

UNIVERSITY OF MAINE SYSTEM  
Board of Trustees  
**Investment Committee**

September 16, 2021  
Zoom

**Present: Committee Members:** Kelly Martin; Chair, Sven Bartholomew, David MacMahon and James Donnelly. **Other Trustees:** Peggy Rotundo. **Non-Voting, Non-Trustee Committee Members:** Erik Hayward, Jim Bradley, and Matthew Skaves. **Presidents:** Joseph Szakas. **System Staff:** Tracy Elliott, Ellen Doughty, Ryan Low and Robert Placido. **Others:** Kelly Regan – NEPC, Jay Roney – NEPC, and Michael Pratico – CAPTRUST.

**Absent:** Mark Gardner.

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

**Investment Committee FY2022 Work Plan**

Chair Martin stated that the FY2022 Investment Committee Work Plan was reviewed and presented to the Committee in the meeting materials. She asked if the Committee had any questions or feedback. Seeing none, the work plan will be forwarded as a final draft to the September 28, 2021 Board of Trustees meeting as an information item.

**Defined Contribution (DC) Plans - Quarterly Review**

Michael Pratico, Senior Vice President with CAPTRUST Financial Advisors, provided a review of the 2021 second quarter Defined Contribution Retirement Plan including the following industry updates.

**Industry Updates:**

**Cybersecurity:**

CAPTRUST praised the UMS team for the comprehensive review of TIAA's cyber security practices noting that it was among the most comprehensive reports that CAPTRUST has seen.

**Missing Participants:**

CAPTRUST noted the recent Department of Labor (DOL) guidelines pertaining to retirement plan "missing participants". Missing participants are former employees who leave funds in an employer's retirement plan but fail to keep their contact information current and are no longer actively engaged in the management of their accounts. CAPTRUST will work with TIAA to ensure proper steps are being followed to track down missing participants.

**Fee Benchmark:**

Although the plan fees have been regularly benchmarked and are consistently in line with market, CAPTRUST and UMS have discussed benchmarking plan services as well as fees. CAPTRUST will provide a limited scope Request for Proposal (RFP) at the next meeting.

### Market Commentary:

CAPTRUST provided its quarter ended June 30, 2021 market update noting that all major asset classes posted gains for the quarter, buoyed by fiscal and monetary policy support and optimism about economic reopening. Stocks and commodities performed particularly well, while bonds regained some ground amid declining rates. Meanwhile, investors watch for signs that inflation pressures are either temporary or more persistent. Bonds were in negative territory for the year but posted a small gain in the second quarter as interest rates eased a bit.

### **Defined Contribution Plan Investment Policy Statement Review**

Meeting materials included the current 2019 version of the Investment Policy Statement (IPS) for committee review. CAPTRUST recommends no changes to the IPS but included the document as periodic review of the IPS is best practice.

### Investment Review:

The committee and its advisor reviewed all funds consistent with the process outlined in the Investment Policy Statement. All funds, with one exception, are currently “in good standing” based on the CAPTRUST scoring methodology. All funds were discussed with emphasis on the following:

*Carillon Eagle Small Cap Growth:* This fund was terminated from the plan effective July 28, 2021.

*Vanguard Target Date funds:* Vanguard changed its portfolio rebalance policy. Previously, anytime the Institutional Target Retirement portfolios drifted more than 75 basis points from the strategic allocation targets, the team automatically rebalanced them back to within 50 basis points. Going forward, the threshold will be 200 basis points, at which point Vanguard will rebalance the portfolios back to within 100 basis points. Vanguard made this change with the goal of reducing the number of rebalancing trades during times of market stress.

The team also implemented the use of futures for a portion of the rebalancing trades. They expect this should reduce trading costs as futures are less expensive to trade compared to the underlying building block funds.

Additionally, Vanguard changed the frequency of the glidepath rolldown from quarterly to monthly. This should result in smaller overall trade sizes when the vintages are rolled down.

CAPTRUST believes each of these changes are prudent enhancements by Vanguard. Compared to peers, Vanguard had one of the tightest rebalance policies, and these changes bring them more in-line with the market. In addition, these changes address the issues Vanguard experienced with elevated trading activity and trading costs during market swings of the first quarter of calendar 2020 and should limit these issues going forward.

*PGIM Total Return:* The fund underperformed its peers and benchmark in the first calendar quarter of 2021. The driver of underperformance in the first quarter was the strategy’s higher duration, or interest rate sensitivity. The fund bounced back in the second quarter as interest rates settled back down. Second quarter performance had the fund in the top 2% peer relative. This fund has been one of the strongest performing funds in its category, consistently outperforming its benchmark and peers over most time periods. CAPTRUST continues to recommend holding the fund.

**Contributory Retirement Plans – CAPTRUST Investment Advisory Services Contract Extension Calendar Year 2022**

Chair Martin noted that through a competitive procurement process, UMS engaged CAPTRUST to perform investment advisory services commencing January 2, 2013. The contract term is for a 7-year period with three 1-year extensions. Management recommends that the Investment Committee approve the contract extension for calendar year 2022. This extension is based on the terms of the RFP and CAPTRUST's pricing provided in 2012. CAPTRUST fees are \$99,373 for calendar year 2021 and the contract allows for a CPI-U based annual increase capped at 5% annually for a maximum annual fee for calendar year 2022 of \$104,341.

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 the extension of CAPTRUST's appointment as the University of Maine System's investment advisors for the Contributory Retirement Plans for calendar year 2022.

**Performance Reviews – Managed Investment Pool (MIP), Pension, and Operating Funds**

Kelly Regan and Jay Roney of NEPC provided a brief market update and an overview of performance for all three portfolios for the quarter ended June 30, 2021.

**Market Update:**

Jay Roney described how equity markets continued to do well in the quarter ended June 30, 2021. Global equities ended the second quarter in positive territory and domestic equities continued to outperform their global counterparts with the S&P 500 increasing 8.5% in the quarter versus 5.2% and 5.0% for international developed and emerging equities, respectively. U.S. Treasury yields declined in the second quarter leading to positive fixed income returns as indicated by the Barclays Aggregate index which improved 1.8%.

**Performance Reviews:**

**Managed Investment Pool (MIP):**

The Managed Investment Pool returned 5.1% during the second quarter and 27.1% for the fiscal year, net of fees. The MIP's total market value was \$444.0 million as of June 30, 2021 representing an increase of \$20.3 million quarter over quarter. During the second quarter, managers detracted 20 basis points of value. Emerging market equity managers and conservative/downside protection managers fell short of their respective benchmarks in a quarter where risk assets performed well. The MIP fell slightly short compared to other Endowments and Foundations during the second quarter, ranking in the 60<sup>th</sup> percentile. At the end of the second quarter, the asset allocation of the MIP was close to policy targets. During the month of August, the MIP was rebalanced to reduce the Portfolio's TIPS exposure given the strong performance of the asset class. The TIPS proceeds were rebalanced to core bonds.

**Defined Benefit Pension Fund:**

The Pension Fund returned 4.3% during the second quarter and 15.9% for the fiscal year, net of fees. The Pension's total market value was \$25.3 million as of June 30, 2021 representing an increase of \$73 thousand quarter over quarter. During the second quarter, managers detracted 10 basis points of value. Like the MIP, emerging market equity managers and conservative/downside protection managers fell short of their respective benchmarks in a quarter where risk assets performed well. At the end of the second quarter, the asset allocation of the Pension was close to policy targets. During the month of August, the Pension was rebalanced to reduce the Portfolio's TIPS exposure given the strong performance of the asset class. The TIPS proceeds were rebalanced to core bonds.

Operating Fund:

The Operating Fund returned 1.4% during the second quarter and 7.7% for the fiscal year, net of fees. The Fund's total market value was \$290.5 million as of June 30, 2021 representing a decrease of \$16.8 million quarter over quarter. During the second quarter, managers neither added nor detracted value. At the end of the second quarter, the asset allocation of the Fund was close to policy targets.

**EXECUTIVE SESSION**

On a motion by Trustee Bartholomew, which was seconded by Trustee MacMahon, and approved by a roll call vote of all Trustees present, the Investment Committee meeting went into Executive Session under the following provisions:

- 1 MRSA Section 405 6-C to discuss the condition, acquisition or disposition of real property or economic development if premature disclosure of the information would prejudice the competitive or bargaining position of the UMS.
- 1 MRSA Section 405 6-E to consult with its attorney concerning legal rights and duties of the university.

On a motion by Trustee Donnelly, which was seconded by Trustee MacMahon, and approved by a roll call vote of all Trustees present, the Committee concluded the Executive Session.

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