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, August 18, 2010, at 8:30 a.m. in the President’s Conference Room, 351 Waterman Building, Burlington, VT.

MEMBERS PRESENT: Chair Samuel Bain*, Ian Boyce* and David Daigle*

MEMBERS ABSENT: Vice Chair Susan Hudson-Wilson*

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*, David DeVaughn* and Christopher Warren* of Cambridge Associates.

*By means of conference telephone.

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 July 20, 2010 meeting.

Annual Reaffirmation

Mr. Bain reviewed Attachment 2 and led the discussion surrounding the reaffirmation of the Endowment Administration Fee Policy and the Endowment Budget Policy. Mr. Bain provided historical information on the rates established for budget and fees. The members agreed to revisit, at a future meeting, the spending rate in relation to the rate of return on the investments. Cambridge Associates mentioned that they have not seen a change in rates amongst our peers and that the majority are in the 4.5-5% range. Mr. Cate explained that the administrative fee comes out of the endowment and into general funds to support the salaries of those people who work on the endowments.

The following resolutions were presented for approval to present to the Budget, Finance and Investment Committee at the October Board meeting:

Resolution Reaffirming Endowment Administration Fee Policy

RESOLVED, that the Endowment Administration Fee Policy is reaffirmed as reads below:

BE IT RESOLVED, that the Board of Trustees hereby approves a 0.25 percent fee applied to the University endowment, to cover reasonable costs associated with endowment administration, management and operation; and
BE IT FURTHER RESOLVED, that on a fiscal year basis, the fee will be reviewed and assessed annually as 0.25 percent of the average market value of the University endowment for the previous thirteen quarters ending December 31 of the prior calendar year; and

BE IT FINALLY RESOLVED, that the Investment Subcommittee will review and make recommendation to the Budget, Finance and Investment Committee regarding the reaffirmation or revision of the Endowment Administration Fee Policy each year no later than October 31.

*Adopted by:* Board of Trustees - September 13, 2003
*Reaffirmed:* Board of Trustees - September 8, 2007
            Board of Trustees - September 5, 2008
*Amended:* Board of Trustees - October 24, 2009

**Resolution Reaffirming the Endowment Budget Policy**

RESOLVED, that the Endowment Budget Policy is reaffirmed as reads below:

BE IT RESOLVED, that the annual budget for spending from Endowment be set at 4.5 percent of the average market value for the previous thirteen quarters ending December 31 of the prior calendar year; and

BE IT FINALLY RESOLVED, that the Investment Subcommittee will review and make recommendation to the Budget, Finance and Investment Committee regarding the reaffirmation or revision of the Endowment Budget Policy each year no later than October 31.

*Adopted by:* Board of Trustees - May 13, 1995
*Reaffirmed:* Board of Trustees - September 8, 2007
            Board of Trustees - September 5, 2008
            Board of Trustees - October 24, 2009

A motion was made, seconded and it was unanimously voted to approve the resolutions as presented.

**Update on Portfolio Rebalancing**

Chair Bain briefly reviewed the SSgA Redemption decision made by the Subcommittee in the past meeting to withdraw from the State Street Passive Bond Fund and invest $20 million of the proceeds with the Vanguard Bond Index Fund. The balance of the proceeds will remain in the operating funds. Mr. Bain also highlighted the liquidity schedule provided in the meeting discussion materials and noted the next available date to withdraw funds would be on September 30th from Highline. Mr. Cate reviewed the projected cash flow and noted that at the end of August the balance is expected to be $6.3 million which tails down to $2.5 million in December. He further noted that the June 2011 cash projection will be a negative $3.2 million and he does not anticipate the need to add additional funds from the bonds in the near future.
**Performance Reports**

Ms. Kent reviewed the Quarterly Performance Report, including asset allocation, as of June 30, 2010, and Monthly Flash Report as of July 31, 2010. She noted the $288.4 million aggregate market value consisted of $283.9 million for the Long Term Pool, $0.6 million for the Wilbur Trust, and $3.9 million for the Separately Invested Assets. She directed the members to the Asset Allocation on the aggregate and noted that Global Ex U.S. Equity is 23% of the portfolio with a target of 25%. She further noted the overage allocation in the fixed income sector. Ms. Kent mentioned that Cambridge Associates is not recommending any rebalancing activity at this time due to the market conditions in the equity sector and the fact that allocations are generally quite close to their targets. The overall return for the quarter was -5.7%, with an annualized return of -3.7% and a Fiscal Year to Date return of 11%. These returns do not include the full year of non-marketable assets which report a quarter in arrears. Ms. Kent mentioned that both US Equity and non-US Equity have resulted in positive returns for the year. She also noted the overall strength in the hedge funds and that they have performed well having losses significantly less than the stock market as a whole. The Real Assets return was negative for the quarter largely due to the sell-off in commodities.

Mr. Brantley directed the attention to the US equity section and noted the under exposure in the Mega-Cap sector. Cambridge Associates recommended moving funds within RhumbLine from the S&P 500 index to the S&P 100 index. Discussion ensued regarding remaining with a passive manager or choosing an active manager. Ms. Kent reminded the members that a passive manager was chosen to avoid the risks of active management as it tends to go in and out of favor. It was also noted that RhumbLine was chosen as a Socially Responsible Investment manager. Following the discussion the Subcommittee decided to have Cambridge Associates contact RhumbLine to convert $15 million (representing approximately one-half of the RhumbLine allocation) from the S&P 500 index to the S&P 100 index.

**Investment Policy Draft Review**

Mr. Bain requested that the discussion of the draft Investment Policy, prepared by Cambridge Associates, be postponed until a later date due to the time constraints. The members agreed to review and compare the draft with the existing policy.

**Tail Risk Hedging**

Ms. Kent commented that many of their clients have been researching and reviewing the Tail Risk products being promoted by several companies, but that in general the groups are taking it slowly, in part because the costs are high. Cambridge Associates will continue to monitor these products and keep the Subcommittee informed of any new developments. Mr. Bain requested that the members become familiar with Tail Risk hedging for future discussions on this topic.

**Hedge Fund Managers**

The Subcommittee briefly discussed whether to proceed with a distinct search for potential new hedge fund managers. The Subcommittee reviewed the search fee(s) for Cambridge Associates
conducting such a search and requested that they perform a search for new hedge fund managers. At this time the Subcommittee plans to add $5-7 million to the hedge fund program.

**Manager Watch List**

Cambridge Associates presented a recommendation for criteria for developing a manager watch list, to serve as a tool to evaluate respective managers’ relative performance on a three-to-five year annualized basis versus relevant index benchmarks and peer groups. The Subcommittee briefly discussed the Manager Watch List criteria presented in the discussion materials and decided the list should also include managers who are exhibiting extremely good performance.

**ETAP allocation**

Cambridge Associates provided a brief overview of the distinctions between Gresham’s TAP and ETAP products, referencing an excerpt from Gresham’s presentation materials from the July manager meeting. Mr. Bain led a discussion and asked the CA Team the advisability of considering an ETAP allocation, possibly from the existing TAP allocation. He noted that $12 million is invested with Gresham and asked if UVM should reallocate $6 million from TAP to ETAP. Cambridge Associates felt that it was better (more efficient administratively, in part) to maintain a single allocation for the $12 million. After an ensuing discussion regarding commodity market conditions and liquidity in these markets, and recent outperformance of TAP over ETAP, the members agreed to have the Gresham funds remain in the TAP product.

**Proposed Work Plan**

The Subcommittee will continue to review the proposed work plan for upcoming monthly ISC conference calls and commence the discussion at a later meeting.

**Executive Session**

At 9:58 a.m., Chair Bain entertained a motion to enter into executive session for the purpose of discussing contract negotiations. The motion was seconded and approved. Chair Bain asked the Subcommittee members and Vice President Cate to remain for executive session.

**Adjournment**

The meeting was re-opened to the public at 10:13 a.m. There being no further business, the meeting was adjourned.

Respectfully submitted,

Samuel Bain, Chair