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, November 16, 2011, at 8:30 a.m. in the President’s Conference Room, 351 Waterman Building, Burlington, Vermont.

MEMBERS PRESENT: Chair Samuel Bain*, David Daigle*, and Ian Boyce*

MEMBERS ABSENT: None

OTHER TRUSTEES PRESENT: Board Chair Robert Cioffi*

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* and LaRoy Brantley* 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 October 26, 2011 meeting.

Annual Review of the University’s Cash Management Policy and Statement of Investment Policies and Objectives

Mr. Cate provided a brief review of the current balances and structure of the University’s pooled cash. A motion was made, seconded, and the Subcommittee unanimously approved both existing policies as presented.

Socially Responsible Investment Work Group (SRIWG)

Chair Bain led the discussion and began by providing some historical background surrounding the working structure and dynamics of the SRIWG. He explained how socially responsible investing issues are currently brought forward to SRIWG for consideration. He noted that the current process for vetting the SRI proposals presents a concern as to both the consistency of advocacy, and the unanimity of the opinion of the campus. He further explained that the objective is to create an impact on the social issues that have been agreed upon through a process that are of concern. Mr. Bain also explained the divestment process is difficult and it does not have as much of an impact on socially responsible investing as proxy voting. Ms. Burlingham reported on the research that she and her team performed over the past few months on how other institutions address social responsible investing. She noted that 16 public and private institutions
were interviewed. Of the public institutions, she noted that they use proxy voting and none canvas the campus community for initiatives for divestment. The private institutions tend to have a combination of proxy voting and other initiatives. Following discussion, the Subcommittee recommended omitting the call for proposals and concentrating on proxy voting which could have an impact. Chair Bain charged Ms. Burlingham and Mr. Cate to draft a position paper on advocacy and research, with a recommendation to move forward with a faculty-advised student-led group.

**Market Update**

Ms. Kent directed the Subcommittee to the Market Update exhibits in the meeting materials and led the discussion surrounding the recent market returns and activity. She particularly noted that October return was a great rebound from the August and September declines. Ms. Kent directed the members to the current valuations summary and noted Emerging Market Equities moved from Undervalued to Fairly Valued after only one month as Undervalued. She commented that Cambridge Associates (CA) is very cautious about the next several quarters’ activity and they are expecting the market to remain volatile.

**September 30, 2011 Quarterly Report and October Flash Report**

Mr. Brantley directed the members to the exhibits in the meetings materials, emphasizing the "Comparative Performance Review" noting that while the quarter to date return was -11.1%, compared to the -9.8% preliminary endowment median return, the 1 year and 3 year trailing returns were above the median. The University’s long-only equity and inflation hedging asset managers suffered sharp downturns in September, and hedge funds lost money as well. Discussion ensued regarding Hedge Funds and volatility. Mr. Brantley noted that some of the Hedge Funds held up reasonably well in the volatile market and provided some capital preservation for the portfolio.

Ms. Kent directed the Subcommittee to the Flash Report as of October 31, 2011 and noted the return for the month was 6.5% for the portfolio. She highlighted the managers who rebounded in October and performed particularly well and noted the Real Asset allocation was up over 10%. Ms. Kent then noted recent manager developments with some of the investment firms.

**Varde Fund Transition**

Ms. Kent updated the Subcommittee with information regarding the Varde Fund LP consolidating into the newer and larger vehicle, Varde Investment Partners (“VIP”). Currently, 35% of Varde Fund’s assets are illiquid and will be in a sidepocket that will be in run off – no management fee or incentive fee will be charged for the sidepocket. Ms. Kent further explained that redemption would likely be available at December 31, 2011 and otherwise the assets would be combined as of January 1, 2012. She noted the fees for VIP are 1.75%, with no preferred return, compared to the current fee of 1.5% and a 7% preferred return. The Subcommittee requested for Cambridge Associates to provide performance information on the new fund at the December meeting and they will discuss this topic further at the next meeting.
Executive Session

At 9:35 a.m., Chair Bain entertained a motion to enter 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 9:41 a.m.

Private Investments Fund

A motion was made, seconded and unanimously approved to invest $5 million with W Capital Partners III, L.P.

Executive Session

At 9:42 a.m., Chair Bain entertained a motion to enter 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 10:02 a.m.

Future Meeting Dates

The members reviewed the proposed meeting dates for 2012. Mr. Bain requested that Assistant Trustee Coordinator Erin St. John contact the members to confirm the dates.

January Meeting Planning

The Subcommittee reviewed the draft agenda presented by Cambridge Associates for the January 2012 meeting. Discussion ensued surrounding the topics for the day and the Subcommittee requested that the agenda include time to review the Manager Watch List and performance. January 6th was confirmed as the meeting date with a Trustee dinner to be held on January 5th.

Adjournment

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

Respectfully submitted,

Samuel Bain, Chair