MCV Foundation

VCU Health

FISCAL YEAR 2018 ENDOWMENT REPORT

(JULY 1, 2017 – JUNE 30, 2018)

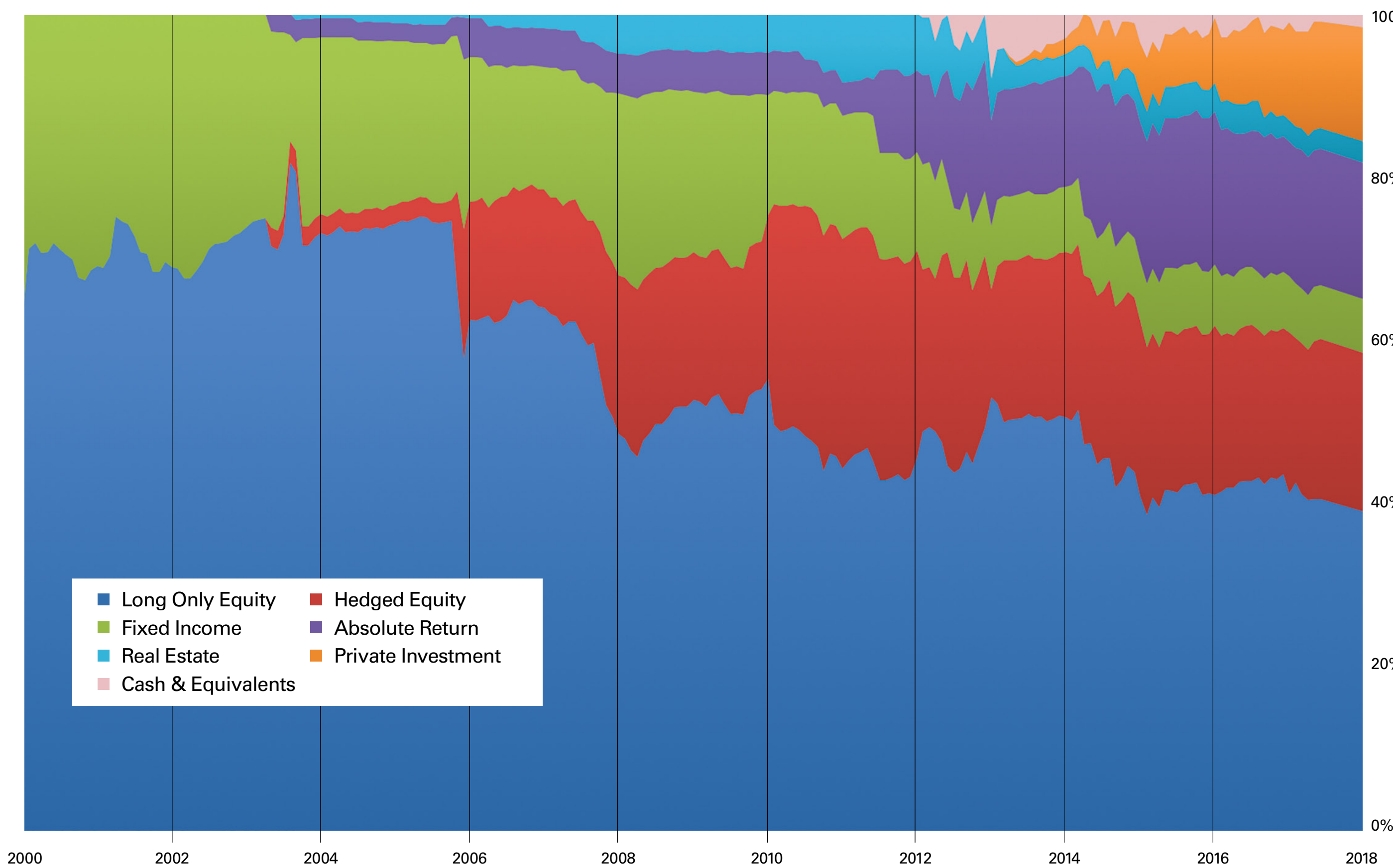
OVERVIEW

The Medical College of Virginia Foundation was established in 1949 to inspire and steward philanthropic resources for our MCV Campus Partners at VCU Health. We manage 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, we provide scholarships, professorships, research and program funds to support the life-saving work occurring at VCU Health every day. Our MCV Campus Partners include: VCU College of 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 to learn more.

INVESTMENT OBJECTIVE AND STRATEGY

Our foundation's endowment is invested in a long-term portfolio managed by Lowe, Brockenbrough & Company, Inc. The primary investment objectives are to protect capital and grow the investment assets above the projected draw level and rate of inflation. These objectives focus simultaneously on: 1) preservation of capital and 2) earning an average real total return of at least 6% over the long term. We seek 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 2000.

Historical Asset Allocation (December 31, 2000 – June 30, 2018)



There was no significant asset allocation change during the fiscal year. At the end of the year, each of the asset class allocations was close to its respective target. The gradual and planned increase in private investments was funded from cash reserves and a slight reduction in long only equity. The increase in private investments is part of the long-term plan to build exposure to this asset class 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.

The following table illustrates our foundation's current allocation.

Current Asset Allocation

	Allocation as of June 30, 2018
Long Only Equity	39.2%
Hedged Equity	19.3%
Fixed Income	6.6%
Absolute Strategies	16.6%
Private Investments	16.5%
Investment Cash	1.8%

PERFORMANCE OF ENDOWMENT

The endowment portfolio increased by 9.85%, outperforming the custom benchmark's return of 8.91% over the past fiscal year. The portfolio also outperformed the 7.39% 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 8.21% remains above the 7.56% annual return generated by the custom benchmark.

During the fiscal year, all the major asset classes generated positive returns except for fixed income, where the Barclays Aggregate Bond Index declined 0.40%. In a reversal from last fiscal year, equity markets in the U.S. significantly outperformed international equity markets as earnings and economic growth strengthened in the U.S. while many international economies slowed slightly during the year. The broad U.S. market, represented by the Russell 3000, rose 14.78% during the year, while the MSCI All Country World ex U.S. Index increased 7.28%. Private investments also enjoyed strong performance with the weighted Cambridge benchmark increasing by 17.65%. The HFRI Hedged Equity Index performed reasonably well during the year with an 8.26% increase, and the HFRI Absolute Strategies benchmark's return of 4.07% nicely outperformed the slight decline posted in fixed income.

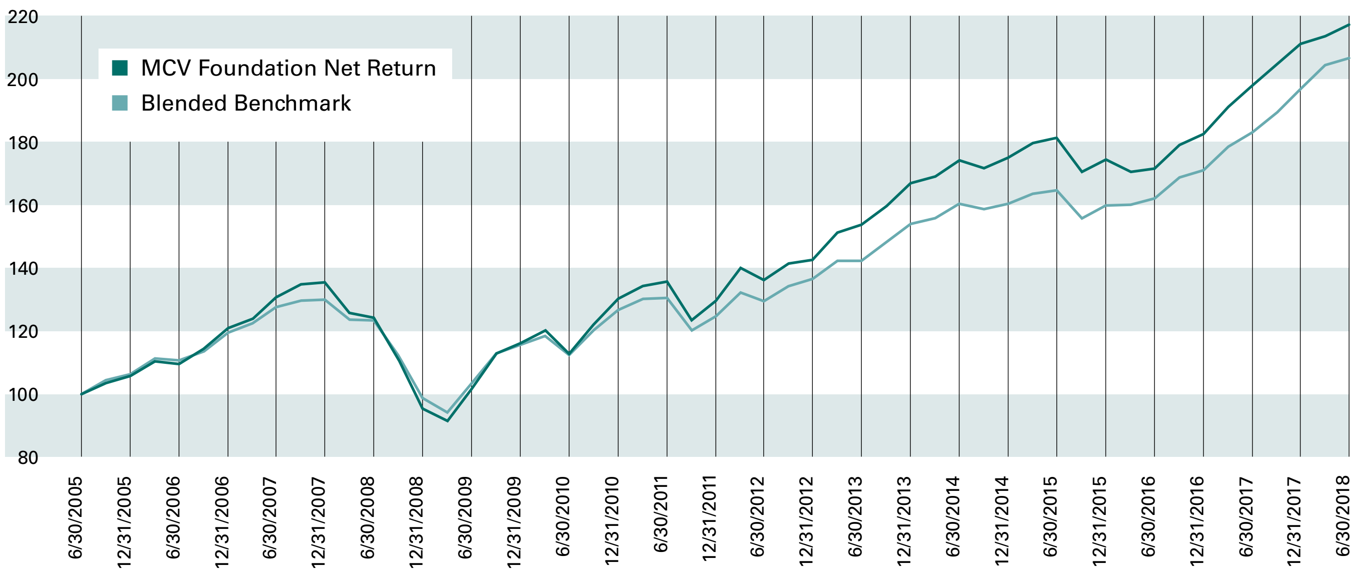
Interest rates rose modestly around the globe as central banks began to gradually reduce the stimulus they have provided from extraordinarily low rates and aggressive bond market purchases since the financial crisis. The increase in global inflation has also been modest, allowing the U.S. Federal Reserve to increase short-term interest rates at a deliberate, modest pace. To date, equity markets have handled the increase well, as earnings growth has been strong, particularly in the U.S.

Most of the periodic bouts of downside volatility during the fiscal year were driven by escalations in trade tariffs and concerns about global trade. The U.S. has applied trade tariffs across a broad range of industries, and foreign governments have responded with retaliatory tariffs on U.S. products coming into their countries. The situation warrants monitoring, as any significant and long-lasting restrictions on global trade will almost certainly be harmful to global growth and equity market performance. While there is little visibility on how the trade and tariff situation will ultimately play out, behavior to date suggests that investors believe these differences will ultimately be resolved in a way that is not overly negative for global economies and markets.

The outperformance relative to the custom benchmark was widespread during the fiscal year, as managers in most asset classes outperformed their respective benchmarks. The portfolio's real estate managers delivered excellent absolute and relative performance, largely due to the performance of their multi-family investments. Long only equity managers also delivered very strong absolute and relative performance, as they benefitted from strong security selection across portfolios. The hedged equity managers ended the fiscal year slightly behind their benchmark, while fixed income performed in-line. Private investment returns, while early in their life cycle, are strong.

The following exhibits compare our return with that of our blended benchmark return over the long term, as well as the past fiscal year, ending June 30, 2018.

MCV Foundation Cumulative Performance (July 1, 2005 – June 30, 2018)



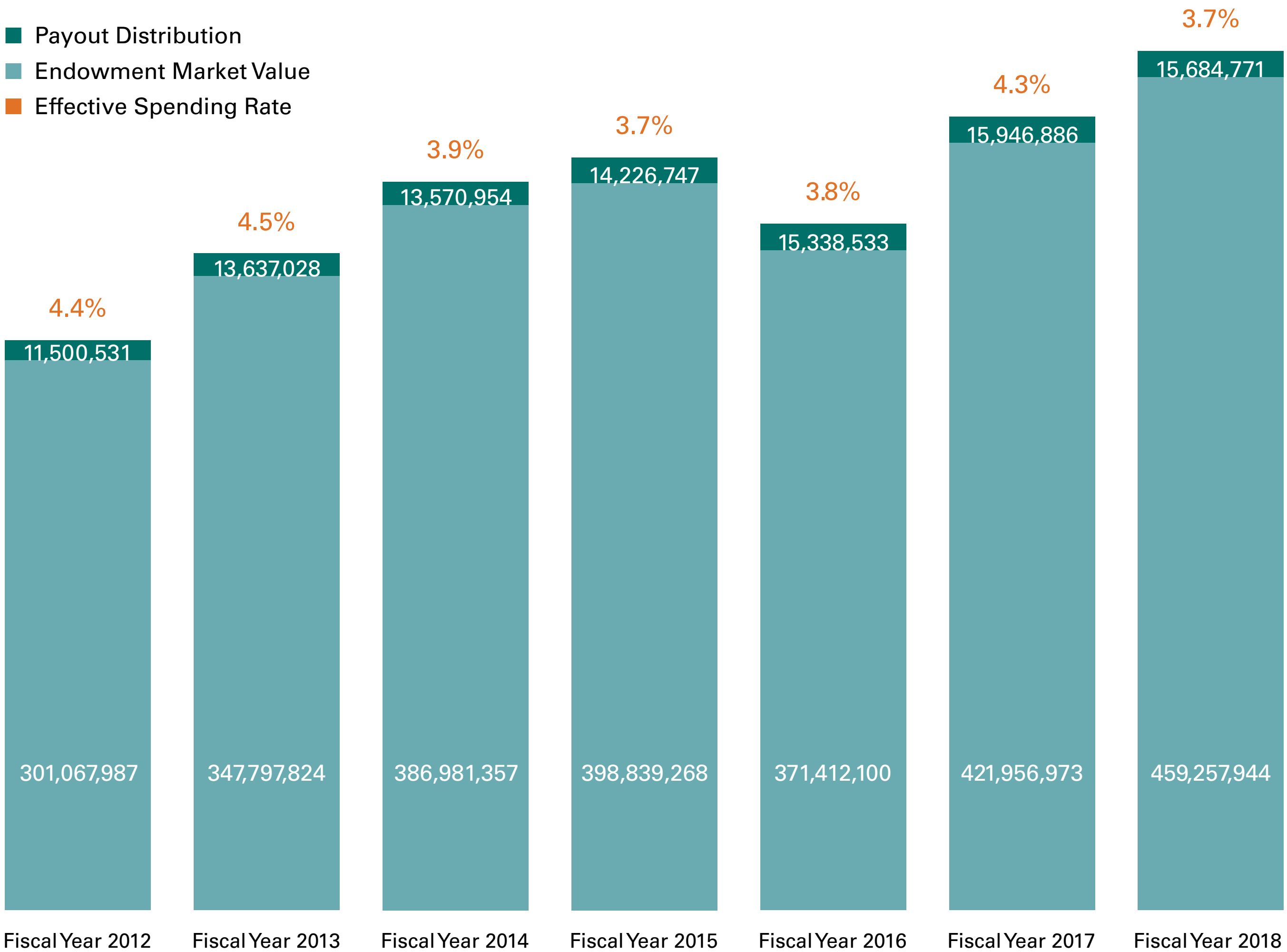
MCV Foundation Trailing Performance as of June 30, 2018

Annualized Returns	1 Year	3 Years	5 Years	10 Years	Since Manager Inception 1/1/2012*
MCV Foundation Investment Portfolio	9.85	6.04	7.07	5.77	8.21
Custom Blended Benchmark	8.91	6.76	7.07	4.95	7.56

* 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 life-saving 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.



CONTACT

All of us on the staff and board of the MCV Foundation thank 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.

NOTES ON THE 2018 ENDOWMENT REPORT

About the Enclosed Report(s)

The enclosed reports provide financial information for Fiscal Year 2018 (July 1, 2017 - June 30, 2018). If you made gifts to a fund after June 30, 2018, 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, 2018. Gifts made after June 30, 2018, 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