Present at UMS: Committee Members: James Donnelly. Staff: Tracy Bigney and Tracy Elliott. Others: Connor Scott

Present by Phone: Committee Members: Karl Turner, Chair; Mark Gardner, Gregory Johnson, Marjorie Medd, James Geary, Jack Moore, and James Mullen. Staff: Dan Demeritt, Theo Kalikow, and Rebecca Wyke. Others: Sam Kirby (CAPTRUST), Mike Pratico (CAPTRUST), Kelly Regan (NEPC), Jay Roney (NEPC), and John Shipway (MMA).

Absent: Committee Members: Samuel Collins and Shawn Moody.

Trustee Turner, Chair, called the meeting to order.

Defined Contribution Plans – Quarterly Review of Funds & Transfer Assets. Mr. Mike Pratico reviewed the Defined Contribution (DC) Plan investments and Mr. Sam Kirby, Senior Investment Research Manager with CAPTRUST provided a more detailed overview of the TIAA Traditional investment option. Members of the Committee specifically requested the additional information given the high concentration of plan assets in this investment.

The TIAA Traditional is a General Account investment option at TIAA-CREF. The TIAA Traditional Annuity guarantees are backed by TIAA’s $230 billion General Account investments. The current crediting rate on the fund is 3.5%; however, the investment has a unique “vintage year” crediting formula so participants’ actual yield on investment is partially driven by the period in which the contributions are made. Mr. Kirby described the accumulation phase as well as the distribution phase of the investment. The distribution phase allows participants, in a Retirement Annuity (RA) account, to make withdrawals in the form of a life annuity or in 10 annual installments over nine years and one day.

Defined Contribution Plan – Fixed Income Active Manager Termination & Manager Selection. Given the abrupt departure of PIMCO Total Return’s lead fund manager, founder and chief investment officer (Bill Gross) along with several other factors, CAPTRUST recommended terminating the PIMCO Total Return fund.

While PIMCO is a large investment management firm with over $2 trillion in assets across a variety of asset classes and products, Bill Gross was a central investment process component. Across many PIMCO strategies, the firm incorporates a global “top-down” or macroeconomic viewpoint into their investment thinking, combining that with a “bottom-up” or security- and sector-specific outlook, to drive portfolio decisions. Bill Gross had been a consistent contributor to the macroeconomic viewpoint for years and without Gross’ skillset, PIMCO will need to adjust to missing a key input. PIMCO’s size necessitates that it have several talented individuals involved in its investment process, but Gross’ unique abilities, coupled with his cultural impact as a founder, make his resignation significant.
While PIMCO had taken steps earlier this year to promote emerging leaders into key investment officer roles, PIMCO has not developed “top down” expertise beyond Bill Gross to a point where CAPTRUST feels comfortable recommending strategies that have been reliant on Gross’ expertise. As a result, CAPTRUST recommended terminating the PIMCO Total Return fund from the DC Plan investment menu.

CAPTRUST presented replacement options for the PIMCO Total Return fund including Prudential Total Return Bond fund and the Western Asset Core Plus Bond fund. CAPTRUST presented the options with the first choice being the Prudential fund which invests primarily in U.S. dollar denominated investment grade securities but may hold up to 30% in below investment grade debt or 30% in non-U.S. dollar denominated debt. The portfolio managers utilize sector teams to develop a relative value framework between sectors and aid in security selection. Diversification of alpha sources, with the dual emphasis on security selection and sector rotation as value adds, have allowed the fund to consistently outperform peers and benchmark.

On a motion made by Trustee Turner, which was seconded by Trustee Gardner, the Investment Committee voted to terminate the PIMCO Total Return (PTTRX) fund in the DC Plan and replace the fund with the Prudential Total Return Bond Q (PTRQX). All contributions and existing assets will be mapped to the replacement fund.

**Defined Contribution Plan – Fixed Income Passive Manager Selection.** CAPTRUST also recommended adding a Passive Fixed Income fund to the DC Plan which would provide further diversification opportunities for participants in the fixed income space at a very low cost. CAPTRUST recommended the Vanguard Total Bond Market Index fund (VBTLX) for this passive option. No existing contributions or assets will be mapped to this fund.

On a motion by Trustee Turner, which was seconded by Trustee Johnson, the Investment Committee voted to add the Vanguard Total Bond Market Index Adm (VBTLX) to the plan.

**Defined Benefit Plan – Fixed Income Manager Selection.** Consistent with the reasoning supporting the termination of PIMCO Total Return from the DC Plan, NEPC likewise recommended terminating this investment from the Defined Benefit (DB) Plan. NEPC noted their comfort with the other two PIMCO strategies (All Asset and Floating Income).

On a motion by Trustee Turner, which was seconded by Trustee Medd, the Committee approved replacing PIMCO Total Return with Vanguard Total Bond Market Index Fund (VBTIX) in the DB Plan.

**Plan Performance Reviews Provided by NEPC.** For all funds, NEPC will be reviewing asset allocations during the first quarter of the calendar year and will bring recommendations to the Committee for consideration. The Committee requested that NEPC provide a report to the Committee regarding Hedge Funds including cost, returns, transparency and NEPC’s view.

**Managed Investment Pool**
MIP performance for the quarter ended September 30, 2014 was -2.3%, however long term performance has been strong, outperforming peers. In addition, managers have outperformed passive benchmarks.
NEPC provided an update on two managers - PIMCO and Aberdeen. Aberdeen Emerging Markets had poor performance in 2013 and, as a result, had experienced significant client cash outflows. Their performance has since rebounded and, at this time, NEPC recommends no action.

Asset allocation is close to policy targets and within policy ranges - the MIP is currently overweight to private equity.

NEPC noted that two new managers, Mondrian Emerging Market Small Cap and Loomis Sayles Fixed Income (a Global Multi-Sector product), have been funded and performance is off to a good start, relative to the benchmarks, in the first quarter of FY15.

**Defined Benefit Pension Plan**
NEPC provided highlights regarding the DB Fund. Plan performance for the quarter ended September 30, 2014 was -1.6% but has been positive over the longer time periods. Performance versus peers going forward will do well in down markets given the Fund’s conservative approach. Going forward, the risk of the Fund should migrate lower than peers given the new asset allocation that was approved in FY14. Asset allocation is close to targets and within policy ranges. The Fund continues to see outflows of about $400,000 every month for pension benefit payments.

NEPC noted that two new managers, Mondrian Emerging Market Small Cap and Loomis Sayles Fixed Income (a Global Multi-Sector product), have been funded and performance was off to a good start, relative to the benchmarks, in the first quarter of FY15.

**Operating Fund**
NEPC provided highlights for the Operating Fund. September 30, 2014 performance was -0.6% but long term performance has outperformed cash-like returns by a meaningful amount. NEPC’s rebalancing recommendation, to move $12 million from cash into fixed income and Global Asset Allocation strategies, was implemented by UMS staff in October 2014.

NEPC provided a manager update regarding a personnel change at Windhaven, a Global Asset Allocation manager, in the Operating Fund. NEPC recommended no action regarding this manager.

**UMS Divestment of Coal.** Trustee Turner provided comments about climate change and divestment options, stating that we all have a stake in this issue. Subscribing to the notion of thinking globally and acting locally, UMS has invested in retrofitting buildings to be more energy efficient and is supporting research activities including the Climate Change Institute and its groundbreaking research.

The topic of divestment of fossil fuels investments by UMS has been on the Committee’s agenda four times in the last 20 months. Fossil fuel divestment grew out of the academic and scientific communities and universities and colleges around the world as a strategy to both raise awareness of and thwart global climate change.

There is widespread agreement that climate change is real and driven by an accelerated release of CO2 as a result of the burning of fossil fuels. Fossil fuel divestment’s strategy seeks to appeal to trustees’ fiduciary duty of care. It points out that, over time, it is likely that huge reserves of fossil fuel will be “stranded” and cost of recovery will exceed the market value of the fuel. Accordingly, divestiture is in the enlightened self-interest of the fiduciary. Some colleges have taken action and
divested while others have decided against it or taken different steps. One, Stanford University, decided to divest from coal.

UMS’s investments are overseen by this Investment Committee. The Committee retains consultants who recommend professional managers to be considered for each of the market segments in which UMS invests. The consultants monitor the performance of the managers as well as the firms’ staffing dynamics. Investments that underperform are considered for termination. This helps insure that the Trustees’ and manager’s interests are aligned. Very few of UMS investment dollars are directly placed in individual stocks or bonds, rather they are invested in commingled funds, mutual funds, and limited partnerships. An example would be the S&P 500 Index fund.

While coal gets lost in the rounding of Maine’s energy market, it is still a big deal in electricity generation in the Midwest. Nearly half of the world’s’ population (China, India, Indonesia) is heavily dependent on coal to power their economies. Coal is a significant factor when it comes to creating an outsized carbon footprint and the key driver in climate change.

Mr. Connor Scott addressed the Committee urging a vote for coal divestment. Divest UMaine is a group of students, faculty, and alum spread across the campuses of the UMS. Mr. Scott emphasized that the climate crisis is one of the biggest issues the current generation is facing and stated that by divesting, we will be protecting our endowment, the risk will be low and the message will be strong. By divesting from coal, the UMS will be the first land grant institution in the country to divest from fossil fuels and will be the first system wide endowment to divest from this industry. Divest UMaine expressed support for coal divestment and offered support in moving forward to total fossil fuel divestment.

NEPC provided a report on the UMS allocation to coal in the 3 portfolios (MIP, Pension and Operating Fund). The University uses mostly mutual funds, commingled funds and limited partnerships for its investments, limiting its options to reduce fossil fuel exposure to those few separate accounts where investments are directly held by the University. NEPC stated that divestment is possible in 2 of the 3 separate accounts and that UMS, NEPC, and the 2 investment managers would have to update manager guidelines and the UMS investment policy statements would have to be updated.

The following summarizes the coal exposure as of September 30, 2014:

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>Coal Exposure</th>
<th>Percent of Portfolio Invested in Coal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managed Investment Pool</td>
<td>$856,885</td>
<td>0.3%</td>
</tr>
<tr>
<td>Pension Fund</td>
<td>$91,650</td>
<td>0.2%</td>
</tr>
<tr>
<td>Operating Fund</td>
<td>$713,462</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

As measured by the September 30, 2014 date, divesting of coal in the 2 separate accounts will result in the divestment of $502 thousand, or about 30%, of the approximate $1.7 million in UMS coal investments.

On a motion by Trustee Turner, which was seconded by Trustee Medd, the Investment Committee approved the following resolution be forwarded to the January 26, 2015, Board of Trustees Consent Agenda for approval.
That the Board of Trustees approves directing University of Maine System equity and fixed income separate account Investment Managers to negative screen for coal and to divest of any current directly held investments in coal mining companies. This action applies to the University’s three portfolios - the Managed Investment Pool, Defined Benefit Pension Fund and Operating Funds.

Adjournment.

Submitted by
Tracy Elliott for
Tracy B. Bigney, Clerk