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, September 24, 2008 at 8:30 a.m. in 351 Waterman via teleconference.

MEMBERS PRESENT: Chair Robert Cioffi*, Vice Chair John Snow, and Sam Bain*.

MEMBERS ABSENT: Susan Hudson-Wilson.

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 8:45 a.m.

Approval of August, 2008 Meeting Minutes

A motion was made, seconded and approved to accept the minutes of the August 20, 2008 meeting with amendment that Mr. Snow disclosed former association with State Street and recused himself from any discussion or actions regarding Rexiter.

Flash Report Long Term Investment Pool as of August 31, 2008

Chair Cioffi asked Cambridge (CA) to lead the Subcommittee through the report. Ms. Kent noted that as all are aware there have been significant changes in September and that several exhibits were provided to give some perspective on the current markets in addition to the flash report. Mr. Brantley noted that the overwhelming message in the exhibits was that things are bad. He referred to page one and commented that a lot of CA clients used indexed funds for exposure to U.S. Equities and that where active managers were used that they had tended to avoid financials and, as a result, the recent events did not have as much impact on the actively managed funds as on the indexes. Moving to page 2 he commented that it provided an overview of the duration of bear markets and that the current such market was now at 11.3 months. He commented that CA believes there is still a lot to be flushed out of the market and added that it was not just U.S. but that everything is down in double digits since June 2007. On page 5 he pointed out that the only positive sector was consumer staples. Pages 7 and 8 showed all sectors were down for U.K., Europe ex U.K. Japan and Asia ex Japan. Reviewing pages 9-12, he commented that globally we have seen a resurgence of the dollar, that a bond yields showed the flight to safety, and that with oil down, the Goldman Sachs commodity index which is heavily weighted with oil, is down. He stated that indicators showed that the markets were approaching a global crisis with risk aversion starting to peak.
Chair Cioffi asked if there was anything we should be doing at this point and Mr. Brantley responded that UVM has been doing what CA is recommending to its clients...batten down, make sure you have sufficient diversity and look carefully at your risk profile. He added that he did not think that UVM has any unintended bets in the portfolio. Mr. Bain asked about CA’s current views regarding U.S. equity, given the strengthening of the dollar. Ms. Kent responded that she believed that the dollar was in a short term rally in the midst of a long term secular decline and that she had not seen anyone backing off of the more global approach. However, she noted that it was a key point that CA needed to internally explore in more depth. Mr. Bain then asked whether CA or any other Subcommittee member had a changed view regarding the planned interview with an emerging markets (EM) manager and two commodities managers. Mr. Snow said that he participated in the CA client call last week and the conclusion he drew was that, aside from distressed, if anything, now that the pricing was reset, that EM was one of the few asset classes to make it into the fairly valued category. He reminded the group that the current plan was not to up the ante but to add a manager for diversification and he reaffirmed his belief that we should sustain the current target to EM. He also noted that the relative price movements in the last few weeks would do nothing other than encourage that commitment. There was a question regarding whether the proposed bail-out would impact commodities and Mr. Brantley reminded the group that commodities were in the portfolio to provide an inflationary hedge. Ms. Kent added that they were less worried about inflation over the next year but that did not mean we should not have inflationary hedges in place.

Chair Cioffi questioned whether we have taken as much advantage of distressed opportunities as we can. Ms. Kent pointed out that there was good exposure through Varde, Davidson Kempner, and Fir Tree but that there could possibly be room to add more. She mentioned Whipporwill, a fund that has been closed but was re-opening to capital. Chair Cioffi added that we also now had private exposure via Siguler Guff. Ms. Kent said that re-balancing was needed following the BOT approval of the revised policy allocation targets but that she recommended having this discussion in October when September 30 numbers were available and after the planned EM and commodities interviews had been conducted. She added that there are opportunities in Distressed Securities and that everyone needed exposure but that there was still time and Chair Cioffi added that with SG and the hedge fund exposure that he was reasonably comfortable with exposure at this time.

Chair Cioffi expressed concerns about Barlow performance and asked if other members shared those concerns. Mr. Snow agreed and reminded the group of the ongoing discussions regarding the need to define what we were looking for from each manager, enhanced return or volatility reduction, or both? Ms. Kent and Mr. Brantley agreed that since they were a hedged equity fund of funds (fof) manager that they were in the return enhancer group. However, Chair Cioffi stated that since Barlow was a fof manager, he still expected less volatility. Mr. Snow asked CA if thought hedge fund managers were being constrained by the recent limitations place on short selling. Chair Cioffi said that Tremblant was having a call later in the morning to discuss that issue. Ms. Kent said this was more likely to impact the more purely quant managers and that in our line up HBK would be more likely to have issues. Mr. Bain said that in the absolute return category it looked like Varde was having some difficulties and asked if there were any insights regarding their performance. Ms. Kent said that they were
having mark to market issues but that was not necessarily translating into losses on trades. She commented that she thought they may be beautifully positioned to take advantage of some good opportunities.

Chair Cioffi turned the discussion back to HBK and reminded the Subcommittee that they needed to revisit the HBK redemption requested for September 30. He referred the group to the letter from HBK indicating that the 10% gate had been once again invoked and that as of last week HBK anticipated distributing 26% of the requested redemption. UVM requested a full redemption and reference to August 31 balance of $6 million indicated this would yield about $1.5 million. Ms. Kent recapped the recent organizational changes at HBK following a year of flat performance and noted that partners represent 10-11% of assets in the fund. She said that lack of transparency was a concern with this manager but agreed with Chair Cioffi that we had been aware of this concern going into the fund. Mr. Snow said that he was still concerned about the ultimate impact on liquidity in the fund that continued redemptions of the current scale would have. Chair Cioffi agreed with him that the potential downside of not staying in the queue was greater than the potential upside. Mr. Bain agreed that we should stay in line for redemption. It was clarified that we would need to resubmit our request for the next redemption date and the Subcommittee agreed that another request for full redemption should be submitted, reconfirming the motion previously passed to do so. Ms. Kent said she expected a lot of pressure on hedge fund managers at year end and that liquidity had become a hot topic. The discussion turned to UVM ongoing need to meet budgeted endowment spending and Chair Cioffi asked that the liquidity calendar for managers be reviewed and that the plan for funding spending be part of the rebalancing discussion at the October meeting.

**Requested Actions:**  
- Re-submit request for full redemption to HBK  
- Add plan for funding endowment spending to October re-balancing discussion

Mr. Snow asked about views on inflation/deflation noting that he was not sure which direction either would move but that if we were looking at a global recession that deflation was more likely. Mr. Bain said that he thought that over the next year deflation would be more of an issue but that over the long term inflation was the bigger fear. Ms. Kent said that CA had not made a strong statement about timing but that they believed it was important to have protection against both in place in the portfolio. Mr. Brantley reminded the Subcommittee of the discussion at the asset allocation meeting and the consensus at that time that it was important to have both at a level that was meaningful but not at a level that became an opportunity cost for the rest of the portfolio. Mr. Snow reiterated importance of keeping a footprint in both directions but did think that we currently have an inflation bias. Given that he countervailing forces seem to now be stronger, he would like to review. Chair Cioffi agreed.

**Requested Action: Inflation/deflation review to be put on future agenda.**

**Manager Interviews**

Chair Cioffi confirmed that he would like for interviews to be set up in next 10 days to ensure occurred before October meeting and that the teams would be Cioffi and Bain for EM and
Snow and Hudson-Wilson for Commodities. Vice Chair Cioffi and Mr. Bain agreed that they could be available Wednesday, October 1, before 11:30 and Friday, October 3 between 10:30 and 3. He asked Mr. Snow to determine some times that he and Ms. Hudson-Wilson could be available and to let CA know. He asked that CA then set up the interviews with the prospective managers and let everyone know so that they could join the scheduled calls if they wished to participate.

**Requested Actions:**
- Mr. Snow to coordinate times for availability with Ms. Hudson-Wilson and provide possible times to CA
- CA to set up calls with Acadian, PIMCO and Gresham based on interview team availability but to let all members know in case they wanted to join calls.

**Other Business**

- **Update on Audit issue:** Mr. Cate reported on status of work regarding valuation of alternative investments in June 30, 2008 financial statements. KPMG has provided positive feedback on progress so far.

- **Acceptance of Gifts with exceptions to BOT Policy:** There was a discussion of a proposed gift that carries requirements for spending outside of BOT policy and waiver of administrative fee. The ISC agreed that this gift should be accepted with understanding that it will be invested separately.

- **Investments in CF:** There was a discussion of the Short Term Fund use of its internal facility it established to support reserve for STF. The discussion expanded to concerns regarding other funds in Limited Term Pool. Mr. Cate will review the program in light of current market risk and will report back to the ISC on planned actions.

- **Change to date for October Meeting:** ISC members agreed to change the meeting date to October 22 to ensure availability of September balances by meeting date...

**Adjournment**

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

Respectfully submitted,

Robert Cioffi, Chair