

UNIVERSITY OF MAINE SYSTEM  
Board of Trustees

**Investment Committee**

October 8, 2015  
UMS, Rudman Board Room

**Present: Committee Members:** Karl Turner, Chair (at USM), James Geary, Erik Hayward (at USM), Gregory Johnson (by phone), Marjorie Medd (at USM), Jack Moore (at USM). **Staff:** Tracy Bigney and Tracy Elliott, and Ryan Low. **Others:** Jean Deighan – UM Law School Foundation, John Shipway – MMA, Jay Roney – NEPC, Kelly Regan – NEPC, Michael Pratico – CAPTRUST, Brian Perkins - CAPTRUST.

**Absent: Committee Members:** Samuel Collins, James Donnelly, Mark Gardner and Shawn Moody

Trustee Turner, Chair, called the meeting to order.

**Reappointment of Non-Voting, Non-Trustee Member.** The Committee thanked Jack Moore for his service since 2009 and for his willingness to continue on for another two years as a Non-Voting, Non-Trustee Committee member. Lacking a quorum, this action item was moved to the November Board or Trustees (BOT) meeting.

**Approval of Non-Voting, Non-Trustee Member.** The Committee welcomed Erik Hayward and thanked him for his willingness to serve as a Non-Voting, Non-Trustee Committee member. Lacking a quorum, this action item was moved to the November BOT meeting.

**CAPTRUST Defined Contribution Plans – Quarterly Review.** At the May 2015 Committee meeting, Jack Moore asked about the large amount of assets that participants place within the TIAA Traditional account given the withdrawal restrictions on this product. Mr. Schmitt, Senior Vice President with CAPTRUST Financial Advisors, noted that TIAA-CREF uses the “Ibbotson model” when recommending asset allocations to participants. Mr. Schmitt committed to working with TIAA-CREF and UMS staff to review the model and discuss whether or not changes are appropriate and report back to the Committee.

At the October 8, 2015 Committee meeting, Michael Pratico, Senior Vice President with CAPTRUST, provided follow-up information about the Ibbotson model and the model’s recommended asset allocations for the seven strategies ranging from Very Conservative to Very Aggressive. CAPTRUST believes the asset allocations within the portfolios are appropriate and that Ibbotson Associates is an appropriate company to assemble and review the model portfolios. A discussion followed regarding the large percentage of participant assets (\$501 million or 37% of \$1.35 billion in assets) invested in TIAA Traditional as well as the liquidity limitations of this product (i.e., a 9 year and 1 day structured payout across most contracts). The Committee emphasized the expectation that TIAA representatives make liquidity provisions clear when working with UMS participants.

Mr. Pratico went on to describe that the TIAA Traditional Annuity is a guaranteed annuity account (group annuity contract) that is backed by the financial strength and claims-paying ability of TIAA-CREF. The product offers participants guaranteed principal and a contractually specified interest rate. The contractually agreed upon minimum annual interest rate is 3% during the accumulation

stage. The TIAA Board of Trustees also reserves the right each year to declare a higher crediting rate to participants which remains effective for a 12 month period. In addition, TIAA credits a portion of the expense ratio to help offset UMS plan administrative costs. CAPTRUST believes that TIAA Traditional continues to be an appropriate investment offering for the UMS plan.

A brief discussion followed regarding recent CREF share class changes and the impact on overall program pricing. CAPTRUST will continue to work with UMS staff and TIAA-CREF to ensure appropriate program pricing. Mr. Pratico further described recent share class changes to several Vanguard funds moving from the Admiral share class to the Institutional share class. Also, Vanguard recently announced an Institutional share class of Vanguard Target Date funds. CAPTRUST will work with Vanguard and TIAA-CREF to get the new Institutional share classes on the UMS plan as soon as possible.

The Committee further discussed the CREF Social Choice option, observing that \$47 million or 3% of assets were invested in this option.

Mr. Pratico then reviewed the plan investments noting that all funds, with one exception, are currently in good standing with no change recommendations. The following was emphasized: CREF Stock – This 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 data. 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.

**Ridgeworth Mid Cap Value** – This fund is sub advised by Ceredex, whom CAPTRUST recently met with to discuss recent poor performance. Brian Perkins, with CAPTRUST, described that in addition to valuation and fundamentals, the strategy emphasizes dividends when screening for new ideas and the team remains committed to that approach. Dividend mandate companies that eliminate their dividends are automatically sold. This restricts the investable universe. Also, the recent run in yield oriented stocks has hurt mid-cap strategies more than small or large caps. The following points were noted:

- Longer term numbers for the mid cap strategy are also being dragged down by a good 2010 rolling off.
- The pro-cyclical bias in 2011 really hurt longer term performance.
- Mid cap strategies had a particularly hard time beating the index in 2014.
- Another problem for the mid cap strategy in 2014 was poor stock selection, specifically in the energy and consumer goods sectors.
- The environment was tough for their strategy which tends to look for low expectation stocks.
- By nature, mid-caps have less exposure to defensive stocks and are therefore often more volatile with less downside protection.
- 2015 seems to be a bit of a continuation of the same themes.

CAPTRUST has marked the fund for review and will continue to monitor closely but there is no change recommendation at this time.

## **NEPC Performance Reviews**

### **Managed Investment Pool (MIP)**

The MIP returned -0.9% for fiscal year 2015 and ranked in the 88<sup>th</sup> percentile when compared to returns for NEPC's Endowments and Foundations universe. Performance was less than other large, private endowments given the lower exposure to direct hedge funds, private equity, and real estate. Given the August and September market declines, the MIP had a return of -6.4% for the fiscal year through September 30, 2015.

NEPC provided an update on the MIP's private equity manager (Landmark). The benchmark provided for Landmark is not an ideal comparison as it includes other types of private equity strategies such as buyouts, ventures, etc. whereas Landmark is a secondary manager. In addition, the benchmark includes all vintage years whereas Landmark is a 2014 vintage year.

### **Defined Benefit Pension Plan**

The Pension returned 0.1% for fiscal year 2015 and ranked in the 84<sup>th</sup> percentile compared to NEPC's total fund universe due to the global asset allocation manager performance. With the August and September market declines, the Pension Fund had a return of -4.0% for the fiscal year through September 30, 2015. NEPC estimated that moving to the more conservative asset allocation in April 2014 saved the Pension approximately \$450,000 in the month of August alone.

NEPC provided an update on JP Morgan, core fixed income manager, as NEPC has a due diligence rating of "Hold" due to the planned leave of absence by their Chief Investment Officer on the Value Driven Platform.

Tracy Elliott provided a brief update regarding the actuarial results for the Defined Benefit Pension Plan. The actuaries report a Total Pension Liability of \$43.3 million as of the July 1, 2015 valuation date. On that date, the market value of Pension assets was \$36.6 million, leaving a Net Pension Liability of \$6.7 million and a funded status of 84.6%.

### **Operating Fund**

The Operating Fund returned -0.3% for fiscal year 2015. The total return pool has been the largest contributor to negative performance over the recent 1 year trailing time period ending August 31, 2015; however, the Operating Fund has benefitted from this allocation over the long-term.

With the August and September market declines, the Operating Fund had a return of -1.8% for the fiscal year through September 30, 2015.

NEPC briefly discussed the July 2014 Securities and Exchange Commission (SEC) approved rule changes affecting Money Market Funds (MMFs) (e.g., Dreyfus and Federated in the Operating Fund). The reform is intended to reduce the susceptibility of MMFs to heavy redemptions during periods of economic stress, increase the transparency of MMF risks, and preserve the benefits currently afforded by MMFs. The new rules require institutional prime and institutional municipal money market funds to move from a stable \$1.00 price per share to a floating net asset value (NAV) which allows the daily share prices of these funds to fluctuate along with changes in the market-based value of fund assets. The rules also allow all money market funds, during times of extreme volatility, to temporarily prevent investors from making withdrawals or to impose fees for investors who redeem shares. The implementation date for the floating net asset value, liquidity fees, and

redemption gates amendments is October 14, 2016. NEPC will provide money market recommendation for the Operating Fund well in advance of the 2016 implementation date.

**Other**

NEPC committed to providing the following items to the Committee:

- MIP performance comparison for the \$100-\$500 million universe.
- 3, 5, 7 and 10 year risk return charts for each composite in the MIP and Pension.
- Information on peer returns compared to the MIP (i.e. state funded public institutions).
- Asset allocation reviews for all 3 portfolios at the February 2016 meeting along with analysis on GAA manager fit within each portfolio.

Adjournment.

Submitted by  
Tracy Elliott for  
Tracy B. Bigney, Clerk