



THE RECTOR AND VISITORS OF THE  
UNIVERSITY OF VIRGINIA

June 2, 2023

**MEMORANDUM**

**TO: The Finance Committee:**

Robert M. Blue, Chair  
James B. Murray Jr., Vice Chair  
Carlos M. Brown  
Thomas A. DePasquale  
Louis S. Haddad

Robert D. Hardie  
Babur B. Lateef, M.D.  
James V. Reyes  
Douglas D. Wetmore  
Whittington W. Clement, Ex Officio

**and**

**The Remaining Members of the Board:**

Mark T. Bowles  
Elizabeth M. Cranwell  
U. Bertram Ellis Jr.  
Stephen P. Long, M.D.  
Angela Hucles Mangano

L.F. Payne  
Amanda L. Pillion  
Susan E. Kirk, Faculty Member  
Lillian A. Rojas, Student Member

**FROM:** Susan G. Harris

**SUBJECT:** Minutes of the Meeting of the Finance Committee on June 2, 2023

The Finance Committee of the Board of Visitors of the University of Virginia met, in open session, at 9:32 a.m. on Friday, June 2, 2023. Robert M. Blue, Chair, presided.

Committee Members present: Whittington W. Clement, Carlos M. Brown, Thomas A. DePasquale, Louis S. Haddad, Robert D. Hardie, James B. Murray Jr., Babur B. Lateef, M.D., and Douglas D. Wetmore

Committee Members absent: James V. Reyes

Mark T. Bowles, Elizabeth M. Cranwell, U. Bertram Ellis Jr., Stephen P. Long, M.D., L.F. Payne, Amanda L. Pillion, Susan E. Kirk, M.D., and Lillian A. Rojas also attended.

Present as well were James E. Ryan, Ian B. Baucom, Jennifer Wagner Davis, K. Craig Kent, M.D., Susan G. Harris, Donna P. Henry, Clifton M. Iler, Kennedy Kipps, Mark Luellen, David W. Martel, Augie Maurelli, McGregor McCance, Clark L. Murray, Margaret Grundy Noland, Debra D. Rinker, Margot M. Rogers, and Colette Sheehy.

Chairman Blue began the meeting by reviewing the agenda. He then turned to Ms. Davis to present the action items.

**Action Item: 2023-2024 Operating Budget**

Ms. Davis said the annual budget development process is always in motion. Upon approval of the annual budget in June, they work to submit the six-year plan to the State Council of Higher Education for Virginia (SCHEV) and quickly turn to planning for the next budget development process as the fall semester begins. They kicked off the decentralized, internal budget process in November 2022, then brought graduate tuition forward for approval in December. She said normally they would expect a state budget sometime between January and April, when they could make adjustments to internal plans. In April, they completed the decentralized, internal budget process and turned toward aggregation of the institution's budget, which was presented to the Board at this meeting.

Ms. Davis said that while they await the final state budget, her team is heavily engaged in preparing the six-year plan for SCHEV. This year, the plan requirements were developed with the consultation of Boston Consulting Group and has an increased emphasis on trends in enrollment, program alignment and performance, and financial effectiveness and sustainability. She said they also expect to begin a Joint Legislative Audit and Review Commission (JLARC) efficiency study in the fall semester.

Ms. Davis said they are faced with a confluence of macro-economic conditions that make for a challenging operating environment: inflation (5% CPI as of April 2023 and 3.1% HEPI as of April 2023); investment in the Strategic Plan; excellence, access, and affordability; faculty and staff recruitment and retention; and increasing costs of construction.

Compensation is below market. They are in the process of updating market ranges for staff and finding significant shifts. Additionally, nearly across the board, units are unable to replace outgoing staff and faculty at or below the salary of the departure. She said they appreciate the state authorized salary increase and the state's contribution of a proportional share. With three years of 5% annual base compensation increases, they are grateful that they will receive funding, nearly \$30M, from the state by the third year. This means, however, that UVA is expected to generate the remaining funding of nearly \$180M by the third year, including from tuition. Holding tuition flat while increasing compensation for 1, 2, or 3 years creates a significant financial burden. They are also finding that the cost of recruiting and retaining faculty and staff is increasing. Quite often, departments aiming to replace at the same level as a departure are experiencing reduced applications (if the replacement-level pay is posted) or need to offer much higher salaries. Essentially, when they recruit, it costs much more than in the past.

Regarding the Medical Center, an annual 3% compensation increase for merit and market actions is insufficient to remain market competitive and to support lower use of traveling nurses. This issue is compounded by COVID/Workforce shortages.

The University's compensation for faculty is below market:

- In February 2013, the Board approved a resolution aspiring to achieve a top 20 AAU faculty salary ranking by June 2017.
- In FY17, the University ranked 27<sup>th</sup>. UVA fell to 30<sup>th</sup> in FY20, and are now back at 27<sup>th</sup> again as of FY22.

There are competing demands on limited resources:

- Units cut their budgets during COVID, reducing flexibility as UVA came out of COVID.
- Costs of meeting full need are increasing. There are more families with more need.
- Capital budgets are increasing rapidly, and some are going well beyond original projections.
- Although UVA is positioned well to take on debt, rising interest rates are increasing the cost of capital.
- Resources are not keeping pace. Tuition increases have been kept modest, and although funds are distributed from the endowments, they must ensure they are sustained for future generations; and sponsored programs largely cover direct costs of research and not other costs. Meanwhile, UVA has increased salaries 5% each of the last two years and, in line with the state budget, the administration is proposing a third year of 5% for FY24, and non-personnel costs rose steeply with recent rises in inflation.
- Increases in unfunded state mandates are costly, such as the Virginia Military Survivors & Dependents Education Program (VMSDEP), etc.

Ms. Davis reminded the committee of the AccessUVA program, which meets full demonstrated need for all in-state and out-of-state undergraduates with grants, (capped) loans, and work study. For four years, loans are capped at \$4,000 for low-income Virginians, and \$18,000 for other Virginians. The cap is \$28,000 for non-Virginians.

In addition to the inflationary and workforce risks highlighted by the rating agencies, UVA is facing risks related to lower than planned market returns and higher than usual cost of capital. The Medical Center continues to face risks around competition, reimbursement rates, and the regulatory environment. Prospective recessionary risks include reduction in state appropriations, increase in student need, reliance on contract labor, the research funding outlook, a decline in market value of the long-term pool, and reduced philanthropy.

UVA continues to be only one of a very few triple A rated institutions in the country. The raters look at the diversity of revenues, strong long-term endowment performance, optimized debt portfolio, stable enrollment, exceptional student demand, successful fundraising, recent state re-investment, and the growth of UVA Health.

The proposed operating budget is a total of \$5.4B. Of that, \$3.4B is personnel. The academic division budget is \$2.3B and Ms. Davis showed the details in a series of slides. State appropriations are budgeted at \$229.4M.

The budget process starts at the unit level. Units consider reallocation possibilities first to invest in their mission. Requests can be brought forward to leadership when the unit funding is insufficient, and unavoidable costs are prioritized first. The remaining requests are analyzed considering needs v. wants, the strategic plan, and available resources. Reallocations and efficiencies add up to over \$8M in cost savings and avoidances.

The Medical Center budget is \$3.1B. Reallocations and efficiencies are part of the Medical Center budgeting process as well.

The College at Wise proposed budget is \$71.1M. They are also working hard on reallocations and efficiencies.

The Strategic Investment Fund was reviewed by category. The SIF Oversight Committee met and repurposed de-obligated funds from closed and modified accounts, established a path forward

to align a target balance by SIF category, confirmed that all prior awards are being monitored, and decided to focus on award return on investment (ROI) during the fall meeting of the Committee.

Mr. Baucom spoke about SIF research impacts including in the areas of autism and Alzheimer's research, climate adaptation, and Bicentennial scholarships and professorships that invest in faculty and students. There are 90 endowment funds supporting 124 professorships, and the scholarship program is supporting 1,000 students. Mr. Ryan pointed out that matching funds stay in the endowment, so it is additive.

The budget uses a 3.7% tuition increase for undergraduates. Ms. Davis said that state officials had very recently requested that in-state undergraduate tuition increases be no higher than 3%. Although it was very late in the process, she proposed a reduction in in-state undergraduate tuition increases to 3% for the upcoming academic year. She also requested that the Board reduce in-state undergraduate tuition increases at the College at Wise from 3% to 2%.

On motion, duly seconded, the committee approved the following resolutions and recommended them for full Board approval:

#### **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.

#### **Walk-on: 2023-2024 Tuition Reduction**

On motion, duly seconded, the committee approved the following resolutions and recommended them for full Board approval:

#### **2023-2024 TUITION REDUCTION FOR UNIVERSITY OF VIRGINIA IN-STATE UNDERGRADUATE STUDENTS**

WHEREAS, in December 2021, the Board of Visitors approved an increase in the base in-state, undergraduate tuition and mandatory fees of 3.7% for 2023-2024; and

WHEREAS, tuition and mandatory fee revenue is a critical component of the level of excellence we offer our students, of maintaining a strong workforce, and of the daily operations of the University. The approved tuition increase was intended to offset increasing annual fixed costs, a volatile inflationary environment and statewide employee compensation increases; and

WHEREAS, throughout the FY2024 budget development process, University leadership analyzed revenue and cost savings opportunities to identify the funding necessary to reduce the 2023-2024 base in-state undergraduate tuition increase to 3.0%;

RESOLVED, the 2023-2024 base in-state, undergraduate tuition rate increase is reduced to 3.0%. The loss of revenue will be recovered through savings resulting from cost efficiencies or if additional state appropriations become available in FY2024.

**2023-2024 TUITION REDUCTION FOR COLLEGE AT WISE IN-STATE UNDERGRADUATE STUDENTS**

WHEREAS, in December 2021, the Board of Visitors approved a 3% increase in the base in-state, undergraduate tuition and mandatory fees for the College at Wise in 2023-2024; and

WHEREAS, tuition and mandatory fee revenue is a critical component of the level of excellence we offer our students, of maintaining a strong workforce, and of the daily operations of the College. The approved tuition increase was intended to offset increasing annual fixed costs and statewide employee compensation increases; and

WHEREAS, College leadership determined that revenue and cost savings opportunities permit the reduction of the approved 2023-2024 base in-state undergraduate tuition increase to 2.0%;

RESOLVED, the 2023-2024 base in-state undergraduate tuition rate increase is reduced to 2.0%. The loss of revenue will be recovered through savings resulting from cost efficiencies or if additional state appropriations become available in FY2024.

**Action Item: Master of Education Tuition and Required Fees for the University of Virginia's College at Wise, 2023-2024**

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. The program was approved by SCHEV this March.

On motion, duly seconded, the committee approved the following resolution and recommended it for full Board approval:

**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.

	<b>2023-24 Proposed</b>
<b>Graduate Charges: Master of Education</b>	
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

**Action Item: Debt Shelf Registration**

Ms. Davis said financial markets continue to express volatility. In this environment, it is important to position the University to be nimble and have the ability to act quickly to potentially capitalize on any opportunistic market nuances. A tool the University has successfully used is a Board pre-authorization for future debt issuance, often referred to as a “Debt Shelf Registration.” The past three shelf registrations not only set up UVA to access the market quickly but permits working with our investment banks, monitoring supply/ demand and entering the market at the most opportunistic times. The current weighted average cost of capital of the University’s \$3.3B debt portfolio is 3.39% with an average life of 38 years; this includes two century bond issuances.

Although long-term borrowing rates have increased recently, they remain relatively low compared to long-term historic rates. Maintaining an open shelf registration is an excellent financial management tool that provides the University with maximum flexibility to manage its capital structure and debt portfolio in support of its multi-year capital program, and other strategic initiatives.

On motion, duly seconded, the committee approved the following resolution and recommended it for full Board approval:

**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.

**Action Item: UVA Medical Center Strategic Affiliation**

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. 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 delegation of authority by the Board of Visitors to the COO to negotiate terms and execute an agreement for a strategic affiliation with the health system once due diligence is completed. Any execution will be done 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.

The UVA Health Strategy Taskforce recommends approval of this affiliation. The Health System Board approved this affiliation yesterday.

On motion, duly seconded, the committee approved the following resolution and recommended it for full Board approval:

**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.

**Executive Vice President's Remarks**

Ms. Davis highlighted the quality of the people in her areas. and the work they do on behalf of the University. Three awards and recognitions demonstrate the excellence of the workforce and the important work that happens mostly behind the scenes that enables other people to focus on



the things that are important to the mission of teaching, conducting research, and providing patient care.

The first recognizes the work of our Records and Information Management Office. In 2008, a Process Simplification Team recommended that the University create a more structured and better-resourced program for handling, storage, and destruction of records in compliance with state laws and UVA policies. This year, it has been selected to receive the Program Excellence Award from the National Association of Government Archives and Records Administrators. This award recognizes collaboration between the UVA Records Office and stakeholders inside and outside of the University. It highlights innovation and creativity and the positive impact on the institution, and it reflects that a program can be used by other institutions as a model. The Records Office does all of those things remarkably well, led by University Records Officer Caroline Walters and supported by her colleagues, Jessie Graham and Anita Vannucci.

The second honor is for Rebecca White, Director of Parking & Transportation (P&T), who was honored with a Lifetime Achievement Award from the International Parking & Mobility Institute. Ms. White has been involved with this group for many years, and has played a key role in its programs for people who are in leadership and other positions dealing with parking design and enforcement, mobility, finance, and management. Huge accomplishment for Ms. White and her team. Ms. White will be retiring from UVA this year. She not only is a graduate of UVA but has been with P&T since she started work as a bus driver in 1982. Ms. White has done a wonderful job serving as Director since 2001. The Lifetime Achievement Award is a well-deserved recognition for her.

The last recognition was for Colette Sheehy who was honored by the National MS Society. Ms. Sheehy was selected by the Society for this year's Silver Hope Award and she accepted it during the Charlottesville Dinner of Champions in May. UVA Foundation CEO Tim Rose and Ms. Davis were emcees for the dinner.

Ms. Davis said it is truly humbling to have these hard working, highly professional experts on the team.

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There are two written reports in the materials: a UVA Endowment Report and a report on the Defined Contribution Retirement Plan, both of which are attached to these minutes. Chairman Blue adjourned the meeting at 10:40 a.m.

SGH:ddr

These minutes have been posted to the University of Virginia's Board of Visitors website: <http://bov.virginia.edu/committees/205>

# **ATTACHMENTS**

## UNIVERSITY OF VIRGINIA ENDOWMENT

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.

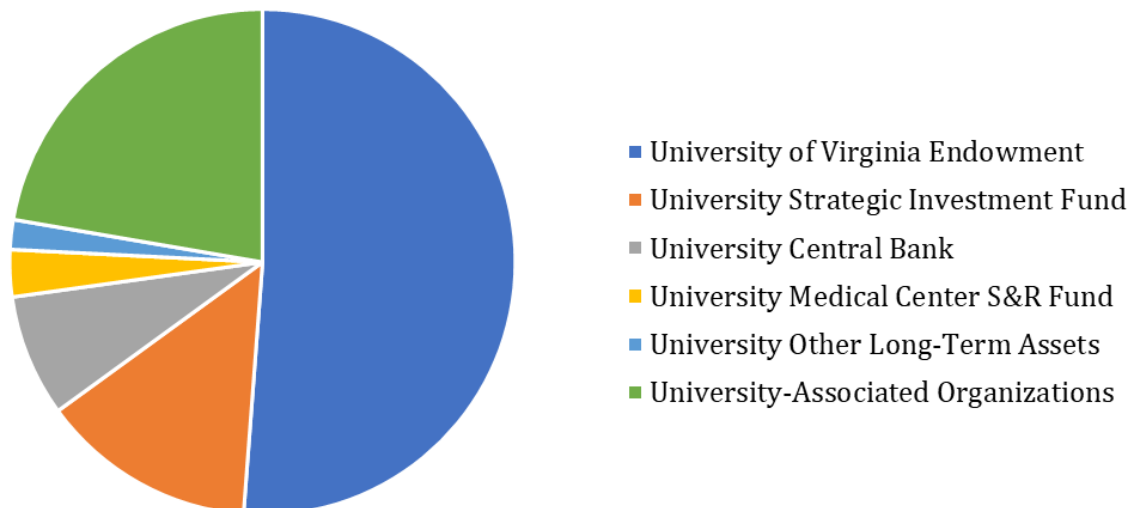
As of March 31, 2023, the Long-Term Pool is valued at \$13.5B. The Long-Term Pool includes the University of Virginia endowment (Rector & Visitors funds), the University Strategic Investment Fund (SIF), University Central Bank, University Medical Center Strategic & Reinvestment Fund (Medical Center SIF), 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**

	<b>Long Term Pool</b>	<b>% of NAV</b>
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%
<b>Total</b>	<b>\$13,512,551,787</b>	<b>100.0%</b>

*Figure 2*



## **Defined Contribution Retirement Plan Written Report of the Retirement Administrative Committee**

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.