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, March 21, 2007 at 8:30 a.m., in the Presidents Conference Room, 351 Waterman Building.

MEMBERS PRESENT: Robert Cioffi*, Chair; John Snow, Ian Boyce*.

MEMBERS ABSENT: Susan Hudson-Wilson

OTHER TRUSTEES PRESENT: Board Chair Carl Lisman


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

*participating via teleconference

Approval of Meeting Minutes

Mr. Snow requested that a change be made to the January 29-30 minutes with regards to replacing the word “sustained” with “sustainable”.

A motion was made, seconded and approved to accept the minutes of the January 29-30 meeting as amended and the February 8, 2007 meeting minutes.

Private Inflation Hedging (Separate Mailing March 19th Cambridge Associates Memo)

Cambridge Associates provided a summary of the four firms recommended for potential selection as fund-of-funds managers within private (non-marketable) inflation hedging. Not all of these are available in the market currently but are expected to be open in the near future. The following factors were used to determine firm selection: 1) Full disclosure, 2) Liking the underlying funds, 3) Managers’ skill sets and depth of knowledge.

The funds considered were: Metropolitan Real Estate Fund V, which invests only in real estate; Commonfund Natural Resources Funds, which differs from others in its primary emphasis on total return with a secondary emphasis on diversification and inflation hedges; TIFF- Realty and Resources, an organization similar to CF in that it was developed to serve non-profits, with a realty and resources strategy; and Park Street Capital, a private equity and natural resources based fund-of-funds. Ms. Kent noted that Metropolitan would be adding an international fund. Metropolitan is the only fund available today, and the rest should be available at the end of 2007 or early 2008.

Mr. Boyce requested a recap of Wellington. Ms. Kent explained that the University’s public inflation hedging manager is a blended product allocated among global natural resources common stocks at approximately 40%, commodities futures (about 30%), some TIPS, and some REITs (about 10-15%).

The committee discussed the factors to consider in choosing a strategy for investment in the non-marketable inflation hedging. Chair Cioffi framed this as a three-step decision making process to decide the following:
1) Direct vs fund-of-funds; 2) looking for things in market now or that are coming to market soon by—address this by meeting with fund managers (with the realization that it may be a 9-12 month process to gain access), and 3) determining balance between allocation to the Wellington public inflation hedging vs. the private allocation. The members indicated the need of the University to invest in real estate—currently an underinvested segment—but were undecided on whether this should be captured by adding a new illiquid program. Mr. Snow voiced his preference for a diversified approach for the University’s current investment structure; a fund-of-fund approach supports this by spreading risk.

The “illiquidity” issue was discussed. This concerns the ability of the committee to manage the relationship between bonds as a source of funds for inflation hedging if a non-marketable alternative inflation hedging investment is made. Mr. Boyce agreed with Mr. Snow and suggested that a broader discussion should occur that took into consideration what we have in Wellington and how we could complement that. The committee would like to select a complementary strategy between a fund-of-funds manager and Wellington by gathering a better understanding of the University’s current investment in this public inflation hedging manager.

It was concluded that further discussion was necessary following feedback from the absent committee member, Ms. Hudson-Wilson, who has significant expertise in real estate.

Chair Cioffi agreed with Mr. Snow that real estate was a clear missing part of the asset allocation and that this was where we should most likely add. He asked that a subset of the subcommittee talk to Metropolitan and possibly another manager, Guggenheim, who Mr. Brantley reported was 30% REITS and 70% private with a 1 ½ year lockup. He summarized that the subcommittee should narrow its focus to real estate with the goal of talking to 2-3 managers and then making a selection.

Chair Cioffi also asked Cambridge Associates to keep the subcommittee apprised of the other private inflation hedging opportunities as funds are opened.

Sudan Divestiture Update

Mr. Snow recapped the work that has been done to date regarding identifying a potential vehicle for a fund that is both tobacco-free and divested of the selected list of companies doing business in the Sudan. He discussed RhumbLine Advisers and its competitive pricing for offering an index fund that is both Tobacco and Sudan Free. RhumbLine has a mission of building a minority owned firm competing in the index product market. He noted that RhumbLine used a longer list of offending securities for Sudan than what was employed by the ad hoc committee, and therefore the tracking error based on U Vt.’s list would probably be less than their (RhumbLine’s) estimate. The management fees charged for this particular product would be 12 bps for first $25 million invested and 10 bps for any amount above with a minimum fee of $15,000.

Cambridge Associates mentioned another firm, Barclays, as perhaps offering a Sudan-free/Tobacco-free index fund in the foreseeable future.

The committee agreed that they should have a comparison of fees and an assessment of the transition cost before making a decision on which product to invest in. In particular, it is important to know the potential costs for the Wilbur Trust, assuming that it must remain separately invested from the Long-term Investment Pool.

Endowment Management Fee Review (50 bps)

The committee began discussion of the reviewing of the endowment management fee in preparation of a recommendation to the Budget, Finance and Investment (BFI) Committee at the May meeting. Vice
President Gower provided a recap of the original resolution which required that it be re-authorized for
continuation beyond June 30, 2008, following Investment Committee review and recommendation to be
completed no later than June 30, 2007. He recommended that the annual calculation be revised to be
consistent with the current calculation for endowment spending payout.

The committee requested the following be provided at the next meeting: a comparison of the dollars spent
for development functions vs. those raised as well as a breakdown of the Development and Alumni
Relations budget; the absolute amount of the fee over a 10-year period calculated in total dollars; and a
pro forma of endowment growth had the fee had not been assessed over the last few years. The
information requests were summarized as “Over the time we have had the fee, what has it cost vs. what
has been raised?” There was a discussion of whether this was appropriate work for the subcommittee
since the Investment Committee was terminated with the Board restructuring. Board Chair Lisman stated
that there may be value in having the subcommittee review the information in April before it is presented
to BFI in May.

Other Business

The agenda for the April meeting was discussed. Proposed agenda items include: 1) small cap manager
search; 2) asset allocation; 3) Endowment Management Fee reauthorization; 4) Follow up on non-
marketable inflation hedging; 5) Scheduling a manager meeting day in Boston during the summer.

There was a discussion regarding the amount of time that would need to be devoted to the topic of asset
allocation, and Chair Cioffi asked that a session be scheduled for the summer meeting in Boston, perhaps
during June or July. This would be a full-day session that would include meetings with managers in
Boston, but the subcommittee would devote significant time to the discussion of asset allocation. The goal
would be to bring any recommendation for changes to the allocation to the BFI Committee in September.

The Cambridge representatives asked about the need to attend future meetings of the full Board. It was
agreed that they would need to attend in September, but they would probably not need to attend in May.

Adjournment

There being no further business, the meeting was adjourned at 9:56 a.m.

Respectfully submitted,

Robert Cioffi, Chair