

UNIVERSITY OF MAINE SYSTEM  
Board of Trustees  
**Investment Committee**

**February 26, 2026**

Zoom

**Present: Committee Members:** Kelly Martin; Chair, Trish Riley, David MacMahon, John Moore, Elise Baldacci, & Riley Worth. **Non-Voting, Non-Trustee Committee Members:** Matthew Skaves, James Bradley, Jack Moore. **System Staff:** Ryan Low, Tracy Elliott, Amon Purinton & Elizabeth Stickler. **Others:** Jenny Boyden, Kelly Regan – NEPC, Matt Landen – NEPC, Barry Schmitt - CAPTRUST, Mike Practico – CAPTRUST, Pete Ruffel - CAPTRUST.

**Absent:** Lisa Eames.

### **CAPTRUST**

#### **Defined Contribution Plans – Quarterly Review**

Michael Practico and Barry Schmitt, Senior Vice Presidents with CAPTRUST Financial Advisors, provided an update regarding the Defined Contribution Plans (DC Plan) for the quarter ending December 31, 2025 with the following highlights.

- Fiduciary reminder: New mandatory Roth catch-up contribution rules become effective in 2026. For employees who made more than \$150,000 in FICA wages (Box 3 of W-2 form) in 2025, their catch-up contributions must go into a Roth (after-tax) account in 2026. Further details are outlined in meeting materials.
- Current legislative topics: The Department of Labor (DOL) is moving to replace Biden-era Environmental, Social, and Governance (ESG) rules with a likely more restrictive framework, with a new final rule anticipated in spring 2026. This shift aims to return to 2020 standards with a focus on limiting non-financial factors in fiduciary decision making. Additional legislative topics include the DOL’s plans to release alternative asset guidance, the “Saver’s Match” which is a new federal program starting in 2027 under the SECURE 2.0 Act, and indications of SECURE 3.0 development.
- Litigation: The Cornell case has lowered the bar for plaintiffs to allege a prohibited transaction, so CAPTRUST expects more litigation going forward. In addition, recently lawsuits about capital preservation are increasing given the rise in interest rates for money markets over the past several years and the disparity in performance compared to stable value funds.
- Fiduciary Solutions: Some Target Date Fund managers are looking at including alternative investments and incorporating retirement income into their fund series.

On the Cornell case ripple effects, Trustee Baldacci commented about wanting to make sure from the Trustees fiduciary perspective that we have the right kind of processes in place and things are in order. Mr. Practico commented that while UMS is not required to follow ERISA, it has chosen to follow it from a best practice perspective which includes following established

processes and he thinks UMS is doing all the right things.

## **Market Commentary**

CAPTRUST provided market commentary noting that Global markets ended 2025 on a strong note, buoyed by AI infrastructure spending and continued economic resilience. U.S. equity leadership began to diversify, expanding beyond the tech concentration that dominated most of the year. International stocks were the standout performers, aided by a weaker dollar, strong earnings, and pro-growth structural reforms.

## **Plan Investment Review**

CAPTRUST and the Committee reviewed all of the DC Plan funds in a manner consistent with the Investment Policy Statement with emphasis on the following:

### **CREF Socially Responsible Balanced (marked for review):**

This CREF balanced fund has fared better versus its target index compared with its peers. In U.S. equities, relative performance was held back mainly by stock selection, particularly in the communication services, consumer discretionary, and industrials sectors. The largest individual contributors to underperformance came from not holding several stocks that performed well, including Alphabet and Apple. These companies were excluded due to the portfolios ESG guidelines, despite their strong performance. CAPTRUST still has confidence in the strategy for those clients looking for a balanced, ESG focused option.

### **JP Morgan Equity Income (marked for review):**

JPMorgan Equity Income lagged its benchmark in the fourth quarter and for the full year, finishing in the bottom half of its peer group. Because the fund has a lower beta profile – meaning it typically moves less than the overall stock market, especially in strong up markets – its longer-term returns have also trailed during this period of robust equity gains. CAPTRUST recommends continuing to hold the fund for investors who value its defensive profile, which emphasizes capital preservation, lower volatility, and steady income over keeping pace with more aggressive equity strategies in rising markets.

### **Victory Sycamore Established Value (marked for review):**

CAPTRUST expressed concern that the fund's multi-year underperformance may no longer represent a typical style-driven performance cycle, particularly given its magnitude. Downside protection has been weaker than expected for a defensive/quality strategy, increasing the opportunity cost of continuing to hold. CAPTRUST continues to recommend holding the fund but expects improved performance and will request additional information on the announced manager change and succession plan.

## **MFS Mid Cap Growth**

Quality focus fund that was penalized for stocks that it didn't hold and some communication holdings that were detractors. CAPTRUST likes MFS and this fund in particular recognizing that it has had stylistic headwinds.

### **Vanguard Target Date Series**

This Target Date Series continues to do well in absolute and relative terms, and the tactical positioning of the overweight to international has been clearly additive. Last year they were top quartile across almost every vintage.

### **Defined Contribution Plans - Education & Fossil Fuel Free Fund Request**

CAPTRUST provided an educational overview of the UMS DC Plan, focusing on fiduciary standards, the Plan investment menu, and considerations relevant to fossil fuel-free investment options. This education was provided to inform consideration of the UMaine Faculty Senate request for default retirement fund options that are fossil fuel-free.

The DC Plan follows ERISA as an industry best practice, which is fundamentally process-driven legislation. Accordingly, there are six core fiduciary duties, with CAPTRUST emphasizing several of the duties relevant to this topic:

- Duty to be prudent – includes establishing a prudent process to evaluate funds in the Plan, document, use scoring methodology, review the funds each quarter, etc.
- Duty to loyalty and impartiality – make decisions exclusively in the best interest of all Plan participants and beneficiaries.
- Duty to diversify - maintain an investment lineup that offers a range of appropriately diversified options across the risk-return spectrum from which participants may choose.
- Duty to monitor and supervise
- Duty to avoid prohibited transactions
- Duty to ensure reasonable costs

Pete Ruffel of CAPTRUST provided insight into the DC Plan's Environmental Social and Governance (ESG) options with a specific focus on fossil fuel free investment options. Mr. Ruffel commented that ESG funds are not always fossil fuel free and the landscape changes as political administrations change. Looking across the universe of US domiciled mutual funds, there's a much more limited number of asset managers who call themselves ESG today than did in 2020 and the number of managers who say they are fossil fuel free today has shrunk as well.

There are over 22,000 mutual funds in the universe with just over 100 unique strategies that say they exclude fossil fuel. Of those, about half of them have more than \$500 million in Assets Under Management (AUM) which is a threshold size that CAPTRUST would consider appropriate for UMS's DC Plan. Of those, there are only 21 strategies that have a 5-year annualized category rank in their peer group that is in the top two quartiles, demonstrating that funds that have applied fossil fuel screening methodology have not always held up against their peers.

The DC Plan already offers two ESG options on its menu: the CREF Social Balanced fund and

the Vanguard FTSE Social Index fund. Both are considered good choices for participants seeking ESG specific funds. Further, the Vanguard fund has a fossil fuel free mandate. Additionally, the DC Plan's Self Directed Brokerage Account (SDBA) allows participants to select fossil fuel free, ESG or other investment options consistent with their individual preferences.

The Vanguard FTSE Index fund was added to the Plan's menu in March 2026 in response to employee requests for ESG and/or fossil fuel free options. Its prospectus states that the fund excludes companies that engage in, have a specified level of involvement in, or derive a threshold amount of revenue from the following activities:

- Operate or supply nuclear power generation, or provide equipment and facilities critical to nuclear power
- Own proved or probable reserves of coal, oil, or natural gas
- Engage in oil and gas activities, including:
  - Exploration and drilling (onshore or offshore)
  - Production, refining, or marketing of petroleum products
  - Oil-field services and offshore platform support
  - Operation of oil or gas pipelines
  - Integrated oil and gas operations (upstream, midstream, and downstream)
- Mine, process, or market coal
- Generate electricity from oil, gas, or thermal coal
- Distribute natural gas to end users

Trustees recommended that UMS provide additional communications to participants to increase awareness of the Plan's socially responsible investment options and the self-directed brokerage window.

### **NEPC Capital Markets Review & Quarterly Performance**

Matt Landen of NEPC provided a performance overview for UMS' three portfolios (Managed Investment Pool (MIP), Pension Fund, and Operating Fund) for the quarter ended December 31, 2025.

Equity markets were resilient in the fourth quarter of 2025 despite the prolonged U.S. government shutdown and 4.1% unemployment. The S&P 500 returned 2.7% for the quarter and 17.9% for the year, with value stocks outperforming growth in the fourth quarter amid increased scrutiny of AI-related valuations. International equities also performed well, supported by a weaker U.S. dollar, as the MSCI ACWI ex-U.S., MSCI EAFE, and MSCI Emerging Markets Indexes returned 5.1%, 4.9%, and 4.7%, respectively, with emerging markets strength led by Korea and Taiwan.

Fixed-income markets were positive in the quarter, aided by two Federal Reserve rate cuts, which brought the Fed Funds rate to the 3.5%–3.75% range. The yield curve steepened as the two-year Treasury yield declined to 3.48% while the 10-year Treasury yield held at 4.18%.

NEPC advised remaining disciplined, maintaining long-term strategic asset allocation targets and equity exposure, while monitoring equity concentrations and elevated tracking error tied to the

largest names in the ACWI IMI. NEPC further recommended holding high-quality, liquid assets and preserving appropriate safe-haven fixed-income exposure for liquidity and downside protection.

Mr. Landen reviewed performance for the UMS portfolios with the following highlights.

**Operating Fund.** The Operating Fund improved 1.7% during the fourth quarter of 2025, net of fees. The Fund's total market value was \$228.7 million as of 12/31/2025, decreasing \$51 million quarter over quarter due to UMS cash needs. Managers exceeded their respective benchmarks in aggregate (Composite vs. Allocation Index) over both the quarter and trailing one year. The Fund's manager performance has been strong over the long term, outperforming the Allocation Index during the 10-year period. At the end of the 4<sup>th</sup> 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 0.9% during the fourth quarter, net of fees. The Pension's total market value was \$16.7 million as of 12/31/2025 representing a decrease of \$0.7 million quarter over quarter. During both the 4<sup>th</sup> quarter and trailing one year, managers underperformed their respective benchmarks in aggregate. Relative underperformance was primarily due to weaker performance within the Fund's equity allocations. At the end of the fourth quarter, the asset allocation of this Fund was within policy ranges. NEPC recommended terminating Walter Scott and using the proceeds to fund the iShares Low Carbon MSCI ACWI ETF.

**Managed Investment Pool (MIP).** The MIP improved by 1.8% during the fourth quarter, net of fees. The MIP's total market value was \$412.4 million as of 12/31/2025 representing an increase of \$7.0 million quarter over quarter due to strong investment gains. During both the fourth quarter and trailing one year, managers underperformed their respective benchmarks in aggregate, driven by weak performance in the Equity composite. The MIP ranked in the 68<sup>th</sup> percentile of the Endowments and Foundation universe during the fourth quarter as the underperformance of the Fund's active managers detracted relative to peers. Generally, NEPC expects that the MIP will rank well when public equity does well and private equity falls short; however, over the long-term they expect that private equity will outperform public equity resulting in below median rankings for the MIP. As of 12/31/2025, the asset allocation of the MIP was within policy ranges. NEPC recommended terminating Walter Scott and reallocating the proceeds across US, Non-US Developed, and Emerging Markets Equity.

### **NEPC Asset Allocation Review & Global Equity Manager Recommendations**

Kelly Regan discussed current portfolio (MIP, Pension Fund and Operating Fund) positioning opportunities, provided an update on NEPC's capital market assumptions, and asset allocation recommendations. NEPC's asset class assumptions and overview included the following:

- Global equities posted strong performance in the fourth quarter of 2025 with EAFE and EM outperforming U.S. markets.
- Equities have defied expectations, sustaining high margins and earnings growth, while maintaining above average valuation levels.

- Equity return assumptions for the next 10 years are down considerably, with large cap equity expected to yield 4.5%, despite a volatility of around 15%.
- Use 30-year capital market assumptions for strategic asset allocation modeling and long-term planning.
- Over the next 30 years, return expectations for large cap equity are higher, estimated at 6%.
- Fixed income return expectations are around 4.4% over the next 10 years.
- Clients are advised to maintain long-term strategic asset allocation unless risk tolerances have significantly changed, emphasizing belief in equity premium over fixed income.
- The strategic asset allocation review stresses maintaining exposure to US, international, and emerging markets equities at MSCI All Country World Index weights, consistent with existing portfolios.
- There is a distinct asset allocation within fixed income, focusing on high-quality, safe haven, and return-seeking fixed income.
- Portfolios have some exposure to real assets, such as through Newton, which includes gold and other diversifying assets.

### **Specific Recommendations – MIP and Pension**

Within the MIP and Pension Fund, NEPC recommended terminating Walter Scott Global Equity due to underperformance and the potential for continued asset outflows from the portfolio that could hinder future alpha potential. NEPC Research downgraded Walter Scott's rating from 1 to a neutral rating of 3.

For the MIP, NEPC recommended no changes to the high-level Equity, Fixed Income, or Multi-Asset targets. NEPC did, however, recommend revising the underlying Equity targets by reallocating the 10% Global Equity allocation currently managed by Walter Scott to U.S., non-U.S. developed, and emerging markets equities in line with MSCI ACWI IMI weights and updating the targets accordingly.

For the Pension portfolio, NEPC recommended terminating Walter Scott Global Equity and reallocating the proceeds to the iShares Low Carbon MSCI ACWI ETF (ticker CRBN), a globally diversified, fossil fuel free index fund. Although this fund is not rated by NEPC, NEPC Research is generally comfortable with the iShares ETF platform. No changes were recommended to the policy targets, and NEPC believes the current target allocation remains appropriate to support the Pension Fund's return objectives.

Regarding the Operating Fund, NEPC reviewed the current policy targets and recommended no changes. NEPC believes the current target allocation remains appropriate to support the Fund's return objectives.

### **TEXT OF PROPOSED RESOLUTION**

On a motion by Trustee MacMahon, which was seconded by Trustee Riley, the Board of Trustees, acting through the Investment Committee, approved the following asset allocation changes and manager recommendations:

**Managed Investment Pool**

1. Terminate Walter Scott Global Equity in the Managed Investment Pool and use the proceeds to increase the Large Cap, International Developed, and Emerging Markets Equity allocations.

**Pension Fund**

2. Terminate Walter Scott Global Equity in the Pension and allocate the proceeds to the iShares Low Carbon MSCI ACWI ETF, a globally diversified index fund.

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