

**INVESTMENT SUBCOMMITTEE  
BOARD OF TRUSTEES  
UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE**

A meeting of the Investment Subcommittee (ISC) of the Board of Trustees of the University of Vermont State and Agricultural College was held on Wednesday, December 15, 2021 at 3:00 p.m., in room 351 Waterman Building via remote conferencing.

MEMBERS PRESENT: Chair Robert Brennan, Vice Chair Don McCree, and David Aronoff

MEMBERS/ADVISORS ABSENT: Briar Alpert and ISC Advisor Steven Grossman

OTHER TRUSTEES PRESENT: Board Chair Ron Lumbra

PERSONS ALSO PARTICIPATING: Advisor Whit Wagner; Vice President for Finance & Administration Richard Cate; Controller Claire Burlingham; Associate Controller Lindsey Donovan; Senior Staff Accountant Patty Dubie; Endowment Accountant Marie Tiemann; Vice President for Legal Affairs & General Counsel, and Senior Advisor to the President Sharon Reich Paulsen; Trustee Coordinator Corinne Thompson and Richard Morrison, Kate Dumas and Zac Smith of Prime Buchholz (PB)

Chair Robert Brennan called the meeting to order at 3:03 p.m.

**Meeting minutes**

Chair Brennan presented the minutes of the November 17, 2021 meeting for approval. A motion was made, seconded and it was voted to approve the minutes as presented.

**Recent market returns and total portfolio performance overview**

Richard Morrison, of Prime Buchholz (PB), led a discussion surrounding the current market trends through November 2021. He noted the continuing concern of the inflation in the overall economy and explained the 6% rise is the highest since the late 1980's and is expected to continue through the middle of 2022. Mr. Morrison further noted the recent decision by the Federal Reserve to curtail bond purchasing and begin to raise the interest rate in 2022 with the expectancy of slowing down the inflation rate. He next commented on the Global Equity market returns and noted the strong returns of the U.S. equities contributed by the energy and IT sectors. He also remarked on the emerging market sector with the Russian market leading with 21.8% returns while the Chinese and Brazilian markets were -19.2% and -20.8% respectively.

Mr. Morrison next reviewed the performance of the long-term investment pool as of October 31, 2021. The long-term investment portfolio returns were 2.5% for the month of October and 15.6% for the calendar year-to-date, which is 480 basis points above the policy index. Mr. Morrison further noted that the estimated month-to-date December returns have increased by 40 basis points with the expectation that the calendar year returns will likely be 14%. The estimated long-term pool portfolio value-to-date is \$796 million. The members commented on how the portfolio has significantly outpaced the CPI (consumer price index) during the recent inflationary

period and has continually out-performed the CPI by more than the spending/administrative draw rate on a long term basis.

### **Executive session**

At 3:25 p.m., Chair Brennan entertained a motion to enter executive session for the purposes of discussing contracts, premature general public knowledge of which would clearly place the University at a substantial disadvantage, and records exempt from disclosure under provisions of the Public Records Act. He stated that the session would last approximately 50 minutes with action anticipated following. The following persons were invited to remain: Board Chair Ron Lumbra; Vice President for Finance & Administration Richard Cate; Associate Controller Lindsey Donovan; Senior Staff Accountant Patty Dubie; Endowment Accountant Marie Tiemann; Vice President for Legal Affairs & General Counsel, and Senior Advisor to the President Sharon Reich Paulsen; Trustee Coordinator Corinne Thompson and Richard Morrison, Kate Dumas and Zac Smith of Prime Buchholz (PB)

The meeting was re-opened to the public at 4:27 p.m.

### **Resolution approving revisions to the Statement of Investment Policies and Objectives**

Chair Brennan directed the members to Attachment 2, Appendix A for the annual review of the Statement of Investment Policy and Objectives noting the proposed revisions are substantially housekeeping updates, removal of duplicative language and addition of relevant language. He requested a correction to the CPI + Spending/Administration rate on page 4 to reflect the current rate of 5.50%. The following resolution was presented for approval:

#### **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 and discussed proposed revisions to the Statement of Investment Policies and Objectives, and agrees the proposed revisions are appropriate;

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 A to this document.

Chair Brennan offered an opportunity for discussion. There being none, a motion to approve the resolution and the revised Statement of Investment Policies and Objectives, as appended to these

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minutes, was made, seconded and unanimously approved for referral to the Budget, Finance and Investment Committee at the February 4, 2022 Board meeting.

### **Portfolio Rebalancing**

Chair Brennan the following motions:

- Redeem the exposure to the Arrowstreet Capital Global All Country Alpha Extension Fund with the proceeds to be invested in the Lindsell Train Global Equity Fund.
- Move the RhumbLine S&P 100 index fund to the RhumbLine S&P 500 index fund, ensuring that all negative screening is in place.

### **Adjournment**

There being no further business, the meeting adjourned at 4:33 p.m.

Respectfully submitted,

Chair Robert Brennan

## 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.

Restrictions on the portfolio made via Board of Trustee resolutions, such as the Resolution on Socially Responsible Investing, may be found on the University of Vermont website (<https://www.uvm.edu/trustees/resolutions>).

## **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<sup>1</sup> (net of investment management fees) that exceeds the amount being distributed for spending and administration, currently set at 5.504.75%. 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. 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

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<sup>1</sup> 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.

market assumptions). Changes to the policy portfolio targets will be reviewed and approved by the ISC and presented to the Budget, Finance and Investment Committee and the Board, as necessary.

In addition to being diversified across asset classes, the Fund will be diversified within each asset class. This will provide reasonable assurance that the performance of any single security, issuer or class of securities, or active manager will not have a disproportionate impact on the total Fund performance.

The most current asset allocation / strategic policy portfolio for the Fund is attached as **Appendix A**.

## VIII. REBALANCING

The Fund's actual asset allocation will be monitored monthly and reviewed by the ISC at its regular meetings relative to established policy portfolio targets and allowable ranges. Adjustments may be constrained by practical limits with respect to liquidity and transaction costs, but rebalancing efforts will be made as practicable. Cash flow in or out of the Fund may create an opportunity to shift the allocation closer toward policy targets. The ISC may at times authorize investments in new or developing asset classes that are not part of the strategic policy portfolio at the time of their adoption, with the intention of revising the policy portfolio shortly thereafter.

## IX. PERFORMANCE EVALUATION, BENCHMARKS, and ASSET CLASS CHARACTERISTICS

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

### Overall Total Fund

There are a number of different benchmarks for assessing performance at the overall Total 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 index funds.~~

**CPI + Spending/Administration (Currently 5.504.75%)** – this benchmark is composed of a combination of both inflation and expected annual distributions. Comparison with the total return of the Fund provides a method to monitor progress in the overall financial objective, preserving and enhancing the real (i.e., inflation-adjusted) purchasing power of the Fund over time.

**Target Benchmark Policy Index** – 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~~Actual Index – 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.

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 index funds.



~~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.~~

NACUBO-TIAA Study of Endowments (NTSE) – a universe of over 700 institutions, a broad peer universe against which the ISC compares the Fund's return. In addition to this specific annual study, the ISC may also compare the Fund's results to other relevant institutional investor comparisons.

**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 Public Global Equity benchmark is MSCI ACWI but US equity managers, for example, will be compared to an appropriate US equity benchmark.

<b>+Asset Class</b>	<b>Market Index Used in <del>Target- Benchmark</del>Policy Index<sup>2</sup></b>	<b>Underlying Investments</b>
Public Global Equity	<u>MSCI AC World Index (Net)</u> <del>MSCI-ACWI</del>	Portfolios are expected to focus on public global, US, international developed, and/or emerging 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	MSCI ACWI, lagged	This asset class includes private investment strategies of all types, including but not limited to buyouts, venture capital, secondaries, distressed, real estate, private energy, and similar strategies. Market values and return information is lagged by one quarter, or more, as the underlying investments are not readily valued at the close of the latest quarter.
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<sup>2</sup>Indices used in [Target Benchmark Policy Index](#) are effective as of **May 18, 2019**.

Fixed Income	Bloomberg Barclays <a href="#">U.S. Aggregate Bond Index</a>	Holdings may consist of U.S. Treasury <del>bonds</del> , <a href="#">U.S. government/agency, asset-backed mortgages</a> , and corporate credit <a href="#">securities investments</a> .
Cash	Self-benchmarked	Cash and cash equivalents

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.

### **A. 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.

## **B. PROXY VOTING GUIDELINES**

University of Vermont's Endowment Accountant votes the shareholder proxies.

## **C. 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: October 27, 2018*

*Approved as revised by the Board of Trustees: May 18, 2019*

*Reaffirmed by the Board of Trustees: May 15, 2020*

*Approved as revised by the Board of Trustees: February 5, 2021*

*Approved as revised by the Board of Trustees: June 4, 2021*

*Approved as revised by the Board of Trustees:*

## ASSET ALLOCATION POLICY TARGETS

*April 2021*

Asset Class	Target (%)	Allowable Range (%)
Public Global Equity	45.0	30-65
Marketable Alternatives	10.0	5-15
Private Investments	35.0	15-45
Fixed Income	8.0	5-25
Cash & Cash Equivalents	2.0	0-5

*Appendix A Targets last revised by Investment Subcommittee: April 21, 2021*