

UNIVERSITY OF MAINE SYSTEM
Board of Trustees

Investment Committee

September 25, 2017

University of Maine System – Executive Offices
Rudman Conference Room, 253 Etabrooke Hall, Orono

Present: Committee Members: Karl Turner, Chair (at USM), James Donnelly (by phone), Kelly Martin (at UMFK), and Shawn Moody (at USM). **Non-Voting Committee Members:** Robert Blackwood (at USM), Peter Handy (at USM), and Jack Moore (at USM). **Staff:** Tracy Elliott (at USM), David Demers, Ellen Doughty, and Ryan Low. **Others:** Gregory Fryer, MMA (at USM), Mike Pratico - CAPTRUST (at USM), and Kelly Regan – NEPC (at USM).

Absent: Committee Members: Mark Gardner. **Non-Voting Committee Members:** Eric Hayward.

Trustee Turner, Chair, called the meeting to order.

Non-Voting, Non-Trustee Member Resolution. Mr. Jack Moore has served as a non-voting, non-trustee member of the Investment Committee since October 5, 2009 and will be completing his term effective November 16, 2017. The University of Maine System (UMS) and the Investment Committee extends its sincere gratitude to Mr. Moore for his years of dedicated service and the expertise he has brought to this Committee.

Action Taken

On a motion by Trustee Moody, which was seconded by Trustee Donnelly, the Investment Committee acknowledges John (Jack) Moore for his dedication and service as a non-voting, non-trustee member.

Non-Voting, Non-Trustee Member Approval. Trustee Turner, Chair, recommends the appointment of Peter Handy as a non-voting, non-trustee member of the Investment Committee.

Mr. Handy is President & CEO of Bristol Seafood, is on the Advisory Board of the New England Ocean Cluster, and on the Board of the National Fisheries Institute. Prior to joining Bristol, Mr. Handy founded, ran and sold BoxMyDorm.com, a national storage and shipping company for college students. In addition, he held financial services roles with JPMorgan Chase & Co. and Sanford Bernstein & Co. in roles ranging from asset management to institutional trading. Mr. Handy is a graduate of the Wharton School at the University of Pennsylvania and a Chartered Financial Analyst.

Action Taken

On a motion by Trustee Moody, which was seconded by Trustee Martin, the Investment Committee approves the appointment of Mr. Peter G. Handy to a three-year term as a non-voting, non-trustee member of the Investment Committee effective September 25, 2017.

Fiscal Year 2018 Work Plan. The Investment Committee reviewed its fiscal year 2018 Work Plan, which provides an overview of the Committee agendas for the current year.

NEPC Performance Reviews. Kelly Regan, with NEPC, reviewed performance for all three UMS portfolios with the following highlights.

Managed Investment Pool (MIP). The Managed Investment Pool (MIP) returned 11.4% fiscal year-to-date as of June 30, 2017. This return ranked in the 78th percentile in the InvestorForce Endowments and Foundation \$100-500 million universe. Managers detracted 20 basis points of value during this time period with emerging market equity, hedge funds and a select global asset allocation manager detracting the most value relative to benchmarks. During the quarter ending June 30, the MIP returned 3.0% ranking in the 44th percentile.

Defined Benefit Pension Fund Performance Review. The Pension returned 7.2% fiscal year-to-date as of June 30, 2017. This return ranked in the 81st percentile in the InvestorForce Total Fund Universe due to the portfolio's conservative asset allocation. Managers detracted 70 basis points of value during this time period with international equity, emerging market equity, hedge funds and a select global asset allocation manager detracting the most value relative to benchmarks. During the quarter ending June 30, the Pension returned 2.4% ranking in the 63rd percentile.

Operating Fund. The Operating Fund returned 3.6% fiscal year-to-date as of June 30, 2017. The Operating Fund has a lower return compared to the other two portfolios given the very conservative risk profile of the Fund. Managers added 20 basis points of value during this time period as most managers were ahead or in-line with stated benchmarks. During the quarter ending June 30, the Operating Fund returned 2.3%.

International Small Cap Equity Manager Selection.

At its March 2017 meeting, the Committee approved a new dedicated allocation of 5% to international small cap equities in the MIP. Since that time, NEPC generated a manager search book, which they reviewed with UMS staff and select Committee members. As a result, two managers were selected to interview with the Committee at its September 25 meeting.

The Committee interviewed Segall Bryant & Hamill (SBH) and Kabouter Management LLC. Kabouter was selected for the mandate due to their long-term performance, past downside protection, and their integration of Environmental, Social and Governance (ESG) factors into their investment process. The allocation is for 4% (\$11,000,000) with funds coming from international large cap equities. Roughly 1% of the MIP is already allocated to international small cap equity through a current manager (Globeflex).

When the Committee discussed this action item, it no longer had a quorum; therefore, this item will be forwarded to the November Board of Trustee's meeting for ratification. Consistent with the Committee's duties and responsibilities, and given the time sensitive nature of investments, members present asked staff to proceed with implementation without a formal vote.

Defined Contribution Plan Update

Vendor fee benchmarking. Mr. Pratico, with CAPTRUST Financial Advisers, provided a review of recent fee benchmarking related to TIAA's recordkeeping of the UMS Defined Contribution Plan. Common drivers of pricing include: plan assets, average participant account balance, number of participants, participation rate, cash flow, and administrative complexity. UMS has plan assets of \$1.4 billion, with over 11 thousand participants with an average balance of \$123 thousand. Mr. Pratico compared UMS' plan statistics and fees with four other CAPTRUST client plans with similar assets and average account balances record kept by TIAA. While the fees paid by UMS, at 8 basis points, are on the high side of the pricing range, CAPTRUST believes the fees are reasonable but there should be room for further negotiation. CAPTRUST further noted that TIAA currently record keeps seven plans for UMS which is expensive. CAPTRUST will begin to work immediately with TIAA to address the pricing concerns.

During the discussion, Mr. Moore noted that a high percentage of plan assets are held in the TIAA Traditional (37%) and CREF Stock (17%) and that CAPTRUST should be benchmarking total fees paid to TIAA and not just the recordkeeping costs (\$1.1 million). Mr. Jack Moore expressed concerns regarding the fees related to TIAA Traditional and CREF Stock (totaling \$3.6 million) and the Committee's fiduciary responsibility to ensure all fees paid to TIAA are reviewed.

Mr. Pratico noted that the high allocation to these assets is common for higher education plans that have been with TIAA for decades as those were two of only four options in the original TIAA contract offerings. Further, the TIAA Traditional Account requires a nine year and one month liquidation process. As investment fiduciaries, the Committee ensures that participants are offered a well diversified group of reasonably priced investments and participants are offered educational and advisory opportunities so that they may understand their choices. Mr. Pratico believes that UMS is meeting its responsibilities by offering funds that cover all of the critical asset classes on an active and passive basis as well as a full array of passive target date funds through Vanguard. He continues to support TIAA Traditional and CREF Stock as appropriate choices. Additionally, even though TIAA Traditional is less liquid than most standard fixed income accounts, the trade-off is a yield that is well above current market rates. CREF Stock is an actively managed Global Equity fund with an expense ratio of .38%, which is well below the category average. CAPTRUST supports both choices as appropriate offerings within the UMS plan. Ultimately, participants may choose whether or not to invest in any offering.

Quarterly Review. Mr. Pratico provided an overview of plan investments, including the scoring of investments, consistent with the Investment Policy Statement. All funds, with one exception, are in good standing. Mr. Pratico highlighted the following:

Goldman Sachs Growth Opportunities: Following a disappointing performance in 2015, the strategy again lagged its peers and the benchmark in 2016. The strategy outperformed in the first half of 2016, but lagged significantly in the second half due to a rally in lower quality stocks. The team also had some missteps in individual positions where their thesis did not work as expected. The strategy has recently faced stylistic headwinds and has not navigated the backdrop as well as some of its peers. Execution in the consumer sectors

has also been a cause for concern. The strategy's results have recently shown improvement with fund up 14.89% calendar year to date through June 30 and in the top 20th percentile peer relative; however, longer-term results remain a concern. CAPTRUST has less confidence in the team's ability to outperform its peers and benchmark going forward and believes that this strategy merits further consideration. CAPTRUST is still comfortable with the Plan holding the fund but will track closely and bring alternatives to the next committee meeting if appropriate.

Adjournment

Submitted by
Tracy Elliott for
Ellen Doughty, Interim Clerk