

UNIVERSITY OF MAINE SYSTEM  
Board of Trustees

**Investment Committee**

December 20, 2018  
University of Maine System – Executive Offices  
Rudman Conference Room, 253 Estabrooke Hall, Orono

**Present: Committee Members:** Kelly Martin, Chair, James Erwin (by phone), Karl Turner (at USM).  
**Non-Voting, Non Trustee Committee Members:** Robert Blackwood (at USM), **Staff:** Tracy Elliott and Ellen Doughty **Others:** Jay Roney – NEPC, Kelly Regan – NEPC, Sean Gill – NEPC, Michael Pratico – CAPTRUST, Barron Schmitt – CAPTRUST, Anne Devine - MMA (at USM), Timothy Giffin (at USM) and Jim Bradley.

**Absent:** James Donnelly, Mark Gardner, Erik Hayward, and Peter Handy.

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

**NEPC Performance Reviews.**

Kelly Regan and Jay Roney of NEPC provided a brief performance review at the December 20, 2018 Investment Committee meeting with the following highlights.

**Managed Investment Pool (MIP):**

The Managed Investment Pool (MIP) returned 1.2% calendar year-to-date as of September 30<sup>th</sup>. Managers detracted 110 basis points of value during this time-period, with value biased managers and mandates with exposure to emerging markets, both equity and debt, detracting value. However, some strategies including long/short equity, conservative global asset allocation strategies and the overall fixed income composite added value. Active manager performance improvements have been made with emerging market equities on a relative basis in October as value strategies have shown strength.

**Defined Benefit Pension Fund:**

The Pension returned 1.0% calendar year-to-date as of September 30<sup>th</sup>. Managers detracted 80 basis points of value during this time period, with value biased managers and mandates with exposure to emerging markets, both equity and debt, detracting value. Passive exposure to a variety of asset classes as well as a healthy allocation to real estate and long/short equity added value. Additionally, fixed income overall added value due to diversifying strategies such as Treasury Inflation Protected Securities (TIPS), bank loans and absolute return fixed income. Active manager performance improvements have been made with emerging market equities on a relative basis in October as value strategies have shown strength.

**Operating Cash Fund:**

The Operating Fund returned 1.1% calendar year-to-date as of September 30<sup>th</sup>. The Operating Fund had a nice return given the very conservative risk profile of the Fund. Managers detracted 20 basis points of value during this time period. Most managers were ahead or in-line with their stated benchmarks and the main detractor was a select global asset allocation manager and absolute return fixed income. Expect higher returns in the future as interest rates and bond yields have risen.

As a follow up to the last meeting, NEPC provided the Committee with an evaluation of active managers versus peers and benchmarks. While manager performance relative to benchmarks has fallen short in some areas, the peer rankings are generally positive over both short and longer term time periods.

**Mondrian – Emerging Market Small Cap Equity Manager Presentation.**

As a follow-up to Committee concerns regarding International Developed and Emerging Market equity performance, Mondrian presented via polycom. Mondrian currently manages roughly \$11 million in an emerging small cap equity strategy for both the MIP and Pension. They presented on their specific emerging market small cap strategy, on the broad international markets and the value and growth differential. Mondrian discussed performance expectations - that the strategy is designed to protect in down markets given their focus on a value-oriented dividend discount model. Longer-term performance has been impacted by poor 2017 performance when the market was up 33.8% as Mondrian's strategy is not designed to outperform in that market environment. At the conclusion of the meeting, Mondrian stated that they are reducing the annual investment fee on the emerging market small cap equity product from 125 basis points to 95 basis points for the University of Maine System.

**Private Equity Review.**

As a follow up to the March and September 2018 asset allocation and private equity discussions, Sean Gill, Director of Private Markets at NEPC, provided additional education on this asset class. NEPC discussed two alternative asset allocation mixes for the Managed Investment Pool (MIP) as well as benefits and considerations for Fund-of-Fund (FOF) versus Direct Private Equity investing. Other topics included: how does private equity work, pro's and con's, and estimated fees. The purpose of the review was to consider whether the MIP should have a private equity program and how it might be implemented. NEPC noted that factors to consider include the ability of the Committee to dedicate additional time to review private equity ideas, staff bandwidth to manage administrative components including contracts and capital calls, and willingness to add more complexity and illiquidity to the portfolios. Trustees expressed concern about the depth of Committee and staff resources to support this type of investment and whether the potential return is worth the added risk while recognizing that a small allocation might provide an opportunity for greater return. Committee members will continue the discussion in January before making a decision on the Private Equity Asset Allocation.

**FY2020 Endowment Spending Rate.**

The endowment spending rate has been 4.5% since FY2013 and is currently estimated to generate a distribution of \$5.4 million for FY2019, including \$4.3 million for endowed spending and \$1.1 million for internal management fees. The FY2019 effective spending rate (which is net of the management fees) for UMS is 3.4%.

**NEPC Rate of Return Assumption:**

NEPC reviewed return expectations for the UMS Managed Investment Pool in June 2018, supporting a long-term return assumption of **7.5%**, noting significant volatility around this each year.

**FY2020 Endowment Distribution Rate per Share and Estimated Budget:**

Using the endowment spending rate for FY2020 that the Investment Committee approves at this December 20<sup>th</sup> meeting, Management will provide updated estimated distribution amounts and distribution rates per share to the Committee at its next meeting.

**Action Taken:**

On a motion by Trustee Turner, which was seconded by Trustee Erwin, the Investment Committee Board of Trustee members approved the following resolution:

The Board of Trustees, acting through the Investment Committee, approved an endowment spending rate of 4.5% for FY2020.

**Defined Contribution Plans Review.**

Michael Pratico and Barry Schmitt, Senior Vice Presidents, with CAPTRUST Financial Advisors, provided a quarterly update regarding the Defined Contribution Plan with the following administrative and topical highlights.

Retirement industry spotlights include an overview of a recent IRS Private Letter Ruling (PLR) regarding a unique approach to student loan assistance. The PLR created a path that would allow employers to tie their retirement plan contributions to loan repayments made by employees. The IRS indicated that, under the construct in the PLR, that requiring student loan repayments to receive an employer contribution would not be considered a contingent benefit. The benefit of this approach is that it allows employers to make retirement contributions for employees who may not be able to save due to student loan debt.

The Employee Benefits Security Administration enforcement activities are ramping up. CAPTRUST advises that the University make sure a policy and a process is in place for finding terminated participants. Relying on the recordkeeper is not enough.

CAPTRUST also highlighted a recently signed Executive Order related to retirement policy which directed the Department of Labor (DOL) and the Treasury Department to consider regulations pertaining to Multiple Employer Plans, Required Minimum Distribution Rules and a Review of Participant Notice Requirements.

**Market Commentary:**

CAPTRUST provided market commentary noting that, through the close of the third quarter, U.S. stocks were a standout among the major asset classes. Although it has cooled somewhat, the U.S. economy continues to grow at an elevated pace. Meanwhile, sluggish growth outside the U.S. and rising interest rates have hampered other asset classes. Market performance following the close of the quarter has been extremely volatile with December on track to be one of the worst months in the equity market since 1931.

**Plan Investment Review:**

The Committee and its advisor reviewed all funds consistent with the process outlined in the Investment Policy Statement. All funds, with two exceptions, are currently “in good standing” based on the CAPTRUST scoring methodology.

All funds were discussed with emphasis on the following:

- The TIAA Traditional continues to be an appropriate choice for plan participants with a yield well above industry averages. Though less liquid than most of its peers, CAPTRUST continues to believe it is an appropriate choice for many participants and can be an important part of a participant’s retirement strategy.

- For participants looking for a largely actively managed Global Equity fund, CREF Stock continues to be an appropriate choice. The fund is well diversified across several asset classes and has expenses well below industry averages.
- Real Estate provides additional diversification for participants and the TIAA Real Estate fund offers a unique ability to invest directly in real estate as opposed to traditional Real Estate Investment Trust (REIT) funds.
- The Goldman Sachs Mid Cap Growth Fund (score of 69 with approximately \$7.5 million in participant assets) will be replaced on Jan 14, 2019 with the MFS Mid Cap Growth Fund.
- The Oppenheimer International Growth (Score of 59 with approximately \$5 million in participant assets) will be replaced on January 14, 2019 with the American Funds Europacific Growth Fund.

Effective September 1, 2018, the University of Maine System offered the opportunity for retirement plan participants to elect a new Roth 403(b) and/or 457(b) contribution option in addition to the contributions that participants currently make as members of the Basic Retirement Plan. CAPTRUST will follow up with TIAA to determine Roth usage within the plan.

Adjournment

Tracy Elliott for  
Ellen N. Doughty, Clerk