A meeting of the Investment Subcommittee of the Board of Trustees of the University of Vermont State and Agricultural College was held on Thursday, September 6, 2007 at 2:00 p.m., in the Jost Foundation Room, 415 Dudley H. Davis Center.

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

MEMBERS ABSENT: Ian Boyce

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, C. LaRoy Brantley, Cambridge Associates, Sean Saia, Dwight Asset Management, and David Kilborn, Dwight Asset Management.

Chair Robert Cioffi called the meeting to order at 2:18 p.m.

Approval of the August 15, 2007 minutes

A motion was made, seconded and approved to accept the minutes of the August 15, 2007 meeting.

The new Vice President of Development and Alumni Relations, Marc Diamond, was in attendance and was introduced to the Subcommittee.

Dwight Asset Management

Sean Saia, Senior Vice President, and David Kilborn, Managing Director and Co-Chief Investment Officer provided a performance overview and communicated strategy with regard to the University’s portfolio. The major points discussed were the underperformance to the benchmark in both the current and since inception data, the strategy of Dwight in the fixed income market, and future performance outlook.

The investment process of Dwight is built to take the volatility of the market and in the long term outperform peers by 25 to 50 bps. Mr. Kilborn explained due to the University’s portfolio size it was closer to earning a 25 bps premium over the market time (4 to 6 years). The University’s portfolio is invested as a separate account versus the now existent commingled fund, due to the prior unavailability of the commingled product at the time of Dwight’s hire. Dwight offered to provide the Subcommittee with a guideline and performance comparison between the separate and commingled fund at a later date.

Following the departure of the Dwight representatives, the Subcommittee continued its discussion that was begun at the asset allocation meeting in July. A philosophical question was posed regarding the role of the fixed income allocation and whether active management was the appropriate strategy for this section of the portfolio. Mr. Brantley stated that fixed income should be viewed primarily as an area in a portfolio to provide protection of capital and a source of spending during deflationary markets instead of an area where relative outperformance of an index benchmark would have a meaningful impact on overall portfolio performance (due to fixed income’s historically tight ranges in performance over time). This reiterated their position, stated in the discussion materials, that the provision of income and protection of capital through a deflation hedge is the most fundamental role of fixed income. It was noted by the
Subcommittee that the group has finite time for the monitoring of its active managers; which should be allocated to other higher risk and return asset classes (i.e. private equity and marketable alternatives).

A motion was made, seconded and passed to discontinue the strategy of active management for fixed income resulting in a need to exit Dwight. Vice-Chair Snow abstained from the additional motion made, seconded and passed to transfer the funds to the current passive manager, State Street. The Subcommittee asked Cambridge Associates to provide a short list of other passive managers to review for a future discussion.

**Long-Term Pool Investment Report**

The Sub-committee recapped the results for Fiscal Year ended June 30 that were reviewed at the August meeting and reviewed the results for the month of July. The results for the fiscal year were very good (+20.6%), with results 100 bps above the Cambridge median for the last quarter and almost 200 bps above the median for the Fiscal Year. Notably, most underlying composite asset classes of the portfolio outperformed their respective benchmarks in excess of 500 bps over the period. U.S. Equity (20.3%) and Fixed Income (5.8%) slightly lagged their hurdles by 30 and 40 bps, respectively. Particularly notable for the fiscal year were performances of Global ex U.S. Equity overall (+35.3%) and dedicated emerging markets manager Rexiter (+49.3%), within U.S Equity Iridian (+30.2%), and within public inflation hedging, Wellington, (+22.0%). Marketable alternatives had equity like returns for the fiscal year (+18.6%).

Mr. Brantley reviewed the final report of performance for the consolidated endowment for the month ended as of July 31, 2007:

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>LATEST % MONTH 06/30-7/31/07</th>
<th>CYTD% 12/31/06-7/31/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Common Stock</td>
<td>102.2</td>
<td>-2.7</td>
</tr>
<tr>
<td>Global ex U.S. Equity</td>
<td>66.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>32.1</td>
<td>-0.4</td>
</tr>
<tr>
<td>Hedged Equity</td>
<td>31.5</td>
<td>-0.0</td>
</tr>
<tr>
<td>Inflation Hedge</td>
<td>21.8</td>
<td>-0.3</td>
</tr>
<tr>
<td>Non-Mkt. Alternative Assets</td>
<td>9.8</td>
<td>-----</td>
</tr>
<tr>
<td>Bonds</td>
<td>35.9</td>
<td>0.8</td>
</tr>
<tr>
<td>Cash</td>
<td>7.4</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Total Externally Managed Assets -307.0 -0.8 8.6
Total Internally Held Assets -2.8
Total Long Term Investment Pool $304.1

The total portfolio for the University as of July 31, 2007 included the following:
Long Term Investment Pool $304.1 million
Wilbur Trust 23.2 million
Separately invested funds 7.9 million

Total Endowment $335.3 million

The portfolio held up well in a difficult month of July, with (-0.8%) performance, compared to indexes such as the S&P 500 (-3.1%), Russell 2000 (-6.8%) and composite S&P 500 75%/LB Agg 25% (-2.1%). Mr. Brantley noted that the major index results and preliminary reports by the University’s hedge fund managers for August indicate the portfolio may be positive overall in absolute terms.
Chair Cioffi asked Cambridge Associates to research into hedge fund manager Barlow’s performance due to their preliminary (-1.8%) return in August compared to the other fund of fund managers (not currently in the University’s hedge fund program) who had reported a positive monthly performance return. Vice-Chair Snow requested that Cambridge perform an annual performance attribution by asset class; specifically for determining where the value is originating from (i.e. Manager Selection and/or Asset Allocation) and thereby be able to spend the time as a Subcommittee in this area.

There was change in leadership for two of the University’s investment managers: Ark Asset Management and Morgan Stanley. The newly announced Lead Portfolio Manager for Ark Asset Management is Nancy Peretz, who was previously second in command of the University’s investment fund. Chair Cioffi would like to meet with Ark to discuss this change since this investment (over $27 million) is a significant percentage of the portfolio. The Morgan Stanley Prime Fund has also changed portfolio managers; Ms. Hudson-Wilson is comfortable with the change.

**Long Term Investment Pool Asset Allocation**

The asset allocation targets and ranges were approved unanimously by the Subcommittee for recommendation to Budget, Finance and Investment (BFI) Committee. A proposed resolution recommends these changes be incorporated into the Investment Policy and adopted by the Board.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Proposed Target</th>
<th>Proposed Range</th>
<th>Current Target</th>
<th>Current Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equity</td>
<td>20.0</td>
<td>15-40</td>
<td>30.0</td>
<td>25-45</td>
</tr>
<tr>
<td>Global ex U.S. Equity</td>
<td>24.0</td>
<td>15-40</td>
<td>22.5</td>
<td>15-25</td>
</tr>
<tr>
<td>Developed Markets</td>
<td>14.0</td>
<td>5-25</td>
<td>16.5</td>
<td>4-24</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>10.0</td>
<td>5-15</td>
<td>6.0</td>
<td>1-11</td>
</tr>
<tr>
<td>Marketable Alternatives</td>
<td>20.0</td>
<td>15-25</td>
<td>17.5</td>
<td>12-20</td>
</tr>
<tr>
<td>Inflation Hedging</td>
<td>12.5</td>
<td>10-25</td>
<td>10.0</td>
<td>8-15</td>
</tr>
<tr>
<td>Venture Capital/Private Equity</td>
<td>10.0</td>
<td>5-15</td>
<td>4.0</td>
<td>0-10</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>12.5</td>
<td>10-25</td>
<td>15.0</td>
<td>10-25</td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>1.0</td>
<td>0-5</td>
<td>1.0</td>
<td>0-3</td>
</tr>
</tbody>
</table>

**Resolution Revising Exhibit 1 of the University Statement of Investment Objectives and Policies**

RESOLVED, that Exhibit 1 of the University Statement of Investment Objectives and Policies, shall hereafter read as revised below:

**EXHIBIT 1**

**UNIVERSITY OF VERMONT ASSET ALLOCATION STRATEGY**

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Implementation</th>
<th>Target</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>U. S. Equity</td>
<td>Core exposure to passive index complemented by one or more satellite managers</td>
<td>20.0</td>
<td>15-40</td>
</tr>
<tr>
<td>Global ex U. S. Equity</td>
<td>One or more managers investing in developed or emerging markets</td>
<td>24.0</td>
<td>15-40</td>
</tr>
<tr>
<td>• Developed Markets</td>
<td>Subset of Global ex-US Equity</td>
<td>14.0</td>
<td>5-25</td>
</tr>
<tr>
<td>• Emerging Markets</td>
<td>Subset of Global ex-US Equity</td>
<td>10.0</td>
<td>5-15</td>
</tr>
<tr>
<td>Marketable Alternatives¹</td>
<td>A group of complementary managers with a distinct approach to investing, each offering attractive levels of returns while not being</td>
<td>20.0</td>
<td>15-25</td>
</tr>
</tbody>
</table>
Vice-Chair Snow expressed his concern about the need for setting a tighter threshold for allocations to Marketable Alternatives and would like to treat this limit going forward with a note to not actively or purposely allocate over the stated 20% target. Mr. Brantley noted that the primary purpose of the ranges was to allow for outperformance/underperformance by asset classes with an option but not a requirement to adjust exposure when not at target level. For instance, the Marketable Alternative program’s arrival at its 20% exposure mark (versus previous target of 17.5%) had been primarily through organic growth/market appreciation and not via active rebalancing.

Re-balancing

The Subcommittee reviewed and approved rebalancing recommendations provided by Cambridge Associates.

Endowment Fee and Spending Policy

Motions were unanimously passed to recommend to the BFI and the full Board the re-affirmation of the Endowment Management Fee and the Spending Policy.

Draft resolutions include the following:

1) The Spending Policy retains a rate of 4.5%.
2) The Endowment Management Fee resolution retains the 50 bps rate and makes two revisions:
   i. Revise the base to be consistent with the spending calculation (a base of average of 13 vs. 4 rolling quarters).
   ii. Call for the Investment Sub-committee to review the fee annually.

Endowment Management Fee Resolution

BE IT RESOLVED, that the Board of Trustees hereby approves a 0.5 percent fee applied to the University endowment to cover reasonable costs associated with endowment administration, management and operation; and

BE IT FURTHER RESOLVED, that on a fiscal year basis beginning July 1, 2008, the fee will be calculated and assessed annually as 0.5 percent of the average market value of the University endowment for the previous 13 quarters ending December 31 of the prior calendar year; and

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>Weight</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate/Inflation Hedging</td>
<td>Includes private real estate investments via open commingled funds and public real assets (e.g., energy and other commodity-related securities)</td>
<td>12.5</td>
<td>10-25</td>
</tr>
<tr>
<td>Venture Capital/Private Equity</td>
<td>Focus will be on high quality of funds, providing a broad range of diversification</td>
<td>10.0</td>
<td>5-15</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>One or more managers will be used to provide broad diversification to high quality domestic fixed income</td>
<td>12.5</td>
<td>10-25</td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>Small amounts of cash may be held for purposes that the Investment Subcommittee deems necessary</td>
<td>1.0</td>
<td>0-5</td>
</tr>
</tbody>
</table>
BE IT FINALLY RESOLVED that the Investment Subcommittee will review and make recommendation to the Budget, Finance and Investment Committee regarding the reaffirmation or revision of the fee each year no later than September 30.

**Resolution Reaffirming Consolidated Endowment Budget Policy**

RESOLVED, that the Consolidated Endowment Budget Policy, is reaffirmed as reads below:

BE IT RESOLVED, that the annual budgets for spending from the Endowment Fund be set at 4.5 percent of the average market value for the previous 13 quarters, ending December 31 of the prior calendar year.

Original Resolution: Board of Trustees’ Meeting - May 13, 1995
Reaffirmed: Board of Trustees’ Meeting – September 8, 2007

**Other Business**

The Subcommittee reviewed materials prepared by Cambridge regarding aggregate geographic diversification.

The Subcommittee agreed to change the asset class “Inflation Hedging” to “Real Assets” for better classification purposes.

The Wilbur Trust may be moved into the Long Term Pool once legal opinion from a tax attorney is obtained. This will be discussed further in the November meeting.

Bonnie Cauthon will be sending the SRI requirements to new investment manager, Eaton Vance.

The Subcommittee agreed upon two off-site meetings in 2008: one in New York (January) for manager meetings; and the other in Boston (June/July) for asset allocation. Ms. White requested that the January meeting be held on a Monday if possible.

**Adjournment**

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

Respectfully submitted,

Robert Cioffi, Chair