

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

November 9, 2021  
Zoom

**Present: Committee Members:** Kelly Martin; Chair, David MacMahon and Mark Gardner. **Non-Voting, Non-Trustee Committee Members:** Jim Bradley, and Matthew Skaves. **System Staff:** Tracy Elliott, Ellen Doughty, and Ryan Low. **Others:** Kelly Regan – NEPC, Jay Roney – NEPC, Barron Schmitt – CAPTRUST, Michael Pratico – CAPTRUST, Matthew Brown – Newton Investment, and Lloyd McAllister – Newton Investment.

**Absent:** Sven Bartholomew and James Donnelly.

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

**FY2023 Endowment Spending Rate**

UMS Vice President of Finance and Controller, Tracy Elliott provided information regarding the endowment spending rate. The current FY2022 spending rate of 4.5% (which includes an internal management fee, where charged) is estimated to generate a distribution of \$6 million for the year, including \$4.8 million for endowed spending and \$1.2 million for internal management fees. The estimated FY2022 effective spending rate for UMS is 3.0%. The UMS Chief Business Officers recently discussed their endowment and spending needs and recommend the same 4.5% spending rate for FY2023.

In June 2021, NEPC reviewed the return expectations for the Managed Investment Pool in which the UMS endowments are invested and their analysis suggests a long-term return expectation in the range of 6.6% to 7.7%. As such, the portfolio long term return assumption of 7.25% seems reasonable and should support the requested spending rate, noting that there will be significant volatility around this expected return each year.

On a motion by Trustee Gardner, which was seconded by Trustee MacMahon, 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 FY2023.

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

Michael Pratico and Barry Schmitt, Senior Vice Presidents with CAPTRUST Financial Advisors, provided the 3rd Quarter 2021 update regarding the Defined Contribution Plan.

**Industry Updates:**

**DOL Prohibited Transaction Exemption for IRA rollovers:**

CAPTRUST provided a summary of the Department of Labor's (DOL's) prohibited transaction exemption (PTE) for IRA rollovers. The PTE 2020-02 is an exemption from the rule prohibiting parties providing fiduciary investment advice from receiving payments that create conflicts of interest.

The PTE primarily applies to rollovers from a plan or IRA to another IRA, even though IRAs are not subject to ERISA. The PTE targets rollovers to IRAs because financial service providers may have an

economic incentive to recommend these transactions and therefore the new exemption requirements are extensive. The PTE reinforces that any rollover recommendation be in the best interest of the plan and participants.

CAPTRUST also noted a recent TIAA settlement that involved the practice of TIAA representatives rolling money over from retirement plan accounts to IRAs. Based on the terms of the settlement and changes to TIAA's approach to IRAs, CAPTRUST is comfortable with the process in place at TIAA.

#### Market Commentary:

CAPTRUST provided market commentary noting that the pace of economic recovery has exceeded expectations, but not without growing pains in the form of rising prices, labor shortages, and supply chain disruptions.

#### Investment Review:

The committee and its advisor reviewed all funds consistent with the process outlined in the Investment Policy Statement. All funds are currently "in good standing" based on the CAPTRUST scoring methodology. CAPTRUST emphasized the following:

*PGIM Total Return:* This fund has underperformed its peers year to date. The driver of underperformance has been the strategy's higher duration, or interest rate sensitivity. The fund bounced back in the 2nd quarter as interest rates settled back down but year to date performance still lags. 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.

#### Participant Communication:

The committee discussed participant assets that are sitting in frozen funds that UMS may not move to investments approved by the committee. CAPTRUST is comfortable with the work that UMS is doing communicating to participants noting the ability for plan participants to meet with TIAA representatives via the phone, on line and/or in person. TIAA utilizes the Morningstar advice engine, which is an industry standard.

#### **Defined Contribution (DC) Plans - Fiduciary Training:**

CAPTRUST noted that while the UMS plan is not subject to ERISA, the committee has always followed ERISA standards as a best practice. This includes components of Fiduciary Training that have been incorporated into the quarterly review process as well as the periodic completion of Fiduciary Training which is provided via Brainshark technology and will be delivered via email following the meeting. The training will assist with the fulfillment of fiduciary responsibilities to demonstrate and document a sound and prudent fiduciary process. CAPTRUST requested that committee members complete the training prior to the next quarterly review.

#### **Portfolio Reviews – Managed Investment Pool (MIP), Defined Benefit Pension Fund, and Operating Fund Portfolios**

Kelly Regan and Jay Roney of NEPC provided a brief overview of the portfolio including performance for all three portfolios for the quarter ended September 30, 2021 and discussed Environmental, Social, and Governance (ESG) investing.

#### **Market Update:**

Jay Roney described how global equity markets declined in the 3rd quarter with the exception of U.S. Large Cap Equity which returned 0.6%. Specifically, Emerging Market Equities declined 8% in the third quarter as increasing regulations in China put pressure on Chinese equities which make up roughly 35% of the MSCI EM index. Interest rates were relatively flat quarter over quarter, however during the month of September interest rates increased. The Barclays Aggregate returned 0.1% during the third quarter. Equity markets rebounded in the month of October with the S&P 500 up 7.0%.

### **Performance Reviews:**

**Managed Investment Pool (MIP):** The Managed Investment Pool (MIP) declined 0.4% during the third quarter and was positive 19.4% over the trailing 12 months, net of fees. The MIP's total market value was \$442.3 million as of 9/30/2021. During the 3rd quarter, managers detracted 20 basis points of value. International equity managers contributed the most to the underperformance and NEPC will review the international equity portfolio at the next meeting. The MIP ranked at the median of the Endowments and Foundation universe during the 3rd quarter, ranking in the 51st percentile. NEPC indicated that longer-term ranks have fallen short of the median as the MIP does not have an allocation to private equity, while most peers do, as private equity returned an estimated 54% over the last 12 months. 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 0.9% during the third quarter and 12.3% over the trailing 12 months, net of fees. The Pension's total market value was \$25.2 million as of 9/31/2021 - an increase of \$100 thousand from the prior quarter. A contribution of \$670 thousand was made during the month of September. During the 3rd quarter, managers added 10 basis points of value. At the end of the 3rd quarter, the asset allocation of the Pension was close to policy targets.

**Operating Fund:** The Operating Fund returned 0.1% during the third quarter and 5.6% over the trailing 12 months, net of fees. The Fund's total market value was \$339.4 million as of 9/30/2021, increasing \$48.9 million from the prior quarter due to positive cash flows into the Fund. During the 3rd quarter managers detracted value 10 basis points of value. At the end of the 3rd quarter, the asset allocation of the Fund was within policy ranges.

### **Newton Investment Management:**

Matthew Brown, Portfolio Manager, and Lloyd McAllister, ESG Analyst, with Newton Investment Management provided an update on their ESG process and the holdings in their Global Real Return strategy in which all three UMS portfolios are invested. Newton, an ESG leader since 1978, noted that Maine was an early adopter of ESG which other institutions have admired and followed. Newton further emphasized their belief that ESG is a growth opportunity.

### **EXECUTIVE SESSION**

On a motion by Trustee Gardner, 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.

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

Investment Committee Meeting  
November 9, 2021

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