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, September 26, 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: Board of Trustees 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*, 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 3:02 p.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the August 22, 2012 meeting.

Resolution Reaffirming the Endowment Budget Policy

Chair Bain noted that the ISC annually reviews the Endowment Budget Policy and the Endowment Administration Fee Policy.

The following resolution was presented, with minor edits, for approval to present to the Budget, Finance and Investment Committee at their November Board meeting:

Resolution Reaffirming the Endowment Budget Policy

RESOLVED, that the Endowment Budget Policy is reaffirmed as reads below:

BE IT RESOLVED, that the annual budget for spending from Endowment be set at 4.5 percent of the average market value for the previous thirteen quarters ending October December 31 of the prior calendar year; and

BE IT FINALLY RESOLVED, that the Investment Subcommittee will review and make recommendation to the Budget, Finance and Investment Committee regarding the reaffirmation or revision of the Endowment Budget Policy each year no later than October December 31.
Chair Bain recapped the Subcommittee’s recent study of the Yale model, noting that it may be considered at a future date, and referenced the data supporting that the University’s 4.5% spending policy is in line with the majority of Cambridge Associates’ clients. A motion was made, seconded and unanimously voted to approve the resolution to present to the Budget, Finance and Investment Committee at their November Board meeting.

The following resolution was presented, with minor edits, for approval to present to the Budget, Finance and Investment Committee at their November Board meeting:

**Resolution Reaffirming Endowment Administration Fee Policy**

The following resolution was presented for approval to present to the Budget, Finance and Investment Committee at their November Board meeting:

RESOLVED, that the Endowment Administration Fee Policy is reaffirmed as reads below:

BE IT RESOLVED, that the Board of Trustees hereby approves a 0.25 percent fee applied to the University endowment for FY 20123 to cover reasonable costs associated with endowment administration, management and operation; and

BE IT FURTHER RESOLVED, that on a fiscal year basis, the fee will be reviewed and assessed annually as 0.25 percent of the average market value of the University endowment for the previous thirteen quarters ending December 31 of the prior calendar year; and

BE IT FINALLY RESOLVED, that the Investment Subcommittee will review and make a recommendation to the Budget, Finance and Investment Committee regarding the reaffirmation or revision of the Endowment Administration Fee Policy each year no later than December 31.

Adopted by: Board of Trustees - September 13, 2003
Reaffirmed: Board of Trustees - September 8, 2007
Board of Trustees - September 5, 2008
Amended: Board of Trustees - October 24, 2009
Reaffirmed: Board of Trustees - October 30, 2010
Board of Trustees - October 21, 2011
Chair Bain noted the need for ongoing vigilance to ensure the scope of work performed by the University on behalf of the Foundation does not further impact the cost of administering the Endowment. A motion was made, seconded and unanimously voted to approve the resolution to present to the Budget, Finance and Investment Committee at their November Board meeting.

**Recent Market Returns**

Mr. Brantley directed the Subcommittee to the Market Update exhibits in the meeting materials provided by Cambridge Associates. He noted the recent performance trends of various capital market indices, key macroeconomic developments, as well as C/A’s views on asset class valuations through August 2012. In response to discussion by the Subcommittee regarding market dislocations in Europe, Mr. Brantley noted that certain managers, some of whom are in UVM’s portfolio, have the ability to capitalize on the European sovereign debt crisis.

**Flash Report as of August 31, 2012**

Ms. Kent led discussion regarding the portfolio performance for the period ending August 31, 2012. The portfolio returned +1.8% for the month, outperforming the Target Benchmark return of +1.2%. As of August 31st, Total Assets for the Long-Term Pool stood at $343.1 million. Positive contributors to performance included the US Equity program, which returned +3.3% and outperformed the benchmark, the S&P 500 Index by 100 basis points (bps), and the hedge fund portfolio, which returned +1.6% and surpassed T-bills by +5% by 120 bps. Real Public Assets also performed well on an absolute (+3.3% return) and relative basis, generating nearly 300 bps of value over CPI +5%.

**Portfolio Rebalancing / Asset Allocation**

Chair Bain recapped portfolio rebalancing measures approved during the July Investment Subcommittee meeting, namely the August redemption of $1 million from Vanguard Total Bond Market Index Fund, and subsequent transfer of remaining balance to the Vanguard Short Term Bond Fund as an initial subscription, as well as the pending liquidation from the RhumbLine S&P 500 Fund and concurrent $4 million investment in MacKay Shields High Yield Active Core Fund as of the first of October. Mr. Warren directed the Subcommittee to the proforma exhibit in the meeting materials, identified as “Asset Allocation and Manager Summary as of August 31, 2012”, noting the pending $4 million transactions scheduled to occur. Mr. Warren directed the Subcommittee’s attention to the proposed transfer column, which lists a $2.5 million partial redemption from Aberdeen Emerging Markets, and concurrent $2.5 additional investment in Acadian Emerging Markets. Mr. Warren emphasized the nearly 600 bps alpha generated by Aberdeen since UVM’s inception in 2009, stating now is a reasonable time to harvest some of those gains given their outperformance and growth in assets under management. Discussion ensued among Subcommittee members in support of the proposal.

Chair Bain requested a motion to redeem $2.5 million from Aberdeen Emerging Markets, and additional $2.5 million investment with Acadian Emerging Markets. The motion was made, seconded, and unanimously voted to approve.
Executive Session

At 3:58 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 4:32 p.m., Chair Bain entertained a motion to conclude executive session, and re-opened the meeting to the public.

Other Business

Chair Bain acknowledged receiving from Mr. Cate a summary of inflows and outflows from the endowment. After some discussion, Chair Bain requested an enhanced report showing further details regarding the timing and mechanics of such flows, for a multiple year window. Chair Bain expressed the Subcommittee’s need to further understand the cash flow expectations from the Foundation; Ms. Burlingham stated that she has been working with Foundation staff to assist them in developing such cash flow reporting.

Chair Bain led a discussion regarding draft changes to the Investment Subcommittee Charge. Following a brief discussion, Chair Bain tabled further discussion to a future meeting.

Adjournment

There being no further business, the meeting was adjourned at 4:50 p.m.

Respectfully submitted,

Samuel Bain, Chair