

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

A meeting of the Budget, Finance and Investment (BFI) Committee of the Board of Trustees of the University of Vermont State and Agricultural College was held on Friday, June 4, 2021 at 9:55 a.m. The meeting was held via remote conferencing due to the COVID-19 pandemic.

MEMBERS PRESENT: Chair Don McCree, Vice Chair Briar Alpert, President Suresh Garimella, Robert Brennan, Kevin Christie, John Dineen, Berke Tinaz and Catherine Toll

OTHER TRUSTEES PRESENT: Board of Trustees Chair Ron Lumbra, Board of Trustees Vice Chair Cynthia Barnhart, John Bartholomew, Otto Berkes, Frank Cioffi, Johannah Donovan, Carolyn Dwyer¹, Jodi Goldstein, Stephanie Jerome, Kisha Kalra, Carol Ode², Lucy Rogers³, Shap Smith and Samuel Young

REPRESENTATIVES PRESENT: Faculty Representatives Jane Knodell and Terri Donovan, Foundation Representative Bob Plante, Alumni Representative Myron Sopher, Staff Representative Renee Berteau and Graduate Student Representative Avery Rasmussen

PERSONS ALSO PARTICIPATING: Provost and Senior Vice President Patricia Prelock, Vice President for Finance and Administration Richard Cate, Vice President for Legal Affairs & General Counsel and Chief of Staff to the President Sharon Reich Paulsen, Vice Provost for Enrollment Management Jay Jacobs, University Controller Claire Burlingham and University Budget Director Shari Bergquist

ABSENT: Trustees David Aronoff and Ed Pagano, Staff Representative Joshua Tyack, Student Representatives Sophie Smith and Lana Al-Namee and Graduate Student Representative Aayudh Das

¹ Joined the meeting at 10:15 a.m.

² Departed the meeting at 10:10 a.m.

³ Joined the meeting at 10:07 a.m.

Chair Don McCree called the meeting to order at 10:00 a.m.

Chair McCree welcomed new committee members Berke Tenez and Kitty Toll, and recognized outgoing student representatives Sophie Smith, Aayudh Das and Avery Rasmussen for their service.

Approval of minutes

A motion was made, seconded and voted to approve the minutes of the February 5, 2021 meeting.

Fiscal year 2022 budget

Vice President for Finance & Administration Richard Cate began by thanking University Budget Director Shari Bergquist, the Financial Analysis and Budgeting staff and budget managers across the

institution for their good work preparing the budget. He then explained that because fiscal year (FY) 2021 was significantly impacted by the COVID-19 pandemic, the FY 2020 budget offered a more relevant comparison to the FY 2022 proposed budget.

Referring to his budget memo (Attachment 2, appendices B and C of the meeting materials) he noted that the overall operating budget of \$719 million comprises three components. Restricted funds (\$193.6 million) including grants, endowment spending, and one-time federal funds received through the state of Vermont to address COVID-related expenses. Income/expense/auxiliary funds (\$146.2 million) including room & board fees, the UVM Bookstore, and other sources. The \$379.5 million general fund budget is the only element of the institution's total operating budget that the Board of Trustees approves.

Tuition rates will not be increased for the third consecutive year, and the projected net undergraduate tuition is expected to be 4.2% less than in FY 2020. While this decline is partly due to the pandemic-related economic recession, there is a 14% increase in financial aid (even with the slight increase in student enrollment).

Vice Provost for Enrollment Management Jay Jacobs explained that financial aid awarded for FY 2022 was at a record high largely based on a higher quality applicant pool. Incoming freshman class were not required to submit standardized test scores in their application (test-optional) which normally would have been included in the calculation of the award amount. Additionally, he indicated the test-optional application will continue across higher education.

Chair McCree expressed concern about the adverse impact of the significant increase in financial aid on net tuition and charged the administration to work on multi-year modeling to determine what portion of the increase is likely to reoccur versus the amount that may be attributed to one-time, pandemic-related factors and to plan accordingly.

Other items of note:

- \$7 million/year savings by renegotiating the University's health insurance contract
- Expected 7½% increase in electricity rates not included in the utilities budget but able to be absorbed in the overall general fund budget.

The proposed FY 2022 budget shows a net deficit of \$3.8 million. This will be addressed in a one-time way using academic units' reserves, specifically from the colleges of Arts and Sciences, Education and Social Services, and Nursing and Health Sciences. The College of Engineering and Mathematical Sciences has a projected surplus while all other units show a balanced budget. The expectation for FY 2023 is that all academic and administrative units have a balanced budget.

Chair McCree raised concerns regarding the fact that some units are projecting deficits and he urged the administration to keep in place current spending and hiring approval processes in cases where units are at risk of incurring deficits.

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

Resolution approving revision to 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 April 21, 2021, the Investment Subcommittee endorsed a proposed amendment to the Statement of Investment Policies and Objectives for referral to the Budget, Finance & Investment Committee;

BE IT RESOLVED, that the Budget, Finance & Investment Committee hereby recommends the Board of Trustees adopt the amended Statement of Investment Policies and Objectives, appearing as Appendix A to this document.

Resolution approving appointment of Investment Subcommittee advisor

BE IT RESOLVED, that the Board of Trustees approves the appointment of Steven Grossman as advisor to the Investment Subcommittee, for a one-year period commencing June 1, 2021, subject to the terms and conditions reported on this date.

Resolution approving contract extension with Cambridge Associates, LLC

BE IT RESOLVED, that the Vice President for Finance and Administration, or his successor or designee, is hereby authorized to execute a contract extension with Cambridge Associates, LLC for the purpose of providing investment advisory services for a period of July 1, 2021 through September 30, 2021 for a flat fee of \$168,750 plus expenses.

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

ISC Chair Brennan added that the University's Investment Advisor Request for Proposal is well underway but will not be finalized before Cambridge Associates' current contract expires on June 30, 2021. This contract extension request will allow Cambridge to continue services through September 30, 2021.

He then reviewed the performance update report prepared by Cambridge Associates, noting a strong start to the year for the university's endowment. He credited a rapid economic recovery to the substantial federal stimulus packages. The ISC is closely monitoring the market and may potentially make changes to the asset allocation portfolio if the threat of inflation is determined real or transitory.

As of April 30, 2021, the value of the university's endowment was at an all-time high of \$673.4 million, with strong performances from across all asset allocation categories.

Other business

Vice President Cate made noted that his written report was included as attachment 4 in the meeting materials. The brief report fulfilled the annual requirements of providing updates on the capital project pre-funding account and the net tuition stabilization fund.

Adjournment

There being no further business, the meeting adjourned at 11:00 a.m.

Respectfully Submitted,

Don McCree, Chair

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.

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 return¹ (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. 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

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.

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.

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 Public Global Equity benchmark is MSCI ACWI but US equity managers, for example, will be compared to an appropriate US equity benchmark.

+Asset Class	Market Index Used in Target Benchmark²	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	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

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

		readily valued at the close of the latest quarter.
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.

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.

I. 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.

II. PROXY VOTING GUIDELINES

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

III. 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:

ASSET ALLOCATION POLICY TARGETS*December 2020*

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	10.0	5-25
Cash & Cash Equivalents	0.0	0-5

Appendix A Targets last revised by Investment Subcommittee: December 16, 2020