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 Friday, May 8, 2009, at 9:00 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*

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

*By means of conference telephone.

Chair Robert Cioffi called the meeting to order at 9:03 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the April 15, 2009 meeting.

Socially Responsible Investment Work Group Divestment Proposal

The Subcommittee held a discussion regarding the resolution to divest from companies that manufacture or distribute cluster munitions and/or military items containing depleted uranium. Mr. Cioffi noted the two lists of companies provided by external sources. The first list identifies companies that are involved with the depleted uranium and the second list mentions the companies that are related to cluster bomb manufacturing and distributing. Mr. Cioffi noted that if the resolution passes, the companies are not automatically excluded from the portfolio. The resolution would provide a process for UVM to follow. Mr. Snow noted that the proposed policy is a statement of principle. The process involves identifying the companies that are involved with the cluster bombs and depleted uranium and how to implement the policy of divestment from the firms. He mentioned that it would be a responsibility of the Investment Subcommittee to select the offending companies or to obtain an outside service to designate the companies. The process involves two steps. 1.) Contact the offending companies’ investor relations and give them an opportunity to respond to their involvement. 2.) Review and analyze the portfolio by each manager to determine how and whether to divest from the offending companies. The implementation of the policy remains with the Investment Subcommittee. Ms. Hudson-Wilson indicated she supports the policy and would like to see it move forward so that the implementation process can begin. Mr. Bain asked if the resolution passes, whether enough is known to begin divesting. He also expressed concern about the implementation process for identifying the companies and what would happens if a large number of companies are involved. Mr.
Snow responded that the work group (SRIWG) explored the best way to respond to the offending companies. The work group supports divesting, and they have determined that resources are available to identify companies at a reasonable cost. They further determined that divestment is the appropriate way to respond, having determined an ethical investment decision. Ms. Hudson-Wilson commented that what we do is limited, because the managers control certain funds. However, she further noted that the divestment decision will make a political statement. Mr. Cioffi commented that the Investment Subcommittee has a fiduciary responsibility to ensure that the endowment receives the maximum return to support current and future students. SRIWG is now a standing group. Mr. Snow noted the emerging level of socially responsible issues and the ongoing work of the group. He mentioned that the ISC needs to respond or react so that the group and the Subcommittee can continue working together. Ms. Hudson-Wilson said she is in favor of the resolution. Mr. Snow noted his current dual role as the SRIWG leader, who is responsible for bringing such proposals forward to the Subcommittee, and as a member of the Subcommittee. As SRIWG leader, he is not always in favor of the work group’s proposals, but he supports this proposal. Mr. Bain expressed his appreciation for all the hard work of the SRIWG and his admiration for the students. All members of the Subcommittee voted unanimously to adopt the resolution and to present it to the BFI committee in May.

**HBK Investments Review and Discussion of Redemption**

Mr. Cioffi directed the Subcommittee to the memo from Cambridge Associates dated April 20, 2009, regarding the redemption requests for HBK Investments. Discussion ensued about the decision to keep or withdraw the University’s redemption request. Cambridge Associates recommends keeping HBK Investments in the portfolio. It was noted that the current balance in the account is about $3.3 million. Ms. Hudson-Wilson commented that she was in favor of rescinding the redemption request. Mr. Cioffi noted that other clients have been revoking their redemption requests and HBK appears to be in a more stable position. Mr. Bain further commented on the stability of the HBK team and is in favor of remaining with them. Mr. Snow noted that the stability of the firm was the primary purpose of the investment rather than the performance. The redemption request was submitted because of the volume of other clients submitting redemption requests and we did not want to be one of the last investors in the fund. He agreed to waiting on the redemption request while monitoring the redemption request from other clients. Mr. Cioffi recommended keeping the HBK Investments and monitoring the redemption requests. All Subcommittee members agree to remain with HBK Investments.

**Emerging Markets Weighting**

The Subcommittee ensued discussion regarding the weighting of the Emerging Markets investment in the balance of the portfolio. Mr. Cioffi noted that the Emerging Markets allocation (within the Global ex US Equities category) is currently at 11% of the portfolio, which is above the target of 10%, but still within the range of up to 12.5%. He further commented that Emerging Markets had a great run in April. Ms. Hudson-Wilson asked if the exposure to the commodities was increasing. Mr. Cioffi responded by noting that the exposure includes the dedicated managers and the managers that have a portion of their portfolio in Emerging Markets. Ms. Hudson-Wilson asked if the Subcommittee should be looking at more specialized managers. Mr. Snow responded by explaining that the asset categories will not always match up with the real world or to the specific managers. He pointed out Templeton as an example, stating that Templeton is currently investing in Emerging Markets, but this was not an asset allocation decision. If Templeton were to keep 20% of the portfolio in Emerging Markets at all
times then that factor would be included in measuring the portfolio. He then commented that the tactical decision should not be counted in regards to the asset allocation. The managers are the ones who are making the tactical decisions. Mr. Bain commented that while Cambridge Associates is the watch dog, the individual managers should be allowed to make the tactical decisions. Mr. Snow drew attention to the timing of rebalancing of the portfolio and suggested that it should continue to occur every six months, in January and July. He stated that the managers can be counted on for reliable allocations. Mr. Cioffi agreed that the six-month interval between rebalancing is the standard, except when a sector explodes causing major imbalances outside of the range.

Mr. Cioffi and Mr. Bain expressed concern about keeping Rexiter as a manager. Ms. Hudson-Wilson wants to run Emerging Markets right up to the 12.5% upper limit of the range. If the Subcommittee decides to remove the funds from Rexiter, she wanted to remain with Emerging Markets. Mr. Bain would like to see investments going into US Equities. He proposed taking half of Rexiter to invest in the US Equities and the other half move to another emerging markets manager. Mr. Snow suggested that the Subcommittee define the definition of the watch list manager. He was not in favor of rebalancing more often than the six month period with the exception of extreme circumstances. Mr. Snow said he is in favor of leaving Rexiter and transitioning from an active fund manager to an index fund manager. Discussion ensued about the types of funds in which to invest. Mr. Bain advocated remaining in Emerging Markets and getting into US Equities faster. Ms. Hudson-Wilson was in agreement with the strategy of remaining in emerging markets and investing in US Equities.

Mr. Snow noted that the US exposure was 21% in March with a target of 25%; the portfolio is underweight. He further suggested looking at alternative funds within the portfolio besides the Emerging Markets in which to move funds to US equities. Mr. Cioffi proposed a motion to terminate Rexiter. The Subcommittee voted unanimously to approve the motion to terminate Rexiter. Mr. Snow recused himself from the vote due to a conflict of interest. Mr. Cioffi summarized the strategy for moving the funds from Rexiter. 1.) Do not move money from emerging markets to US equities. 2.) Pull out of Rexiter and contact Cambridge Associates to assist with the transition to a new manager. Mr. Cioffi also explained that the marketable alternative managers are overweight due to a good performance over the past year. Mr. Snow noted that the biggest overweight is still in the bonds and to continue the redemption from SSgA Passive Bond Fund. Mr. Cioffi will contact Cambridge Associates to compile a redemption schedule for the various managers. The Subcommittee will follow up prior to the July meeting.

**Other Business**

The Subcommittee discussed the timing of the July 20 and 21, 2009 manager meeting in NYC; Mr. Bain has a conflict that week so Mr. Cioffi requested that alternative date(s) be identified before the next meeting.

**Adjournment**

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

Respectfully submitted,

Robert Cioffi, Chair