A meeting of the Investment Subcommittee (the Subcommittee) of the Board of Trustees of the University of Vermont and State Agricultural College was held on Wednesday, April 15, 2009 at 8:30 a.m. in the President’s Conference Room, 351 Waterman Building, Burlington, VT.

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

MEMBERS ABSENT: Co-Vice Chair Samuel Bain

PERSONS ALSO PARTICIPATING: Vice President for Finance and Administration and Treasurer, Richard Cate*, Assistant Controller for Tax and Treasury Services, Kathy Snell, Bets Kent* and LaRoy Brantley* of Cambridge Associates, Lewis Pearlson* of SSgA, Murray Davey* of Rexiter, and Kylie Vanerstrom from Students Against War

*By means of conference telephone.

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

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the March 18, 2009 meeting.

Flash Report for March 31, 2009

Ms. Kent facilitated the review of the investment portfolio in the Flash report for the month ending March 31, 2009. She noted that the US Equities’ returned 6.8% vs. the S&P’s 8.8% for the month of March. She stated that while US Equities did not quite rebound with the market during March, the quarter-to-date performance compares well. Ms. Kent noted that US Equities manager Iridian is making good progress in buying itself back from the Bank of Ireland.

Global ex US returned 8.7% vs. the MSCI’s 8.1%. Mr. Cioffi expressed continuing concern with Rexiter’s performance, which lagged behind the Index. Ms. Kent reported that Rexiter performed well for the month of March.

In reviewing the Hedge Funds portion of the portfolio, Ms. Kent commented that she will be obtaining a quarterly update report from the Hedge Fund research team which has calls scheduled with the managers during the month of April. Ms. Hudson-Wilson noted that she plans on participating in the upcoming investor conference call with Private Real Assets manager Clarion.

Mr. Brantley commented on the fortuitous timing of the $10 million invested in Emerging Markets manager Acadian during February and March, valued at $11 million as of quarter-end.
**Rexiter Performance and Presentation**

Lewis Pearlson from SSgA introduced Murray Davey from Rexiter to present the portfolio. Mr. Davey noted that Rexiter has maintained the firm infrastructure by having the original management group plus adding a new group of managers. Rexiter invests in emerging market debt as well as equities. The fund’s investor base has remained stable with the exception of substantial redemptions in the retail markets. Rexiter’s primary business is with institutional investors in pensions and foundations. Overall the assets have declined by 60% which has transferred to a decline in revenue. Mr. Davey explained that Rexiter has 3 times the amount of capital that is required. He further explained the details of the portfolio, noting since inception of 2005 the emerging markets index is down by (8%) and the fund in which UVM has invested has declined by (10.5%). For the calendar year 2008, Rexiter was 150 basis points behind. Mr. Davey noted that the stock selection within some countries performed negatively and Rexiter has moved somewhat away from country weighting as the driver of the strategy. The current strategy is more of a bottom up approach.

Ms. Hudson-Wilson asked about the exposure to refinance risk or debt financing. Mr. Davey responded that the management team reviews the balance sheet; the cyclicity of profits is a bigger issue than the risk of refinancing. Mr. Snow inquired about the mid-caps underperforming vs. the large-caps. The mid cap stocks are perceived to have higher risks than the large stocks. Mr. Davey noted that Rexiter undoubtedly has chosen some stocks with issues in certain markets.

Mr. Cioffi inquired about the outlook for emerging markets. Mr. Davey responded that the emerging markets trends toward higher growth still exist and are not driven by the recent economic trends. The countries have the tools to re-flate and they have been doing so. In the next few years it is expected that emerging markets will outperform the developed markets. He also mentioned that China has the tools to create economic growth.

Ms. Hudson-Wilson asks how close is the market to the bottom? Mr. Davey explained that they believe China has already bottomed out in December 2008 and January 2009. February and March have shown positive growth. However, he cautions about the expectancy of a fast recovery of the market.

After Mr. Davey and Mr. Pearlson departed from the phone conference, Mr. Cioffi requested comments from the Subcommittee on the Rexiter portfolio. Ms. Hudson-Wilson inquired if there is an index for emerging markets. Indexing is a good approach for efficiency. Discussion ensued on the role of indexing in emerging markets and whether or not it adds value. Mr. Brantley commented that the decision to bring Acadian into the portfolio was in large part because of their approach being complementary to that of Rexiter. It was noted that Rexiter is expected to outperform the benchmark in the long term. Ms. Hudson-Wilson is concerned about the overall performance of Rexiter. At the request of the Subcommittee, Cambridge Associates will send fact sheets on other Emerging Market managers to use as a comparison with Rexiter.

Following the meeting, Cambridge Associates discussed the Emerging Markets weighting with Rob Cioffi. The weighting was approximately 11% at the end of March (including the impact of
Templeton and Capital Guardian’s positions), overweight the target of 10%. When the Investment Subcommittee next convenes, it will discuss trimming this overweight position.

SSgA Securities Lending Practices

Ms. Kent led the discussion on the portfolio rebalancing and the options available for redeeming funds from the Passive Bond Fund in light of SSgA’s Securities Lending Program constraints. She explained Option 1, which allows for up to 4% redemption per month with 2 specific Trade Dates each month for the transaction to occur. Under this option, UVM would redeem approximately $12 million by the end of 2009. The balance remains in the fund for reinvesting. Option 2 provides for a 60% upfront partial payout. This would cause UVM to lose its exposure to the fund’s investment strategy for the remaining 40%, that would stay in a liquidating trust holding the investments in the collateral pool. It is estimated that UVM would receive approximately 80% of its current investment in the fund by the end of 2009 under this second option. Mr. Snow commented that whether full value of the collateral would be realized is unknown and by taking a share of the assets, UVM is taking a risk in losing assets. Ms. Kent said she would need to have the research team investigate the quality of the collateral. Leaving the assets with SSgA would place the burden of the adequacy of the collateral with SSgA. Mr. Snow further noted that under Option 2, we lose the claim. Upon more discussion, the Subcommittee decided to remain with the Option 1 plan for liquidating assets. Cambridge Associates agreed with this decision.

Update on Portfolio Rebalancing

The Subcommittee confirmed that UVM should redeem the full 4% available each month from the Passive Bond Fund, through December 2009, and that a catch-up redemption should be made for April so the full amount available is redeemed; a redemption request for 2.64% was previously submitted for the April 15th Trade Date. Further, the Subcommittee confirmed that until further notice, funds redeemed from the Passive Bond Fund should be invested with US Equity manager RhumbLine. The Subcommittee will monitor this monthly; US Equities are currently underweight.

A question arose regarding continuing to redeem HBK investments or keep some investments with them. A full redemption request is currently in place for withdrawal as of June 30th. Ms. Kent recommended withdrawing the redemption request because Cambridge Associates views HBK favorably. The Subcommittee decided to keep the redemption request for now. Mr. Cioffi noted that the request can be withdrawn in the future, even after the 65-day redemption request deadline (approximately April 25th).

Socially Responsible Investing Work Group Proposal

Mr. Snow introduced a proposal recommending that UVM divest from companies that are materially engaged in the manufacture of: a) Cluster munitions as defined by the Oslo Treaty of December 2008, and b) Military equipment and/or weapons containing depleted uranium. He explained that the Work Group has been researching the topic and creating this proposal over the past year. A representative from Students Against War, Kylie Vanerstrom, a sophomore majoring in political science, described the devastating impact of the unexploded cluster
munitions on the civilian population, including children attracted to the brightly colored bomblets, as well as the impact of depleted uranium, which aerosols on impact and contaminates the groundwater, causing cancer in veterans. Ms. Vanerstrom, on behalf of Students Against War, recommended the University adopt the divestment resolution. Mr. Cioffi asked why choose divestment instead of proxy voting. Mr. Snow explained that divestment from the companies that are involved in the process of manufacturing of cluster munitions would have a greater impact than a proxy vote. Divestment is a more symbolic statement since UVM does not have a lot of stock in the target companies. Additionally, UVM would be the first University to divest from the target companies, and the group believes that divesting would send a message to other institutions to adopt resolutions and follow suit. Discussion ensued on how to correctly identify the offending companies. Questions arose about who would be responsible for researching and identifying the offending companies and to what degree a firm is involved. Mr. Snow explained that the Belgian bank KBC has a list of companies involved in manufacturing and/or distributing cluster munitions that they will share, and that the Work Group, which included Mr. Cate, determined that only a couple of companies are currently involved with depleted uranium. The Work Group recommended that UVM use the Ethical Investment Research Service (EIRIS), and/or a similar organization with the requisite experience, as a cost-effective resource for UVM administration to use to identify applicable companies from whom to divest. Upon further discussion, Mr. Snow recommends that a policy be developed for principles of divestment. Once a policy and process is developed, a resolution can be passed. The Subcommittee agreed that the Board would be required to take action on the policy. Mr. Cioffi proposed that the Subcommittee reconvene by phone so that Mr. Bain could participate in the discussion and the vote, if so moved. If approved, the Subcommittee plans to present the proposal on the policy of divestment at the May 15 BFI meeting.

Mr. Cioffi also request obtaining the list from Belgian bank. Mr. Snow commented that any action taken must be in the context of our fiduciary obligation to the endowment. Mr. Brantley noted that Cambridge Associates has two Socially Responsible Investment clients with whom the managers exercise certain divestment policies.

Other Business

Mr. Snow made a motion to renew the divestment resolution for Divestment from Sudan. The Subcommittee voted unanimously to renew the resolution.

Adjournment

There being no further business, the meeting was adjourned at 11:05 a.m.

Respectfully submitted,

Robert Cioffi, Chair