Resolution for James Mullen
With James Mullen’s second term as a member of the Investment Committee drawing near, Trustee Turner expressed deep gratitude to Mr. Mullen for his years of dedicated service and the wisdom he has brought to this Committee. Mr. Mullen’s contributions to the University of Maine System (UMS) have been outstanding both as a member of this Committee, and previously as a member of the Board of Trustees.

On a motion by Trustee Collins, which was seconded by Trustee Johnson, the Investment Committee acknowledged James Mullen for his dedication and service as a non-voting, non-Trustee member.

Hedge Fund of Fund Manager Presentations and Selection
At its May 1, 2015 meeting, the Committee approved the redemption of Cube Capital’s Global Multi-Strategy Fund in the UMS’s three portfolios and approved a search for a replacement Hedge Fund of Fund manager. Jack Moore, Tracy Elliott, and NEPC representatives reviewed a manager search book and determined that ABS Investment Management or Lighthouse Partners would be a good fit for the allocation.

The Committee interviewed each manager by polycom at the May 27th meeting to learn more about the firms and their investment process, philosophy and performance. Both managers employ a pure global long/short equity hedge fund of fund strategy.

The managers and attendees included:

- **ABS Investment Management**
  - Laurence Russian, Portfolio Manager
  - Jon Feinberg, Business Development

- **Lighthouse Partners**
  - Ethan Baron, Portfolio Manager
  - Jay Steinle, Investor Relations

ABS Investment Management, founded in 2002, has $4.7 billion in assets under management with firm staff of 27. Their Global Portfolio Fund, started in 2003, has $2.2 billion in assets under management with 17 staff. The target net return is equity-like with less volatility at an 8%-10%
range. This strategy has 20-30 underlying managers and no leverage is employed. The management fee is 1% with an incentive fee of 5%. The firm also offered the option of a flat fee structure.

The ABS Global Portfolio is a fund of hedge funds that invests in small to mid-sized equity long/short managers who have the ability to be more opportunistic and nimble. The fund has a global emphasis, with the majority of the underlying managers focused on equity markets outside of the US. The firm does not apply top-down views to the portfolio but rather invests with managers that it believes are the best at what they do and, typically, 60-80% of these managers/exposures focus on markets outside of the US. ABS acknowledged that diversifying into emerging markets has not added value but hopes for improvement going forward.

Lighthouse Investment Partners, founded in 1996, has $8.4 billion in assets under management with firm staff of 75. The Lighthouse Global Long/Short (GLS) Fund started in 2004 and has $1.5 billion in assets under management with 21 staff. The target net return is 10% over market cycles with annualized volatility of 6-8%. This strategy has 20-25 underlying managers and no leverage is employed. The management fee is 1.15% with no incentive fee.

The Lighthouse product provides diversified lower volatility hedged equity exposure with managers predominantly specializing in industries and countries with geographical allocations similar to the MSCI World Index (30%-70% Americas, 10%-35% Europe, and 5%-35% Asia). Exposures are monitored for their market capitalization, region, sector, liquidity and single stock exposure. The Lighthouse GLS Fund is currently made up of 100% separately managed accounts allowing the firm to view data daily, at a position level, on managers and the total portfolio. Several committee members expressed the value that this portfolio transparency provides from a risk mitigation and opportunity perspective, allowing the firm to be nimble. Trustee Moody asked NEPC to pursue further negotiating the fee to 1% with Lighthouse.

On a motion by Trustee Turner, which was seconded by Trustee Medd, the Investment Committee selected Lighthouse Partners for the following allocations with funds coming from the respective Cube Global Multi-Strategy Fund:

- A 5.0% policy allocation in the Managed Investment Pool (5.0% policy, current funds estimated at $15,000,000)
- A 5.0% policy allocation in the Pension Fund (5.0% policy, currently estimated $1,800,000)
- A 2.5% policy allocation in the Operating Fund (2.5% policy, current funds coming from Cube estimated at $9,900,000 with $7 million for this allocation).

The motion was not unanimous – three Trustees for the motion and two Trustees against the motion. The Committee chose Lighthouse over ABS due to risk/return patterns as well as the lower flat fee structure. Both firms were highly regarded but in the end, fees and performance drove the decision along with the portfolio transparency of the Lighthouse product.

**Unconstrained Bonds Fixed Income Manager Presentations and Selection**

At its February 25, 2015 meeting, the Committee approved a new asset allocation for the Operating Fund of 5% to Unconstrained Fixed Income. Jack Moore, Tracy Elliott, and NEPC representatives reviewed a manager search book and recommended the Committee consider BlackRock and GAM for this mandate.
The Committee interviewed each manager by polycom at the May 27th meeting to learn more about each firm and their investment process, philosophy and performance. The managers and attendees included:

- GAM
  - Alex McKnight, Head of Convertible Bonds
  - Chris Todisco, Relationship Manager
- BlackRock
  - Matt Marra, Senior Product Strategist
  - Andrea Picard, Relationship Manager

BlackRock, founded in 1988, has $4.7 billion in assets under management. Their Strategic Income Opportunities product started in 2008 and has $24 million in assets under management. This mutual fund product (ticker BSIIX) has daily liquidity, charges 65 basis points which is expected to decrease as administrative costs go down over time, and has a duration of 2.9 years. The average underlying product quality is AA with the minimum quality of distressed debt. There are 1,324 issues with an annual turnover of 96.4%. This strategy has broad flexibility to invest across global fixed income and derivative markets. Intended to retain the risk profile of conservative fixed income investments, the strategy looks to control volatility and strictly manage potential tail risk. The strategy targets a return of LIBOR plus 3% to 6% with a volatility of 3% to 7%.

GAM, founded in 1983, has $134 million in assets under management. Their Unconstrained Bond product, started in 2006, has $17 million in assets under management. This commingled product has daily liquidity, charges 75 basis points, and has a duration of -1.91 years. The average underlying product quality is AA with the minimum quality of B. There are 508 issues with an annual turnover of 98%. The strategy is an unconstrained fixed income approach with hedged exposure to global interest rates and credit markets with absolute return orientation intended to be non-correlated to interest rate risk. The strategy targets a return of LIBOR plus 3% to 5% with a volatility of 5%.

On a motion by Trustee Moody, which was seconded by Trustee Medd, the Investment Committee selected Blackrock for a 5% allocation in the Operating Fund with funds coming from PIMCO Floating Income Fund (2.5% estimated $7,000,000) and Loomis Sayles Bank Loans (2.5% estimated $7,000,000). The motion was unanimous with the Committee favoring the Blackrock product which was viewed as more conservative.

**Updated Investment Policy Statements**

NEPC and staff updated the Investment Policy Statements (IPS) for the Managed Investment Pool, Defined Benefit Pension Plan and Operating Fund. Updates were made to reflect actions taken by the Investment Committee including asset allocation changes, approval of endowment rates, and restrictions related to coal divestment.

On a motion by Trustee Turner, which was seconded by Trustee Medd, the Investment Committee approved the updated Investment Policy Statements for the Managed Investment Pool, the Defined Benefit Pension Fund and the Operating Fund.

**Performance Reviews**

Jay Roney gave a brief performance review of the three portfolios highlighting performance through April 30, 2015.
Managed Investment Pool
Plan assets were $272.2 million as of April 30, 2015. Returns were 0.7% for the fiscal year to date and 3.9% over the 1 year period. Long term returns have been favorable, outperforming the policy and allocation index on a 3, 5, and 10 year basis. Returns were 8.7% over the 3 year period, 5.3% over the 7 year period, and 6.8% over the 10 year period.

Defined Benefit Pension Plan
Plan assets were $37.8 million as of April 30, 2015. Returns were 1.2% for the fiscal year to date and 3.9% over the 1 year period.

Operating Fund
Plan assets were $281.0 million as of April 30, 2015, returning 0.3% for the fiscal year to date and 1.5% over the 1 year period. Returns were 2.8% over the 3 year period, 2.6% over the 7 year period, and 3.3% over the 10 year period.

The Committee discussed the 25% allocation to the Operating Fund liquidity pool and returns that round down to 0.0% for this portion of the portfolio. Mr. Roney noted that Federal Reserve fund rates drive Money Market Fund yields and that the Federal Reserve is holding rates at 0%. If the Committee wanted to increase yield, the portfolio would have to take on more duration or credit risk. Mr. Roney mentioned that NEPC and staff have been exploring options.

Defined Contribution Plan Update
Barry Schmitt from CAPTRUST updated the Committee on several initiatives that have taken place over the last several months.

CREF Share Class Changes and TIAA-CREF fee negotiations update
Mr. Schmitt recapped prior discussions regarding TIAA-CREF variable annuity product changes. The UMS saw a decrease in the total cost of each variable annuity; however, the net cost slightly increased after factoring in each fund’s reduced revenue sharing offset. While the total cost of the TIAA-CREF variable annuities are very competitive, this action has resulted in a significant reduction in the excess revenue generated on the plan’s assets which are used to pay plan administrative expenses.

Mr. Schmitt also commented that the plans have experienced tremendous inflow of assets from increased contributions, market appreciation, and transfers of assets from de-selected vendors.

Given both of these factors, CAPTRUST asked TIAA-CREF to review and reduce the current administrative fee requirement which is 11.9 basis points (.119%). Mr. Schmitt notified the Committee that, effective July 1, 2015, TIAA-CREF has agreed to lower the administrative fee requirement from 11.9 basis points to 10.5 basis points.

The full impact of the above changes will be known after the third quarter of calendar year 2015 and CAPTRUST will report the results to the Committee at that time.

Plan Demographics
Mr. Schmitt provided the following key statistics (based on December 31, 2014 data):

- Total plan assets increased 14.7% from 12/31/2013 to 12/31/2014
- Contributions increased 33.9% for the same period
- 38% of the assets are invested in the TIAA Traditional fixed account products.
- Contributions, however, are being invested in a more diversified manner:
  - Only 17% of contributions are being invested in the TIAA Traditional Fixed account products
  - 33% are being invested in the target date funds
  - The remaining 50% are being invested in other asset classes including US equity, real estate, fixed income, etc.
- TIAA-CREF has seen increases in employee engagement across all of their channels. One notable change was the increase in the number of individual, one on one counseling sessions. In 2013, TIAA-CREF had 893 individual sessions compared to 1,624 in 2014.

**Quarterly Review of Funds**
Mr. Schmitt provided an update on the current trends within the marketplace along with the performance of the funds in the plan.

Current Trends include:
- Increased focus on retirement readiness and the benefits in engaging participants about meeting/falling short of their retirement objectives.
- The value of participant advice.
- Continued awareness on fees including the recent Supreme court case of Tibble v. Edison.
- Recent fiduciary regulations.

Mr. Schmitt provided an update on fund actions that have/are taking place:
- The addition of Vanguard Total Bond Market Index took place along with the replacement of PIMCO Total Return with the Prudential Total Return Bond fund.
- Vanguard is lowering the cost of two funds, the Vanguard Extended Market Index and the Vanguard Total Market Index, effective July 2015.

As of March 31, 2015 there were $1.35 billion in total plan assets including $4.6 million in transfers from de-selected vendors for the quarter. In addition, there is approximately $73 million in participant assets remaining at the de-selected vendors.

All funds are meeting policy guidelines except one - The Ridgeworth Mid Cap Value Fund. Although near-term performance has been somewhat challenging, long-term results remain strong relative to its peers and benchmark. The strategy has posted inconsistent results in recent years, as strong peer-relative performances in 2010 and 2012 were followed by disappointing results in 2011 and 2013. Don Wordell has been the portfolio manager since 2001. In addition to valuation and fundamentals, the investment process emphasizes dividends when screening for new ideas. Mr. Wordell believes that dividends provide several advantages including enhancing total return, reducing a stock's volatility, and imposing financial discipline on management. CAPTRUST continues to recommend this strategy due to its experienced investment team and disciplined process; however, if performance doesn’t improve, CAPTRUST will recommend alternatives.
Other

TIAA-CREF uses the “Ibbotson model” when recommending asset allocations to participants. There is concern about the amount of assets that are placed within the TIAA-CREF Traditional account given the withdrawal restrictions on this particular product. CAPTRUST will work with TIAA-CREF and UMS will review the model and discuss whether or not changes are appropriate and report back to the Committee.

Adjournment.

Submitted by
Tracy Elliott for
Tracy B. Bigney, Clerk