

UNIVERSITY OF MAINE SYSTEM
Board of Trustees

UMS, Rudman Board Room, 3rd Floor
December 1st, 2008

Investment Committee Meeting

PRESENT: **Committee Members:** Charles O'Leary, Chair, Tamera Grieshaber, Barry McCrum, James Mullen, and Chris Robinson. **Other Trustees Attending:** Marjorie Medd. **Staff:** Richard Pattenaude, Chancellor, Rebecca Wyke, J. Kelley Wiltbank, Tracy Elliott, and Peter Small. **Others:** Jay Roney (NEPC), Jeff Mitchell (NEPC), Dick Ericson (MMA), Bill Bullock (MMA)

Trustee O'Leary, Chair, opened the December 1st, 2008 Investment Committee meeting at 1:00 pm. The September 30th, 2008 minutes were approved.

Performance Review

Mr. Jeff Mitchell, Consultant for New England Pension Consultants, NEPC, gave the committee a market overview.

- With the exception of US Treasuries, all major indices measuring major financial sectors have shown negative returns year-to-date through 10/31/2008.
- Despite the negative performance in all asset classes, some have fared better than others.
- Hedge funds in both the Pension Plan and the Endowment Fund benefited from the asset reallocation from equities and bonds into hedge funds. This resulted in \$1.2 million in savings for the Endowment Fund and \$1.1 million for the Pension Fund.

Over the past one and three year time periods both the Endowment Fund and Pension Plan annualized performance has met with mixed results primarily due to the adverse financial markets during the past year.

Pension Plan

- The Plan has returned -13.2% gross of fees, performing in the top 38% of all funds, over the trailing year through 9/30/2008. During this trailing one year period, the value of the pension plan declined \$14.8 million from \$67.6 million to \$52.8 million. The decline was due to the withdrawal of \$6.6 million for benefit payments and a decline of -\$8.2 million due to market loss,
- The Plan lost an additional -11.1% from market performance during the month of October 2008. The monthly return performed slightly better than the allocation index (-11.1% vs. -11.2%).
- Managers have added 40 basis points of value over the past calendar year, led by Chase (+580 bps), Morgan Stanley (+830 bps), and Pimco Total Return (+190 bps).
- The Plan has outperformed the median total fund during both Bull and Bear Markets.
 - The Plan placed in the top 38th, 54th, and 43rd percentiles during the 1, 3, and 5 year time periods.
 - Over the past 3 years the plan has taken less risk, as measured by standard deviation, than 67% of the peer group.
- The State Street Small Cap Index Plus Fund is being carefully monitored by NEPC.

Endowment Fund

- The Fund has returned -14.5% gross of fees, over the past trailing one year period ending 9/30/2008, declining \$22.0 million in value due to -\$4.4 million in disbursements and -\$17.6 million in market loss, from \$124.9 million to \$102.9 million.
- The Fund lost an additional -11.5% from market performance during the month of October 2008. This is in line with the Allocation index for the month.
- Managers have added 70 basis points (bps) over the past five years, led by Met West (+470 bps), Westfield (+420 bps), Mesirov (+260 bps), and Morgan Stanley (+840 bps).
- The plan outperformed the median endowment during both Bull and Bear Markets, being placed in the top 50th, 32nd, and 18th percentiles during the 1, 3, and 5 year time periods.
- Tracy Elliot, Director of Finance and Controller, reported that some individual endowment funds are currently underwater. Fiscal year 2009 budgets were built based on an approved distribution rate and the University plans to continue disbursements based on that rate for the remainder of fiscal year 2009. In early February, the distribution rate will be calculated for fiscal year 2010. The University will be required to suspend distributions for that fiscal year on a number of endowments. Like the University of Maine Foundation, the University of Maine System will make this determination based on December 31, 2008 market valuations.
- Rebecca Wyke, Vice Chancellor for Finance and Administration and Treasurer, has asked NEPC to survey other clients on whether they are changing spending plans and if so how. This information, along with market conditions and endowment values, will be considered when determining an appropriate distribution rate for fiscal year 2010.

Operating Cash

- The Operating Cash Fund had a -3.16% return on investment for the month of October 2008. The return on investments for the trailing quarter and twelve months were -5.64% and -5.55% respectively.
- Currently, all cash flow is moved into and out of Vanguard and Federated, both mutual funds that are operating with positive returns.
- All funds in the Intermediate and Long-Term Pool are being monitored by UMS staff and NEPC.

Emerging Markets Manager Presentations

- NEPC has expressed concerns over the Endowment's Emerging Markets investment manager Newgate Capital Management.
 - NEPC met with Newgate and was not only disappointed with their recent performance but, more importantly, the reasons behind their under-performance.
 - Based upon NEPC's Emerging Markets Equity Manager Search, Aberdeen Asset Management Inc. and Robeco Group N.V. were selected to provide a brief presentation at this meeting.

Robeco Group N.V.

- Robeco Emerging Markets Equity fund uses a top down country allocation framework.
- The management team has been in place since 1994.
- This fund uses a combination of fundamental and quantitative research.

- The goal is to exploit differences in economic, political and social variables among countries, which is supplemented by quantitative analysis of stock market and macroeconomic indicators.

Aberdeen Asset Management Inc.

- Aberdeen is a publicly traded firm, founded in 1983.
- As of 10/13/08 staff currently owned 9.6% of the firm.
- Their investment philosophy is over the long term, share prices reflect underlying business fundamentals.
- They seek to identify ‘best ideas’ at reasonable/cheap valuations via company visits.
- They view risk as investing in a poor quality company and/or overpaying.
- They are a “long only” fund manager, but focus on absolute returns.
- They have an emphasis on the collective team wisdom, not of stars.

Upon discussion, the Committee agreed with NEPC’s recommendation to remove Newgate as the emerging market equity manager and recommended hiring Aberdeen as a replacement in the Endowment Fund.

Adjournment,

Submitted by
Peter Small for
J. Kelley Wiltbank, Clerk