

UNIVERSITY OF MAINE SYSTEM
Board of Trustees
Investment Committee

December 18, 2023
Zoom

Present: Committee Members: Kelly Martin; Chair, Trish Riley, John Moore, David MacMahon. **Non-Voting, Non-Trustee Committee Members:** Owen McCarthy
System Staff: Chancellor Malloy, Tracy Elliott, Ryan Low, Kayla Flewelling, Paul Chan. **Others:** Kelly Regan – NEPC, Mike Pratico – CAPTRUST, Barry Schmitt, CAPTRUST

Absent: Lisa Eames

FY2025 Endowment Spending Rate

Current FY24 Spending Rate: The current fiscal year 2024 (FY24) **spending rate** of **4.5%** (which includes an internal management fee, where charged) is estimated to generate a distribution of **\$6.6 million** for the year, including **\$5.1 million** for endowed spending and **\$1.3 million** for internal management fees. The estimated FY24 **effective spending rate** for UMS is **4.5%**.

Effective Spending Rate Defined: The distribution for spending divided by the beginning market value (endowment value on or around the beginning of the fiscal year), net of any fees or expenses for managing and administering the endowment. The distribution for spending is the dollar amount withdrawn from the endowment to support the institution's mission.

NEPC Rate of Return Assumption: NEPC determined an expected return range of **6.9% to 8.0%** for the UMS Managed Investment Pool using the 30-year expected market returns as of June 30, 2023. NEPC believes that an active management assumption of 40-50 basis points could be added to this range. Their enclosed letter provides further detail of the analysis which supports the Managed Investment Pool return assumption of **7.25%** noting that there will be significant volatility around this expected return each year.

FY25 Endowment Distribution Rate per Share Recommendation and Estimated Budget: The recommended FY25 endowment spending rate of **4.5%** is estimated to generate **\$6.7 million**, including **\$5.3 million** for endowed spending and **\$1.3 million** for internal management fees. Committee materials provide additional summary information related to the estimated annual distributions.

Distribution Rate Calculation: To accommodate campus budget builds and to smooth market volatility, the distribution formula uses the **June 30, 2023** trailing twelve-quarter endowment pool market value average of **\$149 million** to which the spending rate of 4.5% is applied. The resulting distribution amount is then divided by the total number of shares in the endowment pool to arrive at the distribution rate per share. The Accounting

Department uses the approved rate per share in the monthly allocation process whereby each endowment receives a distribution based on the respective number of shares held. UMS does not distribute funds for underwater endowments during the following fiscal year. See the included Tab 1.1 Endowment Distribution Rate for further detail.

Underwater Endowments: The Accounting Department compared June 30, 2023 individual endowment market values to their initial investments. **Seven** UMS funds with initial investment values totaling **\$1.9 million** were underwaterⁱ by **\$173 thousand**. Nine endowed funds were underwater last year.

Included in the UMS Endowment Pool are certain **fiduciary** funds, of which 15 funds with initial investment values totaling \$1.5 million were underwater by \$62 thousand. Twenty-one funds with initial investment values totaling \$7.3 million were underwater last year by \$249 thousand. To allow funds to regain market value, UMS will not distribute earnings in FY25 for those funds that were underwater as of June 30, 2023. The funds will be measured each June 30 to determine whether or not distributions will be made in the following fiscal year.

On a motion by Trustee Riley, which was seconded by Trustee Moore, and approved by a roll call vote of all Trustees present, the Investment Committee approved an endowment spending rate of 4.5% for FY2025.

Capital Markets & Performance Reviews

Kelly Regan of NEPC provided a market update for the quarter ended September 30, 2023. Additionally, she provided a brief overview of performance for all three portfolios for the quarter ended September 30, 2023.

Enclosed in meeting materials was an executive summary performance report for the quarter that ended on September 30, 2023 and was referenced during her report.

Fossil Fuel Exposure Update – Managed Investment Pool, Pension Fund and Operating Fund

Kelly Regan of NEPC provided an overview of the estimated fossil fuel exposure for all three portfolios for the quarter ended September 30, 2023.

Defined Contribution Plan – Quarterly Review

Michael Pratico and Barry Schmitt, Senior Vice Presidents with CAPTRUST Financial Advisors, provided an update regarding the Defined Contribution Plan for the 3rd calendar quarter ending September 30, 2023.

Defined Contribution Plan – Fiduciary Training

Michael Pratico & Barry Schmitt with CAPTRUST, answered questions regarding the CAPTRUST Fiduciary Training program. The actual training will be done via Brainshark technology. Members are encouraged to complete the approximately 20-minute training prior to

the meeting.

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

Kayla Flewelling, Interim Clerk
