UNIVERSITY OF MAINE SYSTEM
Board of Trustees

Investment Committee

February 25, 2015
UMS, Rudman Board Room

Present: Committee Members: Karl Turner, Chair (USM), Samuel Collins (phone), Mark Gardner (USM), Gregory Johnson (by phone), Marjorie Medd (USM), James Geary (phone), Jack Moore (phone) and James Mullen. **Staff:** Tracy Bigney and Tracy Elliott. **Others:** Michael Pratico (CAPTRUST) at USM, Kelly Regan (NEPC) at USM, Jay Roney (NEPC) at USM, Kamal Suppal (NEPC) at USM.

Absent: Committee Members: Shawn Moody.

Trustee Turner, Chair, called the meeting to order.

FY2016 Endowment Distribution Rate per Share. Tracy Elliott, UMS Controller, provided an overview of the UMS FY2016 endowment spending. Ms. Elliott noted that the campus financial officers affirmed their support for using a 4.5% spending rate to calculate the FY2016 endowment distribution rate per share. This 4.5% is consistent with prior years and other higher education institutions.

A 4.5% endowment spending rate equates to a rate per share of $14.10336. Using this rate, an estimated $5.1 million will be available for endowed spending and $234 thousand allocated for management costs.

On a motion by Trustee Gardner, which was seconded by Trustee Medd, the Investment Committee approved an endowment distribution rate of $14.10336 per share for FY2016.

Defined Contribution Plan Update. Mr. Michael Pratico, Senior Vice President with CAPTRUST Financial Advisors, provided a summary of participant assets that have transferred into the UMS Defined Contribution Plan now administered by TIAA-CREF. As of December 31, 2014 approximately $128 million in assets have transferred in from former approved vendors . The vast majority, $123 million has transferred from ING/VOYA with approximately $4 million coming from Fidelity and $1 million from VALIC. This type of asset transfer is somewhat unprecedented in CAPTRUST's experience and positive for the plan as such transfers should favorably impact future pricing negotiations with TIAA-CREF.

Mr. Pratico further briefed the committee on the recent TIAA-CREF announcement regarding new share classes. On December 1, 2014, TIAA-CREF released details about the launch of a multiple share class structure for its CREF annuity account investment options, which will go into effect April 24, 2015. Mr. Pratico highlighted expected changes to the total cost of the CREF accounts and the amount of "revenue sharing" generated by these accounts to offset recordkeeping and other plan-related costs. There are three new share classes (R1, R2 and R3) and the UMS plan qualifies for the least expensive, R3 class.

Historically, all institutions with TIAA-CREF retirement plans, regardless of asset size, complexity, or other attributes, have been offered the same suite of CREF annuity accounts. While the total cost (expressed as their expense ratios) of these options have varied by account, they have historically generated a consistent amount of revenue sharing: .24% (or 24 basis points). Revenue sharing represents the portion of the expense ratio that is retained by TIAA-CREF and made available to offset recordkeeping and other plan-related costs. The new share class structure will provide a level .10% of revenue sharing which is a subset of the lower overall expense ratio.

An example using the CREF Stock Account follows:

	Expense Ratio	Revenue Sharing Component	Net Cost
Current	.455%	.24%	.215%
New R3 share class	.37%	.10%	.27%
Difference	(.085%)	(.14%)	.055%

As seen above, the current expense ratio is .455% with a revenue sharing component of .24%. Under the new R3 arrangement, the expense ratio will drop to .37% and the revenue sharing component will drop to .10%. Therefore, while the total expense ratio drops .085%, the excess revenue available for plan expenses has also declined and the net cost to the participant actually increases .055%. CAPTRUST will continue to evaluate the change and provide UMS with the actual impact on the total plan given the exposure to other TIAA-CREF investments. While the net cost of the CREF annuity accounts is increasing with this change, Mr. Pratico emphasized that TIAA-CREF expenses have always been, and will continue to be, among the lowest in the industry.

Mr. Pratico proceeded to review the plan investments consistent with the standards and approach defined in the Investment Policy Statement. Emphasis was placed on the following two funds.

The CREF Stock fund is difficult to benchmark given its exposure to multiple equity asset classes. While the fund lags the Morningstar Large Cap Blend Universe, its performance is acceptable given the diversified nature of the portfolio. The fund currently meets the guidelines set forth by CAPTRUST for distinct investments in the Investment Policy Statement. The assessment is based on both quantitative and qualitative factors including quality of management, excess return and risk-adjusted performance.

The TIAA Real Estate account is similar in its benchmarking challenges given its direct investment in real estate holdings unlike a typical Real Estate Investment Trust (REIT) fund.

Asset Allocation Study and Recommendations. Kelly Regan and Jay Roney, with NEPC, provided an overview of NEPC's 2015 capital market observations and investment opportunities. While no recommendations were being made for the Managed Investment Pool and Defined Benefit Pension Plan, NEPC made the following recommendation for the Operating Fund.

NEPC recommended that the Investment Committee consider adopting "Mix A", as further described in the meeting materials, to diversify the Income Pool's Fixed Income exposure. "Mix A" reduces the Operating Fund's allocation to Bank Loans and Floating Income (PIMCO) and introduces Unconstrained Bonds which includes floating income and bank loan exposure in a more tactical, unconstrained approach. NEPC will work with staff to review investment managers and bring two managers to the next Investment Committee meeting for review. "Mix A" maintains the same expected return and risk profile as the current policy target and enhances manager and strategy diversification.

On a motion by Trustee Medd, which was seconded by Trustee Gardner, the Investment Committee approved asset allocation option “Mix A” for the Operating Fund.

NEPC Overview of Hedge Funds. Kamal Suppal, with NEPC, provided an overview of the Hedge Fund of Fund industry, including: recent performance, fees and transparency, current market conditions and a review of the UMS current Hedge Fund of Fund portfolio.

Plan Performance Reviews Provided by NEPC. Jay Roney and Kelly Regan of NEPC provided a performance review of the three funds with the following highlights.

Managed Investment Pool
Plan assets were $265.3 million as of December 31, 2014. Returns were -.3% during the 4th quarter, -2.6% fiscal year to date and 2.9% over the 1 year period. Long term returns have been favorable, outperforming the policy and allocation index on a 3, 5, and 10 year basis. The Plan ranked in the 84th percentile during the quarter and 79th percentile for a 1 year period.

NEPC reviewed several managers, continuing to recommend that UMS remain in the PIMCO All Asset Fund while still recommending a hold status for Aberdeen’s Global Emerging Market and Emerging Market Small Cap strategies.

Defined Benefit Pension Plan
Plan assets were $37.2 million as of December 31, 2014 with no returns for the quarter, -1.7% for the fiscal year to date and 3.2% over the 1 year period. The Plan ranks in the 87th percentile of the Total Trust Fund Universe during the quarter and 87th percentile for the 1 year period. For the 10 year period, the Plan ranks in the 76th percentile.

Recent actions, as approved by the Investment Committee, include elimination of exposure in the PIMCO Total Return fund by transferring assets in December to the Vanguard Total Bond Market fund.

Like the MIP, NEPC continues to recommend that UMS remain in the PIMCO All Asset Fund.

Operating Fund
Plan assets were $243.4 million as of December 30, 2014, returning -0.3% during the fourth quarter, -0.9% fiscal-year-to date and 1.3% for the calendar year to date periods. Annual returns were 3.4% over the 3 year period, 2.5% over the 7 year period, and 3.2% over the 10 year period.

NEPC recommends no change in managers and continues to support the PIMCO Floating Income and PIMCO All Asset funds.

Adjournment.

Submitted by
Tracy Elliott for
Tracy B. Bigney, Clerk