UNIVERSITY OF MAINE SYSTEM
Board of Trustees
Investment Committee

December 1, 2020
Zoom

Present: Committee Members: Kelly Martin; Chair, James Erwin, Sven Bartholomew, Mark Gardner, and Trevor Hustus. **Non-Voting, Non Trustee Committee Members:** Erik Hayward and Peter Handy. **System Staff:** Tracy Elliott, Ellen Doughty, Ryan Low, Carol Corcoran, Laurel Hyle, and Gretchen Catlin. **Others:** Anne Devine, Kelly Regan – NEPC, Jay Roney – NEPC, Michael Pratico – CAPTRUST, and Barry Schmitt – CAPTRUST.

Absent: James Donnelly and Betsey Timm.

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

FY2022 Endowment Spending Rate

Vice President of Finance and Controller, Tracy Elliott provided information on the FY22 endowment spending rate. The Chief Business Officers are currently reviewing rate options for FY22, in the context of budget challenges, and a recommendation will be presented to the Committee at its next meeting. If the 4.5% rate were continued, this rate would support estimated endowed spending of $6 million, a $100 thousand increase over FY2021.

The UMS endowment funds are invested in the Managed Investment Pool and NEPC reviewed the return expectations for that portfolio in June 2020. Their analysis suggests a long-term return expectation in the range of 6.2% to 6.7%. This range does not include investment management fees or assumptions for active manager out-performance. As such, they can substantiate a return assumption of 7.25% as an expected return, noting that there will be significant volatility around this expected return each year.

Defined Contribution (DC) Plan Quarterly Review

Michael Pratico, Senior Vice President, and Barry Schmitt, Principal, with CAPTRUST Financial Advisors, provided a review of the Defined Contribution Retirement Plan including the following topical highlights.

CAPTRUST noted that the SECURE Act eliminated major barriers to the adoption of guaranteed retirement income investments in defined contribution plans. The Act also shed new light on the topic of retirement income at a time when more participants are keeping their assets in their employers' plans after retirement. Given these trends, CAPTRUST discussed the importance of helping to prepare participants for—and support them during—the decumulation stage of retirement.

CAPTRUST further noted that a Fiduciary Training presentation was recently distributed to Committee members following ERISA best practice. Fiduciary training is a critical part of being a fiduciary and minimizes fiduciary risk.

Regarding the markets, despite September's pullback, all asset classes have rallied from March's market lows, including solid gains in the third quarter. Historic levels of fiscal stimulus and monetary policy buoyed markets mid-year, but uncertainties about the spread of COVID-19, a contentious election season, and the future of another round of stimulus have recently crept into investors' psyches.

Defined Contribution Plan - Fund Change Recommendations

Michael Pratico and Barry Schmitt reviewed all funds with the Committee consistent with the process outlined in the Investment Policy Statement. All funds, with three exceptions, are currently "in good standing" based on the CAPTRUST scoring methodology. CATRUST then reviewed their recommendation that the Committee consider three Defined Contribution Plan fund changes:

- **CREF Money Market Account** – The New York Department of Financial Services (where TIAA is domiciled) approved a waiver of the expense ratio (currently at 0.23%) for the CREF Money Market through December 31, 2020. The waiver reduced the possibility of negative net returns for the fund in the short-term. Considering the current low yield environment, the sunset of the expense waiver, and the expense ratio, CAPTRUST recommended that the Committee close this fund and map both future contributions and eligible accumulations into the other money market fund available to participants - the Vanguard Federal Money Market Fund. UMS however cannot move any CREF Money Market accounts invested by participants in their Legacy contracts; therefore, CAPTRUST recommends that individual participants take that action. TIAA will be notifying all plan participants about the sunset of the fee waiver. Additionally, management will make sure that union representatives are notified so that the recommended action can be further elevated to participants.

- **DFA Emerging Markets Core** - This fund is a well-diversified emerging markets fund however due to its value bias approach and disappointing performance over the past several years, CAPTRUST recommended replacing the DFA Emerging Markets Fund with the American Century Emerging Markets fund which has experienced more consistent performance during different and challenging market cycles.

- **JHancock Disciplined Value Fund** – This is a large cap, bottom up, traditional value manager and the market has not rewarded this type of strategy. While the consistency of their approach is appreciated, there is a concern about a prolonged growth market that will continue to be a headwind for this strategy. While CAPTRUST does not believe there are any underlying issues with the investment process or team, the strategy has faced stylistic headwinds due to a stricter valuation discipline versus some of its peers. CAPTRUST recommended that the Committee consider replacing the JHancock Disciplined Value Fund with the JP Morgan Equity Income fund.

On a motion by Trustee Bartholomew, which was seconded by Trustee Gardner, and approved by a roll call vote of all Trustees present, the Board of Trustees acting through the Investment Committee approved the following Defined Contribution Plan fund changes:

1. Close the CREF Money Market Fund and map both future contributions and eligible accumulations into the Vanguard Federal Money Market Fund.

2. Replace DFA Emerging Markets Fund with the American Century Emerging Markets Fund.

3. Replace the JHancock Disciplined Value Fund with the JP Morgan Equity Income Fund.

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 September 30, 2020, with the following highlights.

Managed Investment Pool (MIP):
The Managed Investment Pool (MIP) returned 6.1% during the third quarter and 1.4% calendar year-to-date. During the 3rd quarter, managers added 50 basis points of value. Recent manager changes in the MIP have helped recent performance versus the Allocation Index. Over the calendar year-to-date and 1-year trailing time periods, the MIP is in-line with the Allocation Index. The MIP performed well compared to other endowments and Foundations during the 3rd quarter, calendar year-to-date and trailing 1 year, ranking better than the median peer in all time periods. At the end of the 3rd quarter, the asset allocation of the MIP was close to policy targets.

Defined Benefit Pension Fund:
The Pension Fund returned 4.2% during the third quarter and 4.7% calendar year-to-date. During the 3rd quarter, managers added 20 basis points of value. Over the calendar year-to-date and 1-year trailing time periods, the Pension has outperformed the Allocation Index by 120 and 100 basis points, respectively. At the end of the 3rd quarter, the asset allocation of the Pension was close to policy targets.

Operating Fund:
The Operating Fund returned 2.1% during the third quarter and 3.3% calendar year-to-date. During the 3rd quarter, managers added 40 basis points of value. Over the calendar year-to-date and 1-year trailing time periods, the Operating Fund has outperformed the Allocation Index by 70 basis points. At the end of the 3rd quarter, the asset allocation of the Operating Fund was within policy ranges.

Manager Updates:
During the third quarter there were due diligence announcements from four of the managers in the System's portfolios. NEPC presented the announcements for each manager and recommended no action be taken by the Committee.

MIP Asset Allocation.
NEPC reviewed the history of the MIP's allocation to Global Asset Allocation and specifically why the managers were hired. NEPC then recommended terminating GMO Global Absolute Real Return as the strategy has not met expectations. NEPC recommended redeploying GMO's 7.5% allocation to Equity (4%), Fixed Income (2.5%) and Hedge Funds (1%).

On a motion by Trustee Bartholomew, which was seconded by Trustee Gardner, and approved by a roll call vote of all Trustees present, the Board of Trustees acting through the Investment Committee approved the following asset allocation recommendations for the Managed Investment Pool:

1. Reduce global asset allocation from 15% to 7.5% and re-allocate to:
   - traditional equity (4%),
   - fixed income (2.5%), and
   - long/short hedge funds (1%).

2. Terminate the *GMO Global Absolute Return* strategy.

Enterprise Risk Management Update
Gretchen Catlin, Risk Manager, presented an update to the Investment Committee regarding Enterprise Risk Management (ERM). As requested by the Trustees, the ERM program:
- Identifies a specific Trustee committee for oversight of each identified risk;

- Rates each risk based on materiality and scope;
- Is manageable within existing resources; and
- Is actionable.

Risk Management is monitoring 19 enterprise level risks for which a comprehensive update was previously presented to the Committee in May 2020.

Adjournment

Tracy Elliott for
Ellen N. Doughty, Clerk