Trustee Turner, Chair, called the meeting to order.

Global Asset Allocation Managers – MIP & Pension – Presentations and Selection

At the February 22, 2016 Investment Committee meeting, NEPC recommended lowering the MIP’s allocation to Global Asset Allocation (GAA) strategies (from 25% to 20%). Furthermore, NEPC recommended terminating GAA manager, PIMCO All Asset, and allocating capital equally between GMO and Wellington. The termination of PIMCO was approved but Board members were not comfortable with allocating assets to GMO without looking at other options.

NEPC also recommended a lower allocation to GAA strategies within the Pension Plan (from 30% to 25%). The Committee approved terminating PIMCO All Asset and selecting a new GAA manager to complement Wellington Opportunistic.

To fulfill the above, NEPC has since prepared and reviewed search books, for GAA managers for the MIP and the Pension Plan, with Jack Moore and Tracy Elliott. They determined that either the Newton or Mellon Capital Management products could be a good fit for the allocations.

Newton and Mellon Capital Management presented to the Investment Committee on May 26th about their firm, investment process and philosophy and performance.

Attendees included:

- Newton - Global Real Return product:
  - Jon Ritz, Consultant Relations
  - Aron Pataki, Portfolio Manager
- Mellon Capital Management - Dynamic Growth product:
  - Joe Miletich, Global Investment Strategist
  - Karen Fernandes, Director, Global Consultant Relations

The Newton Global Real Return product is an unconstrained asset allocation strategy focusing on traditional asset classes with tactical risk hedging capabilities. The strategy targets a return of LIBOR plus 4% over a long-term period with an intermediate level of volatility, between that of equities and government bonds, while maintaining a capital preservation focus. Portfolio positioning is based upon a thematic investment framework that guides idea generation and risk management. The portfolio maintains core positions in corporate bonds and global equities based
upon fundamental security selection and macro investment themes. Environmental, Social and Governance (ESG) considerations are embedded in Newton’s investment process. The fee for this mutual fund product is 75 basis points.

Mellon’s Dynamic Growth strategy employs a dynamic multi-asset approach where asset allocation is managed on a daily basis and fundamental valuation is used to identify mispricings. The approach seeks to identify relative value between asset classes and countries, exploiting market inefficiencies in a benchmark agnostic approach while also employing downside risk management strategies. The goal is to deliver equity-like returns with a volatility range of 7%- 10%. The fee for this product is 80 basis points.

On a motion by Trustee Moody, which was seconded by Trustee Collins, the Investment Committee approved the selection of Newton for one third of the Global Asset Allocation in the Managed Investment Pool. Further, existing MIP GAA managers, GMO and Wellington, will each manage one third of the portfolio allocation to GAA. In addition, Newton was also selected to replace PIMCO All Asset in the Pension Fund. The allocations will be as follows:

1) Newton, GMO, and Wellington will each receive one third of the 20% GAA policy allocation in the MIP. Total GAA funds, currently estimated at $55,000,000, allow for $18.3 million (or 6.7%) to each manager. Funds will come from PIMCO All Asset and by rebalancing current allocations to GMO and Wellington.
2) A 12.5% policy allocation in the Pension Fund with funds coming from PIMCO All Asset (currently estimated at $4,000,000).

NEPC Performance Reviews

Managed Investment Pool (MIP)
Assets were $260 million as of March 31, 2016, with the MIP returning 0.4% during the quarter, -3.5% for the fiscal year to date (FYTD) and -3.6% over the trailing one year period. Long term returns have matched or outperformed the allocation index on a 5, 7 and 10 year basis. The MIP ranked in the 64th, 69th, and 42nd quartiles over the 1, 5, and 10 year periods.

Defined Benefit Pension Fund Performance Review & Bond Fund Change
Mr. Jay Roney from NEPC reviewed the Pension Fund performance report for the quarter ended March 31, 2016. Plan assets were $33 million as of March 31, 2016, with the Plan returning 1.2% during the quarter, -1.7% FYTD and -1.7% over the trailing one year period. Over the FYTD and one year time period, the Plan ranked around median.

NEPC recommended terminating the JP Morgan Core Bond fund due to high turnover of senior personnel and placing those proceeds with the Vanguard Total Bond Market Index.

On a motion by Trustee Turner, which was seconded by Trustee Moody, the Investment Committee approved the termination of the JP Morgan Core Bond fund and the investment of those proceeds with the Vanguard Total Bond Market Index.

Operating Fund
Mr. Roney reviewed the Operating Fund performance report for the quarter ended March 31, 2016. The Operating Fund held $269 million as of March 31, 2016, with the Fund returning 1.5% for the month, 0.9% during the quarter, -0.7% FYTD and -1.0% over the trailing one year period.
**Fossil Fuel Discussion**

Trustee Turner opened the discussion by summarizing a meeting that he, Jay Roney, and Tracy Elliott had with Divest UMaine representatives on April 29th. Divest UMaine had written the Board asking specific questions regarding the status of coal in the UMS portfolio and recent overall portfolio performance which has fossil fuel equities imbedded in it. We shared information and, during that meeting, Mr. Roney presented a possible and evolving model for Environmental, Social and Governance (ESG) investing. In response to market demand in the fossil fuel arena, some investment managers are adopting an ESG model which rates companies on their Environmental actions, Social responsiveness, and their Governance structure. The Divest UMaine representatives responded favorably to this alternative as a responsible response to climate change and recognized that implementation is a multiyear effort.

Chair Turner then asked Mr. Roney to review the materials NEPC had prepared for the Committee. Mr. Roney reviewed information about asset pool exposures to fossil fuels as well as ESG mandates. Mr. Roney reminded the Committee of the MIP’s policy statement related to performance which is maximum total return, consistent with prudent investment management and risk tolerance to enable UMS to meet its financial obligations.

The “fossil free” investment management industry continues to evolve with offerings in more asset classes as well as more choice within asset classes; however, UMS divestment from fossil fuels would present investment and operational challenges that could dramatically alter the risk and return profile of the portfolio. As of January 31, 2016, the MIP had plan exposure to fossil fuels of 3.2%, the Pension Plan had 3.0%, and the Operating Fund had 1.7%.

An increasing number of investment strategies are integrating ESG factors into their investment process. ESG focused managers will typically have less exposure to fossil fuels, but may not eliminate the exposure entirely. ESG focused managers generally take a “best in class” approach.

An ESG screening analysis shows that although most of the products currently in the MIP are not managed with an ESG consideration, there are options if UMS wants to explore further the ESG strategies offered by some of these managers. NEPC would need to further explore what those options are and what vehicles they are offered in. Currently, 2 out of 16 of the products in the MIP are managed with an ESG investment consideration and 6 more could be managed that way, while 8 strategies could not.

**Defined Contribution Plan Update**

**Revised TIAA Pricing**

Mr. Barry Schmitt from CAPTRUST updated the Committee on recent fee negotiations with TIAA. Considering the growth of the plan, the competitive marketplace, TIAA efficiencies gained over the past year, and the increased scrutiny on fees, CAPTRUST asked TIAA to review the pricing of the UMS plan. Currently TIAA charges 11.5 basis points (.115%) of plan assets to administer the plans. TIAA has offered to lower the administrative fee from 11.5 basis points to 9 basis points (.09%) effective July 1, 2016, representing a fee reduction of approximately $190,000 a year.

As part of this process, CAPTRUST compared the current and proposed fee to that of other similarly sized higher educational plans and found the 9 basis points to be competitive within the marketplace and recommended that the Investment Committee accept the new pricing.
On a motion by Trustee Turner, which was seconded by Trustee Collins, the Investment Committee accepted the revised lower TIAA administrative expense pricing of 9 basis points.

**TIAA Traditional Statistics**
Following up on the request made by the Investment Committee at its February 22, 2016 meeting, CAPTRUST provided the amount of TIAA Traditional account assets held by terminated participants and active participants. Following the discussion, the Investment Committee asked for further analysis, including the percentage of assets allocated to TIAA Traditional by age groupings. Further, the Committee asked CAPTRUST to determine the TIAA Traditional assets as a percentage of each plan’s account balance. CAPTRUST will gather that information for the Committee.

**Government Money Market Fund Selection**
Recent legislation surrounding money market funds has prompted many investment managers to examine their current objectives. The recent legislation, depending on the type of money market fund, could subject the fund to a floating net asset value, redemption gates and/or redemption fees. TIAA has made the decision to convert their money market funds to government money market funds to avoid these new requirements.

At the same time, TIAA has made the decision to no longer waive the fees associated with the CREF Money Market Fund along with “recouping” some of the waived fees over the next three years. Because of these fee decisions, the Investment Committee determined that adding an additional money market option to the plan would be prudent and would best serve the individual participants. As Plan participants have individual contracts with TIAA, which require participants to have access to the CREF Money Market Fund, UMS will not be eliminating the CREF Money Market Fund option.

CAPTRUST recommended that the Investment Committee add the Vanguard Federal Money Market Fund as an additional money market investment option to the plans.

On a motion by Trustee Turner, which was seconded by Trustee Donnelly, the Investment Committee approved the addition of the Vanguard Federal Money Market Fund as a money market investment option to the plans.

**New Fiduciary Rule**
Mr. Schmitt briefed the Committee on the fiduciary rules recently published on April 6, 2016. These rules will take effect in April 2017 and focus on the following areas:

- What activities in the future will be considered fiduciary acts, such as rollovers into an IRA, including what must be disclosed?
- Who will be a fiduciary in the future?
- Which type of advice recipients will be protected by the new fiduciary rule?

New terminology will include “covered investment advice” and “best interest contract exemptions”.

As TIAA digests this new legislation, more information will be provided including potential impacts in areas such as managed accounts, investment strategies, and phone center representative interactions.
**Defined Contribution Quarterly Review.**

Mr. Schmitt updated the Committee on fund actions. As of March 31, 2016 there were $1.3 billion in total plan assets including $14.6 million in transfers from deselected vendors for the quarter. The Vanguard Target Date fund assets continue to increase and now represent approximately 3.5% of the assets within the 403b Plan.

All funds are meeting policy guidelines except one - the Ridgeworth Mid Cap Value Fund. This fund has done better over the past one year period ended March 31, 2016, ranking in the 35th percentile of funds within the mid cap value space. CAPTRUST continues to support this fund.

Adjournment.

Submitted by
Tracy Elliott for
Tracy B. Bigney, Clerk