

UNIVERSITY OF MAINE SYSTEM
Board of Trustees

Investment Committee

June 14, 2018

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

Present: Committee Members: Kelly Martin, Chair (at UMFK), James Donnelly (by phone), Karl Turner (at USM). **Non-Voting, Non Trustee Committee Members:** Robert Blackwood (at USM), and Eric Hayward (at USM) **Staff:** Tracy Elliott (at USM), and Ellen Doughty (at USM). **Others:** Kelly Regan – NEPC (at USM), Jay Roney – NEPC (at USM), Mike Pratico – CAPTRUST (at USM), Dugan Shipway – MMA (at USM), Anne Devine - MMA (at USM), John DeSimone – Bain (by polycom), and Alex Dauria – Bain (by polycom).

Absent: Committee Members: James Erwin and Mark Gardner. **Non-voting, Non-Trustee Committee Members:** Peter Handy.

Trustee Martin, Chair, called the meeting to order and welcomed everyone.

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

Managed Investment Pool (MIP). The Managed Investment Pool (MIP) assets were \$317 million as of March 31, 2018 and the MIP returned -0.2% for the 1st quarter, ranking in the 60th percentile. The MIP returned 7.0% fiscal year to date (FYTD) as of April 30, 2018 with managers detracting 90 basis points of value during this time period. An emerging market equity manager and a global asset allocation manager detracted the most value relative to benchmarks.

Defined Benefit Pension Fund. The Pension Fund assets were \$29.7 million as of March 31, 2018 with the fund returning -0.6% for the 1st quarter. The Fund returned 3.9% FYTD as of April 30, 2018 with managers detracting 220 basis points of value during this time period. The emerging market equity manager and the global asset allocation manager detracted the most value relative to benchmarks.

Operating Cash Fund. The Operating Fund balance was \$286 million with a return of 2.2% FYTD as of April 30, 2018. The Operating Fund had the lowest return compared to the other two portfolios given the very conservative risk profile of the Fund. Managers detracted 20 basis points of value during this time period. Most managers were ahead of, or in-line with, their stated benchmarks and the main detractor was a global asset allocation manager.

Investment Policy Statements Update – Managed Investment Pool and Defined Benefit Pension Fund. The Committee reviewed updated Investment Policy Statements (IPS) for the MIP and the Defined Benefit Pension Fund which were modified to reflect prior Committee actions including new asset allocations and the FY2019 endowment spending rate. The Operating Fund was reviewed by NEPC, but no changes were recommended.

On a motion by Trustee Turner, which was seconded by Trustee Donnelly, the Board of Trustees, acting through the Investment Committee, approved the updated Investment Policy Statements for the Managed Investment Pool and Defined Benefit Pension Fund.

Bank Loan Recommendation – Managed Investment Pool and Defined Benefit Pension Fund.

NEPC reviewed the current Bank Loan manager, Guggenheim, and noted concerns regarding the firm which stem from the SEC investigation. Bain Capital presented their Bank Loan strategy to the Committee for consideration as a replacement to Guggenheim. Bain Capital has similar risk and return characteristics and investment fees compared to Guggenheim; therefore, the Committee elected to terminate Guggenheim given the risks associated with the SEC investigation and allocate those funds to Bain Capital.

On a motion by Trustee Turner, which was seconded by Trustee Donnelly, the Board of Trustees, acting through the Investment Committee, approved selecting Bain Capital for the following allocations:

A 5.0% policy allocation in the MIP (currently estimated at \$15,700,000)

A 5.0% policy allocation in the Pension Fund (currently estimated at \$1,500,000)

Defined Contribution Plan Review.

Administration.

Mike Pratico, Senior Vice President with CAPTRUST Financial Advisors, noted that the Plan offers two Money Market funds to UMS participants: the CREF Money Market and the Vanguard Federated Money Market. The Vanguard Federated Money Market was added to the plan in 2017 when TIAA announced a “clawback” of fee waivers associated with CREF Money Market. The UMS added the Vanguard fund to give participants a Money Market option with no fee clawback. The Vanguard fund is also used exclusively, though limited, in the Morningstar/Ibbotson Model Portfolios. The fee clawback is scheduled to end in July of 2018.

CAPTRUST provided a brief update regarding the Small Balance payout program that the Committee approved at its April 4, 2018 meeting. This program applies to the Defined Contribution Plan whereby TIAA would roll over small balances of inactive terminated participants into an IRA at a bank. TIAA is still working on contracts and the program will be several weeks before formally proceeding.

CAPTRUST provided an update on the Fiduciary Rule. On March 15, 2018 the Fifth Circuit Court of Appeals—which covers Texas, Louisiana, and Mississippi—vacated the Fiduciary Rule, finding that the Department of Labor (DOL) overreached its authority. In doing so, the future of the Fiduciary Rule in its current form was placed in jeopardy, and the DOL faced an uphill battle in fighting the court’s decision.

The court found that the DOL’s “fiduciary” definition was too broad and that the DOL violated a Supreme Court precedent that only Congress can create rights of action. The DOL had stated that, pending review, it would not enforce the Fiduciary Rule; however, the rule technically remained in effect. The DOL had until May 7, 2018 to challenge the court’s decision. It appears the DOL will let the court’s decision stand, and the Fiduciary Rule in its totality will be vacated; it will be as if the rule never existed.

Market Commentary.

CAPTRUST provided the following market commentary. After a strong start to the year, U.S. and international stocks came under pressure in February and March. While the U.S. and global economy seem to be on solid ground, concerns about rising interest rates and escalating trade tensions have roiled markets. U.S. stocks continued their 2017 rally into January, but the budget debate and trade tensions between the U.S. and China created volatility later in the quarter. They closed the quarter down slightly. International developed stocks followed a similar pattern and are also down slightly for

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the year. Emerging market stocks benefited from a weaker U.S. dollar and remain in positive territory. Bonds fell in January and February but rose modestly in March when investors sought shelter from market volatility. They fared better than stocks during the recent sell-off.

Investment Review.

CAPTRUST reviewed all funds in a manner that is consistent with the Investment Policy Statement. All funds, with one exception, are in good standing. The Goldman Sachs Mid Cap Growth fund is “marked for review” based on the CAPTRUST scoring methodology; however, near term performance has improved dramatically with the fund closing just outside of the top quartile in 2017 and in the top quartile in the 1st quarter of 2018. CAPTRUST is comfortable continuing to hold the fund and monitoring closely. CAPTRUST also noted that, despite a favorable backdrop for active managers, Vanguard Target Date funds outperformed each vintage year in the 1st quarter of 2018.

Adjournment

Tracy Elliott for
Ellen N. Doughty, Clerk