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

**Reappointment of Non-Trustee/Non-Voting Member.**

Trustee Martin recommended the reappointment of Erik K. Hayward as a non-voting, non-trustee member of the Investment Committee. Mr. Hayward is Senior Vice President at the Libra Foundation, serves as a Director of Pineland Farms Dairy Company, Inc., Pineland Farms Natural Meats, Inc., Bath Savings Institution and is President and Treasurer of Libra Future Fund. He was initially appointed to the Committee for a three-year term on October 8, 2015.

On a motion by Trustee Gardner, which was seconded by Trustee Turner, the Board of Trustees acting through the Investment Committee approved the reappointment of Erik K. Hayward to a second, three-year term as a non-voting, non-trustee member of the Investment Committee.

**Investment Committee Work Plan.**

The Committee reviewed its 2019 Work Plan, which provides an overview of the agendas for the Committee for the fiscal year. The Plan will be included in the November Board of Trustees meeting materials as an information item.

**NEPC Performance Reviews.**

Jay Roney (NEPC), reviewed performance for all three UMS portfolios with the following highlights.

**Managed Investment Pool (MIP):**

The Managed Investment Pool (MIP) assets were $326 million as of August 31, 2018, returning 1.5% fiscal year-to-date with all asset classes within policy ranges. Managers detracted 90 basis points of value during this time-period, with value biased managers and mandates with exposure to emerging markets, both equity and debt, detracting value. Active manager performance improvements have been made since the end of August as value and emerging markets strategies have shown strength.

**Recent MIP actions include:**

The University began liquidations with Guggenheim US Bank Loans effective July 31 with proceeds
received in late August and invested with Bain Capital in early September. The remaining 10% of the funds invested with Guggenheim will be received in April 2019 and the full funding of Bain will be completed at that time.

As approved at the Committee’s April 4, 2018 meeting, the allocation to hedge funds (Permal) was reduced by 3% ($8.4 million) and invested with the Blackrock Strategic Opportunities Fund, an absolute return income manager. The reallocation occurred in May 2018.

**Defined Benefit Pension Fund:**
Pension assets were $28 million as of August 31, 2018, returning 1.3% fiscal year-to-date. Managers detracted 50 basis points of value during this time period, with value biased managers and mandates with exposure to emerging markets, both equity and debt, detracting value. Passive exposure to a variety of asset classes, as well as a healthy allocation to Real Estate, added value. Active manager performance improvements have also been seen in this portfolio since the end of August as value and emerging markets strategies have shown strength.

**Recent Defined Pension actions include:**
The University began liquidations with Guggenheim US Bank Loans effective July 31 with proceeds received in late August and invested with Bain Capital in early September. The remaining 10% of the funds invested with Guggenheim will be received in April 2019 and the full funding of Bain will be completed at that time.

As approved at the Committee’s April 4, 2018 meeting, the allocation to hedge funds (Permal) was reduced by 3% ($752k) and invested with the Blackrock Strategic Opportunities Fund, an absolute return income manager. The reallocation occurred in May 2018.

**Operating Cash Fund:**
The Operating Fund (Fund) portfolio had a balance of $256 million as of August 31, 2018, returning 0.7% fiscal year-to-date. The Fund had the lowest return compared to the other two portfolios given the very conservative risk profile of the Fund. Managers detracted 20 basis points of value during this time period. Most managers were ahead or in-line with their stated benchmarks and the main detractor was a select global asset allocation manager. The portfolio should experience higher returns in the future as interest rates and bond yields have risen.

Concerns were voiced by at least one Trustee regarding the general under-performance of the active equity managers. NEPC expressed disappointment as well but noted that the current market environment continues to be problematic for all active managers. The current market environment has favored growth over value stocks, unprofitable over profitable companies, and very strong returns coming from a concentrated number of Technology names, FAANG (Facebook, Apple, Amazon, Netflix, and Google). As a result of this discussion, appropriate topics to be reviewed at upcoming meeting(s) include:

- Invite a manager to the next meeting to discuss emerging markets equity, market valuations, and divergence of growth and value stocks.
- Evaluate University of Maine System active managers vs. peers and benchmarks.

**Private Equity Discussion & Asset Allocation Recommendation - MIP.**
As a follow-up to previous asset allocation discussions, NEPC provided education on Private Equity.
Specific topics included fees, administrative requirements, the lifecycle including cash flows, various strategies, and related pros and cons. The role in a portfolio is as a return enhancer with the premium earned over other investment options serving to compensate for the liquidity risk. NEPC summarized the difference between private equity and public equity.

NECP presented two asset allocation mixes – one with Private Equity and one without. The mix with Private Equity proposed a total 15% allocation to private markets (Private Equity and Private Real Estate). Trustees requested that additional education be delivered detailing the advantages and disadvantages of private equity fund of funds and an in depth review of an interesting opportunity that is currently raising capital. No action was taken as the Committee opted for further discussion at a future meeting.

**Defined Contribution Plans Review.**

**Administration and Topical Spotlights:**
The Committee discussed recent litigation trends. Mike Pratico, with CAPTRUST, noted that prior to 2012, plan-related lawsuits focused on allegations of inappropriate investments caused by improper selection or inadequate monitoring. Since 2012, the focus has shifted to allegations of excessive fees, including:

- Unreasonable investment and administration fees,
- Improper fee payment methodology, and
- Use of retail vs. institutional share classes.

Mr. Pratico noted that these lawsuits serve as a reminder of the importance of following a well-documented process that demonstrates the prudent and intentional decisions as we carry out our fiduciary duties, which the Committee and CAPTRUST have been doing.

CAPTRUST noted that UMS participants are currently being offered two Money Market funds - the CREF Money Market and Vanguard Federated Money Market. UMS added the Vanguard Federated Money Market to the Plans in 2017 when TIAA-CREF announced a “clawback” process of fee waivers associated with the CREF Money Market. The Vanguard fund was added to give participants a Money Market option with no fee clawback. The Vanguard fund is also used exclusively, though limited, in the Morningstar/Ibbotson Model Portfolios. The fee clawback ended in July of 2018. CAPTRUST recommended continuing to offer both money market funds on a go forward basis.

On June 30, 2018, participant balances in the Defined Contribution Plans totaled $1.6 Billion with $1 million having been transferred in from other carriers during the quarter.

**Investment Review:**
Mr. Pratico, Barry Schmitt, and Sam Kirby with CAPTRUST, provided an overview of plan investments, including the scoring of investments, consistent with the Investment Policy Statement. All funds, except two are meeting policy objectives. The Committee reviewed all funds with emphasis on the following:

- CREF Stock – For participants looking for a largely actively managed Global Equity fund, CREF Stock continues to be an appropriate choice. The fund is well diversified across several asset classes and has expenses below industry averages.
Vanguard Target Date Funds - After outperforming in the first quarter, the Vanguard Target Retirement series slowed down in the second quarter as it mostly underperformed peers and its benchmark. The reversal of performance is reflective of market trends that occurred during the second quarter, most notably the sell-off in emerging markets equities and the rally by U.S. markets over international markets. These two trends were the primary drivers of the Vanguard Target Retirement’s underperformance given the series’ higher allocation to international and emerging markets equities relative to peers.

Goldman Sachs Mid Cap Growth (Scoring 61/100 based on CAPTRUST methodology) – Following a disappointing performance in 2015, the strategy again lagged its peers and the benchmark in 2016 due to a rally in lower quality stocks at the end of the year. The team also had some missteps in individual positions where their thesis did not work as expected. The strategy has recently faced stylistic headwinds and has not navigated the backdrop as well as some of its peers. Execution in the consumer sectors has also been a cause for concern. Although 2017 results showed improvement, they have again fallen behind both the benchmark and peers through the first half of 2018. Longer-term results remain a concern and CAPTRUST has less confidence in this team’s ability to outperform going forward. In addition, Goldman Sachs recently announced changes to its U.S. fundamental equity business. The firm will combine its U.S. value and growth teams into a single fundamental equity team.

Oppenheimer International Growth (78/100) - The strategy's year to date results were ahead of its benchmark (MSCI ACWI ex. U.S.), but it landed in the bottom quartile of the foreign large growth peer group. Relative to its peers, the strategy's more conservative, valuation-conscious approach has been a headwind in the growth-driven rally in recent years. The strategy has less exposure to strong performing China internet stocks such as Tencent and Alibaba due to valuation concerns. The fund closed 2017 below the 80th percentile peer relative and is operating below the 80th percentile year to date in 2018.

Defined Contribution Plan – Manager Reviews & Recommendations:
CAPTRUST reviewed a manager search book and recommended that the Committee consider replacing the Goldman Sachs Growth Opportunities fund and the Oppenheimer International Growth Fund due to lingering underperformance within their respective asset class.

Mid Cap Growth: CAPTRUST recommended the MFS Mid Cap Growth Fund as a replacement for the Goldman Sachs Mid Cap fund. The MFS Mid Cap Growth Fund has strong performance in the 1, 3 and 5 year time periods, a strong risk profile with competitive alpha and Sharpe Ratio measures, and is more competitive from a fee standpoint with fees at 0.85% compared with the 0.94% charged by the Goldman fund. The MFS Mid Cap Growth fund has $3 billion in assets under management with 104 holdings. To avoid overlap with Eagle Small Growth, CAPTRUST recommended this fund instead of Eagle Mid Cap Growth, which would have also been a good fit.

Foreign Large Growth Fund: CAPTRUST recommended the American Funds Europacific Growth Fund as a replacement for the Oppenheimer International Growth fund. The American Funds Europacific fees at 0.49% are lower than the 0.69% charged by the Oppenheimer fund and significantly lower than average. Volatility is also lower with higher risk adjusted performance, higher alpha, and lower beta. Short-term performance has not been great as an overweight to Emerging Markets, while helping the fund in the longer term, has hindered the
fund recently. The fund has $164 billion in assets under management with 390 holdings and provides a compliment to the current MFS International Value Fund.

On a motion by Trustee Turner, which was seconded by Trustee Gardner, the Board of Trustees acting through the Investment Committee approved the following fund changes in the Defined Contribution Plans:

- Replacement of the Goldman Sachs Growth Opportunities Fund with the MFS Mid Cap Growth Fund.
- Replacement of the Oppenheimer International Growth Fund with the American Funds Europacific Growth Fund.

Adjournment

Tracy Elliott for
Ellen N. Doughty, Clerk