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, February 18, 2009 at 8:30 in the President’s Conference Room, 351 Waterman Building, Burlington, VT.

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

MEMBERS ABSENT: None

PERSONS ALSO PARTICIPATING: Richard Cate, Interim Vice President for Finance and Administration and Interim Treasurer, Kathy Snell, Assistant Controller for Tax and Treasury Services, Bets Kent* and David DeVaughn* of Cambridge Associates, and Donald Pascal* and Kathleen Walsh* of Commonfund.

*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 December 17, 2008 and January 27, 2009 meetings.


Ms. Kent facilitated the review of the investment portfolio in the Flash report for the month ending January 31, 2009. She noted that the new targets set by the Subcommittee in January will be incorporated in February; to change the acceptable range requires approval of BFI. With the exception of Cash whose new target is at one end of the existing range, the target for all other asset categories falls within the existing ranges. Mr. Cioffi suggested that the cash range be left as is.

Ms. Kent noted that the Private Equity section of the January report reflects valuations as of September 30, 2008; calendar year-end valuations will likely be available in May. The US equities were down less than the market for January, at (5.4%) vs. (8.4%) for Standard & Poors 500. Iridian and Eaton Vance in particular outperformed the market. Global ex US Equity managers underperformed at (9%) vs. Index at (8.8%).

Overall, the Hedged Equity managers made good decisions with the assets. Although, the market suffered, the equities had a significant turnaround with less exposure. Specifically, Tremblant, HBK and Barlow performed well, while Fir Tree suffered from positions in the
financial services sector in its capital structure arbitrage book. Varde & OZ are rich in cash due to shifting the portfolio to a more credit driven strategy. Commodities & Energy did not suffer as much as the broad market.

Overall the portfolio suffered a (2.7%) downturn vs. the overall market per the target benchmark of (4.5%).

**Review of Existing Non-Marketable Investments**

Donald Pascal, Managing Director of Commonfund Capital, and Kathleen Walsh, Commonfund Relationship Manager joined the call. Ms. Walsh noted that the Short Term Fund has a liquidity of 77% and that Commonfund is working hard to get liquidity for its investors. Mr. Pascal commented on the overall organization of Commonfund. He noted that Commonfund is committed to providing a rock solid team. The company has not layed off employees, but rather focuses on keeping the investment team together. A solid team ensures due diligence and thus provides for better oversight of the investment portfolios. Ms. Hudson-Wilson asked Mr. Pascal if the cost of fund reviews has increased. Mr. Pascal responded that overall for the industry the cost has risen, but Commonfund has increased staff to assist with the due diligence in managing the investments. Mr. Bain asks how the need for increasing capital is being met. Mr. Pascal responded that some firms are coming back to market sooner and the firms will reallocate capital to perceived winners.

When asked, Mr. Pascal compared his feel for pricing for sidecar fund to secondary partnership (fresh $ in the door), by stating that in 2008 there were massive spreads between the bid and ask price; the outlook for 2009 is that if there is a need to sell, sellers no longer have the luxury of refusing to sell. It is very challenging for managers to obtain an excellent return when converting uncalled capital.

Mr. Pascal commented on the 1996-2006 vintage funds, and the 2005/2007 diversified suite, stating that the University has created a diversified balanced portfolio including both global private equities and global venture capital.

Discussion ensued about the plausibility of managers accelerating their capital calls; Mr. Pascal indicated that he did not expect that to be the case. However, in an “all equity deal”, it takes as much capital as two deals in the past. He noted the “dry powder” buying opportunity. Mr. Bain noted that it is fortunate that we have powder that is dry and not much in the program right now.

Mr. Pascal had called managers to see where their fourth quarter valuations were coming in, noting it was a brutal economy; mark downs could be in the range of (10-20)% for Venture Capital, or (18-28)% for Private Equity or buyouts. He expects we might see Q1/Q2 operating income adjustments take these valuations down further. Mr. Pascal described that managers are spending more time now than ever before on valuations. Mr. Snow asked if the current environment will destabilize managers whose assets are underwater. Mr. Pascal noted that some managers are reducing fees in order to bring a .9% return up to 1.0% return.
After Commonfund representatives exited the call, Subcommittee members expressed the sentiment that the pace of capital calls will likely be accelerated. Mr. Snow further commented that the portfolio is in great shape with diversification, quality managers, some distributions from prior funds, and a lot of dry powder. He stated we need to be prepared that in the near term it will look bad as returns will be poor. Ms. Kent asked the Subcommittee if the possibility of new Commonfund commitments needs to be reviewed and revised. Mr. Cioffi suggested that Cambridge keep a careful eye on the capital calls and that the Subcommittee will wait until closer to the final close date before committing further.

**Marketable Real Assets**

Ms. Kent led the Subcommittee through the prepared analysis of Real Assets, which approximate 10% of the portfolio. Energy exposure represents 10.9% of the US equities, and 8.4% of Total Equity in Long Term pool, which accounts for approximately 77% of total endowment assets. In summary, the total pool has approximately 6.5% Energy exposure, a good footprint considering the University has not specifically invested with an Energy manager.

Real Estate accounts for 4.4% of all assets, and Wellington Diversified Inflation Hedges currently accounts for 2.3% currently, though a full redemption order has been submitted. TIPS currently account for 3.1% of portfolio assets. Discussion ensued surrounding the various instruments of the portfolio. Ms Hudson-Wilson said she would like to see half of the TIPS accounted for as part of the bond portfolio. Mr. Snow noted that Vanguard TIPS product is not strictly a passive TIPS product; Vanguard can group up to 20% in non-TIP securities, though what is being held is fine. Ms. Kent will relook at the asset class. Subcommittee members confirmed they would still like to keep the same $6.2 million commitment with Gresham even though the overall pool has shrunk.

The Subcommittee was directed to the information comments in the report regarding HarbourVest/Dover Street based on recent contact with the management team.

**Portfolio Rebalancing**

Chair Cioffi reviewed the Portfolio Rebalancing redemptions and subscriptions in process as set forth in the Executive Summary. Mr. Cate offered to send to Mr. Cioffi the summaries prepared by Orrick Herrington and Sutcliffe, LLP regarding the subscription documents for Acadian Emerging Markets Equity Fund and Gresham’s TAP Fund. As long as Mr. Cioffi does not identify any deal breakers, Subcommittee members expressed their desire for the University to move ahead with the initial subscriptions for each manager.

Bond Fund redemptions are on track for $1 million per month thru June 30, 2009. The committee discussed the receipt of a request from Morgan Stanley (with whom the University has submitted a full redemption request from the Prime Properties Fund as of March 31, 2009) to provide consent to release University contact information and redemption amount(s) to interested secondary market investors. Mr. Cate signed the consent form, and agreed to forward details of any contact from secondary market investors to the Subcommittee.
Uniform Prudent Management of Institutional Funds Act (UPMIFA)

To begin the meeting, Mr. Cate presented an update on the underwater endowment (UPMIFA) legislation, indicating that Trustee Botzow has reported that the legislative language has been drafted, but the bill has not been introduced to the state legislature. Mr. Botzow believes that the bill will pass without objection, once it has been introduced to the legislature. Mr. Cate envisions that an ISC representative will assist in presenting testimony before the applicable legislative committee.

Other Business

Mr. Cate commented on the status of the liquidation of the Commonfund Absolute Return Fund. As communicated to participants recently, the Fund is proceeding with the 45% distribution (based on 3/31/2009 NAV) in April, 10% in May, and 10% in July, with final distribution to follow as liquidity permits. The funds are being transferred to the University’s depository account at TD Bank, N.A. and will be reinvested by the University once an appropriate vehicle is identified.

Trustee Snow updated the Subcommittee about a resolution adopted by the Socially Responsible Investing Work Group (SRIWG) to divest from companies that manufacture and distribute cluster bombs and other weapons prohibited by the Geneva Convention. Mr. Snow highlighted the difficulty of defining “distributors,” noting it will take a considerable amount of work to determine the breadth of the net of companies involved in the offense. For example, General Dynamics, a holding of Iridian, is a potential distributor because it manufactures missiles whose only mission is to carry cluster bombs. Mr. Snow indicated that a special meeting may need to be scheduled to review the resolution, and the work of the SRIWG.

Adjournment

There being no further business, the meeting was adjourned at 10:15 a.m.

Respectfully submitted,

Robert Cioffi, Chair