April 21, 2015

TO: Members of the Investment Committee

FR: Tracy B. Dineen, Clerk of the Board

RE: May 1, 2015 Investment Committee Meeting

The Investment Committee will meet from **2:00 pm to 3:00 pm on May 1, 2015.** The meeting will be held in the Rudman Board Room on the 3rd floor of the System Office in Bangor.

In addition to the meeting location at the System Office the following Polycom site will be available as well as a conference call connection:

**Polycom:**
USM – 419/427 Wishcamper Center, Portland
Phone: 1-800-605-5167 code – 743544#

The meeting materials have been posted to the Diligent Portal under Investment Committee. Also these materials will be posted on the Board of Trustees website ([http://www.maine.edu/about-the-system/board-of-trustees/meeting-agendas/investment-committee/](http://www.maine.edu/about-the-system/board-of-trustees/meeting-agendas/investment-committee/)). If you have questions about the meeting arrangements or accessing the meeting materials please call me at 973-3234.

If you have any questions or desire additional information about the agenda items, please call Tracy Elliott at 973-3252.

cc: Chancellor James Page
    Presidents
    Rebecca Wyke
    Tracy Elliott
AGENDA

TAB 1  Cube Global Multi-Strategy Fund Termination

TAB 2  UM Advancement Alignment Task Force Recommendation Re: Management Fee on Endowments

Items for Committee decisions and recommendations are noted in red.

Note: Times are estimated based upon the anticipated length for presentation or discussion of a particular topic. An item may be brought up earlier or the order of items changed for effective deliberation of matters before the Committee.
AGENDA ITEM SUMMARY

1. NAME OF ITEM: Cube Global Multi-Strategy Fund Termination

2. INITIATED BY: Karl W. Turner, Chair

3. BOARD INFORMATION: BOARD ACTION: X

4. BACKGROUND:

On April 21, 2015 NEPC provided the following letter recommending that the University of Maine System (UMS) terminate its investments with Cube Capital. This recommendation was prompted by Cube’s recent receipt of advance redemption notices for assets aggregating $284 million on top of $135 million in redemptions received in March for the June quarter. The loss of over $400 million in assets would take Cube’s firm Assets Under Management (AUM) from approximately $1 billion at December 31, 2014 to less than $600 million. NEPC reports that this activity threatens the financial viability of the firm.

NEPC recommends that clients express their intent to redeem from Cube’s Global Multi-Strategy Fund (CGMS) by May 1, 2015. As the underlying investments are highly liquid, NEPC anticipates little impact to the performance of the product as a result of such large redemptions. With a May 1 redemption request submission, UMS can expect the vast majority of its proceeds to be received in the Fall with a small amount held back until valuations are finalized.

As of February 28, 2015, the Managed Investment Pool (MIP), Defined Benefit (DB) Pension Plan, and the Operating Fund collectively invested $26.5 million with Cube as follows:

<table>
<thead>
<tr>
<th>Plan</th>
<th>Millions</th>
<th>% of Portfolio in Respective Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIP</td>
<td>$ 15.0</td>
<td>5.5%</td>
</tr>
<tr>
<td>DB Pension Plan</td>
<td>1.7</td>
<td>4.5%</td>
</tr>
<tr>
<td>Operating Funds</td>
<td>9.8</td>
<td>3.4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 26.5</strong></td>
<td></td>
</tr>
</tbody>
</table>

5. TEXT OF PROPOSED RESOLUTION:

That the Investment Committee approve the redemption of the Cube Global Multi-Strategy Fund investments held in UMS’ three portfolios and commence a search for a replacement manager.
To: NEPC Clients  
From: Hedge Fund Research  
Date: April 21, 2015  
Subject: Cube Global Multi-Strategy Fund: 48-Hour Letter Suggesting “Termination”

Summary

NEPC has been notified that Cube Capital has received advance redemption notices for assets aggregating $284 million from some of its large HNW/Family Office investors. These requests are on the heels of $135 million in redemptions received in March for the June quarter. The loss of over $400 million in assets would take Cube’s firm AUM from approximately $1 billion at December 31, 2014 to less than $600 million. This activity threatens the financial viability of the firm and forces Cube to make the following choice: sell the firm as a going concern or wind down CGMS and the firm consequently. Even if Cube is successful finding an acquirer and stabilizes its business, it is likely to lose its definition as the firm that NEPC had originally underwritten, thus warranting full redemption. NEPC recommends that clients express their intent to redeem from Cube’s Global Multi-Strategy Fund (CGMS) by May 1, 2015. This would allow investors to queue up in time before the June 30th deadline for a September 30th redemption. If Cube’s merger talks fail to materialize, with the redemption notices in hand, it would allow Cube to begin the liquidation of the fund without delay.

Background

NEPC was informed today that Cube Capital, manager of Cube Global Multi-Strategy Fund (CGMS), received advance redemption notices for assets aggregating $284 million from some of its large HNW/Family Office investors. These requests are on the heels of $135 million in redemptions received in March for the June quarter. HNW/Family Office investors have represented over 60% of Cube’s AUM and have until now been a stable clientele even through the financial crisis. However, for various reasons these clients have presently elected to redeem from the fund. The loss of over $400 million in assets would take Cube’s firm AUM from approximately $1 billion at December 31, 2014 to less than $600 million placing the firm’s business at risk.

Investors may recall that in the third quarter of 2013 Cube had rationalized its business by shedding its overseas real estate division aiming to focus exclusively on its hedge fund business comprising of CGMS (majority of assets) and Cube Global Opportunity Fund. As a result, peak firm assets of $1.3 billion were reduced to $1 billion which led NEPC to re-verify the financial viability of the business. Our review suggested that aggregate annual operating expenses of $8.5 million required a minimum asset level of $770 million to break-even. At December 31, 2014 asset levels for CGMS were above $900 million and firm assets around $1 billion were sufficiently above break-even levels. Capitalizing on its success with
institutional clients in the US and overseas in recent years, Cube had expected some prospects to materialize in Q1, 2015. On the contrary, it received redemption notices as stated above. This unforeseen activity threatens the financial viability of the firm and brings Cube to a hard choice: sell the firm as a going concern or wind down CGMS and the firm completely.

Cube indicates that it has opened a dialogue with a large European Alternative Assets manager with an aim to sell the firm. The outcome of this negotiation is expected in approximately 2 weeks. Should this sale occur, the redemption terms of CGMS (Quarterly redemption/90 days- notice) shall prevail affording existing clients in CGMS the option to submit redemption notices by June 30 for the quarter ended September 30, 2015, with cash proceeds delivered during the fourth quarter of 2015.

Should the acquisition not materialize, Cube would wind down the firm and return assets to investors. If Cube were to liquidate CGMS, by Cube’s estimates almost 95% of the portfolio could be liquidated by June 30, 2015 with capital returned to investors by early Fall 2015.

Conclusion

Even if Cube is successful finding an acquirer and stabilizes its business, Cube is likely to lose its definition as a firm that NEPC had originally underwritten, thus warranting full redemption. NEPC recommends that clients in CGMS act by May 1, 2015 to express their intent to redeem from the fund. This would allow investors to queue up in time before the June 30th deadline for a September 30th redemption. If Cube’s merger talks fail, with redemption notices in hand it would allow Cube to begin the liquidation of the fund without delay.

NEPC Hedge Fund research would recommend Prisma Spectrum Fund as a viable replacement option for Cube. The Spectrum Fund is a similarly well-diversified multi-strategy fund of hedge fund that aims to fulfill a dual objective of participating well on the upside while protecting capital in down markets. Please contact your field consultant for NEPC’s investment and operational due diligence reports on Prisma and also schedule some time with the Hedge Fund Research Team if you would like.

If you have any questions, please feel free to contact your field consultant at 617-374-1300.
AGENDA ITEM SUMMARY

1. **NAME OF ITEM:** UM Advancement Alignment Task Force Recommendation - Management Fee on Endowments

2. **INITIATED BY:** Karl Turner, Chair

3. **BOARD INFORMATION:**
   
   **BOARD ACTION:** X

4. **BACKGROUND:**

   President Susan J. Hunter appointed an Advancement Alignment Task Force in October 2014 as part of the preparations for the University of Maine’s (UM) upcoming comprehensive fundraising campaign. The President charged the Task Force with reviewing a new organizational model that would increase philanthropic support for UM. A summary of the Task Force’s Final Report is provided for reference.

   The Task Force recommended that UM designate the University of Maine Foundation (the Foundation) as the primary fundraising entity for UM, transfer all Development operations and staff to it, and come to agreement with the Foundation on a new Memorandum of Understanding and Contract for Services.

   The Task Force also recommended that UM and the Foundation work with the University of Maine System (UMS or System) to develop and implement a policy that will enable the System to charge a 125 basis point fee on the endowment funds held by the System for UM, and that these new funds be used to enable UM and the Foundation to significantly expand fundraising in support of the priorities set by UM.

   It is understood that this management fee shall be disclosed in advance of being charged; that an opportunity to “opt out” shall be presented to current endowment donors, their heirs or representatives; and a policy for exceptions to this fee will be established based upon best practices nationwide.

   The importance of private giving to the health of the university is greater now than at any point in its history. In order for UM to compete successfully with its peer institutions, it is essential that the amount of money raised from private sources increase significantly. Funds provided by private donors, foundations, and corporations are required to provide the scholarships needed to attract the best and brightest students, to reduce student debt, to improve instructional infrastructure, and to recruit and retain quality faculty. Therefore, an investment in UM's fundraising operations is imperative.
5. **TEXT OF PROPOSED RESOLUTION:**

That the Investment Committee forward this item to the Consent Agenda at the May 17 & 18, 2015 Board of Trustees meeting for approval of the following resolution:

That the Board of Trustees approves UM’s assessment, as of July 1, 2016 or later, of an annual management fee of up to 1.25% of the market value of UM’s endowments held by the University of Maine System. The fee will be taken from the annually determined endowment payover* and will replace the current annual management fee of 0.25%.

*Approved annually by the Investment Committee, the UMS endowment distribution formula uses a 3-year market value average with a spending rate applied. The resulting distribution amount is divided by the total number of shares in the endowment pool as of November 30 to arrive at the distribution rate per share for the following fiscal year. The UMS Accounting Department uses the approved rate per share in the monthly allocation process whereby each endowment receives a distribution based on the respective number of shares held as of the annual measurement point adjusted for additional shares acquired during the remainder of the fiscal year.

04/22/2015
Task Force roster

John Simpson ’71, ‘83G, Chair, Advancement Alignment Task Force
David Austin ’90, Chair, University of Maine Foundation
Nathan Briggs ’02, ‘05G, Chair, University of Maine Alumni Association
Samuel Collins, Chair, University of Maine Board of Trustees
Chris Emmons ’76, Vice Chair, Board of Visitors
Carrie Enos ’99, President, University of Maine Pulp and Paper Foundation
Susan Jennings ’82, Executive Director of the Maine 4-H Foundation; Cooperative Extension Professor
Gregory Johnson ’68, ’09 Hon. L.H.D., Vice Chair, Board of Trustees
Edward Keefe ’86, University of Maine Foundation Board
Kurt Marston ’74, ’79G, Former Chair Alumni Association; UM Foundation Board
Jeff Mills ’82 President & CEO, University of Maine Foundation
Eric Rolfson Vice President for Development and Alumni Relations
Todd Saucier ’93, ’97G, President, University of Maine Alumni Association
Karl Turner ’65, University of Maine Board of Trustees
Dorcas Wilkinson ’78, ’80G, University of Maine Board of Visitors
Rebecca Wyke ’85, ’89G, Vice Chancellor for Finance and Administration, University of Maine System

Meeting Dates

November 13, 4:00 – 6:00 p.m.
December 8, 3:00 – 5:00 p.m.
January 12, 3:30 – 5:30 p.m.

At the end of the third meeting, the Task Force unanimously adopted the recommendations summarized below.
Summary of Actions

1. The Task Force adopted a Statement of Values and Objectives to guide its work.

2. The Task Force recommended that the University of Maine (UM) designate the University of Maine Foundation as the primary fundraising entity for UM, transfer all Development operations and staff to it. Initial work will focus on creation of an agreement with the Foundation on a new Memorandum of Understanding and Contract for Services.

3. The Task Force recommended that as of July 1, 2016 or later, UM assess an annual management fee of up to 1.25% of the market value of UM’s endowments held by the University of Maine System. The fee will be taken from the annually determined endowment payover* and will replace the current annual management fee of 0.25%.

   It is understood that this management fee shall be disclosed in advance of being charged; that an opportunity to “opt out” shall be presented to current endowment donors, their heirs or representatives; and a policy for exceptions to this fee will be established based upon best practices nationwide. Additionally, a report on generated management fees and fundraising results shall be provided the Board of Trustees annually.

4. The Task Force recommended that the President create a small task force and charge it to develop a comprehensive plan to coordinate the work of UM and its four Advancement partners.