You asked that we review the performance of the Strategic Investment Fund through June 30, 2017, with an eye to suggesting improvements in the process of evaluating funding requests. Our suggestions appear at the end of this memorandum.

The origins of the Strategic Investment Fund lay in a decision nearly a decade ago to move money from the University's cash operating reserves into active investment. Traditionally, the University, like other AAA-rated universities, maintained operating cash reserves, most of which were held by the Commonwealth, to ensure against unforeseen expenses and to maintain its “triple A” credit rating. In 2006, the University, having received its operating funds from the state under the Restructuring Act, began moving those reserves into active investment by the University of Virginia Investment Management Company. In 2015, the University established lines of credit as additional liquidity support, thus allowing additional operating cash to be invested through UVIMCO. This action was taken after successful negotiation with the ratings agencies to maintain the University's top credit rating.

The redeployment of operating reserves continued after the sharp fall in equity prices in 2008 and into the early stages of a long bull market. Thanks to that timing and the exceptional investment performance of UVIMCO, those unrestricted assets eventually grew to more than $2 billion. In February 2016, the Board of Visitors used those assets to create the Strategic Investment Fund.

The Strategic Investment Fund is intended to provide perpetual support for strategic initiatives at the University. Spending is therefore limited to an amount that will preserve the principal for future generations. At a standard spending discipline of 5 percent, the SIF would support grants of as much as $80-$100 million a year.
Grants from the Strategic Investment Fund are made by the Board of Visitors on recommendation of an Advisory Committee.* Through June 30, 2017, the Advisory Committee considered a total 99 proposals. Of these, 27 were approved, in whole or in part, and recommended to the Board of Visitors. The commitments made by the Board of Visitors extend over several years and include contingencies. If all contingencies were met and the authorized expenditures fully realized, the grants approved to date would eventually total $216.4 million, or approximately 28 percent of the amounts requested. As the amounts authorized to date do not exhaust the current spending capacity of the SIF, it is expected that additional grants will be made in the current fiscal year.

The priorities of the SIF are the priorities of the University. In the words of the presidential search committee,** the University's highest priority is “student success,” which includes affordable access as well as excellence in education. Other priorities include increasing the University's research portfolio, becoming preeminent in health care delivery, and supporting the University of Virginia's College at Wise.

Grants from the Strategic Investment Fund closely track these priorities. Although grants often serve multiple purposes, approvals to date may be categorized by primary purpose as follows:

- **Student Support: $133 million.** The largest category is aid that directly and immediately benefits students. Grants for that purpose total $133 million or 61 percent of the total approved so far.

  By far the largest is a commitment of up to $100 million to the Bicentennial Scholars Fund, which will match (on a one-for-two basis) private endowments for need-based scholarships. Obviously, this commitment is intended not only to improve affordability and access to the University, but also to encourage private giving.

  Additionally, grants totaling $26 million have been made to increase financial support for in-state undergraduates and for graduate students. And a grant of $3.5 million has been made to the University of Virginia's College at Wise to increase enrollment and retention in technical programs designed to enhance prospects for employment.

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*During the relevant time, the Advisory Committee consisted of William H. Goodwin, Jr. (Rector), Frank M. Conner, III (Vice Rector), Victoria D. Harker (former BOV member), Teresa A. Sullivan (President), Thomas C. Katsouleas (Provost), Richard P. Shannon (Executive VP for Health Affairs), and Patrick D. Hogan (COO). In addition to reviewing the full proposals, the Advisory Committee receives comments and recommendations from a five-person faculty Evaluation Committee.

**The full statement on the priorities of the University is available at http://presidentialsearch.virginia.edu/sites/default/files/University%20of%20Virginia%20Profile_Outline_vFinal_5.5.17.pdf.
- **Research Support: $66 million.** A second category includes grants that aim to expand research. Many also enhance instruction. Most of these grants go to research infrastructure in STEM areas (science, technology, engineering, and math). Examples include:

  - $15.7 million to fund research centers in autism, neurodegenerative disease, and sensory disorders, three areas of neuroscience in which the University already has notable strength;
  
  - $10 million to develop energy-efficient technology that is “smaller, cooler, faster” than existing capabilities;
  
  - $5 million for “Engineering in Medicine,” a program designed to facilitate collaboration between engineering and medicine;
  
  - $2 million to provide early support for a center for the catalytic conversion of natural gas, which would dramatically reduce the costs of transportation and storage of natural gas; and
  
  - $7.4 million in grants to provide enhanced computing and personnel support for faculty research generally.

These and other grants for research infrastructure share a common ambition to raise the University's profile as a research institution and to improve its ability to attract external funding.

- **Public Service and Outreach: $17 million.** While many SIF grants have a public-service component, two distinctly serve that purpose.

  Most important is a grant of nearly $17 million for Precision Individualized Medicine for Diabetes. The Virginia PriMedD Project, as it is known, aims to detect, control, and eliminate type 1 diabetes in Virginia. This project will create a network for genetic screening of all children in Virginia under the age of five; identify those at high risk for type 1 diabetes; develop a “virtual image” of each child to allow computer simulation of treatment options for that individual; and provide innovative immunotherapy treatments for those affected.

  Additionally, the BOV approved $600,000 to expand the University's public safety programs to meet the employment needs of the FBI, DOJ, CIA, DEA, and the Virginia State Police.
With these grants, the Board of Visitors has begun to deploy the SIF effectively. The procedure followed in administering the SIF was devised for this purpose in 2016 and has now been used for three cycles of SIF proposals. Not surprisingly, early experience in administering SIF suggests possible improvements in that procedure. We offer two suggestions.

- **Changing the Timeline.** There have been a great many proposals for SIF funding. All are given careful scrutiny, first by the faculty Evaluation Committee and then by the Advisory Committee. Both levels of review generate requests for additional information. The current timetable does not provide adequate time for such requests. The problem does not arise with proposals that are plainly meritorious or those that are plainly not. The problem arises with proposals that have substantial merit but for which additional information is needed from the proposer. Sometimes the committee needs greater financial detail; sometimes it needs clarification of the relation among the components of a proposal; sometimes it needs the proposer's response to a suggested modification of duration or scope. In all these cases, time is needed for additional research and for consultation with the proposer before final recommendation by the Advisory Committee. The current timetable does not accommodate that need.

  A relatively simple solution would be to have one cycle of proposals annually rather than two. That would allow for a more relaxed schedule of deliberation, with adequate opportunity to seek additional information and schedule follow-up meetings once that information is received. We believe that the Advisory Committee has done an excellent job so far and that it would function even more effectively with more time.

  This change could be implemented immediately. The proposed timeline for the cycle about to begin contemplates that the Advisory Committee will submit recommendations to the Board of Visitors for consideration at its meeting on December 6-7, 2017. If the Advisory Committee were instead to submit recommendations for consideration at the Board meeting on February 28-March 2, ample time would be provided for mature and, where indicated, reiterative deliberation by the Advisory Committee. This change could easily be made in the current cycle, as no one would be disadvantaged by extending the timeline.
**Reporting.** With Strategic Investment Fund operations now underway, the obligation arises to report back to the Board of Visitors and to the University community on their success. We recommend two kinds of reports.

First, there should be an annual overview of the Fund’s financials. That should include the latest investment experience from UVIMCO, the total assets held in the Fund, the aggregate commitments from prior Board decisions, and the room, under a conservative spending discipline, for new grants. The aim here is to provide complete transparency on SIF operations.

Second, the proposer of each approved project should be asked to submit an annual progress report on the expenditure of SIF moneys and the results obtained. This document need not be lengthy but it must be sufficient to demonstrate that SIF funding is being carefully monitored and to allow for evaluation of the project’s ultimate success.

With these changes, a strong Strategic Investment Fund process can be made better, and SIF’s contributions to the University can be made more effective and more visible.