Present: Committee Members: Kelly Martin; Chair, James Erwin, Sven Bartholomew, Mark Gardner, and Betsey Timm. Non-Voting, Non Trustee Committee Members: Erik Hayward. Staff: Tracy Elliott and Ellen Doughty. Others: Kelly Regan – NEPC, Jay Roney – NEPC, Michael Pratico – CAPTRUST, and Barry Schmidt – CAPTRUST.

Absent: James Donnelly and Trevor Hustus.

Trustee Martin, Chair, called the meeting to order and welcomed everyone. The Clerk performed a roll call of the Committee members present.

FY2021 Investment Committee Work Plan
Chair of the Investment Committee, Trustee Martin provided an overview of the FY 2021 Investment Committee Work Plan. Regarding the Work Plan item Request for Quotation (RFQ)/Request for Proposal (RFP) related to investment advisory services, Trustee Martin noted that during an education call with Committee members last December, various investment consulting options were discussed. These conversations focused on the 3 portfolios advised by NEPC – the Managed Investment Pool (MIP), Operating Fund, and the Defined Benefit Pension Plan. Discussions included an Outsourced Chief Investment Officer model (OCIO) and our current traditional consulting services model and Committee members were interested in learning more about these and other options. A Request for Qualifications (RFQ) process allows the UMS to seek qualified firms to explore options that will meet its needs. If the University then decides to issue a Request for Proposal (RFP) it could invite the top RFQ respondents to submit a proposal.

Trustee Martin also noted that CAPTRUST’s contract is expiring at the end of calendar year 2021, and Tracy Elliott, Vice President of Finance and Controller, will explore investment advisory services for the Defined Contribution Retirement Plan as part of the RFQ process if appropriate.

We will continue our discussions regarding the competitive process for advisory services during the coming year and report back on progress.

NEPC Portfolio Performance Reviews.
Kelly Regan and Jay Roney, with NEPC, provided a brief market update and performance review for all three portfolios for the quarter ended June 30, 2020, with the following highlights.

Jay Roney detailed how markets have rebounded precipitously since the decline in the prior quarter. Despite the rebound, markets continue to be uncertain and potential outcomes have widened. Still, equity markets for the second calendar quarter plus July and August were positive, interest rates dropped, and credit spreads tightened. The largest “COVID –stay-at-home” companies, like Netflix, Amazon, Apple, Google, and Facebook drove equity markets. These names are generally larger cap, technology names (or, growth stocks), which Mr. Roney discussed in the context of the recent value versus growth dispersion in the markets. Some of the manager underperformance relative to their benchmarks over the last 10 years has been driven by the portfolios having a tilt towards value-oriented managers.
**Managed Investment Pool (MIP):**
The MIP returned 14.0% during the quarter ended June 30 and finished the fiscal year with a return of 1.1%. This portfolio has a higher allocation to equity compared to the Operating and Pension Funds which led to the lower returns in the MIP for the fiscal year given the market decline in the first quarter of the calendar year. However, given the higher equity allocation, the MIP participated the most in the subsequent rally. During the quarter ended June 30, 2020, managers added 40 basis points. However, over the fiscal year, managers in aggregate detracted 110 basis points of value as value and credit managers struggled. Over all trailing time periods, managers in aggregate have fallen slightly short of their benchmarks as measured by the Composite versus Allocation index. However, recent manager and asset allocation changes have helped improve overall Composite versus Allocation Index performance. During the fiscal year, eight out of 13 active managers outperformed their respective benchmarks and nine out of 12 active managers performed (ranked) at or better than peers. At the end of the fiscal year, the asset allocation of the MIP was close to policy targets.

**Defined Benefit Pension Fund:**
The Defined Benefit Pension Fund returned 7.9% during the quarter ended June 30 and 5.4% for the fiscal year. While managers detracted 120 basis points during the quarter ended June 30 due to their conservative bias, over the fiscal year, managers in aggregate added 120 basis points of value as managers protected assets during the market decline in the first quarter of the calendar year. Over all trailing time periods, managers in aggregate have fallen slightly short of their benchmarks as measured by the Composite versus Allocation index. However, recent manager and asset allocation changes have helped improve overall Composite versus Allocation Index performance. During the fiscal year, four out of six active managers outperformed their respective benchmarks and most active managers performed (ranked) at or better than peers. At the end of the fiscal year the asset allocation of the Pension Fund was close to policy targets.

**Operating Fund:**
The Operating Fund returned 5.3% for the quarter ended June 30 and 3.8% for the fiscal year with managers in aggregate adding 130 and 20 basis points of value, respectively. Over all trailing time periods, managers in aggregate have met their benchmarks as measured by the Composite versus Allocation index. During the fiscal year, three out of six active managers outperformed their respective benchmarks and most managers performed at or better than peers. At the end of the fiscal year, the asset allocation of the Operating Fund was close to policy targets.

**Defined Contribution (DC) Plan Quarterly Review**
Michael Pratico, Senior Vice President, and Barry Schmitt, Principal, with CAPTRUST Financial Advisors, provided a review of administrative items, topical spotlights, and a quarterly update of the Defined Contribution Plans. They highlighted a recent Department of Labor (DOL) position pertaining to Environmental, Social, and Governance (ESG) investing. CAPTRUST noted that ESG funds should pass an “all else equal” test and be monitored as any other investment and not given special treatment. CAPTRUST representatives noted that they have and will continue to follow this practice.

CAPTRUST went on to discuss the importance of strong cyber security practices and mentioned TIAA’s strong cybersecurity and participant guarantees. Ms. Elliott reminded the Committee that UMS transitioned to TIAA as the sole recordkeeper for the UMS DC Plan in 2014 but that some retirement plan participants still have assets remaining with legacy vendors. Ms. Elliott recently reached out to the UMS Employee Benefits staff to ensure that practices are appropriate for those legacy vendors as well.
CAPTRUST also discussed the Coronavirus Aid, Relief, and Economic Security (CARES) Act provisions that were incorporated into the UMS DC Plan noting the following CARES Act usage statistics:

Distributions: 151 total for a cumulative amount of $1.2 million  
Loan suspensions: 23 total  
Loans: 1 total  

CAPTRUST representatives also provided market commentary noting that all major asset classes rose for the quarter ended June 30, with U.S. and international stocks staging significant recoveries from the first quarter of the calendar year. Historic levels of fiscal and monetary stimulus and easing of COVID-19 lockdowns fueled the asset price bounce as some measures of economic activity began to recover. CAPTRUST noted the market rally favored growth stocks over value stocks and the impact on several funds within the UMS DC Plan.

Further, the Committee and advisor reviewed the DC Plan investments in a manner consistent with the investment policy statement. All investments are in good standing with three exceptions. CAPTRUST noted that the fund line up remains strong with the majority of funds outperforming benchmarks and peer groups over meaningful time periods. All funds were discussed with the following emphasized.

**CREF Money Market:** TIAA will be waiving CREF Money Market investment fees temporarily. CREF Money Market is approved by the state of New York to waive its expense ratio through December 31, 2020. The expense waiver will reduce the possibility of negative net returns for the fund in the short-term. Despite the expense waiver, UMS DC Plan participants with CREF Money Market should consider the use of the Vanguard Government Money Market mutual fund within the plan.

**Vanguard Target Date Retirement Funds:** These funds performed in line with their benchmark in the second quarter of the calendar year but had mixed results relative to peers. Vanguard takes a total market approach to its equity portfolio and has a larger non-U.S. allocation than most peers, this held the series’ further-dated vintages back compared to more growth and U.S. oriented peers.

**J Hancock Disciplined Value** (marked for review): While the strategy underperformed in the first calendar quarter sell-off, it outperformed in the second quarter rally and was near the top quartile of the peer group. Sector allocation was a contributor due to underweight positions to consumer staples and utilities as well as overweight positions to technology and materials. Year to date, the strategy is modestly lagging the benchmark. The main detractor is negative stock selection and an overweight position in financials, one of the worst performing sectors in the index.

CAPTRUST is not recommending any client action at this time and is encouraged by the improved performance in the second quarter but continues to monitor the strategy closely. The strategy has faced stylistic headwinds in recent years as it has a stricter valuation discipline versus some of its peers. The team is not deviating from this approach, as it has paid off in prior recoveries.

**Carillon Eagle Small Cap Growth** (marked for review): In the first half of calendar year 2020, the strategy outperformed the benchmark and slightly lagged the peer group. Over five years, the strategy is in the third quartile of the peer group and roughly in-line with the benchmark. The strategy faced headwinds in the sharp rally during the quarter ended June 30, 2020, as higher valuation, higher growth stocks outperformed in areas such as software. Despite stylistic headwinds due to its valuation sensitivity and sector neutral approach, the strategy is gradually regaining ground vs. the benchmark.
This is an experienced and stable investment team that has been through multiple market cycles, so CAPTRUST believes that a patient approach with the strategy is appropriate. Since 2010, the strategy has been in the top half of the peer group in six out of ten years and in the bottom quartile of the peer group in only two years (2013 and 2018). CAPTRUST believes that clients currently holding the strategy should continue to do so.

**DFA Emerging Markets** (marked consider for termination): The strategy outperformed its benchmark in the second quarter of the calendar year, although it is still lagging year to date. The strategy’s bias to value and small cap stocks has been a headwind in recent years, as growth stocks and large caps have led the market. Value stocks could see a short-term rebound following this period of significant underperformance. However, value stocks are not likely to have sustained outperformance until we see a sustained economic recovery and higher interest rates.

CAPTRUST recommends that clients currently holding all three funds currently “marked for review” or “consider for termination” continue to do so.

**Fiduciary Training**
Mr. Pratico provided a brief overview of Fiduciary Training for the DC Plan reminding the Committee that, while the UMS plan is not subject to ERISA standards, CAPTRUST and UMS follow ERISA as a best practice. Fiduciary training is a critical part of being a fiduciary and minimizes risk. The Department of Labor views fiduciary training as an important element to managing a retirement plan and frequently looks for evidence of formal fiduciary training during plan audits.

A Fiduciary Training Brainshark video was distributed to Committee members prior to the meeting and members were asked to watch the video.

CAPTRUST action items from the meeting are to discuss participant communications strategies with TIAA and UMS pertaining to the above noted CREF Money Market account.

Adjournment

Tracy Elliott for
Ellen N. Doughty, Clerk