AGENDA ITEM SUMMARY

1. NAME OF ITEM: Defined Contribution Plans – Fixed Income Passive Manager Selection

2. INITIATED BY: Karl W. Turner, Chair

3. BOARD INFORMATION: BOARD ACTION: X

4. BACKGROUND:

Passive core strategies are domestic-focused mandates where the portfolio manager tries to mimic a broad-based bond proxy such as the Barclays Capital U.S. Aggregate Bond Index. In general, this index is comprised of high-credit quality and moderate duration bonds with good liquidity or trading volume. Since the underlying bonds are dollar-denominated, U.S. investors do not experience currency risk. Passively managed bond strategies rebalance and reconstitute their holdings on a schedule commensurate with changes issued by Barclays Capital. They are typically lower cost than their actively managed counterparts.

In the mutual fund space, the vast majority of passive bond index funds are attempting to replicate the returns of the same index – the Barclays Aggregate Index. There are a couple that try to replicate an intermediate term government credit index instead, but that’s the minority. We would consider the Vanguard Total Bond Index fund a domestic “core” fixed income fund. Its attempt to replicate the Barclays Aggregate Index provides investors with broad exposure to the domestic fixed income market, including investment grade corporates, US Treasuries, and government sponsored mortgage-backed securities. There are no core “plus sectors” such as high-yield or global and emerging market debt, for example - included in the index.

In reviewing the current fund structure, there is an ability for faculty/staff to invest in every major asset class in a passive, cost effective manner, except fixed income. CAPTRUST believes having a passively managed, cost effective intermediate term bond fund would offer participants another choice within the fixed income area without overwhelming them with too many choices. Furthermore, considering that Vanguard has been the “Manager of Choice” to invest passively across the other major asset classes and based on its low tracking error and low expense, CAPTRUST recommends that the University of Maine System offer the Vanguard Total Bond Market Index Fund.
5. TEXT OF PROPOSED RESOLUTION:

The Investment Committee approves the selection of Vanguard Total Bond Market Index Fund as an additional investment offering in the Defined Contribution Plan. The Investment Committee further approves the addition of the Vanguard Total Bond Market for implementation coinciding with the implementation of the active fixed income fund change process.