INVESTMENT SUBCOMMITTEE
BOARD OF TRUSTEES
UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE

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, December 19, 2012, at 3:00 p.m. in the President’s Conference Room, 351 Waterman Building, Burlington, Vermont.

MEMBERS PRESENT: Chair Samuel Bain*, Robert Brennan* and David Daigle**

MEMBERS ABSENT: None

OTHER TRUSTEES PRESENT: 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; Bets Kent*, Christopher Warren* and Justin Atwood* of Cambridge Associates (C|A).

*By means of conference telephone.
**Joined via conference call at 3:10 p.m.

Chair Samuel Bain called the meeting to order at 3:05 p.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the November 28, 2012 meeting.

Annual Review of University’s Statement of Investment Policies & Objectives

Chair Bain noted that the proposed policy revisions reflect the recent changes in the benchmarks. Following review, a motion was made, seconded, and the Subcommittee unanimously voted to approve the policy as presented for recommendation to the Budget, Finance & Investment Committee. The revised Statement of Investment Policies & Objectives is included as Appendix A.

Discussion of Proposed Revisions to Investment Subcommittee Charge

A motion was made, seconded, and the Subcommittee unanimously voted to approve the proposed changes to the Subcommittee charge as presented for recommendation to the Budget, Finance & Investment Committee. The revised charge is included as Appendix B.

Recent Market Returns

Ms. Kent directed the Subcommittee to the Market Update exhibits in the meeting materials and led the discussion surrounding the recent market performance and trends. She noted that November proved to be a good month for risk assets, bringing the S&P 500 to +15.0% calendar
year-to-date (CYTD). Ms. Kent commented that the European market is rebounding nicely. She further noted that valuations for most risk assets are fairly valued and no major changes have occurred in the valuation statistics.

**Monthly Flash Report as of November 30th**

Ms. Kent next led the discussion surrounding UVM’s performance for the month ending November 30, 2012. She directed the members to the exhibits in the meeting materials and commented that the allocations are close to target. In November 2012, the UVM portfolio returned +1.1%, and CYTD returned +11.1%, beating the preliminary +9.1% average return for comparable institutions. Ms. Kent noted the positive contributors to returns, led by the US Equities, while the non US Equities were up but lagged the benchmark. She further noted that Hedge Funds performed well in November with a +1.1% return. Total Assets for the Long-Term Pool stood at $348.9 million as of November 30, 2012.

**Executive Session**

At 3:28 p.m., Chair Bain entertained a motion to enter executive session for the purpose of discussing contract negotiations. The motion was seconded and approved. All present remained for executive session.

At 4:50 p.m., the meeting was re-opened to the public.

**Fund Managers**

A motion was made, seconded and unanimously approved to fully redeem the invested capital from Highline and Tremblant.

The Subcommittee authorized C/A, with UVM administration, to work with Forester Capital to arrange for increased flexibility in accessing the fund liquidity without incurring additional costs.

**Other Business**

Chair Bain reviewed agenda items to discuss at the February meeting. Ms. Kent noted that C/A will draft the agenda and circulate to the members for review and revisions.

**Adjournment**

There being no further business, the meeting was adjourned at 4:55 p.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.

\(^1\) 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.
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.

**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 fixed 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.

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### 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 [2]</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</td>
<td>ML 90-day Treasury bills + 5% Hedge Fund Research Inc. (HFRI) Fund of Funds Composite</td>
<td>Investment mandates may include: multi-strategy arbitrage, event arbitrage, distressed securities, credit/capital structure arbitrage and long/short equity investments in global markets.</td>
</tr>
<tr>
<td>Alternatives</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>
</tbody>
</table>

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[2] Indices used in Target Benchmark are effective as of November 28, 2012.
<table>
<thead>
<tr>
<th>Category</th>
<th>Benchmark</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<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, secondaries, 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% NCREIF Property Index</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, Commodities, and Natural Resource Equities</td>
<td>CPI-U + 5% Blended Benchmark of Public Real Asset Manager Specific Benchmarks, one-third each: Barclays US TIPS; DJ UBS Commodities Index; BlackRock Custom Energy Equity Benchmark, Based on Actual Weights</td>
<td>Holdings consist of U.S.-issued TIPS, diversified commodities futures positions, and energy related equity securities</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.

*Adopted by the Board of Trustees on February 5, 2011, to replace the former “Statement of Investment Objectives and Policies,” as revised most recently on November 11, 2006.*
APPENDIX A

ASSET ALLOCATION POLICY TARGETS

Revised, as of January 2012

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target (%</th>
<th>Allowable Range (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equity Fund</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Equity</td>
<td>22.5</td>
<td>15-30</td>
</tr>
<tr>
<td>Global ex U.S. Equity</td>
<td>22.5</td>
<td>15-45</td>
</tr>
<tr>
<td>Developed Markets</td>
<td>10.5</td>
<td>10-25</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>12.0</td>
<td>5-20</td>
</tr>
<tr>
<td>Marketable Alternatives</td>
<td>22.0</td>
<td>15-25</td>
</tr>
<tr>
<td>Real Assets (Inflation Hedging)</td>
<td>14.0</td>
<td>10-25</td>
</tr>
<tr>
<td>Private Equity / Venture Capital</td>
<td>11.0</td>
<td>5-20</td>
</tr>
<tr>
<td><strong>Subtotal Equity</strong></td>
<td>92.0</td>
<td></td>
</tr>
<tr>
<td><strong>Fixed Income Fund</strong></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>0.0</td>
<td>0-5</td>
</tr>
<tr>
<td><strong>Subtotal Fixed Income/Cash</strong></td>
<td>8.0</td>
<td></td>
</tr>
</tbody>
</table>

*Appendix A Targets revised by Investment Subcommittee: January 6, 2012*
Resolution Approving Creation of Investment Subcommittee and Appointment of its Initial Members

RESOLVED, that the Board of Trustees hereby establishes an Investment Subcommittee of the Committee on Budget, Finance, and Investment and charges it with the oversight of investment management decisions as set forth in the charge hereinstated between regular meetings of the full Committee and such other duties as may be delegated by the Committee.

BE IT FURTHER RESOLVED, that the initial members of this Subcommittee will be Robert Cioffi, chair; John Snow; Ian Boyce; Susan Hudson-Wilson, and Thomas Little.

Subcommittee Charge

The Subcommittee shall have responsibility for oversight, hiring, and termination of managers and advisors engaged for the investment of the University’s Long-term Investment Pool, and shall report on these actions at regular meetings of the Budget, Finance, and Investment Committee (“the Committee”). The Subcommittee shall also exercise the responsibilities assigned to it with respect to investment of the Wilbur Fund under an Investment Management Agreement in effect between the University of Vermont and State Agricultural College Board and the University of Vermont Board (“UVM Board”)

(“Investment Management Agreement”) under which Wilbur Fund assets are co-invested with those of the University. In addition, the Subcommittee shall exercise the responsibilities assigned to it under an Investment Management Agreement in effect between the University and The University of Vermont Foundation under which Foundation assets are co-invested with the assets of the University.

The Subcommittee shall also be responsible for making adjustments to individual investment allocations to conform to the University’s asset allocation policy as recommended by the Committee and approved by the Board. The Subcommittee shall also review the asset allocation policy and make recommendations to the Committee for its consideration at least once annually.

For as long as the an Investment Management Agreement remains in effect between the University of Vermont and State Agricultural College Board and the University of
Vermont Board, at least one member of the University of Vermont Board of Trustees ("UVM Board") shall be appointed to this Subcommittee; also thus also serving as a member of the Budget, Investment, and Finance Committee, who shall among other responsibilities as a member of the Subcommittee act on behalf of, and report to, the UVM Board with respect to the investment of the Wilbur Fund.

The Subcommittee shall, between meetings of the Committee, make decisions relating to investment managers and investments that are necessary in the best interests of the University. Any such decisions shall be reported to the Committee and at its next regular or special meeting.

The Subcommittee shall oversee the work of the University Treasurer with respect to execution of investment decisions and cash management policies in regards to the Limited-Term Investment Pool.

The Subcommittee will exercise its charge in a manner consistent with University governance, including the Board’s reserved rights and delegations of authority.

As approved by the Board of Trustees: November 11, 2006.

As revised by the Board of Trustees: December 1, 2007.