

UNIVERSITY OF MAINE SYSTEM
Board of Trustees
Investment Committee

September 26, 2024
Zoom

Present: Committee Members: Kelly Martin; Chair, Trish Riley, John Moore. **Non-Voting, Non-Trustee Committee Members:** Matthew Skaves. **System Staff:** Carolyn Dorsey, Jeffrey St. John, Tracy Elliott, Beth Stickler, Paul Chan. **Others:** Kelly Regan – NEPC, Matt Landen - NEPC, Mike Pratico – CAPTRUST, Barry Schmitt, CAPTRUST.

Absent: Lisa Eames, David MacMahon.

Investment Committee FY2025 Work Plan

Board Committees annually review their Work Plans, which provide an overview of the agendas for the Committee for the fiscal year (FY). Tracy Elliott, Vice President of Finance and Controller for the System reviewed the Plan for FY2025. This Plan will also be included in the November 18, 2024 Board of Trustees meeting materials as an information item.

Approval of Non-Voting, Non-Trustee Member – Matthew Skaves - 2nd Term

Trustee Martin, Chair of the Investment Committee, and Board of Trustees Chair Riley, recommended the reappointment of Matthew Skaves as a non-voting, non-trustee member of the Investment Committee.

Mr. Skaves, a Chartered Financial Analyst, is a UM Business School Instructor. He has also served as the Chief Investment Officer for Birchbrook; is the owner of Matthew Thomas, LLC which provides strategic planning services and advice to small businesses; is co-owner of Lexi & Matt Photography, LLC.; and serves on several other boards and committees.

On a motion by Trustee Riley, which was seconded by Trustee Moore, and approved by a roll call vote of all Trustees present, the Board of Trustees, acting through the Investment Committee, approved the reappointment of Matthew Skaves for a three-year term as a non-voting, non-trustee member of the Investment Committee effective September 26, 2024.

NEPC Capital Markets Review & Quarterly Performance

Market Update:

Matt Landen provided an update on NEPC's market outlook. The second quarter of calendar year 2024 was strong for U.S. and Emerging Markets as U.S. Large Cap Technology stocks continued to perform well and China rebounded from its recent struggles. Non-U.S. Developed markets lagged as the U.S. dollar strengthened and markets experienced a flight to quality given ongoing geopolitical concerns. Fixed Income was mostly flat to slightly positive, though longer-dated bonds were negatively impacted as rates repriced and the yield curve shifted higher.

In terms of the forward-looking outlook, NEPC believes the current equity market concentration is unsustainable in the long-term and that clients should maintain dedicated value and small-cap equity exposures should expanded market breadth return. Additionally, NEPC recommends a neutral duration positioning within Fixed Income portfolios despite the likelihood for future Fed rate cuts given where markets are priced currently. As for the U.S. election, NEPC's position is that markets will likely see increased volatility, but the long-term market impact will be muted.

Performance Review – UMS Portfolios:

Matt Landen reviewed performance for all three UMS portfolios with the following highlights.

Operating Fund. The Operating Fund returned 1.3% during the second calendar quarter, net of fees. The Fund's total market value was \$265.0 million as of 6/30/2024 representing a decrease of \$11.8 million quarter over quarter. During both the 2nd quarter and trailing fiscal year, managers were in-line with their respective benchmarks in aggregate (Composite vs. Allocation Index). The Fund's manager performance has been strong over the long-term, outperforming the Allocation Index during the 5-year time period. At the end of the 2nd quarter, the asset allocation of the Fund was within policy ranges.

Defined Benefit Pension Fund. The Pension Fund returned 0.3% during the second calendar quarter, net of fees. The Pension's total market value was \$17.6 million as of 6/30/2024 representing a decrease of \$0.8 million quarter over quarter. During both the 2nd quarter and trailing fiscal year, managers underperformed their respective benchmarks in aggregate (Composite vs. Allocation Index). During the quarter, Global Equity and Emerging Markets managers were the largest detractors to relative performance. Relative underperformance over the trailing fiscal year was primarily due to more conservative positions which underperformed during a strong market. Matt noted that at the end of the 2nd quarter, the Fund was still awaiting a redemption from Principal that will bring the Real Assets and Fixed Income positions closer to target. However, these allocations are still within policy ranges.

Managed Investment Pool (MIP). The Managed Investment Pool (MIP) improved 0.9% during the second calendar quarter, net of fees. The MIP's total market value was \$398.9 million as of 6/30/2024 representing an increase of \$2.3 million quarter over quarter. During the 2nd quarter, managers underperformed their respective benchmarks in aggregate (Composite vs. Allocation Index) and underperformed over the trailing fiscal year as well. Equity managers and defensive positions contributed to the fiscal year underperformance. The MIP ranked in the 57th percentile of the Endowments and Foundations universe during the 2nd quarter with manager underperformance contributing to the below median results. The MIP has a 0% target to private equity while the median peer has a roughly 10% allocation. NEPC expects that the MIP will rank well when public equity does well and private equity falls short, however over the long-term NEPC expects that private equity will outperform public equity resulting in below median rankings. At the end of the 2nd quarter, the asset allocation of the MIP was within policy ranges; however, the asset allocation will be shifting in the 3rd quarter as the

portfolio transitions to new the targets that the Investment Committee approved during their May meeting.

Approval of Updated Investment Policy Statements:

NEPC updated the MIP Investment Policy Statement with the following changes:

- Updates to asset allocation targets and ranges based on the changes approved by the Committee at their May meeting.
- Change in the Global Equity benchmark to reflect the addition of two new managers being added to the composite.
- Change in the Private Equity benchmark to better align it with the performance reporting methodology of the underlying manager.
- Updates to the Fiscal Year spending rate dates.

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 the updated Investment Policy Statement for the Managed Investment Pool.

CAPTRUST Defined Contribute Plan Quarterly Review & TIAA-CREF Updates:

Administration:

Barry Schmitt provided updates pertaining to TIAA including details regarding a recent class action suit alleging TIAA and Morningstar conspired to direct participant assets to proprietary products. CAPTRUST will keep the Committee updated on this issue as it progresses. Barry also commented on a recent TIAA partnership announcement with Accenture. This will impact around 1500 jobs at TIAA and will take 3-4 years to implement. CAPTRUST also provided an updated Cyber Security report.

Market Commentary:

Mike Pratico provided brief market commentary noting that the equity market's performance through the first half of the calendar year was strong, particularly in the large growth space where it continues to outperform all other styles.

Investment Review:

CAPTRUST reviewed the Defined Contribution menu of funds in a manner consistent with the Investment Policy Statement with the below highlights. CAPTRUST also noted that all funds are in good standing except that the American Funds Europacific Growth and JPMorgan Equity Income funds are marked for review.

American Funds Europacific Growth (marked for review):

Performance for this fund was slightly soft during the second quarter, but the environment for this growth tilted strategy has generally improved since interest rates peaked in October last year. Despite the second quarter miss, the strategy's year-to-date results are attractive due to a strong first quarter, ranking in the upper quartile of the foreign large blend peer group. The three-year trailing return continues to be weighed down by the challenging environment for the growth style from late 2021 through 2022,

but returns over the past two years are nicely ahead of the core MSCI ACWI ex-U.S. Index and are slightly ahead of the foreign large blend peer group median. CAPTRUST continues to recommend holding the fund.

JPMorgan Equity Income (marked for review):

This strategy performed relatively in line with its peers and index in the second quarter of 2024, softening its underperformance from 2023. Over the past three years, the strategy's 0.75 beta to the broader markets has been a headwind compared to the Russell 1000 Value Index, which has a 0.87 beta. The lower beta loading contributed to top decile performance during the risk-off environment in 2022. However, this also contributed to bottom decile performance during growth's leadership in 2023. CAPTRUST continues to have conviction in this team and strategy due to their deep experience, disciplined process, and favorable historical track record.

Vanguard Target Date (default choice):

The Vanguard Target Retirement series posted solid results in the second quarter, mostly outperforming peers and posting results in-line with the benchmark. The main driver of performance was the series' passive portfolio construction. During the quarter, market gains were concentrated within large-cap stocks, while mid- and small-cap stocks posted negative returns. Offsetting some of this positive impact in the series' in-retirement vintages (2020 and Income) was Vanguard's more conservative glidepath design. A lower equity allocation in these vintages compared to peers and the benchmark weighed on their results as equity markets outperformed fixed income during the quarter.

Victory Small Cap Value:

After having significantly outperformed the Russell 2000 Value index in 2022, the strategy underperformed both its peers and benchmark in 2023. In the second quarter of 2024, the strategy trailed the index and landed in the bottom quartile of its peer group. The strategy outperformed the index over both three and five years, while it is in the middle of its peer group over three years and in the bottom half over five. The strategy has been a strong and consistent performer for a long time. While the last few years have been inconsistent, this is a team that has performed well over market cycles, and CAPTRUST remains confident that the strategy's strong performance will continue moving forward.

As part of its due diligence, CAPTRUST will consider making fund comparisons for the American Funds Europacific Growth, JPMorgan Equity Income, and the Victory Small Cap Value funds.

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

Elizabeth Stickler, Clerk