UNIVERSITY of VIRGINIA

Working Capital Investment Policy

Adopted November 11, 2011

Table of Contents

Appendix A:
University of Virginia Investment Management Company Investment Policy Statement

Appendix B:
Board of Visitors resolution, October 2007

I. Governing Authority

Board of Visitors resolution, October 2007 (attached as Appendix B)

RESOLVED that the Vice President and Chief Financial Officer is authorized to invest the cash of and held by the University in the University of Virginia Investment Management Company (UVIMCO) long-term pool or in other investment vehicles as permitted by law, the cash to include but not be limited to working capital, operating reserves, employee health plan reserves, other academic division operating and capital reserves, and medical center working capital, operating and capital reserves including depreciation reserves;

Definition of Working Capital
"Working Capital" is the operating liquidity available to an organization to meet financial obligations.

The University's investment program shall be operated in conformance with applicable federal, state, and other legal requirements, including, but not limited to, that certain Management Agreement dated November 15, 2005, by and between the Commonwealth of Virginia and The Rector and Visitors of the University of Virginia, as amended (Chapter 3 of Chapter 943 of the 2006 Virginia Act of Assembly) (including Exhibit R, Policy Governing Financial Operations and Management, thereto); the Security for Public Deposits Act, Chapter 44 (§ 2.2-4400 et seq.) of Title 2.2 of the Code of Virginia, as amended; the Investment of Public Funds Act, Chapter 45 (§ 2.2-4500 et seq.) of Title 2.2 of the Code of Virginia, as amended; the Uniform Prudent Management of Institutional Funds Act, Chapter 15, Article 1.2 (§ 55-268.11 et seq.) of Title 55 of the Code of Virginia, as amended; and § 23-76.1 of the Code of Virginia, as amended, concerning the University's investment of endowment funds, endowment income, and gifts.

II. Scope

The purpose of this policy is to set forth the investment and operational policies for the University's Working Capital Funds. Proceeds from tax-exempt bond issues, endowment assets, and money held in bank demand deposit accounts are not covered under this policy.

Except for cash in certain legally restricted and special accounts, the University will consolidate cash and reserve balances to optimize University-wide liquidity management and investment earnings and to increase efficiencies with regard to investment pricing, custody/trust and administration.

III. General Objectives & Investment Guidelines

The primary objectives of the policy are to set investment parameters, establish limits consistent with the University's risk tolerance, and provide appropriate benchmarks for performance.

Tier Structure - For purposes of this policy, the University's Working Capital Funds shall be divided into three (3) Tiers based on expected liquidity needs and return objectives. Investment activities for all Tiers shall be guided by the objectives of safety, liquidity and return. The priority of these objectives will vary based on Tier as described below.

1. **Safety** - Safety of principal is an important objective of the University's investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio by mitigating credit risk and interest rate risk.

2. **Liquidity -** The investment portfolio shall remain sufficiently liquid to meet all disbursement requirements that may be reasonably anticipated in the Tier.

3. **Return -** The investment portfolios shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles. Performance objectives will be established for each Tier consistent with stated objectives.

Tier 1: The University's cash and short-term investments shall be categorized as the Tier 1 Portfolio. Because of the difficulties inherent in accurately forecasting cash flow requirements, a portion of this portfolio shall be continuously invested in readily available funds such as money market mutual funds, bank deposits, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet the University's obligations. Safety and liquidity are the primary objectives of this Tier.

Tier 2: The Tier 2 Portfolio represents Working Capital Funds that do not need to be readily available to meet the University's operating needs. These funds are available for intermediate-term investment. Safety and return are the primary objectives of this Tier.

Tier 3: The Tier 3 Portfolio represents Working Capital Funds that can be invested as part of the commingled pool managed by the University of Virginia Investment Management Company ("UVIMCO"). The Investment Policy Statement for UVIMCO governs Tier 3 assets and supersedes the limits set forth in this policy for asset allocations and issuer limitations. (A copy of the UVIMCO Investment Policy Statement is included as an appendix to this policy and incorporated by reference.) The primary objective of this Tier is to maximize long-term real return commensurate with the risk tolerance of the University.

The University's liquidity needs, cash forecast, and risk tolerance will be considered in determining what percentage of total working capital will be invested in Tier 1. Assets invested in Tier 2 are those assets typically not needed during the University's annual operating cycle. Tier 2 assets are typically those assets being held for specific projects expected to be needed over a 1-5 year time frame. The remaining working capital, primarily in the form of reserves, will be allocated to the Tier 3 portfolio. Allocation among the three tiers will be monitored regularly and reported annually to the Board of Visitors.

IV. Standards of Care

1. **Prudence -** The standard shall be the "prudent person" standard, except as may otherwise be prescribed by applicable laws or regulations now or in the future. Under the "prudent person" standard, investments shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

   Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence in good faith shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion.

2. **Ethics and Conflicts of Interest -** The University's officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions or otherwise be in violation of state law and/or University policy.

3. **Delegation of Authority -** Authority to manage the investment program in accordance with this investment policy is granted to the University's Vice President and Chief Financial Officer, who shall act and may further delegate in accordance with any procedures and internal controls for the operation of the investment program consistent with this investment policy. The Executive Vice President and Chief Operating Officer and the Vice President and Chief Financial Officer may make temporary exceptions to the investment policy in the event of significant market instability or a credit event that would require us to make a significant reallocation of the portfolio in order to protect the safety and/or liquidity of the working capital portfolio. Any such exception to the investment policy will be reported immediately to the Rector and Chair of the Finance Committee of the Board of Visitors. Any temporary exception will remain in place until no later than the next Board of Visitors meeting at which time the EVP and COO will suggest a course of action with regard to the policy and seek input on and approval of such action by the Board.

V. Custody, Trust, and Controls

1. **Custody/Trust -** The University will not take physical possession of investment securities. Securities will be held by an independent third-party custodian selected by the University as evidenced by custody/trust receipts in the University's name. The custody/trust institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

2. **Internal Controls -** Treasury Management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the University are protected from loss, theft, or misuse.

VI. Authorized Investments

Permitted investments - The University may invest in the following investment vehicles subject to diversification and maturity limitations for each Tier.

1. **U.S. Treasury Obligations -** Bills, notes, and any other obligation or security issued by or backed by the full faith and credit of the United States Treasury.

2. **Federal Agency Obligations -** Bonds, notes, and other obligations of the United States, and securities issued by any federal government agency or instrumentality or government sponsored enterprise that has a rating no less than the rating on U.S. Government debt. Collateralized mortgage obligations will not be purchased.

3. **Negotiable Certificates of Deposit, Bank Deposit Notes and Non-Negotiable Certificates of Deposit / Time Deposits -** Negotiable and non-negotiable certificates of deposit, time deposits and negotiable bank deposit notes of domestic banks and domestic offices of foreign banks with a rating of at least A-1 by Standard & Poor's, Inc., and P-1 by Moody's Investor Service, Inc., for maturities of one year or less, and a rating of at least AA by Standard & Poor's, Inc., and Aa by Moody's Investor Service, Inc., for maturities over one year.

4. **Bankers' Acceptances** - Issued by domestic banks or domestic offices of foreign banks, which are eligible for purchase by the Federal Reserve System with a maturity of 180 days or less. The issuing corporation, or its guarantor, must have a short-term debt rating of no less than "A-1" (or its equivalent) by at least two of the Nationally Recognized Statistical Rating Organizations ("NRSRO's").

5. **Corporate Debt** - High quality corporate notes with a rating of at least Aa by Moody's Investors Service, Inc., and a rating of at least AA by Standard and Poor's, Inc.

6. **Commercial Paper -** "Prime quality" commercial paper, with a maturity of 270 days or less, issued by domestic corporations (corporations organized and operating under

the laws of the United States or any state thereof) provided that the issuing corporation, or its guarantor, has a short-term debt rating of no less than “A-1” (or its equivalent) by at least two of the NRSRO’s.

7. **Municipal Obligations -** Bonds, notes, and other general obligations of a municipal authority organized within the United States upon which there is no default and having a rating of at least AA by Standard & Poor’s, Inc., and Aa by Moody’s Investor Service, Inc..

8. **Repurchase Agreements -** Overnight, term, and open repurchase agreements provided that the following conditions are met:

    1. the contract is fully secured by deliverable U.S. Treasury and federal agency obligations as described above, having a market value at all times of at least 102 percent of the amount of the contract;

    2. a master repurchase agreement or specific written repurchase agreement governs the transaction and which in each case contains terms qualifying each transaction as a securities loan for purposes of Section 512 under the Internal Revenue Code, and provides for master netting of obligations;

    3. the securities are free and clear of any lien and held by an independent third-party custodian acting solely as agent for the University, provided such third party is not the seller under the repurchase agreement;

    4. a perfected first security interest under the Uniform Commercial Code in accordance with book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the University; such that the agent holding the underlying securities (the collateral) must hold the securities in a way that ensures they remain the property of the University.

    5. for repurchase agreements with terms to maturity of greater than one day, the University will have the collateral securities valued daily and require that if additional collateral is warranted, then that collateral must be delivered within one business day (if a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated);

    6. the counterparty is a:
        a. primary government securities dealer who reports daily to the Federal Reserve Bank of New York, or
        b. a bank, savings and loan association, or diversified securities broker-dealer having at least $5 billion in assets and $500 million in capital and subject to regulation of capital standards by any state or federal regulatory agency; and
        c. counterparty that meets the following criteria:
            i. a long-term credit rating of at least ‘AA’ or the equivalent from an NRSRO; or

    ii. a short-term credit rating of at least "A-1" or the equivalent from an NRSRO; and

  d. counterparty that has been in operation for at least five years.

7. Collateral under repurchase agreements with a maturity of 1 business day may be held by the agreement counterparty. Collateral under repurchase agreements with a maturity of greater than 1 business day must be held by an independent custodian.

9. **Money Market Mutual Funds (Open-Ended Investment Funds)** - Shares in open-ended, no-load, money market mutual funds ("MMMF's"), provided such funds are registered under the Federal Investment Company Act of 1940 and rated at least "AAAm" or the equivalent by an NRSRO. The mutual fund must comply with the diversification, quality, and maturity requirements of Rule 2a-7, or any successor rule, under the Investment Company Act of 1940, provided the investments by such funds are restricted to investments otherwise permitted by the Code of Virginia for political subdivisions. No more than 50% of the portfolio may be allocated to MMMF's with no more than 25% of the portfolio being invested with any Money Market Mutual Fund issuer. The University's assets must not represent more than 10% of a fund's total assets. (See graph below for portfolio diversification requirements)

10. **Local Government Investment Pool (LGIP) -** A specialized money market fund created in the 1980 session of the Virginia General Assembly designed to offer a convenient and cost-effective investment vehicle for public entities. The Fund is administered by the Treasury Board of the Commonwealth of Virginia and must be rated "AAm" by Standard & Poor's, Inc.

11. **Assets Permitted by the Investment Policy Statement of UVIMCO –** Tiers 2 and 3 Portfolio assets can be invested as part of a co-mingled investment pool managed by UVIMCO.

VII. Portfolio Risk Management

The University evaluates the following primary risks as part of its investment management:

1. **Interest Rate Risk -** To manage the impact of interest and market conditions on the market value and cash flows of the Working Capital Funds, the duration and maximum maturity will be limited by Portfolio Tier.

   Tier 1: Maximum duration of 9 months, maximum maturity of 2 years
   Tier 2: Maximum duration of 3 years, maximum maturity of 5 years
   Tier 3: Limited only by Investment Policy Statement for UVIMCO

2. **Credit Risk -** The University will invest Tier 1 and 2 Portfolios in securities with minimum ratings mentioned in Section VI. In the event of a split rating, the lowest rating should be considered when determining the appropriate rating category.

3. **Liquidity Risk -** The University assesses its need for liquidity by (a) using its cash flow forecast to predict liquidity needs for the Tier 1 Portfolio and (b) by providing for sufficient liquidity to support outstanding debt as prescribed by the rating agencies.

Risk management for the Tier 3 Portfolio will be in accordance with UVIMCO's Investment Policy Statement.

VIII. Investment Parameters & Diversification

The Fund's investments shall be diversified by security type and institution. Concentrations in individual securities, industries and economic sectors should not be so high as to subject the Fund to undue risk.

Portfolio Diversification - The maximum percentage of the asset allocation and issuer limit permitted in each eligible security shall be as follows:

	Tier 1 Portfolio	Tier 2 Portfolio	Tier 3 Portfolio
U.S. Treasury Obligations	100%/100%	100%/100%	
Federal Agency Obligations	100%/40%	100%/40%	
Collateralized Bank Deposits	50%/25%	10%/10%	
Negotiable Certificates of Deposit and Bank Deposit Notes	20%/5%	20%/5%	
Non-Negotiable Certificates of Deposit / Time Deposits	10%/3%	20%/3%	
Bankers' Acceptances	35%/5%	35%/5%	
Corporate Debt Obligations	20%/5%	35%/5%	
Commercial Paper	35%/5%	35%/5%	
Municipal Obligations	10%/5%	25%/5%	
Repurchase Agreements	50%/25%	50%/25%	
Money Market Mutual Funds	50%/25%	50%/25%	

	Tier 1 Portfolio	Tier 2 Portfolio	Tier 3 Portfolio
Local Government Investment Pool	50%/50%	50%/50%	
Assets Permitted by the Investment Policy Statement of UVIMCO		100%	100%

The sector and issuer limits shall be applied to each Portfolio at the date of acquisition. For all pooled investments, with the exception of pools managed by UVIMCO, the University's holdings must represent no more than 10 percent of the net assets of the pool.

Subsequent Events - The limitations established by this Investment Policy will apply at the time a security is purchased and will be based on the then-current book value. Should a subsequent event cause a security or the investment portfolio to no longer meet the specifications of the Investment Policy, the Assistant Vice President for Treasury Management and Fiscal Planning will determine the appropriate course of action, and report such actions to the VP &CFO in the next regular monthly report. There is no requirement that a security be sold prior to maturity if it no longer meets the criteria set forth in this Investment Policy. Further, any security held by the University at the time this Investment Policy was adopted may be held to its maturity.

IX. Selection of Broker/Dealers, Investment Managers and Depository Banks

1. **Selection of Broker/Dealers -** All broker/dealers, and their affiliates who desire to provide investment services to the University shall be provided with current copies of this investment policy. Before an organization, or its affiliates, can provide investment services to the University, it must confirm in writing that it has received and reviewed this investment policy and is able to comply with it.

   Broker/dealers, and their affiliates, shall supply the University with information sufficient to adequately evaluate their financial capacity and creditworthiness. The following information shall be provided:

   - audited financial statements;
   - regulatory reports on financial condition;
   - proof of Financial Institution Regulatory Authority ("FINRA"); certification and of state registration;
   - a sworn statement by an authorized representative of the broker/dealer pledging to adhere to "Capital Adequacy Standards" established by the Federal Reserve Bank and acknowledging the broker/dealer understands that the University has relied upon this pledge; and

- any additional information requested by the University in evaluating the creditworthiness of the institution.

Only firms meeting the following requirements shall be eligible to serve as broker/dealers for the University:

- "Primary" dealers and regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);
- Capital of at least $50,000,000;
- Registered as a dealer under the Securities Exchange Act of 1934;
- Member of FINRA;
- Registered to sell securities in the Commonwealth of Virginia; and
- Engaged in the business of effecting transactions in U.S. government and agency obligations for at least five consecutive years.

2. **Engagement of Investment Managers -** The Vice President and Chief Financial Officer of the University of Virginia may engage one or more qualified firms to provide investment management services for the University. All investment management firms who desire to provide investment management services to the University shall be provided with current copies of this investment policy. Before an organization can provide investment management services to the University, it must confirm in writing that it has received and reviewed this investment policy and is able to comply with it.

   Only firms meeting the following requirements will be eligible to serve as investment manager for the University:

   a) Registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940 or exempt from registration;

   b) Must have provided to the University an annual updated copy of Form ADV, Part II, if applicable;

   c) Must be registered to conduct business in the Commonwealth of Virginia; and

   d) Must have proven experience in providing investment management services under the Investment of Public Funds Act.

   Any firm engaged by the University to provide investment services shall:

   a) Select security brokers/dealers who meet the requirements defined under this policy;

   b) Provide monthly reports of transactions and holdings to the University;

c) Provide performance reports at least quarterly;

d) Report on performance in comparison to the University's investment benchmarks and provide evidence that the manager has solicited at least three bids for any security purchased or sold on behalf of the University; and

e) Not collect any soft dollar commissions or credits, from mutual funds or others, in exchange for services directly provided to a customer.

3. **Selection of Depository Banks –** the University may deposit funds with any national banking association, federal savings and loan association or federal savings bank located in Virginia and any bank, trust company or savings and loan association organized under Virginia law that is a Qualified Public Depository as defined by the Virginia Security for Public Deposits Act (Section 2.2-4401 et seq.) of the Code of Virginia. While it is not expected that bank deposits will be significant, any bank deposits above $10 million will be managed with (1) an appropriate diversification of holdings among banks and (2) a consideration of the credit rating of each bank.

X. Prohibited Investments and Investment Practices

The University is expressly prohibited from the following investments and investment practices in the Tier 1 and Tier 2 Portfolios, except to the extent that the Tier 2 portfolio is invested in a UVIMCO co-mingled pool, in which case the prohibited investments and practices would be consistent with the UVIMCO investment policy.

1. Borrowing funds for the sole purpose of reinvesting the proceeds of such borrowing;

2. Short sales (selling a specific security before it has been legally purchased);

3. Pair-offs (buying a security and selling it before the settlement date);

4. Speculative trading (repetitive buying and selling of the same or similar securities for the purpose of capital gains);

5. Investment in complex derivatives such as range notes, dual index notes, inverse floating rate notes and deleveraged notes, or notes linked to lagging indices or to long-term indices

6. Investment in collateralized mortgage obligations; and

7. Investing in any security not specifically permitted by this Policy.

XI. Portfolio Benchmarks

The Working Capital Fund will be designed to obtain at least a market level rate of return, given budgetary and economic cycles, commensurate with the University's investment risk and cash flow needs. The portfolio management approach will be active, allowing periodic restructuring of the investment portfolio to take advantage of current and anticipated interest rate movements.

The returns on the University of Virginia's investments will be compared on a quarterly basis to benchmark with similar risk/return characteristics.

The applicable benchmarks for each of the University's three Portfolio Tiers are listed below:

Fund	Benchmark
Tier 1	Merrill Lynch 6-Month U.S. Treasury Bill Index
Tier 2	Merrill Lynch 1-5 Year U.S. Treasury Index
Tier 3	As prescribed in the UVIMCO Investment Policy Statement

A copy of this policy and related procedures manual will be placed on file in the Treasury Management Department and an electronic version will be posted on the University's website.

Appendix A:
University of Virginia Investment Management Company Investment Policy Statement

University of Virginia
Investment Management Company
Investment Policy Statement

Contents

I. Introduction

A. Organizational Purpose

The University of Virginia Investment Management Company (UVIMCO) provides investment management to the Rector and Visitors of the University of Virginia (University) and its related foundations (Foundations). Assets deposited in UVIMCO are held in the custody and control of UVIMCO on behalf of the University and Foundations within a long-term co-mingled investment pool (Pool).

B. Standard of Care

The Board of Directors (Board) and Officers (Staff) of UVIMCO manage Pool assets in accordance with this Investment Policy Statement. In making investment decisions and taking investment actions, they exercise their good faith business judgment and act consistent with required standards of conduct for managers of institutional assets.

Given the uncertain and continuously evolving nature of investment markets, no static list of security types, asset classes, or definitions of investment management strategies can continuously express prudent practice. Therefore, the process by which investment decisions are developed, analyzed, adopted, and executed must satisfy relevant standards of care.

C. Objectives

UVIMCO's primary objective in managing the Pool is to maximize long-term real return commensurate with the risk tolerance of the University.

To achieve this objective, UVIMCO actively manages the Pool in an attempt to achieve returns that consistently exceed the returns on a passively investable benchmark with similar asset allocation and risk (Policy Portfolio Benchmark).

Recognizing that the University must attract outstanding students, faculty, and staff and provide to them appropriate resources, UVIMCO strives to manage Pool assets to provide long-term real returns that compare favorably with the returns of endowments of other outstanding schools (Peer Group).

D. Spending

UVIMCO does not set spending rates. UVIMCO communicates the Pool's risk and return estimates to the University and Foundations for their consideration in setting spending rates.

II. <u>Governance</u>

A. Board Responsibilities

The Board is responsible for establishing this Investment Policy Statement. The Board has delegated to UVIMCO's Chief Executive Officer (CEO) responsibility for managing Pool assets in accordance with this Investment Policy Statement and in accordance with other policies that the Board has or may adopt.

The Board monitors the development, analysis, adoption, and execution of investment decisions and actions by the Staff to ensure compliance with this Policy and applicable standards of care. The Board also evaluates the competence of the management of Pool assets considering the investment process and the resulting return of Pool assets relative to the Policy Portfolio Benchmark and Peer Group. The Board takes action to amend this Investment Policy Statement or replace Staff as necessary to ensure prudent management of Pool assets.

B. Staff Responsibilities

Staff manages Pool assets within the policies set by the Board and under the direction of the CEO. Staff's investment management responsibilities include tactical asset allocation and selection of external managers. While Staff may directly trade securities or derivatives to manage the Pool's asset allocation, active management of security selection typically is delegated to external managers.

C. Tactical Asset Allocation

Because an optimal asset allocation evolves through time in response to changing economic circumstances and volatile market prices, Staff may tactically manage the Pool's asset allocation within the risk control ranges of the Policy Portfolio. Implementation of any such tactical strategy recognizes the inherent uncertainty of short-term forecasts of asset class returns and the high relative risk of even small deviations from the market exposures of the Policy Portfolio and Peer Group. Therefore, Staff typically scales any tactical asset allocation positions to ensure only modest risk relative to the Policy Portfolio Benchmark and Peer Group.

D. Manager Selection and Monitoring

Staff monitors and evaluates the full spectrum of global investment strategies seeking opportunities to employ active external managers. Prior and subsequent to hiring external managers, staff investigates and analyzes managers' investment process, organization, and staff. Staff terminates managers or adjusts manager positions to achieve the objectives of the Investment Policy Statement. While the Board has delegated manager selection and retention decisions to the CEO, the Board monitors the CEO's decision making process and reviews documentation of due diligence in analyzing and monitoring managers.

E. Manager Diversification

For instruments or funds whose returns are produced only though exposure to capital markets, including index funds and similar derivative securities, allocations are limited by the asset allocation ranges expressed by the Policy Portfolio. For managers whose returns are produced primarily through skill, including hedge funds, no more than 7.5% of Pool assets are allocated to a single manager. For long-term closed-end fund investments, including private equity and real estate funds, the 7.5% limitation applies to the net amount committed to active funds (calculated as the total cost basis of current investments plus total unfunded commitments, if any). For purposes of this limitation, separate funds managed by an investment company or business group are aggregated if the returns of those funds are produced by a common investment process.

F. Leverage and Derivatives

UVIMCO employs leverage and derivative securities, both directly and within funds, only to the extent that the aggregate risk of the Pool is not increased beyond that which would be allowed by the Policy Portfolio without using leverage or derivatives. UVIMCO defines leverage as a strategy that increases expected return by raising exposure to and risk of a given investment. The most direct form of leverage is borrowing but many other strategies, structures, funds, and derivative securities produce similar results and therefore imply leverage. UVIMCO monitors and controls the effect of both direct and implied leverage on the Pool's volatility and liquidity.

G. Reporting

UVIMCO provides monthly reports to the University and Foundations displaying the Pool's asset allocation relative to the Policy Portfolio and displaying the returns of the Pool and its component asset classes. UVIMCO provides quarterly narrative reports that explain and analyze the Pool's investment position, strategy, and performance relative to the Policy Portfolio Benchmark. Annually, UVIMCO provides performance results relative to the Peer Group.

H. Annual Policy Review

The Board reviews this policy annually. In preparation for that review, Staff provides an analysis of any changes in the risk tolerance and spending plans of the University that have been reported to it and on economic and investment conditions. Staff recommends changes to this Investment Policy Statement accordingly. Typically, annual changes to this Investment Policy Statement are small and gradual. The revised Investment Policy Statement is provided to the University and Foundations on a timely basis.

III. Policy Portfolio

A. Capital Market Risk and Return Estimates

The Board reviews and approves Staff's estimates of capital market risks and returns. Staff divides the global capital market into asset classes and examines their historical returns, volatilities, and correlation. If future conditions such as economic risk, inflation, and market integration are likely to differ materially from the conditions during the historical periods examined, then Staff adjusts historical risk and return estimates accordingly.

Perceived temporary deviations of current market prices from equilibrium values do not influence UVIMCO's capital market risk and return estimates. Therefore, UVIMCO's capital market risk and return estimates are changed infrequently and gradually.

B. Risk Tolerance

The Board determines the Pool's risk tolerance in consideration of the University's tolerance for volatility in spending. Foundations must determine whether the Pool's risk and return characteristics are appropriate given their investment objectives and spending plans.

In theory, tolerance for spending volatility determines a risk aversion parameter, which in combination with capital market risk and return estimates provides a specific optimal asset allocation that maximizes utility. In practice, risk tolerance is difficult to quantify and the theoretically optimal asset allocation may vary widely within a reasonable range of capital market risk and return estimates. Therefore, the Board's determination of the Pool's risk tolerance is necessarily a judgmental process.

C. Strategic Asset Allocation

Based upon the University's risk tolerance together with capital market risk and return estimates, the Board sets a strategic asset allocation designed to achieve the objectives stated in this Investment Policy Statement. The strategic asset allocation is prudently diversified across asset classes. If passively executed, the strategic asset allocation would provide expected returns in line with its risks; it lies near the efficient frontier of portfolios that provide the highest expected return per unit of risk and the lowest risk per unit of expected return.

Benchmark indices are selected to represent the risk and return profile of each asset class. Key considerations in selecting benchmark indices include broad market coverage, ability to passively invest, transparency of index construction, and objectivity of the index provider. The strategic asset allocation together with the selected benchmark indices form the Pool's Policy Portfolio Benchmark – the primary benchmark against which actual Pool performance is measured.

D. Risk Control Ranges

The Policy Portfolio specifies risk controls in the form of ranges for Pool asset allocations. The ranges help to ensure adequate diversification, define the permissible magnitude of tactical asset allocation, and constrain both absolute and relative risk. UVIMCO has adopted risk controls principally considering the Pool's tolerance for volatility, but also to ensure adequate liquidity.

Risk control ranges express the acceptable variation from target asset allocations in normal market and economic circumstances. Exceptional circumstances may justify deviation from the ranges specified in the Policy Portfolio. Deviation from risk control ranges caused by an investment decision or action must result in Board notification via the monthly Board report. Deviation from risk control ranges caused by changes in market prices or manager actions is reported by the CEO to the Board monthly along with a recommended plan of action. In any such circumstance, UVIMCO formally communicates to the University and Foundations the reasons for operating the Pool's actual asset allocation outside of the ranges specified by the Policy Portfolio.

POLICY PORTFOLIO AS OF JUNE 30, 2011

Strategic Asset Allocation

Asset Class	Allocations (%)	Benchmarks
Equity	**60**	MSCI All Country World Equity
Real Assets	**10**	50% MSCI U.S. Real Estate 50% MSCI AC World Real Estate
Fixed Income	**30**	50% Barclays U.S. Aggregate 50% Barclays Global Aggregate Bond (Hedged)
TOTAL	**100**	**Policy Portfolio Benchmark**

Risk Control Ranges (%)

Net Exposure*	Ranges	Allocations*	North America*	Europe*	Asia*	LAMA*†
Equity	40 – 70	60	28	16	13	3
Real Assets	5 – 20	10	7	1	2	0
Credit	0 – 20	13	11	2	0	0
Government Bond	5 – 20	17	9	4	3	0
Regional Targets	70 – 100	**100**	**56**	**23**	**18**	**3**
& Ranges	--	--	25 – 75	0 – 40	0 – 40	0 – 20
Cash & Currency	0 – 30	**0**	**10**	**-6**	**-4**	**0**
Current Targets	--	**100**	**65**	**17**	**15**	**3**
& Ranges	--	--	50 – 100	0 – 30	0 – 30	0 – 20
Market Beta Exposure		**70**				
Private Aggregate	50-70					

* Regional asset class and currency exposure of the Policy Portfolio Benchmark as of 6/30/11.
† Latin America, the Middle East, and Africa

Appendix B:
Board of Visitors resolution, October 2007

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: **October 4, 2007**

COMMITTEE: **Finance**

AGENDA ITEM: **II.E. Cash Management Authority**

BACKGROUND: In 2007, the University obtained a legislative amendment that expands its ability to invest non-general fund reserves and balances and certain local funds of or held by the university. The amendment allows these funds to be invested in equity-based financial securities in addition to the instruments allowed under the State's Investment of Public Funds Act (IPFA). The University has long had the authority to invest its gift and other private funds in equity-based financial securities while all other funds were invested by the University or the State Treasurer subject to the provisions of the IPFA. The 2007 legislation allows the University to invest its cash in higher-returning investments where appropriate.

The 2006 Restructuring Management Agreement between the University and the State transferred to the University the responsibility for management of non-local cash, subject to meeting the performance metrics established under the Agreement. Thus, in addition to local and private cash, the University is managing "all other non-general fund reserves and balances".

DISCUSSION: The University has embarked on a comprehensive cash management program including the establishment of an internal bank. The implementation of a new computer system and the development of a cash forecasting model have allowed the University to manage cash flow on a University-wide basis. The result is that the University is now better able to optimize the investment of its cash.

This action establishes clear authority for the University to invest its cash in the University of Virginia Investment Management Company (UVIMCO) long-term pool, as well as other vehicles, in a prudent manner subject to the law in order to obtain the best return for the University while ensuring liquidity requirements are met. It also allows for sharing of the incremental investment earnings between the central reserves and the entities within the University. The cash management policies and practices will be

subject to the University's normal audit, reporting and disclosure requirements.

ACTION REQUIRED: Approval by the Finance Committee and by the Board of Visitors

APPROVAL OF CASH MANAGEMENT AUTHORITY

WHEREAS, the 2006 Restructuring Management Agreement grants the University the authority to invest all non-general fund cash if the performance metrics negotiated in the Agreement are met; and

WHEREAS, the 2007 investment legislation (23-76.1) allows the investment of local funds and all non-general fund reserves and balances in a variety of financial securities in addition to the instruments allowed by the Investment of Public Funds Act; and

WHEREAS the University seeks to manage and invest cash in a prudent manner subject to the law, in order to obtain the best returns concomitant with acceptable risks that ensure liquidity requirements are met;

RESOLVED that the Vice President and Chief Financial Officer is authorized to invest the cash of and held by the University in the University of Virginia Investment Management Company (UVIMCO) long-term pool or in other investment vehicles as permitted by law, the cash to include but not be limited to working capital, operating reserves, employee health plan reserves, other academic division operating and capital reserves, and medical center working capital, operating and capital reserves including depreciation reserves;

RESOLVED FURTHER that the Vice President and Chief Financial Officer is granted the authority to distribute returns to major entities and to central reserves as appropriate.