University of Maine System Operating Funds
Fourth Quarter 2013
Investment Committee Meeting
February 27, 2014

Jay E. Roney, CTP, Partner
Kelly Regan, Consultant
As of December 31, 2013, the Operating Fund’s assets totaled $266.7 million, this is a $29.3 million decrease since September 30, 2013. The Plan is within policy ranges.

As cash flows fluctuate throughout the year, the individual Pool weights will vary as well. Currently, the Plan is over-allocated to the Total Return Pool (29.6% vs. 25.0%); under-allocated in the Liquidity Pool (12.8% vs. 25.0%); and over-allocated to the Income Pool (57.6% vs. 50.0%).

The Plan returned 1.3%, net of fees during the fourth quarter. All asset classes contributed positively to performance with the exception of core bonds. The Plan’s managers are adding value as the Plan Composite outperformed the Allocation Index during the 4th quarter.

The Plan’s performance has been positive over all trailing time periods.

There are currently two manager updates on the Due Diligence Monitor page which require a “Watch” status and a “No Action” status.

Recent Actions
The Plan rebalanced in October 2013 per the following:
- $15 million from the Liquidity Pool
- $10 million to the Income Pool
- $5 million each to IR&M and Vanguard
- $5 million to the Total Return Pool
- $3 million each to Windhaven and PIMCO All Asset
- $2 million to Vanguard Total World Stock Index
- $3 million from Cube

There are no recommended changes to the Plan’s policy allocation.
The items below summarize any changes or announcements from your Plan managers/funds. A “Yes” indicates there was an announcement and a brief summary is provided separately. NEPC’s Due Diligence Committee meets every two weeks to review events as they relate to investment managers and determines if any action should be taken by NEPC and/or by our clients. They rate events: No Action, Watch, Hold, Client Review or Terminate. NEPC considers ourselves to be a fiduciary, as ERISA defines the term in Section 3(21).

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<th>Manager Changes/Announcements (Recent Quarter)</th>
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<td>PIMCO – Several Announcements</td>
<td>Yes</td>
<td>Watch</td>
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<td>Vanguard</td>
<td>Yes</td>
<td>No Action</td>
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A legend key to our recommendations is provided below.

<table>
<thead>
<tr>
<th>NEPC Due Diligence Committee Recommendation Key</th>
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<tr>
<td><strong>No Action</strong></td>
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<tr>
<td><strong>Watch</strong></td>
</tr>
<tr>
<td><strong>Hold</strong></td>
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<tr>
<td><strong>Client Review</strong></td>
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<tr>
<td><strong>Terminate</strong></td>
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Below is a summary of manager changes, announcements and due diligence events since the issuance of our last quarterly report.

### Manager Changes/Announcements

**PIMCO**

- On January 21, 2014, PIMCO announced that Mohamed El-Erian, CEO and co-CIO, is resigning his position at PIMCO effective mid-March. Mohamed will continue to work alongside team members to aide in the transition of responsibilities until that time. Following his departure in March, he will retain a role, with PIMCO parent Allianz, as a member of the International Executive Committee and will advise the Management Board on global economic and policy issues. In addition to the announcement regarding Mohamed’s departure, PIMCO announced the following changes:
  - PIMCO founder Bill Gross continues to serve as the firm’s CIO
  - Andrew Balls has been appointed to Deputy CIO
  - Dan Ivascyn has been appointed to Deputy CIO
  - Mark Kiesel has been appointed to Deputy CIO (Credit)
  - Virginie Maisonneuve has been appointed to Deputy CIO (Head of Global Equities)
  - Scott Mather has been appointed to Deputy CIO (Head of Global Portfolio Management)
  - Mihir Worah has been appointed to Deputy CIO (Head of Real Return Portfolio Management)
  - Doug Hodge has been appointed CEO. Mr. Hodge was previously the COO of PIMCO
  - Jay Jacobs has been appointed President of PIMCO, which is a newly created position
  - Craig Dawson has been appointed Head of Strategic Business Management
  - Kim Stafford succeeds Jay Jacobs as Head of Talent Management

- PIMCO also announced several Investment Committee Changes:
  - Marc Seidner, resigned to take a role outside of PIMCO
  - Existing members Bill Gross, Saumil Parikh, Andrew Balls, and Christian Stracke remain on the IC
  - New IC members include the newly named Deputy CIOs and Tony Crescenzi
  - Mohit Mittal and Qi Wang remains as Rotating IC members. A third rotating member will be named in the near future
Below is a summary of manager changes, announcements and due diligence events since the issuance of our last quarterly report.

**Manager Changes/Announcements**

**PIMCO**

- PIMCO indicated that this decision by Mohamed was made for personal reasons and NEPC has no reason at this time to believe otherwise. This announcement comes on the heels of two other high level changes at PIMCO – one was Mohamed’s reassertion as lead PM on the Global Multi Asset Fund in November and the other was the announcement of IC Member, Chris Dialynas’ sabbatical in December.

- In the near term, we believe the recent changes will not degrade PIMCO’s investment process and capabilities. However, concerns arise due to the turnover at the highest levels of PIMCO’s leadership and the potential impact that may have on the Firm’s culture and the long-term succession plan for CIO, Bill Gross. While we do not question Mr. Gross’ commitment to PIMCO, we had always viewed Mohamed as a potential successor. Following Mohamed’s departure, there is less clarity around leadership succession and we believe this has led to an increased “key person” risk associated with Mr. Gross and PIMCO.

- NEPC is recommending “Watch” at the firm level which includes the PIMCO All Asset and PIMCO Floating Income strategies.
Below is a summary of manager changes, announcements and due diligence events since the issuance of our last quarterly report.

### Manager Changes/Announcements

**Vanguard**

- On November 18, 2013, Vanguard announced that Robert Auwaerter, Head of Vanguard’s Fixed Income Group, will be retiring. Mr. Auwaerter, who plans to step down in March 2014, is responsible for the portfolio management, strategy, credit research, trading, and planning functions for the Fixed Income Group, which comprises 120 investment professionals and support staff. He oversees all aspects of Vanguard’s fixed income division including both passive and actively managed strategies.

- Gregory Davis who is currently the CIO of Vanguard’s Asia Pacific region in Australia, will be taking over for Mr. Auwaerter. Previously, he served as a senior portfolio manager and head of bond indexing in Vanguard Fixed Income Group. Mr. Davis will be returning to the U.S. to assume management of the Fixed Income group prior to March of 2014.

- There will be no changes to the management personnel of the passive fixed income portfolios or active portfolios which broadly include, stable value, short and intermediate investment grade portfolios, and tax-exempt municipal bond portfolios. Each of the portfolio managers and team leaders will remain intact.

- **NEPC is recommending “No Action” as a result of this announcement.**
University of Maine System Operating Fund

Total Fund Asset Allocation

**Target Asset Allocation**

- Liquidity Pool: 25.0%
- Income Pool: 50.0%
- Total Return Pool: 25.0%

**Actual Asset Allocation**

- Liquidity Pool: 12.8%
- Income Pool: 57.6%
- Total Return Pool: 29.6%

*May not add up to 100% due to rounding*
### University of Maine System Operating Fund

#### Total Plan Performance Detail (Net of Fees)

<table>
<thead>
<tr>
<th>Operating Funds Composite</th>
<th>Market Value ($</th>
<th>% of Portfolio</th>
<th>Policy %</th>
<th>3 Mo (%</th>
<th>Fiscal YTD (%)</th>
<th>1 Yr (%)</th>
<th>2 Yrs (%)</th>
<th>3 Yrs (%)</th>
<th>5 Yrs (%)</th>
<th>7 Yrs (%)</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>266,654,783</td>
<td>100.0</td>
<td>100.0</td>
<td>1.3</td>
<td>2.5</td>
<td>2.6</td>
<td>4.5</td>
<td>3.0</td>
<td>4.6</td>
<td>2.9</td>
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</table>

| Allocation Index          | 1.6           | 2.1          | 2.5     | 3.6     | 2.6          |          |          |          |          |          |

| Liquidity Pool Composite  | 34,133,833    | 12.8         | 25.0    | 0.0     | 0.1          | 0.2      | 0.2      | 0.4      | 1.6      |          |

| State Pool                | 25,255,183    | 9.5          |         | 0.1     | 0.1          | 0.3      | 0.3      | 0.4      | 1.5      |          |
| Dreyfus Insf® Cash Advantage | 27,845    | 0.0          |         | 0.0     | 0.0          | 0.1      | 0.1      | --       | --       |          |
| BOA General Fund          | 337,802       | 0.1          |         | 0.0     | 0.0          | 0.1      | 0.2      | --       | --       |          |
| Federated Prime Cash Obligations | 8,513,203 | 3.2          |         | 0.0     | 0.0          | 0.1      | 0.1      | --       | --       |          |

| Citi 3mth Treasury Bill   | 0.6          | 0.0          | 0.0     | 0.1     | 0.1          | 0.1      | 1.0      |          |          |          |

| Income Pool Composite     | 153,674,888  | 57.6         | 50.0    | 0.7     | 1.4          | 1.3      | 4.5      | 2.9      | 7.1      | 3.4      |

| Income Research + Management | 80,112,428 | 30.0         | 25.0    | 0.3     | 0.7          | 0.6      | --       | --       | --       |          |

| Barclays 1-3 Yr. Govt/Credit | 0.2         | 0.6          | 0.5     | 1.0     | 1.2          | 2.0      | 3.1      |          |          |          |

| PIMCO Floating Income Fund | 26,723,075   | 10.0         | 7.5     | 2.3     | 3.8          | 3.2      | 8.1      | 3.7      | 10.0     | 2.8      |

| 0.25 Dur, 1/3 JPM EMBIG, 1/3 BC Agg, 1/3 ML HY BB | 1.2         | 3.1          | 2.1     | 6.9     | 3.4          | 8.1      |          |          |          |          |

| Loomis Sayles Bank Loans  | 23,141,317   | 8.7          | 7.5     | 1.4     | 2.4          | 4.1      | 6.1      | 4.9      | 11.4     | --       |

| S&P LSTA Leveraged Loan Index | 1.7         | 2.9          | 5.3     | 7.5     | 5.4          | 14.4     | 5.1      |          |          |          |

| Vanguard Total Bond Market Instl Fund | 0.2         | 0.4          | 2.1     | 1.0     | 3.2          | --       | --       |          |          |          |

| Barclays Aggregate        | -0.1         | 0.4          | -2.0    | 1.0     | 3.3          | 4.4      | 4.9      |          |          |          |

| Total Return Pool Composite | 78,846,062 | 29.6         | 25.0    | 3.3     | 6.6          | 8.1      | 5.5      | 6.4      | 5.3      | 5.0      |

| Cubo                      | 12,555,153   | 4.7          | 2.5     | 3.5     | 4.2          | --       | --       | --       | --       | --       |

| HFRI Fund of Funds Composite Index | 3.5         | 3.2          | 6.6     | 6.8     | 2.4          | 4.6      | 1.3      |          |          |          |

| Pernmal Fixed Income Holdings | 9,240,114 | 3.5          | 2.5     | 4.2     | 6.2          | 12.0     | 11.0     | 5.6      | --       |          |

| HFRI Fund of Funds Composite Index | 3.5         | 5.2          | 6.6     | 6.8     | 2.4          | 4.6      | 1.3      |          |          |          |

| Windhaven Diversified Conservative | 19,445,549 | 7.3          | 7.5     | 2.2     | 4.8          | 4.2      | 5.0      | 4.1      | 4.5      | --       |

| Blanded Index              | 1.6          | 2.3          | 0.2     | 4.1     | 5.2          | 8.1      | 5.8      |          |          |          |

| PIMCO All Asset            | 22,388,049   | 8.4          | 7.5     | 1.3     | 4.3          | 0.8      | 7.9      | 6.0      | 10.8     | 6.3      |

| Blanded Index              | 1.6          | 2.3          | 0.2     | 4.1     | 5.2          | 8.1      | 5.8      |          |          |          |

| Vanguard Total World Stock Index | 15,216,796 | 5.7          | 5.0     | 7.3     | 16.1         | --       | --       | --       | --       |          |

| FTSE All World             | 7.4          | 16.0         | 23.3    | 20.2    | 10.2         | 15.6     | 4.4      |          |          |          |

**Notes:**
- Fiscal YTD begins 7/1
- Blanded Index: 40% BC Aggregate, 30% BC U.S. TIPS 1-10YR, 10% S&P 500, 10% BC High Yield, 10% JPM EMBI+
- Composite excludes external loans.
- Cubo values are preliminary as of 12/31/2013.
<table>
<thead>
<tr>
<th>Permal</th>
<th>Cube</th>
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<tr>
<td>Permal Asset Management, Inc. Investment Committee</td>
<td>Cube Capital LLP Scott Gibb</td>
</tr>
</tbody>
</table>

Permal Fixed Income Holdings features a performance-oriented investment philosophy that employs a unique combination of fixed-income spread strategies, opportunistic bets on events, and nimble, liquid macro strategies. It is positioned as both a performance enhancer and a good diversifier to a core hedge fund allocation.

$19.4B*  
$4.6B  
1973  
Dec-96  
$1MM  
$1-$15MM - 0.95%; $15-$35MM - 0.90%; and $35MM and over - 0.85%  
0.95%  
None  
None  
Semi-Monthly  
Monthly w/20 Days Notice/25 Day payout (100% in 45 days after month end)

The Cube Global Multi-Strategy Fund (CGMS) is a high conviction portfolio of hedge funds and direct trades (unlike most FOHFs). The portfolio is a —dynamic expression of top down views adjusted tactically in response to market conditions with an aim to opportunistically maximize returns in all market environments while preserving gains in adverse market conditions.

$1.3B  
$704MM  
2003  
Oct-03  
$1MM  
Management Fees - 0.85%; Performance Fees - 0.65% and Expenses - 0.17%  
0.85%  
7.50%  
None  
Monthly  
Quarterly w/90 Days Notice
Operating Fund Balances and Monthly Changes

Note:
Historical data provided by the University of Maine System Staff.
% Balance Change is based on the average balance of years 2009-2014.
University of Maine System Operating Fund
Monthly Net Inflows (Outflows)

Note:
Historical data provided by the University of Maine System Staff.

December 31, 2013
• Past performance is no guarantee of future results.

• NEPC relies on the plan’s custodian bank for portfolio pricing, calculation of accruals, and transaction information. Information on market indices and security characteristics is received from other sources external to NEPC. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.

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