

UNIVERSITY OF MAINE SYSTEM
Board of Trustees

UMS, Rudman Board Room, 3rd Floor
September 30th, 2008

Investment Committee Meeting

PRESENT: **Committee Members:** Charles O'Leary, Chair, Norm Fournier, Tamera Grieshaber (by phone), Charles Johnson, Marjorie Medd, James Mullen, Chris Robinson, and Margaret Weston (by phone). **Staff:** Richard Pattenaude, Chancellor, Rebecca Wyke, J. Kelley Wiltbank, Tracy Elliott, and Peter Small. **Others:** Jay Roney, Janet Waldron, Diana Snapp, Geoff Bellows, Victoria Larson, and Andy Sawyer.

Trustee O'Leary, Chair, opened the September 30th Investment Committee at 1:00 pm. The June 27th, 2008 minutes were approved by the Investment Committee.

Mr. Jay Roney, investment consultant with New England Pension Consultants (NEPC), introduced himself and NEPC's services to the new members and guests of the Investment Committee.

- NEPC is a full service, fully independent consulting firm
- NEPC assists UMS with:
 - Investment policy development
 - Asset allocation
 - Manager searches
 - Risk management and budgeting
- Mr. Roney has been a consultant with UMS since 2/1/2002.

TCW Group Investment Management Review. As part of the Committee's continual fiduciary duty NEPC recommended interviewing TCW, one of the endowments large cap domestic managers. Though their performance has improved, it hasn't been as consistent as desired and there has been management turnover.

- TCW is a high-quality, growth equity manager.
- The fund strategically picks proven and established businesses and holds them until they no longer perform according to TCW's standards.
- As of June 30, 2008, while TCW had positive performance for both 3- and 5-year annualized returns (2.5% and 6.5% respectively, net of fees), they underperformed their benchmark.
- 2006 was exceptionally poor, underperforming the Russell 1000 by 1335 basis points.
- For the final quarter of fiscal year 2008, with a 3.6% net of fees return, TCW outperformed the Russell 1000 by 230 basis points.

Both NEPC and the Investment Committee were comfortable, maintaining the current allocation to TCW, but are going to closely monitor the funds performance on an on-going basis.

Pension Plan

- The Pension Plan totaled \$57.6 million as of 8/31/08, reflecting a -0.3% return for the month and -3.9% return for the trailing twelve months.
- The Pension Plan declined -0.3% for the quarter ending 6/30/2008 and was down -3.1% gross [-3.8% net] for the fiscal year, ranking in the 32nd and 36th percentiles of the Total Fund Universe.
- Active management added 30 basis points of value for the quarter ended 6/30/2008 as the Pension Plan outperformed the allocation index (-0.3% vs. -0.6%).
- Wellington's Opportunistic Investment strategy was funded August 1st to further diversify the Fund's allocation to Global Asset Allocation and to bring the allocation up to the 15% target weighting.

Endowment Fund

- The Endowment Fund totaled \$111.5 million as of 8/31/2008. The Fund was down -0.8% for August and down -4.2% for the trailing year.
- During the year ending 6/30/08, the net of fees return on investment was -2.7% for a loss of \$2.4 million and net withdrawals of \$4.6 million.
- The Endowment appreciated 0.7% for the quarter ending 6/30/2008, ranking in the 14th percentile of the Endowment Fund universe. The fiscal year return was -2.0% gross, ranking in the 26th percentile.
- Active management added 130 basis points of value for the quarter ended 6/30/2008 (0.7% vs. -0.6%).
- Wellington's Opportunistic Investment strategy was funded August 1st to further diversify the Funds allocation to Global Asset Allocation and to bring the allocation up to the 15% target weighting.
- NEPC has been concerned about Newgates (emerging market manager) performance and informed the committee that they would perform further research on the fund's performance and bring a recommendation to the next meeting.

Operating Cash

- As of 8/31/2008, Operating Funds were \$202.0 million, losing -0.06% for the month and gaining 1.65% for the trailing twelve months.
- UMS staff has added Federated Government Obligations Fund as a complement to the Vanguard Money Market fund. This fund was added to ease fund transfers within Bank of America accounts and to provide diversification.

Operating Cash Guidelines. UMS staff has updated the Operating Funds Investment Guidelines.

- The update improved the asset allocation strategy increasing the allocation to the longer term portions of the pool (tier 2 and tier 3).
- And, includes a new approach to budgeting for operating investment income by establishing a temporary investment income stabilization fund.
- The temporary investment income stabilization fund will establish a reserve, funded with excess investment funds from good years, to maintain budgeted levels in years of underperformance.

FY09 Investment Committee Agenda. UMS staff presented the FY09 work plan to the Committee that was requested by Chair Wishcamper and Chancellor Pattenaude.

GASB 45 Update. It is the intention of the UMS to fund the fiscal year 2008 post retirement medical liability using a Sec 115 Trust by 12/31/08. Management is working through legal and audit questions presently. Once these issues are addressed management intends to fund the trust.

Adjournment,

Submitted by
Peter Small for
J. Kelley Wiltbank, Clerk