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, October 21, 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 Susan Hudson-Wilson*, Co-Vice Chair Samuel Bain* and John Snow

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

*By means of conference telephone.

Chair Robert Cioffi 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 September 10, 2009 meeting.

Flash Report for August 31, 2009

Mr. Cioffi opened the meeting and directed the members to the Flash report for the month ending August 31, 2009. He noted that the September 30, 2009 quarterly numbers will be available in a few weeks. Mr. DeVaughn noted that the month of September is estimated to be up by 3.78%. Ms. Hudson-Wilson noted with respect to the August Flash report, that the US Equities are overweight by 1.4% (partly due to the market run-up) and the Marketable Alternatives are overweight by 2.5%. Emerging markets are also somewhat overweight. Mr. Bain inquired about the allocation to the Venture Capital and Private Equities, which was 6.4% versus a target of 10%. Mr. Snow noted that when evaluating the Venture Capital and Private Equities over a long period of time, it is likely that the allocation will approach the target. He also commented that the US Equities sector could be considered to include the “equitization” of cash awaiting investment in private equities. Ms. Kent noted that UVM has a target of 3% for cash. Mr. Snow commented that the equity market may be one of the only places where liquidity is available.

Mr. Cioffi noted that the Real Assets are currently under the lower end of the target range. In the past year, DIH was replaced with Gresham, and the Subcommittee had reviewed the portfolio for energy stock exposure. Mr. Cioffi mentioned that the Subcommittee will monitor the Real Assets and address this category in the January meeting.
Mr. Bain inquired about investing in the secondary market for Venture Capital and Private Equity. Ms. Kent mentioned that the present exposure is good and noted that the commitments to W Capital and Dover Street have $10.3 million outstanding to be called. She suggested reviewing this market in the early part of 2010.

Discussion then ensued regarding the returns of the portfolio. Mr. Snow noted that the real rate of return information is useful over the long term. The Subcommittee requested that Cambridge Associates include inflation information in the report. The Och Ziff split into two separate line items will be researched and explained by CA at the next call.

Mr. Cioffi commented on his concern regarding the investment performance with Barlow. He mentioned that it is a fund of funds and has been trailing for 3 years which is not favorable when compared to the hedge fund group. Mr. Brantley commented that the Barlow funds, all long/short, should not be compared against the absolute return managers. He also noted that the annual redemption notification date for Barlow is November 1, 2009, which is before the next Subcommittee meeting. There was further discussion on this topic later in the meeting.

**Portfolio Rebalancing**

Mr. Cioffi recommended that no rebalancing be done at this time. Mr. Brantley noted that the monthly redemptions from the SSgA Passive Bond Fund are no longer being invested in the RhumbLine account. He also noted that the HBK exchange went through. The Subcommittee noted that the cumulative summary provided in the executive summary has been extremely helpful.

**Emerging Market Exposure**

Ms. Kent noted that the notice received by clients from Aberdeen regarding closure to new business is a very good sign. She pointed out that the total exposure in emerging markets is 12.3% which is slightly overweight. Ms. Kent recommended exiting Templeton (~$17.4M), redeeming $3 million from Acadian and investing the combined $20.4M with a developed markets-only manager to reduce the exposure in the emerging market sector. Ms. Hudson-Wilson inquired about the need to eliminate Templeton instead of being able to keep some funds with them since their performance is good. Ms. Kent said that CA’s bias is to not have too many managers in the portfolio in order to have better control over the allocations. Mr. Bain commented that he is in favor of eliminating Templeton to keep control over the emerging markets allocation. Mr. Snow also commented on the potential downside of having manager proliferation in parts of the portfolio.

Discussion ensued regarding the correlation comparison of the prospective developed market managers. The prospective managers include: Causeway Capital, Mondrian Investment Partners, Morgan Stanley Investment Management and Tweedy, Browne Company. Mr. Snow noted that Mondrian’s discipline over time is intriguing and that Tweedy, Browne is expensive. Mr. Bain expressed his preference for Mondrian. The Subcommittee decided to have Cambridge Associates schedule an interview with Mondrian for the November 18th meeting, and to continue discussions regarding Templeton.
US Fixed Income

Ms. Kent facilitated the review of the US Fixed Income section of the report. She noted that Cambridge Associates has clients who use Barclays Global Investors and that the clients are very satisfied with them. She further highlighted the comparison with Vanguard and State Street Global Advisors, and noted that Vanguard is close to State Street. Mr. Snow commented that the only issue with State Street is due to their Security Lending Program and the underlying liquidity problems caused by that program. Ms. Hudson-Wilson mentioned that Vanguard has 41.5% in mortgage backed securities. This is in line with the BC Aggregate Index that the Vanguard fund attempts to mimic. Following some discussion regarding the need to know more about their respective lending policies and practice, and liquidity, Cambridge Associates agreed to do some research on Vanguard and Barclays’ practices and to report to the Subcommittee at the next meeting.

Endowment Management Cost and Fees

Mr. Cate reported his findings on the direct cost associated with the administration of the endowment. He noted that he obtained figures from the endowment administration and the Development Office. Mr. Cate reported that the current direct cost of operating the endowment is $146,000 in the Controller’s Office, and an additional $87,000 which has not been charged to the endowment. Currently, 0.5% of the full endowment goes to the general fund annually and has not been earmarked for Development.

During the ensuing discussion, Mr. Snow raised the concern regarding the fiduciary responsibility of donor intent. He suggested that the University should go through customary process instead of channeling the funds to Development. He explained funding Development creates a governance issue. Mr. Snow recommended decreasing the basis points to be reflective of the true costs. Mr. Cioffi noted that he had consulted with President Fogel who expressed a concern about reducing the fee.

Following a discussion regarding actual cost vs. a fixed rate, Mr. Cioffi presented a proposal to set the fee to 0.25% as an “administrative” fee that would offset the cost that the University incurs to administer the endowment. An annual validation of the fee would occur and the rate would be set for the following year. Administrative fee does not include the cost of raising money. Development’s costs of administering the endowment include required communications to the donors.

A motion was moved and accepted by the Subcommittee to amend the Endowment Management Fee Resolution with the change the fee from 050 to 0.25 basis points, and to change the name of the fee from endowment “management” fee to endowment “administration” fee. The amended Resolution will be presented to the Budget Finance and Investment Committee for approval.

Mr. Cioffi exited the meeting at 10:10 and Mr. Snow chaired the remainder of the meeting. Mr. Snow recommended postponing the discussion for Hedge Fund Benchmarking to a time when Mr. Cioffi would be able to participate.
SRIWG Divestiture Protocol

Mr. Snow reviewed the summary of responses from companies identified as offending companies who manufacture or distribute cluster munitions and/or weapons and armament employing depleted uranium. He recommended not divesting from Lockheed Martin, L-3 Communications and Raytheon based on the companies’ responses. The Divestment list will include: General Dynamics, Aeroject, Alliance TechSystems, Northrop Grumman and Textron-Defense. The Subcommittee validated the Divestment list. The next step is to forward the list to the investment managers.

Marketable Alternatives

The Subcommittee resumed discussion on exiting Barlow and whether or not to choose another fund of funds manager. Mr. Snow noted his belief that Barlow may be on the upswing in terms of performance. He also stated that the Subcommittee has built up a stable of individual managers for purposes of diversification, which has added value to the strategy. He noted that Mr. Cioffi would like to redeem Barlow funds on the basis of having sufficient diversification of individual managers, who can now be monitored. Discussion ensued on redirecting the funds from Barlow to existing managers. Mr. Brantley suggested that, if the Subcommittee chose to replace Barlow with direct investment manager, he would recommend hiring at least two to three new managers to complete the diversification which Barlow offered in the fund of funds. Mr. Brantley suggested looking at adding hedged equity managers only as replacements, since Barlow is purely hedged equity and the non-directional portion of the hedge fund program is already sufficiently diversified. Ms. Hudson-Wilson agreed that the number of current hedged equity managers is not big enough to leave a fund of funds. Mr. Brantley noted that Cambridge Associates is not advocating Barlow’s departure, but further reminded the Subcommittee about the November 1st redemption notification date. After this time passes, Barlow would have to stay in the portfolio for another year. Mr. Brantley noted that a full redemption request submitted by November 1, 2009, for year-end will result in 90-95% of the funds settling around January 31, 2010, with the remainder being distributed following Barlow’s audit. He further commented that Barlow could be rejoined. Mr. Bain was in favor of full redemption from Barlow, continuing to look at them along with talking to some other fund of funds managers. The Subcommittee approved the proposal to issue a full redemption request from Barlow by November 1st. The Investment Subcommittee agreed to review the Marketable Alternative category including Barlow and other hedged equities fund of funds. The Subcommittee requested that Cambridge Associates provide profile data on a couple of other fund of fund hedged equity managers for consideration at the November 18th meeting.

Adjournment

There being no further business, the meeting was adjourned at 10:42 a.m.

Respectfully submitted,

Robert Cioffi, Chair