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 Tuesday, May 27, 2008 at 8:30 a.m. via teleconference.

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

MEMBERS ABSENT: Sam Bain.

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

* Participating by teleconference

Chair Cioffi called the meeting to order at 8:30 a.m.

Approval of April 16, 2008 Meeting Minutes

A motion was made, seconded and approved to accept the minutes of the April 16, 2008 meeting.


Chair Cioffi asked for questions or comments. Ms. Hudson-Wilson commented on the overweight exposure to U.S. Equity and Chair Cioffi noted that there had been a recent reduction of $2 million; however it would not entirely correct the overweight. It was noted that assets were still not deployed to the full extent of the target allocation in Venture Capital/Private Equity (VC/PE). Chair Cioffi noted that he would like to focus on rebalancing the portfolio’s asset allocation at July meeting, including thoughtful decision on where to target the overweight resulting from ongoing underweight in VC/PE.

The Subcommittee moved to discussion of individual managers. Chair Cioffi noted that Ark Asset Management continued to underperform and Eaton Vance continued to outperform. Ms. Kent commented that Eaton Vance had a favorable overweight to energy and underweight to financials. Chair Cioffi also noted that the gate (i.e., a 10% quarterly limit on assets under management exiting the fund) had been invoked at the end of the quarter by absolute return hedge fund manager HBK. Ms. Kent reported that Cambridge would be meeting with HBK later in the week, that the firm had received about $3.5 billion in requests for redemption from investors, and that creating a new class of shares with different options was under consideration in order to mitigate the impact of the “gates” on investment performance. She
added that Cambridge still thinks HBK is a good shop and is poised to take advantage of opportunities in the market.

Ms. Kent also reported that Cambridge was keeping a close eye on emerging markets manager Rexiter since, despite appearing to have a solid team and process, the manager has had a disappointing performance on a relative basis. The Subcommittee discussed the possibility of diversifying the emerging markets roster, especially if the allocation to EM is increased.

**Action Requested:** Chair Cioffi asked Cambridge to report back on Rexiter and also provide information on potential candidates for additional EM managers at July meeting.

**Large Cap Growth Managers**

Chair Cioffi referred members to information regarding potential managers and asked Cambridge to confirm that they had not overlooked managers considered when Ark was originally hired. Ms. Kent confirmed that none of the previously considered managers were in the current group of prospective managers, but that Cambridge had considered some of the previous finalists and for various reasons made the decision to not bring them forward this time. Ms. Hudson-Wilson led the group through a review of the Sharpe ratios on page 26 of materials and noted that both Eaton Vance and Iridian had great ratios while Ark lagged. She also expressed surprise at the range of fees among the potential new managers. She commented that DSM had good ratios, good up/down market performance and holdings somewhat different than others, but was expensive. Chair Cioffi commented on low fees for Cadence and Ms. Kent noted they blended quantitative screening with fundamental research. He observed that DSM appeared to be more of a stock picker, and Ms. Kent agreed. She reported that the common theme for DSM and Agility, both with higher fees, was that principals of both came from W.P. Stewart a shop that typically charged high end fees of 1.5%.

Mr. Snow expressed both ambivalence and doubt about the ease of adding value for a large cap growth manager and questioned whether this was a category where the members should feel comfortable working with an active manager. He reminded them that the primary concern when Ark was hired was the LTP’s lack of exposure to a dedicated large cap growth manager. He suggested we may want to use a passive manager to get the large cap growth exposure at lower fees. The discussion moved to the specific concerns with Ark, which focus primarily on business issues versus performance. Mr. Snow stated that if the only concern was performance he would recommend placing the manager on watch, but that the business trends and uncertainties of asset levels raised doubts about the manager’s ability to turn performance around. Chair Cioffi commented on his high regard for Ms. Peretz but agreed with Mr. Snow’s concerns. There was a discussion of using a large cap passive fund/ETF (exchange traded fund) as an interim solution and there was also discussion of the ability to screen in accordance with the University’s Sudan policy. Agility was described as very promising and a manager to watch for future addition, but all members agreed with Mr. Snow’s observation that there was currently not enough information to make a judgment. All members agreed they would like to talk with DSM.
A motion was made, seconded and passed to terminate Ark and authorize moving into an interim product to be selected via recommendation by Cambridge.

**Action Requested:** Cambridge will set up a call for Subcommittee members with DSM as soon as possible. [NOTE: A call with Siguler Guff will also be scheduled at this time - see Distressed Markets below.] Cambridge will report on interim investment options and revisit the SSgA interim management (transition) services that U Vt. has used in the past.

**Treasury Inflation Protected Securities (TIPS) Investment Options**

Ms. Kent referred members to the section in the Discussion Materials that provided information regarding three possible options for accessing the TIPS market. She noted that Cambridge does currently list TIPS in the “very overvalued” asset class category. She clarified that the PIMCO portfolio, with fees of 45 bps compared to 6-8 bps for the other managers presented, is approximately 80% TIPS with some other products included to add value around the edges. She also reported that the person who was the architect of the TIPS portfolio at PIMCO was leaving but that it was a deep organization.

Mr. Snow noted that he would have to recuse himself from any vote on State Street.

Members reviewed the current allocation and exposure to Wellington (Diversified Inflation Hedges) and Ms. Kent updated them on additions to the Wellington portfolio. Ms. Hudson-Wilson commented that she was happy with Wellington performance but advocated reducing that exposure and adding a more banal, plain vanilla way to gain access to inflation protection. Mr. Snow commented that since a vanilla approach was needed that the access to TIPS should be via the most vanilla product and that since any outperformance would probably be measured in bps that it was not worth adding any risk. Chair Cioffi agreed that this was consistent with the approach taken with Fixed Income.

A motion was made, seconded and passed to reduce Wellington by $8 million and invest $8 million with Vanguard Group in their Vanguard Inflation-Protected Securities fund.

**Action Requested:** Cambridge will arrange for Wellington to meet with the Subcommittee at the July meeting.

**Opportunities in the Distressed Markets**

Ms. Kent introduced this item by commenting that it was a “hot topic” and we need to continue discussion at the July meeting and look at both hedge funds and private equity strategies. She noted that there was a lot of money trying to find a home in this space but that opportunities were still nascent. Chair Cioffi asked if this was a place she would recommend a fund of funds and she replied that it was not necessarily what she would recommend. She stated that there was an opportunistic bucket within the non-marketable partnership space and that investing in 2-3 managers as part of this strategy might make sense. However, she noted that a simple approach would be a fund of funds manager, such as Siguler Guff, with the caveat that it would impose extra fees. Ms. Hudson-Wilson inquired about exposure to distressed markets through
current managers. Exposure is currently gained through hedge fund managers Varde, Davidson Kempner (at least half), and with Fir Tree (10-20%). Mr. Snow commented that he was not ready to make a commitment exclusively to distressed credit and that he understands the arguments but hopes our existing managers will capture some of the opportunity. Ms. Hudson-Wilson suggested that a meeting with Siguler Guff would be helpful.

**Action Requested:** Schedule call with Siguler Guff [To be coordinated with DSM call – see above.]

**Other Business**

Members agreed that July 21-22 were good dates for the July meeting and Cambridge confirmed that they would host at their Boston office. Ms. Kent and Chair Cioffi will confer on agenda.

A joint meeting of the Subcommittee and the Audit Committee had been suggested but members agreed that the Subcommittee could place this on the agenda for their scheduled June 18 meeting and ask KPMG to join. It was agreed that Audit did not need to participate in this discussion since they already had a very full agenda of work and that the Subcommittee could report results to Audit.

Ms. Hudson-Wilson said that she would be meeting with Commonfund to discuss commodities products and that she would report back to the Subcommittee.

The Subcommittee went into Executive Session for the purpose of discussing contractual matters.

**Adjournment**

There being no further business, the meeting was adjourned at 10:20 a.m.

Respectfully submitted,

Robert Cioffi, Chair