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, May 20, 2009, at 8:30 a.m. in the President’s Conference Room, 351 Waterman Building, Burlington, VT.

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

MEMBERS ABSENT: Chair Robert Cioffi

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 and Bets Kent* and LaRoy Brantley* of Cambridge Associates

*By means of conference telephone.

Co-Vice Chair Samuel Bain 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 May 8, 2009 meeting, with an amendment to reflect that John Snow recused himself from the vote on the Rexiter termination.

Flash Report for April 30, 2009

Ms. Kent facilitated the review of the investment portfolio in the Flash report for the month ending April 30, 2009. She noted that the overall performance for the month was strong in absolute terms, 5.5%, underperformed the benchmarks. However, the return for the calendar year to date is +1.9% which is ahead of the benchmarks. She commented that the April return for a group of 25 other institutions averaged 3.8% with a median of 3.6%. Ms. Kent also noted that the rebound within the S&P 500 occurred primarily in the financial and technology sectors. DSM presents no concerns and has excellent stock pickers; the firm is overweight healthcare which is a more defensive sector and which has underperformed recently. The hedge funds were also more defensively positioned and did not participate in the full rally in April. Fir Tree has had a bumpy ride, but had a positive month. Ms. Hudson-Wilson expressed concern regarding Fir Tree’s underperformance by 5% in the first quarter. Ms. Kent noted that it may be too early to judge them by their losses in the financial sector (recent trades in preferred and common stocks that went against them and that they have now exited) and that they have an excellent and well diversified staff. Ms. Kent noted that the funds are still in the lock-up period, until 2010. Mr. Brantley noted that Fir Tree was brought into the portfolio because they offer a different approach and therefore complement the other managers in the absolute return program. Ms. Kent further commented that Fir Tree, being a smaller firm, can take advantage of opportunities that larger firms cannot pursue. Ms. Hudson-Wilson recommended inviting Fir
Tree to present at the New York City meeting. Ms. Kent then commented that the portfolio is over-weighted in the marketable alternatives segment, specifically noting Davidson Kempner at $10 million. She said Davidson Kempner would be a good source of funds for rebalancing.

**Benchmark Review**

Mr. Brantley facilitated the discussion of the benchmark review and directed the Subcommittee to the memo provided by Cambridge Associates. He noted that the portfolio has become much more equity-oriented in more recent years; therefore, Cambridge Associates decided to change the “undiversified” benchmark from 75% S&P 500 and 25% BC Aggregate, (formerly the Lehman Brothers Aggregate) to 87.5% S&P 500 and 12.5% BC Aggregate, for better measurement. He further explained that the two other benchmarks essentially measures the element of greater diversification. With index components as a basis, the other two also measure whether active management is adding value. Mr. Brantley noted that the two diversified benchmarks evaluate the individual underlying asset class management. In discussing the diversified performance hurdles, he highlighted the fact the fact that there is essentially little to no volatility in the benchmarks for marketable alternatives, private equity/venture capital and real assets. He explained that Cambridge Associates uses a premium over an index for a benchmark for these areas. Ms. Hudson-Wilson commented that the measurement on private equity does not allow for a good measurement of the managers. She requested that a different benchmark be used to measure the individual managers and would like to discuss this topic at the July meeting. Ms. Kent commented on the marketable alternative benchmark stating that the ML TBill + 5% works well for long term strategy, but not on short term results; the same with the Real Assets’ CPI-U & 5%. Mr. Snow noted that the benchmarks are a top-down metric measurement vs. a bottom-up approach used in the hedge fund category. He also mentioned that the benchmark is a tool and is a more meaningful reference point when viewed less often. Mr. Bain noted that the target and current benchmarks assist the Subcommittee in making decisions. He also requested time to discuss this topic at the New York City meeting. Mr. Brantley will have Cambridge Associates prepare a summary of benchmark strategies (for marketable alternatives in particular) for the New York City meeting. Mr. Snow requested an hour time slot early in the day to review the benchmarks to ensure preparation for the discussion with the managers during the afternoon. Mr. Brantley also noted that the target benchmark is a long-term strategy and a lag exists due to the movement of funds. He further commented that the portfolio is not developed based on the metrics. Mr. Snow asked if the current benchmark is reflective of the weights of the prior quarter’s allocation. Mr. Brantley explained that the Current Asset Allocation benchmark reflects previous period end’s composite weights matched against individually prescribed index return. Mr. Bain requested that during the discussion on benchmarks in June, he would recommend including a discussion on indices.

**Portfolio Rebalancing**

Ms. Kent noted that it appears we will likely hit the allocation target in US Equities due to the pending SSgA bond drawdown and RhumbLine reinvestment. The HBK redemption has been revoked. Mr. Bain noted that MS Prime Property redemption is still in queue, but we are in a holding pattern. Ms. Kent also noted that Iridian is buying itself back from the Ireland Bank. She also noted that Och Ziff is giving investors opportunities to opt out of the future “side pockets,” the private portion of their portfolio. Ms. Kent explained that over 8% of the OZ
portfolio is in private investments according to the hedge fund detail sheets in the meeting book. If we liquidate OZ we would not get that back immediately as it is illiquid. OZ is allowing clients to opt out of this type of investment going forward. Ms. Kent recommends opting out and asked the Subcommittee members if they agree. Mr. Snow commented that he would agree once he has reviewed the paperwork. Mr. Bain and Ms. Hudson-Wilson also agreed to opt out. The Subcommittee voted to execute Och Ziff’s opt out paperwork.

**Emerging Markets**

As a follow up to the May 8th decision to terminate Rexiter, Mr. Bain mentioned that a replacement manager is needed. Cambridge Associates has provided information on four recommended alternatives that would complement incumbent manager Acadian. Mr. Brantley explained that many managers require a $10 million minimum buy in. He further explained that Rexiter is a commingled fund and it would not be possible to transition to an index fund cheaply via a transition manager, and it is not possible to transfer accounts by taking the assets in kind. He also mentioned that emerging markets is up by almost 30% since the first of the year. Ms. Kent recommended trimming because the asset allocation for emerging market is about 12%, inclusive of emerging markets positions taken by Templeton and Cap International. Ms. Hudson-Wilson mentioned that the Subcommittee has decided to keep the target allocation for dedicated emerging markets managers at 10%. She further said that some of the managers Cambridge Associates listed do not have much history and she would rather go to an ETF. Mr. Brantley advised against choosing an ETF as it is usually used for a transition move. He recommended going to an active manager. Discussion ensued about choosing an active versus passive manager when exiting Rexiter. Mr. Snow commented that there is great opportunity for active managers to outperform in the emerging markets sector. Ms. Hudson-Wilson noted that Acadian is in the portfolio to pick up the areas that an index fund would not cover. Mr. Brantley commented that Acadian was chosen to complement Rexiter. Mr. Snow commented that the Subcommittee must decide whether to pick someone who looks like Rexiter, only better, or an index fund. Ms. Kent mentioned that Templeton and Capital International in addition to Acadian give the portfolio considerable emerging market exposure and make the overall emerging markets positioning somewhat index-like already. Mr. Bain mentioned that he is in favor of looking at Mondrian Investment Partners from the list presented by Cambridge Associates. He further suggested a partial draw down from Rexiter and moving those funds to a different asset class. Mr. Snow mentioned that he is not in favor of any draw down until having a detailed review of Templeton and Guardian. He noted that he is recused from the exiting decision and mentioned that the Subcommittee should attempt to minimize the transition cost. Mr. Bain concluded that Rexiter will remain in the portfolio until the review occurs. And he asked Cambridge Associates if they can recommend any alternatives to the four managers proposed. Ms. Kent responded that they had only one other manager in mind, but they are very large and correlate to Rexiter. The members requested to have a presentation from Aberdeen and Mondrian at the June meeting. Ms. Kent agreed to schedule the presentations.

**Other Business**

Mr. Snow will prepare and present a written outline on how to implement the divestment proposal for the next meeting.
The Subcommittee discussed proposed dates for the July/August manager meeting in NYC; Mr. Cate suggested that Erin St. John coordinate the schedule with members off-line to find a date that works for all.

Mr. Cate was asked for a brief update on the Common Fund operating funds: Absolute Return Fund is liquidating 17%, rather than 10% of the 3/31/09 balance as the end of May; the University has not exercised the option to liquidate 25% of the Intermediate Term fund at the end of May, in hopes that the value will rebound - the University will have the option to redeem each month-end; and the Short-term Fund is distributing an additional fraction of 1% this month, bringing liquidity to 81% of the 9/30/08 balance.

**Adjournment**

There being no further business, the meeting was adjourned at 10:08 a.m.

Respectfully submitted,

Samuel Bain, Co-Vice Chair