

UNIVERSITY OF MAINE SYSTEM
Board of Trustees

Investment Committee

August 29, 2019

University of Maine System – Executive Offices
Rudman Conference Room, 253 Estabrooke Hall, Orono

Present: Committee Members: Kelly Martin, Chair, Sven Bartholomew, James Erwin (at USM), James Donnelly (by phone), Trevor Hustus (at USM), and Betsey Timm (at USM). **Non-Voting, Non Trustee Committee Members:** Peter Handy (at USM). **Staff:** Tracy Elliott, Ellen Doughty, and Ryan Low (at UMA). **Others:** Sarah Samuels – NEPC, Kelly Regan – NEPC, Michael Pratico – CAPTRUST (at UMF), Barry Schmidt – CAPTRUST, Anne Devine (at USM), and Jean Deighan.

Absent: Mark Gardner.

Trustee Martin, Chair, called the meeting to order and welcomed everyone.

Investment Committee FY2020 Work Plan

Trustee Kelly Martin presented the Investment Committee's Fiscal Year 2020 Work Plan. This plan will also be included in the September 15-16, 2019 Board of Trustees meeting materials as an information item.

Defined Contribution – Replacing TIAA Individual Contracts with Group Contracts.

Michael Pratico and Barry Schmitt, Senior Vice Presidents with CAPTRUST Financial Advisors, presented information about the benefits of replacing the Defined Contribution Plans' current individually owned contracts with institutionally owned contracts. CAPTRUST noted that the change enables fee leveling and supports mapping of TIAA and CREF account assets when the Investment Committee approves menu changes. Tracy Elliott also noted that this contract change would enable payroll deduction for participant loan repayments.

Action Taken:

On a motion by Trustee Hustus, which was seconded by Trustee Donnelly, the Investment Committee approved the following resolution:

The Board of Trustees, acting through the Investment Committee, approved moving:

- from TIAA's Retirement Annuity (RA)/Group Retirement Annuity (GRA) to the Retirement Choice (RC) contract and
- from the Supplemental Retirement Annuity (SRA)/Group Supplemental Retirement Annuity (GSRA) to the Retirement Choice Plus (RCP) contract.

Defined Contribution Plans Review.

Michael Pratico and Barry Schmitt provided a quarterly update regarding the Defined Contribution Plan. They noted that Morningstar divided the intermediate-term bond peer group into two individual peer groups: intermediate core bond and intermediate core-plus bond. This change impacts investment policy statements (IPS) and reporting and scoring for fixed income strategies. CAPTRUST will provide an updated IPS for committee review at the next meeting.

CAPTRUST also provided market commentary noting that after a challenging end to calendar year 2018, all major asset classes rang in the new year with solid gains. Public real estate and U.S. and international stocks all but recovered from their fourth quarter woes as a respite from Fed rate hikes renewed investor confidence in stocks and fueled a bond market rally. U.S. stocks notched double-digit gains in the first quarter, with large-cap stocks posting their best quarter since 2009 on hopes of a patient Federal Reserve and a trade deal with China. International developed stocks followed suit but lagged their U.S. counterparts due to concerns about sluggish European growth.

The committee and its advisor went on to review all funds consistent with the process outlined in the Investment Policy Statement. All funds, with one exception, are currently “in good standing” based on the CAPTRUST scoring methodology.

CAPTRUST reviewed all funds with an emphasis on Carillon Eagle Small Cap Growth. CAPTRUST continues to recommend this strategy noting the fund’s experienced investment team which has recently faced challenges in small cap growth. When looking at recent performance, it is important to understand the dynamics of the small cap growth asset class. Some of the peer group has benefitted from large sector bets and more exposure to higher growth stocks such as biotech. Over a full market cycle, CAPTRUST believes that the more conservative approach used by the team at Eagle should pay off although it has been a headwind recently. The strategy lagged the benchmark by less than 100 basis points in 2018 but landed in the fourth quartile of the peer group. 2018 was only the second year in the last decade that the strategy landed in the bottom quartile of the peer group, with 2013 being the other year.

Review of Portfolio Structure and Investment Managers.

Kelly Regan and Sarah Samuels from NEPC presented information on the current market environment, NEPC’s market outlook, manager research process and an overview of all three Portfolios (Managed Investment Pool, Pension Fund and Operating Fund).

Ms. Samuels noted that the U.S. market has been in an expansion for over 10 years which is the longest in history and U.S. equities have posted the highest cumulative returns in this expansion compared to the past. NEPC believes the market is in the late stages of the expansion which leads to large cap outperforming small cap and growth stocks outperforming value. NEPC is monitoring several late-cycle market indicators and does not believe a recession is immediate. Further, NEPC and the UMS have reviewed the risks and liquidity of the portfolios to navigate the late cycle market environment.

Ms. Samuels also provided an overview of NEPC’s manager research process and Ms. Regan noted that the Committee has preferred more conservative managers that will protect in down markets, adding that these types of managers have not performed well in the recent market expansion.

Ms. Regan went on to discuss the goals and objectives of all three portfolios based on feedback from the Committee from the 2018 asset allocation study.

Managed Investment Pool (MIP). The MIP does not have a sizable allocation to private market investments like peers which has contributed to below median peer rankings. Additionally, the MIP employs more conservative, value-based managers that historically have protected in down markets and not kept up in up markets.

Defined Benefit Pension Fund. Ms. Regan noted that the System’s Defined Benefit Fund is different

from other public pension funds in that it is closed, has significant cash requirements and a more conservative profile targeting a lower rate of return. The investment managers in the Fund were selected, in part, with a consideration to mitigating losses on the downside.

Operating Fund. Ms. Regan noted that the return goal is 4% and over the last ten years on an annualized basis, the Fund achieved a 3% return. The Fund has a sizable allocation to cash investments and, until recently, cash rates were around 0% given the Federal Reserve actions. Going forward, the higher cash rates should help the Fund achieve its return objectives.

NEPC Portfolio Performance Reviews.

Kelly Regan and Sarah Samuels of NEPC provided a brief performance review for all three portfolios for the quarter ended June 30, 2019, with the following highlights:

Managed Investment Pool (MIP): The MIP returned 2.7% fiscal-year-to-date ending June 30, 2019. During this period, managers detracted 170 basis points of value. The fiscal-year-to-date was a robust market and this portfolio employs managers with a more conservative (value) bias that will not keep up with benchmarks in a strong market environment.

Defined Benefit Pension Fund: The Defined Benefit Pension Fund returned 4.6% fiscal-year-to-date ending June 30, 2019. During this period, managers detracted 30 basis points of value as the Fund has a sizable allocation to passive investments. The fiscal-year-to-date was a robust market and this portfolio employs managers with a more conservative bias that will not keep up with benchmarks in a strong market environment. However, the more conservative bias of the Fund compared to the MIP protected in down markets (December and May) allowing the Fund to achieve an overall higher return compared to the MIP.

Operating Fund: The Operating Fund returned 4.1% fiscal-year-to-date ending June 30, 2019. Managers detracted 10 basis points of value during this time period as the Fund has a sizable allocation to passive investments. Most managers were ahead or in-line with their stated benchmarks with positive absolute returns. One manager posted negative returns during the fiscal year-to-date time period.

Adjournment

Tracy Elliott for
Ellen N. Doughty, Clerk