A meeting of the Investment Subcommittee (ISC) of the Board of Trustees of the University of Vermont State and Agricultural College was held on Friday, January 21, 2011, at 8:30 a.m., at Cambridge Associates, 100 Summer Street, Boston, MA.

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

MEMBERS ABSENT: None

OTHER TRUSTEES PRESENT: Robert Cioffi

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

*By means of conference telephone.

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

December 15, 2010 Meeting Minutes

The minutes of the December 15, 2010 meeting were discussed briefly, and it was decided that there would be further review and edits by Vice President for Finance and Administration Richard Cate and Chair Bain prior to presenting these for approval at the next meeting.

Follow Up Items from Prior Conference Calls

Hedge Fund Manager Funding Update

The status of hedge fund manager documents for two new managers was discussed; internal staff will proceed with the paperwork and fundings.

Benchmark Review

Mr. Brantley led a discussion regarding the three benchmarks used by UVM to assess total Long Term Pool performance: the Undiversified Benchmark, the Target Benchmark, and the Current Asset Allocation Benchmark. This incorporated a discussion of the pros and cons of looking at an index benchmark plus a premium (for example, T-bill return + 4%) versus focusing on something that is truly investable and also exhibits more volatility. The ISC decided to look at some forms of attribution analysis that CA will provide at the next meeting; if well-received this will be included in future reports. As part of the benchmark discussion, there was some review of active versus passive management in the U.S. Equity manager structure – this topic will be included in an upcoming meeting.
TIPS

Cambridge Associates’ material included the current view on TIPS valuations, which is that they are basically overvalued on a stand-alone basis, but are also reasonably attractive compared to nominal Treasuries. Some ISC members were of the opinion that other types of inflation protection are more attractive than TIPs. Given that the LTP’s exposure is relatively low to this asset class, the decision was to stay with the status quo while continuing to look at other parts of the real assets / inflation hedging space for any better alternatives.

Watch List Criteria

Cambridge Associates presented a page of criteria that included looking at the one-year trailing returns for the managers versus their stated index benchmarks. The watch list criteria would involve setting a performance hurdle (to be determined upon hiring) for each manager. The example shown for the meeting used 200 bps underperformance of the index and 400 bps outperformance. Trustee David Daigle asked for backtesting so that the ISC could review how the current manager roster would have looked in terms of being on/off the watch list over time. CA will present that information as well as recommendations for each manager (in terms of benchmark and hurdle rate). For hedge funds, it was decided that their returns would be compared to that of the overall portfolio.

Tail Risk Hedging

Wellington Management Company (Gordie Lawrence, Michele Hicks, Adele Kohler) joined the meeting and gave a thorough presentation on the firm’s tail risk hedging product, the Downside Protection Program. The strategy is a put spread approach based on purchasing out of the money S&P 500 put options and selling one-half as many further out of the money put options (with specified pricing parameters in terms of how far from strike price the options are. The positions are rolled on a quarterly basis. There is an opportunity to add value in the management of the options and timing of the roll as opposed to a purely passive approach. Wellington’s product will have quarterly entry/exit and a management fee of 5% of invested capital (not notional value). The ISC asked to be kept informed as to the pricing of 1-year put spreads, and will continue to evaluate this product as the market environment evolves.

Market Update and Performance

Cambridge Associates briefly presented the estimated returns for the month of December. It was a strong month for the markets and for many of UVM’s managers. The November performance data was included in the meeting materials as well.

Non-Marketable Alternative Asset Market Overview & Discussion

Walter Murphy, a non-marketable alternative asset (NMAA) specialist consultant at Cambridge Associates (CA), gave a presentation over lunchtime as to how CA views the current outlook and landscape of opportunities in NMAA. This included discussions of private equity / venture capital, natural resources and the various ways to play that broad area, real estate, and secondary private equity products. The ISC was in agreement that these are all interesting areas of the
portfolio, both current and prospectively, and will pursue this discussion as part of the ongoing workplan.

**Asset Allocation Discussion**

ISC members and CA provided their views of how the portfolio targets should be positioned looking forward. After a thorough discussion, the following changes were voted on and approved by the ISC:

<table>
<thead>
<tr>
<th></th>
<th>Current (%)</th>
<th>New (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Equity</td>
<td>25</td>
<td>24</td>
</tr>
<tr>
<td>Global ex-US – Developed</td>
<td>14</td>
<td>12</td>
</tr>
<tr>
<td>Global ex-US – Emerging Mkts</td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td>Marketable Alternatives</td>
<td>17.5</td>
<td>20</td>
</tr>
<tr>
<td>VC/PE</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Real Assets</td>
<td>12.5</td>
<td>15</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Cash</td>
<td>2</td>
<td>0</td>
</tr>
</tbody>
</table>

The ISC also looked at the Long-Term Pool’s asset allocation “buckets” in a different format, with four categories – Growth Engine; Diversification/Volatility Reduction; Deflation Protection; Inflation Protection. ISC members liked this realignment (which is a variation on how they have looked at the portfolio in prior meetings) and will address potential targets for this classification at a later meeting. Future meetings will also address how to move the portfolio closer to the new targets expressed above.

**Adjournment**

There being no further business, the meeting was adjourned at 2:48 p.m.

Respectfully submitted,

Samuel Bain, Chair