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, September 24, 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*, and Robert Cioffi*, Advisers

*By means of phone.

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 August 13, 2014 meeting.

Resolution Reaffirming the Endowment Budget Policy

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

Ms. Burlingham presented the following resolution, for approval to present to the Budget, Finance and Investment Committee at their October 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 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 December 31.
Ms. Burlingham next presented the following resolution, for approval to present to the Budget, Finance and Investment Committee at their October Board meeting:

**Resolution Reaffirming Endowment Administration Fee Policy**

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 2014-2015 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.

Chair Brennan made a motion to approve the above resolutions to present to the Budget, Finance and Investment Committee at the October Board meeting. The motion was seconded and the following roll-call vote was taken: Robert Brennan - Yes, Don McCree - Yes, and David Daigle - Yes. The resolutions were passed as presented.
The Subcommittee members requested that an exhibit indicating the actual administrative expenses for the endowment be provided to accompany the reaffirmation documents next year.

**Follow Up from August Meeting**

Ms. Kent directed Subcommittee members to the meeting materials section regarding three follow up items from the discussion at the August meeting. She noted the recent C|A research note on hedging market risk, the exhibits of charts on Stock-Stock Correlations and the characteristics of the portfolio’s two major bond positions.

**Recent Market Returns**

LaRoy Brantley led the discussion on the recent Market Returns as of August 31, 2014. He directed the members to the exhibits in the meeting materials displaying the recent market performance and trends for various capital market indices, as well as C|A’s views on asset class valuation through early September 2014. Mr. Brantley noted that following the challenging month of July, the market rebounded in August. He highlighted the strong performers, noting that the U.S. stocks were up a robust +3.9%, and the Emerging Market equities returned +2.0%, while Japan struggled. Discussion ensued surrounding the consideration of overall changes in the market outlook in regards to future allocation decisions.

**Flash Report as of August 31, 2014**

Mr. Brantley next led the discussion surrounding the performance review and Flash Report as of August 31, 2014. He noted the portfolio performed well in August returning +1.3% vs. +1.2% for the Target Benchmark. The Long-Term pool was valued at $448.5 million at the end of August, with the portfolio returning +4.8% calendar year-to-date. Mr. Brantley further mentioned the strong and detracting performing managers for August.

**Funds Manager**

At 3:31 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. Those present remained for the discussion. The meeting was reopened to the public at 4:37 p.m.

**Emerging Market Discussion**

The Subcommittee members turned to the Emerging Markets program in the meeting materials, reviewed the information provided by C|A and discussed the enhancement and diversification of the program.

Chair Brennan entertained a motion to commit $5 million to Emerging Sovereign Group, LLC (ESG) and up to $10 million subject to availability by ESG, and further subject to due diligence results. The motion was seconded and unanimously approved by Chair Brennan, Vice Chair McCree, and Trustee Daigle. Subsequent to the meeting, Trustee Daigle supplemented C|A
diligence and confirmed investment of a minimum of $5 million, maximum of $10 million, subject to fund capacity. ESG noted only $5 million is available for October 1 investment, but agreed to provide C|A with quarterly updates on fund redemptions and any potential additional capacity.

**Hedge Funds**

The members next entered in discussion surrounding the Hedge Fund Program of the portfolio and reviewed the updated hedge fund characteristics matrix provided by C|A. The members noted the diversification and strategies of the various Hedge Fund managers. Discussion ensued regarding a news article surrounding CALPERS’ divestment from Hedge Funds. C|A will prepare a summary of the key points in the CALPERS situation for the Subcommittee to have in preparation for the October Board of Trustees meeting. The Subcommittee requested for C|A to provide an exhibit on the fee structure for each manager.

**Other Business**

Chair Brennan directed the members to the calendar year 2015 meeting schedule and the Subcommittee members are in agreement with the planned schedule.

**Adjournment**

There being no further business, Chair Brennan adjourned the meeting at 4:37 p.m.

Respectfully submitted,

Robert Brennan, Chair