Present at UMS: Committee Members: James Geary and James Mullen. Staff: Janet Waldron and Kelley Wiltbank. Others: Jean Deighan (UM Law School Foundation), Jim Soucie (MMA) and James Bradley (Penobscot Financial Advisors).

Present at USM via Polycom: Committee Members: Eleanor Baker, Chair; Marjorie Medd, Jack Moore. Staff: Tracy Elliott. Others: Chris Robinson, Mike Pratico (CAPTRUST Financial Advisors), Kelly Regan (NEPC), Jay Roney (NEPC), and John Shipway (MMA)

Present at UMA via Polycom: Staff: Rebecca Wyke.

Present by Phone: Committee Members: Samuel Collins and Karl Turner.

Trustee Baker, Chair, called the meeting to order.

Defined Contribution Plan Fees. Mr. Michael Pratico, Senior Vice President with CAPTRUST Financial Advisors, led a discussion regarding future plan fees upon transition to TIAA-CREF as the University’s sole recordkeeper.

CAPTRUST reviewed the following future plan fees based on current asset distribution:

- Weighted average expense ratio: .54%
- Recordkeeping revenue generated: .19%
- Target required recordkeeping revenue: .119%
- Approximate excess revenue: .07%
- “Per head” cost (informational only): $72

CAPTRUST commented that the weighted average expense ratio, target recordkeeping revenue and per head calculation are all reasonable and competitive in the current marketplace based on benchmarking studies. Further, as assets gravitate to lower cost index options, including Vanguard Target Date funds, the overall expense ratio of the plan will go down also reducing excess revenue accumulation. It was also noted that TIAA-CREF provides regular on-site service and will add several days in the future to the schedule. There is a cost to these services that should be considered when determining reasonableness of program fees. Additional negotiation to further reduce program costs will occur during regular fee benchmarking studies in the future.

The Committee also discussed the concepts of fee leveling and fee fairness. Given the current and expected Defined Contribution asset allocation with TIAA-CREF, the vast majority of recordkeeping revenue will be generated by two investments, the TIAA Traditional Account and the CREF Stock account. TIAA-CREF credits .15% of the TIAA Traditional’s .55% expense ratio towards recordkeeping and .24% of the CREF Stock fund’s .49% expense ratio. Ultimately, this is beneficial to the plan and its participants; however, this approach also creates fee “leveling” and fee “fairness” concerns. It could be argued that assets in revenue sharing investments subsidize the administration of assets in non-revenue sharing investments. For example, if a participant’s entire account balance is in a Vanguard fund, they are technically not paying for program administration as there is no revenue share on the Vanguard funds. The Committee agreed that the issue of fee
fairness and fee leveling needs to be considered further. CAPTRUST will continue to work with TIAA-CREF on administration solutions but also suggested that the issue be looked at further following the conversion to the new fund line-up and based on where program assets “settle”.

**Draft Communications Related to Defined Contribution Plan Enhancements.** The Committee discussed the Defined Contribution program communication and education. The group reviewed and commented on draft presentation materials provided by CAPTRUST. These materials are intended as a visual component to a broad Defined Contribution Retirement Plan educational effort aimed at participants. This education will take place once the University is ready to transition to the approved single vendor and fund line-up approach. Several suggestions were made which CAPTRUST will incorporate into the draft materials. Group meetings will be scheduled at all campus locations to communicate changes when appropriate.

Ms. Tracy Elliott, Director of Finance and Controller, provided an update regarding other Defined Contribution Plan progress:

- TIAA-CREF opened an office in Corbett Hall on the UMaine campus today to provide participant services.
- University Staff, CAPTRUST and Penobscot Financial Advisors representatives met with AFUM representatives on September 27th to provide an overview and to answer questions regarding Defined Contribution Plan Changes.
- University Staff, CAPTRUST, Penobscot Financial Advisors, and TIAA-CREF representatives met with ACSUM and UMPSA representatives on November 1st to provide an overview and to answer questions regarding Defined Contribution Plan Changes.

**Fossil Fuels and Investments.** The Committee last discussed the issue of fossil fuel divestment considerations at its February 2013 meeting. Ms. Kelly Regan, New England Pension Consultants (NEPC), informed the Committee that investment opportunities are still very limited and that it would be very difficult to divest without taking a more concentrated approach to investments which would significantly impact risk and return considerations. Ms. Regan commented on a compelling letter that was recently issued by Drew Faust, President of Harvard University, which stated the reasons behind their decision to not divest from the fossil fuel industry. The Committee suggested that the Chancellor consider issuing a letter, before the Committee’s next meeting, regarding the University of Maine System’s position on divestment.

**Performance Review & Other.**

**Large Cap Managers Active to Passive Discussion**
Mr. James Geary asked Mr. Jay Roney, NEPC, to further comment on the recommendation made by NEPC, at the September 25th meeting, to move from an active to a passive large cap strategy. Mr. Roney commented that large cap is an efficient asset class with a finite number of companies in which to invest, where information is shared freely; therefore, managers have a difficult time adding value on a consistent basis and at the level you would expect. A large portion of NEPC’s clients invest passively and there are a number of white papers available on this issue. Because active managers can’t exceed the benchmark consistently, these large cap managers are consistently a topic of conversation at investment committee meetings. Within the last decade, the University has hired and fired 3 large cap managers. Moving to a passive strategy will be simpler and allow all parties to better allocate their time to other issues where more value may be added. This could be a long term solution; however, if active large cap management becomes compelling, NEPC will bring a recommendation to the Committee.
Third Quarter Market Review

- Fears of a 2013 Fed taper proved overstated when a continuation of the Fed’s current bond purchasing policy was announced on September 18th.
- Volatility receded in most asset classes outside of Treasuries.
- US equities, led by small cap issues, continued their extraordinary run and markets (once again) shrugged off the prospect of fiscal gridlock.
- European and Emerging Markets issues finally joining in on the upswing.
- While investors will gladly accept the gains from the domestic equity rally, for many, a diversified portfolio has been challenging.
- Emerging market equity and debt indices remain negative through the 3rd quarter year-to-date.
- Though yields have risen, fixed income returns have muted.
- While positive, hedge fund returns have been tame in comparison to traditional US equity markets.
- Commodities stayed mired in a slump as the energy landscape continued to change.

Managed Investment Pool (MIP)
The Plan returned 4.9%, net of fees, for the quarter ended September 30, 2013 and ranked in the 34th percentile of the Total Endowment & Foundation Fund Universe during the same time period and in the 48th percentile for the calendar year-to-date period.

The Committee decided at the September meeting to replace active large cap managers, MetWest and TCW, with a passive large cap equity index manager. The SSgA S&P 500 Index Fund has been chosen as the replacement and staff is in the process of transitioning assets.

Since the last Committee meeting, NEPC and staff performed a due diligence review of Blenheim and no action is recommended at this time although the manager remains on “watch” status. GMO was also added to the “watch” list due to changes in how international strategies will be managed.

Pension Plan
The Plan returned 4.7%, net of fees, for the quarter ended September 30, 2013 and ranked in the 33rd percentile of the Total Trust Fund Universe during the same time period and in the 53rd percentile for the calendar year-to-date period.

The Committee decided at the September meeting to replace active large cap managers, Rainier and Dodge and Cox, with a passive large cap equity index manager. Vanguard Institutional Index I was chosen for this mandate and staff is in the process of transitioning assets.

NEPC and staff performed a due diligence review of Blenheim and no action is recommended at this time although the manager remains on “watch” status.

Operating Funds
The Plan returned 1.2%, net of fees, for the quarter ended September 30, 2013 and 1.3% calendar year-to-date.

NEPC recently made rebalancing recommendations which staff is in the process of implementing.
Other Discussion Items.

Defined Benefit Classified Plan
The University’s actuary, Towers Watson, is currently performing two projects. The first project will be to develop an annual contribution to the Classified Plan which would be included in a formal written funding policy. The annual contribution would be the amount that, should the assets return 7.25% annually, the Plan's assets would never be depleted. This would allow the plan to use a 7.25% discount rate (subject to change) under GASB 68. The System would contribute the annual amount in the first year, and reassess the amount in subsequent years based on the funded status at that point. The second project is to develop an expense estimate for fiscal year 2015 under GASB 68 for both the Classified and the Incentive Plans. This estimated expense will be used for budget and federal fringe benefit rate development purposes.

Adjournment.

Submitted by
Tracy Elliott for
Tracy B. Bigney, Clerk