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, November 18, 2009, at 8:00 a.m. in the President’s Conference Room, 351 Waterman Building, Burlington, VT.

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

MEMBERS ABSENT: Co-Vice Chair Samuel Bain

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*, LaRoy Brantley* and David DeVaughn* of Cambridge Associates; Liz Desmond* and Patricia Karolyi*, Mondrian; Kirsten Voss*, Varde Partners.

*By means of conference telephone.

Chair Robert Cioffi called the meeting to order at 8:07 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the October 21, 2009 meeting.

Review of prospective Fixed Income Funds and securities lending practices

Ms. Kent directed the members to the discussion materials provided by Cambridge Associates to continue the previous month’s discussion of prospective Fixed Income Funds to potentially replace the SSgA Passive Bond Index Fund, due to the liquidity restrictions caused by the securities lending program. It was noted that SSgA offers a non-securities lending option of the same fund to clients. Vanguard’s prospectus allows security lending but the firm has not exercised this option to date. The Vanguard product tracks the same index as SSgA (BC Aggregate Bond Index), with an expense ratio of 8 basis points. Barclays’ prospectus for the Government/Credit Bond Index Fund does allow securities lending, and the firm has participated to a small extent. Ms Kent noted that Cambridge Associates is comfortable with an Aggregate Index fund which includes some mortgage exposure. Mr. Cioffi asked for comments from the Subcommittee. Ms. Hudson-Wilson noted her preference would be to invest with Vanguard. Mr. Snow recused himself from voting due to his association with SSgA, but commented that the Subcommittee is concerned about the illiquidity not the investment product. He noted that the securities lending created the liquidity issue. He further mentioned that if the Subcommittee wants to leave securities lending, then it would be best to choose a product that does not have
securities lending as an allowable option. Mr. Snow also noted that he is reluctant to make changes to the benchmark without a discussion.

Ms. Kent noted there would be some administrative ease with SSgA and the ability to transfer out of a restricted pool into an unrestricted pool within the same firm. Ms. Hudson-Wilson commented that she is not comfortable staying with SSgA. Mr. Snow commented that he would prefer to choose a fund that does not allow securities lending. Mr. Cioffi requested that Cambridge Associates research and identify a manager who would match the criteria (passive investment approach with no securities lending) and use the Aggregate Bond Index as the benchmark and have a reasonable fee.

**Hedged Equity Fund of Funds Search**

Mr. Cioffi directed the Subcommittee to the Hedged Equity section in the discussion materials. Ms. Kent reviewed the chart with the characteristics of the Long/Short Fund of Funds Manager Search and mentioned Barlow’s good performance in all years except 2008. She commented that Forester Capital is a good shop with excellent returns. Forester has selected managers who preserved capital in 2008; this skews the long term returns to be very favorable, otherwise the returns are comparable to Barlow. Forester Opportunities is differentiated from Forester Partners LP in that it invests with managers who have lower assets under management, although they are not necessarily newer or less experienced managers. Lone Juniper is a product developed at the highly regarded hedge fund firm Lone Pine Capital LLC. Lone Juniper is a domestic only fund with no offshore vehicle, which may result in the product’s incurring UBIT/UBTI; it incorporates a significant allocation to Lone Pine (the firm’s flagship direct hedge fund) as well as other very good managers. Winston Partners is another very good shop having a solid roster of managers. Winston has two different US-oriented long/short fund of funds as well as a global product.

Ms. Hudson-Wilson commented that Forester Partners is the head and shoulders performer of the group with Barlow following. Discussion ensued regarding the lock-up on funds. Ms. Kent mentioned that Forester has an initial two-year lock-up with quarterly exits; the firm also offers a rolling three-year lock-up option; the format with quarterly exits is available with a higher fee. After further discussion, Mr. Cioffi requested that Cambridge Associates set up a meeting with Forester in the next two weeks so that the Subcommittee can make a decision on a manager as soon as possible. Mr. Cioffi noted that he will meet with Forester in person in Greenwich, CT and the other members will have the opportunity to call in to the meeting. Further discussion ensued regarding manager selection. The Subcommittee agreed to continue to review Barlow, with the option of rescinding the full year-end redemption request by December 15th. Ms. Kent commented that Cambridge Associates will compare the underlying managers of both Barlow and Forester.

**Mondrian Investment Partners Limited**
(Presenters: Liz Desmond, Director - London, Patti Karolyi, Client Services - PA)

Mondrian was founded in 1990 and has been a successful, well managed company with stable leadership. There are over $60 billion in assets under management. They own 67% of the
company’s equity with approximately 80 employees who are owners. Mondrian hopes to buy out the minority partner, Hellman & Friedman, within the next 2-3 years.

Ms. Karolyi noted some highlights of Mondrian Investment Partners, which include a proven Investment Policy successfully applied since 1990 and a well-resourced team of 160 employees, most of them based in the London office all on one floor. The employees have strong analytical skills and Mondrian has a strong culture of client service and support and emphasizes understanding and meeting client needs. Ms. Karolyi noted the Equity Strategy Committee of 7 members who have an average of 15 years of experience.

Ms. Desmond reviewed the investment philosophy. She explained Mondrian is a value-oriented defensive manager with a long-term dividend discount model. The objective is to seek a long-term rate of return while preserving capital and reducing volatility. Historically, during the up markets, they capture most of the upside. In contrast, during the declining markets Mondrian has outperformed the benchmarks and has protected capital. Over the long-term, when factoring in the up and down markets, Mondrian has outperformed the benchmark by 500 basis points. The volatility for Mondrian has been the lowest in the universe, as depicted on the referenced scatter chart.

Ms. Desmond explained the research process Mondrian follows when evaluating a potential investment company. They use a value-oriented dividend discount methodology and use a long-term purchasing power approach. Mondrian reviews approximately 250 companies, analyzing their financial statements, and applies forecasting models to make an evaluation. A combined top-down, bottom-up analysis is used to evaluate markets and companies. The emerging markets holdings must have returns well above the country average to find a place in the Mondrian portfolio. The stated maximum to emerging markets is 10% but the product has historically never owned more than 5% in these markets.

Ms. Desmond emphasized Mondrian’s strengths lie in their investment philosophy and research process. She noted the core team at Mondrian has worked together for 20 years, having one of the lowest turnover rates in the industry. She further noted that stocks are held for the long-term, typically a 10-year period.

Mr. Snow inquired about measuring the residual risk to the benchmark. Ms. Desmond responded that Mondrian is benchmark aware, but not benchmark driven. She explained that the key risk they are most concerned about is the risk of not meeting the long-term real return.

Ms. Hudson-Wilson inquired about the currency volatility and how Mondrian manages the volatility factor. Ms. Desmond responded that, if a currency comes in around 2 standard deviations over or under the standard value, Mondrian will hedge those currencies to obtain long-term real return. Ms. Hudson-Wilson then inquired about Mondrian’s position on inflation/deflation. Ms. Desmond responded that Mondrian is not in the global inflationary camp. She noted that Mondrian maintains a bias toward a slow, difficult economic growth environment. She further noted that Mondrian keeps an eye on the inflationary side, but they do not place a high probability on it.
Discussion Regarding Mondrian Presentation

Mr. Cioffi asked for the members’ thoughts and comments. Ms. Hudson-Wilson commented that the presentation was quite standard and she disagrees with their inflation posture, but that their performance numbers are good. Ms. Snow commented that Mondrian has a distinctive investment strategy and that they focus on the real rate of return over time. He further commented that they are disciplined in adhering to the dividend discount model when many other firms look at the short-term. He also noted that they have a concentrated portfolio and it works over the whole market cycle. Ms. Hudson-Wilson noted that they have a concentrated portfolio with 55 holdings. Mr. Snow inquired if there should be any concern about the restructuring with their minority ownership. Mr. Brantley responded that he does not believe it will be a hindrance in the long-term and it is something Cambridge Associates will be watching. He also noted that there was a similar scenario with the Iridian investment. Mr. Cioffi reminded the Subcommittee that they are considering Mondrian as a replacement for Templeton. Ms. Kent noted that the reason for exiting Templeton is due to their emerging market exposure and the desire for the Subcommittee to have more control over the Long-Term Pool’s aggregate exposure to emerging markets by hiring a more “pure” developed markets non-US manager. The Subcommittee passed a motion to make a full withdrawal from Templeton and invest the entire proceeds (estimated at $18M) with Mondrian International Equity Fund, L.P. Mr. Cioffi said to time the Templeton redemption to coincide with the subscription with Mondrian so that the portfolio maintains exposure, targeting the beginning of January. Mr. Cioffi confirmed that he would like the Mondrian subscription documents to go through the usual document review process by counsel, akin to Aberdeen’s.

The Varde Fund LP
(Presenter: Kirsten Voss, Vice President)

Mr. Cioffi introduced Ms. Voss and reminded the Subcommittee that UVM has been invested with Varde for 12 years and noted we are obtaining an update on the Varde activity. Ms. Voss explained that UVM is invested in the domestic limited partnership called The Varde Fund, LP, along with several other tax exempts. She noted that Varde is mindful of UBTI due to its tax exempt clients, and structures investments so they do not generate UBTI. She then noted that the funds UVM has invested have a 50% cap on private investments; the newer hedge fund vehicle is capped at 30%. Varde is a multi-asset class, multi-sector distressed trader. The portfolio shifts dramatically based on opportunities that arise. The biggest change that has occurred in Varde’s exposure has been the increase in the public sector over the last 6-7 years, primarily due to the public defaults in the US. The Varde Fund LP has been 50/50 private/public exposure over the last few years. Ms. Voss then explained that Varde positions itself to buy distressed assets from sellers that are in tough spots and need the funds. For 2009, the largest seller had been the FDIC and Varde expects to sell those assets in 2010. Ms. Voss noted that Varde has distressed commercial real estate on the radar. She commented that Varde has established a new office in Singapore and they believe Asia will be a place for future business. Varde does not include any assets in the portfolio that do not have an expected return of at least 20%. Ms. Hudson-Wilson commented that US banks are not releasing assets as quickly in order to prevent another collapse. Ms. Voss noted that banks are building up their bad debt reserves and riding the assets for a longer period of time.
Ms. Kent inquired about the allocation of new investments across funds and any new vehicles that Varde may offer. Ms. Voss responded the allocation is prorated across the four funds, based on the size of the fund, available cash and investment restrictions. She commented that the biggest constraint for the LP is the available capital. Ms. Voss reiterated that the fund UVM is in has a 50% limit in private transactions, and has an annual redemption with a 90-day notice for the public portion of the portfolio. Ms. Voss explained the new option available that is a fund that is formatted in private equity to draw capital without limitations on private/public transactions.

Discussion Regarding Varde Presentation

Mr. Cioffi commented that Varde presented a good review of the portfolio and they have been a good performer over a long period of time. Ms. Kent said Cambridge Associates will research the new option of private investments, to see if the University would be better off in another of Varde’s funds. She commented that she would want reassurance that the new vehicle will give a good return. She also noted her disappointment that Varde did not provide presentation materials that were geared specifically to UVM's investment.

Update on Portfolio Rebalancing

Mr. Cioffi directed the Subcommittee to review the proposed re-balancing presented by Cambridge Associates. Mr. Snow noted his agreement with the allocation and trimming ideas, but would like to discuss the TIPS further. Mr. Cioffi recommended trimming $3 million from the US equity sector (RhumbLine) and $3 million from the emerging markets sector (Acadian). The Subcommittee agreed with Mr. Cioffi’s recommendations and decided to reinvest $4 million in Vanguard TIPS and the remaining $2 million to stay in cash. The members agreed to add a discussion on the TIPS sector of the portfolio to the December agenda and discuss rebalancing in January.

Ms. Snell was directed to suspend the redemptions from the SSgA Passive Bond fund for the months of November and December and to let the available liquidity accrue.

Ms. Kent explained the proposed exchange opportunity offered by Och Ziff for OZOF II Tranche P share class to convert to OZOF Tranche F shares class. The Subcommittee unanimously approved a motion to execute the “Election Form” to request the transfer of share class between the two funds.

Performance Reports

Susan Hudson-Wilson noted that in the Real Assets segment, ING Clarion Lion has been aggressive on write downs; conversely, Morgan Stanley has been slow on write downs. Mr. Snow requested that a review of the Real Estate strategies also be included in the next meeting.

Other Business

The members were asked to review the proposed meeting dates for the 2010 calendar year offline.
Adjournment

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

Respectfully submitted,

Robert Cioffi, Chair