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, December 17, 2014, at 3:00 p.m., in Room, 351 Waterman Building, Burlington, Vermont.

MEMBERS PRESENT: Chair Robert Brennan*, Vice Chair Don McCree**, and David Daigle*

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*, LaRoy Brantley*, Justin Atwood* and Evan Fitzmaurice* of Cambridge Associates (C|A); Samuel Bain*, Adviser

*By means of phone.
**Joined by phone at 3:10 p.m.

Chair Robert Brennan 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 November 19, 2014 meeting.

Resolution to Establish the Canadian Education Fund

Chair Brennan presented the following resolution:

Resolution to Establish the Canadian Education Fund

WHEREAS, over time the University has received contributions to the Canadian Education Gift Fund, which now has a balance of $67,855.13; and

WHEREAS, the Director of the Canadian Studies Program has concluded that the Fund’s purposes are presently best served by allowing the Fund to grow; and

WHEREAS, the University may decide to designate assets as quasi-endowment funds to gain the benefit of the earning power of the University’s consolidated endowment pool while retaining the flexibility to be expended in whole or in part; and

WHEREAS, the Dean of the College of Arts and Sciences has requested that the Canadian Education Fund be established as a quasi-endowment within the University’s consolidated endowment pool;
NOW, THEREFORE BE IT RESOLVED, that the Investment Subcommittee approves the creation of the Canadian Education Fund as a quasi-endowment within the University’s consolidated endowment pool.

Chair Brennan made a motion to approve the resolution. The motion was seconded and the following roll-call vote was taken: Robert Brennan - Yes, Don McCree - Absent, and David Daigle - Yes. The resolution passed as presented.

Follow Up from November Meeting

Ms. Kent directed Subcommittee members to the meeting materials section which addressed follow up items from the discussion at the November meeting. She reminded the members of the updated performance of the portfolio being +16.2% with the inclusion of the June 30 private investment marks. As a result, the University’s portfolio ranks above both the C|A Endowment Median (+16.1%; n = 450) and the NACUBO - Commonfund Average (+15.8%; n=426) for the 2014 Fiscal Year. Ms. Kent then directed the members to the exhibits indicating the performance summary of the portfolio’s Global ex U.S. Equity managers’ currency attribution over a 12 month period.

Don McCree joined the meeting at 3:10 p.m.

Recent Market Returns

Bets Kent led discussion on recent Market Returns as of November 30, 2014. She directed the members to the exhibits in the meeting materials displaying the recent performance and trends for various capital market indices, as well as C|A’s views on asset class valuation through early December 2014. Ms. Kent noted that the markets maintained a positive tone in November, while continuing to rebound from the late September/early October sell-off. She highlighted the strong performers, noting that the U.S. equities remained strong with +2.6% performance, and Japan being the best performing developed market. The highlight of the month occurred in the energy market. Crude oil fell 18% in November which impacted Natural Resource equities (-7.9%) and High Yield bonds (-0.8%) and other related assets. November was a good month for fixed income assets.

Flash Report as of November 30, 2014

Mr. Brantley next led the discussion surrounding the performance review and Flash Report for the month ending November 30, 2014. He noted the portfolio returned +1.1% during the month, outperforming the Target Benchmark by 20 basis points. The Long-Term pool was valued at $442.7 million at the end of November, with the portfolio returning +4.3% calendar year-to-date. Mr. Brantley further commented on the relatively strong and underperforming managers in November. He noted that the Hedge Fund program rebounded from a difficult October, returning +1.6%, and the bond portfolio performed well, up +1.2%.
U.S. Equity Program Review

As a follow up to a request at the November meeting, Mr. Atwood led the discussion on C|A’s top three ideas as potential satellite value complements to the existing exposure in U.S. Equities. Mr. Atwood directed the members to the exhibit which demonstrates the current U.S. Equity Program’s characteristics, specifically valuation metrics, market capitalization, and sector exposures as of September 30, 2014. He then noted the three prospective managers’ portfolio characteristics, performance, and value-added correlations to the S&P 500 as compared to the existing U.S. Equity managers and total portfolio. Following discussion, the members decided to continue considering this topic at the February 2015 meeting when Asset Allocations will be reviewed.

Private Investments Update

Ms. Kent directed the members to the Private Investment section of the meeting materials and led the discussion. She reviewed the Capital Commitment Schedule indicating the existing net asset value and unfunded commitments. Ms. Kent noted the program’s net asset value is concentrated in private equity and venture capital fund of funds, as well as secondaries. She also noted the steps recently taken which diversify the private equity program. Ms. Kent noted the strong performance for the June quarter +3.7% and also noted the capital calls of $4.7 million and $4.7 million of distributions from January 1 through June 30. She commented on how the program is self-funding at this time, but noted that due to the recent commitments cash flow in this program has the potential to turn negative.

The Subcommittee had requested for Cambridge to reach out to Garrison for information regarding its Real Estate Fund III. Chair Brennan stated he would need to recuse himself from any vote, since Garrison is a client of his firm, Guggenheim Partners.

Hedge Fund Program Review

Mr. Brantley next led the members in discussion surrounding the Hedge Fund Program of the portfolio. He noted the recommendations provided by C|A, highlighting the characteristics on the manager selections. The Subcommittee decided to postpone any action on recommendations in Hedge Funds until the February 2015 meeting.

Planning for the February 2015 Asset Allocation Meeting, and Post-Meeting Communication to the Budget, Finance and Investment Committee (BFI)

Ms. Kent directed the members to the proposed February meeting agenda for any recommendations. Mr. Bain suggested inviting a speaker to address general asset allocation. The Subcommittee members noted that they will also discuss benchmarking. It was further noted that the February BFI meeting precedes the ISC meeting and UVM will follow up by forwarding the Asset Allocation report, in the form of the February 25, 2015 minutes, to the BFI Trustee members.
Socially Responsible Investing Update

Ms. Burlingham, Controller, reported on the Socially Responsible Investing Advisory Council’s (SRIAC) fall semester activity. She noted the fall Town Hall meeting was held on October 8, 2014 and reported on the issues expressed by the University community. Fossil Fuel Divestment remains to be a topic of high interest, as well as support for the State of Vermont’s lawsuit by Monsanto regarding genetically modified organisms labeling. The SRIAC also heard the UVM community’s frustration surrounding the socially responsible investing process in relation to UVM’s reputation as being a green and environmentally sustainable University. She also reported on the discussion that SRIAC has been having in regards to an article published by Swarthmore College which mentioned Cambridge Associates assisting in divestment from fossil fuels as directed by the College. Ms. Kent and Mr. Brantley noted that C|A does not steer clients toward divestment, however, they mentioned that there is a C|A mission related investment team in Arlington, VA which could serve as an additional resource for the University. As a point of clarification, Cambridge Association does not recommend that the University divest from fossil fuels, but C|A does have the resources to assist with that process if both the University and the Investment Subcommittee wish to move in that direction. Ms. Burlingham ended her report by noting that the SRIAC will be researching positive screening methods in the spring term and working on changing their focus in order to ease these frustrations.

Chair Brennan requested that Ms. Burlingham inquire of other areas at UVM that are engaged in green, environmental, and social issues and compile a list indicating the positive actions being taken. He mentioned that it would be beneficial to redirect the focus away from the endowment investments as the answer to all social and environmental issues.

Portfolio Rebalancing

Following a brief discussion, Chair Brennan requested a motion to reduce the exposure in U.S. Equities by redeeming $5 million from the RhumbLine S&P 100 Index Fund. The motion was made, seconded, and the following roll-call vote was taken: Chair Brennan - Yes, Vice Chair McCree - Yes, and David Daigle – Yes. The motion was passed as presented.

Other Business

Chair Brennan mentioned that he would reach out to C|A in January regarding certain informational slides that would be needed for the February 2015 UVM Board of Trustees meeting.

Executive Session

At 4:36 p.m., Chair Brennan entertained a motion to enter executive session to discuss contracts of which premature general public knowledge would clearly place the University at a substantial disadvantage. C|A exited the meeting and others present remained for the discussion. The meeting was reopened to the public at 4:40 p.m.
Adjournment

There being no further business, Chair Brennan adjourned the meeting at 4:40 p.m.

Respectfully submitted,

Robert Brennan, Chair