A meeting of the Investment Subcommittee (the Subcommittee) of the Board of Trustees of the University of Vermont State and Agricultural College was held on Thursday, September 10, 2009 at 8:30 a.m. in Bessemer Trust’s Conference Room, 630 Fifth Avenue, 38th Floor, New York, NY.

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

MEMBERS ABSENT: None

PERSONS ALSO PARTICIPATING: Vice President for Finance and Administration Richard Cate, Controller Claire Burlingham*, and Assistant Controller for Tax and Treasury Services Kathy Snell*; Bets Kent and LaRoy Brantley, Cambridge Associates; Jim Walker and Ben Ghriskey, Fir Tree Partners; Jacob Doft, Greg Wolfson, and Kristen Campolettano, Highline Capital Management; Brett Barakett and Chad Remis, Tremblant Capital Group; and Mark Hathaway and Peter Burns, Commonfund Capital.

* Participating by teleconference

Chair Robert Cioffi called the meeting to order at 8:53 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the July 22, 2009 meeting.

Update on Recent Investment Items

Mr. Cioffi opened the meeting. The Subcommittee reviewed the details in the Flash Report prepared by Cambridge Associates for the month ending July 31, 2009, and began the discussion by noting the variances in the Asset Allocations to the Policy. It was noted that the Real Assets & and Venture Capital/Private Equity are underweighted, while the Marketable Alternative (hedge fund) sector is overweighted. In terms of rate of return, calendar 2009 is going very well. One outlier on the negative side for calendar YTD is the Private Real Assets segment – real estate and natural resources - due to the recent write downs in valuation. The Subcommittee then discussed the overall performance and Mr. Brantley noted that Bonds have outperformed Equities over multi-year (10 years or more) periods given the two dramatic bear markets that we have been through in equities this decade. Ms. Kent commented that the University’s rate of return for July 2009 was 5%, which is about 1% ahead of the average return for other institutions from whom Cambridge Associates has comparative data. Mr. Bain requested clarification for the peer comparison. Mr. Snow recommended that the Subcommittee should develop a
performance measurement that is oriented toward different time periods. He suggested that objectives be set for short-term, mid-term and long-term performance. He further suggested using a peer comparison measurement as a short-term indicator; use the spending rate plus inflation for the long-term (10yr); and developing appropriate metrics for intermediate (3yr) and short-term (1yr). Mr. Brantley noted that the absolute return performance is required to meet spending needs. Mr. Snow requested that the topic be placed on a future agenda.

Mr. Snow then recommended that the Subcommittee develop an agreed-upon consistent process for terminating managers. Mr. Brantley commented that some clients have a 3 year (or shorter) probationary period if managers are underperforming. Ms. Hudson-Wilson commented that the type of asset should be considered when measuring performance and writing up the procedures for dismissal. She noted that dismissal should not be based only on performance. Ms. Kent agreed to have Cambridge Associates draft a procedure for terminating managers and maintaining a “watch list”. Mr. Snow further commented that it would be prudent for the Subcommittee to have a procedure in place for future Subcommittee members.

**Revisions to Investment Policy Statement**

The members of the Subcommittee reviewed the proposed revisions to the Investment Policy Statement drafted by Cambridge Associates. Mr. Cioffi suggested that the last sentence in Section D 1 be re-written to read “based on asset allocation”. Further discussion ensued regarding other sections of the draft and the Subcommittee agreed to submit comments to Cambridge Associates over the next 2-3 weeks and they will draft the policy anew. Mr. Cioffi requested that this topic be deferred as an October meeting agenda item. Ms. Hudson-Wilson recommended that the asset classification be further defined as to its specific job. Ms. Hudson-Wilson commented that the document is designed to educate others outside of the Subcommittee and that other members of the Board of Trustees should have an understanding of the document. Mr. Snow recommended that they establish a framework to state the long-term objective and then breakdown the strategies on how to achieve the objective, diversification and growth, and how to manage risk.

**Overview of Managers Scheduled to Present**

Initial comments were made regarding all of the University’s managers prior to the start of their presentations. Ms. Kent briefed the Subcommittee for the upcoming manager presentations. She noted that Fir Tree had a tough time last year, but the firm has been focused on rebuilding. Ms. Kent mentioned that Fir Tree has rolling liquidity and is not suffering from the same redemption pressures as other firms. She also noted that Highline has been plugging along, performing very well and also commented that Highline has not been subjected to controversial situations.
Fir Tree Partners Presentation  
(Presenters: Jim Walker, Ben Ghriskey)

Fir Tree currently has about $4 billion in assets under management. At the end of 2008, Fir Tree had 23% of capital eligible for redemption and only ~4% of assets redeemed (~$180mm). Jim Walker is one of three managing partners, sits on Investment Committee, and is head of Risk Committee. Ben Ghriskey is in Investor Relations.

Their outlook is very market-specific:
- Quite optimistic about credit.
- Most interested in mortgages – current portfolio has ~12% in mortgages, mostly residential.
- They are looking at commercial mortgages and doing a lot of work on this, but think it’s a bit early.

Current portfolio positioning – 90% in credit-related securities.
- They believe they can get equity-like returns from these holdings.

Have a very bearish view on US economy and like capital structure arbitrage as it has very large hedge ratios.

They look at industries where there is a lot of underlying stress-media, financial services, paper and other cyclicals.
- CIT is an excellent example; they had done work on this well over a year ago.
- Expect this deal (their participation in it) will return over 20% on unlevered basis.

Value Fund has 75% of firm assets.
- The other two products are essential sector funds.
- Mortgage exposure in value fund could possibly get to high teens %.

Benchmark—what do they use internally?
- Hope to earn 12-15% return overtime.
- Do show S&P in their presentations.
- They also look at peer hedge fund performance.
- Their returns are very lumpy, so it’s hard to benchmark.

Risk Committee meets every two weeks; they review portfolio and business risks.
- Portfolio issues – look at sector concentrations, largest positions.
- Business risk portion of the meeting – they focus on cash levels, financing (prime brokers), and counterparty relationships.

Just hired one analyst from a private equity group and one analyst from Blackstone – the latter person will focus on CMBS. They may add one person to do some equity.
**Highline Capital Management Presentation**  
(Presenters: Jacob Doft, Gregg Wolfson, Kristen Campolettano)

Organizational Update
- Jacob still owns 100% of the firm but he’s working on developing a partnership plan; he’ll relinquish a minority amount over the next few years, as they have grown the analyst team. Jacob and three other senior people manage the others.

They believe we are in a new world, and what worked in 2003-2008 is different from what will work going forward. Currently, they are 56% long, 30% short, 86% gross, and 25% net.

They like the beverage space – Coca-Cola Enterprises and Pepsi are very large positions (long); but they are short the parent company for Coke as a hedge on the possibility there will be a tax on soft drink sweeteners as part of a way to pay for Health Care reform.

Health Care Reform
- They think it might be benign enough to the managed care industry that it will get revalued up.
- They own Pfizer, want to own more in dialysis.

Energy
- They like owning US Energy companies and/or Canadian oil sands in part because these would do very well should there be a negative surprise regarding Iran. They own Suncor, which is in process of buying PetroCanada. This deal is essentially taking an aggressive balance sheet and making it more conservative.
- Also, they own some things (Tupperware) that rely on cheap resin, so owning oil companies is in part to hedge that (biggest risk to Tupperware is oil going to $150/barrel).

Gaming
- It’s one way for states to gain revenue.
- They expect on-line gaming to grow significantly.

Idea Generation
- They meet every Tuesday morning; each team makes a macro-oriented presentation.

Their timeline is 1-3 years; they are not rapid traders; on the other hand, they do offer quarterly liquidity.

They cannot take currency stability as a given, so if they have currency exposure they will hedge it.

Biggest surprise over the past year – they never imagined that S&P would return +40% and they would make only 5%.
Stock mistake – Gildan Activewear

- Lost 1% which is the max they want to bear.
- Company decided to dramatically cut prices which is something Highline had asked about and felt wasn’t going to happen (based on interaction with management).

Peak AUM was $2B, currently at $1.7B.

- Sweet spot probably $2-3B; would get liquidity concerns if up close to $4B.
- Can run the business fine at $1B.

Benchmark—what do they use internally?

- The S&P is reasonable over a market cycle (thru a big up and a big down, probably 5-7 years).

**Discussions of Emerging Markets Exposure**

Ms. Kent led the discussion on emerging markets and directed the group to the report. She noted that 54.3% of UVM’s $63.3 million in non-US common stocks exposure is invested in emerging markets – a significant overweight. In addition, in the Templeton portfolio there is still room to increase the emerging market allocation. Mr. Bain commented that the emerging market exposure is over target and he noted that Templeton and Capital International still have room to increase their allocation. He suggested withdrawing funds from one of the dedicated managers and stated that Acadian would be the best option since UVM just recently invested with Aberdeen. Mr. Cate suggested using dedicated managers for emerging market exposure and dedicated managers for developed market exposure. Mr. Snow responded that he believes it is best to give managers the option of going in and out of emerging markets, but he would like to reduce the percentage these managers represent of the total sector. Mr. Brantley suggested reducing the target allocation (to dedicated emerging markets managers) to 8%. Mr. Snow responded that he agrees with dedicating 8% allocation in emerging markets. Cambridge Associates agreed to develop an allocation vs. rebalancing proposal for the next Investment Subcommittee meeting.

**Resolution Reaffirming Endowment Budget Policy**

The Subcommittee reviewed the spending rate for the fiscal year 2011 resolution for the pooled endowment. The members reaffirmed the spending rate of 4.5 percent of the average market value for the previous thirteen quarters ending in December 31 for the prior calendar year. The Subcommittee agreed to present the budget policy to the Budget, Finance and Investment Committee.

**Resolution Reaffirming Endowment Management Fees**

The Subcommittee discussed at length the Resolution for the Endowment Management Fee and the administrative cost for the endowment. Mr. Snow noted that there are
legitimate administrative expenses in managing the endowment, but 50 basis points is too high. He would like to see a calculated amount of administrative fees to the endowment which would not include the Development office expenses. He commented that Development & Alumni Relations have a $7million budget that is covered by the general fund and the balance is covered by the 50 basis points of the endowment fee. Mr. Snow also commented about the fiduciary obligation to the donors to attract future contributions to the endowment. Mr. Bain suggested approaching Development and asking what the salaries and consultants costs would be in order to add to the endowment. Mr. Snow commented that the services to the endowment are not transparent. Discussion ensued about eliminating the 50 basis points for the management fee and increasing the spending rate to 5% for the endowment. It was noted that the increase spending would be designated to restricted funds and would not go to the general fund for administrative expenses. Mr. Cate discussed the compound impact that would occur over time if 50 basis points are removed from the endowment annually. Mr. Snow expressed his belief that the real cost should be charged to the endowment and that we should know our real cost to determine the ongoing benefit to the endowment. Mr. Cioffi and Ms. Hudson-Wilson expressed delaying the approval of the 50 basis points until a later date. The Resolution approval will be carried forward to the next Investment Subcommittee meeting. The Subcommittee requested that Mr. Cate obtain the cost estimate for running the endowment so that further discussion could take place next meeting. Mr. Snow requested an analysis of the historical returns to donors and prospective donors. He emphasized getting the real cost in dollars and not in percentages. The Subcommittee mentioned the idea of creating a foundation instead of increasing the endowment.

**Tremblant Capital Group**  
(Presenters: Brett Barakett, Chad Remis)

RIMM (Research in Motion), Apple, Green Mountain Coffee, Proctor & Gamble are all still key positions.

Last year’s performance was worst embarrassment of Mr. Barakett’s career. The lessons learned:

- Portfolio construction and risk management. They hired a new risk manager last August; he has helped implement new guidelines. For example, they have evened out the position sizes.

Dislocation of last year presented them with incredible opportunities. For example, Proctor & Gamble got to very low price and great valuation.

- Their head of consumer retail went to China two months ago and came back and said the best way to play China is by buying Proctor & Gamble.
- It’s also a good way to play potential inflation (if Crest’s costs go up, they will simply raise price of Crest).

Brett’s background is in consumer behavior. He doesn’t like things that are binary (i.e. biotech) and he doesn’t like things where a macro view is needed.
Benchmarking—what do they use internally?
  • Would be happy if can compound at 10-12% annual rate.
  • Also want to look at how the equity world is doing.

Personnel turnover is very low
  • They have six sector teams, each one run by a very experienced person.
  • Everything is measured – individual performance.
  • They use the philosophy, “you can’t evaluate what you can’t measure.”

**Commonfund Capital**
(Presenters: Mark Hathaway, Peter Burns)

Mark is in client service; Peter is one of the senior people in the private capital group. He has been there 11 years, is the newest person on the five-person Investment Committee. Mark gave a brief update on the exposures U Vt. has had through the Treasury Solutions group:

  S-T Fund has returned 90% of capital
  • Have not had any defaults nor did they have to sell anything below par
  • Expect the last 10% to be freed up within six months.
  Immediate-Term Bond Fund is fully liquid now.
  Absolute Return Fund – working to meet redemptions and are shutting this down.

They reviewed statistics on U.Vt’s program and the exposure to different partnerships. The University’s total commitment to Commonfund Capital’s private programs is $35.4mm; 55% called. The 2005 funds – Private Equity VI for example, are 61% called, so still have dry powder, would expect much improved performance. Also, Commonfund does not have a distinct product for secondaries, but is currently very active in the secondary market and may be adding some secondary exposure to its other funds (which is allowed per the partnership agreements).

Currently open products:
  • Venture Partners 9, cap $500mm, have closed on $120mm.
  • International Partners 7, cap $650mm, has closed on $120mm.

**Wrap-up and Discussion of Next Steps**

Hedge Fund Program- HBK Exchange Offer

The Investment Subcommittee agreed to go with Option 2, as set forth by Cambridge Associates, exchanging its existing shares in HBK with those in a new fund. UVM administration was directed to prepare and submit the requisite Election Form and Subscription Agreement Appendix A, in order to elect in time for the September 15th deadline.
General

ISC members discussed manager presentations, noting being unimpressed with Commonfund, a reasonable price-performer. Performance-wise, they are actually above the S&P over 10 years for the funds that have been invested over 10 years. Members very impressed with what Mr. Barakett of Tremblant said regarding risk modeling, and appreciated Highline’s humility.

Mr. Snow stated the ISC should continue to focus on the role of hedge funds – risk reducer or return enhancement; this will help understand the true risk budget. Mr. Cioffi pointed out the distressed securities exposure exhibit.

Cambridge is to look into the Iridian Opportunity Fund, and also see who else is raising private equity/venture capital, fund of funds.

Adjournment

There being no further business, the meeting was adjourned at 3:30 p.m.

Respectfully submitted,
Robert Cioffi, Chair