A meeting of the Investment Subcommittee (ISC) of the Board of Trustees of the University of Vermont State and Agricultural College was held on Wednesday, November 20, 2013, at 3:00 p.m., in Room, 427A Waterman Building, Burlington, Vermont.

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

MEMBERS ABSENT: None

PERSONS ALSO PARTICIPATING: Vice President for Finance 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 phone.

Chair Samuel Bain called the meeting to order at 3:02 p.m.

September 25, 2013 Meeting Minutes

A motion was made, seconded and voted to approve the minutes of the September 25, 2013 meeting.

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

Chair Bain provided a brief review of the policies as presented and noted that Subcommittee is charged to review them annually. A motion was made, seconded, and the Subcommittee unanimously approved the existing Cash Management Policy, and the revised Statement of Investment Policies & Objectives as amended for remittance to the Budget, Finance & Investment Committee for approval at their next meeting.

Proxy Voting Resolution

Chair Bain noted presented a proposed change to the Proxy Voting Resolution to include a report on the decisions of proxy voting to be published on the Socially Responsible Investing Advisory Council’s website.

The following resolution was presented for approval:

**Signatory Authority - Proxy Votes on Shareholder Resolutions**

BE IT RESOLVED, that, when offered shareholder resolutions, the Vice President for Finance and Treasurer, Controller, Senior Accountant, or Endowment Accountant of the University shall commit the proxy votes of the University in accord with specific guidelines
approved by the Investment Subcommittee of the Budget, Finance, and Investment Committee of the Board of Trustees.

BE IT RESOLVED, that, in the absence of such specific guidelines, except for matters of routine corporate business, the Vice President for Finance and Treasurer, Controller, Senior Accountant, or Endowment Accountant shall cast an abstaining vote.

BE IT FURTHER RESOLVED, that, in any instance when such specific guidelines do not exist, the Socially Responsible Investing Advisory Council may study the issue and develop a recommendation for the Vice President for Finance and Treasurer.

BE IT FINALLY RESOLVED, that, all decisions by the Investment Subcommittee concerning proxy voting will be published on the Socially Responsible Investing Advisory Council webpage, as updated on an annual basis.

A motion was made, seconded, and the Subcommittee unanimously approved the resolution as presented for recommendation to the Budget, Finance & Investment Committee for approval at their next meeting.

Recent Market Returns

Ms. Kent led the discussion and directed members to the exhibits in the meeting materials provided by Cambridge Associates. The exhibits showed the recent performance and trends for various capital market indices as well as C|A’s views on asset class valuations through early November 2013. Ms. Kent particularly noted that the U.S. Equity sector is getting expensive while the Emerging Market sector is becoming more attractive.

Mr. Atwood directed members to the Performance Contribution exhibit of the meeting materials which is an exhibit developed in response to the members’ request. Mr. Atwood noted the trailing 1-year total return of the portfolio is +15.8% as of October 31, 2013. The exhibit provides a breakdown of weighted absolute performance both by composite asset class and individual managers’ contributions. Chair Bain expressed his gratitude for the chart and the members requested that this be included in the meeting materials on a quarterly basis.


Ms. Kent directed members to the Quarterly Performance Report as of September 30, 2013 and the Flash Report as of October 31, 2013 in the meeting materials. She noted the UVM portfolio returned +4.5% which is in line with the C|A Preliminary Endowment Median (+4.5%) and Target Benchmark (+4.5%). She further noted the strong performance contributors came from the U.S. Equity sector. Ms. Kent also noted the strength of the portfolio performance of the 1-, 3- and 5-year basis as compared to other institutions. Ms. Kent also mentioned the strength of the Hedge Fund program while the Public Real Assets were the trailers.
Portfolio Rebalancing

Mr. Warren next led the discussion surrounding the rebalancing of the portfolio and directed the members to the C|A recommendations listed in the exhibit. Following the discussion, the Subcommittee unanimously voted to reduce the exposure in the U.S. Equity by redeeming $3 million from the RhumbLine S&P 100 index fund and $3 million from Iridian Asset Management; invest $2 million in Mondrian Int’l Equity, $2 million in the Capital International EuroPacific Growth fund and $2 million in the Vanguard Short Term fund.

Socially Responsible Investing Advisory Council (SRIAC) Report Discussion

Chair Bain opened the discussion concerning the SRIAC report and proposal for fossil fuel divestment by noting that members will come to a decision at a future meeting. He further acknowledged receipt of the correspondence from members of the Vermont Student Climate Culture. Mr. Bain reviewed the process taken at the University by the SRIAC that was followed in developing the proposal put forth this year. Mr. Brennan expressed appreciation to the SRIAC for the thoughtful, careful research surrounding fossil fuels and climate change and commended the quality of the proposal. Mr. Daigle summarized two points for the members to consider for discussion: 1) Whether the endowment portfolio should be used as a policy tool; and 2) How to advocate for investments that exclude fossil fuels. Mr. Bain noted that it is the responsibility of the Subcommittee to ensure the best possible returns for the endowment portfolio in perpetuity. He further noted that the endowment is a resource to sustain the institution, not a tool to affect social change. He noted that the University has been and is taking action across campus to advance climate sustainability. Mr. Daigle addressed the impracticality of eliminating the .03% of coal and nuclear assets that exist in the portfolio. The members are also concerned about the social effectiveness by activist strategies of investing. Mr. Bain noted that proxy voting results is the most effective tool to measure outcomes regarding activism. Mr. Daigle addressed the concern of the carbon risk by companies. He noted that it is the job of the portfolio managers to avoid risk and there will be a natural de-selection of investments over time. Mr. Bain noted that the exit from BlackRock All-Cap Energy and Resources Fund was in response to poor performance and the proceeds have been reinvested with another energy investment manager. He commented that large companies are working on research and development for a sustainable future.

The Investment Subcommittee members expressed agreement that divestment from fossil fuels may not be effective in arriving at the constituency’s desired outcomes; a more effective tool may be through proxy voting. The ISC tabled the proposal and will continue this discussion and address the recommendations put forth by the SRIAC in the next meeting.

Diversification Discussion

Due to the interest of time, Chair Bain requested that the diversification discussion be postponed until the December meeting.
Executive Session

At 4:42 p.m., Chair Bain entertained a motion to enter executive session to discuss contracts. Cambridge Associates and UVM staff remained for the discussion. The meeting was reopened to the public at 4:54 p.m.

Other Business

Ms. Kent directed members to page 108 of the meeting materials regarding the exchange offer by HBK Capital Ltd. The Subcommittee unanimously approved acceptance of the offer.

Executive Session

Chair Bain entertained a motion to enter executive session to discuss contracts at 4:56 p.m. Mr. Cate remained for the discussion. At 5:04 p.m., the meeting was reopened to the public.

Adjournment

There being no further business, the meeting was adjourned.

Respectfully submitted,

Samuel Bain, Chair