THE UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE
BOARD OF TRUSTEES

BUDGET, FINANCE AND INVESTMENT COMMITTEE

Chair Don McCree, Vice Chair Briar Alpert, President Suresh Garimella, David Aronoff, Robert Brennan, Kevin Christie, John Dineen, David Gringeri, Ed Pagano, and Tristan Toleno, Faculty Representatives Donald Ross and Terri Donovan, Foundation Representative Richard Ader, Alumni Representative Myron Sopher, Staff Representatives Joshua Tyack and Renee Berteau, Student Representatives Sophie Smith and Lana Al-Namee, Graduate Student Representatives Jessica Bocanegra and Avery Rasmussen

Friday, May 15, 2020
9:30 a.m. - 10:10 a.m.

**This meeting will be held remotely. If interested in listening in, please dial:*
1-802-489-6040; Conference ID: 497 223 154#
For any technical issues or questions, please email edickinson@uvm.edu.

AGENDA

	Item	Enclosure	Discussion Leader(s)	Time
	Call to Order			**9:30 a.m.***
1.	Approval of January 31, 2020 meeting minutes	Attachment 1	Don McCree	9:30-9:32
2.	Resolutions approving tuition & graduate continuous registration fee charges for fiscal year 2021	Attachment 2	Richard Cate	9:32-9:40
3.	Report of the Investment Subcommittee • Endowment performance update • Asset allocation update • Resolution reaffirming the Investment of Endowment Cash policy • Resolution approving revisions to the Cash Management & Liquidity policy • Resolution reaffirming the Statement of Investment Policies & Objectives • Resolution reaffirming the Endowment Administration Fee policy • Resolution approving contract extension with Cambridge Associates	 Separate distribution Attachment 2 Attachment 2; Appendix A Attachment 2; Appendix B Attachment 2 Attachment 2	Robert Brennan	9:40-10:00

*Times are approximate.

	Item	Enclosure	Discussion Leader(s)	Time
4.	Vice President's report • Third quarter general fund budget to actuals • Capital project pre-funding account • Net tuition stabilization fund	Attachment 3	Richard Cate Shari Bergquist Claire Burlingham	10:00-10:05
5.	Other Business**		Don McCree	10:05-10:10
	Motion to Adjourn			**10:10 a.m.**

**Executive session as needed.

Budget, Finance and Investment Committee
Executive Summary
May 15, 2020

Prepared By
Richard H. Cate, Vice President for Finance and Treasurer

ACTION ITEMS

Approval of previous meeting minutes
The minutes for the January 31, 2020 committee meeting are included as **Attachment 1.**

Action: Motion to approve the minutes.

Resolution approving tuition charges for fiscal year 2021
The budget calls for a 0.0% increase in in-state, and out-of-state tuition.

Action: Approval of resolution regarding FY 2021 tuition rates. **Attachment 2**

Resolution approving continuous registration fee for graduate students for fiscal year 2021
The varying graduate continuous registration fees for FY 2021 are set at the same rates as previous years.

Action: Approval of resolution regarding graduate continuous registration fees. **Attachment 2**

Resolution reaffirming the Investment of Endowment Cash policy
To maximize investment return and to meet the endowment's needs, the Investment of Endowment Cash policy authorizes the Vice President for Finance and Treasurer to invest and withdraw endowment cash into and out of a short-term bond fund as necessary. The Investment Subcommittee (ISC) reviewed the policy on February 11, 2020 and recommends reaffirming with no changes.

Action: Reaffirm the Investment of Endowment Cash policy. **Attachment 2**

Resolution approving revisions to the Cash Management & Liquidity policy
The ISC reviewed the Cash Management and Liquidity policy on February 11, 2020. The policy governs the investment of UVM pooled cash and sets the minimum liquidity target for the university. The committee will be asked to consider minor revisions as recommended by the ISC and detailed in Appendix A to the committee consent agenda.

Action: Approval of revisions to the Cash Management & Liquidity policy. **Attachment 2**

<u>Resolution reaffirming the Statement of Investment Policies & Objectives</u>
On March 10, 2020, the ISC reviewed the Statement of Investment Policies & Objectives and recommends reaffirming with no changes. The statement governs the investment of UVM's long-term investment pool, including the endowment fund.

Action: Reaffirm the Statement of Investment Policies & Objectives. **Attachment 2; Appendix B**

The following resolutions are pending review by the Investment Subcommittee on 5/12/2020:

<u>Resolution reaffirming the Endowment Administration Fee policy</u>
As a result of discussions with the leadership of the UVM Foundation, the administration is requesting approval of an increase in the endowment administrative fee from 25 basis points (0.25%) to 100 basis points (1%). 80 basis points will flow to the Foundation and the remaining 20 basis points will flow to the University to fund administrative costs.

Action: Reaffirm the Endowment Administration Fee policy. **Attachment 2**

<u>Resolution approving contract extension with Cambridge Associates</u>
The administration is seeking to renew the current investment advisory services contract with Cambridge Associates, LLC for one year, through June 30, 2021.

Action: Approval of Cambridge Associates contract extension for one year. **Attachment 2**

ROUTINE REPORTS

<u>Report of the Investment Subcommittee (ISC)</u>
ISC Chair Rob Brennan will brief the committee on the activities of the subcommittee since the last full Board meeting. **Separate distribution**

<u>Vice President's report</u>
My report includes updates on the capital project pre-funding account, net tuition stabilization fund, capital project fundraising, and the third-quarter general fund budget to actuals report. **Attachment 3**

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, January 31, 2020 at 10:15 a.m., in the Silver Maple Ballroom, 401 Dudley H. Davis Center.

MEMBERS PRESENT: Chair Don McCree, Vice Chair Briar Alpert, President Suresh Garimella*, David Aronoff, Robert Brennan, Kevin Christie, Sidney Hilker, Bernard Juskiewicz, Ron Lumbra, Ed Pagano, and Tristan Toleno

REPRESENTATIVES PRESENT: Faculty Representative Donald Ross, Foundation Representative Richard Ader**, Alumni Representative Myron Sopher**, Staff Representatives Joshua Tyack and Renee Berteau, Student Representatives Sophie Smith and Lana Al-Namee, and Graduate Student Representatives Jessica Bocanegra and Avery Rasmussen

PERSONS ALSO PARTICIPATING: Vice President for Finance and Treasurer Richard Cate, University Controller Claire Burlingham, University Budget Director Shari Bergquist, and Vice President for Legal Affairs & General Counsel and Chief of Staff to the President Sharon Reich Paulsen

ABSENT: Faculty Representative Terri Donovan

*Departed the meeting at 10:50 a.m. and returned at 11:22 a.m.
**Participated via conference phone

Chair Don McCree called the meeting to order at 10:35 a.m. He began by welcoming new undergraduate student representative Sophie Smith, and thanking outgoing member Sidney Hilker for her service.

Approval of minutes

A motion was made, seconded and voted to approve the minutes of the October 25, 2019 meeting.

Firestone Medical Research Building

Vice President for Finance and Treasurer Richard Cate presented supporting materials on the development and construction of the Firestone Medical Research Building, estimated at $49 million. President Garimella provided his strong support for this project, which will be funded as follows:

- $28,800,000 from dean's reserves (reserves will be replenished as additional philanthropy for the project is received)
- $9,000,000 from University Medical Education Association (UMEA) inclusive of dean/CEO funds, UVM Medical Group, President's fund and dean's fund

- $1,000,000 from UMEA/University Health Center (UHC)/Larner College of Medicine general funds (representing contribution from each basic science and clinical department)
- $6,200,000 from philanthropy
- $4,000,000 from university general funds

The following resolution was presented to the committee for approval for recommendation to the board:

> **<u>Resolution authorizing expenditures for the development and construction of the Firestone Medical Research Building project</u>**
>
> WHEREAS, on June 11, 2018, the Executive Committee approved the University's recognition of Steven N. Firestone, M.D. '69 as naming gift donor for a project heretofore called the Firestone Medical Research Building; and
>
> WHEREAS, on October 26, 2018, the Board of Trustees authorized the expenditure of $6 million to undertake the expenditures necessary to complete the project design, including construction drawings for the project; and
>
> WHEREAS, on May 18, 2019, the Educational Policy & Institutional Resources Committee approved the project scope for the project and referred it to the Budget, Finance & Investment Committee for future financial review; and
>
> WHEREAS, the administration has presented a plan for funding the project without debt;
>
> THEREFORE, BE IT RESOLVED, that the Board of Trustees authorizes the administration to undertake the expenditures necessary to complete the design and construction of the project at a cost consistent with its report of this date, with the understanding that bids for the construction cost have not yet been received and the administration will seek further authorization from the Board, prior to commencing construction, should the project cost exceed $49 million; and
>
> BE IT FURTHER RESOLVED, that the $49 million in funds for total expenditures for the project be drawn from gift funds, dean's reserves, university general fund reserves, and reserves of the University Medical Education Associates.

A motion was made, seconded, and the resolution was unanimously approved as presented.

Recital Hall expansion and renovation project

The Executive Committee approved the construction of the Recital Hall expansion and renovation project on July 3, 2018. The Budget, Finance and Investment (BFI) committee agreed to increase the authorized expenditure amount for this project in order to reflect the actual project scope and bids, which resulted in a cost that exceeded the original gift amount of $3,300,000, by $1,004,000. Donors decided to increase their pledge by $247,000 in order to retain program priorities, and the UVM Foundation and the university will fund the remaining balance of $757,000 from existing reserves.

The following resolution was presented to the committee for approval for recommendation to the board:

> **Resolution authorizing expenditures for the Recital Hall expansion and renovation project**
>
> WHEREAS, on July 3, 2018, the Executive Committee approved the Recital Hall expansion and renovation project at a cost not to exceed $3,300,000;
>
> WHEREAS, the administration today reported on a revised expenditure and funding plan that would increase the project cost by an additional $1,004,000; and
>
> WHEREAS, the University has received a written pledge commitment that would fund $247,000 of the increase from additional gift funds, and the UVM Foundation and the University will provide the remaining $757,000 from available reserves;
>
> BE IT RESOLVED, that the Board of Trustees authorizes an additional $1,004,000 for the Recital Hall expansion and renovation project for a total expenditure of $4,304,000, to be expended in a manner consistent with the report made on this date.

This resolution supplements the resolution approved by the Executive Committee on July 3, 2018.

A motion was made, seconded, and the resolution was unanimously approved as presented.

Debt policy and annual financial ratios

Controller Claire Burlingham explained, per the requirements of the university's Debt policy (attachment 2, appendix A of the meeting materials), that the committee is required to approve any recommended changes, or to reaffirm the policy.

Citing attachment 4, she provided an update on the latest leverage, and debt burden ratio calculations.

The Debt policy also requires that the university's spendable cash and investments to debt ratio be greater than 1.0, and the debt burden ratio not be greater than 5.75%. As of December 31, 2019, spendable cash and investments to debt ratio was 1.33, and the debt burden ratio was 4.87%. The university is therefore in compliance with the current policy requirements.

In regards to the viability ratio, Controller Burlingham reminded members that Governmental Accounting Standards Board (GASB) 45 is an accounting standard that requires the university to recognize on the balance sheet the future liability for paying employees' post-retirement medical benefits. The university's viability ratio was 0.21 as of December 31, 2019, below the policy target of 0.8, primarily due to the GASB 75 liability. Without this liability, the university's viability ratio would have been 1.10.

The following resolutions were presented to the committee for approval for recommendation to the board:

<u>Resolution reaffirming the Debt policy</u>

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 2019;

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

A motion was made, seconded, and the resolution was unanimously approved as presented.

Report of the Investment Subcommittee (ISC)

ISC Chair Robert Brennan briefed the committee on ISC activities since the last board meeting. He began by reviewing the performance update report prepared by Cambridge Associates, noting due to the strong U.S. economy, the market had a remarkable year. ISC Chair Brennan added that every category returned positive results, which is a rarity. As of December 31, 2019, the value of the university's pooled endowment was $565 million. It was noted that the UVM Foundation has $31 million in assets not invested in the endowment, which further supports philanthropic resources to support UVM.

While no changes were presented on the two endowment-related resolutions, ISC Chair Brennan stated that it would be prudent to revisit both of them in the near future.

The following resolutions were presented to the committee for approval for recommendation to the board:

<u>Resolution reaffirming the Endowment Budget policy</u>

WHEREAS, on October 30, 2019, the Investment Subcommittee met, reviewed, and discussed the Endowment Budget policy;

RESOLVED, that the *Endowment Budget Policy* is reaffirmed as reads below:

BE IT FURTHER RESOLVED, that the annual budget for spending from the 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.

Adopted by: Board of Trustees - May 13, 1995

Reaffirmed: *Board of Trustees - September 8, 2007*
Board of Trustees - September 5, 2008
Board of Trustees - October 24, 2009
Board of Trustees - October 30, 2010
Board of Trustees - October 22, 2011
Board of Trustees - November 8, 2012
Board of Trustees - October 26, 2013
Board of Trustees - October 18, 2014
Board of Trustees - October 3, 2015
Board of Trustees - October 22, 2016
Board of Trustees - October 20, 2017
Board of Trustees - October 27, 2018
Board of Trustees -

Resolution reaffirming the Endowment Administration Fee policy

WHEREAS, on November 19, 2019, the Investment Subcommittee met, reviewed and discussed the Endowment Administration Fee policy;

RESOLVED, that the *Endowment Administration Fee Policy* is reaffirmed as reads below:

BE IT FURTHER RESOLVED, that the Board of Trustees hereby approves a 0.25 percent fee applied to the University endowment for Fiscal Year 2020 to cover reasonable costs associated with endowment administration, management and operation; and

BE IT FURTHER RESOLVED, that calculation of the 0.25 percent fee will be based on 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.

Adopted by: *Board of Trustees - September 13, 2003*
Reaffirmed: *Board of Trustees - September 8, 2007*
Board of Trustees - September 5, 2008
Amended: *Board of Trustees - October 24, 2009*
Reaffirmed: *Board of Trustees - October 30, 2010*
Board of Trustees - October 22, 2011
Board of Trustees - November 8, 2012
Board of Trustees - October 26, 2013
Board of Trustees - October 18, 2014
Board of Trustees - October 3, 2015
Board of Trustees - October 22, 2016
Board of Trustees - October 21, 2017
Board of Trustees -

A motion was made, seconded, and the resolutions were unanimously approved as presented.

Vice President's report

- **Budget to actuals**
  University Budget Director Shari Bergquist reviewed the budget to actuals handout. She explained that operational results through the second quarter of the fiscal year indicate that the university will meet its revenue budget this year.

  Overall, general fund revenue is at 84% of budget, and general fund expenses are at 53% of budget as of December 31, 2019. This is to be expected as the majority of the expenses are personnel-related and the university recognizes expenses on a monthly basis.

- **Sources and uses update for capital projects**
  Vice President Cate referred members to the capital projects sources and uses of funds spreadsheet, included as Appendix A to attachment 5. This spreadsheet acts as a master tracking guide to ensure there is enough liquidity to support projects, and provides transparency regarding the variety of funding mechanisms the university uses for different activities.

- **Net assets annual review**
  University Controller Burlingham referred members to the annual report on the university's net assets, included as Appendix B in attachment 5, noting the university net assets totaled $290.5 million at the end of FY 2019. In keeping with the amendments to the university's Cash Management and Liquidity policy, which is more conservative than many other institutions, the unencumbered unrestricted liquidity pool exceeds the minimum required amount of $30 million by $4.6 million.

- **Green revolving loan fund annual report**
  The green revolving loan fund balance as of November 30, 2019 is $10.4 million.

- **Fundraising update on capital projects**
  To date, the UVM Foundation has commitments totaling $33.2 million for the on-campus multipurpose center (OCMC), and projects to have cash receipts for the project totaling $15.6 million by December of 2021.

Fiscal year (FY) 2021 budget

President Suresh Garimella's announcement (attachment 6) on November 14, 2019, stated there will be no increase in comprehensive fees with the exception of the athletic/recreation fee ($130 per semester beginning fall 2020, and an additional $70 per semester beginning in fall 2021), which was approved at the May 2019 board meeting for the OCMC. President Garimella stressed that holding tuition at 0% increase is not an easy task, but it is the right thing to do.

Vice President Cate reviewed attachment 7, which outlines the room and meal plan rates for FY 2021, as well as the comprehensive fee, Student Government Association (SGA), and Inter Residence Association fees for FY 2021.

Due to clerical errors in attachment 2, he requested the following amendments to the proposed resolutions:

- Comprehensive fee, student government association and inter residence association fees for the FY 2021 resolution – change the comprehensive fee from $2,188 to $2,448, and add a $10 Graduate Student fee.
- Room and meal plan rate approval for the FY 2021 resolution – change residential unlimited access points from 100 to 150, and change the flex plan from +900 points to $900.

These revisions do not impact the final total of the proposed fees.

The following amended resolutions were presented to the committee for approval for recommendation to the board:

Resolution setting the comprehensive fee, student government association, graduate student and inter residence association fees for fiscal year 2021

RESOLVED, that the Board of Trustees hereby sets the following fee rates:

Student Government Association (SGA) Fee	$222
Inter Residence Association (IRA) Fee	$30
Comprehensive Fee	$2,448
Graduate Student Fee	$10

Resolution approving room and meal plan rates for fiscal year 2021

BE IT RESOLVED, that the Board of Trustees hereby approves room and meal plan rates for fiscal year 2021 as follows:

Room Rates Per Year

Private Single with Bath	$10,942
Private Double with Bath	$9,720
Private Triple with Bath	$8058
Suite Single with Shared Bath	$10,500
Suite Double with Shared Bath	$9,168
Suite Triple with Bath	$7,664
Traditional Single	$10,094
Traditional Double	$8,756
Traditional Triple	$6,934
Traditional Quad	$5,870

Meal Plan Rates

Retail Dining	$4,568
Residential Unlimited Access (+150 Points per Semester)	$4,568
Flex Plan (160 meals with $900 Points per Semester)	$5,104

A motion was made, seconded, and the resolutions were unanimously approved as amended.

Executive session

At 11:35 a.m., Chair McCree entertained a motion to enter executive session for the purpose of discussing the appointment of advisors to the Investment Subcommittee. The following persons were invited to remain: Trustees, Vice President Cate and Vice President for Legal Affairs & General Counsel and Chief of Staff to the President Sharon Reich Paulsen.

The meeting was reopened to the public at 11:45 a.m.

The following resolution was presented for approval for recommendation to the board:

> **Resolution approving appointment of Investment Subcommittee advisors**
>
> BE IT RESOLVED, that the Board of Trustees approves the appointments of H. Whitney Wagner and David A. Daigle as advisors to the Investment Subcommittee, for a one-year period commencing March 1, 2020, subject to the terms and conditions reported on this date.

A motion was made, seconded, and the resolution was unanimously approved as presented.

Adjournment

There being no further business, the meeting adjourned at 11:47 a.m.

Respectfully Submitted,

Don McCree, Chair

University of Vermont
Debt Policy

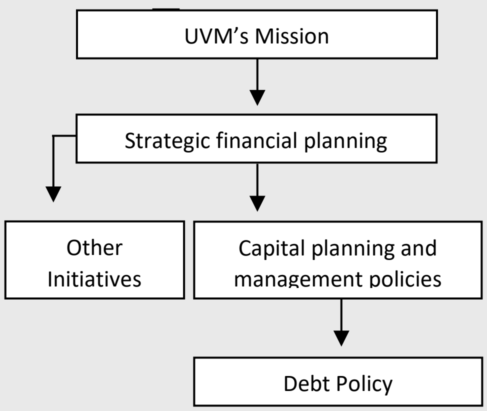
As Adopted by the Board of Trustees
September 2004, revised November 2005,
Revised, November 2006,
Revised, December 2007,
Reaffirmed, December 2008,
Revised, October 2009
Revised, October 2010
Reaffirmed, October 2011
Revised, May 2013
Revised, February 2014
Revised, February 2015
Reaffirmed, February 2016
Revised, February 2017
Reaffirmed, February 2018
Revised, February 2019
Reaffirmed, January 2020

TABLE OF CONTENTS

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, and external University-supported debt.

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

Purpose

1. Provide mechanism for oversight and review on periodic basis.
2. Provide management flexibility to make ongoing financing decisions within the framework of the policy.

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.

The Office of the Vice President for Finance and University Treasurer 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.

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.

POLICY RATIOS

Purpose

1. Identify core ratios.
   a. Operating Statement—Debt Burden Ratio.
   b. Balance Sheet Leverage—Leverage Ratio.
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.

This policy establishes limits to measure the total amount of outstanding debt compared to University balance-sheet resources and the annual operating budget. 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.

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.

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.

Ratio 1 – Debt Burden Ratio

This ratio measures the University's ability to repay debt service associated with all outstanding debt 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.

$$\frac{\text{ANNUAL DEBT SERVICE}}{\text{TOTAL EXPENSES}} \quad <5.75\%$$

The measure is based on aggregate operating expenses as opposed to operating revenues because expenses typically are more stable (e.g., no one-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% until June 30, 2023 and will revert to 5% thereafter. 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 Spendable 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 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 1.0 to ensure that sufficient balance sheet strength is maintained at all times.

$$\frac{\text{CASH \& INVESTMENTS – PERMANENTLY RESTRICTED NET ASSETS + PLEDGES CLASSIFIED AS PERMANENTLY RESTRICTED NET ASSETS}}{\text{AGGREGATE DEBT}} > 1.0\text{x}$$

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

The 1.0x 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 1.0x

Annually, based on the results of the audited financial statements, the Vice President for Finance 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 of Finance 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 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.

$$\frac{\text{UNRESTRICTED NET ASSETS + TEMPORARILY RESTRICTED NET ASSETS – EQUITY IN PLANT}}{\text{AGGREGATE DEBT}}$$

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

1. Review of all potential funding sources for projects.
2. Maximize tax-exempt University-issued debt.
3. Commercial Paper program.
   a. Provide bridge funding.
   b. Provide continual access to capital.
   c. Issuance on a taxable or tax-exempt basis.
4. Manage derivative products, including swaps.
5. Consider other financing sources.
   a. Management will explore securitizations, joint ventures and other financial structures to provide for the optimal funding for any project.

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.

Commercial Paper

The CP program 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 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; and

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 portfolio, (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.

$$\frac{\text{VARIABLE RATE AND LIQUIDITY EXPOSURE}}{\text{TOTAL LONG-TERM DEBT OUTSTANDING}} \quad <35\%$$

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.

BUDGET, FINANCE & INVESTMENT COMMITTEE

May 15, 2020

Resolution approving tuition for fiscal year 2021

BE IT RESOLVED, that the Board of Trustees hereby approves the following tuition rates effective with the 2020-2021 academic year, which are the same rates as those charged for the 2019-2020 academic year:

In-state tuition $16,392 per year, or $683 per credit hour.
Out-of-state tuition $41,280 per year, or $1,720 per credit hour.
Medical student in-state tuition $37,070 per year.
Medical student out-of-state tuition $64,170 per year.

Resolution approving continuous registration fee for graduate students for fiscal year 2021

BE IT RESOLVED, that the Board of Trustees approves a continuation of a varying graduate continuous registration fee, effective with the 2020-2021 academic year, as follows:

Less than half-time, $100 per semester
Half to full-time, but not including full-time, $200 per semester
Full-time, $300 per semester

Resolution reaffirming the Investment of Endowment Cash policy

WHEREAS, on May 18, 2019, the Board of Trustees adopted the Investment of Endowment Cash policy as follows:

> BE IT RESOLVED, that the Vice President for Finance and Treasurer be authorized to invest and withdraw Endowment cash in a money market or a short-term bond fund to maximize investment return and meet Endowment needs; and

WHEREAS, since its creation, the Investment Subcommittee has been charged with review of the policy, which it most recently reaffirmed on February 11, 2020;

BE IT RESOLVED, that the Budget, Finance & Investment Committee hereby recommends that the Board of Trustees hereby reaffirms the Investment of Endowment Cash policy.

Reaffirmed: Board of Trustees –

Resolution approving revisions to the Cash Management and Liquidity policy

WHEREAS, in October 1993, the Board of Trustees adopted the Cash Management policy to govern the investment of UVM pooled cash; and

WHEREAS, in February 2016, the Board of Trustees revised and re-named the scope of the Cash Management policy 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; and

WHEREAS, the Investment Subcommittee is charged with an annual review of the Cash Management and Liquidity policy; and

WHEREAS, on February 11, 2020, the Investment Subcommittee reviewed revisions to the Cash Management and Liquidity policy;

BE IT RESOLVED, that the Budget, Finance & Investment Committee hereby recommends that the Board of Trustees adopt the amended Cash Management and Liquidity policy, appearing as Appendix A to this document.

Resolution to reaffirm the Statement of Investment Policies and Objectives

WHEREAS, in February 2011, the Board 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 March 10, 2020, the Investment Subcommittee reviewed the Statement of Investment Policies and Objectives,

THEREFORE, BE IT RESOLVED, that the Investment Subcommittee 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 contract extension with Cambridge Associates

BE IT RESOLVED, that the Vice President for Finance and Treasurer, or his successor or designee, is hereby authorized to execute a renewal contract with Cambridge Associates, LLC for the purpose of providing investment advisory services for a period of one year from July 1, 2020 through June 30, 2021 at a flat fee of $675,000 plus expenses.

BE IT FURTHER RESOLVED that the Investment Subcommittee shall annually review the performance of the investment advisory firm.

This resolution supersedes all previous authorizations.

Resolution reaffirming the Endowment Administration Fee policy

WHEREAS, on May 12, 2020, the Investment Subcommittee met, reviewed and discussed the Endowment Administration Fee policy;

RESOLVED, that the *Endowment Administration Fee policy* is reaffirmed as reads below:

BE IT FURTHER RESOLVED, that the Board of Trustees hereby approves an endowment management fee equal to 25 basis points to be applied to the University endowment from July 1, 2020 through December 31, 2020, and which shall flow to the University; and

BE IT FURTHER RESOLVED, that the Board of Trustees hereby approves that an endowment management fee equal to 100 basis points, 80 of which shall flow to the University of Vermont Foundation and 20 of which shall flow to the University, shall be applied to the University endowment beginning as of January 1, 2021; and

BE IT FURTHER RESOLVED, that calculation of the endowment management fee will be based on 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.

Adopted by:	*Board of Trustees - September 13, 2003*
Reaffirmed:	*Board of Trustees - September 8, 2007*
	Board of Trustees - September 5, 2008
Amended:	*Board of Trustees - October 24, 2009*
Reaffirmed:	*Board of Trustees - October 30, 2010*
	Board of Trustees - October 22, 2011
	Board of Trustees - November 8, 2012
	Board of Trustees - October 26, 2013
	Board of Trustees - October 18, 2014
	Board of Trustees - October 3, 2015
	Board of Trustees - October 22, 2016
	Board of Trustees - October 21, 2017
	Board of Trustees - January 31, 2020
Amended:	*Board of Trustees -*

UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE BOARD OF TRUSTEES

CASH MANAGEMENT AND LIQUIDITY POLICY

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.

Maturity 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 Bloomberg Barclays 1-5 Year U.S. Treasury Bond Index.

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 and Intermediate-term Pool: Investments in the short-term and intermediate-term portfolio are restricted to U.S. Treasury and government agency securities, money markets, high quality corporate and asset-backed securities, and commercial and bank paper, whereas the intermediate-term pool may have maturities up to six years. 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 BB~~B~~ or better. No more than 20% of the funds held in the cash pool shall be invested in debt obligations of institutions within any single holding company.

4. Asset-backed securities (ABS) rated Aaa by Moody's Investor's Service, Inc. or AAA by Standard & Poor's Corporation.

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

6. Bankers' acceptances or negotiable certificates of deposit issued by banks rated BB ~~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.

7. Repurchase agreements of banks having Fitch ratings no lower than BB~~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.

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

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

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. 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. 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 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: October 3, 2015
Revised by the Board of Trustees: February 6, 2016
Revised by the Board of Trustees: February 4, 2017
Revised by the Board of Trustees: February 2, 2019
Revised by the Board of Trustees:

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 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").

In accordance with UPMIFA, key facets of the Responsible Parties' roles, as paraphrased below, 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.**

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.

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[1] (net of investment management fees) that exceeds the amount being distributed for spending and administration, currently set at 4.75%. 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 "normal" 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. Certain investments are made for capital appreciation and return enhancement: global equities, long/short hedge funds, venture capital and private equity; some are made to protect against unanticipated inflation: real estate, energy, timber, commodities, TIPS; and some are made to protect against deflationary periods and to reduce volatility: primarily, high quality intermediate bonds for the former and absolute return hedge funds for the latter. 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.**

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.

---

[1] 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.

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.

Overall Fund

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

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.

Target Benchmark – 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.

Current Allocation Benchmark – 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.

Cambridge Associates' Universe of Endowment Pool Returns – a universe of over 300 institutions, a broad peer universe against which the ISC compares the Fund's return. In addition to this broad comparison, the ISC may also compare the Fund's results to various subsets of this broad universe, which include institutions of similar size and with similar characteristics.

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 Total U.S. Equity benchmark is the S&P 500 but small cap managers, for example, will be compared to the appropriate small cap benchmarks.

+Asset Class	Market Index Used in Target Benchmark[2]	Underlying Investments
Public Global Equity	MSCI ACWI	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	Weighted Benchmark composed of C|A medians as follows: Private Equity 40% Venture Capital 30% Real Estate 20% Natural Resources 10%	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, as the underlying investments are not readily valued at the close of the latest quarter.
Public Real Assets	Dynamic benchmark that reflects each underlying investment's individual benchmark and their respective weight within the Real Assets allocation. *(The Dynamic benchmark will evolve as asset types are added or removed from the portfolio and as the allocation changes over time.)*	Holdings may include natural resource related equity securities, MLPs, diversified commodities, US issued TIPS and other, similar public investment strategies.
Fixed Income	Bloomberg Barclays Aggregate Bond Index	Holdings may consist of U.S. Treasury bonds, mortgages, and corporate credit investments.

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.

[2] Indices used in Target Benchmark are effective as of May 18, 2019.

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.

XI. 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.

XII. PROXY VOTING GUIDELINES

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

XIII. 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:

APPENDIX A

ASSET ALLOCATION POLICY TARGETS

March 2020

Asset Class	Target (%)	Allowable Range (%)
Public Global Equity	*45.0*	30-65
Marketable Alternatives	*15.0*	10-20
Private Investments	*25.0*	15-35
Public Real Assets	*5.0*	0-10
Fixed Income	*10.0*	5-25
Cash & Cash Equivalents	*0.0*	0-5

Appendix A Targets last revised by Investment Subcommittee: March 10, 2020

Attachment 3

The University of Vermont

Office of the Vice President for Finance and Treasurer

Vice President's Report

May 15, 2020

Board of Trustees
Budget, Finance and Investment Committee

Prepared By
Richard H. Cate, Vice President for Finance and Treasurer

Included in this report are brief updates on the capital project pre-funding account, and the net tuition stabilization fund. In addition, the 3rd quarter general fund budget to actuals report is included as Appendix A.

Capital project pre-funding account

Authorized reserve May 16, 2014	$10,000,000
Approved transfer to STEM Project	($7,000,000)
Approved transfer to On Campus Multi-Purpose Center	($750,000)
Approved transfer to Ifshin Hall	($2,250,000)
Balance as of March 31, 2020	$0.00

Net tuition stabilization fund

Authorized reserve May 16, 2014	$4,500,000
Reserve balance as of March 31, 2020	$4,500,000

General Fund Budget to Actuals Report as of March 31, 2020

May 15, 2020

Board of Trustees
Budget, Finance & Investment Committee

Operational results through the 3rd quarter of FY 2020 indicate that the University will meet its revenue budget. The report below summarizes revenue and expenses for the general fund of the University through the 3rd quarter of the fiscal year. The FY 2020 budget recognizes the authority for the current year as approved by the Board in May 2019. Revenue is reflected in the major categories linked to the source of revenue. Expenses are categorized by the organizational units where the management of expenses occurs. Actual results are those recorded in the University financial records as of March 31, 2020.

Notes and Explanations

Revenue

Overall, general fund revenue is at 87.1% of budget as of March 31, 2020. For comparative purposes, it is worth noting that revenue as of March 31, 2019 was at 92.8% and 92.0% as of March 31, 2018. The primary contributor to this difference is undergraduate summer tuition which is at 28% of budget. Historically, this revenue would be between 50-57% of budget by the 3rd quarter (Q3); however, data for April 2020 have indicated total enrollments are at 95% of the target for summer 2020. We expect additional enrollments to occur in May.

Major components of revenue include:

1. Undergraduate net tuition is at 99.6% of budget as of Q3. We expect this to come in at budget as ~$800,000 in financial aid from the general fund will be transferred to grants in May 2020.

2. Graduate, non-degree, and medical net tuitions are at 88.1%, 102.5% and 99.5% of budget respectively. We expect graduate net tuition to come in at, or near budget. Graduate summer tuition is collected primarily during spring 2020.

   Summer tuition comprises undergraduate/non-degree summer, which is at 28% of budget. This portion of summer tuition represents July and August 2019. Undergraduate/ non-degree summer may still come in under budget as revenue is recognized for May and June 2020. This previously anticipated performance is primarily due to the timing of how the summer semester was affected by the calendar as illustrated below. Revenue is attributed to the fiscal year where majority of days occur.

Summer of	Start Date	End Date	# of days May/June	# of days July/August
2019	5/20/2019	8/9/2019	42	40
2020	5/18/2020	8/7/2020	*44	38
2021	5/24/2021	8/13/2021	38	*44

**Note: During Summer 2020, the majority of revenue will fall in FY20. During Summer 2021, the majority of revenue will fall in FY22.*

3. State Appropriations is at 75% of budget and is expected to come in at budget.

4. Sponsored F&A is currently at 80% of budget. We expect this revenue stream to come in $2-3 million over budget.

5. Internal Cost Recovery Activities are at 81% of budget. This is better than FY19 which was at 71% of budget at Q3. Therefore, we expect that this revenue stream will come in slightly over budget.

6. Operating investment income, unrestricted endowment, and unrestricted annual giving are at 119%, 105% and 95% of budget respectively. Given the variable nature of unrestricted annual giving, it is challenging to project end of year balances; however, noting that it is at 95% of budget, it is expected this revenue stream will come in above budget.

7. Other income is at 96% of budget. Much of this revenue category is pass-through funds so the budget will not be affected to any great degree.

Expenses
Overall, general fund expenses are at 75% of budget as of Q3. This is to be expected as the majority of the University's expenses are personnel-related and the University recognizes expenses on a monthly basis. The following are the units with the largest variations from 75%:

- Athletics: The Athletics department is currently at 95% of budget. The department is working with the budget team to balance its budget, but it will be a challenge to do so.
- General University: This budget is anticipated to come in at budget. It is currently at 87% of budget because we recognize 100% of the debt service expense in the first quarter.

Further Notes
For display purposes, the financial statements reflect the following adjustments:

- Spending within the general fund associated with net assets accumulated from prior years have been excluded from display. This spending by units out of their Fund 108 accounts (reserve accounts) is done only with prior approval and is reserved primarily for one-time expenditures.

FY 2020
As of March 31, 2020
General Fund

Revenue $000s	**FY 2020 BOT Approved Budget**	**Actuals through 3/31/2020**	**Variance**	**% of Budget**
Undergrad I/S Tuition	45,329	45,816	487	101%
Undergrad O/S Tuition	308,641	305,523	(3,118)	99%
Other Undergrad Tuition	1,519	1,507	(13)	99%
Less: Student Aid	(139,076)	(137,389)	1,687	99%
Net Undergraduate Tuition	216,414	215,456	(958)	100%
Graduate I/S Tuition	9,547	8,464	(1,083)	89%
Graduate O/S Tuition	27,085	23,778	(3,307)	88%
Less: Student Aid	(14,175)	(12,458)	1,717	88%
Net Graduate Tuition	22,457	19,784	(2,673)	88%
Non-Degree I/S Tuition	3,300	3,171	(130)	96%
Non-Degree O/S Tuition	2,848	3,010	162	106%
Less: Student Aid	(569)	(457)	112	80%
Net Non-Degree Tuition	5,580	5,724	144	103%
Undergrad & Non-Degree Summer I/S Tuition	2,856	861	(1,995)	30%
Undergrad & NonDegree Summer O/S Tuition	8,709	2,392	(6,317)	27%
Less: Student Aid	(61)	(34)	27	55%
Net Undergrad & Non-Degree Summer Tuition	11,504	3,219	(8,285)	28%
Medical Tuition/Access Fees	27,293	27,166	(127)	100%
State Appropriation	42,509	31,882	(10,627)	75%
Sponsored Facil & Admin Cost Reimbursement	29,828	23,747	(6,081)	80%
Internal Activities Cost Recovery	5,282	4,276	(1,006)	81%
Operating Investment Income	3,300	3,927	627	119%
Unrestricted Annual Giving	1,000	948	(52)	95%
Unrestricted Endowment	1,745	1,837	92	105%
Other Income	15,380	14,829	(551)	96%
Total Revenue	**382,292**	**332,896**	**(49,396)**	**87%**

Expense $000s				
Coll of Agriculture & Life Sciences	19,445	14,735	4,710	76%
Coll of Arts & Sciences	51,151	40,664	10,487	79%
Coll of Education & Social Services	12,498	9,343	3,155	75%
Coll of Engineering & Mathematical Sciences	21,938	14,964	6,974	68%
Coll of Nursing & Health Sciences	13,677	9,868	3,809	72%
Grossman School of Business	10,833	7,406	3,427	68%
Larner College of Medicine	46,969	34,504	12,465	73%
Rubenstein Sch of Env & Nat Resources	8,210	6,075	2,135	74%
Athletics	10,873	10,366	507	95%
Continuing & Distance Education	6,901	4,579	2,322	66%
Graduate College	2,458	1,679	779	68%
Honors College	1,113	679	435	61%
Chief Info Officer	13,362	10,289	3,073	77%
Communications	3,213	2,259	954	70%
Libraries & Learning Resources	15,918	12,839	3,078	81%
President	5,924	1,054	4,870	18%
Provost & Senior Vice President	11,006	8,155	2,851	74%
UVM Foundation	8,325	4,165	4,160	50%
Vice Prov Student Affairs	6,440	4,568	1,872	71%
VP Enrollment Management	12,206	8,552	3,653	70%
VP Finance & Facilities	36,391	28,742	7,649	79%
VP HR, Diversity & Multicultural Affairs	5,955	4,179	1,776	70%
VP Legal Affairs & General Counsel	1,671	991	680	59%
VP Research	8,347	5,618	2,729	67%
General University	39,617	34,446	5,171	87%
VP Ops & Public Safety	7,850	5,516	2,334	70%
Total Expense	**382,292**	**286,235**	**96,057**	**75%**
Less: Reappropriation & Adjustments				
Net Results	(0)			

I attest to the accuracy of this data: **Richard H. Cate, VP for Finance**

Date: 5/5/20