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, October 20, 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*

OTHER TRUSTEES PRESENT: Board Chair Robert Cioffi*

PERSONS ALSO PARTICIPATING: Assistant Controller for Tax and Treasury Services, Kathy Snell*; Assistant Board Coordinator Erin St. John; Bets Kent*, LaRoy Brantley* 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 September 15, 2010 meeting.

Update on Portfolio Rebalancing

Chair Samuel Bain opened the meeting by updating the Subcommittee with the recent portfolio rebalancing transactions executed since the September ISC meeting. He noted the receipt of $3.8 million from Morgan Stanley Prime Property Fund’s full redemption. He reported the reduction of Emerging Market exposure by the $1.5 million redemption of Aberdeen funds which were subsequently reinvested with Mondrian.

Discussion ensued regarding the reinvestment in the Real Assets class of funds from the Morgan Stanley redemption. Trustee Susan Hudson-Wilson reported that ING Clarion, the owner of the Clarion Lion real estate fund, in which the University holds a position, may be undergoing material change. The Subcommittee agreed it would be prudent to be evaluating Clarion alongside other opportunities. Discussion ensued about identifying an inflation hedging instrument to correlate with future inflation, and the pros and cons of individual direct investment vs. a real estate fund of funds. Ms. Bets Kent noted that Cambridge Associates follows the opportunistic and value-added direct real estate options more closely than the co-mingled open-end funds. Ms. Hudson-Wilson agreed to consult with Cambridge Associates Real Estate research team to identify fund of fund managers in the real estate market.
Cambridge Associates was also asked to provide a list of the liquid real estate fund options (non-REITs) in Mutual Funds.

**The Subcommittee unanimously agreed to place a $2 million additional subscription with BlackRock All Cap Energy.**

The Subcommittee will revisit the Real Estate market options at the December meeting.

**Asset Allocation and Performance Update**

Ms. Kent led the discussion and review of the preliminary results for the month ending September 30, 2010. She noted the overall return of the pool for the month approximates 5.9% (a preliminary estimate). Mr. LaRoy Brantley mentioned that September had the best month of S&P returns in 71 years. He also noted that 2010 has been a year of high volatility in the market. It was further noted that the asset allocation is close to target and no recommendations are in place for reallocating funds in the pool.

**Hedge Fund Search**

Ms. Kent directed the members to the discussion materials provided for the Open-Mandate / Multi-Strategy Hedge Fund manager search. She and Mr. Brantley provided an overview of the six prospective products (five managers) identified as potential candidates for UVM’s current absolute return hedge fund program. Following the review and discussion, the Subcommittee requested that Cambridge Associates contact 3 hedge fund managers to arrange for telephone interviews at an upcoming meeting.

**Investment Policy Draft Review**

Chair Bain directed the members to the revised draft of the Statement of Investment Policies and Objectives (renamed from Statement of Investment Objectives and Policies and appended as Attachment A), updated by Cambridge Associates based on Subcommittee feedback since the last meeting. A motion was made, seconded, and the Subcommittee members unanimously agreed to adopt the revised Statement, to be submitted to the Budget Finance & Investment Committee for approval.

**Manager Watch List**

Chair Bain led the discussion of the draft Investment Manager Watchlist prepared by Cambridge Associates. The members reviewed the criteria for placing a manager on the Watchlist. Following the review and discussion the Subcommittee agreed to modify Criteria C to incorporate either a 1 year or 3 year rolling Average Annual Compound Return. The revised draft will be reviewed at the next meeting.
SRIWG Update

Ms. Erin St. John reported on the Socially Responsible Investing Work Group meeting held on October 14, 2010. The Work Group is currently reviewing and revising their procedures and protocols. The focus of the meeting was to prioritize their work list. Several Work Group members agreed to conduct further research relating to the highest priority items on the work list and will report their findings at the November 4th meeting. The Work Group was also presented information concerning the Sustainability Tracking, Assessment & Rating System (STARS) hosted through the Association for the Advancement of Sustainability in Higher Education (AASHE), that evaluates a University’s sustainability rating.

Ms. St. John informed the Subcommittee that the Work Group has two proposals, carried over from Spring Semester 2010, which will be reviewed next semester. One proposal recommends divestment from companies that are associated with the Israeli military, and the second proposal recommends divestment from companies involved in gene patenting. She also reported that Vice President for Finance and Administration Richard Cate has received three new proposals, in response to his Fall 2010 call for proposals. Vice President Cate is currently reviewing these to decide whether to forward to the Work Group for their consideration next semester.

Workplan

The Subcommittee adopted the workplan thru the end of the calendar year. The topic of “Long-Only Global Common Stock Review” planned for the November meeting will be deferred and replaced with the hedge fund manager interviews.

Tail Risk Hedging

Due to time constraints, the group postponed the discussion on Tail Risk Hedging until a later date.

Other Business

Due to a scheduling conflict for one of the members, Mr. Bain requested for Erin St. John to contact the Subcommittee members to rearrange the date for the November meeting, as well as identify a new date for the January asset allocation meeting in Boston.

Adjournment

There being no further business, the meeting was adjourned at 10:08 a.m.

Respectfully submitted,

Samuel Bain, Chair
UNIVERSITY OF VERMONT

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES

I. INTRODUCTION

This statement is issued by the Investment Subcommittee (the “ISC”) of the Board of Trustees of the University of Vermont (the “Board”). The ISC was established by the Board and the Budget, Finance and Investment Committee in late 2006 and charged with oversight of investment strategy and investment managers for the Long-Term Investment Pool, including the Endowment Fund, collectively called the “Fund”, of the University. The policy statement will be reviewed annually and modified by the ISC as conditions warrant.

II. FIDUCIARY STANDARDS

The Board, the ISC, the Treasurer and investment staff, and any third-parties (e.g., investment managers) retained to advise the Board, the ISC, the Treasurer and/or investment staff as to investment strategy and management (any and all of whom may be referred to as “Responsible Parties”) shall exercise their responsibilities with respect to the Fund’s assets in compliance with the requirements of the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), enacted in the state of Vermont in 2009. In accordance with UPMIFA, key facets of the Responsible Parties’ roles include:

- Acting in good faith, with the care an ordinarily prudent person would exercise;
- Incurring only reasonable costs in investing and managing charitable funds;
- Making decisions about each asset in the context of the portfolio of investments, as part of an overall investment strategy;
- Diversifying investments unless due to special circumstances, the purposes of the Fund are better served without diversification;
- Disposing of unsuitable assets; and
- In general, developing an investment strategy appropriate for the Fund and the University.

III. RESPONSIBILITIES of INVESTMENT SUBCOMMITTEE

Responsibilities and goals of the ISC include:

- Ensuring that current and future spending requirements are supported while also preserving the real purchasing power of the Fund;
- Achieving an optimum level of return within specified risk tolerances;
- Developing a sound and consistent investment policy including asset allocation, diversification and rebalancing guidelines;
- Selecting and maintaining qualified investment managers and consultants;
• Monitoring and evaluating results to ensure that policy guidelines are being adhered to and that policy objectives are being met; and
• Taking action under appropriate circumstances to discharge an investment manager or advisor for failing to perform in terms of stated expectations.

The ISC is authorized to delegate certain responsibilities to staff to assist in properly meeting the overall responsibilities as outlined above.

IV. CONFLICT OF INTEREST POLICY

In addition to the responsibilities set forth in the Board of Trustees’ Conflicts of Interest policy, it is the responsibility of the ISC members to disclose to the ISC Chair any situation in which there may be reasonably construed to be a perceived or actual conflict of interest. The ISC Chair will work with the members to determine an appropriate response.

The ISC will generally not consider investments in funds directly managed by a member of the ISC. In addition, a member of the ISC employed by an investment or other firm that provides services to the Fund will recuse him/herself from all discussions and votes on existing or potential investments or other services managed or provided by that firm. The ISC recognizes, however, that certain exceptions to this policy may be appropriate. Such exceptions will be made only upon a majority vote of the disinterested members of the ISC.

In the event that the ISC is considering an investment in an access-constrained investment opportunity, any ISC member wishing to invest for his/her own benefit in such an opportunity shall notify the ISC Chair in writing.

V. MORAL, SOCIAL AND ETHICAL CONSIDERATIONS IN INVESTMENT STRATEGY

The University’s policy of fiscal prudence shall not preclude the consideration of moral, ethical and social criteria in determining companies in which to invest.

The University may take an active role on request in pursuing shareholder resolutions through proxy resolutions and other means in order to further its goal of investing in firms that produce safe and useful products in accordance with moral, ethical and social criteria. Investment managers may be asked to address various company or sector weights within their respective portfolios to help the University meet its social investing goals.

VI. FINANCIAL & INVESTMENT OBJECTIVES

The overall financial objectives of the Fund are to provide a stable and consistent level of ongoing support for the University’s programs through a reasoned spending policy that is also consistent with preserving and hopefully enhancing the real (i.e., inflation-adjusted) purchasing power of the Fund over time.
The primary long-term investment objective of the Fund is to attain a real total return\(^1\) (net of investment management fees) that exceeds the amount being distributed for spending and administration, currently set at 4.75%. This will be measured over the long term, capturing a full market cycle, as it is unlikely that the Fund’s return will meet or exceed the spending rate in each individual year. Other important investment objectives are to achieve annualized returns in excess of the strategic policy portfolio blended benchmark (defined herein), measured over a full market cycle; and to outperform the median return of a pool of endowment funds with broadly similar investment objectives and policies.

VII. ASSET ALLOCATION

The policy portfolio for the Fund is a target or “normal” set of investments, based on long-term return, risk and correlation assumptions that balance the organization’s need for liquidity, preservation of purchasing power, and risk tolerance. Certain investments are made for capital appreciation and return enhancement: global equities, long/short hedge funds, venture capital and private equity; some are made to protect against unanticipated inflation: real estate, energy, timber, commodities, TIPS; and some are made to protect against deflationary periods and to reduce volatility: primarily, high quality intermediate bonds for the former and absolute return hedge funds for the latter. The ISC, with input and assistance from staff and external consultants, shall periodically examine the policy portfolio targets and consider adjustments to the asset allocation as may be appropriate (for example, due to a material change in the capital market assumptions). Changes to the policy portfolio targets will be reviewed and approved by the ISC and presented to the Budget, Finance and Investment Committee and the Board, as necessary.

In addition to being diversified across asset classes, the Fund will be diversified within each asset class. This will provide reasonable assurance that the performance of any single security, issuer or class of securities, or active manager will not have a disproportionate impact on the total Fund performance.

The most current asset allocation / strategic policy portfolio for the Fund is attached as Appendix A.

VIII. REBALANCING

The Fund's actual asset allocation will be monitored monthly and reviewed by the ISC at its regular meetings relative to established policy portfolio targets and allowable ranges. Adjustments may be constrained by practical limits with respect to liquidity and transaction costs, but rebalancing efforts will be made as practicable. Cash flow in or out of the Fund may create an opportunity to shift the allocation closer toward policy targets. The ISC may at times authorize investments in new or developing asset classes that are not part of the strategic policy portfolio at the time of their adoption, with the intention of revising the policy portfolio shortly thereafter.

IX. PERFORMANCE EVALUATION, BENCHMARKS, and ASSET CLASS CHARACTERISTICS

The performance objectives for the total Fund, each asset class and each manager are outlined below, with the purpose of establishing specific parameters for regular and ongoing review. While performance is measured over both short- and long-term periods, the focus and emphasis of performance evaluation is on longer time periods as represented by a full market cycle.

\(^1\) Real total return is the sum of realized and unrealized capital appreciation (or loss) and current income in the form of dividends and interest, adjusted for inflation as measured by the Consumer Price Index.
**Overall Fund**

There are a number of different benchmarks for assessing performance at the overall Fund level:

**Undiversified Benchmark** – this simple market benchmark helps the ISC evaluate the value added from a sophisticated investment program versus a portfolio that could be easily replicated through investment in U.S. index funds. This simple weighted market benchmark should reflect the broad policy allocation between equities and fixed income of the Fund.

**Target Benchmark** – this custom benchmark compares the total return of the Fund to a blended benchmark based on applying the target policy weights of each underlying asset class to the performance of the asset class benchmarks. The individual asset class benchmarks are discussed in the next section.

**Current Allocation Benchmark** – this benchmark is composed of the current allocations for each of the underlying composite asset classes weighted against the corresponding returns of their respective benchmarks.

**Cambridge Associates’ Universe of Endowment Pool Returns** – a universe of over 300 institutions, a broad peer universe against which the ISC compares the Fund’s return. In addition to this broad comparison, the ISC may also compare the Fund’s results to various subsets of this broad universe, which include institutions with similar characteristics.

**Asset Classes & Managers**

Each manager will be expected to outperform (net of fees) a benchmark that is appropriate based on the asset class and style of the manager, over a full market cycle. Performance results will be reviewed with the ISC at its regular meetings and in an interim period when there is a major event (personnel change, for example) at the firm. The manager will be evaluated on long-term performance so that shorter-term failure to meet the benchmark target returns is not an automatic basis for manager termination.

Due to the broad nature of the asset classes and the unique style of managers, it is important to note that the specific benchmark of the individual manager may not necessarily be the same as the benchmark for the particular asset class composite as defined below. For example, the Total U.S. Equity benchmark is the S&P 500 but small cap managers, for example, will be compared to the appropriate small cap benchmarks.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Market Index Used in Target Benchmark</th>
<th>Underlying Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equities</td>
<td>S&amp;P 500, which represents a relatively broad investable universe of U.S. stocks</td>
<td>Portfolios are expected to focus on investments in the U.S. equity market.</td>
</tr>
<tr>
<td>Non-U.S. Equities</td>
<td>MSCI All-Country World Index ex-US (ACWI)</td>
<td>Portfolios are expected to focus on the world’s developed and developing equity markets, excluding the U.S.</td>
</tr>
<tr>
<td>Marketable Alternatives</td>
<td>ML 90-day Treasury-bills + 5%</td>
<td>Investment mandates may include: multi-strategy arbitrage, event arbitrage,</td>
</tr>
<tr>
<td>Asset Class</td>
<td>Benchmark</td>
<td>Description</td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>----------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>distressed securities, credit/capital structure arbitrage and long/short equity investments in global markets.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Venture Capital</td>
<td>S&amp;P 500 + 5%</td>
<td>This asset class includes non-publicly traded securities. Market values and return information are lagged by one quarter, as the underlying investments are not readily valued at the close of the latest quarter.</td>
</tr>
<tr>
<td>Private Equity</td>
<td>S&amp;P 500 + 5%</td>
<td>This asset class includes non-publicly traded securities such as buyout funds and distressed debt. Market values and return information is lagged by one quarter, as the underlying investments are not readily valued at the close of the latest quarter.</td>
</tr>
<tr>
<td>Real Estate (private)</td>
<td>CPI-U + 5%</td>
<td>Investments will be predominately in private real estate funds invested in various segments of the real estate market, including: office, industrial, multi-family, and retail.</td>
</tr>
<tr>
<td>Natural Resources and Timber (private)</td>
<td>CPI-U + 5%</td>
<td>Investments will be in private oil and gas transactions and in timberland, possibly including related logging operations.</td>
</tr>
<tr>
<td>TIPs and Commodities</td>
<td>CPI-U + 5%</td>
<td>Holdings consist of U.S.-issued TIPs and diversified commodities futures positions</td>
</tr>
<tr>
<td>Core Fixed Income</td>
<td>Barclays Capital Aggregate Bond Index</td>
<td>Holdings consist of U.S. Treasury bonds, mortgages, and corporate credit investments.</td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>ML 90-day Treasury-Bill index</td>
<td></td>
</tr>
</tbody>
</table>

Individual manager accounts will be monitored for consistency of each manager’s investment philosophy and process, return relative to objectives, investment risk as measured by asset concentrations, exposure to extreme economic conditions, and market volatility. In the broadest sense, the monitoring process is intended to confirm that the reasons the manager was initially retained still hold true.
X. MANAGER GUIDELINES

Investment managers will be hired for a specific skill set, and the resulting investments will be made either through separately managed accounts or pooled vehicles. Each manager of a separate account will adhere to the firm’s stated philosophy and investment strategy. Where investments are in commingled funds, mutual funds, off-shore funds or limited partnerships, the permissible investments are governed by the appropriate fund prospectus or offering memorandum. Some of these products permit the use of derivatives for certain investment strategies and in instances where a manager has demonstrated skill in effectively utilizing these instruments. For example, they may be used in reducing risk or replacing positions to gain flexibility and efficiency.

XI. MANAGER REPORTING

Each investment manager of marketable assets will provide monthly portfolio valuations and total return net of all commissions and fees. On a quarterly basis, managers will report current holdings at cost and at market value, and purchases and sales for the quarter. Traditional marketable managers may be required to reconcile records of holdings, transactions, and dividend/interest income with the Fund’s custodian on a periodic basis. Specialty managers (who manage hedge funds and non-marketable partnerships) will report on portfolio details with as much transparency as possible. Each of these managers will provide annually their most recent audited financial statements, which include the basis of accounting and the auditor’s opinion. In addition, each specialty manager will disclose its respective valuation policies and procedures on an annual basis.

Regular communication from all managers concerning investment strategy and outlook is expected. The ISC will regularly review a Watch List that is maintained to highlight managers’ relative performance when it is outside the normal range or expected returns, new organizational issues, and/or any significant changes in strategy that raise concerns. Additionally, managers are required to inform the University of Vermont of any significant change in firm ownership, organizational structure, professional personnel, or fundamental investment philosophy. Managers will also send a copy of their form ADV to the University at least annually.

XII. PROXY VOTING GUIDELINES

University of Vermont’s Endowment Accountant votes the shareholder proxies.

XIII. GUIDELINES FOR TRANSACTIONS

As a general guideline that should apply to all assets managed, transactions should be entered into on the basis of best execution, which is interpreted normally to mean best realized price.
APPENDIX A

ASSET ALLOCATION POLICY TARGETS

*Revised as of January 2010*

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target (%)</th>
<th>Allowable Range (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Fund</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Equity</td>
<td>25.0</td>
<td>15-30</td>
</tr>
<tr>
<td>Global ex U.S. Equity</td>
<td>25.0</td>
<td>15-45</td>
</tr>
<tr>
<td>Developed Markets</td>
<td>14.0</td>
<td>10-25</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>11.0</td>
<td>5-20</td>
</tr>
<tr>
<td>Marketable Alternatives</td>
<td>17.5</td>
<td>15-25</td>
</tr>
<tr>
<td>Real Assets (Inflation Hedging)</td>
<td>12.5</td>
<td>10-25</td>
</tr>
<tr>
<td>Private Equity / Venture Capital</td>
<td>10.0</td>
<td>5-20</td>
</tr>
<tr>
<td><strong>Subtotal Equity</strong></td>
<td><strong>90.0</strong></td>
<td></td>
</tr>
<tr>
<td>Fixed Income Fund</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Income</td>
<td>8.0</td>
<td>5-25</td>
</tr>
<tr>
<td>Cash &amp; Cash Equivalents</td>
<td>2.0</td>
<td>0-5</td>
</tr>
<tr>
<td><strong>Subtotal Income/Cash</strong></td>
<td><strong>10.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Revised as of January 2010*