A meeting of the Investment Subcommittee (the Subcommittee) of the Board of Trustees of the University of Vermont State and Agricultural College was held on Wednesday, April 16, 2008 at 8:30 a.m. in the President’s Conference Room, 351 Waterman Building.

MEMBERS PRESENT: Chair Robert Cioffi*, Vice Chair John Snow*, Ian Boyce*, Susan Hudson-Wilson*, and Samuel Bain*.

MEMBERS ABSENT: Jeffrey Davis and Jeanette White.


*Participating by teleconference

Vice Chair John Snow called the meeting to order at 8:30 a.m.

Approval of March 19, 2008 Meeting Minutes

A motion was made, seconded and approved to accept the minutes of the March 19, 2008 meeting.

Hedge Fund Program- Interview with Fir Tree

Ash Williams, Managing Director in the Investor Relations Group, met the Investment Subcommittee in August 2006 for an investment manager day. He first provided a brief overview of the firm; which was formed in 1994 by Jeffrey Tannenbaum. The firm’s mission is to provide investors with superior long term risk-adjusted returns by utilizing a focused and research driven approach to concentrated multi-strategy value investing The firm currently employs 38 professionals at its offices in New York City and Miami.

Fir Tree manages $4.4 billion across its two opportunistic, multi-strategy value funds. The Value Fund employs a broad based equity and credit approach to multi-strategy value investing versus the more credit and quasi focused Capital Opportunity Fund. The Value Fund (01/94 inception) and the Capital Opportunity Fund (01/01 inception) have earned 14.6% and 17.1% compounded respectively since their inception. There is a 2-year rolling lock-up on funds invested in either fund. The firm’s ability to demonstrate success in preserving capital in difficult market periods was shown in a graph measuring the value of $1 invested during market downturns with a comparison to the S&P 500 Index. Mr. Williams explained how the stable senior management with an 8+ year relationship supports the firm’s.
Mr. Williams provided to the Subcommittee an explanation of SPACs. The firm is reducing their exposure in this strategy. He explained the current credit market as being in Chapter 2 of a 3 Chapter book; characterized by uncertainty and variation anomalies.

Another key to the firm’s edge is its positive activism and partnering with management to accelerate returns. The firm believes it can accelerate the capture of target return or increase the absolute level of the return through activism.

**Hedge Fund Program- Interview with Wellington Archipelago**

The two representatives speaking to the Subcommittee were Chris Kirk, Product Manager, and Laura Meegan, Client Relations. The focus of the Hedge Fund Assets Under Management are Long/Short Equity and Fixed Income. The Long/Short Investment Approaches had over $13 billion in total assets as of April 1, 2008 and funded within 15 managers. There are currently 5 managers with a wait-list for accepting new capital. The highly invested sectors of the total assets ranked according to size are: Energy, Finance, Natural Resources and Health Care.

The Archipelago product has a normal fund allocation of 35% Multi-sector (split evenly between Capital Appreciation and Value), 15% Energy, 15% Healthcare/Biotechnology, 15% Technology, 15% Finance and 5% Real Estate. There is no tactical asset allocation as there is an annual rebalance on 01/01 to return the portfolio to its state allocation objectives. There is only management fee and carried interest at the underlying fund level. There is a less than 5 bps fee for accounting, legal, audit and other administrative expenses. The Archipelago fund currently has a 52% net exposure (i.e. 107% gross long and -55% gross short). He explained that this is a function of underlying fund exposure with no top down view imposed. Additional portfolio characteristics are: Top Ten Long Holdings as a percentage of Assets is 8.8% and Non-North America Gross Exposure is 25%. Mr. Kirk supported the claim that the fund is well diversified using graphs showing distribution by: sector, market capitalization, and geographic.

The fund’s portfolio exposure is tracked on a daily basis with underlying managers. There is a Hedge Fund Review Group, composed of the President, Director, and senior investment professionals. The risk/return analysis graph showing the Wellington Archipelago Funds spread was referred to in page 10 of Cambridge Associates’ Discussion Materials. The Archipelago Fund has earned 9.3% on an annualized basis since inception as of March 31, 2008. According to Chris Kirk, the Wellington fund has never removed an underlying manager from the line-up but has removed overseeing portfolio managers from underlying funds.

**Hedge Fund Program- Discussion**

The Subcommittee exclaimed their fascination with Fir Tree’s different strategy and how it was presented in detail. The Subcommittee’s only concern was over the firm’s potentially over dependency on Jeff Tannenbaum. This was alleviated after considering the maturity of the program and the reality that this is true for many managers.

After the presentation by Wellington, the subcommittee discussed the products’ long/short fund of funds strategy and decided: 1) it is not taking advantage of a complex market; 2) it is using passive rebalancing where the whole is not exceeding the sum of the parts; and 3) it is
not a good fit considering the strategy is already being fulfilled by another fund of funds manager within the portfolio.

**A motion was made, seconded and passed to allocate an initial investment of $3 million to the hedge fund manager, Fir Tree.**

**Ark Asset Management**

Ark Asset Management has experienced a significant reduction in assets under management due primarily to the loss of two large pension clients and rather disappointing performance last year. Also an issue due to change in personnel due to one of their technology analysts’ departure from the firm. Cambridge Associates provided a memorandum in their Discussion Materials based on their April 3, 2008 meeting with Senior Portfolio Manager Nancy Peretz, Portfolio Manager Tedd Rosinsky, and Client Service Manager Bill Simmons. The Subcommittee discussed the details in the memorandum and decided that based on the firm’s current shift in attention away from strictly portfolio management to internal management that the Subcommittee should consider new managers in the Large Cap Growth Market. Information on other candidate managers will be supplied by Cambridge Associates at the next meeting in May.

**Inflation Protection**

Ms. Hudson-Wilson provided the Subcommittee a written memo based on her review of various Inflation Hedging strategies. An observation, cited from the memo, is that inflation hedges are expensive due to increase in demand. The main conclusions drawn from her research were: Commonfund’s commodities fund looks good, is cheap and is liquid; TIPS are simple theoretically they have 1.0 correlation; and more simple real estate makes sense. The TIPS strategy will be further examined in detail within a short time frame and it was highly recommended that this strategy be implemented externally. The Subcommittee agreed to hold off any additional investment to Wellington.

**Other Business**

Ms. Cauthon provided the Subcommittee with a summary of the Wilbur Trust Consolidation. There will be a further update provided once further information is available regarding manager redemptions and transfers into the Long Term Pool.

The Subcommittee agreed to Iridian’s alternative base fee schedule which provides for an increase in the base management fee by 15 basis points without any performance component or hurdle. Based on the change in fee structure, the potential reclassification of the Iridian fund will be put on the agenda for July under asset allocation.

The May meeting was discussed briefly; it was agreed that the 20th worked best for scheduling around college graduations.
Adjournment

There being no further business, the meeting was adjourned at 11:05 a.m.
Respectfully submitted,

Robert Cioffi, Chair