Trustee Turner, Chair, called the meeting to order.

**Presentation by Divest UMaine.**
Sabrina Vivian, a University of Maine student, and Meaghan LaSala, a University of Southern Maine student, presented a case for divestment on behalf of Divest UMaine. Divest UMaine is a coalition of students, staff, faculty, and alumni of the University of Maine System. The speakers stated that divestment is a moral issue requiring stewards to act to mitigate climate change. The group asked that the UMS consider creating a timeline for divesting its endowment from top fossil fuel companies. Scientific and financial reasoning was offered to support divestment including the potential impact to company equity valuations should the world’s governments impose strict limits on carbon emissions.

Discussion followed and management and Trustees highlighted ways that the UMS demonstrates its environmental stewardship. All campuses are utilizing renewable energy sources and upgrading campus infrastructures, including converting energy systems and using sustainable design principles in construction projects. Vice Chancellor Rebecca Wyke offered to provide contact information should Divest UMaine want to talk further about the initiatives UMS is undertaking in this area.

Just a year ago, the UMS studied the potential impacts of divestment on its portfolios and learned that investment opportunities are limited and would require wholesale changes to the portfolios. Such changes could negatively alter the return, risk, and diversification profile of the portfolios. The Committee thanked the presenters and restated its intent to revisit this issue as investment options develop.

**Defined Contribution Plan Transition Update.**
Mr. Michael Pratico, Senior Vice President with CAPTRUST Financial Advisors, and Tracy Elliott, Controller, provided an update regarding the Defined Contribution Plan and the upcoming transition to a sole recordkeeper.

CAPTRUST met with the UMS internal committee, which has been working on this project, to discuss default options for mapping future contributions. After the transition, for those participants
who have not selected how their future contributions will be invested, contributions will default as follows:

- For participants who currently make contributions to TIAA-CREF, future contributions will map to “like” asset classes.
- For participants who currently make contributions to ING, Fidelity and Valic, future contributions will map to the age appropriate Vanguard Target Date funds.
- For participants who currently make contributions to both TIAA-CREF and to ING, Fidelity and/or Valic, future contributions will map according to the allocation on file with TIAA-CREF and using “like” asset classes.

Other comments and updates included:

- Participants’ asset balances remain as currently invested unless participants direct otherwise.
- Regarding the approved fund lineup, Vanguard is phasing out their Signal shares, replacing them with Vanguard’s Admiral shares. The final fund lineup reflects this change.
- Participant education meetings are scheduled for every campus during the month of April.
- UMS staff and TIAA-CREF representatives meet weekly to discuss transition items including communications, system and file testing, and other implementation matters.
- Key dates include the open enrollment period of May 12 through May 30, 2014 and a June 1, 2014 implementation date for the sole-recordkeeper relationship and the new investment menu.

**FY2015 Endowment Distribution Rate Per Share**

At its January 2014 meeting, the UMS Shared Services Advisory Council (SSAC) affirmed their support for using a 4.5% spending rate to calculate the FY2015 endowment distribution rate per share. This 4.5% is consistent with prior years and other higher education institutions.

A 4.5% endowment spending rate equates to a rate per share of $13.53261. Using this rate, an estimated $5.2 million will be available for endowed spending and $235 thousand allocated for management costs. This rate will provide for an estimated $300 thousand more in endowed spending for FY2015 compared with FY2014.

**Committee Recommendation – FY2015 Endowment Distribution Rate per Share**

The Investment Committee members supported the endowment distribution rate for FY2015 of $13.53261 per share. Lacking a quorum, the Committee forwarded the recommendation to the Board of Trustees for approval at its March 2014 meeting.

**Asset Allocation Study and Recommendations**

Ms. Kelly Regan with New England Pension Consultants (NEPC) provided an overview of their 2014 capital market observations, including investment opportunities and related reallocation recommendations.

**Managed Investment Pool (MIP)**

NEPC reviewed two asset allocation options (Mix A and Mix B). After an in depth discussion, the Investment Committee supported the adoption of Mix B which includes:

- Reallocating 5% from Loomis High Yield Bonds to Loomis Global Multi-Sector Fixed Income.
- Splitting the Emerging Market allocation to include a new allocation to Emerging Market Small Cap Equity for which NEPC will initiate a search for a manager.
Allocating 2% to Private Equity managed by Landmark Partners, subject to favorable due diligence review by staff and Mr. Jack Moore.

Pension
NEPC led a discussion of the Defined Benefit Plan’s liabilities, goals and objectives, and asset allocation options (Moderate, Conservative and Liability Driven). After an in depth discussion, the Investment Committee supported the Conservative Asset Allocation which includes:

- Reducing the Equity allocation from 40% to 20%, including issuing a search for an Emerging Market Equity Small Cap Manager for a 3% allocation.
- Increasing the allocation to Core Bonds from 13% to 27%.
- Issuing a search to determine options for core fixed income.
- Reallocating 5% from Loomis High Yield Bonds to Loomis Global Multi-Sector Fixed Income.
- Increasing the Global Asset Allocation from 26% to 30%.

Operating Fund
Given projected cash needs, no reallocation or rebalancing recommendations were made at this time.

Committee Recommendation – Approve above asset allocation changes for the MIP and Pension
Lacking a quorum, the Committee forwarded the above asset allocation recommendations to the Board of Trustees for approval at its March 2014 meeting.

Performance Reviews.
NEPC reviewed the performance of the MIP, Pension Plan, and Operating Funds.

Managed Investment Pool
The MIP returned 10.1%, net of fees, for the fiscal year-to-date through December 31, 2013 and 14.0% for the calendar year to date. The Plan ranked in the 41st percentile of the Total Endowment and Foundation Fund Universe during the fiscal year-to date time period, in the 50th for the calendar year, and in the 13th percentile for the ten year period. Managers and strategies have added value over all time periods reported.

Pension Plan
The Plan returned 8.5%, net of fees, for the fiscal year-to-date through December 31, 2013 and 11.8% for the calendar year to date. The Plan ranked in the 60th percentile of the Total Trust Fund Universe during the fiscal year-to date time period. This was mainly due to the Plan’s lower equity allocation versus peers and higher allocation to emerging market equity. Manager value has been mixed over the trailing time periods with Large Cap Equity and Emerging Market Equity managers contributing to the shortfall.

Operating Funds
The Operating Fund returned 2.5%, net of fees, for the fiscal year-to-date through December 31, 2013 and 2.6% for the calendar year to date. The Fund’s performance has been positive over all trailing time periods.

Other Discussion.
As of the July 1, 2013 actuarial report, the Defined Benefit Plan was 84.5% funded equating to an unfunded liability of $7 million. UMS’ actuary recently developed two funding options (10 years
and 45 years) for management to consider with both strategies designed so that the Plan’s assets would never be depleted. Having a written funding policy allows UMS to use NEPC’s approved discount rate (currently 7.25%) for the actuarial valuation. The alternative under GASB 68 Accounting and Financial Reporting for Pensions (effective FY2015) is to use a governmental bond rate for the unfunded portion of the liability which would increase the related expense and liability.

UMS adopted the 45 year funding strategy to allow smoothing of market impacts over a long time period and to minimize impacts on the Operating Fund. The amount UMS will be required to contribute will vary with market performance and with the NEPC annually supported discount rate. The contribution amount will be adjusted with each actuarial valuation. UMS will make a contribution to the Defined Benefit Pension Plan of $550 thousand in FY2014.

Adjournment.

Submitted by
Tracy Elliott for
Tracy B. Bigney, Clerk