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 Monday, February 25, 2008 at 2:00 p.m. in the President’s Conference Room, 351 Waterman Building.

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

MEMBERS ABSENT: Ian Boyce and Jeanette White.

PERSONS ALSO PARTICIPATING: Associate Vice President for Finance and University Controller Bonnie Cauthon and Bets Kent*, Cambridge Associates.

* Participating by teleconference

Chair Robert Cioffi called the meeting to order at 2:10 p.m.

Approval of December 19, 2007 and January 11, 2008 Meeting Minutes

A motion was made, seconded and approved to accept the minutes of the December 19, 2007 and January 11, 2008 meetings, with correction to "market to market" to the actual phrase “mark to market” as suggested by Ms. Hudson-Wilson.

Long-Term Pool Investment Report

Ms. Kent, Cambridge Associates, reviewed the report of performance for the last quarter and calendar year to date at December 31, 2007 and noted that there was consistency in returns within the different asset categories.

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>LATEST %</th>
<th>CYTD%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Common Stock</td>
<td>85.7</td>
<td>-2.1</td>
</tr>
<tr>
<td>Global ex U.S. Equity</td>
<td>73.2</td>
<td>1.9</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>32.3</td>
<td>1.2</td>
</tr>
<tr>
<td>Hedged Equity</td>
<td>34.0</td>
<td>5.5</td>
</tr>
<tr>
<td>Inflation Hedge</td>
<td>30.7</td>
<td>4.8</td>
</tr>
<tr>
<td>Non-Mkt. Alternative Assets</td>
<td>24.2</td>
<td>------</td>
</tr>
<tr>
<td>Bonds</td>
<td>37.1</td>
<td>2.5</td>
</tr>
<tr>
<td>Cash</td>
<td>0.5</td>
<td>0.9</td>
</tr>
</tbody>
</table>
Total Externally Managed Assets 317.8  1.3  14.1
Total Internally Held Assets        -1.0
Total Long Term Investment Pool  $316.8

Results for the quarter (+1.3%), were 90 bps ahead of the Cambridge median (+0.4%). For the calendar year-to-date returns at (+14.1%) were 290 bps ahead of the Cambridge median (+11.2). The equity component of the portfolio performed strongly for the calendar year-to-date by ranking 7 on the Cambridge percentile.

In the international portfolio, Rexiter was an average performer compared to the benchmark. Cambridge Associates will follow up with the manager on why there was no preservation of capital in the month of January ’08 and then inform the Subcommittee of the manager’s response.

Hedge Fund Program

Ms. Kent referred group to the 02.05.08 Discussion Materials from Cambridge Associates, the Aggregate Hedge Fund Program –Possible Reconfiguration table on page 34 was discussed. There was a discussion regarding adding a Multi-Strategy Manager to the Absolute Return category. Materials regarding Archipelago, a US Long/Short manager Wellington fund which invests in its own hedge funds, were reviewed. Questions were raised about performance of underlying managers. Cambridge Associates will put together a performance record on all the hedge funds in Archipelago Fund. In the table, both Alternative Reconfigurations for the Hedged Equity-Direct reduced the allocation to 5% equally for the two current managers. Chair Cioffi questioned whether this allowed either manager to have a meaningful impact on performance. In looking at the fund of funds category Co-chair Snow posed two questions 1) Do we want another fund of funds? 2) Would this be the best fund of funds for us to consider or should we look at a new search?

The Hedge Fund Program discussion turned to analysis on the purpose (expectations) of the overall hedge fund allocation within the portfolio. The two purposes highlighted were return enhancer and volatility reducer. It was noted that our current hedge fund portfolio has achieved both but for long term we should determine what we want that part of the portfolio to do. In analyzing the hedge fund allocation, the committee needs to first discuss the priority in structuring the overall portfolio; with awareness that some tactical moves might be made toward superior risk return, volatility reduction, or diversification depending on the market climate.

The subcommittee reviewed the correlation matrix (page 33) for the hedge fund portfolio and there was a discussion of how correlation can be useful, what we are actually comparing when considering correlation and what are the appropriate benchmarks.
The corollary of the Subcommittee’s selection of managers has an effect with regards to adding individual managers versus fund to funds. There are many hedge fund managers available in the market, making the selection difficult.

The new auditing standards and criteria for Alternative Investments adds an additional criteria to consider when selecting hedge fund managers.

There exists a need to differentiate the two measures of strategy, return enhancer and volatility reducer, before the Subcommittee is able to make allocation decisions. The University’s portfolio has three general subsets: return enhancer, volatility reducer, and inflation hedger. The Subcommittee requested from Cambridge Associates a matrix reporting both primary and secondary missions of each individual manager whereby the Subcommittee will be able to reconfigure asset allocation by viewing a report of the total allocations by missions for each asset segment.

There was a discussion of the impact of the endowment on the University’s debt ratios. The viability ratio was explained as measure of unrealized gains measured against the volatility in the market. This measure is important in regards to the University’s ability to seek outside capital.

The subcommittee discussed Och Ziff, an absolute manager within the portfolio, their recent performance and their recent public status.

**A motion was made, seconded and passed to reduce half of Och Ziff investment at the manager’s next available redemption date.**

**Iridian Fee Update**

Chair Cioffi provided update to the subcommittee based on discussion with Iridian concerning proposed changes to fee structure. He explained that Iridian views themselves as an absolute return manager rather than a benchmark or relative manager. Therefore, the subcommittee will have to decide, based on the management approach and fees charged, if they should be moved from US Equity to the Absolute Return Hedge Fund class. This decision to re-categorize will directly affect the hedge fund program allocation discussed above though depending upon the outcome of the discussion, these allocations may also be changed.

**Other Business**

The joint meeting held February 21 with the Audit Committee was discussed. The topic of that meeting was the increased diligence requirements for valuation of alternative funds at the University’s fiscal year end. There will be a meeting with the subcommittee and KPMG in the next couple of months to discuss the information gathered on each Alternative Investment Manager and locate areas needing further due diligence.
Adjournment

There being no further business, the meeting was adjourned at 3:47 p.m.

Respectfully submitted,
Robert Cioffi, Chair