



Board of Visitors Finance Committee Meeting

September 23, 2021



Meeting Agenda

ACTION ITEMS:

1. 2021 State Six-Year Institutional Plan
2. 2022-2024 State Biennial Budget Requests
3. Major Capital Projects Financial Plan: Contemplative Sciences Center
4. Endowment Spending Policy
5. Strategic Investment Fund Guidelines
6. Quasi-Endowment Action

REPORTS:

1. Recommendations of the Finance Subcommittee on Tuition
2. UVIMCO 2020-2021 Annual Report
3. Debt Issuance: Series 2021
4. Executive Vice President's Remarks



2021 State Six Year Institutional Plan



State-Required Six-Year Plan

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

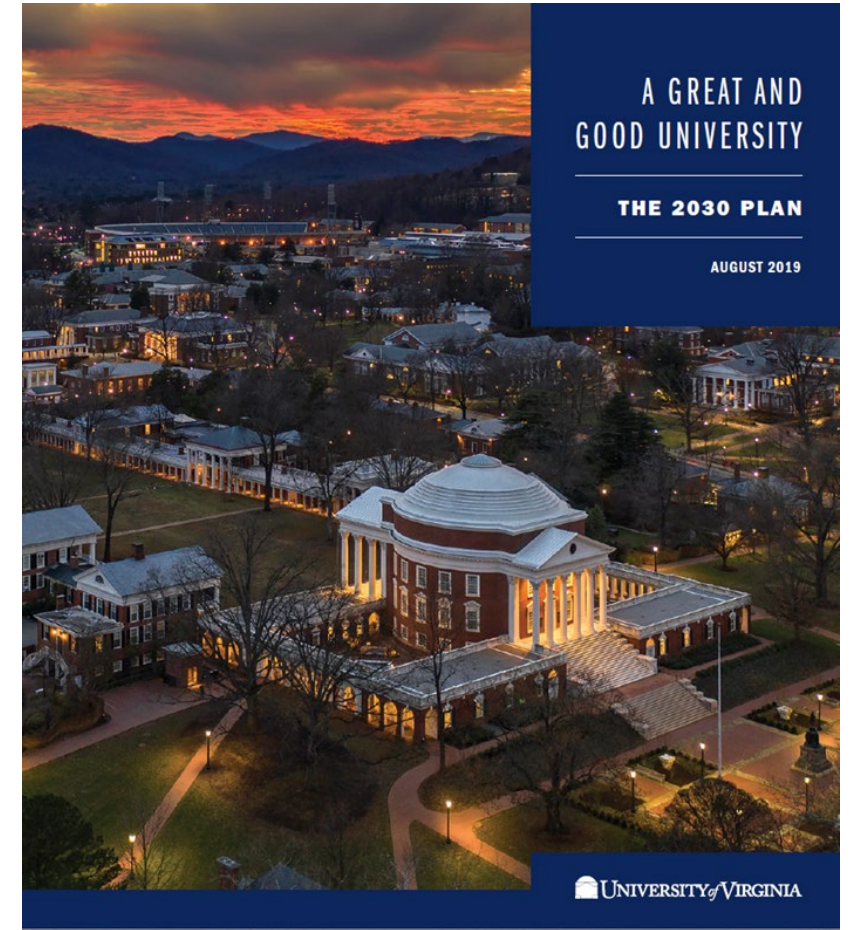


* Secretary of Finance, Secretary of Education, Director of Department of Planning and Budget, Executive Director of SCHEV, Staff Directors of House Appropriations Committee and Senate Finance Committee

Academic Division Six-Year Plan

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

1. SuccessUVA
2. Third-Century Faculty Initiative
3. Pathways to Research Preeminence
4. Open Grounds at Emmet-Ivy
5. Broadening Our Horizons
6. Bachelor's Completion & Certificate Programs
7. Citizen-Leaders for the 21st Century



Op-Six Comments on Academic Division Six-Year Plan

General questions/comments posed to all institutions

- Did your institution include or exclude the amount from the \$40 million funding for unavoidable cost increases in FY2022 when making your six-year plan for the 2022-24 biennium?
- Provide more detailed information for any new programs the institution plans to seek approval for over the next two years.



2022-2024 State Biennial Budget Requests



State Biennial Budget Requests – 2022-2024

Academic Division Operating Budget Requests	FY2023 General Funds	FY2024 General Funds
Maintain Affordable Access	\$3,501,500	\$3,501,500
Minimum Wage Increases for Work Study Students	\$22,151	\$37,148
Public Service Loan Forgiveness Pilot Program	\$5,500,000	\$0
FY21 COVID Direct Expense Recovery	\$21,127,974	
Health Insurance Premiums	\$1,565,000	\$2,280,000
O&M for New Facilities	\$304,000	\$927,000
Utilities	\$830,000	\$1,333,000
Cancer Research Funding	\$11,000,000	\$11,000,000

Language Amendments: Telehealth, Global Genomics and Bioinformatics Research Institute (GGBRI), (Tech Talent Investment Program) TTIP

State Biennial Budget Requests – 2022-2024

College at Wise Operating Budget Requests	FY2023 General Funds	FY2024 General Funds
Address Affordability Issues	\$316,700	\$316,700
Improve student retention and timely graduation	\$275,000	\$275,000
Graduate Financial Aid to support MSN-FNP program	\$200,000	\$200,000



Major Capital Projects Financial Plan



Financial Plan: Contemplative Sciences Center (CSC)

- CSC will bridge learning and research across all schools, promote well-being, and provide:
 - Adaptable interior and exterior spaces for collaborative, contemplative, and experiential modes of learning
 - Accessible bridge to connect CSC, School of Education & Human Development, West Grounds, and Central Grounds
- Estimated project budget of \$69M
 - \$49M in gifts
 - \$15M in bond proceeds
 - \$5M in cash



Financial Plan: School of Data Science

- Approved by Board of Visitors in June 2019
 - 61,000 GSF, four-story facility located at the southeast corner of the Ivy Corridor precinct
 - Includes four “smart” classrooms, faculty offices, variety of meeting and research areas
 - Robust AV equipment and furniture to create collaborative workspaces
- Estimated project budget of \$53.5M
 - \$5.5M in gifts
 - \$48M in debt (repaid by private gifts and endowment earnings)





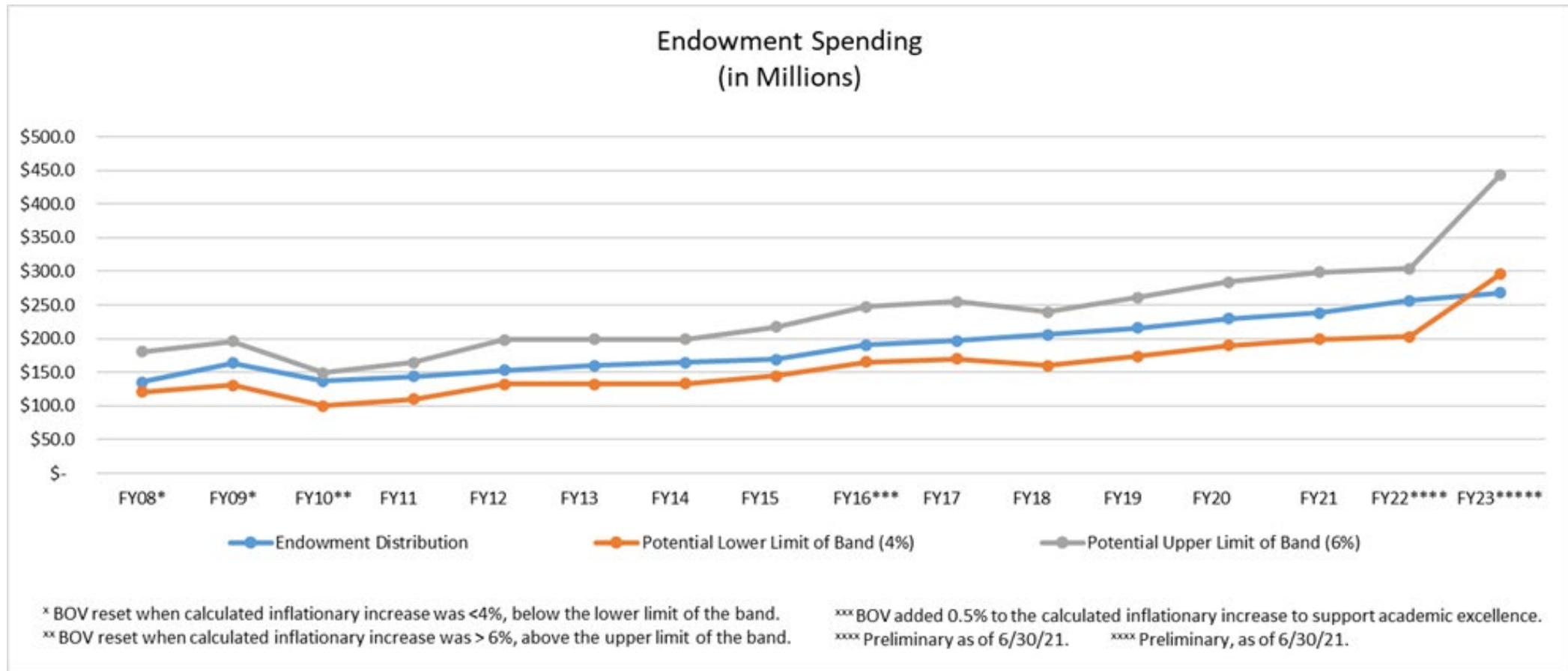
Endowment Spending Policy



UVA's Current Spending Policy

- Inflation growth within a band/“snake in a tunnel” to provide reliable, predictable distributions and preserves purchasing power
 - Increase prior year pay-out by 5 year rolling average of HEPI
 - Compare to a band of 4% - 6% of prior year market value
 - If resulting pay-out is within the 4% - 6% band, no action required by Board and pay-out is automatically increased
 - If resulting pay-out is outside the 4% - 6% band, the Board may re-set the payout within the band

UVA's Spending Rate, with Upper and Lower Bands

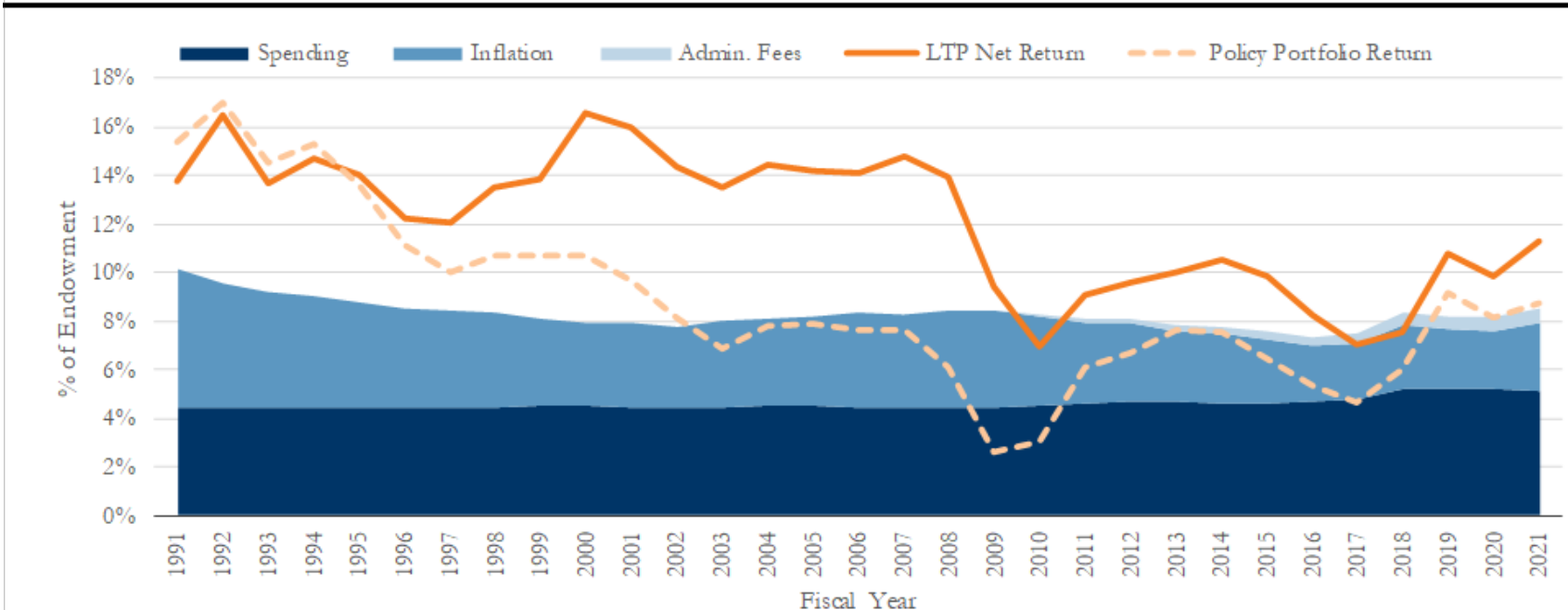


*FY23
calculated
pay-out will
fall below 4%*

History: UVA's Required Return vs. UVIMCO Net Return

UVIMCO's required investment return is the sum of the spending rate, administrative fees, and inflation. The historical comparison of the required investment return versus actual return:

Rolling 10Y LTP Returns vs. Required Return Components⁽¹⁾



(1) FY 2021 data as of 5/31/2021. See appendix for details on estimated FY 2021 HEPI data. Spending rate prior to 1998 is assumed to be 5% due to data availability.

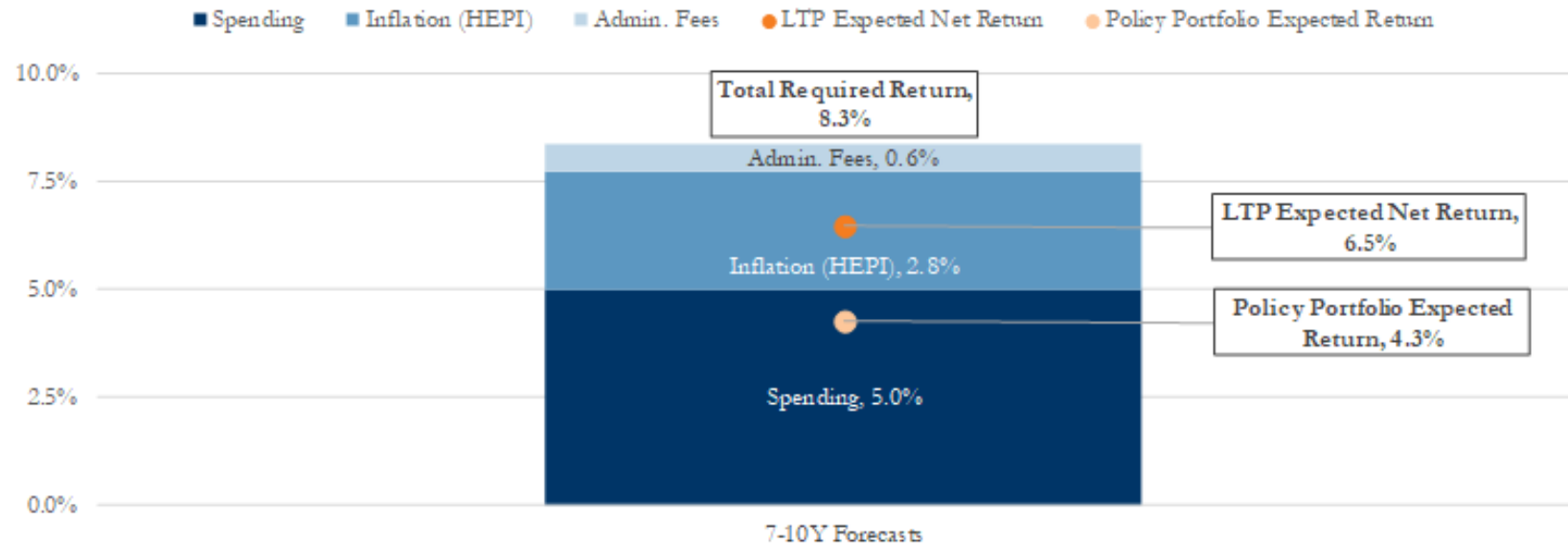
Since 2002, the passive market return has been lower than the required return.

Over the same period, the LTP's net returns have generally met or exceeded required returns but have been below required return.

Projected: UVA's Long-term Required Investment Return vs. UVIMCO's Net Return

Based on the current spending model, projected administrative fees, and inflation, UVIMCO's long-term required investment return is calculated as 8.3% as compared to the projected long-term return of 6.5%.

LTP and Policy Expected Returns vs. the Return Required to Preserve Purchasing Power⁽¹⁾



(1) Forecasts as of 12/31/2020. LTP projected returns are net of all UVIMCO fees.

FY23 Endowment Spending Policy Proposal

- Administration recommends that the Board of Visitors reset the spending band to 3% to 5% in order to:
 - address concerns that the long-term required spending will exceed UVIMCO's long-term projected return
 - make the true spending range inclusive of administrative fees (~55-100 bps) equivalent to the current 4% - 6% spending band
 - reduce the long-term required investment return from just over 8% to approximately 7%, significantly increasing the likelihood of actual future returns being sufficient to provide intergenerational equity on current and future endowment principal



Strategic Investment Fund Guidelines



Strategic Investment Fund Guidelines

- Strategic Investment Fund (SIF) serves as a funding source for initiatives that have potential to transform a critical area of knowledge or operation of the University in our continuous pursuit of excellence.
- Request Board of Visitors consider for approval:
 - Extending SIF Guidelines for an additional three-year period, to June 30, 2025, in continued support of the 2030 Plan
 - Increasing annual commitment for the three-year period ending June 30, 2025, using excess investment earnings, up to \$100 million



Quasi-Endowment Action

Pratt Quasi-Endowment Reinvestment

- In 1976, a bequest established the John Lee Pratt Restricted Quasi-Endowment Fund for Arts and Sciences to benefit the departments of Biology, Chemistry, Mathematics, and Physics
- The College is requesting the reinvestment of cumulative unspent endowment distributions of \$11,103,462 into the Fund in order to maximize returns
- Any quasi-endowment transaction of \$2 million or more requires Board of Visitors approval
- Requesting Board consideration of reinvestment of unspent endowment distributions into the John Lee Pratt Restricted Quasi-Endowment Fund for Arts and Sciences



Finance Subcommittee on Tuition



Finance Subcommittee on Tuition Timeline of Work

1. Reviewed charge, timeline, current processes July 12
2. Reviewed background July 12 and August 13
3. Reviewed peer practices and discuss alternatives August 13
4. Discussed conclusions and developed recommendations August 27
5. Present findings and recommendations to BOV September 24

Preliminary Recommendations to Improve Transparency and Predictability in Tuition Setting Process

Recommendations are designed to introduce new elements to enhance:

- ❖ transparency and predictability of the tuition setting process;
- ❖ contextual information provided to inform tuition setting;
- ❖ guaranteed tuition plan; and,
- ❖ how changes to tuition and fees are communicated to students and families.

Preliminary Recommendations to Improve Transparency and Predictability in Tuition Setting Process

Tuition Setting Process

- ❖ The Subcommittee recommends the Board of Visitors **set undergraduate tuition and mandatory fees, room and board in December**, to align with student/family decision dates and to allow families to have accurate information on net tuition, cost of attendance and financial aid to consider along with their admissions decision. In December of each odd-numbered year, the Subcommittee recommends the Board of Visitors **set undergraduate tuition and mandatory fees on a two-year basis.**

Preliminary Recommendations to Improve Transparency and Predictability in Tuition Setting Process

Contextual Information to Inform Tuition Setting

- ❖ Beginning in September 2023 and in each odd numbered year thereafter, the Subcommittee recommends that management **provide contextual information to the Board at its September BOV meeting to inform tuition setting:**
 - Report on annual enrollment analysis
 - Report on macroeconomic context and operating budget realities
 - Report on periodic comprehensive price and positioning study

Preliminary Recommendations to Improve Transparency and Predictability in Tuition Setting Process

Guaranteed Tuition Plan

- ❖ The Subcommittee recommends that management **review the optional guaranteed four-year, in-state tuition plan, evaluate whether desired outcomes are met, and bring forward recommendations to the Chair of the Finance Committee.**

Preliminary Recommendations to Improve Transparency and Predictability in Tuition Setting Process

Communication

- ❖ The Subcommittee recommends that management **communicate tuition increases focusing on transparency:**
 - Of net price and total cost of attendance
 - Of the role tuition revenue plays in University's operating budget
 - In the context of our overall value proposition



UVIMCO Annual Report



Outline

- Overview
- Market Update
- Performance
- Asset Allocation
- Risk Management

Board of Directors



Mitchell Cohen
UVIMCO BOARD
CHAIR
Managing Director,
Trilogy Search
Partners, LLC



**Jennifer "J.J."
Wagner Davis**
Executive VP & COO,
University of Virginia



John Macfarlane III
Managing Partner,
Arrochar
Management LLC



Timothy O' Hara
Global Co-Head of
Credit, Blackrock
Alternative
Investors



Thomas Baltimore Jr.
Chairman, President,
and CEO, Park Hotels &
Resorts



John Harris Jr.
Retired Senior
Banker and
Executive,
Deutsche Bank



Henry McVey
Partner and Head
of Global Macro,
Balance Sheet
and Risk, and CIO
of KKR Balance
Sheet



Meryl Witmer
General Partner,
Eagle Capital
Partners



John Connaughton
Co-Managing Partner,
Bain Capital



Meredith Jenkins
Chief Investment
Officer,
Trinity Wall Street



Andrew Mulderry
Co-CIO, Willett
Advisors LLC

UVIMCO Senior Staff



Robert Durden
Chief Executive
Officer/Chief
Investment Officer



Kristina Alimard
Chief Operating
Officer



Allison Gilliam
Chief Financial Officer



John Winn
General Counsel/
Chief Compliance
Officer



Eric Bundonis
Managing Director



Caitlin Fitzmaurice
Managing Director



Lindsay Larsen
Managing Director

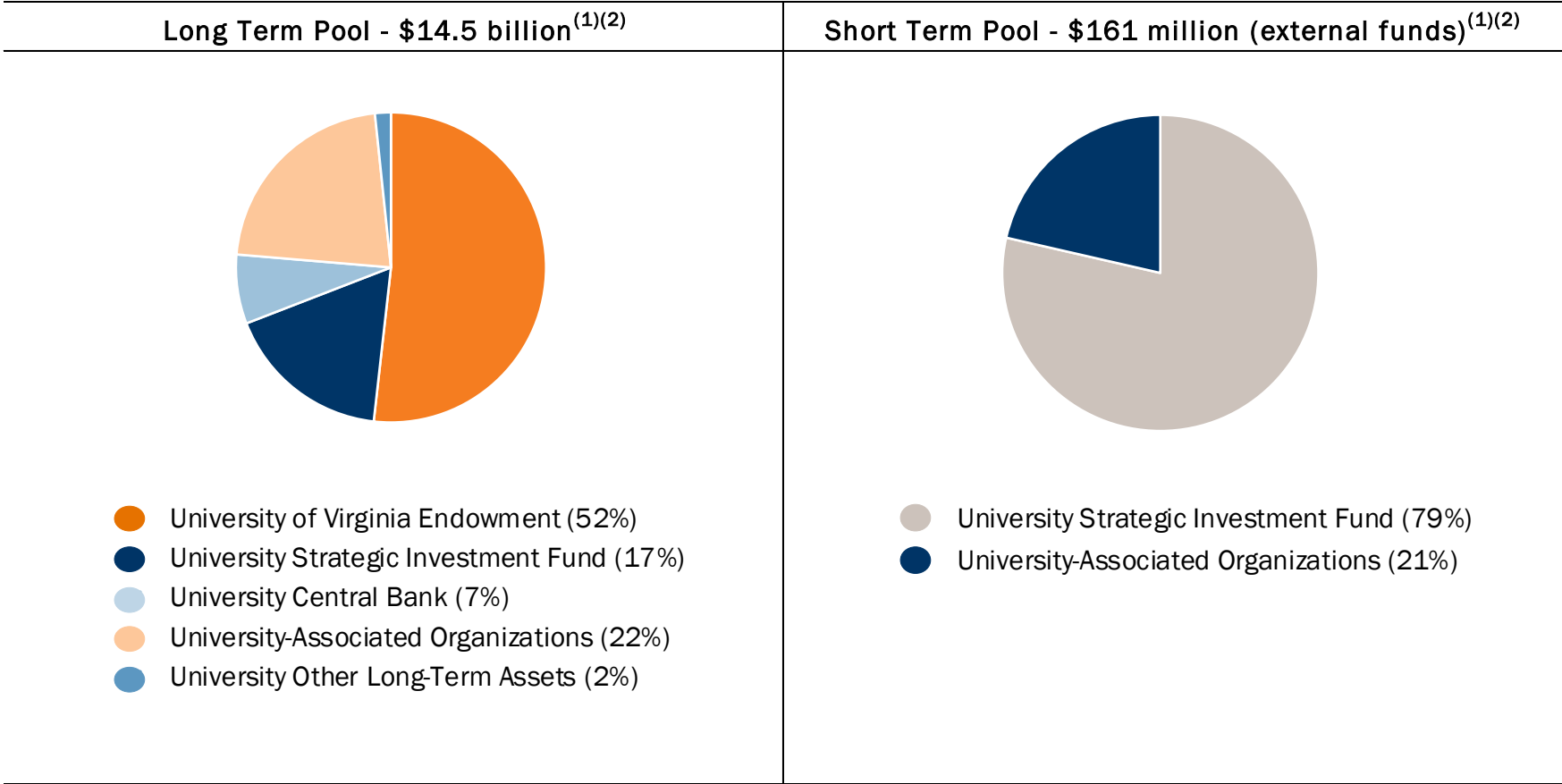


Jason Love
Managing Director



Sargent McGowan
Managing Director

Assets Under Management



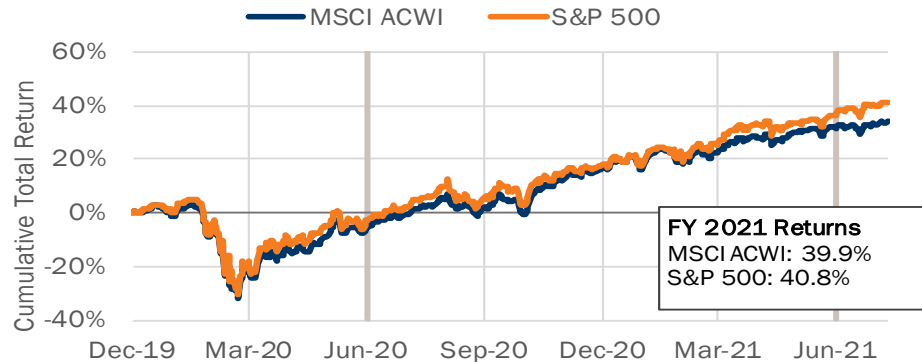
(1) The Long Term Pool's cash portfolio invests in the Short Term Pool. The Short Term Pool market value reflected above excludes Long Term Pool assets.
 (2) As of June 30, 2021.

Investment Objectives

- **Primary objective: Maximize long-term real returns commensurate with the risk tolerance of the University**
 - Preserve the purchasing power of long-term investment assets by earning an annualized rate of return of at least spending + inflation + fees
 - 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
 - The policy portfolio is 75/25 equity and fixed income in FY 2021

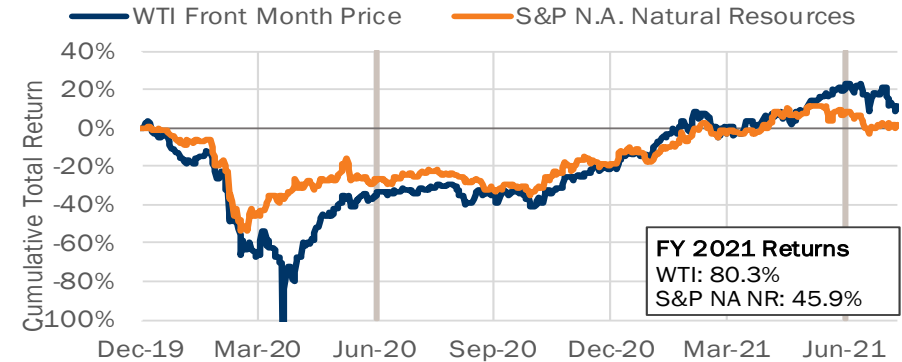
Market Update

Equities



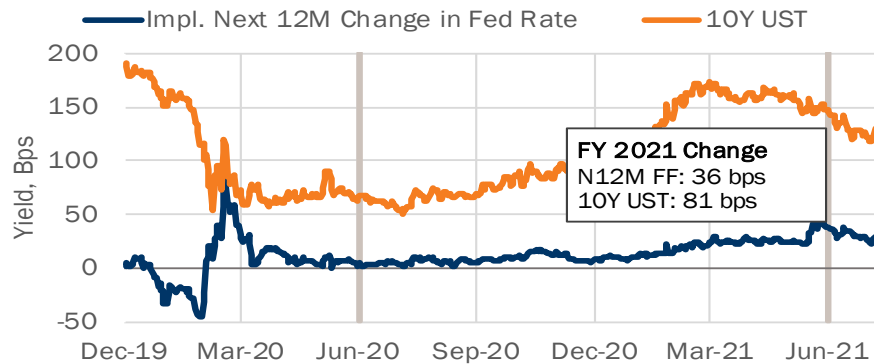
Data as of 8/11/2021. Performance indexed to 0% as of 12/31/2019.

Commodities



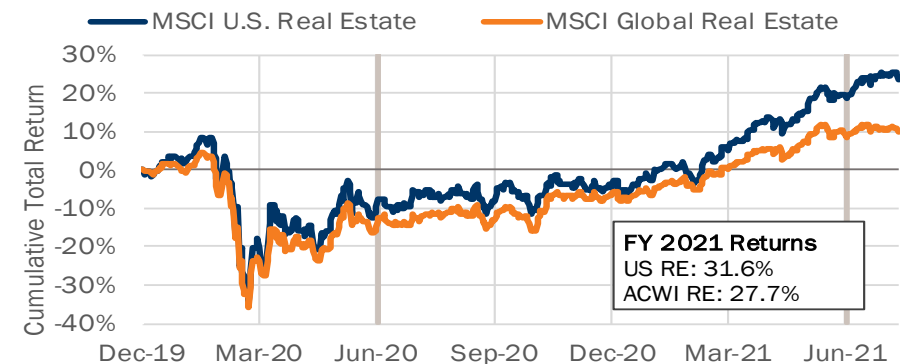
Data as of 8/11/2021. Performance indexed to 0% as of 12/31/2019. WTI return is excess of collateral and roll. WTI performance concatenated at -100%.

Interest Rates



Data as of 8/11/2021. Implied Next 12M Change in Fed Rate calculated by stripping the UST curve.

Real Estate



Data as of 8/11/2021. Performance indexed to 0% as of 12/31/2019.

Performance

Long Term Pool and Policy Portfolio Performance Summary

<i>As of 6/30/2021</i>	1 YR	3 YR	5 YR	10 YR	20 YR
Long Term Pool	49.0	18.4	15.8	12.1	10.6
Policy Portfolio	29.4	13.0	11.6	8.8	7.4
Relative	19.6	5.4	4.2	3.3	3.2

- The LTP significantly outperformed the policy benchmark. Markets rewarded our investment strategy hallmarks: active management, equity-orientation, growth, innovation, and a long time horizon
- All our public and private equity-oriented strategies recorded strong absolute and relative performance
- We recognize FY 2021 is highly unusual and partially reflects pulled forward future returns, as our long-term returns estimate declined from 7.0% to 6.5% per annum

Performance

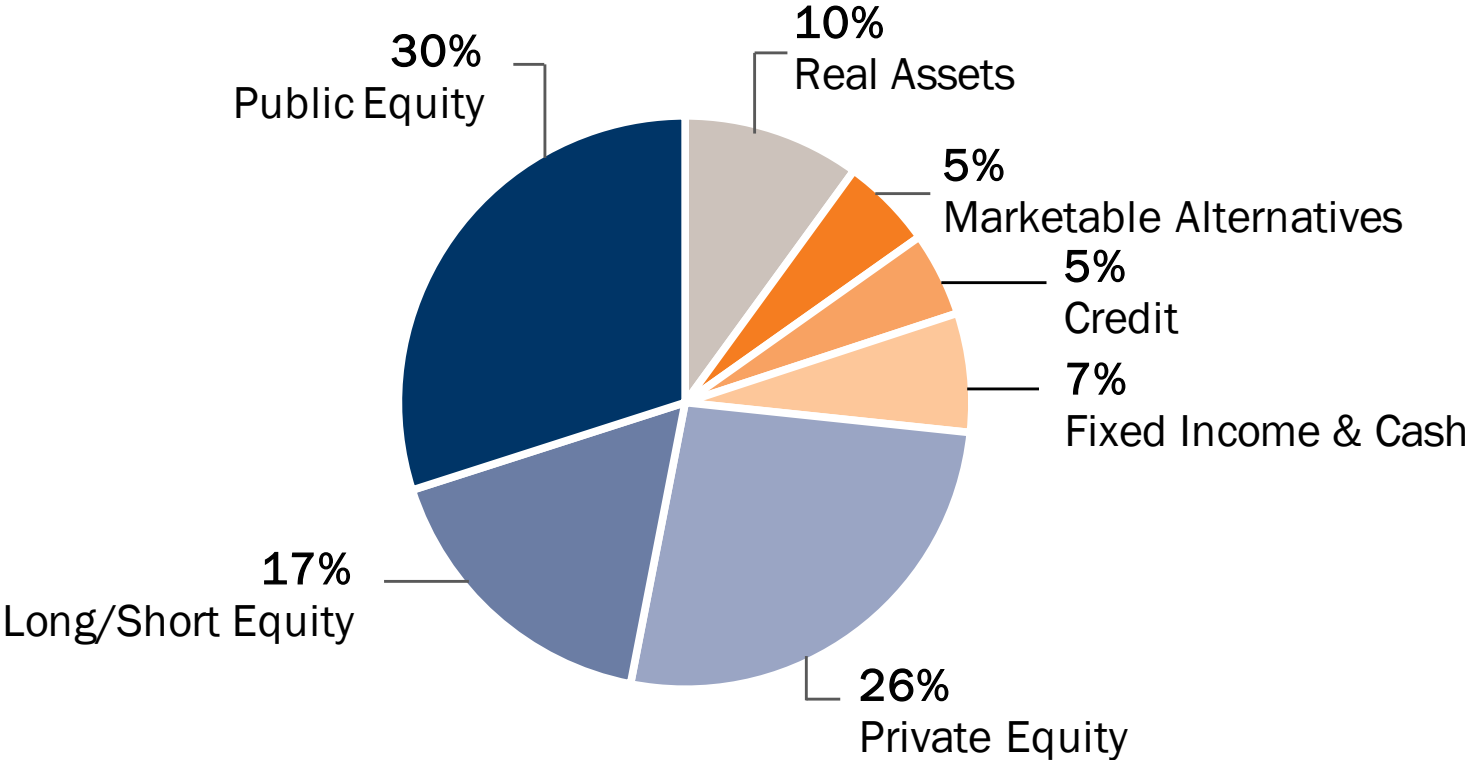
Long Term Pool and Policy Portfolio Performance Detail

<i>As of June 30, 2021</i>	Market Value		TWRR, Annualized				
	\$mms	% LTP	1 Year	3 Years	5 Years	10 Years	20 Year
Long Term Pool	14,512	100.0	49.0	18.4	15.8	12.1	10.6
<i>Policy Portfolio</i>		100.0	29.4	13.0	11.6	8.8	7.4
Equity							
Public	4,345	29.9	51.4	19.4	19.5	14.3	13.6
Long / Short	2,468	17.0	33.3	14.1	11.5	9.7	9.3
Buyout	494	3.4	42.5	16.1	12.2	11.2	11.9
Growth Equity	1,863	12.8	74.7	36.5	27.8	20.7	--
Venture Capital	1,472	10.1	171.3	61.7	43.4	35.3	14.5
Real Assets	1,453	10.0	49.0	5.8	10.6	9.3	9.9
Total Equity	12,094	83.3	58.9	21.5	18.8	14.3	12.1
<i>MSCI All Country World Equity</i>		75.0	39.9	15.1	15.2	10.5	7.9
Fixed Income, Cash & MAC							
Marketable Alternatives	752	5.2	4.8	0.9	3.0	4.5	4.0
Credit	690	4.8	29.9	9.4	9.0	8.0	9.1
Fixed Income	566	3.9	1.4	7.6	4.5	2.5	4.9
Cash	379	2.6	0.0	1.2	1.0	0.5	--
Total Fixed Income, Cash & MAC	2,388	16.5	11.1	6.1	5.3	4.3	4.3
<i>Bloomberg Barclays U.S. Treasury Bond</i>		25.0	1.5	5.6	3.4	3.8	4.6
Portfolio Management and Overlays⁽¹⁾	30	0.2	(0.2)	(0.2)	(0.2)	--	--

(1) Represents the returns added/subtracted to the total LTP return by overlay, financing, and other portfolio management positions. Returns are displayed as a percentage of the LTP.

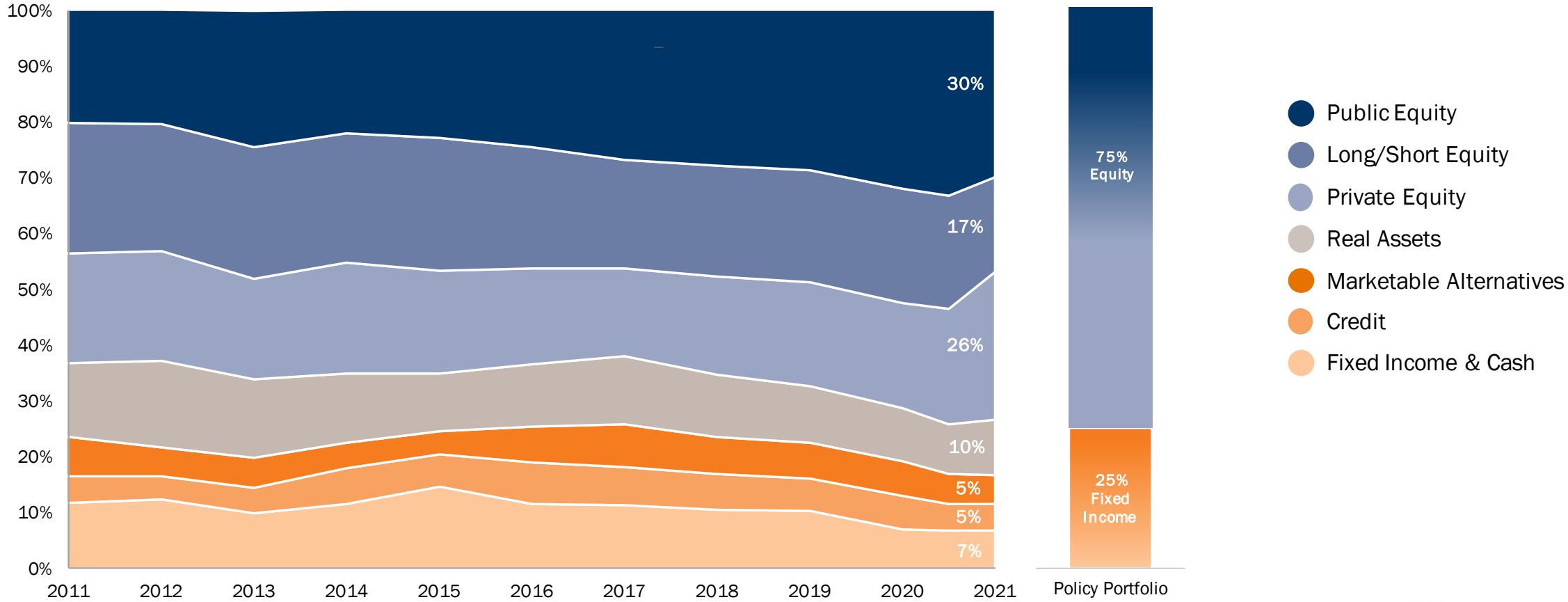
Asset Allocation

Long Term Pool Asset Allocation, as of June 30, 2021



Asset Allocation

UVIMCO Long Term Pool Historical Asset Allocation, as of June 30, 2021



Risk Management

Risk is the impact that a portfolio loss has on shareholders

- Short-term: Volatility or drawdown risk
- Long-term: Decline in the real value of the endowment

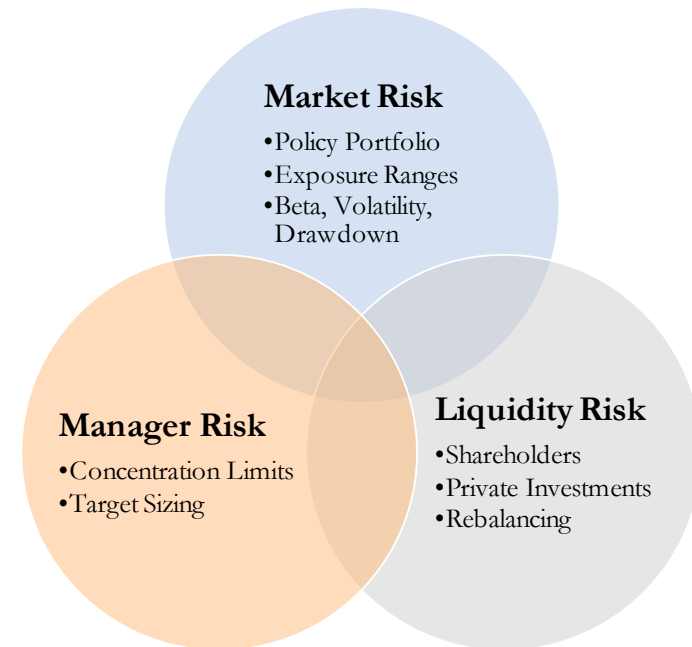


Trade-off between short-term and long-term risk

Measure and control for three primary risks:

- Market risk: consider short-term (drawdown or volatility in distribution/NAV) and long-term (purchasing power impairment) risks
- Liquidity risk: risk of insufficient liquidity to cover shareholder withdrawals, capital calls and rebalancing transactions
- Manager risk: risk that managers underperform expectations, as well as operational or business risks. Manage and mitigate through due diligence and diversification

Risk Management Framework



Risk Management

Type	Risk Metrics	Policy	Actual As of June 30, 2021
Market Risk	Global Equity Beta	75%	81%
	Drawdown Risk (1.0% Value at Risk)	-21%	-23%
Liquidity Risk	Minimum 3-Month Liquidity	20%	29%
	Minimum 12-Month Liquidity	35%	46%
	Target to Private Investments	40%	41%
	Target Unfunded Commitments	20%	12%
Manager Risk	Maximum Concentration to a Single Manager	7.5%	5.4%

The Long Term Pool's beta, private NAV, and unfunded commitments are commensurate with peers



Debt Issuance: Series 2021



Series 2021 Debt Issuance

Senior Managers: Goldman Sachs - Barclays - JP Morgan

Series	Par Amount	Type	Coupon/Yield	Purpose
2021A Tax-Exempt	\$ 100,000,000	30-year Bullet	2.180% / 2.180%	Medical Center - Novant
2021B Taxable	\$ 300,000,000	30-year Bullet	2.584% / 2.584%	Approved Capital Projects & Series 2015B Maturity
Total:	\$ 400,000,000			

Aaa / Stable Outlook

Co-Managers: Bank of America - US Bank - TD Bank - Wells Fargo - Morgan Stanley - Loop Capital





UVA

 **UVA**

IN INDOOR SPACES

Executive Vice President and Chief Operating Officer's Remarks

Executive Vice President & Chief Operating Officer Key Priorities

Support 2030 Strategic Plan and advance key initiatives of the Racial Equity Task Force

Recruit and onboard key new leaders

Foster a safe and secure environment on and around Grounds

Ensure readiness for the 2021-22 academic year, managing and building community in a hybrid workforce environment

Realize the Multi-Year Capital Plan

FY23 budget development process; implement Finance Strategic Transformation

Coordinate and collaborate on annual Commonwealth and UVA audit plan

Continue operational partnerships forged in COVID, building and strengthening relationships across Grounds

Partner with City and County leadership to maintain strong operational alliances



Academic Division COVID-19 Fiscal Impact Update

	Federal Relief	State GF/ Special Payments and Awards	Philanthropy	Total Institutional Funds ²	Total
Total Sources Available¹	\$ 80,488,368	\$ 5,250,000	\$ 2,598,200	\$ 130,598,014	\$ 218,934,582
FY20 and FY21 Financial Impact					
COVID RESPONSE (PPE, Testing, Q/I, technology)	\$ 21,849,618	\$ 176,000	\$ -	\$ 21,127,974	\$ 43,153,592
LOST REVENUE (Auxiliary, J-Term/Summer, Fees)	6,358,845	3,000,000	-	34,900,862	\$ 44,259,707
ATHLETICS COVID RESPONSE AND LOST REVENUE ³	16,090,681	1,143,483	-	3,950,004	\$ 21,184,168
STUDENT, EMPLOYEE, CONTRACTOR AND COMMUNITY NEEDS	11,906,910	-	2,598,200	4,035,000	\$ 18,540,110
FY20 and FY21 Grand Totals	\$ 56,206,054	\$ 4,319,483	\$ 2,598,200	\$ 64,013,840	\$ 127,137,577
Total Sources Remaining at 6/30/2021	\$ 24,282,314	\$ 930,517	\$ -	\$ 66,584,174	\$ 91,797,005
FY22 Estimate, if Summer and Fall 2021 Continue to Require COVID Mitigation Efforts					
TOTAL FY22 ESTIMATE					\$ 60,000,000

¹ Excludes deferred payroll tax payments which provided temporary cashflow relief

² Includes private reserves (SIF and President's discretionary), internal debt deferral, budget cut reserves, financial aid reserves, auxiliary and other reserves, financial mitigation strategies, and one-time savings

³ Net of Athletics financial mitigation efforts, including salary reductions, contract renegotiations, and other program savings

Finance Strategic Transformation | Vision, Goals and Context



Vision

The Finance Strategic Transformation (FST) at UVA is creating 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.



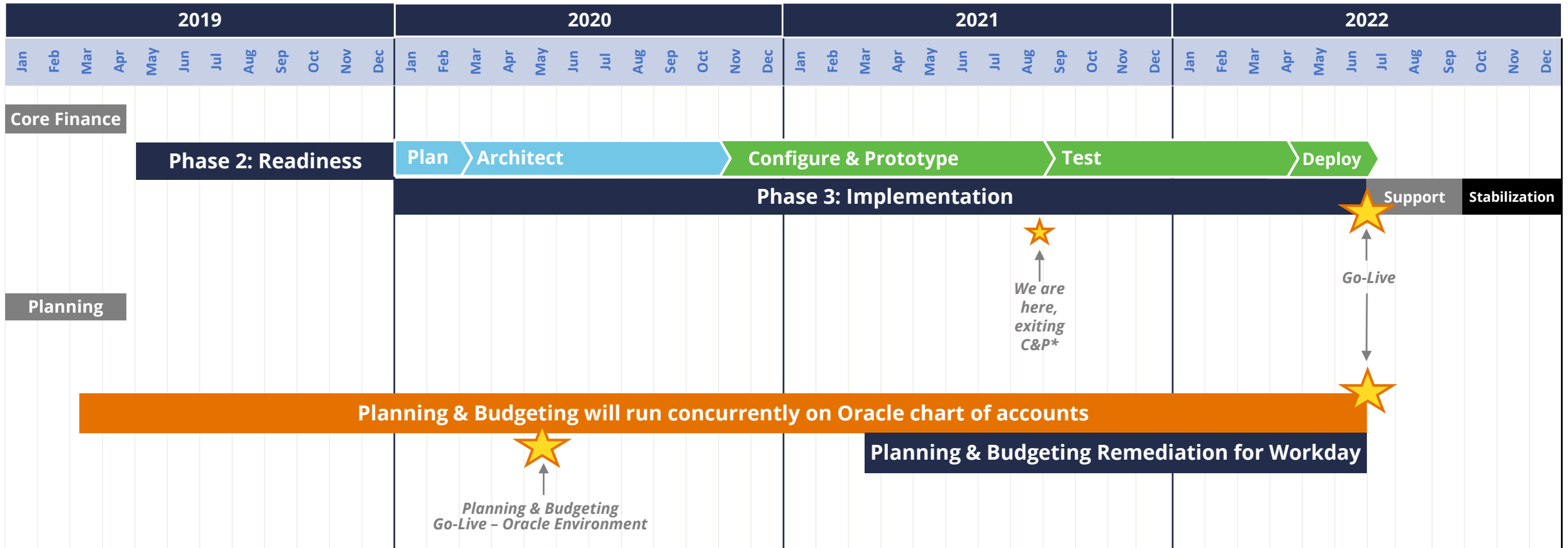
Goals

- 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

Finance Strategic Transformation | Overview

- Stakeholders across Grounds have aligned on vision and goals for Finance Strategic Transformation (FST), with an extensive change management effort
- Workday Financials, a modern, cloud-based ERP, will be launched as our technology solution on July 1, 2022 (one year extension due to COVID)
- We are transforming business processes, including but not limited to modernized procurement system, intuitive planning module, enhanced reporting and analytics environment, updated chart of accounts, and strengthened controls environment; partnered with Deloitte Consulting
- Total one-time investment of ~\$75M

Executive Summary | Overall FST Timeline



* The FST project has contracted with a third party, JJH Consulting, to perform IV&V activity and assess project health. Overall, the project status has been assessed as “yellow.” However, as FST prepares to exit the Configure & Prototype (C&P) stage, and move to Test, JJH has agreed that the project is “green” in its readiness to move from the C&P Stage to the Test Stage.

Project Overview | Identified Risks

As of 08/30/2021

#	High Level Risk	Awareness / Action	Probability	Impact	Current Assessment	Mitigation Strategy
1	Project resources not available when needed	Awareness	M	H		Schools & units have people mapping to FDM; adding resources to functional team and Organizational Change Management (OCM) team
2	Decision making not efficient	Awareness	M	H		Critical path decisions have been made; working to socialize and implement those decisions
3	Stakeholder commitment wanes	Awareness	M	H		Executives demonstrating solid commitment to FST, experiencing steady governance/change leader participation, schools & units are mapping to FDM
4	Competing priorities	Awareness	M	M		Continuing to monitor initiatives that potentially compete for resources/stakeholder focus (Request Based Access, System Integration Platform, Pre-Award system)
5	Not realizing desired outcomes	Awareness	M	M		IV&V ongoing, along with other Quality Management activities; making progress on Workday support model
6	Workday HCM roll-out impacts stakeholder perceptions of FST	Awareness	L	H		Second Round Change Readiness Assessment (CRA) indicated positive degree of stakeholder engagement; preparing for third round of CRA in September
7	Communication not effective	Awareness	L	M		Monitoring effectiveness of stakeholder communications (see above); continuously assessing team communications
8	Budget overrun	Awareness	L	M		Uptick in change requests placing pressure on budget contingency; monitoring cost of additional resources

Impact / Probability	
H	High
M	Medium
L	Low

