Trustee Baker, Chair, opened the February 23rd, 2010 Investment Committee meeting at 1:05 p.m.

Minutes from the previous meeting were reviewed and approved by the Committee.

**Chase (Large Cap) Manager Review.** Mr. Jay Roney, New England Pension Consultants (NEPC), reviewed NEPC’s concerns about the organizational changes at Chase Investment Counsel. In summary, there have been dramatic personnel changes with the organizational and investment management of the Firm. NEPC believes that these concerns will not be easily rectified.

Mr. Brian Lazorishak and Mr. Glenn Guard with Chase Investment Counsel presented the following information.

- Organizational changes – David Scott, President and Chief Information Officer (CIO), left December 2009 for health considerations and other concerns. He did not move to another firm and has retired from the investment profession.
- A new investment team is now in place that includes new hires as well as many long-term employees.
- The Firm decided not to hire a new CIO because many qualified candidates wanted to change Chase’s investment process which Chase Investment Counsel did not want to change due to their strong long term track record.
- Relationship of fundamental and quantitative processes is the fund’s strength.
- The involvement by Derwood Chase, Chief Information Officer of Chase Investment, is diminishing, but he is still involved and building the current team.

The Investment Committee, Staff and NEPC discussed Chase’s presentation and organizational issues and affirmed they were uncomfortable with the recent changes and decided to terminate Chase as the Large Cap Growth manager in the Pension Plan.

**Performance Review**

*Current Market Conditions NEPC’s upcoming view*

Capital market expectations and observations for all clients:
• 2009 was a great year for markets and the recovery was seen through all sectors, but returns are expected to be diminished in 2010.
• NEPC will educate and advise the Committee on the asset allocation of the Pension and Endowment Funds at the June 2010 meeting.
• There is a high risk of long-term inflation which would benefit the Pension Plan, while the Endowment may be negatively impacted. NEPC will consider inflation protection when conducting the asset allocation study.
• NEPC expects the dollar to weaken and will thoroughly analyze the currency exposure of all current and future portfolios.

Managed Investment Pool

• As of 1/31/2010, the Managed Investment Pool had a net of fees return for the month of -2.1%, and a trailing one year rate of return of 27.0%.
• As of 12/31/2009, the Managed Investment Pool Fund returned 27.1% (gross of fees) over the trailing year placing in the top quartile of the Endowment Universe.
• Even though managers added significant value over the past year, there was bifurcation of performance; many managers outperformed their benchmarks by more than 150 basis points while others underperformed by more than 150 basis points due primarily to the difficult market environment witnessed in 2009.
• The Fund has out-performed the median endowment over all trailing time periods and placed in the top 23rd percentile during the five year time period and in the top 8th percentile over the seven year period.

Pension

• As of 1/31/2010, the Pension Fund had a net of fees return for the month of -1.6%, and a trailing one year rate of return of 21.8%. As of 12/31/2009, the Pension Plan returned 19.3% (gross of fees) over the trailing year, placing in the 51st percentile of the Total Fund Universe.
• Active managers in the aggregate added 160 basis points during the trailing year time period.
• Consistency of annual returns have produced excellent long term peer group rankings. Over the past seven and ten year time periods the Plan has placed in the top 45th and 19th percentiles while assuming significantly less risk than that of the median plan.

Operating Fund

• As of 12/31/2009, the Operating Fund had a monthly net of fees return of .5%, and a trailing one year rate of return of 10.3%.
• New policy targets have been approved (25% Liquidity Pool, 50% Income Pool, and 25% Total Return Pool). The implementation is to be phased in over time.
• In the December 2009 to January 2010 timeframe, the Vanguard Prime Money Market Fund was replaced by the Dreyfus Institutional Cash Advantage Fund due to changes in Vanguard’s redemption policies. In addition, UMS staff replaced the Federated Government Obligations Fund with the Federated Prime Cash Obligations Fund.
• NEPC met with Loomis Sayles and reconfirmed the role for bank loans within the Operating Cash Fund.
• Commonfund Absolute Return Fund, which has been closed, will distribute 2% in February; the remainder will be distributed over the next several years.

• Staff is evaluating NEPC’s recommendation to hire Permal as a hedge fund manager and allocate $5 million from the liquidity pool to increase hedge fund exposure, but still remain short of target. NEPC would monitor pools to evaluate any liquidity risks, especially if the market were to repeat 2008’s performance.

Large Cap Growth Manager Presentations
• NEPC gave a quick briefing of Jennison Associates LLC and Rainier Investment Management, Inc.
• UMS staff and NEPC previously reviewed 10 managers and recommended two managers:
  o Rainier is a GARP (Growth at Reasonable Price) Manager which is similar to Chase.
  o Jennison is a traditional growth manager.

Performance of both managers has been excellent over the years. More recently, Rainier has under-performed due to their quality bias during this lower quality market rally.

Jennison Associates LLC.
• Asset management firm since 1969.
• Little change in the Large Cap Growth Investment Team.
• Operates independently of parent company, Prudential Financial Inc.
• Relies on a stock picking team that targets companies with sustainable above average growth in revenues, earnings, and cash flows, and seeks to capture the inflection points in the growth rate.

Rainier Investment Management
• Managing Large-Cap growth since 1989.
• Benefit of fund is downside capture.
• The fund holds approximately 80-120 companies and is constructed to hold securities of companies with above average earnings per share and sell at reasonable values.
• Portfolio does well in most market environment, but good performance is challenging in speculative markets and in periods of little to no growth.

After the presentations the Investment Committee, UMS staff, and NEPC discussed the managers. NEPC summarized some key differentiators.
• Jennison is owned by Prudential Financial Inc. and distributed by Harbor Funds – it will be difficult to get representatives from Jennison (in person) to the Investment Committee Meetings. Rainier is independently owned and management is easily accessible.
• Even though both investment managers utilize a team structure, Jennison is headed by a “star”, Sig Segalas, who founded the firm in the 60’s. Effort has been taken over the last few years to bring in a new generation of Portfolio Managers for the Harbor Fund Large Cap Growth product. This has resulted in Sig no longer managing the Harbor Fund; however, he is still involved in their investment committee decisions. Rainier employs seasoned professionals that use a “true” team approach to stock selection.
• Both Rainier and Jennison employ a bottom up fundamental process but Rainier is more benchmark aware while Jennison is more agnostic when it comes to sector allocations.

After discussion it was agreed that both Jennison & Rainier would be good replacements for Chase, but the consensus of the Committee is to recommend Rainier for a allocation within the Pension Plan due to their more conservative process and philosophy.

The Committee also instructed NEPC to compare and analyze TCW, current manager within the Managed Investment Pool, and Jennison. The Committee further asked NEPC to provide a summary comparison sheet for future manager presentations.

Operating Guidelines
There was approval of the updated operating guidelines as presented.

Endowment Spending Rate and Underwater Endowments

Distribution Rate Philosophy: The UMS endowment distribution formula is designed to smooth the impact of volatile investment returns as campus budgets depend on these endowment revenue streams to fund scholarships and other endowed spending.

The endowment distribution rate was presented for the Investment Committee’s review. The Committee supported the rate of $14.11281 per share for FY2011 and, lacking a quorum, the Committee forwarded the recommendation for BOT ratification at its March 15, 2010 meeting.

Underwater Endowments: The Accounting Department compared December 31, 2009 individual endowment market values to their initial investments. One hundred twenty seven funds with initial investment values totaling $10 million were underwater by $931 thousand. $25.3 million in endowed funds were underwater by $4.4 million last year. To allow funds to regain market value, UMS will not distribute earnings in fiscal year 2011 for those funds that were underwater as of December 31, 2009. The funds will be measured each December 31 to determine whether or not distributions will be made in the following fiscal year.

Fiscal Year 2011’s Estimated Distribution: Using the distribution rate for FY2011 of $14.11281 per share, $4.9 million is estimated to be available for spending in FY2011. While the distribution rate per share for FY2011 is lower than FY2010, the actual amount estimated to be distributed is greater by approximately $500 thousand as fewer endowments are underwater.

Adjournment,

Submitted by
Peter Small for
J. Kelley Wiltbank, Clerk