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, February 22, 2012, 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; Assistant Controller for Tax and Treasury Services Kathy Snell; Bets Kent*, LaRoy Brantley*, Christopher Warren* and Justin Atwood* of Cambridge Associates (C|A).

*By means of conference telephone.

Chair Samuel Bain called the meeting to order at 8:32 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the January 6, 2012 meeting.

Market Update

Mr. Brantley directed the Subcommittee to the Market Update exhibits in the meeting materials and led the discussion surrounding the recent market performance and trends. He noted the market performance for the 4th quarter of 2011 was the best of any quarter for the last 2 years. Mr. Brantley commented that the S&P 500 was the top performing major global equity index in the market with a return of 11.8% for the quarter, and he noted that the small-cap outperformed the large-cap businesses. Other market indices which provided good returns for 2011 were the REITs, bonds, treasuries and gold while the hedge funds and emerging markets struggled. Mr. Brantley noted that the market has had a good start in 2012 with the S&P returning 4.5%. He further commented that uncertainty in the market is expected to continue due primarily to the European concerns.

December 31, 2011 Quarterly Performance Report

Ms. Kent led the discussion on the December 31, 2011 quarterly performance report of the long term pool endowment. She noted the quarter to date return was 4.9%, which was ahead of the preliminary C|A endowment median by 50 basis points. Ms. Kent stated that the asset allocations are close to their target ranges in effect as of 12/31/2011 and she mentioned that the portfolio is well positioned for capturing the upward trends. The members reviewed the performance of the individual mangers and Ms. Kent commented that the managers navigated the volatile market well and rebounded nicely in the 4th quarter of 2011 following the trough of the 3rd quarter.
January 2012 Flash Report

Mr. Brantley led the discussion on the Flash Report for the month ending January 31, 2012. He directed the members to the exhibit, “Restated Asset Allocation and Rebalancing” and noted the C/A recommendations for reallocations. Following the review and discussion, the Subcommittee unanimously voted to redeem $2.5 million from RhumbLine S&P 500 Index and $2.5 million from Iridian Asset Management to reduce the US Equity sector of the portfolio. The Subcommittee will address reinvestment in a different sector at a later date following an evaluation of optimal entry points. Mr. Brantley then noted the return on the investments for January 2012 was 3.9%, outperforming the Target Benchmark return of 3.0%. He also noted the Total Assets for the Long-Term Pool stood at $331.3 million on January 31, 2012 compared to $320 million as of December 31, 2011.

September 30, 2011 Private Investments Report

Mr. Warren directed the members to the exhibits provided in the meeting materials and led the discussion surrounding the Private Investments. The Subcommittee reviewed the 10-year history of the commitments and capital call trends and determined the positioning in relation to fund availability is solid. He noted the NAV dropped from $42 million at June 30, 2011 to $40.9 million as of September 30, 2011 due largely to cash distributions back and write-downs of assets. The program generated a -6.3% return for the third quarter of 2011, bringing the trailing 1-year return to 14.0%.

Follow up Items from January Meeting

The Subcommittee next reviewed the following topics:

Hedge Fund Exposures – Mr. Warren noted the change in the marketable alternative net exposure allocation being 55.4% on June 30, 2011 and 41.8% on September 30, 2011. A brief discussion ensued surrounding the quarterly market exposures and manager allocations.

HBK Exposure and Positioning – Ms. Kent directed the members to the HBK Monthly Portfolio Summary as of December 31, 2011 and reviewed the strategy of this investment with them. Discussion ensued regarding the structure, the leverage ratio and exposure. The members requested that C|A forward the full risk report to include the full text of certain footnotes.

Emerging market equity manager performance attribution – Mr. Brantley referred the members to the exhibits detailing the currency attribution analysis for UVM’s two emerging market managers on a 5-year annualized basis. From these analytics, Mr. Brantley noted that the manager’s longer-term performance has depended more on country allocation and stock selection rather than currency impact.

DSM / Growth Managers – C|A provided some historical performance analytics on DSM prior to the manager’s being hired by UVM. Mr. Brantley noted the strong long-term performance of DSM in relation to other large cap growth managers under consideration for this particular mandate back in 2008.
Watch List Performance Charts and Criteria – Mr. Warren directed the members to the exhibits provided in the meeting materials. The performance charts on UVM’s marketable managers which date from 2006 to 2011 demonstrate the protection during the down years and indicate the rebound levels. The members agreed that the charts provide valuable information and would be most useful when new investment managers are being considered for hire.

Covered Call Writing - The C/A team presented a Manager Comparison chart to demonstrate annual total returns and average annual compound returns using the Mid-Cap product.

Spending – In response to the Subcommittee’s inquiry about spending rates, policies, and rules of other institutions, C/A provided a series of exhibits that address these topics. A brief discussion ensued regarding the alternative spending rules, with particular interest in the “Yale Rule,” which has limited the spending volatility over time due to a combination formula used to calculate the annual amount allotted. In the interest of time, the members expressed interest in continuing the discussion at a later date.

High Yield Bonds – Due to the interest of time, this topic will be addressed at a future meeting.

Other Business

Chair Bain complimented Cambridge Associates for their provision of the excellent in-depth research and analytics when responding to the Subcommittee’s inquiries and request for information.

Adjournment

There being no further business, the meeting was adjourned at 10:04 a.m.

Respectfully submitted,

Samuel Bain, Chair