A meeting of the Investment Subcommittee (“ISC”) of the Board of Trustees of the University of Vermont State and Agricultural College was held on Wednesday, January 13, 2010 at Cambridge Associates, 100 Summer Street, Boston, MA.

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

MEMBERS ABSENT: None

OTHER TRUSTEES PRESENT: Ian Boyce

PERSONS ALSO PARTICIPATING: Vice President for Finance and Administration and Treasurer Richard Cate; Bets Kent, LaRoy Brantley and David DeVaughn of Cambridge Associates; and Vice President for High Yield Group David Daigle.

Chair Robert Cioffi called the meeting to order at 8:35 a.m.

December 17, 2009 Meeting Minutes

The approval of the previous meeting minutes was deferred to the next meeting.

Market Update

Celia Dallas, Co Director of Research, and Research Consultant Aaron Costello, via video-conference from Cambridge Associates’ Arlington VA office, gave an in-depth review of the current market environment, detailing trends and events that shaped the investment environment during calendar year 2009. These analytics set the context for the valuations Cambridge uses for the different asset classes comprising client portfolios and helped to highlight current investment opportunities and risks as seen for 2010.

Hedge Fund Benchmarking

The hedge fund benchmarking discussion began with Mr. Brantley providing detail on how different institutions within Cambridge’s client base approach benchmarking their respective hedge fund programs and comparing these methodologies to those used by UVM (e.g., T-Bills + 6% for long/short strategies, T-Bills +4% for absolute return strategies, and T-Bills +5% for the composite portfolio).

Topics Discussed:
- What is the appropriate benchmark for UVM’s hedge fund portfolio in general, as well, as for the underlying Absolute Return and Long/Short components?
- What is the purpose of benchmarks for the hedge fund portfolio and the overall portfolio?
Conclusions:
- Maintain T-Bills + 4% for the Absolute Return managers and T-Bills + 5% for the composite program.
- Replace T-Bills + 6% as the Long/Short benchmark with MSCI World Index + 1% in the performance report with greater emphasis placed longer time periods for manager evaluations. (Adjust the custom policy benchmarks to reflect this change, as well)

**Asset Allocation Discussion**

The ISC reviewed the portfolio as invested across traditional asset classes and, as previously decided (July 2008 meeting), in terms of the investment managers’ individual roles in the portfolio. The ISC uses the three following categories for defining these roles: Return Enhancement, Volatility Reduction and Inflation Protection. Some of the managers’ allocations are split across multiple categories.

Topics Discussed:
- Does the overall program have enough “risk assets” to provide growth in real terms over time, with the mindset that the Long-Term Pool is meant to last into perpetuity?
- Is the portfolio aptly protected against deflationary or inflationary catastrophic events?
- Where do we see the economic environment in the near future and are we prepared to participate?

Conclusions:
- Increase the inflation protection portion of the portfolio by allocating more capital to Public Real Assets. (Cambridge will present candidate products for investment during the February ISC meeting.)
- Add a fourth category to the current Return Enhancement, Volatility Reduction and Inflation Protection categories: Deflation Protection
- Liquidate iShares Russell 1000 Growth (approximately $3mm) and redeem $3mm from cash.
- Add to Mondrian ($3mm) and Cap International EuroPacific Growth Fund ($3mm).
- Redeem $1.8mm from Davidson Kempner at the next exit window and subsequently invest $1.8 mm into Fir Tree Value fund.

The ISC followed the manager review with reworking the Long-Term Policy Targets for the portfolio. Each ISC member suggested new targets and ultimately the column marked “New Targets” was agreed upon:

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<th></th>
<th>Current Targets (%)</th>
<th>New Targets (%)</th>
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<td>25</td>
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<td>14</td>
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<td>Non-US Emerging Mkts</td>
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<td>Fixed Income</td>
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<td>8</td>
</tr>
<tr>
<td>Cash &amp; Cash Equivalents</td>
<td>3</td>
<td>2</td>
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Conclusions:
- Change the title of the “Long-Term Policy Targets” to simply “Policy Targets” since they have been modified frequently over the last few years.

**Risk Modeling**

Mr. Brantley began the Risk Modeling discussion by describing the different outputs of Cambridge’s modeling on the “Policy Targets” which included: Efficient Region, Volatility Decomposition, and Inflation Protection analytics.

Topics Discussed:
- The modeling provided the ISC with statistical insight into the portfolio in terms of projected distribution of real returns over time various periods extended out over 25 years and the probability of the current policy asset allocation meeting its spending needs (formerly 5%, recently changed to 4.75%) and having room for 1% growth per annum.

Conclusions:
- No changes resulted from this portion of the discussion.

**December 2009 Meeting Follow-Up Items**

The December 2009 Meeting Follow-Up Items discussion began with Ms. Kent reviewing and describing the current exposures and liquidity of the portfolio.

Topics Discussed:
- Should we further increase UVM’s exposure to distressed credit through its non-marketable program?
- Should we look to increase UVM’s exposure to secondary interests in private equity?

Conclusions:
- No changes resulted from this portion of the discussion.
- Discussion to continue.

**Real Estate**

The private real estate discussion began with Ms. Hudson-Wilson giving an update of the current Real Estate environment and a review of the Long-Term Pool’s three existing private real estate managers: Clarion Lion, Morgan Stanley Prime Property Fund and Metropolitan’s Fund of Funds.

Topics Discussed:
- Should we be increasing real estate exposure in the current environment?
- How should these funds be benchmarked?
Conclusions:
- Consider making an additional commitment with Clarion Lion.
- Add the IPD and NCREIF benchmarks to the performance report for Clarion and MS.

Action Items

- Replace T-Bills + 6% as the Long/Short benchmark with MSCI World Index + 1% (Adjustments will be made to the custom policy benchmarks as well).
- Add a fourth category, Deflation Protection, to the current custom asset allocation exhibit categories of Return Enhancement, Volatility Reduction and Inflation Protection categories:
- Liquidate iShares Russell 1000 Growth (approximately $3mm) and redeem $3mm from cash. Add to Mondrian ($3mm) and Cap International ($3mm).
- Redeem $1.8mm from Davidson Kempner and invest $1.8 mm in Fir Tree Value fund when DK funds become available.
- Change the title of the “Long-Term Policy Targets” to simply “Policy Targets”.
- Cambridge will provide updates and materials at the February 17th meeting on:
  - The level of detail that CA is provided as a rule from the hedge funds we talk to on a regular basis (leverage, margin in use at any one time, etc.)
  - Varde Fund LP – explanation of performance history
- Look at funding Vanguard Total Bond Market Index Fund with accrued liquidity from SSgA BC Aggregate index product (get an update on the amount that has been accrued to determine if the new account can be opened)
- Add the IPD and NCREIF to the performance report as benchmarks for private real estate managers Clarion and MS
- Look into option of having Executive Session within ISC meetings (request to get clarification from the administration).

Adjournment

There being no further business, the meeting was adjourned at 3:24 p.m.

Respectfully submitted,

Robert Cioffi, Chair