

## FISCAL YEAR 2017 ENDOWMENT REPORT

(JULY 1, 2016 – JUNE 30, 2017)

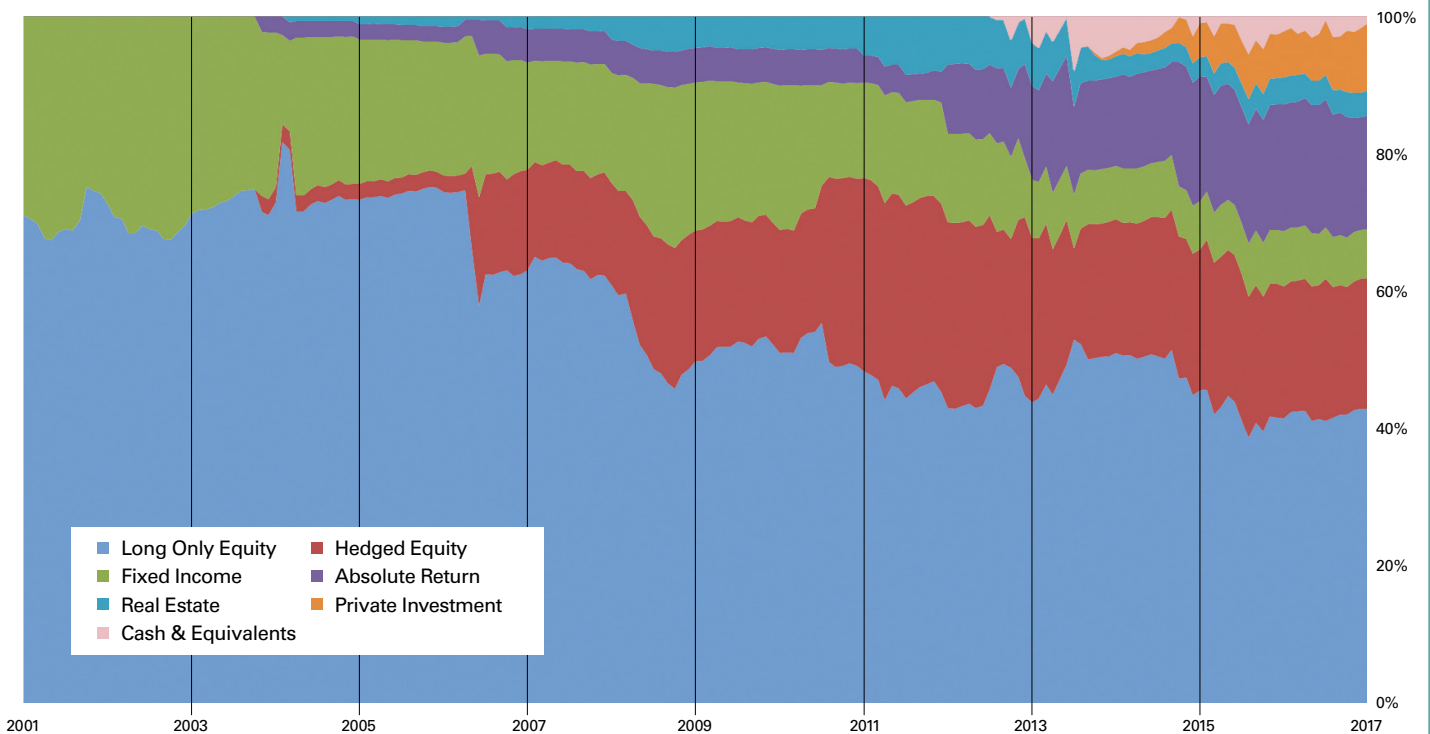
### OVERVIEW

The Medical College of Virginia Foundation was established in 1949 to inspire and steward philanthropic resources for our MCV Campus Partners at VCU Health. The foundation manages more than \$500 million in assets to ensure VCU Health remains at the forefront of excellence and innovation in patient care, research and education as one of the top academic health centers on the East Coast. Through our 1,500 funds, the MCV Foundation provides scholarships, professorships, research and program funds to support the life-saving work occurring at VCU Health every day. The MCV Foundation's Campus Partners include: VCU School of Allied Health Professions, VCU School of Dentistry, VCU School of Medicine, VCU School of Nursing, VCU School of Pharmacy, VCU Massey Cancer Center and VCU Medical Center. Please visit [www.MCVFoundation.org](http://www.MCVFoundation.org) to learn more.

### 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 above the projected draw level and rate of inflation. 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 given our established risk tolerance. 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.

Historical Asset Allocation (June 30, 2001 – June 30, 2017)



There was no significant asset allocation change during the fiscal year. The gradual, planned increase in private investments was largely funded from cash reserves. The increase in private equity is part of the long-term plan to build exposure to private investments over several years. Private investments provide the opportunity for higher

returns and further diversification of the portfolio through exposure to less correlated streams of investment returns. At the end of the fiscal year, all of the asset class allocations were fairly close to their short-term targets.

The following table illustrates the foundation's current asset allocation.

### Current Asset Allocation

	Allocation as of June 30, 2017
Long Only Equity	42.9%
Hedged Equity	19.0%
Fixed Income	7.1%
Absolute Strategies	16.6%
Private Investments	13.4%
Investment Cash	1.0%

### PERFORMANCE OF ENDOWMENT

The endowment portfolio increased by 15.38%, outperforming the custom benchmark's return of 13.02% over the past fiscal year. The portfolio also outperformed the 12.75% return of a passive portfolio invested 70% in the Morgan Stanley All Country World Index and 30% in the Barclays Aggregate Bond Index. Since the beginning of 2012, the portfolio's annual return of 7.88% remains above the 7.33% annual return generated by the custom benchmark.

All of the major developed and emerging economies enjoyed economic growth during the fiscal year, with the largest positive surprise being faster than expected growth in Europe. Accelerated growth and cheaper equity

market valuations abroad led international equities to be the best performing asset class during the fiscal year. All of the major asset classes enjoyed positive returns for the fiscal year with the exception of fixed income, which was essentially flat.

Equity markets around the globe rallied strongly after the election in the United States on the belief that President Trump's policies to reform taxes and healthcare, increase infrastructure spending and reduce the regulatory burden would support faster economic growth. Markets have continued to advance despite the fact that it is proving more difficult to move some of these proposals through

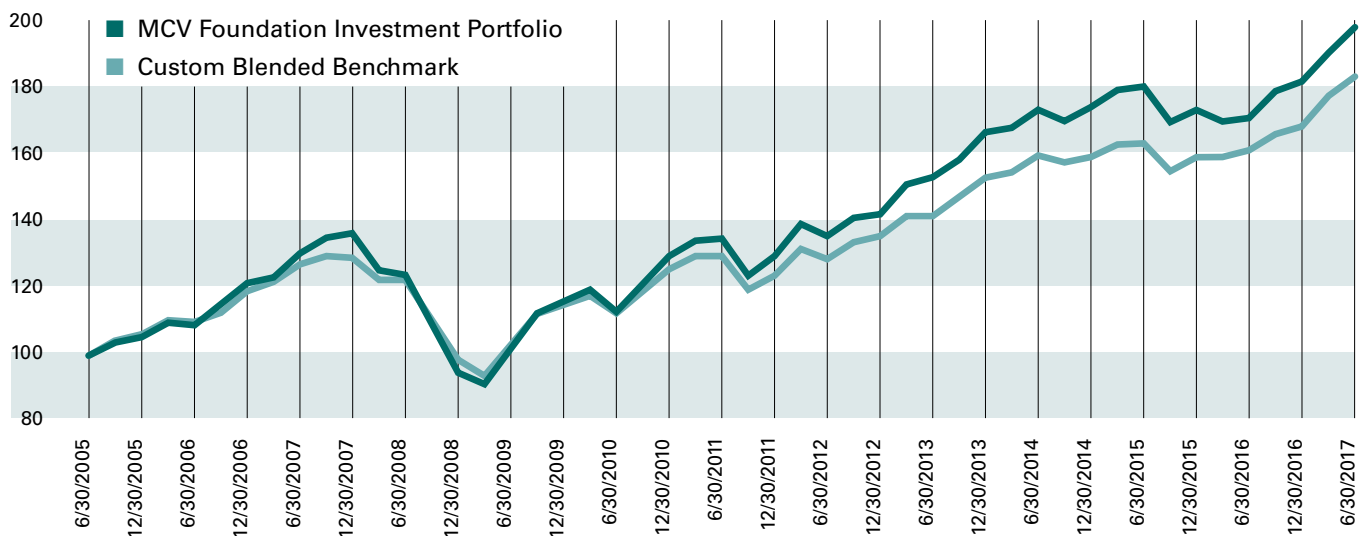
Congress. Interest rates rose internationally after the U.S. election, but have generally remained stable as central banks around the globe begin to gradually reduce the stimulus they have provided through extraordinarily low rates and aggressive bond market purchases.

The portfolio's outperformance relative to the custom benchmark during the fiscal year was widespread, as managers in each of the asset classes outperformed their respective benchmarks. The strongest relative performance came from the absolute strategies managers, as they benefitted from strong security selection and generally being hedged to higher interest rates. The portfolio's real estate

managers delivered excellent absolute and relative performance, largely due to the performance of their multi-family investments. The domestic equity managers outperformed, primarily due to the very strong performance of a growth-oriented manager in the second half of the fiscal year. The increase in private investments continues at the planned pace, and the returns, while early in the investment life cycle, are strong.

The following exhibits compare the foundation's return with that of its custom blended benchmark return over the long term, as well as the past fiscal year ending June 30, 2017.

### MCV Foundation Cumulative Performance (June 30, 2005 – June 30, 2017)



### MCV Foundation Trailing Performance as of June 30, 2017

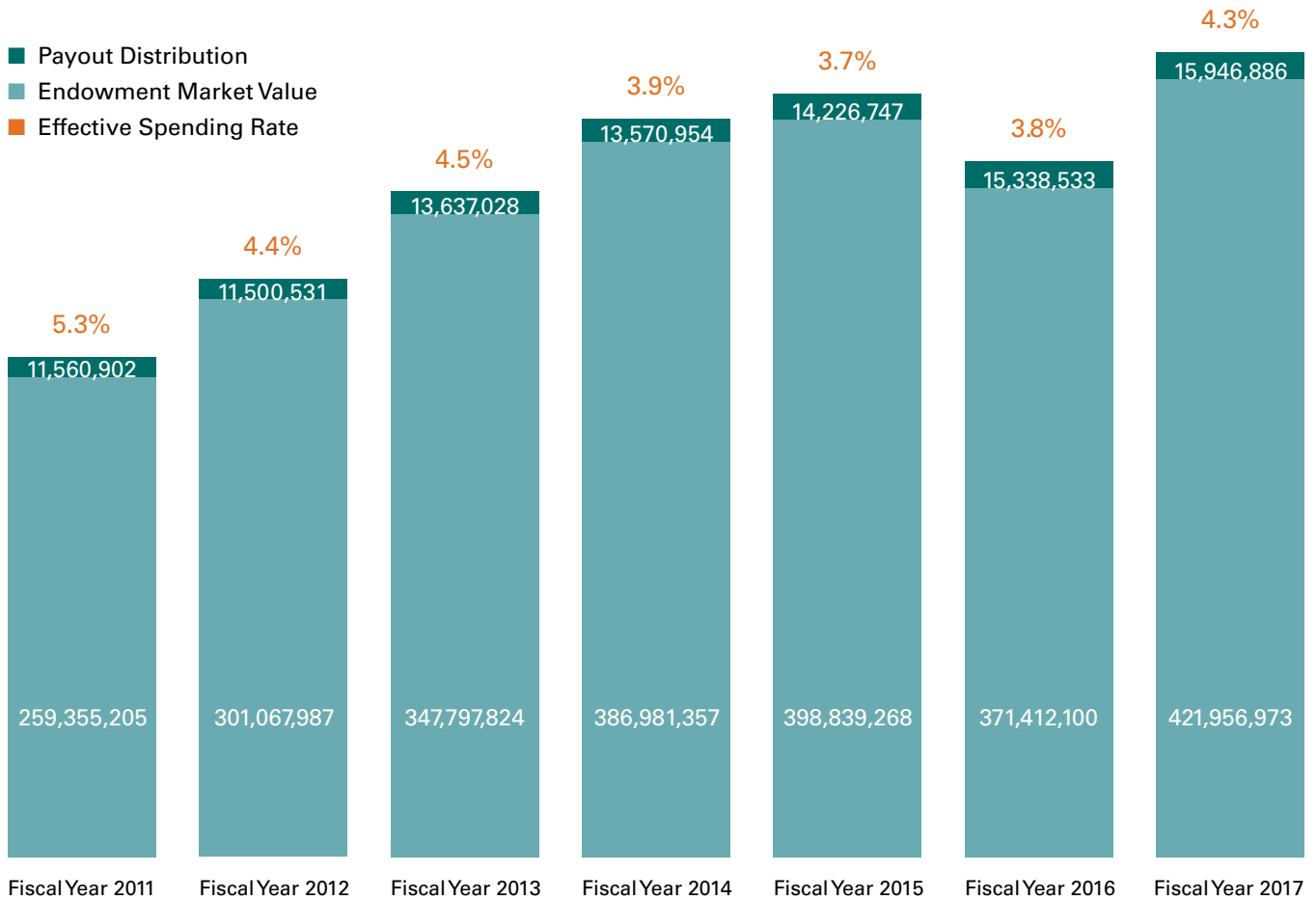
Annualized Returns	1 Year	3 Years	5 Years	10 Years	Since Manager Inception 1/1/2012*
MCV Foundation Investment Portfolio	15.38	4.13	7.70	4.26	7.88
Custom Blended Benchmark	13.02	4.68	7.28	3.72	7.33

\* LB&C was formally engaged to manage the portfolio on January 1, 2012. Prior to that it was managed by an ad hoc investment committee appointed by the foundation's board of trustees.

## DISTRIBUTION OF FUNDS

The chart below shows the value of the endowment fund and the distributions made over the past seven years to support the mission of our MCV Campus Partners at VCU Health. Our long-term objective is to generate returns over an economic cycle sufficient to provide a predictable and sustainable level of income to support the important patient care, research and education taking place at VCU Health, as well as to grow the endowment. Our policy is

structured to reflect best industry practices among endowment institutions to ensure we maintain a more consistent spending policy that is beneficial to the budgeting needs of our campus partners. This year, we were not only able to maintain, but increase our distribution in support of MCV Campus Partner scholarships, professorships, research and programs.



## CONTACT

The MCV Foundation thanks you for supporting the clinical care, research and educational mission of VCU Health. If you have any questions or comments about the endowment or our investment reports, please contact Margaret Ann Bollmeier, president, at 804-828-2392 or [margaretann.bollmeier@vcuhealth.org](mailto:margaretann.bollmeier@vcuhealth.org).

## NOTES ON THE 2017 ENDOWMENT REPORT

### About the Enclosed Report(s)

The enclosed reports provide financial information for Fiscal Year 2017 (July 1, 2016 - June 30, 2017). If you made gifts to a fund after June 30, 2017, 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

**Endowment 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.

**Payout distribution** is the earnings that can be spent on a stated fund purpose during a fiscal year. Any funds not distributed or spent (if, for example, a professorship is vacant, a fellowship is not awarded or the funds criteria are not met) are retained in the donors' endowed fund and reinvested in the endowment pool 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. The effective spending rate in a given year may be lower than the distribution rate for that year due to funds not spent and retained in the donors' account.

**Lifetime giving** to a fund represents the total cash contributions to the fund received by June 30, 2017. Gifts made after June 30, 2017, are included in next year's report.

**Date of last gift** is the date of your most recent cash contribution.

### Calculation of Funds Available for Current Distribution

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 is capped at 4.5% of the average quarterly market value of the endowment investment pool over the previous fiscal year.

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.

[www.mcvfoundation.org/work/financials/endowment-fund-spending-policy](http://www.mcvfoundation.org/work/financials/endowment-fund-spending-policy)