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 Wednesday, October 22, 2008 at 8:30 a.m. in 351 Waterman via teleconference.

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

MEMBERS ABSENT:

PERSONS ALSO PARTICIPATING: Richard Cate, Interim Vice President for Finance and Administration and Treasurer, Bonnie Cauthon, Associate Vice President for Finance and University Controller

* Participating by teleconference

Chair Cioffi called the meeting to order at 8:34 a.m.

Approval of September 24, 2008 Meeting Minutes

A motion was made, seconded and approved to accept the minutes of the September 24, 2008 meeting.


Chair Cioffi asked Cambridge (CA) to lead the Subcommittee through the report. Ms. Kent reported that the portfolio was down 12% for the quarter and 9% for September with the Long Term Pool having a market value of $286.1 million at September 30, 2008. The Cambridge median is not yet available but will be forwarded when available. There was a discussion of whether managers were appropriately classified. Ms. Hudson-Wilson asked about the classification of Metropolitan and questioned whether it should be classified as Private Real Assets. Mr. Snow added that it would increasingly helpful to look at managers by their expected functional classification as well as by asset class. Mr. Bain noted that this would be a really good period in which to track managers based on functional purpose since the current volatility could reveal whether managers were really performing their assigned roles.

In reviewing individual managers Ms. Kent noted that hedged equity managers have had an incredibly difficult time and that Cambridge expects some managers to be facing tremendous redemption pressures, with some closing. However, she noted that this may ultimately be good for the industry. She also noted that Wellington was down due to energy being down and that bonds were a relatively good place to be for the last quarter. She commented that some of the individual managers were holding up and preserving capital. However Barlow had 26 of its 28 managers down for the quarter and there is concern that fund of funds managers may be
impacted significantly by redemptions, particularly from pension funds who are big investors in fund of funds vehicles. Mr. Snow commented that we will see a lot of funds under pressure, with their business models shaken, and asked if there was any perceived business risk with UVM’s managers. Mr. Brantley responded that the managers considered to be the most at risk were the newest, with assets under management of less than $500 million. He also said that UVM has tried and true managers in its portfolio who are expected to survive. He added that although he believes UVM is “on the good side of the fence” that Cambridge will continue to monitor redemptions and assess how redemption levels might impact individual managers. Mr. Snow reiterated his concern voiced at earlier meetings that we don’t want to be the last out the door. Mr. Bain commented that he was uneasy about ex U.S but was satisfied currently with U.S. Equity managers and that Iridian still looked good. Ms. Kent reported that Cambridge had a recent call with Iridian and that October had been a very bad month for them. She also noted that Cambridge would be monitoring any actions by Bank of Ireland, the parent company for Iridian. Bank of Ireland is under pressure financially and may need to sell assets such as Iridian and others in its asset management group.

Mr. Snow asked the following questions: 1) What is the Cambridge view on Tremblant and Barlow?; 2) What happened to Wellington?; and 3) What about TIPs? Ms. Kent responded: 1) that Tremblant does very good research but in this volatile period did not appear to have cut back its gross and net exposures soon enough and as a result was not positioned well and that we were actually overweight in Barlow as a result of other valuations being down and should trim there; 2) Wellington had talked about increasing TIPs but did not and had stayed at the energy party too long; and 3) she would defer comments on TIPs and whether to add until we had more current information on valuations; in general TIPs had been sold down as part of the need to find anything liquid that could help investors raise cash. She also added that although Highline had held up well they could be trimmed as part of rebalancing.

Requested Action: Cambridge will develop custom chart to reflect functional classification of managers

Hedge Fund Redemption

Chair Cioffi reminded members that UVM had received a partial withdrawal of $1.5 million from HBK based on the request for full redemption and that a new request was required in order to get in line for the next quarterly redemption. Mr. Bain commented that both HBK and Fir Tree seem to be doing an acceptable job and that he did not see a clear reason not to retain them and asked for Cambridge’s opinion. Ms. Kent said that opinion was split on HBK with some consultants recommending adding to HBK. However, she noted the Subcommittee’s prior concerns about the gates. Chair Cioffi commented that the quarterly redemptions actually provided a window into the HBK status but that he was concerned that managers with yearly redemptions would suffer significant redemption pressures. Mr. Snow said that regretfully we are a small investor for HBK and could not stop the stampede by virtue of our commitment, that he did not believe HBK represented a unique component of the portfolio, and that he did not have reason to believe that over-redemptions would not continue to occur. He added that he did not have a problem with HBK as a manager but was concerned that losing a large
portion of their client base would make it difficult for them to manage positions. Mr. Bain asked about partner’s commitments and Ms. Kent responded that it was 10%-11% of the fund. Ms. Hudson-Wilson agreed that we could not impact the larger picture for HBK and that we had to take actions best for the UVM endowment.

**Motion:** Motion was made, seconded and passed to request a full redemption from HBK.

**Reports on Manager Interviews**

Ms. Hudson-Wilson and Mr. Snow reported on interviews with commodities managers, Gresham and PIMCO. Ms. Hudson-Wilson reiterated that she was still impressed by the Commonfund commodities product, specifically the individual manager Tyler Stevens, and that we should continue to watch his performance over time, since currently there is not a long track record. She noted that this would be an especially good time to track his performance since commodities were taking big hits right now. She suggested that the Subcommittee take another look at this manager in a year and focus currently on PIMCO and Gresham. The discussion of Commonfund raised questions regarding confidence in the Commonfund relative to the closure of the Short Term Fund and Ms. Kent clarified that although the CF investor base had been shaken by the STF closure, Cambridge viewed Commonfund private capital as a separate entity.

PIMCO was reported to be a first class shop. Concerns were voiced about their use of swaps which add counter-party risk as compared to Gresham that uses futures. PIMCO has been at it for a long time, manages to the Dow-Jones AIG Commodity Index, and uses TIPs as the core strategy in the management of the cash collateral pool. PIMCO will likely underperform in boom times for energy but protect in down times. They have a deep trading desk, reasonable fees and daily liquidity.

Gresham uses its own indexes, so is more inclusive. They include in their strategy a broader range of commodity types and sub-types, and use futures vs. swaps. They do use constraints and are willing to underperform as a result of exercising those constraints. They are active (looking every day), have a higher fee and liquidity is monthly vs. daily.

Mr. Snow added that PIMCO seems to have more moving parts, many of which were not relevant to inflation hedging, and that they seemed to be taking their bond management capability and layering it on top of swaps. He also noted that counter party risk is of increasing concern. He likes Gresham and described them as very “quanty”, disciplined with strict rules, and much more of a pure inflation hedging play.

Cambridge’s opinion was requested and Mr. Brantley responded that he would recommend funding only one commodity manager at this time. He noted that this is all Gresham does and that they are good at it, without a lot of distractions except for significant growth in assets under management. He also said that Mr. Snow had picked up on the key discipline of rebalancing at Gresham. He summarized by saying that if only one commodities manager was hired, his top pick would be Gresham. Ms. Hudson-Wilson agreed that it would be good to have it be clearly a clean commodities play and that she thought Gresham was very impressive.

Chair Cioffi and Mr. Bain reported on their interview with Acadian, who they described as incredibly impressive and offering a clear complement to Rexiter, the current Emerging Markets manager, through its quantitative approach. Mr. Brantley iterated that this manager uses relatively little subjectivity in its
entire process, from stock election to sell discipline, and even its retention and use of globally based brokers. Mr. Bain added that they had a real command of the quant side of the business and that he had no problem recommending that we give them money to manage. Ms. Hudson-Wilson and Mr. Snow also added good opinions of this manager. Mr. Snow also pointed out that the addition of Acadian to the current EM manager roster would provide a combination of strong judgmental and quantitative approaches which could be powerful and that there were times that you are glad to have both.

Motion: A motion was made, seconded and passed to invest $5 million with Acadian now with the primary source of funds to be the Russell 1000 ETF and fixed income if needed and to invest an additional $5 million with Acadian at the end of the first calendar quarter of 2009 subject to the reaffirmation of the Investment Subcommittee.

Motion: A motion was made, seconded and passed to withdraw one-half of the current investment with Wellington and invest those funds with Gresham.

Portfolio Rebalancing Proposals

Chair Cioffi began this discussion by asking how much would be needed over the remainder of the fiscal year to fund Endowment spending. Mr. Cate confirmed that approximately $12 million was required to fund spending to date and through the remainder of the year. There was a discussion of where these funds should be sourced and Ms. Kent recommended that since equities were down and bonds were currently overweight that fixed income would be the best source. The Subcommittee directed that bonds be reduced over the year to cover spending and cap calls, with amounts requested adjusted based on availability of funds due to new gifts.

Ms. Kent directed the group to page 14 in the Discussion Materials and reviewed Cambridge recommendations for rebalancing. Ms. Kent pointed out that there was an overweight in the hedge fund program and Mr. Snow agreed, stating that over 20% was a lot in skill based exposure and that this was a good time to be disciplined about rebalancing.

Motion: A motion was made, seconded and passed to trim Davidson Kempner by $1 million, Highline by $1 million and Barlow by $2 million.

It was noted that the redemption from HBK would also contribute to bringing the allocation back to target.

Fixed Income – SsgA Bond Fund

Ms. Kent reported on current issues with securities lending in the State Street Passive Bond fund that have impacted the liquidity of the fund. She noted that there was a sleeve that did not allow securities lending and that over time UVM may want to move into that one. In the meantime she counseled that withdrawal requests be submitted since State Street seemed to be releasing funds to investors based on their withdrawal history. She noted that some investors use this as an investment as a source of funds for operations (or, for a pension plan, for pension payments) vs. long-term endowment so had historically withdrawn more frequently. It was agreed that UVM would request $4 mm for immediate withdrawal and $1 mm per month going forward.
Non Marketable Alternatives – New Commonfund Products

Chair Cioffi said that Commonfund has new non-marketable alternatives funds in the market, International Private Equity Partners VII, U.S. Private Equity Partners VIII and Venture Partners IX. He started the discussion by saying that he wanted to wait a month to see where the market was at and that he did not think this would result in a loss of the opportunity. However, he emphasized that he did not want to lose vintage years in the program and he asked Cambridge to revisit some of the alternatives to Commonfund. Ms. Hudson-Wilson noted that it was probably a good time to look at secondaries and Chair Cioffi said that he expected the $10 million commitment to W Capital to turn out to be very good for the portfolio. Ms. Kent added that the Subcommittee had done a lot with the additions of Dover and W Capital and that we need to keep an eye out for funds coming back to the market.

Requested Action: Cambridge will keep non-marketable alternative opportunities on radar screen and bring recommendations back to the Subcommittee as attractive funds come to market.

Other Business

- Update on Operating Funds: Mr. Cate reported on status of withdrawals from the Commonfund, stating that funds continue to be received from the STF, with approximately $40 million withdrawn as of October 21, and that a withdrawal of approximately $14 million from the Multi Strategy Bond Fund was scheduled for month end with funds expected in early November.

- The next meeting date was confirmed to be November 19. Mr. Cate noted that we would continue to set agendas for 1 ½ hours but that he would schedule calls for 2 hours to allow for discussion that went beyond the agenda times.

Adjournment

There being no further business, the meeting was adjourned at 10:30 a.m.

Respectfully submitted,

Robert Cioffi, Chair