



UNIVERSITY
of VIRGINIA

Board of Visitors Finance Committee Meeting
March 1, 2019



EXECUTIVE VICE PRESIDENT'S REMARKS

CONSENT AGENDA:

1. Dissolution of the Meadow Creek Corporation
2. Delegation of Signatory Authority for Medical Center Contracts

ACTION ITEMS:

1. Upper Division Tuition for the College of Arts and Sciences
2. Disposition of Real Property: UVA Northern Virginia Center
3. Capital Project Financial Plans

REPORTS:

1. Endowment Report
2. Hospitality Report: Hotel & Conference Center and Inn at Darden
3. UVA Foundation's Town Center 4



EXECUTIVE VICE PRESIDENT'S REMARKS

2019 General Assembly Session

Amendments to the 2018-20 Biennial Budget

Academic Division

Summary of GF Impact in FY2020	FY2020 Incremental GF (over FY2019)
Undergraduate financial aid	\$67,384
Virginia Foundation for the Humanities	\$200,000
Focused ultrasound research	\$500,000
UVA health insurance premium increases	\$808,692
Total New Operating Funds	\$1,576,076

2019 General Assembly Session

Amendments to the 2018-20 Biennial Budget

College at Wise

Summary of GF Impact in FY2020	FY2020 Incremental GF (over FY2019)
Undergraduate financial aid	\$398,527
Enrollment growth and student success	\$2,000,000
Total New Operating Funds	\$2,398,527

2019 General Assembly Session

Amendments to the 2018-20 Biennial Budget

Undergraduate Tuition Moderation Incentive Funding

- Provides \$5.52M GF to UVA and \$235,000 to the College at Wise to maintain FY2020 tuition and mandatory educational and general (E&G) fees for in-state undergraduate students at FY2019 levels
 - Funding allocation will become part of FY2020 base for subsequent biennia
- If an institution increases FY2020 tuition and mandatory E&G fees over FY2019 levels, Rector must communicate resolution certifying the decision to the Chairmen of the House Appropriations and Senate Finance Committees by August 1, 2019
- Any unallocated funds will revert to state revenue cash reserve

2019 General Assembly Session

Amendments to the 2018-20 Biennial Budget

Capital Outlay

- Authorizes construction funding for Alderman Library (87% state supported; 13% private gifts)
- Authorizes \$10.2M additional funding for Gilmer Hall/Chemistry Building renovation project (75% state supported; 25% University funds)

Compensation/Benefits

- Authorizes 2.75% base salary increases effective July 2019 for classified and University staff
- Authorizes additional 2.25% merit pool for classified staff
- Authorizes 3.0% base salary increase for faculty effective July 2019
- VRS surcharge to amortize stranded liability

2019 General Assembly Session

Amendments to the 2018-20 Biennial Budget

Other Key Items of Interest

- ***Institutional Partnership Performance Agreements*** – allows institutions to submit innovative performance pilot to address areas related to access, affordability, internships, talent development, and economic development
- ***Tech Talent Pipeline*** – \$16.6M for increased degrees in technology-related fields and \$11.0M for capital improvements
- ***Hampton Roads Biomedical Research Consortium*** – \$4.0M to establish consortium and \$10.0M for lab renovations/equipment
- ***Virginia Commonwealth Clinical Research Network*** -- \$275,000 to conduct clinical trials in areas related to oncology, mental health and substance abuse
- ***Commonwealth Center for Advanced Manufacturing (CCAM)*** – \$1.0M additional operating support and \$1.7M for private sector incentive grants and university research grants



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DISSOLUTION OF THE MEADOW CREEK CORPORATION

Meadow Creek Corporation

- UVA recently acquired Meadow Creek Corporation in support of the plans to redevelop the Ivy/Emmet Corridor
- A for-profit stock corporation, Meadow Creek Corporation's sole assets are the parcels on which the Cavalier Inn, the Villa Restaurant and parking were located

Action: Dissolution of the Meadow Creek Corporation



DELEGATION OF SIGNATORY AUTHORITY FOR MEDICAL CENTER CONTRACTS



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Medical Center Contracts

Action: Delegation of authority to Executive Vice President for Health Affairs to execute the following contracts:

- Morrison: food and nutrition services
- Crothall: environmental services
- Cardinal: pharmacy distribution
- Zoll: AEDs and defibrillators



UPPER DIVISION TUITION FOR THE COLLEGE AND GRADUATE SCHOOL OF ARTS & SCIENCES

The Vision for Arts & Sciences

Our vision is to:

- Educate the next generation of citizen leaders for a changing world
- Advance the power of knowledge to address urgent global challenges
- Expand our place and impact in the world, positioning A&S at the forefront of research fields where we can excel and lead

We will:

- Define a liberal arts and sciences education for the 21st Century
- Recruit and retain the world's leading faculty
- Advance research capabilities and public impact in strategic areas

Key Components of the College's Multi-Year Plan

- ***Sustain an Outstanding Faculty (\$30 million/year by FY25)*** – Recruit and retain the best faculty scholar-teachers and provide competitive compensation
 - Board policy is to achieve 20th position in faculty salaries among AAU institutions. (UVA's current overall position is #28.)
- Contribute through UFM (**\$20-30 million/year by FY25**) to *Pan-University Excellence* in provisioning facilities, employee services, student services, research support, academic support, library, public safety, business services, IT security, etc.
- ***Dramatically Enhance the Quality of the Undergraduate Experience (\$12 million/year by FY25)***
- **College would use new tuition revenue to fund less than 20% of this need**

To Enhance the Quality of the Undergraduate Experience

- Implement an upper division tuition rate for 3rd and 4th year College students
- In Fall 2021, third year tuition will be set at a rate that is \$2,700 higher than base tuition rate, generating ~\$6 million
- In Fall 2022 and thereafter, the upper division tuition rate will apply to all third and fourth year students, generating ~\$12 million/year thereafter
- AccessUVA will fully apply to all students. Approximately 28% of 3rd and 4th year College students will be held harmless, through additional grants.

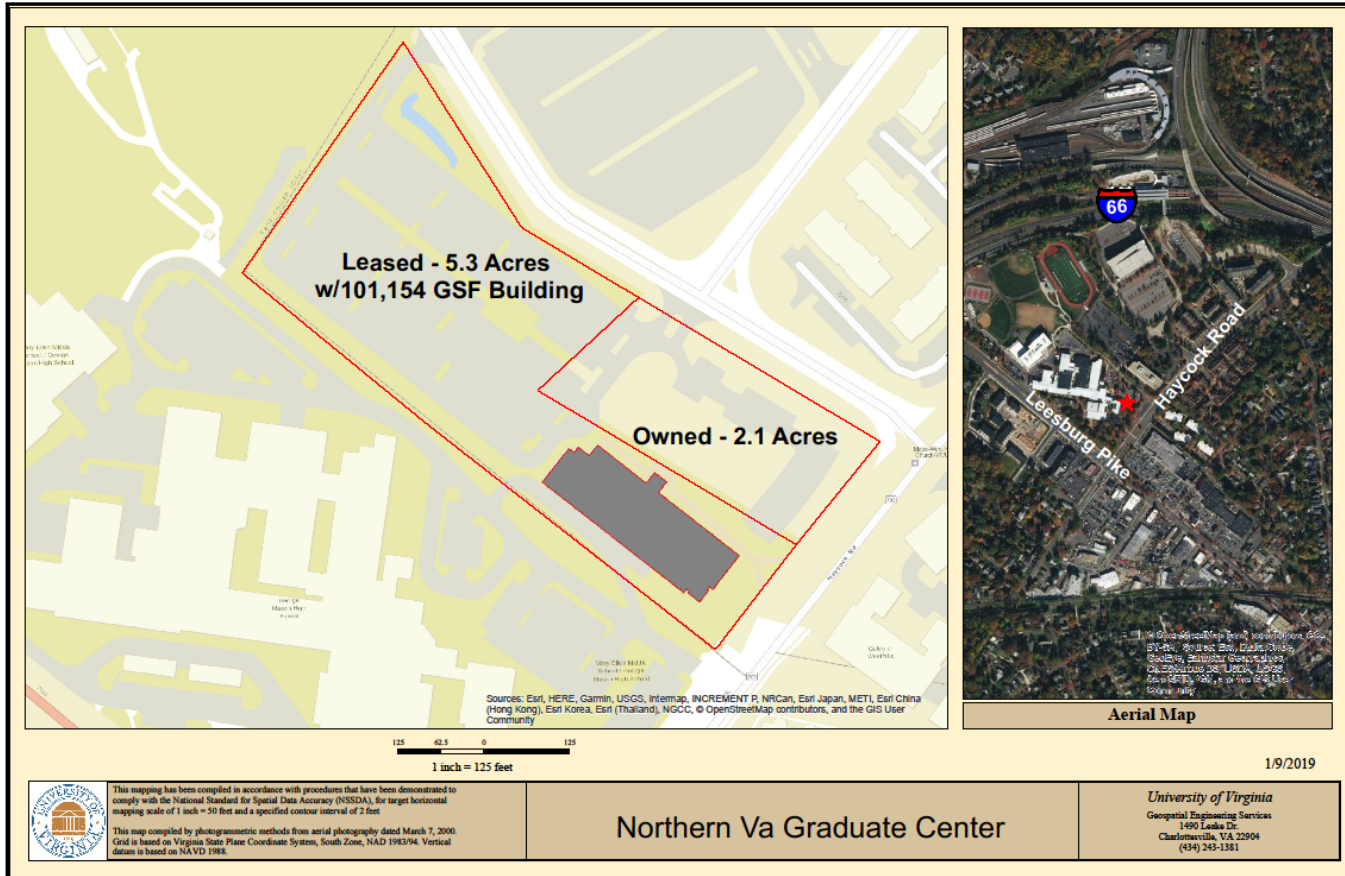


DISPOSITION OF REAL PROPERTY: NORTHERN VIRGINIA GRADUATE CENTER



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Disposition of the Northern Virginia Graduate Center



- 101,000 GSF facility located on two parcels of land, primarily used by the School of Continuing & Professional Studies and the Curry School of Education & Human Development
- Owned jointly by UVA (40%) and Virginia Tech (60%)
- Change in course delivery methods resulted in decline in UVA's utilization of the facility in recent years
- Recommend sale of UVA's interest in the Center to Virginia Tech for \$8.23 million



CAPITAL PROJECT FINANCIAL PLANS

Capital Project Financial Plans

Old Ivy Road Office Building (revised)

- Proposed revised scope includes additional occupants (central human resources functions, Office of Safety and Security), a small café to service occupants of this and nearby facilities, and a generic fit out of the approximately 7,000 SF in unassigned office space
- Revised project budget: \$41.0 million (funded via debt; debt service to be repaid through lease payments)

Multi-Specialty Ambulatory Clinic

- Tenant fit-out for 28,000 SF leased space that will house primary and specialty care clinics offering a wide-range of clinical services
- Project budget: \$8.0 million-\$12.0 million (funded via Health System operating cash)



Outline

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

Overview

Board of Directors

- 12 members led by David MacFarlane 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

Staff

- 35 UVIMCO team members led by CEO/CIO Robert Durden
- 14 person investment led by CEO/CIO and 4 Managing Directors
- Experienced operations team led by COO Kristina Alimard, GC/CCO, and CFO

Strategy – Investment Objectives

Primary objective: Maximize long-term real returns commensurate with the risk tolerance of the University

- 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
- Preserve the purchasing power of long-term investment assets by earning an annualized rate of return of at least spending + inflation + fees
- Provide returns that compare favorably with those of peer institutions

Strategy – Philosophy

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

Risk Management

Risk is the impact that a portfolio loss has on shareholders

- Short-term – Market risk: volatility or drawdown risk
- Long-term – Decline in the real value of the endowment

} Trade-off between short-term and long-term risk

Market risk

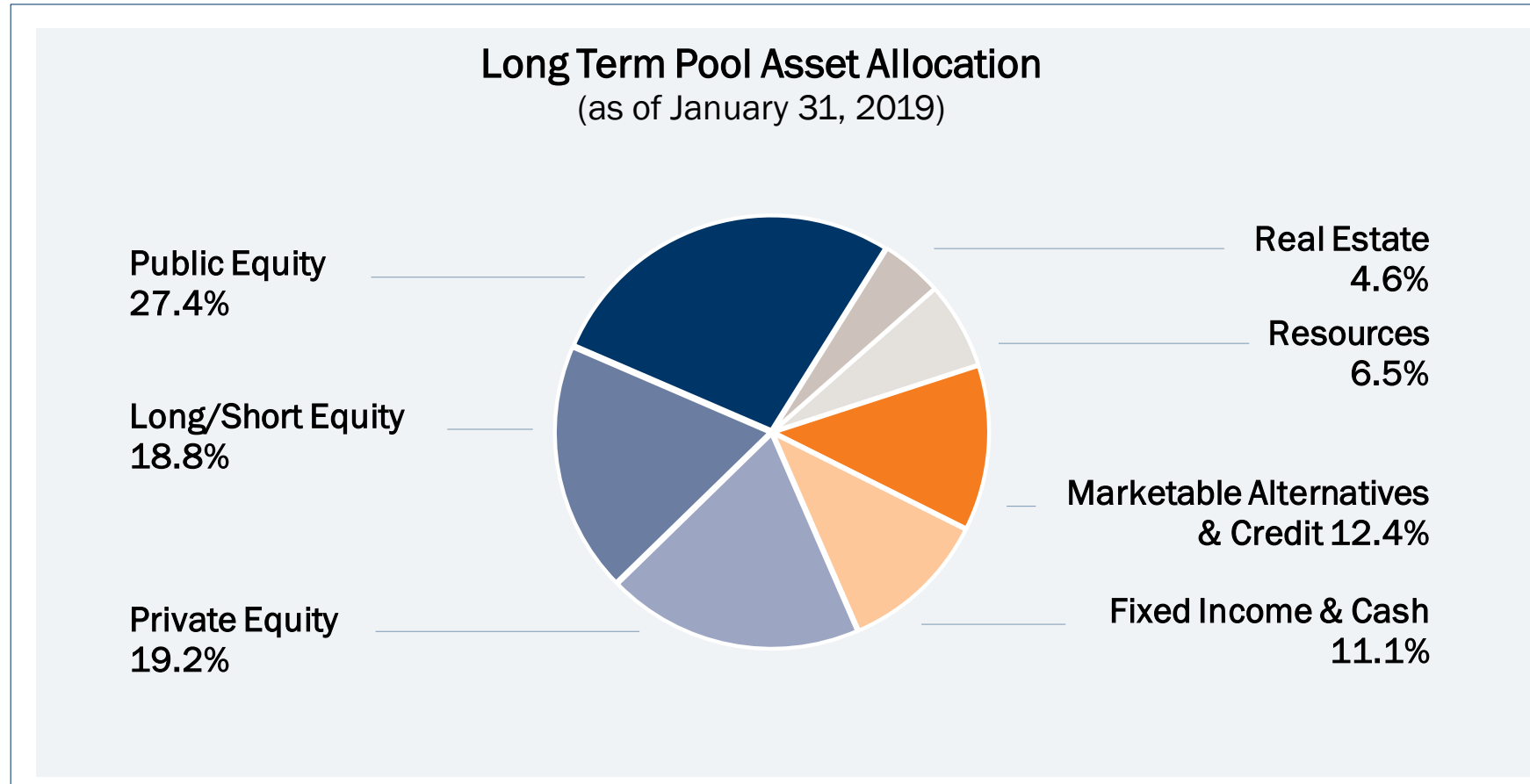
- Global equity beta: Long Term Pool 0.72, Policy Portfolio 0.70
- Drawdown risk (1% likelihood of worst one-year returns): Long Term Pool -20.6%, Policy Portfolio -19.8%

Liquidity risk

- Cash plus low risk bonds: 11%
- Percentage of the Long Term Pool that can be converted to cash within three months and one year: 28%, 50%
- Unfunded private investment commitments as a percentage of the Long Term Pool: 16%

Manager risk

Asset Allocation



Performance

<i>As of January 31, 2019</i>	Market Value		Annualized					FYTD
	\$ Millions	%	1 YR	3 YR	5 YR	10 YR	20 YR	Jan-19
Long Term Pool	8,927	100.0	2.2	8.1	7.7	11.0	10.8	(1.1)
<i>Policy Benchmark</i>		100.0	(2.6)	9.1	6.3	9.9	5.8	0.7
Equity								
Public	2,442	27.4	(5.6)	13.7	9.5	18.1	11.3	(3.5)
Long / Short	1,679	18.8	(3.1)	3.1	3.3	6.8	9.7	(5.2)
Private	1,716	19.2	25.1	10.6	16.3	17.9	18.7	9.0
Total Equity	5,838	65.4	2.5	9.3	9.3	13.5	12.9	(0.7)
<i>MSCI All Country World Equity</i>		60.0	(7.0)	12.2	7.3	11.9	5.3	(1.6)
Real Assets								
Real Estate	407	4.6	(1.6)	7.2	11.3	2.4	2.5	(0.3)
Resources	581	6.5	4.2	14.9	6.3	12.6	16.5	(7.5)
Total Real Assets	988	11.1	1.7	11.3	10.2	9.6	10.2	(4.6)
<i>MSCI Real Estate</i>		10.0	5.9	9.6	9.0	14.0	8.7	6.1
Fixed Income, Cash & MAC								
Marketable Alternatives & Credit	1,111	12.4	0.7	5.8	3.8	8.9	6.6	(2.2)
Fixed Income	619	6.9	3.0	1.1	0.9	1.6	4.6	2.6
Cash & Currency	373	4.2	1.8	1.0	0.6	--	--	1.2
Total Fixed Income, Cash & MAC	2,102	23.5	1.1	3.5	2.5	5.1	4.5	(0.7)
<i>Bloomberg Barclays Aggregate Bond</i>		30.0	2.9	2.4	2.9	3.8	4.6	2.8
Long Term Pool Overlays	(1)	(0.0)	0.0	0.0	0.0	--	--	0.0

Current Initiatives

- Ensuring alignment between UVA's risk tolerance and capital requirements with the LTP's investment objectives
- Portfolio review
 - Top-down: strategic asset allocation, liquidity framework. Exploring modifying the policy portfolio, deploying market risk and managing liquidity risk more effectively
 - Bottom-up: re-underwriting the objectives, portfolio utility and portfolio construction for each core investment strategy
- Seeking additional sources of alpha: Developing a direct equity framework, and researching external managers with differentiated strategies

Looking Ahead

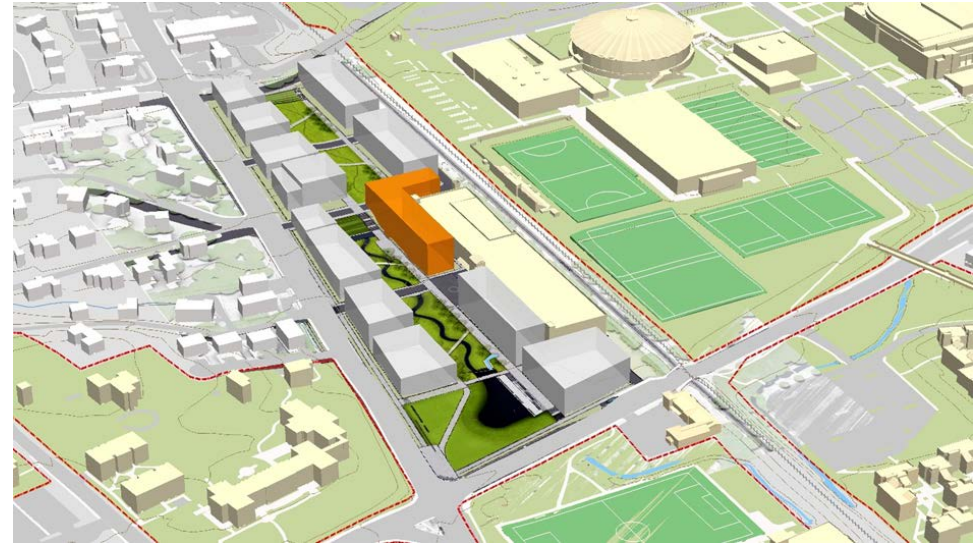
- Continue to cultivate a partnership mindset with the University and related constituents
- Embrace and strengthen our existing capabilities: mission-driven culture, experienced and dedicated staff and Board, and proven investment portfolio
- Be flexible and thoughtful in evolving our investment strategy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



**HOSPITALITY REPORT:
HOTEL & CONFERENCE CENTER
AND
THE INN AT DARDEN**

University Hotel and Conference Center

- Proposed replacement for the Cavalier Inn is consistent with Hospitality Task Force recommendations and has been supported by the Emmet Ivy Task Force
- Project calls for construction of 220,000 GSF hotel with 225 guest rooms & 25,000 SF of conference center space
- Proposed site, adjacent to Ivy-Emmet Parking Garage, is centrally located and will provide convenient access from future buildings and program on the Ivy Corridor
- University is pursuing partnership with third party to develop and operate the hotel and conference center
- Current estimated project cost is \$100-\$105M (developing financial plan that we will bring to Finance Committee for approval in June)



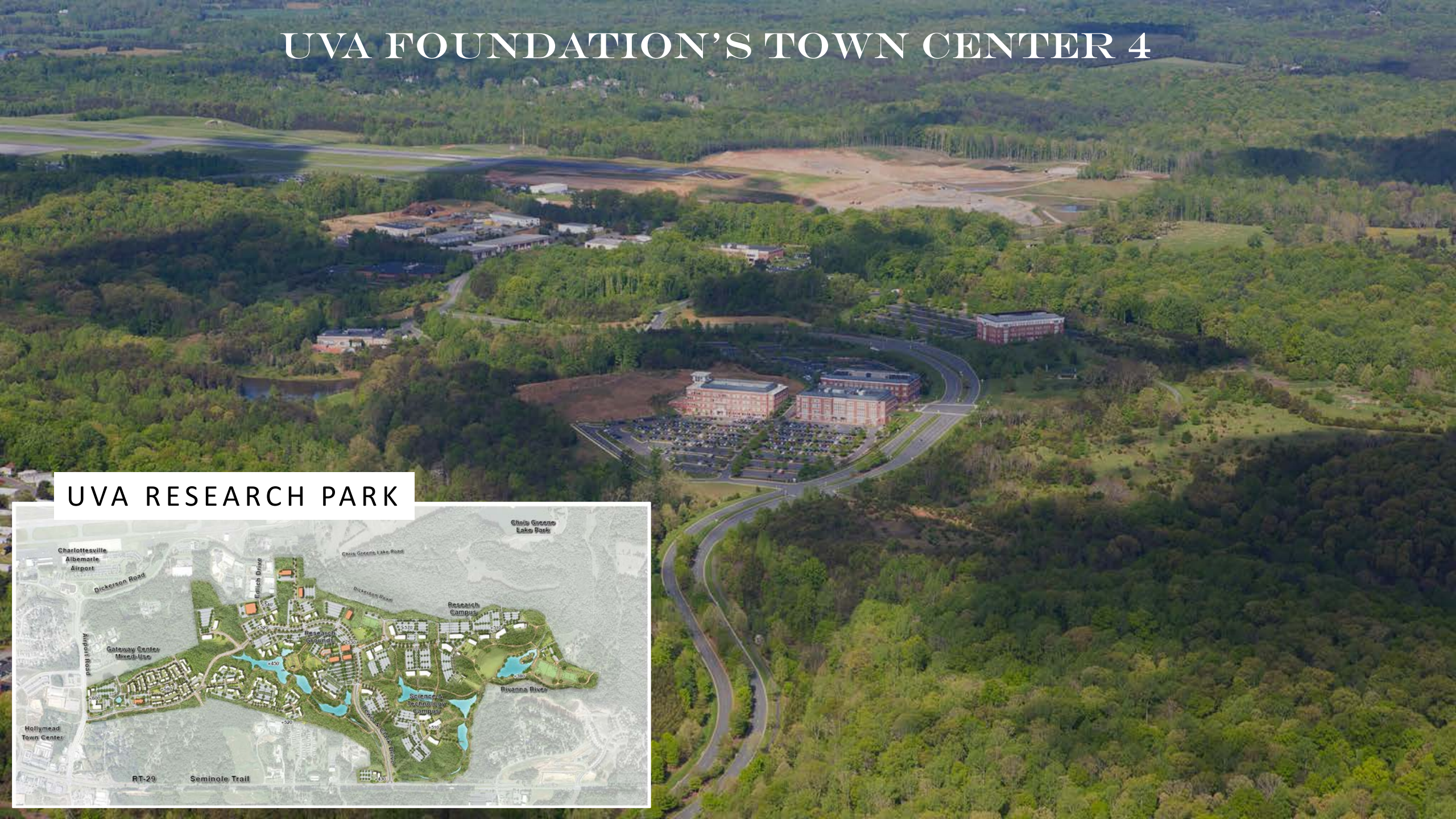
Inn at Darden

- Board approved addition of new Inn at Darden as a project on the Major Capital Plan in June 2018
- Darden School working with Cooper Carry Architects of Atlanta and Glave & Holmes of Richmond to develop plans and designs for the new Inn that will include not more than 200 rooms & 12,000 noncontiguous GSF of conference space (Ballroom not to exceed 6,500 GSF)
- Portions of current Inn will be demolished to make room for the new facility and arboretum; remaining portions of current Inn will be repurposed from guest rooms to administrative offices and academic facilities
- Architecture and landscape will be developed to establish compatible relationship with the adjoining buildings
- Refining cost estimates and will bring financial plan to Finance Committee for approval in June



UVA FOUNDATION'S TOWN CENTER 4

UVA RESEARCH PARK



TOWN CENTER FOUR



Coming in 2020!



**Future home of the
Biocomplexity Institute & Initiative**



Great amenities

- 150-person Training and Conference Center
- Fitness Facility
- Coffee and Smoothie Bar
- Outdoor Gathering Space

