

UNIVERSITY OF MAINE SYSTEM
Board of Trustees
Investment Committee

December 3, 2025
Zoom

Present: Committee Members: Kelly Martin; Chair, Trish Riley, David MacMahon, Riley Worth. **Non-Voting, Non-Trustee Committee Members:** Matthew Skaves. **Chancellor:** Dannel Malloy **Presidents:** Joan Ferrini-Mundy **System Staff:** Amon Purinton, Tracy Elliott, Jenny Boyden, Carolyn Dorsey, Ryan Low & Beth Stickler. **Others:** Kelly Regan – NEPC, Matt Landen – NEPC, Barry Schmitt - CAPTRUST, Mike Practico – CAPTRUST.

Absent: Lisa Eames, John Moore, Elise Baldacci

FY2027 Increase to UM Endowment Management Fee

In 2015, the UMS Board of Trustees approved an increase in UMaine's endowment management fee from 0.25% to 1.25% following recommendations from the UMaine Advancement Alignment Task Force. This change supported the transition of UMaine's development operations to its Foundation and funded expanded fundraising efforts in preparation for a comprehensive campaign. The UMaine Foundation Board of Directors followed suit, implementing a 1.25% administrative fee on their endowments.

Per their Memorandum of Understanding, UMaine pays the Foundation 1% of UMaine's June 30 Endowment Pool market value for the Foundation's endowment management services. This commitment is effectively funded from the current 1.25% management fee portion of the annual University of Maine System endowment pay over. Our analysis indicates that increasing the fee to 1.75% could generate approximately \$468,000 in additional annual revenue, enabling UMaine to reduce the use of E&G funds currently covering the Foundation gift-processing expenses, which amount to nearly \$2.8 million annually. This proposed fee increase, if approved, would be effective for FY27 and incorporated into UMaine's FY27 E&G operating budget.

Discussion highlighted differences in approach between the University of Maine and the Humane Foundation regarding endowment spending, with the latter opting for a different policy that offers potentially greater benefits. Concerns were raised about how the fee increase might affect charitable remainder trusts and whether donors are adequately notified about fees being charged. There was emphasis placed on transparency when dealing with donors about the fees, specifically addressing how the fees impact donations and their distribution. The University of Maine committed to confirming with the foundation regarding notification protocols to donors concerning fee deductions.

On a motion by Trustee Worth, which was seconded by Trustee Riley, the Board of Trustees, acting through the Investment Committee, approved an increase to the

management fee portion of the UMaine endowment spending rate from 1.25% to 1.75%, effective for FY27.

FY2027 Endowment Spending Rate

Current Spending Rate: The current fiscal year 2026 (FY26) spending rate of 4.5% (which includes an internal management fee, where charged) is estimated to generate a distribution of \$6.7 million for the year, including \$5.3 million for endowed spending and \$1.4 million for internal management fees. The estimated FY26 effective spending rate for UMS is 4.6%.

Effective Spending Rate Defined: The distribution for spending is the dollar amount withdrawn from the endowment to support the institution's mission. This rate is calculated by dividing the distribution for spending amount by the endowment market value at the beginning of the FY, net of any fees or expenses for managing and administering the endowment.

FY27 Endowment Distribution Rate per Share Recommendation and Estimated Budget: The recommended FY27 endowment spending rate of 4.5% is estimated to generate \$6.84 million, including \$5.45 million for endowed spending and \$1.39 million for internal management fees using the current management fee structure.

UM Endowment Fee Increase to 1.75%: Tab 1 of the Committee's meeting materials includes a proposed increase to UM's endowment management fee from the current 1.25% to 1.75%. Approval of this increase will shift an estimated \$468 thousand from UM Endowed Spending Distributions to UM Management Fee Distributions for FY27 for estimated Total System Endowed spending of \$4.98 million with \$1.86 million for internal Management Fees.

Distribution Rate Calculation: To accommodate campus budget builds and to smooth market volatility, the distribution formula uses the June 30, 2025, trailing twelve-quarter endowment pool market value average of \$152 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 do not distribute funds for underwater endowments during the following fiscal year. See the included Tab 2.1 Endowment Distribution Rate for further detail.

Underwater Endowments: The Accounting Department compared June 30, 2025, individual endowment market values to their initial investments. One UMA endowed fund was underwater during the prior year. The funds are measured each June 30 to determine whether or not distributions will be made in the following fiscal year.

NEPC Rate of Return Assumption: NEPC's analysis in July 2025 indicates that a return expectation in the range of 7.0% to 8.1%, for the Managed Investment Pool (MIP), is reasonable based on 30-year return expectations. Their assumptions are based on market returns. On that basis, they do not include investment management fees or assumptions for active manager out-performance, or alpha. NEPC estimates that 40-50 basis points of alpha can be assumed in

addition to the market return assumption. NEPC's letter is included with the meeting materials and provides further details of their analysis showing support for the MIP's Investment Policy Statement return assumption of 7.25% noting that there will be significant volatility around this expected return each year.

On a motion by Trustee MacMahon, which was seconded by Trustee Worth, the Board of Trustees, acting through the Investment Committee, approved an endowment spending rate of 4.5% for FY27.

NEPC Capital Markets Review & Quarterly Performance

Market Update:

Matt Landen (NEPC) provided an update on NEPC's market outlook. Equities performed well in the second quarter (Q2) despite the poor macroeconomic backdrop coming into the quarter and the sharp decline following President Trump's April 2nd announcement of sweeping tariffs on imports. US markets, as measured by S&P 500, were up 10.9% in Q2 while non-US markets performed even better with the MSCI EAFE up 11.8% and the MSCI Emerging Markets up 12.0%. Strong performance was due in large part to improved trade dynamics, more clarity in the legislative environment, and for non-US markets, a weakening dollar. The rally continued in July and August as corporate earnings exceeded estimates and additional trade deals started to materialize. However, the labor market started showing signs of weakness as reports came below expectations and prior months were revised downward. As a result, the Fed cut rates in early September with more cuts expected prior to calendar year-end. Given the current market conditions, NEPC recommended that clients brace for additional volatility, and they emphasized rebalancing to targets should we see any market dislocation.

Performance Review:

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

NEPC Capital Markets Review & Quarterly Performance

Kelly Regan and Matt Landen of NEPC provided a market update and a brief overview of performance for all three portfolios for the quarter ended September 30, 2025.

U.S. large cap equity markets were up over 8%, while small cap markets were up over 12%, influenced by rate cuts and lower quality name rallies. Emerging markets, particularly China, outperformed with a 20% increase, contributing to an overall emerging market increase of more than 10%.

MSCI IFA representing non-U.S. developed markets lagged with around 5% growth, affected by limited tech and AI exposure. Fixed income markets saw growth due to lower yields and tight spreads, with a significant factor being the Fed's 25 basis points rate cut.

Commodities rebounded in Q3, led by gold up over 17%, driven by market sentiment around tariffs, inflation, and geopolitics.

The operating fund increased by \$31 million to \$280 million due to inflows and positive performance, remaining conservative with high cash allocation. A senior portfolio manager from

BlackRock left, affecting the Strategic Income Opportunities Strategy in all portfolios. BlackRock is placed on watch.

The pension fund grew slightly to \$16 million despite some outflows, with underperformance noted in global equity managers Walter Scott, Impacts, and Linzl Train.

Vanguard was fined by the SEC for undisclosed conflicts of interest but remains on watch after appointing a new CEO.

The MIP fund increased by over \$13 million, though it lagged in performance mostly due to issues with global equity managers and one SMID cap manager. Active managers in the portfolio struggled due to a junk rally in Q3. 60 stocks doubled, with 51 non-profitable ones leading performance.

Walter Scott, a conservative growth manager in the global equity segment, underperformed expectations and is re-evaluated for potential changes. Impacts underperformed slightly, focusing on materials, industrials, and thematic investments which are less favored than AI stocks currently.

Linzl Train did not perform well due to their value strategy not aligning with AI-driven tech performance.

International Developed markets and manager Acadian performed well with strong returns in line with expectations, with Acadian being the new quant manager.

Fixed income portfolios were strong, with all managers, including Fidelity and BlackRock performing in line with benchmarks.

Finally, it was noted that effective December 1, Common Fund is to be replaced with IRM strategy.

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

Kelly Regan and Matt Landen of NEPC provided an overview of the estimated fossil fuel exposure, referring to the following materials, for all three portfolios for the quarter ended September 30, 2025.

The University of Maine System's impact investing includes a fossil fuel divestment policy, notably reducing its exposure from 2.5% to 0.1% - a significant decrease. With manager evaluation against the Carbon Underground 200 list, further divestment focuses on reducing remaining exposure from funds like Common Fund and Lighthouse and aim for full divestment by 2030.

Remaining Fossil Fuel exposures includes: \$120,000 from Common Fund, which is being replaced by IRNM, who does not invest in the Carbon Underground 200 list securities, Lighthouse with \$56, 000 in the managed investment pool, and \$71,000 from Baird, which is already liquidated, in the pension fund.

NAPC will continue to assess options for removing remaining fossil fuel exposure, focusing on recommendations as investment opportunities arise. A January report to the board will present these findings as good news, with possible participation or information provision provided by Kelly Regan.

Defined Contribution Plan – Quarterly Review

Michael Pratico and Barry Schmitt, Senior Vice Presidents with CAPTRUST Financial Advisors, provided an update regarding the Defined Contribution Plans for the 3rd calendar quarter ending September 30, 2025.

The quarterly review was conducted, covering both market commentary and a Qualified Default Investment Alternative (QDIA) review. The focus was on the performance of target date funds and general market trends. An executive order called the Democratization of Alternative Assets in 401K and 403B plans was discussed. Currently, this order is not expected to impact the system 403B plan in the foreseeable future due to pending Department of Labor guidance.

Catch-up contributions for those earning over \$150,000 annually will be directed via the post-tax Roth feature starting January of the next year. The general market review indicated positive performance: S&P 500 up 17.5% year-to-date, developed international markets up 27% year-to-date, and U.S. Aggregate bond index up 7% year-to-date.

Vanguard target date series were highlighted as strong performers due to an overweight position in international equities and being index-based, which benefited from the market trends favoring passive investment strategies. Concerns were raised over underperforming funds marked for review based on scoring methodology: MFS International Value Fund, JP Morgan Equity Fund, and Victory Sycamore Established Value Fund.

The JP Morgan Equity Income Fund scored on the verge of termination category due to its pure value focus and lack of exposure to high-growth stocks, resulting in performance below the 50th percentile year-to-date. Victory Sycamore mid-cap value fund was noted as underperforming significantly, both year-to-date and relative to peers, and as needing close monitoring.

Harbor Capital Appreciation fund, a longstanding good performer, showed signs of reduced performance this year but still maintained good scores over a three-year period.

MFS International Value fund showed remarkable performance, up 31% year-to-date, marking its position in the top quartile among peers.

The Vanguard target date series revealed robust performance across all vintages with the 2030 Fund up over 15% year-to-date, beating 96% of its peer group, and the 2060 Fund up over 20% year-to-date, surpassing 80% of the peer group. Discussion on Vanguard and TIAA collaboration was mentioned, introducing a product incorporating guaranteed income which will be reviewed in the future.

Congress may revise regulations to allow 403 plans to access Collective Investment Trusts

(CITs), potentially reducing costs across Vanguard series and other funds significantly, but pending legislative approval.

Ending the review, it was noted that overall plan scores are strong with a score of 90, reflecting the stability of the fund lineup and avoiding major changes over the years.

Defined Contribution Plan – Qualified Default Investment Alternative Review

Michael Pratico and Barry Schmitt, Senior Vice Presidents with CAPTRUST Financial Advisors, provided a review of the Defined Contribution Plans' Qualified Default Investment Alternative (QDIA) vehicle.

The presentation reviewed the use of target date funds as Qualified Default Investment Alternatives (QDIAs), highlighting the automatic enrollment of participants in age-appropriate funds when investment decisions are not made.

Vanguard target date funds were praised for their performance, risk mitigation, and conservative asset allocation strategy compared to competitors like Fidelity and Nuveen. The discussion emphasized that Vanguard target date funds use passive management for asset classes but are actively managed overall, particularly in asset allocation strategy. Vanguard holds 37% of the target date market, significantly more than its competitors, demonstrating strong performance and market presence.

Vanguard target date funds are compared with Nuveen and Fidelity, showing lower cost and conservative equity exposure, resulting in better risk-adjusted returns for participants, and offer diversified holdings with fewer asset classes covered, but maintain effective performance through good management practices. The funds maintain a conservative glide path, reducing equity exposure as participants approach retirement, minimizing risk while sustaining performance. The Vanguard series demonstrates robust Sharpe ratios and lower beta scores, showing a strong risk-adjusted performance when compared with competitors.

Vanguard's holdings offer strong diversification across thousands of securities, including both equities and bonds, providing stability and growth through market cycles. Upcoming enhancements by Vanguard, including partnership with TIAA, may offer new benefits through combined expertise in guaranteed income and low-cost investment products.

Defined Contribution Plans – Fiduciary Training

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

The link for the training is: <https://www.brainshark.com/captrust/2025FiduciaryRoles>
The training will assist with the fulfillment of fiduciary responsibilities to demonstrate and document a sound and prudent fiduciary process.

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