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

A meeting of the Budget, Finance and Investment Committee of the Board of Trustees of the University of Vermont State and Agricultural College was held on Friday, February 4, 2011 at 1:30 p.m., in the Silver Maple Ballroom, 401 Dudley H. Davis Center.

MEMBERS PRESENT: Chair Debbie McAneny, Vice Chair Samuel Bain, Bill Botzow, Carolyn Branagan, David Daigle, Daniel Fogel, Susan Hudson-Wilson*, Brian Sozansky, Donna Sweaney, and Mark Young

REPRESENTATIVES PRESENT: Faculty Representative Albert Joy and Donald Ross, Alumni Representative Walt Blasberg, Staff Representatives Kit Ardell and Rodman Cory, Student Representative David Maciewicz, and Graduate Student Representatives Eric Garza and Eduardo Cotilla-Sanchez

OTHER TRUSTEES PRESENT: Board Chair Robert Cioffi

PERSONS ALSO PARTICIPATING: Vice President for Finance and Administration Richard Cate, Vice President for Enrollment Management Christopher Lucier, Associate Vice President for Budget and Resource Management Ted Winfield, Associate Vice President Dean of Students Annie Stevens, Controller Claire Burlingham, Director of Capital Planning and Management Bob Vaughan, Director of Student Financial Services Marie Johnson, and Noel-Levitz Financial Aid Consultant Randy Rennell.

ABSENT: Trustee Ian Boyce, Alumni Representative Meg Guzewicz, and Student Representative Alex Mallea.

*via conference phone

Chair Debbie McAneny called the meeting to order at 1:33 p.m.

**Approval of Minutes**

A motion was made, seconded and voted to approve the minutes of the October 29, 2010 meeting.

**Net Assets Annual Review**

Vice President Cate presented the annual report of net assets. The University's net assets totaled $146.2M at the end of FY 2010. The summary report was grouped by fund types, by similar operations and activities and was based on the FY 2010 detailed results. Net assets of $40.7M are restricted in nature and may only be used for designated purposes. The remainder ($105.5 M) of net assets is “unrestricted” but are designated for specific uses (treasury operations, plant funds, insurance reserves, etc.).

The summary of FY 2010 approved multiyear funds was also provided. The basis for and approval of multi-year projects supporting strategic objectives of the University and the unit is vested in the Provost who evaluates unit plans and then authorizes spending for program development and/or initiation, faculty recruitment and start up, or specialized equipment purchase. As a part of the FY 2010 budget process all academic units submitted their proposed multiyear spending requirements and how available net assets would support those priorities. The Provost reviewed and confirmed or amended those plans as a part of the budget approval process. Spending against plans then requires a subsequent request and authorization. Vice President Cate confirmed the Committee that these funds are for the purpose of one-time spending and are not committed for building base need.

Trustee Young asked about insurance reserves, the amounts required to maintain for self-insurance risk coverage. Associate Vice President Winfield replied that the risk assessment is conducted every year and dollar amounts are set aside for those specific purposes.

Vice President Cate outlined the Loan Funds and Plant Funds, stating that the majority of currently outstanding loans will be repaid by the end of FY 2014. Plant funds are assets that have been authorized specifically to cover costs and projects associated with plant repair or improvement, including all capital building projects. Vice Chair Bain pointed out a big increase in absolute dollar amounts of Plant Funds for FY 2010 and recommended that in the future more detailed information be provided to ensure transparency. Chair McAneny requested that the reappropriations be broken out as a major component of the general fund operations.

President Fogel reminded the Committee that the report of net assets presented is different from the net assets included in University’s Financial Report due to exclusion of various items. Vice President Cate clarified that the provided Net Assets Overview does not reflect activity on other major asset/liability categories reflected on the balance sheet including plant and property, endowment principal or major non-cash items.

The Committee was briefed about the restricted portion of net assets. Restricted gift fund accounts are used for donor defined and University accepted purposes as long as balances are available. Restricted endowment funds received from donors with the stipulation that the principal be maintained permanently are invested to produce income and appreciated amounts are transferred from the endowment accounts to separate operating accounts from which program expenditures are made in accordance with any restrictions established by the donor agreement.

Optimization of cash management of net assets will continue to be a priority of administration.

Chair McAneny and Vice Chair Bain acknowledged the last meeting for staff representatives, Kit Ardell and Rodman Cory, thanked them for their service on behalf of the Budget, Finance, and Investment Committee.

**Report of the Investment Subcommittee**

Chair Bain led the Committee through a brief discussion of Long-Term Investment Pool allocations and performance through December 31, 2010. The endowment ended December, with preliminary numbers, at $330M, up 4.5% for the quarter, up 12.8% for the CYTD, compared to the Cambridge median of 11.2%.

During the January 2011 asset allocation meeting, Cambridge Associates recommended no changes to the Long Term targets. A scenario analysis was evaluated: What happens if events outside of the norm happen, such as significant inflation? Does the portfolio contain the appropriate risk reducers and performance return enhancers? The ISC made the following minor modifications to policy target allocations (all of which were within the approved ranges): decreasing US Equity from 25% to 24%, decreasing Global ex US Equity from 25% to 24%, increasing Marketable Alternative from 17.5% to 20%, increasing Real Assets from 12.5% to 15%, decreasing Fixed Income from 8% to 7%, and eliminating Cash and Equivalents from 2% to 0%.

| | Current Targets | New Targets |
|---|---|---|
| US Equity | 25.0 | 24.0 |
| Global ex U.S. Equity | 25.0 | 24.0 |
| Developed Markets | *14.0* | *12.0* |
| Emerging Markets | *11.0* | *12.0* |
| Marketable Alternatives | 17.5 | 20.0 |
| Real Assets | 12.5 | 15.0 |
| Private Equity/Venture Capital | 10.0 | 10.0 |
| Fixed Income | 8.0 | 7.0 |
| Cash and Cash Equivalents | 2.0 | 0.0 |

Chair Bain explained that, during the summer and fall meetings of 2010, the Investment Subcommittee reviewed and thoroughly rewrote the guiding investment policy statement, revising the structure and content. The previous version was outdated with the manner in which the Subcommittee thinks about the portfolio, and needed clearer descriptions of governance matters. A watch list was added for under and over performance and benchmarks for managers were incorporated. Chair Bain noted that two new Hedge Fund Managers were engaged.

Chair Bain presented the following resolution as recommended by the Investment Subcommittee:

**<u>Review and Approval of University of Vermont Statement of Investment Policies and Objectives</u>**

WHEREAS, in August 2000 the Board adopted a *Statement of Investment Objectives and Policies* to govern the investment of UVM's Long-Term Investment Pool, including the Endowment Fund, which it revised most recently in November 2006; and

WHEREAS, the Budget, Finance and Investment Committee was charged with the periodic review of the *Statement of Investment Objectives and Policies*; and

WHEREAS, on October 20, 2010, the Investment Subcommittee reviewed a newly drafted *Statement of Investment Policies and Objectives*, as attached, and that subcommittee is now recommending that the new draft replace and rename the existing *Statement of Investment Objectives and Policies*;

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby adopts the Statement of Investment Policies and Objectives appearing as Attachment A to this resolution.

The Committee voted unanimously to approve the Review and Approval of University of Vermont Statement of Investment Policies and Objectives for recommendation to the full Board.

Socially Responsible Investing Work Group (SRIWG) Leader and Controller Claire Burlingham brought the Committee up to date regarding the activities of the Work Group. These updates included streamlining the Call for Proposals and Conflict of Interest Policies, finalizing Solicitation of Public Comment. In the spring, the Work Group will finalize the Communication Plan and establish the evaluation criteria. The next meeting will be February 17, 2011.

**Capital Project Financial Feasibility Review**

Director Vaughan explained the project scope and cost for the proposed Phase I renovations to the Mason/Simpson/Hamilton (MSH) Residential Complex. Phase II will be presented at a future meeting. Originally the project was presented as a single undertaking, however due to the increased scope, the first phase only is being requested for approval at this time.

The project will require two phases over two summers to complete. Phase I will start May 2011 and will be completed August 2011. The first phase will address the total exterior needs of the complex by replacing the roof surfaces and repairing the curtain wall systems. It will also include the interior renovations to Simpson Hall only to correct deferred maintenance and accessibility code issues.

The second phase will include the interior renovations to Mason and Hamilton, the same scope as proposed for Simpson Hall in phase I. This phase will be presented to the Education Policy and Institutional Resources (EPIR) committee for consideration at the October 2011 Board meeting.

The total project cost of Phase I is $4,000,000 and will be accomplished through 100% of unrestricted plant funds in residential life.

The Committee was asked to approve the following resolution authorizing Phase I of the Mason/Simpson/Hamilton Residential Complex renovations at a cost not to exceed $4M.

**Mason/Simpson/Hamilton Renovation Phase 1 Resolution**

WHEREAS, the Educational Programs and Institutional Resources Committee carefully reviewed the program, scope, and preliminary estimate of $4,000,000 for the Mason/Simpson/Hamilton Renovation (the “Project”) at its October 2010 meeting and found it an institutional priority, consistent with the *Strategic Capital Plan* and worthy of further consideration; and,

WHEREAS, the Educational Programs and Institutional Resources Committee also endorsed the Project at its October 2010 meeting and remitted it to the Budget, Finance, and Investment Committee for financial review and approval at a subsequent meeting; and,

WHEREAS, the Provost and Senior Vice President has identified the need to develop two separate phases to this project based on design estimates and provided this information in her report to the Educational Programs and Institutional Resources Committee; and,

WHEREAS, a phase 2 proposal will be presented in the October 2011 meeting to the Educational Programs and Institutional Resources Committee; and,

WHEREAS, the Division of Student and Campus Life has budgeted $4,000,000 of its unrestricted plant funds for phase 1 of this project;

NOW, THEREFORE, BE IT RESOLVED, that the Vice President for Finance and Administration and University Treasurer, or his successor or designee, is hereby authorized to utilize the Student and Campus Life unrestricted plant funds to finance the $4,000,000 Mason/Simpson/Hamilton Renovation Phase 1; and,

BE IT FINALLY RESOLVED, THAT THE Secretary or Assistant Secretary will provide certificates of incumbency, as required, showing the names and signatures of those people appointed to any of the positions heretofore mentioned, and further, that any officer of this corporation is hereby authorized to certify this resolution to whom it may concern.

The Committee voted unanimously to approve the Mason/Simpson/Hamilton Renovation Phase I Resolution for recommendation to the full Board.

## Vice President's Report

Vice President Cate presented to the Committee the highlights from end of year budget to actual report for FY 2010.

Operational results for the year were positive. Actual final results for FY 2010 show greater revenue and lower expenses than budget. Of the $9.3M of expense savings, $6.4M came from within academic units and as such has been segregated for multi-year use against strategic priorities to be reviewed and authorized by the Provost.

The Committee was provided with a summary report of revenue and expenses for the general fund of the University through the fiscal year. 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 June 30, 2010.

Revenue overall exceeded budget by $4.5M. Undergraduate gross revenue exceeded budget because of enrollment above budgeted levels, but that excess was offset by higher than budgeted student financial aid, resulting in a $3.6M shortfall against budget in net undergraduate revenue. Graduate enrollment in professional programs increased beyond FY 2009 year levels, creating higher than budgeted revenue, which helped to offset the negative balance in Undergraduate Net Tuition. Due to the volatility of the marketplace and effects of the downturn in the economy it is important that the University restates its commitment to financial aid.

The expense section of the report indicated overall spending was $9.3M lower than the authorized spending budget for FY 2010.

Vice Chair Bain inquired about Internal Charges/Transfers, one of the General Fund Revenue categories. Associate Vice President Winfield clarified that Internal Charges/Transfers include budget authority carry forward from FY 2009 accrued encumbrances and transfers of funds from Fund 108 for plans approved by the Provost. Vice Chair Bain also pointed out the positive variance in expenditures for Finance and Enterprise Services. Vice President Cate replied some expense categories, such as utility costs, came in under budget. The question of process regarding a negative variance to budget led to assurance by Vice President Cate that any such deficit would carry over to the particular unit in the next fiscal year.

Chair McAneny noted the importance of maintaining a positive Net Tuition. There was a discussion on the possible economic circumstances that could trigger a position of negative Net Tuition. Vice President Cate explained that the administration closely monitors the applicant pool, the deposit report, the wait list, and other benchmarks as a way to prevent a situation of negative net tuition. Our current expectation is that financial aid will remain a major expense category until FY 2013 and anticipate a decline in growth thereafter.

Trustee Botzow inquired as to why the budget to actual line for State Appropriation reported a figure different than the University's Financial Report. Associate Vice President Winfield replied that the Board report is specific to the General Fund which excludes some State funding for example, Next Generation scholarship.

**FY 2012 Budget Plan Update**

Prior to discussion on the budget plan, Chair McAneny requested follow-up questions from the Committee regarding the earlier Committee of the Whole discussion on financial aid. Trustee Bain initiated with an inquiry on outcome measurement. The University's enrollment management consultant, Randy Rennell responded that student applicant yield is a measurement of success with regard to obtaining new students; the number of students admitted by the University versus actual enrollment. In the fall, current merit aid recipients' academic performance will be reviewed to understand how the University's merit strategy is functioning. Vice President Lucier added that at a macro level, we are successful if we build and retain students to graduation along with maximizing net tuition.

Staff Representative Kit Ardell indicated concern for undergraduate indebtedness at graduation. While recognizing financial literacy is presented to the incoming class, she asked that increases be watched. Mr. Rennell added that student indebtedness at UVM is consistent with other institutions. Trustee Botzow inquired as to what choices students might have to control financial consequence and Vice President Lucier responded that students have choices regarding discretionary costs along with student employment which additionally provides real world experience.

Vice President Cate presented to the Committee a draft FY 2012 budget. The increase in tuition is offset to a substantial degree by high levels of financial aid. The draft budget plan calls for a FY 2012 tuition increase of 5.8%, in addition to the budget cutting exercise ($3 - $6 million) that is about to begin.

Financial aid is expected to increase by approximately $10.7 million for FY 2012. As indicated in the financial aid primer provided, much of this growth is due to the negative impact of the recession on family incomes and the ongoing desire to maintain the academic quality and diversity of students. The current double digit growth in financial aid is expected to continue in FY 2013 with a decline thereafter. Vice President Cate noted that, because the financial aid cost for FY 2012 is a function of maintaining the academic skill level, diversity, size of the incoming class and, a necessary continuation of aid levels for returning students, there is little that can be done to affect the cost for FY 2012 without negative impact on enrollment or retention.

The budget proposal provided includes a FY 2012 State appropriation level with total FY 2011, which includes base appropriation of $40.7 million plus $2.5 million of one-time funding. The Governor's recommendation is level at the University's FY2011 base amount only, $40.7 million. The difference will present an additional gap to the $1.6 million deficit shown in the current budget proposal.

Vice President Cate apprised the Committee of the budget meetings with the deans and vice-presidents and the memo to the University Community to solicit recommendations for budget reductions and revenue enhancements to support two different plans. The first would provide $3 million in additional expense reductions and revenue enhancements and the second would provide $6 million. Student Representative David Maciewicz asked if input from the memo had been received. Vice President Cate responded that a faculty member made a suggestion of 0% salary increase which would provide approximately $2.7 million of savings. Recommendations will be considered from everywhere but possibilities would need to be analyzed before decisions were made. To this, Trustee Branagan continued with asking what if tuition was not increased to at least the 5.8% level and Cate indicated that the University would have to cut more, cut deeper but there would be concern on the effect to the student's academic experience and the University's ability to compete with other institutions.

An inquiry was made if one-time reserves could address the shortfall. Vice President Cate indicated that could occur but would just be as a last resort. Chair McAneny reminded the Committee that in the past the University has experienced a structural gap with the use of one-time funds to balance the budget and it was agreed there was the need to be better disciplined.

A lengthy discussion ensued on tuition discounting and tuition percentage increase. Vice Chair Bain reminded the Committee the strategic process included a 6% tuition increase each year and while the current year (FY 2011) was below that level at 4.0%. The budget was only able to absorb the revenue loss with one-time appropriation from the State. He continued with the conclusion that a tuition increase less than 5.8% could compound the current problem and continue the same revenue shortfall. Trustee Daigle indicated that he disagreed and that there are choices. Vice President Cate agreed there are opportunity costs but without the current level of tuition discounting, the University would not be able to fill the class. Vice President Lucier went on to explain that it has been the behavioral choice by students in recent years which led to discount rates from 29% to 34% and now from the goal of 31% to 33%. The strategic choice is number of students needed. Additional choices include providing access to low income Vermonters, increasing diversity (from students who have other choices) and, maintaining quality which is a perception in the marketplace. University President Fogel responded that it is critical to maintain the quality of the student body and thus the quality of the institution.

Trustee Susan Hudson-Wilson indicated that she was in favor of an annual 6% increase, with continuous, focused improvements in order to stay competitive. She is in favor of managing the impact on individuals using the net tuition tools and, is worried about starting on a downward slide away from maintaining UVM's place as a high value add University.

Chair McAneny summarized that the discussion contained the range of very import issues. The nation is experiencing a crisis in higher education and limited options exist. Discussion will continue over the next several months.

Associate Vice President Winfield reviewed with the Committee targeted rates for room, board and required student fees. Final rates will be brought before the Board for approval in May and will not exceed those proposed today.  The maximum proposed comprehensive student fee reflects a 1.6% increase.  Additionally, the Student Government Association (SGA) has requested a 6.5% increase.  The combined room/meal rate increase is 3.8%.  It was also noted that the Graduate Student Senate (GSS) has proposed a fee for academic year 2011-2012.

**Adjournment**

There being no further business, the meeting adjourned at 3:51 p.m.

Respectfully Submitted,

Debbie McAneny, Chair

Attachment A

# 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 investment staff, and any third-parties (e.g., investment managers) retained to advise the Board, the ISC, the Treasurer and/or investment 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 specified risk tolerances;
- Developing a sound and consistent investment policy including asset allocation, diversification and rebalancing guidelines;
- Selecting and maintaining qualified investment managers and consultants;
- 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's policy of fiscal prudence shall not preclude the consideration of moral, ethical and social criteria in determining companies in which to invest.

The University may take an active role on request in pursuing shareholder resolutions through proxy resolutions and other means in order to further its goal of investing in firms that produce safe and useful products in accordance with moral, ethical and social criteria. Investment managers may be asked to address various company or sector weights within their respective portfolios to help the University meet its social investing goals.

## VI. FINANCIAL & INVESTMENT OBJECTIVES

The overall financial objectives of the Fund are to provide a stable and consistent level of ongoing support for the University's programs through a reasoned spending policy that is also consistent with preserving and hopefully 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

[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.

benchmark (defined herein), measured over a full market cycle; and to outperform the median return of a pool of endowment funds 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 consultants, 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.

## 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 U.S. index funds. This simple weighted market benchmark should reflect the broad policy allocation between equities and fixed income of the Fund.

**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 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 | Underlying Investments |
|---|---|---|
| U.S. Equities | S&P 500, which represents a relatively broad investable universe of U.S. stocks | Portfolios are expected to focus on investments in the U.S. equity market. |
| Non-U.S. Equities | MSCI All-Country World Index ex-US (ACWI) | Portfolios are expected to focus on the world's developed and developing equity markets, excluding the U.S. |
| Marketable Alternatives | ML 90-day Treasury-bills + 5% | Investment mandates may include: multi-strategy arbitrage, event arbitrage, distressed securities, credit/capital structure arbitrage and long/short equity investments in global markets. |
| Venture Capital | S&P 500 + 5% | This asset class includes non-publicly traded securities. Market values and return information are lagged by one quarter, as the underlying investments |

| | | |
|---|---|---|
| | | are not readily valued at the close of the latest quarter. |
| Private Equity | S&P 500 + 5% | This asset class includes non-publicly traded securities such as buyout funds and distressed debt. 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. |
| Real Estate (private) | CPI-U + 5% | Investments will be predominately in private real estate funds invested in various segments of the real estate market, including: office, industrial, multi-family, and retail. |
| Natural Resources and Timber (private) | CPI-U + 5% | Investments will be in private oil and gas transactions and in timberland, possibly including related logging operations. |
| TIPs and Commodities | CPI-U + 5% | Holdings consist of U.S.-issued TIPs and diversified commodities futures positions |
| Core Fixed Income | Barclays Capital Aggregate Bond Index | Holdings consist of U.S. Treasury bonds, mortgages, and corporate credit investments. |
| Cash and Cash Equivalents | ML 90-day Treasury-Bill index | |

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.

## 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 cost and at market value, and purchases and sales for the quarter. Traditional marketable managers 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 ______________, to replace the former "Statement of Investment Objectives and Policies," as revised most recently on November 11, 2006.*

# APPENDIX A

## ASSET ALLOCATION POLICY TARGETS

***Revised, as of January 2010***

| Asset Class | Target (%) | Allowable Range (%) |
|---|---|---|
| **Equity Fund** | | |
| U.S. Equity | *25.0* | 15-30 |
| Global ex U.S. Equity | *25.0* | 15-45 |
| Developed Markets | *14.0* | 10-25 |
| Emerging Markets | *11.0* | 5-20 |
| Marketable Alternatives | *17.5* | 15-25 |
| Real Assets (Inflation Hedging) | *12.5* | 10-25 |
| Private Equity / Venture Capital | *10.0* | 5-20 |
| **Subtotal Equity** | ***90.0*** | |
| **Fixed Income Fund** | | |
| Fixed Income | *8.0* | 5-25 |
| Cash & Cash Equivalents | *2.0* | 0-5 |
| **Subtotal Fixed Income/Cash** | ***10.0*** | |