

UNIVERSITY OF MAINE SYSTEM
Board of Trustees
Investment Committee

March 4, 2021
Zoom

Present: Committee Members: Kelly Martin; Chair, James Erwin, Sven Bartholomew, Mark Gardner, and James Donnelly. **Non-Voting, Non-Trustee Committee Members:** Erik Hayward, Robert Blackwood, and Peter Handy. **System Staff:** Tracy Elliott, Ellen Doughty, and Laurel Hyle. **Others:** Anne Devine, Jean Deighan, Kelly Regan – NEPC, Jay Roney – NEPC, Michael Pratico – CAPTRUST, and Barry Schmitt – CAPTRUST.

Absent: None.

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 regarding the endowment spending rate. The University of Maine System's (UMS) current (FY21) endowment spending rate of 4.5% is estimated to generate \$5.9 million in FY21, including \$4.7 million for endowed spending and \$1.2 million for internal management fees.

In December, the Chief Business Officers reviewed endowment spending rate options for FY22 in the context of budget challenges and determined that 4.5% continues to be an appropriate rate, providing comparable endowed spending while helping to ensure the sustainability and intergenerational equity of the long-term spending ability of the UMS endowment funds. The Accounting Department estimates that this rate will support estimated endowed spending of \$6 million for FY22, a \$100 thousand increase over FY21.

The selection of a 4.5% spending rate is appropriate given NEPC's return expectations for the Managed Investment Pool. Their June 2020 analysis based on market returns suggests a return expectation in the range of 6.2% to 6.7% (down from 6.2% to 7.2%). This range does not include investment management fees or assumptions for active manager out-performance. As a result, NEPC can substantiate 7.25% as a long-term return assumption, noting that there will be significant volatility around this expected return each year.

On a motion by Trustee Donnelly, which was seconded by Trustee Bartholomew, and approved by a roll call vote of all Trustees present, the Board of Trustees acting through the Investment Committee approved an endowment spending rate of 4.5% for FY2022.

Managed Investment Pool (MIP), Pension, and Operating Funds:

Market Update

Jay Roney, with NEPC, reviewed the market environment for the final quarter of the calendar year as well as NEPC's forward looking market outlook. He described how markets continued to do well in the 4th quarter and all equity and fixed income markets were positive. Jay noted that two themes may drive markets going forward, Virus Trajectory and Permanent Interventions. If there is any disruption to these themes, it may lead to market volatility. The Virus Trajectory theme may be short

term in nature and leads NEPC to recommend that UMS have enough liquidity in the portfolios for rebalancing and spending needs. NEPC is comfortable with the liquidity profile of all three UMS portfolios. The Permanent Intervention theme encompasses the fiscal and monetary stimulus that occurred in 2020 and may likely occur going forward. If stimulus continues, NEPC's view is that this may be positive for risk assets such as equities. NEPC is comfortable with the portfolios' equity exposure at this time and, as a result, will make no recommendations during the asset allocation discussion.

Performance Reviews

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

Managed Investment Pool (MIP):

The MIP with a total market value of \$412.2 million as of December 31, 2020, returned 11.3% during the fourth quarter and 12.9% calendar year-to-date, net of fees. During the 4th quarter, managers added 10 basis points of value. Recent manager changes in the MIP have helped performance versus the Allocation Index and over the calendar year-to-date time period, the MIP is in-line with the Allocation Index. The MIP performed well compared to other endowments and Foundations during the 4th quarter and calendar year-to-date time periods, ranking better than the median Endowment and Foundation with assets between \$100-500 million in both time periods. At the end of the 4th quarter, the asset allocation of the MIP was close to policy targets. Rebalancing occurred during the 4th quarter for spending needs and to align the asset allocation with changes that were approved at the December 1, 2020 meeting.

Defined Benefit Pension Fund:

The Pension Fund with a total market value of \$26.3 million as of December 31, 2020, returned 6.9% during the fourth quarter and 12.0% calendar year-to-date. During the 4th quarter managers added 30 basis points of value. Over the calendar year-to-date time period, the Pension has outperformed the Allocation Index by 170 basis points. At the end of the 4th quarter, the asset allocation of the Pension was close to policy targets.

Operating Fund:

The Operating Fund with a market value of \$282.1 million as of December 31, 2020, returned 3.4% during the fourth quarter and 6.8% calendar year-to-date. During the 4th quarter managers added 90 basis points of value. Over the calendar year-to-date time period, the Operating Fund has outperformed the Allocation Index by 170 basis points. At the end of the 4th quarter, the asset allocation of the Operating Fund was close to policy targets.

Asset Allocation Review & Core Fixed Income Recommendation

Kelly Regan reviewed the three portfolios (MIP, Pension Fund and Operating Fund) making no recommendations to adjust the asset allocation policy targets. However, NEPC recommended hiring an active core fixed income manager in both the Pension and Operating Funds to replace the Vanguard Total Bond Market Index Fund. The current fixed income environment with tight credit spreads and increasing exposure to the BBB bond market was the reason for reviewing an active bond manager. NEPC recommended Baird Aggregate Bond Fund (Mutual fund ticker, BAGIX) given the manager's firm, process, fixed income characteristics and history of credit investment selection.

- On a motion by Trustee Erwin, 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 investment manager change:

- Replace the Vanguard Total Bond Index strategy with the Baird Core Bond strategy in the Operating Fund and in the Pension Plan.

Investment Policy Statement Update - MIP

NEPC and Staff have reviewed the Investment Policy Statements (IPS) for the Managed Investment Pool. Changes include updating for the approved FY22 endowment spending rate as well as updating asset allocation policy targets and policy ranges. The updated targets reflected the new asset allocation that was approved by the Committee at the December 1, 2020 meeting. There are no recommended changes for the Pension Fund and Operating Fund policies.

On a motion by Trustee Erwin, which was seconded by Trustee Bartholomew, and approved by a roll call vote of all Trustees present, the Board of Trustees acting through the Investment Committee approved the updated Investment Policy Statement for the Managed Investment Pool.

Defined Contribution (DC) Plans - 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.

Socially Responsible Investments/Environmental Social Governance (SRI/ESG Investing)

CAPTRUST noted that we may see the Department of Labor revisit its latest guidance and further soften its language around the appropriateness of using ESG factors when selecting and monitoring plan investments. CAPTRUST follows DOL guidelines in the selection and evaluation of ESG/SRI investments.

Secure Act and Secure 2.0

- The House of Representatives is currently working on securing a Strong Retirement Act of 2020, also known as SECURE 2.0. CAPTRUST noted that the use of collective investment trusts (CITs) by 403(b) plans is being proposed as part of the revised SECURE Act. If passed, this could have a significant positive impact on 403b plans. CAPTRUST will monitor closely and advise accordingly.

Market Update

Despite 2020's historic ups and downs, stocks and bonds posted strong returns this year, with U.S. stocks closing out the year at all-time highs. Fiscal and monetary stimulus from governments around the world boosted households, economies, and markets even as many countries struggled to contain the COVID-19 pandemic.

Plan Investment Review

CAPTRUST reviewed with the Committee all funds consistent with the process outlined in the Investment Policy Statement. The majority of funds are currently in good standing based on the scoring methodology. CAPTRUST noted the following:

DC Plan fund changes:

Effective March 5, 2021, where possible, the CREF Money Market will be closed in the DC Plans and future contributions will go to Vanguard Federal Money Market (VMFXX). DFA Emerging Markets Core Equity I (DFCEX) will be replaced with American Century Emerging Markets R6 (AEDMX). JHancock Disciplined Value R6 (JDVWX) will be replaced with JPMorgan Equity Income R6 (OIEJX). Assets will be mapped accordingly.

Carillon Small Cap Growth (Marked for Review):

The strategy significantly outperformed its benchmark in 2020 and, over five years, the strategy is roughly in-line with the benchmark. The strategy outperformed the benchmark in the Q1 2020 sell-off but faced headwinds in the strong rally in Q2/Q4. Despite stylistic headwinds due to its valuation sensitivity, the strategy is gradually regaining ground vs. the benchmark. CAPTRUST does not believe there are any underlying issues with the investment team or process. This is an experienced and stable team that has been through multiple market cycles. 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 recommends that clients currently holding the strategy continue to do so.

Vanguard Target Date:

Vanguard Institutional Target Retirement funds posted mixed results in the fourth quarter as the series' near-dated vintages slightly outperformed the benchmark while the further-dated vintages slightly underperformed. Relative to peers, Vanguard's performance was also mixed with the near-dated vintages mostly outperforming and the further-dated vintages trailing. For the year, Vanguard Institutional Target Retirement posted solid results versus the benchmark and peers.

Fee Benchmark:

CAPTRUST provided a recent fee benchmark for the DC Plans along with a fee proposal from TIAA to lower the recordkeeping and administrative fees from 6.5 basis points to 4.3 basis points. CAPTRUST recommended that the Committee approve this fee reduction proposal which will result in a cost savings of approximately \$352,000 per year. CAPTRUST noted that the monitoring of fees for plan service providers is a fiduciary function. Additional highlights of the benchmarking were:

- Total weighted Plan cost of \$5,518,344 (or 0.33% of plan assets), with TIAA's administration & recordkeeping revenue at \$1,094,319 (or 0.065% of plan assets).
- CAPTRUST's database showed administrative fees for comparable sized plans range from 0.039% to 0.055%.
- Based on the plan demographic information utilized to benchmark the plan against the industry, TIAA's current fees are above the current benchmark range. TIAA's proposed fees of 0.043% of plan assets are within the current benchmark range

Defined Contribution Plans – Administrative Fee Recommendations

On a motion by Trustee Donnelly, 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 TIAA recordkeeping/administrative fee proposal of 4.3 basis points.

Additional information about the meeting can be found on the Board of Trustees website:

<https://www.maine.edu/board-of-trustees/meeting-agendas-materials/investment-committee/>

Adjournment

Tracy Elliott for

Ellen N. Doughty, Clerk