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, March 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: Vice President for Finance and Administration and Treasurer, Richard Cate*, Assistant Controller for Tax and Treasury Services, Kathy Snell, and Associate Vice President for Budget and Resource Management, Ted Winfield.

*By means of conference telephone.

Chair Robert Cioffi called the meeting to order at 8:33 a.m.

Approval of Minutes

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

Uniform Prudent Management of Institutional Funds Act (UPMIFA)

Mr. Cate is scheduled to testify today on UPMIFA in front of the Economic Development legislative committee. Mr. Cate reviewed the draft of the Underwater Endowment Protocol to be presented to the Budget, Finance & Investment Committee in April, and to the Full Board in May. Under the draft protocol, absent the adoption of UPMIFA as Vermont law, an annual review of historical dollar values and market values as of December 31 will be performed to identify true underwater endowments. If an endowment is underwater, the distribution will continue through June 30, however, distributions will be suspended as of July 1 until the endowment value comes above water. The draft alternative protocol, applicable under UPMIFA, allows for greater latitude in managing the overall endowment values, without specifically isolating individual endowments. Mr. Bain asked if a distribution could bring a new endowment underwater. Mr. Cate responded that it could occur if the distribution is greater than the growth of the endowment during the time period. Mr. Snow commented about the fiduciary standard of the endowment pool in regard to the intent of the donor; considerations include whether the donor’s intent may be served best by continuing the distribution without impairing the long term objective. The protocol under UPMIFA changes the focus from preservation of the gift, to preservation of the intent of the donor. Ms. Hudson-Wilson inquired whether an endowment could be spent down to zero under the UPMIFA. The law contains a presumption of prudence for managing the funds and distributions. If adopted by Vermont, UPMIFA would contain a
presumption of imprudence for distributions greater than 7%; the burden of proof is on the trustee for distributions in excess of 7%. Mr. Cate further noted that it is unlikely for UPMIFA to be passed by the VT legislature in advance of the May 2009 board meeting. The Protocol was approved as is, for presentation to Budget, Finance, and Investment Committee on April 13, 2009.

Flash Report for February 28, 2009

Mr. Cioffi facilitated the review of the investment portfolio in the Flash Report for the month ending February 28, 2009. He noted that the overall performance of the pool for February dropped by (3.4%) vs. an (11%) decline in S&P 500 Index during the same time period. The fiscal year reflects a decline of (30%) in the portfolio value. He further noted that the performance of alternative investment managers is beginning to see a disparate return; they have returned 1.6% for calendar year-to-date.

Mr. Cioffi requested comments from other Subcommittee members on the Flash Report on their observations or concerns. The Subcommittee asked for Cambridge Associates to arrange a meeting with the management team at Rexiter to inquire about the performance of the account. Mr. Cioffi noted that the ISC had reduced the funds in Rexiter by nearly one half. Mr. Bain inquired about the Fir Tree performance. Mr. Cioffi will report back in regard to Fir Tree after an upcoming meeting.

Discussion ensued about the benchmark comparisons on page 6 of the Flash Report. Members expressed interest in discussing benchmarks with Cambridge Associates, as a future item agenda.

Mr. Bain brought up the presentation of the asset allocation policy variance information on page 1 of the Flash Report. He recommends having Cambridge Associates add a column for a “Projected Policy Variance,” taking into account known trades within a 3-month forward outlook. As Cambridge Associates is aware of the portfolio rebalancing decisions, it would be helpful to include this information.

Update on Portfolio Rebalancing

The Subcommittee requested that the Portfolio Rebalancing summary continue to be updated within the Executive Summary for each meeting as it is particularly useful. The Subcommittee confirmed that the $5 million additional investment with Acadian, as planned as of the October 22nd meeting, should be executed by the end of the quarter. The endowment currently has sufficient cash on hand hence divestment is not required to fund the additional investment.

Mr. Snow made a motion to reinvest the scheduled withdrawal proceeds from the Passive Bond Fund that are in place through June 2009 ($1 million per month), into Rhumbline, beginning with the end of February distributions. This will help address the largest underweight asset category, US Equities, given that the $5 million additional investment in Acadian will help address the Global ex. US Equities category, which is also currently underweight. The Subcommittee unanimously approved the motion.
Other Business

The Subcommittee discussed the Commonfund operating account balances, and the forecast for distributions from the Absolute Return Fund. The University is expected to have approximately $35 million on account with Commonfund at the end of the fiscal year.

Mr. Cioffi requested Agenda items for the April 15, 2009 meeting, noting that the Agenda will include an update on Rexiter, a discussion about benchmarks, and the March 31, 2009 Flash Report (and likely the quarterly performance report). Mr. Snow noted that a proposal for certain divestment will be ready for discussion from the Socially Responsible Investing Work Group. Mr. Cioffi recommended to Mr. Snow that the students behind the proposal should make a presentation to the Subcommittee, noting that the meeting venue would need to provide adequate space to accommodate the individuals. The President’s Conference Room was deemed to be sufficient to accommodate the group. In the meantime, Mr. Cioffi will research the executive session deliberation guidelines.

Adjournment

There being no further business, the meeting was adjourned at 9:18 a.m.

Respectfully submitted,

Robert Cioffi, Chair