



Annual Finance Policy Reports

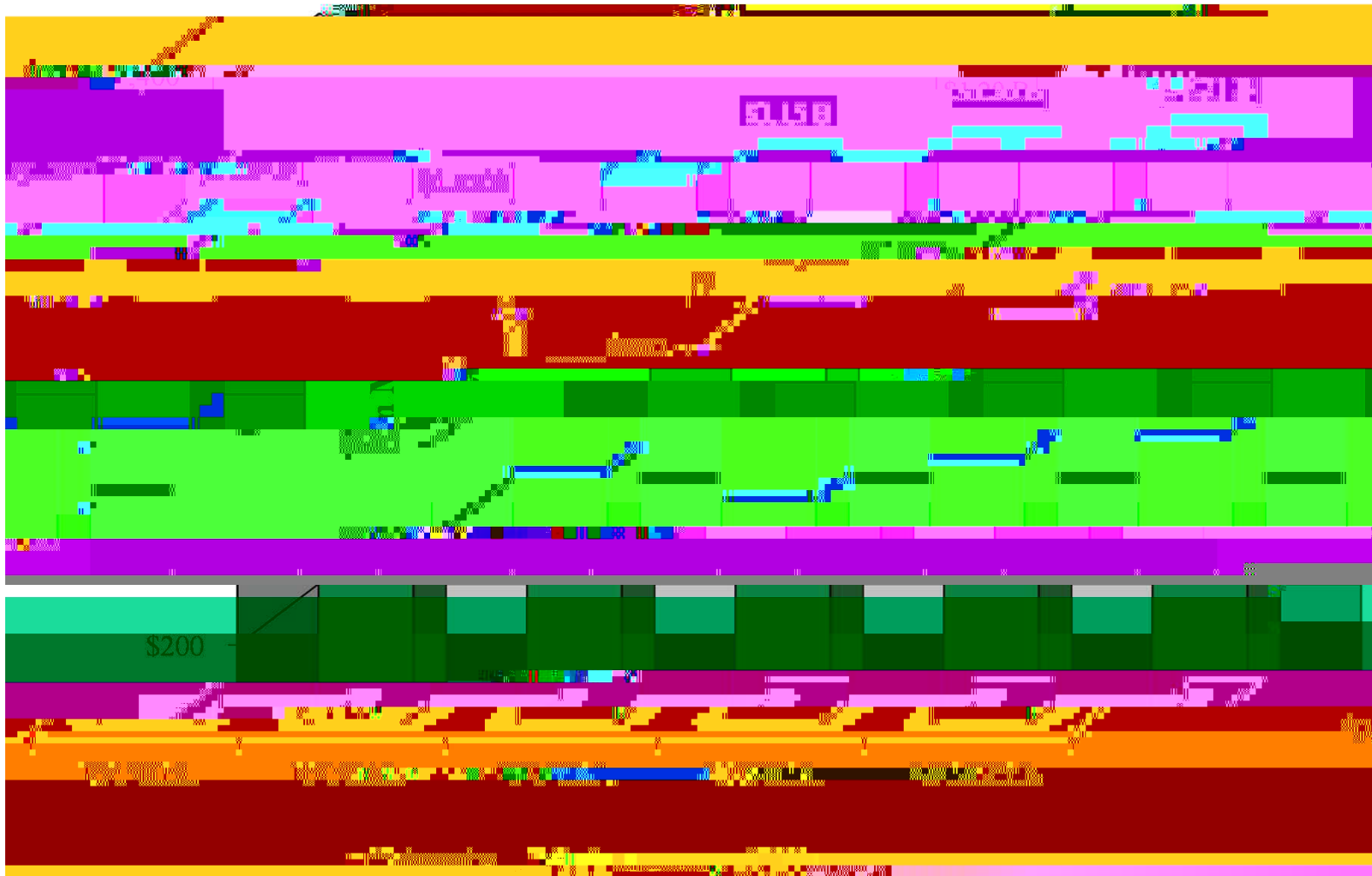
Board of Trustees Finance Committee
August 25, 2016



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USF SYSTEM INVESTMENT PORTFOLIO – 10 USF and DSO Portfolios



UNIVERSITY PORTFOLIO – AN OPERATING PORTFOLIO

1. Goal: Maintain Liquidity, Different than the Endowment
2. Goal: Avoid Losses (preserve capital)
3. Support Cash Operating Requirements – \$1.5 B (52% payroll)
4. Similar Approach as a Money Market Fund

Illustration

One-Day Impact from
Brexit Vote (6/23/16)

Portfolio Structured to Avoid Losses

UNIVERSITY INVESTMENT PERFORMANCE – Recent Results

- x **University investment returns have been stable and positive each year over the past 9 years, despite market volatility.**

- x **University Investment Performance**
 - o 1-Year Return = 1.10% (equal to benchmark)
 - o 3-Year Return = 2.20% (equal to benchmark)
 - o 5-Year Return = 2.20% (0.10% over benchmark)

9 Year Investment Performance

12-Month Performance	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<u>UNIVERSITY PORTFOLIO</u>									
Annual Investment Income (Loss)	\$25 M	\$23 M	\$27 M	\$21 M	\$10 M	\$14 M	\$27 M	\$6 M	\$10 M
Annualized Return	5.36%	4.77%	4.80%	3.30%	1.60%	2.70%	4.90%	0.70%	1.10%
Benchmark Return	5.14%	4.51%	3.84%	3.25%	1.30%	2.40%	4.90%	0.80%	1.10%
Relative Portfolio Return	0.22%	0.26%	0.96%	0.05%	0.30%	0.30%	0.00 %	(0.10)%	0.00 %

DEBT MANAGEMENT – Core Strategies

- 1. Manage Debt to Achieve Low Cost, Low Risk, Long-Term Financing**
- 2. Maintain USF’s Strong “AA” Credit Ratings – Stable Outlooks**
- 3. Maintain Access to Capital Markets – Public and Private**
- 4. Maintain Strong Balance Sheet – Credit Strength**
 - 5 recent transactions completed in FY 2015 and 2016 – \$188 M of bonds refunded
 - 2 planned transactions in FY 2017 – \$41 M of parking and health bonds
- 5. Capitalize on Market Opportunities**
- 6. Experienced Central Management**
 - Manage long-term relationships – Rating agencies, investment bankers, commercial bankers
 - Manage credit risks / terms
 - Manage governance process – USF senior management, Trustees / BOG, DSO Boards
 - Manage compliance – Bond covenants, SEC reporting, tax

USF POLICY PERFORMANCE MEASURES – 9 Year Trend

x Debt has declined over 9 years, despite new issuance.

(In Millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Moody's Aa2 Medians FY 2015	FY 2016 (ACTUAL)
NEW DEBT	\$96		\$10	\$52			\$20			
TOTAL DEBT	\$446	\$445	\$415	\$454	\$445	\$431	\$435	\$421	\$723	\$405

POLICY MEASURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Moody's Aa2 Medians FY 2015	FY 2016 (EST)
<u>OPERATIONS</u>										
Operating Cash Flow Margin (×)	8.8%	11.3%	7.1%	6.5%	2.1%	14.3%	8.7%	6.0%	11.1%	5.2%
Operating Margin (×)	2.6%	5.1%	0.6%	0.3%	-6.9%	-4.7%	2.4%	0.1%	3.5%	-0.5%
<u>LIQUIDITY</u>										
Cash & Investments / Operating Exp (×)	0.75x	0.67x	0.72x	0.78x	0.65x	0.63x	0.74x	0.73x	0.65x	0.71x
Monthly Days Cash on Hand (×)	180 days	177 days	195 days	204 days	173 days	167 days	202 days	197 days	152 days	194 days
<u>LEVERAGE</u>										
Cash & Investments / Debt (×)	1.5x	1.3x	1.6x	1.7x	1.5x	1.5x	1.8x	2.0x	1.4x	2.1x
Debt Service Coverage (×)	4.9x	5.2x	3.8x	3.3x	-0.1x	1.1x	4.0x	2.7x	2.9x	3.0x
Debt / Operating Expense (Ø)	1.9%	2.1%	1.9%	2.0%	2.0%	2.2%	2.2%	2.2%	4.0%	1.7%

DERIVATIVES MANAGEMENT – Core Strategies

1. Only utilize swaps to hedge variable rate bonds – No unhedged positions
2. Match maturities of private placements to coincide with maturing swaps
– \$152 M reduction in swaps over 2 years
3. Winding down swap portfolio – No new swaps since 2007

Recent Events

- x Converted \$38 M of USF Financing Corporation variable rate bonds to fixed rate (7/1/16) – \$38 M of swaps expired
- x Converted \$18 M of USF Research Foundation variable rate bonds to fixed rate and paid off \$9 M in variable rate bonds (8/1/16) – \$27 M of swaps expired

Initiatives – Next 18 Months

- x Convert \$19 M of USF Financing Corporation variable rate bonds to fixed rate (7/1/18); expiring 5-year private placement creates opportunity – associated \$19 M swap will expire

USF SYSTEM DERIVATIVES PORTFOLIO – 9-Year Trend

- x **USF System Derivatives – \$154 Million (6/30/16)**
 - o 6 swaps outstanding at June 30, 2016 – 3 swaps scheduled to expire in July and August 2016

Outstanding Derivatives – PSO Interest

