PRESENT:  **Committee Members:** Charles O’Leary, Chair, Norman Fournier, Tamera Grieshaber, James Mullen, and Chris Robinson.  **Staff:** Rebecca Wyke, J. Kelley Wiltbank, Tracy Elliott, and Peter Small.  **Others:** Jay Roney (NEPC), Janet Waldron (UM), Eric Rolfson (UM), Dick Ericson (MMA), Bill Bullock (MMA).

Trustee O’Leary, Chair, opened the February 10th, 2009 Investment Committee meeting at 1:00 pm.

**Endowment Spending Rate**
Ms. Tracy Elliott, Director of Finance and Controller, presented the fiscal year 2010 Endowment Distribution Rate for review and approval by the Investment Committee.

- In January, Mrs. Elliott worked with an NEPC endowment specialist to understand other universities’ spending rate approaches. As a result, two methods of calculating the endowment distribution rate were presented:
  - Method 1 – the current method of using the weighted average of the 12/31/2008 market value and the estimated fiscal year 2009 endowment distribution.
  - Method 2 – using a 3-year market value average with the option of utilizing a 4.5%, 4.75%, or 5.0% spending rate.
- The staff recommended method 2 as long as the method was consistently applied over a long period of time.

After discussion, the Investment Committee recommended the Board of Trustees ratify and approve Method 2 with a 5.0% spending rate for the FY2010 endowment distribution rate of 15.64336 per share.

**2008 Market Review and 2009 Expectations**
Mr. Jay Roney, Consultant for New England Pension Consultants, NEPC, gave the committee a market overview.

- In 2008 virtually all risk-bearing assets lost money.
- The credit markets remained frozen and the economy continued to weaken.
- Risk aversion, deleveraging, and a lack of liquidity fueled the market correction.
- There were extreme levels of volatility and massive fiscal and monetary intervention.
- NEPC expects the global recession to persist into 2009 and volatility to continue.
- As markets stabilize, opportunities for attractive returns will be available.

Mr. Roney reiterated that both the Pension and Endowment Funds have long-term goals and objectives that were thoughtfully and strategically developed and encouraged the Committee to continue through these difficult times.
Performance Review

Pension Plan

- As of 1/31/2009 the Pension Plan totaled $43.2 million with a trailing 1-year net of fees return of -25.2%.
- As of 12/31/2008, the plan totaled $45.1 million, reflecting an annual gross return of -24.1%. The fund declined $21.5 million for the calendar year of which $14.9 million was due to market performance and $6.6 million related to benefit payments.
- In review, the plan has had mixed results over the past one and three year time periods, primarily due to the adverse financial markets during the past year.
  - The plan has fallen short of absolute return targets, returning an annual gross return of -24%, far short of the expected return of 7 to 8%.
  - Value over the one year time period has been detracted, with managers falling short of their benchmark by 130 basis points over the past year.
  - For peer group comparison, the plan has performed in-line with the median total fund during both Bull and Bear markets, placing in the 51st, 53rd, and 41st percentiles during the 1, 3, and 5 year time periods. Over the past three years the plan has taken less risk, as measured by standard deviation.
  - NEPC recommended that the Committee consider terminating State Street Global Assets Small Cap Enhanced Equity product due to change in leadership, and that performance hasn’t met expectations.
    - Mr. Roney commented that liquidation of the SSgA Small Cap product could take time due to the liquidity issues surrounding the securities lending pool that the fund participates in.
    - The Committee agreed with NEPC’s recommendation to terminate State Street Global Assets Small Cap Enhanced Equity product. NEPC recommended, with the Committees consent, to replace the fund with a Russell 2000 index.

Endowment Fund

- As of 1/31/2009, the Endowment Fund had a preliminary net of fees return of -27.0%, and totaled $97.2 million. This January market value will be adjusted for some remaining Maine Maritime Academy transition assets.
- As of 12/31/2008, the plan totaled $97.5 million, reflecting an annual gross return of -26.7%. The fund declined -$27.4 million for the calendar year which included a decline of $32.5 related to market performance and $5.1 net growth from contributions and endowment withdrawals.
- In review, the plan has been met with mixed results primarily due to the adverse financial markets.
  - The plan fell short of the expected real return of 5.0%.
  - 10 basis points of value have been added over the past five years due to active management.
  - The plan placed in the top 42nd and 25th percentiles during the 3 and 5 year time periods.
- Aberdeen was funded in December 2008 to replace Newgate, the termination of Newgate was finalized in January 2009.
- The Maine Maritime Endowment transitioned into the University of Maine System Endowment Pool at the start of the 2009 calendar year.

Operating Cash
• The Operating Cash Fund had a 1.03% return on investment for the month of December 2008. The return on investments for the trailing quarter and twelve months were -3.68% and -6.27% 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.
• Commonfund will be shutting down its Absolute Return fund on March 31, 2009 since the Fund can no longer continue to invest with their preferred managers under its current liquidity terms. UMS staff will liquidate the fund over the timetable provided by Commonfund and rebalance the long-term portion of the pool so that all funds are equally weighted.

Adjournment,

Submitted by
Peter Small for
J. Kelley Wiltbank, Clerk