

# MCV Foundation

## Fiscal Year 2013 Endowment Report

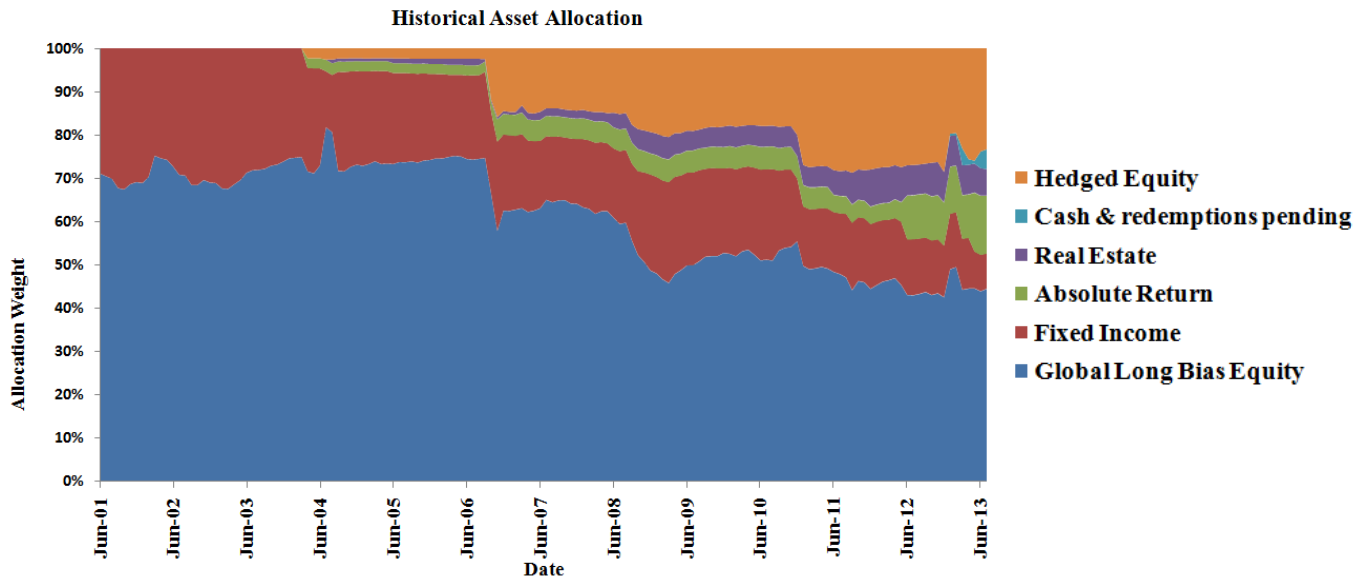
(July 1, 2012 – June 30, 2013)

### Overview

The Medical College of Virginia Foundation was established in 1949 to support the educational, research, and clinical care mission of the Medical College of Virginia. Over the years, the MCV Campus has grown dramatically and now includes the VCU Schools of Allied Health Professions, Dentistry, Medicine, Nursing, Pharmacy, as well as the VCU Massey Cancer Center and MCV Hospitals. This growth makes our mission at the Foundation perhaps more vital than ever, given the fact that there is an ever increasing demand for endowment dollars as states decrease their funding for public higher education. To meet this demand, we rely on both generous donors and professional investment management. Over the twelve months ending June 30, 2013, the two have combined to grow the endowment by \$46.7 million to a total value of \$347.8 million. This growth for Fiscal Year 2013 included a net return of 13.3%.

### Investment Objective and Strategy

The Foundation’s endowment is invested in a long-term pool managed by Lowe, Brockenbrough & Company, Inc., and their objective is to help us protect capital and grow assets so that we can cover the projected rate of spending and inflation. In 2012, the Investment Committee and Board of Trustees adopted guidelines from a new Investment Policy Statement. These guidelines allow us to use a more diversified portfolio structure with a long-term orientation to generate returns for the endowment that exceed inflation-adjusted spending. As a result of this strategy, our investment manager has transitioned the endowment’s portfolio from one almost exclusively invested in long-term equity and traditional fixed-income vehicles to a more broadly diversified pool of assets. The chart below shows how the portfolio’s asset allocation has evolved since 2001.



In addition, the following table provides a breakdown of how we plan to allocate assets for both short- and long-term investment.

	Allocation as of June 30, 2013	Short Term Target	Long Term Strategic Range
Global Long Biased Equity	43.9%	42.5%	30 - 50%
Hedged Equity	23.8%	20.0%	10 - 25%
Fixed Income	8.5%	12.5%	0 - 20%
Absolute Strategies	13.6%	15.0%	0 - 30%
Real Estate	6.3%	5.0%	0 - 10%
Real Assets	0.0%	0.0%	0 - 15%
Private Equity	0.0%	0.0%	0 - 20%
Cash	1.5%	5.0%	0 - 10%

We believe that investing in a broader diversification of assets and monitoring the short- and long-term allocation range of each will make it possible for us to support financial needs on the MCV Campus, while growing the endowment.

## Performance of Endowment

The endowment portfolio outperformed the market over the past fiscal year thanks to an effective asset allocation strategy, as well as strong performance from most of the managers investing the Foundation's capital. The contribution from asset allocation during the year was largely driven by being overweight in domestic equities (20.75% return) and underweight in fixed income and cash (0.10 percent). In addition, managers outperformed their benchmarks in nearly every asset class.

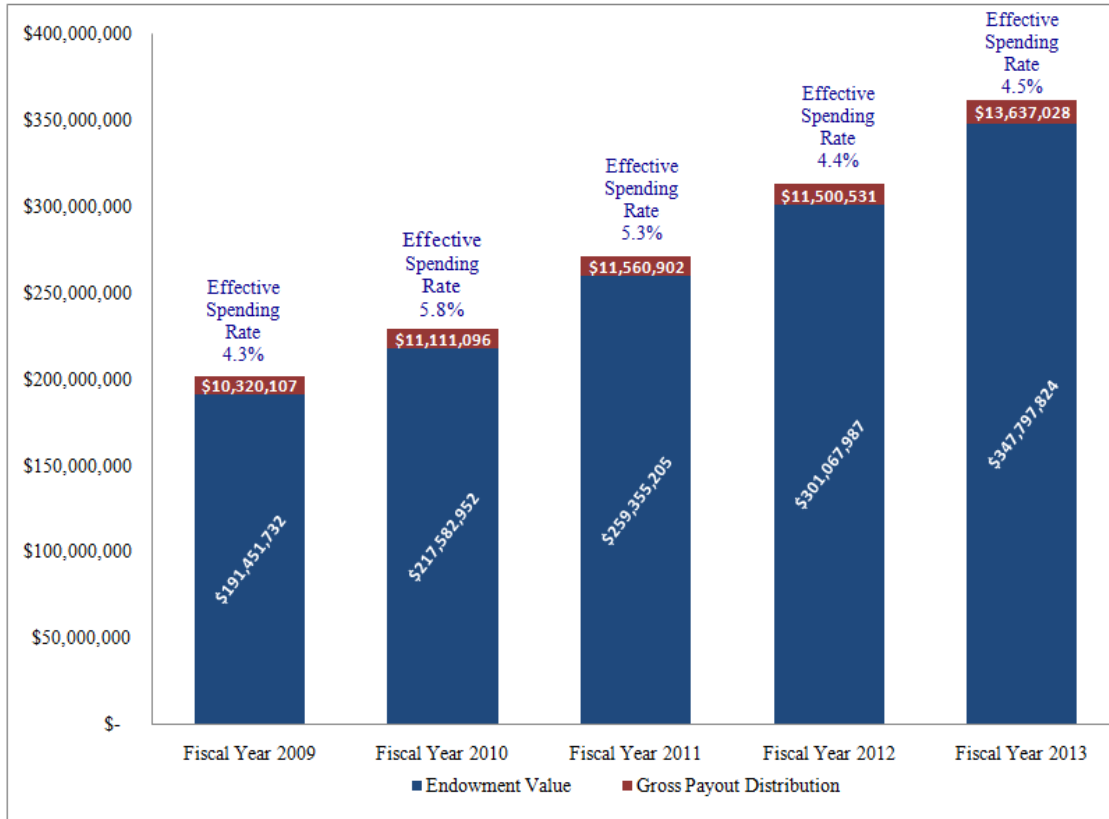
The only major asset class to decline during the past 12 months was the Barclays Aggregate Bond Index, which fell 0.7%. This drop resulted from a move up in interest rates late in the year in response to statements from the Federal Reserve that they plan to reduce monetary stimulus. Alternative asset classes performed well, too, outpacing their benchmarks as follows: real estate (21.71% to 10.73%), hedged equity (9.47% to 8.37%), and absolute strategies (11.91% to 7.88%).

The chart below favorably compares last year's return of 13.3% with those of 3, 5, and 10 years.

MCV Foundation Historical Performance as of June 30, 2013							
	Fiscal YTD Since 7/01/2012	Average Annual Returns					
		QTR	YTD	1 Year	3 Years	5 Years	10 Years
Total Investment Portfolio Assets	13.3	1.7	7.9	13.3	11.0	4.4	6.8
Custom Blended Benchmark	9.9	0.0	4.1	9.9	8.1	2.9	5.6

## Distribution of Funds

The chart below shows the value of the endowment fund and the distributions we made over the past 5 years to support the mission of the MCV Campus. As indicated, the dollar amount of our distribution has grown; however, the effective spending rate has remained relatively consistent. As a result, our campus partners have been able to budget based on inflation-adjusted support, and we have been able to protect the principal of the endowment for future needs.



## Contact

The MCV Foundation thanks you for supporting the educational, research, and clinical care mission at the MCV Campus. If you have any questions or comments about the endowment or our investment reports, please contact Jennings Dawson, Chief Financial Officer, 804-628-7561, or [jddawson@vcu.edu](mailto:jddawson@vcu.edu).

## Notes on the 2013 Endowment Report

### About the Enclosed Report(s)

The enclosed reports provide financial information for Fiscal Year 2013 (July 1, 2012 - June 30, 2013). If you made gifts to a fund after June 30, 2013, that information will be provided in next year's reports to allow time for measurable growth. If you contributed to a fund during this fiscal year, the amount of your gift(s) is included in the market value figures.

### Definitions

- **Market value** is a measure of a fund's value in the Foundation's endowment. It's based on the value of that fund's units on a particular date.
- A **unit** is similar to a share in investment terms.
- **Endowment distribution** is the earnings that can be spent on a stated fund purpose during a fiscal year. An endowment distribution is not made if a professorship is vacant, a scholarship or fellowship is not awarded, or a fund's criteria are not met. In these cases, the endowment distribution may be reinvested in the university's long term pool endowment for future growth.
- **Effective spending rate** is a percentage of the endowment distribution for a given fiscal year divided by the market value of the endowment as of June 30 of the previous fiscal year.
- **Short-term targets** are established annually by the Foundation's Investment Committee in consultation with the Investment Manager.
- **Long-term strategic range** guidelines and deviations from those guidelines may occur from time to time. These result from market impact or from short-term asset allocation decisions approved by the Investment Committee. Asset allocation guidelines are monitored monthly, and the portfolio will be rebalanced as soon as practical should the allocations fall outside their stated allowable ranges.
- **Lifetime giving** to a fund represents the total cash contributions to the fund received by June 30, 2013. Gifts made after June 30, 2013, are included in next year's report.
- **Date of last gift** is the date of your most recent cash contribution.

### Policy for Spending the Endowment

Spending for a given year equals the sum of two factors: (1) 70% of spending in the previous year, adjusted for inflation as measured by the Higher Education Price Index (HEPI) for the 12 months prior to the start of the fiscal year; and (2) 30% of the trailing three-year average market value of the endowment investment pool multiplied by the long-term spending rate (currently 4.5%).

Spending on gifts received in the previous fiscal year will be prorated based on the number of whole months each gift was included in the fund. For example, Year 2 payout from a gift received December 15 would be based on 6/12 of the spending target calculated under the formula above because the endowment held the gift for six full months (January through June) in Year 1.

This spending policy has two implications. First, by incorporating the previous year's spending, the policy eliminates large fluctuations, enabling us to plan efficiently for operating budget needs. Second, by adjusting spending toward a long-term rate (currently 4.5%), the policy ensures that spending levels will be sensitive to the portfolio's fluctuating market value, thereby stabilizing long-term purchasing power.