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 3, 2017 at 1:15 p.m., in the Silver Maple Ballroom, 401 Dudley H. Davis Center.

MEMBERS PRESENT: Chair Don McCree, Vice Chair Robert Brennan, President Thomas Sullivan, David Aronoff, David Brandt, Joan Lenes, Ed Pagano**, Lisa Ventriss, and Jeff Wilson

ABSENT: Trustee Bernard Juskiewicz

REPRESENTATIVES PRESENT: Faculty Representatives Andrew Barnaby and Laura Gewissler, Foundation Representative Richard Ader* and Alumni Representative Myron Sopher, Staff Representatives Sonya Stern and Cheryl Herrick, Student Representatives Jake Guarino and Andrew Dazzo, Graduate Student Representatives Nikisha Patal and Roger DaGama

PERSONS ALSO PARTICIPATING: Vice President for Finance and Treasurer Richard Cate, University Controller Claire Burlingham, University Budget Director Alberto Citarella, Vice President for Development and Campaign Director Mark Dorgan, and David Woodward and Charles Kim from Kaufmann Hall

*Participated by conference phone
**Arrived to meeting at 2:15 p.m.

Chair Don McCree called the meeting to order at 1:21 p.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the October 21, 2016 meeting.

Debt Policy and Ratio Annual Review

Vice President Richard Cate started the conversation by directing Committee members to Attachment 3 of the meeting materials, explaining there are two ratios in the Debt Policy, the viability ratio and the debt burden ratio.

In regards to the viability ratio, he 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.

Controller Burlingham then reviewed the debt burden and viability ratios. The University's viability ratio was 0.57 as of June 30, 2016, below the policy target of 0.8, primarily due to the

GASB 45 liability. Without this liability, the University's viability ratio would have been 0.92. The Debt Policy also requires that the University's debt burden ratio cap will not be greater than 5.75%, and that by 2023 it will not be greater than 5.0%. The debt burden ratio was 4.50% as of June 30, 2016 and was therefore in compliance with the current policy requirements. It will increase when the University begins paying the additional debt service for the STEM Complex and the new Residence Hall, but Vice President Cate reported that it will still be less than the policy benchmark.

Controller Burlingham explained, per the requirements of the University's Debt Policy, the Committee is required to review the policy annually and approve any changes. She noted the University has met and spoken to the University's debt advisors, the Yuba Group, to review the Debt Policy.

The administration is recommending revisions to the Policy that would require the Vice President for Finance to report the viability and debt burden ratios with and without Other Post-Retirement Benefits being included in the calculations.

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

> **<u>Resolution Revising Debt Policy</u>**
>
> 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 reaffirmed in February 2016;
>
> BE IT RESOLVED, that the Board hereby accepts revisions to the Policy, appearing as Appendix A to this document.

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

Report of the Investment Subcommittee (ISC)

ISC Chair Robert Brennan began by introducing the Subcommittee's proposed revisions to the Statement of Investment Policies and Objectives and the Cash Management and Liquidity Policy. Modifications to the former would refine the benchmark chosen for how the University invests in certain markets and revisions to the latter are related to the description of intermediate-term portfolio allowable assets.

ISC Chair Brennan then walked Committee members through the performance update report prepared by Cambridge Associates. He noted that as of December 31, 2016, the value of the

University's pooled endowment was $451 million. He further noted that the markets in FY 2016 have been very volatile and that the asset allocation is slightly behind policy target weights.

Brennan added that the portfolio had significant out performance in the total real asset category, the marketable alternatives, fixed income, and developed markets equity, but had significant under-performance in the US equity portfolio. The Endowment return for the calendar year ending December 31, 2016 was 6.5%.

Later this month, the ISC will meet in Boston to interview managers and discuss asset allocations after which any adjustments to the University's portfolio will be recommended to the Board.

When asked about the portfolio's underperformance in the US Equity Performance category, ISC Chair Brennan explained that two of the University's three active managers underperformed. As this is the biggest asset allocation of the portfolio, it is also the biggest driver. Cambridge Associates and the ISC are monitoring them closely.

Chair Brennan presented the following resolutions to the Committee for approval for recommendation to the Full Board:

(AS RECOMMENDED BY INVESTMENT SUBCOMMITTEE, December 19, 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;

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

(AS RECOMMENDED BY INVESTMENT SUBCOMMITTEE, December 19, 2016)

Resolution Approving Revisions to the Cash Management and Liquidity Policy

WHEREAS, in September 1993, the Board adopted the Cash Management Policy to govern the investment of UVM pooled cash; and

WHEREAS, in February 2016, the Board revised and re-named the scope of the Cash Management Policy as the Cash Management and Liquidity Policy to establish a minimum liquidity target for the University comprised of liquid funds that are unrestricted, unencumbered general fund net assets; and

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

WHEREAS, the Investment Subcommittee reviewed revisions to the Cash Management and Liquidity Policy, as appended;

THEREFORE, BE IT RESOLVED, that the Investment Subcommittee hereby recommends that the Board adopt the amended Cash Management and Liquidity Policy, appearing as Appendix B to this document.

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

Fundraising Update on Capital Projects

Vice President for Development and Campaign Director Mark Dorgan updated the Committee on fundraising progress on capital projects, including the STEM Complex and Alumni House.

He noted that fundraising goals have been achieved for the following projects: Billings Library, the Miller Farm, UVM Rescue, Royall Tyler Theatre, and the Taft School. Trustee Robert Brennan noted that in regards to the Miller Farm project, it was a low non-debt goal relative to the total construction cost. It was explained that the Dean of the College was able to complete the project with private donations, as well as internal college funds that were set aside strategically for the project.

In regard 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, $9.9 million has been raised as of December 31, 2016, The UVM Foundation is continuing efforts to raise the remaining $1.25 million through rental revenue.

Vice President and Campaign Director Dorgan explained that the STEM Complex will be funded by a mix of private gifts and non-debt funding. As of December 31, 2016, the Foundation commitments and receipts total $9.3 million for this project. The remaining non-debt goal is $16.7 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.

In regards to the Kalkin Hall Expansion, of the $11.0 million non-debt goal and total project cost, $7.5 million has been raised as of December 31, 2016.

He noted that there is no private gift goal for the Residence Hall. The facility was funded with University cash and bonds.

Vice President’s Report

Budget Director Citarella reviewed the first quarter budget to actuals. Of note:

- No major deviations are expected on the expense side

- The budget is on track to end the year with a fund balance

President Thomas Sullivan noted he has been in conversation with Governor Scott regarding an additional $1 million for financial aid and scholarships to recruit and support lower income Vermont students. The Governor has been supportive of this initiative.

Vice President Cate then reminded Committee members that annually, there is a report on the University's net assets noting the University Net Assets totaled $222.4 million at the end of FY 2016. In keeping with the amendments to the Cash Management Policy, unencumbered assets are being used to meet the $30 million liquidity requirement.

Vice President Cate clarified that in the Capital Pre-Funding Accounting, $7 million of the original $10 million was used for the STEM Complex.

In regard to the $13 million Green Revolving Loan Fund, Vice President Cate noted that the University has committed $670,481 in projects and received $214,564 in rebates from the utility companies, for a net cost of $455,917. In addition, Committee members were reminded that the Board approved using $3 million of the fund to help finance the Chiller Plan Expansion.

Strategic Financial Planning Input Examples

Chair McCree invited Charles Kim and David Woodward from Kaufman Hall to present on Strategic Financial Planning Input Examples.

Mr. Kim explained the financial plan presented quantified the relationships between strategy and financial capability. This allows the University to compete as effectively as it can, which requires aggressive investment of capital and commitment of operating dollars, but also respects the fiduciary role of the Board and management to protect the long-term financial integrity of the University.

Kaufman Hall has been working with Vice President Cate and the Division of Finance to understand the University's current credit position within capital markets expectations, as well as qualified the University's current capital position relative to strategic requirements. The next step is to develop a realistic financial plan that supports the execution of the institution's strategy. From there, Kaufman Hall would communicate and direct the plan's implementation.

Mr. Kim noted that Kaufman Hall has taken the University's metrics and benchmarked them against Moody's A1 medians, as well as against public and private institution peer groups.

Mr. Kim further noted that the University has cash flow needs that are in line with the cash the University has generated in the last three years and presented two sensitivity analysis scenarios.

Mr. Kim stated that Kaufman Hall will work with the University to develop a five-year financial plan. Scenarios will be developed to stress test the model before the Committee and the Full Board is asked to make financial decisions.

Chair McCree commended the administration for doing this work and thanked Mr. Kim for presenting.

FY 2018 Budget

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 2018 is required.

Budget Director Citarella reviewed attachment 5 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 below the median for both private and public comparator institutions
- With room and board rates, UVM is the 2nd lowest among comparators, even with the rate increase

Director Citarella explained the combined proposed room/meal rate increase is 3.8% ($11,578). This year, the SGA is proposing an increase of $4.00, an increase of 2.0% to accommodate salary and benefits, as well as an increase in the minimum wage from $9.60 to $10.00. The maximum proposed comprehensive student fee, excluding the SGA and IRA fees, reflects a 2.9% increase. There are several activities within the Comprehensive Fee proposing no increases. For all that are proposing increases, those increases are intended to pay for regular inflationary increases. The only exception is the Center for Health and Well Being, the fee for which is proposed to increase 5.3%. This increase will pay for the addition of counseling services, demand for which has been increasing at the University over the last several years, a trend that has been seen across universities nationwide.

When asked how often the final fee rates that are set vary from the maximum cost of fees, Vice President Cate stated that the Committee has not had to do this in the past nine years. He added that the rates of growth are lower from last year.

President Sullivan added that through the increased investment in academic counseling, the goal is to give students more financial literacy.

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

<u>Resolution Setting Maximum Cost of Fees</u>

RESOLVED, that the Board of Trustees hereby sets the maximum room and meal plan rates and other fees for Fiscal Year 2018 as follows:

Room (Standard Double)	$7,900
Predominate Meal Plan	$4,122
UG Student Government Association (SGA) Fee	$204
UG Inter Residence Association (IRA) Fee	$30
Comprehensive Fee	$2,032

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

Deferred Maintenance Funding Plan

Vice President Cate began by explaining this plan is currently a conceptual piece and the goal of the conversation is not to have the Board commit to approving a long-term plan today. The goal is to gain Board consensus around the approach to funding deferred maintenance and get funding approval for the next year. He reminded Committee members that it is important to think about this plan as an incremental change.

Vice President Cate next reviewed the table below. He noted the administration recommends an incremental increase in base funding of up to $2 million per year over the next ten years. It is believed this concept balances the need to increase deferred maintenance funding with the essential need to moderate expenditure increases (affordability) in the general fund budget, but it will require an annual evaluation of budget capacity. In order to make a measurable impact in the near term, the administration also recommends $18 million of short-term borrowing over the next five years.

Deferred Maintenance Funding Proposal				
Fiscal Year	Base Funding for Facilities & IT Equipment Maintenance & Repair	Additional Increase in Base Spending from Operating Budget	Short-term Borrowing to be Funded by Long-term Debt	Total Funding Available for Facilities & IT Equipment Maintenance & Repair
2018	9,000,000	2,000,000	4,000,000	15,000,000
2019	11,000,000	2,000,000	4,000,000	17,000,000
2020	13,000,000	0	4,000,000	18,000,000
2021	13,000,000	1,000,000	4,000,000	18,000,000
2022	14,000,000	2,000,000	2,000,000	18,000,000
2023	16,000,000	2,000,000		18,000,000
2024	18,000,000	2,000,000		20,000,000
2025	20,000,000	2,000,000		22,000,000
2026	22,000,000	2,000,000		24,000,000
2027	24,000,000	2,000,000		26,000,000

Vice President Cate explained that calculations done by the University's facilities consultants, Sightlines, demonstrate that the University has not been investing enough in its facilities and infrastructure to avoid growth in the deferred maintenance backlog. This backlog is currently estimated to be approximately $370 million. Sightlines consultants recommend that the University invest at least $20 million per year in maintenance, renovation and repair. This is substantially higher than the current average annual investment of $7 to $9 million.

Chair McCree stated this plan would stabilize the backlog and would hold the deferred maintenance costs flat if it were executed. He noted that this is a priority and borrowing money would jump-start the program.

When asked if the University could ever fully eliminate its deferred maintenance, Vice President Cate stated that all institutions have some level of deferred maintenance. The administration's goal is to have the deferred maintenance backlog decrease over the long term.

When asked if this funding plan would change Incentive-based Budgeting, Vice President Cate clarified that it would not. The cost assessed to responsibility centers would increase, but they have already been provided with that information.

Vice President Cate clarified that the proposed resolution would authorize $4 million of short-term borrowing for deferred maintenance projects that will be completed during FY17 and FY18.

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

Resolution Endorsing the Concept of a Deferred Maintenance Proposal and Authorizing Short-term Borrowing

WHEREAS, the University is not funding deferred maintenance of its facilities and infrastructure at a rate adequate to avoid growth in its deferred maintenance backlog, which is currently estimated to be $370 million; and

WHEREAS, the Board of Trustees has thoroughly evaluated the data presented to it by the administration on multiple occasions and now wishes to advance a funding proposal to deal with this situation in a sustainable manner; and

WHEREAS, the administration has presented a concept, which includes a combination of incremental increases in base funding and short-term borrowing for deferred maintenance;

THEREFORE, BE IT RESOLVED, that the Board endorses the deferred maintenance concept presented by the administration, authorizes $4,000,000 of short-term borrowing to fund deferred maintenance projects in FY 17 and FY 18, and directs the administration to seek authorization for additional funding, consistent with goals of the deferred maintenance funding concept, at the winter Board meeting in each of the next four years.

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

Funding Options for Multipurpose Center

Vice President Cate reminded Committee members that this conversation was in continuation of the presentation during the joint BFI and Educational Policy and Institutional Resources (EPIR) Committees meeting where the concept of the project was explained. He then directed Committee members to the Debt Capacity Analysis spreadsheet, which was handed out at the meeting, explaining that in order to calculate the University's debt capacity, he started with the basic expenses the University has and made an assumption those expenses would increase 2.5% a year based on how they've increased in the past.

He explained that starting in FY18, the debt burden ratio with deferred maintenance would be 5.19%, which is under the current debt burden ratio cap of 5.75%.

Currently, with the rate changes in the municipal bond rates, Vice President Cate explained the estimate from bankers is about 4%. He indicated the Debt Capacity Analysis spreadsheet also shows the debt capacity at 4%, 4.5%, and 5% interest rates.

President Thomas Sullivan added that a Multipurpose Center student fee that could be instituted to pay the debt service on a portion of the project cost. The remainder of the project would have to be funded by private gifts. Vice President Cate reminded the Committee that the University does not have any available resources to "bridge" the private funding so the private funds will have to be available at the time the project is begun.

Chair McCree stated he would be comfortable in moving forward with the next step of this project, as the Committee is not being asked to approve full funding of the project today. He clarified that the resolution the Committee is being asked to approve today is about the funding the schematic design of the project.

Trustee Ed Pagano stated that the Multipurpose Center would not just be an athletic facility, but would also have the goal of increasing student health and wellness.

When asked when the University would start charging students the Multipurpose Center fee, President Sullivan noted that conversation has not started yet.

President Sullivan further clarified that this resolution would approve the schematic plan and cost analysis for a Multipurpose Center on campus. At the October Board meeting, the Committee and the Full Board would then make a more definitive decision on moving forward with this project. By October, there would be a more concrete fundraising plan and time line for completing the project.

President Sullivan added that if the Committee approves the resolution today, it provides an opportunity for him to start getting commitments from donors for this project.

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

<u>Resolution Authorizing Initiation of Schematic Design Phase and Estimate of Project Cost for an On-Campus Multipurpose Center</u>

WHEREAS, the Educational Policy & Institutional Resources Committee has reviewed the preliminary study of the feasibility, programming and conceptual design of an on-campus multipurpose center project and affirmatively referred the project to this Committee for financial review; and

WHEREAS, the administration today asked this Committee to recommend initiation of the schematic design phase of an on-campus multipurpose center project and generation of an associated project cost estimate and funding plan; and

WHEREAS, the administration today reported that the estimated cost of completing the schematic design phase of the Project and generating a total Project cost estimate and funding plan is $750,000;

THEREFORE, BE IT RESOLVED, that the Committee hereby recommends to the Board that it authorize the administration to proceed with the schematic design phase of the Project and generate an associated project cost estimate and funding plan at a cost not to exceed $750,000 and that the funds be drawn from the capital project pre-funding account.

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

Adjournment

There being no further business, the meeting adjourned at 3:40 p.m.

Respectfully Submitted,

Don McCree, Chair

University of Vermont
Debt Policy

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

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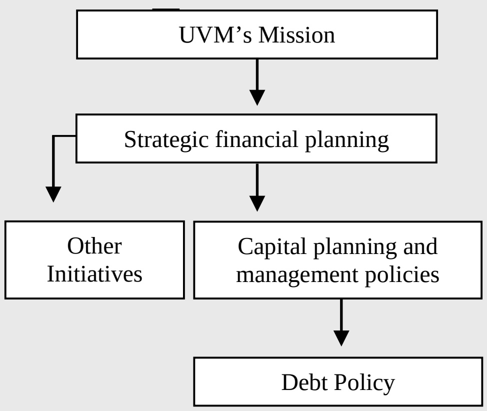
OVERVIEW

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

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

By adopting this policy and regularly reviewing it with the appropriate Board of Trustee committee, management will follow and report on guidelines and requirements regarding debt utilization. With appropriate authorizations consistent with the policy, management will have flexibility to implement specific financial transactions and utilize approved financing vehicles in accordance with stated procedures.

The Office of the Vice President for Finance and University Treasurer will manage all funding sources, including debt, for capital projects authorized by the Board. The structure of any individual transaction (e.g., maturity, interest rate mode, use of derivative products, other financing structures) will be based upon overall University needs to ensure that (i) long-term costs to the University and its operating units are minimized consistent within the context of other strategic objectives and (ii) overall risk does not exceed acceptable levels as defined in this policy.

Because this debt policy is a living document, the appropriate Board of Trustee committee will review this policy on an annual basis and report any recommended changes or revisions to the Board of Trustees. This review process is necessary to ensure that the policy remains consistent with the University's objectives and responsive to evolving practices, competitive pressures in the external environment, and financial indicators.

POLICY RATIOS

Purpose

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

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

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. The Vice President of Finance will also report the ratio results showing the effect with and without the Governmental Accounting Standards for Other Post Retirement Benefits. 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

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

The University recognizes that there are numerous types of financing structures and funding sources available, each with specific benefits, risks, and costs. All potential funding sources will be reviewed by management within the context of the debt policy and the overall portfolio to ensure that any financial product or structure is consistent with UVM's objectives. Regardless of what financing structure(s) is(are) utilized, a full understanding of the transaction, including (i) quantification of potential risks and benefits, and (ii) analysis of the impact on University creditworthiness and debt capacity, will be required. Any financial transaction which, in management's opinion utilizes the University's credit, will be subject to the limits set forth in this policy regardless of source.

Tax-Exempt Debt

The University recognizes that debt will remain a long-term component of the University's capitalization over the foreseeable future due in part to its continued need for capital and the substantial economic benefits associated with tax-exempt debt. Therefore, financial transactions will be managed on a portfolio basis with a long-term perspective. (In all circumstances, however, individual projects must continue to be identified and tracked to ensure compliance with all tax and reimbursement requirements).

Debt will be structured to meet the University's comprehensive long-term objectives, and each project being financed will be required to provide a sound business plan, including the source of repayment for the debt and appropriate and realistic repayment terms. Among other things, the repayment terms will require that the loan term is no greater than the expected componentized useful life of the asset financed. Additionally, the financed project will be required to budget and fund principal payments on a fully amortized basis.

Taxable Debt

While all of the University's capital projects may not qualify for tax-exempt debt, taxable debt should only be used in appropriate cases as it generally represents a more expensive source of capital relative to tax-exempt issuance.

Commercial Paper

The CP program can provide substantial financial flexibility to the University including the ability to manage and optimize cash balances, and provide an alternative to lease transactions, and other purposes. CP can offer the University interim financing for capital projects in anticipation of the receipt of funding either in the form of future philanthropy or the issuance of long-term debt for permanent financing, as well as offer greater flexibility regarding the timing and structuring of individual bond transactions.

Derivative Products

Management recognizes that derivative products may enable more opportunistic and flexible management of the debt portfolio. Derivative products, including interest rate swaps, may be employed primarily to manage or hedge the University's interest rate exposure for a specific period of time. The University will utilize a framework to evaluate potential derivative instruments through consideration of (i) its variable rate allocation, (ii) market and interest rate conditions, (iii) impact on future financing flexibility, and (iv) the compensation for assuming risks, or the costs for eliminating certain risks and exposure. In addition, the University will analyze and quantify the cost/benefit of any derivative instrument relative to achieving desirable long-term capital structure objectives. Under no circumstances will a derivative transaction be utilized that is not understood fully by management or that imposes inappropriate risk on the University. Risks include but are not limited to tax risk, interest rate risk, liquidity risk, counterparty credit risk, basis risk, and any other potential risks either imposed or removed through the execution of any transaction. In addition, management will consider and disclose the potential impact of any derivative product on the University's financial statements and the appropriate treatment in calculating the debt policy ratios. The University will regularly report on the status and performance of its derivative products, if any, to the appropriate Board of Trustee committee. Given the risks and complexity associated with derivative products, they will be considered more seriously only when: (i) conventional financing sources are relatively more expensive (e.g. exceed the portfolio blended interest rate, and (ii) can achieve desired financial objectives more efficiently or at a significantly lower risk-adjusted cost than traditional structures. Management is required to present any recommended derivative product to the appropriate Board of Trustee committee and must receive Board approval prior to execution.

Other Financing Sources

The University recognizes that a variety of transactions, not limited to debt insured directly by UVM, may impact the University's credit while the University's limited debt capacity and substantial capital needs require the consideration of various financing alternatives, including possible opportunities for alternative and non-traditional transaction structures. The University recognizes these types of transactions may also impact the University's credit and also often can be more expensive than traditional University debt structures.

Therefore all non-traditional financing structures including guarantees and third party debt can only be considered once the economic benefit and the likely impact on the University's debt capacity and credit has been determined. Specifically, for any third-party or developer based financing, management will ensure the full credit impact of the structure is evaluated and quantified to the extent possible prior to execution and the analysis must be presented to the appropriate Board of Trustee committees and must receive Board approval prior to execution.

PORTFOLIO MANAGEMENT OF DEBT

Purpose

1. Permit decisions regarding debt issuance and structure to be made on a portfolio basis, rather than on a per-project basis.
2. Manage variable rate exposure of the debt portfolio.
   a. Limit variable rate exposure.
   b. Manage the overall liquidity requirements associated with outstanding debt.
   c. Target overall variable rate debt exposure.
3. Evaluate exposure to other financing vehicles and third parties on a portfolio-wide basis.

The University considers its debt portfolio holistically; that is, it optimizes the portfolio of debt for the entire University rather than on a project-by-project basis, and takes into account the University's cash and investments.

Variable Rate Debt

It is recognized that a degree of exposure to variable interest rates within the University's debt portfolio may be desirable in order to:

(i) take advantage of repayment/restructuring flexibility;

(ii) benefit from historically lower average interest costs; and

(iii) diversify the debt portfolio; and,

(iv) provide a hedge to short-term working capital balances

Management will monitor overall interest rate exposure, analyze and quantify potential risks, and coordinate appropriate fixed/variable allocation strategies. The portfolio allocation to variable rate debt may be managed or adjusted through (i) the issuance of debt (potentially new issues and refunding), (ii) and the use of interest rate swaps and other derivative products. While the utilization of commercial paper impacts the University's variable rate exposure, outstanding CP will not be included in the ratio, given the expected interim financing purpose.

Recognizing the desire to manage interest rate risk, the amount of variable rate debt outstanding shall not exceed 35% of the University's outstanding debt. This limit is based on the University's desire to (i) limit annual variances in its debt portfolio, (ii) provide sufficient structuring flexibility to management, (iii) keep the University's variable rate allocation within acceptable external parameters, (iv) utilize variable rate debt (and/or swaps) to optimize debt portfolio allocation and minimize costs, and (v) take into account liquidity needs and exposures for the portfolio, including consideration of the commercial paper program.

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

The University will exclude from this calculation project-related commercial paper used in advance of expected long-term financing since this commercial paper is used for interim purposes and should not be included in the University's desired long-term variable rate allocation calculation. The numerator, *Variable Rate and Liquidity Exposure*, is defined as including all variable rate debt, not adjusted for any floating to fixed swaps, if any, and plus any fixed to floating swaps, if any. Thus, any variable rate debt that is affected by floating-to-fixed interest rate swaps will be considered variable rate debt for the purposes of this calculation since it impacts the University's liquidity requirements and exposes the institution to counterparty credit exposure. Note that this ratio measures interest rate exposure and liquidity exposure/requirements directly.

GLOSSARY

Annual Debt Service – refers to the 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.

Appendix B

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~~ Maturity Guidelines

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

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

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

Performance Objectives

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

Intermediate-term pool: The benchmark for intermediate-term portfolio shall be total return that meets or exceeds the Bloomberg Barclays ~~Capital~~ 3-5 Year U.S. Treasury Bond 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~~and Intermediate-term Pool:

Investments in the short-term and intermediate-term portfolio are restricted to U. S. Treasury and government agency securities, money markets, high quality corporate securities, and commercial and bank paper, where as the intermediate-term pool may have maturities up to six years. Investments shall be in marketable securities of the following types and with the noted credit ratings:

1. Debt securities rated Aaa, Aa, A or Baa by Moody's Investor's Service, Inc. or AAA, AA, A or BBB by Standard & Poor's Corporation.

2. Obligations of, or guaranteed by, the United States of America, its agencies or instrumentalities.

3. Obligations of, or guaranteed by, national or state banks or bank holding companies rated B or better. No more than 20% of the funds held in the cash pool shall be invested in debt 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 shall be restricted to those allowable in the short-term portfolio, as well as securities rated Aaa, Aa, A or Baa by Moody's Investor's Service, Inc. or AAA, AA A or BBB by Standard & Poor's CorporationAll investments in the intermediate-term portfolio shall be restricted to those allowable in the short term pool but may have maturities of up to six years.~~

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

Moral, Ethical and Social Considerations

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

Investment Management Responsibility and Structure

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

1. Investments may be made internally using allowable instruments and institutions; OR,

2. Investment managers may be engaged to invest University assets consistent with this Policy. Subject to this Policy and a written agreement between the University and the investment manager, the investment manager will be given discretion to select individual securities and to make adjustments to the structure of the portfolio.

I. Liquidity

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

II. **Administration and Reporting**

A. The Treasurer will report to the Budget, Finance and Investment Committee annually, the following:

   1. Cash balances in each asset group;

   2. Investments in each asset group by manager and investment type or fund; and

   3. Performance of each individual investment type within each asset group.

   4. A schedule of unrestricted, unencumbered General Fund Net Assets compared to the Minimum Liquidity Target.

B. As delegated by the Board of Trustees through its resolutions, specified University officials, including the Treasurer, are authorized to open accounts with banks, investment firms, or commercial paper institutions, and/or to execute purchases and sales, in order to implement this Cash Management and Liquidity Policy.

C. This Cash Management and Liquidity Policy will be subject to annual review by the Investment Subcommittee and the elements of the policy related to liquidity will be subject to annual review by the Budget, Finance, and Investment Committee.

Adopted by the Board of Trustees, October 15, 1993
Revised by the Board of Trustees October 12, 2002
Revised by the Board of Trustees August 27, 2005
Revised by the Board of Trustees November 11, 2006
Revised by the Board of Trustees February 5, 2010
Revised by the Board of Trustees October 3, 2015
Revised by the Board of Trustees: February 6, 2016
Revised by the Board of Trustees:

Appendix C

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 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.

VI. FINANCIAL & INVESTMENT OBJECTIVES

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

The primary long-term investment objective of the Fund is to attain a real total return[1] (net of investment management fees) that exceeds the amount being distributed for spending and administration, currently set at 4.75%. This will be measured over the long term, capturing a full market cycle, as it is unlikely that the Fund's return will meet or exceed the spending rate in each individual year. Other important investment objectives are to achieve annualized returns in excess of the strategic policy portfolio blended benchmark (defined herein), measured over a full market cycle; and to outperform the median return of a pool of endowment funds 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.

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[1] Real total return is the sum of realized and unrealized capital appreciation (or loss) and current income in the form of dividends and interest, adjusted for inflation as measured by the Consumer Price Index.

IX. PERFORMANCE EVALUATION, BENCHMARKS, and ASSET CLASS CHARACTERISTICS

The performance objectives for the total Fund, each asset class and each manager are outlined below, with the purpose of establishing specific parameters for regular and ongoing review. While performance is measured over both short- and long-term periods, the focus and emphasis of performance evaluation is on longer time periods as represented by a full market cycle.

Overall Fund

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

Undiversified Benchmark – this simple market benchmark helps the ISC evaluate the value added from a sophisticated investment program versus a portfolio that could be easily replicated through investment in 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

[2] Indices used in Target Benchmark are effective as of ~~March 25, 2015~~ December 19, 2016.

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)~~Private Real Assets	~~CPI-U + 5%~~2/3 NCREIF Property Index and 1/3 C|A Private Natural Resources	Investments will be in private oil and gas transactions, private real estate funds, and in timberland, possibly including related logging operations.
~~TIPS, Commodities, and Natural Resource Equities~~Public Real Assets	Blended Benchmark of Public Real Asset Manager Specific Benchmarks, one-half each:~~;~~ ~~DJ UBS~~ Bloomberg Commodit~~ies~~y Index; S&P North American 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~~ Bloomberg Barclays 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: February 6, 2016
Approved as revised by the Board of Trustees:

APPENDIX A

ASSET ALLOCATION POLICY TARGETS

Revised, as of February 2016

Asset Class	Target (%)	Allowable Range (%)
Equity Fund		
U.S. Equity	*19.0*	15-30
Global ex U.S. Equity	*24.00*	15-45
International Developed Equity	*11.0*	10-25
Emerging Markets Equity	*13.0*	5-20
Marketable Alternatives	*21.0*	15-25
Real Assets (Inflation Hedging)	*13.0*	10-25
Private Equity / Venture Capital	*13.0*	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 17, 2016