

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS**

**Meeting of the
Finance Committee**

June 2, 2023

FINANCE COMMITTEE

Friday, June 2, 2023

9:30 – 10:45 a.m.

Board Room, The Rotunda

Committee Members:

Robert M. Blue, Chair	Robert D. Hardie
James B. Murray Jr., Vice Chair	Babur B. Lateef, M.D.
Carlos M. Brown	James V. Reyes
Thomas A. DePasquale	Douglas D. Wetmore
Louis S. Haddad	Whittington W. Clement, Ex-officio

AGENDA

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**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY**

BOARD MEETING: June 2, 2023

COMMITTEE: Finance

AGENDA ITEM: I.A.1. 2023-2024 Operating Budget

BACKGROUND: The Board of Visitors received reports from UVA management regarding the budget assumptions and General Assembly updates for the formulation of the Fiscal Year (FY) 2024 operating budget. As of May 22, 2023, the Commonwealth has not finalized its FY2024 budget. As such, the University has used the original biennium for modeling purposes.

At its annual June meeting, the Board of Visitors considers the proposed operating budgets for the Academic Division, The University of Virginia's College at Wise (College at Wise), and the Medical Center.

DISCUSSION: The University proposes a \$5.4B operating budget for all three divisions. The budgets for the Academic Division, Medical Center, and the College at Wise are summarized in the following tables.

Academic Division

Available sources for the FY2023-2024 budget reflect Commonwealth-estimated state appropriations, sponsored research activity, Board-approved tuition rates, market growth in the endowment, and philanthropic success. The operating budget incorporates increased uses associated with research activity, auxiliary operations, salary increases (an average 5% merit pool for staff and faculty), financial aid, and general expenses. Overall, the FY2023-2024 Academic Division operating expenditure budget is proposed at \$2.3B.

The proposed budget incorporates the planned expenditure of distributions from the John Lee Pratt Fund. The Pratt distributions will be used to supplement the Academic Division budget to support: 1) faculty salaries and equipment in the Departments of Biology, Chemistry, Mathematics, and Physics; and 2) research and scholarships in the School of Medicine in accordance with the underlying gift agreement. The proposal also includes maintaining the endowment administrative fee at 100 basis points, with 50 of those basis points supporting Advancement.

<i>Sources/Uses</i>	2022-23 Approved	2023-24 Proposed*	Change (FY23 to FY24)
<u>Sources</u>			
Net Tuition and Fees	\$ 758.9	\$ 789.4	\$ 30.5
State Appropriations	231.0	252.8	21.8
Externally Sponsored Research	473.1	493.6	20.5
Endowment Distribution/Admin Fee	270.2	298.1	27.9
Expendable Gifts	187.1	217.8	30.7
Sales, Services, Interest, and Other	211.1	214.0	2.9
Total Operating Sources	\$ 2,131.4	\$ 2,265.8	\$ 134.4
<u>Uses</u>			
Faculty and Staff Salaries	\$ 1,422.2	\$ 1,550.0	\$ 127.8
Internal Recoveries	(454.0)	(407.5)	46.5
Non-personnel expenses	824.2	910.9	86.7
Financial Aid	231.9	244.6	12.7
Internal Debt Service, Transfers, and Other	71.0	(47.2)	(118.2)
Total Operating Uses	\$ 2,095.4	\$ 2,250.8	\$ 155.4

Note: FY2023-24 excludes \$30.1M of non-operating transfers.

Strategic Investment Fund

The Board of Visitors established the Strategic Investment Fund (SIF) in 2016 to serve as a funding source for initiatives that have the potential to transform a critical area of knowledge or operation of the University in our continuous pursuit of excellence.

In 2019, the University adopted and approved a new strategic plan, “A Great and Good University – The 2030 Plan.” To support the 2030 Plan, the Board adopted new revised guidelines. The guidelines, along with an allocation formula, were approved by the Board of Visitors for an initial three-year term, ending June 30, 2022. In September 2021, the Board of Visitors extended the SIF guidelines and allocation formula through June 30, 2025. The guidelines support the four overarching goals of the Strategic Plan and are allocated in the following manner:

- I. Strengthen Our Foundation (30%)
- II. Cultivate the Most Vibrant Community in Higher Education (20%)
- III. Enable Discoveries That Enrich and Improve Lives (30%)
- IV. Make UVA Synonymous with Service (20%)

Today, the SIF provides funding that supports [80 awards](#) and is projected to total \$1.1B in spend through FY2029-2030, as the awards progress to completion. Projects are selected for funding by University executive leadership through two mechanisms: a formal proposal and review process, and by opportunistic investment to support the strategic plan. The Board of Visitors receives an annual report of projects funded through allocations from the SIF.

The five-year SIF budget (FY2020-FY2025) is \$495.0M. \$23.6M was awarded of the FY20 allocation. \$73.8M was awarded of the FY21 allocation, and \$70.1M was awarded of the FY22 allocation. In FY23, the following 13 projects were awarded:

<u>Project</u>	<u>Total Funding Recommended</u>
Additional Bicentennial Scholarships	\$35,000,000
Additional Bicentennial Professorships	\$30,000,000
UVA Affordable Housing Initiative	\$1,100,000
McIntire School of Commerce Expansion Project	\$25,000,000
Biocomplexity Supplemental Award	\$16,715,096
Grand Challenge Research Investment-Environmental Resilience and Sustainability. Faculty, WISE, Library, Entrepreneurship, and Future Opportunities	\$17,500,000
Grand Challenge Research Investment-Environmental Resilience and Sustainability. Equipment Core and Clean Energy	\$8,000,000
Grand Challenge Research Investment-Environmental Resilience and Sustainability. Research and Administration	\$19,500,000
Grand Challenge Research Investment-Brain and Neuroscience. Faculty, WISE, Library, Entrepreneurship, and Future Opportunities	\$24,000,000
Grand Challenge Research Investment-Brain and Neuroscience. Research Cores and Space	\$8,500,000
Grand Challenge Research Investment-Brain and Neuroscience. Research and Administration	\$12,500,000
Data Analytics Center	\$10,000,000
Graduate Arts and Sciences Fellowship Matching Fund	<u>\$10,000,000</u>
Total SIF Allocations – FY2023	\$217,815,096

In total, this leaves \$109.7M in additional commitments and remaining SIF funding available for FY2023-2025. The SIF Oversight Committee (SOC) met to review SIF awards as part of the post-award monitoring process. The SOC will meet twice a year to ensure awards fall within the general guidelines, including the allocation formula approved by the Board of Visitors.

Medical Center

The Health System Board will consider the Medical Center FY2023-2024 operating and capital budgets, which includes UVA Community Health, at its June 1, 2023, meeting and is anticipated to recommend approval of the \$3.0B operating budget, a 14.3% increase over the prior year, and the \$146M capital budget proposals.

Sources/Uses	2022-23 Approved	2023-24 Proposed	Change (FY23 to FY24)
Revenue			
Net Patient Service Revenue	\$ 2,600.5	\$ 2,984.6	\$ 384.1
Other Revenue	80.7	102.3	21.6
Annual Operating Revenue	2,681.2	3,086.9	405.7
Expense			
Labor	1,163.3	1,453.9	290.6
Supplies, Utilities, and Other	1,244.9	1,361.1	116.2
Depreciation	166.4	182.7	16.3
Interest	41.2	34.2	(6.9)
Annual Operating Expense	2,615.8	3,031.9	416.1
Annual Operating Income/(Loss) before Transfers	65.4	55.0	(10.3)
Health System Transfers	(43.6)	(51.0)	(7.4)
Annual Operating Income/(Loss) after Transfers before one-time	21.7	4.0	(17.7)
<i>One-Time Community Health Integration</i>	<i>40.0</i>	<i>5.0</i>	<i>(35.0)</i>
FY24 Operating Expense, including one-time	\$ 2,655.8	\$ 3,036.9	\$ 381.1

Note: FY24 includes full ownership of UVA Community Health.

The University of Virginia's College at Wise

The proposed FY2023-2024 operating expenditure budget for the College at Wise is \$71.7M, a 0.6% increase over the prior year.

Sources/Uses	2022-23 Approved	2023-24 Proposed	Change (FY23 to FY24)
<u>Sources</u>			
Net Tuition and Fees	\$ 10.5	\$ 14.2	\$ 3.7
State Appropriations	34.4	35.2	0.8
Externally Sponsored Research	13.7	11.2	(2.5)
Endowment Distribution/Admin Fee	5.6	5.8	0.2
Expendable Gifts	0.5	0.5	(0.0)
Sales, Services, Interest, and Other	7.7	4.9	(2.8)
Total Operating Sources	\$ 72.3	\$ 71.7	\$ (0.6)
<u>Uses</u>			
Faculty and Staff Salaries	\$ 30.3	\$ 37.3	\$ 7.0
Internal Recoveries	(0.3)	(0.3)	0.0
Non-personnel expenses	24.5	16.7	(7.8)
Financial Aid	16.3	17.1	0.8
Internal Debt Service, Transfers, and Other	0.5	1.0	0.5
Total Operating Uses	\$ 71.3	\$ 71.7	\$ 0.4

ACTION REQUIRED: Approval by the Finance Committee and by the Board of Visitors

2023-2024 OPERATING BUDGET FOR THE ACADEMIC DIVISION

RESOLVED, the 2023-2024 \$2.3B operating budget for the Academic Division, including 2023-2024 allocations from the Strategic Investment Fund and the John Lee Pratt Fund, is approved as recommended by the President and the Executive Vice President and Chief Operating Officer; and

RESOLVED FURTHER, the University will maintain the 50 bps of the endowment administrative fee dedicated to funding Advancement, effective July 1, 2024, and it will remain at that level unless other action is taken by the Board of Visitors.

2023-2024 OPERATING AND CAPITAL BUDGETS FOR THE UNIVERSITY OF VIRGINIA MEDICAL CENTER AND UNIVERSITY OF VIRGINIA COMMUNITY HEALTH

RESOLVED, the 2023-2024 \$3.0B operating and \$146M capital budgets for the University of Virginia Medical Center, inclusive of University of Virginia Community Health, are approved, as recommended by the President, the Executive Vice President for Health Affairs, the Executive Vice President and Chief Operating Officer of the University, and the Health System Board.

2023-2024 OPERATING BUDGET FOR THE UNIVERSITY OF VIRGINIA'S COLLEGE AT WISE

RESOLVED, the 2023-2024 \$71.7M operating budget for the University of Virginia's College at Wise is approved as recommended by the President and the Chief Operating Officer.

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY**

BOARD MEETING: June 2, 2023

COMMITTEE: Finance

AGENDA ITEM: I.B. Master of Education Tuition and Required Fees for the University of Virginia’s College at Wise, 2023-2024

BACKGROUND: The Board of Visitors sets tuition and fees for the University of Virginia and The University of Virginia’s College at Wise. On May 12, 2023, the University of Virginia’s College at Wise Board met and recommended approval of the proposed tuition and required fees for academic year 2023–2024 for the newly established Master of Education degree.

DISCUSSION: The University of Virginia's College at Wise is presenting tuition and required fee rates for graduate tuition. This material shows the establishment of tuition and required fees for the newly approved Master of Education degree program.

ACTION REQUIRED: Approval by the Finance Committee and by the Board of Visitors

MASTER OF EDUCATION TUITION AND REQUIRED FEES FOR THE UNIVERSITY OF VIRGINIA’S COLLEGE AT WISE, 2023-2024

WHEREAS, the Board of Visitors desires to maintain affordability to provide graduate opportunities to prospective students from the region and beyond; and

WHEREAS, the University of Virginia’s College at Wise Board recommends approval of the amount of graduate tuition and required fees for the recently approved Master of Education program;

RESOLVED, the establishment of tuition and required fees for the Master of Education program in academic year 2023–2024 as set forth in the following table, are approved.

	2023-24 Proposed
Graduate Charges: Master of Education	
Tuition Per Hour	\$ 388
Required E&G Fees Per Hour (1-11 hours per semester)	\$ 8
Required Auxiliary Fees Per Hour (1-11 hours per semester)	\$ 68

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY**

BOARD MEETING: June 2, 2023

COMMITTEE: Finance

AGENDA ITEM: I.C. Debt Shelf Registration

BACKGROUND: For over three decades, the University has issued long-term bonds to provide external financing for capital projects. In 2002, the University developed a debt portfolio management program to manage debt by optimizing debt structure and providing stability to internal borrowing units. Debt shelf registrations have provided the University with flexibility to move more nimbly to seek debt funding when market conditions are optimal.

DISCUSSION: A shelf request of up to \$500M will enable the University to react quickly to advantageous market conditions. The debt shelf will allow the University to fund approved capital projects with long-term debt, to refinance short-term debt, and to utilize taxable proceeds for general management needs. The University seeks approval of a new debt shelf registration in the amount of \$500M for a period of 48 months. This will provide efficiency in future bond issuances and enable the University to be opportunistic within the market.

ACTION REQUIRED: Approval by the Finance Committee and by the Board of Visitors

**ISSUANCE OF GENERAL REVENUE PLEDGE BONDS AS PART THE UNIVERSITY'S
CAPITAL PROJECT FINANCING PROGRAM**

WHEREAS, by the resolution adopted September 15, 2017 (the "Initial Authorizing Resolution"), the Board of Visitors (the "Board") authorized a multi-year capital project financing program (the "Program") that is used by The Rector and Visitors of the University of Virginia (the "University") from time to time to finance or refinance the costs of capital and other projects, including capitalized interest, financing costs, working capital, general corporate purposes and the refunding of prior obligations of the University (collectively, the "Projects"), subject to the limitations and parameters set forth in the Initial Authorizing Resolution and in one or more subsequent resolutions of the Board; and

WHEREAS, under the authority of the Initial Authorizing Resolution, the University entered into a Master Bond Resolution (Multi-Year Capital Program) dated September 28, 2017 (as supplemented and amended, the "Program Resolution"); and

WHEREAS, the bonds issued under the Program Resolution (the "Bonds") are secured by a general revenue pledge of the University and are not in any way a debt of the Commonwealth of Virginia (the "Commonwealth") and do not create or constitute any indebtedness or obligation of the Commonwealth, either legal, moral, or otherwise; and

WHEREAS, the Board desires to authorize additional financing under the Program of up to \$500,000,000 of taxable or tax-exempt Bonds that may be issued by the University from time to time to finance or refinance one or more Projects, all subject to the limitations and parameters described (1) below, (2) in the Program Resolution, and (3) in the applicable Series Resolution (as defined below);

RESOLVED, the Board hereby implements the plan of finance described in the recitals hereto by authorizing the issuance, from time to time, of one or more series of Bonds for the financing or refinancing of the Projects and providing for the terms thereof, by adopting one or more resolutions that supplement and amend (as needed) the Program Resolution (each a "Series Resolution"), which shall provide the final terms of the Bonds and such other matters as may be necessary or desirable; and

RESOLVED FURTHER, the Executive Vice President and Chief Operating Officer of the University, in consultation with the Chair of the Board's Finance Committee, the Rector, and the President, is authorized to approve the final terms of each series of Bonds, including, without limitation, their original principal amounts and series, the specific Projects to be financed or refinanced, their maturity dates and amounts, redemption provisions, prices and interest rates, tax status of interest on each series of Bonds, provided that (i) the maximum aggregate principal amount of all Bonds to be issued hereunder shall not exceed \$500,000,000; (ii) the Bonds shall be issued at fixed or variable rates with a maximum yield on any fixed rate series, and the maximum initial yield on any variable rate series, not to exceed 6.00% per annum; (iii) the final maturity of all Bonds shall not exceed 101 years beyond issuance date; and (iv) any Bonds issued under the authorizations granted in this Resolution shall be issued on or before June 30, 2027; and

RESOLVED FURTHER, the Executive Vice President and Chief Operating Officer of the University is hereby authorized to negotiate, execute, and deliver certain documents related to the Bonds, including a Series Resolution for each series of Bonds; and

RESOLVED FURTHER, all officers of the University are authorized and directed to take all such further actions, including without limitation the designation of underwriters, paying agents, remarketing agents, solicitation agents, trustees, and liquidity providers for the Bonds, and to execute all such instruments, agreements, documents, and certificates as they shall deem necessary or desirable to carry out the terms of the plan of finance presented to this meeting, including without limitation entering into, amending or terminating any liquidity facilities, swap or other interest rate management agreements associated with plan of finance presented to this meeting; and

RESOLVED FURTHER, pursuant to the Section 147(f) of the Internal Revenue Code of 1986, as amended, and applicable regulations thereunder, the University designates the Executive Vice President and Chief Operating Officer of the University as the public hearing officer to hold any public hearings required in order to ensure the tax-exempt status of interest on all or a portion of the Bonds; and

RESOLVED FURTHER, all acts of all officers of the University which are in conformity with the purposes and intent of this Resolution and in carrying out the plan of finance presented to this meeting are ratified, approved, and affirmed; and

RESOLVED FURTHER, that, upon approval, this action shall take effect immediately.

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY**

BOARD MEETING: June 2, 2023

COMMITTEE: Finance

AGENDA ITEM: I.D. UVA Medical Center Strategic Affiliation

BACKGROUND: The Code of Virginia includes in its provisions pertaining to the operations of the University of Virginia Medical Center (Va. Code § 23.1-2212 C.) that the Medical Center has the authority to create, own in whole or in part, or otherwise control corporations or other entities whose activities promote the operations of the Medical Center and its mission. UVA Health recently developed its 10-year “One Future Together | Health and Hope for All” strategic plan which includes a roadmap for strategic affiliations that will advance the mission of the Medical Center.

DISCUSSION: The Medical Center has signed a nonbinding Letter of Intent and is in the process of completing due diligence for a strategic affiliation with a health system. The next step is authorization by the Board of Visitors to negotiate terms and execute an agreement for a strategic affiliation with the health system once due diligence is completed. The UVA Health Strategy Taskforce recommends approval of this affiliation.

ACTION REQUIRED: Approval by the Health System Board, the Finance Committee, and by the Board of Visitors

APPROVAL FOR STRATEGIC AFFILIATION BY THE UNIVERSITY OF VIRGINIA MEDICAL CENTER

WHEREAS, the Code of Virginia includes in its provisions pertaining to the operations of the University of Virginia Medical Center (Va. Code § 23.1-2212 C.) that the Medical Center has the authority to create, own in whole or in part, or otherwise control corporations or other entities whose activities promote the operations of the Medical Center and its mission; and

WHEREAS, the UVA Health Strategy Taskforce has closely evaluated the opportunity to develop a strategic affiliation with a health system and recommends that the University enter into the affiliation;

RESOLVED, the Board of Visitors authorizes the Executive Vice President and Chief Operating Officer and the Executive Vice President for Health Affairs to perform all necessary due diligence, including satisfying all regulatory requirements, to develop a strategic affiliation with a health system; and

RESOLVED FURTHER, pending completion of due diligence and satisfaction of all regulatory requirements, the Executive Vice President and Chief Operating Officer, with the

concurrence of the Chair of the Health System Board and the Chair of the Finance Committee, and in consultation with the President and University Counsel, is authorized to execute contracts and other legal documents as necessary to enter into a strategic affiliation; and

RESOLVED FURTHER, all prior acts performed by the Executive Vice President and Chief Operating Officer and her designees in connection with the evaluation and development of a strategic affiliation with a health system are in all respects approved, ratified, and confirmed.

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY**

BOARD MEETING: June 2, 2023

COMMITTEE: Finance

AGENDA ITEM: II.A. Executive Vice President’s Remarks

ACTION REQUIRED: None

BACKGROUND: The Executive Vice President and Chief Operating Officer will inform the committee members of recent events that do not require formal action, but of which they should be made aware.

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY**

BOARD MEETING: June 2, 2023

COMMITTEE: Finance

AGENDA ITEM: II.B. University of Virginia Endowment: Written Report

ACTION REQUIRED: None

BACKGROUND: The University of Virginia Investment Management Company (UVIMCO) provides investment management services to The Rector and Visitors of the University of Virginia (the corporate name of the University of Virginia) and University-associated organizations (UAOs). Assets deposited in UVIMCO are held in the custody and control of UVIMCO on behalf of the University and UAOs within a long-term, co-mingled investment pool (the Long-Term Pool).

Twice a year, at fiscal year-end and calendar year-end, the UVIMCO Chief Executive Officer provides the Board of Visitors Finance Committee a report on the current market environment and the asset allocation, performance, and liquidity position of the Long-Term Pool, and addresses questions from the committee.

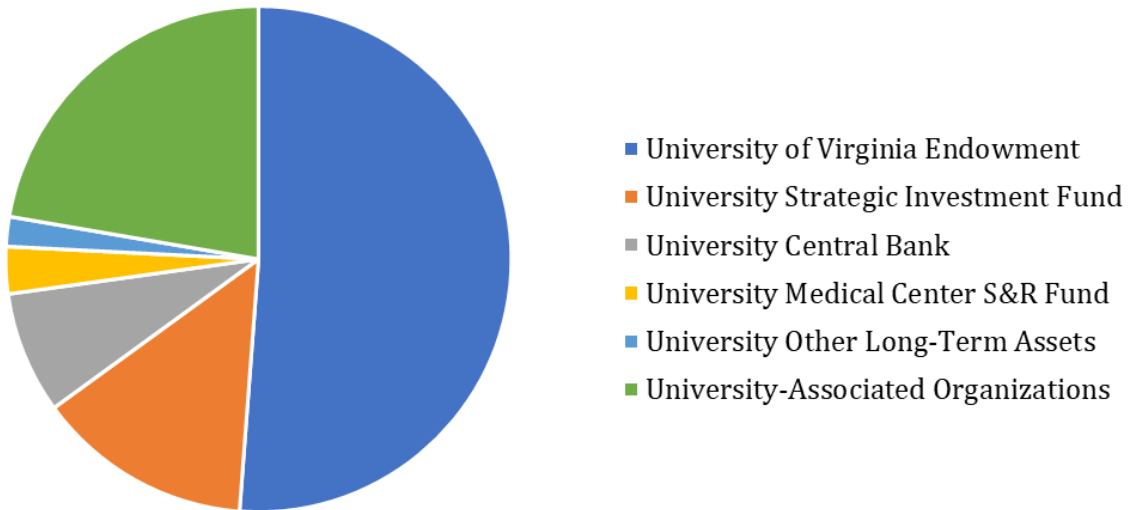
As of March 31, 2023, the Long-Term Pool is valued at \$13.5B. The Long-Term Pool includes the University of Virginia endowment (Rector & Visitors funds), the University Strategic Investment Fund (SIF), University Central Bank, University Medical Center Strategic & Reinvestment Fund (Medical Center SIF), other long-term assets of the University (including funds committed to address deferred maintenance), and funds invested for University-associated organizations. The market value (Figure 1) and the relative breakdown (Figure 2) of the component parts of the total Long-Term Pool as of March 31, 2023, follow:

Figure 1

Shareholder Summary

	Long Term Pool	% of NAV
University of Virginia Endowment	\$6,914,183,771	51.2%
University Strategic Investment Fund	\$1,873,205,319	13.8%
University Central Bank	\$1,051,379,917	7.8%
University Medical Center S&R Fund	\$410,218,603	3.0%
University Other Long-Term Assets	\$254,048,245	1.9%
University-Associated Organizations	\$3,009,515,932	22.3%
Total	\$13,512,551,787	100.0%

Figure 2



**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY**

BOARD MEETING: June 2, 2023

COMMITTEE: Finance

AGENDA ITEM: II.C. Defined Contribution Retirement Plan: Written Report of the Retirement Administrative Committee

ACTION REQUIRED: None

BACKGROUND: The University is the plan sponsor of a number of defined contribution retirement plans, including the Optional Retirement Plan for Employees of the University of Virginia and the Optional Retirement Plan for Employees of the University of Virginia Medical Center.

At its June 2, 2007, meeting, the Finance Committee of the Board of Visitors approved a revised Retirement Program Policy. The revised policy established the role of the Finance Committee of the Board of Visitors to provide oversight of the retirement plans and to report annually to the Board.

On May 22, 2023, Messrs. Robert Blue and James Murray met with the Executive Vice President and Chief Operating Officer and representatives of the Retirement Administrative Committee to review the Plans' annual performance and to discuss the administration of the program. Assets as of December 31, 2022, totaled \$4.4B (TIAA-\$2.6B, Fidelity \$1.8B). The committee and its advisor reviewed the investments in a manner consistent with the standards and approach defined in the internal plan documents. All funds meet policy guidelines.

Additionally, Fidelity and TIAA both reduced their fees, resulting in annual savings of almost \$1.5M (up to \$4.5M over the three-year period). Full minutes of the May 22, 2023, Retirement Administrative Committee meeting follow.

Minutes

**University of Virginia
Board of Visitors Finance Committee Appointees on Retirement Program Oversight
May 22, 2023, 10:00 a.m.
Meeting held via Zoom**

Board of Visitors Finance Committee Appointees:

Robert Blue, Chair of the Board of Visitors Finance Committee
James Murray, Vice Chair of the Board of Visitors Finance Committee

In Attendance:

Retirement Administrative Committee Members:

John Kosky – Vice President and Chief Human Resources Officer

Others:

J.J. Wagner Davis – Executive Vice President and Chief Operating Officer (EVP-COO)

David King – Senior Specialist Retirement Plan

Megan Lowe – Assistant Vice President and Chief of Staff to the EVP-COO

Barry Schmitt – CAPTRUST Financial Advisors

Fran Slacum – CAPTRUST Financial Advisors

The RAC meets quarterly to review investment performance with CAPTRUST and to evaluate the overall success of the University's retirement program offerings. Mr. Robert Blue, Finance Committee Chair, and Mr. James Murray, Finance Committee Vice Chair and member, work with the Retirement Administrative Committee to oversee the retirement program and report back to the Finance Committee on an annual basis.

There were two agenda items for this meeting: industry overview and annual review of performance and an update of FY23 activities.

I. Industry Overview and December 31, 2022, Annual Performance

Barry Schmitt discussed CAPTRUST's December 31, 2022, Industry and Market Update and Performance Review, reminding the appointees that the RAC meets quarterly with CAPTRUST to monitor fund performance and once per year each of the vendors is invited to the RAC to present on their participant activity and fund performance. The details of the report are available in the UVA Q4 2022 Review. After a strong start to 2023, the first quarter ended on a high note despite a rapid-fire array of troubling news. In early March, two large banks failed, and policy makers stepped in to keep isolated problems from becoming a systemic crisis. Despite the headlines, stock and bond markets were surprisingly calm. In the U.S., large-cap stocks floated upward, with their small-cap counterparts trailing behind. International developed and emerging markets saw modest but steady gains. The post-pandemic reopening of China, stabilizing energy prices across Europe, and a weakening U.S. dollar contributed. Skeptical of future Fed actions, bond investors drove prices higher as yields slipped lower. Real estate posted a modest gain for the

quarter, although many of the same challenges of last year remain as headwinds. 2022's standout performer, commodities, was the only major asset class in negative territory for the quarter as oil prices slipped.

SECURE Act 2.0 of 2022

President Biden signed the SECURE Act 2.0 as part of the Consolidated Appropriations Act of 2023. With more than 90 provisions, much of the legislation focuses on increasing retirement savings and coverage.

Impact of the ESG Final Rule

On November 22, the Department of Labor (DOL) released its final rule designed to clarify a path forward for retirement plan fiduciaries to incorporate environmental, social, and governance (ESG) factors into their investment selection and monitoring process. The DOL made it clear that fiduciaries may consider ESG factors when making investment decisions and exercising shareholder rights.

Plan Level Review

Assets as of December 31, 2022, totaled \$4.4 billion (TIAA- \$2.6 billion, Fidelity \$1.8 billion). The committee and its advisor reviewed the investments in a manner consistent with the standards and approach defined in the IPD. All funds meet policy guidelines.

II. Update of FY23 Activities

Barry Schmidt discussed activities recently completed as well as those under consideration by the RAC. The University is the plan sponsor of nine qualified retirement plans. The two largest are the Defined Contribution Retirement Plan for the General Faculty, Executive, Senior Administrative, Managerial, and Professional University Staff of the University of Virginia and the Defined Contribution Retirement Plan for Employees of the University of Virginia Medical Center.

Fees

Fidelity reduced their fee from 6.25 basis points to 3.75 bps in a fixed fee arrangement. TIAA reduced their fee from 4.3 basis points to 2.1 bps. The fee changes went into effect January 1, 2022, and will result in annual savings of almost \$1.5 million (up to \$4.5 million over the three-year period) and these fee changes are expected to continue into perpetuity.

Fee Leveling

The RAC will consider whether to implement an asset-based fee-leveling approach or a fixed fee per unique participant approach. In asset-based fee-leveling, all Fidelity participants would pay 3.75 basis points and all TIAA participants would pay 2.1 basis points. At the same time, anyone that has a balance in a revenue sharing fund would receive a "credit" each quarter for any amount above what is needed. There has been a trend in the marketplace to assess fees on a per-head basis as opposed to an asset-based approach. This approach offers an easy way for participants to know how much they are paying each vendor to administer their

plans. This approach, however, does benefit higher balance participants as the percentage goes down as account balances increase. TIAA has quoted a \$50 annual per unique participant fee and Fidelity has quoted a \$40 annual per unique participant fee. CAPTRUST suggests that we look at this again as the market recovers more fully.

Share Class Analysis

The RAC approved migrating two funds to the net cheapest share class on the Fidelity Platform. Migrate Fidelity® Contrafund® K to K6 version and Fidelity® Diversified Intl K to K6 version, resulting in realized ongoing savings of approximately \$175,000 per year.

Accumulated Excess Revenue

As of December 21, 2022, there was approximately \$5.3 million in excess revenue (TIAA - \$5 million, Fidelity - \$347,400). The RAC approved keeping a small portion of the revenue credits to cover plan related expenses for the next 3-5 years and returning the rest of the revenue back to plan participants. We could envision providing some sort of “fee subsidy” for a period of time to reduce this accumulated excess revenue.

Lead Recordkeeper

The Committee will continue to explore lead recordkeeper/sole recordkeeper options. The analysis will include comparison of an asset based vs. per head fee under current state, lead recordkeeper, and sole recordkeeper options.

The meeting was adjourned at 10:50 a.m.