

**BUDGET, FINANCE AND INVESTMENT COMMITTEE  
BOARD OF TRUSTEES  
UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE**

A meeting of the Budget, Finance and Investment Committee of the Board of Trustees of the University of Vermont State and Agricultural College was held on Friday, February 10, 2023, at 1:00 p.m., in the Livak Ballroom, 417-419 Dudley H. Davis Center.

**MEMBERS PRESENT:** Chair Don McCree, Vice Chair John Dineen, President Suresh Garimella<sup>1</sup>, Susan Brengle<sup>2</sup>, Robert Brennan, Kisha Kalra, Ed Pagano, Shap Smith, and Catherine Toll

**REPRESENTATIVES PRESENT:** Faculty Representative Jane Knodell, Alumni Representative Myron Sopher, Staff Representative Douglas Dickey, and Student Representative Ashleigh Clark

**PERSONS ALSO PARTICIPATING:** Board Chair Ron Lumbra<sup>1</sup>, Vice President for Finance & Administration Richard Cate, University Budget Director Shari Bergquist, and University Controller Claire Burlingham

**ABSENT:** Trustee Kevin Christie, Faculty Representative Guillermo Rodriguez, Foundation Representative Bob Plante, Staff Representative Joshua Tyack, and Student Representative Evan Siegal

<sup>1</sup> Departed the meeting at 1:45 p.m.

<sup>2</sup> Participated by phone.

Chair Don McCree called the meeting to order at 1:00 p.m. He began by welcoming Douglas Dickey to the committee.

### **Approval of minutes**

A motion was made, seconded, and voted to approve the minutes of the October 28, 2022, meeting.

### **Debt policy annual review**

University Controller Claire Burlingham noted that this committee is required to approve any recommended changes to, or reaffirm, the university's debt policy annually. The administration consulted with UVM's debt advisors, the Yuba Group, and is seeking approval of the following revisions:

- The implementation of GASB 87 regarding the accounting for operating leases and the requirement that the outstanding obligations of any operating leases be reflected in the financial statements as part of the university's liabilities. Implementation of this GASB change results in an additional \$4.5 million needing to be recognized in all UVM's debt analysis as of June 30, 2022.

- Revise the Leverage Ratio moving from the *Spendable Cash and Investments to Debt* ratio to *Total Cash and Investments to Debt* ratio in order to better conform to rating agencies Moody's and S&P.
- Increase the ratio limit from 1.0X to 1.25X, recognizing the difference between spendable and total cash and investments.

The committee was informed that Moody's Investors Service recently conducted its annual credit review of the university and reaffirmed the university's Aa3 rating and stable outlook, which is considered very good for a higher education institution of this size.

The following resolution was presented to the committee:

**Resolution approving revisions to the Debt Policy**

WHEREAS, in September 2004, the Board of Trustees adopted a Debt Policy to guide the portfolio management of debt, to be reviewed annually; and

WHEREAS, since its creation in 2006, the Budget, Finance, and Investment Committee has been charged with the annual review of the Debt Policy, which it most recently revised in February 2022;

BE IT RESOLVED, that the Board of Trustees hereby accepts revisions to the policy, appearing as Appendix A to this document.

**Report of the Investment Subcommittee (ISC)**

ISC Chair Rob Brennan commended the administration for receiving the strong credit rating from Moody's. He then provided an overview of the supplemental performance update report (sent under separate distribution) provided by the university's investment advisor, Prime Buchholz. He reported that the institution's overall performance was down \$12.8 million from the previous year, however, the portfolio still outperformed many of its benchmarks in the past 12 months. As of December 31, 2022, the university's endowment balance was \$722 million.

As recommended by the ISC, the committee was asked to reaffirm the Statement of Investment Policies and Objectives (included as attachment 2, appendix B of the meeting materials).

The ISC also recommended the reappointment of Whit Wagner and David Aronoff to serve as advisors to the Investment Subcommittee.

The following resolutions were presented:

**Resolution reaffirming the Statement of Investment Policies and Objectives**

WHEREAS, in February 2011, the Board of Trustees adopted a Statement of Investment Policies and Objectives to govern the investment of UVM's Long-Term Investment Pool, including the Endowment Fund; and

WHEREAS, the Investment Subcommittee is charged with an annual review of the Statement of Investment Policies and Objectives; and

WHEREAS, on December 14, 2022, the Investment Subcommittee reviewed the Statement of Investment Policies and Objectives,

BE IT RESOLVED, that the Budget, Finance & Investment Committee hereby recommends the Statement of Investment Policies and Objectives, appearing as Appendix B to this document, for reaffirmation and referral to the Board of Trustees.

### **Resolution approving reappointment of Investment Subcommittee advisors**

BE IT RESOLVED, that the Board of Trustees approves the reappointment of H. Whitney Wagner and David Aronoff as advisors to the Investment Subcommittee, for a one-year period commencing March 1, 2023, subject to the terms and conditions reported on this date.

A motion was made, seconded, and it was unanimously voted to refer the resolutions to the Board for approval.

### **Fiscal year 2024 budget**

University Budget Director Shari Bergquist discussed the key assumptions in developing the fiscal year 2024 budget.

- Tuition and fees were approved in October 2022 and a slight increase in net undergraduate tuition revenue has been included as a preliminary assumption. Over the next few weeks, this will be refined.
- The entering undergraduate class is projected to be about 3000 students. A final number will be available after the May 1, 2023, acceptance fee payment deadline and will be reported at the May 2023 board meeting.
- In addition to last year's \$10 million increase to the base state appropriations, Governor Scott has recommended another 3% base increase in FY 2024. However, until this has been approved by the legislature, it will not be a key assumption.
- The 2023 Federal Omnibus Bill funds primarily support new and continuing research initiatives. As such, a slight growth is expected in Facilities and Administration revenue.
- There is also a slight growth in the return of cash investments.
- Employee salary increases, largely driven by collective bargaining agreements, are expected to rise between 2.5 – 3% on average. The utilities budget has been increased 20.8% to reflect the rising costs of natural gas and electricity. The physical plant operating and facilities renewal budgets have been increased 9.9% and 6.7%, respectively.

Currently, this represents a 1.6% growth in revenue and a 1.9% increase in expense. Last year's \$10 million appropriations increase was not used in full to balance the FY 2023 budget, but it will be used in balancing the FY 2024 budget.

The formal budget will be presented for Board of Trustees' approval in May 2023, at which time, the administration intends on presenting a balanced FY 2024 budget.

### **Vice President's Report**

Vice President Cate reminded members that his Vice President's report was submitted in the materials as attachment 4 and included an update on the annual Green Revolving Loan Fund and highlights from the Moody's credit report.

### **Adjournment**

There being no further business, the meeting was adjourned at 1:48 p.m.

Respectfully submitted,

Don McCree, Chair



## **University of Vermont**

### **Debt Policy**

As Adopted by the Board of Trustees

September 2004

Revised, November 2005

Revised, November 2006

Revised, December 2007

Reaffirmed, December 2008

Revised, October 2009

Revised, October 2010

Reaffirmed, October 2011

Revised, May 2013

Revised, February 2014

Revised, February 2015

Reaffirmed, February 2016

Revised, February 2017

Reaffirmed, February 2018

Revised, February 2019

Reaffirmed, January 2020

Reaffirmed, February 2021

Revised, February 2022

[Revised, February 2023](#)

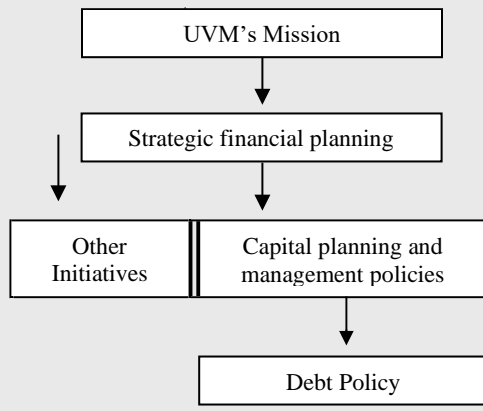
#### TABLE OF CONTENTS

Overview .....	1
Introduction and Objectives .....	2
Oversight .....	3
Policy Ratios .....	3
Types of Financings .....	5
Portfolio Management of Debt .....	7

OVERVIEW

Purpose

1. Articulate the role of UVM's debt policy within the strategic planning process.



The University of Vermont's strategic planning is a long-term process that establishes University-wide priorities as well as University and divisional programmatic objectives. The University's strategic plan identifies specific goals and initiatives, including capital plans, that identify necessary and desired University facility investments. To fund its plan, the University will continue to utilize a mix of financing sources including State and Federal sources, philanthropy, internal reserves, public-private partnerships, and external University-supported debt, [including leases](#).

This policy, in conjunction with the strategic and capital planning, will aid management in ensuring that an appropriate mix and types of funding sources are utilized and that the University's debt capacity is allocated strategically. A UVM-specific debt policy is appropriate to ensure adequate financial strength to service existing and proposed debt, maintain leverage within an acceptable risk tolerance while investing in priority capital projects, maintain a strong financial profile to ensure a competitive position relative to its peers, and maintain the budgetary capacity to invest in other initiatives.

Management and the Board of Trustees, acting through the appropriate Board of Trustee committee, will assess this policy on an ongoing basis to ensure that it remains responsive to UVM's evolving academic, research and strategic priorities and financial position.

The University believes that financial discipline is a critical component of long-term debt management and that the Board and management, operating through the appropriate Board of Trustee committee, should establish a limited number of financial ratios and limits in order to manage debt within acceptable ranges consistent with UVM's objectives. These measures will be monitored and reported on in light of UVM's evolving strategic initiatives and capital needs.



## INTRODUCTION AND OBJECTIVES

### Purpose

1. Articulate UVM's philosophy regarding debt.
2. Establish objectives for debt policy.
3. Provide for regular review and potential update of policy to reflect evolving needs.

Just as investments represent an integral component of assets, debt is viewed to be a long-term component of liabilities that, therefore, should be managed on a long-term portfolio-basis consistent with the institution's policy objectives, with an overarching objective of managing the balance sheet.

The objectives of the policy are to:

- (i) Maintain the University's access to capital. Management will utilize and issue debt in order to provide timely access to capital to fund project priorities that have been approved by the Board;
- (ii) Manage the University's credit to meet its long-term strategic objectives while maintaining creditworthiness consistent with the most favorable relative cost of capital and borrowing terms.
- (iii) Limit risk of the University's debt portfolio. Debt will be managed on a portfolio, rather than a transactional or project-specific, basis. Management's continuing objective of incurring the lowest achievable long-term risk-adjusted cost of capital will be balanced with the goal of appropriately limiting exposure to market shifts within acceptable budgetary parameters. Various types of debt structures and financial instruments will be considered, monitored, and managed within the framework established in this policy and according to internal management procedures; and
- (iv) Permit the optimization of the investment of the University's working capital and cash balances. Management will explore various options and alternatives to internal cash holdings regarding the optimal funding mechanism for short-term equipment needs, bridge financing and cash requirements. Management recognizes that working capital requirements, debt management, and the investment of cash/net assets should be viewed comprehensively in order to optimize overall funding and investment return strategies.

In addition to establishing a framework relating to the administration of debt, the policy provides for periodic updates pertaining to UVM's debt capacity and financial management to both internal and external parties.



**OVERSIGHT**

<b>Purpose</b>	
<ol style="list-style-type: none"> <li>1. Provide mechanism for oversight and review on periodic basis.</li> <li>2. Provide management flexibility to make ongoing financing decisions within the framework of the policy.</li> </ol>	<p>By adopting this policy and regularly reviewing it with the appropriate Board of Trustee committee, management will follow and report on guidelines and requirements regarding debt utilization. With appropriate authorizations consistent with the policy, management will have flexibility to implement specific financial transactions and utilize approved financing vehicles in accordance with stated procedures.</p> <p>The Office of the Vice President for Finance and Administration will manage all funding sources, including debt, for capital projects authorized by the Board. The structure of any individual transaction (e.g., maturity, interest rate mode, use of derivative products, other financing structures) will be based upon overall University needs to ensure that (i) long-term costs to the University and its operating units are minimized consistent within the context of other strategic objectives and (ii) overall risk does not exceed acceptable levels as defined in this policy.</p> <p>Because this debt policy is a living document, the appropriate Board of Trustee committee will review this policy on an annual basis and report any recommended changes or revisions to the Board of Trustees. This review process is necessary to ensure that the policy remains consistent with the University’s objectives and responsive to evolving practices, competitive pressures in the external environment, and financial indicators.</p>

**POLICY RATIOS**

<b>Purpose</b>	
<ol style="list-style-type: none"> <li>1. Identify core ratios.             <ol style="list-style-type: none"> <li>a. Operating Statement—Debt Burden Ratio.</li> <li>b. Balance Sheet Leverage—Leverage Ratio.</li> </ol> </li> <li>2. Clearly communicate with key parties such as rating agencies the University’s philosophy regarding debt and management’s ongoing assessment of debt capacity and affordability.</li> </ol>	<p>This policy establishes limits to measure the total amount of outstanding debt <a href="#">and leases</a> compared to University balance-sheet resources and the annual operating budget.</p> <p>These ratios can be derived from the financial statements and other information and are subject to review periodically. The ratios are to be calculated using annual audited financial statements of the University and should not include “Discretely Presented Component Units” of the University such as the University’s associated fundraising foundation.</p> <p>The policy identifies ratios that (i) are based on current GAAP requirements and (ii) are consistent with ratios utilized in the higher education industry to permit benchmarking.</p> <p>In addition to the two primary policy ratios below, the University may consider tracking other ratios in addition to the policy ratios. Listed below are the policy ratios and limits that will be followed.</p> <hr/> <p><i>Ratio 1 – Debt Burden Ratio</i></p> <p>This ratio measures the University’s ability to repay debt service associated with all outstanding debt <a href="#">and leases</a> and the impact on the overall budget and includes all activities of the University. The defined limit for this ratio is intended to maintain the University’s long-term operating flexibility to fund existing requirements and new initiatives, although the University may target a desired ratio below this limit.</p> $\frac{\text{ANNUAL DEBT SERVICE}}{\text{TOTAL EXPENSES}} < 5.75\%$ <p>The measure is based on aggregate operating expenses as opposed to operating revenues because expenses typically are more stable (e.g., no one-</p>





time operating gifts, investment return, variability of State funding) and better reflect the operating base of the University. Management recognizes that a growing expense base would make this ratio appear more attractive. The limit for this ratio is not to be greater than 5.75%. This ratio will be adjusted to include the impact of non-amortizing or non-traditional debt structures that could result in significant single year fluctuations, as well as an assumption of an appropriate variable rate.

*Ratio 2 - Leverage Ratio (calculated as ~~Spensible~~Total Cash and Investments to Debt)*

This ratio indicates one of the most basic determinants of financial health by measuring the availability of ~~liquid and expendable assets~~University resources compared to aggregate debt. The ratio measures the medium to long-term health of the University's balance sheet and debt capacity and is a critical component of universities with the highest credit quality.

Many factors influence the leverage ratio, affecting both the assets (e.g., investment performance, philanthropy) and liabilities (e.g., timing of bond issues), and therefore the ratio is best examined in the context of changing market conditions so that it accurately reflects relative financial strength. For example, a leverage ratio that is acceptable and entirely appropriate in one market condition may be relatively stronger or weaker in other market environments.

This policy establishes a debt policy limit (floor) for this ratio of 1.250 to ensure that sufficient balance sheet strength is maintained at all times.

$$\frac{\text{TOTAL CASH \& INVESTMENTS} - \text{PERMANENTLY RESTRICTED NET ASSETS} + \text{PLEDGES CLASSIFIED AS PERMANENTLY RESTRICTED NET ASSETS}}{\text{AGGREGATE DEBT}} \geq 1.250x$$

AGGREGATE DEBT

This ratio will include any financings that impact the University credit, including guarantees of third-party debt.

The 1.250x limit is recognized as a limit, and not a long-term objective. Over time, to remain competitive and retain the flexibility to invest in future strategic initiatives, UVM will want to target and maintain a ratio above 1.250x.

Annually, based on the results of the audited financial statements, the Vice President for Finance and Administration will report to the appropriate Board of Trustee committee on the actual ratio results and any existing conditions that put the University out of compliance with this policy. In the event that the University is out of compliance with the policy, the appropriate Board of Trustee committee will take up the matter for consideration and make recommendations it deems appropriate to the Board of Trustees.

~~To further evaluate the leverage of the University, the Vice President for Finance and Administration will report the University's Expendable Financial Assets to Debt ratio. This ratio will be reviewed relative to prior years, peers and rating agency medians and will be calculated with and without the Governmental Accounting Standards for Other Post Retirement Benefits. The Vice President for Finance and Administration will report to the appropriate Board of Trustee committee on any existing conditions that cause notable year-over-year changes in this ratio, particularly relative to peers and rating medians.~~



~~UNRESTRICTED NET ASSETS + TEMPORARILY RESTRICTED  
NET ASSETS – EQUITY IN PLANT  
AGGREGATE DEBT~~

*Ratios as a Credit Factor*

The University has established its ratios and associated ratio limits based on internally established guidelines. The ratios and limits are not intended to provide a long-term target or track a specific rating, but rather will enable the maintenance of the University’s competitive financial profile and complement the capital planning process.

The debt policy will be shared with external credit analysts and other third parties in order to provide them with the context regarding UVM’s assessment of self-determined debt capacity and affordability, which is subject to ongoing review.

**TYPES OF FINANCINGS**

Purpose
<ol style="list-style-type: none"> <li>1. Review of all potential funding sources for projects.</li> <li>2. Maximize tax-exempt University-issued debt.</li> <li>3. Commercial Paper program.                             <ol style="list-style-type: none"> <li>a. Provide bridge funding.</li> <li>b. Provide continual access to capital.</li> <li>c. Issuance on a taxable or tax-exempt basis.</li> </ol> </li> <li>4. Manage derivative products, including swaps.</li> <li>5. Consider other financing sources.                             <ol style="list-style-type: none"> <li>a. Management will explore securitizations, joint ventures and other financial structures to provide for the optimal funding for any project.</li> </ol> </li> </ol>

The University recognizes that there are numerous types of financing structures and funding sources available, each with specific benefits, risks, and costs. All potential funding sources will be reviewed by management within the context of the debt policy and the overall portfolio to ensure that any financial product or structure is consistent with UVM’s objectives. Regardless of what financing structure(s) is(are) utilized, a full understanding of the transaction, including (i) quantification of potential risks and benefits, and (ii) analysis of the impact on University creditworthiness and debt capacity, will be required. Any financial transaction which, in management’s opinion, utilizes the University’s credit, will be subject to the limits set forth in this policy regardless of source.

*Tax-Exempt Debt*

The University recognizes that debt will remain a long-term component of the University’s capitalization over the foreseeable future due in part to its continued need for capital and the substantial economic benefits associated with tax-exempt debt. Therefore, financial transactions will be managed on a portfolio basis with a long-term perspective. (In all circumstances, however, individual projects must continue to be identified and tracked to ensure compliance with all tax and reimbursement requirements).

Debt will be structured to meet the University’s comprehensive long-term objectives, and each project being financed will be required to provide a sound business plan, including the source of repayment for the debt and appropriate and realistic repayment terms. Among other things, the repayment terms will require that the loan term is no greater than the expected componentized useful life of the asset financed. Additionally, the financed project will be required to budget and fund principal payments on a fully amortized basis.

*Taxable Debt*

While all of the University’s capital projects may not qualify for tax-exempt debt, taxable debt should only be used in appropriate cases as it generally



represents a more expensive source of capital relative to tax-exempt issuance. [Examples of appropriate cases to utilize taxable debt include timing, fees and rates relative to tax-exempt rates, the nature of the project being funded, and private use, among others.](#)

---

*Commercial Paper (CP) & Lines of Credit (LOCs)*

The CP program [and lines of credit](#) can provide substantial financial flexibility to the University including the ability to manage and optimize cash balances and provide an alternative to lease transactions and other purposes. CP [and LOCs](#) can offer the University interim financing for capital projects in anticipation of the receipt of funding either in the form of future philanthropy or the issuance of long-term debt for permanent financing, as well as offer greater flexibility regarding the timing and structuring of individual bond transactions.

---

*Derivative Products*

Management recognizes that derivative products may enable more opportunistic and flexible management of the debt portfolio. Derivative products, including interest rate swaps, may be employed primarily to manage or hedge the University's interest rate exposure for a specific period of time. The University will utilize a framework to evaluate potential derivative instruments through consideration of (i) its variable rate allocation, (ii) market and interest rate conditions, (iii) impact on future financing flexibility, and (iv) the compensation for assuming risks, or the costs for eliminating certain risks and exposure. In addition, the University will analyze and quantify the cost/benefit of any derivative instrument relative to achieving desirable long-term capital structure objectives. Under no circumstances will a derivative transaction be utilized that is not understood fully by management or that imposes inappropriate risk on the University. Risks include but are not limited to tax risk, interest rate risk, liquidity risk, counterparty credit risk, basis risk, and any other potential risks either imposed or removed through the execution of any transaction. In addition, management will consider and disclose the potential impact of any derivative product on the University's financial statements and the appropriate treatment in calculating the debt policy ratios. The University will regularly report on the status and performance of its derivative products, if any, to the appropriate Board of Trustee committee. Given the risks and complexity associated with derivative products, they will be considered more seriously only when: (i) conventional financing sources are relatively more expensive (e.g. exceed the portfolio blended interest rate), and (ii) can achieve desired financial objectives more efficiently or at a significantly lower risk-adjusted cost than traditional structures. Management is required to present any recommended derivative product to the appropriate Board of Trustee committee and must receive Board approval prior to execution.

---

*Other Financing Sources*

The University recognizes that a variety of transactions, not limited to debt insured directly by UVM, may impact the University's credit while the University's limited debt capacity and substantial capital needs require the consideration of various financing alternatives, including possible opportunities for alternative and non-traditional transaction structures. The University recognizes these types of transactions may also impact the University's credit and also often can be more expensive than traditional University debt structures.



Therefore, all non-traditional financing structures including guarantees and third party debt can only be considered once the economic benefit and the likely impact on the University's debt capacity and credit has been determined. Specifically, for any third-party or developer-based financing, management will ensure the full credit impact of the structure is evaluated and quantified to the extent possible prior to execution and the analysis must be presented to the appropriate Board of Trustee committees and must receive Board approval prior to execution.

## PORTFOLIO MANAGEMENT OF DEBT

### Purpose

1. Permit decisions regarding debt issuance and structure to be made on a portfolio basis, rather than on a per-project basis.
2. Manage variable rate exposure of the debt portfolio.
  - a. Limit variable rate exposure.
  - b. Manage the overall liquidity requirements associated with outstanding debt.
  - c. Target overall variable rate debt exposure.
3. Evaluate exposure to other financing vehicles and third parties on a portfolio-wide basis.

The University considers its debt portfolio holistically; that is, it optimizes the portfolio of debt for the entire University rather than on a project-by-project basis and takes into account the University's cash and investments.

### Variable Rate Debt

It is recognized that a degree of exposure to variable interest rates within the University's debt portfolio may be desirable in order to:

- (i) take advantage of repayment/restructuring flexibility;
- (ii) benefit from historically lower average interest costs;
- (iii) diversify the debt portfolio; and,
- (iv) provide a hedge to short-term working capital balances

Management will monitor overall interest rate exposure, analyze and quantify potential risks, and coordinate appropriate fixed/variable allocation strategies. The portfolio allocation to variable rate debt may be managed or adjusted through (i) the issuance of debt (potentially new issues and refunding), (ii) and the use of interest rate swaps and other derivative products. While the utilization of commercial paper impacts the University's variable rate exposure, outstanding CP will not be included in the ratio, given the expected interim financing purpose.

Recognizing the desire to manage interest rate risk, the amount of variable rate debt outstanding shall not exceed 35% of the University's outstanding debt. This limit is based on the University's desire to (i) limit annual variances in its debt service, (ii) provide sufficient structuring flexibility to management, (iii) keep the University's variable rate allocation within acceptable external parameters, (iv) utilize variable rate debt (and/or swaps) to optimize debt portfolio allocation and minimize costs, and (v) take into account liquidity needs and exposures for the portfolio, including consideration of the commercial paper program.

$$\frac{\text{VARIABLE RATE AND LIQUIDITY EXPOSURE}}{\text{TOTAL LONG-TERM DEBT OUTSTANDING}} > 1.0 \times 35\%$$

The University will exclude from this calculation project-related commercial paper used in advance of expected long-term financing since this commercial paper is used for interim purposes and should not be included in the University's desired long-term variable rate allocation calculation. The numerator, *Variable Rate and Liquidity Exposure*, is defined as including all variable rate debt, not adjusted for any floating to fixed swaps, if any, and plus any fixed to floating swaps, if any. Thus, any variable rate debt that is affected by floating-to-fixed interest rate swaps will be considered variable rate debt for the purposes of this calculation since it impacts the University's liquidity requirements and exposes the institution to counterparty credit exposure. Note that this ratio measures interest rate exposure and liquidity exposure/requirements directly.

## GLOSSARY

**Annual Debt Service** – refers to the planned principal and interest paid on long-term debt in a fiscal year.

**Bridge Financing** – refers to any type of financing used to “bridge” a period of time. For universities, it generally refers to financings that provide funding in advance of a long-term bond issue or the receipt of gift funding.

**Capital Project** – refers to physical facilities or equipment or software that may be capitalized.

**Commercial Paper** – an alternative to bank line for stronger rated borrowers, commercial paper is short-term promissory notes issued on the open market as an obligation of the borrower. The maturity of commercial paper is less than 270 days, and for most universities, the average maturity of all paper is between 30-50 days. Registration and disclosure for commercial paper is significantly less than traditional university bonds.

**Derivative Products** – generally referred to transactions which are an exchange of specified cash flows for a period of time. The most common types of derivatives are floating-rate-to-fixed-rate or fixed-rate-to-floating-rate swaps.

**GAAP** – refers to Generally Accepted Accounting Principles.

**Leverage** – long-term debt as a component of the total assets of the University. “High leverage” indicates an institution that has a considerable portion of its assets that are debt financed.



## UNIVERSITY OF VERMONT

### STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES

#### I. INTRODUCTION

This statement is issued by the Investment Subcommittee (the “ISC”) of the Board of Trustees of the University of Vermont (the “Board”). The ISC was established by the Board and the Budget, Finance and Investment Committee in late 2006 and charged with oversight of investment strategy and investment managers for the Long-Term Investment Pool, including the Endowment Fund, collectively called the “Fund”, of the University. The policy statement will be reviewed annually and modified by the ISC as conditions warrant.

#### II. FIDUCIARY STANDARDS

The Board, the ISC, the Treasurer and finance staff, and any third-parties (e.g., investment managers) retained to advise the Board, the ISC, the Treasurer and/or finance staff as to investment strategy and management (any and all of whom may be referred to as “Responsible Parties”) shall exercise their responsibilities with respect to the Fund’s assets in compliance with the requirements of the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), enacted in the state of Vermont in 2009. In accordance with UPMIFA, key facets of the Responsible Parties’ roles include:

- Acting in good faith, with the care an ordinarily prudent person would exercise;
- Incurring only reasonable costs in investing and managing charitable funds;
- Making decisions about each asset in the context of the portfolio of investments, as part of an overall investment strategy;
- Diversifying investments, unless due to special circumstances, the purposes of the Fund are better served without diversification;
- Disposing of unsuitable assets; and
- In general, developing an investment strategy appropriate for the Fund and the University.

#### III. RESPONSIBILITIES of the INVESTMENT SUBCOMMITTEE

Responsibilities and goals of the ISC include:

- Ensuring that current and future spending requirements are supported while also preserving the real purchasing power of the Fund;
- Achieving an optimum level of return within appropriate risk tolerances;
- Developing a sound and consistent investment policy including asset allocation, diversification and rebalancing guidelines;

- Selecting and maintaining qualified investment managers and advisors;
- Monitoring and evaluating results to ensure that policy guidelines are being adhered to and that policy objectives are being met; and
- Taking action under appropriate circumstances to discharge an investment manager or advisor for failing to perform in terms of stated expectations.

The ISC is authorized to delegate certain responsibilities to staff to assist in properly meeting the overall responsibilities as outlined above.

#### **IV. CONFLICT OF INTEREST POLICY**

In addition to the responsibilities set forth in the Board of Trustees' Conflicts of Interest policy, it is the responsibility of the ISC members to disclose to the ISC Chair any situation in which there may be reasonably construed to be a perceived or actual conflict of interest. The ISC Chair will work with the members to determine an appropriate response.

The ISC will generally not consider investments in funds directly managed by a member of the ISC. In addition, a member of the ISC employed by an investment or other firm that provides services to the Fund will recuse him/herself from all discussions and votes on existing or potential investments or other services managed or provided by that firm. The ISC recognizes, however, that certain exceptions to this policy may be appropriate. Such exceptions will be made only upon a majority vote of the disinterested members of the ISC.

In the event that the ISC is considering an investment in an access-constrained investment opportunity, any ISC member wishing to invest for his/her own benefit in such an opportunity shall notify the ISC Chair in writing.

#### **V. MORAL, SOCIAL AND ETHICAL CONSIDERATIONS IN INVESTMENT STRATEGY**

The University Statement of Investment Policies and Objectives requires the Board, the Investment Subcommittee (ISC) of the Board Budget, Finance and Investment Committee, the Treasurer, and third parties such as investment managers, to exercise their responsibilities with respect to the Long-Term Investment Pool, including Endowment Fund assets, in compliance with the requirements of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA").

Achieving the Financial and Investment Objectives of the Fund is essential to provide resources to fulfill the institutional mission of the University. The core responsibility of the ISC is to achieve the Financial and Investment Objectives of the fund in a manner consistent with the requirements of UPMIFA and prudent fiduciary practices.

The primary objective of achieving the Financial and Investment Objectives of the Fund does not preclude consideration of moral, ethical and social criteria in selecting investments or participating in shareholder resolutions that address moral, ethical or social issues. However, the core responsibility of the Board is to steward University assets in a manner consistent with prudent

fiduciary practices.

Restrictions on the portfolio made via Board of Trustee resolutions, such as the Resolution on Socially Responsible Investing, may be found on the University of Vermont website (<https://www.uvm.edu/trustees/resolutions>).

## **VI. FINANCIAL & INVESTMENT OBJECTIVES**

The overall financial objective of the Fund is to provide a stable and consistent level of ongoing support for the University's programs through a reasoned spending policy consistent with preserving and enhancing the real (i.e., inflation-adjusted) purchasing power of the Fund over time.

The primary long-term investment objective of the Fund is to attain a real total return<sup>1</sup> (net of investment management fees) that exceeds the amount being distributed for spending and administration, currently set at 5.50%. This will be measured over the long term, capturing a full market cycle, as it is unlikely that the Fund's return will meet or exceed the spending rate in each individual year. Other important investment objectives are to achieve annualized returns in excess of the strategic policy portfolio blended benchmark (defined herein), measured over a full market cycle; and to outperform the median return of a pool of endowment funds of similar size with broadly similar investment objectives and policies.

## **VII. ASSET ALLOCATION**

The policy portfolio for the Fund is a target or set of investments, based on long-term return, risk and correlation assumptions that balance the organization's need for liquidity, preservation of purchasing power, and risk tolerance. The ISC, with input and assistance from staff and external advisors, shall periodically examine the policy portfolio targets and consider adjustments to the asset allocation as may be appropriate (for example, due to a material change in the capital market assumptions). Changes to the policy portfolio targets will be reviewed and approved by the ISC and presented to the Budget, Finance and Investment Committee and the Board, as necessary.

In addition to being diversified across asset classes, the Fund will be diversified within each asset class. This will provide reasonable assurance that the performance of any single security, issuer or class of securities, or active manager will not have a disproportionate impact on the total Fund performance.

The most current asset allocation/strategic policy portfolio for the Fund is attached as **Appendix A**.

---

<sup>1</sup> Real total return is the sum of realized and unrealized capital appreciation (or loss) and current income in the form of dividends and interest, adjusted for inflation as measured by the Consumer Price Index.



## VIII. REBALANCING

The Fund's actual asset allocation will be monitored monthly and reviewed by the ISC at its regular meetings relative to established policy portfolio targets and allowable ranges. Adjustments may be constrained by practical limits with respect to liquidity and transaction costs, but rebalancing efforts will be made as practicable. Cash flow in or out of the Fund may create an opportunity to shift the allocation closer toward policy targets. The ISC may at times authorize investments in new or developing asset classes that are not part of the strategic policy portfolio at the time of their adoption, with the intention of revising the policy portfolio shortly thereafter.

## IX. PERFORMANCE EVALUATION, BENCHMARKS, and ASSET CLASS CHARACTERISTICS

The performance objectives for the Total Fund, each asset class and each manager are outlined below, with the purpose of establishing specific parameters for regular and ongoing review. While performance is measured over both short- and long-term periods, the focus and emphasis of performance evaluation is on longer time periods as represented by a full market cycle.

### *Total Fund*

There are a number of different benchmarks for assessing performance at the Total Fund level:

**Policy Index** – this custom benchmark compares the total return of the Fund to a blended benchmark based on applying the target policy weights of each underlying asset class to the performance of the asset class benchmarks. The individual asset class benchmarks are discussed in the next section.

**Actual Index** – this benchmark is composed of the current allocations for each of the underlying composite asset classes weighted against the corresponding returns of their respective benchmarks.

**Undiversified Benchmark** – this simple market benchmark helps the ISC evaluate the value added from a sophisticated investment program versus a portfolio that could be easily replicated through investment in index funds.

**NACUBO-TIAA Study of Endowments (NTSE)** – a universe of over 700 institutions, a broad peer universe against which the ISC compares the Fund's return. In addition to this specific annual study, the ISC may also compare the Fund's results to other relevant institutional investor comparisons.

### *Asset Classes & Managers*

Each manager will be expected to outperform (net of fees) a benchmark that is appropriate based on the asset class and style of the manager, over a full market cycle. Performance results will be reviewed with the ISC at its regular meetings and in an interim period when there is a major event (personnel change, for example) at the firm. The manager will be evaluated on long-term performance so that shorter-term failure to meet the benchmark target returns is not an automatic basis for manager termination.

Due to the broad nature of the asset classes and the unique style of managers, it is important to note that the specific benchmark of the individual manager may not necessarily be the same as the benchmark for the particular asset class composite as defined below. For example, the Public Global Equity benchmark is MSCI ACWI but US equity managers, for example, will be compared to an appropriate US equity benchmark.

<b>Asset Class</b>	<b>Market Index Used in Policy Index<sup>2</sup></b>	<b>Underlying Investments</b>
Public Global Equity	MSCI AC World Index (Net)	Portfolios are expected to focus on public global, US, international developed, and/or emerging markets.
Marketable Alternatives	Hedge Fund Research Inc. (HFRI) Fund of Funds Composite Index	Investment mandates may include: multi-strategy arbitrage, event arbitrage, distressed securities, credit/capital structure arbitrage and long/short equity investments in global markets.
Private Investments	MSCI ACWI, lagged	This asset class includes private investment strategies of all types, including but not limited to buyouts, venture capital, secondaries, distressed, real estate, private energy, and similar strategies. Market values and return information is lagged by one quarter, or more, as the underlying investments are not readily valued at the close of the latest quarter.
Fixed Income	Bloomberg Barclays U.S. Aggregate Bond Index	Holdings may consist of U.S. Treasury, U.S. government/agency, asset-backed, and corporate credit securities.
Cash	Self-benchmarked	Cash and cash equivalents

<sup>2</sup> Indices used in Policy Index are effective as of February 5, 2022.

Individual manager accounts will be monitored for consistency of each manager's investment philosophy and process, return relative to objectives, investment risk as measured by asset concentrations, exposure to extreme economic conditions, and market volatility. In the broadest sense, the monitoring process is intended to confirm that the reasons the manager was initially retained still hold true.

## **X. MANAGER GUIDELINES**

Investment managers will be hired for a specific skill set, and the resulting investments will be made either through separately managed accounts or pooled vehicles. Each manager of a separate account will adhere to the firm's stated philosophy and investment strategy. Where investments are in commingled funds, mutual funds, off-shore funds or limited partnerships, the permissible investments are governed by the appropriate fund prospectus or offering memorandum. Some of these products permit the use of derivatives for certain investment strategies and in instances where a manager has demonstrated skill in effectively utilizing these instruments. For example, they may be used in reducing risk or replacing positions to gain flexibility and efficiency.

### **A. MANAGER REPORTING**

Each investment manager of marketable assets will provide monthly portfolio valuations and total return net of all commissions and fees. On a quarterly basis, managers will report current holdings at market value, and purchases and sales for the quarter. Traditional marketable managers with whom UVM is invested through a separate account may be required to reconcile records of holdings, transactions, and dividend/interest income with the Fund's custodian on a periodic basis. Specialty managers (who manage hedge funds and non-marketable partnerships) will report on portfolio details with as much transparency as possible. Each of these managers will provide annually their most recent audited financial statements, which include the basis of accounting and the auditor's opinion. In addition, each specialty manager will disclose its respective valuation policies and procedures on an annual basis.

Regular communication from all managers concerning investment strategy and outlook is expected. The ISC will regularly review a Watch List that is maintained to highlight managers' relative performance when it is outside the normal range or expected returns, new organizational issues, and/or any significant changes in strategy that raise concerns. Additionally, managers are required to inform the University of Vermont of any significant change in firm ownership, organizational structure, professional personnel, or fundamental investment philosophy. Managers will also send a copy of their form ADV to the University at least annually.

### **B. PROXY VOTING GUIDELINES**

University of Vermont's Endowment Accountant votes the shareholder proxies.

### C. GUIDELINES FOR TRANSACTIONS

As a general guideline that should apply to all assets managed, transactions should be entered into on the basis of best execution, which is interpreted normally to mean best realized price.

*Adopted by the Board of Trustees on February 5, 2011, to replace the former “Statement of Investment Objectives and Policies,” as revised most recently on November 11, 2006.*

*Approved as revised by the Board of Trustees: February 9, 2013*

*Approved as revised by the Board of Trustees: February 8, 2014*

*Approved as revised by the Board of Trustees: February 6, 2016*

*Approved as revised by the Board of Trustees: February 3, 2017*

*Approved as revised by the Board of Trustees: May 19, 2018*

*Approved as revised by the Board of Trustees: October 27, 2018*

*Approved as revised by the Board of Trustees: May 18, 2019*

*Reaffirmed by the Board of Trustees: May 15, 2020*

*Approved as revised by the Board of Trustees: February 5, 2021*

*Approved as revised by the Board of Trustees: June 4, 2021*

*Approved as revised by the Board of Trustees: February 5, 2022*

*Reaffirmed by the Board of Trustees:*

**ASSET ALLOCATION POLICY TARGETS***April 2021*

Asset Class	Target (%)	Allowable Range (%)
Public Global Equity	45.0	30-65
Marketable Alternatives	10.0	5-15
Private Investments	35.0	15-45
Fixed Income	8.0	5-25
Cash & Cash Equivalents	2.0	0-5

*Targets last revised by Investment Subcommittee: April 21, 2021*