

2018 —
2019

ANNUAL REPORT



UNIVERSITY
of VIRGINIA

INVESTMENT MANAGEMENT COMPANY



INVESTMENT MANAGEMENT COMPANY

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The University of Virginia Investment Management Company

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ANNUAL REPORT

2018—
2019

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To the Rector and Visitors of the University of Virginia, foundation trustees, and other members of the University community:

Just over a year ago, I joined the University of Virginia Investment Management Company (UVIMCO) as its CEO/CIO. Since then, I have become acquainted with the staff, our board of directors, our external investment managers, and the University of Virginia community. This annual report represents an opportunity to reflect on the past fiscal year as well as to highlight a few of the ways funds invested in our Long Term Pool support UVA's mission of serving the public through teaching, research, and health care.

UVIMCO's primary objective is to generate investment returns that (1) preserve the purchasing power of the University of Virginia's endowment after spending and (2) exceed the returns of our passive policy portfolio. We believe success in achieving this objective requires adherence to a consistent investment policy and process over time. During my first year as CEO/CIO, my primary priority was to review our existing investment policy and process.

As part of this effort, our team dedicated time to reviewing the risk tolerance of the University. We also conducted a deep-dive review of the Long Term Pool and re-underwrote our strategic asset allocation and liquidity framework, which will guide future decisions about the construction of our long-term portfolio.

Reflecting on market performance, after several years of below-average levels of market volatility, fiscal year 2019 (July 1, 2018, through June 30, 2019) was characterized by the return of volatility to equity markets. Global equities lost 8.8% over the first six months of the fiscal year but

rebounded strongly during the second half of the year, finishing the fiscal year up 6.3%. The Long Term Pool fared relatively well against this market backdrop, gaining 5.8% for the fiscal year ending June 30, 2019, while the policy portfolio returned 7.9% over the same period. Over the ten-year period ending June 30, 2019, the Long Term Pool generated an annualized return of 11.0%, exceeding both the 9.2% return for the policy portfolio and the University's inflation-adjusted spending rate.

Although we anticipate the market environment will remain challenging, we will continue to follow our long-term investment philosophy and consistent investment process. Our ability to maintain a long-term view in all market conditions allows both UVIMCO and our external investment managers to use valuation and volatility to our collective advantage, and to capitalize on market inefficiencies and risk premia that arise from other investors' focus on short-term market movements.

As UVA enters its third century, we have a vital responsibility to provide excellent stewardship of University and foundation financial resources. Our team shares a strong work ethic; a passion for investing; and a dedication to furthering the University's mission of serving Virginia, the nation, and the world by educating responsible citizen leaders; advancing, preserving, and disseminating knowledge; and providing world-class patient care. ■



ROBERT DURDEN
Chief Executive Officer
Chief Investment Officer
UVIMCO

UNIVERSITY OF VIRGINIA

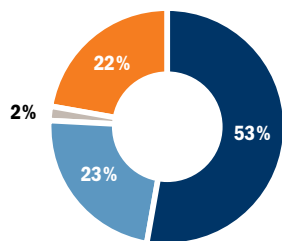
**A leader in public higher education with
a renowned academic medical center and
a nationally ranked endowment.**

ACADEMIC**#2****BEST VALUE PUBLIC
NATIONAL UNIVERSITY***2019 U.S. News & World Report***#3****BEST PUBLIC
NATIONAL UNIVERSITY***2019 U.S. News & World Report***#25****BEST NATIONAL
UNIVERSITY***2019 U.S. News & World Report***HOSPITAL****#1****HOSPITAL
IN VIRGINIA***2019 U.S. News & World Report***9****NATIONALLY RANKED
OR HIGH-PERFORMING
HOSPITAL SPECIALTIES***2019 U.S. News & World Report***6****NATIONALLY RANKED
CHILDREN'S HOSPITAL
SPECIALTIES***2019 U.S. News & World Report***ENDOWMENT****\$9.6****BILLION IN LONG
TERM POOL****AMONGST****TOP 5****LARGEST PUBLIC
U.S. COLLEGES AND
UNIVERSITIES****11.0%****LONG TERM POOL
10-YEAR RETURN**



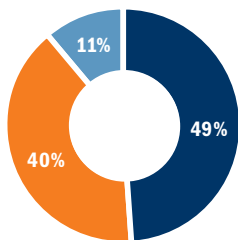
2019
NATIONAL CHAMPIONS
MEN'S BASKETBALL & LACROSSE

Overview



LONG TERM POOL
(\$9.6 billion)

- University of Virginia Endowment
- University Strategic Investment Fund
- University Other Long-Term Assets
- University-Associated Organizations



SHORT TERM POOL
(\$474.6 million)

- Long Term Pool Cash
- University Strategic Investment Fund
- University-Associated Organizations



VIMCO provides investment management services to the Rector and Visitors of the University of Virginia. Many of the University’s schools and programs have associated organizations that raise funds and attract private investment in the University’s undergraduate and graduate programs. UVA and these organizations work together with the associated schools and programs to enhance alumni support and ensure funds are managed prudently and gifts used according to

donors’ intentions. Together, the University and its associated organizations determine how best to use unrestricted contributions to provide student aid, enhance teaching and research, build and maintain library collections, and support student organizations and publications.

UVIMCO invests the endowment and other long-term funds held by the University and its associated organizations in the Long Term Pool, which is custom-managed for the endowment spending requirements and risk tolerance of the University. UVIMCO also manages the Short Term Pool for the University and associated organizations with near-term liquidity needs. The investor compositions of the Long Term Pool and Short Term Pool as of June 30, 2019, are as shown in the graphs on the left.

The Consolidated Endowment

An endowment fund is a permanent, self-sustaining source of funding. Endowment assets are generally invested with a view toward long-term capital appreciation. Each year, a portion of the endowment value is paid out to support the fund’s purpose, and any earnings in excess of this distribution help build the fund’s market value over time. In this way, an endowment fund grows and provides support for its designated purpose in perpetuity.

The University of Virginia’s consolidated endowment ranks among the five largest for public institutions of higher education and among the twenty largest of all colleges and universities in the United States. Equally important, the University’s endowment-per-student ratio is one of the largest among U.S. public institutions of higher education.

UVA’s strong endowment has been a critical asset in enabling the University to expand its program offerings and facilities. The endowment has also played a vital role in attracting high-quality students and faculty. Invested properly, endowments generate the reliable stream of income essential to supporting professorships, scholarships, fellowships, lectureships, research funds, and book funds, as well as many other positions and resources.

The University of Virginia’s endowment strength also provides the financial support and flexibility necessary when other revenue sources

decline. Historically, the University relied heavily on appropriations from the Commonwealth of Virginia. However, in Virginia and many other states, macroeconomic changes and constrained state budgets in recent years have resulted in less revenue available for public education. Steadily declining state support means the University must increasingly rely on past and continued donor generosity to sustain its margin of excellence. Annual contributions help cover the University’s yearly operating expenses, whereas new gifts to the endowment, along with the endowment’s long-term investment performance, help secure the University’s long-term financial stability. As Graph 1 illustrates, for the past eight fiscal years, endowment spending has surpassed state appropriations as a funding source for the University’s academic budget.

The Strategic Investment Fund

The University of Virginia’s Strategic Investment Fund (SIF) provides essential support for the University’s strategic priorities. From 2016 until 2019, awards were made to further the research progress of the University, materially enhance the quality of the academic experience, support an affordable and excellent education for Virginians, and expand economic development in the Commonwealth of Virginia. As the University embarks on its third century, the SIF will serve as one of the sources of funding for the key initiatives outlined in UVA’s 2030 Plan and the strategic plans of the Health System and The University of Virginia’s College at Wise.



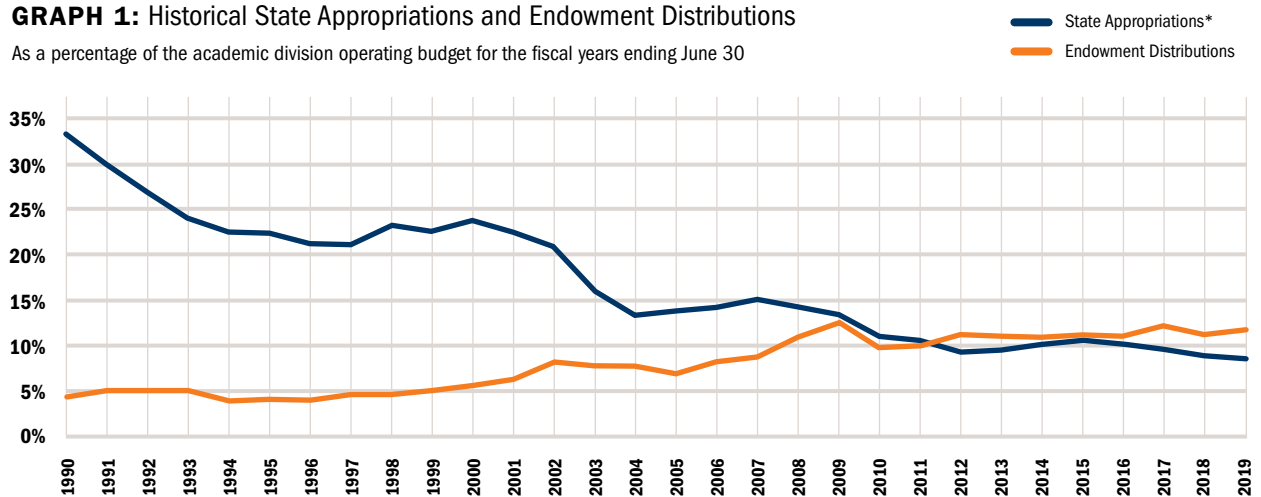
Far and away the best prize that life offers is the chance to work hard at work worth doing.”

—THEODORE ROOSEVELT

26th president of the United States

GRAPH 1: Historical State Appropriations and Endowment Distributions

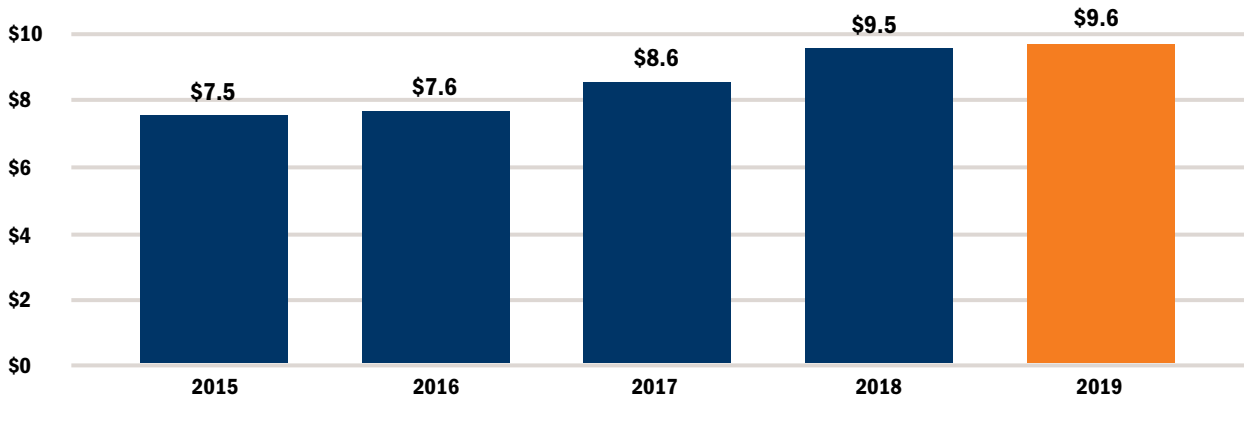
As a percentage of the academic division operating budget for the fiscal years ending June 30



*State appropriation represents unrestricted state general funds appropriated for basic educational needs and excludes restricted state general funds to be used for research and financial aid.

GRAPH 2: UVIMCO Long Term Pool Market Value

In billions, as of June 30



In fiscal year 2018-2019, the Board of Visitors approved SIF projects that include investments in the Biocomplexity Institute, the Global Genomics and Bioinformatics Research Institute, the Memorial for Enslaved Laborers, the Bicentennial Scholars Fund, and the Bicentennial Professors Fund.

The two largest SIF commitments to date have been the Bicentennial Scholars and Bicentennial Professors funds. These two funds were created by the Board of Visitors and are supported by both the SIF and private philanthropy. The Bicentennial Scholars Fund is an endowment fund dedicated to providing need- and merit-based scholarships at UVA, and will serve as a sustainable, long-term source of financial aid to help provide an affordable, world-class education to future generations of students. The Bicentennial Professors Fund was established to strengthen UVA's efforts to attract and retain distinguished faculty members who will drive research and collaboration at the University of Virginia.

UVIMCO's Long-Term Objective

UVIMCO's primary investment objective is to maximize the long-term, inflation-adjusted return of the Long Term Pool within the risk tolerance of the University. UVIMCO achieves this objective by actively managing the Long Term Pool in a manner carefully designed to provide a substantial and growing stream of income to support the University and its associated organizations, while preserving the purchasing power of their long-term investment assets for future generations. Over the past decade, UVIMCO's active management of the Long Term Pool has added \$1.4 billion to the University's long-term funds beyond the amount that would have been earned by investing in its passive benchmark portfolio. ■



GARRETT HALL

10 PRINCIPLED STUDENT

10 BRAVE STUDENT

10 PROVERING STUDENT

10 YEARS OF HARDY STUDENT

Investment Strategy



We are what we repeatedly do. Excellence, then, is not an act, but a habit.”

—WILL DURANT

American writer and historian

Core Tenets

UVIMCO believes that attractive long-term investment returns are best produced by employing a consistent investment philosophy and process over time. Therefore, we adhere to the following core tenets as we invest the Long Term Pool.

We focus on the long term.

UVIMCO’s investment horizon is measured in years, if not decades, which aligns with the mission of the University as well as the perpetual nature of an endowment. A long-term perspective provides us with a critical competitive advantage, as global markets are increasingly becoming oriented more toward the short term. Our focus on the long term is also especially well suited for investments in less efficient illiquid or niche markets that provide fertile ground for active management. We leverage patience to generate attractive long-term risk-adjusted returns, but we acknowledge that this strategy may sometimes result in short-term underperformance relative to passive benchmarks and peer investors.

We believe in active management.

Consistently outperforming passive indices is difficult, but it can be done. UVIMCO has a long history of partnering with exceptional investment managers who have demonstrated the ability to generate alpha through disciplined investment processes, novel insights, and hard work. Sourcing, evaluating, and developing these relationships is our core competency and the primary driver of UVIMCO’s excess returns over time. The reputation we have cultivated as a value-added partner, our extensive network of market contacts, and the patient capital we provide have enabled us to build relationships with many of the most successful investment managers in the world.

We employ a global, flexible investment mandate.

Our investment process is structured and disciplined, but we also seek to be flexible and innovative in response to constantly evolving global financial markets. The Long Term Pool is a broadly diversified portfolio with capital allocated to well-established investment managers, emerging firms, and securities all around the world. We augment our core bottom-up manager selection process with top-down portfolio overlays and rigorous asset allocation analyses. We maintain a robust

co-investment program to upsize particularly attractive opportunities with the added benefit of lower fee structures. We seek to strengthen our existing capabilities while thoughtfully honing our investment model to find new sources of attractive returns in an increasingly competitive return environment.

We evaluate and manage risk.

Our primary function is to identify attractive investment opportunities and assess the likelihood of earning sufficient compensation for assuming the associated risks. As such, we seek to measure and manage risk, not avoid risk altogether. UVIMCO measures and controls for risk based on the risk tolerance and capital requirements of the University. We assume certain risks but avoid others when we are unable to either absorb the associated potential downside or earn enough premium for bearing those risks.

Investment Policy

An investment policy is a financial blueprint designed to reflect an institution's return objectives and risk tolerance. In addition, an investment policy sets forth the applicable standard of care, delineates the responsibilities of the board and staff, and establishes various parameters for risk management. The UVIMCO Board of Directors establishes and annually reviews the investment policy for the Long Term Pool. Our board also monitors the development, analysis, adoption, execution, and performance of investment decisions made by the UVIMCO staff.

UVIMCO's investment policy includes a policy portfolio allocation, which our board establishes based on the University's risk tolerance and expected future capital requirements. Our board carefully considers capital market risk and return estimates to ensure that the policy portfolio is appropriately designed to achieve the objectives of the Long Term Pool. UVIMCO's investment policy portfolio allocation is 60% global equities, 10% real assets, and 30% fixed income.

Equity investments provide an opportunity to participate in the growth of public and private companies. In a growing global economy with low inflation, these investments historically have provided the highest long-term returns. Real assets provide protection in an inflationary environment and thus tend to benefit a diversified portfolio



Nobody buys a farm based on whether they think it's going to rain next year. They buy it because they think it's a good investment over 10 or 20 years."

—WARREN BUFFETT

American investor and philanthropist



To expect the unexpected shows a thoroughly modern intellect.”

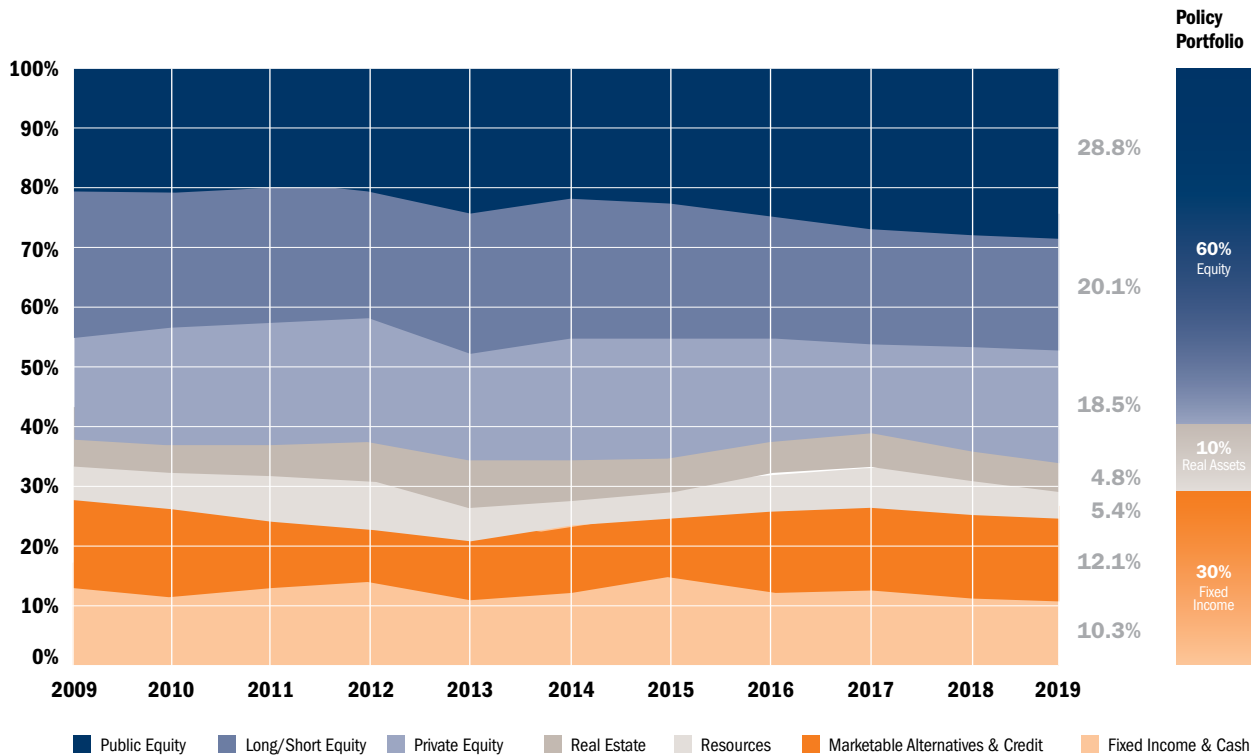
—OSCAR WILDE
Irish poet and playwright

during periods of a depreciating dollar and/or rising prices or interest rates. Fixed income investments provide protection in deflationary or weak economic environments.

Since the policy portfolio is established to reflect the risk tolerance and long-term needs of the University, revisions to the policy portfolio are relatively infrequent and gradual. However, because market prices and portfolio valuations are dynamic, and our bottom-up investment opportunity set is always changing, the actual investment allocation of the Long Term Pool will differ from the policy portfolio allocation at any given point in time. The Long Term Pool’s asset allocation has been relatively stable for several years. Graph 3 displays the trends in the asset allocation of the Long Term Pool over the past decade. ■

GRAPH 3: UVIMCO Long Term Pool Historical Asset Allocation

Fiscal years ending June 30





Risk Management

UVIMCO measures and controls for market, liquidity, and manager-specific risks based on the risk tolerance of the University. We recognize that no single risk metric paints a complete picture, and therefore we utilize numerous quantitative and qualitative analyses to assess and control risk.

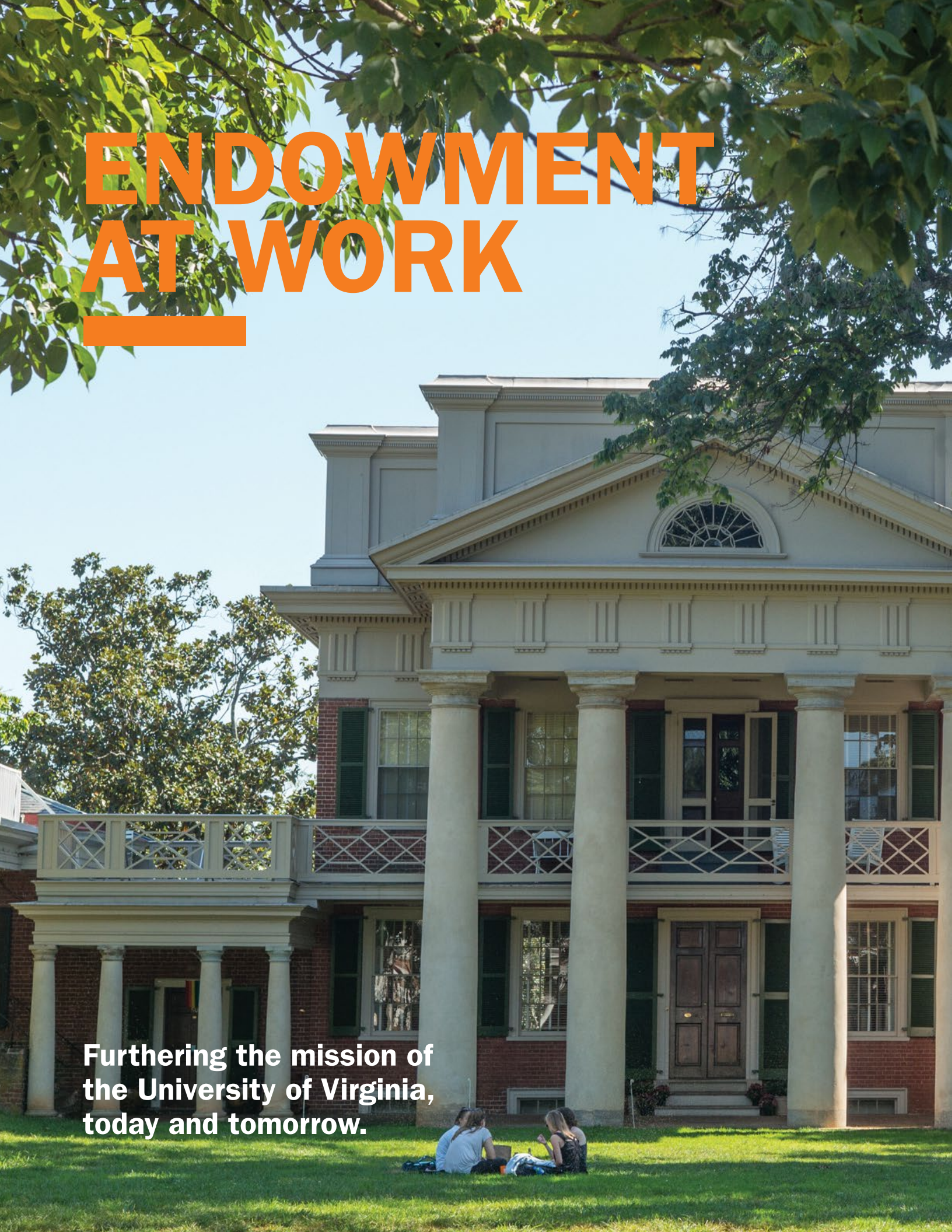
UVIMCO manages market risk in the Long Term Pool by diversifying across three broad asset classes: equity, real assets, and fixed income. We balance the short-term risk of a significant drawdown in the value of the endowment against long-term risk, which we define as a decline in the purchasing power of the endowment over time.

UVIMCO defines liquidity risk for the Long Term Pool as an inability to fund investor withdrawals, capital calls from private funds, rebalancing activities, and attractive new investment prospects. We manage liquidity risk in the Long Term Pool by maintaining a portfolio of U.S. Treasury bills and notes, retaining sufficient liquidity with our public market managers, and carefully monitoring the pace of our commitments to private investments. We also maintain sufficient liquidity to avoid becoming a forced seller of assets at distressed prices.

Manager-specific risks include the risk that the investments selected by a manager will underperform the relevant benchmark, operational or business risks within a manager's organization, key person risk, lack of transparency, and leverage. UVIMCO mitigates manager-specific risk through diversification and through the employment of extensive due diligence to assess both the investment and operational aspects of our external investment managers. We diversify our investments to acknowledge that markets and partners are uncertain, but we recognize that concentration and conviction are integral to outperformance. ■

ENDOWMENT AT WORK

**Furthering the mission of
the University of Virginia,
today and tomorrow.**







AN ENDOWED GIFT IS A POWERFUL INVESTMENT IN THE UNIVERSITY OF VIRGINIA.

Endowed funds serve as a sustainable source of funding that fuel the University's mission of developing responsible citizen leaders and professionals; advancing, preserving, and disseminating knowledge; and providing world-class patient care. This year, we highlight a few of the ways endowed funds invested in the Long Term Pool support UVA's ability to attract and retain an eminent faculty. UVA's dynamic and distinguished faculty members foster a collaborative academic environment; drive groundbreaking research; and teach, mentor, and inspire future generations of leaders.



- ▶ **FIRST**, we spotlight the achievements of José Oberholzer, MD, who works in the field of transplant surgery. Oberholzer, the Charles O. and Judith S. Strickler Professor in Transplant Surgery, is a pioneer in robotic surgery and an expert in liver, kidney, pancreas, and small bowel transplants. His latest research focuses on the use of cell therapy technologies for the potential treatment of type 1 diabetes.
- ▶ **SECOND**, we highlight the critical support provided by endowed professorships to the University's efforts to attract and retain eminent scholars whose research transcends traditional disciplinary boundaries. Sarah E. Turner, the Souder Family Professor in Arts & Sciences, is University Professor of Economics and Education at UVA and brings valuable expertise to the study of education policy.
- ▶ **THIRD**, we bring attention to the role of endowed support in furthering the Jefferson Scholars Foundation's mission of attracting talented students, researchers, and faculty members. The Foundation's most recent initiative is the Jefferson Professorship Program. Endowed professorship funds allow faculty salaries and other program costs to rely on more stable, permanent sources of funding instead of on annual sources of revenue such as tuition, state funds, and annual giving.



A Second Lease on Life

Having performed more than a thousand transplant-related surgeries, José Oberholzer, MD, brings experience and innovation to the University of Virginia Charles O. Strickler Transplant Center. A pioneer in robotic surgery and an expert in liver, kidney, pancreas, and small bowel transplants, Oberholzer is also a leader in research focused on helping patients with diabetes.

The only comprehensive transplant center in Virginia, UVA has six cutting-edge transplant programs, including those for the heart, lungs, and pancreas. Under Oberholzer's leadership, the volume of people seeking transplants at the University has soared, as have positive patient outcomes. UVA investigators are reducing the chances of organ rejection through increasingly sophisticated medication and post-surgery monitoring. Their work is also resulting in fewer side effects, improved quality of life, and greater longevity among patients.

“Until 2017, 40% of Virginians in need of an organ transplant were seeking care outside the commonwealth,” Oberholzer says. “UVA's leadership knew this could not be the best way of receiving care. As part of a great team effort, within two years, we almost doubled the number of organ transplants performed per year. We will continue on this growth and quality path until all Virginians in need can get a successful transplant at UVA.”

The University of Virginia Board of Visitors selected Oberholzer to hold the Charles O. and Judith S. Strickler Professorship in Transplant Surgery in 2017. The funds for the position, which have been invested with UVIMCO since 1996, allow UVA to attract a nationally renowned transplant surgeon and investigator to develop life-saving medical advances. A career innovator, Oberholzer pioneered the use of robotic-assisted surgery to provide overweight patients with safe access to kidney and pancreas transplants. He holds three patents, helped found two start-up companies, and is the founder and coordinator of the Chicago Diabetes Project, an international research collaboration devoted to finding a cure for diabetes. The Strickler Professorship allows him to pursue a cure for type 1 diabetes using advanced therapies such as islet cell transplantation.

“I'm interested in treating diabetes by using cell therapy technologies that replace cells in the pancreas,” Oberholzer explains. “UVA has tremendous brainpower in diabetes technologies and is building a large cell-therapy unit. That's something I've been doing for twenty years. I'm in the process of getting FDA approval for a cell therapy for juvenile diabetes that will be the first



JOSÉ OBERHOLZER
Charles O. and Judith S. Strickler
Professor in Transplant Surgery



approved cell product for diabetes in the U.S.”

As its name suggests, UVA’s transplant center developed into the robust program it is today thanks in part to the initial philanthropy of the Strickler family. Since that early support, the family’s generosity has extended a second chance to thousands of families around the commonwealth. For the late Charles “Chip” Strickler and his wife, Judy, the reasons for creating an endowment were personal: Chip was a transplant patient at UVA more than thirty years ago, and the couple gave in gratitude for the care Chip received at that time. Chip hoped their philanthropy would help make UVA a premier transplant institution centrally located in Virginia. Endowment support advances groundbreaking research efforts like Oberholzer’s—leading to breakthroughs that produce real, immediate, and lasting results for patients today and in the future.

“Some people think transplantation is uncommon and rarely done,” Oberholzer says. “In reality, transplant has become the standard of care for many diseases. For the donor, organ transplant lets an individual give another person a second lease on life. That’s the beauty of transplantation. It’s a pure, altruistic act.” ■

“As part of a great team effort, within two years, we almost doubled the number of organ transplants performed per year. We will continue on this growth and quality path until all Virginians in need can get a successful transplant at UVA.”

—JOSÉ OBERHOLZER



SARAH E. TURNER
Souder Family Professor in
Arts & Sciences

Driving Educational Policy Change through Cross-Disciplinary Research

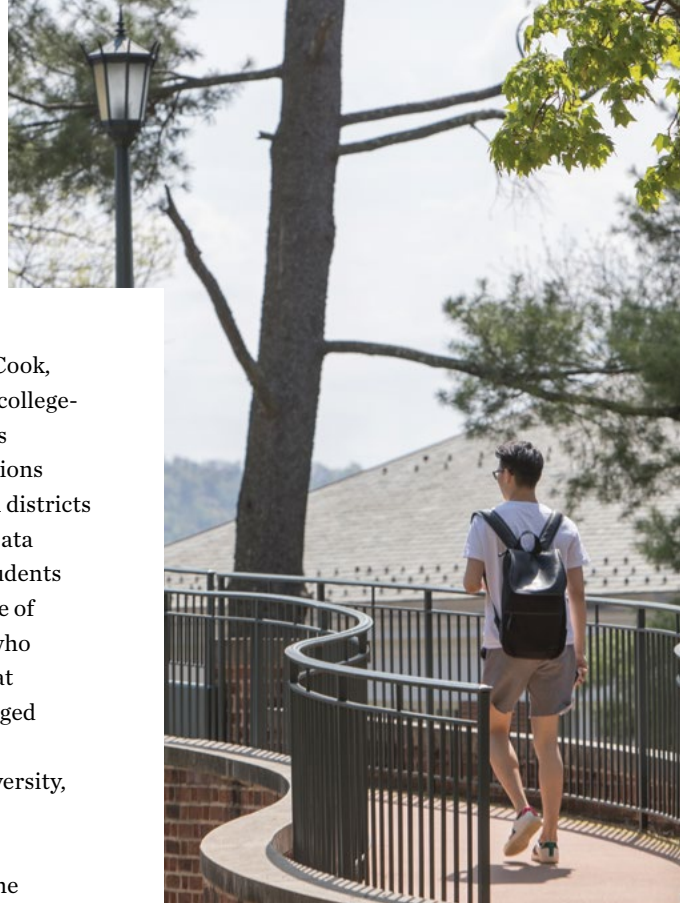
Educational policy decisions made today have a transformative impact on tomorrow's leaders and all of society. Such decisions aim to improve the educational system, ensure equal opportunity for all students, and prepare students to succeed both in academic settings and in the workplace. But driving change to improve educational outcomes is no easy task. Many educational policy issues are multifaceted, and developing solutions to complex problems requires thinking across disciplines.

The University of Virginia seeks to transcend traditional disciplinary boundaries in research—in the educational arena and beyond—by fostering a collaborative academic environment that encourages the exchange of ideas among faculty members. In pursuit of this goal, the University is dedicated to assembling and supporting a distinguished faculty with cross-disciplinary expertise and a common commitment to working together to address some of society's most pressing challenges. Endowed professorships provide critical support to the University's efforts to attract and retain eminent scholars who can leverage their unique interdisciplinary expertise to fuel cutting-edge research.

In 2014, UVA's Board of Visitors elected Sarah E. Turner to the Souder Family Professorship in Arts & Sciences. Funds for this endowed professorship are invested in UVIMCO's Long Term Pool. Turner is University Professor of Economics and Education at UVA as well as a research associate at the National Bureau of Economic Research. She teaches undergraduate- and graduate-level courses in the University's Department of Economics, the Curry School of Education and Human Development, and the Frank Batten School of Leadership and Public Policy. Her joint appointments across Grounds help bridge departmental boundaries in the study of education policy.

Over the past three decades, Turner has studied a wide range of policy-relevant issues, specializing in the economics of higher education and labor economics. Turner's recent research centers on the impact of the internationalization of higher education on university and labor market outcomes, as well as the determinants of college choice and collegiate completion, with a focus on policies that affect students from low- and moderate-income households.





In 2018, Turner and a doctoral candidate in economics, Emily E. Cook, studied barriers to participation in college admission testing among college-ready students in Virginia. While an admission test such as the SAT is considered a key component of the college application process, decisions about student participation in such tests in Virginia are left to school districts and parental discretion. Using data from the Virginia Longitudinal Data System, Turner and Cook estimated the potential performance of students who did not take the PSAT and SAT tests. They observed the presence of students with strong academic achievement in the pool of students who did not take the exams. The study’s findings furthermore indicate that these students are disproportionately from economically disadvantaged backgrounds and live in more rural areas of Virginia.

In related work, Turner, with Caroline M. Hoxby of Stanford University, co-authored and published a series of working papers examining the underrepresentation of high-achieving, low-income students in higher education. As part of the project, Turner and Hoxby studied the shortcomings of existing measures of “opportunity” and proposed a new method for measuring colleges’ success in enrolling qualified, low-income students, while staying cognizant of their distinct institutional missions and demographic pools. The proposed method is intended to provide leaders in higher education with the knowledge and tools necessary to conduct a well-conceived, data-driven self-evaluation of their success at expanding college opportunities to all students.

Turner has more projects forthcoming on the topics of college application, college choice, and college financing. Speaking of the overarching goal, she says, “My aim in this area is to use methods and models from economics and other social sciences to better identify the barriers that limit college matching and to develop interventions that can be brought to scale to address these challenges.”

Turner’s contributions to the University go well beyond teaching, mentoring, and research. During her tenure as chair of the Department of Economics (2013–2016), she provided strategic leadership in faculty recruitment efforts, including helping to hire twelve tenured and tenure-track faculty members. She continues to play a critical role in strengthening the academic excellence of the department as well as promoting cross-departmental engagement in collaborative areas of research.

Turner is consistently named to the RHSU Edu-Scholar Public Influence Rankings, which annually recognize 200 faculty members at U.S. universities who provide substantial contributions to discussions on educational policy and practice. Thanks to endowment support from generous alumni, parents, and friends, UVA will continue to support nationally renowned, eminent scholars like Turner who provide strategic leadership in advancing interdisciplinary research as a means to driving societal change. ■

“My aim in this area is to use methods and models from economics and other social sciences to better identify the barriers that limit college matching and to develop interventions that can be brought to scale to address these challenges.”

—SARAH E. TURNER

Jefferson Scholars Foundation

Answering the Call

For nearly forty years, the Jefferson Scholars Foundation has remained steadfast in its mission to serve the University of Virginia by identifying, attracting, and nurturing individuals of an extraordinary intellectual range and depth. These students—more than 900 in total since the Foundation’s inception—possess the highest concomitant qualities of leadership, scholarship, and citizenship. In accomplishing this mission, the Foundation has supported the needs of the University at critical points throughout its history.

Key to the Foundation’s success over the past four decades is its funding model. The Foundation has never relied on current-use dollars to support its annual operations. Rather, nearly all gifts received by the Foundation, no matter the size, are invested with UVIMCO. This investment strategy, pursued with a view toward long-term capital appreciation, provides a stable and growing source of income in perpetuity.

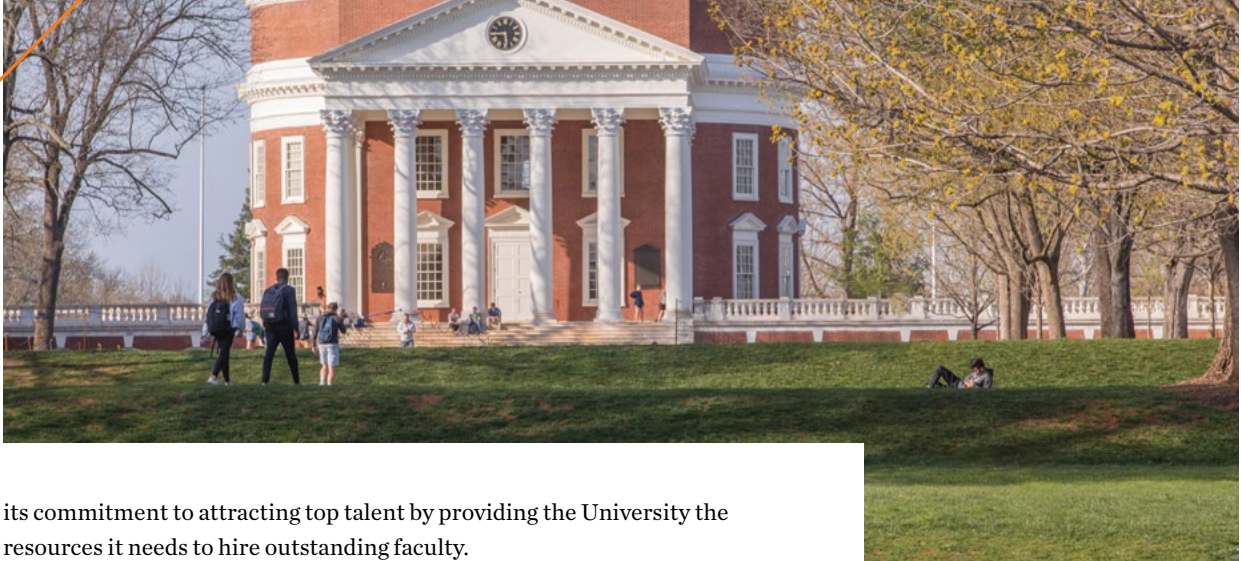
Programmatically, the Foundation accomplishes its mission through three distinct initiatives. Since its inception in 1980, the Foundation has administered a merit scholarship competition to attract outstanding undergraduate students to UVA from across the globe. Recipients of Jefferson Scholarships are selected based on their high school record of achievement both inside and outside the classroom and receive full financial support for four years of study.

In 1998, the Foundation answered the University’s call to build on its success at the undergraduate level by identifying and attracting to UVA graduate students who possess the highest promise as scholars, teachers, public servants, and business leaders. The Foundation has done so through the Jefferson Fellowship Program. Recipients are selected based on their ability to contribute to UVA’s intellectual life, and these Jefferson Fellows receive support to attend the University.

Most recently, the Foundation responded to the University’s need once again by helping to attract to UVA exceptional classroom teachers and innovative researchers through its Professorship Program. A series of \$5 million endowed professorships has enabled the Foundation to underscore



KEVIN A. PELPHREY
Harrison-Wood Jefferson Scholars
Foundation Professor



its commitment to attracting top talent by providing the University the resources it needs to hire outstanding faculty.

In less than ten years, the Foundation has raised more than \$55 million in support of its professorships—or eleven \$5 million endowed funds. Financial support from these funds enables the cost of faculty salaries to be transferred from annual sources of revenue such as tuition, state funds, and annual giving to endowed, permanent sources of funding.

To date, three of the Foundation's professorships have been filled, including the Harrison-Wood Jefferson Scholars Foundation Professorship. Kevin A. Pelphrey, an internationally renowned neuroscientist, joined UVA's faculty in the fall of 2018 with dual appointments in the School of Medicine and the Curry School of Education and Human Development. Pelphrey has extensive experience teaching and conducting research at leading institutions across the country, including Carnegie Mellon, George Washington University, Duke, and Yale. At UVA, Pelphrey is continuing his groundbreaking research on autism, using brain science to develop biologically based tools for determining and tailoring treatments for individuals on the autism spectrum.

The Foundation's financial permanence and proven ability to carry out its mission have instilled confidence in thousands of UVA alumni and friends who have supported the Foundation for over four decades. Today, the Foundation manages more than 650 perpetual funds that provide a strong and continuing source of support for future generations of exceptional undergraduate and graduate students, as well as outstanding faculty.

The Foundation has a bright future due to the strength of its mission and the financial resources it has marshaled to grow in perpetuity. The Foundation's goal has always been to support the University. For now and for the future, the Jefferson Scholars Foundation stands ready to answer that call—whatever that requires. ■

As part of the Jefferson Scholars Foundation's strategic plan and the University's Honor the Future campaign, the Foundation aims to raise an additional \$50 million—or ten faculty chairs—by 2025.

Investment Performance



We assess the performance of the Long Term Pool in several ways. Our primary objective is to generate inflation-adjusted, long-term returns in excess of the University's spending rate, thereby achieving our goal of generating a steady source of income to support UVA's mission. We also seek to outperform the long-term returns of our passive policy portfolio benchmark. Lastly, we compare our

performance with that of a broad universe of other institutional investors. Although we do not unduly focus on the investment activities and results of peer organizations, we recognize that relative performance is important to our investors.

The Long Term Pool has a passive policy portfolio benchmark comprised of public market indexes: 60% equity, 10% real assets, and 30% fixed income. After several years of below-average levels of market volatility, fiscal year 2019 was characterized by the return of volatility to equity markets. Global equities gained 6.3% despite heightened trade tensions and concerns of slowdown in global growth. Global bonds advanced 7.8%, while global public real estate gained 13.8%. In aggregate, UVIMCO's policy portfolio returned 7.9% during the twelve-month period ending June 30, 2019.

UVIMCO actively manages the Long Term Pool, primarily by employing external investment managers to pursue long-term returns exceeding the policy benchmark while maintaining a comparable level of market risk. The Long Term Pool returned 5.8% in fiscal year 2019 versus the policy portfolio's return of 7.9% over the same period. Table 1 summarizes the performance of the Long Term Pool and its component strategies over time. As the table shows, different investment strategies make positive contributions to the Long Term Pool's absolute and relative performance over time.

Our goal is not to outperform the passive benchmark over one-year or other short-term time periods. Rather, as an endowment manager, UVIMCO seeks to outperform the passive benchmark over the long term. Over the ten- and twenty-year periods ending June 30, 2019, UVIMCO's portfolio compounded at an annualized rate of 11.0% and 10.3%, respectively. This performance exceeds both the University's spending rate (plus inflation) and the ten-year and twenty-year annualized returns available through ownership of the passive policy portfolio — 9.2% and 5.9%, respectively.

In addition to evaluating the Long Term Pool's performance relative to

the market and our policy portfolio, we consider our performance relative to the Wilshire Trust Universe Comparison Service (TUCS) All Master Trust Universe, a broadly accepted benchmark for the performance of institutional assets, including corporate and public pensions, endowments, and foundations. As shown in Graph 4 (page 26), the Long Term Pool's returns for

TABLE 1: UVIMCO Long Term Pool Strategy Allocation and Investment Returns

In percentages, as of June 30, 2019

	Allocation ¹	1YR	ANNUALIZED			
			3YR	5YR	10YR	20YR
EQUITY						
Public	28.8	6.1	14.6	8.8	16.6	11.0
Long/Short	20.1	1.5	5.6	4.3	7.5	9.4
Private	18.5	21.9	16.5	13.8	17.7	16.3
Total Equity	67.4	8.8	12.2	8.8	13.4	12.1
<i>MSCI All Country World Equity</i>	60.0	6.3	12.2	6.7	10.7	5.3
REAL ASSETS						
Real Estate	4.8	5.1	7.3	10.5	5.6	2.4
Resources	5.4	(10.5)	13.7	1.1	12.9	16.2
Total Real Assets	10.2	(4.1)	10.3	7.3	11.3	10.0
<i>MSCI Real Estate²</i>	10.0	13.8	7.0	8.1	13.2	8.4
FIXED INCOME, CASH & MAC						
Marketable Alternatives & Credit (MAC)	12.1	1.4	5.3	3.0	7.9	6.3
Fixed Income	6.7	6.6	2.1	1.7	1.6	5.0
Cash & Currency	3.6	2.1	1.3	0.8	–	–
Total Fixed Income, Cash & MAC	22.4	2.7	3.6	2.4	4.7	4.5
<i>Bloomberg Barclays Aggregate Bond³</i>	30.0	7.8	2.6	3.4	4.1	4.9
LONG TERM POOL⁴						
<i>Policy Benchmark⁵</i>	100.0	5.8	9.8	7.0	11.0	10.3
		7.9	8.9	6.0	9.2	5.9

1. Percent of net asset value

2. 50% MSCI U.S. Real Estate and 50% MSCI All Country World Real Estate

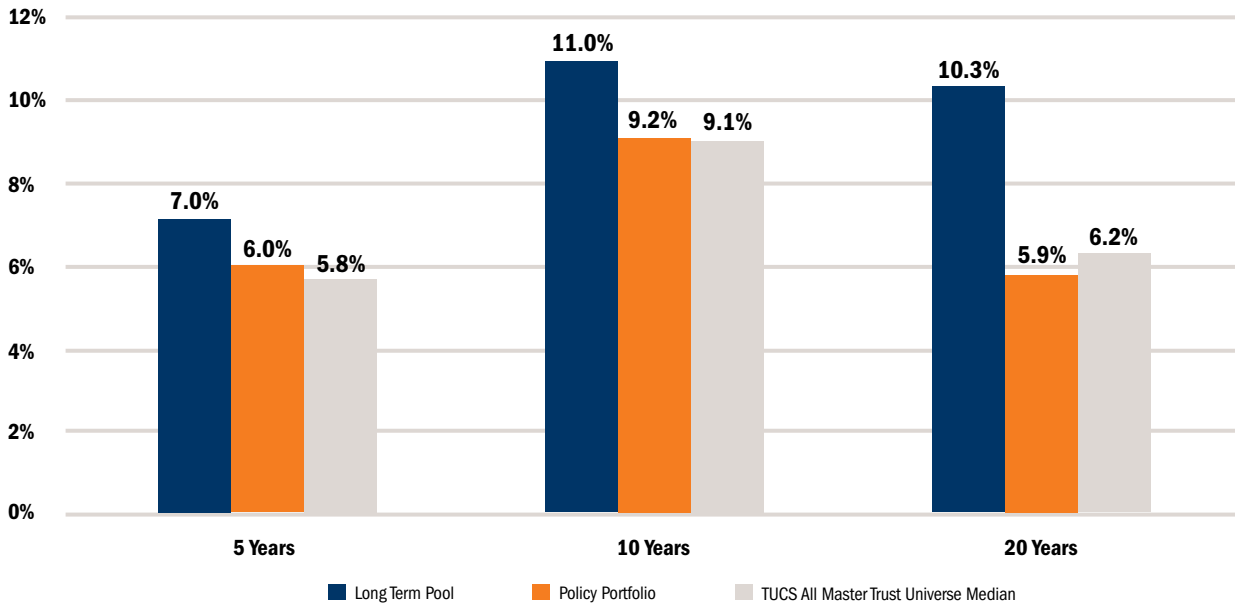
3. 50% Bloomberg Barclays U.S. Aggregate Bond and 50% Bloomberg Barclays Global Aggregate Bond (hedged in USD)

4. Long Term Pool returns are presented gross of UVIMCO management and incentive fees

5. Geometrically linked monthly average of 60% MSCI All Country World Equity, 10% MSCI Real Estate, and 30% Bloomberg Barclays Aggregate Bond

GRAPH 4: UVIMCO Long Term Pool Relative Performance

Annualized through June 30, 2019



Don't get distracted by shiny objects."

—RAY DALIO

American investor and philanthropist

the past five, ten, and twenty years have exceeded the median return of other institutional investors as well as that of the policy portfolio.

UVIMCO's focus remains on the long term. Our primary competitive edge is our ability to maintain a long-term view in all market conditions and avoid overreacting to short-term market dislocations. We will continue to exploit this relative advantage as we seek to generate attractive, risk-adjusted returns to support the long-term spending needs of the University. In addition, we will remain disciplined in our approach to manager selection, asset allocation, and risk management. We recognize the value of the relationships we have built over many years and will continue to partner with managers who we believe can generate outsized net returns beyond those of passive market participants. Our team is dedicated to investment excellence and to supporting the University, and we will continue to seek new opportunities to add value to the endowment. ■

Short Term Pool



Established in 2012, the Short Term Pool offers the University and its associated organizations an investment alternative for their short-term operating funds. The primary purpose of this pool is to preserve principal and provide a low-cost, stable, highly liquid, and secure investment vehicle to the University and associated organizations. The Short Term Pool allows these entities to invest their cash alongside the cash

of the Long Term Pool. By varying their allocations of investment funds between the Long Term Pool and the Short Term Pool, they can tailor an individualized portfolio of investments to their desired risk and liquidity levels. Holding more liquid investments generally results in decreased overall expected returns in the long term.

The Short Term Pool is primarily invested in U.S. Treasury notes and bills with maturities of not more than one year, except for U.S. Treasury floating rate notes, which may have a maturity of up to two years. The Short Term Pool incurs low expenses because UVIMCO charges no management or performance-based fees to the pool. UVIMCO is also able to customize the composition of the Short Term Pool to meet the liquidity needs of the University and its associated organizations.

Because asset protection and liquidity are the Short Term Pool's primary objectives, UVIMCO expects that the pool may have a lower yield than other short-term investment options. ■

TABLE 2: Short Term Pool at a Glance

	2019	2018	2017
Fiscal Year Return	2.21%	1.29%	0.49%
<i>FTSE 1-Month Treasury Bill</i>	2.28%	1.27%	0.42%
Yield to Maturity	2.08%	0.88%	0.80%
Market Value as of June 30 (in millions)	\$475	\$199	\$188

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INVESTMENT MANAGEMENT COMPANY

University of Virginia
Investment Management Company
701 E. Water Street, 4th Floor
Charlottesville, Virginia 22902
www.uvimco.org

