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 and State Agricultural College was held on Wednesday, May 19, 2010, at 8:30 a.m. in the President’s Conference Room, 351 Waterman Building, Burlington, VT.

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

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*, and David DeVauhn* of Cambridge Associates; and Board Chair, Robert Cioffi.*

*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 May 5, 2010 meeting.

Schedule of Upcoming Meetings

Mr. Bain opened the meeting by noting changes in dates for the June 2010 meeting. The June meeting will be held on Thursday, June 10th at the offices of Nixon Peabody, LLP in Boston. Cambridge Associates will attend the open session via conference call. ISC members are encouraged to participate in the Executive Committee meeting scheduled for June 14, 2010. The July 20, 2010 meeting will be held at the offices of Bessemer Trust in NYC, for the purpose of investment manager presentations.  OchZiff, W Capital Partners, Metropolitan Real Estate Partners and Gresham will be invited to present at the meeting.

Portfolio Rebalancing

Mr. Bain led a discussion on recent portfolio rebalancing, specifically the $6 million investment with Black Rock Global. The target amount to invest with Black Rock Global is $7 million. Based on the lack of cash availability, the Subcommittee unanimously agreed to hold off on sending any additional funds to Black Rock at this time. It was also noted that the portfolio is now within 1% of the target of 8% in the bonds category. A redemption request is to be submitted for the SSgA Passive Bond Fund in accordance with SSgA’s liquidity schedule.
Quarterly Performance Report and Flash Report

Ms. Kent led the review and discussion of the Quarterly Performance Report as of March 31, 2010. She noted the $306.5 million aggregate market value of the consolidated endowment consisted of $301.6 million for the Long Term Pool, $0.7 million for the Wilbur Trust, and $4.1 million for the Separately Invested Assets. The separately invested assets are restricted gifts from donors who specified how they wanted the funds to be invested, primarily in bonds. Ms. Kent then directed the members to the Asset Allocation on the aggregate and noted that the dedicated emerging markets exposure is 9.8%, while the emerging markets exposure across the entire Global ex U.S. Equity portfolio, (includes the Capital EuroPacific Growth Fund) is 11.3%. She noted that the Global ex US Equity allocation is slightly underweight. Ms. Kent mentioned that it was a good decision to redeem the SSgA bonds and Cambridge Associates will continue to monitor the funds as they are reinvested in other vehicles.

Mr. Brantley then led the review and discussion for the Flash Report for the month ending April 30, 2010, noting the asset allocation for April primarily remained unchanged. Mr. Brantley noted that the performance was +1.0% for April and +3.7% for the calendar year to date. The S&P 500 has been the dominant index of the global equity indices. US Equities have carried the portfolio with a +8.1% calendar year to date return. The lackluster performance for DSM since inception was due to its heavy exposure to the healthcare industry, which hampered the manager’s relative performance versus the Russell 1000® Index in calendar year 2009. DSM has since outperformed the index thru April this calendar year. Eaton Vance bounced back with a very good April after trailing the Russell 2000® Index for the first quarter due to its non-investment in banks and stock selection in the materials sector.

Ms. Kent noted that Iridian has made some personnel changes at the analyst level, while the top level has remained unchanged; their management team has become a tiered structure vs. a flat structure; further, it was noted that Iridian recently bought itself back from parent Bank of Ireland. Cambridge Associates will continue to monitor their organizational situation. She also noted that Iridian’s recent underperformance was due to stock selection in the financial and consumer discretionary sectors.

In terms of market cap size exposure in the U.S. equity long-only portion of the portfolio, Mr. Brantley commented that the S&P 500 (the index used in UVM’s domestic benchmarking process) has twice the percentage of mega-cap investments as UVM’s portfolio and that UVM has more than twice the percentage of mid-cap investments as the S&P 500. He noted that UVM’s passively managed core index fund (S&P 500) replicates some of the mid-cap exposure carried by UVM’s active large-cap managers. He offered the introduction of a mega-cap index (such as the S&P 100) as a point of comparison.

Continuing with performance, Mr. Brantley noted that Aberdeen had a bit of a challenging April, but overall has been a good complement to Acadian since its July 2009 hire. He then went on to highlight the strength of the hedge fund program, with UVM’s composite group being one of the top performers in the Cambridge hedge fund median over just about all time periods covered in the performance report. When asked by one of the Committee members about the effectiveness of choosing to go with the fund of funds approach (versus direct) in adding managers to the
hedged equity portion he replied that this has been effective for UVM in terms of mitigation of organizational risk.

Discussion ensued regarding the condition of the European market and its potential impact on the portfolio. Ms. Kent commented that Cambridge Associates is being cautious about the prospects for the economic future and the overleveraged markets, but they have not recommended exiting investment in the international markets. Within the month of May, international equity is down significantly and deserves additional attention in the near future, as Global ex US is approximately 25% of the portfolio. Ms. Kent noted that other clients have not made significant moves from the Euro market. She did note that some institutions have entered into derivative overlay programs. Ms. Kent mentioned Clifton, Wellington and PIMCO have developed, or are developing, new programs for tail-risk hedging. She said that should the Committee decide to pare down its long-only equity exposure, she would recommend pro rata reduction across the portfolio versus selecting one fund. Cambridge Associates will present a summary of risk mitigation options to the Subcommittee at the June 10th meeting. Ms. Kent highlighted the importance of diversification, which can be the best protection in a tumultuous market.

**Real Assets Benchmark**

Mr. DeVaughn provided an overview of the information provided on the Real Estate benchmarks: the Investment Property Databank (IPD) US Annual Property Index and the National Council of Real Estate Investment Fiduciaries (NCREIF). NCREIF has a long history, with managers submitting information on a voluntary basis. IPD is a fairly new business model that performs portfolio analytics for a fee, for investors, insurance companies, and managers; IPD requires externally appraised information, and sells aggregate index data on a subscription basis. Discussion ensued regarding IPD being the more reliable benchmark, since NCREIF’s inputs are apparently not policed for accuracy. Cambridge Associates subscribes to NCREIF, and subscribes to IPD-UK, but not to IPD-US. The members requested that Cambridge Associates consider subscribing to IPD-US and report back to the Subcommittee.

**Socially Responsible Investing Work Group Update**

Ms. Burlingham reported on the Socially Responsible Investing Work Group (SRIWG)’s most recent activity from the April 23, 2010 meeting. A proposal was presented by a faculty member regarding divestment from companies directly supplying services to the Israeli military that sustain the occupation of Palestine. A student presented an opposing view. Ms. Burlingham noted the group would need to establish a mechanism that would solicit comments from the general public before discussion on the proposal would continue. She further noted that the group was advised to develop options for structuring proposals and advocacy and gathering community input.

**Other Business**

Mr. Cate reported that the operating cash balance was $194 million on April 30, 2010. He stated that $25 to $40 million is expected to be invested in the near future with a firm (TBD) that
responded to the University’s RFP for brokerage services. Mr. Cate will provide an update on the proposal decision to the Subcommittee at the June 10th meeting.

Ms. Kent reviewed the Non-Marketable Alternative Asset Funding Status and Performance Summary: It was noted that $25.1 million is committed to partnerships, with $10.4 million of the commitments being unfunded. Ms. Kent noted that the underlying managers in the partnerships are slow in initiating capital calls. A discussion ensued that a general partner sometimes can identify another limited partner interested in assuming an additional commitment; defaulting on commitments should be a limited partner’s last resort.

Mr. Bain expressed his gratitude to the team at Cambridge Associates for providing the requested information on Japan. Cambridge Associates then left the meeting.

Mr. Bain reminded the Subcommittee about the confidentiality of the RFP process for independent investment advisory services.

Adjournment

There being no further business, the meeting was adjourned at 10:10 a.m.

Respectfully submitted,

Samuel Bain, Chair