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 on Wednesday, June 20, 2007 at 9:00 a.m., in the Presidents Conference Room, 351 Waterman Building.

MEMBERS PRESENT: Chair Robert Cioffi*, Vice Chair John Snow, Ian Boyce*, Jeffrey Davis*, and Jeanette White*.

MEMBERS ABSENT: Susan Hudson-Wilson


Chair Robert Cioffi called the meeting to order at 9:00 a.m.

*participating via teleconference

Approval of Meeting Minutes

A motion was made, seconded and approved to accept the minutes of the May 17, 2007 meeting.

Eaton Vance

The firm has been around since 1924, they manage $144 billion in assets. The characteristics used to describe management philosophy are forward thinking and long term. It was emphasized that careers are made at Eaton Vance. They have been a publicly traded company for 30 years. They are supported by strong senior management and execution due to the existing tie to stock ownership.

The firm’s portfolio manager, Nancy Tooke noted that there are inefficiencies in small cap that can be capitalized on and that hedge funds have added to the volatility which provides opportunities. The firm buys positions in good companies at good prices. The product is fundamentally driven using a bottom-up approach. The investment objective is to seek excess returns of 3-5% over the Russell 2000 Index, while minimizing risk. She noted that the fund does not do well in speculative markets but when the market comes back to basic principals the fund outperforms.

Ms. Tooke joined Eaton Vance in late 2005 and is building up her asset base there after a long career in the business, most recently at Schroder and Forstmann Leff. The team is dedicated and experienced. The screening and evaluation methods of Ms. Tooke have been adopted by the team. The group meets consistently during the week to discuss portfolio earnings, credit
research, and macro trends. The small-cap core equity team draws on the resources of the small & mid-cap team and central equity research team.

The screening process begins with organizing peers by industry and then comparing companies using the t-metric for a particular sub sector. The firm looks for companies that have upside rewards and the low downside risks by sector and industry sub-sector. The firm always meets with management before purchasing. The stock must meet valuation, catalyst and “A” management criteria in order to execute the purchase into the firm’s portfolio. The range of companies in the portfolio is between 40 and 60.

Mr. Boyce asked if she was still comfortable measuring by the Russell 2000 and Ms. Tooke responded that she uses the Russell 2000 over the Russell Value benchmark because the Russell 2000 is more “vanilla”. The small cap definition is the same as the Russell at $3 billion; the winners reaching the market cap are kept until the risk/reward is equal to or less. The firm sets a review trigger of 4.5% for position weight of portfolio at market and does not want to go over 5%. The firm’s portfolio is at maximum 25% invested in any one sector. The UVM alumni made a final comment stating that the firm’s value is thru dedicated service and in depth knowledge.

**Reed Conner and Birdwell**

The firm was founded in 1959 by an investment advisor and is based in Los Angeles. There are $628 million managed in small cap value strategy. The firm is reopening the fund, after 2.5 years closed, in order to reach the comfort level of $900 million in total assets. Noted that plan to keep fund at this size and stated that “no greater evil in small cap world than rampant asset growth”. The firm has never lost an investment professional to anything other than death or retirement. The firm characterized itself as a “John Wooden” type of team. The firm employs 29 staff and is 70% employee-owned and 30% owned by City National Corporation (wealth management bank).

The firm’s strategy is to invest in good, long-term companies and to play defense by avoiding disasters with goal of preserving capital. They engage in heavy, disciplined research and noted that they read 10Ks and financial statements back to front. The firm seeks absolute level of return of capital. The portfolio contains 20% companies with total net assets in the $2-5 billion range. The market cap is aligned with the Russell benchmark of $2 billion. The firm has an industry focus and bottom-up approach. The firm’s screening approach involves evaluation, management and valuation analysis. The portfolio managers hire consultants to look at new industry and management. The stock is reviewed by everyone in the firm and then the two at the top, Jeff Bronchick and Tom Kerr, make the final decision. The firm’s portfolio ranges between 30-40 stocks. It has been as high as 37 and as low as 28. The structure of the portfolio is to limit industry weighting to 25% and purchase position size between 2 to 4% and trigger selling at 6 to 7%. They absolutely have a firm 10% cap.

The firm’s compensation is a “blend of qualitative and quantitative” by considering such weights as mentoring and stock picks. Mr. Boyce asked about the international exposure and cash in the current portfolio. The response was that the portfolio has zero international exposure currently though at one time had 20%. There cash allocation is currently high at 18% due in large part to 6 takeovers in the past 6 months. The firm believes there will be unbelievable opportunities to utilize this cash in the next couple of months.
The firm’s average turnover is 33% using a 14 year time span. The number of turnovers recently has increased this rate. It was explained that the market environment determines the rate of turnover; volatile market will lead to high turnover and stable market will result in low turnover. Ms. Kent asked how they manage time since have small, medium and large cap. They response was that industry focus was the key and that if they come up with a less than $2 billion idea it goes to small cap and a greater than $2 billion will go to mid or large.

**Hoover**

The firm was formed in 1997 in San Francisco; it is 100% employee owned. The firm has $1.8 billion in assets; it acquires 1-2 new accounts per quarter and additional funding from current portfolio clients. Ms. Hoover explains how the investment firm employees view their work as a “way of life” and “not a job.” The firm takes seriously new funds and the numbers are the “key to the kingdom”.

The firm is known for being a sophisticated small cap manager; which is indicated by completing 40% of trades electronically. The business continuity was mentioned through disclosing how the back-up system was in CT and being described as “thorough”.

The firm’s investment strategy is based on value and growth discipline: to buy at a value price, to invest in catalysts for long-term growth, and invest in high quality businesses. The firm considers themselves the “stewards of client’s capital” and ensures this through minimizing the following investment risks: market, liquidity, financial and business.

The firm’s portfolio ranges between 80-100 stocks. The structure of the portfolio is to limit industry weighting to 25 % and purchase position size between 1 to 2% at cost and maximum set at 5%.

The firm’s compensation is based on its competitive position to peers and its earnings over benchmark.

**Skyline**

The firm was founded in 1995; the 6 partners and Affiliated Managers Group, Inc. own the firm. There are $1.44 billion assets under management. The firm employs a staff of 16; there has been an analyst position open since February 2007 when the previous analyst left for another position in a larger firm with greater opportunity for new idea generation. The firm is actively searching for a replacement.

The firm is composed of 3 teams that each covers approximately 1/3 of the small cap universe and 1/3 of the portfolio. The 3 teams review all ideas before the portfolio is added to. The firm is at the low-end with regards to the number of companies in their portfolio; which is a function of the price targets being met and the recent takeover activity.

The firm’s portfolio ranges between 65-85 stocks. The structure of the portfolio is to limit industry weighting to twice the index and purchase position size maximum set at 5%. The firm’s average turnover has been in the 50-60% range since the team was established in March 2001.
The firm’s cash allocation is capped at 5% or below. Currently, the cash is considered high at 5.5%.

The firm’s compensation is based on excess profits which the firm’s executive committee determines each individual manager’s share based on absolute return and number of years with the firm.

**Wrap-up and Discussion**

Cambridge Associates was complimented for bringing to the small cap manager search 4 completely different firms. After some discussion on the small cap managers interviewed, it was agreed that the portfolio decision will occur at the July Investment Subcommittee meeting, concurrent with the decision regarding Longwood.

**Appointment of Taskforce for Endowment Management Fee**

Chair Cioffi announced the appointment of Vice Chair Snow and Mr. Davis to the taskforce to work on the recommendation concerning the continuation of the endowment management fee and its presentation to the Budget Finance and Investment Committee at the September meeting. The point person to the taskforce is J. Michael Gower, who is currently updating information for the taskforce to use. The Endowment Management fee resolution states that continuation of the fee beyond June 30, 2008 is contingent on Board re-authorization, following review and recommendation by the Investment Committee.

**Other Business**

Chair Cioffi added the continued discussion of the small cap manager and Longwood to the agenda for July 19 meeting that will be take place in Boston, MA at Cambridge Associates’ offices. Vice Chair Snow expressed the need for there to be opportunities for Vermont Investment Managers to showcase a couple hours a year to the Subcommittee.

**Adjournment**

There being no further business, the meeting was adjourned at 11:49 a.m.

Respectfully submitted,

Robert Cioffi, Chair