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, June 26, 2008 at 9:30 a.m. in the President’s Conference Room, 351 Waterman Building.

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

MEMBERS ABSENT: None.

PERSONS ALSO PARTICIPATING: Richard Cate, Interim Vice President for Finance and Administration and Treasurer, Bonnie Cauthon, Associate Vice President for Finance and University Controller; Renee Bourget-Place, Partner, KPMG

* Participating by teleconference

Chair Cioffi called the meeting to order at 9:30 a.m.

Approval of May 27, 2008 Meeting Minutes

A motion was made, seconded and approved to accept the minutes of the May 27, 2008 meeting.

Marketable and Non Marketable Alternatives Valuation

Vice Chair Snow provided a brief overview of the audit issues regarding valuation of marketable and non-marketable alternatives. He noted that the first issue was how we valued non-marketable alternative assets and reported that although the University has formerly carried non-marketables at “market” that this was not consistent with governmental accounting standards and that the University had each year had an audit difference for this item. The decision has been made to begin carrying non-marketables at lower of cost or market. This will provide consistency with accounting standards and will remove non-marketables from the group of assets for which valuation is difficult to substantiate.

He noted that this leaves marketable alternatives and that this was an area where we typically do not have a full listing of holdings made available to us by managers. The issue then is what we must do to substantiate a reasonable confidence level based on either information regarding holdings provided by the managers or other information we can gather.

He reported that he, along with Richard Cate and Bonnie Cauthon, had met with Renee Bourget-Place of KPMG, our external auditors, to discuss this issue. She provided a list of things that would be acceptable evidence to external auditors and some best practices regarding valuation. As a result of that meeting, two recommendations were offered:
1) We will make a concerted effort to put together a body of documentation to satisfy KPMG and ourselves that we have a reasonable comfort level regarding valuation of alternatives at June 30.

2) The working group who met with KPMG will go through a bi-weekly review to assess progress and identify gaps. Based on these check points it will be determined if it is necessary to bring in other subcommittee members for assistance.

Mr. Cate reported that UVM had been preparing documentation and has been contacting managers and soliciting information, as well as ensuring that we are on the recipient list for any who engage their auditors to perform agreed upon procedures (AUP) for the purpose of reporting on valuations at June 30. Mr. Cioffi inquired how many have committed to do AUP and Mr. Cate reported that Tremblant, who provided an AUP report last year, has committed. Mr. Snow said that a report will be prepared which the Investment Subcommittee will review to determine if they concur with the report and agree that there is an adequate basis on which to accept the valuations at June 30. He noted that he felt confident that the bulk of the work would be performed by University staff with selected assistance as needed from the Investment Subcommittee. He also strongly recommended that the Subcommittee schedule meetings with the hedge fund managers each year close to June 30. Mr. Bain questioned the impact of the initial change to cost for non-marketable but it was not perceived to likely be an issue. He said that it did make sense to carry these assets at lower of cost or market and also agreed that the working group structure made sense. Mr. Cate said that he and Ms. Cauthon were in the process of making follow-up calls to the hedge fund managers and that he would report back on the results.

There was a discussion of how reporting to donors on portfolio performance was handled and Chair Cioffi noted that there was an annual report to donors at a certain level of giving. He noted that while this report was thorough it could be improved to be more of a marketing piece. Mr. Bain said that he would be happy to assist with this effort and Chair Cioffi said that he would forward to the University staff an example of the type of report that might be prepared.

**Long Term Investment Pool – Asset Allocation and Performance Flash Report as of May 31, 2008**

Chair Cioffi commented that the numbers looked better in May with a positive 2.2% return for the month. Highlights included Iridian who continued their great run and Rexiter who beat their benchmark soundly. The hedge funds appeared to be bouncing back and Wellington continues to add value. He asked for questions or comments. There were no additional questions and he noted that the Subcommittee will be revisiting the portfolio discussion in Boston in a few weeks.

**HBK**

Chair Cioffi referred the group to a May 30 memorandum from Cambridge Associates reporting on a call they had with HBK. As noted in the memorandum, the subjects of the call were recent personnel departures as well as possible changes in HBK’s liquidity structure.
There have been some significant changes at the firm, particularly with assets. This had become an issue recently when, as Chair Cioffi noted in May, the gate (i.e., a 10% quarterly limit on assets under management exiting the fund) had been invoked at the end of the quarter. Ms. Hudson-Wilson questioned why Cambridge still backed HBK. Chair Cioffi said that he thought Cambridge still believed in the firm and the team and thinks the “run” was the result of investors “gaming the gate”. Mr. Snow came back to the issue of staff and questioned the impact of going from a team of 60 to 30. He said that the question was whether, aside from the issue of the gates, there was a credible threat to the stability of the organization and their ability to deliver performance. It was acknowledged that they have not done a bad job performance-wise. Mr. Bain pointed out that if performance worsens and we do not get in line now that it could be drawn out longer, given the gate structure. Mr. Snow said he did not see a reason not to put in a request for liquidation since it appeared that the decision could be rescinded and that fiduciary responsibility indicated it would be the right thing to do vs. just waiting it out on the sidelines.

A motion was made, seconded and passed to request a complete redemption from HBK in order to enter the queue, with the intent to revisit the decision based on continued monitoring.

Other Business

Members reviewed the draft agenda for the July 22 Asset Allocation meeting in Boston and Mr. Snow stated that there was too much on the agenda. He reminded the group of the importance of focusing at least annually on the asset allocation, since it was acknowledged as the most important work of the Subcommittee. Mr. Bain asked about the scheduled meeting with Wellington and Chair Cioffi reminded the group that it was planned since Wellington was in Boston. Chair Cioffi asked that the agenda be re-drafted with at least two hours scheduled for discussion of asset allocation. Mr. Snow reminded the group that he would like to continue with earlier discussions of how we define each asset class, particularly the hedge funds, and what their intended role is in the portfolio. He also noted that this discussion should be done in the context of the risk budget and the risk cost of each strategy/manager. Ms. Hudson-Wilson also said that it was important to make sure that the asset allocation is really reflected in the investments. All members indicated that they would plan to attend the July 22 meeting.

Chair Cioffi reminded Subcommittee members that calls had been scheduled for next Monday with DSM and Siguler Guff and invited any members who were able to join the calls.

Adjournment

There being no further business, the meeting was adjourned at 10:45 a.m.

Respectfully submitted,

Robert Cioffi, Chair