

**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 and State Agricultural College was held on Friday, October 26, 2018 at 2:00 p.m. in the Sugar Maple Ballroom, room 400 at the Dudley H. Davis Center.

MEMBERS PRESENT: Chair Don McCree, Vice Chair Robert Brennan, President Thomas Sullivan, David Aronoff, John Bartholomew, Bernard Juskiewicz, Ron Lumbra, Caitlin McHugh, Ed Pagano, and Tristan Toleno

OTHER MEMBERS PRESENT: Board Chair David Daigle*

REPRESENTATIVES PRESENT: Faculty Representative Andrew Barnaby, Foundation Representative Richard Ader**, Staff Representative Joshua Tyack, Graduate Student Representatives Joey Campbell and Michelle DiPinto, Student Representatives Clark Deng and Larry McCarthy**

PERSONS ALSO PARTICIPATING: Vice President for Finance and Treasurer Richard Cate, University Budget Director Alberto Citarella, Controller Claire Burlingham, UVM Foundation Vice President and CFO Charles Feeney, and Director of Capital Planning and Management Robert Vaughan

ABSENT: Johannah Donovan, Alumni Representative Myron Sopher, and Staff Representative Renee Berteau

*arrived at the meeting at 3:05

**participated via conference phone

Chair Don McCree called the meeting to order at 2:07 p.m. He opened the meeting by welcoming the new Student Representative, Larry McCarthy.

He then drew the Committee member's attention to the materials distributed prior to the start of the meeting, which included a revised meeting agenda, revised consent agenda, an On-Campus Multipurpose Center Project preview, a Multipurpose Center Project funding chart, and additional materials from Cambridge and Associates.

Approval of Minutes

A motion was made, seconded, voted to approve the minutes of the May 18, 2018 meeting.

Summer Session Tuition

Budget Director Alberto Citarella introduced a resolution approving summer session tuition rates. He explained that the administration was asking for a continuation of the summer pricing

structure that has been implemented for the past two summers: a 30% discount to the previous spring's tuition rate. Since Summer Session 2015, this practice and the increased emphasis from the Colleges and Schools on summer enrollment increased summer revenue by roughly \$3.6 million.

The recommendation for Summer Session 2019 is to set tuition at \$465 per credit hour for in-state students and \$1,171 per credit hour for out-of-state students.

Total Cost of Attendance for Global Gateway and Pre-Master's Programs (Summer/Fall 2019 and Spring 2020)

Director Citarella introduced a resolution setting the proposed total cost of attendance for the Global Gateway (GGP), a matriculation preparatory program for international undergraduate students, and the Pre-Master's Program (PMP), for graduate-level students.

He indicated that for most of the components of these students' charges, the University charges them the out-of-state rates that have been approved by the Board. However, he noted that there were two unique components of their pricing model that made them distinct from other out-of-state students.

The first component is the summer tuition rate. For the 2019 Summer Semester, the tuition component of the total cost-of-attendance fee will be set at the same tuition rate as the prior Spring semester, as opposed to the 30% discount rate for Summer Session Tuition of non-GGP/PMP students.

The second unique component was for those Global Gateway students whose program includes a semester of non-credit English as Second Language (ESL) coursework, the tuition component of their total cost-of-attendance fee for that semester will be set at \$7,500 per semester for Fall 2019 and Spring 2020.

Room and Meal Plan Rates for FY 2020

Director Citarella introduced the proposal for increases to the predominant room and meal plan rates for FY 2020 as indicated below:

- The predominant residence hall traditional double room is proposed at a 3.75% increase over the current year's rate based on new program additions/changes, facility renovations, and debt payment responsibilities.
- The predominant meal plan is proposed at a 3.5% increase over the current year's rate based on our contract with Sodexo.

In addition to operating increases, facility renovations, and debt payments, this year's room rate increase also reflects the University's goal to increase first year retention. Residential Life has committed to the creation of residentially-based Learning Communities. The Fall 2015 first-year cohort who lived in a Learning Community with a required course had a retention rate of 90.2%.

Director Citarella then directed Committee members to the Comparator Charts shown as attachment 3 of the Board meeting materials. He explained that with the 3.75% room increase, the University's comparative position with its public and private comparators will be essentially unchanged.

Expanding the Student Credit Hour (SCH) Cap

Director Citarella opened the conversation by explaining that currently, full-time students pay a flat dollar amount per semester (\$20,088 for out-of-state students and \$7,968 for in-state students) and are allowed to take up to 18 SCH's. Students pay for any additional SCH's over 18 on a per-SCH basis. The recommendation is to increase this cap to 19 SCH's. The administration believes that such a move would support high achieving students, increase student satisfaction, reduce financial burden, and may support both retention and 4-year graduation rates. The financial impact to the University of such a move is estimated to be anywhere from \$185,000 to \$345,000.

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

Resolution Approving Summer Session Tuition

RESOLVED, that the Board of Trustees hereby approves the tuition rate for Summer Session of \$465 per credit hour for in-state students and \$1,171 per credit hour for out-of-state students except that, with prior approval from the Provost, Graduate programs may maintain summer tuition rates for in-state and out-of-state students equal to the prior Fall and Spring tuition rates for their program. The changes will become effective for the 2019 Summer Session.

Resolution Approving Total Cost of Attendance Fees for Global Gateway and Pre-Master's Programs

WHEREAS, the University, after a request-for-proposal process, entered into an agreement with Study Group to provide services to UVM in support of the University's Global Gateway Program; and

WHEREAS, in January 2016, the Board approved amendments to the agreement with Study Group, which included additions to the Study Group Agreement to create a Pre-Master's Global Gateway Program;

THEREFORE, BE IT RESOLVED, that for the 2019 Summer Semester, the tuition component of the total cost-of-attendance fee charged to Global Gateway Program students and Pre-Master's Program student will be set at the same tuition rate as the prior Spring semester; and

BE IT FURTHER RESOLVED, that for those Global Gateway students whose program includes a semester of non-credit coursework, that the tuition component of their total

cost-of-attendance fee for that semester shall be set at \$7,500 per semester for Fall 2019 and Spring 2020.

Resolution Approving Room and Meal Plan Rates, Fiscal Year 2020

RESOLVED, that the Board of Trustees hereby approves room and meal plan rates for Fiscal Year 2020 as follows:

<u>Per Year</u>	
Private Single with Bath	\$10,624
Private Double with Bath	\$9,438
Private Triple with Bath	\$7,824
Suite Single with Shared Bath	\$10,194
Suite Double with Shared Bath	\$8,902
Suite Triple with Bath	\$7,442
Traditional Single	\$9,800
Traditional Double	\$8,502
Traditional Triple	\$6,732
Traditional Quad	\$5,700
Retail Dining	\$4,414
Residential Unlimited Access (+100 Points per Semester)	\$4,414
Residential Unlimited Access (+350 Points per Semester)	\$4,932

Resolution Expanding the Student Credit Hour Cap

WHEREAS, currently the standard full-time tuition rates for in-state and out-of-state students (\$7,968 per semester and \$20,088 per semester respectively in Fiscal Year 2019) enables students to take up to 18 student credit hours (SCH) a semester;

WHEREAS, currently students must pay on a per-SCH basis for student credit hours in excess of eighteen in a given semester;

BE IT RESOLVED, that starting in FY 2020, the standard full-time per-semester tuition rate for in-state and out-of-state students will enable students to take up to 19 SCH's per semester before paying for additional SCH's.

A motion was made, seconded, and Trustees voted unanimously to approve the four resolutions as presented.

Report of the Investment Subcommittee (ISC)

ISC Chair Brennan started the discussion by briefing new members on two policies up for annual review. The Endowment Budget Policy sets the percentage of the endowment to be available for spending. The ISC has reviewed this policy and recommends it be reaffirmed with no changes. The ISC has reviewed the Statement of Investment Policy & Objectives and recommends it be revised as presented to the Committee in Appendix A of the meeting materials.

ISC Chair Robert Brennan then reviewed the supplemental materials provided by Cambridge Associates, as well as the additional materials from Cambridge Associates handed out at the beginning of the meeting. As of September 30, 2018, the portfolio is slightly underperforming its benchmark for a one- to five-year period.

He noted that the endowment, as of October 19, 2018, was \$521 million.

ISC Chair Brennan presented the following resolutions for Committee approval and recommendation to the full Board:

Resolution Reaffirming the Endowment Budget Policy

RESOLVED, that the *Endowment Budget Policy* is reaffirmed as reads below:

BE IT RESOLVED, that the annual budget for spending from Endowment be set at 4.5 percent of the average market value for the previous thirteen quarters ending December 31 of the prior calendar year; and

BE IT FINALLY RESOLVED, that the Investment Subcommittee will review and make a recommendation to the Budget, Finance and Investment Committee regarding the reaffirmation or revision of the *Endowment Budget Policy* each year no later than December 31.

Adopted by: Board of Trustees - May 13, 1995

*Reaffirmed: Board of Trustees - September 8, 2007
Board of Trustees - September 5, 2008
Board of Trustees - October 24, 2009
Board of Trustees - October 30, 2010
Board of Trustees - October 22, 2011
Board of Trustees - November 8, 2012
Board of Trustees - October 26, 2013
Board of Trustees - October 18, 2014
Board of Trustees - October 3, 2015
Board of Trustees - October 22, 2016
Board of Trustees – October 21, 2017
Board of Trustees –*

Resolution Approving Revisions to the Statement of Investment Policy & 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 at its September 26, 2018 meeting reviewed revisions to the Statement of Investment Policies and Objectives;

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 A to this document.

A motion was made, seconded, and Trustees voted unanimously to approve both resolutions as presented.

Vice President's Report

- **External Audit Update**

University Controller Claire Burlingham explained that KPMG is completing their field work regarding the financial statement audit. To date, it appears that it will be a “clean” audit with no material weaknesses or significant deficiencies.

- **Dual Enrollment Update**

The Administration is required to report annually on the number of high school students that were enrolled in UVM classes this past year. In FY 2018, 371 high school students took classes at UVM through the Dual Enrollment Voucher program, mostly during Summer 2018. This compares to 450 and 405 Dual Enrollment students in FY 2017 and FY 2016 respectively. In FY 2018, there were another 51 high school students who took classes at UVM outside of the Dual Enrollment Voucher program. This compares to 116 and 83 high school students in FY 2017 and FY 2016 respectively.

- **President's Strategic Initiatives Fund**

Controller Burlingham reminded Committee members that when the President's Strategic Initiatives Fund was created by the Board, the administration was asked to report annually on the fund. This fund's sources originate from one-time events such as the sale of property and the President makes decisions on how to strategically spend it. As of July 1, 2018 the balance is \$833,261; essentially all of this year-end balance has been obligated at this point.

- **Budget to Actuals**

University Budget Director Citarella reported on the end-of-year results of the FY 2018 budget, which show greater revenue (\$7.2 million) and lower expenses (\$19.1 million) than budget. In addition to these revenue and expense variances, there was \$20.6 million of reappropriation transfers and year-end adjustments. Of this total, \$18.6 million will be reappropriated for multi-year use by academic and administrative units against strategic priorities to be reviewed and authorized annually by the Provost in future years. \$2.0 million will be reappropriated for deferred maintenance capital projects, primarily for emergency steam line repairs. The net (\$5.7 million) will become part of the University's unrestricted net assets.

Director Citarella explained the primary driver resulting net undergraduate tuition revenue being over budget was the fact that financial aid expense was \$8.6 million above budget.

Director Citarella also explained that Athletics and the Rubenstein School of Environment and Natural Resources overspent their budgets. Athletics is on a multi-year plan to get them onto budget. The Rubenstein School's expenditure overage of \$117,000 was planned and offset by revenue being better than budget. Overall, when including revenues, the School ended the year with a positive fund balance.

Strategic Financial Plan Update

Vice President Cate reminded Committee members that at the May 2017 Committee meeting, consultants from Kaufman Hall discussed the financial details of the planning model developed to assess the University's likely financial condition given numerous operating assumptions and strategic assumptions.

Vice President Cate explained that as the Board makes decisions regarding investments, this model enables his team to put all the data in a central place and project outcomes of said potential investments.

He then walked Committee members through his Multi-year Strategic Financial Planning presentation slides.

He explained the three financial ratios are used to judge the University's financial standing: operating margin, operating cash flow margin, and debt service to operations.

Vice President Cate stated that the ratio analyses indicate the following regarding the base case scenario:

- The base case would not be enough and would result in a negative operating margin within five years.
- Any salary increase over 2.0% would result in a decline in Operating Margin and Operating Cash Flow.
- Without continuous growth in student credit hours and improved retention, operating margins will decline further.

Vice President Cate then presented a potential long-term strategy option, which included:

- Growing residential undergraduate enrollment incrementally for each of the next five years.
- Maintaining salary increases at sustainable levels.
- Continuing to seek out ways to contain and avoid costs in administrative and academic units.
- Increasing student credit hours taught at least 3.0% per year.
- Continuing to keep tuition affordable and competitive, as well as adequate to maintain a balanced budget.
- Using the next five years to implement strategies that result in continuous revenue growth, while meeting the goals of affordability and enhanced educational quality.

Fundraising Update on Capital Projects

UVM Foundation Vice President and CFO Charles Feeney updated the Committee on fundraising progress on capital projects, including the Science, Technology, Engineering and Mathematics (STEM) Complex and Ifshin Hall. He began his presentation by explaining the different categories into which funding from the Capital Campaign are allocated.

Vice President Feeney explained that the STEM Complex will be funded by a mix of private gifts and non-debt funding. As of October 19, 2018, the Foundation had secured \$11.6 million in non-debt funding. The remaining non-debt goal is \$14.4 million. The Foundation leadership remains confident that a high percent of the non-debt goal will be achieved through donor funding.

In regard to Ifshin Hall, as of October 19, 2018, \$9.5 million of the \$11 million non-debt goal and total project cost has been raised in non-debt funding. The Foundation remains confident that a high percent of the non-debt goal will be achieved through donor funding.

Capital Projects

Director of Capital Planning and Management Robert Vaughan was invited to present two capital project requests. He began by describing the Residential Life FY 2019 Deferred Maintenance Project (McAuley Hall). This project was approved by the Board last fall and the administration is requesting an increase in funding to cover additional work including the roof, replacement of the heating system piping, and completion of hazardous material abatement.

It is estimated that the expanded scope for the McAuley Hall renovation will increase the cost from \$3.0 to \$6.1 million. The proposal calls for the use of unrestricted plant funds from residential life.

Director Vaughan next described the Larner College of Medicine and College of Arts & Sciences Psychological Sciences Medical Research Complex project. Last fall, the Board was introduced to the concept of a proposed complex, a collaboration between the Larner College of Medicine and the College of Arts & Sciences Department of Psychological Sciences, to support the University's research mission and eliminate deferred maintenance on the Given Medical Building and John Dewey Hall. The estimated cost to complete the project design, including construction drawings, is \$6.0 million, which will be funded from the Larner College of Medicine's reserves.

Chair McCree presented the following resolutions for Committee approval and recommendation to the full Board:

Resolution Approving Expanded Residential Life Fiscal Year 2019 Deferred Maintenance Project (McAuley Hall)

WHEREAS, on October 20, 2017, the Board of Trustees authorized the expenditure of \$3,000,000 of residential life funds toward the McAuley Hall Deferred Maintenance Project; and

WHEREAS, the administration today reported on the increased estimated cost for the McAuley Hall Expanded Deferred Maintenance Project and presented a funding plan;

THEREFORE BE IT RESOLVED, that the Committee hereby recommends to the Board that it increase the authorization of project expenditures to \$6,100,000, to be expended in a manner consistent with the report made on this date; and

BE IT FURTHER RESOLVED, that the \$6,100,000 of funds for such expenditures be drawn from the unrestricted plant funds from Residential Life.

Resolution Authorizing Expenditures for Completion of Design Development, Construction Documents and Estimate of Project Cost for the Larner College of Medicine and College of Arts & Sciences Psychological Sciences Medical Research Complex

WHEREAS, the administration today reported on the schematic design update and generation of a Project cost estimate and funding plan for the Larner College of Medicine and the College of Arts & Sciences Department of Psychological Sciences Project; and

WHEREAS, the administration provided an estimate of the cost of completion of the Project design;

THEREFORE, BE IT RESOLVED, that the Committee hereby recommends to the Board that it authorize the administration to undertake the expenditures necessary to complete the project design, including construction drawings, at a cost consistent with its report of this date; and

BE IT FURTHER RESOLVED, that the \$6 million in funds for such expenditures be drawn from the Larner College of Medicine.

The motion was made, seconded, and Trustees voted unanimously to approve the two resolutions as presented.

On-Campus Multipurpose Center Project Expenditures

Vice President Cate walked Committee members through Multipurpose Center Financial Information presentation slides.

He then described the potential funding sources for the project, as described in the resolution handed out at the meeting:

- \$60.0 million of long-term debt
- \$15.0 million of additional debt to bridge gifts due after project completion
- \$3.0 million documented commitments due by project completion
- \$3.8 million cash gift receipts in hand
- \$5.0 million University deferred maintenance funds
- \$8.2 remaining need for commitments that would convert to cash by project completion

He then walked Committee members through a proposed cash flow and borrowing plan, as described below:

- Incremental short-term borrowing between January 2019 to June 2019
- In July 2019, issue long-term debt, repay short-term debt, and fund construction through December 2019
- Incremental short-term borrowing between January 2020 to June 2020
- In July 2020, issue long-term debt and repay short-term debt; expend accrued general fund deferred maintenance funds; UVM Foundation issues promissory note to University backed by documented pledges
- Incremental short-term borrowing between July 2020 and March 2021
- From July 2020 to March 2021, use receipts from documented pledges to repay short-term borrowing and discharge note

Vice President Cate explained that the debt service would be funded by a recreation fee. There is an estimated additional cost for facilities and renewal reserve contributions of \$750,000 per year and an estimated additional operating cost of \$700,000 per year.

President Sullivan noted that fundraising efforts for the On-Campus Multipurpose Center will continue until the completion of the project and he remains confident that the donor pipeline is robust.

Board Chair David Daigle explained that the authorization of the project's expenditures in excess of the previously authorized \$5,250,000 is subject to receipt and approval by the University by February 1, 2019 of signed commitments from donors that total at least \$30,000,000 in gifts directed exclusively for athletics or the project and that at least \$15,000,000 of the \$30,000,000 in gifts for the project must be through signed commitments scheduled to be received as cash no later than December 31, 2021.

Chair McCree presented the following resolution for Committee approval and recommendation to the full Board:

Resolution Authorizing On-Campus Multipurpose Center Project Expenditures

WHEREAS, on February 4, 2017, the Board of Trustees authorized the administration to expend \$750,000 to take steps relating to an on-campus Multipurpose Center ("Project"), including initiation of the schematic design phase and generation of a Project cost estimate and funding plan; and

WHEREAS, on October 20, 2017, the Board authorized the expenditure of \$1,000,000 of private gift funds for the first phase of design development for the Project; and

WHEREAS, on February 3, 2018, the Board authorized the expenditure of \$1,500,000 of private gift funds to fund the next phase of design development and permitting for the Project;

WHEREAS, on May 18, 2018, the Board authorized the expenditure of \$2,000,000 of private gift funds to fund the last phase of design development and permitting for the Project;

THEREFORE, BE IT RESOLVED, that the Budget, Finance & Investment Committee hereby recommends to the Board that it authorize total Project expenditures of up to \$95,000,000 (inclusive of the \$5,250,000 previously authorized), with the funds to be expended in a manner consistent with the report made on this date;

BE IT FURTHER RESOLVED, that the authorization of Project expenditures in excess of the previously authorized \$5,250,000 is subject to receipt and approval by the University by February 1, 2019 of signed commitments from donors that total at least \$30,000,000 in gifts directed exclusively for athletics or the Project;

BE IT FURTHER RESOLVED, that at least \$15,000,000 of the \$30,000,000 in gifts for the Project must through signed commitments be scheduled to be received as cash no later than December 31, 2021;

BE IT FURTHER RESOLVED, that any bequests that are to be counted toward the \$30,000,000 in gifts required to be raised for the Project, must be irrevocable commitments that have been verified in writing;

BE IT FURTHER RESOLVED, that all donor receipts for the Project are required to be used to fund Project expenditures or repay University debt; and

BE IT FURTHER RESOLVED, that the up to \$95,000,000 of funds for Project expenditures referenced above be drawn from a combination of gifts, general funds, and up to \$75,000,000 of University debt.

The motion was made, seconded, and Trustees voted unanimously to approve the resolution as presented.

Adjournment

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

Respectfully submitted,
Don McCree, Chair

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

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

II. FIDUCIARY STANDARDS

The Board, the ISC, the Treasurer and finance staff, and any third-parties (e.g., investment managers) retained to advise the Board, the ISC, the Treasurer and/or finance staff as to investment strategy and management (any and all of whom may be referred to as “Responsible Parties”) shall exercise their responsibilities with respect to the Fund’s assets in compliance with the requirements of the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), enacted in the state of Vermont in 2009. In accordance with UPMIFA, key facets of the Responsible Parties’ roles include:

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

III. RESPONSIBILITIES of INVESTMENT SUBCOMMITTEE

Responsibilities and goals of the ISC include:

- Ensuring that current and future spending requirements are supported while also preserving the real purchasing power of the Fund;
- Achieving an optimum level of return within appropriate risk tolerances;
- Developing a sound and consistent investment policy including asset allocation, diversification and rebalancing guidelines;
- Selecting and maintaining qualified investment managers and advisors;
- Monitoring and evaluating results to ensure that policy guidelines are being adhered to and that policy objectives are being met; and
- Taking action under appropriate circumstances to discharge an investment manager or advisor for failing to perform in terms of stated expectations.

The ISC is authorized to delegate certain responsibilities to staff to assist in properly meeting the overall responsibilities as outlined above.

IV. CONFLICT OF INTEREST POLICY

In addition to the responsibilities set forth in the Board of Trustees' Conflicts of Interest policy, it is the responsibility of the ISC members to disclose to the ISC Chair any situation in which there may be reasonably construed to be a perceived or actual conflict of interest. The ISC Chair will work with the members to determine an appropriate response.

The ISC will generally not consider investments in funds directly managed by a member of the ISC. In addition, a member of the ISC employed by an investment or other firm that provides services to the Fund will recuse him/herself from all discussions and votes on existing or potential investments or other services managed or provided by that firm. The ISC recognizes, however, that certain exceptions to this policy may be appropriate. Such exceptions will be made only upon a majority vote of the disinterested members of the ISC.

In the event that the ISC is considering an investment in an access-constrained investment opportunity, any ISC member wishing to invest for his/her own benefit in such an opportunity shall notify the ISC Chair in writing.

V. MORAL, SOCIAL AND ETHICAL CONSIDERATIONS IN INVESTMENT STRATEGY

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

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

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

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

The primary objective of achieving the Financial and Investment Objectives of the Fund does not preclude consideration of moral, ethical and social criteria in selecting investments or participating in shareholder resolutions that address moral, ethical or social issues. However, the core responsibility of the Board is to steward University assets in a manner consistent with prudent fiduciary practices.

VI. FINANCIAL & INVESTMENT OBJECTIVES

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

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

VII. ASSET ALLOCATION

The policy portfolio for the Fund is a target or "normal" set of investments, based on long-term return, risk and correlation assumptions that balance the organization's need for liquidity, preservation of purchasing power, and risk tolerance. 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 advisors, shall periodically examine the policy portfolio targets and consider adjustments to the asset allocation as may be appropriate (for example, due to a material change in the capital market assumptions). Changes to the policy portfolio targets will be reviewed and 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.

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 of similar size and with similar characteristics.

Asset Classes & Managers

Each manager will be expected to outperform (net of fees) a benchmark that is appropriate based on the asset class and style of the manager, over a full market cycle. Performance results will be reviewed with the ISC at its regular meetings and in an interim period when there is a major event (personnel change, for example) at the firm. The manager will be evaluated on long-term performance so that shorter-term failure to meet the benchmark target returns is not an automatic basis for manager termination.

Due to the broad nature of the asset classes and the unique style of managers, it is important to note that the specific benchmark of the individual manager may not necessarily be the same as the benchmark for the particular asset class composite as defined below. For example, the Total U.S. Equity benchmark is the S&P 500 but small cap managers, for example, will be compared to the appropriate small cap benchmarks.

+Asset Class	Market Index Used in Target Benchmark ²	Underlying Investments
U.S. Equities	S&P 500, which represents a relatively broad investable universe of U.S. stocks	Portfolios are expected to focus on investments in the U.S. equity market.
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.
Private Real Assets	2/3 NCREIF Property Index and 1/3 C A Private Natural Resources	Investments may be in private oil and gas transactions, private real estate funds, and in timberland, possibly including related logging operations.
Public Real Assets Real Assets	Blended Benchmark of Public Real Asset Manager Specific Benchmarks, one half each: Bloomberg Commodity Index; S&P North American Natural Resources Sector Index <u>Dynamic benchmark that reflects each underlying investment's individual benchmark and their respective weight within the Real Assets allocation. (The Dynamic benchmark will evolve as asset types are added or removed from the portfolio and as the allocation between public and private investments changes over time.)</u>	Holdings may consist of U.S. issued TIPS, diversified commodities futures positions, and energy related equity securities <u>Holdings may consist of both public and private investments which may include energy related equity securities, MLPs, diversified commodities, US issued TIPS, private oil, private gas, and private real estate funds.</u>
Fixed Income	Bloomberg Barclays Aggregate Bond Index	Holdings may consist of U.S. Treasury bonds, mortgages, and corporate credit investments.

² Indices used in Target Benchmark are effective as of December 19, 2016.

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 market value, and purchases and sales for the quarter. Traditional marketable managers with whom UVM is invested through a separate account may be required to reconcile records of holdings, transactions, and dividend/interest income with the Fund's custodian on a periodic basis. Specialty managers (who manage hedge funds and non-marketable partnerships) will report on portfolio details with as much transparency as possible. Each of these managers will provide annually their most recent audited financial statements, which include the basis of accounting and the auditor's opinion. In addition, each specialty manager will disclose its respective valuation policies and procedures on an annual basis.

Regular communication from all managers concerning investment strategy and outlook is expected. The ISC will regularly review a Watch List that is maintained to highlight managers' relative performance when it is outside the normal range or expected returns, new organizational issues, and/or any significant changes in strategy that raise concerns. Additionally, managers are required to inform the University of Vermont of any significant change in firm ownership, organizational structure, professional personnel, or fundamental investment philosophy. Managers will also send a copy of their form ADV to the University at least annually.

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: February 3, 2017

Approved as revised by the Board of Trustees: May 19, 2018

Approved as revised by the Board of Trustees:

APPENDIX A

ASSET ALLOCATION POLICY TARGETS

Revised, as of February 2018

Asset Class	Target (%)	Allowable Range (%)
Equity Fund		
U.S. Equity	<i>20.0</i>	15-30
Global ex U.S. Equity	<i>23.00</i>	15-45
• <i>International Developed Equity</i>	<i>(13.0)</i>	(10-25)
• <i>Emerging Markets Equity</i>	<i>(10.0)</i>	(5-20)
Marketable Alternatives	<i>19.0</i>	15-25
Real Assets (Inflation Hedging)	<i>13.0</i>	10-25
Private Equity / Venture Capital	<i>13.0</i>	5-20
Subtotal Equity	<i>88.0</i>	
Fixed Income Fund		
Fixed Income	<i>12.0</i>	5-25
Cash & Cash Equivalents	<i>0.0</i>	0-5
Subtotal Fixed Income/Cash	<i>12.0</i>	

Appendix A Targets last revised by Investment Subcommittee: February 14, 2018