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 Tuesday February 23, 2009, at 10:00 a.m. in the Faculty Senate Room, 327 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; Vice President and General Counsel, Francine Bazluke; Bets Kent* and David DeVaughn* of Cambridge Associates; and Vice President for High Yield at Capital Group David Daigle.*

*By means of conference telephone.

Chair Robert Cioffi called the meeting to order at 10:05 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the December 17, 2009 and January 13, 2010 meetings.

Flash Report for January 31, 2010

Mr. Cioffi opened the meeting with general discussion surrounding the performance of the portfolio. Ms. Kent noted that UVM’s performance rating for the trailing one-year was 23.3%, and the median for Cambridge clients with January reports averaged 20.4%. The Subcommittee requested to have Cambridge Associates review the benchmarks and analyze the performance attribution of the portfolio as it pertains to specific benchmarks. Ms. Kent also noted that the US Equity portion of the portfolio was down a little more than the market and the January was a good month in bond performance. She also commented that 2009 was a good calendar year for UVM as compared to other institutions.

Update on Portfolio Rebalancing

Mr. Cioffi directed the Subcommittee to the Executive Summary and noted the activity to date. All members agreed that the transactions reflected met their expectations.

Follow up from January 15th meeting

Public Real Asset Managers: The members reviewed the meeting materials provided by Cambridge Associates and discussion ensued about the possibility of adding Hard Assets (Gold)
and diversified energy to Public Real Assets. The members discussed that the importance of this category is to provide inflation hedging. Discussion ensued about Gresham’s effectiveness at inflation hedging, and the Subcommittee’s reluctance to invest in gold, which they would not consider a good choice for inflation hedging. The members reviewed the managers presented in the materials and discussion ensued about investing in the energy sector. Cambridge Associates recommends energy rather than commodities at present. The Subcommittee considered the merits of investing in a passively managed energy fund to avoid the higher cost of hiring an active energy manager. The Subcommittee requested for Cambridge Associates to research passive energy funds with an inflation correlation. The Subcommittee discussed and agreed to redeem $4 million from Vanguard TIPS and invest the proceeds with Gresham TAP.

Private Equity – Secondary Market: It was noted that the secondary market is expected to ramp up again once the general partners resume capital calls. UVM has approximately $10 million in uncalled capital, with $5.7 million remaining for W. Capital and $4 million remaining for Dover Street VII. The ISC decided to let the secondary market exposure remain as is and meet with one of the secondaries managers at the July meeting.

Distressed Exposure: The ISC reviewed the distressed exposure with the current managers, and Ms. Kent noted that the exposure is over 9% of the portfolio. Mr. Cioffi commented that the portfolio is underweight in this sector. The Subcommittee requested that Cambridge Associates research some alternative managers in the distressed market, beyond the two that were included in the meeting materials. Ms. Kent reminded the ISC that there is an incremental fee for manager searches for individual direct hedge funds but not for fund of funds.

Hedge Funds: Review and discussion on this sector was postponed until the March meeting.

Socially Responsible Investing Work Group

Mr. Snow provided an update on the responses from the investment managers who were contacted about divesting from companies that manufacture parts for cluster munitions. The offending companies are General Dynamics, Aerojet, Alliance TechSystems, Northrop Grumman and Textron Defense. RhumbLine, Iridian, DSM and iShares ETF, and Eaton Vance are the managers who were contacted. RhumbLine holds some of the investments of the offending companies; Iridian holds investments in General Dynamics; DSM does not currently hold any investments with the companies, but was willing to put in UVM’s restrictions; and iShares has since been redeemed in full. Mr. Snow noted that all the managers have agreed to comply with the request. The ISC unanimously agreed to instruct RhumbLine, Iridian and DSM to divest from the offending companies, as applicable and put the restrictions in place. Mr. Snow also noted that the resolutions for the Sudan and Cluster Munitions Divestments will need re-affirmation from the ISC at the April meeting.

Approval of Resolution for Reclassification of Whittlesley Property

Mr. Cate began the discussion by explaining that General Counsel confirmed that Board of Trustees’ action is required to remove quasi endowment assets from the endowment, however, the University’s practice has not been to require Board action when adding assets to the quasi
endowment. He further noted the practical need for a defined process for both adding and removing assets to and from the quasi endowment.

Mr. Cate recommended transferring the Whittlesley Property to Capital Assets in order to avoid the appraisal fees associated with the new accounting policies. The following resolution was presented for approval:

**Resolution Recommending Reclassification of Investment**

WHEREAS, the University acquired 18.6 acres of farmland at 1220 Spear St. known as the Whittlesley Property (“The Property”) in December 1987 as an investment in the unrestricted quasi-endowment and;

WHEREAS, The Property has been used to support the operations of the UVM Farm since the purchase and will continue to be used by the UVM Farm for the foreseeable future; and

WHEREAS, accounting standards now require investments in real estate to be reported at fair market value, which would require regular reappraisals of The Property;

NOW THEREFORE, BE IT RESOLVED, that the Subcommittee recommends to the Budget, Finance and Investments Committee that The Property be reclassified from investment in the quasi-endowment fund to land in the University fund for fixed assets used in operations.

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

**Review list of managers and funds for Cash Management Policy**

Mr. Cate presented the list of proposed managers and funds for approval pursuant to the Cash Management Policy. He brought to the attention of the Subcommittee the footnote regarding Commonfund, noting that the University has remaining balances in the Intermediate Term Bond Fund and Absolute Return Fund, however UVM will not be investing additional funds with Commonfund. The Subcommittee approved the listing. In further discussion, the Subcommittee agreed that aside from the current Commonfund investment that the University intends to liquidate available, an Absolute Return Fund should not be included as an investment vehicle; members expressed they hoped to see more than one viable bank in the future, as well as a global bond opportunity fund.

**Executive Session and Minutes**

Discussion ensued about having Executive Sessions during the Subcommittee meetings when discussing specific named manager(s). The members consulted with General Counsel Francine Bazluke, about the guidelines for calling an Executive Session. Ms. Bazluke noted there are 40 statutory exemptions that may apply. She further explained that the contract basis with the
Managers would allow the Subcommittee to enter into Executive Session to discuss performance and retention of managers versus the investments. Mr. Cate and Ms. Bazluke will review and discuss this matter further and report back to the Subcommittee.

Ms. Kent offered some suggestions on recording of the minutes. She recommended that the minutes need not reflect individual opinions on matters discussed, but rather record a summary of the discussion and capture the action items. The members agreed to implement the recommendation.

**Other Business**

Mr. Cioffi announced Samuel Bain has accepted the role as the new Chair of the Investment Subcommittee, and recognized Mr. Snow as an outgoing member of the Investment Subcommittee.

RFP for Investment Advisor Services: Mr. Cate noted the UVM policies and procedures support having an RFP every 5 years and recommended that one should be sent out for Investment Advisor Services; the RFP could be for 3 years with 2 one-year extensions. Administration will submit a draft RFP and initial recipient list to the Subcommittee for review and comment.

**Adjournment**

There being no further business, the meeting was adjourned at 11:50 a.m.

Respectfully submitted,

Robert Cioffi, Chair