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 16, 2015, at 3:00 p.m., in Room, 351 Waterman Building, Burlington, Vermont.

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

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*, Ali Dorf*, LaRoy Brantley*, Justin Atwood* and Evan Fitzmaurice* of Cambridge Associates (C|A)

*By means of phone.
**Joined at 3:30 p.m. via phone.

Chair Robert Brennan called the meeting to order at 3:04 p.m.

Approval of Minutes

Chair Brennan presented the November 18, 2015 meeting minutes for approval. A motion was made, seconded and voted to approve the minutes as presented.

Resolution Amending Cash Management Policy to Cash Management and Liquidity Policy

Chair Brennan referred the members to the amended Cash Management Policy included as Appendix A to this document for review and consideration of the Resolution Amending the Cash Management Policy to the Cash Management and Liquidity Policy.

The following resolution was presented for approval:

Resolution Amending the Cash Management Policy to the Cash Management and Liquidity Policy

WHEREAS, the University’s Cash Management Policy governs the investment of UVM pooled cash; and

WHEREAS, the Board of Trustees wishes to establish a minimum liquidity target to ensure that the University operates with an adequate level of institutional liquidity to minimize risk associated with unforeseen liquidity needs;
WHEREAS, the maintenance of a sufficient amount of liquidity to ensure the financial sustainability of the University is consistent with historical financial management practices of the University;

BE IT RESOLVED, that the Cash Management Policy be amended as the Cash Management and Liquidity Policy to establish a minimum liquidity target for the University comprised of liquid funds that are unrestricted, unencumbered general fund net assets, appearing as Appendix A to this document.

While reviewing the proposed revisions to the Cash Management Policy, the Subcommittee decided to amend Section I. “Liquidity”, adding that future modifications to the $30 million target amount would be recommended to the full Board. Chair Brennan made a motion to approve the resolution with the additional suggested amendment to Appendix A, for referral to the Budget, Finance and Investment Committee at the February 5, 2016 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 resolution passed as presented with the additional suggested amendment to Appendix A

Follow-up from November Meeting

Mr. Fitzmaurice followed up on the discussion from the November meeting regarding the Implications of Inflation and directed the members to the exhibit in the meeting materials on the underlying asset classes in the portfolio. Using an inflation assumption of 7% (for each of three years in a row), he explained how the underlying asset classes in the portfolio would be affected – both stocks and bonds would experience drastically negative returns. Mr. Fitzmaurice also noted how the Real Estate sector exposure wards off the impact of inflation. Overall, however, the modeling indicates a potential -8% total return.

Mr. Atwood next followed up on the November meeting discussion regarding investments in the High Yield market. He directed the Subcommittee to the exhibits in the meeting materials which displayed the sector exposure of the total Fixed Income allocation and specific attributes of the high yield part of the portfolio.

Recent Market Returns

Ms. Dorf led the discussion surrounding the recent market returns and performance. She directed the members to the exhibits in the meeting materials provided by C|A and highlighted the trends for the various capital market indices through November 30, key macroeconomic developments, as well as C|A’s view on asset class valuations through early December 2015. She noted that the U.S. equity market had a very small gain in November while the best performing market in local currency was the European Monetary Union. Emerging Markets continued to slide (-3.9%), as did energy and commodities-related investments. Ms. Dorf commented that the November market was a particularly challenging one and it was difficult for diversified portfolios to gain any ground.
Monthly Flash Report as of November 30, 2015

Mr. Brantley spoke briefly about the October report included in the materials but focused mostly on the Monthly Flash Report as of November 30, 2015 distributed electronically by Cambridge Associates. He noted the portfolio return of -1.0% as of November 30, 2015 and -1.3% calendar year-to-date with Portfolio assets totaling $432.2 million. He also commented on how the Hedged Equities (long/short) have protected the portfolio during the recent market period – in the month of November when total Common Stock returned -1.2%, the Hedged Equity segment gained 1.3%.

Funds Manager

At 3:50 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. At 4:35 p.m., the meeting was reopened to the public. Upon revisiting, the agenda, Chair Brennan entertained a motion to re-enter executive session to discuss contracts at 4:41 p.m. Those present remained for the discussion. At 4:50 p.m., the meeting was reopened to the public.

Portfolio Rebalancing

Ms. Dorf led the discussion surrounding the rebalancing recommendations presented in the meeting materials provided by C|A. Following review and discussion, Chair Brennan requested a motion to fully exit Owl Creek Overseas Fund Ltd, redeeming approximately $6.8 million as of the next annual redemption date. Chair Brennan next requested a motion to fully liquidate funds from Aberdeen Emerging Markets, redeeming approximately $5 million. Chair Brennan also requested a motion to invest $3 million with MacKay Shields High Yield and $3 million with Polunin Capital Partners Ltd, deploying the Aberdeen proceeds and $1 million from cash. The motions were seconded and passed unanimously. Cambridge Associates will notify Owl Creek of the redemption request for the March 31, 2016 exit date.

February Meeting Planning

Ms. Dorf directed the members to the draft agenda for the February 17, 2016 ISC meeting for review. The members reviewed the draft and advised C|A of revisions to include and then recommended particular investment managers to extended invitations for presentations at the meeting.

Adjournment

There being no further business, Chair Brennan adjourned the meeting at 4:58 p.m.

Respectfully submitted,
Robert Brennan, Chair
Introduction

This Cash Management and Liquidity Policy governs the investment of UVM pooled cash and sets the minimum liquidity target for the University. The pooled cash includes all funds of the University other than the funds that are held in the University endowment and certain plant, restricted and loan reserves, for which separate investment guidelines have been established. This statement will be subject to periodic review and possible modification by the Budget, Finance and Investment Committee as the Committee considers necessary to achieve cash management and investment and liquidity requirements.

I. Cash Management

Investment Objectives

University pooled cash for purposes of investment allocation shall be divided into three asset groups as follows:

Short-term pool: Cash that is expected to be needed for normal operating expenditures within a one-year period. The primary objective is preservation of principal and liquidity. Maximization of investment income without undue exposure to risk is a secondary objective.

Intermediate-term pool: Cash that is expected to be needed within a period of one year to six years. The primary objectives are preservation of principal and maximization of investment income without undue exposure to risk.

Long-term pool: Cash that is not expected to be needed for operational purposes for a period exceeding six years and/or that may be designated as a permanent core. The primary investment objective is to achieve consistent long-term growth of the pool with limited exposure to risk.
**Allocation Guidelines**

Short-term pool: The average weighted maturity for a short-term portfolio shall be between one day and one year.

Intermediate-term pool: The average weighted maturity for intermediate-term portfolio shall be between one year and six years.

Long-term pool: Permanent core cash may be invested in any investment that is allowable under the University’s *Statement of Objectives and Policies* for the Endowment Fund and that meets the overall objective of achieving consistent long-term growth of the pool with limited exposure to risk.

**Performance Objectives**

Short-term pool: The benchmark for the short-term portfolio shall be total return that meets or exceeds the yield of three-month U. S Treasury securities.

Intermediate-term pool: The benchmark for intermediate-term portfolio shall be total return that meets or exceeds the Barclays Capital U.S. Treasury Index (3-5 Year).

Long-term pool: The benchmark for the investment of the long term pool shall correspond to the benchmarks for each asset class as specified in the University’s *Statement of Objectives and Policies* for the Long Term Investment Pool, including the Endowment Fund.

**Allowable Investments for Asset Groups**

For all of the asset groups described below, the Treasurer will develop in conjunction with the Board of Trustees Investment Subcommittee (ISC) a list of approved funds and fund managers from which the Treasurer may select managers as appropriate. This list will be reviewed and approved annually by the ISC.

Short-term pool: Investments in the short-term portfolio are restricted to U. S. Treasury and government agency securities, money markets, high quality corporate securities, and commercial and bank paper. Investments shall be in marketable securities of the following types and with the noted credit ratings:

1. Debt securities rated Aaa, Aa, A or Baa by Moody’s Investor’s Service, Inc. or AAA, AA, A or BBB by Standard & Poor’s Corporation.
2. Obligations of, or guaranteed by, the United States of America, its agencies or instrumentalities.

3. Obligations of, or guaranteed by, national or state banks or bank holding companies rated B or better. No more than 20% of the funds held in the cash pool shall be invested in obligations of the institutions within any single holding company.

4. Commercial paper rated A-1 or higher by Standard and Poor’s or Prime-1 (P1) by Moody’s Investor’s Service, Inc.

5. Bankers’ acceptances or negotiable certificates of deposit issued by banks rated B or better. No more than 20% of the funds held in the cash pool shall be invested in certificates of deposit, bankers’ acceptances or floating rate notes of the institutions within any single holding company.

6. Repurchase agreements of banks having Fitch ratings no lower than B secured by the U.S. government and federal agency obligations with market values of at least 100% of the amount of the repurchase agreement.

7. Commingled funds may be used if they are in compliance with the above guidelines.

8. The Commonfund, a non-profit provider of investment products for colleges and universities.

Intermediate-term pool: Investments in the intermediate-term portfolio are restricted to securities rated Aaa, Aa, A or Baa by Moody’s Investor’s Service, Inc. or AAA, AA A or BBB by Standard & Poor’s Corporation.

Long-term pool: Investment of the long term pool shall be restricted to those that are allowable under the University’s Statement of Objectives and Policies for the Endowment Fund and that meet the overall objective of achieving consistent long-term growth of the pool with limited exposure to risk.

**Moral, Ethical and Social Considerations**

Cash balances will be invested consistently with the moral, social and ethical criteria adopted by the Board of Trustees on recommendation of its Budget, Finance and Investment Committee as related to the Long Term Investment Pool, including the Endowment Fund. Criteria for socially responsible investing shall include, where advisable and consistent with investment quality, return, and safety guidelines, the use of community and State institutions for investment.
purposes. Where returns are reasonably equal (within 10 basis points), preferences will be given to Vermont-based financial institutions.

**Investment Management Responsibility and Structure**

Cash management and investment responsibility resides with the Vice President for Finance and Treasurer through the Controller.

1. Investments may be made internally using allowable instruments and institutions; OR,

2. Investment managers may be engaged to invest University assets consistent with this Policy. Subject to this Policy and a written agreement between the University and the investment manager, the investment manager will be given discretion to select individual securities and to make adjustments to the structure of the portfolio.

**I. Liquidity**

This Cash Management and Liquidity Policy establishes a Minimum Liquidity Target for the University of $30 million, subject to future modification by the Budget, Finance, and Investment Committee, and subsequent recommendation to the full Board. Liquid funds that are unrestricted, unencumbered General Fund Net Assets (as such capitalized term is used in the audited financial statements of the University) shall be used to satisfy the Minimum Liquidity Target. For the purposes of this Policy, General Fund Net Assets that are restricted in their use, or otherwise encumbered by Board or administrative action, shall not be available to satisfy the Minimum Liquidity Target. The objective of this policy is to ensure that the University operates with an adequate level of institutional liquidity to minimize risk associated with temporary, unforeseen liquidity needs.

**II. Administration and Reporting**

A. The Treasurer will report to the Budget, Finance and Investment Committee annually, the following:

1. **Balances**—Cash balances in each asset group;

2. Investments in each asset group by manager and investment type or fund; and

3. Performance of each individual investment type within each asset group.

4. A schedule of unrestricted, unencumbered General Fund Net Assets compared to the Minimum Liquidity Target.

B. As delegated by the Board of Trustees through its resolutions, specified University officials, including the Treasurer, are authorized to open accounts with banks, investment firms, or commercial paper institutions, and/or to execute purchases and sales, in order to implement this investment policy, [Cash Management and Liquidity Policy](#).
C. This Cash Management and Liquidity Policy will be subject to annual review by the Investment Subcommittee and the elements of the policy related to liquidity will be subject to annual review by the Budget, Finance, and Investment Committee.

Adopted by the Board of Trustees, October 15, 1993
Revised by the Board of Trustees October 12, 2002
Revised by the Board of Trustees August 27, 2005
Revised by the Board of Trustees November 11, 2006
Revised by the Board of Trustees February 5, 2010
Revised by the Board of Trustees