

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

March 2, 2023  
Zoom

**Present: Committee Members:** Kelly Martin; Chair, David MacMahon, Sven Bartholomew, and Trish Riley. **Non-Voting, Non-Trustee Committee Members:** Jim Bradley, Tim Griffin, and Matt Skaves. **System Staff:** Tracy Elliott, Ryan Low, and Ellen Doughty. **Others:** Kelly Regan – NEPC, Tim Knightly – NEPC, Mike Pratico – CAPTRUST, and Barron Schmitt – CAPTRUST.

**Absent:** Lisa Eames.

**Defined Contribution (DC) Plans - Quarterly Review**

Mike Pratico and Barry Schmitt, Principals, with CAPTRUST Financial Advisors, provided a quarterly update regarding the Defined Contribution Plans. The quarterly update included an overview of the Secure Act 2.0, an update regarding cybersecurity, and the regular quarterly review of funds with the following highlights.

**Fiduciary Roles:** CAPTRUST provided follow up information requested during the December 1, 2022, meeting pertaining to who is a fiduciary. CAPTRUST referred to their Fiduciary Training Manual which identified a fiduciary as anyone who:

- Has discretionary authority over the management or administration of the plan or its assets;
- Exercises any control, authority or influence over the management or administration of the plan or its assets; or
- Renders investment advice for a fee or other compensation that is received directly or indirectly.

**Float Income:** Float income is the earnings accrued by a service provider that handles plan assets while awaiting deposit or distribution. In most circumstances, float income is considered service provider compensation by the Department of Labor (DOL) and must be disclosed to the plan sponsor as part of the service provider's 408(b)(2) fee disclosure. CAPTRUST provided details regarding TIAA's Float policy indicating that Float income is disclosed on the 408(b)(2) form but is not available to offset administrative and recordkeeping fees.

**Secure Act 2.0:** CAPTRUST reviewed the required and optional provisions of the recently passed SECURE Act 2.0. With more than 90 provisions, the impact to the retirement industry is extensive. Much of the legislation is focused on increasing retirement savings and coverage. CAPTRUST updated the Committee on the use of Collective Investment Trusts (CITs) within 403(b) plans which, although part of the final Secure Act, cannot occur until it is deemed permissible by securities regulations.

**Cybersecurity:** Recent DOL retirement plan audit questionnaires included questions on cybersecurity. With no standardized audit guidelines, it is difficult to know if these questions will be part of future audits, but plan sponsors should prepare accordingly. CAPTRUST reviewed their Cybersecurity Audit report of TIAA noting that TIAA meets or exceeds all DOL cybersecurity standards. It was also noted that UMS conducted their own comprehensive internal cyber security audit of TIAA.

**Environmental, Social, and Governance (ESG) Final Rule:** The DOL released its final rule designed to clarify a path forward for retirement plan fiduciaries to incorporate environmental, social, and governance (ESG) factors into their investment selection and monitoring process. The DOL made it clear that

fiduciaries may consider ESG factors when making investment decisions and exercising shareholder rights. This rule was subsequently overturned in the House and Senate and President Biden is expected to veto it.

**Market Commentary:** Investors grew optimistic over the first half of the fourth quarter, anticipating the Federal Reserve was near the end of its tightening cycle. However, the excitement faded as Chairman Powell cautioned that conditions would need to remain restrictive for some time. Gains early in the 4<sup>th</sup> quarter were more than enough to offset December declines, leading to positive quarterly results across nearly all asset classes.

**Investment Review:** CAPTRUST reviewed all funds in a manner consistent with the Defined Contribution Plans' Investment Policy Statement, noting that all funds are in good standing with two exceptions. Action was taken at the December 1<sup>st</sup> Investment Committee meeting regarding those exceptions. Since that meeting, management worked with TIAA to implement the action with the following transition occurring on February 22, 2023:

- Terminate the American Century Emerging Markets fund and map the assets and contributions to the American Funds Europacific Growth fund.
- Terminate the Virtus Ceredex Mid-Cap Value Equity R6, replacing the fund and mapping the assets and contributions to the Victory Sycamore Established Value R6.

**Vanguard Target Date (default choice):** Vanguard Target Retirement Funds had performance in-line with the peer group median in the fourth quarter and outperformed peers for the year due to its strategic asset allocation.

#### **Defined Contribution Plans Fee-Leveling**

CAPTRUST lead a discussion regarding fee leveling and next steps. Participants in the UMS Defined Contribution Plans pay for TIAA recordkeeping and administrative services via revenue sharing that is built into the expense ratio of many of the Plans' investments. This has been the most common method that 403(b) and 401(k) plans have used to pay for such services for decades. The large plan market has recently begun to move away from this method and towards a fee leveling approach whereby plan participants are charged an explicit flat fee. Advantages of fee-leveling include increased transparency to participants and a more equitable distribution of fees which is consistent with emerging industry trends. CAPTRUST will work with UMS administration and TIAA in the coming months to evaluate the fee-leveling approach and bring a recommendation back to the Investment Committee.

#### **Capital Market Review, Quarterly Performance and Asset Allocation Review**

Kelly Regan, Senior Consultant with NEPC, reviewed the following:

**Market Outlook** Ms. Regan touched on highlights in the Committee's materials commenting on growth in their firm and NEPC's 2023 Key Market Themes. These themes summarize NEPC's beliefs about what is influencing the market environment today with impacts on asset pricing, sentiment, and expectations. These themes help NEPC to shape portfolio construction and investment opportunities. The five key market themes reviewed were:

- Stagflation Trends,
- Recession Outlook,
- European Energy Transition,
- China Reopening, and
- U.S. Dollar Trajectory.

Given the themes and current views on the market, Ms. Regan noted that fixed income outlook has improved and there is a positive view on adding U.S. Treasuries to portfolios to improve safe-haven fixed

income exposure. Additionally, diversification remains critical and investments such as global asset allocation and hedge funds (which are currently in the System portfolios) remain important.

### **Performance Reviews**

The quarter ended December 31, 2022, performance review for the Operating Fund, Pension Fund, and the Managed Investment Pool (MIP).

***Operating Fund (OF):*** The Operating Fund had a market value of \$279.4 million as of December 31, 2022, representing a decrease of \$41.5 million quarter over quarter due to portfolio cash outflows. The quarter returned 2% with managers outperforming their respective benchmarks in aggregate (Composite vs. Allocation Index) and over the long term (3, 5, and 10 years). At the end of the 4<sup>th</sup> quarter, the asset allocation of the Fund was within policy ranges. Ms. Regan noted that, as approved by the Committee at its December meeting, management made the initial funding of SSgA S&P 500 Fossil Fuel Free Index with one quarter of the proceeds from the SSgA S&P 500 Index strategy. NEPC will continue to provide recommendations to management on a quarterly basis to rebalance into the Fossil Fuel Free strategy with the expectation to complete the full funding this calendar year. Ms. Regan also noted that the OF improved in January by 1.7% with an ending market value of \$350.9 million.

***Defined Benefit Pension Fund:*** The Pension Fund had market value of \$19.6 million and returned 4.2% for the 4<sup>th</sup> quarter, net of fees. The Pension decreased \$100,000 quarter over quarter as this closed Plan is in the payout stage. During the 4<sup>th</sup> quarter managers were ahead of benchmarks (Composite versus Allocation Index). Over the calendar year-to-date time period, the Fund has fallen short of the Allocation Index primarily due to the Fund's growth equity manager which has underperformed during a market that has not favored growth equities. Longer-term (3 and 5 years), the Fund is more in-line with the benchmarks. At the end of the 4<sup>th</sup> quarter, the asset allocation of the Pension was close to policy targets. Ms. Regan also noted that the Fund improved in January by 3.6% bringing the month end market value to \$20.0 million.

***Managed Investment Pool (MIP):*** The Managed Investment Pool (MIP) had a market value of \$340.1 million and a return of 6.0% during the 4<sup>th</sup> quarter, net of fees. The MIP's total market value increased \$20.8 million quarter over quarter. During the 4<sup>th</sup> quarter, managers detracted 50 basis points of value. The MIP ranked at the 40<sup>th</sup> percentile of the Endowments and Foundation universe during the 4<sup>th</sup> quarter as not having an allocation to private equity benefitted the Fund. This was due to private equity valuations declining as they lagged the public equity market decline seen in early 2022. The MIP has a 0% target to private equity while the median peer has a 9% 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 4<sup>th</sup> quarter, the asset allocation of the MIP was within policy ranges. Ms. Regan noted that, as approved by the Committee at its December meeting, management made the initial funding of SSgA S&P 500 Fossil Fuel Free Index with one quarter of the proceeds from the SSgA S&P 500 Index strategy. NEPC will continue to provide recommendations to management on a quarterly basis to rebalance into the Fossil Fuel Free strategy with the expectation to complete the full funding this calendar year. Ms. Regan also noted that the Fund improved in January by 4.9% bringing the month end market value to \$356.2 million.

### **Asset Allocation Review**

NEPC had no recommendations for the Operating Fund but made recommendations for the MIP and the Pension Fund as outlined in the resolution.

Ms. Regan provided an asset allocation update for all three portfolios with specific recommendations for the MIP and Pension Fund. Regarding the MIP, she recommended no changes to the overall equity and

fixed income allocations but made recommendations within equity and fixed income. Within equity, she recommended adjusting the allocations across US, International Developed and Emerging Markets to be in-line with NEPC's house view of 60% U.S., 25% International Developed and 15% Emerging Markets. Additionally, she noted that NEPC's preference is to have a 20% allocation to small cap within each sub-asset class. For fixed income, she recommended adding an allocation to safe-haven fixed income (U.S. Treasuries) to complement the high-quality allocation (core bonds and TIPS) as well as the return-seeking fixed income portfolio (bank loans and absolute return fixed income). Lastly, she noted the desire to increase duration by removing short-term TIPS. After discussion the Committee voted to:

For the Pension Fund, Ms. Regan recommended no changes to the overall equity allocation but made recommendations to reduce real estate (due to forward looking expectations, declining liquidity and increasing interest rates) and increase fixed income. For fixed income, she recommended adding an allocation to safe-haven fixed income to complement the high-quality allocation (core bonds and TIPS) as well as the return-seeking fixed income portfolio (bank loans and absolute return fixed income). Lastly, she noted the desire to increase duration by removing short-term TIPS. After discussion the Committee voted to:

Ms. Regan also noted that the Pension Fund's total market value is below \$25 million and may limit future rebalancing into select commingled fund managers as the Pension Fund no longer qualifies as a Qualified Purchaser. Ms. Regan will provide a few mutual fund equity options at the May Investment Committee meeting to complement the current managers and aid in rebalancing into equity in the future (if warranted).

On a motion by Trustee Bartholomew, which was seconded by Trustee Riley, and approved by a roll call vote of all Trustees present, the Board of Trustees, acting through the Investment Committee approved the following asset allocation recommendations:

**Managed Investment Pool**

1. Add a 3% allocation to Large Cap Equity by reducing Small Cap Equity and Non-US Developed Small Cap Equity
2. Add a 1.5% allocation to Emerging Market Equity by reducing Emerging Market Small Cap Equity
3. Add a 5% allocation to US Treasury Bond and 1.5% to US Treasury Inflation Protected Securities (TIPS) by reducing US Aggregate Bond by 3% and Short-Term TIPS by 3.5%

**Pension Fund**

1. Add 5% allocation to US Treasury Bond by reducing Real Estate by 5%
2. Add 4.5% allocation to US TIPS by reducing Short-Term TIPS by 3.5% and US Aggregate Bond by 1%

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  
Ellen N. Doughty, Clerk