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 Thursday, December 17, 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*, Co-Vice Chair Samuel Bain* and John Snow*

PERSONS ALSO PARTICIPATING: Vice President for Finance and Administration and Treasurer, Richard Cate; Controller, Claire Burlingham; Assistant Controller for Tax and Treasury Services, Kathy Snell; LaRoy Brantley* and David DeVaughn* of Cambridge Associates

*By means of conference telephone.

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

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the November 18, 2009 and December 2, 2009 meetings.

Flash Report for November 30, 2009

Mr. Cioffi opened the meeting and directed the members to the Flash Report for the month ending November 30, 2009. Mr. Brantley reviewed the Flash Report and began by stating that Cambridge Associates are not recommending any active rebalancing at this time and noted all assets are well within the allowable range. He stated that US Equity is slightly overweight and Private Equity is slightly underweight, and that the rebalancing will be reviewed at the January 2010 meeting. Mr. Brantley then discussed the performance of the portfolio and mentioned that all of the marketable active managers calendar-year-to-date (CYTD) 2009 through November have added value over their respective benchmarks and have had great absolute return performance numbers, as well. He noted that Eaton Vance, especially, had done well due to overweight to energy and materials and avoidance of healthcare, while DSM has not fared particularly well due to some overweight to and stock selection in the healthcare sector (particularly during the first two quarters of this year). He also noted that DSM has doubled in size since the end of last year from $1.2 billion to $2.4 billion in assets due to both organic growth and sizable inflows of new assets. Mr. Brantley explained Iridian’s FYTD lag due to a loss of over 5% for the month of October, but that the manager has still performed 280 basis points higher than the S& P 500 index on a CYTD basis. He noted that overall, the portfolio has performed very well and the benefit is due to the diversification of asset classes and notable exposure to the “risk asset classes” (e.g., emerging markets and natural resources). Mr. Brantley
also stated that the emerging market sector has performed especially well between March and December 2009 which has aided our relative performance rating in relation to our peers. Mr. Cioffi inquired about the comparison to our peers and Mr. Brantley reported (on a very preliminary basis) that UVM’s 20.3% CYTD return places it 360 basis points ahead of the median return for institutions receiving a November performance report from Cambridge and UVM’s 12.2% FYTD places the school 140 basis points ahead of that median.

**Update on Portfolio Rebalancing**

Mr. Cioffi noted that the Executive Summary provides the updated information very well. Mr. Snow requested that since the Portfolio Rebalancing reflects cumulative information, it would be helpful for the most recent information be highlighted in some manner for ease in reading the updates. Mr. Cioffi reminded the members that the Prime Property redemption is still waiting to be released and the Barlow redemption request has been submitted and funds will be released at the end of January.

**Approval of draft revised Cash Management Policy (formerly known as Statement of Objectives and Policies Related to Cash Balances)**

Mr. Cate reviewed attachment 3 of the meeting materials noting the name change from Statement of Objectives & Policies related to Cash Balances to “Cash Management Policy” to reflect the policy’s purpose. He noted another change being proposed is the term period for the Intermediate and Long Term Pool from 3 years to 6 years, and over 6 years, respectively, and that there are no major content changes in the document. Mr. Cate explained the reason for extending the terms was to allow laddering of bonds and to allow more flexibility in investing. He also mentioned that he is looking for additional protection in the bank ratings.

Discussion ensued regarding the purpose of the policy and who is responsible for its execution. Ms. Hudson-Wilson requested confirmation that the purpose of the policy is to ensure that cash is being invested conservatively. Mr. Cate responded that it is the correct purpose, but that such objective was not being followed when the funds were being invested with Commonfund’s Absolute Return and Multi-Strategy bond fund products. He stated that, going forward, we want to adhere more closely to the policy. Mr. Snow commented that, historically, cash management has been the responsibility of the Treasurer and the role of the Investment Subcommittee has been that of a consultant. He explained that the Subcommittee does not take an active role in the managing cash and emphasized the need to establish the roles. Mr. Bain and Mr. Snow stated their concern about restricting investment in structured products, and it was agreed that such a restriction would be incorporated. Mr. Bain suggested revising the document to state that the Investment Subcommittee should review the policy on an annual basis. Mr. Cate responded that he would add an annual policy review within the “Administration and Reporting” section, and adjust the frequency of the reporting of holdings to an annual basis. Ms. Hudson-Wilson moved to accept the changes, Mr. Bain seconded the motion and the Subcommittee unanimously approved the Cash Management Policy, as presented and amended with additional revisions as highlighted (see document appended to the minutes). The Cash Management Policy will be recommended to the Budget, Finance and Investment Committee in February for Board approval.
Approval of Resolution for Reclassification of Whittlesly Property

Mr. Cate directed the Subcommittee members to the ‘Resolution Recommending Reclassification of Investment’ and proceeded to explain the reasoning behind the resolution. He explained that the land was originally purchased with quasi endowment cash as an investment and is currently being used as farmland by UVM. Ms. Schuster explained that, historically, when the University had a surplus of operating funds, the University would invest the funds as if it were an endowment, which classifies it as a quasi endowment. In this case, the general fund money was invested by purchasing the land for $305,000. Discussion ensued regarding the fiduciary responsibility on quasi endowments and whether or not they could be deposited and withdrawn from the endowment or if they need to remain in the endowment. Mr. Cate explained that the reason for the reclassification on this particular endowment is to avoid the cost of regular appraisals of the land and that the legal counsel has reviewed the resolution. Ms. Hudson-Wilson expressed concern about removing an appreciated asset from the endowment. Mr. Snow made a request to obtain an opinion from counsel office to understand the circumstances when distributing assets of the endowment. Mr. Cate responded that he would seek the advice of the legal counsel and report back to the Subcommittee in January.

Fixed Income with No Securities Lending

Mr. Brantley directed the members to the discussion materials provided by Cambridge Associates and noted the Fixed Income managers search results. He mentioned the three options available are Northern Trust, Vanguard and SSgA. He noted that the Northern Trust Aggregate Bond Index fund free of securities lending has only been available since February 2009 and that Cambridge Associates does not actively follow this product. He further noted that Vanguard Total Bond Market Index Fund has the option of securities lending, but has not practiced securities lending in the product and does not have plans to do so. SSgA’s U.S. Aggregate Bond Index Strategy fund is a securities lending free product. Ms. Hudson-Wilson reiterated that to place funds with SSgA would be to reward their behavior in regard to the Passive Bond Index Fund; their securities lending practices in that instance have caused the investment to have limited liquidity. Mr. Bain asked if Vanguard would provide notice if they choose to do securities lending. Mr. Brantley responded that Vanguard should give ample notice to Cambridge’s research team. Mr. Snow recused himself from voting due to his association with State Street, but stated that he believes it is stronger to have the prohibition of securities lending than for a firm to say that it generally does not do it. Ms. Hudson-Wilson prefers to choose a manager that Cambridge Associates monitors, but would not choose SSgA. Mr. Bain commented that he would choose Vanguard. Mr. Cioffi noted that the Subcommittee has 3 votes to invest with Vanguard Total Bond Market Index Fund. It was noted that the SSgA Passive Bond Index fund redemptions would transition to Vanguard, and that the initial investment in Vanguard would come from any accumulated liquidity in the Passive Bond Index fund.

Review of Forester Partners Meeting & Hedged Equity Fund of Fund Search

Mr. Cioffi stated that he and Mr. Bain met with Forester Capital on December 2, 2009 to interview them as a potential replacement for Barlow. He noted that the full redemption request has been submitted to Barlow and that the deadline for withdrawal of the request occurs in the
next few days. Mr. Bain commented that he was impressed with Forester’s strong due diligence and especially liked that they were growing organically instead of thru acquisitions. Ms. Hudson-Wilson inquired whether it would be beneficial to take half of the funds from Barlow and invest with Forester, mentioning that Barlow has performed well in 2009. Mr. Cioffi stated his concern for the occurrence of manager proliferation with multiple fund of funds managers in the hedged equity program. Mr. Brantley lauded Barlow’s strong performance in 2009, but also reminded the group of the liquidity issue with Barlow in that redemptions are only offered on an annual basis and that the rebalancing/redemption decision could only be made once a year. Mr. Bain responded that all the Barlow funds should be moved to Forester because the intent is to not have the two managers. Mr. Snow and Mr. Cioffi both agreed that it needs to be an all or nothing transaction. Mr. Brantley reminded the group that Barlow will not be able to return the funds until January 31, 2010. The members voted unanimously to redeem the funds from Barlow and invest with Forester Partners, with document review to be performed in the meantime.

**Revised Investment Policy (Statement of Investment Objectives and Policies)**

The Subcommittee discussed several language revisions in the draft document appearing in tab three of the Cambridge materials. Ms. Hudson-Wilson and Mr. Bain expressed concern on the wording of ‘delegate certain “responsibilities”’ in section III. Mr. Hudson-Wilson requested a change in language under section V to indicate that Investment managers may be “requested” rather than “asked” to address various company or sector weights. Discussion ensued of the importance of managing expectations in regard to the Socially Responsible Investing Work Group. Ms. Hudson also noted section XI needs clarification on the proxy voting in order to differentiate between managers where we vote the proxies directly versus co-mingled funds where the manager votes the proxies. Mr. Cioffi noted that overall the document is good, and then recommended that the members e-mail their comments directly to Cambridge Associates and they will revise and re-circulate the document for review at a future meeting.

**Manager Watch List Draft**

Mr. Brantley directed the members to the draft provided by Cambridge Associates. Ms. Hudson-Wilson expressed her concern regarding the benchmark comparison and reminded the group that the watch list is public information. Mr. Brantley responded that some of their clients’ watch list is set up so that a manager needs to underperform both its individually prescribed benchmark and its specific peer group. Mr. Snow stated that some subjectivity exists in placing a manager on a watch list. He recommends setting the bands more broadly so that managers do not appear on the watch list solely due to volatility. Mr. Bain commented that managers could be placed on the watch list due to morality or transparency issues as well as volatility issues. Mr. Snow recommended that a process be developed for review by Subcommittee prior to placing a manager on the watch list. The members agreed to place this item on the January agenda for further discussion.
TIPS Discussion

Mr. Brantley noted that since the Subcommittee’s last discussion on TIPS, the asset class has become rated as overvalued by Cambridge and is not currently being recommended as a source of rebalancing the real assets group to its 12.5% portfolio target. He also recommended discussing the strategic allocation of TIPS in the January meeting.

Other Business

Mr. Snow asked if new members have been considered for replacing those who will be or may be leaving the Subcommittee after the next board meeting. He then recommended inviting the prospective new Subcommittee members to the Boston meeting in January to provide them with a good foundation and orientation. Mr. Cioffi agreed with the recommendation and will extend the invitation to the respective persons.

Adjournment

There being no further business, the meeting was adjourned at 10:04 a.m.

Respectfully submitted,

Robert Cioffi, Chair
THE UNIVERSITY OF VERMONT
STATEMENT OF OBJECTIVES & POLICIES RELATED TO CASH BALANCES
CASH MANAGEMENT POLICY

Introduction

This Statement of Investment Objectives and Policies Cash Management Policy governs the investment of UVM pooled cash. The pooled cash includes all funds of the University other than the funds that are held in the University endowment and certain plant, restricted and loan reserves, for which separate investment guidelines have been established. This statement will be subject to periodic review and possible modification by the Budget, Finance and Investment Committee as necessary to achieve cash management and investment requirements.

Investment Objectives

University pooled cash for purposes of investment allocation shall be divided into three asset groups as follows:

- **Short-term pool:** Cash that is expected to be needed for normal operating expenditures within a one-year period. The primary objective is preservation of principal and liquidity. Maximization of investment income without undue exposure to risk is a secondary objective.

- **Intermediate-term pool:** Cash that is expected to be needed within a period of one year to three-six years. The primary objectives are preservation of principal and maximization of investment income without undue exposure to risk.

- **Long-term pool:** Cash that is not expected to be needed for operational purposes for a period exceeding three-six years and/or that may be designated as a permanent core. The primary investment objective is to achieve consistent long-term growth of the pool with limited exposure to risk.

Allocation Guidelines

- **Short-term pool:** The average weighted maturity for a short-term portfolio shall be between one day and one year.

- **Intermediate-term pool:** The average weighted maturity for intermediate-term portfolio shall be between one year and three-six years.

- **Long-term pool:** Permanent core cash may be invested in any investment that is allowable under the University’s Statement of Objectives and Policies.
Policies for the Endowment Fund and that meets the overall objective of achieving consistent long-term growth of the pool with limited exposure to risk.

Performance Objectives

Short-term pool: The benchmark for the short-term portfolio shall be total return that meets or exceeds the yield of three-month U. S Treasury securities.

Intermediate-term pool: The benchmark for intermediate-term portfolio shall be total return that meets or exceeds the Merrill Lynch 1-3 Year Government Bond Index Barclays Capital U.S. Treasury Index (3-5 Year).

Long-term pool: The benchmark for the investment of the long term pool shall correspond to the benchmarks for each asset class as specified in the University’s Statement of Objectives and Policies for the Long Term Investment Pool, including the Endowment Fund.

Allowable Investments for Asset Groups

Short-term pool: Investments in the short-term portfolio are restricted to U. S. Treasury and government agency securities and high quality corporate securities and commercial and bank paper. Investments in the short-term pool may not include structured products. Investments shall be in marketable securities of the following types and with the noted credit ratings:

1. Debt securities which are rated Aaa, Aa, A or Baa by Moody’s Investor’s Service, Inc. or AAA, AA, A or BBB by Standard & Poor’s Corporation.

2. Obligations of, or guaranteed by, the United States of America, its agencies or instrumentalities.

3. Obligations of, or guaranteed by, national or state banks or bank holding companies, which obligations are rated C-B or better for Vermont banks and B/C or better for out of state banks. No more than 20% of the funds held in the cash pool shall be invested in obligations of the institutions within any single holding company.

4. Commercial paper rated A-1 or higher by Standard and Poor’s or Prime-1 (P1) by Moody’s Investor’s Service, Inc.
5. Bankers’ acceptances or negotiable certificates of deposit issued by banks, which obligations are rated C-B or better for Vermont banks and B/C or better for out of state banks. No more than 20% of the funds held in the cash pool shall be invested in certificates of deposit, bankers’ acceptances or floating rate notes of the institutions within any single holding company.

6. Repurchase agreements of banks having Fitch ratings no lower than B secured by the U.S. government and federal agency obligations, which shall have with market values of at least 100% of the amount of the repurchase agreement.

6. Repurchase agreements of Vermont based banks having Fitch ratings no lower than C/D with the condition that these repurchase agreements be 102% collateralized with U.S. government Securities.

7. Commingled funds may be used if they are in compliance with the above guidelines.

8. The Commonfund, a non-profit provider of investment products for colleges and universities. No dollar limitations are placed on the amount which can be invested with the Common Fund.

Intermediate-term pool: Investments in the intermediate-term portfolio are restricted to securities which are rated Aaa, Aa, A or Baa by Moody’s Investor’s Service, Inc. or AAA, AA A or BBB by Standard & Poor’s Corporation. Investments in the intermediate-term pool may not include structured products.

Long-term pool: Investment of the long term pool shall be restricted to those that are allowable under the University’s Statement of Objectives and Policies for the Endowment Fund and that meet the overall objective of achieving consistent long-term growth of the pool with limited exposure to risk. Investments in the long-term pool may not include structured products. The long-term pool shall not exceed 10% of the lowest average operating balance within the past 3 years.

Moral, Ethical and Social Considerations

Cash balances will be invested consistently with the moral, social and ethical criteria adopted by the Board of Trustees on recommendation of its Budget, Finance and Investment Committee as
related to the Long Term Investment Pool, including the Endowment Fund. Socially Responsible Investing shall include, where advisable and consistent with investment quality, return, and safety guidelines, the use of community and State institutions for investment purposes. Where returns are reasonably equal (within 10 basis points), preferences will be given to Vermont-based financial institutions.

**Investment Management Responsibility and Structure**

Cash management and investment responsibility resides with the Vice President for Finance and Administration and Treasurer through the Associate Vice President for Finance and Controller.

1. Investments may be made internally using allowable instruments and institutions; or

2. Investment managers may be engaged to invest University assets consistent with this Policy. Subject to this Policy and a written agreement between the University and the investment manager, the investment manager is will be given provided discretion to select individual securities and to make adjustments to the structure of the portfolio.

**Administration and Reporting**

The Treasurer will report to the Budget, Finance and Investment Committee at each meeting annually, the following:

1. Balances in each asset group;

2. Investments in each asset group by manager and investment type or fund; and

3. Performance of each manager or for each individual investment type within each asset group.

As delegated by the Board of Trustees through its resolutions, specified University officials, including the Treasurer, are authorized to open accounts. The Treasurer has the authority to open accounts with banks, investment firms, or commercial paper institutions, and/or to execute purchases and sales, in order to implement this investment policy.

This Cash Management Policy will be subject to annual review by the Investment Subcommittee.

*Adopted by the Board of Trustees, October 15, 1993*
*Revised by the Board of Trustees October 12, 2002*
*Revised by the Board of Trustees August 27, 2005*
*Revised by the Board of Trustees November 11, 2006*
*Revised by the Board of Trustees (date), 2010*