MCV Foundation

Fiscal Year 2015 Endowment Report

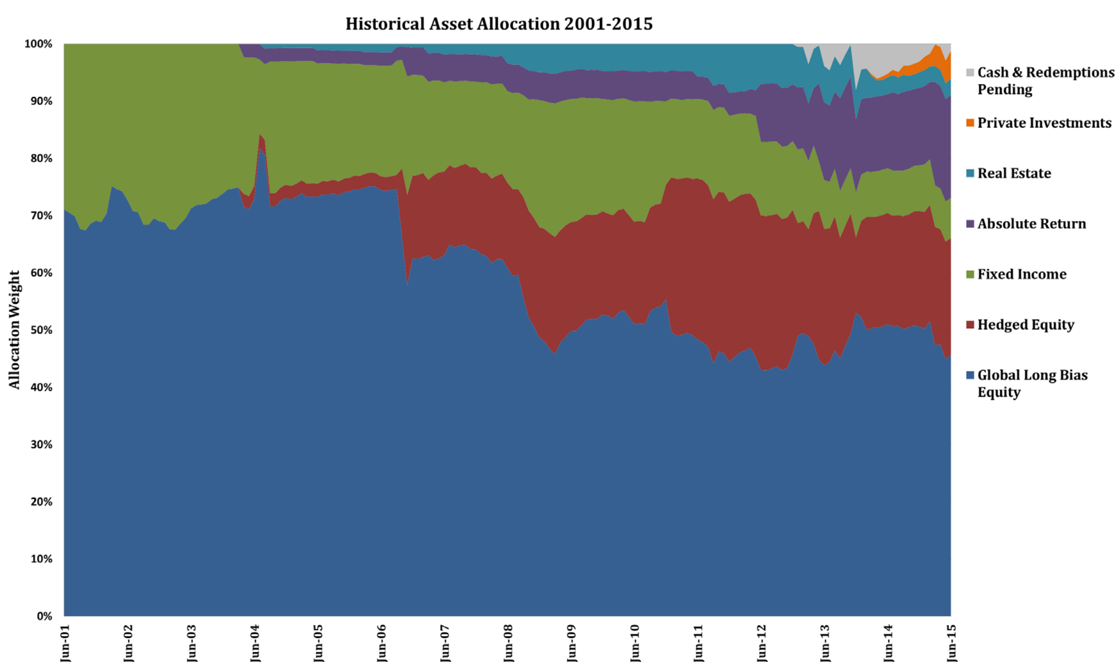
(July 1, 2014 – June 30, 2015)

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, and 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, the Foundation relies on both generous donors and professional investment management. Over the twelve months ending June 30, 2015, the two have combined to grow the endowment by $12 million to a total value of $399 million. This growth for Fiscal Year 2015 included a 4.1% net return on investments.

Investment Objective and Strategy

The Foundation's endowment is invested in a long-term portfolio managed by Lowe, Brockenbrough & Company, Inc. The primary investment objectives for the MCV Foundation are to protect capital and grow the investment assets sufficiently to cover the projected draw level, the rate of inflation, and achieve growth of principal. This objective focuses simultaneously on: 1.) Preservation of capital and 2.) Earning an average real total return of at least 6% over the long term. The Foundation seeks to achieve these objectives by investing in a strategic mix of asset classes that produces the highest expected investment return for a given level of risk over time. Generally, risk can be reduced through diversification at the security, strategy, and asset class level. The chart below shows how the portfolio's asset allocation has evolved since 2001.



Asset allocation changes during the fiscal year included a reduction in long bias equities and increases in absolute strategies and private equity. The reduction in long bias equities, primarily in domestic equities, was due to a combination of factors; high valuations in domestic equities made the long-term expected return less attractive and investment opportunities with new managers in hedged equity, absolute strategies, and private equity presented themselves during the fiscal year. The increase in absolute strategies was the result of investing with a new manager and having an existing manager call most of the remaining capital commitment from the Foundation. The increase in private equity is part of the long-term plan approved last year to build a 20% exposure to private investments over 5 years. Private Investments provide the opportunity to further increase the diversification of the portfolio and to provide exposure to less correlated streams of investment returns.

The following table illustrates the Foundation's current allocation relative to the short term target and longer term allocation ranges articulated in the Foundation's Investment Policy Statement.

	Allocation as of June 30, 2015	Short Term Target	Strategic Range
Global Long Biased Equity	45.6%	44.0%	30 - 50%
Hedged Equity	20.5%	20.0%	10 - 25%
Fixed Income	7.0%	10.0%	0 - 20%
Absolute Strategies	18.0%	16.0%	0 - 30%
Real Estate	2.9%	3.0%	0 - 10%
Real Assets	0.0%	0.0%	0 - 15%
Private Equity	4.9%	3.0%	0 - 20%
Cash	1.2%	4.0%	0 - 10%

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

Performance of Endowment

The endowment portfolio outperformed the benchmark over the past fiscal year due to the outperformance delivered by the underlying managers. The best relative performance came from the Foundation's hedged equity managers who collectively made an 8.6% return for the fiscal year compared to their benchmark return of 2.6%. Private investments in real estate and private equity added to both absolute and relative returns during the year. Asset allocation had a negligible impact on performance relative to the benchmark as most of the asset classes were close to their short-term allocation targets during the fiscal year.

During the past twelve months, all major asset classes except for international equity markets delivered positive returns. The outperformance of U.S. stocks (7.3% return) over International Equity (-5.3% return) reflects the better economic and earnings growth experienced in the U.S. compared to Europe, Japan, and other major developed economies and markets. The portfolio ended the fiscal year in-line with the benchmark allocation in domestic equities and a slight overweight in international equities given the recent underperformance and the more attractive valuations across international equity markets.

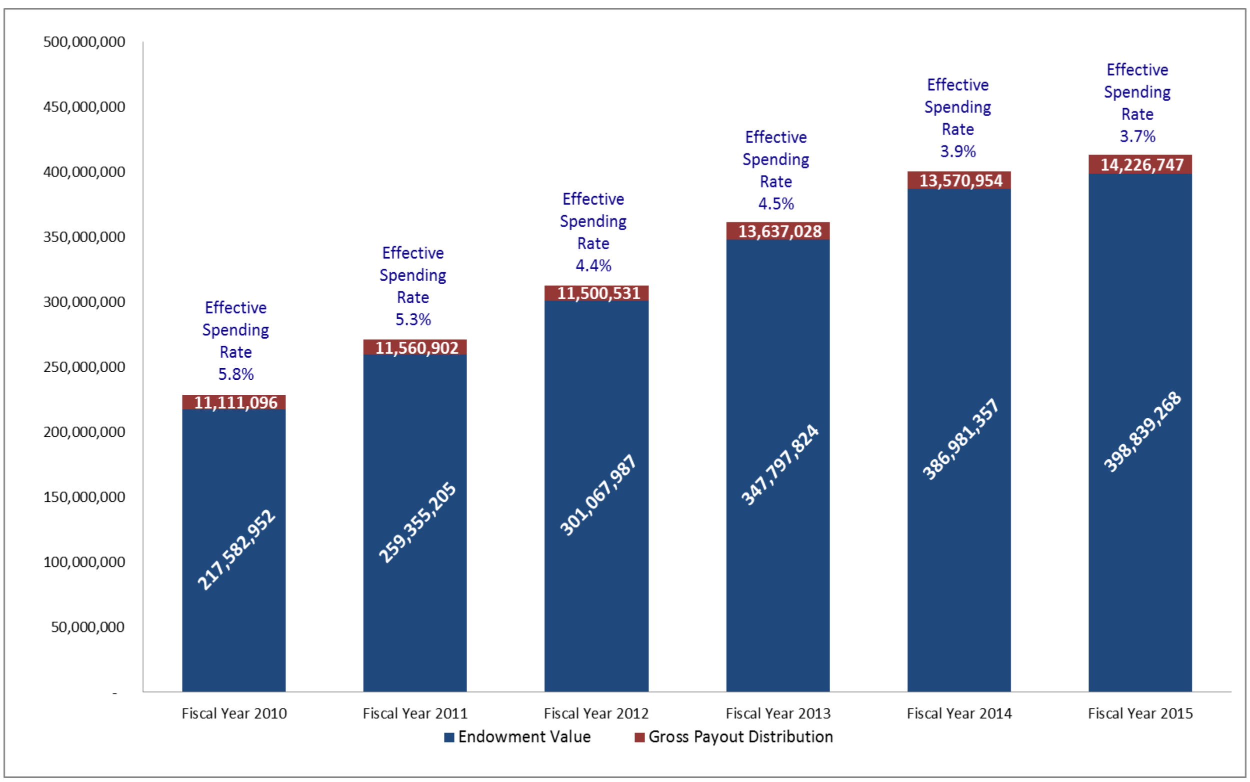
Yields on fixed income securities were largely unchanged during the fiscal year and spreads on corporate bonds were wider leading to a 1.9% return for the Barclays Capital Aggregate Index. The performance of Absolute Strategies modestly outperformed traditional fixed income as the HFRI Multi-Strategy Index rose 2.7%. Real estate (12.7%) was the best performing asset class as interest rates stayed low and economic growth supported rising rents.

The following chart favorably compares the Foundation's return over the past fiscal year as well as longer periods through June 30, 2015 with that of its blended benchmark return.

MCV Foundation Historical Performance as of June 30, 2015					
			Average Annualized Returns		
	Fiscal YTD Since 7/1/2014	1 Year	3 Years	5 Years	10 Years
Total Investment Portfolio Assets	4.06	4.06	10.08	10.00	6.13
Custom Blended Benchmark	2.66	2.66	8.37	7.92	5.11

Distribution of Funds

The chart below shows the value of the endowment fund and the distributions made over the past 6 years to support the mission of the MCV Campus based on our approved spending policy. The long-term objective of the spending policy is to maintain the purchasing power of the MCV Foundation with the goal of providing a predictable and sustainable level of income to support current operations. The rule should reflect best industry practices among endowment institutions. Our policy incorporates an inflation factor measured by the Higher Education Price Index (HEPI) in addition to a long-term spending target on the previous three years market values of the endowment. 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 on 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 Jennings.Dawson@vcuhealth.org.

Notes on the 2015 Endowment Report

About the Enclosed Report(s)

The enclosed reports provide financial information for Fiscal Year 2015 (July 1, 2014 - June 30, 2015). If you made gifts to a fund after June 30, 2015, 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, 2015. Gifts made after June 30, 2015, 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. http://www.mcvfoundation.org/about/spending_policy.html