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, October 24, 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

PERSONS ALSO PARTICIPATING: Vice President for Finance and Administration and Treasurer Richard Cate*; 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 3:04 p.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the September 26, 2012 meeting.

Benchmarking Discussion

Mr. Atwood led the discussion surrounding Benchmark Compositions and directed the members to the exhibits provided in the meeting materials, comparing the current target benchmarks with the proposed modified target benchmarks. Mr. Atwood explained the details of the historic annualized performance charts and noted how UVM’s portfolio has performed on an annualized standard deviation and return basis. He identified three areas where the current benchmark does not portray the best representation of performance. C/A recommended the following for these asset classes:

- Changing the hedge fund benchmark to the HFRI fund of funds composite index which would make this into a peer comparison and be more indicative of marketable alternative investing.
- Changing the real assets benchmark to a 50/50 blend of private real estate and public real asset hurdles based on underlying asset class exposures.
- Lowering the PE/VC current benchmark from S&P +5% to a more realistic S&P +3%, in light of the difficulties associated with achieving a 5% premium in this relatively low expected return environment and the extra layer of fees of the fund of funds private investment program.
Chair Bain inquired if C/A could carry both benchmarks for the portfolio on the performance reports for now. Mr. Brantley responded that C/A would introduce the recommended proposed modified benchmarks and retain the current target benchmarks in the performance reports for a few months.

Mr. Bain expressed his gratitude to Mr. Atwood, and Cambridge Associates as a whole, for the hard work in preparing the important information on benchmarking.

**Discussion of Proposed Revisions to Investment Subcommittee Charge**

Due to the interest of time, this topic was deferred until the next meeting.

**Portfolio Rebalancing Update**

Chair Bain briefly reviewed the recent transactions which occurred for rebalancing and noted that no new action is needed.

**Recent Market Returns**

Chair Bain deferred discussion due to time constraints. He referenced the information provided in the meeting materials on this topic and noted that each member can review it at their leisure.

**Estimated September 30th Asset Allocation**

Mr. Warren led the discussion surrounding asset allocation and directed the members to the exhibit in the meeting materials. He commented that the recent trades for rebalancing were not reflected in the exhibit since the transactions occurred after September 30, 2012. Mr. Warren noted the estimated return for the UVM portfolio for September was +1.9%, bringing the 1st quarter fiscal year (FY) 2013 returns to +5.0% and calendar-year-to-date 2012 returns to +10.4%. As of September 30, 2012, the total assets for the Long-Term Pool were estimated to be $347.6 million.

**Executive Session**

At 3:30 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 4:00 p.m., the meeting was re-opened to the public.

**Fiscal Year 2012 Work Plan**

Chair Bain directed the Subcommittee members to the FY 2013 Work Plan provided by C/A in the meeting materials. He noted that the plans for the November 28, 2012 meeting include a review of the Hedge Fund program and requested a 2-hour meeting time to allow for discussion.
Other Business

Chair Bain requested a report in greater detail for the next meeting from Mr. Cate of the inflows/outflows from the portfolio, as well as any information that Ms. Burlingham can share regarding projected inflows from the Foundation.

Chair Bain next informed the Subcommittee of recent communications with a student reporter from the UVM Cynic regarding Socially Responsible Investing (SRI). The Cynic inquired about the investments with RhumbLine S&P 500 and BlackRock All Cap Energy. Mr. Bain explained the upcoming resolution at the November 7-8, 2012 Board of Trustees meeting to establish a Socially Responsible Investing Advisory Council, in place of the current Socially Responsible Investing Work Group, with cross-campus representation allowing for a more robust and consistent process. As a second avenue for bringing issues forward, Mr. Bain informed the Cynic about the Public Comment period at the Board of Trustees meeting when community members have the opportunity to express issues of concern. In response to a question about the status of the Divestment from the Israeli military proposal submitted in the spring of 2011, Mr. Bain informed the Cynic that a consensus could not be reached and therefore the issue could not be brought forward.

Chair Bain requested that any emails received by other members of the Subcommittee from community members regarding the SRI Work Group be directed to him.

Mr. Bain reminded the members that the Darfur Resolution reaffirmation was supported by academic research and is subject to annual review, whereas the Cluster Munitions Resolution is reviewed on a 5-year cycle.

Ms. Kent informed the members about the recent notification received from Fir Tree Partners regarding a restructuring of funds. Investors are being offered the opportunity to participate in certain investments, such as loan origination and real estate investments, by consenting to participate in an exchange and invest in a new feeder fund. The consent form is due on October 26, 2012. Following discussion by the Subcommittee, the members voted unanimously to not participate in this offering.

Mr. Bain addressed the C/A team and encouraged them to make recommendations in direct investments when they deem it is appropriate, despite the Subcommittee’s attraction to fund of funds for cost containment reasons.

In closing, Chair Bain recognized the recent passing of former Board of Trustee member Susan Hudson-Wilson, and expressed his appreciation for the valuable contributions she had made to the University in serving on the Subcommittee.

Adjournment

There being no further business, the meeting was adjourned at 4:28 p.m.

Respectfully submitted,
Samuel Bain, Chair