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 Thursday, May 17, 2007 at 12:00 p.m., in the Presidents Conference Room, 351 Waterman Building.

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

MEMBERS ABSENT: none

OTHER TRUSTEES PRESENT: President Daniel Fogel, Board Chair Carl Lisman, and Bill Botzow

PERSONS ALSO PARTICIPATING**:** Vice President for Finance and Administration J. Michael Gower, Associate Vice President for Finance, University Controller Bonnie Cauthon, Associate Vice President for Financial Analysis & Budgeting, Ted Winfield, Vice President for Development and Alumni Relations, Kathleen Ann Kelleher, Elizabeth Kent*, Cambridge Associates, and Daniel Guttell*, Cambridge Associates.

Chair Robert Cioffi called the meeting to order at 12:20 p.m.

*participating via teleconference

Approval of Meeting Minutes

A motion was made, seconded and approved to accept the minutes of the March 21, 2007 meeting.

Quarterly LT Pool Investment Report

Ms. Kent reviewed the final report of performance numbers for the consolidated endowment fiscal year ended March 31, 2007:

	ASSETS $mil	**LATEST % QTD 12/31/06-3/31/07**	**FYTD% 6/30/06-3/31/07**
Domestic Common Stock	101.3	3.1	13.0
Global ex U.S. Equity	56.1	2.9	22.7
Absolute Return	31.1	4.2	13.6
Hedged Equity	33.2	3.9	11.7
Inflation Hedge	20.2	6.5	12.4
Non-Mkt. Alternative Assets	9.2	---	13.2
Bonds	35.8	1.3	6.4
Cash	4.7	1.3	3.9
Total Externally Managed Assets	**291.8**	**3.1**	**13.6**
Total Internally Held Assets	**5.2**		
Total Long Term Investment Pool	**296.9**		

The total portfolio for the University as of March 31, 2007 included the following:

Long Term Investment Pool	$296.9 million
Wilbur Trust	22.5 million
Separately invested funds	8.1 million
Total Endowment	**$327.6 million**

UVM returns were 13.6% for the fiscal year-to-date and 3.1% for the last quarter, outperforming the composite index (S&P 500 75%/LB Agg 25%) for the fiscal year-to-date (+11.8%) by 180 bps and for the quarter (+.9%) by 220 bps. The UVM long term pool also did well in comparison to the Cambridge (CA) endowment median, exceeding the CA median for the quarter (+2.7) by 40 bps and for the FYTD (+12.6%) by 100 bps.

The best asset class contributors for the quarter were Absolute Return and Public Inflation Hedging (Wellington). U.S Equity exceeded the benchmark for the quarter by 250 bps. Iridian was the primary contributor with an outstanding performance of 7.4% for the quarter and 19.9 FYTD, beating the benchmark (S&P 500) of (+.6%) for the quarter by 680 bps and for the FYTD (+13.5%) by 640 bps. Iridian is at 1 percentile in the Cambridge percentile ranking. Iridian will be trimmed by $2.5 million with the funds going to replenish cash but this is only a re-allocation to adjust for performance growth. Emerging markets, as represented by Rexiter, was at a 4.4% allocation at March 31 but if an adjustment is made by combining this with the emerging markets exposure of Templeton and Capital International the emerging market allocation is 2% higher at 6%, which is the target for this asset class.

The Absolute Return managers, Davidson Kempner and Varde Partners, performed better than expected under the conditions. The hedged equity market will continue to see money move out of this sector due to low returns and high fees. The subcommittee directed Cambridge Associates to add the University's name to a list indicating interest in adding funds ($1.5 million) to Varde when the fund re-opens.

The subcommittee will ask Dwight Asset Management, our active bond manager, to meet with them in September and discuss the firm's strategy and returns. Also, Cambridge Associates will add the Russell Mid-Cap Index benchmark to Iridian's investment return section in the report.

Longwood, our small cap manager, has been on the watch list for a while and had returns of (-.6%) for the quarter and (-3.1%) FYTD. In contrast to Iridian, they are ranked in the 99th percentile by Cambridge. The subcommittee will continue to monitor this manager through quarter ending June 30 and will discuss at the July meeting to determine what action is needed.

Wilbur Fund Annual Report

This endowment, which is required to be invested separately, totaled $22.5 million as of March 31, 2007. There was no change in the manager structure over the past year. The investment returns were solid for the latest quarter at 3.1% and fiscal year to date at 14.4%. Over time, it has tended to under-perform the Long Term Pool due to its size limitations that restrict its ability to access some products and as a result, limit its diversification.

Commonfund Capital's Venture Partners VIII

A motion was made, seconded and approved to commit up to $4 million to Commonfund Capital Venture Partners VIII. This closing is anticipated for July 27. An indication of interest has been submitted to Commonfund to ensure that UVM will be able to get into the fund.

Ms. Kent provided the following reasons to support the allocation to this segment: timing to put the funds to work supports keeping up vintage year diversification and going with a 2007-2008 fund life cycle, the venture capital funds are raising less money than normal, and the list of underlying managers provided via Commonfund continues to be superior.

Private Inflation Hedging– Real Estate Fund of Funds

Our investment with Wellington Diversified Inflation Hedges was increased by $6 million, effective March 1, 2007. This brought Wellington up to approximately 6-6 ½% of the portfolio, and the subcommittee decided that the remainder of the 10% allocation would be filled with private inflation hedging. At the March 21 meeting, the subcommittee reviewed information regarding options for private inflation hedging. The subcommittee's conclusion at that meeting was to focus on selecting a private real estate fund of funds. At the request of the group, Cambridge Associates followed up with an April 5th memorandum providing information on additional options for private real estate funds of funds. A working group of the subcommittee has selected two of the managers for interview, Metropolitan and Newlin.

Ms. Hudson Wilson reported on meetings with Newlin and Metropolitan and noted that it was important to distinguish that the goal was to add a private inflation hedge. The subcommittee may also consider Madison Harbour but will currently hold off on interviewing them. Ms. Hudson Wilson will supply the subcommittee with information regarding 6-7 open-ended commingled funds at the June meeting. She noted that these funds try to offer the broadest possible exposure and function somewhat like an index fund for real estate in that they attempt to "be" the market. The funds each have $1 billion or more net equity value, a basic fee structure, and past performance records in the market.

Small Cap Manager

At the December 13, 2006 meeting, the subcommittee agreed to allocate $5 million for small cap exposure within 6 months. In order to obtain some exposure while completing the search for an additional small cap manager, $2.5 million has been invested in iShares Russell 2000 Core ETF. Cambridge Associates provided information regarding three potential small cap core managers and three potential small cap value managers. In addition, they have subsequently performed a correlation analysis of these managers compared to Longwood. A working group of the subcommittee has agreed on four managers to interview: Eaton Vance; Hoover; Reed, Conner and Birdwell; and Skyline. The workgroup is currently working with UVM and Cambridge Associates to schedule interviews with these managers.

The subcommittee plans to interview four small cap managers via phone on June 20th.

Tobacco/Sudan Free Indexed Fund

Vice Chair Snow reported that there had not been any improvement that would indicate the University should change its position regarding Sudan and that the situation appears to have actually deteriorated. A motion was made, seconded and approved to recommend reaffirmation of the Resolution for Divestiture from Sudan to the Budget, Finance and Investment Committee.

The group reviewed the attached schedule prepared comparing current fees for UVM in SSgA Tobacco Free S&P Fund, proposed fees at Rhumbline and proposed fees at S&P for customized index.

A motion was made, seconded and passed to hire an investment manager, Rhumbline, to manage separate indexed S&P 500 Tobacco/Sudan Free funds for both the Long Term Pool and the Wilbur Trust. This will replace the current investment in a commingled Tobacco Free fund at State Street.

Endowment Management Fee Review (50 bps)

An Endowment Management Fee resolution was approved by the Board of Trustees on September 13, 2003. This resolution authorized a 50 bps fee to be assessed on the endowment to provide partial funding for costs associated with the Capital Campaign. This fee is assessed on a fiscal year basis and is calculated as .5 percent of the average market value of the endowment for the four quarters ending December 31 of the prior calendar year. This lag, similar to the endowment payout, allows for the amount to calculated and budgeted in advance for each fiscal year.

The subcommittee reviewed a resolution that specified that continuation of the fee beyond June 30, 2008 was contingent on Board re-authorization, following review and recommendation by the Investment Committee which was to be completed no later than June 30, 2007. It was concluded that the Budget, Finance, and Investment Committee was the appropriate successor committee for this purpose and that the Investment Subcommittee would review the resolution and provide a recommendation to BFI.

The subcommittee was provided with last meeting's requested items: a comparison of the dollars spent for development functions vs. those raised as well as a breakdown of the Development and Alumni Relations budget 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?"

The subcommittee will ask the BFI committee for an extension to the June 30, 2007 deadline for the review and recommendation to the BFI committee. The committee proposes to select a 2-3 person taskforce to work on the recommendation concerning the continuation of the fee and present it to the BFI committee at the September meeting.

Investment Advisor Contract Renewal

A motion was made, seconded and approved to continue the contract with Cambridge Associates at the current negotiated proposal of $204,000 for the fiscal year July 1, 2007 through June 30, 2008. A resolution to this effect is recommended to BFI for further recommendation to the Board of Trustees. This is the last year for a three year agreement and the subcommittee will consider by September whether to enter into an RFP process for the subsequent fiscal year.

Adjournment

There being no further business, the meeting was adjourned at 1:45 p.m.

Respectfully submitted,

Robert Cioffi, Chair