

**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 5, 2016 at 11:15 a.m., in the Silver Maple Ballroom, 401 Dudley H. Davis Center.

MEMBERS PRESENT: Chair David Daigle, Vice Chair Donald McCree, President Thomas Sullivan, Robert Brennan, Bernie Juskiewicz, Joan Lenes, Samantha Lucas, Ed Pagano, Dale Rocheleau, Lisa Ventriss, and Jeff Wilson

REPRESENTATIVES PRESENT: Faculty Representatives Andrew Barnaby and Laura Gewissler, Alumni Representative Myron Sopher, Staff Representative Cheryl Herrick, Student Representatives Jake Guarino and Jacquelyn Langham, and Graduate Student Representatives Nikisha Patal and Mairi-Jane Fox

PERSONS ALSO PARTICIPATING: Vice President for Finance and Treasurer Richard Cate, University Controller Claire Burlingham, University Budget Director Alberto Citarella, President and CEO of the UVM Foundation Rich Bundy, Director of Capital Planning and Management Robert Vaughan, and LaRoy Brantley from Cambridge Associates

ABSENT: Staff Representative Leslye Kornegay and Foundation Representative Richard Ader

Chair David Daigle called the meeting to order at 11:47 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the October 2, 2015 meeting.

Net Assets Review including Green Revolving Loan Fund

Vice President Cate reminded Committee members that the University created the Green Revolving Loan Fund in 2012 for when and if a project has the ability to generate enough energy savings to pay off the project within a 7-year period, then the project can be funded with this fund.

He then reviewed the University's net asset balances as of June 30, 2015, and pointed Committee members to attachments 2A and 2B in the meeting materials, showing encumbered uses of the net assets. Mr. Cate explained this report has been coming to the Board for a number of years and explained the net asset balances have been increasing over the last several years. For FY 2015, the growth in net assets trend has slightly decreased.

In regards to the \$41.3 million in unencumbered net assets, Mr. Cate reminded Committee members that last spring, the Board agreed to pre-fund \$9.8 million for the STEM building as the

Foundation raises gifts to fund the project, and that this amount should be netted against the \$41.3 million.

University Controller Claire Burlingham explained that unrestricted net assets in the general fund, retained at the unit level, had over \$27 million in accumulated appropriations for use in the coming years for one-time expenditures. She explained that the treasury operations account, which acts as an internal bank for the University's debt commitments, allows various University units which are responsible for incurring such debt pay into the account, and in turn funds from the account are used to make payments on external debt.

In regards to the \$13 million Green Revolving Loan Fund, Vice President Cate reminded Committee members that the Board approved using \$3 million of the Fund to help finance the Chiller Plan Expansion. After the Chiller Plant expansion, \$3.4 million will have been used from the loan fund after rebates.

Debt Policy and Ratio Annual Review

Controller Claire Burlingham explained, per the requirements of the University's Debt Policy, the Committee is required to review the policy annually and approve any changes.

Controller Burlingham reviewed the debt burden and viability ratios. The University's viability ratio was 0.72 as of June 30, 2015, slightly below the policy target of .8, primarily due to the GASB 45 liability. Without this liability, the University's viability ratio would have been 1.10. The Debt Policy also requires that the University's debt burden ratio will not be greater than 5.75%, and that by 2023 it will not be greater than 5.0%. The debt burden ratio was 4.72% as of June 30, 2015 and was therefore in compliance with the current policy requirements. It will increase when the University begins paying the full debt service on the STEM facility and the new residence hall, but Vice President Cate reported that it will still be less than the policy benchmark.

Vice President Cate reminded Committee members that GASB-45 is an accounting standard that requires the University to recognize on the balance sheet the future liability for paying employees' post-retirement medical benefits. Based on the actuarial study this resulted in an additional \$23 million extra expense recognition in FY 2015. Vice President Cate explained the inflation in the cost of health insurance and the growth in the number of people who are projected to be retired in a given year drives the GASB-45 increases. He noted that with increasing life spans, the pool of people projected to be retired grows until 2032 and then begins to drop.

Vice President Cate stated that he and Controller Burlingham will be giving a presentation to the Audit Committee in the future as to the potential impact of upcoming GASB reporting changes.

Controller Burlingham noted the University has met and spoken to our debt advisors, the Yuba Group, to review the Debt Policy. The administration is not recommending any changes to the policy, but is asking the Committee to reaffirm the policy in its current state.

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

Resolution Reaffirming Debt Policy with No Changes

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 February 2015;

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

A motion was made, seconded, and the Trustees voted on the resolution: David Daigle - Aye, Donald McCree - Aye, Thomas Sullivan – Aye, Robert Brennan - Aye, Bernie Juskiewicz – Aye, Joan Lenes - Aye, Samantha Lucas – Aye, Ed Pagano – Aye, Dale Rocheleau - Aye, Jeff Wilson - Aye, Lisa Ventriss - Aye. The resolution was passed as presented.

Amending Cash Management Policy to Cash Management and Liquidity Policy

Chair Daigle reminded Committee members of the Board of Trustees desire to establish a minimum liquidity target of \$30 million to ensure that the University operates with an adequate level of institutional liquidity to minimize risk associated with temporary, unforeseen liquidity needs. He noted that the proposed resolution specifies a liquidity target of \$30 million of unrestricted, unencumbered assets. He noted that on December 16, 2015, the ISC Committee met and endorsed the amendments to the Cash Management Policy for referral to BFI.

Chair Daigle presented the following resolution to the committee for approval for recommendation to the Full Board:

Resolution Amending the Cash Management Policy to the Cash Management and Liquidity Policy

WHEREAS, the University’s Cash Management Policy governs the investment of UVM pooled cash; and

WHEREAS, the Board of Trustees wishes to establish a minimum liquidity target to ensure that the University operates with an adequate level of institutional liquidity to minimize risk associated with unforeseen liquidity needs; and

WHEREAS, the maintenance of a sufficient amount of liquidity to ensure the financial sustainability of the University is consistent with historical financial management practices of the University;

BE IT RESOLVED, that the Cash Management Policy be amended and retitled as the Cash Management and Liquidity Policy to establish a minimum liquidity target for the University comprised of liquid funds that are unrestricted, unencumbered general fund net assets, appearing as Appendix B to this document.

A motion was made, seconded, and the Trustees voted on the resolution: David Daigle - Aye, Donald McCree - Aye, Thomas Sullivan – Aye, Robert Brennan - Aye, Bernie Juskiewicz – Aye, Joan Lenes - Aye, Samantha Lucas – Aye, Ed Pagano – Aye, Dale Rocheleau - Aye, Jeff Wilson - Aye, Lisa Ventriss - Aye. The resolution was passed as presented.

Foundation Update on STEM and Alumni House Fundraising

UVM Foundation President and CEO Rich Bundy updated the Committee on fundraising progress for the STEM Facility and Alumni House. In regards to the Alumni House, of the \$11.2 million non-debt goal and total project cost, all of which is anticipated to be privately funded, \$6.8 million has been raised in commitments, pledge balances, and bequest balances. The Foundation is using \$2.2 million of its own resources, and is continuing efforts to raise the remaining \$2.2 million. Some of the current commitments are estate gifts so the Foundation intends to borrow an amount sufficient to cover these funds in the short term.

Mr. Bundy explained the STEM Facility will be funded by a mix of private gifts and non-debt funding. By January 2016, the Foundation had already secured over \$6 million in gift commitments, pledges, and bequests. The remaining non-debt goal is \$19 million. The donor pipeline remains robust, and the Foundation remains confident that a high percent of the non-debt goal will be achieved through donor funding.

Chair Daigle then recessed the meeting at 12:25 p.m.

The meeting was reconvened at 1:18 p.m.

Vice President's Report

Vice President Cate explained the University had more tuition revenue in the first half of FY 2016 than what was projected and that the University spent somewhat less for financial aid than was originally budgeted. He noted that since the population of Vermont high school students is declining, and the University's Global Gateway Program is producing more out-of-state and international students, financial aid costs were somewhat lower than anticipated. Under IBB, that money will flow to revenue centers. He reminded the Committee that balancing the budget remains challenging in the current environment.

Budget Director Citarella then walked Committee members through the first quarter budget to actuals. Of note:

- 88% of budgeted revenue has been received and 46% of budgeted expenses have been expended
- Net undergraduate tuition is above budget by 103%
- Net graduate tuition is above budget of 118%
- Net non-degree tuition is at budget
- Net summer tuition is only at 46% of its budget, the remainder of summer session revenue will be forthcoming for classes schedule in May and June of this year
- All other items are on track for hitting their budgets on the revenue side
- On the expense side, almost all units are at approximately 50% of their budgets, where they should be
- No major deviations are expected on the expense side
- The budget is on track to end the year with a fund balance

Vice President Cate explained that under IBB, units on campus are paying more attention to what their enrollment numbers are, but it has not been long enough to see the true impact of IBB.

Chair Daigle directed Committee members to Vice President Cate's written Affordable Care Act update, included in his report, which summarizes the status of the University under requirements of the act.

Report of the Investment Subcommittee (ISC)

ISC Chair Robert Brennan started the conversation stating that the markets in FY 2015 have been very volatile. He noted that 2016 is off to one of the worst starts in market history.

He noted that as of December 31, 2015, the value of the University's pooled endowment was \$426.25 million. The markets in FY 2015 were volatile and the University's portfolio performed poorly. The asset allocation is currently in line with our policy target weights.

LaRoy Brantley, from Cambridge Associates, joined the discussion and explained the University has done better than many peer institutions, due in part to its investment in hedge funds.

Controller Burlingham updated the Committee on the Socially Responsible Investing Advisory Council (SRIAC), noting the Council had its first meeting of the spring 2016 semester.

Controller Burlingham explained that in the fall of 2015, the Council had met multiple times with the Office of Sustainability to discuss how they can partner together to work on the STARS application and will be continuing that discussion during the spring semester. The Council's next meeting will be to plan and inform their work plan for the balance of this year.

ISC Chair Brennan then explained the proposed revisions to the Statement of Investment Policy and Objectives stating that the modifications of the policy would clarify the importance of the primary responsibility of the ISC to steward the University's assets consistent with prudent financial policy.

Chair Brennan presented the following resolution to the committee for approval for recommendation to the Full Board:

(AS RECOMMENDED BY INVESTMENT SUBCOMMITTEE, January 28, 2016)

Resolution Approving Revisions to the Statement of Investment Policies and Objectives

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

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

WHEREAS, the Investment Subcommittee reviewed revisions to the Statement of Investment Policies and Objectives, as appended;

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

A motion was made, seconded, and the Trustees voted on the resolutions: David Daigle - Aye, Donald McCree - Aye, Thomas Sullivan – Aye, Robert Brennan - Aye, Bernie Juskiewicz – Aye, Joan Lenes - Aye, Samantha Lucas – Aye, Ed Pagano – Aye, Dale Rocheleau - Aye, Jeff Wilson - Aye, Lisa Ventriss - Aye. The resolution was passed as presented.

When asked if there was any practical impact this modification will have on how the ISC will manage its activities with respect to the endowment, Chair Brennan explained that it would not, and that the clarification was designed to codify procedures that ISC has been using for many years.

Chair Brennan then presented the following resolution to the Committee for approval for recommendation to the Full Board noting its intention is to clarify the Board's intent regarding divestment decisions.

(AS RECOMMENDED BY INVESTMENT SUBCOMMITTEE, November 18, 2015)

Resolution on Socially Responsible Investing

WHEREAS, the University's Policy Statement on Moral, Social and Ethical Considerations in Investment and Shareholder Resolutions holds that the primary objective of investment by the University is to provide a satisfactory return on investment for the support of University operations based upon the Prudent Investor Rule; and

WHEREAS, the Board of Trustees in August 2000 passed a resolution to adopt a tobacco-free mandate for its endowment wherever possible; and

WHEREAS, the Board of Trustees in May 2006 passed a resolution to adopt and implement a policy of targeted divestment from companies doing business with or otherwise aiding the governing regime of Sudan; and

WHEREAS, the Board of Trustees in May 2009 passed a resolution to divest from companies that are materially engaged in the manufacture of cluster munitions as defined by the Oslo Treaty of December 2008 and military equipment and/or weapons containing depleted uranium; and

WHEREAS, after careful review the Investment Subcommittee is seeking clarity as to the current intent of these resolutions;

BE IT RESOLVED, that divestment from companies in the tobacco industry, companies doing business with or otherwise aiding the governing regime of Sudan, and companies that are materially engaged in the manufacture of cluster munitions as defined by the Oslo Treaty of December 2008 and military equipment and/or weapons containing depleted uranium will be only from those investments that are directly or separately managed within the pooled endowment, and;

BE IT FURTHER RESOLVED, that the Budget, Finance and Investment Committee will review this resolution at least once every five years.

A motion was made, and an opportunity for discussion offered.

Trustee Jeff Wilson introduced and handed out a copy of a proposed amendment, which he felt would clarify the underlying proposition in the resolution. In regards to transparency, he explained it would be helpful for all Trustees to know where the University's endowment is being invested. He suggested the Board be provided with a report annually on the composition of commingled holdings and that the report specifically include a listing of any holdings in companies which engage in activities addressed in past divestiture resolutions.

Vice Chair McCree reminded Committee members that the ISC does not routinely look at underlying individual investments in commingled funds, and instead focuses on the style and results of the investing manager. He added that investment portfolios are not static and questioned how accurate the information in an annual report would be.

Chair Daigle agreed that transparency is important and encouraged Committee members to attend ISC meetings and request information in order to achieve better transparency.

Mr. Brantley explained that his company also values transparency and seeks to understand how an investment manager makes their money. He noted that this information is available for some

managers but not for every fund, and that there would be a time lag between the information received in a portfolio analysis and what the investing manager currently invests in. He explained it normally takes 6 to 8 weeks to obtain the information for a portfolio analysis and Cambridge Associates would need to request the information from each manager.

Chair Daigle requested Cambridge Associates prepare a portfolio analysis listing the endowment comingled funds' holdings as of December 31, 2015 and that the information be reviewed at the first ISC meeting when the information is available.

Trustee Wilson withdrew his proposed amendment to the Resolution on Socially Responsible Investing with the caveat that the requested portfolio analysis be prepared, reviewed by the ISC and transmitted to the full Board.

There being no further discussion, the motion was seconded and the Trustees voted on the resolution: David Daigle - Aye, Donald McCree - Aye, Thomas Sullivan – Aye, Robert Brennan - Aye, Bernie Juskiewicz – Aye, Joan Lenes - Aye, Samantha Lucas – Aye, Ed Pagano – Aye, Dale Rocheleau - Aye, Jeff Wilson - Aye, Lisa Ventriss - Aye. The resolution was passed as presented.

Capital Projects

Director of Capital Planning and Management Robert Vaughan was invited to present three capital project requests. He began by describing a two-phase project on Taft School building, stating the facility will be renovated for use by the UVM Art Department. Renovations will include modifications to make it accessible to disabled persons, as well as bringing it into compliance with current building codes and for necessary repairs. The phase one renovation cost is \$2.0 million and it is proposed to utilize existing gift funds. He noted that phase two will include the installation of hot water heat system and is projected to cost \$3.0 million.

Director Vaughan explained that there is a proposed project that will include the construction of a 2,350 square foot addition to the library at the location where a new bridge will enter into the library's second floor. The bridge from the new residence hall to the Library will provide an opportunity to capitalize on the library's role as a campus crossroads, as well as expand study space, relieve pressures on the current building, and enhance programmatic connections and academic assistance to first year students. The addition to the Library will cost \$3.0 million, based on the current estimates, and it is proposed to utilize existing unrestricted plant funds that currently exist with the library.

Committee member Samantha Lucas added that the library is working with students to completely re-envision the first floor of the library. This will positively change the way in which students interact with the library.

Finally, Director Vaughan described the Votey Hall Infrastructure Deferred Maintenance Project, which will include the replacement of the roof, installation of a new fire alarm system and improvements to the HVAC and electrical systems. The cost of this project is \$4.0 million and it is proposed to utilize existing plant funds that will be provided over the next three to four years.

Mr. Vaughan noted that this project is different from the STEM project, as the STEM project is mostly focused on first floor.

Vice President Cate confirmed approximately \$1 million out of the \$8 annual deferred maintenance budget will contribute to this project each year for the next three to four years.

The following resolutions were presented to the Committee for approval for recommendation to the Full Board:

Resolution Approving Taft School Renovation (Phase I) Project

WHEREAS, the administration today reported on the estimated cost for the completion of the Taft School Renovation (Phase I) Project and presented a funding plan,

THEREFORE, BE IT RESOLVED, that the Committee hereby recommends to the Board that it authorizes the Vice President for Finance and Treasurer or his designee to expend \$2,000,000 for project costs, to be expended in a manner consistent with the report made on this date; and

BE IT FURTHER RESOLVED, that the \$2,000,000 of funds for such expenditures be drawn from the gift funds.

Resolution Approving Bailey/Howe Library Addition Project

WHEREAS, the administration today reported on the estimated cost for the completion of the Bailey/Howe Library Addition Project and presented a funding plan,

THEREFORE, BE IT RESOLVED, that the Committee hereby recommends to the Board that it authorizes the Vice President for Finance and Treasurer, or his designee, to expend \$3,000,000 for project costs, to be expended in a manner consistent with the report made on this date; and

BE IT FURTHER RESOLVED, that the \$3,000,000 of funds for such expenditures be drawn from the unrestricted plant funds of the Library.

Resolution Approving Votey Hall Infrastructure Deferred Maintenance Project

WHEREAS, the administration today reported on the estimated cost for the completion of the Votey Hall Infrastructure Deferred Maintenance Project and presented a funding plan,

THEREFORE, BE IT RESOLVED, that the Committee hereby recommends to the Board that it authorizes the Vice President for Finance and Treasurer, or his designee, to expend \$4,000,000 for project costs, to be expended in a manner consistent with the report made on this date; and

BE IT FURTHER RESOLVED, that the \$4,000,000 of funds for such expenditures be drawn from the general plant funds.

A motion was made, seconded, and the Trustees voted on the three resolutions: David Daigle - Aye, Donald McCree - Aye, Thomas Sullivan – Aye, Robert Brennan - Aye, Bernie Juskiewicz – Aye, Joan Lenes - Aye, Samantha Lucas – Aye, Ed Pagano – Aye, Dale Rocheleau - Aye, Jeff Wilson - Aye, Lisa Ventriss - Aye. The resolutions were passed as presented.

FY 2017 Budget

Vice President Cate started the conversation by explaining the budget proposal process, stating information is gathered on what can be expected from grants, in-state appropriation, tuition, etc. From there, the budget office looks at the expense side of the equation. Under IBB this year, the budget office has been reaching out to the units to find out more about what each unit expects. Currently, a modest increase in tuition is expected, and the budget will be coming before the Committee in April. It was noted that the President requested a 5.2% increase in state appropriations.

Vice President Cate explained that cost drivers include a \$5 million increase for salaries and a \$2.2 million increase for benefits, a large portion of which goes to a 6% increase in health insurance premiums. For unit operating budgets, there is a 0% increase. In cost centers, a 1.1% base budget reduction is being implemented. Units have shown the budget office how they will be making their cuts.

When asked if a unit can choose to use accumulated dollars in their budget to offset the 1.1% cut, Vice President Cate explained that if a unit can prove they can structurally balance their budget within a few years, it might be possible to use those dollars for bridge funding.

Budget Director Citarella explained that 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 2017 is required.

The combined proposed room/meal rate increase is 3.8% (\$11,578). The maximum proposed comprehensive student fee, excluding the Athletics and SGA fees, reflects a 1.5% increase. This year, the SGA developed a proposal for a program called Peer Advising for Learning Success which the students propose be supported by a \$26 increase in the SGA fee. The students have asked to pay for this service that they deem critical through and the administration strongly endorses this effort. The administration is also proposing a \$50 increase in the Athletics and Recreation Fee to strengthen these programs and ensure their long-term financial stability. This fee increase is being paired with budget reductions in lower priority activities in these programs so as to maximize the use of limited resources.

Budget Director Citarella then walked Committee members through attachment 8 of the meeting materials, which shows the University's comparator institutions. Of note:

- With in- and out-of-state tuition, UVM is on the low end compared to private comparators and on the end high compared to public comparator institutions
- With the 10-year growth rate in tuition and fees, UVM is slightly above the median for private comparators and below the median for public comparator institutions
- With room and board rates, UVM is the 2nd lowest among comparators, even with the rate increase

Chair Daigle noted that from his understanding, part of the athletic fee was going to be absorbed by the new multi-purpose center and become part of the funding source for that project and asked if this increase would take away from the future funding of this project. President Tom Sullivan explained that as the University's athletic fee is still substantially lower than peer competitors, it is still possible to use this strategy. He clarified that the funding strategy for the new multi-purpose center is still in flux, so at this point, the two are not related.

When asked if it is anticipated that the room and board rate increase will stay consistent to fund the new residence hall, Vice President Cate explained that the annual increase for the room rate will continue at 3.5%, but the plan for the meal plan annual rate increase is to reduce it to 3.5% after a period of two years.

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

Resolution Setting Maximum Room and Meal Plan Rates and Other Fees, Fiscal Year 2017

RESOLVED, that the Board of Trustees hereby sets the maximum room and meal plan rates and other fees for Fiscal Year 2017 as follows:

Room (Standard Double)	\$7,634
Predominate Meal Plan	\$3,944
UG Student Government Association (SGA) Fee	\$200
UG Inter Residence Association (IRA) Fee	\$30
Total Comprehensive Fee	\$1,974

A motion was made, seconded, and the Trustees voted on the resolution: David Daigle - Aye, Donald McCree - Aye, Thomas Sullivan – Aye, Robert Brennan - Aye, Bernie Juskiwicz – Aye, Joan Lenes - Aye, Samantha Lucas – Aye, Ed Pagano – Aye, Dale Rocheleau - Aye, Jeff Wilson - Aye, Lisa Ventriss - Aye. The resolution was passed as presented.

Adjournment

There being no further business, the meeting adjourned at 2:42 p.m.

Respectfully Submitted,
David Daigle, Chair



University of Vermont Debt Policy

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

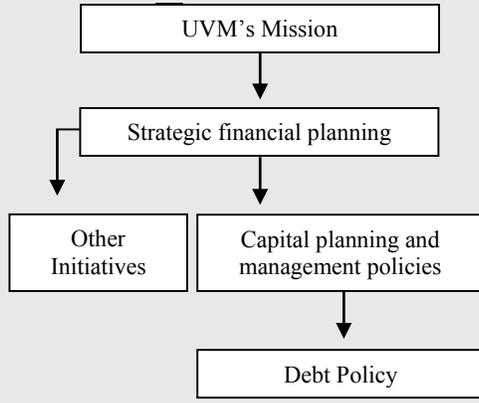
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OVERVIEW

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 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 0.8 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 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. <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 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</p>



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.

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 AND STATE AGRICULTURAL COLLEGE

BOARD OF TRUSTEES

CASH MANAGEMENT AND LIQUIDITY POLICY

Introduction

This Cash Management and Liquidity Policy governs the investment of UVM pooled cash and sets the minimum liquidity target for the University. The pooled cash includes all funds of the University other than the funds that are held in the University endowment and certain plant, restricted and loan reserves, for which separate investment guidelines have been established. This statement will be subject to periodic review and possible modification by the Budget, Finance and Investment Committee as the Committee considers necessary to achieve cash management and investment and liquidity requirements.

I. Cash Management

Investment Objectives

University pooled cash for purposes of investment allocation shall be divided into three asset groups as follows:

- Short-term pool: Cash that is expected to be needed for normal operating expenditures within a one-year period. The primary objective is preservation of principal and liquidity. Maximization of investment income without undue exposure to risk is a secondary objective.
- Intermediate-term pool: Cash that is expected to be needed within a period of one year to six years. The primary objectives are preservation of principal and maximization of investment income without undue exposure to risk.
- Long-term pool: Cash that is not expected to be needed for operational purposes for a period exceeding six years and/or that may be designated as a permanent core. The primary investment objective is to achieve consistent long-term growth of the pool with limited exposure to risk.

Allocation Guidelines

- Short-term pool: The average weighted maturity for a short-term portfolio shall be between one day and one year.

Intermediate-term pool: The average weighted maturity for intermediate-term portfolio shall be between one year and six years.

Long-term pool: Permanent core cash may be invested in any investment that is allowable under the University's *Statement of Objectives and Policies* for the Endowment Fund and that meets the overall objective of achieving consistent long-term growth of the pool with limited exposure to risk.

Performance Objectives

Short-term pool: The benchmark for the short-term portfolio shall be total return that meets or exceeds the yield of three-month U. S Treasury securities.

Intermediate-term pool: The benchmark for intermediate-term portfolio shall be total return that meets or exceeds the Barclays Capital U.S. Treasury Index (3-5 Year).

Long-term pool: The benchmark for the investment of the long term pool shall correspond to the benchmarks for each asset class as specified in the University's *Statement of Objectives and Policies* for the Long Term Investment Pool, including the Endowment Fund.

Allowable Investments for Asset Groups

For all of the asset groups described below, the Treasurer will develop in conjunction with the Board of Trustees Investment Subcommittee (ISC) a list of approved funds and fund managers from which the Treasurer may select managers as appropriate. This list will be reviewed and approved annually by the ISC.

Short-term pool: Investments in the short-term portfolio are restricted to U. S. Treasury and government agency securities, money markets, high quality corporate securities, and commercial and bank paper. Investments shall be in marketable securities of the following types and with the noted credit ratings:

1. Debt securities rated Aaa, Aa, A or Baa by Moody's Investor's Service, Inc. or AAA, AA, A or BBB by Standard & Poor's Corporation.
2. Obligations of, or guaranteed by, the United States of America, its agencies or instrumentalities.
3. Obligations of, or guaranteed by, national or state banks or bank holding companies rated B or better. No more than 20%

of the funds held in the cash pool shall be invested in obligations of the institutions within any single holding company.

4. Commercial paper rated A-1 or higher by Standard and Poor's or Prime-1 (P1) by Moody's Investor's Service, Inc.
5. Bankers' acceptances or negotiable certificates of deposit issued by banks rated B or better. No more than 20% of the funds held in the cash pool shall be invested in certificates of deposit, bankers' acceptances or floating rate notes of the institutions within any single holding company.
6. Repurchase agreements of banks having Fitch ratings no lower than B secured by the U.S. government and federal agency obligations with market values of at least 100% of the amount of the repurchase agreement.
7. Commingled funds may be used if they are in compliance with the above guidelines.
8. The Commonfund, a non-profit provider of investment products for colleges and universities.

Intermediate-term pool: Investments in the intermediate-term portfolio are restricted to securities rated Aaa, Aa, A or Baa by Moody's Investor's Service, Inc. or AAA, AA A or BBB by Standard & Poor's Corporation.

Long-term pool: Investment of the long term pool shall be restricted to those that are allowable under the University's *Statement of Objectives and Policies* for the Endowment Fund and that meet the overall objective of achieving consistent long-term growth of the pool with limited exposure to risk.

Moral, Ethical and Social Considerations

Cash balances will be invested consistently with the moral, social and ethical criteria adopted by the Board of Trustees on recommendation of its Budget, Finance and Investment Committee as related to the Long Term Investment Pool, including the Endowment Fund. Criteria for socially responsible investing shall include, where advisable and consistent with investment quality, return, and safety guidelines, the use of community and State institutions for investment purposes. Where returns are reasonably equal (within 10 basis points), preferences will be given to Vermont-based financial institutions.

Investment Management Responsibility and Structure

Cash management and investment responsibility resides with the Vice President for Finance and Treasurer through the Controller.

1. Investments may be made internally using allowable instruments and institutions; OR,
2. Investment managers may be engaged to invest University assets consistent with this Policy. Subject to this Policy and a written agreement between the University and the investment manager, the investment manager will be given discretion to select individual securities and to make adjustments to the structure of the portfolio.

I. Liquidity

This Cash Management and Liquidity Policy establishes a Minimum Liquidity Target for the University of \$30 million, subject to future modification by the Budget, Finance, and Investment Committee. Liquid funds that are unrestricted, unencumbered General Fund Net Assets (as such capitalized term is used in the audited financial statements of the University) shall be used to satisfy the Minimum Liquidity Target. For the purposes of this Policy, General Fund Net Assets that are restricted in their use, or otherwise encumbered by Board or administrative action, shall not be available to satisfy the Minimum Liquidity Target. The objective of this policy is to ensure that the University operates with an adequate level of institutional liquidity to minimize risk associated with temporary, unforeseen liquidity needs.

II. Administration and Reporting

- A. The Treasurer will report to the Budget, Finance and Investment Committee annually, the following:
 1. ~~Balances~~ Cash balances in each asset group;
 2. Investments in each asset group by manager and investment type or fund; and
 3. Performance of each individual investment type within each asset group.
 4. A schedule of unrestricted, unencumbered General Fund Net Assets compared to the Minimum Liquidity Target.
- B. As delegated by the Board of Trustees through its resolutions, specified University officials, including the Treasurer, are authorized to open accounts with banks, investment firms, or commercial paper institutions, and/or to execute purchases and sales, in order to implement this ~~investment policy~~ Cash Management and Liquidity Policy.
- C. This Cash Management and Liquidity Policy will be subject to annual review by the Investment Subcommittee and the elements of the policy related to liquidity will be subject to annual review by the Budget, Finance, and Investment Committee.

Adopted by the Board of Trustees, October 15, 1993

Revised by the Board of Trustees October 12, 2002

Revised by the Board of Trustees August 27, 2005

Revised by the Board of Trustees November 11, 2006

Revised by the Board of Trustees February 5, 2010

Revised by the Board of Trustees October 3, 2015

Revised by the Board of Trustees:

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

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

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

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

The primary objective of achieving the Financial and Investment Objectives of the Fund does not preclude consideration of moral, ethical and social criteria in selecting investments or participating in

shareholder resolutions that address moral, ethical or social issues. However, the core responsibility of the Board is to steward University assets in a manner consistent with prudent fiduciary practices.

~~V.~~**VI. FINANCIAL & INVESTMENT OBJECTIVES**

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

The primary long-term investment objective of the Fund is to attain a real total return¹ (net of investment management fees) that exceeds the amount being distributed for spending and administration, currently set at 4.75%. This will be measured over the long term, capturing a full market cycle, as it is unlikely that the Fund's return will meet or exceed the spending rate in each individual year. Other important investment objectives are to achieve annualized returns in excess of the strategic policy portfolio blended benchmark (defined herein), -measured over a full market cycle; and to outperform the median return of a pool of endowment funds with broadly similar investment objectives and policies.

~~VI.~~**VI. MORAL, SOCIAL AND ETHICAL CONSIDERATIONS IN INVESTMENT STRATEGY**

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

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

~~The primary objective of achieving the Financial and Investment Objectives of the Fund does not preclude consideration of moral, ethical and social criteria in selecting investments or participating in shareholder resolutions through proxy voting that address moral, ethical or social issues.~~

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

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.

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 Benchmark²	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.
International Developed Equity	MSCI EAFE Index	Portfolios are expected to focus on the world's developed markets, excluding the U.S.
Emerging Markets Equity	MSCI Emerging Markets Index	Portfolios are expected to focus on the world's developing equity markets.
Marketable Alternatives	Hedge Fund Research Inc. (HFRI) Fund of Funds Composite Index	Investment mandates may include: multi-strategy arbitrage, event arbitrage, distressed securities, credit/capital structure arbitrage and long/short equity investments in global markets.
Private Investments (Private Equity and Venture Capital)	2/3 C A Private Equity FOF (Fund of Funds) / 1/3 C A Venture Capital FOF	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

² Indices used in Target Benchmark are effective as of March 25, 2015.

		including related logging operations.
TIPS, Commodities, and Natural Resource Equities	Blended Benchmark of Public Real Asset Manager Specific Benchmarks, one-half each;; DJ UBS Commodities Index; S&P NA Natural Resources Sector Index	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.

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

Approved as revised by the Board of Trustees:

APPENDIX A

ASSET ALLOCATION POLICY TARGETS

Revised, as of February 2014

Asset Class	Target (%)	Allowable Range (%)
Equity Fund		
U.S. Equity	20.0	15-30
Global ex U.S. Equity	25.0	15-45
International Developed Equity	12.0	10-25
Emerging Markets Equity	13.0	5-20
Marketable Alternatives	22.0	15-25
Real Assets (Inflation Hedging)	12.0	10-25
Private Equity / Venture Capital	11.0	5-20
Subtotal Equity	90.0	
Fixed Income Fund		
Fixed Income	10.0	5-25
Cash & Cash Equivalents	0.0	0-5
Subtotal Fixed Income/Cash	10.0	

Appendix A Targets revised by Investment Subcommittee: February 26, 2014