Investment Committee

May 23, 2014
UMS, Rudman Board Room

Present at UMS: Committee Members: James Geary and James Mullen. Staff: Tracy Bigney, Others: Jean Deighan (UM Law School Foundation).

Present at USM via Polycom: Committee Members: Karl Turner, Chair; Gregory Johnson, and Jack Moore. Staff: Tracy Elliott, Rebecca Wyke. Others: Kelly Regan (NEPC), John Shipway (MMA).

Present by Phone: Committee Member: Sam Collins and Marjorie Medd.

Absent: Committee Members: Mark Gardner and Shawn Moody.

Trustee Turner, Chair, called the meeting to order.

Defined Contribution Plan Transition Update
Ms. Tracy Elliott, Controller, provided an update regarding the Defined Contribution Plan’s upcoming transition to a sole recordkeeper.

In April, representatives from CAPTRUST and TIAA-CREF and University staff held education sessions on all campuses and at the System Office to educate participants about what to expect with the transition to a sole recordkeeper including:

- the new fund lineup and the associated expense ratios,
- availability of investment advice,
- the various contribution mapping strategies, and
- TIAA-CREF’s online participant tools.

903 employees attended these educational sessions, representing about 19% of eligible employees.

Key milestone dates include:

- May 7th – TIAA-CREF website was updated with the new investment fund lineup.
- May 9th – TIAA-CREF performed bulk enrollment of all non-TIAA-CREF participants.
- June 2nd – The first contribution file with all participants will be sent to TIAA-CREF.

Approval of Investment Policy Statement Changes
NEPC updated the Managed Investment Pool (MIP) and Pension Investment Guidelines and Objectives to reflect the recently approved asset allocations including the resulting modification of the Pension Plan’s minimum long term return assumption from 7.25% to 6.75%.

On a motion by Trustee Johnson, which was seconded by Trustee Turner, the Investment Committee approved the updated Investment Policy Statements for the MIP and the Defined Benefit Pension Plan with the modification that the Emerging Market (EM) target benchmark will be the MSCI EM.
Emerging Market Small Cap Manager Interviews and Selection
At its March meeting, the UMS Board of Trustees approved a new asset allocation for the MIP and the Pension Plan. The new allocation called for a 3.5% allocation to EM Small Cap Equity in the MIP and a 3% allocation in the Defined Benefit Pension Fund. To select a manager for this mandate, the Investment Committee interviewed Mondrian Investment Partners and Lazard Asset Management by Polycom at the May 23, 2014 Committee meeting.

The managers and attendees included:

Mondrian Investment Partners - Graeme Coll, Senior Portfolio Manager and Jenny Phimister, Manager of Client Services.

Lazard Asset Management - Erik McKee, Director, Portfolio Manager/Analyst and Merida Welles, CFA, Managing Director Endowments, Foundations & Healthcare.

Mondrian, a 100% employee owned company, was founded in 1990 and has approximately $71 billion in assets under management. Mondrian is a value-oriented defensive manager with portfolio performance that seeks to be less volatile than the MSCI EM Small Cap Index. Fundamental research is strongly emphasized. An extensive program of company and market visits enhances initial qualitative and quantitative desk research. The use of top down analysis to target specific areas of the market has helped this product’s upside participation. Mondrian’s EM Small Cap product typically has 100 holdings with annual turnover of 28% and a management fee of 150 basis points. Assets under management for this product are $1.2 billion.

Lazard was founded in 1970 and is 100% parent owned with approximately $168 billion in assets under management. Lazard employs a bottom-up, relative value investment process focused on stock selection and companies with high, stable profitability and strong cash generation. They also employ a defensive strategy seeking to outperform the relevant benchmark over a full market cycle. Lazard EM Small Cap product typically has 95 holdings with annual turnover of 58% and a management fee of 100 basis points. Assets under management for this product are $364 million.

On a motion by Trustee Turner, which was seconded by Trustee Collins, the Investment Committee approved the selection of Mondrian Investment Partners for the previously approved EM Small Cap Equity allocations in the MIP and in the Pension Fund with funds coming from Aberdeen Emerging Market Equity.

Performance Review – Managed Investment Pool (MIP)
The MIP returned, net of fees, 1.8% during the quarter ended March 31, 2014 and 12.1% for the fiscal year-to-date through March 31, 2014. The Plan ranked in the 37th percentile of the Total Endowment and Foundation Fund Universe for the fiscal year-to-date time period and in the 6th percentile for the ten year period. All asset classes and managers contributed positively to performance during the quarter ending March 31, 2014.

Performance Review – Pension Fund
The Pension Plan returned, net of fees, 1.6% for the quarter and 10.2% fiscal year-to-date through March 31, 2014. The Plan ranked in the 64th percentile of the Total Trust Fund Universe for the fiscal year-to-date time period and 57th for the ten year period. These rankings would be expected during these periods as this closed Plan is more conservative than the broad universe. All asset classes contributed to outperformance during the quarter ending March 31, 2014.
**Performance Review – Operating Fund**
The Operating Fund returned, net of fees, 0.7% during the quarter ended March 31, 2014 and 3.2% for the fiscal year-to-date through March 31, 2014. The Fund’s performance has been positive over all trailing time periods.

**Fossil Fuel Investment Discussion**
Over a year ago, UMS received several inquiries regarding its investments in fossil fuels with particular emphasis on oil industry holdings. At its February 27, 2013 meeting, NEPC provided an overview to the Investment Committee about divestment options and limitations. The Committee asked NEPC to provide an update regarding how this area has developed over the past year.

The following representatives from Divest UMaine also attended the Committee meeting: Karen Marysdaughter and Dan Dixon were present at UMS and Meaghan LaSala and Iris SanGiovanni were present at USM. Divest UMaine is a coalition of students, staff, faculty, and alumni of the University of Maine System engaged in encouraging the divestment of investments from fossil fuel companies.

UMS’ exposure to fossil fuel investments is relatively small and estimated by NEPC to be: ~6.5% in the Managed Investment Pool, ~5.3% in the Pension Plan, and ~3.5% in Operating Funds. Ms. Kelly Regan, consultant with NEPC, reminded the Committee that NEPC does not have a view on sectors, but rather focuses on asset classes.

UMS invests mostly using mutual funds, commingled funds, and limited partnerships. As such, the opportunity to reduce fossil fuel exposure by providing negative screens to managers is limited. Ms. Regan reminded the Committee however that a flexible strategy allows for best performance. This investment space is still not well developed and tends to be concentrated in global equities. NEPC is in initial discussions with several managers regarding their ex-fossil fuel investment offerings, as such these managers and strategies are not approved at this time. Further, NEPC is not aware of investment products that screen out for fossil fuels in the following asset classes: Fixed Income, Global Asset Allocation, Hedge Funds or Timber.

The Committee discussed that UMS does not have a fossil fuel bias - UMS funds are not investing directly, UMS is not looking for energy funds, and the percentage invested in this area is not overrepresented. The Committee’s fiduciary responsibility is to ensure the investment policy goals are adhered to including maximizing total return consistent with prudent investment management and risk tolerance to enable UMS to meet its financial objectives. Active managers are incented to perform well and will have a natural bias in that they will discard companies that are underperforming (e.g. coal).

As previously agreed, Chair Turner, Ms. Wyke, Ms. Elliott, and Ms. Regan, agreed to continue the discussion with Divest UMaine representatives following the Committee meeting and invited others to stay and participate as their schedules allowed.

Adjournment.

Submitted by
Tracy Elliott for
Tracy B. Bigney, Clerk