UNIVERSITY OF MAINE SYSTEM
Board of Trustees
Investment Committee

May 15, 2025
Zoom

Present: **Committee Members:** Kelly Martin; Chair, Trish Riley, John Moore, Riley Worth. **Other Trustees**: **Non-Voting, Non-Trustee Committee Members:** James Bradley, Matthew Skaves, and Jack Moore. **System Staff:** Tracy Elliott, Carolyn Dorsey, Beth Stickler, Chancellor Malloy. **Others:** Kelly Regan – NEPC, Matt Landen – NEPC, Nate Penha – CAPTRUST, Barry Schmitt – CAPTRUST.

Absent: Lisa Eames, David MacMahon, Elise Baldacci.

NEPC Capital Markets Review and Quarterly Performance

Market Update:
Matt Landen (NEPC) provided an update on NEPC's market outlook. Domestic Equities struggled in the 1st calendar quarter while International Equities did well, bolstered by a weakening US Dollar. The implementation of tariffs in early April caused a spike in volatility and a further US market sell-off, though that had mostly recovered by the end of the month. The increased market breadth resulted in value stocks outperforming growth stocks by ~12% calendar year to date, which is the fourth largest differential ever. Fixed Income markets performed well as growth concerns fueled the downward pressure on rates. Mr. Landen also outlined NEPC's forward-looking outlook, noting that recession risks are higher, but still not NEPC's base case with a lot yet to be determined depending on tariff negotiations. NEPC emphasized that investors should stay the course and rebalance back to targets, particularly during times of elevated volatility.

Performance Review:
Mr. Landen reviewed performance for all three UMS portfolios with the following highlights.

Operating Fund. The Operating Fund improved 1.0% during the 1st quarter, net of fees. The Fund's total market value was $278.3 million as of 3/31/2025 representing an increase of $32.5 million quarter over quarter. Managers trailed their respective benchmarks in aggregate (Composite vs. Allocation Index) over the quarter and trailing one year. The Fund's manager performance has been strong over the long-term, outperforming the Allocation Index during the 5 and 10-year time periods. At the end of the 1st quarter, the asset allocation of the Fund was within policy ranges. NEPC reviewed the portfolio's current positioning and recommended no changes.

Defined Benefit Pension Fund. The Pension Fund improved by 0.1% during the first quarter, net of fees. The Pension's total market value was $16.4 million as of 3/31/2025 representing a decrease of $0.8 million quarter over quarter due to distributions. During both the 1st quarter and trailing year, managers underperformed their respective benchmarks in aggregate (Composite vs. Allocation Index). During the quarter, Walter Scott and Lighthouse were the largest detractors to relative performance. Relative underperformance over the trailing year was primarily due to more conservative positions which underperformed during a strong market period as well as weaker performance within the Fund's equity allocations. At the end of the 1st quarter, the asset allocation of the Pension was within policy ranges.

Managed Investment Pool (MIP). The Managed Investment Pool (MIP) declined by -0.7% during the 1st quarter, net of fees. The MIP's total market value was $369.9 million as of 3/31/2025 representing a decrease of $3.8 million quarter over quarter. The decrease was due in part to cash outflows but also to investment losses. During both the 1st quarter and trailing year, managers underperformed their respective benchmarks in aggregate (Composite vs. Allocation Index), driven by weak performance in the Equity composite and a more defensive positioning. The MIP ranked in the 82nd percentile of the Endowments and Foundation universe during the 1st quarter as weak active management within the Fund's Equity managers detracted relative to peers. Additionally, the MIP has a 0% target to private equity while the median peer has a roughly 10% allocation. The MIP is expected to 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 1st quarter, the asset allocation of the MIP was within policy ranges.

Updated Investment Policy Statements

NEPC provided the Investment Committee with redline changes to the MIP and Pension Fund Investment Policy Statements. These changes included the following items:

Managed Investment Pool

- Updates to the asset allocation targets and ranges based on the Committee approval of the asset allocation changes at the previous meeting.
- Removal of the Emerging Small Cap composite and replacing it with the Emerging composite with a target benchmark of the MSCI Emerging Markets Index.
- Removal of the University of Southern Maine Foundation as one of the entities within the MIP.
- Update the endowment spending rate applicable date.
- Update the annual spending amount calculation to trailing twelve-quarter.

Pension Fund

- Updates to the asset allocation targets and ranges based on the Committee's approval of the asset allocation changes at the previous meeting.
- Change in the Global Equity benchmark to reflect the addition of the two new managers being added to the composite.
- Removal of the Emerging Small Cap composite.

RESOLUTION:

On a motion by Trustee Moore, which was seconded by Trustee Riley, the Board of

Trustees, acting through the Investment Committee, approved the updated Investment Policy Statements for the Managed Investment Pool and Pension Fund.

Fixed Income Discussion – Fossil Fuel Exposure

Kelly Regan (NEPC) led a discussion with the Committee regarding the fossil fuel exposure within the Fixed Income portfolio. As of the end of calendar year 2024, the fossil fuel exposure has been eliminated from all equity holdings and the next area of focus for reduction is Fixed Income. Of the existing managers, NEPC estimates that only Commonfund and Baird have exposure to the Carbon Underground 200 and have put together a preliminary list of possible replacement managers to eliminate that exposure. The Committee confirmed they would like to move forward with a formal search to replace Commonfund and Baird that includes NEPC recommended managers with separately managed account options.

BlackRock SIO and Bain state they have exposure to fossil fuels but are likely using a broader definition and would not have exposure if compared against the Carbon Underground 200. NEPC recommends that the System request the current CU200 list to confirm exposures.

Defined Contribution Plans – Quarterly Review

Financial Wellness and Retirement:
The SECURE 1.0 and SECURE 2.0 Acts are aimed at improving the overall financial wellbeing of participants and Plan sponsors contemplate optional Plan provisions.

Employee Financial Distress:
According to CAPTRUST, 12% of their phone engagements with Plan participants uncovered that over 50% of the calls were about budgeting, 32% were focused on debt, with retirement and investments at around 15%, collectively.

Market Commentary:
Global equities started the year off strong but ended the quarter on a cautious note as policy rhetoric dominated the narrative. The performance varied by region. In the U.S., equities were pressured by a reevaluation of growth prospects. Overseas, new growth-oriented policies offset tariff uncertainty, boosting returns for a potentially reinvigorated Europe.

- Domestic equities moved lower on weak consumer and business sentiment. Mega-cap technology and consumer discretionary stocks were most exposed to the momentum unwind.
- International stocks rallied on improving growth prospects, dollar weakness, and lower valuations relative to U.S. equities.
- Bonds yields moved lower in anticipation of slower economic activity but were limited by competing factors, including a Fed pause, fiscal policy and inflation uncertainty, and rising rates across Europe.
- Commodities benefited from dollar weakness. Investors turned to gold amid economic uncertainty and energy as an inflation hedge.
- Real estate gained as rates moved lower, though economic uncertainty remained a headwind.

Quarterly Review of funds:
CAPTRUST reviewed all funds consistent with the Investment Policy Statement noting that all funds are in good standing with three exceptions. CAPTRUST emphasized the following:

JP Morgan Equity Income (marked for review):
This strategy effectively combines relative value and income approaches within the domestic large-cap sector, offering a conservative, quality-biased investment option. The experienced co-portfolio managers, supported by a dedicated analyst team, leverage extensive industry knowledge to identify high-quality companies with durable competitive advantages and consistent earnings. The strategy's adherence to a conservative approach that is less volatile than the overall market, focusing on firms with a minimum dividend yield of 2% and payout ratios below 50%, aligns well with investors seeking lower volatility and modest downside risk. Additionally, the strategy's low turnover rate and disciplined sell criteria underscore its commitment to income generation and long-term value. However, the strategy, while providing downside protection, has struggled during times of accelerated growth in the marketplace. Also, one of the three portfolio managers has retired. CAPTRUST recommends clients that are currently using the strategy continue to do so.

TIAA Real Estate (marked for review):
The TIAA Real Estate Account has experienced challenging absolute and relative performance over the trailing three years. The strategy has declined -4.97% over the past three years. The Account's underperformance is primarily due to property type selection. Despite efforts to reduce exposure to traditional office and retail sectors, the account still has a higher weight in these areas compared to the index. They also tend to be conservative, marking down their valuations quicker than others. CAPTRUST remains confident in TIAA's ability to manage the strategy and believes that the positioning changes being implemented will lead to a stronger portfolio in the long term.

American Funds Euro pacific Growth (Considered for Termination):
The market environment continues to be challenging for the Euro Pacific Growth strategy (soon to be renamed EUPAC). Growth stocks underperformed sharply in the 1st quarter of calendar 2025, with the core MSCI ACWI ex-U.S. Index outperforming the MSCI ACWI ex-U.S. Growth Index by over 3% during the quarter. This period of relative weakness for this growth style now spans 4.5 years. Growth tilted, core-oriented strategies like Euro Pacific Growth look weak over short and intermediate-term periods versus the core benchmark and foreign large blend peer group. A significant allocation to emerging markets has also been a headwind over this period as developed markets have generally outperformed since the end of 2020. Intermediate three to five-year results for the strategy are weak and even the seven-year return is below the median of the blend peer group despite being in line with the core index. After a rough stretch from 2021 through 2022, the fund's results perked up the following two years, but this current quarter marks a tough end point for the strategy. As a result, CAPTRUST recommended removing this strategy from the Plan and moving assets and future contributions into the other foreign large blend manager (MFS Intrinsic Value fund).

<u>Foreign Large Blend Recommendation</u>
After discussion, the Trustees voted to replace the American Funds Euro Pacific Growth Fund with the other actively managed fund in the portfolio - the MFS International Intrinsic Value Fund.

CAPTRUST will work with TIAA and Tracy Elliott, Vice President of Finance and Controller, to implement this change.

RESOLUTION:

> On a motion by Trustee Riley, which was seconded by Trustee Moore, the Board of Trustees, acting through the Investment Committee, approved terminating the American Funds Europacific Growth Fund, replacing the fund and mapping the assets and contributions to the MFS International Intrinsic Value Fund.

Fee benchmarking:
CAPTRUST delivered a benchmarking review of the current TIAA administrative fees associated with their services. It is important that fiduciaries are not only aware of the fees being assessed, but also if the fee is reasonable in the marketplace. The current fee is an annual $49 per participant.

CAPTRUST compared the fee to several similar structured plans noting a range from $28 per plan participant to a high of $55 plan participant. As a result, the Trustee's supported CAPTRUST engaging with TIAA in a fee discussion with the goal of lowering the costs to administer the plans. CAPTRUST will involve Ms. Elliott when the negotiations commence.

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