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, August 24, 2011, at 8:30 a.m. in the President’s Conference Room, 351 Waterman Building, Burlington, VT.

MEMBERS PRESENT: Chair Samuel Bain* and David Daigle*

MEMBERS ABSENT: Ian Boyce

PERSONS ALSO PARTICIPATING: Vice President for Finance and Administration and Treasurer Richard Cate; Controller Claire Burlingham; Bets Kent*, LaRoy Brantley* and Christopher Warren* of Cambridge Associates.

*By means of conference telephone.

Chair Samuel Bain called the meeting to order at 8:34 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the July 27, 2011 meeting.

Annual Reaffirmation

Mr. Bain led discussion surrounding the reaffirmation of the Endowment Administration Fee Policy and the Endowment Budget Policy. A short discussion ensued regarding the continuation of the fee rate in relation to the establishment of the Foundation. Mr. Cate explained that the workload on the current Endowment will remain constant and the fee supports the salaries of the people in the Controller’s office who work on the Endowment. He also noted the component of the rate that related to the Development Office was removed two years ago.

The following resolutions were presented for approval to present to the Budget, Finance and Investment committee at the October Board meeting.

Resolution Reaffirming Endowment Administration Fee Policy

RESOLVED, that the Endowment Administration Fee Policy is reaffirmed as reads below:

BE IT RESOLVED, that the Board of Trustees hereby approves a 0.25 percent fee applied to the University’s Endowment, to cover reasonable costs associated with endowment administration, management and operation; and

BE IT FURTHER RESOLVED, that on a fiscal year basis, the fee will be reviewed and assessed annually as 0.25 percent of the average market value of the University’s
Endowment for the previous thirteen quarters ending December 31 of the prior calendar year; and

BE IT FINALLY RESOLVED, that the Investment Subcommittee will review and make recommendation to the Budget, Finance and Investment Committee regarding the reaffirmation or revision of the Endowment Administration Fee Policy each year no later than October 31.

Adopted by: Board of Trustees - September 13, 2003
Reaffirmed: Board of Trustees - September 8, 2007
           Board of Trustees - September 5, 2008
Amended:   Board of Trustees - October 24, 2009
Reaffirmed: Board of Trustees – October 30, 2010

Resolution Reaffirming the Endowment Budget Policy

RESOLVED, that the Endowment Budget Policy is reaffirmed as reads below:

BE IT RESOLVED, that the annual budget for spending from Endowment be set at 4.5 percent of the average market value for the previous thirteen quarters ending December 31 of the prior calendar year; and

BE IT FINALLY RESOLVED, that the Investment Subcommittee will review and make recommendation to the Budget, Finance and Investment Committee regarding the reaffirmation or revision of the Endowment Budget Policy each year no later than October 31.

Adopted by: Board of Trustees - May 13, 1995
Reaffirmed: Board of Trustees - September 8, 2007
           Board of Trustees - September 5, 2008
           Board of Trustees - October 24, 2009
           Board of Trustees – October 30, 2010

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

Recent Market Returns

Ms. Kent directed the Subcommittee to the Market Update report in the meeting materials. She noted the recent turmoil and volatility in the market and especially commented that the volatility is expected to continue. Ms. Kent also directed the members to current valuations summary, noting the recent changes, specifically that fixed income now resides in the ‘Very Overvalued’ column on the chart.
Quarterly Performance as of June 30, 2011, Flash Report as of July 31, 2011 and Mid-August Estimate

Ms. Kent then led the review of the performance exhibits in the meeting materials and particularly noted that the portfolio delivered an excellent return of +23.5% for the Fiscal Year ending June 30, 2011. Although the return for the quarter ending June 30 was down -0.1%, Ms. Kent noted the return for the fiscal year surpassed the C/A median of +19.6%, placing UVM in the top decile of the Cambridge Universe. Mr. Brantley then directed the Subcommittee to the Flash Report as of July 31, 2011. He noted that although July was also a negative month, the portfolio outperformed the median and held up reasonably well due to its diversification. Cambridge Associates highlighted the investment managers who had outlying performance.

Discussion ensued surrounding the S&P 500 and the S&P 100 index product allocations and how to best position the portfolio in these two sectors. Chair Bain requested that C/A research and analyze the position with consideration of moving assets from the S&P 500 to S&P 100. Mr. Warren then directed the Subcommittee to the performance estimates in the handout thru August 22nd. He noted the U.S. Equity sector returns were -12 to -15%, while the Hedge Funds returned anywhere from -2% to -8%, and the estimated total month to date return on the portfolio was -7.7%. Mr. Warren highlighted the outlier managers and mentioned that the returns may rebound given the positive activity on August 23rd. Ms. Kent commented that the Subcommittee may consider rebalancing the portfolio at the next meeting.

Debrief of July Meeting

Ms. Kent directed the members to the July meeting debrief document and noted the summaries of Fund Managers which had been discussed in executive session. The Subcommittee members expressed their appreciation for the excellent summary and for the structure of the July meeting.

Emerging Markets Diversification

Chair Bain initiated a discussion surrounding the Emerging Markets Diversification and how to proceed with restructuring within this asset allocation segment. The Subcommittee considered the various scenarios presented by Mary Jo Palermo at the July meeting. Mr. Brantley directed the Subcommittee to the exhibits in the meeting discussion materials to review the various approaches to diversifying emerging market exposure from just long-only equity. The members discussed various approaches with the goal of obtaining the most favorable outcome. Ms. Kent commented that a reconfiguring of UVM’s Emerging Market exposure towards greater diversification could dampen the impact of market volatility. Following the discussion, Mr. Bain requested that Cambridge Associates prepare an analysis and model of restructured exposure at a 15% allocation level across the different asset classes discussed.

Non-Marketable Alternative Assets/NMAA Performance Report as of March 31, 2011

Chair Bain requested that this topic be postponed until the September meeting.
Proposed Workplan / Future Meeting Dates

Cambridge Associates directed the Subcommittee to the draft in the meeting materials for the proposed 2012 meeting dates. Mr. Bain commented that he will review his and others’ calendars and revisit the schedule at the September meeting.

Other Business

Chair Bain requested that Mr. Cate and Ms. Burlingham provide an update on the Socially Responsible Investing Work Group activity at the September meeting.

Adjournment

There being no further business, the meeting was adjourned at 10:03 a.m.

Respectfully submitted,

Samuel Bain, Chair