

WORKING CAPITAL  
AND VERITAS  
INVESTMENT REPORT  
2024

---



# INTRODUCTION

The university invests its financial assets in pools with distinct risk and liquidity characteristics based on specific needs. While the university's endowment is invested in an equity-oriented strategy that seeks to maximize total return over the long term, the university's working capital is primarily invested in short duration liquid assets and fixed income investments. Other investment pools are invested according to their individual needs and requirements. Historically, the Executive Vice President & Chief Financial Officer (EVPCFO) and the Chief Investment Officer provided oversight to the Working Capital Portfolio.

The university's Board of Regents approved that the EVPCFO and the Associate Vice President for Finance provide direct oversight of the investment program and operations of the Working Capital Portfolio pursuant to and in accordance with the proposed Working Capital Investment Policy Statement.

Beginning on July 1, 2022, the Treasurer's Office became responsible for the day-to-day management of the Working Capital Portfolio's operations, investment program, and reporting.

This report discusses the asset allocation and investment performance of the working capital funds that are not invested in the endowment and Veritas Insurance Corporation, the university's captive insurance company.

# WORKING CAPITAL

The university's Working Capital Portfolio is divided into two types of fund classifications: 1) Operating Funds, which are primarily invested in relatively short duration liquid fixed-income assets and 2) Opportunity Capital, which is invested primarily through the long-term portfolio with the university's other endowment funds. Opportunity Capital funds also include Private Capital – primarily mature senior secured direct lending strategies in the corporate and real estate sectors that are in runoff (i.e., investments are being harvested and liquidated in the ordinary course under their respective terms).

Opportunity Capital funds that are invested with the university's other endowment funds are excluded from this investment report and are covered in detail in the University's Endowment Investment Report.

The market value of the university's working capital funds, excluding funds invested in the endowment, totaled \$3.8 billion at June 30, 2024, compared to \$4.5 billion at June 30, 2023.

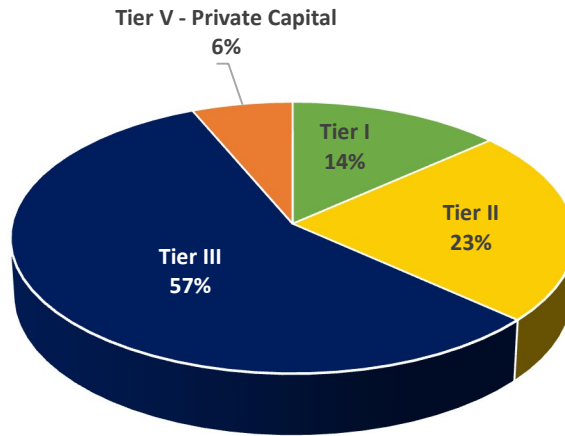
The university's working capital funds are principally used for operating activities and capital projects. They primarily consist of unit deposits and unexpended bond proceeds.

## FAIR VALUE (in millions)

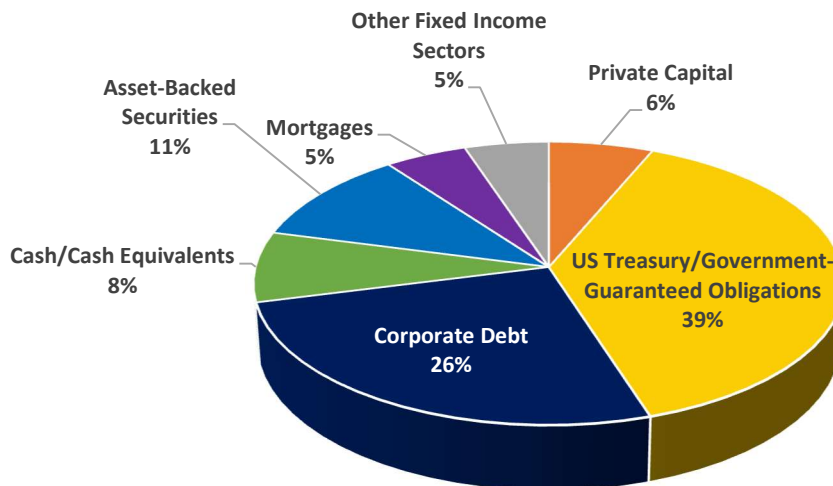
<b>WORKING CAPITAL PORTFOLIO</b>	<b>6/30/24</b>	<b>6/30/23</b>
Tier I	\$ 516.0	\$ 452.7
Tier II	884.9	1,031.1
Tier III	2,180.0	2,695.1
Tier IV	0.0	0.0
<b>Total Operating Funds</b>	<b>\$ 3,580.9</b>	<b>\$ 4,178.9</b>
<b>Tier V – Opportunity Capital – Private Capital</b>	<b>243.7</b>	<b>309.0</b>
<b>Total Working Capital Portfolio (excl. endowment)</b>	<b>\$ 3,824.6</b>	<b>\$ 4,487.9</b>

The below charts show the asset allocation of the university's working capital funds by tier and sector.

### Working Capital Asset Allocation by Tier as of June 30, 2024



### Working Capital Asset Allocation by Sector as of June 30, 2024



# WORKING CAPITAL: OPERATING FUNDS

Funds consisting of shorter-term operational working capital and unexpended bond proceeds, and the income generated by such funds, make up the university's Working Capital Operating Funds and are divided into four tiers based on risk profile and investment objectives. Shorter-term operational working capital is invested according to forecasted receipt and disbursement operating activity. Unexpended bond proceeds are held separately and invested in accordance with the university's internal lending program and expectations for capital use or other general purposes, as allowable. Operating Funds maintain a shorter investment horizon and a generally conservative risk profile focused on safety of principal, liquidity, and yield.

## **TIER I PORTFOLIO**

**The Tier I Portfolio is considered the most liquid and most risk-averse with a portfolio duration of not more than nine (9) months and a maximum maturity of twenty-five (25) months. The objective of the Tier I investment program is to provide direct liquidity in support of daily operations.**

### **ASSET ALLOCATION**

The Tier I Portfolio ended the year with assets of \$516.0 million. The portfolio is invested primarily in fixed income instruments with a modified duration of 0.28 years as of June 30, 2024.

### **INVESTMENT PERFORMANCE**

The Tier I Portfolio generated a positive total return of 5.1 percent in the fiscal year and slightly lagged the benchmark by 0.2 percent. Such lag is primarily driven by diversification of investments to include bank deposits. Long-term, the performance has been positive and has either been in line with or has slightly lagged the benchmark as shown in the table below.

## ANNUALIZED PERFORMANCE SUMMARY | PERIODS ENDING JUNE 30, 2024

<b><u>TIER I PORTFOLIO</u></b>	<b>Fair Value (in millions)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Tier I Portfolio</b>	<b>\$ 516.0</b>	<b>5.1%</b>	<b>2.8%</b>	<b>2.0%</b>	<b>1.4%</b>
Benchmark – Tier I <sup>(a)</sup>		5.3%	2.9%	2.1%	1.4%

(a) ICE BofA 3 Month T-Bill less investment management fee.

## **TIER II PORTFOLIO**

**The Tier II Portfolio is accepting of incremental additional risk and maintains a duration of not more than three (3) years and a maximum maturity of five (5) years. The objective of the Tier II investment program is to provide secondary liquidity in support of daily operations and primary liquidity in support of large expenditures.**

### **ASSET ALLOCATION**

The Tier II Portfolio ended the year with assets of \$884.9 million. The portfolio is invested primarily in fixed income instruments with a modified duration of 2.41 years as of June 30, 2024.

### **INVESTMENT PERFORMANCE**

The Tier II Portfolio generated a positive total return of 5.3 percent in the last fiscal year and outperformed the benchmark by 0.6 percent primarily related to the tier's higher holdings of cash and money market funds. Tier II is slightly different than its predecessor, and, therefore, prior period performance is not available.

## ANNUALIZED PERFORMANCE SUMMARY | PERIODS ENDING JUNE 30, 2024

<b>TIER II PORTFOLIO</b>	<b>Fair Value (in millions)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Tier II Portfolio</b>	<b>\$ 884.9</b>	<b>5.3%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
Benchmark – Tier II <sup>(a)</sup>		4.7%	N/A	N/A	N/A

(a) Bloomberg 1-5 Year U.S. Government/Credit Index

### **TIER III PORTFOLIO**

The Tier III Portfolio, a new sub-portfolio in the Working Capital Portfolio, consists of unexpended bond proceeds and maintains a duration of not more than five (5) years and a maximum maturity of nine (9) years. The objective of the Tier III investment program is to provide direct liquidity in support of capital expenditures in the scope of the university's capital investment plan.

#### **ASSET ALLOCATION**

The Tier III Portfolio ended the year with assets of \$2,180.0 million. The portfolio is invested primarily in fixed income instruments with a modified duration of 2.20 years as of June 30, 2024. Proceeds that are expected to be utilized in the shorter-term are invested in more liquid, short-term assets than proceeds that are expected to be held for a longer period of time.

#### **INVESTMENT PERFORMANCE**

The Tier III Portfolio generated a positive total return of 5.2 percent in the last fiscal year and outperformed the benchmark by 0.3 percent. The outperformance was primarily driven by strategic investments in U.S. Treasuries and ABS securities. Tier III is a new investment tier for the university, and, therefore, prior period performance is not available.

## ANNUALIZED PERFORMANCE SUMMARY | PERIODS ENDING JUNE 30, 2024

<b>TIER III PORTFOLIO</b>	<b>Fair Value (in millions)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Tier III Portfolio</b>	<b>\$ 2,180.0</b>	<b>5.2%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
Benchmark – Tier III <sup>(a)</sup>		4.9%	N/A	N/A	N/A

(a) Combination of ICE BofA 3 Month T-Bill less investment management fee and the Bloomberg 1-5 Year U.S. Government/Credit Index using actual weights of underlying accounts/managers and their respective benchmarks

### **TIER IV PORTFOLIO**

The Tier IV Portfolio is comprised of certain internal loans to university units that are being tracked and treated as investments. While there is no maximum maturity, such lending will not exceed certain internal thresholds. The objective of the Tier IV investment program is to provide direct support of the university's internal lending and capital spending priorities.

#### **ASSET ALLOCATION**

There were no funds allocated to the Tier IV portfolio in fiscal year 2024 and no funds outstanding as of June 30, 2024.

#### **INVESTMENT PERFORMANCE**

N/A

# WORKING CAPITAL: OPPORTUNITY CAPITAL

The Working Capital Opportunity Capital funds, classified as Tier V, maintain a long-term investment horizon with a generally more aggressive risk profile focused on growth. Opportunity Capital funds that are invested with the university's other endowment funds are excluded from this investment report and are instead covered in the University's Endowment Investment Report. Tier V also includes Opportunity Capital - Private Capital. These strategies are largely in runoff – investments are being harvested and liquidated in the ordinary course under their respective terms over the next approximately three-eight years with the funds ultimately being reallocated to other Working Capital portfolio tiers. A range of 50%-70% is targeted for Opportunity Capital allocation, including working capital funds invested in the endowment.

## **TIER V PORTFOLIO (EXCLUDING ENDOWMENT INVESTMENTS)**

### **ASSET ALLOCATION**

The Tier V Portfolio, excluding endowment investments, ended the year with assets of \$243.7 million. The Opportunity Capital – Private Capital are primarily composed of senior secured direct lending strategies in the corporate and real estate sectors. The majority of the partnerships are in runoff mode with a significant proportion anticipated to return the capital over the next three to five years and the remainder being realized in the ordinary course under their respective terms.

### **INVESTMENT PERFORMANCE**

The Tier V Portfolio Opportunity Capital - Private Capital generated a positive total return of 5.7percent in the last fiscal year.

## ANNUALIZED PERFORMANCE SUMMARY | PERIODS ENDING JUNE 30, 2024

<b><u>TIER V PORTFOLIO (excl. endowment)</u></b>	<b>Fair Value (in millions)</b>	<b>1 Year</b>	<b>3 Years<sup>1</sup></b>	<b>5 Years</b>	<b>10 Years</b>
<b>Opportunity Capital – Private Capital</b>	<b>\$ 243.7</b>	<b>5.7%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>

<sup>1</sup> The Treasurer's Office began managing the Working Capital Portfolio in July 2022.  
Working Capital and Veritas Investment Report 2024 | 5

# VERITAS

Veritas is the university's wholly owned insurance company. Its investment structure is designed to meet Veritas' particular liquidity needs, liability structure, and regulatory requirements.

## ASSET ALLOCATION

Veritas' reserves were \$442.9 million on June 30, 2024. The reserves, excluding the Statutory Reserve, have a target allocation of 50% invested in the Daily and Monthly Portfolios and 50% invested in the Long-Term Portfolio. The asset allocation of the Daily and Monthly Portfolios is primarily fixed income-oriented and largely consistent with the Tier I and Tier II working capital investment portfolios, respectively. The Monthly Portfolio also has an allocation to diversifying, higher-income, value-enhancing strategies. The asset allocation of the Long Term Portfolio is equity-oriented and detailed in the university's Endowment Investment Report. The reserve allocation is rebalanced to the target asset allocation at least annually and is allowed to vary with performance and cash flows in between rebalancing.

### ASSET ALLOCATION | AS OF JUNE 30, 2024

<b>VERITAS</b>	<b>Fair Value (in millions)</b>	<b>Percent of Total</b>
Vermont Statutory Reserve	\$ 0.3	0.1%
Daily and Monthly Portfolios	215.2	48.6
Long Term Portfolio	227.4	51.3
<b>Total Veritas</b>	<b>\$ 442.9</b>	<b>100.0%</b>

## INVESTMENT PERFORMANCE

The Veritas portfolio ended the fiscal year 2024, with a positive return of 7.98%. While the Veritas portfolio underperformed the benchmark for the year driven by the Long Term Portfolio performance, it has historically outperformed the benchmark over longer periods as shown in the table below.

### ANNUALIZED PERFORMANCE SUMMARY | PERIODS ENDING JUNE 30, 2024

<b>VERITAS</b>	<b>Fair Value (in millions)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Total Veritas</b>	<b>\$ 442.9</b>	<b>7.98%</b>	<b>4.98%</b>	<b>7.55%</b>	<b>6.12%</b>
Benchmark - Veritas <sup>(a)</sup>		9.52%	2.22%	4.67%	4.12%

(a) Represents a blend of the Daily Portfolio (ICE BofA 3 Month T-Bill less investment management fee), Monthly Portfolio (Bloomberg 1-5 Year U.S. Government/Credit Index), and Long Term Portfolio (blended passive benchmark as defined in the Endowment Investment Report) benchmarks, weighted by their respective allocations.