A meeting of the Investment Subcommittee of the Board of Trustees of the University of Vermont State and Agricultural College was held on Wednesday, August 15, 2007 at 8:30 a.m., in room 351 Waterman Building.

MEMBERS PRESENT: Chair Robert Cioffi*, Vice Chair John Snow, Ian Boyce*, Jeffrey Davis*, Jeanette White* and Susan Hudson-Wilson*

MEMBERS ABSENT: None

PERSONS ALSO PARTICIPATING: Vice President for Finance and Administration and Treasurer Michael Gower, Associate Vice President for Finance and University Controller Bonnie Cauthon, Associate Vice President for Resource Management Ted Winfield, Elizabeth Kent, Cambridge Associates, Dan Guttell, Cambridge Associates.

Chair Robert Cioffi called the meeting to order at 8:30 a.m.

Approval of Meeting Minutes

The Subcommittee approved the minutes of June 20 & 25 and July 19, 2007, with amendments to the July 19th minutes.

Endowment Fee

Mr. Snow reported on the work of the Endowment Fee Work Group (Mr. Snow and Mr. Davis) as follows:

He reviewed the history of the fee. It was mapped onto the horizon of the capital campaign which created a close association with the campaign but review of the original resolution clarified that the fee had not been earmarked in the resolution for the campaign and confirmed that the fee was a management and administrative fee. The group looked at whether it was prudent to pay 50bps against the context of the impact on the long term ability of the endowment to sustain spending in perpetuity without losing its purchasing power. The group looked at research on spending, at our algorithm for spending and at the effect that, assuming reasonable growth, the nominal rate is actually less than 4.5%. All analysis indicated you could pretty safely distribute 5% without impairing the ability of the endowment to meet its long term objectives.

The work group then looked at whether the particular way of levying the fee was reasonable and explored the ethical issues of who pays for what. They re-examined the original resolution and examined data from peer institutions. The conclusion of the work group was that the idea of paying a management fee for services and administrative costs is very widespread and is typically at a higher level than 50bps. Earmarking the fee for any particular purpose seemed to be going further than they would like since it is up to management to determine how to distribute.

The work group looked at alternative ways of funding development activities and concluded it would be a worthy exercise over time to develop more sophisticated models and write a document about who should pay for what but that this would take some time.
In summary the work group believes that:
1) The 50bps fee is well within the spending capacity of the endowment
2) The 50bps fee is within the comfort zone when looking at peer institutions and in considering services and administration provided
3) Should not be identified specifically with the development office – administration should apply the fee in whatever way it determined to be appropriate
4) The fee should be calculated on the same base as spending (13 quarter rolling average)
5) Both the spending fee and the endowment fee should be reviewed and reaffirmed annually

Chair Cioffi opened the topic for discussion. Ms. White commented that an earmark can lead to problems when additional funds become available and the original funds are not flexible. Ms. Hudson-Wilson commented that she could not understand why management would not want flexibility. Chair Cioffi asked that members review the draft resolution and that it be placed on the agenda for September, with intent to bring forward to Budget, Finance and Investment (BFI) Committee on September 7, 2007.

Asset Allocation Policy

The Subcommittee reviewed the draft resolution for amendment of asset allocation policy and asked that it be placed, as amended, on the September agenda to be forwarded to the BFI Committee and the Board of Trustees (BOT) for approval by resolution. The Subcommittee will review the proposed target allocations in September and plan any rebalancing moves that are indicated by the new targets, subject to Board approval of the proposed changes.

Spending Policy

Mr. Gower reported that the spending policy had not been reaffirmed by resolution as a matter of course in the past but he recommended that it would be prudent to do so each year to ensure that it is reviewed. Mr. Snow agreed and said that the spending policy, along with asset allocation policy, was the most important decision made by the Subcommittee. He thought it was important for all subsequent committee members to understand and approve the policy. Chair Cioffi agreed that every member should understand it and that reaffirming it annually would assure that it re-surfaced, however, it was critical for members to understand it should not be revised without a great deal of thought and deliberation.

A motion was made and passed unanimously to re-affirm the current spending policy without amendment. This will be forwarded to the BFI Committee and Board of Trustees approval by resolution.

Quarterly LT Pool Investment Report

Ms. Kent noted that the results for the fiscal year were very good, with results a full percentage point above the median for the last quarter of the FY and almost 200bps above the median for the FY. She commented that it was unusual to see all parts of the portfolio doing well in relation to the benchmarks over the same period and that it was worth savoring. Particularly notable were performance of non U.S. Equity overall (35.3%) and Rexiter (49.3%), within U.S Equity Iridian (30.2%), public inflation hedging, Wellington, (22.0%). She also noted that marketable alternatives had equity like returns.

Ms. Kent reviewed July 2007 and commented that the portfolio held up well in a very tough month, with a modest negative (-.8). In comparison, the S&P 500 was down (-3.1) so we did have some
preservation of capital. Within the portfolio Rexiter was positive (+4.1), hedge funds were down (-.2). Ms. Kent reported that they were reviewing the portfolio for exposure to sub-prime and Chair Cioffi noted that he had a request from the Board Chair to report on our exposure. Mr. Gower said that we would be reporting on this issue at the September meeting. Chair Cioffi stated that we know the market will be down in circumstances such as these and that it is going to happen. Although we have to be aware of and understand these fluctuations, we have to trust in our asset allocation and be invested for the long term. Ms. Hudson-Wilson commented that the current sub-prime issues were symptomatic of the general re-pricing of credit.

In summary, Ms. Kent commented that Iridian continued to do a fantastic job while ARK was off to a slow start. However, she did not currently have any big concerns about any of the managers in the portfolio. She also commented that the slices intended for hedging did a good job in the difficult month of July.

Chair Cioffi confirmed that due to timing of meeting, there would not be a flash report in September. Ms. Kent said Cambridge would prepare reports based on July 31.

Secondary Private Equity Managers

Chair Cioffi recapped the difficulty of achieving target allocation due to long lead time of draw downs and that the group was considering some commitment to private equity secondaries as a way to fill the allocation. Ms. Kent noted the investment in Dover V had been a total home run with current 38% IRR. She said that the next fund was being raised and that she would be meeting with Harbourvest the next day so should know more after the meeting. She reviewed the list of others in the market but noted that she did not have clients in these funds. She said the Cambridge research group tended to like the smaller, “nichey” funds. Ms. Hudson-Wilson asked about the level of discounts and premiums for units currently and Ms. Kent responded that she would have to speak to someone who specialized in this market to get the information.

An expectation of increased investment in synthetics by one of the managers reviewed prompted a discussion of how synthetics work. Ms. Hudson-Wilson commented that this was a different strategy and that we should probably consider the two strategies separately. Chair Cioffi asked that this topic be placed on the October agenda and agreed to research the topic of synthetics and come back to the group with a report.

Fir Tree Partners

Ms. Kent reported that Cambridge had recently met with this fund and was impressed and believed they were well positioned to capitalize on current and future market conditions. They were placed on agenda since members of the Subcommittee had interviewed them in the past and been impressed with them although they were not chosen to fill the particular mandate at that time. Mr. Boyce affirmed that opinion but expressed the need to revisit the program strategy before hiring an additional hedge fund manager. Chair Cioffi agreed with the positive impression of the fund manager and noted that the opportunity might be missed but agreed that the portfolio structure should be reviewed before adding a manager. He asked that the Hedge Fund Program be placed on the agenda for the November meeting. Mr. Snow commented that it would be useful to discuss the program strategy without any sense of having to implement so that when an opportunity came it would be clear whether the opportunity was a fit or not.
Energy Investing

Ms. Kent referred the group to a white paper on energy investing that was distributed to the group from Cambridge. She noted that it was a little dated but interesting. It was put out as background for the group and focuses on private energy investing. She said the group may want to consider a mix through a fund of funds structure with the caveat that a fund of funds is an expensive option. Ms. Hudson-Wilson commented that it was important to define what we mean by “energy” and that it not just oil and gas. She also questioned whether it was in the inflation hedge category. She said that energy as a sector is a compelling sectoral bet but that she did not consider it inflation hedging. She emphasized the need to talk in terms of price-sensitive investments. Ms. White agreed that when we discussed energy it should not be just in terms of gas and oil since there were other energy alternatives.

Ms. Kent proposed the following groups: 1) Pure Inflation Hedge divided into private and public and 2) Value Added (broader energy exposure) divided into private and public. Chair Cioffi asked that the discussion of energy investing in this context be place on the agenda for the October meeting.

Bonds – Portfolio Structure

Chair Cioffi reported that we have Dwight Asset Management coming to speak to the Subcommittee in September and asked that this topic be placed on the September meeting agenda.

Adjournment

There being no further business, the meeting was adjourned at 10:00 a.m.

Respectfully submitted,

Robert Cioffi, Chair