

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

May 18, 2023  
Zoom

**Present: Committee Members:** Kelly Martin; Chair, David MacMahon, and Trish Riley. **Non-Voting, Non-Trustee Committee Members:** Jim Bradley **System Staff:** Tracy Elliott, Ryan Low, Ellen Doughty, Paul Chan and Kayla Flewelling. **Others:** Kelly Regan – 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 mentioning that TIAA Traditional is paying 6.25% with a 7 year lockup except that those in the legacy contracts have a 10 year lockup. Vanguard money market earned 2.66% last year. CAPTRUST also noted that 2% of participant assets are invested in the brokerage window for a significant \$43 million. CAPTRUST went on to mention that \$113 million in participant assets remain in frozen legacy assets.

***Market Commentary:***

After a strong start to calendar 2023, the first quarter ended on a high note despite a rapid-fire array of troubling news. In early March, two large banks failed, and policymakers stepped in to keep isolated problems from becoming a systemic crisis. Despite the headlines, stock and bond markets were surprisingly calm.

***Investment Review:***

CAPTRUST reviewed all funds in a manner consistent with the Investment Policy Statement, noting that all funds are in good standing. CAPTRUST further highlighted that the Vanguard Target Retirement Funds, which is the Plans' qualified default investment alternative, outperformed its peers and the benchmark in the first quarter of calendar 2023. The main driver of the series' performance was its passive investment approach. From a strategic asset allocation perspective, the Vanguard series' larger international debt allocation, compared to peers and the benchmark, contributed to performance as did the series' overweight to International Equities position.

**Defined Contribution Plans Fee-Benchmarking and Fee-Leveling**

CAPTRUST continued the discussion from the March Investment Committee meeting regarding fee leveling and next steps. Currently, participants in the UMS plans pay for TIAA recordkeeping and administrative services through 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. CAPTRUST reviewed this embedded revenue method and noted that the market has been moving towards a flat fee/fee leveling approach

which is considered to be more transparent, equitable and fair. Under this method, participants would be credited back for revenue generated from their accounts and charged a flat fee of \$68 per year for TIAA services and other plan related expenses with the fee deducted on a quarterly basis at \$17 per participant.

CAPTRUST will assist with communication regarding this change by hosting virtual seminars which will be live with a recording available. In addition, TIAA will work with CAPTRUST and UMS management on written participant communication. The plan is to make the fee leveling change this coming fall.

CAPTRUST then reviewed their Fee Benchmark report, identifying total Plan costs of \$2.5 million (or 0.15% of plan assets), including TIAA's administration & recordkeeping revenue of \$540 thousand (or 0.031% of plan assets). Benchmarking the current plan expenses against the CAPTRUST database, administrative fees for comparable sized plans range from 0.032% to 0.05%. Based on the plan demographic information utilized to benchmark the plan against the industry, TIAA's current fees are within the current benchmark range.

### **Defined Contribution Plans – Investment Policy Statement – Action Item**

On a motion by Trustee Riley, which was seconded by Trustee MacMahon, and approved by a roll call vote of all Trustees present, the Board of Trustees, acting through the Investment Committee approved the recommendation of CAPTRUST to re-affirm the current Defined Contribution Plans' Investment Policy Statement with no changes.

### **Capital Markets, Outlook, and Performance Reviews – Managed Investment Pool, Pension Fund, and Operating Fund**

#### **Market Outlook**

Kelly Regan, Senior Consultant with NEPC, discussed the recent banking issues stemming from Silicon Valley Bank, First Republic and Credit Suisse. She noted that there have been banking deposit outflows and money market inflows due to the interest rate differential. NEPC believes this is an idiosyncratic event but will continue to monitor the bank deposit outflows and any impact this may have on credit lending which could impact the U.S. economy. Ms. Regan also noted that the first quarter was positive for equity and fixed income returns. Going forward, NEPC believes that there will be continued volatility in the markets considering the path of interest rates, inflation and the debt ceiling negotiations. Despite the uncertainty, NEPC is recommending to clients that they maintain equity allocations at long-term strategic targets until there is a guiding path forward. Additionally, NEPC is recommending to clients to maintain exposure to safe-haven fixed income given the higher interest rate environment and also for liquidity purposes for rebalancing needs.

#### **Performance Reviews**

Ms. Regan reviewed performance for all three UMS portfolios with the following highlights.

***Operating Fund (OF):***

The Operating Fund improved 2.0% during the first calendar quarter, net of fees. The Fund's total market value was \$300 million as of March 31, 2023. During the 1<sup>st</sup> quarter, managers underperformed their respective benchmarks in aggregate (Composite vs. Allocation Index). Underperformance stemmed from select cash investments and defensive managers (Newton and Lighthouse) which did not participate in the equity rally. Over longer-term periods, the Fund has outperformed the Allocation Index over all time periods. At the end of the 1<sup>st</sup> quarter, the asset allocation of the Fund was within policy ranges. Ms. Regan noted that a recent action included the second funding of SSgA S&P 500 Fossil Fuel Free Index with proceeds from the SSgA S&P 500 Index strategy. The next funding of the SSgA S&P 500 Fossil Fuel Free Index is expected in June or July 2023.

***Defined Benefit Pension Fund:***

The Pension Fund appreciated 4.4% during the first calendar quarter, net of fees. The Pension's total market value was \$19.5 million as of March 31, 2023 representing a similar market value quarter over quarter. During the 1<sup>st</sup> quarter managers were ahead of benchmarks (Composite versus Allocation Index). Equity managers (Walter Scott and Mondrian) provided significant value over their respective benchmarks. Longer-term (5 years), the Fund is in-line with the benchmarks. At the end of the 1<sup>st</sup> quarter, the asset allocation of the Pension was close to policy targets.

***Managed Investment Pool (MIP):***

The MIP improved 5.1% during the first quarter, net of fees and the MIP's total market value was \$356.8 million as of March 31, 2023. During the 1<sup>st</sup> calendar quarter, managers were in-line with stated benchmarks in aggregate (Composite versus Allocation Index). The MIP ranked at the 12<sup>th</sup> percentile of the Endowments and Foundation universe during the 1<sup>st</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 9.4% allocation. NEPC expects that the MIP will rank well when public equity does well and private equity falls short, however over the long-term it is expected that private equity will outperform public equity resulting in below median rankings. At the end of the 1<sup>st</sup> quarter, the asset allocation of the MIP was within policy ranges. Ms. Regan noted that a recent action included the second funding of SSgA S&P 500 Fossil Fuel Free Index with proceeds from the SSgA S&P 500 Index strategy. The next funding of the SSgA S&P 500 Fossil Fuel Free Index is expected in June or July 2023.

During the discussion of manager performance, Trustee MacMahon asked a question about Walter Scott's investment in Taiwan Semiconductor. Ms. Regan will follow-up with the manager and report back with more information.

**Passive Treasury Manager Recommendation – MIP and Pension Fund – Action Item**

Ms. Regan provided an update on the U.S. Treasury manager search for the MIP and the Pension Fund. At the March 2, 2023 meeting, the Committee approved a new asset allocation that called for a 5% allocation to U.S. Treasuries. NEPC provided fee and performance information for NEPC's preferred index providers and noted that passive (index) implementation is preferred for

this asset class. Kelly recommended that the Committee consider hiring Fidelity Intermediate Treasury Bond Index Fund (FUAMX) for the 5% allocation in both portfolios. Following discussion, the Committee voted on the resolution.

On a motion by Trustee Riley, which was seconded by Trustee MacMahon, and approved by a roll call vote of all Trustees present, the Board of Trustees, acting through the Investment Committee approved the recommendation of NEPC to:

- Hire Fidelity Intermediate Treasury Bond Index Fund (FUAMX) strategy for roughly 5% of total MIP Portfolio assets.
- Hire Fidelity Intermediate Treasury Bond Index Fund (FUAMX) for roughly 5% of total Pension Fund Portfolio assets.

#### **Updated Investment Policy Statements – Action Item**

Ms. Regan provided the Committee with redline changes to the MIP, Pension Fund and Operating Fund Investment Policy Statements. Changes were discussed and included the following:

- Updates to the dates related to the endowment spending policy in the MIP.
- Updates to the asset allocation targets and ranges based on the Committee approval of asset allocation changes at previous meetings.
- Updates to the third-party investors in the MIP.
- Changes to the benchmarks in all three portfolios to reflect updated naming conventions for the benchmarks associated with each asset class.

On a motion by Trustee Riley, which was seconded by Trustee MacMahon, and approved by a roll call vote of all Trustees present, the Board of Trustees, acting through the Investment Committee approved the updated Investment Policy Statements for the Managed Investment Pool, Pension Fund and Operating 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  
Kayla Flewelling, Clerk