INVESTMENT SUBCOMMITTEE
BOARD OF TRUSTEES
UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE

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 Tuesday, July 20, 2010 at 9:00 a.m. in Bessemer Trust’s Conference Room, 630 Fifth Avenue, 6th Floor, New York, NY.

MEMBERS PRESENT: Chair Samuel Bain, Vice Chair Susan Hudson-Wilson, Ian Boyce and David Daigle

MEMBERS ABSENT: None


* Participated by teleconference

Chair Samuel Bain called the meeting to order at 9:17 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the June 10, 2010 and July 12, 2010 meetings.

General Discussion

Mr. Bain opened the meeting by noting the resolution approved by the Board of Trustees Executive Committee on July 19, 2010 in awarding the contract for Investment Advisory Services to Cambridge Associates LLC. He expressed gratitude to Subcommittee members for their work in vetting and evaluating RFP responses and presentations.

Update on Portfolio Rebalancing

Mr. Bain requested comments from the Subcommittee surrounding the recent communication from SSgA Securities Lending regarding the lifting of the gates to exit the index funds. Following a brief discussion, the Subcommittee unanimously agreed to notify SSgA for a full redemption request by the required date of August 11, 2010 for the first available trade date. Discussion then ensued about reinvesting the funds that will be redeemed from SSgA. Mr. Cate reviewed the short-term endowment cash flow projections and expressed the need for approximately $3 million in cash by December
month-end. Mr. Brantley stated that the Fixed Income portion of the portfolio is slightly overweight the established 8% policy target and that the excess funds could be used to address any near-term liquidity needs. The members agreed to reinvest $20 million of the approximately $22.7 million from SSgA into the Vanguard Bond Market Index fund and allow the remainder to fund the cash requirement of the University.

**Overview of Managers Scheduled to Present**

Mr. Brantley briefed the Subcommittee on the four manager presentations, and referred them to the relevant tabs in the Discussion Materials.

**Och-Ziff Capital Management**  
(Presenter: Lee Minton, Investor Relations)

Mr. Minton provided a status update of the firm, including the total current assets under management (AUM) total at the level of $25.3 billion (up from $20 billion in April 2009). While the firm weathered the 2008 market decline rather well due to a significant cash position, disproportionate redemptions (mostly due to OZ having little or no gate restrictions) resulted in a notable drop in AUM at the end of the year. On another level of liquidity, side-pocket deals do not constitute a problem and are capped at a manageable level. Mr. Minton highlighted structured credit as a current opportunity in the market that differentiates Och Ziff from its competitors.

**Metropolitan Real Estate Partners**  
(Presenters: David Sherman, President and CIO; J.E. Taylor, Managing Director)

Mr. Taylor provided a summary of Metropolitan as a firm including Mr. Sherman’s 28 years of applicable experience in the real estate industry. Mr. Sherman focused his discussion on two domestic case studies using two different investment approaches used by the fund of funds manager: one on the West Coast and the other on the East Coast. Mr. Sherman also provided an update on Fund V, the fund in which UVM is invested, and its underlying direct investment managers. He described the investment environment in 2010 as very challenging, but with cyclical opportunities such as distressed that began in 2009. Mr. Sherman identified the major problem facing the real estate market as “under demand” (vs. “over supply”).

**Market Overview and Portfolio Review through May 31st**

Mr. Brantley reviewed the Market Update materials prepared by Cambridge Associates. He highlighted the recent quarterly drop in the S&P (11.4%), the plummet of the Euro, and the flight to quality as evidenced by the rise in value of long duration bonds and gold. He also noted that the recent sell-off of domestic equities point to a likelihood of recessionary/deflationary outcome, and that Greece’s debt problems reverberated throughout Europe. Mr. Brantley noted reasons to be somewhat optimistic such as healthier financial statements in the second quarter, emphasizing that top line revenue growth and the equity valuations have improved on a relative basis.
Mr. Bain then led a discussion on the portfolio position and asset allocation. Mr. Brantley reported that Cambridge Associates is comfortable with the current positioning of the University’s portfolio. He commented that Och-Ziff is a good representation of UVM’s hedge fund program, which has performed admirably as a whole program during very difficult markets.

Mr. Brantley reminded the Subcommittee that the policy targets are set at the January meetings each year and the portfolio is currently geared toward growth in assets. The Subcommittee discussed the idea of adding one or two more managers to the hedge fund program, who have an open mandate approach, and reducing the US equity portion of the portfolio.

**Update on Manager Watch List**

The Subcommittee reviewed the sample manager watch list prepared by Cambridge Associates. The University does not currently have a watch list as part of its manager evaluation process. Mr. Brantley commented that several of his clients that employ such a tool generally evaluate their respective managers’ relative performance on a three- to five-year annualized basis versus relevant index benchmarks and peer groups. The Subcommittee requested that Cambridge Associates prepare the criteria that should be included in the Watch List and the members will resume discussion regarding this topic at the next meeting.

**Future Agenda Items**

Mr. Bain requested to have Tail Risk Hedging placed on a future agenda in order to devote more time to a significant discussion on how the Subcommittee views different components of risk. Overall, the Subcommittee agreed that the diversification of the portfolio is providing some insurance in exchange for giving up some return.

Cambridge Associates prepared a schedule of liquidity of the Marketable Alternative Program included in the meeting materials. Mr. Bain suggested that the Subcommittee review this schedule at each monthly meeting.

**Gresham Investment Management**

( Presenter: Jon Spencer, President and Portfolio Manager)

Mr. Spencer described Gresham as the longest active commodities manager in the commodities industry with a 23-year track record. Despite negative year-to-date performance for calendar year 2010, assets have grown by $600 million through cash inflows to bring AUM to $8.3 billion through June 30th. Mr. Spencer compared the Tangible Assets Program (TAP), in which UVM invests, to Enhanced Tangible Assets Program (ETAP). He stated that the major difference between the two products is the ability for the latter product to have contracts with a much longer expiration period (24 months vs. six for the former). In terms of inflation, he sees the globally implemented
stimulus programs as a very likely cause, and sees investments in commodities performing very well during such periods.

**W Capital Partners**

(Presenters: David Wachter, Founding Partner and Managing Director, and Stephen Wertheimer, Founding Partner and Managing Director)

Messrs. Wachter and Wertheimer described secondary private equity manager W Capital’s goal as providing liquidity to proven direct investors, and not necessarily at a discount. Following the current market dislocation, buying at a discount may surface as an advantage. They claimed the $5 million to $50 million investment range as W’s prime opportunity set, with $40 million being the current largest investment. The firm typically looks to take on a 5% to 30% stake in the underlying portfolio companies and to serve as either an observer or board member, as well. With a hit rate of one out of 34 opportunities, the firm has established a noteworthy internal rate of return. UVM is currently invested in Fund II.

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

The Subcommittee members expressed their satisfaction with the meeting and the manager presentations. At the next meeting, members would like to discuss whether there is room for an allocation to the Gresham ETAP program, possibly from the existing TAP program.

**Adjournment**

There being no further business, the meeting was adjourned at 3:04 p.m.

Respectfully submitted,

Samuel Bain, Chair