- Workday/Adaptive Insights Planning

### Maturity Assessment Results

UVA Process Taxonomy	Developing	Intermediate	Leading
Accounts Receivable & Internal Billing			
Assets			
Bank Reconciliation & Cash Management			
Financial Planning & Budgeting			
General Accounting & Financial Reporting			
Gifts & Endowments			
Post Award Research Administration (Grants)			
Procurement, Accounts Payable & Expenses			

# Phase 2 Readiness | Workstream Overview



**Planning &  
Budgeting  
Pilot**



**Mobilization**



**Reporting &  
Analytics  
(R&A)**



**Data and IT  
Landscape  
Strategies**



**Chart of  
Accounts  
(CoA) Straw  
Model**



**Grants  
Management  
Discovery**



**Business  
Process  
Discovery**



**Labor  
Distribution  
Quick Wins**



**HCM  
Remediation  
Assessment**



**Ongoing  
Support  
Model**



**Change  
Management  
Strategy**