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 and State Agricultural College was held on Thursday, June 18, 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 Samuel Bain*, Co-Vice Chair Susan Hudson-Wilson* and John Snow*

MEMBERS ABSENT: None

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, Bets Kent* and LaRoy Brantley* of Cambridge Associates, Patricia Karolyi* and Andrew Miller* of Mondrian, and Sue Mullin* and Nick Robinson* of Aberdeen

*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 May 20, 2009 meeting.

Flash Report for May 31, 2009

Mr. Brantley facilitated the review of the investment portfolio in the Flash report for the month ending May 31, 2009. The Subcommittee members expressed their pleasure that overall relative performance for the month was good and overall the markets are up. Mr. Brantley noted that UVM finished 220 basis points ahead of the median calendar year-to-date return for endowments advised by Cambridge. As outliers in terms of individual manager performance, he noted that long/short hedge fund manager Tremblant beat its benchmark (T-Bill + 6%) by more than 2100 basis points, and that large-cap growth manager DSM lagged its hurdle (Russell 1000® Growth) by more than 600 basis points. DSM has been hurt by its relative overweight to and poor stock selection in the healthcare sector. Ms. Kent commented that the lower quality stocks have been driving the market increase. She noted that DSM has lagged recently due to the investments in higher quality instruments.

Benchmark Review

The Subcommittee members deferred the Benchmark Informational Summary discussion to the September meeting when they will be meeting in person.
Portfolio Rebalancing

Mr. Cioffi led the discussion beginning with a review of cash flow. It was noted that the projected cash flow need for the Endowment Pool at the end of August would be $4 million. Mr. Cioffi noted that the MS Prime Properties withdrawal is still pending. The funds from MS Prime Property would not be released in time to cover the negative cash projection. Mr. Brantley suggested that the $4 million shortfall could be covered by the difference between the upcoming Rexiter redemption (approximately $14 million) and reinvestment of the $10 million into a new emerging markets manager. Mr. Cioffi agreed with the suggestion. He also noted that the portfolio continues to be underweighted in US Equity while the Global ex U.S. equity is overweight. He also commented that the 4% over-weight on bonds is above target by more than typical, but the balance is still within the acceptable range. Mr. Snow noted that the bonds are being redeemed from State Street under a restrictive schedule. Mr. Cioffi commented that while the weighting of the portfolio is being adjusted, the current level is at a comfortable position. Ms. Kent stated that hedge fund manager Davidson Kempner Partners has a quarterly redemption, and that would be a manager/asset class available for reduction. Mr. Cioffi noted that Davidson Kempner is the outlier in the hedge fund section of the portfolio. Ms. Kent suggested adopting a policy to restrict any non-fund of funds hedge fund managers to 3% of the overall portfolio. Mr. Cioffi commented that if the 3% manager rule was in effect, then we would withdraw funds from Davidson Kempner. Mr. Snow said he liked the 3% idea. The Subcommittee agreed to withdraw funds from Davidson Kempner to reduce the funds to the 3%. Mr. Cioffi further noted the 60-day notice required for redemption and he suggested calculating the amount available to request. Mr. Snow recommended using the June 30th numbers and to set up a schedule to review the asset class and manager type. Mr. Cioffi requested that the review of individual managers and the 3% policy discussion be placed on the September agenda. The Subcommittee agreed to continue the funding of RhumbLine through the monthly SSgA Passive Bond Fund redemption. The Subcommittee unanimously agreed to exchange Tranche A shares from Oz Overseas, Ltd. for Tranche P of the Oz Overseas Fund II, Ltd. account.

Emerging Markets

Mr. Brantley directed the Subcommittee to the Cambridge Associates memo dated June 12, 2009 as part of the discussion materials prepared by Cambridge Associates. In terms of differences between the two prospective emerging markets managers, he pointed out that Mondrian Investment Partners is 60% employee owned, whereas Aberdeen Asset Management is a publicly traded company. He also noted that Aberdeen’s emerging markets product under consideration is nine years older than Mondrian’s focused product. Larger firm Aberdeen has $130 billion under management as compared to $43 billion with Mondrian, and the former’s product ($7.2 billion) has almost 20 times more the assets under management than the latter ($378 million).

Mr. Brantley introduced Patty Karolyi and Andrew Miller from Mondrian who presented the portfolio. They emphasized the strength of the Mondrian staff model and noted that each manager has a responsibility for a country rather than a sector of the funds. Mr. Miller further noted the close communication that managers maintain with each other due to the fact the office is located on one floor. He then explained the Mondrian philosophy and methodology. Mr. Miller explained that Mondrian uses a dividend discount model for analyzing a potential investment.
He explained the dividend discount approach helps to measure efficiency and value of a company. The Mondrian focus is to provide a rate of return greater than the client’s domestic rate of inflation. Mr. Miller described the in depth research they perform on a prospective company emphasizing the company visits. He explained that Mondrian’s performance is less volatile than some of their competitors. He also emphasized the achievement of a good rate of return with lower risks, which may cause them to lag slightly in an up market. Mondrian is both top down and bottom up, but spend about 60% from bottom up. They look for a minimum market cap of approximately $3.5 billion. The portfolio consists of 35-40 stocks at any one time and they do not hold stocks that they believe are expensive. He also noted that they do not hold more than 5% in any one company. Mondrian does not hesitate to exit a country that does not look attractive. Mr. Miller concluded by stating Mondrian is driven by valuation on GDP.

Ms. Hudson-Wilson asked Mr. Miller to explain the exposure to India. Mr. Miller responded that they struggle to find value in India. Ms. Hudson-Wilson then inquired about how Mondrian gauges sector exposure. Mr. Miller explained that Mondrian monitors sectors. He said they understand sector dynamics and usually cap any one sector at 20 – 25%. Once the Mondrian representatives left the call, Mr. Snow directed his inquiry to Cambridge Associates and asked how Mondrian correlates to Acadian. Mr. Brantley responded that they are 95% correlated. Ms. Kent noted that she would not necessarily classify Acadian as a value portfolio, but that Mondrian certainly is. Mr. Brantley noted that Aberdeen and Mondrian are not invested in the smaller companies as Acadian is, a difference in investment styles.

Mr. Brantley then introduced Sue Mullin and Nick Robinson from Aberdeen Asset Management. Ms. Mullin stated that Aberdeen is a publicly traded company with $143 billion under management with $10 billion in the emerging market sector. The management team’s principal locations are in London and Singapore. The staff members are assigned countries and sectors to monitor, and all members on the team have a general knowledge and cross-cover markets. Ms. Mullin emphasized the longevity of the team members who have a great amount of experience. No one person on the team owns a certain part of the portfolio. Aberdeen is known for training new graduates in the Aberdeen way and retaining them, rather than hiring managers who come from other firms. (Mr. Bain joined the meeting at 9:40 a.m.) Next, Mr. Robinson described the fundamental processes for researching and investing in companies. He described the three-step process for evaluating a company. He explained that Aberdeen looks at share prices. They meet with the prospective companies and review the financial statements, debt loads, and transparencies to measure the quality of a company. He noted that the management of a company must be committed to shareholder value. They steer away from dividend discount models. Mr. Robinson further explained that Aberdeen believes share prices reflect the underlying business fundamentals. Aberdeen is committed to long-term investments and invests 100% bottom up. Ms. Mullin summarized the presentation by stating that Aberdeen never invests in a company without meeting with management at least once. She further emphasized the strength of the experience of the management team at Aberdeen with little turnover. Ms. Mullin concluded by stating that their risk is very low when compared to the competition.

Ms. Hudson-Wilson asked Aberdeen about their opinion on inflation in the near future. Mr. Robinson responded that inflation has pretty much come full circle and that it may be too early to worry about inflation. He further noted that it has dropped lately and hence is very good for emerging markets. He also mentioned that the downward interest rates have been very good for the companies in their portfolio because the interest rates have benefited the consumers of the
companies that they are invested in. Mr. Robinson then commented that Aberdeen holds the companies through the inflation cycle so even if inflation goes back up, they would probably not have major company turnover. He noted they have 46 companies in their portfolio and that it changes very slowly. Aberdeen is committed to holding a company for the long term, but if they need funds, they could liquidate approximately 95% of the portfolio fairly quickly.

Following the presentations, discussion ensued on the decision of which firm to choose for investing the funds from Rexiter. Ms. Hudson-Wilson commented that she is not impressed with Aberdeen and prefers Mondrian, but that she would agree to go with Aberdeen if that is the decision by the other members of the Subcommittee. She further noted that Mondrian and Aberdeen are almost opposite in country and sector. She mentioned her concern that Aberdeen is missing some analysis in currency.

Mr. Snow commented that Aberdeen is a more interesting firm than was presented, and that the presentation did not come across well. He stated his concerns about the dividend discount model that Mondrian uses. He also stated that we are looking for return capture and he is not sure that Mondrian could capture enough of the upmarket returns. Mr. Snow noted that it is difficult for a stock to get onto Aberdeen’s list and difficult to get off the list. He mentioned his apprehension in having another quantitatively-oriented manager (dividend discounting) like Mondrian as one of the two emerging market managers. He stated that he would be comfortable as having Mondrian as one of three managers, so he is inclined to edge toward Aberdeen as a complement to Acadian. Mr. Bain mentioned his inclination towards Aberdeen. He said he is impressed that Aberdeen seems to have protected on the downswings. Mr. Cioffi noted his favor for Aberdeen. Members were in agreement to re-look at Mondrian at the end of 12/31/09.

Mr. Bain expressed his concern about the allocations not being near target and mentioned the emerging market exposure from UVM’s developed markets managers, Templeton and Capital Guardian. Mr. Snow responded they will review Templeton and Capital Guardian’s involvement in the emerging market sector during the September meeting when asset allocation will be reviewed. He further commented that he thinks the largest drag on the endowment’s exposure over the years has been the lack of emerging market exposure. Mr. Cioffi noted that funds should not be held back from Aberdeen while waiting for the allocation analysis from Templeton. Mr. Snow commented that funds could be pulled back from Acadian or Aberdeen at a later date. Mr. Cioffi asked for a motion.

A motion was made, seconded and voted to hire Aberdeen with a $10 million subscription using the Rexiter redemption.

Other Business

The subcommittee unanimously approved the Divestment Implementation Process presented by Mr. Snow on behalf of the Socially Responsible Work Group.

Mr. Cioffi commented that he would consult with Cambridge Associates in preparing the agenda for the September 10th meeting in NY City.

Other meeting dates noted: July 22, 2009 at 9:30 a.m., August 19th 2009 (tentative) at 8:30 a.m.
Adjournment

There being no further business, the meeting was adjourned at 10:50 a.m.

Respectfully submitted,

Robert Cioffi, Chair