

**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 7, 2014 at 9:45 a.m., in the Silver Maple Ballroom, 401 Dudley H. Davis Center.

MEMBERS PRESENT: Chair Debbie McAneny, Vice Chair David Daigle, President Tom Sullivan, Sam Bain, Carolyn Branagan, Robert Brennan, Joan Lenes, Dennis Mahoney, Dale Rocheleau, Lisa Ventriss, Jeff Wilson and Mark Young

REPRESENTATIVES PRESENT: Faculty Representative Randy Headrick, Foundation Representative Richard Ader* and Alumni Representative Afi Ahmadi, Staff Representatives Patty Eldred and Tobey Clark, Student Representatives Adam Kaufman and Rachel Burt and Graduate Student Representatives Owen Myers and Christian Jordan

PERSONS ALSO PARTICIPATING: Provost David Rosowsky, Vice President for Finance and Treasurer Richard Cate, University Controller Claire Burlingham, University Budget Director Alberto Citarella, Senior Vice President of Group Benefits at Hickok and Boardman Insurance Group Robert Crews, Associate Vice President for Human Resources Barbara Johnson, Chief Risk Officer Albert Turgeon

ABSENT: Faculty Representative Donald Ross

*via conference phone

Chair Debbie McAneny called the meeting to order at 9:55 a.m.

She began by noting that Faculty Representative Don Ross is on sabbatical until June 2014 and welcomed new Faculty Representative Randy Headrick who is replacing Albert Joy, who retired in December.

Chair McAneny then paid tribute to outgoing Trustee Sam Bain. She praised his insightful, valuable and witty contributions to the committee, in particular, his leadership of the Investment Subcommittee.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the October 25th, 2013 meeting.

Debt Policy and Ratio Annual Review

Controller Claire Burlingham explained that the University's Debt Policy, as revised last May, states that the institution's debt burden ratio will not be greater than 5.75%, and that by 2023 it

will not be greater than 5%. The debt ratio is currently 5.02% and therefore in compliance with the current policy requirements, if no additional debt is incurred, it will be less than 5% by 2023.

Other than housekeeping changes including correctly reflecting the Vice President of Finance's title effective July 1, 2013 and eliminating outdated definitions, there were no recommended changes to the policy.

As required by the Debt Policy, Controller Burlingham reviewed the debt burden and viability ratios. UVM's viability ratio is currently 0.71 as contrasted with the policy benchmark of .8. This noncompliance is primarily due to the GASB 45 liability. Without this factor, the University viability ratio would be in compliance at .98.

Vice President Cate noted that assuming average normal growth in assets, especially the endowment, the University could expect to be in compliance in three years.

Chair McAneny requested that future reports include the policy-required ration amounts as to clearly see whether or not the University is in compliance. In addition she asked to include on the report a footnote of how the GASB implications impact the viability ratio.

The following resolution was presented for vote:

Annual Review of Debt Policy

WHEREAS, in September 2004, the Board 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 May 2013;

BE IT RESOLVED, that the Board hereby reaffirms the Policy, as amended, appearing as Appendix A to this document.

A motion was made, seconded, and it was voted unanimously to approve the resolution for recommendation to the full Board.

Net Assets Annual Review

Vice President Cate presented the report of net assets which totaled \$183.2 million at the end of FY 2013. Of note, \$13 million was transferred from the General Fund to the Energy Efficiency Revolving Loan Fund as of July 1, 2012 and \$5 million of the Treasury Operations net assets is encumbered for the Taft School, Ira Allen School and 439 College Street.

Responding to Trustee Robert Brennan's inquiry about the plant net assets, Vice President Cate explained that these dollars are maintained for future plant needs to try to backstop accrued deferred maintenance.

Report of the Investment Subcommittee (ISC)

Statement of Investment Policies and Objectives

ISC Chair Bain explained that the Budget, Finance and Investment Committee is charged with the periodic review of the *Statement of Investment Policies and Objectives* and that in November the Investment Subcommittee reviewed revisions to the *Statement* and is now recommending adoption of the *Statement of Investment Policies and Objectives*, revised to reflect changes to the indices used in the Target Benchmark.

He presented the following resolution as revised to the committee for approval:

(AS RECOMMENDED BY INVESTMENT SUBCOMMITTEE – November 20, 2013)

Resolution Approving Revisions to the University of Vermont 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 Budget, Finance and Investment Committee was charged with the periodic review of the *Statement of Investment Policies and Objectives*; and

WHEREAS, on November 20, 2013, the Investment Subcommittee reviewed revisions to the *Statement of Investment Policies and Objectives*, as appended, to reflect changes to the indices used in the Target Benchmark, and the Investment Subcommittee is now recommending adoption of the *Statement of Investment Policies and Objectives*, as revised;

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby adopts the Statement of Investment Policies and Objectives appearing as Appendix B to this document.

A motion was made, seconded, and it was unanimously voted to approve the resolution for recommendation to the full Board.

Signature Authority for Proxy Votes on Shareholder Resolutions

ISC Chair Bain further noted that the ISC also recommends requiring all proxy voting decisions to be published on the Socially Responsible Investing Advisory Council (SRIAC) website. This measure is to ensure greater transparency to the existing process.

ISC Chair Bain presented the following resolution as revised to the committee for approval:

(AS RECOMMENDED BY THE INVESTMENT SUBCOMMITTEE – NOVEMBER 20, 2013)

Signatory Authority - Proxy Votes on Shareholder Resolutions

BE IT RESOLVED, that, when offered shareholder resolutions, the Vice President for Finance and Treasurer, Controller, Senior Accountant, or Endowment Accountant of the University shall commit the proxy votes of the University in accord with specific guidelines approved by the Investment Subcommittee of the Budget, Finance, and Investment Committee of the Board of Trustees.

BE IT RESOLVED, that, in the absence of such specific guidelines, except for matters of routine corporate business, the Vice President for Finance and Treasurer, Controller, Senior Accountant, or Endowment Accountant shall cast an abstaining vote.

BE IT FURTHER RESOLVED, that, in any instance when such specific guidelines do not exist, the Socially Responsible Investing Advisory Council may study the issue and develop a recommendation for the Vice President for Finance and Treasurer.

BE IT FINALLY RESOLVED, that all decisions by the Investment Subcommittee concerning proxy voting will be published on the Socially Responsible Investing Advisory Council webpage, as updated on an annual basis.

This resolution supersedes all previous authorizations.

A motion was made, seconded, and it was unanimously voted to approve the resolution for recommendation to the full Board.

Endowment Performance Update

Chair Bain then announced that the University's endowment was in even better shape than the November 30th performance report indicated. The most current data show the University's market value as of December 31, 2013 at \$422 million, compared to \$401 million on September 30, 2013. The S&P was up 10.5% compared to the University at 11.4%. The portfolio's hedge funds are up 5.5% which is ahead of our benchmarks. Based on Cambridge & Associates comparison median return data of 13.7%, UVM is 250 bps ahead at 16.2%.

He commented that, in large part to the ISC members' valuable input, very little rebalancing had occurred over the past year while continuing to run a diversified portfolio which is in line with donor intent.

Chair McAneny and other Trustees thanked ISC members Chair Bain, David Daigle and Rob Brennan for their insightful and hard work.

Socially Responsible Investing Advisory Council

Chair Bain stated that after nearly a year of meetings, open forums, discussions, presentations, and review, the Investment Subcommittee met on December 18, 2013 and voted unanimously not to take action on the issue of divesting from fossil fuels companies and not to forward the proposal of the Socially Responsible Investing Advisory Council (SRIAC) to the Budget, Finance, and Investment Committee (BFI) of the Board for further consideration.

Vice President Cate informed the Committee that the University is working in conjunction with the UVM Foundation to establish an alternative investment vehicle for donors who do not want their gifts to be invested in fossil fuels or nuclear power. That fund should be established and available to donors by April 1st, 2014.

Socially Responsible Investing Advisory Council (SRI-AC) Leader and University Controller Burlingham announced that the next Town Hall meeting is scheduled for Wednesday, February 12th. The purpose of the semi-annual town halls is to solicit comments and input from the campus community regarding the University's investment policies.

The SRI Advisory Council recently welcomed new members graduate student Mairi-Jane Fox and staff representative Evan Litwin, and continues to work on a proposal related to Monsanto Corporation and GMOs. Vice President Cate should expect to see the Council's recommendations in the spring.

FY 2015 Budget

To begin this discussion, Chair McAneny reminded members of the three-part process that would ensue. Today's discussion would include high level assumptions, followed by a proposed budget to review in April and a final vote in May.

Provost Rosowsky provided a presentation that outlined the development of a balanced multi-year budget based on the University's strategic action plan. Cost drivers for the FY 2105 budget include a \$5.6 million carryover of net tuition revenue shortfall (October 2013 projections were \$6.7 million); impacts from financial aid needs, and Affordable Care Act health insurance costs.

Trustee Daigle expressed his ongoing concern about tuition inflation and the affordability of attending the University. Provost Rosowsky stressed that affordable net cost of attendance will continue to be a primary focus and strategic investments in academic initiatives will be increased and sustained.

The presentation also indicated that facilities and IT infrastructure will continue to increase. Trustee Young requested that in future deferred maintenance reports these two areas be separate line items.

President Sullivan responded to Trustee Daigle's question on the mechanisms by which staff may contribute their suggestions and comments on the budget process. He said that the more-than-40 meetings held across campus since October 2013 have been interactive conversations

from all constituents. In addition, there is a dedicated FY 2015 Budget web site that includes FAQs and options to submit questions and comments. Vice President Cate added that the administration regularly meets with Staff Council's Compensation, Benefits, and Budget Committee to share current information and to gather input.

Trustee Bain advocated for continuing to seek new ways of increasing revenue and is encouraged by the current focus on gaining input from students, staff and faculty.

University Budget Director Citarella reviewed comparison data for recent and historical tuition and fee charges for the University and its public and private peers. The data indicate that UVM is in the middle range on tuition and fee charges and on the low end for room and board.

The combined proposed room/meal rate increase is 3.6% (\$10,781). The maximum proposed comprehensive student fee reflects a 2.6% increase (\$2,042), due mostly to the addition of a \$38 Career Center fee. Total cost of attendance which comprises rates for room, board, required student fees, and tuition, is currently projected to grow at 3.4% (in-state \$27,018; out-of-state \$48,657).

Graduate Student Representative Christian Jordan expressed concern on the comparator data and UVM's rankings which differed with what some web sites offered on college affordability. According to some web searches UVM ranks as the 6th most expensive college in the U.S.

Chair McAneny remarked that in the past, comparator reports included Kiplinger data on overall student debt. She requested that the administration add these reports in the standard April packet.

For enrollment management purposes and in order for Residential Life to enter into contracts with students prior to the formal budget approval in May, a resolution requesting the Board to set the maximum room and meal plan rates and other fees for Fiscal Year 2015 is required. However, Alumni Afi Ahmadi pointed out that the proposed resolution did not appear to reflect the new Career Center fee of \$38.

A motion was made to amend the resolution which added this fee to the Total Comprehensive Fee amount.

Budget Director Citarella presented the resolution, as amended to the committee for approval:

Resolution Setting Maximum Room and Meal Plan Rates and Other Fees, Fiscal Year 2015

RESOLVED, that the Board of Trustees hereby sets the maximum room and meal plan rates and other fees for Fiscal Year 2015 as follows:

Room (Standard Double)	\$7,116
Predominate Meal Plan	\$3,665
Total Comprehensive Fee	\$1,800 \$1,838
UG Student Government Association (SGA) Fee	\$174

UG Inter Residence Association (IRA) Fee	\$30
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A motion was made, seconded, and it was unanimously voted to approve the resolution, as amended, for recommendation to the full Board.

STEM Project Funding

The following amended resolution approving general authorization to proceed with developmental work of the STEM project was distributed at the meeting:

Resolution Approving STEM Project Funding

WHEREAS, in order to continue to provide and further enhance its academic quality in programs in the areas of science, technology, engineering and mathematics (STEM), the University needs to undertake a comprehensive facilities project that addresses significant deferred maintenance in existing STEM related buildings and provides new space for laboratories and classrooms; and

WHEREAS, at least 25% of the total cost of the project must be funded from non-debt sources; and

WHEREAS, potential donors are seeking assurance that the Board of Trustees is supportive of this critical STEM project;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Trustees approves the expenditure of up to \$75 million of University funds through the issuance of bonds to occur at a future date to be determined for the project subject to prior acquisition by the administration of at least \$25 million of non-debt funding and further subject to ensuring that the additional debt service for the project is not projected to, nor shall it, ~~does not~~ cause the University's debt ratio to exceed the currently allowed limit of 5.75%.

Vice President Cate explained that this resolution was approving the conceptual phase of the project, and that there would be other iterations which would require further Board approval.

The administration is seeking general authorization from the Board to issue \$75 million in bonds to support the project subject to having secured at least \$25 million from other sources. The proposal states that at least 25% of the total project cost is to be funded from sources other than debt.

Since this approval process is a new methodology for the University, Vice President Cate invited UVM Foundation President and CEO Rich Bundy to address the Committee regarding the need for a definitive statement of intent from the University. Donor expectations, as well as more robust Campaign Counting Guidelines, require proof that this project is a priority for the Board.

Some Trustees did not think the amended resolution clearly or sufficiently stated the intended purpose and therefore, with the assistance of General Counsel Fran Bazluke, proposed a revision

to the amended resolution that eliminated reference to a dollar amount commitment of bond issuance and non-debt funding.

The Committee agreed to further amend the resolution by revising the last paragraph of the resolutions as follows:

Resolution Approving STEM Project Funding

WHEREAS, in order to continue to provide and further enhance its academic quality in programs in the areas of science, technology, engineering and mathematics (STEM), the University needs to undertake a comprehensive facilities project that addresses significant deferred maintenance in existing STEM related buildings and provides new space for laboratories and classrooms; and

WHEREAS, at least 25% of the total cost of the project must be funded from non-debt sources; and

WHEREAS, potential donors are seeking assurance that the Board of Trustees is supportive of this critical STEM project;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Trustees intends to expend up to 75% of University funds through the issuance of bonds to occur at a future date for the STEM Project subject to:

1. Approval by the Board of financial plans for STEM;
2. Prior acquisition by the administration of at least 25% of non-debt funding; and
3. Further subject to ensuring that the additional debt service for the project is not projected to, nor shall it cause the University's debt ratio to exceed the currently allowed limit of 5.75%

~~approves the expenditure of up to \$75 million of University funds through the issuance of bonds to occur at a future date to be determined for the project subject to prior acquisition by the administration of at least \$25 million of non-debt funding and further subject to ensuring that the additional debt service for the project is not projected to, nor shall it, does not cause the University's debt ratio to exceed the currently allowed limit of 5.75%.~~

A motion was made, seconded, and it was unanimously voted to approve the amended and revised resolution for recommendation to the full Board.

STEM Project Schematic Design Funding

Vice President Cate outlined the next stage of the STEM project development: schematic design. The administration is seeking Board authorization to use up to \$1.5 million in funds from the Treasury Operations account for these architectural and estimating services.

Upon review of a proposed resolution on the schematic design funding, Trustees discussed the assumption that the issuance of bonds would be necessary and therefore suggested amended language to the resolution.

The following resolution, as amended, was presented to the committee for approval:

Resolution Approving STEM Project Schematic Design Funding

WHEREAS, the next phase of the STEM facilities project is schematic design but the bond issuance for the project will not occur for some time; and

WHEREAS, the University has resources that can be used for this purpose;

NOW, THEREFORE, BE IT RESOLVED, that the Vice President for Finance and Treasurer, or his successor or designee, is hereby authorized to expend up to \$1.5 million from the Treasury Operations Account for the purpose of funding the schematic design of the STEM project. ~~Once~~ If and when bonds are issued, an equal amount will be transferred from the STEM project account to repay the Treasury Operations account.

A motion was made, seconded, and it was unanimously voted to approve the resolution as amended for recommendation to the full Board.

Contract Amendment and Extension with Blue Cross/Blue Shield

To follow up on October's Committee of the Whole presentation on the Affordable Care Act, Bob Crews from Hickok and Boardman, UVM's benefits advisor, provided a brief history of the University's health plan funding. He reviewed the potential financial benefits of considering a self-funding model and contrasted classic ASP self-funding versus Cost Plus self-funding model and recommended that the University convert the funding of its health plan to the Cost Plus self-funded platform. The claim risk assumed by the University is manageable and the opportunity to capture more immediate savings via claim surpluses is highly probable when measured over three years.

In order to do so, the current Blue Cross/Blue Shield contract would require an amendment and extension to administer the transition to Cost Plus. The following amended resolution was distributed at the meeting:

Resolution Approving Contract Amendment and Extension with Blue Cross/Blue Shield

WHEREAS, in 2011, the University put out to bid its health insurance program and Blue Cross/Blue Shield was the successful bidder and, in the request for proposal, the University sought bids on plan options, including fully insured and self-funded plans; and

WHEREAS, under the current contract, the University has the ability to secure one-year extensions and change to self-funding with the vendor;

BE IT RESOLVED, that the Vice President for Finance, in consultation with the Vice President for Human Resources, Diversity and Multicultural Affairs, is hereby authorized to negotiate a one-year contract extension of the current health insurance benefit with Blue Cross and Blue Shield of Vermont, using its Cost Plus self-funding model in an amount not to exceed \$63,000,000. ~~in an amount not to exceed \$XX million with Blue Cross/Blue Shield to administer the program.~~

Trustee Daigle questioned why the proposed resolution needed to include a dollar amount and suggested it be removed. The Committee agreed to further amend the resolution by striking the reference to a not-to-exceed amount as follows:

Resolution Approving Contract Amendment and Extension with Blue Cross/Blue Shield

WHEREAS, in 2011, the University put out to bid its health insurance program and Blue Cross/Blue Shield was the successful bidder and, in the request for proposal, the University sought bids on plan options, including fully insured and self-funded plans; and

WHEREAS, under the current contract, the University has the ability to secure one-year extensions and change to self-funding with the vendor;

BE IT RESOLVED, that the Vice President for Finance, in consultation with the Vice President for Human Resources, Diversity and Multicultural Affairs, is hereby authorized to negotiate a one-year contract extension of the current health insurance benefit with Blue Cross and Blue Shield of Vermont, using its Cost Plus self-funding model ~~in an amount not to exceed \$63,000,000.~~ ~~in an amount not to exceed \$XX million with Blue Cross/Blue Shield to administer the program.~~

A motion was made, seconded, and it was unanimously voted to approve the resolution as further amended for recommendation to the full Board.

Vice President's Report

Vice President Cate disseminated his report that included a schedule of when BFI-related risks and opportunities as identified in the University's portfolio were and will be discussed.

Attached to the report was the second quarter general fund budget to actuals results that indicate revenue is at 88% of budget and expenses are at 47%. These percentages are on track and no variances are expected.

Representatives from the Student Climate Culture arrived during Vice President Cate's report. As Chair McAneny began to recess the meeting, two representatives from the group made brief unsolicited remarks regarding divestment from fossil fuel companies.

Chair McAneny then recessed the meeting at 12:11 p.m.

The meeting was reconvened at 1:32 p.m. in the Livak Ballroom, Room 417-419 at the Dudley H. Davis Center.

Chair McAneny brought forth an additional proposed amendment to the STEM Project Funding resolution to ensure Board approval of final schematic plans, and prior *identification* of at least 25% of STEM project costs from non-debt sources.

The amended and further revised last paragraph of the resolution, was presented to the committee for approval:

NOW, THEREFORE, BE IT RESOLVED, that the Board of Trustees intends to expend up to 75% of STEM Project costs from University funds through the issuance of bonds to occur at a future date subject to:

1. Approval by the Board of ~~financial~~ the final schematic plans for STEM;
2. Prior ~~acquisition~~ identification by the administration of at least 25% of STEM project costs from non-debt funding; and
3. Further subject to ensuring that the additional debt service for the STEM project is not projected to, nor shall it, cause the University's debt ratio to exceed the currently allowed limit of 5.75%

A motion was made, seconded, and it was unanimously voted to approve the resolution as further amended for recommendation to the full Board.

Adjournment

There being no further business, the meeting adjourned at 1:40 p.m.

Respectfully Submitted,

Debbie McAneny, 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](#)

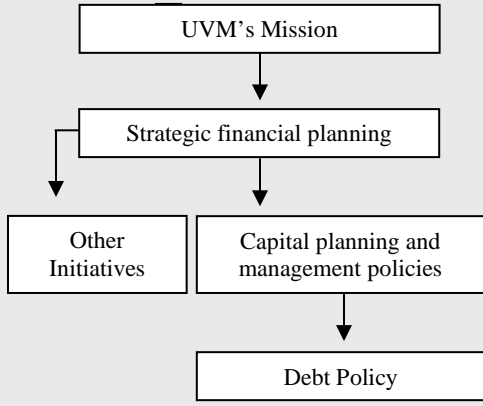
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OVERVIEW

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
<ol style="list-style-type: none"> 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 Administration~~ 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
<ol style="list-style-type: none"> 1. Identify core ratios. <ol style="list-style-type: none"> a. Operating Statement—Debt Burden Ratio. b. Balance Sheet Leverage—Viability 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 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 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.

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

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 - Viability Ratio (also called Expendable Financial Assets to Debt)

This ratio indicates one of the most basic determinants of financial health by measuring the availability of liquid and expendable net 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 viability 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 viability 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 1.0x to ensure that sufficient balance sheet strength is maintained at all times.

$$\frac{\text{UNRESTRICTED NET ASSETS} + \text{TEMPORARILY RESTRICTED NET ASSETS} - \text{EQUITY IN PLANT}}{\text{AGGREGATE DEBT}} > 0.8x$$

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

The 0.8x 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 0.8x

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

Ratios as a Credit Factor

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

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



TYPES OF FINANCINGS

Purpose	
<ol style="list-style-type: none"> 1. Review of all potential funding sources for projects. 2. Maximize tax-exempt University-issued debt. 3. Commercial Paper program. <ol style="list-style-type: none"> 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. <ol style="list-style-type: none"> a. Management will explore securitizations, joint ventures and other financial structures to provide for the optimal funding for any project. 	<p>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.</p> <p><i>Tax-Exempt Debt</i></p> <hr/> <p>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).</p> <p>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.</p> <p><i>Taxable Debt</i></p> <hr/> <p>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.</p> <p><i>Commercial Paper</i></p> <hr/> <p>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.</p> <p><i>Derivative Products</i></p> <hr/> <p>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</p>



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
<ol style="list-style-type: none"> 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. <ol style="list-style-type: none"> 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.

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

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 principal and interest due 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.

~~**GASB 34/35** – Government Accounting Standards Board Statement Nos. 34 and 35. These statements dramatically changed the reporting format for the University effective Fiscal 2002 by consolidating fund balances into net assets and consolidating university-wide activity instead of distinct fund groups. The Statements also require a statement of cash flows and a change in representation of state appropriation and investment income.~~

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



UNIVERSITY OF VERMONT**STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES****I. INTRODUCTION**

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

II. FIDUCIARY STANDARDS

The Board, the ISC, the Treasurer and 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 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

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.

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 ²	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 ex-US)	Portfolios are expected to focus on the world’s developed and developing equity markets, excluding the U.S.
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.
Venture Capital	S&P 500 + 3%	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

² Indices used in Target Benchmark are effective as of November 28, 2012.

		latest quarter.
Private Equity	S&P 500 + 3%	This asset class includes non-publicly traded securities such as buyout funds, secondaries, 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)	NCREIF Property Index	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, Commodities, and Natural Resource Equities	Blended Benchmark of Public Real Asset Manager Specific Benchmarks, one- half ^{third} each: Barclays US TIPS ; DJ UBS Commodities Index; S&P NA Natural Resources Sector Index BlackRock Custom Energy Equity Benchmark	Holdings consist of U.S.-issued TIPS, diversified commodities futures positions, and energy related equity securities
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 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

APPENDIX A

ASSET ALLOCATION POLICY TARGETS

Revised, as of February 2013

Asset Class	Target (%)	Allowable Range (%)
Equity Fund		
U.S. Equity	23.0	15-30
Global ex U.S. Equity	24.0	15-45
Developed Markets	11.0	10-25
Emerging Markets	13.0	5-20
Marketable Alternatives	20.0	15-25
Real Assets (Inflation Hedging)	14.0	10-25
Private Equity / Venture Capital	11.0	5-20
Subtotal Equity	92.0	
Fixed Income Fund		
Fixed Income	8.0	5-25
Cash & Cash Equivalents	0.0	0-5
Subtotal Fixed Income/Cash	8.0	

Appendix A Targets revised by Investment Subcommittee: February 27, 2013