INVESTMENT SUBCOMMITTEE
BOARD OF TRUSTEES
UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE

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 Thursday, March 19, 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* and Susan Hudson-Wilson*

MEMBERS ABSENT: Jeffrey Davis and Jeanette White.


* Participating by teleconference

Chair Robert Cioffi called the meeting to order at 8:35 a.m.

Approval of February 25, 2008 Meeting Minutes

A motion was made, seconded and approved to accept the minutes of the February 25, 2008 meeting.

Long-Term Pool Investment Flash Report


<table>
<thead>
<tr>
<th>ASSETS</th>
<th>LATEST %</th>
<th>QTR%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ASSETS</td>
<td>MONTH</td>
</tr>
<tr>
<td></td>
<td>$mil</td>
<td>01/31-02/29/08</td>
</tr>
<tr>
<td>Domestic Common Stock</td>
<td>85.7</td>
<td>-2.4</td>
</tr>
<tr>
<td>Global ex U.S. Equity</td>
<td>67.8</td>
<td>2.2</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>32.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Hedged Equity</td>
<td>32.9</td>
<td>1.6</td>
</tr>
<tr>
<td>Real Assets (Public)</td>
<td>31.5</td>
<td>8.3</td>
</tr>
<tr>
<td>Non-Mkt. Alternative Assets</td>
<td>24.2</td>
<td>-----</td>
</tr>
<tr>
<td>Bonds</td>
<td>45.7</td>
<td>0.2</td>
</tr>
<tr>
<td>Cash</td>
<td>2.6</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>Total Externally Managed Assets</strong></td>
<td><strong>322.5</strong></td>
<td><strong>0.8</strong></td>
</tr>
</tbody>
</table>
Total Internally Held Assets  

-0.6

Total Long Term Investment Pool  

$321.9

Results for the month (+0.8%) were 400 bps ahead of the S&P 500 Index (-3.2%) and quarter-to-date returns at (-4.2%) were 490 bps ahead of the S&P 500 Index (-9.1%). Absolute positive returns from the ex-U.S. equity (namely emerging markets with a +7.4% return), real asset (+8.3%) and bond (+0.2%) composite groups provided a boost to performance during a month that produced negative absolute returns across the traditional domestic equity indices, Wellington’s DIH product (+8.3%) 760 bp outperformance of its CPI-U + 5% index (+0.7%) provided the best results on a relative basis for the month. It is worth noting that this product has returned almost +32% over the last 12 months. Certain of the Subcommittee’s past strategic decisions – moving from a partially active to a totally passive bond policy, increasing allocation to emerging markets and real assets, and decreasing allocation from U.S. equity to diversify towards other portions of the portfolio - contributed largely to the portfolio’s overall relative results.

Ms. Kent informed the Subcommittee of Cambridge Associates’ company wide conference call addressing the market dynamics through capital market research and historical data review of bear markets, and advising clients to be cautious, engage in quality upgrades, and be wary of highly leveraged securities. The Bear Stearns situation was briefly discussed and Cambridge reported that the University’s portfolio had minimal exposure to brokerage activity with the firm.

Ms. Kent reported concerns with only one of the portfolio managers. Ark Asset Management has experienced a significant reduction in assets under management due to the loss of two large pension clients and had a disappointing performance last year. There was a change in personnel due to one of their technology analysts’ departure from the firm. These set of events have created concern for the Subcommittee and Ms. Kent was requested to have a call with the portfolio manager, Nancy Peretz, and report back to the Subcommittee.

The Subcommittee discussed strategy in terms of tactical opportunities in the U.S. equity due to market dislocations. It was agreed that the Subcommittee should look at opportunities in the distressed credit markets that would increase the exposure beyond what we already have with existing hedge fund managers. There was further discussion on how to approach this and it was noted that there were several ways, including adding a high yield bond allocation as well as through private equity or additional hedge funds. This topic will be added to the next meeting’s agenda.

Report on Rexiter

This report is provided on pages 10-11 of Cambridge Associates’ University of Vermont Discussion Materials. Chair Cioffi noted that this was a good commentary that everyone should read.

Hedge Fund Program
The tables “Manager Role in Long-Term Pool Portfolio” on pages 12-14 of the Discussion Materials were discussed. The allocation to Inflation Protection is under 10%; which falls short of the 12.5% policy allocation target of the University’s portfolio. The Subcommittee agreed that the Version 2 on page 14 made greater sense since it placed Iridian and all the hedged equity managers in the return enhancement category. Mr. Snow pointed out that the table helps address the topics of: 1) What is risk budget that is available to spend, and 2) Where to spend the budget. In addition Cambridge was asked to fine tune the allocation categorization of Barlow, Clarion and MS Prime as each one should be split into two different groups. Cambridge was also asked to maintain this chart on an ongoing basis as part of the discussion materials.

There was discussion on stagflation and inflation. Mr. Snow stated that he was more concerned about stagflation. Ms. Hudson-Wilson noted that inflation is secular (i.e. labor force) and can be addressed by investment strategy, but that stagflation is cyclical and can be self-correcting. She added that stagflation occurs when there is zero to little economic growth and increase in commodity prices. The Subcommittee needs to consider 1) additional managers, 2) additional alternative asset classes, and 3) further allocation to current managers, as a means of allocating more to inflation protection. The University’s current real assets manager, Wellington, is currently overweight in commodities, underweight in real estate, and moving towards an overweight to Treasury Inflation-Protected Securities (TIPS). The Subcommittee agreed that it may be advisable to increase the inflation hedging protection by adding to Wellington. Based on recommendation from Cambridge the Subcommittee will wait until closer to the end of the 2nd or 3rd quarter, before deciding on the timing of the incremental allocation and Chair Cioffi suggested that an increase of $3.5 million might be appropriate to consider at that time. Wellington’s diversification from being multi-fund product and monthly liquidity option both support the argument for a higher percentage allocation within the portfolio. The Subcommittee will add a discussion on inflation protection to the next meeting’s agenda; specifically addressing Wellington. Ms. Hudson-Wilson will continue her research on inflation hedging, with an emphasis on real estate, and will present her findings to the subcommittee.

Cambridge Associates will set-up a conference call with hedge fund managers, Fir Tree and Wellington’s Archipelago Fund. The Subcommittee will look at these managers as potential allocations to increase the return enhancement portion of the portfolio.

**Iridian Fund Reclassification and Fee Discussion**

Iridian’s performance for four different products is illustrated on page 16 of the Discussion Materials. Harold Levy is the primary portfolio manager of the high performing Private Business Value/Mid-Cap Product, in which the University has been invested since May 1994. The manager is listed under the return enhancement category due to its strong historical return performance in Version 2 of the Manager Role table (Page 14). Ms. Kent discussed some other Iridian products and noted that UVM is in what is considered the flagship product.

**Motion was made and approved to sign Iridian Fee agreement and to maintain a watch on Iridian due to concerns regarding incongruity of its stated performance mission and**
its fee structure, with a footnote to be included in the manager performance reports stating such on an on-going basis.

Other Business

The next meeting of the Subcommittee will be on April 16th from 8:30 – 10:00 a.m. Chair Cioffi recapped planned agenda items including: Opportunities in Distressed Markets, Update on Ark Asset Management, Inflation Hedging (Wellington and report by Ms. Hudson-Wilson), and Subcommittee Calls (30 minutes) with Fir Tree and Wellington Archipelago.

Adjournment

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

Respectfully submitted,

Robert Cioffi, Chair