Universe of Maine System
Board of Trustees

Investment Committee

May 15, 2017
University of Maine System – Executive Offices
Rudman Conference Room, 253 Etabrooke Hall, Orono

Present: Committee Members: Karl Turner, Chair (at USM), Sam Collins (at UMPI), James Donnelly (by phone), Gregory Johnson (at USM), Kelly Martin (at UMFK), and Shawn Moody (at USM). Non-Voting Committee Members: Robert Blackwood (at USM), Eric Hayward (at USM), and Jack Moore (by phone). Staff: Tracy Bigney, Tracy Elliott (at USM), John Forker (by phone at 3:30), and Rebecca Wyke (at UMA). Others: Kelly Regan and Jay Roney from NEPC (at USM), Mike Pratico CAPTRUST (at USM), Pamela Trempe (at USM), Eleanor Baker (at USM), Jean Deighan, USM Foundation Board (at UMS), and John Shipway from MMA (at USM).

Absent: Committee Members: Mark Gardner.

Trustee Turner, Chair, called the meeting to order.

NEPC Performance Reviews. Kelly Regan and Jay Roney, with NEPC, reviewed performance for all 3 UMS portfolios with the following highlights.

Managed Investment Pool (MIP). The Managed Investment Pool (MIP) returned 8.1% fiscal year-to-date as of March 31st. This return ranked in the 80th percentile in the InvestorForce Endowments and Foundation $100-500 million universe. Managers detracted 10 basis points of value during this time period with an international equity manager and emerging market equity managers detracting the most value relative to benchmarks. On a trailing one year ending March 31st, the MIP returned 9.7% ranking in the 81st percentile.

Defined Benefit Pension Fund Performance Review. The Pension returned 4.6% fiscal year-to-date as of March 31st. This return ranked in the 79th percentile in the InvestorForce Total Fund Universe due to the conservative asset allocation. Managers detracted 60 basis points of value during this time period with international equity and emerging market equity managers detracting the most value relative to benchmarks. On a trailing one year ending March 31st, the Pension returned 6.9%, ranking in the 80th percentile.

Operating Fund. The Operating Fund returned 2.7% fiscal year-to-date as of March 31st. This portfolio had a lower return compared to the other 2 portfolios given the very conservative risk profile of the Fund. Managers added 30 basis points of value during this time period with an absolute return fixed income manager and a global asset allocation manager adding the most value relative to benchmarks. On a trailing one year ending March 31st, the Operating Fund returned 4.2%.
**Bank Loan Manager Search Selection.** At its March 17, 2017 meeting, the Board of Trustees approved a new allocation (5%) to bank loans in the Managed Investment Pool (MIP) and the Pension Fund, replacing global multi-sector fixed income.

NEPC subsequently provided the University of Maine System (UMS) with a bank loan search book for the MIP and Pension Fund. The Operating Fund currently has a 7% allocation to bank loans which was also considered in the search. NEPC, UMS Staff and select Committee members reviewed the search book and determined that Bain Capital, Guggenheim Investments or Loomis Sayles (current Operating Fund manager) could be a good fit for the allocations.

The Investment Committee interviewed two Bank Loan managers by polycom at its May 15, 2017 meeting. The managers presented for 30 minutes each on their firm, investment process and philosophy and performance. The managers and attendees included:

- **Bain Capital**
  - Jon DeSimone, Portfolio Manager
  - Kyle Betty, Global Head of Investor Relations and Business Development
- **Guggenheim Investments**
  - Thomas Hauser, Senior Portfolio Manager
  - Ryan Paradis, Institutional Distribution

The Committee selected Guggenheim Investments for the MIP and Pension Fund given their downside capture and outperformance in market sell-offs as well as their strong focus on credit research and security selection. The Committee asked Guggenheim to comment on what consideration they give to environmental, social and governance (ESG) issues in their investment process. Guggenheim representatives noted their belief that accommodating Socially Responsible Investment practices into their investment process can enhance long term results and they have been integrating ESG analysis into their due diligence process for a number of years. While they do not currently have a formal ESG policy, Guggenheim does consider ESG issues when choosing bank loan investments.

The Committee also approved retaining Loomis Sayles to manage Bank Loans for the Operating Fund due to the conservative profile of solely investing in BB and B bank loan securities.

**Action Taken.** On a motion by Trustee Moody, which was seconded by Trustee Johnson, the Investment Committee approved the selection of Guggenheim Investments for the following MIP and Pension allocations and the retention of Loomis Sayles for the following Operating Fund allocation.

1) A 5.0% policy allocation in the MIP Fund with funds coming from global multi-sector fixed income (currently estimated at $14,500,000)
2) A 5.0% policy allocation in the Pension Fund with funds coming from global multi-sector fixed income (currently estimated at $1,500,000)
3) A 7.0% policy allocation in the Operating Fund, currently invested in Loomis Sayles Bank Loans (currently estimated at $18,000,000).
MSCI Environmental Social and Governance (ESG) Report. NEPC provided an update on ESG initiatives and discussed next steps with the Committee. The Committee is open to reviewing global equity investment managers that focus on ESG in late 2017/early 2018 as the next steps in increasing the MIP’s ESG profile.

Updated Investment Policy Statements. NEPC and Staff have reviewed and updated the Investment Policy Statements (IPS) for the Managed Investment Pool, Defined Benefit Pension Fund and Operating Fund. Updates include changes related to asset allocations and endowment distribution rates.

Action Taken. On a motion by Trustee Johnson, which was seconded by Trustee Moody, the Investment Committee approved the updated Investment Policy Statement for the Managed Investment Pool, Defined Benefit Pension Fund and the Operating Fund.

Defined Contribution Plan Update

Administration. TIAA provided CAPTRUST with an updated pricing proposal following a recent movement of funds into lower share classes as detailed in the last meeting. TIAA’s current required revenue is .09% on plan assets. With required revenue at this level, the new fund line up will not generate enough revenue to cover administrative costs and plan expenses. CAPTRUST has been working with TIAA to modify their pricing, so that revenue lost due to recent share class changes will be restored to UMS.

TIAA proposed modifying their required revenue pricing to .08%. Mr. Pratico stated that, prior to formally accepting the new pricing, CAPTRUST will need to benchmark the offer against other plans and will provide that benchmarking data to staff when it is available.

Investments. Mr. Pratico provided an overview of plan investments, including the scoring of investments, consistent with the Investment Policy Statement. All funds, with one exception, are in good standing. Mr. Pratico highlighted the following:

The Vanguard Target Date Funds are the Plan’s default investment option. Vanguard Funds are currently among the highest scoring of all the target date funds followed by CAPTRUST.

Goldman Sachs Mid Cap Growth fund is currently marked for review and CAPTRUST has removed it from their recommended list. Mr. Pratico stated that CAPTRUST is still comfortable with the Plan holding the fund although CAPTRUST will continue to follow the fund closely. The fund’s near term performance has been encouraging with the fund up 12.79% calendar year to date through mid-May and in the top 16th percentile peer relative.

CREF Stock makes up approximately $200 million of the Plan asset holdings. The fund is a unique global equity fund that invests 70% domestic equity, 23% developed international and 7% emerging markets. The objective of the fund is to perform within 50-100 basis points of the CREF custom benchmark. The fund has consistently
accomplished these goals. CAPTRUST created a similar custom benchmark, which was included in the Committee’s materials, with the same asset allocation but comprised of Vanguard fund performance. Mr. Pratico noted that the fund tracked this benchmark within 100 basis points over relevant periods. CAPTRUST is comfortable with the investment and believes it is an appropriate choice within the plan.

**Education.** Mr. Pratico noted that TIAA provides regular educational opportunities on all campuses on a regular basis.

**Review of TIAA’s Security Practices.** As requested at the March Investment Committee meeting, UMS Chief Information Officer, John Forker, has since reviewed TIAA's security practices. Mr. Forker used the UMS standard practice to review TIAA’s security controls to ensure protocols are in place to protect UMS and participant data. As part of this process, Mr. Forker reviewed the following:

1. TIAA’s summary of their Information Security program and controls.
2. An independent Service Organization Controls (SOC) audit conducted by PricewaterhouseCoopers (PWC). This 121 page report describes the controls that TIAA has in place and the auditor's test of those controls.
3. TIAA’s responses to specific questions Mr. Forker asked to address areas which were not in TIAA’s summary or the above noted audit.

Based on the results of this review, Mr. Forker believes that TIAA provides reasonable security commensurate with the data and resources that they access, process, transmit and store.

Adjournment

Submitted by
Tracy Elliott for
Tracy B. Bigney, Clerk