INVESTMENT SUBCOMMITTEE
BOARD OF TRUSTEES
UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE

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 18, 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*

OTHER TRUSTEES PRESENT: Board Chair Deborah McAneny*

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); and Robert Cioffi*, Adviser

*By means of phone.

Chair Robert Brennan called the meeting to order at 3:03 p.m.

Approval of Minutes

Chair Brennan presented the September 23, 2015 and October 26, 2015 meeting minutes for approval. A motion was made, seconded and voted to approve the minutes as presented.

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

Resolution on Socially Responsible Investing

The Subcommittee considered the following Resolution on Socially Responsible Investing.

Resolution on Socially Responsible Investing

WHEREAS, the University’s Policy Statement on Moral, Social and Ethical Considerations in Investment and Shareholder Resolutions holds that the primary objective of investment by the University is to provide a satisfactory return on investment for the support of University operations based upon the Prudent Investor Rule; and

WHEREAS, the Board of Trustees in August 2000 passed a resolution to adopt a tobacco-free mandate for its endowment wherever possible; and

WHEREAS, the Board of Trustees in May 2006 passed a resolution to adopt and implement a policy of targeted divestment from companies doing business with or otherwise aiding the governing regime of Sudan; and
WHEREAS, the Board of Trustees in May 2009 passed a resolution to divest from companies that are materially engaged in the manufacture of cluster munitions as defined by the Oslo Treaty of December 2008 and military equipment and/or weapons containing depleted uranium; and

WHEREAS, after careful review the Investment Subcommittee is seeking clarity as to the current intent of these resolutions;

BE IT RESOLVED, that divestment from companies in the tobacco industry, companies doing business with or otherwise aiding the governing regime of Sudan, and companies that are materially engaged in the manufacture of cluster munitions as defined by the Oslo Treaty of December 2008 and military equipment and/or weapons containing depleted uranium will be only from those investments that are directly or separately managed within the pooled endowment, and;

BE IT FURTHER RESOLVED, that the Budget, Finance and Investment Committee will review this resolution at least once every five years.

Following review of the resolution, Chair Brennan made a motion to approve the resolution, as amended, for referral to the Budget, Finance and Investment Committee at their 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.

Resolution for Divestment from Coal

The Subcommittee considered the following proposed Resolution for Divestment from Coal as put forth by the Socially Responsible Investing Advisory Council (SRIAC).

Resolution for Divestment from Coal

WHEREAS, the University’s Policy Statement on Moral, Social and Ethical Considerations in Investment and Shareholder Resolutions holds that the primary objective of investment by the University is to provide a satisfactory return on investment for the support of University operations based upon the Prudent Investor Rule; and

WHEREAS, the Socially Responsible Investment Advisory Council has met and studied the issue of the impact of coal mining for energy use on climate change and has made a recommendation to the Investment Subcommittee of the Board of Trustees to commit to removing current and all future direct and/or actively managed investments in companies whose principal business is mining coal for energy use;

BE IT RESOLVED, that the University will divest from all current directly held positions within separately managed accounts and commit to no future direct investment in companies whose principal business is mining coal or in commingled funds that specifically invest in those companies;
BE IT FURTHER RESOLVED, that the Socially Responsible Investment Advisory Council will review and if appropriate reaffirm this resolution at least once every five years.

Following consideration and discussion on the proposed Resolution for Divestment from Coal, the Subcommittee decided not to pursue action at this time.

Trustee Chair McAneny expressed her gratitude to the Investment Subcommittee for their diligent work.

Chair McAneny left the meeting at 3:33 p.m.

Annual Review of Statement of Investment Policy and Objectives

Chair Brennan directed the members to Attachment 4 for the annual review of Statement of Investment Policy and Objectives. Following review and discussion, the Subcommittee decided they will continue their review of the policy at a future meeting, in preparation for approval of the policy by the Budget, Finance and Investment Committee at a future Board meeting.

Recent Market Returns

Mr. Brantley led the discussion surrounding the recent market returns and trends and directed the members to the exhibits in the meeting materials provided by Cambridge Associates. He highlighted various market attributes and noted that the third quarter was a down market with U.S. equities returning -7.2%, outperforming emerging market equities, which returned -17.9% giving back all their prior calendar year gains by quarter end. Meanwhile the Bond market generated gains in the third quarter. Equities bounced back sharply in October, U.S. Equities returned 8.2% and Emerging Markets returned 7.1%.


Mr. Brantley next led the discussion surrounding the performance report as of September 30, 2015 directing the members to the exhibits in the meeting materials. He noted that the portfolio was down -6.2% for the quarter ended September 30, 2015 though it nicely outperformed the target benchmark by 50 basis points. Mr. Brantley mentioned how the long term Treasuries protected the portfolio during the down market. Calendar-year-to-date the portfolio is down -4.0%, in line with the target benchmark. The Portfolio assets totaled $437.1 million as of October 31, 2015 with a total return of 3.7% for the month. Mr. Brantley also highlighted the investment managers who were the contributing drivers to the positive return of the portfolio.

Follow-up from September Meeting

Mr. Fitzmaurice followed up on the discussion from the September meeting regarding the Real Assets program and directed the members’ attention to the review of the program performed by C|A. Mr. Atwood described the variety of roles the Real Assets play in the portfolio which include driving growth, generating income, providing diversification, and preserving wealth. He
also noted the exhibits which indicate the detail of attribution by asset class of the portfolio. As of September 30, 2015, the University’s Real Assets portfolio totaled $50.2 million, comprising 11.8% of the total portfolio vs. a 12.0% target. Mr. Brantley noted the construction of the exposure to the various sectors within the Real Assets program and some of the history surrounding the program in the portfolio. Chair Brennan requested the C|A team perform a “stress test” relating high inflation to the current portfolio standing for discussion at the December meeting. Mr. Atwood led a discussion of Master Limited Partnerships (“MLPs”) and directed the Subcommittee to exhibits in the materials. The Subcommittee was interested in the opportunity and asked Cambridge to schedule a potential new manager in the asset class to present at the December Meeting.

Portfolio Rebalancing Discussion

Ms. Kent & Mr. Brantley led a discussion surrounding the rebalancing of the portfolio and directed the members to the asset allocation and manager summary exhibit. Following the discussion regarding emerging markets, Chair Brennan requested a motion to execute a $5 million redemption from Aberdeen Emerging Market Equity Strategy and to make a $5 million additional subscription with Acadian. The motion was seconded and passed unanimously.

Other Business

Ms. Kent directed the members’ attention to the Manager Watch List in the meeting materials and noted the updated information.

Chair Brennan requested that the December 16th meeting be extended to 2 hours to allow for fund manager presentation. He then expressed the Subcommittee’s pleasure and gratitude with the Cambridge team’s thorough research and information provided in the meeting materials.

Adjournment

There being no further business, Chair Brennan adjourned the meeting at 4:44 p.m.

Respectfully submitted,

Robert Brennan, Chair