A meeting of the Investment Subcommittee (ISC) of the Board of Trustees of the University of Vermont and State Agricultural College was held on Wednesday, April 27, 2011, at 8:30 a.m. in the President’s Conference Room, 351 Waterman Building, Burlington, Vermont.

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

MEMBERS ABSENT: None

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; LaRoy Brantley* and Christopher Warren* of Cambridge Associates (CA)

*By means of conference telephone.

Chair Samuel Bain called the meeting to order at 8:31 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the March 22, 2011 meeting. A motion was made, seconded and voted to approve the minutes April 12, 2011 meeting.

Approval of Proposed List of Approved Managers

Chair Bain opened the meeting by directing the members’ attention to Proposed List of Approved Managers/Funds Pursuant to Cash Management Policy. A motion was made, seconded and unanimously voted to approve the list of managers as appended.

Approval of Asset Impairment Guidelines

The Subcommittee reviewed the proposed Impairment of Investments Guidelines. A motion was made, seconded and voted unanimously to approve the Guidelines as presented and appended.

Approval of Socially Responsible Investing Work Group Reaffirmation of Divestment Resolutions

The Subcommittee conducted the annual review of the following Reaffirmation of Divestment Resolutions, put forth by the Socially Responsible Investing Work Group (SRIWG). The SRIWG is recommending amendments to these resolutions as shown with track changes below.
Reaffirm Divestiture from Sudan

RESOLVED, that the Board of Trustees reaffirms its Resolution for Divestment from Sudan, as adopted by the Board on May 18, 2006, and amended by the Executive Committee on June 12, 2006 (stated below);

BE IT FURTHER RESOLVED, that the Budget, Finance and Investment Committee, as successor to the Committee on Socially Responsible Investing, will review this resolution on an annual basis.

Resolution for Divestment from Sudan

WHEREAS, the University’s Policy Statement on Moral, Social and Ethical Considerations in Investment and Shareholder Resolutions holds that the primary objective of investment by the University is to provide a satisfactory return on investment for the support of University operations based upon the Prudent Investor Rule; and

WHEREAS, the Policy Statement also holds, however, that the policy of fiscal prudence shall not preclude the University from considering moral, ethical, and social criteria in determining companies in which to invest; and

WHEREAS, a balanced group of the University community has been convened as the Committee on Socially Responsible Investing and has studied the issue of genocide in the Darfur region of Sudan and has made recommendations to the Investment Committee of the Board of Trustees;

THEREFORE, BE IT RESOLVED, that the University adopt and implement a policy of targeted divestment from companies doing business with or otherwise aiding the governing regime of Sudan based on the model developed by the Sudan Divestment Task Force;

BE IT FURTHER RESOLVED, that the University implement its divestment policy to the fullest extent consistent with its fiduciary responsibilities; and

BE IT FURTHER RESOLVED, that the Socially Responsible Investment Work Group will review and reaffirm this resolution on an annual basis.

Reaffirm Divestiture from Companies Manufacturing or Distributing Cluster Munitions and/or Military Items Containing Depleted Uranium

RESOLVED, that the Board of Trustees reaffirms its Resolution for Divestment from Companies Manufacturing or Distributing Cluster Munitions and/or Military Items Containing Depleted Uranium as adopted by the Board on May 15, 2009 (stated below);

BE IT FURTHER RESOLVED, that the Budget, Finance and Investment Committee will review this resolution on an annual basis every five years.
Resolution Regarding Divestment from Companies Manufacturing or Distributing Cluster Munitions and/or Military Items Containing Depleted Uranium

WHEREAS, the board reaffirms its commitment to “Our Common Ground” and its stated values of “justice” and “responsibility”; and

WHEREAS, 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, and that the University will 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 accord with moral, ethical and social criteria; and

WHEREAS, reaffirming the Declaration of the Oslo Conference on Cluster Munitions, by which, inter alia, States recognized the grave consequences caused by the use of cluster munitions and committed themselves to conclude by 2008 a legally binding instrument that would prohibit the use, production, transfer, and stockpiling of cluster munitions that cause unacceptable harm to civilians, and would establish a framework for cooperation and assistance that ensures adequate provision of care and rehabilitation for victims, clearance of contaminated areas, risk reduction education, and destruction of stockpiles; and

WHEREAS, weapons containing depleted uranium have potentially harmful effects on human health and the environment and do so indiscriminately;

BE IT RESOLVED, that the Budget, Finance & Investment Committee recommends University divestment from companies that are materially engaged in the manufacture of:

a) Cluster munitions as defined by the Oslo Treaty of December 2008.

b) Military equipment and/or weapons containing depleted uranium.

BE IT FURTHER RESOLVED, that the Socially Responsible Investment Work Group recommends that this resolution be reviewed and reaffirmed every five years, and will review and reaffirm this resolution on an annual basis.

A motion was made, seconded and voted unanimously to approve the resolutions as amended.

Approval of Quasi-Endowment Policy

Chair Bain directed the members’ attention to proposed policy regarding Quasi-Endowments. The following resolution was presented for approval.

Resolution Approving Quasi-Endowment Policy

BE IT RESOLVED that the Board hereby approves the adoption of the Quasi-Endowment Funds Policy, as recommended by the Budget, Finance and Investment Committee and appearing here as Attachment 5.
BE IT FURTHER RESOLVED that, until the Board rules otherwise, responsibility for
the review and approval of proposals for the establishment, alteration, or termination of
specific quasi-endowment funds is delegated to the Investment Subcommittee.

Following a brief discussion surrounding background information for drafting the policy, a
motion was made, seconded and unanimously voted approve the policy, as appended, for
recommendation to the Budget, Finance & Investment Committee.

Chair Bain requested that a report listing the existing quasi-endowment funds be included in the
May 2011 Board of Trustees meeting materials.

**Approval of Quasi-Endowed Fund**

The following resolution was presented for approval:

**Resolution to Establish the Bartlett H. and Mable L. Stone Scholarship Fund**

WHEREAS, the University has received just over $790,000 from the estate of Mable
Stone, designated to support in-state medical students as recipients of the “Bartlett H. and
Mable L. Stone Scholarship”; and

WHEREAS, $30,000 has already been disbursed as scholarship aid to medical students;
and

WHEREAS, the Dean of the College of Medicine has requested that the remaining
balance of over $760,000 be placed in a quasi-endowment that will produce
approximately $30,000 per year to fund the Bartlett H. and Mable L. Stone Scholarships;

NOW THEREFORE BE IT RESOLVED, that the Investment Subcommittee approves
the creation of the Bartlett H. and Mable L. Stone Scholarship Fund as a quasi-
endowment within the University’s consolidated endowment pool.

A motion was made, seconded and unanimously voted to approve the resolution for
recommendation to the Budget, Finance & Investment Committee.

**Recent Market Returns**

Mr. Brantley of Cambridge Associates directed the Subcommittee members to the exhibits in the
discussion materials which provided information on recent market returns. He reviewed the
charts presented and highlighted the activity for March 2011. In particular, he noted that natural
disaster and geopolitical events led to a steep decline in the overall market in the middle portion
of the month, which was followed by a strong resurgence during the last third of March that led
to overall positive returns on an absolute basis for the first quarter of 2011. Mr. Brantley
discussed the volatility in emerging markets equity and noted that the MSCI Emerging Markets
Index had a 6% return for the month of March after being down 3.6% though February. He
further noted the positive impact of currency translation on non-U.S. market returns as EAFE
and Emerging Market indices both benefited from a weak dollar for the quarter and trailing one
year periods. Mr. Brantley commented that REITs and commodities were the strongest performing asset classes for the quarter. In addition, he emphasized the necessity for diversification in the portfolio, which offers protection during periods of high volatility. Mr. Brantley then directed the members to the Asset Allocation/Rebalancing chart and noted recently approved fundings and prospective transfers among asset classes.

Funds Manager

At 9:02 a.m., Chair Bain entertained a motion to enter into executive session for the purpose of discussing contract negotiations. The motion was seconded and approved. All in attendance remained for executive session.

The meeting was re-opened to the public at 9:59 a.m. David Daigle and Susan Hudson-Wilson exited the meeting.

Other Business

A brief discussion resumed surrounding the Asset Allocation/Rebalancing. Chair Bain requested that this topic be revisited during the May meeting, suggesting that Cambridge Associates provide an updated summary of existing uncalled private investment commitments in the portfolio at that time.

Adjournment

There being no further business, the meeting was adjourned at 10:12 a.m.

Respectfully submitted,

Samuel Bain, Chair
Proposed List of Approved Managers / Funds pursuant to Cash Management Policy (“Allowable Assets for Asset Groups”)

**Short-term pool:**

- Demand Deposit Account
- Repurchase Agreement
- Certificate of Deposit
- Money Market Deposit Account
- Line of Credit

**Intermediate-term pool:**

- Laddered bond portfolio,
- Laddered treasury portfolio: TD Wealth Management
  - Edward Jones
  - Morgan Stanley Smith Barney
  - Merrill Lynch
  - Raymond James Financial Services
  - UBS Financial Services
  - Wells Fargo Advisors

**Intermediate Term Bond Fund** Commonfund*

**Long-term pool:**

- Units of the University of Vermont’s Pooled Endowment

*This fund is listed only because the University still holds assets in these funds pending market recovery. After they are liquidated, the University will not be reinvesting in them.
Impairment of Investments

Objective

This procedure outlines the impairment testing process and the resultant accounting transactions as they relate to the University’s Annual Financial Report.

Basis of Investment Impairment Testing

Investments are deemed impaired, and recognized on the Statement of Revenues, Expenses, and Changes in Net Assets, when all of the following occurs:

1. The fair value of the investment has dropped significantly below cost.
2. There is a prolonged decline in the fair value.
3. The investment’s impairment is considered other-than-temporary and is not likely to recover within a reasonable period of time.

Procedure

Each year the Controller’s Office will review the University’s investment portfolio, to assess whether any holdings are deemed to be impaired as of June 30th. Holdings that are deemed to be impaired will be presented to the Investment Sub-Committee for review and discussion prior to any final write-down. The impaired investments will be recognized in the Statement of Revenues, Expenses, and Changes in Net Assets as a realized loss. The reduced value of the holding will also be reflected on the Statement of Net Assets. Once action is taken the Vice President for Finance and Administration will report to Investment Subcommittee and the Board of Trustees the action taken and the effect on the financial statements of the University.
Policy V

Responsible Official: Vice President for Finance and Administration

Effective Date:

Quasi-Endowment Funds

Policy Statement

The University, through its Board of Trustees, may establish, alter, or terminate quasi-endowment funds. A quasi-endowment fund functions in substantially the same manner as a true or permanent endowment fund, except that (1) the terms of a quasi-endowment fund are established by the University, not by an external donor, and (2) the University may spend down the principal of a quasi-endowment fund under the authority of the Board. If the original source of a quasi-endowment fund is a restricted gift or other restricted assets, the fund must retain the restricted purpose as originally specified, and the fund’s principal and earnings may be expended only for that purpose.

Reason for the Policy

From time to time the University may decide to designate assets as quasi-endowment funds. These funds gain the benefit of the earning power of the University’s consolidated endowment pool while retaining the flexibility to be expended in whole or in part. Because the creation, management, and termination of quasi-endowment funds involve the University’s consolidated endowment pool, they may proceed only with the approval of the Board of Trustees. These funds create a mechanism for the University to save and invest sums of money to be spent over time to achieve long-range academic objectives.

Strategic Direction

This Policy supports the following strategic objective:

- Ensure that the resources, facilities, and support programs are available and policies and procedures are in place to attract, recruit, and retain the very best scholars to UVM.

Applicability of the Policy

This policy applies to all University of Vermont faculty, staff, and students and to all academic and non-academic units.
Policy Elaboration

A minimum asset value of $50,000 is necessary to establish a quasi-endowment fund. A department may use its own internal funds for this purpose.

Once established, a quasi-endowment fund’s principal must remain within the consolidated investment pool for at least three years. New cash or assets may be added to a quasi-endowment fund only if that cash or those assets are unrestricted or bear restrictions that are compatible with the established quasi-endowment fund.

Following the establishment of a quasi-endowment fund and the expiration of the three-year lock-up period, its principal may be partially or totally expended only with the approval of the Board.

Definitions

A quasi-endowment fund is an expendable fund designated by the Board of Trustees for medium- to long-term investment. A quasi-endowment fund is established by the Board to function like an endowment fund but may be totally expended at the discretion of the Board. The fund’s assets are invested in the same manner as those of a true endowment and have the same payout provisions.

Procedures

Requests or proposals to establish quasi-endowments must be directed in the first instance to the University Controller. That official may then advance the request or proposal to the Vice President for Finance and Administration, who may bring it to the Board of Trustees.

Forms

(None)

Contacts

Questions related to the daily operational interpretation of this policy should be directed to:

Claire Burlingham, Controller
656-2903

The Vice President for Finance and Administration is the official responsible for the interpretation and administration of this policy.
Effective Date

Approved by:

_________________________  President  __________________________
Daniel M. Fogel  ____________________________  Date

_________________________  Chair Board of Trustees  __________________________
Robert Cioffi  ____________________________  Date