



Annual Finance Policy Reports

*Board of Trustees Finance & Audit Workgroup
August 28, 2014*



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Annual Investment Report

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GOVERNANCE AND INVESTMENT MANAGEMENT STRUCTURE

University Board of Trustees

- Adopted USF System Investment Policy
- Established USF Investment Committee

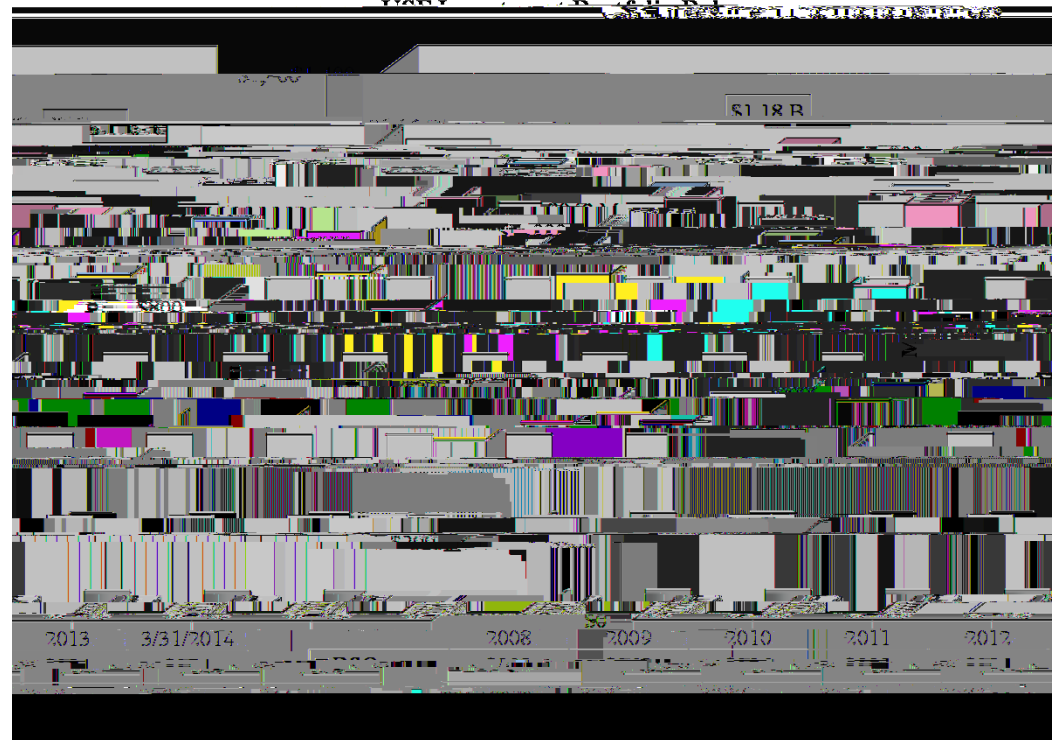
USF Investment Committee

- Appointed investment consultant
- Approves investment guidelines, asset class targets and investment direction for each asset class
- Approves investment managers

Central Oversight of USF's 10 Investment Portfolios

- All portfolios governed by active investment committees and common USF Investment Policy
- All portfolios are in compliance with Policy

Combined 2014 System investment portfolio - \$1.2 billion, up \$115 million over 2013 (as of 3/31)



GOVERNANCE AND I



RECENT EVENTS

University Replaced 3 Investment Managers and Approved 5 New in the Past 2 Years

- Replacement criteria: Underperformance and/or organizational issues
- New investment managers: Approved by Investment Committee; due diligence by consultant

USF Positive Cash Flow Reinvested in Portfolio – Principally Short-Term Corporate Bonds

Maintenance of Balanced Portfolio Structure

USF Portfolio Transactions Over the Past 12 Months

- 1 purchase – \$50 million – Corporate bond index fund
- 3 purchases – \$12 million – S&P 500 index fund
- 3 purchases – \$ 5 million – Developed markets index fund
- 2 purchases – \$11 million – Emerging markets index fund
- 2 purchases – \$ 5 million – Energy index fund
- 1 purchase – \$ 1 million – REIT index fund
- 1 purchase – \$ 3 million – Long/short absolute return fund
- Liquidation – \$ 9 million – Emerging markets fund



NEAR-TERM INITIATIVES – NEXT 12 MONTHS

Ongoing Assessment of Portfolio Exposure to Interest Rate Risk – Well Positioned in Short-Term, High Quality Fixed Income

Maintain Liquidity in Diversified, Well-Managed Mutual Funds – Next Day Availability

Continue Investment of Positive Net Cash Flow Into Balanced Portfolio Structure

Consider Changes to Asset Allocation Ranges



MANAGEMENT OF USF INVESTMENTS AND POLICY MEASURES

University Portfolio Managed to Deliver Stable Returns, Preserve Capital and Maintain Liquidity

University Portfolio Structure Has Lower Exposure to Market Volatility, Improving Prospects for Positive Absolute Returns

12-Month Performance	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
<u>UNIVERSITY PORTFOLIO</u>							
Annual Investment Income (Loss)	\$25 M	\$23 M	\$27 M	\$21 M	\$10 M	\$14 M	\$27 M
Annualized Return	5.36%	4.77%	4.80%	3.30%	1.60%	2.70%	4.90%
<i>Benchmark Return</i>	<i>5.14%</i>	<i>4.51%</i>	<i>3.84%</i>	<i>3.25%</i>	<i>1.30%</i>	<i>2.40%</i>	<i>4.90%</i>
Relative Portfolio Return	0.22%	0.26%	0.96%	0.05%	0.30%	0.30%	0.00 %
<u>COMBINED OTHER PORTFOLIOS</u>							
Annual Investment Income (Loss)	\$1 M	(\$78) M	\$46 M	\$78 M	\$3 M	\$50 M	



Annual Debt Management Report

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GOVERNANCE AND DEBT MANAGEMENT STRUCTURE

University Board of Trustees

- Authorizes all new debt and real property transactions
- Adopted 3 USF System finance policies: Debt Management, Derivatives, Real Property

USF Organized Eligible Revenue Streams Into 5 Finance Systems

- Attract highest possible credit ratings / Obtain attractive, long-term interest rates

Central Management of New Debt Structures, Debt Capacity and Tax / Legal Compliance – Oversight of Leveraged Auxiliaries

- University has demonstrated capabilities, quickly responds to USF's infrastructure needs and can access public and private capital markets
 - Closed \$1.3 billion of transactions; developed

RECENT EVENTS

Moody's and Standard & Poor's Affirmed USF's "Aa2 / AA-" Credit Ratings in FY 2014

- Standard & Poor's raised the USF Housing System rating to "A+"

Restructured Debt – Health

- \$62.5 million – New Series 2013A and Series 2013B Refunding Bonds (closed September 2013)
- Refunded former Series 2006A and Series 2007 Health bonds
- New bond structure: Bank private placement; Staggered 3- and 5-year maturities
- Matched bond maturities with expiring interest rate swaps

New Debt – Arena

- \$20 million – Series 2013 Taxable Promissory Note (closed September 2013)
- Arena Renovation Project – Reimbursed University for portion of funds spent on the \$36 million renovation
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NEAR-TERM II –



Annual Derivatives Report

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GOVERNANCE AND DERIVATIVES MANAGEMENT STRUCTURE

University Board of Trustees

- Adopted USF System Derivatives Policy

Central Management of 8 Interest Rate Swaps Outstanding - \$241 Million

- Negative fair value of swaps of \$24.5 million (6/30/14) (accumulated non-cash expense); As swaps approach expiration, the negative value will move to \$0
- Change in fair value was positive \$4.6 million (2013-2014) – non-cash gain
- Posting \$6.9 million in cash collateral with counterparty trustee, due to downgrade of Ambac

Swaps Provide an Effective Hedge Against Variable Interest Rates

Swaps Lock In Attractive Fixed Interest Rates for Variable Rate Debt = 3.55%

No New Swaps Since 2007



RECENT EVENTS

Amending Swap Agreement to Reduce Termination Risk Prior to Maturity

Highlights of Recent Compliance Efforts

- Compliance with new Dodd-Frank Act – SEC Rules
 - “Swap Data Reporting and Recordkeeping Requirements”

NEAR-TERM INITIATIVES – NEXT 12 MONTHS

Opportunity to Convert \$88 Million of Variable Rate Debt to Fixed Rate Debt (Series 2012A) – Eliminate Need for Swap Hedge of Interest Rate Risk

MANAGEMENT OF USF DERIVATIVES AND POLICY MEASURES