

UNIVERSITY OF MAINE SYSTEM
Board of Trustees
Investment Committee

May 19, 2022
Zoom

Present: Committee Members: Kelly Martin; Chair, David MacMahon, Sven Bartholomew, James Donnelly, and Mark Gardner. **Non-Voting, Non-Trustee Committee Members:** Jim Bradley, and Matthew Skaves. **System Staff:** Tracy Elliott, Ellen Doughty, Darla Reynolds, Gretchen Catlin and Ryan Low. **Others:** Kelly Regan – NEPC, Barron Schmitt – CAPTRUST, Michael Pratico – CAPTRUST.

Absent: None.

Defined Contribution (DC) Plans - Quarterly Review

Michael Pratico, Senior Vice President, and Barry Schmitt, Principal, with CAPTRUST Financial Advisors, provided a quarterly update regarding the Defined Contribution Plan.

Industry Updates: Mr. Pratico provided highlights of the Secure Act, noting that retirement plan fiduciaries should be aware of the following items: proposed required minimum distribution (RMD) regulations, the upcoming deadline for plan document restatements, and cryptocurrency guidance.

Further, on March 10, 2022, the Department of Labor (DOL) issued Compliance Assistance Release No. 2022-01 warning plan fiduciaries to exercise extreme care before considering adding a cryptocurrency option to a retirement plan's investment menu. The DOL indicated that fiduciaries that allow cryptocurrency in their brokerage windows can expect to be questioned on how they can square their actions with their duties of prudence and loyalty. Plan sponsors with self-directed brokerage accounts (SDBA) should confirm with their providers that cryptocurrency investments are prohibited. CAPTRUST recommended that UMS follow DOL guidelines by notifying TIAA to prohibit investments in cryptocurrency in the SDBA.

Market Commentary: Barry Schmitt from CAPTRUST provided market commentary stating that 2022 began with modest declines across major asset classes in a synchronized sell-off as investors processed a range of significant global crosscurrents. Only commodities were propelled higher during the quarter, accelerated by supply shocks stemming from the Russian invasion of Ukraine. Normally sedate bond markets were rattled by inflation fears and the beginning of a Federal Reserve tightening campaign.

Investment Review: The committee and its advisor reviewed all funds consistent with the Investment Policy Statement. All funds are in good standing as measured by the CAPTRUST scoring methodology, with one exception. CAPTRUST emphasized the following:

- ***Virtus Ceredex Mid Cap Value (marked for review):*** 1st quarter results lagged benchmark and ranked in the bottom decile peer relative. The strategy's substantial core and growth exposure generated poor results in value-driven environments like those in the first two quarters of 2022. CAPTRUST continues to recommend the strategy but is looking for improved performance to maintain conviction.
- ***PGIM Total Return:*** The strategy has generated solid performance over the long term but underperformed the index and the peer group in the 1st quarter of 2022 and now for the trailing three year period. Underperformance was driven by the fund's long duration bias which weighed

on returns as treasury yields continue to move higher. CAPTRUST continues to recommend the strategy.

- ***Vanguard Target Date:*** The series had mixed results during the 1st quarter as it underperformed the benchmark but outperformed peers. The series' strategic asset allocation was the primary driver of results during the quarter. Vanguard's portfolio construction approach is driven by an emphasis on global diversification as the firm believes a diverse market exposure will produce more resilient portfolios and better risk-adjusted returns over the long-term. Given this approach, Target Retirement has a larger allocation to international equity and debt compared to peers and the benchmark. The series' larger allocation to international equities was a drag on relative performance.

Enterprise Risk Management Update

Gretchen Catlin, Director of Risk Management and Real Estate, provided an update to the Investment Committee regarding Enterprise Risk Management (ERM) and the risk assigned to this Committee for oversight. Overall, Risk Management is monitoring 19 enterprise-level risks for which a comprehensive update was previously presented to the Committee in May 2020.

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

Performance Reviews

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

Operating Fund: The Operating Fund performance was -1.9% during the 1st quarter, net of fees, and -1.2% fiscal year to date (FYTD). The Fund's total market value was \$343.8 million as of 3/31/2022 representing an increase of \$36.0 million over the prior quarter due to positive cash inflows to the Fund. During the 1st quarter, managers were slightly above their respective benchmarks in aggregate (Composite vs. Allocation Index). At the end of the 1st quarter, the asset allocation of the Fund was within policy ranges.

Defined Benefit Pension Fund: The Pension Fund performance was -4.9% during the first quarter, net of fees, and -0.5% FYTD. The Pension's total market value was \$23.0 million as of 3/31/2022 representing a decrease of \$2.2 from the prior quarter. During the 1st quarter, active manager performance lagged their benchmarks in aggregate by 160 basis points (Composite versus Allocation Index) with global equity and emerging market managers contributing the most to the quarter's underperformance. At the end of the 1st quarter, the asset allocation of the Pension was close to policy targets.

Managed Investment Pool (MIP): The Managed Investment Pool (MIP) declined -5.8% during the first quarter, net of fees, and -2.3% FYTD. The MIP's total market value was \$435.1 million as of 3/31/2021 representing a decrease of \$25.7 million from the prior quarter. During the 1st quarter, active managers detracted 120 basis points of value with global equity and international equity managers contributing the most to the quarter's underperformance. The MIP ranked at the 68th percentile of the Endowments and Foundation universe during the 1st quarter. Longer term ranks have fallen short of the median due to the MIP not having an allocation to private equity and due to manager underperformance. At the end of the 1st quarter, the asset allocation of the MIP was within policy ranges, however the cash allocation was elevated at 9% pending a distribution to Maine Maritime Academy.

ESG & Fossil Fuel Exposure Update

Fossil Fuel Divestment - Short-Term Actions: Ms. Regan noted that with the Investment Committee's recent approval to divest from direct fossil fuel investments, System Staff has since directed one fixed

income manager to sell all securities that were part of the Carbon Underground 200 list. Such securities were sold in the month of May. System Staff also provided direction to the fixed income manager and one other small cap equity manager to update their guidelines so that no new fossil fuel investments could be made.

Clarification on Fossil Fuel Exposure Reduction & ESG Dashboard:

Ms. Regan reviewed the *ESG & Fossil Fuel Exposure Update* which was in the Committee's materials, providing clarification on the fossil fuel exposure reduction in the MIP since 2014. She explained that the reduction from 2014 to 2016 was due to manager decisions and changes to investment terminology and not due to the coal divestment that occurred in 2015. She further noted the reduction in fossil fuels from 2016 to 2021 was due to a number of factors, with the largest factor being ESG decisions around managers and asset allocation. She then provided an update on ESG and discussed the new dashboard. The dashboard illustrated that the majority of the investment managers in the MIP have strong ESG incorporation into their investment process defined by NEPC's proprietary ESG ratings system. The Investment Committee asked that future reports tie ESG characteristics to the manager's performance.

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