INVESTMENT SUBCOMMITTEE
BOARD OF TRUSTEES
UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE

A meeting of the Investment Subcommittee of the Board of Trustees of the University of Vermont State and Agricultural College was held via teleconference on Wednesday, December 13, 2006 at 9:30 a.m., in the Presidents Conference Room.

MEMBERS PRESENT: Robert Cioffi, Chair; John Snow; Ian Boyce; Susan Hudson-Wilson, and Thomas Little.

OTHER TRUSTEES PRESENT: Board Chair Carl Lisman

PERSONS ALSO PARTICIPATING: Vice President for Finance and Administration J. Michael Gower, Associate Vice President for Finance and University Controller Bonnie Cauthon, Elizabeth Kent and LaRoy Brantley, Cambridge Associates, and Bob Davidson, Longwood Investment Advisors

Chair Robert Cioffi called the meeting to order at 9:35 a.m.

Longwood Investment Advisors

Bob Davidson, Chief Investment Officer and a Managing Director of Longwood Investment Advisors, provided a brief update on the firm by providing an explanation of poor performance based on three factors. He reported that the medical sector had not been a source of strength for the past two-three years. The problem in this sector has been resolved through the new hiring of Amelia K. Balonek, formerly the small cap Healthcare analyst for Pioneer Investments.

Secondly, the firm’s poor performance was due to overweight in the technology sector in both the second and third quarters. Mr. Davidson explained that there was no material degradation in market outlook, so the stocks in this sector have been kept. The third factor comes in the energy sector; which Mr. Davidson said the firm had cut significantly but believed it should have been cut entirely. Mr. Davidson responded to Trustee Boyce’s inquiry on whether Longwood was committed to remaining true to their strategy and goals as a small cap growth manager or whether they intended to be more opportunistic relative to market opportunities in the small cap arena management strategy. The purpose of the question was to discern whether Longwood was remaining true to their investment style and also to better understand the role they are playing in our small cap allocation. Mr. Davidson’s response indicated they are remaining true to their strategy; which lead the committee to consider giving them a little more time at the helm as opposed to abandoning ship given the underperformance of small cap growth relative to value. Mr. Davidson explained the firm’s investment strategy focused on valuation and appropriate buy/sell discipline. Mr. Davidson plans on using the same programs and disciplines to achieve this strategy that believes has worked for Longwood for twenty-one years. He cited an example from ‘99-’00 of the firm’s strategy when it reallocated 50%-7% from the technology sector into new areas of growth.

Mr. Davidson answered the question Trustee Hudson-Wilson asked on asset composition. First, the fund is shrinking rather than growing with the withdrawal by large investors; for example the firm has lost $180 million in assets due to the change of direction of Wachovia Bank. Secondly, the firm is not in process of marketing for new assets but instead believes that small cap success
is better served through concentration of investments with growth coming from appreciation and performance results. Lastly, the firm recently sold off a large part of the consumer sector because of a fundamental analysis and low performance figures. The firm doesn’t invest in the restaurant business due to difficulty in making profits. The lack of investment in the retail sector, which has performed well recently due to decrease in oil prices, was decided upon the “fundamentals not being good.” Mr. Davidson cited that compounding mistakes occur by moving into new fads in the market.

Trustee Snow asked how Longwood measured risk in the small cap market. Mr. Davidson responded that the firm uses construction disciplines to limit risk. They will not allocate more than 28% in a broad industry group. They buy at one-half times the growth rate based on forward 12 months earnings and sell at one times the growth rate. The firm also keeps investments in individual names at a 2-4% allocation, with cut backs occurring at 5%.

Mr. Davidson stated that he believes that Longwood is back on track, before exiting the phone conference.

The Subcommittee discussed the University’s asset allocation in regards to the small cap market. Trustee Snow posed the question of whether Longwood was the right manager to be the only manager for this asset class in regards to capturing the asset’s class exposure and return with the ability to measure such using a small cap benchmark (i.e. Russell benchmark). Ms. Kent commented that the average institution’s allocation is between 5-6% in the small cap market and that the University has only 3% exposure. It was recommended by Trustee Snow that because Longwood’s strategy doesn’t rely on benchmarks, it would be best to have more small cap eggs to put in the basket by adding another small cap manager. Ms. Kent recommended these funds come from Iridian, holding 13% of the total pool. The Subcommittee agreed to allocate $5 million from Iridian to a small cap index fund within 6 months; the first allocation would be made as soon as the committee determines an appropriate vehicle. The Subcommittee also would monitor Longwood’s strategy and performance. Cambridge Associates will also provide to the Subcommittee a report on the overall exposure to small caps looking at all managers.

Non Marketable Alternatives

Chair Cioffi met with Commonfund to discuss the overall portfolio and non marketable exposure. The non marketable investments within the current portfolio are almost exclusively invested by Commonfund with the exception of Harbourvest; which was added to catch up in the vintage years. The portfolio is under allocated in this segment, holding 2.9% compared to 4% benchmark. Mr. Snow recommended that the Subcommittee make clear that our target for private equity commitments should be a stated multiple of our allocation target. It was suggested 1.5X as a suitable commitment level. Chair Cioffi recommended that the Subcommittee look at other fund of funds for the Private Equity and International Capital markets.
The Subcommittee will coordinate a meeting to meet with managers in New York and discuss the non marketable alternatives. Ms. Kent mentioned the exposure of long/short hedge fund managers, Highline and Tremblant, with regards to the availability of taking funds in March.

**Sudan Divestiture Update**

This will be discussed in the January meeting.

**Other Business**

The structure of the Subcommittee was discussed. It was suggested that a monthly standing schedule be implemented. The Subcommittee members will discuss timing and scheduling further via e-mail. Trustee Hudson-Wilson would like to see the Subcommittee bring an Economist in to present to the full Budget, Finance and Investment Committee on an annual basis and also to spend time with Cambridge Associates Researchers.

The news that Tremblant Partners Inc. is no longer registered in the SEC was brought up to the Subcommittee. The Subcommittee will add the topic of regulation and SEC registration status with regards to hedge funds to the February meeting agenda.

**Adjournment**

There being no further business, the meeting was adjourned at 11:00 a.m.

Respectfully submitted,

Robert Cioffi, Chair