Present: Committee Members: Kelly Martin, Chair (at UMFK), James Donnelly (by phone) Karl Turner (at USM) and Mark Gardner. Non-Voting Committee Members: Robert Blackwood (at USM) and Eric Hayward (at USM). Staff: Tracy Elliott, Ellen Doughty. Others: Kelly Regan – NEPC, Mike Pratico – CAPTRUST, Pamela Trempe (at USM), Jean Deighan, and Pam Ashby (at UMFK).

Absent: Committee Members: James Erwin, Shawn Moody and Peter Handy.

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

FY2019 Endowment Spending Rate.
At the April 4, 2018 Investment Committee meeting, Tracy Elliott, Vice President of Finance and Controller, provided a summary of estimated endowment funds to be distributed during FY2019. The distribution uses the endowment spending rate of 4.5% which the Board of Trustees approved at their January 29, 2018 meeting. The estimated distribution of $5.4 million for the fiscal year is an increase of almost $140 thousand over the prior year. The total distribution includes $4.3 million for endowed spending and $1.1 million for internal management fees.

Portfolio Performance Executive Summary.
Ms. Kelly Regan of NEPC gave an update on market performance through December 31, 2017 with a brief snapshot of market performance through March 31, 2018. Markets were positive across both equity and fixed income as well as alternative assets in calendar year 2017.

Ms. Regan further provided an update on NEPC’s annual asset allocation assumption setting process and NEPC’s Key Market Themes and Opportunities as outlined in the materials. There were also general questions and discussion on market risks related to the Federal Reserve actions and on the escalating tariff situation with China and the potential for a trade war. Ms. Regan went on to provide an update on the three UMS portfolios’ performance through December 31, 2017.

Managed Investment Pool (MIP) Performance Review.
The MIP returned 3.8% for the quarter ended December 31, 2017 and 15.2% for the calendar year net of fees, ranking in the 28th and 55th percentile of peers, respectively. For the calendar year, the MIP easily exceeded the portfolio’s rate of return assumption of 7.5%. It is important to note that there will be volatility around these expected returns each year. For peer comparison purposes, NEPC uses Endowments and Foundations with assets between $100-500 million in the InvestorForce Universe. NEPC also noted that the MIP was in-line with investment policy ranges.

As noted in the materials, Newton, Guggenheim and GMO had announcements during the 4th quarter and NEPC recommended no action to the Investment Committee.

NEPC discussed the underperformance of Aberdeen, Mondrian and Newton. Additionally,
Committee members asked questions regarding the role of hedge funds and private markets which was discussed in the context of asset allocation.

**Defined Benefit Pension Fund Performance Review.**
The Pension Fund returned 2.4% for the quarter ended December 31, 2017 and 10.0% for the calendar year, net of fees, and was in-line with investment policy ranges. This placed the portfolio in the 79th and 80th percentile of peers (Total Trust Fund InvestorForce Universe) as the Pension portfolio is very conservative in nature and will lag peers during a strong positive market environment. As noted in the materials, Newton, Guggenheim and Vanguard had announcements during the 4th quarter and NEPC recommended no action to the Investment Committee.

**Operating Fund Performance Review.**
The Operating Fund returned 1% for the quarter ended December 31, 2017 and 4.4% for the calendar year, net of fees, and was in-line with investment policy ranges. Two managers (Vanguard and Newton) made announcements during the quarter and NEPC recommended no action to the Investment Committee based on these announcements.

**Capital Market Review and Asset Allocation Discussion.**
Ms. Regan reviewed operational aspects of the three portfolios and the results of the Total Enterprise Management surveys which NEPC had sent to the Committee and management. The purpose of the surveys was to gather views regarding the portfolios to enhance the discussion on portfolio goals and objectives, risk tolerance, and asset allocation. The Committee also discussed private market investments in the MIP and NEPC will provide more information to determine if the Committee would like to re-start the private markets program.

As the asset allocation stands today, the MIP can achieve the current long-term return assumption of 7.5%. The Committee also discussed the composition of the MIP including the Other Post Employment Benefit Trust (OPEB) assets which make up roughly 40% of the total MIP asset value. For now, the MIP seems to be an appropriate portfolio for these assets given their long-term investment nature; however, we will continue to be mindful of this portion of the assets should goals and objectives change.

NEPC also reviewed the Pension Fund and discussed the nuances of benchmarking the Pension to peers given the conservation nature and negative cash flow profile of this closed pension plan which is in the payout phase. In addition, NEPC affirmed that the asset allocation today is expected to meet the 6.25% long term return assumption.

After considerable discussion, the Investment Committee approved new asset allocation strategies for the Managed Investment Pool and Pension with no change to the Operating Funds. Given risk/return profiles and liquidity needs in the pension and, NEPC recommended terminating EntrustPermal (a credit hedge fund) in both the MIP and Pension and replacing this allocation with an absolute return fixed income manager with lower fees and improved liquidity. The recommended manager (Blackrock Strategic Income Opportunities) is a mutual fund and therefore has daily redemption availability.

At the June 14, 2018 Committee meeting, the asset allocation discussion for the MIP will continue as NEPC presents more details on what a private equity program would look like.
NEPC next reviewed the Operating Fund and made no recommendations to asset allocation. NEPC also noted that based on the current asset allocation, the portfolio is expected to meet the 4% long term return assumption.

**Action Taken – Managed Investment Pool:**
On a motion by Trustee Gardner, which was seconded by Trustee Donnelly, the Board of Trustees, acting through the Investment Committee, approved the following asset allocation recommendations for the Managed Investment Pool:
- Reduce the hedge fund allocation by 3.0% (≈ $8,700,000) and
- Allocate the fund’s 3.0% (≈ $8,700,000) to an absolute return fixed income manager – the Blackrock Strategic Income Opportunities Fund.

**Action Taken – Pension Fund:**
On a motion by Trustee Gardner, which was seconded by Trustee Donnelly, the Board of Trustees, acting through the Investment Committee, approved the following asset allocation recommendations for the Pension Fund:
- Reduce the hedge fund allocation by 2.5% (≈ $750,000) and
- Allocate the fund’s 2.5% (≈ $750,000) to an absolute return fixed income manager – the Blackrock Strategic Income Opportunities Fund.

**MSCI Environmental, Social and Governance (ESG) Report Update.**
NEPC provided an update on the System’s ESG progress in the MIP. The report completed by MSCI in 2018 was reviewed by NEPC and compared to last year’s report. The analysis shows that the ESG ratings in each category improved since the prior year with the MIP overall ESG Quality Score increasing 7% to 5.53, which is in-line with the broad benchmark but falls below the ESG benchmark. Scores are based on a scale from 0-10 with 10 being the best. Climate change factors make up 6% of the MIP portfolio and scores have all improved since the prior year. 86% of the MIP holdings are covered by MSCI Research.

**Defined Contribution Plans - Quarterly Review - Administration.**
As approved by the Committee at its December 5, 2017 meeting, TIAA implemented a lower required revenue target of .065% on plan assets effective January 1, 2018, which is down from 0.8%. CAPTRUST noted that the UMS pricing with TIAA has consistently improved as plan assets have grown. UMS’s retirement plan menu offerings to participants now includes only institutional share class funds. CAPTRUST briefly reviewed the UMS fund line-up noting that the investment menu offers participants options which allow them to diversify across all crucial asset classes on both an active and passive basis and they have the option to utilize the high quality and low cost Vanguard Target Date series.

**Defined Contribution Plans - Quarterly Review of Plan Investments.**
CAPTRUST provided a brief market commentary noting the return of market volatility. All major asset classes were in positive territory for 2017. After nearly two years since a 10% correction, U.S. stocks were due for a pullback and the start of 2018 has certainly been volatile.

The Committee and its advisor went on to review all plan investments consistent with the Investment Policy Statement. All funds, with two exceptions, are in good standing. The Committee reviewed all funds with emphasis on the following:
- The TIAA Traditional continues to be an appropriate choice for plan participants with a yield well above industry averages. Though less liquid than most of its peers (9 year and 1
day payout under most contracts), CAPTRUST continues to believe TIAA Traditional is an appropriate choice for many participants and can be an important part of a participant’s retirement strategy.

- Vanguard Target Date Funds – CAPTRUST continues to believe that the Vanguard Target Date series is an excellent choice and default option for participants in the UMS plan. The funds are scoring a 95, based on CAPTRUST scoring methodology, and are among the highest scoring funds that CAPTRUST follows.
- 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 well below industry averages.
- Virtus Ceredex Mid Cap Value – The fund slipped into the “marked for review” category in the 4th quarter of 2017. A difficult 2013, where the fund ended in the 81st percentile, continues to drag down the 5 year average but that performance will “roll off” the 5 year numbers in 2018. Through early April, the fund is off to a strong start in calendar 2018, performing in the top 18th percentile peer relative. CAPTRUST recommends continuing to hold the fund and monitoring closely.
- Goldman Sachs Mid Cap Growth – The fund is marked “consider for termination” for the second straight quarter; however, near term performance has improved dramatically. 2015 and 2016 were challenging years for the fund, closing out in the 87th and 82nd percentiles, respectively. 2017 however showed marked improvement with the fund closing out the year in the top 27th percent peer relative. Early 2018 has also been encouraging with the fund in the top 28th percent through early April. CAPTRUST is comfortable continuing to hold the fund and monitoring closely.

CAPTRUST made no change recommendations at this time.

**Defined Contribution Plans - Removing Small Balances.**
CAPTRUST described a new service offered by TIAA in which the plan sponsor may direct TIAA to distribute the small balances of inactive participants from the plan. This would require a plan document amendment and would only impact balances less than $5,000. Inactive participants with balances under $5,000 would be automatically rolled into an IRA at a bank.

Removing small balances from the plan would ultimately benefit the plan and its participants by creating more administrative efficiencies and pricing leverage with TIAA as the overall average account balance would increase. TIAA reports that UMS has nearly 2,000 terminated employees who have balances of $5,000 or less. CAPTRUST recommended that UMS take advantage of the new service. TIAA reviewed this option at its annual meeting with UMS Finance and Human Resources leadership and all were in favor of this action to improve plan economics.

**Action Taken – Defined Contribution Plans:**
On a motion by Trustee Turner, which was seconded by Trustee Gardner, the Board of Trustees, acting through the Investment Committee, approved the pay out of small balances from the UMS Defined Contribution Plans for those terminated participants whose contracts and funds are eligible for this process.

Adjournment

Tracy Elliott for
Ellen N. Doughty, Clerk