UNIVERSITY OF SOUTH FLORIDA
A PREEMINENT RESEARCH UNIVERSITY

Annual Finance Policy Reports

Board of Trustees Finance Committee
August 27, 2019

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Annual Investment Report

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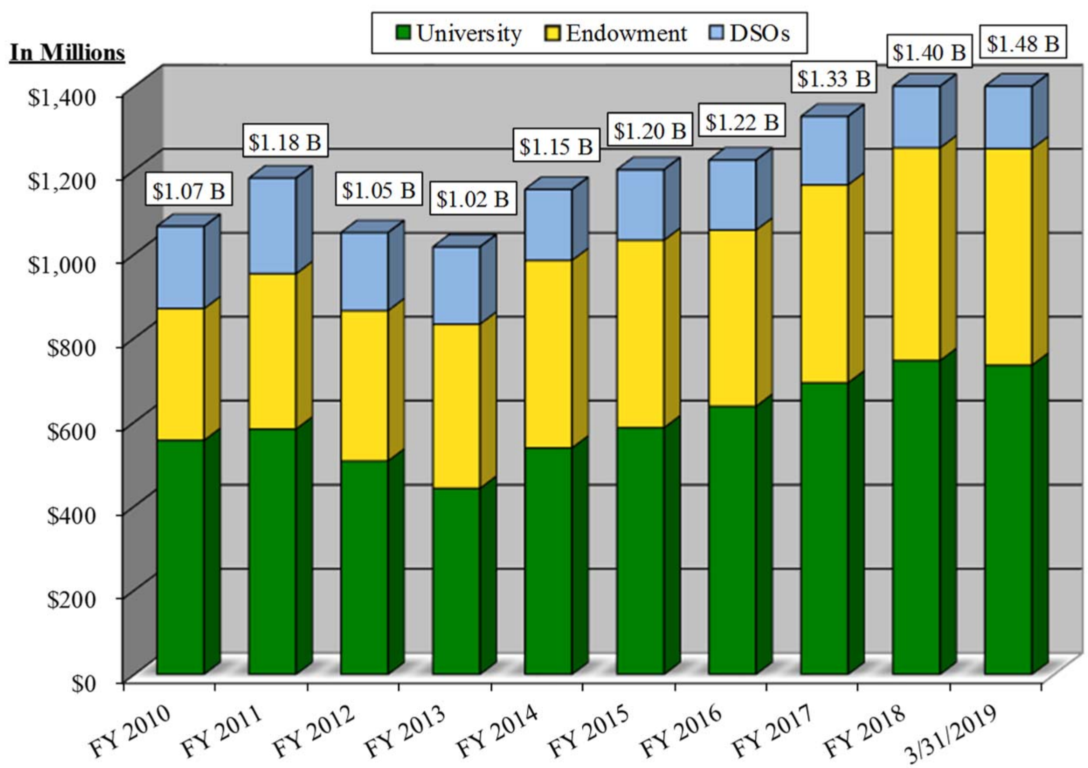
All Portfolios in Compliance with BOT Investment Policy



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Asset Allocations within Policy Limits

USF SYSTEM PORTFOLIOS – Balances as of 3/31/19

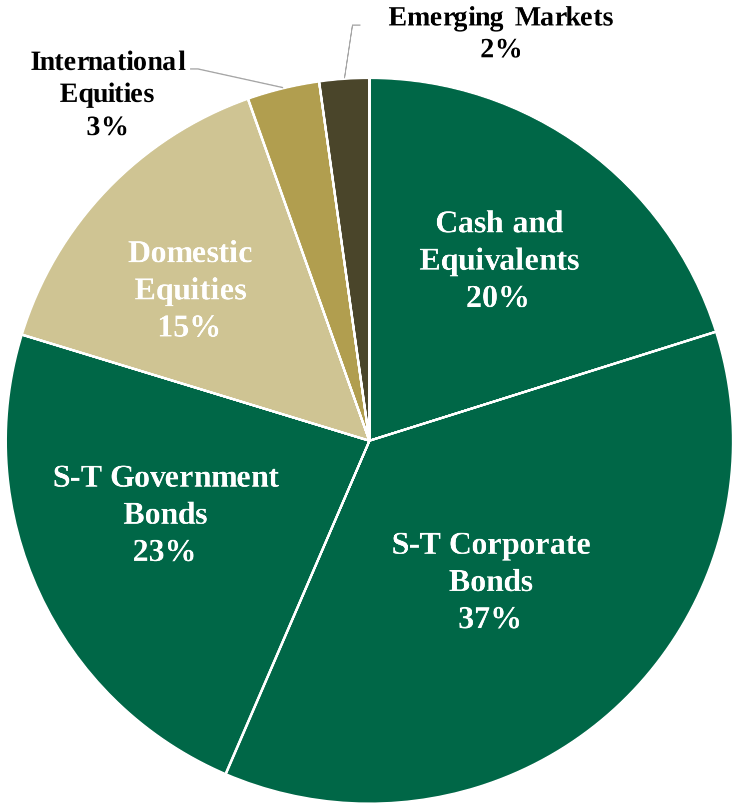
(In Thousands)

	Combined [1]	Endowment	Operating Funds								
ASSET CLASS	USF TOTAL INVESTMENTS	FOUNDATION	UNIVERSITY	FINANCING	FOUNDATION	UMSA/MSSC	HPCC	RESEARCH	ALUMNI	APPLIED ENGINEERING	SUNDOME
Cash and Equivalents	**$234,671**		**$115,600**	**$74,686**	**$28,900**	**$5,799**	**$4,445**	**$4,150**	**$237**	**$201**	**$865**
SHORT TERM INVESTMENTS											
S-T Corporate Bonds	$325,035		$262,500		$50,550	$5,835		$6,150	$370		
S-T Government Bonds	$195,989		$168,600		$16,850	$10,539			$124		
TOTAL SHORT TERM INVESTMENTS	**$521,024**	**$0**	**$431,100**	**$0**	**$67,400**	**$16,374**	**$0**	**$6,150**	**$494**	**$0**	**$0**
LONG TERM INVESTMENTS											
L-T Corporate Bonds	$141,438	$106,128	$31,500		$3,062	$1,610		$7,500	$1,453		
Foreign Fixed Income											
Domestic Equities	$285,482	$185,020	$95,200		$5,337	$1,962		$12,400	$2,533		
International Equities	$141,931	$101,834	$33,200		$2,938	$660		$6,000	$1,394		
Emerging Markets	$47,311	$33,945	$16,100		$979	$2,303		$2,000	$465		
Real Assets	$65,550	$51,917	$12,100		$1,498	$1,533		$2,600	$711		
Direct Investments	$37,644	$37,644	$0		$1,086	$0		$1,900	$515		
TOTAL LONG TERM INVESTMENTS	**$719,356**	**$516,488**	**$188,100**	**$0**	**$14,900**	**$8,068**	**$0**	**$32,400**	**$7,071**	**$0**	**$0**
TOTAL CASH and INVESTMENTS as of 3/31/2019	**$1,475,051**	**$516,488**	**$734,800**	**$74,686**	**$111,200**	**$30,241**	**$4,445**	**$42,700**	**$7,802**	**$201**	**$865**

1 FOUNDATION Operating Funds totaling $14,900,000 invested in the ENDOWMENT Fund are eliminated in the Combined Investment balances.
RESEARCH FOUNDATION Operating Funds totaling $25,700,000 invested in the ENDOWMENT Fund are eliminated in the Combined Investment balances.
ALUMNI ASSOCIATION Operating Funds totaling $7,777,000 invested in the Foundation OPERATING and ENDOWMENT Funds are eliminated in the Combined Investment balances.

UNIVERSITY PORTFOLIO – SAFETY, LIQUIDITY, RETURN

- **Provide Liquidity to Fund University Operations – $2.0 Billion in Annual Expenditures**
  - 100% of investments can be accessed on a next-day basis
- **Preserve Capital – Invested State Funds and Reserves**
  - 80% of the Portfolio is held as bonds and cash equivalents
  - 20% of the Portfolio is prudently invested in equity risk assets
- **Achieve Positive Absolute Return in All Market Conditions – Balance Risk and Return**
  - Low volatility of bond funds (1.1 std dev) more than offsets volatility of equity funds (10.1 std dev)
  - Modeled investment returns:
    - 80% probability of positive returns over 12 months
    - 95% probability of positive returns over 3 years
    - Nearly 100% probability over 5 years
  - Actual investment results:
    Positive returns for all fiscal years, despite 11 negative quarters
- **Provide Key Support for Moody's and Standard & Poor's Ratings**



UNIVERSITY PORTFOLIO – FY 2019 PERFORMANCE VS BENCHMARKS

As of June 30, 2019

Asset Class	Market Value	1-Yr Return	3-Yr Return	5-Yr Return	Since Inception
Total Assets	**$769.9 M**	**5.5%**	**3.8%**	**2.6%**	**3.1%**
Total Assets Benchmark		5.4%	3.8%	2.6%	2.8%
Value Add		0.1%	0.0%	0.0%	0.3%
Total Long-Term Pool	**$149.7 M**	**6.7%**	**10.0%**	**5.3%**	**7.6%**
Long-Term Benchmark		6.2%	9.8%	5.4%	6.6%
Value Add		0.5%	0.2%	(0.1%)	1.0%
Domestic Equity	$109.7 M	10.3%	14.1%	10.7%	13.9%
International Equity	$23.7 M	3.9%	9.7%	3.0%	6.0%
Emerging Markets	$16.3 M	3.3%	9.3%	2.3%	4.4%
Total Intermediate Pool	**$471.5 M**	**5.8%**	**2.2%**	**2.2%**	**2.8%**
Intermediate Benchmark		5.3%	1.7%	1.8%	2.3%
Value Add		0.5%	0.5%	0.4%	0.5%
Fixed Income - Government	$171.7 M	5.3%	1.7%	1.8%	2.3%
Fixed Income - Corporate	$299.8 M	6.2%	2.5%	2.4%	3.0%
Cash and Equivalents	**$148.7 M**	**2.2%**	**1.2%**	**0.8%**	**0.7%**

UNIVERSITY PORTFOLIO – PERFORMANCE SINCE 2008

- **Investment Returns have been Stable and Positive in Every Year, Despite Market Volatility**
  - Delivered positive annual returns in down years for equity markets (2012, 2015, 2016) (see below)
  - Portfolio has modest equity-beta and active manager risk
  - Prudent allocation to equities added +190 bps to performance since inception (added $99 M)

- **University Approved 20 New Investment Managers and Terminated 11 since 2008**

- **In FY 2019, closed out REIT and Energy positions, terminated Alternative and Foreign Equity Managers, added to S&P 500 position and sold portion of Corporate Bonds**

10-Year Risk Adjusted Returns

	Return	Std Dev	Sharpe
▪ **USF Portfolio –**	**4.5%**	**3.5%**	**1.17%**
▪ S&P 500 Index –	15.9%	12.7%	1.20%
▪ Barclay's Agg –	3.8%	2.8%	1.17%

12-Month Performance	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019 (Preliminary)
UNIVERSITY PORTFOLIO										
Annual Investment Income (Loss)	**$27 M**	**$21 M**	**$10 M**	**$14 M**	**$27 M**	**$6 M**	**$10 M**	**$25 M**	**$18 M**	**$37 M**
Annualized Return - Equities	4.3%	19.1%	(4.7%)	13.1%	18.3%	(0.1%)	(2.6%)	14.5%	9.0%	6.7%
Annualized Return - Fixed Income	9.7%	2.4%	2.3%	0.8%	1.1%	0.9%	2.4%	0.9%	0.0%	5.8%
Total Annualized Return	**4.8%**	**3.3%**	**1.6%**	**2.7%**	**2.1%**	**0.7%**	**1.1%**	**3.5%**	**2.4%**	**5.5%**

University Portfolio – Near-Term Initiatives

- **Manage Portfolio Exposure to Various Risks:**
  - Market volatility, interest rate risk, foreign market risk, foreign currency risk, investment liquidity risk, active manager risk
  - Structuring portfolio to balance these risks
- **Maintain Optimum Liquidity**
- **Monitor Investment Managers**
- **Active Assessment of Market Exposures**
- **Investment Discipline: Will Not Chase Yield by Accepting Higher Risk**

UNIVERSITY OF SOUTH FLORIDA
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Annual Debt Management Report

DEBT OBJECTIVES – GOVERNANCE, COMPLIANCE, RATINGS, COST

- **Prudent Governance – Board of Trustees and Financing Corporation**
  - Effective BOT Debt Management Policy and Management Practices
  - Effective BOT and DSO Boards
  - Expert Management Team

Managing Compliance with USF BOT Debt Management Policy, BOG Regulations, State Statutes, Federal SEC / IRS Laws, Covenant Requirements, Continuing Disclosure Requirements.

- **Maintain AA Moody's and Standard & Poor's Credit Ratings**
  - Access Capital Markets on Attractive Terms
- **Effective Use of USF Debt Capacity**
  - Strategic Prioritization of Projects
  - Determination to Issue Direct Debt or use Public Private Partnerships
- **Manage Long-Term Cost of Capital and Financial/Credit Risks**
  - Capitalize on Market Opportunities to Achieve Low Cost, Low Risk, Long-Term Financing

Recent Examples of Responsive Management:

- **Refunded BABs in January 2019**
  * Decision to refund made in November 2018
- **Issued new USFSP Housing Bonds in January 2019**
  * Decision to manage both public transactions simultaneously

DEBT PORTFOLIO – FY 2019 TRANSACTIONS

- **Transactions Closed in FY 2019 – $53 Million**
  - $32.1 M Series 2018 – Issued New St. Petersburg Housing Bonds (Public)
    - 30 year, tax exempt, 3.99% fixed rate
  - $16.5 M Series 2019 – Converted Series 2010B Housing Bonds (BABs) (Public)
    - NPV savings of $1.8M (11.8% of bonds), 3.68% fixed rate
  - $3.6 M Series 2019 – Issued New Conventional Mortgage – Purchase UDI Building in Research Park
    - 25 year, taxable, 4.33% fixed rate

As of June 30, 2019

Program	Current Ratings Moody's / S&P	Public / Private	Fixed / Variable	Taxable / Tax Exempt	Interest Rate	Total Outstanding
Parking	Aa3 / AA-	Public Bonds	Fixed Rate	Tax Exempt	2.20%	$14.9 M
Housing	A1 / A+	72% Public Bonds 28% Private Bonds / Loans	72% Fixed Rate 28% Variable w/ Swap	Tax Exempt	3.87%	$206.1 M
Health	Not Rated	Private Bonds / Loans	Fixed Rate	Tax Exempt	3.07%	$67.5 M
Athletics	Not Rated	Private Bonds / Loans	Fixed Rate	56% Tax Exempt 44% Taxable	4.09%	$37.8 M
Marshall Center	Aa3 / AA-	Public Bonds	Fixed Rate	Tax Exempt	3.43%	$31.1 M
Research	Not Rated	Private Bonds / Loans	95% Fixed Rate 5% Variable w/ Swap	95% Taxable 5% Tax Exempt	3.90%	$20.7 M
Foundation	Not Rated	Conventional Mortgage	Fixed Rate	Tax Exempt	2.63%	$5.1 M
TOTAL USF & DSO DEBT		**49% Private Bonds / Loans 51% Public Bonds**	**85% Fixed Rate 15% Variable w/ Swap**	**90% Tax Exempt 10% Taxable**	**3.63%**	**$383.2 M**

DEBT PORTFOLIO – UPGRADES, TRANSACTIONS, RESTRUCTURING

- **10 Ratings Upgrades (plus recent *Positive Outlook* on all rated series by S&P)**

- **48+ Bond Transactions Closed – Total Exceeds $1.8 Billion**
  - Issued only $118 M of New Debt Over 10 Years
  - Total Debt at 6/30/19 – $383 M, Down from Peak of $454 M in 2011
  - Low Cost of Capital – 3.63%, Down from Peak of 4.28% in 2014
  - NPV Savings on Refundings / Conversions – +$27 M

- **Debt Structure Managed to Reduce Risk and/or Capitalize on Market Opportunities**
  - Mix of Debt – Private (49%), Public (51%) – Changed from 100% Public Debt in 2009
  - Variable Rate Debt – $59 M, 15% of Total Debt, Down from Peak of 65% in 2009
  - Interest Rate Swaps – $59 M, Down from Peak of $278 M in 2008

Debt Structured Conservatively.
Responsive to Market Opportunities.

DEBT MANAGEMENT – DELEVERAGING

(In Millions)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	Moody's Aa2 Medians FY 2018
NEW DEBT	$10	$52			$20					**$36**	
TOTAL DEBT	$415	$454	$445	$431	$435	$421	$413	$377	$359	**$383**	**$1,087**
LONG-TERM RATE	3.96%	4.01%	4.00%	4.13%	4.28%	3.99%	3.91%	3.64%	3.68%	**3.63%**	

POLICY MEASURES	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	Moody's Aa2 Medians FY 2018
OPERATIONS											
Operating Cash Flow Margin (↑)	7.1%	6.5%	1.1%	3.9%	10.2%	7.4%	7.3%	9.1%	**7.0%**		**11.3%**
Operating Margin (↑)	0.6%	0.3%	-6.9%	-4.7%	2.4%	0.1%	0.0%	2.0%	**-0.2%**		**3.3%**
LIQUIDITY											
Cash & Investments / Operating Exp (↑)	0.72x	0.77x	0.62x	0.58x	0.65x	0.64x	0.64x	0.68x	**0.67x**		**0.69x**
Monthly Days Cash on Hand (↑)	195 days	204 days	173 days	167 days	202 days	197 days	200 days	213 days	**216 days**		**159 days**
LEVERAGE											
Cash & Investments / Debt (↑)	1.6x	1.7x	1.5x	1.4x	1.6x	1.8x	1.9x	2.3x	**2.5x**		**1.3x**
Debt Service Coverage (↑)	3.8x	3.3x	-0.1x	1.1x	4.0x	2.7x	4.1x	4.8x	**4.0x**		**3.0x**
Debt Service / Operating Exp (↓)	1.9%	2.0%	2.0%	2.2%	2.2%	2.2%	1.5%	1.7%	**1.4%**		**4.0%**

Debt Portfolio – Near-Term Initiatives

- **USF Research Park Lab and Office Project - $27 M**
  - Exceeds the BOT-Required 1.30x Debt Service Coverage (exceeds BOG 1.20x Requirement)
  - Approved by Financing Corporation and Board of Trustees
  - Scheduled for Approval by BOG in October 2019

- **Assess Debt Portfolio for Refinancing Candidates**

- **USF Sarasota-Manatee Student Housing Project – TBD; in Development**

Annual Derivatives Report

DERIVATIVES PORTFOLIO – WINDING DOWN SWAPS

- **Prudent Governance – Board of Trustees and Financing Corporation**
  - Effective BOT Derivatives Policy and Management Practices

- **Manage Long-Term Cost of Capital and Risk**
  - Hedged Variable Rate Bonds – Provides a Lower Cost of Capital – Requires Active Management
  - Matched Maturities of Bonds to Coincide with Maturing Swaps
    - $219 M reduction in swaps over 11 years (79%)
  - Winding Down Swap Portfolio – No New Swaps Since 2007
    - 2 Swaps Currently Outstanding – $59 M
    - 1 Swap will Expire in December 2019

As of June 30, 2019

Program	Swap Counterparty	Expiration Date	USF Optional Termination Rights	Collateral Posted	Fixed Swap Rate	Total Outstanding
Housing	Royal Bank of Canada	7/1/2037	Yes	$3.75 M	3.94%	$58 M
Research	Bank of America	12/1/2019	Yes	$0	5.70%	$1 M
TOTAL USF DSO SWAPS				**$3.75 M**	**3.97%**	**$59 M**

DERIVATIVES PORTFOLIO – 14-Year Managed Trend

- **USF System Derivatives – $59 Million (6/30/19)**

Plan to Exit Remaining Swaps