Trustee O'Leary, Chair, opened the June 2nd, 2009 Investment Committee meeting at 1:00 pm.

Education and Market Update
Mr. Jay Roney of New England Pension Consultants (NEPC) discussed current market conditions, noting that the global recession and market volatility persist. As markets stabilize, there will be opportunities for attractive returns, but risks must be continually evaluated.

Because of discussions of hedge fund problems in the media, Mr. Roney also educated the Committee on hedge funds. UMS hedge funds are generally conservative fund of funds. These funds are regulated by the SEC and are audited.

The current positive attributes of hedge funds are currently fewer funds, the marginal hedge fund investor has moved out of the market, while the remaining investors have longer time horizons, and fees are being reduced. The negative attributes are the changing business models, less leverage is available and more expensive, and there are longer lockup periods.

Gottex, which UMS is currently invested in, changed fees from 1.0% plus a 10% incentive fee to a 0.75% plus a 10% incentive fee. They also changed liquidity from quarterly with 2 months notice or monthly liquidity with 1 month notice and 1% redemption fee to quarterly with 3 months notice. Permal, which is also a UMS investment, will reduce their fee from 1.25% to 1.15%. Liquidity also changed from monthly with 11 days notice, to monthly with 95 days notice. In January 2010, liquidity will remain monthly but notice will be reduced to 20 days.

Operating Funds Goals and Objectives
Ms. Rebecca Wyke, Vice Chancellor for Finance and Administration, lead a discussion on the goals, objectives, and management of the operating funds. With the volatility in the market and the need to manage the bottom line, recent Commonfund Absolute Return Fund redemptions, were transferred to the short term portion of the pool. Chancellor Pattenaude, noted that the operating fund performance has become an integral part of our operating budget, in fact a substantial portion of the System Office budget has over the years been derived from operating fund returns. We need to move away from this approach and instead use earnings for strategic investment.
Ms. Wyke recommended expanding the scope of NEPC’s services to include assisting UMS staff in managing the Operating Fund. Mr. Roney noted that the fund was strong, but NEPC, would bring further discipline to the approach with the scope of services including asset allocation, manager searches, budget projection assistance, policy statement review, and monthly performance reporting. The action plan for this expanded relationship would include:

A. Meeting with System staff and others to talk about goals and objectives for the cash pool and to set objectives, including discussion of risk tolerances and cash flows and needs.
B. Taking several months to evaluate asset allocation and perform scenario analysis (by testing how the pool would perform in different market environments).
C. Evaluating additional managers for new mandates if appropriate.
D. Performing monthly reporting and monitoring of all managers similar to the Pension Plan and Endowment Fund.

NEPC would charge $50,000 for this service, which is half the normal charge for similar services. The new services would be effective July 1, 2009.

Mr. William Bullock, trustee at Maine Maritime Academy, noted that Maine Maritime Academy would be interested in exploring the joining of their operating funds with ours and sharing the fees.

The Committee supports using NEPC to consult on the Operating Cash Fund.

Hedge Fund Managers Update
Mr. Roney provided an update on the Hedge Fund Managers.

*Gottex Market Neutral Plus Fund*
- Global asset allocation company, well capitalized (no debt and growing).
- Client base remains stable with growth in insurance sector and most growth in institutional sector.
- When the market neutral plus fund suspended redemptions, approximately 84% stayed with the fund.
- Managers of the fund did reasonably well in a dramatically underperforming market, but that was still not good.
- Looking forward, Gottex believes the worst of the financial crisis is over and markets will respond as the government stimulus plans in Asia are enacted.

*Permal Fixed Income Holdings N.V.*
- Multi-manager, multi-strategy approach with a global focus. It’s a diversified fixed income portfolio allocated among credit spread related strategies and non-credit spread related strategies.
- Has been fee compression in industry and Permal will reduce the management fee to 1.15 basis points from 1.25 basis points as of 7/1/2009.

Performance Review
Ms. Kelly Cummings, Senior Analyst at NEPC, briefed the Committee on the Endowment and Pension Fund.
Pension Fund

- For the month ending 4/30/2009, the Fund totaled $41,611,811 with the monthly return on investment of 5.8% and a trailing year return of -21.0%.
- The plan has fallen short of absolute return targets due to weak global market, returning -25.1% over the trailing year – short of the expected return of 7.0 to 8.0%.
- Managers in aggregate fell short of their benchmark by 110 basis points over the trailing year.
- The Plan performed in-line with the median total fund during both Bull and Bear Markets. The Plan placed in the 54th, 55th, and 47th percentiles during the 1, 3, and 5 year time periods ending March 31, 2009, while taking less risk over the 3 and 5 year time periods.
- NEPC recommended at the last meeting to consider termination of SSgA’s Small Cap Enhanced Equity product, but due to the securities lending there are restrictions on liquidations. As a result, NEPC recommends transferring from SSgA Small Cap Enhanced Index to a SSgA Small Cap Passive Index product.

The Committee consented to NEPC’s recommendation.

Endowment Fund

- For the month ending 4/30/2009, the Fund totaled $109,985,093 with the monthly return on investment of 6.5% and a trailing year return of -23.2%.
- The Fund has fallen short of absolute return targets due to weak global markets.
- Value over the one year time period has been added. Managers have added 80 basis points over the past five years and active managers added 350 basis points of value during the first quarter of 2009.
- The Fund has outperformed the median endowment during both Bull and Bear Markets. The Fund placed in the top 22nd and 40th percentiles during the quarter and trailing one year time periods ending March 31, 2009.
- The termination of Newgate was finalized in January 2009 and Maine Maritime Endowment was transitioned into the Fund at the start of 2009.

Operating Fund

- As of 4/30/2009 the fund totaled $201,165,981 with a monthly return on investment of 1.6% and a trailing year return of -4.24%.
- The Commonfund Absolute Return Fund will have redeemed 65% of the fund by July 31, 2009 with the balance being distributed thereafter as soon as the underlying managers and market conditions permit.

Uniform Prudent Management of Institutional Funds Act (UPMIFA)
Ms. Tracy Elliott, Director of Finance and Controller, updated the Committee on UPMIFA:
- Maine has been guided by the uniform rules of UMIFA related to investment and expenditure of endowment funds
- UPMIFA is pending enactment in Maine. It went to the Maine Judiciary Committee on May 13th and received an ought to pass vote.
• Institutions are no longer required to preserve historic dollar value (i.e., corpus) when appropriating amounts for the annual endowment expenditure. Of course, institutions may decide to preserve corpus.
• UPMIFA focuses on prudence, taking into consideration the uses, benefits, purposes, and duration for which the endowment funds were established.
• The Maine version of UPMIFA has 4 modifications of note:
  o The requirement to track historic dollar value will remain.
  o An optional statement was added that a spending rate of more than 7% is presumed to be imprudent.
  o It allows evaluation of funds with amounts of $25,000 or smaller that are older than 20 years to be redeployed consistent with the original purpose.
  o The law will be reassessed within 2 years.

Adjournment,

Submitted by
Peter Small for
J. Kelley Wiltbank, Clerk